



The Global Financial Crisis and China's Trade in Services: Impacts and Trade Policy Responses

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Outline

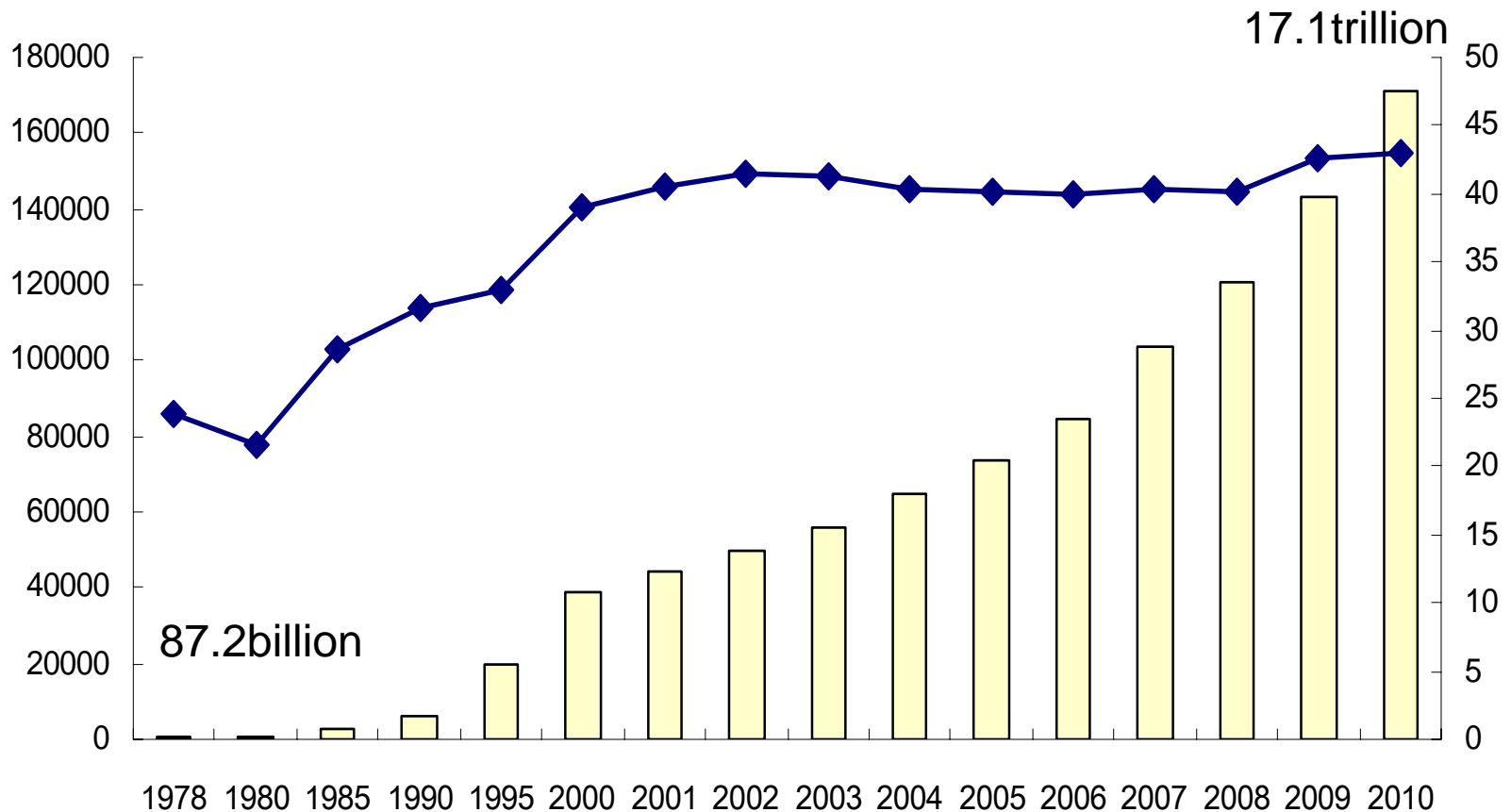
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1. Introduction: the growing importance of services and services trade Paradox in China



Figure 1. Value-Added of China's Service Industry 1978—2010

Source: National Bureau of Statistics of China

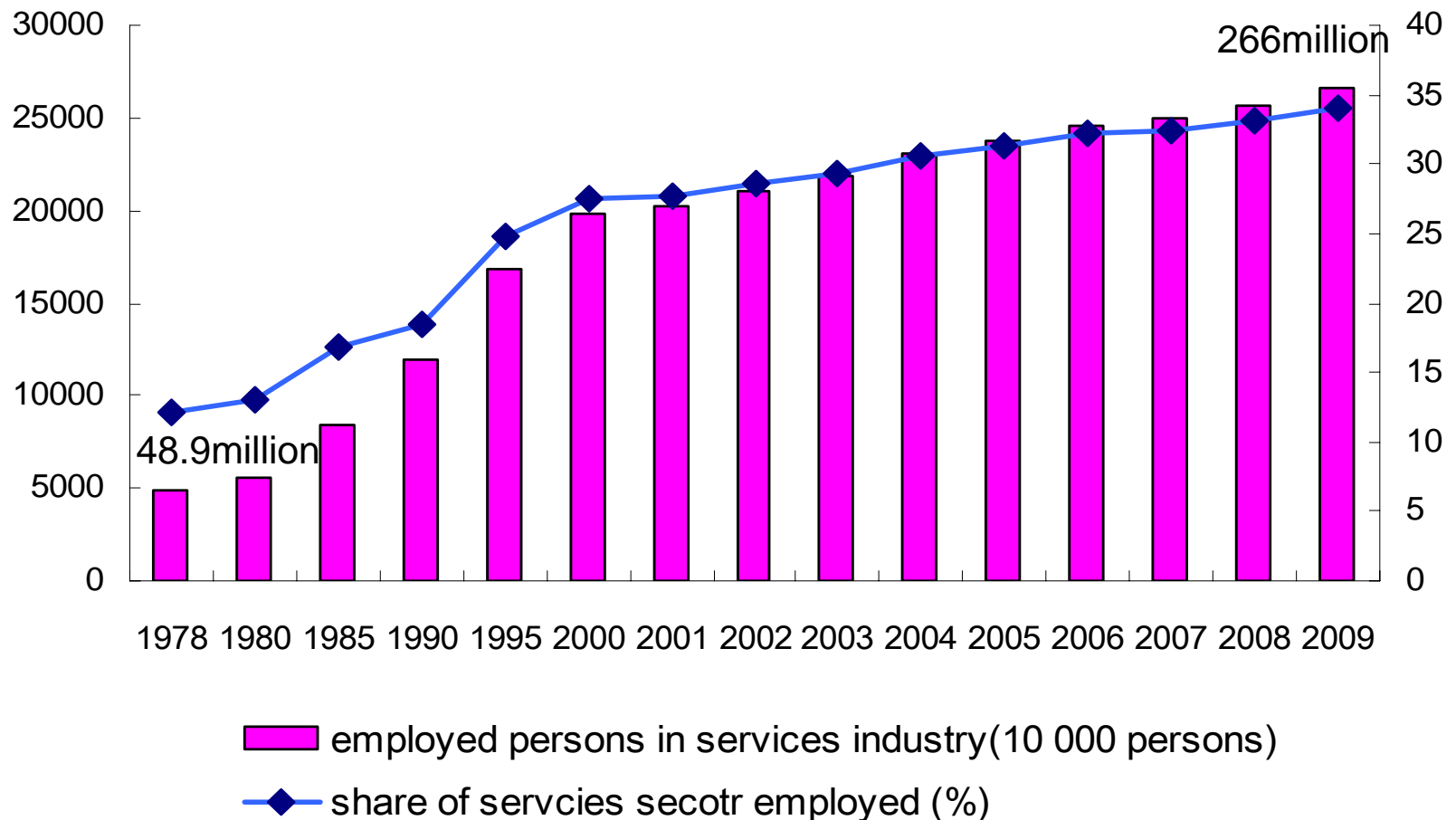


Value-added of service industry(100 million yuan) — share of service industry in GDP (%)

2011-06-02

Figure 2. Employees in China's Services Sector 1978—2010

Source: National Bureau of Statistics of China



Paradox 1

- Rapid growth in services sectors
- Lower share of services in GDP and total employment

Figure 3. Share of Services in GDP

Source: National Bureau of Statistics of China

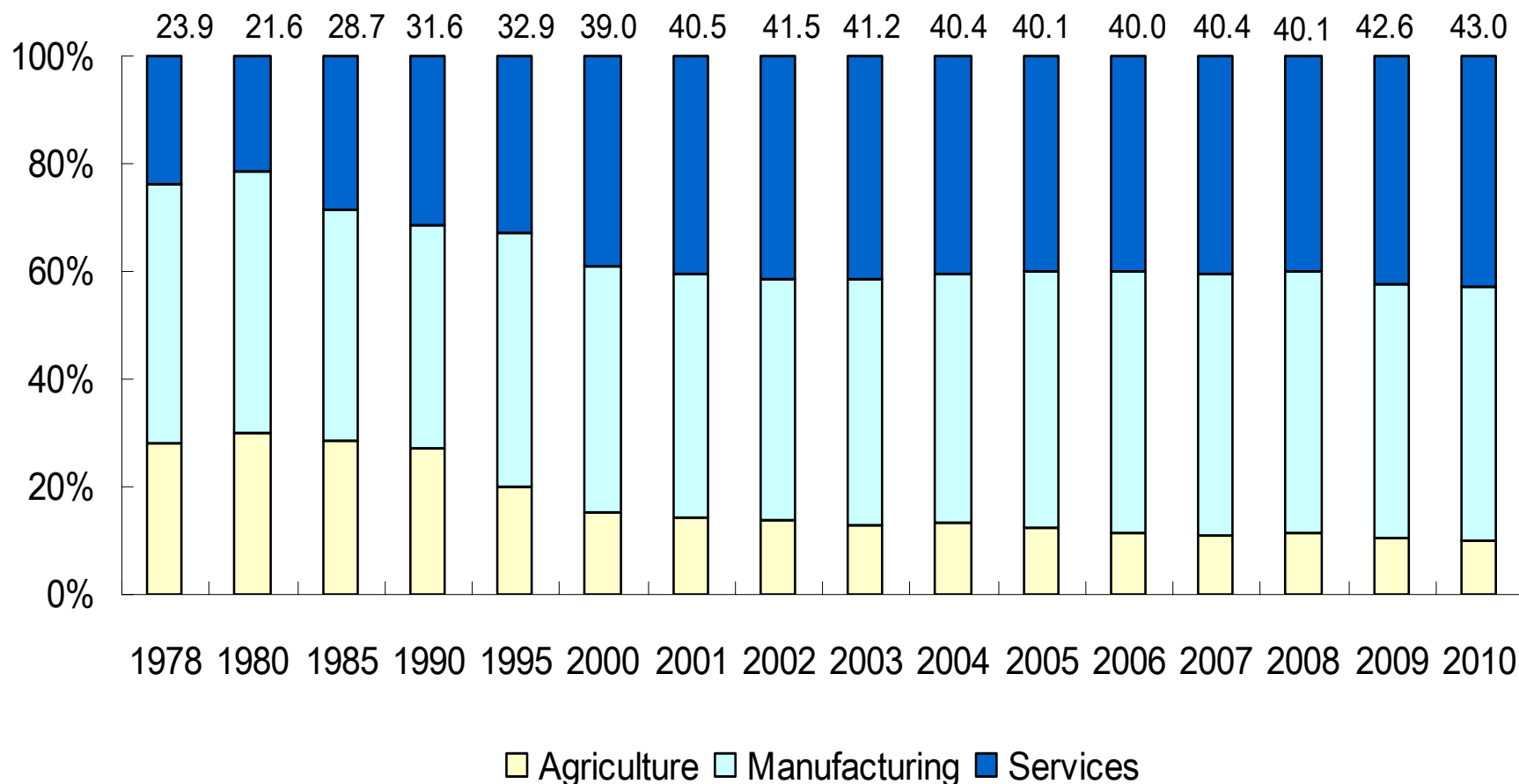


Figure 4. Share of Services in Total Employees

Source: National Bureau of Statistics of China

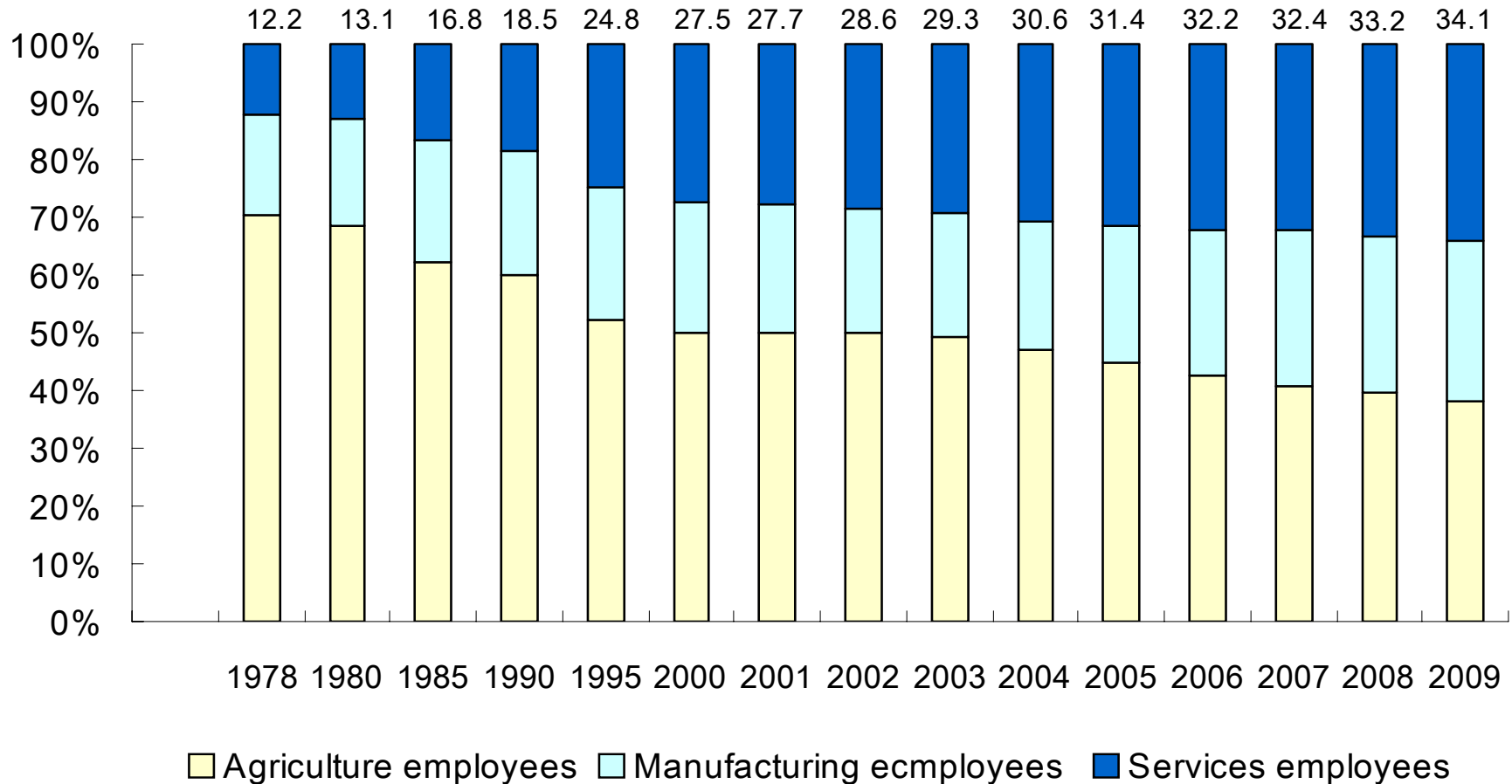
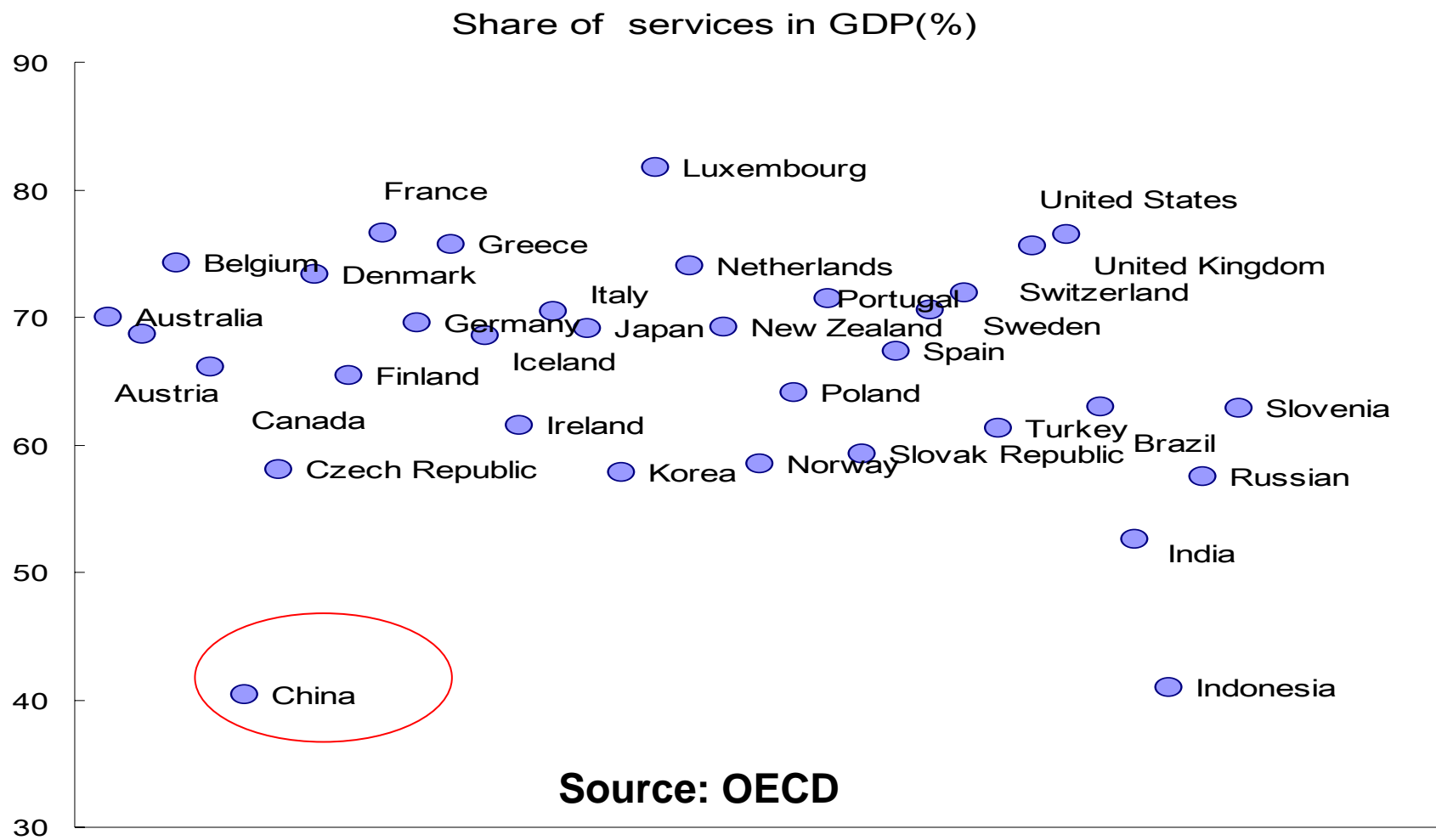
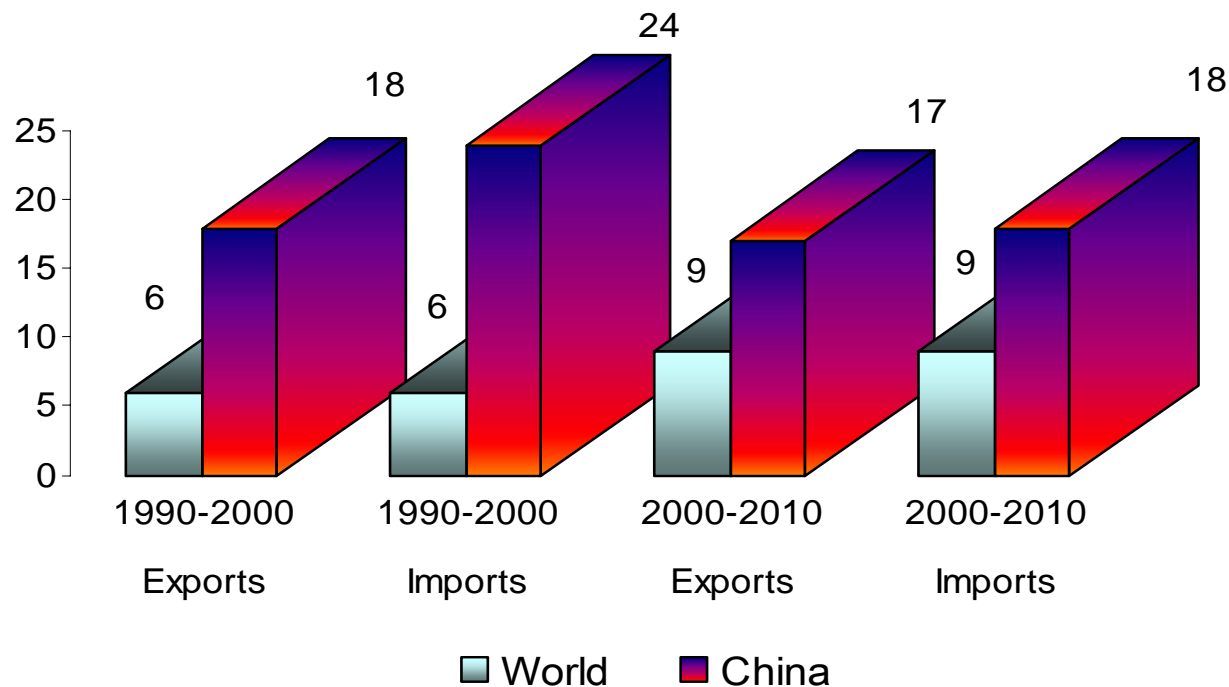


Figure 5. Share of Services in GDP among different economies

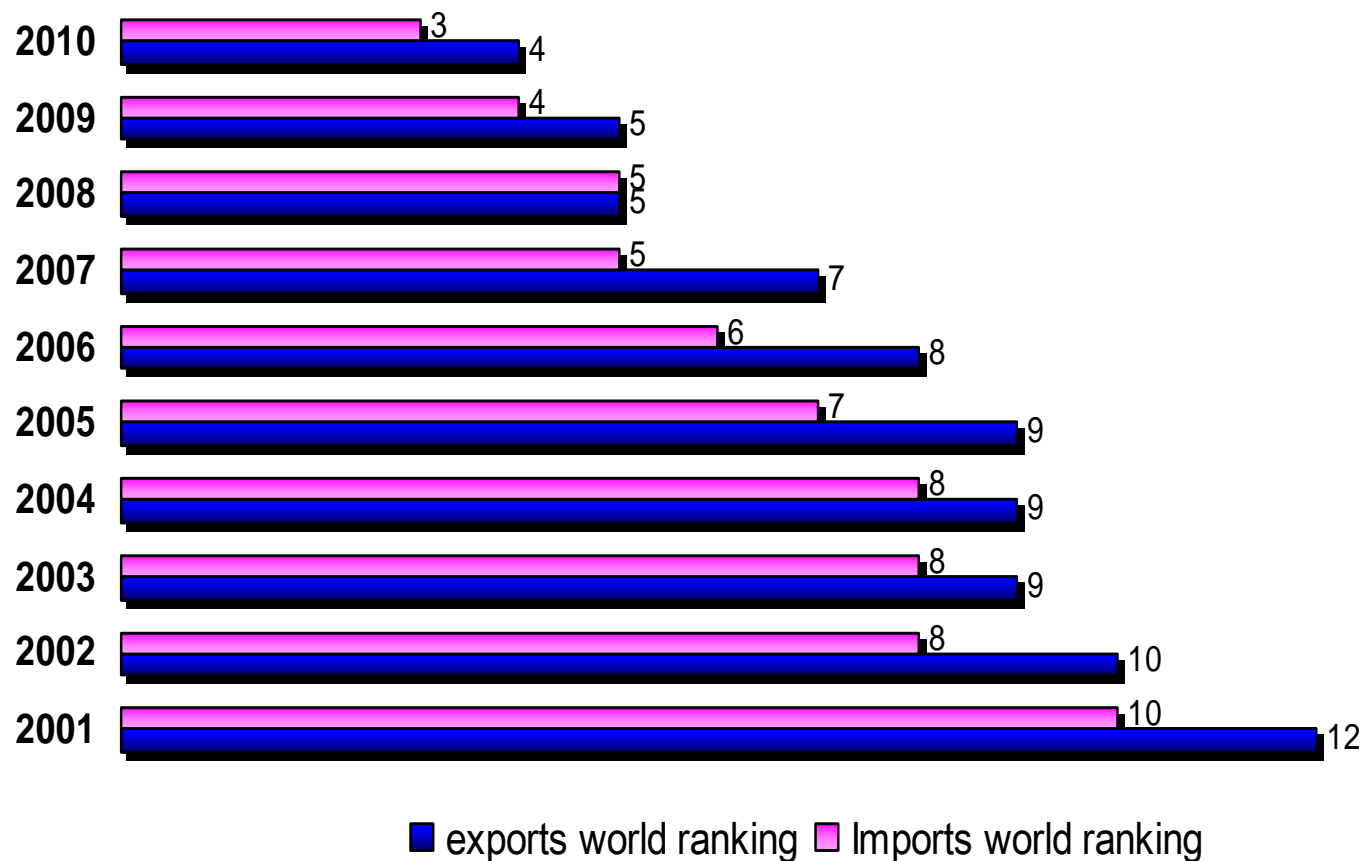


**Figure 6. Annual Growth rate of service Trade:
comparison between China and World (%)**



Source: WTO

Figure 7. China's Ranking in World Services Trade

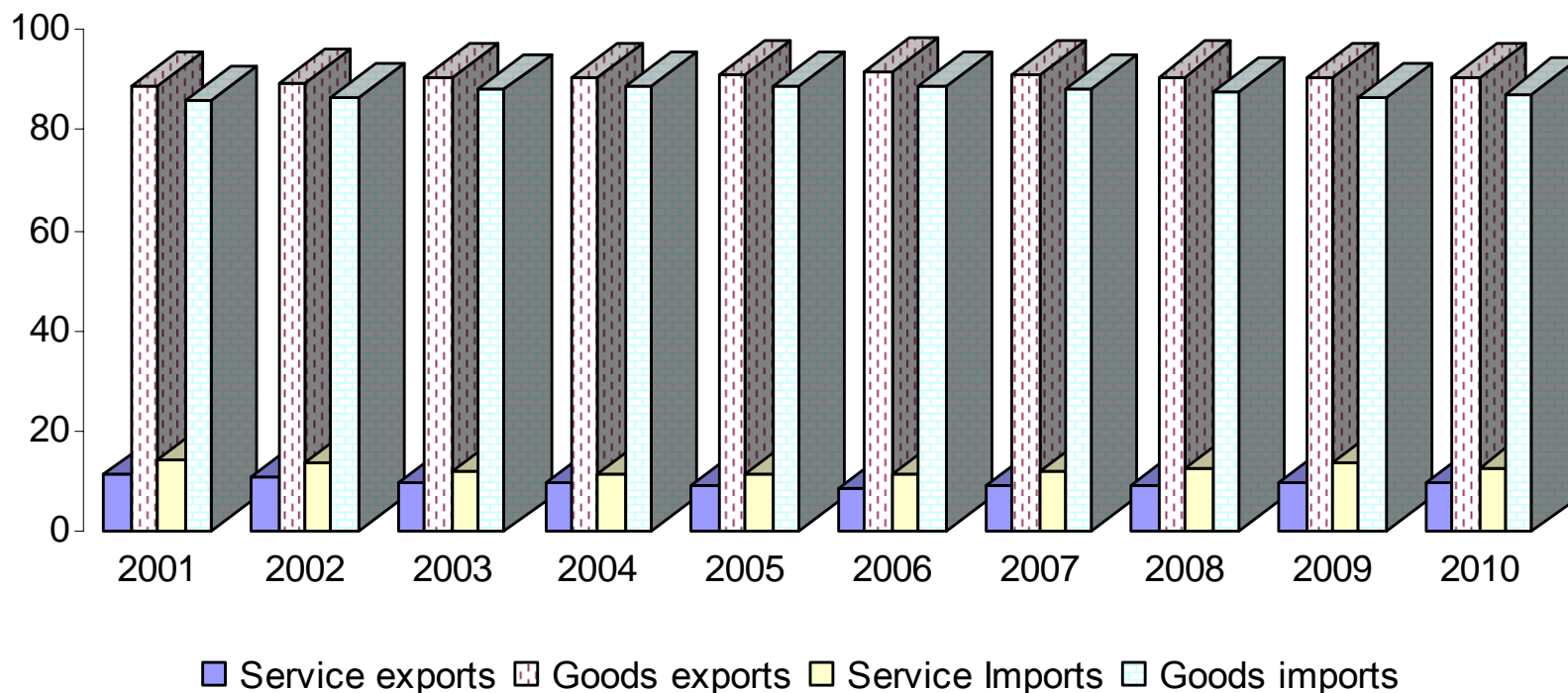


Source: WTO

Paradox 2

- Rapid growth in both export and import in services
- Lower share of services in total exports and imports

Figure 8. Share of services trade in China's total trade



• Source: WTO

2. Impacts of the Global Financial Crisis on China's trade in services

----Stylized Facts and main findings

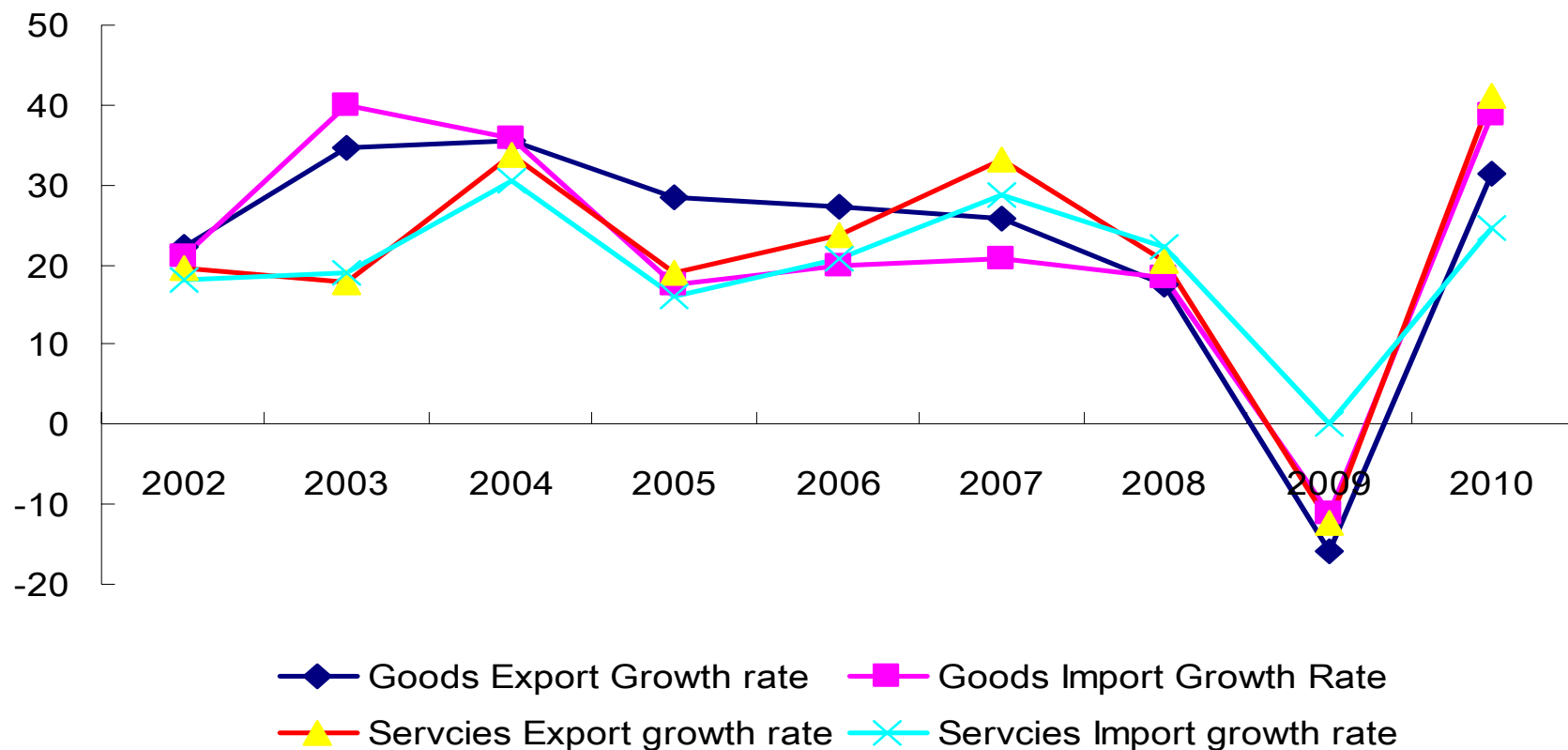


Table 1. World exports of commercial services,
2005-10 \$bn and annual % change

	Value	Annual % change			
	2010	2008	2009	2010	2005-10
Merchandise	15237.6	15	-22	22	8
Commercial services	3663.8	13	-12	8	8
Transport	782.8	16	-23	14	7
Travel	935.7	10	-9	8	6
Other commercial services	1945.3	13	-8	6	9

Source: WTO Secretariat.

Figure 9. China's Goods and Services Trade Growth Rate 2002—2010 (%)



Source: MOC, P.R. China; SAFE, P.R. China

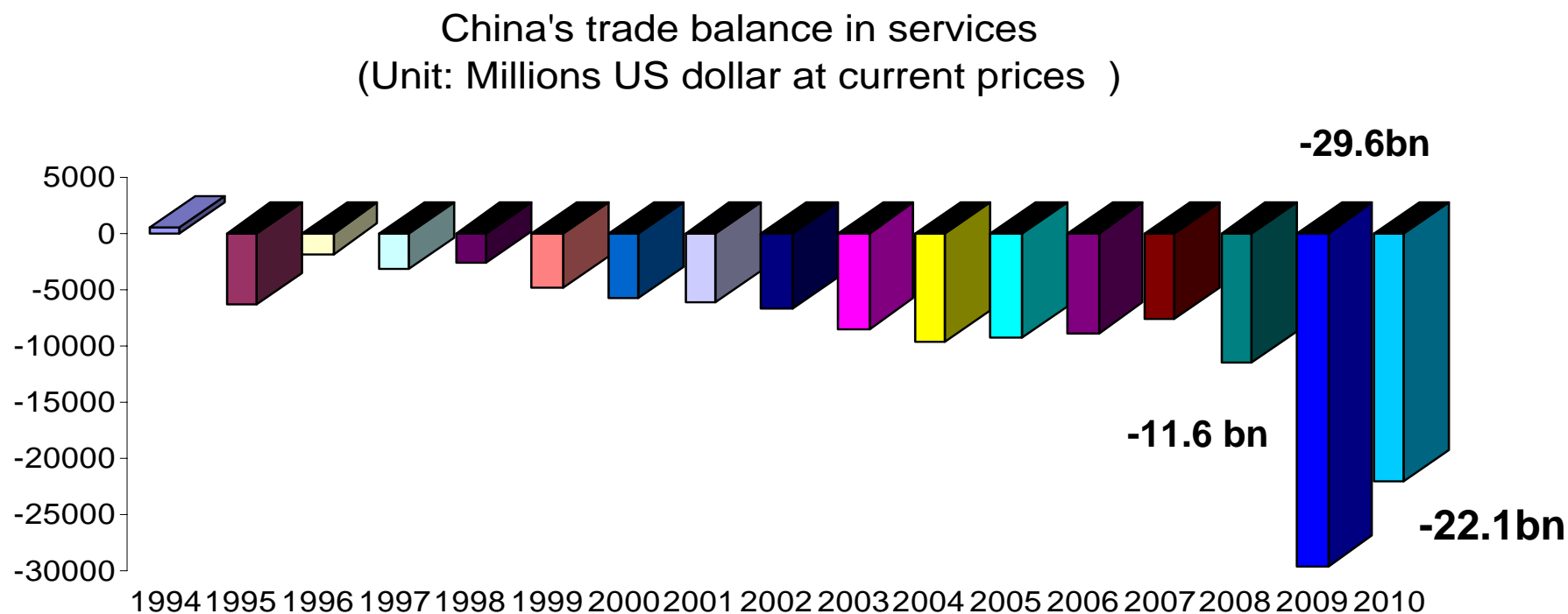
Main Findings

- The Shifting V-Curve of China's Services Trade
- China indeed faced deceleration in services trade growth rate, but the magnitude of its impact on China was felt not to be very large.

Possible Reasons

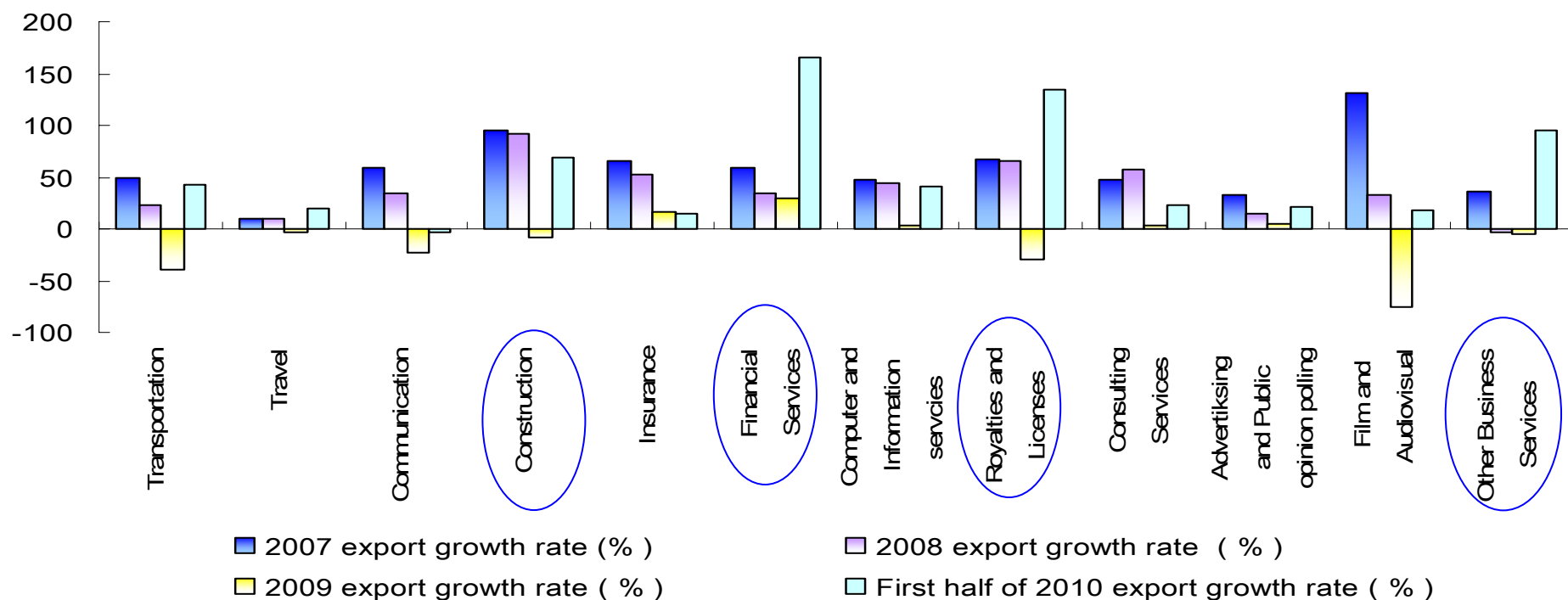
- Services trade volumes rebound symmetrically with China's economic recovery.
- Service trade is more robust than goods trade because there is less cyclical demand and less dependence on external finance.
- China's services sector is not totally integrated with global market at present.

Figure 10. China's Services Trade Balance



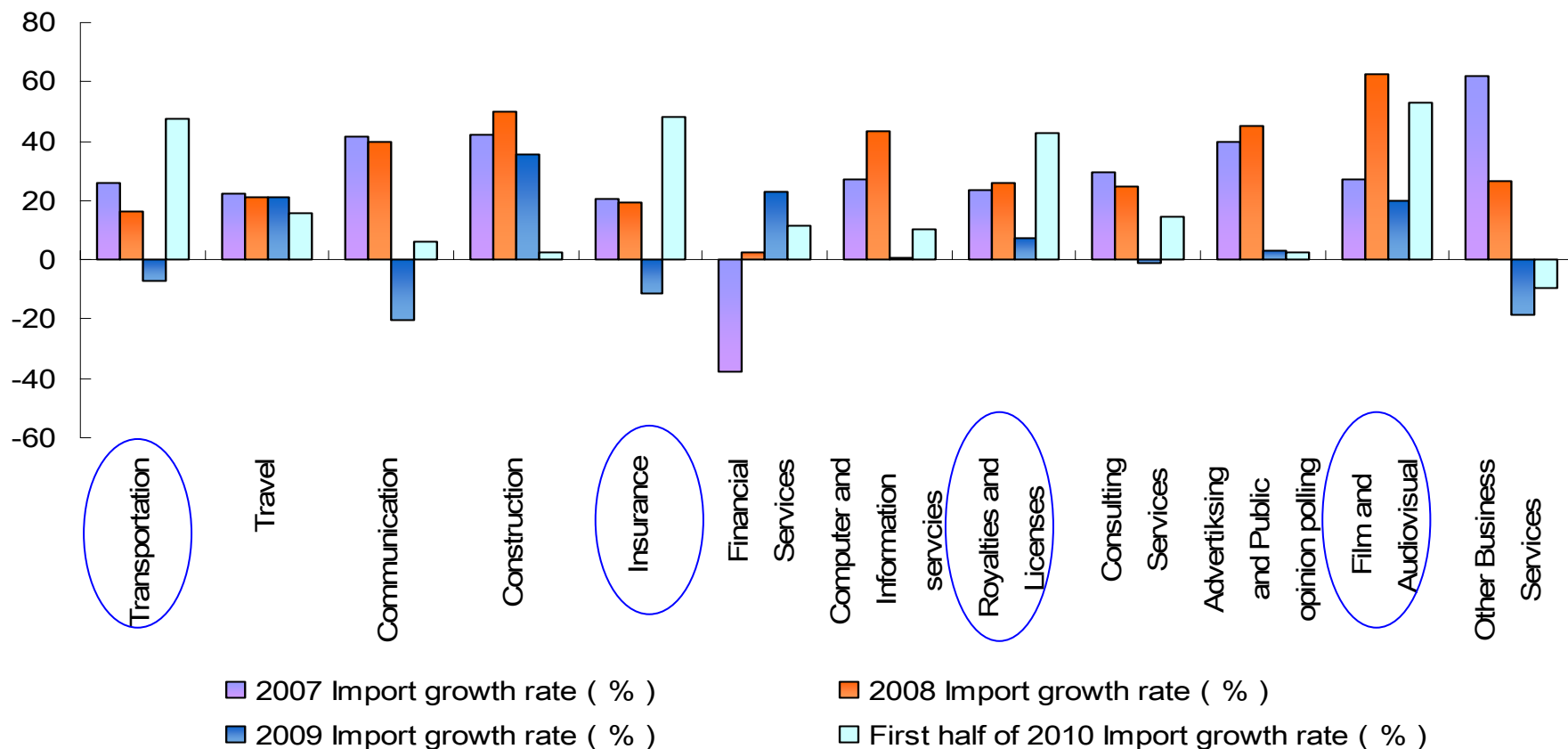
Source: MOC, P.R. China; SAFE, P.R. China

Figure 11. China services Exports by Sectors: Growth Rate (%)



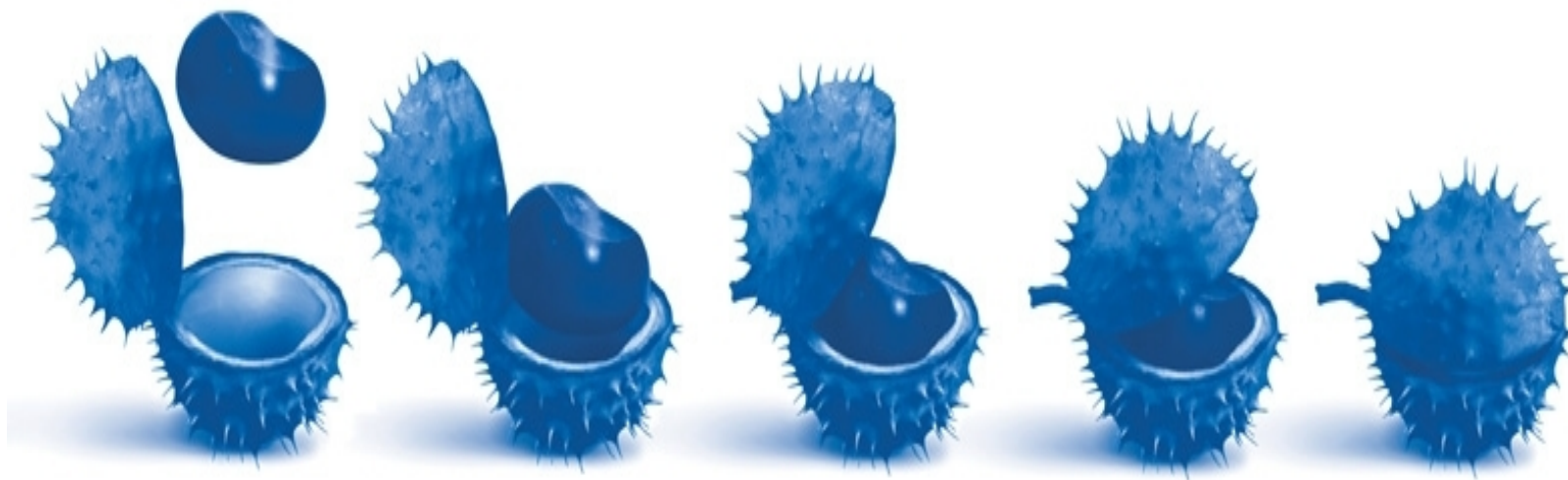
Source: MOC, P.R. China; SAFE, P.R. China

Figure 12. China services Imports by Sectors: Growth Rate (%)



Source: MOC, P.R. China; SAFE, P.R. China

- **3. China's pre-crisis Services Trade Policy: WTO GATS commitments and China's fulfilment**



China's Services schedule

- high sectoral coverage :
 - China's service industry is opened to a level close to that in the developed countries
 - covering 10 out of the 12 major GATS service categories
 - covering 100 out of the 160 minor categories.
- commitments in key sectors
 - China has made specific commitments on 93 sub service sectors.
 - Among 26 basic groups of service sectors, China made 22 commitments except R&D, postal services, health and social services and recreational services.
- certain “horizontal” commitments
 - market access
 - national treatment

China's implementation of the GATS commitments

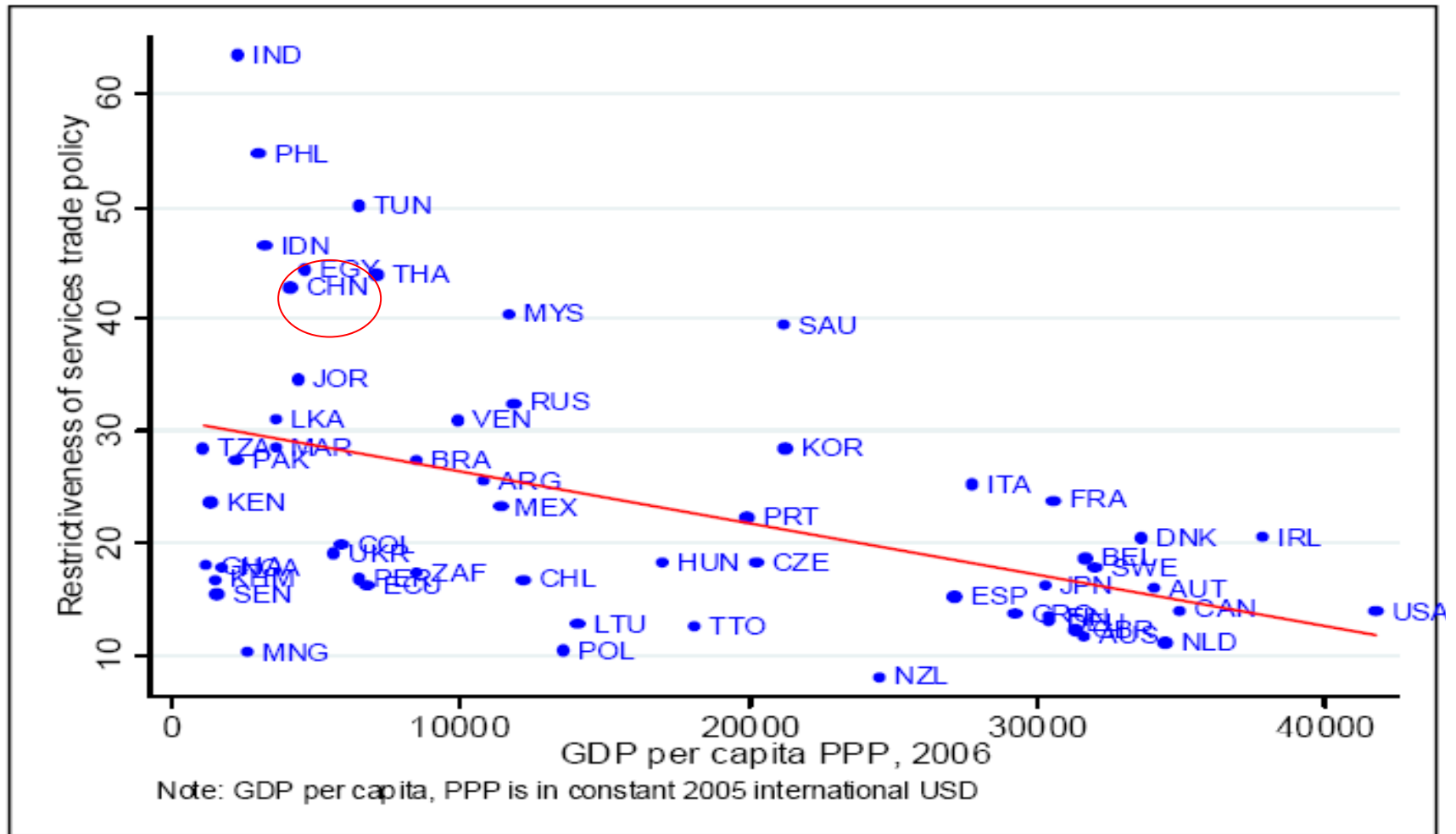
- China had been liberalizing its services sectors closely in line with its commitments under the GATS.
- The relevant legislations are also being operated consistent with the WTO rules.
- China had made efforts to comply with its WTO obligations, pursuing substantial reform programmes, in both its trade and investment regimes.

Measuring China's service policy by STRTI

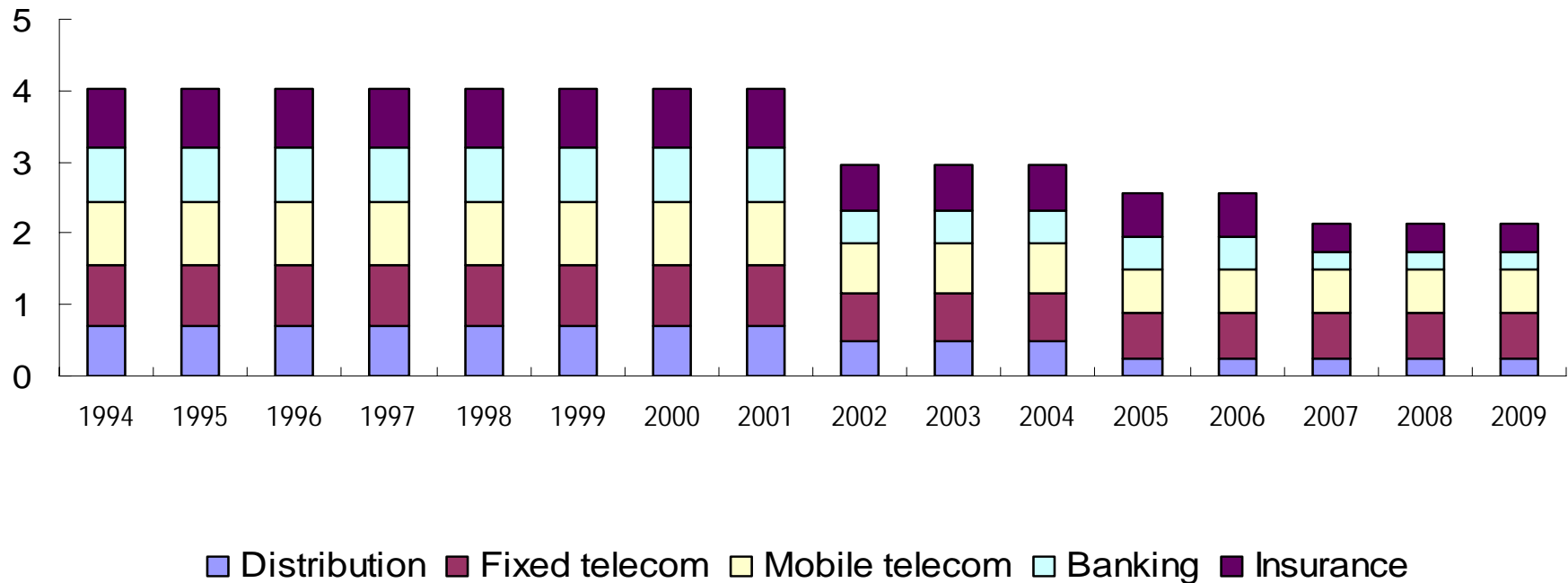
- Services Trade Restrictiveness Index
- The STRI can help identify which services sectors and which policy measures restrict trade. The STRI can also help governments identify best practice and then focus their reform efforts on priority sectors and measures.

Restrictiveness of Services Trade Policies of 56 Countries, 2005

Source: Gootiiz and Mattoo (2009)



China's Service Trade Restrictiveness Index— by sectors 1994--2009



Source: Ying FAN (2009) China's Services Policy --- Pre- and Post-WTO Accession

- **4. China's post-crisis Services Trade Policy: Challenges, Opportunities and possible direction**



Policies adopted by Chinese Government in services sectors to respond to global financial crisis

- 4 trillion RMB (\$586 billion) stimulus package (equivalent to 13.3% of China's 2008 GDP) provided stimulus to services sectors including public transport infrastructure, rural infrastructure, environmental projects, technological innovation, health and education.
- Central Government has been delegating to local governments licensing authority for the establishment and modification of operations of "encouraged" foreign-invested enterprises (FIEs) and certain selected sectors, as well as certain types of FIEs, such as foreign invested joint-stock companies.

Policies adopted by Chinese Government in services sectors to respond to global financial crisis

- relaxed FDI restrictions on some services sectors, notably in telecommunication and tourism
- Changes in travel agency regulation allowing foreign-invested travel agencies (already established in China) to open local branches

Policies adopted by Chinese Government in services sectors to respond to global financial crisis

- China's central bank took loose monetary policy and provided directives to commercial banks for provide financing and funding to help firms invest overseas, including OFDI in services sectors.
- China has continued to review, revise, or amend its trade and related laws including the Anti-Monopoly Law (effective 1 August 2008), China's first comprehensive competition law and the Patent Law (effective 1 October 2009), which strengthened patent protection by increasing penalties against infringement.

Policies adopted by Chinese Government in services sectors to respond to global financial crisis

- China has also reformed its tax system to render it more neutral; in particular, this involved the unification of enterprise income tax rates for all companies (domestic and foreign), and the transformation of VAT from a production-based tax to a consumption-based one.

Current Issues with China's Services Policy

- ***Postal Law***, approved on 24 April 2009, confirming the bans (already included in the ***1986 Postal Law***) on foreign courier companies from delivering express letters as of 1 October 2009, although they can still deliver express parcels and deliver letters internationally

Current Issues with China's Services Policy

- Circular from the Ministry of Industry and Information Technology regulating its government procurement activities, under which it restates the practice of giving priority to domestic products, projects and services (provided for in the 2002 Law on Government Procurement)
- The Chinese National Development and Reform Commission issued a notice jointly with 8 other ministries and agencies restating provisions in existing laws including the 2002 law on government procurement concerning government procurement of domestic products and services.

Current Issues with China's Services Policy

- Trade Disputes on Services
- Among 22 cases citing GATS in the request for WTO consultations, there are 6 cases are against China.

China-related Trade Disputes on Services source:WTO

<i>NO.</i>	<i>Date of Request for Consultations</i>	<i>Respondent</i>	<i>Complainant</i>	<i>Agreements cited</i>
DS413	15 September 2010	China — Certain Measures Affecting Electronic Payment Services	United States of America	Services (GATS): Art. XVI, XVII
DS378	20 June 2008	China — Measures Affecting Financial Information Services and Foreign Financial Information Suppliers	Canada	Protocol of Accession: Part I, para. 1.2 Services (GATS): Art. XVI, XVII, XVIII
DS373	3 March 2008	China — Measures Affecting Financial Information Services and Foreign Financial Information Suppliers	United States of America	Protocol of Accession: Part I, para. 1.2 Services (GATS): Art. XVI, XVII, XVIII
DS372	3 March 2008	China — Measures Affecting Financial Information Services and Foreign Financial Information Suppliers	European Communities	Intellectual Property (TRIPS): Art. 39.2 Services (GATS): Art. XVI:2(a), XVI:2(e), XVII, XVIII
DS363	10 April 2007	China — Measures Affecting Trading Rights and Distribution Services for Certain Publications and Audiovisual Entertainment Products	United States of America	Protocol of Accession: Part I, para. 1.2, Part I, para. 5.1, Part I, para. 5.2 Services (GATS): Art. XVI, XVII GATT 1994: Art. III: 4, XI:1
DS309	18 March 2004	China — Value-Added Tax on Integrated Circuits	United States of America	Services (GATS): Art. XVII GATT 1994: Art. I, III

Opportunities of Services Trade with China post crisis

- **Transformation from “manufacturing industry-oriented economy” to “service – oriented economy” needs to further expand trade in services**
- **Big Potential of Services industry in China :Large domestic services market in China generated by China’s urbanization and industrialization**
- **Goal of becoming services trading power - Being a major beneficiary of world trade in services ;The potential benefits of further services liberalization for China**

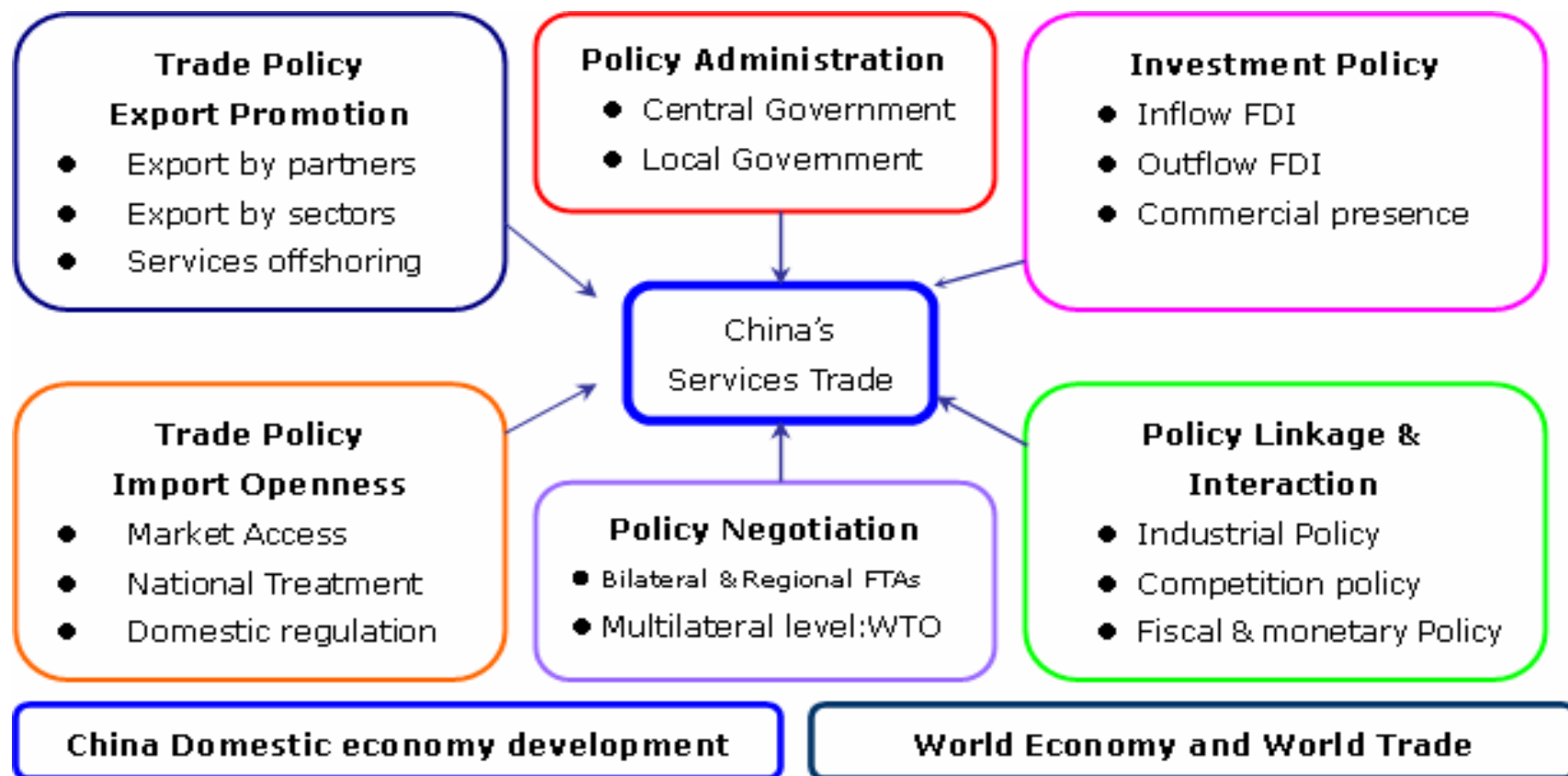
Challenges of Services Trade with China post crisis

- There still remain very substantial barriers to trade and investment in services and regulations impeding both domestic and foreign services suppliers in China.
- Opening services markets lead to long term gains but it is neither adjustment nor risk free in the short term.
- Incentives for Chinese governments may be weak when the relevant policies are under its own control.

Challenges of Services Trade with China post crisis

- The reform to pursue benefits across different policy areas in a complementary way and to foster synergies between policies in services is burdensome.
- How to harmonize the interest conflict in making services policies between the central government and local government is also puzzling.
- It is difficult for Chinese government to make appropriate policy mix in expanding services trade while achieving regulatory objectives efficiently.

Dimensions of China's Services Trade Policy



Possible Directions for China's Services Policy Reform

- Effective Policy system linkage in services should be established
- Trade Promotion Policy Reform to Expand Exports of Services by Key Sectors
- Reducing Trade/Investment Barriers in services by Policy Mix
- Tax system reform aimed at strengthening services sector

Possible Directions for China's Services Policy Reform

- Competition Policy reform to provide equal opportunity for all services providers
- Financial Policy Reform for private and small & medium enterprises in services sector
- Negotiate Market Access for China services exports under GATS and GATS+ commitments
- Diminish the negative effects of trade liberalization in services by complementary policies reform

5. Conclusions



Conclusions-1

- China's services exports sector suffered the impact of global financial crisis. But the crisis did not change the overall pattern of China's trade in services both by sectors and by partners in the short run.
- China's economy has come at a turning point because of the global crisis but also because of the domestic tensions engendered by the export-led model. To have a sustainable growth China has to rebalance its economy towards the domestic market and services sector.

Conclusion-2

- Despite the ambitious services liberalization commitments that China agreed to when it joined the WTO, the implementation and enforcement remain not perfect in some fields. There is still a dominant presence of State-owned enterprises (SOEs) in the services sector, which constrains competitiveness and productivity. The high market concentration limits the entrance of new domestic and foreign players, thus reducing the benefits of enhanced competition and liberalization.

Conclusion-3

- The possible direction for China's policy reform in services should focus on strengthening the contribution of services trade to China's economic growth and removing the trade/investment barriers in services.
- Trade liberalization policy should be backed by other supportive action in other policy areas to complement the reform process. A comprehensive policy response is crucial for China.

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