THE POLITICAL ECONOMY OF SERVICE SECTOR NEGOTIATIONS IN THE URUGUAY ROUND

VINOD K. AGGARWAL

The multilateral trading system has been under attack. 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.

One area that has become extremely contentious throughout the Uruguay Round is service sector negotiations. This paper examines these negotiations from a political-economic viewpoint. In particular, it rejects the assertions that the evolution of the trading system simply reflects technological changes in the system or a growing (or waning) acceptance of the benefits of free trade. Instead, the focus is on the domestic bargaining process that has been taking place in the United States, one of the key actors in service sector negotiations. The paper argues that competing interest groups in the United States have often stymied efforts by the US government to promote systematic trade-offs among issues which are an essential component of any negotiating process.

An Analytical Perspective on Trade Policy

There are many theoretical frameworks for analyzing and understanding developments in world trade. In brief, these approaches can be divided into those that take account of political factors and those that are relatively apolitical,

---

Vinod K. Aggarwal is Associate Professor of Political Science and Chairman of the Political Economy of Industrial Societies Program at the University of California at Berkeley. Among other works on the politics of trade and finance, he is the author of Liberal Protectionism: The International Politics of Organized Textile Trade, *and* International Debt Threat: Bargaining Among Creditors and Debtors in the 1980s.

For financial support in the preparation of this paper, I would like to thank UNCTAD and the Istituto per gli Studi di Politica Internazionale in Milan (ISPI). An earlier version of this paper appeared as an ISPI working paper. For research assistance, I am particularly indebted to Stephanie McLeod. Eileen Doherty and Amy Gurowitz also provided research assistance in updating the paper. —VKA

although considerable variation exists among these two categories of explanation. The different approaches have been proposed by both economists and political scientists.

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. Economists tend to both underestimate and overestimate their discipline: on the one hand, they underestimate the ability of politicians and other decisionmakers 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 possessing this knowledge: the notion that once everyone understands why wine should be traded for cloth, that we will be tripping over each other in the rush to implement free trade, ignores the political process in the United States and elsewhere.

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.

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 770 billion dollars worth of world trade[1], 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 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.

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,[2] many international economic arrangements have

1. *The Economist*, 3 August 1991, 3.
2. See among others, Charles Kindleberger, *The World In Depression, 1929-1939* (Berkeley: Univer-

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 to sustain such accords.[3] 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.[4]

This author proposes that as hegemonic decline takes place, domestic political actors will have greater opportunity to press their cause and potentially disrupt international negotiations.[5] Following this logic, this paper emphasizes the domestic political economy of protection, focusing on the actors involved in service sector negotiations. Domestically, despite pressure from the United States for the development of a service sector agreement in the Uruguay Round, the US position has been buffeted by domestic political interests. As evidence of this, the United States now calls for important deviations from the traditional norms of the GATT. To consider the implications of these interests, it is important to examine the international negotiation process in terms of the different positions of the developed and developing countries.

The Introduction of Services into the Uruguay Round

In the 1980s, services emerged as an important new sector of international trade. 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. In contrast, the developing countries have yet to see their service sectors accrue large economic benefits largely because of deficits in human capital and infrastructure. 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—

---

sity of California Press, 1973); and Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984).

3. For the argument about the possibility of a few states sustaining a regime in the absence of a hegemon, see Duncan Snidal, "The Limits of Hegemonic Stability Theory," *International Organization* Vol. 23, No. 4 (April, 1985): 491-531. For the informational and organizational cost argument, see Keohane (1984).
4. See for example, Stephen Krasner, "The Tokyo Round," *International Studies Quarterly* (December 1979).
5. Vinod Aggarwal, *Liberal Protectionism: The International Politics of Organized Textile Trade* (Berkeley: University of California Press, 1985).

as potentially detrimental to their interests in services. Nevertheless, as services have played a larger role in the international economy, they have been elevated to the GATT agenda and accepted as a key issue in the present Uruguay Round trade negotiations.

What political-economic process led to the addition of services to the GATT agenda? The paper examines the individuals and pressure groups who to a great extent are responsible for the evolution of services from a position of virtual non-existence on trade agendas in the 1970s to one of the most important "new issues" for the GATT agenda today. Many of these same 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.

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.

The initial advocates of an agreement on services first had to convince trade experts, business leaders, and policymakers that services were important and merited their attention. In the early 1970s, US-based service firms faced increased regulations and restrictions abroad. As a result, service-providers instigated the initial lobbying for action on trade in services,[6] which was not an easy task. No immediate crisis faced the service industry, and thus government officials saw little reason to respond. Almost everyone in the United States government, business, academics, press, and policy elites—as well as their international counterparts—felt that services were uninteresting and unimportant. Thus, Geza Feketekuty, counselor to the US Trade Representative (USTR) since 1976 and a key proponent of a service sector agreement, faced the task of convincing all these actors that services belonged in some form of multilateral forum for trade negotiations, preferably the GATT.

Accomplishing this goal 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 US Trade Representative proved timely and helpful since Brock was extremely favorable to liberalizing trade. In addition, Feketekuty pressed to get as many people as possible involved in research about and negotiation on services.

6. Jonathan Aronson, "Negotiating to Launch Negotiations Getting Trade in Services onto the GATT Agenda," Teaching Material Case 125 (Pittsburgh: University of Pittsburgh Pew Program, 1988), 7.

A first attempt to introduce services onto the GATT agenda was made at the 1982 GATT Ministerial meeting. The United States decidedly held an advantage in service sector trade, and therefore it was in the US interest to 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 trickle in: most of the Organization for Economic Cooperation and Development (OECD) countries were successfully 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 reasons. These included a concern that packing the agenda might slow progress in the liberalization of manufactures, a belief that they had little to gain from service sector openness, and a fear that service sector liberalization would entail granting access to multinationals who in many cases 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 impediments to free trade in services. In 1983, the United States became the first country to complete and submit a national study on trade in services.[7]

Between 1983 and 1985, the warming trend toward a multilateral agreement on services continued. Additional national studies were completed which shifted the policy focus toward services. These studies also facilitated the spread of knowledge through all the agencies involved in their preparation. By the time of the GATT Ministerial meeting in September 1986, the number of parties opposing the inclusion of services onto the GATT agenda had been "reduced to a core group of ten led by India and Brazil and also including Argentina, Cuba, Egypt, Nicaragua, Nigeria, Peru, Tanzania, and Yugoslavia."[8] 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.

Pressure Politics in the United States

The groups involved in service sector lobbying have generally come together under several coalitions. In attempting to influence trade policy, US service industries managed to secure government legislation that linked business and

7. Geza Feketekuty, *International Trade in Services: An Overview and Blueprint for Negotiations* (Cambridge: Ballinger Publishing Company, 1988), 320.

8. Jonathon Aronson, "Negotiating to Launch Negotiations Getting Trade in Services onto the GATT Agenda," Teaching Material Case 125 (Pittsburgh: University of Pittsburgh Pew Program, 1988), 38.

government through a system of private sector advisory committees. This system consists of a pyramid of governmentally appointed working groups. The Advisory Committee for Trade Policy and Negotiations tops this pyramid.[9] The next tier of the pyramid consists of seven sectoral committees under the Services Policy Advisory Committee. Seventeen Industry Sector Advisory Committees make up the base of the pyramid. A private sector initiative, the Coalition of Service Industries (CSI), was formed in 1982 to advance the interests of a larger group of firms in this sector.[10] It has task forces on trade, data collection, statistical improvement, and tax policy each chaired by member-company participants.[11]

The most recent development in the structure of US trade lobbies is the creation of the Multilateral Trade Negotiations (MTN) Coalition. A wide range of American private sector interests have allied to encourage a strong, comprehensive agreement in the current Uruguay Round. In an attempt to ensure the continuation of liberalization in international trade, the MTN informs influential private sector businesses about how their interests and US trade objectives can be influenced by a strong agreement in the Uruguay Round. The Coalition, co-chaired by former US Trade Representative William Brock and Robert Strauss, President Carter's Special Trade Representative, includes more than 13,000 companies representing numerous service industries.

We next turn to an examination of the most important interest groups and factions within the service sector industry, paying special attention to the key players in each area, their position (as presented in various hearings and industry submissions), and their relative power.

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.[12] World financial flows surpass goods flows by fifty to one.[13] Insurance receipts for the United States alone were almost $20 billion in 1989. Concerned about 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.[14] This group, consisting of banks, insurance companies, securities firms and other financial service providers, worked to compile a series of position papers relating, among others, the following issues: 1) which financial services should be covered by the

9. Henry Parker, "The Role of the Private Sector in the GATT Negotiations on Trade and Services," paper presented before the Hong Kong Seminar on Services (October, 1989), 8.

10. *Ibid.*, 10.

11. *Ibid.*

12. Joan Spero, "Trade in Services: Achilles Heel of the GATT Negotiations?," paper presented in London at a RIIA and TPRC Conference (January, 1990).

13. *Ibid.*, 7.

14. *Ibid.*, 15.

agreement; 2) how national treatment and market access should be handled; and 3) how to address regulators' concerns.[15] 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 US 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."[16] Such specific private business groups join with larger sector groups, in this case the FSG and the CSI, to bridge the gap between private sector and government trade negotiators.

On the pro-openness side, financial service groups and the insurance lobby are the most powerful groups in the US policy-making apparatus. They continue to pressure the US government for some type of agreement opening up services under threat of withdrawing their considerable support. The most important issues to be covered by any agreement in services as perceived by the US private financial sector are the following:[17]

1) The safety and soundness of the financial system, both domestically and globally, should be ensured. "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."[18]
2) Dispute settlement panels for financial service cases should be staffed by financial experts, including experts from the private sector.
3) Negotiations in services and goods in the GATT should be linked as in other US trade law.

James D. Robinson, chairman and CEO of American Express and a founding corporate member of the Multilateral Trade Coalition, warned that, if no agreement is reached on services in the Uruguay Round, "The US services industry would either be neutral or vocal in its opposition (to such a result)."[19] According to Joan Spero, executive vice president of American Express and the main spokesperson for American Express in the financial sector, the failure to advance in this sector could lead to an erosion of political support for the Round in the United States, and most likely would pose problems when the time comes for Congressional approval of the entire package.[20]

---

15. *Ibid.*, 5.
16. Gordon Cloney, "Statement to the US House of Representatives Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking, Finance and Urban Affairs," (September, 1989), 1.
17. The following issues are synthesized from Spero (1990).
18. *Ibid.*, 13.
19. Peter Montagnon, "US Service Sector Urges White House to Retain Right to Trade Sanctions," *Financial Times*, 10 May 1990, 4.
20. *Ibid.*, 17.

The United States and the European Community 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. It is worth keeping in mind, however, that especially on the issue of financial services, the US government is not of one mind. The major split here is between the US Treasury Department and USTR. Whereas USTR and the bulk of the financial services industry are interested in a financial services accord as part of a broader multilateral agreement, the Treasury prefers to have financial services handled by a separate accord. The motivation behind the Treasury's position is a 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." The Treasury is simply reluctant to hand over its control over this issue to the Trade Representatives office.[21]

In general, the US private sector remains eager to see the negotiation of a strong agreement covering financial services. By contrast, most developing countries remain opposed to financial liberalization. From the industries' perspective, however, it is equally important 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.

Telecommunications

The telecommunications area has proved to be one of the most controversial in the Uruguay Round negotiations. The United States has opposed most favored nation (MFN) treatment in basic telecoms. This position stems from the difference between the United States and foreign markets in this area. In most countries, basic telecommunication services are provided by national monopolies. By contrast, the United States deregulated its telecommunications industry in 1984. This deregulation increased competition at home leading to increased demand for export markets. Realizing the potential benefits from the lowering of protectionist barriers abroad, the US telecommunications industry began lobbying for multilateral liberalization. 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 that will give them access to developing countries for the provision of telecommunications services. In terms of telecommunications equipment manufacturing, the three largest US companies are AT&T, IBM, and Motorola.

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. Telecommunications are integral to the distribution and provision of

21. Based on interviews with private sector and government officials, March 1990.

other services. Furthermore, the distribution of manufactures abroad depends on access to foreign telecommunication networks which would benefit from the liberalization of trade in services.

A key issue for the US telecommunications sector is government procurement, an agreement for which is being actively pursued by most EC governments with Asian countries. Adequate coverage of this issue is a high priority; US industry is having trouble competing with foreign telecommunications industries benefitting from heavy government subsidization.

The "right to establishment" must also be resolved if US companies abroad are to be able to compete with local industries. For US 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.[22]

The power of telecommunications groups in the United States is demonstrated in their great influence over service negotiations. These groups were able to pressure USTR into taking action against South Korea and the European Community under the 1988 Trade Act. In February 1989, USTR labelled these two countries as having restrictive telecommunications policies. In addition, the United States has continually sought to open up the Japanese market for US telecommunications exporters and to encourage greater government procurement of US 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 liberalization through both political pressure and legal action under various US trade laws. From their perspective, unilateral pressure is the only solution to the asymmetry in openness of US versus foreign markets. Simply put, they fear that MFN in this sector will allow foreign access to the US market without comparable access for US companies in foreign markets. Without a doubt, the US telecomunications industry will continue to press for bilateral efforts, especially in the absence of progress in the Uruguay Round.

Motion Picture and Television

The motion picture industry is an area of the US service sector with unparalleled strength and international competitiveness. Inclusion in a general agreement on services and open foreign markets remains important to this industry, as it relies heavily on overseas earnings.

The US film industry is particularly interested in certain aspects of the restructuring of European television as the EC market prepares 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. The US film industry could profit enormously if it is

22. Maggie Ford, "South Korea's Closed Door Hurts Those Inside," *Financial Times*, 7 May 1989, 7.

not excluded from this expanding market. In 1988, the European Community absorbed $630 million in US television programs, two-thirds of total US foreign sales.[23] The internal changes underway in the European Community are expected to almost double European airtime from 260,000 hours per year in 1987 to one-half million hours by the early 1990s.[24] In Washington, lobbyists have been attempting to convince negotiators and trade policymakers that 1992 could herald the beginning of "Fortress Europe." Lobbyists are looking for an effective agreement to liberalize services including the film industry as the means to check this potentially protectionist block. 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).

Many countries continue to discriminate against the US film industry by appealing to what is commonly known as "cultural identity" or "cultural sovereignty." The United States favors exclusion of cultural issues from trade negotiations, believing that governments should be allowed to preserve their respective cultures but not at the expense of free trade.

Two crucial issues for the motion picture industry are a wider commitment (i.e., by the developing countries) to the protection of intellectual property rights and the preservation of access to foreign film and television markets. Many countries continue to discriminate against the US film industry by appealing to what is commonly known as "cultural identity" or "cultural sovereignty."[25] This allows nations wishing to restrict trade in US records, motion pictures, books, videos or television programs to reject these US products as cultural threats. The United States favors exclusion of cultural issues from trade negotiations, believing that governments should be allowed to preserve their respective cultures but not at the expense of free trade.

From the US perspective, a new agreement to protect intellectual property must not regress from the relatively high level of copyright protection provided under the Berne Agreement. Adherents to the Berne Agreement already include the countries representing the most important US export markets. In the words of Fritz Attaway:

23. William Dawkins, "European Broadcasting Becomes Battleground Over a Pot of Gold," *Financial Times*, 11 September 1989, 4.

24. *Ibid.*

25. *Ibid.*, 5.

> 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.[26]

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 protection of intellectual property has risen on the agenda to the point where an agreement on services is virtually contingent upon a successful agreement on this issue. Protection of intellectual property is fundamental to the well-being of the US motion picture industry.[27]

Maritime Services

A second sector which the United States 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, arguing that it is disadvantaged by government restrictions on competition. Such restrictions have confounded the industry's 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."[28]

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

The US shipping industry opposes the inclusion of shipping in a general agreement on services. National security and national interest are often cited by the maritime industry, shipbuilding and transport as reasons for trade protection. A letter from the industry to the US Senate, lobbying for the removal of maritime services from the GATT, 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."[29] The fear is that without continued protection, the US maritime industry will collapse and lead to reliance on foreign carriers to transport US supplies and people.[30] Many industrial countries have increased competitiveness by updating technology, improving management, and increasing labor productivity. For example, Europe has decreased its average crew size to fourteen highly skilled, well trained members, as compared to twenty-one in the United States.[31]

---

26. Fritz Attaway, "Intellectual Property Considerations in Bilateral/Multilateral Trade Negotiations on Services," unpublished paper (March, 1987), 4.
27. *Ibid.*
28. Andrew Gibson, "Task of Rebuilding Mercant Marine Rests Squarely With The President," *Sea Power* (January, 1990): 65.
29. *Inside US Trade*, 13 October 1989, 8.
30. *Ibid.*

From a political perspective, the maritime industry has been successful in preventing any concessions in this area. In negotiations with Canada, the US government gave in to pressure from coastal shippers and prevented the conclusion of an agreement on this issue as part of the US-Canada Free Trade Agreement.[32] The industry has frequently secured sponsorship of the Senate and House to exclude the maritime industry from any services sector agreement. Along with basic telecommunications, this sector has pushed hardest for exclusion or at least for special treatment in the Uruguay Round.

Construction

The international importance of the construction industry is evident from its sheer size: industry 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.[33] Construction combines both capital-intensive (engineering and design) and labor-intensive (construction) components. Industrialized countries control approximately 90 percent of the international design market.[34] 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 on trade in construction services.

Within the construction industry, US 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, NICs such as South Korea, Brazil, Mexico, Argentina, Yugoslavia, India, and Turkey, aided by government subsidization and a comparative advantage in cheap labor, have successfully developed an export capacity and moved into US markets.[35]

By the 1980s, 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 has limited access to these markets for US construction companies.[36]

A surge in economic growth among the Association of Southeast Asian Nations (ASEAN) countries suggests that the value of construction projects in this region will expand by twenty percent annually over the next decade.[37] This

---

31. Gibson, 67.
32. See *Financial Times*, 24 November 1987, 4.
33. P. Messerlin and K. Sauvant, eds., *The Uruguay Round: Services in the World Economy*, (Washington, D.C. and New York: The World Bank and The United Nations Centre on Transnational Corporations, 1990), 69-72.
34. UNCTAD, "Trade in Services: Sectoral Issues," (New York: United Nations, 1989), 196.
35. *Ibid.*, 194.
36. UNCTAD, 197.
37. *Financial Times*, 10 May 1990.

rapid expansion with new contracts valued at $300 billion is fueled by the need to have sufficient infrastructure to keep pace with the industrial activities in these nations. Thailand's deputy foreign minister stated:

> Rapid economic expansion has resulted in a serious shortage of infrastructure such as highways, ports, electrical power and telecommunications facilities.[38]

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

Large US companies, such as Bechtel, have been active lobbyists for this industry. Others who are particularly powerful include Caterpillar and the US International Engineering and Construction Industries Council. This latter group played an active role, supported actively by US Senator Frank Murkowski, Republican from Alaska, in pressuring the Japanese to open up their market to American firms.[39]

Along with other industrialized countries, the United States would reap enormous benefits from a multilateral agreement to liberalize trade in services.

The evolution of the construction industry has produced four principle barriers to international trade in construction which have stymied efforts by US construction companies to expand internationally.[40] First is the problem of third market competition in terms of government subsidies or "offensive protection." 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 US firms to compete in foreign countries.

Restrictions on labor movements impede the competitiveness 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 move "skilled and unskilled labor to the construction site from their country of origin and/or other third low-wage countries".[41] These countries insist on the inclu-

38. *Ibid.*
39. *Financial Times*, 31 January 1990, 6.
40. See James Lee, "Construction," in *The Uruguay Round: Services in the World Economy*, 72-74.
41. UNCTAD, 199.

sion of the transborder movement of labor in any international agreement dealing with construction. As the developing countries in general have not yet been able to access the international markets, it is clearly in their interests to have construction included in a general service agreement.[42]

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 United States will accept the movement of labor other than highly skilled personnel. In Congressional testimony, the chief 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.[43]

Construction firms are likely to continue to pressure congressional leaders 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 US trading partners for concessions in the Uruguay Round.

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 thirty-five 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.[44]

Despite US support for a "negative list" approach, the basic framework now draws primarily from a positive list approach. Currently, market access, national treatment and similar issues are dealt with as negotiated obligations; instead of having a separate section for exclusions, each country has chosen the sectors it will propose for negotiation. The United States now uses "conditional" MFN as a way of responding to protectionist groups and to those who are displeased with the asymmetry of market access internationally. In addition,

---

42. UNCTAD, 193.
43. US Congress, "America's Services Trade Deficit," Hearings Before the Subcommittee on International Economic Policy and Trade of the Committee on Foreign Affairs of the House of Representatives (Washington, D.C.: US GPO, November 1989), 63.
44. Parts of the following discussion draw from the excellent discussion of negotiations in the service sector arena in UNCTAD, *Services in Asia and the Pacific*, Selected Papers, Vol. 2, (New York: United Nations, 1991).

the United States warned that it would not negotiate unless initial commitments by other states were adequate. Although a number of countries have played key roles in the negotiations, the focus here is on three key players—the United States, European Community, and the developing countries.

The United States' Position

As we have seen, the United States was the first country to address the issue of services and has continued to be the leading proponent of liberalization in this sector. Along with other industrialized countries, the United States would reap enormous benefits from a multilateral agreement to liberalize trade in services.

The rapid growth of services internationally—and the increasing percentage of service inputs in production and distribution of manufactures and goods—prompted US service industries to evaluate their ability to compete abroad. In 1988, the service sector in the US employed 76 percent of the workforce and it accounted for 68 percent of total US GNP.[45] For the United States, services represent one sector in which a potential for considerable expansion exists if world markets were open. Former US Trade Representative Clayton Yeutter stressed:

> We must have a set of enforceable rules to cover services because this sector is the fastest growing in the United States and the world, and because trade in goods and trade in services are interdependent.[46]

As we have seen, a driving force behind this interest in service sector negotiations has been deregulation in major US service sectors such as aviation, trucking, telecommunications, and financial services.[47] 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 US competitiveness through deregulation explains the rise of services on the US agenda for trade negotiations.

In October 1989, the United States presented a proposal for multilateral liberalization of trade in services. This proposal covers all sectors, with mechanisms to eventually liberalize specific sectors. The primary US negotiating objectives on services, based on the GATT principles of national treatment and transparency, include:

1) The reduction and elimination of barriers which deny national treatment and restrictions on establishment and operations in

45. CSI Service, *Service Sector Statistics at a Glance*, 1990.
46. *International Trade Reporter*, 11 November 1987.
47. William Brock, "A Year of Decision," *Economic Impact* Vol. 2 (1985): 13.

such markets; and

2) The development of international rules, including dispute settlement procedures, in conformity with this objective.[48]

The 1989 proposal was the first to use legal language to define a set of objectives, coverage, rules, exceptions, and enforcement mechanisms. This multilateral agreement aims at the "immediate and progressive liberalization" of trade in more than one hundred service sectors including transport, telecommunications, tourism, and construction.[49] This proposal, however, met with opposition and subsequent counterproposals from both the European Community and the developing countries.

Although the overall US position supports a multilateral service agreement, individual sector lobbies such as maritime, basic telecommunications, and aviation have fought to be excluded. In addition, the US Treasury, but not the banks, pushed for a separate agreement or removal of banking as a sector from the negotiations.

The European Community's Position

The European Community, along with the United States 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 US 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 the European Community 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 US goals, the European Community wants to establish a framework of principles and proceed gradually to include individual sectors.[50] Moreover, given EC concerns with domestic market liberalization in connection with the 1992 program, it has been wary of too rapid a pace of international liberalization.

The European Community argues that a multilateral agreement must take into account the specific characteristics of each sector.[51] This accounts for the EC's insistence upon a gradual inclusion of sectors. 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 GATT Ministerial Meeting.

Freer trade in services would benefit the European Community as well as other industrialized countries whose service sectors are well developed and

---

48. UNCTAD, "Trade in Services: Issues and Developments," (New York: United Nations, 1988), 7.
49. *The Economist*, 28 October 1989.
50. *Inside U.S. Trade*, 8 December 1989, 5.
51. UNCTAD (1988), 9.

expanding. Service expansion continues to provide most new employment in Europe and was calculated in 1988 to be three times that of the United States.[52] According to the European Service Industries Forum:

> 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.[53]

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 services should continue to be negotiated bilaterally outside the purview of the GATT. The basic position taken by the developing countries reflects this 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, the notion of "relative reciprocity," symmetry between labor and capital mobility, maintenance of their national policies, and unconditional MFN.[54] In essence, the developing countries would like to secure access to developed country markets in services without significantly opening their own markets. They would also like to prevent linkages between access in goods and services in any future negotiations on market opening. The developing countries have also consistently argued that the structure of the agreement should 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.[55]

The OECD has argued that developing countries will benefit, especially through transfers of technology and skills, from free 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.[56]

---

52. *Ibid.*
53. *Ibid.*
54. UNCTAD (1991), 16-17.
55. UNCTAD (1991), 18.
56. Reported in *Financial Times*, 24 October 1989.

Despite the findings of the OECD study, developing countries criticized the October 1989 US proposal as being inconsistent with the development objectives established at the Punta del Este meeting. LDCs felt the US proposal included mechanisms for 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 the transfer of skills 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. Consequently, the development of a unified ASEAN approach to the General Negotiations on Services (GNS) has been problematic. The fact that most ASEAN countries produce the same goods and compete for markets in the United States, Europe, and Japan further complicates matters.[57]

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

US businesses are interested in Asian markets for their service exports, but they are especially concerned about being able to invest and establish subsidiaries inside this region. Only through "right of establishment" can the United States compete with the lower labor costs fueling the rapid expansion of services in Asia.

Although US interest in opening up Southeast Asian markets is increasing, a recent report by a team of Asian economists concludes that the trade link between the United States and these countries is weakening.[58] According to indicators used by these analysts, the economic integration of the United States and the Pacific region declined approximately 30 percent between 1975 and 1985.[59] Still, at present Japan and the Southeast Asian NICs trade more with the

57. *The Economist*, 7 October 1989.
58. *Financial Times*, 10 November 1989.

United States and Europe than among themselves and also invest more outside the region. This trend, however, is expected to change as Japan turns toward channelling ever-growing investment into Southeast Asia.[60] Even before services were added to the Uruguay Round agenda, the United States made it clear to the Asian NICs that the United States would attempt to secure reductions in Asian trade barriers in services whether or not new rules were negotiated in the GATT.[61] Thus, it was in the NICs' interest to develop multilaterally-based rules that give them recourse to the GATT should they come under strong US pressure.

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, textiles and services proved especially problematic. In services, the United States became dissatisfied with the other parties' lack of firm commitment to trade liberalization. Shortly before the meeting, the United States 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 US market. At the meeting itself, the United States 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. US dissatisfaction with the progress in a number of sectors, particularly basic telecom and the maritime industry, has led it to continue 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 United States and European Community are inclined to develop a separate agreement on financial services that would lead to liberalization by a smaller group of developed countries.

Conclusion

The apparent inconsistencies in the US position, whereby it advocates MFN in most areas of the Uruguay Round but asks for derogations in others, results from two types of domestic pressures. First, demand by protectionist lobbies; second, pressure by industries that have already liberalized but are not able to secure foriegn market access without additional concessions. Yet global US objectives are changing as a result of shifts in the overall international political and economic system. In the past, the United States as a hegemonic power with global economic and security interests was more willing to look the other way

59. *Ibid.*
60. *Ibid.*
61. Aronson (1988), 10.

in the name of maintaining the general principles of the GATT. But now the United States pursues its interests in a manner similar to other states, responding to particular sectoral lobbies. The European Community, 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.