Catalonia's balances of payments in relation to the rest of the State and abroad

Executive summary

CTESC
Consell de Treball
Econòmic i Social
de Catalunya

STUDIES AND REPORTS No. 36

Studies and Reports. Number 36

CATALONIA’S BALANCES OF PAYMENTS IN RELATION TO THE REST OF THE STATE AND ABROAD

REPORT

approved by the Plenary of the Catalan Labour, Economic and Social Affairs Council in the extraordinary session of September 29, 2014.

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Barcelona, 2014

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Barcelona, September 2014

CATALONIA'S BALANCES OF PAYMENTS IN RELATION TO THE REST OF THE STATE AND ABROAD

1. EXECUTIVE SUMMARY

1.1. INTRODUCTION

In a context in which the discussion about Catalonia's foreign trade relations is on the agenda, the Catalan Labour, Economic and Social Affairs Council has considered appropriate to study Catalonia's foreign trade exchanges in order to obtain a broad view of the matter and provide verifiable information to the debate which is taking place in the country.

The Report *Catalonia's balances of payments in relation to the rest of the State and abroad* quantifies and analyzes the importance of goods trade abroad for the Catalan economy between 1995-2013. The final considerations and recommendations were agreed by the social partners who are part of the CTESC.

1.2. STATISTICAL INFORMATION SOURCES AND METHODOLOGY

This section analyzes the different statistical sources available to study Catalonia's trade relations, the methodology used to calculate them, as well as the data processing and analysis methodology applied throughout the Report.

1.3. ANALYSIS OF CATALONIA'S GOODS TRADE WITH THE REST OF THE STATE AND ABROAD

Subsequently, we analyze Catalonia's commercial relations from an aggregate perspective, studying its performance and focusing on the trade relations established between Catalonia and the rest of the State and Catalonia's relations abroad in the years 1995-2013. In this regard, it is noted that:

Since 1995, the foreign trade relations had been making a positive contribution to the financing capability of the Catalan economy as the result of a surplus with the rest of the State, which compensates the deficit with foreign countries. In the last stage of expansion, having accomplished the full integration with the euro, the positive external balance deteriorates progressively until it achieves increasingly higher negative values because of the strong increase in the deficit with foreign countries, since there is a surplus improvement with the the rest of the State. The outbreak of the economic crisis reversed this process of deterioration of the total trade balance as a result of the improvement of the foreign balance, which was far superior to the deterioration of the positive balance with the rest of the State.

The latest available data in absolute terms show, for the period 2008-2013, a positive trade balance of the Catalan economy of 1,331 million euros annually as a result of a negative foreign balance of 16,114 million and a positive balance with the rest of the State of 17,445 million, which points at the importance of the exchanges with the rest of the State.

However significant changes are observed regarding the importance of this balance in the whole Catalan economy, since surplus with the rest of the State has been losing weight in relationship with GDP throughout the studied period, while the foreign balance, although it remained negative overall, has improved between the first and the last period.

At the same time, over the last decades the Catalan economy has increased its dependence on foreign trade exchanges, both in production and consumption of goods. This increase occurred exclusively regarding trade relations with foreign countries, while relations with the rest of the State have lost weight.

It can be concluded that the weight lost by the Catalan sales to the rest of the State is fully earned abroad, whereas the proportion of goods purchases from the rest of the State has declined in favor of purchases from abroad. This is a trend that is being consolidated independently of the economic situation. Moreover, during the crisis the outward reorientation process of Catalan production has been strengthened.

Thus, in the years 1995-2000 the Catalan sales abroad were, on average, 26% of the total Catalan goods sales, while in the years 2008-2013 they have been 36.1%. In an opposite direction, sales to the rest of the State have been reduced from 38.3% to 31.4% of total sales in the same reference periods. Meanwhile the internal target of sales in the autonomous community has passed from 35.7% to 32.6% of the total production of goods.

Also, in the years 1995-2000, Catalan purchases abroad were, on average, 38.4% of the total purchases of goods made by Catalonia, whereas in the 2008-2013 period they have been 47.6%. In an opposite direction, purchases of Catalonia to the rest of the State have fallen from 23.4% to 19.5% of the total in the same reference periods. Meanwhile purchases of goods of the autonomous community itself have gone from 38.2% to 32.9% between the two periods.

Weight loss of Catalan production to the rest of the State occurs also with a progressive loss of market share of Catalan production in the market of the rest of the State. Thus, the Catalonia's weight of sales on all purchases from the rest of the State has gone from 11.6% in 1995-2000 to 8.3% in the years 2008-2013.

Associated with this increase in foreign trade, there has not been an increase in the ability to generate net resources for the whole of the Catalan economy, both in absolute terms, and, more pronouncedly, in relation to GDP, as a result, among others, of the relative weight loss of industrial activities in the whole of the Catalan economy.

This latter factor partly explains also that, in spite of the fact that the openness degree of foreign trade has increased, the reduction of the trade openness degree with the rest of the State, which was similar to that maintained abroad, has not allowed that the degree of trade openness of the Catalan economy increases.

1.4. CATALONIA'S ANALYSIS BY GEOGRAPHICAL REGIONS

After analyzing Catalonia's foreign trade relations from an aggregate perspective, we analyze in detail the destination/origin of exports/imports from/of Catalonia, studying which autonomous communities are most relevant in the trade with the rest of the State and which regions/countries abroad have a greater trade relationship with Catalonia.

On a geographical basis, it is shown that the trade surplus that Catalonia presents with the rest of the State is the result of a surplus with all autonomous communities, which is corroborated for all periods studied; in the years 2008-2011 the positive balance stands out, especially with Aragon, but also with the Valencian Community, the Balearic Islands and Andalusia, and that explains a little more than 50% of the positive balance with the rest of the State. However, it is necessary to keep in mind that the fall of the trade balance with the rest of the State in relation to Catalan GDP throughout the whole of the analyzed years occurs in almost all autonomous communities –except in the cases of Castile-La Mancha, Extremadura and Murcia–. Noteworthy in this regard are the Community of Madrid, the Valencian Community, Castile-Leon, the Canary Islands and Navarra, where the decline is accompanied even by a fall in absolute terms of the trade surplus between the 1995-2000 period and the last 2008-2013 period.

Moreover, the trade balance deterioration with the rest of the State of the last period of crisis with regard to the previous one can be largely explained by the surplus reduction with the Community of Madrid and the Valencian Community and, to a lesser extent, by that of Castile-Leon, the Canary Islands, the Balearic Islands, Galicia and La Rioja.

The bulk of exports and imports to/from the rest of the State is concentrated in Aragon, the Valencian Community, the Community of Madrid and Andalusia (together they represent over 55% of exports and around 60% of Catalan imports to/from the rest of the State in the studied years). However, the Community of Madrid has lost importance in recent years, in favour of Andalusia regarding Catalan exports.

The fall both of the weight of sales and purchases of Catalonia to the rest of the State, a phenomenon that occurs persistently throughout all the years analyzed, occurs in relation to most regions, and it concentrates more intensely with the Valencian Community, Madrid, Castile-Leon and the Canary Islands, regarding the destination of sales; and with the Valencian Community, Basque Country, Castile-Leon, Navarre and Madrid regarding the origin of purchases. This behaviour more than offsets the increase in the weight of sales and purchases of Catalonia given in the communities of Aragon, Andalusia, Castile-La Mancha and Extremadura.

The negative foreign trade balance recurs throughout all the years in most large commercial areas analyzed. The main loss-making commercial areas are the Eurozone -especially with Germany, Italy and Holland- and Asia -especially with China and Japan-. These two areas represent around 88% of Catalonia’s trade deficit abroad.

However, Catalonia maintains a positive balance with the areas of Oceania and South and Central America and, in the last period, also with European countries that are not part of the EU-28. By countries, there are also noticeable the surpluses that Catalonia has with Portugal and France, which in the years 2008-2011 exceeded even in importance the positive balances of the Valencia Community, Community of Madrid, and the Balearic Islands, being just behind Aragon.

The reduction of the foreign trade deficit in the last period can be explained mainly by the balance correction with the Eurozone, and to a lesser extent with the European countries that are not part of the EU-28, North Africa and Oceania, while it worsens with the rest of large areas.

The weight increase both of sales and purchases of Catalonia abroad, a structural phenomenon that has already been highlighted, is reproduced in all major commercial areas analyzed. Although Catalan foreign trade exchanges are mainly concentrated on the Eurozone, and -in the case of purchases also on Asia- the importance that purchases and sales to the rest of areas have acquired has been increasingly greater, which enables us to confirm the existence of a growing dispersion process of exports and imports that would link to a progressive deepening of globalization.

1.5. ANALYSIS OF CATALONIA BY ECONOMIC SECTORS

Afterwards the focus is centered on the sectoral disintegration of exports and imports of Catalonia, in order to study with greater detail which are the possible sectors on which Catalonia’s trade relations pivot, also separated according to whether trade exchanges are performed with the rest of the State or abroad.

It is necessary to emphasize that the average foreign trade balance over the last period is set on the positive contribution, ordered from most to least important, of the goods associated with the following sector areas: chemical, food and agriculture, manufacture of transport equipment, of paper and editions, metallurgy, non-metallic materials and rubber and plastics, where the first two stand out, explaining 80% of all these positive contributions. All these areas, except in the case of goods associated with metallurgy –which has maintained negative balances in the first two períodes- show a positive balance in the three periods analyzed.

The eight remaining areas show negative contributions to the external balance in the last period, being the most important the deficit of goods associated with the areas of extractive industries, energy, and agriculture -all three closely related to the need to import raw materials- but also electrical equipment and textiles. Goods of these eight areas -except in the case of those associated with electrical material and equipment, and textiles– show negative balances in the three periods analyzed.

In this regard, it is necessary to highlight the relative importance of trade deficit generated with the products associated with the areas of energy and the extractive ones. Excluding this deficit, the aggregate of all other commodities generates a positive external trade balance in all periods analyzed.

Moreover, the correction that has occurred in the average balance in the last period, compared to the previous one, is configured mainly by increased goods surpluses in the following sector areas: chemical, food and agriculture, manufacture of transport equipment, as well as on the strong correction of the metallurgy sector, which has passed from a negative average balance for the period 2001-2007 to a positive one in the latter. The average deficit corrections registered by the machinery and equipment, various industries, and wood and cork sectors have also contributed positively to the improvement of balance. The goods associated with the eight remaining sector areas have worsened their remaining balance; it is noticeable the increasing deficit in the fields of energy distribution, textile, extractive industries, material and electrical equipment, and agriculture.

In all the years analyzed, it is noticeable the growing importance that goods in the chemical and food and agriculture sector areas acquire on the positive contribution to the external balance. However, goods from the fields of electrical equipment and materials and textiles have played a leading role in the progressive deterioration of the balances in the whole period, and have passed from showing a positive trade balance in the first years to show them lately clearly negative.

Goods belonging to ten of the fifteen areas analyzed have improved the foreign balance in the last period. Only four of them have also improved the balance with the rest of the State; they are the chemical and food and agriculture sector areas, and at more distance, metallurgy and wood and cork areas.

Among the five areas that impair their foreign balance, textiles, agriculture and electrical equipment also deteriorate their balance with the rest of the State, while the extractive industries and various industries improve it.

As already noted, loss of importance of the trade balance has been parallel to a progressive increase in the weight of the trade exchanges abroad. This increase has been reproduced with different intensities in all sectoral areas, except in the case of various industries, where although there is a weight increase in foreign purchases, there is also a reduction in the weight of sales.

As for purchases, between the first and the last period analyzed, all sectors have seen how an increasingly important part of them were made abroad. Among the sectoral areas in which the percentage of foreign purchases has increased most we find textiles, clothing and footwear, extractive industries, transport equipment, the electrical, electronic and optical equipment and the rubber and plastics industry, all with a weight increase of foreign purchases above average. Among the areas where the weight of purchases has increased less we can point out the energy sector and the manufacturing of machinery and equipment, where the increase has been very unimportant.

With regard to sales, in general also all sectoral areas, except for that of various industries, have experienced an increase in the percentage of foreign sales. Among the sectors that stand out by the sharp increase in the weight of foreign sales, we find again the textile industry, the manufacture of transport equipment, the rubber and plastics sector, and electrical, optical and electronic equipment, but also that of chemicals, paper and publishing sector and metallurgy, all of them with behaviours of an intensity above average. On the other side we find the various industries sector, which is the only one where the weight of foreign sales has dropped, and energy, where, in the same way as in the case of purchases, the proportion has hardly changed.

At the same time, nine of the fifteen areas analyzed show a deterioration of the weight of the purchases to the rest of the State, that only in three cases, various industries, food and agriculture, machinery and equipment, becomes higher than the gain of the purchases abroad.

In commodities associated with the six remaining areas, there is an increase as well in the proportion of purchases abroad as with the rest of the State. In this case it is about the sectoral areas of paper and publishing, rubber and plastics, wood and cork, non-metallic mineral products, agriculture and energy sector.

In the case of sales, in eleven of the fifteen areas analyzed the proportion of sales to the rest of the State falls, and only in the cases of the food and agriculture industry, the non-metallic mineral products or energy, by little, this loss is not compensated by increasing sales abroad. Thus, only in the areas of wood and cork, agriculture, extractive industries and various industries the weight of sales to the rest of the State increases.

This evolution has led to the fact that, in most sectoral areas, the weight of exchanges with foreign countries is on average throughout the last period higher than trade with the rest of the State, although on the whole, both sales and purchases to the rest of the State are still an important part of all the exchanges.

In the case of purchases it is necessary to highlight four areas where the proportion of purchases from the rest of the State is more important than abroad (power distribution, non-metallic minerals, wood and cork, paper and editions and graphic arts), while in other sectors the weight of foreign sales is more important.

In the case of sales, although the areas where the weight of the foreign market is more important are the majority, the situation is more balanced. In this case, we found a total of seven sectors where the weight of sales to the rest of the State is even more important than sales abroad. We speak here of the sectoral areas of the extractive industries, food and agriculture, non-metallic mineral products, wood and cork, agriculture, paper, publishing and graphic arts, and metallurgy.

1.6. CATALONIA'S ANALYSIS BY PROVINCES

Having examined the sectoral development, we study the differential evolution of the four Catalan provinces, which stresses that Barcelona is the one which determines the evolution of Catalonia's trade balance, with a trade deficit as the result from a surplus with Spain and a deficit abroad. In contrast, the other three Catalan provinces show a surplus, while Lleida and Girona export more than they import both to the rest of the State and abroad, and Tarragona shows a surplus with the rest of the State which is higher than the deficit that it records abroad.

Particularly noteworthy is the weight increase of exports and imports in the province of Tarragona on the whole of Catalonia, to the detriment of Barcelona, as much to the rest of Spain as abroad.

Finally, with regard to the relative importance of trade balance of each Catalan province in relation to its GDP, the trade surplus of Tarragona stands out, which is based on a high surplus with the rest of the State, much higher than that of the rest of Catalan provinces. Also, regarding abroad, the province of Tarragona also has the largest trade deficit.

1.7. ANALYSIS OF THE REST OF THE STATE

Hereafter, trade relations of the rest of the State are analyzed in order to make a comparison with Catalonia's trade balances. This comparison is done both for the whole of the rest of the State as an aggregate unit and for each of the different Spanish autonomous communities.

Compared to the other autonomous communities, Catalonia stands out because of its high surplus with the rest of the State (the most important of all autonomous communities), which offsets the negative foreign balance. In the aggregate of the rest of communities this does not happen because to the negative balance that it keeps with Catalonia we must add a negative foreign balance.

In the rest of the State, of the thirteen autonomous communities which maintain deficit abroad, eight have a deficit with foreign countries, in which the Communities of Madrid and Andalusia stand out. The remaining four, Galicia, the Basque Country, Castile-Leon and Navarra have a positive external balance. The first two because they have a positive balance both abroad and with the rest of the State, while in the last two cases the positive foreign balance compensates the negative one that they have with the rest of the State.

In the last period, as it happens in Catalonia, most autonomous communities improve their foreign balance, except Andalusia, Asturias, the Valencian Community, Extremadura, Murcia, Ceuta and Melilla.

Similarly, as it happens with Catalonia, in most autonomous communities their own trade balances with the rest of the State worsen. Still, Cantabria, Castile-Leon, the Valencian Community, Extremadura, Galicia, Madrid and La Rioja improve their balance with the rest of the State.

While as already mentioned, Catalonia corrects its deficit to GDP in the last period, most autonomous communities make a stronger correction of their balances in relation to GDP, except in the cases of Andalusia, Asturias, the Basque Country and Ceuta and Melilla, in which they worsen.

As it happens in Catalonia, in the autonomous communities of the rest of the State dependence on foreign exchanges has also increased, both in production and consumption of goods, and also, as in Catalonia, this gain has occurred due to a weight increase in sales and purchases abroad to the detriment of sales and purchases both of Catalonia and the rest of communities. However, this process has been stronger in Catalonia than in the aggregate of the autonomous communities from the rest of the State.

Over the entire period, in Catalonia the weight of foreign sales over production, as we have already seen, has increased 10.1 percentage points. This increase, for the aggregate of the autonomous communities of the rest of the State has been 6.1 percentage points. So until the 2008-2011 period, all communities, except the Balearic Islands, have shown an increase in the weight of foreign sales on its production, and the communities of Madrid, Galicia and Asturias stand out with substantial increases, even higher than the Catalan one.

As for the weight of the purchases on consumption abroad, that between the first and the last period has increased 9.2 percentage points in Catalonia, it has increased less in the aggregate of the communities of the rest of the State, where it has won 6.7 percentage points. In this sense, until the 2008-2011 period, the autonomous communities of Andalusia, Asturias, the Valencian Community, Madrid and Murcia stand out clearly above the profit of the whole rest of the State. Moreover only Balearic Islands, Canary Islands, Cantabria and Castile-Leon have shown a reduction in the weight of their purchases abroad.

The weight on the production of sales to the rest of Spain, that in Catalonia has fallen 6.9 percentage points over the period analyzed, has retreated to a lesser extent in the rest of autonomous communities, 5.1 percentage points. This weight, until the 2008-2011 period, has fallen in all communities, except in the Canary Islands, and only the communities of Galicia, Basque Country, Asturias and Cantabria have shown a decline of a higher magnitude than in Catalonia. In this sense, in all communities falls the weight of sales to Catalonia on their production, while the weight of sales to the rest of communities falls in all of them except Canary Islands, Castile-Leon, and Murcia.

As for the weight on purchases consumption to the rest of Spain, that in Catalonia has fallen 3.9 percentage points, in the aggregate of the rest of autonomous communities it has lost 6.0 percentage points, which are explained by a decline of 3.3 percentage points from purchases from Catalonia, and a decline of 2.7 percentage points of the ones from the rest of communities. With data until the 2008-2011 period in all regions except the Balearic Islands, falls the weight on purchases consumption to the rest of Spain, and with more intensity than in Catalonia in the cases of the communities of Andalusia, Canary Islands, Cantabria, the Valencian Community, Extremadura, Galicia, Murcia, Navarra and the Basque Country.

Furthermore, the decrease in the weight of purchases from Catalonia, until the period 2008-2011, is observed in most communities, except in the case of Aragon, Castile-La Mancha and Extremadura, while the decline in purchases from the rest of communities takes place until the period 2008-2011 in all regions except in the case of the Balearic Islands, Canary Islands and Castile-Leon.

It is observed that Catalonia is the community, after the Balearic Islands, where the weight of exports to the rest of the State in relation to the total exports of the community itself is smaller. As for imports, Catalonia is the community where the weight of imports from the rest of the State on the total imports of the community itself also represents a smaller proportion. That is to say, compared to other communities, Catalonia has more relations abroad than with the rest of the State, both in terms of exports, as especially regarding imports.

However, exports of Catalonia to the rest of the Spain in the 2008-2011 period represent 18.4% of total commercial exports among autonomous communities for the whole of communities of Spain. Meanwhile in the same period, exports of Catalonia abroad mean 26.1% of total exports abroad done by all communities of Spain. Likewise, Catalonia's foreign imports mean 28.0% of total imports from abroad made by all communities of Spain.

During the studied period, and comparing Catalonia with the rest of the State, a slowdown in Catalonia is observed, in terms of volume of intercommunity trade, which increases less in Catalonia than in other communities, especially in exports to the Spanish market. Also, while the tendency to move towards foreign markets is common to most communities, this phenomenon is even more prominent in Catalonia.

1.8. CONSIDERATIONS

Finally, the CTESC considerations state that:

It is necessary to keep in mind that one factor contributing to boost Catalan exports would be the correction of an overvalued euro, especially against the dollar, and even more in a context of low inflation.

According to the analysis made in this Report, the CTESC recommends to consider the following objectives:

It is shown the importance that the surplus with the rest of the State has for the Catalan economy, which should be maintained; at the same time we should achieve a more favourable balance in relations with foreign countries, especially with the Eurozone.

In this sense, the goal should not be only to export more in quantitative terms, but also, especially, to improve the foreign balance by the way of adding more value to our exports.

However, the strong imprint left by the globalization process in our country, which becomes apparent when the heavy weight that foreign trade has acquired is analyzed, makes more necessary than ever to deepen in the diversification of international markets, which as we have seen, has been developed in recent years.

Actions

To accomplish these objectives the CTESC considers necessary that the Administration should follow this points:

• To strengthen support for the internationalization of the Catalan economy, deepening in market diversification, consistent with the globalization process that has been developed in recent years, as can be corroborated in the Report. This would require enhancing policies to support internationalization, separated by areas of interest.

• According to the Report, one factor that affects the Catalan potential export is the weight loss of industrial activities in the whole of the Catalan economy. This is the reason why we have to strengthen the development of Catalan industrial sector as a priority. In this regard, the reindustrialization should consider the following points[1]:

• To promote those sectors linked to innovation where greater competitive advantages can be found. This would allow us to compete with higher value added products, and improve all balances with foreign countries, based on the quality and value of exports.

• Also from this perspective, in some cases we should consider the possibility of promoting substitute activities of some imports. We talk about specific cases such as:

• Energy sector: as it has been seen in the Report, the Catalan dependence on foreign energy is translated into a negative balance that has become increasingly evident, as the years have passed. In this sense, the CTESC considers necessary to promote policies promoting a less dependent energy model from abroad, such as improving efficiency, rethinking the mobility model as well as the promotion of renewable energies[2]. In particular, it is necessary to advance the process of replacing fuels with greater weight of electricity and other energy alternatives to oil.

• A measure that could also facilitate the industrial recovery of the Catalan economy is attracting foreign industry investment. In this regard, the Administration should develop new initiatives in this direction.

• To accompany this whole process of internationalization of the Catalan economy we must develop straight measures in the education field to improve our human capital. In this sense, we need a greater presence of technical and vocational training, while education policies should enable a clear progress in mastering foreign languages. This line is essential to improve language learning, especially English and the promotion of educational exchanges with foreign countries.

• A key element of competitiveness in an open economy are logistical and transport costs. Infrastructures play an important role in determining the competitiveness of companies in a territory. In this sense, a good supply of infrastructure and its efficient management, oriented to the needs of the territory, is necessary. This means developing the Mediterranean corridor, the modal increase of the rail freight transport, deployment of intermodal logistics platforms and individualized management of large infrastructures located in the territory[3].

• Investment transactions are struggling in a context of credit restrictions, so it is necessary to facilitate medium and long term financing for companies.

[1] See CTESC Report, number 27: *Industry in Catalonia: status, challenges and opportunities*.
[2] See in terms of energy efficiency, CTESC Report number 33: *Reorientation of the building sector strategies*.
[3] See CTESC Report number 22: *Management and promotion of infrastructures: transport sector*.