



Unit 4 – The Tertiary Sector

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1. Introduction

1.1. What is Tertiary Sector?

The tertiary sector refers to the economic activities that don't produce material goods but provide services for people, for the government or for other industries.

Some examples are tourism, transport, commerce, communication, education, health care, banking industry, insurance industry.

1.2. Some characteristics of services nowadays.

The importance of services in the GDP is very high in developed countries. The service industry is nowadays very specialised and requires a good training.

A very interesting characteristic of the tertiary sector is how many industries have suffered a process of transformation and most of the industrial process is now provided by services (design, marketing, insurance, transport, financial services...). This is referred to as the servitization of products ("terciarización de la economía") and virtually every product today has a service component to it.

The old separation between goods and services is over.

2. Economic Inequalities in the tertiary sector

Services are very different depending if you are in a developed country or an underdeveloped country. Here you have some characteristics.

Developed countries	Underdeveloped countries or Developing countries
<ul style="list-style-type: none"> - Higher demand (people can pay for services such as education, health care...) - Services are widespread and many people can have access to them. - Service industry represents a high percentage in the GDP. (70% - 80%) - The majority of the population work in Tertiary sector (60% - 80%) - Workers have to be very specialised and require a training. - High skilled jobs and high salaries. Some jobs are doctors, bankers, business consultant, engineers... 	<ul style="list-style-type: none"> - Low demand (salaries are very low and people cannot pay for services) - Services are very limited and most of the population don't have access to them. - Services represent a low percentage in the GDP (40% - 50%) - Not much people work in Tertiary sector (4% - 50%) - Workers don't have to be specialised and don't require much training. - Low skilled jobs and low salaries. Some jobs are domestic service, street traders, informal employment...

3. Tourism

3.1. What is tourism?

Tourism is the temporary movement of people from their place of residence to other places for leisure, business and other purposes.

It is also the business of attracting, accommodating, and entertaining tourists, and the business of operating tours.

Tourism can be domestic or international.

Balance of payments

International tourism has implications on a country's balance of payments. For example if you go to Malaysia you are bringing foreign currency (divisas) to that country. That foreign currency will help the economy of Malaysia.

But you are also taking away national currency and that imply a deficit of that currency in your own country.



3.2. History of tourism

Mass tourism started in 1950's. Before that only wealthy people could travel and enjoy some holidays. In the 1950's thanks to a high economic growth and the establishment of paid holidays many people started to have access to some days of vacations.

Nowadays thanks to the generalisation of paid holidays, the improvement of transport, the increase of the standard of living, the increase of tourism companies, hotels, resorts... a very diversified and competitive economic sector has been created. This sector is also very important for the global economy of many countries.

3.3. Types of tourism

There is a great variety of tourism activities and we can enjoy:

- **Water tourism:** it includes many types, the most famous is the sun-and-sand tourism, but we can also talk about nautical tourism, spas... It is located in coastal areas, and also near rivers, lakes, ports, thermal waters...
- **Mountain tourism:** many activities can be practiced in this type of tourism. For example hiking, climbing, abseiling (rápel), mountaineering (montañismo), skiing...

- **Rural tourism:** is a very recent type of tourism. Urban people are attracted by rural regions and try to relax in a rural environment. It includes rural accommodations, local crafts, traditional food and other rural activities.
- **Other types of tourism:** here we can mention many types of tourism, such as cultural tourism, business tourism, congresses, conventions, gastronomic tourism, religious tourism or pilgrimages to places like Jerusalem, Mecca, Santiago de Compostela, Rome...

3.4. Pros and Cons of Tourism

Positive Consequences	Negative Consequences
<ul style="list-style-type: none"> - Generation of income - Arrival of foreign currency (divisas) - Employment, not only in tourist activities, but also in construction - Promotion of other economic activities - Development of infrastructure - Cultural influences and cultural exchange 	<ul style="list-style-type: none"> - Seasonality of employment - Rise in prices of houses and consumer goods. - Saturation of infrastructure - Construction on a massive scale - Pollution - Production of Waste - Exploitation of water resources - Profits go to foreign companies, such as tour operators and hotel chains, rather than to the local community. - All infrastructures and projects are focused on tourists, instead of local communities. - Environmental damage - Removal of natural vegetation and disappearance of wildlife.

4. Transport

4.1. What is transport?

Transport is an economic activity that is related to any movement of people or goods from one place to another.

Transport is one of the tertiary activities that has increased the most thanks to the improvement of transport networks, the industrialization, the outsourcing, the increase of trade, travel, tourism and most of all due to the widespread globalization of the economies of our world.

What is outsourcing?

It is when some Transnational Corporations or Multinationals locate some industries or services in less developed countries where labour is cheaper.

What is a transport network?

A transport network is formed by lines and nodes. The lines represent the connection between different places. And a node is where different lines meet.

4.2. Road transport

Advantages	Disadvantages
<p>It is a door-to-door transport. You can transport goods and people from any point of origin to any point of destination.</p> <p>It is very flexible regarding time and organisation of routes.</p>	<p>It can cause high densities of traffic and pollution, in particular CO₂ emissions that cause global warming. It also causes many accidents, more than any other type of transport.</p> <p>The capacity of transport is also limited.</p>

4.3. Rail transport

Advantages	Disadvantages
<p>It has a higher capacity for transporting goods. (It is used for carrying large and heavy goods).</p> <p>It is safe, fast and pollutes less.</p>	<p>It's not a door-to-door transport. It only connects places with railways and train stations.</p> <p>There is less flexibility for time and routes.</p> <p>Construction and maintenance are more expensive.</p>

4.4. Water transport

Advantages	Disadvantages
<p>It is the cheapest type of transport. You can carry heavy and large goods easily.</p> <p>The levels of pollution are not excessively high.</p>	<p>It is slow.</p> <p>It requires port infrastructures.</p> <p>It is not very attractive for passengers.</p> <p>It pollutes mainly due to oil spills.</p> <p>For medium and short distances is not very competitive.</p>

4.5. Air transport

Advantages	Disadvantages
<p>Very fast and relatively safe.</p> <p>It covers long distances.</p> <p>Advisable for small goods, expensive goods or perishable goods (bienes perecederos).</p>	<ul style="list-style-type: none"> - It is very expensive. - The levels of pollution are high (noise pollution, atmospheric pollution, emissions of gasses...) - High fuel consumption. - Necessity of airport infrastructures. - High costs of maintenance for airplanes and infrastructures.

5. Commerce or trade

5.1. What is trade?

Trade is the exchange of goods and services between producers and consumers. It is a very important type of service according to its contribution to GDP and the number of workers employed.

Markets are the places where the transactions are made. There are two types of markets, the **physical markets**, where the goods are physically present; and the **abstract markets**, where goods are not present.

- Some examples of physical markets can be greengroceries, supermarkets, boutiques...
- Some examples of abstract markets can be the stock exchanges (las bolsas), currency markets, future markets...

5.2. Domestic and foreign trade

❖ **Domestic trade** takes place inside a country. Here we have two types wholesaler and retailer.

- **Wholesaler** is when large amounts of products are bought to producers and sold to small shops (venta al por mayor). A very good example is Mercamadrid.
- **Retailer** is any type of shop that sells directly to the consumer.

❖ **Foreign trade** is the trade that takes place with other country. Here we can have imports and exports.

Related to foreign trade is the **balance of trade** that is the difference between the value of exports and the value of imports.

Balance of Trade (or Commercial Balance)

- If the value of exports is higher than the value of imports the balance of trade is positive (trade surplus).
- If the value of imports is higher than the value of exports the balance of trade is negative (trade deficit).



What is the difference between **balance of trade** and **balance of payments**?

- Both of them record imports and exports,
- But **balance of trade** records only imports and exports of goods, while
- **Balance of payments** records imports and exports of goods, services and capitals (financial capital, financial transfers, and remittances).

❖ **World Trade Organization (WTO)**

In international trade the **WTO** plays a very relevant role. This organization tries to reduce or eliminate tariffs or any type of obstruction in commercial exchanges.

❖ **Trading Blocks**

Trading blocks are very present in the commercial transactions of our world. They are groups of countries that promote trade among their members. There are **free trade areas** and **customs unions**.

Free trade areas	Customs unions
<ul style="list-style-type: none"> - Goods and Services can be imported and exported between the members, without limits or tariffs. - Each country keeps its own frontier with its own tariffs and taxes for countries that are not members of the organisation. - NAFTA (North American Free Trade Agreement) 	<ul style="list-style-type: none"> - Services and goods (and even people) circulate freely within EU territory. - The members have the same external frontier (customs clearance) for all imports and exports. - The commercial policy is decided and followed by all the members. - European Union

- | | |
|--|--|
| - TTIP (Transatlantic Trade and Investment Partnership). (It has not been passed yet). | |
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5.3. Economic inequalities in trade

The main trading regions in the world are the European Union, the USA and Japan. The developed countries control most of the world's trade, while trade in underdeveloped countries is quite insignificant.

Underdeveloped Countries	Developed Countries
- Few exports. Small in volume and value.	- Abundant exports. Large in volume and value.
- Mainly raw materials that are cheap to buy (food, oil, minerals...)	- Mainly manufactured products that are expensive.
- Often a trade deficit.	- Often a trade surplus.
- Transport and infrastructure is poor and insufficient.	- Transport and infrastructure is very developed and competitive.
- Market size is very small	- Market size is bigger.
- Population's wealth is low	- Population's wealth is higher.

The trade imbalance between richer countries and the poorer countries has widened in the last recent years.

- **The role of WTO in economic inequalities:** Thanks to this organisation world trade has increased in recent years, but it is difficult to know if underdeveloped countries have been benefited from this policy. It is obvious that underdeveloped countries cannot compete with developed countries in terms of technology, prices, infrastructures...

6. The tertiary sector in the EU

In the entire EU the contribution of the tertiary sector to the GDP varies between 60% to 80% or 85%, depending on the country. As a consequence we can say that the tertiary sector is an essential sector for the economy of the EU.

The most common economic activities are: public services, trade and business services, but information technology and communications have increased their share in the last years.

There is a certain specialisation among the countries of the EU. For example United Kingdom is specialised in financial services, Ireland and Luxembourg are specialised in computers and Spain, Greece and Italy are specialised in tourism.

	EU	Spain
Contribution to the GDP that comes from the Tertiary sector:	71.3 %	74.8 %
Labour force that works in the Tertiary Sector:	73.1 %	70.7 %

7. Tertiary sector in Spain

The tertiary sector is the most important sector in the Spanish economy (74.8 %). It has many similarities to the tertiary sector in Europe. The tertiary sector started to gain importance after the 1970's when the oil crisis took place and the secondary sector started to lose importance.

Other factors that contributed to the increase of the tertiary sector were the increase of the standard of living and the growth of the welfare state. More people had access to more and better services.

7.1. Tourism in Spain

Tourism has an essential role in our economy. Its contribution to the GDP is an 11%.

In 2014 Spain was the third country that received more tourists after France and USA; although Spanish position fluctuates between the second and fourth position. Spain controls the 7% of world tourism and the 13% of European tourism.

The number of tourists that arrived to Spain in 2008 was 52 million and 65 million in 2014; and the number of employed in the tourist sector were 2.7 million (in 2008). In 2016 an incredible amount of 72 million or tourists arrived to Spain.

The foreign currencies (divisas) that arrive to Spain trough tourism are a decisive contribution to our balance of payments.

7.2. Transport in Spain

The most used types of transport for national movements are road transport and rail transport.

Some of the most important problems of our transport network are:

- The **radial network** that communicates the most important cities with Madrid. As a consequence some areas are very well communicated and even saturated, but other areas are not accessible or are abandoned.
- **Territorial Inequalities** between some areas very well communicated and other areas with poor and limited infrastructures.
- The urgent need of **maintenance** of the infrastructures and surface of roads.

- The **mountainous relief** of Spain with steep slopes that increases the costs of construction and maintenance of roads and railways.

7.3. Trade in Spain

a) Domestic Trade

Retail (or shopping) has changed considerably in the last years. **Traditional shops** have been disappearing while **mega-stores** are spreading in neighbourhoods and suburban areas. Some mega-stores are: supermarkets, hypermarkets, department stores, shopping centres...

Electronic commerce, although is not very important, is increasing rapidly.



The traditional old shops are suffering competition from outlets, supermarkets, hypermarkets, department stores, shopping centres...
Should we protect small shops, or should we promote the big shops? Choose one side and defend your choice.

b) Foreign Trade

Exports have increased lately, however exports are higher than imports. Our Balance of trade is negative

Spain **exports** machinery, motor vehicles, foodstuffs, pharmaceuticals, medicines and other consumer goods

Spain **imports** fuels, semi-finished goods, chemicals, machinery and equipment, foodstuffs, consumer goods, measuring and medical control instruments.

The majority of our trade is with members of the EU.

Our **export partners** are: France 15.7%, Germany 11%, Italy 7.4%, UK 7.4%, Portugal 7.1% and US 4.5%. Other export partners are Russia and China.

Our **import partners** are: Germany 14.4%, France 11.7%, China 7.1%, Italy 6.5%, The Netherlands 5%, and UK 4.9%.

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