Trade in Services and China's Accession Negotiation

Department of WTO Affairs, MOFCOM

Part II

Benefits/Impact of WTO Accession and Lessons Learned

Table: World exports of merchandise and commercial services, 2005-10 (Billion dollars and annual percentage change)

	value	Annual percentage change			
	2010	2008	2009	2010	2005-10
Merchandise	15,238	15	-22	22	8
Commercial services	3,665	13	-12	8	8
Transport	783	16	-23	14	7
Travel	936	10	-9	8	6
Other commercial services	1,945	13	-8	6	9
Source: WTO Secretariat.					

Leading Exporters and Importers in World Trade in Commercial Services

Appendix Table 5: **Leading exporters and importers in world trade in commercial services, 2010**
(Billion dollars and percentage)

Rank	Exporters	Value	Share	Annual percentage change	Rank	Importers	Value	Share	Annual percentage change
1	United States	515	14.1	8	1	United States	358	10.2	7
2	Germany	230	6.3	2	2	Germany	256	7.3	1
3	United Kingdom	227	6.2	0	3	China[a]	192	5.5	22
4	China[a]	170	4.6	32	4	United Kingdom	156	4.5	-1
5	France	140	3.8	-1	5	Japan	155	4.4	6
6	Japan	138	3.8	9	6	France	126	3.6	0
7	Spain	121	3.3	-1	7	India	117	3.3	...
8	Singapore	112	3.0	20	8	Netherlands	109	3.1	1
9	Netherlands	111	3.0	0	9	Italy	108	3.1	1
10	India	110	3.0	...	10	Ireland	106	3.0	2
11	Hong Kong, China	108	2.9	25	11	Singapore	96	2.7	21
12	Italy	97	2.6	3	12	Korea, Republic of	93	2.7	17
13	Ireland	95	2.6	3	13	Canada	89	2.6	15
14	Korea, Republic of	82	2.2	13	14	Spain	86	2.4	-1
15	Belgium	81	2.2	2	15	Belgium	76	2.2	4

Services trade: key for sustainable economic development (I)

- In 2010, world exports in services reached $ 3.7 trillion.

- In the past 20 years, world services trade has been growing more rapidly than merchandise trade.

- More than half of world FDI flows are in services. (Same case for today's China)

Services trade: key for sustainable economic development (II)

- Efficient services infrastructure contributes to rapid growth of manufacturing industries and provide high-speed “highways” for trade. Sectors such as telecommunication, financial, computer, logistics and professional services
- Travel and transport services are key to international economic integration.
- Inefficient and costly services infrastructure hampers overall economic growth.
- Services export creates a lot of job opportunities. The services sector is a major source of jobs and often represents a larger share of employment than that of GDP.
- Services sector contributes to clean GDP.

Why Joining WTO (I)
Gains from liberalization

1. More stable market conditions over business/election cycles
2. There would be **spill-over benefits from the required movement of capital and labour**." (World Bank, GEP 2002).
3. **Infrastructural services** ('producer services' or 'core services') such as telecom, finance and transport are crucial **determinants of overall economic efficiency and growth**.
4. More diversified, and better services

Why Joining WTO (II)
China's Gains from liberalization

- Chinese industry is growing rapidly in part because of strong imports of knowledge services, network services (transport, communication, and information technology) and financial services from developed economies.

- The increase in China's service sector imports after 2001 resulted in higher average labor productivity of 0.3 percent. This productivity increase equates to an increase in Chinese GDP of $6.5 billion.

- The growth in service sector trade and investment by 2015 will add up to 7 million jobs in China in relatively high-paying, high-productivity service industries.

Note: Oxford Economics estimates (2006)

Possible Losses

- Reduced scope for policy experiments
- Risk of premature / ill-specified commitments
- Reduced room to develop domestic services industry

Sectors with Commitments

- Professional services and other business services
- Communication Services and Audiovisual services
- Construction and Related Engineering Services
- Distribution services
- Educational services
- Environmental services
- Financial services
- Tourism and travel related services
- Transport services

Sectors with no commitments

- Health related and social services
- Recreational, cultural and sporting services
- Other services not included elsewhere

Openness of China’s services industry

- China has already made 100 Binding commitments in 160 sub-sectors in 9 of 12 sectors under the GATS
- The level of China’s openness in services industry is relatively high compared with other WTO members

Liberalization, not deregulation

- The objective of GATS is to liberalize trade, not deregulate services
- GATS recognizes the right to regulate to meet national policy objectives

Regulation becomes more and more important for improving the supervision capacity of the government

Right of regulation: GATT preamble

" Recognizing the right of members to regulate, and to introduce new regulations in order to meet national policy objectives and given asymmetries existing with respect to the degree of development of services regulations in different countries, the particular need of developing countries to exercise this right."

Capital requirement: a regulation issue or a market access issue?

China maintains capital requirements for banking, insurance, telecommunication and construction services, which are non-discriminative in nature and apply to both domestic and foreign service suppliers.

Competition policy

- Merge and Acquisition legislation
  (Green field investment)
- Anti - unfair competition legislation

Conclusion

1. With more foreign investments entering into service sectors than manufacturing in coming years, China's services industry will develop with higher speed.

2. We should spend more time on domestic regulation issues (enhancing regulatory capacity) while focusing on market access issue.