

CEPAL Review

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Services: a disquieting link between Latin America and the world economy

Francisco Javier Prieto

In recent years the international dimension of services has come to have a steadily increasing weight in the complicated agenda of international economic negotiations. Owing to the persistence of a number of industrialized countries, the recent ministerial meeting of GATT, held in Punta del Este last September, decided to launch a series of negotiations on international trade in services.

The subject of services has given rise to heated debates and, for many, has become a new and sensitive source of confrontation between the central countries and the developing countries. Since many services permeate almost the entire economic and social structure of a country, the policies adopted on them will have notable effects on the future international division of labour, the place of the peripheral countries in the world economic setting and the actual forms of development to which these countries can aspire in the coming years.

The author examines some of the characteristics of services, especially those related to their internationalization, and points out the special features of services in relation to the merchandise economy, to the impact of new technologies (particularly regarding informatics), and to the role of the transnational corporations in the internationalization of this sector.

He then seeks to clarify the background to the international initiatives on the subject, and concludes with the preliminary identification of some elements that will enable Latin America and the Caribbean to formulate strategies that minimize the risks of these initiatives and make it possible to use the services sector to achieve a more favourable insertion of the region in the world economy.

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I Background

Telecommunications, banking, data processing, cinema and television, insurance, advertising, auditing, education and health services, transport: all these make up a group of economic activities which are not included in the goods-producing sectors and are today the subject of unusual and increasing interest in different centres of the globe. Academics and governments, sociologists, political scientists, international agencies and legislators, executives of large enterprises, together with the specialized press and other media of written communication in different countries, are devoting an increasing amount of time and resources to the study and understanding of the economic, social and political function of this hitherto neglected sector. This growing awareness would appear to be due to the convergence of various factors, all of which seem to be creating international concern about services.

There has been a sudden and perhaps belated perception of the enormous economic, social and technological dimensions attained by the tertiary sector, both in developed and developing economies. Services contribute more than half of the global value-added and employ around 60% of the labour force available in the world. In their turn, prodigious technological advances are revolutionizing a series of "spear-head services" such as the handling and frontier transmission of data, the banking system, insurance, transport and others. These changes occur at a speed which often prevents us from realizing the impact they can make on economic and social development, as well as on the economic and political relations between countries, particularly between developing and industrialized countries.

The contemporary world is experiencing profound frustration and perplexity at the persistence of serious economic and social problems in most of the countries of the world, and especially at the incapacity of the conventional development models to alleviate grave human problems in many parts of the world. The awareness of these facts demands a search for new development options based on a more thorough knowledge of sectors hitherto overlooked, such as services.

There is an intense and still unfinished debate, both in the developed market-economy countries and in the developing countries, on the real role of services in economic and social development. For some, the tertiarization of the economy is a sign of weakness, distortion and low productivity in the economic system, while for others the availability of modern, efficient and inexpensive services in activities such as transport, banking, insurance, informatics and the like is a basic requisite of national development and of a more favourable insertion in the international economy.

It is therefore not surprising that the industrialized countries, headed by the United States, are promoting the adoption of a series of multilateral commitments designed to facilitate the expansion of their service activities through the internationalization of their big enterprises in that sector: an expansion which requires an extensive geographical space cleared of impediments. To achieve this the United States has for several years been pursuing very specific objectives bilaterally (through the Trade and Tariff Law of 1984), regionally (in the framework of its commitments with the other OECD industrialized countries), and multilaterally (in proposing the inclusion of services within the General Agreement on Tariffs and Trade (GATT)).

The perception that services might be one of the key elements in development and international economic relations, together with the realization that there is a growing dependence on the exterior in connection with the provision of "new strategic services", such as those linked with the international information networks, has caused the developing countries to view with increasing and very reasonable apprehension the recent international initiatives regarding services. There is a growing awareness that, behind these initiatives, issues much more complex and profound than mere questions of trade may be at stake. Nor are the developing countries convinced of the advantages they might obtain from the application of the systems proposed: they rather foresee a progressive weakening of their economic importance in the world. Finally, even GATT is not regarded favourably by the developing countries, owing to the long history of frustrations and restrictions that has characterized the relations between industrial-

ized and developing countries within that organization.

On the multilateral level, this position has been reflected in the prolonged resistance of the developing countries to the discussion of services in a forum such as GATT. On the other hand, these countries have shown great interest in enlarging the international debate to include the repercussions of services on their development and to take these effects into account in national and international policies on services. Thus, in March 1985 the UNCTAD Trade and Development Board adopted a programme of work¹ in which new resources were allotted to research on the role of services in trade and development and to the study of international co-operation machinery capable of maximizing that sector's contribution to the benefit of developing countries.

At the regional level efforts are being made, through a joint UNCTAD/ECLAC/UNDP project, to support the Latin American and Caribbean countries in the quest for regional co-operation mechanisms in the services sector, as well as in the preparation of studies that will help to clarify the components of an international co-operation system for services which will fully comply with the interests of these countries.

Similarly, in 1983 the Latin American Council of SELA adopted Decision 153 which, *inter alia*, acknowledges the desire of the countries to present a united front in the international debate on services and to make every effort to improve knowledge of the role played by services in development, as the best means of identifying the real regional interests in this field. These proposals were restated at the Second High-Level Co-ordination Meeting on Services (Brasilia, May 1986), at which several additional aspects of national, regional and international policies on services were defined.

In spite of all the problems involved, at the last ministerial meeting of GATT, held in Punta del Este in September 1986, a solution was reached which to some extent satisfied the interests of the different groups of countries. In effect, the countries agreed to negotiate on the international trade in services, although these

¹Decision 309 (XXX).

negotiations would be independent of the round of negotiations on the trade in goods which was launched concurrently in Uruguay. Since both negotiations will be carried out under the proce-

dures and practices of GATT (GATT, 1986), we may expect arduous and prolonged negotiations aimed at maintaining an effective separation between the two fields of discussion.

II

Some important aspects of the international economy and services

In a previous report (ECLAC, 1984), the ECLAC Secretariat made a preliminary attempt to assess the complex repercussions that might result from certain initiatives of international negotiation on services. There, it was emphasized that a careful distinction should be made between strictly trading aspects and other topics such as that of direct foreign investment, which it seemed arbitrary to consider along with trade in services (since it excluded other international movements of production factors, such as labour) and which went beyond the practical possibilities of action in a forum hitherto conceived as a regulator of international trade in goods and limited to that aspect.

There are two important elements, of relatively recent date, that may help to clarify the analysis: the new Trade and Tariff Act of the United States, and the official presentation of the United States proposal for a new round of trade negotiations in GATT, made in July 1985 to the Group of 18. These have been two of the determining factors in the growing interest in the subject of services. Fortunately these elements, together with other factors, have since that time notably extended and enriched the international debate on the subject both at the political and academic level.

1. *Structure of international trade in services*

a) *World production of services and international trade*

Traditionally, development was conceived as a process which, by stages, would gradually lead the countries from agriculture to industrializa-

tion and thence to a post-industrial stage which would be the so-called "service society". This conception prevented academics and planners from assessing, in its full dimension, the real contribution of services to national growth and development.

More recent studies have assigned special importance to the interconnections which appear to exist between certain service activities and the rest of the economic and social structure of the countries. These interconnections would seem to generate externalities of such a size that they would not only make the efficient and low-cost supply of certain services one of the conditioners of the rate of development, but would also be a determining element in shaping the styles and patterns of development desired by the countries.

Empirical observations confirm that services form a group of activities which makes the biggest contribution in terms of value-added in almost all the countries of the world. Towards 1982, the services sector in almost every country contributed more to the gross domestic product than the sum of agriculture, mining and manufacturing. Activities linked with wholesale and retail trade have been the major component of the tertiary sector, but as per capita income increases, the so-called "services to producers" (advertising, management, guidance, financial services, data services and others) tend to acquire much more importance. It is precisely these services that promote the optimum use of factors of production and maximize the efficiency of the production of a society's goods and services, while at the same time generating the greatest externalities through the complex network of

interconnections with which they are linked with the rest of the economy. Various comparative studies confirm the existence of a positive correlation between a country's level of per capita income and the contribution of services to total output and employment. While in the low-income countries services average 48% of the GDP and 18% of employment, in the industrialized countries the corresponding figures are 66% and 67% (Riddle, 1986a). In several European countries "services to producers", as well as some of those included in the category "other services" have registered the highest growth rates in respect of their contribution to the GDP and to job creation. In the United States it is estimated that business services alone contribute more than a quarter of the GDP of that country (UNCTAD, 1986) and that more than 95% of the 25 million jobs created since 1970 were in the services sector. Moreover, it is calculated that since 1945, for each new job in the manufacturing sector, 15 new places were created in services (*Fortune*, 1985).

Since many services are difficult to store and transport, the proportion of services internationally tradeable averages barely 8% of the world output of services, compared with 45% for agriculture and 55% for mining and industry, despite the considerable dimensions of the sector in practically all the economies. It is possible that this low percentage also reflects the imperfections of the traditional systems of registering invisibles in the balance of payments.

In connection with this topic, it should be borne in mind that the question of the international negotiability of services is still the subject of intense argument in different circles, so much so that the definition of a typology of what really constitutes "international trade in services" is one of the main concerns of the present international debate on the subject. Various criteria have been adopted for the design of a typology, although the majority adhere to the criterion of "residence" or "location" or to that of "ownership". The dispute arises precisely because the particular features of many services make it difficult, if not impossible, to apply the same guidelines as those used to define a typology of international trade in goods: i.e., transport of the merchandise in question across national frontiers and ensuing international payments in

respect of this transport. In the case of services, the situation is much less clear; thus, it seems more appropriate to speak of "internationalization of services" than of trade as such. At all events, for the purposes of this article a typology based on the concept of "residence" will be used, in the sense understood by Sampson and Snape (1985).

The first category is the most conventional, since it occurs *without* displacement of the factors of production or of the recipients of the service, that is, without physical proximity between the supplier of the service and the recipient of it. Examples of this category are services involving data transmitted across frontiers, advisory and design services, certain categories of insurance such as life insurance, and some banking and advertising services. This category comes closest to conventional merchandise trade, since the services (incorporated or not in physical goods) cross the frontiers of the exporting and importing countries.

Secondly, transactions may occur as a result of the international movement of one or more production factors. This and the following categories are those that present the greatest difficulties in establishing analogies with trade in goods. The conventional theory of trade assumes the international immovability of production factors such as land, labour and capital. However, the financial flows associated with international movements of factors are becoming increasingly important, as in the case of temporary workers (guest workers) or of capital equipment which enters third countries temporarily through leasing agreements or other forms of special contracts.

A third category involves those transactions stemming from the international displacement of the recipient of the service. The typical example is the tourist who *temporarily* moves to another country, carrying out different transactions which affect the balance of payments both of his own country and of that which he is visiting. A similar situation occurs with those who travel to receive special educational or medical services. It should be borne in mind that some of the services mentioned can also be internationalized in different ways. For example, if the doctors or academics move to other countries, the situation is similar to that described above. On

the other hand, they may be internationalized in conditions similar to the first category if such services can be incorporated into a physical good (video-cassettes with lectures) or can make use of international telecommunication networks (classes given by television and transmitted by satellite).

The last category comprises those cases in which both the factors of production and the recipients of the service shift internationally. In a sense, international transport is a service which is largely supplied and received in geographical areas outside the countries importing and exporting the service.

In all the cases described we have assumed that the international movements that take place, whether relating to services as such, the factors needed to supply them or the recipients of the service, are giving rise to international payments which involve both residents and non-residents of a country.

b) *Trade flows in services*

In 1980 the world trade in services amounted to US\$ 436 billion. Between 1970 and 1980 this trade grew at an annual average rate of 18.8%, somewhat less than the rate for goods (20.8%). The developed countries are the main exporters (86.5%) and importers (82.5%) of services, and throughout the 1970s there was a constant rise in the surpluses on their trade in services. For the United States, the surplus of US\$ 6.6 billion on services in 1980 was sufficient to compensate for a quarter of its merchandise trade deficit (US\$ 27.4 billion). The item "other services" has been the main generator of surpluses for the industrialized countries. Despite the great importance of this trade for the United States, the countries of the European Economic Community are in fact the main exporters of services, with close on 50% of world exports.

The surplus on trade in services obtained by the United Kingdom is greater than that of the United States and the persistence of a surplus on services in the EEC external accounts has largely alleviated its now chronic deficits on goods trade. In this connection it should be borne in mind that a large part of the surplus on services trade obtained by the Community is the result of its trade with the United States (Riddle and Springer, 1985).

For their part, the developing countries have only a minority share in the world trade in services (13.5% of exports and 17.5% of imports) and are showing considerable and increasing deficits in this trade, transport being the most important item.

Some developed countries likewise display serious imbalances in their trade in services (for instance, the Federal Republic of Germany, as a result of the deficits on the "travel" account), while some developing countries have major surpluses (for example, Mexico, thanks to tourism) (UNCTAD, 1984).

c) *Income from investments in services and their internationalization*

Although the volume of world trade in services is considerable, its economic importance is low compared with the rest of the flows that result from the internationalized services sector. The difficulties in marketing services internationally caused the large service enterprises to develop and perfect new forms of international management and control. This phenomenon, based on the astounding technological advances in information sciences, means that once these enterprises succeed in establishing an international network for data transmission they can greatly expand the frontiers of their markets and internationalize their operations even in countries remote from the parent companies.

This situation has given rise to financial flows which are much more important than those associated with the export and import of services in the strict sense. Although global data on this subject have not been sufficiently worked out, the United States is undoubtedly a case in point. In 1980 that country recorded a surplus on movements stemming from its interests in service companies operating overseas which was of the order of US\$ 31.5 billion. To put it in perspective, this figure was practically five times the surplus for that year on the country's trade in services (US\$ 6.6 billion), while it exceeded by almost US\$ 11 billion the deficit on trade in goods (US\$ 27.4 billion).

For many United States enterprises, the income received from their overseas operations may be vital, and, judging from partial indicators, the importance of these operations as a

source of revenue is rapidly increasing. For instance, it has been calculated that the advertising companies of the United States obtain 37% of their gross income from their overseas operations. The equivalent percentage for audit enterprises is 25% and for advisory and consultancy firms 43% (Aronson and Cowhey, 1984).

If the information for the United States were indicative of more general trends, it would mean that for this country the ratio between sales of services through affiliates and exports of services was almost 3:1 in 1974, and rose to 6:1 in 1977. The comparable ratio for the manufacturing sector is only 3:1. Furthermore, during the 1970s the sectoral composition of United States investment abroad reversed in favour of services, which, after having contributed 18% of the total in 1973, represented 29% in 1979. In the Federal Republic of Germany the share of services rose from 20% (1973) to 25% (1983) and in Japan from 34% in 1974 to 45% in 1983-

Although there is no reliable breakdown of information on the composition of direct foreign investment in services, partial indicators show a high concentration in wholesale and retail trading activities, as well as in banking and insurance. Moreover, as happens with direct foreign investment in general (both as regards movements and stocks), foreign investment in services is concentrated in the industrialized countries (UNCTC, 1985).

d) *Trade in services and the international division of labour*

In the structures of world trade, two large groups of countries can be distinguished in which merchandise trade reflects a particular complementarity. The first is composed of the large industrialized countries, for which trade in intermediate and capital goods provides a surplus on current account, and the second consists of those countries (particularly developing countries) in which these same products produce a deficit on current account.

Besides this, there are countries in which services and other invisibles represent a positive contribution to the current account balance and others in which this contribution is negative. "The former sell their services to the rest of the world to offset their trade deficit, whereas the latter use their trade surpluses to accommodate

their deficits on services" (Brenderand Oliveira, 1985).

In these conditions, the industrialized countries would tend to dominate the world output and trade in services while the developing countries would attempt to defend already weak positions in the marketing of a small number of products. The world macroeconomic totals would merely accentuate the factors of inequity in the current international division of labour.

The countries that now dominate the world trade in and supply of the most dynamic services will continue to consolidate a productive structure that will enable them to retain and increase a growing economic advantage. In contrast, the developing countries will find themselves obliged to base their economies on a chronically minority share of world trade: a share founded on the export of goods of low income-elasticity and declining relative prices. Thus, the industrialized countries will strengthen their productive capacity in sectors with high value-added, such as high-technology goods and spearhead services based on information, while shifting to the developing countries activities which pollute the environment or have scant possibility of increasing their aggregate export value.

As has been noted by SELA (1986), the technological innovations developed in the centres give rise to the manufacture of increasingly sophisticated goods, which incorporate a growing quantity of inputs in the form of services, while material inputs are losing weight in the structure of costs. These changes obviously influence the composition and dynamics of international trade, since goods intensive in high technology and information-intensive services are displacing other goods and services.

e) *Latin America and services*

The services sector in Latin America has also achieved appreciable economic, social and technological dimensions. On average, it contributes around 60% of the total value-added of the region and employs at least 46% of its labour force. As impact on employment may be even greater in view of the labour density and the weight of service activities in the extensive informal sector of these economies.

In comparison with the recently industrialized countries, the region has registered a rela-

tively low rate of growth in its service activities, even in those countries which achieved high overall growth rates in recent years. What is more, in these countries activities such as transport and communications, as well as business services, grew much less than in the recently industrialized countries of Southeast Asia. As regards employment, Riddle (1986b) calculates that close on 80% of the labour force displaced from agriculture has been absorbed in services.

The region shares in the world trade in services in similar proportions to its share in the world trade in goods (around 5%). Nevertheless, the trade flows in services showed a constant and increasing imbalance throughout the whole of the 1970s, with this deficit reaching some US\$ 11 billion in 1982. The deficit items of greatest value were "transport" and "other services". Exports of services as a whole represented 21% of exports of goods, while imports came to 30% of total imports: figures which are much higher than the world averages and could be reflecting a services sector relatively unprotected and more open than those of other regions of the world.

Owing to the intense adjustment processes launched by them in recent years, the Latin American economies succeeded in reducing their imbalances on services trade to less than half by 1983, which was largely the result of the reduction of imports of services by almost US\$ 11 billion between 1981 and 1983. To put this in perspective, this meant that while imports of goods fell from US\$ 102 billion in 1981 to some US\$ 60 billion in 1983 (-42%), imports of services dropped from US\$ 32.7 billion in 1981 to US\$21.1 billion in 1983 (-35%). The items most affected were transport and insurance, together with travel. Even so, the imbalance on services remained an appreciable element for the countries of the region, representing some US\$ 5 billion in 1983, especially if it is borne in mind that by that year the region had overcome its disequilibria on goods and generated a surplus of over US\$ 30 billion in its merchandise trade (Duran, 1986).

Unfortunately, there are no reliable estimates as to the proportion of the remittances of profits shown in the regional balance of payments that corresponds to the operations of foreign-owned service enterprises. However,

the figures may well be high in view of the share of transnational corporations in the total supply of services such as auditing and advertising, banking and insurance, data processing and hotel management (ECLAC, 1985).

In 1982, remittances of profits amounted to some US\$ 5.8 billion in the region's balance of payments. There are also indicators that around 30% of direct investment by the United States in the region is concentrated in service activities, especially finance and trade. All the foregoing suggests that there will be considerable negative financial flows for the region as a result of the activities of affiliates and subsidiaries of foreign-owned companies that operate in Latin America and the Caribbean (Lahera, 1984).

2. *The new technologies and production and trade in services*

In recent years there have been marked changes in the composition and characteristics of the tertiary sector, both as regards its output and its insertion in the world economy. As is pointed out in a recent paper (Sánchez Arnau, 1986), "the introduction of microelectronics and their incorporation into industrial design and production, robotics, new materials, and the automation of the services sector are all elements that enter into any analysis of the present situation in industrialized countries". Unfortunately it often happens that the impact of these factors on the productive structures of our countries, as well as on the international division of labour, is much more rapid than the speed at which we can gain a clear idea of their effects on our economic and social systems.

a) *The special role of informatics and telematics*

Information is today a fundamental resource for the production of a great variety of goods and services. It may be defined as an inexhaustible resource that merely needs to be updated by the use of relatively scarce inputs. Information generally moves in both directions: from the supplier to the user and from the user to the supplier, the latter flow being usually free of charge to the supplier.

The increasing use of data in connection with economic activities results in major

changes in the quantity, quality and type of services available to the economic system, both on the domestic and on the international plane. The fusion of informatics —collection, processing, storage and distribution of information— with the national and international telecommunication networks enables information to be supplied to an increasing volume of services in a growing number of places. As a result of the concentration of financial and technological resources within certain conglomerates and the increasing extension of on-line data bases, however, information is frequently produced within closed circuits which are only available to a small number of users.

On studying the most dynamic services, a process analogous to that recorded at the beginning of the century in relation to electrification and its impact on basic industry is to be noted.

b) *Increases in the tradeability or negotiability of services*

The introduction and application of new technologies such as informatics has enormous economic implications which have not yet been fully appreciated. They lead to basic changes in the quality, quantity and diversity of the services supplied: through the provision of certain key services they are profoundly affecting international competition in the nations' trade in goods and services; and thanks to the growing information component in many services and the greater ease with which data can be internationally transported, there is a considerable increase in the number of activities that can be included in international trade.

This effect is particularly evident in the internationalization of a series of professional services such as architecture, engineering and management consultancy in which such techniques as CAD (computer aided design) and CAM (computer assisted management) are applied.

The greater geographical coverage, and the technological improvement of the international telecommunication networks, have established a smooth-running system of "expressways" for the trans-frontier supply of a growing variety of services, with an effect similar to that which an improvement in the conventional means of transport has on merchandise trade.

Again, the greater tradeability of certain services, as well as the incorporation of new technologies, also affects the dynamism of certain goods. In goods-producing processes there is a marked increase in the services component which is incorporated in the value-added, information being of increasing importance in this respect. This is particularly true of high-technology goods, which are also characterized by their greater dynamism in international trade.

c) *By affecting comparative advantages, will the new technology mark the end of cheap labour?*

The introduction of new technologies such as informatics and robotics could be having a marked effect on the traditional relations between capital and labour productivity, in respect of both goods and services. Thanks to the employment of these techniques, Japan has made great savings on labour costs in the clothing industry. In the United States, computerized programmes for cutting and design have been invented which enable dress patterns to be copied, automatically adjusted to different sizes and new accessories introduced, while at the same time the use of material inputs is minimized, all of which has a decisive effect on the international competitiveness of these industries.

In transport, containerization and the integration of different types of transport in large-scale operations are displacing the old-style shipping fleets of many developing countries (Modwell, Meheotra, Kumar, 1984).

In the past, cheap labour in developing countries enabled them to some extent to offset the superior productivity of capital and labour in some advanced countries. The technological changes mentioned, however, will enable the latter to recover comparative advantages in traditional sectors which were assumed to be once and for all in the hands of the developing countries.

3. *Transnational corporations and production and trade in services*

A determining factor of the international economy is the growing importance acquired by

transnational corporations in the supply of services. In part, this transnationalization has been the logical continuation of the intense process that took place in the goods-producing enterprises in the 1960s and 1970s. A natural market was created for the transnational corporations beyond their own frontiers, which they could only serve through the establishment of affiliates and branches in other countries. This explains the transnationalization of the great banking, insurance, advertising and auditing conglomerates, as well as a great variety of services which do not readily lend themselves to international trade but which are nevertheless the essential logistic support for the internationalization of the economies of the central countries.

a) *Changes in forms of management and control*

In international trade, the internationalization of a wide variety of service activities complements the great networks of affiliates and subsidiaries or other organizational units, whose international management and control is simplified by such relatively recent administrative practices as licensing, franchising, leasing, etc.

Gibbs (1985) argues that government policies that affect, perhaps unwittingly, the relative profitability of investment in one or another sector, as well as the relative intensity of international competition, may also be explanatory factors of the establishment of new sectors of services and of new forms of entrepreneurial organization.

These factors have not only lengthened the list of services offered but have occasioned a series of mergers between enterprises which would formerly have been inconceivable. Such mergers "diversify risks, help to obtain new technical knowledge and facilitate access to financing" (UNCTAD, 1984).

b) *The special dynamism of the transnational corporations*

The dominant position of the transnational corporations in world trade and supply of services is also indicative of the special dynamism that has characterized these enterprises in recent years. The factors that explain this dynamism include the limited international negotiability of

services and the stimulus offered by foreign markets to the expansion of the volume of these firms' operations. A large part of the capital of the service enterprises consists in the accumulation of technical knowledge, as well as in the prestige of the firm's trademark. The expansion of a firm's territory is therefore vital in order to derive more advantage from economies of scale and to maximize benefits at the world level.

Moreover, as a result of keener competition, various industries—not only in the services sector, but also among producers of goods—, have embarked on a process of integration which gives them a greater power of penetration and expansion of their operations in foreign markets.

One of the outstanding examples is that of the *sogo-shosha* enterprises of Japan. The internationalization of these commercial conglomerates has converted them into organizers and co-ordinators of projects for supplying a multiplicity of support services, which range from the financing and supervision of projects, the acquisition of equipment and the construction of physical infrastructure (for instance, ports and motorways) to the marketing of mining resources and advisory services. They also take part in the building of airports, tourist installations and housing complexes in the developing countries (Koshima and Osawa, 1984).

From the particular viewpoint of Latin America, ECLAC (1986a) points out that: "the region's main negotiating weakness in matters of trade lies precisely in the production of commercial services and their basic complements such as transport, insurance and financing . . . The productive power—i.e., the production, effectiveness and international competitiveness of the activities under discussion—depends to a decisive degree on the scale of the economic units involved. In this field it is necessary to compete with huge transnational corporations capable of exercising oligopolistic influences. For instance, at the beginning of the 1980s the large transnational commercial corporations—generally known as trading companies—controlled over 70% of the total world trade in primary products, amounting to almost a million million dollars at that date . . . Similar observations might be made in the field of finance and transport".

c) *The international information networks: diversification and geographical extension in the supply of services*

In a large number of services —particularly in banking, insurance, transport, and some others— the internationalization of production and of the control and management of world activities is being speeded up, perfected and diversified, thanks to the innovations that have taken place in the global telecommunications infrastructure and to the simplicity and speed with which information can be handled across national frontiers through media such as telecommunications. In the services sector, finance in general and banking in particular are using informatics not only in their management systems, but also in a great variety of new services which are only possible through the progress of the information-electronics complex (ECLAC, 1986b).

Although the cost of setting up an international information network is enormous, the marginal cost associated with the transmission of new information or of information hitherto not channelled through these media is relatively small. Hence, the cost of amplifying and diversifying the number of services offered is negligible when they depend directly on the supply of information.

When a central base of informatics and the interfaces suitable for connecting the corresponding terminals to the public international telecommunications networks and thence to the data bank of the parent company are available, the marginal investment required to amplify the geographical coverage of the operations is relatively very small. The direct investment required for the installation of affiliates and subsidiaries of banks, insurance companies and other service enterprises does not amount to much more than the funds needed for advertising, furnishing of offices and acquisition of terminals: an investment which in some cases is almost entirely covered by local finance.

Arguments analogous to those on the theory of the life cycle of products may be employed to explain the multinationalization of service enterprises as a function of the technological advances through which these enterprises plan to increase their profits in world markets. There is no doubt that the banking system, insurance

companies and the transnational trading corporations have exploited the most advanced management techniques, above all for the handling of information on world market conditions, and that they have also shown a highly innovative approach in many of the services offered. As these processes are relatively easy to imitate, many of these companies are driven to a rapid penetration of new markets, in order to discourage potential competition. The effect of this is precisely to accelerate the process of transnationalization of operations (IRM, 1986).

d) *The need for a free field to maximize benefits*

The great service conglomerates will redouble their efforts to expand to the full a field free of impediments and heterogeneous regulations that hamper their functioning in the market. The high marginal profitability associated with the setting up of branches and affiliates in a predictable and relatively homogeneous setting is a vital necessity for the survival and continued development of these enterprises.

So crucial is this need that one of the most active lobbies in the defence of the interests of the great transnational service corporations (coalitions of service industries), in identifying the main impediments to the expansion of its members' activities, cites the restrictions on the right of enterprises to operate in overseas markets and to receive the same treatment as national enterprises —i.e., the issues of right of establishment and national treatment. It also reports other obstacles such as tariff discrimination, barriers to trans-frontier data flows and the unfair competition that may arise from State monopolies (*Fortune*, 1985).

4. *Outline of a new interpretation of international trade and development*

The failure of the various expressions of the development process in numerous countries, coupled with the sharpening of the economic imbalances between the industrialized and the developing countries, has given rise to increasing doubts about the conventional theories of development and the main factors that affect the international division of labour. This has called into question the traditional development mod-

els and therefore justifies the proposal of new options based on a better knowledge of the role that might be played by economic sectors hitherto neglected, such as services.

It has been suggested that services are not necessarily an almost automatic result of development by stages (from agriculture to manufacturing and thence to services) but, on the contrary, one of the keys to development and to the relative wealth of nations. In that case, far from depriving the goods-producing sectors of vitality and solidity, the supply of dynamic, modern and efficient services would be fundamental for their stimulation. Services would thus be a prior requisite of the development process and not, as had been traditionally believed, one of its results. The close interconnection between various services and the rest of the economy means that the innovations that may be introduced into the key service activities will be rapidly propagated, resulting in lower costs, increased productivity and a greater capacity for international competition in all sectors. The services can generate major external economies and diseconomies, according to the practical means selected by the countries for their supply.

Moreover, since services represent the greater part of the world aggregate product and this proportion is tending to increase, the control of the ownership and management of the value created through the internationalization of this sector has an undoubted impact on economic relations among the countries, as well as on their procurement of surpluses.

It would not be rash to assume that, with the tertiarization of the world economy and trade, there might be a repetition and accentuation of phenomena similar to those that caused the structural deterioration of the developing countries' terms of trade: a deterioration associated with the structure of the periphery's external trade, based on the export of primary products, whose relative prices systematically decline, and on the importation of manufactures and equipment with a high value-added, whose prices are constantly increasing.

As long as the central countries retain a dominant position in the most dynamic service activities in the world economy, they will find it easier to obtain a growing proportion of the world income. This regressive income distribution would operate via trade and the movement of international factors, which favour the profitability of the activities in which the developed countries predominate at the world level.

The internationalization of services would appear to have no limit other than that imposed by the capacity to develop new techniques of control and management. It is conceivable that it would embrace almost all these heterogeneous activities, if the marginal costs of management were less than the new income generated. It would extend not only to banking and other financial and professional services but also to urban transport, wholesale and retail marketing and distribution, and some public utility services (postal services, city cleaning and maintenance, health and education).

III

International initiatives on services proposed by the United States

1. *The Trade and Tariff Act of 1984*

On 30 October 1984, the new Trade and Tariff Act of the United States came into force. Under its Title III, on international trade and investment, and especially in its section 302, it states the general purposes of the United States

Government in relation to these matters, as follows:

1) To foster the economic growth of, and full employment in, the United States by expanding competitive United States exports through the achievement of commercial opportunities in foreign markets substantially equivalent to those accorded by the United States;

2) To improve the ability of the President—

A) to identify and to analyse barriers to (and restrictions on) United States trade and investment, and

B) to achieve the elimination of such barriers and restrictions;

3) To encourage the expansion of international trade in services through the negotiation of agreements (both bilateral and multilateral) which reduce or eliminate barriers to international trade in services, and

4) To enhance the free flow of foreign direct investment through the negotiation of agreements (both bilateral and multilateral) which reduce or eliminate the trade-distortive effects of certain investment-related measures.

From the definition of the Act's objectives, three crucial consequences can be deduced: i) the inclusion of a new concept of reciprocity in terms of trade conditions substantially equivalent to those agreed by the United States; ii) the expansion of the powers of retaliation conferred on the President when this reciprocity is not granted and the interests of North American companies in other countries are affected; and iii) equivalence between the barriers against trade in goods and those affecting services and direct foreign investment, with provision for the adoption of cross and interchangeable reprisals in each of these three fields.

Section 104 A establishes the objectives of negotiation on trade in services: i) to reduce or to eliminate barriers to, or other distortions of, international trade in services (particularly United States service sector trade in foreign markets), including barriers that deny national treatment and restrictions on the establishment and operation in such markets; and ii) to develop internationally agreed rules, including dispute settlement procedures, which—

i) are consistent with the commercial policies of the United States, and

ii) will reduce or eliminate such barriers or distortions and help ensure open international trade in services.

The Act also authorizes the Executive to engage in negotiations on services, investment and technology which, apart from fulfilling the aims already mentioned, will foster the elimination or reduction of requirements regarding export efficiency; to this end, the United States Trade Representative (USTR) would be autho-

rized to impose restrictions on imports, including the prohibition of products or services subject to these requirements; to maintain and preserve the openness of trade and investment in products of high technology and related services; to eliminate or reduce the distorting effects of measures adopted by foreign governments that affect high-technology trade, and to achieve the reduction or elimination of all tariffs on and barriers to United States exports of high-technology products, together with the adoption of commitments that foster national treatment and provide certain minimum guarantees for the acquisition and enforcement of intellectual property rights.

In pursuance of these objectives, local requirements (for example, on health, security and protection of the environment) will be taken into account.

The Act frequently uses the terms "unreasonable", "unjustifiable" and "discriminatory" to describe the obstacles or distortions mentioned. They are defined as follows: the term "unreasonable" means any act, policy or practice which, while not necessarily in violation of or inconsistent with the international legal rights of the United States, is otherwise deemed to be unfair and inequitable, including any act which denies fair and equitable treatment as regards market opportunities, opportunities for the establishment of an enterprise, or adequate protection of intellectual property rights. The term "unjustifiable" means any act which violates the international legal rights of the United States, including any act which denies national or most-favoured-nation treatment, the right of establishment, or protection of intellectual property rights. And lastly, the term "discriminatory" includes any act which denies national or most-favoured-nation treatment to United States goods, services or investment.

Finally, in an unequivocal amplification of the arguments which might be invoked to open the world market for services, and which is of particular interest to developing countries, Title V (sections 501 to 508) of the 1984 Act on the renewal of the Generalized System of Preferences demands that developing countries should assure the United States of their intention to reduce or eliminate barriers to trade in services, as a criterion for the designation of beneficiary

countries, for the regulations regarding eligibility of products, for limitations of preferential treatment and for the termination of tariff exemptions on imports and exports in the application of the system of preferences of that country.

A precedent seems to have been set recently with the adoption of a treaty on free trade between the United States and Israel, in which a prolongation of the benefits of the system of preferences was agreed to in exchange for concessions in respect of services.

2. *Proposals for negotiations on services within the framework of GATT*

Under the Trade and Tariff Act of 1984 and its immediate predecessor, the Trade Act of 1974 (especially its amendment of 1979), the Executive of the United States, through the United States Trade Representative, was entrusted with the responsibility of promoting the adoption of a set of multilaterally agreed rules to liberalize trade in services.

Because of their greater geographical and commercial coverage, as well as the legal character of the commitments involved, the most important United States initiatives are those which refer to that country's proposal to extend several of the principles and rules of the General Agreement on Tariffs and Trade (GATT), at present applied almost exclusively to international merchandise trade, to the international trade in services.

The United States proposes a new round of multilateral negotiations which would include, *inter alia*, a contractual undertaking on international trade and foreign investment in services, to be carried forward under the auspices of the GATT Secretariat, with the support of the administrative machinery of that institution (Brock, 1982).

To that end, the United States and other industrialized countries promoted an exchange of information among the Contracting Parties on the main elements resulting from a national examination of the services sector.² It must be

stressed that this exchange only took place among developed countries (GATT, 1985). No developing country has as yet presented a national study or any information on the services sectors in GATT.

According to the United States, this exchange of information and the ensuing discussions would help to give the countries a better understanding of the conceptual and statistical problems, together with the obstacles, definitions and approaches, that affect the services sectors in their respective countries.

Although it is recognized that the sectors to be included form part of the negotiation programme, the United States has expressed its special interest in negotiating activities such as banking, insurance, telecommunications, data processing, sea transport, air transport, construction and engineering.

Although the United States has explicitly declared that the agreement would exclude all movements deriving from the payment of factors of production (remittance of profits and workers' incomes) and would only touch on the commercial aspects of services, the proposals hitherto presented do not at all exclude the possible addition of subjects which fall within the sphere of direct foreign investment and international movements of highly skilled manpower.

In a presentation to the Group of 18 of GATT the United States delegation specified various objectives for a new round of trade negotiations that would include services. The general aim would be to establish a legal framework of rules and procedures that would help to achieve a trade in services as open as possible, through greater transparency in practices and the solution of problems through consultations, and to negotiate commitments of a sectoral or functional character relating to specific problems of private service industries.

The legal framework that the United States is seeking to promote, for its part, would contain the following elements: transparency; the principle of national treatment; establishment of open regulatory procedures; agreement on public monopolies; procedures for the settling of disputes, and the principle of access to markets.

Regarding the reduction of trade barriers, the United States delegation proposed that procedures should be established for both sec-

Ministerial Decision on Services, adopted by the Contracting Parties of GATT in November 1982; Conclusions agreed by the Contracting Parties on 30 November 1984; and Decision on GATT activities in connection with trade in services, November 1985.

toral and functional negotiations. For the sectoral negotiations it envisaged a set of agreements on the particular problems affecting trade in specific services. In this connection, it suggested that priority should be given to reaching an agreement on international flows of information, because of its enormous impact on almost all the services. For the functional negotiations, it proposed to apply the basic concepts and principles used in the different codes on non-tariff barriers that arose from the Tokyo round of negotiations, expressly mentioning the codes on technical norms and government purchases. At the same time, it proposed to make use of the elements of the future agreement on intellectual property that could be applied to services.

Finally, in relation to investment, the United States delegation pointed out that a number of service enterprises were facing serious problems in carrying on their operations overseas because they could not attain ownership of the goods needed for the local production of services. In order to improve the commercial possibilities of those enterprises, it proposed the adoption of conditions similar to those suggested for the trade in services, and urged the Contracting Parties to initiate examination of the investment problems linked with services. At all events, the delegation insisted that any agreement on international trade in services should also include those activities that facilitated the right to the commercial presence of foreign service enterprises, in order to commercialize and facilitate the importation of a particular service into the country in question.

Other developed countries have expressed their intention of adhering to these initiatives and have presented similar proposals for the setting up of a legal framework for international trade in services within GATT. It is possible, however, that the European Economic Com-

munity will have certain reservations over the concrete proposals for the negotiations. It must not be forgotten that the predominance of the Community's exports of services rests on the present arrangements for this trade. There seems no reason to assume that a change in the rules of a multilateral nature will necessarily permit the Community to maintain this predominance.

Nevertheless, during the last ministerial meeting of GATT approval was given for the launching of a new round of multilateral negotiations, known as the Uruguay Round (Punta del Este, September 1986), and in the same ministerial declaration it was also agreed to start negotiations on trade in services.

According to the ministerial declaration, the aim of the negotiations will be to establish a multilateral framework of principles and rules for trade in services, including the formulation of possible regulations for individual sectors, with a view to the expansion of such trade under conditions of transparency and progressive liberalization (GATT, 1986).

Since the references to trade in services appear in Part II of the Declaration of Punta del Este, the negotiations on services might be expected to be independent of the negotiations on goods. This also suggests that some sort of consideration may have been given to some of the main concerns of the developing countries, i.e., the separation of negotiations on goods from those on services. Nevertheless, it still remains to be seen what specific form the negotiations will take and whether this separation will be actually observed in practice. Perhaps it is more important to see if it will really be possible to develop genuinely new principles and conceptual and methodological approaches that will be more in keeping with the very special character of the service economy.

IV

Latin American interests and the United States initiatives regarding services

The developing countries have viewed with understandable concern the possibility that the international debate on services will follow the lines proposed by the United States. Brazil, Argentina, India and other countries of the developing world have tenaciously opposed the idea of applying to services the same conceptual and institutional system that has so far been used for the management of the multilateral aspects of trade in goods.

Various arguments have been put forward in support of this rejection. For many, these initiatives would involve the real possibility of re-introducing practices of expansionism and economic domination, under conditions similar to those that existed during the era of European colonialism. A strategic component of that colonialism was the development and subsequent control of decisive services, both in the colonies and in the young nations of Latin America. That control was centered on such services as railways, telephones and telegraphs, wholesale trade and storage and some basic services, especially gas and electricity.

1. The proposal before GATT: extrapolation of the Agreement on Tariffs and Trade into the multilateral context

It is clear that both the structuring and the conceptual basis of the United States proposal on the incorporation of services into GATT closely follow the form and content of these elements in the United States Trade and Tariff Act of 1984.

This Act not only defines the general principles that should govern the internationalization of services (right of establishment, national treatment and application of most-favoured-nation treatment) but also establishes a definite link between services, investment and high technology, specifically advocating the total liberalization of trans-frontier data flows and the raising of restrictions on the geographical location of data banks.

Should the United States efforts to establish these national principles within GATT be successful, they would change many of the barriers to the internationalization of services that the United States Act currently defines as "unreasonable" into "unjustifiable" obstacles, i.e., measures which violate the multilateral rights acquired by that country, so that its financial and commercial reprisals would have total legal backing in the eyes of the international community that had signed those agreements.

2. Repercussions of a possible commitment within the framework of GATT

The inclusion of services in GATT, on the terms proposed by the United States and as a function of the legal and contractual nature of that Agreement, would imply acceptance of the proposal that the same principles that apply to international merchandise trade should be valid for the internationalization of services. Not only is the conceptual soundness of these proposals open to question, but it is also clear that their application would expose countries to a series of retaliations affecting their exports of goods, in reaction to rules or practices which violated some of those principles (such as the right of establishment) or which appeared to constitute restrictions on data flows.

As examples of such potential retaliation, mention may be made of that experienced by Brazil, for its policy on informatics, and by South Korea, for its practices in the insurance field. After such reactions it is logical to wonder whether within the GATT system cases will arise in which those Contracting Parties that refuse to grant national treatment to foreign banks will run the risk of facing reprisals such as the withdrawal of tariff concessions on bananas or orange juice (Gibbs, 1985).

3. *Deregulation at the national and international levels*

The new Trade and Tariff Act of the United States is in line with the policy of restoring the importance of the free play of market forces and reducing regulations of all types that are considered detrimental to greater dynamism and competition in economic activities. There are numerous service industries in the United States economy in which a process of deregulation has been introduced that involves, *inter alia*, the suppression of controls on prices, exchange rates and wages, as well as of numerous controls and regulations in sectors as important as energy, transport, telecommunications and financial services.

On 1 January 1985, the regulatory body for air transport (the Civil Aeronautics Board) disappeared after having existed since 1938. The year 1980 witnessed the elimination of restrictions on freightage and the ending of the practice of setting concerted tariffs in land transport. In 1982 the Federal Communications Commission came to an agreement with American Telephone and Telegraph (ATT) to divide the latter's monopoly into seven large regional telephone companies and to eliminate exclusivities in the supply of equipment and in international telecommunications and data transmission services. Finally, in 1980, a law on the deregulation of financial services eliminated ceilings on savings interest, as well as restrictions on the type of loans that intermediaries could offer. Nevertheless, there still remain important restrictions on the geographical coverage of financial operations inside the United States (Mentré, 1985).

The criterion behind the United States Government proposal presented in GATT seems basically the same as that which has sustained its reforms within its own economy: i.e., to liberate and enlarge the world economic space for the expansion without let or hindrance of the great service enterprises.

Although the information is very partial, the Latin American countries seem in general to have service sectors with little regulation, especially in areas such as informatics, cinema and television, professional services (such as auditing and advertising), and even much more critical fields such as banking. This situation

contrasts with the protectionism and high degree of control to which these activities are subject in the EEC countries and in Japan. This being so, an agreement in GATT on services would in the end go no further than the adoption of a legal standstill or freeze commitment in respect of the existing situation of deregulation: a commitment that the countries of the region would assume without obtaining any concession on the part of the industrialized countries.

On the other hand, the idea that the internationalization of services would be linked with a hypothetical abundance of direct foreign investment would amount to no more than an expression of good intentions. In fact, the right of establishment and national treatment would enable the large transnational corporations to enter new markets with a minimum of new investment: no more than that required to create the conditions for their affiliates and subsidiaries to connect their terminals to the international telecommunication networks. These would link them with the parent company and in this way would ensure that the bulk of the value-added by this activity would be produced in the parent countries of these enterprises.

4. *Towards specialization of the developed economies in services and of the developing economies in goods?*

The United States have propounded a hypothetical situation in which the developed countries would move towards the concentration of their foreign trade on the export of services, while the developing countries would specialize in the export of goods. This argument is based on the belief that the development of services would require a higher level of general development, in which case comparative advantages would point to specialization by the countries with the conditions described, to the ensuing benefit of the international community as a whole, which would enjoy a higher standard of well-being.

The same sources that publicize the attractions of this prospect, however, stress that the growth of the service sector would not deprive the manufacturing sector of its vitality, just as the growth of the latter did not undermine the growth of agriculture. To substantiate this, they point out that in the United States between 1910

and 1970, while employment in agriculture fell from 13.6 to 4.5 million, the real agricultural product trebled. And they add that the manufacturing sector on a percentage basis, has shown the same trends (*Fortune*, 1985).

This link between a modern and efficient services sector and the dynamic growth of the primary and secondary sectors has been recognized by various authors, to the point where some speak of the absolute advantages that would arise from a state of higher development: advantages that would be felt in all economic sectors (Nusbaumer, 1984). The volume and dynamism of the agricultural exports of the United States, coupled with the recovery of competitiveness of certain textile industries in the more developed countries, appear to corroborate this view.

Finally, if it is borne in mind that most of the services will continue to be non-tradeable activities in the traditional sense, the internationalization of services would be only a partial and insufficient option for the industrialized economies to retain their leadership. Without similar dynamism in agriculture and manufacturing, the internationalization of services may increase factor income in the balance of payments, but it will not create new sources of employment within the industrialized economies.

5. GATT: beyond services

The sharpening of the international economic crisis, and especially the emergence of high and persistent unemployment rates within the industrialized economies, revealed the fragility

of the international trade institutions that arose after the Second World War.

The principles of non-discrimination and of reduction of obstacles to free trade among countries have been gradually replaced by the so-called managed trade. All kinds of voluntary restrictions on exports, non-tariff barriers of every type, campaigns and pressures to affect national consumption habits, subsidy policies and other unfair practices that affect trading opportunities, have been creating a parallel system of international trade in which the function of GATT as an agreement regulating multilateral trade has been increasingly eroded.

All these practices have had a more marked influence on the developing countries, especially those of Latin America. Because of their weak negotiating position and limited economic power, they have suffered the full force of the obligatory nature of the commitments undertaken in the Agreement; at the same time, there has been a systematic avoidance of discussion on how to solve the problems that most affect them, such as trade in agricultural products, textiles and other goods in which the arbitrary use of unfair practices by the developed countries contravenes various principles of GATT.

With such a background, it is not surprising that the Latin American countries regard with mistrust the use of this forum to discuss activities which for them are in their infancy. Considering the unreliability of the promise of greater access for their merchandise exports, what can Latin America expect in exchange for concessions that facilitate the internationalization of the service enterprises of the industrialized countries?

V

Policy inferences

Apart from limited initiatives in respect of some particular services, especially transport and certain financial services, this sector has not claimed much attention either in theory or in practice in national economic policy. The convergence of a series of factors is rapidly changing this situation, however, above all in the industrialized countries.

1. *The need for better knowledge of the role and potential of services in the economies of the region*

There is an undoubted need to analyse in depth the contribution of the different services to economic growth and development. In contrast with other economic phenomena, little inspira-

tion can be gained from the experience of the industrialized countries, since there too the subject is still not fully understood.

To a large extent the exercise in question will entail the development of special methodologies and approaches in order to determine which services are vital for achieving socioeconomic goals and what forms of organization, ownership and management should be adopted in the provision of these services.

To this end, it could be very useful to develop the interconnections approach, as suggested by UNCTAD (1986), and also to go deeper into the study of the historical and economic causes that have shaped the present structure of the national supply of services in the region. The research itself could be greatly assisted by a better identification of the main conflicts and contradictions created by the participation of foreign capital and technology in the management of these activities.

The part played by services in development can only be understood through an investigation of the real role that has been played by foreign trade and investment in the services sector. It will therefore be necessary to clarify whether these variables merely reinforce the bonds of economic and commercial dependence or whether, on the contrary, they facilitate the autonomous and self-sustaining development of the Latin American and Caribbean countries.

2. Systems of co-operation and integration in respect of services at the subregional and regional level and in South-South relations

The technological, financial and market requirements for the efficient and dynamic development of many services represent a great obstacle to the establishment of these services in the fragmented national markets of the region. This provides many opportunities for innovative forms of co-operation and integration between two or more countries, according to the characteristics of the activity in question.

It is becoming increasingly evident that economic integration among the countries calls for a process which is broad enough to include various basic services, without which the integration proposals do not appear to be viable. The

expansion to the multinational sphere of services such as transport, insurance, banking and informatics appears to have played a determining role in some successful integration initiatives such as those of the European Economic Community.

The co-operation and integration agreements tried out by the countries of the region at different levels systematically diminished the potential that services could offer, not only as an essential complementary element of co-operation and integration for the production of goods, but also as an aid to exports and to import substitution in relation to the extra-regional markets.

Within the region, as part of the different systems of subregional integration, some attempts at co-operation in services have been made, with apparently very uneven results. For example, the Andean Pact contains proposals and instruments for co-operation in respect of highway transport (Decisions 56 and 57 on transport of goods), sea transport, tourist activities (circulation of motor vehicles, passengers and the Andean peso), professional services (Andrés Bello Agreement and SECAB), public health (Hipólito Unanue Agreement), movements of labour and protection of immigrant workers (Simón Rodríguez Agreement), as well as in relation to the acquisition of technology from outside the region and direct foreign investment in the services sector (Decision 24).

In ALADI, measures have been taken in relation to transport, consultancy services, engineering and financing of reciprocal trade. SIECA (Permanent Secretariat of the General Treaty for Central American Economic Integration) and CARICOM (Caribbean Community) for their part, have had varied experience of co-operation in the services field. Other systems such as LATINEQUIP (capital goods and engineering services), an integration system promoted by Brazil, Argentina and Mexico, aim to increase co-operation between two or more countries according to their needs in more specific sectors.

A systematic analysis of these regional initiatives will be essential in order to define the selection criteria for activities that have been the subject of co-operation and to assess the mechanisms and instruments used, as well as the results obtained.

3. *The role of services in the functioning of the domestic economic system and in the fulfillment of trade and integration goals*

It is increasingly recognized that the contribution of services to development cannot be represented by the mere total value of these activities in the national accounts. The fact that there is a complex network of interconnections between certain services and the rest of the economic system and that these services generate externalities points to the need to devise strategies capable of ranking service activities in terms of their influence on the results obtained by the main activities of the national economy.

On the basis of this ranking, it will be necessary to identify the most appropriate instruments and the most suitable policies for achieving their modernization. The present structure of world trade in services poses the need to raise the contribution of services to the external sector of the economy and to foster the realization of the potential of the Latin American and Caribbean countries in this area of activity, with a view to increasing their share in international trade in services and to reducing dependence on other regions in this field.

The objectives are easy to state but do not seem to be so simple to achieve. Nor should it be forgotten in this connection, that it is essential to have an expeditious and efficient supply, at the lowest possible cost, of a number of services which are vital for world economic development. Many of the countries of the region will have to resort to importing certain services when these cannot be provided with equal efficiency by the national economy. For many Latin American countries it will be necessary to make a difficult decision between the need to improve efficiency and keep themselves technologically up-to-date, and the desirability of strengthening their autonomy and independence as regards their national economic management.

4. *Priority of a system of international co-operation in the field of services that will comply with the interests of Latin America and the Caribbean*

Services have been unjustifiably neglected in national development processes and in interna-

tional trade and economic relations. The growing recognition of the role that they can play in the trade and development of the countries of the region calls for the creation of new forms of support by the international community for the efforts of the Latin American countries to modernize, foster and improve the function of services in development.

Hitherto, international debate has been dominated by initiatives that seem to be divorced from reality and from the interests of the region. A dialogue based on such initiatives cannot prosper, and insistence on proposals so opposed to the interests of the developing countries will merely exasperate the parties and reinforce antagonisms.

The countries of the region need to be able to rely on efficient, modern and low-cost services. The development of these will depend on the formulation and application of national and regional policies that harmonize efforts and maximize results.

The political, economic, socio-cultural and strategic characteristics of many services provide natural conditions for co-operation between neighbouring countries, not only because of their geographical proximity but also on account of their common traits. These possibilities of *rapprochement* abound in the Latin American countries. Moreover, the physical and economic needs of many services require larger demographic and economic areas than those possessed by the individual countries of the region. The regional and subregional spheres of Latin America and the Caribbean offer effective potential for the extensive development of services, and this should be the subject of urgent and thorough investigation.

In this respect, there are certain services that particularly lend themselves to regional and sub-regional co-operation and integration. It would be unrealistic to aspire to broad international co-operation except on the basis of practical experience gained within the region itself.

The certainty that the Latin American countries could set up efficient systems of integration of their services would reinforce any original proposals presented in the international forums. Experience of this kind would facilitate a much more precise definition of the complementary role played by international co-operation in the

development and modernization of regional services, and particularly the part to be played by the industrialized countries in this task. Only in this way could a regional counter-proposal be defined which would not only enrich the international debate on services but would set forth the means and instruments for more equitable international co-operation in this field.

As a starting point for the study of a regional counter-proposal, the informatics sector offers good prospects, since it covers all the activities linked with the collection, processing and distribution of information. At the same time, the vital importance of informatics and the speed of its development demand that any regional integration body in this field should have executive as well as co-ordinating power (IRM, 1986). This might require, as has been suggested, the creation of a multinational enterprise owned by the countries of the region that wish to take part in the project.

The crucial importance of information as an input for the most vital services would call for an international agreement conceived on broader terms than those that apply to trade. As in the case of international agreements on pharmaceuticals and chemical products for health, which have been propounded with a broad conception of their social function, information would require the adoption by the international community of an agreement that would recognize the special nature of this resource and the need to take account of a series of national rights and obligations in this field. In these circumstances, it would be difficult to conceive how a system such as GATT, circumscribed by the narrow parameters of a trade agreement, could devise an adequate system of international co-operation regarding a resource of such vast political, economic and social projections.

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