VOORBURG GROUP ON SERVICE STATITICS

Eighth meeting
Oslo (Norway), 27 September-1 October 1993

INTERNATIONALISATION OF SERVICES : FOR ANOTHER APPROACH

Jean-Marie NIVLET, MEPSS, France

12 August 1993

INTERNATIONALISATION OF SERVICES : FOR ANOTHER APPROACH

Statistical data dealing with international trade on non factor services reported in current transactions of the Balance of Payments, are somewhat paradoxical as they do not echo back either the weight of the tertiary sector or its impressive growth during the last decade.

Market services - i. e. business services and market household services including hotel and restaurant, sale, maintenance and repair services of motor vehicles - illustrate the paradox : they account now, in France, for 20 percent of the whole value added or of the total employment (15 percent in 1980) and, except through travel expenses, play a minor part in international transactions (about 1 to 2 percent of sales and purchases).

In spite of that, internationalisation does not concern the sole manufactoring industries. When establishing subsidiaries abroad or joining of an international network, service enterprises are also faced with international competition. Some countries have already surveyed the foreign-owned affiliates operating on their territory ; the measurement and the analysis of the situation of national-owned affiliates abroad might require an international co-operation which is still to define and create.

Invisibles, and not visible services

1. Trade in non factor services reported in the French Balance of Payments amounts roughly to $60 billion, annual average of purchases and sales, that is to say 16 percent of current transactions. From 1977 to 1991, this ratio fluctuated between 15 and 17 percent, while the value of transactions was multiplied by four and a half. For OECD countries, no clear and general conclusion can be drawn from similar data : over the last ten years, sales of services as a percentage of total current receipts increased in United States, Italy, Canada, Turkey... But, it slowed down in Germany, Japan, United Kingdom, France... Thus, one may disagree with the statement that "now, services constitute the most dynamic component of the growth of international trade" [1].

2. Another issue deals with the gap between the contribution of services in overall international trade and the weight of the tertiary production as a part of domestic production in advanced countries. A detailed investigation of non factor services flows completed by an analysis of the sectorial origin of these flows throws some light into this "Black Hole" [2]. In France, trade in non factor services can be broken down into transportation and insurance services mainly linked to external trade (40 percent), travel expenses (about one quarter), "technical services" (15 percent) and other services. Most of the transactions included in the item "technical services" relate more or less to manufacturing processes and to the achievement of large industrial projects : infrastructure turnkey projects, contribution to the budget of the European Space Agency, petroleum surveying and refining, repair and maintenance of aircrafts and ships, processing of nuclear residues, car assembling, management of Airbus programme... "Typical" services, as computer and related services, advertising services, purchases and sales of audiovisual programmes appear under the items "technical co-operation" and "other services n.e.c." for a global amount of $1.5 billion.

Moreover, three-quarters of this trade of "technical" services come from the secondary sector - manufacturing and construction ; so that, the total amount of transactions realised by enterprises of the "service sector" - business services, real estate services, audiovisual services, market household services, i. e. 20 percent of the domestic production - is not more than $7 billion, or 2 percent of current transactions ; on the basis of an expert estimation, half of travel expenses are allocated to the "hotels-restaurants" sector and then the previous percentage raises to 6 percent.

3. The gap between the weight of the service sector and its contribution to the GDP growth on one side, and the relative dullness of the trade in services on the other side comes primarily from the difference between the two concepts of "service". In the first case, the service sector is the industry among which the most dynamic activities - essentially business services and health services - are little if any concerned by international trade ; in the second case, services which are "traded" are mainly linked with external trade of goods and manufacturing production. The sole coincidence between the two approaches, with significant amounts, is the part of travel expenses which goes to the "hotels-cafes-restaurants" sector.

4. Efforts have been made to harmonize international statistical systems, such as SNA and BOP, in order to reduce the present gaps [3]. Processing and repair of goods will be recorded in the category merchandise, for instance... But, some discrepancies remain : the processing of nuclear residues will stay in the category "services". Anyway, according to the fact that, for many countries, BOP is basically an accounting document filled with administrative reports, a full harmonisation is out of reach. Thus, the main point for users of BOP data is to provide them with a matrix showing the links between international trade and the sectorial origin of this trade. Despite this table, users put together data on ITS and data on domestic production on the basis of headings more or less precise (generally, business services are among "other services") : analyses, done about the development of international trade of advanced services due to the technological progress of information and communication facilities, are therefore somewhat hazardous.

Direct investment and establishment

5. While the weight of "real" services is rather low in the trade data, it is more sizable in direct investment even if, because of the enlarged use of the word "services", that weight is often over-estimated because of the investments of the financial sector. From 1984 to 1990, French investments abroad were multiplied by 7 and reached an amount of $13 billion. But the sole financial sector accounts for 42 percent of French investments abroad, and 32 percent of foreign investments in France. Then, "tertiarisation" of direct investment is at first a financial phenomenon, without the scope of this paper. When financial services are excluded, the weight of services is about 10 percent of direct investment abroad and 7 percent of foreign investment in France, rates which fit better whith the non capitalistic nature of the services sector. Over such a short period, no clear tendancy appears in favor of the tertiarisation of direct investment (financial services omitted).

6. In so far as the internationalisation of services means, at first, establishment on local markets, the main issue is the measurement of the local production of foreign-owned affiliates. The organisation of the French statistical system on enterprises allows, without any supplementary collection of data, to match files in order to get consistent data. For this purpose, a file managed by the direction of the Treasury containing the structure of the capital at a given date has been matched with the annual survey on services enterprises of INSEE which covers the variables (turnover, employment, wages... operating accounts for units employing 20 salarees or more) needed for the measurement of the weight of foreign affiliates and eventually to compare their performances to the ones of "national" enterprises.

7. In the wholesale and retail trade sectors, sales by 6,600 foreign enterprises raised to $97 billion (17 percent of the sales of the sector) ; they employed 279,000 salarees

(13 percent of the sector) ; in the services sector, the corresponding rates are 10 percent and 8 percent, with 2,900 foreign enterprises. While being below the rates of the manufacturing sector, these results show "a rate of internationalisation" much higher than the one shown by trade statistics [4].

Foreign-owned affiliates are located in the most concentrated sectors : 84 percent of the turnover of foreign affiliates of the commercial sector come from 1,800 affiliates employing 20 salarees or more ; for the services sector, the corresponding data are 90 percent and 800 affiliates. The highest penetration rates are in the wholesale trade of industrial products, the wholesale trade of food products, then in the retail trade ; among the services sectors, the operational business services, more concentrated than the other ones (such as renting of computers and office machinery, renting services of automobiles, supply services of workers, catering services...) come first, then hotels and restaurants, consulting services in a broad sense (management consulting services, legal services, auditing and accounting services...), audiovisual services...

8. For several services sectors, this description fits well with what is known about the presence of some large foreign companies like Hertz, Avis, Manpower, Addia ... But for others, even the detailed level of the actual classification does not reflect the level of international competition within some specific professions. For instance, a penetration rate computed on the whole advertising sector does not show the intensity of the real competition between international networks of creating agencies. Many advertising activities besides creating agencies are not, presently, subject to internationalisation, as renting of advertising space ... Some similar situations may exist in other business services, but also in more traditional sectors where new services, simplified or highly specialized, have rapidly developed during the 80's : fast foods, auto-centers, specialists of rapid repair, one-hour development of pictures... A sound description of the influence of foreign affiliates would require a much more detailed level of classification than the one used for the time being.

9. Another difficulty deals with the fact that the criterion used - the level of control of the capital of the firm - covers only one aspect of the various links that may exist between service enterprises. Some type of contracts have been largely developed during the 80's - like franchising - which do not imply any capital control. Of course, as long as such links will not be investigated in statistical surveys, penetration rates will underestimate the real influence of foreign companies on local markets, especially in retail trade, household services, real estate agencies...

Such kind of observation may apply to business services and explain, for instance, the low level of the penetration rate found in "consulting services" : 4.5 percent of employment ; this rate may not look representative of the competition faced by the major professionals in these sectors. But for these activities, the "human capital", the technical skill and the experience of the staff of consultants, is not controlled or transfered like an industrial or financial capital ; as an expert of the sector says, "here are activities where the shareholders vote with their feet !". Moreover, consulting services (and probably other business services) are often "co-produced", a co-production which implies large exchanges of confidential information between the consultant (the provider) and its client and then a great confidence between them. To accompany the expansion of their largest clients abroad (the transnational corporations), consulting offices have experienced and developed a wide range of relations form a simple branch to an international corporation, including various forms of partnership not surveyed at present. In these matters, a large part of the exchanges between members of the network and the stakes are intangible and out of reach for the present surveys. Eventually, the "control-approach" is only a starting point...

The specificity of the service enterprises

10. Internationalisation of services has been often examined with regard to the question of the transferability of the service : in order to deliver a service across the border, the provider, the client or the product should move ; in some circumstances, somewhat rare but spectacular, the progress of means of communication leads to avoiding moving. Through satellite communications coupled with computers, some tertiary tasks have been "de-located", like the input of the basic data of the French telephone directory in the Philippines, the programming in software workshops in India and Tunisia, the processing of credit cards leaflets in the Caribbean Islands... All these examples deal with the expatriation of low qualification tasks towards low salaries zones. But, what about the amounts of the transactions generated by such expatriations, with regard to the $380 billion of current exchanges a year. And, what about their future ? Such "delocalisations" will probably be replaced by further automatisations, as "scannerisation" for input of data...

11. Internationalisation of enterprises is a distinctive feature of the contemporary economic evolution, along with the tertiarisation of advanced economies. Even incomplete, the first approach shows that the magnitude of the phenomenon is more than anecdotical.

If necessary, other reasons for developing a programme in that field have arisen from discussions with professionals of the service sector and academic people. They lead to the conclusion that the problems of internationalisation might differ for service enterprises from the manufactoring ones (some aspects being specific to service enterprises). This refers to the primacy of the intellectual and human potential of the service firm over its financial and physical assets. For such firms, the cultural stakes would be the main one. A manager of a French management consulting firm told that a "management office having international ambitions should, at first, be in a position to internationalise the culture of its staff, as there may be a ditch between a consultant who stays all the year within Paris intra muros, and the seniors of the client firm who have an international professional life". Aiming at that goal induces research of partners, exchanges of methods and experiences, rules of behaviour, and share of benefits ; of course, most of these "transactions" are totally intangible, not recorded anywhere, but they may generate finally tangible economic activity (in the case of the company cited above, a new national branch created from the experience acquired from a foreign partner has generated an extra-fee of $1 billion).

The primacy of the proximity factor - cultural, professional, geographical - has been, of course, emphasized at several times. Among the various experiences related by a panel of professionals from business services [5], one is particularly meaningful. For a specialist of business (value added) network services, "the actual value added comes from the fact that the provider masters the craft of the client." In other words, whatever the progress of communications will be, the key-point for the expatriation of the service (even an advanced one) remains the cultural proximity (here in the sense of professional experience) with the client ; and from an economic point of view, what is significant is that value added.

12. Internationalisation of services is less a part of transactions - in an extended meaning of exports and imports - than a part of the local supply of services. Then, one should focus on the behaviour of actors more than on exchanges of products. The statistical observation implies the description of local markets, the identification of providers and the analysis of their organisation.

The knowledge of the local markets of the national providers is as important as the one of their foreign affiliates. A "one-side approach" for obtaining information seems to be more efficient : every country can know the part of its national production concerned with international competition broken down by country concerned. Thus, a country can obtain the data of its national companies without carrying out national surveys. At the present time, a tentative exchange of information between three countries of EEC is on hand, with a view to locate the national affiliates abroad. A more ambitious and systematic programme in this field implies progress in the harmonisation of service enterprises statistics.

BIBLIOGRAPHY

[1] Availibility of trade in services data in OECD countries. OCDE STD/SERV (93) 1 - 10 mai 1993.

[2] Les comptes des services en 1991. Commission on Services Accounts - INSEE Résultats n° 62-63-64. décembre 1992.

[3] International trade in services. A.M. BLOEM et M. DUNAVOLGYI - Session 1992 du Groupe de Voorburg.

[4] L'implantation étrangère dans le commerce et les services au 1er janvier 1990 - Direction du commerce intérieur - Mission d'étude des problèmes du secteur des services (1992).

[5] Actes de la journée d'étude sur le développement international des activités de services du 2 décembre 1992 - Mission d'étude des problèmes du secteur des services.

J.P. THUILLIER. (1992) Stratégies internationales dans les services Communication à la journée d'étude sur le développement international des activités de services du 2 décembre 1992. Université de Rouen. Institut de recherches et de documentation en sciences sociales