

Evaluation on the Development of Sino-US Service Trade under Sino-US Trade Friction

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Abstract: With the further development of economic globalization, service trade has gradually become the important reflection of economic strength and international competitiveness of a country. However, the Sino-US trade friction has greatly restricted the development of China's service trade, which is not conducive to improving China's international competitiveness. Based on the statistical data from 1999 to 2017, this paper analyzes the development status of some related fields of service trade in China in the new economic situation, including production, tourism, intellectual property, and financial and insurance services. The results indicate that China's export of service trade mainly focuses on traditional labor-intensive industries, while knowledge and technology intensive industries, including insurance services, financial services and patent services, are still in their infancy. Therefore, we should optimize its industrial structure to achieve high-quality development of China's service trade.

Keywords: The Sino-US Trade Friction, Service Trade, Development Evaluation

1. General Analysis of the Sino-US Service Trade

At present, bilateral service trade between China and the United States is growing rapidly, and the United States is maintaining massive surpluses in service trade with China. According to data from BEA, the total bilateral trade volume increased from 6.74 billion dollars to 75.41 billion dollars between 1999 and 2019 and has maintained steady growth since then. With the proportion of the third industry ascending and the export of service trade growing, its share in the total domestic economy and the bilateral service trade between China and the United States has increased significantly. Therefore, service trade has huge development potential in China. After 2006, China's service trade exports to the United States accounted for 3 percent of total nation trade for the first time. Then the proportion began to gyrate up toward 4.26 percent in 2019. (Figure 1) In addition, China's service trade exports to the U.S. accounted for 6.79 percent in 2015 of the total service trade export volume and 8.32 percent in 2019, which indicates that service trade is an important part in Sino-US trade. (Figure 2)

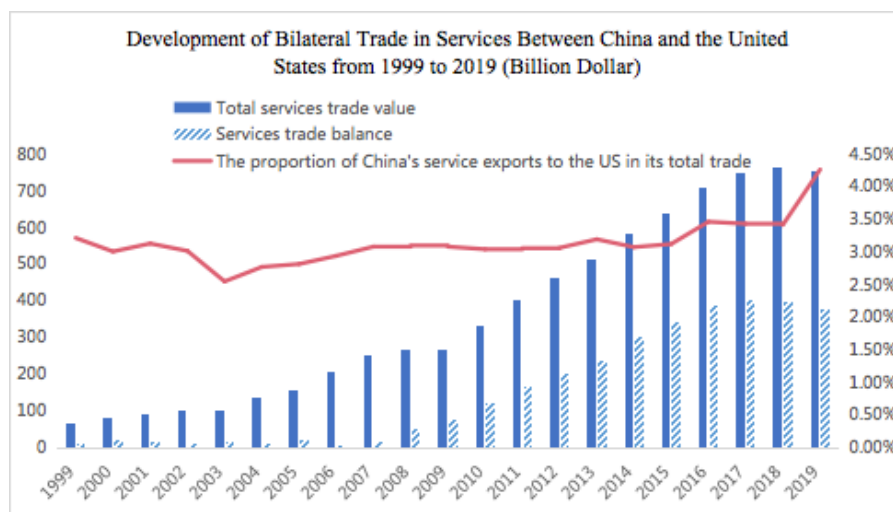


Figure 1: Development of bilateral trade in services between china and the United States from 1999 to 2019. Data collated from: china economic network and bea database.

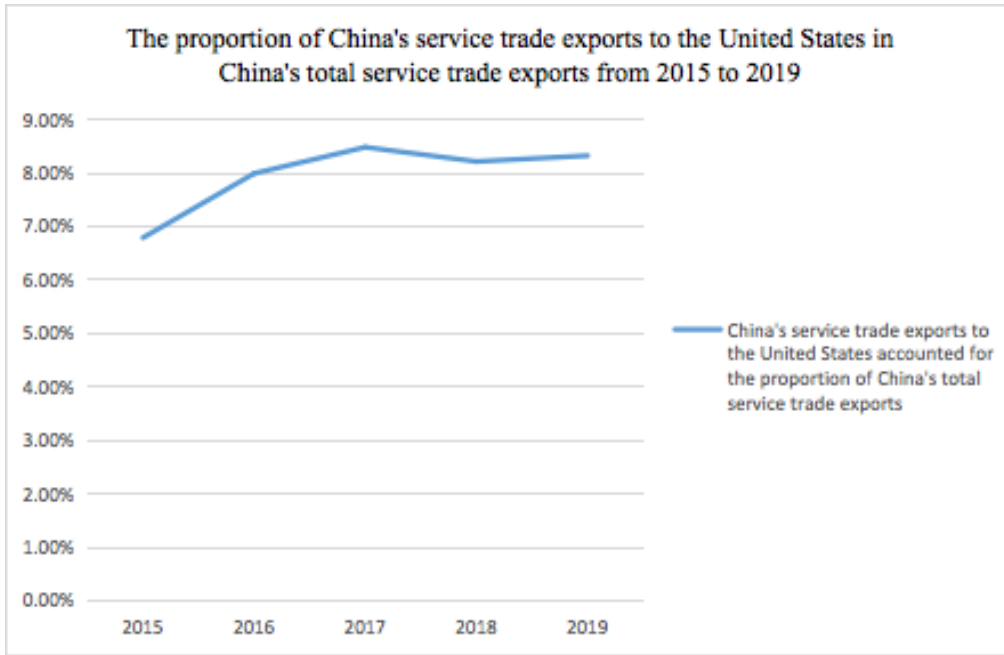


Figure 2: The proportion of China's service trade exports to the United States in China's total service trade exports from 2015 to 2019. Data collated from: China Economic Network and BEA database.

However, in the gestational stage of the Sino-US trade friction in 2017, China's service trade deficit with the US widened, while China's surplus in commodity trade and overall trade surplus shrank. With the consultation between the two sides, Sino-US economic and trade relationship is developing in fluctuation. In the first half of 2020, China's trade in services maintained a stable development, with the trade deficit decreasing. Meanwhile, the trade in knowledge-intensive services, growing by 9.2 percent, accounted for 43.7 percent of the total import and export of services.

China has made rapid development of service trade, especially in the total amount. However, the unbalanced development in different industries is noticeable. China's export of service trade mainly focuses on traditional labor-intensive industries with low technology content, such as transportation, tourism, construction and processing, while knowledge and technology intensive industries, such as insurance services, financial services and Patent services, are still in their infancy. (Figure 3)

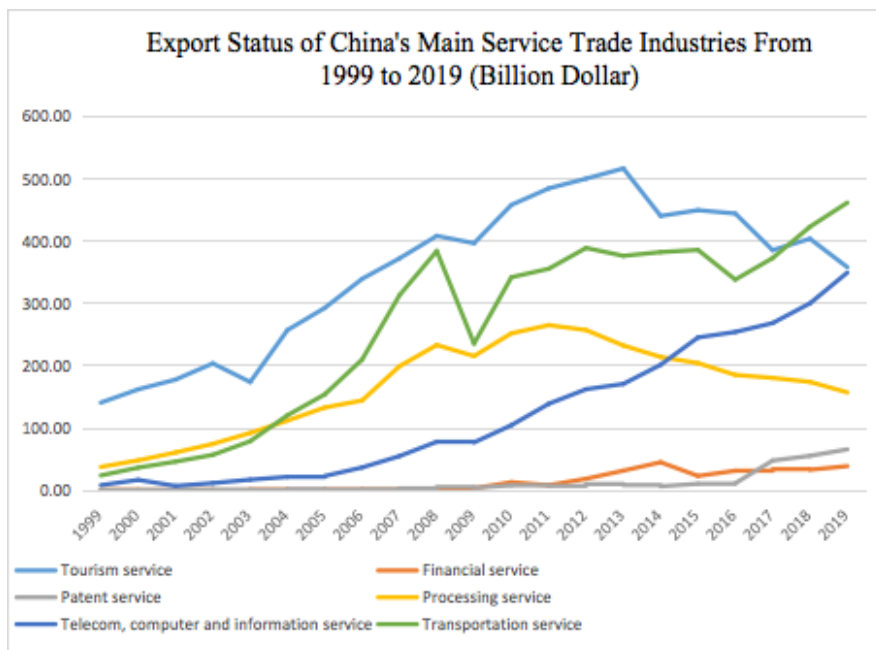


Figure 3: Export status of China's main service trade industries from 1999 to 2019. Data collected from: China Economic Network Industry Database.

It is worth noting that China's telecom, computer and information services developed rapidly from 2009 to 2015. In 2017, due to the impact of the Sino-US trade conflict, the growth slowed down. The structure of China's service trade has been continuously optimized, and the export volume of knowledge and technology intensive service trade has continued to increase. In 2018, China's total import and export of knowledge-intensive services reached 1,695.2 billion yuan, having a 20.7 percent year-over-year growth rate. It accounted for 32.4 percent of the total import and export of China's service trade. At the same time, the total import and export volume of traditional service trade reached 332.2 billion yuan, including tourism, transportation and construction, having a 7.8 percent year-over-year growth rate. The proportion fallen to 22 percent. The growth rate and proportion show that China's service trade is achieving by the traditional labor-intensive to technology-intensive rapid transformation. However, compared with developed countries, China still has great room for development in finance, insurance and other trade services.

2. Industry Analysis of Sino-US Service Trade under Sino-US Trade Friction

2.1. Trade in Producer Service

There are four rounds of more tariffs levying in the Sino-US trade friction from 2017 to 2019. The US has imposed special tariffs mainly on mechanical and electrical equipment, chemical industry and textile raw materials, which produced great negative impact on traditional labor-intensive industries in China. Meanwhile, China has imposed special tariffs mainly on chemical products and vehicle transport equipment. Since many services are attached to manufacturing industries in the export trade, the two countries levy special tariffs on trade in goods, which has an adverse impact on related productive service trade like transportation, processing and maintenance services. In 2019, the bilateral trade in goods volume hit 558.87 billion dollars, down about 15 percent from 2018, while the growth of bilateral service trade dropped 1.04 percent. For example, China's total export of processing services was 15.74 billion dollars in 2019, down 9.6 percent from 2018, which showed a slight decline in its trade advantage.

2.2. Impact on Tourism Service Trade

In the past decade, the proportion of China's tourism service trade has been on the rise, increasing from 4 percent in 2007 to 12.7 percent in 2016. China is the world's second largest tourist country, but the imbalances of China's tourism trade between imports and exports is about to get substantially worse. One year after the trade war began, China's tourism trade deficit widened rapidly and reached 236.88 billion dollars in 2018, up 8 percent from the previous year. On the one hand, with the rapid development of the economy, urban employment and people's income have risen. Living standards improve so much that people have a yearning for a better life. So outbound tourism is booming. On the other hand, foreign tourist industry has great competitive edge because of its high quality of foreign tourism products, safe tourism environment, perfect service, good infrastructure construction and relevant support policies. In 2017, the number of overseas tourist trips increased 7 percent to 130 million compared with 2016. The total number of visitors from China to the United States has always far exceeded that from the United States to China. The impact of Sino-US trade friction on China's tourism service trade can not be ignored.

2.3. Repression of Patent Service Trade

From the perspective of intellectual property trade, the United States is China's largest source of royalties and China has a large deficit. In April 2019, the United States issued the "Section 301 Investigations", accusing China of having an unfair technology transfer regime for U.S. companies in China and unreasonable intellectual property policies. It harmed national interests of the United States. In May 2019, Trump put Huawei in the Control List by executive order, prohibiting the country from adopting Huawei's 5G products and technologies. Under pressure, American companies, such as Google, Qualcomm and Intel, announced the suspension of cooperation with Huawei and refused to provide it with products and services such as chips, systems and servers. The import and export of these high-tech products is accompanied by a large amount of intellectual property service trade. The strict restrictions of the U. S. policy on the export of intellectual property and technology are detrimental to the brighter development of Sino-US service trade. In 2018, China spent 35.79 billion dollars in royalties, up 19.7 percent from 2017. As of June 2019, Huawei has paid more than 6 billion

dollars in patent fees to realize the legalization of patents from other companies, of which nearly 80 percent was paid to US companies. With Sino-US trade frictions escalating, Chinese corporations have to pay more for patents and America's service trade deficit with China is widening relentlessly. This exposes some fundamental problems: China's weak intellectual property competitiveness and its strong dependence on foreign technology.

2.4. Drag on the Development of New Rising Service Trade

China's service trade deficit is mainly caused by some industries like transportation, tourism and insurance services. With the rapid development of computer network technology and global economy, computer service, as a new emerging service industry, is developing rapidly and becoming a new growth point of China's service trade in current economy. It expanded imports and exports from 2009 to 2015: the exports of China's telecom, computer and information services trade increased from 7.71 billion dollars in 2009 to 24.55 billion dollars in 2015, with an average annual growth rate of 21.3 percent.

At the same time, the proportion of computer and information service trade exports in service trade exports has continued to increase, from 5.37 percent in 2009 to 14.3 percent in 2019. In 2017, with Sino-US trade frictions escalating, the export of China's computer and information service trade still kept its increasing state in spite of the slight reductions of trade surpluses compared to 2016. Therefore, the trade friction between China and the United States had a certain impact on China's telecom, computer and information services, resulting in a slowdown in their growth.

2.5. Shock to Financial and Insurance Service Trade

In China, financial and insurance service trade, compared with developed countries, is still in its infancy. In 2017, China's total import and export of financial services was 5.312 billion dollars, accounting for only 6.21 percent of the total import and export of services trade. Due to the unbalanced structure and lack of competitiveness, China's financial and insurance service trade is facing great challenges from the trade friction. In 2018, the export value of financial services was 3.482 billion dollars, down 5.7 percent from the previous year, the largest decline in the past three years. However, the export value of insurance services maintained stable growth performance. This lopsided development may cause the depletion of China's financial investment and the increase of economic costs, which inspires us to allocate capital rationally. Simultaneously, the import of financial and insurance services has been growing steadily, which shows that its import hasn't been greatly affected by the trade friction. The reasons lie in China's strong dependence on financial and insurance services from developed countries and weak capacity for innovation in the financial industry.

3. Conclusions

The Sino-US economic and trade relationship is one of the most important bilateral relationships in the world. Over the past 40 years, service trade has played an important role in bilateral economic and trade cooperation. China takes manufacturing industry and trade in goods as its main advantages. Although the US service trade deficit with China is big, China's trade in services is developing rapidly. With the Sino-US trade frictions more acute, traditional labor-intensive products have taken a battering, which could affect the associated productive service trade. In addition, great challenges are faced by some service trade like tourism, patent, finance and insurance service trade. The computer and information service industry, as an emerging service industry in China, has developed rapidly. But recent years witness a slowdown in these industries. Therefore, we must optimize the structure of service trade, enhance the competitiveness of service trade and promote the sustained and sound development of China's service trade.

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