

Alina Szypulewska-Porczyńska

Is EU services markets integration progressing? Analyzing EU trade in services through commercial presence

International Journal of Management and Economics 36, 70-85

2012

Artykuł został opracowany do udostępnienia w internecie przez Muzeum Historii Polski w ramach prac podejmowanych na rzecz zapewnienia otwartego, powszechnego i trwałego dostępu do polskiego dorobku naukowego i kulturalnego. Artykuł jest umieszczony w kolekcji cyfrowej bazhum.muzhp.pl, gromadzącej zawartość polskich czasopism humanistycznych i społecznych.

Tekst jest udostępniony do wykorzystania w ramach dozwolonego użytku.

Alina Szypulewska-Porczyńska
Jean Monnet Chair of European Integration
Warsaw School of Economics

Is EU Services Markets Integration Progressing? Analyzing EU Trade in Services Through Commercial Presence

Introductory remarks

A common picture of EU services markets emerges from different analyzes on EU integration. Services markets are more difficult to integrate and, as one might expect, less integrated than others¹. Yet in many publications prepared at the request of the European Commission, particular emphasis is laid on a large potential for a functioning internal market for services [Monti, 2010]. Cross-border trade in services between EU countries accounts for 20% of total internal trade, far too little to contribute to delivering the advantages of the internal market².

On the other hand, an assessment of services integration within the EU market should not be limited to cross-border trade. Even a brief review of EU documents on the internal market for services shows that its policy is based not only on the principle of free movement of services between member states but also on the freedom for service providers to establish within the internal market³. This is much in line with the WTO definition of services trade⁴. The main reason for such an extended approach is that the 'commercial presence'⁵ – when services are supplied through establishment (i.e. FDI) – is a very important mode of delivering services in the international context [Hoekman, Mattoo, 2008].

The bulk of research effort in the last decade on the EU internal market for services is devoted to the potential economic effects of the services directive⁶. Since the directive covers the temporary provision of services and sales through foreign establishments, these studies have simulated not only cross-border trade-induced effects but also FDI-induced effects, often using sophisticated econometric techniques⁷. Not unexpectedly, all of them have looked carefully at the EU regulatory environment for services to estimate possible effects of deregulation.

In this article we have focused on examining the past and current state of play in the internal market for services. Given that the biggest share of world services trade takes place through 'commercial presence'⁸, this paper looks at activities of foreign affiliates within the European internal market for services. Because statistics on activities of foreign affiliates (FATS) are still under construction, they are hardly ever used⁹.

This essay asks one major question: has the contribution of EU-controlled affiliates within the EU internal market resulted in a greater integration of EU services markets?

The article contains three sections. It begins by considering some general issues related to measuring the 'commercial presence' in services. The article then examines the importance and patterns of EU sales through establishment. Lastly, it examines whether the integration of EU services markets has advanced through this channel.

The empirical analysis is based on Eurostat statistics derived from 'Structural business statistics' and 'Balance of payments – International transactions'¹⁰.

A big shortcoming of all studies concerning international services trade, whether it is a historical review or a forecast, is that the quality of available data is still limited, especially in terms of comparability both geographically and over time. As far as FATS statistics are concerned, the process of establishing a common framework for production of detailed statistics on foreign affiliates in the European Union accelerated in 2007 with the adoption of the *Regulation on Community statistics on the structure and activity of foreign affiliates* [Regulation (EC) No 716/2007]. Even so, the implementation of the harmonised methodology following the adoption of the FATS Regulation has not been completed and EU aggregates have not been published yet. It makes an analysis based on FATS data quite challenging.

Measuring the 'commercial presence'¹¹

There are two main sources of statistics that are commonly used to describe international trade in services through 'commercial presence', i.e. delivered by offices, branches, or subsidiaries in foreign countries. They are very similar in meaning. Yet, there are some methodological differences between them.

One of these sources of information about transactions of affiliates of foreign-owned services firms are Foreign Direct Investment (FDI) statistics. There are two categories of FDI. 'FDI abroad' is international investment made by resident entities in affiliated enterprises abroad, and 'FDI in the reporting country' is international investment made by foreigners in enterprises resident in the reporting economy. Two main concepts used in the design of FDI are that of an 'immediate host/investing country' principle (FDI positions are allocated to the host/investing country even if the ultimate country is different) and that of a 'lasting interest' (FDI reflects the objective of obtaining a lasting interest. An entity resident in one economy (direct investor) acquires a lasting interest in an enterprise operating in another economy (direct investment enterprise) if they acquire at least 10% of the voting power of the direct investment enterprise) [OECD, 2008].

Foreign affiliate trade statistics (FATS) are another source of information about affiliates of foreign-owned services firms. 'Outward FATS' describes the activities

of foreign affiliates abroad controlled by residents of the compiling country. 'Inward FATS' describes the activities of foreign affiliates resident in the compiling economy. Unlike FDI, FATS statistics are attributed to the 'ultimate controlling institutional unit' (UCI). The UCI of a foreign affiliate is the institutional unit, proceeding up a foreign affiliate's chain of control, which is not controlled by another institutional unit. Moreover, FATS focuses on affiliates that are majority-owned, i.e., more than 50% of ordinary shares or voting power is controlled by a foreign entity where control is the ability to determine the general policy of an enterprise [Eurostat, 2007].

One crucial conclusion that we can draw from the above presentation of the definitions and major concepts of FDI and FATS is that only FATS really measures the 'commercial presence' through foreign affiliates and FDI is a **very rough proxy for service supply through foreign establishment**¹². If so, why do researchers use FDI stocks when quantifying trade via 'commercial presence'?¹³ Two main explanations should be listed.

Firstly, researchers use FDI simply because it is the most accessible and regularly published indicator of economic activity of transnational corporations (TNCs) [UNCTAD, 2004:347]. FATS is much less comprehensive [Fillat-Castejón, Francois, Woerz, 2008]. Even if noticeable progress on collecting FATS statistics has been made in the EU during the last decade, FATS data are available only as of 2003, and only for a very limited number of countries until 2007. In addition to that, the application of thresholds by some EU member states in their data collections leads to a reduced comparability between countries. Moreover, for the majority of EU countries, FATS data before 2007 and data from 2007 onwards cannot be compared due to the introduction of the concept of the 'ultimate controlling institutional unit'. The problem with comparability of FATS data was recently further complicated by the fact that the reference classification system, namely NACE, has been revised¹⁴.

Secondly, FDI might serve as a signal of changes in the economic activity of TNCs [UNCTAD, 2004]. We will return to the problem while comparing FDI with FATS for Germany.

The comparison of turnover of German foreign affiliates with German stock of outward FDI in 2007–2009 allows formulation of some observations concerning existing relations between them (Table 1). Firstly, the stock/sales ratios for services and for total industries have been quite stable over time. Secondly, the stock/turnover ratio for services is higher than for total industries (respectively 0.9 and 0.6 in 2009). Thirdly, the squeezing effects of the recent financial and economic crisis are visible only on the FATS side. The German direct investments abroad have extended especially in services. In the longer term it could bring increase in sales of German foreign affiliates as well.

TABLE 1. German outward FATS versus the stock of outward FDI by Germany between 2007–2009 (million EUR, %

Year	Outward FATS (turnover)		Direct investment abroad		Stock/sales ratio
	million EUR	annual growth rate	million EUR	annual growth rate	
Total sectors C to O (excluding L)					
2007	1 495 936	na	846 484	na	0.6
2008	1 532 813	2.5	854 267	0.9	0.6
2009	1 442 896	-5.9	891 155	4.3	0.6
Total services G to O (excluding L)					
2007	867 459	na	665 268	na	0.8
2008	869 088	0.2	687 419	3.3	0.8
2009	835 949	-3.8	723 457	5.2	0.9

Partner: All countries of the world

Source: Author's computing and adaptation from Eurostat database statistics.

Importance of 'commercial presence' for EU internal market for services

In the EU the 'commercial presence' is about three times larger than cross-border flows of services (Table 2)¹⁵. However, the importance of trade in services under this mode varies among the EU countries. Some patterns can be seen, though. The EU economies can be divided into two main groups having the role of 'commercial presence' (CP) when compared with 'traditional' cross-border trade in services (CB) described in the current account part of the balance of payments (BoP). In the first group foreign investments play a predominant role in trade in services. Germany is the group leader, followed by France and the UK. As a matter of fact, in all EU 'old' big economies the annual value of turnover of their foreign affiliates exceeds the annual value of their exports in services. Other EU countries in the group are the following: Austria, Portugal, Finland and Sweden. The other group is, predictably, dominated by 'new' EU member states. It is formed by the EU countries where exports in services exceed trade through 'commercial presence'.

As far as changes in CP and CB services trade are concerned, the available data do not allow any general observations to be made on the EU internal market. However, an analysis of individual cases is possible. First, we will look at situation in particular countries, then we will observe some trends in one particular service industry.

TABLE 2. Trade in services in the EU in 2009*: 'cross-border' (CB) versus 'commercial presence'(CP) trade (million EUR)

Specification	CB	CP	CB/CP
Belgium	60 479	40 282	1.5
Czech Rep.	13 914	1 354	10.3
Germany	166 717	835 949	0.2
Greece	26 983	6 639	4.1
Spain	88 215	157 775	0.6
France	103 691	478 864	0.2
Italy	78 775	196 762	0.4
Cyprus	5 779	2 671	2.2
Latvia	2 745	804	3.4
Lithuania	2 657	2 092	1.3
Luxembourg	41 857	1 732	24.2
Hungary	13 280	6 132	2.2
Malta	2 858	152	18.8
Austria	39 229	53 545	0.7
Poland	20 678	9 357	2.2
Portugal	16 318	29 616	0.6
Romania	7 060	140	50.4
Slovenia	4 145	1 811	2.3
Slovakia	4 522	704	6.4
Finland	20 072	24 480	0.8
Sweden	42 871	100 707	0.4
UK	176 331	664 001	0.3
EU	939 176	2 615 569	0.4

Partner: All countries of the world

* The FATS data for 2009 are the most complete in terms of geographical coverage, although the year may not be typical as a result of the recent crisis. For Italy and Slovenia, data for 2009 are not available and therefore CB and CP statistics was taken from the nearest year: 2008 for Italy and 2007 for Slovenia.

CB- BP statistics: Current account, Services, Credit; CP- FATS statistics: Outward FATS, Total Services, Turnover.

Source: Author's computations and adaptation from Eurostat statistical database.

Table 3 shows ‘cross-border’ and ‘commercial presence’ services trade in Belgium and Germany in 2004–2009. Belgium constitutes an interesting case, where constantly growing exports in services eventually replaced its outward FATS, which significantly contracted after 2006. The main reason, at least for the last two years¹⁶, was that a sharp decrease in Belgian investments abroad amounted to almost 57% in services sectors in 2009. Changes in Germany were not so dramatic and evenly pronounced in both modes. After a regular increase until 2008, the value of CP and CB trade shrank by 4%.

TABLE 3. Trade in ‘cross-border’ services versus ‘commercial presence’ trade in selected EU countries* in 2004–2009 (million EUR, %)

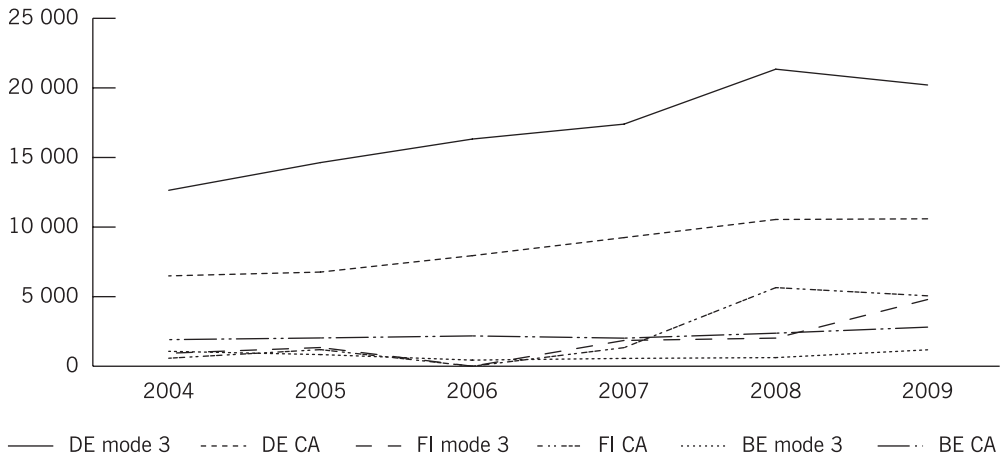
Specification	2004	2005	2006	2007	2008	2009
Belgium						
Total services exports	42 396	45 164	47 386	54 391	60 226	60 479
Total outward FATS in services	60 952	72 323	76 714	59 706	43 814	40 282
Germany						
Total services exports	118 670	132 067	149 524	162 692	173 706	166 717
Total outward FATS in services	673 560	839 801	915 014	867 459	869 088	835 949

Partner: All countries of the world

* The main reason for choosing these particular EU countries is the existence of FATS data for the period before 2007. Apart from that, in the case of Belgium, according to Eurostat (See Eurostat *Foreign affiliates of EU enterprises- outward statistics FATS*, <http://epp.eurostat.ec.europa.eu>), **there are comparable data for the reference period 2004–2008 because the UCI concept was not yet implemented there, in contrast to Germany which introduced this concept in 2007.** Therefore, data before 2007 and data from 2007 onwards cannot be compared for Germany, nor for Belgium but in this case with a break in 2009. It is highlighted in grey in the Table. The figures were included for geographical comparison.

Source: Author’s adaptation from Eurostat statistical database.

Chart 1 shows the development of the computer services trade under different modes of delivery of services in three large EU investors in 2004–2009¹⁷. This pattern of trade is rarely observed. Only in Germany does ‘commercial presence’ constitute the main way of delivery of computer services abroad, although in Finland this mode of service delivery regained its importance in 2009. This was due to a considerable increase in ‘commercial presence’ trade but also to the contraction of cross-border exports due to the financial crisis. On the contrary, the trade squeeze of 2009 cannot be seen in German exports nor in Belgian exports. However, in 2009 Germany experienced a decrease in ‘commercial presence’ of more than 5% of total outward FATS. As far as Belgian outward FATS is concerned, this six-year period may be divided in two parts: the first of two years of decline and the second of three years of growth.

CHART 1. Computer services trade in selected EU countries in 2004–2009 (million EUR)

Partner: All countries of the world; DE- Germany; FI- Finland; BE- Belgium.

CA: Current account, Services, Other services, Computer and information services, Computer services, credit; Mode 3 (commercial presence): Outward FATS, computer activities, turnover.

FI mode 3 and FI CA data non-accessible for 2006.

Source: Author's adaptation from Eurostat statistical database.

Patterns of EU trade through 'commercial presence'¹⁸

The services sector was the main field of activity for EU affiliates in 2009, with about 60% of total trade both in terms of turnover and number of persons employed. The ratio was similar for total trade and for the part directed towards the internal market¹⁹.

As far as the scale of activities is concerned, the internal market remains the biggest market for European foreign affiliates in terms of turnover, accounting for 51% in 2009. The intra-EU share of those employed amounted to 41% in the same year²⁰. However, these shares differed greatly among EU countries, ranging from 25.9% in the UK to 93.1% in Malta for the number of people employed (see Chart 2). For turnover, the shares ranged from 24.4% in Latvia to 90.1% in Malta. In most cases the shares for turnover exceeded or were just below the shares for the number of persons employed. The most extreme exception was Latvia, where that difference amounted to almost (–)45 pp. At the other end of the scale was Poland, where the difference between the employment ratio and the turnover ratio accounted for almost (+) 41pp.

One general conclusion may be drawn about the performance of European foreign affiliates on the internal market. They are apparently more productive than European foreign affiliates operating overseas. The result must be interpreted carefully, since dif-

ferences in product structure may lie behind this. One may expect the same arguments to apply to interpret the differences between EU member states. Further findings confirm this reasoning.

CHART 2. Intra-EU share in the number of persons employed and turnover in European foreign affiliates in 2009 (%)



Abbreviations: BE – Belgium; CZ – Czech Republic; DE – Germany; GR – Greece; ES – Spain; FR – France; CY – Cyprus; LV – Latvia; LT – Lithuania; HU – Hungary; MT – Malta; AT – Austria; PL – Poland; PT – Portugal; RO – Romania; SK – Slovakia; FI – Finland; SE – Sweden; UK – United Kingdom.

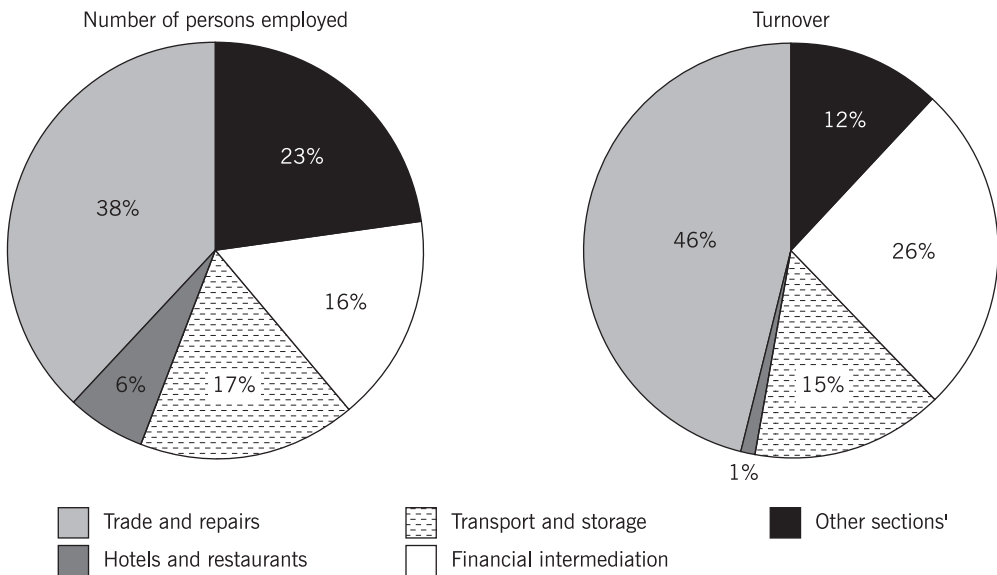
Source: Author's calculations based on Eurostat statistical database.

If we divide EU countries according to their involvement in the internal market in terms of turnover, we can distinguish three main groups. The first, and most 'involved', consists exclusively of 'new' EU member states. More than 70% of turnover of foreign affiliates of Malta, Poland, the Czech Republic, Slovakia, Lithuania and Hungary resulted from their activities within the EU. On the other hand, the impact of those foreign affiliates on the EU internal market is unlikely to be very important, considering that their share accounted only for 1.2% of the total in 2009. The second group, the largest, consists of 'old' EU countries, Cyprus being the exception. The shares for foreign affiliates from those countries were between 50%–70% in 2009. The impact of these foreign affiliates on the internal market is the most significant of the three groups. Their share was about 80% of the total in 2009. Taking turnover into account, three countries – the UK, Romania, and Latvia – are the least 'engaged' in the internal market.

'Trade and repairs' was the main field of activity of EU affiliates located inside the EU, with 38% for the number of persons employed and 46% for turnover (Charts 3 and 4). It was followed by 'transport, storage and communication' and 'financial intermediation' with 17% and 16% respectively for the number of persons employed and 15% and 26% respectively for turnover.

As one can see from Chart 3, different service sectors contribute differently to employment and turnover. The most 'productive' are financial intermediation and trade and repairs. In fact, it rather illustrates how very heterogeneous the services industry is and how difficult it is to compare between service sectors. Wholesale and retail trade, for example, have a very high turnover related to the sale of goods.²¹

CHART 3. Number of persons employed and turnover in European* affiliates located inside the EU in 2009, shares by economic activity



*Reporting countries: Belgium, Czech Republic, Germany, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Hungary, Austria, Poland, Portugal, Romania, Finland, Sweden, United Kingdom.

¹ Much information about other sections is missing because it is treated by EU countries as 'confidential'.

Number of persons employed – Hotels and restaurants: Belgium, the Czech Republic and Cyprus 2008; Lithuania 2007; Poland na; Financial intermediation: Cyprus 2008; Spain and Poland na.

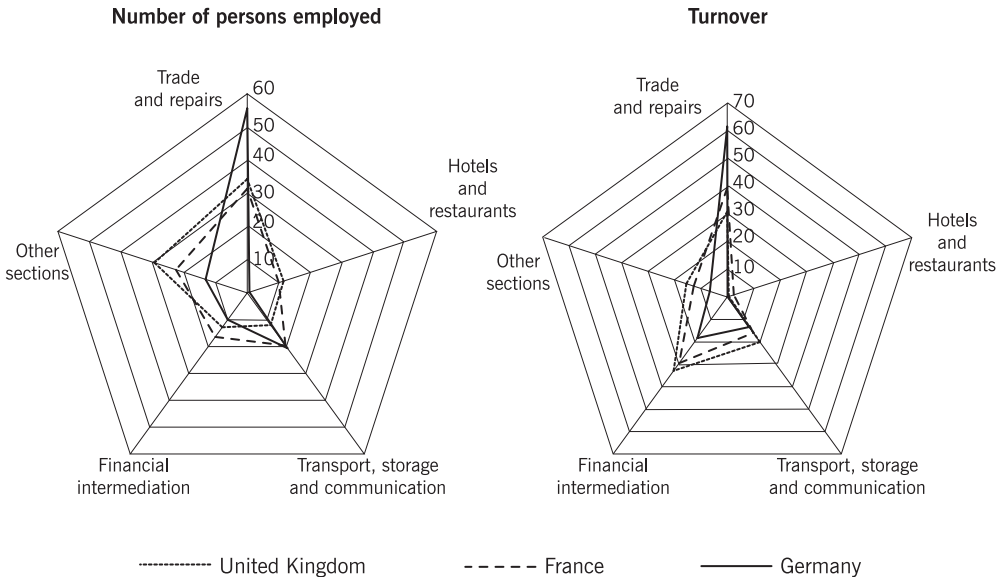
Turnover - Trade and repairs: Italy 2008; Hotels and restaurants: Italy, Cyprus and Lithuania 2008; Latvia 2007; Belgium, Czech Rep. and Poland na; Transport, storage and communication: Italy, Cyprus 2008; Czech Rep. na; Financial intermediation: Italy, Cyprus 2008; Latvia 2007; Spain, Poland na.

Source: Author's calculations based on Eurostat statistical database.

These shares differed from country to country²². For example, in ‘Trade and repairs’ it ranged from 11.9% in Greece to 81.9% in Romania for the number of persons employed. Turnover share ranged from 31.5% in Finland to 89.1% in Romania.

Chart 4 shows the structure of sales of foreign affiliates operating in three leading EU countries: Germany, France and the United Kingdom. As one can see, there are more similarities between French and British foreign affiliates than with German foreign affiliates. ‘Trade and repairs services’ dominated activities of German foreign affiliates while in the case of foreign affiliates from the other two countries, the structure of activities was more balanced.

CHART 4. Number of persons employed and turnover of foreign affiliates located in selected EU countries in 2009, shares by economic activity



Source: Author’s calculations based on Eurostat statistical database.

The impact of foreign affiliates on the labor market, as illustrated in Chart 3, is related to particular activity categories of the services sector. For that reason, in every country²³ except the UK, ‘Trade and repairs services’ contributed relatively less to employment than to turnover. For ‘Hotels and restaurants’, the opposite was true. In other service sectors the picture is unclear and depends on individual cases.

Progress of integration

When analyzing the progress of integration of services markets within the EU on a cross-border trade basis, one can observe that a process of disintegration has taken place. The share of intra-EU trade decreased between 2004 and 2010 both on the debit and credit sides (Table 4). On the other hand, the value of trade was generally growing and thus might constitute evidence of an increase in the value of intra-EU trade. Yet, 'supply switching' is a relative factor. That is, if trade from non-EU members rises faster, a displacement takes place²⁴.

TABLE 4. EU cross-border trade in services in 2004–2010 (billion EUR, %)

Specification	2004	2005	2006	2007	2008	2009	2010
Total debit	801.4	872.2	947.1	1 050.9	1 102.5	1 019.0	1 090.9
Intra-EU (%)	59.6	59.2	59.4	60.1	58.8	59.1	58.4
Total credit	875.5	958.7	1 067.6	1 193.5	1 232.4	1 127.0	1 226.6
Intra-EU (%)	57.9	57.5	57.4	57.6	57.4	57.1	56.1

Note: EU-25 between 2004 and 2006; EU-27 between 2007 and 2010.

Source: Author's calculations based on Eurostat statistical database.

Due to data quality, an analysis of trends in trade through 'commercial presence' cannot be founded on EU aggregate statistics. Taking into consideration the most important activity of EU foreign affiliates both in terms of number of employees and turnover, one can observe that the share of intra-EU trade in total EU outward FATS has increased (Table 5). From 2004 to 2009 the proportion of intra-EU trade in total EU outward FATS rose by 5.8 pp. At the same time the percentage of intra-EU trade in total EU inward FATS diminished by 8.2 pp., illustrating the growing competition from countries outside the EU.

A more detailed analysis on countries' levels shows that the importance of intra-EU flows varies among different modes of delivery of services. Table 6 presents computer services trade in three EU countries – Germany, Finland and Belgium – which are large deliverers of such services under this mode. For Germany and Belgium, the share of intra-EU trade in cross-border trade exceeded the same share in 'commercial presence'. In Finland the situation is different. The year 2009 excluded from consideration, in general, Germany increased its involvement into internal market. In Belgium the same trend existed quite strongly in trade through establishment. In Belgian cross-border trade

TABLE 5. 'Commercial presence' in EU* 'Trade and repairs' services between 2004–2009 (billion EUR, %)

Specification	2004	2005	2006	2007	2008	2009
Total outward FATS	555.6	630.8	693.3	680.9	680.6	625.1
Intra-EU (27) %	55.7	55.9	56.4	61.8	61.5	61.5
Total inward FATS	na	na	624.6	926.9	925.0	895.7
Intra-EU (27) %	na	na	66.1	58.1	58.0	57.9

*Reporting countries: Germany, Italy, Austria, Portugal, Slovakia, Finland.

When data for a particular country were not available, the nearest year available was used: outward FATS 2004: Italy and Slovakia 2005; outward FATS 2006: Hungary 2005; outward FATS 2009: Italy 2008; inward FATS 2006: Austria 2007; inward FATS 2009: Germany, Italy and Finland 2008; inward intra-EU FATS 2006 and 2007: Portugal 2008.

Source: Author's calculations based on Eurostat statistical database.

a downfall trend prevailed until 2007. Finish outward FATS showed the sequence of opposite changes. As far as Finnish cross-border trade is concerned, the importance of internal market has generally diminished in it.

TABLE 6. Intra-EU flows in computer services trade in selected EU countries in 2004–2009 (%)

Specification	2004	2005	2006	2007	2008	2009
Germany						
Intra-EU cross-border trade	49.4	47.2	48.1	49.5	51.2	51.0
Intra-EU mode 3 trade	na	na	46.1	46.1	47.0	46.1
Finland						
Intra-EU cross-border trade	65.9	52.8	na	44.7	51.4	35.0
Intra-EU mode 3 trade	77.6	89.4	na	72.7	81.2	63.4
Belgium						
Intra-EU cross-border trade	80.7	79.9	76.3	81.4	na	na
Intra-EU mode 3 trade	na	52.0	62.3	68.0	72.6	na

Cross-border trade: Current account, Services, Other services, Computer and information services, Computer services; Mode 3 trade (commercial presence): Outward FATS, turnover, computer activities.

Source: Author's computation and adaptation from Eurostat database statistics.

Conclusions

Lack of complete data renders the analysis of the state and trends of ‘commercial presence’ difficult, even though crucial. This services trade constitutes a substantial mode of delivery of services into the EU internal market, far more important than ‘cross-border’ trade. This is true even in service activities apt to be ‘cross-border’, like computer services.

The involvement of EU foreign affiliates in the EU internal market varies between countries. It is generally higher in ‘new’ member states. Nevertheless, considering the narrow share of these countries in total EU FATS, their impact on the internal market in terms of turnover and employment is not significant.

Based on data for the ‘Trade and repairs’ section, one can observe an increase in intra-EU transactions on the outward FATS side simultaneously with a decline of intra-EU transactions in inward FATS. This shows that liberalisation within the EU internal market is not a dominant factor in determining ‘commercial presence’ patterns. It matches changes in ‘cross-border’ services trade.

On the other hand, one can interpret this (rising competition from extra-EU affiliates in EU inward FATS and an opposite trend in EU outward FATS) as the existence of a deeper market integration at a more global level, i.e., with countries outside the internal market. Given the actions undertaken by EU member states and institutions to improve the functioning of the internal market for services²⁵, one can, however, expect that the process of EU regional market integration will advance, especially in such areas as intra-EU trade through commercial presence.

Due to the quality of available data, it is hard to assess whether the role of FATS in EU trade in services is increasing. For now, the figures available for some EU countries deliver a mixed picture.

Notes

¹ This subject is discussed more generally, for example, by [Pelkmans, 2001], or in the context of the EU service directive by [Bertola, Mola, 2009].

² One can find neither a specific minimum ceiling set for intra-EU trade in services nor any analogue indicators in economic literature. The share of cross-border trade in services in total trade is compared instead with the share of services in EU Value Added (20% versus 54%). See Commission Extended Impact Assessment of Proposal for a Directive on Services in Internal Market, SEC(2004)21.

³ First of all, these principles are set out in the Treaty on the Functioning of the European Union. Their central role to the internal market for services was confirmed in EU secondary legislation.

⁴ For GATS modes of services supply see, for example, [WTO, 2005, pp. 4–5].

⁵ ‘Mode 3’ under GATS terminology.

⁶ The so-called services directive is the EU’s longest ever legal act regulating services. It took effect on 28 December 2009. See *Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market*, OJ L 376/36, 27.12.2006.

⁷ See: [Copenhagen Economics, 2005], [de Bruijn, Kox, Lejour, 2006], [European Commission, 2012 a].

⁸ World services trade has been estimated at less than 30% for traditional cross-border trade and over 50% for commercial presence. Source: [WTO, 2005, pp. 52].

⁹ A study by The Swedish National Board of Trade constitutes an exception here. See [The National Board of Trade, 2012].

¹⁰ All author’s calculations were based on Eurostat database statistics extracted in April/May 2012. For access to the Eurostat database see http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database.

¹¹ Whilst the observations contained in this part are obviously not limited only to the services industry but also might be applied in particular to manufacturing, the definition of international services trade, as mentioned earlier, makes the issue of particular importance here. In the case of manufacturing, there is far greater liberty of choice among various approaches that firms can use to enter foreign markets. I.A. Moosa discusses this latter issue in more detail. See [Moosa, 2002:11–15].

¹² B. Hoekman computed that the US sales/stock ratio in 2003 was of 0.35 [Hoekman, 2006].

¹³ FDI flows are recorded in a particular year and, broadly speaking, show more variation in the dynamics and patterns than FDI stocks.

¹⁴ In an effort to reflect changes in industries, the detail of the NACE classification has been substantially increased, especially for service-producing activities where this increase is visible at all levels of classification. As a result, any easy comparison between NACE Rev. 2 and its previous version Rev. 1.1 in the case of services is not possible, according to Eurostat. For details see [Eurostat, 2008].

¹⁵ The relative importance of CP trade is visibly higher in the EU than in the entire world. See footnote 10.

¹⁶ Data on Belgian direct investment positions before 2008 are not available.

¹⁷ Germany was the EU’s largest deliverer of services under ‘commercial presence’ in 2009. Finland and Belgium were in fourth and fifth place, respectively.

¹⁸ One of the big shortcomings of FATS statistics apart those already listed is confidentiality of data, which makes an analysis of patterns of ‘commercial presence’ trade very difficult. For example, one cannot compute shares by region going beyond the main division between extra- and intra-EU trade, nor shares by sector taking into consideration such service sectors as computer activities or research and development.

¹⁹ Author’s own calculations based on Eurostat database statistics.

²⁰ See Chart 2 for the reporting countries.

²¹ One can find more examples of service industries that are statistically much broader than a simple services supply in [The National Board of Trade Report, 2012].

²² Data availability has determined the selection of EU countries taken to analyze patterns of trade. They are the following: Germany, Greece, France, Italy, Latvia, Hungary, Austria, Portugal, Romania, Finland, Sweden, and the United Kingdom.

²³ See the footnote above for the reporting countries.

²⁴ The theory of preferential liberalisation is deeply explained by [R. Baldwin, Ch. Wyplosz, 2012].

²⁵ A more detailed description of these actions and initiatives can be found in a Commission communication on the implementation of the Services Directive. See [European Commission, 2012 b].

References

- Bertola G., Mola L. (2009), *Services Provision and Temporary Mobility: Freedoms and Regulation in the EU*, *LSE Europe in Question*, Discussion Paper Series, 09
- Baldwin R., Wyplosz Ch. (2012), *The Economics of European Integration*, McGraw-Hill Education
- Bruijn R. de, Kox H., Lejour A. (2006), *The trade-induced effects of the Services Directive and the country of origin principle*, CPB Document, No 108
- Copenhagen Economics (2005), *Economic Assessment of the Barriers to the Internal Market for Services Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market*, OJ L 376/36, 27.12.2006
- European Commission (2004), *Commission Extended Impact Assessment of Proposal for a Directive on Services in Internal Market*, SEC(2004)21
- European Commission (2012a), *Commission Staff Working Document, Detailed information on the implementation of Directive 2006/123/EC on services in the internal Market*, SWD(2012) 148 final
- European Commission (2012b), *Communication from The Commission to the European Parliament, the Council, the European Economic and Social Committee and The Committee of the Regions on the implementation of the Services Directive: A partnership for new growth in services 2012–2015*, COM(2012) 261 final
- Eurostat, *European Union Foreign Affiliates Statistics (Outward FATS)*, ESMS metadata file – bop_fats_esms
- Eurostat (2008), *NACE Rev. 2: Statistical classification of economic activities in the European Community, Methodologies and working papers*, European Communities.
- Eurostat (2007), *Recommendations Manual on the Production of Foreign Affiliates Statistics (FATS)*, Methodologies and working papers collection, European Communities.
- Fillat-Castejón C., Francois J., Woerz J. (2008), *Cross-Border Trade and FDI in Services*, Department of Economics Johannes Kepler University of Linz, *Working Paper* No. 0812
- Hoekman B. (2006), *Liberalizing Trade in Services: A Survey*, *World Bank Policy Research Working Paper* 4030
- Hoekman B., Mattoo A. (2008), *Services trade and growth*, [in], WTO, *Opening Markets for trade in services: Countries and sectors in bilateral and WTO negotiations*, ed. by J. A. Marchetti, M. Roy, Cambridge University Press
- Monti M. (2010), *A New Strategy for the Single Market at the Service of Europe's Economy and Society: Report to the President of the European Commission José Manuel Barroso*
- Moosa I. A. (2002), *Foreign Direct Investment: Theory, Evidence and Practice*, Polgrave
- OECD (2008), *Benchmark Definition of Foreign Direct Investment*, Fourth Edition
- Pelkmans J. (2001), *European Integration: Methods and Economic Analysis*, Longman Group
- Regulation (EC) No 716/2007 of the European Parliament and of the Council of 20 June 2007 on Community statistics on the structure and activity of foreign affiliates, Official Journal of the European Union L 171/17, 29.6.2007
- The National Board of Trade (2012), *Possible Effects of the Services Directive*
- Treaty on the Functioning of the European Union, <http://eur-lex.europa.eu>
- UNCTAD (2004), *World Investment Report 2004: The Shift Towards Services*
- WTO (2005), *A Handbook on the GATS Agreement*, Cambridge University Press

Abstract

The bulk of research effort in the last decade on the EU internal market for services is devoted to the potential economic effects of the services directive. In this article we have focused on examining the past and current state of play in the internal market for services. Given that the biggest share of world services trade takes place through 'commercial presence', this paper looks at activities of foreign affiliates within the European internal market for services. Because statistics on activities of foreign affiliates (FATS) are still under construction, they are hardly ever used. This essay asks one major question: has the contribution of EU-controlled affiliates within the EU internal market resulted in a greater integration of EU services markets? Based on data for the 'Trade and repairs' section, one can observe an increase in intra-EU transactions on the outward FATS side simultaneously with a decline of intra-EU transactions in inward FATS. This shows that liberalisation within the EU internal market is not a dominant factor in determining 'commercial presence' patterns.

Keywords: EU internal market, commercial presence, trade in services