

Seventh Meeting
Williamsburg, 19-23 October 1992

**TRADE IN SERVICES
AND ESTABLISHMENT TRADE**

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In 1990, the French Balance of Payments (BOP) featured that trade in services accounted for about one half of external trade of goods. French trade in services can be divided into two broad categories of comparable importance : services 'stricto sensu', i.e. services related to external trade of goods, technical exchanges, travels, and factor services such as interests, dividends, patents... and the balance was positive (+FF44 billion) for the first category, and negative (-FF15 billion) for the second one. The surplus provided by services compensated up to 40 percent the structural deficit of external trade (and up to two-thirds as to services stricto sensu). These are the main outlines of the comments on BOP figures as disseminated by the media ; with an ambiguity : if the external trade deficit may be attributed firstly to the manufacturing sector, what about the services surplus, sometimes mysteriously named the 'invisibles'?

The French Commission on Service Accounts (CSA) was officially created at the end of 1987 in order to complete the field already covered by the other Commissions on tertiary activities, namely the Commission on Distributive Trade Accounts, the Commission on Transports Accounts and other institutions for the banking and insurance sectors. Thus the CSA deals with business services including real estate, sale and repair of motor vehicles, hotels-café-restaurants, personal market services such as health, cultural and recreational services including radio-television and movies and some "n.e.c." such as hairdressers, laundries... All these activities, in 1990, accounted for about one-fifth of the GDP as well as of employment. In the following part of this paper, this set of activities will be referred to as the "service sector".

From its very beginning, the CSA stressed on the importance of the internationalisation of services : it called on the Central Bank for a yearly report on French trade in services besides the report issued by INSEE on the "internal" activity of the sector.

The service sector as previously delimited is wide and expanding : within the last twenty years, its annual real rate of growth has stood 1.3 point above the average for the whole economy. Furthermore, France is high-ranked among other countries -sometimes second- as to its performance in service trading.

The only integrated system which would have allowed to match these two results (movement and level) is the SNA, but as it is too much aggregated for this purpose, many "dark" zones remain and limit the analysis; furthermore, the "product approach", which is used in the making of French national accounts, does not provide information about the international activity of service enterprises. At the same time, various sources give some pin-point indications :

- for construction, insurance, banking, computer services, sea transports..., professional sources report that sales abroad are several times more important than exports recorded in the BOP ;

- only nine among fifty-six service sectors (mainly technical studies including engineering and business services n.e.c.) reported sizeable exports (more than five percent of their turnover) in the French annual survey on service enterprises conducted by INSEE.

In its search for a clearer analysis of the internationalisation of the service sector - inter alia in order to answer the needs of professional organisations and heads of enterprises - the CSA asked for a work program based on two complementary approaches :

- a development of BOP statistics based on a sectorial apportionment of transactions and a first evaluation of flows and stocks of foreign direct investments ; all of these have been now completed by the Central Bank ;

- a study on the feasibility of a valuation of the activity of foreign affiliates in France and of French affiliates abroad in the distributive trade and service sectors ; a report was presented by P.THUILLIER, Professeur of Economics at the University of Rouen, the recommendations of which, after having been discussed by an ad hoc working group, are now being implemented.

1. A sectorial approach of BOP transactions : trade in services and service enterprises

"Sectorial approach" means the apportionment of external transactions to the economic sectors which receive or provide the exchange - in other words, "who exchanges what?". This new processing was firstly conducted on 1987 and 1979 data ; then it has been resumed on a regular basis for 1988, 1989 and 1990 data.

This "sectorisation" is based upon the use of the main activity code as it is written down on the forms filled by financial intermediates and by enterprises having large amounts of exchanges ("direct informants") and sent to the Central Bank. For various reasons, a part of these declarations cannot be ascribed to a peculiar sector : for example, amounts smaller than FF100,000 are declared after aggregation by device and country ; other transactions as travel payments, interests... are grouped and so on. As to the service sector, the main difficulty deals with the apportionment of travel expenses : from the use of various sources, the Central Bank allocates roughly 80 percent of tourism receipts to the service sector, mainly to hotels-café-restaurants and a minor part of it to personal service sectors. The sectorisation of business travel expenses of residents would be rather hazardous and would result only in a small improvement of the relevance of the data concerning the sole service sector ; then, it was not done.

Eventually, 83 percent of exports and imports of merchandises could be sectorised and, including travel expenses, more than 80 percent of services transactions.*

* Non-sectorialised transactions concern mainly the financial sector, distributive trade, transports and, for a very small amount, the service sector as it has been previously defined.

In 1990, the service sector accounted for 6 percent of credits and 2 percent of debits recorded in the current account BOP. About three-quarters of the receipts are provided by foreign travellers ; thus, besides tourism, the contribution of the service sector to the BOP is quite fringing, between 1.5 and 2 percent of current exchanges. The "intensity of exchanges" of the service sector, i.e. the amount of transactions divided by its production is of the same size. For goods, external trade accounts for almost 20 percent of the manufacturing production in France.

According to that last indicator, only a few service sectors have almost sizeable amounts of exchanges : travel agencies (11 percent of the "production"), the audio-visual sector - mainly movies (8 percent), technical studies including engineering (7 percent), computer services, equipment rental and market research (about 4 percent for each of them). And one half of these exchanges deals with goods.

Travel receipts being excluded, the current balance of the service sector is negative - about FF3 to 4 billion - a result which contrasts with the positive comments reported previously. The excess gained in the "technical studies" sector (+ FF4,6 billion) does not compensate completely the net debits of travel agencies (-FF2,2 billion), of the audio-visual sector (-FF1,7 billion), of the computer services sector (-FF2,1 billion) and of advertising companies (-FF1,1 billion). Such deficits are structural : they originate from the acquisition of motion pictures, of machines by computer service firms and of advertising places by publicists.

Therefore, the role of service providers in the international trade appears to be somewhat anecdotal ; such a trade is mainly of a commercial type, i.e. a trade organised for some specific reasons which have no link with the internationalisation process under review.

The table hereunder summarizes the main results of the BOP sectorialisation; it shows the contribution of each large sector to the exchanges of services as registered in BOP. Flows of services are aggregated into three broad categories :

- "technical services" which include construction services, technical cooperation, some sub-contracted works ;

- "other services" which include travel expenses and services depending on external trade (transports and insurance of merchandises) ;

- "factors income" which include interests, dividends, patents...

Synthesis of the sectorialisation of French BOP (1990 data)

Sector	CREDITS			DEBITS		
	Techn.serv.	Others	Fact.inc.	Techn.serv.	Others	Fact.inc.
Manufacturing	51.3	4.5	6.1	56.6	8.3	10.3
Construction	18.2	0.2	0.0	9.3	0.4	0.0
Distributive trade	1.6	9.2	0.8	6.2	3.1	1.5
Transport	3.5	19.8	0.0	4.4	19.8	1.9
Service sector	15.6	30.8	0.9	13.5	4.8	1.1
Banking services	0.9	26.7	72.2	3.8	28.3	72.5
Others 8.9	8.7	20.0	7.2	35.4	12.7	
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source : Central Bank

Approximately one half of transactions on services are "factors income", mainly financial flows coming from or going to the financial sector (three-quarters of total credits and debits of this category). One fifth are services for external trade provided, of course, by transports and insurance sectors (about one half of services reported in column "other services"). The sizeable share attributed to the service sector in the credits part of the table (31 percent) corresponds to travel expenses (as no estimation was done on the debit-side, the share is lower).

The most interesting result concerns the apportionment of technical services : they are firstly exchanged by manufacturing enterprises (51 percent of receipts and 56 percent of expenses) and by the construction sector (18 percent and 9 percent respectively). Exports and imports of this kind of services by engineering firms of the service sector account only for 16 percent and 13 percent of the total. Further investigations indicated that "technical services" are mainly of industrial type, such as services related to European programs in the aeronautic and spatial fields, petroleum research and extraction, aircrafts and ships repair, treatment of nuclear residuals...

The clarification obtained by mean of sectorisation of BOP statistics confirm the previous conclusion : exchanges of services *stricto sensu* - of course excluding travel exchanges - are a marginal phenomenon for the enterprises of the service sector.

2. Foreign direct investment and internationalisation of services

As stated above, from information available in France and abroad, one can infer that establishment trade might be much more significant than direct trade as far as service enterprises are concerned with internationalisation. French Employer's Federation "Syntec informatique" reported that the sales of French affiliates abroad accounted for one-fifth of the turnover of computer service firms in 1984 ; the turnover of foreign affiliates of U.S. companies was estimated by the BEA as being six times more important than direct exports in the service sector (three times in manufacturing).

In a report to the CSA, the French Central Bank presented data on flows of direct investments in France and abroad by sector, with a valuation of assets of French direct investors.

A foreign "direct" investment gives to a non-resident a power of control or a significant influence in the management of a resident company. More precisely, the French Central Bank takes into account newly established enterprises, acquisitions of a ten percent or more voting interest, loans and advances to affiliates from the beneficial owner. The amount of assets includes the book value of acquisitions, loans and advances. Only investments more than FF20 billion are taken into account for the survey.

French direct investments abroad as well as foreign direct investments in France grew rapidly in the late 1980's : the first ones rose to FF172 billion in 1990, an amount multiplied by 3.5 from 1986, the second ones grew to FF76 billion, being multiplied by 2.4 from the same base year.

On both sides, outlays of the financial sector (banking and insurance) are substantial. They account for 40 percent of French direct investments abroad and 27 percent of foreign direct investments in France, and contributed up to one half and one third respectively to the increases which occurred within the four years under review.

The contribution of the service sector to investment (as the investor abroad or as the invested sector in France) is much more significant than the one stated in current trade : it accounted for 11.5 percent of total outlays invested abroad by French firms in 1990, including the publicly-known acquisitions by Accor Group, Cap Gemini Sogeti and French advertising agencies ; 12.7 percent of total outlays invested in France concerned legal services, equipment rentals and real estate (in that last sector, some desinvestments compensated partly acquisitions)...

With regard to the stock of investments abroad, French companies of the manufacturing industry (56 percent) and of the financial sector (32 percent) appear to be the principal investors. Internationalisation has been more recent in the service sector and its share in this census accounts for 4 percent only, a little more for business services than for personal services.

All these statistics do not include acquisitions financed by existing affiliates owned by non-residents. This part may be of major importance : statistics from the Bureau of Economic Analysis indicate that in 1990, outlays from U.S. affiliates were about 4 times more important than those provided by foreign direct investors. And these two components do not move in the same way : a sharp decline of outlays from foreign investors occurred in 1990 (-45 percent), although investments provided by U.S. affiliates were 7 percent higher than the previous year. Then the conclusion drawn from the sole FDI flows recorded in the BOP would have given a wrong view of the tendency of internationalisation. In order to fill this gap, P. Thuillier recommended a complementary approach.

3. Measuring the foreign "implantation"

"Implantation" qualifies the situation which results from "direct" investment. In order to quantify the phenomenon, "penetration" rates are defined as the share of turnover, employment, assets ... controlled by foreign-owned business enterprises.

In France, the information available for computing such rates originates from two sources :

- the Direction of Treasury updates a file of foreign-owned affiliates in which the residence country of the direct foreign parents and the origin country of outlays are reported ;

- the Annual Survey on Enterprises provides accounting data, the number of persons employed, gross wages and salaries, investments ...

These two sources have been matched, using the registration number of enterprise. The process was subcontracted to the Ministry of Industry which implemented it previously for the manufacturing industry.

Most of the methodological problems come from the characteristics of the administrative source. The Treasury file is updated through compulsory reports filled in by direct investors. Originally (1967 Act), acquisitions of French business enterprises by non residents were liable to the authorisation of the Ministry of Finance. This regulation has been progressively softened. The authorisation was first waived for investments coming from EEC countries and a statistical report was then requested. Further (1988), it was decided to ease establishment by non residents in order to promote creation of new jobs : for these investments, only an "a posteriori" report has been made necessary. Finally, a 1990 amendment replaced the "a priori" request for an authorization by a procedure of non-written agreement within one month, reserving the Minister to the right to defer in a few situation where national interests would be concerned.

A difficulty deals with the delimitation of the boundaries of the controlled entity : the acquisition of a holding concerns all enterprises belonging to the group ; new establishments created by foreign affiliates should be taken into account. While regulation has softened, it may be feared that some of these events are not reported in due time, or not reported at all.

Another type of problems is common to all administrative sources ; registering is always better known than striking off. A lot of events should strike off the file a presumed affiliate : of course closure of the enterprise, but also selioffs of affiliates, reorganization of existing groups ... Lastly, a good quality of the characteristics of enterprises - main activity inter alia - is essential as one is looking for sectorial statistics.

The experience gained in conducting this work on the manufacturing sector shows that the quality of the file is quite satisfactory with regard to the coverage of affiliates : Treasury services are well informed on direct investment operations and the file is regularly checked. A problem remains as to the identification of units - mainly the registration number and the activity code, as these are not essential information for the Treasury.

Thus an important work of checking has been planned : a light but systematic control for all enterprises concerned is done, using the SIRENE register of enterprises and thorough investigations are supplemented for the largest ones.

At this time, controls are still going on. Some crude results have been issued. They shall be modified at least for two reasons :

- in order to simplify the first processing, all affiliates were considered as majority-owned. Later on, the turnover of a minority-owned affiliate or its number of persons employed will be weighted by the control rate. For manufacturing, this computing rule changes slightly the penetration rate (minus 1,6 point) as minority-owned affiliates turnover is about one-tenth of majority-owned ones. First information on distributive trade and service sectors confirm the small importance of minority-owned entities, but this is, of course, a cause for overevaluation ;

- in an opposite way, some 13,000 enterprises are under control because of a wrong activity code ; part of them will be reintroduced in the sectors under review with a positive effect on penetration rates.

Once more, only some rough conclusions can be given, based on rough results rather than validated statistics ; but these figures are promising in the sense that they appear as a justification of the efforts already done on this matter.

The first evaluations of penetration rates in the distributive trade sector stand at 17 percent of turnover (12 percent of employment) under foreign control at the end of 1989 ; the corresponding rates for the "service" sector are 10 percent and 8 percent respectively. Those rates are below those calculated for the manufacturing sector (26 percent of turnover, 21 percent of employment) but they are rather higher than expected on the basis of data previously reported.

The difference between rates in manufacturing and tertiary sectors comes from the fact that the latter - when one looks at a detailed sectoral level - is much more widespread.

For example, among 65 detailed service sectors investigated, more than one half are little or not at all concerned by internationalisation (penetration rate under 5 percent) and for about ten sectors only, rates are above 15 percent ; these are mostly business service sectors.

Gains and limits of this new approach

Although foreign direct investments statistics take into account the sole acquired part of assets, this approach gives the economic weight of the set of firms controlled by foreigners taken as a whole.

French direct investments abroad have expanded in recent years and one would like to get similar data about establishment trade of French affiliates. The administrative source contains also information on French-owned firms abroad (mostly, level of participation). But the Annual Survey on Enterprises provides figures on the domestic activity only ; thus, it is necessary to rely on "foreign" statistics to know the economic share that French enterprises provide abroad. At the present time, only BEA statistics have been consulted showing, in the USA, low penetration rates for French companies in distributive trade (about 4 percent) and services *stricto sensu* (a little more than 1 percent) in terms of employed persons. But, for some specific activities as hotels or business services (mainly computer services and engineering), rates are more sizeable and they increased threefold between 1985 and 1988. Anyway the greatest part of internationalisation of French services is to Europe. It is planned to develop such analyses as with the USA with as much countries in Europe as possible.

Mergers and acquisitions

The first analysis of the internationalisation of services leads to conclude that establishment trade is the main process for providing local markets with services. A complementary aspect of this topic deals with "mergers and acquisitions". BEA statistics point on the fact that "acquisitions accounted for most - nearly 90 percent - of total outlays"^{*}.

For some years, P. THUILLIER has implemented a file of enterprises concerned, using information published by specialized firms (Mergers + Acquisitions international, P.F. Publications ...). It is obvious that this file is not exhaustive as it is based on public information and not on compulsory statistical inquiries. But internationalisation concerns mainly large societies and large transactions. As it is mentioned in BEA articles on international investments, information on specific investors is essential to supplement future data when analysing the strategy of investors.

^{*} Survey of current business - May 1991, US business enterprises acquired or established by Foreign Direct Investors in 1990 - Mahnaz Fahim-Nader

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