Economy and finance

Authors: Mushtaq HUSSAIN, Franca FAES-CANNITO

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Statistics in focus
57/2008

Intra-EU share of EU international trade in services amounts to 57% in 2007

One of the major achievements of the European Union is the free movement of goods, services, capital and labour between the Member States. The Internal Market remains one of the Union's most important and continuing priorities. Services are increasingly important in the Internal Market. They account for about 70% of gross value added and 69% of employment in the EU-27. In recent decades their importance to the EU economy has risen steadily.

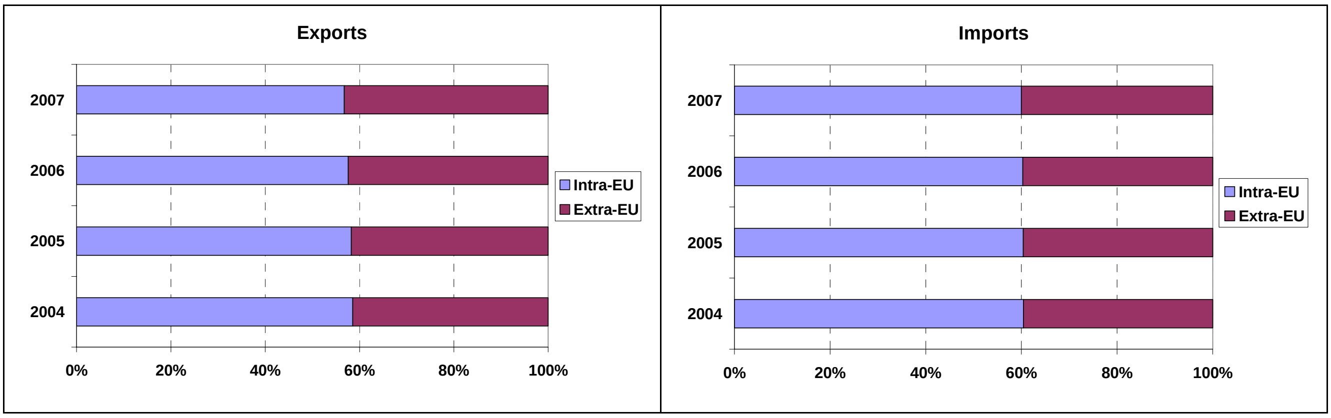
In order to achieve a genuine Internal Market for services, in December 2006 the European Parliament and the Council adopted Directive 2006/123/EC on services in the internal market (OJ L376, published on 27/12/2006). This Directive will have to be transposed by the Member States by the end of 2009. The main aim of the Services Directive is to remove legal and administrative barriers to the development of service activities between Member States and to eliminate obstacles to trade in services, thus allowing the development of cross-border operations. The Directive will guarantee service providers more legal certainty in exercising two of the fundamental freedoms enshrined in the EC Treaty: freedom of establishment and freedom to provide services. This will make it easier for businesses to provide and use cross-border services in the EU.

The purpose of this paper is to analyse intra-EU trade in services. Based on data for the period 2004-2007, it analyses the importance of the Internal Market in the trade in services in the Member States, with a breakdown of the main service categories.

Intra-EU share of EU trade in services is decreasing

In 2007, the EU Member States registered exports of services worth € 1160.0 billion, out of which exports to other Member States amounted to € 658.6 billion, while exports to countries outside the Union amounted to € 501.4 billion. In other words, the Internal Market accounted for 56.8% of total exports. Chart 1 shows that intra-EU exports as a share of the total exports of all Member States have decreased continually over the last four years, from 58.6% in 2004 to 56.8% in 2007. For imports, the shares are rather stable.

Chart 1: Share of intra-EU and extra-EU in MS trade in services



Source: Eurostat

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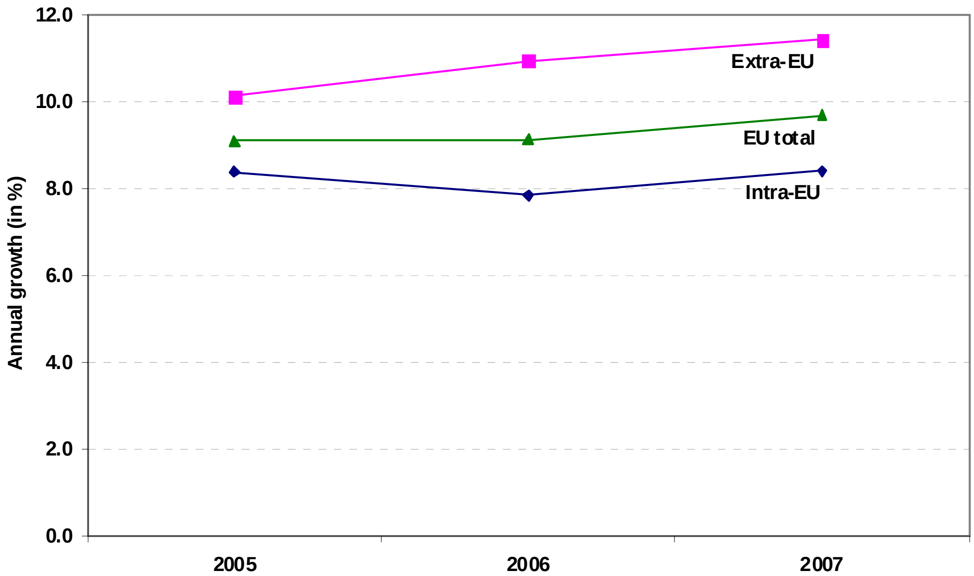
Chart 2 shows the annual growth rates of the total exports of services of all Member States, as well as growth rates of exports to the Internal Market and to the countries outside the Union. The total exports of all Member States to extra-EU countries grew at a rate of 10.1%, 10.9% and 11.4% in 2005, 2006 and 2007 respectively. In each of these years the growth of intra-EU exports was significantly lower than the growth of extra-EU exports. Expansion of services trade in the EU was thus part of a global phenomenon, not a consequence of EU integration.

Chart 2: Growth rates of EU trade in services, current price



Source: Eurostat

In fact, the services sector is actually lagging behind the goods sector in terms of market integration. The ratio of intra-EU to extra-EU exports of services is around 1.3 (see table 1). For goods this ratio is much higher, at around 2.1. This means that, in the case of goods trade, EU integration has fostered intra-EU trade relative to trade with the rest of the world.

Another way to look at this is to see that services account for about 28% of total EU external trade (the remaining 72% being goods), while the corresponding proportions in the case of EU internal trade are 20% and 80%. The data thus suggest that the services sector is less open to international trade than the goods producing sector and that EU market opening has not notably improved market integration, at least over the past few years.

Table 1: Ratio of intra-EU exports to extra-EU exports

	Goods	Services
2004	2.2	1.4
2005	2.1	1.4
2006	2.1	1.4
2007	2.1	1.3

Source: Eurostat

Travel is the most intra-EU oriented service category

As mentioned above, an average of 56.8% of all EU service exports are destined for the EU27 countries. If this average is taken as a benchmark, it is possible to identify the service categories that are more oriented towards the EU internal market and those that are much less so.

Table 2 shows that, in 2007, the service categories with a relatively higher share of intra-EU exports were travel and communication services. Travel accounts for about one-quarter of total service exports; communication services, on the other hand, account for only about 3%. Intra-EU exports for these two service categories accounted for 71% and 69% of total exports respectively.

Service categories with a lower share of intra-EU exports were royalties and licence fees, construction services, insurance services, other business services and transportation. Transportation and other business services account for about half of all service exports. At 42%, the intra-EU share of royalties and licence fees was the lowest of all service categories.

Table 2: Intra-EU share in exports of service categories

	Total exports from all MS (€ bn)		Share in total exports (in %)		Share of intra-EU exports in total exports (in %)	
	2005	2007	2005	2007	2005	2007
Services	**969.0**	**1160.0**	**100**	**100**	**58**	**57**
Transportation	211.2	244.6	22	21	51	52
Travel	236.7	267.1	24	23	72	71
Communications services	25.7	31.1	3	3	71	69
Construction services	23.6	28.6	2	2	48	44
Insurance services	19.3	29.3	2	3	68	51
Financial services	76.8	119.9	8	10	54	55
Computer and information services	49.8	58.6	5	5	65	60
Royalties and license fees	39.5	44.5	4	4	40	42
Other business services	251.3	304.2	26	26	53	51
Personal, cultural and recreational services	11.6	12.4	1	1	58	60
Government services, n.i.e.	16.8	16.8	2	1	53	54

Figures may not add up due to rounding *Source: Eurostat*

The intra-EU shares of government services, financial services, computer and information services and personal, cultural and recreational services were close to the average of total intra-EU services exports.

It should be noted that the intra-EU share of insurance services has decreased significantly in recent years, from 68% in 2005 (above average) to 51% in 2007 (below average). A decrease was also observed in computer and construction services, signifying that exports outside the EU have increased at a higher rate than exports to the EU Internal Market in these service categories.

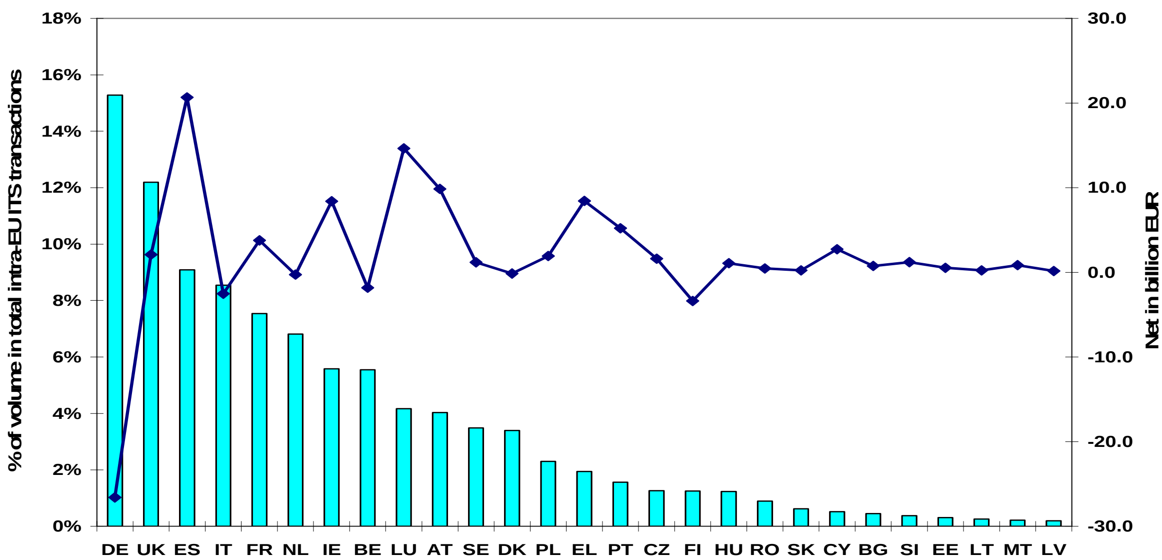
Member States' share in total intra-EU trade in services

Chart 3 shows the share of total intra-EU trade in services (exports + imports) accounted for by individual Member States in 2007. Germany accounts for 15% of all intra-EU transactions in services (13% of all intra-EU exports and 18% of all intra-EU imports). It is followed by the UK (12%), Spain (9%), Italy (9%) and France (8%).

On the other hand, the shares of Estonia, Lithuania, Malta and Latvia in total intra-EU trade in services are only marginal.

In 2007, Germany recorded by far the highest deficit in intra-EU trade in services (-€ 26.6 bn). Finland, Italy and Belgium were the other debtor countries in that year. Spain was the biggest creditor country; it registered a surplus of € 20.7bn. Luxembourg, Austria, Ireland and Greece were the other countries with significant surpluses.

Chart 3: Member States' share in total intra-EU trade in services, 2007



Left hand scale for MS share in %; Right hand scale for net in billion Euro *Source: Eurostat*

Growth of intra-EU and extra-EU exports

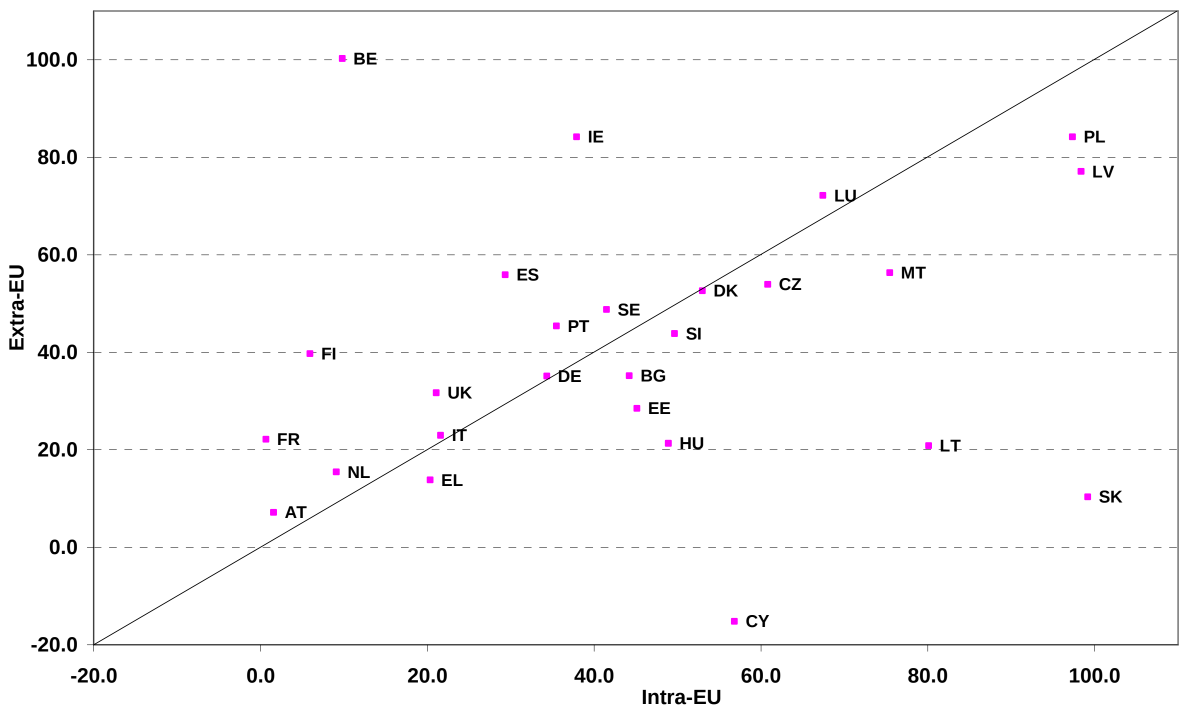
Chart 4 compares the growth of intra-EU exports of services (exports to the EU internal market) for individual Member States during the period 2004-2007 with the corresponding extra-EU growth (exports to the countries outside the Union) during the same period.

The countries on the diagonal line (Italy, Germany and Denmark) are those for which exports of services to the EU internal market grew at the same rate to that of countries outside the Union.

For the countries below the diagonal line, the rate of growth in exports to the EU internal market was higher than that of exports to extra-EU countries during the period 2004-2007. It is noteworthy that the countries that joined the Union in 2004 (Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) are all below the diagonal. This means that, after joining the EU, these countries were able to increase their exports of services to the EU at a higher rate than their exports to third countries. For example, in 2007, exports of services of Slovakia to the EU were about 100% more than in 2004, while its exports to countries outside the Union grew by only 10% during the same period.

Most of the "old" Member States are above the diagonal. Their exports to the EU grew at a slower rate than their exports to extra-EU during the period 2004-2007. Ireland's exports to the EU in 2007 were 38% more than in 2004, while its exports to extra-EU grew by 84% during the same period.

Chart 4: Comparison of growth of intra-EU and extra-EU trade in services, 2004-2007 (in %)



Source: Eurostat

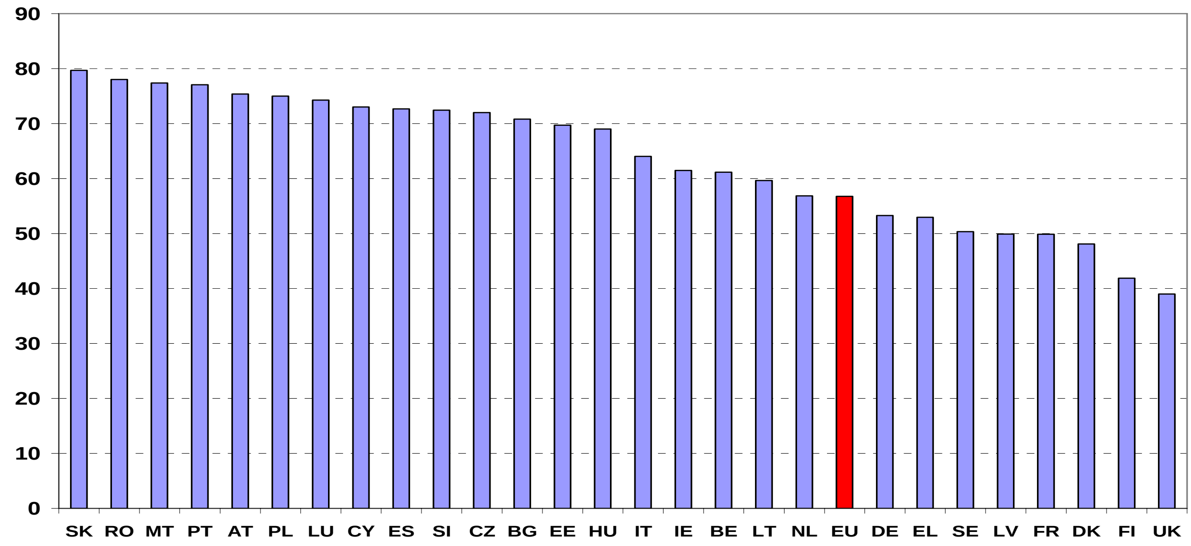
A pattern of specialisation in intra-EU trade in services

A different picture is obtained when intra-EU shares of total exports of services for individual Member States are compared.

Chart 5 shows that, among all EU Member States, the share of intra-EU exports in total exports of services is highest in Slovakia. Moreover, Romania, Malta, Portugal, Austria and Poland all have a share of over 75%.

At the other end of the scale, only 39% of all exports in services from the UK go to other Member States. Germany and France are two other big countries whose shares of intra-EU exports are below the EU average.

Chart 5: Share of intra-EU exports in the Member States, 2007 (in %)



Source: Eurostat

A more detailed analysis of specialisation by individual Member States in intra-EU trade can be made using the indices presented in table 3. They compare a country's intra-EU exports as share of its total exports against the intra-EU share of the EU as a whole.

The index is defined as the intra-EU share of a service category in a country's total exports of that category, divided by the corresponding share of the EU total. So, if the index is greater than 1, a country exports relatively more of that service category to the EU internal market compared to the EU; it is therefore considered to be specialised in the exporting of that service category to the EU internal market. If the index is less than 1, the country's intra-EU export share is smaller than that of the EU as a whole.

Table 3: Intra-EU trade specialisation

	Total services	Transport	Travel	Communi-cation	Construc-tion	Insurance	Financial	Computer	Royalties	Other business	Personal	Govern-ment
BE	1.1	1.3	1.2	0.9	1.9	1.6	1.3	1.4	1.8	0.8	1.6	1.7
BG	1.2	1.3	1.0	1.2	1.5	1.3	1.4	1.2	1.8	1.3	0.8	0.6
CZ	1.3	1.3	1.1	1.0	1.9	0.7	1.0	1.2	1.8	1.4	1.6	0.1
DK	0.8	0.8	1.0	1.0	0.9	0.7	1.7	1.1	1.1	1.2	1.2	0.7
DE	0.9	0.9	1.0	0.9	0.9	0.9	1.4	0.8	0.9	1.0	0.7	1.0
EE	1.2	1.3	1.0	1.2	1.9	2.0	1.0	1.3	1.0	1.2	1.3	1.2
IE	1.1	1.7	1.0	1.0	na	1.3	1.0	1.2	1.1	0.9	0.3	1.7
EL	0.9	0.6	1.1	1.2	1.3	1.4	1.3	1.2	1.7	1.5	0.9	1.1
ES	1.3	1.3	1.2	1.1	0.8	1.0	1.4	0.5	1.4	1.4	1.0	1.4
FR	0.9	0.7	1.0	0.9	0.4	1.3	0.8	0.9	0.7	0.6	1.0	1.2
IT	1.1	0.9	0.9	1.1	1.0	1.4	1.4	1.4	1.3	1.4	1.2	0.3
CY	1.3	1.3	1.1	1.1	1.7	1.3	1.5	0.6	2.1	1.2	1.1	1.8
LV	0.9	1.0	1.0	1.1	1.9	0.0	0.0	1.0	1.6	0.7	0.3	0.7
LT	1.1	1.1	0.9	1.0	1.3	2.2	1.2	1.4	0.0	1.3	1.3	1.2
LU	1.3	1.1	1.4	1.2	1.4	1.8	1.3	1.5	1.7	1.6	1.6	1.9
HU	1.2	1.5	1.0	1.2	1.6	1.7	1.2	1.3	0.6	1.3	1.0	1.1
MT	1.4	1.6	1.2	1.2	0.0	1.7	0.3	0.7	1.7	1.5	1.5	0.8
NL	1.0	1.1	1.1	0.9	1.2	1.2	1.0	1.0	1.2	1.0	1.2	0.8
AT	1.3	1.5	1.2	1.1	1.8	1.7	0.9	1.3	1.4	1.3	1.4	0.4
PL	1.3	1.4	1.1	1.2	1.7	0.6	1.5	1.3	1.4	1.5	1.4	0.3
PT	1.4	1.3	1.2	1.2	1.8	1.5	1.3	1.2	2.0	1.4	1.2	1.1
RO	1.4	1.5	1.0	1.2	1.4	1.7	1.6	1.1	1.3	1.5	1.4	1.1
SI	1.3	1.5	1.1	1.1	1.3	1.5	1.0	1.1	0.9	1.2	1.0	0.4
SK	1.4	1.2	1.3	1.3	2.0	1.7	1.7	1.3	1.6	1.7	1.4	1.0
FI	0.7	1.4	0.8	1.0	0.9	1.6	0.2	0.9	0.7	0.6	1.2	1.0
SE	0.9	1.1	0.6	1.0	0.7	0.6	1.0	0.8	1.1	1.0	1.3	0.0
UK	0.7	0.8	0.6	0.9	0.9	0.3	0.6	0.7	0.8	0.8	0.7	0.7

Source: Eurostat

Of all EU countries, Germany and Denmark are the biggest exporters of *transportation services*. Table 3 shows that the intra-EU share of total exports of these two countries is less than the share of EU as a whole. The intra-EU share of Irish exports is 1.7 times greater than the share of EU as a whole. Other countries with relatively higher intra-EU shares are Malta, Hungary, Romania, Austria and Slovenia. At the other end of the scale, Greece and France record the lowest intra-EU shares.

Spain is the major *travel* destination in the EU. The proportion of receipts from travellers coming from EU countries is higher in Spain than in the EU as a whole. Luxembourg has the highest share of intra-EU receipts (1.4 times higher than the EU as a whole), while Sweden and the UK earn relatively less from other EU countries.

In *communication services* the intra-EU share of exports in most countries is close to the share for the EU as a whole.

In *construction services* there is a much bigger variation between the countries. The intra-EU share of Slovak exports for this service category is twice as high as the share for the EU (however, Slovakia plays a minor role in this area). Belgium, Czech Republic and Latvia also specialise in exporting to the EU internal market. The share for France, on the other hand, is extremely low. Germany is the leading exporter in this service category. Its intra-EU share is similar to that of the EU as a whole.

In exports of *insurance services,* Ireland and the UK are the major players in the EU. Irish exports within the EU account for an above-average share of exports, whereas for the UK the EU internal market plays a subordinate role.

Luxembourg and the UK are by far the largest exporters of *financial services*. However, the EU internal market plays a much more important role for Luxembourg, than for the UK. The intra-EU share of financial services accounted for by Danish exports is 1.7 times higher than that of the EU; in Finland it is only 0.2 times higher.

In *computer services*, Luxembourg is specialised in intra-EU exports, while in Spain the intra-EU share of exports is only half that for the EU as a whole. Ireland - the leading exporter of computer services - exports relatively more to the EU internal market than the other Member States.

In the service category *royalties and licence fees*, the UK and the Netherlands are the major exporters. While the intra-EU share of Netherlands exports is higher than that of the EU, for the UK it is the other way round. The intra-EU shares are highest in Cyprus and Portugal - which are both minor exporters. Hungary, France and Finland, on the other hand, export relatively less within EU than do the other Member States.

The UK and Germany are the major exporters of *other business services*, which make up the biggest service category in terms of EU exports. The intra-EU share of German exports is the same as that of EU as a whole; however, the UK's share - once again - is smaller. While Slovakia and Luxembourg export relatively much more to the EU internal market than do the other Member States, the opposite is true of France and Finland.

Personal, cultural and recreational services are one of the two smallest service categories, accounting for about 1% of total EU exports. UK and France are the major exporters in this category. The intra-EU share of France's exports is the same as that of the EU as a whole, whereas the UK's share is smaller. Belgium and Czech Republic have the highest shares of intra-EU exports, while Ireland and Latvia have the lowest.

Government services are the other smallest category. Germany, with the same intra-EU share as the EU, is the biggest exporter. The intra-EU share of Luxembourg's exports is 1.9 times greater than that of the EU as a whole. Italy and Poland have the smallest share, at 0.3 times the EU share.

Concluding remarks

Data on EU international trade in services show that, although exports to Member States are higher than exports to extra-EU countries (57% to 43% in 2007), the intra-EU share has been decreasing in recent years. The intra-EU share in services is much less than for trade in goods. This indicates that EU integration has been much stronger for trade in goods than for trade in services. In big countries such as UK, Germany and France, the share of total trade in services accounted for by the EU Internal Market is below the EU average.

The paper identifies the Member States and service categories with above average share of intra-EU trade in their total trade and shows thereby a pattern of specialisation in intra-EU trade in services. The paper shows that the countries that joined the EU in 2004 were able to increase their exports of services to the EU at a higher rate than their exports to third countries.

METHODOLOGICAL NOTES

International Trade in Services, analysed in this publication refer to those registered in the Balance of Payments (BoP) Statistics. The BoP records all economic transactions between a country (i.e. its residents) and foreign countries or international organisations (i.e. the non-residents of that country) during a given period. The methodological framework used is that of the fifth edition of the International Monetary Fund Balance of Payments Manual (BPM5).

Trade in services is one of the major categories of the current account. The item services contains following categories: transportation, travel, communications services, construction services, insurance services, financial services, computer and information services, royalties and licence fees, other business services, personal, cultural and recreational services and government services. Other business services include merchanting and other trade-related services, operational leasing services (rental) without operators, and miscellaneous business professional and technical services, which is again sub-divided into legal, accounting, management consulting, and public relations services , advertising, market research and public opinion polling services , research and development services, architectural, engineering and other technical services , agricultural, mining and on-site processing services , other miscellaneous business, professional and technical services ,and services between affiliated enterprises, n.i.e.

Due to their intangible nature, trade in services is inherently subject to more constraints and is also much more difficult to record.

The EU International Trade in Services statistics are based on figures provided by the Member States to Eurostat. The data covered in this publication will be revised by the end of this year when revised annual data will be transmitted by Member States. The figures shown in the tables may not exactly add up due to rounding.

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Manuscript completed on: 10.06.2008
Data extracted on: 21.04.2008
ISSN 1977-0316
Catalogue number: KS-SF-08-057-EN-N