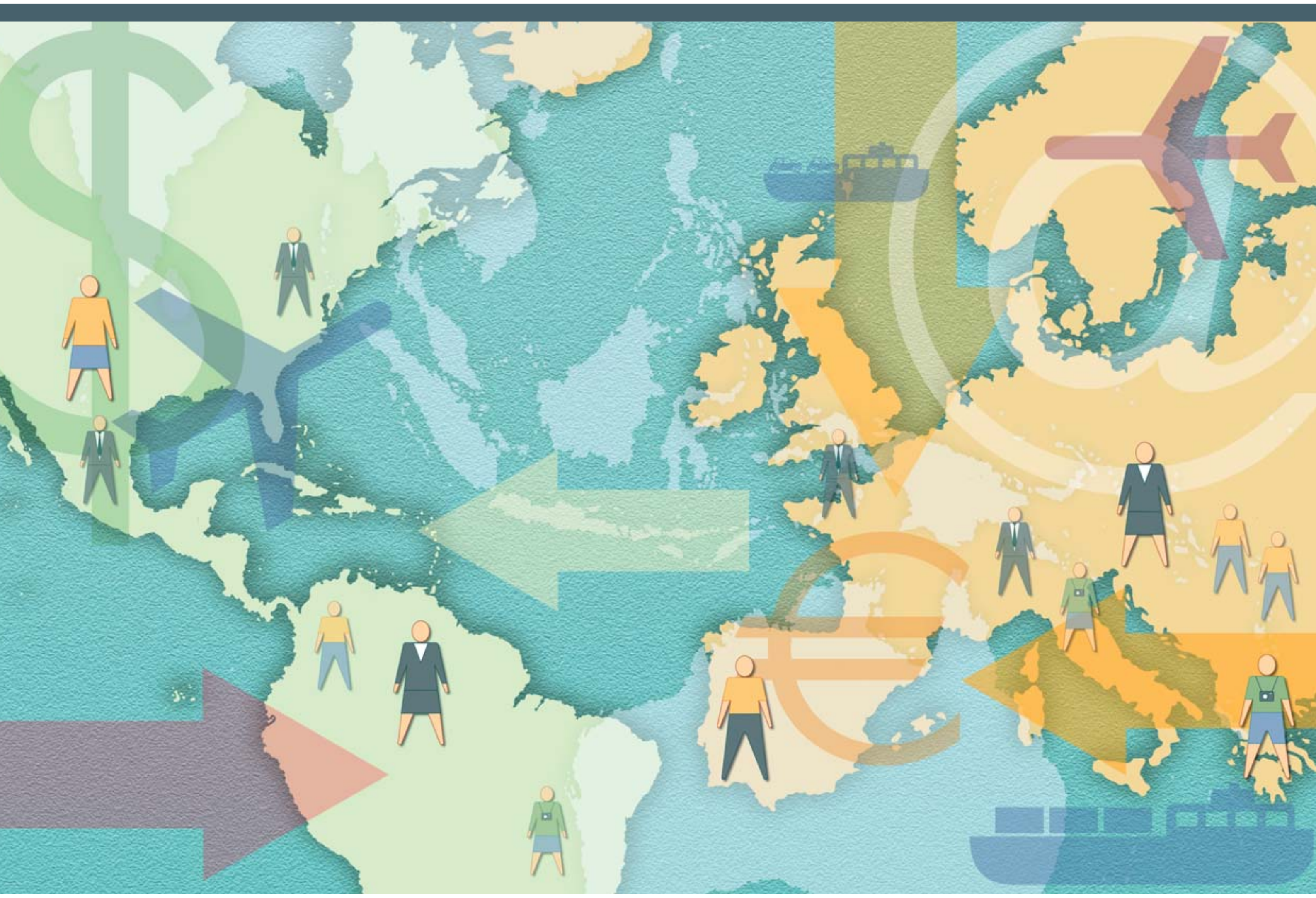


Internationalisation of services. Enlarged version

JUAN R. CUADRADO-ROURA

From the early 1980s, the internationalisation process of service companies became much more intensive. Overall figures on commercial exchange of services as well as those regarding direct investment in the industry show this trend. Companies producing or providing services try to increase exchange with other countries through trade or creating subsidiaries, underwriting concessions and licenses to commercialise their brands or absorbing local companies to enter other economies. Big banks and financial institutes, insurance companies, telecommunications and transport companies, energy and water utilities or those in «business services» have gone international and will be doing so in years to come.

The implementation of the EU Services Directive will foster further internationalisation of many services.

The relevance of the services sector in the most developed countries and its ongoing expansion in recent years are doubtless one of the most common and characteristic features of their economies. Obviously, looking at figures regarding their contribution to GDP (Gross Domestic Product) or the employment rate in the sector as of total jobs in each country, some differences between countries and especially in the internal composition of each tertiary sector are observed. However, it is obvious that overall evolution of this sector and trends shown by some of its branches bear many similarities. In fact, there are three points of coincidence. First, services have been and still are the leading sector in job creation in all countries. Secondly, relations between manufacturing and services are increasingly tighter in all economies, so the denomination that is conventionally used for the most developed countries, being called «industrialised economies», should be replaced by «*servindustrial* economies». And finally, there is also coincidence in that service activities have not been kept aside the internationalisation process experienced in all economies in recent decades, although some of their branches are still characterised by acting in local markets.

The denomination «industrialised economies» should be replaced by «servindustrial economies».

Development of the sector and the internationalisation process I just referred to require asking some big questions, for instance: Why is there trade in services and how does it occur? What means trade in services in quantitative terms? Are service producers moving or do they prefer to invest and be located in countries where they have or can have a market? What trends are there in direct foreign investment or direct investment abroad in services? What obstacles do operate against trade in services? How has the problem of free circulation of services been envisaged in the European Union?

The purpose of this article is first and foremost to try and give answers to some conceptual questions on internationalisation of services in order to contribute and comment later some data showing the evolution of trade in services and direct investment in the sector at both global and Spanish level.

Internationalisation of services as a part of the larger globalisation process

The globalisation process experienced in the last decades bears a very direct relation with services, not only from an economic point of view but also from many other perspectives like the cultural, social and political one. In this respect, it would be enough to refer to the effect of tourism on countries receiving the large tourist flows in the world, the effects of the expansion of media and the development of ICT or, without exhausting the possible examples of the possible influence by services, the big progress experienced in transport.

Nobody would deny right now hat there is a clearly bidirectional dynamic relation between globalisation and services (Cuadrado, Rubalcaba & Bryson, 2002). It is true that the globalisation process affects services directly, either driving commercial service exchange, opening and integration of markets or encouraging specialisation and offshoring (moving a part of production processes to third countries) and outsourcing (subcontracting business products between countries) processes at international level. Yet from an opposed perspective, services also contribute towards fostering economic internationalisation and globalisation, either through intensive development of transport and communications, generalisation of new operative modes in exchange or increasing expansion of some services to companies such as consulting in its different forms, technical, fiscal and legal counselling, development of international trade fairs and exhibitions, holding congresses and meetings, etc. (Cuadrado, Rubalcaba & Bryson, 2002; Rubalcaba, 2007; Cuadrado & Visintin, 2008). In fact, we are experiencing progressive internationalisation of many service companies, from banking and other financial brokers to insurance and telecommunications companies, distribution firms, hotel chains with a footprint in several continents and most of service suppliers to these companies. This internationalisation not only encourages international cross-investment in service companies but also bigger commercial exchange within this field of activity.

Trade modes and internationalisation of services

Internationalisation of services is shown in both the increase of cross-border service exchange and investment of companies in the sector in creating subsidiaries in other countries, absorbing local companies or taking positions with the aim of being present and gaining market share in other countries.

Services have had to face numerous «barriers» hampering or preventing trade, even if it was or is actually possible.

Yet despite some exceptions, this process is developing with a strong delay compared to what occurred with goods. An important reason for this is doubtless that most services have some features that differentiate them substantially from most goods. Let us mention some: the immaterial character of most services, which results in the impossibility of storing; the need that production and consumption of many services be coincident in time (and also in place, though not so often); or the sort of very direct relations required between the supplier and the consumer of a service. All this determines that «internationalisation» of quite many services becomes a complex process that goes far beyond plain cross-border exchange of products.

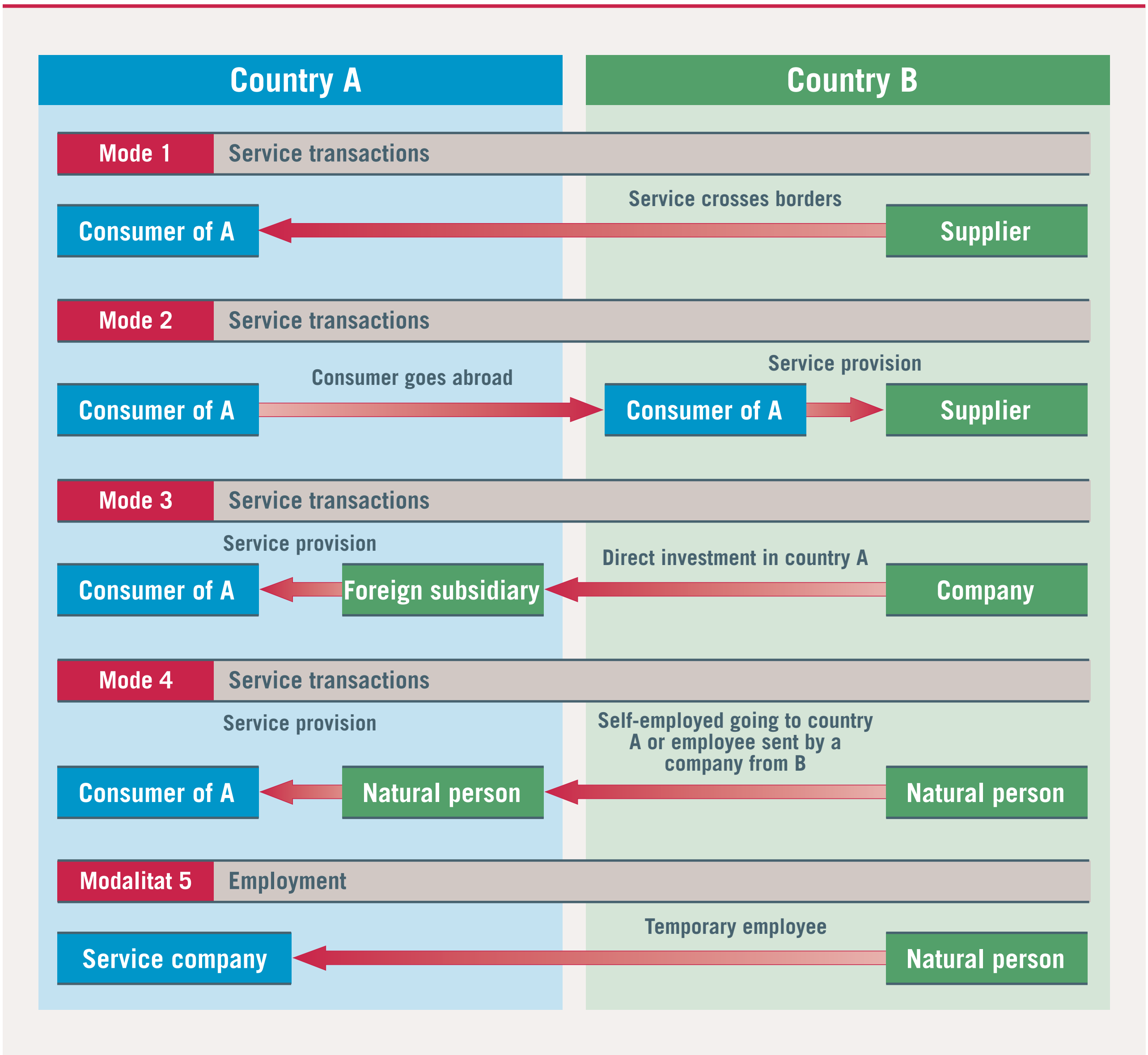
Besides these intrinsic conditions, services have always had to face numerous «barriers» hampering or preventing trade, even if it was or is actually possible. It is typical of services that all countries set legal rules and regulations preventing or making services rendered by a foreign producer difficult. This is topped by other barriers of cultural, institutional and linguistic nature that are much easier to overcome in the case of goods than in services, not only to supply them from another country but also to settle and develop in a country different from the market to be entered.

There is no doubt that tertiary activity can be easily adapted to international transactions. In fact, some of this activity is almost by definition intrinsically prone to disregard border limitations, like communications and transport. Yet in other cases, the nature of the service itself or the existence of rules and regulations in each country prevent – or almost do so – cross-border trade. Personal services (from hairdressers to taxi, for instance, including repairs, health care and education) are usually done and provided in a limited geographic area or at least covering quite reduced market areas, which can generally only be overcome by establishing subsidiaries, branches or branch networks. In other cases, what occurs is that regulations and red tape imposed by authorities or professional associations in each country (professional orders, associations of companies providing given services or similar bodies) prevent or make service provision outside the own area difficult.

Differences occurring in service production and provision as compared with goods and the difficulties measuring commercial transactions, investment or mixed modes have forced to elaborate a specific theoretical framework that allows to set the different ways companies use to access international markets. In this respect, the service agreement signed and come into force in 1995 (*General Agreement on Trade in Services*, GATS) defined four modes by which services can lead to international trade or investment. The system allows to define the four shapes international service traffic can take.

Mode 1. The first way of cross-border trade refers to cross-border trade as such. It refers to those cases in which the service provider is located in one country and the consumer in another, without any of both needing to move. This is the case e.g. of communications, transport, insurance and most financial services, information and other business services.

Chart 1. **Typologies of international service transactions**



Source: Based on the Manual on Statistics of International Trade in Services. *UN, EC, IMF, OECD, UNCTAD & WTO, 2002.*

The chart defines the four modes service traffic can adopt at international level.

- **Mode 2.** It refers to consumption of a given service abroad. A consumer living in one country needs to move to another one to enjoy the service. This is the case e.g. of tourism, travel or cultural and leisure events.

- **Mode 3.** It refers to cases in which companies of a given country provide services in another one, either through subsidiaries, by participating in local companies or setting up own staff. The nature and features of services to be offered (proximity to the customer, trust relations, collaboration, etc.) drive the need for investing and taking positions in the country intended to operate in. The hotel business and many business and information services are some examples of multinationals having subsidiaries in different countries, which also bears many advantages or network economies for their own operation.

- **Mode 4.** It requires presence of natural persons and relates to those cases in which an individual goes to another country to provide a service to consumers. Examples for this are trips of any professional travelling abroad to provide consultancy to companies or governments, doing market research or planning and managing engineering works.

The definition of these modes allows to settle transactions and flows occurring in service traffic and their possible reflection in statistic instruments.

The definition of these four modes allows to settle transactions and flows occurring in service traffic and their possible reflection –though not without difficulties– in statistic instruments. The two first describe transactions that are usually registered in balance sheets. However, as has been already mentioned, transactions within mode 1 can sometimes be combined with those under mode 4, which leads to international trade in services figures (based on the according balance sheets) being included into all transactions within modes 1 and 2 and a part of those being made according to mode 4. Flexibility requirements in service provision allows these services to be commercialised simultaneously through different ways or modes, as is the case of insurance and other financial services when the conclusion of an operation requires for instance to have some employee travel to the customer's country.

Transactions under mode 3 and a part of those under mode 4 will usually be reflected in data related with foreign direct investment (FDI) regarding both the issuing and the receiving country. There are quite many service branches in which companies go for direct presence abroad, either through direct investment or by deploying a part of their staff there. Actually, this strategy is often obliged –e.g. in hotels and business services– due to the nature of many service activities in which proximity to customers and necessary trust or collaboration between service provider and customer are crucial to the provision of that service, the features and quality the company wishes to offer.

Barriers to internationalisation of services

The previous classification on the modes services are provided to customers located in other countries than that where the company stands is doubtless interesting and allows to understand some peculiarities of the sector and assess what the figures on investment and international trade in services mean. However, the reality is quite more complex and service provision or transactions are faced with many barriers making free circulation difficult, if not impossible.

Most barriers can be classified in two big groups: legal and non-legal ones. The former include all those based on restrictions imposed through laws and regulations of any kind creating some sort of discrimination or obstacle in treating foreign service producers compared to domestic ones. The block of non-legal difficulties includes all those the origin of which is not to be found in political or legal decisions but in historical or cultural reasons of different sort. These causes include language barriers, lack of information and different ways of doing business or people's behaviour.

Language barriers, lack of information and different ways of doing business or people's behaviour are non-legal barriers affecting internationalisation of services.

The European Commission (COM, 2002, 441, final) analysed this subject in detail in a document made with the aim of going through the problems of the single service market, which set the starting point for elaborating the well-known Service Directive passed in late 2006. In this document, possible barriers were organised considering the six stages to be differentiated in the service production and distribution process:

Setting the service provider. Establishing a service provider in a foreign country involves adaptation to existing modes and limitations. The barriers encountered by companies in the establishment stage are usually the obligation of complying with national, regional and local regulations set in the new country by means of licences, previous authorisations, legal or technical requirements, etc. All not only this means problems due to the time needed to fulfil these requirements but also involves a high financial cost as a set of processes needs to be gone through that had already been done in the country of origin. Red tape to settle may even lead to giving up plans or looking for alternative solutions.

Using inputs to produce services. Problems related with using some inputs needed to produce a service in another country can be of different kind. The most remarkable ones usually occur in recruiting employees. Problems arise in both hiring local staff (subject to own regulations) and moving own workforce. Administrative formalities and the specifics of each country in this domain are also an effective barrier. Matters related with social security, the pension system, working hours, etc. need to be considered. There can also be requirements in terms of qualifications or degrees involving new difficulties in hiring, even if degrees could be considered equivalent.

Promoting the offered product. Promoting a product is essential for companies established in a country and even more so for those intending to expand to new markets through international trade. In this respect, service providers often have to confront considerably strict regulations. In the case of advertising, for instance, rules differ from country to country and can affect certain products only. In some cases, advertising is subject to content restrictions or even forbidden (as is the case of some professional services such as lawyers, engineering and medicine). In the case of promotion and advertising of financial services, there are also some restrictions.

Distribution of services to users. Distribution or provision of many services is also subject to numerous barriers. Some are related with the very essence of the service (their immaterial character or the need for simultaneous presence of provider and user), but others are due to certain legal and institutional barriers in each country. The case of the provider and the consumer or user being located in different countries is an example. Foreign operators often find clearly discriminatory situations as they have to double their efforts to adjust to conditions in both their country of origin and the new market. In Europe, registration at the according national association is mandatory to practise a profession, which obliges professionals wishing to do their activity in another country to register, comply with a set of requirements and pay the according fees. Also, specific regulations and legal requirements at European level, such as recognition of degrees and professional qualifications, are not standardised.

Product (service) sales. Regarding the barriers affecting the selling phase, the report of the Commission we referred to pointed out the poor level of harmonisation in the European Union (EU). Comparing how they are made in different countries, contracts need to include several features and requirements for supplying companies, which requires them to constantly adapt to valid formalities in the different markets. This also includes problems related with invoicing, accounting of VAT (value-added tax) and other taxes and reimbursement policies.

Customer service provision. The main barriers in this area are again related with valid legislation in the different countries. On this matter there are differences as to legal liabilities and valid post-sales obligations. For instance, statutory coverage of an insurance on one same service can vary substantially according to the country. Something similar occurs in the case of periods of warranty to be set as well as in legal and criminal liability of suppliers, be they engineering services or vendors of given products.

Towards suppression of barriers to trade in services in the European Union and deepening into the single services market

From its very origins, the EU has tried to create a single services market, ensuring free provision of services and the right of establishment. The 1957 Treaty of Rome, by which the European Economic Community was created, clearly set as its goal the establishment of a common market based on freedom of circulation of goods, persons, services and capital. Big progress was made in the 1960s, especially regarding industry and trade in goods, but the initial momentum decayed by and by, and progress in services came almost to complete standstill.

From its very origins, the EU has tried to create a single services market, ensuring free provision of services and the right of establishment.

Many years later, when the need for new momentum for the single market was stated, the European Single Act (discussed in July 1985 and passed for entry into force in July 1987) was approved, by which harmonisation of rules on services took an especially relevant position. However, after almost two decades, it was stated that there were still many barriers –physical, technical, legal, fiscal, etc.– preventing a true single services market in the EU. The need of changing this situation led the European Commission to prepare the Framework Directive on Services, first better known as Bolkestein Directive, the first text of which was approved internally in January 2004, although it was highly controversial during the long period until its approval by the European Parliament in late 2006 (Cuadrado, 2009b). All EU member countries had to transpose the Directive into their respective national legislation by 29 December 2009, although not all have complied with this commitment.

What this directive aims at is not complete suppression of regulations regarding services, as some are necessary and aimed at defending consumers' rights and ensuring fair rules of the game for all. What it is about is doing away with a legislative and practical heterogeneity that is ever less justified in a Europe aspiring at reaching a true single market in goods and services. It is along these lines that it is necessary to fight against protectionism, which is ever less sustainable in a world in which globalisation is a process with no return, with services needing to compete internationally and operate under the best possible conditions.

The existence of protectionist barriers in services very often harms companies that are supposed to be protected by it as hardly competitive behaviours and production inefficiencies are kept by preventing new competitors to enter the market, thus also reducing the possibilities of companies supposedly benefiting from this to improve their international strategy. When a country or an industry raises its barriers, the most logical is that other countries and their companies generate strategic behaviours, so at the end of the process, protection is enlarged and the development of trade and new services is prevented, while the black market and unauthorised practices are fostered. Companies suffering most are usually SMEs (small and medium-sized enterprises) as they have no chance of entering the market or the cost of taking the different barriers disencourage from any attempt of international expansion. End consumers are also damaged as they will have to pay higher prices and enjoy services with a poorer quality and variety.

The positive effects caused by taking some legal barriers now posing difficulties to trade in services in the EU as well as barriers to free establishment and professional activity at European level have been studied by different surveys. The Commission made some estimates with very positive results for all member countries, but at least further two are to be mentioned by highly reputed research teams that used different methodologies.

The impact assessment done by Copenhagen Economics (2005) was based on an overall balance model. To do so, some trade restriction indices were elaborated according to discriminations from outside the EU, international discriminatory regulations between countries, non-discriminatory internal rules within each country affecting all services and finally those that could be considered to have an optimal regulation level (which will obviously never be zero). After weighing the different barriers in each industry (income or cost creators), the model determines the impact assessment according to different scenarios. In the most conservative one, it is estimated that the implementation of the Directive should create an additional 0.8% of GDP in the Union, 0.3% net employment (up to 600,000 jobs) and a 0.4% salary increase. Artificially high prices would also be reduced in some professional service areas by up to 7.2%, which would improve service consumption. Despite being conservative (based by two thirds on the whole of services affected by the Directive), these estimates amount to 57% of all benefits to the single market generated since its creation in 1993 in terms of GDP.

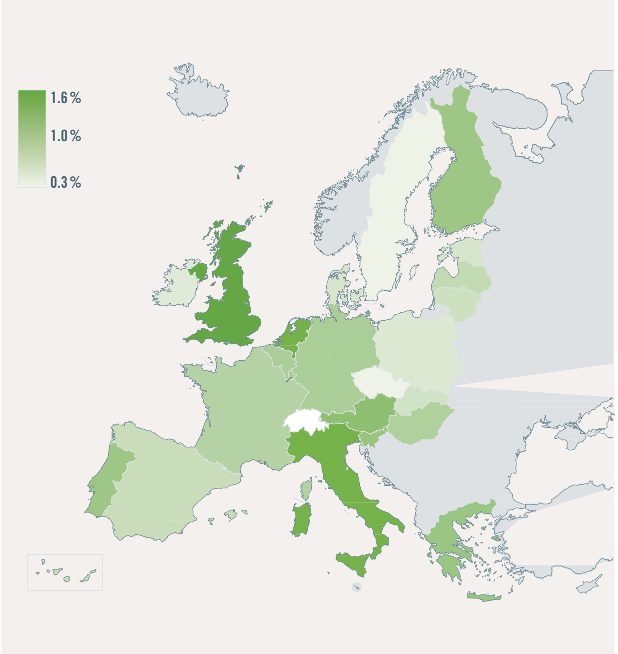
The positive effects caused by taking some legal barriers now posing difficulties to trade in services in the EU have been studied by different surveys.

The map on the right includes an approach to distribution by countries of estimated benefits as a consequence of deepening into the single services market. It can be observed that the most benefited countries are believed to be those already leading in advanced services (particularly the UK and the Netherlands) as well as some countries with a very high degree of protection (Italy and Austria). In any case, the survey concludes that all EU countries will register positive effects, although expectations for Spain are not the highest.

After this impact assessment, the Dutch presidency ordered another survey by CPB (Kox, Lejour & Montizaan, 2005), using gravitational models based on the heterogeneity of regulations within Europe. The results allow to infer (chart 1) that trade in services could increase by 30 to 60% in the whole of the EU, which would mean a 2-5% increase of total inner-European trade (goods and services). Direct investment in services could in its turn increase between 25 and 30%.

Different countries (UK, Austria) have done estimates on the effects of the Directive on their economies, also with positive results. However, these favourable calculations came with some criticism challenging the ultimate meaning of the Directive, that is, the very need of passing and implementing it or convenience of introducing changes and cuts. In fact, the position of some countries in the discussion phase of the text in the European Parliament as well as pressure by some business and professional lobbies eventually managed to leave some service activities off the text that was finally passed, and the requirements of the first Directive draft – especially regarding implementation of the legislation of the company's country of origin – were considerably reduced. In any case, the Directive affects now more than 50% of services and its contents is to mean an extraordinarily important progress

***Graph 1.* Impact assessment of the directive by countries: Benefit by countries**



Source: Copenhagen Economics, 2005.

▲ Estimates by country of the effects of the Directive are also positive.

***Table 1.* Potential impact of the Framework Directive on Services on trade and investment in Europe**

	Minimum effect (%)	Maximum effect (%)
Total increase of inner-European trade	**30**	**62**
▸ Due to less heterogeneity of barriers to competition	25	51
▸ Due to less heterogeneity of explicit barriers to trade and investment	5	11
Total increase of inner-European investment	**18**	**36**
▸ Due to less heterogeneity of barriers to competition	7	18
▸ Due to less restrictions to foreign direct investment (level effect)[1]	11	16
▸ Due to less heterogeneity of state control	0	2

1. Assuming that all foreign investors experience a 30% reduction in restrictions in the country of destination.

Source: Kox, Lejour & Montizaan, 2005

for trade in services within the EU and free establishment of companies in this area as many rules posing «barriers» as those mentioned above have been abolished.

International trade in services. Relations between trade and direct investment

«Tertiarisation» has progressed almost uninterruptedly in the world's most advanced economies in the last decades. Services amount to 70% of employment and added value in many countries, notably the US, UK, Netherlands, Belgium, France, Denmark and Sweden, apart from the special case of Luxembourg (table 2).

A remarkable fact in analysing global trade in services is that the sector has quite a lower relevance in overall trade than what could be expected considering the importance its activity branches have in the economies. On average, trade in services (imports and exports) amounts to 23-24%, compared to figures at 68-70% and above regarding their contribution to total added value in each country. The possible causes explaining this difference are essentially three:

Preference of services for an internationalisation mode that is more consistent with the need of physical proximity to markets and customers. There is particularly a trend towards preferring direct foreign investment (services have a very high stake in this indicator, close to or above its relevance in the economy) or cooperation networks and other ways of knowledge, image or reputation transfer (Cuadrado, Rubalcaba & Bryson, 2002).

Statistic shortcomings affecting effective measurement of international trade in services. Several very important service trade modes do not fit into official statistic definitions, such as trade within one industry and movement of persons.

Services amount to 23-24% of overall global trade but provide 68-70% of total added value.

Natural and artificial barriers to trade in services. High segmentation of markets prevents trade from being more relevant, in some cases due to reasons related to the very nature of the service (e.g. simultaneous production and consumption on site) or the social and economic context (e.g. language barriers) but also in other cases due to artificial barriers created or backed by governments.

In the case of the EU, the available statistics clearly show that integration of the services market is much lower than in goods markets. Obviously, trade within Europe is higher than foreign one in almost all industries including services – more in imports than in exports¬ – but what data show is that this trade is much more relevant in the case of goods than in services. Nevertheless, when analysing what is occurring in the latter, it can be observed that there are also clear differences by activity branch, for instance within the business services group, where the advertising and marketing industry is more integrated in Europe than professional services, engineering and R&D.

At a global level, the United States take the first position as to the value of service exports and imports (table 2). The second biggest country is the United Kingdom, followed by Japan. The countries on the European mainland with the highest exchange rates are France, Italy, Spain and the Netherlands. In the two latter, service exports reach quite a high level. In Spain, this is due to tourism, though – as will be seen further on – other services are becoming increasingly important. In the case of the Netherlands, service exports cover a wider and interesting spectrum from transport and financial services to business services and many other tertiary activities.

From an analytical point of view, a matter that is most paid attention on at international level are relations between international trade (IT) and direct foreign investment (FDI) in services. Theoretical literature on the subject takes a position that is not always consistent regarding the complementary or substitutive nature of both ways, and although it has traditionally tended towards defending the substitution thesis, empirical studies show that IT and FDI act increasingly in addition to each other in internationalisation processes. Much of the available analysis takes data on countries and their trade and investment flows as a reference, but another part estimates that the subject needs to be studied within companies as they are the ones actually taking decisions and implementing strategies.

***Table 2.* Share of services in GAV of some economies in 2007 and relevance of service imports and exports**

(in US$ billion)

Country	Added value %	Imports	Exports
Luxembuorg	84.0	37.3	64.3
United States	76.9	378.1	493.2
United Kingdom	76.3	203.1	281.4
France	77.4	130.4	145.4
Netherlands	73.6	98.2	111.6
Belgium	75.3	72.3	78.9
Denmark	72.4	53.7	61.3
Italy	70.4	121.3	111.7
Sweden	71.8	47.8	63.4
Switzerland	70.8	29.6	66.3
Japan	70.1	150.2	129.0
New Zealand	69.2	9.1	9.3
Australia	68.4	38.5	40.2
Mexico	60.9	23.8	17.7
Spain	67.4	98.5	128.9
Austria	67.7	38.9	55.3
Finland	64.2	22.0	23.0
Canada	66.1	80.5	62.6
Norway	55.9	38.2	40.3
Turkey	63.5	15.4	28.6
Korea	60.0	83.1	63.3
Ireland	64.8	93.8	89.8

Source: OECD, 2009

Trade within Europe is higher than foreign one in almost all industries.

The analysis taking data and flows by countries usually looks into possible correlations between IT and FDI data and those of other macroeconomic variables, either referred to each country or breaking them down by sectors or branches. The first piece of work of this kind was that by Lipsey & Weiss (1981), which shows how business of American subsidiaries abroad tends to promote exports to countries where they are located. The existence of complementary relations between FDI and IT is also proven by Grubert & Mutti (1991), who also conclude that trade and direct investment tend to grow in similar terms as a consequence of other factors affecting them simultaneously, like increasing globalisation or income level of a country. A piece of analysis monitoring some of these variables is that by Clausing (2000). The result obtained from the study of international trade flows and business of multinationals is also an evidence that this correlation actually exists. The Spanish case has been studied by Bajo-Rubio & Montero-Muñoz (2001). The cointegration analysis done on FDI and IT data also states here that there is a correlation of cause-effect between both flows. The most recent piece of work by Visintin (2009) deepens into the relations between trade and direct investment in the Spanish case, obtaining results showing differences by sectors, so in those cases in which big investments have been done abroad (telecommunications and finance), exports are logically quite reduced.

Studies on the specific behaviour of companies are also of great interest. Taking their

1981 piece of work, Lipsey & Weiss (1984) stated the validity of their results using data of private companies. They concluded that if a company has a subsidiary in a given country abroad, exports to that country will be higher the higher the production level of the subsidiary is. In a study on internationalisation of Japanese manufacturing companies in the second half of the last century, Head & Ries (2001) also show that there is a correlation, and Blonigen (2001) states that analysis based on aggregate data shows that what exists is a correlation, while if the study is done with data on a specific product, there may be a replacement between exports and investment abroad, which some economic theories predict. His analysis on components for the car industry and Japanese consumer goods in the US market show signs of replacement. According to Blonigen, the decision between exporting and producing abroad is not taken at a company level but for each particular product.

Research by Rubalcaba & Maroto points out the importance of factors not related with costs.

As a general remark it needs to be said that literature has remained rather scarce due to difficulties in collecting reliable and consistent data on international transactions in services and the fact that the interest for this subject has been recognised only recently. In fact, only in the last ten years it has been developed in a more intensive way. The application to this sector of models worked out conceptually for trade in goods was one of the first steps taken by researchers. This is the case of pieces like those by Ansari & Ojemakinde (2003) and Mann (2004). Among the articles dealing with the peculiarities of the sector given international opening, those by Grünfeld & Moxnes (2003) and Mirza & Nicoletti (2004) are noteworthy. Within empirical analysis, the pieces by Kimura & Hyun-Hoon (2004), Kox & Lejour (2005, 2007) and Walsh (2006) are remarkable. Internationalisation of Spanish services is of course a subject with limited literature. Besides pieces devoted specifically to particular areas there are those by Di Meglio & Rubalcaba (2007) on IT and its influence on the balance sheet as well as Cuadrado & Visintin (2008) on the evolution and composition of FDI in the industry in the last years. The crucial factors in Spanish trade in services are looked into by Rubalcaba & Maroto (2007). Their results point out the importance of factors not related with costs. Along the same lines, Visintin et al. (2008) look into some possible sources of competitiveness of Spanish services and relate them with a relevance indicator of the sector in international markets. And finally, Visintin (2009) himself deepened into the relation between IT and FDI in the Spanish service sector with a very interesting and well founded contribution.

Trade and direct investment in services in Spain

The development of international transactions in Spain regarding services and direct foreign investment in the country as well as by companies done abroad has experienced a significant progress that is worth commenting.

Service exports and imports

At a global level, Spain takes a relevant position in commercial service transactions, basically thanks to tourism. Based on World Trade Organization (WTO) data, table 3 reflects the position of the main countries regarding service exports and imports and registered variations in both annual and current terms over the 1980-2006 period. In the latter year, Spain took the seventh position in service exports and the ninth in imports according to the WTO. However, it needs to be said that actual relevance of Spain within global trade in services is comparatively low (3.7-3.8% of global exports and 3.9% of imports as published by the WTO in 2007), although it has stayed above the EU-15 average and many Union countries.

Aggregated figures are a bit misleading anyway, as the biggest component in Spanish service exports are tourist visits, while the remaining positions are not only less important but their net balance is also usually negative or only slightly positive (table 4, based on Eurostat data). This does not mean that the relevance of some positions in the Spanish balance sheet shall be despised as net (positive or negative) transactions have increased significantly as to their total share in recent years, as is the case of insurance, IT services and some activities included in «other business services». In fact, whereas just a bit more than half the foreign trade in services amounted to tourism in 1992, its net relevance was down to 39% by 2006, giving way to transport and other services, in which business and IT services start being relevant.

The biggest component in Spanish service exports are tourist visits.

Although we cannot deepen into the analysis of trade in services in Spain here, it is possible to formulate three brief thoughts. The first is that leaving aside tourism, Spain is increasingly

Table 3. **Order by service exporting and importing countries[2]**

TRADE SERVICES EXPORTERS		World Share 2006	Annual Variation 1980-2006	TRADE SERVICES IMPORTERS		World Share 2006	Annual Variation 1980-2006
1	United States	14.3	14.5	1	United States	11.7	14.8
2	United Kingdom	8.2	11.7	1	Germany	8.2	10.0
3	Germany	6.1	11.1	1	United Kingdom	6.5	11.9
4	Japan	4.5	11.7	4	Japan	5.5	9.3
5	France	4.1	6.1	5	France	4.1	7.8
6	Italy	3.7	10.5	6	Italy	3.9	11.6
7	Spain	3.7	13.6	7	Netherlands	3.0	9.2
8	Netherlands	3.0	9.9	8	Ireland	3.0	24.4
9	India	2.7	20.2	9	Spain	2.9	16.6
10	Hong Kong (China)	2.6	15.7	10	Canada	2.7	12.2
11	Ireland	2.5	24.5	11	India	2.7	19.8
12	Belgium	2.1	=	12	Belgium	2.0	=
13	Canada	2.1	12.9	13	Denmark	1.7	15.9
14	Denmark	1.9	14.8	14	Sweden	1.5	10.8
15	Luxembourg	1.9	=	15	Hong Kong (China)	1.3	14.7
16	Sweden	1.8	11.9	16	Luxembourg	1.2	=
17	Portugal	0.6	13.8	17	Finland	0.6	11.1
18	Finland	0.6	11.4	18	Portugal	0.4	13.0

Note: Trade services do not include government services. There is no available information on trade services in Austria and China.

Source: WTO, 2007

entering international service transactions, an area in which some activities (communications, transport, business services, audiovisual services and even some personal services) reach export growth rates above those in imports. The second idea is that, as occurs in most countries mentioned above, the relevance of these foreign transactions bears no relation with the importance of services in the economy. The very nature of many services determines this as many services are produced and consumed within the same country (from education and health to most personal services, transport, etc.). However, it is equally true that there is much room for international service exchange to increase, which allows to think of high growth rates in trade in services from Spain to the rest of the world. Finally, it needs to be born in mind that Spain's positive balance sheet did not allow to make up for the high trade deficit in goods. What is more, the net negative balance has trebled in the last fifteen years.

Economic policy should increasingly pay attention and give support to fostering Spanish service exports. Some countries with a smaller economic size than Spain (Netherlands,

Table 4. Main data on international trade in services in Spain

	Net balance* (X–M) 1992	Net balance* (X–M) 2005	Share (X+M) in total services 1992	Share (X+M) in total services 2005	Annual growth rate 1992–2005 (X+M)
Current account	-16,492	-66,628	492.5	488.1	8.4
Goods	-23,304	-68,970	295.3	297.8	8.6
Services	9,598	22,635	100.0	100.0	8.5
Transport	-223	-1,858	17.8	20.7	9.7
Tourism	12,821	26,370	50.4	39.5	6.6
Other services	-3,000	-1,878	31.8	39.8	10.2
Communications	-58	-230	0.8	2.0	15.7
Building	39	498	1.5	1.7	9.7
Insurance	98	22	3.3	1.0	-0.7
Financial services	433	-16	2.7	3.4	10.3
IT services	-455	1,305	2.0	3.5	13.0
Fees	-745	-1,677	2.1	2.0	8.0
Other business services	-1,371	-1,597	14.4	23.6	12.3
Personal, cultural and leisure services	-413	-521	2.4	1.8	6.1
Audiovisual services	-345	-530	1.7	1.0	4.8
Other personal, cultural and leisure services	-69	9	0.8	0.8	8.5
Government services	-526	338	2.6	0.8	-1.1

* In million euros

X exports, M imports

Source: Own, based on Eurostat, International Trade in Services*, 2008.*

Ireland, Belgium, Canada, Denmark, etc.) take higher positions in both absolute terms and their international share.

Foreign investment in Spain and Spanish investment abroad

As has been said in the first part of this article, investment in other countries is one of the most relevant options in the internationalisation process of service companies. The very nature of some services and their requirements as to direct relation with users have companies intending to enter other markets often decide to invest directly, either by acquiring organisations already operating in that market, establishing subsidiaries or branches or through collaboration agreements with local companies. Also, globalisation is driving the role of «brands» in international service provision (just think of hotel chains, consulting firms, transport companies and others), which are a very important asset to develop services in other countries, where presence requires either a physical move or reaching some stockholding in other companies. Besides, doing investment in other countries is a way of eluding some barriers usually posed to cross-border service provision.

Spain has been in recent years a country where foreign service companies have moved to and invested in, while some Spanish companies also went for big investments in third countries. In fact, this is the reason why Spain has been one of the countries with the highest investment abroad in certain years (in banking, telephone, power, water supply, etc.).

Direct investment flows related to the Spanish service sector could be approached out of the Datainvex series made by the Spanish Ministry of Industry, Tourism and Trade for both Spanish investment abroad and foreign investment in Spain. Graphs 2 and 3 on the next page show FDI done by Spain in other countries and that coming from abroad, respectively. Estimated figures show that Spain has been above all an investor country abroad in many years. The 1998-2002 period experienced the highest investment in the services sector, with a 23.67 billion euro peak in 2000. Spanish investment abroad also reached its maximum in 2000 with 42.783 billion euros. It later experienced a new push in 2004 and 2006 before reducing afterwards. In absolute terms, direct investment flows in services are considerably higher than those regarding goods production, and Spanish investment to do service activities abroad is much higher than investment inflow in this area, as Fernández Otheo (2007) points out.

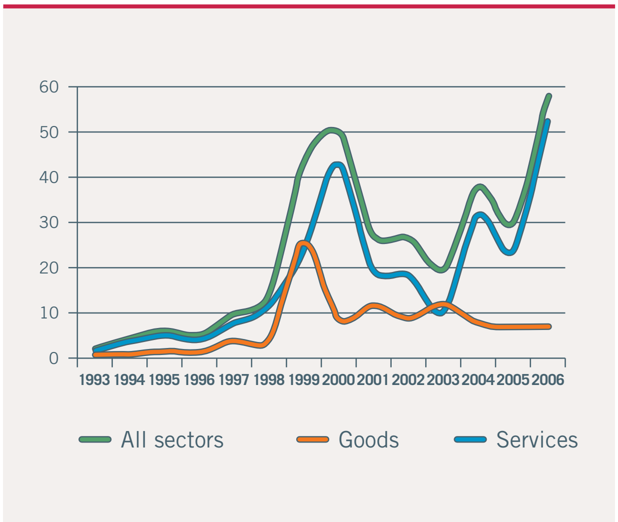
Spain has been one of the countries with the highest investment abroad in certain years, in areas such as banking, telephone, power and water supply.

A fact to bear in mind regarding data provided is that investment each year is under heavy influence of some specific operation or operations done in that year, which is reflected in both the total annual sum and the distribution by sectors and branches. Spain's positioning in banking and telephone communications abroad accounted for some peaks as mentioned above.

Regarding industries, Spanish FDI has concentrated on some very specific areas during the years on which there are data. The two main ones are telecommunications and banking and other financial brokerage services. At a lower, though relevant position is real estate (very dynamic in the 2004-2006 period), transport (with a special relevance in airports), wholesale trade and energy supply. Very far from these branches we find insurance and financial brokerage services, IT, health services and cultural activities. Regarding foreign investment received, the main activities were insurance, hotel business, IT and other financial brokerage.

Graph 2. Foreign direct investment in Spain

(in billion euros)

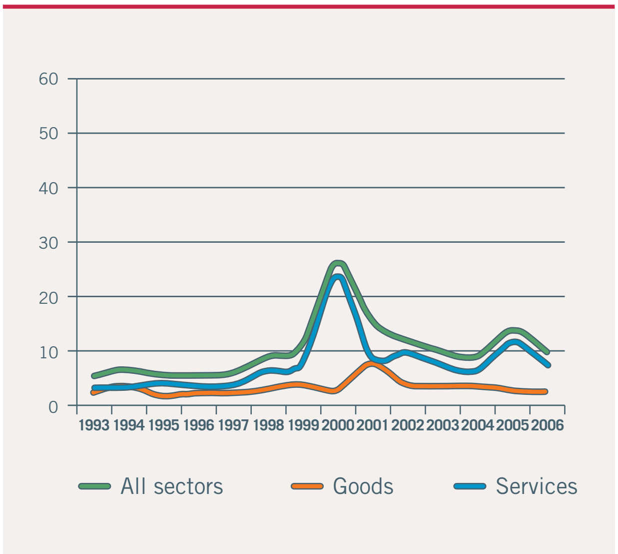


Source: made with data from the Spanish Ministry of Industry, Tourism and Trade

▲ Foreign investment in Spain picked up after 2003.

Graph 3. Foreign direct investment in services in Spain

(in billion euros)



Source: made with data from the Spanish Ministry of Industry, Tourism and Trade

▲ Investment from abroad is much lower than Spanish investment in other countries.

The origin of FDI in Spain and the destination of Spanish investment to other areas of the world is also interesting, especially because data show that the main beneficiary of Spanish direct investment in services were not Latin American countries but the European Union (graph 4). Spain has been above all a receiving country of European investment in services (at a 22.846 billion euros annual average), though Spanish investment in the EU regarding services also reaches a considerable annual average at 17.794 billion euros. However, average investment in and from North and Latin America shows that Spain generated a much higher outflow than inflow. This is not surprising at all in the case of Latin America but it is so regarding US and Canadian investment. In any case, Spanish investment in Europe was twice and a half the amount devoted to Latin America on average in the 2001-2006 period. The countries having invested most in Spain are the Netherlands, Luxembourg, the United Kingdom and France, amounting altogether to more than half the investment received. The biggest portion of Spanish investment to the rest of Europe regarding services went to the United Kingdom, France, the Netherlands and Italy. In Latin America, Spanish investment included a large number of countries, though the priority was clearly set on four: Brazil, Mexico, Chile and Argentina, which received investment in telecommunications and banking as well as other service activities, though at a much lower level, like business services, power and water supply and hotel business.

Final note: some ideas to keep with

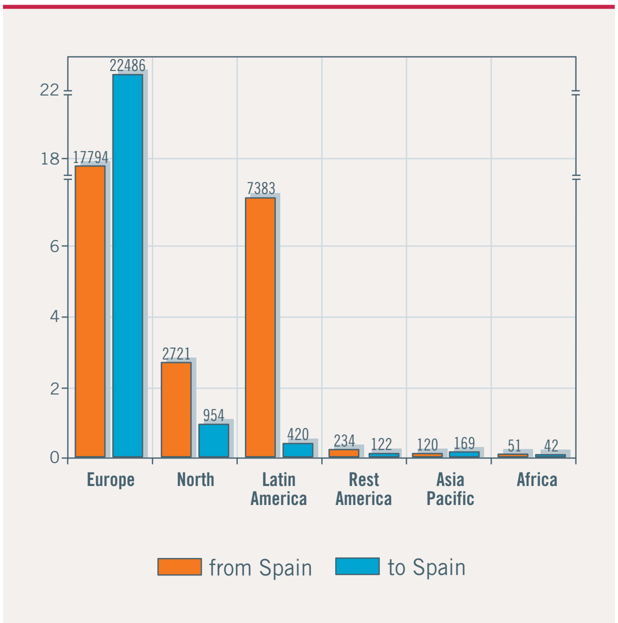
The article has first of all tried to inform on problems raised by internationalisation of services and the shapes and modes it may adopt. Also, the main barriers companies are confronted with when operating or settling in foreign countries to offer services and the decision adopted recently in the EU to suppress most of these barriers have also been addressed. Finally, we have provided information on trade in services and direct investment related with the sector at global scale and for the specific case of Spain.

There are some points and ideas to be highlighted to wrap up this text. The first is obviously that the need of keeping to any given limitations regarding the scope of the study has left some topics out of it, while others have been dealt with in a very summarised way only. However, there are several points which I consider they have been tackled in a straightforward way. They are the following:

It is undeniable that «internationalisation» of services – and thus of companies producing or providing them – is a process that has accelerated a lot in recent years and can be considered to be irreversible.

***Graph 4.* Investment flows, annual average by geographic area, 2001-2006**

(in billion euros)



Source: made with data from the Spanish Ministry of Industry, Tourism and Trade

▲ Spain has been above all a receiving country of European investment in services

This internationalisation process comes about in different ways, especially two: commercial service transactions at international level and foreign direct cross-investment (from other countries to the own and vice versa). The latter is often required by the very characteristics of many services that require maximum proximity to customers, with own facilities on site.

Along the article the manifold barriers based on legal regulations valid in every country have been mentioned, apart from non-legal ones such as language and distinctive social and cultural patterns. The EU attempted recently to give momentum to a true single services market by means of a framework directive forcing to do away with red tape and unnecessary requirements as well as to bigger transparency on behalf of companies.

Previous assessment of the effects of real implementation of this Directive provides very positive results in terms of trade increase and expected GDP and employment increase at both EU and member state level. However, it will be only possible to state this effect once approved principles and duties are implemented in the different member states.

The data on the relevance of service imports and exports at global level and by countries show a clear disproportion as to the importance of the service sector in all economies. Although many services are and will remain local or regional, there seems to be no doubt that there is much room for growth in trade in services in coming years.

As to Spain, the text has provided data on service imports and exports and investment in the sector both from abroad and by Spanish companies in other countries. In the former case, Spain's balance sheet has traditionally been and is still positive, with tourism as the main export position, though there are different positions with increasing transaction rates: transport (negative balance in 2005), IT services (positive balance in 2005), other business services (negative balance this year), audiovisual services and personal, cultural and leisure services (both with a negative, yet smaller balance).

In the case of FDI, Spanish companies did much investment in the EU and Latin America (although with fluctuations according to the year) and the main portion of foreign investment comes from the EU, particularly the Netherlands, the United Kingdom, France and Luxembourg, focusing on insurance, hotel business, IT services and other financial brokerage.

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Notes

1. However, there were some previous reactions to the approval of the Single Act through some proposals to deepen into the European Union and the single market. They include the Tindemans Report (1975), the solemn Stuttgart Declaration (1983) and the Dooge Report (1985).

2. Two laws have been passed in Spain in a first step in this transposition (the rather general «Umbrella Law» and the «Omnibus Law», modifying other national laws and decrees). However, there is still much to be done as not only national authorities need to change, abolish and reform many requirements that posed barriers to different service activities, but also regions need to do it, as they have legislated on many areas under their jurisdiction, as well as municipal councils, having passed rules and regulations many service companies need to comply with to do their business.

3. Cf. Visintin (2009), from where the ideas of this part and most reference are taken.

4. Data provided in tables 3 and 4 come from the work by Di Meglio,G. and Rubalcaba, L. (2007).