

## THE ULTRA-SELECT CLUB OF SERVICE EXPORT FIRMS

*In 2007, La Lettre du CEPII underlined how difficult it was for industrial businesses to break into export markets.<sup>1</sup> It was shown that the number of French businesses stating they exported goods was incredibly low, and that only the strongest-performing businesses had the capacities required to sell their goods on foreign markets. We are continuing this work and the focus is currently on the international exchange of services. The situation here is even more severe: under 2% of French service companies export – ten times fewer than in the manufactured goods sector. We will also show that the difficulties faced by service companies in breaking into foreign export markets are, to a significant extent, due to the strictness of the regulations governing these activities in each country. Policies to open and free up service markets are thus a crucial issue for French foreign trade, and a major challenge for service companies.*

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### ■ Fewer than 2% of service companies export

Services, in all their forms, occupy a central place in our economies: service companies generate two-thirds of GDP on average within the countries of the OECD. However, international trade is still first and foremost concerned with goods: cross-border exchanges of services constitute only 20% of global trade. Of course, this is largely explained by the fact that many services cannot be exchanged. It is thus the developments in services that should be examined rather than the absolute level of services themselves.

The share represented by services in global trade is relatively stable, but this overall stability masks certain deep-seated shifts. The relative drop in transport prices (for goods and for passengers) produced a rapid fall in the percentage of 'transport' and 'travel' items in global exchanges, in favour of 'other services': insurance, audiovisual, communication, construction, finance, IT, licences and patents, business services (accounting, consulting, architectural services, etc.) and so on.

Given the importance of these services (by virtue of their significance in developed economies and their potential spillover effects on manufacturing activities), the question of whether to open these sectors to international competition is of major significance. Developed countries are under no illusion: faced with the powerful deindustrialisation trends affecting them, they are pushing for a freeing up of the international exchange of services.

Negotiating and implementing the commercial opening up of service sectors is not easy, however. The traditional tools of protectionism do not apply here. This sector has no tariffs that might be cut, and no quotas to enlarge. The obstacles restricting trade in services are, for the most part, vague and deeply rooted in the tangled web of regulations each country has progressively implemented to govern these markets, often without giving a second thought to protectionism. The fact remains that international trade in services is still very

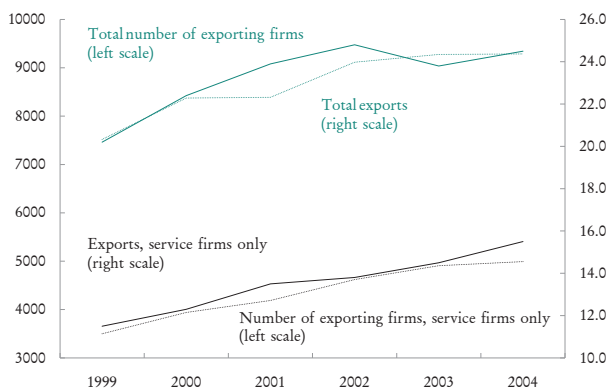
1. M. Crozet, & T. Mayer (2007), "The very select club of exporting firms", *La Lettre du CEPII*, no. 271, October.

restricted, as shown strikingly by the detailed statistics for French trade in ‘other services’.

The Banque de France gathers service export declarations from all French companies, whether those declarations are reported directly by the exporters or via their banking agencies. This database sets out the international transactions carried out by each company per destination country and type of service. It reveals that around 50% of the value of exports and almost 70% of export companies listed in the database fall under business services. In second place are patents and licences (a little under 20% of the amounts exported) and construction.

The database we have used records an annual average of 23 billion euros in exports of ‘other services’, performed by around 8,650 companies. The annual changes between 1999 and 2004 are shown in Figure 1. The value of exports went from 20 billion to 24.5 billion euros over the whole 1999-2004 period, an increase of 21%. The number of exporters also rose, by around 23%, going from 7,500 exporters in 1999 to 9,300 in 2004. In any event, the number of service exporters is hardly impressive. Even then, a large number of firms exporting services are in fact manufacturing companies that invoice services to their subsidiaries or clients abroad. Only slightly over half of exporters declared that their main business was in a service sector. This means that less than 5,000 service firms exported in 2004, which is an extremely low number. Finally, we estimate that only 0.5% of the total population of service companies, and under 1.7% of firms whose main business is performing tradable services at international level (consulting, research and development, finance, *etc.*) actually have an export business. This percentage is around ten times smaller than for trade in manufactured goods.

Figure 1 – Number of exporters and French service exports (all companies and service companies only)



Source: Service exchange database (Banque de France); CEPII calculations.

## ■ Almost 70% of exports carried out by 1% of exporters

The vast majority of service companies do not export, and exporters are not always hugely successful: very few of them generate a genuinely significant volume of business abroad. As a consequence, exports of services are concentrated among a handful of companies.

The hundred or so companies making up the first one percent of the largest service exporters carry out over 68% of total exports; the top 5% of exporters are responsible for more than 80% of export traffic, and the top 10% (representing around a thousand companies) perform almost 95% of French national exports. These percentages are virtually the same if we exclude industrial firms from the sample. They are also astonishingly close to the percentages observed for goods exports<sup>2</sup>.

Table 1 gives more detail on the heterogeneity of exporters. It sets out the distribution of export companies and service exports by number of services exported and number of destinations served. It reveals, at the top of the table, that 58.6% of companies export only a single category of service (out of a maximum of eight), to a single destination. The volumes they export (at the bottom of the table) are also minimal: these small exporters represent a grand total of 6.6% of French service exports. In contrast, businesses able to provide more than three types of service to more than five destinations provide almost half the volume (47.5%) but represent only 3.7% of the total number of exporters.

Table 1 – Respective weighting of small and large exporters

Distribution of French service exporters in 2007 (%)				
Number of services	Number of destinations			Total
	1	1.0	2.5	
2-3	58.6	15.1	3.7	19.3
+3	3.3	10.9	5.1	3.3
Total	0.1	0.6	2.6	100.0
Distribution of French service exports in 2007 (%)				
Number of services	Number of destinations			Total
	1	1.0	2.5	
2-3	6.6	3.2	16.1	28.0
+3	1.2	3.5	23.4	46.0
Total	0.03	0.3	45.7	100.0

Interpretation: 58.6% of export companies export a single type of service to a single country. These companies carry out a total of 6.6% of French service exports.

Source: Service exchange database (Banque de France); CEPII calculations.

An important difference to the observations made with regard to trade of goods emerges from Table 1. This difference lies in the ability of exporters to supply a large number of foreign countries. The table shows that 62% of companies

export to a single market only, and only 11% are service providers in more than 5 countries. This is considerably fewer than in the trade of goods, where the percentage of exporters serving one single destination is ‘only’ 43%, and where over 15% of exporters are present in more than 10 foreign countries. This observation suggests that entry barriers are particularly restrictive in the service sector, as confirmed by our econometric analyses.

## ■ The influence of regulations in destination countries

The OECD provides summary indicators of the degree of regulations covering economic activities in each member country of the organisation. In particular the NMR (“non-manufacturing regulation”) indicator refers to all service sectors where competition is viable and that are not chiefly dominated by public administrations. This indicator measures the extent of barriers to entry, the degree of public control of prices, the use of regulatory and controlling bodies, etc. The final grade, available for 1998, 2003 and 2008, ranges from 0 (total lack of regulation) to 6 (very strict regulation). This indicator covers only the OECD countries, which account for over 83% of French exports of services.

Figure 2 compares the degree of regulation in service sectors for each country of the OECD (with the exception of France) and the export margins for French services: the number of exporters to the country in question (extensive margin, on the left) and the average amount exported by each firm (intensive margin, on the right). These confirm that regulations constitute a barrier to exchange: there are clearly fewer exporting firms on the more heavily regulated markets. With regard to the intensive trade margin, the effect is less pronounced: although a negative correlation does appear to emerge between regulations and the average value exported by each firm, this correlation is only slight.

A detailed econometric analysis clearly confirms that regulations constitute entry barriers that significantly hamper international trade. The traditional determining factors for the intensity of bilateral trade (such as the size of the foreign market involved, its average revenue, the distance between that market and France, etc.) have a very similar influence on both the value of services exported by each firm and that firm’s decision to export: relatively large markets that are relatively close to France display both a greater number of exporters towards them and larger volumes of exports per firm. However, regulations affecting service markets have only a very slight influence on the sales recorded by exporters present in a foreign country, whereas they reduce significantly the probability that a given firm will be able to export at all. This goes some way to explain the very small number of exporters in the service sector, and the difficulty they experience in positioning themselves on multiple markets simultaneously.

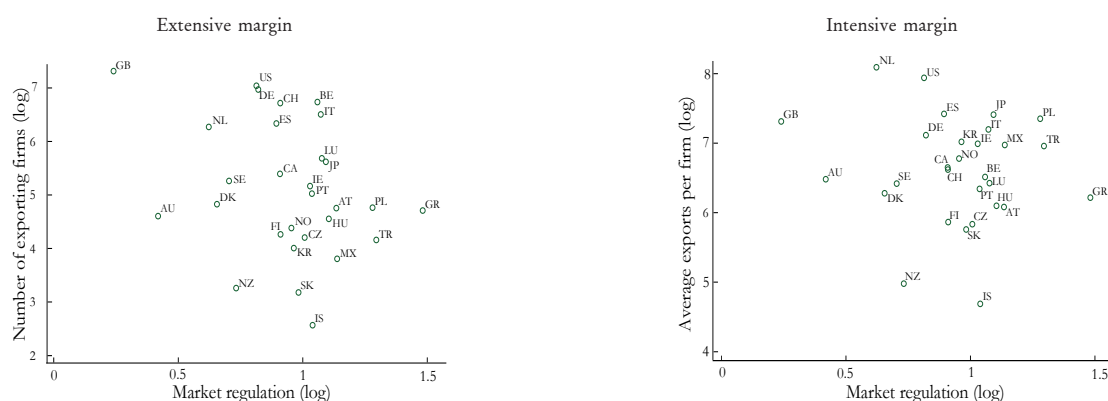
Furthermore, regulations do not have the same effect on all service sectors. Table 2 shows the effect of the degrees of regulations in importing countries on each of the two trade margins. The degree of regulation has no effect on the average value exported in any sector. However, regulations have a very strong, significant limiting effect on the possibilities of entering into foreign markets, in particular in the sub-sectors of business services, communication and IT.

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## ■ Preparing for when it all opens up

Comparing the OECD indicators for different years clearly shows that all countries have been implementing reforms that gradually reduce the restrictions on their service sectors. Not only is the level of NMR falling; the discrepancies between countries are also reducing: the OECD countries with the strongest regulations open up at a more rapid pace and are progressively catching up with the more open countries. This

Figure 2 – Extensive and intensive margins and level of regulations in service sectors



Source: Service exchange database (Banque de France) and NMR (OECD); CEPII calculations.

Table 2 – Effects of the degree of regulation of service sectors on the number of French service export companies and their average exports

Type of service	Number of companies	Exports per company
All services	-0.57 <sup>a</sup>	-0.05
Communications	-0.97 <sup>a</sup>	-0.6
Construction	-0.3	1.87
Finance	-0.45	-0.82
Information and IT	-1.44 <sup>a</sup>	-0.26
Licences and patents	-0.54 <sup>b</sup>	-0.21
Services to companies	-0.71 <sup>a</sup>	-0.42
Audiovisual	-0.5	0.15
Insurance	-0.35	-0.06

*Interpretation:* all else being equal, a drop of 10% in the NRM in a partner country of France will boost the number of countries exporting services to that country by 5.7% on average for all sectors, and by 9.7% in the communications sector. No significant effect is expected on the average value exported by each firm.

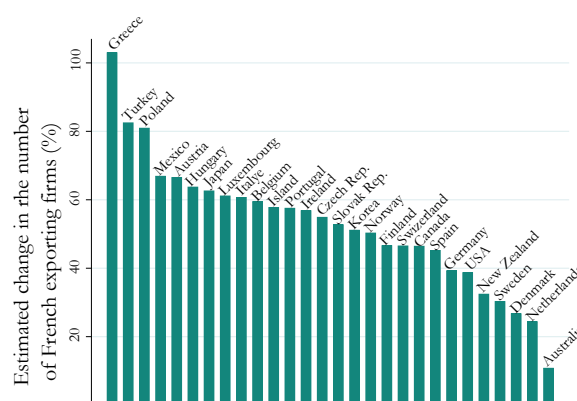
*Source:* Authors' estimates. Significance threshold: a = 1%, b = 5%.

catching-up process is far from complete, but it is a continual process, and can serve as the basis for predicting several potential future trends.

Figure 3 sets out the expected consequences on the number of French exporters of a generalised alignment of the degrees of regulation on services with the regulation in the United Kingdom, which was the most open country in 2007, in the view of the OECD. This simulation exercise is very simplistic and the economic policy shock we are assuming is particularly brutal. Nevertheless, the findings underscore the extent to which the shock of opening up can be massive, and profitable for French producers. Moreover, all else being equal, the number of exporters will rise by over 50% in most OECD countries; it will even double to Greece, which was the country with the strictest regulatory regime back in 2007.

Finally, there is one last conclusion to be drawn from these estimates, this time about the French internal market. Above and beyond the extent of the hindrances faced by French service exports, our study highlights an important issue for the national economy. According to OECD data, France's regulation of service sectors is one of the highest of all

Figure 3 – Effect of aligning degrees of regulations on services with regulations in the UK



*Interpretation:* if Greece were suddenly to free up its service sectors so as to achieve the same NMR level as the United Kingdom, an increase of slightly over 100% could be expected in the number of French exporters of services to that country.

*Source:* Authors' estimates.

members of the organisation, which no doubt makes it difficult to access for foreign producers. A progressive opening up of the French market should thus lead to a rapid increase in the number of foreign competitors active on national territory. This could be a very good thing for consumer well-being and the competitiveness of companies that use service providers. However, this heightened competition certainly represents a major issue that French service companies will have to face in the years to come.

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