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**TRADE BALANCE OF SERVICES PER CAPITA IN APEC REGION, 2005-2014****ANTONIO FAVILA TELLO****RESEARCH SCHOLAR****INSTITUTO DE INVESTIGACIONES ECONÓMICAS Y EMPRESARIALES****UNIVERSIDAD MICHOACANA DE SAN NICOLÁS DE HIDALGO****MÉXICO****ABSTRACT**

*This paper studies the trade balance of services per capita for APEC (Asia Pacific Economic Cooperation Forum) member economies and its evolution from 2005 to 2014. This is an indicator that can provide valuable information on the trade performance of countries and on how they get benefits from their trade partners. The importance of services has grown exponentially in recent years and countries have found in them a way to diversify their exports and to overcome certain difficulties in periods of crisis. The method used is to calculate this indicator by dividing the trade balance of services between the numbers of inhabitants in each member country in order to compare their performance. It is concluded that the region is highly heterogeneous in commercial matters. The largest exporters of services in the region were the United States, China and Japan. Countries that showed higher growth in these exports were Singapore, the Philippines and Thailand. It was further found that only 6 economies were able to keep surpluses throughout the period studied and that the most pronounced deficits occurred in Papua, Brunei, Russia and Mexico.*

**KEYWORDS**

APEC, per capita, services, trade balance.

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**INTRODUCTION**

**A**PEC region is an area of high contrasts in international trade that includes developed and developing economies. Being a member of APEC represents opportunities and challenges that have required the improvement of their competitive skills. This paper is about trade balance per capita for APEC economies.

Trade balance is one of the aspects that are followed more closely in terms of economic indicators because it can provide an overall picture of the commercial behavior of a country, point out some features of its economic evolution and provide elements that explain the economic decisions of nations.

This work aims to characterize the recent evolution of trade balance of services in APEC region because of the importance and growth of services in the recent international commercial interaction. It begins with a review of literature on APEC and the importance of the trade balance in the study of economics. Subsequently the index used and the results found are described. Finally, some conclusions are shown.

**REVIEW OF LITERATURE**

Historically, trade between countries has been crucial for the development of their economies and for creating economic advantages in the world. Some regions are better than others in the production of certain goods; as a consequence, productive vocations of different places complement each other (Graue, 2009).

The Asia Pacific Economic Cooperation Forum (APEC for its acronym in English) is a regional forum established to promote international cooperation and openness to trade and investment among its members. Currently APEC is formed by 21 countries and economies: Australia, Brunei, Canada, Chile, China, United States, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Taipei, Thailand and Viet Nam (Gonzalez and Gala, 2008).

This makes APEC one of the most diverse and economically larger regions as it represents approximately 40% of the population of the world, 58% of global GDP and 49% of world trade. APEC operates on the basis of resolutions that members assume voluntarily. Thus, APEC practices a kind of open regionalism, promoting the elimination of tariffs and the reduction of nontariff barriers for both, trade and investment as well as access to funds and programs of economic and technical cooperation and training for specific projects. (Bombrun and Guerrero 2015).

Trade balance represents the net trade flows of a country. It can show a surplus when exports are greater than imports and a deficit when imports are greater than exports. In other words, a negative balance means that imports retreated national income which was captured by residents of other countries (Duran and Alvarez, 2008).

They are different causes that can intervene in the behavior of the trade balance. According to Mankiw (2012) it is possible to mention:

- The tastes of consumers concerning domestic goods or foreign
- Relative prices of domestic goods and imported
- Exchange rates for the currencies used in trading.
- Income of consumers in the countries involved.
- Costs of transporting goods from one country to another.
- Government policies regarding international trade.

For Krugman et. al. (2012) an equilibrium situation in trade balance is almost impossible to be achieved in real economies. Instead, countries have unbalanced situations of greater or lesser intensity that deserve special attention because they are a mechanism that redistributes wealth among countries and represents one of the ways through which macroeconomic policy of one country may affect its trading partners and cause international frictions.

Given these imbalances and the potential damage they represent, nations take different types of corrective measures, usually prioritizing those according to its domestic economic objectives; among these alternatives it is possible to mention:

- Readjust the exchange rate, making devaluations to correct persistent deficits.
- Arrangements to exchange stabilization through the use of international reserves or restrictions on access to foreign currencies.
- Deflation.
- Restricting trade using tariffs or quotas that induce a decrease in consumption of imported products.
- Removal of trade barriers, hoping that more imports boost domestic exports to countries with fewer restrictions. (Mashlup mentioned in Rozenberg, 2000)

The most common solutions to correct these imbalances have been related to trade liberalization and economic integration agreements. In general, although liberalization of trade creates winners and losers, costs to compensate those who lose are usually lower than the costs related to restrict trade. Long term solutions to these undesirable imbalances are frequently linked to developing competitive advantages of economies rather than reactive policies to international circumstances (Rozenberg, 2000; Krugman, et al 2012). Thus, monitoring the behavior of trade balance sets standards that guide decision-making and a better knowledge of trade in the APEC region.



## IMPORTANCE OF THE STUDY

This study is important because there are few actualized data about trade balance of services per capita from a regional point of view so this work has the possibility to provide other studies with information and data about this topic.

## STATEMENT OF THE PROBLEM

This paper aims to measure the trade balance of services per capita for the members of APEC from 2005 to 2014 to register and observe the recent evolution of this indicator.

## OBJECTIVES

Measure the trade balance of services per capita for the members of APEC from 2005 to 2014.

## HYPOTHESIS

Trade balance of services per capita between 2005 and 2014 was determined by the value of exports of services, the value of imports of services and the number of inhabitants of each member of APEC.

## RESEARCH METHODOLOGY

A way to calculate trade balance per capita is by dividing the value of exports of a particular country between its population; subsequently, value of imports of the same country is divided by the number of inhabitants. Then the exports per capita value is divided between the imports per capita value to obtain an index of trade balance per capita. If the latter number is higher than the unit, the economy studied has a trade surplus, if not, there's a trade deficit (Duran and Alvarez, 2008).

This paper considers only the value of exports and imports for APEC economies as regards the category "All Services" according to the Harmonized System of the World Customs Organization. The data were taken from the databases of the Trade Map of the International Trade Centre for the years 2005 to 2014 and are expressed in millions of US dollars at constant prices of 2014.

## EXPORTS OF SERVICES IN APEC ECONOMIES

Table 1 shows the value of exports of services in the APEC region from 2005 to 2014. Services exports have been very dynamic over the past years. This behavior is related to the economic growth of its members, the increase in the relative level of development of its inhabitants, the arrival of large flows of foreign direct investment and larger trade openness. In addition, technological advances occurred in the past decade made some services indispensable for trade, including international banking services, insurance, travel, transport, etc (Moncarz, 2010).

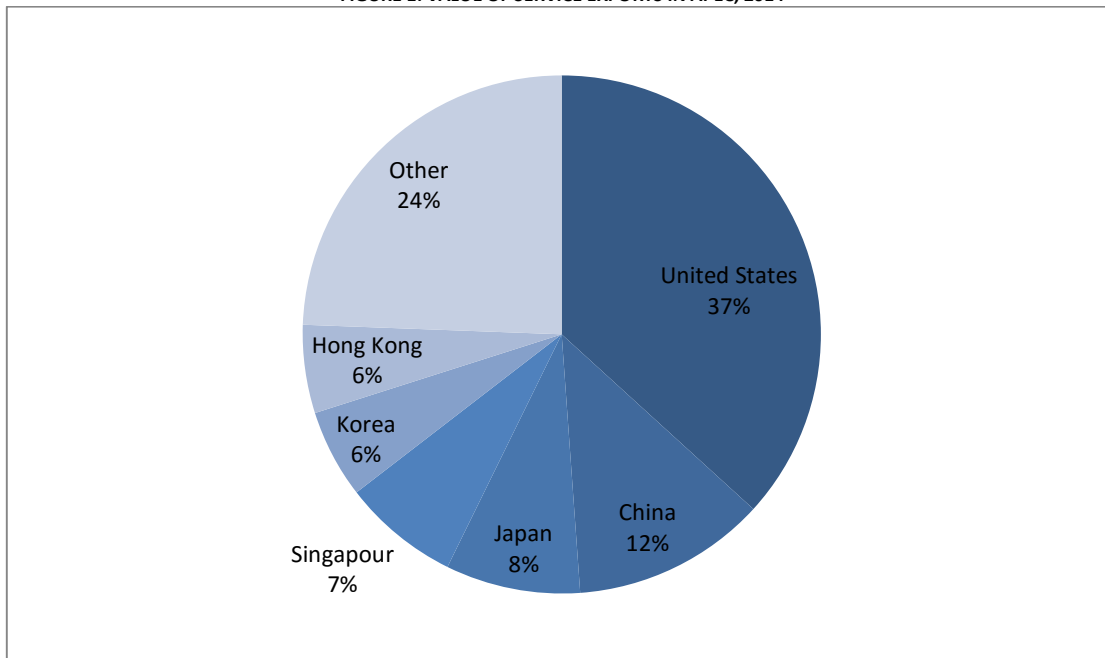
**CHART 1: VALUE OF SERVICE EXPORTS FOR THE APEC ECONOMIES IN MILLIONS OF DOLLARS AT CONSTANT PRICES OF 2014**

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
United States	444,896	483,416	547,004	596,755	558,867	602,766	652,892	667,947	694,284	709,448
China	106,332	132,067	165,212	185,909	157,162	183,494	192,154	220,477	210,126	233,510
Japan	121,693	126,889	136,075	157,932	131,743	140,257	142,968	136,850	136,579	162,539
Singapore	55,375	68,690	83,120	100,436	89,193	107,890	123,324	129,854	138,673	140,433
Korea	60,508	66,367	80,249	102,293	79,300	89,089	94,536	105,604	104,777	106,855
Hong Kong	56,504	63,156	72,180	78,296	70,490	86,176	94,957	100,472	105,785	106,054
Canada	71,831	76,917	79,276	84,049	74,835	82,312	88,658	91,869	90,763	86,294
Russia	34,405	41,433	49,123	63,992	49,918	52,600	60,361	63,587	70,824	65,798
Taipei	30,814	33,969	37,298	41,275	34,646	43,185	47,764	50,021	51,704	57,156
Thailand	23,763	28,536	33,722	37,081	32,871	36,729	43,236	50,636	59,229	55,295
Australia	36,390	38,370	45,223	48,268	43,418	49,873	54,747	55,072	54,056	54,244
Malaysia	23,556	24,454	32,565	34,442	30,838	34,261	37,591	38,641	40,210	39,484
Philippines	10,270	12,834	15,122	14,621	15,352	19,027	19,633	20,848	23,569	24,837
Indonesia	16,155	13,437	14,069	17,249	14,437	18,069	22,764	24,133	23,174	23,531
Mexico	18,769	18,454	19,313	19,793	16,158	16,301	16,205	16,468	20,317	21,037
New Zealand	12,108	11,410	12,997	13,233	11,114	12,383	13,768	13,404	13,639	14,606
Chile	8,548	9,119	10,113	12,027	9,257	11,929	13,629	12,705	12,915	11,245
Viet Nam	5,087	5,916	7,235	7,847	6,285	7,982	9,039	9,812	10,817	10,970
Peru	2,733	3,086	3,531	4,087	3,963	3,951	4,434	5,014	5,872	5,878
Brunei	735	864	911	971	997	1,127	1,257	1,136	498	479
Papua New Guinea	364	374	395	413	202	332	441	486	420	210

Source: Elaborated by the author using data from Trade Map and Centro de Estudios de las Finanzas Públicas de la H. Cámara de Diputados with data of U.S. Bureau of Labor Statistics.

Figure 1 shows intense asymmetries between APEC members. US exports of services still stand out above other world economic powers like China and Japan. In 2014, United States was the largest exporter of services in the APEC region with 37% of the total. It was followed in importance by China with 12%, Japan 8%, Singapore 7%, Hong Kong 6% and Korea 6%. The remaining 15 APEC economies exported a 24% of the whole. This shows how specialization in services is manifested in the region.

FIGURE 1: VALUE OF SERVICE EXPORTS IN APEC, 2014



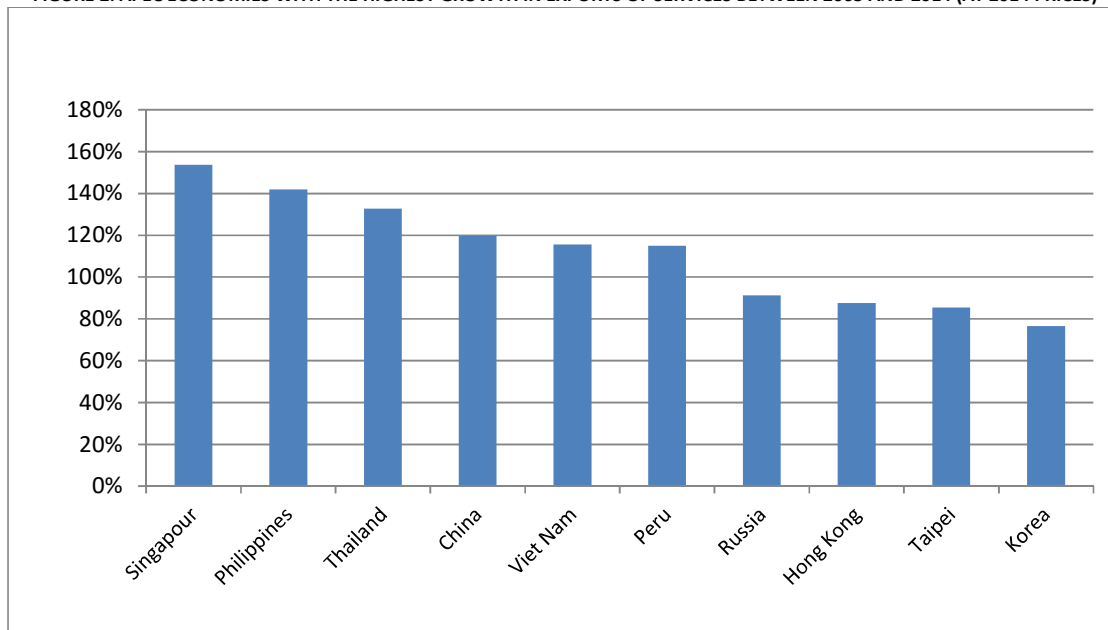
Source: Elaborated by the author with data from chart 1

The most exported services by United States are those related to travel (25% of the total), charges for the use of intellectual property (18% of the total) and "Other business services" which includes consulting services, professional, technical and research and development. Another country that excelled in services exports was China. In this case, the item that reached the highest exports was "Other business services", with 29% of the total, followed by the categories "Travel" and "Transport".

In the case of Japan, exports of services focused on the areas of "Transport", "Other business services" and "Charges for use of intellectual property"; these three items together accounted in 2014 70% of the total.

But these three economies were not necessarily those that grew faster during the series studied. Figure 2 shows that the country where services exports grew more between 2005 and 2014 was Singapore with a 154% growth; its main export sectors were related to transportation and business services but other exports grew exponentially during this time series, for example "Charges for use of intellectual property" grew by 413%, "Telecommunications, computer and information services" 325% and "Financial Services" grew by 275%.

FIGURE 2: APEC ECONOMIES WITH THE HIGHEST GROWTH IN EXPORTS OF SERVICES BETWEEN 2005 AND 2014 (AT 2014 PRICES)



Source: Elaborated by the authors with data of chart 1

Other economies that showed significant growth were Philippines and Thailand. In Philippines, exports of services in 2014 were concentrated in the category "Other business services" which accounted for 57% of the total. In the case of Thailand, travel accounted nearly 70% of all exports of services in 2014.

Of the 10 APEC economies that had the largest growth in exports of services, 8 are in Southeast Asia and only one is in Latin America: Peru. Peru concentrated exports of services in the category "Travels" which accounted for 51% of the total.

Brunei and Papua New Guinea were the only countries that showed a contraction in exports between 2005 and 2014 of 35% and 42% respectively. This is linked to the fact that they are two small economies that focus their efforts on the extraction and sale of natural resources, mainly energy related.

**IMPORTS OF SERVICES IN APEC ECONOMIES**

Table 2 shows imports of services for APEC economies from 2005 to 2014. As can be seen, there are significant similarities between major importers and major exporters. United States was in 2014 the world's largest importer of services, which were mainly travel (23% of the total), transport (19% of total) and other business services (19% of the total).

USA was followed in importance by China, country that mainly imported travel, which represented a 43% of the total. It is noteworthy that the import category called "Travels" had a significant increase between 2005 and 2014 of around 536%. Other notable items of Chinese imports were transport and other business services.

In the case of Japan, its main imports of services were in the category called "other business services" which concentrated 30% of the total. Other items that stand out are "Transport", with 24% of the total and "Charges for use of intellectual property" with 10%.

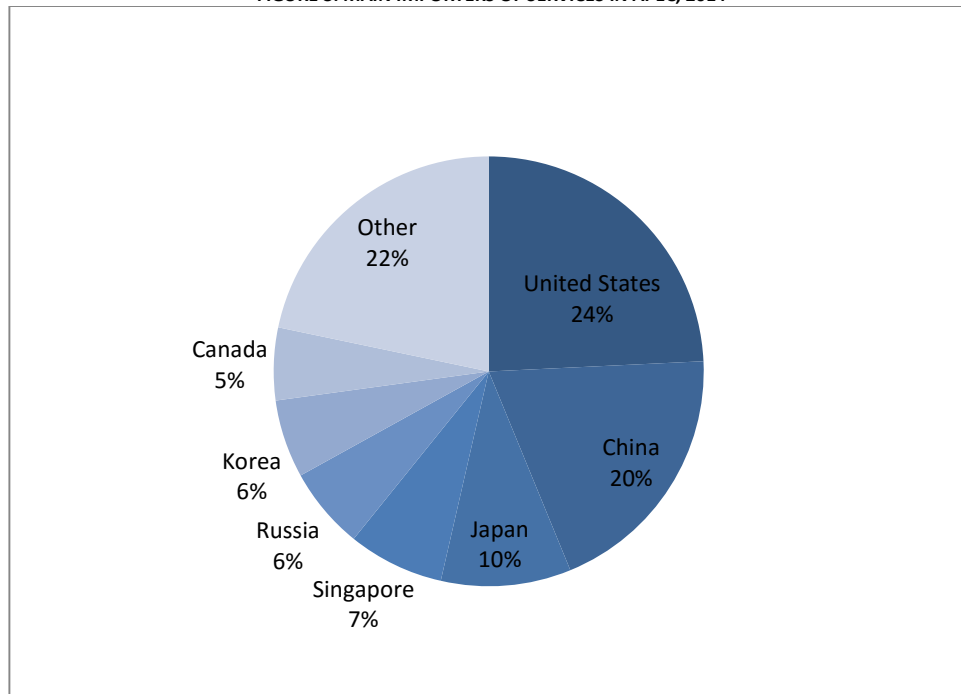
**TABLE 2: VALUE OF IMPORTS OF SERVICES BY COUNTRY OF THE APEC REGION IN MILLIONS OF DOLLARS AT 2014 PRICES**

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
United States	363,125	396,900	416,325	457,194	420,489	438,665	453,276	460,315	465,245	475,855
China	100,407	117,543	145,586	177,733	173,101	207,917	248,512	288,290	333,810	383,610
Japan	165,826	164,510	177,156	199,922	169,297	176,514	182,720	188,784	172,020	191,915
Singapore	66,989	77,239	85,463	101,913	91,463	108,470	122,157	131,980	142,575	141,559
Russia	48,271	53,833	67,691	86,683	68,919	80,677	95,173	111,334	129,264	121,056
Korea	71,398	81,931	94,867	109,395	89,514	104,490	107,326	111,151	110,981	115,019
Canada	77,718	84,839	91,915	99,802	90,076	105,227	111,588	115,256	112,952	107,024
Hong Kong	67,085	74,121	76,782	81,155	66,429	75,446	77,244	78,310	75,702	75,783
Australia	37,051	38,659	46,873	54,751	45,906	55,245	65,126	68,205	68,577	63,455
Thailand	31,968	37,931	42,537	51,416	39,695	48,258	54,231	54,158	55,259	53,200
Taipei	38,760	38,207	39,060	39,128	32,419	40,611	43,729	43,571	42,871	45,936
Malaysia	26,187	27,515	32,035	33,832	29,864	34,798	39,709	43,357	44,882	44,897
Mexico	27,199	27,503	27,829	28,668	27,224	27,641	31,596	31,387	32,344	34,910
Indonesia	27,128	27,916	29,249	33,559	26,461	28,359	32,965	34,981	35,251	33,540
Philippines	7,709	7,664	8,430	12,389	9,986	12,879	12,811	14,576	16,430	19,963
Chile	9,544	10,163	11,568	13,352	11,418	13,963	16,808	15,058	15,800	14,575
Viet Nam	5,308	5,959	8,019	8,892	8,900	10,632	12,336	12,797	13,913	14,500
New Zealand	10,011	9,403	10,746	11,711	9,468	10,986	12,639	12,675	12,669	13,087
Peru	3,754	3,965	4,866	6,387	5,237	6,477	6,774	7,502	7,670	7,679
Brunei	1,324	1,412	1,471	1,568	1,559	1,728	1,898	1,778	2,878	2,382
Papúa New Guinea	1,524	1,856	2,174	2,060	2,000	2,954	3,084	3,815	3,927	2,299

Source: Elaborated by the authors based on data from Trade Map and Centro de Estudios de las Finanzas Públicas de la H. Cámara de Diputados with data from US Bureau of Labor Statistics

According to figure 3, in 2014, United States imported more services than 14 APEC economies together. Other important importers of services were China, Japan, Singapore, Russia, Korea and Canada.

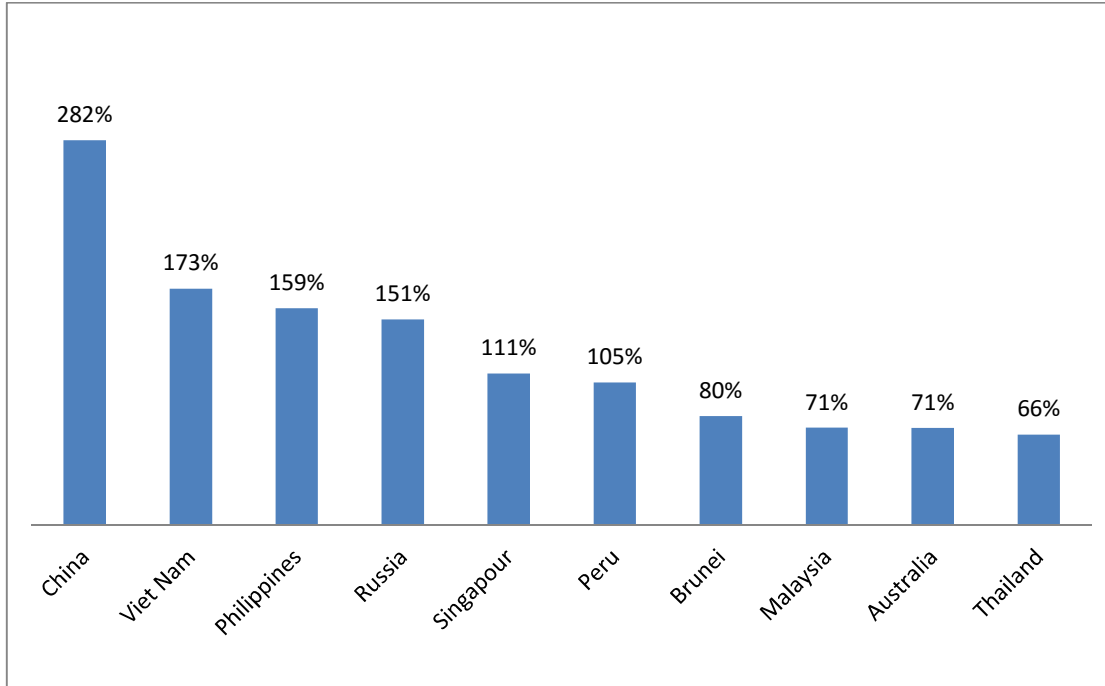
**FIGURE 3: MAIN IMPORTERS OF SERVICES IN APEC, 2014**



Source: Elaborated by the author with data of table 2

Figure 4 shows that the growth of imports of services in the region occurred in a very asymmetrical way. The highest growth between 2005 and 2014 occurred in China whose imports of services increased by 282% particularly by increases in the categories "Travel", "Transport" and "Other business services"; other important rates of growth occurred in Viet Nam with 173%, Philippines with 159% and Russia with 151%.

FIGURE 4: ECONOMIES OF APEC WITH THE LARGEST PERCENTAGE INCREASE IN IMPORTS OF SERVICES BETWEEN 2005 AND 2014



Source: Elaborated by the author based on data from chart 2

**RESULTS AND DISCUSSION**

Table 3 shows the results obtained for the trade balance of services per capita in the APEC area. Results are sorted according to the value obtained in 2014. As can be seen, this indicator shows a highly diverse behavior. In 2014 only 6 of the 21 APEC members had surplus balances: United States, Hong Kong, Taipei, Philippines, New Zealand and Thailand. Of these, only 3 had surplus balances throughout the period studied: United States, Philippines and New Zealand.

CHART 3: TRADE BALANCE OF SERVICES PER CAPITA IN APEC, 2005-2014

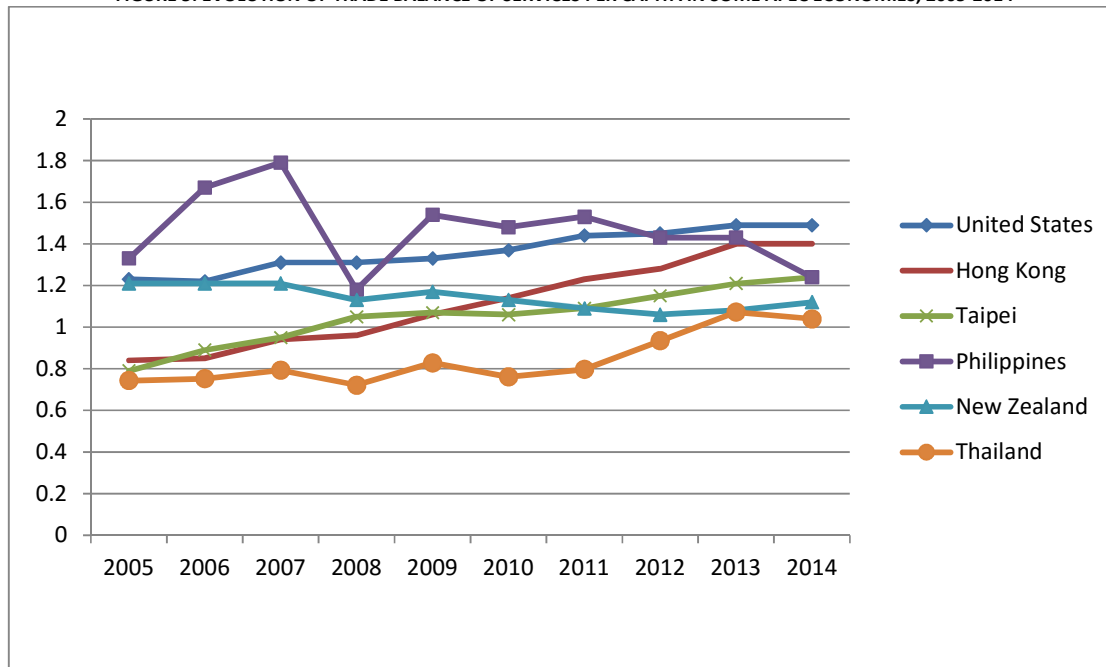
No.	Pais	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1	United States	1.23	1.22	1.31	1.31	1.33	1.37	1.44	1.45	1.49	1.49
2	Hong Kong	0.84	0.85	0.94	0.96	1.06	1.14	1.23	1.28	1.40	1.40
3	Taipei	0.79	0.89	0.95	1.05	1.07	1.06	1.09	1.15	1.21	1.24
4	Philippines	1.33	1.67	1.79	1.18	1.54	1.48	1.53	1.43	1.43	1.24
5	New Zealand	1.21	1.21	1.21	1.13	1.17	1.13	1.09	1.06	1.08	1.12
6	Thailand	0.74	0.75	0.79	0.72	0.83	0.76	0.80	0.93	1.07	1.04
7	Singapore	0.83	0.89	0.97	0.99	0.98	0.99	1.01	0.98	0.97	0.99
8	Korea	0.85	0.81	0.85	0.94	0.89	0.85	0.88	0.95	0.94	0.93
9	Malaysia	0.90	0.89	1.02	1.02	1.03	0.98	0.95	0.89	0.90	0.88
10	Australia	0.98	0.99	0.96	0.88	0.95	0.90	0.84	0.81	0.79	0.85
11	Japan	0.73	0.77	0.77	0.79	0.78	0.79	0.78	0.72	0.79	0.85
12	Canada	0.92	0.91	0.86	0.84	0.83	0.78	0.79	0.80	0.80	0.81
13	Chile	0.90	0.90	0.87	0.90	0.81	0.85	0.81	0.84	0.82	0.77
14	Peru	0.73	0.78	0.73	0.64	0.76	0.61	0.65	0.67	0.77	0.77
15	Viet Nam	0.96	0.99	0.90	0.88	0.71	0.75	0.73	0.77	0.78	0.76
16	Indonesia	0.60	0.48	0.48	0.51	0.55	0.64	0.69	0.69	0.66	0.70
17	China	1.06	1.12	1.13	1.05	0.91	0.88	0.77	0.76	0.63	0.61
18	MExico	0.69	0.67	0.69	0.69	0.59	0.59	0.51	0.52	0.63	0.60
19	Russia	0.71	0.77	0.73	0.74	0.72	0.65	0.63	0.57	0.55	0.54
20	Brunei	0.55	0.61	0.62	0.62	0.64	0.65	0.66	0.64	0.17	0.20
21	Papua New Guinea	0.24	0.20	0.18	0.20	0.10	0.11	0.14	0.13	0.11	0.09

Source: Elaborated by the authors with data from charts 1 and 2

Economies with deeper deficits were Papua New Guinea, Brunei and Russia. China, although it was one of the economies that showed higher growth in exports of services during the period studied, only showed a surplus from 2005 to 2008 and, thereafter, the deficit in services has been deepening.

Figure 5 shows the evolution of the trade balance of services per capita of APEC that obtained surpluses. As can be seen from 2005 to 2007 Philippines showed the highest surplus and a growing trend; however, since 2008 its surplus decreased significantly and until 2014 the recovery was not achieved on this indicator; in fact, levels of 2014 are similar to those of 2008.

FIGURE 5: EVOLUTION OF TRADE BALANCE OF SERVICES PER CAPITA IN SOME APEC ECONOMIES, 2005-2014



Source: Elaborated by the authors based on data from chart 3

United States, Hong Kong, Taipei and Thailand showed positive trends during the series studied. New Zealand, however, showed a negative trend although unrepresentative. Notably, despite the international economic crisis of 2008, countries like United States, Hong Kong, Taipei and Thailand kept their surpluses in services and positive trends.

## CONCLUSIONS

It was confirmed that APEC is a very diverse economic region where developed and underdeveloped economies interact. International trade of services is still concentrated in the larger economies of this region: USA, China and Japan. Although, that concentration seems to be decreasing and smaller economies, such as Viet Nam, Singapore and Hong Kong are participating more and becoming more specialized.

Data exposed confirm the exponential growth of exports of services in APEC in recent years particularly among the Southeast countries. These countries are changing their patterns of imports and consumption of services which caused an exponential growth in travel related imports and exports particularly in China. Also, services trade seems to be highly resistant to international economic turbulences provided that it didn't suffer a mayor impact during the world economic crisis of 2008 and 2009 so, increasing specialization in services trade might be a convenient strategy for countries to become more resilient to economic adversities. It is noteworthy the increasing importance of knowledge in international trade of services. Besides "Travel" and "Transport" the most important services exported by the largest APEC economies are "Use of intellectual property" and "Other business services". This means that a long term strategy to become competitive in APEC must include increasing education, innovation, science and technology provided that a country that can't produce advances in these areas will need to buy them abroad.

## SCOPE FOR FURTHER RESEARCH

Some cases deserve closer attention. For example, Thailand seems to be highly dependent on exporting travels but it appears that it didn't recover completely from the 2008 crisis.

Another interesting case is Viet Nam provided that, between 2005 and 2014, its economy grew and its exports diversified and passed from energetic goods to manufactured goods. This also had an impact in the services imported by this country.

Deeper research should be done to measure the real impact of trade surplus found in the economic growth of the countries that achieved them and in the quality of life of its inhabitants.

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