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RELATIONSHIP BETWEEN GOODS TRADE ECONOMY AND SERVICE-ORIENTED TRADE ECONOMY

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Abstract:

In the late 1960's, international trade of goods has branched into goods trade and service-oriented trade giving rise to the two types of trade and economy that we now have. With the passage of time, service-oriented trade has surpassed goods trade both in volume and speed of transaction. In service-oriented trade, its unique production entity which involves human resources, is the decisive factor for determining its comparative advantage. The level of service knowledge and technical content are the basis for its comparative advantage.

KEYWORDS:

Economy, goods trade, service-oriented trade, competitive advantage

1.INTRODUCTION

Goods Trade Vs Service-Oriented Trade

Restructuring activities in the global trade economy is looking at the new rapidly developing area of service-oriented trade as a source of growth according to RESER(2013). RESER is the International European Association for Research on Services whose researchers and practitioners have combined their efforts for better understanding of the service industries. Urban areas like cities are significant contributors to the development of service-oriented industries. In the US 85% of the GDP has been generated by 259 cities (Manyika et al. 2012).

Although tangible production like mining can impact intangible service-oriented jobs (Orton,2014), there is a great difference between the trade of service and goods. The following summarizes the five aspects of this difference:

Firstly, objects dealt with are different. The goods trade involves tangible goods or objects while service-oriented trade involves intangible services. These services could be in financing, insurance, advertising, consultancy, transportation, law and accounting.

Secondly, trade sources are different. In service-oriented trade, the main source is intelligence which is used in patents, copyrights, legal knowledge, accounting rules, and managerial expertise. On the other hand, goods traded are produced by a combined use of land, labor, and capital.

Thirdly, trading times are different. Due to the abstract nature of services traded, production, distribution, and consumption are simultaneous during transaction. With goods, they are non-simultaneous since they are stored, transported, and distributed through export, wholesale and retail to customers forming the goods flow period.

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A fourth difference is in the regulation of transaction. Governments of different countries adopt different ways to manage and supervise trade of goods and services in accordance with the laws of the country. For the service-oriented trade, restrictions are based on legislative laws whereas goods trade can be protected or liberalized through quotas, licenses, tariffs, and application of technology standards.

Last but not least is the difference in assessment of economic benefits. Trade deficit or surplus in the service – oriented trade is based on comprehensive statistics of projects undertaken while economic benefits of goods trade is based on the overall volume of exports and imports.

Volume of International Trade in the Goods Trade and Service-Oriented Trade

In the late 1960's, international trade has diverged from goods trade to two types, namely goods trade and service-oriented trade. Service-oriented trade has grown tremendously and surpassed goods trade in volume. In 1960, global service trade was less than 20 billion dollars but, in 1970 it rose to 100 billion dollars, in 1980 it was 770.2 billion dollars, in 1990 it was 1.6014 trillion dollars and in 2000 it was 2.9403 trillion dollars. The growth rate of service-oriented trade in 1970 to 1980 was an annual average rate of 19%. In 1979, the service-oriented trade volume had an annual growth rate of 24% higher than that of goods trade which was 22%. Some service-oriented trade integrated with goods trade is considered as goods trade. In 1997, Global service-oriented exports totaled 1.31 trillion dollars with 3% annual increase. Imports amounted to 1.295 trillion dollars with 2% annual increase. From 1990-1997, global service-oriented exports and imports achieved an annual average growth rate of 8% and 7 % respectively. Global goods export totaled 5.3 trillion dollars and imports totaled 5.47 trillion dollars, both with 3% annual increase. In 2011, international trade volume of goods increased by 19% from the 2010 volume. In the same year, world service oriented trade increased by 11 %.

According to World Trade Report (2013), slow economic growth and weak demand of developed economies resulted in only 1% increase in growth from 2011 to 2012. The service-oriented trade increased by 2%, the lowest since 1981.

Trans-boundary Service Trade

Based on the General Agreement for Trade of Service reached through General Agreement on Tariffs and Trade Uruguay Round, service trade refers to process of business suppliers as business or personal presence, providing clients with services to move foreign currency across the border of one country to another. Such movement can be defined as trans-boundary service trade which can take any of the four following forms:

The first form is multinational supply. Cross-border providers deliver services like information and finance to clients through telecommunications, postal delivery and internet which do not involve the flow of labor, material and/or capital.

The second form is outbound consumption. People in one country provide service to clients (legal person or natural person) in the other country. Tourism services provided for outbound tourists, medical services provided for outbound patients and outbound services provided for overseas students are all forms of outbound consumption.

The third form is actual personal presence. This means service providers are present as actual persons in a foreign country and provide services to foreign clients. Examples are doctors, professors, athletes and artists who travel overseas to engage in non-emigrant individual service.

The fourth type is business presence which is the main form of service trade. Providers offer services to clients in other countries by establishing business in the country.

According to WTO, global service includes transportation, tourism business, financing, insurance, international information processing, transmission and data computing, construction and engineering contracting, telecommunication, advertising, design, accounting law, renting, repair, maintenance and technical guidance, audiovisual, exchanges in education, sanitation, arts sports, retail and wholesale business. The GATT has provided four reference standards to judge service quality namely, trans-boundary flow, concreteness of service projects, the continuity of trading and time limitation of service.

Service trade has undergone a lot of diversification and expansion along with the rapid development and extensive application of information technology. Service trade in developed countries utilizes intensive capital, technology and knowledge while in developing countries it relies heavily on labor.

Service trade has concentrated on higher quality and productive service which creates higher additional value in the resulting product due to the infusion of the service compared to normally or

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traditionally manufactured products without the added service. Productive service has become the decisive factor in the service-oriented trade.

The use of high technology with higher capital and knowledge investment in the service-oriented trade has moved towards the production of higher value goods. It has also resulted in lower production costs which has improved international competitiveness.

Expansion of Multinational Corporations and Service-Oriented Trade

Since multinational companies can directly promote the development of service-oriented trade, the expansion of multinational corporations boosted further the growth of service trade in three different ways. One way is during the expansion of the multinational corporations especially in their overseas branches, where they need varied professional and technical knowledge such as managerial, financing and marketing strategies. Multinational companies also provide consultancy services aside from the goods they are selling to their global consumers.

Another way is through international investment, technology transfer and production specialization where they can promote flow of technical and managerial expertise among countries and bring international development to service sectors like insurance, law, technology, and transportation. The third way is through increased investment in the service sector to realize more profits.

The service trade is a trading platform centered in cities emerging with the construction of economic structures arising from new technology between cities in developed and developing countries. The direct investment from multinational companies, rapid expansion of trade in goods, and extensive application of technology contribute to the fast growth of service trade observed to follow the "Flying Geese Paradigm". The export goods based on international labor also add to the development of the service trade. As the service sector became more specialized and expanded in operation, the number of multinational companies and banks have emerged and in turn they promoted the further expansion of service trade.

Shift of Multinational Corporations to Higher Technology Industries

Before 1980's multinational corporations concentrated their direct investment in the mining and manufacturing industries. Since then, multinational companies have diverted their investment to capital and technology intensive and service industries. Increased trades of goods have spurred growth in service trade. Difference in the competitiveness of various services involving trade of goods also fosters the growth of the service trade.

Applications of higher technology industries have made possible long distance service trading and improved tradability of service products. Examples are the electronic transmission of images, texts, and data. Services rendered without actual presence of the service provider is made possible like lawyers providing legal consultations with clients across continents, doctors diagnosing patients in other parts of the world from the convenience of their home clinics. Even sports enthusiasts can enjoy watching matches across the Pacific in their homes at the same time they are taking place. The internet has connected information and people across the globe.

Knowledge economy founded on technological progress, advanced products and highly skilled workers has driven economic growth in the last 40 years and must continue to meet our needs (Levy et al,2011). Adequate policies must be in place to achieve this goal.

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