

China's Service Trade Development and Policy Implications for Korea: Focused on Major Industrial and Regional Analysis

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I. Introduction

The Chinese government is pushing for the opening of the country's service sector and fostering the producer service industry through its 13th Five-Year Plan. Aiming to realize these goals, China emphasizes a highly open market and external cooperation, and focuses on the development of the service industry and the expansion of the service trade as it did in the past by opening policies.

China's service trade volume was estimated to reach \$657.1 billion in 2016 and exceed \$1 trillion in 2020. Among Korean exports to the mass market, the share of service exports is growing from 9.7% (2011) to 14.5% (2016), and China has emerged as Korea's largest service market and largest service trade surplus country since 2013. The fact that China's service trade and Korea's exports of services to China are both expanding rapidly points toward an opportunity to increase the role of Korea's services trade with China in the future.

This study seeks to explore new export engines that can boost trade in the services sector. To this end, the study examines ways to boost

services trade with China based on an analysis of industries and regions with good prospects.

II. China's Service Trade Promotion Policies and Status

China has announced its plans to operate a Service Trade Innovation pilot area. Together with the 13th Five-Year Plan for Service in Trade Development, these measures designate key regions that can lead service trade development and carry out pilot policies. It has also released a Catalogue for Guidance of Foreign Investment and announced free trade zone policies in line with China's diverse policies and system reforms in the services sector

Statistics show that China's service trade has increased 13.6 percent per year, far exceeding global service trade growth and the rate of growth for Chinese commodity trade. Korea's exports of services to China are also growing amid China's rapid rise in imports of services, suggesting that services cooperation with China could be a new opportunity for Korea. An analysis using the global input-output table

showed that China was rapidly expanding its demand for knowledge-based services and producer services. However, since Korea is yet to secure comparative competitiveness in businesses other than wholesale and retail and real estate, it will urgently need to nurture such industries and secure comparative advantage.

III. Development and Policies of Service Trade in Major Industries

1. Medical Services

Foreign investment in health care represents a mere 0.1%, but policies are being implemented to encourage foreign medical institutions to advance into China amid growing demand for medical services. In Korea, cosmetic surgery and dermatology have garnered high recognition, but future advances in medical care, internal medicine, examination centers and orthopedics need to be reviewed first. In the medical services sector, the China-Hong Kong CEPA has the highest level of openness.

2. Cultural Contents Services

The demand for cultural contents is enormous in China but cannot be satisfied by China's own ability to produce contents. Korea could first consider entering sectors of the cultural content market which are showing above-average growth, such as movies, animations, knowledge information, and music. However, since the Chinese government has imposed very stringent regulations on foreign cultural contents entering the market and the area is strictly closed to foreign direct investment, there are many restrictions on entering the market. Most of the services related to culture

contents are classified as prohibited businesses in the Catalogue for Guidance of Foreign Investment and also in a separate positive list within the China-Hong Kong CEPA.

In particular, more stress is recently being placed on the need to pay attention when entering the China market, as it widens the scope of its monitoring and standards for entry regulations, such as those regarding Internet contents services and mobile games.

3. Logistics Services

China's logistics service trade has been growing at double-digit rates for several years, and is eager to invite foreign logistics businesses, occupying nearly 25 percent of China's total service trade. The Chinese government is now emphasizing international cooperation in the field of advanced technology to modernize the logistics industry, especially since more detailed ways to facilitate exchanges of related technologies, products, standards and human resources have become necessary through intergovernmental cooperation.

The areas with the highest demand for external cooperation to promote modernization of the logistics industry include cold-chain systems, logistics warehouses, transportation of chemicals and hazardous items, and e-commerce. In particular, although some local companies dominate the local logistics market in western China, the level of modernization is very low, so the initial focus should be for Korean companies to enter into the market and promote cooperation in the region.

IV. Development and Policies of Service Trade in Major Provinces

Guangdong Province serves as a test bed for the opening of the service sector through the CEPA between China and Hong Kong, and is an important benchmarking area for Korea. The original plan for Guangdong was to transition into a service-oriented industrial structure based on economic cooperation with its neighbor Hong Kong, but its focus has recently shifted to strengthening manufacturing competitiveness. As such, the area is highly significant to Korea in that it is promoting development in the producer service industry. Guangdong Province is evidently leveraging developments such as the CEPA, free trade zones, and economy cooperation platforms to push for China's highest level of openness in services in the finance, cultural, and industrial R&D and design and professional service sectors.

Beijing is an area with a service-oriented economic structure and large service market, giving it an edge in the Chinese service sector and service trade in the area. In recent years, it has been nurturing service businesses that match the direction of development proceeding in Beijing and the strategic role assigned by the central government, in areas such as culture, information technology and tourism. In particular, Beijing is pushing for a positive list of opening policies with the entire city as a service opening zone, rather than limiting these to free trade zones and other specifically designated locations. In addition, FDI is being concentrated in the cultural services, and foreign investment has been allowed for the first time in China in the area of creating cultural contents.

Shanghai is China's largest market for service trade and China's first free trade zone test bed. Shanghai has well-developed logistics and transportation businesses to handle the world's largest volume of commercial traffic, and it maintains an excellent level of corporate support and advanced management models. Shanghai manages the highest level of openness measures among Chinese free trade zones, focusing on finance, shipping, business, cultural, information technology and professional services, and is working to establish a service trade system that optimizes the areas of service supervision and management, imports and exports, and customs. New services such as in the areas of medical tourism, online education, e-commerce and remote traditional Chinese medicine services, have also been the subject of active development recently.

Shandong Province has developed commodity trade at the three largest manufacturing bases in China, while service industries and service trade have been relatively delayed. Shandong Province has emphasized the development of new industries and service industries to improve labor-intensive manufacturing businesses, but still has a strong dependence on traditional service industries such as tourism, construction, logistics and transportation. However, recently, Shandong Province is considering Korea as an important partner to advance the regional industrial structure and develop its service industry. Shandong Province is a promising area for bilateral service cooperation in the medical, cultural and tourism sectors, for instance between Incheon and Weihai, which are included in the regional cooperation chapter of the Korea-China FTA.

V. Policy Implications for Korea: The Activation Measures of Korea-China Service Trade

As for cultural contents, Korea's level of openness is higher than that of China, meaning the Korean government should seek further concessions through negotiations. Currently, the BIT negotiations between the United States and China are underway with cultural contents and the Internet included on a negative list. This is the first time that China has chosen to classify cultural contents in the form of a negative list. It would benefit Korea to take a look at the examples provided by the U.S., especially when it comes to cultural contents, as it prepares to negotiate Korea-China FTA services. More specifically, Korea needs to closely examine the conditions cited by the United States as prerequisites for opening, opening measures accepted by China, and the reasons for its insistence on easing trade barriers, such as infringement of intellectual property rights.

China's logistics industry is still struggling with high barriers to entry posed by specific businesses, such as air transport, water transportation, and passenger transportation; however, the CEPA concession is highly open and allows for independent or joint ventures in the Chinese market for some services that lack in supply. Shipping services have opened in the areas of ship management and inspection, container terminal services, port cargo handling, while air transport services have allowed a limited amount of independent investment for sales agents, arrangements services, handling and communication services, and the container facility management services, passenger and luggage services, luggage and friendship services, and apron services.

Hong Kong has allowed joint ventures in some areas of inland water transportation services. In addition, in terms of road transportation services, while China has refused to allow Korea to provide independent services for passenger transportation, Hong Kong has eliminated all restrictions. Therefore, the above-mentioned application of the opening areas can be considered during the Korea-China FTA service and investment negotiations.

It will be difficult to expect for the Korea-China FTA negotiations to lead to further opening in their respective medical service sectors, as China's medical sector is more open than Korea and Korean medical service providers are opposed to the opening of the market. But Korea can request for China to apply the level of openness it allows to other countries. As China has allowed concessions for Hong Kong under the CEPA, Korean medical institutions can reduce their minimum investment in China from 20 million yuan to 10 million yuan, and Korean doctors can extend their short-term medical practice licenses in China for up to 6 years.

It is necessary to take into consideration the negotiation system utilized for the China-Hong Kong CEPA when engaging in additional negotiations of Korea-China FTA services. The CEPA presents a pattern of implementing the best service opening measures for Hong Kong companies in Guangdong Province on a trial basis, after which the U.S. and China discuss whether to incorporate these opening measures into their bilateral investment treaty (BIT), followed by an opening throughout all of China. Also, the CEPA negotiations have recently been expanding into areas with a higher impact, such as interconnection standards and laws in the service sector, negotiation mechanisms for resolving disputes

and conflicts, and negotiation methods and plans in the Korea-China FTA service industry.

In addition, the CEPA designates Guangdong as a test area, with a limited set of opening measures being implemented first. This opening method involves less risk than opening the entire Chinese market, allowing pilot projects to be carried out in various fields. Therefore, it would be possible to consider performing preliminary test measures in certain areas of the two countries with the Korea-China FTA as well. In this case, the areas currently listed in the economic cooperation chapter of the Korea-China FTA, such as Saemangeum, Yantai, Yancheng, Huizhou, Incheon Free Economic Zone and Weihai, would be designated as the test areas. **KIEP**