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Analysis on the Service Trade between China and ASEAN

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Abstract

With the economic globalization and regional economic integration, today's world witnesses the new round of industrial restructure with service and service trade playing an increasing role in the national economy and the center of international industry shifting from manufacturing to service. This article studies the trade structure, complementary advantages of both China and ASEAN, then put forward the countermeasures for improving our service trade structure and enforcing the competitiveness of service industrial system on the basis of mutual benefit.

Keywords: ASEAN, Service trade, Cooperation

Since the Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN (Association of Southeast Asian Nations) signed by China and ASEAN in November 2002, in which it is decided that the establishment of China-ASEAN Free Trade Area in 2012, the negotiation of service trade has been going on several years. The Service Trade Agreement was finally signed on January 14, 2007 and took effect on July 1, 2007. According to the Agreement, on the basis of the commitment made to the WTO, China will make new commitment in 26 sectors under construction, environment preservation, transportation, sports and business. On the other hand, ASEAN makes commitment to open its markets in finance, telecommunications, education, tourism, construction, and medicines, including the further opening up of these markets and permission of solely-funded and equity joint ventures and other cooperation for other party, relaxing in the limit of stake proportion in establishing companies.

In general, there are differences between two parties in each other's development basis, industrial structure, and developing stage. These differences create the complementary trade in service

1. The volume and structure of China's Service Trade

China's service trade has been developing rapidly. The total volume of service's import and export in 2007 is 25 times the size of that in 1990. The average annual increase rate is up by 18.4%, which is two times over that of the world. While the international competitiveness in our service trade is till lower than the developed countries and even some developing countries. From 1990 to 2007, our service's export volume as a share in our total export is keeping lower than 10%, which is only half of the world's average level. The total service's import and export volume in 2007 is 250.9 million dollars, up by 30.88% sharply than previous year, but it is only account for 4% of the world's service import and export. Meanwhile our trade in service has been being in deficit for a long time. In 2007, China's services exports grew faster than imports. Deficit in services trade shrank noticeably to 7.7 billion, down by 14.6%over the previous year, and 20.3% lower than the largest deficit in 2004, the year with the largest trade deficit in services. All detail data is provided in Table 1.

Insert Table 1 Here

Insert Table 2 Here

As showed in Table 2, the overall competitiveness of our service trade is weak. Its TC index is keeping negative, which indicates China's service trade is of comparative disadvantage and not being improved for a long time. During the same period, the TC index of EU and the USA is 0.8 and 0.12 respectively. As for sector, China's service import and export is unbalance. The TC index of only both travel and other commercial service is keeping in positive, with certain competitiveness. While the transportation is being in negative because of its turning to capital and technological-intensive service manner, in which China is weak comparatively. The TC index of construction has been getting better in recent five years as a result of rich labor resource and lower labor cost. For most part of time, the index of communication, computer and information is in positive by taking advantage of national monopoly. As for the index of high value-added service sectors, such as insurance, finance, royalties and license fees, consulting, film, audiovisual, and so on, is negative, which shows that the competitiveness of China's capital and technological-intensive service trade is comparatively lower even though it is improving unceasingly.

2. Comparison of Advantage in Service Trade between China and ASEAN

China's service trade with ASEAN has been developing rapidly of late years. ASEAN has become the key export market of China's investment, contract engineering, labor service collaboration. Meanwhile the investment from ASEAN in marine and air transportation, financial service, construction and engineering service is also an important composed part of China's service import. The actual economic benefit gained from the service trade has become the important basis and powerful motive force for the development of relations between China and ASEAN.

Insert Table 3 Here

The above comparison in table 3 indicates that China and the 10 nations of ASEAN have their own advantages in terms of sector structure, which result in the great complementary between two parties. The Chinese businesses should attach great importance to the ASEAN market and choices offered by the opening up of service trade market at both sides and catch the business opportunities.

3. Countermeasures for enhancing cooperation in service trade between China and ASEAN

To sum up, there is competition in the service sector basis, resources, development of service trade and outsourcing between China and ASEAN, but their level of economic development and sector structure are multistoried and ladder shaped, which create the diversity and complementary in aspect of both parties' comparative advantages. So the bilateral cooperation in service trade should endeavor to enhance collaboration in their complementary fields, to achieve mutual –development and win-win in their competitive fields.

3.1 To keep on strengthening the competitiveness in traditional service sector

The distinctive natural and cultural sceneries of both China and ASEAN serve as plentiful travel resources and are also the basis for forming and developing the competitiveness of each other's travel service. As travel accounts for big share in both China and ASEAN's service trade export, and as developing countries, both have had gained their own competitiveness in this traditional travel service at the same time, there should be more competition than cooperation in travel service field between China and ASEAN. Under the pressure from ASEAN after the further opening of travel market, China should be devoted to develop the distinguish and diversity travel services, such as green travel, cultural travel, submarine travel, ecological travel, internet travel and other creative travel projects. The knowledge-based economy is changing the traditional competitive manner from resources and passenger flow direction to technology and information. The competition in future travel service will focus on creating travel resources and particular travel services according to the passengers' desire, interest, economic situation and required time instead of selling certain scenery point or travel rout only. Meanwhile, we should enlarge the opening of travel and use foreign capital to adjust the investment structure of our service. For example, we can transform the service projects of our old and famous national hotel by using foreign capital, outsource human resources training of our travel agents, the information system's developing and managing, landscape hotel and other low-value-added links in order to advance the management level of China's travel agents.

3.2 To consolidate the cooperation in transportation and finance

In the field of transportation, the half of the import and export between China and ASEAN is carried by marine transportation. The volume of transportation trade from China to ASEAN has increased by 22.7% within recent five year, and the Mekong Rive transportation is further developed at the same time. The increasing transportation of cargo and passengers between China and ASEAN build the solid basis for developing the transportation service of both side. So different from travel, there are more cooperation than competition in transportation service between China and ASEAN. China should reinforce the construction of logistic infrastructural facilities in order to speed um the development of modern transportation and logistic, meanwhile, take advantage of the huge population of China-ASEAN Free Trade Area to develop the scale economy.

Finance is usually regarded as "the first driving force" to the development of regional economy. For the purpose of larger scope, wider field and higher lever cooperation, both sides should enhance their collaboration in the field of finance in order to make finance play its function of configuration guidance and market regulation. For middle and long term, the cooperation between China and ASEAN should focus on financial supervision and currency in order to avoid the fluctuation and financial crises caused by hot money, and the illegal activities, such as arbitrage of exchange, money laundering, swindle, and so on, which will damage the financial system and solid economy greatly.

3.3 To improve the level of high-technology service

Technology service is the core of world's service trade. Computer and information services are of high increasing potential as high-value-added sectors. Except Singapore, the competitiveness in computer and information service of China and other ASEAN members is almost the same and need to be improved further. Both as being developing countries should prioritize the development of these sectors. While the volume and risks of investment in these sectors are huge, so it is necessary for the government to provide guidance and subsidies in their R&D and production

capability. On the other hand, facing the entering of transnational corporations from Singapore, who has been of international competitiveness in computer and information services, we should guide its FDI efficiently to those high-value-added sectors, meanwhile we should develop our software outsourcing in order to build solid basis for us to develop software and export services related computer and information in overseas market.

3.4 To enhance bilateral investment and enlarge service trade

The signing of the Service Trade Agreement by China and ASEAN is inevitably bringing out more bilateral investment. China's enterprises' investment in ASEAN market, which owns 500 million consumers, not only benefit for enlarging the present advantages of manufacturing industries but also promote the service export related to the manufacturing industries. Because of the difference of service trade development among the members of ASEAN, their process of opening the service trade and acceptability are not the same at all. We should choose pointedly the investment project according to each country's different characteristic. For example, Singapore is of comparative advantage in the knowledge-intensive service, capital, management, attracting investment and facility in language. Then we can invite investment from Singapore and put into our high-technology service sectors. On the other hand, we can invest in the service sectors of ASEAN market in order to promote the economic development of both sides.

In conclusion, there is great potential cooperation in service trade between China and ASEAN. Only if both parties engage in enlarging collaboration, making resources conformity sufficiently, building up systems and coordination policies well, can they survive from the new round of industrial restructure with service and advance the service industry successfully.

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Table 1. China's Service Imports and Exports from 1990 to 2007

USD 100Million

Year	China's import volume	As a share in world export (%)	World export volume	China's import volume	As a share in world import (%)	World import volume	China's import and export volume	As a share in world import and export (%)	World import and export volume
1990	57	0.7	7805	41	0.5	8206	98	0.6	16011
1991	69	0.8	8244	39	0.5	8510	108	0.6	16754
1992	91	1.0	9238	92	1.0	9471	183	1.0	18709
1993	110	1.2	9413	116	1.2	9596	226	1.2	19009
1994	164	1.6	10332	158	1.5	10438	322	1.6	20770
1995	184	1.6	11849	246	2.0	12015	430	1.8	23864
1996	206	1.6	12710	224	1.8	12697	430	1.7	25407
1997	245	1.9	13203	277	2.1	13056	522	2.0	26259
1998	239	1.8	13503	265	2.0	13350	504	1.9	26853
1999	262	1.9	14056	310	2.2	13883	572	2.0	27939
2000	301	2.0	14922	359	2.4	14796	660	2.2	29718
2001	329	2.2	14945	390	2.6	14941	719	2.4	29886
2002	394	2.5	16014	461	209	15793	855	2.7	31807
2003	464	2.5	18340	549	3.0	18023	1013	2.8	36363
2004	621	2.8	21795	716	3.4	21328	1337	3.1	43123
2005	739	3.1	24147	832	3.5	23613	1571	3.3	47760
2006	914	3.4	27108	1003	3.8	26196	1917	3.6	53304
2007	1216	3.7	32572	1293	4.2	30591	2509	4.0	63163

Source: Derived from WTO International Trade Statistics Database, China Balance of Payment

Table 2. TC Index for China's Service Trade by sector from 1997 through 2006

Year Sector	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
Transportation	-0.54	-0.57	-0.53	-0.48	-0.42	-0.41	-0.4	-0.34	-0.29	**-0.24**
Travel	0.2	0.16	0.13	0.11	0.12	0.14	0.07	0.15	0.15	**0.17**
Communications	-0.03	0.6	0.51	0.7	-0.17	0.08	0.2	-0.03	-0.1	**-0.02**
Construction	-0.34	-0.31	-0.22	-0.25	-0.01	0.13	0.04	0.05	0.23	**0.15**
Insurance	-0.71	-0.64	-0.81	0.92	-0.85	-0.88	-0.87	-0.88	-0.85	**-0.88**
Financial service	-0.85	-0.72	-0.2	-0.11	0.12	-0.28	-0.21	-0.2	-0.04	**-0.72**
Computer and Information	-0.47	-0.43	0.09	0.15	0.14	-0.3	0.03	0.13	0.06	**0.26**
Royalties and license fees	-0.82	-0.74	-0.83	-0.88	-0.89	-0.92	-0.94	-0.9	-0.94	**-0.94**
Consulting	-0.15	-0.19	-0.3	-0.29	-0.26	-0.34	-0.22	-0.2	-0.07	**-0.03**
Advertising, publicity	-0.01	-0.11	0.004	0.05	0.04	-0.03	0.03	0.1	0.2	**0.2**
Film, audiovisual	-0.63	-0.44	-0.67	-0.34	-0.21	-0.53	-0.35	-0.62	-0.06	**0.08**
Other. commercial services	0.19	0.07	0.02	0.07	0.12	0.28	0.4	0.31	0.28	**0.27**
Total	**-0.07**	**-0.05**	**-0.09**	**-0.08**	**-0.08**	**-0.08**	**-0.08**	**-0.07**	**-0.05**	**-0.05**

Source: Derived from Balance of Payment of China, 1997-2006

Table 3. Comparison of Service Trade Resources between China and ASEAN

Country	**Sectors with advantage and Potentiality**	**Sectors needed to be developed**
China	Construction, marine transportation, travel, computer and information	Financial service, insurance, consulting
Brunei	Travel and related service, financial service, cooperative exploitation of oil and natural gas	Commercial service, transportation
Cambodia	Travel and relating service, construction and related engineering	Commercial service, telecommunication service, environment and public facility
Indonesia	Transportation, communication, post and cable service, consulting	Financial service, insurance, travel
Laos	Electricity, travel and related service	Transportation, communication
Malaysia	Travel and related service, financial service	Commercial service
Myanmar	Energy exploitation, construction, mining	Energy and human resources exploitation, travel, transportation communication
the Philippines	Information and related service, paging hub, commercial purchasing service	Travel, banking and security
Singapore	Air transportation, financial service, hotel, exhibition service	Gambling, construction
Thailand	Travel, environment and financial service	Construction and related services
Vietnam	Labor service	Education, commercial service, technological service, financial service