

## Germany's role in international service transactions

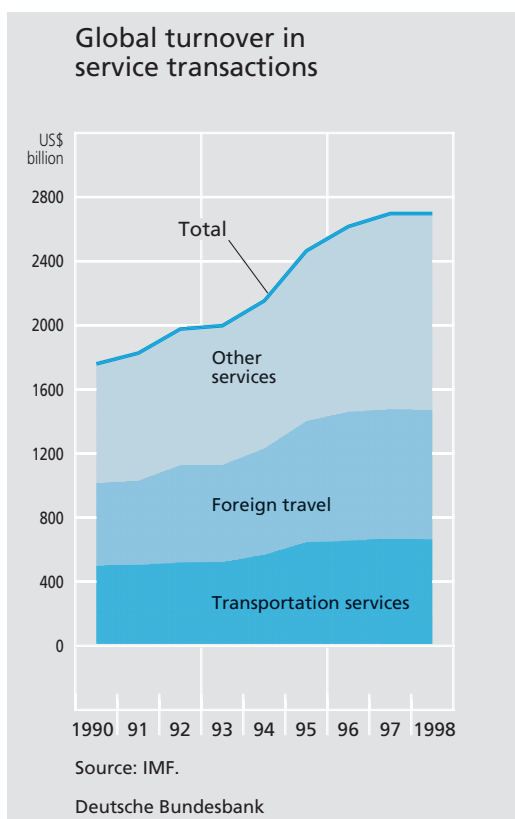
International service transactions have attracted increasing attention in the past few years owing to the growing importance of the services sector for economic growth and employment in the highly developed industrial countries and the increased efforts within the framework of the World Trade Organisation (WTO) and the Organisation for Economic Co-operation and Development (OECD) to achieve greater liberalisation of cross-border trade in services. This is especially true for Germany because the German services account, unlike the country's trade balance, has been recording deficits for some time now, and these deficits actually increased substantially during the nineties. This raises the question as to whether the German business community has become less competitive and lost market shares in the services sectors with a promising future. The following article provides a detailed analysis of Germany's role in cross-border services compared with that of other industrial countries.

### Trends in international service transactions

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The expansion of international service transactions has accelerated perceptibly in the past two decades. In the nineties alone, exports of services increased by approximately 85 % in terms of volume; this corresponds to an annual growth rate of 6 ½ %, compared

*Overview*



with 5½% in the eighties. Thus, in both decades, trade in services expanded somewhat more rapidly than trade in goods. The industrial countries account for almost three-quarters of total turnover from services transactions. Their market share in the services sector is therefore slightly greater (around 5 percentage points) than their share in international trade in goods.

*The influence of different factors ...*

Firstly, the dynamic growth of cross-border turnover in the services sector must be considered in the context of the overall expansion of global trade, which ultimately reflects the increasing division of labour in the global production process. Secondly, its development was also influenced by a number of special factors. For example, technological developments such as the progress made in

the processing and transmission of information and other data played a key role in many areas. However, it was often impossible to exploit these improved technological possibilities until the trade barriers prevailing in the international trade in services were eliminated in the eighties and nineties. Trade in goods among the industrial countries, by contrast, had already been largely liberalised. International trade in services first became the object of multilateral liberalisation negotiations during the Uruguay round (1986–1994) and was given an initial multilateral framework in the “General Agreement on Trade in Services” (GATS).

This development was also bolstered by the liberalisation of financial transactions in the course of the eighties and the simultaneous deregulation of the financial markets, which highlighted the obstacles facing the suppliers of cross-border financial services. Often, these regulations were not primarily intended to prevent the respective national service providers from trading but, instead, were based on prudential considerations or concern about savers’ protection. The efforts to achieve a greater harmonisation of national banking and financial market supervision or – as in the case of the European Union – the reciprocal recognition of prudentially motivated market access regulations are to be seen in this context, as they made it possible for the respective services markets to open up increasingly as a result of growing financial interdependence and IT interlinkage across national borders. It is therefore not surprising that strong turnover growth was recorded especially in the field of financial services (in-

*... in the individual services sub-sectors*

cluding insurance services) – even though the share of this sub-sector in the industrial countries' total cross-border turnover in the services sector is not particularly large. In the G-7 countries, financial and insurance services account for only 6% of turnover from services transactions.

Turnover in the area of foreign travel, which accounts for around 30% of total international trade in services, also expanded substantially. Here, too, liberalisation and deregulation measures – especially in civil aviation – and the associated price cuts are likely to have played an important role, as they first made long-distance travel possible for broad sections of the population. Another important factor was probably the opening of the borders of the former Soviet Union and its allied countries, which tended to strengthen global demand for travel services.

Against this background, the below-average growth of turnover in the transportation sector – which accounts for almost one-quarter of total cross-border turnover in the services sector and represents the second most important sub-sector after foreign travel – may appear somewhat surprising. However, it can be explained by the sharp decline in freight and transportation costs, which dampened the development of turnover despite the considerably stronger real growth of transport services. Other reasons might have been the declining importance of “staple commodities” in international trade and the increasing transportation of high-tech goods.

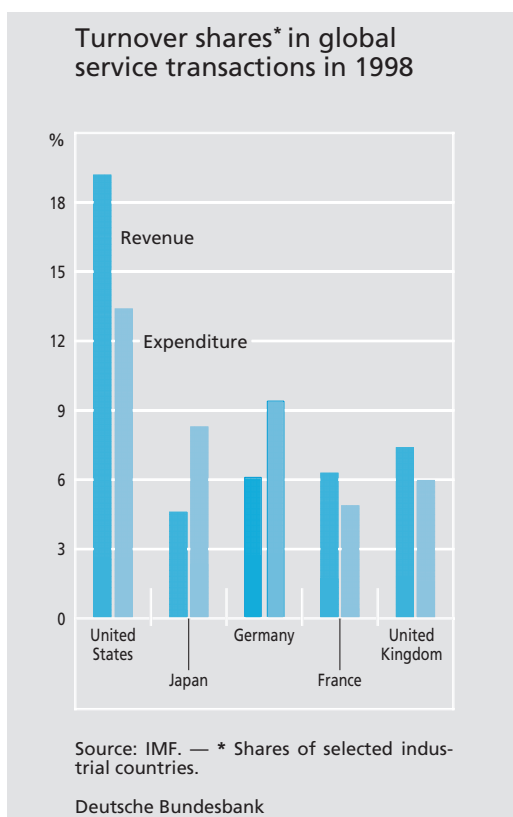
Despite the overall dynamic expansion of international trade in services, the share of services in total cross-border payment transactions is relatively small, at around one-fifth, especially as value added in the services sector accounts for more than one-half of GDP in the industrial countries. This is most likely attributable to the relatively late liberalisation of trade in invisibles, which has still not reached the level achieved in merchandise trade, and the late deregulation of the tertiary sector, which did not gather force until the nineties.

One must also bear in mind that numerous services are not suited for international trade or are included only indirectly as intermediate input in the value of the traded goods. Finally, it should also be kept in mind that services are often provided through subsidiaries abroad because the provider is often required to be present in the market.

This article is based on balance of payments statistics on cross-border service transactions. However, these reflect “only” the transactions of residents with non-residents, i. e. they provide information on service transactions of enterprises and individuals domiciled in Germany with counterparties abroad. Thus, balance of payments data cannot precisely reflect the international market position of German service enterprises because the transactions of the foreign subsidiaries of German service firms with counterparties abroad have no influence on the German balance of payments (and are therefore not contained in the data used in this article). The data required for comparisons that are not based on the

*Service transactions in relation to trade in goods*

*Available data*



physical location of the service provider but, instead, on the “nationality” of the respective enterprise are not available for Germany or most other industrial countries.<sup>1</sup> However, efforts are under way to develop such statistics at an international level on the basis of common standards.<sup>2</sup>

The United States is by far the largest exporter and importer of services worldwide, accounting for more than 16 % of global turnover in international service transactions in 1998 (more recent data are not yet available). This means that its share even slightly exceeds the country’s position in global trade in goods (just under 15 %). At just under 8 % of global turnover in the services sector, Germany comes in second, but its share in service transactions remains behind its position in

global merchandise trade (just over 9 %). Germany is followed by Japan and the United Kingdom, each of which account for 6½ % of international turnover in services (compared with a share of 6½ % and 5 %, respectively, in global trade in goods).

However, this ranking masks considerable differences in the structure of the individual countries’ turnover in services, as becomes evident when export and import turnover are compared. With a share of 19 %, the United States is the leading exporter of services worldwide, followed at some distance by the United Kingdom (7½ %) and by Germany and France (each with just over 6 %). While on the imports side the United States again takes the lead (13½ %), it is followed more closely by Germany (9½ %) and Japan (8½ %), whereas the United Kingdom has a substantially smaller share (just under 6 %).

As a result, the United States, the United Kingdom and France record large surpluses in their trade in services, whereas Japan, followed by Germany, records the largest deficit in cross-border service transactions. Yet even without taking the above-mentioned restrictions into account, this does not necessarily provide an insight into the international com-

<sup>1</sup> Data of this sort are available for the US economy. See U.S. Department of Commerce: U.S. International Services, Cross-Border Trade in 1998 and Sales through Affiliates in 1997, Survey of Current Business, October 1999.

<sup>2</sup> The international organisations are currently compiling a manual aimed at a broader coverage of international trade in services, including transactions via direct investment enterprises. See Commission of the European Union, IMF, OECD, United Nations, United Nations Conference on Trade and Development, and World Trade Organisation: Manual on Statistics of International Trade in Services.

## Travel receipts and expenditure

1998

Item	Expenditure		Receipts		Travel account balance (US\$ billion)
	US\$ billion	US\$ per capita	US\$ billion	US\$ per capita	
World	385.0	.	425.2	.	.
Industrial countries	287.1	.	290.6	.	.
Austria	9.5	1 172.8	11.2	1 382.7	1.7
Belgium and Luxembourg	8.8	838.1	5.4	514.3	- 3.4
Canada	10.8	356.4	9.4	310.2	- 1.4
France	17.8	302.2	30.0	509.3	12.2
Germany	46.9	572.0	16.4	200.0	- 30.5
Italy	17.6	306.1	29.8	518.3	12.2
Japan	28.8	227.8	3.7	29.3	- 25.1
Netherlands	11.0	700.6	6.8	433.1	- 4.2
Spain	5.0	127.2	29.9	760.8	24.9
Switzerland	7.1	1 000.0	7.8	1 098.6	0.7
United Kingdom	33.3	572.2	24.0	412.4	- 9.3
United States	57.8	213.6	83.3	307.8	25.5

Source: IMF, Balance of Payments Statistics Yearbook 1999.

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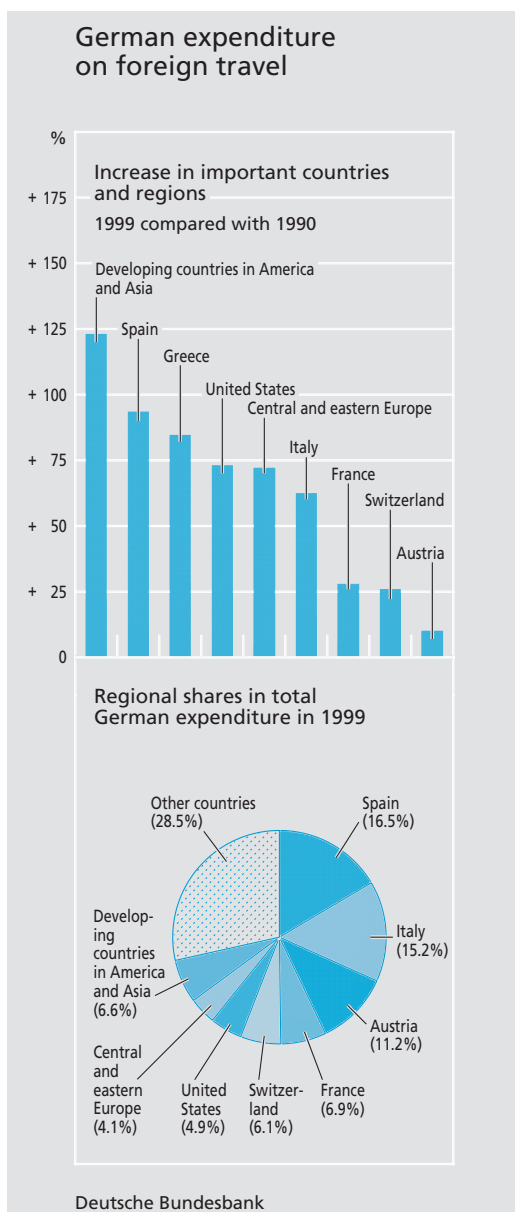
petitiveness of the individual countries' services sectors because the diverging developments in the international service balances are influenced by a number of different factors, including natural locational advantages and disadvantages such as climate and geographical position in the case of foreign travel services.

### Germany's position as a supplier and customer in international trade in services

#### Foreign travel

With an average annual growth rate of almost 7 ½ %, the international market for foreign travel, which accounts for the largest share of turnover in services worldwide, was among those that expanded particularly

strongly in the nineties. In 1998 (more recent data are not available for the entire market), turnover in foreign travel amounted to US\$ 810 billion, which means that almost one-third of global turnover in the services sector was attributable to tourism. In Germany, the importance of this sub-sector is even greater, especially on the expenditure side. More than one-third of German imports of services are related to foreign travel, compared with a share of only one-fifth on the revenue side. With the exception of the United States (20 %), Germany thus accounts for the greatest share (16 ½ %) of foreign travel expenditure of all industrial countries. In fact, its deficit in this area is the largest worldwide. The climatic and geographic conditions in Germany obviously also play an important role in this, even though the infrastructure for travel



within Germany is well up to international standards.

German expenditure on foreign travel grew most significantly in the first half of the nineties, when, after reunification, many east Germans were able to satisfy their pent-up demand for holiday trips for the first time in years. This strong rise in spending on foreign travel did not level off substantially until the

mid-nineties; since then, travel expenditure has developed broadly in line with disposable income. However, with per capita spending on foreign travel amounting to almost US\$ 600, Germany, along with the United Kingdom, has remained at the top of the league of major industrial countries. In the United States and Japan, per capita expenditure on foreign travel is less than half as high (just over US\$ 200); French and Italian travellers, too, spend considerably less for their trips abroad (around US\$ 300). Only the smaller industrial countries such as Switzerland and Austria recorded higher per capita expenditure on foreign travel than Germany (around US\$ 1,000 and US\$ 1,200, respectively).

German travellers' favourite destinations are the southern European holiday countries, especially Spain and Italy, as well as the neighbouring Alpine countries Austria and Switzerland, which accordingly – and in contrast to Germany – figure at the top of the league in terms of per capita revenue (around US\$ 1,400 and US\$ 1,100, respectively). In 1999, three-quarters of total German expenditure on foreign travel went to the EU countries and Switzerland. The highest growth rates, however, were recorded for long-distance destinations such as the countries in the Caribbean and South-East Asia. As a result, the overall share of the overseas countries has risen from 15½% to 18% in the course of the past decade. The central and eastern European countries also became popular travel destinations for German tourists and business travellers in the nineties, accounting for 4% of German travel expenditure last year.

Transportation

The market for international transportation is the second most important services sub-sector in terms of turnover after foreign travel. In 1998, world-wide turnover in transportation services amounted to just over US\$ 660 million or almost one-quarter of global trade in services. Freight services had the greatest weight, accounting for almost one-half of this amount, followed by passenger transport (just over one-quarter); port (including airport) fees and other transportation services accounted for the remainder.

At an annual rate of 5 %, turnover growth in cross-border transportation services was below average in the nineties. However, this was probably chiefly attributable to the declining international freight charges and the lower prices for passenger transport; in real terms, transportation services increased much more rapidly. German businesses' supply and demand in the field of international transportation are broadly similar. German revenue from transportation services provided to foreign customers accounts for just under 7 % of global turnover in this area, making Germany, along with Japan, France, the Netherlands and the United Kingdom, one of the most important suppliers. All of these countries have very similar shares in world-wide revenue from transportation services, while the United States – if only because of its size – tops the list with a 15 % share.

German revenue from transportation services accounted for around one-quarter of the country's total revenue from services in 1999, a proportion similar to that recorded world-wide. At an annual growth rate of just over

Germany's service transactions (f.o.b.) \*

€ billion		1990	1995	1998	1999
Foreign travel	Receipts	12.0	13.3	15.1	15.7
	Expenditure	29.1	39.6	44.0	45.5
	Balance	- 17.1	- 26.3	- 28.9	- 29.8
Transportation	Receipts	12.1	14.3	18.2	18.7
	Expenditure	14.1	18.0	23.2	23.7
	Balance	- 2.0	- 3.7	- 5.0	- 5.0
<b>Other services</b>					
Government transactions	Receipts	9.9	4.9	4.1	3.5
	Expenditure	1.5	1.4	1.3	1.5
	Balance	+ 8.5	+ 3.5	+ 2.8	+ 2.0
Merchanting transactions	Receipts	2.9	3.5	5.3	5.8
	Expenditure	0.8	1.5	1.3	3.1
	Balance	+ 2.1	+ 2.0	+ 4.0	+ 2.7
Insurance and financial services	Receipts	0.4	2.7	3.7	6.2
	Expenditure	0.7	1.5	3.1	4.7
	Balance	- 0.3	+ 1.2	+ 0.5	+ 1.4
"Technological" services <sup>1</sup>	Receipts	5.2	7.8	11.9	11.7
	Expenditure	5.7	9.8	14.1	15.2
	Balance	- 0.5	- 1.9	- 2.2	- 3.5
Construction, assembly work and repairs	Receipts	2.7	3.8	4.2	4.1
	Expenditure	2.4	4.3	5.5	4.8
	Balance	+ 0.3	- 0.5	- 1.3	- 0.6
Overhead expenses <sup>2</sup>	Receipts	1.3	1.4	1.6	1.5
	Expenditure	1.6	2.5	3.4	3.5
	Balance	- 0.3	- 1.1	- 1.8	- 2.0
Commercial services	Receipts	0.6	1.6	2.5	2.4
	Expenditure	1.1	2.3	4.4	4.9
	Balance	- 0.6	- 0.7	- 1.9	- 2.4
Publicity and trade fairs	Receipts	0.7	1.0	1.1	1.0
	Expenditure	1.7	2.3	3.2	3.8
	Balance	- 1.0	- 1.3	- 2.1	- 2.8
Telecommunications services	Receipts	1.2	1.5	1.6	1.7
	Expenditure	1.4	2.2	2.6	3.0
	Balance	- 0.2	- 0.7	- 1.0	- 1.4
Film business	Receipts	0.1	0.1	0.1	0.1
	Expenditure	0.7	1.4	2.2	3.1
	Balance	- 0.6	- 1.3	- 2.1	- 3.0
Additional services	Receipts	3.5	4.1	5.6	5.4
	Expenditure	7.0	7.8	9.2	10.2
	Balance	- 3.5	- 3.7	- 3.6	- 4.7
<b>Services, total</b>	Receipts	52.5	60.1	75.0	77.9
	Expenditure	67.8	94.5	117.6	127.0
	Balance	- 15.3	- 34.4	- 42.6	- 49.1

\* Including freight and insurance costs payable on imports. — 1 Patent and licence trade, research and development, and engineering and EDP services. — 2 Payments between associated enterprises resulting from head office charges or contributions towards current costs.

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### Trade in financial services \*

1998; US\$ billion

Country	Receipts	Expenditure	Balance
France	2.5	3.0	-0.5
Germany	4.1	3.4	0.7
Italy	3.6	4.9	-1.3
Japan	1.6	4.6	-3.0
United Kingdom	15.8	1.2	14.6
United States	16.5	10.7	5.8

Source: IMF, Balance of Payments Statistics Yearbook 1999. — \* Including insurance services.

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6%, revenue accruing from passenger air transport expanded particularly strongly. On the expenditure side, by contrast, payments made to non-residents for freight services rose particularly fast (at an average annual growth rate of 8%). This was attributable to the dynamic expansion of German foreign trade, on the one hand, and the country's weak position in international marine transport, on the other. Overall, the deficit on Germany's transportation account increased to € 5 billion last year – despite larger surpluses in passenger air transport – compared with € 2 billion in 1990.

#### Other services

The remaining cross-border services cover a broad range of categories, each of which carries a relatively low weight in world-wide cross-border turnover in the tertiary sector.

Yet some of these sub-sectors have witnessed surprisingly buoyant growth during the past few years. This holds true, for example, for financial services, which gained substantial weight in the nineties in the context of the increasing integration of financial markets and the opening-up of national markets to foreign suppliers. Although there are no comprehensive statistics on world-wide turnover in financial services, this trend is clearly discernible from the data available for the major industrial countries alone. In the course of the nineties, the G-7 countries' revenue from financial services to foreign clients expanded at an average annual rate of just under 7%. At 40% and 30%, respectively, the United States and the United Kingdom account for the largest share of the receipts of the G-7 countries in this sub-sector. Financial institutions domiciled in Germany, by contrast, account for only around 10%. Yet in the past few years, their revenue has also increased very rapidly (at an average annual rate of 22% during the nineties) from its initially low level.

However, expenditure on foreign financial services grew even faster in Germany than revenue: during the nineties, it increased at an annual average rate of 30%. German imports of financial services account for 14% of the respective imports of the G-7 countries – a somewhat larger share than on the exports side. On balance, Germany's traditional surplus in this area recently declined (to just over € 1 billion in 1999) owing to the stronger growth in expenditure.

*Financial  
services*



Yet any conclusions regarding the competitiveness of the German financial institutions that are drawn from this data must be treated with caution. In any case, it must be kept in mind that only transactions between (foreign and domestic) institutions located in Germany and non-residents are taken into consideration here. For example, financial services that branch offices or subsidiaries abroad provide for their respective clients abroad are disregarded. After all, the German banking industry alone has almost 680 foreign branch offices and subsidiaries.

*“Technological”  
services*

Another services sub-sector experiencing robust growth is “technological” services, which comprise patent and licence transactions with non-residents, revenue from and expenditure on research and development, and engineering and EDP services. Suppliers from the United States and Japan dominate the market in this field. On the basis of the data available for the G-7 countries, for example, these two countries recently accounted for 50 % and 16 ½ %, respectively, of turnover from patent and licence transactions, followed by the United Kingdom (13 %) and Germany (8 %). As with financial transactions, however, the German share in imports of technological services is larger. On balance, Germany recorded a deficit of € 3 ½ billion in this sub-sector in 1999. Yet it would be oversimplifying to interpret this fact alone as proof of Germany’s backwardness as a location for science-based industries. Patent and licence transactions, for example, also include a substantial number of clearing transactions between foreign firms in Germany and their parent enterprises which are, in part, also in-

### Royalties and licence fees

1998; US\$ billion

Country	Receipts	Expenditure	Balance
France	2.3	2.7	- 0.4
Germany	3.3	4.9	- 1.6
Italy	0.5	1.2	- 0.7
Japan	7.4	9.0	- 1.6
United Kingdom	6.7	6.1	0.6
United States	36.8	11.3	25.5

Source: IMF, Balance of Payments Statistics Yearbook 1999.

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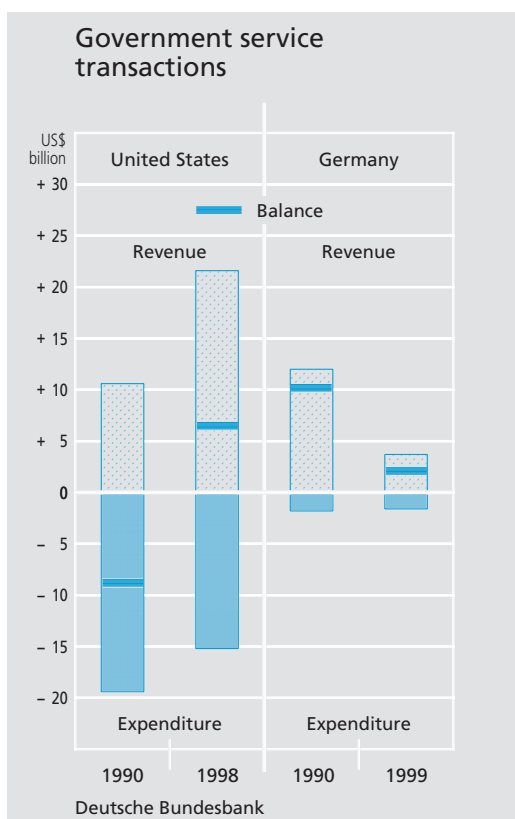
fluenced by decisions on corporate policy and tax considerations.

Publicity, trade fairs and telecommunications services have also become more important in German cross-border trade in services. In these areas, too, Germany is more strongly represented on the demand side. The same holds true for international film business, where the US film and television industry has long played the leading role. German net payments to foreign suppliers increased steadily throughout the nineties, reaching a deficit of € 3 billion in 1999, compared with € ½ billion at the beginning of the decade.

*Trade fairs,  
telecommuni-  
cations services  
and film  
business*

Export turnover in the fields of construction and assembly work plays only a limited role. While German construction companies were

*Construction  
and assembly  
work*



still achieving relatively large net receipts at the beginning of the nineties, particularly from transactions with developing and oil-producing countries, turnover growth in these fields slowed in subsequent years, especially on the revenue side. It is likely that the representation of suppliers directly through subsidiaries or joint ventures has become ever more important in today's highly competitive markets.

*Government services*

In addition to the services which have been discussed so far and which are principally provided within a competitive international environment, government services provided outside the market also play a role in Germany. In terms of world-wide turnover in the services sector, government services are relatively insignificant, accounting for around

5% of global cross-border service transactions at the beginning of the nineties (since then, this share has dropped to under 4%). In Germany, however, the corresponding share was twice as high (almost 10%) at the beginning of nineties. The bulk of German receipts in this area was in the form of revenue from foreign troops and their families stationed in Germany. Following the fall of the Berlin wall and the removal of troops by the former Allied countries, revenue from armed forces stationed in Germany declined successively. Accordingly, the share of government services in overall German turnover from services also fell in the course of the nineties, reaching 2½% in 1999. At the same time, the deficit on Germany's services account rose substantially. The most important counterpart in this respect was the US balance of payments, which profited from the "peace dividends".

With the exception of this special development in the sub-sector of government services, German business has largely been able to maintain its position in the "other" areas of international service transactions – i.e. excluding foreign travel, transportation services and government services. At just under 8%, Germany's share in world-wide revenue from services in these areas was almost as great in 1998 as at the beginning of the nineties. In view of the relatively strong global growth in these sectors and the fact that German suppliers had to face falling market shares in several important areas such as commercial and telecommunications services, this can only be taken to mean that German firms enjoy competitive advantages in various other sub-

*Summary of the "other services"*

sectors, which had a positive impact on the overall results. (These cannot be analysed in detail as a precise classification is not possible owing to a lack of detailed statistics.)

## Conclusions

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Overall, the special development in the field of government services as well as the recent trends in foreign travel have put a strain on Germany's cross-border services account. This was, however, chiefly attributable to a one-off shift in the level of German expenditure on foreign travel which arose from the pent-up demand in eastern Germany in the first half of the nineties and which led to a sudden surge in the spending of German tourists and business travellers abroad.

In the meantime, these special factors in connection with German unification have receded again. If these factors are disregarded, Germany has been able broadly to maintain its position in international service transactions in the past ten years and therefore most certainly participated in the stronger growth

recorded in the tertiary sector internationally, too.

By contrast, important trading partners such as France and Italy sustained considerable losses of market shares in their trade in "other" services (excluding foreign travel, transportation and government services) throughout the last decade, whereas the United States and the United Kingdom recorded substantial gains. In the fast-growing sectors of cross-border services – notably financial and insurance services as well as the more scientific service sectors – which contributed substantially towards strengthening these two countries' positions, German suppliers were unable to record similar successes. Obviously, Germany's comparative competitive advantage remained chiefly focused on the field of industrial production in the past decade. The technological revolution in the fields of telecommunications and the media is only slowly leading to changes, and these are not (yet) reflected in the international service transactions data on which this article is based.