The Prospects of International Trade in Services

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Preface

Services have long been the most significant sector of the economy in all highly developed countries. They are continuing to account for more and more of the world's GNP. Some of the most dynamic fields of international trade are in the tertiary sector. One-fifth of all world trade is now in services. The competitiveness of national economies is increasingly determined by their performance on the services side. This is also true of decidedly industrial countries like Germany.

This study is presented by the Friedrich Ebert Foundation as a comprehensive assessment of international trade in services, broken down by sector, together with an analysis of its prospects. Particular emphasis is placed on the opportunities which arise for German business, as well as on the action that companies, employees and government will need to take to utilise these opportunities.

In contrast to certain sweeping judgements about the German services deficit, the study arrives at a very positive view of the future prospects of services in Germany, involving an intelligent combination of high-quality industrial products and complementary services.

Dr. Jürgen Burckhardt
Executive Managing Director
of the Friedrich Ebert Foundation

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Introduction

The public and political debate is focusing more and more on the services and information society and on its international dimensions. Services have for many years been experiencing a fundamental shift in significance. In "The Wealth of Nations", his chief work published in 1776, Adam Smith, the moral philosopher and father of political economy, regarded them as economically unproductive. Labour was productive only if it produced a physical product which could be stored and exchanged. This was not the case with services, because the work done vanished as it was being done and no lasting good which could be exchanged for money was produced. Economic theory and practice have long since refuted this argument. In "Le Grand espoir du XXe siècle", published in 1947, Jean Fourastié prophesied that technological and economic progress would result in a permanent decline in agriculture, forestry and manufacturing and in the emergence of a "tertiary civilisation" with a continual increase in the significance of the services sector for overall economic output, value added and employment.

What is actually happening? The economic and social significance of services is constantly growing. They now account for more than 65% of world output. Since the period of recession in the mid–1970s at the latest, the German economy has been experiencing a far-reaching and permanent structural shift towards the tertiary sector. In the "three sectors model" of the economy, this sector now has the greatest weight. In Germany, 34.6% of those in work are busy manufacturing a product, whilst 62.6% spend their time providing a service. Back in 1950, only one-third of those in work were in the tertiary sector.

Many people compare this structural change with the industrial revolution of the 19th century. They believe that the move towards the services society offers great hopes of conquering unemployment and can even provide a route towards a more socially just and peaceful "post-industrial society". In this context, it is frequently claimed that Germany is lagging behind other highly developed countries. The argument that there is a "services gap" in Germany is causing many economists and politicians to call for this gap to be bridged and for appropriate economic or political strategies to be developed to this end.

A second factor determining our economic development is economic globalisation and the integration of Germany into world trade. Germany is more deeply integrated into the world economy than any other country. It is the world's second largest trading nation, behind the United States. In 1996, Germany exported goods and services worth DM 915 billion. One in five jobs depends on foreign trade. German foreign direct investment is continually growing. The globalisation of production, investment and trade is having a particularly intensive impact on Germany.

The trade-policy landscape has undergone a fundamental change. The priority is on the development of the single European market with the introduction of the common currency. This is particularly opening up large new markets for services and is making it easier to trade in services. At the same time, it creates tougher international competition and increases the pressure for structural adjustment. In addition, there is the continuing liberalisation of world trade as a result of the Uruguay Round of the GATT from 1986 to 1993, supported by the establishment of a new World Trade Organisation whose membership now numbers 132 countries. Finally, substantial structural adjustment and new opportunities on services markets are deriving from the collapse of the Soviet bloc and from German reunification, followed by the gradual transformation of the centrally administered economies into market-led systems. Further improvements in the trade-policy landscape are resulting from the many years of liberalisation of the financial markets and investment in industrial countries and many developing countries.

All of these developments have generated undreamed-of growth in world trade. Over the last 40 years, world trade has expanded 15 times over and stood at more than US $ 6.3 trillion in 1996. During the same period, world output "only" grew six times over. The expansion of trade has particularly picked up speed in the last decade. World exports of goods rose by an average of 5.8% a year between 1985 and 1990, and by an average of 6% a year between 1990 and 1995, whilst in the same periods world output only grew by 3.0% and 1.0% respectively.

Within this context, international trade in services has also recorded an extremely dynamic development. Its growth has been outstripping that of trade in goods for many years. With cross-border exports worth US $ 1.2 trillion in 1996, trade in services accounted for almost one-fifth of all world trade.

Germany has for many years been one of the world's leading exporters of services. However, in contrast to its strong position in trade in goods – where it has usually ranked alongside the United States in first or second place in the world in recent years – Germany's position on the services side appears relatively weak. Does Germany have a structural "services gap" in international trade in services which might possibly be corrected by government measures, and does it need economic or political strategies to improve the situation? Can the "employment miracle" in the services sector in the United States serve as a model for Germany?

In view of its ever increasing significance, international trade in services came onto the trade-policy agenda towards the end of the Tokyo Round of the GATT. The United States in particular was calling for multilateral negotiations to liberalise services markets, in the interest of its expanding services industry. This was rejected by most of the developing countries, because they feared negative repercussions on their development. It was not until the Uruguay Round of multilateral trade negotiations, which began in 1986, that trade in services became an integral element of the talks. In the course of the negotiations, however, the industrial countries came to realise that they themselves would have difficulties with a broad liberalisation of their services markets. They therefore revised their initially very ambitious ideas. Subsequently, the developing countries in particular fought successfully for such a flexible liberalisation concept that they were able to adapt their commitments to suit their respective economic possibilities and development interests.

As a result, the Uruguay Round produced the "General Agreement on Trade in Services" (GATS). Rather like the GATT, which was created in 1948 for world trade, it sets out the first multilateral framework rules for trade in services and for international investment in the sector. It also contains a range of initial specific commitments to liberalise made by the WTO countries. Finally, it provides a framework for a further progressive liberalisation of trade in services.

What has this achieved, and what problems and opportunities exist for further global liberalisation? In its first part, this study considers the world-wide structural shift from the industrial to the services society, using existing results from structural research. It discusses the significance of services for output and employment in major countries. The second part analyses the development and the sectoral and geographical structures of international trade in services, its determining factors, and the government regulations which impede it.

Part III particularly focuses on foreign direct investment, which plays a vital role for international trade in services.

The paper goes on to examine the activities to liberalise international trade in services which have been going on for many years, mainly in the OECD, the single European market and the multilateral context of the WTO. The focus is on the new "General Agreement on Trade in Services (GATS)".

The services sector consists of a large number of extremely heterogeneous subsectors. They have different markets, state regulations and sector-specific market access barriers, and they are involved in world trade to very differing degrees. The paper therefore takes a closer look at the current situation, the potential, the development prospects and the degree of international liberalisation in the following key sectors: financial services (banking and insurance), telecommunications and information services, audiovisual services, transport (maritime, air and land transport), business services and tourism. The paper presents the trade-policy interests and strategies of the leading international players and of the suppliers and consumers of services, the challenges for government and business resulting from liberalisation, and the importance of the various sectors for Germany.

Part XII then analyses the particularly difficult economic and political questions raised by cross-border movements of natural persons supplying services. It looks at the needs of and limitations to the liberalisation of services, as opposed to a world-wide opening up of the labour markets to foreign workers (on which no international consensus can be achieved).

Part XIII describes the progress on liberalisation achieved by the GATS so far.

Finally, Part XIV looks at the future prospects for international trade in services and the outlook for Germany. It starts by discussing the currently very favourable world economic environment, before analysing those sectors which will probably lead the further expansion of trade in services. On this basis, possible development scenarios for German services exports are presented.

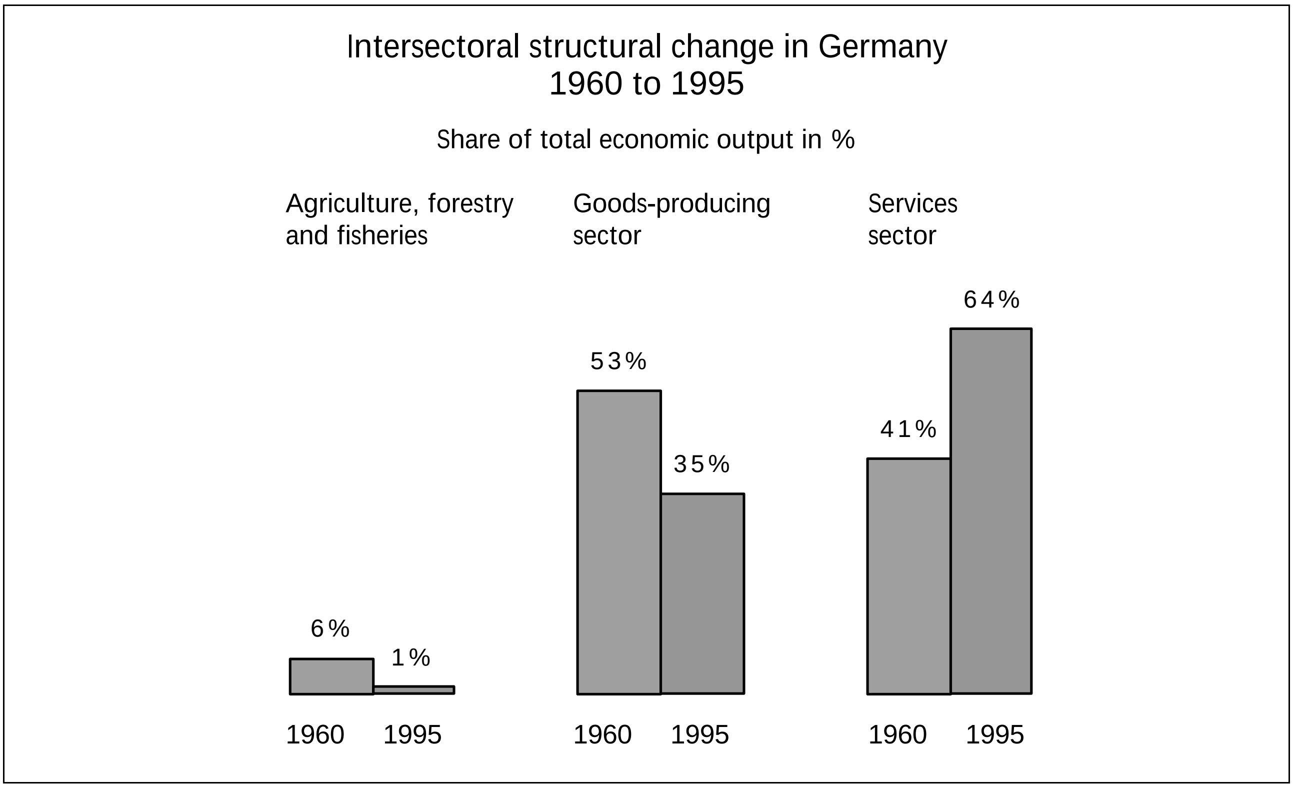
The main findings of the study are then summarised, and the paper concludes with an outlook.

Part I: The world on the road to the services society

1. The tertiarisation of the German economy

Like most of the highly developed countries, Germany is undergoing a long-term and deep-reaching process of tertiarisation in its economy (Klodt et al., 1997). This structural change is characterised both by a shift of production and employment into the tertiary sector and by a rise in the proportion of value added by services outside the tertiary sector. The growth in international trade in services is also based on this macroeconomic process of tertiarisation. It is therefore briefly sketched out here (Figure 1):

Figure 1:



Source: Federal Statistical Office; 1960 western Germany, 1995 all Germany

- The proportion of overall economic output accounted for by the goods-producing industry declined from 53% in 1960 to 35% in 1995.
- The proportion accounted for by agriculture, forestry and fisheries dropped from 6% to 1% over the same period.
- In contrast, the proportion accounted for by the services sector (trade, transport, service companies, government, private households, private non-profit-making organisations) grew from 41% in 1960 to 64% in 1995. The gross value added by services companies now exceeds that of goods-producing firms.

The structural change is also reflected on the labour market:

- In 1950, 23.3% of all people in employment worked in agriculture, forestry and fisheries (in the former West Germany). Today, the figure is only 2.8% (for the whole of Germany).
- The goods-producing sector expanded its share of the workforce from 43% of total employment in 1950 to 49% in 1970. Since then, it has been shedding jobs. Today, 34.6% of those in work are employed in the secondary sector.
- In contrast, there has been a continuous rise on the services side. Its share of those in work has grown from 33.6% in 1950 to 62.6% today.
- Also, the services sector has created an above-average number of new jobs. The total number of jobs (persons in gainful activity) in the west of Germany in 1996 (28.2 million) was 8.2 million higher than in 1950 (20.0 million), with 3.7 million fewer jobs in the primary sector and 3.3 million more in the secondary sector. In the tertiary sector, in contrast, the number of jobs was 14.9 million higher in 1996 than in 1950 (1950: 6.7 million; 1996: 21.6 million). Nine-tenths of business start-ups are in the services sector.

However, the move towards the services society is reflected beyond the growing significance of the tertiary sector: it is also manifested in the ever increasing importance of service activities and functions within industry. More and more employees in industry are engaged in service work, e.g. in research and development, advertising, customer advice, project planning, marketing, customer service, repairs, training, internal management and clerical work. Today, more than 80% of all employees covered by social insurance schemes (i.e. earning above a low threshold) are in the services sector. Taking this functional, occupation-based view, tertiarisation would appear to be much further developed in Germany than is generally believed, because the tertiarisation within industry is not reflected in the official employment xand the United States is far smaller than would appear to be indicated by the sectoral employment statistics (Klodt et al., 1997: 51ff., 168ff.).

Since German reunification, services have also contributed towards the modernisation of the obsolete economic structures in the east of Germany. As early as 1993, the tertiary sector accounted for the bulk of value added (58%) and employment (62%). However, this is chiefly due to the collapse of large parts of the industrial sector.

2. Tertiarisation in the world economy

Most of the world’s other highly developed countries and most of the developing countries have also witnessed a secular structural change since the 1960s from the industrial to the services society (UNCTAD/World Bank, 1994: 1). Different organisational structures and statistical definitions, different price reference years, etc. make it difficult to draw international comparisons of the macroeconomic significance of the tertiary sector (OECD, 1996a: 5; Klodt et al., 1997: 9ff.). Nevertheless, it is possible to derive conclusions about underlying trends and rates of structural change (Table 1):

Table 1:

Output and employment in the tertiary sector1 in selected OECD countries (Proportion of GDP and total employment in per cent)				
Country	Gross value added in real terms		Employment	
	1970	1994[2]	1970	1994[2]
USA	59.8	69.3	62.8	73.7
Japan	54.4	63.1	44.5	58.3
Germany[3]	46.6	61.5	42.6	61.1
France	53.5	61.1	48.8	69.7
Italy	50.5	53.6	42.9	63.0

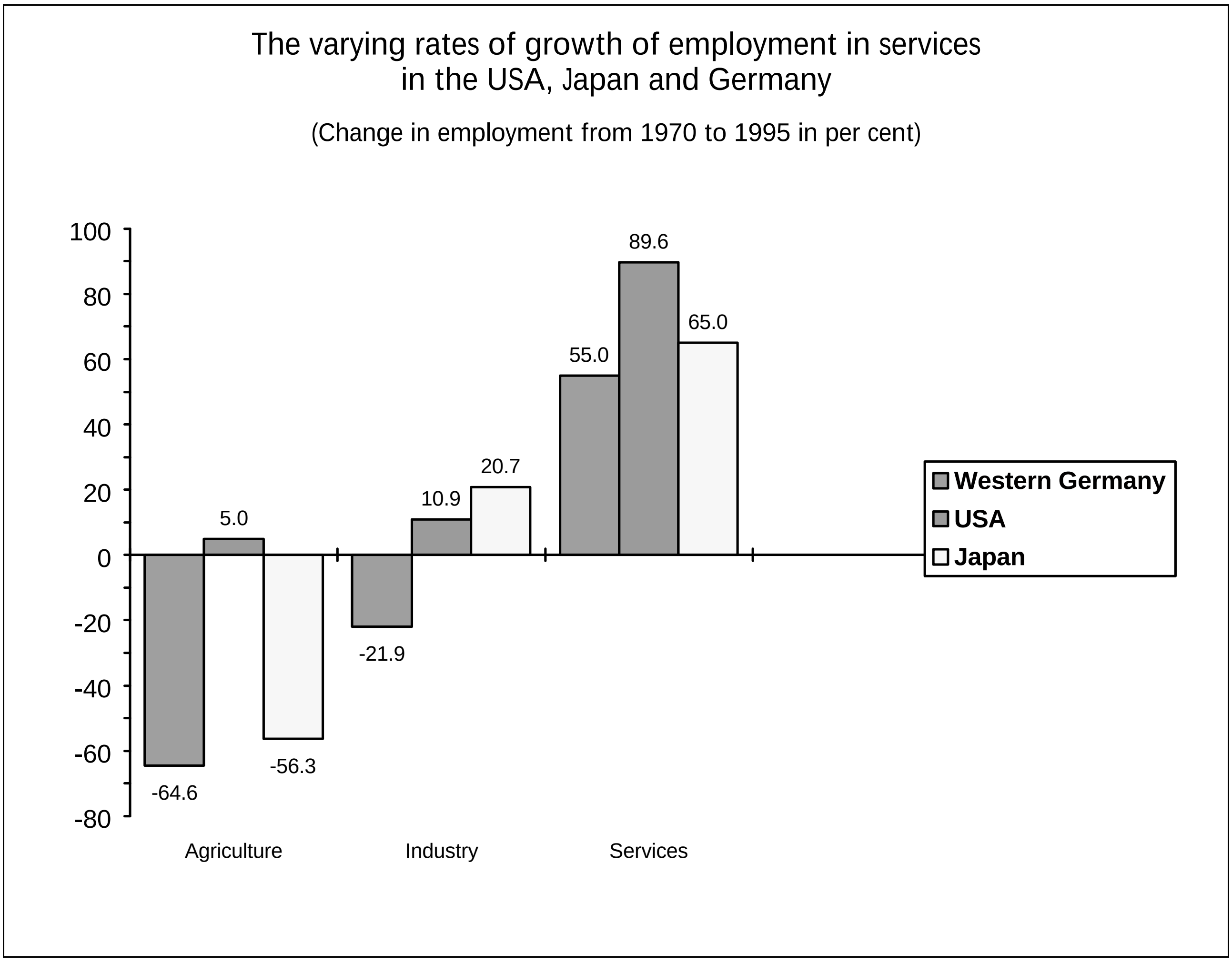
1 The definition covers private and public-sector services.
2 or last available year
3 1970 western Germany, 1994 all Germany

Source: OECD, 1996: Services Statistics on Value Added and Employment

The international comparison shows the increased importance of the services sector for production and employment. The pattern is the same in all other OECD countries. In the OECD area, the services sector accounts for more than two-thirds of all jobs (OECD, 1994: 5). However, the nature and the pace of structural change vary widely in different countries and different sectors. The sector-specific sections below will take a closer look at this (cf. also DIW, 1997: 273ff.).

The process of tertiarisation is most advanced in the United States, where the services sector already accounted for 69% of total economic output and almost three-quarters of jobs in 1994. In the USA, some 90 million people work in services, and only 18 million or so are still employed in manufacturing. The recent American "employment miracle" merits particular attention. During President Clinton's first term of office (January 1993 to December 1996), US employment grew by 8.5 million. Since the number employed in industry remained constant in this period and the number of jobs in agriculture dropped by 2.5 million, this implies that roughly 11 million additional service jobs were created in Clinton's first term. The consequence of this was a fall in the unemployment rate to well below 6% in the United States, whilst it continued to rise in Germany. It is true that employment in the services sector has risen sharply in Germany too: since 1970, it has grown by 6.1 million jobs, or 55%, in the west of the country. But other nations were more successful. For example, employment in the services sector rose by 43 million (+90%) in the US and by 15 million (+65%) in Japan (Figure 2):

Figure 2:



Source: Federal Ministry of Economics

Original data: Federal Statistical Office, OECD, IW – Institut der deutschen Wirtschaft, Cologne

People often raise the objection that the new service jobs in the United States are low-quality, badly-paid "hamburger flipping jobs". However, this has been proved to be a misconception. According to a study published recently by the Council of Economic Advisers to the Federal Ministry of Economics, two-thirds of the newly employed have an income above the median wage, i.e. the average figure which is exceeded as frequently as not. Also, most of the jobs are not part-time, but full-time, and they are mainly held by women (Bräuninger, 1996: 5). This employment trend is expected to continue. The US Bureau of Labor Statistics forecasts that the number of US jobs will rise in the 1992–2005 period by almost 27 million to 147.5 million. This expansion is to take place almost exclusively in the services sector.

The structural shift towards the services society can also be seen in most developing countries (Table 2).

Table 2:

Output and employment in the tertiary sector in selected developing countries (Proportion of GDP and employment in per cent)				
Country	Gross value added		Employment	
	1970	1995	1980	1990
Argentina	47	63	36	56
Singapore	68	64	61	64
Egypt	42	59	34	38
Turkey	43	53	25	29
Korea, Rep.	46	50	37	47
Brazil	49	49	42	54
Indonesia	36	41	30	31
India	33	41	17	20
China PR	28	31	12	13

Source: World Bank, World Development Report 1995: tab. 3, World Development Report 1996: tab. 4, 12, World Development Indicators 1997: tab. 4.2

In many developing countries, more than half of those in work are already engaged in the production of services.

Let us also look across to the former communist economies. Up until 1990, they developed differently from the market-based countries. Their policies were dominated for decades by a clear “anti-services attitude“. One reason for this was ideological: Karl Marx himself had regarded services as “unproductive“. Correspondingly, the national accounts treated services not as production but as consumption of national income. The restrictions imposed on private property and entrepreneurial activity impeded the development of key services sectors (OECD, 1991; UNCTAD/World Bank, 1994: 5). It can be expected however that, as market reforms, liberalisation and market opening continue, these countries too will experience a clear upswing in their service industries and thus offer growing market opportunities, not least for German companies.

It is generally anticipated that the structural shift to the services society will continue, albeit at a reduced speed and with some limitations, particularly due to the continuing demand for agricultural and industrial production. A study by Prognos (1997) for the highly developed countries predicts that services will account for an almost constant or only slightly rising proportion of overall economic output over the next decade (Table 3):

Table 3:

Outlook for structural change to the services society (Proportion of GDP accounted for by services in per cent)		
	1995	2005
USA	71.3	71.9
EU	61.7	61.8
France	64.5	65.1
United Kingdom	59.9	59.3
Italy	63.1	62.7
Germany	60.7	61.3
Japan	62.8	62.9
All industrial countries	65.1	65.9

Source: Prognos '97, Industrial Countries 1995–2000–2005: tab. 176, 178, 368, 370

At the same time, the overall potential for employment is expected to be higher, at least in certain fields. The Institute for Labour Market and Occupational Research of the Federal Labour Office expects an increase of about 1.2 million jobs between 1993 and 2010 in the west of Germany in "secondary service activities", i.e. the more skilled jobs in research and development, management consultancy and information provision. At the same time, it anticipates a loss of almost 90,000 jobs in "primary" services, i.e. more basic office work, trading, selling, etc. (Jagoda in Mangold, 1997: 126).

3. The causes of the structural change

The structural shift towards the services society is also determining the development of international trade in services.

According to the latest findings of structural research (Klodt et al., 1997: 17ff.), structural change can be explained by the interaction of two factors, i.e. the "productivity bias" and the "demand bias". The "productivity bias" describes the empirically established fact that the industrial sector generally has a productivity advantage over the services sector. It can therefore keep the proportion of industrial goods constant in terms of the national product, whilst at the same time reducing its share of employment. This development can be seen in most OECD countries.

However, compared with almost all other countries, western Germany's economy has an unusual feature. Since the end of the 1970s, the services sector has achieved roughly equal, and sometimes even greater, advances in productivity than the industrial sector (Hummel et al., 1995: 31; Klodt et al., 1997: 36). This is particularly true of service industries with a large potential for innovation due to developments in information and communication technology, such as banks, insurance companies, transport firms and tourism, as well as telecommunications and information services per se.

The second factor determining structural change, the “demand bias“, is the growing demand for services, as predicted by Fourastié, which goes hand in hand with economic and technological progress. This rise in demand is partly due to increased demand for services from private households, a consequence of higher incomes, more working women, and shifting demand structures. However, this effect is smaller than the impact of the growing demand from the primary and secondary sectors – and the tertiary sector itself – for services as an upstream input into production. Two main hypotheses are postulated to explain this (Klodt et al., 1997: 47ff.):

- According to the “externalisation hypothesis“, the industrial companies are increasingly tending to procure services previously produced in-house from other firms, for organisational, commercial, tax or other reasons (Hass, 1995: 29). This is termed “outsourcing“.
- According to the “innovation hypothesis“, increasingly differentiated demand is forcing industry to use more services as upstream products in order to survive in the competition on quality and price.

Many people are afraid that tertiarisation will not, on balance, create additional jobs, because (they argue) new jobs in services are ultimately created at the expense of corresponding jobs in the industrial sector, and because technological progress stems only from the industrial sector. This pessimistic view, however, is disproved by the empirical analysis, which shows that the main driving force behind the increasing importance of the services sector is less the final demand of private households and more the demand of companies for upstream services. In Germany, only one-third of this results from outsourcing: two-thirds of the increased share of services is due to the fact that production throughout the economy has become more service-intensive; this coincides with the “innovation hypothesis“.

As a consequence of this development, the industrial and services sectors are becoming more and more deeply integrated (IW, 1996: 36ff.). The traditional distinctions between the sectors are becoming blurred. At the same time, the nature of the cooperation between the two sectors has changed greatly. In 1978, integrated upstream services accounted for only 2% of the jointly produced added value; in 1996, they accounted for more than one-fifth (BMWi/IW, 1997: 23; Klodt et al., 1997: 41ff.).

Just as industry has an ever increasing need for production-related services, the services industry in turn needs the industrial sales market. The mutual interdependence of industry and services is becoming ever greater. Why is this? It is no longer possible to sell industrial goods today without service. Manufacturers of capital goods, industrial plant and machinery have to offer complete solutions in addition to their product. This necessitates innovation and an adaptation to the individual needs of the customer (customising). Industrial products are containing ever higher proportions of services. For example, the software delivered with a mechanical engineering product often accounts for a third of the overall price. Automotive manufacturers offer a service package as a standard extra when selling cars, so that the buyer has no additional costs for maintenance, inspections or repairs necessitated by wear and tear. Industrial plants are delivered on a turn-key basis in the form of BOT models, covering everything from planning to financing, construction and operation.

In other words, the process of tertiarisation does not imply that industrial products are being displaced by services. “Instead, there is an evolution of new production structures in all sectors of the economy, and these structures are particularly characterised by the increased use of intelligent upstream services as input factors.“ (Klodt et al., 1997: 212)

This also sheds a different light on the phenomenon of “de-industrialisation“. It may be true that, in statistical terms, industry is losing shares of output and employment to services. But, given the increasing integration of and the concomitant improvements in competitiveness in both sectors, this is not a negative trend, but the natural consequence of the industrial dynamism of all developed economies.

Another macroeconomic advantage of services is that, compared with goods output, they are less affected by business cycles and fluctuating investment levels (OECD, 1994: 161; Döpke, 1995). Following the progress on liberalising trade in goods, German industry therefore also sees a large potential for liberalisation in the field of services and supports the efforts towards this (BDI, 1997).

Part II: International trade in services

1. Definition and nature of the international trade in services

What is meant by the term "international trade in services"? There is not even a consensus on the definition of what a service is. The arguments during the first half of the Uruguay Round about the concept and definition of international trade in services were correspondingly fierce.

There is basic agreement about a number of characteristics of services. To start with, it is generally assumed that, unlike goods, services are not physically tangible. This quality is illustrated by the pragmatic description from The Economist, according to which a service is "anything sold in trade that could not be dropped on your foot" (UNCTAD/World Bank, 1994: 1). In addition, services are usually regarded as being invisible, unstorable and untransportable. They are mostly produced and consumed simultaneously. Goods, in contrast, are physically tangible, visible and storable, and do not need any direct interaction between producer and consumer. However, these pragmatic descriptions fail to describe the many peculiarities of the various service sectors or to provide a generally valid definition. Some services, for example, are certainly physical, tangible, storable and transportable, e.g. films, software programmes, recorded music or blueprints. Some are visible, e.g. films and television programmes, or do not require any direct interaction between producer and consumer, e.g. the services provided via telecommunications by banks, insurance companies or tourism firms. In addition, the technological advances in the communication and information sector are continually changing the situation.

According to Hill's oft-quoted definition (e.g. in Klodt et al., 1997: 5), "a service may be defined as a change in the condition of a person, or of a good belonging to some economic unit, which is brought about as the result of the activity of some other economic unit with the prior agreement of the former person or economic unit". But this definition also fails to cover all conceivable cases.

Further difficulties arise from the various ways to trade services internationally. Firstly – like trade in goods – a service can simply be supplied from one country to another, e.g. by post or telecommunications. The second mode is the supply of a service by a provider abroad to a domestic consumer, e.g. in tourism. The third and most important form of trade in services is the provision by a "commercial presence", i.e. by a subsidiary of a domestic company located abroad. Finally, the fourth mode is provision by means of cross-border movements of service providers into foreign countries. These modes of delivery created a lot of difficulties in the GATS negotiations. In particular, there was no agreement on whether and how far the planned agreement should liberalise foreign direct investment and international movements of people.

For the purposes of this study, there is no real need for an abstract definition of and distinction between goods and services. The study uses a pragmatic and comprehensive definition which embraces all commercially "tradable" services in all modes of supply. That is also the GATS concept.

2. The statistical problem

Statistics on international trade in services are very incomplete. This is primarily because, unlike goods, services are not normally registered at the border. Detailed data on bilateral exports and imports are rare. Almost the only source of data on international trade in services which is available so far for almost all countries is the balance of payments published by the International Monetary Fund and other international organisations. However, in terms of policy objectives, it has a number of deficiencies:

- The balance of trade only indicates the value of trade in services. The changes registered in the flows and balances of services derive from the volume of trade in services, from market prices and from exchange rates. Fluctuations in prices and exchange rates are frequently considerable and make it difficult to analyse the flows of trade expressed in terms of value. When comparing the figures for various years from individual countries, it is therefore necessary to bear in mind that the above-mentioned variables have an impact on the trends of the statistically recorded flows of trade (Eurostat, 1997).
- Despite globally binding rules – the International Monetary Fund lists the rules for compiling balances of payments in its Balance of Payments Manual – definitions of services vary from one country or institution to another.
- The balance of payments includes items which embrace both goods and services. Such items traditionally include tourism, which includes the purchase of goods by tourists when abroad.
- Until recently, major trading partners like the former communist countries recorded no data on services, because they did not regard the “non-productive field“ as output in their national accounts (the material product system). The GDR, for example, did not record a balance of payments in line with the IMF definition.
- In a number of countries, including Germany, data on trade in services are obtained from reports by businesses. In general, gross flows are reported; in certain cases, balances may also be registered. For those transactions which do not need to be reported, estimates have to suffice. At the same time, there is a lack of statistics about the volume and quality of the services traded, so that it is impossible to establish the influence of quantitative turnover, qualitative improvements and inflation on the development of the value of trade in services.
- In addition, the balance of payments excludes those services which are traded as elements of trade in goods. As production is increasingly tertiarised, growing proportions of services “incorporated“ into goods are statistically allocated to merchandise trade.
- By definition, the balance of payments is only oriented to cross-border trade. It thus fails to cover services supplied by a “commercial presence“, i.e. subsidiaries of the company abroad. So far, only the United States has meaningful information about this most important form of trade in services. A few others, including the EU, France, Ger-

many and the UK, will in the foreseeable future be able to provide initial indications in the form of details about the turnover and workforce of these companies.

The statistics therefore seriously under-report international trade in services (WTO, 1996: vol. II, 167). According to estimates by the WTO Secretariat, the amount of services traded by commercial presences abroad is roughly equivalent to the level of cross-border trade in services – the only aspect which has been recorded to date.

Since the beginning of the Uruguay Round, intensive efforts have been made to improve the statistical situation. Eurostat, IMF, OECD, United Nations, World Bank and WTO are working on this together. In the fifth edition of the IMF's Balance of Payments Manual from 1993, the clear separation of goods, services and factor income was a key development. In particular, the existing services balance was subdivided into a balance of services (in the narrower sense) and a balance of factor income. This removed the previous distortions affecting the statistics on trade in services caused by income from assets and labour. The IMF has also published recalculated results for earlier years. Eurostat and the OECD have drawn up a common classification of international trade in services, the aggregates of which have found a place in the IMF Balance of Payments Manual. This represents a first step towards globally standardised data collection, at least for certain major types of services. Eurostat is also concluding bilateral agreements with the EU member states which stipulate a harmonised definition of and a method to obtain statistics for a large number of individual items. In March 1995, the Bundesbank (1995b) adapted its presentation of the balance of payments to the new international concept. Also, in terms of the OECD/Eurostat classification, Germany is one of the countries with a relatively comprehensively itemised list of services.

However, all of these changes in recent years have also meant continual revisions to the published series of statistics, and it has not always been possible to avoid interruptions to the series. This renders the analysis and the international comparison more difficult. And then there are differing publication dates in different institutions, with different revision statuses. However, following the substantial restructuring of the last few years, it can be expected that the coming years will see a consolidation.

The remaining statistical gaps may result in difficulties in future negotiations on liberalisation or in possible WTO dispute-settlement procedures when there is a need for a precise evaluation of the trade flows involved in the dispute. On the other hand, all the efforts to improve the statistics encounter commercial and political limits, because they necessitate detailed questioning of the relevant companies and may therefore be out of step with the justified efforts to relieve businesses of statistical and administrative burdens.

This paper primarily uses the balance of payments statistics from the Bundesbank for its analysis of German trade in services. For international comparisons, it normally takes the IMF's balance of payments statistics and the WTO statistics; for the sectoral studies, it also draws on statistics from other sources.

3. Trends in international trade in services

Services are playing an ever increasing role in world trade. Due to commercial and technical developments, particularly in information and communication technologies, many services which used to be deemed "untradable" are now traded internationally. In addition, in the course of the growing international division of labour and the tertiarisation of the production of and trade in goods, services are increasingly becoming an essential element of all world trade.

Since the early 1980s, trade in services has been the highest-growth area of world trade. Cross-border exports of services alone (i.e. excluding subsidiaries abroad or international movements of persons) grew nominally by an annual average of almost 12% between 1985 and 1995 (data in constant prices are not available). This growth even outstripped the strong expansion of trade in goods, which rose by an annual average of 11% in the same period (Table 4):

Table 4:

Development of exports of goods and services of the leading exporters in 1985–1995 (US $ billion in current prices)							
		1985	1990	1995	Average growth p.a. (%)	Market share (%) 1985	Market share (%) 1995
Exports of goods	World	1,950	3,437	5,033	10.9	100	100
	EU (15)[1]	709	1,507	2,028	11.1	36.4	40.3
	USA	219	394	584	10.3	11.2	11.6
	Germany[2]	184	421	509	10.7	9.4	10.1
	Japan	177	288	443	9.6	9.1	8.8
	France	102	217	286	10.9	5.2	5.7
	UK	101	185	242	9.1	5.2	4.8
Exports of services	World	381	793	1,168	11.9	100	100
	EU (15)[1]	171	379	520	11.8	44.9	44.5
	USA	63	137	188	11.6	17.3	16.1
	Germany[2]	23	49	69	11.6	6.0	5.9
	Japan	21	41	64	11.8	5.5	5.5
	France	35	75	95	10.5	9.2	8.1
	UK	29	54	66	8.6	7.6	5.7
Proportion of total exports accounted for by services (%)	World	16.3	18.7	18.8			
	EU (15)[1]	19.4	20.1	20.4			
	USA	22.3	25.8	24.3			
	Germany[2]	11.1	10.4	11.9			
	Japan	10.6	12.5	12.6			
	France	25.5	24.0	24.9			
	UK	22.3	22.6	21.4			

1 including intra-EU transactions

2 until 1989 western Germany; from 1990 all Germany

Source: WTO Annual Report 1996: vol. II, tab. A3, A5

In 1995, international exports of services amounted to US $ 1168 billion; by 1996, the figure was US $ 1200 billion. The proportion of total world exports accounted for by services thus rose from 16.3% to about 19% over a ten-year period.

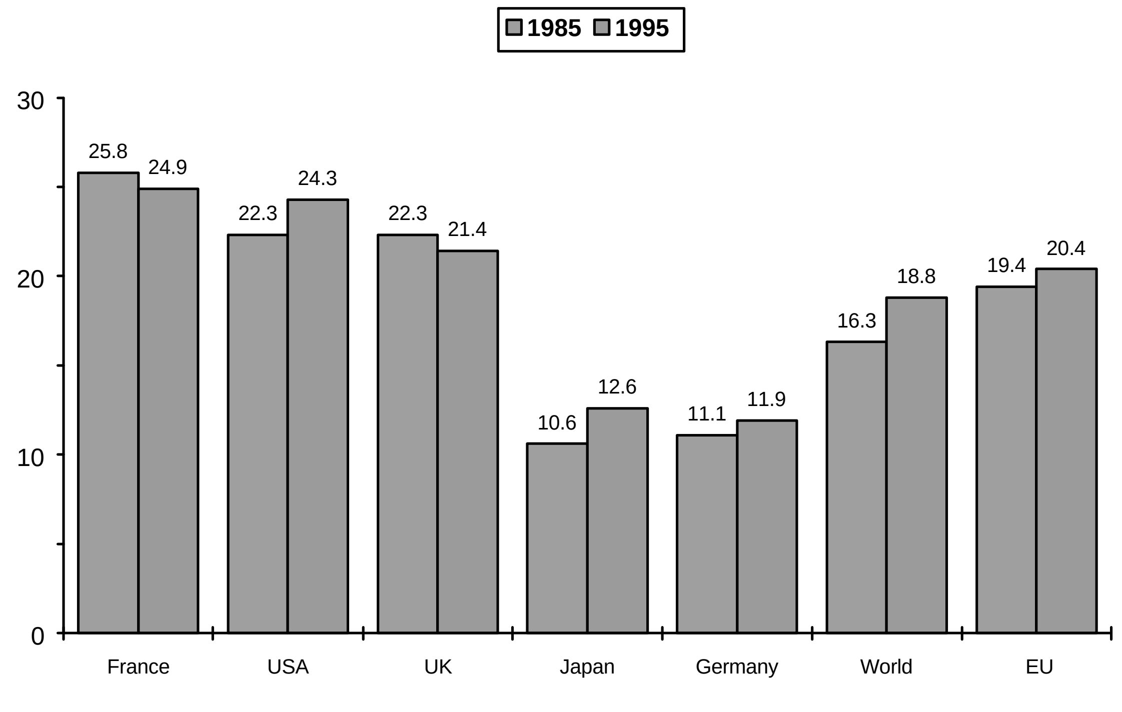
Also, growth in world exports of services has been particularly high in the more recent years (1994: +9%; 1995: +13%). To some extent, this is due to an "appreciation" of the export figures denominated in US dollars, as the dollar has risen against other currencies.

Notwithstanding the impressive dynamism of international trade in services, it should be noted that it actually accounts for only about 19% of world trade – far less than the proportion of world output accounted for by services (approx. 65%). The services sector is therefore much less internationalised in the form of foreign trade than is industry (Härtel et al., 1995: 24), although certain areas of services and certain global players are exceptions. This is the result of many structural, institutional and regulatory factors and barriers to trade. However, many of these barriers are increasingly being overcome by technological developments and international liberalisation. In conjunction with the dynamism of the process of tertiarisation, this also suggests that there will be a further rise in the level of services traded internationally.

In the international comparison, the proportion of total German exports accounted for by services is statistically below the world and EU averages. In fact, the gap has widened over the last decade (Figure 3):

Figure 3:

Proportion of services in total exports of leading exporting countries (per cent) (on US $ basis)

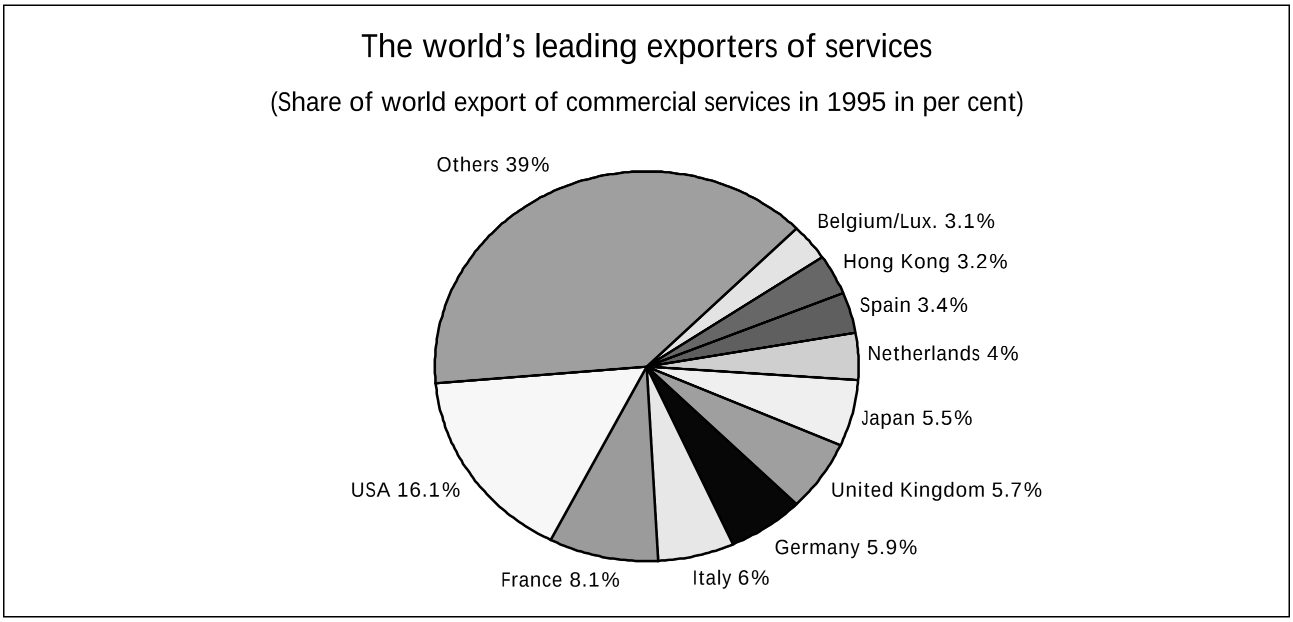


Source: WTO, Annual Report 1996: vol. II, tab. A3, A5

The proportion of all German exports accounted for by services is thus roughly in line with the figures for Japan, Canada, Ireland and some emerging economies.

The world's services market is dominated by the highly developed countries and some Asian emerging economies (Figure 4):

Figure 4:



Source: WTO, 1996: vol. II, tab. A5

The EU alone (including trade within the EU) accounts for about 45% of world trade in services. However, the United States, the largest exporter (with a 16.1% market share in 1995) and importer (11.2%), is well ahead of all other countries. Germany, which exported services worth US $ 68.8 billion in 1995, had only a 5.9% share of world exports, and came fourth behind the USA, France and Italy.

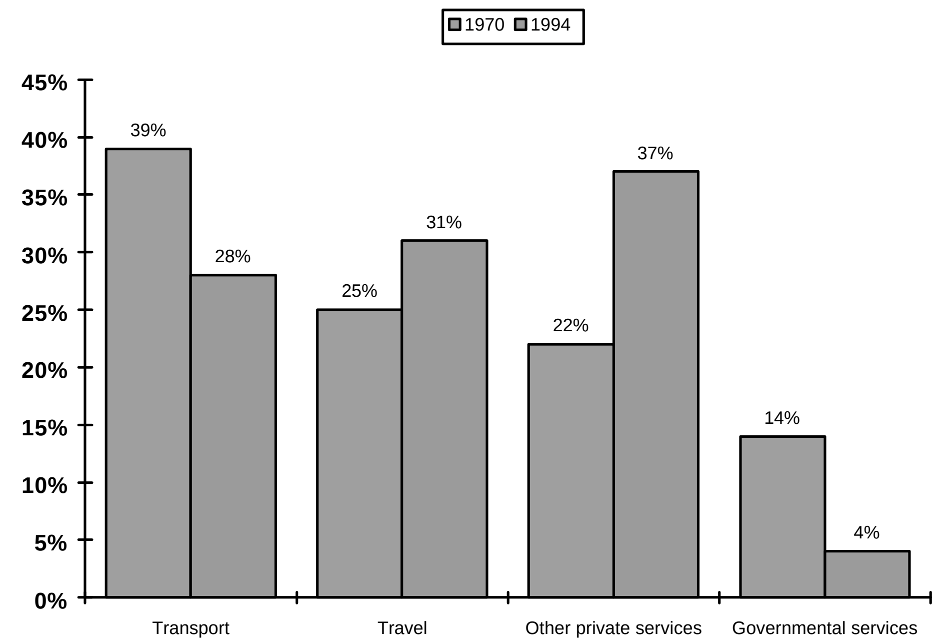
The fact that the leading positions are all taken by highly developed countries does not mean that the developing countries do not play a role in trade in services. 15 of the world's 40 leading exporters of services are developing countries. Together, they achieve a share of roughly 16% of world services exports and 18% of imports. Many developing countries are even relatively highly specialised in exports of services. Analyses on the basis of the revealed comparative advantage of individual countries show that small developing countries in particular have above-average export intensities for tourism, transport and other services. The relative significance of income from tourism in these countries was already twice as high as the world average in 1980 (Hoekman, Braga, 1996: 7; UNCTAD/World Bank, 1994: 13).

The statistical gap between Germany's services exports and those of other countries becomes even more obvious when one compares Germany's share of world services exports with its share of goods exports (1995: 10.4%). When it comes to exports of goods, Germany usually takes second place, and frequently even comes first (competing with the United States), whilst it is generally outpaced by a number of rivals on services exports.

The statistics have so far only been able to give a very rough idea of the sectoral development of international trade in services. Figure 5 shows the development of the main areas of services exports, i.e. transport services, international travel and other private (i.e. non-governmental) services for the OECD countries between 1970 and 1994.

Figure 5:

Sectoral breakdown of services exports of OECD countries 1970 – 1994 (%)



Source: OECD, 1996: Services Statistics on International Transactions

This reveals clear structural shifts within exports of services. The proportion produced by travel has grown by 6 percentage points in the last 25 years, whilst the share of transport has dropped from 39 to 28% and the proportion of exported "governmental services" has also declined sharply. But the greatest shift was towards "other private services": the percentage of overall services exports accounted for by this group rose from 22% in 1970 to 37% in 1994. This catch-all category includes the growing areas of telecommunications and information services, construction, engineering and financial services, and business services. It has become the most dynamic field of services world-wide.

With a market share of 6.3% in 1994, Germany was the world's fifth largest exporter and importer of transport services after the USA (16.1%), Japan (7.5%), France (6.4%) and the Netherlands (6.4%). In international travel, it accounted for 3.3% of world exports, taking seventh place behind the USA (20.5%) and others. In the field of "other private services", Germany had a 6.2% market share, coming sixth behind the USA (15.3%), France

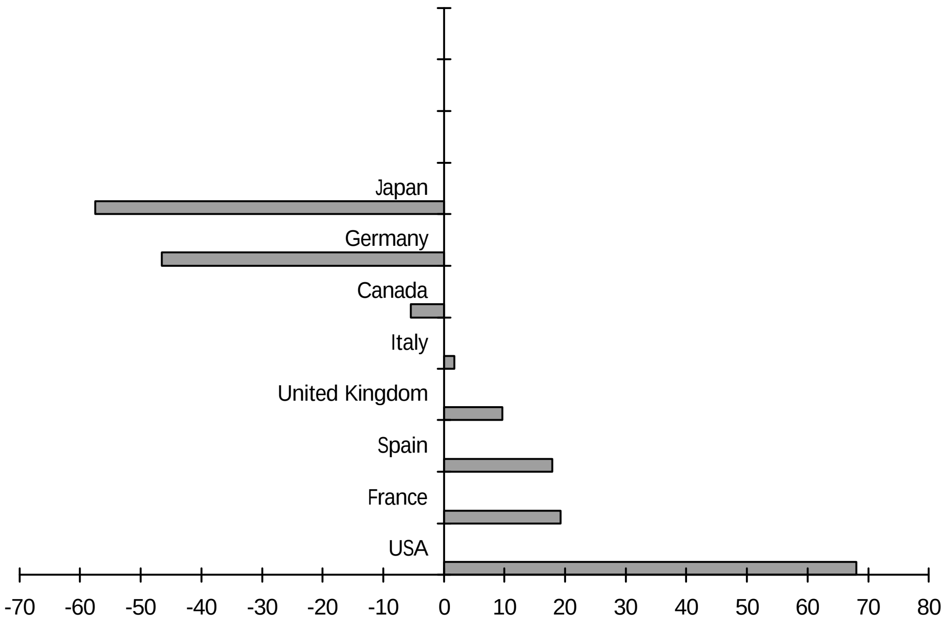
(10.9%), Japan (7.7%) and the UK (6.9%) (WTO, 1996: vol. II, tab. IV, 61 – 63). The development of trade in the main services sectors will be examined in detail below.

An international comparison of the balance of payments figures for trade in services gives the following picture:

Figure 6:

Import or export surplus of leading services trading nations[1] in 1994

(US $ billion)



1 including government services

Source: IMF Balance of Payments Statistics Yearbook 1996: vol. 1

Once again, Germany is lagging behind most of the other highly developed countries. The OECD countries together have recorded a permanent surplus on trade in services since 1970 – indeed, the surplus has been continually expanding. In the United States, the surplus grew from US $ 12.6 billion to 68.1 billion between 1988 and 1995; in France it rose from 10.7 to 19.2, and the increase in Spain was from 13.7 to 17.9 billion dollars. In contrast, the German deficit rose in the same period from US $ 13 to 46.5 billion. It is exceeded only by Japan, which, like Germany, is registering growing deficits on the travel side in particular.

4. The factors determining international trade in services

Just like the structural change within Germany, the strong expansion in international trade in services is being driven by the world-wide trend towards economic tertiarisation. The improved availability of services and the rising demand for them are encouraging many suppliers to develop new markets abroad. What factors determine the position of a country and its suppliers in the international services trade? This paper cannot review all the theories on corporate internationalisation and the relevance of such theories to the services sector (cf. Mösslang, 1995), but the main aspects are presented in this section:

It is now generally understood that the concept of “comparative advantage“, which was originally developed for trade in goods, also applies in principle to international trade in services. This theory, which was developed by the Swedish economists Heckscher and Ohlin, says that a country engaged in international trade has competitive advantages in terms of those goods or services that require a relatively high input of production factors which are relatively abundant and thus cheap in that country. In contrast, a country will have competitive disadvantages in the case of those goods or services which require a high input of relatively scarce and therefore expensive production factors. A capital-rich country with high wages should therefore normally export goods and services which require a high input of capital. On the other hand, it should import goods and services which require a relatively high input of low-cost labour.

This theory, which was subsequently developed further by Leontief and others, is unable to explain and predict all the developments in the international trade in services. Nonetheless, it is useful as a basic explanatory model (UNCTAD/World Bank, 1994: 27, with further references; OECD, 1994: 94; Mösslang, 1995: 248).

Competitiveness in international trade in services is primarily determined by structural factors which – as with trade in goods – vary from one country to another. It is generally assumed that the gap between the volume of trade in services and trade in goods is caused by the fact that services markets are more restricted than goods markets as a result of structural access barriers (Härtel et al., 1995: 28).

The main structural competitive factors are the availability of natural and human resources (human capital) in a country, e.g. the climate or natural beauty of the preferred tourist destinations, the size of the sales markets and the population, geographical proximity to the sales markets, or the vocational training, skills and motivation (the “services mentality“) of the providers. The Netherlands, for example, serves as a transit country for maritime and air transport for large parts of Europe and has been able to build up a very powerful transport sector. Half of all imports into the EU enter via the Netherlands.

The natural ability to speak the leading world languages is a major competitive advantage in international trade in services. This partly explains America’s competitive edge on the software market and the Internet, where 80% of the information comes in English.

In technology-intensive and capital-intensive services sectors like transport and communications, an important role is played by the availability of the necessary technical infrastructure and financial resources. Some of these factors exist “naturally“ and can scarcely be influenced by government, whilst others can be altered by appropriate policies or business strategies. The latter applies, for example, to bringing policies on education and vocational training into line with the demands made by the international trade in services.

On the supply side, market access for foreign service providers is primarily dependent on the practical possibilities and the costs involved in overcoming the distance between suppliers and customers. Services which require direct contacts between suppliers and consumers often encounter structural market access barriers in international trade. This applies, for example, to personal or "consumer-related" services in the retail sector, to local public transport or to locally supplied craft or building services. According to the traditional concept of cross-border merchandise trade, such services were frequently regarded as simply not tradable. Taking the concept of trade in services which is generally accepted today and which goes much further, however, such services are no longer excluded from international trade, because the suppliers can provide them via subsidiaries abroad or the cross-border movement of persons. It is, of course, true that these forms of trade in services involve practical mobility problems and costs which may render the trade more difficult or even impossible. The difficulties vary widely depending on the type of service and the respective market conditions, and can be affected by technical and commercial advances. In many cases, modern communications, information and transport technologies have substantially reduced the effort and costs involved in purchasing services from distant suppliers (Table 5):

Table 5:

Falling costs for air transport, telecommunications and computer use (in 1990 US $ unless stated otherwise)			
Year	Average cost of air transport per passenger mile	Price of a three minute call from New York to London	US Department of Commerce computer price deflator (1990 = 1.0)
1930	0.68	244.65	
1940	0.46	188.51	
1950	0.30	53.20	
1960	0.24	45.86	125.000
1970	0.16	31.58	19.474
1980	0.10	4.80	3.620
1990	0.11	3.32	1.000

Source: Herring, Litan, quoted in IMF World Economic Outlook, 1997: 46

This in turn has widened the geographical areas and time horizons within which services are bought and sold, as can be seen from the expansion of large regional, national or international companies offering financial, air transport, telecommunications, hotel, fast food or car hire services. Financial services and securities trading, which were previously restricted to the opening hours of the national stock exchanges, are now available round the clock all around the world. Another well-known example is provided by data-processing and software services, which are provided in India for industrial and services companies world-wide.

It also makes sense to purchase foreign services when these relate to international transactions. Examples of this are export financing, transport insurance, reinsurance, the establishment of a communications centre for a globally operating company, etc.

A further reason for the internationalisation of trade in services is the exploitation of commercial economies of scope and scale.

Companies derive economies of <u>scope</u> from the opportunity to serve many international markets and to utilise competitive advantages over national rivals. This usually involves a strategy of expansion with the establishment of an international network of branches. The main advantages are the global integration of information, data and marketing, the tying of internationally mobile clients to the company, and the cutting of investment and operating costs. Examples of this are the global presence of the "big six" accountancy firms, the network of branches of credit card companies like American Express (one of the main initiators of the liberalisation of international services), international banks, hotel chains or car hire firms, and the international route networks and central reservation systems of airlines (Mösslang, 1995: 227ff.). However, these economies of scope do not exist for all service sectors, e.g. locally-based craft companies, local transport, or many regionally-based professional services and small corporate structures.

At one level, economies of <u>scale</u> can arise for the countries participating in world trade. If countries specialise in certain products and engage in trade with one another, they can take advantage of economies of scale in production. That is one of the reasons why small countries are often more intensively engaged in foreign trade than countries with large economic areas. By doing so, they overcome the difficulties of small sales markets.

However, economies of scale also play a particularly prominent – and controversial – role at the level of service companies. Recent developments, and especially the rising capital intensity of many service industries, e.g. in the field of telecommunications and information services, in the transport sector and in other sectors using machinery, indicate that service companies are also increasingly able to achieve economies of scale in production (Mösslang, 1995: 224). The trend towards international mergers, cooperation and strategic alliances in aviation and telecommunications illustrates this development. The insurance industry provides another example of increasing internationalisation, not least because a larger number of insurance contracts facilitates internal risk management and calculations.

Many service companies are highly dependent on the market experience they acquire as they develop a foreign market. Often, the degree of international competitiveness is determined less by a natural endowment with resources and more by having the opportunity to be first on a new market and to develop the necessary experience and corporate size. This explains, for example, the efforts of large insurance firms like Allianz to gain early access to markets in eastern Europe or China. The huge level of interest on the part of the US telecommunications industry in the liberalisation of telecoms markets adopted at the

WTO in February 1997 is also striking. The US industry and government clearly signalled their intention to occupy these markets for the USA as quickly as possible.

In the past, it has been felt that personal, professional or consumer-related services offer little potential for utilising economies of scale. This was based on the consideration that there are technical limits to the mechanisation and standardisation of production in personnel-intensive service sectors, and that such efforts would run counter to the desire of customers for individual service. However, the market conditions are changing here as well. Advances in communications, information and transport technology have cut the costs of mobility and opened up new opportunities for the automation and standardisation of production. Larger structures are now even developing in international business in those service sectors which require a particularly close and trusting relationship between provider and customer, and which have so far been characterised by small company sizes. Typical of this is the growing number of large international accountancy and law firms, which are clearly meeting a rising demand from their clientele for specialisation and expertise in global trade and investment (UNCTAD, 1993).

Finally, "external" economies of scale arise when in-house production experience is disseminated (e.g. by outsourcing) across an entire sector or when production-related services are offered as an input for various industrial users, as happens in the computer industry in Silicon Valley.

On the demand side, the main structural impediments to the globalisation of markets are specific regional needs and consumption patterns. These include historically and culturally determined consumer wishes, and especially differences of language. One example of this is the aversion of US film and television viewers to dubbed foreign films, or, in the other direction, the attempts made by the European Union to fence the European market off from foreign films and television programmes. Overcoming this sort of market access barrier is particularly difficult because it requires changes in consumer preferences and adjustments in supply and demand which can only be achieved in the long term.

In addition to the structural market access conditions, the relative competitive advantages and disadvantages of the service providers and their products – like price, quality, reliability, customer orientation, specialisation, etc. – determine a country's position in the international trade in services. To this extent, there are no fundamental differences from merchandise trade.

5. Regulatory barriers to trade

On top of the above-mentioned structural, sectoral and company-specific factors affecting competitiveness, the regulatory framework of each country has a decisive impact on international trade in services. Unlike the goods-producing sector, most service industries are regulated by the state. In fact, many developing countries are still "lagging behind" the highly developed countries in terms of regulation, and this makes access to their markets appear relatively easy, at least in formal terms.

The state regulates the services markets in order to attain a variety of political objectives. For example, any restrictions on the purchase of foreign currency to pay for imported services are normally part of a general system of restrictions on payments designed to tackle balance of payments difficulties. Restrictions on the entry and residence of foreign service personnel form part of the overarching immigration and labour market policies of every country. Other rules on services aim to protect public safety (e.g. in air and road transport), the consumer (e.g. via supervision of banking and insurance), the functioning of financial markets, or health and legal systems via qualification and admission requirements for those working in them. Also, regulation may pursue cultural objectives, e.g. imposing market access restrictions on foreign films.

Government regulations are rarely exclusively protectionist, with the sole aim of restricting international trade in services. However, they are generally only viable if the state monitors all relevant transactions, no matter whether they refer to the national market or to international trade. There is therefore generally a close link between trade policies and other objectives of government regulation. This makes it more difficult to liberalise trade in services, since – in contrast to trade in goods – such liberalisation almost always impinges on vital and sensitive areas of domestic policy and national sovereignty. National regulation of the services markets is therefore one of the main causes of the gap between international trade in services and in goods.

Every government policy which hinders the sale of services produced abroad represents an impediment to trade in services. Such measures either limit the market access of foreign competitors or discriminate between them and domestic firms, thereby violating the principle of national treatment. In many cases, there is a combination of both effects.

The trade barriers range from a simple ban on the supply of certain services by foreign providers to quantitative restrictions (e.g. quotas), restraints on the international exchange of information, additional costs for imported services, and administrative impediments of all kinds (Mösslang, 1995: 97ff.).

Barriers to international trade in services usually exist where the state can effectively monitor the transactions. Unlike trade in goods, this is not generally at the national border, but at the "interface" between supplier and consumer. Typically, therefore, barriers to trade are created by restrictions on the purchase of foreign exchange to pay for imported services, on the cross-border movement of people, information, goods and money, on the sale of services on the domestic market by a foreign supplier, or on the employment of foreign service staff on the domestic market.

The nature of the trade barriers and their practical impact on trade in services vary widely between sectors and countries. As part of the preparations for the negotiations on services in the GATT Uruguay Round, systematic studies were undertaken, particularly in the US and Europe, which revealed an almost overwhelming variety of barriers to trade. The most important study for Europe was that of Peat, Marwick and Mitchell (1986), but there were also empirical studies for Germany (Scientific Consulting, 1989; Petersen et al., 1993: 149).

The most effective trade barriers are those which wholly or partially block market access for foreign suppliers. Examples include the refusal to allow foreign airlines to service domestic routes, the (similar) ban on foreign vessels sailing between domestic ports (cabotage), the ban on branches of foreign companies, public-sector monopolies, e.g. in the telecoms sector, etc. Such radical market access barriers exist in almost all countries. For example, most EU countries, including Germany, deny cabotage to non-EU vessels; within the EU, by contrast, cabotage is normally permitted. The well-known EU "Television without frontiers" Directive requires the television companies of EU countries to reserve at least 50% of screen time for "European works". The telecoms monopolies of most EU countries, which have kept the markets closed to foreign competitors, have only been removed since 1 January 1998. The United States only issues a radio licence to telecoms companies which are at least 80% American-owned. France and Portugal also restrict foreign shareholdings in their telecoms companies.

In addition to such radical restraints of trade, there are innumerable other restrictions on market access for foreign competitors or impediments to their operations. These include conditions on production, procurement and employment ("local content") for foreign subsidiaries, cumbersome, obscure and discriminatory authorisation procedures, obstacles to access to financial markets, etc. Great distortions of competition to the detriment of foreign suppliers also derive from the subsidisation of domestic firms and the discriminatory award of government contracts. Further serious trade barriers take the form of discriminatory taxation or levies and employment restrictions for foreign service personnel, e.g. the refusal of visas and work permits or the non-recognition of foreign qualifications, certificates and diplomas.

Actually establishing, evaluating and reducing these barriers to trade via multilateral negotiations is made all the more difficult by the fact that they are often applied in an unclear and unpredictable manner. Some of them are expressly stated in statutory rules, but are imposed more or less strictly. Exceptions are frequently possible, and this gives the authorising bodies broad powers of discretion. There are also many ways to fend off or discriminate against "undesired" foreign competitors. Other trade restrictions are only based on obscure internal administrative guidelines or "traditional" practice.

Not least for these reasons, it has so far proved impossible to arrive at a quantitative assessment of the impact on international trade in services of existing barriers to trade or their removal. The OECD recently initiated a study on this, but it is encountering major problems simply due to the lack of proper data about volumes, prices, origin and destination of the internationally traded services. The OECD is endeavouring to develop so-called "tariff equivalents" to assess protectionist measures impeding trade in services and to test them in case studies for individual sectors.

The international efforts to liberalise trade in services are seeking to identify and gradually reduce the regulatory and institutional barriers to trade. This is occurring at various international levels and in various services sectors. This development is examined in Parts IV to XII.

Part III: The significance of foreign investment

International direct investment has become a driving force for globalisation, and this process is being continually boosted by the development of global information and communication networks, by international data traffic and by the world-wide trend towards deregulation, privatisation and market liberalisation. As a consequence, foreign direct investment has been expanding faster than global output and global trade. The inventory of foreign investment grew from US $ 500 billion in 1980 to US $ 3 trillion in 1996. The turnover of the 270,000 or so foreign subsidiaries of approx. 39,000 multinational companies now exceeds the value of world trade in goods and services. Internal trade within the multinational companies (intra-corporate trade) is estimated to amount to more than one-third of world trade (WTO, 1996: vol. I, 44ff.; UNCTAD, 1996a: 3). In many developing countries, foreign direct investment brings in more capital than development aid. Only a few developing countries still deny that foreign investment brings economic advantages for their development.

The leading investors are the highly developed countries. In 1995, they invested US $ 270 billion abroad (up 42% on 1994) and hosted foreign investment worth US $ 203 billion (up 53%). Roughly two-thirds of the volume invested world-wide originated from five countries – the United States, the United Kingdom, Germany, Japan and France. These five are also the leading recipients of investment. Since the late 1980s, however, developing countries have also become important destinations for investment. Their share of the incoming foreign investment rose from 21% to 32% between 1988 and 1995.

This dynamism is also shown by German foreign direct investment. The inventory of direct investment owned by German companies abroad more than doubled between 1984 and 1995. At the end of 1995, it amounted to DM 362 billion.

The dynamic development of German investment abroad is primarily due to the expansion of the services sector. The sectoral breakdown of German investors has for many years shown a clear shift towards the services sector. Whereas in 1984 just under one-third of the German stock of foreign direct investment was owned by services companies, they now hold more than half. At the same time, the share held by the manufacturing sector declined from 70% to 44%. The main reasons for this are rising foreign investment by holding companies (which are categorised as being in the services sector even though they are largely owned by industrial investors) and the investment undertaken abroad by German banks and insurance companies. In contrast, other service industries have yet to make themselves felt as major investors.

There is also a clear shift towards services in the sectors abroad targeted by German investors. In 1984, service companies accounted for 47% of the inventory of German foreign investment; by 1995, the share had risen to above 59%. This means that the services sector has become the main target of German foreign investment.

Table 6 shows the structure of German foreign investment in services by sector of origin and sector of destination:

Table 6:

German foreign direct investment in the services sector (Inventory figures by sector, 1995)				
	Sector of origin		Target sector	
	DM million	Share in %	DM million	Share in %
Holding companies	113,193	58.4	21,354	9.6
Banks and financial institutions	43,492	22.4	93,197	41.8
Insurance companies	14,652	7.6	21,481	9.6
Trade and repairs	12,422	6.4	60,387	27.1
Transport and telecommunications	3,815	2.0	2,952	1.3
Services for businesses	3,280	1.7	4,720	2.1
Other services	2,979	1.5	19,084	8.6
Total	193,833	100	223,175	100

Source: Deutsche Bundesbank, International capital links, Special Statistical Publication 10, May 1997: tab. I 2b

Almost 90% of the amount invested went into trading companies, banks, insurance firms and holding companies; other services sectors do not yet play a significant role as targets for investment.

A comparison between the sectors of origin and destination, however, reveals a clear discrepancy: DM 223.2 billion worth of German direct investment went into foreign services companies, but only DM 194 billion originated from German services companies. This implies that German manufacturing companies are investing outside their sector in foreign services companies, so as to enhance their proximity to their market and their customers and to adapt to the new challenges of providing "solutions" (Krämer in Mangold, 1997: 210).

Data on the regional structure of German foreign investment in services is only available in the case of trading companies, banks and financial institutions, insurance companies and holding companies. 92% of this investment went to highly developed countries, of which 69% went to the European Union, 14% to the USA and 2% to Japan. 6.5% went to developing countries, and 1.3% to the countries in transition.

What are the causes? Unlike in the merchandise sector, a service provider has virtually no possibility of gradually developing a foreign market by exports. For many service industries, a subsidiary abroad is indispensable if a market is to be developed. Banks, insurance companies, retailers or providers of business services rely on direct contact with their customers. Often, the only practical way to export their service is to maintain a commercial presence abroad. US statistics, for example, show that "indirect" exports of services between the EU and the US via foreign subsidiaries are twice as high as the level of cross-border trade in services between the two regions (UNCTAD, 1996a: 89). The Uruguay Round expressly recognised the vital role played by the “commercial presence“ in the form of corresponding provisions in the GATS.

Because of the need for close contact with the customer, the foreign subsidiaries of service companies are not usually in competition with the parent company. For this reason, the establishment of subsidiaries abroad generally has only a slight impact on the direct exports by and the employment levels in the parent company.

Other reasons why service companies are investing abroad lie in the trend towards an intra-corporate division of labour within globally operating companies and towards an outsourcing of upstream inputs. Examples include the production of software in India, data processing for airlines in the Caribbean, or the processing of insurance claims for US insurers in Ireland.

A further vital reason for the expansion of international investment in services is the liberalisation of the financial and capital markets and the increasing liberalisation and deregulation of investment rules for large markets. The German situation is dominated by the single European market. Its completion brought a sharp rise in German investment in the banking and insurance sectors and an influx of investment into Germany from non-EU countries, and particularly from the United States. But many other countries have also removed impediments to investment and now guarantee protection for investment and better-functioning markets. In 1995 alone, 106 of 112 changes to investment legislation in 64 countries were directed towards liberalisation and the promotion of foreign direct investment. In many developing and emerging economies, people are becoming increasingly aware that foreign direct investment can bring not only capital, but also technical and commercial expertise along with other advantages like access to foreign sales networks.

International rules on trade are also taking account of the growing integration of trade and foreign direct investment. There are now some 1300 bilateral investment protection agreements – in the early 1990s, there were only about 600. The main stimulus for this has been the desire of developing countries to attract foreign investment. There are also multilateral agreements on specific aspects of foreign investment, e.g. the MIGA (Multilateral Investment Guarantee Agency) and the International Centre for Settlement of Investment Disputes (ICSID); each of these have roughly 130 participating countries.

Investment is fully liberalised in the single European market. Investment issues are also regulated by a number of WTO agreements, especially the GATS, the Agreement on Trade-Related Investment Measures (TRIMS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). In the OECD, negotiations started in 1995 on a Multilateral Agreement on Investment (MAI), with the aim of providing high standards of liberalisation and protection; however, these negotiations have yet to bear fruit.

What impact will the foreign direct investment in the services sector have on employment at home and abroad? According to statistics from the Bundesbank (1997b: tab. I 2 b), the service companies operated abroad by German investors employed a total of about 780,000 people in 1995, with about 500,000 of these working for trading companies and 94,000 for banks and insurance firms. However, this sectoral breakdown is uncertain. It can be assumed that only a small proportion of this workforce comes from Germany, i.e. the management and a few staff members with specific skills and abilities. The vast bulk of the staff probably come from the host country. This coincides with the interest of a service company in having a workforce familiar with the host country. But it also results from the world-wide practice of restricting the employment of foreigners.

For the same reasons, the service companies owned by foreign investors and operating in Germany will mainly employ German personnel. According to the Bundesbank statistics (1997b: tab. II 2 b), such companies employed some 518,000 people in 1995. Foreign services companies therefore make a substantial contribution towards employment in Germany.

For the future, it looks as though the ongoing structural change and the dynamic nature of the services sector will mean that its significance for German foreign investment will continue to grow. Direct investment will be deployed alongside trade as an effective way to develop foreign markets. There is great potential for development, not only in the highly developed countries, but also in the countries in transition in central and eastern Europe, in China, and in many developing and emerging economies (UNCTAD, 1996a: XXIV; Krämer in Mangold, 1997: 212).

Part IV: The liberalisation of international trade in services

1. The theoretical background

The positive experience gained from liberalising trade in the single European market and the GATT have proved that a country's participation in world trade normally fosters growth and employment. Whilst trade restrictions may benefit a protected sector, they cause macroeconomic costs for consumers and other sectors. Trade liberalisation, on the other hand, enables every country to specialise in line with its comparative advantages. Liberalisation enhances the mobility of the factors of production and boosts competition on quality and price. This makes it possible for companies to exploit economies of scale on larger markets and creates incentives to improve productivity and innovation. The consumers gain access to better and cheaper products and services. Previously protected sectors are forced to adapt to the increasing international competition. The net impact on welfare of trade liberalisation is normally positive (UNCTAD/World Bank, 1994: 27). These experiences have long since been documented in detail (cf. e.g. Giersch 1987; OECD, 1994: 101). They were also key motives for completing the single European market.

2. The development of the concept of liberalisation

The liberalisation of international trade in services began substantially later than the liberalisation of trade in goods and of capital movements, on which work began soon after World War II when the Bretton Woods institutions and the GATT were established.

2.1 The OECD's codes of liberalisation

The OECD codes of liberalisation of capital movements and of current invisible transactions adopted in 1961 (OECD, 1995a) represented a first step towards liberalising international movements of services and capital. They obliged the OECD member states to liberalise the entire spectrum of international capital movements and to gradually remove all restrictions on certain "invisible transactions". By the end of 1992, virtually all the member states had abolished their controls on capital movements. The liberalisation lists for trade in services were extended, and the number of national exemptions substantially reduced. During the last review in 1992, new liberalisation commitments were undertaken for financial services in particular.

Clearly, not all the progress on liberalisation made since the introduction of the OECD codes can be ascribed to these agreements, especially as they do not contain any legal enforcement mechanism. They do, however, represent the first international framework for liberalising trade in services and extending the liberalisation to embrace all member states.

Today, the OECD is still a pioneer in the field of international trade liberalisation. In particular, its members have been negotiating amongst themselves on an international investment agreement which is to be open for other countries to join. Also, the OECD is working on a comprehensive initiative on regulatory reform and further market opening.

2.2 Free trade in services in the single European market

The deregulation and liberalisation of trade in services in the single European market is a vital issue for Europe and for Germany. Back in 1957, the Treaty of Rome established the four freedoms, i.e. the free movement of goods, people, services and capital. Article 52 of the Treaty provides for freedom of establishment and Article 59 for the removal of restrictions on freedom to provide services by the end of the transitional period in 1969.

However, only limited progress was made on achieving free movement for services up to the mid–1980s. Many legal and administrative obstacles remained in place which made it difficult to provide services and to exercise the right to freedom of establishment in the Community. They were contained in differing national rules on engagement in economic activity, e.g. in banking, insurance, transport and professional services. General measures, like restrictions on capital movements, differing taxes, standards and the discriminatory award of government contracts, also impeded the free movement of services. This shielded the European services sector from international competition, with damaging consequences for its efficiency, optimal use of resources, and competitiveness.

Up to the mid-1980s, the Community endeavoured to resolve these problems by harmonising national rules and creating Community rules and standards. With the 1985 White Paper on the completion of the internal market and the "Single European Act" of 1987 based on it, the Community decided to complete the single market by the end of 1992 and, as part of this, to remove all impediments to the free movement of services within the Community. Roughly 50 of the 282 proposals for legislation contained in the White Paper referred to trade in services. They aimed to remove non-tariff barriers to trade in services in banking, insurance and securities, in land, sea and air transport, and in new technologies and services (radio, television, information services and telecommunications).

Although the single market programme for trade in services was not fully implemented by the end of 1992, most of the measures contained in the 1985 White Paper had been put in place at Community level by 1993/94. In particular, vital progress was made in the financial services sector. The 2nd directive coordinating banking legislation of 15 December 1989 and supplementary rules on the registration of banks, equity requirements and banking supervision ensure that banks enjoy freedom of establishment and the freedom to provide services throughout the Community. Essential elements include the introduction of the "European passport", i.e. the recognition of the registration of a bank in its country of origin by all member states, and the recognition of the country-of-origin principle for banking supervision. Cross-border operations of insurance companies were also facilitated. The second and third non-life insurance coordination directives of 1988 and 1992 permit cross-border trade in non-life insurance services without the need for a subsidiary in the other country. The directive of 1990 on competition on the telecommunications services market obliges the member states to revoke exclusive or special rights for telecoms organisations when providing telecoms services apart from telephony. Along with a number of other fundamental directives, this resulted in the full liberalisation of the Community markets for telecommunications services and infrastructure from 1998. The internal market for transport services by land, sea and air is also largely in place.

In this way, the Community created the basic conditions for liberalising trade in services. Further to this, it is particularly important (especially for financial services) that directive 88/361/EEC removed all controls on capital movements within the Community, resulting in the full liberalisation of capital movements.

Despite all this progress, the internal market for services is still incomplete. The European Council still has to adopt some horizontal legislative proposals from the 1985 White Paper which affect services companies, particularly in the field of company law, corporate taxation, value-added tax and the free movement of people. However, there is an even greater delay in the translation of the internal market rules into national law. In September 1996, for example, only the internal market rules for the transport sector had been fully implemented in the legislation of the member states. Only 90% of the rules had been implemented for the banking sector, 88% for the insurance industry, and 85% for new technologies and services (radio, television, information services and telecommunications).

Furthermore, the single market programme has since turned out to be inadequate in some respects for a full liberalisation of trade in services. And new barriers to trade have also emerged. Many rules to protect the common good still impede the free movement of services, and particularly of business, information and communication services.

What impact has the completion of the single market had on trade in services within the Community?

From econometric studies and company surveys, the European Commission has established that the overall increase in income of between 1.1% and 1.5% caused by the internal market has also boosted demand for services in the Community. Some European service industries are undergoing a radical transformation. Competition has become significantly tougher, e.g. in telecommunications, merchant banking and air transport. In some of these sectors, this has resulted in substantial price cuts (European Commission, 1996b: 130). The abolition of capital restrictions in road haulage and air transport permitted companies to extend their transport networks and make better use of their equipment. In the road haulage sector, the removal of quotas and the gradual introduction of cabotage enabled firms to save 3% to 4% of their costs. In the air, liberalisation has brought greater flexibility for airlines when they adjust their capacities (seating and flight frequencies) to demand and when they set their prices. The consequence has been lower prices and a 20% increase in air traffic (European Commission, 1996b: 26).

On the other hand, the Commission has found that the delayed implementation of, for example, the internal market rules for engineering services has meant that the sector's exports outside the EU are ten times as great as the corresponding exports within the Community (European Commission, 1996a).

The completion of the single market is also reflected in the fact that intra-Community trade in services has recorded a greater increase since 1985 than the Community's exports of services to non-EU countries. The share of total EU exports of services accounted for by intra-Community exports of services rose from 41% in 1985 to 50% in 1994. The corresponding share of intra-Community imports of services grew from 46.8 to 51.4% (Table 7):

Table 7:

The proportion of total trade in services of the EU 12[1]
accounted for by intra-Community trade in services 1985 – 1994

	Year	Intra-EU exports (proportion of total exports in %)	Intra-EU imports (proportion of total imports in %)
EU	1985	41.0	46.8
	1994	49.9	51.4
Germany[2]	1985	33.2	42.4
	1994	41.8	45.7
France	1985	39.2	43.1
	1994	49.0	48.2
Italy	1985	53.0	49.6
	1994	52.3	55.0
Netherlands	1985	52.9	51.4
	1994	54.5	55.3
UK	1985	23.3	41.1
	1994	30.3	43.8

1 Figures for EU 15 only available from 1992
2 1985: western Germany, 1994: all Germany

Source: Eurostat, International Trade in Services 1985 – 1994, 1996 edition

Overall, the European Commission estimates that up to 900,000 jobs, most of them in the services sector, have been created within the Community as a direct consequence of the single market programme (European Commission, 1996a).

The completion of the single market has also resulted in a sharp rise in foreign direct investment in the Community, particularly from the United States. This illustrates the economic attractions of the single market. Most of the foreign investment (overall, 63% between 1984 and 1993) is flowing into the Community's services sector. This confirms the growing significance of services and the particular function of direct investment as a means to develop a market.

Foreign telecommunications companies have set up subsidiaries in the Community, a development which would have been inconceivable just a few years ago. European airlines like British Airways, Lufthansa and KLM are taking advantage of the right to establish subsidiaries in other EU countries and are expanding their networks in the Community. In the banking sector, the number of foreign subsidiaries grew by 58% between 1993 and 1996 (European Commission, 1996b: 26).

In addition to the completion of the single European market, the accession of Finland, Austria and Sweden to the Union, the opening up of the markets in central and eastern Europe, and the Europe Agreements between the Community and Poland, Hungary, Romania, Bulgaria and the Czech and Slovak Republic are creating new markets for Germany's trade in services. The Europe Agreements oblige the Community and its partner countries to mutually open their markets, not least to cross-border trade in services. However, the liberalisation does not enter directly into force: instead, the contracting parties have merely committed themselves to taking the necessary measures to gradually permit cross-border trade in services. No such measures have been put in place so far. The same goes for the commitments regarding the admission of workers. On the other hand, even prior to their entry into force, the agreements already provide for freedom of establishment for companies and their key personnel.

The introduction of the common currency from 1999 is a further vital step forward for the services sector. All financial transactions are denominated in euros. The single currency removes exchange-rate risks between the participating countries and cuts transaction costs. There is a prospect of greater economic and financial stability, secured by an independent central bank. In terms of size, the European currency area is comparable to the United States (IMF, 1997: 7; OECD, 1997a: 27).

2.3 Other international agreements on liberalisation

In addition to these key decisions on liberalisation in Europe, there are a vast number of bilateral or plurilateral agreements on trade and investment around the world which refer to services. Important examples include the European Free Trade Area (1960) and the North American Free Trade Agreement of 1992. There is also an ever growing number of regional agreements. This development is now creating concerns in the field of trade policy due to its potential to undermine the multilateral trade system of the WTO.

Part V: The General Agreement on Trade in Services (GATS)

1. The origins of the GATS

In his standard work "International Trade in Services" (191, 295), published in 1988, Geza Feketekuty depicts the history of the "campaign" initiated by the United States for a multilateral liberalisation of world trade, from the first inclusion of services questions in individual agreements under the Tokyo Round to the information campaign by the US services industry (led by the American Express Company), and the detailed studies of the OECD countries. The campaign reflected a growing interest, particularly on the part of the United States, in the opening of the world's markets for services. International trade in services had become big business, and the companies operating in the sector include some of the largest firms in the world.

At first, people were very sceptical about whether there was any chance at all of dismantling the regulatory and to some extent protectionist trade barriers. Early on, the highly negative reactions of the developing countries confirmed this pessimism. Despite this, the highly developed countries succeeded in getting international trade in services – and protection for intellectual property rights – onto the agenda of the Uruguay Round at the conference of GATT ministers at Punta del Este (Uruguay) in September 1986.

Led by India, Brazil and Egypt, the developing countries initially maintained their resistance to all progress in the negotiations. However, in parallel to the Uruguay Round, many developing countries were introducing their own programmes to liberalise trade and investment, including trade in services (UNCTAD/World Bank, 1994: 20). This resulted in a change of direction in the Uruguay Round, helped by the fact that the developed countries themselves were increasingly recognising the difficulties posed by far-reaching liberalisation and were therefore also coming to favour a flexible system of liberalisation. This in turn made it easier for the developing countries to accept the negotiations.

Following long and extremely difficult negotiations, the trade ministers of the more than 100 GATT countries signed the Final Act of the Uruguay Round at Marrakesh on 15 April 1994. One of the most important results of the negotiations was the "General Agreement on Trade in Services" (GATS). The GATS is an integral component of the Agreement Establishing the World Trade Organisation (WTO), which was drawn up in the Uruguay Round. All the member states of the WTO – there are currently 132 – are also members of the GATS. The body of agreements entered into force on 1 January 1995.

2. The GATS and its liberalisation concept

The GATS is the first multilateral and legally enforceable agreement on trade and investment in the services sector. At the same time, it provides a framework for future negotiations to be held regularly on the further reduction of barriers to trade (Barth, 1997a).

2.1 The scope of the GATS

The GATS contains no definition of what services are, since it proved impossible to achieve a consensus on this. However, this does not create any significant problems. The GATT, similarly, does not define what "goods" are. In view of its principle of "global coverage", the GATS embraces all commercially "tradable" services. No service sector is a priori excluded. The sole sectoral exception is air transport rights ("hard rights"), which, as stipulated in the annex to the GATS on air transport, do not fall under the Agreement. Also, services which are supplied under government authority are excluded from the liberalisation.

In order to achieve a pragmatic solution to the definition issue, the WTO Secretariat has drawn up a list of the service sectors covered by the GATS. Whilst it is neither binding nor final, it is used by most of the WTO countries. The list contains 11 major service sectors which are in turn subdivided into numerous subsections:

- business services
- communication services
- construction and other engineering services
- distribution services (trade)
- educational services
- environmental services
- financial services
- health-related and social services
- tourism and travel-related services
- recreational, cultural and sporting services
- transport services.

The GATS covers all four modes of trade in services, i.e. simple cross-border supply (e.g. by post or telecommunications), supply on the domestic market to a foreign consumer (e.g. in tourism), supply by a "commercial presence" abroad, and supply by means of cross-border movements of people providing services. The GATS therefore reaches far beyond the traditional concept of trade in order to meet the needs of modern trade in services.

The substantive scope of the GATS is also very wide-ranging. It covers all the measures of WTO members influencing trade in services, from laws to secondary legislation, administrative guidelines and all types of administrative actions. The obligations of the GATS apply – like those of the GATT – to all levels of government, i.e. to the central, regional and local authorities of the member states.

2.2 The general obligations and rules

The GATS distinguishes between a) obligations which derive directly from the Agreement and apply to all WTO members and b) the "specific" liberalisation commitments which apply only if and to the extent that a member state has accepted them for itself. This complex approach is the result of compromises between far-reaching desires for liberalisation on the one hand and the wish of the WTO countries on the other to keep the extent of their commitments under control and to reserve for themselves a core area of sovereign authority.

2.2.1 The most-favoured-nation principle

The most important central commitment is that of most-favoured-nation treatment, as set out in Article II of the GATS. It forbids the member states to discriminate in any way against foreign services or service providers. Expressed positively, it obliges the WTO members automatically and unconditionally to grant all trade preferences which they provide to any other country – even a non-member – to all other member states. In this way, most-favoured-nation treatment results in the world-wide spread of these trade preferences. It has worked well for 50 years in the GATT system as a "driving force" behind multilateral trade liberalisation.

The most-favoured-nation requirement applies to all WTO countries and to all sectors, irrespective of whether the countries involved have made specific liberalisation commitments or not. It is no surprise that members insisted on derogations before accepting such a far-reaching obligation. For example, the GATS contains a number of general exceptions to the most-favoured-nation rule, e.g. for preferences for trade in border regions, for agreements on economic integration, for the mutual recognition of qualification standards and criteria, for government procurement and for the general exemptions provided by the Agreement (e.g. to protect public security and order). The exception from most-favoured-nation rules for the purposes of economic integration and free-trade zones – based on the model of Article XXIV of the GATT from 1947 – is particularly important for the EU. It ensures that, under certain conditions, member states of such regional associations do not have to extend their internal trade preferences to third countries on a most-favoured-nation basis.

In addition to these general exceptions to most-favoured-nation treatment, the GATS also permitted the registration of country-specific exceptions to the most-favoured-nation principle before the Agreement entered into force. These are normally permitted only for a period of up to ten years and are reviewed every five years with a view to a progressive reduction. Very many WTO countries – and particularly the developed countries – have registered exemptions from the most-favoured-nation rule. This is especially true of the EU and its member states – whose exemptions, in fact, are almost all unlimited in time. Exceptions to most-favoured-nation treatment primarily exist for the sensitive sectors of financial services, telecommunications, audiovisual services and maritime transport, as well as for services provided via the cross-border movement of people. The relevant member states thus retain the possibility to discriminate between various foreign service providers. Examples include unilateral trade sanctions to compel market liberalisation, bilateral preferential agreements and sectoral reciprocity rules, e.g. in banking or telecommunications. Nevertheless, the most-favoured-nation requirement has already had a practical impact, even in the EU. For example, the EU has dispensed with a number of exemptions regarding sectoral reciprocity. As a result, Germany was obliged to abandon its reciprocity rules on the admission of foreign attorneys and accountants when it translated the results of the negotiations into national law.

2.2.2 The transparency of the rules

Exporters of services need a transparent economic and legal situation on the foreign market if they are to do business there, especially as many service sectors are highly regulated. The GATS therefore contains a central obligation on the WTO members to publish all "measures" of relevance to trade in services. The need to do this has not always been self-evident in all countries.

2.2.3 Progressive liberalisation

The WTO members are obliged to participate in the regular rounds of WTO negotiations held every five years with the aim of achieving a progressively higher level of liberalisation. The next round of liberalisation will commence in 2000. This process of negotiation is not oriented towards strict sectoral or policy-related "reciprocity". That would contradict the most-favoured-nation principle. But it is intended "[to promote] the interests of all participants on a mutually advantageous basis and [to secure] an overall balance of rights and obligations". This is the clearest manifestation of the approach to liberalisation taken by the GATS, which does not create any automatic liberalisation commitments deriving directly from the Agreement but relies on the mutual exchange of economically equivalent concessions by the member states.

All WTO member states are required to present a schedule of specific liberalisation commitments, which then forms part of the body of international treaties and is multilateralised on the basis of most-favoured-nation treatment. However, the content of such schedules may vary widely.

2.2.4 National regulation of services

The GATS expressly confirms the right of the member states to regulate the provision of services and in so doing to pursue national policy objectives. The fundamental recognition of national sovereign rights, however, is qualified and restricted in view of the goal of liberalisation. The member states must ensure recourse to appropriate remedies against administrative and court decisions for foreign service suppliers. The national regulations must adhere to substantive criteria like objectivity, impartial application and proportionality. In particular, no licensing requirements may nullify or impair a country's liberalisation commitments. Domestic rules which fail to meet these requirements must be altered. However, in practice it will often prove difficult to draw a line between legitimate government regulation and a violation of the GATS commitments. For this reason, the GATS provides for the establishment of specific WTO bodies to develop multilateral disciplines for such a definition. The first working group of this type has already been launched for the "professional services" sector.

We will have to see in practice how the basic conflict in the GATS between international liberalisation and the preservation of national sovereign rights can be resolved in individual cases.

2.2.5 Rules on competition

In many countries, there are monopolies on services which impede international trade. During the Uruguay Round, it proved impossible to adopt multilateral rules on this. However, the member states must at least ensure that their monopoly providers do not violate the most-favoured-nation principle or any specific liberalisation commitments. Other private-sector restrictions on competition are not covered by the GATS, but the Agreement does state that such practices may restrain trade and it obliges the member states to inform and consult with a view to ending them. The development of further-reaching multilateral rules on competition is the subject of the work which is underway in the OECD and has also been taken up by the WTO on creating an international system of competition.

2.2.6 Emergency safeguard measures

Primarily at the request of the developing countries, the GATS provides for further multilateral negotiations on the question of "emergency safeguard measures", to be conducted in line with the principle of non-discrimination. These negotiations began in July 1995 and were supposed to be concluded by the end of 1997. They raise a large number of fundamental and practical issues. The first question is whether "emergency safeguard measures" are actually needed at all. There are serious doubts about this, because the GATS itself permits a whole range of such measures, e.g. general exceptions and temporary exceptions known as waivers. The need to impose emergency safeguards is further diminished by the fact that, via its liberalisation mechanism, the GATS system offers great flexibility to its members – and particularly the developing countries – when making liberalisation commitments.

2.2.7 Payments and transfers

The right of the WTO countries to control international payments and capital movements was an important issue in the negotiations. The highly-developed countries aimed at a liberalisation of restrictions on movements of capital by the developing countries. In principle, the GATS prohibits the WTO countries from imposing "restrictions on international transfers and payments for current transactions relating to [their] specific commitments". Exceptions are permitted only in the case of "serious balance of payments and external financial difficulties". They must be compatible with the International Monetary Fund Agreement.

2.2.8 Government procurement

The GATS failed to bring about a multilateral liberalisation of government purchases of services, even though these can play a significant role, e.g. in the construction sector. The rules on most-favoured-nation treatment, market access and national treatment expressly do not apply to public-sector contracts. However, further multilateral negotiations are taking place, which were originally intended to be concluded by the end of 1997.

Nevertheless, the WTO system does contain liberalisation commitments for public services contracts. The Agreement on Government Procurement is a new version – negotiated in parallel to the Uruguay Round – of the Government Procurement Code from the Tokyo Round. Its key rules are national treatment and non-discrimination. However, as a "plurilateral" agreement, it is binding only on its 23 signatories, including the EU and its member states, the United States and Japan. For the first time, it extends its competition rules beyond government purchases of goods to include services, both at central and sub-central administrative levels. Annexes 4 and 5 define the services covered, including public construction, in the form of a positive list. Exceptions apply to contracting authorities in certain sectors, e.g. telecommunications, transport, electricity and water supply.

2.2.9 Subsidies

As government "measures", subsidies to the services sector are basically covered by the general rules of the GATS, and particularly the most-favoured-nation provisions. They may also be the subject of specific liberalisation commitments or exemptions. Correspondingly, a number of national schedules of commitments, including that of the EU, contain reservations regarding the provision of subsidies exclusively to their own service companies or the provision of subsidies for research and development.

It proved impossible in the Uruguay Round to develop multilateral subsidies disciplines for services like those in the GATT and its Agreement on Subsidies which apply to merchandise trade. However, the GATS does expressly recognise that subsidies can result in distortions of trade in services. The relevant provision commits the WTO countries to engage in negotiations to develop the necessary multilateral disciplines in order to avoid such distortions. They are also to negotiate on the "appropriateness of countervailing procedures". The negotiations began in March 1996, but have yet to yield any results.

2.2.10 General exceptions

Just like the GATT, the GATS contains a number of general exceptions from its obligations, e.g. to protect public order, the life and health of people, animals and plants, to adhere to certain laws and to preserve essential security interests. At the request of the United

States, a rule was also introduced permitting taxation measures which discriminate against foreigners if that is the only way to achieve “equitable or effective“ direct taxation.

On the other hand, no general exception for cultural reasons, as advocated mainly by France, was introduced.

2.3 The specific liberalisation commitments

Apart from the commitments deriving directly from the GATS which are binding on all WTO countries, all other GATS commitments only go as far as a member state negotiates for itself. The GATS system regulates the assumption of country-specific liberalisation commitments to provide market access (Article XVI) and national treatment (Article XVII), which are negotiated in regular liberalisation rounds.

To start with, each WTO member state establishes a schedule of specific commitments designating those service sectors for which it wishes to make liberalisation commitments. There is no binding minimum standard for the number and nature of the sectors to be included. The industrial countries have included almost all the major sectors in their schedules, whilst many developing countries have utilised the flexibility open to them and liberalised a minimal number of sectors. In addition, each WTO country can further narrow down its sectoral liberalisation commitments via individual restrictions and conditions. The approach is therefore termed a “hybrid“ liberalisation concept, linking a country-specific “positive schedule“ of liberalised service sectors with a “negative schedule“ of exceptions.

The obligation to provide market access covers all quantitative trade restrictions, irrespective of whether they have a discriminatory impact or not. Article XVI paragraph 2 of the GATS does not define market access, but it does contain a conclusive list of measures which are in principle prohibited, i.e. restrictions on the number of service providers (in the form of quotas, monopolies or an economic needs test), restrictions on the total value or number of service transactions, restrictions on the total number of natural persons in a certain service sector, and restrictions on the legal form of foreign subsidiaries or foreign shareholdings.

Specific commitments to provide national treatment refer to all qualitative trade restrictions which discriminate between domestic and foreign services and providers. To the extent that it makes such a commitment, a member state must ensure equivalent treatment for both domestic and foreign services and providers not only formally, but also substantively. This means that a country must ensure equal competitive conditions both in law and in practice.

2.4 The increasing involvement of developing countries in trade in services

The negotiation mandate from Punta del Este stipulated that the negotiations on services must also promote the development of developing countries. In the early stages of the negotiations, the latter had raised serious concerns about the admission of foreign subsidiaries. At the same time, they in turn made far-reaching calls for the industrial countries to open up their labour markets to foreign workers. However, in the course of the negotiations, most of the developing countries realised that liberalisation can also serve their own interests. The cooperation of the developing countries was primarily achieved by taking the approach that all WTO members, and especially the developing countries, can flexibly negotiate and restrict their liberalisation commitments. At the same time, the multilateral framework of the WTO protects the developing countries in particular from the sort of pressure from stronger trading partners which had been increasingly seen in the previous years.

Unlike Part IV of the GATT 1947, the GATS does not contain a specific chapter on “special and differential treatment“ of the developing countries. Instead, it contains throughout provisions on the increasing involvement of developing countries in international trade in services. This includes the negotiation of commitments by the WTO countries on access for developing countries to technologies, to information and to distribution networks, and on market access in sectors of particular export interest for the developing countries. The GATS enables the developing countries to pursue their development priorities when negotiating specific liberalisation commitments and to liberalise fewer sectors or modes of supply than the developed countries. At the same time, special attention must be paid to the difficulties of the least developed countries. The GATS also provides for technical assistance for developing countries. The WTO Secretariat is already providing a substantial amount of this, on top of the bilateral assistance from the member states.

In 1996, the thirty leading exporters of services already included ten developing countries, among them Hong Kong, China, Korea, Singapore, Taipei, Mexico and Malaysia. Their chief exports were in the fields of tourism, transport and business services.

2.5 Institutional provisions and dispute settlement

Part V of the GATS contains the usual institutional provisions on the establishment of the GATS Council and sectoral subcommittees, as well as on consultations and dispute settlement. It refers to the integrated dispute settlement system of the WTO which ensures adherence to commitments under international law by the member states. Here, it is important that unilateral trade sanctions imposed by one country to compel market opening will in future be subject to the multilateral disciplines of the WTO. This substantially restricts the degree of certainty about such measures under international law. A further aspect of the dispute settlement rules for trade in services is the possibility of cross-sector retaliation – but only as a last resort. If a member state continues to refuse to meet its GATS commitments, even after a dispute settlement procedure has ruled against it, the member state whose rights have been violated can be authorised to withdraw trade concessions from the member perpetrating the violation, if necessary even in a sector other than that directly affected, e.g. even in trade in goods. This mechanism has proved very effective.

2.6 The GATS and investment

Part III highlighted the significance of foreign investment for trade in services. For the first time, the GATS creates multilateral and legally binding liberalisation commitments for foreign investment. It defines the commercial presence as "any type of business or professional establishment, including through the constitution, acquisition or maintenance of a juridical person or the creation or maintenance of a branch or representative office within the territory of a member state for the purpose of supplying a service". This definition embraces all events prior to and following the establishment of the branch and covers both existing and new investment.

Most of the liberalisation commitments taken on so far, including those of the developing countries, refer to the commercial presence of foreign services companies. These commitments are all the more important since they go hand in hand with commitments to liberalise cross-border movements of people providing services.

The protection for investment provided by the GATS, however, is relatively weak. Commitments regarding international payments and transfers are non-binding. Nor does the GATS contain any rules on expropriation or compensation. But if such occurrences violate other GATS rights of a member state, they can be prosecuted via the dispute settlement procedure.

2.7 Sector-specific rules and follow-up negotiations

The GATS contains sector-specific annexes on financial services, telecommunications, air transport, and the cross-border movement of natural persons providing services.

It was decided at Marrakesh to continue the negotiations on liberalisation of financial services, maritime transport, basic telecommunications, and the cross-border movement of natural persons providing services. These will be discussed in the sector-specific sections of this paper.

Part VI: The liberalisation of financial services

The international financial markets and the trade in financial services saw extraordinarily strong growth in the last decade. International borrowings, securities and derivative financial instruments have assumed enormous dimensions. For instance, the net volume of international bank credit, around US $ 180 billion in 1986, rose to over US $ 300 billion in 1995. Net sales of international bonds and Euronotes climbed from around US $ 170 billion to an unprecedented high of US $ 313 billion in the same period. The business in derivative financial instruments such as futures, options and swaps has been even greater. Listed and non-listed instruments of this kind attained a volume of US $ 27,175 billion in 1995, i.e. many times the level of international trade (Bank for International Settlements (BIS), 1996: 154ff.).

Turnover has risen even more strongly than the nominal amounts. For instance, the aggregated total of world-wide foreign exchange transactions averaging US $ 590 billion per day in 1989 had increased to no less than an average US $ 1190 billion a day in 1995. By way of comparison, the foreign exchange reserves held by the industrial countries' central banks amounted to US $ 653.7 billion (BIS, 1996: 106, 116). World exports of goods and services totalled US $ 6060 billion in 1995, which would imply an average daily transaction volume of US $ 23 billion. However, this corresponds to no more than 2% or so of the daily transaction volume in foreign exchange.

In line with this trend on the financial markets, financial services also played a key role in the Uruguay Round. Special difficulties resulted from the close relationship between financial services and monetary, fiscal and foreign exchange policy. There were conflicting interests not only at the level of private business, but also between the bodies responsible for trade, monetary and foreign exchange policy and the central banks of a number of countries.

In the Uruguay Round, negotiations were held on all financial services jointly. In this paper, however, banking and insurance will be examined separately despite having characteristics in common. After all, the two industries supply different products, and their markets and institutional structures justify consideration from different angles, even though their activities have increasingly been overlapping.

1. Banking services

Banks have been experiencing radical structural change for many years owing to a combination of economic, political and technological developments. New competitors – nonbanks and near-banks such as insurance companies, or investment and pension funds – are seeking to do business in the banks' own traditional fields, and new customer requirements are emerging. Industrial enterprises are also increasingly operating in the financial services sector. In the United States, General Motors, Ford, Exxon and IBM (to name just a few) are already among the biggest providers of financial services. Traditional structures and rules are changing towards more market-oriented systems. Liberalisation permits the development of new markets and the utilisation of the economies of scale that play a considerable role in banking. Information and communication technologies are changing the production process in the banking sector and are promoting the international tradability of financial services. These technologies allow new derivative financial products to be introduced. At the same time, competition is growing in intensity, both nationally and internationally, and international mergers and international schemes for co-operation are on the increase (Rehm, 1997: 233ff.).

Not all international payment transactions are necessarily financial services. But they are associated with such services whenever a bank or any other entity provides a financial management service associated with such transactions. It is useful to distinguish real banking and other financial services from financial markets, i.e. from factor markets on which monetary capital is transformed into the types of assets needed and is steered through to the investors (Härtel et al., 1995: 46). The delineations used in the German balance of payments statistics basically require financial services proper to be recorded on the basis of banking commission income and expenditure. Dividend and interest income, by contrast, is recorded elsewhere in the balance of payments.

There are various definitions of banking and the other financial services in the international context. Financial services, as defined by the GATS annex on financial services, mainly encompass the acceptance of deposits and other repayable funds from the public, lending of all types, all payment and money transmission services including credit, charge and debit cards, travellers cheques and bankers drafts, trading in money market instruments for own account or for account of customers, foreign exchange, derivative products, transferable securities, participation in issues of all kinds of securities, asset management, and investment-related advisory and intermediation services.

1.1 International trade in banking services

Statistically, the international trade in banking and other financial services is recorded under the heading of "financial services". This sector encompasses all kinds of banking and securities services, but not insurance. If one looks exclusively at the service aspects of international financial transactions, the volume of trade in financial services seems to be fairly small. Its total volume has hitherto not been quantified by either the IMF or the WTO because statistics for many countries are missing or are not comparable. The fact that the volume of financial services recorded in the balance of payments is fairly small is explained by the latest revision of the IMF balance of payments system: in contrast to previous practice, net returns on investment are no longer recorded as service transactions, but are put in a sub-account together with the other forms of earned and unearned income. However, the relatively low figures recorded there for trade in financial services must not cause us to underestimate the importance of this sector for the economy in general and for trade policy.

A regional breakdown shows that trade in financial services largely occurs between highly developed countries. According to the IMF statistics, the world's biggest exporter of banking and financial services in 1995 was France, followed by the United States and Switzerland. Germany ranked sixth according to these statistics (Table 8):

Table 8:

The leading exporters and importers of banking and financial services (excluding insurance) in 1995 (US $ billion)			
	Exports	Imports	Net surplus/deficit
France	9.87	9.36	0.51
USA	6.10	1.71	4.39
Switzerland	5.63		
United Kingdom	5.26		
Belgium/Luxembourg	4.87	3.22	1.65
Italy	2.64	4.44	–1.80
Germany	2.42	0.55	1.87
Japan	0.30	0.46	–0.16

Source: IMF Balance of Payments Statistics Yearbook 1996

A review of international direct investment in the financial services sector furnishes a somewhat more complete picture of the economic weight of banking and financial services. Banks increasingly conduct their international business through subsidiaries abroad in order to develop new markets, to take advantage of economies of scale and to overcome regulatory impediments to cross-border commercial operations. In the course of the last decade, the volume of international mergers and equity participations in the banking sector has quadrupled (UNCTAD, 1996a: 15, 283).

Germany's trade in banking and financial services – measured by the banking commission total – is very dynamic. Exports rose from DM 1.2 billion in 1986 to DM 4.1 billion in 1996. Imports grew from DM 227 million to DM 1.3 billion over the same period. Throughout the last decade, the net balance of German trade in banking services was almost invariably positive, rising to DM 2.8 billion in 1996.

The trend in German direct investment in foreign banks, investment companies and financial institutions particularly illustrates the importance of banking and other financial services. This investment amounted to DM 114.6 billion in 1995, i.e. 30% of total German direct investment abroad. This shows that the degree of internationalisation of German banks has been remarkable, although there is a serious lack of information on individual companies. A few specific institutions play a key role in this area (Mösslang, 1995: 52ff.).

In the other direction, 185 banks in Germany were in foreign ownership in 1995, i.e. subsidiaries whose capital was over 50% owned or controlled by foreign banks, and branches of foreign financial institutions. However, the market share of foreign bank branches and subsidiaries is relatively small measured by balance sheet totals (1993: approx. 6%). In the specialised fields of mergers and acquisitions, of DM-denominated loan issues and of trade in foreign exchange and derivative financial instruments, their share is likely to be larger (Rehm, 1997: 236).

1.2 Regulatory framework and institutional barriers to trade

The markets for banking and other financial services are subject to a dense world-wide network of government regulations which are mainly intended to ensure the smooth functioning of the financial markets and to protect consumers. International payments and financial markets have now largely been liberalised, especially in the EU. Nonetheless, government regulations in many countries still represent severe impediments to international trade in services. They hinder cross-border activities and the establishment of banks abroad by imposing restrictions on establishment, economic needs tests, limitations on investment and equity participation, state monopolies etc. In addition, there are multiple forms of discrimination and various checks on the business activities of authorised foreign banks, e.g. limitations on foreign exchange and capital movements, on direct banking, on stock exchange trading and on refinancing. Very often, access is also restricted for foreign personnel.

1.3 The specific GATS rules for financial services

The GATS annex on financial services contains definitions and some commitments for this sector. To begin with, it exempts from liberalisation the activities of central banks in the fields of monetary and foreign exchange policy. Moreover, it authorises member states to take prudential measures, e.g. to protect investors and savers and to ensure the integrity and stability of the financial system. However, member states may not use such measures to circumvent their liberalisation commitments. Substantively, the GATS aims at commitments to liberalise cross-border trade in financial and insurance services, financial information and data processing, the right to establish/expand operations, and the temporary entry of personnel. The commitments on national treatment cover access to state payment and clearing systems as well as refinancing facilities. Within the framework of the institutional arrangements, a WTO Financial Services Committee is set up with the task of monitoring compliance with the Agreement and proposing measures where necessary.

The WTO rules on dispute settlement stipulate that any cross-sectoral withdrawal of liberalisation commitments, which may be permissible as a last resort in a dispute settlement procedure, must not constitute an undue burden on the financial services sector. To this end, a number of restrictions have been introduced on the permissibility of cross-sectoral sanctions, the qualifications of the members of dispute settlement panels, and cooperation between the Financial Services Committee and these panels.

1.4 The WTO negotiations

At the end of the Uruguay Round in December 1993, the United States decided that the liberalisation offers made by Japan, Korea and other Asian countries in the financial services sector did not represent a satisfactory basis on which to conclude the negotiations. The USA was afraid of having to grant the free riders market access without receiving equivalent access to their markets. It ultimately reverted to the concept of "reciprocity", long practised in the financial services sector, as a condition for market opening, although this runs counter to the GATS principle of most-favoured-nation treatment. To prevent the negotiations from collapsing, the trade ministers of the WTO countries agreed at the concluding conference at Marrakesh in April 1994 to continue the liberalisation talks on financial services till 30 June 1995 with the aim of improving the liberalisation commitments on the basis of most-favoured-nation treatment. The developing nations closely associated these talks with the ongoing negotiations on the cross-border movement of persons providing services.

In the course of the negotiations, 32 WTO countries, including the EU, improved their liberalisation offers in the field of financial services. However, the United States surprisingly declared on the last day before the cut-off date of the negotiations that it saw itself in no position either to open the US market or to grant new market players or foreign financial institutions engaging in new activities the benefit of national treatment. At the same time, the USA lodged an exemption from most-favoured-nation treatment for all new service activities. However, it declared that it would, as before, grant full access to its financial services markets as a "normal practice" and that it did not intend to place new restrictions on foreign financial institutions already operating on the US market. To reach a multilateral agreement in spite of this US back-out and to keep intact the liberalisation commitments that had been the subject of negotiations for many years, the EU proposed that all participants maintain their liberalisation offers on the basis of most-favoured-nation treatment till December 1997. This was decided at the end of July 1995 in the Second Protocol to the GATS. Of the 32 member states which had improved their offers, 29 countries, including the EU, adopted this Protocol. It covered 76 schedules of liberalisation commitments for a total of 90 countries at the end of 1996 – a larger number of commitments than agreed upon for any other service sector except tourism (cf. Barth/Putscher, 1994; Barth, 1995; Kampf, 1996).

In the spring of 1997, the WTO began new talks to improve the liberalisation results obtained in July 1995. These negotiations ended in a number of improved liberalisation offers, not least from the EU, USA, Japan and Canada. The US offer abandoned the restrictions contained in the July 1995 "interim agreement", especially the exemption from most-favoured-nation treatment and the restrictions on the financial services operations already in place in the USA. The other liberalisation offers were also generally viewed positively. On this basis, the EU and the United States endeavoured to encourage as many countries as possible, especially in Asia, to improve their offers and to finish the negotiations in this key services sector on time. The negotiations reached a successful conclusion at the end of 1997.

1.5 Outlook

Economic globalisation, increasing foreign investment and the key role of financial services give rise to the expectation that the banking and financial services sector will continue to strongly internationalise and to lead the further expansion of services. The positive outcome of the WTO negotiations will have a decisive effect on this. The German banks will do their best to share in this development. Their skilled human resources, their sufficiently large domestic market, the high level of legal predictability, the efficient banking supervisory system and the large volume of savings give them a comparative advantage. On the other hand, it is clear that the far-reaching deregulation and the high speed of innovation in banking are creating a strong pressure for rationalisation. The expected increase in electronic banking services in particular might have wide implications for the structure of and employment in the banking sector. Banks see themselves exposed to competition from entirely new categories of potential rivals, such as software providers and network operators, and the competitive pressures on the traditional networks of bank branches will mount. It must be presumed that the number of banks and bank branches will diminish, that the level of employment will drop, at least in the medium term, and that the qualifications of bank employees will have to be improved (BIS, 1996: 92ff.; Handelsblatt dated 22 May 1997). Significant structural change will also derive from European Economic and Monetary Union and the single European currency. In particular, a great degree of corporate concentration is generally anticipated.

2. Insurance services

The insurance markets are also undergoing strong structural change. Growing trade flows and rising foreign investment are increasing the demand for insurance services. Liberalisation and deregulation, especially in Europe, are permitting the expansion of operations into new markets and the utilisation of economies of scale which are crucial in the insurance industry. This in turn promotes the concentration of smaller companies, international integration and establishment abroad. However, with the exception of reinsurance and transport insurance, which have always been international in character, insurance is not yet generally a global branch of industry. So far, it has tended to work on the basis that "all business is local". Rule-of-thumb experience suggests that only 2 to 3% of the volume of premiums is traded internationally and that another 7% is occasioned by foreign investment (Eisen, 1997: 187, 218). This can be explained partly by the insurance industry's special need to operate close to its customers and partly by the difficulties posed by different legal and supervisory systems. However, the conditions are changing as liberalisation and the harmonisation of supervisory systems increase. This can be seen from the growing volume of cross-border corporate shareholdings within the single European market.

2.1 International trade in insurance services

In 1995, the aggregate world-wide premium income recorded on the various insurance markets – both domestic and foreign – amounted to about US $ 2000 billion. Over 90% of the total turnover was accounted for by the highly developed countries. This means that their share is disproportionately large in terms of their share of the world's population (15%) and gross domestic product (75%). Accounting for over 5%, the German insurance market was the third largest after those of the USA and Japan (Barth/Huppenbauer, 1995: 1628; Sigma, 1997). International trade in insurance services is dominated by the same countries as dominate trade in other financial services. According to the IMF balance of payments statistics, Germany was the biggest exporter in 1995, followed by France and the United Kingdom (Table 9):

Table 9:

The leading exporters and importers of insurance services in 1995
(in US $ billion)

	Exports	Imports	Net surplus/deficit
Germany	8.67	8.84	–0.17
France	7.50	7.02	0.48
United Kingdom	2.89	0.80	2.09
Belgium/Luxembourg	2.23	1.88	0.35
USA	1.39	4.47	–3.08
Italy	1.39	0.86	0.53
Switzerland	1.31	0.17	1.14

Source: IMF Balance of Payments Statistics Yearbook 1996

The volume of the cross-border insurance business is not large world-wide. This is because the original insurance business is typically handled in the country in which the risk emerges. Also, for purposes of balance of payments statistics, trade in insurance services is recorded on the basis of the services component of premium payments, and not on the basis of net premiums and insurance benefits, both of which are much larger in volume.

On the other hand, an increasingly significant role is being played by the establishment of subsidiaries by German insurance companies abroad (Mösslang, 1995: 62ff.). In the insurance sector in particular, establishment abroad is not an alternative to foreign trade, but an indispensable condition for it. Most of the foreign operations of German insurance companies are in Europe, with the United States being their second largest market. One noteworthy example was the 1996 take-over of the third largest US reinsurance company, American Re Corp., by Münchner Rückversicherungs AG, the world's largest reinsurance company, for a price of US $ 3.3 billion. Of all insurance branches, reinsurance is the one with the strongest degree of internationalisation. Unlike the original insurance markets, the reinsurance business is dominated by cross-border trade rather than by the premium income earned via foreign subsidiaries.

2.2 The WTO negotiations

Together with the banks, the insurance sector was a subject of the WTO's liberalisation talks which recommenced in the spring of 1997. The negotiations were also concluded successfully for this area at the end of 1997.

2.3 Outlook

It is to be expected that the German insurance industry will respond positively to the new opportunities on foreign markets and that the cross-border insurance business and investment in foreign insurance companies will expand further. This trend is chiefly motivated by the wish to follow customers to their foreign commercial bases and to share in the growth of foreign markets. The experience of the single European market suggests that these developments will be reinforced by the successful conclusion to the WTO negotiations on financial services.

With regard to the employment effects of such growth in output, it is to be expected that the use of modern information and communication technologies will result in major improvements in labour productivity and a correspondingly slower expansion of human resources in both the insurance and the banking sector.

Part VII: The liberalisation of telecommunications and information services

One key engine driving the development of the services society is the rapid expansion of information and telecommunications services. Our society is developing into an "information society" (Tauss, 1996). The increasing integration of telecommunications and computer technology, recreational electronics and audiovisual media is resulting in totally new employment structures and forms of work. Teleworking is overcoming the spatial distance between home and work and is offering opportunities for flexible and increased employment (BMWi/BMA, 1996). Global information networks – the best-known is the Internet – and electronic commerce are facilitating business transactions and offering manufacturers and consumers new opportunities to expand their activities. The borderline between manufacturing and services is becoming even vaguer. The sectors dealing with information content and the transfer and processing of it are emerging as a new, large sector, the "information industry". Information is becoming a strategic resource with an importance similar to that of real estate, labour and capital.

With its equipment and services in the fields of telecommunications, multimedia, online services, computer hardware and software, recreational electronics and distribution, the information industry is already the largest economic sector in the world after tourism. It is expected that advances in information technology will unleash further innovation and strong and long-lasting growth (BMWi/BMA, 1996: 16ff.). People are therefore talking of the "four sector model" of the economy. The information industry in the broadest sense now employs roughly half of all those in work. It may be able to increase its share of the working population to 55% by 2010, whilst the shares of the rest of the services sector and of manufacturing industry could stabilise at about 20% each. The "four sector model" is an interesting analytical approach, because it attempts to embrace the increasing cross-sectoral links between the industrial and services sectors. However, just like Fourastié's three sector model, it raises many questions and ultimately does not predict with any certainty how the structural change will take place.

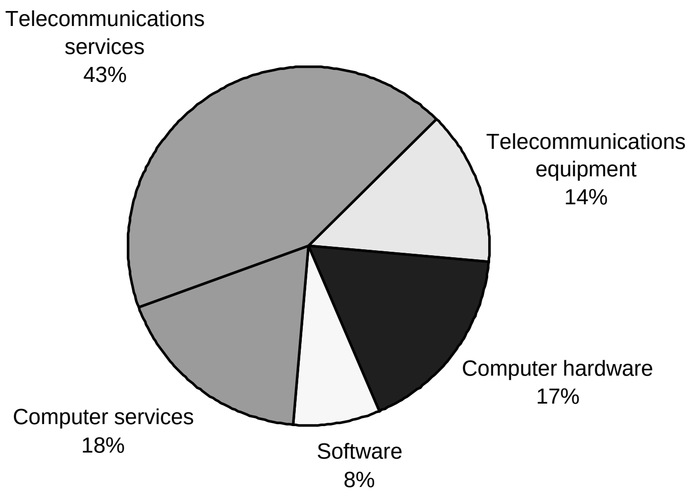
The vision of the information society is also creating expectations of growth and employment elsewhere in the economy. The use of high-performance information and communications media will enable industry, including small and medium-sized firms, to improve its production and management systems, to introduce product and process innovations and thus to enhance its competitiveness (BMWi/BMA, 1996: 85ff.). Modern information and communications technologies are also improving the national and international "tradability" of those services which can be stored and transported via electronic media. This applies, for example, to financial services, software production and electronic commerce, to business services like legal advice, accountancy or engineering services, to tourism and to the outsourcing of data-processing work by airlines and insurance companies. Strong growth is also expected for private uses like home banking, home shopping or pay-TV. However, the market forecasts do vary widely.

The International Telecommunication Union (ITU) estimates the world-wide turnover of the information and communications industry at US $ 1,370 billion (Figure 7):

Figure 7:

The global information and communication market

(Total turnover in 1995: US $ 1,370 billion)



Source: International Telecommunication Union 1997, World Telecommunication Development Report 1996/97, Geneva: p. 3

The world-wide turnover from telecommunications services amounted to US $ 670 billion in 1996 – three and a half times higher than turnover from equipment. Turnover from telecommunications services rose by 7% a year in real terms over the 1990 to 1995 period, whilst the world-wide gross domestic product only grew by an annual 3.5%.

The United States accounts for 29.7% of the world's turnover from telecommunications services, the EU for 28.3% and Japan for 15.6%. With a share of 8%, Germany is the world's third-largest market for telecommunications, behind the United States and Japan (Table 10):

Table 10:

The 10 largest suppliers of telecommunications services (total sales in 1995)		
	US $ million	% of world market
USA	178,758	29.7
EU	170,166	28.3
of which Germany	48,036	8.0
Japan	93,855	15.6
Australia	11,403	1.9
Canada	10,689	1.8
Switzerland	8,889	1.5
Korea	8,728	1.5
Brazil	8,622	1.4
Mexico	6,509	1.1
Argentina	6,009	1.0

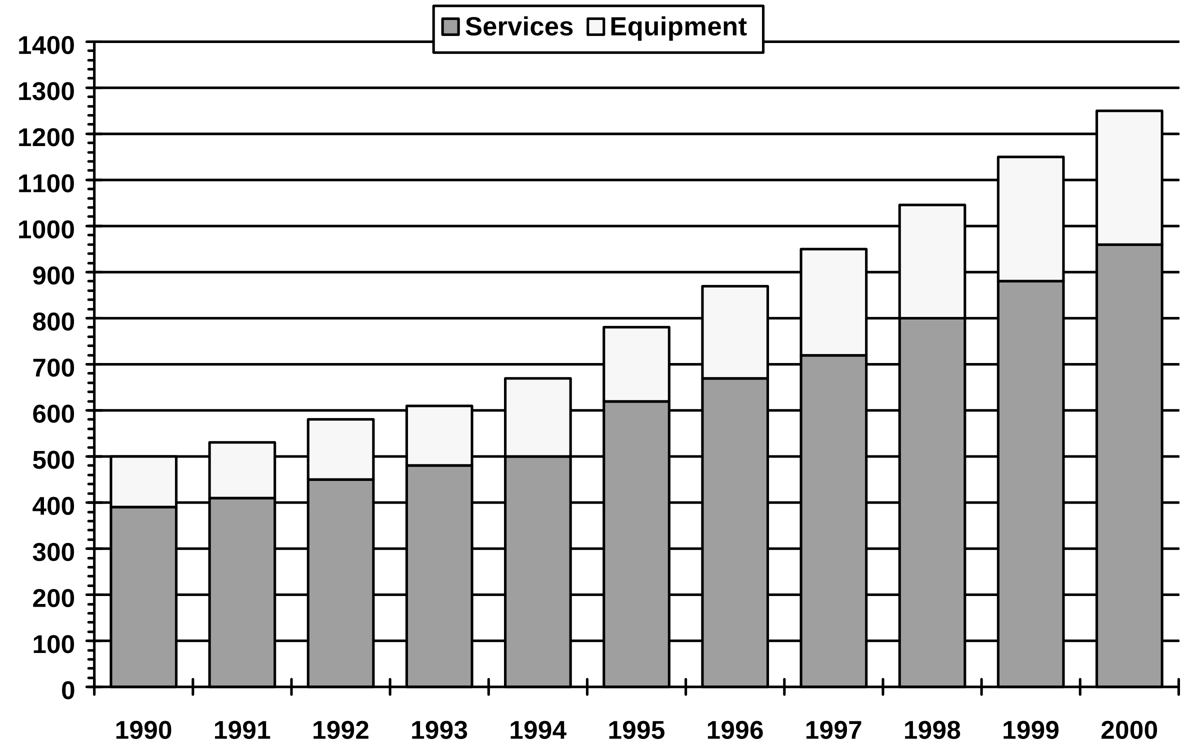
Source: ITU World Telecommunication Indicators Database, ITU 1997: tab. 14

These figures cover the entire market, i.e. both domestic and international telephone traffic. For this reason, they are clearly dominated by the large domestic markets, particularly in the United States.

In general, it is expected that there will be continuing strong growth of telecommunications services (OECD, 1997b: 18, 97; Figure 8):

Figure 8:

The growth in turnover on the world's telecommunications market (US $ billion)



Source: ITU World Telecommunication Development Report, 1997: I and table 29

Vital factors for this development are technological and economic advances, the rapid increase in network capacities, the world-wide spread of liberalisation and privatisation of what so far have mainly been state monopoly telecommunications firms, and the related market opening. In addition, there is the increasing internationalisation of the large providers like AT&T, MCI, Sprint, British Telecom, Cable and Wireless and Global One (a joint venture of Deutsche Telekom, France Télécom and Sprint). In fact, telecommunications are important in two respects: both as an equipment and service market per se and as a means of communication and infrastructure for the provision of other services and for trade in goods.

In its broadest definition, the German information industry employed a total of 1.4 million people in 1994. There are various forecasts of how the generally anticipated rise in output will impact on employment. The positive effects will be offset by the rationalisation which goes hand in hand with the use of modern information and communication technology, so that there may even be a temporary fall in employment. For example, the number of people employed in the telecommunications sector in Germany dropped from 234,000 in 1993 to 227,000 in 1995. On the other hand, OECD and ITU studies show that many countries with competition on infrastructure, e.g. Finland, Japan, Sweden and the United States, are experiencing a rise in employment, often in the areas where competition is most intense. New competitors create additional jobs. One example is the enormous growth in mobile communications in Germany, where the number of employees rose following liberalisation from 1,600 in 1990 to more than 30,000 today (BMWi/BMA, 1996: 25). In contrast, countries with monopolies are continuing to shed jobs (OECD, 1997b: 149; ITU, 1997: 117ff.).

It is impossible to make a reliable prediction of the overall impact of the information society on employment in the long term. According to a study by Prognos/DIW, 180,000 jobs may be created in Germany in the media and communications sectors by 2010. A study by A.D. Little predicts 153,000 new jobs in telecommunications, information technology, media and electronics between 1995 and 2010. A study by the METIER consortium on behalf of the European Union is more optimistic, claiming that an accelerated spread of new information and communication technologies up to 2010 would create some 6 million new jobs in the EU – from which one might calculate 1.5 million potential new jobs for Germany (IFO, 1997: 5).

Vital influences – the development of which cannot be reliably predicted today – are the speed at which the new technologies spread, the development of their infrastructure and prices, the establishment of a clear policy framework for investors, the development of internationally compatible standards, and improved "media skills" on the part of the users. A particularly important role will also be played by the continued internationalisation of the information industry. However, it is even harder to predict the impact on employment of the international development than of the developments on the domestic market.

The following section examines the international market for telecommunications services.

1. Telecommunications services

1.1 International trade in telecommunications services

There are various forms of international trade in telecommunications services, e.g. cross-border phone calls, electronic mail or the "commercial presence" of foreign telecoms firms resulting from the acquisition of or shareholdings in national carriers, joint ventures and global alliances. Consumption abroad via "call back services" and mobile communications is also becoming increasingly significant (ITU, 1997: 29ff.).

The cross-border phone call is easily the most important and most profitable form of international trade in the telecommunications sector. The volume of international phone calls has increased from less than 4 billion minutes in 1975 to more than 60 billion minutes in 1995, i.e. a growth rate of 14% a year. In 1995, telecoms firms earned US $ 53 billion from international phone calls (ITU, 1997: 2, 31). This revenue was divided up on the basis of an accounting rate system amongst the phone companies, which thereby pay for the mutual handling of their international telephone traffic. The revenue is generally shared on a 50–50 basis. Settlement payments, i.e. the international payments for the handling of international telephony, which appear in the balance of payments, amounted to roughly US $ 28 billion world-wide in 1995 (ITU, 1997: 31). The system of fixed accounting rates, as established in bilateral international agreements, is however increasingly being replaced by competition-led accounting methods.

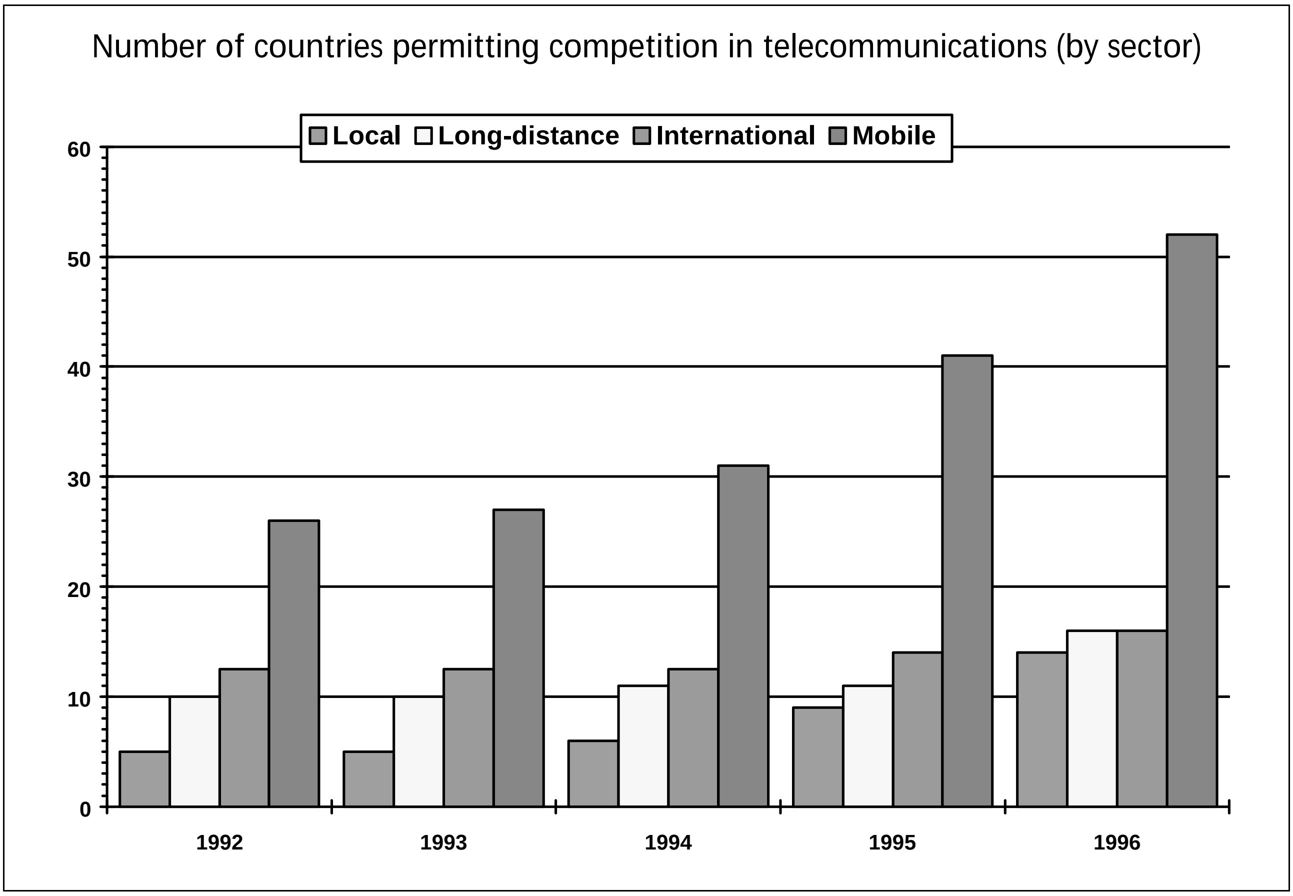
Measured in terms of settlement payments, the EU has the largest share of international telephony (35.2%), followed by the United States (25.3%), Canada, Switzerland, Hong Kong and Japan (2.7%). The developing countries participating in the WTO negotiations all have much smaller shares, but nevertheless play an important role. Korea, Brazil, Mexico, Argentina and Hong Kong are amongst the world's ten largest telecoms markets. Many developing countries are recording very fast growth rates – albeit starting from a low level.

In addition to cross-border trade, foreign direct investment is playing a growing role in the development of international communications markets (ITU, 1997: 32, 45ff.). Between 1984 and 1996, 43 countries, including Germany, fully or partially privatised their state telecommunications firms. In most cases, the process involved foreign investors. Many new telecommunications companies were established as a result of foreign investment, particularly in the mobile sector. Another increasingly common form of private investment is the so-called "build-transfer arrangement", whereby the investor installs or modernises the telecommunications system, operates it for a limited period and then hands it back to the national – usually state-owned – operator.

1.2 Regulatory framework and institutional barriers to trade

Until the early 1980s, most of the world's telecommunications markets were dominated by state monopolies and strict market regulation which rendered international competition virtually impossible. International telephony was regulated bilaterally by the state-owned monopolists in the ITU context. The last decade, however, has seen radical liberalisation, privatisations and the abolition of monopolies, leading to the formation of a new type of multinational, globally operating telecommunications company. The European Union has now abolished its telecoms monopolies and liberalised its markets. In international telecommunications, the system of bilateral trading relationships between state monopolies is being replaced by international competition (Figure 9):

Figure 9:



Source: ITU, 1997: 11, 120

Despite the progress on liberalisation, there are still many obstacles in the way of international trade in telecommunications services. Many countries restrict the level of foreign shareholdings in telecoms firms. Even the United States restricts the issue of radio licences to companies which are at least 80% US-owned. France and Portugal also still have restrictions on foreign investment. In many countries, certain market segments at least are still controlled by monopolies. Many governments are still afraid of relinquishing control over a “strategic“ sector like telecommunications, of exposing their telecoms industry to excessively powerful international competition, of losing monopoly revenues or of neglecting important aspects of supply (universal service). However, many developing countries are now also realising that technical developments in communications, e.g. satellite and mobile communications, are making it increasingly impossible for governments to control the market. The preservation of state monopolies is proving more and more inefficient in terms of the overall economy and more and more expensive for the consumer.

1.3 The specific GATS rules for telecommunications services

The GATS also contains a number of specific rules for telecommunications. The GATS annex on telecommunications underlines the dual role of telecoms services as a distinct sector of the economy and as a means of communication for other economic activities. The rules of the annex apply to all measures taken by a member state which affect access to and use of public telecommunications networks and services. They do not apply to measures affecting the broadcasting of radio and television programmes.

The annex aims to ensure that each service provider is allowed to access and use telecommunications networks and services at reasonable and non-discriminatory conditions, both inside the borders of a member state and on a cross-border basis. This also covers the connection of equipment and private circuits. Free movement of information must be permitted, including intra-corporate communications and access to databases. As part of the transparency requirement, information on tariffs, technical interfaces, standards and conditions relating to the connection of equipment and licensing must be made publicly available.

The annex goes on to define the measures which a member state may take to protect the security and confidentiality of information, as well as permissible conditions regarding access to networks and services, e.g. universal service obligations, technical safety rules, interconnection, etc. Developing countries can impose such conditions on market access as are needed to strengthen their infrastructure and their involvement in international trade in communications services.

Overall, the GATS annex on telecommunications strikes a balance between the need of the telecommunications user for fair access conditions and the need of the regulatory authorities and public telecommunications providers to maintain a functioning system and to fulfil overriding policy objectives.

1.4 The WTO negotiations

At the end of the Uruguay Round in 1993, 60 WTO countries had made specific liberalisation commitments for various types of telecommunications services. Of these, however, only eight referred to the "basic telecommunications" sector, which is defined in the GATS annex on telecommunications as "public telecommunications transport networks and services". The other commitments referred only to so-called value added services.

It proved impossible in 1993 to agree on any commitments in the economically and politically most important field of basic telecommunications, which account for 80% of total turnover from all telecommunications services, because the United States announced that it would exclude basic telecommunications from most-favoured-nation treatment. As in the financial services sector, it feared that it would otherwise have to grant other WTO countries access to the US market as free-riders, without itself obtaining corresponding market access in those countries. For this reason, it was decided at the final conference of the Uruguay Round at Marrakesh that the negotiations on telecommunications – like the negotiations on financial services, maritime transport and cross-border movement of people – should continue. However, it was not possible to finish the negotiations by the agreed deadline of 30 April 1996, because the United States still considered that the offers to liberalise which had been placed on the table were inadequate. The finishing date was therefore extended until 15 February 1997.

The negotiations were indeed successfully concluded within this deadline (Barth, 1997b). 70 countries, including the United States, the European Community and its member states, all other OECD countries and many developing countries, committed themselves to multilateral market liberalisation and national treatment for "basic telecommunications services". In view of national differences of opinion, the definition of this term was left open. The results of the negotiations entered into force on 1 January 1998. The country schedules with specific liberalisation commitments are collated in the Fourth Protocol to the GATS, thereby becoming an internationally binding element of the WTO treaties. In line with the most-favoured-nation principle, they will benefit all WTO countries.

The commitments made (which vary in degree from country to country) embrace three key elements: market access, investment and regulatory principles to safeguard competition. The market access commitments cover the provision and use of all types of basic telecommunications services, i.e. international and domestic local and long-distance traffic, voice telephony services, intra-corporate networks, data transmission, telex, telegraph, fax, paging services, personal communications services, etc. On the other hand, the liberalisation does not include the broadcasting of radio and television programmes.

The liberalisation commitments refer to all types of transmission technology from fixed lines, including undersea cables, to terrestrial fixed and mobile communications and satellite operations. They offer foreign companies access to use existing systems or to set up their own networks ("facility-based operations") and make possible the resale of existing network capacity.

56 countries, together accounting for 97% of world turnover, are opening up their markets for foreign investment. This was the most difficult issue in the negotiations. 65 countries have adopted regulatory principles to safeguard competition. These rules particularly commit them to establish independent regulatory bodies and to grant interconnection with existing telecoms networks at reasonable prices. They are designed to prevent cross-subsidisation and other anti-competitive practices and to provide for transparent regulation and licensing.

However, the flexible GATS mechanism means that the liberalisation commitments vary widely from one country to another and do not yet imply full market opening in all countries and all sectors. There are still some substantial exemptions and restrictions in place.

The commitments shouldered by the three largest players on the market, the United States, the EU and Japan, which together account for almost 75% of the world's turnover, basically comprise the following points. From 1998, the EU and its member states grant market access and national treatment for all telecommunications services and transmission technologies. The EU guarantees to all WTO countries the status of liberalisation in place in its internal market from 1 January 1998, i.e. the abolition of public-sector monopolies and the liberalisation of its telecommunications markets. However, the EU's schedule of commitments does contain a few country-specific restrictions on market access in the form of delays in market opening in Spain (December 1998), Ireland and Portugal (2000) and Greece (2003), and restrictions on foreign ownership in France and Portugal. The EU has also committed itself to adhere to competition-based regulatory principles.

From 1998, the United States is basically providing free market access and unrestricted national treatment for all telecommunications services and all types of transmission technology. The only subsectors in which it is not making any commitments are the "one-way satellite transmissions of Direct to Home (DTH) and Direct Broadcast Satellite (DBS) television services and of digital audio services". In addition, and at the last minute, the United States also lodged an exemption from most-favoured-nation treatment for these subsectors – i.e. novel interactive television and radio services. However, it did give an assurance that these derogations are narrowly defined and will have no negative consequences for the EU.

In principle, the United States permits foreign investors in its telecommunications sector, but does make certain exceptions. Direct holdings in an American telecommunications company are not permitted for foreign governments or their representatives, or for foreign nationals and companies which are not organised in accordance with US law. Also, the United States restricts the issue of radio licences to companies which are at least 80% US-owned. At the same time, however, it does permit 100% indirect ownership of such companies via a holding. In the satellite sector, COMSAT, a US firm, retains exclusive rights for links to Intelsat and Inmarsat satellites. The United States has also adopted a competition-based regulatory approach.

In view of the previous restrictive and to some extent discriminatory approach to licensing taken by the Federal Communications Commission (FCC), it is important to note that the US schedule of commitments does not contain any reciprocity requirements for the licensing of foreign companies like the previous "Effective Competitive Opportunities (ECO) Test" or its equivalent in the satellite sector, the "DISCO Test". However, following the completion of the WTO negotiations, the FCC did announce new administrative rules, providing instead for a "public interest test". The EU doubts whether this is compatible with the new WTO commitments made by the United States.

Japan is also in principle committed to providing market access and national treatment from 1998 and to adhering to the competition-based regulatory principles. However, it does restrict foreign holdings in NTT and KDD, two of the world's largest providers of telecommunications services, to 20%. On the other hand, it is removing all other restrictions on ownership.

Canada and Mexico are also liberalising their markets, although they both reject the US call that they should permit foreign majority shareholdings. Mexico only raised its ceiling on foreign equity participation to 49% and Canada to 46.7%, and they have therefore been criticised by the United States. Some Latin American countries have committed themselves to undertake far-reaching liberalisation in the next few years. Eastern European countries will liberalise their markets between 2000 (Czech Republic) and 2005 (Bulgaria).

The Asian countries generally made less favourable offers, with the positive exceptions of Singapore, the Philippines and Hong Kong. But most of them are planning greater liberalisation. Some countries, such as Malaysia and India, are already allowing more foreign investment than they committed themselves to in the WTO.

2. Information services

2.1 International trade in information services

A distinction is generally drawn between “basic telecommunications services“, i.e. the mere transmission of language and signals, and the so-called value added services. The latter include all services which extend beyond the mere transport of data, i.e. which contain additional services supplied by the provider. Examples are database and data processing services, online services, electronic commerce, etc. However, it is hard to draw a clear distinction between “basic telecommunications“ and „value added services“. In view of the rapid development of new services and combinations of them, there is no internationally accepted definition. Also, the term “value added services“ is increasingly being displaced by the term “multimedia“, which describes the integration of voice, image and data communications in new electronic and telecommunications-based services. At the end of the Uruguay Round, the EU made liberalisation commitments for “value added services, electronic mail and online information and data services“, as did certain other WTO countries.

There are no detailed statistics as yet on international trade in information services. Germany’s balance of payments statistics recorded exports of “electronic data processing services“ worth DM 2.4 billion and imports worth DM 2.8 billion in 1996. Germany’s trade in electronic data processing has grown sharply since 1986, with the trade account almost always being in the red.

2.2 Regulatory framework and institutional barriers to trade

In most countries, the legislation governing the provision of new information services and thus international trade in them is still being developed. In Germany, the “Act Regulating the Framework Conditions for Information and Communications Services“, the so-called “Multimedia Act“, which entered into force on 1 August 1997, stipulates the general rules for the use of new information and communications services. The key points for international trade are the rules which prevent anti-competitive practices by dominant companies and maintain the freest possible market access for competitors. Another important issue in the international debate is the distinction between new information and communications services and broadcasting.

The legislation of various countries contains barriers to market access for foreign providers, e.g. local content rules affecting the import of certain systems technologies or export restrictions on the high-grade cryptographic software needed, for example, to provide banking services via the Internet. In view of their international dimensions, such problems require internationally coordinated solutions. A ministerial conference held in Bonn in July 1997 by the German government and the European Commission on the use of global information networks arrived at a very positive assessment of their development and discussed ways and means to cooperate internationally on overcoming the remaining practical obstacles in the way of greater use.

2.3 The WTO negotiations

Back in 1993, the Uruguay Round negotiations produced a number of liberalisation commitments for international trade in modern information services outside basic telecommunications. Like the EU, the United States, Japan and others agreed to provide market access and national treatment for "value added services", including electronic mail, online information and data services, electronic data exchange, fax, etc. This range of commitments was extended by the outcome of the negotiations in February 1997.

3. Outlook

The package of liberalisation commitments adopted in Geneva on the liberalisation of the telecommunications markets in more than half of the WTO countries is the most important piece of liberalisation achieved under the GATS so far. It provides for most-favoured-nation treatment for all WTO countries. It will stimulate new developments in one of the key sectors of modern economies, and it is a perfect complement to the international Information Technology Agreement (ITA) adopted by the WTO ministerial conference in Singapore in December 1996. Under the ITA, 40 countries agreed to abolish tariffs on information technology products like computers, telecommunications equipment, passive components and semi-conductors by the end of the century. The ITA covers world trade worth almost US $ 600 billion. In both agreements, the leading players (the "critical mass" is roughly 90% in each case) have adopted far-reaching liberalisation measures which will benefit all WTO members. Here, the high level of active participation and the good liberalisation offers from many developing countries merit attention. They clearly believe that this will present them with greater advantages than a continuation of the protectionist policies of the past. They realise that market liberalisation will bring opportunities to develop their infrastructure and to attract the foreign investment needed for this. This also corresponds to the practical experience of those countries which have introduced competition in the telecommunications sector. These countries have effectively achieved higher growth on their telecommunications markets than countries which have retained their monopolies (ITU, 1997: 4, 107, 117ff.).

It is, however, virtually impossible to undertake a quantitative assessment of the liberalisation commitments entered into and their impact on trade and employment, even though some statements on this were made following the Geneva agreement. For example, the Institute for International Economics in Washington predicted a cut in phone bills worldwide of US $ 1000 billion in the next ten years. Charlene Barshefsky, the US Trade Representative, forecast a doubling or tripling of turnover in the telecommunications sector in the next 10 years, an 80% cut in the cost of international calls, and one million new jobs in the US information industry. Such forecasts would appear rather uncertain.

On the other hand, a qualitative assessment of the results indicates significant advantages for the telecommunications and information industries, for the consumers, and for the WTO and the open, multilateral trading system.

The liberalisation and opening up of the telecommunications markets which has begun in many countries is now assuming a multilateral dimension. This will stimulate further liberalisation. The commitments taken on by 70 countries peg the market access conditions at the level offered. Countries subsequently imposing worse conditions would violate international law. Of course, we cannot expect this to remove all bureaucratic market access barriers for foreign telecommunications and information firms at a stroke. Some countries will also need some time to implement the liberalisation commitments in practice in national law. But the conclusion of the agreement does bring vital improvements in legal certainty and policy predictability, and this is particularly important for telecommunications services, which involve a high intensity of investment.

For the information industry, the result of the negotiations will promote the modernisation of the public and private networks and will increase investment and (aside from the likely impact of rationalisation) employment. It will advance the regulatory reform and open up new market opportunities for companies in many countries. This will also give German telecommunications and information companies the chance to develop into global players. In turn, the growing demand for telecommunications services will itself boost demand for equipment. That is why the information technology industries of Europe, North America and Japan also supported the WTO negotiations.

The system of bilaterally agreed accounting rates, with its restrictions on competition and price-increasing effects, will more and more be displaced by the new providers coming onto the market. The telephone charges will thus be brought down towards the effective production costs. The growth in international competition means that private and industrial users can expect cuts in telecommunications costs and improvements in the quality and availability of services (ITU, 1997: 10). The “regulatory principles“ to safeguard competition agreed in the GATS context should ensure that new providers receive effective market access and that no new oligopolies emerge.

Finally, the Geneva agreement is also a major success for the WTO. It confirms that the GATS is able to function and supports the continuation of the process of liberalisation for international trade in services. All around the world, therefore, the conclusion of the telecommunications negotiations is regarded as a major economic and trade-policy success.

Part VIII: The liberalisation of audiovisual services

1. International trade in audiovisual services

International trade in audiovisual services embraces all services provided in the form of image or sound programmes, i.e. the production, lease and distribution of cinema, television and video films, cinemas, radio and television companies and the production of their programmes. On the other hand, the sector does not include multimedia productions and services.

The commercial interest in trade in audiovisual services was primarily stimulated by the rise of commercial television in Europe in the early 1980s. Starting from several court rulings in Italy, the state television monopolies in almost all European countries were increasingly rolled back, commercial broadcasting licences were issued, and broadcasting facilities wholly or partly privatised.

Between 1980 and 1995, the number of television channels rose from 62 to 244 in the European OECD countries. This was mainly caused by the increase in private channels. From 1990, the growth of satellite television and cable channels further expanded the range. By 1995, Germany already had 32 satellite channels and 30 cable channels (OECD, 1997b: 72). At the same time, technology made rapid progress towards higher transmission capacities and networks and to new programme technologies and options, e.g. video on demand, pay-TV, satellite transmission, business services like home shopping or home banking, and now digital television. The number of television sets, cable connections and video recorders in households expanded in parallel to this, although it still lags far behind the levels in the United States and Japan.

In the audiovisual sector, the "entertainment market" of films and television is developing links with the information society, and this in turn explains why all countries are keen to gain a very strong position in this highly promising area of the services industry.

The world's trade in films, television programmes and video productions is dominated by the United States, which has a market share of about 40% (including the US market). The world's largest consumer market, however, is the EU. The total turnover from audiovisual media amounted to about US $ 23 billion in 1994, and it could well double by 2000.

The development in the EU is characterised by a sharp rise in demand for and a much slower growth in domestic production of audiovisual products. The European market is therefore increasingly dependent on US output. The EU's trade deficit with the USA due to the import of cinema and television films grew from ECU 1.8 billion in 1988 to ECU 3.2 billion in 1994. On average, the EU countries imported two-thirds of the entertainment material they broadcast. The market share of imported works rose from 56% in 1985 to 76% in 1994. At the same time, the audiovisual sector is of great strategic interest for US trade policy. It is responsible for one of the largest surpluses on the US balance of trade, behind aerospace and agriculture.

Compared with the EU's imports from the United States, internal Community trade in audiovisual works is insignificant. However, certain EU member states, e.g. France and Spain, are more receptive to the import of European films than others (European Commission, 1997).

Table 11 shows the world's leading trading countries in the field of films; however, the international statistics are very incomplete and are based on differing definitions of the audiovisual sector. The figures for the United States and Japan, for example, only cover film rentals.

Table 11:

The leading exporters and importers of cinema and television films in 1994 (in US $ million)			
	Exports	Imports	Net surplus/deficit
USA	2,584	100	2,484
United Kingdom	1,315	920	395
France	503	914	–411
Italy	259	634	–375
Canada	195	358	–163
Germany	151	1,760	–1,609
Japan	…	476	–476

Source: OECD, 1996: Services Statistics on International Transactions 1970–1994

These statistics illustrate the leading role of the United States on the international film market – whilst importing very few films itself – and the high dependency on imports and the very low export levels of almost all other highly developed countries, and particularly Germany.

German international trade in the field of films witnessed a rise in German exports from DM 87 to 190 million between 1987 and 1996, with film exports achieving a 0.14% share of total German exports of services. German imports of films are rather more significant: they rose from DM 522 million in 1987 to DM 3.8 billion in 1996, or 2.1% of all imported services. As a result, Germany's deficit from international trade in films rose from DM 434 million in 1987 to DM 3.6 billion in 1996.

2. The GATS negotiations

In the negotiations on services during the Uruguay Round, the United States pressed hard for market opening in Europe. The most controversial issue was the broadcasting quotas of the EU "Television without frontiers" Directive of 1989, which obliges the television companies of the EU to reserve as far as is practicable at least 50% of their screen time for "European works".

The EU, under great political pressure from France and Belgium, demanded an "exception culturelle" in the GATS, in order to protect their cultural characteristics, but also to protect their film industry from US competition. After vigorous arguments, the EU and the USA proved unable to agree on special rules in the GATS or on specific liberalisation commitments. The EU therefore took comprehensive exemptions from the most-favoured-nation principle for the audiovisual sector, and made no liberalisation commitments at all. On the other hand, it also failed to have a clause inserted providing for the "exception culturelle". This means that the audiovisual sector – contrary to the claims by interested parties following the Uruguay Round – is subject to the general rules of the GATS. But the EU is not obliged to grant most-favoured-nation treatment and has no commitments to provide market access or national treatment. It is also allowed to continue its support for films. This means that Germany's Länder, which are responsible for legislation on broadcasting, can retain their scope for policy-making in the field.

This "success" of the EU was not achieved without political and economic costs, since it had to give up desires for liberalisation in other areas of the negotiations which could otherwise have been fulfilled.

3. Outlook

Despite the impact of the recession in recent years, the prospects for the audiovisual services sector are very good (OECD, 1997b: 93ff.). According to estimates by the European Commission, the number of television channels is expected to rise from 117 in 1993 to 500 in 2000. This would imply an increase in broadcasting hours from 650,000 to 3.25 million. According to the same estimates, at least 1.8 million employees in the EU earned their living from audiovisual software (programme production and distribution) in 1993. This figure could more than double by 2000. However, these very positive expectations are so far having virtually no impact on German broadcasting. With value added of DM 5.7 billion and 39,300 employees (1995), public and private broadcasting in Germany is a relatively small branch of the overall economy (DIW, 1997b: 264). It is anticipated that there will be a continuous, but not rapid rise in the number working in private broadcasting. At the same time, job cuts will probably continue in the public broadcasting sector (IFO, 1997: 33; DIW, 1997b: 272).

In the international film business, the EU is going to have to face up to tough competition on its own market and on the world market. It must work harder at producing internationally marketable films.

During the Uruguay Round, relatively few countries opened up their audiovisual markets. The trade-policy debate on this will continue. The restrictive stance taken by the EU has relaxed slightly because, during the internal negotiations on revising the 1989 television directive, which were concluded in 1997, the European Council rejected the calls by the European Parliament and France to make the quota arrangement in favour of "European works" legally binding and to expand it to embrace new audiovisual services. Germany and the United Kingdom called for a complete abolition of the quota system, and many other EU countries also felt that it was out of date. This is not just a reflection of trade-policy considerations, but also of the fact that technology is developing and consumers will soon be able to download films and television programmes from anywhere in the world, just as they choose, and unaffected by government controls.

Part IX: The liberalisation of transport services

Like telecommunications, transport services – maritime and coastal shipping, air transport, road transport, railways and inland waterways traffic – are a key sector of modern economies. In international trade in services, the transport sector is the largest industry behind tourism. Freight transport is closely related to trade in goods. And international passenger transport is closely linked with the growing volume of tourism and business travel.

For many countries, the transport industry is of strategic importance, e.g. for national security of supply or in connection with objectives of industrial policy and regional policy. This is particularly apparent in the case of the relationship between shipping and shipbuilding policy in Japan and South Korea. The strategic significance of the transport sector means that the transport markets in most countries are dominated by strict regulation, state monopoly structures, subsidies and government intervention in competition.

The transport markets are also experiencing a high degree of structural change, due to the development of new transport technologies, improvements in infrastructure, and the globalisation and liberalisation of the markets. By removing controls at internal borders and expanding trade within the Community, the completion of the single European market in particular has resulted in greater demand for freight transport services. Table 12 shows the world's leading exporters and importers of transport services:

Table 12:

The leading exporters and importers of transport services in 1995 (US $ billion)			
	Exports	Imports	Net surplus/deficit
World	216.7	240.4	–23.7
USA	46.6	43.5	3.1
Japan	22.4	36.0	–13.6
France	20.5	21.3	–0.8
Netherlands	19.6	14.2	5.4
Germany	19.3	26.1	–6.8
United Kingdom	17.0	17.2	–0.2
Italy	14.9	23.3	–8.4
Belgium/Luxembourg	9.7	7.5	2.2
Denmark	7.7	7.3	0.4

Source: IMF Balance of Payments Statistics Yearbook 1996

According to the IMF balance of payments, Germany's position in the transport sector once again fails to fully correspond to its role elsewhere in world trade: it is the fifth largest exporter, with 8.9% of world exports, and the third largest importer, with 10.9% of imports.

Germany's transport sector exports services worth DM 29.7 billion (1996) and accounts for 23.3% of all German services exports, and is thus the service industry with the highest exports. According to the German statistics (which deviate from the methodology of the IMF), the trade account of the German transport sector has always been in the red over the last decade (1996: – DM 7.4 billion).

1. Maritime transport services

The maritime transport sector is an important segment of the economy per se, for the EU's exports of goods, and for transport between non-EU countries. The EU is the starting or finishing point for almost 25% of world trade. 90% of the Community's foreign trade travels by sea. But the significance of the maritime transport industry reaches far beyond EU foreign trade. In 1994, the volume of internal Community maritime transport amongst the then 12 member states totalled 217 million tonnes. A further 224 million tonnes took the form of carriage between the member states and non-EU countries. Roughly three-quarters of the world's maritime transport consists of bulk goods like oil, liquid gas, coal, ores, chemicals and grain. Intermediate and finished goods account for the remaining quarter.

In line with the rise in output and trade over the last decade, world maritime transport has also recorded continuous growth. In 1996, it achieved a new record volume of 4.79 billion tonnes, or 38,049 billion tonne-kilometres. The world's merchant fleet also grew steadily, to 739.7 million tdw in 1996 (UNCTAD, 1996b).

In the past, however, and particularly from the late 1960s to the early 1980s, many countries have adopted protectionist measures like reserving cargo for their own fleets or providing competition-distorting subsidies, in order to achieve higher shares of the freight business. In many cases, subsidised deliveries of goods, e.g. as part of development aid, or "strategic goods" are reserved for ships under the national flag. In addition, many countries indirectly subsidise their maritime shipping via subsidies to the shipbuilding industry. These distortions of the market have, however, slowed in recent years. The tough international competition and the high costs borne by the European maritime shipping industry have resulted in a substantial decline in the merchant fleet registered in the Community over the last 15 years.

1.1 International trade in maritime transport services

As in many other countries, Germany's maritime merchant fleet and its workforce have been downsizing continuously for many years. The main reason for this is the increasing number of German vessels sailing under foreign flags. This is primarily due to what are in an international comparison very high wage costs and non-wage labour costs, the tax burden, the expensive construction, operating and environmental regulations, etc. Germany therefore now only has a relatively small share of the world's fleet capacities. It comes 23rd amongst the leading flag states with a share of 1.2% of world merchant tonnage. On the container vessel side, it comes second behind Panama with 9% of the world's fleet. But Germany ranks far lower down the scale on bulk carriers and tankers. The main reason for this disparity is technical and commercial differences in the way the various types of vessel are deployed. In the case of container transports, major technical and logistical difficulties need to be mastered, necessitating the appropriate infrastructure and in turn creating competitive advantages where such infrastructure is available. Whilst the world's tonnage is continuously growing, the tonnage of vessels sailing under the German flag fell from 7.3 million tdw in 1987 to 6.7 million tdw in 1996. The crews manning ships under the German flag totalled only 14,173 people at the end of 1996, and more than one-third of these were foreigners (VDR, 1997).

A look at the leading maritime transport nations on the basis of their revenues from and expenditures on maritime transport reveals the following picture (Table 13):

Table 13:

The leading exporters and importers of maritime transport services (freight) in 1995 (in US $ billion)			
	Exports	Imports	Net surplus/deficit
Italy	9.9	10.9	–1.0
Japan	9.4	10.3	–0.9
USA	5.2	11.2	–6.0
Germany	5.1	5.0	0.1
Netherlands	4.8	8.0	–3.2
Belgium/Luxembourg	4.1	3.3	0.8
United Kingdom	3.6	3.3	0.3
France	2.2	3.5	–1.3

Source: IMF Balance of Payments Statistics Yearbook 1996

These figures give the income from or expenditure on freight of resident – i.e. registered under the respective flag – maritime transport companies. On this basis, Germany was the world's fourth largest exporter and fifth largest importer of maritime transport services in 1995. However, the balance of payments is affected here by one factor which is not reflected in the statistics: whilst a fair proportion of the revenues from freight goes to the shipping lines registered under a flag of convenience, the profits from this business ultimately accrue to the foreign parent companies of these shipping lines, including many German companies.

1.2 Regulatory framework and institutional barriers to trade

By its very nature, maritime shipping is internationally oriented. The majority of maritime transport, i.e. bulk freight, is relatively open to international competition and free of trade barriers. On the other hand, the transport of intermediate and finished goods is subject to numerous examples of government intervention and to the competition-distorting quantitative and price agreements of state-approved liner conferences and consortia which operate on set routes to set schedules (the so-called liner trade). Coastal shipping within national borders, i.e. between two points within one country, is reserved for domestic shipping companies under the cabotage rules of almost all countries. Within the EU, cabotage is in principle permitted, but the ban on cabotage still exists for many Mediterranean regions and the French overseas départements.

A further institutional influence is the UNCTAD Code of Conduct for Liner Conferences (Liner Code), introduced at the urging of the developing countries. In practice, this code has meant that two countries linked by a shipping route each reserve 40% of the freight transported between them for their own national fleet. Accordingly, only 20% remains for shipping companies of other countries, the so-called cross-traders. However, these market-allocation rules have been largely undermined by the expansion and structural change of the maritime transport markets, by market-opening and competition-enhancing intervention from the international financial institutions, and by the improved functioning of the market mechanism. When the code was introduced in 1974, 85% to 90% of loads were transported by shipping lines participating in conferences. Today, the figure is less than half. The conference to revise the Liner Code, envisaged for 1996, did not take place. The liner conferences are increasingly being replaced by “consortia“ of the shipping companies which make possible cooperation regarding distribution of loads, serving of routes, departures, etc. amongst several shipping lines, without resulting in agreements on freight charges.

The common shipping policy of the EU, which was introduced in 1986 with four fundamental regulations, the so-called “Brussels package“, and the continuing liberalisation of maritime shipping in the single European market have stimulated competition within the Community and enhanced the position of European shipping in international maritime transport. In particular, maritime shipping within the Community has been gradually liberalised, and cabotage within the Community has basically been permitted. Above all, however, the completion of the internal market is contributing to the growth of maritime transport via the expansion of trade both within and outside Europe.

1.3 The WTO negotiations

In the negotiations on services of the Uruguay Round, maritime transport was the main issue in the field of transport. However, no specific rules of substance were agreed for this sector.

At the end of the negotiations, 32 countries had made liberalisation commitments for maritime transport; five more countries joined them subsequently. Once again, however, the United States refused to make commitments on a most-favoured-nation basis. For this reason, it was decided at the ministerial conference at Marrakesh that these negotiations on liberalisation should also continue, until June 1996. The negotiations aimed at the adoption of liberalisation commitments by the leading maritime shipping countries on access to the "three pillars" of maritime transport. The first pillar consists of the international transport of freight and passengers ("blue water shipping"). It aims to abolish cargo sharing and unilateral cargo reservation practices. The second pillar consists of the possibility to provide auxiliary maritime transport services, e.g. cargo handling and customs clearance, loading, storage, container stations, agencies, etc. This pillar is mainly intended to enable linkage between the maritime transport and the subsequent multimodal services. The third pillar refers to the use of port services of all kinds (pilotage, fuelling, waste management, repairs, etc.) at reasonable and non-discriminatory conditions.

Initially, 24 offers to liberalise were presented at the negotiations, including offers from the EU and Japan, but none from the United States. The United States stated that the number and quality of the offers did not achieve the necessary "critical mass" to justify even the presentation of a US offer. The background to this was the resistance of the US maritime transport industry and trade unions to any multilateral liberalisation commitments on maritime transport and to the related relaxation of the "Jones Act", which reserves cabotage between all US ports – from the East Coast via the Caribbean and the Panama Canal to the West Coast including Hawaii and Guam up to Alaska – for vessels under the US flag. There are great differences of opinion about the economic advantages and disadvantages of this policy within the USA amongst the shipping lines, within the administration and in Congress.

However, the EU also proved highly inflexible, by sticking – under the influence of strong and one-sided Danish and Greek shipping interests – to its unfulfillable maximum demand for comprehensive liberalisation commitments in international maritime transport, thereby blocking the otherwise attainable improvements under the other two pillars. The German maritime transport industry was also sceptical about the likely success of multilateral liberalisation of maritime transport. It took the view that no market liberalisation could be expected from the United States in any case, although the extent to which it would make use of such liberalisation remained unclear. It also appeared quite happy with the current conditions of access to the markets of importance to it, and apparently did not expect a multilateral set of rules at intergovernmental level to bring it any clear advantages.

In this situation, most of the countries, except for Iceland and Norway, withdrew their offers to liberalise. At the end of June 1996, the decision was taken to suspend the maritime transport negotiations and recommence them in the next regular round of liberalisation negotiations, i.e. not later than 2000. The most-favoured-nation obligation was suspended until the conclusion of the next round of talks. It was agreed that the negotiations should be conducted on the basis of the existing or improved offers to liberalise. Also, a "peace clause" was adopted, under which no country may take steps to improve its negotiating position on maritime transport unless this is in response to such measures in other countries.

1.4 Outlook

In July 1997, the German government adopted a concept to promote maritime transport in Germany. It provided for the option of a tonnage-related tax for maritime shipping companies, i.e. a standardised determination of income from shipping based on the tonnage of a vessel, and a 40% withholding of wage tax for the crew employed on German vessels. However, these tax concessions formed part of a wider tax reform which was rejected in 1997. In addition, the concept provided for more flexible rules for the crew, a reduction in social contributions for foreign crew members, and a simplification of the technical rules.

World maritime transport is expected to continue its strong growth. The WTO Secretariat estimates it at 3% a year, UNCTAD (1996b: 8) even anticipates 4.1% a year for the next decade. But we must also expect more intense international competition.

The EU is aiming at a free maritime transport market without government-sponsored distortions of competition. The Commission regards the multilateral negotiations in the WTO as the main instrument with which to achieve this objective. However, it would be wrong simply to wait until the negotiations begin again in 2000 and see what happens on the world markets, merely assuming that the present market situation will remain unchanged. Instead, we must expect that the United States and other maritime transport nations, particularly from Asia, will act aggressively to acquire larger shares of the maritime transport markets without waiting for a multilateral arrangement. It looks likely that the geographical balance on the world's maritime transport market will continue to shift, with the focus being on the east and south east Asian region. Existing traffic routes will probably become busier, like the trunk routes to the United States and Europe. In trade with developing countries, the industrial countries will probably be increasingly displaced by emerging economies (Böhme, 1997). In view of this shift in the emphasis of maritime transport, the EU should make a very early start on defining its interest in market liberalisation in major countries and on preparing its tactical positions. This is made all the more urgent by the fact that the shipping interests of the EU member states diverge and it is hard for the Community to make its economic and political weight count in the international context.

2. Air transport services

International air transport is a large, high-growth sector. The expansion of the economy and trade, rising incomes and leisure time are decisive factors on the demand side, coupled with technical progress and falling ticket prices on the supply side. The output of international airlines now stands at more than 1350 trillion passenger kilometres and more than 100 trillion freight tonne kilometres a year. Turnover from air freight amounts to more than one-third of the value of the world's exports of goods. Passenger transport has increased by 10% a year since 1960. Without air transport, tourism (the largest service sector) would not have attained its present level.

Air transport is one of the key engines driving the globalisation of the economy. In turn, globalisation is one of the most important preconditions for the expansion of air transport.

Nevertheless, air transport is facing a number of challenges. New markets are emerging, and the needs of existing markets are changing. Air transport policy is shifting towards a gradual liberalisation, and the structure of the airlines is evolving. A large number of international mergers and shareholdings, strategic alliances and examples of cooperation are developing (OECD, 1997c: 7, 25, 39ff.). Many air transport companies are internationalising their operations by outsourcing tasks like data processing, ticket reservation and accounting, or by contracting maintenance and repair work to foreign suppliers. At the same time, air transport is contributing towards the global structural changes in production, sales and investment. It is estimated that up to 40% of air passengers are business travellers, who account for up to half of air transport turnover.

The second, even more important factor for growth is international tourism, one of the fastest growing sectors of the world economy. Over the last two decades, tourist flights have increased by 5% a year, and turnover from tourism by no less than 15% a year. This development chiefly derives from the general rise in disposable income and leisure time (OECD, 1997c: 34).

As world trade continues to grow, air freight transport is also expanding rapidly. In addition, there is the increasing international division of labour, the shift of manufacturing locations, and new production methods like “just in time“ and “lean production“. These are resulting in a rising output of high-value, small-volume freight and an increased demand for air freight. However, international freight transport still accounts for a relatively small share of all air traffic, i.e. 25% of the total volume transported and 11% of total turnover (OECD 1997c: 41).

2.1 International trade in air transport services

Air transport is predominantly an international sector. This can be seen from the ever increasing importance of international passenger transport. Table 14 shows the leading exporters and importers:

Table 14:

The leading exporters and importers of air transport services (passenger transport) in 1995 (in US $ billion)			
	Exports	Imports	Net surplus/deficit
USA	18.3	14.0	4.3
United Kingdom	5.9	4.9	1.0
Germany	5.8	5.9	–0.1
Netherlands	4.7	2.1	2.6
France	3.1	4.1	–1.0
Italy	1.9	3.1	–1.2
Japan	1.6	10.2	–8.6

Source: IMF Balance of Payments Statistics Yearbook 1996

In 1995, according to these statistics, Germany was the world’s third largest exporter (in terms of turnover) behind the United States and the United Kingdom, and also the third largest importer (behind the United States and Japan) of air transport services. German exports of air transport services (1996: air freight DM 2.6 billion, passengers DM 9 billion) account for 11.2% of all Germany’s exports of services. Over the last ten years, the trade account has always been positive for air freight (1996: DM 2.3 billion) and always more or less balanced for passenger transport.

2.2 Regulatory framework and institutional barriers to trade

The air transport markets are some of the world’s most tightly regulated service markets. The competitive conditions are determined not only by general regulations, e.g. on safety and the environment, but also by intensive economic regulations.

The economic side of the regulations is based on the bilateral air transport agreements deriving from the Chicago Convention of 1944. They generally stipulate the airlines that may fly the relevant route, the capacity offered by each company, and the capacity which then remains for companies from third countries. This system of bilateral treaties has been and is still being liberalised. A substantial influence on this is exerted by regional developments like the inclusion of air transport in the single European market, the integration of the central and eastern European countries into the Community system, similar developments in South America (Mercosur) and the “open skies“ initiative of the United States. For example, a number of more recent air traffic agreements of the United States, Canada, the United Kingdom and the Netherlands already provide for relatively open market access without capacity controls. The EU in particular started liberalising its air transport markets in 1993 and concluded this process with the removal of restrictions on cabotage from 1 April 1997. British Airways has made substantial use of this liberalisation. Via shareholdings and partner companies, it has started up domestic flights in both France and Germany. Further results of liberalisation in European air transport are the intensified competition on price and the establishment of eighty new airlines, sixty of which have already disappeared from the market.

World-wide, however, the liberalisation of air transport will probably take quite some time, and the system of bilateral air transport relations will remain in place for a long time (OECD, 1997c: 17, 73ff.).

In terms of trade policy, the vital point is that bilateral air transport agreements inevitably discriminate between the providers involved and the foreign companies left outside. They are therefore exempted from the most-favoured-nation principle of the GATS. There are occasional complaints that the bilateral agreements are insufficient to prevent discrimination against foreign airlines, e.g. on access to airport infrastructure, slot allocation, landing and parking fees, passenger and freight handling, and the possibility to sell international services. In the EU, Community-wide solutions have already been found for some of these questions.

Distortions of and restrictions on competition may also derive from what are sometimes substantial subsidies to "national carriers", from preferential rules on bankruptcy, or from restrictions on foreign shareholdings in airlines. In Europe, most of the companies – except for British Airways, KLM and Lufthansa (federal shareholding currently 35.68% with the intention to fully privatise the company) – are still generally state-owned.

2.3 The GATS negotiations

The negotiations on services in the Uruguay Round barely dealt with air transport, because no government was prepared to give up the existing bilateral structure of air traffic relations and to transform it into a multilateral system based on most-favoured-nation treatment. The GATS annex on air transport therefore excludes the real air transport rights (the so-called "hard rights") and the directly related services from the scope of the GATS until further notice. This is actually the only sector-specific exemption. It covers landing rights, routes, capacities, pricing and ownership rules for airlines. For the time being, therefore, the GATS rules apply only to certain "soft rights", i.e. aircraft maintenance and repair, sales and marketing and computer reservation systems.

This arrangement will be reviewed every five years, with the aim of gradually achieving full applicability of the GATS rules in the field of air transport.

Many countries, as well as the EU, made liberalisation commitments for ancillary air transport services in the Uruguay Round. However, since the EU failed to obtain any satisfactory commitments from other countries, it lodged a reciprocity requirement for its liberalisation commitment on computer reservation systems. Overall, though, the results achieved in this sector were better than those in the field of maritime transport, where it proved impossible even to agree on commitments for ancillary services.

2.4 Outlook

It is generally expected that globalisation, growing world trade and rising incomes will bring about further strong growth in air transport. This will derive from the continuing expansion of air freight and of business travel, and particularly from international tourism. The World Tourism Organisation forecasts a doubling of tourist flights between 1990 and 2010. However, all predictions of the future development of international flight are subject to considerable uncertainties, particularly with regard to the growth of world output and trade, disposable income, demand for air traffic, technological advances and the reform of the legal and institutional framework (OECD, 1997c: 34, 42, 48). Another important factor is whether the infrastructure of certain airports which are already working at full capacity can be expanded and whether the reorganisation of European air traffic control, which has been initiated with the aim of improving efficiency, will bring the desired results. But a range of representative forecasts do generally agree that world passenger traffic can grow by 5% a year between 1990 and 2000 and by between 4.3% and 5.7% a year between 2000 and 2010. According to a forecast by the ICAO, international air freight traffic is set to expand by 7% a year between 1992 and 2003 (OECD, 1997c: 52, 54).

In the light of the differing views of the WTO countries, no specific forecasts can be made about the continuation of the liberalisation at bilateral and multilateral level.

3. Land transport

Land transport in the broadest sense, i.e. road traffic, railways and inland waterways, was scarcely touched on in the negotiations on services during the Uruguay Round. The liberalisation of passenger and freight transport by road is mainly of interest only to neighbouring countries. It is therefore normally regulated bilaterally or regionally, particularly in the context of the single European market.

In 1995, Germany exported road haulage and inland waterway services worth DM 4.3 billion and imported DM 7.8 billion worth of the same services. Over the last decade, the trade account has always been in the red, and the deficit has been increasing.

In the Uruguay Round, most countries, as well as the EU, maintained their preference for the system of bilateral transport relations. They therefore lodged reservations regarding most-favoured-nation treatment for existing bilateral and regional land transport agreements. On the other hand, the right of foreign land transport companies to establish a commercial presence was liberalised further.

For the same reasons, there was little interest in negotiations on market liberalisation for railway transport, since it is closely linked to the infrastructure of the participating countries and generally provided by public monopolies.

A close relationship emerged between land and sea transport in the course of the negotiations held in the context of maritime transport on liberalising multimodal transport, i.e. the transport services connecting up with maritime transport so that a single company can service the final consumer. This is primarily a matter of unimpeded use by the shippers of road and rail transport or of forwarding agents. However, this topic was also postponed, as part of the suspension of negotiations on maritime transport until 2000.

Part X: The liberalisation of business services

In terms of growth and employment, industry-related or business services are a particularly dynamic sector. They are becoming increasingly significant in the course of the tertiarisation of industry and the rising share of services inputs into industrial production (Feketekuty, 1998: 46ff.; Noyelle in OECD, 1996c: 20ff.). At the same time, they are an expression of the integration of the secondary and tertiary sectors.

There is no generally accepted definition of business services in the literature, government regulations or official statistics. The concepts and delineations are correspondingly varied; people talk of production-oriented, market-oriented or industrial services, or of business or professional services. In terms of German law on occupations, some of these services are categorised as "liberal" (freiberuflich) services, which are particularly highly regulated. Most of the business services require special training and high vocational qualifications.

For the purpose of this paper, a "positive list" of the main professional services which play a role in international trade is provided here. This list is not complete and is subject to changes and additions in the wake of rapid economic and technological developments (Table 15):

Table 15:

Business services	
Renting and management of real estate	Maintenance, repair, inspection
Legal advice and management consultancy	Geological surveys, exploration
Financial advice	Assembly
Architectural and engineering services	Disposal
Software production	Storage
Research, development	Leasing
Technical design	Advertising
Design	Security services
Market research	Translation
Training, further training	Placement and recruitment of personnel
Accounting	Trade fairs and exhibitions

Source: Hass, 1995: 9

In addition to a high proportion of relatively small and mainly nationally oriented companies, many sectors also have a number of large, international companies. This is particularly true of accounting, management consulting, advertising and market research. There are also several large US and British law firms which can be described as multinational service companies (Mösslang, 1995: 68ff.).

The national accounts and the balance of payments statistics include business services under the relatively meaningless catch-all category of “Other Services“. The statistical inadequacies and gaps are particularly great in this sector.

In 1970, roughly 1.17 million people worked in the sector in Germany, or 4.4% of all those in work. In 1996, more than 3 million people, or 13.4% of workers in the west of Germany, were employed in the sector. There are therefore more jobs in this sector than in mechanical engineering, electrical engineering and automotive manufacturing together. This service sector is the most dynamic part of the economy in terms of employment (Hass, 1995: 24).

The largest industries within the sector are management consulting, legal and commercial advice (holding companies, tax consultancy, accountancy, legal advice, market research), architectural and engineering services, and banks and financial institutions (Krämer in Mangold, 1997: 183).

1. International trade in business services

As a result of globalisation, international trade in this field has developed extremely quickly. Table 16 shows the world’s leading exporters and importers, although the international comparability of the data is limited, due to the very different national definitions used.

Table 16:

The leading exporters and importers of business services in 1995 (in US $ billion)				
	Exports	Imports	Net surplus/ deficit	Export growth 1988–95 in % p.a.
USA	30.6	17.7	12.9	6.5
Japan	24.5	32.0	–7.5	8.3
France	24.2	17.9	6.3	3.6
Germany	21.4	26.7	–5.3	13.4
United Kingdom	14.4	7.2	7.2	5.9
Italy	13.9	16.7	–2.8	10.8
Netherlands	13.1	11.5	1.6	13.9
Belgium/Luxembourg	10.7	9.6	1.1	5.1
Canada	9.3	12.9	–3.6	7.0
Korea	7.7	6.8	0.9	25.8
Switzerland	6.7	3.1	3.6	8.2
Spain	4.2	5.7	–1.5	7.6
(Trade and clerical services, leasing, various professional and technical services. The coverage varies widely from one country to another.)				

Source: IMF Balance of Payments Statistics Yearbook 1996: "Other business services" category

In 1995, Germany was the world's fourth largest exporter (behind the United States, Japan and France) and second largest importer of business services. Whilst most countries – and particularly the United States and the United Kingdom – achieved high trade surpluses, the German balance of trade in this sector – as in Japan – was negative. According to analyses by the OECD, the competitive lead enjoyed by other countries is due not to the level of development, the standard of training or other comparative advantages, but rather to the international orientation of the companies, historical relationships and government regulation.

Of greater interest than the "static" comparison of the positions of exporters is the extremely dynamic increase in exports over the last decade. Here, Germany is recording a higher growth rate than most other countries, and would appear to be "catching up" in this service sector. It is also interesting to note the situation in Korea, which seems to be developing into a strong competitor on the world market.

The role of the German suppliers of business services in international trade appears relatively small. If one looks at this area in terms of German balance of payments statistics, the picture is as follows (Table 17):

Table 17:

German foreign trade in business services (1996) in DM million					
	Exports	Imports	Net surplus/ deficit	Proportion of all services exports in %	Export growth 1987–96 in % p.a.
Patents and licences	5,014	8,827	–3,813	3.9	10.3
Research and development	4,719	5,206	–486	3.7	6.4
Engineering and other technical services	3,700	4,483	–782	2.9	7.7
Computer services	2,398	2,756	–358	1.9	29.3
Construction services, assembly, upgrading	7,138	6,605	533	5.6	2.0
Administrative costs (payments between associated companies)	2,736	5,132	–2,396	2.1	5.2
Clerical services	3,032	5,108	–2,077	2.4	19.3
Advertising and trade-fair costs	1,934	5,053	–3,119	1.5	8.2
Postal and courier services	3,047	4,051	–1,004	2.4	5.8
Other services from self-employed persons	771	2,984	–2,177	0.6	11.9

Source: Deutsche Bundesbank, balance of payment statistics August 1997: tab. I 4a

Here, we should pay special attention to the “technical services“, i.e. patent and licence transactions with other countries, and cross-border payments for research and development and for engineering and data processing services. Germany’s services account reveals substantial deficits in all these areas, and the deficits have increased clearly over the long term. For example, imports of technical services almost tripled over the last decade, from DM 7.8 billion in 1987 to DM 21.3 billion in 1996. At the same time, income from the export of technical services rose 2.3 times to DM 15.8 billion. As a result, technical services increased their share of all services exports from 8.4% to 12.4% over the decade, and this demonstrates how dynamic the sector is.

The trade deficit of all technical services together rose from DM 842 million in 1987 to DM 5.4 billion in 1996. The gap is continuing to widen. According to a study by the Bundesbank (1996a: 63), the dynamism of trade in technical services in Germany is caused by various factors. On the supply side, the speed at which new technologies and processes are being developed is having an impact. At the same time, the efforts of industry to rationalise are boosting demand. And international trade in technical services is also influenced by the international links between companies. These are generally related to greater technical cooperation, rationalisation and the increasing cross-border exchange of technical expertise. Many international transactions take place between affiliated companies, and they may be determined by business, profit or tax-related considerations. Payments for research and development may actually be nothing more than injections of finance by the parent company into foreign subsidiaries – or they may represent genuine fees for imported research services. These are two utterly different categories, but the balance of payments statistics cannot distinguish between them, again illustrating the difficulty of analysing the origins of trade in services.

The growing trade deficit in the field of technical services therefore does not necessarily lead to the conclusion that Germany has fallen behind in international competition (Härtel et al., 1995: 28). The figures for cross-border trade in patents and licences do not indicate to what extent and why patents and licences are produced, used and sold in certain countries. Positive trade balances, as traditionally achieved by the United States and the United Kingdom, are not in themselves evidence of the existence of advanced technologies in those countries. On the other hand, countries like Germany and Japan, which traditionally import more rights to utilise technology than they export, may thereby reinforce the competitiveness of their production and thus of their exports of goods. The high export figures achieved by German industry suggest that the trade deficit on technical services is not impairing the performance of the export industry. This is also indicated by the record increase in German patent registrations recorded in 1996, up 21% on the previous year. Direct comparisons of international patent statistics, which often lead people to conclude that Germany has a "research deficit", can be misleading, because German companies are increasingly doing their research abroad and some of their patent registrations are recorded as foreign registrations.

Trade in business services does not only take the form of cross-border supply. Because there is generally a need for direct contact between the provider and the client, a substantial amount of the trade takes the form of cross-border movements of people providing services. The statistics do not pick up this trade. Also, foreign subsidiaries of large service companies are playing an increasing role. Once again, the motive for this is economies of scale, the opportunities caused by new information and communication technologies, support for the industrial clients in their activities abroad, and the desire to offer services from a single source. Examples of this trend include the world-wide expansion of international firms of accountants, consultants, advertisers and legal advisers (OECD, 1996c: 8, 24; UNCTAD, 1993).

2. Regulatory framework and institutional barriers to trade

Business services are subject to various state and occupational rules. Some of the sectors have no detailed sector-specific regulations, e.g. the real estate business, corporate and financial advice, market research or advertising. The extent to which these sectors can participate in world trade mainly depends on the general policies governing the export market, e.g. policies on travel and work by foreign service providers or on foreign investment. In contrast, many other services, and particularly what are known in Germany as the "liberal" professions, are subject to regulations on market access and the right to work in the occupation. This applies, for example, to legal advice, accountancy and tax consultancy, architectural services, or placement and recruitment of personnel. The regulations basically aim to ensure the quality and reliability of the services and the responsibility and independence of the providers, and to protect the consumers. In addition, they are also intended to make sure that the providers can fulfil certain public tasks, e.g. to ensure the functioning of the legal system, or the safety of public buildings. Ethical standards are also generally imposed in the interest of the consumer.

In this way, the regulations serve legitimate political interests. At the same time – deliberately or not – they impede market access for foreign providers of regulated services. These impediments affect cross-border trade and the provision of services by in-house staff and foreign subsidiaries. Trade barriers are created both by government measures and by private-sector, occupation-based organisations and chambers. Serious obstacles include rules on establishment and residence or citizenship requirements (these hardly exist any more in Germany), restrictions on the establishment of companies, the lack of practicable qualification and admission opportunities for foreign suppliers, discriminatory rules on public procurement, and competition-distorting subsidies and state aids. The OECD has produced comprehensive inventories of these obstacles to international trade in accountancy, legal advice, engineering and architectural services in all OECD countries (OECD, 1996c: 10, 55, 225ff.).

Since 1964, the EU has adopted more than 60 directives liberalising business services within the Community. In the first phase, the aim was to comprehensively harmonise training regulations. However, this approach proved too difficult. The next stage of liberalisation led to the mutual recognition of occupational experience and diplomas for certain sectors. Two fundamental directives from 1988 and 1992 then resulted in a horizontal, cross-sector approach to liberalisation via the mutual recognition of university diplomas and vocational training in the member states. This system provides for a sort of semi-automatic recognition of the vocational training of a professional from another EU country if the regulated activity is the same as the one he pursues in his own member state. If this is not the case, the foreign applicant can either receive further training or take an aptitude test in the host country. This arrangement applies, for example, to accountants and engineers. For lawyers, a directive was adopted in May 1997, intended to help them work in a different EU country from the one in which they qualified.

However, all of these efforts to liberalise have failed to really stimulate intra-European trade in professional services. It seems clear that trade is still impeded by restrictive regulations, the practice of the admission bodies and occupational associations, and by structural barriers to market access. Germany itself still has rules on market access and admission to occupations which often restrict the specialist area and the region in which suppliers can work and make it more difficult for them to achieve a critical company size with a view to international competitiveness. The density of regulations in Germany is very great in comparison with other countries. Many of the professions are governed by monopolies, regulated fees or rules on training and admission which restrict competition. It is therefore hardly surprising that the German providers of such services, with the exception of engineering and technical services, have so far played a smaller role in international trade than the professionals of other countries. The causes are many, and they vary widely from sector to sector. Many professionals, e.g. lawyers, tax consultants and architects, are mainly organised in small or medium-sized firms and are ill-equipped for international competition, purely in terms of company size. The new partnership company act aims to encourage new structures, by permitting inter-profession cooperation. Often, despite many complaints about emerging overcapacities on the domestic market, there is a lack of interest amongst professionals in operating abroad. That contrasts with the aggressive business policies of, for example, US, British and Dutch accountancy, law and consultancy firms, which have always been internationally oriented and are taking active advantage of the opportunities provided by growing international market liberalisation.

3. The GATS negotiations

The Uruguay Round resulted in substantial progress on liberalisation for business services. At the end of the negotiations, 65 countries made commitments, e.g. on legal advice, accountancy, architectural services, medical services, computer services, research and development, real estate services, advertising, market research and management consultancy. In the meantime, many other countries have also made such commitments on their accession to the WTO.

The ministerial conference at Marrakesh established a WTO working group to develop multilateral rules in order to ensure that government-imposed qualification requirements and procedures, technical standards and admission requirements for business-related professions do not represent an unnecessary impediment to international trade in services. This work is initially focused on the accountancy business, and a recommendation on the content of bilateral agreements on mutual recognition of vocational qualifications for accountants has already been adopted. The working group has developed multilateral rules which ensure that national qualification requirements are based on objective and transparent criteria and are no more cumbersome than is necessary in order to safeguard the quality of the service. At the same time, the basic right of the WTO countries to regulate their services markets is preserved. The GATS aims not to fully deregulate occupation-based rules, but gradually to remove unnecessary restrictions on international trade in services.

4. Outlook

Business services are particularly dynamic in terms of turnover and employment. It is expected that they will continue to grow strongly (Hass, 1995: 24, 34). According to recent forecasts (cf. Krämer in Mangold, 1997: 187ff.), the growth of “other services“, i.e. professional and personal services, could stand at around 4% a year in real terms by 2000. Growth is even expected to accelerate to 4.5% a year in real terms in the 2000 – 2010 period, with the prospects for business services being more positive than for personal services. Across the “other services“ sector, an average increase in manpower of approximately 116,000 a year should be possible from 1996 to 2010. This would mean that 1.7 million more people would be employed (above the threshold for social security contributions) in 2010 than in 1996, i.e. roughly five times as many as in mechanical engineering today, the largest branch of the goods-producing industry in Germany (Krämer, 1997: 189).

According to these estimates, the best opportunities for development lie in management consultancy, data processing, personnel placement, financial advice, real estate, and architectural services. The US labour administration has come up with similar estimates for its jobs for the future: the business-related and highly qualified services, particularly in the field of information and communications, as well as personal services, are expected to be particularly expansionary (BMWi/IW, 1997: 16). It therefore seems likely that international trade in business services will grow quickly. Germany has considerable competitive advantages here and can develop additional export capacities. Experience shows that these exports then result in turn in sales of plant and equipment and financial and transport services, and that these sales are often far greater than the initial services exports.

Part XI: Tourism

Tourism makes an important contribution to the gross domestic product – 6% in Germany – and to employment. Roughly 2.4 million people are employed in the sector, or 7% of those in work. Turnover in Germany amounts to roughly DM 200 billion. Tourism also makes a massive contribution to world trade. In 1995, exports of tourism accounted for 31% of the world's exports of services.

The tourism sector is enjoying steady growth due to rising incomes, increasing leisure time, and growing international competition between the countries of destination. For some years now, this has meant a need to pay greater attention to the environmental and socio-cultural consequences of tourism. The tourism industry is closely related to a wide range of other sectors of the economy, such as transport services, and particularly passenger flight, the hotel and restaurant trade, sports, the entertainment industry, tour operators and travel agents. Modern technology is also increasingly being used in the sector, e.g. in the form of computerised reservation systems or global distribution systems.

In the international comparison, Europe has a world market share of about 40% of tourist travel and is the most important destination, but the pressure of competition from eastern Asia is increasing (European Commission, 1997).

In Germany, too, tourism is very much a growth sector, despite the more difficult economic and income climate. The trend in the east of Germany is particularly encouraging. Since 1990, there have been sharp rises in the numbers of overnight stays, and 340,000 new jobs have been created.

Notwithstanding the growing need for austerity, there is uninterrupted demand in Germany for foreign travel.

1. International tourism

In terms of the number of international tourist arrivals in Europe, Germany came ninth in 1996, with 15.1 million arrivals and a market share of 4.3% – behind France (61.5 million, 17.7% share), Spain (41.2 million, 11.9%), Italy (35.5 million, 10.2%) and other more popular destinations.

Table 18 shows the world's leading exporters and importers of tourism:

Table 18:

The leading exporters and importers of tourism (1995) (in US $ billion)			
	Exports	Imports	Net surplus/deficit
USA	69.8	46.9	22.9
France	27.6	16.4	11.2
Italy	27.4	12.7	14.7
Spain	25.5	4.5	21.0
United Kingdom	18.8	24.6	–5.8
Germany	16.3	50.8	–34.5
Austria	13.1	10.6	2.5
Switzerland	9.5	7.7	1.8
China	8.7	3.7	5.0
Singapore	8.3	5.1	3.2
Canada	8.0	10.2	–2.2
Netherlands	6.6	11.7	–5.1
Japan	3.2	36.7	–33.5

Source: IMF Balance of Payments Statistics Yearbook 1996

The United States has long been the leader on revenue from tourism, followed by France, Italy, Spain, the United Kingdom, and Germany in sixth place. In terms of imports of tourism services, Germany heads the field, with expenditure totalling US $ 50.8 billion, followed by the United States and Japan. The number of US tourists who visited Europe in 1994 is estimated at 13 million. Their main destinations were the United Kingdom, France, Germany, Italy and Spain. In 1994, the Japanese went on 14 million trips abroad, of which 46% were to other Asian countries. It is estimated that Japanese tourists on trips abroad spend on average four times as much as Europeans and twice as much as Americans. In 1994, 1.7 million Japanese visited Europe.

Even though the number of long-distance trips by European tourists has almost doubled over the last ten years, the market remains dominated by tourist travel within the Community.

In Germany, tourism and transport are the largest sectors of international trade in services. In 1996, tourism accounted for 20.8% of all German exports of services and for 39.7% of imported services.

Because of the natural competitive advantages of the traditional tourist destinations, the tourism sector in Germany has always had a high "structural" deficit. This deficit jumped sharply following German reunification. The main reason for this was the additional demand from the east of Germany for foreign travel. Expenditure on travel rose from DM 42 billion in 1986 to DM 76.5 billion in 1996, i.e. by 82%, whilst income from travel to Germany by foreigners grew by only 60% over the same period. The deficit from tourism thus increased by 96% to DM 50 billion between 1986 and 1996. A further reason for this development was weaker inflation in leading countries of destination and the increase in purchasing power of German tourists as a result of the nominal rise in the value of the deutschmark from 1992 (Deutsche Bundesbank, 1995a; 1996b: tab. I 4b). However, the rise in the tourism deficit has slowed down since 1994, probably because of a certain saturation of demand in the east of Germany and increasing uncertainties about income trends.

2. Trade barriers and GATS negotiations

Because of its links with other parts of the economy, the tourist industry is affected by many government regulations, few of which are aimed directly at the sector. They include rules on the entry, departure and stay of foreign tourists, currency and tax rules, environmental and consumer protection rules. Also, because it is labour-intensive, the tourist industry is both the subject of labour and welfare legislation, e.g. restrictions on the employment of foreigners, and a focus for initiatives to boost employment.

In contrast to most of the other, more regulated services, however, tourism is affected by virtually no significant specific trade barriers. Hardly any country now restricts the entry of foreign tourists or the spending of its citizens abroad. All countries are basically interested in the income from international tourism. Bureaucratic entry formalities or excessive costs or charges, e.g. visa or airport charges or government-imposed surcharges on hotel bills for foreign tourists, primarily damage the country's own tourism industry, and scarcely ever represent serious trade barriers for other countries. Almost all WTO countries, industrial and developing countries alike, therefore made liberalisation commitments for tourism in the Uruguay Round. Some countries did restrict the possibility for foreign companies to set up subsidiaries or acquire shareholdings, and limited access to computerised reservation systems. The EU itself lodged a reservation about most-favoured-nation treatment in this regard. Many countries, e.g. Greece, Italy, Portugal and Spain, reserve the right to work as tour guides for nationals, and this has already resulted in cases before the European Court. In general, however, the conditions for market access in international tourism are very liberal.

3. Outlook

According to all available forecasts, international tourism will continue to grow strongly (European Commission, 1997). According to a study from March 1997 by the World Tourism Organisation on the prospects for tourism up to 2020, the number of tourist arrivals world-wide could grow from 592 million in 1996 to 702 million in 2000, to more than 1 billion in 2010 and to 1.6 billion in 2020 (World Tourism Organisation, press release dated 9 March 1997).

The World Travel and Tourism Council recently predicted that the number of jobs in world tourism could rise by 47% between 1996 and 2006, from 261 million to 383 million. For turnover, it even forecasts a doubling from US $ 423 billion in 1996 to US $ 846 billion in 2006. That would make tourism the world's fastest growing sector.

Germany's tourism industry is well set to share in this development. It is trying to attract more foreign tourists to Germany by being more present on the world markets, going in for innovative marketing and improving the quality of service. With its cultural diversity, its share in the world's business travel, its specialisation in the field of trade fairs, congresses and events, and its outstanding infrastructure, it has a very good basis from which to work. This also offers the chance – with the relatively low level of investment customary in the tourist sector – to create many new jobs.

Part XII: The cross-border movement of people providing services

Many services can only be provided personally by the supplier or his staff. If the supplier cannot or does not wish to establish himself permanently abroad, he needs to be able to visit his clients abroad himself or to second his staff there temporarily. For this reason, the GATS provides for the mode of cross-border "movements of natural persons" and the assumption of appropriate liberalisation commitments.

In the single European market, the cross-border movement of persons providing services has long been liberalised in accordance with Article 59ff. of the EC Treaty, though difficulties do keep cropping up in this regard. The arguments about the German act on posted workers is an example of this.

In the Uruguay Round, the idea of allowing foreign service personnel to work – albeit only temporarily – on the domestic market met with resistance in most countries on grounds of home affairs policy, labour market policy and social policy, in view of the increasing international migratory movements and rising unemployment. All countries impose restrictions on the entry, residence and employment of foreigners, and these restrictions also impede the cross-border movement of service providers. Contradictory interests in liberalising international trade in services on the one hand and in protecting the domestic labour market from undesired foreign competitors on the other turned out to be one of the most difficult issues in the Uruguay Round. The highly developed countries, including the EU, were interested in achieving relaxed arrangements for the entry of business travellers and of the key personnel and qualified specialists of the foreign services subsidiaries. The developing countries, in contrast, demanded an opening up of the labour markets of the developed countries for "skilled and unskilled personnel" of all types, e.g. for construction workers (Korea) or software specialists (India). The developed countries rejected these calls, since they went far beyond the liberalisation of trade in services.

As a consequence of the very difficult negotiations, the GATS only regulates the temporary stay of natural persons providing services abroad. It expressly does not regulate issues of citizenship, residence or employment of foreigners seeking access to the labour market. The GATS annex adopted in this regard recognises the sovereign right of every country to regulate all these issues as it sees fit. However, such regulations must not nullify the specific liberalisation commitments of the relevant country.

In the final phase of the Uruguay Round, the United States, which already permitted the entry of 65,000 skilled service providers a year, declared its willingness to make this arrangement binding. The EU dispensed with its needs test for the transfer of leading personnel of foreign companies and for specialists and business travellers. Since these commitments were insufficient in the eyes of the developing countries, it was decided at the ministerial conference at Marrakesh to continue negotiations on liberalisation in this area too. Certain developing countries created a political link between these negotiations and the parallel talks on financial services in order to force the developed countries to accept their demands. The negotiations were concluded simultaneously with the preliminary conclusion to the negotiations on financial services, in July 1995. Six WTO members, i.e. Australia, Canada, the EU, India, Norway and Switzerland, extended the commitments they had made at the end of the Uruguay Round. As a result, almost all WTO countries have taken on horizontal commitments (i.e. applying to all services sectors), generally for three categories of service staff:

- Service providers travelling on business may enter temporarily (normally for 90 days) and initiate international transactions. But they may neither sell publicly in the respective country nor provide services themselves in return for payment.
- Intra-corporate transferees, i.e. employees of a service company seconded to a foreign subsidiary of that company, may stay there for a longer period – normally 2 to 5 years. This applies to leading personnel and specialists.
- Qualified foreign personnel may enter and stay temporarily in another country in order to carry out service tasks for a limited period of time, without being associated with a foreign subsidiary (contractual service suppliers).

In July 1995, the EU made additional commitments regarding the admission of "contractual" service suppliers for up to three months. The commitments of the individual member states vary. Germany made commitments for contractual service providers in the following sectors: legal advice, accountancy, advertising, management consultancy, technical tests and analyses, building site examinations and surveys, travel agencies and tour guides. The respective occupation-specific liberalisation commitments for those sectors were not extended. The commitments regarding the cross-border movement of people providing services therefore vary from country to country and are extremely confusing.

The general GATS reservations about national regulations on entry, residence and employment remained in place.

In the next round of liberalisation from 2000, the developing countries will probably demand further commitments in this area. They are interested in market access to labour-intensive sectors and believe that the secondment of their service personnel is their most important comparative advantage over the developed countries. They regard this as a – partial – substitute for longer-term immigration (Bimal Ghosh, 1997).

Part XIII: The results of the GATS liberalisation

As a new multilateral set of rules for international trade in services, the GATS is a groundbreaking success. However, its impact on liberalisation has so far been much more modest. To date, there have been few systematic studies of the economic value of the existing country-specific and sector-specific liberalisation commitments and their effects on trade. Such an assessment is extremely difficult. Unlike merchandise trade, where it is easy to ascertain the value of the trade concessions of a country on the basis of the known trade flows and the agreed tariff reductions, there is as yet no equivalent of the tariff rates for trade in services. The liberalisation commitments instead refer to domestic regulations, whose impact on trade cannot really be quantified. An assessment of the liberalisation schedules would require a quantitative yardstick with which to determine the status of liberalisation prior to and following the conclusion of the negotiations for each country and sector and to undertake a comparison of different countries. This is doomed to failure, simply because of the lack of a statistical basis. In addition, there is virtually no useful information about the impact on trade of the liberalisation commitments and the retained trade restrictions or about the relative significance of the four modes of supply. Assessment is rendered even more difficult because the commitments vary from country to country and the overall result is therefore very heterogeneous and complex. Furthermore, many countries still have to translate their commitments into national law before they can have a practical effect.

International studies on potential tarification and evaluation have begun in the OECD and in the academic world, but are still in their infancy (Hoekman, 1995; Brown et al., 1995).

A first analysis by the GATT Secretariat of the results of the Uruguay Round (GATT, 1994: 39ff.) aimed at an "approximative" assessment of the liberalisation commitments of 106 member countries. However, it did not examine the significance of the commitments for trade or their impact on growth and employment.

Hoekman produced a more detailed study (1995). It finds that the sectoral scope of the liberalisation commitments is far from all-embracing. In terms of the sectoral contributions to GDP and the sectoral shares of world output, the highly-developed WTO members only made commitments affecting 50% of their services sectors (Hoekman, 1995: 19). The fewest commitments were taken on in the sensitive sectors of land, sea and air transport, postal services, research and development, education, health and social services. In contrast, business services, computer and construction services are included relatively frequently. The developing countries and the eastern European countries in transition made commitments covering only 11% of their service sectors, and some developing countries only made commitments for a single sector. The most frequently liberalised sector is tourism, with its significant potential for income and local employment for many developing countries.

The most frequently liberalised mode of supply is the commercial presence of foreign service companies on the domestic market. This reflects the desire of many developing countries to attract foreign investment. The GATS has thus effectively become a multilateral instrument of liberalisation for investment. In contrast, many countries have only liberalised cross-border trade in services to a small degree, apparently so as not to let foreign competitors into the country in an uncontrolled fashion. Almost all countries, on the other hand, have made horizontal commitments, applying to all service sectors, on the cross-border movement of persons providing services. However, the concomitant imposition of many restrictions means that these commitments do not go very far. Most of the commitments contain exemptions and restrictions. According to Hoekman's calculations, the commitment schedules of the highly developed countries contain no restrictions only for 28% of all sectors. In the case of the developing countries, the figure is only 6.5%. Furthermore, most of the commitments do not lift any existing trade restrictions ("rollback"), but only make the current status of liberalisation binding ("standstill"). Another negative point is that many WTO countries – and particularly the highly developed ones – have registered exceptions from the most-favoured-nation principle. Much therefore remains to be done if the liberalisation of international trade in services is to make progress.

30 further states, all of them developing countries, have since acceded to the WTO. The successful conclusion to the telecommunications negotiations in February 1997 brought vital progress within the GATS process. However, its impact on trade cannot yet be accurately predicted, since the new liberalisation commitments have still to be implemented by the countries involved and the agreement only entered into force in 1998.

Part XIV: The future of international trade in services

1. The global situation

The prospects for economic growth in the OECD countries are more positive than they have been for a decade (OECD, 1997a: 5). The developing countries and the countries in transition to the market economy also have a good growth outlook. Brazil, China, India, Indonesia and Russia are developing into major players in the world economy and in world trade. The traditional "industrial countries" and the new players are intensifying the international division of labour. This promotes economic development and trade. The process is also fostered by the liberalisation of world trade. As a result of the Uruguay Round, the GATT Secretariat has forecast growth in world exports of goods up to 2005 of between 9 and 24% (depending on the underlying assumptions) and an annual increase in world output of between US $ 110 and 315 billion – compared with the scenario without liberalisation (GATT, 1994: 27ff.). The latest predictions and scenarios for the development of world trade also present an optimistic picture (Table 19):

Table 19:

Forecasts of growth in world trade
in constant US dollar prices, unless otherwise stated
Annual rates of change in per cent

Study	Basis/Region	1996	1997	1998	1999	2000	2001 and later
OECD Economic Outlook 1997, p. A12	OECD exports (goods + servs.)	5.9	8.9	7.6			
	Germany, exports	4.9	8.4	7.5			
WTO Focus No. 18/1997	World merchandise exports	4.0	4.0				
	World services exports (in current prices)	5.0					
Annual Economic Report 1997, p. 130	Germany, exports	4.6	6.5				
IMF World Economic Outlook 1997, p. 2, 169, 205	All world trade	5.6	7.3	6.8	Four-year average 1990–2002: 6.7% p.a.		
	Exports (advanced economies)	5.0	6.9	6.7	Four-year average 1999–2002: 6.5% p.a.		
	World services exports (in current prices)	5.0	0.7	6.4			
Prognos World Report '97, p. 20	World exports	1995–2000: 5.7% p.a.. 2000–2005: 5.3% p.a.					
	EU exports	1995–2000: 4.7% p.a.. 2000–2005: 4.6% p.a.					
OECD Towards a New Global Age, Draft Analytical Report 1997, p. 85ff.	Nominal world trade, High Growth Scenario	1995–2020 Growth of 30% to 45% in world GDP					
	World services exports, High Growth Scenario	Index 1992 = 100, 2020: 363, = 4.7% p.a. in real terms					
	Nominal world trade, Low Growth Scenario	1995–2020 Growth of 30% to 37% in world GDP					

Against this background, the prospects for further expansion in international trade in services can be assessed positively. It has been the fastest growing sector of world trade for years – albeit starting from a comparatively low level. This trend is likely to hold (OECD, 1997d: 16, 78). The structural change towards the services and information society is continuing. In future periods of upswing, jobs will probably tend to be created in the tertiary sector rather than in industry. The export intensity of the services sector around the world is less than that of goods output, and there is scope for further development. This also applies to Germany, which in some areas has a greater potential to boost its trade in services than other highly developed countries. Technical progress, falling transport and telecommunications costs, an improved domestic and international environment, new, global corporate strategies, rising incomes and higher mobility on the part of consumers will increase the supply of and demand for services.

In parallel to this, international direct investment is also expected to continue to grow appreciably. According to a survey by UNCTAD, 72 of the 100 leading transnational companies are planning an increase in their international direct investment over the next five years. As in the past, the bulk of this will continue to originate from and flow into the highly developed countries. North American investors regard Europe as the most important region for investment, and European investors for their part mainly wish to increase their presence in the United States. Japanese companies, on the other hand, prefer to concentrate on the Asia-Pacific region. But the developing countries will also be receiving more foreign direct investment and are planning to invest abroad themselves (UNCTAD, 1996a: 36). Going by the current trend, it can be expected that, as foreign direct investment rises around the world, the share of this accounted for by the services industry will grow further.

The previous rapid growth in international trade in services has generally taken place – apart from in the single European market and other regional zones of integration and free trade – without a comprehensive liberalisation of government market regulation. The multilateral process of liberalisation in the WTO context, effective from 1995, will stimulate further growth. It will be supplemented and reinforced by agreements on liberalisation like the result of the telecoms talks from February 1997 and the conclusion of the negotiations on financial services achieved at the end of 1997.

The actual impact on international trade will depend on strict adherence to the agreements made and on the extent to which businesses take advantage of the improved environment and global market liberalisation. Notwithstanding all the positive expectations regarding the likely development of trade in services, the services sector will also have to face up to tougher competition, more aggressive methods of market development, and possibly new trade conflicts, both on the domestic and the world markets. For example, the US telecommunications industry will do all it can to occupy the international telecommunications and information markets as quickly as possible, if necessary taking recourse to the United States' bilateral trade-policy instruments.

2. The most dynamic sectors of international trade in services

The development prospects of international trade in services vary widely from country to country and from sector to sector. The various areas – to the extent that relevant statistics exist at all – have already registered different levels of dynamism in the past (Table 20):

Table 20:

The growth rates of the leading services exporters 1985–1995

in current prices on a dollar basis
Annual change in %

	World	USA	France	Germany	UK	Japan
Total services exports	11.9	11.5	10.6	11.7	8.5	12.0
Transport (88/95)	8.8	9.4	7.1	8.0	5.7	5.8
Maritime freight	–	4.8	4.3	9.2	2.2	–
Air transport (passengers)	–	10.9	10.2	9.6	8.1	–
Air freight	–	14.1	10.7	3.9	3.5	–
Tourism (88/95)	10.6	11.0	10.5	7.6	8.0	1.6
Other services (88/95)	10.2	9.5	8.4	8.8	5.0	11.3
Telecommunications	–	5.2	16.2	8.0	3.5	–
Construction	–	–	12.0	8.8	–	–
Insurance	–	4.2	13.5	17.3	–2.0	2.6
Financial services	–	6.9	26.1	18.2	2.3	–
Computer/information	–	–	43.3	28.9	–	–
Fees/licence revenues	–	12.1	8.0	11.8	12.5	20.4
Other business services	–	6.5	3.6	13.4	5.9	8.3
Personal/cultural services	–	–	21.0	15.0	8.5	–

Source: WTO Annual Report 1996: vol. II tab. 75, IMF Balance of Payments Statistics 1996: vol. 47, own calculations

The differences in the levels of dynamism derive from structural and other competitive factors like the geographical situation and the climate for tourism, specialisation in world trade, technical advantages, etc. (cf. Part II.4).

It is necessary to point out that, because of the well-known statistical problems of international comparability, these data permit only limited conclusions to be drawn. Particular caution must be exercised regarding the growth rates of trade in services. The data expressed in US dollars in the international statistics are affected by fluctuations in the rate of the dollar and may grossly misrepresent the "real" development. For example, the exchange rates used by the IMF for Germany in its balance of payments statistics for 1985 to

1995 vary between DM 2.94 and DM 1.43 per dollar. The growth rate of German services exports ascertained (in DM) from the German balance of payments is 4.3 times lower than the IMF statistics (calculated in dollars) for the same period, because of the appreciation of the mark against the dollar. On the other hand, the appreciation of the dollar against other currencies in 1996 meant that the volume of trade recorded by the WTO for that year was much lower in terms of value than had been expected at the beginning of the year.

When looked at in conjunction with the sectoral market analyses discussed above, however, and notwithstanding these statistical difficulties, a number of service sectors are regarded as particularly dynamic and promising (cf. also Klodt et al., 1997: 173ff.).

The sector which is likely to give the greatest boost to growth and employment, particularly for Germany, is that of business services. This sector – including the banks and insurance companies that also work closely with business – has seen an 85% increase in the number of people it employs (above the wage threshold for social security contributions) since 1976 and has thereby created more than 1.2 million jobs. With some 2.6 million employees, the overall sector is now almost as large as mechanical and electrical engineering. The output of business services is expected to continue to grow strongly, although the banking and insurance sector is facing some tough rationalisation (Krämer in Mangold, 1997: 187ff.). Business services are also expected to have a substantial potential for development in terms of international trade.

High growth rates are also anticipated for telecommunications, information and multimedia services and for software and data processing services (Fels in Mangold, 1997: 47ff.; Krämer in Bullinger, 1997: 20ff.).

The software market is becoming more and more important. World-wide, it grew by 17% annually between 1990 and 1996. According to the McKinsey Global Institute, it had already grown to US $ 200 billion by 1994. That is almost half of the world's entire computer market. The US example reveals the production and employment opportunities that lie in this sector. The US economy uses almost twice as much computer software per capita (US $ 340) as Germany (US $ 173). Correspondingly, the United States has 50% more – mainly highly qualified – employees per capita in the software industry than Germany. Germany certainly has considerable potential for growth here (BMWi/IW, 1997: 14, 16, 34).

Many other modern services also started life in the United States and only came to Germany much later. Well-known examples are modern financial instruments like leasing and franchising or parcel services. Air traffic and tourism also have a good growth outlook. The prospects in the other transport sectors are influenced by both positive and negative factors. On the one hand, increased economic activity will boost demand for transport services. In view of changing production structures ("just in time") and increasing outsourcing, the potential market for logistical services is substantial. On the other hand, the advance of modern communication technologies is reducing demand for personal transport. A growing environmental awareness and corresponding policy measures could slow the rise in demand for transport services.

On the domestic front, the growth and employment outlook for personal health and nursing services and household and leisure services is predicted to be good (BMWi/IW, 1997: 16). However, this will be impeded by an increasing need for austerity on the part of the public-sector health fund managers. So far these services sectors have played only a very minor role in international trade in services, because they are mainly funded and provided by state or welfare organisations and are of virtually no interest for foreign competitors due to the lack of market-oriented scope for activity. That does not necessarily mean that international trade will remain small in these areas in future. Examples suggesting the opposite are the successful export of education and training services by the United States and the United Kingdom to foreign pupils and students and the export of medical services by various countries. Given its good quality and infrastructure, the German health system could attract more foreign patients, but would need to develop more market-oriented and competitive structures to do so. German universities are also endeavouring to attract foreign students once more and thereby to boost "exports" of services. Due to their traditional experience with competition in this field, other countries, such as the United States, are considerably more successful than Germany, where these service sectors are generally organised by the state and have not so far been oriented to international competition.

3. Possible scenarios for future development

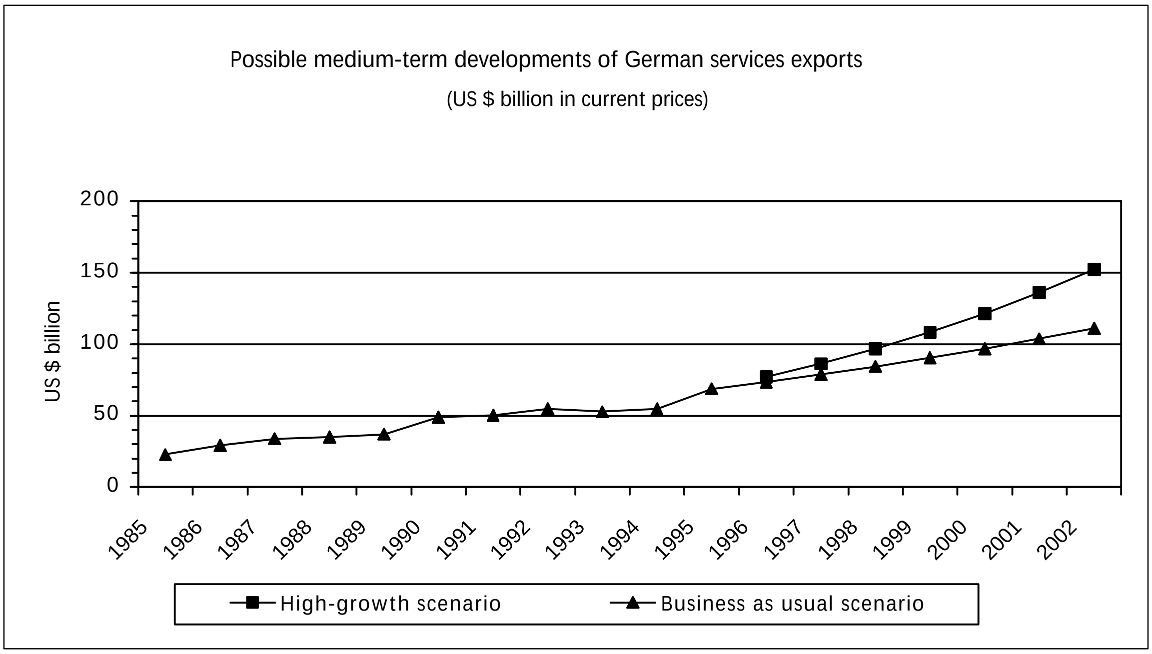
Estimates of the future development of world trade are very difficult and uncertain (GATT, 1994: 27ff.). Even short-term forecasts can turn out wrong. In December 1995, for example, the OECD predicted growth in world trade in 1996 of 8.2% in real terms, but reduced this forecast to 6.1% in December 1996 and finally confirmed that growth had in fact only been 4% (WTO, Press Release 71 of 4 April 1997). It is even harder to predict trends for international trade in services than for trade in goods. The well-known statistical problems mean that even the data from the past, which serve as a basis for the forecast, involve significant uncertainties. The estimates of world trade summarised in Table 19 therefore contain only a very few specific messages about trade in services. Most of the prediction models ignore it entirely.

The uncertainties in the forecasts relate to fundamental factors like economic growth, market prices and exchange rates, as well as the progress on sectoral structural change. Further uncertainties exist with regard to technological and commercial developments on the supply side, e.g. the introduction of new telecommunications and information technologies or the transport capacities of new wide-bodied aircraft. International direct investment can cause shifts in trade flows. It is impossible to predict what progress or setbacks there will be on deregulation at domestic level or on international liberalisation and other factors affecting trade in services.

Even at sectoral level, there are fundamental difficulties in the way of forecasts. Böhlke-Preissler (in Mangold, 1997: 242), for example, states: "Nothing useful can be said about the future of commerce on the Internet merely by extrapolating trends. The current situation cannot be analysed with any degree of precision; the future offers a vast variety of potential developments which will be influenced by factors which are very hard to pin down." The predictions of the volume of electronic commerce which will be conducted via the Internet in 2000 vary between US $ 5 and 300 billion. Almost all other service sectors pose similar problems for forecasters (e.g. on air transport: OECD, 1997c, 39ff.).

This paper will now try to illustrate the potential medium-term developments of international trade in services using two scenarios (Figure 10). However, the following remarks certainly do not represent forecasts. The actual course of events will depend on a large number of economic and political factors.

Figure 10:



Source: WTO statistics on services exports 1985–1995; WTO Annual Report 1996: vol. II, tab A5, own model calculations

The "business as usual" scenario assumes that the present trend of German trade in services will continue. That means that the growth of German services exports as determined in the WTO statistics of 7.1% a year from 1990 to 1995 (on a dollar basis in current prices) will continue up to 2002. Exchange rates are assumed to remain constant. This scenario certainly seems feasible. The growth trend, which slowed down in the second half of the 1985–1995 period, is extrapolated from only the lower rate (6.6%) in the latter half of the period. This in turn is based on the prediction by the IMF World Economic Outlook 1997 (p. 169, 205), which forecasts annual growth of almost 7% (in current prices) for the total exports of goods and services of the advanced economies up to 2002. It can be assumed that trade in services – as in the past – will grow faster than trade in goods.

In the "business as usual" scenario, it is also assumed that the liberalisation measures implemented and planned in Germany, the EU and the WTO will proceed according to plan. In other words, this is not a "worst case scenario". Should the liberalisation slow down or even reverse, or should a new wave of protectionism spread, exports of services would presumably develop less positively than in this scenario. The same is certainly true should there be unpredictable economic or political disruption of global economic output and trade.

The "high growth" scenario, in contrast, is based on the assumption that the overall economy and world trade will develop in line with the higher variants of the estimates presented in Table 19, that rapid progress will be made on the liberalisation of trade in services, and that domestic German regulations will soon be improved. This scenario assumes that Germany is able to achieve growth of exports of services at the same rate as it (11.6% p.a.), the EU (11.8%) and Japan (12%) managed on average over the 1985–1995 period (in nominal terms on a dollar basis). The expansion is thus relatively great, especially given that export growth effectively slowed down in the latter half of the period. On the other hand, Germany has opportunities to boost its exports in the most dynamic sectors as world output and trade pick up. The best example of this is provided by Japan, which has recently achieved large increases in the export of "other services" (up 11.3% p.a. between 1988 and 1995) and raised its share of the world market from 5.1% to 7.7%. Austria, Belgium, Italy and the Netherlands have also done well in this field (WTO, 1996: vol. II, tab. IV, 63). German exports, on the other hand, only achieved below-average growth on this expanding market, and the country's market share declined from 7.6% to 6.2%. If trade is to develop as envisaged in the "high growth" scenario, there would therefore need to be a turnaround in this promising area of services, success in exports in other areas too, and a strong process of further liberalisation.

Summary and outlook

Today, the services sector is the largest sector in terms of value added and employment, and it is also the fastest growing sector in the highly developed economies. The share of the world's GNP accounted for by services rose by almost one-fifth between 1970 and 1997, to 65%. Up to three-quarters of employment world-wide is in the services sector. It is therefore regarded as the driving force for employment in modern economies. Financial services, telecommunications and information, transport and business services are large, highly productive areas of the economy which serve domestic and international markets alike. They create growth, employment and innovation.

The growing importance of services, however, does not pose a threat to the goods-producing sector. In fact, the two sectors are growing ever closer together and are becoming more mutually dependent on each other as intersectoral cooperation becomes deeper. Services are increasingly becoming vital inputs for industrial production and are more and more determining its competitiveness. There is a shift away from the export of goods alone towards the export of complete solutions in which the value of the services often exceeds that of the merchandise. The traditional borderlines between the goods and services sectors are becoming blurred. For Germany, as an efficient provider of a wide range of industrial goods and as a high-wage country, a productive industrial sector will remain indispensable in the future, not least as a basis for the continuing development of the services sector.

In Germany, as in other countries, the share of overall economic output accounted for by services has risen, from 41% in 1960 to 64% in 1995. The proportion of the workforce employed in services has grown from 34% in 1950 to 63% today. Since 1970, employment in this sector (in the west of Germany) has increased by 6.1 million, a rise of 55%. Of this figure, 4 million people were employed in private-sector companies, 1.2 million by the state and 0.9 million in private households and non-profit-making organisations. The services sector is the only one which has been able to create additional jobs over the last 25 years. It is also making a substantial contribution towards modernising the economy and boosting employment in the east of Germany.

The rise in employment in the services sector achieved in Germany, of 6.1 million or 55%, does however contrast with an increase of 43 million or 90% in the United States and of 15 million or 65% in Japan.

In view of this dynamic growth, there are great hopes that the services sector will be able to tackle the unemployment problem.

Macroeconomic structural change has also been affecting international trade in services for a long time now. Cross-border trade in services alone now accounts for one-fifth of all world trade, with exports of US $ 1,200 billion. The figure becomes much greater when one includes the services provided by the "commercial presence", i.e. the subsidiary of a foreign services company. Another increasingly important factor is those services incorporated in international trade in goods.

Despite this strong growth, it is apparent that the share of world trade accounted for by services is, at 19%, much lower than the services' share of world output (65%). The services sector is thus far less internationalised through foreign trade than is industry. That is the consequence of fundamental structural differences and of institutional and regulatory barriers to trade.

Over the two decades from 1976 to 1996, Germany tripled its exports of commercial services to DM 127 billion. Over the same period, its imports of services expanded by almost three-and-a-half times to DM 193 billion. Services account for 12% of all German exports, compared with 20.4% (on average) in the EU, 24.3% in the United States, and 12.6% in Japan. In the rankings of leading services exporters, Germany generally comes in third or fourth place behind the United States, France and the United Kingdom. Its position is thus considerably weaker in trade in services than in trade in goods. Also, Germany's trade balance for services has been in the red for decades, and the deficit – DM 65 billion in 1996 – is still growing. Easily the largest part of the deficit is caused by the fact that Germans are the world's keenest tourists. But almost all other service sectors – except for financial services and insurance – also have a negative trade balance. In this respect, therefore, Germany is very different from other countries like the United States, the United Kingdom, Spain and France, which earn large surpluses from international trade in services.

Many observers conclude from this that Germany has a "services gap" in its macroeconomic structural change and in international trade. All one would need to do would be to close this gap by means of appropriate strategies, and the unemployment problem would be a thing of the past. However, this argument should be treated with caution. The apparent statistical "gap" in German trade in services compared with other countries is substantially reduced if one remembers that a considerable and growing amount of services are exported via the commercial presences abroad of German companies. This form of trade – which goes far beyond the traditional concept of simple, cross-border trade – is becoming more and more important, e.g. in the banking and insurance sector. The services sector is now by far the main focus of German investment abroad.

The "gap" in German services exports is further reduced by the ever rising proportion of services which are incorporated in the export of goods and which are treated statistically as exports of goods. There is a clear trend towards the tertiarisation of input into industrial production and thus also into exports of goods.

The growing significance of international trade in services quickly led to attempts to liberalise it. The most successful example of this is the single European market, where trade in services within the Community has largely been liberalised following a lengthy and difficult process. The adoption of the General Agreement on Trade in Services (GATS) in the Uruguay Round trade negotiations represented a further decisive step towards multilateral liberalisation. The GATS is the first set of multilateral rules for trade in services and for international investment in the services sector. At the same time, it provides a framework for further gradual reductions in the many institutional and regulatory barriers which have so far impeded the full development of international trade in services.

Since it entered into force in 1995, the GATS has already achieved substantial progress on liberalisation, particularly through the successful conclusion to the negotiations on liberalising basic telecommunications services and financial services in 1997. Despite this, the multilateral process of liberalisation is still only just getting underway, and much remains to be done in order to advance the liberalisation to anything like the level achieved for merchandise trade by the GATT. The next general round of negotiations on services will commence in 2000.

The gap in German trade in services as revealed by benchmarking comparisons with other countries does not in itself justify any regulatory action to create roughly similar structures or market shares in German trade in services. Instead, the gap rather raises the question of what underlies the divergent developments, and whether there are any structural, institutional, regulatory, legal, wage-related, tax or other impediments in Germany or on the world market which explain the gap and can perhaps be tackled with appropriate strategies. In view of the heterogeneous nature of services, these questions need to be addressed for each individual service sector. At the same time, it is clear that, simply because of the generally expected growth in international trade in services, Germany has substantial potential to boost its foreign trade. This finding is of greater interest than the discussion of a smaller or larger services "gap", as it is not static or backwards-looking, but focuses on the dynamism and the growth opportunities of future developments. In macroeconomic terms, everything indicates that active use should be made of this potential. Exports and imports create income, growth and employment in all the countries involved.

The structural change towards the services society will continue, albeit possibly at a rather slower rate. The macroeconomic and trade-policy preconditions for further growth in international trade in services are more favourable than ever. The export intensity of the services sector still lies far below that of manufacturing industry, and there is great scope for further growth. The range of modern services is expanding and improving. This particularly applies to modern telecommunications and information services, which also increasingly serve as media for the provision of other services. The rising incomes resulting from the current expansion in world economic activity, the increasing outsourcing of services by industry, and the shorter product and innovation cycles are boosting demand for services. Finally, a further strong demand push is coming from the globalisation of production and of sales markets. The international division of labour and new production methods like "just in time" and "lean production" require more and better transport and communication services. The liberalisation of trade in services in the multilateral context, in the single European market, in other regions, and at bilateral level, is reinforcing this development.

Key sectors which promise an increase in German trade in services particularly include telecommunications and information services, the growing area of business services, such as architectural and engineering services, research and development, planning, consulting, advertising, software development, export and project financing, transport and logistics, particularly in air transport, and tourism. The prospects for growth are favourable in all of these sectors, and Germany has considerable comparative advantages in every one of them. These advantages include the high level of technological development and of expertise in German engineering, a traditional strength, in conjunction with an efficient industrial base. They include the ability to innovate, high standards of quality and reliability, and the capacity to develop complex solutions. On top of this, there is the quality of German vocational training in the dual system, well-developed and stable financial markets, excellent infrastructure and a reliable legal system.

The future development of Germany's trade in services primarily depends on the initiative and competitiveness of its services industry. There is a need to improve the "services mentality" and the international market orientation in some export-capable sectors. On the import side, there are further opportunities to outsource and to procure qualified services as an input into industrial production.

The development of trade in services will also be influenced by government regulations and wage agreements at home and abroad and by the success achieved on further deregulation and liberalisation.

If advantage is to be taken of the potential for growth, it is particularly important to continue to make the labour market and wages in the services sector more flexible and to lower the burden of taxes and welfare contributions, thereby facilitating the launch of new service companies, to deregulate sector-specific market access barriers, to improve the financial conditions for new businesses and to adapt the vocational training and higher education systems to the needs of the international services markets. The instruments of external economic support must be adapted to the needs of trade in services and made more accessible. In order to improve the German situation, it is also necessary to resolutely continue the liberalisation of trade in services in the context of the WTO, in the single European market, in the OECD and at bilateral level. All of these measures are included in the policies of the German government, not least in the "Services Sector 2000 Action Programme" of the Federal Ministry of Economics. However, it is particularly the larger reforms of relevance to the economy as a whole that have yet to be implemented. In addition to government, however, the services companies and the trade unions also bear great responsibility for improving the business environment.

The development of trade in services will change the world of work. The services industry, and foreign trade in particular, require more flexibility and higher vocational qualifications. New occupations will emerge, whilst outdated occupations and less skilled jobs will become less important.

Growing trade in services will also make a substantial contribution towards employment. The 2.3 million people working directly or indirectly in the export of services in 1989 can serve as an indication of the potential scale. This figure has presumably risen due to the growth in cross-border trade in services (4.5% p.a.) which has occurred since and due to the growth in foreign investment in the services sector – although employment will not have risen at the same rate, since rationalisation has also taken place which either slows the rise or even causes job losses in some sectors, e.g. in telecommunications or the "traditional" services sectors of trade and transport.

It would be illusory to believe that trade in services alone could soak up the job losses in the manufacturing sector in Germany. Trade in services does have substantial potential for growth which – depending on the development of the economic and regulatory environment – can be put at between 7 and 11% a year in the medium term (on a dollar basis in current prices). However, even if the development is favourable, this on its own will scarcely suffice to create enough jobs. Also, the lack of intersectoral mobility and the divergent skills offered by the job-seekers and demanded by the services sector present great problems. "GNP cannot be earned simply by exporting blueprints." (Jagoda in Mangold, 1997: 124)

On the other hand, Germany must make active use of all the opportunities for growth and employment offered by the expanding international trade in services. The liberalisation of international movements of capital, trade and investment, mobile technologies, mobile knowledge and information are forcing all countries to compete for investment. International competition will increasingly develop into a competition between the national tax, labour market and regulatory systems, particularly in the highly regulated field of trade in services. If a country acts defensively, it will share less in the growth of modern service markets and its employment situation will develop less favourably. If, for example, we fail to develop the infrastructure for modern information and communication services in good time, we will run the risk of seeing the corresponding jobs appearing not in Germany, but elsewhere. The suppliers will go to other, more accessible markets, and create income, employment and tax revenues there.

On the other hand, the more aggressively business and government respond to the challenges of globalisation and the international trade in services, the higher the growth and employment will be. Germany's competitiveness will largely depend on whether we succeed in linking up high-grade industrial products and complementary services intelligently, thereby succeeding on the world market. In this way, Germany can certainly take advantage of the experience of the United States and other successful exporters of services, without simply transferring their situation across. Many new and promising services, e.g. modern information services, computers and software, the Internet, satellite communications, modern financial services and logistics systems have been developed in the United States and conquered the world markets. The United States has not tried to block globalisation and structural change, but has placed itself at the forefront of the development. The services sector and the overall economy benefit from innovation, a highly developed services mentality, private initiative, deregulation, wage differentials and low tax rates. At the same time, the services sector mainly creates high-grade and well paid jobs, as well as many jobs for less skilled people.

If Germany proves able to change direction in this way, services and the related international trade will be able to make an important contribution towards modernising its economy, helping its labour market and benefiting its consumers.

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