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THE UNITED STATES, LATIN AMERICA AND THE INTERNATIONAL DEBATE
ON TRADE IN SERVICES*

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Introduction

One of the main initiatives of the United States in the field of international economic policy in recent years has been the proposal to establish an international regulatory framework for trade in services. This initiative, originally presented during the preparatory stage of the GATT Ministerial Meeting in 1982, has given rise to an intensive international debate.

Until then, the regulation of world trade in services was an issue which practically no country, developed or developing, had ever raised. Hence the immediate reaction to the United States proposal was one of surprise and perplexity. However, as the United States continued to insist on it and explained the basic objectives pursued, the initial surprise gave way to serious concern and growing skepticism with regard to the advantages, above all for the developing countries, to be derived from implementation of this proposal.

In view of the fact that, in general, it is difficult to distinguish between trade and investments in services - which means that negotiations on services involve the rules and regulations of foreign investment - and in addition, the developing countries are net service importers and would, therefore, have little to gain from a so-called "liberalization" of the sector, they found themselves obliged to strongly oppose the United States initiative. Several Latin American countries, notably Brazil, have been among the firmest opponents, and certain positions and courses of action in relation to trade in services and Latin American cooperation in this sector have also been adopted at a regional level.

The debate continues however. The subject of services is on the agenda of the Uruguay Round of trade negotiations, launched in Punta del Este in September 1986, and although it is too early to predict the specific treatment which will be given to this subject, let alone the conclusions which may eventually be reached, it is already evident that service negotiations will introduce very important changes in the international trade system.

The purpose of this study is to analyse the basic objectives pursued by the United States in the field of services and to explore their possible consequences for Latin America if they are achieved. The study begins with a report of the discussions which have taken place thus far in GATT. This is followed by a discussion of United States objectives and strategies in the service sector and an analysis of the importance of the tertiary sector in the United States economy. Lastly, some considerations are presented on the Latin American position in the international debate on services, the sector's role in the economies of the region and the courses of action which could be adopted by these countries.

The United States initiative and the discussions in GATT

The United States' interest in trade in services dates back at least to the early seventies. At that time the United States service industries, arguing that other countries imposed many restrictions on their exports, exerted pressure for services to be included in the trade negotiations of the so-called Tokyo Round. As a result, within the purview of the 1974 Trade Act, United States negotiators were instructed to propose the inclusion of services - although only those connected with trade in goods - in the discussions on non-tariff barriers. ~~The subject of services was not, however, examined~~

during these negotiations and was not, therefore, reflected in their results. Only the codes relating to State Procurement and technical obstacles to trade (norms) contain indirect references to services.

Despite the limited results achieved in the Tokyo Round, the private sector continued to attach considerable importance to the subject of services, and interest groups were formed, such as the Coalition on Services - comprising companies such as the American International Group (insurance), American Express (financial services) and Sea Land (shipping), which have been extremely active. Other private groups, such as the United States section of the International Chamber of Commerce, the Council on Foreign Relations and the Carnegie Endowment for International Peace, are also very active in the promotion of the interests and points of view of the private sector regarding trade in services. Furthermore, there are at least two consultation mechanisms involving the public and private sector: The Industry Sector Advisory Committee, established by the 1974 Trade Act and the Services Policy Advisory Committee.

The activities of these private groups have been matched by a growing interest on the part of the United States authorities in formulating a national and international service policy. The United States Congress has also been extremely active in this respect and when the Trade Act was amended in 1979, for the first time, it granted the President, authority to conduct negotiations on services, regardless of whether they are traded together with goods or not.

In recent years the United States has intensified its efforts to have trade in services discussed at the international level. In 1981, the United States delegation in the

OECD raised the need to examine the problems of the service sector with a view to:

- a) establishing bilateral and multilateral consultation and negotiation mechanisms, to solve problems in this field;
- b) adopting commitments among the member countries for the liberalization of the sector; and,
- c) establishing a set of principles and procedures for dealing with trade in services.

The United States proposal was in large measure supported by the OECD Ministerial Meeting of that same year. The Declaration then adopted stressed the need to strengthen international co-operation in the service sector and to study the necessary measures to reduce or eliminate the problems identified in that area, based on studies to be carried out by the OECD Secretariat. This commitment has been reaffirmed on subsequent occasions.

The OECD discussions served as a precursor to the proposals presented by the United States in GATT during the preparatory stage of the 1982 Ministerial Meeting. These proposals urged the advisability of setting up a work programme on services within the purview of that institution, for the purpose of:

- a) studying the applicability to trade in services, of the principles and norms of the General Agreement and of the Multilateral Trade Negotiations Agreements;
- b) analysing the barriers to trade in services, including problems of access to markets and the difficulties in carrying out operations in

foreign countries once access has been achieved
1/

With this initial step, the United States prepared the ground for its main objective: to promote the necessary "international consensus" for the negotiation of a general regulatory framework for trade in services and, when necessary, agreements and arrangements in individual sectors. Trade in high technology goods and counterfeit goods, as well as investment matters related to trade, were among the "new" subjects proposed by the United States in the GATT Ministerial Meeting.

In the ensuing discussions, the United States received the support of several developed countries, including Japan, the United Kingdom and the Federal Republic of Germany. However, other industrialized countries did not appear to be very enthusiastic about the United States proposal.

For their part, the developing countries, firmly opposed the United States proposal. In this respect, it is interesting to note the position adopted by the Latin American countries in a SELA co-ordination meeting, held shortly before the GATT Ministerial Meeting 2/. It was then pointed out that the problem underlying the services issue was "basically, a problem of 'right of establishment', that is to say, a purely investment, not trade issue".

1/ The United States' arguments are included in GATT, PREP. COM/W/R. For a more explicit presentation of these proposals, see also William E. Brock, "A Simple Plan for Negotiating on Trade in Services", The World Economy, Volume V, Number 3, November 1982.

2/ This Latin American co-ordination meeting was held from 4 to 6 October 1982 in Geneva.

It was also pointed out that, apart from any interest in establishing a framework to regulate the international flow of investments and service transactions, it was firstly necessary to specify whether GATT was the most appropriate forum and whether it had legal competence for the analysis, discussion and negotiation of these matters.

Negotiation within the framework of GATT would inevitably be guided by the principles and norms prevailing in that forum, including the changes resulting from Multilateral Trade Negotiations and other developments. Hence, the Latin American countries considered that it was questionable whether the application of GATT principles and norms in these areas would be in the interests of the developing countries.

The Declaration adopted by the GATT Ministerial Meeting included a section devoted to services, but with a more limited scope than that originally proposed by the United States proposal. It was recommended that the Contracting Parties take an interest in trade in services, that they undertake national studies of matters related to this sector and they were invited "to exchange information among themselves on these matters through, among other means, international organizations such as GATT". It was also decided to "review the results of those studies, together with the information and observations provided by the appropriate international organizations, in their 1984 session, and to consider whether it was appropriate and desirable to take multilateral action on these matters" 1/.

Thus, the most important United States achievement in the GATT Ministerial Meeting was the inclusion of the subject of services in international discussions. As a result of the opposition of the developing, and some developed countries,

1/ GATT, Ministerial Declaration, adopted 29 November 1982, L/5424.

the proposals relating to high technology goods and investments were excluded from the Ministerial Declaration, and GATT received a rather ambiguous mandate concerning trade in counterfeit goods, whereby it would study the advisability of joint action within the framework of GATT, and consultations would be held with the World Intellectual Property Organization (WIPO) in this regard.

During 1983 and 1984, several developed countries presented "national studies" on the service sector to GATT 1/ and an informal exchange of information took place in that institution on the various aspects relating to the subject. Moreover, the possibility of initiating a new round of multi-lateral trade negotiations, was posed and once again, the question of the inclusion or not of the subject of services in these negotiations revealed the differences that existed among the various countries on this matter.

In the preparatory phase of the negotiations, the United States and the majority of the industrialized countries - now much more amenable to the United States proposals - insisted on the need to expand the purview of GATT to reflect the changes which had occurred in recent years in international trade relations and the world economy, and the growing importance of the tertiary sector in national economies and international transactions. The developing countries, on their part, - although not all as vigorously as

1/ In that period, 13 national studies were presented to GATT, all by developed countries or country groupings: Canada, the EEC, Denmark, United States, Finland, Italy, Japan, Norway, the Netherlands, United Kingdom, Federal Republic of Germany, Sweden and Switzerland. In 1985 three more industrialized countries presented their national studies: Australia, Belgium and France.

at the beginning - have argued that the proposed trade negotiations should be limited to trade in goods, that the subject of services did not fall within the purview of GATT and that a more profound knowledge of the impact of the sector on economies and on economic development, as well as of the possible consequences of undertaking international commitments in this field, was required before deciding as to the advisability of including the subject of services in the negotiations 1/.

At the fortieth meeting of the GATT Contracting Parties (November 1984), the United States succeeded in obtaining more formal consent for the procedure to be followed for analysing the national studies, and a more active role to be played by the GATT Secretariat in support of the analyses made, which includes carrying out the national studies. The developing countries made it clear that adoption of this agreement did not imply a change in their basic position in relation to GATT's lack of competence in the services area, and they continued to insist that any new round of negotiations should be confined to "trade in goods only" 2/.

In 1985 the exchange of information on national studies on services continued. The exchanges were organized by the Chairman of the Contracting Parties and the GATT Secretariat prepared analytical summaries of the studies submitted by the countries and of the opinions voiced by various international and regional organizations. In mid-1985, a group of senior officials was set up to study matters related to a new round of multilateral trade negotiations, and at the meeting

1/ The positions of the developing countries are reflected in documents L/5647 (4 May 1984); L/5744 (23 November 1984); and L/5818 (7 June 1984).

2/ See GATT document L/5647.

of the Contracting Parties (November 1985) a Preparatory Committee was established to analyse the objectives and modalities of the negotiations.

The Preparatory Committee terminated its work in July 1986, without having reached an agreement on several issues. A significant development in those preparatory activities was the emergence of differences among the developing countries. These differences arose, basically, with regard to the treatment to be given to the subject of services in future negotiations. A group of developing countries, including Brazil and India, held firmly to the view that trade in services did not come within the competence of GATT and that the negotiations should therefore be confined to trade in goods. This position, which was at first held by the developing countries as a whole, was gradually abandoned by some of them, their argument being that, by continuing to oppose the inclusion of the subject of services in the negotiations they ran the risk of the latter not taking place, thereby aggravating the tensions already existing in the international trade system, with serious prejudice to the countries, particularly the developing countries. These different attitudes led to a rupture of the developing countries' front which, at the end of the preparatory process, was reflected in the presentation of three different draft declarations, each backed by a different sub-group of these countries.

The difficulties were eventually overcome in the GATT meeting of Punta del Este (15-21 September 1986), where it was decided to launch the new round of multilateral trade negotiations - the Uruguay Round - and a compromise was reached regarding services whereby the subject of trade in services will be included in the negotiations, but will be afforded different treatment from that given to issues relating to

trade in goods. This differentiated treatment stems from the fact that the decision to include the subject of services was not adopted by the contracting parties to GATT acting as such, but by the Ministers attending the Punta del Este meeting, acting in representation of their countries. Therefore, in practice, an additional decision will be required, at the conclusion of the negotiations, as to whether or not the agreements which may be reached in the field of services will come within the scope of GATT. Thus, the negotiations on goods and services will take place simultaneously, but separately.

Objectives of the United States

The United States is convinced that an international system regulating and furthering the liberalization of trade in services will be to its own benefit, and this conviction is based on the extraordinary importance of the tertiary sector in the United States economy.

According to the national study presented to GATT by the United States 1/, the service sector is the most rapidly expanding sector in the United States economy. It currently accounts for two-thirds of the country's gross national product and employs over 70 percent of the labour force. Moreover, approximately 86 percent of the jobs created in the United States in the past two decades have their origin in the tertiary sector and service industries are the most productive of all 2/.

1/ National Study of the United States on trade in services, presented by the Government of the United States of America to the General Agreement on Customs Tariffs and Trade, December 1983.

2/ The National Study quotes a report of the United States Bureau of Labour Statistics in support of this statement. According to this report, almost half of the 30 major United States enterprises, in terms of productivity, operate in the service sector. See National Study of the United States, op. cit., pp. 29-30.

What is more, the United States is the main exporter of services. In 1980, service exports amounted to almost 35 billion dollars and the surplus in services amounted to 6 billion dollars. Furthermore, the prospects of the United States service sector appear to be extremely promising. According to the report presented to GATT, the contribution of "a growing service sector to efficiency in the production of goods and to the satisfaction of the final consumer's demands, will be one of the decisive factors of United States economic activity in the nineteen-eighties. These structural transformations of the service sector have an inevitable repercussion on the international market, as far as competitiveness is concerned, in the production of both goods and services 1/.

Moreover, the United States service industries have become remarkably internationalized in recent years and a growing proportion of their income is derived from their "external" operations. It is estimated, for example, that over 50 percent of the income of the eight major United States accounting companies is derived from their activities abroad; the percentage for the 50 major data-processing companies is 11.5 percent; for consultancy and engineering firms, over 30 percent and branches of United States banks overseas account for 20 percent of the total assets of the sector 2/. It is obvious, therefore, that one of the basic objectives pursued by the United States in this field is to guarantee the continuous expansion of its service industries by eliminating restrictions or obstacles limiting their operations in third countries.

1/ National Study, op. cit., p.32

2/ Jonathan D. Aronson and Peter F. Cowhey, Trade in Services: A Case for Open Markets, American Enterprise Institute for Public Policy Research, Washington. 1984.

These are the economic justifications of the United States proposals on services. However, in order to obtain a better understanding of the United States' objectives, one must examine the amendments introduced into United States trade legislation through the Trade and Tariffs Act of 1984 (TTA). These amendments give a very accurate idea of the growing importance attached to the service sector in United States trade policy and the priority which that country now assigns to the establishment of an international contractual framework designed to eliminate obstacles and promote the "liberalization" of trade in services.

The aforementioned Act contains provisions relating to trade in goods, services, technology, investment and the protection of intellectual property, in other words, the subjects which were initially presented by the United States to GATT in 1982. The objectives of the law include that of "improving the President's capacity to identify and eliminate barriers and restrictions on United States exports and investments"; furthering the expansion of international trade in services by means of bilateral and multilateral agreements, designed to reduce or eliminate the barriers to said trade; and, "to stimulating the free flow of foreign direct investments" by means of bilateral and multilateral negotiations. These negotiations would be governed by a very particular concept of reciprocity consisting of the "achievement of trade opportunities in foreign markets substantially equivalent to those granted by the United States" 1/.

The TTA also prescribes the need to identify the obstacles to trade in services applied by third countries and to endeavour, (through consultations and negotiations, or by applying the provisions contained in Section 301 of the 1974 Trade Act, entitled "presidential reprisals" 1/) to eliminate

1/ Section 303 of the TTA. See, in this respect, SELA, América Latina y la Ley de Comercio y Aranceles de Estados Unidos, Grupo Editor Latinoamericano, Buenos Aires, 1985.

such obstacles. The scope of this section was extended by the TTA to include various matters related to services and investments, such as the "right of establishment" and "national treatment". It is now possible to take reprisals, "without consideration of the goods or sectors which may have been affected by the law, policy or practice which is questioned". This means that the United States could impose discriminatory restrictions against the import of goods from a country which has denied the "right of establishment" or "national treatment" to United States service companies. The "barriers" to trade in services which the law proposes to eliminate include "direct or indirect restrictions on the transfer of information inside or outside the country", and "restriction on the use of data-processing facilities inside or outside the country".

The TTA provisions concerning "high technology products" show the link between the different subjects of interest to the United States. For instance, one of the main objectives of negotiation is "to obtain and preserve maximum

1/ The United States Trade Representative (USTR) was entrusted with this task, and towards the end of 1985 and 1986 he presented various reports in this respect to the Finance Committee of the Senate and to the Ways and Means Committee of the House of Representatives. Both reports list the laws, practices and policies of 34 countries which, in the opinion of the United States, hinder its trade in goods and services, its intellectual property rights and its investments, and describe the measures which the United States should take in this respect. The list of countries includes 6 Latin American countries: Argentina, Brazil, Colombia, Chile, Mexico and Venezuela. See Annual Report on National Trade Estimates, 1985, and National Trade Estimate: 1986 Report on Foreign Trade Barriers, Office of the United States Trade Representative.

opening with respect to international trade and investments in high technology products and associated services". Although the TTA contemplates the holding of negotiations aimed at the elimination of customs duties affecting the exportation of high technology products by the United States (particularly semiconductors), its provisions in this respect basically address the modification of government policies geared to the development of an independent technological capacity.

Hence the reference in the Act to the "intervention of foreign governments which affects the United States' high technology export products or investments in high technology industries", including "those industrial policies of foreign governments which distort international trade and investments" and "those policies which deny national treatment or which discriminate in favour of domestic high technology industries" 1/. The specific objectives indicated by the Act include "national treatment" to "obtain commitments from foreign countries to the effect that in their official policies they will refrain from discouraging the acquisition, by the public or the private sector, of high technology products of foreign origin and services related to the latter", and the reduction or elimination of other obstacles 2/.

1/ The conflict between the United States and Brazil in connection with the Brazilian informatics law of late 1984 is an eloquent example of the United States' attitude to practices or regulations which it considers are an obstacle to its high technology export products.

2/ See Section 305 of the 1984 Trade and Tariffs Act. For a better understanding of the United States' interests and objectives, see also J. Baransm and H.B. Malmgren, Technology and Trade Policy: Issues and Agenda for Action, document prepared for the United States Trade Representative, Washington 1981.

Export performance requirements are the object of particular attention. The TTA specifically instructs the USTR to obtain the reduction and elimination of those export performance requirements which have an adverse effect on U.S. economic interests. It also authorizes him to "impose customs duties or other restrictions on the goods or service imports from such a foreign country....including the elimination of the right of access to the United States market of those products which are subject to said requirements", that is to say by means of trade reprisals 1/.

Consequently, in the light of the provisions of the 1984 Trade and Tariffs Act, the proposal to liberalize trade in services within the framework of GATT is apparently intended to support United States transnational corporations, particularly with regard to their negotiations with the governments of receiver countries. From the point of view of these corporations, the world has become a global market which has been placed within their reach, by virtue of advances made in the field of communications and information technology and the improvement of their corporate and financial structure 2/.

For these corporations, the distinction between "trade" and "investment" is merely academic; what they need is (a) presence in the market ("right of establishment"); (b) the possibility of competing without being subject to regulations which place them at a disadvantage vis-a-vis the national suppliers ("national treatment"); (c) the absence of regulations requiring certain responsibilities on their part (export performance requirements); (d) access to information centralized in their data banks by means of unrestricted transborder

1/ See Section 307 of the Trade and Tariffs Act.

2/ See UNCTAD, Los Servicios y el Proceso de Desarrollo. op.cit.

data flows; (e) that their expansion be based on high technology goods and that the other countries adopt technologies compatible with said goods (free trade in high technology products) and (f) the certainty that their potential competitors will not have access to their technologies (adoption of strict regulations relating to intellectual and industrial property rights).

It would appear, therefore, that the aim pursued in having these negotiations held in GATT, rather than in any forum, is the incorporation of these conditions into a contractual framework agreed upon at multilateral level, where they will be legitimated and backed by the possibility of taking reprisals, a highly important factor in GATT, but non-existent in other international organizations. In this manner, commitments could be obtained from the receiver countries in relation to the treatment to be given to transnational corporations, and trade reprisals legitimated in the event of noncompliance with such commitments. The developing countries, whose capacity is limited both with regard to the internationalization of their enterprises and the threat or application of trade reprisals, would thus be placed at a distinct disadvantage.

United States: the various alternatives

As has been pointed out, the United States has been the main proponent of the negotiations on services being held within GATT, a forum which this country considers to be the best equipped, from the structural point of view, to administer a contractual system regulating trade in services 1/.

1/ National Study, op.cit., p. 114.

However, this country has also indicated that it can undertake other alternative actions which would enable it, if only partially, to achieve its objectives in this area, and would, in the short term, facilitate world understanding in these matters.

It is not a question of replacing the negotiation strategy described in previous paragraphs, but rather to further it by following other procedures. Alternative action would include the possibility of the United States adopting unilateral measures against countries whose trade practices are considered restrictive against United States trade in services, availing itself of the extension of authority granted the President by the 1984 Trade and Tariffs Act, as was explained in the previous section.

Another course of action which the United States has decided to explore is that of bilateral agreements. In this case, the idea is to complement efforts towards the signing of so-called bilateral investment treaties with the developing countries, with bilateral negotiations designed to reach agreements covering exclusively one or several service sectors.

The United States considers that, in the short term, this type of agreement could facilitate the establishment of a multilateral system for trade in services, inasmuch as bilateral agreements - above all if they encompass several sectors - could "...stipulate a great many of the rights and obligations which would be established in an analogous multilateral agreement..." ^{1/} and would allow for the inclusion of "...the

^{1/} National Study, op.cit., p. 113.

basic trade principles applicable to services, such as national treatment, non-discrimination and transparency..." 1/.

The problem with these agreements, in the opinion of the United States, is that "...the concept of most favoured nation treatment is completely abandoned in favour of a preferential system based on reciprocal opportunities..." 2/ and the fact that, in practice, these bilateral systems are limited to countries with relatively equal capacity in their service sectors, which would, a priori, exclude practically all the developing countries. This last factor - the exclusion of the developing countries - is of considerable importance to the United States, for there can be no doubt that the penetration of developing country markets by United States service companies is a fundamental U.S. objective in this field.

In this regard, the opinions of William Brock, United States Trade Representative until mid-1985, are extremely illustrative. In an article in Foreign Affairs which attracted much attention 3/, Brock stressed the fact that "the willingness of industrialized countries to maintain open

1/ The agreement between the United States and Israel to establish a free zone between both countries was in this sense a "pilot" case. In Canada the possibility was explored of signing a bilateral agreement to establish a common market for trade in computer services, but the negotiations did not prosper. See, in this respect, Rodney C. Grey, "Traded Computer Services" An analysis of a Proposal for Canada/USA Agreement", Montreal, Royal Bank of Canada.

2/ Ibid.

3/ William E. Brock, "Trade and Debt: The Vital Linkage", Foreign Affairs, Vol. 62 Number 5, Summer 1984, pp. 1041, 1042 and 1050.

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markets and to take additional liberalizing measures will depend, in part, on actions undertaken by the developing countries themselves" and, with particular reference to the highly indebted countries, he stated that "if these countries avoid making necessary adjustments in their regimes now, not only will they hamper their own prospects for growth and perpetuate their vulnerability to a new debt crisis, but they will also run the risk of losing some of the market access (of the industrialized countries) they presently enjoy. It is unlikely that the high-debt countries will be provided with greater access market to the industrialized countries' markets in the absence of such liberalization". According to Brock, the opportunity for granting more concessions would be afforded by a new round of multilateral negotiations, to deal with the major trade issues in the next few years, and the "developing countries, especially the high-debt nations, should have a considerable interest in establishing international 'rules of the game' to govern emerging areas of commerce, such as services or high technology".

The Latin American alternatives

The arguments presented against the incorporation of services into GATT are not actually arguments against the liberalization of the tertiary sector 1/. However, the

1/ One aspect which is not analysed in this study is the threat to the coherence of the GATT system which may possibly be involved in the incorporation of obligations related to services in the intricate domain of concessions in trade in goods. See for example, Rodney C. Grey, The Service Industries: A Note of Caution about the Proposal to Negotiate General Rules on Traded Services, report presented to the Royal Commission on the Economic Union and Economic Development Prospects for Canada, Ottawa 1984.

discussion of the subject of services within GATT might also lead to the application of the principles of the General Agreement to services, thereby obliging the developing countries to justify the "legitimacy" of violating the principles relating to the most favoured nation clause (MFN) or to "national treatment" of services and investments, without having previously accepted said principles at multilateral level.

Negotiations on services within GATT may also imply the linkage of "trade" in goods and "trade" in services, as well as the granting of concessions in relation to such "trade". In view of the fact that the developed countries would be in the position of "demandeurs" in a negotiation on services, and in view of the fact that it would be difficult to prepare a balanced negotiation "package" limited to the tertiary sector, the developed countries' principal bargaining strategy would lie in restricting (or improving) access to their own markets, of goods coming from the developing countries, as demonstrated by the "new reciprocity" of the United States system of preferences 1/. Consequently, the discussion on the granting of concessions in the service area within a context of reciprocal concessions of access to markets, such as that represented by GATT, may unnecessarily place the developing countries at a disadvantage.

In the discussions on services which have taken place in GATT, the United States negotiators have stated repeatedly that for the developing countries to maintain and, eventually expand, their access to developed country markets for goods,

1/ See SELA. op. cit. chapter III.

they must be willing to offer concessions in the service sector, which would also imply concessions in their investment and technological development policies 1/.

This position is based on certain theories, according to which the economies of the developed countries are leaning towards the tertiary sector, owing, among other reasons, to the fact that the manufacturing sector in those countries is being displaced by imports from the developing countries. In other words, it is argued that the developing countries have a "comparative advantage" in the production of goods, whereas the industrialized countries have a "comparative advantage" with regard to services, hence the need to increase trade in services in order to create jobs for those people who have been displaced from the manufacturing sector because of imports from the developing countries.

These theories have no real basis. The sectors in which the industrialized countries have lost their "comparative advantages" have not disappeared, nor have they been replaced by other more dynamic sectors. They are being maintained by resorting to protectionist measures, as has been the case with steel and textiles, among others. Furthermore, recent economic studies carried out in the United States have proven the weak empirical basis of these theories, by demonstrating that (a) it is not trade that induces an economy to lean towards the tertiary sector (at least in the case of the United States) 2/; (b) the greater part of the income in

1/ See for example, G. Feketukuty, Negotiating Strategies for Liberalizing Trade in Services, paper presented to the Third Annual Workshop on U.S./Canadian Relations, Ann Arbor, Michigan, October 1984.

2/ See Robert Z. Lawrence, Can America Compete?, The Brookings Institution, Washington, D.C., 1984.

the tertiary sector is derived from profits from overseas investments and not from service "exports", therefore trade in services does not create alternative sources of employment in the United States 1/, and (c) the capacity of goods to penetrate international markets is closely related to international service activities, hence, the "competitiveness" of goods and services is complementary and not conflictive 2/. Various studies have also shown that trade in services has increased in those service sectors having a closer linkage with the production and export of goods 3/.

In fact, it would appear that it is precisely the vigorous development of production and distribution services, that is to say, design, engineering, consultancy, distribution and marketing and data-processing services, that enables countries to improve their capacity to respond to the changes in the world demand for products. These interrelations, however, stem more from general opinions on the subject than from empirical studies, for, in the final analysis, very little is known about the functioning of the service economy and the contribution of the tertiary sector to a country's production and trade.

1/ United States service exports amounted to US\$ 18 billion in 1977, while income derived from the sales of transnational service companies abroad amounted to US\$114 billion. United States, Department of Commerce, Bureau of Economic Analysis, Staff Papers U.S. International Trade and Investments in Services: Data Needs and Availability, Washington, September 1982.

2/ See United States International Trade Commission, The Relationship of Exports in Selected U.S. Service Industries to U.S. Merchandise Exports. Washington, September 1982.

3/ CEP II, op. cit., p. 81.

Consequently, it appears necessary to become better acquainted with the role of services in economic development and international transactions, before accepting international commitments in this field. This is a task which the Latin American countries, in particular, should undertake as soon as possible. So far, the information available in this respect is of a very general nature and does not suffice to ascertain the real impact of the tertiary sector on the development process of the countries in the region.

Several studies carried out by UNCTAD 1/ and by the Permanent Secretariat of SELA 2/ indicate that services constitute a decisive factor in production. The service sector contributed 64 percent to total world income in 1979. In Latin America their contribution to the regional product amounted to 60 percent, although the situation varies considerably from one country to another. In the majority of the countries in the region the tertiary sector accounts for 50 to 65 percent of the domestic product, but in predominantly agricultural countries such as Haiti, it amounts to only 39 percent. Panama is the country with the most important service sector in the region - it contributes 73 percent of that country's national product.

The importance of the service sector in the Latin American countries should not, however, mislead one to believe that this is the most dynamic sector of the region's economies. A sectoral analysis shows that the activities of the "trade and financial services" sector, which, in general, are

1/ UNCTAD, "Los servicios y el proceso de desarrollo", TD/B/1008, 2 August 1984.

2/ SELA, "Los servicios y el desarrollo de América Latina", SP/RCLA/SERV/DT N° 2/REV.1, 3 September 1984.

the less productive ones, are of considerable importance in most of the countries in the area, whereas the "other services" category, which includes, among others, informatics and computer activities, which are at the very heart of the so-called pioneering industries, are of secondary importance.

The service sector provides more employment than any other, both in the industrialized and in the developing countries. In Latin America, approximately 46 percent of the economically active population is employed in the tertiary sector. There are, however, notable differences from one country to another, with very high employment levels in the service sector in countries such as Barbados (80 percent in 1982) or Grenada (62.8 percent in 1981), and much lower levels in countries such as Bolivia, El Salvador, Guatemala and others, in which less than 30 percent of the population is employed in those activities. In countries such as Argentina, Chile, Panama, Uruguay and Venezuela, the rate of employment in service activities is approximately 55 percent.

As regards international trade in services, the industrialized countries have a dominant position. In 1980, their imports represented 70 percent of total world service imports and their exports over 80 percent; their trade balance in the sector showed a surplus of almost US\$10 billion. In contrast, in the developing countries, the deficit in their trade in services for the same year was US\$57.2 billion, approximately US\$9 billion of which corresponded to Latin America. In 1982 the region's deficit remained at a level equivalent to that of 1980, and it is important to note that by and large, over 50 percent of Latin America's deficit in trade in services corresponds to trade in "transport and insurance", followed by "travel" and "other private services". The situation varies, however, from one country to another.

In the case of Venezuela, for example, over 60 percent of the total deficit in 1982 was derived from travelling expenses, whereas in countries such as Mexico, that item shows a surplus. In general, most of the countries in the region tend to show a deficit in "transport and insurance" and a surplus in "travel", which sectors represent almost 75 percent of Latin America's international trade in services.

It is to be noted, however, that these are very preliminary calculations. The information available in the countries' national accounts and balance of payments does not give a clear indication of the importance of services and their significance in the various economies, nor does it allow us to ascertain the relation of services to other fields of economic activity. This is a task which must be undertaken immediately and until something is done in that direction, it would be wise to bear in mind certain criteria which could serve to guide the Latin American countries in the current international debates on services 1/. Following are the most important of these criteria:

a) The present and future economic importance of service activities seems to indicate that whatever the treatment given the subject at international level, whatever its scope, it should be geared to supporting the economic development objectives pursued by the developing countries. In this regard, an attempt should be made for international organizations such as UNCTAD, in which development problems are a priority objective, to play an important role in the analysis

1/ It should be recalled that in the OECD Ministerial Meeting of 1984, it was decided to continue the studies and analyses on services for two more years. This demonstrates the interest of the members of that organization in acquiring a more adequate knowledge of services and international transactions of the sector before adopting a particular course of action with regard to the proposed negotiations thereon.

and discussion of the various aspects associated with services and development. At the regional level, organizations such as SELA and ECLAC, have a highly important function to perform, both with respect to analysing the impact of services on the economies of the region and on their international economic relations, and to consultation and co-ordination of negotiating strategies to promote the basic interests of the region in this important area.

b) As regards the framework for general discussion, it is important to note that no international forum is competent at present to carry out negotiations in this field. The subject of services will be included in the Uruguay Round of multilateral trade negotiations and, consequently, the corresponding debates will take place within the framework of GATT. It is to be noted, however, that the applicability of GATT norms and principles to trade in services appears to be neither easy nor advisable, above all bearing in mind that in the case of service transactions it is not always possible to draw the line between "trade" in services and "investments" in services. This is one of the main issues which must be clearly defined before adopting any decision in the service sector. An additional consideration to which particular attention should be paid by the countries of the region concern the real influence exerted by the developing countries in organizations such as GATT and the skill of this organization in dealing with their particular problems.

c) The benefits which the developing countries might derive from international negotiations on trade in services have not been clearly determined. This is a matter of particular significance to the Latin American countries because they are net service importers and because the export capacity in the sector can only be increased in the medium or

long term by a deliberate effort in that respect. Furthermore, it is important to note that inclusion of the subject of services in multilateral trade negotiations involves a risk of concessions being negotiated in the service area in exchange for the maintenance or extension of concessions in goods, notwithstanding the different treatment which these matters will receive in the negotiations, as has already been mentioned. As a result of such an exchange of concessions, the developing countries would find themselves making concessions in services in exchange for concessions already obtained in goods, for example in the GSP, on a preferential and non-reciprocal basis.

d) The Latin American countries must unite among themselves and with the developing countries as a whole if co-ordinated action is to take place in the international debates. The countries in the region can play an important role in the negotiations if they succeed in co-ordinating common positions regarding the subject of services. Significant progress has already been made in this respect. Within the framework of SELA, a first Latin American co-ordination meeting on services was held in mid-1984 and a similar meeting was held in 1986. Moreover, the Latin American Council of SELA has made statements in this respect, and in its last meetings, stressed the importance of the subject of services and the need for more thorough study on these matters before assuming commitments at international level.

e) The joint action of the developing countries would serve to offset the trend towards bilateralism postulated by some developed countries and enhance their bargaining power both individually and collectively. The risk involved in the inclusion in bilateral agreements of norms or principles applicable to trade in services should be avoided,

since it weakens the position of the developing countries and, in the long run, would lead to the granting of concessions in lieu of multilateral efforts and co-ordination among all the countries.

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