Services in International Trade of South Korea: Factors Influence on the Share

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Abstract

This study examines factors affecting the share of services in international trade focusing on Republic of Korea. South Korea is known to be one of the most complex economy in the world. As a part of East Asia region, its competitiveness in services in international trade will be analyzed based on the statistics from 2006 to 2016 provided by Korean Statistical Information Services at Statistics Korea and World Trade Statistics Review 2015 and 2016. 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. Then, this study can present a comprehensive assessment of international trade in services and an analysis of its prospects. Through the analysis, the share of services is determined to be sensitive to the multiple factors: technological development, liberalization of the processes, privatization and deregulation, and entrance of foreign investors to the service markets.

Keywords: Services, Service Sector, International Trade, Service Trade in Korea

1. Introduction

In this paper, factors influence on the share of services in international trade will be researched focusing on Republic of Korea. Cattaneo et. al. [1] assessed the potentials of services in developing countries emphasizing the increasing labor mobility as options for countries, legal services, health without borders, market structure, liberalization and trade, especially looking at the distribution services, internationalization in the construction services sector, exporting information technology services, financial services, engineering services, and environmental services. Since 2014, China (3rd), Japan (4th), Hong Kong (8th), and South Korea (9th) have

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been the leading exporters and also most of them have become leading importers in the world trade in commercial services [2]. Despite larger declines were recorded in the most of service categories in 2015, China, Japan, South Korea, and Hong Kong have remained as the East Asian regions leading transport export and other commercial services in the world [3].

Service account balance in Korea has been firstly published accordance with the manual of services in trade of United Nation (UN), IMF, and others since August, 2006. Service sector in Republic of Korea was closely protected and largely underperformed compared to the other developed economies. Its government has tried to reform the industry to increase productivity, support small and medium-sized enterprises (SMEs), and encourage the newer modern industries in health care services, telecommunications services, legal services, and financial services.

The government has also applied free trade negotiations to open up its service sector to foreign providers in order to facilitating structural innovation. As the first Asian country made the trade deal with European Union (EU), South Korea has accomplished eliminating duties for industrial and agricultural goods in progressive and so on with the majority of import duties since July 2011 except a limited number of agricultural products [4]. This agreement brings opportunities for EU to enter services, investments and areas such as competition policy, government procurement, intellectual property rights, transparency in regulation and sustainable development. In addition, these recent deals with EU and US promote services trade in express delivery, telecommunications and broadcast.

According to the Economic Complexity Index (ECI), South Korea is determined to be the sixth most complex economy [5]. Consequently, the country has placed the fifth largest export economy in the world which has exported USD 537 billion and imported USD 422 billion resulting in a positive trade balance at USD 115 billion in 2015 [5]. 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 [6]. It was sharply increased to 19 percent in 2008 and has been steadily decreased since then except in 2012. In 2016, the country exported USD 93 billion in services based on its top five services in transport, other business services, travel, construction, and the use of intellectual property [7]. However, its import was USD 110 billion in services from other business services, transport, travel, the use of intellectual property, and manufacturing services.
2. Methodology & Disposition of the Study

Research is conducted based on the data in English and Korean languages and the collected data from articles, books, governmental websites, analysis of the scholars, and statistics are translated in English. Qualitative method is used to collect, examine, evaluate, compare and analyze the collected data. Firstly, both statistical and analytical data were collected, and the data were compared from year to year on figures of exports and imports of services and goods. Obviously, any changes and factors influence on the figures were examined and evaluated. The statistical figures of the Service Trade Balance from 2006 to 2016 by Korean Statistical Information Service at Statistics Korea were analyzed [8]. In addition, World Trade Statistics Review of 2015 and 2016 prepared by World Trade Organization were also reviewed and considered as the most relevant information for the overall record.

3. Literature Review and Analysis

South Korea trades services with USA the most, but China is becoming more important these days. Geographically and culturally, the country stays close to China and Japan in trading, USA and EU are being great importance due to their economic scales [9]. Through many kinds of trade pacts, about 70 percent of South Korea’s exports enjoy not much hindrance in access to international markets. Its Free Trade Agreement (FTA) with Australia, Canada, Chile, China, Colombia, European Free Trade Association, European Union, New Zealand, Peru, Singapore, Turkey, United States, and Vietnam benefits in reduced tariffs in general. Besides, the country has established Comprehensive Economic Partnership Agreement (CEPA) with India for trade investments and service. Ongoing efforts on the establishment of FTA and CEPA are actively under negotiation.

While the trade balance of goods has been gaining, the trade balance of services in Korea being in the red for the last 15 years [10]. Although the total of service export has increased every year, its import has also increased which causes to loss in the trade balance. This was mainly due to the loss of transportation and construction services. The trade brief for the 2014 service trade balance prepared by Korean International Trade Association stated the outlook and its implications highlighting the following points for achieving competitiveness in trading services: companies’ active investment in research and development, differentiation in implementation of any supporting plans from trading goods, establishment of infrastructure of
research and development, and governmental policies and funds to support all of these [11]. Compared to the developed countries in service industry such as United States of America, United Kingdom, and Germany, Korea has shown relatively low balance in a higher value added business such as the use of intellectual property and other business services.

According to the Statistics Report on the 2016 Technology Trade of Korea in Accordance with OECD TBP Manual which is prepared by Ministry of Science and ICT and Korea Industrial Technology Association, Korea has shown surplus against Vietnam and China and deficit against USA and Finland [12]. Its technology trade balance has remained far less than other developed countries. The service sector is also in need of supports from the government for technology import and export and the industry should make efforts to develop core technologies. The legal services in trade of Korea is also having deficit in its trade balance, especially in last two years compared the previous years [13]. This is due to the increase in dependency on foreign legal services in relation to the country’s export businesses.

[Fig. 1] Service export of Korea from 2006-2016, Developed Based on KOSIS Data

Transactions between South Korea and the world on services in trade covered in the statistics are under the twelve service categories: 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 in Figure 1 and 2 which are developed based on the Korean Statistical Information Services (KOSIS) [6]. 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.

Among the top sectors of export services, transportation and construction services have shrunk for the number of years, but other business services and travel service sectors are increasing gradually, especially there was slight rise between 2015 and 2016. Cattaneo et. al made special attentions on South Korea’s trade in construction services, distribution services, and engineering services in 2010 [1]. They recognized that South Korea together with other high-income OECD countries, France, Germany, Italy, Japan, the Nordic countries, Spain, and the United States hosting a relatively lower number of large foreign contractors than the size of its economy. Charges for the use of intellectual property has shown fluctuation though it has also risen last year.

[Fig. 2] Service expense of South Korea from 2006-2016, Developed Based on KOSIS Data
Service expenses from the services net balance appears to be the amount of imports in services. Among the top import services in trade, travel services have shown the on-going growth except in the year of economic crisis in 2007. There has been a sharp increase in 2007 for the import of transportation, in 2008 for the import of other business services, and in 2009 for the import of charges for the use of intellectual property, and both transportation and other business services have remained relatively high until 2014 and dropped over the last two years. As of March, 2017, the services net balance shows profit at USD 7.029 billion and expense at USD 10.3 billion. Positive signs in more earnings have shown in the following three sectors: USD 568 million in construction services; USD 72.8 in telecommunication, computer, and information 72.4 million; and USD 21.7 million in cultural and recreational services.

In 2016, South Korea exported the total of USD 91.8 billion in commercial services. Due to the deficit in transport services each year from USD 41.6 billion in 2012 to USD 26.4 billion, the overall commercial services has decreased. The most big importing markets for transportation and travel services is China the most at USD 7.4 billion and USD 9.3 billion in 2015. Although charges for the use of intellectual property has increased in export from USD 3.9 billion in 2012 to USD 6.6 billion in 2016, it is still less than its import. In addition, telecommunication, computer, and information services; financial services; and personal,
cultural, and recreational services in export have gradually improved showing potentials.

[Fig.4] Service Import of South Korea from 2012 to 2016: Developed based on Trade Map - International Trade Statistics (US$ Thousand)

The total commercial services of South Korea in import was USD 109 billion in 2016 which was slightly less than the last two years: other business services at USD 29.5 billion, transport services at USD 27.06 billion, and travel services at USD 26.64 billion. According to the figures from 2012 to 2015, South Korea depended on imports of other business services from USA the most at the average amount of USD 8.54 billion, secondly from EU at the average amount of USD 6.73 billion, thirdly from Japan at the average of USD 2.84 billion, and fourthly from China at the average of USD 2.14 billion per year. About USD 20.9 billion was spent on importing technical, trade-related, and other business services, USD 5.51 billion on professional and management consulting services, and USD 3.06 billion on research and development in 2016. The country depends on partner countries, USA, EU, China, and Japan on both transportation and travel services as well as in other service sectors. Interestingly, Korean people consume travel services overseas for personal rather than business purpose.

The charges for the use of intellectual property in import has increased and most of the demand was on licences for the use of outcomes of research and development at USD 6.35 billion, franchises and trademarks licensing fees at USD 2.13 billion, licences to reproduce and/or distribute audio-visual and related products at USD 527 million, and licences to
reproduce and/or distribute computer software at USD 266 million in 2016. Its dependency on computer services were at USD 1.56 billion the most, telecommunications services at USD 782 million, and information services at USD 383 million in 2016.

3. Conclusion & Recommendation

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. South Korea’s main partner countries of both export and import are USA, EU, China, and Japan. Transportation and construction services are two sectors showing deficit in export which needs more attention of the government. The goods export ratios for South Korea are relatively high at around 40 percent. Following the worldwide expansion in services trade, telecommunications, computer and information services, construction services, and cultural and recreational services recording particularly high growth rates. New services are arriving in both advanced and emerging countries with the advance of information and communications technology. Free trade agreements with various countries should be focusing on the benefits of multiple sectors than now.

References


