

THE FRENCH EXPERIENCE ON INTERNATIONAL TRADE IN SERVICES

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Studies on international trade in services have been made for a long time in the Bank of France; moreover interest was strengthened by the positive contribution of services exchanges to current account, in contrast to the generally negative results on merchandise trade. In addition, since 1987, a "Commission on Services Accounts", covering domestic and international activities, has been set up (see the presentation of its works at the last Voorburg Group meeting) and led to deeper BOP analyses.

An important point is that international trade in services is studied in France with a twofold approach, first according to operations identified in the current BOP classification (about 40 items), second by activities, according to a sectoral classification of enterprises.

The first part of this paper will briefly outline the main methodological problems encountered by compilers. In a second part some specific results will be presented.

I. A review of the main methodological issues

A short description of the French Balance of Payments reporting systems is necessary to understand how problems arise in collecting data on trade in services.

The French system can be qualified as "semi-open". Information is collected from banks and under certain conditions, from direct reporting companies. Data come from flows of settlements related to changes in the monetary positions and from non financial agents, either completely (all operations) for big companies (about 300 belonging to 70 groups) or, for others, only for transactions made through accounts held in a non-resident bank. Reporting by non-banks currently represents 35 per cent of the total current account, but 40 per cent of goods and services exchanges only. So, for a large part, BOP compilers can have direct relations with transactors, an advantage in case of specific operations.

In the French system, direct reporting from non financial agents is very similar to business surveys used elsewhere but compiling is based on settlements recorded in the firms' accounting systems.

For practical reasons, in the case of bank reporting, it is not always possible to get all single settlements linked to transactions with non residents and thresholds have been set to deal with large numbers of "small amounts" operations. Two possible solutions have been devised to deal with this question.

The first one, used in most countries which rely upon reporting systems based on settlements, eliminates small transactions, meaning that, in this case, there will be no report in the BOP, compilers using -or not- estimation methods for missing flows.

A second approach is used in France and identifies two sets of items. For one set, settlements must be reported, regardless of the amount (i.e. from the first franc) with the

proper economic codes and aggregated in "global" codes under certain conditions (credit or debit, same type of counterpart account, same economic nature, same month, same currency). This concerns capital income from intermediaries' own transactions, labour income, migrants' transfers, other capital income, dividends and interest of customers, travel, manual foreign currency exchange, certain portfolio investments. This means that no single transactor can be identified but it should be stressed that the economic nature of all these transactions is precisely known.

For all other items, "small amounts" (i.e. below a threshold of FRF 100,000) are reported as a whole in a specific code. The total of these "small amounts" has to be allocated, according to statistical allocation keys, over the different lines in the current account. This is made according to the results of surveys relating to the economic nature of settlements below the threshold and their distribution.

Although services are concerned with this problem of small amounts and their allocation, it seems that the loss in information because of the threshold is limited since the list of items that must be reported from the first franc covers the main "small amount" transactions and thus provides reliable information. However, we may assume that, given the huge number of transactions and the resultant pressure on the banks' staff in charge of the reporting, some part of international trade in services is not accurately known; mainly in the case of professionals or middle firms and for non-regular business flows.

Another limit comes from the means used for settling transactions. In the BOP, a part of the receipts and expenditure is the result of manual foreign currency exchange operations; even if they are relatively lower than before, because of growing use of cards, the amounts involved are high. For example, purchases of foreign bank notes by a resident bank are a receipt in the BOP (mostly included in "Travel"); it is the same for national currency bank notes sent abroad by resident banks.

Besides statistical problems (like re-exchange by residents coming home after travel), the main point is the difficulty to know exactly the use of bank notes. A part can effectively concern resident or non-resident border workers but also some personal services as health and education, some business services (but the corresponding amounts are supposed to be rather small) or financial transactions. In the French BOP, all bank note transactions are included in travel except for a part considered as labour income. In the Eurostat-OECD services classification (see paper), health and educational services provided to visiting patients or students are to be included in travel.

Nevertheless, for different reasons, it seems of interest to get information about the nature of services consumed by travellers (catering, entertainment, transportation within the visited economy, etc.) and also about purchases of goods (in certain cases, expenses by "commuters" due to exchange rate fluctuations and price differences can be sizeable and should not be mixed with tourism). In a sectoral approach, this information is needed to know the precise contribution of tourism activities to the current account equilibrium.

Other problems come from the application of the classification of services. A fundamental work consists in defining items and, on this point, what was performed by the IMF, Eurostat and the OECD is undoubtedly a satisfactory framework for future changes in

the BOP publication. At the same time, difficulties in applying such a classification should not be underestimated:

- First, because of "borderline" problems, such as for example, the case of very small differences in practice (needing so precise definitions) between construction, technical studies, architectural, supervision, co-ordination, engineering, control services; actually, on a site-project, all these items are mixed and in this case, it has been proposed to adopt a global approach of construction services;
- Second, there is a question of "separability" of mixed transactions. In many cases, several kinds of services, in regard to the classification, are provided as a whole, invoiced together and that will lead to a single settlement (or series of settlements in the case of instalments). Transactions should be split into different items, which is not always easy, even when it is asked directly to transactors (this information is generally provided by analytical accounting systems which might not be available). So, in many cases, the service deemed to make up the largest part of the total services provision is used to classify the whole transaction but this solution leads to underestimate other services, especially technical services;
- Third, we face a similar problem when the delivery of goods takes place together with services, as assembly, training, test, linked directly with equipment. The price of the goods can include fees for a long-term contract of "after sales services", not paid by a separate settlement.

It should also be mentioned that the classification of firms is usually based on their main activity. Therefore there may be a risk of distortion when the international operations concern mainly secondary activities.

In addition, the distinction between industrial and services activities is not always easy (as proved by industrial services) and the complexity of today's services is often difficult to "translate" into a classification. In the French BOP, a National Statistics Institute list (called NAF) is to be applied. It is derived from NACE, and takes into account recent development in the production system.

Another practical difficulty comes from conglomerates in which cash management, and also international payments, are centralised in a specific unit. In this case, we can think flows with non-residents are netted out so that a precise identification of services by nature may not always be available, despite BOP compilers' requirements.

Although these problems may limit the significance of some results, their consequences should not be overestimated and indeed the BOP remains the best instrument for measuring international trade in services. Nevertheless, as effects are not the same for every kind of services, one should remain careful in the comments on data.

II. Some remarks on international trade in services

Studies on services in the BOP are generally aimed at analysing periodically the contribution of services to the current account and at identifying long term structural changes. These studies provide the means of analysing the supply structure of the industry as well.

The following results are drawn from studies on services in the BOP and on international operations of firms belonging to services sectors. This work is a prelude to more substantial studies which will be conducted in the next few months for Eurostat and will include other countries' experience.

- First, we can assess the contribution of every economic sector to international trade in services, as reported in the BOP. This analysis has been made at an aggregate level with the regrouping of services, according to their nature, into four categories. The relations of these four categories with four economic sectors, namely industry, distribution, services and finance have been studied.

It appears that receipts for "technical services" (with a broad definition including research, technical assistance, construction, processing, engineering, maintenance, training, etc.) are provided by industrial firms (excluding construction firms) for a little more than a half, services firms in a narrow sense accounting for only 20 per cent (construction firms for 18 per cent).

On the expenditure side, we find 60 per cent for industrial firms and again 20 per cent for services firms. This last result may seem a little surprising because we could suppose a low consumption of similar services by services firms but a detailed analysis shows that imports of technical services by business services firms are high because of links between affiliates (some part of the work can be subcontracted) and of co-operation agreements on common projects.

In the case of transactions linked to the use of technical knowledge or trademarks (including also computer services), industrial firms represent also nearly 50 per cent of receipts, services firms about 20 per cent and distribution firms 15 per cent (because of the use of trademarks by affiliates). For computer firms, distinction between industrial, services and even distribution firms (importers) is sometimes difficult.

For royalties and licences fees, as supposed, the share of industrial firms is higher (70 per cent) and lower for services firms (in this case, it mainly comes from computer services and, especially, from international labour division in big firms).

Interesting results are obtained when we build a matrix with the nature of services and the sector of activity of firms. The diagonal line (for instance, construction for construction firms or air transport for airline companies) shows, as expected, the highest percentage. More surprisingly, provided that the approach is not too detailed, there are noticeable differences between sectors, since the percentage ranges from 40 per cent to 70 per cent, the average being around 60 per cent. This means, in these conditions, it is not possible to deduce items of services for the BOP using the sectors of activity (in other words distortion

activity/product is large and cannot be neglected). All these results were obtained over three years and great stability in percentages was recorded.

- Another point to be mentioned is the large heterogeneity of services exchanges, considered from the point of view of their weight, for sectors or single firms, in the international activity (trade in merchandise can be larger, because, for instance, of equipment purchases than services in their total activity).

Concerning this latter question, we see big differences between firms (often integrated in a group) specialised in international transactions and firms for which foreign relations are quite secondary (but, in some cases, very noticeable in BOP figures).

It should consequently be interesting to break down (and study relative contributions to the flows recorded) BOP transactors in two categories, one including only firms for which one or two kinds of services provided to or received from non-residents is a basic activity, and the others. Only in a few cases (as construction, digging, business consulting), the first list seems to be really dominating. Generally, international activities account for a rather small share of firms' turnover.

- Another analysis consists in calculating the ratio of BOP transactors to the total number of transactors for a kind of activity. For instance, in France, in 1991, BOP current transactions were effected by about 3,000 transactors in business services, whereas domestic firms in this sector numbered more than 200,000.

Let us take two examples in this sector. For temporary work firms, out of 1,100 domestic firms, only 50 are recorded in the BOP (such services need geographical nearness and direct operations overseas are limited to specific qualifications or to border areas). For advertising (including both "creatives" and "space managers"), there are 300 out of a total of 11,000. In general, with this criterion, internationalisation seems very low.

These remarks mean that economic determinants of the evolution in international trade in services are very numerous and generalisation seems in many cases difficult. This is one of the most important "lessons" of experience about sectoral analysis: very often, we cannot explain changes in BOP flows and balances without looking into the situation of the main transactors (with confidentiality problems for comments).

- Another area of investigation concerns the concentration of transactors. Several approaches are possible. For instance, one can consider the number of transactors required to get some percentage (90 per cent or, more accurately, 50 per cent) of a line or, at a closer level, of an item. This number varies widely: from one (when there is only one transactor as for railway transport or nuclear waste processing!) to several hundreds as in "management business". But this indicator should rather be used on a relative basis to get a clear idea of concentration.

Hence the examples consider the percentage of transactors contributing to 50 per cent of a "line" or at a more detailed level, of an item (year 1991).

In the case of "management services" (relative to costs, except for technical assistance, invoiced to affiliates), in 1991, 10 per cent of the transactors accounted for 50 per cent of the total flows, in receipts and expenditure. In computer services, we find 8 per cent of

transactors for 50 per cent of receipts and 18 per cent of transactors for 50 per cent of expenditure.

Although in certain cases differences between expenditure and receipts are relevant, the main finding is that no general "law" about higher concentration in receipts (because of large specialised transactors) than in expenditure, (because only "internationalised" firms rely on non-resident providers) can be deduced from these data. In other countries, results might be substantially different.

- When following a sectoral approach, it is important to know the share in total flows (receipts and expenditure) of, for instance, the main 25 transactors.

For instance, in 1991, 55 per cent of receipts and 65 per cent of expenditure (current operations) for "technical studies" firms were effected by 25 transactors (and some belong to both lists), out of 2,000. Corresponding figures are 75 and 70 per cent for computer services (out of 400) and 55 per cent and 72 per cent in advertising (out of 300). Similar percentages are also found in leisure activities.

Only in a few sectors (as "property" services or "auxiliary transport" services"), the main 25 transactors account for less than 50 per cent of both receipts and expenditure. It is also worth noticing that, once again and with a different approach, there is no substantial gap between receipt and expenditure sides; in addition these shares seem to have been very stable over four years.

- Another question must be mentioned, namely the stability of transactors which we can also approach in two ways. The "turnover" of transactors seems quite significant, although very variable by BOP item or activity sector. The analysis considers the number of occurrences of the firms among the twenty largest contributors to BOP flows. Of course, we have a "hard core" of firms taking a significant share in flows but, even among big firms, relative contributions may change. Several examples, from 1988 to 1992, will illustrate this point.

In "construction services" (receipts), 7 firms belong to the main 20 transactors five times (each year of the period), 5 four times, 4 three times and 9 twice. On average the main 20 transactors account for 65 per cent of the flows.

In "technical services" (receipts), 9 firms belong to the main 20 five times, 4 four times, 3 three times and 4 twice; in expenditure, 4 firms belong to the main 20 five times, 4 four times, 5 three times and 8 twice. On average the main 20 transactors account for 65 per cent (receipts) and 60 per cent (expenditure) of the flows.

In "management services" (receipts) we have 8 firms five times, 6 four times, 2 three times and 5 twice; in expenditure, we have only 1 firm five times, 2 four times, 3 three times and 10 twice. On average, the share of the main 20 transactors is only 30 per cent (receipts) and 35 per cent (expenditure) of the flows.

In the "technical studies" sector (in fact, a very heterogeneous sector as far as activities and firms' size are concerned), for receipts, 6 firms belong to the main 20 transactors five times, 3 four times, 5 three times and 10 twice; in expenditure 5 firms belong to the main

20 transactors five times, 5 four times, 5 three times and 7 twice. The main 20 firms represent on average 55 per cent of receipts and expenditure, from 1988 to 1992.

In the "computer services" sector, the main 20 have an average share of 75 per cent in receipts and 65 per cent in expenditure. In receipts, we find 4 firms five times, 6 four times, 2 three times and 9 twice; corresponding figures for expenditure are 3, 8, 2 and 13.

In the "advertising" sector, the main 20 account on average for 70 per cent of receipts and 80 per cent of expenditure; we find in receipts 6 firms five times, 1 firm four times, 6 firms three times and 10 twice; corresponding data in expenditure are 3, 6, 4 and 9.

Both approaches reveal also frequent "ins and outs", firms "disappearing" one or two years and then reappearing. Generally speaking, the expenditure side seems to show greater variability than the receipt side. However, a case-by-case analysis is necessary to explain such differences.

Of course, these results must be used with caution because purely statistical problems may "disturb" series continuity (change in a firm's identification number or mergers). But, there is absolutely no doubt about this relative instability. This must be kept in mind in case of data collection using samples (size enlarging and new entries management).

- The size of "globalisation" i.e. of flows between affiliates or firms linked by specific agreements (notably in research and technical assistance) is difficult to assess since the information currently collected is inadequate. Indeed, the reporting system does not include such a request for transactors.

Nevertheless, contacts with some firms in services of construction, computer and travel have shown that, in all cases, few relations were recorded between affiliates. Affiliated firms located in different countries are in fact rather autonomous.

In some cases, management fees (often called "head office fees") will be paid to a parent company (but it is difficult to measure effective services provided); we will find also training costs (big firms have generally centralised managerial "universities") and technical assistance. Such flows are generally very small compared with total activity.

There is on this point a substantial difference with industrial firms for which related exchanges take a significant part (including distribution affiliates of industrial manufacturers); a French official survey evaluates at 35 per cent the share of exports sent to affiliates.

- Lastly, concerning establishment trade, France has an experience for activities under foreign control in industry, recently extended to distribution and services, crossing a file of invested resident firms and annual business surveys (using variables as turnover, value added, employment, profits, investments, exports, shares of firms "under control" calculated for each one).

This approach is perhaps over-simplifying the problems. The main question, from our point of view, seems in fact to determine whether a resident firm has specificities (in terms of market shares, productivity, profits, etc.) when owned by non-residents compared

with "100 per cent resident" firms. Is the fact to be under foreign control fundamental? In many cases customers are not aware of this characteristic and it is not sure that it is a determining criterion of choice.

Moreover, an important point is to know whether affiliates are more externally-oriented (in terms of positive or negative contribution to National Income) than other firms. In addition, capital allocation is used as a proxy for the degree of control but it may not to reflect the real power and decision-making process. The suggestion (as in a recent OECD paper) to calculate the BOP on a nationality basis, and not on a territorial basis, should be examined, in these conditions, cautiously.

Again, previous remarks should be considered as a sort of prelude to more thorough studies; the questions raised should be examined on a wider scale.

It appears that the general reporting system in the BOP (which will remain the basic source of data on international trade in services) is to be supplemented by specific surveys and individual studies on the main transactors to improve and complete the knowledge of international exchanges of services. That is the reason why close relations and intensive co-operation between BOP and "domestic" statisticians are absolutely essential.