

Analysis of the Current Situation of the Development on China's Trade in Transport Services and Strategic Suggestions

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Abstract

Since China established its status as the “largest country in global trade in goods” in 2013, the total value of imports and exports of goods trade has repeatedly hit record highs and has always maintained a high surplus. However, although the related transportation service trade has developed rapidly, it has been in deficit all the year round. Based on the characteristics of the times, this paper analyzes the current situation of the development of China's transportation service trade, and proposes suggestions to the government, transportation service companies, and traditional foreign trade companies, so as to promote the development of China's transportation service trade.

Keywords

Transportation Service Trade; Goods Trade; Pricing Power; Rule-making Power.

1. Introduction

1.1. The Development History of China's Trade in Transport Services

Service trade is an invisible trade. Compared with tangible goods trade, it has a backward development. Since the founding of People's Republic of China 70 years ago, especially after the Economic Reform, China has actively promoted the liberalization and facilitation of service trade, constantly creating favorable conditions and a level playing field for its deepening cooperation in service trade field, which promoted the proportion of service trade to China's total foreign trade continue to rise from less than 10% at the beginning of reform to 14% in 2018[1]. The value of service trade has increased from US\$4.5 billion in 1982 to US\$756.9 billion in 2018. [2] It can be seen that service trade has been developing at a relatively rapid rate and has achieved rapid growth in the scale.

Transportation, tourism and other commercial services are the three main sectors of China's service trade imports. Among them, imports of transportation services show a trend of declining at the beginning and rising up later. In 2003, it became the largest sector of China's service trade imports. The annual proportion reached 34.3% and it increased to 134.5 billion U.S. dollars in 2014 with an average growth rate of 18.26% in ten years, while the average annual growth of world's transportation services was only 6.23%. By 2014, China's trade deficit in transportation service reached 57.9 billion U.S. dollar, which has been the highest historical record, with an average annual growth rate of 18.03%, accounting for 36.2% of the service trade deficit, therefore, becoming the main source of China's overall deficit in service trade[3].

1.2. Importance of Trade in Transport Services to Goods Trade

Trade belongs to circulation and circulation also includes three elements: business flow realizing the transfer of commodity ownership through the signing of contracts by both parties to the transaction, which is the prerequisite for commodity exchange; logistics realizing the transfer of commodity entity through a series of links such as transportation, storage,

packaging, loading and unloading, circulation processing, and distribution. It transforms the possibility of using commodities into reality; the flow of information runs through the entire trade process, connecting organizations or individuals of upstream and downstream along the supply chain, playing a role of bridge for commodity exchange. Transportation service trade is needed to achieve the transfer of international goods, so it can be regarded that pressing the logistics function for circulation.

Transport service trade is emerged with the emergence of trade in goods. They are interdependent but restrict each other, showing the characteristics of complementary substitution of trade balance and mutual restriction of development speed. In particular, the transportation service trade has unique figures of information asymmetry and intangible compared to the goods trade, which leads to more difficulties in transaction search, transaction confirmation, and subsequent dispute resolution. The differences and connections between goods trade and trade in transport services are shown in Table 1 below.

Table 1. Differences and connections between goods trade and trade in transportation services

Type of trade	Goods trade	Transportation service trade
Commodity form	Tangible	Intangible
The degree of information asymmetry	Relatively small	Relatively large
Cos on search, fulfillment, and dispute resolution	Relatively low	Relatively high
Interrelationship	Complementary substitution for trade balance, high correlation between development speed and direction, structural correlation	

1.3. Pricing Power, Rule-making Power and Resource Control Ability

Pricing power means that the company has the initiative to set the price of its products. It can transmit new costs to downstream industries along the supply chain through price increases and will not have a negative impact on product demands and sales. The pricing power mentioned in trade is based on the scale of entire global industrial chain. Whether the power is held can reflect the country’s international trade market status and the international competitiveness of the companies to a certain extent, which is affected by factors such as relationship of market supply and demand, product characteristics, market status, etc.

The right to formulate rules in international trade depends on a country’s historical traditions and current international political & economic status. Due to some historical reasons, China has failed to participate in the formulation of economic and trade rules such as the United Nations Convention on Contracts for the International Sale of Goods and the International Rules for the Interpretation of Trade Terms. As a result, China lacks the right to make its voice in the field of international economic rules, causing companies to fall into disadvantaged positions in terms of technical standards, environmental protection standards, health standards and labor standards. [4]

Resource control ability is to maximize output by coordinating the allocation of various production factors such as labor and capital. The higher is the ability of resource control in international transportation service trade, the greater the positive effect will have on goods trade.

2. Current Development Status of China's Transportation Service Trade

2.1. The Scale of Transport Service Trade is Low But Speed up Fast

After the Economic Reform, China's trade in goods has experienced a leap-forward growth. Transportation services, as its derivative demand, started relatively late. However, its growth rate has surpassed that in goods trade. On the one hand, it's demand of goods trade and rise of service industry that drives the springing up of trade in transportation services. On the other hand, because the base of its trade volume is much smaller than that in goods trade, the high-speed growth rate cannot reflect its actual level. But on the whole, trade in transport services, as the main part combined to service trade (average of 13.26% per year, 2003-14), is booming far higher than the average growth rate of global service trade (average of 5.4% per year, 2005-17 years).

2.2. The Continued Trade Deficit in Transportation Services Needs to be Compensated for by the Surplus in Goods Trade

Since joining the WTO, China's transport service trade balance has always been in a huge deficit. In 2009, affected by the financial crisis, the deficit was as high as 23 billion dollars, making an increase of 92.9% year-on-year [5]. Ten years later in 2018, China's transport services are still in a severe deficit. China's trade deficit in transportation services is RMB 436.68 billion yuan, accounting for a quarter of the total service trade deficit of RMB 1,706.8 billion yuan while goods trade has always been growing on a high base with a high rate. There is no doubt that the total trade surplus in the past 20 years has been the consequence that huge surplus of goods trade made up for deficit of transportation service trade.

2.3. During the Epidemic, the Shortcomings of China's Transportation Service Trade Were Highlighted, Leading to Crises in Goods Trade and Manufacturing

Transport service trade has the butterfly effect transmitting to all over the world economy. Changes in world market prices first affect the changes in the prices of goods and services in the domestic open sector, and then affect the changes in the prices of goods and services in the domestic non-open sectors, thereby causing domestic price changes to have an effect on the macroeconomic.

During the epidemic, there was a lack of containers, also a large number of containers were stranded, and containers and ships exported from China to the United States were in severe shortage. The overdue caused by the stranded made it impossible for goods to reach downstream organizations or individuals along the supply chain, causing significant losses to shipping companies and manufacturing companies. Higher freight rates and compensation are just direct economic losses, but the increase in prices caused by high freight costs will have a butterfly effect that will affect the prices of global industrial and consumer products, implicating the prices of other domestic products and commodities. Compared with other countries, China's industries are facing a different dilemma:

(1) The added value of export commodities is low, and the export volume of a single batch is small. China participates in the production of the global industrial chain at the lowest end of the Smiling Curve, which is responsible for assembling and processing labor-intensive products; most of its self-produced products are clothes, toys and consumer electronics. Whether participating in the global production chain or producing independently, China has only reaped the low profits brought about by the low added value. Although the production and operation methods of small profits but quick turnover can reduce unit costs, the amount of toys and clothes that China currently exports is not large, eventually the profit effect is not obvious.

(2) The modes of transport used by traditional foreign trade enterprises is mainly ocean shipping. The increase in sea freight has increased the export cost of traditional foreign trade companies and increased product prices, which has reduced the competitive position of Chinese products in the international market. Chinese manufacturing is facing the danger of losing some comparative advantages.

3. Reasons for the Restriction of China's Transportation Service Trade

China's trade in transportation services is constrained, and trade deficit is mainly caused by the imperfect application of trade rules and the difficulties encountered in the development of the industry itself.

3.1. The Choice of Trade Mode is Not Conducive to Profit Distribution and National Transportation for Domestic Goods, Losing the Right to Control Goods in Transportation

At present, sea transportation is the mainstream mode of world trade, accounting for more than 2/3 of the world's total trade volume, and more than 90% of China's total import and export freight is undertaken by sea transportation. Among the three most commonly used trade terms FOB, CFR, and CIF in maritime transportation, Chinese traditional foreign trade companies tend to use FOB for exports, and CFR and CIF for imports. Companies in developed countries have the tendency to use CFR and CIF for exports and FOB for imports. The choice made by Chinese companies reflects to some degree that China's existing transportation services companies have not gained the trust of import and export companies, and their capabilities are not sufficient to assist them in maximizing profits and minimizing risks. Furthermore, the terms of trade make transportation services basically controlled and monopolized by other countries, directly causing China to lose its control over transportation of general industrial and consumer goods and even national strategic materials. In other words, the distributed profits obtained by enterprises in trade will be discounted, and the national material transportation also has security risks.

3.2. The Imperfect Application of International Rules Prevents Transportation Companies from Obtaining Proper Protection in Disputes

China is not one of the initial countries that established the WTO, nor did it participate in the formulation of international trade rules. The rapid rise of transport service trade has made the government encounter difficulties to implement protection regulations formulated by the WTO and the GATS for transport companies in developing countries in a timely and effective manner, [6] Therefore, those small transportation companies that are not very competitive and do not fully understand the international rules will be hit more. Goods trade, which accounts for the largest surplus share of import and export trade, has always been the focus of policy attention. Although the convening of the China International Fair for Trade in Services and the issuance of relevant regulations in recent years have shown in some sense that the government has paid more attention to service trade such as transportation services, the intensity and the depth still need to be improved.

3.3. Lack of Professional Management and Technology in the Transportation Industry, Allocating Resource at Low Efficiency

The structure of the marine transportation fleet is unreasonable. The transportation companies are generally short of talents. Traditional labor-intensive management methods are dominant, and the information management system is not complement enough to support order tracking and complete procedures inquiry, that is---- the elements of labor, capital, information, talents have not been properly allocated, resulting in a large gap between the transportation quality

and prices compared to some large companies in Europe and the United States. Traditional technology and management methods cannot meet the ever-increasing demands for transportation services, which limits the development of the industry and goods trade it serves.

3.4. China's Transportation Industry Don't Perform Well on International Competitiveness, being Weak in Pricing Power

(1) Unable to participate in price setting. Up to October 1, 2021, among the top 100 global liner companies, MAERSK ranked first, MEDITERRANEAN SHIPPING ranked second, CMA CGM ranked third, COSCO SHIPPING ranked fourth, and HAPAG-LLOYD AG ranked fifth. The sum occupies 64.58% of the global capacity, meaning that liner ship industry has been already in a high monopoly. Shipping companies realize price control through mergers and acquisitions of property rights over container factories, logistics companies and ports in downstream as well as fuel companies and steel mills in upstream, forming a corporate alliance to jointly monopolize the world's shipping market prices. However, in the entire process of monopolistic price control, China's COSCO SHIPPING has always been excluded, and its freight rates need to be reviewed for multiple periods of time, which has greatly weakened its power to participate in pricing.

(2) Vicious competition cannot form economies of scale. Although some competitive international transportation companies such as COSCO SHIPPING and CHINA SHIPPING have emerged in China, most of the transportation service trade entities such as warehousing, transportation, and freight forwarding are generally small in scale and single in function; vicious competition has caused high transportation costs and further intensified the problem of low efficiency and weak capacity of supplying transportation services, restricting the development of China's transportation service industry.

3.5. The Failure to Coordinate the Development of Transportation Service Trade and Goods Trade

(1) The low level of transportation services cannot meet the large demands for goods trade. The problems of low capacity, high cost and high risk in the transportation service industry make Chinese import and export companies have to cooperate with foreign transportation companies in pursuit of profit maximization.

(2) The openness of China's shipping market is too high, and shipping companies that are still in the budding stage of development cannot be protected. China's transportation service industry is not yet mature and its competitiveness is relatively weak. Foreign transportation companies use their own scale advantages to form monopolies, seize and control the transport market, which further increases the restraint on the development of domestic transportation service industry.

(3) The connection network of transportation service trade and goods trade is not perfect. International goods trade and transportation service trade complement each other. If they fail to develop in coordination, they will inevitably lead to the paralysis of the entire foreign trade. The deficit in transportation service trade is not only attributed to the transportation service industry itself, but traditional foreign trade companies also have certain responsibilities.

4. Suggestions on the Development Strategy of China's Transportation Service Trade

4.1. The Government Should Further Improve Policies and Measures to Ensure the Development of the Transportation Service Industry

The government should strengthen the research on the clause made by WTO and GATS, at the same time it must actively strive for initiatives in the new round of rule designation after the

epidemic in order to gain more favorable conditions and provide a basis for competition for the Chinese transportation industry.

Ensure the market share of local enterprises through legislation, helping local enterprises reduce costs in the form of tax reductions and subsidies thus providing a good funding environment; as for the transportation enterprises figures for their small scale, large number and messy management, it adopts encouraging mergers and acquisitions, introducing scientific competition mechanisms, and relaxing unnecessary controls. To provide new impetus for them, accelerating the upgrading of the industrial structure cannot be ignored.

4.2. The Transportation Service Industry Must Strive to Improve the Level of the Industry

The transportation service industry itself actively develops diversified and innovative business models, attempting to shift simplification of the export-oriented transportation to the direction of integrated logistics [7]. Intensify the introduction of logistics management personnel and training, and attach importance to the use and management mode of modern logistics technology as well as focusing on construction of container capacity improvement and ability to connect multimodal transportation.

4.3. Foreign Trade Companies and Other Circulation Departments Must Play a Leading Role

China's transportation service industry and traditional foreign trade companies have a weak sense of cooperation. The transportation service trade has not taken relevant improvement measures based on the business needs of traditional foreign trade companies while traditional foreign trade companies have not provided opportunities for local transportation companies when conducting foreign trade. Both adhere to the principle of independent profitability and engage in their respective trade work, ignoring the complementarity between space and time utility created by transportation companies and the value form conversion utility created by traditional foreign trade companies, thus failing to achieve a mutually beneficial and win-win effect of $1+1>2$. Traditional foreign trade companies should give more consideration to the domestic market in business negotiations, which is the basis for realization of long-term benefits; other circulation departments such as manufacturers and domestic consumers should also increase their confidence in local transportation industry. Healthy international trade should go hand in hand with goods and service trade, instead of restricting each other or even relying on the surplus made up for deficit to move forward passively.

4.4. Seize the New Opportunities Brought by Internet Operations in the Post-epidemic Era

Global trade has shown a trend of recovery in Post-epidemic era, which can be seen as both a challenge and an opportunity for trade. Cross-border e-commerce B2B has become a booming trend, and the customs carried out a pilot program of cross-border e-commerce enterprise-to-company export in 2020. This year, the annual sum of imports and exports in cross-border e-commerce has reached RMB 170 million yuan with a growth rate of 31.1%. The new business format has undoubtedly become a good innovation model for import and export trade in the Post-epidemic period. Transportation services companies should also actively join the Internet trade circle, obtaining information and help through the Internet, strengthening communication between various industries across the country, to provide a new development path for actual business.

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