

# INTERNATIONAL TRADE IN SERVICES: DEVELOPMENT TRENDS AND POSSIBILITIES

Laura Aidukienė<sup>1</sup>, Vilma Kazlauskienė<sup>2</sup>

<sup>1</sup>Mykolas Romeris University, Lithuania, lauraaiduk@mruni.eu

<sup>2</sup>Kaunas University of Technology, Lithuania, vilma.kazlauskiene@ktu.lt

**crossref** <http://dx.doi.org/10.5755/j01.em.17.4.2994>

## Abstract

International trade in services had grown significantly, what marks importance in the country's economy. Major features of services have much in common with other services, becoming increasingly internationalized services also account for a greater share of foreign direct investment than does manufacturing in the most developed economies of the world. Because services are such a large and important component of the Lithuanian economy, understanding the implications of increased trade in services is crucial to the trade liberalization by the EU Directive on services, agenda going forward.

Paper is based on extensive literature analysis and empirical data. The analysis of an introduction to the nature of international services showed, that the important instrument of services trade development is Directive on services in the internal market, which EU law is aiming at establishing a single market for services within the European Union (EU). So it was designed to break down barriers to trade in services across the EU, and help complete the single market. The EU Services Directive is one of the cornerstones for the realization of the EU internal market and is fundamental to economic and legal experts in governments, trade and industry, as well as to the general public. The starting point is identifying issues of competition in the international trade sector is that EU Services Directive to execute a purpose contribute to the Lisbon strategy goal of making the European Union the world's most dynamic, competitive and sustainable economy. The article deals with the services sector's development in ES market analysing its competitive potential in our Lithuanian country.

The study showed that companies whose activity is oriented towards the fields with the highest added value (creation of new services, consultations, or information technologies) became more active during the cycle of economic stagnation. The trends of international trade of services show that trade in these fields will expand, and the rate of growth will markedly differ from that of services whose growth is significantly affected by economic changes in separate regions of the world.

*Keywords:* International trade in services; competitiveness, EU Services Directive; Indicators of trade in services.

*JEL Classification:* F17, F20.

## Introduction

Development level of world's economics and increasingly intensifies economic integration stimulated by globalization processes is challenging the states striving for participation in these processes to increase competitive advantage in the world's market. Changes in modern global business environment are stimulating to find new abilities to maintain and develop all international trade intercourse.

As states Bartkus, Jurevičius, (2007) integration and globalization processes taking place in the world, enterprisers are more actively developing their activity that is related to international trade and creation of international enterprises in other countries. Active processes are taking place in the world for the stimulation of export policy, investment, higher balance of goods and services trade, attraction of innovations, i.e. the factors influencing the rate of economical development. While international cooperation is developing and international competitiveness is increasing, the increasing role falls on the trade in services.

The actuality of the study is related to the potential of increase of services in domestic market in hand which according to Starkevičūtė (2007) gives possibilities to service sector get higher rate of profit and attracts capital and labor force from enterprises of traditional activity, therefore the development of services should remain the main catalyst of economical and social changes. Openness of economics is evaluated by using an index of integration of foreign trade. When barriers in service sector disappear, new knowledge accumulated inside EU domestic services market can easily overpass borders of EU countries, therefore stimulus increases to study the possibilities of development of international trade in services that creates favorable conditions to increase the efficiency of state economics.

*The problem of the study* – evaluation of possibilities and directions of international trade in services and their forecasts.

*The object of the study* – international trade of service.

*The goal of the study* – to highlight the main changes of Lithuanian international trade in services, to foresee the means of trade development and competitiveness increase in the integrated market.

*The research methodology:* referring to the studies of foreign and Lithuanian scientists, analysis and synthesis of literature, the data were systematized and holistic model of evaluation of possibilities of development of international trade in services was created.

International trade in services, their classification and instruments of regulation.

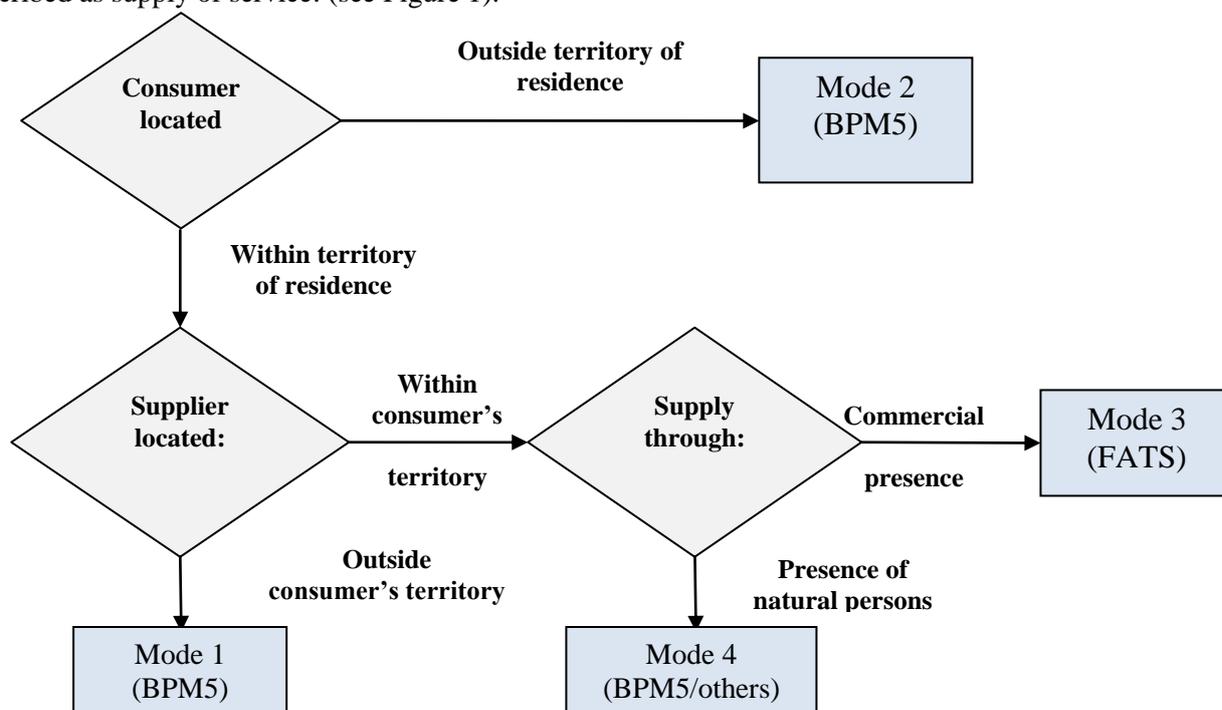
In order to describe the concept of International trade in services the description is invoked where international trade is named the business when the product created in one country is being sold to the buyer or customer in another country or is being used in another country (Melnikas et al. 2008). This description does not distinguish the notion of service and product named as object of trade contract. International trade also can be described as activity that is taking place in international degree and in international environment, activity that is performed by the subject, activity creating possibilities to the subject to receive some benefit, activity designed to realize products and services and increase the degree of their realization.

Legally it is purposeful to invoke the description of “services” notion that could be found in the Directive of services, allowing security of the freedom of development of suppliers of services in all the states members of EU and free movement of services in the states members of EU. The article 50 of the Consolidated Treaty on Establishing the European Community (Žin., 2004, Nr. 2-2) “Service” is named as individually performed economical commercial activity for consideration usually, because it is related to the goods, freedom of capital or persons movement.

According to the Treaty of EC and related practice of CJEU (Court of Justice of EU) the notion of “service” is described widely enough. As indicated in the article 50 of the Treaty, the service covers any individual economical activity usually for consideration. Therefore, referring to the Treaty of EC and Directive of services, in order to be considered as “service” it has to be independent, i.e. has to be provided by supplier (who can be natural person or body) not bounded by labor contract. Besides, such activity usually is being performed for consideration, in other words, this has to be an economical activity. Note that the Directive of services distinguishes “services of noneconomic character” that do not conform principles of “Economical activity” and are named as “Services of shared interests of noneconomic character”.

As seen, the participants of phenomenon of international trade in services can be both natural persons and bodies (enterprises, groups of enterprises). The Law of Services describes a “Member state provider” which is natural person proposing or supplying the service, another natural person who is using liberty of movement inside state members given by legislation of European Union, or body established in the state member or another organization or their subdivisions.

Referring to Article I part 2 of General agreement on trade in services (GATS), „trade in services“ is described as supply of service: (see Figure 1).



**Figure 1.** Four model of international trade services: statistical parametre

Source: Manual on Statistics of international trade in services, 2002

- a) from territory of one state member to territory of any other state member;
- b) inside territory of one state member to consumer of services of any other state member;
- c) which is provided by supplier of one state member in territory of any other state member where supplier's commercial activity is registered;
- d) which is provided by service supplier of one state member in territory of any other state member through natural persons of state member.

Supply of services through border is described as services provided irregularly for a limited period when supplier of service established in one state country and services that do not require or use temporal infrastructures are being supplied in other state member temporarily.

Foreign consumption. Citizen of another state member arrives to another state and uses services (in this case possibilities are mostly related to the number of tourists).

Commercial establishment. Member of WTO of one state provides service in territory of another state and performs commercial operations, i.e. enterprise providing a service crosses border of another state and establishes agency or daughter enterprise through which supply of the service is being performed.

Services supplied by natural persons (personnel relocated inside the enterprise temporarily, business guests, contractual suppliers of services, individual specialists).

World trade organization highlights that service becomes the part/object of international trade when independently on place of agreement supplier and consumer of the service – natural persons or bodies – are residents of different countries. According to the statement of Žitkienė (2011) listed methods of transfer of services in the international extent increased the supply of services in the international extent after Uruguay round agreement, the meaning of concepts of export and import changed as well.

Lithuanian policy on foreign trade is the part of EU policy on general trade (EU GTP). EU policy on foreign trade is common to all states of EU and includes trade relationship only to the countries that are not part of EU (third countries).

The main shared goal of EU foreign trade policy is the increase of welfare of EU states and citizens by stimulating development of economical activity, high level of citizens' employment, competitiveness and environment protection. This shows that processes of European Union evolution and development help entrenching of principles of free movement of goods, services, capital and labour force, increasing competitiveness of European Union all around the world. All processes mentioned are stimulating new cognition of evolution of international trade in services.

Free movement of services is being regulated by the directive on services in domestic market by European Parliament and Council on December 12, 2006. This directive foresees to reach new status of free trade in services in united European market. Removal of physical, technical barriers by accepting corrections suitable for state members in the laws and preparing new legislation of their implementation.

Attitudes of Directive of services were transferred to the Law of services of Lithuanian Republic that was passed on Seimas of Lithuanian Republic in December 15, 2009 and came into force in December 28, 2009.

So, on December 28, 2009 the Directive of services came into force in all European Union that is striving for creation of legal foundation of liberty of establishment and free movement of services and to create domestic market of services of European Union.

The goal of Law of services is to consolidate the principles and means that ensure effective implementation of establishment liberty, liberty for supply of services and liberty for commercial activity of supply of services, also it makes assumptions to ensure high quality of services and reglament establishment of contact center and its main functions, administrative cooperation between competent institutions of Lithuanian Republic and European Commission in the field of supply of services. (The Law of services of Lithuanian Republic).

While regulating international movement of services in worldwide extent, big influence is made by World trade organization. GATT negotiation round that took place in 1987-1994 and established World trade organization (WTO), signed the General agreement on trade in services - GATS. Service council that acts in the structure of World trade organization controls the process of implementation of GATS. The goal of the agreement is to liberalize international trade in services, create the rules of this trade by creating better condition for development of trade in services and international development of service companies.

So, the second important source of reglamentation of international trade in services in worldwide market is General Agreement on Trade in Services – GATS, designed for liberalization of trade in services that is recently growing.

By summarizing the accent could be made that General agreement on trade in services (GATS) allows the states members confirmation of means that are necessary in order to protect society's moral, to prevent fraud and confirmation of means dictated by reasonable reasons, including insurance of stability and entity of financial system, (opinion of European committee of economic and social affairs in the general agreement on trade in services (GATS)).

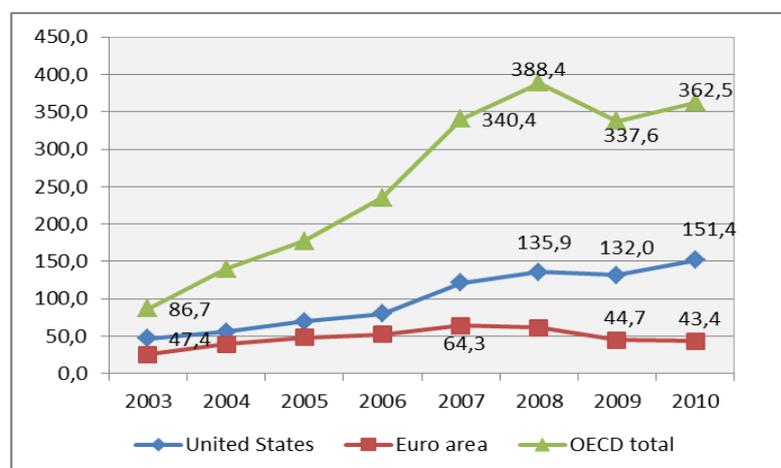
### The research and results of evaluation of possibilities of international trade in services

In order to ground the strategy of development of international trade in services, it is necessary to evaluate the present situation of the state in respect of international markets and to distinguish factors creating complex competitive advantage. Complex evaluation of factors of international trade in services becomes the main stage of research and assumption of detection of development possibilities and barriers.

Development of service sector that is considered a driving force of economics of Western countries is stimulated by different factors (Bagdonienė, 2008): increasing degree of international trade, decrease of investment part in gross domestic product in economically strong countries and its increase in developing countries, increase of income per person, urbanization, demographic changes, development of services to manufacturers (Haksever et al, 2002), complexity of consumption and uncertainty of consumption with psychological nature (Gadrey, 1996), competition, increasing time needs of consumers, development of self-service technologies, contracting and networks (Gustafsson, Johnson, 2003).

These statements show that performing the research of possibilities of development of international trade in services it is needed to perform analysis of market of world trade in services by using economical and official statistical indices, evaluating qualitative factors differently affecting state economics as well. The state oriented towards abilities development, research and development knowledge, informational and supply support systems, infrastructure of technologies attracts direct foreign investment of "high quality" that in turn open the possibilities for development of services of higher additional value.

According to the statistical data of worldwide trade in services the results grounding service development are seen, that are undoubtedly related to economical processes in all around the world as well.



**Figure 2.** Services trade balance (Exports minus imports of services), Billions of US dollars  
*OECD Factbook statistics, 2011*

During the analyzed period of 2003-2010 with regard to states of OECD (The Organization for Economic Co-operation and Development), the trade in services grew in rapid rate (4,2); in United States (3,2) and in Euro area 1,7. This shows that volume of EU international trade in services is characterized by positive balance and maintained growth rate till the year 2008.

*Export of services in 2011.* It is stated that the 1<sup>st</sup> half-year of 2011 was record for the export of services, when exported services amounted in 1058,91 million Dollars, and growth in comparison with the same period of 2010 was 22,1 percent. The 2<sup>nd</sup> half-year of 2011 exported services amounted in 1432,87 million Dollars, and growth in comparison with the same period of 2010 was 37,8 percent.

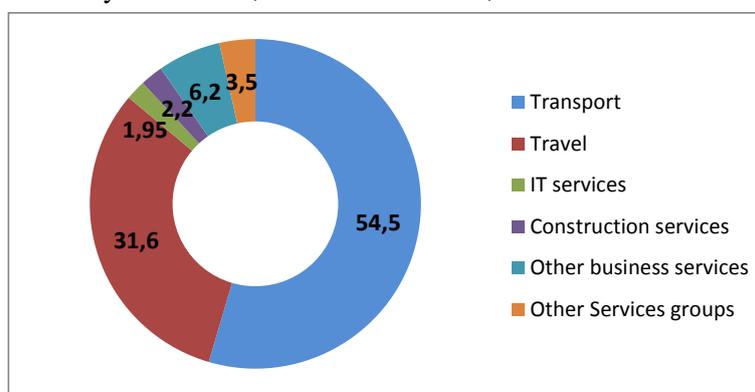
Export of services grew in all directions of state groups foreseen in the strategy of export development. Lithuanian IT companies are strengthening their positions in the markets of Middle Asia – export of IT services in the 1<sup>st</sup> half-year of 2011 in comparison with the same period of 2010 grew from 0 to 3,4 million Lit.

More rapid growth of export of construction services is limited by unconformity of mechanism of providing of state warranty to needs of export of construction services.

**Table 1.** Transactions in services, million Dollars

Services	2010 I quarter	2010 II quarter	2010 III quarter	2010 IV quarter	2011 I quarter	2011 II quarter	2011 III quarter
Credit	866,93	1 039,57	1099,86	1113,64	1058,91	1432,87	1426,33
Debit	-602,75	-730,07	-715,37	-784,05	-717,35	-980,2	-946,37
Balance	264,18	309,5	384,49	329,59	341,56	452,67	479,96

*Export according to service types* shows that 3st half-year of 2011 exported services amounted in 1426,33 million Dollars, and growth in comparison with the same period of 2010 was 29,7 percent, as 67,7 percent of all growth of export of services concluded the growth of export of transport services that amounted 716 million Dollar, export of travel services grew by 267,9 million Dollar, construction services increased by 33,9 million Dollar, computer and informatics services increased by 10,3 million Dollar. The 3rd quarter of 2011 was record for the export of Lithuanian services, but was fixed the most increasing in services import in the 2st half-year of 2011, that amounted 980,2 million Dollars.



**Figure 3.** Structure of international trade in services

In the 1<sup>st</sup> half-year in comparison with the same period of 2010 increase of export of transport services was mostly influenced by increased export of road freight amounting in 374,9 million Litass or 25,1 percent. But in the 2<sup>nd</sup> quarter of 2011 in comparison with the same 2010 export of services of road freight slowdown because of increased supply of transport and decreased prices of freight and amounted in 15,4 percent.

Freight carriers should not expect significant growth in the future because in the end of the 2<sup>nd</sup> quarter already the indices of industrial production of the biggest European economies fixed slowdown of growth, and uncertainty on the future of some states of euro area determines more careful development of production of enterprises. Rate of worldwide trade is decreasing as well and all these factors will affect negatively Lithuanian freight sector, the influence of which will be little bit decreased by preparations to Christmas trade. Export of expedition, logistic and storage services during the analyzed period grew by 369,9 million Litass or 43,7 percent.

In the 1<sup>st</sup> quarter of 2011 in comparison with the same period of 2010 construction services increased by 33,9 million Litass. The biggest growth was fixed in Spain amounted 19,8 million Litass, where two Lithuanian companies started their activity since the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2010. The second is France where construction services grew by 8,52 million Litass. Growth of construction services in France can be related to the activity of the enterprise „Senovė“ in Cannes and Netherlands – 5,8 million Litass. According to the data of the questionnaire of members performed by Lithuanian association of builders, priority markets for export of Lithuanian construction sector are Scandinavian countries, United Kingdom, but more rapid growth is limited by absence of mechanism of state warranty to construction export. Such mechanism should allow gaining of warranties required by customers (that is complicated to Lithuanian enterprises without the support of the state), thus competitiveness of Lithuanian enterprises would increase in the international markets.

In the 1<sup>st</sup> quarter of 2011 in comparison with the same period of 2010 export of services of computers and informatics increased by 10,3 million Litass or 21,9 percent. During the period analyzed the biggest

increase was in the market of Denmark – 10,6 million Lit., Kazakhstan – 2,3 million Lit., and Uzbekistan – 0,75 million Lit. In the nearest future export of IT to Turkmenistan should increase significantly where the enterprise CID BALTIC signed the contract regarding implementation systems of e-authority in the institutions of Turkmenistan authorities during the exhibition Turkmentel 2011 that took place in September. The biggest part will be made of implementation of systems of documentation management.

In the 3d quarter of 2011 in comparison with the same period of 2010 export of travel services increased by 24,9 percent or 219,5 million Lit. Export of travel services to Russia doubled, the number of persons accommodated from this country increased by one third and such growth was determined by summer season and basketball championship.

Because of uncertainty in the states of euro area, decreasing indices of industrial production and slowdown of worldwide trade rate the rapid growth of export of services shouldn't be expected in future year, and because of customs union the volume of car transportation are decreasing as well.

### Conclusions

The study showed that trends in international trade of services should be evaluated according to character of the services provided, grouping them into high and low added value services. Services of low added value are sensitive to economic changes, when trade of services during the period of economic stagnation is significantly decreasing in Euro area and United States.

Companies whose activity is oriented towards the fields with the highest added value (creation of new services, consultations, or information technologies) became more active during the cycle of economic stagnation. The trends of international trade of services show that trade in these fields will expand, and the rate of growth will markedly differ from that of services whose growth is significantly affected by economic changes in separate regions of the world.

The investigation of Lithuanian international trade of services showed that lack of target scientific observational studies evaluating the possibilities of the development of separate service groups, and therefore this analysis was conducted on the basis of data obtained from the Balance of Payments of the Department of Statistics of Lithuania. However, these data are insufficient for a detailed analysis and insights. The authors thus think that an expert interview should be conducted for a separate evaluation of the possibilities of the international trade of services in the fields of services provided to the end consumer and the business-business sector. The evaluation of these factors would also reveal the possibilities of international trade of services among small and medium business group enterprises.

Export of services stimulates innovation through exposure to new ideas and competitors, through increasing the returns to investment, and through increased revenues, which increases the internal financial resources available to the firm for such investment.

### References

1. Bartkus, E.V., Jurevičius, V. (2007) Production Outsourcing in the International Market// Inžinerinė ekonomika. – Kaunas: KTU, No. 1(51), p.59-68.
2. Starkevičiūtė, M. (2007) Lietuvos ekonominės integracijos gairės. Intelektinė ekonomika, No. 1, p. 82–86.
3. Melnikas, B., Chlivickas, E., Jakubavicius, A., Lobanova, L. Pipirienė, V., Burinskienė, A. (2008) Tarptautinis verslas. Vilnius: Technika, p.19–21.
4. Bagdonienė, L. (2009) Paslaugų verslas Lietuvoje: mokslo studija. Kaunas: Technologija.
5. Gustafsson, A., & Johnson, M. (2003) Competing in a Service Economy: How to Create A Competitive Advantage through Service Development and Innovation, San Francisco: John Wiley and Sons, Inc.
6. Europos Ekonomikos ir socialinių reikalų komiteto nuomonė dėl bendrojo susitarimo dėl prekybos paslaugomis (GATS) — derybos dėl 4 režimo (fizinių asmenų judėjimas). Access: <http://eur-law.eu/LT/Europos-Ekonomikos-socialiniu-reikalu-komiteto-nuomone-bendrojo-susitarimo,214873,d>
7. Lietuvos Respublikos paslaugų įstatymas. Valstybės žinios, 2009-12-28, Nr. 153-6901.
8. Manual on Statistics of international trade in services (2002) Economic and social Affairs. United Nations.
9. Paslaugų direktyvos įgyvendinimo vadovas, (2007) [http://ec.europa.eu/internal\\_market/services/docs/services-dir/guides/handbook\\_lt.pdf](http://ec.europa.eu/internal_market/services/docs/services-dir/guides/handbook_lt.pdf)
10. Prekyba paslaugomis P6\_TA(2008)0407. 2008 m. rugsėjo 4 d. Europos Parlamento rezoliucija dėl prekybos paslaugomis, 2009/C 295 E/17. Prieiga: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:295E:0067:0073:LT:PDF>