International Service Trade of East Asian Region: Factors Influence on the Share

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Abstract

The purpose of this study is to analyze factors affecting the share of service trade in international trade focusing on East Asian geographical areas such as China, Hong Kong, Macao, Taiwan, Mongolia, Korea and Japan. Services have been known for decades as the most important sector of the economy, especially in developed countries, and are now increasingly recognized for their competitiveness in service trade in the eastern region of the Asian continent. It focuses on China, which has a huge impact on neighboring countries in the eastern region, and focuses on service trade opportunities that can arise from China's trade growth. First, this study analyzes liberalization and development of international trade in services of each country. Second, as international service trade is dominated by infrastructure services, it investigates transportation, telecommunications, finance, audiovisual, tourism and insurance services in each region. The study then provides a comprehensive assessment of the international trade in services of East Asian Region and an analysis of their potential. As a theoretical study, qualitative methods are used on the basis of literature review to establish a theoretical framework that can provide a perspective of international trade and its position in the context of this research. The analysis shows that the proportion of service trade is sensitive to various factors such as technology development, process liberalization, privatization and deregulation, and foreign investor inflow into the service market.

Keywords: export and import of services, services in trade, service sector, international trade of East Asia

1. Introduction

This paper examines factors affecting the proportion of service trade in international markets, focusing on East Asia. While the value of world commodity trade and services trade in 2015 is almost twice as high as in 2005, the top ten trade services in the commercial sector accounted for 53% of global trade and 36% of developing countries [1]. In the previous year, developing countries accounted for 41% of world commodity trade and 34% of commercial service trade
WTO member countries’ commercial services exports were $4.68 trillion in 2015, down from $4.87 trillion in the previous year, while trade services in developing countries increased by 2 percent [1][2].

Services have been known for decades as the most important sector of the economy, especially in developed countries, and are increasingly recognized as the competitiveness of the national economy in the service trade sector of the East Asian continent. [3][4]. Geographical areas include China, Hong Kong, Macao, Japan, Korea, Taiwan and Mongolia. In 2014, China (3rd), Japan (4th), Hong Kong (8th), Korea (9th), Taiwan (12th) and Macao (15th) were major exporters [2]. Most of them except Macau were also importers of commercial services trade. China, Japan, South Korea and Hong Kong were East Asian regions that provided transport exports and other commercial services around the world, despite a large decline in most services sectors in 2015. In addition, China, Macao, Hong Kong and Japan remained the major exporters of travel. The performance of East Asia’s service trade has shown its competitiveness in international trade and can be seen as a remarkable economic field.

2. Data Disposition and Methodology

The study was based on data in English, Chinese, Japanese, Mongolian, and Korean, including articles, books, government websites, and scholarly analysis. Statistics in Chinese, Japanese, Mongolian, and Korean are translated into English and used for analysis. Especially, statistical references used in this study are National Bureau of Statistics of China on year 2017 [5]; Hong Kong’s Trade in Services Statistics from 2000 to 2015 by Census and Statics Department at the Government of Hong Kong Special Administrative Region [6][7]; Statistics and Census Service at the Government of Macao Special Administrative Region [8]; Japan’s White Paper on International Economy and Trade Summaries from 2002 to 2016 [9]; Bureau of Trade in Ministry of Finance, Republic of China [10]; Medee MN Professional Live and More [11]; and Service Trade Balance from 2006 to 2016 by Korean Statistical Information Service at Statistics Korea [12]. Besides, World Trade Statistics Review 2015 and 2016 prepared by World Trade Organization were reviewed for the most relevant information for the overall record.

Analysis of each region was conducted through literature analysis. In the process of reviewing the literature data, statistical and analytical sources were used to determine the contribution of service trade in domestic and global economies, comparing service trade transactions with commodity trade transactions in each region and investigating total service trade share. The same approach was used in all regions and similar patterns were applied to
the analysis process legitimately in logical order. Since the overall method is qualitative, the research questions are reviewed before the data was gathered based on the understanding of the central issues and key questions.

**Research question:** What are the factors influence on the share of services in each region?

**Review question:** Why is this particular data necessary?

**Analytical questions:** What questions are to answer?

What kinds of decisions are to be made based on the results?

When organizing data for analysis, the following steps are used to collect, sort, and analyze relevant information in the data collection and alignment process: finding similarities and patterns, deriving differences, and establishing relationships between data comparisons. It then validates the analysis data and consolidates the results to incorporate the suggestions.

3. Literature Review and Data Analysis

As a theoretical study, the literature is reviewed using qualitative methods to establish a theoretical framework that can provide the position and international trade perspective in the context of this study and in the context of services. So far, the service has been defined by various scholars in various ways. However, there is a basic agreement on the nature of service intangibility and concurrent consumption [3]. United Nations Conference on Trade and Development (UNCTAD) and the World Bank [13] define services as anything that can be sold in trade and that can not be dropped on foot. This study respects the GATS concept of dealing with most service trade products that can be traded commercially in all modes of supply.

3.1 The World’s Leading Exporter, China

China surpassed Japan, which was Asia ‘s leading exporter in 2004, and emerged as the world’s leading exporter in the United States in 2007 and Germany in 2009 [2]. Despite the rapid recovery in 2010 and 2011 due to the economic crisis in 2009, the ratio of world trade and GDP declined, and then gradually declined in 2012 and 2014 and dropped sharply in 2015 [1]. According to an analysis by the World Trade Organization (WTO) in 2016, the economic downturn in China is considered to be one of the weaknesses of world trade in 2015. Many Chinese economists have argued that the development of service products in international trade is an economic breakthrough in the future. Service trade is regarded as a key growth point of
China’s international trade development [14]. Chinese economist Pei Chang Hong urged that developing services in trade is an important responsibility for optimizing the international trade structure [15]. Through this, it can be seen that the long-term tendency will be predicted by focusing on the service commercial trade, which is growing faster than the trade goods reflecting the development of international trade today. Indeed, the loss of the service trade sector has been pointed out as one of the factors that disrupt the Chinese economy [16].

According to statistics, the proportion of China services in the global market is expected to be slightly lower than India in the next few years, although the average service output growth rate in China’s service sector from 1987 to 2004 surpassed that of India [17]. China’s trade total imports and exports amounted to US $ 539.64 billion in 2013, while the Chinese government aimed at a trade volume of US $ 1 trillion by 2020 [18]. In 2015, China was one of the only economies to grow by 6%, with India increasing by 1% and Hong Kong by 2%, while major export destinations of other major commercial services declined sharply [1]. In addition to the direct export of services, various service sectors in China have contributed to the growth process in various ways.

3.2 China’s Special Administrative Regions (SARs), Hong Kong & Macau

Wang Shouwen, who is an assistant minister at the department of commerce of Chinese affairs, told a press conference at the fifth press conference of the 12th National People’s Congress held in Beijing on March 11, 2017 that a service trade agreement between China, Hong Kong and Macao was satisfactory [19]. Thus, close observation of the two SARs was made in relation to the opportunity for Chinese business, which had a profound impact on neighboring countries and regions. In addition, the nature and development of international service trade for each special administrative area is determined. As international service trade is often dominated by infrastructure services, transportation, travel, trade-related services, finance and insurance services in both regions are reviewed. A comprehensive assessment of Hong Kong and Macao’s international trade in services and the analysis of the prospects can contribute to an understanding of the impacts of positive and negative factors on the share of services trade in international trade.

In order to analyze Hong Kong’s service trade performance, statistics from 2000 to 2015 provided by the Hong Kong Special Administrative Region’s Census and Statics Department (C & SD), as well as excerpts from journals and articles, were reviewed. According to Hong Kong Service Statistics, Hong Kong’s total exports and imports in 2015 were $ 808.9 billion and $ 574.3 billion, respectively. This is almost double the 2005 exports of $ 495.8 billion and imports
of $ 264.2 billion. The trade between Hong Kong and the rest of the world for statistical service trade is divided into 12 types of service trade: manufacturing services; maintenance and repair services; transport; travel; construction; insurance and pension services; financial services; charges for the use of intellectual property; telecommunications, computer and information services; other business services; personal, cultural and recreational services; and government goods and services [21]. Manufacturing services, maintenance and repair services and government services are three areas that appear as other business services according to the WTO-UNCTAD-ITC estimates.

Although statistical data are based on 12 service sectors, actual data from 2000 to 2010 are categorized as: transportation (Trans), merchanting (M), trade related services (TR), travel (Travel), financial services (FS), insurance services (IS), and other services (OS). From the year 2011, merchanting (M), trade related services (TR), insurance services and other services (OS) have disappeared from the key figures and replaced by other business services (OBS) such as WTO statistics. Interestingly, manufacturing services (MS) began appearing in service imports in 2011. The figures grouped into only four categories, Travel, FS, Trans, and OBS, are shown for the exports of services and five categories, Travel, Trans, MS, FS and OBS, are shown for the imports of services in the data from 2011 to 2015.

Transactions with China were regarded as external to statistics. Based on an overview of the data provided by C & SD over the last 15 years, four analytical categories have been developed: service exports, service imports, service export destinations, and service import destinations. According to statistics from 2000 to 2015 [22], travel was the largest component of both export and import of commercial services. In exports, transportation, financial services and other services followed, imports followed by transportation, manufacturing services, other business services and financial services. China has been analyzed as Hong Kong’s most important service trade partner in both exports and imports. The United States was the second most important destination for both export and import, followed by Britain and Japan for the third and fourth. Taiwan still remains as an exporting country and Australia and Singapore are importing countries.

Macau shares many business characteristics of Hong Kong as an open economy and free port. The region relies on gambling-related tourism and accounts for most of the exports and imports of China and Hong Kong. In 2015, Macau’s GDP fell by 20.3% due to economic contraction. This was mainly affected by the economic downturn in the game sector. However, the gross revenue of the game still exceeded 28.9 billion dollars, and it is the industry that has led foreign investment since liberalization in 2002. Macau’s current Chief Executive Fernando
Chui announced that the gross profit of the casino business in 2017 was $29 billion, roughly equal to the 2016 estimate [23]. Approximately 31 million people visited Macau in 2016, of which about 91% were from the parts of China. International travelers increased by 8%, about 692,000 Koreans visited with 17.6% increase, and it continues to increase every year [24]. US and Canadian long distance travelers increased by 10.2% and 12.8%, respectively [24].

The Macau Overseas Office of the Macau Government Tourist Office in Japan, Taiwan, South Korea, Malaysia, Philippines, Thailand, Australia and New Zealand offers travel information, distribution of news, organization of seminars, incentives or special interest programs, and making arrangements for special educational trips to Macao for trade and media people [25]. Macau economist Liu Zhi Yi anticipated many challenges in the Macau economy and concerns about connecting casinos and non-casino businesses to increase the profit of the non-casino business sector [23]. Obviously, Macau is heavily dependent on travel-related businesses such as casinos [22]. Macau generated 8 times more profit from commercial service exports than its import in 2016. The region is less dependent on imports of commercial services than other regions in East Asia.

3.3 Asia’s Formal Leading Exporter, Japan’s Competitiveness Today

While trading goods has slowed down globally, trading service has steadily increased [3]. For many countries, Japan was a major exporter along with the US and Germany, an important source of added value from final demand until China overtook it in 2004. Although many major OECD countries are pursuing economic growth by expanding exports, especially by expanding service trade, Japan’s exports to GDP are relatively low. Japan’s service exports are also lower than other major countries. Japan’s service trade has remained in the red for many years. In 2014, it recorded a loss of 3,080.1 billion yen [27].

The Japanese service trade statistics graph [12] presented in the previous study is based on data from the last 20 years based on the white paper on international economic and trade [3] and is organized into 12 service elements of Japan’s service trade. The types of service trade between Japan and the world are as follows: they are transport; travel; manufacturing services; maintenance and repair services; construction; insurance services; financial services; charges for the use of intellectual property; telecommunications, computer and information services; other business services; personal, cultural and recreational services; and government goods and services. From 1995 to 2014, transportation and finance were the sectors most affected by the global economic crisis, but Japan’s transport sector was the backbone of commodity trading in the world market. Similarly, the share of Japan’s transportation services exports is at a low
level compared to other major countries along with financial services levels. Japan’s growth in international services exports was particularly high in computer and information services, followed by a global expansion of the financial services and other business services markets and services trade.

In 2014, the world market is worth $1.2 trillion in travel services trade and $1.1 trillion in consulting and other business services. However, Japan’s service balance is low. In 2016, the deficit for travel was 1.3 trillion yen. On the other hand, the balance of intellectual property usage fee surplus recorded as 2.1 trillion yen. The export value of intellectual property royalties, including license fees, is high by receiving commissions from overseas subsidiaries. The overall ratio is low, but the R & D service between professional services is high. In 2011, Japan changed its trade structure from a comprehensive industrial structure to an "internationalized specialization" structure to enable the Japanese economy to move for Japan due to changes in trade and economy, industrial structure and geographical conditions.

3.4 Complex Economy, South Korea

According to ECI (Economic Complexity Index), Korea is the sixth most complex economy in the world [28]. However, as the fifth largest exporting economy in the world, it earned $537 billion in revenues and $422 billion in revenues, resulting in a trade surplus of $115 billion in 2015 [28]. On the other hand, its trade in services, the sum of service exports and imports divided by the value of GDP, was reported at 15.35 percent in 2015 according to the World Bank. It increased sharply to 19% in 2008 and then steadily declined after 2012. For the first time as an Asian country, Korea has negotiated trade with the European Union (EU), and since July 2011, most import tariffs gradually eliminated tariffs on industrial and agricultural goods, except for a limited number of agricultural products [29]. The agreement has provided the EU with access to services, investments and areas such as competition policy, government procurement, intellectual property rights, regulatory transparency and sustainable development.

Korea’s service balance was first published in August 2006 from the UN and IMF trade service manuals. The trade between South Korea and the world for trade services included in the statistics belongs to 12 categories of services: manufacturing services; maintenance and repair services; transport; travel; construction; insurance services; financial services; charges for the use of intellectual property; telecommunications, computer and information services; other business services; personal, cultural and recreational services; and government goods and services from the Service Net Balance, 2006-2016 [30]. Although there has been shrinking, transportation (TR), other business services (Other), construction (C), travel (Travel), and charges
for the use of intellectual property (IP) are the top five export service components while other business services (Other), transportation (Trans), travel (Travel), manufacturing services (MS), and charges for the use of intellectual property (IP) for imports. While transportation and construction services among the major export services sectors have declined over the years, other business services and travel services sectors are increasing steadily, with a slight increase, especially between 2015 and 2016. Charges for the use of intellectual property has shown fluctuation although it has also risen last year.

The service expense reflected by the service trade balance statistics can be regarded as the import amount of the service trade. Travel services, one of the top import services in the trade sector, has grown steadily, except for the year of the economic crisis in 2007. In 2008, there was a sharp increase in 2007 for imports of transportation services to import other business services, and imports of intellectual property charges in 2007. Transportation and other business services were relatively high through 2014 and declined over the past two years. In March 2017, net revenues for services were $7,029 million and $10.3 billion. Positive signals that gain more profits appeared in the following three areas: $568 million from construction services; $72.8 million from communications, $72.4 from computers and information; $21.7 from cultural and recreational services.

3.5 The potential of Chinese Taipei and Mongolia

For many years, Chinese Taipei has maintained close ties with diplomatic allies in Africa, the Caribbean, Europe, Latin America and Oceania, especially SME development, agriculture, information technology, healthcare, environmental protection and tourism [31]. In 2015, Chinese Taipei ranked 12th in its export in services overseas trade [1]. Taiwan is very actively involved in world trade, but still relies on international trade to import amount of $51.7 billion than service trade exports at $41.1 billion in 2016. However, the commercial services overall export trade has been gradually increasing showing improvement in figures of other business services; financial services; telecommunication, computer, and information services; manufacturing services on physical inputs owned by other; the use of intellectual property n.i.e.; construction; maintenance and repair services; government goods and services; and personal, cultural, and recreational services. The figures of the last five years have shown the potentials of financial services, telecommunication, computer, and information services and manufacturing services. If Chinese Taipei could recover from the travel and transportation services, the region can achieve a positive figures in its service net balance.

Mongolia has not stayed active in its services in international trade. Recently, Mongolia is
boosting its foreign relation by ratifying Trade Facilitation Agreement (TEA), setting up an Economic Partnership Agreement (EPA), and having a regional trade agreement (RTA) [31]. The region has shown the most open economies in its area marking the foreign trade 98 percent of its GDP [1]. The country’s main partners in export are China, United Kingdom, Switzerland, Russia, and South Korea and in import are China, Russia, Japan, South Korea, and Germany [32]. Travel, transportation, other business services, and construction services are appeared to be the main export services in its international trade while it depends on import services in the same sectors as its export. A huge improvement has been made in export of financial services as a positive sign showing potentials of the region. Finally, the country still relies more on import on both goods and services in international trade, this can be change to it export achieving a positive net balance by ongoing effort of the government in its foreign affairs and relations.

4. Findings

The increase in China’s final and intermediate demand factors can be seen as an important factor in determining the proportion of service trade balance in overall economic growth and development. In fact, transportation, retail and distribution services all affect the costs of shipping supplying goods, including export goods. According to the analysis of this study, the share of total service sector output accounted are education, health, research, finance, insurance, and per capita income growth rate in the past. In recent years, however, all types of services trade have expanded rapidly, especially in the financial sector, which accounts for a significant portion of profits in 2015 [3][4]. In addition, the service trade industry has grown rapidly and has maintained a strong expansion. As the structure of foreign trade has improved, the total value of imports and exports has increased rapidly [5].

In China trade, the proportion of service trade is considered to be sensitive to various factors such as technology development, process liberalization, privatization and deregulation, and foreign investors’ entry into the service market. In China, education, health, research, finance and insurance are dominant service trade areas. Telecom, information technology and business services are potential service trade areas. The performance of the service trade sector is equal to or slightly smaller than that of the commodity trade sector, but this is due to the overall economic loss. China’s State Council has simplified registration of new companies by making the approval process easier and ending the minimum capital requirements. Apparently, regulatory barriers to competition in finance, health care, and telecommunications are observed
as areas which controlled by government related companies. They appear to be a challenge to service trade growth and a cause for China’s service trade balance to be a little deficit. Continued efforts to policy, restriction, market reform, liberalization and market opening, as many scholars and economists are urged to make such a structural change, can promote the growth of the service trade industry. The future economic growth greatly relies on service trade today. The liberalization and implementation of WTO agreements in the service trade sector can have a positive impact on China’s service trade share.

The share of service trade is considered to be sensitive to various factors in Hong Kong and Macao, and is supported by technology development, process liberalization, convention and government support. Travel, transportation and other business services and financial services are identified as Hong Kong’s dominant service trade areas. Macau’s travel services have shown strong competitiveness and potential in the transportation and telecommunications industries. It supports financial services in Hong Kong. Both regions rely on the cooperation with China in the overall service trade. Thus, the liberalization process, China’s technological and infrastructure development is considered to be a strong factor in service trade share.

The analysis reveals the factors affecting the share of service trade in Japanese trade, and proposes to improve the competitiveness of the service industry and improve the investment environment with neighboring countries. According to the analysis, the share of services in Japan is determined to be sensitive to the multiple factors: technological development, direct foreign investment, liberalization of trade, agreements with neighboring and foreign countries, and natural disaster. Japan relies on imports of inexpensive finished products and intermediate goods from overseas factories and foreign companies. In order to overcome Japan’s geographical and economic hurdles and to benefit from the great-sphere economy, international agreements such as TPP and RCEP should be promoted.

According to the analysis, factors influence on the share of the services in trade of Korea are determined as follows: technological development, agreements and government support, investment, and economic relationship. Korea’s product export ratio is relatively high at around 40%. Especially since the global expansion of services trade, telegraph, computer and information services, construction services and cultural and recreational services. With the development of information and communication technologies, new services are being introduced in both developed and emerging countries. Free trade agreements with many countries should focus on the interests of the various sectors at present.
5. Conclusion

Throughout this study, it was found that East Asia is a major export and import region of global trade services. Mongolia has started its financial relationship with China to strengthen its trade services, and Taiwan is already participating in world trade. It can be seen that all East Asian countries studied in this study are generating profits through travel and financial services, transport and investment services are seen as a challenge and other business services are regarded as a basic reward for participation in international trade. Each region has its own strengths, which can be characterized by Hong Kong’s financial services, Macau’s travel services, Japan’s investment services, Korea’s complexity and China’s potential. In conclusion, the most important factor affecting the proportion of service trade in international trade in East Asia is the technology development and conventions that prepare and guarantee future projects to benefit the great-sphere economy.

References


