

INTERNATIONAL SERVICES TRADE UNDER THE ECONOMIC CRISIS

Laura Cristina Maniu,
and Andreea Marin- Pantelescu*

Abstract

This paper presents the global evolution of trade in services compared with the one of goods in 2004-2011. The statistic numbers provided by WTO highlight the changes occurred during the economic crisis, in the hierarchy of the main exporters and importers of services.

The year 2009 represented an unfavourable period for international trade, but in the years 2010 and 2011 we can speak of a recovery, although the growth was slower in 2011 compared to the one in the previous year. In 2011, the growth rates of imports and exports of goods were lower than in 2010 (20% from 22% for imports and 19% from 21% for exports). As for the international flows of services, the growth rate in 2011 was 11%.

Keywords: services, trade, economic crisis, globalisation, economy

JEL Classification: F14, F20

1. Introduction

The globalisation of production and the trend of liberalizing the trade of goods also extended on services. Financial and information flows have facilitated the economic integration and the political closeness of states, have homogenized consumption needs of individuals. The services flows created both the logistical support of internationalization of economics and the economic policy instruments used in international trade liberalization.

“The globalization efficiently implemented, as was the case of the successful development of a large part of Eastern Asia, can contribute to pushing forward both developing countries and the developed ones” said Joseph E. Stiglitz (2008), winner of Nobel prize for economics.

Information technology and awareness of the importance of efficient services, especially manufacturing, are elements that have equally influenced the development of the tertiary sector to a large extent, so now this is no longer perceived as a consequence, but as a prerequisite for economic growth and development (Braga, 1996).

Many countries now allow foreign investment in newly privatized and competitive markets for key infrastructure services such as energy, telecommunications and transport. More people are travelling abroad for tourism

* Laura Cristina Maniu is Lecturer of Service Economy at the Romanian American University, Bucharest. E-mail address: laura.maniu@gmail.com

Andreea Marin-Pantelescu is Lecturer of Service Economy at the Bucharest University of Economic Studies. E-mail address: marindeea@yahoo.com

consumption, education, health services and also to provide a variety of services, from construction to software development. Thus, services represent the component of global economy which grows more and more rapidly, and trade and FDI (foreign direct investments) in services have recorded a higher growth than the trade of goods in previous years.

The demand for services has become more voluminous, more demanding, more informed, more homogeneous and more receptive to specialized companies' efforts to capitalize their offer and production capacities. All these have greatly contributed to expanding the range of services provided and speeding the pace of internationalization services transactions.

2. The impact of the economic crisis over the international services trade

Services contributes to more efficient use human resources material and financial needs of the population and society in general. It also stimulates growth, renewal and diversification of production of material goods and provide conditions for facilitating the distribution and consumption

Services that are customized by existing information can be enriched continuously so as to cover other needs of standard services, it is necessary to resort to some extent the action of outsourcing.

At the same time with increasing international trade, have emerged and have developed a number of tools to record their summary for a specified period. These tools are used by decision makers to develop trade policies, foreign policies, strategies and long-term financing, etc.. Balance of payments is the most important tool registration of claims and liabilities arising in the exchange of goods and services between one country and another due in a specified period (usually one year) and capital movements produced in the same period .

IMF defined ("Balance of Payments Manual", ed. 5th, 1994), the balance of payments is a statistical picture book as systematically recording all real flows, financial and monetary occurred among residents of an economy and the rest of the world during a period (usually one year). Are considered residents - domestic or foreign operators, natural or legal persons who live and operate normally and permanently in the country, including subsidiaries and branches of foreign companies. This category excludes embassies, consulates, international institutions and their representatives (included in non-residents). Basically, the difference between these two categories of operators envisages economic sense residence: the main center of interest or activity.

Individual categories of services are recorded in BOP: non-factor services balance of current operations (with international trade in goods), income from capital in two positions of the balance of capital movements (direct investments and other income from capital investments) , income from international labor migration heading remittances and government services in current transfers. Another aspect of international trade in services represents a slight decrease of the share of developed countries, with modest rates of growth in the share of developing countries and transition. According to the findings of James Hodge and H. Nordas, this is a result

of the liberalization of international trade in services. For developing countries the essential means of trading services is the mode 4 (presence of natural persons).

One reason for the existence of expensive and poor quality services in developing countries is relatively narrow market for these services. When supply is limited and demand is solvable, prices rise. Because there are few bidders, competition is limited and quality is poor.

There are always interrelated between market and goods market. Increase the volume of trade in goods, in recent years, spurred the trade in services.

The financial crisis will reduce export opportunities by reducing demand, especially for developing countries.

The size of exports with tradable services remains at a low level compared with the exports of goods.

In 2004 was recorded the highest growth rate of exports of goods (21.6%). Also, world exports with non-factor services experienced the highest growth rate in 2004 (20.8%). Over the next four years, the export of goods and tradable services exports experienced consistently from year to year.

Values for 2008 shows a slight increase in the volume of world exports (19.505 billion dollars), while the values for 2009 are declining, mainly due to lower volume of exports of goods.

**Table no. 1 The evolution of World Exports
of goods and services tradable 2004-2011**

Year	The world exports of good and services tradable (billion US \$)	World exports of goods (billions U.S. \$)	Growth rate over the previous year (%)	World exports of tradable services (billions U.S. \$)	Growth rate over the previous year (%)	The share of tradable services in total world exports (%)
2004	11429.9	9220	-	2209.9	-	19.3
2005	12958.4	10485	13.8	2473.4	12	19.1
2006	14890.9	12113	15.6	2777.9	12.4	18.7
2007	17241.5	13950	15.2	3291.5	18.5	19.1
2008	19505	15775	13.1	3730	13.4	19.12
2009	15528	12178	-22.8	3350	-10.1	27.51
2010	18901.4	15237.6	25.2	3663.8	9.4	19.38
2011	21349	17179	12.8	4170	13.9	19.53

Source: own calculations after World Trade Organization (WTO 2005-2012)

The year 2009 was a bad period for international trade, but in 2010 we can speak of a revival. Economic growth was more pronounced in the first half of the year and weakening in the second half of the year, when it was restricted mainly to the European Union because of the sovereign debt crisis that affected smaller euro area economies. However trade expansion was not maintained in 2010 and the following year due to the adverse impact of economic and financial crisis. International trade growth slowed considerably.

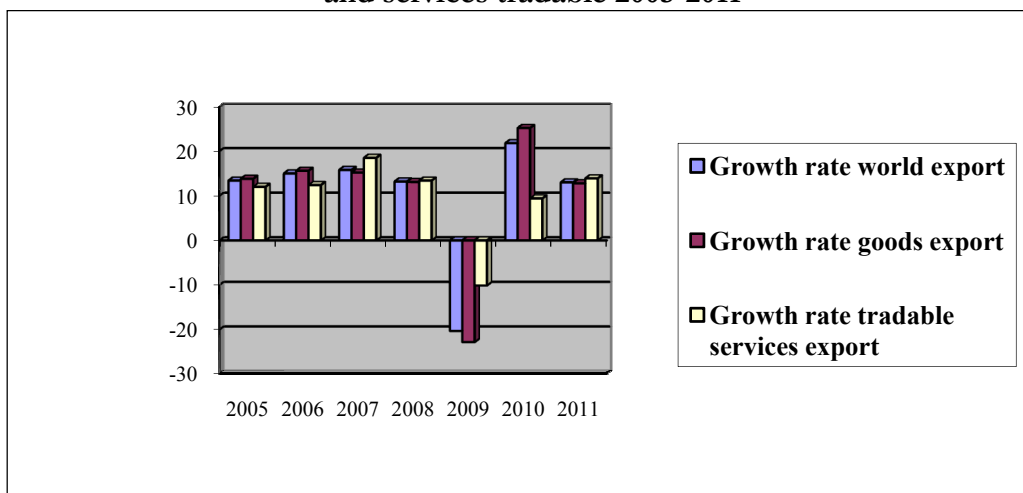
World exports of services totaled U.S. \$ 4.170 billion in 2011, representing a growth rate of 11% over the previous year. This increase over the previous year hide major differences in terms of growth rates in various regions and countries. In 2011, stands high growth rates for exports of services in CIS (19%: 15% transportation, 29% travel and 18% other services), Central and South America (13%: 15% transportation, 7% tourism and 17% other services), other regions of the world with growth rates approximately equal to the world average.

The evolution of international trade has been unequal during 2011, beeing marked by a succession of shocks, with what world economy faced. After the first trimester of 2011, they registered a very dynamic growth rate, international trade flows have been severely affected by the accelerated deterioration of global economic conditions, starting from the second half of the year 2011.

Services have kept unchanged the share of total trade in goods and services worldwide (of 20.22% in average of years 2004-2011).

In most regions of the world, the dynamic service flows exceeded the world average both exports and imports, except South America, Central America and Asia, where imports increased with 23% and 20% respectively. An impressive growth of services exports were recorded also Asia, thanks to China, whose exports of services increased (in 2010, the growth rate was 7.1% for export and 23.5% for import).

Chart 1: The evolution of world exports of goods and services tradable 2005-2011



From the beginning of 2004 until 2006, the growth rate of imports of goods and the service was quite slow, as in 2010 to reach the maximum of 21.4% for goods, and for services, 17, 8%. Imports has increased in countries in developing, representing the motor of recovery in external demand, contributing with 50% to the increase of global trade in 2010-2011, compared with 43% in average for the years 2004-2007, which preceded the crisis. During the economic crisis, imports of services in 2011 increased over the previous year from \$ 3510 billion to \$ 3955 billion dollars. Regarding the share of tradable services in total of world imports, it is also increasing in the past two years.

The year 2011, highlights a number of changes in terms of the growth rates of imports by regions and countries, distinguishing Central and South America (18%), CIS (19%), Brazil (22%), Switzerland (19 %), Russian Federation (23%) and China (23%). We can not overlook the dramatic decrease of exports and imports of tradable services in Asia compared with 2010 (from 23% to 11% for exports and 21% to 14% for imports), due to disturbances caused by the earthquake in global production networks and tsunami in Japan.

Table 3: Evolution of world imports of tradable goods and services in period 2004-2011

Year	World imports of tradable goods and services (\$billions SUA)	World imports of goods (\$billions SUA)	Growth rate comparing last year (%)	World imports of tradable services (mld.\$ SUA)	Growth rate comparing last year (%)	The share of tradable services in total world imports (%)
2004	11686,1	9569	-	2117,1	-	18,1
2005	13207,8	10857	13,5	2350,8	11,04	17,8
2006	15048,1	12428	14,5	2620,1	11,5	17,4
2007	17329,9	14244	14,6	3085,9	17,8	17,8
2008	19617,16	16127,16	13,3	3490	13,1	17,8
2009	15566	12421	-2,9	3145	-9,8	20,21
2010	18586,52	15076,52	21,4	3510	11,6	18,89
2011	19032	15077	0	3955	12,7	20,78

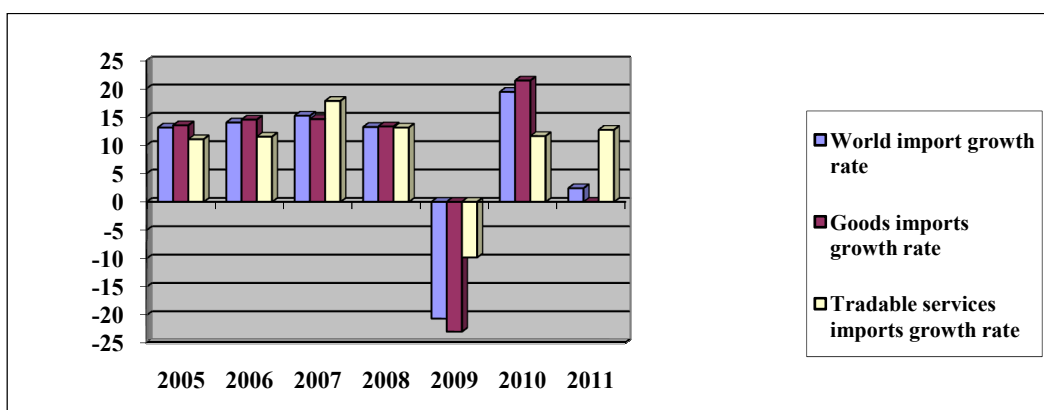
Source: own calculations on WTO - International Trade Statistics 2012

U.S. remains the most competitive country in the market of services and is the leading exporter and importer of services worldwide. In 2010, U.S. exports commercial services that worthed \$ 518 billion, representing 14% of world exports with services and imported services amounting to 358 billion dollars, a total of 10% from world imports of services. For the U.S. year 2011 was a benefic one in terms of trade in services, as exports increased in value (581 billion dollars), while imports of services reached \$ 395 billion. For 2011, the U.S. has the highest trade surplus in services worldwide of \$ 186 billion. United Kingdom took the place of Germany in

2011 in the top of the largest exporters of services, after the U.S.. The greatest contribution to British exports of services have the financial services and other business services category. China is the fourth in 2011, that has recorded a deficit of 55 billion dollars services.

The following positions among the largest exporters of services are occupied by France (4%), Japan (3.4%), Spain (3.4%) and India (3.3). India has managed in the last years to increase the volume of exports significantly (from 89.7 billion dollars to 137 billion dollars), and the balance of services is positive (13 billion dollars).

Chart 2: World imports of goods and tradable services evolution between 2005-2011



In 2011 there were some changes in the hierarchy of the main importers of services, but we might say not essential. First place was held by the U.S., followed by Germany (\$ 289 billion), China (\$ 237 billion), the UK (\$ 170 billion), Japan (\$ 166 billion), France (\$ 143 billion), India (\$ 124 billion) and the Netherlands (\$ 118 billion). As exporters, first 9 importers perform half (50.3%) of the purchases of services.

Table 4: Major exporters and importers of world trade in services in 2011

Position	Exporter	Val. (billion.\$)	Share (%)	Annual growth rate (%)	Position	Importer	Val. (billion.\$)	Share (%)	Annual growth rate (%)
1	USA	581	13,9	9	1	USA	395	10,0	7
2	UK	274	6,6	11	2	Germany	289	7,3	10
3	Germany	253	6,1	9	3	China	237	6,0	23
4	China	182	4,4	7	4	UK	170	4,3	6
5	France	167	4,0	15	5	Japan	166	4,2	7
6	Japan	142	3,4	3	6	France	143	3,6	9
7	Spain	140	3,4	14	7	India	124	3,1	7
8	India	137	3,3	11	8	Netherlands	118	3,0	12

9	Netherlands	134	3,2	16	9	Ireland	114	2,9	7
10	Singapore	129	3,1	15	10	Italy	114	2,9	5
11	Hong Kong, China	121	2,9	14	11	Singapore	114	2,9	18
12	Ireland	109	2,6	12	12	Canada	100	2,5	11
13	Italy	105	2,5	8	13	Rep.Coreea	98	2,5	3
14	Switzerland	94	2,3	15	14	Spain	93	2,4	8
15	Rep.Coreea	94	2,3	9	15	Russia	88	2,2	23

Source: WTO – *International Trade Statistics 2012*, p.30

Tradable services exports structure during 2007-2011 has not known significant changes. "Other services" were among the fastest growing components of trade in non-factor services. The share of this category in total exports increased from 51,2 in 2007 to 53,7% in 2011. This category includes beside buildings a range of services such as training, communications, personal services, entertainment and recreation, banking, insurance, etc. If we exclude trade in services conducted within the European Union and consider it a single entity, UE- 27 is the leading exporter and importer of tradable services sold worldwide. The following exporters of "other services" in top are the U.S. (\$ 352.3 billion), India (\$ 101.5 billion), China (\$ 98.3 billion), Japan (\$ 93.1 billion) and Singapore (\$ 72.7 billion). In North America, Europe and Asia, "other services" contributed more than half in tradable services exports in 2011. The percentage of this category of exports of services in North America was 59.5%. Unlike the "other services", the share of tourism in total exports of tradable services decreased from 26% in 2007 to 25.6% in 2011. Macao and China (\$ 38.5 billion) held the fourth position in 2011 among the largest exporters of tourism, increasing by 39%, surpassing Australia. China held the third position among the largest importers of tourism (\$ 72.5 billion), representing the largest increase since 2011 (32%).

Travels totaled 47.3% of service exports of Africa, 44.3% of the Middle East and 36.3% of Central and South America. The percentage increase in the Middle East (36.1% in 2005) was due to the rapid growth in tourism. The transports share in total exports of services in the period decreased from 23.7% in 2008 to 20.6 in the last year of analysis, due to the close connection of this category of services and trade with goods that have stalled in the second half of 2011.

Table 2.: Tradable services structure (%)

Tradable services exports	2007	2008	2009	2010	2011
Total, of which:	100,0	100,0	100,0	100,0	100,0
Transports	22,8	23,7	20,9	21	20,6
Tourism (Travel)	26,0	25,1	26	25,2	25,6
Other services	51,2	51,1	53,1	53,7	53,7

Source: WTO- World Trade in Commercial Services by Category, 2008-2012

Transport services increased by 9% in 2011 (totaling \$ 860 billion) in export and by 13% in import (\$ 1100 billion). Major exporters of transport services in 2011 were U.S. (\$ 78.9 billion), Japan (\$ 38.4 billion), Singapore and Republic of Korea (\$ 37.1 billion). The most significant growth compared to previous year is recorded in India (32%). China and the Russian Federation recorded the highest growth in imports of transport services in 2011 (27%).

References

- P. Braga. 1996. *The Impact of the Internationalization of Services on Developing Countries*, World Bank, Washington
- Cristiana Cristureanu. 2004 *Invisible economy. International transactions in services*, All Beck Publishing, Bucharest
- Joseph E. Stiglitz. 2008 *Mechanisms of globalization*, Polirom Publishing, Iasi
- J. Hodge, H.Nordas. 1999. *Trade in Services: The Impact on Developing Countries*, Chr. Michelsen Institute Publishing, Bergen
- A. Ghibuțiu. 2012. *Trends in International Trade Developments in 2011 and Prospects for 2012-2013*, World Economy Conjuncture 2012, IEM Publishing, Bucharest
- A. Ghibuțiu. 2012. *International Trade Developments in 2010 and Prospects for 2011*, World Economy Conjuncture 2012, IEM Publishing, Bucharest
- WTO. 2012. *International Trade Statistics*
- Gabriela Cecilia Stanciulescu, Marian Florin Busuioc, Monica Nicoleta Neacsu. 2010. *How to implement an effective environmental management using the reverse supply chains*, Metalurgia International vol. XV (2010) special issue no. 3, pag 59, ISSN 1582-2214