

Macroeconomics

Julia MELNYK

**INTERNATIONAL SERVICES MARKET
IN THE EARLY 21ST CENTURY:
TENDENCIES AND PROSPECTS
OF DEVELOPMENT**

Abstract

The author studies the modern tendencies of international services market development and determines the factors causing them. On the basis of this analysis, the author defines the peculiarities of international services market in the 21st century and draws out the prospects of its subsequent transformation.

Key words:

International services market, structural developments, ICT-services, E-commerce, trans-nationalization, service TNCs, strategic alliance, foreign direct investment (FDI), outsourcing.

JEL: F50, F59.

© Julia Melnyk, 2006.

Melnyk Julia, Candidate student, Department of Financial Engineering, Ternopil National Economic University, Ukraine.

Translated by Demchenko H.

Introduction

In the early 21st century, the international services market acquires new features. In addition to dynamic development, as it was in the late 20th century, the market is changing its nature and pattern. Under conditions of world economic globalization, the services market is affected by new factors, which change the idea about the mechanism of its functioning. Proceeding from the above, the following questions arise: Which tendencies dominate in the development of the services market at the present stage? What will the international services market look like in the 21st century, and what are the prospects for its development in the light of those tendencies? What effect will it have on some countries (exporters and importers of services) and especially on Ukraine?

The tendencies of international services market have been studied by a number of scientists. In particular, L. Demydova considered globalization of the services market [1], I. Dumulen researched quantitative and qualitative indices of international trade in services, as well as changes in regulation of the latter [2]. Modern tendencies at the international services market have been thoroughly analyzed in the «World Investment Report 2004: the Shift towards Services» within the framework of UNCTAD [3].

Nevertheless, most of the researches are dedicated to separate branch-specific tendencies, while scarce attention is paid to the international services market as an organic whole. The problem is getting even more urgent in connection with high dynamic development of international services market, thus, causing necessity to re-estimate the available tendencies. Therefore, the principal tasks of this paper are the following: to characterize international services market at the beginning of the 21st century; to make conclusions regarding prospects of its development.

Main Aspects of the Research

The study of the international services market as a system, i.e. as an integrated whole with balanced functioning of its all elements and parts encompasses, first of all, an assessment of its transformation (development) under the effect of internal and external driving forces. At that, the development implies not only quantitative changes, but also qualitative improvements. In general, we can single out the following:

- increased volume of international trade in services, including e-commerce;
- improvement in the quality of services provided at the international services market, wide implementation of innovations by service TNCs;

- increased number of TNCs and volume of FDIs at the international services market, intensified capitalization of service TNCs;
- structural developments in international trade in services (change of branch and geographic patterns of international services market, appearance of new participants);
- introduction of the new forms of cooperation and new patterns of business at the international services market.

The system approach to the research of the international services market development implies creation of certain algorithm with the following components: defining the research limits (international services market as a part of the world services market); setting the problem (singling out the challenges of the development and transformation of international services market); forecasting market development for the 21st century.

Modern Tendencies in the Development of the International Services Market

The development of international services market implies, first of all, its quantitative expansion, i. e. increase in international trade in services. Thus, in the last 35 years (1970–2005), world exports of services increased from \$63 to 2415 bln., that is, by 38 times [4; 5]. Figure 1 shows that the increase in services trade volumes throughout 1970–2005 was accompanied by growth of commodity trade. In the period from 1995 to 2005, when the WTO GATS multilateral agreement about liberalization of international trade in services was first put into effect, the annual growth of world exports in services amounted to 6.5%, and similar was the growth of commodity exports (6.5%). This synchronization of the dynamics of commodity and services trade was conditioned by intensification of the processes of economic globalization, when material and non-material components of world production create a single cycle of regeneration. Consequently, the international movement of commodities automatically generates movement of related services, and vice versa, trade in services has a great effect on commodity flows.

Mutual interdependence of international commodity and services markets produces an effect on structural developments of international trade in services. It contributed to intensified development of the group titled «business services» related to enterprises' activity. Business services constitute the majority of «other services» published by WTO statistics (Table 1).

Figure 1.

Dynamics of World Commodity and Services Exports

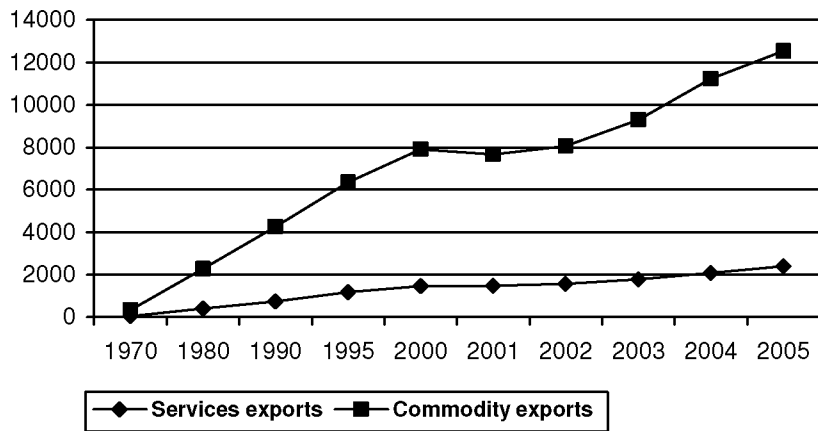


Table 1.

Growth of World Services Exports, by Group of Services (% to previous year)

Group of Services	1990–1995	1995–2000	2000–2004	2002	2003	2004	Share in world services exports
Transport services	6	3	10	4	14	23	23.6
Travel	9	3	7	4	10	18	29.4
Other services	10	7	11	10	16	16	47.0

Source: [5].

The growth of world services exports has been coming along with the soaring volume of electronic trade from \$10 bln. in 1996 to \$1 trln. in 2005. The dynamic development of operations in the sector of e-trade pertains to participation of companies, which not only increases the amount of operations, but also improves the prestige of the players on the international arena and, accordingly, increases the price and profitability of the stock. The principal precondition for increased volume of services e-trade is the proliferation of the Internet and the growing number of Internet users – both juridical and physical persons. The total

number of the latter in 2006 was 1.08625 bln. people, i.e. it has grown 200.9% from 2000 till 2006 [6]. The distribution of Internet users by country groups shows that the highest rates of Internet – technologies introductions pertain to the countries of North-Eastern Europe and CIS (Table 2). Proceeding from the above, a considerable increase can be expected in the e-trade in services in the named countries.

Table 2.

Internet-Users by Country Group, 2000–2004 (mln. people)

Groups of countries	2000	Growth 2000–2001, %	2001	Growth 2001–2002, %	2002	Growth 2002–2003, %	2003	Growth 2003–2004, %	2004
Developed countries	285.430	20.7	344.585	16.7	402.013	7.8	433.308	15.8	501.756
Developing countries	96.367	42.9	137.712	48.8	204.926	25.3	256.846	29.6	332.998
Countries of South-Eastern Europe and CIS	5.982	49.8	8.964	52.3	13.653	73.9	23.745	72.2	40.877
Total	387.799	26.7	491.291	26.2	620.192	15.1	713.899	22.7	875.632

Source: [7].

Among the structural developments in international trade in services, worth of special mention is an accelerated expansion of the so called ICT–services market, i. e. services provided by means of digital information and computer technologies. Today they include communication, insurance, financial, computer and information services, as well as other business and personal services, likewise cultural and recreational ones. In 2000–2003, the growth of world

services exports by 1% was followed by the growth of ICT-services exports by 1.6%. The latter made 45% of total world services exports [8: 9–10]. Within the geographic ICT-services trade pattern dominate the Asian countries, India with centre in Bangalore holding the top position among them. The delivery of these services is realized mainly through commercial presence. In particular, 2/3 of Indian services exports are realized by branches of foreign TNCs.

At the present, services belong to science-intensive industries of the world economy applying the most advanced technologies. Improvement of services quality provided at international services market and intensive application of innovations is reflected by the amount of expenditures allocated for research and development (R&D) in service TNCs. Though R&D is only one of the components of the innovation process, the financing of this area is the most common and rather accessible index for making international comparisons. Nevertheless, there exist some statistical challenges in that area, since R&D used to be underestimated at the services markets and in scientific literature, as far as the services were considered as low-technological and inadaptable to innovations. Therefore, R&D figures at the international services market are rather fractional, and the relevant statistics is available in the world industrial countries.

The TNCs' expenditures for innovations in the service area have notably increased in the developed countries since 1990-s. In particular, in France and Italy the increase made 5%, in Canada and Great Britain – 13% [9: 107]. But the USA still remains the leader of R&D introduction in the area of services. Here, the part of TNCs' expenditures for innovations in services grew in the late 1980-s from less than 5% of total R&D (1983) to 43% in 2002. 77% of total R&D costs in the service area were assigned to trade services, services in scientific research and development, information and computer services. The most dynamic R&D application is observed in the area of computer, information and related services, which shows the tendency towards emergence of the information society. Thus, the expenditures for R&D in the named fields grew in the USA from 4% in 1987 to 12% in 2002 [9: 110].

Another peculiarity of the innovation process at the international services market is R&D internationalization, i.e. locating R&D TNCs in different countries, implying not only TNCs' own specialized branches, but also outsourcing of those functions to other companies. The major part of research and development affiliates, located in developing countries, belongs to TNCs in the area of information and computing services (39% of investment projects of the established subsidiaries), and the leaders among the host countries are India and China [10].

The integrated element of modern international services market development is intensification of trans-nationalization, which shows itself in the growing number of TNCs in that market and increasing of FDI inflows into the service branches of world economy. In addition, due to trans-nationalization, the share of services provided through commercial presence in the structure of international services market makes 50%, which is the largest share of all delivery mechanisms.

The deepening trans-nationalization of the international services market is illustrated by the fact that the ranking of the world's biggest TNCs – Fortune Global 500 – assigns leading positions to companies operating in the sphere of services, the share of which grew from 41.2% in 1992 to 59.2% in 2005 [11]. During the periods from 1989–1991 to 2001–2003 the world inflows of FDIs to the services sector increased from \$94721 mln. to \$461028 mln., i. e. by 5 times, while FDIs into manufacturing grew only 2.5 times (Table 3).

The analysis of foreign direct investments by sector shows that, in 2001–2003, structural developments took place (Figure 2). Specifically, business services were leading in terms of FDIs attraction. Thus, FDI inflows into that branch grew 10 times in 1989–1991, while investments into financial services grew only 3 times in the same period. Consequently, the latter moved from the first to the second position. FDIs have grown immensely in the field of transport and communication services, as well as in the electric, gas and water supplies, which is explained by intensification of privatization processes in the named branches in a number of countries, primarily in transition economies. The increase of investment flows into trade services is conditioned by subsequent expansion of commodity markets, demanding proper trade infrastructure. Low FDIs rate and their scarce growth in the field of health and educational services is explained by protectionist policy of the recipient countries and low liberalization rates of those services markets.

The analysis of geographical structure of foreign direct investments in the international services market manifests essential changes. The developing countries are ever increasing their investments into the area of services. If in 1990 their share in the total value of accumulated FDIs at the international services market was 1%, in 2003 it grew up to 10% [9: 261] mainly due to growth of business, hotel and restaurant services, likewise financial, transport and telecommunication services. The share of the USA, the most powerful investor at the international services market, decreased from 2/3 in 1980-s to 1/4 in 2002 – 2003. At the same time, the share of the EU countries grew from 39% in 1980 to 49% in 2003 [3: 99] in connection with creation of common market of services, where the European TNCs consolidated on the basis of merges and acquisitions agreements (M&A), which allowed to increase their commercial presence at the US services market.

The study of the M&A dynamics at the international services market (M&As being the prevailing way of its transnationalization under modern conditions) provides one more proof of the increased expansion of TNCs on that market [Table 4, Figure 3].

In the second half of 1990-s, the volumes of trans-border M&As at the international services market skyrocketed: their portion within the total number of M&A agreements grew from 36% in 1989–1990 to 63% in 1998–2000, the peak of its development. After some decrease in 2001–2003 caused by wave-like character of M&As, transborder M&As in services have again regained their positive trend (Figure 3).

Table 3.

World Inflows of FDIs, 1989–1991 and 2001–2003 (\$mln.)

Sector/ Branch	1989–1991			2001–2003			
	Indus- trial coun- tries	Develo- ping coun- tries	ROW	Indus- trial coun- tries	Develo- ping coun- tries	South- Eastern Europe and CIS	ROW
Primary	9552	3725	13276	34260	14597	2780	51637
Secondary (industry)	50915	16880	67795	96424	68997	1760	167181
Sector of Services	82694	12027	94721	353428	103402	4198	461028
Electric, gas, water supplies	872	1247	2118	18621	5543	94	24258
Construction services	527	700	1227	3047	2028	118	5192
Trade ser- vices	16426	2599	19025	32914	14787	1287	48988
Hotel and restaurant services	3782	945	4727	1433	1251	18	2703
Transport, sales and communica- tion services	1702	1290	2993	60339	14090	1384	75813
Financial services	33841	2553	36393	92600	20923	583	114105
Business services	11591	1565	13155	98293	34072	673	133038
Public ad- ministration services	2435	–	2436	2590	–	5	2595
Educational services	7	5	12	4	38	7	41
Health ser- vices	71	24	94	241	149	1	93
Social and personal services	2391	9	2400	5113	3549	23	8685
Other ser- vices	8191	672	8863	32697	3919	2	36618

Source: [9, 262].

Table 4.

Transborder M&As at the International Services Market, 1988–2004 (\$ mln.)

Branch	1988– 1990	1991– 1994	1995– 1997	1998– 2000	2001– 2003	2002	2003	2004
Total	156748	163600	398608	1568038	747690	369789	296988	380598
Electric, gas, water sup- plies	1753	7212	63135	119803	98528	61572	15909	24799
Construction services	1641	2099	6750	9809	4721	1465	1089	3324
Trade ser- vices	24067	28373	53627	103418	53201	16710	13183	26445
Hotel and restaurant services	24826	7971	16232	32346	18532	3860	4142	4618
Transport, sales and communica- tion services	20220	26892	43484	584841	187038	30824	34724	36214
Financial services	50809	50103	118588	393807	218698	41903	54790	81809
Business services	20104	20978	49350	232661	125132	47248	23565	55261
Public ad- ministration management	–	–	715	2172	459	76	55	18
Educational services	12	471	183	327	522	7	77	79
Health ser- vices	1014	3044	4678	2116	3772	781	1115	2726
Social and personal services	12205	15751	38260	86555	36942	15169	10911	3349

Source: [3, 335; 9, 328].

Figure 2.

Distribution of FDIs at International Services Market by Sector
 (1989–1991 and 2001–2003).

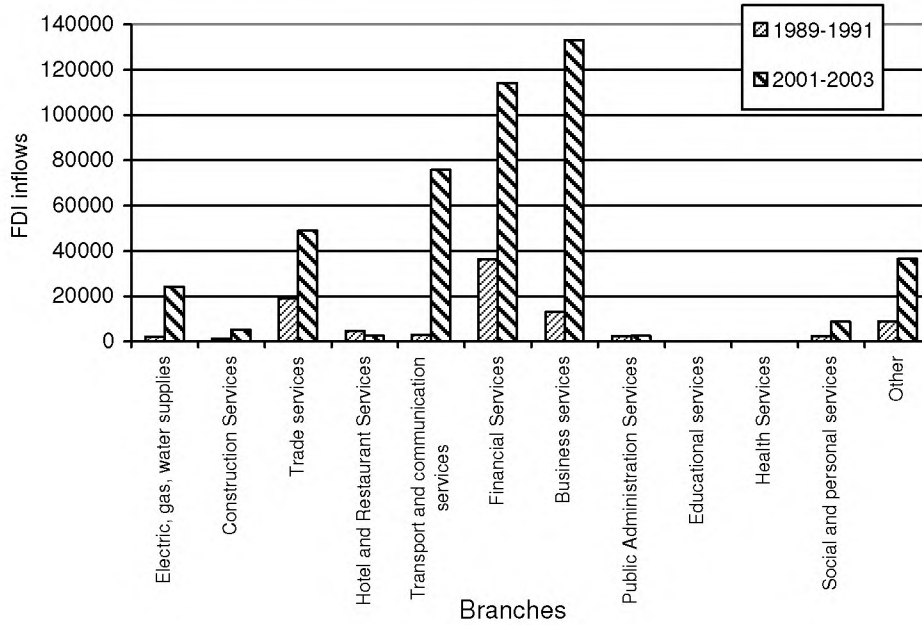
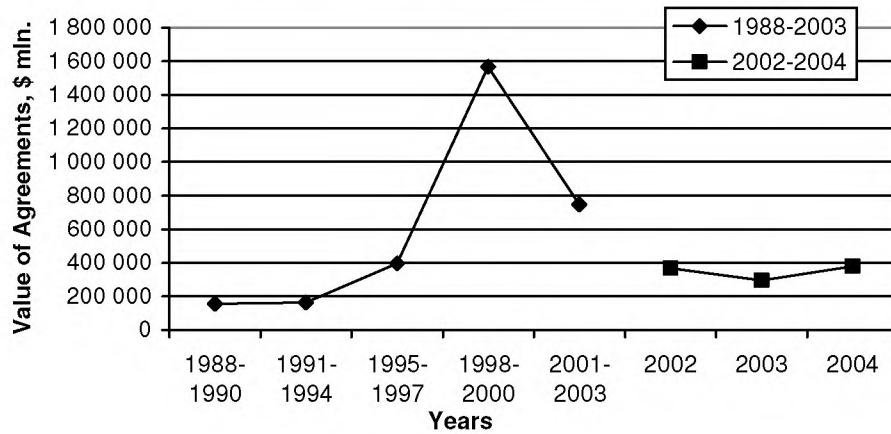


Figure 3.

M&A Dynamics at the International Services Market, 1988–2004



In addition, certain changes occurred in the branch structure of M&As at the international services market (Table 4). Specifically, the share of telecommunication and business services, as well as those of electric and water supply grew within the total M&A value, which was conditioned, first of all, by privatization processes and subsequent liberalization of those markets. The specific weight of traditional branches, such as financial, transport, hotel restaurant services decreased a little, though M&A volumes continue to grow.

In 1988–2004, the share of services in the structure of transborder M&As was the largest in the developing countries and reached 66.4% compared with industrial countries (63%). Nevertheless, the highest growth rates of M&As in services were reached in the countries of South-Eastern Europe and CIS. In particular, the growth of M&A agreement values made 374.6%, and the share of services was 61.6% (Table 5). The main reason for this phenomenon is the subsequent liberalization of services market in the post-socialist countries, and opening them for foreign competition and investments.

The branch structure of transborder M&As at the international services market has its own peculiarities in different groups of countries. While in the developed countries the highest growth rate of M&As in 2004 was achieved in construction, health and business services, in the developing countries – in financial and business services, in the countries of South-Eastern Europe and CIS – the M&A leaders were the areas of electric, gas and water supplies, and telecommunications.

The characteristic feature of the modern stage of international services market development is the growing capitalization service TNCs primarily in such science-intensive branches as information, computing and telecommunications. The majority of them are quoted at NASDAQ. Having minor fixed capital, the market value of such new companies as Amazon.com, eBay Inc., EchoStar Communications, Google Inc. included in the NASDAQ-100 index is extremely high. The total market capitalization of TNCs quoted at the stock exchange grew from \$2.3 trln. in 1999 to \$3.6 trln. in 2006, i. e. by 57% [13]. The appearance of important players from the developing countries on the international market of science-intensive services can be proved by the fact that the Indian Infosys Technologies Corp. with market capitalization of \$25 bln. was the first to join NASDAQ-100 in 2006. [14].

Under conditions of accelerated international services market development and appearance of new dynamic services, the policies of many TNCs underwent changes with focus on diversification of their activities. The wish to keep and enhance their competitive positions at the world market, first, stimulates service TNCs to provide new perspective services and, second, contributes to reorientation of FDIs of industrial TNCs towards services. Some companies became so diversified that they can hardly be associated with a specific branch and special field of activity. That is why the Forbes Journal in its rating of the biggest TNCs regards them as conglomerates. The most vivid example of diversified service TNCs is Virgin Co., which provides more than 10 kinds of services in addition to material production. At the international services market, diversification is realized mainly because many services are interrelated, which allows companies to reach economies of scale.

Table 5.

**The Structure of Transborder M&As at the International Services Market
by Country Group and Service Branch**

Branch	Industrial countries			Developing countries			Countries of South-Eastern Europe and CIS		
	Share in total M&A value (%)		Growth in 2004 (%)	Share in total M&A value (%)		Growth in 2004 (%)	Share in total M&A value (%)		Growth in 2004 (%)
	2003	2004		2003	2004		2003	2004	
Total	55.7	63.0	46	65.6	66.4	16	10.5	61.6	374.6
Electric, gas and water supplies	5.9	7.2	59	4.1	3.6	1	0.2	–	3164
Construction services	0.4	1.0	245	–	–	–	–	–	–
Hotel and restaurant services	1.6	1.3	4	–	–	–	0.03	–	–
Trade services	5.1	8.1	103	2.2	1.7	–11	0.2	–	–92.8
Transport, telecommunication services	11.3	6.9	–20	17.5	3.4	–78	5.5	49.0	626.3
Financial services	18.1	20.3	45	27.9	44.1	81	3.4	3.5	–18.0
Business services	8.6	16.3	146	11.0	11.4	18	0.4	0.3	–34.0
Public administration services	–*	–	–95	–	–	–	–	–	–
Health services	0.4	0.9	151	–	–	–	–	0.02	–
Educational services	–	–	–12	–	–	–	–	–	–
Social and personal services	4.3	0.9	–73	–	–	–	–	0.3	–

Source: [12].

Note. * – na.

Diversification in services contributes to growth of the share of industrial TNCs at the international services market. In the first place, they open subsidiaries providing trade, marketing and financial services to promote their commodity sales in host countries. In the USA their share made 41% in 1999, in Germany – 10% in 2000, and in Japan – 20% in 2001 [3: 114]. Unfortunately, there complete figures about activities of industrial TNCs at the international services market are not available, which is a great statistical problem and impediment for analysis of the given tendency.

A number of TNCs enter the services market by means of M&A agreements concluded with service companies with prospects of further expansion (in new dynamic branches) or with the aim of vertical integration. The analysis of mergers and acquisitions valued at more than \$1bln. in 2004 [9: 255] shows that the main motive of industrial TNCs, which purchased service firms, was vertical integration and search for innovations (in particular, agreements on Belgium Pharmaceutical TNC UCB SA purchasing the British company Celltech Group Plc involved in physical and biological scientific research, likewise the purchase of the Russian company HK «Slavneft», which provides services in the development of oil and gas deposits, by the British corporation British Petroleum). Proceeding from the named tendency, we can conclude that the scale of transnationalization of the international services market is much larger if overseas subsidiaries are considered in addition to parent TNCs.

Moreover, at the international services market (in opposition to international commodity market), the non-corporate forms of TNC expansion are playing a significant role. The latter do not imply investing in joint stock capital, specifically franchising, agreements on management, concession, different kinds of partnerships, construction of projects on a turn-key basis, construction and management projects. They are important, and in some areas even dominating, like for e. g. in hotel, restaurant, construction, professional services, as well as in retail sales and car rent services. In particular, establishment of foreign subsidiaries in the hotel industry on the basis of joint stock participation makes only 36%, while the rest are management contracts (37%) and franchising agreements (28%) [3:104].

In modern conditions, the non-corporate forms of trans-border service TNC operations are widely applied. This is illustrated by the dynamics of royalty and license receipts paid by the host countries for the use of foreign corporations' non-material assets. Thus, in the OECD countries, this figure in 2003 made \$92.9 bln., i. e. it grew by 13.9% per year. The average growth rate during 1998-2003 made 7.5% [15]. These outcomes can be explained by the competitive advantages of service TNCs, which are based on science-intensive intangible assets that can be easily transferred overseas. Second, non-corporate forms provide an opportunity to quickly expand a TNC network with no significant capital investments, at the same time reliably securing the owners of the assets, and clearly defining the terms under which the contract could be terminated. Third, the reason for expansion of trans-border operations in services without invest-

ments into joint stock capital is the outrageous barriers to FDIs in the recipient countries.

The development of global markets and aggravation of competition makes corporations search for new effective forms of inter-company cooperation. In present day conditions, the most prospective form of cooperation at the international services market is strategic alliances (SA). Since mid 1980-s, the average number of SAs has been growing annually by more than 25%. This can be explained by the fact that this form of cooperation is one of the quickest and cheapest ways to implement global strategies of TNCs. The creation of SAs leads to changes in the nature of competition at the international services market, where competitors now appear to be not single TNCs, but groups of companies. And it is justified that the objective of the majority of modern alliances creation is to sustain competition of other big corporations.

At the moment, international strategic alliances are mainly created in the area of computer and information services, which is normal under conditions of new information economy with information and knowledge as basic resources. The most widely expanding are the SAs created with the view of cooperation in the field of R&D. The latter allows to update the corporate data base of the company through know-how and developments that are in possession of TNCs, also to achieve on this basis new advantages in competition, and new businesses. Consequently, it derives from the above that the most perspective is the SA created at the edge of different branches, thus resulting in new technologies and services.

One of the cooperation forms at the international services market, which is intensely developing at the moment, is outsourcing, i.e. realization of certain business functions (services) by third organizations possessing all needed resources on the basis of long-term agreement [16: 253]. The progress in the development of network technologies, likewise fast-speed networks of data transmission and increases in transmission capacity, as well as intensified global competition, which makes companies search for economies of scale - all this contributed much to the dynamic development of outsourcing. Today, 73% of companies in the Fortune 2000 rating regard this cooperation form as one of the basic elements of their growth strategy.

In 2005, the world market for outsourcing reached \$143 bln. [17: 8]. Nevertheless, its potential is not used in full in international business, since any service that requires no direct contact between the provider and the client can become a subject for outsourcing. Thus, in 2005, service TNCs covered only 10% of potential outsourcing market, which was estimated to amount to \$300 bln., and the value of services delegated to external contractors was minor against exports of ICT-services (\$836 bln. in 2003) [8: 9].

International outsourcing market (implying delegation of services to off-shore external organizations as opposed to world outsourcing market, which, in addition, includes national external contractors) is tentatively divided into two major segments: information technologies outsourcing (IT-Outsourcing, ITO) and

business process outsourcing (BPO) for optimization of value creation. Proceeding from the forecast of Gartner Consulting Company, the international IT-outsourcing market will reach \$50 bln. in 2007, that is, it will grow two times, and the BPO market will grow to \$24 bln. (\$1.3 bln. in 2002) [18]. Consequently, expenditures for international outsourcing will increase in total from \$32 bln. in 2001 to \$74 bln. in 2007, i.e. by 131%.

India, with centers in Bangalore, Mumbai and New Delhi, is leading in performing services under outsourcing agreements. Outsourcing income there made in 2004 around \$3.6 bln. [17: 8]. According to different estimations, India encompasses from 80 to 90% of the world outsourcing market, however, as the UNCTAD experts anticipate, in 2010 this figure will decrease to 20%. Mainly, it is caused by the new market participants rendering external contractual services. In particular, the West-European TNCs prefer the countries of Eastern Europe, CIS, and primarily Romania, Bulgaria and Ukraine, finding them the most attractive to host the transferred outsourcing services [19].

Consequently, the research of the peculiarities of the international services market development at present days allows tracing the following tendencies:

1. Separation out of the whole market structure of the sectors, which define its dynamics in the conditions of globalization and trans-nationalization of world economy: i.e. financial, business, telecommunication, information and computer services. Growth of TNC capitalization in the said branches. Within the branch structure, the increase in the share of services rendered electronically (so called ICT-services).

2. Increasing importance of developing countries and the countries with transition economies on the market, primarily in terms of IT introduction rates, FDI attraction and M&A value growth.

3. Increasing R&D expenditures of TNCs, that is, improvement of rendered services quality, tending to R&D internationalization, transferring the latter for off-shore outsourcing.

4. Deepening of market trans-nationalization, increasing share of commercial presence in the market structure. Diversification of TNCs' performance (e. g., industrial – in the field of services, service- increase the number of rendered services), turning many of them into conglomerates.

5. Expansion of market trans-nationalization at the account of non-corporate forms of TNCs' activities.

6. Tendency for strategic alliances growth in number at the international services market, primarily, in the science-intensive services (information, computer and telecommunication).

7. Growth of the international market for outsourcing, increasing number of services delegated to external contractors, and attraction of new countries to performing these operations.

International Services Market of the Future: Transition to «New Economy»

The examined tendencies at the international services market allow to conclude that today and in the nearest future it will be effected by the following factors: acceleration of scientific and technical progress with application of new IT performance capabilities; deepening of integration processes among the countries; liberalization of international services market; integration of material production sector and services, that will be instrumental in rational labor, capital, and information resources employment, primarily within the framework of TNCs. We can't help agreeing with Russian academicians W. Martynov and A. Dynkin, who anticipate the growth of the services sectors with lower capital intensity [20: 8], in so much as at the moment, the analysis of international services market shows major investment flows into telecommunication, financial, and business sectors, which determine the market's dynamics. Under conditions of deepening liberalization processes, significant FDI inflows are expected to international markets of health and educational services, which have powerful potential for commercial presence.

The exposed tendencies of the international services market development mean the formation of the «new economy» based on knowledge, and transition to the information society. Stable growth of Internet-users throughout the world, growth of e-trade volumes, decrease of information unit value provide an important precondition for «non-challenging» economic growth, and determine the tendency of global resource savings. Intensive development of international market of IT-outsourcing can bring about the creation of service TNCs of a new type, i.e. virtual, the operations of which will be performed through information and communication technologies with participation of the developing countries and countries in transition, which will allow to efficiently use the economies of scale.

Under the conditions of deepening M&A processes at the international services market, further capital consolidation and TNC integration will proceed. The TNCs will turn into global companies, decreasing in number, as the European financial services market is facing now. It is just the size of the companies and economies of scale that provide a basic competitive advantage at the international services market.

Liberalization of services markets in the developing countries and in the countries with transition economies will induce those countries to be involved in the international trade in services. Moreover, they are expected to actively participate in the processes of international service market trans-nationalization. Proceeding from the UNCTAD experts' forecast, the developing countries will get more than 1/3 of FDIs from other developing countries by 2010, and the

main investors will be India, China, Brazil, and South Africa. We can't help agreeing, since today the FDI flows into services among the developing countries are growing quicker than similar flows between the developing and developed countries. In the light of the above-said tendencies, services of the TNCs originated in the CIS countries are expected to enter the international market, and they will compete with foreign corporations.

Conclusions and Prospects for Subsequent Research

Consequently, the international services market is described by sustained growth both by export volumes, and amounts of FDIs. The tendencies of its development at the beginning of the 21st century strongly manifest the transition to the «new economy» and information society. Taking into account the prospect for TNCs originated in the developing countries to enter the international services market, it is necessary to research more profoundly its mechanism and its functioning in the conditions of trans-nationalization, investment and financial aspects of the process.

Bibliography

1. Демидова Л. Глобализация рынков услуг: динамика и основные тенденции // Проблемы теории и практики управления. – 2005. – №5. – С. 36–41.
2. Дюмулен И. И. Международная торговля услугами. – М.: Экономика, 2003. – 315 с.
3. World Investment Report 2004: the Shift towards Services. – United Nations, New York and Geneva, 2004. – 436 p.
4. World Development Indicators. The World Bank, 1998–2005 // www.worldbank.org.
5. International Trade Statistics. WTO, 2000–2006 // www.wto.org.
6. www.internetworldstats.com/stats.htm.
7. Information Economy Report 2005. – United Nations, New York and Geneva, 2005 // www.unctad.org.
8. Using ICTs to achieve growth and development. – UNCTAD, Geneva, 11 September 2006. – 19 p.

9. World Investment Report 2005: Transnational Corporations and the Internationalization of R&D. – United Nations, New York and Geneva, 2005. – 366 p.
10. On the Cutting Edge. FDI trends in Research&Development // FDI Quarterly. – 2005. – Issue 2 // www.locomonitor.com.
11. Fortune Global 500 // www.fortune.com.
12. UNCTAD, cross-border M&As database // www.unctad.org/fdistatistics.
13. www.nasdaq.com.
14. Rajesh A. Infosys set to enter Nasdaq-100 index // www.rediff.com/money/2006.
15. Statistics on International Trade in Services, OECD, 2005 // www.oecd.org.
16. Мировая экономика и международный бизнес // Под. ред. В. В. Полякова и Р. К. Щенина. – М.: КНОРУС, 2005. – 656 с.
17. Business Process Offshore Outsourcing. Untapped Opportunities for SMEs. – UNCTAD, United Nations, New York and Geneva, 2005. – 42 p.
18. Watch the India // The Economist. – May 4th 2006.
19. Overby S. 2006 Global Outsourcing Guide // www.computerworld.com/action/article.do?command.
20. Мартынов В., Дынкин А. Мир на рубеже тысячелетий: прогноз развития мировой экономики до 2015г. // Международная экономика. – 2005. – № 2. – С. 4–28.

The article was received on November 21, 2006.