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TRENDS OF INTERNATIONAL TRADE IN SERVICES: INTEGRATION OPPORTUNITIES FOR UKRAINE

TETYANA BODNARCHUK, VOLODYMYR LYSAK

Abstract. In the article the main trends and patterns of the development of international trade in services in the period of post-industrial development of the world economy are considered. Ukraine's competitive positions on international service market are outlined. The main endogenous factors of enhancing the country's integration to the world trade relations system in service sector are determined.

Keywords: service sector, international trade in services, international service market, globalization, transnationalization, economy of Ukraine.

1. INTRODUCTION

Distinctive features of the world economy development in the post-industrial stage are such as deepening of existing and appearance of new social division of labor, weakening of social and economic isolation of producers, development of the market modernized models of economic cooperation along with traditional, strengthening of the state's role in production and substantial growth of economic importance of the tertiary production sector. Nowadays the base of international service market's development is the processes of internationalization and globalization. On the one hand, internationalization is characterized by the strengthening of economic exchange between countries. On the other hand, globalization causes the formation of single financial and economic space and unification of the economic cooperation directions. Service sector becomes the source of economic growth for many high developed countries. They take the leadership positions on the market of not only industrial but financial, innovative, technical and intellectual products.

At the same time, in the less developed countries such like Ukraine the dominant industrial and agricultural character of their national economies development is saved. Actually, because of this reason they keep on being the source of raw materials and resources, sales market and suppliers of cheap labor for world leaders. Low level of service sector development in the second world countries causes the growth of their commercial, financial, informational and technical dependence from the developed countries. Today the service sector development is one of the main indicators of economic growth and the condition of high competitiveness of the national producers on international markets. It requires the rise of the available economic potential in direction of high technological and diversified service sector formation from the side of less developed countries. It is necessary to work out such a

strategy of economic growth which would provide the increasing of competitive advantages such countries as Ukraine on international service market and stimulate the getting of positives from the process of tertiary sector globalization.

2. ANALYSIS AND DISCUSSIONS

International service market is a difficult open system which is affected by the factors' groups and consists of the great diversity of exchange objects. Its development is characterized by new trends. In the terms of new economy the service sector covers nearly two thirds of economic activities in the world. Its proportion in the foreign trade model of the most countries is rather large. In particular, today according to the International Monetary Fund's information the cost of all kinds of services is nearly \$1500 milliard that is 70% of the all world production cost [1, p. 46]. In the developed countries the proportion of service sector in the structure of GDP is more than 70%. 65% of the planet working age population is hired there (75% in USA) [2, p. 180]. During recent years international trade in services is developing most dynamic. This is caused by the effect of different factors such as quick development of the informational and communicational sphere, appearance of the new kinds of activity, for example, electronic commerce, increasing of economic power of some companies on international market, the process of deindustrialization in the leading countries, rise of hiring in service sector, deepening of the labor intellectualization and economic relations informatization, growing of population mobility etc.

Foreign trade in services has its own distinctive features which arise from the specific and fundamental characteristics of the exchange object - services. Some scientists consider a service as a kind of good, while others oppose it. On the one hand, a service acts as a commodity, as it is an object of purchase and sale. On the other hand, a service is a specific object of sale, which has such features as:

- intangibility – service cannot be seen, tasted or checked; providing of services involves some certain actions, reactions on which are formed only after their completion;
- the inability to preserve a service – intangible nature of services precludes their storing and sale in the future;
- volatility of service quality – the perception of the same service is realized by each consumer individually based on his subjective feelings;
- high level of individualism – the provision of services is associated with the need for action subordination according to the requirements of each customer;
- inseparability of production and consumption – there are no any trade mediation in services trade, since the vast majority of services is provided at the time of their production;
- inalienability of services from its carrier – the implementation of services is carried out by close cooperation between consumer and producer; services as the objects of sale cannot be resold or transferred to another entity.

The specificity of the sale object determines the features of foreign trade in services as a process. In particular, the inability to transport services as an object requires the transportation of both producers and consumers; invisibility and intangibility of services require the selection of special methods for their promotion into the market and providing for consumers; customs control is absent in services trade and the system of trade regulation is significantly simplified; foreign trade in services is in close relationship and often mediated by foreign investment. As usual, economists single out four main mechanisms of services trade such as cross-border supply of services, consumption abroad, commercial presence and presence of individuals.

In 2015 the world trade in services volume amounted to \$5 trillion. Trade in services greatly increased between 2005 and 2015 (from about \$2.5 trillion to almost \$5 trillion) [3, p. 9]. Developed countries are still in leading positions in the geographic structure of international trade in services thus their relative importance as suppliers in international markets is declining during the last years. Still, they account for about two thirds of exports of services. In 2015 developed countries' exports of services added up to about \$3 trillion. In 2015 BRICS exported about \$500 billion in services. Less

developed countries' contribution to world trade remains minimal, although some increases in exports and imports of these countries have been recorded over the past decade [3, p. 11]. In 2015 in the structure of the world services exports predominant share is in the European Union and the United States (table 1). Services exports from China, India and Japan have significantly increased for the recent years. In the overall structure of world imports of services leading positions are occupied by the United States, European Union and China.

Exporters	Share	Annual percentage change	Importers	Share	Annual percentage change
United States	14.5	0	United States	10.2	3
United Kingdom	7.3	-5	China	10.1	3
China	6.0	2	Germany	6.3	-12
Germany	5.2	-9	France	4.9	-9
France	5.0	-13	United Kingdom	4.5	-1
Netherlands	3.7	-9	Japan	3.8	-9
Japan	3.3	0	Netherlands	3.4	-9
India	3.3	0	Ireland	3.3	4
Singapore	2.9	-7	Singapore	3.1	-8
Ireland	2.7	-5	India	2.7	-4

Tab. 1. Leading exporters and importers in world trade in commercial services, 2015 (Percentage).

Source: [4, p. 96].

Further liberalization of foreign trade, extensive transnationalization, restructuring of the material production sphere, the appearance of economic systems' new types (information, network, innovative economy) – all these are contributed to changing of the type structure of international trade in services and led to the appearance of new areas of the service industry. In recent years the importance of professional services is growing. Furthermore, volumes of e-commerce business and technology services are increasing; the share of telecommunications services that are part of information technology is expanding.

According to the statistic information of UNCTAD with regard to services, travel and other business services represent the largest sectors, amounting to more than \$1 trillion each in 2015. Other important sectors include transport, telecommunications, computing and finance-related services [3, p. 19]. Since 2005, the value of trade has increased in all sectors. With exception of transport and other business services, trade in most of the other categories of services has been resilient to the trade downturn of 2015. Such kinds as goods-related services, insurance and pension services, construction, government services, personal and recreational services are keeping on taking small part in the structure of international trade in services.

Although developed countries still account for the largest part of exports of services, the export market share has been shifting to the advantage of developing countries in most sectors. This primarily refers to the sphere of tourism, where leadership of the tourist interest is moving from Western to Central and Eastern European and Asian countries. Two exceptions are intellectual property and goods-related services, the latter still originating on the whole from developed countries.

Development of international trade in services is characterized by a number of other trends along with changing of volume and structural indicators. In particular, there are distinctive the active separation of a number of services types in detached directions that previously had an intra-corporate nature (computer services, electronic information networks), the growing influence of the large multinational corporations in the global market; the increasing of the number of large integrated companies that are suppliers of so-called "package services", the improvement of the system of state

services regulation etc. [5, p. 59]. It is observed the concentration of services in the markets of developed and developing countries because of those trends' effect. Furthermore, there is the diversification of trade directions.

At present the development of services sector is characterized by the high level of its transnationalization. There are distinctive the processes of TNK service capitalization, especially in the knowledge-intensive industries such as informational, computer, telecommunication and financial services. Noticeable trend is the fusion of the insurance, banking, finance and investment capitals, resulting in appearance of the powerful financial groups, strategic alliances, banking titans, huge brokers on the global market. The aforementioned trends can be confirmed by the fact that according to the results of the FORBES Global 2000 for 2016 TNK service (primarily the providers of financial, banking and business services) took dominant positions in the top ten most influential companies [6]. Mainly, these are American and Chinese corporations such as Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Berkshire Hathaway, JPMorgan Chase, Bank of China and Wells Fargo.

Transnationalization enhances the process of services markets interpenetration through a variety of mechanisms. In particular, it occurs due the activation of mergers and acquisitions, the development of non-active forms of activity (engineering, re-engineering, contract management), strengthening the outsourcing role, franchising, leasing. Notably, there is a significant increase of foreign direct investment into the structural groups of services such as business services, transport and communication services.

The competitive environment is changing radically under the effects of transnationalization and internationalization of production. In the international market the center of economic gravity shifts from some individual countries to transnational corporations. They control the main trade flows of services, change the structure of the services market and greatly contribute to the formation of some new "TNK-market". In these terms the role of non-price forms of competition over price forms is rising, the importance of inter-sectoral and intra-brand competition is increasing, trade in services takes the integrated nature. The inner essence of competition is changing in the international services market what is manifested in strengthening of service provision individualization: modern consumer becomes a co-creator of the product, the carrier of the new outlook, the accessory of the business process and a source of innovation [7, p. 9]. Besides, the activity of services producers also changes: in the terms of new informational and network economy there is no need for acute competition, contrary to that the conditions are created not only for the peaceful coexistence of competitors, but their mutual cooperation.

Today, the role of different supranational institutions in promoting of international trade in services is increasing. In particular, the policy of the international organizations of general competence (such as WTO, UNCTAD) is aimed at the improvement of countries' relations in the service sector, the establishing of business contacts, the implementation of different standards, the unification of trade rules, the consulting and providing the information for trade participants, the reduction of various kinds of barriers to free trade in services and so on. At the same time, the development of international trade in services is accompanied by different problems. Among them we can admit such as monetary and quantitative restrictions which are established by local governments; excessive bureaucracy of states; significant socio-cultural differences of countries that requires large expenditures on adaptation of marketing; sharp growing of the multinational corporations' number and the extreme rising of their influence in certain market segments.

As it has already noted, one of the most important trends of the international trade in services is the less developed countries' business activity growth in the world market. Such countries as China, India, South Korea, Mexico, Brazil, Argentina, Thailand, Malaysia, Tunisia, Cyprus and others become leading suppliers of various services on the international market. This is thanks to their natural and economic features and using of the globalization benefits. At present, the use of the positive experience of the mentioned countries creates prospects for Ukraine in direction of strengthening its competitive position in international trade in services. In addition, in the country there are numerous factor

conditions formed historically which are favorable for increasing of the state's role in the international services market and the growth of its operations in this sector.

In particular, it is important to admit the following factors:

- natural and geographic: country's location at the crossroads of transport routes; availability of access to the seas; developed network of pipelines; significant share of border areas in the country; favorable time zone;
- historical: transportation links of European significance which has been established in Soviet times; uniformity of local economic and social structures constituted historically, a high percentage of persons whose are from neighboring states by nationality; a significant number of historical towns and unique natural and historical sites [8, p. 44];
- cultural and mental: European type of culture; high susceptibility of the population to market new products and the results of scientific research;
- economic: the lack of restrictions on access to the domestic market; favorable investment policy of the government; diversified financial, communication, transport and hotel infrastructure; the formation of a strong material and technical base;
- scientific and technological: high professional and trained workers, a large number of scientific research, high level of technologies introduction, the growing share of Internet users (currently more than a third of the population).

The mentioned factors especially create favorable conditions for the development of traditional service sectors such as transport (transit and cross-border cooperation), tourism, recreation and more. On the other hand, there is the formed basis for the efficient development of a powerful business, information, telecommunication service spheres. However, today the export of services from Ukraine is only 21% of the export trade, while imports amount only 12% (according to statistics of 2016). It is clear that the low level of foreign trade in services country causes quite a small share in the structure of world exports and imports of services (1% in exports and 0.5% of imports). This indicates inefficient use of available capacity.

Trends in Ukraine's foreign trade in services reflect general world trends. During the period of 2010–2013 years an increase in services exports by 19.2% and imports by almost 39% was observed (table 2). However, a gradual decline in foreign trade, especially exports of services by 32.3% and imports by 29.5%, is marked for the period of 2013–2016 years. Despite some negative setbacks trade surplus is distinctive, that is a significant predominance of service exports over imports. At the same time, the size of the balance for the designated period decreased by \$2.4 billion.

Year	Export	Import	Trade balance
2010	11936,3	5421,6	6514,7
2011	14180,3	6214,2	7966,1
2012	14096,2	6650,0	7446,2
2013	14233,2	7523,0	6710,2
2014	11520,8	6373,1	5147,7
2015	9736,6	5523,0	4213,6
2016	9631,4	5304,6	4326,8

*Tab. 2. Dynamics of Ukraine's foreign trade in services, 2010–2016 (\$ millions).
Compiled by the authors according to [9; 10].*

The main trade partners of Ukraine in the services sector were some CIS countries, EU and the US during the period of 2014–2015 years. The same trend is distinctive in 2016. In particular, the largest shares of the national geographical structure of exports are accounted for such countries as the Russian Federation, Switzerland and the United States (table 3).

Name of country	2014	2015	2016
Russian Federation	30,7	31,2	32,1
Switzerland	7,2	7,9	6,9
United States	6,0	6,8	6,8
United Kingdom	5,7	5,7	4,7
Germany	5,8	4,6	4,9
Cyprus	4,0	2,6	2,4

*Tab. 3. Main trade partners of Ukraine in services export, 2014-2016 (%).
Compiled by the authors according to [9; 10].*

For three years the share of exports to Russia has increased slightly, while the share of services exports to Switzerland and the United Kingdom has decreased. As for the imports of services, its largest share was accounted for countries such as Great Britain, Russia and Germany during the period of 2014–2015 years. In 2016 major service providers to Ukraine were the United States and the United Kingdom (table 4). During the period of 2014–2016 years the proportions of almost all major trade partners of Ukraine in the services import structure have reduced besides the United States. It is marked a significant increase in the imports share of this country.

Name of country	2014	2015	2016
United States	8,0	8,8	12,8
United Kingdom	11,1	13,0	10,3
Russian Federation	13,9	11,8	9,4
Germany	9,3	9,7	6,3
Cyprus	8,0	5,2	4,6
Switzerland	5,4	4,2	3,6

*Tab. 4. Main trade partners of Ukraine in services import, 2014-2016 (%).
Compiled by the authors according to [9; 10].*

Ukrainian typological structure of foreign trade in services is rather different from the world one. The level of the national economic development and the lack of proper support of the business environment growth contribute to the preservation of the country's status as a supplier of traditional kinds of services (table 5). A significant transit potential and the presence of a number of cross-border cooperation zones determine the dominance of transportation services in the structure of Ukraine's foreign trade in services. In particular, in 2015–2016 years exports of transportation services amounted to 54,1–54,7% of the total volume and imports amounted to 20,9% and 21,1% respectively.

The second position in the Ukrainian market services is occupied by such kinds as telecommunication, computer and information services. They account for 16,3% of service exports and 7,7% of service imports. During the set period the share of services for processing material products reached to 11,1–11,6% of the typological structure of Ukraine's foreign trade in services. The proportion of business services is quite large and amounts almost 8% of exports and 15% in imports of services.

Kind of services	2015		2016	
	Export	Import	Export	Import
Transport	54,1	20,9	54,7	21,1
Telecommunication, computer and information	16,3	9,9	16,3	7,7
Recycling of material products	11,1	1,1	11,6	0,1
Business	8,4	13,0	7,9	14,8
Construction	3,0	0,8	3,0	1,1
Tourism	2,1	10,8	2,3	10,8

Tab. 5. Typological structure of foreign trade in services, 2015-2016 (%).

If in the structure of international service market the second position is taken by travel services, so there in Ukraine the share of such services in foreign trade is quite low despite of the enormous potential: 2.5% in the structure of exports and 10% in the structure of imports. Among the new types of services there is a significant proportion of professional and consulting services in the structure. At the same time, Ukraine is a weak supplier of insurance, financial, intellectual, cultural and recreational services despite of its great potential.

It is important to admit some factors which negatively affect the level of Ukraine's integration into the international services market. They are the following: dominant orientation of the national economy on the material production development, political and economic instability as risk factors for foreign investment, lack of an effective competitive environment and a significant level of monopolization of some national economy sectors. In addition, a low level of the technology, business and intellectual services' development is caused by the inhibition of the national scientific potential and intellectual capital development. In the country there are a distinctive lack of proper state support for research, information and communications industries, the reduction of the research and education financing, "brain drain", the reduction of the number of implemented scientific and technical works and more.

3. CONCLUSIONS

The international trade in services is undergoing a number of changes under the effect of globalization and integration. They are manifested in increasing of the service exports and imports volumes, changes in the geographic structure of foreign flows to the direction of strengthening the role of a second-tier suppliers, the growth of the high-tech and intellectual kinds of services shares in trade. The new trends of international cooperation in service trade are such as: the increased transnationalization of services production, capitalization of service transnational corporations, foreign direct investment growth in structural group of services, strengthening the role of consumers in the market, the development of active cooperation between competitors for reaching a larger market share and so on.

Today the level of Ukraine's integration into the international services market is negligible. It is evidenced by the low country's share of services trade in the total volume of import and export. At the same time, a number of existing favorable factors (natural geographic, historical, cultural, mental, economic, scientific and technological) determine the prospects of Ukraine for increase of its activity in the service sector and form its competitive advantages in the international market.

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Address: Tetyana Bodnarchuk, Volodymyr Lysak: Kamyanets-Podilsky Ivan Ohienko National University, 61, Ogiienka Str., Kamianets-Podilskiyi, Khmelnytsky Region, 32300, Ukraine.

E-mail: tylya.ru@mail.ru, v_lisak@ukr.net.

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У статті висвітлено основні тенденції та закономірності розвитку міжнародної торгівлі послугами на етапі постіндустріального становлення світової економіки. Визначено ключові аспекти конкурентних позицій України на міжнародному ринку послуг. Обґрунтовано систему внутрішніх чинників сприяння подальшій ефективній інтеграції України до системи світових господарських зв'язків у сфері послуг.

Ключові слова: сектор послуг, міжнародна торгівля послугами, міжнародний ринок послуг, глобалізація, транснаціоналізація, економіка України.