

FOREIGN TRADE IN NON-TOURISM SERVICES IN SPAIN

Foreign trade in non-tourism services in Spain

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Introduction

In developed economies, the services sector accounts for the bulk of value added and employment. In the case of Spain, it currently represents some two-thirds of nominal GDP and approximately 70% of total employment. Around the world, expansion in services outpaces growth in industrial activity, as economic development per se favours a demand shift towards services. This article focuses on one particular aspect of the services sector, namely Spanish foreign trade in non-tourism services in recent years, from the standpoint of developments in the main industrialised economies. Analysis of this aspect of services is appropriate, since in order to consolidate their external position it is increasingly important for advanced economies to play an active part in foreign trade in services.

Developments in IT and communications, along with the recent liberalisation processes of trade in services, have helped remove the technical barriers that hindered trade, meaning that services other than tourism have become increasingly globalised. Foreign direct investment abroad,¹ which may, at times, act as an alternative channel to exports of services, has also played a significant role in their globalisation.

Regarding the main regulatory developments in this field, it should be noted that international trade in goods was liberalised before international trade in non-tourism services. In fact it was not until the Uruguay Round, which began in 1986 and ended in 1993, that this sector was included in the multilateral trade negotiations.² In turn, the principal EU Directive in this respect dates back to 2006³ and responded to the concern that over-regulation of services markets could be sapping European economies' competitiveness and hampering creation of the single market.

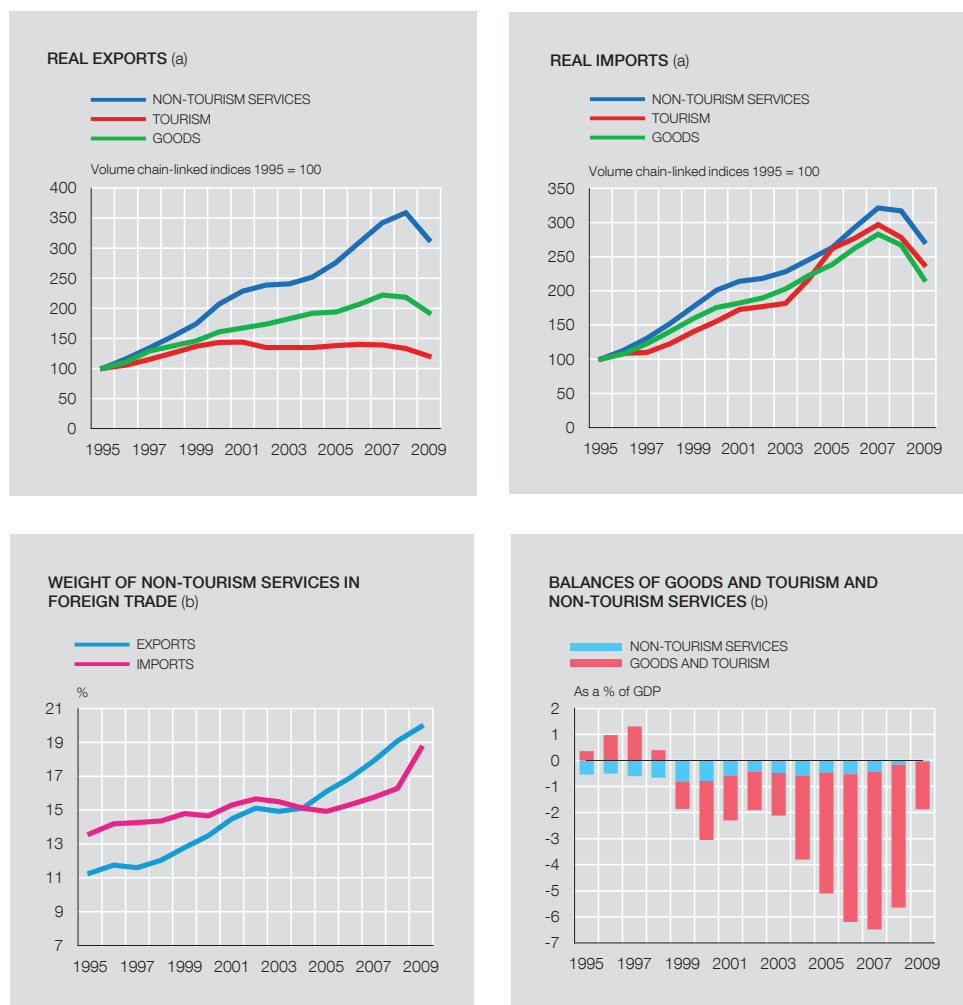
The next section describes how foreign trade in non-tourism services in Spain has developed, identifying the services that have grown the most and those in which Spain has become most specialised. The following section places Spain in the global setting, describing how trade in non-tourism services has developed worldwide and how Spain fares in relative terms. The article concludes with a summary of the main conclusions that may be drawn.

Main features of foreign trade in non-tourism services in Spain

Over the period 1995-2009, Spanish exports of non-tourism services recorded much keener growth than those of either tourism or goods (see Chart 1). According to Spanish National Accounts, real exports of other services rose, on average, by some 9% per annum between 1995 and 2009, vis-à-vis 5% for goods and just 1.5% for tourism. Imports of non-tourism services also posted the most growth, although in this case the differences between the three were smaller.

As a result, the weight of non-tourism services in Spanish foreign trade has risen significantly, especially in the case of exports, virtually doubling since 1995 to more than 20% of the total.

1. Data on foreign direct investment abroad, i.e. investment with a permanent vocation and a share in company management, are recorded in the financial account of the balance of payments, while data on the activity of foreign firms' subsidiaries in the services sector are recorded in the FATS (Foreign Affiliates Statistics). 2. The General Agreement on Trade in Services (GATS), which gave specific treatment to each kind of service, came into force in 1995. 3. Directive 2006/123/EC of the European Parliament and of the Council on services in the internal market.



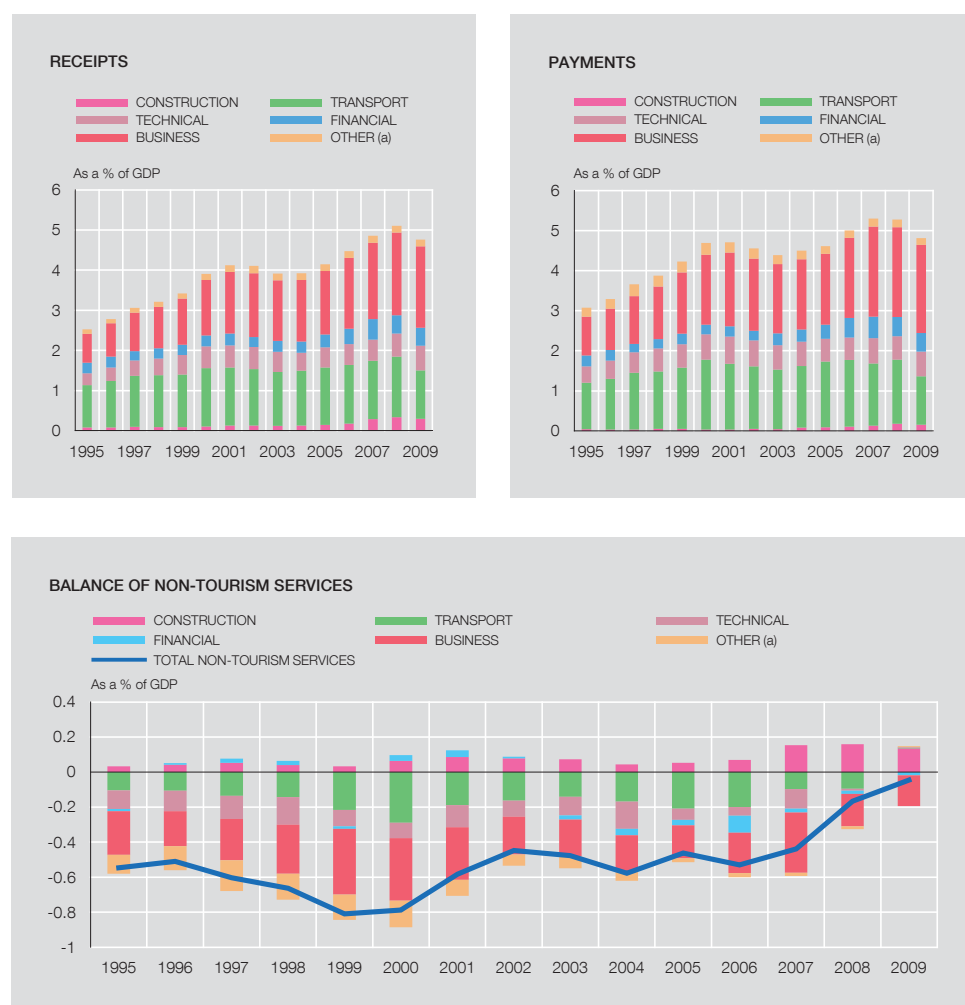
SOURCES: Banco de España and INE.

- a. Quarterly National Accounts, real data.
b. Spanish Balance of Payments, nominal data.

This process was interrupted, in real terms, in 2009, as exports of other services fell more sharply than sales of goods and tourism, while the fallback in imports was more moderate. The international economic crisis and the high sensitivity to demand of exports of services could explain their poor relative performance in 2009.⁴

Using the disaggregated data provided by the balance of payments, it is possible to identify the items that have contributed the most to the dynamism of non-tourism services in Spain (see Chart 2). First, it should be considered that both exports and imports are highly concentrated on transport services⁵ and other business services,⁶ which accounted for approximately 70% of receipts

4. See "Una reestimación de las funciones de exportación e importación de bienes y servicios de España", *Boletín Económico*, December 2008, Banco de España. 5. Transport services include freight and passenger transport (including international transportation of tourists) and ancillary transport services. The latter cover a broad range of services provided in ports, airports, terminals, etc., such as loading and unloading, warehousing and, in general, expenses related to the stop-over of the different means of transport. Fuel supplies and other merchandise, recorded in the trade balance, are excluded. Time chartering with crew is included. 6. The other business services heading comprises a broad range of activities, which explains its size in comparison with the other headings. In addition to merchanting and operational leases, it includes a broad range of transactions that do not fit into any other category. Merely by way of example, it covers: advertising and market research; R&D; legal, accounting, consulting, architectural and engineering services; translation and interpreting; security and training services, etc.



SOURCE: Banco de España.

a. Other non-tourism services include government, cultural and recreational services.

and payments in 2009. However, while transport services⁷ gradually decreased in weight over the period 1995-2009 (to around 25% of total payments and receipts), other business services gained weight, to just over 40% of total receipts and 45% of total payments.

In fact, other business services were one of the most dynamic headings in trade in other services over the period 1995-2009 as a whole, accounting for almost 47% of the increase in receipts. Technical services (IT, royalties and other licence fees, and communications), financial services (including insurance) and, especially, construction services, also grew significantly, though they represent a much smaller percentage. The relative weight of construction services more than doubled between 1995 and 2009 (to almost 7% of the total), as certain business groups expanded internationally, within an overall business diversification strategy. This increased foreign presence could boost international trade in goods and services, insofar as it encourages intragroup trade flows.

7. Transport services transactions are connected with trade and tourist flows. In Spain, transport services other than air transport are closely correlated with trade in goods. Within transport services, this item accounts for some 45% of total receipts and some 63% of total payments.

On the payments side, other business services also accounted for a large part of the increase in total imports in the period analysed (some 51%). By contrast, the increase in payments in the case of financial services and, especially, construction services, was much lower.

Parallel to the momentum in receipts and payments, the non-tourism services deficit gradually corrected as from 2000, verging on equilibrium in 2009 on balance of payments data. This is particularly noteworthy because the deficit narrowed during the growth phase of the Spanish economy, when the goods deficit widened significantly, and could indicate that it is due, at least in part, to structural factors connected with the growing internationalisation of Spanish providers of non-tourism services and with a relatively favourable competitive position in this area of activity.

By heading, other business services posted the largest deficit (some 0.2 pp of GDP), but also the highest increase in volume in the past decade. The construction services surplus also widened notably up to 2008 (by almost 0.2 pp of GDP in that year), though it narrowed again in 2009 in light of the international adjustment in the sector. Specifically in 2009, transport services were largely responsible for the narrowing of the external deficit in other services, recording a small surplus in that year, in contrast to a deficit throughout the period analysed. The reason for this correction was that goods imports (particularly extra-EU imports, which entail higher transport costs due to the longer distances involved) fell by more than exports, which would explain why goods transport services payments fell by more than receipts.

The last point to note in this section is that the growth in exports of non-tourism services in the period 1995-2009 was accompanied by increased geographical diversification. Thus, although the EU27 account for some 60% of total exports, their relative importance declined by almost 4 pp in the period analysed. Beyond the EU, the highest growth was seen in exports of other services to Switzerland (accounting for some 9% of the total), the United States (around 8%) and Latin America (around 7%).

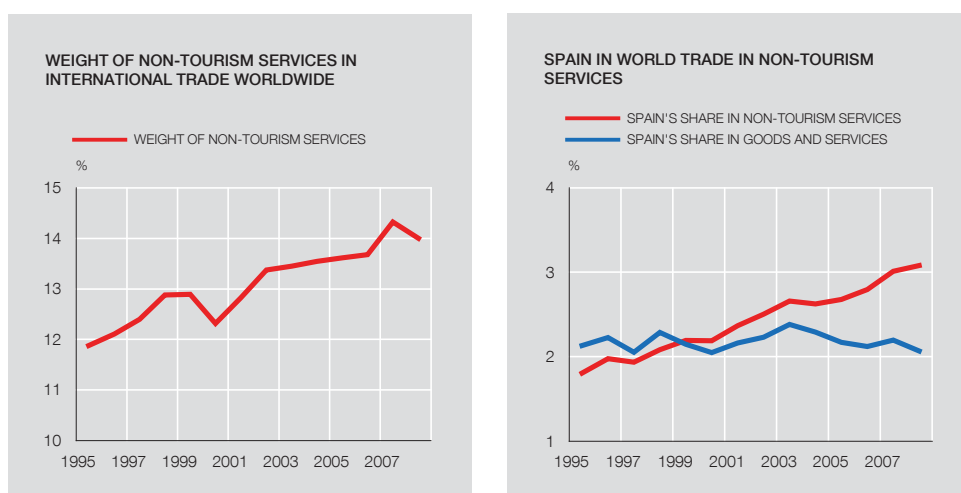
Spain in international trade in non-tourism services⁸

In recent decades, international trade in non-tourism services has been very dynamic, with average nominal growth in the period 1995-2008 approaching 10%, somewhat higher than in the case of trade in goods and services (around 9%). Excluding transport services, the increase in global exports of other services verges on 12%. The share of non-tourism services in international trade has risen (by almost 2 pp, to 14% of the total) against a backdrop of increasing globalisation of activity, prompted in part by the emergence on the international economic scene of new countries, and by the strong momentum of global trade integration (see Chart 3). Moreover, the outlook for foreign trade in services in the EU is favourable, in light of transposition of the above-mentioned Services Directive, which could have quite a significant impact on foreign trade in services in the EU.⁹

This increase in the portion of international trade accounted for by services has continued despite the recent economic crisis, as in general the decline in trade in services has been lower than in goods and tourist transactions. The evidence available shows that, in 2009, exports of goods in the OECD member countries fell more sharply than exports of services.¹⁰

During the latest world economic growth phase, Spain consolidated its competitive position in trade in non-tourism services, raising its export share (defined on the basis of world imports)

⁸. In this section, for reasons of consistency with WTO figures, all data are exclusive of government services. ⁹. Estimates of the impact of application of the Services Directive point to an increase in foreign trade in services in the EU of between 20% and 40%, which would, in turn, boost European economic growth potential by 0.2-0.4 pp [see De Bruijn, Cox and Lejour (2006)]. ¹⁰. See "Rising trade flows confirmed in third quarter 2009", OECD press release, Paris, 27 January 2010.



SOURCE: World Trade Organization.

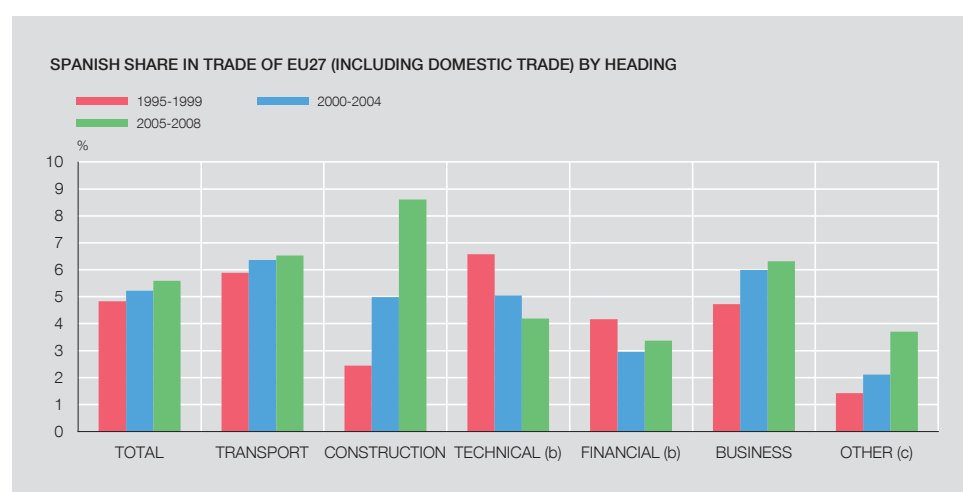
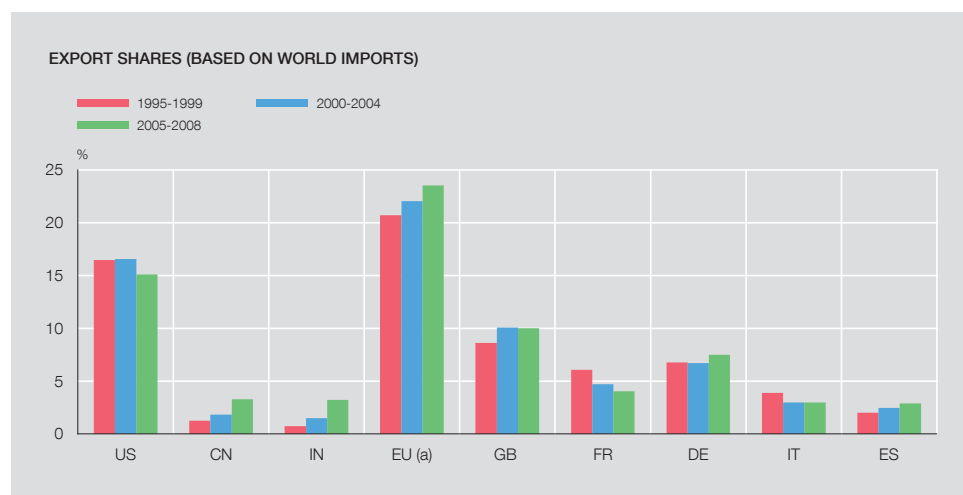
to 3.1% in 2008 (from 1.8% in 1995). Nevertheless, Spanish exports of other services could expand further, considering the continuing lower weight of technical services in Spain in comparison with other countries, and the higher share in international trade enjoyed by other developed economies.

The European Union is the world's leading services supplier, accounting for more than 20% of the total. Spain's share of the EU's international trade in non-tourism services rose from close on 2% in 1995-1999 to almost 6% in 2005-2008, while its share in world trade in other services rose to 3% (see Chart 4). This increase in the Spanish economy's share of the EU's foreign trade in non-tourism services is all the more favourable, as it coincided with the emergence on the international markets of India and China, which have eaten into the export shares of the developed economies.

One notable feature of the comparison with other EU countries is that, in Spain, exports of other services as a percentage of GDP¹¹ are higher (5%) than in France and Italy, where these exports have not gained share in recent years. Similarly to exports, Spanish imports of non-tourism services have also risen as a percentage of GDP, albeit more moderately. Among the developed economies, the external balance of non-tourism services also improved in the period analysed in Germany, the United Kingdom and the United States. By contrast, in France the surplus gradually diminished, to disappear completely in recent years. Among the emerging economies, the strong growth, in an amount equivalent to 7.5% of GDP, in exports from India, which has run a surplus in this balance of payments component since 2003, is particularly noteworthy. China's exports of non-tourism services have grown more moderately; China continues to run a deficit in these services of approximately 1% of GDP.

International comparison by heading shows that, in general, in the main industrialised countries, as in Spain, exports of other services are largely focused on other business services and transport services. Technical services represent a particularly large share in the United States, and especially in India, and financial services in the United Kingdom (see Chart 5). Other business services and construction services both account for a larger share of the total in Spain than in the EU as a whole, while the share of transport services has declined, to a similar level

11. Defined as services sector exports over the total GDP of the economy.



SOURCES: World Trade Organization and Eurostat.

- a. EU trade with the rest of the world. EU15 to 2004. Thereafter, the nominal data of other services are calculated by applying the growth in nominal data of the EU27 to the EU15 base data.
- b. Technical services comprise Royalties and licence fees, Communications and IT services. Financial services include insurance.
- c. Other non-tourism services include government services and personal, cultural and recreational services.

to that of the EU's trade with the rest of the world. By contrast, technical and financial services represent a smaller share of Spain's non-tourism services than in the EU. However, in the case of financial services, the globalisation of Spain's financial institutions, taking advantage of their greater efficiency, has been made essentially via direct investment rather than foreign trade.¹² This means that the balance of payments data provide only a partial view of the scale of this process.

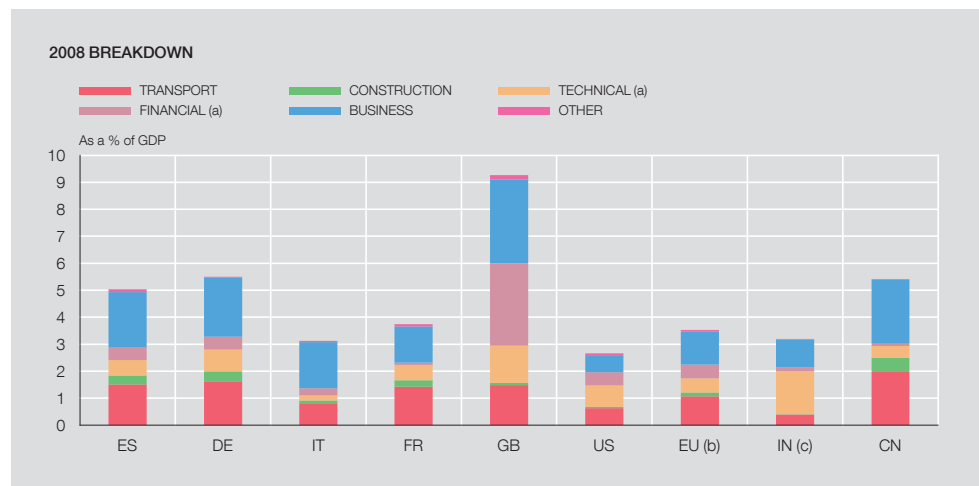
Conclusions

In recent decades, the services sector in the developed economies has grown substantially. This increase in services as a portion of the economy as a whole, and of exports in particular, will foreseeably continue in the future, due to the high income elasticity of services and demographic and social changes (such as population ageing and the growing consumption of tech-

¹² This signals the lack of a relationship of complementarity between direct investment and exports of financial services, which contrasts with the evidence of such a relationship, in the Spanish case, between direct investment and exports of goods. See "Determinantes principales de la decisión de exportar de las empresas españolas", *Boletín Económico*, December 2009, Banco de España.

**BREAKDOWN BY SECTOR OF NON-TOURISM SERVICES RECEIPTS:
AN INTERNATIONAL COMPARISON**

CHART 5



SOURCES: Eurostat and UN Service Trade.

- a. Technical services comprise Royalties and licence fees, Communications and IT services. Financial services include insurance.
- b. EU27 trade with the rest of the world.
- c. 2006 data.

nical and leisure services), all of which signify a shift in demand from industrial goods to services. These factors, together with the ongoing liberalisation of the services sector, explain the momentum behind the globalisation of non-tourism services in recent years and the future growth outlook.

The Spanish economy has participated actively in this globalisation, and has thus been able to increase its world share in non-tourism services and offset, to a certain extent, the lower pace of expansion in trade in goods. This was backed by the growth in business services and construction services, although expansion in the latter will foreseeably moderate in the near future, in light of the ongoing sector adjustment at international level.

The dynamism of Spanish exports of non-tourism services during the economic growth phase was due, at least in part, to structural factors linked to competitiveness gains, as Spanish firms entered and consolidated their position on foreign markets. That said, in comparison with the situation in other developed economies, Spain's non-tourism services are still more domestic-market focused, so there should still be room for further growth in its share in world trade, especially in those activities in which the Spanish economy is most competitive. To step up the presence of Spanish non-tourism services firms on foreign markets, it is essential to continue along the path of greater flexibility and liberalisation in the sector, within the framework of transposition of the European Services Directive. Greater competition in the services sector will drive up the quality of services supplied and thus enhance the competitive profile of Spanish firms abroad.

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