

International trade in services

A growing contribution to Belgium's current balance

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Introduction

Service activities hold an ambiguous position in the economy. Although they represent a dominant share of activity and employment, they have only a minor position in international trade. Generally speaking, trade in services has therefore attracted less interest than trade in goods in the context of the policy on competitiveness, and economic research has paid less attention to it. Moreover, economic analysis of this trade has been hampered by the fact that it is difficult for statisticians to cover trade in services, the trade is heterogeneous and the market players are scattered⁽¹⁾.

Yet despite the relatively low gross amount of service exports and imports compared to international trade in goods, Belgium's services balance – taken as the difference between exports and imports of services – has grown over time, and some years ago it became the primary driver of the current balance.

Thus, exports of services broadly linked to trade in goods and to Belgium's role as a centre for numerous companies or organisations have grown steadily in Belgium. These activities have developed thanks to a favoured geographical position at the heart of Europe, and Belgium's attractiveness for multinationals and the European Union institutions. Conversely, services more concerned with advanced technology have not produced particularly strong growth.

This article addresses all these points. It is in three parts. Part 1 describes and illustrates the position of trade in services in the global economy and in the Belgian economy. Part 2 describes the general context surrounding trade in services, identifying the main obstacles to that trade. Finally, part 3 refines the analysis of Belgium's performance for each category of services.

1. Position of trade in services in the economy

1.1 The share of services in the global economy

The share of services increases as an economy develops. Thus, as is evident from table 1, the share of services in activity and employment has risen over the past thirty years, to reach around 70 % in the industrialised countries. In this respect, Belgium is above the level of neighbouring countries and the euro area average, with services representing 76 % of value added and 73 % of employment. This tertiarisation of the economy – the corollary to the worldwide trend towards deindustrialisation – is also evident in the low-income countries as defined by the World Bank, even though services account for only 50 % of value added there, and provide only one-third of employment.

The shift towards a service economy is the outcome of various moving forces. The increasing consumer preference for services has intensified demand for services, with rising incomes giving a particular boost. As budgetary constraints ease, demand for industrial products is to some extent saturated and the private consumption

(*) The author is particularly grateful to L. Dresse for his contribution to this article. P. D'havé and D. Desie also provided a valuable insight into the data for Belgium.

(1) Cf. François and Hoekman (2010) for a review of the scientific literature on this subject.

TABLE 1 SHARE OF SERVICES IN THE ECONOMY
(in %)

	Value added		Employment 2005
	1980	2008	
World	41	70	43
High-income countries	59	73	71
United States	64	77	78
Japan	56	71	66
Euro area	58	72	67
Germany	57	69	68
France	63	78	72
Netherlands	63	73	72
Belgium	62	76	73
Middle-income countries	41	54	37
Low-income countries	41	50	–

Source: World Bank.

profile tends to change in favour of services. Demand for services is also bolstered by socio-demographic developments, such as the increased participation of women in the labour market, population ageing, and increased leisure time.

These demand effects are combined with supply effects which also encourage the process of tertiarisation of the economy. The substantial wave of technological progress has produced productivity gains which industry has been better able to incorporate in its production process than services. Those industrial productivity gains were also stimulated by greater international competition, which has intensified with the decline in transport costs and the elimination of barriers to trade in manufactured goods. Ultimately, the productivity gains in the industrial sectors have freed up the labour necessary for expanding the service sectors.

These trends have also occurred against the backdrop of globalisation, which has affected the position of services in activity and in international trade. In particular, the decline in transport costs and the development of information and communication technologies have led to fragmentation of the production processes, according to the tasks to be performed⁽¹⁾. In concentrating on their core activities, producers make more use of external firms to perform certain specific tasks. This has meant the expansion of outsourcing in the case of services for producers in such spheres as telecommunications, transport,

distribution and logistics, financial intermediation, etc. Nowadays, the competitiveness of industrial firms is determined partly by access to suppliers of these services offering both quality and low cost.

This movement is conducive to the explicit development of services which industrial companies formerly provided for themselves. In order to cut costs still further, some of these tasks are sometimes commissioned to foreign firms. This implies less interaction between the firm using the service and the service provider, and may affect the monitoring and control of the intermediate service production. Consequently, offshoring generally concerns routine or codifiable tasks which lend themselves more readily to remote monitoring and checking of the quality of execution.

However, the offshoring of certain tasks to low-wage countries is not without consequences for the developed countries. While the reduction in the cost of certain inputs permits efficiency and productivity gains which benefit the firms concerned and the economy in general, there may be redistribution effects between the sectors and between categories of workers. The possibility of transferring routine tasks thus exerts downward pressure on wages for industrial production activities in the advanced economies. Conversely, it strengthens the position of cognitive or analytical services⁽²⁾.

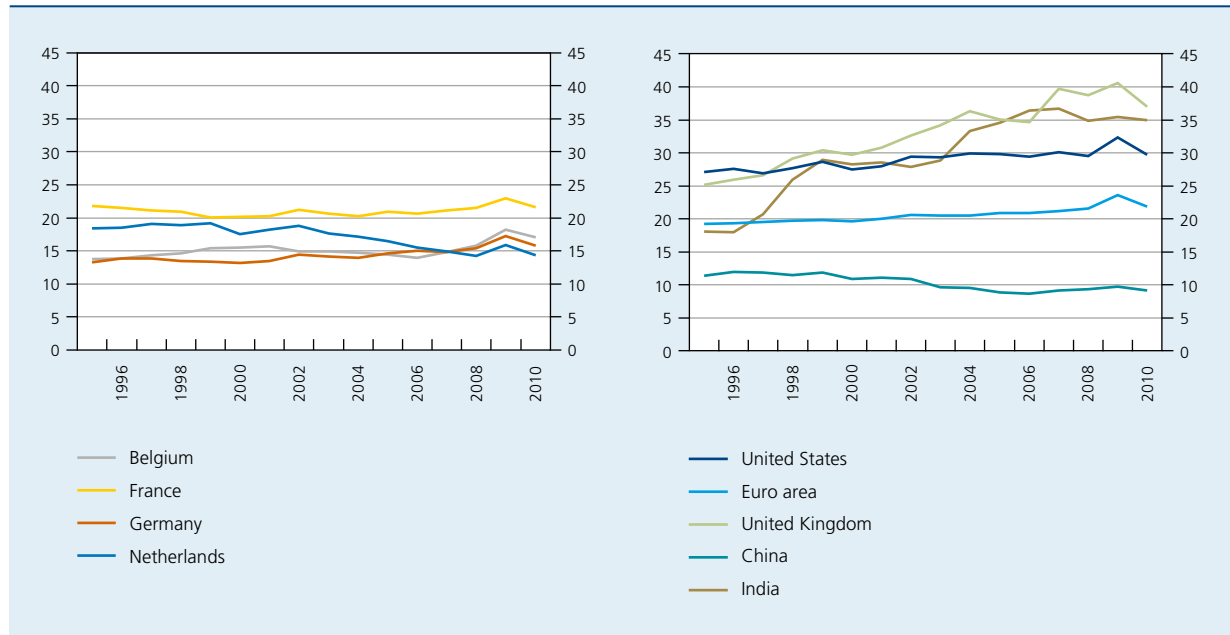
In addition, the borderline between trade in goods and trade in services has become more blurred, in that the sale of products is accompanied by related services such as installation, training, maintenance or finance. While it is sometimes difficult to measure the value of these services separately from the value of the product, their quality is undeniably a competitiveness factor for firms.

All these factors have given services a central position in economic activity. However, their share in the economy is curiously at odds with their relative insignificance in international trade. It is true that, in most countries, service imports and exports have expanded steadily, as in Belgium where they tripled between 1995 and 2010. However, this trend is comparable to that recorded for trade in goods. As chart 1 illustrates, the share of services in total trade has therefore remained stable in Belgium and in some other European countries at around 15%. Trade in goods therefore still accounts for by far the bulk of international trade.

(1) For more details, cf. Lanz et al. (2011).

(2) Grossman and Rossi-Hansberg (2008) present a theoretical analysis of offshoring.

CHART 1 SHARE OF SERVICE EXPORTS IN TOTAL EXPORTS
(in %)



Source: UNCTAD.

Although the contraction of world trade following the 2008-2009 crisis was less marked in the case of services, which accounts for a temporary increase in their share of international trade, the low level of trade in services is applicable to all countries in general. Thus, the trade of countries which specialise in international trade in services, such as the United Kingdom, India and the United States, is still dominated by trade in goods even though the share of services has grown over the past fifteen years to more than 30%.

1.2 Belgium's general performance in trade in services

Despite the relatively low level of trade in services, Belgium's balance of services has been rising steadily since 1995, as exports of services have grown faster than service imports. In recent years, the balance of trade in services has also been the main positive component of the

current balance in the national accounts⁽¹⁾. While the balance of services stood at 0.1% of GDP in 1995, it came to 2.4% of GDP in 2010.

However, that increase did not compensate for the decline in the goods balance over the same period. Moreover, the deficit in current transfers – Belgium being a net contributor to the EU budget – and the positive balance of income deteriorated slightly, the latter recording a stronger fall in 2009 owing to the reduction in net income from direct investment. Despite the rise in the balance of services, the current balance therefore contracted steadily between 2002 and 2009, falling from 6.0 to 0.7% of GDP. In 2010 it climbed back to 3.1% of GDP⁽²⁾. These developments can be seen in chart 2⁽³⁾.

Belgium's good performance in regard to the services balance is due to strong exports rather than weak imports. If we compare Belgium with other euro area countries, we see that the share of GDP represented by trade in services is among the highest in the euro area, with one of strongest rates of export growth. Moreover, the only countries with a higher services balance are those with specific characteristics such as Austria and Portugal, which specialise in travel, and Luxembourg which specialises in financial services.

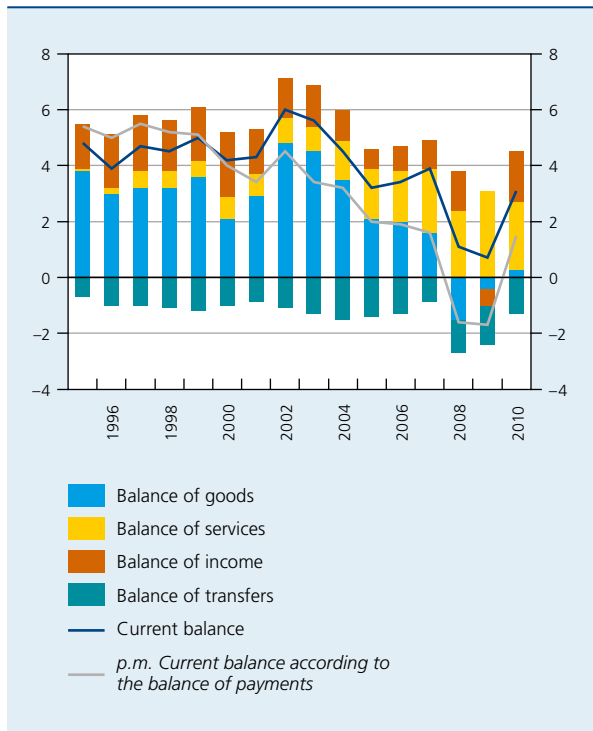
The healthy state of Belgium's service exports is also borne out by the analysis of market shares in chart 3. In terms

(1) Belgium's current account balance with the rest of the world is available both in the balance of payments statistics and in the national accounts, which are mainly derived from that source. However, there are differences between the two sources: these differences are largely methodological and chiefly concern the composition of the main aggregates. There are also divergences in the estimate of the total current balance. However, the main movements are similar in both sets of statistics.

(2) For a more detailed analysis of the current balance and its determinants, see CEC (2011).

(3) See also Annex 1 which gives detailed data on the last four years according to the balance of payments statistics, since these provide details of service transactions.

CHART 2 BREAKDOWN OF BELGIUM'S CURRENT BALANCE
(in % of GDP)



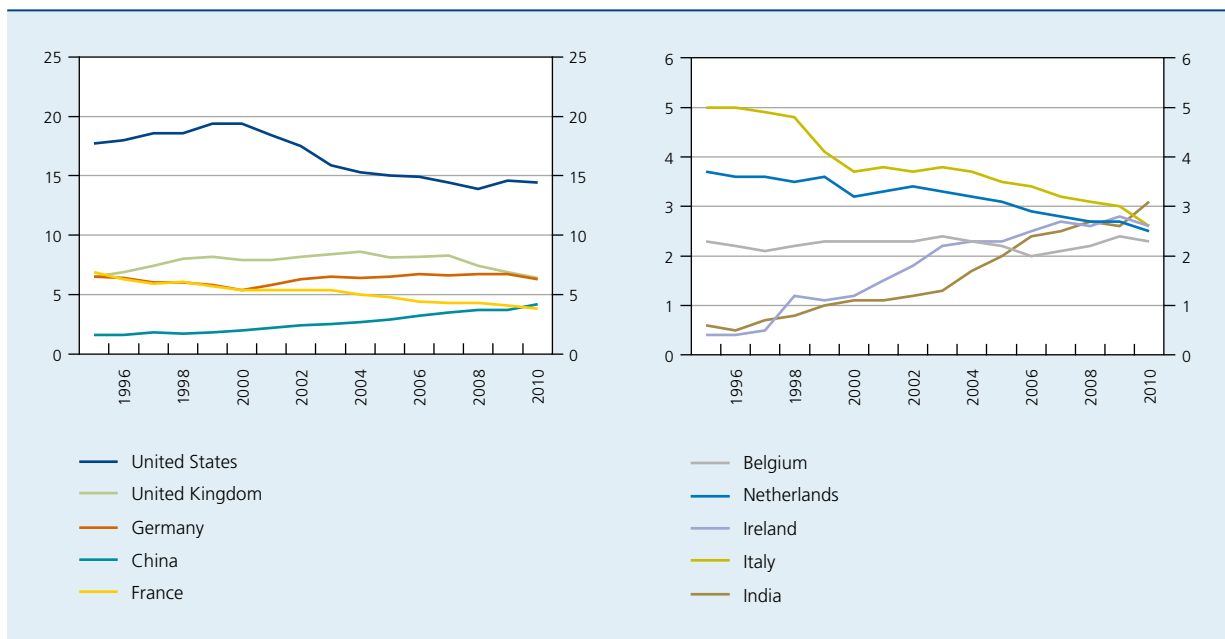
Sources : NAI (national accounts), NBB (balance of payments).

of value, the share of Belgium's service exports in world trade in services remained constant during the period 1995-2010, hovering around 2.3 %. Over the same period, Germany's share of world service exports remained steady at around 6.5 %, while the shares of the Netherlands and France declined respectively from 3.7 to 2.5 % and from 6.8 to 3.8 %. For comparison, Belgium's performance in the export of goods was inferior to its performance on the services market: in value terms, the share of Belgium's goods exports dropped by more than a third over the same period, from 2.9 to 1.8 % of global goods exports.

Analysis of the performance on foreign markets also confirms the vigour of Belgium's service exports in value terms. Thus, the annual average growth rate of these exports was 1.3 percentage points higher than the growth of imports of services from partner countries, which are the foreign markets for Belgian service providers. However, these gains in market share were concentrated on the period 2007-2010⁽¹⁾. The strong performance in service exports reflects the vigorous growth of the export volume.

(1) It should be noted that this break in the trend in market shares in 2007 coincides with the introduction of a new data collection method by the balance of payments. The data are no longer based on payments for international transactions, but on a combination of surveys, in some cases supplemented by data from various external sources. Although it must be acknowledged that the change of system affected the statistics, the persistent, steady increase in market share after 2007 when the new collection method was firmly established confirms that these gains reflect economic reality.

CHART 3 SHARE OF SERVICE EXPORTS IN WORLD TRADE IN SERVICES
(in %)



Source : UNCTAD.

According to the national accounts statistics, the average annual growth of the volume of service exports came to 5.0 % between 1995 and 2010, while the increase in value averaged 7.2 % per annum over the same period. The differential, which is due to the movement in prices, is not at all unusual as service prices have risen steadily in most European countries⁽¹⁾.

The analysis of the population of service export firms presented in table 2 sheds additional light on that performance⁽²⁾. On the one hand, it shows that there is considerable rotation among the companies involved in the international provision of services. Over 3 400 firms actively exporting services in 1995 were no longer doing so in 2005, while more than 11 000 firms began exporting services during that period⁽³⁾. Also, the microeconomic analysis highlights the crucial role of the intensive margin – i.e. the average amount exported by exporters – in the growth of exports. In fact, out of the 46.2 billion increase recorded between 1995 and 2005, 80 % was due to higher exports by firms already exporting in 1995, with an average of € 19.9 million per firm. The development of companies focusing strongly on service exports is therefore necessary to support Belgium's revenues from this source.

The rest of the increase in revenues recorded between 1995 and 2005 is attributable to the extensive margin,

i.e. the growth in the number of exporting firms. It is true that, in comparison with 1995, more than 7 600 additional firms were active on the export markets in 2005, representing an increase of over 140 %. If that rise is not the deciding factor in the total increase, that is because the exports of the new exporters were relatively low compared to those of firms already active on the export markets in 1995. It is interesting that this smaller role of the extensive margin in the long-term growth of service exports contrasts with what is seen on the market in goods. The main reason for the relatively weak exports of goods by Belgium is the decline in the number of exporting firms.

The degree of concentration of exports in the various service branches also illustrates the importance of the large exporters among the service providers. In 2010, the amounts exported by the three or ten largest exporters represented shares of the total in the category in question for Belgium amounting to 46 % and 64 % respectively in maritime freight, 54 and 81 % in financial services, 39 and 52 % in IT services, 76 and 90 % in telecommunications, 79 and 85 % in advertising services, 38 and 69 % research and development, and 24 and 43 % in business-to-business services. In view of these high percentages, these service transactions therefore seem to have a relatively narrow base.

The concentration among service exporters is linked to the relatively low level of international trade in services. In this connection, it indicates the problems which seem to be inherent in international trade in services. Part 2 of this article aims to describe the context in which trade in services takes place, identifying the impediments and limits confronting trade in services.

2. Impediments and limits confronting trade in services

Various factors contribute to the relatively low level of trade in services, compared to the importance of services in the economy. Since many services are, by nature, incapable of being stored, the service provider needs to be located close to the consumer, and speedily accessible, for trade in services to be feasible. Despite the development of information and communication technologies, this proximity requirement is still a major natural barrier to trade in many services.

TABLE 2 POPULATION OF SERVICE EXPORTING FIRMS

	Number of exporters	Average exports per firm (in € million)	Total exports (in € million)
Situation in 1995	5 346	3.4	18 215
Situation in 2005	13 029	9.8	64 430
Change 1995-2005	+7 683	+ 6.4	+46 215
Firms exporting in 1995 but no longer exporting in 2005	-1 852	0.8	-1 436
Firms exporting in 1995 but no longer in existence in 2005	-1 633	2.2	-3 532
Firms still exporting in 2005	1 861	+19.9	+37 011
New exporting firms in 2005	+6 360	1.8	+11 562
Firms existing in 1995 recorded as new exporters in 2005	+4 808	0.5	+2 609

Source: Ariu and Mion (2010).

(1) See ECB (2009), which sets out the factors contributing to higher inflation for services than for goods.

(2) For more details, see Ariu and Mion (2010).

(3) Owing to the need for data collected by a uniform system, the analysis can only be conducted for the period from 1995 to 2005.

Other factors, of a statistical nature, have also contributed to the relatively low level of trade in services. Unlike trade in goods, associated with the physical crossing of a frontier, trade in services takes the form of flows which are by definition difficult to measure. Combined with the problem of separating the services from the goods with which they are sometimes linked, this situation has probably led to under-estimation of trade in services.

More fundamentally, the low level of trade in services is also due to the existence of alternative channels which a service firm can use to market its products to foreign consumers. Research by the World Trade Organisation in connection with the General Agreement on Trade in Services (GATS) identified four forms of trade in services⁽¹⁾.

Strictly speaking, the concept of trade in services can only refer to the first form, namely cross-border trade, that being the form most similar to trade in goods. We refer to cross-border trade where production and consumption are geographically separated by a border. The use by a Belgian firm of software developed in the United States, or the use of a foreign call centre, are examples of cross-border trade in services.

In the second form of trade, it is the consumer and not the service that crosses the border. Foreign consumption takes place, for example, if non-residents obtain medical services or if foreign tourists consume services at their holiday destination.

The presence of the service provider in the foreign country via establishment of a subsidiary is the third form of trade. Although the literature concentrates mainly on goods, foreign direct investment is generally presented as an alternative to exports, as a way of avoiding the variable costs – transport, customs, etc. – albeit in return for the higher overheads entailed in setting up a foreign establishment. The same argument can doubtless be applied to certain service categories⁽²⁾. However, in the case of services which, by their nature, cannot really be traded, foreign direct investment is the only opportunity for a firm to reach consumers abroad. Retailing and major construction projects are two examples.

Finally, in the fourth form of trade the firm providing the service sends a representative to the foreign country, but the firm remains based in the producing country. All services performed by workers who travel to a foreign country to carry out an assignment there for their employer fall into this category.

Analyses of external service flows generally take account of cross-border trade and foreign consumption because

these two forms are included in the service statistics of the balance of payments, as the travel item includes expenditure by residents abroad. Conversely, the statistics on foreign direct investment – the third form – and on the provision of services by sending workers abroad – the fourth form – are often incomplete. However, analysis of the available figures on foreign direct investment may provide some information.

2.1 An alternative to exports: foreign direct investment

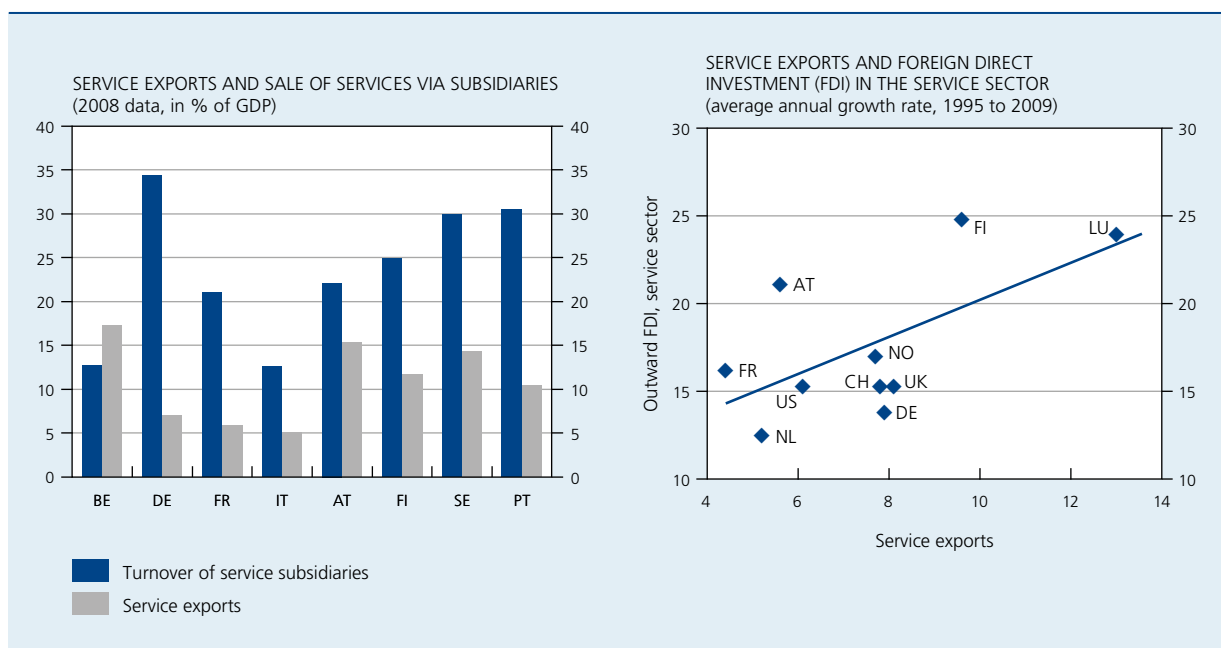
Generally speaking, foreign direct investment means that a resident firm owns shares in a foreign company or plays an actual role in its management. To assess the importance of this compared to the provision of services abroad, we need to look at the amount of the services provided by the direct investment companies on the market where they are based, rather than the financial value of the investments.

Chart 4 presents the turnover figures available for a selection of European countries on foreign service subsidiaries in which resident companies own a majority interest (over 50%). In regard to these amounts, it seems that recourse to sales via subsidiaries is particularly significant in the case of services. For Belgium, the amount of trade in services, which came to 17.3 % of GDP in 2008, exceeds the amount of sales via subsidiaries, which totalled 12.7 %. The opposite applies in other countries, notably those where large multinational service companies are based. In Belgium, trade and repairs, financial intermediation and consultancy services are the main branches of activity where sales take place via foreign subsidiaries. This also applies to the building and civil engineering sector, including dredging – activities in which Belgian companies are particularly active at international level. However, as these activities may take the form of temporary associations or joint ventures, they are sometimes difficult to record.

One question which naturally arises when we compare exports and sales via subsidiaries concerns whether these two forms are substitutes for one another, in which case it is detrimental to use both, so that it is advisable to specialise in one or the other, or conversely, whether they are complementary, so that the use of one facilitates the use of the other. At macroeconomic level, a comparison by country of the trend in service exports and the trend in foreign direct investment seems to indicate that these two forms of trade are to some extent complementary,

(1) See WTO (2008).

(2) See in this connection Ramasamy and Yeung (2010).

CHART 4 SERVICE EXPORTS AND FOREIGN DIRECT INVESTMENT IN THE SERVICE SECTOR

Sources: Eurostat, OECD.

although the scientific literature on the subject is not unanimous. However, this article is not concerned with direct investment. The rest of this analysis is therefore devoted mainly to cross-border trade in services.

2.2 Administrative barriers

There is one last key factor which hampers trade in services: the administrative barriers⁽¹⁾. Generally speaking, the question of regulation is multi-dimensional and involves considerations which may be beyond the realms of economics. However, a comparison between sectors and between countries is possible with the aid of the market regulation indices calculated by the OECD. These indices aim to offer an assessment – which is consistent in time and between countries – of the current regulations governing various sectors, including product markets, transport, telecommunications, postal services and professional services. The indices, established on a scale ranging from 0 (no regulations) to 6 (maximum regulations), cover the rules applicable to market access (granting of licences, requirements concerning qualifications, quotas, etc.) or the pursuit of activities (price control, advertising restrictions, specific legal form required, etc.).

(1) For a detailed analysis, see Nordas and Kox (2009).

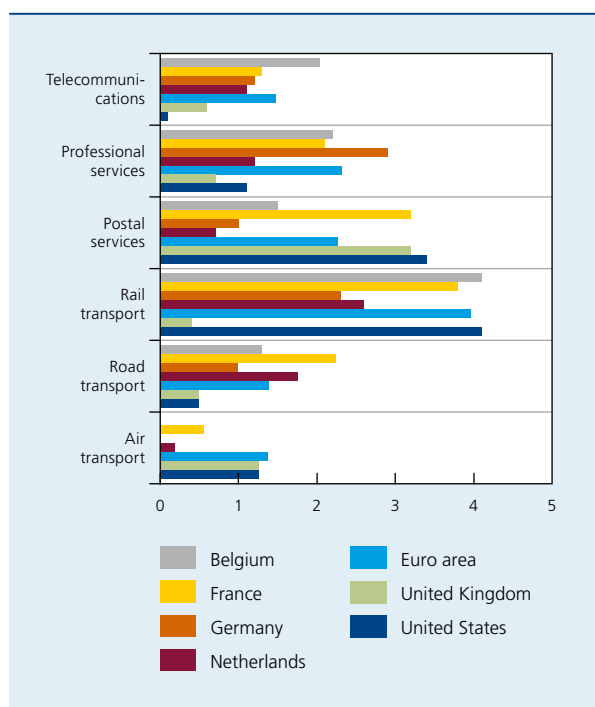
On the basis of this indicator, it seems that the barriers to trade in services diminished between 1998 and 2007 in all OECD countries, from an average index of 3.5 to an index of 2.1. However, they are still higher than on the goods markets, where the index stood at 1.4 in 2008. An international comparison of the indices per sector, presented in chart 5, shows that Belgium had relatively strict regulations in telecommunications and rail transport in 2007. In the other service branches, Belgium is in an intermediate position. These data seem to suggest that there are barriers on the service market in Belgium. Those barriers, and particularly the ones affecting the telecommunications sector, may prove prejudicial, in that information and communication technologies are one of the catalysts of productivity growth. However, as the available information dates from 2007, the current situation may be different.

In theory, there are several factors which may explain the disparity in the indices of regulation between countries and between sectors. For instance, some service sectors have natural or network monopolies or oligopolies. A natural monopoly occurs in a specific situation where the production facilities generate increasing returns. This situation is typical of industries requiring a substantial infrastructure which has a particularly high fixed cost in relation to the variable costs, such as the supply of water or electricity, railways, etc. Where the economies of scale

CHART 5

MARKET REGULATION INDICES

(normalised scale from 0 – no regulation – to 6 – maximum regulation, 2007 data)



Source: OECD.

occur on the consumption side, as in the case of information technology or telecommunications, the monopoly is due to the network effects. In both situations, the monopoly may be more efficient than competition as a result of economies of scale, either on the supply side in the case of a natural monopoly, or on the demand side for a network monopoly. However, the lack of competition may encourage the producer to profit from a market rent. To avoid such abuse of a dominant position, it may be desirable for the State to intervene in the management of the monopoly under some circumstances.

Moreover, on some markets, consumers may have considerable difficulty in assessing the quality of a service in advance, or deciding whether the service is safe to use. Examples are public transport and health care. If consumers lack information or reliable points of reference on which to base their decisions, information asymmetry arises between the consumer and the service provider. In some circumstances, State intervention via licensing or targeted monitoring may prove sufficient to combat this asymmetry, which gives rise to economic inefficiency.

State intervention may be designed to achieve objectives other than economic efficiency. For instance, regulations

may aim to redistribute wealth between citizens. Price control, for example, may be introduced to enable some consumers to obtain access to a service which they could not otherwise afford.

Despite these various factors justifying the existence of barriers, it is not always obvious that the barriers achieve economic objectives concerning efficiency or redistribution. Discriminatory measures hampering access to certain markets may thus result from a form of protectionism.

Against that backdrop, the European Union adopted the Services Directive in 2006. That Directive, which had to be transposed into national law by 1 January 2010, was motivated by the desire to proceed with the establishment of a Single Market and, at the same time, to facilitate productivity gains in the services sector. The principle of freedom to provide services lies at the very heart of that directive. According to that principle, Member States must guarantee free access to service activities for service providers from other EU countries. However, each Member State remains free to impose a number of requirements on the pursuit of an activity, so long as they are justified on grounds in the public interest, are proportionate to the aims pursued and are not discriminatory. The Services Directive also includes a section on the simplification of the administrative procedures applicable to service providers.

In its final form, the scope of the Directive includes the building industry, real estate activities, leasing, miscellaneous technical or consultancy services, hotels, restaurants and catering, personal services and leisure services. As Piette and van der Linden (2009) demonstrated in a study conducted jointly by the Bank and the Federal Planning Bureau, exports and imports of services attributable to these activities represent only a very small proportion of total international trade, despite their importance in the economy. Consequently, the directive is expected to have a positive but minor effect on activity and employment. The effects on activity are put at less than 1% of GDP. Similar conclusions may be drawn from research by Copenhagen Economics (DK, study conducted for the EC) and the Centraal Planbureau (NL).

On a larger scale than the European Union, negotiations took place under the GATS which also aimed to abolish barriers to trade in services. In the absence of a general consensus, these talks sometimes led to the signing of bilateral agreements⁽¹⁾.

(1) According to Gootiiz and Mattoo (2009), there are still many problems to be resolved in liberalising trade in services.

3. Analysis by type of service

Despite the barriers to trade in services, Belgium has generally performed well in this area, primarily thanks to the dynamism of service exports. In order to examine Belgium's strengths and weaknesses in more detail, it is necessary to determine which types of services have thrived in the past fifteen years and, conversely, which have been more sluggish.

To find out, the analysis which follows is based mainly on the balance of payments statistics as, in contrast to the national accounts, they supply a breakdown of revenue and expenditure per service category⁽¹⁾. These statistics, compiled on the basis of the IMF standards, also have the advantage of permitting international comparison.

Various indicators can be used to assess a country's specialisation in a service category. For each category, a country's balance in relation to the rest of the world is one of those indicators, as a positive balance shows that domestic output exceeds the level of consumption, and vice versa. Another indicator, the Balassa index of revealed comparative advantage, is based on export flows for each service category by comparing the share of services in total exports of each country. To construct this index, the share of exports of each service category in total service exports is compared with the corresponding share for a reference region, in this case the euro area. An index of more than 1 indicates specialisation in relation to the reference region, as the share of exports of that category in the total is higher there than in the reference region. Conversely, an index of less than 1 indicates under-specialisation, as the share of exports of this service category in the total is smaller than in the reference region.

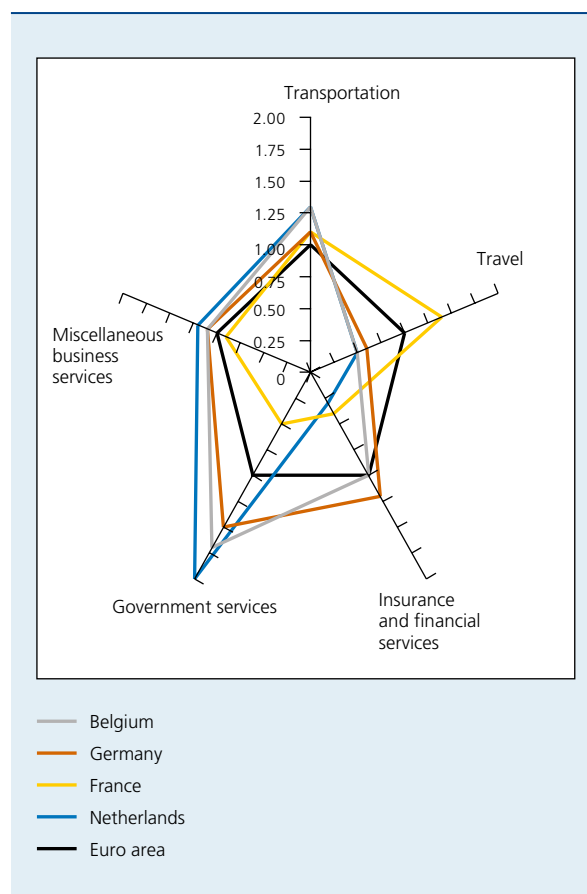
For the reader's convenience, the analysis groups services into five main categories: transport, travel, financial and insurance services, government services and miscellaneous business services. Chart 6 shows the index of revealed comparative advantage for each of these service categories for Belgium and the three neighbouring countries.

This index shows that Belgium specialises in government services, transportation and miscellaneous business services. Conversely, Belgium is under-specialised in travel services and is not particularly specialised in financial and insurance services.

(1) Note that the external balance of trade in services as stated in the national accounts includes other components. Of these, financial intermediation services indirectly measured (FISIM) and various adjustments, particularly those concerning methodology, have a significant impact. Annex 1 provides details of service transactions since 2007.

CHART 6 REVEALED COMPARATIVE ADVANTAGES

(share of each category in total service exports, normalised in relation to the euro area, 2009 data)



Sources: Eurostat, NBB.

Overall, the situation of the Netherlands is comparable to that of Belgium except for a marked under-specialisation in financial and insurance services. As the analysis which follows will show, however, there are considerable differences between the two countries. Germany's specialisation profile is similar overall to that of Belgium, although its exports include more financial and insurance services, whereas France – which relies essentially on its tourism exports – has a very different profile.

The analysis which follows aims to review these various service categories and identify characteristics specific to Belgium.

3.1 Government services

The "Government services" heading in the balance of payments concerns some of the transactions with the European Union institutions, as these are considered as

extra-territorial entities. In 2009, the amounts recorded under this heading gave rise to net revenues totalling € 1.2 billion. The item includes two types of transactions, namely reimbursement of the collection costs relating to own resources, and the operating expenses of the European institutions.

The reimbursement of the costs incurred by Belgium in collecting the European budget's own resources on behalf of the EU came to € 474 million in 2009. Each Member State is remunerated for the customs duties and the share of VAT revenues accruing to the EU. However, in view of the importance of the port of Antwerp in the EU's trade with the rest of the world, the amount of the remuneration for collection costs attributed to Belgium is relatively high, as it represented 9.8% of total EU expenditure under that heading, whereas in terms of GDP Belgium's share is 2.9%.

Government services also include part of the operating expenditure of the European institutions, in the form of rents or other unidentified transactions. The corresponding revenues received by Belgium as the seat of a number of major institutions came to over € 700 million, equal to almost 35% of EU expenditure on that type of services.

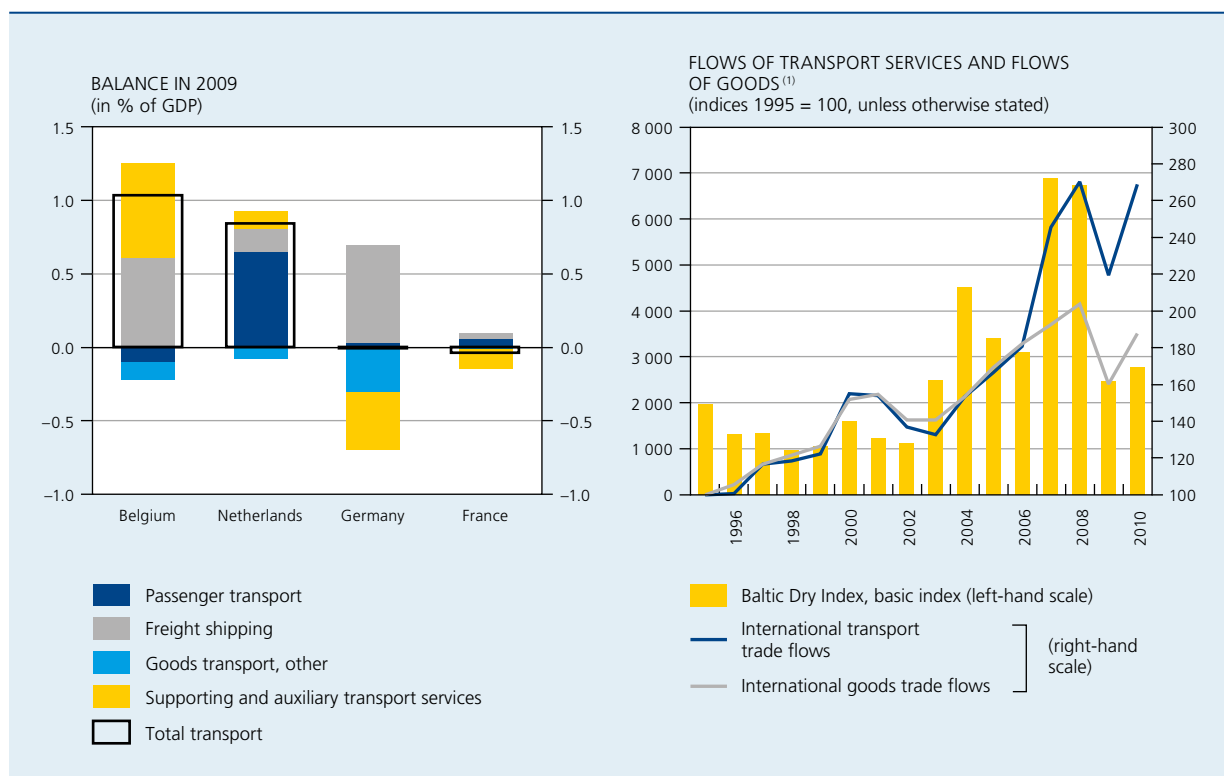
The figure of € 1.2 billion recorded under the heading of government services does not cover all the services which Belgium provides for the European institutions, since revenues totalling around € 800 million are imputed directly to the various headings in the balance of payments. This mainly concerns professional and technical services, and IT, information and communication services. Altogether, the European Union institutions contributed € 2.1 billion to the surplus on service transactions recorded in the balance of payments.

Apart from services, these institutions also pay salaries to their officials, and those established in Belgium are regarded as Belgian residents. These salaries are included under the "Labour income" item in the balance of payments. For the record, they came to € 3.1 billion in 2009.

3.2 Transport

Belgium also records a large quantity of exports of transport services. As in the Netherlands, another country which acts as a transport hub for Europe, transport services make a significant contribution to the positive balance of services.

CHART 7 TRANSPORT



Sources : Thomson Reuters Datastream, Eurostat, NBB.
 (1) Average of exports and imports.

However, the similarities between Belgium and the Netherlands in regard to transport services end there. The Netherlands in fact records a positive balance mainly in respect of passenger transport by air, whereas for Belgium the positive balance is due solely to maritime freight transport and auxiliary and related transport services, namely activities relating to loading and unloading, storage and transshipment, and to a lesser extent transport via pipeline.

These Belgian transport activities are by their nature connected with trade in goods. Comparison of the pattern of international trade flows in transport with those in goods, illustrated in chart 7, confirms that link. The series move in parallel, with the exception of a sudden surge in transport revenues in 2007 and 2008. As indicated by the Baltic Dry Index, a price index for the transportation of bulk dry goods by sea, that jump is attributable to a strong rise in sea freight prices. Following the overheating in maritime transport during those two years, the fleet capacity was increased in subsequent years, driving down prices. Belgian shipping companies participated in the expansion and renovation of the fleet, particularly for the transportation of commodities to the emerging economies.

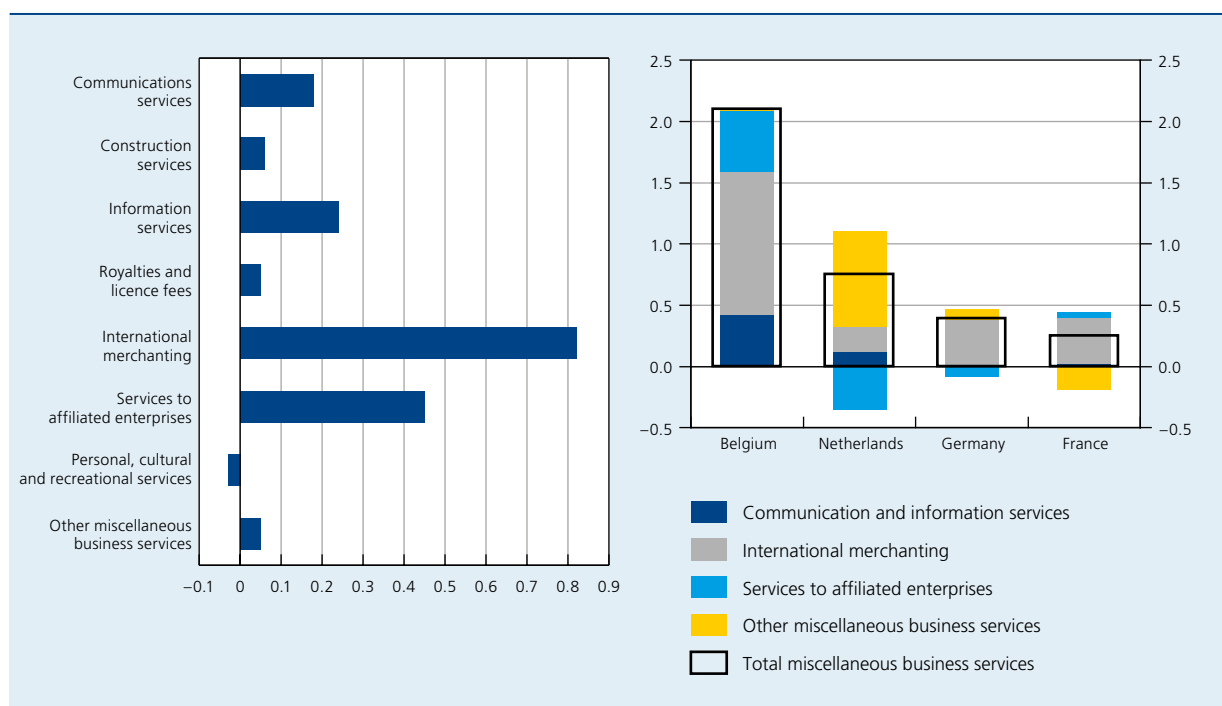
3.3 Miscellaneous business services

As the last of the main components of particular importance in Belgium, "Miscellaneous business services" covers a mixed bag of transactions. Of these, two main sub-categories predominate in Belgium in terms of the balance: international merchanting and services to affiliated enterprises (cf. chart 8).

Net exports under the heading of international merchanting are high in Belgium in relation to both other services and neighbouring countries. The international merchanting balance is the difference between the value of goods acquired by residents and intended for resale abroad and their value at the time of that resale. The goods in question do not always physically pass through Belgium. International merchanting is the term used where there are two consecutive transfers of ownership of a good, initially from a non-resident to a resident, and then from that resident to another non-resident⁽¹⁾. However, these transfers may take place abroad. The balance of these

(1) International merchanting has to be distinguished from trade intermediaries who sell products on behalf of non-residents. The trade intermediary receives commission for his intermediation service but never becomes the owner of the product. In 2010, Belgium recorded a negative balance of 0.7 billion in respect of commission for trade intermediation.

CHART 8 BREAKDOWN OF THE BALANCE OF MISCELLANEOUS BUSINESS SERVICES
(in % of GDP, 2009 data)



Sources: Eurostat, NBB.

two movements – international merchanting only being defined as a net figure – determines the remuneration for the resident merchanting firm. This service item is therefore closely linked to trade in goods and, in particular, to the role of intermediation in the broad sense in international trade in goods. The net revenues accruing to the economy under this heading amount to 1.2 % of GDP.

Services between affiliated enterprises cover the general administrative and operating expenses of the parent companies, subsidiaries, branches and agencies insofar as the payments are total amounts which cannot be assigned accurately to a more specific service heading. Belgium's central position and its attractiveness for multinationals, particularly for the coordination of their European activities, help to boost the balance in this service category, which came to 0.5 % of GDP in 2009.

The scale of international merchanting and services to affiliated enterprises influences the geographical focus of Belgium's service exports, presented in table 3⁽¹⁾. While goods are exported mainly to Germany, France and the Netherlands, the three main destinations for service exports are the United Kingdom, the Netherlands and the United States. The United Kingdom is the main consumer of international merchanting services, while the United States is one of the main importers of services between affiliated enterprises. These two countries are also major importers of Belgium's transport services.

Apart from international merchanting and services between affiliated enterprises, the other service categories

which come under miscellaneous business services are down slightly in net terms. Thus, services relating to information and communication technologies, though relatively substantial compared to neighbouring countries, do not represent a significant share of the balance. In this regard, the administrative barriers identified in this sector by the OECD market regulation index may have hampered the sector's development. Nevertheless, as a catalyst of productivity growth, these services are vitally important for the development of the economy.

In addition, the amount of exports in the form of royalties and licences, construction and personal, cultural and recreational services is very low⁽²⁾. Leasing, consultancy, advertising, research and development, architecture and engineering services can be added to these service categories, as the balance for all these categories constituting other miscellaneous business services is close to zero. There is a big difference here in relation to the Netherlands, which records a significant positive balance for these service categories.

The growth of Belgium's exports of miscellaneous business services, transport and government services is closely linked to the country's role as a nodal point resulting from its central location in Europe. As is evident from chart

(1) The data for Belgium are exhaustive up to 2006. After that, owing to the new method of collecting data via surveys, it is no longer possible to produce an accurate geographical breakdown of service exports.

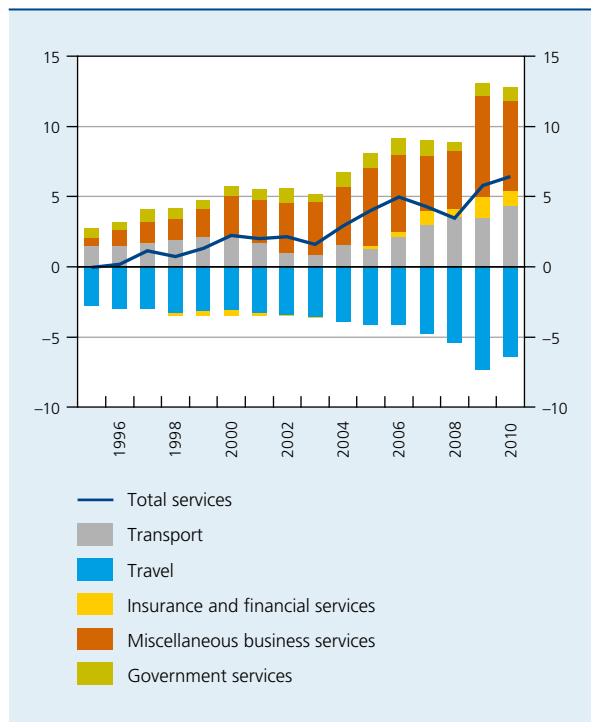
(2) We should make it clear that in the IMF recommendations, building work by construction companies on sites in other countries concerning projects lasting more than one year does not come under services but is regarded as income from direct investment. For Belgium, the amounts involved are significant.

TABLE 3 GEOGRAPHICAL ORIGIN OF SERVICE REVENUES
(in % of total exports of the category, 2006 data)

	Total services	Transport	International merchanting	Services between affiliated enterprises	<i>p.m.</i> <i>Total goods</i>
EU	74.9	73.0	84.2	67.7	76.0
of which:					
United Kingdom	16.7	18.4	74.3	14.1	7.8
Netherlands	15.7	14.8	0.0	12.1	12.9
France	12.7	13.8	1.2	8.2	17.1
Germany	9.4	14.2	1.8	8.9	17.2
Luxembourg	5.2	2.3	0.0	0.0	2.4
Non EU	25.1	27.0	15.8	32.3	24.0
of which:					
United States	13.2	11.7	10.2	n.c.	4.7
Switzerland	3.2	3.5	0.9	7.3	1.4

Source : Eurostat.

CHART 9 BREAKDOWN OF BELGIUM'S BALANCE OF SERVICES
(in € billion)



Source: NBB (balance of payments).

9, these three service categories also make the biggest contribution to the growing surplus in service transactions on Belgium's current account balance with the rest of the world.

3.4 Travel and financial and insurance services

The service categories which are under-represented in export revenues, and in which Belgium does not specialise, comprise international exports of financial and insurance services, on the one hand, and travel. In terms of the balance, the first of these two categories has recorded a surplus since 2005. In contrast, the deficit in travel is steadily growing. This section will end with brief comments on these two categories.

Travel, which covers expenditure on goods and services by non-residents travelling abroad for less than one year, has traditionally recorded a negative balance in Belgium. Nonetheless, that balance has grown larger over the past fifteen years. The net figure for business travel has remained close to equilibrium, as business travel by non-residents in Belgium counterbalances business travel by Belgian residents abroad. However, owing to the increase

in expenditure on foreign travel by Belgian residents, for personal or recreational reasons, the deficit on travel came to 1.8 % of GDP in 2010.

Generally speaking, such a negative balance is attributable to the relative endowment with natural or historical sites, climate and the wealth of the population. Apart from the indirect effect on incomes, the negative balance in tourism is therefore relatively unconnected with competitiveness and beyond the scope of economic policy.

In financial and insurance services, Belgium's exports are in line with those of the euro area as a whole. However, a positive balance of € 1 billion was recorded in trade in financial services in 2010. It should be noted that the amounts recorded under this heading in the balance of payments only relate to commission and other costs directly invoiced. In this sector, some services may, however, be remunerated via the interest margin. In that case, the flows are recorded under the income heading, and not under services. In the national accounts, Belgium's balance of financial intermediation services indirectly measured (FISIM) on transactions with the rest of the world was estimated in net terms as a surplus of € 1.5 billion in 2010. As a result of the financial crisis, this intermediation margin has become much larger, but also much more volatile.

Conclusion

The surplus on trade in services has increased in Belgium in the past fifteen years. Net exports of services have gradually become the engine of the current account balance, partly offsetting the deterioration in the balance of trade in goods. In macroeconomic terms, they therefore help to preserve the economy's external position, by bringing in additional resources which can be used for the balanced financing of domestic demand.

Belgium's central position in the European economic fabric is one of the main contributory factors in the good performance of Belgium's trade in services. This position at the heart of Europe favours a geographical intermediation role which has been reflected in a range of services suited to the internationalisation of trade. This has led to the development of trade and logistics services, particularly thanks to the importance of the port of Antwerp in maritime traffic.

However, Belgium's role as a nodal point is not confined to services relating to trade in goods. Combined with its central position, the quality of its human capital is another decisive factor in the growth of Belgium's exports of

services. That human capital, and the guarantees which it offers, have enhanced Belgium's attraction for major institutions, both public and private. As the location for the headquarters of the European institutions and several multinational bodies, Belgium has gained a foothold in an economy which has become global in the past two decades.

Nevertheless, Belgium's good general performance in trade in services is not seen in all service categories. Some, such as building or civil engineering, are usually offered to foreign consumers via other means instead of cross-border trade. In these sectors, foreign direct investment is in fact a way of overcoming the proximity requirement necessary for trade. The analysis presented in this article was therefore unable to confirm the strength of that trade.

Other service categories are also less developed. In particular, services connected with information and communication technologies have not grown particularly strongly. Moreover, the share of services which centre on creativity, such as research and development or patents, is still modest. Yet all these services constitute a growth catalyst that could benefit the whole economy, and the human capital needed for such a development is available in Belgium.

In the end, while the expansion of services connected with Belgium's central position in Europe is a considerable guarantee for the future, the more hesitant development of certain services conducive to growth still requires attention. The policies implemented must therefore endeavour to reinforce the latter by supporting the development of businesses active in these areas while continuing to underpin the growth of the former.

Annex 1

DETAILED PRESENTATION OF SERVICE TRANSACTIONS IN THE CURRENT ACCOUNT BALANCE

(in € billion, unless otherwise stated)

	Credit				Debit				Net			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
Total current transactions (according to the balance of payments) ..	353.0	365.9	300.2	337.7	347.5	371.6	305.8	332.5	5.4	-5.7	-5.7	5.2
Goods	218.4	225.1	179.1	211.1	217.8	236.2	183.9	214.5	0.6	-11.1	-4.8	-3.4
Services	54.4	60.2	60.5	65.7	50.1	56.8	54.7	59.3	4.3	3.4	5.8	6.4
Transport	17.0	18.9	15.6	19.2	14.0	15.3	12.1	14.8	3.0	3.6	3.5	4.4
Travel	8.0	8.0	7.3	7.7	12.8	13.4	14.6	14.1	-4.7	-5.4	-7.3	-6.4
Communications services	2.7	2.7	2.9	3.1	2.1	2.1	2.3	2.4	0.5	0.6	0.6	0.6
Construction services	0.8	1.1	1.1	1.2	0.6	0.7	0.9	0.9	0.2	0.4	0.2	0.2
Insurance services	0.8	0.9	0.9	0.8	0.6	0.8	0.8	0.9	0.2	0.1	0.1	0.0
Financial services	2.7	2.7	2.8	2.5	1.9	2.3	1.4	1.4	0.8	0.4	1.4	1.1
Computer and information services ..	2.2	2.5	3.0	3.0	1.6	1.9	2.2	2.2	0.6	0.7	0.8	0.9
Royalties and licence fees	1.2	0.8	1.7	1.6	1.5	1.3	1.5	1.4	-0.2	-0.5	0.3	0.2
Other business services	15.0	19.4	22.6	23.5	12.1	16.3	17.2	18.9	2.9	3.2	5.3	4.7
Personal, cultural and recreational services	0.4	0.4	0.4	0.5	0.4	0.5	0.5	0.6	-0.1	-0.1	-0.1	-0.1
Government services	1.6	1.5	1.4	1.4	0.1	0.2	0.2	0.2	1.5	1.3	1.2	1.2
Other services	2.0	1.4	0.8	1.3	2.4	2.1	1.1	1.5	-0.4	-0.7	-0.3	-0.2
Income	73.0	73.0	53.0	52.4	67.8	64.9	53.1	43.9	5.2	8.0	-0.1	8.5
Transfers	7.2	7.6	7.7	8.5	11.9	13.7	14.2	14.9	-4.6	-6.1	-6.5	-6.3
<i>p.m. Total current transactions</i> <i>(in % of GDP)</i>												
<i>according to the balance of payments</i> ..	<i>105.2</i>	<i>105.7</i>	<i>88.2</i>	<i>95.3</i>	<i>103.5</i>	<i>107.3</i>	<i>89.8</i>	<i>93.8</i>	<i>1.6</i>	<i>-1.6</i>	<i>-1.7</i>	<i>1.5</i>
<i>according to the national accounts</i> ..	<i>105.8</i>	<i>106.8</i>	<i>89.5</i>	<i>96.4</i>	<i>101.9</i>	<i>105.7</i>	<i>88.9</i>	<i>93.3</i>	<i>3.9</i>	<i>1.1</i>	<i>0.7</i>	<i>3.1</i>

Source: NBB.

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