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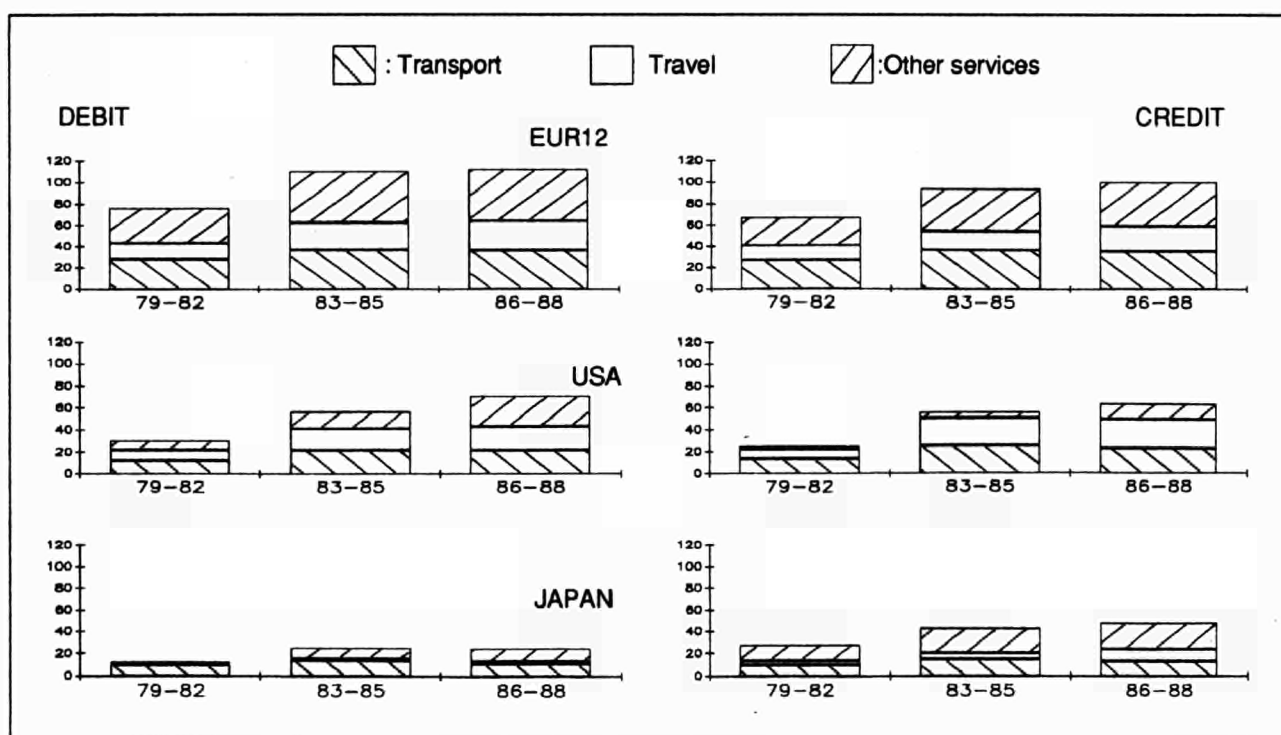
THE EUROPEAN COMMUNITY'S INTERNATIONAL TRADE IN SERVICES FROM 1979 TO 1988

A leading role on the world market, but declining slightly since 1985

International trade in services is shown in the current balance of payments statistics and forms part of what are commonly called "invisibles". Eurostat has calculated trade in services between the European Community and the rest of the world for the period 1979-1988.

During this period the Community was the world's main exporter and importer of services. In 1988, exports of services reached 118 000 million ECU and imports 108 000 million ECU. Within the Community, trade was on the same scale. For the United States the figures were 76 000 million and 66 000 million ECU respectively, and for Japan 29 000 million and 58 000 million ECU.

Graph 1: Flows of services, annual yearly averages in thousand million ECU



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"Other services" in first place, followed by "transport" and "tourism".

The composition of Community trade is substantially the same for imports and exports. It remained relatively stable throughout the period:

- transport (transport of goods and passengers, port services and the chartering of transport with crew) accounts for approximately 35% of trade;
- tourism (also called "travel", which covers the expenditure of persons on a foreign territory) accounts for approximately 25% of trade;
- "other services" (a fairly mixed group which includes insurance, professional services, banking, construction, revenue from patents and royalties for the use of films and broadcasts, etc.) accounts for the largest share of Community trade at approximately 40%.

The composition of trade in America and Japan is somewhat different from that for the Community, although there is a tendency for them to converge.

In 1988 American exports were fairly similar to Community exports, but the "other services" component of imports was smaller (23%) and tourist expenditure was greater (41%).

Tourism revenue formed a very small proportion of Japanese exports (8%), while "other services" were a major component (46%) of imports.

The Community well in surplus

Between 1979 and 1988 the Community had a continuous surplus in its balance of trade in services, in excess of 10 000 million ECU. In the United States the balance of payments, while usually in surplus, has never exceeded that of the Community. Japan has a large deficit.

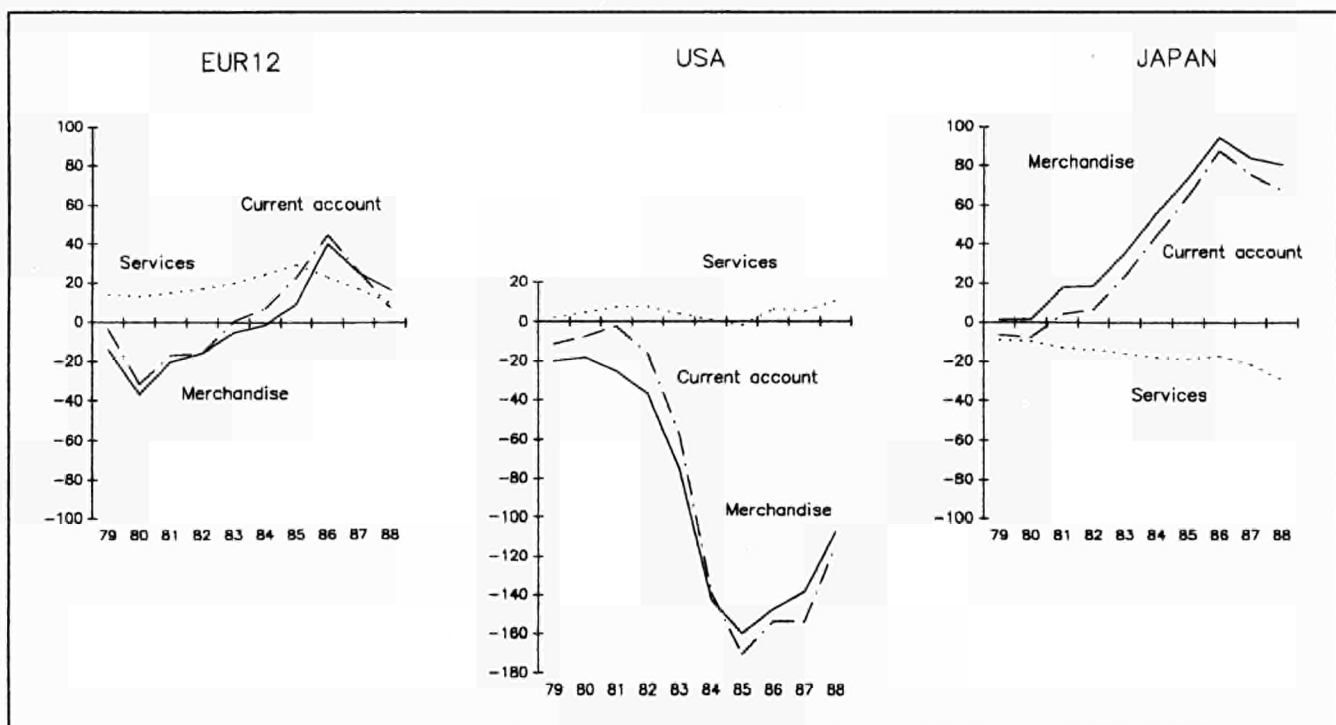
Apart from its favourable geographical position, the Community has some structural advantages which explain its good results, viz.:

- the quality and attractiveness of its tourism structures;
- the possession of specific know-how in various fields, such as banking, insurance, engineering, oil-prospecting, public works, aviation, and nuclear engineering;
- the large number of transport facilities;
- special relationships with Africa and the Middle East.

1979-1988: tourism affected by changes in exchange rates ...

Since 1979 the Community has lost a little ground compared with its two trading partners. The increase in its trade flows was less dynamic +7.2% per annum for exports and +8.3% for imports, compared with 9.7% and 10.8% per annum for the United States and 11% and 12.3% per annum for Japan respectively.

Graph 2: The services balance as an element of the current account balance, in thousand million ECU



Behind this overall growth lie two distinct phases. In the period 1979-1985 the Community's balance improved from 14 000 million ECU to a record 29 000 million ECU. Subsequently it fell by two-thirds, down to 10 000 million ECU in 1988, the lowest for the ten-year period. As in the case of goods, these phases were marked by economic developments in the three areas and fluctuations in exchange rates. However, tourism appears to be the most sensitive, because a major factor is the variation in purchasing power abroad of the income of households.

Between 1982 and 1985 the Community balance for tourism rose from 3 000 million ECU to 12 000 million ECU. It benefited from gains in competitiveness following the rise in the dollar and, since 1984, from a difference in growth rate from the United States, where the upturn in the economy boosted imports. Between 1986 and 1988 exchange rates underwent a further adjustment. The Community's balance on tourism fell to 2 000 million ECU in 1988.

... transport under pressure of competition approaches equilibrium

Another feature of the Community's balance of trade in services was a downward trend in the transport balance, which fell from 3 000 million ECU in 1979 to 700 million ECU in 1988. This sector was affected by the increase in international competition. In the freight sector, increasing use was made of flags of convenience (in 1988 the Community had no more than 15% of the registered world shipping, compared with 30% in 1980). Deregulation in air transport opened up air routes to more companies.

Graph 3: The balance of main types of services, in thousand million ECU

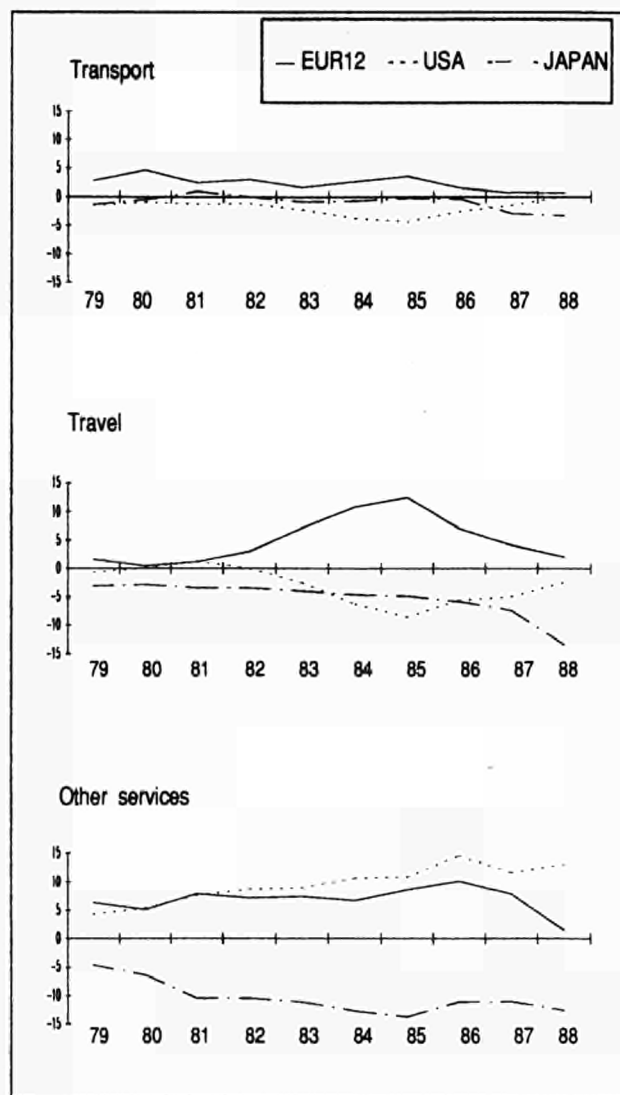


Table 1: the flows of services and the current account, in thousand million ECU

	EUR12						USA			JAPAN		
	Credit*		Debit*		Net*		C	D	N	C	D	N
	79	88	79	88	79	88	88	88	88	88	88	88
MERCHANDISE	184.9	356.6	201.4	354.5	-14.1	16.3	270.0	377.6	-107.6	219.7	139.3	80.4
SERVICES	63.2	118.0	52.6	107.8	14.1	10.3	76.7	65.9	10.8	28.9	58.1	-29.2
Transport	21.7	38.6	20.5	37.8	2.8	0.7	23.5	23.3	0.2	12.0	15.3	-3.3
of which sea freight	9.3	13.0	10.4	14.8	-0.6	-1.9	3.3	7.9	-4.6	7.0	6.2	0.8
of which air passenger	4.1	7.5	2.7	7.8	2.0	0.4	7.5	6.7	0.8	1.0	4.1	-3.1
Travel	13.0	29.2	11.2	26.1	1.6	2.1	24.7	27.2	-2.5	2.4	15.8	-13.4
Other services	26.1	46.3	19.8	43.0	6.4	1.5	28.5	15.5	13.0	14.4	27.0	-12.6
Insurance	1.3	3.6	1.0	2.4	0.5	1.5	1.3	2.4	-1.0	0.2	1.1	-0.9
Merchandising	4.3	5.6	4.1	6.9	0.7	-2.0	-	-	-	3.6	6.8	-3.2
Banking	1.3	4.5	1.1	2.6	0.3	2.5	3.2	1.4	1.8	-	-	-
Advertising	0.6	1.2	0.6	1.5	-0.1	-0.5	0.1	0.1	0.0	-	1.3	-1.3
Business services	5.0	8.2	2.5	5.3	2.3	2.1	2.1	0.4	1.7	-	-	-
Construction	4.7	5.1	2.0	2.5	2.6	2.5	0.9	0.4	0.5	-	-	-
Communication	0.8	2.0	0.7	2.1	-0.2	-0.7	2.0	3.6	-1.6	-	-	-
Films/TV	0.3	0.8	0.3	1.2	-0.1	-0.9	0.7	0.0	0.6	-	0.2	-0.2
Patents	1.3	3.6	2.4	6.7	-1.3	-4.0	9.1	1.7	7.3	1.4	4.2	-2.9
Miscel. services	6.6	11.6	5.0	11.7	1.9	1.1	9.1	5.4	3.7	9.2	13.3	-4.1
Other not allocated	2.5	4.0	1.1	1.0	3.2	6.0	-	-	-	-	-	-
CUR. ACCOUNT**	301.6	620.7	311.2	617.3	-3.7	7.5	435.3	549.6	-114.3	315.1	247.8	67.3

* credit and debit with extra EUR12, net on total flows (intra+extra) ** Including factor income and unrequited transfers

Drastic reduction in the balance of "other services" in 1988

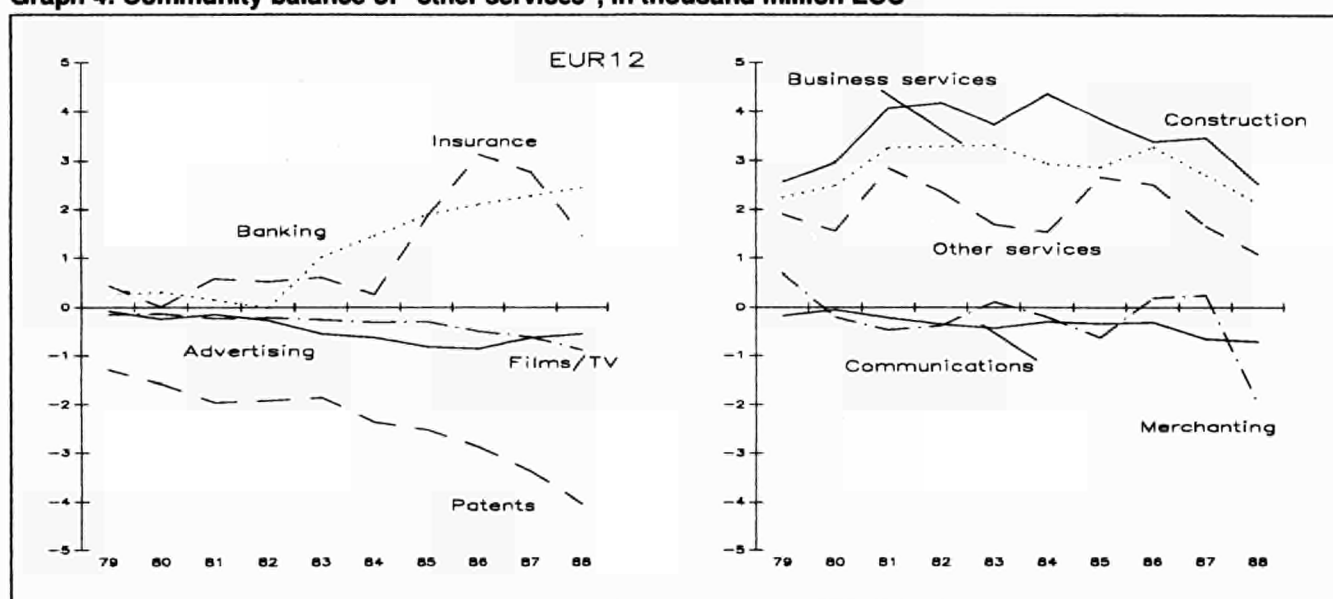
Between 1979 and 1986 trade in "other services" was the Community's strong point. From the high level of 6 500 million ECU in 1979 this figure grew steadily to 10 000 million ECU in 1986. However, since 1987 it has been falling rapidly, and plummeted to 1 500 million ECU in 1988.

This figure, which is still provisional, should be interpreted with caution, since much of the fall in the surplus is due to "insurance" and "trade earnings", which both have unstable balances. Nevertheless, it highlights the Community's poor performance in some services which hitherto have been well into

surplus, such as construction and business services (technical assistance, engineering, software design, computer maintenance, legal and accountancy services). The reduced purchasing power of the African and Middle East countries has had a drastic effect on these services. In addition, the balance for patent services, which has a structural deficit, has worsened to over 1 000 million ECU since 1986.

"Banking" is the only area which is going in the right direction. It has been well into surplus since 1983, and achieved a surplus of 2 500 million ECU in 1988.

Graph 4: Community balance of "other services", in thousand million ECU



Most Member States are net exporters of services

Most EEC Member States' balances of trade in services with extra-EUR12 showed surpluses or were around zero. The Netherlands and particularly the Federal Republic of Germany showed deficits.

In 1988, four Member States showed significant surpluses: France (7 000 million ECU), the United Kingdom (5 700 million ECU), Spain (3 800 million ECU), and Denmark (1 800 million ECU). Greece, Portugal, the BLEU and Italy had surpluses of less than 1 000 million ECU. Ireland's balance was just in the red.

Denmark and Greece are in surplus mainly on transport, Spain, Portugal and Italy on tourism, and the BLEU on "other services". France's surplus is difficult to analyse because of the balance of the heading

entitled "other goods and services not broken down", the services content of which is not really known. In 1988, this heading accounted for more than a third of France's surplus. Tourism was the second source of income. The United Kingdom owes the bulk of its balance to other services, while the surplus in the balance of tourism is offset by a deficit in the transport balance.

The German deficit is particularly acute, and in 1988 reached 9 000 million ECU. It has worsened consistently since 1979. Tourism is responsible for two thirds of the deficit, and "other services" for the remaining third.

The Netherlands' deficit reached around 1 000 million ECU in 1988 and is tending to worsen. It is due almost entirely to the tourism deficit.

For further information: "International Trade in Services, EUR12 from 1979 to 1986"
- Eurostat 1989 (an update for 1979-1988 is to appear shortly).
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