

# ARE FOREIGN FIRMS DELOCALISING SERVICES FROM SPAIN ?

*Marta Muñoz Guarasa*

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## **ARE FOREIGN FIRMS DELOCALISING SERVICES FROM SPAIN?**

### **ABSTRACT:**

The goal of this project is to find out if Spain is undergoing a disinvestment process in foreign service companies which might be leading to offshoring. To achieve this – after tackling conceptual and methodological aspects – a company's total disinvestment has been estimated. Subsequently, its ratio on gross investment has been evaluated according to the whole sector and to all the activities the company performed in the 1993-2004 period. The result does not show a worrying disinvestment process. Over the last year though, a significant change has been perceived, which might suggest the beginning of a disinvestment process in some activities - as it is happening worldwide.

**KEY-WORDS:** offshoring, investment, economic sectors

## **¿SE ESTÁN DESLOCALIZANDO LOS SERVICIOS EXTRANJEROS EN ESPAÑA?**

### **RESUMEN:**

El objetivo es conocer si en España se está produciendo un proceso desinversor en las empresas extranjeras de servicios que pueda apuntar la existencia de un proceso de deslocalización. Para ello, tras abordar los aspectos conceptuales y metodológicos, se estima la desinversión y se analiza el ratio de ésta sobre la inversión bruta para el conjunto del sector como para las diferentes actividades desde 1993 a 2004. El resultado no evidencia un proceso desinversor preocupante, pero en el último año se percibe un cambio que puede indicar el inicio de éste en algunas actividades, de la misma forma que está sucediendo a nivel mundial.

**PALABRAS CLAVE:** Deslocalización, inversión, actividades económicas

**JEL:** R20, E22, F21, L80

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## 1. INTRODUCTION

The composition of FDI (Foreign Direct Investment) has undergone some changes, moving from the industry sector to the service sector. At the beginning of the 70s, the service sector represented only 25% of the cumulative volume of FDI inflows worldwide. In 1990 it reached almost 50% and in 2002 it rose to 60% at the expense of industry, which decreased from 42% to 34% during that period.

The globalisation of the service sector through FDI has developed faster – though later – than in the industry sector, where an intense investment process and subsequent offshoring had taken place. In the service sector, however, both phenomena went hand in hand. Accordingly, from the mid 80s onwards, FDI inflows in the service sector underwent rapid growth, and by the end of the 90s, this sector was consolidated as the world's largest receiver (United Nations, 1999). From then on, offshoring has appeared to be on the increase.

One of the features which characterise services is that they have to be produced at the same time and place where they are consumed. This characteristic has kept them aside from international trade. New information technologies, however, have enabled some services to be marketable, inasmuch that they are produced in one place and consumed in another. With this, companies can locate a service's particular production phase in countries different from that of origin. This can be applied to all countries according to their comparative advantages. These changes have not only promoted the proliferation of foreign trade and investment processes, but also foreign investment offshoring.

The dimension of the offshoring phenomenon in the service sector – as well as in industry – is difficult to ascertain, but some reports give us an approximate idea of its importance. In terms of jobs, the World Bank calculated that services offshoring in the mid 90s could have affected between 1 and 5% of all jobs in the G7 countries. In the case of the United States, it was estimated that 3,4 million jobs in the service sector could be relocated to low income countries by 2015 (Forrester Research, 2004a) and 1,2 million jobs in the case of Europe (Forrester Research, 2004b). India is a clear example of this phenomenon, where a great number of Call Centres, Shared Service Centres, IT-related services, etc., have recently been relocated (see United Nations, 2004, 163). Nonetheless, the offshoring of services on a world wide scale is still in its preliminary stages.

Services offshoring can be performed in two ways: within the company – establishing new branches in foreign countries (captive offshoring) – or subcontracting internationally an external service provider

(outsourcing). This project will be focusing on the first type, as it will evaluate FDI relocation.

Spain is a big FDI inflow host regarding the service sector – ranking 6th among the developed countries in 2000-2001<sup>1</sup>. The presence of important multinational companies in Spain, the fact that some important industrial companies relocated their production plants to other areas (Samsung, Valeo, etc.), world services offshoring, the European authorities' concern about job outsourcing in the call centre sector, information technologies and the legal services rendered to third countries<sup>2</sup>, etc. These are some of the reasons which made us question to what extent third sector companies with a foreign capital are abandoning their activity in Spain in order to move to other countries.

Reports on offshoring and disinvestment in Spain have been scarce and have focused on the industry sector. Some of them have been produced with company information (Myro, Fernández-Otheo and Mora, 1996; Merino de Lucas, 2003; Myro and Fernández-Otheo, 2004) and others with added data on investment flows (Fernández-Otheo, 2002; Fernández-Otheo and Myro, 2003).

In Muñoz Guarasa (2002), we carried out a first evaluation to define the scope of Spain's disinvestment process. With it, we also attempted to find out – if applicable – what activities were affected by this process both in the industrial sector and in the service sector from 1993 to 2000. We subsequently wrote a broken-down report on the 1998-2000 activities. As far as the service sector is concerned, it turned out that no important disinvestment process was taking place, except in the case of foreign financial entities. This work also mentioned some of the some shortcomings originating from the statistical data used when researching disinvestment.

The recent availability of more accurate and temporarily wider statistical data on FDI and disinvestment, as well as the lack of reports on services offshoring by foreign companies led us to the development of this project. Our goal is, therefore, to assess the importance of Spain's disinvestment process in the service sector in the 1993-2004 period and to reveal – if applicable – the main activities affected by it. This project is laid out as follows: after the introduction, section II will be offering an overview on offshoring, disinvestment and their measuring statistical methods. Special attention will be given to statistical shortcomings and their amendment throughout the years. In section III, an empirical research is presented, where disinvestment regarding new information will be estimated and its development, as opposed to gross investment

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<sup>1</sup> Ranking the 5th in the 1990-1994 period and 7th from the 1995-1999 period. See United Nations (2004, 304).

<sup>2</sup> Written declaration (European Parliament) presented in accordance with Article 51 of Regulation by Claude Moraes, Stephen Hughes, Imelda Real, Marie-Hélène Gillig and Alejandro Cercas on Outsourcing (offshoring) of European Jobs to Asia, Africa and South America (February the 4th, 2004).

will be assessed. Later on, the same evaluation will be applied to different service activities. This project will end with a conclusion.

## 2. CONCEPTUAL AND METHODOLOGICAL ASPECTS

Company offshoring has traditionally been considered as the relocation of production activities from developed countries to developing ones in order to benefit from the lowest labour costs. But evidence shows that most of these processes are taking place in developed countries – as it happens in the service sector, indicating that we are not dealing with a major “north-south” issue (United Nations, 2004, 147), albeit a growing tendency of this type of offshoring has recently been observed. Offshoring has also been associated with the search for lower costs. There are many reports confirming this theory (Bajpai et al, 2004; CM Insight et al, 2004; IBM and Oxford Intelligence 2004; UNCTAD and RBSC, 2004). However, other factors give cause to offshoring, like the lookout for new markets, higher service quality, etc. We therefore consider FDI relocation – in broader terms – as a process by which a company with a foreign capital decides to partially or totally cease its activity in a particular country in order to relocate it to another country, regardless of its determinant cause (Muñoz Guarasa, 2002, 20).

Offshoring entails disinvestment in one country and new investment in another. This can be done in different stages. A company might invest in a foreign country and subsequently sell off all its investments – or a part of them – made in the previous country, or alternatively, the same company can sell off all its investments before actually investing in a foreign country. In any case, offshoring involves disinvestment, for if it didn't it would just be referring to a foreign company from a country “x” investing in a country “y”. Myro and Fernández-Otheo (2004, 186) consider that offshoring in Spain is partly complementary and partly superimposed to a foreign capital disinvestment process.

Considering that the geographic area we are speaking of is the country where the foreign company is located, which will possibly be relocated to another country, the most important issue is disinvestment – this project's object of study. Even though we cannot forget that disinvestment is an essential condition to offshoring, we must bear in mind that it is not the only important factor, as disinvestment is not always followed by offshoring. Disinvestment becomes worrying as long as it affects foreign capital stock in a negative way.

In order to access the statistics containing data on disinvestment, we must start off with those on foreign investment. The presence of foreign capital in an economy can be revealed using different kinds of information:

- Foreign companies' control on the country's economic activity. Measured through the number of companies with foreign participation on the existing total or capital. Also through the production, added value, sales, jobs, etc., generated by these companies.
- FDI flows or capital invested by non- residents in a specific year.
- Foreign investment stocks, usually calculated by the time accumulation of FDI flows.

In Spain, some of the information in the first point can be obtained through the Firms Strategic Behaviour Survey (*Encuesta sobre Estrategias Empresariales*), carried out by Spain's Ministry of Science and Technology. However, it only applies to manufacturing companies. Foreign investment flows or stocks can be obtained through the Balance of Payments and the Register of Investments (*Registro de Inversiones*). On the first case, though, obtaining sectorally disaggregated figures is not possible. Accordingly, the only source providing data of this type regarding the service sector comes from the Register of Investments - elaborated by the General Directorate for Trade and Investments (*Dirección General de Comercio e Inversiones*). We will be using this source along the project and we will be referring to it in the following paragraphs.

The attainment of this statistic series that will allow us to have the investment and, especially, the disinvestment figures has not been an easy task. The already derogated Royal Decree (RD) 671/1992, July 2, on foreign investments imposed the obligation to declare foreign investments here in Spain and their liquidations to the Register of Investments. However, it was not until 1998 that they began to publish net investment figures<sup>3</sup>, and so, there was the possibility to find out the disinvestment or liquidation volume (the difference between gross and net investment). On the other hand, the publication of the Royal Decree 664/1999, April 23, on foreign investments meant a new methodological modification with respect to the data published in those last years - 1997-1999<sup>4</sup>. However, the General Directorate for Trade and Investments built a homogeneous series based on the Register of Investments which incorporated those changes since 1997 and

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<sup>3</sup> This information was offered since 1996. See *Boletín de Información Comercial Española* (1998). For the previous years, we only had available the gross investment figures since they were obtained from the verification and authorization of the foreign investment projects in Spain. For a comparative analysis between this information and the one from the Register you can see Muñoz Guarasa (2000).

<sup>4</sup> From the coming into force of the already mentioned Royal Decree, the loans granted by the foreign matrix to the spanish branch with an average weighted life of more than 5 years and granted with the aim of keeping long lasting economic links as well as the refundable advanced payments granted by non-residents to their establishments and branches in Spain were not included in the foreign investments figures nor the investments made by spanish companies with a share in their foreign corporate assets greater than the 50% and by branches or establishments in Spain of non-residents.



retrospectively extended it until 1993. With all that information, an analysis on the disinvestment in the different sectors in the 1993-2000 period was carried out. The study revealed some of the methodological difficulties presented by the disinvestment data, some of which have already been corrected. We will refer to them along this section.

In order to analyse the concept of disinvestment, we will first refer to the FDI concept. This is defined by the *V Manual of the Balance of Payments* of the International Monetary Fund as the investment which reflects the aim of an economy's resident entity of pursuing a long-lasting participation in another economy's resident company. The concept of long-lasting participation implies the existence of a long term relationship between the investor and the company receiving the investment, as well as a significant influence of the investor on the company's management (FMI, 1993, 89). It is considered that it has a positive influence in the management or control of the society when the participation is equal or more than a 10% of the stock capital (independently of its quotation or not). The legislation in force in Spain makes no explicit reference to FDI, but in the Register of Investments it is considered as:

- Investment flows in companies which do not quote in the stock market.
- Investment flows in quoted companies where the investor obtains at least a 10% of the assets of the Spanish company<sup>5</sup>.
- The constitution and enlargement of the endowment of branches, accounts in participation, institutions, etc.

Accordingly, Spain's gross FDI brings in the following types of operation<sup>6</sup>:

- Constitution of a company or branch.
- Enlargement of corporate assets or endowment assigned to the branch.
- Acquisition of shares or participations to residents, onerously.
- Acquisition to residents of subscription rights or similar that due to their nature give right to a participation in the assets.
- Acquisition of other political rights to residents.
- Acquisition of liabilities capable of being turned into shares.
- Lucrative transmission (inter vivos donation or mortis causa transmission) for the benefit of a non- resident.
- Transmissions among non-residents.
- Change of address or of company location.
- Other.

The types of operations of liquidation or disinvestment are the following:

- Dissolution of the company or branch.

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<sup>5</sup> They are included from 1999 on.

<sup>6</sup> See the Resolution of the General Directorate for Trade and Investment, February 21, 2002.

- Reduction of corporate assets or endowment assigned to the branches.
- Transmission of shares or participations to residents, onerously.
- Transmission to residents of subscription rights or similar that due to their nature give right to a participation in the assets.
- Sale of other political rights to residents.
- Change of liabilities into shares, amortization or transmission of exchangeable liabilities.
- Lucrative transmission (inter vivos donation or mortis causa transmission) in favour of a resident.
- Transmissions among non-residents.
- Change of address or of company location.
- Other.

This way, transmission operations carried out among non residents which are related to some issues already mentioned (Muñoz Guarasa, 2002, 25) are counted as disinvestment. These operations were included in the gross investment but they did not present a new input of assets, but simply a transfer in the ownership of the assets of a non resident to another non resident. With this, gross investment was overvalued, and, subsequently, the invested phenomenon. Likewise, the disinvested phenomenon was being overvalued, since operations that did not represent a reduction of the stock capital were being included in the liquidations. From 2003 onwards, the General Directorate for Trade and Investments removed - retroactively until 1993 - transmissions among non residents and share restructuring operations within the same corporate group off gross investment. With this, it renamed it to "actual gross investment" (inversión bruta efectiva), which can reflect increases and reductions of capital.

Another problem was the investments channelled through the Entities of Holding of Foreign Shares (ETVEs)<sup>7</sup>. These entities, whose objective includes the management and administration activity of the funds of non resident entities on Spanish territory, were created with the aim of removing double fiscal imposition. They are regulated by the 30th article of the 6/2000 Law of December 13 by which urgent fiscal measures to stimulate family savings and small companies' savings were approved. This law was modified by Law 43/1995 of December 27, of the Tax on Corporations<sup>8</sup>. The investments that consist of the establishing and enlargement of ETVEs by non resident investors formally bear a declaration of foreign investment in Spain (for the ownership of all or part of the assets of an Spanish company by a non resident) and a declaration of Spanish investment abroad (by the ownership of all or part of the assets of a foreign company by a resident). ETVEs are, generally, simple "cascades" and their existence obeys almost

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<sup>7</sup> ETVEs: Entidades de Tenencia de Valores Extranjeros.

<sup>8</sup> There have been some rules that have modified the government of these entities. For a wide study on this you can see López Ribas (2001). One of the last ones is the Legislative Royal Decree 4/2004, of March 5, by which the Revised Text of the Law on the Tax on Corporations is approved.

exclusively to strategies of fiscal optimization by their foreign shareholders (Dirección General de Comercio e Inversiones, 2005, 50). Thus, these corporations get flows of investment which are automatically directed to another country, that is, they are passing flows. Therefore, even though they are tabulated as received investment, they won't stay in the Spanish productive system and that's why they must be deducted off the investment in order to receive more reliable information. The General Directorate for Trade and Investments offered, at first, that type of information sectorally broken-down in the 2001-2003 period.

Recently, in June 2005, the General Directorate for Trade and Investments has published a series from 1993 to 2004 of gross investment to which it has deducted the transmissions among non residents, the transmissions within the same corporate group<sup>9</sup> and the investments made in ETVEs and of net investment, and offers these pieces of information broken down by activities. This will allow us to make an analysis of the investor-disinvestor process in the service sector closer to reality.

Pushing out into the sectorial aspects, the distribution of the investment by branches of activity attends to the National Classification of Economic Activities (NACE) of 1993 to a two-digits level of disaggregation. The FDI in the service sector and the disinvestment will be considered for those materialized through the previously mentioned operations, in which the company's objective of the investment or of the disinvestment performs –or will perform- a service activity.

One of the difficulties presented at the sector level is that it shows the "Corporations Management and Holding of Shares" that is formed by "Spanish Corporations Holdings" and "Entities of Holding of Foreign Shares". The investment made through these last ones has been removed from the statistics for the already mentioned reasons. The Spanish Corporations Holdings are companies that hold shares of Spanish corporations. That is, the non residents invest in our country through these companies, which are intermediary between the investor company and the final receiver of the investment. Thus, even though these companies are considered as service activities, we do not know which one is the final destination of the investments, which can spoil, in part, the sectorial analysis (Muñoz Guarasa, 2001, 125). However, in order to treat this issue fairly we have to point out that the net investment channelled through these companies from 1993 to 2004 amounted to slightly less than 4% of the total received in the service sector in the whole period, and a 2,47% of the total investment.

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<sup>9</sup> From then on, the term "actual" (efectiva) is not used any more since all the information offered from newsletter number 21 is actual –since that type of operations are deducted- and data on the registered investment is not offered. Therefore, from now on we have to understand "inversión efectiva" when we say "inversión". See Dirección General de Comercio e Inversiones (2005, 50).

Currently, the General Directorate for Trade and Investments estimates the net investment taking off gross investment all disinvestments declared to the Registry because of transmissions (onerous or lucrative ones), partial payments (reductions of assets) or totals (dissolutions or bankruptcies), and it publishes the sectorial information of gross and net investments. Having this new information, we have estimated the disinvestments as well as the percentage of these ones over the gross investment. In the first place, we have made these calculations for the industry and the service sector, secondly, for the different service activities –sections of the NACE- and finally, for those same ones broken down at a level of desegregation of two digits –divisions of the NACE.

### 3. EMPIRICAL RESEARCH ON THE DISINVESTMENT IN THE SERVICE SECTOR

#### 3.1. Service Sector vs. Industry.

The service sector has been Spain's main FDI host in the 1993-2004 period, both in gross terms (65,78%) and in net terms (66,39%), overdoubling those of industry. The factors which determined the boom of Spain's FDI respond, in general, to those at international level. Among them we have to highlight the own process of tertiarization that has taken place in the developed countries, the liberalization of the FDI regulated regimens, especially those that were closed to the input of foreign stock. Likewise, the spectacular advances in the Information and Communications Technologies (ICTs) and the emergence of new services based on the use of information and knowledge during the 90s have been key factors of the expansion of the FDI in the service sector. On the other hand, we have to bear in mind the factors related to the strategies of the companies such as the mergers and the international acquisitions carried out in these last years.

Apart from all those factors, the very nature of the service sector, its inseparability between manufacturer and consumer has been a traditionally discussed cause as to the election of the foreign direct investment against the impossibility of using other formulas such as trade. However, some recent changes as the appearance of ICTs, have allowed to trade with certain services which could not have previously been the object of transnational transactions, but in spite of all this, the growth of the investments abroad that come from developed countries is still greatly superior to that of the exports (See Muñoz Guarasa, 2005). And so, the nature of the service activities justifies, in part, the importance of the foreign direct investment against other methods of internationalization and against the industry.

Disinvestments in the service sector have also been twice as high as in industry. However, we must consider that, in order to analyse the implications of the disinvestment processes is wiser to relativize the disinvestment figures in relation to the gross investment instead of

using the disinvestment in absolute values. And so, when this ratio is estimated, you will see that they are very similar in both sectors, reaching a 45,03% in the industry and a 44,96% in the service sector (table number 1). However, this does not imply that the investor/disinvestor process that happened in both sectors along the period has taken place in a similar way.

TABLE 1.  
**Foreign direct investment received in Spain and disinvestment, 1993-2004 (millions of Euros) \***

	Gross I.	%	Net I.	%	Disinvestment	Dis./ Gross I. %
Agriculture	666,34	0,55	383,31	0,58	283,03	42,08
Industry	38.891,71	31,98	21.377,31	32,23	17.514,4	45,03
Construction	2.051,95	1,69	533,50	0,80	1.518,45	74,00
Services	79.998,17	65,78	44.030,23	66,39	35.967,94	44,96
Total	121.608,17	100,00	66.324,35	100,00	55.283,82	45,46

*Source: Register of Investments. The authors.*

*Note (\*): Accumulated flows. ETVEs excluded.*

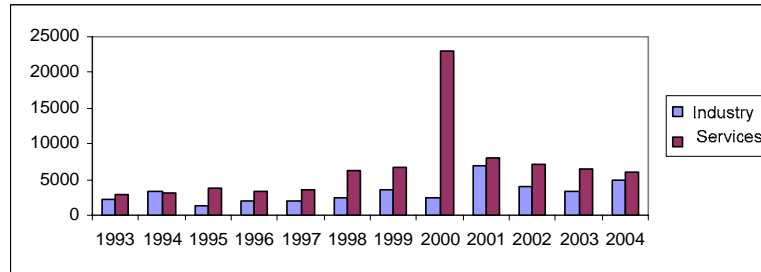
The path of the gross investments in the service sector along these years is very clear (graph nº 1). It has followed an ascending path<sup>10</sup> that has had its inflexion point in the year 2000, when it began to descend steadily, according to what happened at world level<sup>11</sup>. On the other hand, it can be checked how the received investment for this sector has surpassed in all years –with the exception of 1994- the investment received by the industrial sector.

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<sup>10</sup> With the only exception of 1996.

<sup>11</sup> According to the data of the UNCTAD, the inputs of FDI at world level have decreased 41,1%, 17% and 17, 6% in the years 2001, 2002 and 2003, respectively.

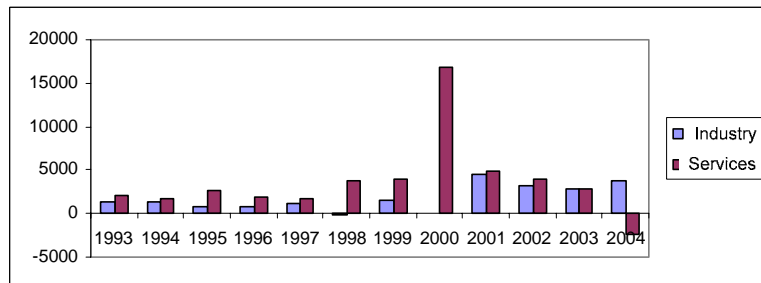
GRAPH 1.  
Gross FDI received in Spain, 1993-2004 (millions of Euros)



Source: Register of Investments. The authors.

If we analyse the evolution of the net investment, we can see that it has also followed an ascendant path till the year 2000 –with downs in some years such as 1994, 1996 and 1997- from which it begins to descend progressively till becoming a negative one in the year 2004. That is to say, for the very first time in this period, the disinvestment has surpassed the gross investment, fact that had occurred previously, in 1998 in the service sector.

GRAPH 2.  
Net FDI received in Spain, 1993-2004 (millions of Euros)



Source: Register of Investments. The authors.

The volume of disinvestments registered in the service sector is starting to acquire importance towards the end of the 90s –being especially significant in the years 2000 and 2004. However, the most striking and worrying issue is not its value, but the increasing tendency that it has, in general, along the period, and what is most important, the fact that from the year 2000 the gross investment in this sector falls steadily, while the disinvestments tend to increase. And so, when we analyse the percentage that represents the disinvestment over the gross investment we come to the following conclusions:

We can observe two phases clearly differentiated: 1993-2000 and 2001-2004. The 1993-2000 phase is characterised in that, in the first place, in

general, the percentage of disinvestment over the gross investment is higher in the industry than in the service sector; secondly, because the evolution of this ratio in both sectors is very fluctuant; and, in the third place, because the annual average of this ratio was of a 63,43% in the industry and of a 37,71% in the service sector. In the 2001-2004 phase, we can see several changes that stand out. In the first place, this ratio grows steadily in the service sector, opposite to what happens in the industry<sup>12</sup>. Secondly, the annual measurement of this percentage is of a 23,59% for the industry and of a 69,75% for the service sector. In short, there has been a great change in the investor-disinvestor process of the service sector from the year 2000 that consists on a steady growth of the disinvestments made with relation to the gross investments, in such a way that in the year 2004 the disinvestments surpassed the gross investments, being negatively affected the foreign capital stock.

TABLE 2.  
**Disinvestment / Gross investment, (%)**

Year	Industry	Services
1993	38,39	30,35
1994	57,39	43,37
1995	48,48	29,70
1996	63,23	41,34
1997	45,94	50,05
1998	102,33	39,73
1999	53,54	40,57
2000	98,11	26,59
(1993-2000) (*)	63,43	37,71
2001	35,49	39,45
2002	18,31	43,61
2003	14,61	56,16
2004	25,96	139,79
(2001-2004) (*)	23,59	69,75

*Source: Register of Investments. The authors.*

*Note (\*): Annual average of the period.*

### 3.2 Analysis of the service sector activities.

After this first analysis, we can think that the disinvestor process in Spain, in the whole of the service sector, does not have a special importance, at least, till the beginning of the XXI century. However, in order to get a closer look to the veracity of this statement, it is necessary to carry out a more detailed study of the investments/disinvestments of the different tertiary activities (tables n° 3 and n° 4).

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<sup>12</sup> With the exception of the year 2004 in which it increases.

TABLE 3.  
**Foreign direct investment received in Spain and disinvestment in the service sector, 1993-2000 (millions of Euros)\***

	Gross I.	%	Net I.	%	Disinvestment	Dis./ Gross I. (%)
Trade	6.740,88	12,88	3.717,02	10,73	3.023,86	44,86
Hotels	1.312,54	2,51	723,42	2,09	589,12	44,88
Transport and Communications	17.944,65	34,27	17.031,43	49,16	913,22	5,09
Financial mediation, bank and insurances.	9.382,76	17,92	2.276,02	6,57	7.106,73	75,74
Real estate and business services	11.784,70	22,51	7.561,77	21,83	4.222,93	35,83
Corporations management and holding of shares	2.909,11	5,56	1.612,14	4,65	1.296,97	44,58
Other	2.280,69	4,36	1.720,03	4,97	560,66	24,58
Total	52.355,32	100,00	34.641,84	100,00	17.713,49	33,83

*Source: Register of Investments. The authors.*

*Note (\*): Accumulated flows. ETVs excluded.*

TABLE 4.  
**Foreign direct investment received in Spain and disinvestment in the service sector, 2001-2004 (millions of Euros)\***

	Gross I.	%	Net I.	%	Disinvestment	Dis./ Gross I. (%)
Trade	4.699,91	17,00	805,54	8,58	3.894,37	82,86
Hotels	1.217,57	4,40	539,71	5,75	677,86	55,67
Transport and Communications	7.126,97	25,78	2.749,37	29,28	4.377,60	61,42
Financial mediation, bank and insurances.	6.146,90	22,24	2.010,34	21,41	4.136,56	67,30
Real estate and business services	6.296,91	22,78	2.414,07	25,71	3.882,83	61,66
Corporations management and holding of shares	270,40	0,98	26,97	0,29	243,42	90,02
Other	1.884,19	6,82	842,39	8,97	1.041,81	55,29
Total	27.642,85	100,00	9.388,39	100,00	18.254,45	66,04

*Source: Register of Investments. The authors.*

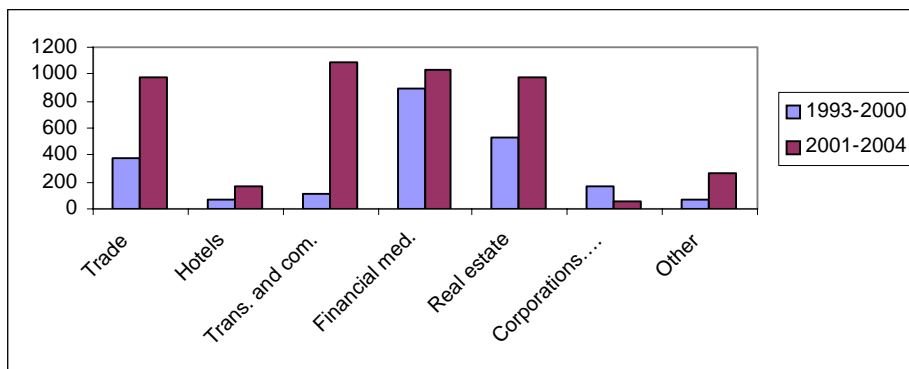
*Note (\*): Accumulated flows. ETVs excluded.*



The main receiver of the gross FDI in the 1993-2000 period has being the transports and communications sector, which has received a 34,27% over the total of services, followed by the real estate activities and the business services (22,51%), financial mediation, banks and insurances (17,92%) and trade (12,88%). In net terms, those activities are also the main receivers. However, it has been the financial mediation, banks and insurances the one that has had a higher volume of disinvestment, reaching a 75,74% of the gross investment. The rest of the activities have not had a volume of disinvestments higher than 50% of the gross investments.

During the 2001-2004 period the transports and communications sector is also the main receiver of gross FDI (25,78%), real estate activities and business services (22,78%), financial mediation, bank and insurances (22,24%) and trade (17%) and the same ones in net terms. When we observe the behaviour of the disinvestments in such activities (graph nº 3) we can see how they have had a great increase in these last years. The fact that stands out in this period is the increase of the ratio of disinvestments with respect to the gross investment in all the activities related to the previous period –with the exception of the financial mediation, bank and insurances. All these have surpassed the 50%. And so, the corporation management companies and the holder of shares companies have paid out a 90,02% of the gross investment. However, this number has not a special importance since that activity only represents a 0,98% of the gross investment obtained in the whole phase in the service sector. The commercial sector has paid out 82,86% of the gross investment, the financial mediation, bank and insurances 67,30%, the real estate activities and business services 61,66% and the transports and communications, which are the main receivers, have paid out 61,42%. Hence, we can see how in these last years the disinvestment process has intensified in the majority of the service activities.

GRAPH 3.  
Direct foreign disinvestment in the service sector, 1993-2000 and 2001-2004 (millions of Euros) \*



Source: Register of Investments. The authors.

Note (\*): Annual average accumulated flows. ETVEs excluded.

In order to know the transcendence of this disinvestment phenomenon in the service sector, we have to check, in the first place, if this phenomenon is a general phenomenon, that is to say, if it affects or not an important number of activities. Secondly, we have to see if we have a steady increase in time of this disinvestment process. To do so we will analyse the evolution of the disinvestment/gross investment ratio for the tertiary activities throughout all the years in this period (table n° 5) and next we will analyse in more detail the different activities at a higher level of desegregation of the NACE (tables n° 6 to n° 11).

TABLE 5.  
**Disinvestment / Gross investment, 1993-2004 (%)**

Year	Trade	Hotels	Transport and communications	Financial mediation, bank and insurances.	Real estate and business services	Corporations management and holding of shares	Other
1993	16,09	15,55	32,59	36,74	40,46	24,91	56,18
1994	31,46	32,63	34,74	58,33	45,54	52,46	35,42
1995	45,21	42,38	9,68	22,52	20,26	83,23	29,04
1996	44,23	71,46	7,22	94,11	25,41	36,23	29,01
1997	49,68	49,80	33,80	121,29	44,07	38,37	21,50
1998	69,10	28,10	14,93	34,99	36,40	56,62	13,85
1999	80,79	44,82	21,28	47,43	31,60	39,85	39,95
2000	22,02	59,99	1,55	131,71	46,59	33,49	15,29
2001	63,82	35,53	19,59	34,16	37,99	92,17	77,78
2002	12,06	41,58	63,67	33,19	39,24	14,82	30,05
2003	182,16	90,25	6,63	33,96	75,88	19,88	36,32
2004	80,61	74,52	473,68	161,43	112,44	59,06	93,87

*Source: Register of Investments. The authors.*

a) Trade

The percentage of disinvestments in relation to the gross investment tends to increase until the year 1999, but from then on it has great oscillations. We have to mention the value reached in 2003, where for every 100 Euros invested, there has been a disinvestment of 182,16. This number is the consequence of the high disinvestments made in the retail trade, fact that won't repeat itself again the next year.

TABLE 6.  
**Foreign direct investment received in Trade and disinvestment, 2003**  
(millions of Euros)

	Gross I.	Net I.	Disinvestment
Selling, maintenance and reparation of motor vehicles	34,46	28,77	5,69
Wholesale trade and trade mediation	630,76	507,55	123,21
Retail trade excluding motor vehicles	173,19	-1.225,16	1.398,35
Total Trade	838,41	-688,84	1.527,25

*Source: Register of Investments. The authors.*

There have been other negative net investments in 1998 in the retail trade (33,29 millions of Euros) and in 2004 in selling, maintenance and reparation of motor vehicles (-148,08 millions of Euros).

b) **Hotels**

It seems like this ratio tends to increase along the period with phases of ups and downs. However, in no case is it superior to 100, that is, the net investment has not been negative in any year, so we cannot say that this sector suffers important disinvestments movements.

c) **Transport and communications**

The disinvestment made in this sector with respect to the volume of investment has been quite low in the whole period. However, in the year 2004 the disinvestments have been five times the gross investment, and this fact has no precedents in any other sector. This has been a consequence of the high disinvestments related to the activities in the transports and the telecommunications sector.

TABLE 7.  
**Foreign direct investment received in Transport and communications  
and disinvestment, 2004 (millions of Euros)**

	Gross I.	Net I.	Disinvestment
Ground transport and transport through pipes	25,12	25,01	0,11
Maritime transport, cabotage and inside navigation	81,91	81,06	0,85
Air and spatial transport	65,25	65,25	0,00
Activities related to the transports	83,41	-1491,08	1.574,49
Telecommunications	199,21	-380,18	579,39
Total Transport and communications	454,90	-1.699,94	2.154,84

*Source: Register of Investments. The authors.*

Additionally, there have also been negative net investments, but of less importance, in the years 2000 and 2002 in the ground transport, in 1998, 1999 and 2000 in the maritime transport, in 1994, 1997, 1998 and 2001 in the air transport, and in 2001 and 2003 in the activities related to the transports.

d) **Financial mediation, bank and insurances.**

In the financial sector, the volume of disinvestments over the gross investment has had strong oscillations along those years, but we have to highlight the high values reached in some of them. And so, in 1997 that percentage was of a 121,29%, in the year 2000 a 131,71% and in 2004 a 161,43%. We can see, on one hand, how this sector is the one in which important disinvestment movements have taken place and, on the other hand, how these are repeated along the years.

TABLE 8.  
**Foreign direct investment received in Financial mediation, bank and  
insurances and disinvestment, 1997 (millions of Euros)**

	Gross I.	Net I.	Disinvestment
Bank and other financial mediators	179,92	88,69	91,23
Insurances and retirement plans, except compulsory social security	155,12	-133,05	288,17
Auxiliary activities to the financial mediation	20,61	-31,35	51,96
Total Financial mediation, bank and insurances.	355,65	-75,71	431,36

*Source: Register of Investments. The authors.*

TABLE 9.  
**Foreign direct investment received in Financial mediation, bank and insurances and disinvestment, 2000 (millions of Euros)**

	Gross I.	Net I.	Disinvestment
Bank and other financial mediators	2.200,39	-1.727,48	3.927,87
Insurances and retirement plans, except compulsory social security	819,94	663,91	156,03
Auxiliar activities to the financial mediation	105,69	72,45	33,24
Total Financial mediation, bank and insurances.	3.126,02	-991,11	4.117,14

*Source: Register of Investments. The authors.*

TABLE 10.  
**Foreign direct investment received in Financial mediation, bank and insurances and disinvestment, 2004 (millions of Euros)**

	Gross I.	Net I.	Disinvestment
Bank and other financial mediators	235,34	-1.942,00	2.177,34
Insurances and retirement plans, except compulsory social security	1.285,73	869,71	416,02
Auxiliary activities to the financial mediation	91,98	81,39	10,59
Total Financial mediation, bank and insurances.	1.613,05	-990,90	2603,95

*Source: Register of Investments. The authors.*

In 1997 the insurances and retirement plans and the auxiliary activities have been the main responsible for the disinvestments, while in the years 2000 and 2004 the bank was the one responsible for it. It also caused a negative net investment in the bank services (101,92 millions of Euros) in 1996 and in the auxiliary activities to the financial mediation in 1993 (17,74 millions of Euros).

e) **Real estate and business services**

The disinvestment with respect to the gross investment has been low, even though we can see a tendency to increase from the year 2001 until it reaches a value of 112,44% in the year 2004. This number is a consequence of the disinvestments taken place in the computer activities of that year, in particular.

TABLE 11.  
**Foreign direct investment in Real estate activities and business services,  
2004 (millions of Euros)**

	Gross I.	Net I.	Disinvestment
Real estate activities	853,84	485,43	368,41
Machines leasing and equipment without operator	34,99	29,17	5,82
Computer activities	117,40	-700,92	818,32
Research and Development (R+D)	26,62	26,56	0,06
Other business activities	260,29	-1,06	261,35
Total Real estate and business services	1.293,14	-160,82	1.453,96

*Source: Register of Investments. The authors.*

There have been other negative net investments of less importance such as in the year 2003 in the real estate activities, in 1994, 1995, 1998 and 2001 in the leasing of machines, in 1998 and 2000 in R + D and in 1993 in other business activities.

f) **Corporations management and holding of shares**

It only includes the Spanish corporations' holdings. The disinvestment ratio over the gross investment has been very fluctuant, as in other activities. It has not reached high values, in no year has it been superior to 100, with which we cannot show important disinvestment movements in this type of companies.

g) **Other**

This group gathers several activities of a different nature<sup>13</sup>. All of them represent only a 5,21% of the gross FDI received in the group of services along the 1993-2004 period. The disinvestments related to the gross investment have not been important along these years, even though they have increased substantially in the last year. Nevertheless, we have to mention that there are some activities that have had a negative net investment in some years<sup>14</sup>, among which we have to highlight the public sanitation activities because of their reiteration along the period. And so, in 1996 they have meant 2,98 millions of

<sup>13</sup> Education: health and vet activities, social services ; public sanitation activities ; associative, cultural and sport activities ; different personal service activities and home activities such as employers of house staff.

<sup>14</sup> For example, education in 1993 (6,32 millions of Euros), recreative, cultural and sport activities in 2004 (133,18) and different personal services activities in 1995 (4,02), in 2001 (72,51) and in 2003 (18,65).

Euros, 77,68 in 1999, 43,87 in 2001, 0,76 in 2002 and 34,57 in 2003.

#### 4. SUMMARY AND CONCLUSIONS

Currently, it seems to have brewing a process of offshoring of the services on a global level. The aim of the present work is to check if this phenomenon is taking place in the Spanish economy for which we have analysed the relevance of the disinvestment process in Spain in the 1993-2004 period.

It is difficult to obtain the microeconomic information required for quantifying this offshoring process, among other reasons because the effects that this phenomenon has on the countries in which it is taking place result in a negative social acceptance, meaning that the relevant companies are not always keen to offer information in this respect. In this work we have used the new information coming from the General Directorate for Trade and Investments from which we have estimated the disinvestment for the whole of the services as well as for the activities that are part of it. Likewise, since the disinvestment process is intrinsically linked to the investor, for the study of the first one we have analysed the evolution of the disinvestment ratio in relation to the gross investment.

We cannot say that in Spain in the 1993-2004 period has taken place a worrying disinvestment process. However, from the beginning of the century, we have seen a steady increase of the disinvestments in relation to the gross investments received in the whole of the sector, in a way that in the year 2004, the first ones surpass the second ones, being negatively affected the foreign capital stock. Similarly, in this phase 2001-2004 we could see that, in all the service activities, the disinvestment process has been intensified, except for the financial mediation, bank and insurances, in which it had been brought with more strength in the previous years.

A more detailed analysis of the different service activities provided the following results:

- a) This disinvestment phenomenon is not generalised since it does not affect the majority of the activities during the 90s and the beginning of the century. However, we have to have in mind the important change that happened in 2004 in which a great number of them were affected by those disinvestments, which were accompanied by a low volume of gross FDI, in such a way that they have reached a negative net investment and, consequently, the foreign stock of assets has been reduced. Among those we have: selling, maintenance and reparation of motor vehicles,

activities related to the transports, telecommunications, bank and other financial mediators, computer activities, other business activities and recreative, cultural and sport activities. We could think that these disinvestments have responded to the fact that in 2004 the Middle and East European Union countries joined the EU, which could have caused the transfer of some service companies to those areas. However, this is not perceived when we observe the low, or in some cases null, Spanish investment volumes intended for those sectors in those countries since the old European Union countries such as Germany, France, UK, and the Netherlands are still our prior destination. Likewise, they do not represent a destination of the Spanish FDI in those sectors the countries less developed such as India, as it happens for example in the North American investment in relation with the information and communication technologies. And so, from this point of view, we cannot say that these disinvestments are part of a offshoring process.

Nevertheless, the added information can be hiding some offshorings of service companies or of parts of their productive activity. On the other hand, as we have mentioned before, we have to consider that the disinvestment can be an operation in itself and not necessarily part of the offshoring process, and so the disinvestment as *proxy* must be taken with some caution.

- b) Along this period, among the big receivers of the FDI, we only perceive an important disinvestment process in the banking sector in which several foreign banks have had to abandon the Spanish market yielding all or part of their business to national entities or have had to reduce the size of network of offices due to the great competition of the big national banks and savings banks.
- c) The majority of the disinvestments is momentary and can respond to the very same investor process. However, in some activities we perceive a reiteration in the time of those disinvestments among which we can find the air transport, the activities related to the transports, the leasing of machines and the public sanitation activities. Nevertheless, these processes are not to worry about if we have in mind that the mentioned activities are low receivers of FDI, since none of them surpass the 1% of the total received in the whole of the service sector in the 1993-2004 period.

In conclusion, after the study we have made, we cannot state that we have a worrying disinvestment process that will make us think of a offshoring process. However, the most recent data points to a change that can show the beginning of this process in some of the service activities the same way that it is happening at world level, and as it has previously occurred in some industries, so we will have to consider this in the following years.



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