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PIVOTAL ROLE OF SERVICES IN EXPANDING MERCHANDISE TRADE AND
THE DEVELOPMENT OF GLOBAL MARKETS, STRESSED IN GATT REPORT

The vital and growing role played by service industries in increasingly globalized world markets, is highlighted in Volume I of the GATT report International Trade 1988/89, published today. In their first overview of trends in services trade, GATT's economists comment that if industrial firms cannot produce necessary services competitively in-house, or if they are forced to pay above world market prices for service inputs purchased on the local market, they will be at a competitive disadvantage in the international market place. The same is true for firms in the agriculture and the service sector itself.

"In a world economy in which the level of technological sophistication is continuously rising, access to competitively-priced producer services is increasingly important in determining the ability of firms to compete at home or abroad", says the report.

Service activities account for the largest share of national employment and production in many countries and, in both developed and developing countries, this share has been rising over a long period. In some developed countries, the share of services in employment is approaching 70 per cent.

While stressing that statistics on international trade in services are much less complete and of a generally lower quality than data for merchandise trade, GATT's economists estimate world exports of commercial services at US\$560 billion in 1988. Growth in commercial services has outstripped the expansion in merchandise trade for most of the period 1980-88. The dynamic expansion of this category of trade has brought the value of recorded trade in commercial services to roughly the same level as world trade in food and fuels combined.

A rough rule of thumb, says the report, is that the transportation of merchandise and people (shipping, port services and passenger services) currently accounts for about 30 per cent of global trade in commercial services, that expenditures on services by travellers at their destinations accounts for another 30 per cent, and that other private services and income account for about 40 per cent.

Other private services and income - telecommunications, banking, management, professional and technical services, for instance - which are playing an important role in the globalization of markets have been the star performers in services. Travel, an important category for developing countries, has also expanded rapidly in the 1980s, while transportation has lagged.

Countries in Western Europe accounted for about 60 per cent of 1987 services exports, Asia about 15 per cent and North America about 13 per cent. In the years 1980-87, Asia showed the fastest growth in services exports (7½ per cent a year) and North America the fastest growth in services imports (9 per cent a year).

The report presents a league table of the world's leading exporters and importers of services. This shows the United States in first place as the largest exporter with a 11.2 per cent of world exports, followed by France with 10.6 per cent, the United Kingdom (8.6 per cent) and the Federal Republic of Germany (8.2 per cent). The largest importers are the Federal Republic of Germany with a 12.4 per cent share, the United States (10.8 per cent), Japan (10.1 per cent) and France (8.3 per cent). These countries are also among the top five exporters and importers of merchandise.

The report stresses the close link between the provision of services and merchandise trade as well as the provision of services for the production of other services:

"The greater the availability and the lower the costs of the needed services, the faster the pace of globalization of markets. Thus, while there are many factors behind the growing emphasis on global markets and the declining importance of national boundaries for many production and investment decisions, it is clear that technological advances in services are playing a pivotal role".