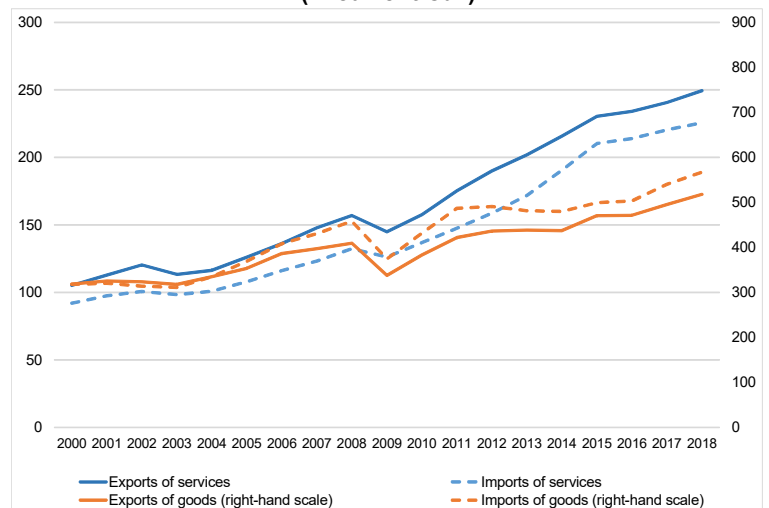


Services in French foreign trade

Elliott Bernard

- France is one of the world's leading exporters of services, ranking fourth in the world behind the United States, the United Kingdom and Germany, whereas it is in sixth place in terms of goods. It accounts for 5% of world exports of services, compared to 3% for goods.
- The share of services in French trade has risen from 24% in 2000 to more than 30% today (see chart on this page). This has primarily been due to an upswing in business services, reflecting the growing internationalisation of French production. Conversely, the share of travel (including spending by tourists), historically the driver of France's services exports, has fallen off (from 27% of services exports in 2010 to 22% in 2019).
- The balance of services, which has historically been in surplus, has seen that surplus nearly double between 2000 and 2019 (€13.1bn in 2000, €21.6bn in 2019, as reported in the balance of payments). It partly compensates for the goods trade deficit (–€46.8bn) and helps to redress the current account balance.
- As with goods, the European Union is the principal zone of origin and destination for French services, with 44% of exports and 54% of imports. Exports to Asia and America during the 2010s were particularly buoyant, while trade with Africa, both for imports and exports, is growing less rapidly than with other regions of the world.
- The United States is France's leading destination market for French services, while Germany is France's main service provider.

**French trade in goods and services from 2000 to 2018
(in current €bn)**



Source : Banque de France, DG Trésor calculations.

1. Services account for an increasing share in France's trade with other countries

1.1 Trade in services is more dynamic than trade in goods

With 5% of world exports, France was the world's fourth largest services exporter in 2018, behind the United States, the United Kingdom and Germany, but ahead of China. For goods exports, France's share was only 3.1% in the same year (see Box 1).

Exports of services increased by 137% in value terms between 2000 and 2018, compared with 63% for goods¹ (see chart on first page). The same pattern was seen for imports: a 145% increase for services against 78% for goods. Services thus account for a growing share of France's foreign trade (goods and services),

going from 24% in 2000 to 30% in 2018. This level is high compared with other major European countries, higher than that of Germany (21%) or Spain (26%), but lower than that of the United Kingdom (38%).

The balance of services, historically in surplus, has increased since 2000, rising in value from €13.1bn to €23.8bn in 2018. Over the same period, the balance of goods, on the other hand, has moved into deficit (€58.9bn in 2019), whereas it was still in surplus at the beginning of the century (€3.5bn in 2002). The surplus in services thus contributes, in addition to primary income,² to balancing a current account balance encumbered by the balance of goods.

Box 1: Methodology

The trade in services data analysed in this study are, unless otherwise stated, compiled by the Banque de France as part of the balance-of-payments process in accordance with the criteria of the International Monetary Fund's 6th Balance of Payments Manual (BPM6). These data relate to cross-border trade in services, i.e. services produced by a resident entity for a non-resident entity, with the exception of travel data, which correspond to non-residents' expenditure during a stay of more than 24 hours outside their country of residence. All trade in services data were obtained directly from the Banque de France databases or indirectly via Eurostat. Data cross-referencing the geographical and sectoral aspects for 2019 will only be available at the beginning of 2021.

The Banque de France uses several sources to compile this data: the declarations from more than 600 large companies (the general direct declarants), surveys (supplementary survey on international trade in services, travel survey), airline company declarations and the estimated insurance and freight costs linked to trade in goods based on customs data. Due to the intangible nature of services, the data is less reliable than that for trade in goods.

The recent trend in France's services exports is similar to that of Germany, the Netherlands and the United Kingdom (see Chart 1), which are France's main competitors for services other than travel; this trend is significantly stronger than for Italy and Spain.

1.2 Slowing trade in services since 2016

From 2005 onwards, after several years of relative stability, trade in services picked up speed, with exports rising first followed by imports catching up. This lag led to an increase in the surplus from 2005 to 2007, which stabilised at nearly €25bn in 2008 on the eve of the global financial crisis. The increase in exports during this first phase was mainly driven by transport, travel and "other business services",³ against a backdrop of increasing globalisation.

(1) The divergence in terms of changes in value may reflect a difference in terms of export volumes and in terms of price of exported goods and services.

(2) Primary income corresponds to investment income, compensation of employees, subsidies on production and products and customs duties paid to the EU.

(3) "Other business services" includes a diverse set of services, including research and development, support functions other than computer services and various services of the higher intellectual professions (consulting, architecture, advertising, communication, etc.).

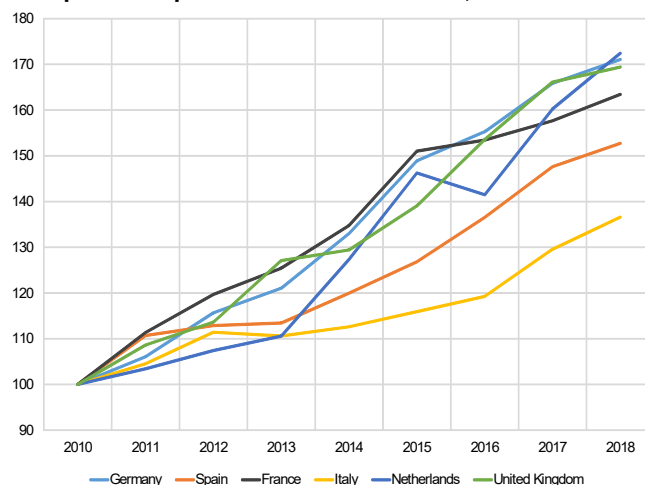
This acceleration came to a halt with the global financial crisis, with exports (−7.7%) falling more sharply than imports (−4.6%) in 2009. However, services were less affected than trade in goods,⁴ with exports falling by 17.5% in 2009 and imports by 18.3%.

Starting in 2010, exports picked up again, leading to a further improvement in the services surplus, which topped €30bn in 2012 and 2013. The surplus then shrank with a rapid catch-up of imports in 2014 and 2015. The resilience of trade in services during the financial crisis and then their rapid rebound distinguish them from trade in goods, where growth has been much more sluggish over the same period.⁵

Whereas the average annual growth in trade in services was 8.6% over the period 2013-2015, it stabilised thereafter, with an average annual growth rate of 3% in value terms between 2016 and 2018. This deceleration can be largely attributed to the decline in exports of travel and transportation services in 2016,

linked to the reduction in foreign tourism following the terrorist attacks.

Chart 1: Services exports by France and its main European competitors from 2010 to 2018, base 100 in 2010

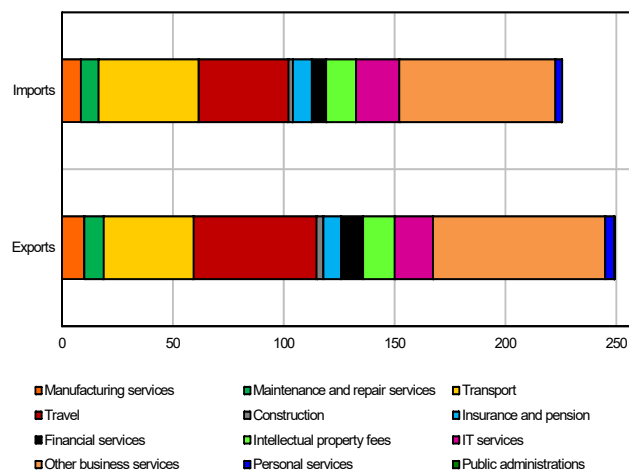


Source: Eurostat and OECD data, in national currency, DG Treasury calculations.

2. France's trade in services mainly concerns tourism, transport and business services

Travel, transport and "other business services" account for more than two-thirds of trade in services, and changes in these sectors explain much of the overall change in trade in services. But other service sectors have also undergone changes in the structure of their trade since the early 2000s: financial and insurance services gained ground, while IT services saw their imports grow faster than their exports, as their share in total services exports gradually declined (see Chart 2).

Chart 2: Breakdown by sector of France's services imports and exports in 2018, in €bn



Source: Banque de France.

(4) As reported in the balance of payments, including international trade.

(5) The latest figures available for the first half of 2020 show that, in contrast to the financial crisis of 2009, the pandemic led to a sharper decline in trade in services than in trade in goods, due in particular to the very significant decline in tourism linked to restrictions on international travel.

2.1 Business services have been the main growth driver for French services exports since the 2009 crisis

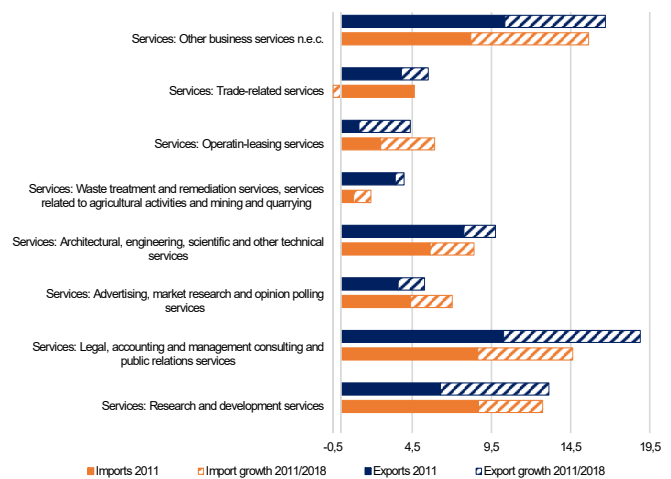
Since 2012, "other business services" has been France's leading services export sector, with €77.6bn in exports in 2018, and since 2006 the leading import sector (€70.4bn in 2018).

This trade has become particularly buoyant in the wake of the economic crisis of 2008-2009, contributing significantly to the increase in trade volumes in the early 2010s (see Chart 3). According to the *Centre d'études prospectives et d'informations internationales* (CEPII), "other business services" were, goods and services combined, France's tenth revealed comparative advantage⁶ in 2007 and fifth ten years later. Exports in this sector are driven by R&D services, "consulting" services and "other business services not included elsewhere". The latter include in particular intra-group service flows that reflect the international development of French companies.⁷

R&D services, for which trade has quadrupled since the early 2000s, saw their balance turn into a surplus for the first time in 2018 (+€0.4bn, for €12.7bn in imports and €13.1bn in exports). This illustrates both the appeal of France as a location for R&D centres⁸ and the maintenance in France of the R&D of French multinationals that have developed production capacities abroad.

The increase in trade in "other business services not included elsewhere" can be explained, on the one hand, as for the other business services sectors, by the fragmentation of global value chains, with the installation or location of certain support or high added value service activities in France marketed to prime contractors located abroad and, on the other hand, by the internationalisation strategies of French groups, with the development of subsidiaries and subcontractors abroad which generate intra-group trade.

Chart 3: Trade in business services, 2011-2018, in €bn



Source: Eurostat.

2.2 A decline in travel's share of France's trade in services

Travel includes the expenses of non-residents when travelling abroad for more than one day, whether in a personal or professional capacity. This sector is broader than tourism and may include, for example, purchases of souvenirs, domestic transport or personal services provided by the country of destination. Travel exports are mostly made up of tourist trips (almost 90%); for imports, the share of business trips is higher (about one-third).

Historically, the travel balance represents France's primary sectoral surplus (€14.9bn in 2018) in services, as it is the world's top tourist destination in terms of arrivals. Travel is also, goods and services combined, France's second revealed comparative advantage behind aeronautics.⁹ In terms of revenue, however, France is only in third place worldwide, behind the United States and Spain, which can be attributed to shorter stays.¹⁰ Moreover, the number of foreign tourists grew faster between 2011 and 2018 than inflation-adjusted travel-related revenue, indicating that foreign tourists, while more numerous, spend less per person. France is also the world's fifth largest source of tourists in terms of expenditure, and spending by French travellers abroad grew more than that of foreign travellers in France in value (+2.8% against +2.3%

(6) The revealed comparative advantage (RCA) calculated by the CEPII is a measure of the international specialisation of an economy. It captures the country's strengths and weaknesses by considering both its exports and imports, regardless of the impact of the country's macroeconomic situation on its trade balance.

(7) G. de Warren (2020), "The international strategies of French companies", *Trésor-Economics* no. 267.

(8) In 2018, France became the leading European destination for R&D projects according to EY's 2019 attractiveness barometer.

(9) In 2007, travel was France's number-one RCA.

(10) According to World Tourism Organization data for 2018.

average annual growth rate between 2000 and 2018), which contributed to a deteriorating travel surplus.

The increase in trade in travel since the early 2000s has been less robust and less consistent than for services as a whole. The rate of growth slowed starting at the end of the 2000s, leading to a clear reduction in the share of travel in trade in services: it accounted for 22.2% of services exports in 2018 against 35.3% in 2000. This can be understood in the light of the 2009 economic crisis, which had a stronger impact on travel than other services-exporting sectors, and the terrorist attacks in Paris in 2015 and Nice in 2016, which contributed to the drop in exports, by 2.6% in 2015 and 5.2% in 2016.

2.3 A long-term structural deficit in the transport services balance

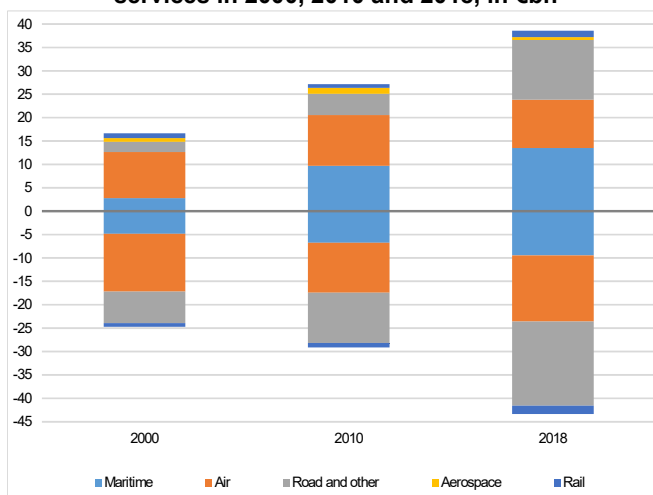
Transport services cover both passengers and freight.¹¹ The balance of transport services has historically been in deficit and was close to balance only in 2010 due to the drop in imports caused by the economic crisis. Transport service flows are sensitive to economic activity through trade in goods and are representative of France's place in a globalised world.

In 2018, the bulk of France's trade in transport was based on air, sea and road transport, which accounted for 77% of exports and 85% of imports (see Chart 4). Exports were more diversified due to space transport services, i.e. satellite launches from Kourou, and electricity transport services in connection with major electricity exports.¹²

Air transport exports have been relatively stable since the beginning of the 2000s (a 4.6% increase in value between 2000 and 2018), while imports have grown more markedly (13.9%). Since the beginning of the 2010s, imports of air transport services remained stable from non-European countries, whereas they increased

from EU countries such as Germany, the Netherlands and the Czech Republic. The growth of low-cost European airlines, which have driven down airfares, contributed to the stabilisation of trade in air transport services in value terms between 2000 and 2018, while the number of passengers on international flights doubled.¹³

Chart 4: Breakdown of France's trade in transport services in 2000, 2010 and 2018, in €bn



Source: Banque de France.

How to read this chart: Exports appear in positive, imports in negative. The category "road and other" includes road transport, inland waterway transport, pipeline transport and electricity transport.

Road transport, mainly from Spain, Poland and Germany, and rail transport have experienced a greater increase in imports over the last 20 years (this trend does not take into account transit on French territory, since no French resident counterpart is involved). On the export side, it is maritime transport services, mainly for goods, that have progressed the most (nearly a fourfold increase since 2000), particularly to the US and China, enabling them to become largely in surplus in 2018 (+€4.1bn), whereas they were in deficit in 2000 (-€2.0bn). This increase partly reflects market share gains by French shipping operators.

(11) An export of transport services corresponds to the revenues received by resident companies from a non-resident entity for the transport of persons or goods.

(12) Trade in electricity is recorded as goods, with part of the value of this trade corresponding to the use of high voltage lines. Its value is deducted from the balance of goods and added to that of services as an electricity transmission service.

(13) +101% between 2000 and 2018 – DGAC data.

3. France's trade in services is mainly oriented towards the EU and the United States, as for goods

3.1 Historically focused on Europe, trade with America and Asia is gaining momentum

The EU28 is, as with trade in goods, the leading region of origin (64% of imports in 2018) and destination (55% of exports) for France's trade in services. Leaving aside the United Kingdom, the EU remains the leading area for trade in services, with 44% of our exports and 54% of our imports. The share of the EU in France's services exports has been stable since the beginning of the 2010s, while it has been increasing for imports. Imports of services from the EU have thus risen more strongly than from other regions of the world, for all sectors except maritime transport.

Over the past decade, services exports have grown mainly with respect to Asia and America. In both cases, exports of travel and business services have progressed significantly. In the case of Asia, the growth of royalties for the use of intellectual property is added to this.

Conversely, services exports have tended to decline with respect to Africa since the mid-2010s, particularly transport services, both air and maritime, as well as construction, architectural and engineering services. Similarly, the increase in imports from Africa has been much lower than from other regions of the world: despite an increase in imports of business services, imports of transport and travel services have tended to decline over the period. While imports of computer and telecommunications services accelerated in the early 2010s, they have since levelled off.

3.2 The United States is the principal destination market for French services, ahead of the United Kingdom and Germany

In terms of destination markets, the United States, the United Kingdom and Germany account for a third of French services exports. Towards these three countries, the main export sector is that of other business services, due to the presence of French multinationals in these countries. Germany and the United States are also the top two destinations for French exports of goods in 2018.

To the United Kingdom and Germany, travel is the second largest export sector, which can be explained

by France's geographical position as a preferred destination for travellers from these countries. This is moreover the case for all the countries bordering France, all of which are among our top ten customers (see Table 1).

Over the last ten years, exports of services have grown particularly strongly to China (+164.6% between 2011 and 2018 to €8.4bn), Luxembourg (+121.3% to €7.9bn) and Switzerland (+69.9% to €18.1bn). For these three countries, while all service sectors saw their exports increase, the rise was strongly driven by travel and, in the case of Luxembourg, by road transport and financial services.

Table 1 : France's main customers and service providers in 2018

Rank	Customers	€bn	Suppliers	€bn
1	United States	30.8	Germany	31.7
2	United Kingdom	27.7	United States	24.5
3	Germany	26.2	United Kingdom	23.5
4	Switzerland	18.1	Spain	14.0
5	Belgium	17.7	Belgium	13.7
6	Netherlands	13.5	Ireland	12.3
7	Spain	12.3	Netherlands	11.2
8	Italy	11.7	Italy	10.9
9	China	8.4	Switzerland	8.9
10	Luxembourg	7.9	Offshore*	6.9
-	Rest of the world	83.0	Rest of the world	74.9

Source: Eurostat.

* The "Offshore" line corresponds to offshore financial centres, a group of 40 territories identified by Eurostat in the Balance of Payments Vademecum, including Singapore and Hong Kong, as well as numerous tax havens.

3.3 Germany is France's main supplier of services

France's top three service providers are also its top customers, and the leading import sector is also that of other business services, again reflecting the presence of many subsidiaries of multinationals from these countries based in France and vice versa. In addition to these services, from Germany and the United Kingdom, France imports mainly transport and travel services and, from the United States, transport and maintenance and repair services.

Ireland's presence among France's top ten service providers is due to multinationals' tax planning

strategies. Indeed, French imports of services from Ireland were boosted in the course of the 2010s by a strong increase in IT services and royalties for the use of intellectual property, accounting for half of them in 2018. The presence of the "offshore financial centres" aggregate among France's top ten service providers

reflects both maritime and air transport services provided by Singapore, and uncharacterised business services flows. The latter generally correspond to financial flows between a subsidiary in France of a foreign multinational and its parent company or another subsidiary located in a low-tax jurisdiction.

Box 2: Services content of goods exports

A significant proportion of services activities are, by their nature, not directly intended for international trade. However, these services may contribute to the production of goods that will in turn be exported to other countries.^a It is thus possible, using the trade in value added data produced by the OECD, to know the share of value added from services produced in France within French exports of industrial goods. This represented 23.6% of the total value of French gross exports of industrial goods, and 33.5% of the French value added contained in these goods alone in 2015 (last year available), this share being relatively stable since the mid-2000s. This contribution of services to French exports of goods thus amounts to \$83.2bn, in addition to the exports of direct services recorded in the balance of payments services account. In comparison, German services represent 25.0% of the value added of German industry exports, a share that has been eroded since the end of the 2000s (32.5% in 2009). In addition, French services account for 3.3% of the added value of services for global industry, far behind the US (19.2%) and China (19.3%).

a. Cf. C. Ponton (2020), "Input costs and competitiveness in France, Germany and Italy", Trésor-Economics no. 258 and F. Berthaud (2010) "France's trade in value added", Trésor-Economics no. 207.

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