

# THE IMPACTS OF ICT AND GLOBALIZATION ON TRADE IN SERVICES

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## Abstract

*The services sector nowadays has expanded in scope beyond the traditional activities in finance, transport, travel and telecommunication and audio-visual services to a host of professional services, such as software and information services, engineering and legal services, e-commerce and other internet-based service offerings. At the post second world war period, the growth of services have shown a dramatic increase in most of the developed countries of the world. This growth was driven largely by advances in information technology and telecommunications, and has created new sectors. Some of these are electronic communication, scanning information, finance, e-trade, etc. The increase in the usage of personal computers and internet have caused these sectors to develop by forming new subsectors. Computerized storage of data and the remote delivery of services by means of electronic communication, have helped to increase tradability of services. Investments towards trade in services will be driving force in coming years to increase employment and development of economies. In addition, these developments will pass through among countries.*

*Turkey as a developing country has a good performance in services sector. This performance has indications of being one of the developed countries of the world for Turkey. The purpose of this study is to show the effects of ICT and globalisation on service trade and evaluate the position of Turkey.*

**Keywords:** *ICT and trade, World trade in services, global competition.*

## 1. Introduction

In the global economy, a series of changes has increased the importance of developments in internet and communication technologies (ICT) . Development in ICT after 1990s have caused service mobility composing an indispensable infrastructure. The difference between trade in goods and services have been disappeared. Services look for an infrastructure to mobilize. Telecommunication networks and widening internet made it possible for some service sectors, such as education, health, engineering, banking and entertainment, etc. to be tradable. Thus, people will have the knowledge about the quality and price of the goods and services in any country in the world.

This process is picking up speed in last years making the world a place where standardized goods and services are put into use by means of decreasing prices and increasing the quality and efficiency. The purpose of this study is to show the importance of ICT in service trade, and how it could be accomplished to make services globally available and marketable.

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## **2. A Brief Survey of the Related Literature**

Basic theory suggests that after a trade reform, workers in industries which lack a comparative advantage will lose out, while those based in sectors with a comparative advantage will gain. The opening process brings more opportunities to access comparative intermediate goods and capital goods that embody better technologies. It also stimulates productivity, better resource allocation, and exports, while giving local producers and consumers access to less expensive and higher quality goods from abroad (Yüceol, 2007: 16). In this process where formation of new standards and developments in technology has improved the supply chains between consumers and distributors. Acceleration of knowledge sharing has lessened the time of learning and specialization as well. Developments in IT has provided widening of markets and increase the limits of the capacity. Product life curves are so short in innovative markets means that markets continuously live the growing phase instead of deterioration and stagnation (Bayraktutan, 2003). Growing phase of the market and the risk of new entrances increases the motivation of innovation of existing firms (Yılmaz, 2003: 33).

Recent literature surveys document the large potential gains from liberalization of trade in communications, finance, transport, and other services (Hoekman, 2006). Moreover, even exploiting the opportunities arising from liberalization of trade in goods will require better services (Hoekman, and Matto, 2007: 399-418). The growth of the service sectors in advanced economies, as measured by rates of change in sales, value-added, or employment, has exceeded that of the goods-producing industries for several decades. Furthermore, for at least the first half of the 1980s, the number of jobs in goods producing industries in Canada and the United States actually declined: all of the net increase in employment during this period was accounted for by service industries (Stabler, and Howe, 1993: 30).

The liberalization of trade in services could also have impact on the international trade of goods. International trade in goods requires inputs from several service industries, such as transportation, insurance, and finance in order to complete and facilitate international transactions. Restrictions on the ability of national service providers to provide these services across borders and within foreign countries create additional costs that might limit the international flow of trade in goods. Elimination of these restrictions, then, should provide a boost to the international trade of goods. There are not empirical measures of the effects of trade in services on trade in goods (Blyde, and Sinyavskaya, 2007: 566-583).

It is almost a universal assumption in the trade literature that the items being traded are goods that can be shipped across national borders. The lack of attention to trade in services is understandable given the intangible nature of many services that prevents them from being traded across national borders like goods. The apathy about service trade has changed, however. The past decade has seen a growing interest in service trade among a wide spectrum of people from the business, academic, and government sectors. Nowhere is this overdue recognition of service trade more resounding than the inclusion of services in the World Trade Organization (WTO) in 1994, under the General Agreement of Trade in Services (GATS) (Wong, Wu, and Zhang, 2006: 148-168).

## **3. Trade in Services Under Globalisation**

It is very difficult to specify a time for the beginning of globalization. Some views accept the civilization efforts of human being as a starting date for globalization. Some accept it as a beginning of modern age and some accept it as the mids of 1800s and some accept as last 1950s or 1970s. However, as of the early 1980s the concepts of privatization, market economy, financial liberalization, integration with the world had more concern comparatively

(Bayraktutan, 2007: 162). These changings have converged developing and developed countries to each other. On the other hand, with the activities of the industrial firms, rapid market changing, developments in product and production Technologies, and competition, globalisation have a pronounced affair in 1980s (DPT, 1995: 12).

**Table-1:** Import-Export Share of Selected Countries in Services

Number	Exporter	Value	Share	Annual Change	Place in the World	Importers	Value	Share	Annual Change
1	USA	282,5	16	4	1	USA	218,2	12,5	6
2	UK	129,5	7,3	5	2	Almanya	167	9,6	12
3	Germany	111,7	6,3	12	3	UK	112,4	6,4	11
4	France	98	5,6	14	4	Japon	109,7	6,3	3
5	Spain	76,4	4,3	23	5	France	81,6	4,7	20
6	İtaly	72,8	4,1	23	6	İtaly	74,1	4,3	21
7	Japon *	70,2	4	8	7	Holland	66,2	3,8	17
8	Holland	64,1	3,6	18	8	China	53,8	3,1	...
9	China	44,5	2,5	...	9	İrland	48,5	2,8	20
10	Hong Kong, China	43,2	2,5	0	10	Canada	47,8	2,7	14
11	Belgium	41,7	2,4	17	11	Spain	46,1	2,6	22
12	Austria	41,4	2,3	19	12	Belgium	41,4	2,4	17
13	Canada	39,2	2,2	8	13	Austria	40,6	2,3	18
14	İrland	35,3	2	26	14	Republic of Korea	38,7	2,2	10
15	Switzerland	32,7	1,9	17	15	Sweden	29,6	1,7	25
16	Danmark	32,6	1,9	20	16	Danmark	29,1	1,7	16
17	Republic of Korea	31,2	1,8	15	17	Singapore	27,2	1,6	0
18	Sweden	31	1,8	32	18	Russia	26,7	1,5	13
19	Singapore	30,4	1,7	3	19	Taywan, China	25,5	1,5	7
20	India	24,9	1,4	...	20	Hong Kong, China	23,5	1,3	-5
21	Greece	24,4	1,4	21	21	Australia	21,1	1,2	19
22	Luksemburg	23,8	1,4	18	22	Switzerland	19,9	1,1	17
23	Taiwan, China	23	1,3	7	23	India	19,7	1,1	...
24	Norvey	22,2	1,3	16	24	Norvey	19,5	1,1	18
25	Australia	20,6	1,2	18	25	Tayland	18,1	1	9
26	Turkey	17,3	1	17	26	Indonesia	17,7	1	...
27	Russia	15,9	0,9	18	27	Mexico	17,4	1	2
28	Tayland	15,5	0,9	2	28	Malesia	16,4	0,9	1
29	Malesia	12,8	0,7	-13	29	Luksemburg	15,8	0,9	16
30	Mexico	12,5	0,7	0	30	Brasil	14,6	0,8	7

Source: OECD (1999). Numbers of Turkey was calculated from SSI Foreign Trade Statistics.

In the beginnings of 1990s this process has ended with the collapse of former eastern block countries. These countries where planned economy was dominant has converged to west countries in time. Communism has left the place to democracy and market economy. In this process, Uruguay Round in the frame of GATT was one of the most striking development for globalization in 15 December 1993 with the participation of 117 countries

(DPT,1995). In April 15, 1994, "Last Agreement" was signed in Morocco, and it has sooner come into force. This agreement includes the ignorance of export subsidies, anti-dumping applications, dissolution of technical barriers in trade. World Trade Organization is one of the most important developments for applications of these results. Another important affair about economic globalisation is Multilateral Agreement on Investments (MAI). According to MAI, any firm having activities internationally can have business in a country like a firm of that country who sign the agreement.

From the beginning of 1960s, some countries have shown an increase in their economic and commercial linkages, such as Japan, USA and developed European countries. These linkages have accelerated the integration to commerce, finance and production process for developing countries (Sachs, 1998). ICT increases international competition which is brought by globalization which necessitates structural changes in the economies of the developing countries. Integration of developing countries with the global economy provides a support for the economic wealth of these countries in the long run (World Bank, 1995: 2; Ouattara, 1997: 1; Kutlu, 1998: 365).

Developing technologies in our age has brought different innovations in each field and these innovations have effected each country differently. Geography which is seen as a problem so far, is not a problem after globalization. Electronic trade is growing in each day as a consequence of ICT. It is obvious that the improvements in ICT engineering result in many transformations in different fields of the economy and this tendency will be improving in coming years. Furthermore, service sector is one of the first which is mostly effected by developments in ICT. This improvements could be seen on linkages among the service sectors are getting stronger operation costs are declining and actors reaching the information more easily.

Service, in general terms, is an activity made in return of a kind of payment includes the mobility of goods, capital and labor. Service sector is one of the most developing sectors especially in the fields of marketing, distribution, communication and tourism. In this context the views evaluating service trade as a prerequisite are gaining importance (OİK, 2000: 3-10). From the time of agreement till final payment buyers, sellers, bankers, transporters, insurers, customs administration all hands are producing, forwarding, accepting and operating knowledge. These improvements support the consistency in service trade. Specifically, for conventional trade, in any shipment process 50 piece of documents are arranged and 360 copy of these documents are used in average. Information is demanded by the whole parts participating the operation besides the initiating person. Furthermore, in this process many mistakes can be made and it takes so much time to forwarding to relevant authorities. For example, it takes approximately 3 months for a west firm to contract with a Chinese firm in normal conditions and export may be even longer than manufacturing period. It is announced in the meeting of UN International Trade Facility that operational costs of conventional techniques consist of 7-10 % of world trade volume.

#### **4. Regulations on Service Trade in the World and the Position of Turkey**

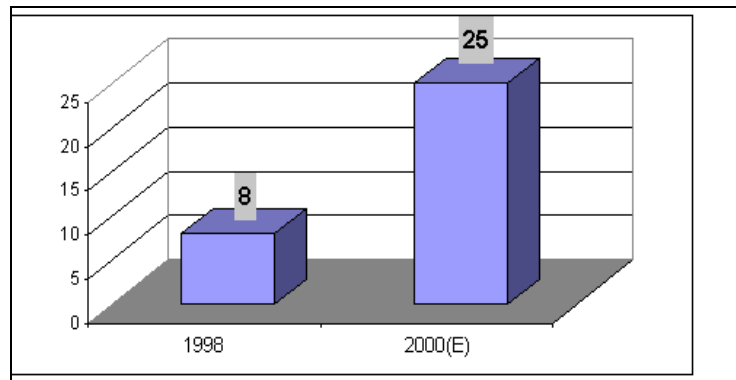
Currently, the WTO has failed to extend a moratorium on applying customs duties to electronic transmissions. The WTO agreed to a temporary moratorium on applying customs duties to electronic transmissions in 1998. This issue was to be decided at the WTO's Third Ministerial Meeting in Seattle. With the failure to launch a new negotiating round, the Ministerial Meeting was unable to discuss the issue. Since then, WTO members have been unable to extend or to make permanent the moratorium on applying customs duties to electronic transmission. At present, WTO members have no legal obligation to apply or not to apply customs duties to electronic transactions. However, with the current business

enthusiasm for e-commerce, the increasing importance of electronic transactions, and the complex nature of the General Agreement on Trade in Services (GATS), the WTO has to find a way to eliminate uncertainties and declare the rules of electronic transactions of services, and therefore customs-duty-free (Lopez, 2000: 559).

Turkey joined the GATT in 1951, under the Torquay Protocol, participated all subsequent rounds of multilateral trade negotiations, and became an original member of the World Trade Organisation (WTO) on March, 26 1995. Therefore, it has the opportunity of MFN (Most Favored Nation) treatment, at least by the trade partners, and has preferential trade agreements with a number of countries. It has amended legislation in the areas of intellectual property, safeguards, anti-dumping and countervailing measures. Turkey has made extensive commitments under the Multilateral Agreements that resulted from the Uruguay Round; it is an observer to the Multilateral Agreements on Government Procurement, and Trade in Civil Aircraft. It is attaching great importance to the Doha Development Agenda (Togan, 2005: 1229).

Turkey's commitments in the frame of GATT are vocational services (services that require specialism, computer and other services), services of communication (postal services, courier services, telecommunication services), contractorship and related engineering services, educational services, environmental services (sewage, garbage collection), financial services (banking, insurance, etc.), health related services, tourism, transportation, air transportation, railway and land transportation. It can be seen from the table that service trade is developing with economic growth and this process is still going on. However, service trade is faster in the countries that adopt ICT.

**Table-1:** Amount of Trade Over Technology in Turkey



Source: IDC (International Data Corporation), 2000.

Turkey has to rely on ICT and trade service policies and implement middle and long term policies of improving ICT (Söylemez, 2001: 58-59). Otherwise, Turkey will be far from benefiting global competition and will have to be in a position of low technology third world country. It is not possible for a country to be competitive in foreign trade without capturing its own export potential. The most important effect of information society is the acceleration of productivity growth. Productivity growth could be sustained with cost savings besides labor productivity; in turn this provides total revenues of the economy.

## **5. Conclusion**

The concept of globalisation is experienced more pronounced way as of mid-1980s. Cultures are converging and nation states are losing their power with globalization. On the other hand, the issue of competition becoming the main force of trade and countries are forced to make new innovations with globalization. ICT become a main force changing the structure of service trade. While the obstacles of market entry and exit are eliminated with globalization, having knowledge will increase competitive power. Monopolist tendencies converge to technology centered sectors. Under this circumstances, competitive position is changing according to the short and long term conditions. Turkey is at the beginning of e-transformation about services sectors. In this respect, state and education institutions have many work to do. Governments are expected to liberalize the organizational, institutional and legal arrangements for ICT, and its infrastructures.

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