

Cross border services in the internal market: an important contribution to economic and social cohesion

Study

Executive Summary

The European single market has undoubtedly contributed to greater welfare and prosperity in all of Europe, by guaranteeing the free movement of goods, capital, services, and labor between the Member States. This study focuses on the last two aspects, especially the provision of cross border services. Cross border services do often include a person crossing the border between Member States in person. Such services can be provided on a short trip or by posting workers for a longer period of time. The posting of workers to provide services abroad on a temporary basis is regulated by the directives of the European Union. The rules aim at providing a clear framework to guarantee fair competition and respect for the posted workers' rights so that both businesses and workers can take full advantage of the internal market opportunities. However, too strict regulation could effectively work as a market barrier for companies with lower labor productivity.

To show possible impacts of overregulation of the European service market this study aims to quantify the value of cross border services for economic and social cohesion in Europe.

In 2014 around **10.9 million jobs** in the European Union were based on the export of cross border services to other European Member States. Since the year 2000 the total amount of employees dependent on cross border services has almost doubled. While total employment in the EU grew by 5.5 percent cross border service dependent employment has risen by 94 percent **clearly supporting employment growth** in the EU.

While smaller European countries and Member States in central and eastern Europe are – relative to their total labor force – more invested in the cross border services market, most cross border dependent jobs are actually located in the EU-15 states. Around 74 percent of cross border jobs are located in these countries with the United Kingdom, Germany and France hosting the most employees in cross border service jobs. This finding is consistent with former research on cross border services based on the number of Portable Documents A1. More than 38 percent of the postings of workers registered here occur from one high-wage Member State to another. These two results show that cross border services exports are an **important economic factor in all the Member States**. In total numbers the United Kingdom is the biggest gainer of the single market for services in the EU. 1.7 million cross border service jobs in the UK could be threatened by the Brexit.

While cross border services were often associated with labor intensive tasks the study shows that **jobs in knowledge intensive service sectors** dependent on the export of services cross border **have grown nearly in the same amount than labor intensive tasks**. Cross border dependent jobs in knowledge intensive service sectors have increased by 77 percent since the year 2000. Around 4.2 percent of the jobs in the knowledge intensive service sectors in the EU-28 depend on the export of cross border services. Also, the individual economic sector most dependent on the export of cross border services is the provision of professional, scientific and technical services. Around 13.6 percent of the jobs in the sector in the EU-28 are dependent on cross border service exports. This shows that

cross border services are not limited to labor intensive jobs. They are also very important for knowledge intensive jobs in sectors with high wages.

For economic prosperity and employment growth the study finds a **clear positive connection between cross border services and economic and employment growth**. Countries with a higher share in cross border services have registered a much stronger growth in employment and GDP than countries who were less involved in the cross border service market. Especially employment growth is strongly connected with the share of cross border dependent jobs in the economy. If a country increases its share in cross border service employment by 1 percent, its total employment is expected to grow by 0.013 percent.

The **positive effect of cross border services** can be seen in the total economy, but also in the **knowledge intensive service sectors**. Countries with a higher share of knowledge intensive jobs dependent on the export of the services cross border have registered a stronger employment growth in the knowledge intensive service sector than other countries.

A statistical analysis further proves the positive connection between cross border service share and economic growth in the economy. A reduction of the share of cross border services by 1 percent could reduce the total GDP in the EU-28 by around 8 billion euro. This effect, however, relies on the assumption that jobs dependent on cross border service exports could be substituted with national demand for the employees currently working in exporting service industries and thus keeping total employment constant. With a total of 10.9 million employees dependent on cross border service exports, the economic effects of a harsher regulatory framework on the exports of cross border service is likely to be significantly higher. In 2014 the total **value added dependent on the exports of cross border services amounted to around 625 billion Euro in the EU-28**.

Since a positive effect of the cross border services share is still observed while keeping employment constant, it can be assumed that jobs in sectors that export their services cross border seem to have a higher positive impact on the national GDP than the average job in the total economy.

The study also finds a **positive connection of the cross border service share with social cohesion** indicators. Countries with a higher cross border service share have on average a lower ratio of people at risk of poverty and social exclusion. Also, the average happiness and satisfaction with life is positively connected with the share of jobs dependent on the export of cross border services. Thus, a higher share in cross border services dependent employment seems to **increase the happiness of the average person in the economy**.

The effects of the share of cross border services dependent employment on social cohesion are significant, but rather small in absolute numbers. A 1 percent increase in the cross border service share increases the “satisfaction index” on a scale from 1 to 4 points by 0.0086 points. However, as the results previously obtained show that cross border services are an important driver of total employment growth, the positive effects of job generation and job security need to be considered when assessing the value of cross border services for social cohesion.

As a result, a clear positive connection between the exports of cross border services and social cohesion, economic growth and especially employment growth can be observed. The implementation of cross border value chains in service industries can thus be described as an **important driver of the European economy**.

The harmonization of good living conditions in the EU is an important factor for society in the EU. To support this objective the European single market for services must be designed in such a way that differences between individual countries are not too great. Too harsh regulation on the ability to provide cross border services could, however, have a counterproductive effect on the harmonization of living conditions in the Member States by limiting economic and employment growth.

While the regulatory framework must guarantee the rights and working conditions of workers in cross border service jobs, excessive regulation that seriously hampers the provision of cross border services should be avoided. The Data used in this study shows that different economic sectors have different degrees of dependencies on cross-border services and thus, rules for the export of services in the EU may have different effects on economic activities. Effective regulation of cross-border services should take these differences into account. By **applying rules only to service sectors where appropriate regulation is needed**, the single market can be much more efficient.