Services in International Trade of China: 
Factors Influence on the Share 

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Abstract

This paper examines factors influence on the share of services in international trade of China. In 2004, China overtook Japan as the leading Asian exporter, outdistanced the United States in 2007 and Germany in 2009 as the world’s leading exporter. Since the performance of services in China has shown the competitiveness in international trade for the last decade, it is determined to be the noteworthy field of the economy. In this study, the periodical changes of services in international trade of China were observed with special attention on its assession to the World Trade Organization (WTO). As a theoretical study, qualitative method is used to build a theoretical framework based on the literature review within the context of services and perspective of international trade. Through the analysis on the collected data in Chinese, English, and Korean, the share of services in international trade in China is determined to be influenced by the multiple factors: liberalization processes, development of technology, privatization, governmental policies and planning, and deregulation.

Keyword: Services, International Trade, Chinese Business, Service Sector, Services in Trade

1. Background

Services is known to be the most significant sector of the economy for decades, especially in the developed countries, and now the competitiveness of national economies is also increasingly recognized by their performance in the service sector of the eastern sub-region of the Asian continent. While the top ten traders in world commercial services took more than half of the world's total trade at 51%, developing economies reached 34% in 2014 [1].

According to the WTO statistics of 2015, the world merchandise exports doubled its amount from 1995 to 2005 from US$ 5.17 billion to US$ 10.51 billion and from 2005 to 2014 almost doubled its amount to US$ 19 billion. Exports of commercial services from WTO members

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totaled US $4.87 trillion in 2014 which was also doubled amount of US$ 2.52 billion in 2005. In 2014, China ranked the fifth place as a leading exporter and the second to be the leading importer in services. However, the country ranked in the third places in both export and import in commercial services excluding Intra-EU28. While quarter-on-quarter GDP growth was modest in the United States (US) and the European Union (EU) area, output slowed in China in the final quarter of 2015 [2].

This paper aims to analyze factors affecting the share of services in international trade focusing on China. Many Chinese economists stated that the development of services in international trade is a economical breakthrough in the future. In 2013, Wei Rhee Sien and Chien Zao (于立新 & 陳昭) claimed that services in trade became a core growing point of the development in international trade of China [3]. According to Pei Chang Hong (裴長洪) in 2015, an economist in China, developing service trade is one of the important responsibility in optimization of international trade structure [4]. He also evaluated that the trade in services has grown fast than trading goods and predicted its long term tendency reflecting the development of international trade today [4]. In 2016, Ziao Ten Yiung (周天勇) emphasized the importance of services in trade by pointing out the loss in service sector which was noticed as one of the factors caused to bring down economy in China [5].

Particular emphasis is made on the opportunities which arise for Chinese business among the eastern countries due to its huge impact on the neighboring countries. Firstly, the liberalization and development of international trade in services for China is studied. International trade in services is dominated by infrastructural services, therefore, secondly transportation, communication, finance, audiovisual, tourism, and insurance services are examined over the region. Then, this study can present a comprehensive assessment of international trade services and an analysis of its prospects and contributes to the understanding of positive and negative factors influence on the share of services in international trade of China.

2. Methodology & Disposition of the Study

Research is conducted based on the data in English, Chinese, and Korean languages and the collected data in Chinese and Korean languages are translated in English. As a theoretical study, qualitative method is used based on the literature review in order to build a theoretical framework which can provide the boundaries for this study and its position within the context of services and perspective of international trade. Statistical and analytical data were reviewed
and comparison between exports and imports of services and goods were made. Analysis is made on the share of services in gross by firstly paying attention to the contribution of services in the domestic economies and later changes and influences.

![Fig.1] Disposition of the Study

Literature review on the periodical changes of services in trade will be examined relying on the statistical data, especially focusing on the periods since China’s joining WTO in 1995. The statistical data from World Trade Organization International Trade Statistics (WTO), International Trade Centre Map (ITC Map), China Statistical Yearbook (National Bureau of Statistics of China) are used in the analysis. Though the review and the analysis, what kind of service sectors have impact in the economies can be identified by comparison of the value of services traded and how liberalization influences on structural changes.

### 3. Literature Review & Data Analysis

#### 3.1 Definition of Services

Although services are defined in various ways by different scholars so far, there is basic agreement on the characteristics, especially on intangibility and simultaneous consumption of services. According to UNCTAD and World Bank, service can be described as “anything sold in trade that could not be dropped on your foot [6].” This study respects the General
Agreement on Trade Services (GATS) concept which covers the most of services possibly trade commercially in all modes of supply. WTO divides services into following categories: computer and information services; financial services; other business services; royalties and license fees; communication services; insurance services; travel; transport; personal cultural and recreational services; and construction. China lists them in similar manner with slight differences: tourism; transport; other business services; consultancy services; insurance services; royalties and license fees; construction; computer and information services; advertising and publicizing, telecommunication; government service, n.i.e; financial services; personal cultural and recreational services; and movies and AV services.

3.2 Reform and Opening Up

Trade in services of China has developed quickly in an enormous scale and amounts. The pace of the structural transformation of the Chinese economy based on the factual record was once provided by Liping and Evenett in 2010. According to their review, the tertiary industry’s proportion of GDP rose from over 20 percent in 1978 to around 40 percent in 2007. The industry employed a large number of workers and the wholesale and retail trade sector and the transport, storage and postal sectors placed as the top two sectors at 7.4 and 5.9 percent. Apparently, they were the sectors supporting producers of manufacturing industries and their development reflected China’s export drive.

In fact, China overtook Japan as the leading Asian exporter in 2004, surpassed the United States in 2007 and Germany in 2009 becoming the world’s leading exporter [1]. The amounts exceeded $190 billion in 2006 by 2.7 times its size in 2001 [7]. The annual percentage increased from 3.1 in 2001 to 23.7 in 2006 for exports, from 8.9 to 20.6 for imports [7]. China’s share of services in the world market has grown the average annual growth rate of the Chinese service sector’s output exceeded that of India from 1987 to 2004 though the slightly less than India nowadays.

Not only through the direct exports of services, different service sectors in China contributed to the growth process in different ways. China overtook the USA and became the world’s biggest trading nation in goods with a total for imports and exports valued at US$ 4.16 trillion for the year since 2013. The total import and export of trade in services in 2011 accounted for US$ 420 billion and the Chinese government aimed to reach 600 billion in trade in services in 2015 [8]. Many countries were envious of China’s ongoing economic growth. However, the growth has been slowing down since 2011 and China seems facing challenges due to a
structural transition.

3.3 Export of Services

The sectors of other business services, travel, and transport in China have stayed remarkably higher than the others, but there was a sharp decrease in other business services in 2015, travel in 2014, and transport in 2016. The global transport service sector plummeted reflecting weaker merchandise trade flows, but China’s transport exports still remained positive in 2015 [2]. While China’s top three sectors of export services are staying constant after their deficit a few years ago, the world’s record show similar pace in those three sectors except the case is travel as the first, other business services, and transport as the third leading sector. Manufacturing services on physical inputs owned by others have had remarkable deficit while the rest of service sectors recovering after their fluctuation. Telecommunications, computer, and information services form both world’s and China’s records show its increase for the last five years showing its potential.

3.3 Import of Services

Travel sector in China comparatively depend on import than the other sectors reaching US$ 261.5 billion in 2016. The country’s dependency on the import of transport and other business
services has decreased over the last five years showing an exception for other business services in 2016. On the other hand, charges for the use of intellectual property and telecommunications, computer, and information services in import have gradually increased as same as its increase shown on the record of world. Interestingly, service import in the transport sector has decreased in both records of China and the world. This reflects that the demand on travel services in international trade are sharply increasing while the other two top sectors are slowing down. Although China’s export of personal, cultural, and recreational services has increased from US$ 125.6 million in 2012 to US$ 743.6 million in 2016, its import skyrocketed from US$ 564.5 million to US$ 2.1 billion bringing attention.

![Service Import](image)

**[Fig.3]** Service Import of China from 2012 to 2016: Developed based on Trade Map - International Trade Statistics (US$ Thousand)

### 3.5 Overall Review

The growth of both final and intermediate demand factors are appeared to be an important determinant for the share of services in the overall economic growth and development in China. In fact, transportation, retail and distribution services all affect the costs of shipping and supplying goods including exported goods. According to the analysis, the share of total service sector output accounted are education, health, research, finance, insurance, and income-per-capita growth in the past. However, recently, all kinds of services were determined
that they have expanded quickly, especially a large part of 2015’s gain from the financial sector in services [9].

According to the analysis of National Bureau of Statistics of China [10], service industry grew fast maintaining strong expansion and the total value of both imports and exports increased quickly with improved structure of foreign trade. The services purchasing manager index (PMI) of the December 2016 rose to 53.4 which was the highest since July 2015 [11]. This has explained the growth in China’s services sector and shown the world’s second-largest economy merging with stronger momentum [11]. The country is in the process of shifting its economic growth model from a dependency on exports and investment.

Many critics claimed that China’s service sector has overrated [9][12]. They argued that the China’s structural transformation is just in the beginning stage, the shift to lower economic growth will result in intensifying the downward pressure, and the present services sector lacks the strength to be a strong driver. Zenglein [12] suggested the industrial modernization which may boost China’s innovation capacity and avoid the perils of the middle-income trap loom. However, this can be accomplished in the longer term.

4. Conclusion & Recommendation

Through the analysis, the share of service is determined to be sensitive to the multiple factors: technological development, liberalization of the processes, privatization and deregulation, governmental policies and planning, and entrance of foreign investors to the service markets. Education, health, research, finance, and insurance are identified as dominating services and telecom, information technology, and business services are recognized as services with potentials. Although the achievement in services sector equals and little less than the industrial sector, it is due to its overall economical loss. China’s State Council has made it easier for new companies to register by simplifying the approval process and ending minimum capital requirements. However, apparently, regulatory barriers to competition in finance, health care, and telecommunications are observed as areas which controlled by government related companies. They seem to be the hindrance to the growth of services and the cause for the services account balance to be in slight deficit in China.

Continuing the effort in change of policies, restrictions, market reforms, liberalization and market openings may boost upswing in its service industry as such structural shift has been urged by many scholars and economists. The future economic growth greatly relies on services today. The liberalization and implementation of WTO agreement in service sectors may
influence positively on the share of services in China.

References


