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THE POLITICAL ECONOMY OF SERVICE SECTOR NEGOTIATIONS IN THE URUGUAY ROUND: POLICYMAKING AND PRESSURE IN THE UNITED STATES

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The multilateral trading system has been under attack.[1] With the difficulties experienced by trade negotiators in concluding the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), originally scheduled for completion in December 1990, many saw regionalism or bilateralism as an alternative to multilateral trade negotiations. Yet at least as of this writing, multilateralism continues to hold considerable sway for most countries in the international system.

This paper examines one area that has become extremely contentious throughout the Uruguay Round -- service sector negotiations. To examine these negotiations, I follow a political-economic approach. In particular, I reject assertions that the evolution of the trading system can be explained simply by technological changes in the system or a growing (or waning) acceptance of the benefits of free trade. Instead, I focus on the domestic bargaining process that has been taking place in one of the key actors in service sector negotiations -- the United States. I attempt to show how competing interest groups have often stymied efforts by the U.S. government to promote systematic trade-offs among issues which are an essential component of any negotiating process.

The paper organizes as follows. Following a discussion of contending approaches to explain trade policy in the first section, section II examines how services came to be included in the current Uruguay Round of negotiations. The third section then focuses on the lobbying process and the positions of various domestic interests in the United States. The fourth section then examines the international negotiating process by focusing on competing international interests with an eye to examining the outcome of the negotiations.

I. AN ANALYTICAL PERSPECTIVE ON TRADE POLICY

I turn first to a general perspective on understanding developments in world trade. A number of different approaches to understand the evolution of the international trading system have been proposed by economists and political scientists. In brief, these approaches can be divided into

those that take account of political factors and those that are relatively apolitical, although considerable variation exists among these two categories of explanation. Although all economists do not fit into the apolitical category, their analytical approach for the most part tends to omit political factors.

Let us consider some typical apolitical explanations. Some analysts assume that trends in the world economy can simply be explained by the growing belief in the efficacy of free trade. From this perspective, as the ideology of free trade spreads, new arrangements will be developed to reflect this change. No doubt free trade has its benefits; but simply pointing out that all can gain from trade has not been sufficient to ensure an open world trading system. From my perspective, economists tend to both underestimate and overestimate their discipline: On the one hand, they underestimate the ability of politicians and other decision-makers to understand the potential benefits from free trade that accrue from pursuing one's comparative advantage. Surely even the slowest politicians eventually can understand the theory of comparative advantage. On the other hand, economists tend to overestimate the effect of this knowledge: the notion that once everybody understands why wine should be traded for cloth, that we will all be tripping over each other in the rush to implement free trade, ignores the important political process in the United States and elsewhere.

Other explanations of an apolitical nature include arguments about technological inevitability. For example, some assume that as technology changes, international arrangements in trade will automatically change to reflect these new developments. Thus, in light of the fact that the service sector economy has been growing to the point where it now accounts for about 25% of world trade[2], one might assume that we will quickly develop a service sector agreement to regulate national behavior with respect to this sector. Yet this argument is also fallacious. One must take into account the inevitable political conflict that arises as national governments, concerned about pressures from their respective industries, bargain about the division of gains from trade. In principal, these gains can benefit all; yet dispute over the distribution of the growing pie and the

speed at which industries will be forced to restructure to compete is an issue that creates political conflict.

The more political explanations of trade point to power relationships among actors, both internationally and domestically. One of the most popular arguments concerns the relative decline of the United States in the world economy as compared to its position in the immediate post-war era. As this "hegemonic decline" has taken place,[3] many international economic arrangements have come under attack, be they in the monetary or the trade realm. Others are more sanguine about the maintenance of international arrangements, arguing that a few states together may maintain a regime or that the gains from such arrangements in reducing informational and organizational costs will entice countries into sustaining such accords.[4] Another power based explanation, this one focusing more on domestic politics, argues that as industries in particular countries become less competitive, the balance of forces promoting economic openness may lose out to more protectionist elements.[5]

I have suggested elsewhere that as hegemonic decline takes place, domestic political actors will have greater opportunity to press their cause and potentially disrupt international negotiations.[6] Following this logic, I emphasize the domestic political economy of protection in this paper, focusing on the actors involved in service sector negotiations. In particular, I examine the international negotiation process in terms of the different positions of the developed and developing countries. But my major focus concerns the domestic political-economic process by which different groups in the service sector industry have attempted to promote their position. Owing to space limitations, I focus on policymaking in the U.S. As we shall see, despite the general pressure by the U.S. for the development of a service sector agreement in the Uruguay Round, the American position has been buffeted by domestic political interests, leading to a situation where the U.S. now calls for important deviations from the traditional norms of the GATT.

II. THE INTRODUCTION OF SERVICES INTO THE URUGUAY ROUND

In the 1980s, services emerged as an important new sector of international trade. But although the service sector has been increasingly recognized as being the most dynamic sector in the world economy, not all countries have been willing to accept trade liberalization in this area. Developed countries have already managed to reap substantial benefits from the expansion in service trade. By contrast, in many cases, due to lack of well developed human capital and infrastructure, the developing countries have yet to see their service sectors accrue large economic benefits. Although promotion of services could substantially benefit developing countries, this potential has not been fully realized.

These differences between developed and developing countries have led to a conflict of interest concerning the nature and emphasis of a multilateral framework to deal with trade in services. Developing countries view traditional trade theory -- which argues that elimination of trade barriers and progressive liberalization will have positive benefits for all members of the trading system -- as potentially detrimental to their interests in services. Many developing countries have argued that they are likely to experience adverse effects from liberalization efforts. In the late 1960s, before many realized that services were tradeable, the notion that exchanging services involved virtual face-to-face contact handicapped the possibility of any real discussion of international trade in services. A few informed and motivated individuals spurred the study and eventual dissemination of information regarding services, trade in services, and the role of services in the international economy. Now, twenty years later, services have been accepted as a key issue and elevated to the GATT agenda in the present Uruguay Round trade negotiations.

What political-economic process led to the addition of services to the GATT agenda? My focus here is on the individuals and pressure groups responsible for the evolution of services from a position of virtual non-existence on trade agendas in the 1970s to probably the most important "new issue" along side intellectual property rights and trade related investment measures (TRIMS) on the GATT agenda today. Many of these same individuals and groups continue to play an active role in

present negotiations. They are likely to influence strongly both the outcome of these negotiations, and the implementation of any agreement.

The major problem facing early attempts to promote action in services was that no one considered services important or relevant enough to include with international trade matters. The initial promoters of an agreement on services first had to convince trade experts, businessmen, and policy makers that services were important and merited their attention.

In the early seventies, U.S.-based service firms faced increased regulations and restrictions abroad. As a result, they instigated the initial lobbying for action on trade in services.[7] In particular, Ronald Shelp, a vice president in the most global U.S. insurance company, the American International Group (AIG), played a key role.[8] Supported by AIG chairman Hank Greenberg, Shelp worked systematically toward his goal of pushing services onto the agendas of international trade negotiations. Success in this effort would accord international service exporters the same benefits and allowances that had previously been extended exclusively to manufacturers. Shelp realized part of his goal in the unprecedented inclusion of services in the definition of trade used in the U.S. Trade Act of 1974.[9] This represented the first mention of services in U.S. trade legislation.

Geza Feketekuty, counselor to the United States Trade Representative (USTR) since 1976, pursued a two-step plan, continuing Shelp's initial efforts and eventually succeeded in including services on the GATT agenda. First, he encouraged the "Services Mafia" made up of service companies interested in promoting free trade in services. These companies and their chiefs were charged with persuading the U.S. executive and legislative branches to make free trade in services a higher priority on the agenda. Second, he argued that the U.S. government must persuade the other 95 contracting parties of GATT to initiate a new round and to place services on the agenda.[10]

This was not an easy task. In 1979, the Tokyo Round had just ended and its implementation took priority. No immediate crisis faced the service industry. Hence, government officials saw little reason to respond. Almost everyone in the U.S. government, business, academics, press, and policy

elites -- as well as their international counterparts -- felt that services were uninteresting and unimportant. Thus, Feketekuty faced the task of convincing all these actors that services belonged in some form of multilateral forum for trade negotiations, preferably GATT.

Feketekuty's early strategy to build support for negotiations on trade in services involved three major steps.[11] First the U.S. government needed to be convinced to lend its support to trade negotiations on services and a domestic coalition was needed to consolidate its position. Second, he realized the importance of consensus in the international community. Third, he recognized the need to persuade business leaders and bureaucracies that services merited their attention. Accomplishing these goals without threatening the domain of established agencies whose mandates spilled over or touched in some way upon services proved difficult.

President Ronald Reagan's appointment of William Brock as the U.S. Trade Representative proved timely and helpful since the latter was extremely favorable to liberalizing trade. In addition, Feketekuty pressed to get as may people as possible involved in research about and negotiation on services.

A first attempt to introduce services onto the GATT agenda was made at the 1982 Ministerial Meeting. The U.S. decidedly held an advantage in service sector trade. Thus it was in its interest to promote the inclusion of services in the GATT and start the process toward the development of a multilateral agreement for market liberalization in the service sector. By 1982 some returns from Feketekuty's efforts started to come in: most of the OECD (Organization for Economic Cooperation and Development) countries were persuaded that services should be on the GATT agenda. The remaining holdouts were the less developed countries (LDCs), who questioned the addition of services to the GATT agenda.

Developing countries opposed the inclusion of services in GATT negotiations for several reason. These included a concern that progress in the liberalization of manufactures might be slowed, that they had little to gain from service sector openness, and that service sector liberalization

would entail granting access to multinationals who might provide the bulk of services in their countries.

This first attempt at encouraging developing country participation in a GATT-type accord failed because the European Community (EC) showed little interest and the developing countries strongly opposed any discussion of services. Although this 1982 effort did not meet with success, it was fundamental in pushing services into the limelight. Contracting parties to the GATT agreed to undertake national studies investigating barriers, and other impediments to free trade in services. In 1983, the U.S. became the first country to complete and submit a national study on trade in services.[12]

Between 1983 and 1985, the warming trend toward a multilateral agreement on services continued. Additional national studies were completed which shifted policy focus toward services. These studies also facilitated the spread of knowledge resulting through all the agencies and individuals involved in their preparation. By the time of the GATT Ministerial meeting in September 1986, the numbers opposing the inclusion of services onto the GATT agenda had been "reduced to a core group of 10 led by India and Brazil and also including Argentina, Cuba, Egypt, Nicaragua, Nigeria, Peru, Tanzania, and Yugoslavia."[13] Despite difficult negotiations, services were placed on the new round's agenda. As a compromise, negotiations would take place on two separate tracks with services being treated separately from negotiations in goods.

III. PRESSURE POLITICS IN THE UNITED STATES:

We now examine the important groups that have been involved in the U.S. with service sector negotiations. The often contradictory interests of these groups accounts for many of the apparent inconsistencies in the U.S. negotiating position which we will examine in depth in the fourth section. The groups involved in service sector lobbying can conveniently be divided into general and specific lobbies.

A. GENERAL LOBBIES IN THE US

A number of broad groups have been actively with service sector policy matters. In attempting to influence trade policy, U.S. service industries managed to secure government legislation that linked business and government through a system of private sector advisory committees. The system consists of a pyramid of governmentally appointed working groups. The Advisory Committee for Trade Policy and Negotiations (ACTN) tops this pyramid.[14] Comprised of chief executives of major corporations, labor leaders, and other influential private businessmen interested in international trade issues, ACTN advises the President and his cabinet on trade policy issues, including the new issue of services.

The next tier of the pyramid consists of seven sectoral policy advisory committees. John Reed, the Chairman of Citicorp and the Coalition of Service Industries, chairs the Services Policy Advisory Committee (SPAC). This sub-group is charged with advising the government on service sector issues relevant to trade policy negotiations. The presence of representatives from both ACTN and SPAC at Punta del Este at the mid-term review meeting in Montreal demonstrates the active involvement of these groups.

Seventeen Industry Sector Advisory Committees (ISACs) make up the base of the pyramid. Members consist of senior executives from businesses and associations within a given industry who deal with sector specific problems.[15]

Although individual industry groups are fundamental, the expanded role of services in the international economy created the need for a group that could represent the combined interests of all service sectors. The Coalition of Service Industries (CSI), a group formed in 1982, was formed as a focal point to advance the interests of a larger group of firms in this sector.[16] The CSI, a non-profit organization, groups 17 companies representing industries such as financial and professional services, telecommunications, transportation and travel services.[17] It has task forces on Trade, Data

Collection, and Statistical Improvement, and tax-policy each chaired by member country participants.[18]

Other broad groups active in policy include the U.S. Council for International Business, the Chamber of Commerce, as well as industry-specific organizations that deal with the relevant issues to service trade. The most recent development in the structure of U.S. trade lobbies is the development of the Multilateral Trade negotiations (MTN) Coalition. A wide range of American private sector interests have allied to promote encourage a strong, comprehensive agreement in the current Uruguay Round. The coalition recognizes the benefits to the U.S. economy from an open multilateral trading system. In an attempt to ensure the continuation of liberalization in international trade, the MTN aims to inform the influential private sector businesses how both their interests and U.S. trade objectives depend upon a strong agreement in the Uruguay Round. The Coalition, co-chaired by William Brock, U.S. Trade Representative under President Reagan, and Robert Strauss, President Carter's Special Trade Representative, includes over 13,000 companies including numerous service industries.

B. SPECIFIC SECTORAL DEMANDS

We next turn to an examination of the most important sectors of the service sector industry, focusing on the motivation for each sector broadly, the key players in each sector, their position (as presented in various hearings and industry submissions), and their relative power. Owing to space constraints, and the relative lack of current controversy in the areas of tourism and air transportation (the latter because of general agreement on the need to exclude this sector from negotiations), these sectors are not discussed.

1. Finance, Banking, and Insurance

The nature of financial services and their extensive global expansion over the last decade

explains the industry's increased liberalizing influence in the domain of trade policy and trade politics.[19] World financial flows surpass goods flows by 50 to 1.[20] Insurance receipts for the U.S. were almost $20 billion in 1989, thus making this a competitive sector internationally. Concerned about larger companies and competition from European companies, the insurance industry has been pushing for an opening up of markets in the developing world.

In financial services, the most influential group has been the Financial Services Group (FSG), formed under the aegis of CSI.[21] This group, consisting of banks, insurance companies, securities firms and other financial service providers, worked to compile of a series of position papers relating, among others, the following issues: 1) which financial services should be covered by the agreement; 2) how should national treatment and market access be handled; and 3) how to address regulators' concerns.[22] The power and influence of this group is evident from its regular meetings with officials at the USTR, Treasury, the regulatory agencies, and other departments of the government.

Other specific private sector groups also influence the formation of U.S. trade policy. Gordon Cloney, President of the International Insurance Council, testifies regularly on the position of the insurance industry before Congress arguing for "open, competitive insurance markets."[23] Such specific private business groups join with larger sector groups, in this case the FSG, and with the CSI, to bridge the gap between private sector and government trade negotiators.

In the financial area, American Express, has been the key driving force. James D. Robinson, Chairman and CEO American Express, a founding corporate member of the Multilateral Trade Coalition, has been instrumental in defining the U.S. position in finance. Discussing the position of services in the Uruguay Round if there was not a services agreement, he warned that "The US services industry would either be neutral or vocal in its opposition (to such a result)."[24] In addition, Joan Spero, Executive Vice President of American Express has been the main spokesperson for American Express and the financial sector, stating its position and goals with regard to GNS. She

has replaced Harry Freeman, a vocal critic of the developing countries' positions, and a former Executive Vice president of Corporate Affairs and Communications at American Express. According to Spero, the "U.S. financial service sector is one of our most competitive internationally," and thus, "that sector will have to be included in the final [GATT] agreement."[25] From her perspective, she too warns that failure, or simply failure to advance in this sector, could lead to a withdrawal of U.S. support from the agreement, erosion of political support for the Round in the U.S., and most likely pose problems when the time comes for Congressional approval of the entire package.[26]

The U.S. and the EC support the inclusion of financial services in the formation of a multilateral agreement but have promoted the development of a separate annex in this area. By contrast, most developing countries remain opposed to financial liberalization.

The most important issues to be covered by any agreement in services as perceived by the U.S. private financial sector are the following:[27]

> 1) the safety and soundness of the financial system, both domestically and globally is of primary concern to the U.S. financial sector. "We need to design a services agreement that will not interfere with the ability of regulators to take legitimate prudential measures to safeguard the financial system."[28]
>
> 2) Dispute settlement panels for financial service cases should be staffed by financial experts, including experts from the private sector.
>
> 3) the full linkage of services and goods in GATT as in other U.S. trade law.

The financial services groups and the insurance industry have been a driving force in the negotiations. On the pro-openness side, they are the most powerful group in the U.S. policy making apparatus. They have continued to pressure the U.S. Government for some type of agreement opening up services under threat of withdrawing their considerable support.

It is worth keeping in mind, however, that especially on the issue of financial services, the U.S. Government is not of one mind. The major split here is between the U.S. Treasury and the United States Trade Representative's office. Whereas USTR and the bulk of the financial services industry is interested in a financial services accord as part of a broader multilateral agreement, Treasury preferred to have financial services handled by a separate accord. The motivation behind Treasury's position on the surface is its concern about banking regulation issues and the safety of the financial system. At least as important in this case, however, is the battle over "turf" -- Treasury is simply reluctant to give up its control over this issue to the Trade Representatives office.[29]

In general, the U.S. private sector remains eager to see the negotiation of a strong agreement covering financial services. It is equally important from the industries' perspective, however, that the signatories extend beyond OECD countries. Any agreement that does not include the more advanced developing countries and the newly industrializing countries (NICS) will not be of great interest. This is a problem for services in general but even more so for financial services as most restrictions and regulations occur outside industrial nations.

2. Telecommunications

The telecommunications area has proved to one of the most controversial in the Uruguay Round negotiations. The U.S. has opposed most favored nation (MFN) treatment in basic telecoms. This position stems from the difference between the U.S. and foreign markets in this area. In most countries, basic telecommunication services are provided by national monopolies. By contrast, the U.S. deregulated its telecommunications industry in 1984. This deregulation

> altered the interests of four major sets of actors involved in the computer and communications industries: users of communications services, suppliers of telecommunications equipment, suppliers of computer equipment, and the major providers of public-switched telecommunications networks.[30]

The changes in the U.S. market eventually spilled over to comparable groups in other countries.[31] Deregulation in the U.S. increased competition and made new service providers a credible threat to ATT, forcing more competitive prices and services. In the U.S., large users of telecommunications services benefitted most from deregulation. Realizing the potential benefits from the lowering of protectionist barriers abroad, the U.S. telecommunications industry began lobbying for multilateral liberalization. Increased competition at home owing to deregulation increased demand for export markets.

The main players in this area are large telecommunication companies represented by AT&T, ITT, and FDR Interactive Technologies. These companies have been key players in promoting an agreement in this area that will allow them access to developing countries for the provision of telecommunications services. In terms of telecommunications equipment manufacturing, the three largest U.S. companies are AT&T, IBM, and Motorola. IBM in particular has been active given its interest in value added services.

Another issue is the role of telecommunications as a component of other services as well as manufactures and goods. Advances in service technology have increased the service component in the production of manufactured goods. As a result, the telecommunications sector plus most other sectors -- service or manufacturing -- would benefit from an agreement liberalizing trade in services. Telecommunications plays an indisputable role in the distribution and provision of other services. Furthermore, the distribution of manufactures abroad depends on access to foreign telecommunication networks.

An issue of key importance for the U.S. telecommunications sector to consider is government procurement, actively pursued by most EC governments and throughout the Asian countries. Adequate coverage of this issue is a high priority. In addition, the U.S. industry is having trouble competing against foreign telecommunications industries benefiting from heavy government subsidization.

The "right to establishment" must also be resolved for U.S. companies abroad to compete with local industries. For U.S. industries to expand and compete abroad, they must be able to set up subsidiaries. In South Korea, for example, the government opposes opening the national market to foreign competition and still restricts foreign entry in telecommunications. Subsidiaries of foreign countries are not allowed to even hook up to international data systems run by their parent company.[32]

Telecommunications is also a powerful group in the U.S. They were able to pressure the U.S. to go after South Korea and the European Community under the 1988 Trade Act. In fact, in February 1989, USTR named these two countries as those having restrictive telecommunications policies. In addition, the U.S. has continually sought to open up the Japanese market for U.S. telecommunications exporters to encourage greater government procurement of U.S. services. Motorola, for example, was able to pressure the Japanese to increase access in the cellular telephone market.

The telecommunications industry has actively sought market openings through every means, both political pressure and legal action under various U.S. trade laws. From their perspective, unilateral pressure is the only solution to the asymmetry in openness of U.S. versus foreign markets. Simply put, they fear that MFN in this sector will allow foreign access to the U.S. market without comparable access for them. Without a doubt, they will continue to press for bilateral efforts and will step up this effort in the absence of progress in the Uruguay Round. In particular, the industry has been supported continuously in its efforts by Senator John Danforth of Missouri, an author of the 1988 Trade Law and a member of the Senate Finance Trade Subcommittee.

3. Motion Picture and Television

The motion picture industry represents an area of U.S. service sector strength and competitiveness internationally. Inclusion in a general agreement on services and open foreign

markets remain important to the industry. This industry would experience difficulty and diminished prospects if overseas earnings are restricted.

The U.S. film industry is particularly interested in certain aspects of the restructuring of European television to prepare the internal EC market for 1992. Traditionally, European television has been controlled on a national level and private channels were not permitted. The recent privatization of television will expand demand in the EC market. Depending on the degree of EC openness, the U.S. film industry could profit enormously.

The most important actor in this area is the Motion Picture Association of America. Others in the industry, particularly those concerned with copyright protection in connection with the provision of services include Walt Disney Company and MTV (Music Television).

The U.S. film industry has been concerned about U.S. exclusion from this expanding market. In 1988, the Community absorbed $630 million of U.S. programs, 2/3 of total U.S. foreign sales.[33] The internal changes underway in the EC are expected to almost double European air-time from 260,000 hours a year in 1987 to half a million hours by the early 1990s.[34] In Washington, lobbyists have been attempting to convince negotiators and trade policy makers that this is the beginning of "Fortress Europe." They look to an effective agreement to liberalize services that includes the film industry as the means to check this potentially protectionist block.

The influential members within the U.S. film industry support the inclusion of the motion picture industry in a general agreement to liberalize trade in services. Two crucial issues for the motion picture industry are a wider acceptance (i.e., by the developing countries) to protect intellectual property rights and the preservation of access to foreign film and television markets. Frank Wells, the President of the Walt Disney Company succinctly states the industry's objectives and priorities -- "adequate and effective copyright protection, and unimpeded market access."[35]

From the U.S. perspective, a new agreement to protect intellectual property must not regress from the relatively high level of protection provided under the Berne Agreement. These adherents

already include the countries representing the most important U.S. export markets. In the words of Fritz Attaway:

> It is crucial that trade negotiations dealing with intellectual property provide for higher levels of protection where it is needed without eroding protection where it already exists and often where its economic significance is the greatest.[36]

Participants in the Berne Agreement fear that the standards of any agreement acceptable to the developing countries will be below those of the present agreement.

The issue of intellectual property has risen on the agenda to the point that an agreement on services is virtually contingent upon a successful agreement on the protection of intellectual property. Protection of intellectual property is fundamental to the motion picture industry that is based on development and trade in intellectual property.[37]

Many countries also continue to discriminate against the U.S. film industry by appealing to what is commonly known as "cultural identity" or "cultural sovereignty".[38] This allows nations wishing to restrict trade in U.S. records, motion pictures, books, videos or television programs to reject these U.S. products as cultural threats. The U.S. favors exclusion of cultural issues from trade negotiations. From its perspective, governments should be allowed to preserve their respective cultures but not at the expense of free trade.

Although the motion picture industry has been quite vocal, it does not appear to have the same political clout as the telecommunications or financial sectors. It would appear that on issues of copyright, this sector has been getting more of a hearing than on the provision of services.

4. Maritime Services

A second sector which the U.S. has sought to exempt from MFN treatment is the maritime industry. Originally, this sector sought to be excluded completely from any multilateral accord in

services. It has argued that it is disadvantaged and unable to compete internationally owing to government restrictions of competition. Traditional government restrictions of foreign competition limited industry efforts to increase efficiency and maintain competitive wages. The Commission on Merchant Marine and Defense concluded in January 1990 that, "the deteriorated conditions of America's maritime industries presents clear and growing danger to national security."[39]

The most important and powerful player in this sector is the American Institute of Merchant Shipping. This group consists of 20 US flag carriers. A second more fragmented group --but nonetheless extremely active -- is the Maritime Industry Coalition comprised of over 200 companies and labor unions.

The U.S. shipping industry opposes the inclusion of shipping in a general agreement on services. Ideas of national security and national interest surround the maritime industry, shipbuilding and transport. The principal advocates of this position appeal to the governments' need to protect the industry to ensure the nation's defense. A letter lobbying for the removal of maritime services from GATT to the U.S. Senate argued that "our merchant marine should not be bargained away in commercial trade negotiations any more than we would bargain away our Army or Air Force."[40]

The 20 U.S.-flag carriers represented by the American Institute of Merchant Shipping (AIMS), along with the Maritime Industry Coalition comprised of over 200 companies, labor unions, and related organizations, support "the maintenance of a U.S. merchant fleet able to meet U.S. security and economic needs."[41] In testimony, the Maritime Industry Coalition, representing all operators, crew, and builders of U.S. -flag vessels engaging in foreign and domestic shipping trade expressed:

> its strong and unequivocal opposition to the inclusion of marine transportation in a services agreement negotiated in the Uruguay Round of the GATT negotiations.[42]

A statement by Mr. Corrado summarizes the industry position: "we see many disadvantages to the U.S.- flag shipping industry by its inclusion in GATT, and absolutely no benefits.[43]

The principal reasons underlying the U.S. position are the claim of national security and the potential for collapse of the domestic industry if opened to foreign competition. The fear is that without continued protection, the U.S. Maritime industry will collapse and lead to reliance on foreign carriers to transport U.S. supplies and men.[44] Many industrial countries have increased competitiveness by updating technology, improving management, and increasing labor productivity. For example, Europe has decreased its crew to 14 highly skilled, well trained members compared to 21 in the U.S..[45]

From a political perspective, the maritime industry has been successful in preventing any concessions in this area. In negotiations with Canada, the U.S. Government gave in to pressure from coastal shippers and prevented the conclusion of an agreement on this issue as part of the U.S.-Canada Free Trade Agreement.[46]

The industry has frequently secured sponsorship of the Senate and House to exclude the maritime industry from any services sector agreement. Along with basic telecom, this sector has pushed hardest for exclusion or at least for special treatment in the Uruguay Round.

5. Construction

The international importance of the construction industry is evident from its sheer size: output represents approximately 10 percent of global gross national product and possibly a higher percentage of labor. The construction sector also has important links throughout the economy as a purchaser of material goods.[47] Construction combines both capital intensive (engineering and design) and labor-intensive (construction) components. For example, industrialized countries control approximately 90% of the international design market.[48] Thus, the comparative advantages of both the industrialized and the developing countries are represented in this sector. Thus, all

countries should be interested to some extent in decreased restrictions to trade in construction services.

The United States dominated international construction after WWII. In the mid-seventies, foreign contracts represented about half of U.S. revenues and profits.[49] Throughout this decade the U.S. remained competitive while the OECD countries, Japan, and the NICs significantly improved their competitive position internationally.

Within the construction industry, U.S. advantage has always been in engineering and design. In particular, it has been highly successful in the organization and management of very large scale projects. Gradual yet steady contraction in the international construction market, however, decreased demand for such large scale projects. In addition to these shrinking markets, advances in technology and management -- combined with comparative advantage in labor -- has allowed NICs and LDCs to not only efficiently undertake their domestic construction projects, but also to penetrate the U.S. construction market. Already, NICs such as South Korea, Brazil, Mexico, Argentina, Yugoslavia, India, and Turkey, aided by government subsidization, have successfully developed an export capacity and moved into U.S. markets.[50]

By the eighties, lack of intra-industry trade in construction among industrialized countries increased competition for developing country markets. Extensive transfer of technology and know-how enabled NICs such as South Korea, India, and Brazil to acquire adequate technical knowledge and train skilled labor to undertake national construction projects on their own. This development limited potential international markets for U.S. construction companies.[51] In addition, these nations needed help with financing and thus the construction companies able to rely on government subsidization in project financing could offer the most lucrative deal. This was not a possibility for U.S. construction companies.

A surge in economic growth among the Association of South East Asian Nations (ASEAN) countries suggests that the value of construction projects in this region will expand by 20% a year

over the next decade.[52] This rapid expansion with new contracts valued at $300 billion is fuelled by the need to have sufficient infrastructure to keep pace with the industrial activities in these nations. Thailand's Deputy Foreign Minister stated that:

> rapid economic expansion has resulted in a serious shortage of infrastructure such as highways, ports, electrical power and telecommunications facilities.[53]

This construction boom represents a potential market for all industrialized countries, but again the inability of the U.S. to offer substantial credit in project financing will be a serious disadvantage.

Large U.S. companies such as Bechtel have been active in this area. Others who are particularly powerful include Caterpillar Mr. and the U.S. International Engineering and Construction Industries Council. This latter group played an active role, supported actively by Senator Frank Murkowski, Republican of Alaska, in pressuring the Japanese to open up their market to American firms.[54]

The current U.S. position favors the inclusion of construction in any forthcoming service agreement. The U.S. position responds to increased international competition for limited developing country markets and its own difficulties in remaining competitive in international construction. U.S. problems stem from the high cost of U.S. labor and extensive foreign government subsidization to support project financing.[55]

The evolution of the construction industry has produced four principle barriers to international trade in construction. These impediments have stymied efforts by U.S. construction companies to expand internationally.[56] Specifically, the U.S. faces the following barriers to trade in foreign construction markets. First is the problem of third market competition in terms of government subsidies or "offensive protection". The OECD, for example, maintains an Arrangement on Export Credits which sets a maximum limit of 35% to the level for foreign export credit. Any credits under this amount, however, are not addressed and impede U.S. chances to compete for developing country construction projects for which project financing plays a large role

in the bidding. In the developing countries, governments subsidize to protect their "infant industries". The issue of foreign government subsidization alone is reason to influence the U.S. construction industry to support liberalization in this sector to limit or equalize this disadvantage.

Second, discrepancies between national and local regulations produce effective barriers to trade. Commonly, local content requirements, or locational specifications concerning the contractors' region of establishment (that is, locally) "effectively" limit foreign competition. Third, restrictions in market access and in particular "establishment" limit the ability of U.S. firms to compete in foreign countries.

Lastly, however, restrictions on labor movements impede the competitive ability of the developing countries. Their comparative advantage is based on low labor costs and thus the success of developing country firms depends on their ability to exploit this comparative advantage through the movement of "skilled and unskilled labor to the construction site from their country of origin and/or other third low-wage countries".[57] These countries insist on the inclusion of the transborder movement of labor in any international agreement dealing with construction. As the developing countries in general have not yet be able to access the international market it is clearly in their interests to have construction included in a general service agreement.[58]

Although the construction lobby is active, and may secure support from developing countries as well, the question of transborder labor movements is the crucial impediment. At this point, it appears unlikely that the U.S. will accept the movement of other than highly skilled personnel. In Congressional testimony, the Chief U.S. Negotiator for Services, Richard Self testified with respect to labor mobility:

> The difficulty is subordinating immigration rules to trade rules. I think that those of you in Congress appreciate the sensitivity of that as much as anyone. And we have told our Mexican colleague as well as others that it is unlikely that we can make substantial alterations to immigration rules.[59]

A likely continued avenue for construction firms is pressure through senators and Congressmen for bilateral arrangements. We have already seen such efforts with Japan, and are likely to see such bilateral efforts continuing with the newly industrializing countries in Asia and elsewhere. This will maintain pressure on U.S. trading partners for concessions in the Uruguay Round.

IV. INTERNATIONAL SERVICE SECTOR NEGOTIATIONS

The basic framework for negotiations with respect to services consists of three parts: (1) the basic framework agreement of the General Agreement on Trade in Services (GATS) consisting of 35 articles; (2) a number of sectoral annexes dealing with controversial sectors such as telecommunications and finance; and (3) the development of a package of commitments based on offers and requests.[60]

Despite U.S. efforts to have a "negative list" approach, the basic framework now draws primarily from a positive list approach. Currently, market access, national treatment and so on are dealt with as negotiated obligations and instead of having a separate section for exclusions each country has chosen the sectors it will propose for negotiation. Rather than emphasizing the need to include everything and then trying to exclude particular sectors, the U.S. has now turned to the use of "conditional" MFN as a way of responding to protectionist groups and to those who are displeased with the relative market access provided by the U.S. as compared to that available to them abroad. In addition, the U.S. emphasized that commitments be adequate and satisfactory as part of its negotiating strategy. Although a number of countries have played key roles in the negotiations, I focus here on three key players, the U.S., E.C. and the developing countries.

A. The U.S. Position

As we have seen, the U.S. was the first country to address the issue of services, pushed

services onto the international agenda in 1986, and has continued to be the leading proponent of liberalization in this sector. Along with other industrialized countries, the U.S. would reap enormous benefits from a multilateral agreement to liberalize trade in services -- now estimated to be worth $770 billion.[61]

The rapid growth of services internationally -- and the increasing percentage of service inputs in production and distribution of manufactures and goods -- prompted U.S. service industries to evaluate their ability to compete abroad. In 1987 the U.S. service sector employed 70% of the U.S. work force and accounted for 69% of U.S. GNP, and 25% of all world trade.[62] For the U.S., services represents one sector in which a potential for considerable expansion exists if world markets are open. Former U.S. Trade Representative Clayton Yeutter stressed that:

> we must have a set of enforceable rules to cover services because this sector is the fastest growing in the U.S. and the world, and because trade in goods and trade in services are interdependent.[63]

As we have seen, a key driving force in the interest in service sector negotiations has been deregulation in major U.S. service sectors such as aviation, trucking, telecommunications, and financial services.[64] This process increased domestic competition and forced industries to look to foreign export markets. Yet the foreign push was stymied by the barriers which these industries encountered in the form of tariffs and quotas, restrictions on investment and establishment, and government subsidization. Thus, the potential for market enhancement and increased U.S. competitiveness through liberalization explains the rise of services on the U.S. agenda for trade negotiations.

In October 1989, the U.S. presented a proposal for multilateral liberalization of trade in services. Its paper includes all sectors with mechanisms to eventually "subtract" specific sectors (a "negative" list approach). The primary U.S. negotiating objectives on services based on the GATT principles of national treatment and transparency, include:

> a) the reduction and elimination of barriers which deny national treatment and restrictions on establishment and operations in such markets; and
>
> b) the development of international rules, including dispute settlement procedures, in conformity with this objective.[65]

The 1989 proposal was the first to incorporate legal language to define the objectives, coverage, rules, exceptions and enforcement mechanisms. This multilateral agreement aims at the "immediate and progressive liberalization" of trade in more than 100 service sectors including transport, telecommunications, tourism and construction.[66] This proposal, however, met with opposition and subsequent counter proposals from both the EC and the developing countries. Although the overall U.S. position supports a multilateral service agreement, individual sectors lobbies such as maritime, basic telecom, and aviation have fought to be excluded. In addition, the U.S. Treasury, but not the banks, pushed for a separate agreement or removal of banking as a sector from the negotiations.

B. The European Community's Position

The EC, along with the U.S. and other industrialized countries, supports the inclusion of services in the Uruguay Round. EC support, however, was not immediate. Originally, the Community was skeptical about U.S. motives for the inclusion of services. Furthermore, in Europe, services traditionally reflect areas of national policy interest and thus are difficult to deregulate and privatize.

Although it supports the notion of a multilateral framework for service negotiations, the European view differs as to the form and development of the agreement. In contrast to U.S. goals, the EC wants to establish a framework of principles and proceed gradually to include individual sectors.[67] This approach of progressive liberalization is more attentive to the Punta del Este

mandate, focusing not on the final agreement but on the pace and attention defining its creation. Moreover, given EC concerns with domestic market liberalization in connection with the 1992 program, the EC has been wary of too rapid a pace of international liberalization.

The EC argues that a multilateral agreement must take into account the specific characteristic of each sector.[68] This accounts for the EC's insistence upon a gradual inclusion of sectors. According to the EC, an all inclusive agreement cannot possibly meet the needs and specifications of each sector.

The development of the above position evolved from a process that began with the EC preparation of a Study on International Trade in Services for the GATT following the 1982 Ministerial Meeting. This study illustrated the growing importance of the service sector, citing the 1981 percentage of gross value added to the Community economy in manufacturing (25.5%) compared with services (42.8%).[69] Service expansion continues to provide most new employment in Europe and was calculated in 1988 to be three times that of the United States.[70]

Freer trade in services would benefit the EC as well as other industrialized countries. Its industries are well developed and expanding. The European Service Industries Forum points to some pertinent examples for the Community:

> The West European market for packaged software is about $5 billion now (1987) and could reach $24 billion by 1991. Belgium is home to about 800 software companies and Ireland has about 300 indigenous software firms. The largest public relations firm in the world is Saatchi and Saatchi (United Kingdom) and the largest software company is Cap-Gemini-Sogeti (France). And the French PTT's Minitel is the most successful videotext service in the world.[71]

C. The Developing Countries' Position

Early discussion of liberalization of services received little support from the developing

countries as a whole. Brazil and India maintained that the service sector, traditionally negotiated bilaterally outside the auspices of the GATT, should remain there. The basic position taken by the developing countries reflects the traditional concerns for protecting infant industries.

On the whole, the developing countries have persisted in calling for the separation of a services agreement from the GATT, for the notion of "relative reciprocity," for symmetry between labor and capital mobility, for maintenance of their national policies, and for unconditional MFN.[72] In essence, the developing countries would like to secure access to developed country markets in services without significant opening of their own and prevent linkages in future negotiations on market opening between access in goods and services. In particular, the developing countries have consistently argued that the structure of the agreement would separate general obligations to be accepted by all members (such as increasing participation of developing countries, MFN, and transparency) from market access and national treatment concessions which would be negotiated separately.[73]

The OECD has argued that developing countries will gain, especially through transfers of technology and skills, by freeing trade in services. Specifically, a recent study notes:

> There are unlikely to be any developing countries that do not have areas of export opportunity that could be better exploited or whose overall resource allocation and development opportunities could not be enhanced by improved access to imported services and the skill transfer with which they are frequently associated.[74]

Despite the findings of the OECD study, developing countries criticized the October 1989 U.S. proposal as being inconsistent with the development objectives established at the Punta del Este meeting. LDCs felt the U.S. proposal included mechanisms to enable the exclusion of shipping and finance from the final agreement. For reasons of comparative advantage, inclusion of provisions on the movement of labor rank high on the agenda for developing countries. In particular, developing countries want to include construction, engineering, tourism, and the transborder

movement of labor into an agreement. Developing countries also insist that any agreement should be based upon progressive liberalization to allow countries the time to benefit from skills transfer and increased competitiveness.

Among the developing countries, the ASEAN states represent a mix of extremely competitive NICs and developing countries who have yet to adequately penetrate international markets. Thus, their interests and objectives in a multilateral service agreement differ. The advanced service sectors industries of Singapore, Thailand, South Korea, and Taiwan could benefit from liberalization in services. Indonesia, on the other hand, remains extremely protectionist and is much more concerned about an open market. As a consequence, the development of a unified ASEAN approach to the General Negotiations on Services (GNS) has been problematic. Another problem in the region is that most countries produce the same goods and compete for markets in the U.S., Europe, and Japan.[75]

U.S. businesses are interested in Asian markets for their service exports. But more important, they are especially concerned about being able to invest and establish subsidiaries inside this region. Only through "right of establishment" can the U.S. compete with the lower labor costs fuelling the rapid expansion of services in these countries.

Although U.S. interest in opening up south-east Asian markets is increasing, a recent report by a team of Asian economists concludes that the trade link between the U.S. and these countries is weakening.[76] According to indicators used by these analysts, the economic integration of the U.S. and the Pacific region declined approximately 30% between 1975 and 1985.[77] At present Japan and the south-east Asian NICs trade more with the U.S. and Europe than among themselves and also invest more outside the region. This trend, however, is expected to change as Japan turns toward an increased demand of south-east Asian exports and investment is channelled into this region.[78]

Even before services were added to the Uruguay Round agenda, the U.S. made it clear to Asian NICs that they would attempt to secure reductions in their barriers to services whether or not

new rules were negotiated in GATT.[79] Thus, it was in the NICs' interest to develop multilaterally-based rules that give them recourse to the GATT if they came under strong U.S. pressure.

D. The Negotiations

The Brussels Ministerial meeting of December 1990 failed to produce a conclusion to the Uruguay Round. Although the agricultural sector proved to be the major area of contention, others such as textiles and services proved especially problematic. In services, the U.S. became dissatisfied with the lack of movement on the part of countries in providing adequate commitments to liberalize. Shortly before the meeting, the U.S. announced that it would ask for conditional MFN treatment in services, a bargaining strategy resulting from domestic lobbying pressure to not "give away" the more open U.S. market. At the meeting itself, the U.S. backed away from this tough position, arguing that it would accept unconditional MFN if enough additional commitments were made by other states.

Following the extension of the deadline for the Uruguay Round, negotiations continued off and on in 1991. The U.S. remained dissatisfied with progress in a number of sectors, particularly basic telecom and the maritime industry. Thus, it has continued to call for conditional MFN treatment in these sectors while accepting the overall principal of MFN for the agreement as a whole. In addition, the U.S. and EC are inclined to develop a separate agreement on financial services that would lead to liberalization by a smaller group of developed countries.

V. CONCLUSION

This paper has examined service sector negotiations in the Uruguay Round. Its focus has been on the political-economic process that led to the differing positions in the negotiations with particular attention to lobbying by groups in the United States. In particular, I argued that simple

apolitical models that ignored the domestic and international political process do not contribute much to our understanding of the evolution of trade negotiations in this area. Sections II and III of the paper examined the competing interests which pushed for the inclusion of services as an area for negotiation in the Uruguay Round as well as the role they have played in ongoing negotiations. The concluding section considered some of the most vexing problems in international negotiations which have slowed the development of an agreement in this sector.

The apparent inconsistencies that the U.S. has found itself in advocating MFN in most areas but asking for derogations in other areas can be seen as a direct result of two factors: (1) protectionist lobbies; and (2) industries that have already liberalized who now find that they may not be able to secure foreign market access without additional concessions. Underlying these two factors, however, is the important change in global U.S. objectives as a result of shifts in the overall international political and economic system. In the past, the U.S. as a hegemonic power with global economic and security interests was more willing to look the other way in the name of maintaining general principles of the GATT. But now, the U.S. has pursued its interests in a manner similar to other states, responding to particular sectoral lobbies. The EC, for example, overtly calls for maintenance of important principles such as MFN but would like to prevent competition from other states in its internal liberalized market. And the developing countries, while apparently supporting fundamental principles of the GATT such as MFN, do so cynically by attempting to secure access to the relatively liberalized American market without liberalizing their own service sectors. As a result, the agreements we now see in international trade are increasingly tailored to meet specific sectoral demands rather than any broad and consistent principles in trade.

Notes:

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[2] Reed (1987).

[3] See among others, Kindleberger (1973) and Keohane (1984).

[4] For the argument about the possibility of a few states sustaining a regime in the absence of a hegemon, see Snidal (1985). For the informational and organizational cost argument, see Keohane (1984).

[5] See for example, Krasner (1979).

[6] Aggarwal (1985), p. 34.

[7] Aronson (1988b), p.7.

[8] Ibid., p.7. See also Feketekuty (1988), p.300.

[9] Ibid., p.7.

[10] Aronson (1988a), p.2.

[11] Aronson (1988b), p.16.

[12] Feketekuty (1988), p.320.

[13] Aronson (1988b), p.38.

[14] Parker (1989), p.8.

[15] Ibid., p.9 and interviews.

[16] Ibid., p.10.

[17] Report of the 1989 Service Industries Conference, May 1989.

[18] Ibid.

[19] Spero (1990).

[20] Ibid., p.7.

[21] Ibid., p.15.

[22] Ibid., p.5.

[23] Cloney (1989), p.1.

[24] **Financial Times**, May 10, 1990.

[25] Spero (1990), p.6.

[26] Ibid., p.17.

[27] The following issues are synthesized from Spero (1990).

[28] Ibid., p.13.

[29] Based on interviews with private sector and government officials.

[30] Aronson (1987).

[31] Ibid.

[32] The Financial Times, May 7, 1989.

[33] The Financial Times, September 11, 1989.

[34] Ibid.

[35] Letter from Frank Wells to Carla Hills, 2/8/1989.

[36] Attaway (1987), p.4.

[37] Ibid.

[38] Ibid., p.5.

[39] Gibson (1990), p.65.

[40] Inside U.S. Trade, October 13, 1989, p.8.

[41] Statement of the Maritime Industry Coalition, February 7, 1990.

[42] Statement of the Maritime Industry Coalition before the Committee on Finance U.S. Senate, February 7, 1990.

[43] Letter from Mr. Corrado to Richard Self, April 28, 1989.

[44] Inside U.S. Trade, October 13, 1989, p.8.

[45] Gibson (1990), p.67.

[46] See Financial Times, November 24, 1987, p.4

[47] Messerlin and Sauvant (1990), pp. 69-72.

[48] UNCTAD (1989, p.196.

[49] U.S. Congress (1987), p.119.

[50] UNCTAD (1989), p.194.

[51] UNCTAD (1989), p.197.

[52] The Financial Times, May 10, 1990.

[53] Ibid.

[54] Financial Times, January 31, 1990, p. 6

[55] Ibid., p.14.

[56] These four obstacles can be found in Lee (1990), p.72-74.

[57] UNCTAD (1989), p.199.

[58] UNCTAD (1989), p.193.

[59] Congressional Hearings (November 1989), p. 63.

[60] Parts of the following discussion draw from the excellent discussion of negotiations in the service sector arena in an UNCTAD publication (1991).

[61] The Economist, August 3, 1991, p. 62.

[62] Reed (1987).

[63] International Trade Reporter, November 11, 1987.

[64] Brock (1985), p.13.

[65] UNCTAD (1988a), p.7.

[66] The Economist, October 28, 1989.

[67] Inside U.S. Trade, December 8, 1989, p.5.

[68] UNCTAD (1988a), p.9.

[69] Aronson and Bressand (1987).

[70] Ibid.

[71] Ibid.

[72] UNCTAD (1991), pp. 16-17.

[73] UNCTAD (1991), p. 18.

[74] Reported in Financial Times, October 24, 1989.

[75] The Economist, October 7, 1989.

[76] The Financial Times, November 10, 1989.

[77] Ibid.

[78] Ibid.

[79] Aronson (1988a), p. 10.