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# Comparative Study on Competitiveness of Sino-US Services Trade

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# Comparative Study on Competitiveness of Sino-US Services Trade

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**Abstract** - In this paper, we mainly do the comparative study on competitiveness of trade in service between China and the USA. Firstly, we introduce some basic concepts of trade in services, and propose the index system in the competitiveness of trade in service. And then, a large amount of data of Sino-US trade comparative analysis is used for comparative analysis, and point out that there is a gap between modern Sino-US service trade. Finally, we summarize the paper and give some advices to improve the competitiveness of China.

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## I. INTRODUCTION

With the development of China's economic, merchandise trade has formed a competitive advantage in many industries. However, the competitiveness of China's service trade has a weak foundation and is relatively less than that of the United States and other developed countries due to a late start. Thus, the developing pace of service trade is not the same with that of China's national economic development in recent decades. According to the data released by the world trade organization website, the China's service trade competitiveness index has been negative and its share has been quite small. Merchandise trade would finally be restricted if this phenomenon keeps on (Francois,2010). Therefore, it is urgent that efforts should be made to the development of China's service trade and to improve its competitive level, which is driven by the good momentum of development of original merchandise trade.

In order to study on the international competitiveness of Sino-US service trade, this article looks for the various factors affecting the bilateral competitiveness of service trade by empirical analysis. And then we look for where the trade advantages of United States' service trade are by the usage of scientific research methods. Furthermore, we put forward the constructive countermeasures and suggestions to promote the development of China's service. This is also the purpose and significance of this paper.

## II. THE BASIC CONCEPT AND THEORY OF COMPETITIVENESS OF SERVICE TRADE

### a) The basic concept of service trade

#### i. The definition of service trade

The word "trade service" first appeared in a report of the Organization for Economic Cooperation and Development (1972). It is mainly aimed at the reformation of service trade barriers in the 'Tokyo round'. The definition of service trade given by Kotler is that, "It is a kind of process that a party provides some activities or benefits that are intangible in nature and do not bring any ownership. Their production may be constrained or unconstrained by material products (Ariu,2010). The international service trade is the services formed according to different nature of services and the services are enjoyed by people of different countries. However, the traditional definition of service trade has neglected a series of their forms. So we are more used to comprehending service trade in a broader sense as all modes of international service exchange (Matto,2009).

### b) Competitiveness theory of service trade

#### i. International competitiveness and trade competitiveness

International competitiveness refers to the capacity that a country sells their products in the international market (Harrison, 1999). That is to say, it means the ability of which a country keeps its advantage or trade balance in the international market trade. Competition will naturally appear during the pursuit of interest in the communication of culture, military, economy and so on among countries. In the trend of global economic integration, trade activities are the most competitive embodiment in economic exchanges. So, we can say that the level of a country's trade competitiveness reflects directly the competitiveness of the country in the world. Foreign trade competitiveness emphasizes a country's export capacity in the international market and the ability of gaining trade benefits from export.

#### ii. The theory of international service trade

From the definition of foreign trade competitiveness stated above, we know that the competitiveness of China's service trade can be

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represented by China's total export volume in this article.

The service trade of the develop countries, such as the United State has a strong international competitiveness because they can solve the problem of economy of scale among service industries. The economy of scale is the prerequisite for reducing cost. Developed countries realize the economy of scale by the integrated management and develop cooperation in various fields to achieve business connection. In the competition of international service trade, it is very important to realize their existing comparative advantage. However, the competitiveness can truly form if we can transform its comparative advantage into competitive advantage effectively. The developed countries are good at transforming the existing comparative advantage into competitive advantage and creating new competitive advantage. Of course, to create new competitive advantage, enterprises must first have the spirit of innovation. They should take the initiative to compete with competitors to seek more efficient progress in competition and continuously learn to improve themselves. Moreover, their development should not only depend on the domestic market but also move toward the international market. Finally, they should enhance the existing management and technology level of the service industry and the international competitiveness.

### iii. *Traditional theory of comparative advantage*

The initiative explanation of competitiveness is derived from the theory of comparative advantage. The British economist David Ricardo proposed "comparative advantage" based on the theory of "absolute advantage" put forward by another British economist Adam Smith. Adam Smith thought that each economy is likely to have absolute advantage on a commodity that produces itself if we consider each country as an economy. He believes that a country that has absolute advantage can get the product trading profit if it divides labor is according to their own advantage, carries out specialized production and then uses the products to exchange (Shelby, 1995). But Adam Smith did not answer a question that whether a country can make profit in the process of division of labor, production and exchange if it has not the absolute advantage in any of its products. Considering this issue, each country is able to find its own advantages when compares the cost to others whether its overall economic strength is strong or weak. Under certain circumstance, both sides of the exchange can get benefit after division of labor according to their comparative advantage. In the model established by David Ricardo, he holds that a country which has comparative advantage in certain product can improve the labor productivity and ultimately enhance the product competitiveness to increase trading condition by reducing the labor cost. This

approach of improving trade competitiveness is on the premise that there is only one factor of production.

The theory of absolute advantage of Adam Smith, the theory of comparative advantage of David Ricardo and the factor endowment theory of Heckscher-Ohlin studying on trade competitiveness are barely based on the research on the competitiveness of the product (Ronald, 1980). During this period, the trade theories held that the cost of production has become the main factor to determine the competitiveness of products. The prerequisites for establishing the theories are the constant returns to scale of the production, perfect competitive market, resources and fixed production factors, etc. As the prevailing production condition was not very mature, the traditional comparative advantage theory could play a comparatively important role as a theoretical guidance in a very long-term period. However, all kinds of technologies of resources development have been applied gradually due to the continuous improvement of producing technology, which caused the enhancement of the liquidity in different extent. It made the premise of the traditional theory of comparative advantage less and less invincible by the test of reality.

### iv. *The competitive advantage theory of service trade*

The theories of international competitiveness mainly study the structure and influence factors of a country. Although it has only a short history of more than ten years, there have been a lot of research findings. In early twentieth century, J.A. Joseph Alois Schumpeter put forward the concept of 'innovation'. He pointed out that entrepreneurial spirit is the key factor of economic development. While studying the factors affecting economic growth of the United States, Solow emphasized the importance of technology and labor education. Considering from the national level, Potter believed that a good business environment should be provided for the industries of a country if we want to enable its enterprises to obtain the competitive advantage. Using the "Diamond Model", he put forward four elements to determine national competitiveness. The first element can be concluded as production factor. The second element is demand condition. The third element is considered to be the performance of related industries and supporting industries. The last element refers to business strategy, structure and its competitors. Potter put forward the theory of national competitive advantage," The competition of international service trade between countries is the competition of their service industries. The development of service industry determines the international competitiveness of service trade." In the industrial structure of service industry, new entrants, as well as suppliers, buyers, replacement and peers, determine the nature of competition in service industries together.

Diamond model includes four key factors listed previously. The pressure from domestic competition and international competition can promote innovation, which encourages the enterprises to set target and strategy in line with its development. Moreover, according to the differences of national conditions and industry structure among countries, we should find the best combination of them to form the national competitive advantage. The four factors of Potter's theory of "Diamond Model" interact, depend on each other and mutually influence the competitive advantage of enterprises.

Compared with the traditional comparative advantage, competitive advantage can describe the forming process of a nation's competitive advantage from a higher level. As the international comparative advantage changes constantly, a country which had comparative advantage industries before would lose its competitive advantage because the loss of its comparative advantage. From this point of view, we can say the competitiveness of service trade rely not only on the comparative advantage but also on the competitive advantage.

### III. THE OVERALL DEVELOPMENT OF SINO-US SERVICE TRADE

There is a rather wide gap of the development scales of service trade between China and the United States. It reflects in four aspects:

1. The proportion that Service trade accounts for foreign trade is too low.
2. The total service trade volume of China is far lower than that of the United States.
3. The huge service trade deficit of China forms a obvious contrast to the huge service trade surplus of the United States.
4. The constructions of service trade between China and the United States are different.

In recent years, the service trade of China grows rapidly. Its exports increase greatly as well. Thus, the status of international service trade of China tends to rise. However, the service trade of China has a large gap compared to that of the United States because of its late development, low starting point and poor foundation.

#### a) Sino-US comparison of the proportion of service trade

From the data of recent years, the China's proportion of which service trade accounted for total foreign trade volume is far lower than that of the United States. In 2001, the service trade volume of China accounted for 12.29 percent of the total foreign trade. In 2006, it fell to the lowest point, only 9.87 percent. Then, it increased a little in 2007 and 2008. In 2009, it went up to 11.79 percent. Until 2011, it rose to 12.26 percent,

which was 0.5 percentage points higher than the level in 2009. At the same time, the merchandise trade accounts for a higher proportion of China's total foreign trade volume. It indicates that China's service trade development is not enough so it is not able to stimulate the economy significantly. In contrast, the service trade volume of the United States accounts for a higher proportion of total foreign trade. In 2001, the total service trade volume of the United States accounted for 20.29 percent of its total foreign trade volume, 8 percentage points higher than the same period in China. The proportion was 21.54 percent in 2002, 21.38 in 2003, 21.47 percent in 2004, 21.49 percent in 2007, 21.96 percent in 2008 and 25.23 percent in 2009, which was usually 13.44 percentage points higher than the same period in China.

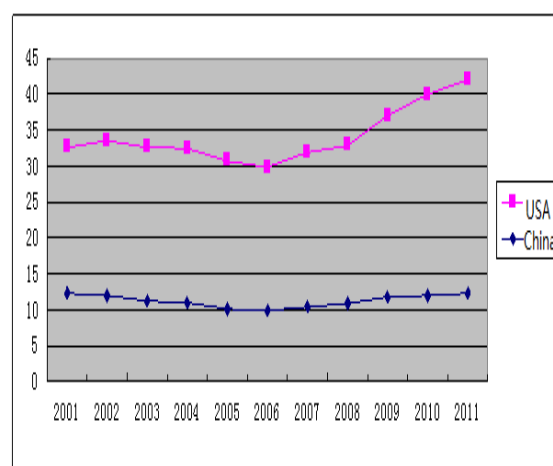


Figure1: Sino-US comparison of the proportion of service trade

#### b) Sino-US comparison of the total service trade volume

In terms of the total volume of service trade, we can see the import and export volume of China's service trade rose steadily from \$71,933,000,000 in 2001 to \$252,417,000,000 in 2007, at an average annual increase rate of 21 percent. Therein, the service trade exports increased from \$32,901,000,000 in 2001 to \$122,206,000,000 in 2007 at an average annual increase rate of 21.97 percent, when imports increased from \$39,032,000,000 in 2001 to \$130,111,000,000 in 2007 at an average annual increase rate of 20.13 percent. In 2008, China's total service trade rose to \$306,030,000,000. Therein, export value was \$147,110,000,000, which increased 20 percent over the same period. The import value was \$158,920,000,000, which rose 22 percent on year-on-year basis. The total import and export volume of service trade fell to \$288,400,000,000 in 2009. Therein, the export value was \$129,500,000,000, which dropped by 12 percent than that in 2008. The import value was \$158,900,000,000, which was essentially equivalent to that of 2008.

However, China's total import and export value amounted to \$218,900,000,000, while imports amounted to \$218,900,000,000 and exports amounted to \$189,900,000,000.

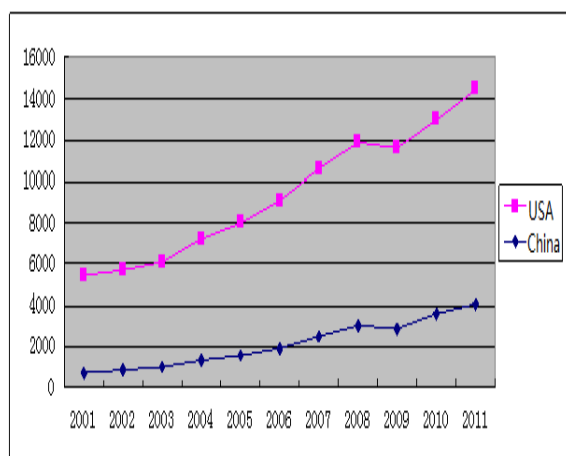


Figure 2 : Sino-US comparison of the total volume of service trade

Since 2001, the service trade volume of the United States grows significantly from \$471,138,000,000 to \$875,896,000,000 in 2007 at an average annual increase rate of 7.74 percent. Among them, exports increased from \$266,660,000,000 to \$500,696,000,000 at an average annual increase rate of 7.8 percent. Imports increased from \$204,478,000,000 to \$375,200,000,000 at an average annual growth rate of 7.66 percent. In 2008, the service trade volume of the United States continued to rise, reaching \$950,843,000,000. Among them, exports rose to \$545,589,000,000, having increased 8.97 percent compared with that of 2007. Imports rose to \$405,254,000,000, having grown 8.01 percent. In 2009, service trade volume fell back to \$87,546,700,000 as the levels of 2007. Among them, exports fell to \$504,766,000,000, having decreased by 7.48 percent compared to that of 2008. Imports fell down to \$370,701,000,000, 8.53 percent lower than that of 2008. By 2011, the service trade volume of the United States was \$1,039,500,000,000, of which imports was \$449,966,000,000 while exports amounted to \$589,534,000,000. Therefore, we can see that the total service trade volume of the United States is much higher than that of China. In 2011, service trade volume of the United States was 2.5 times, exports were 3.1 times and imports were 2.06 times as those of China.

Year	Volume of service trade of China		Volume of service trade of the US		The gap between E&I of China	The gap between E&I of the US
	Sum	Growth	Sum	Growth		
2001	71933	8.98%	471138	-3.05%	-6131	62182
2002	85461	18.81%	482604	2.43%	-6699	63810
2003	101227	18.45%	506517	4.95%	-8477	61825
2004	133658	32.04%	588860	16.26%	-9546	71510
2005	157082	17.53%	642225	9.06%	-9264	82043
2006	191748	22.07%	718620	11.90%	-8906	89634
2007	250908	30.85%	809549	12.65%	-7600	132031
2008	304450	21.34%	883246	9.10%	-11558	153386
2009	288400	-5.27%	872600	-1.21%	-29400	132000
2010	362400	25.7%	936835	7.36%	-24800	148717
2011	408800	12.8%	1039500	10.96%	-29000	139568

Table1 : Sino-US comparison of exports and imports of service trade

#### IV COUNTERMEASURES TO ENHANCE THE INTERNATIONAL COMPETITIVENESS OF CHINA'S SERVICE TRADE

The service trade volume of China is growing rapidly and its scale is continually expanding. However, the development of China's service trade is still relatively backward comparing to the United States and other developed countries. The overall competitiveness of service trade is weak, which has only a little advantage of in the labor-intensive industry but disadvantage in the technology-intensive industry. In order to improve the international competitiveness of China's service trade, we should seek a path of development from government, industries and enterprises. The following are some specific policy suggestion:

##### a) Increase Human Capital Accumulation

Professional and technical personnel reserves have great influence to the international competitiveness of service trade. Compound talents with different levels of international expertise are needed in the field of foreign business, foreign labor and the long-term diplomatic personnel service directly facing the foreign unit. Therefore, we should enhance the cultivation of such talents. In order to increase the accumulation of human capital, we should increase investment in education, improve the quality of talent as well as human resources. We should also let the knowledge-intensive and technology-intensive service industry have more high quality talents, make full use of human capital efficiently and enhance the professional cooperation in various fields of service trade to achieve economies of scale.



### b) *Improve Human Capital Market Mechanism*

The free flow of capital market on human capital accumulation is essential and also necessary. The supply and demand of human capital in the market is the key to decide the liquidity of the human capital market. We should adjust the supply and demand of services market effectively to configure the flow of talent gap in all walks of life and let the human capital supply meet the need of the demand of social enterprises. At the same time of optimizing the allocation mechanism of human capital, we should combine the investment in human capital scientifically, rationally and effectively to establish and improve the incentive mechanism.

### c) *Optimize the Allocation of Resources*

In order to optimize the allocation of resources, China should break the monopoly of the industry to create a good market environment for the development of service industry. Although FDI does not have long-term equilibrium relationship with China's service trade competitiveness, it has brought some pressure to China's service trade market competition, which has a certain impact in the short term. The technological spillover effects of FDI help to improve the competitiveness of China's service, but the technology spillover can only perform well in the good investment environment. Moreover, we can feel the pressure of the development of China's industry, which promotes foreign enterprises to invest in more advanced technology and take more conducive means for market development in order to keep their competitive position in the original technology. Only in this way can technology spillover of foreign investment bring more positive effect and new blood to the development of China's service trade market.

### d) *Enhance Coordination and Support of Related Industries*

A country's development level of domestic service industry has always been the cornerstone of its service trade. As the support of the service trade industry, domestic service industry should develop to promote the highly development of service trade. The industries in the national economy influence mutually. In order to improve the competitiveness of China's service trade, it is necessary to strengthen the connection of the industrial chain and give corresponding high attention to the development of service trade related businesses. In the service sector, the fields are interacting. For example, banks can provide the development funds for other sectors. The development of other industries will also bring more funds for the banks. The increase of railway speed and the new route opening of aviation can promote the development of Tourism. Only in the development model of promoting each other in each industry can we drive the entire service industry ahead, which will enhance the overall competitiveness of China's service trade.

## V. SUMMARY

Based on the introduction of the relevant concept of service trade and the relevant theory of international competitiveness of service trade, this article conducts Sino-US comparative analysis of the international competitiveness of service trade on the utilization of data in nearly ten years. Under the relationship of the two above, we put forward some countermeasures to improve the competitiveness of China's service trade, drawing the following conclusions:

First, we have basis and potential of the development of service trade. However, due to a late start and weak strength, we will still maintain the deficit of service trade in the next few years, which is also a necessary stage for China to open up the domestic market of service trade.

Second, our country still does not have a strong international competitiveness in the service trade. However, the overall competitiveness of service trade is expected to improve and strengthen because of its larger space for development.

Finally, according to the above conclusion, we propose some recommendations to improve the competitiveness of China's service trade: to increase the accumulation of human capital; to improve the human capital market mechanism; to optimize the allocation of resources; to enhance coordination and support of related industries.

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