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Features of Tertiarisation in the Developed Economies and Worldwide Offshoring

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ABSTRACT

In the last two decades, due to falling barriers to trade and investment, the world economic scenario has profoundly changed. Few rich countries (United States, Great Britain, France, Japan, Switzerland, Germany and the Netherlands) have been securing a substantial stake in worldwide production through FDI, a phenomenon mirrored by increasing negative FDI positions for nations like China, Mexico, Brazil and Ireland. The building up of this dualistic international structure can be also detected by analysing the dynamics of net exports of royalties and license fees. The paper therefore combines information from net foreign assets positions and trade flows of both goods and services so as to identify the economic profiles of core and peripheral countries in the chain of global production. The picture resulting is that of a growing specialisation among advanced as well as emerging economies. Paradigmatic examples of this heterogeneity are the United States, increasingly involved in financial activities, vis-à-vis the export-driven Germany, or the industrial producer China and the offshoring of services towards India.

Keywords: international trade, offshoring, global imbalances, structural change

JEL codes: F02, F14, F63, O14

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1. Introduction

Globalisation, in its economic meaning, refers to the abatement of barriers to trade and capital flows. As trade and capital liberalisation progressed, it has unleashed a wave of industry and assets relocation at world level which has resulted in growing disparities among countries. The scientific community, in the past more concentrated on trade imbalances and in particular on the increasing current account deficit of the United States, has recently started to examine financial imbalances. To do so, it studies the development of foreign assets and liabilities of the major economies, which can be further divided into Foreign Direct Investment (FDI) and other kinds of financial investment (like portfolio equity or debt).

This paper begins with the observation that in the last twenty years few rich countries (United States, Great Britain, France, Japan, Switzerland, Germany and the Netherlands) have been securing a substantial stake in worldwide production through FDI, a phenomenon mirrored by increasing negative FDI positions for nations like China, Mexico or Ireland. At the same time the former nations have benefited from growing net exports of royalties and license fees, while the deficit of the latter has continued worsening. This fact might suggest a new perspective from which to study the rise of the “tertiary economy”, which could then be considered as “post-industrial” since it has offshored manufacturing production, at the same time paying for the imports of goods with the profit stream accruing from FDI, the sale of property rights and the export of other sophisticated services. This interpretation, however, would explain the recent development path of only a subset of net FDI exporting countries, namely the US, Great Britain, France and, partially, Japan, whereas Germany, Switzerland and the Netherlands are running a growing merchandise trade surplus.

In order to cast more light on this heterogeneity, the approach proposed in the paper is that of studying jointly trade in goods and services and the development of FDI holdings. To my knowledge, the analysis of services trade flows broken down by industries is a novelty, since the standard way of analysing global imbalances usually considers the current account as a whole². This way of proceeding is justified by the following considerations. First, it remains to be understood how much of the rise of the tertiary economy – or of specific services industries – is related to the possibility for advanced nations to offshore industrial production in labour abundant countries, while keeping a comparative advantage in key sectors like

² The most recent literature on global imbalances either exclusively focuses on cross-national holdings (like Lane and Milesi-Ferretti (2007 a)) or includes also trade but considering only the current account (as Bracke *et al.* (2008)).

finance. Second, services, once regarded as non-tradable, are, on the contrary, getting more and more traded over time. To know the pattern of trade in services is interesting at least in two dimensions: to measure the performance in these industries of the emerging economies (is it, for instance, sustainable for a mature economy to specialise in services disregarding manufacturing or is it doomed to lose ground in this market as well?) and to study services offshoring (to what extent services exports of the developing countries just reflect relocation of activities carried out by Western enterprises?). Third, FDI relate to investments made in all sectors of the economy, an important part of which regards services. All these three points are clearly related and the paper does not attempt to answer the questions raised. But it provides at least an overview from which to start more ambitious research.

The data on trade are taken from the statistical database of the *World Trade Organization* (WTO), while for foreign assets positions the dataset compiled by Lane and Milesi-Ferretti *External Wealth of Nations Mark II* (EWN II) has been used³. The GDP data necessary to perform calculations are from the database *World Development Indicators* (WDI) of the World Bank. The trade sectors analysed are merchandise and commercial services divided into transportation, travel, communications services, construction, insurance services, financial services, computer and information services, other business services (named in the text “business services” for sake of brevity) and personal, cultural and recreational services⁴. While data on merchandise have been collected by the WTO from 1948 up to now, statistics on services only begin in 1980 for travel, transportation and other commercial services, the first available year for the other subgroups being 2000. The EWN II dataset, on the contrary, covers the period 1970-2007. Occasionally, reference is made to the OECD statistics on FDI positions, which, though covering the most recent years, are not available for non-member economies⁵.

The country sample includes the EU-27 member states plus Switzerland, Norway, Iceland, Croatia, Turkey, the United States, Canada, Australia, Japan, Korea, China, India, Indonesia, Mexico, Brazil and the Russian Federation. It is therefore representative of the major economies in the world in terms of total GDP and, partially, of the countries with the highest GDP per capita; additionally, it comprises the smaller Eastern countries which constitute a peripheral area inside the European Union⁶. The sample omits, with the exception of those mentioned above, the oil exporting countries, which also represent a fundamental player when

³ The dataset is described in Lane and Milesi-Ferretti (2007 b).

⁴ For a description of the activities covered by each services industry, see the *Balance of payments manual* (1993) compiled by the International Monetary Fund.

⁵ Due to space reasons, data are not appended to the paper. They are available upon request to the author.

⁶ Among the OECD members, only Chile, Israel and New Zealand are not included.

discussing global imbalances. To keep the present analysis short, however, they have been excluded, like other developed Asian economies like Taiwan or Singapore.

2. FDI and the Royalties Market: the Emergence of a Dualistic Structure

When we ask the question where the capital that finances worldwide production comes from in the era of globalisation, the easiest way to answer is to look at statistics about Foreign Direct Investment (FDI). They reveal a very clear fact, i.e. that production capital (as opposed to short-run investment with a speculative purpose) is pouring out from a handful of rich countries towards emerging economies, resulting in an impressive accumulation of net FDI positions for the former and corresponding liabilities for the latter.

This investment shift started in the late Eighties and has been booming all over the last twenty years. In earlier times, only the US had a relevant positive net FDI position (around 2.5% of world GDP during the Seventies), which dramatically reduced in the Eighties vis-à-vis growing Japanese investments. In the early Nineties, however, Japan's FDI position stopped expanding, while the US began climbing the ladder again and with it few European countries similarly developed, reaching comparable values despite the smaller size of their economies. At present⁷ France, that in 1994 still had a slightly negative balance (-0.036% of world GDP), detains a position almost equivalent to that of the US. The UK as well, with a negative position in 1991 (-0.045% of world GDP), developed in a totally analogous way, excepting a drop in the last years (from a peak of 1.6% in 2003 to 1% in 2007). With values close to those of Japan there is Switzerland followed by Germany, the Netherlands and Italy.

The only country with a negative position of comparable absolute size to that of the “big three” (US, UK, France) is, not surprisingly, China. During the last decades also Mexico and Brazil have become sizable FDI recipients⁸, as have, with respect to the European Union, Poland, Hungary and the Czech Republic (together with the admission-seeking Turkey). Another major FDI destination is Ireland. The “Celtic Tiger” experienced massive inflows of foreign capitals, attracted by an accommodating tax policy, governmental support and low wages. It has thus built up net FDI liabilities equal to the size of its GDP from 2000 to 2003, which thereafter have reduced due to a contraction of inward FDI.

It is worth noting that today's ranking (the biggest worldwide investors and recipients) reflects trends: the nations with the largest imbalances in values, both positive and negative, tend to increase them (Japan being the notable exception).

⁷The latest available data from EWN II are for the year 2007.

⁸Also Russia has very rapidly become a significant net FDI debtor.

A similar analysis can be conducted with data on trade in royalties and license fees (“royalties” in the remaining of the paper)⁹, leading to analogous conclusions. The US is the country in the world with the highest positive balance on royalties compared to global GDP (almost 1‰). At a much lower level there are Japan, France, Great Britain and the Netherlands. Sweden has also a significant surplus, superior to that of Denmark, Germany or Switzerland. On the negative side, Ireland, not China, is the biggest net importer, reflecting the higher technological sophistication of its industrial production. The size of Irish royalties deficit is, as we will see, so big that it amounts to more than 50% (82% in 2008, 63% afterwards) of its truly remarkable merchandise surplus¹⁰. After Ireland, China ranks second, while, among the pool of major importers, we can find not only India, Indonesia, Brazil or Poland, but also few industrial economies such as Canada, Korea, Italy and Australia. As in the case of FDI, net exporters and importers are increasing the size of their respective imbalances.

3. Core and Periphery in Worldwide Production

With the evidence presented above as background, in this section the trade profiles of the single economies are briefly reviewed so as to identify among them a core and a periphery in the chain of worldwide production, with respect to industrial production as well as services supply.

As “core countries” are classified those economies which are characterised by a significant positive balance in both FDI and royalties trade, while peripheral countries are those that are mostly merchandise exporters, in need of foreign capital and technology.

Within the cluster of the core economies a distinction, however, is to be made based on their performance as goods exporters. The United States, Great Britain and France are running a sizable merchandise deficit, while Germany, the Netherlands and Switzerland an increasing surplus. Analysing their trade structure with respect to services, the first two nations reveal themselves as finance-driven, while this is not true for Germany and the Netherlands (with the special case of Switzerland discussed below). The economic profile of France and Japan is peculiar: the former appears to be a deindustrialising country lacking the American or British financial predominance, while the latter is switching from a pronounced industrial orientation towards a greater services orientation.

⁹ This item covers payments and receipts for the use of intangible non-financial assets and proprietary rights (such as patents, copyrights, trademarks, industrial processes and franchises) as well as licensing agreements for the use of originals like films. In this work, although heterogeneous, this category is taken as a proxy for the delivery of technological know-how.

¹⁰ This anomaly is probably explained by the practice of transfer pricing, which affects transaction values.

With a positive net FDI position and a surplus in merchandise and royalties, the Nordic countries share same features of the German development. With Iceland and Norway being particular cases, they could also be classified as core economies. Because of their much smaller absolute size as net FDI investors and royalties exporters, however, they have been analysed separately¹¹.

In the group of “peripheral countries” one finds a periphery within European borders - constituted by Ireland and the new accession countries - and the worldwide periphery (here only very incompletely represented) of Asia (China, India, Indonesia), Latin America (Mexico, Brazil) plus Russia and Turkey. The Mediterranean economies represent another peripheral cluster, which however exhibits characteristics of its own.

The main indicators used to compare the country profiles are the relative importance of their net FDI holdings and industry specific trade balances as percentage of their GDP, their share of exports on total world exports in each sector (shortly referred to in the text as “market shares”) and the structure of their Revealed Comparative Advantages (RCA). This index measures the greater or lower orientation of a country to export in one sector with respect to a reference group of exporters (here the whole world).

It is calculated as the ratio of the exports of country c in industry i as percentage of its total exports n and the exports of the world W in industry i as percentage of its total exports n ¹².

$$RCA = \frac{X_{ci} / X_{cn}}{X_{wi} / X_{wn}}$$

A value close to 1 means that the export structure of the country mirrors the global average, otherwise that it diverges from it. How much this divergence is significant depends on many factors. The RCA index for merchandise, for instance, accounting this item for the bulk of total exports of the vast majority of countries, tends to concentrate between 1.2 and 0.8, so that already limited deviations from 1 might be worth noticing. The size of the country matters as well, since smaller economies tend to be more specialised, hence implying that the same value of the index has a much stronger meaning for a large than for a small nation.

¹¹ The royalties surplus of Sweden, Denmark and Finland is significant in absolute terms, but their market share is rather small compared to the other core countries.

¹² The index was first introduced by Balassa (1965).

3.1. The Financial Core

Since the Mid-Seventies, the US merchandise account, close to zero in GDP terms, has started deteriorating, reaching a value of -5% of GDP in 2011, while the services balance has kept growing until the Nineties up to 1% of GDP, a level at which it has stood on average throughout the following years. At the same time the country indebtedness vis-à-vis the world has been unrelentingly increasing and in 2007 it amounted to almost 40% of own GDP. Both FDI and portfolio equity positions, on the contrary, have been rising over the last twenty years.

The trade structure of the US, as it has recently developed, is clearly royalties and finance-oriented. The US alone controls almost 40% of the royalties market (in terms of worldwide export shares) and a 24% and 18% respectively of the market for financial and insurance services. The only other services industry where the US has a comparable weight is that of personal, cultural and recreational services, also thanks to its motion picture industry¹³. This characterisation through exports shares is confirmed by looking at the RCA index: the US is exporting four times more royalties than the average of the rest of the world, a considerable number given the big size of the country (only a small advanced economy like Switzerland has a similar value). The second industry where the US comparative advantage is particularly strong are personal, cultural and recreational services followed by finance and what is also worth noticing is that the advantage in these three industries has been growing over the last decades, indicating a clear specialisation path.

Excepting poor or small countries, only Great Britain has a merchandise deficit as big as the US in GDP terms. The two deficits have evolved in remarkable parallelism, as has aggregate indebtedness. Great Britain is more finance-oriented than the US. Financial intermediation (i.e. financial and insurance services) is the single most important positive contribution to the country's trade balance (around 2%), the second being business services, while all other categories are much less important¹⁴. Until 2009 the UK detained an even larger market share in financial intermediation than the US and, together with it and Luxembourg, stably controls something less than the 60% of all exports of financial services. The insurance market is less concentrated and more unstable, but still the UK with the US and Ireland have an aggregate 40% share. In terms of comparative advantages, Great Britain is specialising, too: first of all in finance, but also in personal, cultural and recreational services and business services. A notable difference with the US is that royalties have recently become less important for the

¹³ This category includes, among others, fees related to the production of film and television programmes.

¹⁴ Compared to the whole sample, Great Britain has the highest level of dependence on financial services after the small economies of Luxembourg, Cyprus and Switzerland.

economy (as reflected in market shares and RCA, although not as positive contributors to the trade balance), but at the same time the bulk of net FDI is impressive, with a peak of 32% of the country's GDP in 2003. To dig deeper in this aspect, given the financialised character of the British economy, it would be interesting to disentangle the share of FDI related to financial from industrial activities.

3.2. Core Economies in Transition: France and Japan

France is a country that under many respects is losing competitiveness. The merchandise balance, which had been recovering all over the Eighties, started deteriorating in the late Nineties to amount recently to -4% of the country's GDP. As in the US and UK case, a decline in the goods account has been mirrored by a steep increase in net FDI holdings up to a 30% of own GDP, similar to Great Britain in percentage as well as in absolute size. Unlike the other two Anglo-Saxon countries, however, France has not developed in a services exporting economy: the country is continuously losing market shares in all reported industries excepting communications, financial services and royalties, and in this last sector it has a 5% like Great Britain and Germany. The royalties surplus is also the second largest for the country (the first being the declining travel services) and, together with construction and financial services, the only one that has been growing in the last years. Interestingly, similar to the US and Great Britain, the rise in FDI and the industrial decline have been coupled with increasing indebtedness, although on a smaller scale: in 2007 the debt burden of the US and UK economy was equal, respectively, to 40% and 38% of own GDP, whereas for France it was only 12%. It is to be seen whether in the coming years the similarities of the French economy with its English-speaking neighbour will be reinforced.

Also Japan is experiencing growing difficulties with both merchandise and services trade in terms of market shares, with insurance services being the only service category mildly increasing. The evolution in terms of net exports is, however, more interesting, since it shows us how the Japanese trade is, so to speak, tertiarising. The merchandise surplus, which in 1986 was 4% of the GDP, totally vanished in less than thirty years, whereas the services balance, though still negative, has been steadily improving. The largest surplus of the Japanese trade balance are royalties payments, which are increasing together with business services (and travel, which is however still negative). In terms of comparative advantages, royalties are now the most typical export category of Japan together with construction, the market share of which, however, is rapidly contracting. Parallel to the shift from merchandise

to services there is also an increase in net FDI, though their size in percentage of GDP remains moderate (9% of GDP).

3.3. The Industrial Core

Two countries in Europe are showing a remarkably good performance in merchandise trade: Germany and the Netherlands. The merchandise surplus of Germany has boomed in the past decade reaching 6-8% of own GDP, which corresponds to an absolute value equal to that of China. Germany trade structure is industry-oriented, with comparative advantages in merchandise and construction, where it detains a 12% market share, slightly eroded in the recent years by the success of China and Korea. The country has been able to increase its market share in transportation, becoming the second net exporter after the US. As regards business services, it ranks third after the US and UK, but, while their shares are decreasing, Germany is holding the line, as well as for computer and information services and communications, while in financial intermediation activities and royalties the country is even growing. In terms of net exports of services, it is getting close to balance, with all the industries equally expanding. As regards FDI, they amounted in 2007 to 7% of GDP.

Like Germany, the Netherlands are improving both their goods and services competitiveness. The merchandise surplus – to which substantially contributes the role of the country as re-exporter to Europe from Asia – is now 7% of GDP, a relative size similar to that of Germany. The Dutch market share has remained totally stable over the last forty years and in 2011 it was only inferior to that of China, US, Germany and Japan. In terms of comparative advantages, the economy is specialising towards royalties, which are now the first services industry (together with transportation) for value of net exports (1% of GDP in 2011). The net FDI position was traditionally high compared to the country's size and has continued growing, with a peak of 36% of GDP in 2006.

Switzerland, the other big net FDI exporter, is a country that one would expect, not without reason, to find among the financial core countries. It is true that Switzerland had a remarkable 10% market share in financial services in 2000, but since then it has been constantly reducing as has the country's net balance as percentage of GDP. While the comparative advantage of Switzerland for financial services was diminishing, the merchandise balance continued a positive trend so that the country, a net importer in the Eighties, nowadays enjoys a surplus the size of which has become even slightly larger than that of financial intermediation (respectively equal to 4% and 3% of GDP in 2011). At the same time it gained ground in the royalties market and its net FDI position surged to almost 70% of its own GDP, a not

negligible amount in absolute terms also with respect to the whole world. Another essential difference with the Anglo-Saxon model – together with the merchandise-finance evolution – is that the country has increasingly strengthened its position of net capital lender (debt assets higher than liabilities).

3.4. The Nordic Countries

The Nordic countries are the only other countries in Europe, excepting Italy, to have a positive net FDI position¹⁵. Rather small in absolute size, it is however not irrelevant compared to the country's GDP. They enjoy a comparative advantage in royalties and, compared to other economies, the contribution of net exports of royalties to their trade balance is significant (except for Norway).

The importance of royalties is particularly evident for Sweden, which has been able to substantially increase its market share over the last ten years. The country is clearly specialising towards business services, computer and information services as well as royalties, as shown by the size of the industry surpluses and the RCA index. At the same time the country's industrial propensity is declining, although it still maintains a positive balance. The negative movements in the terms of trade¹⁶ have also contributed to the deterioration of the merchandise exports.

On the contrary, Denmark merchandise trade is booming. Business services and royalties are also rapidly increasing and would be the most important services categories were they not dwarfed by the impressive development of the transportation industry. For Finland the increase up to a large relative value of net royalties exports has been a very recent and sudden phenomenon, while the accumulation of FDI has a longer history. The Finnish merchandise balance dramatically fell over the last decade, hit like Sweden by deteriorating terms of trade and now computer and information services are the most important industry in terms of net exports. Iceland merchandise balance is very volatile and tended to stay negative in the past years. Like Denmark, the country's performance in transportation grew substantially. It also started all of a sudden running a positive account in royalties, the constancy of which might be doubted given the fact that also net FDI positions grew very quickly until 2007 to precipitate afterwards¹⁷.

¹⁵ The case of Iceland is commented below in the text.

¹⁶ See *Net barter terms of trade indicator* from the World Bank statistical database.

¹⁷ See the *Foreign direct investment statistics* of the OECD.

Norway is the only Nordic country which does not rely on net royalties export and its trade structure is overwhelming dominated by the exports of fuel and mining products (equal to 74% of its total merchandise exports in 2011)¹⁸.

3.5. The European Periphery

3.5.1. Ireland

Irish trade is dominated by merchandise (manufactures) and computer and information services. The merchandise market share of Ireland has grown substantially since the Eighties and in the last decades the merchandise surplus has accounted on average for more than 20% of the country's GDP, with peaks of 30%, a level much higher even than the energy giants Russia and Norway. Computer and information services have also rapidly increased and now the net exports of this industry are almost as big as those of the manufacturing sector. In GDP terms, the surplus of this services category is also truly impressive when compared to the same index in the rest of the world. As regards market shares, Ireland stably controls a 17% of the market, like India, with all other countries well beneath this level. The other side of the coin for the Irish trade are royalties imports. The economy is not only highly dependent on foreign capital, but also on foreign technology: the royalties deficit is constantly growing and in 2011 reached the gigantic relative size of 18% of GDP.

3.5.2. The Eastern and Baltic Countries¹⁹

Eastern countries, with the exception of Slovenia²⁰, have all been characterised by massive inflows of foreign capital. Poland's negative FDI position is among the biggest in the world, comparable to that of Brazil and that of the Czech Republic, Hungary and Romania surpasses that of India or Indonesia. Net FDI positions are especially impressive, however, when compared to the size of these economies, as they account from 30% (Romania) to almost 100% (Bulgaria) of GDP. Excepting three of them (Czech Republic, Hungary and Slovakia), they are still net merchandise importers, but the trend is inverting. The typical evolution of their balance is that of a fall in the Nineties followed by a strong recovery. The Czech Republic and Hungary are now among the countries with the highest dependence on net merchandise exports in terms of GDP (at the level of the Netherlands, Germany and

¹⁸ *Trade profiles*, WTO (2012).

¹⁹ They all belong to the group of the "transition economies": the fact that they already had a tradition in manufacturing and a well-trained labour force explains their rapid industrial recovery after the collapse of the Comecon area.

²⁰ Also Slovenia's net FDI position is increasingly negative, but it amounts to a comparatively low fraction of its GDP.

Denmark), while Slovakia's surplus is less pronounced. For Bulgaria and Romania the deficit rose to extremely high values until the admission to the European Union, after which it quickly started recovering. The most important services categories for the Eastern economies tend to be travel, transportation and construction, but also business and computer and information services are dynamic industries. Behind the flourishing of tertiary activities there is often foreign investment. In the Czech Republic, for instance, foreign investment in financial intermediation, business activities, trade and tourism has been as important as that in manufacturing, despite the country's renown as an offshoring destination of the automotive industry²¹.

The Baltic countries share many features of the Eastern economies, including their high dependence on foreign investment from their Scandinavian neighbours and the upwards trend in net merchandise exports.

3.5.3. The Mediterranean Countries

The Mediterranean countries are all characterised by their marked dependence on tourism and their negative merchandise account. Their orientation towards touristic activities is revealed by the structure of their comparative advantages, as well as by their market shares and ratio of net exports to GDP, which all together hint at a predominance of travel services with a significant role played by transportation as well (Greece, Portugal and Turkey)²². Personal, cultural and recreation services are also an important export category, especially for Spain and Portugal. Unlike the other Mediterranean economies, Italy, for which travel services have been traditionally and still are the major positive item in its trade account, has been continuously losing market shares in this sector and is generally a net importer in all other services activities. For some of them the negative balance is not the result of a bad export performance but of the prevailing imports growth: in particular, Italy has been fast growing in communications, surpassing Germany and approaching Great Britain, and has increased its penetration of the financial and royalties markets, though still remaining at not very high levels.

As regards FDI positions, Greece, Portugal and Turkey are net recipients. Turkish position is very large also at world level and has been rapidly increasing in the last two decades, reaching a value of more than 20% of its GDP. Portugal as well has net FDI liabilities of similar relative size (20% of GDP), while Spain got close to balance in the last years. Italy is a special

²¹ See the *Foreign direct investment statistics* of the OECD.

²² Under travel services are recorded goods and services acquired by foreign travellers (like lodging, food, souvenirs), while transportation also covers passenger services.

case also under this respect, since, after having been a net recipient until the Eighties, it has become a net investor, with a non-negligible positive balance accounting for 7% of its GDP. Although with a FDI balance of much smaller size, some difficulties on the services markets together with the evolution of its merchandise account, which grew until the Mid-Nineties to fall afterwards, make the economy resemble that of France. The fundamental difference lies in the Italian weakness concerning royalties (where Italy is increasingly a net importer) and financial services. In this latter market Italy net exports boomed from 2005 to 2007 to precipitate immediately thereafter.

3.6. The BRIC and the MIST Countries

The eight fancy-named countries (Brazil, Russia, India, China – BRIC - and Mexico, Indonesia, South Korea and Turkey - MIST) are all major FDI recipients. They also play prominent but quite diversified roles on the stage of international trade.

Among the BRIC there is China, the biggest net manufacturing exporter of the world after Germany, and Russia, which on the contrary is primarily an oil and natural gas exporter. Brazil is also a relevant merchandise exporter, but its trade mix is more balanced among agricultural products, manufacturing and energy²³. India, on the contrary, is running one of the largest merchandise deficits in the world; at the same time services account for a large fraction of its total exports²⁴. The MIST group is heterogeneous as well. Turkey's economy has been already commented in the previous section. Korea is an industrial producer with a leading position in transportation and construction services, Indonesia is becoming relevant not only as merchandise exporter but also in the market for communications services, whereas Mexico is experiencing difficulties in both merchandise and services. A feature common to all of them, excepting Korea, is however their insignificance concerning royalties: they are net importers with export shares that are among the lowest in the sample and for China, India and Indonesia the importance of royalties exports with respect to all other exporting industry is roughly 3% of the world average.

In the following paragraphs the many features of these economies are briefly summarised.

²³ In 2011 these three sectors accounted each for one third of Brazil merchandise exports (*Trade profiles*, WTO (2012)).

²⁴ Commercial services account for roughly one third of total exports, which is a substantial share when compared to most economies: it is comparable to that of the UK and slightly bigger than that of the US.

3.6.1. Russia

The Russian economy is mostly dependent on merchandise exports (displaying the highest dependency ratio from net exports after Ireland and Norway) and, excepting a small surplus in transportation, the country is a net services importer. However, it is gaining shares on all markets (both goods and services). The inflow of foreign capital into the country has significantly accelerated in recent years.

3.6.2. China

China merchandise share in the world exports has been constantly growing since the Seventies. While the market share of some big exporters like Japan, France, Italy, Canada or the UK started decreasing already in the Nineties, the US exports suddenly began to drop only after the year 2000, a fall matched by a leap upwards of Chinese exports. Now China is the biggest world merchandise exporter, but its presence is significant also in some services industries. Together with Korea, it is the first exporter of construction services and has a share in the market for business services only inferior to the US, Great Britain and Germany²⁵. The share of these first two countries has been declining over time, as has that in the market for computer and information services: here Ireland and India are the absolute leaders, but China is clearly gaining ground, with a share now close to that of the US and of the UK. In this industry, in particular, Chinese development in terms of net exports has been symmetrical to that of the US: both close to balance in 2000 as percentage of world GDP, they soon started diverging and now²⁶ the surplus of China is 0.12‰ of world GDP and the deficit of the US -0.12‰ (while the British balance kept stably positive). Construction, business services and computer and information services, however, are also the only services industries in which China exhibits a positive balance. In particular, the Chinese penetration is still very weak with regard to financial services and royalties, a category, this latter, where China displays the deepest deficit after Ireland.

3.6.3. India

In the last decade India penetration on almost all export markets has rapidly increased. However, with regard to trade, the country development has been highly unbalanced towards computer and information services. While the market share of India in all other industries is at most 3%, for computer and information services alone the country accounts for 17.4% of

²⁵ While Chinese exports were rising in this industry, US and UK exports – which together had almost 25% of the market in 2000 - were declining.

²⁶ In 2011.

world exports. This development has been made possible, as in Ireland, by the inflows of foreign capital, which began pouring into the country after the economic liberalisation launched in 1991. India has also become famous as a destination of business process outsourcing by Western enterprises, as reflected in its surplus for business services. Apart from these two categories and the small surplus of travel services, however, India is a net importer, with a plummeting merchandise deficit to which energy imports significantly contribute. Furthermore, the technological dependence of India is proved by its growing – though still limited – royalties deficit and by its almost null market share.

3.6.4. Brazil

Brazilian merchandise balance has been quite volatile over the last thirty years. The country had a significant surplus during the Eighties, which was then totally lost in the following decade to reappear at the beginning of the new century and then considerably decrease again, though its size in the world economy is significant and, on average, comparable to that of Canada (which fluctuates between 0.1‰ and 1‰ of world GDP). Brazil still appears weak on the service side, for which it is a net importer, with the exception of communications and, very recently, of financial services.

3.6.5. Mexico

FDI in Mexico are not only relevant in absolute terms, but also with respect to the size of the economy. The capital inflows mostly come from the US and Spain²⁷. Foreign capital has assumed a key role for the functioning of the Mexican banking system, with institutions like BBVA Bancomer (the largest bank, controlled by the Spanish BBVA), Banamex (a Citigroup subsidiary since 2001 and the second largest financial institution) and Santander Mexico²⁸. Mexico trade profile is clearly merchandise-oriented, with the highest value within the sample of the RCA index. Although the country is continuously gaining export shares worldwide, the balance remains negative. At the same time the services account is deteriorating in all sectors with a contemporaneous loss of market shares.

3.6.6. Indonesia

Indonesia merchandise account has been relatively volatile over time: after a great expansion in the early Eighties, it declined to rise again in the aftermath of the Asian crisis. In the last

²⁷ In 2011 the OECD estimates the US share of total FDI in the country equals 55%, that of Spain 12%.

²⁸ In 2011 foreign banks controlled 74% of the Mexican market, as Haber and Musacchio (2013) document in their exhaustive study.

years the balance has decreased as percentage of GDP but it still largely positive. The services account is, on the contrary, negative, though net imports in many services industries show a tendency to decrease. The only exceptions are travel and communications services, sectors in which the country is a net exporter. In the Nineties it had a comparative advantage in merchandise and travel: now the latter has been outranked by communications services, an activity where Indonesia has a higher world market share than in merchandise, higher also than other Asian economies like Korea or Japan.

3.6.7. South Korea

South Korea and China are at the moment world leaders as suppliers of construction services. They have started in 2000 from relative low positions and surpassed in few years both Japan and Germany, so that these four nations together control half of all world exports in this industry. Though in terms of net exports Japan has remained at a stable level and Germany has passed from a negative to a highly positive balance, both China and Korea are now running a surplus which is three times bigger. Korea has not only exceptionally grown in construction, but also in the market for transportation services: Korea and China are at the moment as big as Japan and second only to the US and Germany for the volume of exports; Korea, however, unlikely China, succeeded in transforming this exceptional performance into a large trade surplus. After merchandise (mostly manufactured goods), construction and transportation, the only other industry where Korea displays a surplus are financial services, where the country gained a market share close to the (declining) Japanese one, reflecting the highly capitalistic development of the economy²⁹.

4. Conclusions

Looking at market shares, the first impression for advanced and developing nations is that the former are losing and the latter gaining ground. This is true not only for merchandise trade but also for services: countries like the US, Great Britain, Canada, Japan, France or Italy seem to be doomed to a relentless decline in front of the BRICs or, at European level, of countries like the Czech Republic, Hungary, Slovakia, Poland and Ireland. This fact *per se* is neither surprising nor alarming. As economies other than the traditional industrial powers grow and enter the international stage, the volume of trade of the former decreases in relative terms: more suppliers are now operating in the market. And, due to the tendency of nations to trade more with their neighbours, the rapid development of some countries outside the “old world”

²⁹ The size of the Korean surplus in this sector is now even larger than that of Japan.

of Europe and North America should be expected to increase the trade share also of their surrounding geographical area.

However, this interpretation is very partial. First, as is well documented in economics by the gravity equation literature³⁰, nations trade more depending also on the size of their GDP, which means that the rise of China might well *increase* or *keep stable* the export share, for instance, of the US. This is exactly what happened for Australia: as an energy and raw material supplier to China, its position on the international merchandise market remained unchanged. Moreover, because of its proximity and economy size, Japan's decline appears to be substantial, not only a statistical artefact, while the cases both of Germany and the Netherlands demonstrate that advanced nations can still remain competitive. Furthermore, the enlargement of the European Union and the institution of the Euro zone have offered the richest Union members the possibility of expanding their exports, which should counteract the negative effect of competition from the developing countries overseas, but some of them took this opportunity while others (like France or Italy) didn't.

However, contemporaneously to this shift in trade, that on average seems to disadvantage the advanced economies, there has been the accumulation of considerable net FDI positions worldwide on the part of some of them, which means that to some extent what is lost from the point of view of exports is recovered from financing production abroad³¹. The relevance for global production of this small group of countries is further reinforced by their oligopolistic position in the market for royalties and license fees. Although the US and the UK lost also here export shares, these losses have been compensated by the gains of France, Germany, Switzerland and the Netherlands. A second market which is still totally controlled by the old elite is that of financial services.

The picture emerging is, therefore, more than a Western sunset-Eastern dawn, that of a growing specialisation and hierarchisation of the global economy, with a distinction between capital, technology and liquidity providers and a producing periphery. This distinction is not, however, strict, as the German model, with its mercantilistic orientation in all sectors, demonstrates. It remains to be seen if the recent developments, as probable, correspond more to a transitory phase, after which part of the periphery will become competitive under any respect so that current accumulation of offshore investments and royalties surpluses represent

³⁰ Empirical works in these area show how trade flows increase with the size of the trading countries and their proximity (geographical and cultural or institutional).

³¹ In this spirit, Rowthorn and Coutts (2004) note how not only surpluses in the tertiary sector but also income from overseas investments could make British trade deficit in manufacturing sustainable.

only the last contribution of the older powers to the ascent of their successors, or if they will constitute for them an asset upon which to reinvent their economic dominance.

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