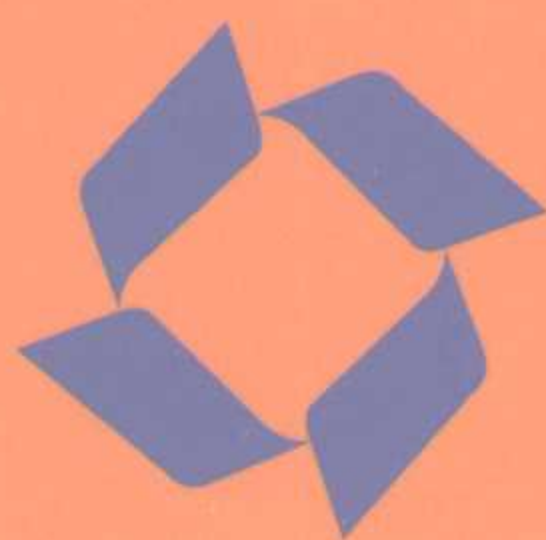


# **China Trade in Services Report 2006**

Ministry of Commerce of the People's Republic of China



China Commerce and Trade Press

# **China Trade in Services Report**

## **2006**

Ministry of Commerce of the People's Republic of China

**China Commerce and Trade Press**

图书在版编目 (CIP) 数据

2006 年中国服务贸易发展报告 = China Trade in Services Report 2006: 英文/中华人民共和国商务部

—北京: 中国商务出版社, 2007.1

ISBN 978 - 7 - 80181 - 646 - 7

I . 2... II. 中... III. 服务贸易—经济发展—研究报告—中国—2006—英文 IV . F752.68

中国版本图书馆 CIP 数据核字 (2007) 第 014401 号

---

**China Trade in Services Report 2006**

Ministry of Commerce of the People's Republic of China

中国商务出版社

(北京安定门外大街东后巷 28 号)

邮政编码: 100710

电话: 010—64269744 (编辑室)

010—64266119 (发行部)

010 - 64295501 (发行部)

Email: cfertph@caitec.org.cn

网址: www.cfertph.com

北京中商图出版物发行有限责任公司发行

北京千鹤印刷有限公司印刷

890 毫米 × 1240 毫米 16 开本

16.25 印张 420 千字

2007 年 1 月 第 1 版

2007 年 1 月 第 1 次印刷

印数: 1200 册

ISBN 978 - 7 - 80181 - 646 - 7

F·983

定价: 120.00 元

---

©版权所有 盗印必究

举报电话: (010) 64212247

**The Editorial Board of *China Trade  
in Services Report 2006***

**Director:** Yi Xiaozhun

**Editor-in-Chief:** Hu Jingyan

**Deputy Editor-in-Chief:** Shan Qingjiang

# Preface

Starting from the 1960s, the global service industry, fueled by the accelerating global industrial restructuring and the unprecedented economic globalization, headed for rapid development, gaining more importance in the world economy, and becoming the driving force and engine for the new round of global economic development. It is not only in the developed countries that the share of output value from the service industry has exceeded 70% in relation to the GDP, in the developing countries it is also up to 50%. As the service-based economy soars, countries are shifting the focus of international economic competition from trade in goods to trade in services. During the 25 years from 1980 to 2005, the world's export volume of services expanded from USD 365 billion to USD 2414.7 billion, an increase of 5.7 times, and its share in the world's total export volume rose from one seventh ( $1/7$ ) to nearly one fifth ( $1/5$ ). After the 1980s in particular, the emerging trade in services sectors started to lead our times, and the offshore service outsourcing has been on the rise. Trade in services is attracting increasingly more attention from the world, and its development has naturally become the focus of interest to all countries.

In the recent years, China made remarkable achievements in developing trade in services, which is a fact that is known to all. On the one hand, it closely kept pace with the developed countries in opening up its service industry, offering 10 out of the 12 major GATS service categories, covering 100 out of the 160 minor categories. At the moment, 100 trade in services sectors have been opened including the banking, insurance, securities, telecom and distribution services, accounting for 62.5% of the total number of trade in services sectors; on the other, trade in services hit record highs for years running, with the volume of China's cross-boarder trade in services rising quickly from USD 4.3 billion in 1982 to USD 157.1 billion in 2005, a rise of 35 times in the 23 years, and its share in the global trade in services expanded from 0.6% to 3.3%. China's world ranking in export of services rose from the 28<sup>th</sup> place in 1982 to the 8<sup>th</sup> place in 2005, and its world ranking in import of services climbed from the 40<sup>th</sup> place to the 7<sup>th</sup> place.

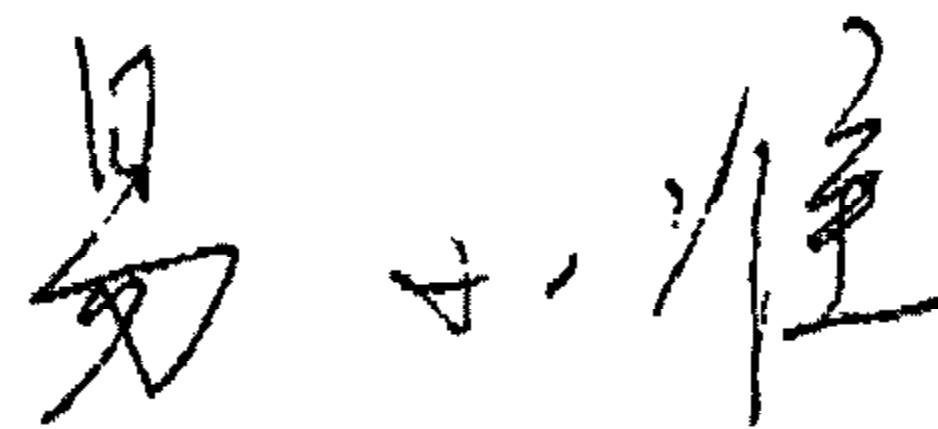
China's trade in services is facing a historical opportunity for development. Expanding the export of services will be of a far-reaching crucial significance to optimizing the export structure of China's foreign trade and promoting China's



industrial restructuring. For this reason, in the *Outline of the Eleventh Five-Year Program for National Economy and Social Development*, the Chinese government explicitly put forward the ambitious target of “attaining USD 400 billion worth of import and export of services by 2010”. At the moment, the Chinese government is working on a macro environment for accelerating the development of trade in services, a trade in services statistical system that is consistent with the international norms and a trade in services promotion mechanism that is compatible with the market economy, so as to ensure a quicker and healthier development of China’s trade in services.

In order to step up the research on the development strategy for China’s trade in services, thus facilitating a full range analysis and assessment in this regard, and to provide the authorities in charge of trade in services with a basis for making decisions scientifically, the Ministry of Commerce prepared the *China Trade in Services Report 2006* (Chinese and English versions) on the basis of the related statistics collected and processed. The *Report* consists of four parts, namely the Overview, the Feature Topics, the Sectors and the Data Sheets. The Overview Part gives a description of the development of China’s trade in services in retrospect and prospect; the Feature Topics provide a collection of essays by China’s authoritative experts in trade in services on key issues including trade in services statistics and service outsourcing; and the Sectors Part is focused on the international and domestic development conditions, regulatory policies, analysis of transactions and prospects of the key trade in services sectors.

In the future, the Ministry of Commerce of the P. R. China will compile and publish the *China Trade in Services Report* annually, and we hope by doing so, exchanges and cooperation between sectors and regions will be further enhanced, thus contributing to the quicker development of China’s trade in services.



Yi Xiaozhun

Vice-Minister of Commerce, the People’s Republic of China

December 2006

# Contents

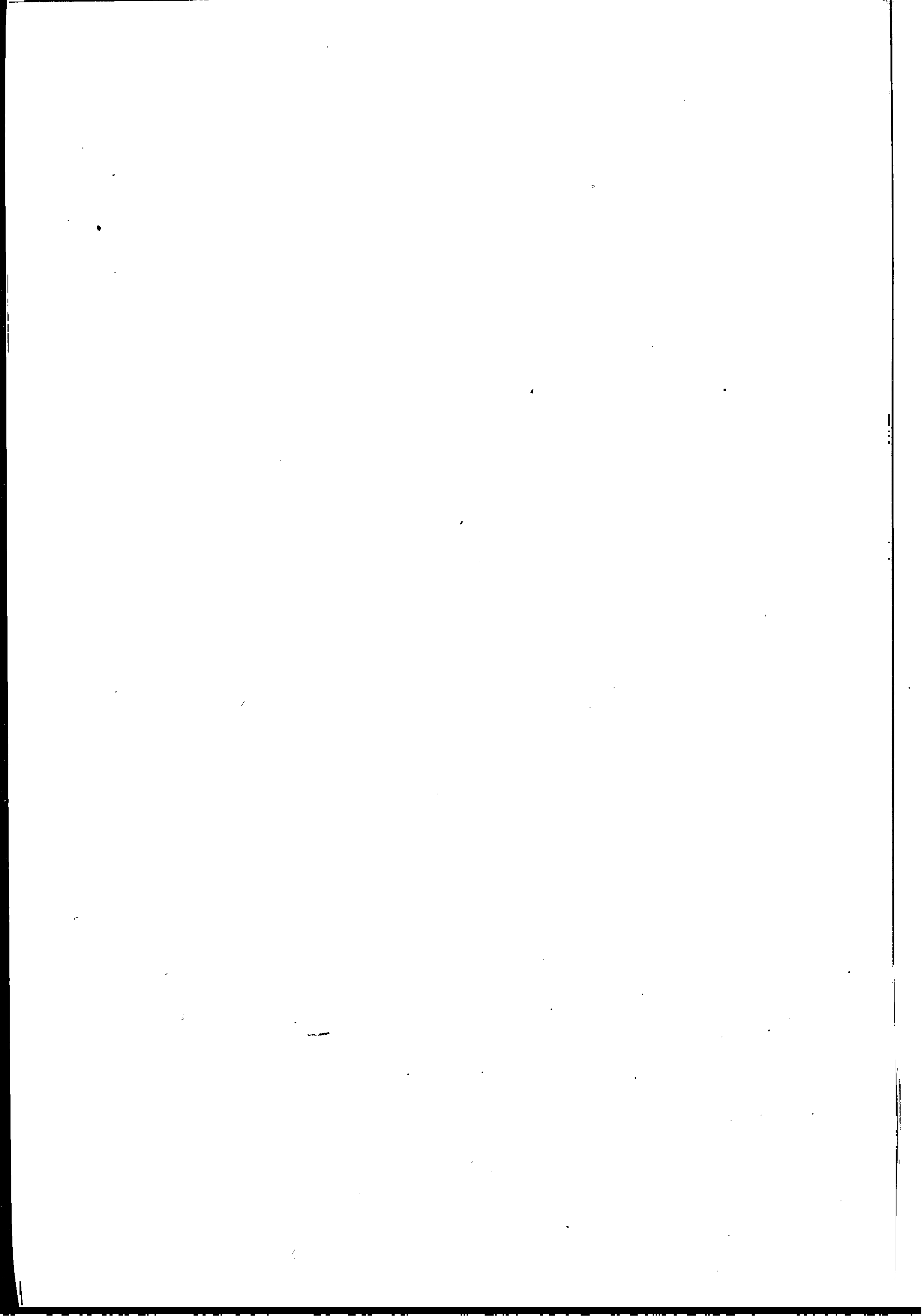
|             |  |
|-------------|--|
| □Preface    | ..... Yi Xiaozhun (1)  |
| □Part one   | <b>Overview</b>  |
|             | An Overview of China's Trade in Services ..... (3)   |
| □Part two   | <b>Feature Topics</b>  |
|             | Establishing a Full-Fledged Statistical System for China's Trade in Services<br>..... Research Team on China's International Trade in Services Statistics (41) |
|             | Trends and Features in the Development of the World Trade in Services<br>..... Chen Xian (49)  |
|             | On Ways to Expand China's Export of Services<br>..... Research Team on Measures for Expanding Services Export (56)   |
|             | China's Export of Services: Opportunities and Policies<br>..... Long Guoqiang (65)   |
|             | WTO Negotiations on Trade in Services and China in the 21 <sup>st</sup> Century<br>..... Zhang Xiangchen (76)  |
|             | Improving Technology Import Standard for Change of Pattern of Growth<br>in Foreign Trade ..... Hu Jingyan (85)   |
|             | Developing IT and Software Industry-Led Outsourcing in China<br>..... Zhu Xiaoming (98)  |
|             | Opening and Developing China's Distribution and Logistics Industries<br>..... Ding Junfa (105)   |
|             | Boosting Shanghai's Trade in Services and Promoting Regional Economic<br>Development ..... Zhou Bo (115)   |
| □Part three | <b>The Sectors</b>   |
|             | Transportation ..... (129)   |
|             | Travel ..... (141)   |
|             | Communication Services ..... (149)   |
|             | Construction Services ..... (161)  |
|             | Insurance Services ..... (169)   |

|            |  |       |
|------------|--|-------|
|            | Financial Services .....   | (179) |
|            | Computer and Information Services .....  | (188) |
|            | Royalties and License Fees .....   | (194) |
|            | Advertising Services .....   | (208) |
|            | Film and Audiovisual Services .....  | (214) |
|            | Education Services .....   | (223) |
| □Appendix  | <b>Data Sheets</b>   |       |
|            | World Trade of Commercial Services Between 1980 and 2005 .....   | (237) |
|            | World Trade of Commercial Services by Region and Selected Country,<br>2005 .....   | (238) |
|            | China's Services Imports and Exports Between 1982 and 2005 .....   | (239) |
|            | China's Services Exports Between 1997 and 2005 .....   | (240) |
|            | China's Services Imports Between 1997 and 2005 .....   | (242) |
|            | China's Services Trade Balances Between 1997 and 2005 .....  | (244) |
|            | China's Number of Laborers Overseas(Contracted Projects, Labor<br>Service and Design & Consultation)in 2005 by Country (Region)<br>.....                 | (245) |
|            | China's Number of Laborers Overseas(Contracted Projects, Labor<br>Service and Design & Consultation)in 2005 by Province and Municipality<br>(City) ..... | (246) |
| □Afterword | .....  | (247) |



# **Part One**

## **Overview**





## An Overview of China's Trade in Services

According to the scope defined by the *Manual on Statistics of International Trade in Services* released in 2002 by six international organizations including the United Nations, international trade in services includes those between residents and non-residents, by foreign affiliates and through presence of natural persons. The process in which one trading party provides services to another party and obtains incomes therefrom is called export of services or outward services, and the party buying services from others is known as importing services or having inward services. China's international trade in services as referred to in this Part includes service transactions between residents and non-residents as well as foreign affiliates trade in services, covering the four modes of supply defined by the WTO's *General Agreement on Trade in Services* (GATS): namely cross-boarder, consumption abroad, commercial presence and presence of natural persons.

### I. Development Trend of World's Trade in Services

#### (I) World Trade in Services Growing Fast

Starting from the 1960s, the global industrial restructuring has been accelerated, and economic globalization gained momentum, strongly boosting the global services industry, uplifting its position in the global economy. In 1990, the share of global services in global GDP broke through 60%, indicating that a global service-based economic pattern is in shape. By 2004, this ratio had risen further to 68%, of which, that for the developed countries rose from 65% to 72%, with that for the US as high as 77%, and that for the developing countries also rose from 45% to 52%.

As the service-based economy develops, the focus for global economic competition is shifting from trade in goods to trade in services. From 1980 through 2005, the world's export volume of services expanded from USD 365 billion to USD 2414.7 billion, increased by 5.7 times in 25 years, and its share in the world's total export volume rose from one seventh ( $1/7$ ) to nearly one fifth ( $1/5$ ). In the 1970s, the world's export of both services and goods kept growing quickly at approximately the same level of an average annual rate of 17.8%. Starting from the late 1980s, the growth rate of world trade in services became higher than that of trade in goods, at an average



annual rate of over 10% in the late 1980s. By the 1990s, the average growth rate of trade in services tended to decline to about 6%, so that it was again at about the same level as that of trade in goods. During this period the *General Agreement on Trade in Services* (GATS) of the “Uruguay Round” was finally signed in 1994, indicating the globalization of trade in services. Coming to the 21<sup>st</sup> Century, export of services started to grow steadily worldwide, with the growth rate recovering gradually, to exceed USD 2 trillion for the first time in 2004. During this period the average growth rate of the world’s trade in services was slightly lower than that of trade in goods. Although in 2005 the growth of trade in services was lower by 8 percentage points as compared with the 19% in 2004, a general tendency for growth was maintained (see Fig. 1—1).

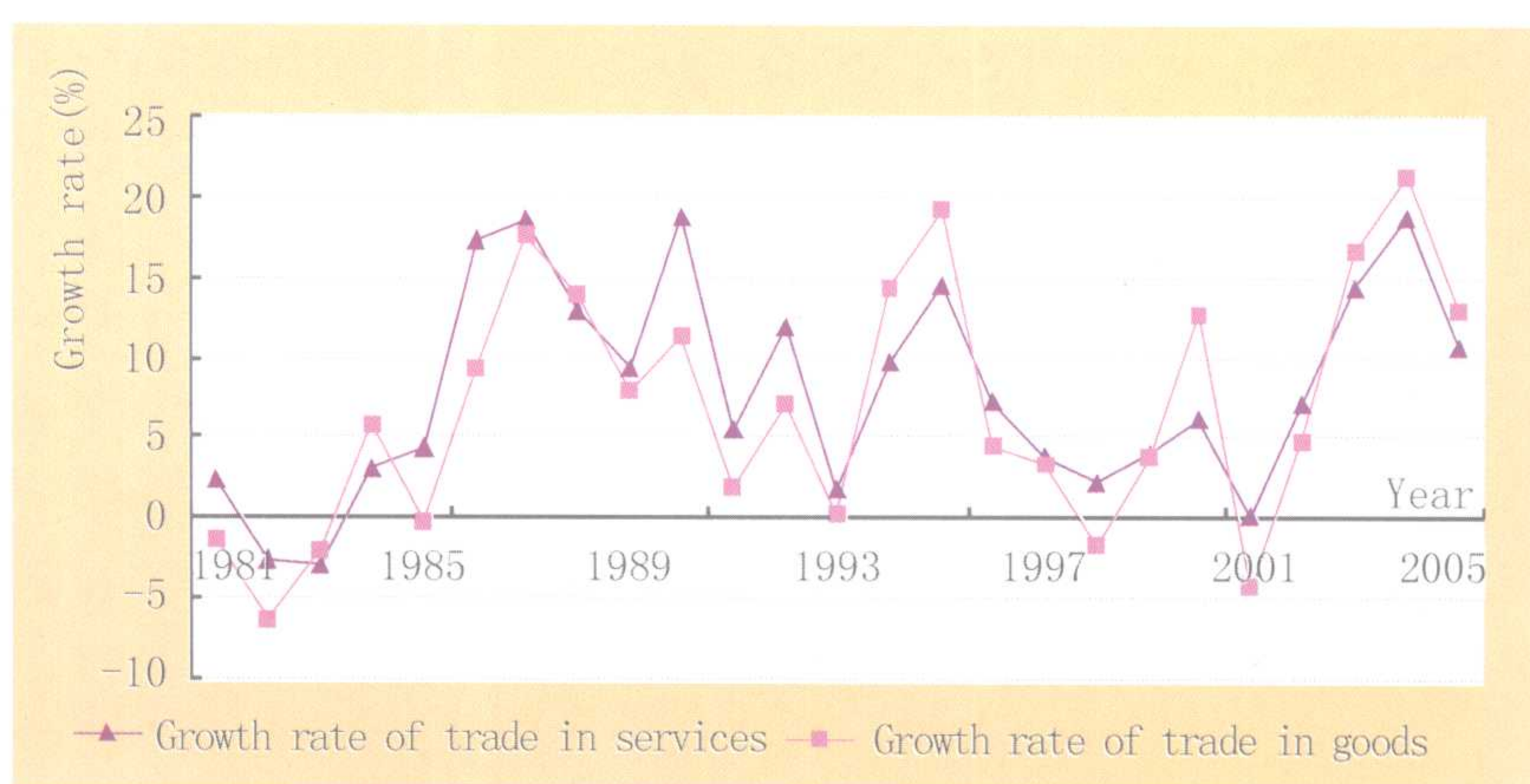


Figure 1—1 Comparison of the Growth Rate of World Services Exports and That of World Goods Exports Between 1981 and 2005

In the coming few years the world trade in services will continue to grow quickly. This is mainly attributable to the following reasons: the world economy will continue to grow steadily; the upgrading of the world industrial structure will further drive trade in services to grow fast, and the international industrial relocation will continue to speed up in large scale with the focus of relocation shifting quickly from manufacturing to services, of which services like financing, insurance, travel and consultancy as well as the technology-intensive sectors like information and electronics industries will be the key sectors for international industrial relocation; trade in goods will maintain its growth, and will directly bring about rapid growth in trade in services like transportation and insurance that are closely related to it; international investment will be more services-inclined, powerfully fueling the development of trade in services. In addition, the development of science and technology, the rise of new trading approaches like service outsourcing, and the progressive reduction of global and regional barriers to trade in services will contribute to the development of world trade in services as well.



## (II) Restructuring of Trade in Services Accelerated

Since the 1980s, the structure of world trade in services has changed considerably, inclining more to the emerging service sectors. The share of other service types represented by communications, computer and information services, financing, insurance, royalties and licensing rose from 37.5% in 1990 to 47.8% in 2005, and the traditional trade in services sectors like travel and transportation kept growing steadily, with their shares declining however. From 1990 through 2005, the share of transportation in world trade in services dropped from 28.6% to 23.3%, while that of travel services dropped from 33.9% to 28.9% (see Table 1—1).

**Table 1—1 Services Exports of Various Sectors and Their Shares in World**  
**Services Exports in USD Billion**

|                | 1980   |                | 1990   |                | 2000   |                | 2005   |                |
|----------------|--------|----------------|--------|----------------|--------|----------------|--------|----------------|
|                | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) |
| Transportation | 134.4  | 36.8           | 223.3  | 28.6           | 348.5  | 23.4           | 564.0  | 23.3           |
| Travel         | 103.5  | 28.4           | 264.8  | 33.9           | 477.8  | 32.0           | 698.0  | 28.9           |
| Others         | 127.1  | 34.8           | 292.4  | 37.5           | 665.9  | 44.6           | 1153.8 | 47.8           |
| Total          | 365.0  | 100.0          | 780.5  | 100.0          | 1492.2 | 100.0          | 2414.7 | 100.0          |

Source: IMF.

In the recent years, the development of global information technology enhanced the tradability of service activities and processes, and the emerging service sectors like communications, computer and information services and consultancy have been expanding. At the same time, similar to the large-scale call centers, database services and distance financial processing that appeared in the recent years, new service businesses are being created. The world trade in services is gradually turning from the traditional natural resources or intensive-labor based ones into modern trade in services that is knowledge and technology intensive. The focus of international competition in trade in services will be shifted to the emerging services sectors, and a series of emerging services that are typically electronic information technology-based and that are led by high technology will become the main supporting and driving force in the development of national economy of all countries (see Fig. 1—2).

## (III) Regional Imbalance in Trade in Services Remaining

The seriously imbalanced development of economy and service industry between countries has resulted in a huge disparity in the international trade in services standards



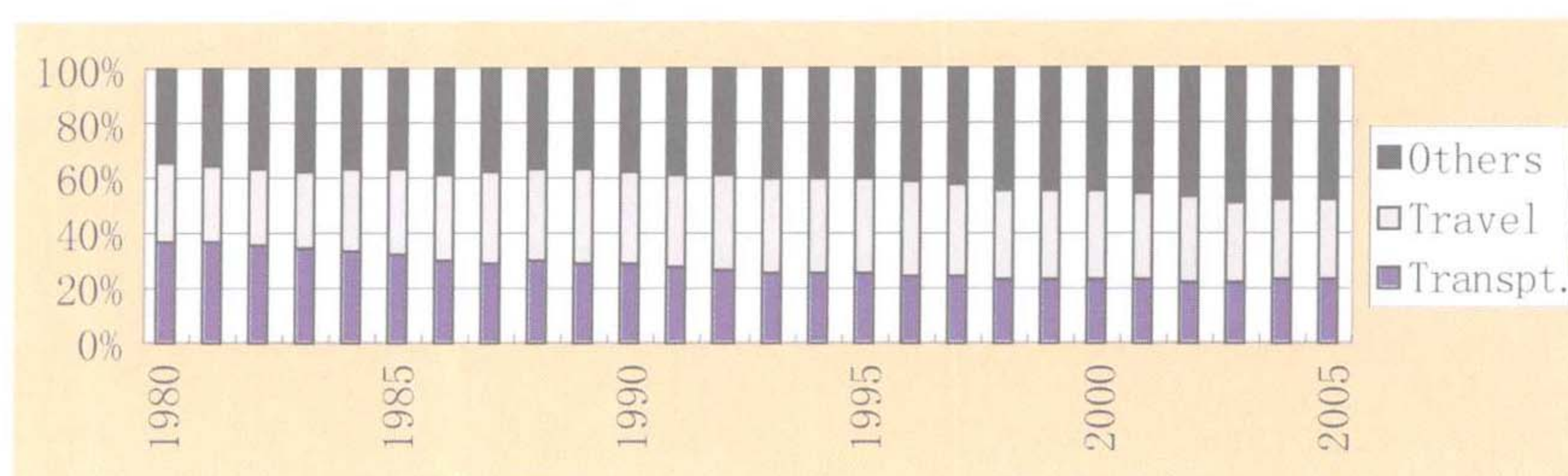


Figure 1—2 Structural Changes in Global Services Exports  
Between 1980 and 2005

and competitiveness in the international service market between them. Compared with the international trade in goods, the asymmetrical development of trade in services between regions and countries appears more striking. In the recent years, in spite of the fact the developing countries tended to rise in importance in the world trade in services, the developed countries however are remaining in the dominating position.

In terms of the total exports of services, the developed countries like the US and the UK are taking the leading position in the world trade in services. Since 1980, the US, the UK, Germany, France and Japan remained the top five exporters of services. In 2005, the total volume of service exports from these five countries accounted for 37.2% of the world's total export of services, among them the US took 14.6%, and the UK accounted for 7.6%. Among the top ten service exporters the only two developing countries were China and India. In 2005, the five countries (regions) with the largest trade surplus in services were the US, the UK, Hong Kong, Spain and Switzerland respectively, all of them developed regions, with the surplus being USD 64.6 billion, USD 33.2 billion, USD 28.7 billion, USD 25.9 billion and USD 19.9 billion respectively.

In terms of the total imports of services, in 2005, the US, Germany, the UK, Japan and France were the top five importers of services, maintaining the same ranking order as in 2004. In 2005, the five countries with the largest trade deficits in services were Germany, Japan, ROK, Russia and Ireland, with the deficit being USD 55.7 billion, USD 29.3 billion, USD 14.5 billion, USD 13.3 billion and USD 12.8 billion respectively (see Table 1—2, Fig. 1—3).

Table 1—2 Ranking of Major Services Import and Export  
Countries in the World in 2005 in USD Billion

| Export of services |              |         |        |                   |           | Export of goods |              |          |        |                   |           |
|--------------------|--------------|---------|--------|-------------------|-----------|-----------------|--------------|----------|--------|-------------------|-----------|
| Rank<br>2005       | Rank<br>2004 | Country | Amount | Percentage<br>(%) | Up<br>(%) | Rank<br>2005    | Rank<br>2004 | Country  | Amount | Percentage<br>(%) | Up<br>(%) |
| 1                  | (1)          | US      | 353.3  | 14.6              | 10        | 1               | (1)          | US       | 288.7  | 12.2              | 10        |
| 2                  | (2)          | UK      | 183.4  | 7.6               | —1        | 2               | (2)          | German y | 198.6  | 8.4               | 4         |



to be continued

| Export of services |              |             |        |                   |           | Export of goods |              |             |        |                   |           |
|--------------------|--------------|-------------|--------|-------------------|-----------|-----------------|--------------|-------------|--------|-------------------|-----------|
| Rank<br>2005       | Rank<br>2004 | Country     | Amount | Percentage<br>(%) | Up<br>(%) | Rank<br>2005    | Rank<br>2004 | Country     | Amount | Percentage<br>(%) | Up<br>(%) |
| 3                  | (3)          | Germany     | 142.9  | 5.9               | 7         | 3               | (3)          | UK          | 150.1  | 6.4               | 4         |
| 4                  | (4)          | France      | 113.7  | 4.7               | 4         | 4               | (4)          | Japan       | 135.9  | 5.8               | 1         |
| 5                  | (5)          | Japan       | 106.6  | 4.4               | 12        | 5               | (5)          | France      | 102.9  | 4.4               | 7         |
| 6                  | (7)          | Italy       | 93.4   | 3.9               | 13        | 6               | (6)          | Italy       | 92.3   | 3.9               | 15        |
| 7                  | (6)          | Spain       | 91.2   | 3.8               | 8         | 7               | (8)          | PRC         | 85.3   | 3.6               | 19        |
| 8                  | (9)          | PRC         | 81.2   | 3.4               | 30        | 8               | (7)          | Netherlands | 69.2   | 2.9               | 1         |
| 9                  | (8)          | Netherlands | 75.0   | 3.1               | 4         | 9               | (9)          | Ireland     | 67.5   | 2.9               | 5         |
| 10                 | (16)         | India       | 67.6   | 2.8               | ...       | 10              | (15)         | India       | 67.4   | 2.9               | ...       |
| World              |              |             | 2414.7 | 100.0             | 11        | World           |              |             | 2361.3 | 100.0             | 11        |

Notes: 1. Source: Express information released by the World Trade Organization in April 2006.

2. The 2005 data for PR China were estimated by the World Trade Organization Secretariat, based on the data for the first half of 2005 officially released by the Chinese government.

3. Since India extended the scope of statistics of trade in services in 2005, its rank rose to the tenth place in 2005 from the sixteenth place in 2004.

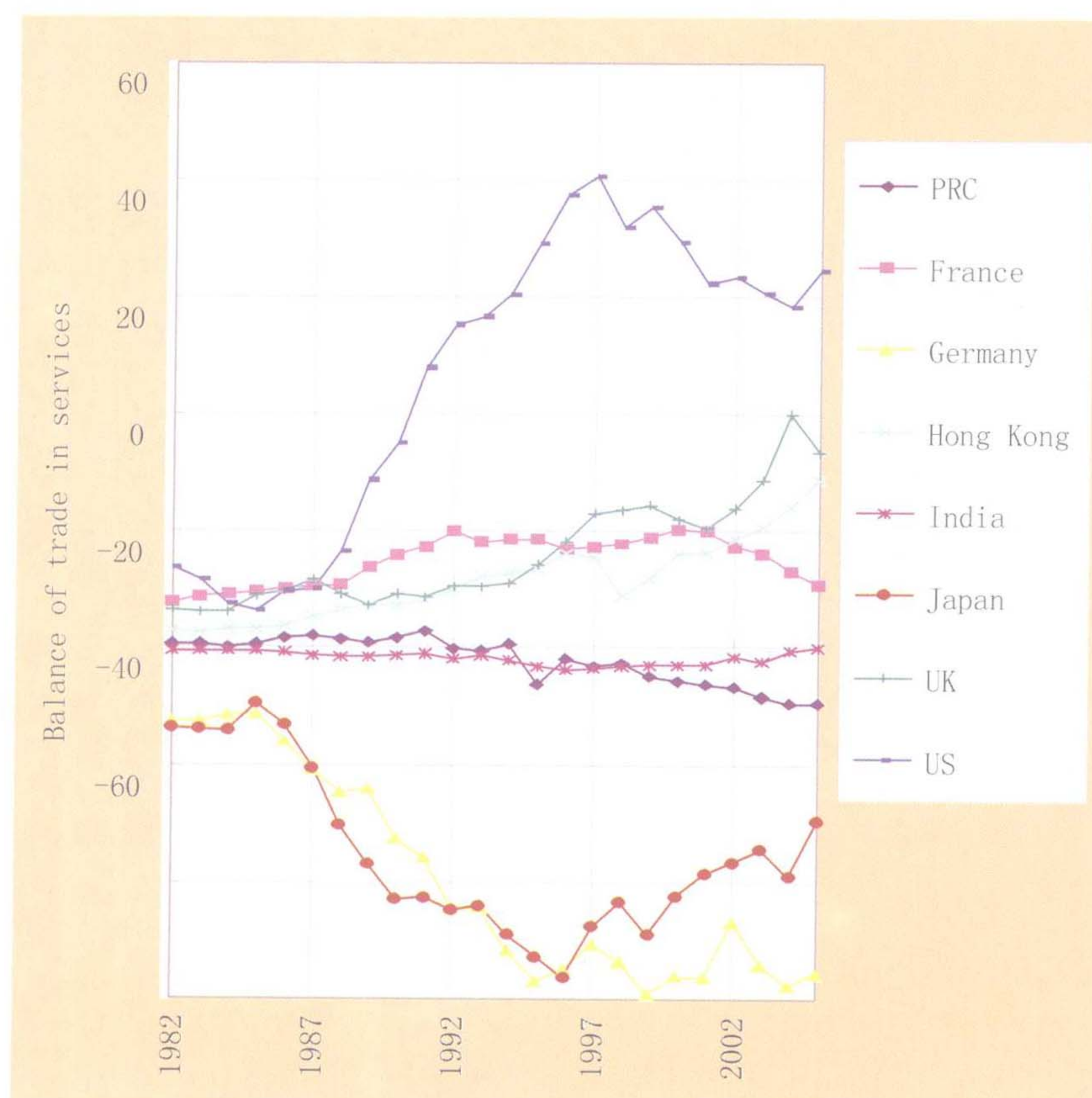


Figure 1—3 Services Trade Balances of Major Services Export Countries (Regions) in the World in USD Billion



At the moment, the vast majority of the developing countries have fully recognized the importance to their economies of seizing the new round of international industrial relocation, and are vigorously developing the service industry and trade in services based on their comparative advantages. Apart from maintaining certain advantages in traditional trade in services such as labor exporting, construction project contracting and travel services, the developing countries are increasing inputs into communications, computer and information services. By exploring geographical, manpower and policy advantages, they are active in undertaking outsourcing business from the developed countries. Worldwide, the developing countries are becoming more competitive in export of services. From 2000 through 2005, Asia, Africa and Central and South Americas had higher growth in export of services than in import, while in North America and Europe export of services grew slower than or at same pace as import.

#### **(IV) Service Outsourcing: New Form of Trade in Services**

In the recent years, the adjustment of strategies by the transnational companies and the soaring development in information technology like systems, network and storage techniques are turning service outsourcing, which consists of business process outsourcing (BPO) and information technology outsourcing (ITO) into an important form of trade in services, adding new vitality to the world economy. The world's developed countries and regions are the main sources letting out service outsourcing. In the global outsourcing spending, the US accounted for about two thirds (2/3), the EU and Japan accounted for nearly one third (1/3), while the other countries' share was smaller. The developing countries are the main undertakers of the service outsourcing business, among them Asia is the region that undertakes the most of the outsourcing business, accounting for about 45% of the global total. At the moment, India is Asia's outsourcing center. In as early as 2003, India became the world's No. 2 country in computer and information services exporting; Mexico is the outsourcing center for North America; East Europe and Ireland are the outsourcing centers for Europe; and China, the Philippines and Brazil are growing into regional or global centers for service outsourcing.

GE of the USA used to suggest that 70% of its outsourcing business would be on the offshore basis. Some of the transnational companies are already expanding the scope for outsourcing, indicating that the business concepts of transnational companies will further transform, and that the offshore outsourcing of non-core operations will become a general trend. Among the world's 1,000 largest companies, about 70% have not yet let out any business process to low cost countries, therefore there is huge potential for the service outsourcing market. According to the estimations by the United Nations Conference on Trade and Development, in 2007 the total value of global service



outsourcing will be up to USD 1.2 trillion.

#### **(V) Commercial Presence: Main Approach of Trade in Services**

The service products being intangible and non-storable, providing services in the consuming country by way of commercial presence helps the service provider to achieve mass production for economy of scale and lower costs and prices. Therefore, with the economic globalization accelerating, the worldwide industrial restructuring and relocation will further escalate, the transnational direct investment will increase at a rate faster than that of the world economy and trade in goods, and the focus for international industrial relocation will shift from manufacturing to services. Since the 1990s, more than half of the global FDI went to the service industry. By the end of 2005, service industry accounted for 60% of the world's total FDI capacity, or about two thirds (2/3) of the annual increased FDI flow. Services like financing, insurance, tourism and consultancy are the key sectors for international industrial relocation. Starting from the 1970s, the international trade in services created by foreign direct investment and realized by foreign commercial presence expanded quickly in scale to an extent that is beyond the cross-boarder approach in some developed countries. In imports, foreign affiliates trade in services within the United States outperformed cross-boarder trade in services in scale starting from 1990; in exports, the US overseas foreign affiliates trade in services started to overtake cross-boarder trade in services in scale starting from 1996. In 1995, the US inward and outward trade in services realized by commercial presence surpassed the cross-boarder trade in services for the first time in terms of its overall scale. In 2003, the services sales volume by foreign affiliates of US companies was up to USD 477 billion, while according to the US International Balance Sheet, the recorded export of services amounted to a mere USD 292 billion. Judging from this, the volume of US trade in services for 2003 realized by commercial presence alone would have been about 1.6 times of that reflected by the International Balance Sheet.

#### **(VI) Trade in Services: Focus of Development for All Countries**

As a result of the new round of world industrial restructuring and the advancement of trade liberalization, the importance of service industry and trade in services will continue to rise in the economy of all countries. Trade in services will tend to be more active in general, and countries are formulating strategies for speeding up its development. Taking advantage of their leading position in trade in services, the developed countries in Europe and America are requesting other countries to open up their markets for trade in services through various multi-lateral and bilateral negotiations, in order to expand export of services. Trade in services has been the main