Comparative Study on International Competitiveness of Financial Services Trade in China, America and India

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Abstract—In recent years, the rapid development of international trade in services has increasingly become an important indicator of national competitiveness. This paper does research in financial services trade. China and India are the delegates of emerging economies. The United States is the most developed country in the world in services trade. After a brief introduction on financial services trade of China, United States and India, the paper makes a empirical and comparative analysis of the international competitiveness of the three countries’ financial services trade using RCA index, TC index and international market share respectively. It is found that the competitiveness of Chinese financial services is behind both the United States and India. Promotion of Chinese financial services trade will help improve the whole country’s international competitiveness. At last, the paper proposes some relative strategies to enhance the international competitiveness in China.

Keywords- The Financial Services Trade; RCA index; TC index; The International Market Share; International competitiveness

I. INTRODUCTION

The services trade has developed rapidly at the background that the international division of labor continue to deepen and global industrial structure keep adjustment and upgrading. The international competitiveness of services trade has increasingly become an important measure of a country or area international competitiveness. According to “General Agreement on Trade in Services”(GATS), financial services means a member offer another member any services related to financial. The financial services trade includes three modes: cross-border supply, consumption abroad, commercial presence.

China and India are the delegates of emerging economies. The United States is the most developed country in the world in services trade. How was the three countries’ international competitiveness of financial services trade? How to enhance China’s ability of financial services trade? This paper will give China’s development some advice through the comparative study of the three countries’ financial services trade.

II. CURRENT DEVELOPMENT

A. China. Since the reform and opening policy in 1970s. China’s foreign trade development has entered a new stage. Financial services exports has developed from $1.7 billion to $6.9 billion since 2008 to 2013. The annual growth rate was 55.3%. At the same time, financial services trade import also grew rapidly. The import amount reached $25.5 billion. China’s trade deficit of financial services was gradually expanding. The amount of import and export also constantly increased. But the development level of China’s financial services trade is still low.

B. United State. Its export rised from $152.5 billion to $167.8 billion since 2008 to 2013. The annual growth rate was 2%. Financial services trade export reached $98 billion in 2013. The annual growth rate was 5.6%. The surplus existed in United States since 2008 and the amount was rising. It shows that US financial services trade was well developed and maintain a strong competitive advantage.

C. India. Since the 1990s, financial services development of India has the characteristics of large-scale, rapid growth, surplus. India’s finance and insurance services has a rapid growth and its export has been among the forefront of the worldwide financial services. India’s total amount of financial trade was 19.1 billion.
III. EMPIRICAL ANALYSIS

A. International competitiveness analysis based on RCA index

RCA (Revealed Comparative Advantage) index is proposed by the Balassa. RCA index refers to a share that a country’s exports of certain goods or services divided by the world’s exports of these goods or services. The index can be used to react a country’s status of a commodity or services in the whole world market. The formula RCA index can be expressed as: RCA=(X/A)/(Y/Y).

In the formula, Xi represents i-th exports of goods or services of a State. X represents the country’s total exports of goods and services. Y represents the total world exports of goods and services. If the RCA index > 1, it indicating that the country’s some kind of services has revealed comparative advantage. If RCA index > 2.5, it means that such a services has a well strong international competitiveness. If 1.25< RCA index <2.5, it shows that such services has a well international competitiveness. If RCA index <1, indicating that this kind of services has not revealed comparative advantage.

In this paper, the RCA index is calculated through data of China, USA, India and the World (in Table 2). In the financial services (except insurance), the highest RCA index is 2.63>2.5 and it is from USA in 2011. It indicated that American’s financial services has revealed comparative advantage with strong international competitiveness. India’s RCA index of financial service is close to 1 and is more than 1 in 2010 and 2011. It means that India also has a revealed comparative advantage in the world. China’s RCA index <1 indicate that its international competitiveness is weak.

The competitiveness of insurance of USA and India is stronger than China. America’s RCA index is around 1.6. The value is very stable. American’s insurance has a strong international competitiveness. India’s RCA index of insurance is between China and American and the industry also has a revealed comparative advantage. China’s RCA index has been low but there is a slow upward trend.

### TABLE II RCA INDEX OF FINANCE SERVICES TRADE

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>China</td>
<td>USA</td>
<td>India</td>
<td>China</td>
<td>USA</td>
<td>India</td>
</tr>
<tr>
<td></td>
<td>1.70</td>
<td>1.96</td>
<td>3.06</td>
<td>3.86</td>
<td>5.21</td>
<td>6.90</td>
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<td></td>
<td>7.63</td>
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<td>86.75</td>
<td>93.20</td>
<td>92.48</td>
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<td>8.83</td>
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<td></td>
<td>13.31</td>
<td>11.95</td>
<td>17.14</td>
<td>20.48</td>
<td>22.52</td>
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<tr>
<td></td>
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<td>76.98</td>
<td>73.36</td>
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<tr>
<td></td>
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<td>7.78</td>
<td>11.79</td>
<td>14.48</td>
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<td></td>
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<td>-9.99</td>
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<td>-16.61</td>
<td>-17.31</td>
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<tr>
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<td>-3.86</td>
<td>-3.83</td>
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</tbody>
</table>

Date source: Calculated based on UNCTAD handbook of statistics online (2014)

B. International competitiveness analysis based on RCA index

TC index(Trade Special Coefficient) represents an industry’s trade balance than the industry’s total trade amount. The index can measure the industry’s export competitiveness in the world market. The RCA index can be represented by the following formula: TC=(A-B)/(A+B).

In the formula, A represents export amount of some kind services in a country and B represents import amount. TC index is in the range (-1,1). If the index is close to 0, such kind of services export competitiveness is weak. If the index is close to 1, the competitiveness is strong. If TC=-1, the country has only import services. If TC=1, there is only export services in the country.

American’s TC index of financial (except insurance) in biggest in the three countries. It is lowest in China and it is medial in India. American’s TC index reached 0.63 in 2013. It indicate that there is a strong competitiveness in international market. Chinese TC index is negative. It is mainly because the financial service trade of exports in China is less than its imports. The deficit is exit, indicating the competitiveness of Chinese financial services is weak. India’s index began to be positive from 2012 indicating that the Indian financial services trade is gradually full with international competitiveness.

In the insurance, the three countries are all deficit that the import is more than export. Therefore the three countries’ TC index is negative. But the American’s TC index is close to 0 in comparison. Chinese TC index is -0.69 close to -1. It indicates Chinese international competitiveness of financial service trade is weaker than USA and China.
IV.  CONCLUSIONS AND RECOMMENDATIONS

At present, China’s financial services trade is still weak in the international financial services market and there is still a large distance between China and developed countries such as United states. Besides, China is also behind India as one of emerging countries. Therefore, promotion of China’s financial services trade will help improve the whole country’s international competitiveness. Specifically, we can start from the following aspects.

A. Strengthen the three countries’ cooperation in financial services trade. In the economic globalization and financial internationalization today, the international cooperation in finance is an important way to achieve regional economic development stability. Strengthening the three countries’ financial cooperation can help the country learn the successful experience from each other and enhance the international competitiveness of financial services trade. With the relation strengthening in economic of the three countries, the effectiveness of a country’s monetary policy is closely related with the degree of the reaction of other countries. The three countries need to strengthen the coordination of financial policy, such as improving the dialogue mechanism of financial government further, enhancing security and strengthen the coordination of financial monetary policies to improve the international competitiveness in financial service trade.

B. Perfect outsourcing market of financial services further. In recent years, the domestic financial institutions focus more and more on their core business with the increasingly fierce competition in financial industry. The financial services outsourcing can reduce costs, transfer risk and enhance the core competitiveness of financial enterprises. Therefore, development of service outsourcing means a lot to enhance Chinese international competitiveness of financial service trade and accelerate the integration of Chinese and the international financial markets. However, Chinese financial services outsourcing developed slowly and financial services outsourcing market is still not mature, such as outsourcing business scope is too narrow and relevant legal system is not perfect, which seriously hinders the enhancement of financial enterprise’s core competitiveness. Therefore, the financial sector should gradually expand the scope of outsourcing and the government should further improve the regulatory system outsourcing.

C. Establish statistics accounting system of financial services. At present, the statistics service accounting system of Chinese import and export is still not perfect. Some individual service sector does not import and export statistics. In order to offer reliable data for relevant departments to make decision and analysis economic, import and export accounting statistics of financial services should be established. Statistical standards should be international in order to improve the accuracy and usefulness of the data. It can also enhance the development and competitiveness of financial services in China.

D. Accelerate the training of financial professionals. At this stage, although the scale of Chinese financial talents is huge, the training quality is still backward compared with other country. The human trained by the traditional education system is difficult to meet the needs of a modern financial enterprise. So the current financial talent cultivation system should be reform and speeding up the training of senior financial personnel understanding the advanced theory and advanced technology.

REFERENCES


