

# **INTERNATIONALISATION OF SERVICE INDUSTRIES: A COMPARATIVE APPROACH**

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La serie **Documentos de Trabajo** que edita el Laboratorio de Investigación del Sector Servicios (SERVILAB), incluye avances y resultados de los trabajos de investigación realizados como parte de los programas y proyectos del centro.

## **Resumen**

*Este documento de trabajo analiza las tendencias, niveles, liderazgos y posiciones relativas de la internacionalización promovida por las actividades del sector servicios. El análisis se basa en los datos disponibles más recientes y se desarrolla un enfoque comparativo entre países, sectores y modos de internacionalización. Dada la heterogeneidad presente en el sector servicios, la internacionalización de sus actividades da lugar a diferentes perfiles, tendencias y dinámicas. A continuación siguen las principales conclusiones. Los niveles de terciarización son todavía modestos en inversión directa extranjera, muy bajos en comercio internacional y altos en fusiones y adquisiciones. En términos de modos de internacionalización, la evidencia disponible sugiere un cierto desplazamiento del comercio internacional a la inversión directa de nueva planta, primero, y de ésta última a la modalidad de fusiones y adquisiciones después, en los 90. Una de las razones apunta a la progresiva madurez de los mercados de servicios. Respecto a los liderazgos, la Unión Europea y Estados Unidos dominan el mercado global del comercio de servicios (un 60%) a pesar de la creciente relevancia de algunos países asiáticos. La mayoría de los países europeos tienen balanzas comerciales positivas en algún sector de servicios y poseen ventajas comparativas en mercados determinados. La internacionalización de los servicios está liderada por los sectores financieros de transportes y de comunicaciones. Alcanzan niveles relativos de internacionalización similares a los de las industrias manufactureras.*

## **Summary**

*This working paper explores service internationalisation trends including levels, growth rates, leadership and the relative position of service industries. The analysis draws upon the most recent available data and a comparative approach is developed that explores differences between countries, sectors and internationalisation modes. Given the heterogeneity of the service sector the internationalisation of service industries has different profiles, trends and dynamics. These are the main conclusions: The levels of tertiarisation are still modest in foreign direct investment, very low in international trade and high in mergers and acquisitions. In terms of the different modes of service internationalisation the evidence suggests a shift away from international trade to foreign direct investment and, above all, in the 1990s, from international trade and greenfield foreign direct investment to mergers and acquisitions. One of the reasons for this shift is the increasing maturing of key service markets. The European Union and United States dominate the global market in service trade (around 60%), despite the recently increasing importance of some Asian countries. Most European Union countries have positive trade balances in some specific services and possess comparative advantages in selected markets. International specialisation within service trade modes seems to be related to the uneven development of the service economy. Service internationalisation is being led by financial, transport and communication industries. These sectors are internationalising at levels that are similar in relative terms to those of the manufacturing sector.*

## **Abbreviation index**

EU: European Union

FA: Foreign Affiliates

FDI: Foreign Direct Investment

GDP: Gross Domestic Product

IT: International Trade

M&A: Mergers and Acquisitions

R&D: Research and Development

SME: Small and Medium Enterprises

TNC: Transnational Services Companies

US: United States

UK: United Kingdom

WIR: World Investment Report

WTO: World Trade Organization

## 1. INTRODUCTION

This working paper explores service internationalisation trends including levels, growth rates, leadership and the relative position of service industries. The analysis draws upon the most recent available data and a comparative approach is developed that explores differences between countries, sectors and internationalisation modes. This working paper addresses four specific questions: 1) How service-oriented are the processes of internationalisation? 2) How has service internationalisation grown?; 3) Who are the leaders in service internationalisation?; and 4) How internationalised are specific service sectors? The first two questions are partially answered by comparing goods versus service trade and their different internationalisation modes. The third question compares countries and modes while the fourth compares service sectors and modes resulting in the development of an index of internationalisation.

These four questions guide the interpretation of the empirical evidence. Several hypotheses will therefore be explored. On one hand, one can expect that economic “servicisation”<sup>1</sup> is reflected in international exchanges (tertiarisation) and service trade is growing more than the trade in goods. Otherwise, limitations to service internationalisation could be more important than they are supposed to be, and goods would still *lead global processes*. On the other hand, one can expect that particular sectors and countries dominate or lead the process of service internationalisation: such sectors include transnational service companies (TNCs) (banking and telecommunication) and the parent countries of transnational service firms, especially American firms. Otherwise, *new service processes and new service trading countries would continue to emerge as active players in global service markets*. At the same time, another hypothesis on the shift from pure trade to investment and new competitive investment modes (e.g., mergers) will also be explored by evaluating the *complementarity* of these modes of service internationalisation.

The following sources have been used for each indicator: WTO (2000) and Eurostat (2000a, 2000b) for international trade (IT); Eurostat (1999a) for FDI; and UNCTAD-WIR Report (2000) for M&A. Complementary sources have also been used for specific aspects not covered by these sources. Additional information on methodology and statistical aspects can be obtained from each of the above sources. The analysis is mainly based on three indicators: international trade (IT), foreign direct investment (FDI) and mergers and acquisitions (M&A). The statistics used in this analysis only provide data related to supply rather than demand. Consequently, there is limited evidence concerning the global demand for services provided within agricultural or manufacturing firms, despite the fact that these are also faced with an

internationalisation process and are a very important part of growing intra-firm trade. Unfortunately, there is not enough data to include these issues. In addition, with respect to statistics, the most recent and available data have been used. However, it is well known that all these sources have important methodological limitations, as well as quantitative and qualitative deficits. The implication is that specific empirical findings need to be analysed cautiously. Nevertheless, the statistics that describe service trade trends at the global levels are sufficiently reliable.

Despite these limitations the consulted sources are the best available statistics to analyse service internationalisation and they also enable the disaggregation of trends. For each question, suitable indicators are identified and treated in the most appropriated way for the analytical purpose. This is the case, for instance, for internationalisation levels in direct investment, which can be measured both through outward and inward investment flows and through the stock of assets or liabilities. The former is very volatile but permit the identification of short-term trends while the latter allow the identification of real service weight in total FDI and long term-trends. The volatility of many variables related to internationalisation necessitates the use, in some cases, of annual averages and cumulative values.

## **2. SERVICE-ORIENTATION OF GLOBAL TRADING**

The total volume of global trade in services (commercial services) has recently been estimated by Karsenty (2000) using the four WTO modes of international trade. Conventional modes 1 and 2 have been rising to US\$ 1.3 trillion and modes 3 and 4 may have accounted for another US\$850 billion in trade in 1997, bringing the total to about US\$ 2.2 trillion or a figure equivalent to 7 - 8% of world GDP. These figures make up 16% of total goods and service trade, or an increase of 6 points since 1985.

Although these figures indicate the growing process of tertiarisation the rate of growth identified is too low. It is necessary to point out that these figures are rough estimates since there are many methodological limitations. The figures give an indication of the total volume of world-wide trade where traditional ways of trading represent up to 80% of total service trade. It is frequently stated that most modes of international service trade are underestimated. That is the case of cross-border IT but also of FDI (e.g., non-equity arrangements and inter-sectorial FDI are excluded), so these statistics are not completely comparable. In addition, FDI has increased in importance. For example, cross-border service mergers and acquisitions

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<sup>1</sup> The term 'servicisation' is less common than the word 'tertiarisation', but it seems to fit better with the role of services as global activities and not only as a sector. It will be used sometimes.

represented around 400 billion dollars in 1999, more than twice the 1997 figure. Recent developments in other FDI has also been very strong during the last years, so the balance between trade and FDI is increasingly in equilibrium. In addition, other indicators should be taken into account to estimate the real and current importance of global service trade. For example, the important and increasing role of service foreign affiliates (see box 1) is a major source of international flows, many of which are not accounted for in current statistics<sup>2</sup>.

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### **Box 1: The role and weight of Foreign Affiliates**

Foreign affiliates (FA) make two contributions to the globalisation process. First, when they are established, through a greenfield investment or a merger or acquisition. And afterwards, when they develop their normal business activities. The employment, sales, value added, exports, etc, generated by foreign affiliates contribute to the globalisation of services. Recently, some studies have provided the first preliminary data (not too reliable but indicative) on the activities of service foreign affiliates. The OECD/Eurostat survey on the activities of service foreign firms (FATS) estimate global value added by these firms to be US\$500 billion in 1997, or 1.9% of world GDP (Karsenty, 2000). From the same survey, Knauth (2000) underlines how foreign owned enterprises account for almost 20% of the turnover generated in service markets in Denmark, Sweden, Finland and the UK, even if they only represent 1% of total enterprises and employ 8% of people. Foreign owned enterprises had the greatest impact on distribution trades in terms of their presence and economic weight. In second place come real estate and business service activities. Most European people working in non-EU firms were employed by US companies.

The OECD (1999a) study on multinationals provides a preliminary analysis of foreign affiliates based on a few main countries (US, Germany, Japan and Canada). These statistics are not fully comparable; methodologies vary and not all countries include the same items (e.g., US hotels and business services are not included). There is a clear under-representation of FA service firms in terms of turnover and employment compared to manufacturing FA. However, this does not hold for the number of enterprises. The number of FA service firms in these four countries represents 64% of total foreign affiliates. Germany shows the highest relative service percentage, 75% (47% in trade, hotels and restaurants). Japan and Canada have a similar rate, (64-66%), but distributed in a very different way (Japan 56% in trade, hotels and restaurants, while Canada 36% in finance, insurance and business services). The figures for the US are lower (57%, of which 36% in finance and insurance) but this is probably due to statistical problems. The high proportion of service FA does not correspond to figures related to employees or turnover. German, Japanese and US service FA firms only employ 31% and produce around 46% of total turnover. On the contrary, 22% of manufacturing firms employ 47% of employees and produce between 35% of total turnover in US and 56% in Canada.

This different behaviour is explained by the role of small and medium-sized enterprises (SMEs) in service firms, or even in TNCs developing services activities. The average size of manufacturing FA was 587 employees in 1996 (618 in 1992), while the average size of service FA was 273 employees (266 in 1992); 224 in trade, hotels and restaurants and 43 in finance, insurance and business services. The reduced size of business service firms is clearly

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<sup>2</sup> A complete approach to service internationalisation should consider all dimensions, or, at least, all modes representing international transactions and flows. Unfortunately, few or no statistics are available in most cases. Most of the detailed quantitative measures refers to those indicators used in this working paper: IT, FDI and M&A.

reproduced internationally suggesting different way of production even amongst the largest TNCs. The average service FA firm is bigger in US (215) than in Japan (55) or Germany (41). In spite of differences in statistical methodologies and coverage (US exclusion of business services enlarges the US total size of service firms), US FA firms seem to be substantially larger than those of other countries. What should also be underlined is the fact that, in all three countries, average size is stable or decreasing between 1992 and 1996 for all categories except for manufacturing in Japan and trade, hotels and restaurants in Japan and US, where average size is growing by 3% annually.

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## ***2.1 International trade***

In relative terms, international trade in commercial services accounted for 19.6% of total world trade in 1999. However, this percentage greatly varies depending on the country or region. US service exports represent 27% of its total trade while European Union (EU) exports amount to 21% and Japan only 13%. Nevertheless, US service imports make up 16%, EU 22% and Japan an extremely high 29%. That means that the relative balance of services with respect to the trade of goods is very positive for the US, relatively balanced for the EU and negative for Japan. Adding together exports and imports, the rate of service trade is extremely different from one country to another but the following groups can be identified: Austria, Egypt and Greece trade more than 30% in services. Canada, Germany, Finland, Portugal, Nigeria and South East Asian countries trade between 14 and 17% in services. The level of trade in manufacturing goods in some countries and tourism in others are key variables explaining these rates.

It is clear that the service share of total international trade is becoming rather stable and constant. Total world service imports and exports represented 19% of total trade in 1999; this was also the 1991 percentage. European service exports and imports are around 21% of total trade. In 1993, this figure increased to 22-23% but this was the maximum experienced over the 1989-1999 period. In the US, both imports and exports represented 20-21% at the beginning of the 1990, just slightly more than today. Japanese services account for around 21-22% of the total, and this percentage was relatively constant throughout the 1990s. Most EU countries are around the European average with some (France, Portugal, Finland, Sweden, Benelux) experiencing decreasing trends during the last five years (a 3-5% loss) while most retained stable shares. Only Ireland showed an increasing share of services in the 1990s: from 17.5-18.5% to 20% in 1998.

Within the service sector, the most relevant activities are transport (around 5% of total trade in Europe and the US), travel (9.5-10% in Europe, 14.2% US exports and 6.6% US imports) and royalties (5% in Europe, less in the US). During the 1990 trade has very strongly

increased in other commercial services (from 37.7% of total service trade in 1990 to 44.2% in 1999).

## 2.2 Foreign Direct Investment

Of all foreign direct investment, investment in services greatly varies from one country to another but in general it is above 50%. Estimates of world FDI (no detailed data are available due to the lack of disaggregation in some countries) show that in 1998 services represented approximately 50% of inflows and 60% of outflows. In 1988 the percentages were between 42 and 45% respectively. In stocks, service participation and evolution it is estimated are very similar to flows.

Table 1  
Stocks of EU investments in the World and the US, 1997

To/From:	EU outward FDI		EU inward FDI		EU relative % weight (in+out)	
	World	USA	World	USA	In World	In USA
Primary & energy	97183	22138	85057	42179	7,4%	11,3%
Manufacturing & construction	544610	136303	373033	102314	37,4%	42,0%
Trade	110326	15208	132647	20777	9,9%	6,3%
Hotels and restaurants	16153	3552	12182	2425	1,2%	1,1%
Transport	12144	1549	8020	966	0,8%	0,4%
Communications	9251	1077	10073	1924	0,8%	0,5%
Financial services	312531	50345	218193	43129	21,6%	16,5%
Real Estate	28758	8866	26651	3487	2,3%	2,2%
Computer activities	6055	1636	5397	2163	0,5%	0,7%
R&D	1324	171	1463	1001	0,1%	0,2%
Other business services	171698	44883	208936	41469	15,5%	15,2%
Other services	14993	7817	19141	6063	1,4%	2,4%
TOTAL	1343949	298135	1112729	270094	100,0%	100,0%
SERVICES	683233	135104	642703	123404	54,0%	45,5%

Source: Based on Eurostat (1999a)

Table 1 shows the main figures for the EU and US direct investment stocks in the world in 1997<sup>3</sup>. EU service investments represent 51% of the world total and 68% of the US total. Services are also very important for EU inward FDI: 58% of these come from outside the EU and 46% of these come from the US. Taking into account both inward and outward FDI between EU and the World, the highest figure is given by manufacturing and construction sectors (37.4%), followed by financial services (21.6%), other business services (15.5%) and trade (9.9%). Business services account for 16.1% of all investment stock. The specific investment stocks with the US are less service-oriented: 45.5% versus 54% with respect to the

<sup>3</sup> Flows provide results somewhat different. In the European Union, services represent 56.3% of FDI in 1998, but the average between 1992 and 1998 is 60.9%. In the United States, figures are similar (around 58% in the last years). The highest European percentages by countries (averages superior to 70%) are found in Austria, Portugal and France, while the lowest percentages (averages inferior to 60%) are in Sweden, Finland, the UK and Spain. Growth or decline trends strongly vary according to the country and the sub-period. In general, the weight of European inward investment in services seems more important and increasing than outward investment.

whole world. There is a large concentration of investments in manufacturing (42%). Investments in trade and financial services are less important due to the very active position of these sectors throughout the world and the difficulties of entering the US markets. However, regarding some small service sectors, capital exchange between EU and USA is quite important in computer activities, R&D and other services.

### ***2.3 Mergers and acquisitions***

In 1999, the world value of mergers and acquisitions amounted to 720.109 million dollars. Services represented around 50% of the total. However, in 1987 services only accounted for 28% of the total. In service sales, operations in financial services (16%) and transport and communications (23%) stand out. Business services and trade represent 7% and 5% of the total respectively, while hotels and restaurants only 1%. With respect to purchases, the same figure of 720.109 has 47% in services, but this time banking services are the leaders with 23%, followed by transport and communication services (16%) and, far behind, business services (4%). The manufacturing and financial sectors are, in a way, gross purchasers of other sectors; over the whole 1987-99 period, both have represented 75% of purchases (25% financial services) and 61% of sales (15% banking and insurance). The remaining service sectors have been largely sellers rather than purchasers.

### ***2.4 Global assessment***

Table 2 provides a summary (estimates) of the ‘servicisation’ of global processes taking into account the three indicators identified above. The service share of international trade is the lowest (around 19-20%), whilst the service share of FDI is the highest (around 55-58%), more similar to the weight of services in economies. Mergers and acquisitions are still non-service oriented, but the service share is close to half (around 44-50%). Comparing cumulative rates with recent rates highlights the international trend towards further ‘servicisation’. Mergers and acquisitions show the biggest difference between rates based on cumulative 1987-99 data (44.5%) and 1999 data (50.4%); these two percentages are much higher than 10 years ago. International trade rates have been similar during the whole 1989-99 period, but slightly increasing trends are identified in 1999 data (19.6%). FDI shares are very similar in 1998 flows and 1997 stocks but certain rates are decreasing for 1998, particularly in the US. The ‘servicisation’ of FDI has rather been stopped in the EU; service share in FDI flows fluctuating between 50 and 65% during the 1990. Mallampally and Zimny (2000) show that the long-term reorientation of FDI towards the service sector has occurred in almost all home developed countries (in 1980, service FDI share in major developed countries was around 37%).



Table 2.  
Service-orientation of global trading: some key indicators

	World	European Union	United States
IT (exports + imports, average 1989-99)	19.1	20.2	20.0
IT exports, (average 1988-1999)	19.3	20.6	25.8
IT imports, (average 1988-1999)	18.9	19.8	15.0
International trade (exports + imports; 1999)	19.6	21.6	20.2
FDI stocks (inward + outward; 1997)	57 <sup>(*)</sup>	55.0	57.7
FDI stocks (outward; 1997)	59 <sup>(*)</sup>	52.1	58.4
FDI stocks (inward; 1997)	55 <sup>(*)</sup>	58.5	56.8
FDI flows (inflows + outflows; 1998)	55 <sup>(*)</sup>	55.4	36.4
M&A (sales + purchases, cumulative 87-99)	44.5	44.2	43.8
M&A (sales, cumulative 1987-99)	45.2	45.7	45.3
M&A (purchases, cumulative 1987-99)	43.7	43.1	41.6
M&A (sales + purchases, 1999)	50.4	48.2	57.0

(\*) Rough estimates due to the lack of data in many developing countries

Source: Based on WTO (2000), Eurostat (2000a), WIR (2000) and own estimates.

The comparison between the EU and US gives no clear answer to the question concerning which of these economies is more service orientated. In 1999, mergers and acquisitions have been more servicised in the US than in the EU, especially sales operations (services account for 65% in US total sales), but percentages are very similar in rates based on cumulative data (EU is, however, slightly more servicised). In relation to trade, the US is much more servicised in exports, but much less in imports. With respect to FDI, stocks are more servicised in the US, specially outward ones, but recent 1998 flows show more “servicisation” in EU (inflows in particular, but not outflows where US are always very service-oriented). Using a long-term approach Mallampally and Zimny (2000) show the *catching up* of West Europe as large home countries and the loss of US dominance. Already in 1980, Western European firms were quite well established in important service industries such as banking, insurance, publishing, airlines and other transport services. The EU position was reinforced following the fulfilment of the Single Market program and investment in US markets.

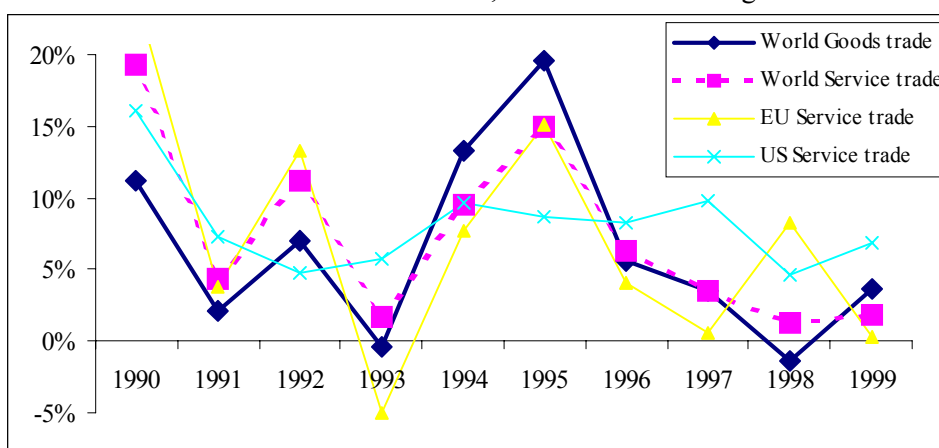
### 3. GROWTH OF SERVICE TRADING

#### 3.1 International trade

Considering the global growth of service trade, figure 1 shows the evolution (growth rates) of EU goods and service trade (import and exports) between 1989 and 1999. The results are clear in the sense that trends are quite similar between goods and services, but service trade is slightly more stable. There is a link between the two cycles, which could also reflect the

increasing interrelationship between all economic sectors. The average of world goods and services growth rates between 1989 and 1999 are 6.4 and 7.4 respectively, reflecting the slightly superior growth of service trade (more important at the start of the 1990s than at the end, with several years in which goods trade grew at a faster rate). On average, EU growth rates have been similar to the world total (7.3%) but US services grew at a faster rate (8.2%). US growth rates in service trade have been much more stable than service trade in the EU.

Figure 1.  
Trends in service international trade, 1990-1999. Annual growth rates.



Source: Based on WTO (2000)

The EU data contains some interesting details relating to specific sectors. There are no major differences between sectors except for the very important 1992 growth rates in other business services, transport and, to a lesser extent, travel services. There was also a strong 1995 decrease in trade in financial services and the leading position in growth rates of computer and information service trade (which is the only one that retained a high figure in 1997/98, 25.9%). In general, business services have been the most important service sector in international trade, as reflected in the relative growth rate figures (1989-1998 average of 17% annual growth), the highest of any other service activities, followed by insurance services (15.5%), air transport (14.1%) and communication services (12.4%).

### 3.2 Foreign Direct Investment

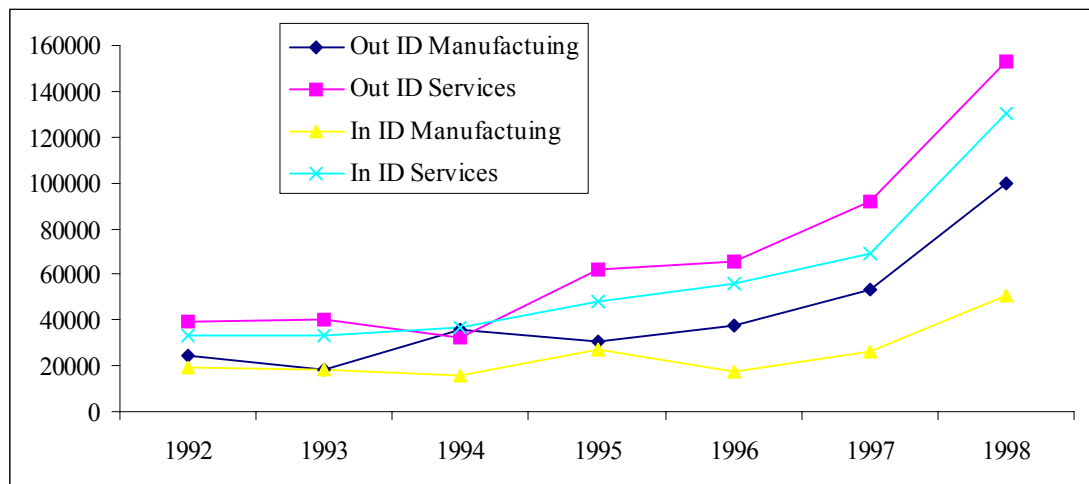
Global FDI trends in European services can be seen in figure 2 (no detailed data are available at a world scale). In general, FDI levels in services are quite superior to those of manufacturing industries, particularly inward FDI, which can be clearly appreciated from 1996 which were years of strong FDI expansion. However, growth rates have been superior in the FDI of manufacturing industries (92/98 average of 33% annually in outflows versus 23% in

services; 23% versus 20% in inflows), which explains the slowing-down of the FDI tertiarisation.

Between 1992-98 European services that have shown the strongest growth rates in outward FDI have been real estate and business services and transport and communications, while other services and hotels and restaurants have experienced lower growth rates. In inward FDI, foreign investment has been concentrated in hotels and restaurants, real estate and business services and other services. Foreign banks have not significantly increased their participation (except in 1998) whilst transport and communications have had period of growth and decline. A clear difference throughout the whole period is that, although both European manufacturing industries and services have higher outward investment than inward, this positive balance is clearer and more stable in manufacturing industries than in services (except in 1994 and 1995). Tertiary industries have positive balances but with volatile growth rates (positive one year, negative the next).

At a world level, long-term data on FDI stocks reveals increasing serviciation of FDI and also relatively high service growth rates in FDI (Mallampally and Jimmy, 2000). Between 1985 and 1995, the nine main home countries grew in service outward investments by 38% (annual growth rate) compared with 28% for the whole economy. As for host countries, service growth rates reached 31% compared with 26% for all goods and services. This means that during this period the main FDI countries experienced a strong growth of service FDI. However, growth over the period 1985 to 1990 was more than twice that of 1990-95. Over the 1990-95 period service FDI growth was only slightly higher than total FDI. These results, together with the analysis of the EU case, confirm a slowing-down of service FDI growth over the last decade.

Figure 2.  
Trends in EU Foreign Direct Investment, 1992-1998. (Absolute values)

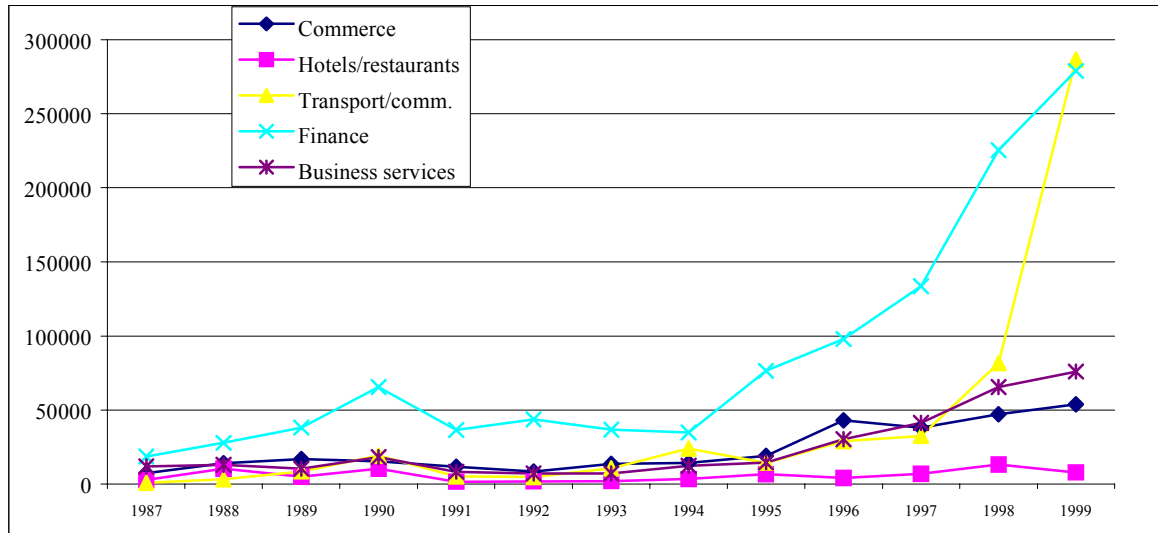


Source: Based on Eurostat (1999a)

### 3.3 Mergers and acquisitions

Figure 3 shows the evolution of world purchase and sale value in service sectors. What stands out above all is the strong growth of these operations from 1995-96, especially in financial and transport and communication services. The increase in service operations towards the end of the 1980s was slowed down by the 1991-94 recession. However, once economic expansion continued growth was spectacular, particularly in transport and communication services that experienced an annual average increase reaching 101% between 1989 and 1999 in sale and purchase operations. Hotels and restaurants present an annual growth of 45%. Lower rates of growth were experienced by financial services (32%), business services (26%) and wholesale and retail trade services (25%). World manufacturing mergers and acquisitions grew on average by 23% annually. Services (32% in total) have grown much more rapidly than manufacturing industries, especially in countries like the United States (in Europe the growth rates of the two main sectors have been much similar).

Figure 3.  
Trends in World Mergers and Acquisitions in service sectors, 1987-1999.  
Sales and purchases absolute values.



Source: Based on WIR (2000)

### 3.4 Global assessment

Trade in services has been *growing faster* than trade in goods in two of the three analysed indicators. The fastest average annual growth rates (1987-99) are in mergers and acquisitions (32%); 9 points above manufacturing mergers and acquisitions (EU service mergers and acquisitions increased by 38%, only 4 points above manufacturing). World trade also shows positive growth rates for trade in services; 7.4% on average for 1989-99 compared with 6.4% for goods. FDI (figures apply only to Europe and 1992-98) show higher growth rates for manufacturing (around 25%) than in services (22%). However, other service FDI data reveals high annual growth rates for the countries that are the most important investors in services (35% of both service inward and outward FDI; 7 points more than for the total FDI). Nevertheless, annual growth rates between 1990/95 were 10-11% for both the total figures (manufacturing and services) and for services by themselves.

All this suggests a *shift in service international growth* from international trade to FDI and from greenfield FDI to mergers and acquisitions. In the 1980s and the first half of the 1990s service trade was expected to take off and surpass 25% of all trade. In fact, service trade has grown more than manufacturing due to the increasing tradability of services, outsourcing

processes, manufacturing internationalisation, the growing size of service suppliers and advances in trade liberalisation. But international service trade could not really emerge as it was predicted. The prominent role of FDI in services since the mid 1980s was due to a number of reasons: the increasing integration of markets at that time and manufacturing de-localisation; the internal consolidation of the service economy; the increasing importance, dynamism and growth of TNCs; the growing competition of top firms; the initial liberalisation of some service markets, and the limits of international trade. Service trade was shifting towards FDI as a result of the processes identified above, but in some measures it still lags behind that of manufacturing. Recently, the mature condition of international service markets is forcing mergers and acquisitions between companies from developed countries as one way of facing competition and of rapidly acquiring the intangible resources and reputations that are an essential feature of all service firms.

#### **4. LEADING COUNTRIES IN SERVICE INTERNATIONALISATION.**

##### ***4.1 US versus the EU***

World service trade is highly concentrated in the EU and US. One indication of this concentration is the dominance of the US and EU in listings of major service multinational firms. The available data also confirms a strong concentration of service trade in these two regions. Together these regions account for around 60% of world service trade: 61% of world exports, 55% of world imports, 66% of world outward FDI, 59% of inward FDI, and 75% of world mergers and acquisitions. Of course, there are other economies that play an important role in service trade, but their market shares are rather low. For example, Asia, as a whole, accounts for 25% of service imports and 20% of service exports. Of this Japan accounts for 8.5% and 4.5% respectively. More recently, Southeast Asian Countries and China are becoming involved in service trade with these countries experiencing high growth rates in international trade during the 1990s. In FDI, developing countries only began to open their markets to service FDI in the second half of the 1980s. This explains why these countries only play a relatively important role in terms of the inward stock of FDI<sup>4</sup>.

EU and US service market shares of international trade exports and inward FDI are somewhat higher than those existing for the trade in goods, but goods trading concentration is

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<sup>4</sup> Mallapally and Zimny (2000) show data for which 13 developing economies have more inward stock in services and in total FDI than 10 developed countries including the main ones. The relative share of services with respect to the total is approximately the same for the two groups, around 50%. However, WIR (2000) data, quite different in value, do not concede to developing countries more than 30% of total world inward FDI stocks (that share has only be larger and increasing in the recession periods of 1980-82 and 1990-94, arriving at 40%). Nevertheless,

higher in outward FDI and US imports. For mergers and acquisitions sales and purchases are similarly EU-US concentrated for both goods and services. This means that service trade produces a contradictory set of flows: in the developed regions service exports are concentrated more than goods and they also attract more service FDI. However, outward investment in goods is so strong that service outward investment seems relatively unimportant. These flows need further research especially the Japanese economies relatively high levels of service imports.

Of course, the EU and US experiences of service trade are different (Table 3). The US is a service export oriented economy since it almost accounts for 20% of total world exports; 5 points higher than that for the market share of goods and services combined. The opposite is the case with respect to imports. The EU is strong in both service exports and imports and its market shares are only slightly higher than those for goods. In FDI stocks the US market share is higher than in trade - always above 20%. The power of American TNCs is well represented by the 24% market share of outward FDI they have in goods and services. For international trade and FDI indicators, exports and outward market shares are higher than imports and inward FDI, indicating the strong net position of these economies. However, the EU market share is more important than the US and this is explained by the catching-up process explained above. Nonetheless, in mergers and acquisitions the EU purchases take half of total purchases while the US is only slightly over 20%. This difference is reduced when considering sales: the US accounts for more sales (35% of the total) than can be expected from other indicators. The EU only takes 40% of total sales.

Table 3  
Service trading in EU and US: a comparative outlook

Market Shares in World (%)	Services		Goods and services	
	EU	US	EU	US
<i>IT, 1999</i>				
Exports	42.6	18.8	39.5	13.6
Imports	41.7	13.4	38.7	17.2
<i>FDI, stocks 1998(*)</i>				
Outward	41.7	23.9	47.2	24.1
Inward	38.4	20.9	36.1	20.2
<i>M&amp;A, cumulative 1989-99</i>				
Purchases	53.2	21.9	53.9	23.0
Sales	40.5	35.2	40.1	35.2
<b>Balance of trading (million \$)</b>				
IT, 1999	13 105	72 943	-38 675	-290 968
FDI stocks, 1997	49 562	101 328	231 220	156 061
M&A, 1989-99	138 325	-179 729	388 847	-344 103

(\*) Estimates given the difficulties in calculating total service FDI stocks.

Source: Based on WTO (2000), Eurostat (2000a), WIR (2000)

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developing countries have a prominent position considering inward FDI standardise by market size and GDP (close to 25% in 1999, faced to less than 15% in developed countries).

The FDI and mergers and acquisitions data confirm the importance of capital flows from the EU to the US in the 1990s. For example, for both the 1998 flows and 1997 stocks, EU services invested 12% more in the US than American service companies did in the EU. This contrasts with the total balance (goods+services) which was positive for the EU in 1998 (by 10%) but US stocks in the EU were still larger by 36% than the EU stocks in the US. The EU positive balance is extremely high in real estate, transport, hotels and restaurants, and financial services are the strongest EU services in relation to the US (1997)<sup>5</sup>. In terms of investment the US is much more significant than the EU in R&D, computer services, communications and distribution trades (note the impressive role of US exports in some strategic business services, 6.6% billion exports - 44% in computer services (OECD, 1999b)). The size of the US market, its strong growth during the 1990s, the currency position of the Euro with respect to the dollar and the reorganisation on many European TNCs partially explain this finding.

The uneven distribution of the share of the world market for services results in a current net balance for the EU and the US. In international trade and FDI the US service balances are extremely positive and the EU service balance is also positive but not to the same level as the EU. In both cases, positive international trade service balances compensate for the high or very high (US) negative balance in goods trade. However, in FDI, service balances reinforce the positive flow of goods stocks. In mergers and acquisitions there is an interesting difference between the EU and the US since the former yields more positive results (more purchases than sales) while the latter shows the opposite, both in services and in goods. In short, market shares are larger in the EU than in the US but in similar proportions with respect to market shares in goods and services (more deviation in international trade). The balance of services (import/export) is more positive for the US except in the case of mergers and acquisitions. This *asymmetry* between the high European market shares of service trading and higher net position of US service trade can be explained by the leading role of top American companies in many service sectors<sup>6</sup>.

The peculiar position of the EU and the US in terms of mergers and acquisitions is further explored in table 4. In total, Europe surpasses the United States both in sale and purchase of service companies and in purchase growth rates. In relation to levels, the European

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<sup>5</sup> The balance between outward and inward *stocks investments* is very positive for Europe in transport services (51% more outward than inward), manufacturing and construction (46%), financial services (43%) and computer activities (12%). All these activities make EU net exports of direct investments in the world (by +21%). However, in certain activities EU imports more capital: other services (outward FDI is 78% of inward investment), other business services (82%), trade (83%), and R&D (90%).

<sup>6</sup> Dunning (1993) provides a very detailed table indicating national competitive advantages in 50 services. US firms had advantages in 39 service sectors. The UK followed with 28 service



Union sells 13% more than the United States but the latter purchases twice as much as the former (58%). With respect to growth rates, there is a 14 point difference. Differences in levels can be explained by growth rates. European services have been acquired much more frequently than North American ones, although there have also been more European sales in other sectors, except in the primary sector. However, in purchases, the strong difference is due to the manufacturing sector which accounts for more than half of European purchases; but it should be noted that financial services and transport and communication sectors have also been important. The service sector has been more active in Europe than in the United States: EU acquisitions grew by 39% compared to 32% in US. However, American companies were more active in business services, distributive trades and transport-communications. In service sales, American companies have been more active in all service sectors.

Table 4.  
M&A in Europe and US: annual growth rates and cumulative values, 1987-1999

	Sales				Purchases			
	Growth rate 1987-99 (aver.)		Cumulative M&A 1987-99		Growth rate 1987-99 (aver.)		Cumulative M&A 1987-99	
	USA	EU	USA	EU	USA	EU	USA	EU
TOTAL	25%	39%	993553	1132537	20%	33%	649450	1521384
Primary	90%	174%	32672	14140	79%	182%	13014	22301
Manufacturing	40%	46%	488400	522748	16%	38%	305788	768091
Trade	99%	66%	78532	81227	76%	30%	21473	69852
Hotels/restaurants	41%	40%	19434	20125	45%	1035%	6718	9665
Transport/comm.	283%	122%	103800	111699	231%	202%	23796	132798
Finance	61%	52%	129085	185860	28%	50%	145587	370954
Business services	75%	65%	63599	83540	75%	54%	35103	54432
<b>SERVICES</b>	50%	42%	394450	482451	32%	39%	232677	637701

Source: Based on Eurostat (1999a)

#### 4.2 Details of leadership by country and sector

Some additional information on international trade and FDI by service activities can be added to the evidence already presented. The second box, produced by Teresa Fernández, focuses on service countries and sectoral profiles.

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#### BOX 2

#### SERVICE TRADE AND INVESTMENT IN ADVANCED COUNTRIES

By Teresa Fernández Fernández, University of Alcalá.

The aim of this box is to identify some countries' positions in trade and investment in services and to try to establish quantitatively if there is complementarity between both forms of internationalisation. The analysis has been conducted on Western developed market economies

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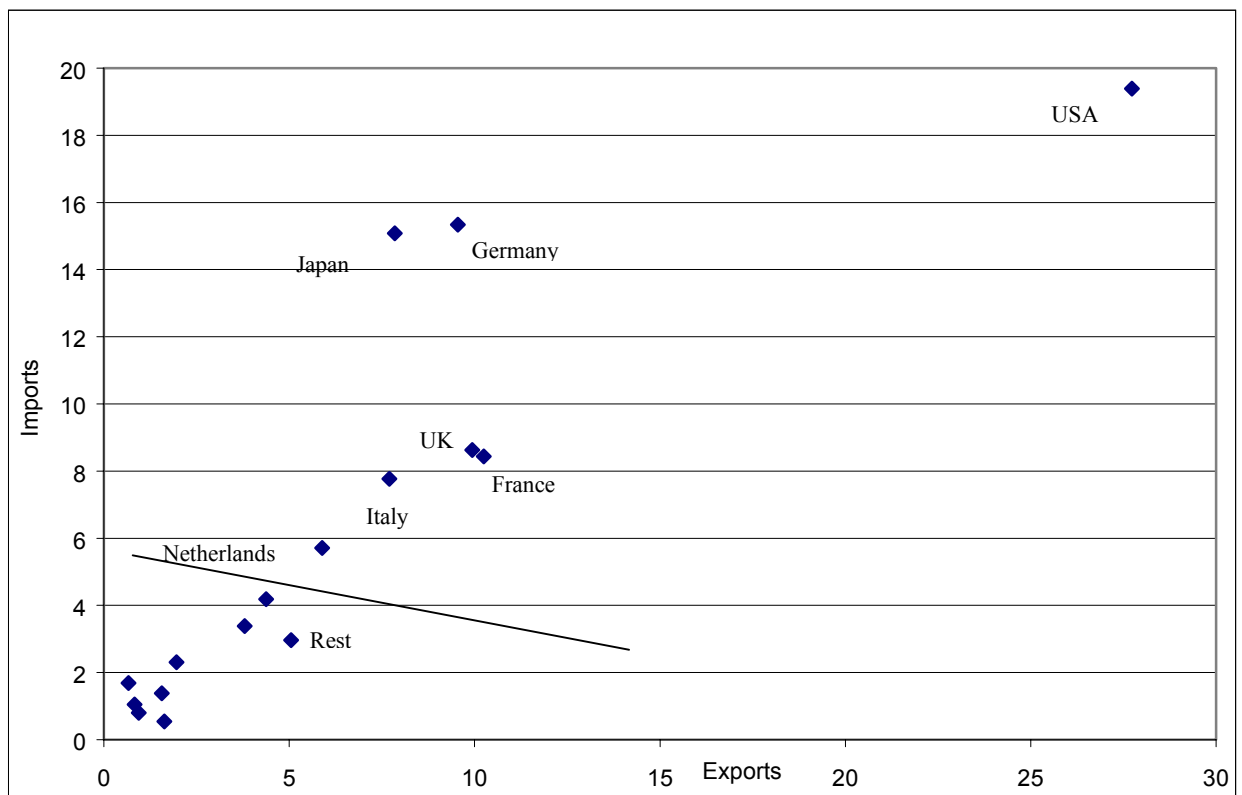
sectors and Switzerland was third with advantages in 13 sectors. Germany and Japan only held advantages in 10 and 8 sectors respectively.

and for the purposes of this analysis this included all member states of the European Community as well as the US and Japan. These countries have been chosen due to the availability of disaggregated data by service activities at NACE three digit-level. The availability of this data permits a joint investment-trade study.

**Main dealers in service trade and investment**

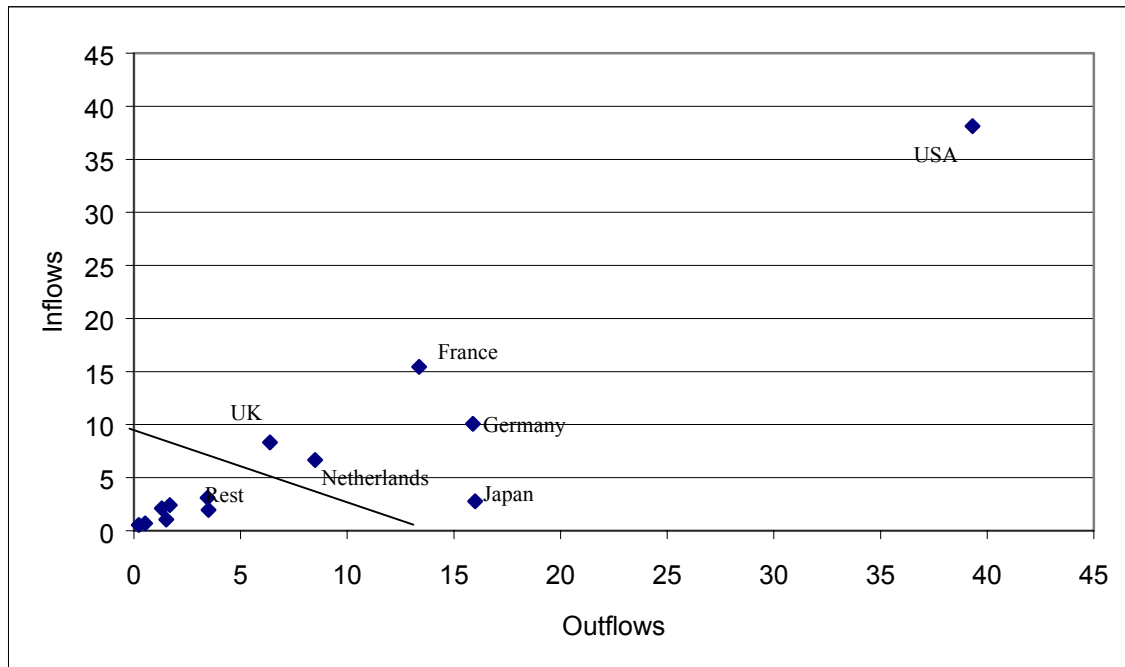
Longitudinal empirical evidence for manufacturing highlights that there are countries with a significant presence in trade and investment like the USA, Germany and Japan. Figures 4 and 5 reveals that these countries also are relatively important in terms of service internationalisation.

Figure 4  
Main traders in services in the advanced countries (% sum UE, USA and Japan, 1994-98)



Source: Based on Eurostat (2000b)

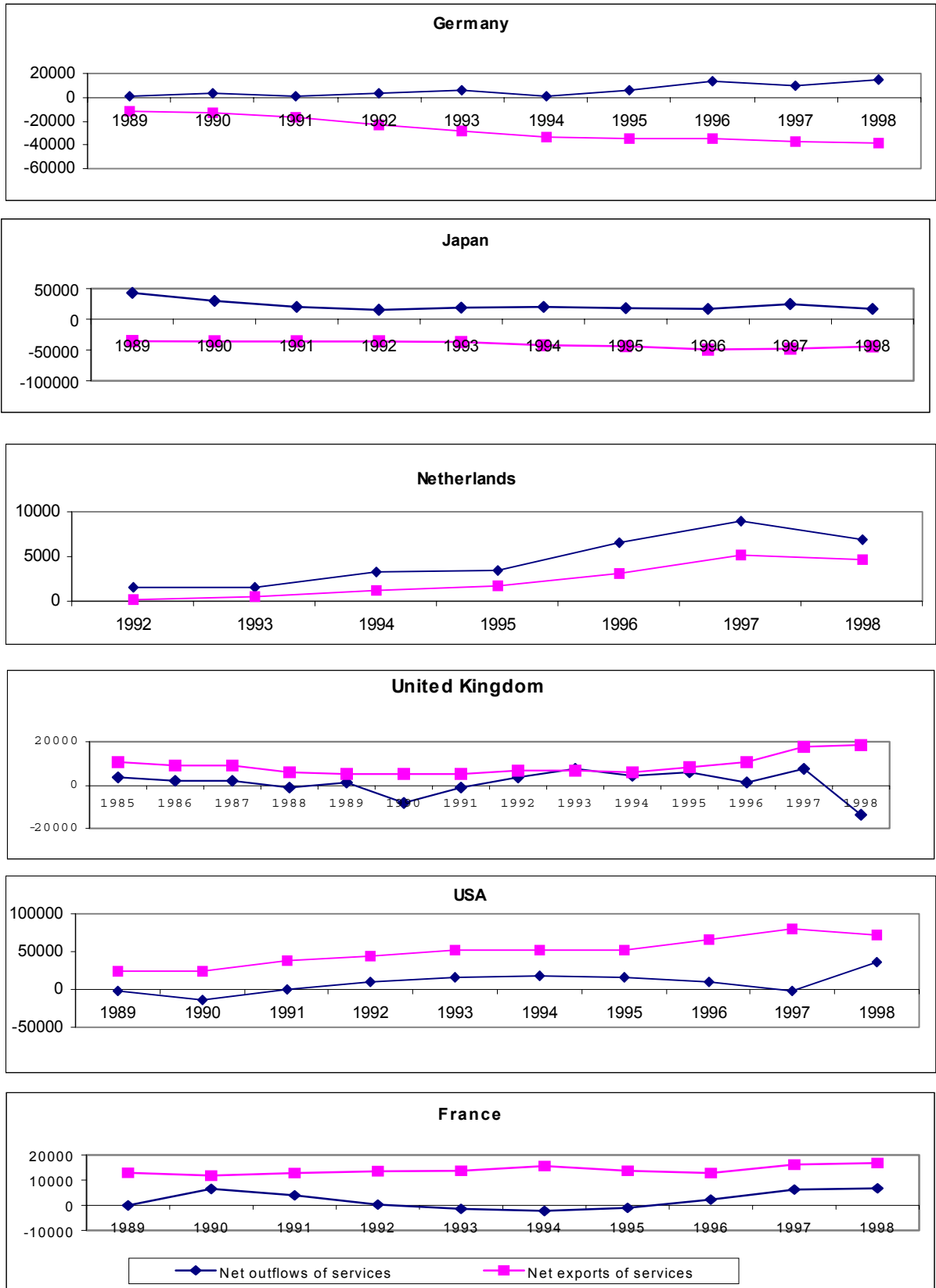
Figure 5.  
Main dealers in service investment in advanced countries  
(% sum UE, USA and Japan, 1994-98)



Source: Based on Eurostat (1999a) and OECD (2000c)

These countries, more or less, maintain their position in the ranking of investment and trade, but there are differences in their behaviour between their net position related to trade and investment. That is to say, there seems to be a complementarity between trade and investment but this relationship is not static and in fact seems to be affected by a reversed product cycle pattern. The product cycle theory developed by Vernon (1966), in the framework of the neo-technological theories, shows that, in relation to manufacturing, internationalisation is carried out first by trade and is followed by investment. It states that it is the normal path to internationalisation along which countries' advance. Therefore, the exporting background of countries and their manufacturing tradition allows them to rapidly develop overseas investments.

Figure 6  
 Net exports and outflows of services in selected countries 1985-1998 (mio ECUs).



Source: Based on OECD (2000c) and EUROSTAT (2000b)

Services seem to follow a reversed product cycle pattern compared to the one existing for manufacturing. This is, internationalisation in services seems to happen first through investment and later by exports. Figure 6 shows how more tertiarised countries like USA, France or United Kingdom, for which services have a long tradition and account more than 70% of GDP and employment, are mainly exporters, while Germany and Japan, with a relatively low weight in the service sector are mainly investors, being in the first stage.

Service characteristics, for example, the need for proximity between producers and consumers and their intangibility make them more prone to investment in a first stage. Once a branch is located in another countries, the distance to near markets is reduced and the company begins to export with more intensity.

However, it can be said that since there are services more prone to trade (tourism) and more prone to investment (business services), the observed pattern for services can be affected by the relative share of different service activities in trade and investment in each country.

### *Net positions in service trade and investment*

It is important to know which service activities are most important in terms of trade and investment (tables 5 and 6).

Table 5  
Net outward investment position in services (millions of ECU in 1998)

	USA	United Kingdom	Germany	France	Netherlands
Tourism	(- 4904)	3207	(-37)	3953	(-858)
Transports & Communic.	- 13648	8713	994	(849)	(2256)
Financial	223525	8084	44330	(17687)	28913
Business services	(6283)	(14278)	-20319	(-408)	57
<b>Total net assets</b>	166667	38636	40158	19742	29263

(\*) Figures between brackets mean that the trend observed in net flows during 1994-1997 does not coincide with the sign observed in 1998 asset). Data on stocks for Japan are not available during the last four years.  
Source: Based on OECD (2000c)

USA has quantitatively the biggest share of net assets (assets minus liabilities), followed in this order by Germany, United Kingdom, The Netherlands and France. Both in Germany and USA, financial services have the lion's share. The changes of trend indicate that in business activities foreign investors have been investing in the USA more than USA abroad during the period 1994-1998 and viceversa with tourism. United Kingdom, despite its quantitative importance as net investor in all the activities seems to experiment a change of trend in business services. France is losing importance as investor in financial services and transports & Communications and gaining in business services. The Netherlands are improving in tourism and worsening in transports & Communications.

Table 6  
Net exports of services (millions of ECU in 1998)

	Germany	France	Netherlands	United Kingdom	USA	Japan
<b>Tourism</b>	-27254	10848	-3746	-8106	23011	-22360
<b>Transports &amp; Communications</b>	-4864	610	4992	-3531	-8424	-6763
<b>Financial</b>	644	(-456)	-609	12966	5228	-2543
<b>Business services</b>	-4817	4948	2863	16404	15725	-11799
<b>Total net exports of services</b>	-38442	16837	4675	18114	71897	-44084

(\*) Figures between brackets mean that the trend observed in net flows during 1994-1997 does not coincide with the sign observed in 1998 asset)

Source: Based on Eurostat (2000b)

With respect to net trade (exports minus imports) it can be seen how Germany and Japan, despite their relative amount in exports shown in figures 4 and 5, are really net importers in almost all the service considered. United Kingdom despite its loosing of competitiveness in business services regarding investment, is a net exporter considering all the activities. USA keeps a good position as a net exporter and that France is very important again in tourism. In trade the trends for each service/country seem to be more stable than in investment.

## 5. THE INTERNATIONALISATION OF SERVICE INDUSTRIES: TOWARDS AN INDEX OF INTERNATIONALISATION

This final section presents some key comparative findings for the three main indicators using available data. The objective is to verify at which point various service industries are internationalised and whether they internationalise in the same way. Using the different analyses, it is possible to identify which services are more oriented towards international trade, FDI or mergers and acquisitions. Previous studies classify service activities according to the identification of preferences towards types of service internationalisation.

Vandermerwe and Chadwick (1989) have grouped engineering and advertising with services that can be considered as FDI oriented (low goods, high face-to-face interaction) and the maintenance of financial services (medium goods, higher interaction), and IT oriented as requiring the least investment, control and presence. Some of these latter services could be provided via mail delivery. Sapir (1993) or OECD (2000a), amongst others, identify international trade with tourism, post, education and medical services (mode 2) and some transport, financial and professional services (mode 1). FDI (mode 3) is linked to retailing, banking, business services or telecommunications, while temporary movement of suppliers is exemplified by consultancy, construction and transport services. FDI mode requires low mobility of both provider and clients and, normally, overcomes high reputation costs (for

example in banking, telecommunications and some business services). The role of wholesale and retailing trades is recognised in mergers and acquisitions and service foreign affiliates (Knauth, 2000). Although business services are increasing in importance and now lead the number of mergers and acquisitions operations in Europe (2800 in 1998-99, 64% in computer programming services; European Economy, 2000). Telecommunications and insurance have been behind the main mega cross-border mergers and acquisitions that have occurred in services (WIR, 2000). A different taxonomy for EU service internationalisation will now be presented.

This section is based on European data, but it could be applied to other countries and time periods. Table 7 shows, first, the relative shares of total exchanges for each service industry and, second, annual growth rates. Percentile data are provided for the last available year and a recent series of years (1992-1998/99). Some categories contain data that has been approximated for the purposes of comparison (see footnotes in table 7).

Following previous results, the first important outcome from this table is that the European internationalisation of services with respect to goods is a phenomena associated with FDI and mergers and acquisitions rather than with international trade. The opposite is the case for manufacturing where the emphasis is on international trade rather than on mergers and acquisitions. The asymmetry between manufacturing and services internationalisation would be modified if growth rates showed convergence ratios in manufacturing FDI and service trade. However, this is not the case during the last 1992-1998 period<sup>7</sup>. For FDI and Trade, 1997/98 rates are higher for manufacturing. It means that EU service internationalisation during the 1990s was still led by manufacturing processes, even if EU services had been incorporated into the global arena during the 1980s. Results were only slightly different for world trade as explained in the previous section.

Service industries are quite heterogeneous and, as expected, their internationalisation has shown different patterns. The *most global service activities* are financial one. This is due to their relatively high share of FDI (21.6%) and mergers and acquisitions (20.4%), even if shares on trade are rather poor (1.5). Transport and communications and real estate and business services have similar global positions, but in a different way. The first prefers mergers and acquisitions and trade to be internationalised (share of 14.3% and 5.9% respectively), while FDI has little relevance (2.1%). The second prefers FDI (18.8%), but trade and mergers and

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<sup>7</sup> Manufacturing and goods exchanges grew annually more than services in the two key indicators: 25% in FDI (3 points more than services), and 8.2% in trade (0.6 point more than services). In M&A both manufacturing and services share grew by 40% annually. Growth rates for the last available year only indicate a difference with respect to M&A: service transactions grew by 91% while manufacturing by “only” 65%.

acquisitions are also relevant (around 5% of share). The least relevant global services are personal services (less than 1.4% share in all indicators) and commerce (9.9% in FDI and 4.8% in mergers and acquisitions), which is rather poor considering the size of this sector.

Table 7  
Summary of service internationalisation indicators: Sectorial distribution and annual growth rates of EU global exchanges in the World (all figures in %)

	FDI (Inflows+Outflows)		IT <sup>(2)</sup> (credits+debits)		M&A (sales + purchases)	
	Flows 98	Stocks 97 <sup>(1)</sup>	1998	92-98	1999	92-99
<b>Shares of total = 100</b>						
Manufacturing/Goods	29.3	36.5	78.5	77.9	43.5	44.8
SERVICES	55.4	55.0	21.5	22.1	48.2	46.3
Commerce/Merchandising	6.4	9.9	1.2	1.1	4.3	4.8
Hotels, restaurants/travel	0.1	1.2	6.5	6.7	0.4	0.9
Transp. Communications	4.0	2.1	5.6	5.9	19.6	14.3
Financial services	27.3	21.6	1.2	1.5	17.5	20.4
RE & Business Services	15.7	18.8	5.6	5.1	5.1	5.4
Personal services	1.9	1.4	0.3	0.4	1.2	1.4
<b>Annual growth rates <sup>(3)</sup></b>	<i>Flows</i> 97-98	<i>Flows</i> 92-98	97-98	92-98	98/99	92-99
Manufacturing/Goods	87	25	5	8	65	40
SERVICES	76	22	5	8	90	41
Commerce/Merchandising	17	15	4	9	38	36
Hotels, restaurants/travel	290	7	7	10	-52	61
Transp. Communications	38	19	13	20	629	132
Financial services	174	11	-3	28	23	37
RE & Business Services	34	32	36	33	50	54
Personal services	27	3	1	9	30	45

(1) Stocks of inward and outward direct investment

(2) Goods exchanges have been allocated to the manufacturing sector, travel trade to hotels and restaurants, and merchandising to wholesale and retail trade (commerce). These equivalencies are only partial, but they permit an approximate comparative outlook.

(3) Annual growth rates average of annual growth rates between 1991/1992 and last available year change. Arithmetical averages were selected instead of other possible measures to clearly include high growth rates of the end of the 90s.

Source: Based on WTO (2000), Eurostat (2000a) and WIR (2000).

In terms of growth rates, the *most dynamic service industry* in the global economy is transport and communications. This has the highest annual growth rate (an impressive 132%) found for mergers and acquisitions but growth rates in FDI and trade has also been remarkable (19% and 20.5% respectively). The second sector is probably real estate and business services. This sector has the highest trade growth (32.7%) and very high rates in FDI (32%) and mergers and acquisitions (54%). Financial services also yield very important rates, even if they already are the most globalised service activity: 28% in trade, 37% in mergers and acquisitions, 11% in FDI. The least internationally dynamic service activities are commerce (distributive trades; despite the relatively high 15% growth in FDI), and personal services (due to the low growth rate in trade). Anyway, it is necessary to point out that most growth rates in service activities are



very high and extremely significant in terms of the ways in which they are being affected by how internationalisation.

Finally, an *internationalisation index* can be constructed taking into account the average size of each sector. The objective is to present a simple synthetic index which is valid for sectorial comparisons not influenced by sector size (large sectors have normally more international presence than others, so this effect should be removed in order to measure actual internationalisation in each sector). Table 8 shows the main results. A first *size index* is built using available recent information on sectorial service contributions to value added and employment and their importance in terms of number of firms. For example, the value of 0.673 for services is the average of certain measures around the 67% of service shares of total employment, value added and others. The remaining indexes are built in a similar way: average of shares divided by the size index. Finally, the internationalisation index is based on the three former ones. A value of 1 means that the sector has a relative weight fully in coherence with its economic size. A value bigger than 1 means that internationalisation is much more important than is expected from its economic weight.

Table 8  
Internationalisation index for services in the European Union, 1998.

	Size index	Relative FDI	Relative Trade	Relative M&A	Internationalisation index
Manufacturing / Goods	0.308	1.19	2.53	1.45	1.72
Services	0.673	0.82	0.33	0.67	0.61
Commerce / Merchandising	0.190	0.52	0.11	0.25	0.29
Hotels, rest. / Travel	0.060	0.19	1.11	0.14	0.48
Transp. Communications	0.056	0.38	1.05	2.53	1.32
Financial services	0.081	2.67	0.19	2.52	1.79
RE & Business Services	0.121	1.55	0.42	0.44	0.81
Personal Services	0.085	0.16	0.04	0.16	0.12

Source: Based on WTO (2000), Eurostat (2000a) and WIR (2000).

Results are fully coherent with the previous ones. Manufacturing internationalisation is always above manufacturing weight, particularly in international trade (2.53). Services are always below it as could be expected from its contribution to value added and employment, particularly in international trade (0.33). The service internationalisation index is 0.61 while the manufacturing one is 1.72. This is due to the very low rates of some activities. Personal services (0.12), commerce (0.29) and hotels and restaurants (0.48) have extremely low indexes, so they are clearly influencing the overall service sector index. However, real estate and business services have an internationalisation weight similar (0.81) to the sector's economic weight, transport and communications are clearly above (1.32) and financial services (1.79) lead the relative internationalisation processes, even more than manufacturing. The role of financial

services is particularly important since they have the highest rates in FDI (2.67) and mergers and acquisitions (2.53; nearly the same as transport and communications).

In relative terms service industries prefer FDI to international trade. The exceptions are tourism (for obvious reasons) and transport and communications (likely due to the typical transport of international products and the tradability of some communication services using long-distance technology). In contrast, the relative mergers and acquisitions index stands out for transport and telecommunications and financial services. This confirms the analysis presented earlier in this working paper. In the remaining service sectors mergers and acquisitions is still lower than could be expected given their economic size. In general, these results do not contradict previous studies that explore the links between sectors and internationalisation modes.

The different international profiles of parts of the service sector can be explained by *many determinants*, but important amongst these are the nature of services, standardisation and regulatory environments. It is no coincidence that the most international sectors (transport and communications and financial services) are the ones with the greatest number of multinationals, the most standardised services as well as being in areas that are some of the most relatively liberalised service markets in Europe. Services that are associated with local environments, with more segmented markets and which are subject to narrow regulations tend to be less international than can be expected given their economic size. What it is impossible to identify in this analysis is the importance or weight of each of these factors as contributory variables that explain the on-going internationalisation of service functions.

## 6. CONCLUSIONS

Given the heterogeneity of the service sector the internationalisation of service industries has different profiles, trends and dynamics. The heterogeneity of the sector necessitates comparative analysis by sector, country and mode of internationalisation. Thus, this working paper has explored some of the main issues related to service internationalisation based on comparisons between goods and services (and different service industries), between US and the EU (and other EU countries) and between trade and investment (and different forms of investment). Certain hypotheses were formulated: the “service-orientation” of global processes; the American leadership of service globalisation and other relevant countries; and the uneven growth of service globalisation according to specific service sectors (not all services are internationalised to the same extent and in the same way). The working paper provides empirical evidence by comparing three main internationalisation indicators: IT, FDI (greenfield and mergers and acquisitions) and cross-border mergers and acquisitions.

It has been shown that levels of tertiarisation are still modest in FDI, very low in international trade and high in mergers and acquisitions. Except in mergers and acquisitions, the 1990s does not suggest that services will play a more important role in global trade. The globalisation of manufacturing industry is still very significant and it is manufacturing that is at the forefront of international trade and FDI processes. Nevertheless, it is important to note that growth rates for service trade have been often higher than goods trade during the last two decades. Nevertheless, although differences in relation to goods have not been reduced significantly during the last years, service internationalisation is still growing strongly and services will continue to become more internationalised over the next few decades. Moreover, services continue to play an important role in contributing to the globalisation of goods trade.

In terms of the different modes of service internationalisation the evidence suggests a shift away from international trade to FDI and, above all, in the 1990s, from international trade and greenfield FDI to mergers and acquisitions. One of the reasons for this shift is the increasing maturing of key service markets. In mature markets it is vital for new companies to rapidly acquire the intangible assets that lie behind the competitiveness of many service functions. The acquisitions of such assets has become a priority for firms attempting to internationalise today and it has become especially for European and American companies.

The EU and US dominate the global market in service trade (around 60%), despite the recently increasing importance of some Asian countries. Europe is the first region in terms of the share of the global service market followed by the US. Nevertheless in terms of import/export balances and the presence of multinationals the US is the clear leader. The

exception is mergers and acquisitions in which European net investment in the other and US countries has been notorious. In Europe, only the UK possesses features similar to those of the US: active exports and investors in many services, hosting many service TNCs headquarters and at the forefront of many service globalisation processes. Most EU countries have positive trade balances in some specific services (e.g., German, French and Dutch investment in financial services and French and Spanish exports in tourism, etc.) and possess comparative advantages in selected markets.

Concerning the complementarity of substitution processes that exist between trade and investment in different countries further research is required. However, certain initial evidence is suggested. Some highly tertiarised economies (USA and UK) are at the forefront of service trade since they stand higher levels of service trade than investment. However, less service-oriented economies like Germany or Japan tend to be more investors than traders. International specialisation within service trade modes seems to be related to the uneven development of the service economy.

Service internationalisation is being led by financial, transport and communication industries. These sectors are internationalising at levels that are similar in relative terms to those of the manufacturing sector. Business services – especially advanced business services - are also important and play a very active and growing role in the internationalisation process (including mergers and acquisitions). The different internationalisation rates of service industries are related to a set of diverse factors: service features and required mobility, the cost of establishing a reputation, the introduction of technology, market structure and regulations. It is more than probable that further liberalisation of service markets would improve the level of service internationalisation and, as a result, increase the advantages of service trade. Furthermore, markets will continue to push for the multiplication of the manifold and fertile interactions that exists between services and globalisation. Further research and political attention is essential if academics and the policy community are to follow these coming trends and to develop appropriate national and international trading institutional frameworks.

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