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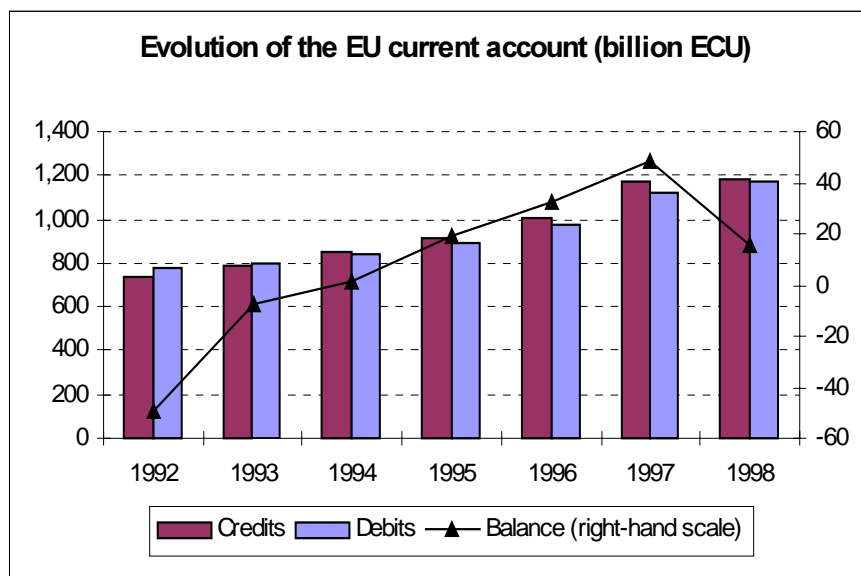
The EU current account credits with Asia dropped by 11% in 1998 after the financial crisis of 1997.....7



The EU¹ current external surplus in 1998 shrank to ECU 16 bn after a record ECU 49 bn in 1997

Maria-Helena FIGUEIRA

EU total current transactions with the rest of the world slowed down from a 16% growth in 1997 to 3% in 1998. The surplus in trade in goods for the EU fell from ECU 40 bn to ECU 27 bn in 1998. EU trade in services registered a 5% growth on the imports from the rest of the World, whilst EU exports remained at approximately the same level as in 1997. The balance of trade in transportation services was the only surplus that improved for the EU in 1998. The expansion of EU travel imports, generated the first deficit for the European Union in travel services in the last two decades. Investment income debits increased by 7% in 1998, amounting to ECU 219 bn. The USA, Europe (excluding EU countries) and Asia were the main extra EU trade partners



Deceleration of trade in 1998 after unusual boosting in 1997

The EU current account credit flows grew by 1% in 1998 after unusually strong increase of 16% in 1997. Debit flows rose by 4% in 1998, compared to 15% the year before. Total current account transactions (credit + debit flows) with third parties slowed down from a 16% growth in 1997 to 3% in 1998. Although EU debit flows grew faster than the credit flows in 1998 (4% compared to 1%), the value of the credit flows exceeded the debit flows by ECU 15.7 bn.

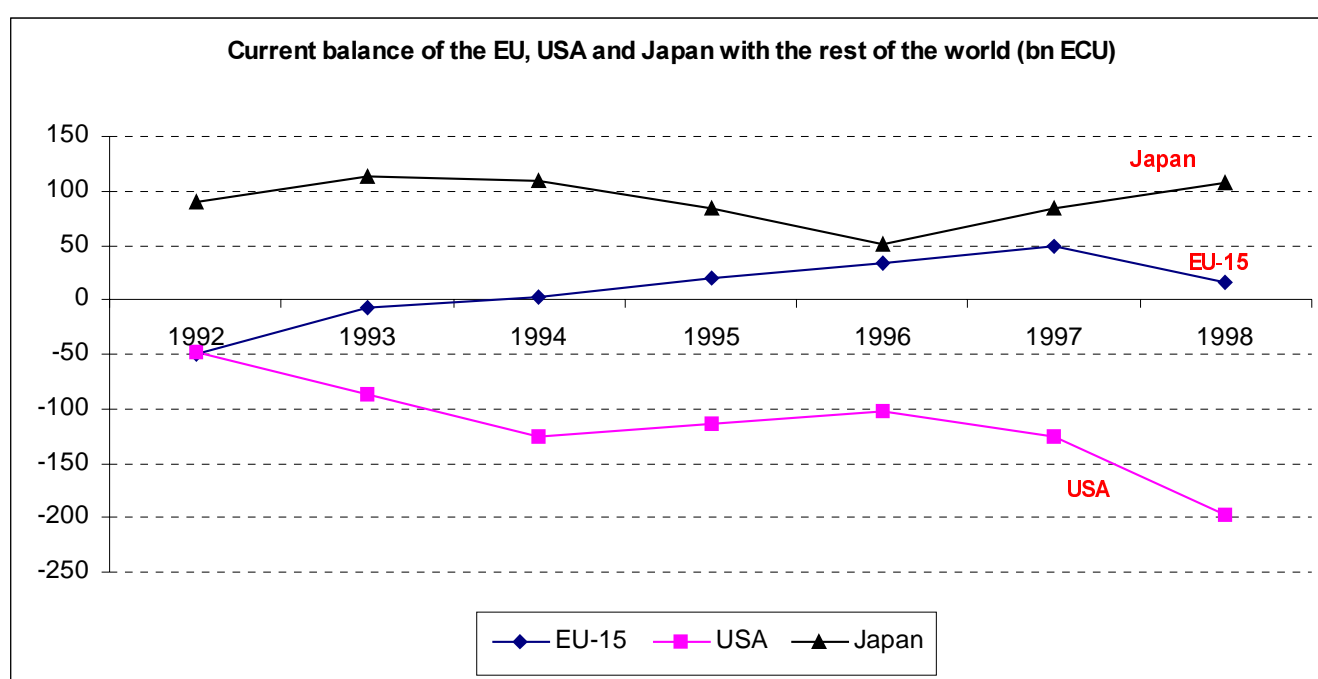
¹ EU (EU-15) includes Belgium, Denmark, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland, Sweden, the United Kingdom and the European Union Institutions.

World exports of goods and commercial services fell by 2% in 1998

1998 was characterised by high volatility in the financial markets. The financial and economic consequences of the 1997 financial crisis in Asia, together with the Russian crisis in August 1998, led to a significant deterioration of global economic and financial conditions. As a result, world-wide growth in production and trade declined significantly. According to the WTO², trade contraction in Asia has been the biggest factor in the global trade slowdown.

Deterioration of EU and USA external current balances, against recovery of Japan

The EU current external surplus fell in 1998 after 5 years of uninterrupted expansion of the EU trade balance, from a deficit valued at ECU -49.7 bn in 1992 to a record surplus of ECU 48.5 bn in 1997. The USA's structural deficit in trade in goods plummeted in 1998 to ECU -218.5 bn, and brought the USA current account balance down to a deficit of ECU -197 bn in 1998. Japan's structural surplus in trade in goods rose up to ECU 109.2 bn in 1998, driving the Japanese current external balance to a surplus of ECU 107.8 bn. The symmetrical evolution of the USA and Japan current external surpluses since 1992 is related to the strong partnership between both economies.



The EU trade in goods and services surplus decreased in 1998 as imports grew more than exports

Trade in **goods**³ represented 59% of the total EU current account transactions in 1998. EU imports from the rest of the world grew by 4% in 1998, reaching ECU 674.8 bn. EU exports to third countries attained a value of ECU 701.7 bn in 1998, increasing by 2% from the year before. As a result, the EU structural surplus in trade in goods fell from ECU 39.7 bn in 1997 to ECU 26.9 bn in 1998. Foreign trade statistics (exports FOB - imports CIF) confirmed this trend, reporting surpluses of ECU 48.6 bn in 1997 against ECU 19.6 bn in 1998. 20% of the total EU current account corresponded to trade in **services** in 1998.

² Source: World Trade Organisation, press release of 16 April 1999, page 5

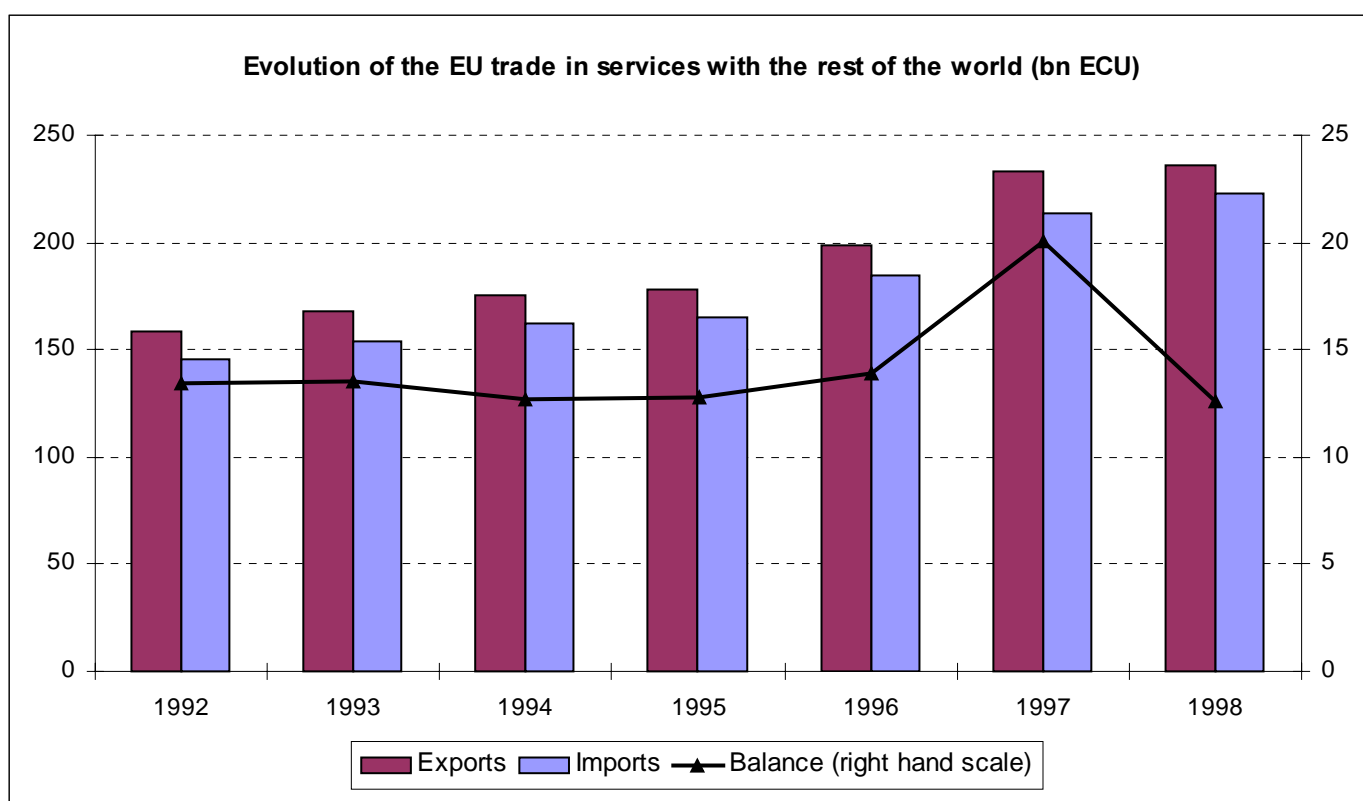
³ According to balance of payments concept (f.o.b./f.o.b.)

The annual growth rate of the EU total transactions in services slowed down to 3% in 1998, after an average 7% growth in the previous 5 years. EU imports of services from the rest of the world climbed by 5% to ECU 223.2 bn in 1998. On the other hand, EU exports of services to third parties reached ECU 235.8 bn, recording a modest 1% growth from the year before. The EU external surplus in trade in services was then cut from ECU 20 bn in 1997 to ECU 12.6 bn in 1998.

Table 1: EU current account (partner extra-EU)

(bn ECU)

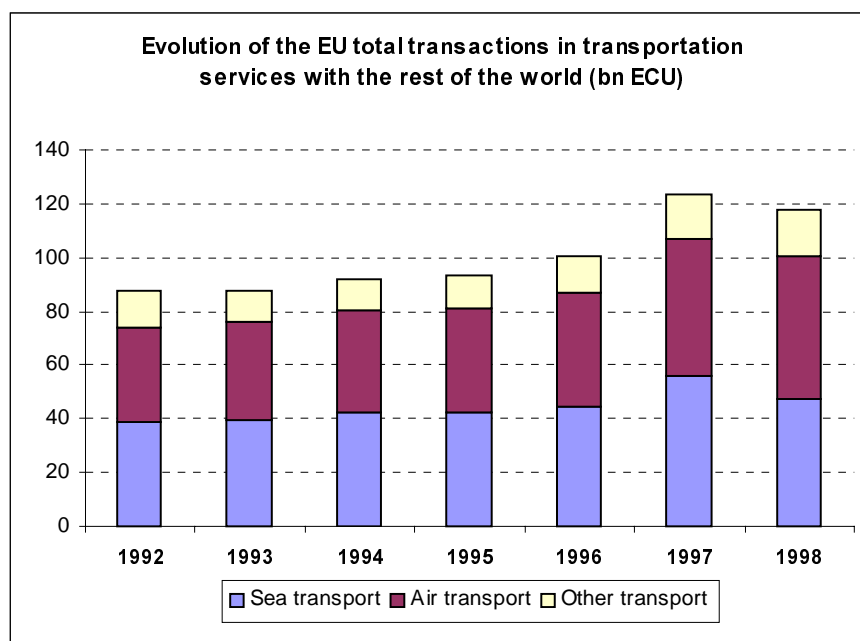
	Credits			Debits			Net	
	1997	1998	var. (%)	1997	1998	Var. (%)	1997	1998
Current account	1167.4	1 184.2	1%	1 118.8	1 168.5	4%	48.6	15.7
Goods	689.3	701.7	2%	649.6	674.8	4%	39.7	26.9
Services	233.6	235.8	1%	213.5	223.2	5%	20.0	12.6
<i>Transportation</i>	62.3	60.7	-2%	60.8	56.8	-7%	1.4	3.9
<i>Travel</i>	59.7	60.9	2%	57.1	62.3	9%	2.6	-1.3
<i>Other services</i>	110.7	113.2	2%	94.7	102.9	9%	16.0	10.3
<i>Not allocated</i>	0.8	0.8	1%	0.8	0.9	18%	0.1	-0.1
Income	219.0	219.7	0%	208.8	223.7	7%	10.2	-4.0
Current transfers	25.5	27.0	6%	46.9	46.8	0%	-21.4	-19.8



EU imports of transportation services from third parties dropped by 7% in 1998, generating a surplus of ECU 4 bn

The fall of EU imports of transportation services from the rest of the world, from ECU 60.9 bn to ECU 56.8 bn in 1998 (down by 7%), offset the 2% drop of EU exports (from ECU 62.3 bn to ECU 60.7 bn), leaving an external surplus of ECU 4 bn. The balance of trade in transportation services was the only surplus that improved for the EU in 1998 from all the major current account sub-balances.

Trade in air transport services represented 45% of the EU total transactions in transportation services (exports + imports) in 1998, followed by sea transport with 40% of the total and other types of transport with the remainder 15%.



EU exports of sea transport services to the rest of the world shrank by 13% to ECU 22.4 bn in 1998. The EU exports of freight transport services on sea to the rest of the world fell down by 23% in 1998,

falling from ECU 21 bn to ECU 16.2 bn. EU imports of sea transport services from third parties also registered a 17% decline in 1998, dropping from ECU 30.3 bn to ECU

25.1 bn in 1998. The external surplus of the EU air transport services in 1998 (ECU 6 bn) broadly offset the ECU -2.7 bn deficit in the sea transport services for the EU.

Goods and services purchased by EU travellers outside the European Union amounted to ECU 62.3 bn in 1998

Travel covers the goods and services acquired from an economy by travellers during visits of less than one year in that economy. Therefore, EU travel exports represent the amount of goods and services that were sold or provided by European Union residents to foreign travellers in visits of less than one year. Travel exports grew only by 2% in 1998, compared to the 9% increase of the European Union purchases of goods and services abroad. The solid expansion of EU travel imports, reaching ECU 62.3 bn in 1998, generated the first deficit for the European Union in the provision of travel services. In 1998, the European Union residents spent ECU 1.3 bn more abroad than received from non EU-resident travellers.

The USA was the top travel destination outside of the European Union, representing 29% of the total extra-EU trade. Other European Countries (including Turkey and Russia) came in as second top destination, with a share of 15% of the total extra-EU trade. Mediterranean Basin Countries appeared as third, followed by Asia, the European Free Trade Association (Switzerland, Island, Liechtenstein and Norway), and Africa as a whole. The USA was also the first partner for receipts on Travel for the European Union. The EFTA member states ranked second, followed by Asia and Other European countries.

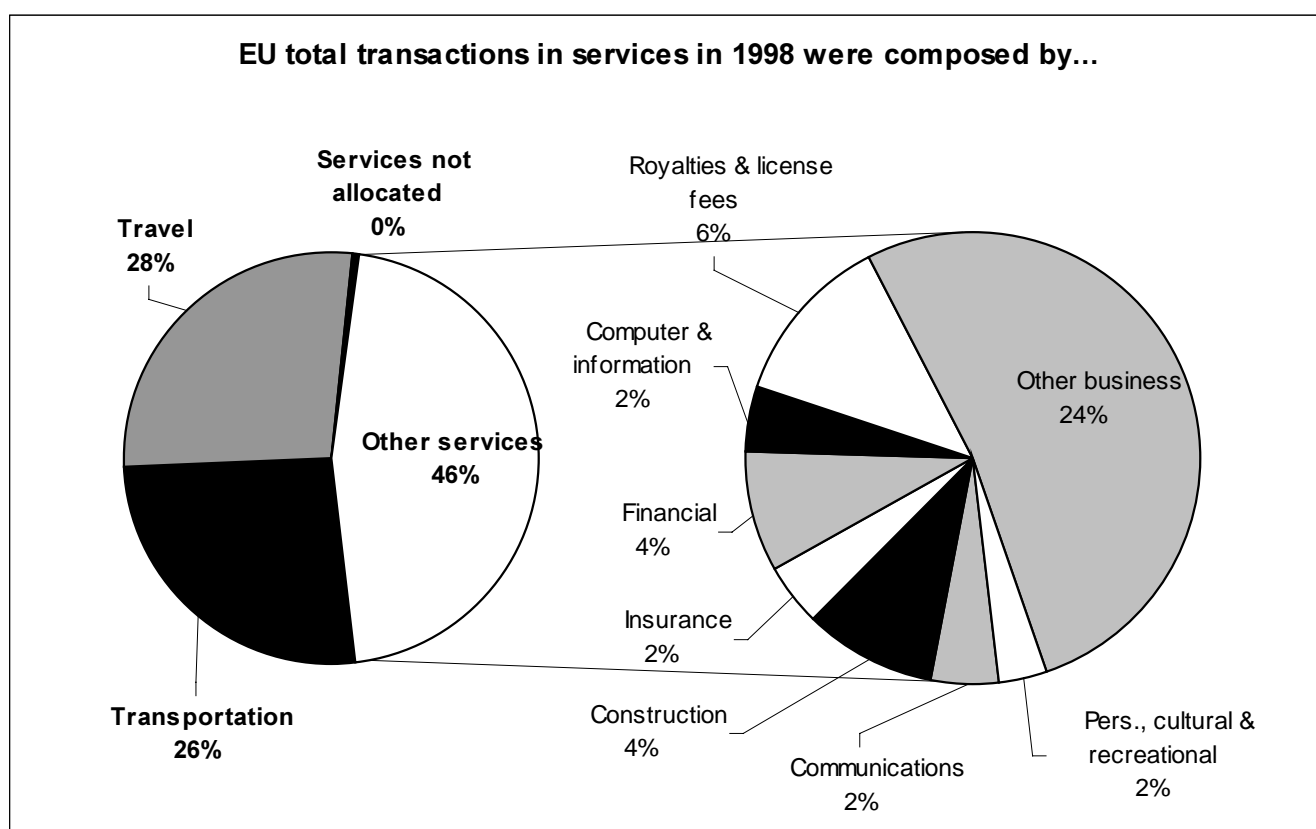
EU imports of other services swelled by 9% reaching ECU 102.9 bn in 1998

EU exports of **computer and information services** increased by 26% to a value of ECU 5.7 bn, directed mainly towards the USA (representing 41% of the total EU external trade), the EFTA (27%) and Other Asian Countries (8%). Imports amounted to ECU 4.3 bn, in particular from the USA (59% of the total), EFTA (16%) and Other Asian Countries (10%).

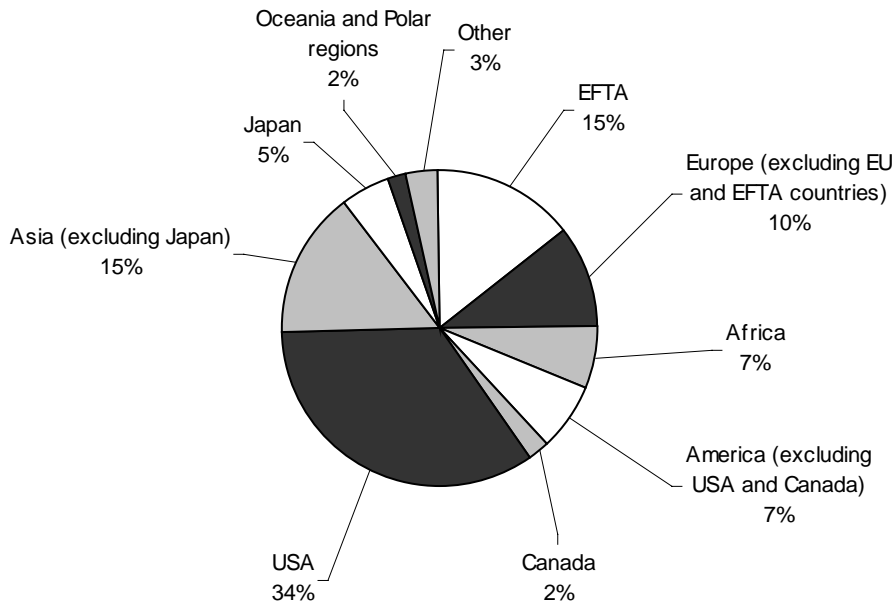
Royalties and license fees comprise the exchange of payments and receipts between residents and non-residents for the authorised use of intangible, non-produced, non-financial assets and proprietary rights and with the use, through licensing agreements, of produced originals or prototypes. The EU increased the payments of royalties and license fees to the rest of the world in 1998 by 13% and reached ECU 16.8 bn, while receipts shrank to ECU 9.2 bn in 1998.

Other business services cover highly varied services such as trade earnings, legal, accounting, management, consulting, advertising, market research, public opinion polling, research & development, architectural, engineering, agricultural, mining, etc. The EU exported these services to the rest of the world for a value of ECU 55.8 bn in 1998 (a 6% more than the year before), and imports amounted to ECU 51.2 bn (a remarkable 12% more than in 1997). The difference between exports and imports narrowed from ECU 7.2 bn in 1997 to ECU 4.6 bn in 1998. EU imports, again, grew faster than exports.

Trade in **personal, cultural and recreational services** (including audiovisual services) decreased in 1998. EU exports fell by 8% to ECU 2 bn, while imports dropped by 4% to ECU 4.9 bn. The European Union continued to be in deficit with the rest of the world in 1998, and in particular with the USA (70% of the total EU external deficit).

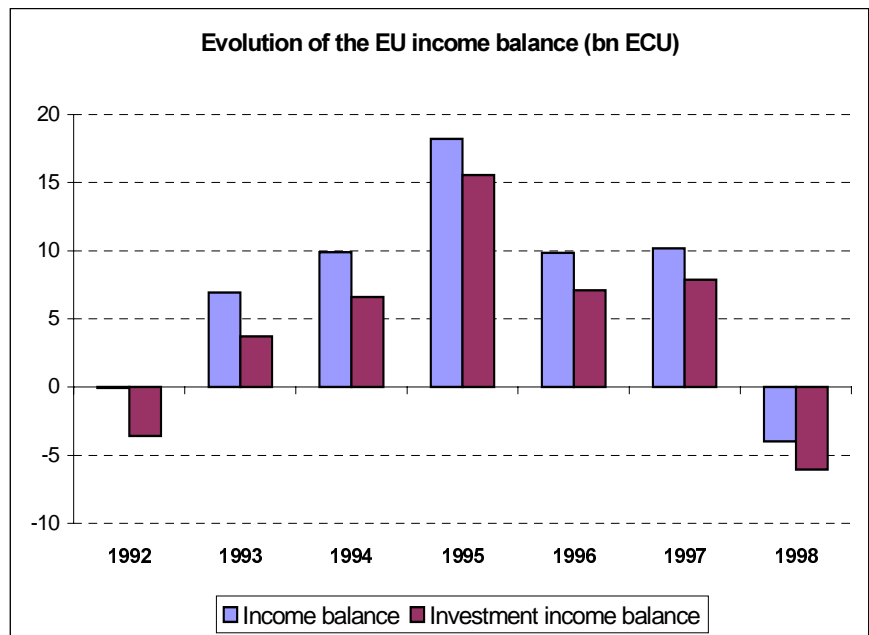


EU trade in services by geographic partner zone in 1998 (exports+imports)



EU income payments to the rest of the world increased by 7%

Ever since 1992, EU receipts from its foreign assets exceeded its payments to foreigners. In 1998, the European Union **investment income** receipts from the rest of the world did not experience a significant variation, earning ECU 212.9 bn. In contrast, the EU shelled out ECU 219 bn in net investment payments, 7% more than in 1997. The difference between investment income receipts and payments turned from a surplus of almost ECU 8 bn in 1997 to a deficit valued at ECU 6 bn in 1998. The ECU 2 bn surplus observed for **compensation of employees** partly compensated this deficit. In total, the European Union income balance turned from a ECU 10.2 bn surplus in 1997 to a deficit of ECU 4 bn ECU in 1998.



However, this deficit should be carefully interpreted. EU external receipts of investment income in 1998 were considerably reduced because the Netherlands excluded re-invested earnings from the computation of investment income for 1998 and not in 1997, reducing Dutch (and therefore EU) investment income receipts by almost ECU 7 bn.

Current transfers are all transfers that are not transfers of capital, directly affecting the level of disposable income and therefore the consumption of goods and services. Incoming current transfers in the European Union grew by 5.6% in 1998, reaching ECU 27 bn. Current transfers from the European Union to the rest of the world did not substantially change and stayed at ECU 46.8 bn.

The EU current account credits with Asia dropped by 11% in 1998 after the financial crisis of 1997

According to the Asian Economies Report, published by the Washington Post in January 1999, Thailand let its currency float freely in July 1997, causing panic in several neighbouring countries. For an export-dependent Asia, a devalued bath meant cheaper Thai exports compared to those from Malaysia, Indonesia, Korea, the Philippines and Hong Kong. To stay competitive, many countries devalued their own currencies. That automatically increased the debt owed by those companies whose loan contracts obliged them to use devalued local funds to repay in still-strong foreign currencies. The currency meltdowns also meant a huge retreat of foreign money from Asia stock markets. As a result, domestic investment and consumption levels dropped drastically. Import volume decreased by almost 9% in Asia under the impact of Japan's import contraction of 5%. The strong currency devaluations nevertheless boosted the price competitiveness of Asian enterprises. The countries that came under attack in 1997 appear to be those who had experienced substantial current account deficits in the 1990s (specially Thailand and Malaysia)

The total EU current account credit flows towards **Asia** shrank by 11% in 1998, from ECU 304 bn to ECU 270.1 bn; EU exports of goods collapsed from ECU 203.5 bn to ECU 174.2 bn (14% less compared to 1997), and EU income receipts from Asia also fell from ECU 44.7 bn to ECU 41.2 bn in 1998. The Asian NICs of the second wave of industrialisation (namely **Malaysia, the Philippines and Thailand**) were the most affected by the crisis: EU exports of goods to these countries in 1998 plunged by 36%, EU exports of services by 15% and income receipts fell by 18% compared to 1997. Total EU current account credit flows with these countries fell by 31%, from ECU 26.6 bn to ECU 18.5 bn in 1998.

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

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The balance of payments (BOP) of the European Union is compiled as the sum of harmonised balance of payments accounts of the fifteen Member States.

Added to the European Union aggregate is the balance of payments of the European Union Institutions.

The methodological framework is that of the fifth edition of the International Monetary Fund (IMF) Balance of Payments manual.

Presently, the EU balance of payments is compiled by Eurostat in accordance with a methodology agreed with the European Central Bank (ECB) based on extra-EU transactions, i.e by aggregating cross border transactions of EU residents vis-à-vis non-EU residents as reported by the 15 participating Member States. This approach is considered to be the best way to compile the EU aggregates.

NB: Published data for the EU will be revised later this year. In fact, in order to conform to the internationally agreed methodology, Member States are changing the geographical allocation of intra EU imports of goods from country of origin to country of consignment. EU external imports are expected to decrease and the corresponding external balances are expected to increase substantially.

Further information:

➤ Reference publications

Title "International trade in services – EU 1989-1998" edition 2000
 Catalogue No KS-28-00-139-3A-C Price EUR 65

➤ Databases

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