THE IMPORTANCE OF SERVICE SECTOR FOR REGIONAL ECONOMIC SITUATION IN TIME OF CRISIS

Moise Mihaela
Academy of Economic Studies from Bucharest, Faculty of Commerce, Romana Square, No.6, Commerce Department, Room 1402, Bucharest, Romania E-mail: mihaela_moise@yahoo.com
Phone number: 0766482044, 00421/3191900, int. 246, 260

In majority of the countries, services contributes determinant to the development of national economies through the employment of labour force, creating an important share of the national gross product, in raising and diversification of the economic activities and not only. Due to this reality of the predominate importance of services, their development must be sustained by elaborating and using economic strategies. Approaching such an extremely important subject for understanding the actual dynamic of modern economies and societies, this article has as main objective the presentation of the services development at national and European level in the context of the world economic crisis.

Keywords: service sector, regional disparities, regional development, financial crisis

JEL Classification: L80, O10, R10

Introduction

Services development in Romania must be thought in perspective, seeing a regional development equilibrated, oriented through diminish of certain economic and social existing disparities. A strategic concept of an equilibrate regional development contains priorities regarding economic growth and improvement living conditions. The economic development is seen as a reunion of individual development of regions, sectors and economic industries, but their features are different in the present economy, and economic development seems to correlate more and more with tertiary sector.

In present and generalising for the future, the economic development premise is assured by services activities. A special attention must be given to the relation between the evolution of services and economic development, observing that developed economies explain their ascending evolution through intensive services production.

Analysing evolution of theory regarding services, we understand better their implications and complexity. Thus, historically speaking, the study is realised in a context of careful concept analysis, of different methods (theories, doctrines) in approaching the problematic of services. The notion of service was defined, in specialists conception, through different perspectives, being many times considerate like: activities (Jean Gadrey, Christian Gronroos), benefits or utilities which influences the persons or material objects condition (T.P.Hill), efforts and performances (Leonard L. Berry), and the service sector being appreciate representative in a modern society (Peter Drucker).

The concepts regarding services have evaluate in the same time with their development and growing their importance in economy. Thus, following services research, we can use nowadays concepts like post-industrial economy (Daniel Bell), knowledge economy, services economy (Orio Giarini), new-industrial economy, self-serving economy, (Jonathan Gershuny), “the third wave” (Alvin Toffler).

1. Services in the European Union

The beginning of 21st century was realised under the influences and impact of entering in a new stage of knowing services. The cause of this transformation is evolution of developed societies and science orientation through approaches in which become important creating informational societies, based on knowledge. Steps for knowing and diversification of services activities had increased. In consequence, speciality literature has added practical steps materialized in official documents used in practice (General Agreement on trade and Services-GATS, 1995), reglementations (Directive of Services of European Union, 2006), national strategies (Lisbon Strategy, 2000), national development strategies (their content underline the importance of certain services).

1.1.Employment rate in service sector

Over recent decades the European Union, like other highly industrialised economies, has experienced substantial structural change that has brought about a transition from an industry-dominated to a services-dominated production and employment structure. About three quarters of employees in the European Union are now working in services, half of them in the private sector. Reflecting the long-term trends in employment structure, net job creation is occurring almost exclusively in the service sector. The growth of existing service industries, the development of new services – not least in light of technological, demographic and other trends – and increased internationalisation suggest that the service sector will continue to increase in scope and intensity. In Europe, since 2000 there was a net movement of workers from agriculture and manufacturing activities towards construction and services. The EU27 saw a net decrease of 1.4 million persons working in agriculture and a reduction of 2.5 million persons in manufacturing (excluding construction), whereas there were net increases of 2.1 million persons in construction and 15.8 million in services. Those developments led to the following distribution of employment by activity in 2007: in the EU27, 68.9% of persons worked in service activities (+2.9 percentage points since 2000). However, those averages conceal significant differences in the distribution of employment by activities among Member States, which result from structural differences.

The following data shows the Member States reporting the highest and lowest share of employment in services, in 2007: EU27 average was 25.2%, Romania (16.7%) - the lowest value, Cyprus (35.6%) - the highest value. Agriculture, hunting, forestry and fishing accounted for a relatively high share of national value added in Romania (9.6 %) in 2006, while Lithuania, Greece, Poland, Hungary and Slovakia reported these activities generating at least 4 % of their value added. Upwards of 25 % of total value added was generated by public administration, health, education, other services in Malta, Sweden, Denmark, Portugal and France (2005), compared with an EU-27 average of 22.4 %. In contrast, less than 16 % of national value added was derived from these activities in Estonia, Lithuania, Slovakia, Bulgaria and Romania. In Luxembourg, financial, real estate, renting and business activities accounted 48.6 % of the total value added generated in 2006. The tourism-rich economies of Cyprus and Malta, as well as the Baltic States and Greece all reported relatively high shares of value added being generated in distribution, HORECA, communications and transport services.

2. The services development in the Romanian regions before crisis

Romania displayed a relatively high degree of specialisation in industrial and distribution activities[247], with industry accounting for 27.3 % (compared with an EU-27 average of 20.3 %). With the exception of distribution activities, Romania had relatively small service sectors, in particular, the relative weight of public administration, health and education, which accounted for 15.1 % in 2006 (compared with an EU-27 average of 22.4 %).

The eight Romanian regions present particularities about their structural economy, this makes that certain sector to play a decisive role in their future development. Thus the region economy from the south of the country (SE, S, SW) is influenced by the evolution of agriculture sector, these having important shares over 15%, so in the years with rough conditions for agriculture, the GDP growth is negatively influenced. Also there are regions with important touristic potential

247 Eurostat regional yearbook 2008, General and regional statistics, Collection: Statistical books, European Communities, 2008

(Bucovina in the NE region, seaside and the Danube Delta in SE region), the economic evolution of these being influenced also by the level of this potential use. The NE region gives approximate 12% of total GDP. An important contribution in the regional GDP has trade, hotels and restaurants industry, having 10%. Regarding the foreign trade, the share in total economy was in 2006 decreasing from 2005 also at the goods export (from 8.3% to 7.3%), and at goods import (from 5.8% to 5.1%). The export and import volume from the region in 2006 has registered moderate growth of 3.2%, respective 5.9%. The SE region participates with approximate 12% in creating the GDP.

Regarding services sector, its share in the regional GDP (circa 42%) is situated under the national level (above 45%). In services is important to observe the shares of hotels and restaurants services with over 2.5% from regional GDP, this placing the SE region on the first place (with Centre region) in a top of regions, due to the touristic potential of the region – seaside and Danube Delta. The S region generates almost 13% of total GDP. Regarding services, with 38% from regional GDP (under the national level-over 45%), they place the S region on the last place in a top of regions. The SW region has a share in total GDP of almost 8%. The sector of agriculture represents one of the main occupations for the people, the share of agriculture employment being 42.1%, on the second place after the NE region. Services have 32%, and from these, trade services represent 18.9%. The W region gives over 10% from GDP in economy. In this region the services sector has an important share, giving 45% from GDP. On types of services is important to remark trade, hotels and restaurants with almost 10% from regional GDP. The NW region gives over 12% from the total GDP. In this region services play an important role, having over 45% in the regional GDP.

In services sector are important those from HORECA industry with almost 11%. Centre region produces over 12% from total GDP in economy. Regarding services, this sector contributes with circa 43% in the regional GDP. It is important to remark the high share they have, in this region, the hotels and restaurants services, over 2.5% in GDP, being well known the touristic potential of this region.

The Bucharest-Ilfov region has the highest contribution in creating the GDP in the economy, over 20%. This region presents a total different structure from those of the national and regional economy. Services have in this region a share over 60% in creating GDP, a lot over the national level and close to the European states model, where this sector plays an important role. The share of trade in GDP is approximate 13%, and the share of hotels and restaurants industry is 2.5%. Services have developed in a sustained way in the last years, and these sustain majority of activities developed in the primary and secondary sector.

In consequence, the role and contribution of services in development is due to the interdependencies from services and the other economic activity fields.

3. Europe economic situation in time of crisis

Economic activity in much of advanced Europe had begun to contract already before the September 2008 financial blowout, owing mainly to rising oil prices. Nonetheless, the initial perception was that advanced European economies would escape a full-blown recession[248], while the emerging economies would continue to grow at a lower but still healthy pace, despite their vulnerabilities. Financial systems suffered a much larger and more sustained shock than expected, macroeconomic policies were slow to react, confidence plunged as households and firms drastically scaled back their expectations about future income, and global trade plummeted.

In the advanced economies, fears about growing losses on U.S.-related assets at major European banks caused wholesale markets to freeze in September 2008, with a number of failing banks requiring state intervention. Initially, problems were concentrated in a few banks, and their

248 Felton, A.; Reinhart, C. - The First Global Financial Crisis of the 21st Century, VoxEU.org Publication, Center for Economic Policy Research, 2008

causes varied. The macroeconomic implications were generally not considered large, and thus fiscal and monetary policy responses were initially limited. But the problems quickly caused broad repercussions because of the close linkages between Europe's major financial institutions and their high leverage. With funding markets frozen, the financial crisis rapidly transformed into a crisis for the real economy during the fourth quarter of 2008. Remedial financial policies were put in place quickly but, as elsewhere, have not been (and still are not) sufficiently comprehensive and coordinated, undermining rather than reinforcing their cross-country effectiveness. Equity prices took a steep fall, and business investment has been slashed.

Real GDP fell at an annual rate of about 6 percent during the fourth quarter in the euro area and it is forecast to drop by more than 4 percent in the euro area in 2009, accelerating only gradually thereafter and continuing to fall for several more quarters, making this the worst recession since World War II[249].

Growth is expected to contract by about ½ percent on an annual average basis in 2010; on a fourth quarter-to-fourth-quarter basis, the turnaround is more apparent, from a drop of more than 3½ percent in real GDP in 2009 to an increase of about ½ percent in 2010.

As a result of the broad-based fall in output, unemployment rates in the advanced economies are projected to reach more than 10 percent in late 2009 and climb further through 2011. Economic activity has taken a particularly sharp turn for the worse in many emerging European economies.

Hungary, Latvia, Serbia and Romania have received International Monetary Fund (IMF) support to sustain their balance of payments, and Turkey is discussing the issue with the IMF. However, there are also some upside risks: if EU countries manage to put in place a forceful, comprehensive, and coordinated response to the financial sector travails, confidence and risk taking might recover faster than expected.

Looking further ahead, the current crisis has underlined the importance of strengthening institutional mechanisms for economic policy coordination and integration across the European Union. A key lesson is that the EU financial stability framework needs to be revamped. Ultimately, what is needed is an institutional structure for regulation and supervision that is firmly grounded on the principle of joint responsibility and accountability for financial stability, including the sharing of crisis-related financial burdens. Otherwise, deleterious national reflexes will continue to prevail during crises.

3.1 Impact of economic crisis on service sector

World commercial services exports rose 11% in 2008, to $3.7 trillion. Among the three major categories of services exports, the fastest growing one in the past year was transport (15% growth), followed by travel (10%), and other commercial services (10%). Other commercial services, which includes financial services, was just over half of the total (51%), while travel and transport each represented about a quarter (25% and 23%, respectively). (Table 1)

In 2008, Europe's exports of commercial services increased by 11%, to $1.9 trillion, while imports grew 10%, to $1.6 trillion. The impact of the financial crisis is evident in the case of Europe. According to available data, the region's exports of commercial services, which were growing by 19% in the first nine months of 2008, dropped to an 11% decline in the last quarter. It should be noted that exchange rate effects in the last quarter of 2008 are likely to have magnified the impact of the crisis, but they do not explain such a large drop on their own.

249 Rémond-Tiedrez, I. - Recession in the EU-27: output measures, Statistics in focus, 2009

Table 1: World exports of commercial services trade by major category, 2008 ($billion and % change)

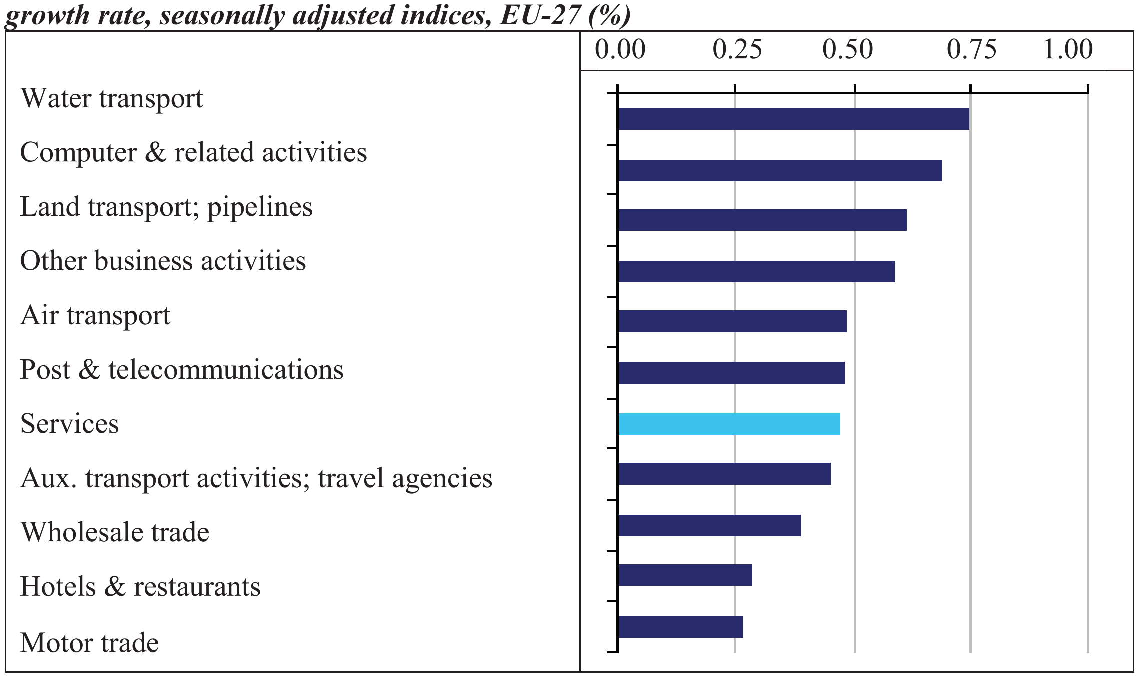
	Value	Annual % change			
	2008	2000-2008	2006	2007	2008
Commercial services	3730	12	13	19	11
Transport	875	12	10	20	15
Travel	945	9	10	15	10
Other commercial services	1910	14	16	22	10

Source: World Trade Organization

The contraction in activity observed in the EU-27 during 2008 was particularly severe in respect to industrial and construction activities. For example, the EU-27's seasonally adjusted index of production for total industry fell to 102.0 (2000=100) in December 2008, its lowest level since March 2004 (1). EU-27 industrial output was more than 10 % below its peak level recorded in January 2008. The index of production for construction fell by 6.1 % from a peak in February 2008 through to November 2008, while the volume of EU-27 retail sales stagnated. In contrast, the turnover index for services continued to grow. There was some evidence of a slowdown in EU-27 activity for retail trade (as measured by deflated sales), with a slight contraction over the last 12 months. In contrast, the value of turnover within services continued to expand (note again that these figures are not deflated, but in current prices). EU-27 sales of services rose by an average of 0.6 % during the 12 months to September 2008 (slightly faster than their average growth rate since 2000, 0.5 %), compared with an average month on month percentage change of 0.2 % for the all-items consumer price index over the same period.

Among the services activities, there was consistent, positive growth in current price terms during the period 2000 to 2008 (while the all-items index of consumer prices rose, on average, by 2.5 % each year during the same period). Sales growth was particularly high among transport-related activities (water, land, and supporting/auxiliary transport services, perhaps reflecting increased fuel charges), as well as other business activities and wholesale trade. (Figure 1)

Figure 1: Long-term evolution of turnover among service sectors average month on month growth rate, seasonally adjusted indices, EU-27 (%)



Source: Eurostat. Statistics in focus, 17/2009

A recession is often defined as two successive negative quarter on quarter changes in constant price GDP. As shown below, having remained unchanged in the second quarter of 2008, there was a 0.2 % quarter on quarter reduction in the EU-27's GDP in the third quarter of 2008, followed by a reduction of 1.5 % in the final quarter of the year. Information for a range of Member States showed that, at the time of writing, many of these had also slipped into recession.

Conclusion

The difficult and uncertain outlook argues for continued forceful action both on the financial and macroeconomic policy fronts to establish the conditions for a return to sustained growth. Whereas policies must be centered at the national level, greater international cooperation is needed to avoid exacerbating cross-border strains. Building on the positive momentum created by the April G20 summit in London, coordination and collaboration is particularly important with respect to financial policies to avoid adverse international spillovers from national actions. At the same time, international support, including the additional resources being made available to the IMF, can help countries buffer the impact of the financial crisis on real activity and limit the fallout on poverty, particularly in developing economies.

Biliography:

1. Felton, A.; Reinhart, C. - *The First Global Financial Crisis of the 21st Century*, VoxEU.org Publication, Center for Economic Policy Research, 2008

2. Kemekliene, G.; Connolly, H.; Keune, M.; Watt. A - *Service employment in Europe – now and in the future*, European Trade Union Institute, Brussels, 2007

3. Rémond-Tiedrez, I. - *Recession in the EU-27: output measures*, Statistics in focus, 2009

4. ****Crisis and Recovery*, World Economic Outlook, International Monetary Fund, 2009

5. ****Eurostat regional yearbook 2008*, General and regional statistics, Collection: Statistical books, European Communities, 2008

6. ****Regions of the European Union, A statistical portrait — 2009 edition,* General and regional statistics, Collection: Statistical books, European Communities, 2008

7. ****WTO sees 9% global trade decline in 2009 as recession strikes*, World Trade 2008, Prospects for 2009