

INNOVATION AND PRODUCTIVITY IN SERVICES SECTOR

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***Abstract:** Services are becoming backbone of the economic growth in order to propel economy in more balance economic growth orbits through its impact on the unemployment issue. So in the volume the services will be highly addressed because of this sort of reason. Also, we live in age of highly and broadly diversified division of labor that at the same time sometime brings uncertainty and complexity. When we look at the appliances equipment, personal computers and cellular phones we can find that many different nations have been involved in the making of these products.¹*

***Key words:** Services; Technology; Market; Euroepan integration;*

INTRODUCTION

Services are intangible, invisible and perishable, requiring simultaneous production and consumption. Goods, in contrast, are tangible, visible and storable. At the other hand, there is no way to storage the service.² However, there are exceptions to each of these characteristics of services: a software program on a diskette or an architect's design on paper are both tangible and storable, many artistic performances are visible, and automated cash-dispensing machines make face-to-face contact between producers and consumers unnecessary. These exceptions do not however, detract from the usefulness of the general definition of services presented above. For services it is required physical proximity between the user and the provider. Services with the development of electronic means of delivery – proximity is not necessary, though it may enhance the quality of the service. A variety of financial, entertainment, information and communication services can be produced in one country and deliver, either electronically or stored in some medium (paper, disk, cassette), to consumers in another country. The introduction of new technology, one will reduce the physical strain, will have more free time and will be able to make better ideas. In this concept, new techniques of management need to be developed in which the basic task of governing elites would be to create an innovational atmosphere where ideas will be generated and adopted by employees who will implement them in practice.³ Trade in these services is not much different from trade in goods. In every day communication process, buyers often make difference between products and services according to their tangibility – product is tangible, but service is not.⁴ Services including construction services, where the supplier moves to the location of the consumer, tourism, where the

¹ Hiroshi Teraoka, Small and medium sized enterprise policy in Japan, vision and strategy for the development of SMEs, Osaka international center, JICA, pg. 167.

² Milenović, B. and Ratković, M.: Marketing, Cekom books, Sremski Karlovci, 2012. str.166.

³ Scott, W. and Maliard, D. D.: Skill of winning a man”, translation, Stylos, Novi Sad, 1999.

⁴ Milenović, B. and Ratković, M.: Marketing, Cekom books, Sremski Karlovci, 2012. str.165.

consumer moves to the location of the supplier and hair cuts or surgical operations, where either the supplier or the consumer moves. The movement of the supplier could involve the flow of capital, i.e. foreign direct investment (FDI), labor, or both. FDI has its certain impact on the GDP growth also there is very important role of the economical policy. Economical policy of the development can be a two-edged sword because on one hand increasing consumption is needed to stimulate demand but on other there is need for saving and investment. Also credit lines are strongly needed too, for that system banking network should work perfectly and for that purpose it needs high level of the information. Significant information is necessary for successful making of the job.⁵

Let us to mention various types of services what can be listed like following, by the General Agreement on Trade in Services (GATS):

1. Business services
2. Communication services
3. Health-related and social services
4. Construction services
5. Financial services
6. Tourism and travel-related services
7. Distribution services
8. Recreational, cultural and sporting services
9. Educational services
10. Transport services
11. Environmental services
12. Other services not elsewhere included

Thus, there are four ways in which international service transactions take place (four modes of delivery) which can be categorized as follows:

Cross-border trade

Services supplied from the territory of one country into the territory of another. Examples include financial transactions conducted over the phone, and software services supplied by a supplier in one country through mail or electronic means to consumers in another country. Consumption abroad: services supplied in the territory of one country to the consumers of another. Examples are where the consumer moves, e.g. to consume tourism, education or medical services in another country. Also covered are activities such as ship repair abroad, where only the property of the consumer moves.

Commercial presence

Foreign direct investment means that services are supplied through any type of business or professional establishment of one country in the territory of another. According to the European law there is need for the harmoniyation of the law framework in the field of foreign direct investment (an insurance company owned by citizens of one country establishing a branch in another country).

Presence of natural persons

⁵ Đurišić, B., Miladinović, M., "Informative system for human resources and project management", *International journal of economics and law*, vol.1, No. 3, Novi sad, 2011.

Labour movement is the basic condition for services supplied by nationals of one country in the territory of another. Professional services are regulated with the law framework. This mode includes both independent service suppliers, and employees of the services supplier of another country. Examples are a doctor of one country supplying through his physical presence services in another country, or the foreign employees of a foreign bank.

Service trade differs from goods trade in two major ways. First, while the majority of goods trade involves shipping goods from one country to another; cross border trade accounts for less than half of trade in services. For services which require personal contact between customers and clients, trade is possible only via sales through a foreign affiliate or if either the customer or producer travels across borders. While foreign investment and labour mobility are also issues affecting goods trade, they are fundamental aspects of trade for some services. Second, services tend to be highly regulated.

Many types of services are publicly provided or are produced by regulated monopolies. In contrast to goods, relatively few services are subject to simple discriminatory taxes on trade. Instead barriers to trade in services arise from domestic regulations that often serve the dual purpose of responding to market failures (such as ensuring quality standards for medical practitioners) and protecting local suppliers from foreign competition. This means that identifying and measuring trade barriers in the service sector is very complex. It also means that simple rules for trade liberalization that worked for goods trade (such as reducing all tariffs by 30%) are not available as an option for service trade liberalization. Instead service trade liberalization is organized around the notion of non-discrimination and is often linked with domestic regulatory reform.

Professional and sophisticated managers in modern terms of the business are using methods and concepts which are more aimed to the people and less to the material factors of the organizations.⁶ Government policies that affect international trade in services. Although the analysis of barriers to service trade has much in common with the analysis of barriers to goods trade, trade policy in the service sector is much more complex. Government regulations can inhibit trade in services. For goods trade, analysts typically distinguish between tariff and non-tariff barriers to trade. Tariffs are discriminatory taxes on trade. An import tax is a tax levied on foreign goods but not domestic goods. Tariffs tend to be easy to measure and are very transparent. It is therefore quite straightforward to design an agreement to liberalize trade via tariff reduction (provided governments have the will to open up their economies to trade). Successive rounds of GATT negotiations were successful in achieving broad based reductions in trade barriers via across-the-board reductions in trade taxes. Another feature of tariffs is that it is fairly clear what is meant by free trade: zero tariffs. This means there is a clear focal point for negotiations, and this has been exploited in numerous regional free trade agreements such as NAFTA, which have eliminated substantially all taxes on trade flows.

Non-tariff barriers is any government policy that has the effect of favoring local producers over foreign producers or which restricts or raises the cost of access to domestic markets by foreigners. These can include delays at the border, quantitative restrictions on foreign products, government purchasing policies that give preference to local suppliers, subsidies, quality and certification requirements that favour local suppliers, etc.

Nontariff barriers are more difficult to measure and are less transparent than tariff barriers. Moreover, there is often not an obvious focal point for negotiations because the trade Regulation of Professional Services Most professional service providers, such as doctors, engineers and lawyers, have to be certified in order to practice their profession. The certification

⁶ Radosavljević, M., Radosavljevic, D., Somina, I., "Innovation and motivation as the key factors of teh success", *International journal of the economics and law*, vol.1, No. 3, Novi Sad, 2011.

requirements can serve as barriers to trade because they raise entry costs for foreign service providers. Foreigners often have to take courses, exams, and sometimes establish a residence to meet local certification requirements. In some cases, such as in law, foreigners are sometimes completely shut out of the market.

Certification requirements, however, cannot simply be dismissed as a trade barrier because they are a response to problems of asymmetric information in these markets. The client often does not have enough information to judge the safety and quality of the service. Actually, Changes in the environment clearly indicate that business is entering a new era of competition which is increasingly called hyper competition.⁷ Even if the client could determine quality and safety at some cost, it can be more efficient to require certification to economize on screening costs. To illustrate the interaction between trade policy and regulation of professional services, we consider an example where low quality service providers generate externalities.

For example, if a bridge collapses or if a public building is not constructed safely, then there will be costs to society at large, not just the contractor. Similarly, in countries with public medical systems, the costs of bad medical treatment will fall not just on the patient but also on taxpayers. We consider two scenarios. First we consider a case where the domestic regulatory system is initially inadequate. That is, screening is imperfect and there is a mix of good and bad service providers in practice. In this case, we show that trade liberalization without reforms the domestic certification system can lower welfare. Next we consider the effects of trade under a well-functioning certification system. In this case, trade will be welfare-improving. However, the magnitude of the gains depend on the way in which foreigners are screened.

Trade liberalization, accompanied by domestic regulatory reform raises welfare. A final issue is how foreigners should be screened. Trade liberalization in many service industries, and especially in professional services requires both that foreigners be given market access, and that they not be subject to discriminatory barriers. There are several ways of implemented non-discrimination rules. In a National treatment regime governments have the flexibility to implement their own regulations subject to the requirement that the same regulations apply to domestic and foreign suppliers. That is, national treatment regime essential requires nondiscrimination. Such as rule does not completely eliminate discrimination, however.

For example, an insurance company might be required to establish a local office before it can sell insurance. While both domestic and foreign firms are subject to the same requirement, it may be much easier for local firms to meet the requirement - such a rule essentially imposes a fixed cost that excludes foreign firms who might want to do only a small amount of business locally. Similarly, a requirement that engineers, doctors, or truck drivers obtain domestic licensing and certification can impose additional costs on foreigners who have already gone through a similar certification process in their own country.

In a mutual recognition regime, each country agrees to accept services providers who meet the certification requirements of their home country. For example, under a mutual recognition regime, a US resident can be permitted to drive in Canada as long as he or she holds a valid US driver's license. Under a national treatment rule, the US resident could be permitted to drive in Canada only if a Canadian drivers license is obtained. The advantage of mutual recognition regimes is that they can economize on regulatory costs. The disadvantage is that it can be more difficult for a government to meet its regulatory objectives. If the trading partner has weaker certification requirements, then the average quality of service provision may fall when imports increase.

⁷ Martinović, M., "Globalization and environment impact on business enterprises", *International journal of the economics and law*, vol.1, No. 3, Novi Sad, 2011.

For this reason, mutual recognition is not appropriate for many types of services, and may also only be feasible for countries with very similar approaches to regulation. However, in countries with very different standards, the country with the weak standard can agree to recognize certification from the country with the high standard, but not vice versa. Harmonization of regulatory standards is another option. In this case, countries agree on common regulatory standards. Engineering as a set of the intellectual activities necessary to optimize the investment of the path realization of the concept selection and model design to the practical application of the conclusion, i.e. solutions that we obtained based on the certain models and methods.⁸

For example, countries may agree on a common set of rules to regulate insurance companies, and this then may facilitate easy access by insurers to markets in each country. The advantage of harmonization is that it removes the ability of governments to unilaterally adjust standards to favor local suppliers. The disadvantage is that it can add inflexibilities into the system that make it more difficult to change regulations when conditions merit changes. As well, harmonization by its nature eliminates diversity in regulatory approaches.

Regulations appropriate for one country need not be the best solution for other countries. Each of these approaches constrains government flexibility in some ways, and so may raise regulatory costs. They may also conflict with other government objectives. For example, a government may choose to have an exclusively public education or health system. In cases of cultural services, a government may prefer to explicitly favor local providers. For some types of services, governments may see value in having them provided by producers with a long term vested interest in a local community. The literature on social capital suggests that this can strengthen communities and provide both economic and non-economic benefits. Consequently, for some types of services the conflicts between regulatory objectives and trade liberalization may be difficult to circumvent.

Under this regime, output is higher and price is lower. The gains from trade are given by $A+B+E+C$. The gains from trade will be larger if the government chooses the most efficient screening regime. D. Protection to preserve local product variety Much of the above analysis of trade barriers assumed that local and foreign products are essentially the same. However, in some cases, local and foreign products may be very different. This is particularly true in the cultural sector, where a foreign movie or television program is often very different from a local production. Hence while foreigners may object to local content rules in broadcasting and other media as protectionist, the motivation for such policies may be to preserve distinctly local cultural products. The issue of the preservation of distinctly local services arises in other contexts as well: for example, allowing foreign restaurant franchises (such as fast food chains) may squeeze out local restaurants selling indigenous cuisine. There are two ways to analyze protective policies in the case where locally produced services are distinct from foreign-produced services: the first allows for externalities in service provision, and the second is to confront the larger issue of optimum product variety.

Suppose that a trade agreement eliminates local content preferences, and more foreign firms enter the local market. Because foreign services are imperfect substitutes for the domestic service, the local demand curve shifts. Foreign movies, television programs and music squeeze out domestic products. Now it might be thought that these products should be squeezed out because domestic demand is below average cost. However, this is not necessarily correct.

⁸ Mikić, S., Doroshenko, Y., „Economy reengineering at the beginning of 21st century“, *International journal of the economics and law*, vol.1, No. 3, Novi Sad, 2011.

Summary

Trade in services is in some important ways different from trade in goods. First, many services require proximity between the supplier and the consumer, and hence factor mobility is necessary for many international service transactions. Secondly, the limited scope for “border” restrictions implies that domestic regulations have a much stronger influence on trade in services. However, while interesting twists arise because of the way services are traded and regulated, the basic insights from the theory of trade in goods apply to trade in services.

There are likely to be substantial gains from liberalizing trade in services, immediately and in the longer term provided the regulatory framework is adequate. Strong institutions in the globalization process are the basis prosperity and economic development in the world. Technological progress has caused the destruction of the sophisticated processes of globalization. Crisis is an inevitable phase of business cycles and its overcome also is driven by technological progress and successful economic policy. Continuous improvement in order to keep up with modern processes is essential. New knowledge and new competitive skills are necessary to handle the obstacles for integration and prosperity.

Nobel Laureate Paul Krugman notes that there is a recession not only because of bad legislation or negligence in the stock market but also due to an error in the theoretical models. America needs to find solution in monetary policy to regulate the issue of unemployment, inflation and growth. Finally, we need a modern theoretical model that will help us to explain these changes and to understand their meaning.

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