

LATECOMER COUNTRIES' INTERNATIONAL TRADE IN SERVICES: THE CASE OF LITHUANIA

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Abstract

International trade in services doesn't reach the level of international trade in merchandise till now. Developed and developing countries, emerging markets pays a large attention in increasing the export of services, looks for possibilities to compete in the international services market. The goal of the paper is to disclose the specifics of international trade in Lithuania, as one of latecomer countries which export of services is similar to other countries, what later have entered to EU. The specify of international trade in services is related not only to a smaller part of export comparing to merchandise, but also to the specific groups of services what could be exported abroad. Developed countries' services providers compete in the international market by information and communication technologies (ICT), business services, professional services, etc. Simultaneously latecomer countries are able to offer transport, tourism and other international services not requesting high-tech, professional know-how, etc. Findings of the survey showed that Lithuania as a trader of international services is more similar to other latecomer countries and further development of services export in order to gain larger part of international services market is urgent.

Keywords: international trade, trade in services, Lithuania, latecomer country, structure of export of services.

JEL Classification: F20, F23, M16, O57.

Introduction

The rise of international trade in services didn't achieve the level of international trade in merchandise in the world till now. International trade in services in developed countries, of course, exceed the international trade in services in emerging, developing, latecomer countries. However, it should be noticed that export of services has never exceeded the export of merchandise; and it looks like it will never overwhelm the scopes of export of merchandise in the future.

Meeting the face-to face to the global financial crisis showed that international trade in services was more flexible as trade in merchandise in the international market. Prior researches (Batiliani, 2010) showed that services providers of emerging (Liang, Qian, Rong, 2009; Zhang, 2010) or developing countries (Robertson, Skordis, 2004) are rather successful enters to the international market with their services or merchandise. International trade in services of latecomer countries is some specific one, as mostly travel and tourism, transport (air, road or sea) services are trade abroad. The export of services, mentioned above, makes the largest part of export. Suppliers of developed countries trade the business, ICT services rather widely (Dettmer, 2011; Kowalkowski, Kindström, Brehmer, 2011). Whereas latecomer countries are famous by export of tourism (as often they are located at the mild climate zone or have rich historical heritage) or transport services (if they are located in the transit area of the continent).

Lithuanian international trade in services is more similar to other latecomer countries under the volume of international trade in services, comparing to international trade in goods, under the GDP of the country and under the structure of export of services. International trade of transport services (more freight transport, not passengers) and international trade of tourism services make the large part of Lithuanian export.

The research problem analysed in the paper is grounded on questions: what is the specifics of the international trade in services? What is a specific of Lithuanian international trade in services as one of the latecomer countries in EU? What are trends of development of international trade in services in Lithuania?

The objective of the research is to disclose the specifics of international trade in services in Lithuania.

Methods of the research are analysis of the scientific literature, statistical data analysis and synthesis.

Research findings showed that international trade in services is rather specific one and could be transmitted in four types of mode. It depends on the specifics of services itself, as well as on the location of the services provider and customer. Lithuanian international trade in services is more similar to such latecomer countries as Asian and European. Findings showed that volume of international trade in services in Lithuania does not differ a lot from other countries in Europe. However the structure of international trade in

services differs and is more similar to other latecomer countries. Tourism and travel, freight transport services are services making a majority of the export. Unfortunately business services and ICT services just now start break barriers entering to the international market, even not with large volumes of the export.

Theoretical background

International services are a specific one, as it overcomes such characteristic as impossibility to transport, to export. Rest characteristics of service as one that distinguish it from merchandize remains to be valid (intangibility, simultaneous consuming, participation of supplier and customer). As Zitkiene & Langviniene (2011) stress, the main characteristic of international service is crossing a border: supplier or customer, or even both of them. One of the first descriptions of an international service on the view of statistics (Manual on Statistics of international trade in services, 2002) was conditions that services as being between residents and non-residents of an economy. This conception of international trade in services was kept in the entire world rather for a long period.

Concept of international service is changing nowadays. Rapid implement the innovation to services, telecommunication technologies enables to export services already. Electronic commerce, new technologies in computing, transport have resulted in enterprises going to international market. International trade in services increasingly becomes to be a part of global business, even not a great one. Total volume of international trade in services has grown far more rapidly than GDP of economies (Kirca, 2005). The growing part of international trade in services is not the consequence only of ICT. A regulatory reform becomes more important for the growth of international trade in services (Robertson & Skordis, 2004). The recent review of the General Agreement on Trade in Services (GATS) as part of the World Trade Organization's (WTO's) built-in agenda has also drawn attention to trade in services. WTO focused on reduction and elimination of tariffs and barriers of trade (Clark & Rajaratnam, 1999). And one of the most important goals for WTO becomes to reduce the barriers for international trade in services between countries. That greatly affects the rise of international trade in services from developed or developing economies, latecomer countries.

Classification schemes of international trade in services relate to modes or ways of services supply, usually. As four modes of international trade in services are known, customer and supplier could cross a border of a country, or stay at home (Table 1).

Table 1. Four services' supplying modes at the international market

Modes of trade in services	Location of customers and supplier		Samples
	Customer	Supplier	
<i>1st mode</i> <i>Cross border services</i>	Local territory for a customer	Local territory for a supplier	ICT, consultation of lawyer by phone
<i>2nd mode</i> <i>Consumption abroad services</i>	Foreign territory for a customer	Local territory for a supplier	Customer is going abroad for tourism, education purposes, attending museums, repair ships
<i>3rd mode</i> <i>Commercial presence services</i>	Local territory for a customer	Foreign territory for a supplier	Insurance and banking services supplied at foreign subsidiaries
<i>4th mode</i> <i>Presence of natural persons services</i>	Local territory for a customer	Individuals or subsidiaries of enterprises acting abroad	Services of doctor, architect, business consultant; employee of bank institution coming for temporal visit abroad, computer programmer

Customers prefer to consult doctor from Switzerland, to invite architect from Netherlands, to enter to university in Oxford in England, to employ business strategy consultant from USA, etc. Suppliers in order to come closer to an international buyer establishes subsidiaries abroad, hire local specialists or send their manager to a country with increasing potential demand for their services. Limits for international trade of services disappear now. Clark & Rajaratnam (1999) classification of international services defines as follows: 1) contact-based services, where customer and services provider cross borders to engage in transactions; 2) vehicle-based services, where communications are directed into and out of nations via transmissions, wires and (or) other facilitation equipment; 3) asset-based services, where commercial service ideas tied to foreign direct investment cross borders to establish an operating platform; and 4) object-based services, where physical objects with services move into nations. Looking more in-depth into the

classification of Clark and Rajaratnam (1999), similarities between their classification and of four modes of supply could be identified. Contact-based services include consultations, temporary work, services of Mode No. 4 Presence of natural person's services. Vehicle-based – telecommunication, transmission of data through electronic means – Mode No. 2 Consumption abroad services, etc. On the ground of existing literature on classification of international trade in services, it should be stress, that classification of international trade in services is closely related to location of customer and supplier, as well facilities for services supply process. International service could be described as a *service, which necessary involves a cross of nation in order to supply (or) and consume a service; and crossing of a border of a nation relates to customer or (and) supplier, or (and) facility involved.*

Of course, not all of services are trade at the international market level. Concept of that services are *tradable* and *non-tradable* at the international market are discussed nowadays in the scientific researches (Jensen & Kletzer, 2005). While these services are tradable, employees working for these services industry are higher educated, have higher skills level and are paid higher wages that in non-tradable services sector. Tradable international services could be described as services that are more related to commercial services (Langviniene & Zitkiene, 2011). Tradable services cover all services, which are marketable and widely supplied at the international level, and their turnover is calculated into international trade in services. If a service is rather successful trade at the local market, it potentially could be trade at the international one, too (Jensen & Kletzer, 2005). Thus, term *tradable* refers to service that could be imported and exported; it is services that are not necessarily purchased at the point of production. Term of tradable could be extended to covering such services as transportation, hospitality that are purchased locally, but which generate foreign exchange revenues (FDI Research project – Final Report, 2008). According GATS tradable services could be groups of business, communication, construction, distribution, financial, etc. services. The same Report (FDI Research project – Final Report, 2008) stressed that tradable services as synonym could be described *exportable* services. Exportable services (or tradable) services in this report identified those export makes about five per cent of their produce.

Non tradable services at the international market firstly relates to poor demand for international service. Usually the demand is satisfied by local suppliers, as cosmetologists, personal care, other household services; or are limited by characteristics of services (for example no possibility to get closer to a customer, geographical barriers). Public administration services, except finances and military, also could be classed as non-tradable services. Besides that, not all of services are participating in the international trade arena, not all countries are enabling to export successfully. The highest potential to be trade internationally transport, tourism, business services, and services did not allocated anywhere. The more developed country the more potential for exporting such sectors of knowledge intensive services: computer and related activities, research and development, market research, business and management consultancy, architectural and engineering, technical testing and analysing, advertising, creative entertainment. Developing countries are famous by international tourism activities (whose climate zone is rather favourable) or transport services (sea, road, railway, etc.). Not only because of poor economics the international trade in services in developing countries is so low. Developing countries have been grappling with liberalization of services sectors. Two specific challenges have been encountered: domestic reform of the state monopolies; and, how GATS negotiations are likely to undermine or reinforce domestic reform efforts (Robertson & Skordis, 2004). Evaluating what services international trade is growing faster, it should be noticed that producers of business to business services are among the fastest growing sub-sectors (Dettmer, 2011). Face-to-face interaction between businesses partners seem to become less important that affected the more rapid growing in international trade of this sub-sector. Evaluating the potential of latecomer countries in international trade in services it should be noticed that they have more possibilities for rapid diffusion of international trade than developed countries according several of theories (Perkins & Neumayer, 1995). Advantage of latecomers lays in the adopting of experience of developed countries and overcoming mistakes made them earlier and avoiding loses in unsuccessful cases of international trade in services.

Research methodology

The paper is based on statistical data analysis and synthesis. For statistics of international trade in services an export of services was measured. Not all statistical data were available for European Union countries, thus data from 2003 are calculated. Bulgaria, Cyprus, Latvia, Lithuania, Malta and Romania didn't supply information for OECD (Organization for Economic Co-Operation and Development) Statistics.

Dynamics of international trade in services and a structure of international services, per cent of export of services from GDP are measured.

From latecomer countries such countries as Czech Republic, Estonia, Poland, Slovak Republic, Slovenia and Hungary for dynamics of export and structure of services are evaluated and to earlier countries-members compared. Analysing the per cent of GDP from export of services no data of Bulgaria, Greece, Spain, France, Italy, Cyprus, Latvia, Luxembourg, Portugal, Romania, Finland, Sweden and UK were available. That is why only fragmental analysis of Lithuanian international trade in services according different data records is available.

It should be noticed that measurement of trade in services is much more complicated than in merchandise (Manual on Statistics of international trade in services, 2002). Services are more difficult to define. Some services are defined through abstract concepts rather than by any physical attribute or physical function. For trade in services there is no package crossing the customs frontier with an internationally recognised commodity code; a description of the contents; information on quantity, origin, and destination; an invoice; and an administrative system based on customs duty collection that is practised at assembling these data. That is why evaluation of international trade in services always has some level of inaccuracy.

Findings of the survey

While services make about 70 per cent of world economies, international trade in services makes only about one fifth of export (Prekyba, augimas ir tarptautine arena, 2010). Small part of international trade in services is related to characteristics of services, but by large part – by barriers for international trade. Entering to EU nations meets the equal condition for competing in services market and possibility to increase export. Evaluating the trend of international trade in services in all EU countries in should be declared that is growing starting from 2003 (Table 2). In this period an export of services increased by 30–190 percentage points depending on economy. The year of 2008 was the most successful not only for EU industry's economy, but for export of services, too.

Table 2. Dynamics of international trade in services – EU in 2003–2010 (export, million US dollars)

Country	Year								Increase (drop) %
	2003	2004	2005	2006	2007	2008	2009	2010	
Austria	32529	37823	42297	45634	54254	63569	54673	54523	+68
Belgium	44601	52642	56166	59445	74443	87608	81675	85496	+92
Czech Republic	7768	9619	11789	13896	16825	21691	20210	21646	+179
Denmark	31345	36539	43436	52163	61389	72455	55198	59879	+91
Estonia	2213	2849	3248	3604	4371	5139	4390	4508	+104
Finland	11454	15163	16995	17494	23235	31922	27482	24589	+115
France	98567	114758	122331	128574	149234	166540	142967	143712	+46
Germany	123458	147349	166960	194175	228299	260907	230379	237574	+92
Greece	24154	33204	34273	35583	42890	49898	37484	37716	+56
Hungary	9205	10756	12867	13691	17211	20112	18370	19060	+107
Ireland	41911	52677	59965	71592	93015	99531	92567	97109	+132
Italy	71580	84673	89410	98774	111931	116296	95286	98313	+37
Luxembourg	25358	33640	40477	50637	64820	69217	60300	67481	+166
Netherlands	70809	84759	92023	96620	111593	125880	113808	95352	+35
Poland	11178	13323	16292	20535	28665	35240	28679	32495	+191
Portugal	12345	14671	15206	18388	23214	26169	22635	23277	+89
Slovak Republic	3286	3725	4408	5409	7021	9144	7043	6557	+100
Slovenia	2783	3457	3995	4481	5673	7387	5975	5778	+108
Spain	74138	86116	94820	106331	127606	142840	122328	124091	+67
Sweden	30687	38906	43043	49588	63206	70654	59020	64319	+110
United Kingdom	158501	197699	207672	236050	288001	286014	231355	238138	+50

Source: calculated by authors on the ground of Trade in services EBOPS 2010 – Trade in services by service category (2011)

Going in-depth in latecomer countries international trade in services, we see that their economies (in the Table 2 market by shadow) increased export of services: Czech Republic and Poland (by 179 and 191 percentage points). Other latecomers increased the export during seven years twice and more. Lithuanian

services export in the beginning of this period was 2207 million US dollars (Piesarskas, 2005). Comparing to other latecomers – Hungary, Slovak Republic, and Poland – Lithuanian services export was the least one, but does not contrasts a lot from Estonia, Slovenia. At the end of surveyed period, in 2010 export of services from Lithuania made 4081 million US dollars. Relatively the same volume of export of services was reached by Estonian, a little bit higher by Slovenian and Slovak Republic economies. Grow of export of services during the surveyed period estimated +85% that is the smallest grow comparing to other latecomer countries.

Analysing the structure of exported services (Table 3), it should be noticed that according OECD, eleven classes of services are exported. Averagely transportation services make a quarter of exported services (24.3% per cent from all exported services from countries listed in the Table 3). The same part of international services is made by travel services (24.4%) and other business services (25.4%) of surveyed countries. These three groups of services make the largest part of export of EU countries. Rest eight classes of services in the total structure of export of services makes from 0.85% (Government services) to 6.8% (computer and information services) of export.

Table 3. Structure of international trade in services – EU in 2010, (export, %)

	Transportation services	Travel services	Communication services	Construction services	Insurance services	Financial services	Computer and information	Royalties and licences	Other business	Personal, cultural, recreational	Government services	Total services
Austria	23	34	3	2	2	2	4	1	27	1	1	100
Belgium	30	12	5	2	1	4	5	2	35	1	2	100
Czech Republic	24	31	2	5	1	0	6	0	30	1	0	100
Denmark	61	9	1	1	0	1	3	5	17	1	2	100
Estonia	39	24	4	5	0	2	5	0	19	0	1	100
Finland*	10	10	1	4	1	2	24	6	41	0	0	100
France	25	32	3	4	1	2	1	7	23	1	1	100
Germany	24	15	2	5	3	5	7	6	31	0	2	100
Greece	54	34	1	2	1	0	1	0	5	0	0	100
Hungary	19	28	2	2	0	1	6	5	28	7	1	100
Ireland	5	4	1	0	11	8	38	2	31	0	0	100
Italy	14	39	6	0	3	2	2	3	28	0	1	100
Luxembourg	5	6	4	1	5	63	1	1	12	2	1	100
Netherlands*	22	11	4	3	0	1	5	18	33	1	2	100
Poland	27	29	2	4	1	2	5	1	29	1	0	100
Portugal	27	43	3	3	1	1	2	0	19	2	1	100
Slovak Republic	31	40	4	3	1	1	5	1	14	1	0	100
Slovenia	26	40	5	3	2	1	3	1	18	1	0	100
Spain	17	42	2	3	1	4	5	1	23	1	1	100
Sweden	16	17	3	1	1	2	10	8	40	1	1	100
United Kingdom	13	13	3	1	5	20	5	6	31	2	1	100

*Note: the structure of services is based on 2009 data, as 2010 was unavailable

Source: calculated on the ground of Trade in services EBOPS 2010 – Trade in services by service category (2011)

The structure of international trade in services depends on a country's development level, geography, traditions a lot. Of course, Luxembourg is famous of export of financial services (63% of export), Poland, Estonia, Slovenia, Germany export transportation services (approximately 25% of export) as they a located at the transiting area. Computer and information services make a large part of export from Finland, Ireland; royalties and licences from Netherlands. Travel services make a larger part of export of countries located at mild climate zone, near mountains (ski tourism).

An export of latecomer countries such as Czech, Estonia, Slovak Republic and Slovenia is rather similar: transport and travel services make the largest part of international trade. Hungary is a little bit different one from latecomers, as other business services makes the same part of export as travel. Insurance, licences and royalties, construction, personal cultural, recreational services shape the very small part of international trade in services for latecomer countries. Lithuanian services export in 2010 is very similar to other latecomers. Near 60% of Lithuanian services' export is made by transport services, 25.31% travel, 8%

– other business services, 3% communication, 2% construction, information technologies and financial by 1%, personal and insurance – 0.5% (Paslaugų eksporto tendencijos Lietuvoje, 2011).

Export of services during the surveyed period evaluating it as percentage from GDP grew by one percentage point in all EU (27 countries) (Figure 1). Thus, dynamics of trade is positive one. Even if volumes of services export from Lithuania, comparing to other latecomers is not very large, export of services in Lithuania in 2003 was higher as average of EU as per cent from GDP. Seven years after export of services in % from GDP decreased in Lithuania, but was higher than average of EU. The largest drop in export is seen in such latecomer countries as Slovakia, Czech Republic, less in Estonia. Export of services increased in Slovenia, Hungary, by large part – in Malta.

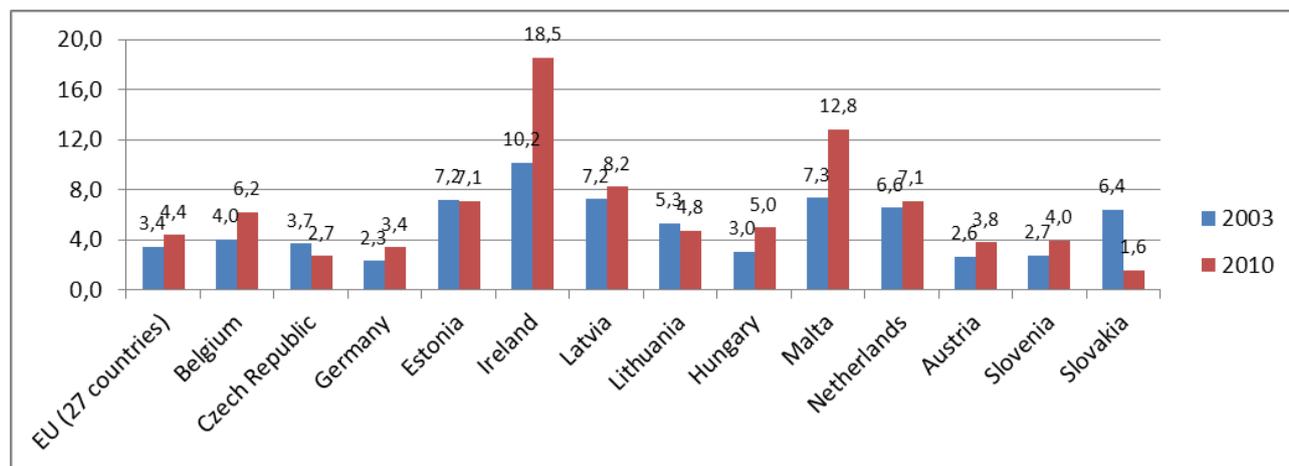


Figure 1. Export of services in 2010, % from GDP

Source: calculated on the ground of Export of services % of GDP (2011)

Analysing the market for export of services from Lithuania, it should be noticed that 18% of exported services are sold in nearest countries such as Latvia, Estonia, Finland, Sweden, Denmark, and Norwegian (Paslaugų eksporto tendencijos Lietuvoje, 2011). In such countries as Russia, Ukraine and Belorussia 33% of exported services from Lithuania are sold. Other European Union countries make about 40% of Lithuanian international services market; and the rest part (9%) – other countries.

Summarizing it should be noticed that even not all of services are sold abroad of Lithuania very successful, the volumes of services export comparing it to GDP is rather satisfactory and even overtakes the average of EU.

Concluding remarks

The specifics of services rather often do not allow trade them far from a supplier. There are a few of modes in which services could be provided to customer abroad – this is influenced by service and circumstances itself. Because of possibilities to overcome the barriers for international trade in services, the Mode No. 2 usually is used (transport and travel services). Other Modes of supply are implemented more seldom because of arising barriers for trade (geographical, fiscal, requirements for supplier's qualification and experience, etc.) and services characteristics.

Implementing ICT opens more opportunities to develop international trade in services; that's bringing more challenges and opportunities for economies. Latecomer countries, what joined to EU latter, meets more advantages as earlier members already have beaten a track to international market, from one hand. From other hand, the market is going to be more saturated and it is more difficult to create something special, exceptional for a customer. Latecomer countries usually supplies such services as transport, travel for international level market; but other services as ITC, business remains to be a matter of trade of developed, earlier members of EU. Findings of the research showed that grow of international trade in services from latecomer countries based on ICT services, too. The large structural per cent of exported ICT services showed that latecomer countries enables to increase the export on new, modern ICT, while earlier member of EU already have rather stable structure of exported services.

On the basics of the analysis it should be stressed that *Lithuania as other latecomers* participate in the market under the similar conditions. Export of services as per cent from GDP of the country shows that

international trade in services in Lithuania isn't behind of developed countries, earlier members of EU. Moreover, a part of exported services from GDP overtakes the average of EU (27 countries). Situation of export of services from Lithuania points out that transport and travel services make the largest part of export, that's mean that other services such as business IT services, insurance, financial services still have a lot of challenges and opportunities to be trade abroad. Most probably that Lithuania as a member of international market still is going to trade travel and transport services for foreigners. In near future more possibilities to develop business and ICT services abroad opens, as Lithuanian local market of these services is already rather developed; and there are a lot of possibilities to sell these services in other Baltic countries, CIS, EU countries. Further development of international trade in services in Lithuania will be influenced both by neighbouring countries, global economy's trends and total politic of Lithuanian of economy's development.

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