Frontiers in Business, Economics and Management
ISSN: 2766-824X | Vol. 21, No. 1, 2025

The Current Situation and Countermeasures of China's Service Trade Exports

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Abstract: In recent years, China's service trade exports have continued to expand in scale and gradually optimize in structure, becoming an important force driving high-quality economic development. However, compared to developed countries, China's service trade still faces issues such as a large deficit, weak industrial foundation, unbalanced structure, and external challenges. Based on the latest data and policy context, this article analyzes the current development status and main challenges of Chin a's service trade exports, and proposes strategies such as accelerating the opening up of the service industry, focusing on the cultivation of high-quality talents in the service sector, and speeding up integration and participation in the restructuring of global service trade rules to enhance international competitiveness, improve the quality and efficiency of service trade, and provide references for achieving the goal of becoming a strong trading nation.

Keywords: Export of service trade; Current development status; Policy recommendations.

1. Introduction

As the world's largest developing country, China's service trade started relatively late, but since the 21st century, the Chinese government has placed great emphasis on service trade. Under the guidance of the 'High-Quality Development of Service Trade' strategy, relevant policies and laws have been introduced to lead the high-quality development of China's service trade exports. In the past twenty-four years, China's service trade has experienced rapid growth. Compared to when China joined the World Trade Organization in 2001, the total volume of imports and exports in 2023 is 11.9 times that of 2001, the share of global exports rose from 2.73% to 6.11%, while the total export volume is 9.72 times that of 2001, and the share of global exports increased from 2.72% to 4.81%.

China attaches great importance to the future development of service trade. The report of the 20th National Congress of the Communist Party clearly states that we should promote the optimization and upgrading of goods trade, innovate the development mechanism of service trade, develop digital trade, and accelerate the construction of a strong trading nation. In December 2023, the Central Economic Work Conference called for the expansion of service trade. The Third Plenary Session of the 20th Central Committee made systematic deployments for further comprehensive deepening of reforms, emphasizing innovation to enhance service trade, fully implementing a negative list for cross-border service trade, promoting comprehensive pilot demonstrations for the expansion of service sector openness, and encouraging professional service institutions to enhance their international service capabilities. Ferracane M, Marel E [1] show, in September 2024, the General Office of the State Council issued the 'Opinions on Promoting High-Quality Development of Service Trade through High-Level Opening Up,' indicating that service trade is an important component of international trade and a key area of international economic and trade cooperation, playing a significant role in constructing a new development pattern. Li Yu and Yuan Meng [2] show it is evident that China's service trade exports are receiving high attention and are developing well at this stage. However, the development of China's service trade also brings opportunities, while actively discovering and addressing potential challenges.

2. The Current Situation of China's Service Trade Exports

2.1. The Scale of Service Trade Has Expanded, But Weaknesses Are Prominent

Since 2013, China has been the world's second largest service importer for 11 consecutive years, serving as an export market for 210 countries and regions and a major export market for 60 countries and regions. China's service trade has made significant progress, most convincingly demonstrated by the noticeable growth rate of service trade and the rapid expansion in scale. In 2005, the total value of China's service trade imports and exports was $168.3 billion, which grew to $933.12 billion in 2023, an increase of nearly five times. Among this, service trade exports increased from $84.3 billion in 2005 to $552 billion in 2023, averaging a 31% annual growth. During this period, the pandemic had a certain impact on service trade. In 2020, due to the COVID-19 pandemic, the total value of China's service trade imports and exports fell by 16%, from $785 billion in 2019 to $661.72 billion in 2020. In 2021, as the pandemic improved, the total value of service trade imports and exports resumed growth, with both the total value and service trade export volume continuing to increase. The specific data is shown in Figure 1.

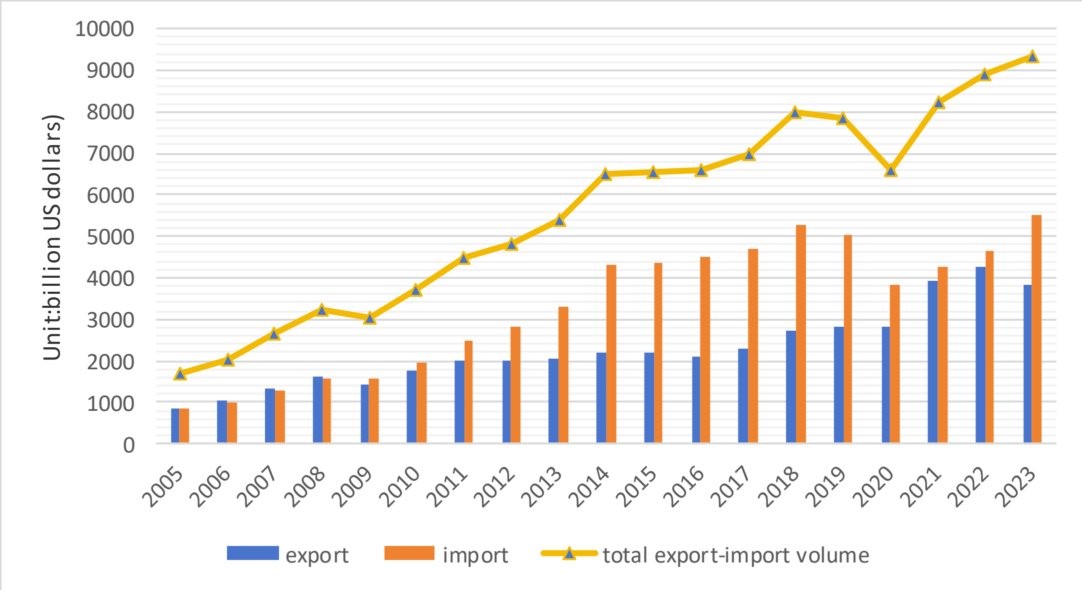

Figure 1. Total import and export volume of China's foreign services from 2005 to 2023 (Unit: billion USD)

In recent years, although China's service trade has developed rapidly and the trade scale has significantly expanded, there are still some obvious shortcomings. On one hand, China's service trade deficit has continued to widen. Before 2018, the service trade deficit maintained an expanding trend, and since 2019, the deficit has significantly narrowed. Statistically, in 2005, China's service trade had a surplus of 300 million dollars, officially entering a deficit phase in 2009, which has continued to expand, reaching a trough value in 2018 with a deficit of 253.5 billion dollars. From 2019 to 2022, the deficit value drastically reduced, with the deficit size shrinking to 40.9 billion dollars in 2022. In 2023-2024, the deficit value expanded to 170.9 billion dollars. Specific data is shown in Figure 3-2. On the other hand, the industrial foundation for service development is still relatively weak. In 2024, the added value of China's tertiary industry accounted for 56.7% of GDP, which is below the global average level, and significantly lower than that of developed Western countries.

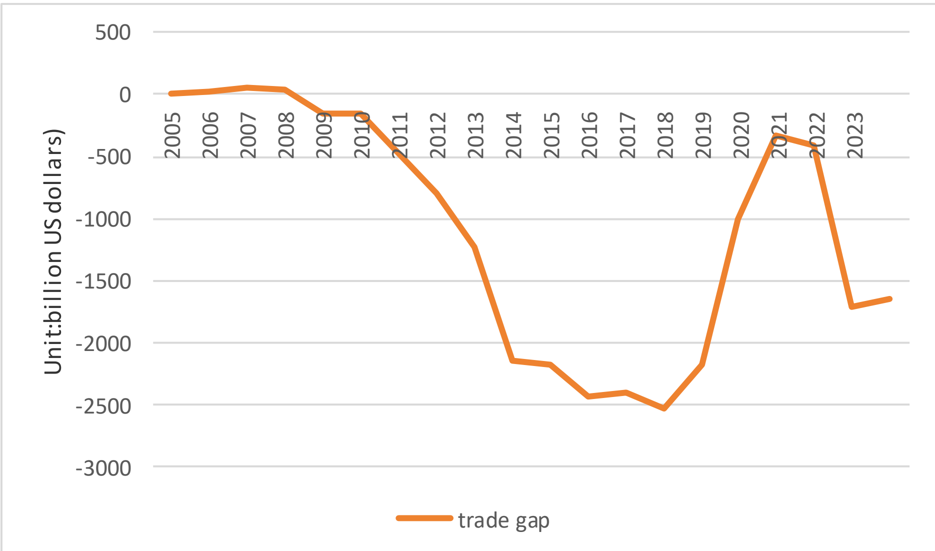

Figure 2. China's Foreign Service Trade Balance from 2005 to 2023 (Unit: billion USD)

2.2. The Trade Structure Has Been Optimized, But It Still Relies Mainly on Traditional Service Trade

In the classification of service trade, the "WTO-OECD-BaTIS" dataset jointly released by the WTO and OECD in January 2021 contains relatively complete data on the total scale of China's service trade exports and the export scale data of 12 different categories of service sectors. The "WTO-OECD-BaTIS" dataset divides service trade into 12 categories: manufacturing-related services, repair services (collectively referred to as goods-related services), transportation services, tourism services, construction services, insurance and pension services, financial services, intellectual property services, computer and information communication services, business services, personal cultural and entertainment services, and government services.

In view of the characteristics of various sectors of the national economy, this article focuses on the activities of the service industry and divides service trade into two main categories: traditional service trade and emerging service trade. Services related to manufacturing, maintenance services, transportation, travel, and construction services fall under traditional service trade, while the rest are classified as emerging service trade.

Table 1. BPM6 International Trade in Services Statistical Framework

Traditional service trade	Emerging service trade
Manufacturing service	Insurance and pension service
Maintenance service	Financial service
Transport service	Intellectual property service
Travel service	Communication and computer service
Construction service	Business service
	Personal cultural and entertainment service
	Government service

Ferencz J [3] shows, according to recent statistical data, in 2023, knowledge-intensive services accounted for 51.2% of the total service trade volume in China, an increase of 1.8 percentage points year-on-year, becoming the main driving force of China's service trade growth. Moreover, the total export volume of service trade is continuously growing, driven by emerging service trade. Around 2015, due to the significant increase in contributions from emerging service trade, the total volume exceeded 200 billion USD, with a subsequent acceleration in growth. It rose from 84.946 billion USD in 2005 to 314.662 billion USD in 2023, an increase of 2.7 times. Yeerken Alai and Deng Feng [4] show, the total export volume of traditional service trade generally showed a fluctuating upward trend, with moderate growth rates. After 2020, it saw a slight decline due to the impact of the pandemic. In contrast, the total export volume of emerging service trade exhibited rapid growth, significantly outpacing that of traditional service trade. Fulin Zhu [5] shows the export volume of emerging service trade accelerated after 2010, becoming a key force in driving China's service trade exports. Specific data is shown in Figure 3.

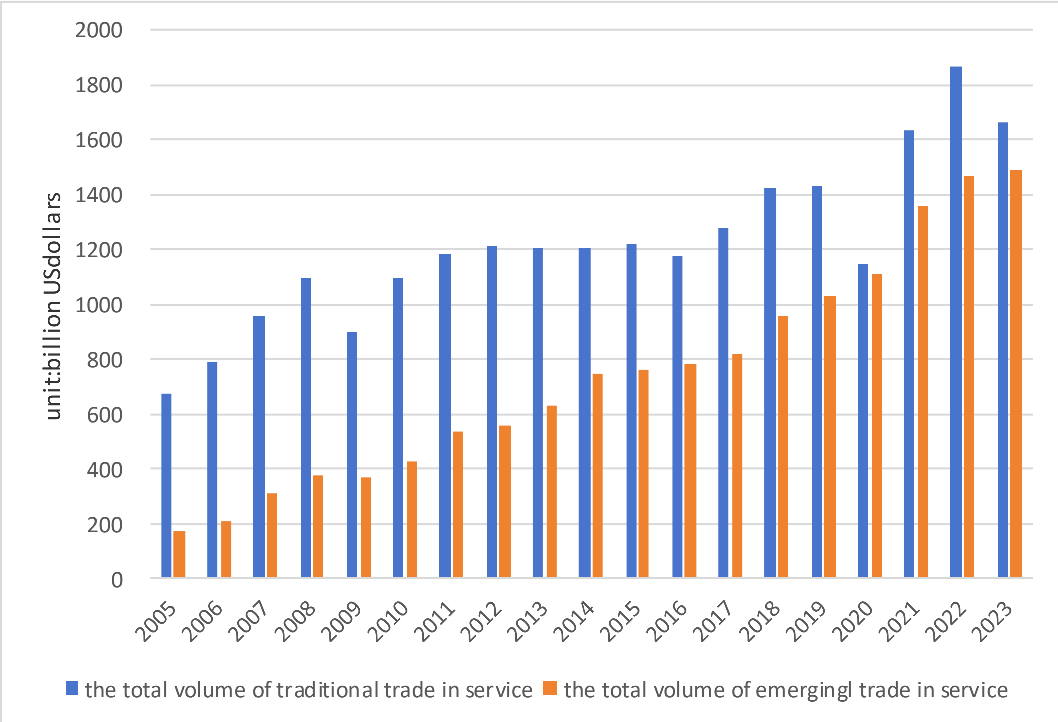

Figure 3. China's Service Trade Export Situation from 2005 to 2023 (Unit: billion USD)

However, the industries in which China's service export has a comparative advantage mainly focus on traditional service sectors. Yuting Zhu [6] shows the competitiveness of high-end software services, intellectual property-type exports, and digital service exports is still weak, and their proportion in service trade exports remains relatively low. In contrast, developed countries, such as the United States, have a significantly higher proportion of new service trade exports like intellectual property services and high-end software services compared to their traditional service trade exports. Liu X., Mattoo A. Wang Z. and Wei S. J. [7] show it is not difficult to see that although China's service trade scale ranks second globally, its position in the global service trade value chain is still relatively low, and it does not currently possess an advantage in international service trade competition.

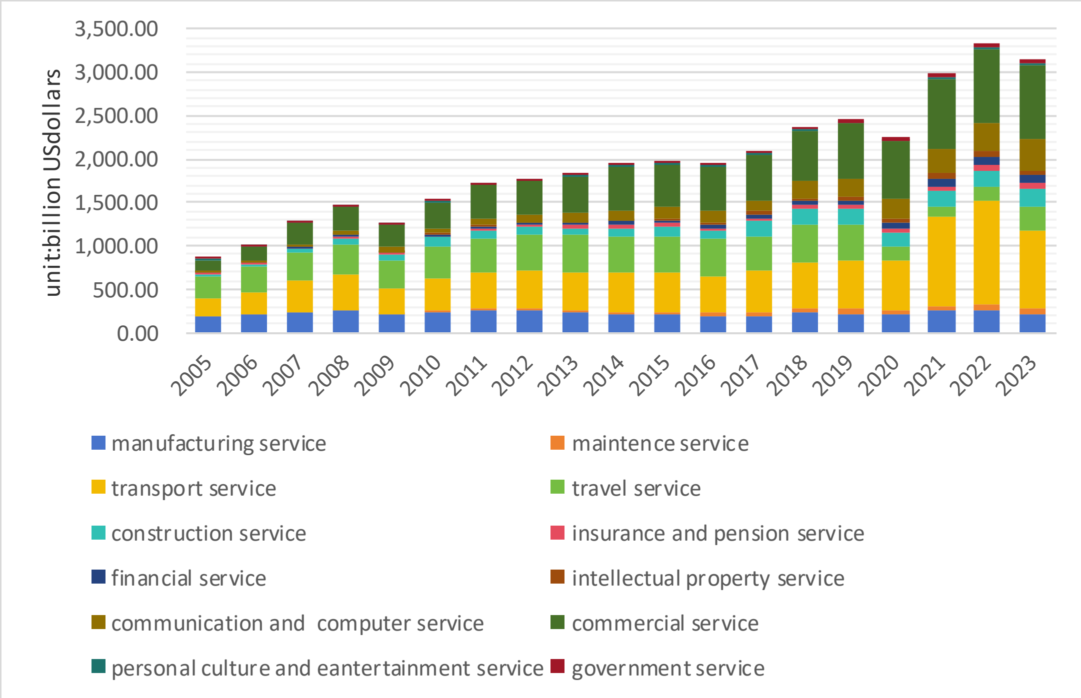

Figure 4. Structure of China's service trade exports from 2005 to 2023

2.3. The Development of Service Trade Faces External Challenges

The judgment made by the Central Committee of the Communist Party of China regarding unprecedented changes in a century is also applicable to the field of service trade, which faces many challenges. Firstly, there is the challenge of the restructuring of global trade rules. Since the global financial crisis in 2008, the process of globalization has been impacted, and the competition for restructuring trade rules has become increasingly intense. Kang C and Zhang H [8] show in 2018, the United States initiated trade friction with China, intensifying its pressure on China. Moreover, the U.S. intends to dominate the restructuring of global trade rules, establishing a global trade system that excludes China and Russia. Regional free trade agreements such as USMCA, TPP, and TTIP, which were led by the U.S., contain many clauses that target China. It can be imagined that once the U.S.-led restructured trade rules become the global trade rules, China's service trade will face an extremely adverse international trade environment, which will have a very detrimental impact on the development of China's service trade. Secondly, there is the challenge of trade protectionism. Roy M. Marchetti Ja [9] shows over the past 20 years, the rapid development of China's service trade has mainly been based on the global free trade system established under globalization and the WTO rules. However, in recent years, many Western developed countries have experienced varying degrees of anti-globalization trends. From the resurgence of manufacturing in the U.S., the U.K., and others after the global financial crisis, to the trade friction initiated by the U.S., and to various restrictions on free trade measures taken by many countries after the COVID-19 pandemic in 2020, the global free trade system has been severely impacted. After the outbreak of the Russia-Ukraine conflict, the U.S. and the EU have successively imposed sanctions on Russia, coupled with the major power game behind it, the difficulties facing the development of global free trade are becoming increasingly significant. The U.S.'s intent to exclude China and Russia from the global trade system has become more apparent. The rise of trade protectionism has made the development of China's service trade filled with uncertainty.

3. Countermeasures for the Export of China's Service Trade

3.1. Accelerate the Expansion of The Opening Up of The Service Industry

A fully competitive market is conducive to enhancing the competitiveness of the service industry. Efforts should be accelerated to expand opening up in the service sector, introduce competition, and promote high-quality development of service trade. On one hand, the roles of domestic free trade pilot zones and free trade ports should be utilized, accelerating the promotion of the negative list system for service trade and advancing the opening up of the service sector. Services such as finance, electricity, telecommunications, and healthcare are related to national economy and people's livelihoods, and expanding openness will always face significant risks; however, in the long run, openness is the only path to promoting high-quality development in these industries. Free trade pilot zones and free trade ports align with new international rules and standards for service trade, providing not only a buffering function but also summarizing and promoting open experience. It is important to encourage various free trade zones and ports to actively align with international rules, further open up the service market, and carry out risk pressure testing for service trade opening, which will provide beneficial experience for establishing an appropriate government governance system. The negative list system for service trade should be actively promoted, with increased exploration of commitment tables for service sectors under the negative list model, and encouragement for international cooperation in service trade. On the other hand, aligning with high standards of international free trade agreements, we should enhance the opening standards of China's service industry. Beverelli C and Fiorinimhoekman B [10] show we should actively promote the application to join CPTPP, focusing on expanding the level of service sector opening according to the CPTPP's requirements. At the same time, following the current trend of regionalization in international trade and economy, we should actively participate in discussions on service trade in G20 and APEC, and introduce higher standards for service trade in the upcoming free trade agreement negotiations, continuously improving the level of openness in China's service industry.

3.2. Focus on the Cultivation of High-Quality Talent in The Service Industry

The enhancement of China's international competitiveness in service trade necessitates a pool of high-quality talent with professional knowledge. To promote the transformation and upgrading of China's service trade, we must place great emphasis on cultivating talent in emerging service industries that have high added value. Gang Jin [11] shows by investing significant human resources, we can improve the ability to master, learn, and imitate reverse technology, enhance the efficiency of service trade, and optimize the export structure. First, it is crucial to increase investment in education. Compared to developed countries, China’s investment in education is not high. In particular, there is a shortage of high-end talent in the finance and insurance sectors. Changjie Xia [12] shows although most universities offer relevant programs, low investment in education has led to insufficient training efforts. Second, at this stage, it is most important to focus on education, ensuring the implementation of long-term compulsory education while also conducting targeted higher education training. During this period, we should gradually change the current status of China's single-minded exam-oriented education, improving comprehensive abilities while emphasizing academic performance. Lastly, salaries and benefits for researchers should be increased, and the research environment should be improved. González JL and Ferencz J [13] show currently, there is significant income disparity in China, and there is an urgent need for greater investment in research funds to enhance independent research and development capabilities and cultivate an innovation system.

3.3. Accelerate Integration and Participation in the Global Service Trade Rule Restructuring Game

The ongoing global service trade rule restructuring game is crucial for whether the future global service trade environment will be favorable to China. Bukht R and Heeks R [14] show in reality, the new international economic and trade rules led by developed countries such as the United States impose obvious restrictions on China, presenting a more complex environment for the future of China's service trade. Therefore, it is necessary to accelerate integration into the global service trade rule restructuring game to better protect the rights and interests of Chinese service trade enterprises. On one hand, taking the opportunity of the RCEP's implementation, enhance China's capability to lead the formulation of regional service trade rules while actively promoting the establishment of international service trade regulations in relevant fields. For example, in the implementation of domestic rules for service trade, urge domestic service trade sectors to accelerate relevant reforms achieving alignment with international rules, thus enhancing the effectiveness of domestic service trade reforms; externally, based on agreements reached and in conjunction with service trade terms that China can currently accept, formulate clauses for China's participation in regional free trade agreements and related service trade rule negotiations, proactively advancing relevant free trade agreement negotiations, fundamentally elevating the standards and coverage of the free trade agreements signed by China. On the other hand, using the Belt and Road Initiative as a catalyst, accelerate the expansion of China's network of free trade agreements. Joseph Francois and Bernard Hoekman [15] show the focus should be on exploring negotiations for free trade agreements with neighboring countries, drawing on experiences from RCEP negotiations, signing more open free trade agreements with countries along the route, laying a solid foundation for future expansion of the number of countries involved in agreements. Meanwhile, Yuchen Wu [16] shows emphasizing service trade terms, prepare for the preliminary work of the China-EU free trade agreement, and speed up negotiations for the China-Japan-Korea free trade agreement, striving for an early signing of the agreement. In addition, based on China's experiences in the global service trade rule negotiation game, propose a Chinese version of service trade rules in a timely manner, and strive to improve relevant domestic laws and regulations, allowing countries to see China's stance on service trade rule formulation while continuously optimizing the domestic business environment.

Acknowledgements

Key projects of social investigation reports and academic papers in Social Sciences (xsjj202514zsa01) “Research on the Impact of FTA Environmental Provisions on China's Service Trade Exports”

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