Economic Perspectives

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GLOBAL SERVICES NEGOTIATIONS
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An Electronic Journal of the U.S. Information Agency

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TRADE IN SERVICES

On April 30, 45 nations hope to conclude a multilateral accord that will liberalize trade in telecommunications services — a world market exceeding $500,000 million annually. Two months later, negotiators from nations with shipping interests will seek to conclude an agreement easing restrictions on maritime services. Telecommunications and maritime services are just two of the many industries that constitute the service sector of the U.S. economy, a sector that accounts for almost 75 percent of U.S. gross domestic product and 80 percent of U.S. employment.

In this, the inaugural issue of the USIA's electronic journal Economic Perspectives*, we take an in-depth look at this dynamic sector of the global economy as we approach the 21st century.*

❑ FOCUS

ECONOMIC PERSPECTIVES

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❑ GLOBAL TELECOMMUNICATIONS TALKS AT CRITICAL STAGE

An Interview With Ambassador Jeffrey Lang, Deputy U.S. Trade Representative

Efforts to reach a global accord liberalizing trade in basic telecommunications services before an April 30, 1996, deadline have been clearly inadequate, says Ambassador Jeffrey Lang, deputy U.S. trade representative.

"Although the negotiation now is not in a very good state, there's still time to negotiate a deal," says Lang, who argues that a global accord would be good business for exporters of telecommunications services and goods and would provide an incentive for investment in telecommunications infrastructure in developing countries.

This interview was conducted by USIA Economics Correspondent Jon Schaffer.

Question: *Global talks liberalizing trade in telecommunications services are scheduled to end April 30. Could you briefly outline the Clinton administration's latest proposals?*

Lang: Previously, the United States had offered to allow foreign competition in telecommunications services and investment with respect to only long-distance and international services. What we have done now is to offer foreigners access to local service as well and to own 100 percent of any provider in the country. In addition, we have expanded our offer so that officers and directors of foreign-owned American companies that own radio telecommunications licenses can be citizens of foreign countries.

Q: *What makes this offer a good deal for industrial and developing countries?*

Lang: It is good for any country that is export competitive in telecommunications services because it allows them to provide those services either by reselling time or on a "facilities basis," that is, through an investment in hard facilities in the United States. It is also important for countries that are not telecommunications services exporters because many of them manufacture goods that are used in telecommunications networks. If the negotiation is successful, we will be building up alternative networks all over the world like the alternative networks that are built in the United States. And that will expand the market for telecommunications goods. Even countries that are not now competitive exporters of telecommunications services may be in the future. The vast expansion in telecommunications services will require a huge investment — on the order of $60 billion a year for the next five years, according to the World Bank. Half of that has to come from private capital markets, which are going to be much more willing to invest in developing countries that need new telecommunications infrastructures if they have the assurance of real competition and fair, transparent procedures that a successful global accord would provide.

Q: *How would you describe the offers to date by other countries?*

Lang: Inadequate. There are severe limitations in the offers of industrialized countries. And a number of important developing countries, such as Malaysia, Indonesia, Argentina, and India, have not submitted offers. There is also a group of developing countries that have submitted offers that are less ambitious than they could be — they phase in foreign ownership at a very late date, in some cases as late as 11 years from now, and they do not provide all the liberalizations that they have implemented under their domestic laws. Some of them, such as the Philippines, have proposed "economic needs tests" that would undermine the benefit of any trade liberalization concession because they would put a government or regulatory authority in a position to deny licenses arbitrarily. These important developing countries must improve their offers in order for the negotiations to be successful.

***Q:** Some developing countries argue that the industrialized countries must make the first move toward liberalization.*

Lang: I do not think it is in their interest to take that position, because I think they will need that investment to build out their networks. There are countries in this negotiation that have fewer than one telephone for every 75 residents. And when that resident gets that telephone, it costs too much and the service is poor. That situation can be addressed only through facilities-based competition.

***Q:** Why is the need for facilities-based commitments so important?*

Lang: Commitments in this area are vital. There are basically two ways to compete in telecommunications services. You can buy time in volume and therefore get a discount, and then resell time to individual buyers. That is a first step toward a competitive market. Another step is for a telephone company to have the right to investment in hard facilities — wires, fiber optics, telephone poles, rights of way, radio transponders, what ever it takes to make the message go through. Unless you can offer an alternative network, you cannot lower your costs through better management and more efficient facilities. In Europe and Japan, there continue to be some reservations about facilities-based investment. We believe our European and Japanese friends need to address this issue before the end of the negotiations.

***Q:** If offers from developing countries don't come soon, will there be adequate time to negotiate?*

Lang: I think there comes a moment when taking these decisions requires so much time by developing country governments that they may not be able to catch up. On the other hand, most of these countries have been observers of or participants in the negotiations since the beginning. There is really no excuse for any government's not being prepared to come to the table and negotiate seriously in the weeks that remain.

***Q:** If no agreement is reached, what does that mean for foreign access into the U.S. telecommunications market?*

Lang: It means that the United States would have no international obligation to allow either foreign access or foreign ownership. For a country that already provides open access to U.S. telecommunications services providers and has a competitive market, recent practice and regulation of the Federal Communications Commission (FCC) suggest that that country would not find its access to the U.S. market limited. On the other hand, since most countries in the world have monopolies on their service, there could be some limitations on their access to the United States.

***Q:** Has the United States' recently enacted Telecommunications Act had any effect in encouraging other countries to be more forthcoming in the global telecom talks?*

Lang: The Telecommunications Act puts the United States firmly on a road to competition at all levels of service — local, long distance, international, satellite, cellular, everything. We want to see if the rest of the world can reach agreement on extending that competitive model on a global basis. I think there is a widely held consensus in Geneva that the latest U.S. offer is ambitious in the sense that it liberalizes at every level and to a greater extent than any other country. Our ability to make that offer was enhanced by the Telecommunications Act. We have put the offer on the table on the condition that it is reciprocated. If we get reciprocity from our critical mass of countries, we will have a very good deal and we will reinforce the world trading system.

***Q:** Are you saying that you expect a level of openness from other countries equivalent to what the United States is offering?*

Lang: We expect a level of openness from industrialized countries commensurate with that in the United States at whatever the starting date of liberalization is under the agreement. I don't know if that date will be June 1, 1997, or January 1, 1998. With respect to developing countries, we have asked them to commit themselves to the market openness that they have already placed in their domestic laws, together with a schedule of moving toward full openness in a reasonable period of time. Now obviously, what the initial application is and what the schedule is and how long it is, all these are negotiable.

Q: *The EU offer, if I understand it, allows countries such as Spain, Portugal, Greece, and Ireland a longer period to remove their telecommunications barriers. What is the U.S. view about this phased-in approach?*

Lang: We have reservations about it, in part because many of those countries are significant telecommunications services exporters. For example, two major European suppliers have just been approved by the FCC to own a substantial share of one of the American long-distance suppliers. And another European telecommunications company is a major investor in networks in Latin America. They are asking for these longer periods of time to adjust to competition. In some cases, the periods of time are longer than the periods requested by developing countries, such as Venezuela.

Q: *What about Japan and Canada, both of which have major barriers to foreign investment in telecommunications services?*

Lang: Japan limits foreign investment to one third; Canada's restrictions are 46 percent; Switzerland has no facilities-based access. There is no question that we need greater commitments from these countries for there to be an agreement.

Q: *Would the United States negotiate beyond April 30? If agreement is not reached, would the Clinton administration consider resuming the talks in a year or so, as countries decided to do last year when talks on financial services ended without agreement?*

Lang: No, I don't think that the negotiation is likely to go beyond April 30. You have to remember that in the financial services talks, all countries, including the United States, made most-favored-nation commitments and left a number of issues unresolved. In that case, we had a success upon which we are going to try to build in future negotiations. We don't have enough on the table now in the telecommunications negotiation to know whether even that result is possible. This negotiation now is not in a very good state in terms of the offers because of all the failures I described earlier.

Q: *Are any countries trying to link their making offers in the telecom talks with the United States' making offers in the global negotiations on maritime services set to conclude June 30?*

Lang: In none of my bilateral negotiations was the connection made. Nonetheless, there are countries that have occasionally raised these concerns with members of Congress and other elements of the U.S. government. From our perspective, the linkage is inappropriate to these negotiations.

Q: *With just three months left in the maritime talks, why has the Clinton administration failed to put an offer on the table?*

Lang: At this point we are just not prepared to make an offer because we don't see ourselves as either being a problem or having a problem in this negotiation. We have never been a demander; 95 percent of our ocean-going traffic is on foreign ships, so we are not a problem for anyone else. ❑

❑ LIBERALIZING GLOBAL TELECOMMUNICATIONS TRADE

By Reed Hundt
Chairman of the Federal Communications Commission

The topic of this inaugural issue of USIA's electronic journal could not be more timely. Trade in services is one of the greatest engines of the global economy. Services form a large and growing part of all developed economies, and telecommunications is a significant and rapidly growing segment of the service sector of the global economy. This is why Renato Ruggiero, the director-general of the World Trade Organization (WTO), has said that the Negotiating Group on Basic Telecommunications (NGBT) is the WTO's most important activity.

Of course, telecommunications is a growing sector of the economy because it is important to many other sectors — both goods and services industries. The financial services, legal services, and airline industries, to name but a few, depend heavily on reliable, affordable telecommunications services to meet their customers' needs. Similarly, manufacturing industries rely on telecommunications services to aid in various stages of the production process, from product design to product distribution, sales, and service. And, of course, the explosive growth in the amount of content available — including entertainment, business information, and educational materials — has also fueled the growth of basic telecommunications.

But there is another reason why the basic telecommunications sector is growing so rapidly, and that is the global trend toward liberalization of basic telecommunications. In the United States, we have had competition in many areas of telecommunications for many years — most notably in long-distance and international telephony (the technology and manufacture of telephone equipment). Over the past decade, we have seen dramatic increases in the number of carriers, in the services offered by those carriers, and in the overall amount of traffic carried on their networks. At the same time, prices have decline substantially. Indeed, AT&T, still America's largest long-distance and international carrier, has lost more than a third of its share of the market since the introduction of competition; it has responded by reducing its rates substantially. The result is that AT&T now enjoys higher gross revenues and higher profits than it did before competition — largely because use of its network has increased so greatly.

The success of competition has bred an appetite for more competition. The Federal Communications Commission (FCC) has promoted increased competition in wireless telecommunications, the fastest growing segment of the telecommunications industry, by auctioning hundreds of licenses to provide a new generation of wireless services. Moreover, last November, the FCC threw open the doors to the U.S. market to comers from all nations by adopting new rules to govern foreign carrier entry into our market.

Finally, and most important, President Bill Clinton this year signed historic telecommunications legislation that was adopted by both houses of Congress by nearly unanimous votes. This new legislation will serve as the blueprint for introducing further competition into all segments of the communications industry. My colleagues on the FCC and I are already hard at work on rules that will allow telephone companies to provide video services and cable companies to provide telephony; that will allow local companies to provide long-distance services and long-distance companies to provide local service; and, ultimately, that will allow the American public to enjoy the fruits of all this competition.

The United States continues to lead in the global telecommunications revolution, but the tide of liberalization is clearly sweeping the entire world. In Europe, Asia, Latin America — virtually everywhere in the world — governments have recognized that this vibrant industry thrives on competition.

And that is why Renato Ruggiero is right when he says that the work of the NGBT is so important. This negotiation, if successful, will, in a single stroke, open the telecommunications markets of all the major trading nations of the world to free and fair competition.

Of course, as a telecommunications regulator, I have other responsibilities than merely ensuring that the market functions properly. The United States' new Telecommunications Act also makes very clear that the long-standing goal of universal service remains at the forefront of U.S. telecommunications policy. The Telecommunications Act also reaffirms the U.S. experience that competition is the best way to ensure universal service. In the United States — and in every other liberalized telecommunications market in the world — competition has promoted, not hindered, universal service. A competitive telecom market creates the incentive for carriers to build out the information infrastructure. Fair rules of investment and competition will encourage the most innovative entrepreneurs from every nation to bring advanced communications services to all our peoples.

So, to my colleagues in communications ministries around the world, I say join us in building the global information infrastructure. The WTO negotiation that is about to conclude is the best opportunity to do this and to ensure that an increasingly global industry benefits from truly global competition. ❑

❑ FREE TRADE IN FINANCIAL SERVICES

By Jeffrey Shafer
U.S. Under Secretary of the Treasury for International Affairs

As we help to create and grow markets, we want to be in them. Free trade in financial services is, of course, a big part of this. To put it simply, financial services is one of the sectors in which the United States is truly a global leader, and in which U.S. business is growing by leaps and bounds.

Major U.S. players in financial services accounted for over one-fourth of the largest 50 "Fortune 500" corporations. By year-end 1994, financial services exports (excluding insurance) had reached nearly $7 billion, more than double 1986 levels.

Ensuring an open market for financial services is about more than just business opportunities. Nations can reach their economic potential only if they channel investment and capital efficiently. Countries that maintain barriers to the best international firms are losing out on the techniques and methods they need to grow.

Think of East Asia, which the World Bank estimates will need some $1.5 trillion in infrastructure investment, excluding Japan, between 1996 and 2004. Or the Japanese financial system, which is slowly making its way out of important difficulties. There is no question that Japan's efforts to get back on its economic feet have been hampered by barriers that have sheltered Japanese finance and left it inflexible and less able to repair itself quickly. One of the most effective ways for Japan to ensure a rapid recovery is to continue to open and free up its financial markets so that businesses and households have access to the full range of financial products.

That's why bilateral approaches and market-opening agreements with foreign countries are a priority at the U.S. Department of the Treasury, alongside the General

Agreement on Trade in Services (GATS) process in the World Trade Organization (WTO).

BILATERAL FINANCIAL SERVICES AGREEMENTS

The U.S.-Japan Agreement on Financial Services of early 1995 was a landmark pact. It contained substantial Japanese market-opening commitments in asset management, securities sales and underwriting, and cross-border provision of financial services. Specifics ranged from opening the public pension fund market to wider competition to greater transparency and procedural protections across the financial industry. Qualifying Japanese corporate investors will have virtually unlimited opportunities to invest abroad.

The Japanese government has already implemented the vast majority of its commitments, and remains on track for those with later starting dates. Authorities have announced that they will accelerate the timetable for some remaining measures, such as the liberalization of management access to private pension fund money and the removal in April 1996 of all remaining restrictions on specialized fund management by individual managers.

While it is still too early to tell how foreign firms are benefiting, there are signs that significant inroads have begun. The number of private pension funds employing foreign fund managers has risen from 59 to 89. Last December and for the first time, two foreign firms were awarded mandates to "solely" lead manage a domestic securities issue for a Japanese issuer. These and other signs suggest that Japan's markets are opening up.

The United States is going to continue to push to expand opportunities for foreign financial institutions in Japan and continue to carefully monitor Japan's compliance with the agreement through an intensive follow-up process.

PROGRESS IN OTHER KEY MARKETS

Bilateral contacts have brought the United States progress in other key markets, particularly when we stress the importance of financial services in the context of broader diplomatic contacts. Korea, for example, is seeking membership in the Organization for Economic Cooperation and Development (OECD). Seoul is stepping up liberalization, including financial services liberalization, as a prelude to joining. Korea has bound its abolition of economics needs-testing for licensing foreign bank branches and securities firms in its GATS commitments. Seoul has also raised foreign participation in the domestic stock market, significantly reduced restrictions on foreign investment, and pledged to allow mergers and acquisitions between foreign and domestic firms soon.

Let me say in this regard that the OECD is a powerful force for financial liberalization right now, as new countries seek admission. Starting with Mexico, and then the Czech Republic, OECD entry is an occasion to throw off barriers to investment and the free flow of capital. Along with Korea, Poland and Hungary are seeking entry. Actions are being taken and commitments are being made for more action. The OECD is often thought of as just a place for talk. But when it comes to financial market and investment liberalization, it has become a place of action.

The United States is pursuing financial services liberalization in Taiwan as part of our dialogue regarding its GATS accession. The Taiwanese have begun to move. They have adopted legislation to establish a domestic futures market by year's end. They are removing key capital controls, including investment repatriation limits. And the central bank governor recently pledged to remove all capital and foreign exchange controls by the year 2000.

Recent months have seen progress in other important markets as well. President Fernando Henrique Cardoso of Brazil has signed a decree allowing foreign participation in that country's financial sector on a case-by-case basis. President Fidel Ramos of the Philippines promised to allow unrestricted foreign investment in finance companies and investment houses.

THE GATS

Of course, the United States' most important effort in 1995 centered on bringing financial services under the rubric of the World Trade Organization and the discipline of the multilateral trading system. We sought and worked hard to win commitments from other countries that would lead to the creation of an open, non-discriminatory regime. Our aim was ensuring that market access and national treatment would be granted on a most-favored-nation basis in all GATS member states.

Some emerging markets had legitimate concerns about how quickly they could liberalize, so we were willing to allow them to phase in market-opening commitments over a specified time. What we were not willing to do was bind under international law our own degree of financial services liberalization — one of the most generous in the world — without good offers from other countries to commit to that degree of openness. Nor were we willing to continue along with a double standard — industrialized countries pledging to keep their markets open, important emerging markets agreeing only to meet far looser standards.

Unfortunately, too many countries were not willing to meet standards that were even close to being as high as our own, even on a timetable for future implementation. That is why we made a more modest set of commitments that protect existing operations but allow us, in the future, to withhold new access to firms from countries that do not choose to open their markets. Our negotiating partners chose to bind temporary commitments that will be reexamined when negotiations resume in 1997.

The United States has taken some criticism for not being willing to go all the way at the round of talks concluded last year. I am convinced that we took the right tack. We have exchanged assurances with those markets that have granted us national treatment and substantially full market access — the European Union member states, Switzerland, and, with our bilateral agreement, Japan. Through these assurances we pledge to grant substantially full market access and national treatment to their firms in return for their providing the same for U.S. financial firms. On the other hand, by retaining our right to close off portions of our markets to firms from countries that do not open to us, we have retained about the only leverage we have to open markets when talks resume in 1997. The administration is convinced that this is the best way to make sure that we attain whatever progress can be made in the months and years ahead, rather than allowing some countries an easy way out.

FUTURE PROGRESS

Although they held back from making WTO commitments, most finance ministers in important markets have said they will progressively liberalize their financial markets. I mentioned some actions that we have seen. We will push hard through both bilateral and multilateral channels to keep the momentum for liberalization going. Winning quality commitments to liberalize financial services will remain an important issue in Korea's OECD membership talks and will be a key part of what we are looking for in Chinese, Russian, Ukrainian, Taiwanese, and other applications to join the WTO. We will continue to raise liberalization with important future markets, such as the member countries of the Association of Southeast Asian Nations, Brazil, India, and others, as we did at the last World Bank/International Monetary Fund meetings. Our bilateral talks will pick up again in 1996. We will follow up strongly as problems of market access arise. At the same time, in the Asia Pacific Economic Cooperation forum and the Summit of the Americas follow-up, we will work with others on aspects of financial market development of concern to them — financing infrastructure and managing capital flows. We want to stress that financial market liberalization is a win-win policy. All of this will lead up to resumed talks on reaching a permanent GATS agreement, set to begin in 1997.

Of course, the United States will remain vigilant in watching whether countries open their markets and are prepared to live up to their commitments. We are prepared to act to defend our interests, in accordance with our WTO rights. ❏

❏ ASIA, LATIN AMERICA OFFER CHALLENGES TO U.S. SERVICE EXPORTERS

An Interview With Commerce Deputy Assistant Secretary Jude Kearney

U.S. service providers are making important inroads in several Latin American markets, particularly Argentina and Mexico, says Deputy Assistant Secretary of Commerce for Services and Investment Jude Kearney.

However, Kearney, charged with heading the National Export Strategy Services Initiative for the Clinton administration, says that barriers to U.S. service providers continue to be formidable in a number of Asian countries, including China, India, and Malaysia.

Kearney sees an active role for the World Trade Organization in reducing barriers and in resolving disputes.

This interview was conducted by Jon Schaffer, USIA Economics Correspondent.

Question: *In 1995, the United States ended up with a $63 billion surplus in its services account, and service exports climbed by $10 billion. What does the future look like?*

Kearney: Services are possibly the quintessential "product" for expanding the scope of international trade into the future. Obviously, at some point, huge incremental increases in services trade growth over previous years will become less likely. But services trade is the United States' best trade performer and will continue to be a key area of the U.S. government's trade expansion efforts for the foreseeable future.

Our manufactured goods compete well in foreign markets. But the services technology behind those manufactured goods is even more in demand in those markets. U.S. firms have developed services technology in all the manufacturing areas, and in such services as insurance, retail, health care, telecommunications, and finance, to a point that most of our trading partners have not.

What will be the leading services export growth sectors in the future? Most likely telecommunications, finance, energy, and, possibly, agribusiness.

Q: *You are charged with leading a new Services Initiative for the Clinton administration. What does this initiative entail, and what are the key target markets for this effort?*

Kearney: The Services Initiative was kicked off in the spring of 1995 with the idea of bringing together all available resources in government to bear on this key export sector. We will take advantage of a number of tools that the Commerce Department and other government agencies have at their disposal, including trade missions, seminars, and bilateral consultations.

Our efforts are aimed at the Big Emerging Markets: Brazil, Mexico, and Argentina in this hemisphere; South Africa, Turkey, and Poland; and, in Asia, India, South Korea, the seven member nations of ASEAN (Brunei, Malaysia, the Philippines, Singapore, Thailand, Indonesia, and Vietnam), and the Chinese Economic Area, which includes China, Hong Kong, and Taiwan. In the year since the initiative was launched, we have undertaken trade missions to China, India, Eastern Europe, South Africa, and Argentina.

We are not ignoring other, more mature, developed markets, but missions promoting U.S. services will, in large part, be driven by where our companies believe that a U.S. government effort can help them expand export opportunities.

Q: *What obstacles do U.S. service industries face in the Big Emerging Markets?*

Kearney: The BEMs are all very promising markets, but they all also present significant systemic and infrastructure obstacles to the ability of U.S. firms to trade there, and particularly in services.

For example, China is the biggest of the Big Emerging Markets. But except for two instances in which China has established "experiments" on foreign investment, authorities there do not license foreign insurers to underwrite insurance policies. Only within the last several months has China promulgated an insurance law, and they have not yet issued regulations. So an insurer's getting a license to do business in China right now is a very daunting task. Fortunately, the U.S. insurance industry is very resilient. They have not given up hope, nor have we.

The situation is similar in India, where the government had embarked on some economic reforms, but they were overtaken by election issues and politics. So their efforts to liberalize their financial services, and insurance in particular, have been put on hold. Right now, no U.S. insurers are licensed to do business in India.

Malaysia is also one of the more difficult countries in terms of agreeing to global liberalization of financial services, as is Korea. In the case of Malaysia, there has been tremendous disparate treatment of indigenous and foreign investors. In many cases, it is part of their law.

We have had some success in reducing some of these barriers. In China, the government has shown interest in expanding the level of services foreign lawyers can provide, depending on how they associate themselves with local Chinese firms. But the restrictions that remain show how far we still have to go.

Q: *What's the experience of U.S. service providers in Latin America?*

Kearney: Despite its many barriers, Brazil has fewer of the sort of outright prohibitions that many other Big Emerging Markets do. As a result, U.S. financial service companies are the largest source of foreign investment in Brazil's financial services sector.

And certainly Argentina is a success story from the U.S. point of view. During a trade mission there, we talked about some of the obstacles to insurance and pension fund management. There has since been a tremendous increase in investment. Even in the areas of telecommunications and procurement, U.S. services companies have done well in Argentina. In countries we have visited personally, I think we have been able to do some real good. Opening up markets to U.S. service providers clearly requires that level of attention.

In Mexico, too, I think we are seeing some success by U.S. service providers, despite that country's recent economic and peso problems.

Still, caps remain on percent ownership equity in services in many countries in the region. And there are capitalization requirements, some of which are onerous. Often, foreign insurers, even if they can get a license, are not treated the same as local companies.

Q: *Where bilateral consultation and trade missions do not help, is Section 301 unfair trade law a viable tool for prying open foreign markets to U.S. service providers?*

Kearney: Once we have a truly comprehensive General Agreement on Trade in Services (GATS), the World Trade Organization will be the initial source for redressing differences. I have always thought that you do not lose your ability to negotiate bilaterally and promote open markets under the GATS. Section 301 cannot supplant the WTO, but it is still important to make sure that the bilateral lines of communication are open. Hopefully, Section 301 trade actions will become less necessary as the new GATS and WTO standards and disciplines take hold.

Q: *How viable is the GATS in that, unlike other agreements reached in the Uruguay Round, countries can opt out of specific commitments in individual service sectors?*

Kearney: The GATS is a very valuable and viable document because it ingrains in our international trading partners some common standards for national treatment, market access, and fairness. Indeed, just the process of getting to the GATS has exposed everyone to a common set of goals and a common set of standards for services trade. ❑

❏ GLOBAL FILM TRADE, CULTURAL GOALS COMPATIBLE

By Jeanne S. Holden, USIA Staff Writer

From motion pictures like "Gone with the Wind" and "Star Wars" to television programs such as "The Waltons," U.S. audiovisual entertainment services have been appreciated by audiences worldwide. But access to foreign markets and payment for these services is often hard for the U.S. industry to realize.

According to industry experts and U.S. officials, numerous trade barriers limit global competition in the audiovisual services sector even though a services trade agreement was achieved as part of the Uruguay Round multilateral trade negotiations.

"Discriminatory tax laws, fiscal and monetary hedgerows (barriers), quotas of varying design on television programming and cinema exhibition, lack of national treatment in home video. ... The daily menace of a marketplace pockmarked by restrictions is all part of a presumptuous judgment by governments in tilting the marketplace against competition," Jack Valenti, the president of the Motion Picture Association of America (MPAA), wrote in a recent report to the U.S. Trade Representative.

A government usually erects such trade barriers to ensure that entertainment within its national borders reflects its culture, as well as to promote development of a commercially successful domestic audiovisual services industry, according to Bonnie Richardson, the MPAA's vice president for trade and federal affairs. Ironically, Richardson told USIA, such trade barriers can inhibit a country's ability to achieve these goals.

During negotiation of the Uruguay Round's General Agreement on Trade in Services (GATS), the level of rhetoric concerning audiovisual trade was very high, particularly in the much-publicized debate between the United States and the European Union (EU). Since then many experts have begun discussing ways to accommodate countries' legitimate national cultural goals while deriving the benefits of liberalized audiovisual services trade.

A U.S. trade official, who asked not to be identified, told USIA that liberalized trade is not only compatible with national goals, the two may be complementary.

New technologies like cable television, video-on-demand, and direct satellite broadcasting are creating great potential for growth in audiovisual markets from Europe to Latin America and East Asia, the trade official said. She pointed out that liberalized trade fosters investment, encouraging implementation of new technologies and development of more competitive domestic and foreign audiovisual industries — ultimately enabling countries to promote their local cultures.

Countries that put up barriers to foreign entertainment services discourage the very investment needed by local audiovisual industries to do programming to promote national culture, the official stressed.

World trading rules are sufficiently flexible to apply to entertainment services while allowing nations to protect cultural identity, the trade official said; "the challenge is to protect legitimate cultural interests in the least trade-restrictive manner."

TRADE RULES AND THE AUDIOVISUAL DEBATE

With GATS, trade in the entire range of audiovisual services is covered by a multilateral agreement for the first time. These services include distribution of films, television programs, and home videos; all aspects of production; related services such as dubbing and print duplication; exhibition of films; and ownership and operation of cable, satellite, and broadcast facilities or cinemas.

GATS updates the General Agreement on Tariffs and Trade (GATT) which, since its inception in 1947, has covered import and export of exposed cinematographic film and pre-recorded home videos because they are considered to be goods.

Little specific trade liberalization was achieved by GATS for the audiovisual services industry, however. Although 45 to 50 countries participated actively in services trade negotiations, only 14 made specific commitments in the audiovisual sector: Dominican Republic, Hong Kong, India, Israel, Japan, Kenya, Korea, Malaysia, Mexico, New Zealand, Nicaragua, Singapore, Thailand, and the United States.

Article IV of the original GATT agreement allows signatories to establish or maintain screen quotas giving preference to locally produced films or films from preferred countries. It is an exception to GATT Article I, which requires signatories to provide to all other signatories the same customs and tariff treatment given to the so-called "most-favored-nation" (MFN), and Article III, which prohibits discrimination between imported and domestically produced goods with respect to government regulation.

Contrary to press reports, said Richardson, audiovisual services were not excluded from the new GATS rules. GATS requires the publication of rules and regulations ("transparency") for audiovisual services trade as for other services sectors. It also requires MFN treatment across the board, although governments were permitted to indicate specific exemptions that will be reviewed after five years.

Other GATS framework rules — including national treatment and market access — apply only when a country has made specific commitments in specified service sectors. Therefore, countries may still invoke their Article IV rights if they decide not to make a specific commitment to liberalize their audiovisual sector.

The trade official explained, "When a country makes a specific commitment for a sector in its schedule, that country agrees to allow foreign service suppliers to enter its market to provide a service (market access) and to treat foreign suppliers under the same terms and conditions as it treats its domestic suppliers (national treatment). ...

"Governments can continue to regulate services covered by commitments so long as the regulation is administered in ways that do not lower the bound level (the prior agreed level) of market access or national treatment."

The United States would have liked more countries to make commitments not to increase or to lower their regulations limiting market access, the trade official said.

During the Uruguay Round, the United States sought a commitment from the EU to cap its quota on non-European content television programming, while the EU sought to remove audiovisual services entirely from the framework of the GATS agreement. Neither side succeeded. In fact, the United States committed to opening its audiovisual market to foreign programming.

The trade official suggested that, with the U.S. Constitution's First Amendment guarantee of free speech, it is unlikely that the United States could have restricted viewer choice by limiting access for foreign programming — even if it had wanted to. Moreover, she stressed, the U.S. market is already open, and so its GATS commitment served to confirm the existing situation.

Distributors pick motion pictures for U.S. theaters based on market factors — whether an audience would want to pay to see it, said Richardson. According to the MPAA, some 416 non-domestic films were shown in U.S. theaters between 1989 and 1993, and 70 percent were European.

SETTING POST-URUGUAY ROUND RULES

Audiovisual markets in Europe and other regions are growing as privatization ends government control and as new technologies are developed and implemented. Such growth demands investment, which is attracted by a competitive marketplace, Richardson said.

Rapid growth can also spur calls for additional restrictions.

Regulators have to be clear about their objectives, the industry official cautioned. Quantitative trade restrictions can be self-defeating because industries built behind protectionist walls often become less competitive, she said.

Quantitative restrictions include local-content regulations restricting how much and at what times foreign programming can be shown by television broadcasters, and screen quotas regulating how many of a theater's days can be devoted to showing foreign films.

The EU and Canada have been the main proponents of using import restrictions to protect their culture. Imported programming is subject to local-content quotas for carriage on Canadian television. In the EU, quotas regulate the amount of time a television broadcaster must fill with European-generated programming, limiting export opportunities for foreign providers and the field of commercial programs from which broadcasters can fill much of their schedules.

The EU also strictly limits the amount of advertising permitted on television. Richardson pointed out that this cuts the available investment funds, which can limit broadcasters' ability to develop new programs locally.

In some countries, screen quotas have reduced theater attendance as audiences respond to less commercially successful offerings, the industry official continued. She noted that in Korea, for example, some domestic investors have begun questioning regulations limiting foreign market access because they haven't fostered attractive programming.

The basic question is whether quantitative restrictions succeed in promoting a healthy domestic audiovisual sector. Richardson suggested that financial incentives such as tax breaks or subsidies for audiovisual production may be more effective.

The trade official underscored the need for countries to work together to meet the challenges of new audiovisual technologies. "Countries wanting to foster development of a modern communications system cannot restrict the flow of creative content over that system if they hope to attract investors," she said. "The first task is to provide incentives to create and disseminate high-quality works which consumers will demand if they are to embrace the new technology." New technologies are especially relevant to European audiovisual markets, where film and television producers confront problems of small market size and linguistic diversity, the trade official said. Satellite transmissions create the opportunity to reach French, Greek, Finnish, or Portuguese-language communities worldwide. In addition, new technologies would allow a transmission to carry different language tracks simultaneously.

In the United States, the trade official noted, it is possible to view RAI (Italian National Broadcasting), Deutsche Welle, RTP (Portugal), Antenna 1 (Greece), as well as Chinese, Korean, and Hindi programming, for example.

She also pointed out that commercial broadcasters face high startup costs, and limitations on content restrict broadcasters' ability to survive in an increasingly competitive situation.

"Filling program time with existing programs, whether foreign or domestic, is far less expensive to broadcasters and cable operators than if they were to produce all of their own programs from the start," the trade official said. After a new channel has built up capital, it will be better able to commission new programming that local audiences desire.

CONCLUSION

Increased market access on the basis of multilateral trading rules holds the promise of benefits for local economies as well as domestic and foreign audiovisual services providers. In countries where the film industry is healthy, per capita movie attendance is greater than in countries where the domestic film industry is weak, the trade official explained. It helps to stimulate construction of modern, well-located movie theaters and greater attention to film reviews in the local press, she said.

The more the local population goes to the theater, the more that film productions can be supported financially, added Richardson. As the market grows, more cultural productions can be supported also.

The result, the trade official stressed, "is a win-win situation in which both domestic and foreign film producers benefit." ❑

COMMENTARY

❑ WTO'S NEXT CHALLENGE: LIBERALIZING TRADE IN TELECOMMUNICATIONS

By Renato Ruggiero
Director-General of the World Trade Organization

We are now in the critical phase of a major negotiation on international trade in telecommunications. The Uruguay Round of multilateral trade negotiations not only resulted in the creation of the World Trade Organization (WTO); it also gave birth to the first multilateral agreement to apply the disciplines of the trading system to services. The General Agreement on Trade in Services (GATS) extends to all tradeable services the principles of market access, national treatment, and nondiscrimination that have been the basis of the GATT trading system and of the enormous post-war expansion of trade in goods. I am quite sure that the expansion of services trade, based on the GATS, will be even faster.

In telecommunications, the GATS covers every conceivable service, those existing and those yet to be imagined. During the Uruguay Round, more than 60 countries made market access commitments on "value-added" services, which in many countries have been opened up to competitive supply. But it was found that, in basic telecommunications, the dominant role of public monopolies added a special dimension of political difficulty to the subject, and governments decided to continue negotiating on these services, with a deadline of April 1996 for completion.

The economic interests involved in this negotiation are enormous. I understand that the current world market for telecommunications is estimated at $513 billion, and the worth of the global information industry is at least $1.3 trillion. But the importance of the negotiation goes far beyond the sphere of economics and trade. The construction of a global information society will revolutionize human society itself in ways that we cannot imagine. It will soon be possible to bring high-quality education, health, and business services to every village in the world. The potential for job creation and enhancement of human opportunities among people who are now deprived is very great. The job of the negotiators in the WTO is to create the right political environment for this to happen.

Because we are building a global information society, this negotiation is of tremendous relevance to developing countries. I understand concern about the continuation and even exacerbation of a "two-tier" information society of "haves" and "have nots." Many important factors underlie this concern, such as worries about the goal of universal service, not yet attained in many parts of the world. But liberalization of telecommunications should be seen as a way of promoting universal service, not as an obstacle to it.

Even more important in bridging the information gap is economic development itself. Manufacturing as well as services are now information-hungry industries. As I have said, modern communications hold out hope of generating better and more highly paid jobs for the peoples of developing countries. Employment opportunities are already growing in data processing and software development. On-line access to state-of-the-art services of every kind will upgrade entire economies. For individuals to reap the benefits of expanded employment and for emerging industries to become competitive, they need the best telecommunications systems that modern technology can offer. Inefficient telecommunications are a tax on the whole economy.

The GATS consists of two parts: the framework of obligations and disciplines that apply to all services, and the national schedules of commitments. Examples of the key obligations are nondiscrimination among trading partners (or most-favored-nation treatment) and transparency in national rules and regulations. The 114 national schedules of the GATS specify the services for which governments have guaranteed market access and national treatment, and at what level. The commitments, like the rules of the framework, are legally binding and enforceable under the WTO dispute settlement mechanism.

The objective of the basic telecommunications negotiations is to secure market-opening commitments from as many countries as possible. The commitments will involve the introduction of competition into the sector by removing restrictions that now prevent or make difficult a supply of services by foreign companies. They may cover every mode of supply — from cross-border trade and foreign direct investment, to resale, and to the ownership and operation of networks and infrastructure.

Negotiators are also discussing commitments that concern the telecommunications regulatory environment. These include safeguards on interconnection rights and ways to prevent the abuse of market power. It is clear that such commitments will be indispensable to realizing the full benefits of liberalization in this sector. The benefits would be severely constrained if it were to remain possible for dominant operators to dictate prices and control access to the infrastructure that is so critical to effective global communications.

I have heard it said that unrealistically high expectations could pose a threat to the success of the negotiations. I have also heard it suggested that failure to meet such expectations could make a multilateral solution impossible.

For my part, I would never want to characterize high ambition as a problem. It is the attempt to reach for the highest possible objectives that drives these and, for that matter, any negotiations forward. I support those in industry and government who are looking for a big step forward in this negotiation. Of course, it must be borne in mind that the participating countries are at different "starting positions" in efforts to reform their national telecommunications regimes.

But I am convinced that the liberalization of telecommunications must remain a global endeavor within the multilateral system — and this means preserving the principle of most-favored-nation treatment. Modern telecoms technologies require global approaches because they abolish national boundaries and render national monopolies obsolete. Bilateral or discriminatory solutions to trade problems may seem attractive in the short term, but their rewards are usually disappointing and their political costs are often very high. Nor can they be enforced under the WTO dispute settlement mechanism. I have said that rules on competition will be an essential element of this negotiation. Such rules can only be global, and only a multilateral system can give them legal security and political legitimacy.

The extended negotiations on basic telecommunications began in May 1994 and are now coming to the crunch. As of today, we have 37 full participants in the negotiations. This includes the European Union as one, and the full participants account for a very large share of world trade in telecommunications. But of those 37, only 24 have so far submitted initial offers. Only seven of these have so far submitted revised or improved offers.

It is, of course, for each government involved to decide whether it will take commitments in this negotiation, and what those commitments should be. But I am concerned that although, as I understand it, many governments are in a position to make significant improvements in their offers, and that others who have so far made no offers are likely to be able to do so, governments appear to be holding back. If I am right, it is lack of time, or lack of will, that should concern us most. If everybody waits for others to move first, there is a real danger of missing the deadline.

The Global Information Society is within our reach. The technology is available; we have to build a political environment that makes full exploitation of the technology possible. That is what these negotiations are about. ❑

❑ THE SERVICE SECTOR: YESTERDAY, TODAY, AND TOMORROW

By Harry L. Freeman
President of the Freeman Company, a private consulting firm

To assess progress in the service sector, it is important to look at the original goals of the service sector "movement." Those involved at the beginning — individuals, corporations, government officials, economists, and others — concluded that the U.S. service sector was not getting sufficient attention from governments or the public at large, and decided it was time to promote recognition of the sector. The goal, explicitly stated and implicitly understood, was to put the U.S. service sector on a par with the manufacturing sector (and, for that matter, the agriculture sector). The principal argument advanced was that services ranged from 60 percent to nearly 80 percent of gross domestic product and employment.

The most common goal of those in the United States was a more liberal trading and investment regime for the export of U.S. services, presumably to be achieved through GATT rules or other trade agreements. While the initial impetus for reform came from the financial services sector, including insurance, it quickly spread to professional firms doing business around the world, information and transportation companies, and engineering and construction firms.

THE SERVICE SECTOR MOVEMENT

There have been four major periods in the service sector movement. The first period occurred during the l960s and l970s, and was confined largely to the academic community writing books and scholarly articles dealing either wholly or in part with the U.S. service sector.

The GATT Tokyo Round occurred during the mid- to late 1970s and did not directly address services, although U.S. trade officials, led by then-U.S. Trade Representative Robert Strauss, made some efforts to do so. In effect, those early efforts laid down a "marker" for future efforts to address trade in services. Strauss was later active in promoting service sector interests.

The second period — mission delineation — began in 1979 when many interested parties began a series of meetings at different sites around the world to discuss an actual long-term plan of action. This involved both public and private sector individuals, all of whom had a common view to promote interest in advancing the prominence of the service sector. From those meetings, a consensus emerged that included the following elements:

- GATT should include trade in services in the next round of negotiations, presumably in the 1980s.
- More opinion-leaders and decision-makers around the world, and particularly the media, must be made aware of the importance of the service sector before progress can be made in any area.
- More scholarly research and publications would be necessary to understand aspects of the service sector.
- Many more technical studies should be written and published, particularly focused on how services trade issues might be handled in a multilateral trade negotiation.
- More data were needed to understand the sector, along with broader dissemination of the data and their significance to the public, largely via the media.
- A global crusade was necessary to change the mindset of the body politic from thinking in terms of "goods" or "manufacturing" as the principal, if not sole, concerns of economic importance. A goods and services mindset was badly needed.

- The services movement should not be viewed in any way as detrimental to manufacturing.

From the consensus that arose from the mission delineation phase, there was a burst of activity around the world concerning services in the early 1980s oriented toward trade in services, but including other elements as well. This third period saw the following take place:

- Efforts to include services in the next GATT round commenced in earnest in several countries, often led by the United States but including many other countries. In 1986, at the formal commencement of the Uruguay Round, this effort was finally successful.

- Services were included in the U.S.-Israel free trade agreement (FTA), concluded in 1985. While negotiations proceeded in the GATT, the United States and Canada concluded their negotiation of an FTA that included many services areas.

- European Community directives on services of all kinds were drafted, debated, issued, and adopted incident to the EC '92 exercise, which had a strong motivation to resolve services issues itself.

- There was a quantum jump in research and writing on the service sector.

- Trade associations, such as the Coalition of Service Industries in the United States, sprang up in many countries.

- Slowly, the trade lexicon switched from "goods" to "goods and services." The level of public interest in services grew dramatically.

- A voluminous amount of U.S. trade law was amended to include services on a par with goods, largely in the Omnibus Trade Act of 1984.

- Data collection efforts by governments were begun by some and enhanced by others with a view to public dissemination. The U.S. Department of Commerce began total integration of goods and services with its January 1994 report of the U.S. trade balance, including both in the monthly trade report.

- While the Uruguay Round negotiations bumped along for seven years, the United States, Canada, and Mexico began and concluded negotiation of the North American Free Trade Agreement, which went into effect on January 1, 1994. NAFTA provisions are the most favorable to U.S. services exporters of any previous agreements, and include both trade and investment in services, phased in by the year 2000.

- The Uruguay Round finally concluded in December 1993 and included a new framework agreement for services, the General Agreement on Trade in Services (GATS), which would become a part of the new World Trade Organization (WTO). Many important areas were left unfinished, although subsequent negotiations were scheduled. The United States ratified the implementing legislation on December 1, 1994.

This burst of activity in the 1980s and into the 1990s was beyond the expectations of most of the "charter" service sector movement members. One conclusion is that when it comes to trade matters, U.S. efforts may not always be successful, but services will be automatically "on the table" when the United States is involved. This state of affairs is probably the single most important achievement of the movement with respect to services, and is now part of the usual agenda and trade lexicon.

There was bound to be some sort of emotional let-down after the U.S. efforts in the Uruguay Round and the major battle to get the Congress to ratify the agreement at the end of 1994. Many of the "charter members" have been on the crusade for 10 to 15 years and now are moving to other subjects or responsibilities.

The principal task now is to finish the Uruguay Round in unagreed areas. In the services area, negotiations continue in maritime, basic telecommunications, and the movement of personnel. Negotiations in financial services will resume in 1997. In each of these areas, the outlook is far from clear. While much of the trade community has begun to think of "new areas" such as competition policy, environment, and workers rights, service sector people are still engaged in the Uruguay Round.

The current "letdown" phase is set on a different landscape. The trade associations formed to promote service sector interests have matured, and some are less active. Many service sector organizations and groups have entered a period of searching for their present and future relevance and strategies, as well as their financial support and value-added programs.

PRESENT CHALLENGE

This brings us to the present challenge — the need to reinvigorate the services movement. First, there must be recognition of change. As the service sector changes and increasingly merges with the manufacturing and agriculture sectors, new linkages of subjects, companies, and industries are appearing. The organization and description of the service sector and subsectors that are in place today will become obsolete. The distinction between goods and services and individual sectors is declining rapidly. Traditional manufacturing jobs are disappearing, and many in that sector are performing services. These changes have massive implications for social and economic policy, including education policies.

One question that arises as these areas converge is whether it is useful to have separate trade negotiations in the various fields. It might be worth considering, for example, combining financial services and telecommunications services in the same future negotiation in the World Trade Organization, rather than having separate negotiations. One reason is a traditional rationale that there might be "more on the table" for negotiating trade-offs. Telecommunications is scheduled to be completed in the WTO by April 30, 1996. Financial services has been rescheduled for the end of 1997. Both promise to be difficult negotiations. Combine them?

While services and goods are increasingly discussed in parity, and while the importance of the service sector has been firmly established, much more work is necessary to continue the difficult and expensive task of gathering and presenting data on services, as well as the study of conceptual issues such as productivity measurement. There is a need for uniform reporting of trade statistics by all countries. Both the Organization for Economic Cooperation and Development and the new WTO are addressing these problems, but it appears to be a very long haul. The importance of a rapid timetable for these initiatives must be emphasized at every opportunity.

FUTURE TRADE AGENDA

As mentioned earlier, concentrated attention must be given to finish the unagreed areas in the Uruguay Round. Beyond that, in both the Western Hemisphere and the Asia Pacific region, the goal should be maximum liberalization of trade and investment rules for services phased in at the earliest time. Not only are these areas critical for service companies; services are critical to the economic development of the countries in these regions.

To meet future challenges, the WTO must have talented and adequate professional staff to handle services and must give services a high priority. How private sector policy inputs will be made to the new organization remains an open question. Whatever the advisory process, if any, there is a strong need for those in the services movement to identify emerging political leaders around the world who will ensure that governments do not retreat from past achievements.

CONCLUSION

There is much left to be done. But it also is my conclusion that the pioneers who had to sell the idea that services were important had a tougher time of it; that argument has been made and accepted. Their successors have a full plate and a difficult agenda, but the most important battle has been won — services do matter. ❏

This article was adapted and updated from *The Service Economy*, a publication of the Coalition of Service Industries.

❑ SERVICES IN THE U.S. ECONOMY

By Allen Sinai
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How important is the service sector to the U.S. economy?

In recent years, service sector activities have continued to grow in relation to the overall economy, a long-term trend that goes back for decades. Variously measured, the services economy now accounts for anywhere from 65 percent to 80 percent of U.S. economic activity.

The importance of the services economy is underscored in terms of jobs. Services employment now accounts for nearly 80 percent of total employment in the United States. Ten years ago, the figure was 75 percent; 20 years ago, it was just under 70 percent.

Over the past year, 1.691 million new jobs were created in the United States, reflecting a 1.727 million increase in services jobs. In contrast, manufacturing employment fell 149,000 as a result of downsizing, weak production in the industrial economy, and high productivity growth.

In services, the biggest job gains were in Business Services (301,000), such as Personnel Supply (52,000) and Computer and Data Processing (108,000); Health Care (243,000); Wholesale Trade (150,000); Engineering and Management Services (157,000); Education (59,000); Eating and Drinking Places (107,000); and Finance, Insurance and Real Estate (68,000). General Merchandise Stores employment fell 84,000.

Jobs always are being created where the lion's share of spending goes. Outlays for services by individuals, corporations, and government continue to grow rapidly, as U.S. business downsizes, outsources, and moves to a new technology of production in an information age. Strong U.S. competitiveness in services vis-á-vis the rest of the world also has boosted jobs.

Actually, to some extent, wages in services, measured as average hourly earnings, are moving higher with heavy demands for services. In recent years, average hourly earnings in numerous areas of services have risen by more than in the alleged high-paying jobs of manufacturing. Between the end of 1990 and year-end 1995, average hourly earnings in manufacturing rose 13.6 percent, to $12.49. But average hourly earnings rose even faster and to higher levels in a number of services: Wholesale Trade (up 14.6 percent to $12.59); Finance, Insurance and Real Estate (up 23.2 percent to $12.55); Health Services (up 18.6 percent to $12.62); Engineering and Management Consulting (up 13.6 percent to $15.90); and Legal Services (up 26 percent to $18.27).

The only sectors in which average hourly earnings seem to be lagging, both in rate of increase and levels, are Retail Trade, Banking, and Amusement and Recreation — sectors in which wages paid traditionally have been quite low. The economics of the strong job growth in certain areas of services suggest that compensation should pick up faster over time in these sectors relative to manufacturing. In general, the perception of the poorly paid services worker appears to be a myth.

There is no end in sight for these trends, which promise an even leaner, more effective work force in the production side of the economy and more and more jobs, value-added, and production in the services economy in coming years. ❑

❑ THE IMPACT OF THE INTERNATIONALIZATION OF SERVICES ON DEVELOPING COUNTRIES

By Carlos A. Primo Braga
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Advances in information technology have vastly expanded the range of services that can be traded internationally. Developing countries stand to benefit on two fronts — they will be able to increase their exports of services, and they will gain access to services not available domestically — provided they reform their regulatory environments and develop the necessary human and physical capital.

The internationalization of services is at the very core of economic globalization. Service industries provide links between geographically dispersed economic activities and thus play a fundamental role in the growing interdependence of markets and production activities across nations. Moreover, many services considered nontradable only a few years ago are now being traded actively, as advances in information technology (IT) expand the boundaries of tradability. As technological progress further reduces communication costs, trade in services is expected to continue to expand briskly.

For developing countries, the growing internationalization of services and rapid technological change in IT present both opportunities and challenges. There are opportunities for developing new exports and attracting more services-related foreign investment. Technological progress will allow countries to leapfrog stages of development in building their info-infrastructures, thanks to technological discontinuities (e.g., the emergence of digital networks). One challenge facing the developing countries is the design of appropriate regulatory environments for service industries. Access to efficient services matters not only because it creates the potential for new exports but also because it will be an increasingly important determinant of economic productivity and competitiveness. Other challenges include undertaking necessary investments in modern IT networks and adapting educational systems to the information age.

OPPORTUNITIES

As service industries rely increasingly on IT, they tend to become more dependent on capital and human-capital inputs. This has led some analysts to suggest that developing countries cannot compete internationally in services and that policies to liberalize trade in services would be of limited interest to them. This view is mistaken. Developing countries are already carving out areas of comparative advantage in IT-based services, a process that will continue to evolve. Moreover, liberalization is not only about expanding exports; even more important is its role in helping domestic producers gain access to more efficient and diversified services in world markets.

Efficient producer services are increasingly relevant to the pursuit of an outward-oriented strategy of development. "Ship-and-forget" trade is becoming a thing of the past. To compete internationally, dynamic exporters increasingly rely on reduced product-cycle times, prompt delivery, and improved customer services. As a result, the service content of final exports is increasing. In time-sensitive industries, firms are either "quick" or "dead." Innovative service providers are enhancing transportation and communication systems, and developing an advanced services infrastructure. Availability of such infrastructure, in turn, is becoming a major criterion in the locational decisions of exporters. The newly industrializing economies in East Asia have been particularly successful in developing a modern infrastructure for producer services.

Long-distance services. There remains much scope for expansion in developing countries' traditional service export areas (e.g., tourism). A new area of special promise is long-distance services. Data entry was one of the first service activities to be internationally outsourced. This type of activity requires only a low level of computer literacy and limited interaction between the customer and the supplier. The customer mails paper-based data forms or sends scanned images of data forms electronically to the foreign provider for processing. The supplier sends the computerized data back via telecommunication lines or by mailing magnetic tapes. Countries in the Caribbean have been quite active in exploring the market for offshore data entry.

Software programming is another activity that is increasingly traded across borders, with subsidiaries or partners overseas entrusted with developing software that is transmitted electronically back to the parent or partner company. For example, many leading international computer and software companies have set up R&D and production operations in Bangalore, India. The Indian software industry, which is growing rapidly, generated revenues totaling more than $500 million in 1993-94, two-thirds of which came from exports. It is estimated that India has captured roughly 12 percent of the international market for customized software.

"Back-office" service activities are also being traded internationally. For example, several U.S. insurance, tax-consulting, and accounting companies send claims and forms overseas for processing. In manufacturing, service activities such as product design, logistics management, R&D, and customer service are also being outsourced internationally.

There are no precise estimates of the size of the market for long-distance services that can be captured by developing countries. The fact that a significant share of these transactions takes place at the intrafirm level clouds the picture. However, rough estimates suggest that 15 percent of the employment in services in industrial countries may be internationally contestable by developing countries. The potential impact of the globalization of services in terms of job displacement in industrial countries does not seem very large. But, from the perspective of developing countries, the potential impact in terms of higher exports over the long term is significant, possibly as large as their current total exports of commercial services. There are important niches in the market for long-distance services that can be successfully exploited by developing economies with a literate work force and a modern telecommunications system.

It is important to note that markets for these services are sensitive to technological change. Long-distance services in data entry, for example, are expected to continue to expand in the near future, reflecting the continuous fall in communication costs. Progress in optical recognition technology and the development of online services for credit card and check clearing, however, can significantly affect the need for data entry in the future. These services may lose some of their dynamism as they are displaced by innovations in software and scanner technology in the industrial world. Nonetheless, the increasing number and diversity of information-intensive jobs, the technical feasibility of new long-distance services (e.g., in remote clerical support), and the dynamism of foreign direct investment (FDI) flows and of the global demand for software suggest that the overall market for long-distance services will continue to expand.

While creating possibilities for new exports, the internationalization of services is important also for developing countries as importers of services. Long-distance access to the "floating pool" of nonproprietary knowledge, for example, is being revolutionized by computer-mediated networks, such as the Internet. Electronic bulletin boards are becoming more sophisticated and increasingly effective as instruments for the transference of knowledge and for technical assistance. They can now combine text, voice, and images, and their use may significantly alter the prospects for human capital accumulation in developing countries in the next few years.

CAPTURING THE OPPORTUNITIES

To capture the opportunities offered by the internationalization of services, developing countries will need to adapt their regulatory environments and develop supportive physical and human infrastructure.

Liberalization and regulatory reform. Liberalizing the import regime for services is central to achieving increased efficiency and competitiveness in the provision of services. It allows businesses to import services that are not produced domestically or that are not available at a price and quality required for competitiveness. Liberalization also fosters efficiency by increasing competitive pressures on domestic producers of services. Because of the nonstorability of many services, FDI is the major mode of international delivery of services. Lowering barriers to FDI, therefore, is crucial. Increasing recognition by developing countries of the need for such reform is reflected in the liberalization packages encompassing the services sector that many of them have unilaterally initiated in recent years. Yet most service activities continue to face a more restrictive regulatory regime than do goods.

Border policies account for only some of the impediments to internationalization. Services are regulation-prone, and the domestic regulatory environment can create additional barriers to international competition (state monopolies in service industries, legal barriers to entry in economic activities, price controls). Domestic deregulation is often a necessary complement to the opening up of the foreign trade and investment regime. Also, differences in regulatory environments for service industries across countries may restrict access on a de facto basis (for example, different standards for accreditation of professionals). Accordingly, effective liberalization may also require harmonization of regulatory practices among major trading partners (e.g., as pursued in the context of the Single Market initiative in Europe).

Alongside unilateral liberalization of services, countries are pursuing liberalization through reciprocal negotiations. An important achievement of the Uruguay Round is the adoption of the General Agreement on Trade in Services (GATS), which extends multilateral rules and disciplines to services. Several recent regional integration arrangements have also included liberalization of services.

The GATS covers four modes of international delivery of services: cross-border supply (e.g., transborder data flows, transportation services); commercial presence (e.g., provision of services abroad through FDI or representative offices and branches); consumption abroad (e.g., tourism); and movement of personnel (e.g., entry and temporary stay of foreign consultants). It broadly follows the GATT (General Agreement on Tariffs and Trade) tradition, emphasizing nondiscrimination [most-favored-nation (MFN) and national treatment] and prohibiting policy instruments that resemble quantitative restrictions. It innovates, however, in covering transactions associated with commercial presence (that is, establishment trade) and introducing a concept of market access that encompasses nonborder restrictions (e.g., limitations on the type of legal organization under which foreign providers can operate are, in principle, prohibited).

Unconditional MFN is a basic obligation of signatories, but MFN exemptions are allowed. The coverage of these exemptions is still being negotiated in areas such as basic telecommunications and maritime transport. They are time-bound and should be eliminated through future negotiations. Market access and national treatment, in turn, are specific obligations under the GATS. They apply only to the service industries and activities specifically listed by the country in its schedule of commitments, at the level of each mode of supply and subject to the limitations made explicit in the offer. The GATS adopts a positive list approach with respect to sectoral coverage of service industries — that is, only the industries scheduled in the offers of the negotiating parties are subject to GATS discipline. This practice is less transparent than the negative list approach adopted, for example, in the North American Free Trade Agreement (NAFTA), in which all service industries are covered unless specifically exempted.

The complexity of the agreement (with offers made by service activity and mode of supply) renders it difficult to make a comprehensive evaluation of the economic value of the offers and their liberalizing impact. In terms of industry coverage, developing countries covered a smaller subset of service activities in their offers than industrial countries. Tourism and travel-related services were the only activities in which a substantial number of developing countries made commitments. Commitments in the area of communication services — an area of critical relevance for countries interested in pursuing outward-oriented strategies of development — were quite limited. These commitments are mostly related to value-added telecom services (e.g., data processing, electronic data interchange) but cover less than 20 percent, on average, of the service activities negotiated under this category.

The liberalization of trade in services actually achieved under the Uruguay Round seems rather limited at present. However, while the immediate liberalization may be limited, the agreement paves the way for future multilateral liberalization. The framework agreed provides for continued negotiations to be completed over a two-year period, and nothing constrains members from undertaking further unilateral liberalization, provided it is consistent with the multilateral disciplines established by the GATS.

Other supportive policies. The services revolution places a premium on the development of a competitive telecommunications system. Most developing countries are hard pressed to meet the demand for even basic telecommunication services, and investment in networks for value-added services may be considered an unaffordable luxury. However, technology now allows a country to develop a dual structure for telecommunication services: a country can invest in low-cost, dedicated networks for business needs in parallel with expanding the basic infrastructure. The private sector can play a leading role in this process, as it has in Chile, for example.

Providing access to modern, high-quality communication services is not enough. Countries can be at a competitive disadvantage in long-distance exports because of non-competitive pricing of telecommunication services. (This has been the case for some Eastern Caribbean countries.) The use of alternative means of telecommunications (e.g., low-cost satellite stations) may be inhibited by monopolistic practices of the basic telecommunications providers. Establishing a competitive framework for the provision of telecommunication services is therefore necessary.

Another important constraint faced by developing countries concerns the quality and relevance of the training of their work forces. In-house training can partially mitigate the shortcomings of the formal educational system in preparing workers to use IT in service industries. The main challenge, however, is to make the general population receptive to technological change. As economies become more service-intensive, workers must be retrained more frequently, and their performance becomes more dependent on access to IT. Accordingly, the diffusion of computer literacy should receive special attention in education strategy.

In sum, the most dynamic trade routes of the twenty-first century will be dominated by transactions in intangibles rather than goods. Service industries will be responsible for the "roads" of the global "infostructure," and they will be the main providers of the content to be traded via electronic means. The adoption of a liberal trade and investment regime is essential for countries to maximize the benefits to be derived from the internationalization of services and to move toward the information age. This is particularly true for developing countries. ❑

This article is based on a World Bank report, *Global Economic Prospects and the Developing Countries 1995*.

FACTS AND FIGURES

❑ GENERAL AGREEMENT ON TRADE IN SERVICES (GATS)

U.S. Department of Commerce Fact Sheet

RESULTS OF THE AGREEMENT

- The first multilateral, legally enforceable agreement covering trade and investment in the service industries includes basic trade-liberalizing rules such as MFN (most-favored-nation) treatment, national treatment, market access, transparency, and free flow of payments and transfers.

- Commitments by the European Union, Japan, and Canada, accounting for three-quarters of U.S. foreign advertising sales, as well as by a large number of other countries, provide for trade liberalization in the advertising sector.

- Binding commitments on foreign travel-related businesses (e.g., travel agencies, tour operators, hotels, restaurants) by U.S. trading partners improve opportunities for comparative U.S. travel and tourism services.

- Commitments on professional services provide improved predictability, transparency, and market access.

BENEFITS FOR U.S. INDUSTRY

- Some 150 U.S. service industries, accounting for $185 billion in 1994 U.S. exports, gain greater ability to do business abroad.

- Commitments give improved market access for audiovisual works in a few important markets, including Korea, Japan, Malaysia, and Singapore.

- Other U.S. services sectors likely to benefit include:

  - The advertising sector, which accounted for $399 million in exports in 1994.

  - Foreign travel-related businesses, which accounted for $60.4 billion in U.S. exports in 1994.

  - U.S. business professional services (including accountants, architects, and engineers), which accounted for $14.8 billion in sales in foreign markets in 1994.

- The new government procurement agreement opens access to the government procurement market for service providers.

CARRYOVER CONCERNS

- Continued negotiations became necessary in a few sectors when countries were unable to agree on levels of liberalization by the end of the Uruguay Round.

- Continued negotiations on financial services ended in July 1995. The United States agreed to protect existing foreign investments in the United States, but did not guarantee MFN treatment to firms of all parties to establish new financial service businesses. Commitments by the United States and other countries are interim in that they will be in effect through December 31, 1997. Before that date, negotiations will resume. During a 60-day period beginning November 1, 1997, all parties may withdraw their schedules of commitments and MFN exemptions.

- Continued negotiations on temporary entry of natural persons also ended in July 1995. The United States made no new commitment, but maintained the level of commitment in the U.S. Schedule of Commitments. This commitment does not change current practice in admission of service providers.

- Continuing negotiations of basic telecommunications will end April 30, 1996, and those of maritime transport on June 30, 1996.

- The limited coverage of audiovisual services is of concern to the United States. Although audiovisual services are not the subject of ongoing negotiations in the World Trade Organization (WTO), the United States is continuing bilateral consultations with its trading partners.

- Negotiation of the General Agreement on Trade in Services schedules of commitments are continuing with a number of countries interested in joining the WTO. These countries include potentially important trading partners such as Russia, China, Taiwan, and Ukraine.

IMPORTANCE OF EXPORTS TO U.S. SERVICES INDUSTRY

U.S. services industries are the world's leading exporters of services. Services exports have shown a large surplus every year for over a decade. In 1994, services exports were $185.4 billion, up 6.4 percent over the 1993 level. The 1994 surplus in services was $59.5 billion. Service industries provide about three-quarters of U.S. employment. ❑

Table 1. U.S. Services Exports, 1989 and 1994

U.S. Private Services Exports (billions of dollars)

	1989	1994	$ Change	% Change
Total Private Services	118.2	185.4	67.2	56.9
Travel	36.2	60.4	24.2	66.9
Transportation	31.8	43.6	11.8	37.1
Royalties and License Fees	13.8	22.4	8.6	62.3
Other Private Services, Affiliated	12.3	17.2	4.9	39.8
Other Private Services, Unaffiliated	24.2	41.8	17.6	72.7
Education	4.6	7.1	2.5	54.3
Financial	5.0	7.0	2.0	40.0
Insurance, premiums net of losses paid	0.5	1.6	1.1	220.0
Telecommunications	2.5	2.8	0.3	12.0
Business, Professional, and Technical	6.2	14.8	8.6	138.7
Other	5.4	8.5	3.1	57.4
Addendum: Film & Tape Rentals	2.3	3.4	1.1	47.8

Table 2. U.S. Services Trade by Region, 1994
(billions of dollars)

	Exports		Imports	
	Value	Share	Value	Share
Canada	17.3	9.3%	11.7	9.3%
Europe	66.7	36.0	51.7	41.1
United Kingdom	17.5	9.4	16.9	13.4
Germany	11.6	5.4	7.5	6.0
France	6.7	3.6	5.5	4.4
Latin America and Other W. Hemisphere	30.3	16.3	23.8	18.9
Mexico	8.9	4.8	8.4	6.7
Brazil	3.5	1.9	1.0	0.8
Asia and Pacific	58.0	31.3	32.4	25.7
Japan	29.7	16.0	13.8	11.0
Korea	4.5	2.4	2.6	2.1
Taiwan	4.2	2.3	2.7	2.1
Australia	3.8	2.0	2.0	1.6
Middle East	5.8	3.1	2.4	1.9
Israel	2.1	1.1	1.1	0.9
Saudi Arabia	1.5	0.8	0.3	0.2
Africa	2.7	1.5	2.2	1.7
South Africa	0.6	0.3	0.3	0.2
Other	4.6	2.5	1.7	1.4
World Total	**185.4**	**100.0**	**125.9**	**100.0**

Sources: U.S. Department of Commerce, Bureau of Economic Analysis and International Trade Administration.

❑ URUGUAY ROUND OPPORTUNITIES: TELECOMMUNICATIONS SERVICES

U.S. Department of Commerce Fact Sheet

HIGHLIGHTS

- U.S. companies gain improved market access and significantly greater transparency obligations to provide enhanced (value-added) services in most countries having significant telecommunications services markets.
- U.S. companies, including enhanced-services providers, have access to and reasonable use of the telecommunications networks of the more than 50 countries that made commitments in services sectors.
- The agreement's national treatment commitments assure that further liberalization and regulatory changes in foreign markets also will benefit U.S. firms providing or making use of enhanced services.
- U.S. firms gain legally enforceable rights that are subject to formal dispute settlement mechanisms regarding specific commitments on access and use of basic telecommunications services made by other nations.

IMPORTANCE OF EXPORTS TO U.S. TELECOMMUNICATIONS SERVICES INDUSTRY

The United States comprises an estimated 35 percent of the world market for telecommunications services. Exports of telecommunications services increased 9.4 percent between 1989 and 1994.

In 1992, export revenues were about 2 percent of total operating revenues. International revenues for U.S.-originated services continue to grow at nearly 20 percent annually and comprise about 7 percent of total industry revenues. ❑

Table 1. Profile of U.S. Telecommunications Services Industry*
(millions of dollars)

	1989	1990	1991	1992	1993	1994
Total Exports	2,519	2,735	3,291	2,885	2,784	2,757
Total Employment (000)	901	926	915	895	884	—

Table 2. U.S. Telecommunications Exports to Regions, 1994*
(millions of dollars)

	Value	Share
Canada and Mexico	$431	16%
Other Western Hemisphere	475	17
European Union	662	24
Other Europe	205	7
Japan	196	7
Other Asia and Pacific	514	19
All Other	274	10

Table 3. Top Importers of U.S. Telecommunications Services, 1994*
(millions of dollars)

	Value	Share
Canada	$245	8.9%
Japan	196	7.1
Mexico	186	6.7
United Kingdom	174	6.3
Germany	155	5.6

*Estimates exclude affiliated (intra-firm) sales.

Sources: U.S. Department of Commerce, International Trade Administration, Office of Services Industries; U.S. Department of Labor, Bureau of Labor Statistics.

❑ GENERAL AGREEMENT ON TRADE IN SERVICES: COMMITMENTS BY THE UNITED STATES, THE EUROPEAN UNION, JAPAN, CANADA, AND MEXICO

The following are excerpts from the executive summary of a December 1995 report, General Agreement on Trade in Services: Examination of Major Trading Partners' Schedules of Commitments*, issued by the U.S. International Trade Commission.*

SUMMARY OF FINDINGS

- Overall, the GATS provides a substantial foundation for future efforts to liberalize international trade in services, providing unprecedented information on impediments to trade in signatory countries.

- Schedules submitted by the United States' major trading partners surpass those submitted by most other countries in terms of transparency; i.e., the degree to which they explain trade-impeding regulations clearly, precisely, and comprehensively. ...

- Schedules submitted by the United States' major trading partners do not always establish effective benchmarks; i.e., commitments that identify trade-impeding measures and, under the terms of the GATS, prevent these measures from becoming more restrictive in the future. Nevertheless, the United States' major trading partners have made substantive commitments with respect to many service industries (see below), and have agreed to observe a comprehensive list of trade-promoting disciplines. ...

ASSESSMENT OF SCHEDULES BY INDUSTRY

Distribution Services

- The schedules of commitments suggest that ... the European Union (EU) and Mexico are the most restrictive with respect to distribution services and that Japan is the least restrictive. However, industry representatives indicate that they perceive Mexico and Japan as the most restrictive subject trading partners due to the administration of commercial regulations in Mexico and unwritten business practices in Japan. ...

- U.S. industry representatives in Mexico and Japan indicate that there remain substantial non-regulatory barriers created by administrative policy and industry practice.

- U.S. firms are concerned that Mexican regulations regarding import documentation, labeling requirements, and product standards are being applied in a manner that deliberately impedes market entry and efficiency.

Education Services

- Canada, Austria, Finland, Sweden, and Japan appear most restrictive. With the exception of Japan, all these countries have declined to address education services in their schedules; as a result, these countries retain the right to maintain or impose trade-impeding measures. Yet, Japan and Canada are currently two of the largest U.S. export markets for education services, indicating that these countries have not imposed significant barriers to date. ... Mexico specifies relatively few restrictions under the GATS and, like Canada, provides U.S. service providers with additional benefits under the NAFTA. ...

Enhanced Telecommunication Services

- Subject trading partners generally impose few restrictions on foreign firms. ... Japan and Canada appear to impose the fewest restrictions while Mexico lists the most extensive limitations. However, U.S. firms likely will not be affected adversely by Mexico's commitments under the GATS because they are subject to fewer restrictions under the NAFTA. ...

Courier Services

- Among the subject trading partners, only Canada and Mexico scheduled specific commitments pertaining to courier services. Canada represents the least restrictive market for foreign couriers.

- Schedules submitted by the European Union and Japan do not serve the purposes of regulatory transparency and benchmarking as they do not address courier services. ...

- U.S. couriers generally support the GATS agreement, but there is concern regarding border clearance procedures and trucking and packaging restrictions in Mexico and Japan. ...

Audiovisual Services

- Japan represents the least restrictive market. With few exceptions, Japan allows U.S. firms to provide audio-visual services in Japan through both cross-border supply and commercial presence. Mexico was the only other subject country to schedule industry-specific commitments in this sector. ...

- The schedules submitted by the European Union and Canada, especially the former, do not serve the purposes of regulatory transparency and benchmarking. The European Union and Canada listed relatively broad exemptions to most-favored-nation (MFN) treatment. The stated intent of these measures is to promote regional identity, cultural values, and linguistic objectives. ...

Health Care Services

- Although all subject trading partners place stringent restrictions on foreign health care providers, Japanese and Canadian limitations are perhaps most restrictive. Japan requires that hospitals and clinics be owned or managed by Japanese-licensed physicians and prohibits the establishment of investor-owned hospitals that are operated for profit. Canada did not address health care services in its schedule. ... NAFTA provisions do not provide for the preferential treatment of U.S. health care providers. ...

- Industry representatives generally have expressed satisfaction regarding most foreign commitments. They believe that the commitments scheduled by the European Union, in particular, improve the transparency of technical rules and regulations.

Accounting Services

- The European Union represents the most restrictive market, and Canada and Mexico appear to be the least restrictive markets. Although there are few EU-wide restrictions, individual EU member states impose numerous limitations. ...

- Commitments scheduled by the subject trading partners are among the best in terms of regulatory transparency and benchmarking. ...

- While the accounting profession generally approves of the schedules submitted by the subject trading partners, industry representatives would like to reach agreements that provide for the mutual recognition of accounting credentials and the removal of exchange restrictions on capital transfers. ...

Architectural, Engineering, and Construction (AEC) Services

- The schedules of commitments suggest that Mexico has the most restrictive market while Japan and Canada appear to have the least restrictive markets. In practice, however, industry representatives report that Japan's market for AEC services is most restrictive due to widespread informal barriers. ... Canada and Mexico, meanwhile, offer more favorable commitments for U.S. service providers under the NAFTA than under the GATS. ...

- U.S. industry representatives have indicated that many informal barriers to trade in AEC services exist and were not addressed during the scheduling exercise. It is unclear to what degree such barriers will be affected by the outcome of the GATS.

Advertising Services

- Japan and the European Union appear to be the least restrictive markets, whereas Canada appears to be the most restrictive market. Canada did not address advertising services in its schedule. ... For U.S. service providers, however, the NAFTA affords more favorable treatment than the GATS.

- With the exception of Canada, the subject trading partners appear to have scheduled commitments that fully serve the purposes of regulatory transparency and benchmarking. The European Union and Japan establish firm benchmarks regarding foreign provision of advertising services through commercial presences, identified as the most important mode of delivery in this industry.

Legal Services

- All subject trading partners appear to maintain significant restrictions on foreign provision of legal services. ... Canada is least restrictive while Mexico and Japan appear to be most restrictive. Mexico did not schedule any GATS commitments pertaining to legal services. ... However, in practice, U.S. firms have been able to establish a presence in Mexico's market as a result of reciprocity arrangements made by certain U.S. states under the NAFTA. ...

- U.S. industry representatives have expressed dissatisfaction with Japanese commitments. Japan is the largest single-country export market, yet barriers pertaining to foreign provision of legal services remain high. Legal service providers must practice for five years in the same jurisdiction to register with the Japanese Bar, and foreign firms are prohibited from employing or establishing a full partnership with *bengoshi,* the only lawyers allowed to provide all legal services in Japan.

Transportation Services

- Most of the subject trading partners' commitments are somewhat restrictive, with those scheduled by Mexico, Japan, and certain EU member states appearing to be most restrictive. ...

- U.S. industry representatives generally have expressed satisfaction with the commitments scheduled by major trading partners. They are particularly pleased that provisions negotiated under the NAFTA were maintained in the GATS.

Travel and Tourism Services

- Among the commitments scheduled by the subject trading partners, those by Mexico and Canada appear most restrictive, and those by Japan appear least restrictive. However, Canada's and Mexico's markets remain relatively unrestrictive for U.S. service providers in practice because these countries' commitments under the NAFTA are less restrictive than those under the GATS. In the EU schedule, individual member states have listed numerous restrictions regarding commercial presence. ...

ASSESSMENT OF SCHEDULES BY TRADING PARTNER

Japan

- Japan appears to impose the fewest formal restrictions on foreign service providers. Japan's commitments regarding the temporary entry and stay of intra-corporate transferees and specialists are the least restrictive. ... Japan was the only subject trading partner that did not submit a list of MFN exemptions. However, discussions with industry representatives suggest that the national schedules did not address all Japanese barriers to trade in the subject service industries.

- Japan's cross-industry commitments do not address investment, real estate acquisition, and taxation. The lack of commitments for investment may affect U.S. firms' ability to establish commercial presences in Japan and may result in the continuation of recent U.S. deficits recorded in affiliate transactions with Japan.

European Union

- Although EU-wide commitments generally appear to be among the least restrictive, measures imposed by individual member states appear to be among the most restrictive.

- EU provisions for the temporary entry and stay of most natural persons are not transparent. Authority in this area remains with the 15 member states. Although EU member states' current regimes are relatively unrestrictive with respect to foreign entry and stay, relevant measures are not bound in the absence of commitments and could therefore become more restrictive in the future. Some progress was made regarding the movement of professionals by the WTO Negotiating Group on the Movement of Natural Persons in July 1995.

- The European Union lists 28 MFN exemptions. Certain MFN exemptions are unusually broad in scope. Eight apply to all service industries, and some pertaining to audiovisual services identify neither the discriminatory measures to be applied nor the conditions creating the need to impose MFN exemptions.

Canada

- Although Canada-wide commitments generally do not appear to be restrictive, measures imposed by individual provinces may significantly impede foreign provision of services in Canada.

- Canadian provisions for the temporary entry and stay of natural persons are transparent and relatively unrestrictive.

- Canada's commitments under the NAFTA are less restrictive than those under the GATS, partially offsetting the adverse effect of certain GATS measures on U.S. service exporters.

Mexico

- Mexico's commitments are among the most restrictive of all those scheduled by the subject trading partners.

- Mexico's provisions for the temporary entry and stay of natural persons are among the most restrictive of those offered by major trading partners.

- As with Canada, Mexico's commitments under the NAFTA are less restrictive than those under the GATS, diminishing the adverse effect of certain restrictive measures on U.S. service exporters. ❑

INFORMATION RESOURCES

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KEY INTERNET WEB SITES TO FIND INFORMATION ON TRADE IN SERVICES

U.S. DEPARTMENT OF COMMERCE, OFFICE OF TRADE AND ECONOMIC ANALYSIS
(U.S. aggregate foreign trade data on services)
http://www.ita.doc.gov/industry/otea/usfth/tabcon94.html

U.S. DEPARTMENT OF COMMERCE, INTERNATIONAL TRADE ADMINISTRATION
Office of Telecommunications
http://www.ita.doc.gov/industry/tai/telcon/telcon.html

INTERNATIONAL TELECOMMUNICATIONS UNION (ITU)
http://www.itu.ch/

WORLD TRADE ORGANIZATION
(Summary of text of Uruguay Round services accord)
http://gatekeeper.unicc.org/wto/ursum_wpf.html

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CONGRESSIONAL CURRENTS

Key Economic Legislation
(as of March 29, 1996)

FOREIGN AID

BILL NUMBER(S). . . . . H.R.1561 (Rep. Gilman)
DESCRIPTION. . . . . Would further restructure and streamline U.S. foreign affairs agencies, place restrictions on administration foreign policy, and reduce funding ceilings for most foreign aid programs. The House and Senate passed different versions of the bill in 1995; a conference committee representing both chambers agreed March 7, 1996, on a compromise measure.
HOUSE ACTION . . . . Passed conference measure on March 12, 1996.
SENATE ACTION . . . . Passed conference measure on March 28, 1996.
STATUS/OUTLOOK . . . . . President Clinton is expected to veto the legislation.

AGRICULTURE

BILL NUMBER(S). . . . . H.R.2854 (Rep. Roberts)
DESCRIPTION. . . . . Would replace domestic commodity subsidy programs with fixed, declining payments over a seven-year period.
HOUSE ACTION . . . . Measure passed March 29, 1996.
SENATE ACTION . . . . Measure passed March 28, 1996.
STATUS/OUTLOOK . . . . . President Clinton is expected to sign the bill into law in early April.

U.S. TRADE WITH THE CARIBBEAN

BILL NUMBER(S). . . . . H.R.553 (Rep. Crane) S.529 (Sen. Graham)
DESCRIPTION. . . . . Would provide certain Caribbean Basin countries temporary trade benefits equivalent to those accorded to members of the North American Free Trade Agreement (NAFTA).
HOUSE ACTION . . . . H.R.553 approved by Ways and Means Trade Subcommittee and sent to full Committee for additional hearings.
SENATE ACTION . . . . S.529 referred to Senate Finance Committee.
STATUS/OUTLOOK . . . . . House aides say measure may be attached to a comprehensive spending bill to hasten and facilitate passage.

GENERALIZED SYSTEM OF PREFERENCES

BILL NUMBER(S). . . . . H.R.1654 (Rep. Crane)
DESCRIPTION. . . . . Would reauthorize the Generalized System of Preferences (GSP) for five years, authorizing the president to confer duty-free status on eligible imports from designated developing countries.
HOUSE ACTION . . . . Approved by Ways and Means Trade Subcommittee May 17, 1995.
STATUS/OUTLOOK . . . . . GSP renewal has already been approved by both houses of Congress, but as part of a comprehensive budget measure vetoed by President Clinton for unrelated reasons.

SHIPBUILDING TRADE AGREEMENT

BILL NUMBER(S). . . . . S.1354 (Sen. Breaux) H.R.2754 (Rep. Crane)
DESCRIPTION. . . . . Would approve and implement the Organization for Economic Cooperation and Development (OECD) Shipbuilding Trade Agreement, which ends most subsidies to shipbuilders.
HOUSE ACTION . . . . H.R.2754 approved by Ways and Means Trade Subcommittee; hearings to be announced at House National Security Committee.
SENATE ACTION . . . . S.1354 referred to Finance Committee.
STATUS/OUTLOOK . . . . . Despite strong bipartisan support in Congress and from the White House, vigorous opposition from key legislators could block passage.

WORLD TRADE ORGANIZATION

BILL NUMBER(S). . . . . S.16 (Sen. Dole) H.R.1434 (Rep. Houghton)
DESCRIPTION. . . . . Would establish a commission to review the dispute settlement decisions by the World Trade Organization.
HOUSE ACTION . . . . H.R.1434 referred to House Ways and Means Committee and House Rules Committee; no hearings held to date.
SENATE ACTION . . . . No committee referrals to date.
STATUS/OUTLOOK. . . . . . No action expected this year. ❑

ECONOMIC TRENDS

One quarter through 1996, the U.S. economy appears to be meeting predictions for gross domestic product (GDP) growth of around 2.0 to 2.5 percent this year, while inflation and unemployment remain low.

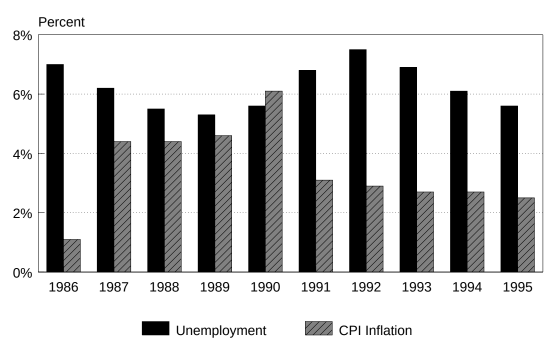
Most economists and U.S. officials agree that the economy's macroeconomic foundations appear sound. Inflation, measured by the Consumer Price Index, continues near its 1995 average of 2.5 percent, which was the lowest annual rate since 1965. Heavy snows slowed employment and industrial production growth in January, but both increased in February. Payroll employment jumped by 705,000 in February, the largest monthly increase since 1983, reducing the unemployment rate to 5.5 percent, just below the 1995 average. Most analysts believe, however, that the February job growth figure represented more than a month's increase since January's snows distorted the collection and processing of employment statistics.

Industrial production, the output of U.S. factories, mines, and utilities, rose by 1.2 percent in February, the highest monthly increase in eight years, after declining by 0.4 percent in January.

Still, when everything is taken together, the U.S. central bank, the Federal Reserve System, concluded in its mid-March report on economic conditions that the U.S. economy "grew modestly in January and February."

Federal Reserve Chairman Alan Greenspan said in February that the U.S. economy was "going through a soft spot." In the fourth quarter of 1995, a most prominent feature of this "spot" was a reduction in consumer spending with an accompanying increase in business inventories. Consumer spending accounts for about two-thirds of GDP.

U.S. unemployment, inflation rates 1986-1995



Source: Joint Economic Committee

Another drag on the economy was reduced federal government purchases, most analysts say. This they attribute to a three-week government shutdown in December and January and the continuing impasse over the federal budget, which has left many government agencies with less money to spend. The severe January weather was also an important factor in slowing the economy.

By February, the Federal Reserve's report notes, there were improvements. Retail sales rose 0.8 percent, the biggest increase since November. This increase, however, "represents only a partial recovery from weak sales during the holidays and January." In most regions, manufacturing was "either level or growing."

There are indications of growth in other sectors that should spur the economy. These include increased foreign trade, greater business demand for durable equipment, and higher commercial and industrial construction, according to the Mortgage Bankers Association (MBA).

As noted in the MBA's March 1996 issue of *Economic Commentary*, Canada, Mexico, and Japan — the three principal U.S. trading partners, which together consume over half of U.S. merchandise exports — are all "expected to grow more strongly this year than last," making further stimulus from the export sector "very likely." U.S. exports rose by 14 percent in 1995.

The MBA predicts 2.0 to 2.25 percent GDP growth for 1996. The Federal Reserve made the same forecast in February, and most other forecasts have been in this range. The economy expanded by 2.1 percent in 1995.

The MBA describes 2.0 to 2.25 percent as "close to our estimate of the economy's long-term growth potential," a conclusion with which many other economists and analysts would agree. ❑

CALENDAR OF ECONOMIC EVENTS

Apr 1-3. . . . . Organization for Economic Cooperation and Development (OECD) Ministerial on Job Creation; Lille, France

Apr 9-10. . . . . . . African Development Fund Replenishment meeting and African Development Bank Capital Increase meeting; Abidjan, Côte d'Ivoire

Apr 11 . . . . U.S.-E.U. Ministerial; Washington, D.C.

Apr 15-16. . . . . . European Bank for Reconstruction and Development Annual Meeting; Sofia, Bulgaria

Apr 15-20. . . . . . Twenty-Sixth Session of the Economic Commission for Latin America and the Caribbean (ECLAC); San Jose, Costa Rica

Apr 16 . . . . World Trade Organization (WTO) General Council; Geneva, Switzerland

Apr 16-18. . . . . . State Visit to Japan by President Bill Clinton

Apr 18-May 3 . . . UN Commission on Sustainable Development Annual Meeting; New York, New York

Apr 20-May 11 . . UN Conference on Trade and Development (UNCTAD) IX; quadrennial conference; Midrand, South Africa.

Apr 22-23. . . . . . International Monetary Fund (IMF) and World Bank Annual Meetings; Washington, D.C.

Apr 25-27. . . . . . Pacific Economic Cooperation Council (PECC) meeting; Hong Kong

Apr 30 . . . . Conclusion of WTO Trade in Services Negotiations on Telecommunications; Geneva

Apr 30-May 2 . . . Asian Development Bank Annual Meeting; Manila, Philippines

May 17-18 . . . . . Summit of the Americas Finance Ministers Meeting; New Orleans, Lousiana

May 17-22 . . . . . Annual International General Meeting of Pacific Basin Economic Council (PBEC); Washington, D.C.

May 20-24 . . . . . WTO Committee on Trade and Environment meeting; Geneva

May 20-24 . . . . . Paris Club meeting of creditor governments; Paris, France

May 21-22 . . . . . OECD Ministerial; Paris

May 22-24 . . . . . African Development Bank Annual Meeting; Abidjan, Côte d'Ivoire

May 30. . . . . Conclusion of WTO Trade in Maritime Services Negotiations; Geneva

Jun 4-21 . . . . International Labor Organization (ILO) Conference; Geneva

Jun 5 . . . . WTO General Council meeting; Geneva

Jun 17-21 . . . . . . Paris Club meeting; Paris

Jun 27-29 . . . . . . Group of Seven (G-7) Summit (Canada, France, Germany, Italy, Japan, United Kingdom, United States); Lyon, France

November. . . . . . Asian Pacific Economic Cooperation (APEC) Ministerial and APEC Economic Leaders meeting; Manila

December . . . . . . WTO Ministerial; Singapore ❑

WHAT'S NEW IN ECONOMICS: ARTICLE ALERT

Johnson, Simon; Kotchen, David T.; Loveman, Gary HOW ONE POLISH SHIPYARD BECAME A MARKET COMPETITOR (*Harvard Business Review*, vol. 73, no. 6, November/December 1995, pp. 53-72)

The 1990 disappearance of the Soviet market precipitated a crisis for Polish state-owned ports, but leadership at Szczecin shipyard permitted it to compete internationally within three years. The authors examine the shipyard's restructuring and privatization — including financing, streamlining production, cost control, labor compensation, and marketing.

Bosworth, Barry P. GROWING PAINS: TRADE FRICTIONS CORRODE THE U.S.-ASIAN RELATIONSHIP (*The Brookings Review*, vol. 14, no. 1, Winter 1996, pp. 4-9)

The author contends that much of the U.S. deficit in regional trade stems from business decisions by U.S. firms to rely on low-wage Asian workers for processing products that are re-exported to the U.S. market. U.S. policy-makers are focusing on liberalization in foreign trading regimes, adding an aggressive undertone to regional trade.

Chaudry, Peggy E.; Walsh, Michael G. INTELLECTUAL PROPERTY RIGHTS: CHANGING LEVELS OF PROTECTION UNDER GATT, NAFTA, AND THE EU (*Columbia Journal of World Business*, vol. 30, no. 2, Summer 1995, pp. 80-92)

The authors examine patent piracy in the pharmaceutical industry. Three useful tables provide a synopsis of intellectual property rights protection in the EU, the GATT, and the NAFTA. The key issue is whether trade agreements will supersede national laws when sovereignty and protection of foreign intellectual property rights clash.

Morici, Peter EXPORT OUR WAY TO PROSPERITY (*Foreign Policy*, no. 101, Winter 1995/1996, pp. 3-17)

Business professor Morici argues that the Clinton administration should seek trade agreements to open foreign markets because the U.S. economy increasingly relies on exports to sustain growth. U.S. exports, fueled by aggressive application of technology, surged 112 percent since 1985, and U.S. GDP increased 25 percent between 1985 and 1994.

Goldman, Marshall I. WHY IS THE MAFIA SO DOMINANT IN RUSSIA? (*Challenge*, vol. 39, no. 1, January/February 1996, pp. 39-47)

Organized crime, now controlling 70 to 80 percent of all private business and banking, is a "major impediment for healthy economic recovery in Russia," writes the associate director of Harvard University's Russian Research Center. Goldman encourages a "bazaar economy," with so many entrants that the mafia cannot control them all.

Little, Jane Sneddon U.S. REGIONAL TRADE WITH CANADA DURING THE TRANSITION TO FREE TRADE (*New England Economic Review*, January/February 1996, pp. 3-21)

Drawing on a highly detailed database from Statistics Canada, the author examines the U.S. and Canadian responses to the early years (1988-1993) of the U.S.-Canada Free Trade Agreement from a U.S. regional perspective. ❑