

THE IMPORTANCE OF COMPETITIVENESS IN THE SERVICES SECTOR

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Abstract:

Contemporary social and economic development is marked by developments in the services sector, which is a vital part of the global economy. The tertiary sector of the global economy, based on information, is currently indispensable in any process of production, provision or supply. It includes adjacent elements, such as imagination, creativity, knowledge, intangible assets and intellectual property, which are the main sources and valuable resources. Services on the world market have seen a significant rise in the last twenty years, mainly due to diversity and other components of changing consumer behavior. This increase is also due to the development of new telecommunications and IT technologies, which are particularly essential in the provision of services, which has led to an increase in consumer demands. It is observed that they are more influenced than ever by the environmental factors, more and more sensitive, more demanding when choosing a particular service, but just as difficult to satisfy. By diversifying the tastes and the offerings the individuals become aware that they live in a world dominated by increased competition and that they are the target of all the destined to the market. The service sector is responsible for increasing the standard of living, contributing to improving the quality of work by raising the level of qualification and training of staff, so we can conclude that services have an important economic role.

Key words: services sector, tertiary sector, economic role, resources, competitiveness

JEL classification: O14, O24

1. INTRODUCTION

We can define the service as an act that reflects on a good, a person or an information, which can be performed only in the conditions in which the exchange relationship is established with the users (Cosmescu, 1999). According to the researchers in this field, services are a very important sector of the world economy which is constantly growing, successfully managing to integrate a large part of the production and labor force in most industrialized countries. Despite these findings, the importance of this sector for economies with a high level of development is not fully mirrored in terms of international trade flows, which requires further clarification. Centuries have passed for world economies to evolve from agriculture to production, but the growth of the service sector is occurring much faster. The world is in the midst of a radical change, the share of total output represented by services has increased sharply in almost all countries. Indeed, several countries, such as India and Sri Lanka, have broken the historic convention by moving directly to services without developing a significant production sector at all. This increase in services has probably transformed not only the composition of the world's economic production and employment, but also the potential patterns of global trading over the last few decades. Regarding the evaluation and analysis of productivity in the service sector, we can find that they are quite difficult to achieve, given a variety of practical and conceptual reasons. Both the evaluation of work and its outcome are not always correlated with the evaluation of service output. The cause of this phenomenon can be attributed to the fact that data on service activities have been and are collected in a much less standardized way than in the case of goods. The classifications used for the purpose of collecting information are very heterogeneous. Moreover, most interpretations associated with methods of measuring the labor productivity indicator are quite controversial, presenting only a series of partial images without generating a clear indication, for example, with reference to the intensity of capital use. However, they do provide some pretty useful information regarding the wealth gain generated by an additional unit of work. In this sense, observing trends can be a useful practice in developing the capacity to generate economic growth. Achieving a high level of competitiveness becomes a

responsibility of companies in a market economy, but let's not forget that the contribution of public authorities by providing a favorable economic environment is a very important starting point.

2. WHY IS THE SERVICES SECTOR IMPORTANT?

With the help of statistical data we have been able to demonstrate that the economic relevance of services in all modern economies has seen a significant growth. The services activities dominate in a growing proportion the modern economies, so we can strongly affirm that they are true service economies. The last three decades have shown us an increase in the share of services in GDP from 58% to almost 74% if we refer to OECD member countries and from 55% to about 69% globally. The contribution to value added is not the only aspect by which the service sector is predominant, there are other important indicators that can influence this finding. For example, we can refer to its share in employment (about the same size as the share in GDP if we refer especially to advanced countries), or to the flows and global stocks of Foreign Direct Investment (FDI) of about two thirds.

The process of economic growth and development has a direct impact on the importance of services as a share of total production and implicitly of the workforce. If we analyze the phenomenon of amplification of the intensity in the service sphere of modern economies we can deduce that it is supported by a complex of factors related to both final and intermediate demand but also to certain fundamental structural changes applied in production and trade plans that are directly correlated with the development process (Francois & Hoekman, 2009). The acceleration of this phenomenon has been driven by a number of recent advances in information and communication technology (ICT), an evolving process that is based on expanding the capacity of services to be marketed through electronic networks, thus amplifying cross-border trade in services. In terms of international trade flows, the importance of services for modern economies is not fully reflected, which requires a number of explanations.

In the first instance, we must emphasize the inherent characteristics of services (inability to store, intangibility, overlap in time and space of production and consumption) that influence frequency in a negative way in terms of international transactions compared to material goods. Traditionally, they are listed as non-marketable products, in fact being much less specialized in relation to production than goods. Specifically, the ratio of the size of exports / imports of services is much more modest than the production of services compared to imports / exports of goods related to production. This analysis has undergone many changes in the last three decades due to a complex of factors, thus leading to the expansion of the degree of participation of services in international trade. These factors include the many advances in ICT coupled with a relaxation of international trade and investment regimes. The dynamics of the expansion of international trade in services in recent decades equate trade in goods, in some cases even slightly ahead of them. If we take into account the estimates made by the World Trade Organization (WTO), we can see, by calculation, that the value volume of world exports of services increased 2.3 times (2000-2009) compared to world exports of goods that benefited an increase of 1.9 times during the same periods. This sustained growth rate would have kept its pace if the global economic and financial crisis of 2008/2009 had not intervened.

Secondly, if we take into account the sustained dynamics and the significant volume of services that participate in the form of trade in the world circuit, we can see that the size of this type of trade remains quite small compared to the volume of traditional trade in goods, even if the service sector is of growing importance in the context of national economies. A plausible explanation would lead us to the idea that this phenomenon is indirectly caused by the current ways in which economic activities are internationalized. Foreign direct investment flows, which are largely controlled by transnational corporations (CTNs) and traditional cross-border trade, are the main modes of internationalization and services fall clearly under the first modality. However, this form of internationalization is not integrated into conventional statistics on trade.

3. THE RELATIONSHIP BETWEEN SERVICES AND COMPETITIVENESS: THE CONCEPTUAL FRAMEWORK AND THE THEORETICAL FOUNDATIONS

Despite the increasing size and importance of services in contemporary economies, these activities are generally less explored and analyzed by economists as compared to goods, usually benefiting from much less attention and political decision-makers. While there is a rich economic literature that analyzes competitiveness in trade in goods, the number of theoretical or empirical contributions that address this issue from a service perspective is extremely small. However, the low interest in the competitiveness of services is incomprehensible given that services currently represent almost 80% of modern economies in terms of labor and value added, 40% of international trade (if we consider the broad definition of trade with services, which also includes transactions mediated by FDI), and about 2/3 of FDI. And, although trade in services is in a dynamic expansion, the factors that determine the competitiveness of services are largely unexplored in the empirical economic literature. The few existing contributions in present time have tried to answer the following questions: What determines the competitiveness of the services? Does the competitiveness of the services depend on the same factors that lead to advantages in the industry? Is there only one relationship between services and competitiveness or are there many relationships depending on the type of services? What role do services play in the relationships defined by Kaldor's paradox (increasing market share despite worsening competitive capacity)? What are the elements that highlight the contribution of cost and price variables to the competitiveness of services compared to the industry? (Rubalcaba, et al., 2008).

There are several explanations for the precariousness of theoretical and empirical contributions on services in general and the competitiveness of services in particular. Researchers face two major difficulties in particular:

- the very high degree of heterogeneity of the service sector;
- the difficulties caused by the generalized lack of consistent data regarding the production of services and the measurement problems that derive from here.

Regarding the heterogeneity of the service sector, it is important to emphasize that this sector is composed of different types of activities, which are based on different technologies and which know different price formation processes. While some categories of services are very capital intensive (such as IT, software and telecommunications, research, development, etc.) and / or knowledge (such as IT, communications and professional services), others are very low-skilled labor-intensive (eg hotels and restaurants). On the other hand, some services have a high degree of standardization, while others are highly customized and tailored to customer needs.

At present, the heterogeneity of services is further accentuated, as the process of tertiaryisation that takes place under the impact of rapid advances in the field of new ICTs leads to changes in the very essence of these activities, as well as to their rapid and continuous diversification. At the same time, the high degree of heterogeneity of services and, respectively, the great diversity of these activities determine that the approach of the service sector as a whole does not make sense, just as it does not make much sense to talk about the competitiveness of services in general. This is because the different subsectors / segments of the service sector are distinguished by various patterns of economic behavior and divergent social characteristics, which gives them distinct trajectories and growth patterns.

But the studies also face numerous statistical difficulties. Since the services are not properly reflected by the existing statistics, the analysis of the service-competitiveness relationship is difficult to perform empirically because of the measurement problems that result from the statistical deficiencies. Thus, despite significant improvements on the methodological front, measuring value added and labor productivity remains a major problem for most service categories, as opposed to service inputs that can be measured more accurately.

The evaluation of competitiveness in the sphere of international transactions with services is faced, in turn, with great measurement problems. First, the standard indicators of trade in services reflect only a part of total trade in services, because they do not capture the trade generated by

factors (human factor and physical capital), which matters a great deal in some service activities, such as financial services, commercial services and so on. In the case of these services, the establishment of productive units in the host country is an essential requirement, since the means by which the commerce is realized is that of the specific factor flows (FDI). Then, international transactions in services are more difficult to analyze due to the need to consider all four modes of service delivery (ie the different media that carry services), stipulated by GATS provisions, respectively: cross-border trade, consumption abroad, commercial presence and the presence of individuals abroad. At the same time, related to this aspect, it is difficult to assess the accessibility and, respectively, the cost of each mode of supply, as well as the relationships between the different modes (which are complementary or substitute) (Francois & Hoekman, 2009).

4. THE COMPLEXITY OF THE CONCEPT OF COMPETITIVENESS IN THE FIELD OF SERVICES

As we have seen, there is no unanimously accepted definition of competitiveness. On the contrary, this concept has been assigned, over time, numerous meanings and countless interpretations. According to some authors, this state is explained by the absence of adequate theoretical foundations. In other words, the notion of competitiveness is one of the few notions used by contemporary economists that do not have their roots in classical economic literature (Siggel, 2007). And things get even more complicated if we relate the concept of competitiveness to the sphere of services.

We recall that the Lisbon Agenda advances a very broad definition, through competitiveness understanding the capacity of a country to improve and raise the standard of living of its inhabitants by ensuring more and better jobs, and greater social cohesion. Within the social and economic factors that contribute to the achievement of these objectives, a major role is attributed to the competitiveness in the sphere of trade in goods and services, considered as a confirmation of the export (and import) performances of the EU and, respectively, of the member countries. Keeping within the limits of a narrower definition, which is limited only to the commercial aspect, it seems appropriate to evoke the definition formulated by the OECD, according to which competitiveness is a measure of the advantage / disadvantage of a country in selling its products on the market. international markets.

In the specialty literature, the concept of competitiveness applied to service activities was defined as subsuming all those factors that promote and impede the process of internationalization of these activities (Rubalcaba & Gago, 2001). The definition of competitiveness proposed by Trabold, which was later taken over by (Wörz, 2008), in order to estimate Austria's competitiveness in the field of trade in services, seems particularly relevant. Since in this paper, the analysis is not concentrated at a certain country or sector / industry level, we can still consider useful to sketch the aforementioned analysis framework, and according to which, competitiveness is defined as the consolidation of four skills:

- the ability to sell goods and services internationally;
- the ability to attract resources, especially FDI;
- the ability to adjust to external conditions in continuous transformation, through structural changes and modernization;
- the ability to earn, which can be measured by GDP and economic growth.

Although distinguished by pragmatism, this definition neglects the labor force factor. However, it is attractive because it focuses on distinct and very important aspects of competitiveness (Wörz, 2008), namely:

- the external market (ability to sell), thus reflecting the outward orientation of competitiveness;
- future orientation (ability to adjust and ability to win / grow);
- conditions in the internal market (ability to attract resources), which provide the foundation for being competitive.

The relationship between competitiveness and services must be understood in a conceptual and analytical framework that takes into account both the effects of services on the global economy and the challenges posed by competitive economies towards services. Since the late 1980s, numerous important studies have examined the role of services as agents of globalization and as a driving force for international trade. Precisely for these reasons, we can speak of a biunivocal service-competitiveness relationship. Following this line of thinking, it is clear that services require a specific approach as their internationalization process differs from that of the manufacturing industry. Two types of factors influence trade in services:

- expansion factors, which force the opening of markets - due to intrinsic economic dynamics;
- limiting factors that restrict the possibilities of increasing the trade - due to the inherent features of the nature of the services and to some characteristics related to their regulation.

Thus, the proliferation of new ICTs (such as telephone communications, the Internet, etc.), access to global financial markets and product standardization are factors that determine that service activities are transferable, without affecting their cost and quality. On the other hand, differences in regulation, specific legal requirements, administrative formalities, differences in civil liability or financial guarantee systems - are just as many barriers that negatively affect the formation of a global market for services.

The view persists that policies aimed at increasing competitiveness overestimate the effect of external competition on the generation of economic growth, which seems to be much more strongly influenced by internal factors and other economic policies than those aimed at directly improving competitiveness. It results, on the one hand, that for the study of competitiveness it is necessary to analyze more factors than those with direct impact and relevance. On the other hand, it is important to mention that the analysis of all the information obtained does not guarantee the total relevance of the result. The evaluation of competitiveness in the field of services can be done on two levels of analysis:

- at the level of the entire economy, by measuring the overall economic performance;
- at the level of international transactions, in order to identify the way in which the service activities compete on international market or face external competition in the local market.

Productivity assessment and analysis in the service sector are difficult to achieve for a variety of practical and conceptual reasons. The evaluation of work, on the one hand, and its result, respectively, of the production of services, on the other hand, are not always correlated. Data on service activities were and are collected in a much less standardized way than in the case of goods. The classifications used to collect information are very heterogeneous. Moreover, the interpretations associated with methods of measuring labor productivity are controversial, as they present only partial images without providing an indication, for example, of the intensity of capital use. However, they provide useful information on the wealth increase generated by an additional unit of work. Observing trends in this regard can also be used as an indicator of the development of the capacity to generate economic growth.

5. PECULARITIES OF THE PROCESS OF INTERNATIONALIZATION OF SERVICES AND THEIR COMPETITIVENESS

The process of globalization of the service sector is determined by the specific features that these activities present when they are traded and moved. These distinctive features, as well as the complexity inherent in the provision of services internationally are highlighted, among others, by the fact that international trade in services has been classified into 4 different forms of supply: cross-border trade, consumption abroad, trade presence and individuals abroad. This classification gives us an idea of the forms that the globalization of services takes compared to goods and, as such, deserves all the attention. And the role that services play in the internationalization of economic activities largely determines and defines the pace of globalization.

Services therefore have characteristics that differ from those of industrial goods and which, in turn, make their mark on international service activities. It is first and foremost about the

particularities of the services (for example, the intensity of the relations between the supplier and the buyer), but also the imperfections that characterize the service markets, which has an impact on the process of internationalization of services and, implicitly, on their competitiveness.

A fundamental feature of services that distinguishes them from goods, and which implicitly influences their internationalization process, is the interaction between producers / suppliers and consumers / buyers of services, which implies the presence of both parties at the same time and in the same place (principle *uno actu*). Referring to the types of services that fall under this requirement, (Bhagwati, 1984) called them "embodied / materialized services". International exchange is, as such, only possible if the service provider is present at the destination of the foreign customer (either by traveling / traveling the provider, or by establishing a commercial presence of the customer) or if the customer travels to the provider. The dissolution of the one act principle, that is to say, the provision of "uninterrupted / non-materialized" services can only take place through the medium of exporting or importing services (export / cross-border import). However, the interaction / cooperation between the provider and the client implies many other conditions such as the requirement for the service provider to know the language of his client and the cultural characteristics of his country (Ochel, 2002).

The second characteristic, closely related to the first, is the client's participation in the production act. The need for cooperation between producer (supplier) and consumer (buyer) is due to the fact that, in general, services have a low level of standardization (although some may have a high degree of standardization), being instead highly customized and adapted to customer needs. The fact that the services are usually unique also means that neither of the two parties involved in the transaction knows in advance the result of the service activity (Ochel, 2002).

The third feature concerns that particularity of services, which is related to the incomplete transparency of the market from the perspective of the buyer. In other words, through the prism of the buyer there is an *ex ante* uncertainty regarding the quality of services.

6. CONCLUSIONS

The quality of services is given by the extent to which the production of services and, respectively, its result satisfies the expectations of the buyer. Unlike goods, services cannot be seen, tested and evaluated by the buyer before the time of purchase, as their characteristics are manifested only during use. For this reason, the choice of supplier is decisive for ensuring the expected quality. But, as a rule, the buyer is insufficiently informed about the quality of the service providers, and removing this information deficit involves high transaction costs (information costs). To eliminate the risks faced by the buyer and to convince him of the quality of the service, service providers make substantial efforts to provide quality assurance, quality guarantees, to build reputation and to advertise their services.

Regarding the particularities of the service markets, it should be emphasized that, traditionally, the services were characterized by a mix of network externalities (telecommunications, financial services, transport), severe regulation (communications, insurance, professional services), as well as and natural barriers to entry, but also barriers imposed by trade policies. Regulations in the field of services are permanent and are determined by both efficiency and equity considerations.

The characteristics of many services give rise to market failures. For example, the existence of a natural monopoly / oligopoly is a feature of the infrastructure services that demand specialized distribution networks (roads, railways, airports, cables, telecommunication satellites). As such, entry into such activities is restricted by regulations. Problems associated with imperfect and asymmetric information are also common in services. As noted above, the buyer / consumer encounters serious difficulties in assessing the quality of the service provider (eg, assessing the competencies of professional service providers, such as doctors, lawyers, or transportation system security or bank creditworthiness).

Therefore, the competitive advantages of service providers appear to be less the result of comparative advantages in terms of production costs, especially of the ability of suppliers to contribute to meeting the specific needs of customers, to reduce uncertainty about the quality of services and to reduce the trading costs of their customers. At the same time, it can be concluded that the particularities by which goods services are distinguished, and which implicitly influence their internationalization process, determine that competitiveness indicators based on prices and costs are less relevant in the sphere of services than in that of goods. Instead, a major role in the competitiveness of services in international trade seems to be the quality, differentiation of products and economic and socio-cultural barriers.

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