Recent Trends in U.S. Services Trade

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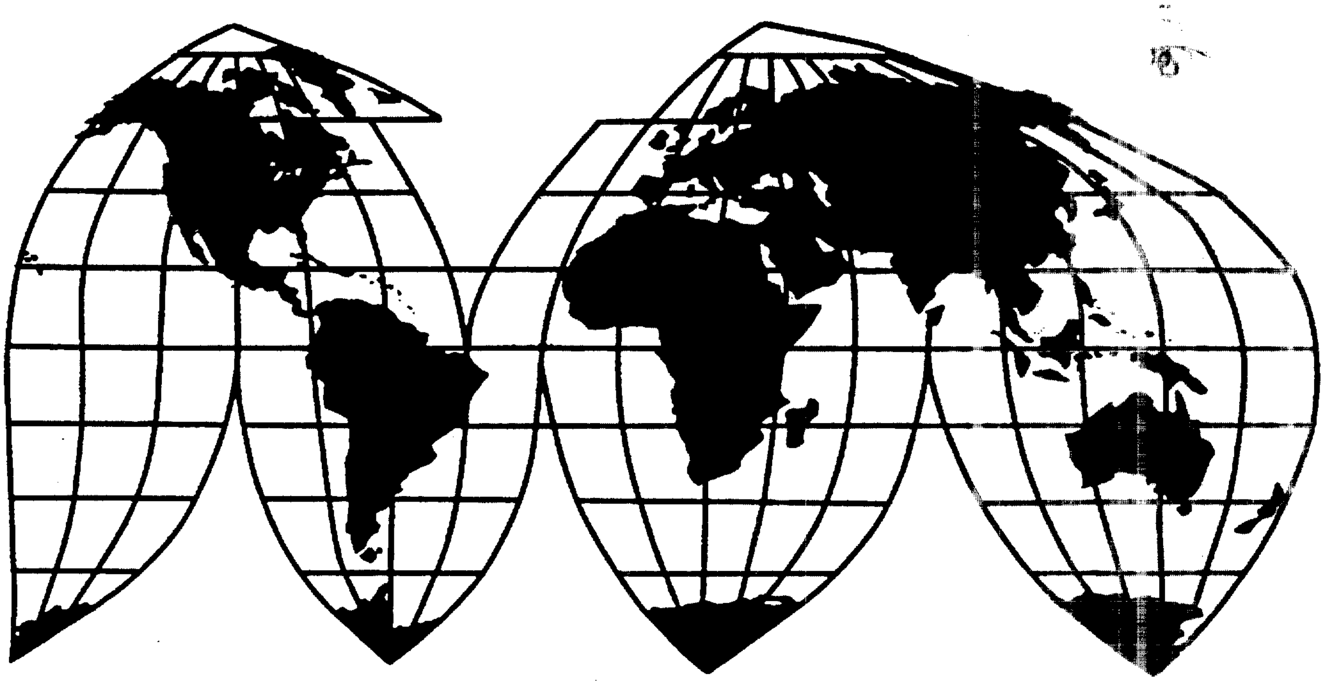

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CHAPTER 1
Introduction

Scope and Purpose

The U.S. International Trade Commission (USITC) routinely monitors trade developments in service, agricultural, and manufacturing sectors as part of its mission. This report, prepared annually, analyzes significant trends in services trade as a whole, assesses trade in selected service industries, and identifies major U.S. trading partners. Since services trade takes place on a cross-border basis and through affiliates established abroad, data for both of these modes are presented to provide a comprehensive analysis of the international activities of U.S. service industries.

Methodology and Organization

The data presented herein are drawn from the most recent annual data available for U.S. trade in services, which are prepared by the U.S. Department of Commerce, Bureau of Economic Analysis. Comparable annual data regarding cross-border services trade are available for the period 1986-95, whereas comparable data pertaining to affiliate transactions are available for the period 1987-94.

Chapter 2 of this report describes the nature of cross-border and affiliate trade in services and provides an overview of U.S. services trade by industry and by trading partner. Chapter 3 examines trade in selected service industries, describing how the services are traded and indicating whether recent trade performance marks a continuation of, or a departure from, trends observed since 1990. The discussions compare cross-border trade performance in 1995 with trends evident during 1990-94, and affiliate transactions in 1994 with trends during 1990-93. Each discussion in chapter 3 also reviews the principal factors underlying the volume and direction of recent trade, and identifies factors likely to influence future trade performance. Outlooks regarding the subject service industries are based on USITC staff interviews with industry representatives and reviews of secondary sources, such as industry journals. Chapter 4 of the report examines service sector negotiations carried forward from the Uruguay Round. These negotiations focused on financial, maritime transport, and basic telecommunication services. With respect to each negotiation, chapter 4 identifies the scope and objectives of talks, summarizes the key features of offers and commitments tabled by trading partners, and provides details regarding the outcome.

U.S. merchandise trade is not presented in this report. As noted in the *Preface,* it is the subject of a separate USITC annual report. However, to put U.S. services trade in perspective with merchandise trade, in 1995, cross-border services trade accounted for 21 percent of total U.S. trade volume (figure 1-1).[1] U.S. cross-border trade in services generated a $68.4-billion surplus in 1995, in contrast to a U.S. merchandise trade deficit

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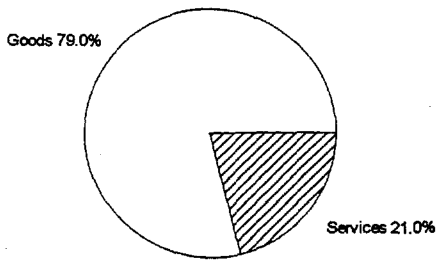
[1] Total trade volume is the sum of imports and exports.

of $173.4 billion.[2] The service sector accounted for 76.6 percent of U.S. gross domestic product (GDP) in 1994.[3] By comparison, manufacturing accounted for 20 percent of GDP, and mining and agriculture together accounted for 3.5 percent (figure 1-2). In 1994, services provided 77.6 percent of total private sector employment, compared to manufacturing with 19.9 percent, and mining and agriculture together with only 2.5 percent (figure 1-3).[4]

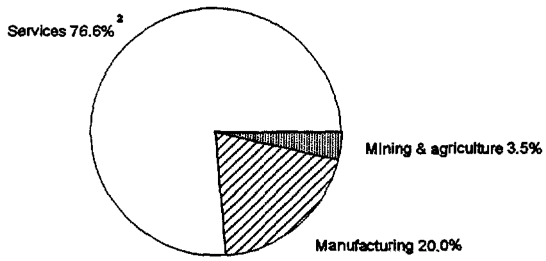
Figure 1-1
U.S. cross-border trade volume, by sector, 1995



Total trade volume: $1.7 trillion

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Oct. 1996, pp. 101 and 106.

Figure 1-2
U.S. private-sector gross domestic product, by sector, 1994[1]



Total private-sector GDP: $6.0 trillion

[1] Total may not equal 100 percent due to rounding.
[2] The services sector consists of construction; transportation and public utilities; wholesale and retail trade; finance, insurance and real estate; and a miscellaneous category of services that includes health and business services, among others.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Aug. 1996, p. 150.

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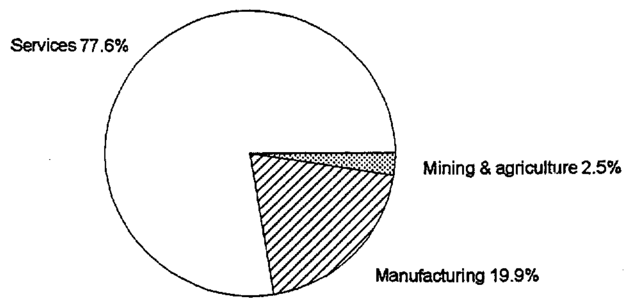
[2] U.S. Department of Commerce (USDOC), Bureau of Economic Analysis (BEA), *Survey of Current Business*, Oct. 1996, pp. 101 and 106.
[3] USDOC, BEA, *Survey of Current Business*, Aug. 1996, p. 150.
[4] USDOC, BEA, *Survey of Current Business*, Jan./Feb. 1996, p. 75.

Figure 1-3
U.S. private-sector employment, by sector, 1994



Total full-time equivalent employees: 90.4 million workers

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Jan./Feb. 1996, p. 75.

CHAPTER 2
U.S. Trade in Services

Nature of Trade in Services

Nations trade services through two principal channels. One channel, cross-border trade, entails sending individuals, information, or money across national borders. The current account of the United States[1] explicitly delineates cross-border exports and imports of services. The other channel, affiliate transactions, entails selling services through affiliates established in foreign markets by multinational companies. The current account does not list such transactions among exports and imports, but does report direct investors' shares of the income generated by these affiliates as investment income.[2]

Cross-Border Trade

Part of cross-border services trade reported in the current account reflects U.S. firms' trade with affiliated foreigners, or intra-corporate trade, as well as public-sector transactions.[3] The analysis of cross-border trade in this report, however, principally examines private-sector transactions among unaffiliated entities for several reasons.[4] Data on transactions with affiliated foreigners are not available on an industry-specific basis and often reflect accounting devices that diminish the explanatory value of the data. Public-sector transactions include expenditures related to the operations of the military and U.S. embassies. As a result, they are not representative of U.S. service industries' performance and introduce anomalies due to such events as the Persian Gulf War or Bosnia peace-keeping operations.

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[1] The current account of the balance of payments reports trade in goods and services, flows of investment income, and unilateral transfers of funds (e.g., U.S. Government grants, pensions, and other funds).

[2] The U.S. International Trade Commission has published several reports that examine in detail the commitments scheduled by GATS signatories. See USITC, *General Agreement on Trade in Services: Examination of Major Trading Partners' Schedules of Commitments*, USITC publication 2940, 1995; USITC, *General Agreement on Trade in Services: Examination of South American Trading Partners' Schedules of Commitments*, USITC publication 3007, 1996; USITC, *General Agreement on Trade in Services: Examination of the Schedules of Commitments Submitted by Asia/Pacific Trading Partners*, forthcoming; and USITC, *U.S. Trade Shifts in Selected Industries: Services*, USITC publication 2969, 1996.

[3] Intra-corporate trade is also reflected in merchandise trade statistics. In 1993, intra-corporate trade accounted for 24 percent of U.S. merchandise exports and 18 percent of U.S. merchandise imports. U.S. Department of Commerce (USDOC), Bureau of Economic Analysis (BEA), *Survey of Current Business*, June 1995, p. 39.

[4] The principal exception to this approach is found in the chapter 3 discussion of trade in intellectual property-related services, for which intra-corporate trade data have explanatory value.

The volume and growth of U.S. cross-border service exports have consistently exceeded those of imports in recent years, yielding a services trade surplus in 1995 that grew to $68 billion (figure 2-1) and offset 35 percent of the merchandise trade deficit (figure 2-2).[5] When public-sector and intra-corporate transactions are removed from the 1995 data, the volume and growth of service exports still exceed those of imports, but the services trade surplus falls from $68 billion to $61 billion (table 2-1).

In 1995, cross-border service exports increased by 8 percent, to $177 billion. Export growth in 1995 was significantly slower than the 1986-94 average annual export growth rate of 11 percent. In comparison, cross-border service imports increased by 6 percent in 1995, to $116 billion. Like exports, imports grew more slowly in 1995 than during 1986-94, when annual import growth averaged 7 percent. As export growth exceeded import growth during 1995, the surplus on cross-border trade in services increased by nearly 11 percent.[6]

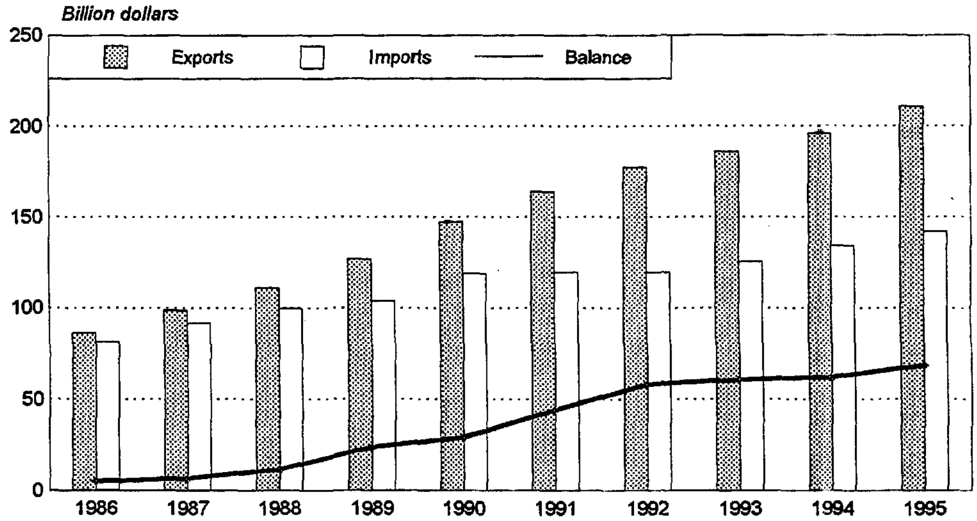
Cross-Border Trade by Industry

As in many other countries, travel and tourism accounted for the largest single share of U.S. service exports in 1995 (figure 2-3). Travel and tourism exports, accounting for 35 percent of total U.S. service exports, consistently loom large in service trade accounts because, by international accounting convention, they reflect inbound travelers' total expenditures while in the United States (e.g., food, lodging, recreation, local transportation, and gifts) except passenger fares on airlines and ocean vessels. Other services accounting for large shares of total U.S. exports were freight transportation services (including port services), representing 16 percent; intellectual property-related services, representing 15 percent; and maritime and airline passenger fares, representing 11 percent. Similarly, travel and tourism, freight transportation, and passenger fares figured prominently among U.S. service imports in 1995, accounting for 40 percent, 25 percent, and 12 percent of total service imports, respectively (figure 2-3).[7]

In 1995, most U.S. service industries registered trade surpluses, with notable exceptions being insurance and telecommunication. Intellectual property-related services accounted for 39 percent of the overall services trade surplus; travel and tourism, 25 percent; professional services such as law and health care, 19 percent; and education services, 11 percent.[8] The surplus registered in travel and tourism may be the most tenuous, even though both imports and exports have increased since 1991. Historical data show a high negative correlation between the balance on travel and tourism trade and the value of the dollar. For example, depreciation of the U.S. dollar in 1986 boosted the growth of inbound tourism, a U.S. export, and reduced the growth of outbound tourism, an import. Consequently, tourism exports increased more rapidly than imports, and the balance on tourism trade changed from deficit to surplus by 1989 (figure 2-4). The dollar's continued weakness tended to promote inbound tourism until 1993, when the value of the dollar rebounded slightly against other currencies. Separating the surplus registered on trade in travel and tourism from the combined trade surplus of all other service industries more clearly reveals the sustained growth of the latter (figure 2-4).

[5] USDOC, BEA, *Survey of Current Business*, July 1996, p. 69.
[6] USDOC, BEA, *Survey of Current Business*, Nov. 1996, pp. 82-83.
[7] Ibid.
[8] Ibid.

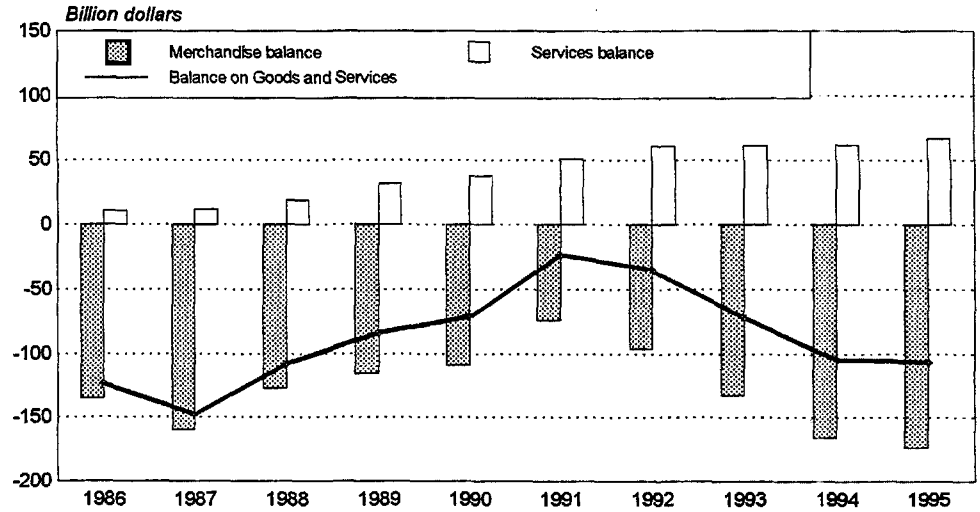
Figure 2-1
U.S. cross-border trade in services: Exports, imports, and trade balance, 1986-95[1]



[1] Data are presented as they appear in the current account of the U.S. balance of payments. Consequently, the services trade balance includes intra-corporate and public-sector trade.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, July 1996, p. 69.

Figure 2-2
U.S. merchandise and services trade balances, 1986-95[1]



[1] Data are presented as they appear in the current account of the U.S. balance of payments. Consequently, the services trade balance includes intra-corporate and public sector trade.

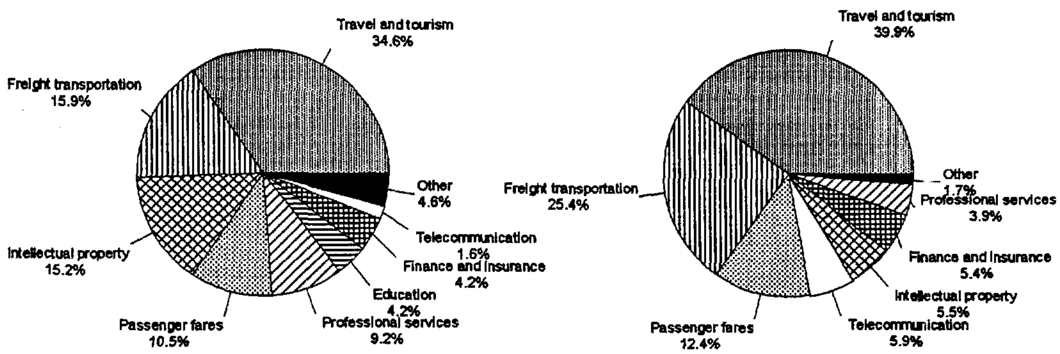
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, July 1996, p. 69.

Table 2-1
Derivation of U.S. private-sector, cross-border services trade balance with unaffiliated foreigners, 1986-95

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	Million dollars									
Exports	85,938	98,317	110,933	127,022	147,477	163,810	177,305	186,119	195,839	210,590
Exports to affiliated foreigners ...	(8,385)	(8,494)	(9,568)	(12,296)	(13,622)	(14,539)	(16,581)	(16,740)	(18,162)	(19,458)
Public-sector exports	(9,144)	(11,632)	(9,948)	(9,151)	(10,600)	(11,825)	(13,248)	(13,981)	(13,135)	(14,180)
Private-sector exports to unaffiliated foreigners ..	68,409	78,191	91,417	105,575	123,255	137,446	147,476	155,398	164,542	176,952
Imports	(80,992)	(91,678)	(99,491)	(103,535)	(118,783)	(119,614)	(119,464)	(125,549)	(134,097)	(142,230)
Imports from affiliated foreigners ...	3,915	5,357	6,043	7,911	9,118	9,732	9,691	10,618	11,755	13,723
Public-sector imports	15,416	16,843	17,525	17,184	19,450	18,525	16,136	14,533	12,949	12,575
Private-sector imports from unaffiliated foreigners ...	(61,661)	(69,478)	(75,923)	(78,440)	(90,215)	(91,357)	(93,637)	(100,398)	(109,393)	(115,932)
Private-sector trade balance with unaffiliated foreigners	6,748	8,713	15,494	27,135	33,040	46,089	53,839	55,000	55,149	61,020

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business,* July 1996, p. 69 and Nov. 1996, pp. 82-83.

Figure 2-3
U.S. cross-border services exports and imports, by industries, 1995[1]

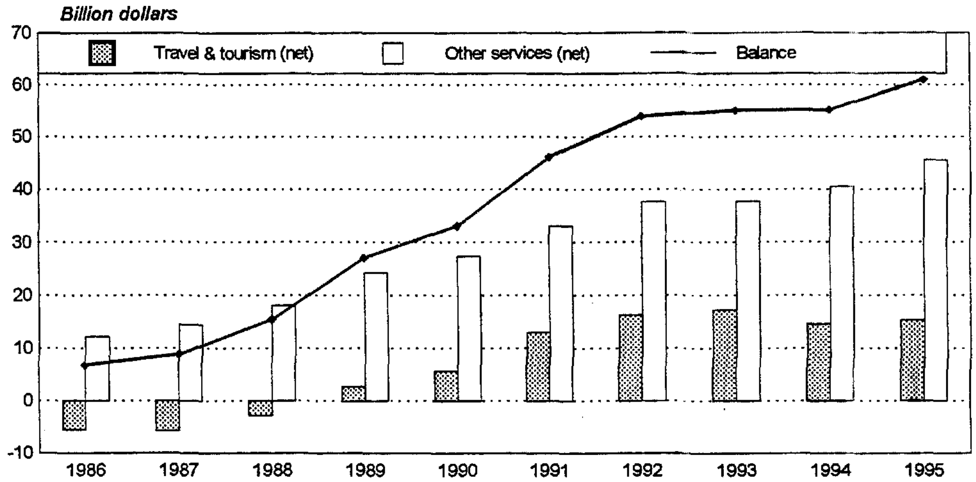


Total exports: $177 billion **Total imports: $116 billion**

[1] *Totals may not equal 100 percent due to rounding.*

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business,* July 1996, p. 84, and Nov. 1996, pp. 83-84.

Figure 2-4
Composition of U.S. cross-border services trade balance, 1986-95



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1995, p. 76 ; July 1996, p. 84; and Nov. 1996, pp. 83-84.

Cross-Border Trade by Trading Partner

In 1995, the European Union was the United States' largest partner with respect to cross-border trade in services, accounting for 32 percent of U.S. exports and 35 percent of imports. Japan was the second largest trading partner, accounting for 16 percent of exports and 11 percent of imports. Canada was third, with 9 percent of exports and 10 percent of imports, and Mexico fourth, with 3 percent of exports and 7 percent of imports (figure 2-5). Jointly, these four major trading partners accounted for 60 percent of U.S. cross-border exports and 62 percent of cross-border imports.[9]

In 1995, the United States registered cross-border trade surpluses in services with all major trading partners except Mexico. Surpluses ranged from $5.6 billion with Canada to $17.3 billion with Japan.[10] Following a string of relatively small surpluses with Mexico since 1990, the United States recorded an uncharacteristically large $2.4-billion deficit on cross-border services trade with that country in 1995. This deficit stemmed largely from a steep decline in inbound tourism from Mexico. From a historical perspective, the rate of growth of U.S. trade surpluses with major trading partners in 1995 failed to keep pace with average annual growth rates of such surpluses in 1986-94.

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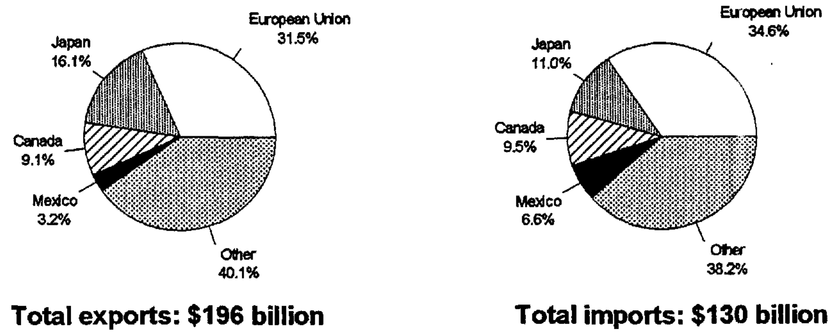
[9] USDOC, BEA, *Survey of Current Business*, Nov. 1996, pp. 84-85.
[10] Ibid.

Figure 2-5
U.S. cross-border service exports and imports,[1] by selected trading partners, 1995



[1] Trade data exclude public-sector trade, but include intra-corporate trade.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996, pp. 84-85.

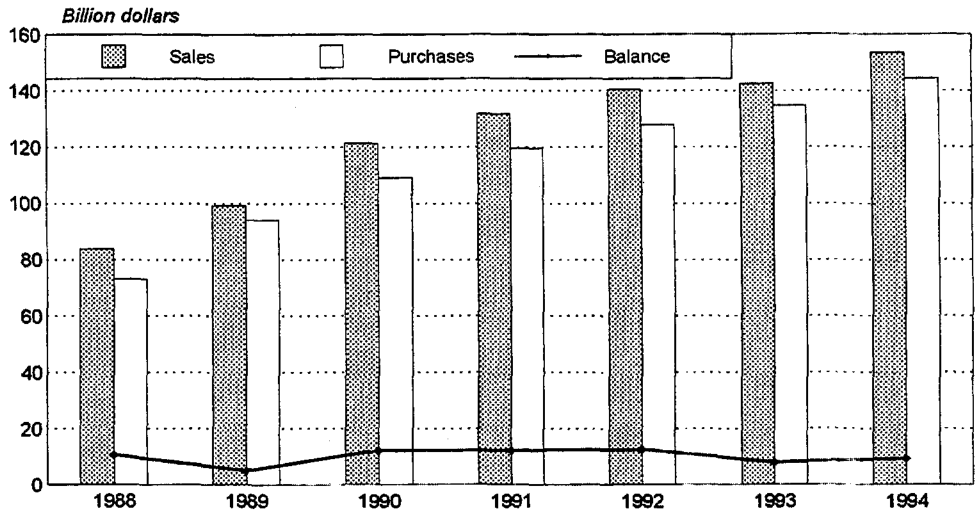
Affiliate Transactions

Data on affiliate transactions track majority-owned affiliates' sales to unaffiliated foreigners in the host market. Although the provision of certain types of services, such as wholesale and retail trading, requires a physical presence in foreign markets, regulatory policies and informal business practices may also promote sales of services through foreign affiliates. For example, accounting firms prefer to provide services to overseas clients through foreign affiliates, in part, because regulations can restrict or render uneconomic cross-border transmission of financial data. Similarly, architectural and engineering firms find that establishment of a commercial presence in foreign markets is sometimes a necessary pre-condition for winning contracts.

In 1994, sales by foreign-based affiliates of U.S. companies increased by 8 percent, somewhat slower than the 10-percent average annual growth posted during 1988-93 (figure 2-6). Underlying causes of this slight reduction in sales growth overall were anemic sales growth in Europe, declining sales in Canada, and a steep decrease in sales of professional and commercial equipment through U.S.-owned wholesalers. Meanwhile, purchases from U.S.-based affiliates of foreign firms increased by 7 percent, falling well short of the 12-percent average annual growth charted during 1988-93. Slower growth appeared to stem from declining purchases from affiliates of Canadian parent firms and exceptionally slow growth among affiliates of Latin American parents.[11] Overall, sales by foreign-based affiliates of U.S. firms exceeded purchases from U.S.-based affiliates of foreign firms by $9.2 billion, a 16-percent increase over the previous year.

[11] Ibid., p. 110.

Figure 2-6
Affiliate service transactions: U.S. sales, purchases, and balance, 1988-94



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996, p. 70.

Affiliate Transactions by Industry

With respect to sales by U.S.-owned affiliates, the insurance industry was most prominent, accounting for 20 percent of all such sales. The computer and data processing service industry, accounting for 11 percent of total sales, placed second (figure 2-7).[12] With respect to U.S. purchases from foreign-owned affiliates, the insurance industry, accounted for 34 percent of such purchases, reflecting the pervasiveness of foreign insurance companies in the U.S. market. Foreign-owned freight transportation and wholesaling affiliates also reported large sales in the U.S. market.[13]

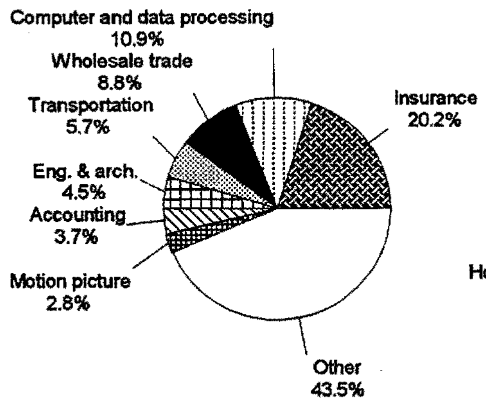
Affiliate Transactions by Trading Partner

The great majority of U.S. affiliate sales and purchases are transacted with the European Union, Japan, and Canada, reflecting the substantial flow of direct investment capital between the United States and these trading partners. The European Union accounted for 47 percent of U.S.-owned affiliates' sales of services in 1994. Japan and Canada accounted for 13 and 11 percent, respectively (figure 2-8). With respect to U.S. purchases from foreign-owned affiliates, the European Union once again predominated, accounting for 49 percent of total purchases, while Japan and Canada each accounted for shares of 16 percent.[14]

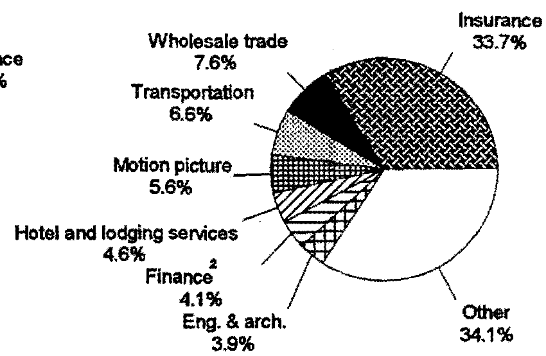
[12] Ibid., p. 111.
[13] Ibid., p. 112.
[14] Ibid., pp. 111-112.

In 1994, the United States maintained small surpluses on affiliate trade with the European Union and Mexico, but continued to post large deficits on affiliate transactions with Canada and Japan, amounting to \$5.6 billion and \$3.3 billion, respectively.[15]

Figure 2-7
Affiliate service transactions: U.S. sales and purchases, by industry, 1994[1]



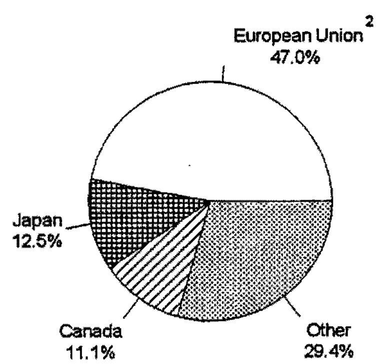
Total sales: \$154 billion



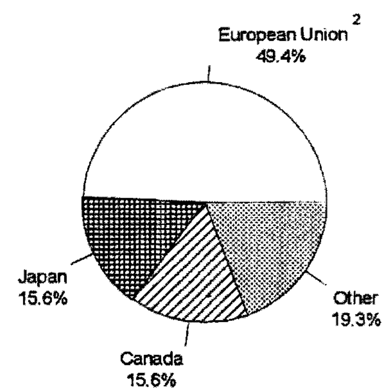
Total purchases: \$144 billion

[1] Due to rounding, figures may not equal 100 percent.
[2] Does not include depository institutions.
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996, pp. 111-112.

Figure 2-8
Affiliate service transactions: U.S. sales and purchases, by selected trading partners, 1994[1]



Total sales: \$154 billion



Total purchases: \$144 billion

[1] Due to rounding, figures may not equal100 percent.
[2] Excludes trade with recently acceded EU member states of Austria, Sweden, and Finland.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996, p . 110.

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[15] Ibid.

CHAPTER 3
Industry Discussions

This chapter discusses U.S. international trade in services, by industry.[1] Each section describes how services are traded within the industry and examines cross-border trade during 1990-95 and affiliate transactions in 1990-94 where appropriate. Each section concludes with a brief summary of the factors that have determined the volume and direction of recent trade, and an outlook that identifies industry trends and other factors that may shape future trade patterns.

Distribution Services

Distribution services comprise a chain of services that moves merchandise from the producer to the ultimate consumer. Generally, merchandise proceeds along this chain from the producer through wholesalers to retailers and then to the consumer. At each step, the intermediaries collect fees for their services that typically are calculated as a percentage of the value of the product. These fees then constitute the value of the distribution service provided. In addition, distribution service firms routinely collect fees in return for providing services that are unrelated to the distribution of merchandise. International trade in distribution services takes place when fees for distribution or non-distribution services are paid either to an affiliate of a foreign company or across national borders. The volume of transactions by foreign affiliates of distribution service firms is much greater than the volume of cross-border transactions and, in fact, only data on affiliate transactions are large enough to be tracked by data collection agencies. For this reason, this discussion focuses on the transactions that take place through foreign affiliates established as wholesalers or retailers.[2]

[1] The U.S. International Trade Commission has published several reports that examine in detail the commitments scheduled by GATS signatories. See USITC, *General Agreement on Trade in Services: Examination of Major Trading Partners' Schedules of Commitments*, USITC publication 2940, 1995; USITC, *General Agreement on Trade in Services: Examination of South American Trading Partners' Schedules of Commitments*, USITC publication 3007, 1996; USITC, *General Agreement on Trade in Services: Examination of the Schedules of Commitments Submitted by Asia/Pacific Trading Partners*, forthcoming; and USITC, *U.S. Trade Shifts in Selected Industries: Services*, USITC publication 2969, 1996.

[2] Franchising services and commission agent services are sometimes considered to be additional components of distribution services. However, international trade data are not available for commission agent services. Certain data on trade in franchising royalties and fees are available, but they principally reflect revenues from the sale of intellectual property. Hence, this report treats franchising transactions in the chapter on intellectual property-related services.

Wholesale Trade

Introduction

Wholesale service providers play an intermediary role of purchasing products from manufacturers and subsequently reselling them to retailers. In addition to buying and selling merchandise, wholesalers often provide non-wholesaling services to manufacturers, retailers, and other service firms. For example, wholesalers may sell inventory management services; extend credit; assemble, install, or deliver products; provide maintenance and repair services; and, with respect to computers, provide systems integration services. Foreign-based wholesaling affiliates also may act as agents for their parent manufacturing concerns and license patents or trademarks to local retailers in exchange for royalties and license fees (see discussion of intellectual property-related services). Because wholesale trade services incidental to the wholesaling of merchandise are indistinguishable from merchandise trade data, only non-wholesaling services provided by wholesalers are captured in official trade data. Consequently, this discussion focuses solely on services provided by wholesalers that are not incidental to merchandise wholesaling.

International trade in wholesaling services principally occurs through foreign-based affiliates. In many cases, these affiliates are owned by manufacturers, with wholesalers thus acting as manufacturers' representatives in foreign markets. For this reason, international trade in wholesale services is closely related to international trade in goods and direct investment flows. For example, the largest durable-goods wholesaler in the United States is American Honda Motor Co., Inc., which is an affiliate of Honda Motor Company of Japan.[3] This relationship between merchandise trade and wholesaling, combined with enormous U.S. merchandise trade volumes, explains why international trade in wholesale services accounts for a large portion of total service sales through foreign affiliates.

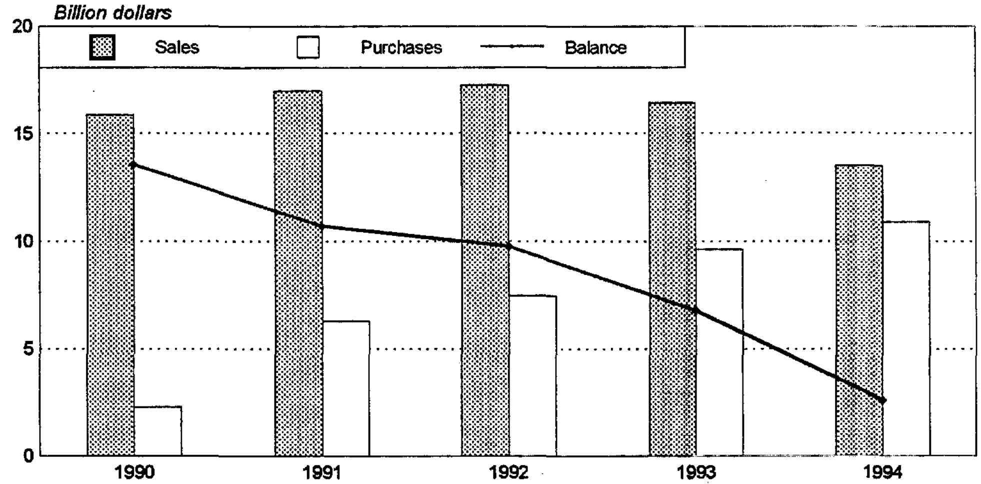
Recent Trends in Affiliate Transactions, 1990-94

In 1994, sales of services by wholesaling foreign affiliates of U.S. firms were $13.5 billion. Purchases from U.S.-based affiliates of foreign firms measured $10.9 billion, leaving a U.S. surplus in wholesale trade services of $2.6 billion (figure 3-1). U.S. sales of services by wholesale affiliates represented 9 percent of total U.S. sales of services through affiliates, while the surplus on wholesaling transactions accounted for 28 percent of the overall U.S. surplus in affiliate transactions.

U.S.-owned affiliates' sales declined by 18 percent in 1994, which represents a departure from average annual growth of 1.2 percent recorded during 1990-93. It did, however, continue a decline in sales that began in 1992. U.S. purchases from foreign-owned affiliates continued to grow, increasing by 13 percent in 1994 on the heels of 29 percent growth in 1993. Increasing U.S. purchases and decreasing sales resulted in a downward trend in the wholesale trade surplus displayed in figure 3-1. Underlying economic activity of host countries explains a good portion of the recent trends in wholesale trade. During 1993-94, the U.S. economy grew faster than those of most industrial countries, which explain why foreign wholesalers operating in the United States experienced stronger sales

[3] Dun & Bradstreet, *Dun's Business Rankings*, Bethlehem, PA, 1996, pp. 109-119.

Figure 3-1
Wholesale services transactions by majority-owned affiliates: U.S. sales, purchases, and balance, 1990-94[1]



[1] Data during 1990-91 understate U.S. purchases because selected data were suppressed in order to avoid disclosing information about the operations of individual firms.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1993, Sept. 1994, Sept. 1995, and Nov. 1996.

growth.[4] By contrast, wholesale affiliates of U.S. firms encountered reduced service sales in recessionary economies, such as Germany and France in 1993, as foreign firms postponed purchases or upgrades of new professional equipment and information systems.

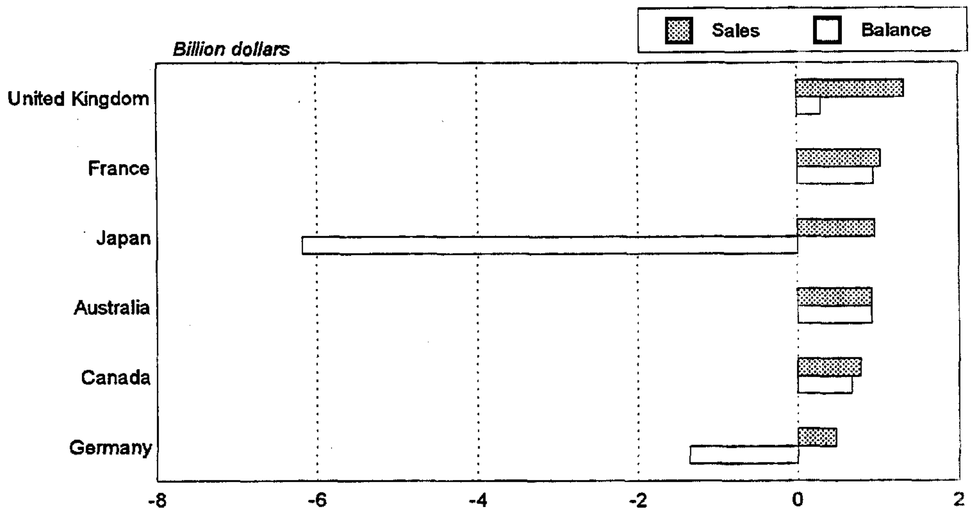
On a bilateral basis, the United States recorded a surplus on wholesaling transactions with most countries, with notable exceptions being Japan and Germany (figure 3-2). The largest U.S. trading partner in 1994 was the United Kingdom, accounting for 10 percent of U.S. sales and 9 percent of U.S. purchases. France was the second largest trading partner with 8 percent of sales, followed by Japan and Australia, each of which accounted for 7 percent of sales. Most U.S. purchases were made from affiliates with parent companies in Japan (66 percent) and Germany (17 percent).

Trade data show a continuing erosion of the overall U.S. surplus in wholesale service transactions by affiliates, with a large bilateral deficit with Japan and a relatively small deficit with Germany. The overall surplus principally reflects merchandise trade patterns. Most sales of services by foreign affiliates of U.S. companies take place among those selling professional and commercial equipment and supplies.[5] These affiliates sell computers and peripheral equipment as well as medical equipment and supplies. By contrast, most purchases from U.S.-based affiliates of foreign companies are reported by

[4] International Monetary Fund, *International Financial Statistics Yearbook 1995*, (Washington, DC, 1995), p. 163.

[5] USDOC, BEA, *U.S. Direct Investment Abroad*, preliminary 1993 estimates, table II.A 2.

Figure 3-2
Wholesale services transactions by majority-owned affiliates: U.S. sales and balance, by major trading partners, 1994



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

wholesalers of motor vehicles and equipment, and electrical goods.[6] Generally, opportunities to provide non-wholesaling services are greater for wholesalers of professional and commercial equipment and supplies than for those of motor vehicles and electrical goods. In particular, computer wholesaling provides many U.S.-owned affiliates with opportunities to provide installation, integration, and support services. By virtue of their product mix, in part, U.S.-owned wholesaling affiliates record a surplus in sales of services despite having fewer assets and less merchandise sales than their counterparts operating in the United States.[7]

The bilateral deficits with Germany and Japan reflect high levels of investment and sales in the United States through wholesale affiliates owned by manufacturers of the two countries. German companies hold approximately twice as many wholesaling assets, in dollar terms, in the United States as U.S. firms hold in Germany.[8] The fact that U.S. wholesalers in Germany provide relatively more services per assets and goods sold mitigates this imbalance somewhat. Japanese companies hold nearly seven times as many wholesaling assets in the United States as U.S. firms hold in Japan, which results in a

[6] USDOC, BEA, *Foreign Direct Investment in the United States*, preliminary 1993 estimates, table A-1.

[7] USDOC, BEA, *U.S. Direct Investment Abroad*, preliminary 1993 estimates, tables III.B 6, III.F3, and III.F18; and USDOC, BEA, *Foreign Direct Investment in the United States*, preliminary 1993 estimates, tables B-5, E-12, and E-15.

[8] USDOC, BEA, *U.S. Direct Investment Abroad*, preliminary 1993 estimates, table II.B 5; and USDOC, BEA, *Foreign Direct Investment in the United States*, preliminary 1993 estimates, table B-6.

$6.2-billion deficit on service transactions with Japan.[9] Five of the 10 largest wholesaling companies in the United States are subsidiaries of Japanese companies. As noted, the largest U.S. wholesaler is American Honda Motor Co., Inc., with annual merchandise sales of $15 billion, followed by the trading company Mitsui & Co. USA, Inc., with annual sales of $13.5 billion.[10] The other Japanese companies in the top ten are Nissho Iwai American Corp., Mitsubishi International Corp., and Canon USA.[11] Other foreign companies among the 50 largest U.S. wholesalers include major German automobile manufacturers, such as BMW of North America, Inc., Mercedes-Benz of North America, Inc., and Volkswagen of America.

Summary and Outlook

As observed above, sales of services among wholesalers are closely related to flows of merchandise and direct investment. Thus international trade in services will shift in response to the performance of the manufacturers of these goods, as well as in response to external economic events or policy changes. In recent years, the major trading partners of the United States have suffered through periods of recession and slow growth while the U.S. economy has been growing relatively faster. Slower growth abroad than in the United States tends to reduce sales revenues among U.S.-owned foreign affiliates, which partly accounts for the declining surplus on wholesaling transactions. Should economic growth be rekindled within the major trading partners of the United States, sales of services by wholesaling affiliates of U.S. firms should experience growth, reversing the declines recorded during 1993-94.

Significant changes in foreign direct investment and regulatory policies may also influence wholesale trade patterns. For example, in 1995, the foreign direct investment position of U.S. wholesalers of professional equipment and supplies declined by 7 percent, which reflects the sale of foreign holdings by U.S. firms. Such a change will likely result in a reduction in sales by affiliates for that year. In addition, in response to pressure from consumers, foreign firms, and foreign governments, Japan has implemented regulatory policy changes intended to ease restrictions on the wholesale distribution industry. Should these changes achieve their objective, the likely result will be increased competition and greater participation of foreign firms in the Japanese wholesale distribution industry. Finally, economic development and policy changes allowing greater investment in Latin America and the emerging markets in Asia may create opportunities for U.S. wholesalers. For example, in China, Asian competitors have established consortia of wholesalers in order to provide a form of one-stop shopping for retailers. Mitsubishi of Japan, Lucky Goldstar of Korea, and the Li & Fung Group of Hong Kong have joined together to establish a "cash-and-carry" distribution center in Guangzhou that plans to offer a wide array of products for sale to Chinese retailers.[12] Should U.S. firms begin to take part in such activities, sales of services by U.S. wholesaling affiliates may increase significantly.

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[9] USDOC, BEA, *U.S. Direct Investment Abroad*, preliminary 1993 estimates, table II.B 5; and USDOC, BEA, *Foreign Direct Investment in the United States*, preliminary 1993 estimates, table B-6.

[10] Dun & Bradstreet, *Dun's Business Rankings*, Bethlehem, PA, 1996, pp. 109-119.

[11] Ibid.

[12] Justin Zubrod, Robert Tasiaux, and Alan Beebe, "The Challenges of Logistics within Asia," *T&D*, Feb. 1996, p. 86.

Retail Trade

Introduction

Retailers sell goods that they acquire from wholesalers or directly from manufacturers to the ultimate consumers, who may be individuals, households, or businesses. Retailers may take title to the goods or, alternatively, they may hold them through a contractual arrangement with wholesalers or manufacturers until sold. Although international trade in retail services may take place across borders, such as with catalog shopping, the majority of transactions, and those recorded by data collection agencies, take place through foreign-based affiliates. As with wholesale trade, however, revenues from actual retailing services cannot be distinguished from merchandise sales. Thus, trade data capture sales of services that are unrelated to the basic retailing activity. Examples of non-retailing services provided by retailers include installation or repair services, credit services, or warranty services, as well as promotion and advertising services. In the case of computer systems, retailers also may provide systems integration and support services.

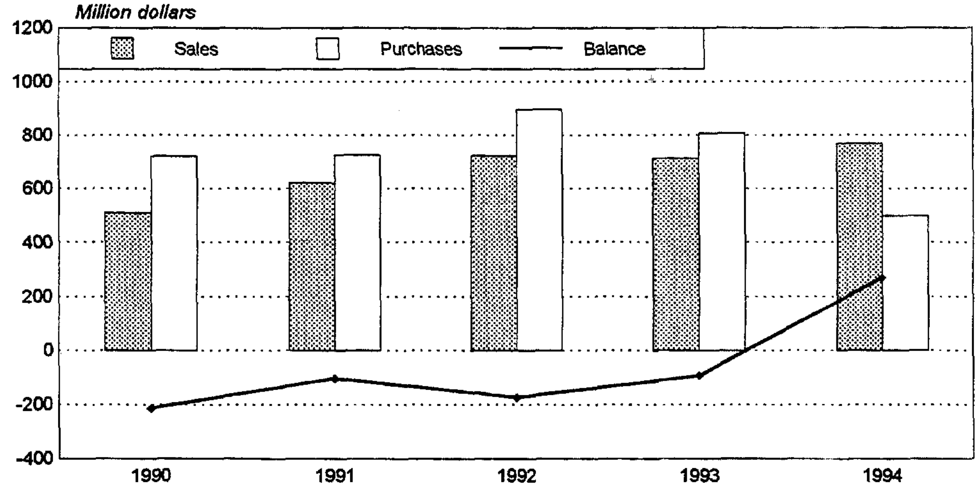
Recent Trends in Affiliate Transactions, 1990-94

In contrast to non-wholesaling services provided by wholesalers, non-retailing services provided by retailers constitute a small proportion of total service transactions by affiliates. In 1994, U.S. sales and purchases of such services amounted to only $769 million and $500 million, respectively, representing less than 1 percent of total service transactions by affiliates. Sales of non-retailing services by foreign affiliates of U.S.-owned retailers exceeded U.S. purchases of such services by $269 million in 1994 (figure 3-3). The 38-percent decline in purchases in 1994 continued a downward trend from a peak of $896 million in 1992, but the appearance of a surplus in 1994 provided a stark contrast to the string of deficits experienced during 1990-93. More than two-thirds of this shift reflects changes in the accounting classifications of two U.S. firms, which no longer are categorized as retailing affiliates.[13] Meanwhile, sales continue to grow strongly, although the 1994 increase of an estimated 8 percent is somewhat slower than the average annual rate of 12 percent recorded during 1990-93.

On a bilateral basis, the United Kingdom appears to be one of the United States' largest trading partners in services performed by retailers. In 1994, retailing affiliates of U.S. firms operating in the United Kingdom sold non-retailing services valued at $206 million, which accounted for 27 percent of all non-retailing service sales by foreign affiliates of U.S. firms. Corresponding sales by British retailers operating in the United States amounted to only $85 million, resulting in a U.S. surplus of $121 million with the United Kingdom. On the basis of foreign direct investment data, the United Kingdom holds the greatest amount of retailing assets in the United States (19 percent), followed by Germany, with 15 percent of assets. The Netherlands, Canada, the Netherlands Antilles, and Japan each hold between 10 and 12 percent of total foreign direct investment in the U.S. retailing sector.[14]

[13] BEA representative, telephone interview by USITC staff, Dec. 13, 1996.
[14] USDOC, BEA, *Survey of Current Business,* Sept. 1996, p. 76.

Figure 3-3
Retail services transactions by majority-owned affiliates: U.S. sales, purchases, and balance, 1990-94[1]



[1] Import data for 1990 and export data for 1994 were estimated by USITC staff.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1993, Sept. 1994, Sept. 1995, Sept. 1996, and Nov. 1996; and USITC staff estimates.

Summary and Outlook

The United States has one of the most vibrant retail industries in the world, with a full range of services offered, from direct mail to discounters, department stores, factory outlets, and premium specialty shops. Consumers in the United States have an enormous selection of merchandise at highly competitive prices. The size and dynamism of the U.S. retail market have presented attractive investment opportunities for foreign investors for many years. As a result, large foreign firms have established or acquired a considerable market presence in the United States. For example, four of the ten largest food retailing stores in the United States are owned by foreign corporations. These include IYG Holding Company of Japan, which owns the Southland Corporation that, in turn, operates 7-Eleven stores; Delhaize Frères et Cie - Le Lion S.A. of Belgium, which owns Food Lion grocery stores; Tenglemann Warenhandelsgesellschaft of Germany, owner of Great Atlantic & Pacific Tea Co., Inc., which, in turn, owns A&P grocery stores; and Koninklijke Ahold N.V. of the Netherlands, which owns Ahold USA, an operator of grocery store chains.[15] Thus, large foreign investment in the U.S. retail market appears to account for substantial sales by affiliates of foreign firms operating within the U.S. retail sector and explains the traditional deficit in sales of services by retailing affiliates.

By contrast, corresponding sales of services by foreign-based affiliates of U.S. retailers have not been as large. However, the competitive environment within the United States has evolved to the point where U.S. retailers have reportedly developed significant competitive skills that should enable them to compete effectively around the world. For example, U.S. retailers have become highly advanced at managing supply chains and in applying technology to improve operations. In addition, U.S. retailers have developed and

[15] Dun & Bradstreet, *Dun's Business Rankings*, Bethlehem, PA, 1996, pp. 133-138.

implemented efficient human resource management and customer service models, while also mastering advanced merchandising techniques.[16]

The traditional deficit in affiliate sales appears to reflect low investment barriers in the United States and the market's ability to attract foreign investment, as well as low levels of disposable income in foreign markets. For example, until recently, Japan and Korea actively restricted the introduction of new retailers, particularly large ones, through regulations designed to protect small domestic shop owners.[17] Similarly, European countries reportedly impose onerous foreign investment licensing procedures and regulations concerning hours of operation on retailers.[18] In Latin America, some countries with large markets, such as Mexico and Brazil, banned foreign direct investment in the retailing industry for a time, while the region as a whole suffered from periods of economic distress and low levels of disposable income.

Over time, the balance of services sold by retailing affiliates will likely move toward a larger surplus as U.S. retailers faced with a mature domestic market seek to expand into overseas markets where major changes are taking place. The U.S. industry appears to be moving toward greater consolidation, as evidenced by the fact that the top 25 U.S. retailers grew by more than twice the industry's rate during 1993-95.[19] Faced with intense competition at home, U.S. retailers are increasingly looking to foreign markets for continued growth. Meanwhile, foreign markets are becoming increasingly attractive as regulatory barriers ease and economic development boosts consumers' disposable income. In addition, many foreign markets are inefficient and costly, which presents U.S. retailers with opportunities to capitalize on their competitive advantages.[20]

Progressive regulatory changes in Japan are among the more promising trends as Japan is the world's second largest consumer market with the highest per capita disposable income.[21] Since the latest reforms took effect in 1994, the result has been an almost doubling in the number of total store openings, an increase in competition, and a reduction in prices by up to 50 percent, particularly in categories such as beer, sodas, and meats.[22] Other factors supporting the entry of foreign firms during this period included reductions in land prices and construction costs, and the appreciation of the yen which gave companies that source merchandise from abroad a competitive advantage.[23] As a result of all of these elements, U.S. retailers like OfficeMax, the Gap, Toys "R" Us, the Sports Authority, Eddie Bauer,

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[16] Dun & Bradstreet, Dan O'Connor, "Global Retailing and Sourcing," *DM*, May 1996, p. 78.

[17] STAT-USA, "Korea - Retail Distribution Overview - IMI960721," Market Research Reports, July 21, 1996; and "Japan - Large Retail Law Trends - IMI960813," Market Research Reports, Aug. 13, 1996.

[18] Retail industry representatives, interviews by USITC staff, Feb. 22, 1995, and Apr. 19, 1995.

[19] Dan O'Connor, "Global Retailing and Sourcing," *DM*, May 1996, p. 78.

[20] Ibid.

[21] STAT-USA, "Japan - Retail Entry Strategies - IMI960611," Market Research Reports, June 11, 1996, pp. 1-2.

[22] Neil Martin, "Against the Tsuname: A small wave of deregulation successes," *Barron's*, June 17, 1996, p. 22.

[23] STAT-USA, "Japan - Retail Trends - IMI951215," Market Research Reports, Dec. 15, 1995, pp. 1-3.

Banana Republic, and Esprit are entering and rapidly expanding their presence in Japan.[24] OfficeMax, a U.S. office supply retailer, anticipates establishing 200 stores in Japan. Eddie Bauer, the U.S. clothing retailer, also plans to open a total of 15 stores in Japan by the end of 1996 and expects that the Japanese market will be able to sustain 75 to 100 stores.[25]

Other Asian markets pose similarly promising opportunities to U.S. retailers. In January 1996, Korea fully liberalized its distribution market, permitting unprecedented competition among Korean and foreign retailers.[26] As a result, U.S. retailers such as Price Club plan to increase their presence in the Korean market substantially.[27] In Indonesia, the retail market is relatively open to foreign participation and, due to economic growth, retail sales have been growing by an average annual rate of 15 percent in the 1990s. U.S. retailers already established in Indonesia include ACE Hardware, Circle K, JC Penney Collection, The Athlete's Foot, Toys "R" Us, and WalMart.[28] In China, the government is actively trying to develop the retail sector, beginning in the Guangdong region, by providing financing and technical assistance. Although direct investment does not appear to be possible at this time, the government initiative will likely provide U.S. firms with the opportunity to provide management systems or to operate through franchises, and may eventually offer broader access to the Chinese market.[29]

Economic growth in emerging markets combined with the general movement toward deregulation and free market principles is encouraging U.S. retailers to lay plans for increased expansion abroad. In Latin America, for example, policy changes in Brazil, the region's largest market with a population of 160 million, appear to have controlled hyperinflation and bolstered consumer activity.[30] While Chile has a small market of only 14 million people, its fairly well developed retail sector, favorable business environment, and well-educated workforce make it an attractive point of entry into South America.[31] Market conditions also are improving in Argentina and Peru. Even Mexico, which suffered greatly as a result of the peso crisis, appears to show signs of recovery, with economic growth estimated at around 4 percent in 1996.[32] Consequently, OfficeMax planned to establish 5 to 7 new stores in Mexico in 1996, in the hope of eventually operating a total of 50 units. Even larger expansion is planned for Asia, where the company anticipates establishing numerous units in Thailand, Singapore, and Hong Kong.[33]

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[24] Ibid.

[25] Edward D. Pasternack, "Eddie Bauer Expanding in Japan and Germany," *Direct Marketing*, Mar. 1996, pp. 36-39.

[26] STAT-USA, "Korea - Retail Distribution Overview - IMI960721," Market Research Reports, July 21, 1996.

[27] Ibid.

[28] STAT-USA, "Indonesia - Retail Trends - IMI960130," Market Research Reports, Jan. 30, 1996, pp. 1-2.

[29] STAT-USA, "China - Retail Trends - IMI951201," Market Research Reports, Dec. 1, 1995, pp. 1-2.

[30] Bruce Townsend, "Economic Overview of Latin America," *Assignment: Latin America*, Coopers & Lybrand, Apr. 1996, p. 2.

[31] Ibid., p. 13.

[32] "OECD Economic Surveys 1996-1997," *Mexico*, OECD, Jan, 1997, p.3.

[33] Laura Liebeck, "OfficeMax sets overseas itinerary," *Discount Store News*, May 6, 1996, pp. 6-7.

In summary, U.S. retailers with highly developed skills in technology, sourcing, and merchandising are increasingly turning toward foreign markets to sustain their growth in response to the maturation and consolidation of the U.S. market. In addition, foreign markets are becoming more attractive due to economic development and more accessible due to regulatory reform. The combined effect of these two trends in the coming years should increase the number of U.S. retailers operating foreign affiliates and increase the sales generated by such affiliates. Sales growth in foreign markets will likely exceed growth in the United States. Thus, as U.S. retailers move to capitalize on greater opportunities in foreign markets, the net effect on the U.S. retailing affiliates' sales of services should be favorable.

Education Services

Introduction

Education services include formal academic instruction in primary, secondary, and higher education institutions such as colleges and universities, as well as instructional services offered by correspondence schools, vocational schools, language schools, special education schools, and libraries. Formal foreign study programs sponsored by colleges and universities account for approximately 90 percent of trade in education services.[34] U.S. cross-border exports reflect the estimated tuition and living expenses of foreign residents enrolled in U.S. colleges and universities.[35] U.S. imports of education services represent the estimated tuition and living expenses of U.S. residents who study abroad.[36] Affiliate trade in education services occurs when U.S. institutions provide courses overseas using their own faculty and facilities, or when foreign institutions provide courses in the United States using their own faculty and facilities. Because comprehensive data on affiliate trade are not available, this chapter will focus solely on cross-border trade.

Recent Trends in Cross-Border Trade, 1990-95

In 1995, U.S. exports of education services totaled $7.5 billion. Exports grew by 5 percent during 1995, less than the 9-percent average annual growth experienced during 1990-94.[37] U.S. imports measured $877 million in 1995, reflecting growth of 7.5 percent (figure 3-4), compared with 5.5 percent average annual growth during 1990-94. Trade in education services generated a surplus of $6.6 billion dollars, accounting for 11 percent of the U.S. cross-border service trade surplus in 1995. The surplus on trade in education services grew modestly, by 4 percent in 1995, following average annual growth of more than 9 percent during 1990-94.

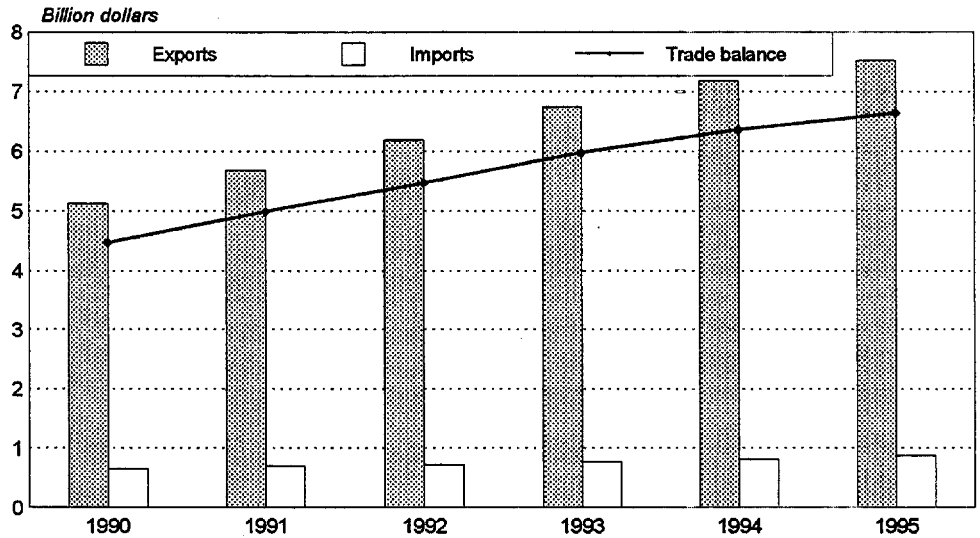
[34] USITC staff estimates.

[35] Foreign residents do not include U.S. citizens, immigrants, or refugees.

[36] U.S. residents must receive credit from accredited U.S. institutions to be included in trade data; those who do not transfer foreign academic credit to U.S. institutions, or who study abroad on an informal basis, are not included.

[37] BEA trade data reported for 1995 include services provided during the 1994-95 academic year. The same pattern of reporting holds for each year beginning in 1989, which spans the 1988-89 academic year.

Figure 3-4
Education services: U.S. cross-border exports, imports, and trade balance, 1990-95



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1992, Sept. 1994, Sept. 1995, and Nov. 1996.

U.S. export growth has declined in recent years, as educational institutions in the United States face increasing competition from abroad. New and improved educational facilities in major U.S. export markets are enrolling local students who may have otherwise chosen to study in the United States.[38] In addition, a number of governments and educational institutions outside the United States have begun to actively recruit foreign students from the United States' major traditional export markets.[39] The United Kingdom and Australia have mounted successful campaigns to attract more foreign students from Asia.[40] Australia, in particular, has aggressively marketed its proximity to the Asian mainland and its competitive education programs to Asian students.[41]

Major U.S. export markets for education services are Japan, China, Taiwan, India, and Korea (figure 3-5), although the growth in exports to Asian countries has steadily declined since 1990. In 1995, the number of students from India remained unchanged, while those from China actually decreased by almost 8 percent (table 3-1). Part of this decline may be attributed to tighter U.S. immigration policies limiting the number of student visas granted to Chinese and Indian nationals.[42] Nonetheless, Asian markets accounted for 58 percent of all U.S. exports of education services in 1995.

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[38] NAFSA: Association of International Educators, "East Asia's Education Boom: Brain Drain the Sequel," *International Educator*, Spring 1996, pp. 16-21.

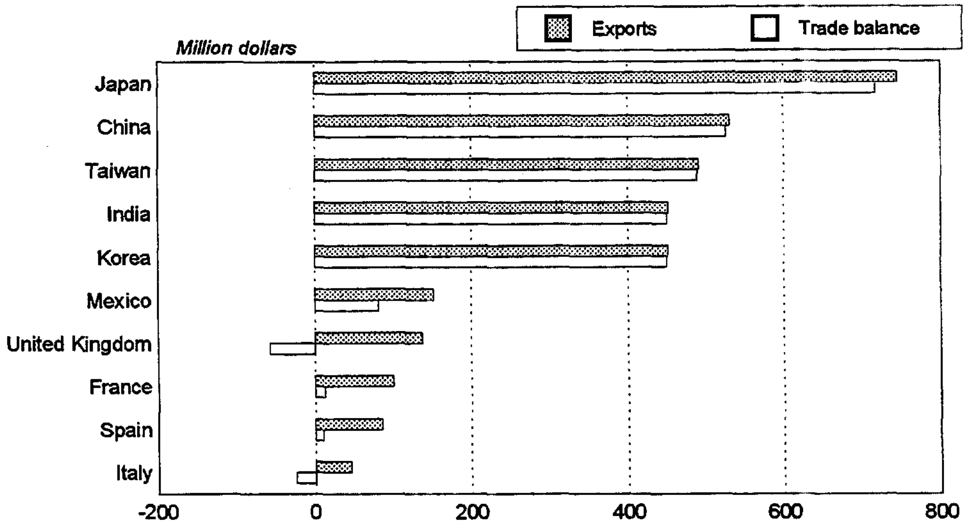
[39] NAFSA: Association of International Educators, "Luring Students to the U.K.," *International Educator*, Summer 1996, p. 30; and NAFSA: Association of International Educators, "Australia Takes Center Stage," *International Educator*, Summer 1996, pp. 26-28.

[40] NAFSA: Association of International Educators, "Luring Students to the U.K.," p. 30.

[41] NAFSA: Association of International Educators, "Australia Takes Center Stage," *International Educator*, Summer 1996, pp. 26-28.

[42] NAFSA: Association of International Educators, "NAFSA Writes State Department on Chinese Visa Denials," NAFSA Newsletter, Aug./Sept. 1996, p. 5.

Figure 3-5
Education services: U.S. cross-border exports and trade balance, by major trading partners, 1995



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

Table 3-1
Education services: Annual growth rate of cross-border exports to major trading partners, 1991-92 to 1994-95

Academic year	Japan	China	Taiwan	India	Korea
			(Percent)		
1991-92	14.9	14.1	11.6	18.7	15.9
1992-93	9.6	10.6	10.6	16.3	16.7
1993-94	6.2	1.9	4.3	0.4	12.9
1994-95	6.3	-7.8	0.4	0.0	12.2

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

European markets, on the other hand, accounted for 66 percent of all U.S. imports. U.S. students who study abroad prefer to do so in the United Kingdom, Mexico, France, Spain, and Italy (figure 3-5). The United States maintains an education services trade surplus with all of its trading partners except Italy and the United Kingdom. The deficit with Italy grew at an average annual rate of 10 percent during 1990-95, whereas the deficit with the United Kingdom increased at an average annual rate of 5 percent. Imports grew as U.S. students became increasingly aware of the benefits of studying abroad, and as colleges developed new programs to meet growing demand for foreign study.[43] In addition, more students have been able to afford study abroad as a result of recent Federal regulations that require all institutions that receive Federal funds to allow students to use financial aid for study abroad programs.[44] Location and language appear to determine U.S. students' choice of foreign study programs. In a recent survey of U.S. students who studied abroad, almost 80 percent chose their program based solely on location.[45] Nearly 70 percent of students surveyed stated that their main reason for studying abroad was either an interest in a particular culture or a desire to improve language skills.[46]

Summary and Outlook

While the United States enjoys a substantial trade surplus in education services, recent factors have reduced the surplus. As stated, imports accelerated as foreign education gained popularity among U.S. students and became more affordable. U.S. exports declined as foreign education institutions improved, as certain foreign institutions marketed their study programs more aggressively, and as U.S. visa requirements became more rigorous. Efforts by China, Taiwan, Korea, and India to privatize and improve domestic education systems may have encouraged some students to choose local institutions over U.S. colleges and universities.[47] Nevertheless, Asian students and employers continue to value education in U.S. universities, and many Asian institutions will not be able to meet local demand for several years.[48] Post-secondary institutions in China, for instance, still use outdated facilities, teaching methods, and materials.[49]

Consequently, Asian countries should continue to be key export markets in the foreseeable future. Chinese students are traveling abroad to learn business and science skills that globally competitive firms require.[50] In Korea and Taiwan, where competition for limited university admissions continues to be intense, students should continue to look at U.S. universities as alternatives.[51] In addition, English language skills and U.S. business

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[43] Amy Magaro Rubin, "Study-Abroad Programs for Americans Enjoyed a Boom Year in 1994-95," *The Chronicle of Higher Education*, Dec. 6, 1996, p. A66.

[44] Ibid.

[45] Darden Graduate School of Business Administration of the University of Virginia, *CIEE Market Study: Motivations for Study Abroad* (New York: Council on International Educational Exchange, 1996), p. 15.

[46] Ibid., p. 18.

[47] NAFSA: Association of International Educators, "East Asia's Education Boom: Brain Drain the Sequel," *International Educator*, Spring 1996, pp. 16-21.

[48] USDOC, International Trade Administration (ITA), "Taiwan: Education in the United States," *Market Research Reports*, Sept. 1994; USDOC, ITA, "Korea: Educational Services," *Market Research Reports*, Dec. 1994; and Akimasa Mitsuta, "Japanese Student Mobility," ch. in *Open Doors: Report on International Educational Exchange* (New York: Institute of International Education, 1994), pp.12-13.

[49] James Hertling, "Critics Fear China Cannot Prepare Students for a Competitive Economy," *The Chronicle of Higher Education*, Jan. 5, 1996, p. A51.

[50] Ibid.

[51] USDOC, ITA, "Taiwan: Education in the United States," and USDOC, ITA, "Korea: Educational Services."

instruction are in great demand among students and employers in China, Korea, and Taiwan.[52] In China, English is reportedly "one of the first rungs on the career ladder."[53]

U.S. immigration requirements may also continue to affect U.S. exports of education services. Many Asian students have reported problems with obtaining visas to study in the United States.[54] Chinese students, in particular, have reportedly been denied visas on a large scale. Many U.S. educators are concerned that new legislative efforts to curb legal immigration into the United States may have a detrimental effect on exports, if such legislation makes it more difficult for foreign students to obtain and renew visas for studying in the United States.[55] In addition to immigration policies, educators worry that other U.S. policy decisions may be sending negative signals to foreign students, such as the closing of U.S. information offices in many countries.[56]

Although competition from abroad is increasing, the United States should continue to be a globally competitive provider of education services. The United States is firmly established in key markets abroad, generating exports that are eight times greater than imports. The significant gap in the volume of imports and exports will likely continue for several years even as foreign institutions mount effective campaigns to lure students from local and third-country markets.

Financial Services

The following section presents a discussion of trade in financial services. The first discussion examines insurance; the second examines banking and securities services.

Insurance Services

Introduction

The business of insurance includes the underwriting of financial risk in both life and nonlife (property/casualty) products as well as many specialty insurance products. Among the latter are reinsurance (further transferring risk between primary insurance companies

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[52] Ibid.

[53] James Hertling, "China Embraces the English Language," *The Chronicle of Higher Education*, Jan. 5, 1996, p. A49.

[54] NAFSA: Association of International Educators, "NAFSA Writes State Department on Chinese Visa Denials," p. 5.

[55] U.S. educators have expressed concern over the effects of H.R. 2202, the Illegal Immigration Reform and Immigrant Responsibility Act of 1996, which was incorporated into H.R. 3610, the Omnibus Appropriations Act. The law requires colleges to collect more detailed information about foreign students on their campuses and charge a new $100 fee to foreign students and their dependents. U.S. industry representatives, interviews by USITC staff, Richmond, VA, Nov. 21-23, 1996. Also, NAFSA: Association of International Educators, "A Farewell Gift From the 104th Congress: Immigration Reform," *NAFSA Newsletter*, Oct. 1, 1996, p. 5; and Paul Desruisseaux, "U.S. is Less Hospitable Nowadays, Foreign Students and Scholars Find," *The Chronicle of Higher Education*, Nov. 29, 1996, p. A45.

[56] Paul Desruisseaux, "U.S. is Less Hospitable Nowadays, Foreign Students and Scholars Find," p. A45.

and specialty reinsurance companies), marine and transportation companies (hulls, cargoes, off-shore oil rigs), insurance brokerage (specialists who package together insurance policies from several underwriters to cover a given risk), and captive companies (a pool of like-risk companies who self-insure part or all of their risks). Financial investment plays a large role in the business of insurance and, increasingly, insurance is being wedded with the related businesses of banking, securities, and other financial services.

International trade in insurance services may take place both on a cross-border and an affiliate basis. Since insurance sales generally demand knowledge of, and proximity to, local markets, the largest part of international trade in insurance is undertaken by affiliates established in foreign markets. Exceptions to this overall precept include marine insurance and reinsurance, which commonly are traded cross-border among developed countries of the Organization for Economic Cooperation and Development (OECD).

Recent Trends

Cross-Border Trade, 1990-95

In 1995, U.S. cross-border exports[57] of insurance services measured $1.4 billion and imports amounted to $4.5 billion. The resulting negative trade balance of $3.1 billion was up from a deficit of $2.3 billion in 1994. Imports increased by 19 percent in 1995, continuing an overall trend evident since 1992 (figure 3-6).[58] Cross-border exports decreased by more than 7 percent following 19 percent average annual growth during 1990-94.

The 1995 cross-border trade balance in insurance demonstrates that the net figures for both imports and exports are affected by the claims paid against the actual size of premiums collected. With respect to exports, premiums collected from foreign policyholders actually increased, but losses paid to those policyholders also increased considerably, ultimately depressing the net export figure. The reverse happened for imports. Premiums paid to foreign insurers fell in 1995, but claims received on insured lives and property also fell by a larger amount due to fewer large-scale disasters such as the Northridge, California earthquake. The ultimate effect was to increase the net import figure.

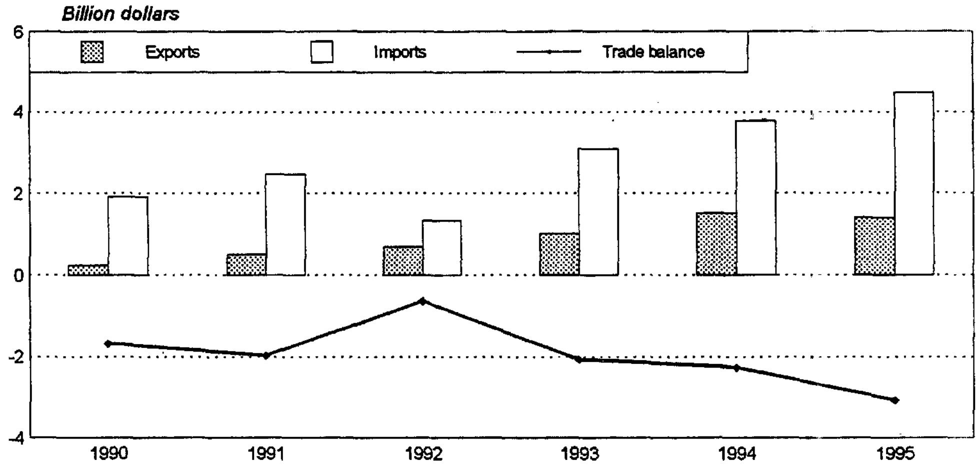
In terms of premiums, the largest markets for U.S. cross-border exports of primary insurance and reinsurance in 1995, included the United Kingdom (29 percent), Canada (21 percent), Japan (8 percent), and Bermuda (4 percent). With respect to cross-border imports, the largest suppliers were Bermuda (25 percent),[59] the United Kingdom (24 percent), Germany (8 percent), Canada (8 percent), and Switzerland (5 percent) (figure 3-7). Companies based in the European Union accounted for 40 percent of U.S. insurance imports in 1995.

[57] All cross-border trade figures for insurance services are presented on a net basis, i.e., imports comprise premiums paid for foreign insurance coverage, minus claims received from foreign insurers. Exports comprise premiums received from foreign policyholders, minus payments for claims.

[58] The 1992 decline in the insurance trade deficit almost entirely reflects reinsurance reimbursement claims paid by non-U.S. insurers for damage caused by Hurricane Andrew in South Florida.

[59] Bermuda's contributions result primarily from reinsurance.

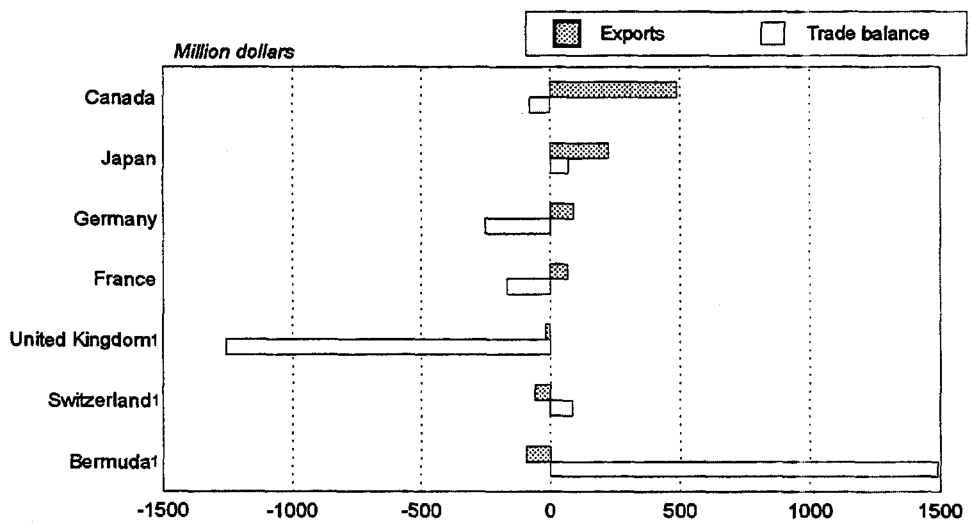
Figure 3-6
Insurance services: U.S. cross-border exports, imports, and trade balance, 1990-95[1]



[1] All figures are provided on a net basis; i.e., insurance premiums received minus insurance claims paid. Includes primary insurance and reinsurance. Cross-border trade figures are not comparable with affiliate trade figures.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1992, Sept. 1994, Sept. 1995, July 1996, p.75, and Nov. 1996, pp. 103-105.

Figure 3-7
Insurance services: U.S. cross-border exports and trade balance, by major trading partners, 1995



[1] Exports are depicted as negative values because claims paid to policyholders in Bermuda, Switzerland and the United Kingdom exceeded premiums collected from them by U.S. insurers. Trade balances with Switzerland and Bermuda are positive because claims received by U.S. policyholders exceeded premiums paid to foreign insurers.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996, pp. 111-112.

Affiliate Transactions, 1990-94

Insurance affiliates' transactions[60] in 1994 represented 20 percent of all U.S. affiliates' sales abroad and a very large 34 percent of all U.S. purchases from foreign-owned affiliates established in the United States. In 1994, U.S.-owned affiliates' sales abroad totaled $30.9 billion while foreign insurers in the United States did business of $48.7 billion, resulting in a negative balance on affiliate transactions of $17.8 billion. Insurance sales by U.S.-owned affiliates increased by 9 percent in 1994, slower than the average annual growth rate of 12 percent during 1990-93. U.S. purchases grew by 10 percent in 1994, significantly faster than the 4 percent average annual growth during 1990-93[61] (figure 3-8).

U.S. insurance affiliates commercially established abroad in 1994 did most business in Japan (27 percent), the United Kingdom (20 percent), and Canada (17 percent). Conversely, foreign companies selling insurance from affiliates established in the U.S. market originated principally from the United Kingdom (27 percent), Canada (24 percent), Switzerland (13 percent), the Netherlands (12 percent), Germany (10 percent), and France (9 percent). The largest U.S. surplus on affiliate transactions was with Japan ($7.8 billion).[62] Large negative balances for affiliate insurance transactions occurred with the United Kingdom ($6.8 billion), Canada ($6.3 billion), and Germany ($4.5 billion)[63] (figure 3-9).

Summary and Outlook

Both the U.S. cross-border and affiliate trade balances are negative primarily because of the strong presence of foreign direct investment in the U.S. insurance market. Slightly more than 10 percent of all U.S. premiums are collected by non-U.S. based insurers.[64] Factors contributing to foreign investment in the U.S. market include the size of the market, the relative attractiveness of the dollar exchange rate against other currencies, and the past unwillingness by many large U.S. insurance companies to invest abroad.[65]

In addition to these factors, there is an emerging pattern of market deregulation around the world that may have a significant effect on international insurance trade over time. Chapter 4 of this report describes the extended financial service negotiations of the World Trade Organization (WTO) in 1994-95. The future of the current WTO interim agreement on financial services, including insurance, is scheduled to be decided no later than December 31, 1997. Whatever the ultimate outcome of these talks, however, the pressures generated

[60] For affiliate trade, figures reflect premiums only. Unlike cross-border figures, they are not net of insurance claims paid, as these are unknown.

[61] Affiliate insurance data for 1992 are suppressed in official statistics. USITC staff estimates.

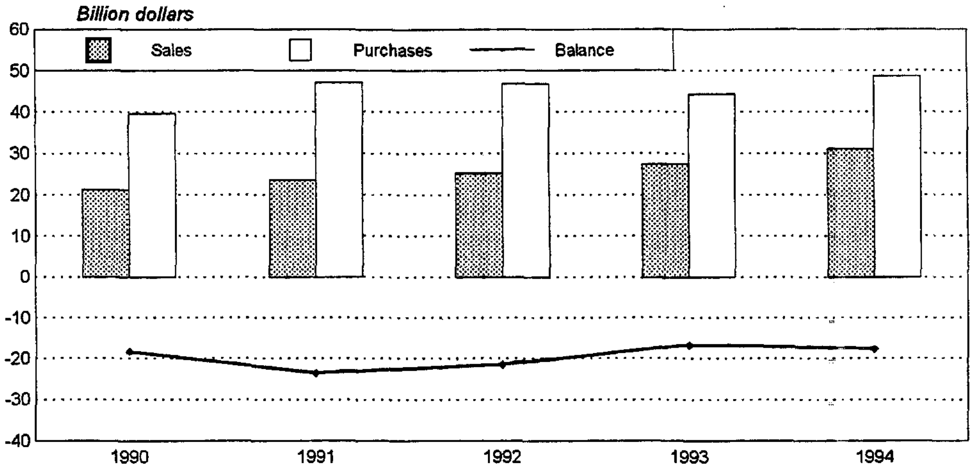
[62] Japanese insurance companies are the largest in the world, but do little international underwriting business, preferring largely to stay in their own market.

[63] The affiliate export figure for Switzerland is suppressed in official statistics. U.S. purchases of insurance from affiliates with Swiss parent firms amounted to $6.4 billion in 1994.

[64] See National Association of Insurance Commissioners various reports on the foreign penetration of U.S. markets, beginning in 1992.

[65] For a fuller discussion of these factors, see USITC, *U.S. Trade Shifts in Selected Industries: Services*, publication 2969, June 1996, pp. 3-13--3-16.

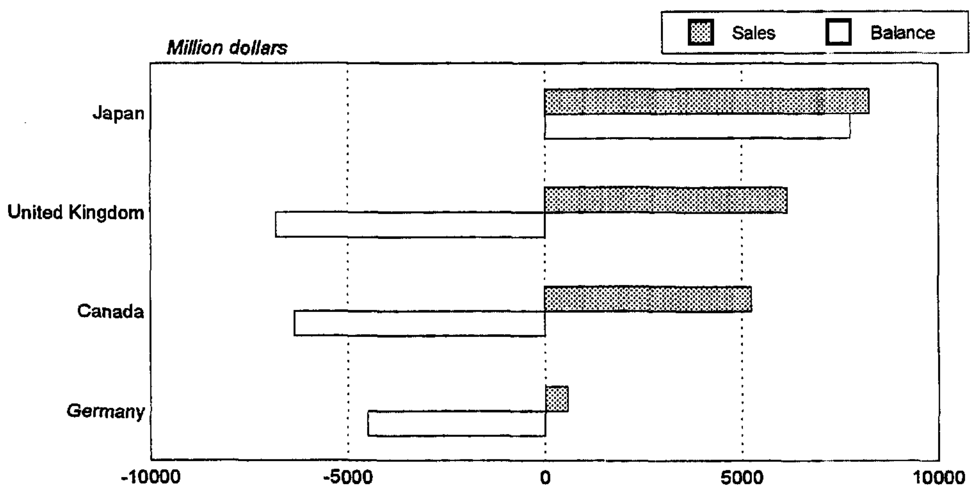
Figure 3-8
Insurance services transactions by majority-owned affiliates: U.S. sales, purchases, and balance, 1990-94[1]



[1] Figures reflect premiums for primary insurance and reinsurance only. Affiliate trade figures are not comparable with cross-border insurance trade figures because cross-border figures are net of claims paid.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1993, Sept. 1995, and Nov. 1996, pp. 111-112, and USITC staff estimates.

Figure 3-9
Insurance services transactions by majority-owned affiliates: U.S. sales and balance, by major trading partners, 1994



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996, pp. 111-112.

by the negotiations, along with a desire by many nations to enhance incoming foreign direct investment, suggest that U.S. insurance firms' opportunities in foreign markets may grow.

India, with a nationalized insurance industry, is expected to permit some foreign investment in its markets within the next three years.[66] In August 1996, Brazil decided to end its state-owned reinsurance monopoly, and along with several other Latin American nations is moving to liberalize foreign insurance investment restrictions.[67] Other WTO member states, including Hungary, Slovakia, Egypt, Morocco, Pakistan, and several ASEAN nations also have committed to some degree of liberalization of investment restrictions in their markets.[68]

China and Russia aspire to WTO membership, along with some 30 other nations. In a market projected to grow by more than 10 percent a year during the 1996-2000 period, China currently licenses only three non-Chinese insurance companies, and imposes on them very restrictive geographic limitations.[69] To obtain membership, China and other WTO aspirants will be required to liberalize their current restrictions on market access and national treatment for foreign insurers.

Deregulation is also affecting developed countries' markets. Japan has announced a major deregulation of its financial markets, including insurance,[70] and on December 15, 1996, the United States and Japan reached an understanding as to how to implement the U.S./Japan Insurance "Framework" agreement signed by the two countries in October 1994.[71] Foreign insurers currently present in the Japanese market expect the agreement, coupled with Japan's deregulation plan, to enhance their ability to increase their share of the heretofore restricted insurance market.[72]

In the United States, too, changes in the regulation of insurance have been taking place. Banks are entering the insurance distribution network in major ways, as a result of court decisions permitting them to do so.[73] The U.S. Office of the Comptroller of the Currency (OCC) issued guidelines on November 4, 1996, clarifying the conditions under which national banks may sell insurance.[74] Indeed, in the first two weeks of November 1996, the OCC gave permission to banks operating in nine different States to open or expand insurance activities.[75] Because distribution methods are of key importance to the business of insurance, these changes in the U.S. insurance market will have some impact

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[66] *World Insurance Report*, Oct. 4, 1996, p. 5, and Oct. 18, 1996, p. 5.

[67] *World Insurance Report*, Sept. 6, 1996, p. 3, and Nov. 1, 1996, p. 4.

[68] For details, see the *Schedules of Specific Commitments* submitted by these countries to the World Trade Organization.

[69] *World Insurance Report*, Aug. 9, 1996, p. 2.

[70] "Japanese financial reform under attack," *The Economist*, Dec. 7, 1996, p. 70.

[71] Officials of the Office of the United States Trade Representative (USTR), telephone interviews by USITC staff, Dec. 13-15, 1996.

[72] U.S. insurance executives, interview by USITC staff, Washington, DC, Dec. 16, 1996.

[73] The U.S. Supreme Court concurred with the OCC's interpretation of Section 92 of the Bank Holding Company Act (12 U.S.C. 92). U.S. Supreme Court decision on Barnett v. Nelson et al. (116 S.Ct. 1103, (1996)) widened significantly the ability of banks in towns with populations of less than 5,000 to distribute insurance, while the decision on NationsBank v. Valic (513 U.S. 251, (1995)) widened the ability of banks to offer annuities.

[74] See *Insurance Regulator*, Nov. 4 and Nov. 11, 1996, p. 1 and various previous issues.

[75] Ibid.

internationally. It is too early, however, to judge precisely what the ramifications of the change in regulation will entail.

Finally, national regulators of insurance in many countries have moved to institutionalize the informal meetings they have held annually since 1992 under the auspices of the National Association of Insurance Commissioners, a U.S. organization. Unlike international bank regulators, who have had the formal mechanisms of the Bank for International Settlements, the Paris Club, and other venues for international consultation and problem-solving for many years, international insurance regulators have not, heretofore, formed a permanent secretariat to coordinate international insurance regulatory questions and promote communication between national regulators. That has now changed. At the third annual meeting of the International Association of Insurance Supervisors (IAIS) held in Paris, October 14-15, 1996, the IAIS voted to form a permanent secretariat in Basle, Switzerland.[76] If the IAIS can broadly agree that market access and national treatment are principles that help to build healthy national systems of insurance, the effect could help ease trade restrictions in some countries and facilitate U.S. investment abroad.

Banking and Securities Services

Introduction

International trade data on financial services encompass both the fee-based commercial banking business and securities-related activities of all financial service firms. Fee-based commercial banking essentially involves banking services other than deposit-taking and lending activities. These services include financial management and transaction services; advisory services; custody services;[77] credit card services; and other credit-related services, such as providing standby letters of credit[78] for trade financing. Securities-related activities include securities lending services,[79] mutual fund services, securities clearance and settlement services, securities trading services, private placements,[80] and underwriting services. Financial service firms provide these services to domestic and foreign clients on both a cross-border basis and through affiliates established abroad.

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[76] See IAIS documents on this meeting, issued by the IAIS via the NAIC, Kansas City, MO, Oct. 1996. Also, *The Economist*, Dec. 7, 1996, p. 12.

[77] A custodian holds securities under a written agreement for a client and buys or sells when instructed. Custody services include securities safekeeping, and collection of dividends and interest. Thomas P. Fitch, *Dictionary of Banking Terms* (New York: Barron's, 1990), p. 172.

[78] A standby letter of credit represents an obligation by the issuing bank on a designated third party (the beneficiary) that is contingent on the failure of the bank's customer to perform under the terms of a contract with the beneficiary. A standby letter of credit is most often used as a credit enhancement, with the understanding that, in most cases, it will never be drawn against or funded. Ibid., p. 581.

[79] A securities loan is a loan made by broker-dealers, banks, or other organizations to finance the purchase of securities. Ibid., p. 552.

[80] A private placement is the sale of an entire issue of securities to a small group of investors. Ibid., pp. 481-482.

Recent Trends

Cross-Border Trade, 1992-95[81]

In 1995, U.S. financial service firms generated cross-border exports of $6.1 billion, while imports measured $1.7 billion (figure 3-10). The resulting $4.4 billion surplus in cross-border financial services transactions accounted for 7 percent of the total U.S. surplus in services trade. During 1995, cross-border financial services trade continued to grow, although at a slower rate than in 1992-94. In 1995, exports grew by 9 percent, which was half the average annual rate of 18 percent recorded during 1992-94. Imports similarly exhibited slower growth of 6 percent compared with the average annual rate of 28 percent during 1992-94. Slower growth of imports as compared to exports increased the value of the trade surplus by 10 percent in 1995. During 1992-94, this surplus increased by an average annual growth rate of 15 percent.

On a bilateral basis, the United States maintains a surplus with all other countries in cross-border financial service transactions. Bilateral trade with the United Kingdom is by far the largest component of financial services trade and the largest contributor to the surplus in financial services. In 1995, cross-border trade with the United Kingdom accounted for 19 percent of U.S. financial service exports and 33 percent of U.S. imports (figure 3-11). Other significant trading partners included Canada, Japan, and Bermuda.

Financial service transactions with the top four countries account for 37 percent of U.S. financial service exports and 56 percent of U.S. imports. The large proportion of U.S. imports from just four countries demonstrates that there are relatively few countries from which the United States purchases financial services. By contrast, a significantly greater number of countries that purchase financial services from the United States. Sixty-three percent of U.S. receipts are from countries that individually accounted for less than 3 percent of total U.S. exports in 1995.[82]

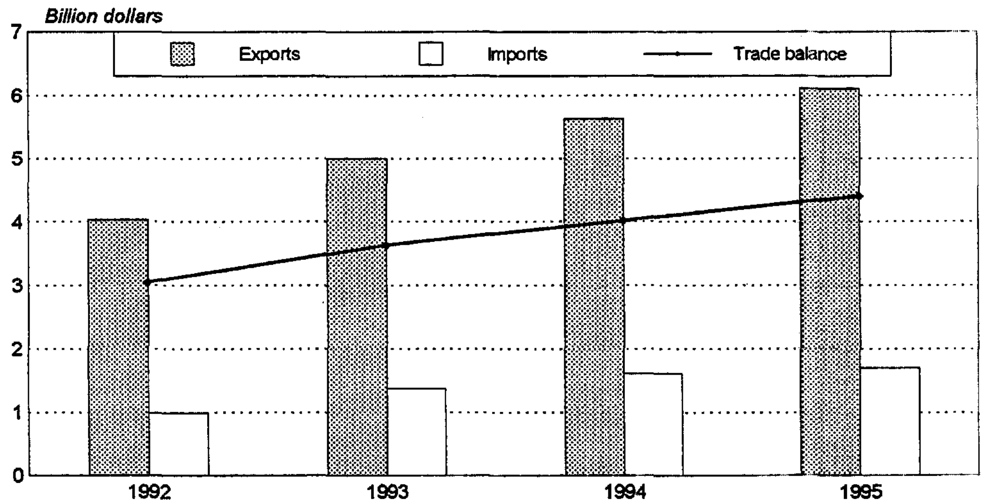
Affiliate Transactions, 1990-94

As with cross-border trade, U.S. affiliate transactions in financial services consistently resulted in a substantial surplus (figure 3-12). In 1994, financial service sales by foreign-based affiliates of U.S. firms totaled $14 billion, whereas U.S. purchases from foreign-owned affiliates totaled $5.9 billion. The resulting surplus of $8.1 billion in financial services transactions through affiliates is 22 percent larger than the surplus recorded in 1993, reflecting sales growth of 9 percent and the contraction of U.S. purchases by 5 percent. Financial services transactions through affiliates in 1994 contrasts with the trend

[81] In 1996, the Bureau of Economic Analysis (BEA) completed its first Benchmark Survey of Financial Services Transactions Between U.S. Financial Services Providers and Unaffiliated Foreign Persons. The survey enabled BEA to improve its measure of financial services transactions, which resulted in some significant revisions of previously reported data. Due to limitations in source data and methodology, BEA's revisions could only provide reasonable estimates for cross-border trade dating back to 1992. Consequently, the discussion of cross-border trade in financial services is limited to the time period 1992-95.

[82] USDOC, BEA, *Survey of Current Business*, Nov. 1996, pp. 100-101.

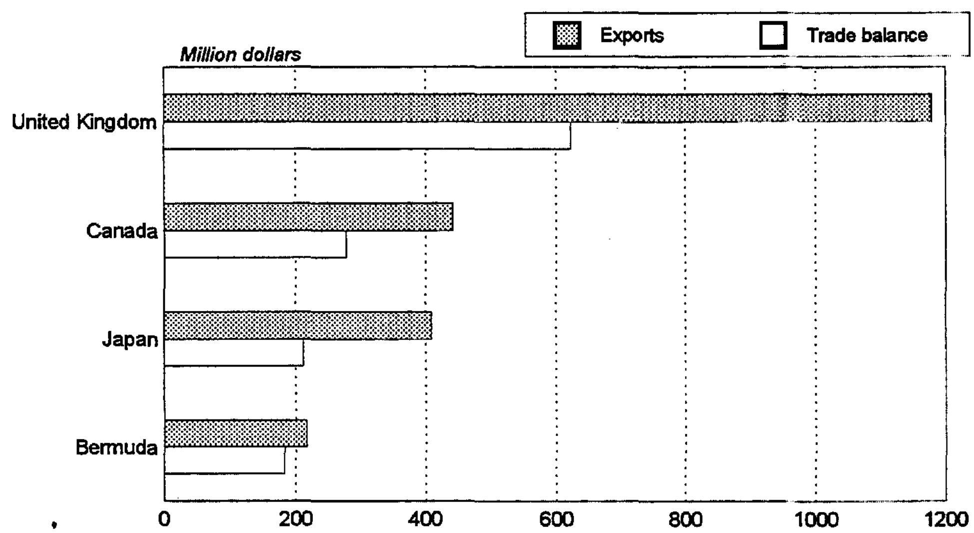
Figure 3-10
Banking and securities services: U.S. cross-border exports, imports, and trade balance, 1992-95[1]



[1] Improvements in BEA's coverage of financial services in 1996 led to significant revisions of cross-border data reported previously. However, these revisions could only be carried back to 1992 due to limitations in the source data and assumptions.

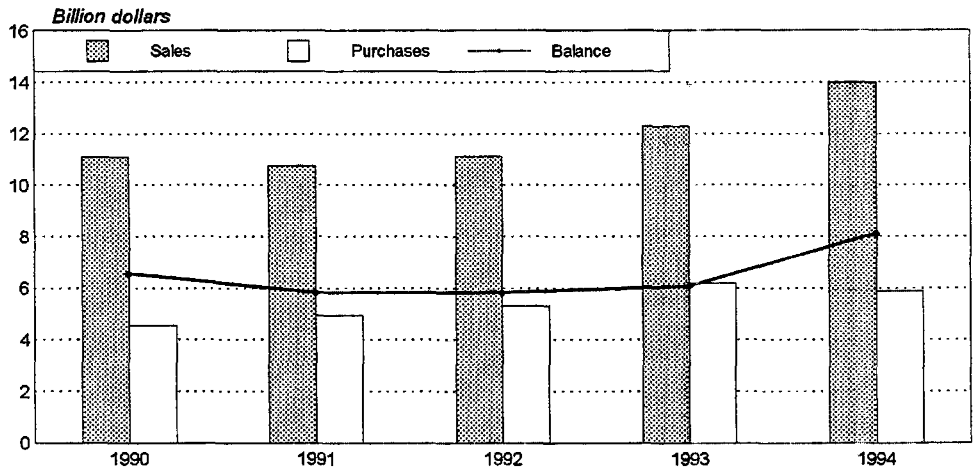
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business,* Nov. 1996, p. 75.

Figure 3-11
Banking and securities services: U.S. cross-border exports and trade balance, by major trading partners, 1995



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business,* Nov. 1996.

Figure 3-12
Banking and securities services transactions by majority-owned affiliates: U.S. sales, purchases, and balance, 1990-94[1]



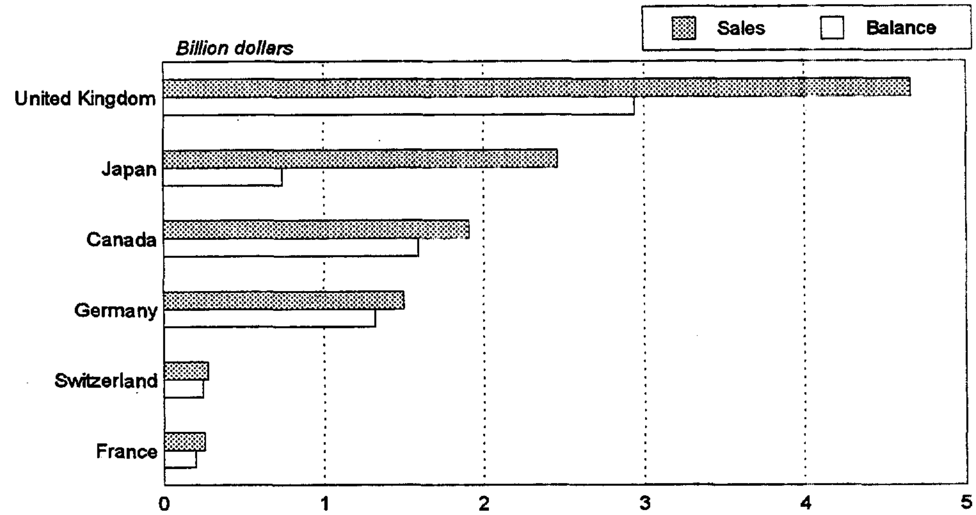
[1]Export data are understated to avoid disclosing information concerning the operations of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1993, Sept. 1994, Sept. 1995, and Nov. 1996; and USITC staff estimates.

experienced during 1990-93, when U.S. purchases grew at an average annual rate of 11 percent, more than twice the rate of sales.[83] On a bilateral basis, the United Kingdom once again was the largest U.S. trading partner, accounting for approximately one-third of affiliate sales and purchases, as well as just over one-third of the surplus in affiliate transactions. In 1994, U.S. sales through affiliates in the United Kingdom, totaling $4.7 billion, were nearly three times larger than purchases of $1.7 billion from British-owned firms in the United States, resulting in a bilateral surplus of nearly $3 billion (figure 3-13). Other major trading partners included Japan, Canada, and Germany. While U.S. financial service sales to Japan of $2.5 billion were considerably smaller than sales to the United Kingdom, U.S. purchases from Japanese-owned affiliates, measuring $1.7 billion, were roughly the same size, placing Japan as one of the two predominant suppliers of financial services through foreign affiliates in the United States. This reflects high levels of Japanese direct investment in the U.S. industry.[84] U.S. financial service transactions through affiliates with Canada and Germany similarly generated sizable surpluses. In 1994, U.S. sales through affiliates to Canada and Germany were $1.9 billion and $1.5 billion, or 14 percent and 11 percent of U.S. financial service sales, respectively. Purchases of financial services from affiliates of Canadian or German firms were much smaller, with 1994 imports of $317 million from Canada and $179 million from Germany. As a group, the United Kingdom, Japan, Canada, and Germany accounted for 75 percent of U.S. affiliate sales and 67 percent of purchases.

[83] USDOC, BEA, *Survey of Current Business*, Nov. 1996, pp. 111-112.
[84] USDOC, BEA, *Survey of Current Business*, Sept. 1996, pp. 76 and 107, and International Finance Corporation, *Emerging Markets Factbook 1996*, pp. 14-17.

Figure 3-13
Banking and securities services transactions by majority-owned affiliates: U.S. sales and balance, by major trading partners, 1994



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996, and USITC staff estimates.

Summary and Outlook

U.S. financial service firms are highly competitive in the global marketplace. The activities of U.S. firms consistently result in large trade surpluses on both cross-border and affiliate bases. U.S. exports of financial services are widely distributed among numerous countries around the world, while corresponding imports are purchased predominantly from the United Kingdom and Japan. This reflects the preeminence of the financial markets in New York, London, and Tokyo.

The strong international performance of U.S. financial service firms is driven by efforts to meet the increasingly international needs of clients and to respond to events taking place in global capital markets. Major clients of U.S. financial service firms are increasingly investing, producing, and trading merchandise and services abroad. Net U.S. direct investment abroad increased by 75 percent in 1995, and preliminary data for the first quarter of 1996 suggest that such investment increased by 78 percent over the course of the year.[85] Trade flows similarly continue to grow, with U.S. trade volume increasing by 11 percent during 1995.[86] The growth in investment and trade reflects the activities of all types of firms as they increasingly expand their presence internationally. In response, financial service providers are expanding their international presence as well as their selection of financial products. For example, since 1994, BankBoston has opened new offices in China, Indonesia, and India, and also established a trade finance center in Hong Kong that facilitates transactions between smaller Asian-based companies and South

[85] USDOC, BEA, *Survey of Current Business,* July 1996, pp. 68-75.
[86] Ibid.

American markets.[87] Similarly, during 1990-95, Citibank established affiliates in approximately 12 countries, including South Africa, Vietnam, and several countries in Eastern Europe, bringing the total number of countries served to 98.[88]

In addition to meeting the needs of global customers, U.S. financial service firms also are expanding their international activities in response to developments in global capital markets. Smaller financial exchanges have been growing as companies and governments around the world are increasingly turning to capital markets to meet their financing needs instead of the more traditional method of debt financing through banks. For example, Germany's Deutsche Telekom executed an initial public offering in November 1996 which became one of the largest such offers in history.[89] Many developing countries also are pursuing strategies to increase capital market financing as part of efforts to privatize state-owned enterprises. As a result, the number of listed companies in emerging markets grew by 14 percent per year during 1994-95 despite the negative effects of the Mexican peso crisis in 1994.[90] Global capital markets as a group have recorded generally strong growth in recent years. During 1990-95, world market capitalization and value traded increased at average annual rates of 14 and 16 percent, respectively.[91] In 1995, major indices like the Dow Jones Industrial Average and the Nasdaq Composite Index posted record gains. Trading volumes on the New York Stock Exchange and the Nasdaq also surpassed previous records. Similar events took place in Europe, where the Financial Times-Stock Exchange Eurotrack 100 Index increased by 12 percent, and in Asia, where the Hang Seng Index in Hong Kong rose 23 percent. Japan represented the only weak point in global financial markets during 1995, where the Nikkei 225 Index reflected little growth.[92] These overall trends toward capital market growth and market liberalization in developing countries create new business opportunities for U.S. financial service firms to provide advisory, underwriting, and trading services. In addition, expanding global markets also require U.S. firms to establish and develop affiliates around the world in order to capture this new business. The effect on trade flows is an increase in both cross-border and affiliate transactions.

Due to continuing trends of capital market development and globalization of industries, the outlook for U.S. cross-border and affiliate trade in financial services is also positive. Capital market data for 1996 suggest that the year was another strong one for financial services firms as the Dow Jones Industrial Average broke the 7,000 level early in 1997 for the first time in its history. Continued growth in international financial and trade activity should lead to further growth in cross-border trade. Should Japan and Europe continue to recover from the recent period of slow economic growth, sales by foreign affiliates of U.S. firms operating in those large financial markets will likely experience significant growth.

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[87] "BankBoston Looks East for Growth," PR Newswire, Sept. 19, 1996.

[88] Citibank, CCInvestor, June 1996, pp. 1-3.

[89] E.S. Browning and Susan Pulliam, "For Deutsche Telekom IPO, a weak ring," *The Wall Street Journal,* Nov. 6, 1996, p. C1.

[90] International Monetary Fund, *Emerging Stock Markets Factbook 1995,* (Washington, DC, 1996), p. 9.

[91] Ibid., pp. 17-21.

[92] World Wide Web, retrieved Oct. 16, 1996, http://www.plan.ml.com/about/annrep/manadis/mdafcro.html, Merrill Lynch, *Merrill Lynch Annual Report, 1995.*

Within the United States, the competitive and regulatory environment is changing significantly, which may lead to future shifts in affiliate trade patterns. The removal of restrictions on interstate banking and the gradual easing of limitations on the securities activities of banks are prompting a wave of consolidation within the industry, as evidenced by mergers and acquisitions such as the March 1996 joining of Chase Manhattan Bank and Chemical Bank.[93] Meanwhile, steady economic growth and low inflation in the United States present favorable conditions for the banking industry. The combination of favorable market conditions and industry consolidation suggests that U.S. banks may be attractive acquisitions for foreign financial services firms interested in establishing or expanding a commercial presence in the United States. Such factors played a role in the December 1996 acquisition of Standard Federal Bancorp of Michigan by ABN Amro of the Netherlands.[94] Similar acquisitions are reportedly close to being announced by firms based in Ireland, Scotland, and Hong Kong.[95] Should the pace of foreign direct investment in the U.S. financial services industry escalate, imports of financial services through affiliates will increase in future years.

Intellectual Property-Related Services

Introduction

Trade in intellectual property encompasses sales of the rights to, or the use of, intangible property such as industrial processes, techniques, formulas, and designs; copyrights, trademarks, and patents; business format franchising;[96] and management services.[97] Intellectual property embodied in merchandise, such as microprocessors and pre-packaged software, lies outside the scope of this discussion. International transactions in intellectual property, whether they entail the movement of property across borders or sales through foreign affiliates, are often indistinct from trade in several service industries, such as distribution and management services.

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[93] "Chase's Net Income Up 12 Percent," *PR Newswire*, Oct. 15, 1996.

[94] Nicole M. Christian, Charles Fleming, and Martin du Bois, "ABN Amro to buy Standard Federal; Deal may spur others by foreign banks," *The Wall Street Journal*, Nov. 25, 1996, p. A3.

[95] Ibid.

[96] Business format franchising entails selling rights to use a franchisor's entire business concept, from business plans to training materials. A franchisor's business concept, trademark, and brand name determine in large part the value of a franchise and are recognized as intellectual property by the U.S. Department of Commerce (USDOC) and the franchising industry. See Ralph Kroman, "International Intellectual Property Aspects of Franchising." ch. In *International Franchising:An In-Depth Treatment of Business and Legal Techniques*, pp. 88-89. For a comprehensive discussion of trade in business format franchising, see USITC, *Industry and Trade Summary: Franchising*, USITC publication 2921, Sept. 1995.

[97] For instance, one company that provides blueprints and technical advice to its affiliate may classify the associated charges as a licensing fee for providing know-how, whereas another company may classify these charges as management fees. For a discussion of the USDOC survey of trade in intellectual property, see USDOC, BEA, "U.S. International Transactions in Royalties and Licensing Fees: Their Relationship to the Transfer of Technology," *Survey of Current Business*, Dec. 1973, p. 15.

Recent Trends

Cross-Border Trade, 1990-95

Cross-border trade in intellectual property is captured under the entry for royalties and licensing fees in the balance of payments. In 1995, U.S. cross-border exports of intangible intellectual property increased by 21 percent, to $27.0 billion, whereas imports increased by 14 percent, to $6.3 billion (figure 3-14). Consequently, the United States registered a $20.6 billion surplus on trade in intellectual property. Export growth during 1995 was almost three-times the annual growth recorded during 1990-94, which averaged 8 percent. Import growth during 1995 was marginally slower than average annual growth during 1990-94, which measured 15 percent.[98] Accelerated export growth accompanied by relatively slower import growth sparked a 23-percent increase in the surplus on intellectual property trade in 1995, contrasting sharply with 6-percent average annual growth experienced during 1990-94.Factors influencing the volume and direction of cross-border trade in intellectual property are myriad and complex. Intra-corporate trade between parent companies and overseas affiliates[99] accounts for about four-fifths of cross-border trade in intangible intellectual property (cross-border trade between affiliated companies is not to be confused with sales of intellectual property through affiliates, discussed under the next heading). In 1995, U.S. parent companies' receipts from foreign-based affiliates totaled $20.2 billion, and U.S.-based affiliates' receipts from foreign parents totaled $1.4 billion (figure 3-15). These receipts entered U.S. accounts as exports, and jointly represented 80.2 percent of U.S. intellectual property exports. During 1995, intra-corporate trade fueled rapid growth in U.S. exports; U.S. parents' intra-corporate receipts increased by 24 percent and U.S.-based affiliates' intra-corporate receipts increased by 44 percent. Growth of this magnitude principally reflects the globalization of manufacturing and service industries, manifested in rapidly growing inbound and outbound direct investment. More specifically, it reflects the rapid globalization of machinery manufacturing, chemicals manufacturing, and wholesaling. Many of the products marketed by machinery and chemicals manufacturing industries (e.g., computers, computer components, medical equipment, and pharmaceuticals) embody very high intellectual property content, and wholesaling is a prevalent means of effecting and monitoring sales of copyrighted and other intellectual property.

The United States' major export markets for intellectual property are Japan, Germany, the United Kingdom, France, and the Netherlands. Japan remained the largest single export market, accounting for sales of $5.3 billion, with Germany running a distant second, accounting for exports of $2.7 billion (figure 3-16). In 1995, exports to the Netherlands grew most rapidly, increasing by 24 percent, to $1.9 billion. The United States posted surpluses on trade in intellectual property with all major trading partners.[100]

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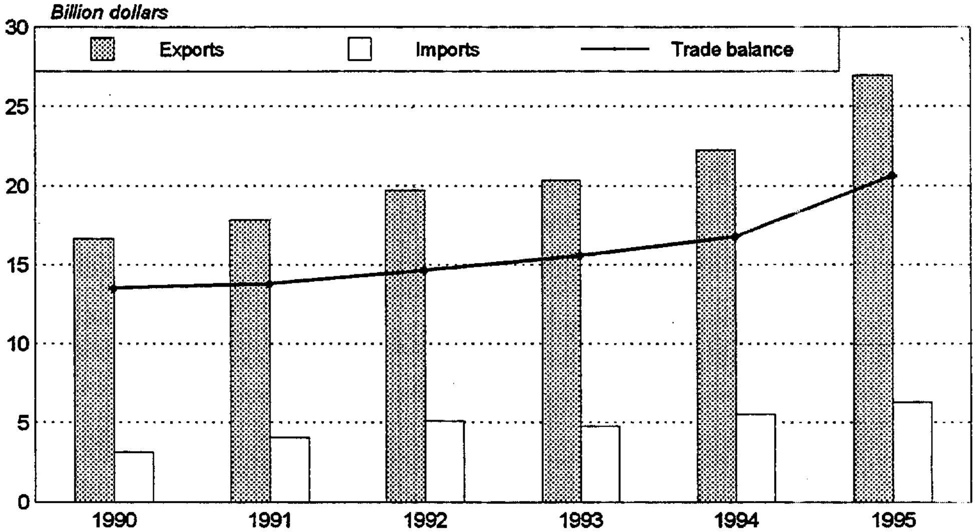
[98] USDOC, BEA, " International Sales and Purchases of Private Services," *Survey of Current Business*, Nov. 1996, pp. 92-93.

[99] In the context of this discussion, foreign-based affiliates of U.S. firms are those at least 10-percent owned directly or indirectly by U.S. parent firms. Similarly, U.S.-based affiliates of foreign-owned firms are those that are at least 10-percent owned by foreign parents.

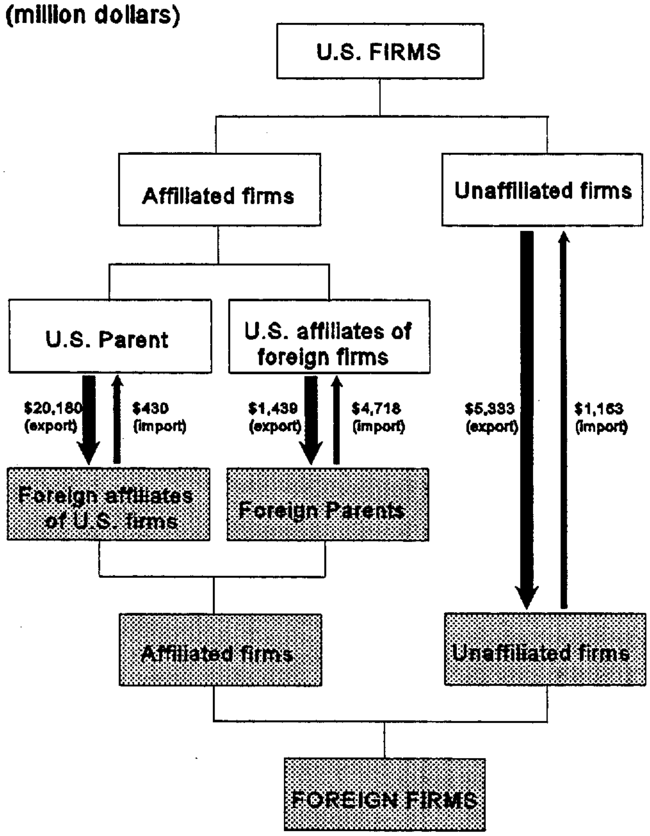
[100] USDOC, BEA, *Survey of Current Business*, Nov. 1996, p. 93.

Figure 3-14
Intellectual property-related services: U.S. cross-border exports, imports, and trade balance, 1990-95



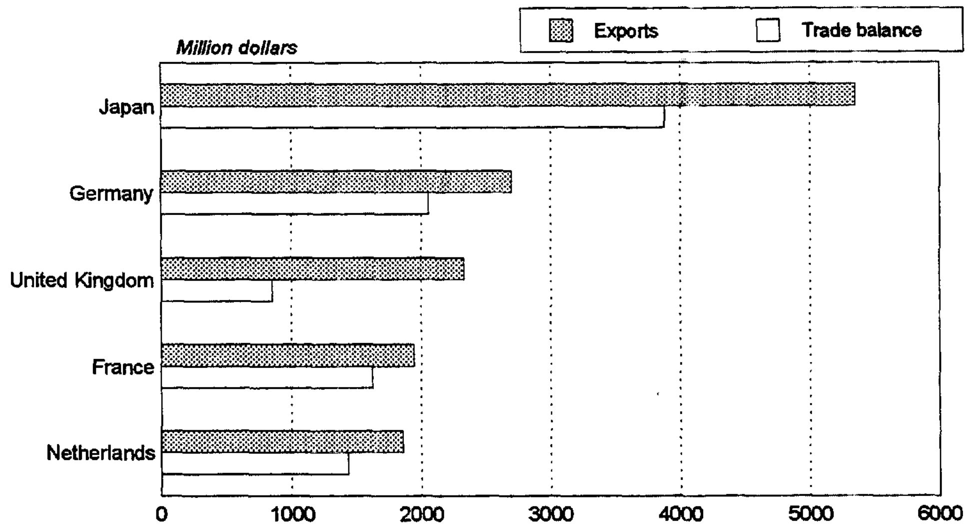
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1993, Sept. 1994, Sept. 1995, and Nov. 1996.

Figure 3-15
U.S. trade in intellectual property, 1995 (million dollars)



Source: U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Transactions," July 1996, p. 69.

Figure 3-16
Intellectual property-related services: U.S. cross-border exports and trade balance, by major trading partners, 1995



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

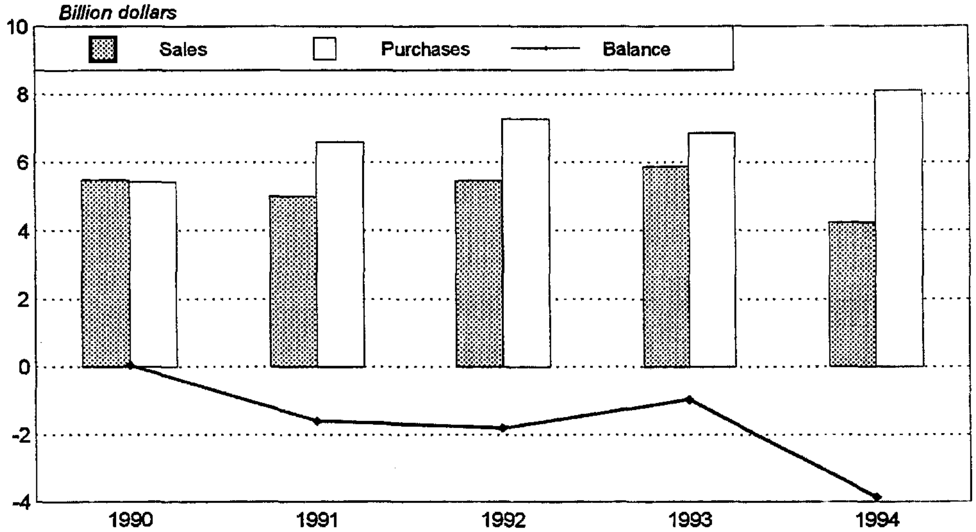
Affiliate Transactions, 1990-94

Data on affiliate transactions in intellectual property are limited in scope, reflecting sales of motion pictures and television tape and film only. Foreign-based affiliates of major U.S. motion picture studios generated sales of $4.2 billion in 1994 (figure 3-17), primarily in Western Europe. This reflected a 28-percent decrease in affiliate sales from 1993. Meanwhile, motion picture sales by U.S.-based affiliates of foreign firms grew to $8.1 billion in 1994 from $6.9 billion in 1993, representing an 18-percent increase.[101] Consequently, the United States posted a deficit of $3.9 billion on affiliate transactions in motion pictures in 1994. This deficit continued a pattern that began in 1990, one year after foreign investors, particularly from Japan, began acquiring large Hollywood studios. The ballooning deficit in 1994 is largely explained by sharply reduced sales in major European markets, including Germany, the Netherlands, and especially the United Kingdom.

With respect to trade in motion pictures, the United Kingdom and the Netherlands continued to be U.S.-owned affiliates' largest markets, jointly accounting for $2.4 billion in sales in 1994 (figure 3-18).[102] As for U.S. purchases, it appears that U.S.-based affiliates of Japanese, Australian, and British parent firms continued to be the largest suppliers of motion pictures to the U.S. market. U.S. affiliates of Japanese firms - namely, Universal Studios, Columbia, and Tri-Star studios - and Australian firms - namely, Twentieth

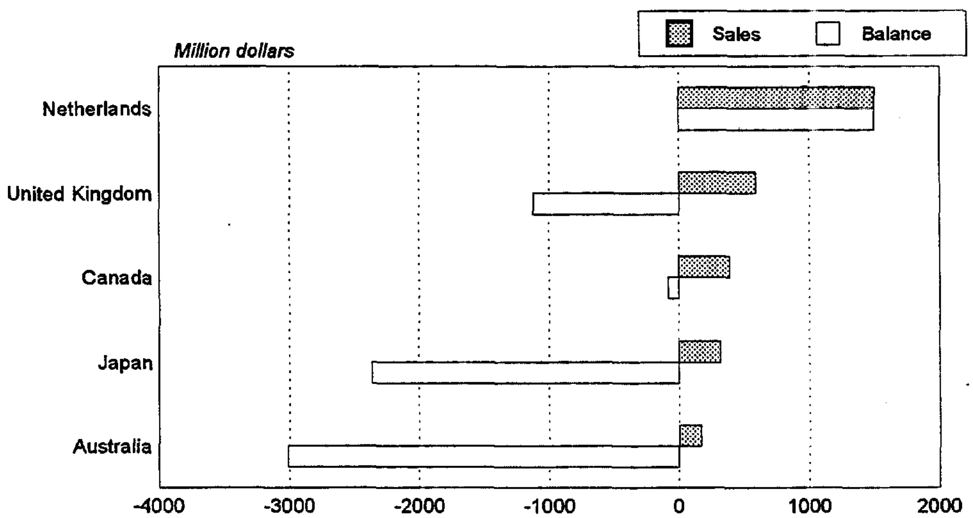
[101] Ibid., pp. 111-112.
[102] Ibid.

Figure 3-17
Intellectual property-related service transactions by majority-owned affiliates: U.S. sales, purchases, and balance, 1990-94



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

Figure 3-18
Intellectual property-related services transactions by majority-owned affiliates: Sales and balance, by major trading partners, 1994



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996, and USITC staff estimates.

Century Fox - appeared to record joint sales of an estimated $5 billion,[103] whereas British-owned affiliates reported sales of $1.8 billion.[104]

With respect to affiliate transactions, it is necessary to note that data reflecting sales of motion pictures substantially understate sales of intellectual property. As noted in the previous discussion of cross-border trade, U.S.-based firms have established wholesaling and other affiliates abroad as means to market intellectual property to foreign clients, monitor the use of such property by client companies, and cooperate with host governments to establish and enforce intellectual property protection. It appears that a significant share of the cross-border transactions between U.S. parents and affiliates is intended to allow the affiliates to sell intellectual property in the host market. Intra-corporate trade often transfers rights to sell intellectual property from the parent to the affiliate.[105]

Summary and Outlook

In 1995, exceptionally rapid growth in intra-corporate exports increased total cross-border exports of intellectual property by 21 percent, sparking a 23-percent increase in the trade surplus on this account, to nearly $20.6 billion. In 1994, rapidly declining sales by U.S.-owned affiliates drove the deficit on affiliate transactions up to $3.9 billion.

With respect to cross-border trade, the stock of outward direct investment will likely continue to exert a strong influence on U.S. exports of intellectual property. In 1995, the U.S. direct investment position abroad increased by 35 percent with respect to the chemical manufacturing industry and by 16 percent for the machinery manufacturing industry. Such growth is markedly faster than that recorded in 1990-94, when the increase in U.S. investment position in machinery manufacturing remained virtually unchanged at 8 percent, and the U.S. position in chemical manufacturing increased, on average, by 12 percent per year.[106] Should direct investment in these industries continue to increase at accelerated rates, U.S. exports of intellectual property may increase rapidly as well.

With respect to affiliate transactions in motion pictures, U.S. and foreign direct investment in Hollywood will continue to influence future trading patterns. In recent years, two transactions with significant trade implications have occurred. In April 1995, Matsushita sold 80 percent of its stake in Universal Studios to Seagram, the Canadian distiller group;[107] and in July 1996, Consortium de Realisation, an entity created by the French Government to liquidate assets held by Credit Lyonnais, sold Metro-Goldwyn-Mayer/United Artists (MGM/UA) to U.S. investor Kirk Kerkorian and Australian broadcaster Seven Network,

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[103] Specific data pertaining to sales of Japanese- and Australian-owned affiliates are not available. Such data have been suppressed so as not to disclose firm-specific information perceived as confidential.

[104] USDOC, BEA, *Survey of Current Business*, Nov. 1996, pp. 111-112.

[105] Richard Barovick and Patricia Anderson, National Federation of Export Associations, "EMCs/ETCs: What They Are, How They Work," *Business America*, July 13, 1992, p. 3.

[106] USDOC, BEA, "U.S. Direct Investment Abroad: Detail for Historical-Cost Position and Balance of Payments Flows, 1992," July 1993, p. 98; and USDOC, BEA, "U.S. Direct Investment Abroad: Detail for Historical-Cost Position and Related Capital and Income Flows, 1995," *Survey of Current Business*, Sept. 1996, pp. 107-108.

[107] See USITC, "Hollywood, Foreign Direct Investment, and International Trade," *Industry, Trade, and Technology Review*, December 1996.

Ltd.[108] These transactions suggest that motion picture sales through Japanese and French affiliates will decline significantly while those through Canadian affiliates and, to a lesser degree, Australian affiliates, will increase.

Professional Services

Professional service industries treated in this report include accounting and management consulting; architecture and engineering; computer and data processing; health care; legal; and maintenance and repair services. Firms in these industries provide professional and technical expertise, information, and counsel to individuals, private-sector businesses, and government institutions.

Accounting and Management Consulting Services

Introduction

Trade data on accounting and management consulting services also reflect trade in closely related services, such as auditing, bookkeeping, and public relations. International trade in accounting and management consulting services takes place on both a cross-border and an affiliate basis, with the latter predominating. In 1994, sales by U.S.-owned affiliates accounted for 82 percent of total accounting and management consulting services provided to foreign clients, while U.S. purchases from foreign-owned affiliates accounted for 79 percent of accounting and management consulting services provided to U.S. persons by foreign entities.

Recent Trends

Cross-Border Trade, 1990-95

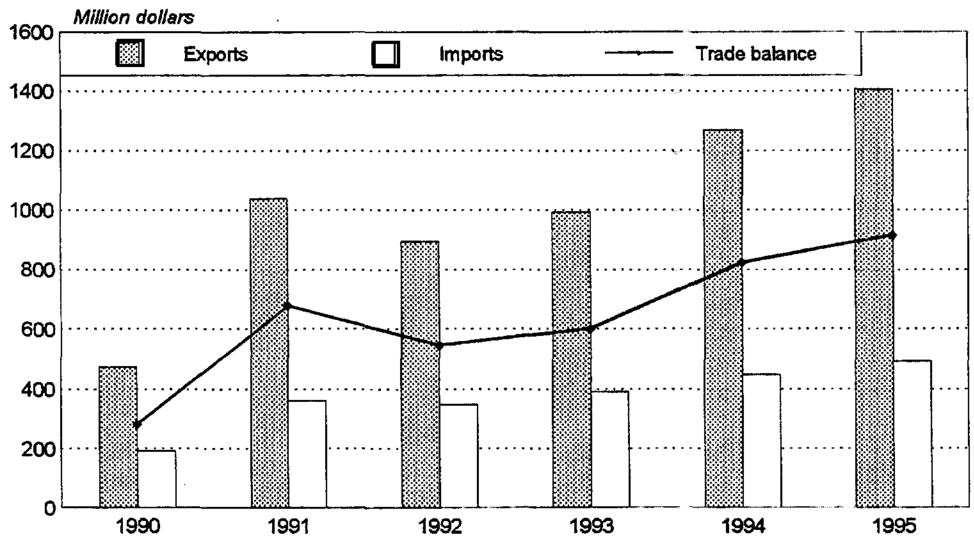
Cross-border trade data on accounting and management consulting services reflect trade in accounting, auditing, bookkeeping, management consulting, and public relations services. Cross-border trade of accounting and management consulting services generated a U.S. surplus of $914 million in 1995. U.S. exports of such services totaled $1.4 billion, whereas cross-border imports totaled $492 million (figure 3-19). U.S. exports increased by 10 percent during 1995, slower than the average annual increase of 28 percent posted during 1990-94. U.S. imports also increased by 10 percent during 1995, compared to an average annual increase of 24 percent during 1990-94.

Cross-border trade data with respect to accounting services are not provided for all trading partners. However, available data show that in 1995, the European Union accounted for 21 percent of U.S. exports of management consulting services.[109] Exports to the United

[108] James Bates and Claudia Miller, "Investment Group Backed by Kerkorian to Buy MGM," *Los Angeles Times*, Jan. 17, 1996.

[109] Although cross-border export data by individual foreign market are not available for accounting services, the data reported for management consulting services are believed to identify principal export markets for total accounting and management consulting services.

Figure 3-19
Accounting and management consulting services: U.S. cross-border exports, imports, and trade balance, 1990-95



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996, pp. 82-83.

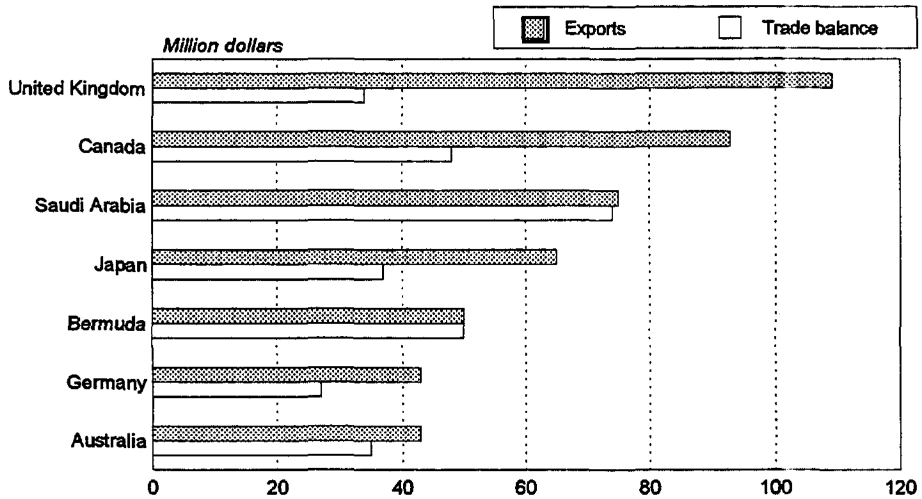
Kingdom, the largest single export market, represented 9 percent of total cross-border exports. U.S. cross-border imports of management consulting services also were predominantly supplied by the European Union, which accounted for 39 percent of all such imports in 1995. Once again, the United Kingdom, responsible for 21 percent of all imports, was the United States' predominant trading partner (figure 3-20).

Affiliate Transactions, 1990-94

Data on affiliate transactions of accounting and management consulting services reflect sales of accounting, management, research, and related services. In 1994, U.S. affiliate transactions in accounting and management consulting services yielded a surplus of \$4.1 billion (figure 3-21). U.S.-owned affiliates' sales of accounting and management consulting services totaled \$5.7 billion. Sales by foreign-based affiliates of U.S. companies rose by 10 percent during 1994, faster than the average annual increase of 1 percent in 1990-93. Sales growth was spurred by Europe's recovery from the economic recession of the early 1990s. Purchases of these services from U.S.-based affiliates of foreign companies totaled \$1.6 billion, reflecting a 14-percent increase over 1993. Slower growth in purchases from foreign-owned affiliates reflected aggressive competition from U.S. domestic firms.

Sales of accounting and management consulting services by foreign-based affiliates of U.S. companies occurred mainly in Europe, which absorbed 70 percent of total sales in 1994 (figure 3-22). The United Kingdom accounted for 27 percent of total sales, amounting to \$1.5 billion. Similarly, 76 percent of purchases of accounting and management consulting

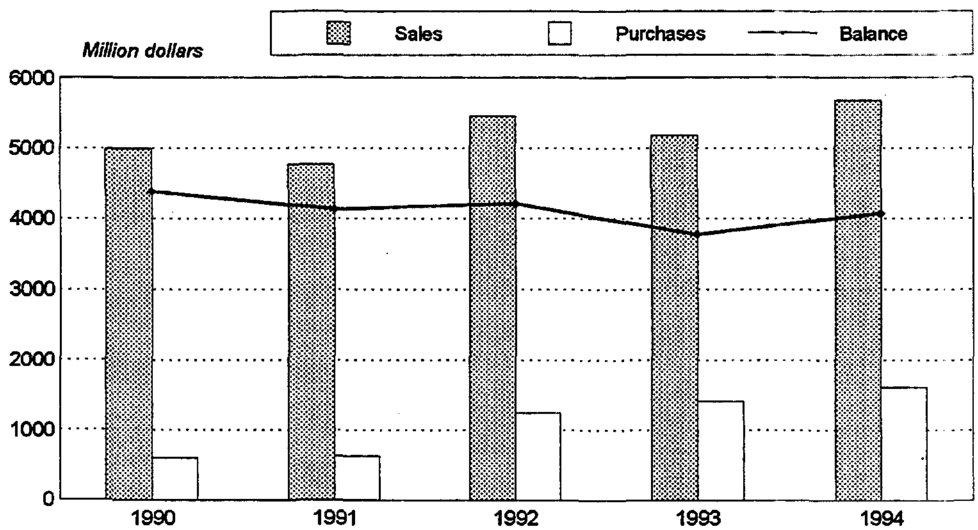
Figure 3-20
Accounting and management consulting services: U.S. cross-border exports and trade balance, by major trading partners, 1995[1]



[1] Cross-border trade data with major trading partners are unavailable for accounting services. As a result, data in this figure understate total sector value.

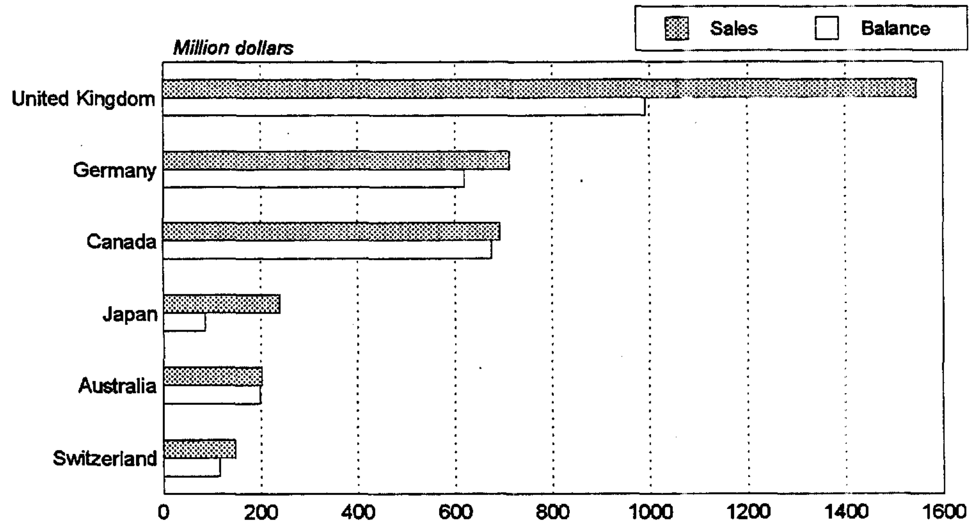
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

Figure 3-21
Accounting and management consulting service transactions by majority-owned affiliates: U.S. sales, purchases, and balance, 1990-94



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 93, Sept. 94, Sept. 95, and Nov. 1996.

Figure 3-22
Accounting and management consulting service sales by majority-owned affiliates: U.S. sales and balance, by major trading partners, 1994



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

services from U.S.-based affiliates of foreign-owned firms were supplied by firms with European parents. Affiliates with corporate parents in the United Kingdom accounted for 36 percent of U.S. purchases of accounting services from all foreign-owned affiliates.

Summary and Outlook

U.S. multinational accounting and management consulting firms witnessed a resumption of double-digit growth in total sales and fee income during 1994. However, sales by foreign-owned accounting and management consulting firms in the United States increased faster than U.S.-owned affiliates' sales abroad as growth in the U.S. economy generally exceeded that in foreign markets. In 1995, U.S. cross-border exports continued to grow as European economies recovered from their deepest recession since 1981-82. In contrast to U.S. trade with Europe, exports to the Asia/Pacific region continued to fall in 1995 due to continued weakness in the Japanese economy. Irrespective of region, the management consulting segment of this industry continued to generate an increasing share of the industry's total sales and revenue.

The future course of trade in accounting services may be most significantly affected by work programs underway in the World Trade Organization (WTO). The WTO established the Working Party on Professional Services (WPPS) in April 1994 to ensure that regulations pertaining to professional services do not act as impediments to trade. The WPPS held five meetings in 1996, and devoted a considerable amount of time to collecting data and analyzing various national regulations in the accounting sector. In the January 1996 meeting, a non-exhaustive list of priority issues was compiled for further consideration in later meetings. This list included qualification requirements, licensing requirements, regulations on the establishment of commercial presence, nationality and residency requirements, professional liability and ethics, the temporary entry of foreign workers, guidelines for the recognition of qualifications, and the adoption of international accounting standards.[110]

Architecture and Engineering Services

Introduction

Architectural and engineering services comprise interrelated activities. Architectural firms provide blueprint designs for buildings and public works, and may oversee the construction of projects. Architectural services include preliminary site study, schematic design, design development, final design, contract administration, and post-construction services. Engineering firms provide planning, design, construction, and management services for projects such as civil engineering works, and residential, commercial, industrial, and institutional buildings. Engineering services also include undertaking preparatory technical feasibility studies and project impact studies; preparing preliminary and final plans, specifications, and cost estimates; and delivering various services during the construction phase. Engineering service firms may also supply engineering design services for industrial processes and production, and advisory and technical assistance to the client during construction to ensure that construction work is in conformity with the final design.

Trade in architectural and engineering services is predominantly undertaken by affiliates in foreign markets because commercial presence is often a precondition for contract awards. Consequently, U.S. firms that engage in international trade generally establish some type of subsidiary, joint venture, or branch office in important foreign markets.[111] Cross-border trade in architectural and engineering services, roughly one-fourth the size of affiliate trade by volume, is generally limited to transporting items such as blueprints and designs via mail, telephone, or other means across national boundaries.

Recent Trends

Cross-Border Trade, 1990-95

The United States runs a consistent surplus in the cross-border provision of architectural and engineering services. In 1995, the surplus on cross-border trade reached $2.3 billion, an increase of 8 percent from 1994. This was significantly slower than the 33-percent average annual growth rate experienced in 1990-94[112] (figure 3-23). Exports of architectural and engineering services rose by nearly 7 percent to well over $2.6 billion in

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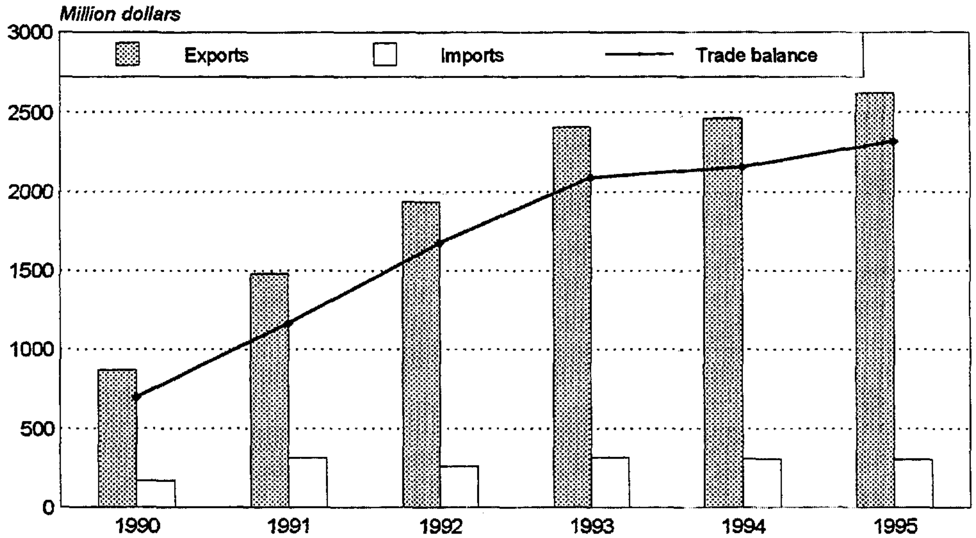
[110] U.S. Department of State telegram, "Report of WTO Meeting on Professional Services--Jan. 15-16," message reference No. 00784, prepared by U.S. Mission, Geneva, Feb. 5, 1996.

[111] Industry representative, interview by USITC staff, Washington, DC, Oct. 23, 1996.

[112] Data pertaining to cross-border trade in architectural and engineering services reflect certain limitations. Data on U.S. exports are reported on a net basis (i.e., U.S. contractors' expenditures on merchandise and labor are excluded), whereas data on U.S. imports are reported on a gross basis. As a result, the U.S. surplus on the architectural and engineering services account is understated. In addition, data pertaining to architectural and engineering services also reflect trade in construction and mining services.

Figure 3-23
Architectural and engineering services:[1] U.S. cross-border exports, imports, and trade balance, 1990-95



[1] Data pertaining to architectural and engineering services also reflect trade in construction, mining, and surveying services, the volume of which is believed to be small.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

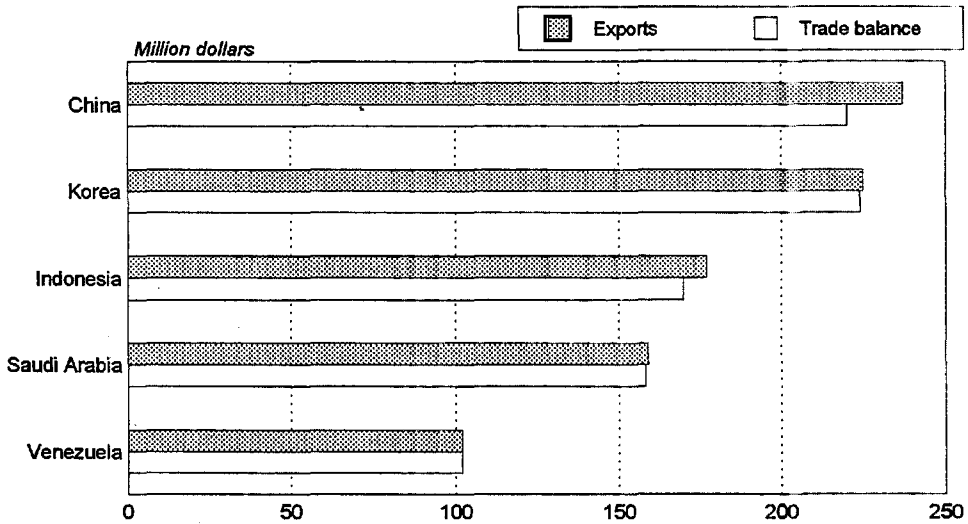
1995, but at a much lower rate than the 30-percent annual average established in 1990-94. While advanced communication systems have facilitated cross-border trade in these services, slower growth may be attributed to a sluggish European construction market which caused U.S. exports to this region to fall by 33 percent. Imports decreased by 1 percent to $305 million, reversing the 16-percent annual average growth witnessed in 1990-94. U.S. imports of architectural and engineering services possibly reflected both a decline in U.S. residential construction and an increase in building contracts awarded to domestic firms.[113] In 1995, the United States' surplus in these services primarily reflected a 30-percent increase in cross-border exports to the Asia-Pacific region to meet developing nations' needs for services related to infrastructure and power-generating structures. In addition, domestic consumers' preferences for U.S. architectural and engineering services[114] and a comparatively stagnant U.S. market held U.S. imports to a low level in 1995. The 1995 surplus on cross-border trade in these services represented about 4 percent of the total U.S. cross-border services trade surplus.

In 1995, the largest export markets for U.S. architectural and engineering services were China, Korea, Indonesia, Saudi Arabia, and Venezuela (figure 3-24). By contrast, U.S. cross-border imports originated primarily from Canada, Australia, and the United Kingdom. The list of major trading partners remains similar to previous years except for the rise of Asian nations as the primary consumers of U.S. cross-border architectural and engineering

[113] USDOC, International Trade Administration, *Construction Review*, Fall and Winter 1995-96; and *Engineering News Record*, "The Top 400 Contractors: Builders Flourish in an Upbeat Market," May 20, 1996, p. 77.

[114] Industry representative, interview by USITC staff, Washington, DC, Oct. 23, 1996.

Figure 3-24
Architectural and engineering services: U.S. cross-border exports and trade balance, by major trading partners, 1995



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

services. Exports to China alone grew by 76 percent, from $135 million in 1994 to $237 million in 1995, while exports to Indonesia and Korea grew by 64 percent and 61 percent, respectively. The rapid growth of U.S. exports to Asia is due partly to heavy financing from development agencies that aided infrastructure growth in China, and the initiation of long-range transportation infrastructure programs in Indonesia and Korea.[115] At the same time, U.S. imports from the Asia-Pacific region grew by nearly 10 percent, from $91 million in 1994 to $100 million in 1995, indicating that Asian firms have become large enough to compete beyond local markets.

Affiliate Transactions, 1990-94

Sales of architectural and engineering services by foreign-based affiliates of U.S. firms measured $6.9 billion in 1994, an increase of 16 percent from sales of $6 billion in 1993 (figure 3-25).[116] Purchases from U.S.-based affiliates of foreign firms grew at a lesser rate of 6 percent, from $5.3 billion in 1993 to $5.6 billion in 1994. The resulting surplus of $1.4 billion, up by 86 percent from the previous year, accounted for nearly 15 percent of the total U.S. surplus in affiliate transactions in services in 1994.

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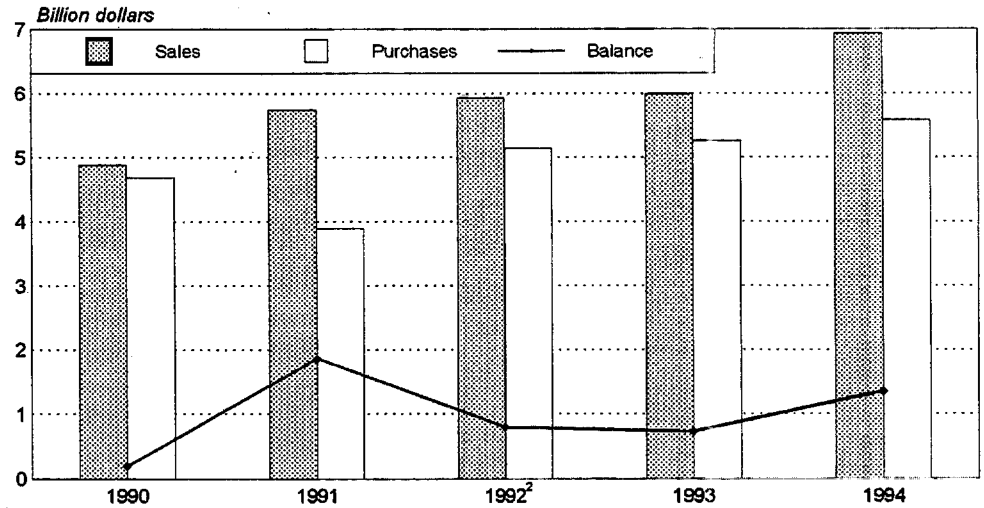
[115] USDOC, International Trade Administration, "Infrastructure Development Plan," *Market Research Report*, Oct. 3, 1995, and "Korea: Transportation Infrastructure," *Market Research Report*, Aug. 30, 1995.

[116] Data pertaining to affiliate transactions also include architectural and engineering services provided by construction firms.

Figure 3-25
Architectural and engineering services transactions by majority-owned affiliates:[1] U.S. sales, purchases, and balance, 1990-94



[1] Data also reflect architectural and engineering services provided by construction firms.
[2] Import data for architectural and engineering services provided by construction firms were supressed in 1992 to avoid disclosure of data of individual companies. USITC staff estimate is used.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1992, Sept. 1994, Sept. 1995, and Nov. 1996.

In 1994, sales growth measured 16 percent, reflecting U.S. firms' increased participation in developing nations' infrastructure projects and the importance of proximity in the global construction and infrastructure market. At the same time, U.S. purchases of architectural and engineering services grew at a rate of 6 percent in 1994, slightly above the average annual growth rate of 4 percent during 1990-93. In 1994, total construction spending in the United States rose moderately, leading to greater overall demand for architectural and engineering services and, consequently, slightly higher purchases from foreign-owned affiliates.

It appears that the principal markets for architectural and engineering services provided through U.S.-owned affiliates were the United Kingdom, the Netherlands, Australia, and Canada. Sales to these nations comprised 63 percent of total sales of architectural and engineering services by U.S.-owned affiliates in 1994. It appears that Latin America and Asia are other significant markets. Foreign-owned affiliates originating from the United Kingdom, France, and Germany, led sales to U.S. clients, and jointly accounted for 70 percent of sales by U.S.-based affiliates of foreign architectural and engineering firms in 1994. The United Kingdom was the United States' largest single affiliate trading partner, accounting for 30 percent of U.S. sales and 37 percent of U.S. purchases in 1994.

Summary and Outlook

In 1995, U.S. cross-border exports grew at a comparatively moderate rate while imports declined slightly, resulting in a growing surplus. In 1994, U.S. purchases from foreign-owned affiliates increased at a slightly faster pace than in previous years, but sales by foreign affiliates of U.S. architectural and engineering firms grew even more rapidly, resulting in a larger U.S. surplus in affiliate transactions. Overall, it appears that strong economic growth in Asia, and the resulting demand for new infrastructure construction including airports, roads, residential areas, and power plants, have been prominent factors leading to the United States' increased activity overseas and strong trade performance.

In the future, Asia and Latin America will likely continue to provide increasing opportunities to U.S. architectural and engineering firms in the fields of infrastructure, power-generation and general construction. With heavy financing from the Asian Development Bank, Southeast Asia in particular could become an area of vital interest as the region seeks advanced transportation and power-generating structures.[117] China's modernization entails many new projects, and U.S. firms anticipate myriad possibilities in India, a nation with apparent demand for design and planning services for airports, seaports, and power projects.[118] In addition, slow growth of the U.S. market in 1996, followed by a potential downturn in the U.S. market in 1997, will likely motivate many U.S. firms to pursue export opportunities aggressively, and reduce foreign firms' interest in the United States as an export market.[118]

To date, U.S. firms' principal competitors have originated in Europe. Increasingly, however, firms from developing nations such as Korea, Brazil, and China, already active in neighboring countries, are posing a greater competitive challenge to U.S. firms. Still, U.S. architectural and engineering service providers possess the technical expertise to meet the international standards demanded by foreign regulators and consumers.[119] The United States also boasts the top architectural and engineering schools and demand for U.S. design services is high, particularly in Asia.[120] In addition, many U.S. firms have the economic resources to finance large projects, which give them a competitive advantage for securing contracts in some developing countries. U.S. Government institutions such as the Export-Import Bank and the Overseas Private Investment Corporation, also make available project financing and political risk insurance to promote U.S. firms' activities abroad. These reasons, combined with foreign firms' low level of activity in the U.S. market,[121] indicate that the United States should be able to perpetuate its strong competitive position and favorable trade balance in architectural and engineering services.

Computer and Data Processing Services

Introduction

Computer and data processing services include computer systems analysis, design, and engineering; custom software and programming services; rights to use, reproduce, or

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[117] *Engineering News Record*, "The Top 200 International Design firms: Designing Deals," July 22, 1996, p. 34.

[118] Industry representative, interview by USITC staff, Washington, DC, Oct. 23, 1996; and *Engineering News Record*, "The Top 400 Contractors: Finding Ways to Make It Happen Abroad," May 20, 1996, p. 88.

[118] Industry representative, interview by USITC staff, Washington, DC, Oct. 23, 1996; *Engineering News Record*, "Key Markets Will Rebound in '97," Nov. 4, 1996, pp. 8-9; and North American Construction Forecast Conference, National Press Club, Washington, DC, Oct. 23, 1996.

[119] Industry representative, interview by USITC staff, Washington, DC, Oct. 23, 1996.

[120] Ibid., and *The Journal of Commerce*, "U.S. Architects in Demand in China, but Success Includes Patience," Oct. 1, 1996, Knight-Ridder/Tribune Business News.

[121] Industry representative, interview by USITC staff, Washington, DC, Oct. 23, 1996.

distribute computer software (including master copies and electronically transmitted software), whether customized or prepackaged; computer leasing (except financial leasing); integrated hardware/software systems; data entry, processing (both batch and remote), and tabulation; and other computer-related services (e.g., timesharing, maintenance, and repair).[122] The U.S. computer and data processing industry continues to grow as technology-dependent multinational corporations expand and the global demand for information technology[123] (IT) services increases. U.S. firms supply services including systems integration,[124] outsourcing,[125] and custom programming[126] to clients worldwide on both a cross-border and an affiliate basis. The majority of international sales of computer and data processing services are transacted through foreign-based affiliates. However, cross border trade is becoming more prevalent as advances in electronic transmission technologies enable contractors to provide services such as systems management and support from remote locations.[127]

Recent Trends

Cross-Border Trade, 1990-95

U.S. cross-border trade of computer and data processing services produced a trade surplus (figure 3-26) of $2.4 billion in 1995, down slightly from $2.5 billion in 1994. U.S. cross-border export increased by 4 percent in 1995, reaching $2.8 billion. U.S. imports of computer and data processing services totaled $462 million in 1995, up significantly (89 percent) from $244 million in 1994.

In 1995, as in 1994, the United States' leading cross-border trading partners in computer and data processing services were Japan, Germany, the United Kingdom, and Canada (figure 3-27). Trade with these four countries accounted for nearly 40 percent of the total U.S. surplus. Japan, the largest market for U.S. computer and data processing services, accounted for 13 percent of U.S. exports; Germany for 12 percent; and the United Kingdom

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[122] This category excludes the value of prepackaged software shipped to or from the United States and included in U.S. merchandise trade statistics. The U.S. Department of Commerce, Bureau of Economic Analysis, *Instructions to BE-22 Survey*, OMB form No. 0608-0060.

[123] An increasingly important segment within the computer and data processing industry, IT services involve activities related to the design, installation, and operation of business information and communications systems.

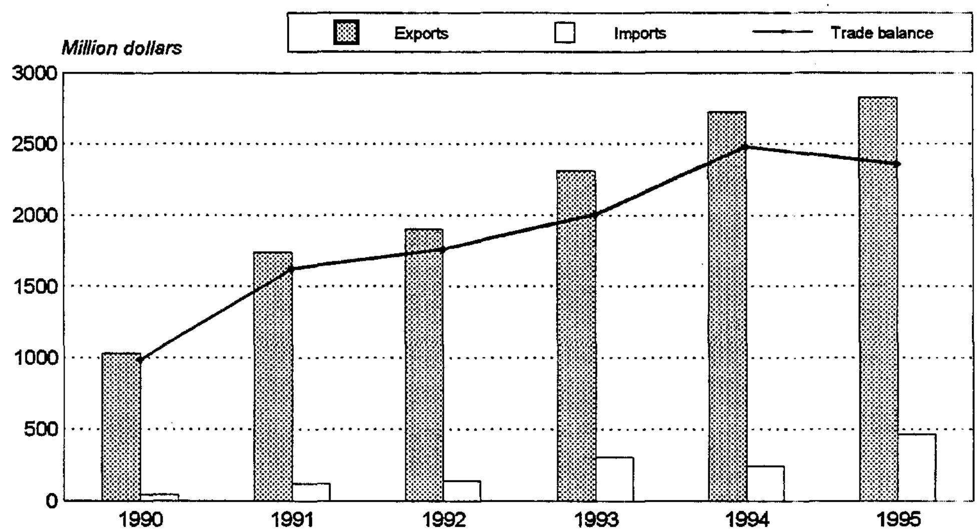
[124] Systems integrators act as third-party experts in the development, operation, training, and maintenance of seamless company-wide computer networks. Tasks are wide-ranging and involve all phases of systems design including planning, coordinating, testing, and scheduling of projects; analysis and recommendations of hardware and software; system installation; software customization; and end-user training.

[125] Outsourcing describes the increasingly popular practice of contracting out internal functions, ranging from low-skill services such as data entry to more important functions such as managing a company's telecommunication and computer networks.

[126] Custom programmers create or modify software to perform tasks that are unique to client companies.

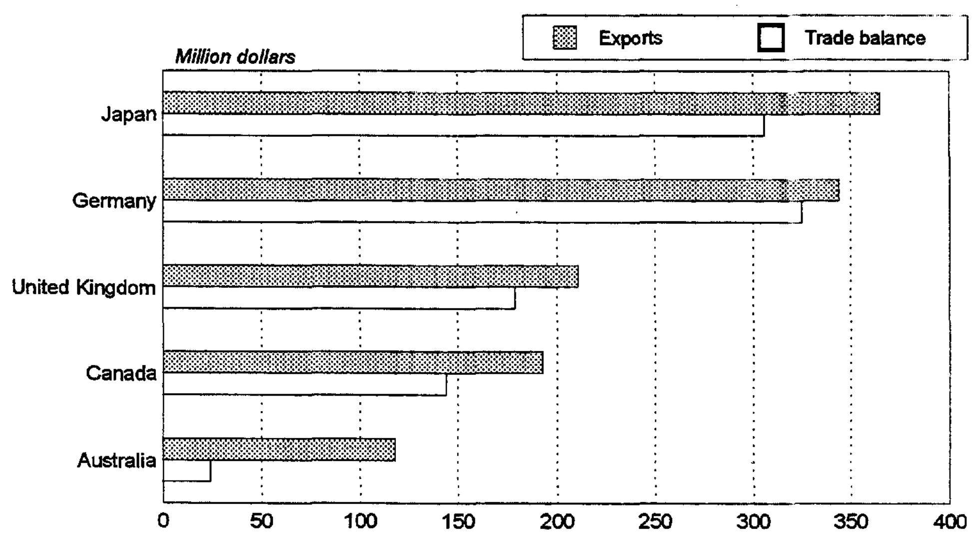
[127] For a comprehensive analysis of the U.S. and global computer services industry, see USITC, *Global Competitiveness of the U.S. Computer Software and Service Industries*, Staff Research Study, June 1995.

Figure 3-26
Computer and data processing services: U.S. cross-border exports, imports, and trade balance, 1990-95



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996, pp. 82-83.

Figure 3-27
Computer and data processing services: U.S. cross-border exports and trade balance, by major trading partners, 1995



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

for 7 percent. Available data suggest that Japan, Canada, and the United Kingdom were predominant suppliers of computer and data processing services to the United States in 1995. Trade patterns in 1994 were very similar, with Japan, Germany, and Canada accounting for more than 30 percent of the total U.S. surplus.[128]

Affiliate Transactions, 1990-94

In 1994, U.S. sales of computer and data processing services through foreign-based affiliates amounted to $16.7 billion, reflecting 32-percent growth (figure 3-28). Sales in Latin America[129] rose by 382 percent, contributing significantly to overall sales growth. Purchases of computer and data processing services from U.S.-based affiliates of foreign firms measured $2.9 billion in 1994, reflecting 18-percent growth. As U.S. sales increased more rapidly than U.S. purchases, the surplus widened by 35 percent, to $13.8 billion in 1994.

In 1994, the United Kingdom was the largest market of computer and data processing services delivered through U.S.-owned affiliates. With sales of over $3.5 billion, the United Kingdom accounted for 21 percent of total U.S. affiliate sales of computer and data processing services. Other leading markets included Germany and France, with 13 percent and 12 percent of total U.S. affiliate sales, respectively (figure 3-29). British firms posted the highest sales by foreign-owned affiliates in the United States, with 61 percent of total U.S. purchases, followed by companies with parents in France and Canada, which accounted for 16 percent and 15 percent, respectively.

Summary and Outlook

In 1995, anemic cross-border export growth combined with rapid import growth to slightly reduce the United States' surplus on cross-border trade of computer and data processing services. In 1994, sales of computer and data processing services by foreign-based affiliates of U.S. firms significantly exceeded purchases from U.S.-based affiliates of foreign companies, widening the trade surplus on affiliate transactions by 35 percent.

U.S. firms continued to expand operations in Europe and other regions as revenue from both cross-border and affiliate sales increased. In 1995, Europe was again the largest cross-border export market for U.S. computer and data processing services, as was the case in 1994 for services delivered through U.S.-owned affiliates.[130] In the future, it appears that the Asia/Pacific region will provide additional opportunity for U.S. exporters. In many countries around the world, modernization and privatization will likely create additional demand for U.S. computer and data processing services.

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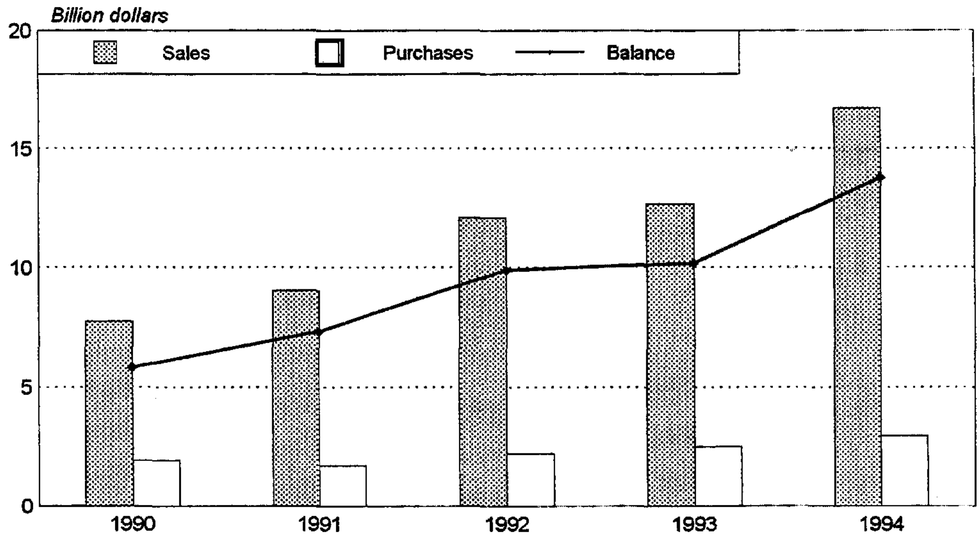
[128] U.S. imports of computer and data processing services from the United Kingdom in 1994 are suppressed to avoid disclosure of individual companies.

[129] This region includes South and Central America, the Caribbean, and Mexico.

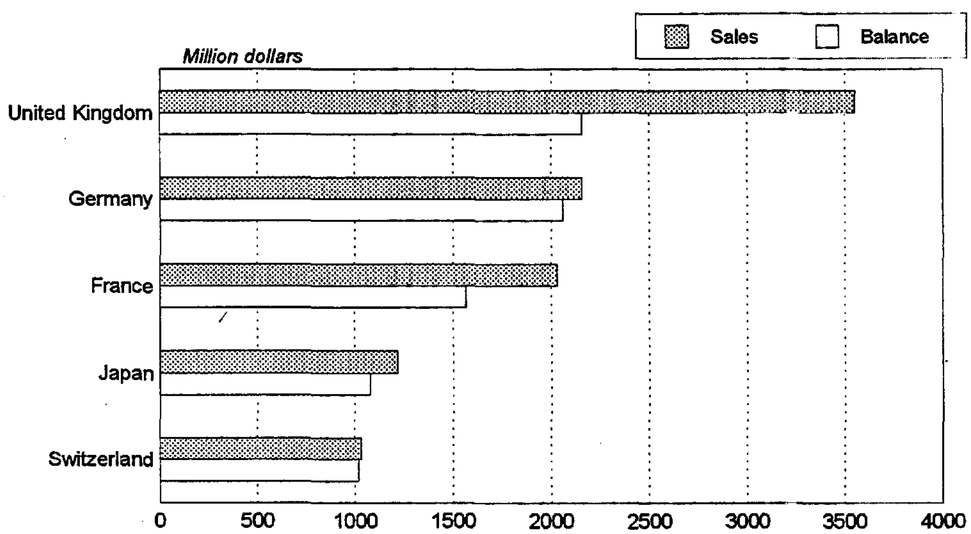
[130] In recent years, overseas growth has outpaced domestic growth for many U.S. computer and data processing service providers. For example, in 1995, revenues from American Management Systems (AMS), Incorporated's European clients increased 83 percent over 1994, and accounted for 25 percent of the firm's worldwide revenues, up from 4 percent in 1991. *1995 Annual Report*, AMS, Incorporated.

Figure 3-28
Computer and data processing services transactions by majority-owned affiliates: U.S. sales, purchases, and balance, 1990-94



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1993, Sept. 1994, Sept. 1995, and Nov. 1996.

Figure 3-29
Computer and data processing services transactions by majority-owned affiliates: U.S. sales and balance, by major trading partners, 1994



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

Over the last year, foreign providers of computer-based services have continued to acquire greater worldwide market share, often at the expense of the U.S. industry. Established U.S. customers, such as those in the United Kingdom and Germany, have looked to low-cost foreign providers to complement increasingly competitive local providers. This trend may continue as high-speed telecommunication improvements permit even greater access to remotely located low-wage labor. In response, the U.S. industry has increased its use of less expensive labor pools abroad. For example, U.S. firms have established data entry operations in the Philippines and the Caribbean to tap low labor costs. More importantly, in terms of maintaining competitiveness, U.S. firms have sought to provide applications with more value-added content.[131] Such applications usually fall within two broad categories of IT: activities database management and communications.

Database management improves information storage and retrieval. Currently, the most productive database management tools include data warehousing, data mining,[132] decision support systems, and client-server applications. Data warehousing offers so much potential for creating competitive advantage that over 90 percent of Fortune 2000 enterprises are actively engaged in warehousing initiatives.[133] For example, data warehousing and mining techniques are used by American Express to develop custom mailings based on individuals' spending patterns, thereby increasing returns on marketing costs. As the advantages of data warehousing and data mining become more apparent, the demand for such services will increase in foreign markets, providing opportunities for U.S. firms with relevant experience.[134]

The second category of IT activities involves the communication and connectivity of information. Growth areas in this segment include the Internet, corporate intranets, electronic commerce, and applications written in Java,[135] a programming language uniquely suited for Internet applications because of its portability from one machine to another. Business activity related to the Internet is growing by more than 10 percent per month,[136] producing tremendous opportunities for the U.S. computer and data processing industry. The Internet ushers in a new network computing architecture, which will establish standards for transmitting and displaying information. The Internet will likely become the infrastructure for the next generation of telecommunications, education, finance, and entertainment industries.

Currently, however, Internet system overloads result in frequent delays and inefficient allocation of resources. This congestion problem is expected to worsen before improving. Long-term solutions include a major upgrade of public telephone systems, or moving the Internet onto its own communications network. Major impediments to the implementation

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[131] Industry representative, telephone interview by USITC staff, Oct. 22, 1996.

[132] Data warehousing creates one logical database from a number of unique databases. Data mining refers to the techniques employed to access very specific knowledge. The methodology involves the use of high-level, iterative queries to narrow and define a data search.

[133] Industry representative, interview by USITC staff, Washington, DC, Jan. 6, 1997.

[134] Industry representative, interview by USITC staff, Washington, DC, Dec. 11, 1996.

[135] Java is less machine specific than other programming languages. Java applications can be downloaded and executed by any target machine running Java, regardless of the type of computer. Other important characteristics include Java's speed, security, and design for small machines. Arthur Van Hoff, "What is this Thing Called Java?," *Datamation* (Mar. 1, 1996), pp. 45-46.

[136] Industry representative, interview by USITC staff, Chicago, Nov. 1996.

of such remedies include conflicts over the allocation of upgrade costs and the lack of worldwide coordination and management. However, these problems also create business opportunities for U.S. computer and data processing firms as they develop and market creative solutions.

Health Care Services

Introduction

For the purposes of this report, health care services include those performed by hospitals and investor-owned hospital companies; offices and clinics of medical doctors and other health care professionals; nursing homes and other long-term health care facilities; rehabilitation facilities; home health care facilities; certain health maintenance organizations (HMOs);[137] medical and dental laboratories; kidney dialysis centers; and specialty outpatient facilities. U.S. health professionals provide services to foreign patients through cross-border transactions and affiliates established in foreign markets. Cross-border trade in this sector primarily consists of the treatment of citizens of one country by health care providers in another country.[138] Trade through affiliates includes health care services provided to persons in their home countries by affiliates of foreign-based health care companies.[139] In recent years, cross-border trade has accounted for the greatest portion of U.S. exports of health care services while affiliate sales have accounted for most imports.

Recent Trends

Cross-Border Trade, 1990-95

In 1995, U.S. cross-border exports of health care services amounted to $841 million, representing a 6-percent increase over the previous year. Export growth during 1995 matched the average annual export growth rate during 1990-94 (figure 3-30). U.S. cross-border imports of health care services increased by 5 percent in 1995, to an estimated $525 million.[140] Import growth in 1995 was less than the 9-percent annual average during 1990-94. The U.S. cross-border trade surplus in health care services amounted to $316 million in 1995, reflecting annual growth of 3 percent during 1990-95.

Canada remained the leading export market for U.S. health care services in 1995, accounting for an estimated 50 percent of the total. Canada's share of U.S. exports

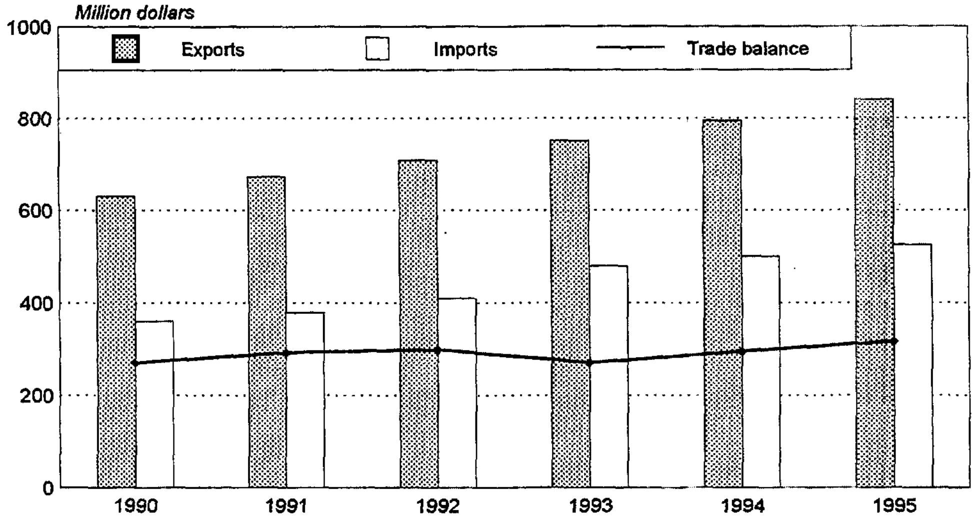
[137] Includes health maintenance organizations (HMOs) and similar organizations engaged in providing medical or other health care services to members. However, health care services do not include HMOs that limit services to the provision of insurance against hospitalization or medical costs.

[138] Cross-border exports largely consist of the treatment of foreign persons in the United States by hospitals, clinics, medical doctors, and other health care service professionals. Cross-border imports comprise the treatment of U.S. citizens overseas by foreign health care service providers.

[139] Transactions through affiliates include health care services provided to foreign persons by foreign-based affiliates of U.S. health care service providers, and to U.S. persons by U.S.-based affiliates of foreign health care service providers.

[140] USITC staff estimate, based on U.S. industry representatives and BEA official, telephone interviews by USITC staff, Oct. 14-17, and Nov. 25-27, 1996.

Figure 3-30
Health care services: U.S. cross-border exports, imports, and trade balance, 1990-95



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business,* Nov. 1996; and USITC staff estimates.

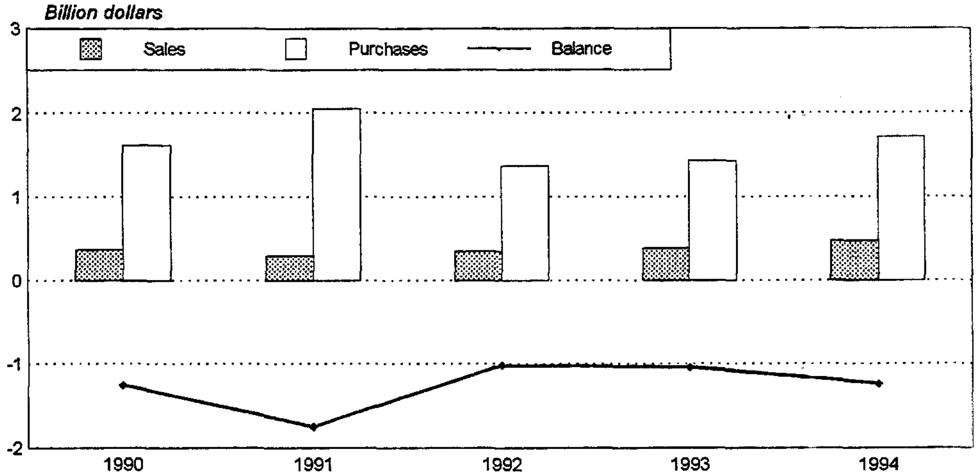
increased from less than 45 percent in 1994, due principally to contractual arrangements made by several Canadian provincial health care plans to reduce waiting lists by having some of their patients treated in less crowded hospitals in the United States.[141] Other leading markets for U.S. cross-border exports of health care services were the United Kingdom, Germany, Mexico, Australia, and Japan.[142]

Affiliate Transactions, 1990-94

Sales by foreign-based affiliates of U.S. health care service companies amounted to $476 million in 1994 (figure 3-31). This represented a 25-percent growth in such sales from 1993, contrasting with a 1-percent average annual rate of increase during 1990-93. Much of the increase reflected the opening of a newly constructed hospital in Switzerland by one major U.S. investor-owned hospital company and the acquisition of several new psychiatric hospitals in the United Kingdom by another U.S.-based company.[143] Purchases from U.S.-based affiliates of foreign health care companies amounted to $1.7 billion in 1994, representing a 14-percent increase over the previous year, contrasting sharply with an average annual decrease of 2 percent during 1990-93. The increase in services purchased from foreign-owned health care providers was largely accounted for by the U.S. subsidiary of a German hospital company which increased its already significant U.S. market share, and a French company which invested in a group of ambulatory health care facilities in the United States. A Japanese investor in a medium-size nursing home chain also posted increasing revenues.

[141] U.S. industry representatives, telephone interviews by USITC staff, Oct. 14-17, 1996.
[142] Ibid.
[143] U.S. industry representatives, interviews by USITC staff, Nashville, TN, July 15-16, 1996.

Figure 3-31
Health care services transactions by majority-owned affiliates: U.S. sales, purchases, and balance, 1990-94



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1993, Sept. 1994, Sept. 1995, and Nov. 1996; and USITC staff estimates.

Summary and Outlook

The increases in both cross-border exports and imports in 1995 followed previous trends of year-by-year increases during the period 1990-94. Much of this trade is primarily related to changes in relative U.S. and foreign currency values and corresponding patterns in tourism. The United States is expected to continue to maintain an overall surplus in its cross-border trade balance in the foreseeable future, since its health care services sector is perceived to offer high-quality and innovative services, particularly in specialty services that attract a number of high-income patients from Canada, Europe, and Mexico.

The notable rise in U.S. affiliate sales of health care services in 1994 likely does not reflect a significant shift in U.S. affiliate trade prospects. The increase principally represents higher earnings in several facilities in the United Kingdom owned by a major U.S.-based psychiatric hospital chain, which divested these facilities in 1996 to reorganize its efforts in the U.S. market, and to enter an emerging market for transitional and rehabilitative health care. Nevertheless, the increase in sales by U.S.-owned affiliates abroad in 1994 represented the third straight year of growth in such sales. The continued increase in revenues of majority-owned affiliates of foreign firms in the United States reflected the relative attractiveness of the U.S. market for private-sector supplied health care services.

The relatively substantial U.S. deficit in affiliate transactions in health care services is expected to continue over the next several years.[144] This is due to dynamics in the U.S. market that have increased opportunities for private-sector providers that promise to reduce

[144] U.S. industry representatives, telephone interviews by USITC staff, Oct. 14-17, 1996; and U.S. industry representatives, interviews by USITC staff, Nashville, TN, July 15-16, 1996.

health care costs for government and private-sector insurers. Despite increased price-sensitivity in the market, expanded private-sector opportunities have made the United States relatively more attractive than foreign markets for both domestic and foreign investor-owned health care service companies.

There continues to be a shakeout in the health care market as various players attempt to gain advantages as low-cost providers of services.[145] Hospitals, doctors, long-term health care providers, insurers, and managed care firms are networking, merging, and forming horizontally and vertically integrated organizations to finance and deliver health care services in an attempt to reduce costs and rationalize operations.[146] Over the past several years, mergers among the largest hospital systems have placed a handful of companies in a dominant position in terms of securing contracts with private and public insurers of health care services, particularly managed care contracts.

During 1994-95, major hospital systems, such as Columbia/HCA and Tenet Healthcare, focused much of their efforts on completing acquisitions of nonprofit and community hospitals and incorporating these acquisitions into their nationwide systems.[147] Their strategy now is to achieve sufficient cost effectiveness to become the provider of choice for managed care firms.[148] Meanwhile, major nursing home chains such as Beverly Enterprises and Manor Care are moving into new areas such as transitional care, rehabilitative care, and assisted living services to increase market share. Nursing chains are competing for such business against major hospital systems such as Columbia/HCA, which recently purchased a major provider of transitional care in this growing business. Finally, assisted living services for senior citizens who are not ready for custodial nursing care is a growing market driven by an aging population.[149] Traditional nursing care providers, including Manor Care and Beverly, have entered this emerging market, as have nontraditional players, such as Marriott Corp.

Due to developments in the dynamic U.S. market for health care services, there has been a recent downward trend in investment by major investor-owned systems in markets outside of the United States. For example, after two large investor-owned hospital systems, National Medical Enterprises and American Medical International, merged in 1995 to form Tenet Healthcare, Tenet divested its international operations in Australia, the United Kingdom, Malaysia, Singapore, and Thailand to refocus its efforts on consolidating and rationalizing its U.S. operations.[150] Meanwhile, Community Psychiatric Centers sold its

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[145] Montague Brown, "Mergers, Networking, and Vertical Integration: Managed Care and Investor-Owned Hospitals," *Health Care Management Review*, vol. 21, no. 1, 1996, pp. 29-37.

[146] Ibid.; H. Zuckerman, A.D., Kaluzny, A.D., and T.C. Ricketts, "Alliances in Health Care: What We Know, What We Think We Should Know," *Health Care Management Review*, vol. 20, no. 1, 1995, pp. 54-64; and M. Brown, M. Warner, and J. Steinberg, "Trends in Multihospital Systems: A Multiyear Comparison," *Health Care Management Review*, vol. 5, no. 4 (1980).

[147] Brown, "Mergers, Networking, and Vertical Integration," pp. 29-37.

[148] Ibid.; health care industry analysts, telephone interviews by USITC staff, Oct. 28-30, 1996; and U.S. industry representative, interview by USITC staff, Nashville, TN, July 16, 1996.

[149] Karen Pallarito, "Assisted Living Leads Growth," *Modern Healthcare*, May 20, 1996, p. 96.

[150] With regard to its international operations, Tenet retains only a hospital in Barcelona and a project started by American Medical International in 1994 to establish a Swiss hospital. Industry representative, interview by USITC staff, June 13, 1996, Santa Monica, CA; and Sandy Lutz, "Ex-Chief of Tenet's Swiss Facility Missing," *Modern Healthcare*, June 17, 1996, p. 19.

extensive British operations in 1996 so it could concentrate its efforts on the U.S. market for transitional care.[151] A number of health care analysts believe these recent divestments are only a temporary trend as major U.S.- and foreign-based service providers adjust to, and take advantage of, emerging opportunities in the evolving U.S. health care market.[152] Until the mergers, acquisitions, and consolidations currently underway in the U.S. market run their course, industry analysts believe that the U.S. deficit in affiliate trade will continue.[153]

Legal Services

Introduction

Legal services principally include legal advisory and representation services in various fields of law (e.g., criminal or corporate law), advisory and representation services in statutory procedures of quasi-judicial bodies, and legal documentation and certification services. Legal services are traded both on an affiliate and cross-border basis. However, trade data are available only for cross-border transactions. Cross-border trade in legal services occurs when legal professionals travel abroad to provide services to clients, or when clients travel abroad to engage the services of foreign attorneys. Cross-border trade is also conducted when legal documents or advice are transmitted via telecommunication devices, postal delivery, or other forms of correspondence.

Affiliate transactions in legal services are undertaken when foreign affiliates of law firms engage in commercial activity. In limited instances, the affiliate's lawyers may become members of foreign bars, giving them the right to appear in local courts and prepare advice on local law. However, most U.S. lawyers in foreign markets function as foreign legal consultants.[154] Such consultants are members of a bar in the United States, but are not locally accredited. Consequently, although foreign legal consultants may provide advice regarding U.S. law, international law, and third-country law, they are precluded from appearing in local courts or giving independent advice on local law, unless that advice is based on the specific advice of a member of the local bar.

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[151] Community Psychiatric Centers, "Community Psychiatric Centers' Third Quarter Results Reflect Gain on Sale of U.K. Operations, 27% Increase in the THC Net Earnings and Profitable Summer for Open Psychiatric Operations," Oct. 1, 1996.

[152] Health care industry analysts, telephone interviews by USITC staff, Oct. 1996; and U.S. health care industry representatives, interviews by USITC staff, Nashville, TN, July 15-16, 1996.

[153] Ibid.

[154] Although the term 'foreign legal consultant' (FLC) is widely used throughout the international legal community, the specific definition may differ among jurisdictions. Recently, the American Bar Association (ABA) and the Brussels Bar jointly proposed a universal definition. The Brussels Accord recognizes the ability of foreign lawyers to enter a country so as to qualify as a FLC, to hire local lawyers as partners, and, while restrictions would apply, to participate fully with local lawyers in providing a wide variety of legal services.

Recent Trends in Cross-Border Trade, 1991-95[155]

In 1995, U.S. cross-border exports and imports of legal services totaled $1.6 billion and $406 million, respectively, resulting in a cross-border trade surplus of approximately $1.2 billion (figure 3-32). U.S. exports of legal services decreased by 2.9 percent in 1995, contrasting sharply with 7-percent average annual growth experienced during 1991-94. U.S. imports of legal services increased by 4.6 percent, down significantly from average annual growth of almost 17 percent during the preceding 4 years.

Japan and the United Kingdom were the largest foreign markets for U.S. legal services in 1995, accounting for approximately 20 percent and 19 percent of total U.S. exports, respectively (figure 3-33). Other significant export markets for U.S. legal services included France, Germany, and Canada. Import patterns were similar, with U.S. residents purchasing approximately 24 percent of foreign-provided legal services from the United Kingdom and 12 percent from Japan. The United States recorded a surplus on legal services trade with each of the aforementioned countries.

Summary and Outlook

The U.S. legal services industry maintains a substantial trade surplus. Although U.S. exports declined in 1995, the industry will likely experience an increase in exports in response to the continuing growth of international commerce. In particular, increased demand for U.S. legal services will likely occur in the former Soviet Union, Eastern Europe, the Southeast Asia/Pacific region, and Latin America. Legal services will be delivered to these regions both through cross-border exports and affiliates channels. For example, U.S. law firms have affiliate offices in Hong Kong because a local presence is necessary for both business and cultural reasons.[156] However, law firms in Texas are able to conduct cross-border business in Mexico most efficiently from U.S. offices.[157]

Irrespective of the mode of delivery, exports of legal services are becoming an increasingly lucrative and important source of revenue for U.S. providers. Since the beginning of the decade, dramatic growth of international business, particularly relating to multinational financial arrangements, has generated strong demand for accompanying legal services. U.S.-based firms are moving quickly to improve their ability to provide services associated with international joint ventures, project finance, privatization, and mergers and acquisitions. Strategies include hiring lawyers admitted to bars outside the United States and establishing foreign affiliates, often through joint partnerships of their own.

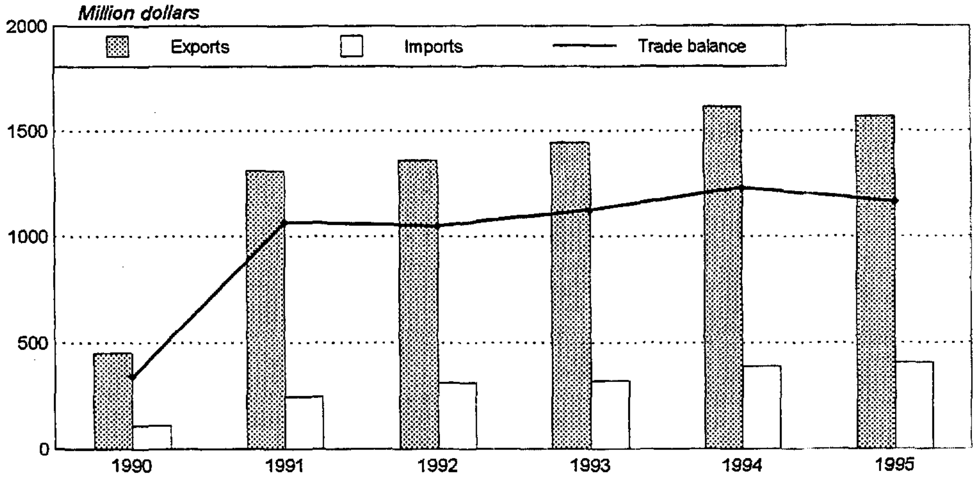
Although U.S. firms are the overall leaders in the provision of international legal services, British firms continue to offer strong competition. When legal matters involve participants from a number of countries, the legal documents are usually drawn up using British or New York law, in part because of the universality of the language and the specificity of the codes. Site-specific sections are written using the legal language of the applicable country

[155] Cross-border data of legal services reflect disproportionately large growth in imports and exports in 1990-91. To avoid any distortion, the analysis of cross-border trends in this industry is limited to 1991-95.

[156] U.S. industry representative, interview by USITC staff, Seoul, Korea, Jan. 27, 1997.

[157] U.S. industry representative, telephone interview by USITC staff, Oct. 29, 1996.

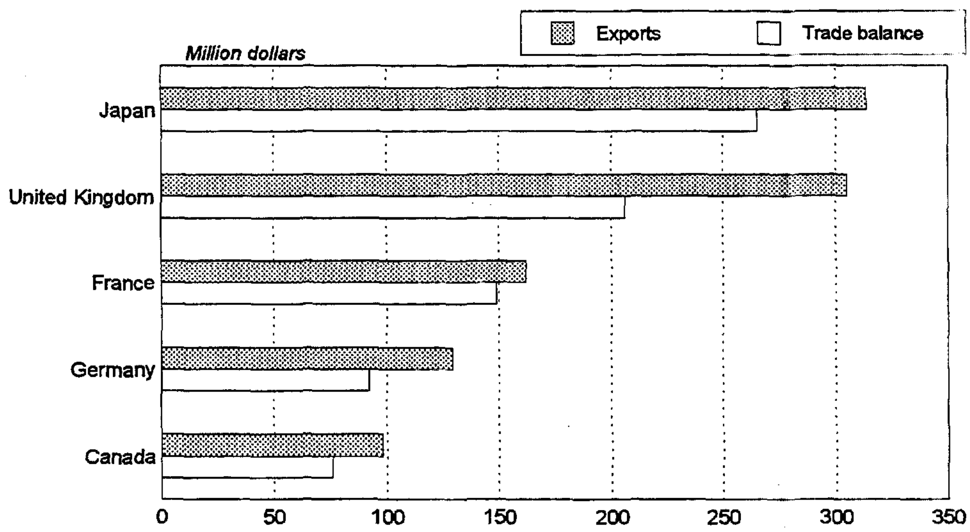
Figure 3-32
Legal services: U.S. cross-border exports, imports, and trade balance, 1990-95[1]



[1] In 1991, the Bureau of Economic Analysis expanded its survey of legal service exports to capture previously unrecorded trade. Consequently, data prior to 1991 are not directly comparable to data for 1991 and subsequent years.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996, pp. 82-83.

Figure 3-33
Legal services: U.S. cross-border exports and trade balance, by major trading partners, 1995



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

and then merged into the master document. In the past, British law was the standard for multinational legal applications. However, New York law is becoming the international legal standard of choice, providing the U.S. industry with a significant competitive advantage.[158]

U.S. lawyers operating as foreign legal consultants encounter few barriers when providing services on a cross-border basis. However, a blend of regulatory and economic factors usually impede the establishment of a foreign commercial presence. Local jurisdictions govern the provision of legal services to ensure that practitioners possess specific qualifications. Often, these local regulations are perceived as effective impediments to market access. By comparison, economic barriers may be rather indirect. Generally, U.S. law firms hesitate to commit financial resources by establishing a foreign affiliate without access to an adequate client base.[159]

In certain important economic regions, the U.S. legal services industry continues to encounter significant trade barriers. For example, over the last year, the American Bar Association has continued working with the United States Trade Representative to improve U.S. access to the Japanese legal market. As an example of progress, U.S. firms may now operate under their corporate name in Japan, rather than under the names of the partners currently directing the office. However, employees of U.S. firms, including Japanese lawyers, may serve only as foreign legal consultants; they are still not allowed to practice Japanese law.[160] Foreign law firms are permitted to create limited joint ventures with Japanese law firms, but U.S. firms question the economic merit of such endeavors.

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[158] Legal business benefits from the strength of the U.S. financial industry and prominence of U.S. business institutions. When international projects are financed by U.S. banks, U.S. law firms, well versed in U.S. financial procedures, have a natural advantage over foreign competitors. Listing on the New York Stock Exchange, an end result of many privatization projects, requires the approval of the Securities and Exchange Commission (SEC), which requires New York legal advice. Again, U.S. firms have competitive advantage due to their training and experience. "The Globalization of Corporate Law: Red Tape Around the World," *The Economist*, Nov. 23, 1996.

[159] International lawyers report occurrences of foreign offices being abandoned shortly after their establishment due to the high cost and the realization that services could be provided equally well from the home office. U.S. industry representatives, telephone interviews by USITC staff, Oct.-Nov., 1996.

[160] In practice, functioning as a foreign legal consultant instead of as a member of the local bar is a self-imposed restriction. There is no citizenship or residence requirement that would prohibit a U.S. lawyer from taking the Japanese bar exam and becoming a member of the Japanese bar. Admission to the bar in Japan is simply unnecessary for the majority of U.S. lawyers exporting legal services to Japan. The real challenge in recent years has been to gain market access, thereby allowing U.S. lawyers to offer their services in person in foreign countries, which would be limited to U.S. legal services and international legal services. Peter D. Ehrenhaft, Esq., testimony before the U.S. International Trade Commission, June 1995.

Maintenance and Repair,[161] Installation, Alteration, and Training Services

Introduction

Trade in maintenance and repair, installation, alteration, and training services (hereafter, maintenance and repair services) entails not only the maintenance and repair of machinery and equipment, but the maintenance and repair of buildings, dams, highways, and other construction works. Further, this trade includes the provision of "such services as the periodic overhaul of turbines or locomotives, the extinguishing of natural gas well fires, and refinery maintenance."[162] Installation and training services include installation, startup, and training services provided by a manufacturer only in connection with the sale of goods, such as oil and gas field equipment.[163] In addition, services related to aircraft are generally limited only to maintenance, repair, and training services provided in connection with military and privately-owned aircraft, and training conducted overseas in conjunction with the sale of civil aircraft and civil aircraft engines. Aircraft related services are believed to comprise a significant portion of U.S. receipts (exports) of maintenance and repair services. Excluded from these services are most expenses for maintenance and repairs incurred overseas by U.S. airlines and ocean carriers and similar expenses incurred in the United States by foreign airlines and ocean carriers.[164] Also excluded are maintenance and repair operations for computers and telecommunications equipment,[165] which are classified as computer and telecommunication services, respectively, and oil and gas field services performed on a contract basis (i.e., services provided by firms other than the manufacturer

[161] Beginning in 1996, BEA will remove repair services from the Form BE-20, *Benchmark Survey of Selected Services Transactions with Unaffiliated Foreign Persons*, in order to conform to balance of payments procedures issued by the International Monetary Fund. Repairs will be considered as trade in merchandise.

[162] Excluded are services where the cost is included in the price of the goods and not separately billed or is declared as part of the price of the goods on the import or export declaration filed with the U.S. Customs Service. USDOC, BEA, instructions to Form BE-22, *Annual Survey of Selected Services Transactions with Unaffiliated Foreign Persons--1995*, OMB Form No. 0608-0060.

[163] Training services not connected with the sale of goods, for example, are classified under education services.

[164] See instructions to BEA Form BE-36, *Foreign Airline Operators' Revenues and Expenses in the United States*; Form BE-37, *U.S. Airline Operators' Foreign Revenues and Expenses*; Form BE-29, *Foreign Ocean Carriers' Expenses in the United States*; and Form BE-30, *Ocean Freight Revenues and Foreign Expenses of United States Carriers*.

[165] Services provided with the sale of integrated computer hardware and software systems are classified under computer and data processing services. Similarly, services related to the maintenance and repair of telecommunications equipment are classified under telecommunications services. USDOC, BEA, instructions to Form BE-22, *Annual Survey of Selected Services Transactions with Unaffiliated Foreign Persons--1995*, OMB Form No. 0608-0060.

of the oil and gas field equipment).[166] Although maintenance and repair services are traded on both cross-border and affiliate bases, official data are available for cross-border trade only.

Recent Trends in Cross-Border Trade, 1990-95

U.S. exports of maintenance and repair services grew by an average annual rate of more than 14 percent during 1990-94, but declined by almost 9 percent in 1995, to $3.2 billion (figure 3-34). The decline in such exports is partly attributable to a fall in U.S. exports of aircraft and related products in 1995, although this was somewhat offset by an increase in U.S. exports of machinery and other transportation equipment.[167] U.S. imports of maintenance and repair services rose by an average annual rate of less than 1 percent during 1990-94, compared with a 2.5 percent increase to $754 million in 1995. The relatively large increase in U.S. imports of maintenance and repair services in 1995 was in part attributable to increased imports of motor vehicle production and printing machinery from Germany. The U.S. trade surplus for maintenance and repair services grew by an average annual rate of almost 20 percent during 1990-94, but declined by almost 12 percent to $2.4 billion in 1995. The U.S. trade surplus in maintenance and repair services accounted for 4 percent of the total U.S. trade surplus in cross-border services in 1995.

In 1995, the largest U.S. export markets were Saudi Arabia, Japan, the United Kingdom, Canada, and Mexico (figure 3-35). Saudi Arabia accounted for almost 12 percent, or $364 million of total maintenance and repair services receipts in 1995. Receipts from Saudi Arabia can be attributed to services provided in conjunction with U.S. exports of aircraft, oil and gas field machinery, and turbines and related equipment for power generation. U.S. exports of aircraft and aircraft engines underlie services provided to Japan, Canada, and the United Kingdom. In contrast, the major import suppliers were Germany, the United Kingdom, and Canada, which together accounted for 63 percent of total U.S. maintenance and repair services imports of almost $475 million in 1995.

Saudi Arabia, Japan, and the United Kingdom were the largest contributors to the U.S. trade surplus in maintenance and repair services in 1995. The U.S. trade surplus with Saudi Arabia alone totaled $361 million in 1995 and accounted for 15 percent of the $2.4 billion U.S. trade surplus in maintenance and repair services.

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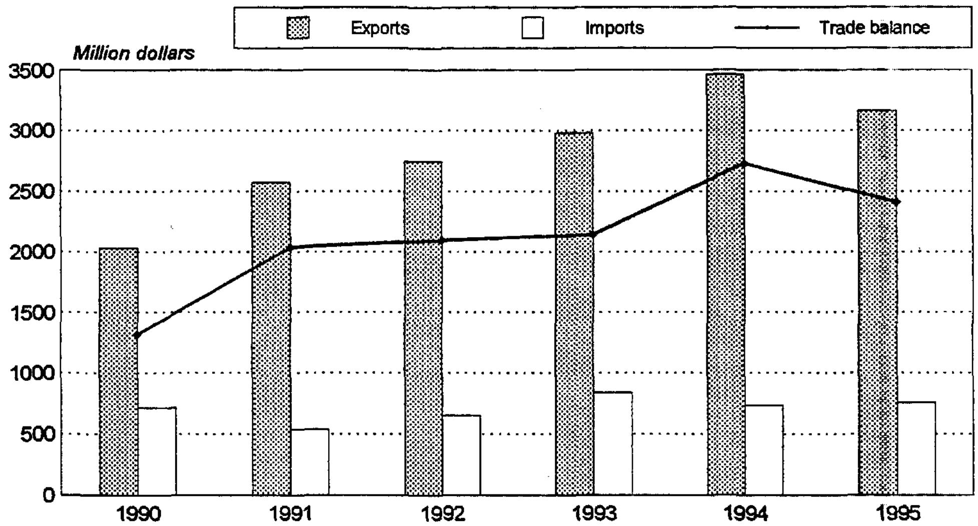
[166] Oil and gas field maintenance and repair services, such as cleaning lease tanks, or repairing derricks or gas well rigs, when performed on a contract basis, are classified under construction, engineering, architectural, and mining services. The USDOC, BEA, instructions to Form BE-47, *Annual Survey of Construction, Engineering, Architectural, and Mining Services Provided by U.S. Firms to Unaffiliated Foreign Persons*, OMB Form No. 0608-0015, p. 1.

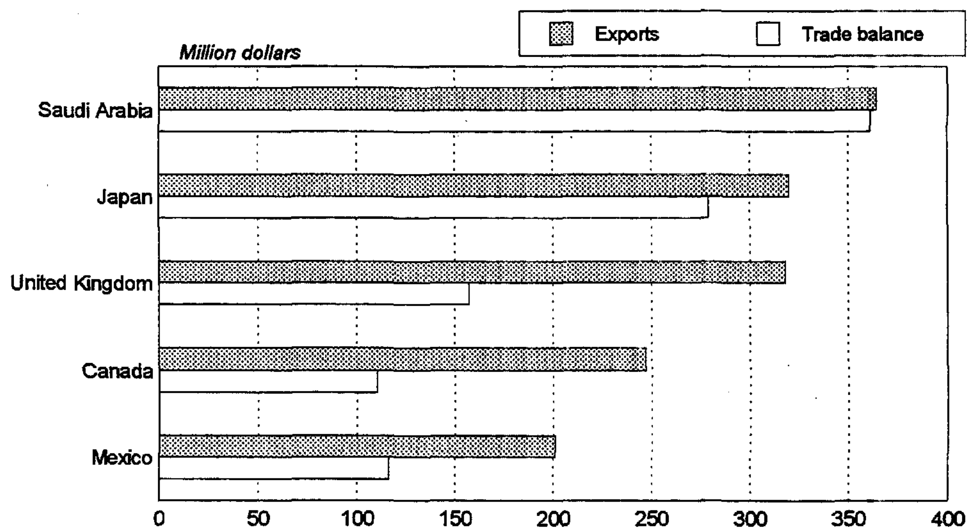
[167] Export data on the "Value of repairs or alterations of previously imported articles, repaired or altered prior to exportation from the United States," Sch. B heading 9801.10.0000. Data for this heading may include the total cost of the repair or alteration, including parts and labor costs. Such exports were valued at $1.8 billion in 1995, declining from almost $2.0 billion in 1994. In 1995, the leading destinations of such articles were Japan, accounting for 12 percent of the total or $216 million, Canada for 11 percent or $204 million, the United Kingdom for almost 11 percent or $189 million, Mexico for 8 percent or $148 million, and Saudi Arabia for almost 8 percent or $138 million.

Figure 3-34
Maintenance and repair, installation, alteration, and training services: U.S. cross-border exports, imports, and trade balance, 1990-95



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

Figure 3-35
Maintenance and repair, installation, alteration, and training services: U.S. cross-border exports and trade balance, by major trading partners, 1995



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

Summary and Outlook

Year-to-year increases in U.S. exports of maintenance and repair services peaked in 1994, before falling in 1995. Prior to 1995, the U.S. trade surplus increased as exports grew, on average, more rapidly than imports. The relatively large increase in cross-border imports in 1995 was due to an increase in imports of German machinery.

The ability to export maintenance and repair services is dependent on U.S. producers' sales of certain kinds of machinery and equipment, including aircraft, aircraft engines, and aircraft parts; power generation machinery; semiconductor manufacturing equipment; and oil and gas field equipment. In addition, the U.S. trade position in maintenance and repair services is also dependent on U.S. competitiveness in specialized service niches, such as extinguishing natural gas well fires and developing and implementing process technologies, such as for petrochemicals.

U.S. receipts for maintenance and repair services are expected to remain somewhat flat or show moderate growth over the next couple of years. Increased spending in the global market for aircraft will likely be partially offset by reduced spending on power generation equipment and semiconductor manufacturing equipment, with the latter moderating the growth of U.S. exports of maintenance and repair services. Airlines in Europe and Asia are modernizing their aircraft fleets and thus will need training. U.S. exports of military aircraft are expected to vary depending upon foreign defense spending, U.S. national security concerns, and competition from foreign producers. Spending on power generation equipment in Japan, the United Kingdom, Taiwan, Indonesia, and Thailand has declined, but is expected to be partially offset by continued purchases of such equipment by China, India, Korea, Canada, Saudi Arabia, Australia, and Ecuador. In turn, U.S. payments for such services are not expected to grow significantly because, in general, the United States is a mature market and there are fewer new large projects that require the installation of new equipment. In addition, the decline in U.S. imports of aircraft engines, especially from the United Kingdom, is likely to continue, thus limiting U.S. payments for services associated with these engines.

Telecommunication Services

Introduction

Telecommunication service trade encompasses both basic[168] and value-added[169] services, which can be exchanged across national borders and through foreign-based affiliates. Cross-border trade, which involves the placement of a call in the home market and the termination of the call in a foreign market, is the dominant mode of trade. However, affiliate trade is increasing in importance as U.S. trading partners privatize state-owned monopolies and liberalize foreign ownership restrictions, allowing for greater overseas participation by U.S. carriers. Furthermore, new telecommunication services are developing

[168] Basic services entail the transmission of voice and data without change in form or content.

[169] Value-added services include computer processing, electronic mail, electronic data interchange, electronic funds transfer, enhanced facsimile, and on-line database access.

to keep pace with the globally mobile customer, such as call back[170] and country direct services.[171] In addition, trade has been facilitated by the distribution of calling cards[172] and international toll-free phone numbers,[173] and by the completion of roaming agreements.[174] Related services, such as telecommunications training, consultancy, and build-operate-transfer programs,[175] constitute a relatively minor portion of telecommunication service trade.

Recent Trends

Cross-Border Trade, 1990-95

The United States recorded a consistent trade deficit in cross-border telecommunication services during 1990-95 (figure 3-36), principally because most calls between the United States and foreign countries originate in the United States (table 3-2). U.S. carriers collect fees from domestic customers for outbound calls and periodically make settlement payments to foreign carriers according to bilaterally negotiated "accounting rates." Accounting rates are prices charged by carriers for terminating international calls. U.S. settlement payments to foreign carriers are recorded as imports in the U.S. balance of payments, whereas settlement payments collected from foreign carriers are recorded as exports. Other factors that adversely affect the U.S. trade balance include the average length of calls, which tends to be longer for calls originating in the United States; relatively low U.S. international calling prices, which promote outbound calls; the devaluation of the dollar, which increases the size of settlement payments;[176] the relative wealth of the United States, which increases the volume of outbound calls; the magnitude of foreign direct investment abroad, which promotes outbound calls from U.S.-based parent companies to foreign affiliates; and the disparity of accounting rates, which are high and above cost in most countries.

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[170] Call-back services require a customer outside the United States to call an assigned number and hang up; the caller will then receive a computer-driven, return call with a U.S. dial tone from a U.S. call-back firm. The customer may then place a call to the desired destination. These calls appear as outbound U.S. calls for accounting purposes.

[171] Country direct services provide a customer in a foreign location with access to a U.S. carrier for the purpose of placing calls to the United States or foreign destinations. These calls also appear as outbound U.S. calls for accounting purposes.

[172] Calling cards are pre-paid telephone cards that are frequently distributed abroad through U.S. multinational corporations. David Molony, "Callback operators diversify to survive," *Communications Week*, issue 171, Sept. 23, 1996.

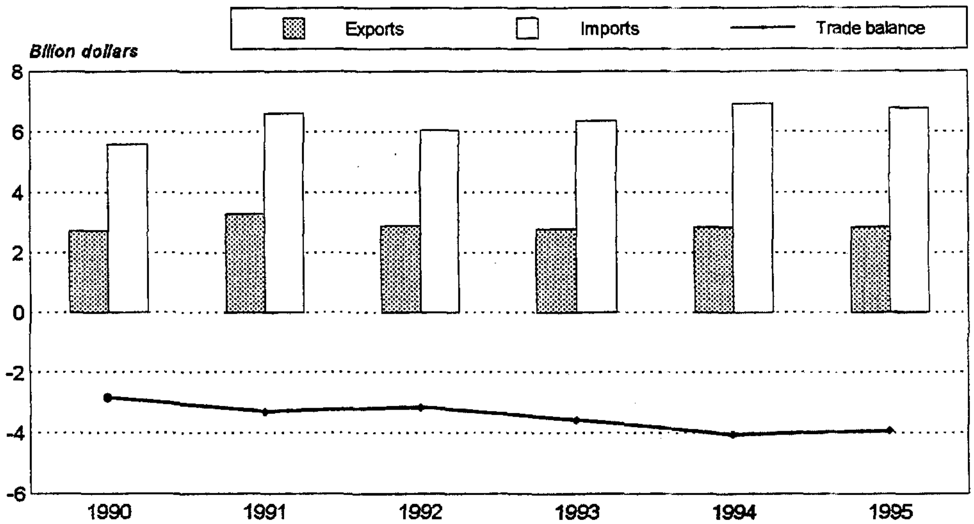
[173] Toll-free phone numbers are those in which the receiver of the connection pays for the call (e.g., 800 and 888 numbers).

[174] Cellular providers must secure the proper licensing requirements or "roaming agreements" from foreign governments in order for their customers to utilize their services when resident in foreign countries.

[175] Build-operate-transfer (BOT) programs describe a growing range of projects in which a private company is awarded a concession to build a telecommunication network or to provide telecommunication services for a specified period of time. Once the time has expired, ownership is transferred to the national telecommunication operator in that country. International Telecommunication Union (ITU), *World Telecommunication Development Report*, 1994, p. 106.

[176] ITU, *World Telecommunication Development Report*, 1994, pp. 27-29.

Figure 3-36
Telecommunication services: U.S. cross-border exports, imports, and trade balance, 1990-95



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996, pp. 82-83.

U.S. cross-border exports in telecommunication services were valued at $2.8 billion in 1995, slightly lower than their 1994 level. In 1995, telecommunication service imports measured $6.8 billion, down by 2 percent from $6.9 billion in 1994.[177] The U.S. deficit in telecommunication services decreased by 3.2 percent in 1995, to $3.9 billion, mainly due to more favorable accounting rates[178] negotiated with major U.S. trading partners during 1994-95 (table 3-3).[179] The reduction in the telecommunication service deficit in 1995 contrasted sharply with the 9.2-percent average annual growth during 1990-94.

Mexico, Canada, Japan, and the United Kingdom constituted the largest U.S. cross-border telecommunication export markets, although the United States posted deficits in bilateral trade with each. Together, these four countries accounted for 31.5 percent of U.S. cross-border exports of telecommunication services in 1995, and 27.3 percent of U.S. imports. Among the countries with which the United States is a net importer of telecommunication services, Mexico is the most significant (figure 3-37). The United States recorded a $783-million deficit with Mexico in 1995, representing 20 percent of the total U.S. trade deficit in telecommunication services. Even though U.S. customers placed more calls to Canada than to Mexico, the trade deficit with Mexico was much greater due to Mexico's

[177] USDOC, BEA, *Survey of Current Business*, July 1996, p. 84.

[178] Industry representative, interview by USITC staff, Washington, DC, Oct. 27, 1996.

[179] AT&T, which collects approximately 60 percent of the net revenue from international telecommunication services in the United States, attributes the improvement in its settlement payments to a reduction of international accounting rates. *AT&T Investor Relations Bulletin*, vol. 12, No. 6, Oct. 17, 1996.

Table 3-2
Number of minutes of international calls originating and ending in the United States, 1991-1995

(In thousands)

Region[1]	1991	1992	1993	1994	1995
Western Europe					
Outgoing[2]:	2,273,028	2,506,566	2,713,102	3,017,507	3,408,026
Incoming[3]:	1,324,885	1,462,722	1,535,474	1,654,363	1,811,707
Africa					
Outgoing:	174,210	204,900	235,272	303,369	408,084
Incoming:	59,124	62,142	70,130	82,377	89,710
Middle East					
Outgoing:	461,787	347,902	400,363	474,164	555,730
Incoming:	140,253	135,010	149,385	152,235	167,961
Caribbean					
Outgoing:	615,903	701,640	720,972	895,451	1,088,796
Incoming:	206,847	242,015	258,866	287,377	351,256
North America					
Outgoing:	3,326,063	3,882,931	4,308,664	4,918,310	5,577,100
Incoming:	1,954,752	2,197,021	2,355,298	2,624,299	2,982,337
South America					
Outgoing:	580,745	715,660	849,390	1,028,605	1,282,233
Incoming:	219,065	234,542	240,519	290,978	354,386
Asia					
Outgoing:	1,262,271	1,473,809	1,745,312	2,226,637	2,850,97 9
Incoming:	638,313	730,636	803,526	882,685	961,201
Oceania					
Outgoing:	156,675	180,171	202,735	245,297	299,833
Incoming:	134,555	152,533	173,486	199,053	211,190
Eastern Europe					
Outgoing:	164,112	192,533	246,782	337,457	408,769
Incoming:	47,370	69,509	114,955	121,265	119,507
Other Regions					
Outgoing:	3,268	3,701	11,892	10,308	8,869
Incoming:	4,044	4,765	2,879	2,107	1,491
TOTAL:					
Outgoing:	9,018,062	10,209,813	11,434,484	13,457,105	15,888,419
Incoming:	4,729,208	5,290,895	5,704,518	6,296,739	7,050,746

[1] Regions receiving calls from the United States, or originating calls to the United States.
[2] Calls originating in the United States.
[3] Calls ending in the United States.

Source: Federal Communications Commission, *Statistics of Communications Common Carriers* (Washington, DC: GPO), 1992, pp. 185-188; 1993, pp. 183-186; 1994, pp. 183-186; 1995, pp. 215-21; and 1996, pp. 203-206.

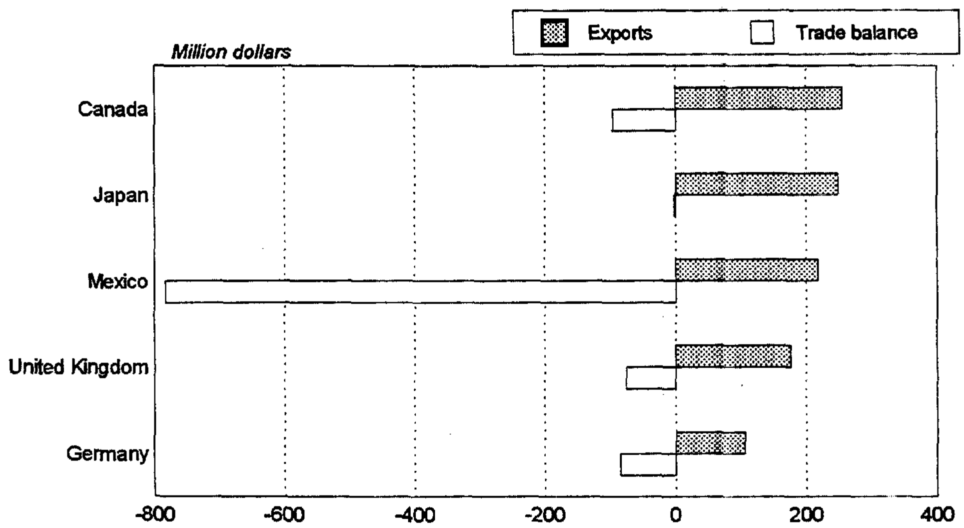
Table 3-3
Accounting rates, by major trading partner, 1990, 1994, and 1995

Country	1990	1994	1995
Mexico	$1.32	$0.91	$0.67
Canada	$0.28	$0.26	$0.24
Philippines	$1.92	$1.34	$1.23
Italy	1.50 SDR[1]	0.82 SDR[1]	0.48 SDR[1]
Israel	$2.40	$2.16	$1.90
Germany	1.2 SDR[1]	0.34 SDR[1]	0.26 SDR[1]
Korea	$2.10	0.95 SDR[1]	0.85 SDR[1]
United Kingdom	$1.06	0.33 SDR[1]	0.25 SDR[1]
China	2.61 SDR[1]	1.96 SDR[1]	1.90 SDR[1]
Taiwan	$1.80	$1.20	$1.20
Japan	1.34 SDR[1]	0.60 SDR[1]	0.63 SDR[1]

[1] A SDR is a Special Drawing Right from the International Monetary Fund (IMF) and is currently valued at $1.38.

Source: Federal Communications Commission (FCC), *Statistics of Communications Common Carriers*, (Washington, DC: GPO, 1995), p. 245; and *The Wall Street Journal*, Mar. 26, 1997.

Figure 3-37
Telecommunication services: U.S. cross-border exports and trade balance, by major trading partners, 1995



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

higher accounting rates. The United States recorded cross-border trade surpluses only with Norway and Sweden in 1995.[180]

Affiliate Transactions, 1990-94

Trade in telecommunication services through foreign-based affiliates is dramatically increasing in importance, as market access and foreign ownership restrictions of countries are liberalized both unilaterally and through multilateral agreements such as the General Agreement on Trade in Services (GATS). However, data on telecommunication sales by foreign-based affiliates are bundled with data on radio and other broadcasting services, defined broadly as "communications."[181] Affiliate sales data on communication services are not available in sufficient detail to identify all major trading partners. However, available data suggest that foreign-based U.S. affiliates record a majority of sales in Europe. Sales to Europe increased markedly in recent years, from $191 million in 1993 to $785 million in 1994. In 1994, 72 percent of these sales went to the United Kingdom, generating revenue of $567 million.[182] The large growth in U.S. affiliate sales in the United Kingdom is likely due, in part, to the liberalization of foreign ownership restrictions in the United Kingdom's telecommunication market.

Summary and Outlook

Both cross-border exports and imports declined slightly in 1995, although imports declined by more in absolute terms than exports. Consequently, the United States experienced a reduction in the deficit consistently posted on trade in telecommunication services. The U.S. recorded a reduction in imports due mostly to more favorable international accounting rates (table 3-3), demonstrating that efforts by the U.S. Government to improve accounting rates and promote liberalization have met with some success.[183] However, the development of services such as call back and country direct services has partially offset the reduction of accounting rates, thus moderating downward pressure on U.S. telecommunication service trade deficit.

The liberalization of the U.S. telecommunication market by the Telecommunication Act of 1996 will have an indeterminate effect on the U.S. telecommunication service trade balance.[184] While the Act has prompted some U.S. international long-distance carriers to focus their attention on the $90-billion[185] domestic, local market,[186] it has induced other

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[180] USDOC, BEA, *Survey of Current Business*, Nov. 1996.

[181] Telephone and telegraph sales constituted an estimated 80 percent of "communications" sales in 1995. USDOC representative, interview by USITC staff, Washington, DC, Nov. 25, 1996.

[182] USDOC, BEA, *Survey of Current Business*, Nov. 1996.

[183] FCC, *Statistics of Communications Common Carriers*, 1995.

[184] Major elements of the Telecommunications Act of 1996 include liberalization of domestic local exchange markets; termination of restrictions on the lines of business of local and long-distance carriers, including those barring local carriers' entry to the cable television market; and streamlined regulatory procedures for local carriers. World Wide Web, retrieved Apr. 22, 1997, BellSouth, http://www.bellsouthcorp.com/headlines/bell_releases/96/feb/RELEAS29.html.

[185] Standard and Poors, "Telecommunications: Wireline," *Industry Surveys*, Sept. 12, 1996.

[186] Industry representative, interview by USITC staff, Washington, DC, Oct. 16, 1996.

regional Bell holding companies, such as Nynex and Bell Atlantic,[187] to focus on the \$75-billion long-distance market.[188] Furthermore, the effect of the Act may be delayed for some time, while the Bell companies grapple with legal and regulatory delays.[189] Nonetheless, the reorganization of the U.S. telecommunication industry will ultimately increase competition within the United States, prompting further consolidation and the formation of strategic alliances between U.S. and foreign carriers. For instance, the relaxation of foreign ownership restrictions under the U.S. Telecommunication Act of 1996 has enabled British Telecom (BT) to acquire MCI, subject to FCC approval. Also, due to heightened competition, U.S. service providers will be compelled to become increasingly innovative and provide a greater variety of value-added services, which will likely be the driving force behind revenue growth for U.S. carriers as competition forces long-distance prices down.[190]

The move toward the liberalization of basic telecommunications led by the Group on Basic Telecommunications (GBT), the telecommunication negotiating arm of the WTO, will likely have a significant effect on the U.S. telecommunication industry.[191] The agreement on basic telecommunication services will likely have several medium-term effects on the U.S. industry. The liberalization of the telecommunication service market[192] should result in lower prices for consumers and increase the volume of telecommunication service trade.[193] The current accounting rate system, which is credited with keeping international calling prices significantly above cost, was not designed for a competitive environment, but rather was created to facilitate payments between national monopolies. Therefore, the introduction of competition into formerly non-competitive markets will increasingly strain the highly regulated system, and should continue putting downward pressure on settlement payments by inducing more cost-based accounting rates, ultimately reducing the inflated U.S. telecommunication service trade deficit. Recently, the Federal Communications Commission unilaterally moved to reduce accounting rates by allowing U.S. carriers to negotiate lower rates directly with foreign carriers and proposed rules for a cost

[187] Glenn Manoff, "Bells frustrated by legal handcuffs," *Communications Week International*, issue 170, Sept. 9, 1996.

[188] Industry representative, interview by USITC staff, Washington, DC, Oct. 28, 1996, and Nov. 21, 1996.

[189] The Act prohibits any Bell company from offering long-distance services until there is sufficient competition in their local market. Manoff, "Bells frustrated by legal handcuffs," *Communications Week International*.

[190] Currently, long distance generates over two-thirds of total profit for the big three long distance carriers, AT&T, MCI, and Sprint. Manoff, "Bells frustrated by legal handcuffs," *Communications Week International*.

[191] Industry representative, interview by USITC staff, Washington, DC, Oct. 28, 1996.

[192] Value-added services, which account for approximately 15 to 20 percent of telecommunication services, were addressed during the Uruguay Round under the GATS.

[193] Demand for telecommunication services is generally believed to be price-sensitive. A decrease in prices likely will result in an increase in the volume of trade.

that would tie international calling rates to actual costs.[194] These new rules give U.S. carriers greater flexibility so that they may, for instance, request bids from competing foreign carriers for the right to terminate outbound U.S. calls.[195]

Furthermore, U.S. direct investment abroad should expand as U.S. carriers will increasingly have the opportunity to acquire controlling interest in foreign carriers, obtain foreign cellular licenses, and operate facilities-based operations abroad. Privatization and liberalization of the telecommunication market will create ventures of many types both in the United States and abroad. For example, in Mexico, U.S. carriers invested billions of dollars and formed alliances with local carriers, in preparation to launch long-distance services when Mexico officially opened its market to competition in January 1997. Also, U.S. wireless providers will likely increase their presence in developing countries where wireline access and teledensity are very low,[196] as well as in developed countries that have implemented transparent procedures for spectrum allocation.

Transportation Services

Introduction

For the purpose of this discussion, transportation service receipts include passenger fares, freight transportation receipts, and receipts for port services and other transportation. Trade data pertaining to transportation services are available for both cross-border transactions and sales by affiliates. The relative importance of cross-border delivery and sales by affiliates varies substantially depending upon both the type of transportation service provided and the geographic location of the countries involved. For example, trade in airline transportation services is inherently a cross-border transaction, whereas sales by affiliates play a large role in freight transportation in countries where regulatory barriers prohibit cross-border trade.

Recent Trends

Cross-Border Trade, 1990-95

During 1995, cross-border exports of transportation services rose by nearly 9 percent, from $42.9 billion to $46.6 billion, which was faster than the average annual increase of

[194] The proposed FCC benchmarks will be based on an aggregate price calculated from a foreign carrier's tariffed price for the actual domestic transport and termination of a call, the international transmission and switching facilities, and the level of a country's economic development, measured by its gross domestic product. The FCC has proposed 15 cents per minute for high-income countries, 19 cents per minute for middle-income, and 23 cents per minute for low-income countries. U.S. Federal Communications Commission, Notice of Proposed Rulemaking, FCC 96-484, Dec. 19, 1996.

[195] Ola Kinnander, "FCC Takes First Two Steps to Lower International Phone Rates," *Communications Today*, Nov. 27, 1996, p. 4.

[196] Personal communication services (PCS) traffic in Latin America has increased 88 percent over the past five years, and shows little sign of slowing. Tarjanna, "Americas Geopolitical Challenges."

4 percent recorded during 1990-94 (figure 3-38). Cross-border imports of transportation services increased by approximately 6 percent, from $40.9 billion in 1994 to $43.5 billion in 1995. This was slightly faster than the average annual growth of 5 percent recorded during 1990-94. As a result of the $3.7-billion increase in exports and a $2.7-billion increase in imports, the U.S. cross-border trade surplus increased by approximately 48 percent, to $3.1 billion in 1995. Exports of transportation services accounted for 26 percent of all cross-border service exports in 1995, while imports of transportation services accounted for nearly 38 percent of all cross-border service imports. The surplus in cross-border transportation services accounted for 5 percent of the total cross-border services surplus.

Major U.S. trading partners in transportation services include Japan, Canada, the United Kingdom, and Germany, in terms of total volume of cross-border exports and imports. The list of major trading partners remains substantially unchanged from previous years, and both exports and imports of transportation services between the United States and these countries continued to rise. While trade accounts with Canada, the United Kingdom, and Germany have fluctuated between surplus and deficit during 1990-95 (figure 3-39), the United States posts a persistent trade surplus with Japan, primarily stemming from airline passenger fares. In 1995, the United States posted a $1.2-billion deficit with the United Kingdom, also resulting mainly from airline passenger transportation. This has hovered just above $1 billion for the past 3 years.

Affiliate Transactions, 1990-94

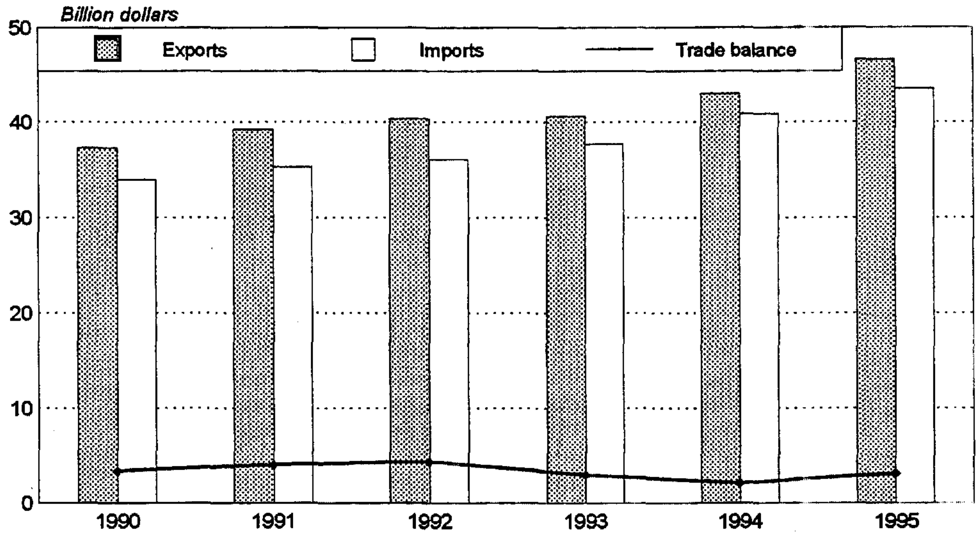
Data on affiliate transactions differ from cross-border trade data by including receipts for the arrangement of travel. Sales by foreign-based affiliates of U.S. firms rose to $8.7 billion in 1994, or by 30 percent, which is much faster than the average annual growth rate of 14 percent recorded during 1990-93 (figure 3-40). Purchases from U.S.-based affiliates of foreign firms grew by 10 percent to $9.6 billion, only marginally faster than the average annual increase of 9 percent during 1990-93. The resulting deficit of nearly $1 billion principally reflects foreign firms' strong presence in the United States, primarily because of the size and openness of the U.S. market. The deficit has narrowed significantly in recent years as other nations have eliminated barriers to U.S. participation in their markets.

While much of the country-specific data for sales by majority-owned affiliates of transportation services are unavailable because they would disclose information on the operations of individual firms, available data indicate that Europe is the largest trading partner of the United States. Canada is also a significant market for sales by foreign affiliates of U.S. companies, accounting for 18 percent of all sales in 1994. U.S. purchases from U.S.-based affiliates of foreign firms appear to be dominated by British-owned firms, which accounted for 18 percent of U.S. purchases.

Summary and Outlook

The increase in both exports and imports of transportation services is likely to continue as a result of the global expansion of trade. The Asia/Pacific region continues to be a primary supplier of freight and other transportation services to the United States, while Europe remains a primary supplier of airline passenger transportation services.

Figure 3-38
Transportation services: U.S. cross-border exports, imports, and trade balance, 1990-95

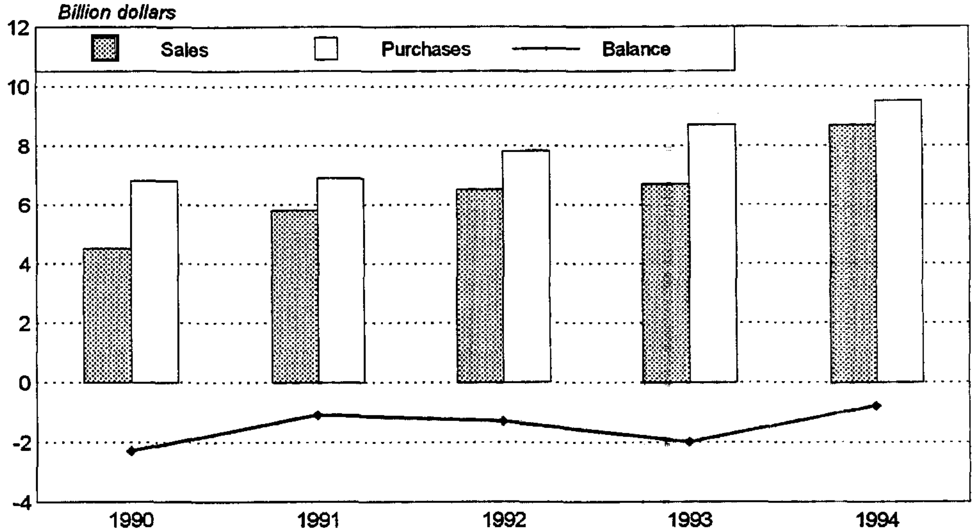


Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1993, Sept. 1994, Sept. 1995, and Nov. 1996.

Figure 3-39
Transportation services: U.S. cross-border exports and trade balance, by major trading partners, 1995

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

Figure 3-40
Transportation service transactions by majority-owned affiliates: U.S. sales, purchases, and balance, 1990-94



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1993, Sept. 1994, Sept. 1995, and Nov. 1996.

McDonnell-Douglas' Douglas Aircraft Group released a study in 1996 forecasting an increase in air travel by approximately 5.9 percent worldwide, each year for the next five years. The report projects that Asia/Pacific routes will grow by 8.1 percent annually. At that rate of growth, Pacific Rim travel could surpass European air transportation by 2001.[197] However, such growth rates are heavily predicated on the continuation of favorable global economic conditions.

Continued increases in merchandise imports through U.S. ports will likely contribute to increases in demand for ocean freight transportation and port services. In 1996, merchandise imports accelerated, and U.S. and foreign ocean carriers in the eastbound Pacific trades increased freight rates. In the long term, however, while cargo volume will likely continue to increase, the need to retain market share is expected to depress freight rates.[198] Port statistics on the volume of trade moving through the ports of Los Angeles and Long Beach, which handle more than 50 percent of the containerized imports moving across the Pacific, have increased significantly. These statistics are representative of a nationwide trend in transportation, as year-to-year growth figures are becoming progressively larger. Shipping executives are especially encouraged by developments in the trade between North Asia and the United States. In contrast, export growth in Southeast Asia is beginning to moderate after several years of strong growth.[199]

[197] William Flannery, "McDonnell Douglas Predicts Big Demand for New Plane," *St. Louis Post-Dispatch*, Knight-Ridder/Tribune Business News, Oct. 2, 1996.

[198] Bill Mongelluzzo, "Eastbound Pacific Volume Hitting High Note," *The Journal of Commerce*, Knight-Ridder/Tribune Business News, Oct. 8, 1996.

[199] Ibid.

Transshipment[200] cargo levels are also rising. Approximately 5.2 million metric tons of U.S. exports and imports were transshipped via truck or rail through Canadian ocean ports in 1994, according to a Maritime Administration report.[201] That volume represents 4.3 percent of total U.S. liner trade.[202] Increases in transshipments will continue to contribute to an increase in trade in both ocean shipping and port services, as well as trade with Canada in rail and trucking.

In addition, breakbulk[203] cargo volumes are forecast to increase, as a result of high demand for electric power and oil production capabilities in less developed countries.[204] The increase in project cargo is putting pressure on breakbulk capacity, and is motivating some ocean carriers to expand their fleets of breakbulk vessels to meet growing demand, as all indicators show that the market for this type of transportation is likely to remain strong.[205]

Travel and Tourism Services

Introduction

Travel and tourism trade data represent expenditures made by travelers while in another country, such as for lodging and meals. Although passenger fares may be considered a component of travel and tourism services, for the purposes of this study passenger fares are addressed in the previous discussion of transportation services. Travel and tourism services are traded mainly through cross-border channels, although affiliate trade also takes place.

Recent Trends

Cross-Border Trade, 1990-95

In 1995, the United States earned $61.1 billion from cross-border travel and tourism exports (figure 3-41), representing 35 percent of total U.S. service exports. Cross-border exports increased by 5 percent in 1995, a decrease from the average annual growth rate of 8 percent during 1990-94. Cross-border imports, which represent spending by U.S. travelers abroad, also increased by 5 percent to $45.9 billion in 1995, slightly exceeding the average annual growth rate of 4 percent in 1990-94. The resulting surplus of $15.3 billion in cross-border trade in travel and tourism accounted for 25 percent of the total cross-border trade surplus in services. Although the trade surplus grew by 4 percent in 1995, resuming

[200] Transshipment refers to the transfer of cargo from one conveyance (or country) to another for further shipment.

[201] U.S. Maritime Administration, "U.S. Exports and Imports Transshipped Via Canadian Ports -- 1994," 1996.

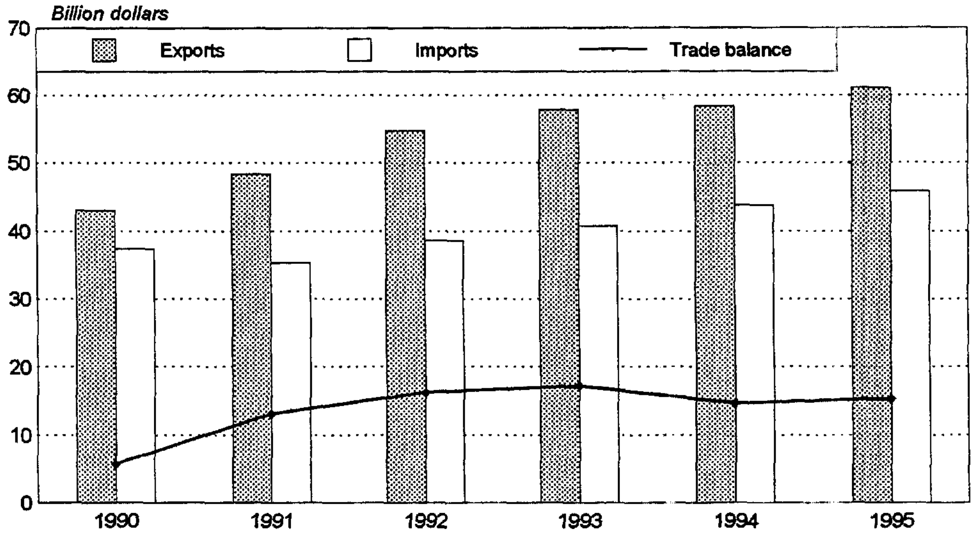
[202] This usually refers to scheduled vessels carrying containerized cargo.

[203] This segment of the oceangoing industry transports extremely large and heavy types of project cargo, including oil field equipment, electric power plant machinery, and large-scale construction and farm equipment.

[204] Russ Barnham, "Remote Area Markets Need Technology, but Often Lack Access," *AirCommerce*, Knight-Ridder/Tribune Business News, Oct., 1996.

[205] Ibid.

Figure 3-41
Travel and tourism services: U.S. cross-border exports, imports, and trade balance, 1990-95



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1994, Sept. 1995, and Nov. 1996.

its upward trend as reported in 4 of the previous 5 years, its growth rate fell considerably below the 27 percent annual growth rate posted in 1990-94.

Visitors to the United States from Canada, Germany, Japan, Mexico, and the United Kingdom accounted for one-half of cross-border U.S. travel and tourism receipts in 1995 (figure 3-42). Receipts from Japan ($11.2 billion) and other Asian Pacific countries jumped 14 percent, while spending by travelers from Europe rose 6 percent over 1994 levels. However, travelers from Latin America spent 7 percent less in 1995 compared with the previous year, as the adverse consequences of the peso crisis continued in Mexico. Expenditures by Mexican travelers decreased by 41 percent in 1995. The most important destinations for U.S. citizens traveling abroad in 1995, as in 1993-94, were Mexico, the United Kingdom, Canada, and Japan, which earned $5.3 billion, $4.6 billion, $4.3 billion, and $3.0 billion, respectively.

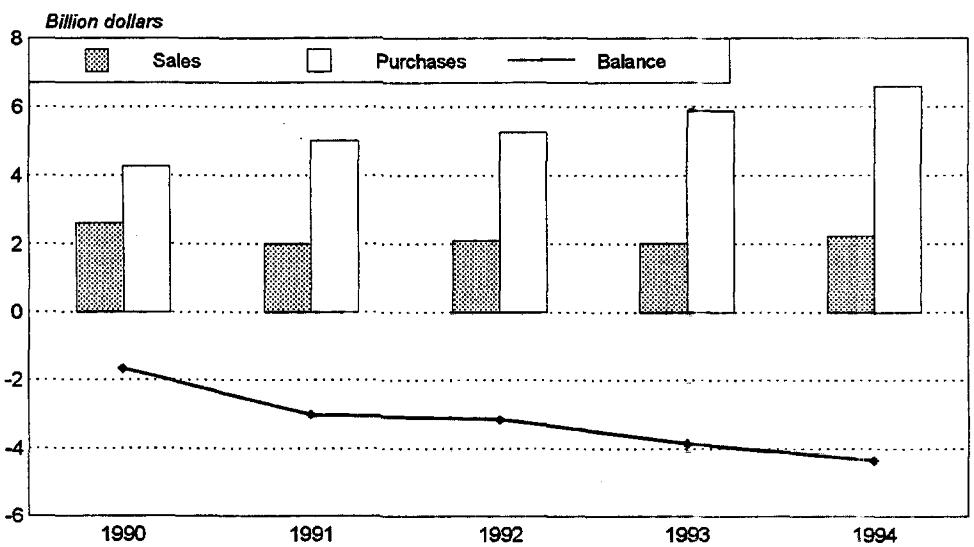
Affiliate Transactions, 1990-94

As noted, travel and tourism services also are sold through majority-owned affiliates. However, data on affiliate transactions in such services are available only for the lodging industry, which reflect services offered in hotels, motels, and similar establishments. Foreign-based affiliates of U.S. hotels generated sales estimated at $2.2 billion in 1994 (figure 3-43). Affiliate sales of U.S. lodging establishments grew by 10 percent in 1994, contrasting sharply with the 8-percent average annual decline recorded during 1990-93. Foreign lodging companies with affiliates in the United States increased sales by 12 percent

Figure 3-42
Travel and tourism services: U.S. cross-border exports and trade balance, by major trading partners, 1995

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996.

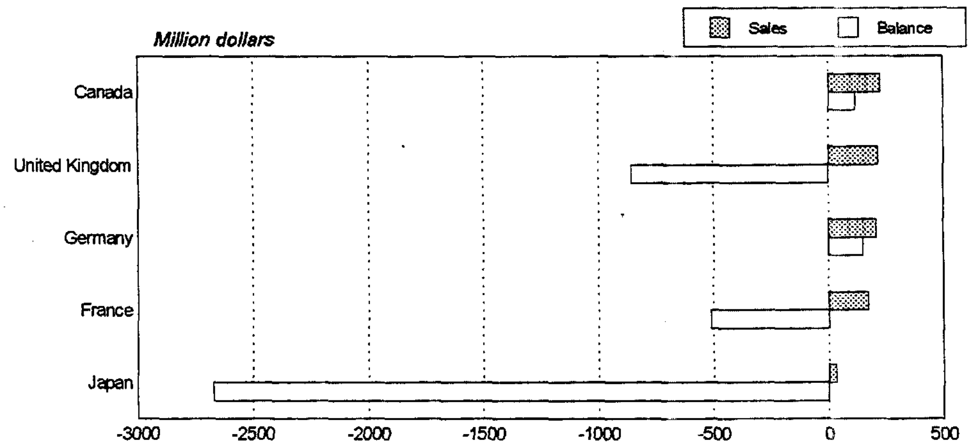
Figure 3-43
Travel and tourism services transactions by majority-owned affiliates: U.S. sales, purchases, and balance, 1990-94



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1993, Sept. 1994, Sept. 1995, and Nov. 1996.

to $6.6 billion in 1994, barely surpassing the 11-percent average annual growth rate recorded during 1990-93. The resulting U.S. deficit in affiliate transactions in 1994 was $4.4 billion, reflecting a 14-percent increase from 1993. In terms of affiliate transactions, the largest markets for foreign affiliates of U.S. firms were Canada, Germany, the United Kingdom, and France (figure 3-44). Conversely, purchases from U.S.-based affiliates of foreign firms were dominated by firms with parents in Japan, accounting for 41 percent of sales, followed by the United Kingdom, with 16 percent of purchases. The value of U.S. purchases is largely explained by foreign direct investment patterns. In 1993, Japan held U.S. hotel assets valued at $16.1 billion, representing 54 percent of all foreign affiliates' assets in U.S. hotels.[206]

Figure 3-44
Travel and tourism services transactions by majority-owned affiliates: U.S. sales and balance, by major trading partners, 1994



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Nov. 1996, and USITC staff estimates.

Summary and Outlook

The United States continued to earn more tourism receipts than any other country in 1995. The growing number of foreign visitors contributed to higher growth in hotel occupancy and in room rates, as demand rose sufficiently to absorb an oversupply of hotel rooms that had existed since the late 1980s.[207] However, lingering effects of the late-1994 peso collapse in Mexico and the devalued Canadian dollar resulted in declining numbers of visitors from these countries in 1995.

[206] USDOC, BEA, *Foreign Direct Investment in the United States*, Preliminary 1993 estimates, Table B-5.

[207] Choice Hotels Holdings, Inc., information statement to stockholders of Manor Care Inc., Oct. 15, 1996, pp. 26-27.

Travel and tourism receipts in 1996 are believed to have grown as a result of the Olympic Games in Atlanta. Thereafter, industry sources believe that the numbers of foreign visitors to the United States will increase every year through the end of the century.[208] The principal obstacle to growth in the travel and tourism trade surplus is appreciation of the U.S. dollar relative to other currencies, which could weaken discretionary travel. According to U.S. industry representatives, the likelihood that new hotel construction will result in an excess supply of hotel rooms, reducing industry profitability and efficiency, is remote.[209] Although new construction is increasing, the industry is said to be better prepared to manage growth profitably. The main reason for optimism is that lenders are believed to be more cautious and to prefer development of smaller hotel properties in underserved geographic areas.

[208] World Wide Web, retrieved Oct. 22, 1996, American Hotel and Motel Association, http://www.ahma.com/lodpro.htm, Lodging Industry Profile: 1995--Most Successful Year in U.S. Lodging History.

[209] U.S. industry representatives, telephone interviews by USITC staff, July 2 and 11, 1996.

CHAPTER 4
An Overview of WTO Negotiations Over Financial, Maritime Transport, and Basic Telecommunication Services

Introduction

The World Trade Organization (WTO) concluded an agreement on basic telecommunication services on February 15, 1997, the last of three service sector negotiations carried forward from the Uruguay Round.[1] Negotiations on financial services and maritime transport services terminated on July 28, 1995, and June 28, 1996, respectively. Negotiations on financial services concluded in a short-term agreement to which the United States is a party. This agreement is scheduled to be revisited by the WTO during November-December 1997. Negotiations on maritime transport services ended with no agreement, although negotiations in this area may recommence as soon as January 2000. This chapter provides background information on the WTO General Agreement on Trade in Services (GATS), an integral component of the Uruguay Round Agreements (URA), and discusses the three extended service sector negotiations sequentially. Each discussion identifies the scope and objectives of negotiations, summarizes the key features of offers and commitments tabled by participating countries, and details the outcome of negotiations.

The General Agreement on Trade in Services[2]

The General Agreement on Trade in Services (GATS) is an annex to the Agreement Establishing the WTO, which was signed in Marrakesh, Morocco on April 15, 1994. The GATS is the first multilateral, legally enforceable agreement covering trade and investment in services.[3] The GATS comprises three parts: (1) a framework of general obligations and

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[1] Extended negotiations were also undertaken on the movement of natural persons, pertaining to the issuance of visas for workers temporarily employed in a foreign country. These talks concluded July 28, 1995.

[2] The U.S. International Trade Commission has published several reports that examine in detail the commitments scheduled by GATS signatories. See USITC, *General Agreement on Trade in Services: Examination of Major Trading Partners' Schedules of Commitments*, USITC publication 2940, 1995; USITC, *General Agreement on Trade in Services: Examination of South American Trading Partners' Schedules of Commitments*, USITC publication 3007, 1996; USITC, *General Agreement on Trade in Services: Examination of the Schedules of Commitments Submitted by Asia/Pacific Trading Partners*, forthcoming; and USITC, *U.S. Trade Shifts in Selected Industries: Services*, USITC publication 2969, 1996.

[3] Uruguay Round Agreements Act (URAA) Statement of Administrative Action (SAA), published in H. Doc. 103-316, 103d Cong., 2d Session, 1994. The Statement of Administrative Action was submitted to the Congress on September 27, 1994, in compliance with section 1103 of the Omnibus Trade and Competitiveness Act of 1988, and accompanied the implementing bill

(continued...)

disciplines for government regulation of trade and investment in services; (2) a set of national schedules wherein each country commits itself to apply the rules to specific service sectors, subject to defined exceptions; and (3) a series of annexes and ministerial decisions that supplement rules found in the framework and provide for follow-on activities or additional negotiations. Figure 4-1 lists several of the provisions that fall within each of these three categories. The framework, for instance, imposes obligations regarding most-favored-nation (MFN) treatment,[4] regulatory transparency, and safeguards on monopolies. Ministerial decisions specify terms for extended negotiations, including those on financial, maritime transport, and basic telecommunication services. One key annex specifies conditions under which signatories may list temporary exemptions to MFN treatment.

Most of the detail of the GATS appears in national schedules of commitments. To date, 131 countries have finalized schedules[5] that identify existing restrictions on trade and investment in services, predominantly on a sector-by-sector basis.[6] GATS signatories have listed restrictions under two principal categories: those that limit market access, and those that limit national treatment.[7] Within national schedules, countries have chosen to offer full market access and/or national treatment ("full" commitments), which indicate that no sector-specific restrictions exist, or to describe existing restrictions regarding market access and/or national treatment ("partial" commitments). Importantly, full and partial commitments are "binding" under the terms of the GATS, meaning that they prevent countries from becoming more restrictive in the future, unless the countries that regress are willing to compensate aggrieved parties. Where countries have not scheduled full or partial commitments, they have left restrictions on trade and investment "unbound," thereby maintaining the right to impose additional restrictions on market access and/or national treatment in the future without penalty.

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[3] (...continued)

for the Agreement Establishing the World Trade Organization and the agreements annexed to that Agreement (the Uruguay Round Agreements). In enacting the URAA, Congress approved the Statement of Administrative Action (see URAA, sec. 101(a)(2), approved Dec. 8, 1994; Pub. Law 103-465, 108 Stat. 4809; hereafter *URAA documents*). SAA, p. 297; URAA documents, p. 966.

[4] Most-favored-nation status accords to one trading partner terms and conditions of trade that are no less favorable than those accorded to any other trading partner. See Article II of the GATS.

[5] In addition, 29 countries have submitted applications to join the WTO. Schedules submitted by these countries are under review by accession working parties. World Wide Web, retrieved May 22, 1997, World Trade Organization (WTO), http://www.wto.org/wto/memtab2_wpf.html, WTO Membership.

[6] In addition, most GATS signatories specify horizontal or "cross-industry" commitments to market access and national treatment that pertain to all service industries listed in their schedules.

[7] Full market access requires that foreign service providers have access that is no less favorable than access available to domestic service providers. Market access may entail the right to establish a commercial presence, or the right to provide services across borders. National treatment accords regulatory treatment to foreign service providers that is no less favorable than that accorded to domestic service providers.

Figure 4-1
Structure of the General Agreement on Trade in Services

GATS

Framework of Rules

Contains general obligations conducive to international trade in services, including:

* Most-Favored-Nation treatment
* Transparency
* Increasing participation of developing countries
* Economic integration
* Domestic regulation
* Recognition
* Monopolies and exclusive service suppliers
* Business practices
* Emergency safeguard measures
* Payments and transfers
* Restrictions to safeguard the balance of payments
* Government procurement
* General exceptions
* Subsidies

National Schedules of Commitments

Submitted by each of 123 signatory countries. The schedules contain commitments regarding restrictions and limitations to market access and national treatment. Schedules typically comprise:

* Cross-industry commitments
* Industry-specific commitments with respect to 4 modes of supply:
  - -cross-border supply
  - -consumption abroad
  - -commercial presence
  - -presence of natural persons
* MFN exemptions (optional)

Annexes and Ministerial Decisions

Provide information regarding on-going negotiations and rights to temporary MFN exemptions, including:

* Annex on MFN exemptions
* Annex on movement of natural persons supplying services under the Agreement
* Annex on financial services
* Second annex on financial services
* Annex on negotiations on maritime transport services
* Annex on telecommunications
* Annex on negotiations on basic telecommunications
* Decision on Institutional Arrangements for the GATS
* Decision on Certain Dispute Settlement Procedures for the GATS
* Decision on Trade in Services and the Environment
* Decision on Negotiations on Movement of Natural Persons
* Decision on Financial Services
* Decision on Negotiations on Maritime Transport Services
* Decision on Negotiations on Basic Telecommunications
* Decision on Professional Services
* Understanding on Commitments in Financial Services

Source: Compiled by the staff of the U.S. International Trade Commission.

The negotiation of national schedules, entailing a bilateral "request/offer" process, resulted in a protracted Uruguay Round. During the request/offer period, countries made specific requests for commitments to every other partner, which then decided whether to offer an appropriate commitment that could be scheduled on an MFN basis. For example, the United States requested that its trading partners make commitments on market access and national treatment, sometimes with respect to as many as 155 sectors.[8] Concessions made in response to requests by the United States during the request/offer period were usually extended to all GATS signatories in accordance with the MFN principle. For example, once a nation scheduled a commitment to allow U.S. banking operations on its territory to offer foreign-exchange services, that nation would have to provide all other WTO members' banks the same privilege unless it listed an MFN exemption pertaining to the banking sector.

At the conclusion of negotiations in December 1993, signatory countries submitted schedules that varied greatly in length and detail. Overall, developed countries submitted commitments on a large number of sectors, while developing countries submitted schedules that were short to moderate in length. Most commitments scheduled during the Round were so-called "standstill" commitments: i.e., promises to continue current policies and to impose no further trade restrictions in the future. While standstill commitments have value in terms of establishing benchmarks and enhancing transparency,[9] they are less valuable than "rollback" commitments, which actually liberalize regulations pertaining to trade and investment. WTO members scheduled few rollback commitments during the Uruguay Round.

Extension of Talks on Financial, Maritime Transport, and Basic Telecommunication Services

During the Round, most countries had difficulty scheduling MFN-based commitments specific to financial, maritime transport, and basic telecommunication services, and therefore agreed to carry these negotiations forward from December 1993. One impediment to negotiating commitments in these sectors was the complexity and variance of government regulation in these areas. For example, technological developments in telecommunications have motivated some countries to introduce competition in local, long-distance, and international calling markets, and allow foreign ownership of wireline, cellular, and satellite networks. Consequently, some countries have undertaken sweeping deregulation and liberalization of telecommunication service markets, while other countries have retained state-owned service monopolies with exclusive control of telecommunication facilities. Furthermore, among those countries that have liberalized and deregulated markets, not all have done so to the same extent or in the same manner. Countries have fashioned very

[8] Commitments regarding market access and national treatment had to be scheduled with respect to four distinct modes of supply (i.e., cross-border supply, consumption abroad, commercial presence, and the presence of a natural person), meaning that eight explicit or implicit schedule entries were recorded for each of the 155 industries appearing in the GATT Secretariat's Services Sectoral Classification List. Consequently, each schedule features 1,240 explicit or implicit entries.

[9] Benchmarks provide baseline measures by which to gauge the progress of future negotiations and, in the context of the GATS, discourage the implementation of new trade restrictions. Both full and partial commitments establish benchmarks.

different mixes of liberalization and deregulation, while maintaining monopoly provision of various services. As a result, many negotiators expressed concern that commitments scheduled on an MFN basis would disadvantage firms with origins in liberalized markets. Specifically, the concern was that firms from restrictive markets, "free-riding" on the MFN principle, would be able to enter relatively liberal markets, while firms from liberal markets could still be prohibited from entering restrictive markets, and left with little leverage to negotiate future liberalization.[10] GATS signatories decided that they required additional time to conduct extensive information-gathering exercises, in some instances, and to carry out technical negotiations over financial, maritime transport, and basic telecommunication services.

In addition, some individuals in the United States Government and the EU Commission supported the extension of negotiations over the financial, maritime transport, and basic telecommunication service sectors because of the sectors' influence on economic growth.[11] As "infrastructure" service sectors, the financial, transportation, and telecommunication sectors exert a strong influence on economic growth because virtually all firms rely on these sectors to conduct business.[12] These individuals maintained that the financial, maritime transport, and basic telecommunication sectors promote global economic growth when they operate efficiently, but impede growth when they operate inefficiently. Consequently, they urged GATS signatories to negotiate the liberalization of these service sectors as means to unleash market forces that would encourage greater efficiency and, hence, growth. In other words, these individuals maintained that rollback commitments should be the objective of extended negotiations.[13] Standstill commitments would be acceptable only if parties mutually agreed that markets were adequately open, a relatively rare occasion. This constituted a fundamentally different approach to service negotiations than that seen prior to December 1993, and ultimately resulted in tension between the United States and its trading partners, especially the European Union, as talks drew toward closure without substantial liberalization.[14] Annexes that follow this chapter identify standstill, rollback, and regressive[15] offers and commitments where possible.

[10] Bernard Hoekman, *Tentative First Steps: An Assessment of the Uruguay Round Agreement on Services*, paper presented at The Uruguay Round and the Developing Economies Conference of the World Bank, Washington, DC, Jan. 26-27, 1995, p. 6.

[11] USTR official, interview by USITC staff, Washington, DC, Aug. 14, 1995; and EU Commission officials, interviews by USITC staff, Brussels, July 19, 1995.

[12] Commitments on land transport services, essentially rail and trucking, were scheduled during the Uruguay Round, in part because international trade in these services predominantly occurs between contiguous countries, many of which already have concluded agreements on trade and investment in this sector. Likewise, commitments on value-added telecommunication services were scheduled during the Round because most countries have liberalized this area of telecommunications through unilateral action, regional trade agreements, or agreements on international value added networks (IVANs). Air transport services currently remain outside the scope of the GATS.

[13] USTR official, interview by USITC staff, Washington, DC, Aug. 14, 1995; and EU Commission officials, interviews by USITC staff, Brussels, July 19, 1995.

[14] Ibid.

[15] Regressive commitments impose new or more restrictive trade limitations.

Financial Services

The Scope and Objectives of Financial Service Negotiations

The Committee on Trade in Financial Services (CTFS), comprising 25 countries, resumed negotiations on financial services in the autumn of 1994 and hoped to reach agreement by June 30, 1995. The scope of these negotiations was broad, including banking, investment, insurance, and all other financial services related to these three areas. The negotiations excluded services performed by central banks and other monetary authorities, agencies governing social security and other public retirement plans, and other services performed by entities acting on behalf of member governments.[16] The objective of the request/offer process was to develop liberalizing commitments on market access and national treatment that could be extended to all parties on an MFN basis. More broadly, extended negotiations on financial services required negotiators to strike an acceptable balance between liberalization and prudential regulation. All countries enforce the latter in order to protect consumers and ensure the solvency of financial systems. Because prudential regulations predominantly focus on establishment of commercial presences,[17] the negotiations to liberalize financial service markets ultimately focused most intensely on rights to invest and establish a commercial presence in foreign markets. When disagreements occurred in the CTFS, they typically centered on restrictions to establishment.

Summary of Financial Service Commitments

Europe, Japan, and Other OECD Member Countries

The European Union (EU) and the United States had largely negotiated mutually acceptable financial service offers by the end of the Uruguay Round in December 1993, in part because the EU's single-market initiative of the late 1980s and early 1990s had effected considerable liberalization in EU financial markets. Because both U.S. and EU negotiators agreed that their markets were acceptably open, both sides indicated that standstill commitments, with future opportunities for progressive liberalization, were acceptable.[18] The United States and the EU granted one another rights to establish commercial presences, to expand operations geographically through subsidiaries, and to provide services across borders in an unfettered manner (annexes 1 and 2). The United States reached similar agreements with virtually all member countries of the Organization for Economic Cooperation and Development (OECD).

Japan was the principal exception. Before the pause in financial service negotiations in December 1993, several countries encouraged the Government of Japan to clarify its

[16] GATT Secretariat, *The Results of the Uruguay Round of Multilateral Trade Negotiations* (Geneva: GATT Secretariat, 1995), p. 355.

[17] Ingo Walter, *Global Competition in Financial Services* (Cambridge: Ballinger Publishing Co., 1988), p. 182.

[18] See, for example, U.S. Department of State telegram, message reference No. 4362, prepared by the U.S. Mission, Geneva, June 8, 1995.

intention to liberalize and deregulate its financial services market. Japan's schedule of commitments included relatively few significant trade limitations, but the United States thought that additional commitments were needed to promote deregulation and liberalization of the Japanese financial services sector.[19] From the U.S. viewpoint, significant obstacles to liberalization included the *keiretsu* system of interlocking company directorates, and an informal system of regulatory practices whereby "administrative advice," perceived as a government mandate, was provided to Japanese firms.[20] Japan's financial markets had grown exponentially in 20 years, but foreign participation in these markets had remained virtually unchanged during the period.[21]

To address deregulation and other issues, the United States and Japan agreed in mid-1993 to undertake a series of "Framework" bilateral negotiations.[22] Separate negotiations for both insurance and other financial services (including banking, securities, and pensions) opened in October 1993. Both negotiations broke down in February 1994, with insurance talks re-starting in April and concluding on October 11, 1994.[23] Banking/securities/ pensions services talks resumed later and finally concluded on February 13, 1995.[24] By the conclusion of negotiations, Japan's offer was generally comparable to that of other OECD member countries, although significant restrictions remain in the areas of deposit insurance and overseas deposits and trust contracts.[25] Both the United States and Japan announced that the provisions of the framework agreements would be offered to all WTO members on an MFN basis.[26]

Korea's schedule posed difficulties, too.[27] Korea scheduled unbound restrictions on all cross-border trade undertaken by non-insurance financial service firms, conditioned

[19] See, for example, the testimony of Ambassador Charlene Barshefsky, Deputy USTR, "Report on the United States-Japan Framework for a New Economic Partnership," House Committee on Foreign Affairs, Subcommittees on Economic Policy and Trade and Asia and the Pacific, July 21, 1993; "Status of the U.S.-Japan Economic Framework", Oct. 5, 1993; and "Status of the U.S. - Japan Economic Framework", before the Senate Finance Committee, Subcommittee on International Trade, Nov. 8, 1993.

[20] Ibid.

[21] See, for example, *The Economist*, Sept. 30, 1995, p. 83, and *The Far Eastern Economic Review*, Sept. 28, 1995, p. 48. Also, USITC staff conversations with financial services executives in the United States, Japan, and Europe, Oct. 1993-Sept. 1995.

[22] See the testimony of Ambassador Charlene Barshefsky, Deputy USTR, "Report on the United States-Japan Framework for a New Economic Partnership," House Committee on Foreign Affairs, Subcommittees on Economic Policy and Trade and Asia and the Pacific, July 21, 1993.

[23] Enforcement of the agreement, however, has proved to be difficult. Talks between the United States and Japan on these issues continued throughout 1996, concluding in an agreement signed Dec. 15, 1996. See *Supplementary Measures by the Government of the United States and the Government of Japan Regarding Insurance*, signed in Washington, DC, Dec. 24, 1996.

[24] See U.S. Department of the Treasury, Office of Public Affairs, "Statement of Acting Treasury Secretary Frank Newman: Financial Services Agreement with Japan," Jan. 10, 1995. Additionally, press release of Securities Industry Association's President Marc E. Lackritz, Jan. 10, 1995.

[25] U.S. Department of State telegrams, message reference Numbers 611, dated Jan. 17, 1995; 2139, dated Mar. 14, 1995; and 3021, dated Apr. 12, 1995, prepared by U.S. Mission, Geneva.

[26] Ibid.

[27] *Business Korea*, vol. 11, No. 7, pp. 25-26.

establishment and branching of foreign firms on economic needs tests[28] and other non-prudential approval processes, and capped foreign equity participation in certain companies. Korea's schedule generally lacked transparency, and failed to specify actions that would ease restrictions on foreign firms' deposit-taking, lending, foreign exchange, trust, and securities trading operations.[29] Korea's schedule remained contentious to the end, with the United States and other developed nations negotiating with Korea extensively, but to little avail.[30]

Asia

Negotiations with Asian countries proved to be among the most difficult in the financial services area. Although their financial service sectors are smaller and less developed than those of the EU and Japan, several Asian countries had experienced very high economic growth rates throughout much of the 1980s and 1990s. Broadly, the U.S. financial services industry viewed these nations as the places where they could expand most immediately and profitably since the U.S. financial sector had a comparative advantage in these markets.[31]

Some Asian countries were, however, still striving for consensus in their philosophical thinking: many were caught between arguments for strengthening their own domestic financial services industries, versus those for encouraging direct foreign investment that would promote competition and draw in capital, expertise, training, and technology. The crux of the dilemma was whether to let market forces, rather than governments, strengthen and streamline their industries. With respect to goods, the decision had broadly been made: let global markets and foreign investment play a large role. But for financial services, this decisive philosophical argument was still being debated.[32]

By January 1995, many Asian governments were leaning towards gradual liberalization of financial services but arguing that the task could not be accomplished immediately.[33] For example, several governments had improved offers regarding establishment, indicating that they were prepared to permit foreigners to control 49-percent equity shares for investments in financial institutions.[34] These governments maintained that if foreign financial institutions desired majority control, they could easily find an absolutely reliable domestic investor to buy an additional 1.1 percent of a given enterprise.[35] Industry observers in developed nations generally replied that although 49-percent equity was certainly better

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[28] Economic needs tests assess the impact of new market entrants on the local industry. Such assessments may result in a negative determination if market entry is considered likely to have a detrimental effect on market structure, profitability, population density, geographic distribution, and job creation.

[29] See, for example, U.S. Department of State telegram, "GATS Financial Services Bilaterals," message reference No. 04691, prepared by U.S. Mission, Geneva, June 16, 1995.

[30] Ibid.

[31] USITC staff conversations with financial services executives, Jan.-June 1995.

[32] Ibid.

[33] In one nation's case, the year scheduled for several liberalizations was as far out as 2020. See, for example, U.S. Department of State telegrams, reference numbers 10352, 10358, 10361, and 10363, all dated Dec. 5, 1994; and 10893 dated Dec. 21, 1994, all prepared by U.S. Mission, Geneva.

[34] Ibid.

[35] U.S. Department of State telegram, message reference No. 3022, prepared by the U.S. Mission, Geneva, Apr. 12, 1995.

than lower ceilings that prevail in some markets, the point was to let market forces, rather than governments, decide the levels of foreign investment.[36] Some investors might agree to a 30-percent limitation whereas others would insist upon a 100-percent equity holding.[37]

There were other equally difficult problems regarding establishment. More than one Asian country had foreign investment limitations written into law or regulation, but had implemented a more liberal policy. The result was a formal offer that guaranteed 49-percent equity holdings for foreign financial services investors, when in reality several such investors already held as much as 85 percent of equity in some establishments. Some Asian nations, like Indonesia, solved this problem by formally "grandfathering" existing firms' current equity holdings into their WTO schedule of commitments, and limiting new entrants to 49-percent equity holdings. However, others were unwilling to do this. Also, many nations such as the Philippines retained economic needs tests for new market entrants, including foreign direct investors. These governments insisted they already had too many banks, insurance companies, securities houses and, in some cases, too many foreign participants.[38] They maintained that too much competition could threaten the profitability and growth of their domestic institutions and thus disrupt the overall market.[39]

By June 1995, several Asian nations demonstrated willingness to make meaningful, albeit limited, financial services commitments.[40] However, in one case, that of Malaysia, a major problem arose with respect to forced disinvestment.[41] Malaysia has long attempted to improve economic life for its indigenous Malay (Bumiputra) population by reserving portions of economic investment for them (i.e., mandating Bumiputra investment in various enterprises, even if at concessionary rates). The natural corollary is that it thereby restricts the investment of other, non-Bumiputra investors, whether foreign or domestic. But in the insurance sector, many foreign firms had held more than majority equity interests for decades, largely because they had entered the market early and had essentially created the insurance business in Malaysia. Over many years, the Malaysian Government had forced several of these foreign companies to divest their holdings to 30 percent ownership.[42]

In June 1995, Malaysia submitted newly revised commitments on insurance. Although these included some liberalizing commitments, they also contained a regressive provision on acquired rights that ultimately had unfortunate side effects on the overall negotiation.[43] The new Malaysian offer raised the equity limits of foreign insurance investors from

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[36] U.S. industry representatives, interviews with USITC staff, Washington, DC, and Geneva, July 1995.

[37] Ibid.

[38] U.S. Department of State telegram, message reference No 3022, prepared by the U.S. Mission, Geneva, Apr. 12, 1995.

[39] Ibid.

[40] See revised financial services schedules. World Trade Organization, General Agreement on Trade in Services (GATS), Indonesia: Schedule of Specific Commitments (GATS/SC/43/Supp.1); Malaysia: Schedule of Specific Commitments, (GATS/SC/52/Supp. 1); Philippines: Schedule of Specific Commitments, (GATS/SC/70/Supp. 1); Singapore: Schedule of Specific Commitments, (GATS/SC/76/Supp. 1); and Thailand: Schedule of Specific Commitments, (GATS/SC/85/Supp. 1), all dated July 28, 1995.

[41] U.S. Department of State telegram, "GATS Financial Services Bilaterals," message reference No. 04649, prepared by U.S. Mission, Geneva, June 16, 1995.

[42] Ibid.

[43] Ibid.

30 percent to 49 percent, but also declared that any existing insurance investor who currently retained more than 49 percent equity, and who did not divest to that level by 1998, would be forced to divest to the old 30 percent level.[44]

The United States immediately indicated to Malaysia that this approach was inconsistent with the objectives of the extended negotiations.[45] Rather than promoting trade liberalization, the United States argued, Malaysia was attempting to use a multilateral trade agreement to enshrine a regressive action in an enforceable document. In any case, Malaysia refused to reconsider its position, and the disinvestment provision remained in the final Malaysian schedule of July 28, 1995.[46]

Latin America

By the end of the extended financial service negotiations in July 1995, several Latin American countries' schedules of commitments were considered good or significantly improved in terms of liberalizing foreign investment in financial services.[47] Given the historical cycles of nationalization and privatization in Latin America, many negotiators, including many from Latin America, thought that one of the principal benefits of the financial service negotiations was to lock in liberalization on a multilateral basis.

The largest remaining concern by the end of the negotiation was Brazil's constitutional and legal restrictions on foreign investment in the financial sector. Although by May 1995 the newly elected government was attempting to liberalize Brazil's financial services sector and to make a meaningful commitment, it soon became clear that the political constraints were too great to achieve this by the end of the negotiations.[48] Significant trade liberalizing commitments by Brazil would have to await constitutional and legal reform, which by their nature could not be promised by a date certain. Given Brazil's size, this placed a significant damper on the late stage of the negotiations.[49]

Conclusion of Financial Service Negotiations

On June 29, 1995, the United States informed the GATS Council on Trade in Services that it was offering a schedule of commitments with MFN exemptions pertaining to banking,

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[44] World Trade Organization, General Agreement on Trade in Services, Malaysia: Schedule of Specific Commitments (GATS/SC/52/Supp.1), July 28, 1995, p. 5.

[45] U.S. Department of State telegram, message reference No. 4649, prepared by U.S. Mission, Geneva, June 16, 1995.

[46] The WTO Council on Trade in Services extended the time period for the filing of final schedules to July 28, 1995.

[47] See, for example, World Trade Organization, General Agreement on Trade in Services, Schedules of Specific Commitments for Argentina (GATS/SC/04), dated Apr. 15, 1994; Chile (GATS/SC18/Supp.1); Columbia (GATS/SC/20/Supp.1); and Venezuela (GATS/SC/92/Supp.1), all dated July 28, 1995.

[48] See, for example, U.S. Department of State telegrams, message numbers 10362 dated Dec. 5, 1994, 3022 dated Apr. 12, 1995, and 4365 dated June 8, 1995, all prepared by the U.S. Mission, Geneva. Although the deadline for filing final schedules was extended to July 28, this extra time was not a period for continued negotiations, and would not have provided the time Brazil needed in any case.

[49] Ibid.

securities, and insurance.[50] The final U.S. offer, effective June 30, 1995, grandfathered the current activities of foreign firms already in the U.S. market. However, these companies' rights to expand geographically after the repeal of McFadden Act prohibitions on interstate banking,[51] and in terms of business activities in the event of Glass-Steagall reform,[52] were not guaranteed and could be conditioned on reciprocity. Market entrance by firms not already present in the United States could also be conditioned on reciprocity. However, the United States exempted EU and Japanese firms from these conditions, indicating in side letters that those markets were acceptably open.[53]

The United States had reached its decision on the grounds that the overall set of national schedules did not provide a level of liberalization sufficient to warrant a broader U.S. commitment that guaranteed entry, expansion, or access to new activities.[54] The scheduling of an MFN-based commitment would have conferred benefits on firms of every nation, irrespective of U.S. firms' access to their markets, and left the U.S. Government little leverage with which to negotiate future liberalization.[55] Rather, the United States would continue, on both a bilateral and multilateral basis, to seek commitments to liberalize financial services.[56] During the month of July 1995 the European Union persuaded negotiating partners other than the United States to leave their most recently tabled schedules intact, and crafted a short-term interim agreement that preserves negotiated commitments, including those of the United States, until November 1, 1997.[57] During the 2 months following that date, nations will be able to withdraw or revise the commitments they have scheduled. If the agreement survives this process, then on January 1, 1998, WTO parties may agree to accept irrevocable MFN commitments.[58]

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[50] World Trade Organization, General Agreement in Trade in Services, United States of America: Specific Schedule of Commitments, (GATS/SC/90/Supp.1), July 28, 1995, pages 1 and 16; as well as United States of America: List of Article II (MFN) Exemptions (GATS/EL/90/Supp.1), p. 1.

[51] The McFadden Act prohibitions on interstate branching by banks were repealed in August 1994.

[52] Based on proposals now before Congress, such legislation may permit the merging or greater interaction of commercial and investment banking, as well as other financial services.

[53] U.S. Department of State telegram, message reference No. 5108, prepared by U.S. Mission, Geneva, June 30, 1995. Also Department of State telegram reference No. 165936, prepared by Departments of Treasury/State, Washington, DC, July 11, 1995.

[54] Ibid.

[55] Ibid.

[56] Ibid.

[57] U.S. Department of State telegrams, message reference No. 5549, dated July 17, 1995; No.5717, dated July 21, 1995; and No. 5811, dated July 26, 1995, all prepared by the U.S. Mission, Geneva.

[58] U.S. Department of State telegram, message reference No.5812, prepared by the U.S. Mission, Geneva, July 26, 1995. Also, *The Financial Times*, "Financial services deal sidelines the U.S.," July 27, 1995, p. 5.

Maritime Transport Services

The Scope and Objectives of Maritime Transport Service Negotiations

A Ministerial Decision at Marrakesh created the Negotiating Group on Maritime Transport Services (NGMTS). The NGMTS commenced activities in May 1994, with the intention of concluding an agreement by June 30, 1996. Forty-two WTO members participated in NGMTS negotiations, with 26 of these presenting new or revised offers.[59] Ministers tasked the NGMTS with undertaking negotiations that would be "comprehensive in scope, aiming at commitments in international shipping, auxiliary services, and access to and use of port facilities, leading to the elimination of restrictions within a fixed time scale."[60] Auxiliary services include cargo handling, storage and warehousing, customs clearance, maritime agency services, container station services, and freight forwarding. Cabotage, defined as port-to-port transportation within a single nation, fell outside the scope of negotiations.[61]

Summary of Maritime Transport Service Offers

Europe, Japan, and Other OECD Member Countries

Extended maritime talks commenced with an extensive information gathering exercise, intended to provide all negotiating parties with up-to-date, country-specific information regarding regulation of the maritime transport sector. Actual negotiations commenced in the last half of 1995. Upon the resumption of negotiations, six OECD participants - Australia, Canada, the European Union, Japan, New Zealand, and Norway - tabled the same offers they had issued prior to the conclusion of the Uruguay Round.[62] U.S. negotiators found offers submitted by Australia, Canada, New Zealand, and Norway acceptable as they scheduled liberal commitments pertaining to the "industry pillars" referenced in the NGMTS mandate (i.e., international shipping, auxiliary services, and port facilities).[63] In June 1996, U.S. negotiators added Switzerland's offer to the list of acceptable OECD offers.[64] In particular, U.S. negotiators applauded offers tabled by Australia, New Zealand, and Switzerland because these countries would allow U.S. firms to establish foreign affiliates for the purpose of providing multimodal transport services. Such bindings would

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[59] U.S. Department of State telegram, "WTO Maritime Negotiations: Demarche Request," message reference No. 123126, prepared by U.S. Department of State, Washington, DC, June 13, 1996.

[60] GATT Secretariat, *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts* (Geneva: GATT Secretariat, 1995), p. 460.

[61] In the United States, the Merchant Marine Act of 1920, also known as the Jones Act, reserves cabotage for U.S. flag vessels. Most other countries with shipping industries also reserve cabotage for ships registered in their country.

[62] In November 1995, the United States passed a law permitting the export of Alaska North Slope oil if carried on U.S. flag vessels. Other negotiation participants regarded this as an "exception" contrary to the intent of GATS liberalization. Doug Hembrey, "Oil Export Law Pits U.S. Against Trade Partners in Maritime Talks," *Washington International Report,* Arent Fox Kintner Plotkin & Kahn, Nov. 1995.

[63] U.S. Department of State telegram, "WTO Maritime Negotiations: Demarche Request."

[64] Ibid.

allow U.S. firms to transport cargo over land and sea using a single bill of lading, thereby enhancing efficiency and reducing cost. Multimodal transport services are considered one of the more lucrative maritime transport services (annex 3).[65]

U.S. negotiators did not find acceptable the offers tabled by the EU and Japan. One objectionable element of the EU's offer was the restriction placed on inland river transport of international cargoes. In particular, the Revised Convention for the Navigation on the Rhine reserves the transportation of goods and persons between any two points on certain waterways for vessels owned by (1) nationals of the contracting States of the Convention or (2) EU nationals or companies that are majority-owned by EU nationals and based in EU member states.[66] This restriction prohibits U.S. firms and other non-European firms from transporting people and goods between countries that observe the convention, such as Belgium, France, Germany, and the Netherlands. Another unacceptable element of the EU offer was an MFN exemption extending cargo-sharing preferences to the signatories of the United Nations (UN) Liner Code, of which the United States is not a signatory. Other objectionable facets of the EU offer also may have included the public monopolies exercised over seaport operations in countries such as Portugal and Greece.[67]

Several aspects of Japan's offer were unacceptable to the United States. Japan's offer did not guarantee national treatment to foreign shipping companies, allowing it to extend preferences to Japanese firms. In addition, Japan's offer would have preserved restrictive port and harbor practices that adversely affect foreign carriers' operations. Last, Japan listed a MFN exemption that would allow foreign firms to provide freight forwarding services only on the basis of reciprocity.[68]

U.S. negotiators found the Korean offer unacceptable, too. Foreign firms that wish to establish a joint venture or a wholly-owned enterprise in Korea would have to incorporate as joint stock companies.[69] Korea would maintain broad discretion to restrict foreign investment under somewhat vague authority.[70] Additionally, Korea accords preferences to Korean flag carriers with respect to bulk shipments of iron ore, coal, and liquefied gas.[71]

Asia

By June 1996, U.S. negotiators indicated that Hong Kong was the only Asian trading partner to submit an acceptable offer, although the United States praised Singapore because of its liberal commitment on multimodal transport services.[72] Other Asian trading partners, India in particular, submitted somewhat restrictive offers. India reserves 40 percent of cargo for Indian flag ships in the liner trades, and provides preferences to Indian flag

[65] Ibid.

[66] Organization for Economic Cooperation and Development (OECD), *Analytical Inventory of Measures Affecting Investment* (OECD: Paris, 1996), p. 20; and U.S. Department of State telegram, "WTO Maritime Negotiations: Demarche Request."

[67] U.S. Department of State telegram, "WTO Maritime Negotiations: Demarche Request."

[68] Ibid.

[69] USTR official, interview by staff of USITC, Washington, DC, Feb. 4, 1997.

[70] U.S. Department of State telegram, "WTO Maritime Negotiations: Demarche Request."

[71] USTR official, interview by staff of USITC, Washington, DC, Feb. 4, 1997.

[72] Ibid.

companies for transportation of government and certain other cargo.[73] Indian liners have preferential rights to transport cargo between India and parties to the UN Code, and certain liner routes are reserved for Indian liners.[74] With respect to bulk trades, India reserves transportation of oil and oil by-products for Indian flag vessels. Foreign shipping companies must appoint Indian shipping companies as general agents, or establish a joint venture. India's offer listed extensive MFN exemptions pertaining to taxation and cargo sharing arrangements under the UN Liner Code.[75]

The Indonesian and Philippine offers were similarly restrictive. Both appeared to reserve cargo preferences for national flag vessels, and both required MFN exemptions pursuant to the UN Liner Code. In addition, Indonesia places equity caps on foreign providers of maritime transport services and imposes unbound restrictions on foreign provision of certain auxiliary services.[76]

Latin America

U.S. negotiators also expressed dissatisfaction with offers submitted by Latin American trading partners. Brazil and Cuba submitted the most restrictive offers. Brazil, for instance, reserves all government cargo and 40 percent of conference cargo[77] for Brazilian flag vessels and exercises a public monopoly on the transport of oil and oil by-products. Foreign flag vessels are subject to various tariffs, surcharges, lighthouse fees, and contract authorization procedures.[78]

Offers submitted by Mexico, Chile, Colombia, and the Dominican Republic were also characterized as restrictive. Elements common to two or more of these offers included reciprocity requirements, foreign equity caps, and citizenship and residency requirements.[79] Mexico and Chile also required MFN exemptions in connection with the UN Liner Code.[80]

Conclusion of Maritime Transport Service Negotiations

On June 14, 1996, the United States announced that it would not table an offer after concluding that the offers submitted by other NGMTS participants were not sufficiently trade liberalizing.[81] With the exception of Switzerland, U.S. trading partners had submitted standstill offers that failed to liberalize international shipping services and auxiliary services, thereby locking U.S. firms out of potentially lucrative markets. Rather than bind restrictive regimes, the United States opted to suspend negotiations until

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[73] Ibid.
[74] Ibid.
[75] Ibid.
[76] U.S. Department of State telegram, "WTO Maritime Negotiations: Demarche Request."
[77] Conference cargo is subject to a rate setting agreement entered into by international carriers.
[78] Ibid., and USTR official, interview by USITC staff, Washington, DC, Feb. 4, 1997.
[79] Ibid.
[80] Ibid.
[81] USTR, "Statement by Ambassador Charlene Barshefsky on the WTO Maritime Services Negotiations," Press Release 96-51, June 14, 1996, Washington, DC.

January 1, 2000, when broad-based service negotiations recommence in the WTO.[82] During the interim, the United States retains its right to pursue unilateral market-opening initiatives under the authority of the U.S. Federal Maritime Commission (FMC). To open foreign maritime markets, the FMC, acting on the basis of reciprocity, may impose countermeasures that effectively deny a country's shipping fleet access to U.S. ports or levy financial penalties on ships that call at U.S. ports.[83]

Basic Telecommunication Services

The Scope and Objectives of Basic Telecommunication Service Negotiations

A WTO Ministerial Decision created the Negotiating Group on Basic Telecommunications (NGBT) in April 1994 and mandated the conclusion of talks by April 30, 1996.[84] On April 30, the WTO Council on Trade in Services further extended the talks to February 15, 1997, after the United States indicated that current offers were not sufficiently trade liberalizing.[85] Fifty-three nations participated in the NGBT, and 48 of these submitted offers. The Ministerial Decision directed members of the NGBT to negotiate with a view to the "progressive liberalization of trade in telecommunication transport networks and services."[86] The telecommunications annex to the GATS defines transport networks as the "telecommunication infrastructure which permits telecommunications between and among defined network termination points."[87] Consequently, the NGBT talks focused not only on basic service provision, but on ownership and control of telecommunication facilities.[88]

During negotiations, the United States endeavored to obtain a level of openness similar to that of the U.S. market after passage of the Telecommunications Act of 1996. The Act provides for competition in the local, long distance, and international calling markets, through all telecommunication infrastructure (e.g., wireline, radio-based, and cable television), and facilitates indirect foreign ownership of U.S. telecommunication firms.[89] Specific aspects of the U.S. approach were to obtain foreign commitments to market access

[82] USTR, "United States Announces Closure of Maritime Negotiations," Press Release 96-56, June 28, 1996, Washington, DC.

[83] U.S. Department of State telegram, "WTO Maritime Negotiations: Demarche Request."

[84] For a fuller discussion of the basic telecommunication negotiations prior to April 30, 1996, see USITC, "Basic Telecommunication Service Negotiations in the World Trade Organization: Impetus, Offers, and Prospects," *Industry, Trade, and Technology Review*, USITC publication 3017, Jan. 1997.

[85] Talks were extended when the WTO's Council on Trade in Services issued the Decision on Commitments in Basic Telecommunications on April 30. The Decision established a one-month period, from January 15 to February 15, 1997, during which members could change their offers and list of MFN exemptions without penalty. In addition, the Decision replaced the NGBT with the Group on Basic Telecommunications (GBT).

[86] GATT Secretariat, *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts*, p. 461.

[87] Ibid., p. 360.

[88] Ibid.

[89] U.S. telecommunications law (47 USC 310(b)) restricts indirect foreign investment in U.S. carriers to 25 percent of capital stock, with the provision that the FCC may waive the restriction and allow up to 100-percent ownership. Direct ownership is limited to 20 percent.

and national treatment, and foreign adoption of pro-competitive regulatory principles. U.S. negotiators urged the adoption of pro-competitive principles not only to establish agreement on common regulatory approaches to basic telecommunications, but to preserve the meaningfulness of commitments on value-added telecommunication services, which were scheduled prior to December 1993.[90] The telecommunications annex guarantees access to infrastructure necessary to provide value-added services, but does not impose disciplines in areas such as leased line pricing[91] and interconnection requirements,[92] which significantly affect the competitive position of value-added service providers. Pro-competitive principles include:

- safeguards against anti-competitive practices, including cross-subsidization, among monopolies or other firms with market power;
- timely and cost-based interconnection under non-discriminatory terms, conditions, rates, and quality;
- transparent and nondiscriminatory universal service requirements[93] that are no more burdensome than necessary;
- transparent and publicly available licensing criteria and reasons for denial;
- independence of regulators and suppliers of basic telecommunication services; and
- publication of international accounting rates.

In short, the ultimate objectives of negotiations over basic telecommunication were to benefit telecommunication service suppliers by increasing investment opportunities and establishing competitive markets abroad; benefit telecommunication consumers, including multinational corporations, by achieving lower prices and broader service offerings; and increase business opportunities for manufacturers of telecommunication, computer, and aerospace equipment.[94]

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[90] Value-added telecommunication services include facsimile transmission, electronic mail, voice mail, on-line information and data base retrieval, on-line processing, electronic data interchange, and other services that add value to telecommunication services beyond the transmission of voice or data signals.

[91] Leased lines are lines dedicated to users requiring exclusive or continuous capacity for rapid voice and, principally, data transmission. Because leased lines are one of the integral building blocks of private networks and entities providing value-added services, their availability and pricing significantly influence the competitive position of the lessee.

[92] Interconnection is the technical interface between two networks, such as that between a private network constructed by private firms and the public switched network operated by the state monopoly. The terms and conditions of interconnection significantly influence the competitive position of the firm seeking connection to the public switched network.

[93] Universal service requirements generally specify that every citizen should have basic telecommunication service at affordable prices.

[94] Testimony of Ambassador Jeffrey M. Lang, before the U.S. House of Representatives, Subcommittee on Commerce, Trade, and Hazardous Materials, May 9, 1996.

Summary of Basic Telecommunication Commitments

Europe, Japan, and Other OECD Member Countries

Although the European Union and the United States had not negotiated mutually acceptable offers by the April 1996 extension, they effectively negotiated such offers by the fall of 1996. Both scheduled commitments that reflect recent efforts to deregulate and liberalize their markets for telecommunication services. The 1996 Telecommunications Act provided a liberal trading and investment environment in the United States, while the ongoing implementation of the European Commission's telecommunication directives established the liberal climate in the European Union. The United States and the EU largely granted one another rights to acquire 100 percent equity in all basic service providers and telecommunication facilities,[95] including satellite service providers and satellite facilities (annex 4).[96] In addition, both partners scheduled commitments that allow foreign firms to provide essentially all basic telecommunication services. Last, both partners adopted all of the pro-competitive regulatory principles outlined in the reference paper. Although the EU and the United States encouraged other OECD trading partners to liberalize their telecommunication sectors to similar extents, most did not.

Despite objections lodged by the United States and the EU, Japan declined to remove a 20-percent foreign ownership cap pertaining to its two largest carriers, Nippon Telegraph and Telephone Corporation (NTT)[97] and Kokusai Denshin Denwa (KDD).[98] U.S. negotiators expressed concern that Japan's ownership restrictions might permit others, particularly developing countries, to better justify their own ownership limitations.[99] Beyond this, however, Japan's schedule was generally assessed to be adequate. Japan scheduled commitments that allow 100 percent foreign ownership of all other service providers and facilities, effectively granted market access to foreign firms, and adopted the reference paper on pro-competitive regulatory principles in its entirety.

The United States' two largest telecommunication service trading partners, Canada and Mexico, also did not ease their restrictions on foreign ownership. Canada left intact a restriction that imposes a 46.7-percent equity cap on foreign ownership of all basic telecommunication service providers except those providing services through submarine cables and mobile and fixed satellites. Canada imposed no foreign ownership restrictions on the latter. Canada's reluctance to remove its restriction on foreign investment was not well received, as the offers of several low-income developing countries were better in this respect than that of Canada. The United States ultimately responded to Canada's

[95] Notable EU member states' investment restrictions include a 20 percent foreign equity limit on radio-based service by France and a 25 percent foreign equity limit by Portugal.

[96] The liberalization is to be implemented on a delayed basis by Spain in December 1998 and by Portugal and Greece in 2003.

[97] NTT is a former government monopoly and is Japan's largest domestic carrier. It remains two-thirds owned by the government, and currently has 3 percent foreign investment.

[98] KDD is Japan's largest overseas carrier and has close ties to the Japanese government and to NTT.

[99] USTR, "Statement of Ambassador Charlene Barshefsky on Basic Telecom Negotiations," Press Release, Feb. 15, 1997, Washington, DC.

unwillingness to eliminate the foreign investment limitation by listing an MFN exemption for one-way satellite transmission of direct to home (DTH) broadcasting, direct broadcast satellite (DBS),[100] and digital audio transmission services.[101]

Mexico revised its offer the day before the negotiations concluded, increasing its foreign equity limits on most telecommunication services from 40 percent to 49 percent. An exception pertains to cellular, facsimile, and private leased line services, where Mexico scheduled commitments that allow 100-percent foreign ownership. Mexico also scheduled commitments that generally accord foreign service providers full market access and national treatment when providing all services except domestic satellite services. Foreign satellite service providers are required to use Mexican satellite infrastructure until 2002.[102]

Like Mexico, Korea improved its offer shortly before the negotiation's end. Korea increased the permissible level of foreign ownership of facilities-based providers, except Korea Telecom, from 33 percent to 49 percent by 2001. Korea increased permissible foreign interest in Korea Telecom from the current level of 20 percent to 33 percent by 2001. Likewise, allowable foreign interest in cellular service providers increased from 49 percent to 100 percent by 2001. Beyond this, Korea scheduled commitments providing most foreign firms with full market access and national treatment as of January 1, 1998, and adopted the reference paper on pro-competitive regulatory principles in its entirety.[103]

Asia

Asian trading partners posed much the same difficulties in the basic telecommunication negotiations that they posed in the financial service negotiations. Asian telecommunication service markets are relatively small compared to the North American and European markets and many regions within these countries are underserved. For these reasons, many Asian governments feel obligated to protect their telecommunication markets, whereas foreign firms, noting the same reasons, identify Asian markets as those with the most potential for growth.[104] U.S. negotiators consistently expressed the belief that a "critical mass" of good offers could not be realized without significant liberalization among key Asian markets.[105]

In this sense, the schedule submitted by India was generally seen as inadequate. India scaled back its foreign investment cap from a preexisting level of 49 percent to 25 percent. India also declined to offer full commitments on market access and national treatment, indicating that market entry may be subject to economic needs testing. In addition, while India adopted certain parts of the reference paper on pro-competitive principles, it altered the language of many of the principles addressing competitive safeguards, interconnection,

[100] Although the United States regulates both DTH and DBS as basic telecommunications, other trading partners consider these satellite services as broadcasting. U.S. Department of State telegram, "Statement by Ambassador Jeffery Lang Before the Group," Feb. 11, 1997.

[101] USTR, "Statement of Ambassador Charlene Barshefsky on Basic Telecom Negotiations," Press Release, Feb. 15, 1997, Washington, DC.

[102] Ibid.

[103] U.S. Department of State telegram, "WTO Basic Telecom Agreement - Country Specific," message reference No. 000913, prepared by U.S. Mission, Geneva, Feb. 21, 1997.

[104] Industry representatives, interviews by USITC staff, Hong Kong, Jan. 30, 1997, and New Delhi, India, Feb. 2, 1997.

[105] "Malaysia proposes long-awaited telecoms offer," *Comtex Scientific Corporation*, Feb. 7, 1997.

regulatory independence, and the allocation of scarce resources. India also was the first trading partner to list an MFN exemption on devising cost-based accounting rates.[106] Sri Lanka, Pakistan, Bangladesh, and Turkey all subsequently took MFN exemption pertaining to accounting rates.[107]

By contrast, the offer submitted by Malaysia was seen as a breakthrough late in the negotiations.[108] Although Malaysia maintained 30-percent foreign investment caps, it scheduled commitments that improve market access by 1998, and adopted the reference paper in its entirety. Malaysia's offer was perceived as particularly forthcoming in light of the fact that its public telecommunication sector accounts for 2.5 percent of its gross domestic product, the highest percentage of any country in the region according to the International Telecommunications Union.[109]

Latin America

Commitments scheduled by Latin American trading partners were generally viewed as very good, and demonstrated improvement through the end of negotiations. Commitments scheduled by Chile, Peru, and Venezuela were particularly good.[110] Between April 30, 1996 and February 15, 1997, nine Latin American and Caribbean countries submitted new offers.

Brazil improved its offer the day before the conclusion of negotiations. Although it remains restrictive compared to other Latin American countries, Brazil did schedule commitments to phase out its 49-percent foreign equity limits on cellular and satellite transport services by July 1999, and to establish cellular telephone duopolies in each designated market. In addition, Brazil's schedule binds forthcoming telecommunications legislation that U.S. negotiators note may liberalize Brazil's telecommunication sector more than that of several other Latin American markets.[111]

Argentina ended negotiations on a potentially disturbing note, indicating an intention to retreat from its formerly liberal offer regarding foreign provision of satellite-based services and access to satellite facilities. This reflected the tone of satellite regulations issued by the government of Argentina in January 1997.[112] In the end, Argentina took an MFN exemption regarding foreign access to geostationary fixed satellite systems, but otherwise made relatively liberal offers with respect to foreign provision of non-satellite services, access to non-satellite facilities, and foreign investment.[113]

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[106] Because the nature of the accounting rate system involves differential rates, the GBT came to the understanding that the application of accounting rates would not give rise to action by members under dispute settlement under the WTO until 2000.

[107] U.S. Department of State telegram, "WTO Basic Telecom Agreement - Country Specific."

[108] "Malaysia proposes long-awaited telecoms offer," *Comtex Scientific Corporation*, Feb. 7, 1997.

[109] Ibid.

[110] U.S. Department of State telegram, "WTO: Conclusion of Basic Telecom Negotiations," message reference No. 029015, prepared by U.S. Mission, Geneva, Feb. 15, 1997.

[111] USTR, Press statement by Don Abelson, Feb. 21, 1997, Washington, DC.

[112] See, for example, U.S. Department of State telegram, "Demarche to Argentina on GBT," message reference No. 020987, prepared by the USDOS, Feb. 5, 1997.

[113] U.S. Department of State telegram, "WTO Basic Telecom Agreement - Country Specific."

Conclusion of Basic Telecommunication Service Negotiations

On February 15, 1997, the Group on Basic Telecommunications (GBT) concluded an agreement that enters into effect January 1, 1998. The accord binds 69 countries, covering 91 percent of global telecommunication revenues.[114] After the April 30, 1996 extension, 46 trading partners improved their offers,[115] and 21 countries submitted new offers.[116] The agreement broadly provides market access for local, long-distance, and international service through any means of network technology, either on a facilities basis or through resale of existing network capacity. In all, 56 countries scheduled commitments that allow, or will phase in, foreign ownership or control of telecommunication services and facilities; 65 trading partners adopted pro-competitive regulatory principles that reflect, in part, the U.S. Telecommunications Act of 1996; and 53 countries guaranteed market access to some or all telecommunication services and facilities, with 42 of these guaranteeing access to satellite services and satellite facilities.[117]

Commitments scheduled by each country will be annexed to the Fourth Protocol of the GATS, which is open for acceptance until November 30, 1997. Once in force, the schedules on basic telecommunication services will constitute part of the GATS schedules in force since January 1995.[118]

Summary

The WTO's effort to negotiate a global agreement on trade and investment in services is unprecedented in scope and complexity. Prior to December 1993, negotiators addressed 155 service industries and successfully scheduled a great many commitments that enhance transparency and establish benchmarks with which to measure future progress and discourage potential backsliding. These negotiations are inherently more intrusive than negotiations over goods because negotiations over services focus almost wholly on government regulation. These regulations affect commerce throughout economies, rather than solely or predominantly at the border, and directly affect health, safety, and welfare.

This is especially true with respect to financial, maritime transport, and basic telecommunication services. Regulation of financial services is intended to ensure the solvency of markets that store wealth, including individual savings and retirement accounts; allocate investment capital efficiently; and provide the liquidity necessary for consumerism and economic growth. Maritime regulation is intended to ensure the safety and soundness of a system that transports natural resources, agricultural goods, manufactures, and people through inland waterways, from coast to coast, and across broad expanses of ocean. Telecommunication regulation provides for the efficient collection, storage, manipulation, and dissemination of information that lies at the heart of what is variously termed the

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[114] Ibid.

[115] Only Côte d'Ivoire, Ecuador, and Turkey did not improve their April 30, 1996 offers.

[116] USTR, "Statement of Ambassador Charlene Barshefsky on Basic Telecom Negotiations," Press Release, Feb. 15, 1997, Washington, DC.

[117] Ibid.

[118] World Wide Web, retrieved Feb. 20, 1997, World Trade Organization (WTO), http://www.wto.org/wto/whats_news/summary.htm, The WTO Negotiations on Basic Telecommunications.

service, information, or knowledge-based economy. The complexity of these industries, and the importance attached to them by all governments, virtually assured that negotiations in these areas would be difficult and, at times, contentious.

In light of the negotiations over financial, maritime transport, and basic telecommunication services, it appears that ongoing initiatives to develop common rules regarding direct investment and rights of establishment may substantially facilitate future service negotiations. The success of the financial and basic telecommunication negotiations hinged largely on winning rights of establishment, and rights to invest in multimodal transport services were a problematic issue in the maritime transport talks. Future service sector negotiations will likely continue to focus considerable attention on investment rights as opportunities and incentives to invest abroad flourish. Opportunities to invest abroad follow from the privatization of financial institutions, telecommunication companies, and public utilities throughout the world. Further opportunities have sprung from the development and growth of stock and bond markets in developing countries. Incentives to undertake direct investment are many, especially in mature markets. Foreign direct investment provides access to economies that may grow more rapidly than the domestic economy, affords continuous contact with consumers whose incomes may grow significantly, and diversifies risk on a global basis. The opportunities and incentives to invest abroad resulted in four-fold growth of the global stock of foreign direct investment during 1980-94, from $514 billion to $2.4 trillion.[119] The difficulty of reaching agreement on investment rights within the extended services talks, and the likelihood that investment rights will be visited again when service negotiations resume, highlight the importance of ongoing OECD negotiations on the Multilateral Agreement on Investment (MAI), the recent formation of the WTO Working Party on Trade and Investment, and the formation and efforts of various working groups and expert panels within regional trade fora such as Asia-Pacific Economic Cooperation (APEC) and Free Trade Agreement in the Americas (FTAA).

Outlook

Efforts to negotiate over various service sectors and to address issues important to service providers will continue well beyond the year 2000. Negotiations over financial services resumed on April 10, 1997, with the possibility that a more lasting financial services agreement could be established within the WTO during November-December 1997, when countries may revise commitments and MFN exemptions without penalty. During 1997-99, WTO signatories will negotiate agreements or understandings pertaining to safeguards, subsidies, and government procurement of services as mandated in the GATS; continue efforts to craft mutual recognition agreements within the Working Party on Professional Services; and contemplate the resumption of broad-based service negotiations scheduled for January 2000.[120] The objectives of the next round of WTO service negotiations will likely focus on broadening the number of industries that fall within the GATS, looking to achieve standstill commitments in these areas at a minimum, and liberalizing previously scheduled commitments, presumably including those on financial, maritime transport, and basic telecommunication services.

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[119] United Nations, *World Investment Report 1995: Transnational Corporations and Competitiveness* (New York: UN, 1995), p. 407.

[120] U.S. Department of State telegram, "GATS Council meeting of March 5" message reference No. 001310, prepared by U.S. Mission, Geneva, Feb. 11, 1997.

CHAPTER 4: ANNEXES

Highlights of GATS Commitments for Selected Countries

ANNEX 1

Highlights of GATS commitments in banking and other financial services (excluding insurance) for selected countries

Annex 1
Highlights of GATS commitments in banking and other financial services (excluding insurance) for selected countries[1]

Country	Rights of Establishment	National Treatment	Cross-Border Access	Other Aspects
Argentina	Guarantees foreign firms the right to establish across the full range of financial services. (Rollback)[2]	Guarantees foreign firms national treatment across the full range of financial services. (Rollback)	Guaranteed. (Standstill)[3]	Government and state-owned enterprises may carry out their operations through the entities they designate. (Standstill)
Australia	Provides for establishment across the full range of financial services, subject to investment screening. (Standstill) Reserves statutory right to deny licenses to foreign firms to enter or expand existing operations on ground of "national interest" affecting its "vital interests and development." The offer states such a denial would be "unusual." (Standstill)	Provides for national treatment across the full range of financial services. (Standstill)	Guaranteed.	MFN exemption allows Australia to permit foreign firms entry to Australian stock exchange on the basis of reciprocity.
Brazil	Foreign firms may enter Brazil's financial markets by purchasing shares of privatized public financial institutions. Brazil promised to make new, specific commitments in its schedule within two years after the National Congress adopts legislation reopening the financial sector to foreign participation. (Rollback)	Subject to constitutional limits on new investment and expansion, existing firms receive national treatment. Brazil also pledges to provide national treatment to services that are provided by other than financial institutions (e.g., credit card and factoring services), when national legislation classifies them as financial services. (Potential Rollback)		

Annex 1
Highlights of GATS commitments in banking and other financial services (excluding insurance) for selected countries[1]

Country	Rights of Establishment	National Treatment	Cross-Border Access	Other Aspects
Brazil--Continued	Restrictions could potentially be placed on foreign firms wishing to participate in the privatization of state-owned banks, e.g., certain banks placed off limits. (Standstill) No guarantee of new entry or expansion for any type of firm in banking, securities, and other financial services, except for purchasing of state-owned banks. Firms already established cannot increase their capital stock or open any more branches (including ATM sites) than were operated in 1988. (Standstill) Credit card and factoring services are not covered by the agreement, although they are permitted in practice by non-financial institutions. (Regressive)[4]			
Colombia	Permits foreign firms to establish as subsidiaries, subject to prior government authorization. Foreign firms may not enter as branches. (Standstill)	Guarantees national treatment for provision of all financial services. (Standstill)		Broad MFN exemption indicates that commercial presence may be established on the basis of reciprocity.
Czech Republic	Guarantees rights to establish subject to authorization based mainly on prudential criteria. Includes most sectors and allows new financial services. (Rollback)	No limitations on national treatment once financial firms are established. (Standstill)	Significant exchange control limitations apply and affect current payments for the cross-border supply of some subsectors. (Rollback)	Offer does not include money brokering and the settlement and trading of derivative products. (Standstill)

Annex 1
Highlights of GATS commitments in banking and other financial services (excluding insurance) for selected countries[1]

Country	Rights of Establishment	National Treatment	Cross-Border Access	Other Aspects
European Union	Provides right to establish. After initial establishment in one member state, subsidiaries may branch into any other member state. (Rollback) Unlike subsidiaries, directly-held branches of foreign firms may not expand cross-border or provide services into other member states. A number of member states limit the form of initial establishment in certain areas to subsidiaries. Some member states impose restrictions on direct establishment. (Standstill) Austria and Finland may apply national or economic interest tests. France requires investment screening. Commercial presence required to lead manage local currency issues. Other conditions also apply. Germany and United Kingdom require commercial presence to lead manage local currency issues. Portugal conditions establishment on economic needs tests.	Generally guarantees national treatment. (Standstill)	Generally guaranteed. (Standstill)	Generally guarantees right of its consumers to purchase financial services abroad. (Standstill)

Annex 1
Highlights of GATS commitments in banking and other financial services (excluding insurance) for selected countries[1]

Country	Rights of Establishment	National Treatment	Cross-Border Access	Other Aspects
India	For new banks or existing banks, existing quota for foreign branch licenses raised from five to eight per year. Banks' ATMs no longer count towards this annual quota. Underwriters and most other non-banks may enter the market as 51 percent-owned joint ventures without limitations on number of entrants. Securities brokers can enter via 49 percent-owned joint ventures. For covered services and types of establishment, foreign firms are guaranteed the right to provide the same services as domestic firms. (Rollback) Non-banks cannot enter as branches or wholly-owned subsidiaries (although equity share above the 51 percent scheduled limit have been permitted in practice). (Standstill) India does not include all asset management activities (even though in practice it permits foreign firms to provide these services). (Regressive)	Foreign banks do not have the right to enter as subsidiaries or to branch on the same terms as domestic banks, and are limited to a 15 percent share of the banking system's assets. (Standstill)		India has two broad MFN exemptions that condition licensing and establishment on reciprocity. All financial service commitments are subject to unspecified entry requirements and "terms and conditions" set by government authorities. (Standstill)

Annex 1
Highlights of GATS commitments in banking and other financial services (excluding insurance) for selected countries[1]

Country	Rights of Establishment	National Treatment	Cross-Border Access	Other Aspects
Indonesia	Banks can enter by acquiring 49 percent of an existing bank. The schedule supports, but does not guarantee, higher levels of foreign ownership in banks and non-banks (85 percent is permitted under current regulations). (Regressive) Existing foreign bank branches are grandfathered. (Standstill) Slight relaxation of limits on expansion by foreign banks (now permitting one sub-branch and an auxiliary office in each of 8 cities, including Jakarta). (Rollback) Foreign non-banks are guaranteed the right to establish either via new 49 percent-owned joint ventures or by acquiring 49 percent of an existing domestic firm. Non-banks are exempted from 20 percent withholding tax on firms deriving income from interest, royalties, dividends or fees. (Standstill) Language supporting majority foreign ownership in non-bank joint ventures is not definitive. No commitment to maintain existing regulations, which permit 85 percent foreign ownership. (Regressive) Limitations on sub-branching for foreign banks fall short of current practice, which permits multiple sub-branching in Jakarta. (Regressive) Foreign securities firms are limited to trading in exchange-listed equities and bonds. (Standstill)	Generally guarantees foreign firms national treatment. However, foreign firms need twice the capital as their domestic counterparts, and the right to further increase capital requirements for banks is reserved. (Standstill)	Foreign banks may provide covered services on a cross-border basis.	With important exceptions, includes most financial services. Exceptions include the provision and transfer of financial information. All market access and national treatment limitations would be eliminated by 2020 if other WTO members make a similar commitment. MFN exemption conditions licenses to joint-venture banks on reciprocity.

Annex 1
Highlights of GATS commitments in banking and other financial services (excluding insurance) for selected countries[1]

Country	Rights of Establishment	National Treatment	Cross-Border Access	Other Aspects
Japan	Guarantees right to establish. (Standstill)	Guarantees national treatment in all areas except deposit insurance. (Standstill)	Guaranteed. (Standstill)	Overseas deposit and trust contracts denominated in foreign currencies that exceed 100 million yen are subject to approval and certain capital transaction services are subject to approval.
Korea	Subject to non-prudential approval, branches of foreign firms can be established and open additional branches without limitation after initial establishment. Commitment made to future, but unspecified, steps to ease some of the numerous limitations on foreign firms' deposit-taking, lending, foreign exchange, trust, and securities trading operations. Foreign bank branches' funding and lending linked to local, rather than parent capital. Limits foreign portfolio investment to exchange-listed stock, with caps for listed companies. Investments in blue chip corporate bonds are off-limits to foreigners. Imposes other non-transparent limitations on management and operation of assets of foreign firms. (Standstill) Previous economic needs test for new securities and investment advisory firms eliminated. (Rollback)	Provides limited national treatment for covered services through commercial presence, subject to market access limitations and with exception of capital requirements for foreign securities firms. Investments in blue chip corporate bonds are off-limits to foreigners. (Standstill)	Standstill obligation does not extend to some missing or unbound services or modes of delivery, including all cross-border trade.	Standstill obligation does not extend to some missing or unbound services or modes of delivery. Commitments with respect to future liberalization are vague and do not eliminate any of the barriers named.

Annex 1
Highlights of GATS commitments in banking and other financial services (excluding insurance) for selected countries[1]

Country	Rights of Establishment	National Treatment	Cross-Border Access	Other Aspects
Malaysia	Foreign firms are limited to minority equity holdings in domestic firms (usually 30 percent). Malaysia retains the right to prohibit new investment to companies of countries already having foreign investment in Malaysia. Subject to approval, foreign banks, securities firms and most non-banks can purchase 30 percent equity in local firms. Existing wholly-owned foreign banks grandfathered and the right to establish wholly-owned offshore banks is guaranteed. Foreign commercial banks are allowed to accept foreign currency deposits as of July 1996, subject to certain conditions, and foreign banks are permitted to introduce new products. Charge card firms can establish wholly-owned subsidiaries. (Standstill) Foreign equity limits for securities broking firms and financial leasing companies will be increased to 49 percent in the year 2000. (Rollback)	Malaysia denies national treatment for banks: foreign commercial banks cannot open sub-branches or ATMs, and the scope of banks' activity is limited by a cap on the amount of funding they can provide to foreign-controlled companies (Malaysia will increase the share of funding that companies can obtain from foreign-controlled banks from 40 to 50 percent by the year 2000). (Limited Rollback)		Malaysia sets strict limits on the number of foreign managers and specialists employed in commercial presence.
Norway	Guarantees the right to establish wholly-owned subsidiaries. Foreign firms may not enter Norway as direct branches; however, foreign subsidiaries established in any of the 17 member-states of the EEA can branch into Norway. (Standstill)	Provides national treatment in all aspects except for citizenship and European Economic Area (EEA) residence requirements on certain management teams and boards of directors.	Guaranteed. (Standstill)	A single investor may not acquire more than 10 of the shares of an existing bank unless an exemption is granted.

Annex 1

Highlights of GATS commitments in banking and other financial services (excluding insurance) for selected countries[1]

Country	Rights of Establishment	National Treatment	Cross-Border Access	Other Aspects
Pakistan	Foreign banks can hold up to 50 percent equity in a locally-incorporated banking subsidiary and conduct a broad range of business. The same 50 percent limitation applies to buying and selling foreign currency and travelers cheques (which banks can also provide). Foreign firms may hold up to 51 percent equity in a separate asset management subsidiary or set up wholly-owned subsidiaries to provide financial advisory services. A 51 percent foreign equity holding limitation also applies to financial leasing companies. (Rollback) Foreign bank branches are required to incorporate locally and to divest to the 50-percent foreign equity limit, and the offer states that such firms "will be given adequate time" to do this. However, there is no guarantee that bank branches can continue the full range of their current operations during the conversion period. Moreover, the ability of foreign firms to sell or transfer their shares in locally-incorporated subsidiaries is restricted: foreign firms must retain their shareholdings in most local firms for a minimum of 10 years and obtain permission to transfer share after that time. (Regressive)	Guaranteed.		An MFN exemption applies reciprocity in granting licenses to all financial services firms

Annex 1

Highlights of GATS commitments in banking and other financial services (excluding insurance) for selected countries[1]

Country	Rights of Establishment	National Treatment	Cross-Border Access	Other Aspects
Philippines	Grandfathers existing wholly-owned foreign bank branches. New entrants subject to screening based on "public interest" criteria. Ten new licenses for foreign bank branches for the period 1995-2000. New entry of banks by acquisition of 49 percent of existing banks or new joint ventures. Expansion of foreign banks to a maximum of four branch locations. Establishment as wholly-owned subsidiaries by broker/dealers and stock transfer agents. Up to 49 percent foreign equity in investment houses and 40 percent in other non-banks such as financial leasing, factoring, credit card services. (Mostly standstill, with some rollbacks.) There will be no additional entry by foreign bank branches until 2001. Majority-owned foreign banks may not control more than 30 percent of the banking system's assets. (Mostly standstills, with some rollbacks.) Limits on foreign equity fall short of current law in several areas. (Regressive)	Foreign bank branches are denied national treatment with respect to opening additional branches.		A broad MFN exemption is taken to apply reciprocity to authorizations to establish or expand a commercial presence in commercial banking.
Singapore	Singapore lists the full range of financial services, but limits some, such as clearance and settlement services, to designated suppliers. Existing firms can perform most of the services listed. Market access is provided for branches of offshore banks, and both branches and subsidiaries of many other financial services providers. Allows trading of financial futures on SIMEX. Permits the provision of financial information services. (Standstill)	Singapore denies national treatment for all electronic banking services and for establishing off-premise cash dispensing machines for credit and charge cards. (Standstill)		

Annex 1
Highlights of GATS commitments in banking and other financial services (excluding insurance) for selected countries[1]

Country	Rights of Establishment	National Treatment	Cross-Border Access	Other Aspects
Singapore--Continued	No new entry is permitted to the domestic commercial banking market other than 5 percent single ownership and 40 percent aggregate foreign ownership in existing banks. Foreign commercial, offshore and merchant banks can only operate one office; commercial banks may not open off-site ATMs. (Standstill) Foreign stockbroking firms can not gain full membership in the Singapore Stock Exchange or acquire an equity interest in a member firm. There is no commitment to allow participation as new primary and registered dealers of government securities. (Standstill)		No commitment to allow the provision of cross-border data processing. (Standstill)	
Switzerland	Guarantees the right to establish. Commercial presence as a bank is required to lead market mutual funds and to lead manage Swiss Franc-denominated issues. (Standstill)	Provides national treatment. (Standstill)	Guaranteed. (Standstill)	

Annex 1
Highlights of GATS commitments in banking and other financial services (excluding insurance) for selected countries[1]

Country	Rights of Establishment	National Treatment	Cross-Border Access	Other Aspects
Thailand	Seven foreign banks may establish a presence in the Thai market and existing banks may establish new branches subject to limitations. Five new licenses will be granted for incorporated banks by 1997; foreign investors can hold a 5 percent share in these banks, up to a combined total of 25 percent foreign equity -- the same as can be acquired in existing banks. Existing foreign banks are allowed to open two additional branches. Offshore banks (BIBFs) and Provincial offshore banks (PIBFs) may undertake limited expansion. Securities firms may acquire up to 49 percent equity in existing Thai firms and foreign asset management will be progressively liberalized to allow 49 percent foreign equity holdings. Foreign equity in new financial leasing, factoring, financial consultancy, and credit charge and debit card companies is limited to 49 percent. (Limited rollback)	Thailand has given notice that its Treaty of Amity and Economic Relations with the United States, under which only American citizens and companies are granted national treatment in Thailand, will be terminated in 10 years time (from January 1, 1995).	Cross-border trade is permitted for credit cards, financial advisory services and financial data processing services.	There is a broad MFN exemption to provide differential treatment to providers of financial services, but Thailand has stated (not committed) that it does not intend to invoke this exemption during the interim agreement period; i.e., 1995-1997.
Turkey	Subject to discretionary approval, Turkey allows establishment of a commercial presence in all financial sectors. Banks and most non-banks can organize as branches or subsidiaries. Branch rather than parent capital determines the lending limits for foreign bank branches. However, capital required for the initial bank branch is the same as is required to establish a domestic bank. (Standstill/limited rollback)	Guaranteed.	Cross-border services are guaranteed.	MFN exemption allows Turkey to deny new licenses for bank branches or to annul the licenses given to existing banks on the basis of reciprocity.

Annex 1
Highlights of GATS commitments in banking and other financial services (excluding insurance) for selected countries[1]

Country	Rights of Establishment	National Treatment	Cross-Border Access	Other Aspects
Turkey--Continued	Factoring and consumer credit companies cannot operate as branches. Foreign non-bank intermediary institutions operating in the securities market cannot establish direct branches. (Standstill) Turkey allows introduction of new financial services and has made commitments for those sectors that are still underdeveloped in Turkey, subject to prudential approvals and supervision. (Rollback)			
Venezuela	Subject to approval based on non-prudential criteria, which include an evaluation of general and local economic and financial conditions, allows establishment of foreign banks, exchange houses, securities brokers, mutual funds, mutual fund managers, and investment advisors. If approved, foreign banks may establish as direct branches and wholly-owned, locally incorporated, public limited companies. Allows banks to supply financial leasing services and, subject to Central Bank approval, new financial services. Allows securities brokerage services, closed-end mutual funds and portfolio management services. Specifically prohibits mutual funds managers from managing more than one mutual fund with similar investment objectives. Prohibits bank representative offices from advertising their services. It is unclear whether there are commitments to securities underwriting. (Standstill)	Guarantees national treatment for foreign firms having a commercial presence.	Financial information and data processing services can be sold cross-border subject to confidentiality of personal records.	MFN exemption provides for reciprocity with respect to market access in banking.

[1] Identification of standstill, rollback, and regressive positions undertaken by USITC staff.
[2] A rollback commitment indicates that trade restrictions have been removed in part or in whole.
[3] A standstill commitment indicates that current regulations will remain in place.
[4] A regressive commitment indicates that new or more restrictive trade limitations have been imposed.

Source: U.S. Department of Treasury and USITC staff.

ANNEX 2

Highlights of GATS commitments in insurance services for selected countries

Annex 2
Highlights of GATS commitments in insurance for selected countries[1]

Country	Right of Establishment	National Treatment	Cross-Border Access	Other Aspects
Argentina: Schedule covers all insurance and pension fund services except auxiliary services such as insurance brokerage and actuarial consulting services.	Reserves the right to prohibit foreign persons from establishing new companies. (Standstill)[2]	National treatment for established foreign insurance providers. (Standstill)	No commitment for cross-border supply of direct insurance. (Standstill) Market access and national treatment guaranteed for maritime and air transport insurance, reinsurance, and retrocession services. (Rollback)[3]	
Australia: Schedule covers all insurance services.	Market access for establishment except: (1) monopolies in several states and territories for third party auto insurance and workers compensation insurance; (2) approval of non-resident life insurers is restricted to subsidiaries. (Standstill)	Guaranteed. (Standstill)	Market access and national treatment guaranteed for marine, aviation, and transport insurance; reinsurance and retrocession; and auxiliary services. (Standstill)	
Brazil: Schedule covers all insurance services except pension and annuity services, loss adjustment services, salvage administration services, and other miscellaneous auxiliary services.		Guaranteed for existing insurance establishments. (Standstill)	No commitments for cross-border supply of insurance except for insurance on freight exports, insurance consultants, and actuarial consultants. (Regressive)[4]	Brazil commits to revising its schedule to allow or increase foreign capital two years after enabling legislation is passed. (Potential rollback)

Annex 2
Highlights of GATS commitments in insurance for selected countries[1]

Country	Right of Establishment	National Treatment	Cross-Border Access	Other Aspects
Brazil--Continued	Foreign insurance companies may not increase their equity in Brazilian insurance companies. No new branches or subsidiaries permitted. (Regressive) No commitment on reinsurance. Fully protects the status of the Brazilian reinsurance monopoly. (Regressive) For brokers, Brazil limits foreign equity to 50 percent of capital and one third of voting equity, except for firms established before July 3, 1986. (Standstill) No limitations on insurance and actuarial consultants. (Standstill)			
Chile	No limitations on direct insurance and reinsurance. (Standstill)	Foreign-based reinsurers subject to a six percent tax on premiums.	No commitments for direct insurance and brokerage . (Regressive) Foreign-based reinsurance intermediaries may supply services. (Standstill)	Economic needs test for commercial presence. (Regressive)
Colombia: Schedule covers all insurance services.	Guarantees market access, but branches are not recognized. (Standstill)	Guaranteed. (Standstill)	No commitments for cross-border supply of direct insurance and auxiliary services, including brokerage. (Regressive)	Most-favored-nation exemption stating a reciprocity requirement for insurance.

Annex 2
Highlights of GATS commitments in insurance for selected countries[1]

Country	Right of Establishment	National Treatment	Cross-Border Access	Other Aspects
Czech Republic	Guaranteed. Intermediaries must be resident. (Rollback)	Guaranteed. (Rollback)	Guaranteed except for life insurance on residents, insurance on property in country, and liability insurance on activities in country. (Rollback)	Only monopoly suppliers can provide compulsory motor third party liability insurance and compulsory air transport insurance. (Standstill)
Egypt: Schedule covers all insurance services except some types of auxiliary services.	Guarantees market access with the following limitations: branches and agencies are not allowed; mandatory cessions to Egyptian Reinsurance Company and African Reinsurance Company are required; direct insurers are limited to 49 percent foreign equity; non-life foreign investment is not allowed for three years after GATS goes into force; reinsurance is allowed only with supervisory approved reinsurers. (Rollback) Brokers are not guaranteed market access. (Standstill)	Generally guaranteed.	Guaranteed for life insurance. No commitment for non-life; marine, aviation and transportation insurance; and nonlife brokerage. (Rollback)	Insurers are subject to an economic needs test.

Annex 2
Highlights of GATS commitments in insurance for selected countries[1]

Country	Right of Establishment	National Treatment	Cross-Border Access	Other Aspects
European Union	The EU schedule locks in the market access provisions of the European Community's Third Life and Non-Life Directives, guaranteeing market access. Foreign firms that have a subsidiary anywhere within the EU are permitted to branch throughout the EU, but are sometimes subject to special guarantee and deposit requirements. (Standstill) Directly held branches of foreign firms are not guaranteed the right to provide services in other EU member states. (Standstill) Spain and Italy make no commitment for the actuarial profession. (Standstill)	Guaranteed. Austria has a higher premium tax for foreign companies. EU has a non-life insurance treaty with Switzerland guaranteeing mutual access and protections. (Standstill)	Foreign firms with an EU subsidiary are permitted to sell marine, aviation and transportation insurance cross-border within the EU. (Standstill)	
Hong Kong: Schedule covers all insurance services.	Market access guaranteed. (Standstill)	Guaranteed. (Standstill)	No commitment made on cross-border sales. (Regressive)	
Hungary: Schedule covers all insurance services.	Government approval is required for establishment in direct insurance and reinsurance.	Guaranteed. (Rollback)	Guaranteed except for brokers and agents. (Rollback)	MFN exemption imposes a reciprocity requirement for insurance. (Standstill)

Annex 2
Highlights of GATS commitments in insurance for selected countries[1]

Country	Right of Establishment	National Treatment	Cross-Border Access	Other Aspects
Hungary--Continued	All insurance services must be organized as joint-stock companies, cooperatives or insurance associations. Brokers must be organized as joint-stock or limited liability companies. (Rollback)			
India: Schedule does not cover insurance services except for freight insurance and reinsurance.	State-owned monopoly for insurance. (Standstill)	Not applicable.	Market access commitment for freight insurance that is the contractual responsibility of the non-Indian importer/exporter. Reinsurance can be taken with foreign reinsurers after obligatory or statutory placement with Indian insurers. (Standstill)	MFN reciprocity exemption for insurance. (Regressive)
Indonesia: It is unclear whether services auxiliary to insurance are included.	Guaranteed. Maximum of 49 percent foreign ownership in future, with preexisting levels of foreign ownership grandfathered. (Regressive)	No guarantees except for reinsurance brokerage services. (Standstill) Discriminatory capital requirements for foreign firms.	Reinsurance guaranteed. (Regressive)	Commits to eliminate all market access and national treatment limitations for insurance by the year 2020 subject to similar commitments by other WTO members.
Japan: Schedule covers all insurance and insurance related services.	Guaranteed except that brokers may use only direct and reinsurance companies licensed in Japan.	Guaranteed.	Guaranteed for marine, aviation and transport (including satellites) for international business. Commercial presence may be required for insurance on goods being transported within Japan and on domestic waters.	The U.S./Japan Bilateral Framework Agreement of October 1994 and the Supplementary Measures agreed in December 1996 provide for greater transparency and liberalized regulation in Japan. These agreements may have considerable consequence for foreign insurance companies operating in the Japanese insurance market. Both the United States and Japan have said they will extend the benefits of these agreements on an MFN basis.

Annex 2

Highlights of GATS commitments in insurance for selected countries[1]

Country	Right of Establishment	National Treatment	Cross-Border Access	Other Aspects
Korea: Schedule covers all insurance services except pension and annuity services, insurance and pension consulting services, salvage administration services, and miscellaneous auxiliary services.	Establishment subject to the following limitations: (1) Only one foreign shareholder is allowed for a life insurance joint venture and the foreign share must exceed 49 percent, (2) only branches and representative offices of foreign nonlife insurers are allowed unless equity is taken in an existing domestic nonlife insurer, (3) foreign nonlife insurers cannot offer fidelity and surety insurance which is reserved to a duopoly, (4) employment of sales personnel is restricted. (Standstill) No commitment on claims settlement and actuarial services.	Guaranteed with limitations.	No guarantee for life or non-life insurance, or for brokerage. Guaranteed only for reinsurance and consumers, which must give priority to reinsurers established in Korea. (Standstill)	Economic needs test is imposed on foreign investment in insurance. (Standstill)

Annex 2
Highlights of GATS commitments in insurance for selected countries[1]

Country	Right of Establishment	National Treatment	Cross-Border Access	Other Aspects
Malaysia	As of June 1995, at least nine foreign companies held shareholdings greater than 49 percent (up to 100 percent). Those companies must divest to 49 percent minority shareholdings by June 30, 1998; if they do not do so, they will subsequently be limited to a 30 percent shareholding. (Regressive) Foreign joint-ventures are limited to 49 percent minority shareholding. (Rollback) Purchase of existing companies by foreign interests is subject to government approval. (Rollback) For reinsurance, mandatory cession of up to 30 percent to the (state-owned) Malaysian National Reinsurance Berhad. (Standstill) Seven new licenses for foreign non-life reinsurance companies will be granted by June 30, 2005, subject to non-prudential licensing criteria. (Potential limited rollback) Brokerage is limited to reinsurance. (Standstill)	Foreign interest limited to 49 percent of share-holding. (Rollback)	Limited to the insurance of goods in international transit. (Standstill)	New entrants to the market are subject to an economic needs test. (Standstill)

Annex 2
Highlights of GATS commitments in insurance for selected countries[1]

Country	Right of Establishment	National Treatment	Cross-Border Access	Other Aspects
Morocco	Guaranteed for life, non-life, and reinsurance. Brokers are not covered. (Rollback)	Guaranteed. (Standstill)	Guaranteed only for reinsurance, subject to cessions to national reinsurer.	
New Zealand	No commitment for life insurance or brokers. (Regressive) Market access limitations for workers' compensation insurance, residential property disaster insurance, and hail insurance. (Standstill)	Large investments by foreign persons require approval. (Standstill)	Limited to marine, aviation, and transport insurance; and reinsurance. (Standstill)	
Poland: Schedule covers most insurance except auxiliary services. Brokerage is included.	No branch operations are permitted. Foreign exchange limitations apply. (Potential rollback)	Guaranteed except that foreign participation cannot be less than 50 percent of the minimal guarantee fund.	Limited to reinsurance, where at least 20 percent of the premium must be retained in Poland. (Standstill)	
Singapore: Schedule covers all insurance subsectors.	No new companies serving the domestic market are allowed in the life and non-life sectors and there is no guarantee that foreigners may purchase existing companies. (Standstill)	Guaranteed except for brokerage.	Limited to reinsurance. (Regressive)	Singapore reserves the right to favor the ASEAN Reinsurance Corp. which is to be established.
South Africa: Schedule covers all insurance services.	Guarantees market entry except that ownership of more than 25 percent of a company requires the written approval of the Registrar of Insurance. All companies must be public ones. (Rollback)	Guaranteed. (Standstill)	Limited to reinsurance. (Standstill)	

Annex 2
Highlights of GATS commitments in insurance for selected countries[1]

Country	Right of Establishment	National Treatment	Cross-Border Access	Other Aspects
Switzerland: Schedule covers all insurance services.	Guarantees market entry except for some restrictions on forms of entry, participation in statutory pension schemes, and acquisition of real estate. Insurer must have 3 years experience in home country. (Standstill)	Limitations on the holding of real estate. (Standstill)	Guaranteed excepting that aircraft liability insurance requires establishment. (Standstill)	Maintains public monopoly rights for fire and natural damage insurance on property in 19 cantons. MFN exemption reserves a non-life insurance treaty with the European Union.
Thailand: Schedule covers all insurance services.	New entrants must be approved. (Regressive) 49 percent equity permitted for services auxiliary to insurance. (Regressive)	Foreign equity participation is limited to 25 percent. (Regressive)	No business permitted for non-life sector except for marine, aviation and transportation. (Regressive) Life and auxiliary services guaranteed. (Standstill)	MFN exemption requiring reciprocity.
Turkey: Schedule covers all insurance services.	Compulsory auto insurance must be written by majority-owned Turkish insurers.	Guaranteed excepted that premiums paid to foreign branches cannot be deducted from taxes.	Guaranteed for life and non-life, limited for some marine insurance. Reinsurance and some auxiliary services permitted.	
Venezuela: Schedule includes most insurance services.	No branches allowed. (Standstill)	Guaranteed.	No guarantees other than a limited one for reinsurance. (Regressive)	Requires an economic needs test. (Regressive) MFN exemption requiring reciprocity.

[1] Entries in the four right hand columns pertain only to the services addressed in countries' schedules, which are indicated in the far left hand column. Identification of standstill, rollback, or regressive positions undertaken by USITC staff.
[2] A standstill commitment indicates that current regulations will remain in place.
[3] A rollback commitment indicates that trade restrictions have been removed in part or in whole.
[4] A regressive commitment indicates that new or more restrictive trade limitations have been imposed.

Source: Office of U.S. Trade Representative and USITC staff.

ANNEX 3

Highlights of GATS commitments in maritime transport services for selected countries

Annex 3

Highlights of GATS offers on maritime transport services for selected countries[1]

Country	International Shipping	Auxiliary Services[2]	Access to Port Facilities
Australia	Resident representation required for liner shipping. Prior to June 1996, Australia proposed market access (investment) commitments for multimodal transport. Establishment of Australian flag carriers: nationality and registration requirements. (Standstill)[3]	Licenses and concessions are required for cargo handling and shore labor is required for vessel loading/unloading. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)
Brazil	Cargo reservation for Brazilian flag carriers. No guarantee of national treatment. (Standstill)	Restrictions on storage and warehousing, customs clearance, and container station services are unbound for technical reasons. Freight forwarding, cargo handling, and maritime agency services have few restrictions. (Standstill)	Application of lighthouse fees to foreign-flag vessels. (Standstill)
Canada	Local offices are required for conference members. MFN exemptions pertaining to reciprocal treatment of taxes and income. Nationality and registration requirements for establishment of Canadian flag carriers. (Standstill)	Residency requirements for customs brokers. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)
Chile	Citizenship and residency requirements for company officers. Investment restrictions may apply. MFN exemptions for UN Liner Code and bilateral cargo-sharing with Brazil. (Standstill)	Storage and warehousing, loading and unloading, and container station services have unbound restrictions for technical reasons. No limitations on commercial presence. No offers on other auxiliary services. (Standstill)	Access is unclear. Although Chile indicated that port services are available for international transport suppliers on non-discriminatory terms, Chile did not make any offers in this area. (Standstill)
Colombia	Requirement for an accredited agent in Colombia. Establishment of Colombian flag carriers subject to registration and foreign equity limitations. MFN exemption applies reciprocity to all maritime transport companies. (Standstill)	The granting of concessions may be required for container station and depot services. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. However, port services in Colombian waters may only be supplied by Colombian-registered ships. (Standstill)

Annex 3
Highlights of GATS offers on maritime transport services for selected countries[1]

Country	International Shipping	Auxiliary Services[2]	Access to Port Facilities
Côte d'Ivoire	MFN exemption for UN Liner Code and bilateral agreements. Cargo reservation applies. Establishment of Ivorian flag carriers subject to Ivorian law. (Standstill)	For all auxiliary services, cross-border supply and the presence of natural persons have unbound restrictions. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)
Cuba	Unbound restrictions. Prohibition on foreign investment in Cuban flag carriers. (Standstill)	Public utility concessions or licensing may apply. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)
Dominican Republic	Unbound restrictions. (Standstill)	Numerous regulatory requirements apply, including residency. Additional licenses and bonding required for customs clearance services. (Standstill)	No offer regarding the availability of port services for international transport suppliers on non-discriminatory terms. (Standstill)
European Union	MFN exemption for UN Liner Code cargo-sharing. Restrictions also exist on inland water transport for international cargoes. (Standstill)	Does not cover freight forwarding, which is covered under the general schedule of the EU. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)
Iceland	Establishment of Icelandic flag carriers subject to unbound restrictions. (Standstill)	Cross-border access for storage and warehousing, customs clearance, and container station services has unbound restrictions. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)
India	MFN exemption for UN Liner Code cargo-sharing. Cargo reservations apply. (Standstill)	Unavailable.	Unavailable.

Annex 3
Highlights of GATS offers on maritime transport services for selected countries[1]

Country	International Shipping	Auxiliary Services[2]	Access to Port Facilities
Indonesia	Requirement for Indonesian general agent for foreign carriers. Limitation on foreign equity for Indonesian flag carriers, limited to joint venture. Other commercial presence is limited to shipping agent. Cargo reservations apply. MFN exemption for UN Liner Code cargo-sharing. (Standstill)	Commercial presence limited to joint venture. Restricts foreign provision of two auxiliary services. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)
Japan	No guarantee of national treatment. Preferential "private arrangements" permissible. (Standstill)	Storage and warehousing, customs clearance, and container station services have unbound restrictions. MFN exemption for freight forwarding based on reciprocity. (Standstill)	Port and harbor practices restrict foreign carriers' operations. (Standstill)
Korea	Discretion to restrict investment. Cargo preference system applies to certain commodities. Establishment of Korean flag carriers subject to unbound restrictions. (Standstill)	Investment regulations apply to maritime agency services, freight forwarding, and shipping brokerage services. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)
Mexico	MFN exemption for UN Liner Code cargo-sharing. Cargo reservation applies. Foreign equity restrictions. (Standstill)	Foreign equity participation may not exceed 49 percent. No offer on customs clearance. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)
New Zealand	Prior to June 1996, New Zealand proposed market access (investment) commitments for multimodal transport. (Standstill)	No limitations. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)
Nigeria	No limitations. (Standstill)	No limitations. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)

Annex 3

Highlights of GATS offers on maritime transport services for selected countries[1]

Country	International Shipping	Auxiliary Services[2]	Access to Port Facilities
Norway	No market access limitations on ships on the Norwegian International Register, or on other forms of commercial presence. Investment and other limitations apply to the Norwegian Ordinary Registry. (Standstill)	No limitations, except where technically infeasible. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)
Philippines	Cargo reservations apply. MFN exemption for UN Liner Code cargo-sharing.	Unavailable.	Unavailable.
Poland	Unbound restrictions for liner shipping; limitations on market access and national treatment apply. Establishment of Polish flag carriers subject to Polish law. (Standstill)	Cross-border access for cargo handling subject to unbound restrictions. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)
Romania	No limitations on market access; national treatment regarding cross-border supply subject to unbound restrictions. (Standstill)	Cross-border access subject to unbound restrictions; however, there are no limitations on maritime agency services or freight forwarding. For cargo handling and storage and warehousing, concessions may be necessary. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)
Switzerland	Prior to June 1996, Switzerland also proposed market access (investment) commitments for multimodal transport. Establishment of Swiss flag carriers: Swiss-control and ownership requirements. National treatment limitations apply for financial assistance/requirements. (Rollback)[4]	Cross-border access is unbound for technical reasons; there are no limitations on maritime agency services or freight forwarding. (Rollback)	Port services will be available for international transport suppliers on non-discriminatory terms. However, additional commitments on port services at seaports are technically infeasible. (Rollback)

Annex 3
Highlights of GATS offers on maritime transport services for selected countries[1]

Country	International Shipping	Auxiliary Services[2]	Access to Port Facilities
Slovania	Citizenship and registration requirements apply to vessels in Slovania. (Standstill)	For cargo handling and container station, concessions or licensing may apply. For maritime agency services, permits are required. (Standstill)	Port services will be available for international transport suppliers on non-discriminatory terms. (Standstill)

[1] The table summarizes 23 countries' conditional offers as of June 4, 1996. Certain nations withdrew their entire offers at the close of negotiations. Identification of standstill and rollback positions undertaken by USITC staff.
[2] Auxiliary services generally include cargo handling, storage and warehousing, customs clearance, maritime agency services, container station services, and freight forwarding.
[3] A standstill commitment indicates that current regulations will remain in place.
[4] A rollback commitment indicates that trade restrictions have been removed in parts or in whole.

Source: U.S. Department of State telegram, "WTO Maritime Negotiations: Demarche Request," message reference No. 123126, prepared by U.S. Department of State, Washington, DC, June 13, 1996; USTR official interview by USITC staff, Washington, DC, Feb. 4, 1997; and staff of USITC.

ANNEX 4

Highlights of GATS commitments on basic telecommunication services for selected countries

Annex 4
Highlights of GATS commitments in basic telecommunication services[1]

Country	Foreign Investment in All Service Providers and All Facilities Operators	Market Access for Foreign Provision of All Services and Operation of All Facilities	Foreign Access to Satellite Facilities for Provision of Satellite-Based Basic Telecommunication Services	Regulatory Principles
Antigua & Barbuda[2]	Will allow 100% shares in enhanced, cellular, and closed user groups in 1998. Will allow 100% shares in all services and facilities in 2012. (Unclear)[3]	Will allow closed user groups, cellular, and enhanced services in 1998. Mobile and satellite may be provided through arrangements with exclusive provider. All other services restricted to existing operators until 2012. (Unclear)	Will allow in 1998. MFN exemption to CARICOM members for terrestrial-based mobile services. (Unclear)[4]	Adopted no regulatory principles.
Argentina[5]	Will allow 100% shares in all services and facilities in 2000. (Standstill)	Will allow in 2000. (Rollback)	Will allow in 2000. MFN exemption for geostationary fixed satellite systems. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Australia[5]	Limited to 35% in Telstra, minority investment in Vodaphone, and undefined limits on individual shareholding in Optus. Foreign investment subject to screening, and will bind future telecommunication legislation. (Standstill)	Will allow in 1998, contingent on legislative approval. (Standstill)	Will allow in 1998. (Standstill)	Adopted reference paper on regulatory principles in entirety.
Austria[5]	Will allow 100% shares in all services and facilities in 1998. (Standstill)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Bangladesh[2]	Limited to 2 private wireline operators and 4 cellular operators. (Unclear)	Foreign service provision limited to terminal equipment rental, maintenance, connection, repair, and consulting services. MFN exception on accounting rates. (Unclear)	No commitment. (Unclear)[6]	May adopt reference paper in future.

Annex 4
Highlights of GATS commitments in basic telecommunication services[1]

Country	Foreign Investment in All Service Providers and All Facilities Operators	Market Access for Foreign Provision of All Services and Operation of All Facilities	Foreign Access to Satellite Facilities for Provision of Satellite-Based Basic Telecommunication Services	Regulatory Principles
Belgium[5]	Will allow 100% shares in all services and facilities in 1998. (Rollback)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Belize[2]	Limited to 25% in existing operator. (Unclear)	Will allow foreign provision of trunked radio services and teleconferencing in 2003, and enhanced services and paging in 2008 through a joint venture, but no commitment to extend national treatment. (Unclear)	No commitment. (Unclear)	Adopted no regulatory principles.
Bolivia[2]	Will allow 100% shares in some enhanced, cellular, and paging services in 1998. Will allow 100% shares in all services and facilities in 2001. (Unclear)	Will allow in 2001. (Unclear)	Foreign service provision limited to mobile satellite in 1998. Will allow all services in 2001. (Unclear)	Adopted some regulatory principles in reference paper.
Brazil[5]	Will allow 100% shares in closed user groups and enhanced services, and 49% in cellular and satellite-based service providers until 1999, thereafter 100%. (Standstill)	Foreign service provision limited to closed user groups, enhanced services, paging, and 2 cellular providers in 1998. Will bind future telecommunication legislation. (Rollback)	Will allow access to services and facilities in 1998, but suppliers of licensed services are required to use Brazilian space segment. MFN exception for DTH. (Standstill)	May adopt reference paper in future, based on legislative reform.
Brunei Darussalam[2]	Subject to licence. (Unclear)	Local service to be provided by government carrier for up to 10 years after privatization. Limited to two operators in international services until 2010. The government will review policy at that time. (Unclear)	(Unclear)	Adopted reference paper on regulatory principles in entirety.

Annex 4
Highlights of GATS commitments in basic telecommunication services[1]

Country	Foreign Investment in All Service Providers and All Facilities Operators	Market Access for Foreign Provision of All Services and Operation of All Facilities	Foreign Access to Satellite Facilities for Provision of Satellite-Based Basic Telecommunication Services	Regulatory Principles
Bulgaria[2]	Will allow 100% shares in closed user groups, paging, and Mobile data in 1998. Will allow 100% shares in all services and facilities in 2005. (Unclear)	Foreign service provision limited to closed user groups, some enhanced services, paging, and mobile data in 1998; cellular service and telegraph/telex in 2003; and all other services in 2005. (Unclear)	Will allow in 2005. (Unclear)	Adopted reference paper on regulatory principles in entirety.
Canada[5]	Limited to 46.7% in all services, except 100% in submarine cable landing in 1998. Will allow 100% shares in mobile and fixed satellite systems in 2000. (Standstill)	Will allow in 1998. (Rollback)	Will allow provision of mobile satellite services in 1998. Will allow provision of all services in 2000. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Chile[5]	Will allow 100% shares in all services and facilities in 1998, except local service. (Standstill)	Will allow in 1998. (Standstill)	Will allow in 1998, except local, DTH, DBS, and digital audio transmission. (Standstill)	Adopted reference paper on regulatory principles in entirety.
Colombia[5]	Limited to 70% shares in all services. (Rollback)	Will allow local, long distance, international, and closed user groups in 1998, and cellular in 2000, but subject to an economic needs test. (Rollback)	Will allow provision of geostationary satellite services in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Côte d'Ivoire	Will allow 100% shares in all services and facilities in 1998, except local, long-distance, and telex. (Standstill)	Foreign service provision limited to cellular, mobile data, and some enhanced services. (Rollback. Regressive for voice and telex)	Will allow provision of all satellite services except fixed voice and telex in 1998. (Rollback for non-voice. Regressive for voice)	Adopted reference paper on regulatory principles in entirety.
Czech Republic[5]	Will allow 100% shares in all services and facilities in 2001. (Rollback)	Will allow in 2001. (Rollback)	Will allow all services in 2001, except for DTH, DBS and digital audio transmission. (Rollback)	Adopted reference paper on regulatory principles in entirety.

Annex 4
Highlights of GATS commitments in basic telecommunication services[1]

Country	Foreign Investment in All Service Providers and All Facilities Operators	Market Access for Foreign Provision of All Services and Operation of All Facilities	Foreign Access to Satellite Facilities for Provision of Satellite-Based Basic Telecommunication Services	Regulatory Principles
Denmark[5]	Will allow 100% shares in all services and facilities in 1998. (Standstill)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Dominica[2]	Will allow 100% in closed user groups and some enhanced services in 1998. (Unclear)	Foreign service provision limited to closed user groups and some enhanced services in 1998. Foreign providers are required to use existing network facilities. (Unclear)	No commitment. (Unclear)	Adopted reference paper on regulatory principles in entirety.
Dominican Republic[5]	Will allow 100% shares in all services and facilities in 1998, but must establish a commercial presence. (Standstill)	Will allow in 1998, but no national treatment. (Standstill)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Ecuador	Will allow 100% shares in cellular services only in 1998. (Standstill. Regressive in all other sectors)	Will allow cellular services in 1998. (Regressive. Rollback for cellular)	No commitment. (Unclear)	Adopted no regulatory principles.
El Salvador[2]	Will allow 100% shares in all services and facilities in 1998. (Rollback)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Finland[5]	Will allow 100% shares in all services and facilities in 1998. (Standstill)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
France[5]	Will allow 100% shares in all services and facilities in 1998, except limited to 20% in radio-based networks and limited investment in France Telecom. (Rollback)	Will allow in 1998. (Rollback)	Foreign ownership limited to 20% in radio-based networks. (Rollback)	Adopted reference paper on regulatory principles in entirety.

Annex 4
Highlights of GATS commitments in basic telecommunication services[1]

Country	Foreign Investment in All Service Providers and All Facilities Operators	Market Access for Foreign Provision of All Services and Operation of All Facilities	Foreign Access to Satellite Facilities for Provision of Satellite-Based Basic Telecommunication Services	Regulatory Principles
Germany[5]	Will allow 100% shares in all services and facilities in 1998. (Standstill)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Ghana[2]	Limited to 2 service providers in 1998. (Unclear)	Foreign provision limited to closed user groups and some enhanced services through joint venture in 1998. (Unclear)	Will allow domestic fixed and global mobile satellite services through a joint venture in 1998. (Unclear)	Adopted reference paper on regulatory principles in entirety.
Greece[5]	Will allow 100% shares in all services and facilities in 2003. (Standstill)	Will allow in 2003. (Rollback)	Will allow in 2003. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Grenada[2]	Will allow 100% shares in some enhanced services and mobile and fixed satellite services through arrangements with incumbent operator in 1998. Will allow 100% shares in 2007. (Unclear)	Will allow in 2007. (Unclear)	Will allow in 2007. (Unclear)	Adopted reference paper on regulatory principles in entirety.
Guatemala[2]	Will allow 100% shares in all services and facilities in 1998. (Rollback)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Hong Kong[5]	Limited to current 4 providers in 1998. (Standstill)	Foreign service provision limited to resale, enhanced services, call-back, and closed user groups. Local wireline and wireless network services limited to current 4 providers in 1998. (Standstill)	Will allow provision of mobile satellite services and provision of external satellite circuits by a company or closed user group in 1998. Interconnection to public switched network in Hong Kong will not be permitted. (Unclear)	Adopted reference paper on regulatory principles in entirety.

Annex 4

Highlights of GATS commitments in basic telecommunication services[1]

Country	Foreign Investment in All Service Providers and All Facilities Operators	Market Access for Foreign Provision of All Services and Operation of All Facilities	Foreign Access to Satellite Facilities for Provision of Satellite-Based Basic Telecommunication Services	Regulatory Principles
Hungary[5]	Will allow 100% shares in all services and facilities in 2004, except limited to 75% in Matav and Antenna Hungaria. (Rollback)	Will allow foreign provision of international and long distance in 2003 and local in 2004. (Rollback)	Will allow in 2004. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Iceland[5]	Will allow 100% shares in all services and facilities in 1998. (Standstill)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
India[5]	Limited to 25% in local and long-distance in 1998, rather than existing 49% limit. (Regressive)	Licenses may be issued based on economic needs testing. MFN exemption on accounting rates. No commitment on international service. (Standstill)	No commitment. (Unclear)	Adopted some of the reference paper on regulatory principles.
Indonesia[2]	Limited to 35% in local services in 1998. (Unclear)	Foreign service provision of local service limited to 5 joint ventures, which will expire in 2011. Provision of international services is limited to a duopoly, and long-distance service is limited to PT Telkom, which will expire in 2005 and 2006 respectively. All policies will be reviewed after expiration. Mobile cellular and paging are subject to an economic needs test and must form a joint venture. (Unclear)	Will allow a duopoly for domestic and international services in 1998. (Unclear)	Adopted reference paper on regulatory principles in entirety.
Ireland[5]	Will allow 100% shares in all services and facilities in 2000. (Standstill)	Will allow in 2000. (Rollback)	Will allow in 2000. (Rollback)	Adopted reference paper on regulatory principles in entirety.

Annex 4
Highlights of GATS commitments in basic telecommunication services[1]

Country	Foreign Investment in All Service Providers and All Facilities Operators	Market Access for Foreign Provision of All Services and Operation of All Facilities	Foreign Access to Satellite Facilities for Provision of Satellite-Based Basic Telecommunication Services	Regulatory Principles
Israel[5]	Will allow 100% shares in enhanced services. Limited to 80% in cellular services and 74% in all other services in 1998. (Standstill)	Will allow foreign provision of closed user groups and cellular in 1998. Provision of international services limited to 3 current providers, and the provision of local and long distance is limited to the monopoly supplier, Bezeq. (Standstill)	Will allow in 2002. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Italy[5]	Will allow 100% shares in all services and facilities in 1998, with the exception of state-owned Stet. (Standstill)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Jamaica[2]	Will allow 100% shares in some enhanced services in 1998. Will allow 100% shares in all other services and facilities in 2013. (Unclear)	Will allow foreign provision of some enhanced services in 1998, and all other services in 2013. (Unclear)	Will allow in 2013. (Unclear)	Adopted reference paper on regulatory principles in entirety.
Japan[5]	Will allow 100% shares in all services and facilities in 1998, except limited to 20% in NTT and KDD. (Rollback)	Will allow in 1998. (Rollback)	Will allow in 1998. (Standstill)	Adopted reference paper on regulatory principles in entirety.
Korea[5]	Limited to 33% in most facilities-based providers and 49% in cellular until 2001; thereafter 49% and 100% respectively. Limited to 20% in Korea Telecom until 2001; thereafter, 33%. (Rollback)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.

Annex 4
Highlights of GATS commitments in basic telecommunication services[1]

Country	Foreign Investment in All Service Providers and All Facilities Operators	Market Access for Foreign Provision of All Services and Operation of All Facilities	Foreign Access to Satellite Facilities for Provision of Satellite-Based Basic Telecommunication Services	Regulatory Principles
Luxembourg[5]	Will allow 100% shares in all services and facilities in 1998. (Standstill)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Malaysia[2]	Limited to 30% in existing operators in 1998. (Unclear)	Will allow through existing service suppliers in 1998. (Unclear)	Will allow in 1998. (Unclear)	Adopted reference paper on regulatory principles in entirety.
Mauritius[5]	Will allow 100% shares in all services and facilities in 2004. (Rollback)	Will allow foreign provision of fax, paging, and private mobile radio in 1998 and all other services by 2004. (Rollback)	Will allow in 2004. (Rollback)	May adopt reference paper in future.
Mexico[5]	Limited to 49% in wireline services, but will allow 100% shares in cellular, fax, and private leased line services in 1998. (Standstill)	Will allow in 1998, with the exception of DTH, DBS, and digital audio transmission. (Standstill)	Requirement to use domestic infrastructure for the provision of domestic satellite services until 2002. (Standstill)	Adopted reference paper on regulatory principles in entirety.
Morocco[5]	No commitment. (Unclear)	Will allow domestic packet switched data, paging, mobile, PCS, and frame relaying services in 1998. Will allow point to point voice services in 2002, but no commitment extended to national treatment. (Unclear)	No commitment. (Unclear)	Adopted own set of regulatory principles.
Netherlands[5]	Will allow 100% shares in all services and facilities in 1998. (Standstill)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
New Zealand[5]	Will allow 100% shares in all services and facilities in 1998. (Standstill)	Will allow in 1998. (Standstill)	Will allow in 1998. (Standstill)	Adopted reference paper on regulatory principles in entirety.

Annex 4
Highlights of GATS commitments in basic telecommunication services[1]

Country	Foreign Investment in All Service Providers and All Facilities Operators	Market Access for Foreign Provision of All Services and Operation of All Facilities	Foreign Access to Satellite Facilities for Provision of Satellite-Based Basic Telecommunication Services	Regulatory Principles
Norway[5]	Will allow 100% shares in all services and facilities in 1998. (Rollback)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Pakistan[5]	No commitment for voice services. Will allow 100% shares in data, telex, facsimile, and video conferencing in 1998. Will allow 100% in all other services in 2004. (Unclear)	Will allow foreign provision of telex, data, facsimile, and video conferencing services in 1998. Will allow other services in 2004, but no commitment extended to national treatment. MFN exemption on accounting rates. (Unclear)	(Unclear)	Adopted own regulatory principles.
Papua New Guinea[2]	No commitment. (Unclear)	No commitment. (Unclear)	No commitment. (Unclear)	Adopted reference paper on regulatory principles in entirety.
Peru[5]	Will allow 100% shares in all services and facilities in 1999. (Standstill)	Will allow in 1999. (Rollback)	Will allow in 1999. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Philippines[5]	Limited to 40% in facilities-based services in 1998. (Standstill)	Will allow foreign provision of facilities-based services in 1998. No commitment on resale or closed user groups. Subject to an economics needs test. (Standstill)	No commitment. (Unclear)	Adopted some of the reference paper on regulatory principles.
Poland[5]	Will allow 100% shares in local wireline voice and data services in 2003, but limited to 49% for cellular, international, and long-distance services. (Standstill)	Will allow in 2003. (Unclear)	Will allow in 2003. (Rollback)	Adopted reference paper on regulatory principles in entirety.

Annex 4
Highlights of GATS commitments in basic telecommunication services[1]

Country	Foreign Investment in All Service Providers and All Facilities Operators	Market Access for Foreign Provision of All Services and Operation of All Facilities	Foreign Access to Satellite Facilities for Provision of Satellite-Based Basic Telecommunication Services	Regulatory Principles
Portugal[5]	Limited to 25% in all services and facilities in 1998 for non-EU nationals or companies. (Standstill)	Will allow in 2000. (Rollback)	Will allow in 2000, subject to the 25% investment restriction. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Romania[2]	Will allow 100% shares in closed user groups, paging, and some enhanced in 1998. Will allow 100% shares in all services in 2003. (Unclear)	Foreign service provision limited to closed user groups, paging, and telex in 1998. Will allow foreign provision of analog cellular in 2002 and all other services in 2003. (Unclear)	Will allow in 2003. (Unclear)	Adopted reference paper on regulatory principles in entirety.
Senegal[2]	Will allow 100% shares in most services in 2006, except cellular and mobile satellites. (Unclear)	Will allow in 2006. (Unclear)	No commitment. (Unclear)	Adopted reference paper on regulatory principles in entirety.
Singapore[5]	Limited to 74% in all services and facilities in 2000. (Rollback)	Will allow in 2000. (Rollback)	Will allow in 2000. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Slovak Republic[5]	Will allow 100% shares in closed user groups, cellular (excluding analog), and some enhanced services in 1998. Will allow 100% shares in all services in 2003. (Rollback)	Foreign service provision limited to closed user groups, cellular (excluding analog), and some enhanced services in 1998. Will allow all other services in 2003. (Rollback)	Will allow in 2003. (Rollback)	Adopted reference paper on regulatory principles in entirety.
South Africa[2]	Limited to 30% in 2004. (Rollback)	Will allow 2 providers for facilities-based and cellular providers in 2004. (Standstill)	Will allow 2 providers in 2004, subject to the 30% investment restriction. (Unclear)	Adopted reference paper on regulatory principles in entirety.
Spain[5]	Will allow 100% shares in all services and facilities in 1998, except investment limitations in Telefonica. (Rollback)	Will allow in Dec. 1, 1998. (Rollback)	Will allow in Dec. 1, 1998, subject to the 25% investment restriction. (Rollback)	Adopted reference paper on regulatory principles in entirety.

Annex 4
Highlights of GATS commitments in basic telecommunication services[1]

Country	Foreign Investment in All Service Providers and All Facilities Operators	Market Access for Foreign Provision of All Services and Operation of All Facilities	Foreign Access to Satellite Facilities for Provision of Satellite-Based Basic Telecommunication Services	Regulatory Principles
Sri Lanka[2]	Limited to 35% in international services in 2000. Must involve a joint venture. (Unclear)	Will allow limited number of licences for data, paging, and cellular services in 1998, but may be subject to an economic needs test. May allow duopoly for the provision of international services and wireless local loop in 2000. MFN exemption for accounting rates. (Unclear)	No commitment. (Unclear)	Adopted reference paper on regulatory principles in entirety.
Sweden[5]	Will allow 100% shares in all services and facilities in 1998. (Standstill)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Switzerland[5]	Will allow 100% shares in closed user groups and enhanced services in 1998, but may bind future legislation that would permit 100% shares for all services and facilities. (Standstill)	Will allow foreign provision of closed user groups and enhanced services in 1998. May bind future legislation that would allow full access to all services by 1998. (Standstill)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Thailand[5]	Limited to 20% in facilities-based services in 1998. (Standstill)	No commitment. May allow in 2006 contingent upon legislation. (Regressive)	No commitment. (Unclear)	May adopt reference paper in the future.
Trinidad & Tobago[2]	Will allow 100% shares in most services in 2010. (Unclear)	Will allow cellular, some enhanced services, and trunked radio services in 1998, and all other services in 2010. (Unclear)	Will allow in 2010. (Unclear)	Adopted reference paper on regulatory principles in entirety.
Tunisia[2]	Limited to 49% in local services in 2003, except 10% in Tunisie Télécom. (Rollback)	Will allow foreign provision of data in 1999, cellular in 2000, and local services in 2003. (Rollback)	No commitment. (Unclear)	Adopted no regulatory principles.

Annex 4
Highlights of GATS commitments in basic telecommunication services[1]

Country	Foreign Investment in All Service Providers and All Facilities Operators	Market Access for Foreign Provision of All Services and Operation of All Facilities	Foreign Access to Satellite Facilities for Provision of Satellite-Based Basic Telecommunication Services	Regulatory Principles
Turkey	Limited to 49% in some enhanced, closed user groups, and cellular services in 1998. (Rollback)	Will allow foreign provision of data, paging, and closed user groups in 1998. May allow provision of other services in 2006, contingent upon legislation. MFN exemption for accounting rates. (Rollback)	Will allow in 2006. (Rollback)	Adopted some of the reference paper on regulatory principles.
United Kingdom[5]	Will allow 100% shares in all services and facilities in 1998. (Standstill)	Will allow in 1998. (Rollback)	Will allow in 1998. (Rollback)	Adopted reference paper on regulatory principles in entirety.
United States[5]	Will allow 100% shares in all services and facilities in 1998. (Rollback)	Will allow in 1998. (Rollback)	Will allow in 1998. MFN exemption for DTH, DBS, and digital audio transmission. (Rollback)	Adopted reference paper on regulatory principles in entirety.
Venezuela[5]	Will allow 100% shares in all services and facilities in 2000. (Standstill)	Will allow in 2000. (Rollback)	Will allow in 2000. (Rollback)	Adopted reference paper on regulatory principles in entirety.

[1] Identification of standstill, rollback, and regressive positions undertaken by U.S. Department of State and USITC staff on the basis of all available information.
[2] New offer since April 30, 1996.
[3] A standstill commitment indicates that current regulations will remain in place.
[4] A rollback commitment indicates that trade restrictions have been removed in part or in whole.
[5] Offer improved since April 30, 1996.
[6] A regressive commitment indicates that new or more restrictive trade limitations have been imposed.

Source: Office of the U.S. Trade Representative, U.S. Department of State, and USITC staff.