

Are we missing some imports of services in the French Balance of Payments?

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French imports of services, as measured in the Balance of Payments, have been surprisingly flat from 2002 to 2004 when talks about “délocalisations” have become more and more common. There might be a suspicion that some imports are missing. In order to show that there is no such missed import of services, one looks at the breakdown of imports by source of declaration. As the evolution (i.e. stability) in overall imports of services is general for all kinds of firms and for all kind of services, one can believe that up to know outsourcing in services has been very limited in France. In other word the imports of services is flat whatever the way you slice the information. There is therefore no composition effect which could have hidden some increases in specific types of imports, increase which in turn would have been considered as a symptom of services outsourcing abroad.

The first part of the paper describes how the trade in services across border is measured in France. The second part presents the figures. The third part explains how the collecting system is going to change.

1. A collecting system relying in principle on bank settlements but with direct reporting from firms for the bulk of trade.

Trade in goods has always been measured from custom declarations. For trade across border but within the European Union where there is obviously no custom duties, trade is still reported by firms to the custom administration. On the other hand trade in services has been measured for and by the Balance of Payments (BoP). Banks have had to declare all payments crossing border, meaning going to or coming from a bank abroad. Banks have to fill up the code in the Balance of Payments classification corresponding to the settlements¹. Banks report the identity of the firm. Due to a March 2003 decree based on the law defining the activities of the Bank of France, firms must directly declare their international transactions (for all items but of course trade in goods) to the BoP when these settlements are in excess of 30 millions euros per year for one item. These firms are called “déclarants directs généraux” for directly general reporting.

Bank settlements are therefore signals to detect firms above the threshold of 30 millions euros. Directly reporting firms should declare transactions and not settlements. This difference can be important for large firms trading services with subsidiaries abroad. Accountant rather than treasurers of the firms are aware of the flows without simultaneous payments that are of interest here. When a firm starts directly reporting, the banks which previously used to report its payments abroad stop reporting. There is therefore no way to make any evaluation of the discrepancy between bank and direct reporting.

In addition to “déclarants directs généraux” the foreign airlines companies report to the Balance of Payments the sales of their tickets to French residents and their expenses for services in France. This is very relevant for “imports” of transport services, irrelevant for other imports of services, and relevant for export of services transport excluded.

Banks do not report the transfers to an account abroad owned by the same customer, but report the existence of this account abroad. This is a way to detect resident firms which own foreign bank accounts which could be used to pay for imports. These firms are then directly approached by the Banque de France (they are named “déclarants directs partiels”). About one hundred of these firms declare service flows which share has been between 1% and 1.5% of the total.

¹ Up to 2004 banks had also to report settlements for trade in goods.

2. Evolution of trade in services from 2002 to 2004.

The following figures present the trade in services from micro data by kind of declaring firms and kind of services. For a given aggregate, the line on top is the total. The line just below is the part of trade made up by firms being present in both adjacent years. These numbers are the sum of micro firm-level figures coming either from the banks or from the directly reporting firms.

There could have been a risk that the overall figure does not move in the same way as the figure for firms always present. It would either mean that new firms are different from disappearing firms, or that some firms appear or disappear from our reporting system whereas they have actually always been trading services. Fortunately, the two lines are close and parallel, therefore one can trust that appearing and disappearing firms are small or marginally trading.

Specifically for services (Figure 1), there are 7624 firms trading in both 2003 and 2004, accounting for 95.5% of exports in 2003 and 95.7% in 2004. The remaining part is accounted for by 8612 firms present in 2003 and then missing in 2004, and by 7852 firms appearing in 2004. For imports the share of the 6223 permanent firms is 93.8% and 95.5%. There is an attrition rate of about one half of firms but less than 5% of flows.

The 257 firms directly reporting in 2004 for export (part of the 7624) accounted for 64.5% and 66.5% of exports of permanent firms. The intersection of the 7624 and 6223 firms are the 2521 firms which exported and imported services in both years. They account for between 83 to 91% of the flows by permanent firms (line with legend `imp_0304` in the exports figure, meaning exports from firms which actually imported). When looking at “group” firms and not at reporting legal entities, the concentration of flows might look even more impressive.

For overall imports of “new” services likely to be impacted by outsourcing (Figure 3) a slight decline between 2003 and 2004 from 17.3 to 17.1 billions has been recorded. This decline is surprising but might be related to the euro appreciation. French imports of goods outside energy moved from 294.5 billion in 2002 to 289.1 billions in 2003 and 308.9 billions in 2004.

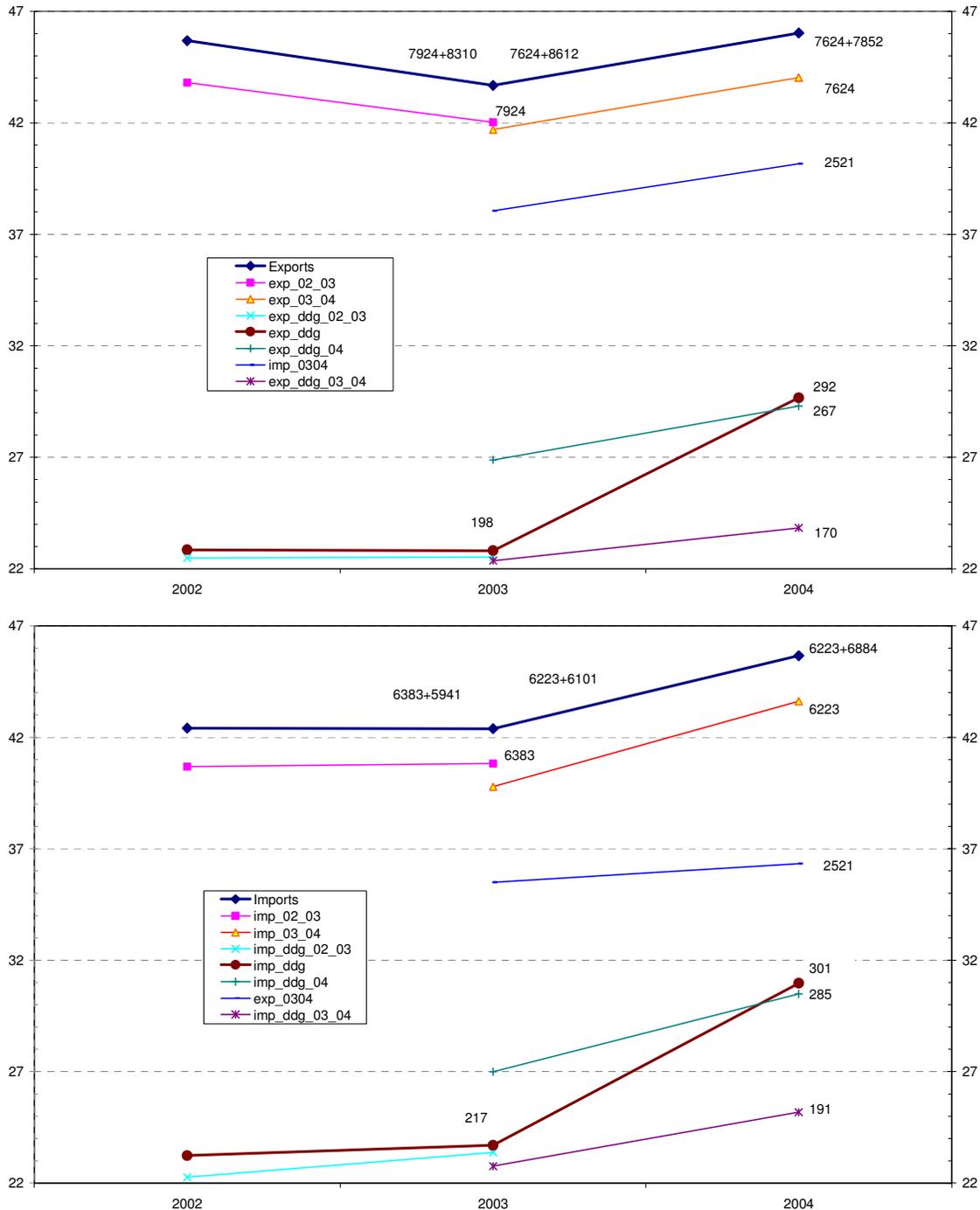
For firms present in both years there is a very slight increase (15.4 to 15.5 billions). The big increase in firms directly reporting (`'imp_ddg'`) is the result of the new decree leading to a better focus on firms trading in services. Certainly for firms directly reporting in both years imports are flat (7.2 and 7.2) but for those starting directly reporting in 2004 there is an

increase in imports from 10.1 to 10.7. Therefore, by difference, the 97 firms directly reporting in 2004 and with trade known in 2003 from bank reporting imported for 2.9 billions in 2003 and 3.5 billions euros in 2004. There might there be some sign of a broader reporting of transactions.

There are 1097 core trading firms present in 2003 and 2004 as importers and exporters. They made up between 74.5 and 77.5 of the flows. These presumably large firms imported less “new” services in 2004 than in 2003.

Anyway, the major finding is that for services where one might have expected an increase in imports because of outsourcing one actually sees a slight decline in imports from all firms and from core trading firms.

Figure 1: Trade in services, billions of euros.
 Numbers aside the lines are the numbers of firms internationally trading in services.



Tourism is excluded, merchanting and insurances are also excluded.

_02_03 for firms declaring in 2002 and in 2003.

DDG for directly reporting firms and for foreign airlines.

The figure for DDG_04 in 2003 comes from banking reporting when firms were not already directly reporting in 2003.

Figure 2: Trade in services outside transports, billions of euros.
 Number aside the lines are the numbers of firms internationally trading.

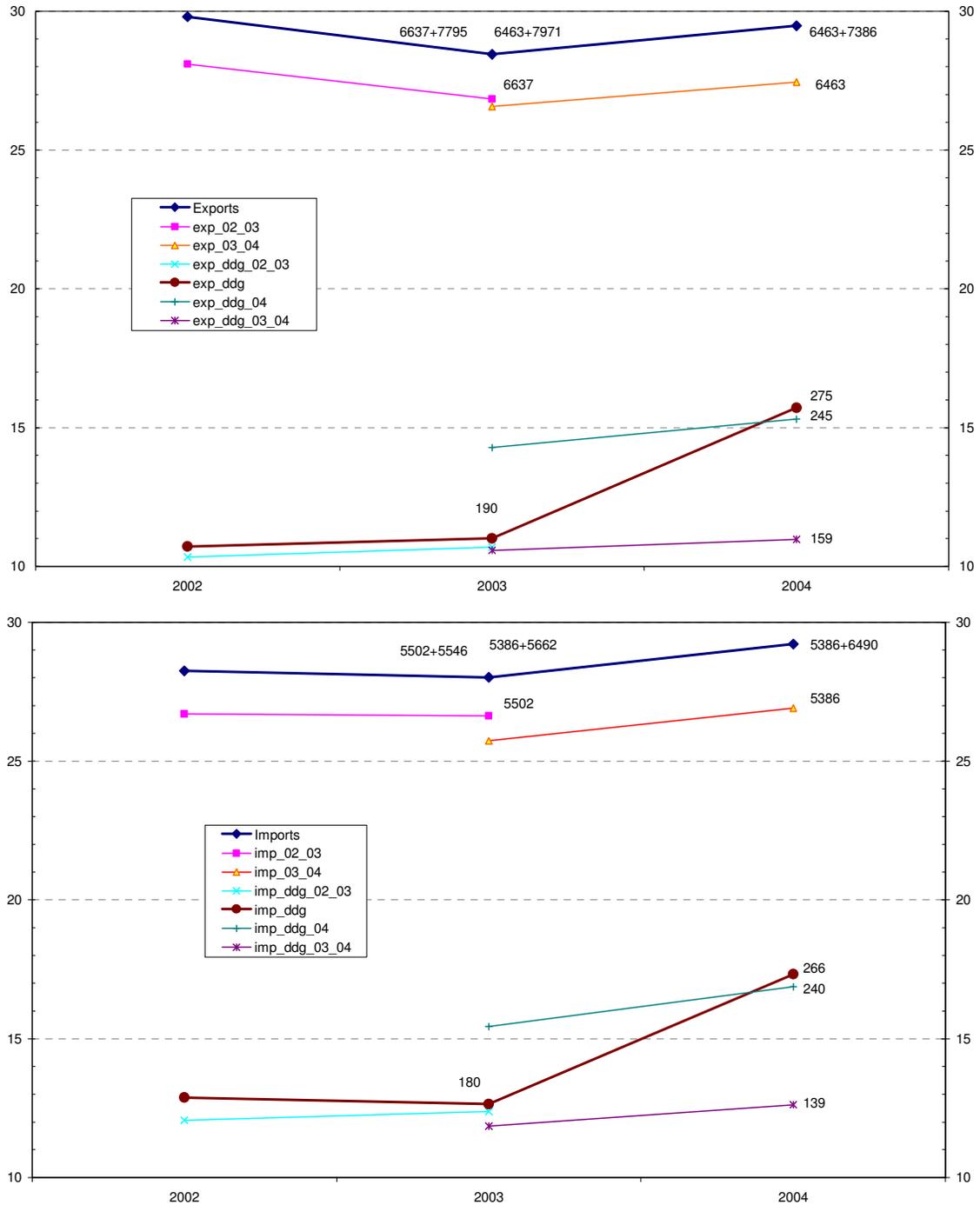
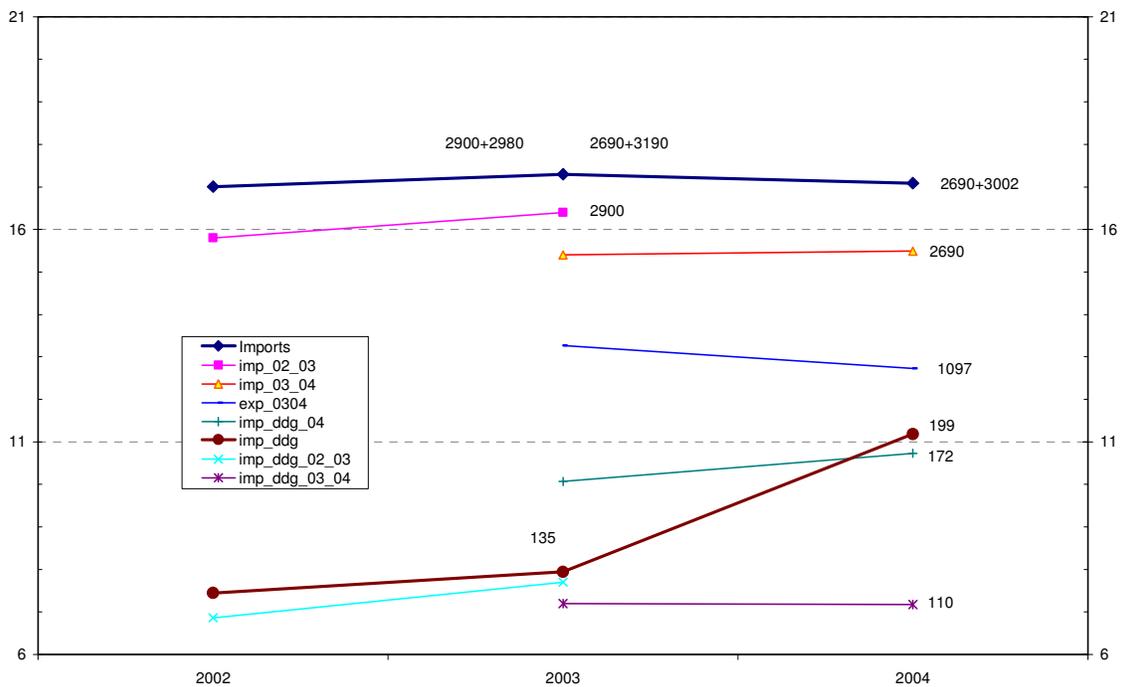
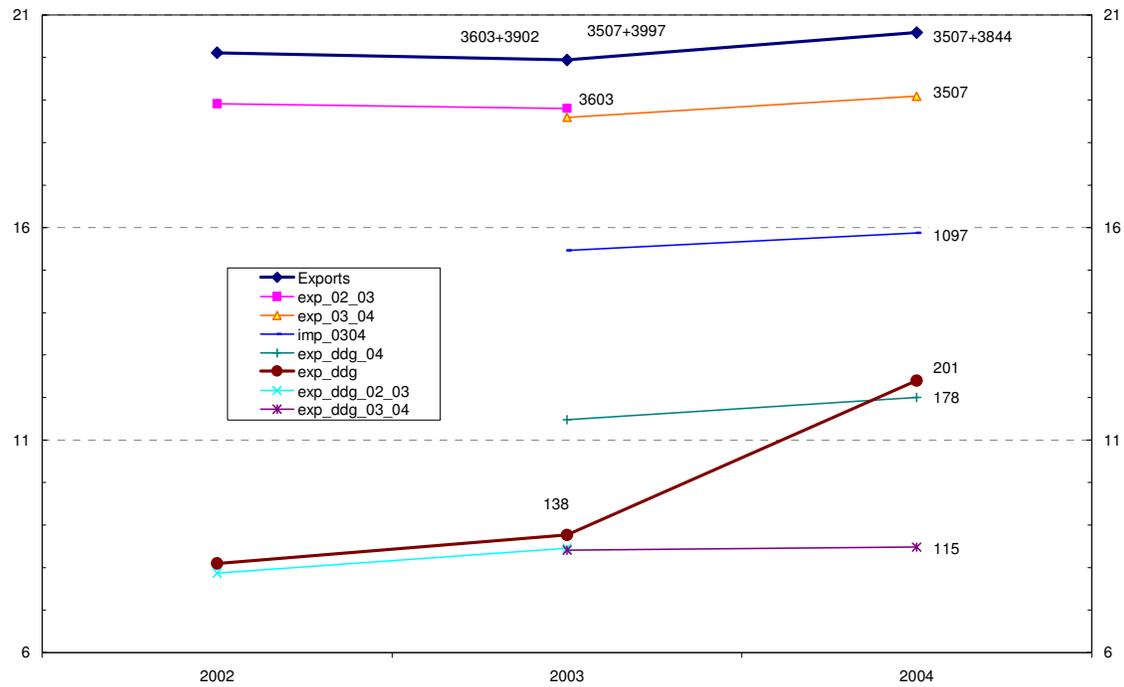


Figure 3: Trade in “new” services, billions of euros.
 Communication, information, patent and trademark royalties, engineering, management fees,
 advertisement, entertainment.



3. Issues raised by a survey aiming at measuring trade in services.

The threshold of bank reporting for international payments is going to be lifted from 12,500 euros to 50,000 euros in 2008. The ensuing lack of information asks for some kind of response. A supplementary survey by the side of direct reporting sounds good. This part explains that without any information from banks, it would be impossible to target firms for such a survey.

In order to carry out a firms' survey, one needs first to define the total reference population. The basic statistical unit in France is the legal unit paying taxes, registered with its address and a unique national number, which is very helpful to carry out surveys. These legal units are called "entreprises" and are more than five millions. Large or even middle-sized firms (say a couple of thousands employees) are usually made up of several "entreprises" ("group enterprises"). A survey aiming at measuring international trade in services is obviously not going to draw a sample in the overall five millions "entreprises".

Because banks had to declare all international settlements to the Balance of Payments Directorate from trade for their customers, 150,000 "entreprises" are known to have either received from or paid to a bank account outside France in 2001. Among these 150,000, only 24,000 received or paid for services (the others traded only goods, no service at all). But the population is very skewed: only 437 "entreprises" accounted for 70% of the overall trade in services². Each of them received or paid more than 30 millions euros for a given item in the balance of payments list, for instance communication services.

Without any information from banks, the population surveyed has to be chosen from other firms information: turnover, industry, trade in goods, number of employees, sales of services. Therefore, these inputs are used to feed a logit model estimated on bank settlements data. This allows to give a score to each firm. After sorting "entreprises" according to their scores and their sizes in terms of trade, it is possible to estimate the size of the population

² These figures are for 2001. Among the 437 some of the "enterprises" had no trade in services, they are in the direct reporting class because of flows in the financial part of the BoP, say direct investment. Among the 24,000 some thousands "entreprises" had bank settlements because of insurances and merchanting. These items of the BoP are excluded from the figures presented in the second part of this paper.

among which would be drawn a survey in order to meet a target share of trade in services covered by such an hypothetical population.

To spot “entreprises” accounting for 90% of trade in services, the population’s size would be huge: 850,000. Only 11 000 of them would actually internationally trade in services (remember overall 24 000 “entreprises” internationally trade in services). To get a 85% coverage, the population would be of 17,500, among which 8,000 effectively internationally trade in services. In other words the fit of the logit is pretty poor.

500 drawings of 5,000 “entreprises”³ among the 17,500 population defined above have been carried out to get an idea of the confidence interval of a manageable survey of 5,000 “entreprises”. The exports mean of the 500 drawings is 63.1 billions euros (true value 63.2, therefore no bias) with a 95% confidence interval of [58.2, to 73.3].

This underlines the difficulty to spot “entreprises” trading services across borders without any indication from cross border bank settlements. How troublesome would be an increase in the reporting threshold for banks? The threshold for trade in services is 12,500 euros (settlements for trade in goods are not anylonger reported). It is likely that it will be increased to 50,000 euros as from 2008. Fortunately it turns out that the aggregate of settlements from “entreprises” with all individual settlements below 50,000 is very small (less than 1% of total), even though the weight of settlements (from all “entreprises”) between 12,500 and 50,000 is 9% of total. Individual settlements above 50,000 euros would allow to spot “entreprises” among which a survey sample might be drawn without any risk of asking information to “entreprises” having no international trade in services. Furthermore “entreprises” becoming significant would be found out. It is even possible that eventually, thanks to the survey, “entreprises” would report more trade services than those reported in bank settlements if some trade services are carried out within large firms without bank payments.

³ In addition to the 437 big players.

From micro data to published figures

2004	Exports	Imports	Balance
I. Services	88 813	78 552	10 261
a. Tourism	32 834	23 023	9 811
b. Merchanting	1 770	0	1 770
c. Insurance	1 212	1 758	-546
d. Transports from fab correction	2 789	3 204	-415
e. Corrections for unrecorded small payments	4 346	4 989	-643
II. Services minus a. to f.	45 862	45 579	283
III. Micro data	46 024	45 664	360
Gap III-II	162	85	77

2003	Exports	Imports	Balance
I. Services	87 335	73 335	14 000
a. Tourism	32 347	20 713	11 634
b. Merchanting	2 592	0	2 592
c. Insurance	1 872	2 120	-248
d. Transports from fab correction	2 519	2 894	-376
e. Corrections for unrecorded small payments	4 476	5 293	-817
II. Services minus a. to f.	43 529	42 314	1 215
III. Micro data	43 680	42 390	1290
Gap III-II	151	76	75

2002	Exports	Imports	Balance
I. Services	91 033	72 866	18 167
a. Tourism	34 190	20 580	13 610
b. Merchanting	3 276		3 276
c. Insurance	1 154	1 641	-487
d. Transports from fab correction	2 464	2 967	-503
e. Corrections for unrecorded small payments	4 302	5 195	-893
II. Services minus a. to f.	45 647	42 483	3 164
III. Micro data	45 682	42 414	3 268
Gap III-II	35	-69	104