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Rolf J. Langhammer*

Import Market Penetration in Services

The EC-1992 programme foresees the complete liberalization of trade in services among member countries. To what extent has import market penetration in the Community already begun in selected service industries? Which EC member countries have been the forerunners to date? The following paper uses a new data base released recently by EUROSTAT in an attempt to answer these and other related questions.

Liberalization of services has been an important issue both in the multilateral trade negotiations (Uruguay Round) and the EC Internal Market Programme (EC-1992).

While the Uruguay Round has envisaged guidelines such as national treatment (same treatment of domestic and foreign suppliers) to be accepted by the contracting parties, the EC-1992 programme has gone even further. In various Directives it has anchored the "home country" rule, subject to joint minimum standards requirements. Under this rule, EC suppliers are not required to adjust their goods and services to the standards of the importing countries. They are allowed to export goods and services to member countries under their own standards provided that these standards are well-established on local markets without causing any harm to the consumer. This was the substance of the famous "Cassis de Dijon" case, which was decided by the European Court in 1979 and which since that time has been extended to both merchandise and services trade.

Priority for Competition

Thus – unlike the GATT procedure – the EC has given competition between various national rules and standards priority over the "country-of-destination" principle which conforms with national treatment. Should common minimum standards – to be negotiated *ex ante* for reasons of consumer protection, for instance – not become

excessive, one may expect much more competition between domestic and foreign suppliers of services after 1992 than before.

In the traditional terms of the integration stages defined for merchandise trade, i.e. free trade areas, customs unions, common markets and economic unions,¹ the principle of "home country" rule suggests a free trade area for services but not a customs union. If non-EC suppliers of services comply with standards of a single EC member country which are mutually accepted by other member countries, the non-EC supplier can export its services to the other member countries, too, without changing the standards. There would be no need for a common EC-wide policy for non-members such as a common external tariff in a customs union.

Yet, in reality, EC as well as non-EC exporters of services may have felt more resistance by formerly protected domestic suppliers who had fought for tough minimum standards to be met by exporters. Standards cover a wide range from social standards in labour legislation and safety norms to liability standards and to those for environmental protection. Such resistance however, is purely defensive because "natural" protection has declined over time (language barriers, costs of marketing, "confidence" premia of local suppliers etc.) and because domestic demand for consumer and business services has increasingly found access to information on

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¹ Bela Balassa: The Theory of Economic Integration, Allen & Unwin, London 1962.

competitive service imports. The more common minimum standards dominate over the "home country" rule, the more likely it is that the EC will approach a customs union in services.

This paper attempts to answer the questions to what extent such import market penetration has already begun in the Community in selected service industries, and which industries and EC member countries were the forerunners in being penetrated by imports from member and non-member countries. A breakdown by industries and member countries is necessary for two reasons. First, given the large variety of conditions of access to markets for individual services, differences in market penetration between service industries may point to industry specifics. On the other hand, differences in import market penetration between EC member countries in identical industries suggest that country specifics such as different national levels of protection are relevant. Such differences could indicate barriers to agreements on the "home country" rule in the EC-1992 programme.

Similar questions were raised in studies on manufactures,² which showed an increasing penetration of local markets by both EC and non-EC suppliers in the process of ongoing integration. As markets of manufactures already reveal a fairly high degree of integration within Europe compared to services, more dramatic changes in import market penetration can be expected for service industries after the completion of the internal market.

This article also discusses changing ratios between intra-EC and extra-EC imports in services during the eighties for the Community as a whole as well as for individual member countries. Finally, it focuses on the concept of shares of imports in apparent consumption, i.e. the import market penetration concept. As this concept combines trade with domestic production, "costs" of empirical research arise in terms of higher levels of aggregation and shorter periods of observation than under a pure "trade share" concept.

Both the trade share analysis and the discussion of import market penetration have been made possible by a new data base released by the Statistical Office of the European Communities.³ The data cover non-factor services as well as factor services (labour income, investment income). To conform with conventional definition, only non-factor services are dealt with. Figures are based on the harmonisation of official national data on

trade in services and—because of far-reaching conceptual and statistical caveats—are explicitly introduced as estimates by the Office. They were used by the Community as statistical background information in the GATT negotiations on liberalizing trade in services. Above all, a fair degree of caution in interpreting the figures introduced below is advisable.

Intra-EC and Extra-EC Imports

During the eighties the Community experienced a steady increase in the share of intra-EC imports in total merchandise imports from 53.2 per cent in 1980 to 58.5 per cent in 1988 (cf. Table 1). Compared to this trend, intra-EC imports in total non-factor services started from a lower level and stagnated in the mid-eighties in terms of shares before following an upward trend. This trend, however, was moderate and did not significantly exceed the initial level of about 47 per cent. Thus, on average, by 1988 more payments for services were still channelled to non-EC residents than to EC residents.

Differences in intra-EC import shares between service industries are sizable. For instance, more than 70 per cent of external payments for patents and licences accrued to non-EC residents, probably in the USA in particular. In the same range were payments for air passenger transport which would indicate a fairly open market in this industry. In relative terms, domains in which intra-EC suppliers dominated over non-EC competitors were sea passenger services (mostly ferry services), other transport (mainly road and railway transport), travel (mainly tourism) as well as advertising and other business services provided to enterprises. Yet, there is no service industry in which EC residents received more than 60 per cent of total payments for imports of services. Surprisingly, construction services (which exclude labour income and mostly comprise consultants and assembly services) were mainly imported from non-EC residents but since such services represented only a very small share of total imports of services (less than two per cent) not too much should be concluded from the figures. In total, transport services and travel declined relative to other services (mainly business services) in intra-EC trade. This shift is consistent with the view that former in-house and increasingly "externalised" services related to "movements of knowledge, skills and information" expand more than traditional services which stem from movements of goods and persons.⁴

³ EUROSTAT: The European Community's International Trade in Services, 1979-1988, Preliminary Report written by Ms. Marie Paule Benassi, Unit C3 - Balance of Payments and International Trade Analysis, Luxembourg 1990; EUROSTAT: Some Statistics on Services, Theme 7, Services and Transports, Series C, Accounts, Surveys and Statistics, CA-52-88-009-2A-C, Office des Publications Officielles des Communautés Européennes, Luxembourg 1990.

² Alexis Jacquemin, André Sapir: European Integration or World Integration? in: *Weltwirtschaftliches Archiv*, Vol. 124, 1988, No. 1, pp. 127-139.

Trends in EC import shares not only differ by service industries but also by EC member countries.⁵ For the five major trading partners in the Community, the Netherlands, France, Italy, the UK and West Germany, levels of intra-EC import shares reveal differences which are similar to those observed for merchandise trade.⁶ The Netherlands tops the list with EC import shares in factor services exceeding 50 per cent on average (cf. Table 2); it also tops the list in merchandise trade. At the other end of the scale are the UK and Italy with shares of 40 per cent and below. Merchandise trade shares usually list the UK as the latecomer in intra-EC trade because of its traditionally strong orientation towards non-EC markets which declined only very gradually. Yet, the process of linking the UK to Continental Europe which occurred in the eighties when the UK became fully integrated into the provisions of

the Rome Treaty seems far less distinct in services than in merchandise trade.⁷ Increases in intra-EC import shares in services were only in the range of 2 percentage points, which is similar to increases for Italy at an even lower level of 35–36 per cent.

France and West Germany have kept average positions. They have in common with the trend for all EC member countries (cf. Table 1) that their intra-EC import shares followed a U-curve in the eighties with the turning-point in 1984 or 1985. Again, the rise after 1985 was not dramatic enough to support the conclusion that the announcement of the internal market and preliminary measures to liberalize internal trade in services had a short-term positive impact on intra-EC trade. In total, between 1979 and 1988 EC trade in service industries does not seem to have followed the familiar pattern of a trade-diverting customs union, i.e. of replacing extra-union imports by intra-union imports. Instead, there are converging trends of declining intra-EC trade shares in some industries where EC sources were initially leading and rising shares in industries where EC sources were of minor importance at the end of the seventies. The latter movement was relatively strong during the last two years of the observation period and could indicate the beginning of a process of EC integration in services.

⁴ Cf., for example, Phedon Nicolaidis: Services in Growing Economies and Global Markets, in: Pacific Review, Vol. 3, No. 4, pp. 283-295, esp. p. 286 f.

⁵ To economise on space, tables on trade shares for all member countries and all service industries were dropped. They are available from the author upon request.

⁶ Alexis Jacquemin, André Sapir, op. cit., p. 133, Figure 2.

⁷ Comparisons between the UK and other EC member countries are impeded by lack of individual data for UK exports and imports of services in banking and insurance. Instead, UK exports in this industry are recorded on a net basis only.

Table 1

Share of Intra-EC Imports in Total EC-12 Imports of Services, 1979 – 1988

(in %)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
MERCHANDISE TRADE	53.2	50.4	49.2	51.0	52.1	51.7	53.1	57.8	58.6	58.5
NON-FACTOR SERVICES	47.4	46.8	44.5	44.4	44.4	44.2	44.6	47.4	47.6	48.8
Transport	43.0	42.7	41.2	41.5	40.3	39.8	39.1	41.4	40.6	42.5
Sea freight	36.6	36.4	35.2	36.4	34.7	35.4	34.3	34.6	34.7	37.0
Sea passenger services	69.3	69.4	62.7	61.3	60.7	62.8	62.0	60.3	58.2	59.9
Air freight	36.3	35.2	35.9	35.3	35.4	35.4	35.8	38.5	39.7	40.7
Air passenger services	31.0	29.0	29.9	28.6	27.6	27.3	28.9	29.0	26.9	29.3
Other transport	53.0	52.0	50.3	49.8	49.1	47.8	46.6	52.0	50.8	51.9
Travel	58.7	57.9	54.9	56.2	56.8	57.3	57.3	58.2	58.6	57.8
Other services	42.5	42.2	40.1	39.2	39.8	39.8	41.0	44.2	44.5	46.6
Insurance	45.7	45.7	47.1	45.3	42.4	46.2	51.3	53.2	50.6	49.6
Trade earnings	39.7	39.2	37.7	38.0	38.7	38.3	38.1	41.1	47.0	45.5
Banking	41.1	42.3	37.9	37.7	45.6	48.1	48.7	49.0	51.6	48.3
Advertising	55.9	55.7	53.3	54.1	54.0	51.2	51.7	53.6	54.9	56.1
Business services	47.8	46.6	44.1	43.5	43.9	43.3	43.7	46.9	51.5	53.8
Construction	31.4	32.1	32.1	21.1	20.9	23.0	28.3	35.0	36.7	38.5
Communication services	44.0	41.9	40.6	40.4	39.4	37.6	39.2	41.4	39.7	48.6
Films/TV	34.0	32.2	33.3	31.8	36.3	35.1	30.9	40.8	41.4	44.4
Payments for patents	27.2	26.8	25.1	25.3	24.3	23.6	23.3	26.2	26.6	28.5
Other services	48.2	47.9	44.7	46.4	46.0	44.4	46.0	48.6	44.4	49.9
Other not alloc.	55.9	51.6	50.8	53.3	55.6	55.8	57.6	62.4	61.7	55.3

Source: EUROSTAT: The European Community's International Trade in Services, 1979 – 1988, Preliminary Report written by Ms. Marie Paule Benassi, Unit C3 – Balance of Payments and International Trade Analysis, Luxembourg 1990; own calculations.

Table 2
Intra-EC Imports in Total Imports of
Non-Factor Services of Major EC Member
Countries, 1979 – 1988
 (in %)

	Netherlands	France	Italy	UK ¹	W. Germany
1979	52.9	49.0	35.5	39.4	46.7
1980	53.1	49.0	36.9	39.4	45.3
1981	49.3	45.3	36.3	39.0	42.5
1982	49.5	45.8	35.0	39.8	41.1
1983	49.8	43.7	33.5	39.8	42.2
1984	51.1	43.1	33.1	39.4	42.9
1985	51.5	42.1	32.6	40.1	42.8
1986	56.8	44.5	35.4	41.4	44.6
1987	56.8	45.9	36.6	41.2	45.3
1988	54.2	47.6	36.2	41.6	47.6

¹ Excluding banking and insurance.
 Source: See Table 1.

Import Market Penetration

The distinction between intra-EC and extra-EC import shares is helpful in analysing changes in the origin of total imports if trade policies are discriminatory. By its nature, the EC distinguishes between member countries and non-member countries, but in the past discrimination was felt to be strong mainly in merchandise trade rather than in service industries. Shortly after launching the 1992 programme the EC began to introduce some elements of a common external policy in service industries with respect to joint minimum standards and rules applied to non-member suppliers (e.g. the "unfair pricing" regulation of December 1986 in shipping⁸). By the beginning of the nineties such standards and rules have become the nucleus of a future customs union in services.

Yet, in general, one may argue that such a customs union is still very much in the making and that the discrimination against imports compared to domestic production in individual EC member countries is still greater than the discrimination against extra-EC imports compared to intra-EC imports. If this is the case then the more relevant criterion for assessing the degree of openness in EC service industries is the contributions of extra-EC and intra-EC imports to the apparent consumption of services in individual EC member countries (domestic production net of exports plus imports). Furthermore, this so-called import market penetration ratio has been widely accepted as the superior

⁸ C.B.H. Stal: European Community Transport Policy: The Case of Maritime Shipping, in: Noordin Sopiee, Chew Lay See, Lim Siang Jin (eds.): ASEAN at the Crossroads. Obstacles, Options and Opportunities in Economic Co-operation, Institute of Strategic and International Studies, Kuala Lumpur 1987, pp. 477-488.

measure for assessing the static trade effects of a customs union (trade creation and trade diversion), rather than relying on trade shares.⁹

Yet, in all studies combining production and trade, data problems are significant and this holds all the more in the case of services where information on gross domestic output is available only for a few industries. As a result, the level of aggregation is much higher and the timespan much shorter for import market penetration ratios than for trade shares. In our case, new EUROSTAT databanks covering value added in some service industries in individual member countries¹⁰ have been combined with the 1980 standardised EC Input-Output Tables which provide information on gross domestic output.¹¹ As a control of data consistency, the value-added data for 1980 from the databank files were compared with the 1980 value added in the Input-Output Tables. Differences were minimal and only in a very few industries in individual member countries did it seem appropriate to estimate the gross output/value added ratio from the two sources instead of relying on the Input-Output Tables. In brief, the 1980 ratio has been combined with the annual value-added data to estimate annual gross output data for the 1980-1985 period in five industries (maritime and air transport, other transport, construction, banking and insurance (excluding the UK for the reasons cited above) and communication services). Trade data were taken from the sources used in Tables 1 and 2.

For reference purposes, it seems helpful to recall briefly the import market penetration ratios measured in the manufacturing sector of the EC. In 1986/87 intra-EC imports and extra-EC imports had a share of apparent consumption of 19.3 per cent and 11.2 per cent respectively.¹² In intra-EC imports the highest share was achieved in machinery (31.3 per cent) whereas extra-EC imports had their highest penetration ratio in clothing (25.1 per cent). The lowest shares were recorded for intra-EC imports in petroleum and coal products (8.7 per cent) and for extra-EC imports in non-metallic mineral products (2.9 per cent).

⁹ Edwin M. Truman: The Effects of European Economic Integration on the Production and Trade of Manufactured Products, in: Bela Balassa (ed.): European Economic Integration, Amsterdam 1975, pp. 3-40.

¹⁰ EUROSTAT: Some statistics on Services ..., op. cit.

¹¹ EUROSTAT: National Accounts ESA, Input-Output Tables 1980, Luxembourg 1986.

¹² UNCTAD: Handbook of International Trade and Development Statistics 1989, New York 1990.

¹³ Unfortunately, it cannot be verified whether imports of banking and insurance services in the UK account for a larger share. The UK is frequently said to be the most internationalised financial market in the Community.

EUROPEAN COMMUNITY

Table 3

**Net Domestic Production (P-X), Intra-EC Imports (MI), and Extra-EC Imports (ME)
in Apparent Consumption in Selected Service Industries, 1980 – 1986**

(in %)

	1980	1981	1982	1983	1984	1985	1986
Construction							
France							
P-X	99.1	98.7	98.5	98.5	98.6	98.8	99.1
MI	0.2	0.4	0.3	0.2	0.2	0.2	0.2
ME	0.7	1.0	1.2	1.2	1.3	1.0	0.7
Italy							
P-X	99.3	99.6	99.3	99.1	98.8	98.7	98.6
MI	0.2	0.2	0.2	0.2	0.3	0.3	0.4
ME	0.4	0.3	0.5	0.7	1.0	0.9	1.0
Netherlands							
P-X	99.4	99.3	99.5	99.9	99.8	99.4	99.3
MI	0.5	0.6	0.5	0.1	0.2	0.6	0.7
ME	0.1	0.1	0.0	0.0	0.0	0.1	0.0
United Kingdom							
P-X	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MI	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ME	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
West Germany							
P-X	97.6	96.8	94.6	95.5	96.5	96.4	97.6
MI	0.6	0.8	0.7	0.7	0.7	0.8	0.7
ME	1.9	2.5	4.6	3.8	2.8	2.8	1.8
Maritime and air transport							
France							
P-X	44.0	28.9	27.9	31.8	29.8	30.4	41.0
MI	22.7	26.4	25.9	21.6	22.8	23.2	19.6
ME	33.4	44.7	46.2	46.6	47.4	46.4	39.4
Italy							
P-X	43.8	44.3	47.9	45.5	44.5	46.6	48.2
MI	17.1	19.3	19.4	18.9	21.3	17.7	15.1
ME	39.1	36.4	32.8	35.6	34.2	35.7	36.6
Netherlands							
P-X	58.0	57.3	54.2	57.7	55.1	n.a.	n.a.
MI	10.7	10.3	11.4	10.7	11.0	n.a.	n.a.
ME	31.3	32.4	34.4	31.6	33.8	n.a.	n.a.
United Kingdom							
P-X	65.0	66.1	69.4	70.2	69.4	70.4	71.9
MI	13.6	12.9	11.3	10.6	10.4	10.0	8.8
ME	21.5	21.0	19.3	19.2	20.2	19.6	19.3
West Germany							
P-X	54.8	47.5	49.6	46.0	42.9	43.1	n.a.
MI	14.5	14.4	14.9	14.9	16.5	17.0	n.a.
ME	30.8	38.2	35.6	39.0	40.6	39.9	n.a.
Other transport							
France							
P-X	90.9	90.7	90.3	91.5	91.5	92.0	92.1
MI	7.0	7.3	7.8	6.7	6.8	5.4	5.8
ME	2.1	2.0	1.9	1.8	1.6	2.6	2.1
Italy							
P-X	92.1	92.2	92.3	92.9	92.5	92.2	94.6
MI	3.9	3.3	2.3	2.1	1.5	1.6	1.3
ME	3.9	4.5	5.4	5.1	6.0	6.2	4.1
Netherlands							
P-X	57.1	44.0	42.4	49.4	43.3	n.a.	n.a.
MI	27.2	33.8	35.5	30.1	32.8	n.a.	n.a.
ME	15.7	22.2	22.0	20.5	23.9	n.a.	n.a.
United Kingdom							
P-X	82.8	82.6	83.3	83.9	84.2	84.8	87.2
MI	5.7	5.8	5.5	5.3	5.4	5.2	4.4
ME	11.5	11.7	11.2	10.8	10.4	10.0	8.4
West Germany							
P-X	87.3	85.7	85.8	86.5	86.1	86.1	n.a.
MI	7.0	7.6	7.5	7.3	7.1	7.2	n.a.
ME	5.7	6.7	6.7	6.2	6.8	6.7	n.a.

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Table 3 (continued)

	1980	1981	1982	1983	1984	1985	1986
Communications services							
France							
P-X	98.2	97.8	97.8	97.8	97.7	98.1	98.2
MI	0.8	0.9	0.9	1.0	1.0	0.8	0.8
ME	1.1	1.3	1.3	1.3	1.4	1.1	1.0
Italy							
P-X	99.0	99.4	99.1	98.9	98.7	98.8	99.1
MI	0.2	0.2	0.2	0.3	0.3	0.3	0.2
ME	0.7	0.5	0.7	0.8	0.9	0.9	0.7
Netherlands							
P-X	96.9	96.6	96.3	96.1	95.9	n.a.	n.a.
MI	2.0	2.1	2.2	2.5	2.5	n.a.	n.a.
ME	1.1	1.3	1.5	1.3	1.6	n.a.	n.a.
United Kingdom							
P-X	96.1	96.3	95.9	94.8	93.8	94.1	94.4
MI	0.5	0.5	0.5	0.7	0.8	0.7	0.7
ME	3.4	3.2	3.6	4.5	5.4	5.1	4.8
West Germany							
P-X	97.3	96.3	95.8	95.8	95.8	95.5	n.a.
MI	0.8	1.3	1.4	1.4	1.5	1.7	n.a.
ME	1.9	2.4	2.7	2.9	2.7	2.8	n.a.
Banking and insurance							
France							
P-X	99.0	98.8	98.6	98.5	98.6	98.6	98.5
MI	0.5	0.6	0.6	0.6	0.6	0.7	0.7
ME	0.4	0.6	0.7	0.8	0.8	0.7	0.8
Italy							
P-X	95.5	95.2	94.2	96.6	96.6	96.4	97.8
MI	1.1	1.1	1.2	0.7	0.8	0.8	0.6
ME	3.4	3.7	4.5	2.7	2.6	2.8	1.7
Netherlands							
P-X	98.5	98.7	98.4	98.8	98.1	97.8	98.0
MI	0.7	0.6	0.7	0.2	1.0	1.2	1.2
ME	0.8	0.7	0.9	1.0	0.9	1.0	0.8
United Kingdom							
P-X	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MI	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ME	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
West Germany							
P-X	99.5	99.5	99.6	99.6	99.5	99.5	99.6
MI	0.2	0.2	0.2	0.1	0.2	0.2	0.2
ME	0.3	0.3	0.3	0.3	0.3	0.3	0.3

n.a. = not available

Sources: EUROSTAT: National Accounts ESA, Input-Output Tables 1980, Luxembourg 1986; EUROSTAT: The European Community's International Trade in Services, 1979 - 1988, Preliminary Report written by Ms. Marie Paule Benassi, Unit C3 - Balance of Payments and International Trade Analysis, Luxembourg 1990; EUROSTAT: Some Statistics on Services, Theme 7, Services and Transports, Series C, Accounts, Surveys and Statistics, CA-52-88-009-2A-C, Office des Publications Officielles des Communautés Européennes, Luxembourg 1990; own calculations.

Wider Spread in Services

Table 3 suggests a much wider spread of penetration ratios for the five service industries. In three of them domestic production clearly dominated over the entire period (construction, communications services and banking and insurance).¹³ In most cases even more payments for such services were credited to non-EC residents than to EC-residents.

On the other hand the two remaining industries, maritime and air transport, and other transport (predominantly road and rail transport) have been much more penetrated by imports. In maritime and air transport, extra-EC residents supplied more than one third of

apparent consumption in France, Italy, the Netherlands and West Germany by the mid-eighties, while suppliers from the EC comprised more than 15 per cent in three of the EC member countries. Outsiders as far as the dominance of domestic production is concerned are the Netherlands in intra-EC imports and, particularly, the UK in both intra-EC and extra-EC imports. This holds especially for the UK, where domestic suppliers commanded an overproportionate share of shipping and air transport.

The largest variations among EC member countries arise in transport services other than air transport and shipping; here the Dutch market appears to be much more open than other member countries' markets.

With respect to trends in import market penetration the short period of the early eighties does not reveal any clear path of ratios which would suggest trade-creating or trade-diverting effects. The three "closed" sectors show stagnating import shares in apparent consumption or only very modest increases (communications industries) while the two transport industries provide examples of both declines and rises. In general, however, extra-EC suppliers do not seem to have performed more badly than intra-EC suppliers. Hence, no major trade-diverting effects can be derived from Table 3.

Conclusions

Data on trade in services are extremely difficult to interpret. This has been witnessed again in this paper. Combining trade and production figures, which is necessary to assess import market penetration ratios, leads to even greater interpretation problems. Apart from the problem of defining the exact type of services supplied independently from merchandise trade, the origin and destination of services is obscured rather than disclosed by the principle of credits and debits between residents and non-residents. Residencies of companies can more easily be changed than physical production sites and must not necessarily indicate countries of production and consumption. The simple analogy between payments and receipts on the one hand and "imports" and "exports" of services on the other hand is thus subject to controversy.

Yet, such qualifications are more relevant in detailed case-by-case or year-by-year analyses than in rough trends which rely on fairly homogeneous data sources. As this paper has dealt with the latter the following results seem appropriate as a point of departure for future research.

First, and most importantly, variations in the openness of EC markets in individual service industries are substantially larger than in merchandise trade. Three out of five industries were clearly dominated by domestic production and only in air transport and shipping do imports play the same role as in manufacturing industries which are subject to intensive world-wide competition. Shippers definitely operate in such contestable markets where low-cost shipping companies from the newly industrialising economies have emerged as the major competitors.¹⁴

Secondly, during the early eighties clear trends towards fuelling intra-EC trade at the expense of either domestic production (trade creation) or non-EC imports (trade diversion) could not be detected. Probably the time period was too short to identify trends and during this period the Internal Market Programme was not yet in operation.

Thirdly, non-EC residents were at least as successful on EC markets as EC residents, which supports the conclusion made above that trade discrimination was either widely insignificant or ineffective. In any case, circumventing discrimination does not seem to pose insurmountable difficulties in such services where the distinction between EC residents and non-EC residents is often formal rather than substantial (e.g. in the case of "mailbox" companies in "tax haven" economies) and where the direction of payments does not necessarily allow for conclusions on country-specific advantages.

Fourthly, similarities between the level of intra-EC versus extra-EC imports in merchandise and services trade exist as far as differences between EC member countries are concerned. As in merchandise trade, the Netherlands import more services from EC sources than other member countries while the UK imports less. Yet, unlike in merchandise trade, it is not the UK but Italy which is least integrated into intra-EC trade in services.

The general outcome is that import market penetration ratios in services still pose more questions than they provide answers. Autonomous services comprise extremely heterogeneous sub-industries with very different requirements regarding the mobility of persons, goods and knowledge. Tradability differs as well. Heterogeneity would increase even more if those services were included which are joint products of goods (e.g. after-sales services for sophisticated goods). Thus, particularly in services a high level of aggregation is inappropriate for analysis. For the early eighties, i.e. the pre-EC 1992 period, transaction costs do not seem to have been significantly different for intra-EC and extra-EC imports. We would expect shifts in favour of lower transaction costs for intra-EC imports after 1992 and shortly before, so that intra-EC import market penetration ratios would rise relative to extra-EC ratios. With an improved data base and continued up-dating, such analysis should be possible both in absolute terms as well as relative to other major trading partners, e.g. the USA and Japan.¹⁵

¹⁴ How contested this market is has been demonstrated by the first countervailing case in services invoked by the Committee of European Community Shipowners' Association against a Korean shipping company in 1987. Allegedly, the South Korean company underbid the freight rates of EC competitors by 25 per cent in liner services between the Community and Australia because of receiving interest rate subsidies from the government and additionally imposing access restrictions to trade from and to South Korea on non-Korean companies. In early 1989, the EC confirmed this view and charged the company with a countervailing duty on the basis of the "unfair pricing" regulation of 1986. Cf. Official Journal of the European Communities, Legislation, L 4, 6 January 1989, Brussels.

¹⁵ EUROSTAT has begun to assess imports and exports of US and Japanese services for the same range of industries and the same period. Preliminary estimates on US import market penetration ratios made by the author suggest the same clear dominance of domestic production in communications industries and the financial sector as in the EC.