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Recent developments in Spanish exports of non-travel services

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Rationale

The strong growth in exports of non-travel services following the pandemic has contributed significantly to Spain’s economic recovery. It is therefore useful to analyse recent developments in these exports.

Takeaways

- The cumulative growth of real exports of non-travel services between 2020 and 2022 amounted to practically 50%. In 2022, they thus stood almost 20% above their 2019 level, a significantly larger gap than for other final demand components.
- The recovery in non-travel services exports following the pandemic has boosted this item’s sustained growth of recent decades and has been mainly underpinned by exports of business, transport and IT services, especially to the euro area and North America.
- The competitiveness of large Spanish exporting firms, which generally form part of corporate groups, might explain, at least in part, the robust growth in non-travel services exports after the pandemic.

Keywords

Exports, non-travel services, world trade, multinational enterprises.

JEL classification

F10, F14, F23, L80.

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Introduction

The trade in services between an economy and the rest of the world can be divided into two broad groups: travel services and non-travel services. The latter encompass a wide range of services relating to the trade in goods and travel services (goods processing, repair and maintenance without transfer of ownership, and transport services, both freight and passengers), construction, financial, insurance and pension services, charges for the use of intellectual property, telecommunications, computer and information services, other business services and, lastly, personal, cultural and recreational services and government goods and services.

In Spain, exports of non-travel services[1] grew significantly in 2021 and 2022 (by 16.1% and 28.9% in real terms, respectively), following the sharp decline of 20% recorded in 2020, at the height of the pandemic. This final demand component thus became a key factor underpinning activity, with a contribution to GDP growth of 0.9 percentage points (pp) in 2021 and of 1.8 pp in 2022. In addition, this buoyancy led to non-travel services exports amply exceeding their 2019 pre-pandemic levels by as much as 20% in 2022. Exports of non-travel services have thus continued on the path of expansion observed in recent decades, following the decline observed during the health crisis, and represent a greater share of GDP, having risen from 2.4% in 1995 to 6.8% in 2022. However, this contribution is still below the percentages reached in countries such as Germany and France.

This article begins with an overview of the expansion of Spanish exports of non-travel services in recent decades from an international perspective, and provides a detailed analysis, by type of service and destination, of the robust recovery of these exports in the wake of the pandemic. It goes on to discuss the extent to which this recovery has been underpinned by the particular features of the non-travel services exports sector. The final section summarises the main conclusions that can be drawn from the findings presented in this article.

Spanish exports of non-travel services: key features and recent developments

In recent decades, Spanish exports of non-travel services have grown faster, in real terms, than goods or travel services (see Chart 1.a). According to the Spanish National Accounts, real exports of other services grew at a notable pace (of 5.4%, on average) between 1995 and 2019.[2] This annual growth rate rose to 8.3% on average over the period 2020-2022, amid high volatility marked by the

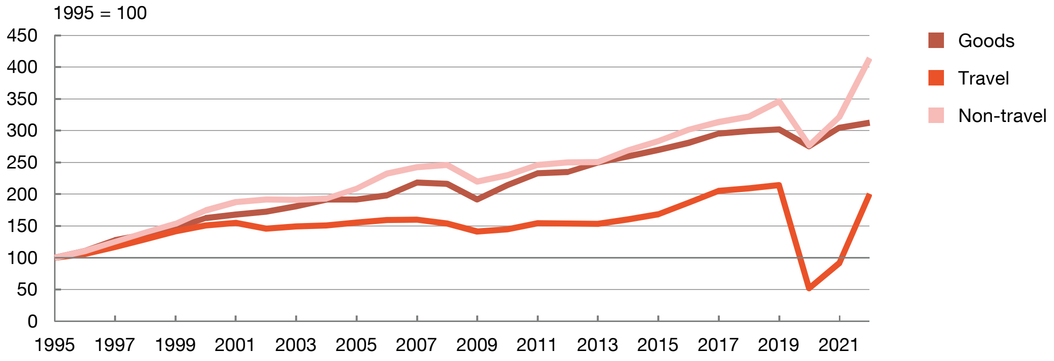
1 For a detailed description of the items that make up non-travel services, see Banco de España (2022).

2 In this period, these exports grew faster than goods and travel services exports (4.8 % and 3.3 %, respectively).

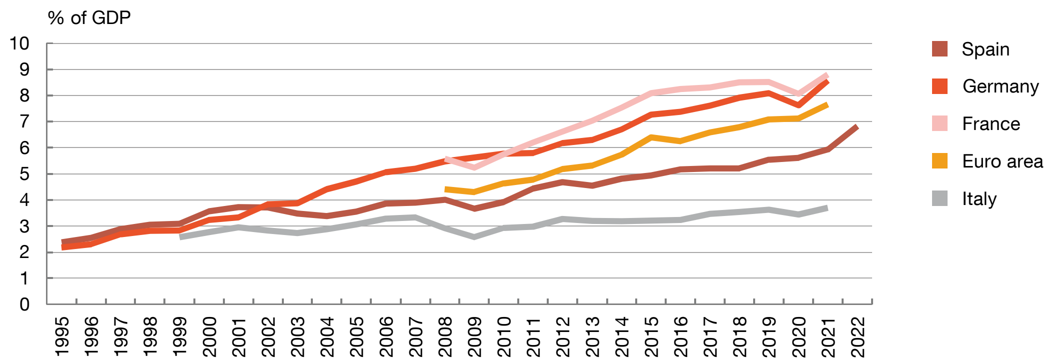
Chart 1

Non-travel services exports. Changes and international comparison.

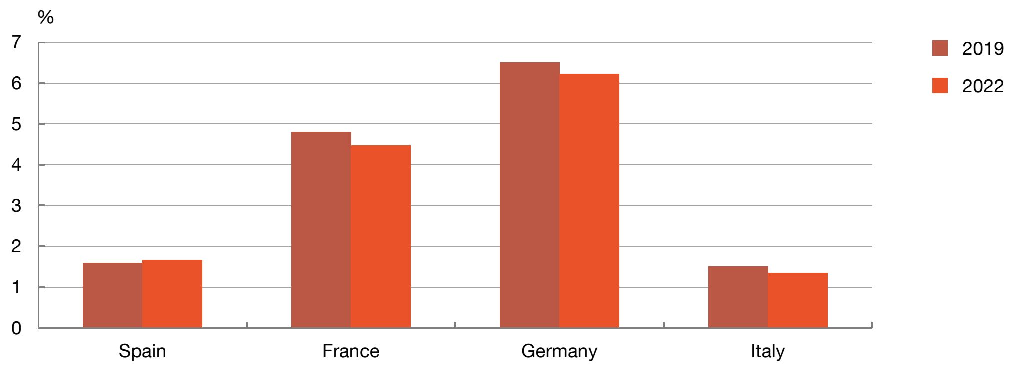
1.a Changes in real exports



1.b Weight in GDP of non-travel services exports



1.c Recent changes in global share of non-travel services exports



SOURCES: ECB, Eurostat, WTO, INE and Banco de España.

sharp decline triggered by the outbreak of the pandemic and the subsequent recovery. Thanks to this significant recovery, the level in 2022 was 20% higher than in 2019, compared with 4% for goods exports, while a negative gap (of around 6%) remained in travel receipts with respect to pre-pandemic figures. As a result of their buoyancy, these exports have increased their share in GDP to 6.8% (4.5 pp and 1.3 pp more than in 1995 and 2019, respectively). (See Chart 1.b).

The sustained growth of recent decades, which has outpaced that of trade in other goods and services, is a stylised feature of non-travel services exports internationally (Minondo, 2016). It reflects the interplay of several structural factors that have contributed to the expansion of exports of these services globally. The first factor is the notable progress in IT and communications, which has removed the technical barriers that hindered trade in these services when there was no physical proximity to the consumer (Macías Fernández and Martín Machuca, 2010). The economic transformations experienced in this period have also driven growth in the non-travel services trade. Specifically, the deregulation of services and the tertiarisation of advanced economies, along with firms' need to improve their competitiveness, have boosted the expansion of so-called business services,[3] which encompass activities that sometimes have significant value added, such as research and development, engineering services, legal advisory services, trade-related services and marketing (Banco de España, 2018). In addition, this tertiarisation is reinforced by the digitalisation process, increasing the size of firms' investments in intangible assets (R&D, intellectual property rights) and their demand for technology-based services, such as telecommunications, computer and information.[4] The available evidence shows that goods exports have increasingly incorporated foreign digital services, with the provision of such services becoming an ever more important channel for global value chain participation (Blázquez, Díaz-Mora and González-Díaz, 2022). Moreover, technological developments, along with financial deregulation, have boosted growth in the trade in financial, insurance and pension services. Lastly, growth in international trade and tourist flows brings an increase in transport[5] and goods processing, maintenance and repair services without transfer of ownership.[6]

Despite the buoyancy of Spanish exports of non-travel services in recent decades, an international comparison suggests that there may still be substantial room for growth, since their relative weight in GDP remains below that of the euro area and its largest economies, with the exception of Italy. The gap between Spain and some euro area countries has generally tended to widen, against a backdrop of strong growth in the non-travel services trade since 2008. Thus, in 2021, the share in GDP of Spanish exports of non-travel services was 1.7 pp, 2.6 pp and 2.9 pp lower than in the euro area overall, France and Germany, respectively. This gap was broader than that observed in 2008 (0.4 pp, 1.6 pp and 1.5 pp, respectively).

That said, the relative weight in GDP of Spanish non-travel services exports was 2.2 pp higher than that of Italy (1.1 pp in 2008). All told, Spain's share of the global trade in non-travel services was around 1.6% in 2022, lower than that of Germany (more than 6%) and France (around 4.5%),

3 Other business services comprise a heterogeneous group of activities, which explains their quantitative importance in relation to other headings. In addition to trade-related and operational leasing services, this heading includes a broad range of transactions which do not fit into other categories. Merely by way of example, it covers advertising and market research; research and development; legal, accounting, consulting, architectural, engineering, translation and interpretation, security and training services, etc.

4 IT services do not include non-customised products (for example, general software supplies provided on physical media), which are recorded as goods.

5 The transport heading covers freight, passenger transport, ancillary services (such as cargo handling, storage, etc.) and postal and courier services.

6 Processing and repair services include goods processing, assembly, packing, etc. and maintenance and repair work by firms that do not own such goods.

and similar to that of Italy (1.5%).[7] However, Spain's share performed better after the pandemic than that of its main trading partners in the euro area. Between 2019 and 2022, Spain's share rose slightly (0.1 pp), whereas Italy, Germany and France posted declines (see Chart 1.c). This gain in the share of Spanish non-travel services exports in international markets points to a greater dynamism of such exports in Spain following the pandemic, compared with the euro area as a whole.

The types of services underpinning this growth in Spanish exports of non-travel services can be analysed using balance of payments data. The recovery following the health crisis was generalised across items, albeit of varying intensity (see Chart 2.a), and the structural factors mentioned earlier remained. Personal, cultural and government services grew significantly in 2019 and 2022, although they represent a fairly low share of the total. Exports of financial, insurance and pension fund services also saw strong growth, underpinned by technological developments that facilitate their internationalisation and the activity abroad of Spanish multinational groups. Exports of services relating to the use of intellectual property rights also increased notably, reinforcing the earlier upward trend described above. Business services exports, some with potentially high value added since they encompass R&D, legal and technical advisory services and professional services, have also continued to grow after the pandemic. The recovery in trade and tourist flows helped revitalise services relating to goods maintenance, processing and repair without transfer of ownership and transport services, against a backdrop of higher freight and passenger transport costs. Passenger transport receipts appear to have room for further growth, as long-haul tourism, which involves higher transport costs (particularly from Asia) returns to normal (García, Gómez Loscos and Martín Machuca, 2023). Exports of telecommunications, computer and information services, which rebounded strongly in the last two years following their decline in 2020, have continued to rise, in a setting of ongoing digitalisation of the Spanish economy. At the other end of the scale, exports of construction services have not yet returned to their pre-pandemic level.[8] [9]

Regarding the weight in total receipts of the different headings in 2022, non-travel services exports were mostly concentrated in business (36%), transport (24%) and telecommunications, computer and information services (17%) (see Chart 2.b). In aggregate terms, these three types of services accounted for more than three quarters of total non-travel services exports in 2022, a share fairly similar to that observed before the pandemic. When the two largest headings of non-travel services exports (business and transport services) are disaggregated, we can observe within business services that R&D represents a small fraction (around 6 % of the total), whereas

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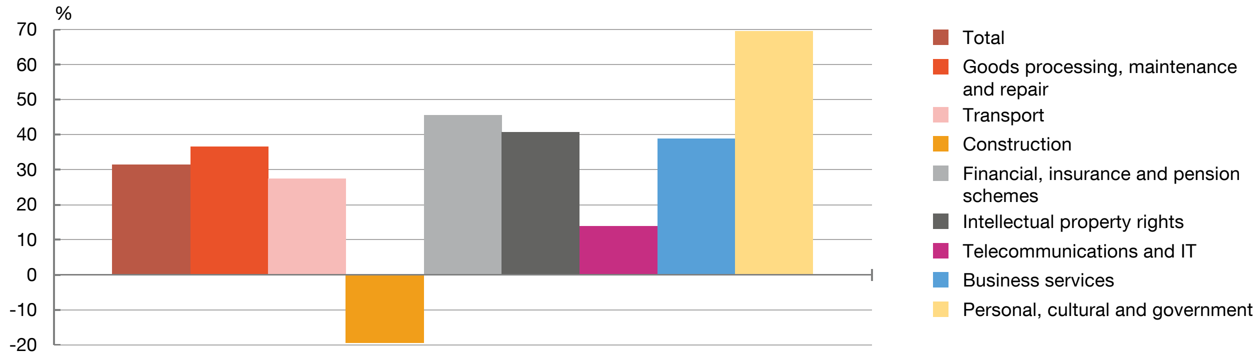
7 According to 2019 data, Spain's share of global transactions relating to the use intellectual property is particularly low, highlighting the weakness of R&D investment in Spain, compared with that of core euro area countries, notably Germany.

8 Construction services are defined as services provided or received without the establishment of a subsidiary or branch in the country where the construction work is undertaken (although a temporary local office or branch may be established). Where subsidiaries or branches are established, the related operations would fall under the category of direct investment (investments and related income). Therefore, long-duration construction projects are not generally recorded under this services heading, which, however, does include the value of the goods and services acquired by the construction firm in the country where the construction work is undertaken.

9 During the pandemic, exports of construction services fell sharply. It should be noted that a significant proportion of construction services exports (54% in 2019 compared with 5.1% of the total) require the physical presence of individuals in the destination country. It is therefore likely that the restrictions on international travel during the health crisis had a negative impact on the provision of these services.

Chart 2
The recovery in exports of non-travel services and their composition

2.a Cumulative growth in exports by type of non-travel services between 2019 and 2022



2.b Composition of exports by type of non-travel services (2022)

2.c Geographical distribution of non-travel services exports (2022)

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SOURCE: Banco de España.

consulting and management services account for around 30 % each. As for transport services, passenger transport accounts for around a quarter of the total, and the rest essentially relates to the trade in goods. Goods processing, maintenance and repair without transfer of ownership represent less than 8%. Lastly, construction exports accounted for around 1% of the total in 2022. The composition of non-travel services exports in geographical terms is essentially the same as before the pandemic. Thus, the euro area remains the main destination for exports of non-travel services (42% of the total in 2022),[10] followed at a considerable distance by America with around 22%, approximately half of which corresponds to the United States. The United Kingdom also has a significant share, somewhat below 10% of the total, and the relative importance of Asia is close to 8%.[11] The European Union (EU) accounts for the bulk of transport services exports (approximately 60 %), in line with the geographical composition of Spanish transactions in goods and travel, and the share of business services sales to the EU is similar to that observed for non-travel services exports overall. By contrast, America is the key destination for services relating to the use of intellectual property rights, accounting for around 50% of the total for this category.

The interplay between the composition of receipts from non-travel services and the buoyancy of the different types of services can explain size of their contributions to growth between 2019 and 2022 (see Chart 3.a).[12] Specifically, other business services have made the largest contribution by far, especially in sales to the euro area, North America, the United Kingdom and Asia (see Chart 3.b). This is followed by the contribution of transport services, essentially owing to the recovery of trade and tourism flows with the euro area, and despite the weakness of flows to the United Kingdom, which have been adversely impacted by Brexit (Kataryniuk, Pérez García and Viani, 2021), the sterling depreciation and the incomplete recovery in tourist arrivals from the United Kingdom. The positive contribution of services linked to research and technology (use of intellectual property rights and telecommunications, computer and information) has been largely underpinned by the contribution of trade with the euro area and North America, offsetting weak trade with Asia, amid growing protectionist tensions between China and advanced economies in West, which are having an impact on global value chains and the provision of the related services, particularly technology and digital services (Ioannou, Pérez García et al., 2023).

Exporting firms and the recovery in non-travel services exports

The empirical evidence suggests that firms' participation in international trade, including non-travel services, implies high fixed costs and requires a level of competitiveness that only firms whose efficiency exceeds a certain threshold have. As a general rule, these exporting firms are larger than those that can only compete in the domestic market, something which also tends to strengthen their capacity to absorb negative shocks, such as the pandemic. In Spain, the available evidence suggests that, compared with firms lacking international presence, firms exporting non-travel services tend to be larger, invest more in R&D, have more qualified employees, and be more labour productive (Martín Machuca and Rodríguez Caloca, 2011).

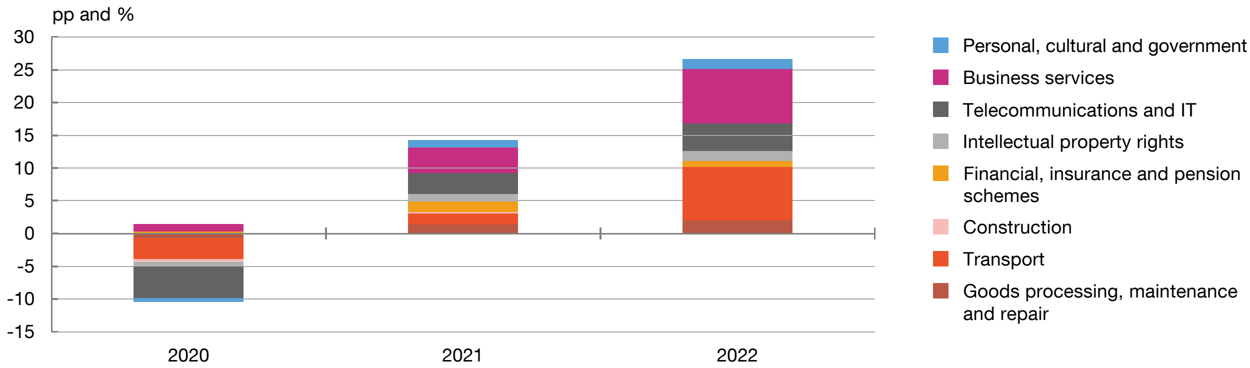
10 The EU as a whole was the recipient of 47% of total exports of non-travel services in 2022.

11 Exports to the EU are more concentrated in transport services, in line with Spain's outbound trade and tourist flows. Beyond European markets, services relating to the use of intellectual property rights and telecommunications, computer and information services to North and Central America are particularly significant, whereas in South America, construction services stand out.

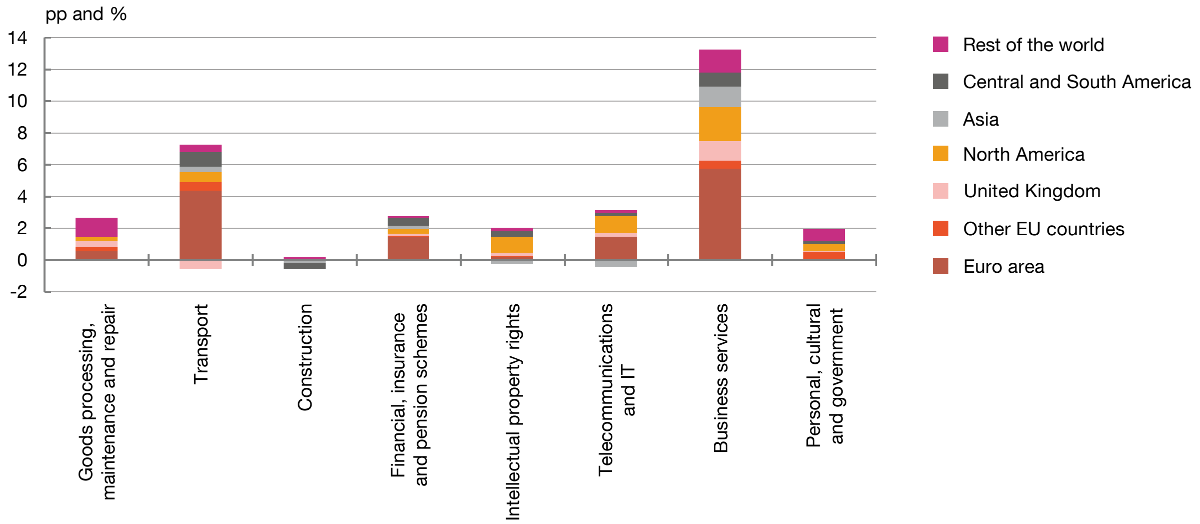
12 Calculation of these contributions is based on the relative weights in 2019. The results obtained using the weights corresponding to 2022 show no qualitative change.

Chart 3
Contributions to the recovery in non-travel services exports

3.a Contributions to growth in exports by type of non-travel services



3.b Contributions to the recovery in exports (2022-2019), by geographical area and type of service



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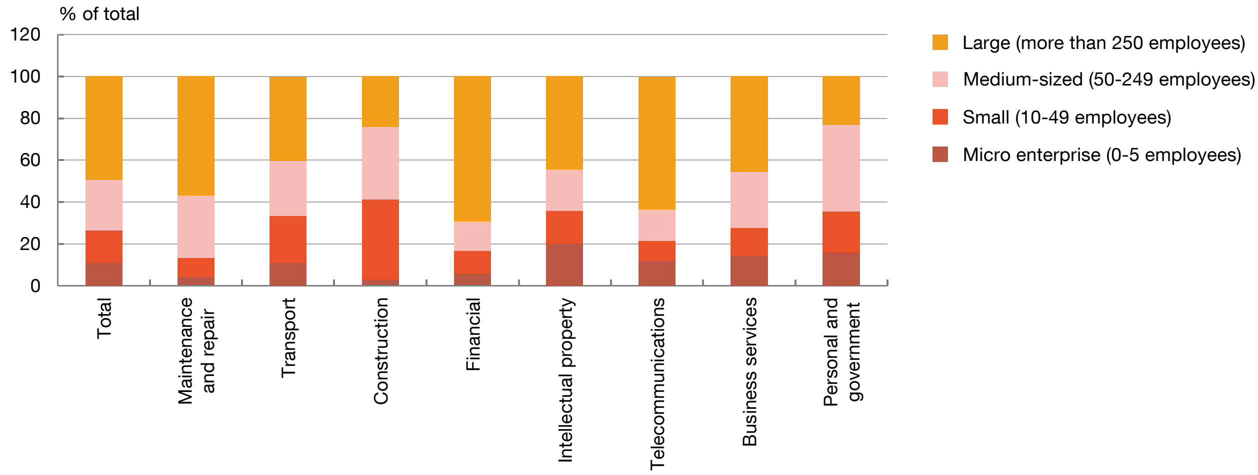
SOURCE: Banco de España.

Annual data (available up to 2021) from the International Trade in Services Survey (ECIS, by its Spanish abbreviation) on some of the characteristics of exporters of non-travel services show that large firms (i.e. those with more than 250 employees) accounted for practically half of the value of non-travel services exports (see Chart 4.a).[13] Moreover, the bulk of sales abroad (around 80% of the total) are made by corporate groups (see Chart 4.b), with a significant presence of Spanish or foreign multinationals (around 70%). The relative weight of large firms, and Spanish multinationals in particular, is especially significant in financial, insurance and pension services and in telecommunications, computer and information services. Multinationals account for more

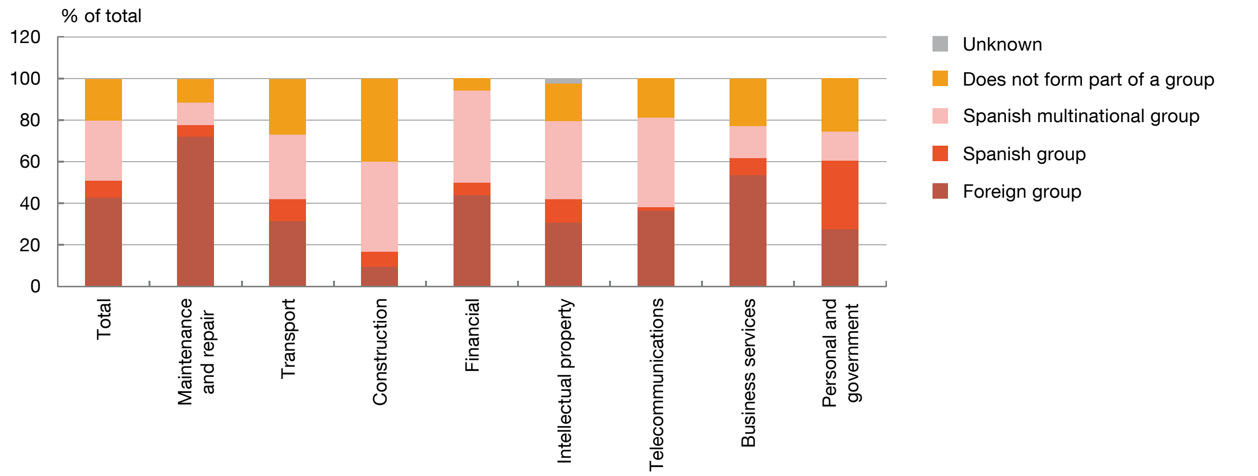
13 Large firms (more than 250 employees) account for a higher share of exports than of total output. Indeed, according to the INE's Structural Business Statistics (Estadística Estructural de Empresas), in 2021 the relative weight of large firms (more than 250 employees) in services output (excluding accommodation and food service activities) was close to 42%.

Chart 4
The non-travel services exporting sector

4.a Exports by type of service and size of exporting firm (2021)



4.b Exports by type of service and ownership of exporting firm (2021)



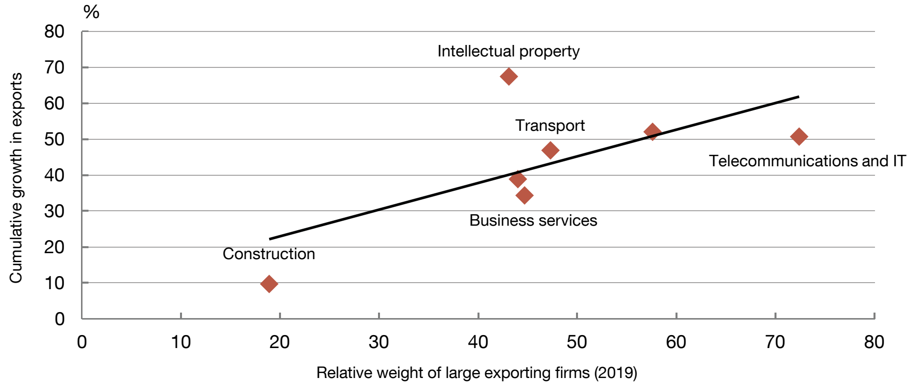
SOURCE: INE.

than 40% of sales abroad under these headings, in keeping with the pattern of international expansion of large Spanish firms. Foreign corporate groups, particularly from the United States, represent a highly significant proportion of R&D exports (74% of the total), which underscores the scope for improvement in R&D that still exists at Spanish firms, compared with other advanced economies.

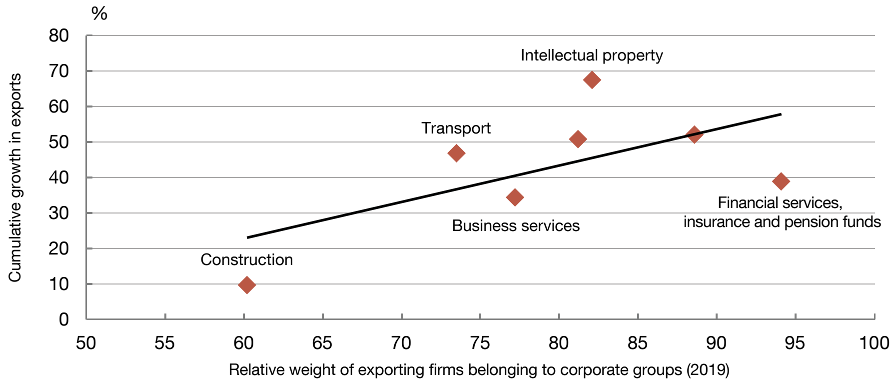
Indeed, the services in which the export activity of large firms and corporate groups is most significant are showing signs of a somewhat stronger recovery of sales to the rest of the world after the pandemic. The signs of a positive correlation, as shown in Charts 5.a and 5.b, between growth in exports by type of non-travel services between 2020 and 2022, and the relative weight in 2019 of large firms and corporate groups in sales to the rest of the world for each item, point in

Chart 5
Exporting firms and the recovery in non-travel services exports

5.a Relative weight of large exporters and growth in exports by type of non-travel service between 2020 and 2022



5.b Relative weight of exporting firms belonging to corporate groups and growth in non-travel services exports between 2020 and 2022



SOURCES: INE and Banco de España.

this direction.[14] However, this evidence still appears to be partial, given the high volatility across items of transactions abroad in the last two years. For the recovery pattern to be confirmed, this trend must be consolidated going forward. Moreover, during the recovery following the health crisis, the competitiveness of Spain's exporters of non-travel services vis-à-vis its main trading partners has been boosted by the continuing wage moderation in Spain[15] (labour costs represent a higher proportion of the cost structure in services than in manufacturing). This behaviour, along with the recovery in productivity, which had declined during the health crisis, has allowed for the increase in relative unit labour costs in market services accumulated during the pandemic to be corrected vis-à-vis the euro area (Banco de España, 2023).

14 Excluding personal, cultural and government services (whose share in total exports is small), on account of their particular characteristics. The results are qualitatively unchanged if growth in non-travel services exports across items between 2019 and 2022 is considered.

15 Relative compensation per employee in market services fell by 1.7% between 2019 and 2022 compared with the euro area, once the temporary effects of the pandemic had been overcome. This decline continued the downward trend which had started with the previous financial crisis. Thus, between 2009 and 2022 relative remuneration fell by 10.3% (10.7% below that observed in 1999, at the start of monetary union).

Final remarks

Exports of non-travel services have grown strongly following the sharp decline prompted by the onset of the pandemic in 2020, with the pace of growth of recent decades even accelerating, as reflected in the gradual increase of the share of these exports in GDP. This recovery has essentially been underpinned by sales, particularly to the euro area and North America, of business, transport and IT services (use of intellectual property and telecommunications, computer and information services). In a setting of wage moderation, the competitiveness of a small number of large exporting firms, generally forming part of Spanish or foreign multinational groups, has been conducive to such growth.

Looking ahead, various global structural factors, such as the growing digitalisation of the business sector, technological innovation and the expansion of professional services, could help maintain the high momentum of non-travel services exports. Also, further room for growth can be expected for Spanish exports, as shown by the comparison with the main euro area economies, where the share of non-travel services exports in GDP and global trade is notably higher than in Spain. The Recovery, Transformation and Resilience Plan (RTRP), linked to the Next Generation EU programme, represents an opportunity to boost high value added services linked to research and new technologies, given its emphasis on the challenges posed by digitalisation, provided that it is properly designed and implemented (Fernández Cerezo, Moral Benito and Quintana, 2023). The benefits of these investments would be optimised if they are accompanied by the adoption of policies to raise the level of competition in the services sector. This, in turn, would spur quality improvements resulting in greater competitiveness abroad. Nevertheless, the international context raises uncertainties as to international trade in non-travel services. There are risks associated with the growing geopolitical tensions and the possible regionalisation of global value chains, the net impact of which is uncertain, since they could limit the growth of non-travel services exports (which currently represent around half of all Spanish exports) outside the EU, particularly in some Asian countries, while strengthening links within the EU.

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