

Chapter 63

Research on China's Service Trade Based on International Competitiveness Perspective

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Abstract To analyze the current situation of China's service trade and research the international competitiveness of service trade in China is with three indicators including Market Share MS index, Revealed Comparative Advantage RCA index and Trade Competitive Index TCA index. The results show that the main problem of China's service trade development is a long-term trade deficit, unreasonable structure, the lag in goods trade development. Then the author puts forward some development measures which are optimizing service trade structure, further opening the service trade market, increasing service personnel training, and improving the service trade management mechanism.

Keywords China · Service trade · International competitiveness

63.1 Introduction

Since the reform and opening up, China's service trade has made an effective development. But because of our country's late start service industry, the low starting point, and weak competitiveness these seriously impact on the development of China's service trade. Therefore, how to enhance the international competitiveness of service trade is the key problem of China's Foreign Service trade.

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63.2 The Analysis on Current Situation of China's Service Trade

63.2.1 Service Trade Has Made Rapid Development

From Table 63.1, we can see China's service trade has made rapid development. From 71.9 billion US dollars in 2001, it has increased to 362.4 billion US dollars in 2010, including the service trade export volume 170.2 billion US dollars, up by 32.3 %, and the service trade import volume 192.2 billion US dollars, up by 21.6 %. After 10 years of development, China's service trade has increased five times as much. In the whole world, from 28th in 1982, export ranked up to 4th in 2010, and import ranked from 40th up to 3rd. According to the WTO statistics, during 2005–2009, the world service trade import and export increased by 7 %, and in the same period, China's growth rate was 17.5 % with two times over the world. In the year 2011, China's service trade hit a new record with total import and export volume reaching 420.9 billion US dollars [1].

However, we can also see from Table 63.1 and Fig. 63.1, China's service trade is not optimistic. There is a long-time deficit and it expands constantly from 6.1 billion US dollars in 2001 to 55.3 billion US dollars in 2011. This shows that the international competitiveness of China's service trade is lower and bears a lot of deficiencies.

63.2.2 Service Trade Structure Needs to be Optimized

In the structure of China's service trade, two traditional service trade parts, transportation and travel have always accounted for the largest proportion [2].

Table 63.1 Year 2001–2011 total import–export volume and balance of China's service trade (Unit Billion USD)

Years	Service trade export		Service trade import		Deficit
	Export volume	Growth (%)	Import volume	Growth (%)	
2001	329	9.1	390	8.8	–61
2002	394	19.7	465	18.1	–71
2003	464	17.8	549	18.3	–85
2004	621	33.8	716	30.5	–95
2005	739	19.1	832	16.2	–93
2006	914	23.7	1,003	20.6	–89
2007	1,217	33.1	1,293	28.8	–76
2008	1,465	20.4	1,580	22.2	–115
2009	1,286	–12.2	1,581	0.1	–295
2010	1,702	32.3	1,922	21.6	–220
2011	1,828	7.4	2,381	23.9	–553

Source Statistical yearbook of China

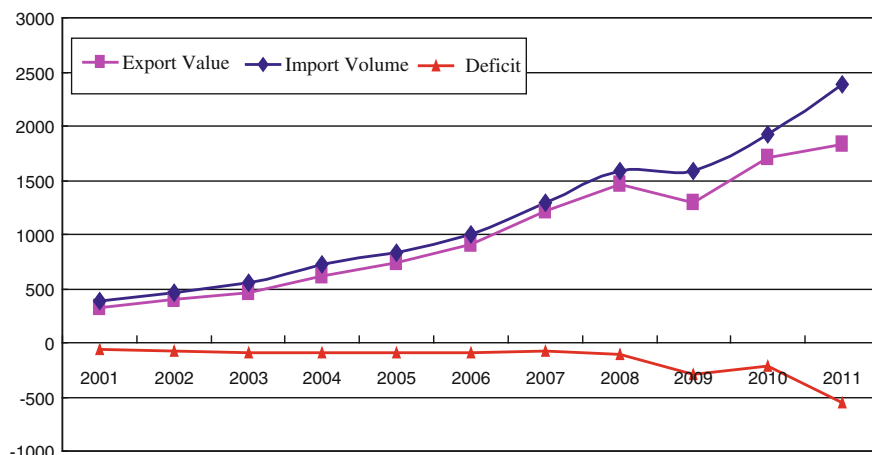


Fig. 63.1 2001–2011 years total import–export volume and balance of China's service trade (Unit Billion USD)

From Table 63.2, we can see service trade volume is 420.9 billionUS dollars, transportation and travel account for 27.56 and 28.77 % respectively with total accounting for 50 % above.

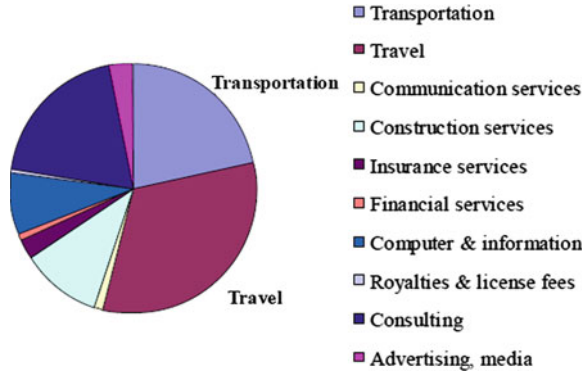
In recent years, travel has declined. The proportion of new service projects has increased, including finance, insurance, computer and information services, consulting, technology patent fees and royalties, and so on. The service trade structure has optimized continuously (Fig. 63.2).

Table 63.2 Year 2001–2010 development trend of China's service trade structure (Unit Billion USD)

Years	Transportation		Travel		New service project	
	Total amount	Ratio (%)	Total amount	Ratio (%)	Total amount	Ratio (%)
2001	160	22.19	317	44.07	243	33.74
2002	193	22.62	358	41.87	304	35.51
2003	261	25.82	326	32.19	425	41.97
2004	366	27.39	449	33.59	522	39.02
2005	439	27.93	511	32.51	622	39.57
2006	554	28.88	583	30.39	781	40.72
2007	746	29.73	670	26.71	1,093	43.56
2008	888	29.15	770	25.29	1,387	45.27
2009	701	24.46	834	29.08	1,332	46.54
2010	1160	27.56	1,211	28.77	1,838	43.67

Source Ministry of Commerce, <http://www.mofcom.gov.cn/>

Fig. 63.2 China's imports of services by sector in 2011



63.2.3 Service Trade Development Behind Goods Trade

China is a traditional goods trade country which gives priority to goods trade and then, trade in services accounts for less. In 2011, the service trade accounts for the proportion of total trade is only 10.36 %, and trade in goods is 8 times over service trade, at 89.64 % [3].

In Table 63.3, we can see that the service trade accounts for 10.49 % on average of total trade from 2005 to 2011, and the highest is just 11.49 % in the year of 2009. And in the same period, the world service trade in 2009 accounted for 20.4 % of the world total trade, and this ratio is higher in the developed countries.

63.3 Analysis on International Competitiveness of China's Service Trade

63.3.1 The Analysis of MS

Market Share MS index refers to the ratio of a country's total exports of services trade and the world exports of service trade, and reflects the proportion of a country's service trade exports in the world market, the higher the ratio, the stronger international competitiveness, on the contrary weaker.

$$MS_{ij} = \frac{X_{ij}}{X_{wj}} \tag{63.1}$$

- X_{ij} i Country service export
- X_{wj} the world service export

Table 63.3 Year 2005–2011 the data of China's service trade and goods trade and the proportion of total trade (Unit Billion USD)

Years	Total amount of import and export of goods	Proportion of total trade (%)	Total amount of import and export of service	Proportion of total trade (%)
2005	14,219	90.05	1,571	9.95
2006	17,604	90.18	1,918	9.82
2007	21,766	89.66	2,509	10.34
2008	25,633	89.38	3,045	10.62
2009	22,075	88.51	2,867	11.49
2010	29,740	89.14	3,624	10.86
2011	36,421	89.64	4,209	10.36

Source Ministry of Commerce, <http://www.mofcom.gov.cn/>

From Table 63.4, we can see that China's IMS of service trade has continuously improved and the international competitiveness has enhanced, but comparing with the developed countries, the overall ratio is too small. The United States, Britain, and Germany have taken one-third of the export market.

63.3.2 The Analysis of RCA Index

Revealed Comparative Advantage RCA index = $[(i \text{ country } j \text{ merchandise export} / i \text{ country all the products total export}) / (\text{the world } j \text{ merchandise export} / \text{the world all the products total export})]$, which reflects international competitiveness of some kind of industry [4]. It rejects the national total volatility and the effect of the fluctuation of the total world, and reflects better the relative advantages of the industry. Specifically, when $2.5 < RCA$, it indicates that the country's export products is with very strong international competitiveness; When $1.25 < RCA < 2.5$, it indicates that the country's export products have strong international competitiveness; When $0.8 < RCA < 1.25$, it indicates that the country's export products has comparatively stronger international competitiveness; When the $RCA < 0.8$, it indicates that the country's export products have weaker international competitiveness.

Table 63.4 Year 1990–2010 ms of china and the developed countries

Years	China (%)	U.S. (%)	Britain (%)	Germany (%)
1990	0.73	17.03	6.89	6.48
2000	2.03	18.74	7.99	5.37
2005	2.97	14.55	8.20	6.44
2009	3.84	14.15	6.96	6.76
2010	4.54	13.95	6.58	6.22
Average	2.82	15.68	7.33	6.26

Source Ministry of Commerce, <http://www.mofcom.gov.cn/>

Table 63.5 2001–2010 years RCA index of China

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
RCA	0.52	0.49	0.44	0.43	0.41	0.41	0.41	0.43	0.40	0.45

Source According to WTO database to calculate

In the Table 63.5, we can find that RCA index variation is not big, all are under 0.8, and even more than 0.5 is very few. It fully explains that the international competitiveness of trade in services is very low which does not match China's international position.

$$RCA = \frac{X_{ij}/Y_j}{X_{iw}/Y_w} \quad (63.2)$$

- X_{ij} i country j merchandise export
 Y_j i country all the products total export
 X_{iw} the world j merchandise export
 Y_w the world all the products total export

63.3.3 The Analysis of TCA Index

Trade Competitive Index TCA = (total export in service trade of a country—total import)/(total export in service trade of a country + total import). It is usually used to analyze the competitiveness of service trade. As the index consider the import condition, it can be used as a good complement of RCA index [5].

$$TC = \frac{X_{ij} - M_{ij}}{X_{ij} + M_{ij}} \quad (63.3)$$

- X_{ij} i country j merchandise export
 M_{ij} i country j merchandise import

From the Table 63.6, we can know that the level in service trade industry is different and import and export structure is imbalance in our country. In most years, TCA index of travel is positive which shows some of the competitive advantage. Due to the influence of the financial crisis in 2008, it shows a negative value in 2009 and 2010. And TCA index of transportation are negative, which proves transportation is in disadvantages [6]. In the other hand, TCA index has been increasing which explains the transportation service competitiveness of China is low, but in slow increase. TCA index of construction service has changed

Table 63.6 2001–2010 TCA index of China service industry

Years	Transportation	Travel	Communication	Construction	Insurance	Finance	Computer and information	Consult	Advertisement
2001	-0.42	0.12	-0.17	-0.01	-0.85	0.12	0.14	-0.26	0.04
2002	-0.41	0.14	0.08	0.13	-0.88	-0.28	-0.3	-0.34	-0.03
2003	-0.4	0.07	0.2	0.04	-0.87	-0.21	0.03	-0.22	0.33
2004	-0.34	0.15	-0.03	0.05	-0.88	-0.2	0.13	-0.2	0.1
2005	-0.29	0.15	-0.1	0.23	-0.85	-0.04	0.06	-0.07	0.2
2006	-0.24	0.17	-0.02	0.15	-0.88	-0.72	0.26	-0.03	0.2
2007	-0.16	0.11	0.04	0.29	-0.84	-0.41	0.33	0.03	0.18
2008	-0.13	0.06	0.02	0.41	-0.8	-0.28	0.33	0.15	0.06
2009	-0.33	-0.05	0.00	-0.23	-0.75	-0.27	0.34	0.16	0.09
2010	-0.30	-0.09	0.04	0.48	-0.80	-0.04	0.51	0.20	0.16

Source: Ministry of Commerce, <http://www.mofcom.gov.cn/>

from a negative to a positive in recent years. It is mainly due to the construction industry labor resources, low labor costs. All of this results in comparative advantage of construction service. Consult, advertisement, computer and information services show positive in most years, especially computer and information services in recent years has the tendency of increasing, which indicates that our computer and information service has certain competitiveness due to developing service outsourcing in recent years. TCA index of the high value-added industry, such as Insurance, financial is negative in most years, which shows the lower international competitiveness in the capital and technology intensive service industry.

63.4 The Measures of Enhancing the International Competitiveness of China's Service Trade

63.4.1 Optimizing Service Trade Structure Actively

In view of China's traditional service with big proportion, China should consolidate the traditional trade advantage, at the same time, expand new service trade. China can key support the childish service industry until it is mature. And then it can enter into international market, participate in the international competition, and create more profits and value [7].

63.4.2 Expanding the Service Industry Opening-Up

On the basis of original opening, we should be further expanding the monopoly industry such as telecom, railways, and civil aviation industry in order to amplify the opening-up of the whole service industry. Our enterprise in service industry should participate in the international competition which will improve its international competitiveness. The enterprise will not be left to survive in the monopoly environment. The survival of the fittest is a hard truth. If these enterprises can survive and grow up in the harsh competitive environment, the overall international competitiveness of China's service trade will be enhanced.

63.4.3 Increasing the Service Personnel Training

The competitiveness of the new service industry such as finance, insurance, and other international is weak. As for the reason, the most important is the lack of

senior talents and experts in these industries [7]. We should take measures, such as making regular talent introduction plan, increasing the proportion of the budget for services in the annual government budget, etc.

63.4.4 Perfecting Service Trade Management Mechanism

With the accelerated process of service trade and opening up, China should speed up the process of legislation of service trade, and gradually narrow the gaps of the existing regulations with international norms, formulate laws and regulations matching with the goals of China's overall economic trade development to make China's service trade system more transparent. Efforts should be made to speed up building the objective environment of the service trade development, introducing market mechanism, establishing modern enterprise system, breaking trade monopolies and closing self service system, cultivating the more large-scale subject in service trade and constantly eliminating the institutional barriers in the development of international service trade.

63.5 Conclusions

Service trade in the national economy is becoming more and more important. The total amount of service trade grows steadily, but the trade structure is more traditional single. The new service project is at a disadvantage obviously because the overall competitiveness is not strong with a long-time deficit. Owing to the problems we will continue to further open service trade market, optimize the structure of trade in services, and strive to do personnel training, improve the service trade legal system, etc., and speed up the development of the industry of new service trade. China's service trade will embark on the track of structural optimization and rapid development.

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