

Analysis on the Current Situation and Countermeasures of China's Service Trade Development

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Abstract: *Currently, China's service trade is developing rapidly, with the scale of trade imports and exports increasing and the comprehensive trade index improving. However, the service trade deficit is large, the export structure is not reasonable, and there is also a lack of competitiveness in the international arena. In the process of development, China's service trade faces many challenges, such as weak discourse power in international trade rules, insufficient openness, poor business environment, and extremely unreasonable trade structure. We should actively participate in the formulation of global digital trade rules, optimize the business environment, improve technological innovation, and promote the high-quality development of service trade.*

Keywords: *Service Trade, Trade Structure, Coping Strategies*

1. Introduction

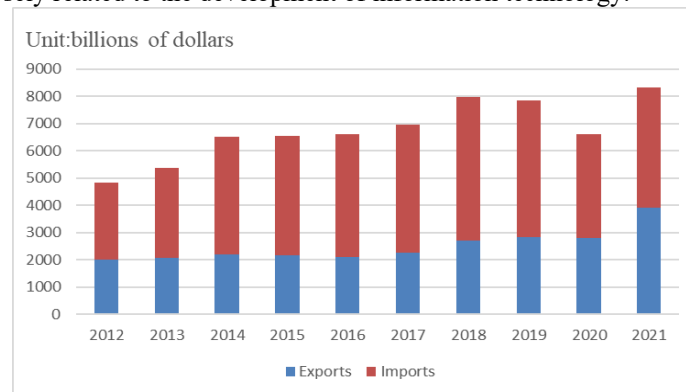
With the development of the times, the importance of service trade has become increasingly prominent. Its export scale and structure not only reflect a country's economic strength and industrial structure, but also are important indicators to measure a country's competitiveness in the global market. With the gradual advancement of reform and opening up, China has achieved varying degrees of development in various fields. As of 2022, China has become the world's largest trade country in goods for six consecutive years. At the same time, China's service trade has also made tremendous progress. According to the data in the "Global Service Trade Development Index Report 2022", China's comprehensive index of service trade has made significant progress, ranking ninth in the world, and has maintained its position as the world's second largest country in service trade for eight years. Although China's emerging knowledge, technology, and capital intensive services are gradually increasing their market share, and the development of various industries is becoming increasingly balanced, traditional service trade still occupies the leading position in exports. Telecommunications, computer and information services, financial services, insurance services, intellectual property fee services, and other industries are measured as digital intensive service industries[1]. However, in China, their export proportion has been very low, and there is no significant improvement trend. At present, the country emphasizes the need to grasp the rapid development of the global digital economy, make full use of China's vast digital economy market, promote the effective integration of digital technology, industry, and trade, achieve intelligent, informational, networked, and more efficient management models for service trade, in order to improve the overall level of service trade and enhance China's influence on the world stage.

2. Development Status of China's Service Trade

2.1. Import and Export Scale of China's Service Trade

With the gradual advancement of the pace of opening up, service trade has become the focus of China's attention during the period of promoting high-level opening up. At present, due to the transformation of domestic economic mode and a series of policy measures such as the construction of free trade zones, China's service trade has made significant progress. From the export data of service trade in Figure 1, it can be seen that since 2012, China's service trade has developed steadily and steadily. Although the volume of trade exports in individual years has slightly decreased, the overall

trend shows a fluctuating upward trend. On the one hand, this phenomenon indicates that the development of China's service trade field is continuously advancing, and on the other hand, it also indicates that China's service trade development has poor risk resistance in the face of numerous domestic and foreign interference factors. The decline in 2020 is more representative, mainly due to the occurrence of the COVID-19 epidemic. However, after the normalization of the epidemic, trade in services has developed rapidly. With the development of China's service trade exports, the import volume of service trade has also increased significantly. As can be seen from Figure 2, China's service trade has been in a deficit state for the past decade, and even the deficit has increased year by year from 2012 to 2018. In recent years, the year 2021 witnessed the smallest adverse balance in China's service trade. In addition to more accurate epidemic prevention and control, the recovery of China's service industry is also closely related to the development of information technology.



(Data source: Based on WTO data statistics.)

Figure 1: Import and Export Scale of China's Service Trade from 2012 to 2021.

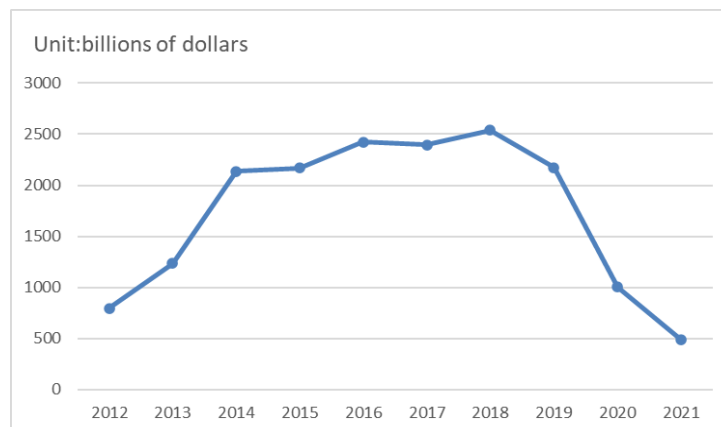


Figure 2: China's service trade deficit from 2012 to 2021.

2.2. Export Structure of China's Service Trade

In terms of trade structure, service trade is usually divided into two categories: one is traditional service trade, mainly involving transportation and travel; the other category is non-traditional service trade, mainly involving goods, construction, insurance, finance, intellectual property, computers, communications, commercial services, and other fields. In recent years, the composition of China's service industry's export sector has gradually diversified, and the unreasonable export structure has gradually improved. However, it can be seen from Table 1 that the export structure of China's service trade is still relatively traditional, with a relatively high proportion of traditional service trade such as transportation and travel[2]. In addition, the empowerment of digital technology has led to the continuous emergence of new models of trade in services, and the emerging services sector should have developed rapidly. However, from the perspective of development patterns in recent years, it is clear that the proportion of emerging trade in services has not significantly increased. China's emerging service trade has been developing slowly all year round, especially in the fields of insurance, finance, IP, and personal consumption, cultural and entertainment. It is also due to the relatively small number of exports in these fields and the imperfect overall export structure that China's service trade is facing a huge deficit for a long time.

Table 1: Proportion of China's various service trade exports in 2016-2021 (Unit: %).

	Traditional service trade		Modern service trade							
	Transport	Travel	Goods-related services	Construction	Insurance and pension services	Financial service	Charges for the use of intellectual Property n.i.e	Other business services	Telecommunications, computer and information services	Personal, cultural, and recreational services
2016	16.24	21.33	11.36	6.09	1.99	1.54	0.36	27.79	12.74	0.36
2017	16.39	17.14	10.60	10.57	1.79	1.63	2.10	27.18	12.27	0.34
2018	15.69	14.63	10.81	9.86	1.83	1.29	2.07	25.92	17.45	0.45
2019	16.32	12.23	10.54	9.93	1.69	1.39	2.36	26.01	19.10	0.42
2020	20.72	6.14	9.02	8.61	1.96	1.53	3.19	27.13	21.23	0.47
2021	32.58	2.98	7.16	7.40	1.36	1.31	3.06	23.97	19.70	0.48

Data source: Based on WTO data statistics.

2.3. Digital Development of China's Service Trade

In recent years, the digital era of global economy and trade has arrived, and the process of digitizing service trade has been advancing more rapidly. The widespread application of new generation information technologies such as big data, cloud computing, the Internet of Things, and blockchain has made digitization a fundamental feature of the development of service trade. The development direction of traditional service trade has increased, and the digitization of non-traditional service trade has become a development trend. Digital trade is the most outstanding trade method in the era of digital economy. Digital service trade is an important component of digital trade[3], and it is also a new trade model driven by digital technology[4]. Therefore, it is of great significance to assist a country's economic development and transformation. Yeerken Alai also found that digital service trade has a positive impact on the share of labor income[5]. Due to the unreasonable export structure of China's service trade, the competitive advantage of digital service trade is weak. However, with the rapid development of China's digital economy, the development potential of digital service trade is enormous. As can be seen from Table 2 and Figure 3, China's digital service trade has developed rapidly, with the proportion of digital service trade exports to service trade exports also steadily increasing. With the digital development of China's service trade, the integration of digital technology and service trade has become a new driving force; Moreover, with the promotion of the service-oriented trend in the global economy, the value-added role of services in the value chain has become more prominent, making cross-border supply and demand exchanges more active[6].

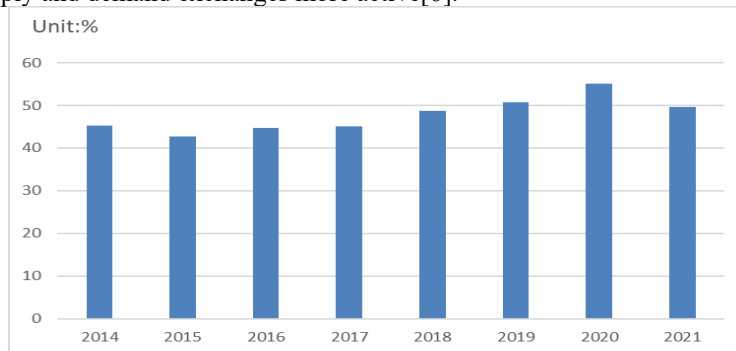


Figure 3: Ratio of China's digital service trade exports to service trade exports in 2014-2021. (Data source: calculated based on WTO and UNCTAD data.)

Table 2: China's digital service trade scale from 2014 to 2021 (Unit: Million US Dollars).

	2014	2015	2016	2017	2018	2019	2020	2021
Exports	99024	93313	93701	102567	132166	143548	154375	194845
Imports	102369	86128	97070	105384	124064	128263	139610	164845
total trade	201393	179441	190771	207951	256230	271811	293985	359690

Data source: Based on UNCTAD data statistics.

3. Problems in the Development of China's Service Trade

3.1. External Challenges Facing the Development of Service Trade Increase

China faces challenges in participating in the formulation of international trade rules. With the outbreak of the financial crisis in 2008, the process of global integration has become more complex[7], and the restructuring of economic and trade rules has become more intense. Moreover, China does not have too many advantages in this competition. This is mainly due to the acceleration of the digitization process of service trade, while China's digital service trade has started late, and the formulation of many rules is still in the exploration stage. The development of the digital trade industry is also in the initial stage. At the same time, the relevant laws and regulations in China are not sound, and there is a large gap compared to Europe and the United States.

The resurgence of trade protectionism has also hindered the development of China's service trade. The rapid development of China's service trade and its large total trade volume are due to both domestic policy support and a good development environment, as well as the promotion of global economic integration and the gradual establishment of a free trade system, which provide conditions for the development of China's service trade. However, with the outbreak of the financial crisis, Sino US trade friction, the impact of the COVID-19 and other reasons, the development of the world economy is beset with difficulties. Many developed countries in the West have turned against the trend of globalization to varying degrees. They have taken various measures to restrict free trade, which has severely impacted the global free trade system.

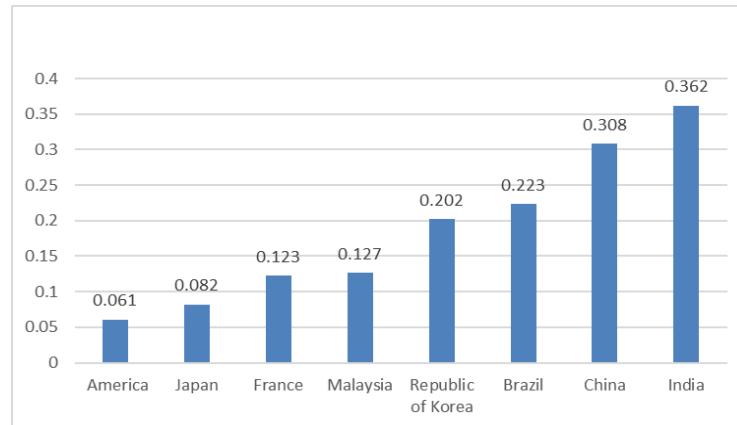
3.2. Large Service Trade Deficit and Weak International Competitiveness

The main feature of China's import and export structure of service trade is its long-term deficit, which indicates that China is highly dependent on service trade imports and has insufficient external supply capacity. At the same time, it also indicates that China has not integrated into the world service trade system and the international competitiveness of service trade is weak. The main reasons for this phenomenon can be attributed to three aspects: the low level of manufacturing services, the unreasonable export structure of service trade, and the shortcomings of key technologies. The international competitiveness of service trade depends to a large extent on a country's manufacturing service capabilities, and manufacturing sectors that use service inputs intensively have development advantages[8]. China's service trade and manufacturing industries are large in scale, but their comprehensive strength is not strong. It is necessary to effectively promote the deep integration of the service and manufacturing industries as soon as possible. The unreasonable export structure of service trade is another reason for its weak international competitiveness. At present, the economic situation of global service trade is characterized by a decline in the proportion of traditional service trade and an increase in the trend of emerging service trade. However, the proportion of traditional service trade in China is still high, resulting in a large trade deficit and weakened international competitiveness. The improvement of international competitiveness of service trade also requires the development of digital industries to a certain extent. When developing digital industries, China has invested less in tackling key technologies, making many basic and key technologies in China have shortcomings.

3.3. Inadequate Openness of the Service Industry

Research by Roy and other scholars has found that signing an economic integration agreement can increase the flow of bilateral service trade by about 12% to 15%[9]. Since the signing of the service trade agreement, various participants have significantly changed the investment proportion and investment scope restrictions in the financial, insurance, securities, telecommunications and other industries. However, despite China's participation in this negotiation, the entry threshold for most segments remains high. Currently, the business environment and openness of China's service trade are still not ideal, which is not conducive to building a dual cycle development pattern and promoting the development of service trade. Although the service industry plays an important role in national economic and social development, such as finance and telecommunications, in order to ensure the sustainable development of service trade, it is necessary to carefully control its openness to avoid excessive restrictions. As can be seen from Figure 4, China's service trade restriction index is currently high, not only higher than developed countries such as the United States and Britain, but also higher than developing countries such as Malaysia and Brazil. Trade liberalization in the service industry has a significant impact on the technological upgrading of enterprises' export products[10]. Inadequate openness will, on the one hand, lead to ineffective competition in many domestic industries and

insufficient international competitiveness. On the other hand, it will also restrict China's service industry from participating in the global service industry division of labor and value chain restructuring [11], limiting the import of domestic productive services, and making it difficult to upgrade the industrial structure.



(Data source: Calculated based on the OECD official website.)

Figure 4: Digital Service Trade Restriction Index for China and Some Countries in 2022.

4. Countermeasures and Suggestions

4.1. Actively Participate in Global Digital Trade Rulemaking

In order to ensure a smoother digitization of service trade and optimize the export structure of service trade, China should actively participate in the formulation of global digital trade rules, accelerate the integration into the construction of international digital service trade rules, and prepare for better optimizing the export structure of China's service trade. First of all, with the signing of the RECP as an important milestone, China's digital trade rules negotiation has entered a development period, which is a good opportunity to explore inclusive trade rules suitable for the development of China's service trade and improve China's leading ability to formulate service trade rules. Secondly, economic and trade exchanges with countries along the "the Belt and Road" can also promote the development of China's service trade rules. The "the Belt and Road" countries can be used as a breakthrough to promote the negotiation of free trade agreements with neighboring countries and lay a solid foundation for the future increase of agreement countries. Finally, China should take the initiative to seize the good opportunities in the new field of service trade [12], pay close attention to and conduct in-depth research on the changing trends of international service trade rules, and prepare for the signing of more high-level trade agreements and the establishment of deeper international trade rules.

4.2. Promote the Digital Transformation and Upgrading of Service Trade

There are significant differences in the international competitiveness of various service sectors in China. Research has shown that in the communications, computer, and information services industries, especially those areas that require a large amount of labor and resources, competitive advantages are more apparent. However, in the fields of modern capital based and knowledge based services, such as IP usage fees, insurance, and financial services, their competitive advantages are not obvious. Digitalization is particularly important for complex manufacturing and digital delivery of services [13], and plays a catalytic role in the international competitiveness of service trade [14]. Therefore, accelerating the transformation and upgrading of digital service trade has become a critical event. Firstly, it is necessary to strengthen the top-level design of digitization of service trade, systematically plan long-term development strategies, and complete tasks in stages and steps. The second is to strengthen the construction of digital infrastructure. Compared to developed countries such as Japan and South Korea, China still has a certain gap in Internet penetration. The popularization of digital infrastructure needs to be improved, and the "digital divide" between regions needs to be narrowed. Of course, emerging technologies such as artificial intelligence, the Internet of Things, and 5G can give great advantages to digital service trade, and attention should also be paid to the construction of these new digital infrastructure. Thirdly, strengthen the integration of the service industry and cross-border e-commerce, promote innovation, and promote the development of digital finance, supply chain finance,

cross-border payment, smart logistics, and digital marketing. And vigorously develop the export of emerging service trade, such as computer, information and consulting.

4.3. Strengthen the Opening up of the Service Industry

Promoting the opening up of the service industry and service trade is an important part of achieving high-quality development of China's trade. Although the opening up of the service industry may have a certain impact on the domestic service industry[15], moderately increasing the opening up can have an impact on the competitiveness of China's service trade through capital accumulation and technology spillovers, gradually eliminating barriers to service trade, and creating a good environment for the development of service trade. To promote the opening up of service trade in an orderly manner, we should focus on the productive service industry in the field of opening up. China's productive services industry lags behind the opening up of the living services industry and lacks competitiveness both domestically and externally. In the future, it is necessary to increase the opening up of financial, technological, and other fields to create a good business environment for the productive services industry. In terms of open standards, it is possible to benchmark the high standards of service trade in international free trade agreements. According to China's actual situation and the opening requirements of agreements such as the CPTPP for the service industry, it is necessary to increase openness, actively participate in international conferences such as the G20 and APEC, and introduce higher standards for service trade in future free trade agreement negotiations to promote the comprehensive development and opening up of China's service industry. In terms of open and coordinated development, promote the establishment of a system and mechanism for good communication and efficient coordination between relevant policy authorities such as the opening up of the service industry and the development of service trade.

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