U.S. Trade Shifts in Selected Industries: Services

Investigation No. 332-345

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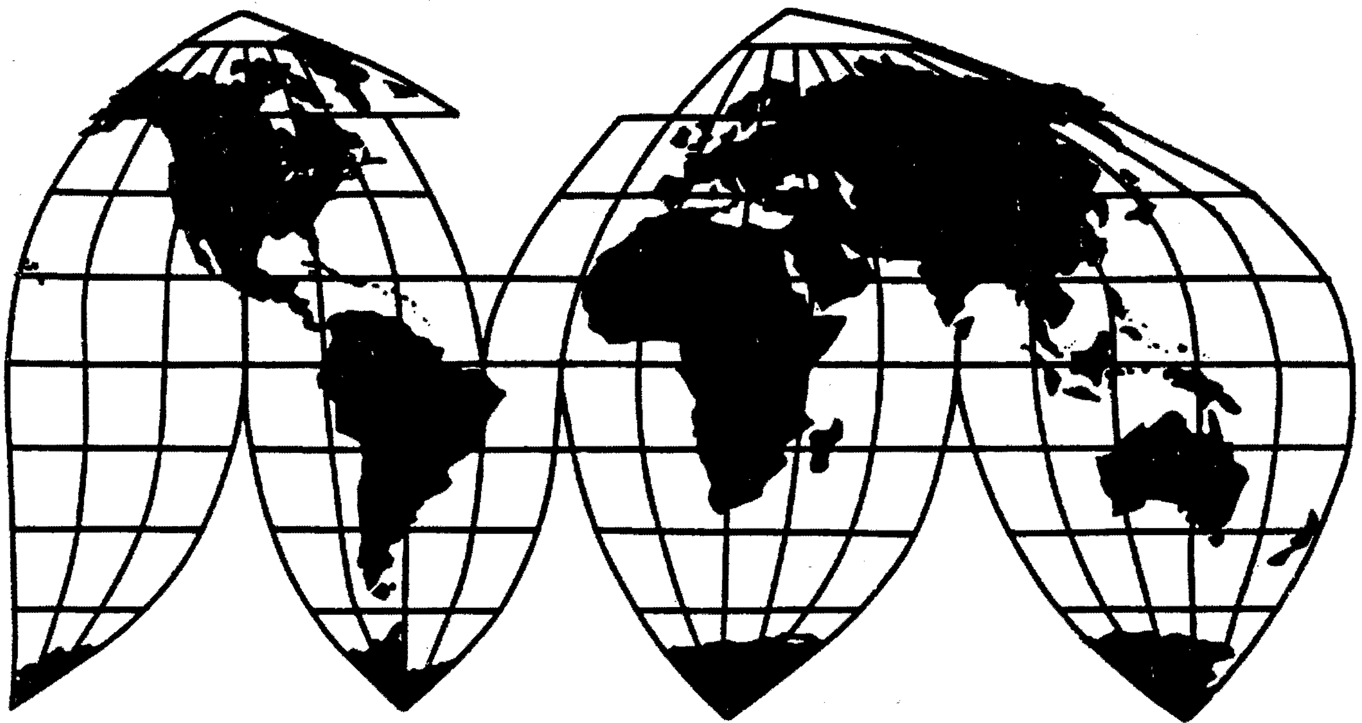

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PREFACE

On August 27, 1993, on its own motion and pursuant to section 332(b) of the Tariff Act of 1930 (19 U.S.C. 1332(b)), the U.S. International Trade Commission (USITC) instituted investigation No. 332-345, *Annual Reports on U.S. Trade Shifts in Selected Industries*, for the purpose of preparing annual trade shifts reports. The current report format was developed by the USITC in response to Congressional interest in establishing a systematic means of examining and reporting on the significance of major trade shifts, by product and with leading U.S. trading partners, in service, agricultural, and manufacturing sectors. A significant amount of the work contained in this recurring report reflects basic research that is required to maintain a proficient level of trade expertise. The Commission has found such expertise to be essential in its statutory investigations and in apprising its varied customer base of global industry trends, regional developments, and competitiveness issues.

On December 20, 1994, the Commission on its own motion expanded the scope of this report to include coverage of service industries. Under the expanded scope, the Commission publishes two reports annually, one entitled *U.S. Trade Shifts in Selected Industries: Merchandise* (September) and the second entitled *U.S. Trade Shifts in Selected Industries: Services* (May). Services trade is presented in a separate report in order to provide more comprehensive and timely coverage of U.S. services trade performance.

The current report begins with a statistical overview of U.S. trade in services and a discussion of key trends. Thereafter, the report presents industry-specific analyses that focus on trends in exports, imports, and trade balances during 1993-94. Industry-specific analyses also identify major trading partners during the subject period. The report concludes with a discussion of the World Trade Organization's General Agreement on Trade in Services (GATS), which entered into force on January 1, 1995.

Further analysis of the GATS may be found in the report *General Agreement on Trade in Services: Examination of Major Trading Partners' Schedules of Commitments* (USITC Publication 2940, Dec. 1995) and in the upcoming study *General Agreement on Trade in Services: Examination of South American Trading Partners' Schedules of Commitments* (forthcoming Dec. 1996).

The information and analysis in this report are for the purpose of this report only. Nothing in this report should be construed to indicate how the Commission would find in an investigation conducted under other statutory authority.

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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 industries as part of its mission. Trade monitoring is undertaken by the Office of Industries in conjunction with its responsibilities to provide advice and technical information on industry and trade issues.

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 may take place on a cross-border basis or through affiliates established abroad, data for both of these modes are presented to provide a comprehensive description of the international activities of U.S. service industries. The data presented are drawn from the most recent annual data available for U.S. trade in services, which is 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 1986-94, whereas comparable data pertaining to affiliate transactions are available for the period 1987-93 only.

Methodology and Organization

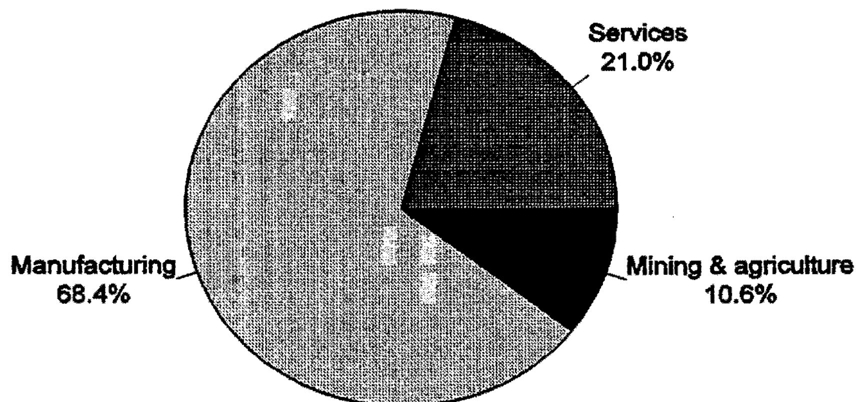
Chapter 2 of this report describes the nature of cross-border and affiliate trade in services and provides an overview of U.S. services trade by industry and by trading partner. The data presentations span the entire period for which there are comparable data. Chapter 3 examines services trade in greater detail by focusing upon the trade performance of selected service industries. Each industry section within chapter 3 describes how the particular service is traded and how recent trade performance relates to trends observed since 1989. Discussions of cross-border data contrast import and export performance in 1994 with trends evident during 1989-93. Discussions of affiliate transactions contrast 1993 performance with trends evident during 1989-92. Chapter 3 discussions conclude with assessments of the factors underlying the volume and direction of trade, and their implications for future trade performance. Assessments of the subject service industries are based upon USITC staff interviews with industry representatives and secondary sources, such as industry journals.

Chapter 4 of the report describes the General Agreement on Trade in Services (GATS). This chapter includes (1) a brief history of the World Trade Organization's services negotiations that culminated in the GATS, (2) a description of the various components of the actual agreement, (3) a summary of industry and government views of the agreement, and (4) a quantitative summary of the commitments made by the United States and its major trading

partners under the agreement.[1] Chapter 4 concludes with a discussion of the outlook for future negotiations and for overall liberalization of trade in services.[2]

U.S. merchandise trade is not presented in this report since, as noted in the *Preface*, it is the subject of a separate USITC report. However, to put U.S. services trade in perspective with merchandise trade, in 1994, cross-border services trade accounted for 21 percent of total U.S. trade volume (figure 1-1).[3] U.S. services trade recorded a $59.5 billion surplus in 1994, as contrasted with a U.S. merchandise deficit of $176 billion. Service industries accounted for

Figure 1-1
U.S. cross-border trade volume, by industries, 1994



Total trade volume = $1.5 trillion

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

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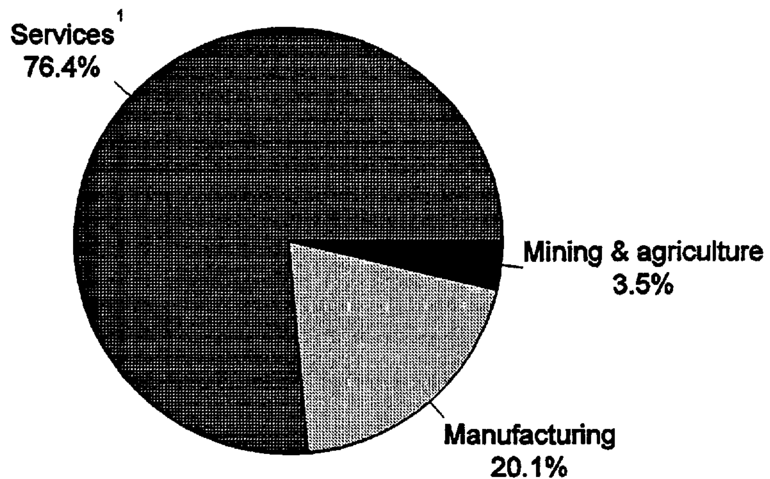
[1] The quantitative analysis summarizes the extent of bindings that guarantee full market access and national treatment, and the level of benchmarking found in the national schedules of the United States and key trading partners. Benchmarks identify commitments, whether full or partial, and, under the terms of the GATS, place limits on the ability of countries scheduling commitments to adopt more restrictive trade regimes in the future.

[2] For additional information on the GATS and schedules of commitments from major U.S. trading partners, see USITC, *General Agreement on Trade in Services: Examination of Major Trading Partners' Schedules of Commitments*, USITC publication 2940, 1995.

[3] Total trade volume equals the sum of imports and exports.

76 percent of U.S. gross domestic product (GDP) in 1993.[4] By comparison, manufacturing accounted for 20 percent of GDP, and mining and agriculture accounted for a combined share of 4 percent (figure 1-2). In 1994, services accounted for 78 percent of total private sector employment, as compared to manufacturing, which accounted for 20 percent, and mining and agriculture, which together accounted for only 3 percent (figure 1-3).[5]

Figure 1-2
U.S. private gross domestic product, by industries, 1993



Total private GDP = $5.6 trillion

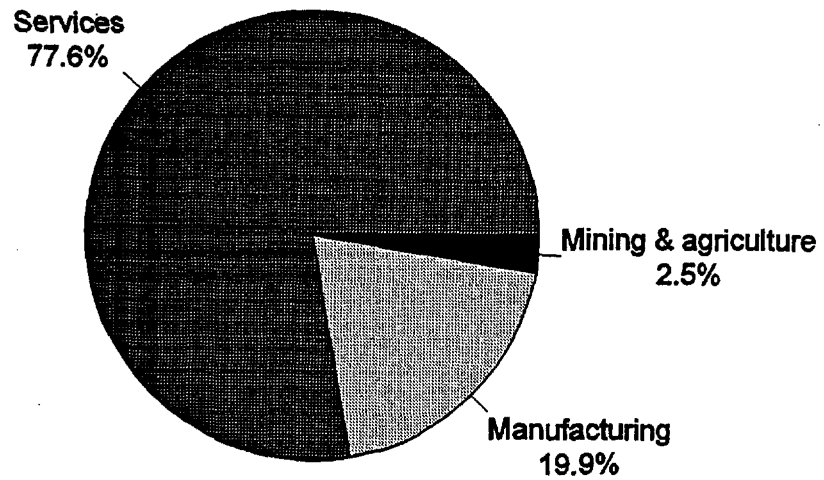
[1] Services comprise construction, transportation and public utilites, wholesale and retail trade, finance, insurance and real estate, and a collection of other services that include health, business, and legal services, among others.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Apr. 1995, p. 47.

[4] U.S. Department of Commerce (USDOC), Bureau of Economic Analysis (BEA), *Survey of Current Business*, Apr. 1995, p. 47.

[5] USDOC, BEA, *Survey of Current Business*, June 1994, p. 89.

Figure 1-3
U.S. private-sector employment, by industries, 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. Services Trade Performance

Nature of Trade in Services

Services are delivered to foreign markets in two principal ways: through cross-border transactions and through foreign-based affiliates.[1] Cross-border trade in services involves the provision of a service by sending people, information, or money across national borders. Cross-border transactions are reported as imports and exports in national balances of payments. Affiliate trade entails performing services for foreign entities from affiliates established abroad, often subsequent to some form of foreign direct investment. In this report, affiliate trade performance is discussed in terms of sales by affiliates to foreign persons. Affiliate transactions enter national balances of payments indirectly as investment income.

Cross-Border Trade

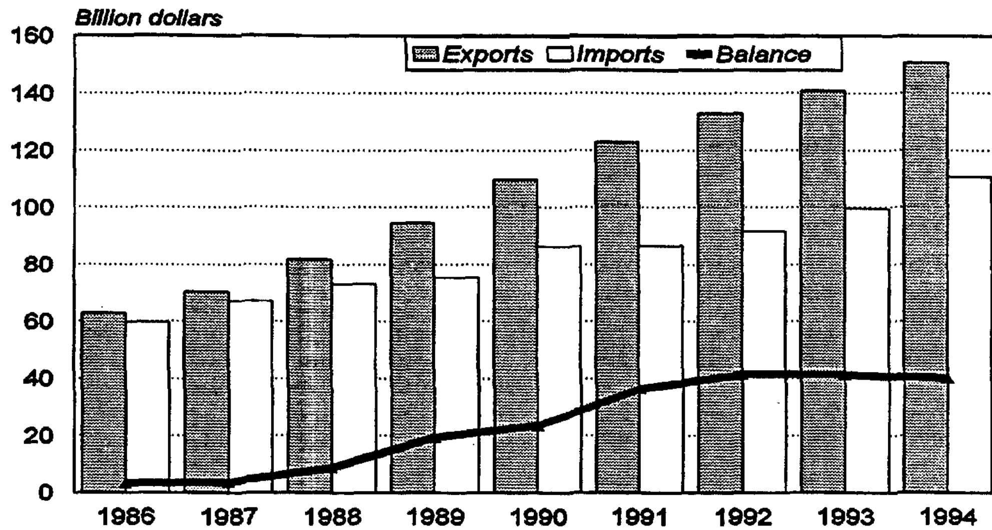
U.S. cross-border exports of services consistently have exceeded imports, creating a large surplus in the services trade balance (figure 2-1). As a result, services trade offsets a significant portion of the merchandise trade deficit (figure 2-2).

Part of cross-border trade reported in the balance of payments reflects U.S. firms' trade with affiliated foreigners, or intracorporate trade, as well as public sector transactions.[2] For analytic purposes, this report examines private-sector transactions among unaffiliated entities. 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. industry performance and often are subject to large perturbations due to such events as the Persian Gulf War. For these reasons, data on transactions with affiliated foreigners and public sector transactions typically are excluded from the presentation of services trade data. When these transactions are removed from the 1994 data, the services trade surplus declines from $60 billion to

[1] For the purposes of this discussion, foreign affiliates of U.S. firms are those at least 50-percent owned by U.S. firms. Similarly, U.S. affiliates of foreign firms are those that are at least 50-percent owned by their foreign parents.

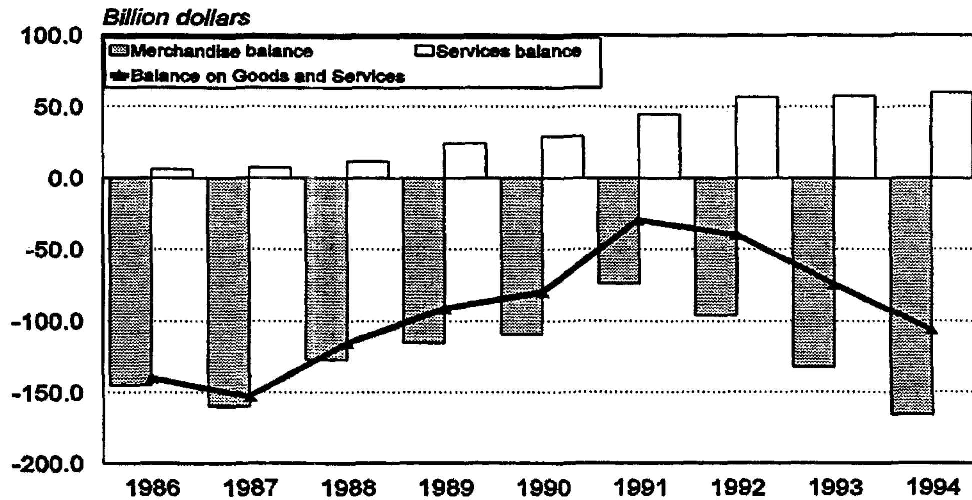
[2] Intra-corporate trade also is reflected in merchandise trade statistics. In 1993, intra-corporate trade accounted for 24 percent of U.S. merchandise exports and 18 percent of U.S. merchandise imports. USDOC, BEA, *Survey of Current Business*, June 1995, p. 39.

Figure 2-1
U.S. cross-border trade in services: Exports, imports, and balance, 1986-94



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

Figure 2-2
U.S. merchandise and services trade balances, 1986-94[1]



[1] Data are presented as they appear in the current account. Consequently, the services balance includes public sector trade and trade with affiliated foreigners.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business,* June 1995.

$40 billion (table 2-1). Throughout this report, services trade data represent private-sector transactions with unaffiliated foreigners, except when otherwise noted.

In 1994, cross-border service exports accounted for 27 percent of total cross-border U.S. exports of goods and services. Cross-border exports of services grew at an average annual rate of 12 percent during 1986-94, increasing from $63 billion in 1986 to $151 billion in 1994. In contrast, cross-border service imports accounted for 18 percent of total U.S. imports of goods and services in 1994. Service imports expanded at a slightly slower pace, growing annually by 8 percent on average, from $61 billion in 1986 to $110 billion in 1994.

Table 2-1
Derivation of U.S. private-sector cross-border services trade balance with unaffiliated foreigners, 1986-94

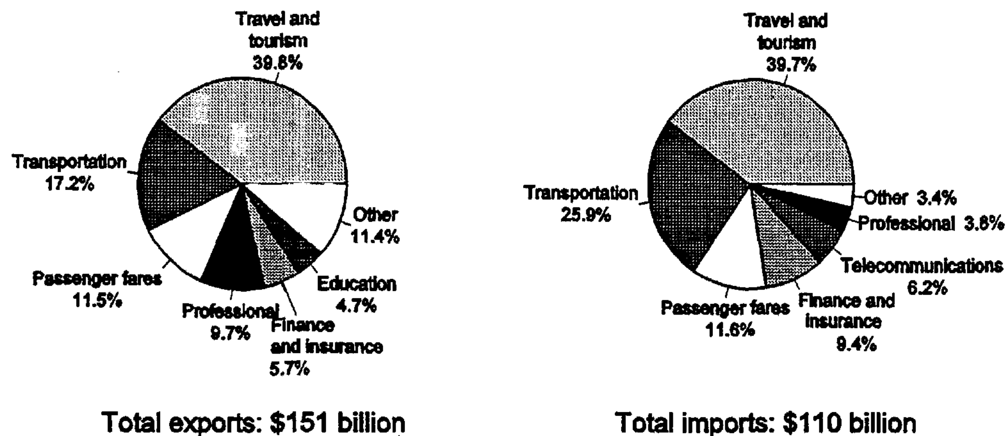
	1986	1987	1988	1989	1990	1991	1992	1993	1994
	Million dollars								
Exports	86,523	98,539	111,126	127,387	147,819	164,278	178,617	187,755	198,716
Exports to affiliated foreigners	(14,559)	(16,391)	(19,069)	(23,257)	(26,872)	(28,659)	(32,313)	(32,286)	(34,843)
Public-sector exports	(9,144)	(11,632)	(9,948)	(9,151)	(10,600)	(11,825)	(12,554)	(13,549)	(13,298)
Private-sector exports to unaffiliated foreigners	62,820	70,516	82,109	94,979	110,347	123,794	133,750	141,920	150,575
Imports	(80,992)	(91,678)	(99,491)	(103,535)	(118,783)	(119,614)	(121,991)	(129,979)	(138,829)
Imports from affiliated foreigners	4,832	6,666	7,469	9,614	11,324	12,687	13,070	14,068	15,454
Public-sector imports	15,056	16,843	17,525	17,184	19,450	18,525	16,136	14,533	12,927
Private-sector imports from unaffiliated foreigners	(61,104)	(68,169)	(74,497)	(76,737)	(88,009)	(88,402)	(92,785)	(101,378)	(110,448)
Private-sector trade balance with unaffiliated foreigners	1,716	2,347	7,612	18,242	22,338	35,392	40,965	40,542	40,127

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business,* June 1995, p. 85, and Sept. 1995, p. 76.

Cross-Border Trade by Industry

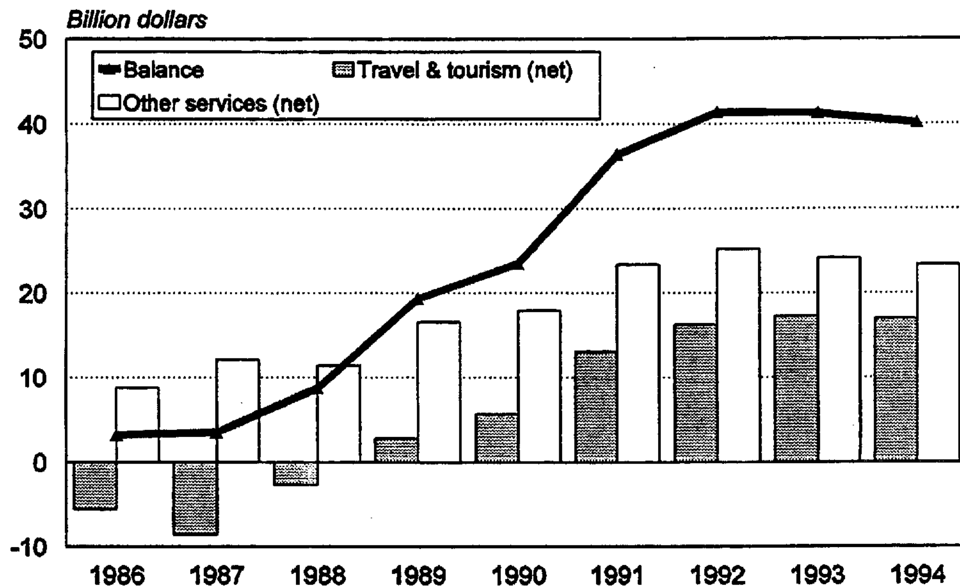
In terms of cross-border trade, the largest U.S. export industries are travel and tourism, including all travel expenses except air fares; transportation, including freight and port fees; passenger fares; professional services; financial services, including insurance; and education (figure 2-3). The largest import industries are travel and tourism, transportation, passenger fares, financial services, telecommunications, and professional services, with other service industries accounting for less than 5 percent of the total (figure 2-3). In 1994, surpluses were registered for most service industries, with the surplus in travel and tourism accounting for 42 percent of the overall surplus. While travel and tourism trade clearly has contributed enormously to the services trade surplus in recent years, historical patterns show that tourism is influenced strongly by currency values and that the U.S. travel and tourism account recorded a deficit as recently as 1988 (figure 2-4). Few service industries recorded a cross-border deficit in 1994. Among these were freight transportation (mostly marine), insurance (premiums less claims), and telecommunications.

Figure 2-3
U.S. cross-border services exports and imports, by industries, 1994



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

Figure 2-4
Composition of U.S. cross-border services trade balance, 1986-94



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

Cross-Border Trade by Trading Partner

The European Union[3] is the United States' largest trading partner with respect to cross-border services trade. In 1994, the European Union accounted for 25 percent of cross-border exports and 32 percent of cross-border imports. Japan is the second largest trading partner, accounting for 16 percent of exports and 10 percent of imports, followed by Canada, with 9 percent of both exports and imports (figure 2-5).

Overall, the services trade balance with these major trading partners was positive during 1989-94. However, U.S. imports of services increased at a considerably faster rate than U.S. exports during 1992-94. This reflects in part faster growth in the U.S. economy as compared to Europe and Japan, and a correspondingly greater increase in demand by U.S. firms for foreign services.[4]

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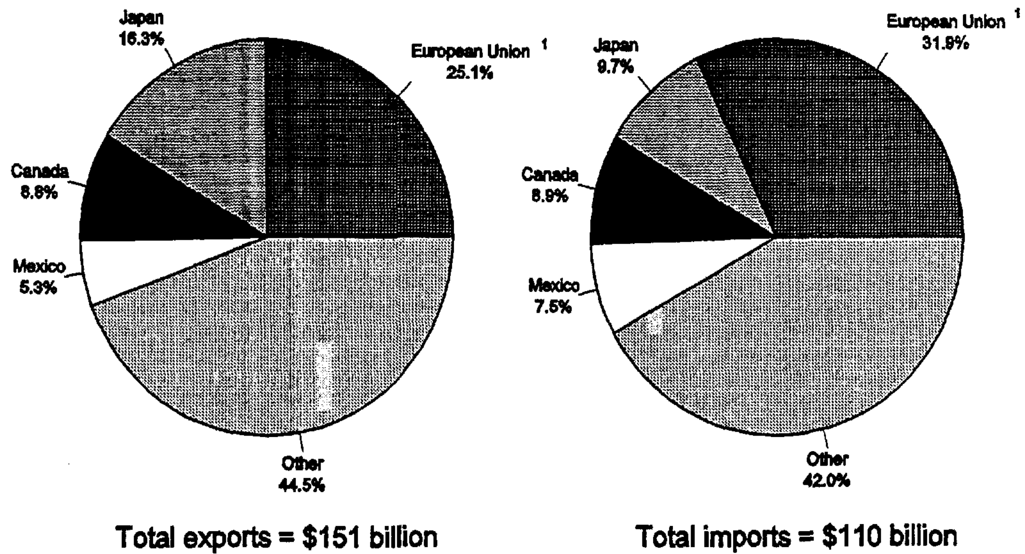
[3] Data exclude transactions with Austria, Sweden, and Finland, which formally acceded to the European Union on Jan. 1, 1995.

[4] During the period 1992-94, U.S. GDP grew by an average annual rate of 3.5 percent, as compared to rates of 1.9 percent in the United Kingdom, 0.2 percent in Germany, 0.8 percent in France, and 0.7 percent in Japan. International Monetary Fund, *International Financial Statistics Yearbook 1995*, p. 163.

Figure 2-5
U.S. cross-border services exports and imports, by selected trading partners, 1994



[1] 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,* Sept. 1995.

Affiliate Transactions

Certain types of services naturally lend themselves to affiliate transactions. For example, many professional services are provided through affiliates since these types of services generally require frequent or continual contact between service providers and customers. In 1993, the most recent year for which affiliate sales data are available, U.S.-owned affiliates' sales (exports) rose by only 2 percent, the smallest increase since 1984. Continued low levels of economic growth in Europe appeared to account for the relatively slow sales growth in 1993 as compared to the period 1987-92, when exports by foreign-based affiliates of U.S. companies grew at an average annual rate of 14 percent. Sales to U.S. nationals by U.S.-based affiliates of foreign firms (imports) increased by 10 percent in 1993, which represented a decline from 15-percent average annual growth observed during 1987-92.

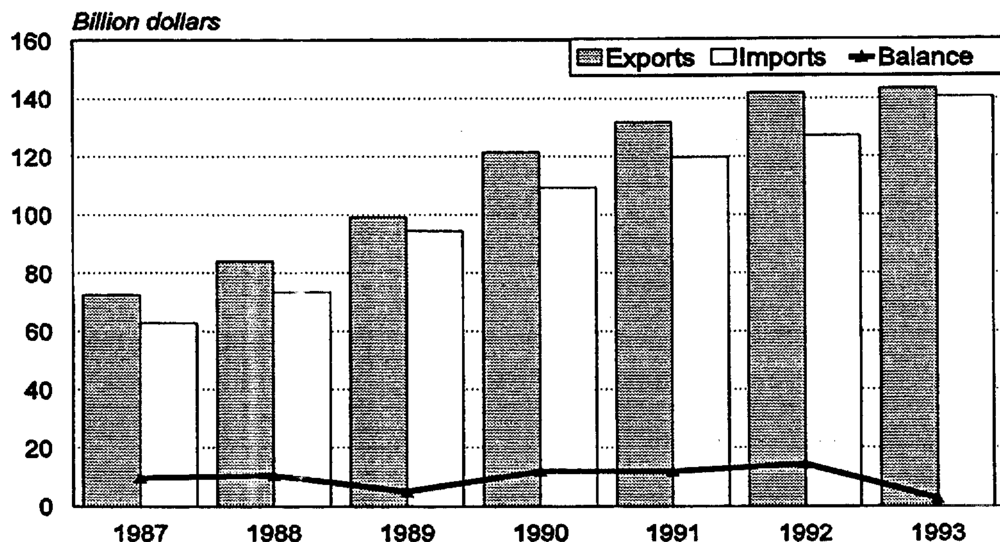
Since imports have been growing more quickly than exports, the U.S. surplus in affiliate trade in services declined from $9 billion in 1987 to $3 billion in 1993 (figure 2-6).

Affiliate Transactions by Industry

In terms of affiliate exports, insurance represented the largest industry with 19 percent of sales, followed by wholesale trade with 11 percent. Official trade data on nonbank financial services, which reflect fees and commissions from commodities and stock transactions, amounted to 9 percent of all reported affiliate exports (figure 2-7). However, exports of nonbank financial services were underreported in official trade statistics to avoid disclosing data on individual U.S. organizations' operations in Latin America and Canada.[5]

Insurance accounts for 36 percent of imports from U.S.-based affiliates, or $51 billion, reflecting the large presence of foreign insurance companies in the U.S. market.[6] A number of industries recorded trade deficits in affiliate transactions, most notably insurance, hotels/lodging, and motion pictures. These deficits principally appear because foreign

Figure 2-6
Affiliate service transactions: U.S. exports, imports, and trade balance, 1987-93



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

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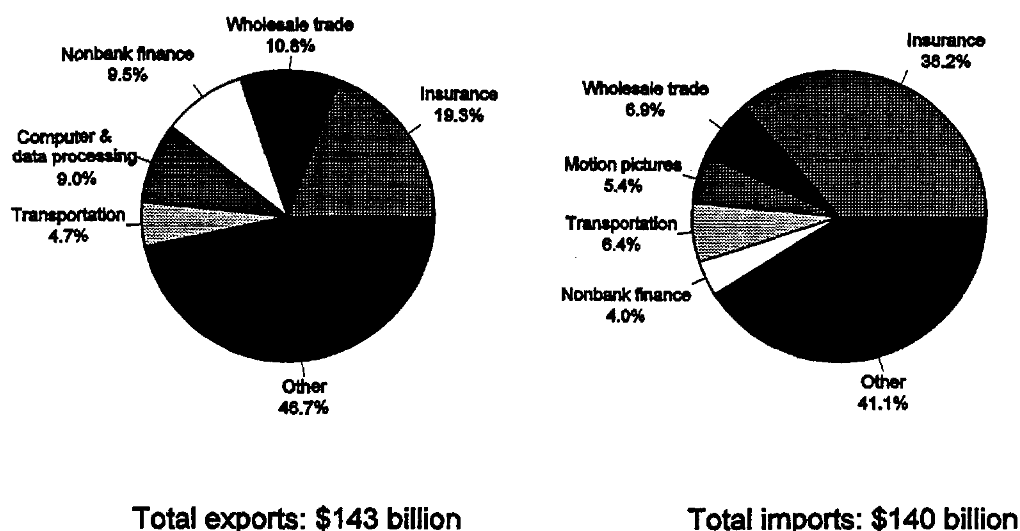
[5] USDOC, BEA, *Survey of Current Business,* Sept. 1995, pp. 104-105.

[6] Over 10 percent of the annual premiums in the $600 billion U.S. insurance market goes to affiliates or branches of non-U.S. insurance companies.

Figure 2-7
Affiliate service transactions: U.S. exports and imports, by industries, 1993



Total exports: $143 billion **Total imports: $140 billion**

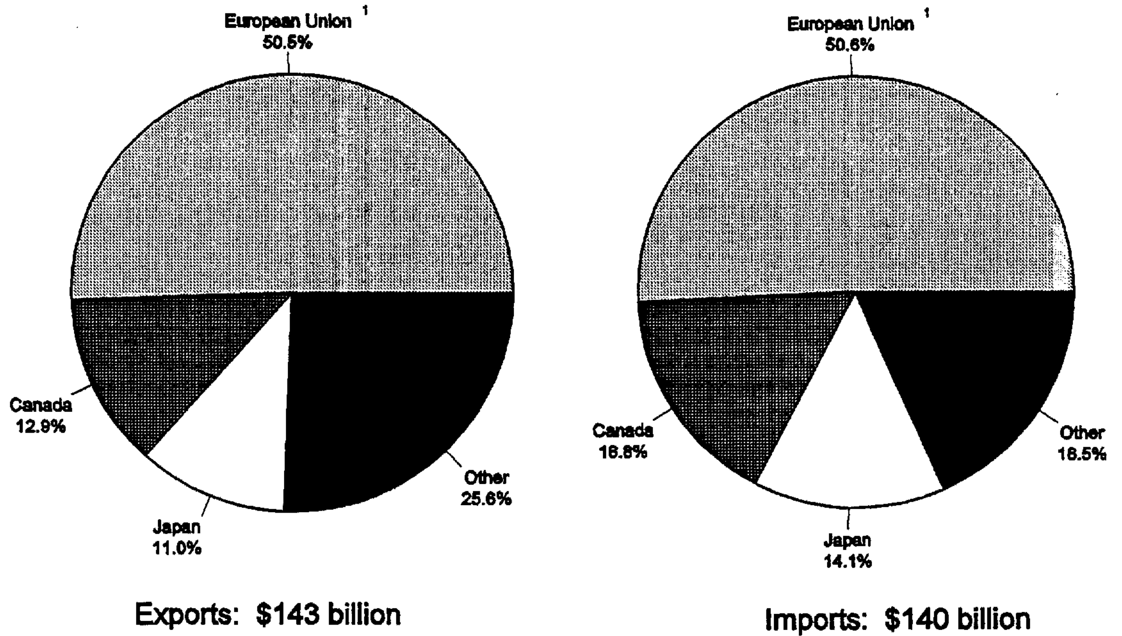
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1995.

investment in these industries within the United States is greater than U.S. investment in these industries abroad.

Affiliate Transactions by Trading Partner

The majority of U.S. affiliate trade takes place with the European Union and Canada, reflecting the level of direct investment in and by these regions. The European Union accounted for over half of U.S. affiliate exports in 1993, with the United Kingdom holding the largest share. Canada and Japan accounted for 13 percent and 11 percent, respectively (figure 2-8). On the import side, significant affiliate trade partners again included the European Union (51 percent of the total), Canada (17 percent), and Japan (14 percent). The United States maintains an affiliate trade surplus with most trading partners. However, deficits are recorded with Japan and Mexico, most likely due to the relatively small level of direct investment by U.S. firms in these countries.

Figure 2-8
Affiliate service transactions: U.S. exports and imports, by selected trading partners, 1993



[1] 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*, Sept. 1995.

CHAPTER 3
Industry Discussions

This chapter provides industry-specific discussions on international trade in services. Each discussion includes a description of how services are traded within the industry, an examination of cross-border trade during 1989-94 and affiliate transactions during 1989-93, an assessment of the factors that have determined the volume and direction of trade, and a presentation of the implications of recent trends for future services trade.

Distribution Services

This section of the report discusses the two predominant components of the distribution industry: wholesale trade and retail trade. Trade in franchising services, sometimes considered to be a third component of distribution services, is addressed under intellectual-property-related services in this report.

Wholesale Trade Services

Introduction

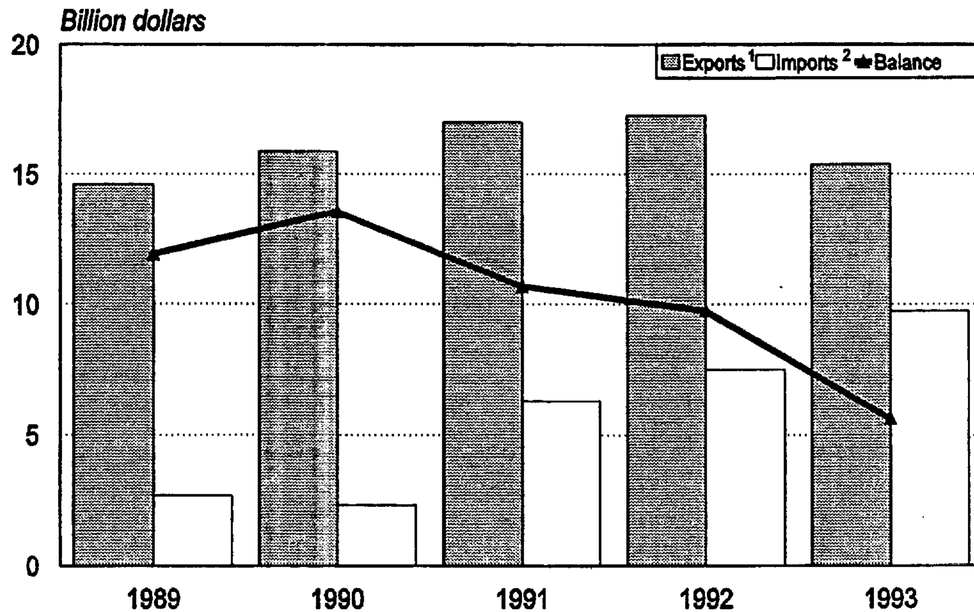
Wholesalers take title to products supplied by others and subsequently resell them to other entities, such as retailers. In addition to selling, wholesalers often provide services such as maintenance of inventories; extension of credit; and redistribution, assembly, sorting, grading, storage, delivery, and promotion of goods. International trade in wholesaling principally occurs through majority-owned, foreign-based affiliates. Wholesale trade services represent the largest component of distribution services as well as a significant portion of total U.S. sales through foreign affiliates.

Recent Trends in Affiliate Transactions, 1989-93

Wholesale trade conducted by foreign affiliates of U.S. firms (U.S. exports) grew steadily during 1989-92 at an average annual rate of 6.7 percent but declined by 10.8 percent to $15.4 billion in 1993 (figure 3-1). The decline in U.S. wholesale exports is significant, given that U.S. wholesale exports represented about 11 percent of all U.S. sales through majority-owned foreign affiliates.[1] In the same year, wholesale trade conducted by U.S.-based affiliates of foreign firms (U.S. imports) rose 30.4 percent to $9.8 billion from $7.5 billion in 1992. U.S.-based, foreign-owned wholesalers increased in number as well as sales, benefitting from higher economic growth in the United States compared with that of its

[1] USDOC, BEA, *Survey of Current Business*, Sept. 1995, p. 104.

Figure 3-1
Wholesale trade service sales by majority-owned affiliates: U.S. exports, imports, and trade balance, 1989-93



[1] Exports comprise sales to foreign persons by foreign-based, majority-owned affiliates of U.S. firms.
[2] Imports comprise sales to U.S. persons by U.S. -based affiliates of foreign firms. Import data prior to 1992 are understated because data were unavailable for countries where such information would disclose the operations of individual companies.

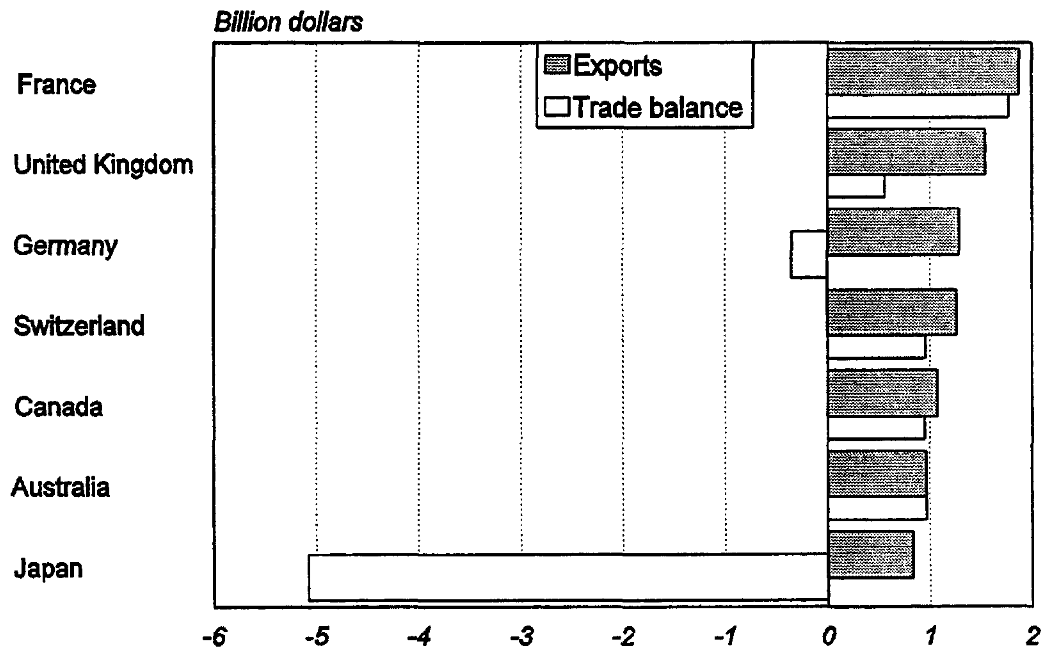
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1992, Sept. 1994, and Sept. 1995.

major trading partners. The resulting wholesale trade surplus of $5.6 billion in 1993 was smaller by $4.1 billion, or 42 percent, than the $9.8 billion surplus recorded in 1992.[2]

In 1993, five principal markets contributed most significantly to the U.S. surplus in wholesale trade services (figure 3-2). Trade surpluses amounted to $1.8 billion with France, $971 million with Canada, $960 million with Switzerland, $951 million with Australia, and $565 million with the United Kingdom. Taken together, these countries accounted for 93 percent of the wholesale trade surplus. Substantial direct investment through wholesale affiliates in France by U.S. firms as contrasted with comparatively small reciprocal investment in the United States by French firms accounts for the large U.S. trade surplus with that country. In France, manufacturers tend to subcontract sales activities and retailers

[2] The average annual growth rate for wholesale imports cannot be calculated reliably because import data prior to 1992 did not include data for countries where such data would disclose the operations of individual companies.

Figure 3-2
Wholesale trade service sales by majority-owned affiliates: U.S. exports and trade balance, by major trading partners, 1993



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

tend to subcontract buying, which results in greater opportunities for wholesalers in France relative to other European markets.[3]

In contrast, substantial and growing deficits characterized wholesale trade services with Japan, which accounted for a deficit of $5.1 billion in 1993, principally the result of automotive product exports to the United States. Wholesale trade deficits with Japan are largely derived from the marked imbalance in direct investment in U.S. affiliates by Japanese firms compared with that by U.S. firms in Japanese affiliates. Multilevel, Japanese-owned distribution networks link much of the strategic relationships between suppliers and retailers or other wholesalers in Japan. Wholesale trade with Germany also generated a deficit of $348 million in 1993, contrasting with an $81 million surplus in the previous year, as the frenetic pace of development in eastern Germany subsided.

[3] Commission of the European Communities, ch. on distribution, *Panorama of EU Industry 94* (Luxembourg: Commission of the European Communities, 1994), p. 20-3.

Assessment and Outlook

In recent years, faster economic growth in the United States relative to its major trading partners spurred increases in direct investment and sales by U.S.-based affiliates of foreign firms. As a result, the U.S. wholesale trade services surplus declined. In the future, several factors may lead to a reversal of this pattern, whereby foreign affiliates of U.S. firms may increase sales of wholesale services in major and emerging markets. Greater integration of markets and harmonization of technical standards throughout the European Union ultimately are expected to result in more substantial sales by large, integrated wholesalers,[4] including certain U.S.-owned affiliates, equipped to function in a single-European-market environment. Centralization of distribution in multinational manufacturing industries such as vehicles and electronic devices is expected to result in savings on inventory costs and faster deliveries. Concentrations of wholesalers through alliances, mergers, and acquisitions can be expected to provide more specialized technical knowledge and supply-chain-management services that employ sophisticated communications networks for information and data interchange.[5] Foreign-based wholesale service affiliates of U.S. firms should be well-equipped to function in the emerging, nontraditional wholesale environments.[6]

It is anticipated that, ultimately, investment restrictions abroad will be liberalized as a result of the implementation of the North American Free-Trade Agreement (NAFTA) and future rounds of negotiations under the auspices of the GATS. In part, such liberalization is expected to stimulate U.S. investment in wholesale trade services in foreign markets, such as Europe and possibly China.[7] Such expansion abroad could offset the effects of increasingly intense competition in the U.S. market due to the proliferation of new distribution systems and the declining influence of traditional wholesalers.

Retail Trade Services

Introduction

Retailers sell goods mostly to individual consumers and households, although certain retailers also may sell to businesses. Retail establishments are differentiated by kind of business according to the principal lines of commodities sold or the designation by which the establishment is known in the industry, such as department store or drug store. International trade in retail services, as with wholesale services, principally occurs through majority-owned, foreign-based affiliates.

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[4] Commission of the European Communities, *Panorama of EU Industry 94*, p. 20-9.
[5] Ibid.
[6] USDOC, International Trade Administration, *U.S. Industrial Outlook 1994* (Washington, DC: GPO, 1994), p. 38-4.
[7] China is negotiating membership in the World Trade Organization (WTO).

Recent Trends in Affiliate Transactions, 1989-93

U.S. exports of retail trade services by foreign-based affiliates of U.S. firms increased at an average annual rate of 23 percent during 1989-92, from $386 million to $722 million, but fell slightly to $720 million in 1993 (figure 3-3). Retail service exports in 1993 represented 0.5 percent of U.S. majority-owned foreign affiliate sales in all industries.

During 1989-92, U.S. imports of retail trade services appear to have grown irregularly, first by declining 17 percent in 1990,[8] before resuming growth averaging 19 percent per annum during 1990-93, to reach $1.1 billion in 1993. Accelerated growth in imports during 1991-93 reversed the decline in the deficit in retail trade services evidenced during 1989-91. The $370 million deficit in 1993 approximates the $389 million deficit recorded in 1989 and exceeds by more than three times the $103 million deficit in 1991.

Assessment and Outlook

The U.S. deficit in retail trade services reflects significant foreign direct investment in the large, relatively homogeneous, and highly developed U.S. retail sector. Direct investment in U.S. retail establishments by foreign parent firms increased 8 percent in 1993, accompanied by increases in the number of U.S.-based, foreign-owned affiliates and employment by such affiliates.[9] In 1992, European parent firms held almost two-thirds of the assets of all U.S.-based, foreign-owned retail establishments.[10] In recent years, investments in the United States by J. Sainsbury and Marks & Spencer of the United Kingdom; Makro of the Netherlands; IKEA of Sweden; and Carrefour of France typify significant retail expansion by European parent firms in the U.S. market. Certain sectors of the U.S. retail market, under pressure from domestic competition and economic conditions as well as speculative corporate acquisition activity in the mid- to late-1980s, became attractive investment prospects for foreign firms. An example is the Japanese Ito-Yokado Group Holding Company's purchase in 1990 of The Southland Corporation, which owns and operates 7-Eleven convenience stores. The Japanese investor group included former 7-Eleven franchisees in Japan, which subsequently have introduced their approaches, systems, and operations to reorganize the chain of convenience stores in the United States.[11]

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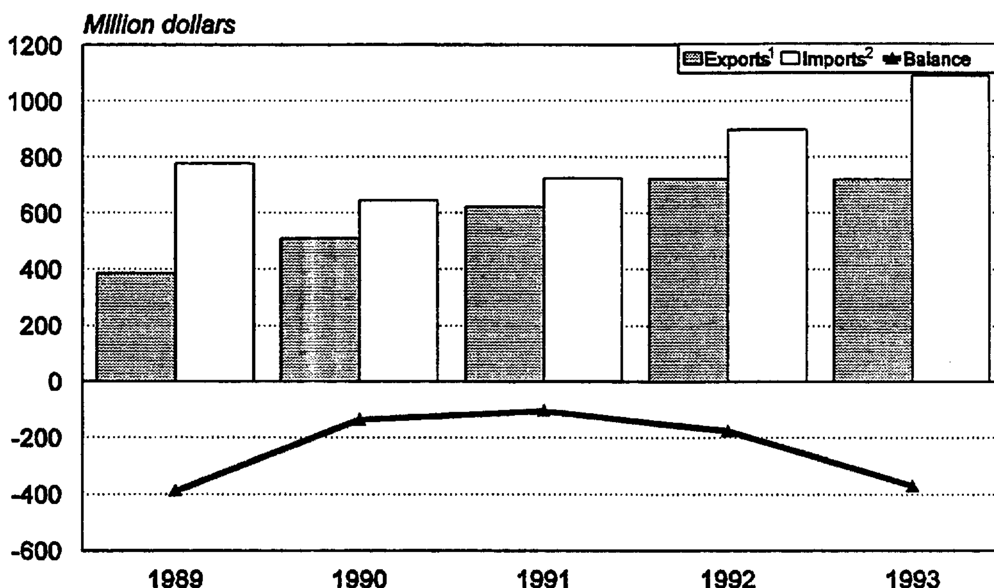
[8] Data on imports of retail services for 1990 are estimated by USITC staff based upon limited available data from the Bureau of Economic Analysis.

[9] USDOC, BEA, *Foreign Direct Investment in the United States*, preliminary 1993 estimates, Table J-2.

[10] USDOC, BEA, *Foreign Direct Investment in the United States*, 1992 Benchmark Survey, preliminary results, Table N-4.

[11] Leigh Sparks, "Reciprocal Retail Internationalisation: The Southland Corporation, Ito-Yokado and 7-Eleven Convenience Stores," *The Service Industries Journal*, vol. 15, No. 4, Oct. 1995, pp. 56-96.

Figure 3-3
Retail trade service sales by majority-owned affiliates: U.S. exports, imports, and trade balance, 1989-93



[1] Exports comprise sales to foreign persons by foreign-based, majority-owned affiliates of U.S. firms.
[2] Imports comprise sales to U.S. persons by U.S. -based affiliates of foreign firms. Import data for 1990 are estimates by USITC staff based upon limited available data from Bureau of Economic Analysis.

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

During 1989-93, U.S. retailers expanded abroad significantly through direct investment, although to a lesser extent than foreign retailers in the United States. Examples of U.S. retailers investing abroad include Wal-Mart, Kmart, the Gap, Toys R Us, Home Depot, Price-COSTCO, and J.C. Penney. Official statistical information on sales in principal foreign markets by majority-owned, foreign-based retail affiliates of U.S. parent firms is unavailable. Nevertheless, the range of foreign markets receiving recent direct investment from U.S. retailers is broad, according to industry and company information. In Canada, markets throughout Western and Eastern Europe, the Asia-Pacific region, and Latin America, direct investment by U.S. parent firms is increasing. For example, Kmart became the first nonindigenous retailer to invest substantially in the Czech Republic and Slovakia by bidding successfully for and renovating formerly state-owned department stores.[12]

Direct investment activity abroad by U.S. retailers continued into 1994, dependent upon market opportunities or economic conditions. In January 1994, Wal-Mart purchased 120 of

[12] Tomas Drtina, "The Internationalisation of Retailing in the Czech and Slovak Republics," *The Service Industries Journal,* vol. 15, No. 4, Oct. 1995, p. 198.

142 Canadian Woolco stores from Woolworth Corp. Industry sources indicated that Canadian consumers' previous favorable experiences with U.S. retail establishments while visiting in the United States may accelerate demand for similar retail stores in Canada. Wal-Mart was said to benefit by purchasing existing store locations and avoiding complex negotiations in Canada over placement and size of its stores.[13] In contrast with Canada, the economic climate for direct retail trade investment in Mexico worsened in 1994 and continued to be volatile through 1995 and into 1996, despite the relaxation of certain restrictions on investment by U.S. firms in Mexico with the implementation of the NAFTA. High inflation and unemployment, political unrest, and the devaluation of the peso in Mexico in late 1994 resulted in several U.S.-parent retail firms cancelling or postponing expansion into that country.

Reduced sales volume by foreign affiliates of U.S. firms in 1993 is expected to be temporary. The growth in sales and profitability generated by certain foreign-based retail affiliates has in numerous instances exceeded that in U.S. markets where competition may be more intense or where demand for particular retail offerings may have peaked. Propelled by technological innovations in electronic and telecommunications information and transportation services, certain large, progressive U.S.-parent retail organizations are expected to further improve management of customer information and reduce operating costs. These technological innovations are spurring retailers to expand selectively into foreign markets with high disposable income, improved infrastructures, and/or relaxed restrictions on the extent and nature of foreign investment. Certain markets with improved prospects of interest to U.S. retailers for the long term include Japan, as it emerges from its longest recession since World War II, Europe, and North and South America. Although China has vast market potential, most foreign investment in Chinese retailing is likely to be in forms other than majority-ownership for the foreseeable future. U.S. industry interests are advancing in China, however, as high-level government and industry delegations are exploring opportunities for future cooperation. A leading U.S. retailer reportedly is scheduled to open stores in China later in 1996. Meanwhile, the U.S. market, with its high per-capita income and low inflation, continues to attract significant investment from foreign companies able to define new market niches.

Education Services

Introduction

Education services principally include formal academic instruction in primary, secondary, and higher education institutions such as colleges and universities. Education services also include instruction in correspondence schools, vocational schools, language schools, special education schools, and libraries. The predominant form of trade consists of study abroad by

[13] Alan G. Hallsworth, Ken G. Jones, and Russell Muncaster, "The Planning Implications of New Retail Format Introductions in Canada and Britain," *The Services Industries Journal*, vol. 15, No. 4, Oct. 1995, pp. 148-163.

college and university students. Such study accounts for approximately 90 percent of trade in education services.[14]

Study abroad by college and university students is recorded as cross-border trade in education services.[15] U.S. exports include the estimated expenditures for tuition and living expenses by foreign residents enrolled in U.S. colleges and universities.[16] Education imports consist of estimated tuition and living expenses of U.S. residents who study abroad.[17]

Recent Trends in Cross-Border Trade, 1989-94

In 1994,[18] U.S. exports of education services totaled $7.1 billion, or approximately 5 percent of total cross-border service exports, while imports of education services totaled $791 million, accounting for approximately 1 percent of total cross-border service imports (figure 3-4).[19] The U.S. trade surplus in education services was $6.3 billion, accounting for fully 16 percent of the total services trade surplus. Although the average annual export growth rate during 1989-93 was 10 percent, export growth slowed to 6.1 percent in 1994. Growth of education services imports declined from 6.5 percent during 1989-93 to a rate of 5.1 percent in 1994. The education services trade surplus grew by only 6.2 percent in 1994, which is lower than the 11-percent average annual growth rate recorded during 1989-93.

The major U.S. trading partners differ with respect to exports and imports (figure 3-5). The largest export markets for U.S. education services are China, India, Japan, Taiwan, and Korea. In contrast, U.S. residents tend to purchase foreign education services from European countries, especially the United Kingdom, France, Italy, and Spain. The United States maintains a trade surplus with all major trading partners, except Italy and the United Kingdom. Although the education services trade deficit with Italy is decreasing, the U.S. deficit with the United Kingdom increased during the 1993-94 academic year.

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[14] USITC staff estimates.

[15] Another type of trade for which no comprehensive data exists includes the relatively few instances wherein U.S. institutions provide courses overseas and teach intensive English Language programs.

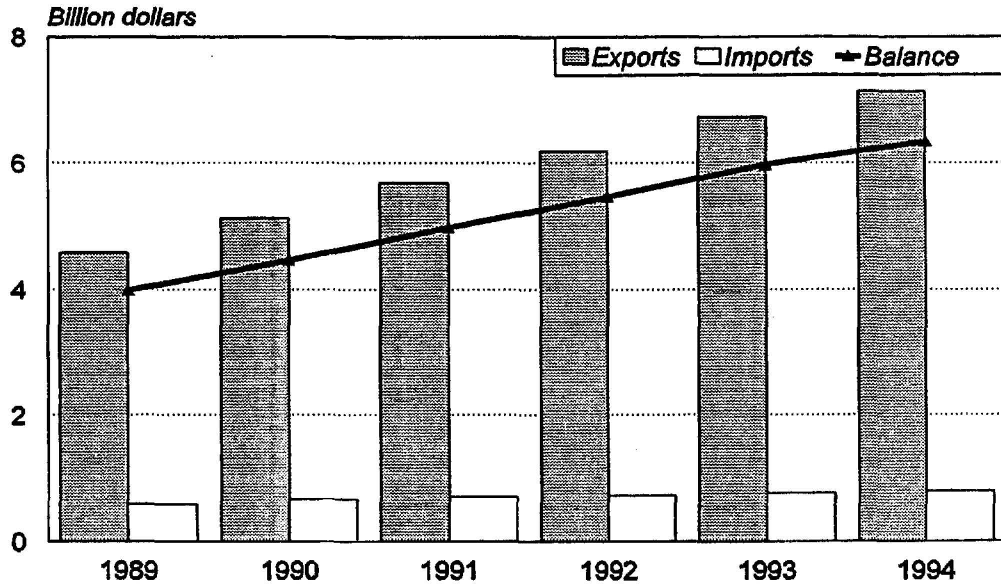
[16] Foreign residents do not include U.S. citizens, immigrants, or refugees.

[17] U.S. residents must receive credit from accredited U.S. institutions to be included in trade data; those whose foreign academic credit is not transferred to U.S. institutions, or who study on a casual basis, are not included.

[18] BEA trade data reported for 1994 on education services include services provided during the 1993-94 academic year. The same pattern of reporting holds for each year beginning in 1989, which spans the 1988-89 academic year.

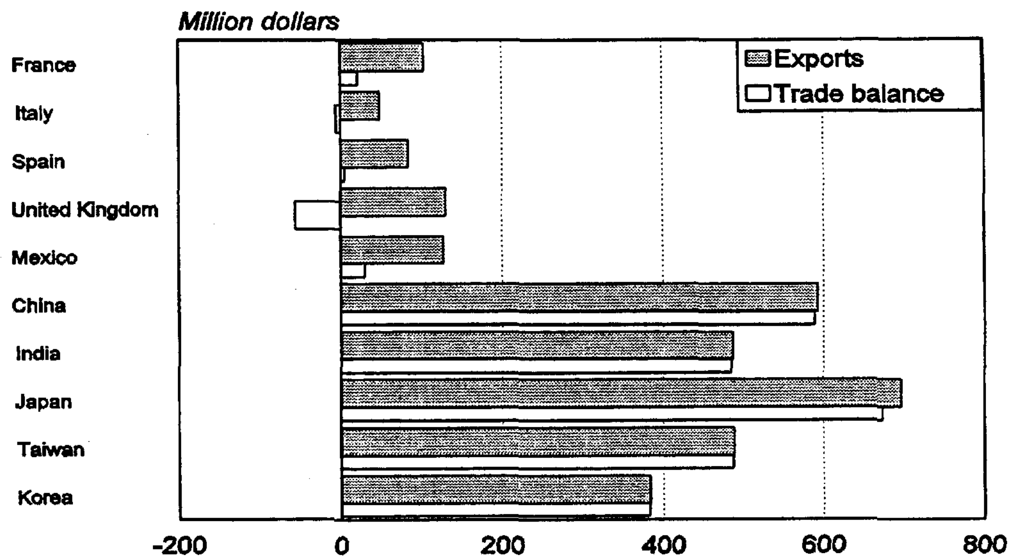
[19] USDOC, BEA, *Survey of Current Business*, Sept. 1995, p. 76.

Figure 3-4
Education services: U.S. cross-border exports, imports, and trade balance, 1989-94



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

Figure 3-5
Education services: U.S. cross-border exports and trade balance, by major trading partners, 1994



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

Assessment and Outlook

Increases in revenues from the largest export markets for U.S. education services have slowed since the 1991-1992 academic year (table 3-1). The principal cause for the general slowdown in education service exports is global recession. Beyond recession, trends specific to certain countries have contributed to declining growth in U.S. exports. For example, only 54 percent of Taiwan students studying abroad selected institutions in the United States during 1993, down from 90 percent in 1989. Reportedly, the main reason for such a decline is that student visas to the United States have become comparatively more difficult to obtain than visas to the United Kingdom, Canada, and Australia, which are other key locations for Taiwan students.[20]

In the future, U.S. exports of education services trade are likely to return to previously high levels of growth as leading trading partners recover from economic recession. Exports to Korea constitute one potential exception to higher growth. The Korean Government relaxed restrictions on foreign investment in professional and vocational schools early in 1995, and will extend these regulatory modifications to colleges and universities within 5 years.[21] This policy change is expected to increase the quality and range of domestic education opportunities, which in turn may discourage Korean students from attending U.S. institutions.

Table 3-1
Education services: Cross-border export growth rates to major trading partners, 1991-94

Year	China	India	Taiwan	Korea	Japan
1991-92 growth	14%	19%	12%	16%	15%
1992-93 growth	10%	15%	10%	16%	10%
1993-94 growth	6%	9%	5%	8%	5%

Financial Services

The following section presents a discussion of trade in financial services. While financial services typically consist of banking, insurance, and securities services, trade data on

[20] USDOC, International Trade Administration, "Taiwan: Education in the United States," Market Research Reports, July 10, 1995, National Trade Data Bank.

[21] USDOC, International Trade Administration, "Korea: Education Services," Market Research Reports, July 10, 1995, National Trade Data Bank.

banking activities are not available on a consistent basis.[22] As a result, only insurance and securities services are presented in this report

Insurance Services

Introduction

The business of insurance is the transfer and sharing of financial risk. The insurance industry has major implications for the global economy because it plays a major role in national savings and investment. As societies develop economically, increased industrialization creates a need for formal insurance mechanisms around the world. Thus, while developing economies are still small insurance markets, they represent great potential growth for the future. Annual global insurance premiums are estimated to total $1.8 trillion, and the business is increasingly international. The U.S. insurance market is the world's largest (31 percent, or $564 billion, of the total global premium), with Japan's market a close second (30 percent).

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 done by establishing affiliates in foreign markets. Exceptions to this overall precept include marine insurance and reinsurance,[23] which commonly are traded cross-border within the developed economies of the Organization of Economic Co-operation and Development (OECD).

Recent Trends

Cross-Border Trade, 1989-94

Cross-border insurance trade represented about 1 percent of all U.S. service exports and 3 percent of all service imports in 1994.[24] Cross-border exports measured $1.6 billion and imports $3.4 billion, resulting in a negative trade balance of $1.8 billion. This U.S. deficit continued a trend evident since 1989 (figure 3-6).[25]

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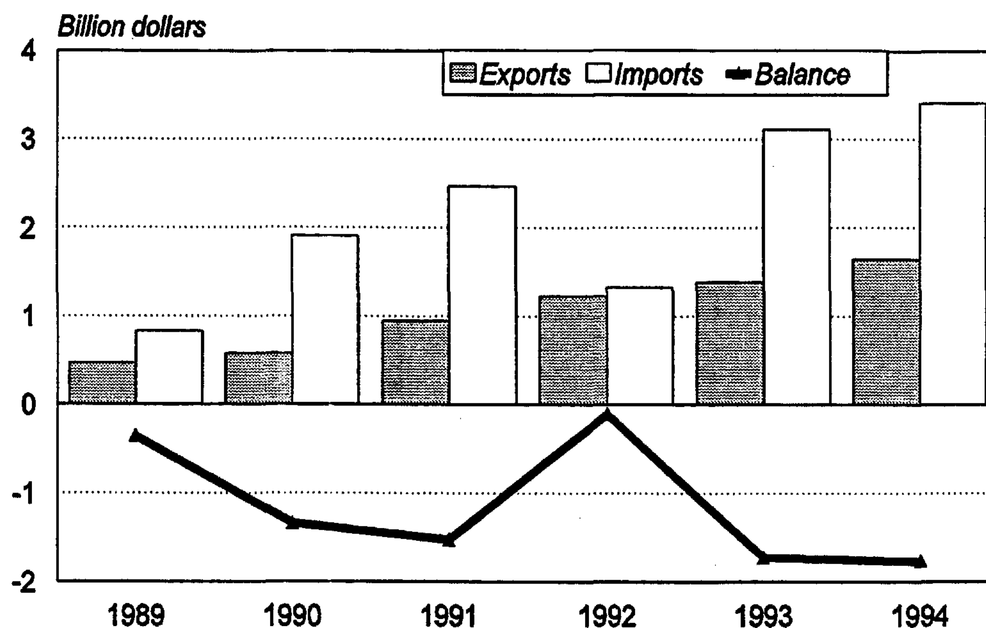
[22] Trade data pertaining to banking services reflect noninterest income derived from fee-generating activities, such as issuing bankers' acceptances, commercial letters of credit, and standby letters of credit.

[23] Reinsurance involves the assumption by one insurance company of all or part of a risk undertaken by another insurance company.

[24] Cross-border trade data are reported on a net basis; e.g., imports comprise premiums paid for foreign insurance coverage, minus claims received from foreign insurers.

[25] The 1992 variation in the chart almost entirely reflects reinsurance reimbursement claims paid by non-U.S. insurers for damage caused by Hurricane Andrew in Southern Florida.

Figure 3-6
Insurance services: U.S. cross-border exports, imports, and trade balance, 1989-94 [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, and Sept. 1995.

In 1994, the largest national markets for U.S. cross-border exports, in terms of premiums, included Canada (21 percent), the United Kingdom (17 percent), Japan (11 percent), and Taiwan (8 percent). On a wider regional basis, major U.S. cross-border export markets were Asia and the Pacific (30 percent), the 12-nation European Union (28 percent), and Latin America, including Mexico (15 percent). With respect to cross-border imports, the largest players were Bermuda (33 percent),[26] the United Kingdom (24 percent), Germany (8 percent), Canada (8 percent), and Switzerland (5 percent). Collectively, companies based in the European Union accounted for 40 percent of U.S. insurance imports.

In 1994, the United States recorded major surpluses in cross-border sales of insurance services with Japan ($496 million), Taiwan ($290 million) and Switzerland ($80 million)

[26] Bermuda's contributions result primarily from foreign reinsurance investment that it has attracted due to tax incentives and a stable business environment.

(figure 3-7).[27] The largest U.S. cross-border deficits were incurred with the United Kingdom ($1.1 billion), Bermuda ($1 billion), and Germany ($244 million).

Affiliate Transactions, 1989-93

In 1993, insurance affiliate transactions[28] represented 19 percent of sales by foreign-based affiliates of U.S. firms in all industries (U.S. exports) and a very large 36 percent of purchases from U.S.-based affiliates of foreign firms (U.S. imports). Foreign-based affiliates of U.S. insurers sold $27.7 billion, while U.S.-based affiliates of foreign insurers did business of $50.9 billion, resulting in a negative U.S. trade balance of about $23.2 billion. As with cross-border insurance sales, the trend of U.S. deficits in insurance-affiliate trade continued during 1989-93 (figure 3-8).

U.S. insurance companies commercially established abroad in 1993 did the most business in Japan (estimated 22 percent),[29] Canada (20 percent), and the United Kingdom (19 percent). Conversely, foreign companies selling insurance from their affiliates established in the U.S. market originated principally from Canada (25 percent), the United Kingdom (23 percent), the Netherlands (12 percent), and Germany (10 percent). In terms of the 1993 U.S. affiliate trade balance, the largest U.S. surplus was with Japan, estimated at $6 billion. Large negative trade balances for affiliate insurance trade occurred with Canada ($7.1 billion), the United Kingdom ($6.3 billion), the Netherlands ($5.8 billion), and Germany ($4.4 billion) (figure 3-9).

Assessment and Outlook

The largest factor accounting for a negative trade balance in insurance is the attractiveness of the U.S. market, which remains the world's largest. The U.S. market is also hugely diverse and technologically innovative, making it a laboratory in which new insurance products can be tried and experience gained. In addition, the dollar exchange rate against many foreign currencies continues to attract investment capital to the United States. For all these reasons foreign insurance companies continue to invest in the U.S. market. The

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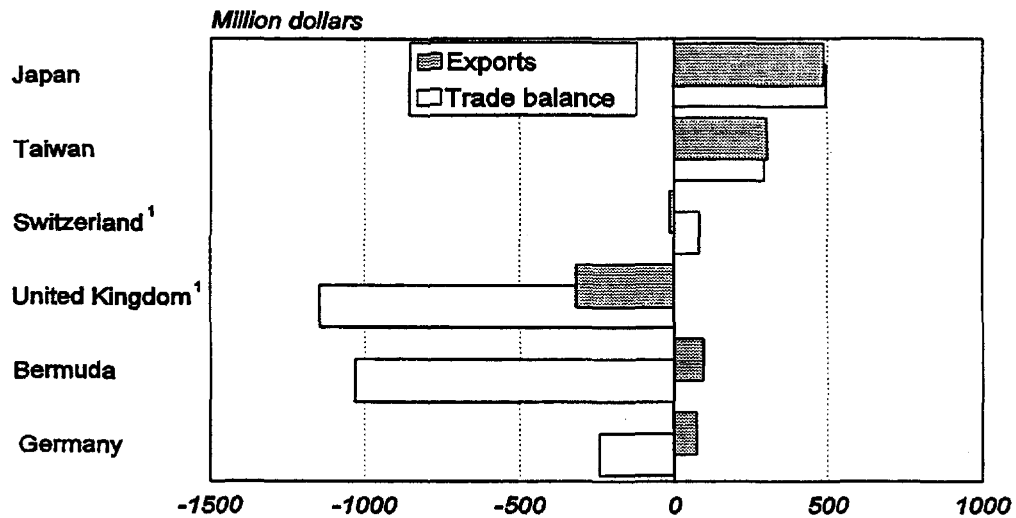
[27] Japanese insurance companies are the largest in the world, but do little international underwriting business, preferring largely to stay in their own market. The Swiss example is interesting in that U.S. companies doing cross-border business to Switzerland lost money (losses exceeded premiums), and Swiss companies doing business in the United States also lost money. However, because Swiss companies lost more than U.S. companies, the United States benefited in terms of its balance of payments. With respect to the United Kingdom, losses paid exceeded premiums received, resulting in negative net exports

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

[29] The volume of affiliate trade with Japan in 1993 was estimated by USITC staff because official statistics suppress trade data to avoid disclosure of individual company operations.

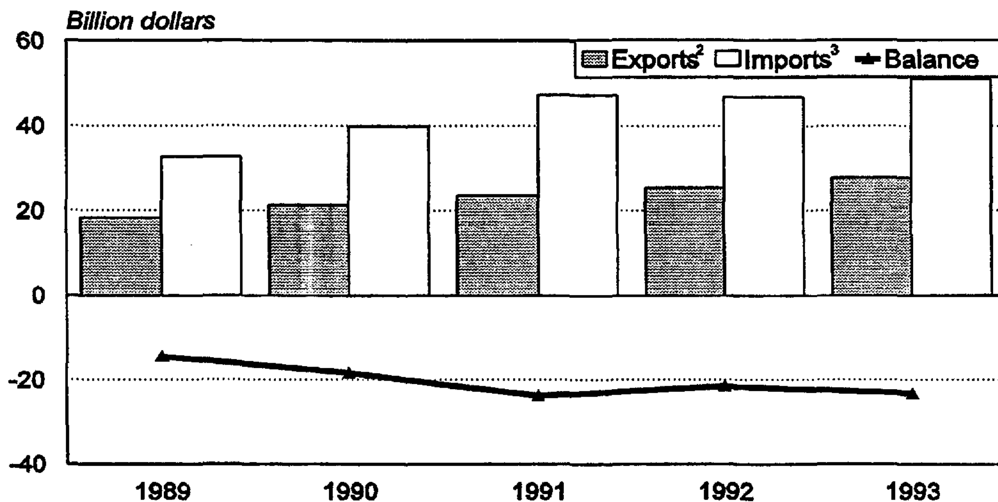
Figure 3-7
Insurance services: U.S. cross-border exports and trade balance, by major trading partners, 1994



[1] Exports are depicted as negative values because claims to Swiss and British policyholders exceeded premiums collected from them by U.S. insurers.

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

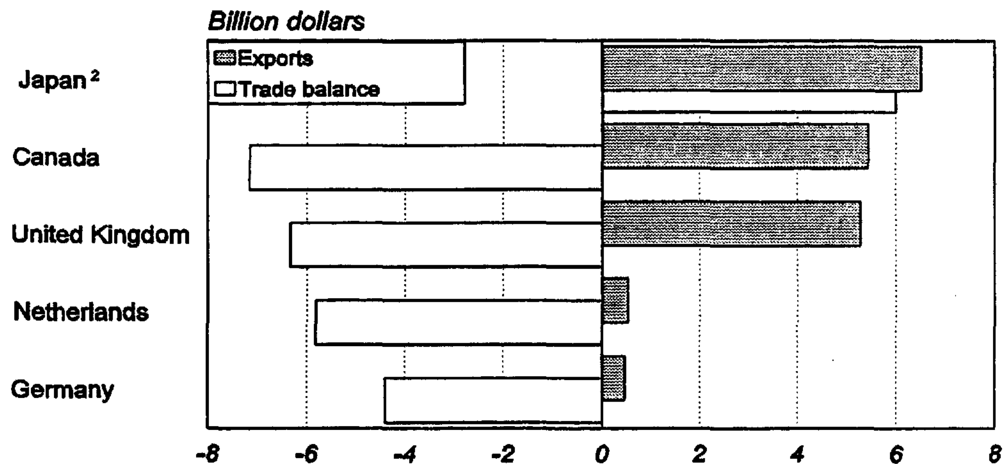
Figure 3-8
Insurance service sales by majority-owned affiliates: U.S. exports, imports and trade balance, 1989-93[1]



[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.
[2] Exports are sales by U.S.-owned insurers abroad.
[3] Imports are sales by foreign insurers operating in the United States.

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

Figure 3-9
Insurance service sales by majority-owned affiliates: U.S. exports and trade balance, by major trading partners, 1993 [1]



[1] Switzerland's insurance companies also have a major affiliate presence in the U.S. insurance market, collecting $5.7 billion in insurance premiums in 1992 and $5.9 billion in 1993. Official statistics suppress U.S. insurance exports to Switzerland to avoid disclosure of data of individual companies. For that reason, a Swiss/U.S. affiliate trade balance is not shown here.
[2] 1993 data estimated by USITC staff because official statistics suppress these data to avoid disclosure of operations of individual companies.

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

foreign share of the U.S. insurance market is over 10 percent, a figure that has increased considerably over the past 5 years.[30]

However, other factors also account for the insurance trade deficit. Before 1989, the U.S. insurance trade balance was positive. This pattern changed as a result of the global economic recession and subsequent, relatively slow economic growth in Japan, much of the European Union, and Latin America. Such anemic growth depresses the demand for insurance abroad and hinders U.S. insurance exports. Conversely, the U.S. economy emerged from recession before much of the rest of the world, which created additional U.S. insurance demand not found elsewhere, including demand for foreign insurance companies doing business in the United States.

Additionally, some of the U.S. deficit in insurance trade is due to reinsurance and marine insurance. German and Swiss companies traditionally have been the largest players in the reinsurance business, and the Lloyd's of London market remains the global center for marine

[30] See National Association of Insurance Commissioners (NAIC) various reports on the foreign penetration of U.S. markets, beginning in 1992 (e.g., NAIC Research Division's report to the U.S. Department of Commerce, International Trade Administration, Office for Service Industries and Finance, Oct. 18, 1995).

insurance, as well as for a great deal of reinsurance. Since reinsurance is essential to the business, U.S. payments to foreign reinsurers are substantial. Similarly, Bermuda recently has attracted foreign reinsurance investment, including investment from the U.S. insurance community, due to tax incentives and a stable business environment.

Foreign trade barriers, formal and informal, also play a significant role in explaining the negative U.S. insurance trade balance, especially throughout Asia. India's insurance market remains nationalized and thus closed to foreign investment. China thus far has permitted only two foreign companies, one of which is U.S.-owned to enter the Chinese market under very restrictive geographic limitations. The huge Japanese insurance market has less than 1-percent foreign insurance penetration,[31] despite exponential growth during the past 10 to 15 years. Taiwan and Korea have opened only slowly their insurance markets to foreign investment. Many of the Association of Southeast Asian Nations (ASEAN) member states have an array of restrictions on foreign investment, especially requirements restricting foreign insurance investments to minority joint-venture shareholdings.[32]

Finally, U.S. insurers have not aggressively sought to enter foreign markets in the past. Only perhaps five U.S. companies could fairly claim to be truly international, doing significant business in at least three regional areas outside the United States. Heretofore, the U.S. market has been so large and profitable, and barriers abroad thought to be so onerous, that U.S. insurance companies stayed home. This is only now beginning to change.[33] The U.S. market is maturing, so U.S. companies wishing to expand increasingly are motivated to merge or find new markets abroad.[34] Foreign barriers are weakening as a result of GATS negotiations and developing countries' need for foreign investment. The European Union, Latin America, and much of Eastern Europe have significantly liberalized their insurance markets since 1989 and are making foreign investment easier and more attractive.

Future growth prospects are encouraging, as many economies in Western Europe are slowly emerging from recession, which increases insurance sales opportunities for both domestic and U.S. companies established in those countries. The Latin American region also represents very large potential, and U.S. companies may have some comparative advantage due to their proximity to those markets. The ASEAN states are seen as the most promising markets for U.S. insurers, due to their high economic growth rates over several years and their relatively low insurance penetration rates in comparison to their GDP growth.[35] All of these factors suggest that U.S. insurance companies are likely to become more heavily involved in international markets, which may in turn lead to declining U.S. deficits in insurance trade.

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[31] This figure takes into account the large commercial insurance sales of the government-owned *Kampo* and *Zenkyoren* insurance organizations, which provide life and property insurance, respectively.

[32] See, for example, the formal GATS Schedules of Specific Commitments in Financial Services made by countries to the World Trade Organization, July 28, 1995.

[33] U.S. insurance company executives, interviews by USITC staff, 1993-95.

[34] Ibid.

[35] Ibid.

Securities Services

Introduction

For the purpose of this analysis, securities services comprise services related to the purchase and sale of securities such as stocks and bonds. Such services may be delivered on both a cross-border and an affiliate basis. Trade data represent estimated brokerage fees and commissions collected by financial institutions, and generally reflect the volume of securities transactions. The earnings of U.S. securities firms from foreign investors and borrowers are counted as exports, and the payments to foreign securities firms by U.S. clients are considered imports. Cross-border export figures also include banking fees whereas import figures do not.[36]

Recent Trends

Cross-Border Trade, 1989-94

In 1994, the United States earned an estimated $7 billion in cross-border securities trade, representing 4.6 percent of total U.S. service exports (figure 3-10). Cross-border exports increased by 5.4 percent during 1994, which is slightly slower than average annual growth of 7 percent recorded for this sector during 1989-93. U.S. imports grew by 23 percent to an estimated $6.8 billion in 1994 after average annual growth of 28 percent during 1989-93. The modest cross-border trade surplus of $127 million accounted for 0.3 percent of the total cross-border trade surplus in services in 1994, and was 88 percent smaller than the 1993 surplus of $1.1 billion.

Japan and the United Kingdom are the main U.S. trading partners in cross-border securities services, accounting for an estimated 25 percent of U.S. cross-border receipts and 56 percent of payments in 1994. While the United States ran an overall surplus in cross-border trade in 1994, deficits of $550 million and $1.6 billion were registered with Japan and the United Kingdom, respectively (figure 3-11). The securities services cross-border trade balances with most European countries and Hong Kong also were negative. However, these deficits were offset by U.S. surpluses in most other regions of the world, including a surplus of $943 million with the Middle East and $823 million with Latin America and other Western Hemisphere countries, including offshore markets in the Caribbean.

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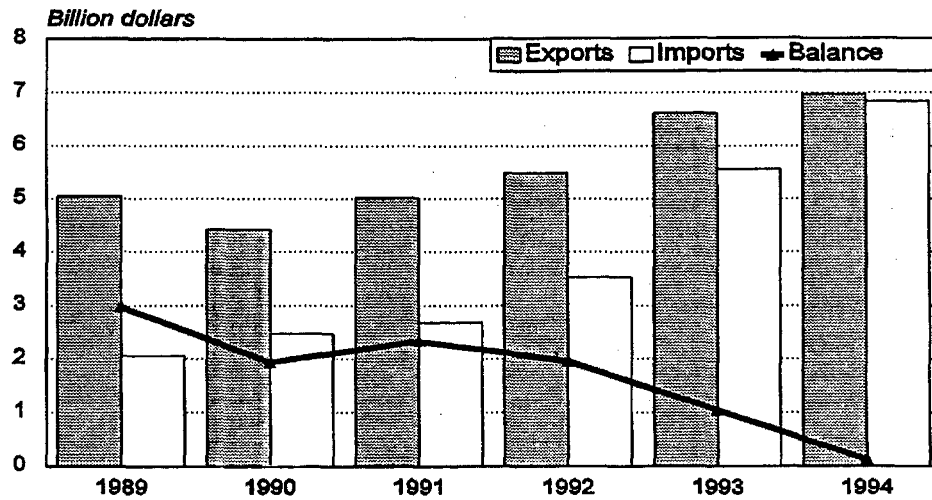
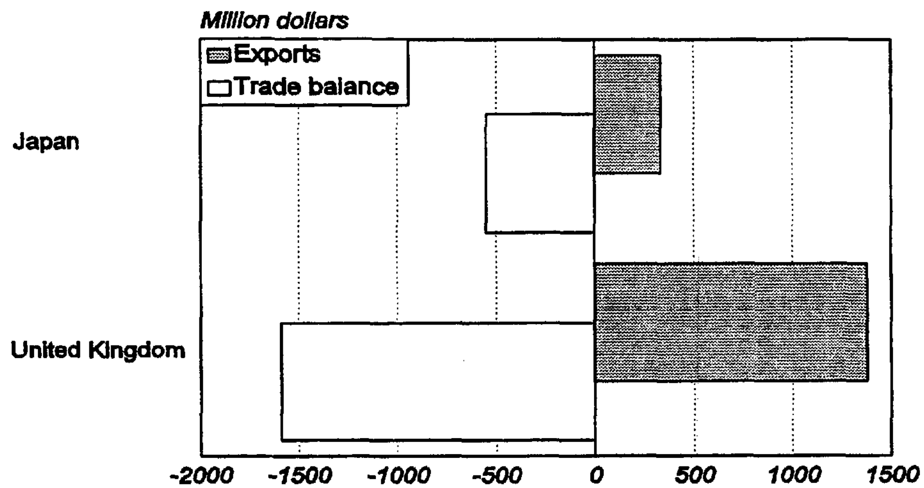
[36] BEA representative, telephone interview by USITC staff, Jan. 19, 1996.

Figure 3-10
Securities services: U.S. cross-border exports, imports, and trade balance, 1989-94



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

Figure 3-11
Securities services: U.S. cross-border trade exports and trade balance, by major trading partners, 1994



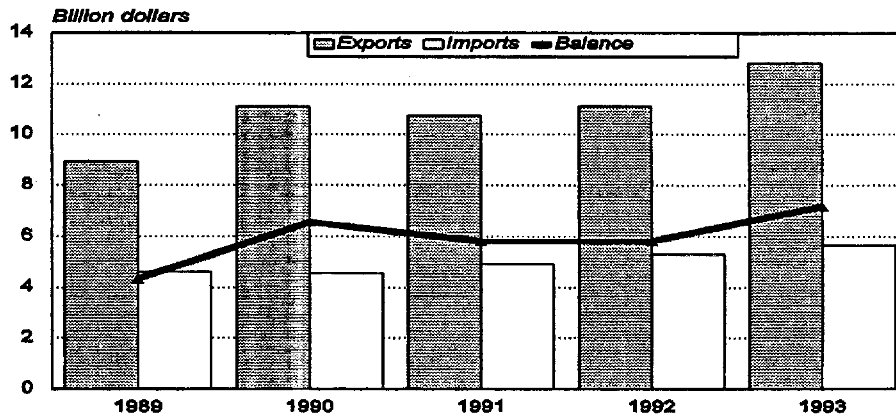
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1995.

Affiliate Transactions, 1989-93

Foreign affiliates of U.S. securities service providers generated revenues estimated at $12.8 billion in 1993, representing 9 percent of total U.S. affiliate exports.[37] Total affiliate sales of U.S. securities services increased by an estimated 15 percent in 1993 compared to an average annual growth rate of 8 percent during 1989-92 (figure 3-12). Purchases from U.S.-based affiliates of foreign firms increased by 6.4 percent to $5.6 billion in 1993, after recording 5 percent average annual growth during 1989-92. In 1993, sales by U.S.-owned affiliates abroad exceeded those by foreign-owned affiliates in the United States by an estimated $7.2 billion.

As with cross-border trade, the United Kingdom is the largest U.S. affiliate trade partner, accounting for 44 percent of exports and 30 percent of imports by affiliates of securities services companies in 1993. The remainder of Europe contributed an additional 19 percent of exports and 33 percent of imports, with Switzerland accounting for most of these imports (21 percent). Strong U.S. imports from Switzerland reflect the significant U.S. presence of Swiss financial services firms such as Credit Suisse and Swiss Bank. Japan also is a major trading partner, but notably accounted for a greater share of U.S. imports than exports (23 percent of imports versus 13 percent of exports). Japan's larger import role most likely reflects the greater openness of the U.S. financial market relative to the Japanese market. The United States recorded a trade surplus with most trading partners, reflecting the competitiveness and global reach of U.S. financial services firms. In 1993, the United States recorded a surplus of $4 billion with the United Kingdom and $459 million with Japan (figure 3-13).

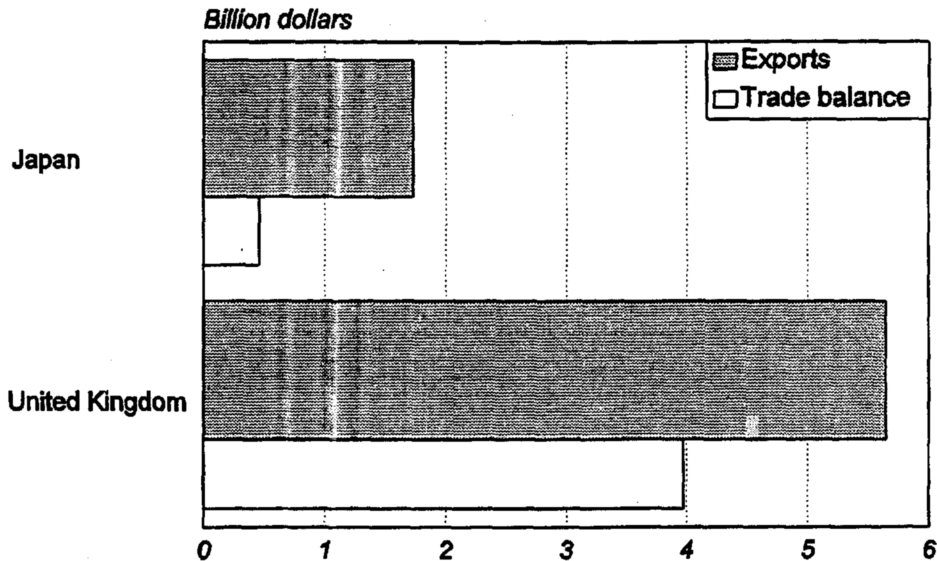
Figure 3-12
Securities services sales by majority-owned affiliates: U.S. exports, imports, and trade balance, 1989-93



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

[37] USITC staff estimate.

Figure 3-13
Securities services sales by majority-owned affiliates: U.S. exports and trade balance, by major trading partners, 1993



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

Assessment and Outlook

During the period examined, the volume of cross-border trade and affiliate transactions in securities services increased, with the size of the U.S. surplus declining in the former and rising in the latter. Cross-border imports increased faster than cross-border exports, resulting in a declining U.S. cross-border surplus, whereas affiliate exports increased faster than affiliate imports, resulting in a rising U.S. affiliate surplus. The United States recorded large cross-border trade deficits with the United Kingdom and Japan and large affiliate trade surpluses with these same two countries.

The securities markets of London, New York, and Tokyo are the largest and most internationally diverse in the world. International trade in securities services is measured in terms of fees and commissions for the purchase and sale of securities, and most trade involves these three markets. Further, since buyers and sellers from the rest of the world outnumber those within any one of the three principal countries, each of these three countries should record an overall cross-border surplus of fees and commissions. The United States does record such a cross-border surplus, but that surplus has been declining due to rapidly

rising imports. Strong import growth indicates that U.S. investors, including mutual fund companies, are increasing the volume of their transactions in many foreign markets faster than foreign investors are increasing transactions in the United States. This occurs because securities markets outside of the United States are growing faster than those inside, and this growth is attracting increased amounts of outward U.S. investment. Emerging market development patterns seem to support this assertion, as emerging securities markets, bolstered by major privatization programs, grew at an average annual rate of 39 percent during 1990-93, more than twice as fast as the U.S. market.[38]

Rapid growth in securities markets outside the United States also explains the growth observed in the U.S. surplus in affiliate transactions. This surplus exists because non-U.S. securities markets are almost twice as large as those within the United States and foreign affiliates of U.S. financial services firms hold a significant market share in virtually every market that is open to foreign participation.[39] The strong global presence of affiliates of U.S. firms combined with faster growth in foreign markets has resulted in faster growth in sales by affiliates of U.S. companies operating in those markets. The strong competitive position of foreign affiliates of U.S. financial services firms also may explain why the United States records an affiliate surplus with the United Kingdom and Japan.

With respect to bilateral cross-border transactions, however, the United States recorded large deficits with the United Kingdom and Japan, indicating that U.S. investors are initiating more transactions across borders to the United Kingdom and Japan than the reverse. To an extent, these deficits represent strong U.S. interest in the selection of securities offered on these markets. However, the size and breadth of the U.S. market should attract a similar level of investment from the United Kingdom and Japan. Therefore, the deficit with these countries is perhaps more indicative of the size of the U.S. investor pool relative to those present in the United Kingdom and Japan. The U.S. economy is roughly six times the size of the British economy and two times the size of Japan's economy in terms of GNP.[40] The larger U.S. economy and investor population may account for more U.S. investors executing cross-border transactions in London and Tokyo than the reverse, resulting in a substantial cross-border deficit.

While financial markets are highly variable due to economic circumstances, the general trends described above are likely to persist for some time. The securities markets in London, New York, and Tokyo are likely to remain dominant and to continue driving cross-border trade balances. The development of financial markets in other regions of the world likely will continue to attract investment capital and support growth in sales by foreign affiliates of U.S. companies. The global competitiveness of U.S. financial services firms also is likely to be sustained for some time, provided that these firms continue to lead the world in terms of innovation and technology.

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[38] International Finance Corporation (IFC), *Emerging Stock Markets Factbook 1994* (Washington, DC: IFC, 1994), pp. 14-15.

[39] For example, Merrill Lynch, a leading U.S. securities company, accounted for 20 percent of the global underwriting market in 1993. *Merrill Lynch Annual Report*, 1993, p. 19.

[40] IFC, *Emerging Stock Markets Factbook 1994*, pp. 4-5.

Intellectual Property-Related Services

Introduction

Trade in intellectual property-related services involves the payment of licensing fees and royalties to original developers of creative works protected by copyrights, patents, or trade secrets.[41] Widely traded items in this category include books, musical recordings, broadcast performances, and filmed entertainment. Licensing fees paid to holders of patents on industrial processes account for a large share of total U.S. trade in intellectual property-related services. Fees paid to franchise owners also are included.

Recent Trends

Cross-Border Trade, 1989-94

In 1994, the U.S. cross-border trade surplus for intellectual property-related transactions fell to just under $3 billion, a 5-percent decline from the corresponding 1993 surplus of over $3.1 billion. Exports grew by 6 percent to $4.8 billion in 1994, while cross-border imports rose by 29 percent to $1.8 billion. Export growth in 1994 fell short of the 12-percent annual growth rate during 1989-93 (figure 3-14). The 1994 growth rate for imports exceeded by a large margin the average annual import increase of 14 percent during 1989-93.

In 1994, the largest cross-border markets for U.S. exporters of intellectual property- related services were Japan, Korea, Germany, and the United Kingdom. Modest growth in cross-border exports was evident for most markets in 1994, but Japan remained the largest single market, accounting for $1.7 billion in purchases of U.S. intellectual property-related services. Licensing fees for industrial processes accounted for more than 80 percent of U.S. sales to Japan in 1994. On the import side, the United Kingdom and Japan remained the largest suppliers of services to the United States, accounting for $286 million and $249 million in imports, respectively. The United States continued to run a surplus in intellectual-property-related services with every major trading partner except the United Kingdom, with which it recorded a $36 million deficit in 1994 (figure 3-15).

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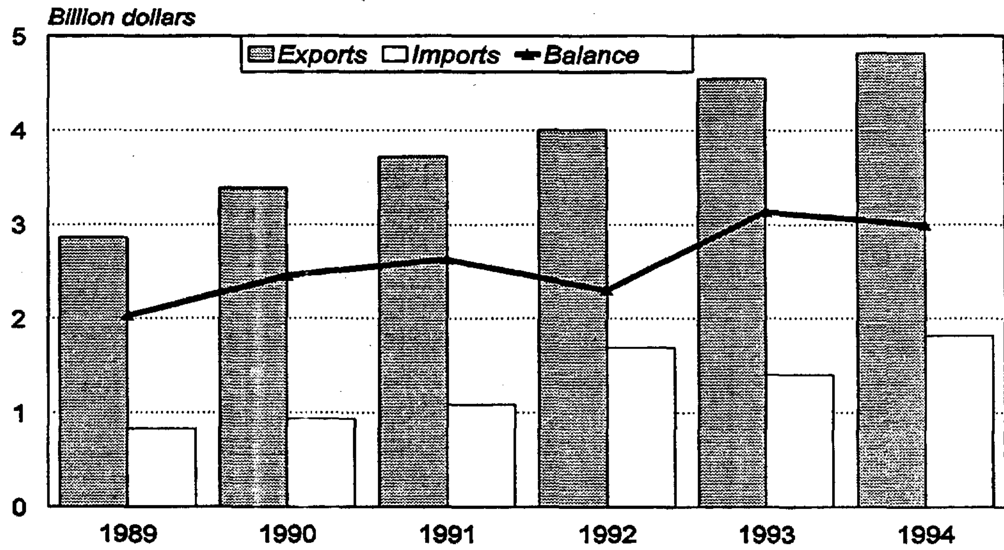
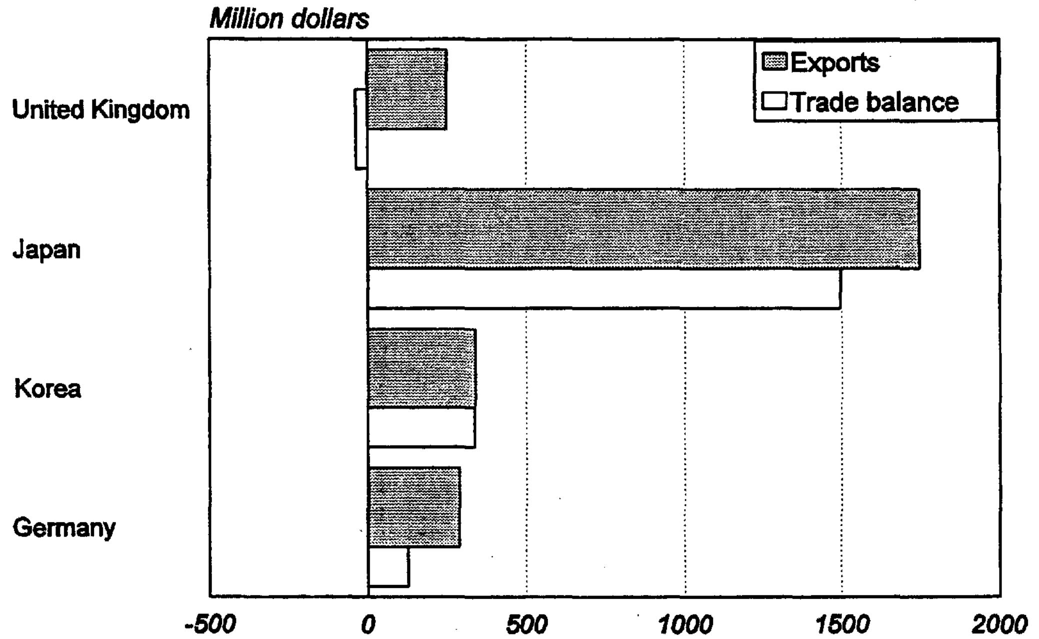
[41] Trade secrets are pieces of proprietary information pertaining to industrial processes or a firm's operations. Trade secret protection laws exist in the United States and many foreign countries.

Figure 3-14
Intellectual property-related services: U.S. cross-border exports, imports, and trade balance, 1989-94



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

Figure 3-15
Intellectual property-related services: U.S. cross-border exports and trade balance, by major trading partners, 1994



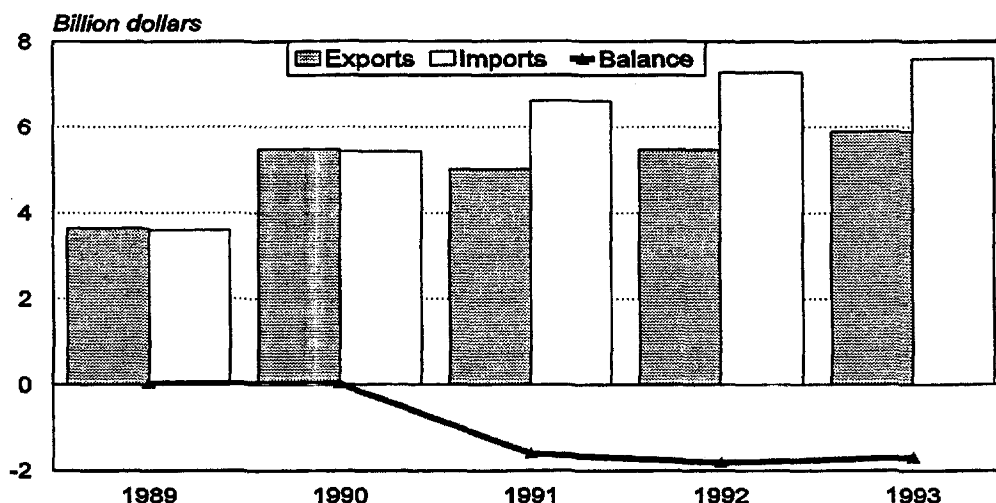
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1995.

Affiliate Transactions, 1989-93

Data on affiliate transactions in intellectual property-related services reflect sales by U.S. film studios' affiliates to foreign film distributors, and sales by foreign-owned studios' affiliates to U.S. distributors. Foreign-based affiliates of major U.S. motion picture studios received revenues of $5.9 billion in 1993, primarily through sales in Western Europe and Canada. This reflected an 8-percent annual increase in affiliate exports for film producers from 1992. At the same time, sales by U.S.-based affiliates of foreign movie studios grew to $7.6 billion in 1993 from $7.3 billion in 1992, representing a 4-percent increase. The resulting 1993 affiliate trade deficit of $1.7 billion continues the recent pattern of substantial affiliate trade deficits recorded since 1990 (figure 3-16).

With respect to major trading partners in motion pictures and television services, the Netherlands and the United Kingdom remained among the largest sources of U.S. affiliates' foreign sales (exports), accounting for a combined $2.9 billion in 1993. As for imports, the United Kingdom remained the largest beneficiary of foreign affiliate trade in the United States in 1993, with $1.6 billion in film and television revenues. Although data for Japanese affiliates' sales in 1993 are unavailable because they would disclose information on the operations of individual firms,[42] these firms continued to be major players in the U.S. audiovisual services market as a result of large direct investments in major U.S. film studios.

Figure 3-16
Intellectual property-related service sales by majority-owned affiliates: U.S. exports, imports, and trade balance, 1989-93



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

[42] USDOC, BEA, *Survey of Current Business*, Sept. 1995, p. 105.

For example, Sony Corp.'s 1989 acquisition of Columbia Pictures and Matsushita Corp.'s 1990 purchase of Universal increased Japanese affiliate sales in the United States substantially.[43]

Assessment and Outlook

The increase in cross-border exports and imports during 1994 mirrored a trend that has been evident in intellectual-property-related services trade since 1989. Strong export growth was apparent in 1994 for franchising services and copyrighted works such as books, records, and tapes.[44] Export revenues earned from the licensing of industrial processes also grew slightly in 1994 to $3 billion. Continuing growth in global demand for U.S.-patented processes reflects the impact of consistent innovation in the U.S. manufacturing sector and the willingness of foreign-owned firms to license those processes to boost productivity in factories and offices around the world.

The rise in U.S. cross-border imports of intellectual property-related services during 1994 can be explained in large part by the rapid growth in U.S. purchases of live events broadcast and recorded by foreign firms. The growth in U.S. imports of these services, from $34 million in 1993 to $300 million in 1994, appears rooted in U.S. consumers' interest in a wider selection of international programming content, including foreign concerts and sporting events.[45] Import growth for this category is likely to continue through the end of the decade. Despite the strong competitive position of U.S. film makers in overseas markets, the U.S. affiliate trade deficit in audiovisual services demonstrates the impact of foreign direct investment in the U.S. film industry. Seagram's (Canada) purchase of an 80-percent stake of MCA in 1995 for $5.7 billion suggests that Canadian affiliate sales of motion pictures in the United States will increase in the next few years.

Professional Services

The professional service industries treated in this report include accounting and management consulting services; architectural, engineering, and construction services; computer and data processing services; health care services; and legal services. These diverse industries provide professional expertise, information, and counsel to individuals, business and government establishments, and other organizations.

[43] Columbia Pictures' share of total U.S. box office receipts stood at 11.2 percent in 1993, while Matsushita Electric's Universal business accounted for 11.7 percent of the U.S. market. "Box Office Take Reaches Record Level," Standard & Poor's Industry Surveys, Mar. 17, 1994, p. L-20.

[44] *Copyright Industries and the U.S. Economy,* International Intellectual Property Alliance, Washington, DC, October 1994, pp. iii-iv.

[45] The broadcast of the 1994 Winter Olympic Games from Norway was one of the largest selling events of this kind.

Professional service industries have sustained substantial growth with respect to the value of U.S. exports in recent years, and projections suggest that such growth will continue for the foreseeable future. As evidenced by the following discussion, the growth of trade conducted through foreign-based affiliates of U.S. professional service providers is especially significant.

Accounting and Management Consulting Services

Introduction

Available trade data on accounting and management consulting services also include revenues for closely related services, such as auditing, bookkeeping, and public relations.[46] International trade in accounting and management consulting services takes place on both a cross-border and an affiliate basis. Affiliate sales of accounting and management consulting services far exceed cross-border transactions due to the established industry practice of serving clients based on an intimate knowledge of local market conditions and the difficulty of transporting such services across borders.[47] In 1993, sales by U.S. affiliates accounted for 84 percent of total accounting and management consulting exports while U.S. purchases from foreign affiliates accounted for 80 percent of total U.S. accounting and management consulting imports.

Recent Trends

Cross-Border Trade, 1989-94

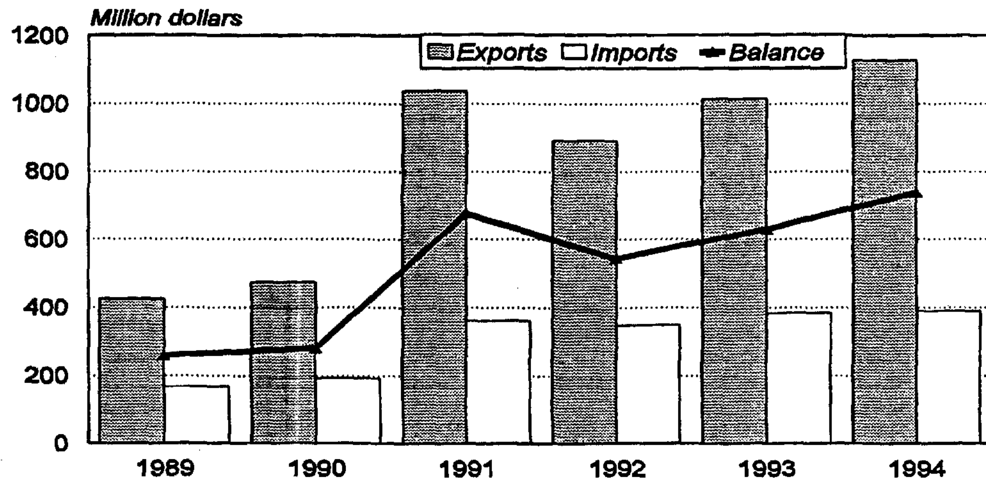
Cross-border trade of accounting and management consulting services generated a U.S. surplus of $739 million in 1994. U.S. exports of such services totaled $1.1 billion, whereas cross-border imports totaled $389 million (figure 3-17). These figures represent less than 1 percent of total cross-border U.S. exports and imports of services. U.S. cross-border exports of accounting and management consulting services increased by 10 percent during 1994, compared with an average annual increase of 24 percent during 1989-93. U.S. cross-border imports increased by 2 percent during 1994 compared to an average annual increase of 23 percent during 1989-93.

Cross-border trade data with respect to accounting services are not available by country, but are available for management consulting services. The European Union, which accounted

[46] For this analysis, cross-border trade data on accounting and management consulting services are the sum of such data on accounting, auditing, and bookkeeping service, and management consulting and public relations services. Affiliate trade data include accounting, research, management, and related services. See USDOC, BEA, *Survey of Current Business*.

[47] Typically, there are fewer legal restrictions on servicing clients locally from affiliates rather than across borders. Industry representatives, interviews by USITC staff, Washington, DC, May 25, 1995.

Figure 3-17
Accounting and management consulting services: U.S. cross-border exports, imports, and trade balance, 1989-94



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

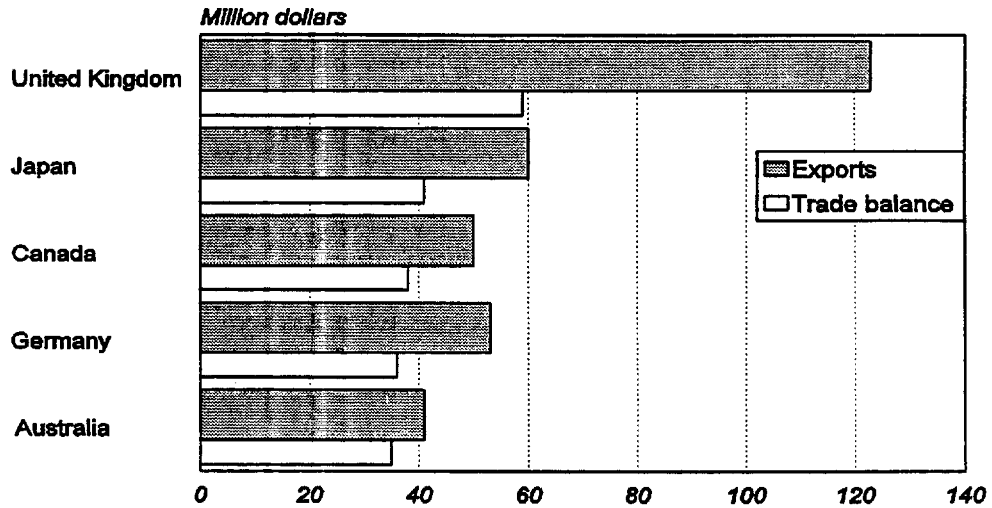
for 37 percent of U.S. cross-border exports of management consulting services, was the largest single export market in 1994.[48] Exports to the United Kingdom accounted for 33 percent of cross-border sales to Europe. U.S. cross-border imports of management consulting services also were predominantly supplied by European nations, which accounted for 50 percent of all such imports in 1994. The United Kingdom was responsible for 46 percent of all such imports (figure 3-18).

Affiliate Transactions, 1989-93

U.S. affiliate transactions in accounting and management consulting services yielded a U.S. surplus of $3.7 billion in 1993. U.S. sales of accounting and management consulting services by foreign affiliates of U.S. companies totaled $5.3 billion, or 4 percent of total sales of all services by foreign-based U.S. affiliates. Sales by U.S.-based affiliates of foreign companies totaled $1.6 billion, or 1 percent of total sales of all services by foreign affiliates in the United States (figure 3-19). Sales by foreign-based affiliates of U.S. companies fell by 4 percent in 1993, whereas these sales increased an average of 12 percent per year during 1989-92. Sales by U.S.-based affiliates of foreign companies rose by 33 percent in 1993, representing a substantial change from an average annual decrease of 3 percent during 1989-92 but continuing a pattern begun in 1992.

[48] 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 the aggregate of accounting and management consulting services .

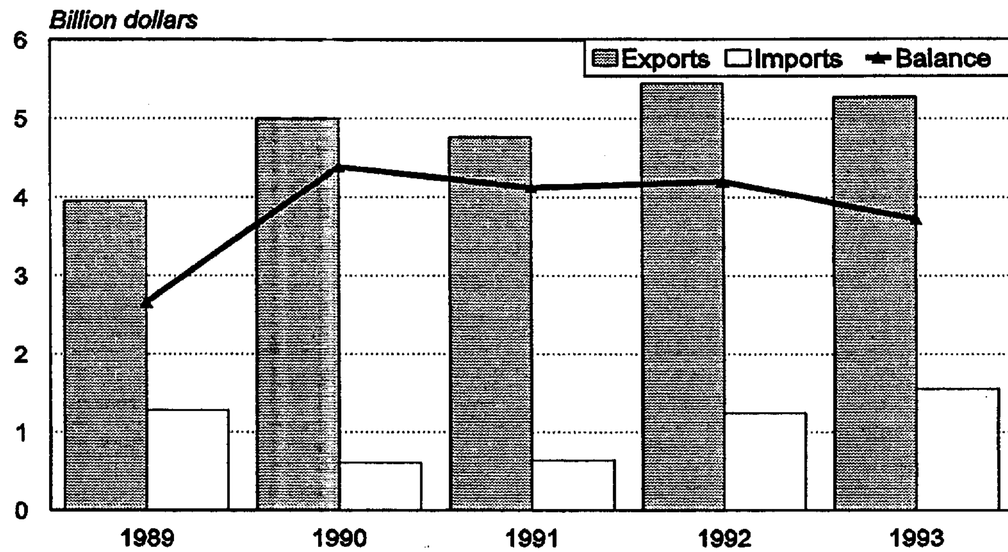
Figure 3-18
Accounting and management consulting services: U.S. cross-border exports and trade balance, by major trading partners, 1994[1]



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

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

Figure 3-19
Accounting and management consulting service sales by majority-owned affiliates: U.S. exports, imports, and trade balance, 1989-93



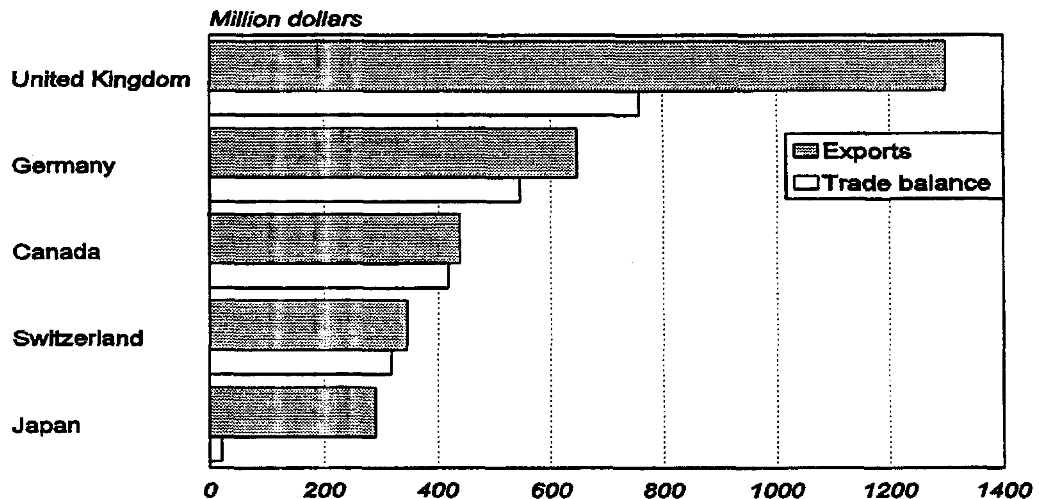
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1992, Sept. 1994, and Sept. 1995.

Sales of accounting and management consulting services by foreign-based affiliates of U.S. companies are directed overwhelmingly to European nations, which absorbed 72 percent of total sales in 1993. Sales to the United Kingdom alone accounted for 25 percent of these sales, amounting to $1.3 billion (figure 3-20). Similarly, sales of accounting and management consulting services by U.S.-based affiliates of foreign companies were dominated by European firms, which accounted for 80 percent of such sales in 1993. Affiliates with corporate parents in the United Kingdom supplied 35 percent of sales by all foreign-owned affiliates.

Assessment and Outlook

Following a decade of rapid expansion in foreign economic activity, total affiliate sales by U.S. multinational accounting and management consulting firms fell in 1993 as Europe, the largest market for such activity, remained in its deepest recession since 1981-82.[49] Additional factors contributing to the decline in U.S. accounting exports to Europe include the large number of liability suits directed at accounting firms by defunct clients;[50] declining fee income due to highly competitive conditions in Europe; and a consolidation and

Figure 3-20
Accounting and management consulting service sales by majority-owned affiliates: U.S. exports and trade balance, by major trading partners, 1993



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

[49] "Glimmer of Hope," *Economist* (London), Apr. 1, 1995, p. 62-3.

[50] Big Six accounting firms have paid over $3 billion to clients since 1990 to settle negligence claims.

retrenchment among major firms after a period of overexpansion caused by the rapid growth and diversification that occurred in the late 1980s. All these factors served to make Europe a less attractive market for U.S. firms. For the first time in a number of years, accounting income in 1993 and 1994 grew more rapidly in the United States than it did worldwide.[51] With respect to management consulting services, by contrast, U.S. exports remained strong as U.S. multinational firms continued their rapid expansion in Europe. U.S. consulting firms remain the leading worldwide providers of management services. Most of the leading U.S. firms derive more than half of total revenue from non-U.S. sources.[52]

Architecture, Engineering, and Construction Services

Introduction

Architectural, engineering, and construction (AEC) services are interrelated. Architectural firms provide blueprint designs for buildings and public works, and may oversee the construction of projects. Engineering firms provide planning, design, construction, and management services for projects such as civil engineering works and residential, commercial, industrial, and institutional building.[53] Construction services include pre-erection work, new construction and repair, and alteration, restoration, and maintenance work on buildings or civil engineering works. Such services can be provided either by general contractors who complete all construction work for those awarding the contract, or by specialty subcontractors who perform discrete sections of the construction.

Trade in AEC services is predominantly undertaken by majority-owned affiliates in foreign markets. AEC firms that engage in international trade generally establish some type of subsidiary, joint venture, or branch office in important foreign markets, as contracts usually are awarded to firms that have a local presence.[54] By comparison, cross-border trade in AEC services generally is limited to transporting items such as blueprints and designs via mail, telephone, or other means across national boundaries.

Recent Trends

Cross-Border Trade, 1989-94

Architecture and engineering services account for most cross-border trade in AEC services. U.S. exports of AEC services grew by an average annual rate of 26 percent during 1989-93,

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[51] "Glimmer of Hope", *Economist* (London), Apr. 1, 1995, p. 62-3.

[52] John A. Byrne, "Hired Guns Packing High-Powered Knowhow," *Business Week*, 21st Century Capitalism issue, 1994, p. 94.

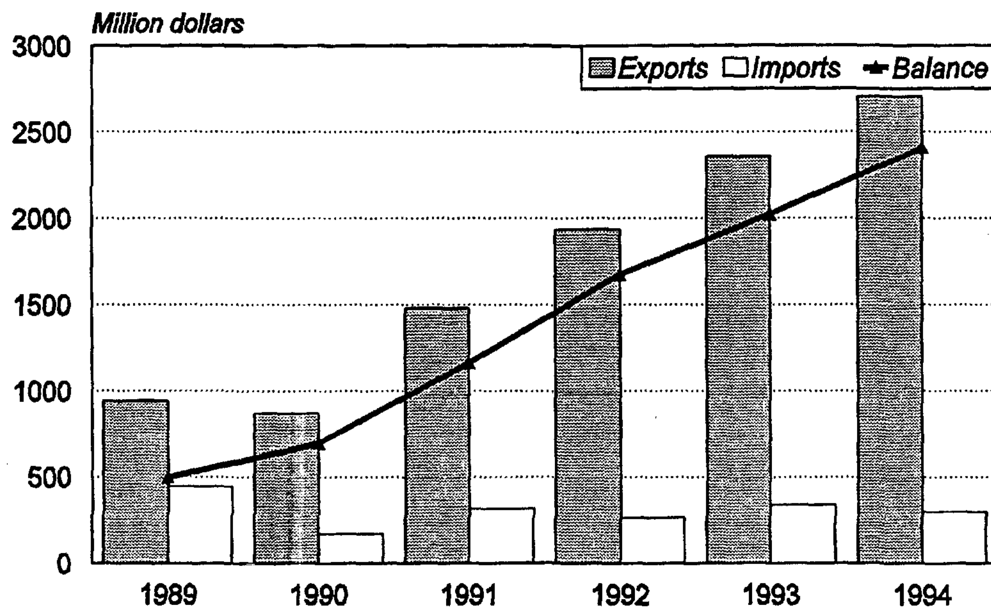
[53] Included in engineering services are the undertaking of preparatory technical feasibility studies and project impact studies; preliminary plans, specifications, and cost estimates; final plans, specifications, and cost estimates; and services during the construction phase. Engineering service firms also may provide advisory and technical assistance to the client during construction to ensure that construction work is in conformity with the final design.

[54] Industry representative, interview by USITC staff, Washington, DC, Feb. 1, 1995.

but increased by only 15 percent in 1994, to $2.7 billion[55] (figure 3-21). These exports accounted for less than 2 percent of total cross-border service exports in 1994. U.S. imports of AEC services declined by an average annual rate of nearly 7 percent during 1989-93, but fell by a comparatively faster rate of 12 percent in 1994, to $296 million. Imports of AEC services represented less than 1 percent of all U.S. cross-border service imports in 1994.

The United States registered a surplus on cross-border trade in AEC services with most major trading partners, resulting in a total surplus of $2.4 billion in 1994. The largest export markets for AEC services were Venezuela, China, the Philippines, and Saudi Arabia, each of which accounted for exports in the neighborhood of $150 million (figure 3-22). Indonesia and Korea were other significant export markets.

Figure 3-21
AEC services:[1] U.S. cross-border exports, imports, and trade balance, 1989-94

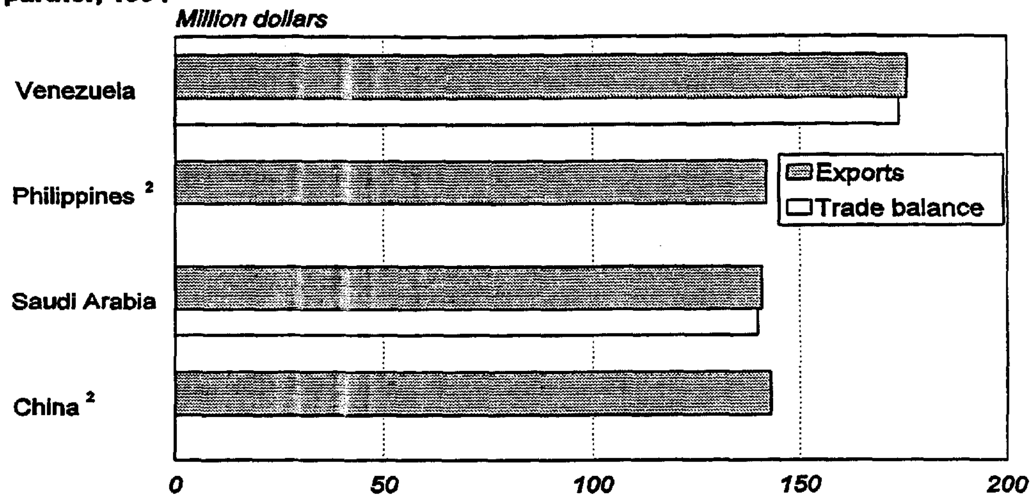


[1] Data pertaining to construction, architecture, and engineering services also reflect trade in mining and surveying services, the volume of which is believed to be small.

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

[55] Data pertaining to cross-border trade in AEC services exhibit certain shortcomings. Data on U.S. exports are reported on a net basis (i.e., U.S. contractors' expenditures on merchandise and foreign labor are excluded), whereas data on U.S. imports are reported on a gross basis. Consequently, the U.S. surplus on the AEC services account is understated. In addition, data pertaining to trade in AEC services also reflect trade in certain surveying and mining services, although the volume of such trade is believed to be small.

Figure 3-22
AEC services:[1] U.S. cross-border exports and trade balance, by major trading partner, 1994



[1] Data pertaining to construction, architecture, and engineering services also reflect trade in certain mining and surveying services, the volume of which is believed to be small.
[2] Import data were suppressed in 1994 to avoid disclosing the operations of individual companies. Consequently, the trade balance can not be presented.

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

Affiliate Transactions, 1989-93

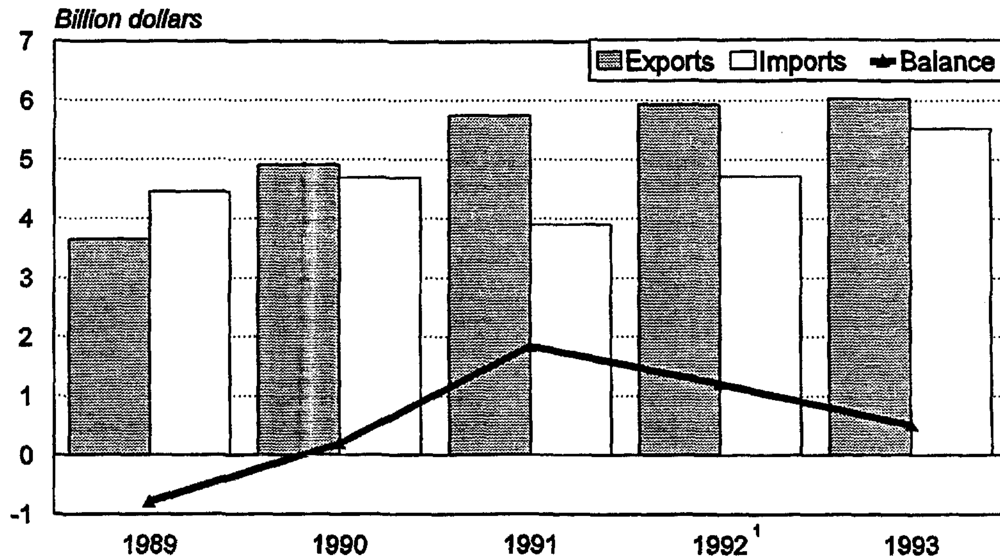
As noted, U.S. firms generally provide AEC services to foreign clients through overseas affiliates. This discussion focuses only on affiliates' provision of architectural and engineering services, leaving aside a discussion of construction, because data pertaining to the operations of construction affiliates are not available in sufficient detail for this report.[56]

Sales of architectural and engineering services by foreign-based affiliates of U.S. firms recorded average annual growth of 18 percent during 1989-92, with sales measuring $5.9 billion at the end of the period (figure 3-23).[57] In 1993, sales grew at a markedly slower rate of less than 2 percent, to $6.0 billion. By contrast, U.S. imports of architectural and engineering services appeared to experience slow, uneven growth of 2 percent in the early years of the study period, but increased by 17 percent in 1993, to $5.5 billion.

[56] Data that are available on the affiliates of U.S. construction companies suggest that they are large and active in foreign markets. These data indicate that such affiliates recorded sales of $7.4 billion in 1992, and $6.1 billion in 1993. Data regarding U.S. purchases from U.S.-based affiliates of foreign construction firms are unavailable. See USDOC, BEA, *U.S. Direct Investment Abroad: Operations of U.S. Parent Companies and their Foreign Affiliates*, 1992 and 1993, Table III.F. 3.

[57] Trade data reflect sales of architectural and engineering services by affiliates engaged in the architectural, engineering, and construction industries.

Figure 3-23
Architecture and engineering service sales by majority-owned affiliates: U.S. exports, imports, and trade balance, 1989-93



[1] Import data for certain architectural and engineering services provided by construction firms were suppressed in 1992.

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

The U.S. surplus on affiliate transactions measured $511 million in 1993. On the basis of available information, it appears that the principal markets for architectural and engineering sales by U.S.-owned affiliates were the United Kingdom, the Netherlands, Germany, and Canada. These countries accounted for two-thirds of architectural and engineering sales by foreign affiliates of U.S. firms. Europe was also the major source of U.S. imports, accounting for more than 85 percent of sales by U.S.-based affiliates of foreign architectural and engineering companies in 1993. France, Germany, and the United Kingdom accounted for more than one-half of sales by U.S. affiliates of foreign architectural and engineering service providers.

Assessment and Outlook

In 1994, U.S. firms' cross-border exports of AEC services grew less rapidly than in previous years, but nevertheless posted strong growth. In large part, growth in exports in 1994 was due to a 26-percent increase in exports to the Asia/Pacific region. China and Korea, both of which figure prominently in 1994 trade data, have undertaken a number of infrastructure development projects during this period, and have awarded a number of contracts to AEC firms from the United States. In particular, China's demand for modern infrastructure and

dependable power sources have drawn U.S. firms into the market.[58] Increased funding from the World Bank and the Asian Development Bank for infrastructure projects has further encouraged interest in the Asian construction market. Simultaneously, it appears that a U.S. market that was consistently depressed deterred foreign firms from pursuing U.S. contracts aggressively, driving down U.S. cross-border imports of AEC services in 1994.[59]

With respect to affiliate transactions in 1993, continued slow growth in U.S.-owned affiliates' sales abroad, coupled with a rapid increase in sales by U.S.-based affiliates of foreign firms, drove the U.S. surplus on this account further downward.[60] Although trade data surrounding these transactions are incomplete, it appears that increased sales by architectural and engineering affiliates of French firms and construction affiliates of British firms underlaid the rapid increase in U.S. purchases during 1993.[61]

Overall, surpluses on cross-border trade and affiliate transactions reflect U.S. firms' extensive experience in multiple foreign markets and their expertise in major project development. In particular, U.S. firms' widely acknowledged expertise in oil and gas construction and engineering projects[62] has solidified U.S. firms' strong global competitive posture. This expertise allowed certain U.S. firms to benefit as Venezuela expanded its petroleum sector and as Saudi Arabia steadily directed investment funds to its oil sector during 1993-94. U.S. exports of AEC services to Venezuela are expected to increase by 1 to 2 percent during the next 3 years because of anticipated privatization of major industrial sectors and increased growth in the country's oil sector.[63]

To date, U.S. firms' principal competition has been found in Europe. However, in the future, U.S. firms likely will encounter more intense competition from firms that originate in developing countries such as Korea, China, India, and Brazil. Korean firms have acted as subcontractors to U.S. firms in the Middle East, and consequently have increased their ability to win contracts for oil field engineering and construction services. Other firms, such as those from Brazil, have capitalized on their extensive experience in oil fields and mines to begin exporting AEC services to other Latin American countries.

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[58] Gary J. Tulcaz, "The Top 400 Contractors: International Market Retains Allure," *Engineering News-Record*, vol. 232 (May 23, 1994), p. 81.

[59] Industry representative, interview by USITC staff, Washington, DC, Feb. 1, 1995.

[60] USDOC, BEA, *Survey of Current Business*, Sept. 1995, pp. 104-105.

[61] Ibid., p. 105.

[62] The World Bank and the United Nations Centre on Transnational Corporations, "Construction," ch. in *The Uruguay Round: Services in the World Economy* (Washington, DC: The World Bank, 1990), p. 76.

[63] USDOC, International Trade Administration, "Venezuela: Engineering Services," Market Research Report, Mar. 1995, National Trade Data Bank.

Computer and Data Processing Services[64]

Introduction

Computer and data processing services are provided to foreign consumers through cross-border transactions and through sales by foreign-based affiliates, with the latter predominating. The growth of this sector largely has been due to the expansion of multinational corporations, and their need for expertise in managing increasingly complex computer networks. Highly competitive U.S. firms have maintained relationships with clients all over the world to supply services such as systems integration,[65] outsourcing,[66] and custom programming services.[67] Typically, systems integration and custom programming services are provided through affiliate transactions, and outsourcing services are provided across borders, as advances in electronic transmission technologies enable firms to provide external systems management services across great distances via telecommunication networks.[68]

Recent Trends

Cross-Border Trade, 1989-94

With respect to cross-border trade, the United States runs a consistent surplus (figure 3-24). In 1994, the surplus on cross-border trade of computer and data processing services reached $2.2 billion. At $2.5 billion, U.S. cross-border exports of computer and data processing services accounted for less than 2 percent of total U.S. exports of all services in 1994.

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[64] Computer and data processing services include data processing and tabulation; computer systems analysis, design, and engineering; custom software and programming services; rights to use, reproduce, or distribute computer software, whether custom or prepackaged; equipment leasing (except financial leasing); integrated hardware/software systems; and other computer services (e.g., timesharing, maintenance, and repair). This category excludes the value of prepackaged software. The U.S. Department of Commerce, Bureau of Economic Analysis, *Instructions to BE-22 Survey*, OMB Form No. 0608-0060.

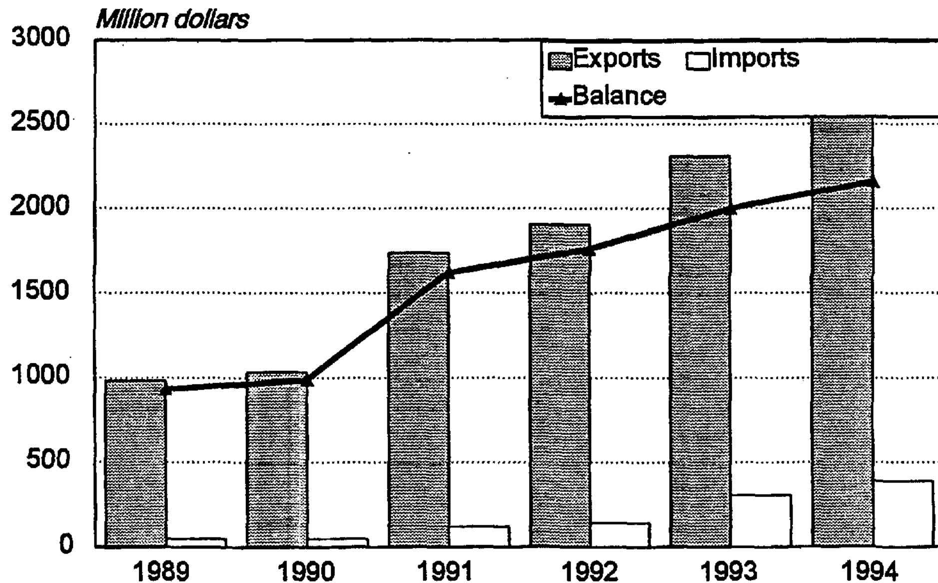
[65] Systems integrators act as third-party experts in the development, operation, training, and maintenance of seamless companywide computer networks. Tasks are wide ranging and involve all phases of systems design including planning, coordinating, testing, and scheduling of projects; analysis and recommendations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

[66] 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.

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

[68] 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 3-24
Computer and data processing services: U.S. cross-border exports, imports, and trade balance, 1989-94

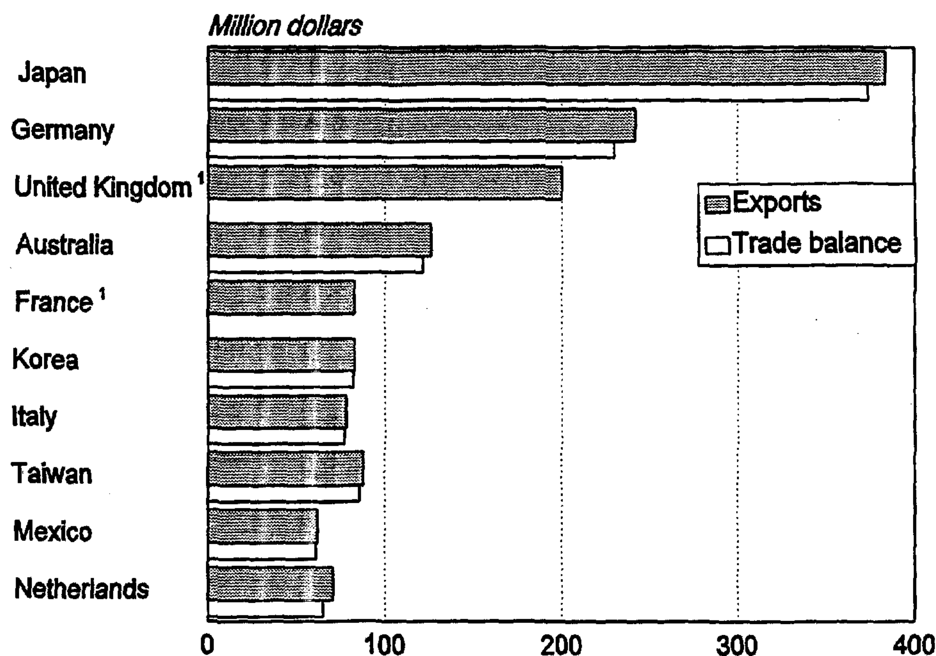


Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1992, Sept. 1994, and Sept. 1995.

During 1989-93, these exports grew by an average of 24 percent per year. However, export growth fell below this trend in 1994, rising by only 10 percent. At $386 million, U.S. data processing services represented less than 1 percent of total U.S. service imports. Growth in imports of computer and data processing services rose by an annual average of 60 percent between 1989 and 1993, more than double the 27-percent increase registered during 1994.

Among the United States' leading cross-border markets were Japan, Germany, the United Kingdom, and Australia (figure 3-25). Together, cross-border trade with these four countries accounted for nearly half of the total U.S. surplus of $2.2 billion in 1994. Japan, the largest purchaser of U.S. computer and data processing services, accounted for 15 percent of exports; followed by Germany, 10 percent; the United Kingdom, 8 percent; and Australia, 5 percent. Due to data constraints, it is not possible to identify the principal foreign suppliers of computer and data processing services to the United States during 1994. However, based on 1993 import data, top suppliers of computer and data processing services to the United States are in Europe: the United Kingdom, France, the Netherlands, and Germany. Recent data suggest that Japan also is becoming a leading supplier of these services.

Figure 3-25
Computer and data processing services: U.S. cross-border exports and trade balance, by major trading partner, 1994



[1] Import data for this country were suppressed in 1994 to avoid disclosing the operations of individual companies. Consequently, the trade balance can not be presented.

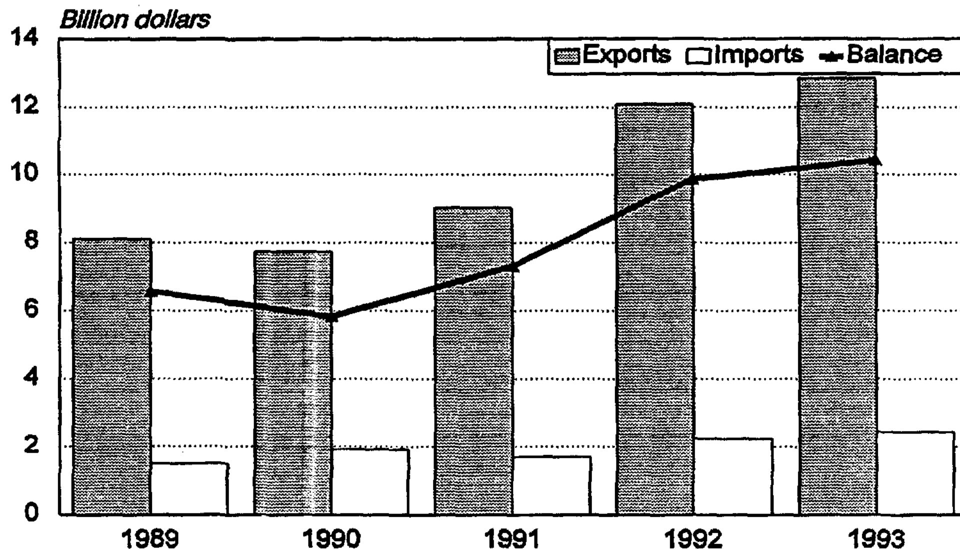
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1995.

Affiliate Transactions, 1989-93

In 1993, sales of computer and data processing services by foreign-based affiliates of U.S. firms (U.S. exports) exceeded those by U.S.-based affiliates of foreign companies (U.S. imports) by $10.4 billion (figure 3-26). The 1993 U.S. trade surplus continued to widen as it did during 1990-92, although at a slower pace. U.S. exports of such services in 1993 amounted to $12.8 billion, accounting for 9 percent of total foreign-based affiliate sales by U.S. firms in all industries. Export growth rose at a robust 14-percent average annual rate during 1989-92, but slowed to 6 percent in 1993.

At $2.4 billion, U.S. imports of computer and data processing services accounted for just under 2 percent of total U.S. service imports in 1993. Paralleling growth in exports of such services, U.S. imports grew by an annual average of 14 percent during 1989-92, but growth slowed to 9 percent in 1993.

Figure 3-26
Computer and data processing service sales by majority-owned affiliates: U.S. exports, imports, and trade balance, 1989-93



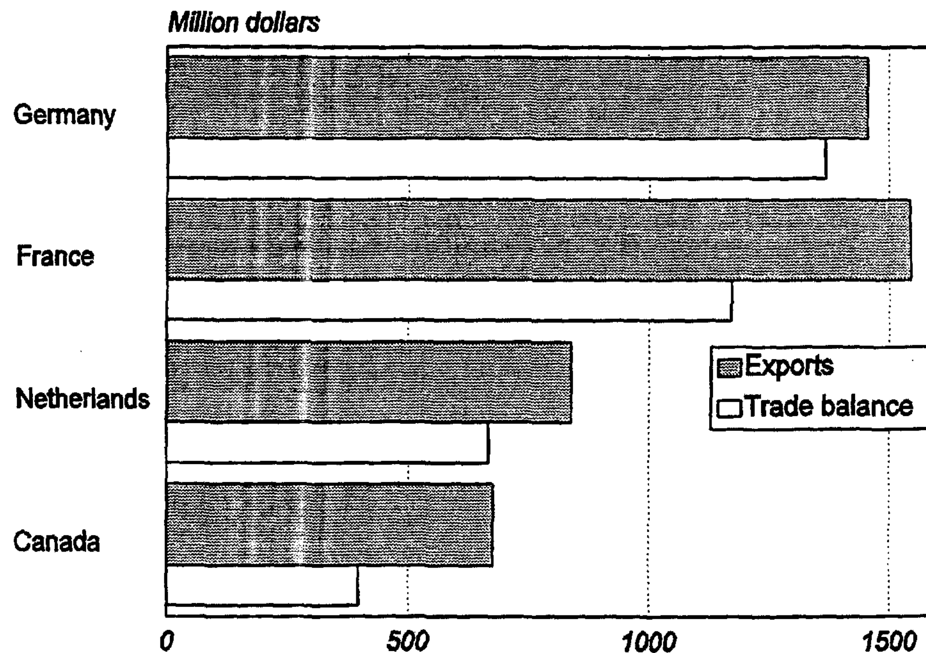
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1992, Sept. 1994, and Sept. 1995.

In 1993, sales to French customers by foreign-based affiliates of U.S. firms led sales to all other countries (figure 3-27). These sales registered over $1.5 billion, or about 12 percent of total U.S. affiliate exports of computer and data processing services. France is followed closely by Germany, with almost $1.5 billion, or roughly 11 percent of total affiliate sales in this industry. Other leading export markets include the Netherlands and Canada with 7 percent and 5 percent of U.S. affiliate sales, respectively. With respect to sales to U.S. persons by U.S.-based affiliates of foreign companies, France again leads other U.S. trading partners, with 15 percent of total U.S. purchases. Following behind France are Canada and the Netherlands, accounting for 11 percent and 7 percent of U.S. purchases, respectively.

Assessment and Outlook

While the United States maintains its position as the preeminent supplier of computer and data processing services, the growth rate of U.S. exports in these services is declining. Rapidly growing exports and surpluses recorded during previous years reflected a relatively more mature U.S. computer hardware industry, as well as U.S. firms' early migration to the

Figure 3-27
Computer and data processing service sales by majority-owned affiliates: U.S. exports and trade balance, by major trading partners, 1993



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

personal computer (PC) platform.[69] As a result of early efforts to downsize corporate computer systems, in part, the United States developed highly skilled PC-based programmers well in advance of the rest of the world.[70] This yielded a distinct competitive advantage for U.S. computer service firms in constructing and managing these systems. In turn, this edge enhanced U.S. firms' ability to export such services to foreign firms that were undertaking similar computer downsizing strategies. Most recently, however, the gradual evolution toward PC-based systems in other countries has given rise to growing competition from foreign firms that are amassing expertise in PC-based systems, thereby displacing potential U.S. exports.

[69] Migration entailed moving from large, centralized computing systems, typically based on mainframe computers, to smaller computers connected to a network via one or more servers. This platform transition has been credited largely with the surge in demand for computer services such as systems integration and outsourcing.

[70] For additional information, see USITC, *Global Competitiveness of the U.S. Computer Software and Service Industries,* June 1995, pp. 2-3.

U.S. firms are experiencing brisk competition, and subsequently are observing declining global market share, in the fields of data processing and custom programming.[71] Since both fields are highly labor-intensive, many large computer programming firms have substituted less expensive foreign labor for higher cost U.S. labor to perform routine programming and data entry tasks.[72] According to industry estimates, the wages earned by U.S. personnel for such services range anywhere between 4 to 10 times the wages earned by similarly trained foreign counterparts.[73] Countries that have benefitted from this differential include India, China, Ireland, the Philippines, Singapore, Israel, and certain Caribbean nations. Typically, English-speaking countries hold a slight advantage over their non-English-speaking competitors. The end result of labor substitution has been to slow the growth of U.S. exports in these services, although it is expected that U.S. custom programmers will continue to hold an edge over foreign competitors in high-end projects that require personnel trained in the latest languages and programming skills. Finally, improvements in packaged software products and increased use of built-in programming tools have decreased the need for custom and third-party programmers in many global markets.[74]

Another factor reportedly contributing to the recent slowdown in U.S. exports of computer services is increased competition from foreign service providers that have achieved expertise in niche markets such as accounting and financial services, both of which require a high level of program customization. Increased specialization has created opportunities for foreign competitors to establish footholds in important business-related segments, effectively displacing U.S. firms' early advantage in these fields. In Europe, one large German software developer is making significant inroads in this sector, capturing business previously dominated by U.S. firms.[75]

Despite increased competition in large European markets, opportunities remain strong for U.S. firms in relatively untapped foreign markets such as Asia and Latin America. Further, the convergence of computer, telecommunication, and entertainment industries likely will present further business opportunities for U.S. computer service firms. Such dynamism likely will ensure that U.S. exports of computer and data processing services will continue to grow. However, it is expected that export growth will be tempered by increased foreign competition, thereby slowing growth to levels below those registered in the early 1990s.

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[71] In 1994, custom programming services represented the single largest component of the $280-billion global computer services market, accounting for 37 percent of total revenues. Ibid., p. v.

[72] USITC, *Global Competitiveness of the U.S. Computer Software and Service Industries*, p. 4-24.

[73] Estimates derived from figures reported in Gary H. Anthes, "Not Made in the U.S.A.," *Computerworld*, Dec. 6, 1993, p. 124, and W. Wayt Gibbs, "Software's Chronic Crisis," *Scientific American*, Sept. 1994, p. 94.

[74] USITC, *Global Competitiveness of the U.S. Computer Software and Service Industries*, p. 4-27.

[75] For more on the increased competitiveness of foreign firms as computer service providers to the accounting and financial service industries, see "Financial Times Review: Information Technology," *Financial Times*, July 5, 1995, pp. 3, 5, 7, and 11.

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; home health care facilities; certain health maintenance organizations (HMOs);[76] 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.[77] Trade through affiliates includes health care services provided to persons in their home countries by affiliates of foreign-based health care companies.[78] In recent years, cross-border transactions have 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, 1989-94

In 1994, U.S. cross-border exports of health care services amounted to $794 million, representing a six-percent increase over the previous year's exports. Export growth of six percent during 1994 exactly matched the average annual export growth rate during 1989-93 (figure 3-28).[79] U.S. cross-border imports of health care services amounted to $500 million in 1994,[80] representing a 4-percent increase from 1993, which was well below the 12-percent average annual rate of increase of cross-border imports during 1989-93.

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[76] 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.

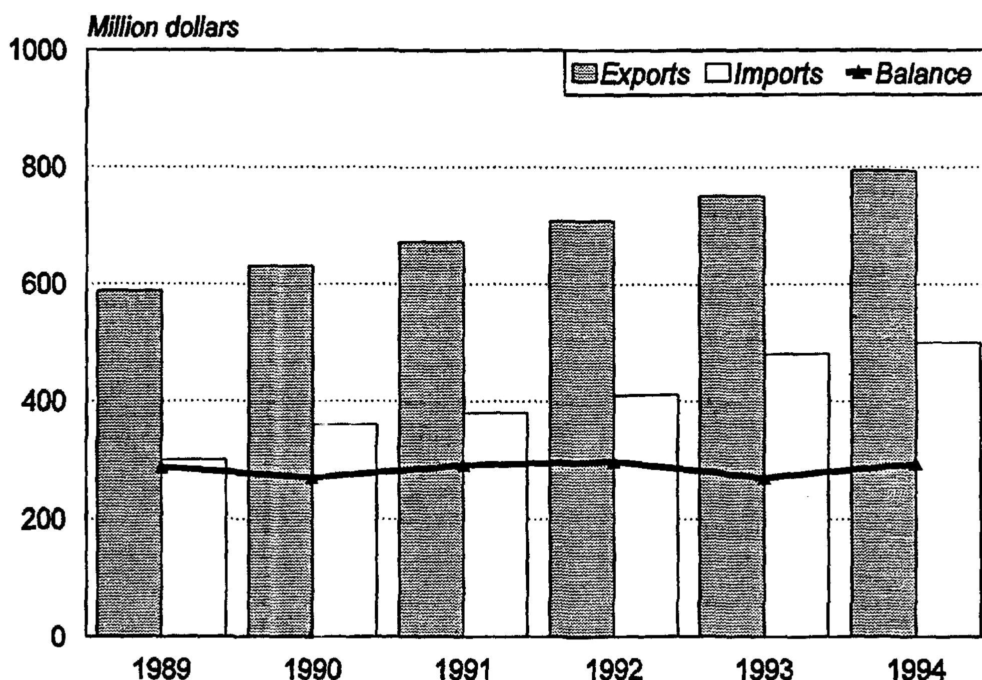
[77] Cross-border exports largely consist of the treatment of foreign persons in the United States by hospitals, clinics, medical doctors, and other health care service professionals. Cross-border imports comprise the treatment of U.S. citizens overseas by foreign health care service providers. Cross-border health care services transactions therefore correspond to consumption abroad in the General Agreement on Trade in Services (GATS) terminology.

[78] Trade through affiliates includes health care services provided to foreign persons by majority-owned, foreign-based affiliates of U.S. health care service providers, and to U.S. persons by majority-owned, U.S.-based affiliates of foreign health care service providers.

[79] USDOC, BEA, *Survey of Current Business*, Sept. 1995, p. 76.

[80] USITC staff estimate, based on U.S. industry representatives and BEA official, telephone interviews by USITC staff, Dec. 12-15, 1995.

Figure 3-28
Health care services: U.S. cross-border exports, imports, and trade balance, 1989-94



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

U.S. cross-border exports and imports of health care services accounted for less than 1 percent of such trade in all industries in 1994. The U.S. cross-border trade surplus in health care services amounted to $294 million in 1994, and has changed only slightly since 1989.

The leading export market for U.S. health care services in 1994 was Canada, which accounted for almost 45 percent of the total. Canada's share of U.S. exports declined from approximately 50 percent in 1993 due principally to a relative weakening of the Canadian dollar versus the U.S. dollar, which made it more expensive for Canadians to obtain health care services in the United States. Nevertheless, Canada remains the most important export market for U.S. firms due to the perceived higher quality of certain specialty U.S. health care services and shorter average waiting periods for surgeries in U.S. hospitals than in hospitals operating under Canada's national health care system.[81] Other leading markets for U.S. cross-border exports were the United Kingdom, Germany, France, Australia, and Mexico. Greater numbers of Europeans obtaining treatment in the United States were largely

[81] U.S. industry representatives and Canadian Government official, telephone interviews by USITC staff, Nov. 21, 1995.

responsible for the 6-percent overall increase in total cross-border exports in 1994.[82] Much of the increase in that year is attributed to more European travelers to the United States.

Affiliate Transactions, 1989-93

Sales by foreign-based affiliates of U.S. majority-owned health care service companies amounted to $381 million (figure 3-29). This represented a 9-percent increase in such exports from 1992, contrasting with a 20-percent average annual rate of decline during 1989-92.[83] Much of the decline in exports during previous years resulted from disinvestment in foreign facilities by major U.S. investor-owned hospital companies as they reorganized to meet rapidly changing conditions in an increasingly competitive U.S. market.[84] After reorganization, several U.S. hospital companies and one major U.S.-owned nursing home chain began reinvesting in overseas affiliates in 1992 and 1993.[85] Sales by U.S.-based affiliates of foreign health care companies amounted to $1.4 billion in 1993, representing a 4-percent increase over the previous year, but well below an average annual increase of 22 percent during 1989-92. Affiliate sales of health care services in 1994, both exports and imports, accounted for less than 1 percent of such sales in all service industries.

In 1993, sales by foreign-based affiliates of U.S. health care companies were concentrated in the United Kingdom, Switzerland, Japan, Spain, and Singapore. In the previous year, the United Kingdom accounted for $141 million, or 40 percent of such sales. However, health care sales by British-based affiliates of U.S. firms dropped by over 30 percent to $97 million in 1993, due primarily to reductions in health care payments under the British National Health Service (NHS) to a major U.S. health care provider that operates a chain of psychiatric clinics in the United Kingdom. However, increased U.S. affiliate exports to Japan, Spain, and Singapore in 1993 more than made up for the decline in the United Kingdom, enabling the U.S. health care industry to increase overall affiliate exports. Most health care exports to Japan are accounted for by the Japan-based affiliate of Beverly Enterprises, which owns and operates six long-term care facilities in Japan.[86]

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[82] USDOC, BEA, *Survey of Current Business*, Sept. 1995, p. 81; and U.S. industry representatives, telephone interviews by USITC staff, Jan. - Nov. 1995.

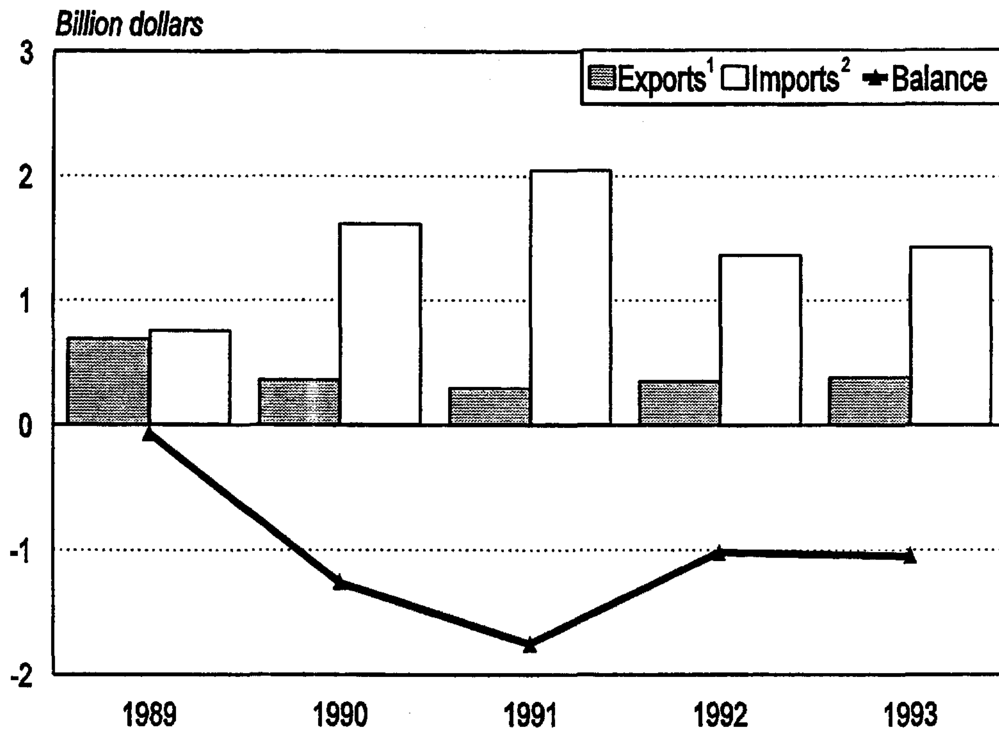
[83] USDOC, BEA, *Survey of Current Business*, Sept. 1995, p. 104.

[84] Rapidly rising health care costs in the United States led to a number of government and insurance efforts to contain the growth in such costs through managed care. This, in turn, led to a number of mergers, reorganizations, and changes in strategic focus in the health care sector, causing some major U.S. health care companies to reduce overseas holdings at the beginning of the period. However, after these companies had adjusted to new market conditions, they resumed investment in overseas markets. U.S. and European government officials and industry representatives, telephone interviews by USITC staff, Apr.-Dec. 1994 and Jan.-Nov. 1995.

[85] Industry analysts and representatives, telephone interviews by USITC staff, Jan. 18-20, 1995, and Dec. 15, 1995.

[86] Industry representative, telephone interview by USITC staff, Nov. 21, 1995; and Beverly Enterprises, *1994 Annual Report to Stockholders*, 1995.

Figure 3-29
Health care service sales by majority-owned affiliates: U.S. exports, imports, and trade balance, 1989-93



[1] Exports comprise sales to foreign persons by foreign-based, majority-owned affiliates of U.S. firms.
[2] Imports comprise sales to U.S. persons by U.S.-based majority-owned affiliates of foreign firms.

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

Assessment and Outlook

The increases in both cross-border exports and imports in 1994 generally followed previous trends of year-by-year increases during the overall period 1989-93. The relatively small 4-percent increase in cross-border imports from 1993 to 1994, which represented a decline from the average annual increase of 12 percent during the 1989-93 period, was due to declining numbers of U.S. persons seeking care from foreign health care providers in 1994. Some industry analysts attribute the decline to some U.S. health insurers' placement of greater restrictions on reimbursement for health care services obtained abroad.[87] Currency changes among the United States and important trading partners also were responsible for year-to-year fluctuations in the cross-border trade surplus throughout the 1989-93 period.

[87] U.S. industry representatives, telephone interviews by USITC staff, Dec. 15-18, 1995.

Much of the trade is incidental, primarily related to changes in relative U.S. and foreign currency values and patterns in tourism. Nevertheless, the United States is expected to maintain an overall surplus in its cross-border trade balance in the foreseeable future, since its health care service sector is perceived to be of higher quality and more innovative, especially in specialty services that attract a number of high-income patients from Canada, Europe, and Mexico.

Affiliate trade is the result, in part, of marketing strategies by U.S. and foreign health-care providers.[88] Thus far, it has consisted primarily of the efforts of 6 or 7 investor-owned hospital chains and one nursing home chain headquartered in the United States and one investor-owned hospital chain each headquartered in Germany and Australia. The 9-percent increase in sales by majority-owned affiliates of U.S. firms in 1993 represented the third straight year of increasing sales by the U.S. health service industry. This has been a departure from an overall 20-percent decline during 1989-92. Slower sales growth recorded by majority-owned affiliates of foreign firms in the United States stemmed from U.S. Government and private-sector health insurers' attempts to contain costs which resulted in slower revenue growth for both domestic and foreign health care service suppliers.

The relatively substantial U.S. trade deficits in affiliate trade in health care services are expected to continue over the next 2 or 3 years at least.[89] This is due to recent dynamics in the U.S. market that have increased significantly opportunities for private-sector health care providers promising to reduce rapidly escalating 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 investor-owned domestic and foreign health care service players dominating the industry.

In the past few years, private-sector health care providers in the U.S. market have experienced substantial consolidation. Now that a handful of investor-owned hospital companies and nursing home chains maintain control of a large share of private-sector health care providers, they are focusing their efforts on further expansion by acquiring U.S. hospitals previously operated by religious and other nonprofit entities rather than by expanding abroad. In fact, there has been a retrenchment in U.S. investment abroad from a decade ago when the emerging investor-owned segment of the U.S. health care industry began investing in countries such as Saudi Arabia, Egypt, and the United Kingdom.[90]

Although five or six U.S. health service firms maintain subsidiary facilities in foreign markets, the total number of overseas facilities is relatively small. Except for one major psychiatric hospital company, each firm has established only four or five foreign-based affiliates, on average. On the other hand, the two principal foreign companies with affiliates in the United States each operate large chains. For instance, Australian-headquartered Ramsey Health Care, Inc., owns 15 hospitals in the United States, while German-based Paracelsus operates 23 hospitals. Until the acquisitions and consolidations currently

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[88] U.S. and foreign industry representatives, interviews by USITC staff, Los Angeles, Long Beach, and Santa Monica, CA, June 12-15, 1995, and telephone interviews, Nov. 20, 1995.

[89] Ibid.

[90] Ibid.

Paracelsus operates 23 hospitals. Until the 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 persist.[91]

Legal Services

Introduction

Legal services comprise 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, legal documentation and certification services, and other legal advisory and information services. Legal services may be traded on both a cross-border and affiliate basis. However, trade data are available only for cross-border transactions, which are the predominant means of providing legal services to clients. Cross-border trade in legal services may take place when attorneys travel abroad to provide legal advice to clients or when clients travel abroad to engage the services of foreign attorneys. Attorneys also frequently provide routine legal services across national borders without physically crossing the frontier by using telecommunication and telefacsimile devices or other forms of correspondence.

Affiliate trade in legal services takes place when law firms establish affiliates in foreign markets. The affiliate's lawyers may become members of foreign bars, giving them the right to appear in local courts and to prepare advice on local law. However, most U.S. lawyers in foreign markets operate as so-called foreign legal consultants. Foreign legal consultants are members of a bar in the United States, but are not members of the bar in the foreign countries in which their clients reside. They variously provide legal advice to clients on U.S. law, international law, and third-country law, but are precluded from appearing in local courts or giving independent advice on local law.

Recent Trends in Cross-Border Trade, 1991-94

In 1994, U.S. exports of legal services totaled nearly $1.6 billion, or approximately 1 percent of total cross-border service exports.[92] Legal service imports, valued at $428 million, represented less than 1 percent of total cross-border imports. The United States recorded a trade surplus of approximately $1.1 billion in 1994 (figure 3-30). Both legal service exports and imports increased faster during 1994 than during the preceding years of 1991-93, although imports grew nearly four times faster than exports.

In 1994, the largest export markets for U.S. cross-border legal services were the United Kingdom and Japan, accounting for approximately 23 percent and 20 percent of exports, respectively. Other significant export markets for U.S. legal services included France, Canada, and Germany. Import patterns are similar, with U.S. residents purchasing approximately 30 percent of foreign-provided legal services each from the United Kingdom

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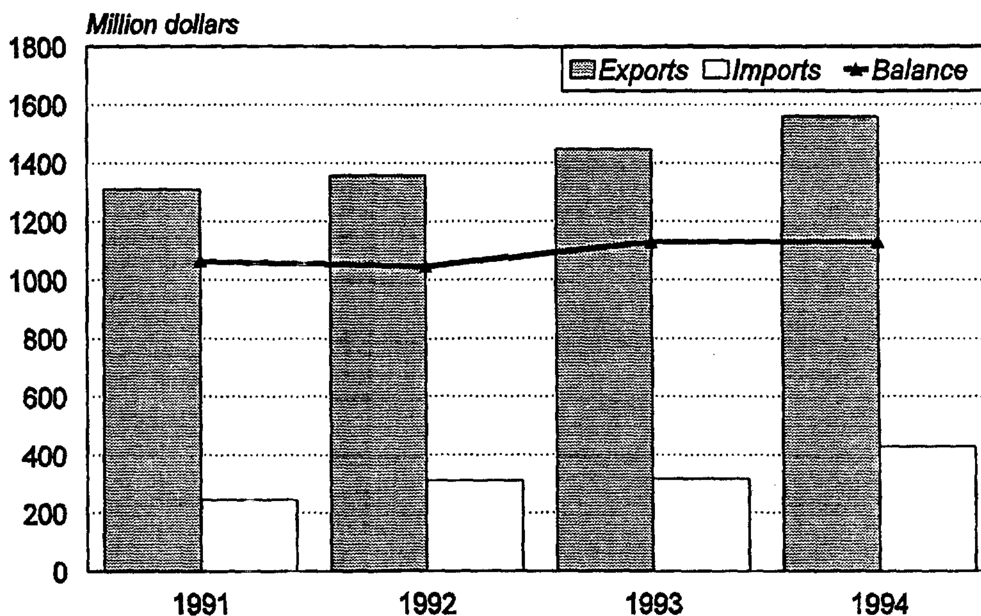
[91] Ibid.

[92] USDOC, BEA, *Survey of Current Business*, Sept. 1995, p. 76.

Figure 3-30
Legal services: U.S. cross-border exports, imports, and trade balance, 1991-94[1]



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

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

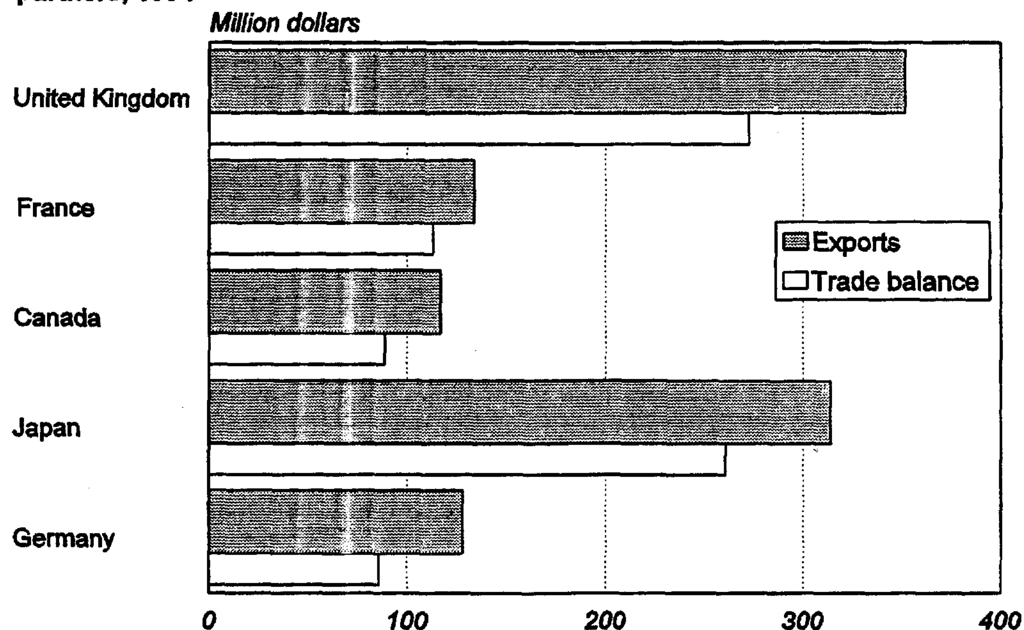
and Japan, and another 22 percent from France, Canada, and Germany, collectively. The United States maintains a trade surplus in legal services with each of these countries (figure 3-31).

Assessment and Outlook

Legal services trade continued to exhibit growth in 1994 and the United States recorded a large surplus despite faster growth in imports than exports. These trends may be explained by the nature of cross-border legal services and the characteristics of U.S. law firms. Most cross-border legal services involve financial transactions, with services being provided to transnational corporations seeking to establish a direct market presence or to raise capital in the financial markets.[93] For example, foreign corporations seeking to establish operations or expand direct investment require legal advice and assistance in such areas as mergers and acquisitions, copyright protection, and regulatory compliance. Similarly, foreign corporations or public institutions that wish to raise money in capital markets require legal

[93] Legal services representative, telephone interview by USITC staff, Jan. 23, 1996, and Padma Mallampally, "Professional Services," ch. in *The Uruguay Round: Services in the World Economy,* " (World Bank and United Nations Centre on Transnational Corporations, 1990), p. 99.

Figure 3-31
Legal services: U.S. cross-border exports and trade balance, by major trading partners, 1994



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

assistance with the documentation and regulations that apply to the issuance of securities. Consequently, trade in legal services is closely related to international investment activity.

An examination of investment data provides some insight into the growth exhibited by exports and imports of legal services during 1994. Overall import growth is due to a surge in imports from Japan and the United Kingdom, which jumped by 39 percent and 22 percent, respectively. Over this same period, U.S. activity in Japan's financial markets increased while Japan's involvement in U.S. financial markets actually declined, as measured by cross-border payments to securities firms.[94] Similarly, U.S. activity in London's financial markets grew faster than the reverse, with U.S. payments to British securities firms increasing by 21 percent while British payments to U.S. securities firms increased by 15 percent.[95] In addition, during 1994, the United States increased its direct investment position in Japan by 19 percent while Japan's position in the United States increased by only 4 percent.[96] The growth in U.S. legal services imports was influenced by increased activity by U.S. firms in foreign financial markets and by the expansion of U.S. transnational corporations abroad.

The relative openness and size of the U.S. economy combined with the dynamism of U.S. securities markets create powerful incentives for foreign firms to enter and operate within

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[94] USDOC, BEA, *Survey of Current Business*, Sept. 1995, pp. 90-93.
[95] Ibid.
[96] USDOC, BEA, *Survey of Current Business*, Aug. 1995, pp. 61-62 and pp. 96-97.

the United States. These characteristics, combined with the perception that U.S. attorneys offer a qualitatively different kind of service with closer client relationships,[97] suggest that demand for U.S. legal services is likely to remain strong well into the future. However, U.S. imports of legal services also are likely to continue growing as U.S. organizations continue to expand internationally and increase their participation in foreign capital markets.

Telecommunication Services

Introduction

Telecommunication services[98] can be exchanged across national borders and through foreign-based affiliates. Cross-border trade predominates and comprises a wide variety of transactions: basic international telephone traffic flows, where telecommunication traffic crosses national borders (e.g., voice telephone and fax transmission, telex, international value-added network services); consumption abroad, where the customer consumes services in foreign markets (e.g., roaming agreements for mobile communications, calling card services); and the movement of persons (e.g., build-operate-transfer[99] schemes, telecommunications training and consultancy).[100]

Recent Trends

Cross-Border Trade, 1989-94

The United States runs a consistent trade deficit in cross-border telecommunication services (figure 3-32). This deficit principally arises because most calls between the United States and foreign countries originate in the United States. U.S. carriers collect fees from domestic customers for outbound calls and subsequently divide these receipts with foreign carriers

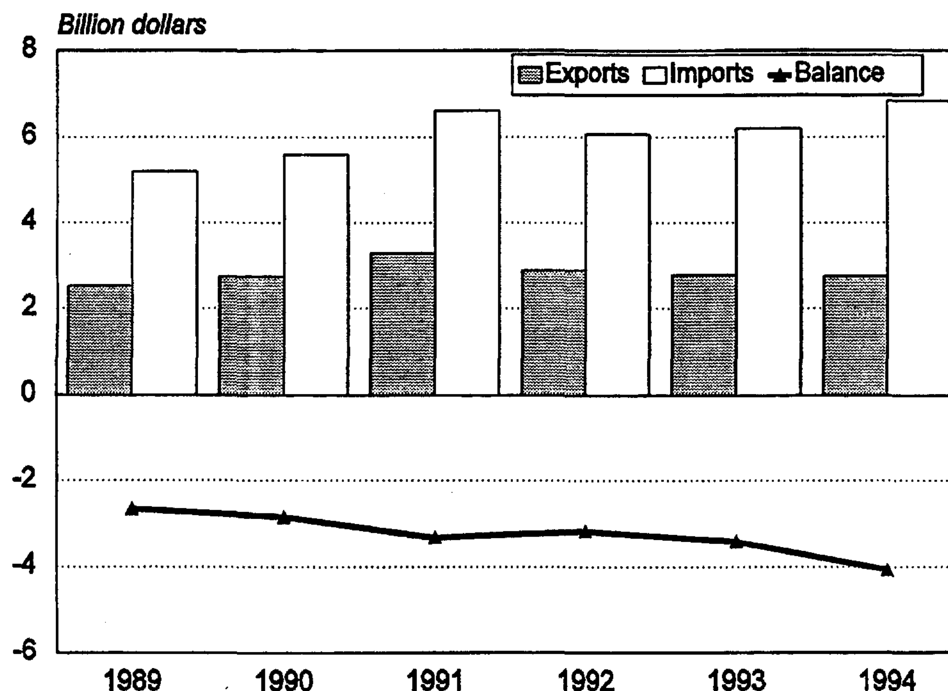
[97] Peter D. Ehrenhaft, testimony before the U.S. International Trade Commission, June 7, 1995.

[98] For the purposes of this discussion, telecommunication services include basic telephone services, private leased channel services, telex, telegram, and other jointly provided, or basic, services; value-added services such as electronic mail, voice mail, and enhanced facsimile services; and support services related to various equipment, leasing, and satellite launching services. The U.S. Department of Commerce, Bureau of Economic Analysis, *Instructions to BE-22 Survey*, OMB Form No. 0608-0060, p. 2.

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

[100] ITU, *World Telecommunication Development Report, 1994*, p. 26.

Figure 3-32
Telecommunication services: U.S. cross-border exports, imports, and trade balance, 1989-94



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

according to bilaterally negotiated "accounting rates." Accounting rates are prices charged by foreign carriers for terminating international calls. U.S. payments to foreign carriers are recorded as imports in the U.S. balance of payments, whereas payments collected from foreign carriers are recorded as exports. In the final settlement, the country originating the majority of the calls is required to pay the carrier of the country terminating these calls a "settlement payment." The settlement payment is designed to compensate a carrier for any imbalance in traffic flows.[101] Other factors that adversely affect the trade balance include the average length of calls, which are longer for calls originating in the United States; relatively low international calling prices in the United States, which promote outbound calls; and the devaluation of the dollar, which increases the size of settlement payments.[102]

During 1989-93, the U.S. deficit in cross-border telecommunication services grew by an average of 6 percent annually. In 1994, the deficit rose by 19 percent to $4 billion. In 1994, cross-border exports were valued at $2.8 billion, less than 2 percent of total U.S. cross-border service exports. During 1989-93, U.S. exports of telecommunication services expanded by an average of 3 percent per year. However, exports have exhibited a gradual downward trend since 1992, with a 1-percent drop in 1994. At $6.8 billion, imports of

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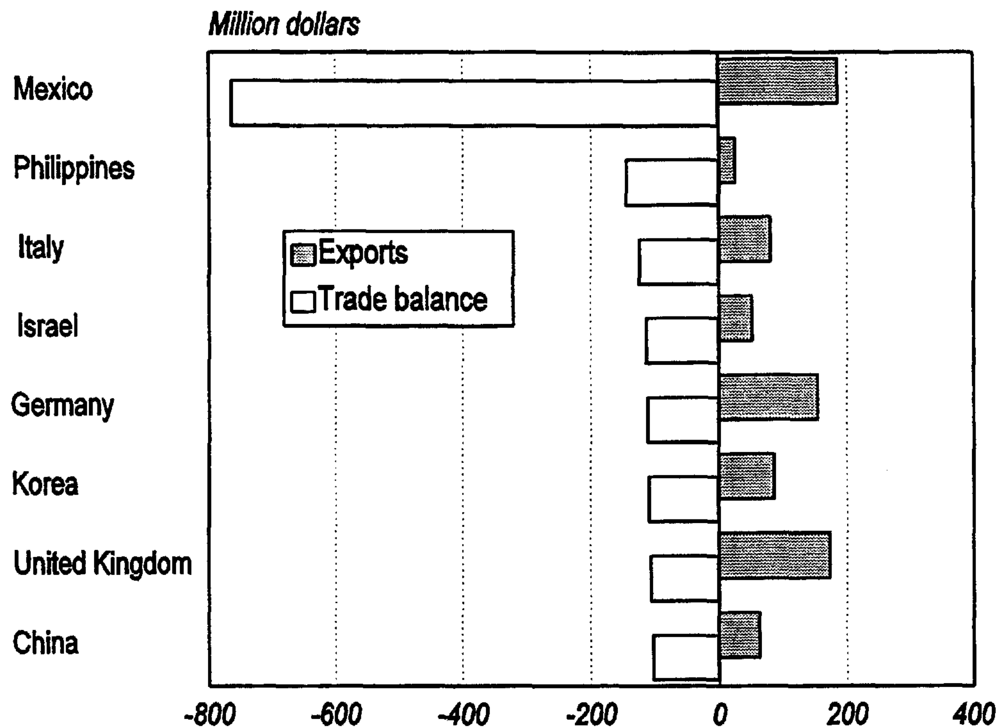
[101] Typically, the settlement rate is equal to half of the accounting rate.
[102] ITU, *World Telecommunication Development Report, 1994*, pp. 27-29.

telecommunication services represented 5 percent of total U.S. cross-border service imports. Cross-border imports of telecommunication services increased by 5 percent per year, on average, during 1989-93, and surged by 10 percent in 1994.[103] Japan, Mexico, the United Kingdom, and Germany comprise the largest U.S. cross-border export markets, although the United States posted deficits in bilateral telecommunications trade with each. These four countries accounted for 25 percent of U.S. cross-border exports of telecommunication services in 1994. Among countries with which the United States is a net importer of telecommunication services, Mexico is the largest (figure 3-33). The United States recorded a $765 million deficit with Mexico in 1994, representing 19 percent of the total U.S. deficit on trade in telecommunication services. The United States recorded a cross-border trade surplus with only one country, Sweden, in 1994.

Figure 3-33
Telecommunication services: U.S. cross-border exports and trade balance, by major trading partners, 1994



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

[103] USDOC, BEA, *Survey of Current Business*, Sept. 1995, p. 98.

Affiliate Transactions, 1989-93

As noted, telecommunication services also may be provided to foreign customers through a foreign-based affiliate. This component of telecommunication services trade is growing in importance as market access and foreign ownership restrictions are liberalized both unilaterally and through agreements such as the GATS. However, data on sales by foreign-based U.S. telecommunication affiliates are bundled with data regarding radio and other broadcasting services, defined broadly as "communications." In 1993, the United States ran a trade surplus of $1.6 billion in communication services, down from nearly $3 billion in 1992.[104] Data regarding affiliate sales of communication services are not available in sufficient detail to identify all major trading partners. However, these data suggest that U.S. affiliates transact a majority of sales in the United Kingdom, whereas Canadian affiliates account for the largest share of U.S. sales by foreign-owned affiliates.

Assessment and Outlook

Cross-border imports are rising faster than cross-border exports, causing the U.S. deficit in telecommunications service trade to expand. Since 1989, U.S. outgoing traffic has escalated by an average of 15 percent per year, compared to 12-percent annual growth of incoming traffic.[105] Efforts by the U.S. Government to persuade foreign countries to reduce accounting rates have met with some success, principally in countries such as Australia, New Zealand, Sweden, the United Kingdom, and Japan. However, many countries continue to impose non-cost-based rates, in part to subsidize inefficient national telecommunication and postal systems.[106]

In the future, delivery through foreign affiliates likely will increase in importance. In a number of bilateral and multilateral fora, including the WTO, international value-added network negotiations, and undertakings related to the North American Free-Trade Agreement, the U.S. Government has been successful in promoting a liberal trade and investment regime that facilitates the provision of many value-added telecommunication services through foreign-based affiliates. Further, U.S. firms' acquisitions of foreign carriers through privatization programs and successful acquisition of licenses to provide cellular communication services likely will increase the sales volume of U.S.-owned telecommunication affiliates.

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[104] Ibid., pp. 104-105.

[105] Federal Communications Commission, "Trends in the International Telecommunications Industry," Industry Analysis Division, Common Carrier Bureau, June 23, 1995, p. 17.

[106] ITU, *World Telecommunication Development Report, 1994*, p. 27.

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 compared with sales by affiliates varies substantially depending upon both the type of transportation service provided and the geographic location of the countries involved. For example, although trade in airline transportation services is inherently a cross-border transaction, sales by affiliates may play a large role in freight transportation because of regulatory barriers to cross-border trade. Conversely, the nature of port services, which usually are operated by public entities, typically precludes sales by affiliates.

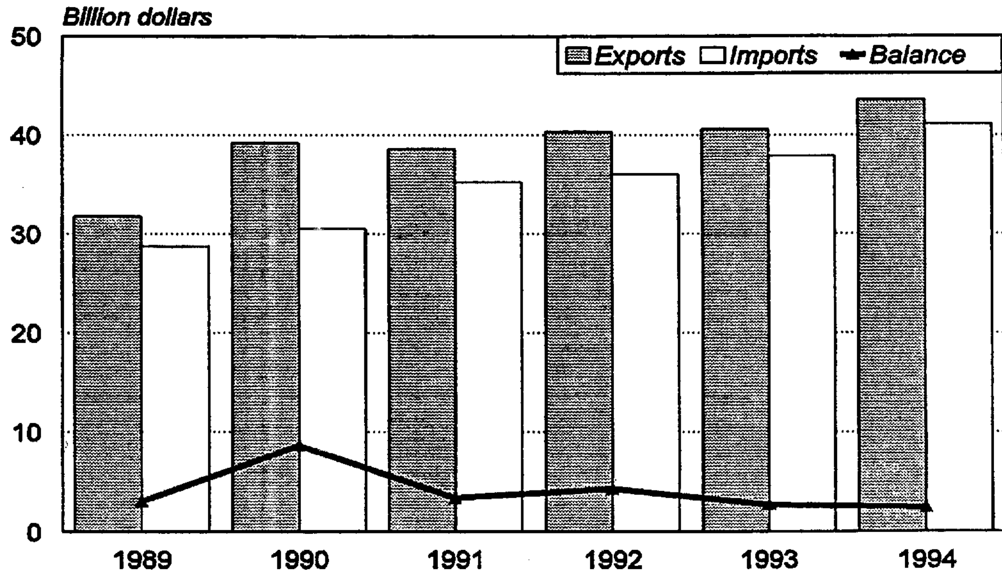
Recent Trends

Cross-Border Trade, 1989-94

In 1994, cross-border exports of transportation services, as measured by passenger fares, freight and port payments, and payments for certain other transportation services, rose by just over 7 percent, from $40.6 billion to $43.6 billion, which was slightly faster than the average annual increase of 6 percent recorded during 1989-93 (figure 3-34). Cross-border imports of transportation services increased by 8 percent, from $37.9 billion in 1993 to $41.1 billion in 1994, which was slightly faster than the average annual growth of 7 percent recorded during 1989-93. As a result of the $3-billion increase in exports and the $3.2-billion increase in imports, the U.S. cross-border trade surplus in transportation services decreased by approximately 8 percent to just below $2.5 billion in 1994. Transportation services account for a major portion of total cross-border services trade. Exports of transportation services accounted for 29 percent of all cross-border service exports in 1994, while imports of transportation services accounted for nearly 37 percent of all cross-border service imports.

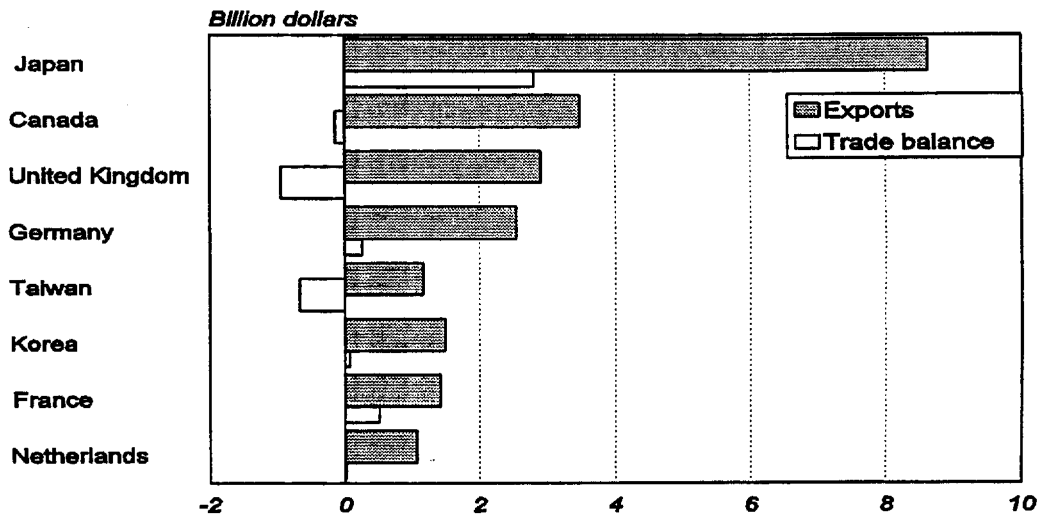
Major U.S. trading partners in transportation services include Japan, Canada, the United Kingdom, and Germany, in terms of total volume of both cross-border exports and cross-border imports. The list of major trading partners remains substantially unchanged from previous years and does not differ substantially for exports and imports. Both exports and imports of transportation services between the United States and these countries continue to rise steadily. While U.S. trade balances with Canada, the United Kingdom, and Germany have fluctuated between surplus and deficit during 1989-94, the United States consistently maintains a trade surplus with Japan (figure 3-35), primarily stemming from airline passenger fares.

Figure 3-34
Transportation services: U.S. cross-border exports, imports, and trade balance, 1989-94



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

Figure 3-35
Transportation services: U.S. cross-border exports and trade balance, by major trading partners, 1994



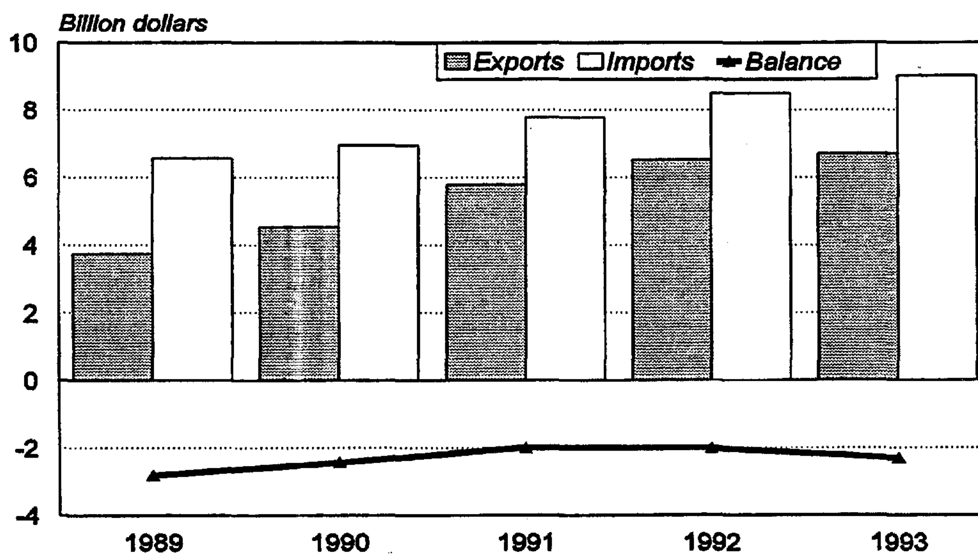
Source: Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1995.

Affiliate Transactions, 1989-93

Available data on affiliate transactions differ from cross-border data by including receipts for the arrangement of travel. Sales by foreign-based affiliates of U.S. firms (exports) rose from $6.5 billion in 1992 to $6.7 billion in 1993, or by just 3 percent, which is much slower than the average annual growth rate of 16 percent recorded during 1989-92. Sales by U.S.-based affiliates of foreign firms (imports) also grew more slowly in 1993, rising by 6 percent to $9 billion in 1993, as compared to an 8-percent average annual increase during 1989-92. The resulting deficit of $2.3 billion principally reflects a strong presence of foreign transportation service firms operating in the United States (figure 3-36). Reasons for a pronounced foreign presence include the size and relative openness of the U.S. market.

While much of the country-specific data for sales by majority-owned affiliates are unavailable because they would disclose information on the operations of individual firms, available data indicate that Europe is the largest trading partner for both exports and imports. Canada also is a significant market for sales by foreign affiliates of U.S. companies, accounting for 20 percent of all sales in 1993, while the grouping of the Middle East, the Asia-Pacific region, and Africa account for only 20 percent of sales, collectively. Sales by U.S.-based affiliates of foreign firms appear to be dominated by firms with parent companies in the United Kingdom and Japan, which account for 26 percent and 20 percent of sales, respectively.

Figure 3-36
Transportation services sales by majority-owned affiliates: U.S. exports, imports, and trade balance, 1989-93



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

Assessment and Outlook

The increase in both exports and imports of transportation services is likely to continue, as international merchandise transactions continue to increase. While imports increased slightly more than exports during 1994, this is consistent with the faster rise of total U.S. merchandise imports as compared with merchandise exports over the period 1989-94. Year-to-year fluctuations in the growth of trade in transportation services often are attributable to changes in exchange rates and general economic conditions.

The Asia-Pacific region continues to be a primary supplier of freight and other transportation services to the United States, while Europe remains a major supplier of passenger transportation services, especially air transportation. Europe and the Asia-Pacific region also remain the two top cross-border export markets, with each region accounting for nearly $1 billion of the increase in cross-border exports in 1994.

Affiliate trade patterns appear to be influenced by geographic proximity and market openness as well as merchandise trade patterns. Once again, Europe is the largest U.S. trading partner, but affiliate exports to Canada are larger than those to all of Asia, Africa, and the Middle East, most likely reflecting the relative ease of establishing U.S. affiliates in Canada. By contrast, affiliate exports to Japan are negligible while imports from Japanese affiliates are substantial, which reflects how Japan's internal transportation and distribution service markets have been relatively closed to foreign participation.

Travel and Tourism Services

Introduction

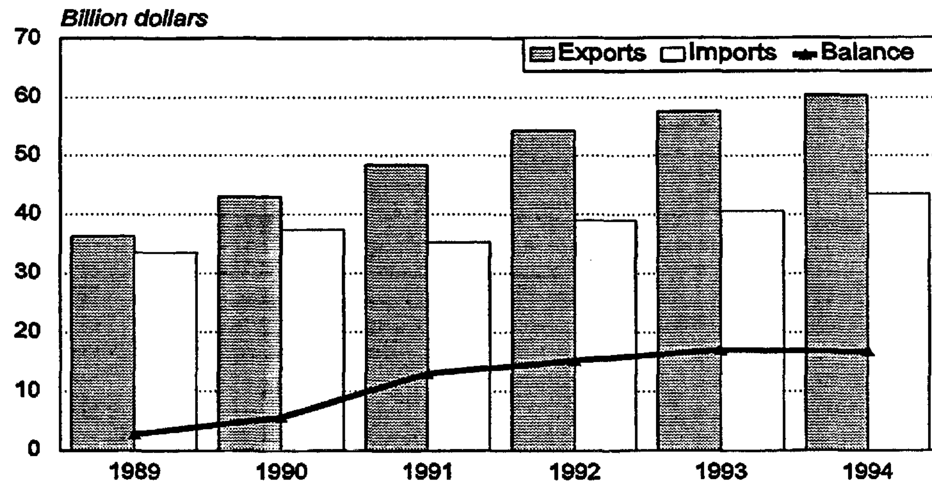
Available travel and tourism trade data represent expenditures made by travelers while in another country, such as for lodging and meals. Although passenger fares may be considered a component of travel and tourism services, for the purposes of this study passenger fares are addressed in the transportation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

Recent Trends

Cross-Border Trade, 1989-94

In 1994, the United States earned $60.4 billion from cross-border travel and tourism services (figure 3-37), representing 40 percent of total U.S. service exports. Cross-border exports increased by only 4 percent in 1994, a sharp decrease from the average annual growth rate of 12 percent during 1989-93. Cross-border imports, which represent spending by U.S.

Figure 3-37
Travel and tourism services: U.S. cross-border exports, imports, and trade balance, 1989-94



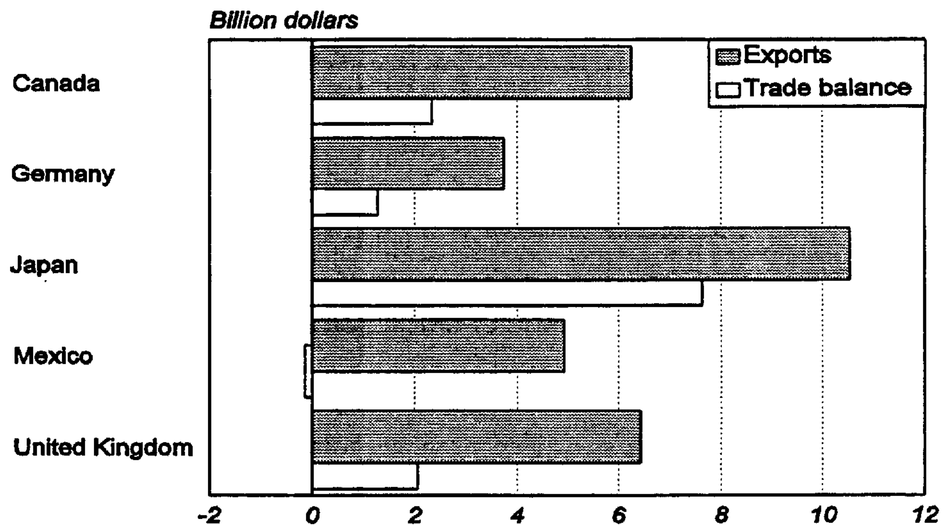
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1992, Sept. 1994, and Sept. 1995.

travelers abroad, increased by 7 percent to an estimated $43.6 billion in 1994. Such import growth slightly exceeded the average annual growth of 5 percent in 1989-93. The resulting surplus of $16.8 billion in cross-border trade in travel and tourism accounted for 42 percent of the total cross-border trade surplus in services, but was 1.9 percent lower than in 1993.

Visitors to the United States from Canada, Germany, Japan, Mexico, and the United Kingdom accounted for approximately 53 percent of cross-border U.S. travel and tourism receipts in 1994 (figure 3-38). Receipts from Japan ($10.5 billion) and other Asian Pacific countries jumped by close to 14 percent, while travelers from Europe and Latin America recorded slight increases over their 1993 spending levels. However, the devaluation of the Canadian dollar during 1994 contributed to a 16-percent decrease in receipts from Canada. Receipts from Mexico continued a 2-year decline, aggravated by the peso crisis at the end of 1994, resulting in a small U.S. deficit.

Europe is the largest provider of cross-border travel and tourism services to U.S. citizens, collecting 37 percent of U.S. payments in 1994, followed by Latin America and the Asia-Pacific region. The most important foreign destinations for U.S. citizens traveling abroad in 1994 were Mexico, the United Kingdom, Canada, and Japan, earning $5.0 billion, $4.4 billion, $3.9 billion and $2.9 billion, respectively.

Figure 3-38
Travel and tourism services: U.S. cross-border exports and trade balance, by major trading partners, 1994



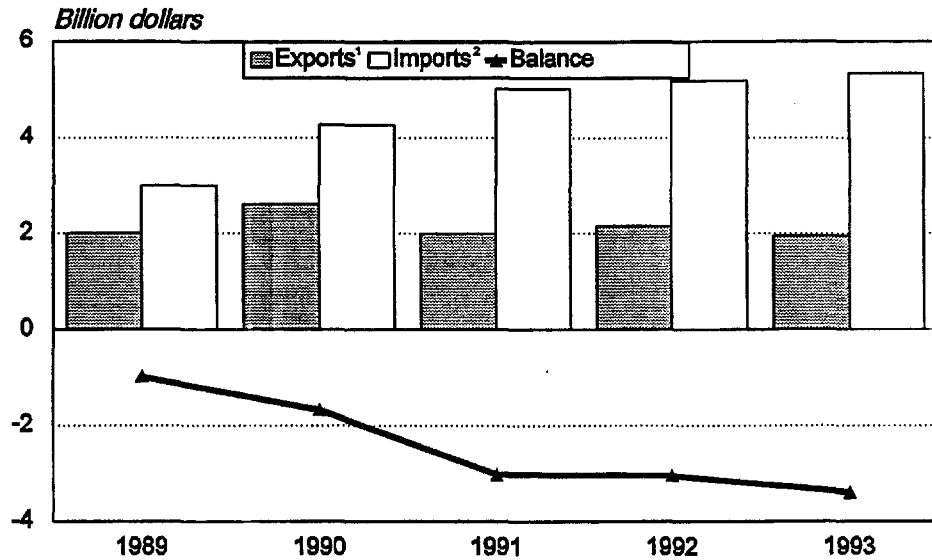
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1995.

Affiliate Transactions, 1989-93

Travel and tourism services also are traded through majority-owned affiliates. However, data on affiliate trade in such services are available only for the lodging industry, which reflect the services offered in hotels, motels, and similar establishments. Foreign-based affiliates of U.S. hotels generated revenues, or exports, estimated at $1.9 billion in 1993, representing 1 percent of total U.S. affiliate exports of services and an 8-percent decrease from 1992 (figure 3-39). The decline in sales by affiliates of U.S. lodging establishments in 1993 contrasted with a slight but irregular increase recorded during 1989-92, when annual sales increased by 0.3 percent, on average. Foreign lodging companies with affiliates in the United States increased sales (U.S. imports) by 1 percent to approximately $5.3 billion in 1993. Such growth was much lower than the 23-percent average annual growth rate recorded by foreign-owned lodging affiliates during 1989-92. The U.S. deficit in travel and tourism affiliate trade in 1993 was $3.4 billion, reflecting a 7-percent increase from 1992.

In terms of affiliate trade, the largest markets for foreign affiliates of U.S. firms (exports) are Canada, Germany, and the United Kingdom (figure 3-40). Conversely, sales by U.S.-based affiliates of foreign firms (imports) are dominated by those from Japan and the United Kingdom, with 45 percent and 16 percent of sales, respectively. These trade values are largely explained by direct investment patterns. As of 1992, Japan was by far the largest investor in U.S. hotels, holding assets of $13.6 billion or 58 percent of all foreign assets.

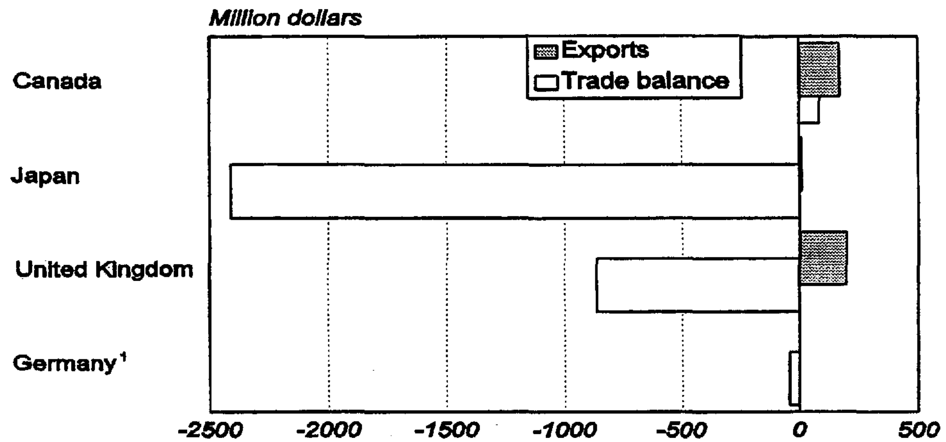
Figure 3-39
Travel and tourism service sales by majority-owned affiliates: U.S. exports, imports, and trade balance, 1989-93



[1] Exports comprise sales to foreign persons by foreign-based, majority-owned affiliates of U.S. hotels.
[2] Imports comprise sales to U.S. persons by U.S.-based, majority-owned affiliates of foreign hotels.

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

Figure 3-40
Travel and tourism service sales by majority-owned affiliates: U.S. exports and trade balance, by major trading partners, 1993



[1] Trade balance reflects imports only, as export data for this country were suppressed in 1993 to avoid disclosing the operations of individual companies.

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

France and the United Kingdom followed, holding $2.6 billion and $1.5 billion in assets, respectively.[107] In 1993, the U.S. affiliate trade deficit with Japan narrowed by 6.6 percent, likely reflecting a 4.5-percent reduction in Japan's total hotel assets in the United States during 1991-93.[108] The United Kingdom widened its trade surplus with the United States by 28 percent in 1993, also reflecting in part a 24-percent increase in British hotel assets in the United States during 1991-93.[109] Total U.S. lodging investment abroad dropped by 1.2 percent during 1991-93.[110]

Assessment and Outlook

Cross-border trade in the travel and tourism industry in 1994 generally continued the trends recorded during the preceding five years. Inbound tourism consistently generated a multi-billion-dollar trade surplus during the study period. However, the cross-border trade surplus was slightly lower in 1994, reflecting an increase in the number of trips abroad by U.S. citizens rather than reduced incoming travel. The decline in the number of visitors from Canada and Mexico was offset by an upsurge in inbound tourists from East-Asian countries, including Japan.

The deficit in affiliate trade in tourism has been consistently widening in the last 5 years. This deficit is the result of heavy investment by foreign entities, notably Japanese and British firms, in U.S. hotel properties during the 1980s and early 1990s, initially in response to the booming U.S. real estate market and later in response to lower interest rates. However, downturns in the U.S. real estate market and in the Japanese economy, as well as a worldwide recession in 1991, caused foreign purchases of hotels in the United States virtually to cease as the 1990s progressed. In addition, Japanese investors have proceeded to divest slowly. Another factor contributing to the affiliate trade deficit in travel and tourism services is the preference of U.S. firms to expand abroad through franchising and management agreements. Sales revenues from such agreements are not included in the affiliate trade balance because controlling ownership is held by the foreign partners.

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[107] USDOC, BEA, *Foreign Direct Investment in the United States*, preliminary 1992 estimates, Table D-3.

[108] USDOC, BEA, *Foreign Direct Investment in the United States*, revised 1991 estimates, Table B-5, and *Foreign Direct Investment in the United States*, preliminary 1993 estimates, Table B-5.

[109] Ibid.

[110] USDOC, BEA, *U.S. Direct Investment Abroad*, Revised 1991 estimates, Table B-5, and *U.S. Direct Investment Abroad*, Preliminary 1993 estimates, Table B-5.

CHAPTER 4
The General Agreement on Trade in Services: Background, Results, and Prospects

One of the more significant achievements of the Uruguay Round of multilateral trade negotiations was the General Agreement on Trade in Services (GATS). This agreement seeks to facilitate international trade and investment in services. The GATS provides an unprecedented level of information on impediments to trade in services in signatory countries, creating a substantial foundation for future efforts to liberalize international trade in services. This chapter briefly examines the background of the GATS and discusses the final GATS document. Afterward, it provides perspectives on the GATS offered by members of the private and public sectors. In addition, the chapter provides a quantitative summary of the commitments scheduled by the United States, Canada, the European Union (EU), Japan, and Mexico.[1] Finally, the chapter considers the course of future negotiations on services under the auspices of the GATS.

Background

The original impetus for an agreement covering trade in services dates back to the 1970s, when industry representatives and academics began to recognize service revenues as an increasingly important component of international transactions. Furthermore, it was generally acknowledged that so-called infrastructure services, such as telecommunications, transportation, and financial services, influenced growth in all other sectors of the economy. Yet, international trade in services had never been subject to multilateral trade disciplines such as those imposed on trade in agricultural commodities and manufactured goods, leaving service providers vulnerable to a variety of trade barriers in foreign markets. Industrialized countries, especially those with rapidly evolving information economies, came to perceive barriers to trade as a brake on global economic growth. Financial service providers and airlines were among the first to actively campaign against barriers to trade in services.[2]

[1] The quantitative assessment of foreign schedules builds upon work first presented in USITC, *General Agreement on Trade in Services: Examination of Major Trading Partners' Schedules of Commitments*, USITC publication 2940, 1995. Canada, Japan, Mexico, and the European Union jointly account for over half of U.S. service exports.

[2] Although certain air transport companies were among the early proponents of liberalization of trade in services, the GATS does not address this industry for the most part. The international market for air transport services is governed by a network of bilateral and multilateral agreements that delineate the conditions of market entry and specify regulatory treatment. The GATS Annex on Air Transport Services confirms that commitments and obligations assumed under the GATS do not reduce or affect signatories' obligations under bilateral or multilateral agreements that were (continued...)

Barriers to trade in services principally consist of limitations on market access or national treatment.[3] These limitations typically are embedded in domestic regulations, such as licensing requirements and investment restrictions. As awareness of these types of restrictions increased, the elimination of impediments to trade in services emerged as an important policy goal in the United States. The issue first appeared in U.S. legislation when the Congress mandated international negotiations on trade in services under the Trade Act of 1974.[4]

Not all countries were as convinced as the United States that trade in services belonged in multilateral trade negotiations. Consensus regarding the need for international negotiations evolved very slowly, with the developed economies of the Organization of Economic Co-operation and Development (OECD) leading the effort, and developing countries generally opposing it. Governments of many developing countries did not believe that their service providers could compete successfully with firms from OECD countries.[5] Brazil and India, in particular, argued that liberalization of trade in services would not further the economic interests of developing countries.[6] They expressed concern that the GATT might become preoccupied with service negotiations and would overlook unfinished work on areas that were especially important to developing economies, such as tropical products, natural resources, textiles, quantitative restrictions, agriculture, and safeguards.[7] Other procedural and theoretical questions existed as well, including whether or not the GATT was the appropriate forum in which to address trade in services. In addition, some countries indicated that negotiations on services would infringe upon countries' sovereignty in terms

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[2] (...continued)
in effect as of January 1, 1995.

[3] Full market access requires that foreign service suppliers have access that is no less favorable than access available to domestic service suppliers. Similarly, full national treatment accords regulatory treatment to foreign service suppliers that is no less favorable than that accorded to domestic service suppliers.

[4] For a more detailed history of the GATS, see Geza Feketekuty, *International Trade in Services: An Overview and Blueprint for Negotiations* (Ballinger Publishing Company: Cambridge, 1988); Jonathan D. Aronson, *Negotiating to Launch Negotiations: Getting Trade in Services onto the GATT Agenda*, Pew Case Studies in International Affairs, Case 125 (Institute for the Study of Diplomacy: Washington, DC); Bernard Hoekman, "Market Access Through Multilateral Agreement," *The World Economy* (vol. 15, No. 6, Nov. 1992); and Harald B. Malmgren, "Negotiating International Rules for Trade in Services," *The World Economy*, (vol. 8, No. 1, Mar. 1985).

[5] Not all developing countries were opposed to service negotiations at the outset. For example, Thailand and the Philippines were interested in achieving access to developed country markets for such services as computer software, engineering, and construction. Julian Arkell, *The Global Market and the Service Industries: Can GATT Cope?* (Ditchley Conference Report No. D89/2, Feb. 1989).

[6] Aronson, *Negotiating to Launch Negotiations*, p. 15.

[7] Ultimately, however, developing countries realized they had certain strengths in labor-intensive service industries such as construction and data processing. Further, developed countries agreed that negotiations would include provisions for the advancement of service industries in developing economies. (See Feketekuty, p. 204.) The final agreement takes into account "the serious difficulty of the least-developed countries in view of their special economic situation and their development, trade and financial needs..." Office of the United States Trade Representative (USTR), *Final Texts of the GATT Uruguay Round Agreements*, p. 285.

of employment programs, investment restrictions, health and safety regulations, and industrial policies.[8] GATT members debated many of these issues during the late 1970s and early 1980s.

It took nearly a decade of deliberations before services were included in the multilateral negotiating agenda. During the 1986 GATT ministerial meeting in Punta del Este, Uruguay, "trade in services" was officially added to the list of topics to be covered in upcoming multilateral negotiations. The final Uruguay Declaration called for the establishment of a "Group of Negotiations on Services" (GNS). The stated objective of the GNS was to establish a multilateral framework of principles and rules for trade in services that would increase the transparency of regulations pertaining to service industries[9] and encourage progressive liberalization of national service sectors.

By the time multilateral negotiations began, several countries already had some experience in developing service-related trade agreements. The United States and Canada began discussing a free trade agreement (FTA) in 1987 that included a section specific to trade in services,[10] and Europe addressed services in negotiating the Treaty of Rome. In addition, Australia and New Zealand addressed services in their agreement on "Closer Economic Relations" (CER) in 1988. Negotiation of these agreements provided insights that would facilitate multilateral negotiations on services.

Once the decision to include services under the GATT had been made, many signatory countries raised the issue of linkage between negotiations on goods and negotiations on services. The United States opted for relatively close linkage, hoping to ensure that the final GATT agreement would be contingent upon the completion of both sets of negotiations.[11] Other countries, primarily Brazil and India, tried to distance the negotiations on goods from those on services. Their primary goal was to ensure that slow progress in service negotiations would not result in maintenance of restrictions on trade in goods.[12] In the end, trade in goods and services were negotiated separately, but both negotiating groups reported to a single Trade Negotiations Committee, and both were integral parts of the final Uruguay Round Agreements.[13]

For the purposes of negotiating, the GATT Secretariat provided all signatories with a list of service industries and indicated that obligations or commitments could be made in as many

[8] Julian Arkell, *The Global Market and the Service Industries: Can GATT Cope?* (Ditchley Conference Report No. D89/2, Feb. 1989).

[9] For the purposes of this discussion, transparency exists when the nature and extent of all trade-impeding measures are explained in their entirety, with precision and clarity.

[10] This agreement was superseded by the North American Free-Trade Agreement (NAFTA) in 1994. The NAFTA addresses services even more extensively than the U.S.-Canada FTA.

[11] Feketekuty, *International Trade in Services*, p. 198.

[12] Aronson, *Negotiating to Launch Negotiations*, p. 15.

[13] Certain academics felt the linkage should have been even closer than that proposed by the United States. They believed more efficient liberalization would have occurred if goods and services had been negotiated together, allowing for tradeoffs among all sectors. In other words, countries could have offered fewer agricultural subsidies in exchange for more liberal investment regulations. European analyst, interview with USITC staff, Brussels, July 19, 1995.

of these industries as desired.[14] In addition, GATT members decided to take a "positive list" approach to coverage. Under this approach, a country is not bound to provide foreign service providers with market access and national treatment in industries that are not specifically identified in its schedule; trade restrictions are unbound. The alternative was the "negative list" approach, whereby all service industries would be automatically covered unless specifically exempted under the agreement. The North American Free-Trade Agreement (NAFTA), by contrast, follows the negative list approach.[15] Many industry representatives have indicated a preference for negative listing because it provides for more comprehensive coverage. In addition, high-tech companies prefer the negative listing approach because it automatically provides for unrestricted trade of services stemming from recent technological advances. By comparison, the positive listing methodology does not automatically address new services, effectively leaving unbound limitations on foreign provision of emerging services. Consequently, trading partners may at their own discretion place restrictions on foreign provision of new services.

Final Document

Once the decision to negotiate trade in services on a multilateral basis was made, and once the process was agreed, it took negotiators nearly nine years to finalize an agreement. The final document entered into force on January 1, 1995, as a part of the Agreement Establishing the World Trade Organization (WTO).[16] It is the first multilateral, legally enforceable agreement covering international trade and investment in services.

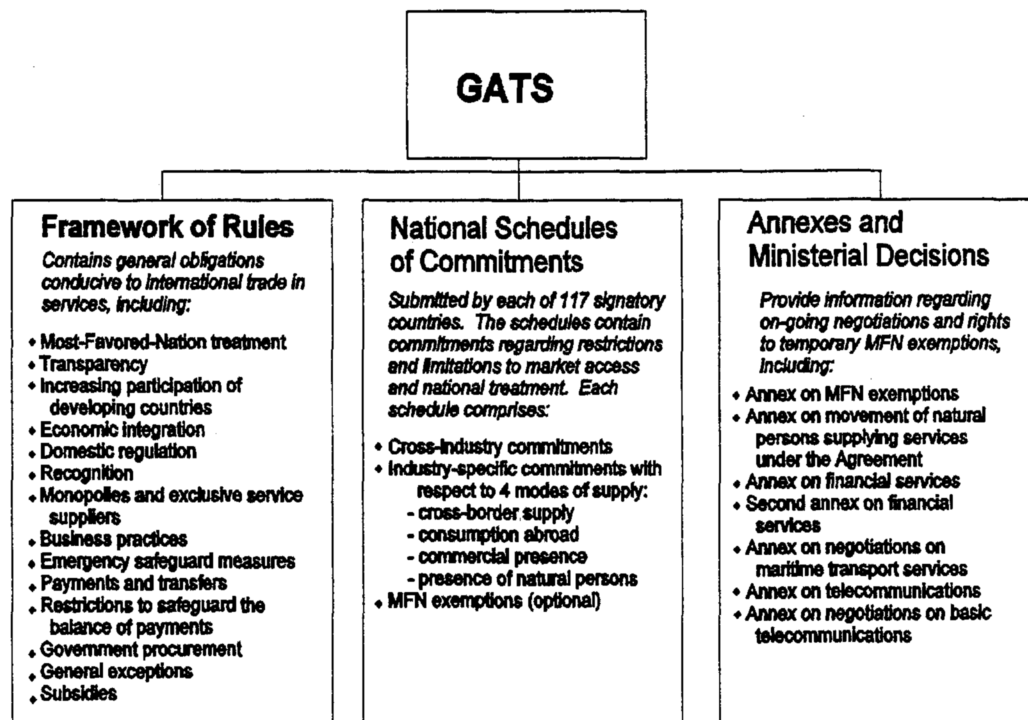
There are essentially three key elements in the text of the GATS: (1) a framework of general obligations and disciplines for government regulation of trade and investment in services; (2) a set of national schedules wherein each country commits itself to apply the rules to specific industries, subject to defined exceptions; and (3) a series of annexes and ministerial decisions that supplement rules found in the framework and provide for follow-up activities or additional negotiations. Figure 4-1 lists several of the provisions that fall within

[14] For a complete list of service industries addressed during the Uruguay Round, see the *Services Sectoral Classification List (MTN.GNS/W/120)* of the World Trade Organization (WTO).

[15] The only other major services agreement to use the negative list approach is the Australia-New Zealand Closer Economic Relations (CER) trade agreement.

[16] Uruguay Round Agreements Act Statement of Administrative Action (SAA), published in H. Doc. 103-316, 103rd Cong., 2nd Session, 1994. The SAA was submitted to Congress on September 27, 1994, in compliance with section 1103 of the Omnibus Trade and Competitiveness Act of 1988, and accompanied the implementing bill for the Agreement Establishing the World Trade Organization and the agreements annexed to that Agreement (the Uruguay Round Agreements).

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



each of these three elements. The framework of rules provides for most-favored-nation (MFN) treatment for all signatory countries,[17] as well as regulatory transparency, safeguards on monopolies, and dispute settlement.[18] Ministerial decisions specify terms for continued negotiations concerning services for which no agreement was reached, including financial services, basic telecommunication services, and maritime services.[19] One key annex contains instructions regarding the rights of signatory countries to list temporary exemptions to MFN treatment.[20]

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[17] 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.

[18] Regulatory transparency, safeguards on monopolies, and dispute settlement procedures are addressed in GATS articles III, VIII, and XXIII, respectively.

[19] Negotiations on financial services, basic telecommunication services, and maritime transport services were not concluded during the Uruguay Round, but provisions were made for them to continue.

[20] MFN exemptions list those countries that may be accorded preferential treatment in all or some service industries. For example, the EU schedule provides preferences to European countries for audiovisual services.

The majority of the detail of the final agreement appears in the national schedules of commitments. Schedules have been submitted by each of 117 signatory countries with the objective of identifying existing restrictions on trade in services. As noted, restrictions generally are classified as either limitations to market access or to national treatment. Within their national schedules, countries could choose to offer full market access and national treatment ("full" commitments), or to describe existing restrictions and limitations regarding market access and national treatment ("partial" commitments). Importantly, full and partial commitments are "bound" under the terms of the GATS, meaning that they prevent countries from becoming more restrictive in the future. Countries could also leave restrictions on trade in certain services, or modes of delivering certain services, "unbound," thereby maintaining the right to impose additional restrictions on market access and/or national treatment in the future. The last of the three options is considered the most restrictive schedule entry.

In addition to industry-specific commitments, most GATS signatories list "cross-industry" commitments that pertain to market access and national treatment in all service industries covered in their schedules.[21] These commitments generally address one or several of the following issues: investment, real estate transactions, subsidies, taxation, and the temporary entry and stay of natural persons.[22] In the aggregate, cross-industry commitments most influence the provision of services through a commercial presence (e.g., an advertising subsidiary located in a foreign market) and natural persons (e.g., a lone computer programmer working in a foreign market). All industry-specific commitments must be evaluated in conjunction with cross-industry specifications, since both affect market access and national treatment.

Signatory countries submitted schedules that vary greatly in length and detail. Many developed countries submitted lengthy commitments on a significant number of industries, while many developing countries submitted abbreviated schedules addressing fewer industries.[23] Most of the commitments scheduled during the Uruguay Round are so-called "standstill" commitments; i.e., promises to continue current policies and to impose no further trade restrictions in the future. Although standstill commitments do not liberalize trade, they meet an important objective of the first round of negotiations by establishing benchmarks, which provide baseline measures with which to gauge the progress of future negotiations and, in the context of the GATS, prohibit the implementation of new trade restrictions.[24] In addition, standstill commitments may enhance the transparency, or clarity, of existing restrictions. As such, the current national schedules should provide a sound basis for future

[21] Although signatory countries were not obligated to schedule cross-industry commitments and no guidelines were established for scheduling such commitments, many countries provided cross-industry commitments to avoid excessive repetition in the industry-specific section of the national schedules. Cross-industry commitments also are referred to as "horizontal" commitments.

[22] A natural person is defined in the GATS as an individual functioning alone. By contrast, a juridical person is a legal entity duly constituted or otherwise organized under applicable law, such as a corporation, trust, partnership, joint venture, sole proprietorship, or association.

[23] In order to be a member of the GATS, countries had to submit national schedules that addressed market access and national treatment obligations for at least one service industry.

[24] Both full and partial commitments serve as effective benchmarks.

negotiations, in which actual liberalization of restrictions will be sought.[25] The current agreement is expected to remain in effect until the next round of negotiations, which should begin by 2000.[26]

Analysis of Progress

The following discussion begins with a summary of industry and government perspectives regarding the outcome of the negotiations. Afterward, the discussion turns to a simple quantitative examination of the national schedules. This examination indicates the degree to which commitments scheduled by signatory countries offer unrestricted market access and national treatment to foreign service providers, and the degree to which the commitments provide benchmarks, or baseline measures, for future negotiations.

Industry Assessments

Representatives of most U.S. service industries support the outcome of the GATS, particularly those firms in industries for which the national schedules improve transparency regarding regulatory restrictions, and/or establish benchmarks.[27] For example, although firms in the health care service industry did not acquire full access to every foreign market, they nevertheless expect to benefit from improved transparency surrounding existing requirements and restrictions related to the provision of health care services.[28] Similarly, providers of enhanced telecommunication services support the GATS because the commitments will require, or bind, many signatories to maintain their current, relatively open regimes. In other words, it will prevent signatory countries from backsliding or imposing additional restrictions in a market that currently is fairly accessible. Members of the accounting profession also see the GATS as providing an effective benchmark, or

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[25] The only three industries in which substantial liberalization was sought during the Uruguay Round were financial services, basic telecommunication services, and maritime transport services.

[26] The GATS calls for negotiations to begin "not later than five years from the date of entry into force of the WTO Agreement..." USTR, *Final Texts of the GATT Uruguay Round Agreements*, article XIX, p. 298.

[27] In spite of support for the agreement, not all service companies originally believed multilateral negotiations would be beneficial. Some feared that such an accord might infringe upon their competitive advantage. Specifically, some noted that providing foreign companies access to the relatively open U.S. market without ensuring reciprocal access for U.S. firms would be disadvantageous. For more information on specific industry viewpoints, see Hoekman, "Market Access Through Multilateral Agreement," pp. 714-716.

[28] While not all schedules provide enough information to qualify as fully "transparent," some industry representatives note that any detail is an improvement over the paucity of information that existed prior to the agreement. For more information regarding the positions of individual industries, see USITC, *General Agreement on Trade in Services*, USITC publication 2940, 1995.

starting point, for additional liberalization. Accounting firms already have identified areas in which they would like to see additional progress.[29]

Despite general support of the GATS, some U.S. industry representatives have identified certain shortcomings of the agreement, such as its inability to address nonregulatory barriers. One example of this pertains to distribution services. According to Japan's schedule, U.S. firms should have little problem providing distribution services in Japan. In reality, however, U.S. service providers report that unwritten business practices in Japan severely hinder their ability to operate. U.S. providers of courier services and architectural, engineering, and construction services have reported that they encounter similar barriers to trade in Japan. Industry representatives also indicate that some schedules reference laws and regulations that are antiquated or not enforced, creating uncertainty and confusion for service providers. Finally, certain industries have expressed dissatisfaction regarding the use of MFN exemptions. The one example of this is in the audiovisual service industry, where the EU has indicated in its schedule that it will accord preferences to film makers from European countries over those from non-European countries.

Government Assessments

Input from U.S. and foreign officials regarding the outcome of the GATS is generally positive, though all note areas where progress could be made. Most of the negotiators and participants in the GATS report that countries made significant headway toward increasing transparency and establishing benchmarks in the first round of service discussions. The degree to which transparency was increased is very difficult to measure, though the fact that so many countries scheduled bindings on trade restrictions is considered a positive step.[30] Most government representatives expect progress toward actual liberalization to occur in future rounds, based on the significant benchmarks established under the URA.

There are some common views on the shortcomings of the commitments. For example, several indicate that MFN exemptions should be reduced in future rounds of talks. They note that such exemptions contradict efforts toward broad liberalization.[31] In addition, almost all country representatives feel that more service industries should be addressed in

[29] Accounting firms are working to increase liberalization through a working party established under the GATS. Specifically, accountants are seeking mutual recognition of accounting credentials and the removal of exchange restrictions on capital transfers. For more information, see USITC, *General Agreement on Trade in Services*, USITC publication 2940, 1995.

[30] Generally, if a country scheduled a partial commitment that outlined restrictions related to a certain service industry, transparency for providing that service increased. In some cases, however, countries may have scheduled a partial commitment that did not fully or clearly explain its restrictions. In this case, the partial commitment does not necessarily improve transparency. Full commitments serve to increase transparency in that they provide potential service providers with the knowledge that there are, in fact, no industry-specific restrictions.

[31] According to the GATS, countries should eliminate MFN exemptions within 10 years. However, many countries have scheduled "indefinite" time periods for their exemptions. Some government representatives contend that such exemptions will disappear naturally over time, based on technological advances and economic self-interest.

future commitments.[32] They note that a significant number of services must be covered by a significant number of countries in order for the agreement to be truly effective.[33]

Other government representatives focus on the shortcomings of the cross-industry commitments. Specifically, countries were provided with no uniform guidelines regarding the scheduling of such commitments and, in fact, were not obligated to schedule these commitments at all. As a result, Japan did not schedule any cross-industry commitments regarding investment, real estate transactions, or taxation. In the absence of such commitments, trade-impeding measures falling under these categories remain unbound, which could adversely affect U.S. service industries that provide services through a foreign commercial presence.[34] The second weakness related to cross-industry commitments concerns the temporary entry and stay of natural persons. Again, limited guidelines resulted in ambiguous responses in some cases. For example, the European Union does not specify permissible lengths of stay for foreign service providers.[35] Thus, although the EU member states reportedly are relatively open with respect to foreign entry and stay, relevant measures are not bound in the absence of commitments, and could therefore become more restrictive in the future. It has been suggested that future rounds of negotiations address such cross-industry trade restrictions more comprehensively and uniformly.

Quantitative Summary

A quantitative review of the commitments may be used to summarize the extent of bindings that guarantee full market access and national treatment, and the extent of benchmarking found in national schedules.[36] To summarize bindings on full market access and national treatment, table 4-1 shows the number of full commitments offered by Canada, the European Union, the United States, Japan, and Mexico for each service industry as a percentage of the

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[32] EU Commission officials, interview by USITC staff, Brussels, July 18-19, 1995; and response to telefax inquiry, Oct. 3, 1995.

[33] Along these lines, several U.S. and European academics expressed concern over the positive listing methodology used to schedule the commitments. Many feel that the negative listing approach, which implies full market access and national treatment for all service markets *except* those listed in national schedules, would have created a more beneficial and comprehensive agreement. As noted earlier, the NAFTA and the CER are the only agreements that use the negative-listing methodology in their treatment of services. Interviews by USITC staff, Brussels, July 19, 1995.

[34] For more information on this subject see, USITC, *General Agreement on Trade in Services*, USITC publication 2940, 1995.

[35] Following the July 1995 negotiations of the Negotiating Group on the Movement of Natural Persons, the EU specified that certain professionals would be permitted a length of stay of 90 days provided that the firms for which they worked had no commercial presence within the European Union. However, unlike most other major trading countries, the European Union made no EU-wide commitments regarding intra-corporate transferees or business persons.

[36] It was not possible to quantify most cross-industry commitments; thus, these tables principally reflect industry-specific commitments.

Table 4-1
The share of schedule entries binding full market access and national treatment

(Percent)

Industry	Canada		European Union		United States		Japan	Mexico	Composite share By industry	
	Canada-wide[1]	Provinces[2]	EU-wide[3]	Member states[4]	U.S.-wide[5]	States[6]				
	Best case	Worst case	Best case	Worst case	Best case	Worst case			Best case[7]	Worst case[8]
Business services										
Professional services[9]	49	35	68	30	53	46	36	24	46	34
Computer and related services	75	75	75	75	88	88	75	10	65	65
Research and development services	25	25	25	21	0	0	25	63	28	27
Real estate services	75	50	75	31	88	63	50	0	58	39
Rental/leasing services without operators	75	75	55	43	53	53	45	40	54	51
Other business services	48	40	58	34	72	70	41	29	50	43
Communication services										
Postal services	0	0	0	0	0	0	0	0	0	0
Courier services	75	63	0	0	88	88	0	38	40	38
Telecommunication services										
Basic telecommunication services	0	0	0	0	0	0	54	0	11	11
Enhanced telecommunication services[9]	75	75	75	63	88	88	75	50	73	70
Audiovisual services[9]	0	0	0	0	80	80	60	23	33	33
Construction and related engineering services										
General construction work for buildings	75	63	50	38	63	63	50	13	50	45
General construction work for civil engineering	63	50	50	38	63	63	50	13	48	43
Installation and assembly work	75	75	50	38	63	63	50	0	48	45
Building completion and finishing work	75	75	50	0	63	63	50	13	50	40
Other construction and related engineering services	63	63	50	0	63	63	50	13	48	38
Distribution services[9]										
Commission agents' services	75	75	75	50	88	88	75	0	63	58
Wholesale trade	75	38	75	50	88	88	75	63	75	63
Retailing	63	50	50	38	88	88	75	63	68	63
Franchising	75	50	75	0	88	88	75	0	63	43
Education service[9]										
Primary education services	0	0	75	0	0	0	13	63	30	15
Secondary education services	0	0	75	0	0	0	13	63	30	15
Higher education services	0	0	75	0	0	0	13	63	30	15
Adult education services	0	0	75	0	38	25	75	0	38	20
Environmental services										
Sewage services	75	75	50	0	88	88	50	0	53	43
Refuse disposal services	75	75	50	50	88	88	38	0	50	50
Sanitation and similar services	75	75	50	0	88	88	50	0	53	43
Other environmental services	75	75	50	50	88	88	50	0	53	53
Financial services[9]										
All insurance and related services	22	19	75	0	47	44	25	0	34	18
Banking and other financial services	43	35	63	13	46	25	25	0	35	20

See footnotes at end of table.

Table 4-1--continued
The share of schedule entries binding full market access and national treatment

(Percent)

Industry	Canada		European Union		United States		Japan	Mexico	Composite share By industry	
	Canada-wide[1]	Provinces[2]	EU-wide[3]	Member states[4]	U.S.-wide[5]	States[6]				
	Best case	Worst case	Best case	Worst case	Best case	Worst case			Best case[7]	Worst case[8]
Health-related and social services[9]										
Hospital and other health care facilities	0	0	50	0	38	38	25	25	**28**	**18**
Other human health services	0	0	50	0	0	0	0	38	**18**	**8**
Social services	0	0	50	0	0	0	0	0	**10**	**0**
Travel and tourism services[9]										
Hotels and restaurants (excluding catering)	75	50	50	38	88	88	50	38	**60**	**53**
Catering	75	63	75	75	88	88	75	63	**75**	**73**
Travel agencies and tour operators	75	38	75	63	75	75	75	38	**68**	**58**
Tour guide services	0	0	75	63	75	75	50	38	**48**	**45**
Recreational, cultural, and sporting services[9]										
Entertainment services	0	0	50	0	88	88	50	0	**38**	**28**
News agency services	0	0	75	38	88	88	75	0	**48**	**40**
Libraries, archives, museums, and other cultural services	0	0	0	0	88	88	50	0	**28**	**28**
Sporting and other recreational services	0	0	75	63	75	75	50	0	**40**	**38**
Transport services[9]										
Maritime transport services	0	0	0	0	0	0	21	0	**4**	**4**
Internal waterways transport services	0	0	0	0	0	0	21	0	**4**	**4**
Air transport services	10	10	25	15	13	13	23	5	**15**	**13**
Space transport services	0	0	0	0	0	0	0	0	**0**	**0**
Rail transport services	40	35	10	0	53	48	10	0	**23**	**19**
Road transport services	48	45	25	15	45	45	18	13	**30**	**27**
Pipeline transport services	0	0	0	0	0	0	38	0	**8**	**8**
Services auxiliary to all modes of transport	41	41	0	0	0	0	19	13	**14**	**14**
Composite share by trading partner	**38**	**33**	**43**	**22**	**48**	**45**	**39**	**17**	**37**	**31**

Note: The industry-specific percentages above are derived by dividing the number of full commitments (i.e., those entries that indicate that there exist no limitations to market access or national treatment) scheduled by a trading partner for an industry, by the total number of entries applicable to that industry. For instance, the first cell indicates that 39 of the 80 nationwide entries scheduled by Canada for professional services were full commitments (39/80=0.4875). Although these percentages generally indicate the extent to which trade is unimpeded by formal regulatory barriers in the subject countries, they do not adequately convey all pertinent information. Other factors such as NAFTA provisions and informal business practices cannot be accounted for quantitatively. For a more complete discussion of the methodology underlying this table, see the annex that immediately follows this chapter.

[1] Assesses Canada-wide commitments only.
[2] Assesses Canada-wide commitments, as complemented by commitments scheduled by provinces.
[3] Assesses EU-wide commitments only.
[4] Assesses EU-wide commitments, as complemented by commitments scheduled by individual member states.
[5] Assesses U.S.-wide commitments only.
[6] Assesses U.S.-wide commitments, as complemented by commitments scheduled by individual states.
[7] Composite share computed for best case scenario, when the Canadian, EU, and U.S. schedules are assessed on the basis of Canada-wide, EU-wide, and U.S.-wide commitments only.
[8] Composite share computed for worst case scenario, when the Canadian, EU, and U.S. schedules are assessed on the basis of commitments scheduled by the Government of Canada, Canadian provinces, the EU Commission, EU member states, the U.S. Government, and the U.S. states.
[9] Calculations for this industry exclude a subsector for miscellaneous services, for which commitments scheduled by the subject trading partners were not comparable.

total number of commitments that could have been scheduled with respect to that industry.[37] As noted earlier, full commitments communicate that there are no barriers to market access or national treatment. Thus, higher percentages presume greater market openness.

It should be noted that the table presents two columns each for Canada, the European Union, and the United States. The first column ("best case scenario") considers the schedule for the signatory as a whole; the second column ("worst case scenario") takes into account exceptions or additional restrictions imposed by individual Provinces, member states, and States, respectively.

An examination of table 4-1 shows that full commitments account for a minority of entries found in each country's schedule. In the composite country shares found across the bottom of the table, percentages range from a low of 17 percent in Mexico, to a high of 45 to 48 percent in the United States.[38] By industry, composite shares ranged from zero percent in industries such as postal services, to 75 percent in areas such as wholesale trade and catering. These numbers indicate that no country offers full bindings on the postal services market, while all offer full market access and national treatment, for at least some modes of supply, to foreign firms wishing to provide wholesale trade and catering services.

Table 4-2 offers a slightly different perspective on the schedules of commitments. Rather than considering only the number of full commitments, as was done above, table 4-2 expresses the sum of full commitments and partial commitments as a percentage of total possible commitments. As noted earlier, both full and partial commitments provide benchmarks. Furthermore, under the terms of the GATS, benchmarks serve not only to identify the presence or absence of trade-impeding measures, but prevent signatories from backsliding into more restrictive regulatory regimes. Whereas countries may liberalize their commitments at any time, they may only add restrictions if they are willing and able to provide compensation to aggrieved parties. Thus, in table 4-2, the higher the percentage, the greater the extent of benchmarking.

In most cases, the combination of full and partial commitments accounted for over half of a country's total possible commitments. The only exceptions are Mexico at 34 percent and the EU member states at 45 percent.[39] Japan, the United States, and the EU (without member states) record the highest shares, followed closely by Canada. Of note is the difference

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[37] For each industry, there are a total of 4 possible commitments for market access (one for each mode of supply), and 4 possible commitments for national treatment, creating a total of 8 possible commitments. Thus, in table 4-1, Canada offered full commitments on 6 of the possible 8 commitments for each industry listed under "environmental services," creating a "score" of 75 percent. For a full discussion of the methodology used to derive tables 4-1 and 4-2, see the annex that immediately follows this chapter.

[38] It should be noted that although the schedules of commitments and the table numbers suggest full market access and national treatment, there may exist non-regulatory barriers to trade in services. In addition, this quantitative summary does not account for all cross-industry commitments and MFN exemptions.

[39] To illustrate the meaning of these percentages, if only 34 percent of Mexico's schedule is accounted for by full and partial commitments, that means the remaining 66 percent of trade restrictions are unbound and could become more restrictive in the future.

Table 4-2

Benchmarking: The share of schedule entries covered by partial and full commitments

(Percent)

Industry	Canada		European Union		United States		Japan	Mexico	Composite share By industry	
	Canada-wide[1]	Provinces[2]	EU-wide[3]	Member states[4]	U.S.-wide[5]	States[6]				
	Best case	Worst case	Best case	Worst case	Best case	Worst case			Best case[7]	Worst case[8]
Business services										
Professional services[9]	70	70	93	64	70	70	70	40	**69**	**63**
Computer and related services	100	100	100	100	100	100	100	20	**84**	**84**
Research and development services	33	33	33	33	0	0	33	100	**40**	**40**
Real estate services	100	100	100	75	100	100	100	0	**80**	**75**
Rental/leasing services without operators	100	100	80	70	60	60	60	70	**74**	**72**
Other business services	70	70	80	51	84	84	59	50	**69**	**63**
Communication services										
Postal services	0	0	0	0	0	0	0	0	**0**	**0**
Courier services	100	100	0	0	100	100	0	75	**55**	**55**
Telecommunication services										
Basic telecommunication services	0	0	0	0	0	0	71	0	**14**	**14**
Enhanced telecommunication servic[9]	100	100	100	100	100	100	100	100	**100**	**100**
Audiovisual services[9]	0	0	0	0	100	100	85	40	**45**	**45**
Construction and related engineering services										
General construction work for buildings	100	100	75	75	75	75	75	50	**75**	**75**
General construction work for civil engineering	100	100	75	75	75	75	75	50	**75**	**75**
Installation and assembly work	100	100	75	75	75	75	75	0	**65**	**65**
Building completion and finishing work	100	100	75	0	75	75	75	50	**75**	**60**
Other construction and related engineering services	100	100	100	0	75	75	75	50	**80**	**60**
Distribution services[9]										
Commission agents' services	100	100	100	75	100	100	100	0	**80**	**75**
Wholesale trade	100	100	100	100	100	100	100	100	**100**	**100**
Retailing	100	100	100	100	100	100	100	100	**100**	**100**
Franchising	100	100	100	0	100	100	100	0	**80**	**60**
Education services[9]										
Primary education services	0	0	100	0	0	0	38	100	**48**	**28**
Secondary education services	0	0	100	0	0	0	25	100	**45**	**25**
Higher education services	0	0	100	0	0	0	38	100	**48**	**28**
Adult education services	0	0	100	0	100	100	100	0	**60**	**40**
Environmental services										
Sewage services	100	100	75	0	100	100	75	0	**70**	**55**
Refuse disposal services	100	100	75	75	100	100	75	0	**70**	**70**
Sanitation and similar services	100	100	75	0	100	100	75	0	**70**	**55**
Other environmental services	100	100	75	75	100	100	75	0	**70**	**70**
Financial services[9]										
All insurance and related services	100	100	100	100	100	100	100	31	**86**	**86**
Banking and other financial services	100	100	100	100	100	100	100	17	**83**	**83**

See footnotes at end of table.

Table 4-2--continued

Benchmarking: The share of schedule entries covered by partial and full commitments

(Percent)

Industry	Canada		European Union		United States		Japan	Mexico	Composite share	
	Canada-wide[1]	Provinces[2]	EU-wide[3]	Member states[4]	U.S.-wide[5]	States[6]			By industry	
	Best case	Worst case	Best case	Worst case	Best case	Worst case			Best case[7]	Worst case[8]
Health-related and social services[9]										
Hospital and other health care facilities	0	0	75	0	75	75	50	75	**55**	**40**
Other human health services	0	0	75	0	0	0	0	75	**30**	**15**
Social services	0	0	75	0	0	0	0	0	**15**	**0**
Travel and tourism services[9]										
Hotels and restaurants (excluding catering)	100	100	75	75	100	100	75	75	**85**	**85**
Catering	100	100	100	100	100	100	100	100	**100**	**100**
Travel agencies and tour operators	100	100	100	100	100	100	100	75	**95**	**95**
Tour guide services	0	0	100	88	100	100	75	75	**70**	**68**
Recreational, cultural, and sporting services[9]										
Entertainment services	0	0	75	0	100	100	75	0	**50**	**35**
News agency services	0	0	100	100	100	100	100	0	**60**	**60**
Libraries, archives, museums, and other cultural services	0	0	0	0	100	100	75	0	**35**	**35**
Sporting and other recreational services	0	0	100	100	100	100	75	0	**55**	**55**
Transport services[9]										
Maritime transport services	0	0	0	0	0	0	29	0	**6**	**6**
Internal waterways transport services	0	0	0	0	0	0	29	0	**6**	**6**
Air transport services	15	15	35	25	15	15	35	15	**23**	**21**
Space transport services	0	0	0	0	0	0	0	0	**0**	**0**
Rail transport services	60	60	15	0	60	60	15	0	**30**	**27**
Road transport services	80	80	50	20	58	58	30	20	**48**	**42**
Pipeline transport services	0	0	0	0	0	0	50	0	**10**	**10**
Services auxiliary to all modes of transport	94	94	0	0	0	0	31	25	**30**	**30**
Composite share by trading partner	**59**	**59**	**62**	**45**	**63**	**63**	**64**	**34**	**56**	**53**

Note: The percentages above are derived by dividing the number of full and partial commitments (i.e., those entries that prohibit market limitations from becoming more restrictive) scheduled by a trading partner for an industry, by the total number of entries applicable to that industry. For instance, the first cell indicates that 56 of the possible 80 entries scheduled by Canada for professional services were full or partial commitments. Although these percentages generally indicate the extent of benchmarking found in the schedules of subject countries, they do not address cross-industry commitments, MFN exemptions, or informal barriers to trade. For a more complete discussion of the methodology underlying this table, see the annex that immediately follows this chapter.

[1] Assesses Canada-wide commitments only.

[2] Assesses Canada-wide commitments, as complemented by commitments scheduled by provinces.

[3] Assesses EU-wide commitments only.

[4] Assesses EU-wide commitments, as complemented by commitments scheduled by individual member states.

[5] Assesses U.S.-wide commitments only.

[6] Assesses U.S.-wide commitments, as complemented by commitments scheduled by individual states.

[7] Composite share computed for best case scenario, when the Canadian, EU, and U.S. schedules are assessed on the basis of Canada-wide, EU-wide, and U.S.-wide commitments only.

[8] Composite share computed for worst case scenario, when the Canadian, EU, and U.S. schedules are assessed on the basis of commitments scheduled by the Government of Canada, Canadian provinces, the EU Commission, EU member states, the U.S. Government, and the U.S. states.

[9] Calculations for this industry exclude a subsector for miscellaneous services, for which commitments scheduled by the subject trading partners were not comparable.

between the shares for the EU as a whole (62 percent) and EU member states (45 percent). This occurred where the EU scheduled a full or partial commitment for a particular service, and one or more member states left restrictions on that service "unbound."

Outlook

The implementation of the GATS on January 1, 1995, marked the beginning of a new era for trade in services. With the accomplishment of this significant first step, countries must now consider where the agreement will go from here and prepare for the opportunities that lie ahead.

The original expectation regarding the GATS was that it would comprise a series of negotiations that ultimately would liberalize trade in services. The next round is scheduled to begin within 5 years of the implementation of the URA, which would be by the year 2000. When commitments were scheduled during the first round of GATS negotiations, countries generally scheduled standstill commitments, meaning that they will carry forward existing regulations pertaining to foreign provision of services. Most negotiators and analysts expect that future negotiating rounds will produce actual liberalization of trade restrictions, as well as broaden the scope of industries covered under the GATS.[40]

Liberalization of trade in services also will be directly influenced by negotiations in the closely related areas of investment and movement of persons. Discussions on these issues are underway in several different fora, including the WTO and the OECD. Prospects for future rounds of the GATS and the on-going negotiations on investment and movement of persons are discussed below.

Liberalization of Trade in Services

Future rounds of negotiations under the GATS are expected to both broaden the coverage of service industries and deepen the level of commitments already offered by member countries. The positive listing method employed in the GATS leaves ample room for signatories to increase or broaden the number of industries listed in their schedules, thus creating a more comprehensive agreement. As the number of services covered in the national schedules increases, the level of benchmarking and transparency afforded by the agreement also will expand.[41] Moreover, greater transparency may result from the establishment of effective inquiry points within each signatory nation.[42] According to the

[40] Officials at USTR and World Bank, interviews by USITC staff, Washington, DC, 1995.
[41] Ibid.
[42] Because it would have been impractical for each country to physically transcribe every existing regulation and restriction for each service industry, signatories were instead asked to only briefly address such restrictions in their schedules, and establish inquiry points for further information.

terms of the GATS, each signatory country will provide through such inquiry points detailed information regarding laws, regulations, and administrative practices related to services covered by the agreement.[43]

In addition to broadening the number of services already covered in the agreements, negotiators also expect to revisit industries addressed during the Uruguay Round.[44] Commitments likely will be enhanced through extended negotiations on infrastructure services, working party discussions on professional services, and internal reviews of sub-Federal regulations. As noted, infrastructure services are critical in the support of all economic sectors, and liberalization in these key industries is expected to generate widespread economic gains. As a result, GATS signatories pursued negotiations on financial, telecommunication, and maritime transportation services beyond the timeframe of the Uruguay Round in an effort to achieve liberalization.[45] The negotiations on financial services concluded in June 1995. At that time, the United States determined that the overall set of foreign schedules did not provide a level of liberalization sufficient to warrant a U.S. commitment to open its financial services market on an unconditional MFN basis. Instead, the United States registered a broad MFN exemption with respect to financial services, thereby preserving the right to differentiate among foreign financial service providers, on a reciprocal basis.[46] However, substantive liberalization might still occur by the end of 1997, when the WTO's interim financial services agreement expires, if a critical mass of signatory countries make sufficient progress in liberalizing their financial markets.[47] The negotiations on basic telecommunication services have been extended to February 15, 1997.[48] The final component of infrastructure services is the transportation industry. An agreement on land transportation services was concluded under the Uruguay Round, during which countries generally offered standstill commitments that codify existing restrictions and prevent backsliding. Negotiations on maritime transport services are scheduled to conclude in June 1996.

Working parties are another means through which GATS commitments are being revisited and enhanced. Although commitments on professional services were scheduled under the GATS, working parties were established to address such issues as licensing credentials, mutual recognition, movement of personnel, and other professional standards. A working party was set up in April 1994 to address concerns specific to the accounting profession. Other professional service providers that may seek to enhance commitments through working party discussions include architecture, engineering, and legal service firms. By

[43] See article III (Transparency) of the GATS.

[44] USTR official, interview by USITC staff, Washington, DC, Aug. 14, 1995.

[45] Ibid.

[46] See, for example, U.S. Department of State telegrams, message reference numbers 5108, dated June 30, 1995, and 5812, dated July 26, 1995, prepared by U.S. Mission, Geneva.

[47] For more information on the process and outcome of the financial services negotiations, see USITC, "Financial Services: An Overview of the World Trade Organization's Negotiations," *Industry, Trade, and Technology Review*, Jan. 1996.

[48] U.S. Department of State telegram, message reference number 3124, dated May 2, 1996, "WTO Basic Telecom Negotiations: Extension," prepared by U.S. Mission, Geneva.

focusing on issues that are essential to individual industries, the working parties hope to achieve a degree of liberalization that will permit freer trade flows.[49]

Deregulation of service industries, particularly at the sub-Federal or sub-Union level, may also result in greater trade liberalization. Heavy government regulation or official state monopolies governing the postal services, certain types of ground transportation, and telecommunication services often preclude or severely impede market participation by foreign service providers. In the United States, Canada, and the European Union, foreign firms encounter further trade restrictions scheduled by States, Provinces, and member states, respectively. Efforts to harmonize or elucidate sub-Federal restrictions could further facilitate trade in services. As noted in the quantitative analysis, the differences between the commitments agreed upon at the federal or union level and those specified at the sub-Federal or sub-Union level can be significant, particularly in the case of the EU. The EU has indicated that it hopes to harmonize its schedule in the coming years to eliminate the variety of trade restrictions scheduled by the member states.[50] Canada and the United States report no similar plans, but officials in both countries gradually are working to decrease differences at the sub-Federal level or, at a minimum, to ensure that differences are fully transparent.[51]

Liberalization in Related Areas

Analysts familiar with the GATS expect that progress toward global liberalization of trade in services will be enhanced in the short term through domestic and multilateral discussions in the intrinsically related areas of investment and the movement of persons. They assert that multilateral liberalization of investment restrictions, in particular, will significantly facilitate expanded trade. Currently, investment regulations serve as some of the most pernicious restrictions on trade in services. For example, in the most contentious service industries (telecommunications, transportation, financial, and broadcasting services) it appears that the most common trade barriers are investment restrictions, which variously limit or prohibit foreign equity participation or require nationality in order to receive a license. Given that

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[49] Industry representatives, interviews by USITC staff, Washington, DC, Apr. 4 and May 25, 1995.

[50] EU Commission officials, interview by USITC staff, Brussels, July 18-19, 1995. According to a ruling by the European Court of Justice, the EU does not have exclusive authority to negotiate on behalf of member states for certain areas of trade in services. Specifically, the EU only has competence in cross-border services (i.e., where the movement of persons or establishment are not involved). For issues related to any of the remaining three categories of trade in services (consumption abroad, commercial presence, and presence of natural persons), the EU Commission shares competence with the member states. As a result, harmonization efforts are expected to be long-term. For more information on the court ruling, see USITC, *The Year in Trade 1994*, USITC publication 2894, 1995, p. 78; and U.S. Dept. of State cable, *The European Court of Justice Ruling on WTO Competence – Brief Analysis*," USEU Brussels, Nov. 1994.

[51] Canadian official, telephone conversation with USITC staff, Dec. 5, 1995. In the United States, many service industries are regulated at the sub-federal level and harmonization of these restrictions is not likely. However, U.S. officials may pursue a course of action similar to that followed under the NAFTA by submitting such restrictions as transparent "reservations" to the agreement. Over time, these restrictions may diminish as national professional groups themselves seek harmonization of the laws governing their services. USTR official, telephone interview with USITC staff, Jan. 25, 1996.

some form of a local presence (and therefore investment) is almost always required prior to participation in these industries, investment liberalization could have substantial effects on trade in services. Efforts to liberalize these investment barriers are underway in the WTO and in the OECD. Some progress in the WTO has been made through the "Trade-Related Investment Measures" (TRIMs) of the URA.[52] This agreement calls for a reduction in trade restrictions that result from investment measures, such as local content requirements, trade-balancing requirements, foreign exchange limitations, or export performance requirements. Although pleased with the TRIMs agreement, many companies would like to see investment restrictions liberalized even further, to the extent agreed in the NAFTA. Negotiations also are underway within the OECD to craft a multilateral agreement on investment. This agreement is expected to go further than the agreement on TRIMs. Over the long term, these efforts may reduce global investment barriers and enable companies to become fully mobile.

Restrictions on the movement of persons also impede or distort trade in services. As noted earlier, trade in services sometimes relies upon the physical movement of service providers to conduct transactions. As a result, some of the most difficult barriers encountered by service industries are restrictions on movement of personnel, including recognition of qualifications, economic needs tests, limits on stays, etc. Such restrictions can be particularly burdensome for providers of professional services that depend on the movement of specially qualified personnel. Although movement of persons was addressed broadly under the GATS, many specific issues remain unresolved. One of the key efforts currently underway is the WTO working party on professional services, mentioned above. This group is, among other things, working to establish mutual recognition of professional qualifications in order to streamline the movement of business professionals.

Treatment of services, direct investment, and movement of personnel under the Uruguay Round reflect the changing nature of international trade and competition. As trade barriers in these areas crumble, business facilities, capital, labor, and technology become increasingly mobile, and firms are better able to focus on core strengths and increase the efficiency of their global operations. In short, it appears that the GATS and related agreements have set the stage for much more intense global competition.

[52] Agreement on Trade-Related Investment Measures, Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations. The agreement seeks to minimize trade restrictions and distortions stemming from investment measures not previously covered by the GATT.

APPENDIX A

Methodology

In the preceding chapter, tables 4-1 and 4-2 summarize in a quantitative manner the extent of full commitments to market access and national treatment,[1] and the extent of benchmarking.[2] The following discussion first identifies the principal difficulties encountered in quantifying these aspects of the national schedules and indicates how these difficulties were resolved. Thereafter, the discussion further delineates the methodology employed to derive the quantitative indicators found in these tables, and provides examples of how the indicators were calculated.

Treatment of Miscellaneous Service Groupings

The service industries covered in these tables correspond to 156 industries specified in the GATT Secretariat's *Services Sectoral Classification List* (see table A-1). Staff reduced the number of industries to 144 by discarding 12 miscellaneous groupings for which commitments scheduled by the subject trading partners were not comparable. The 12 discarded groupings appear under professional services, communication services, distribution services, educational services, financial services, health-related services, tourism and related services, recreational services, and transportation services.[3]

Hence, the summary tables display shares calculated on the basis of 144 industries, or 1,152 possible schedule entries.[4] This does not alter the relative standing of the subject trading partners in tables 4-1 and 4-2, but it does result in slightly higher shares in both tables.

Treatment of Entries Referencing Cross-Industry Commitments

Throughout the national schedules, many industry-specific commitments, especially those addressing commercial presence and the presence of natural persons, reference cross-industry commitments.[5] For instance, when identifying limitations that apply to the presence of natural persons, trading partners routinely make the following entry: "unbound, except

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[1] Full commitments indicate barrier-free market access and national treatment.

[2] As noted earlier, benchmarks comprise both full and partial commitments.

[3] The miscellaneous groupings were included in the GATT Secretariat's list so that offers could be broadened at the discretion of GATT members. Those miscellaneous groupings that were excluded from quantitative calculations are footnoted in table 4-A-1.

[4] For each of the 144 distinct service industries, trading partners could make 8 entries: 4 with respect to market access (one for each mode of supply), and 4 with respect to national treatment.

[5] Cross-industry commitments are referred to as "horizontal" commitments in the schedules.

as indicated in the cross-industry commitments." Because this entry grants some degree of market access and national treatment by allowing certain foreign service providers to enter markets under conditions specified in the cross-industry commitments, these entries have been recorded as partial commitments. They are less restrictive than "unbound" entries that provide no exemptions.

Similarly, all subject trading partners have made use of an entry that reads "none, except as indicated in the cross-industry commitments." These entries have been recorded as full commitments. Certain trading partners employed this language for the sake of transparency, but the additional language is not necessary. Under the GATS, cross-industry commitments are applicable to all entries showing full or partial commitments.

Treatment of the United States, the European Union, and Canada

The Canadian, EU, and U.S. schedules list Canada-wide, EU-wide and U.S.-wide commitments, as well as commitments scheduled by individual Canadian Provinces, EU member states, and U.S. States. Commitments added by Canadian provinces, EU member states, and U.S. states typically are more restrictive than Canada-wide, EU-wide, and U.S.-wide commitments. Consequently, shares have been calculated to summarize full commitments and benchmarking in two different manners: once taking into consideration Canada-wide, EU-wide, and U.S.-wide commitments only, and once taking into consideration individual provinces,' member states,' and states' commitments. As a result, tables 4-1 and 4-2 provide:

- Two separate shares to summarize the full commitments and extent of benchmarking found in Canada, the European Union, and the United States with respect to each industry;

- Two separate composite shares that summarize the full commitments and extent of benchmarking found in Canada, the European Union, and the United States with respect to all subject industries (bottom row); and

- Two separate composite shares to summarize the full commitments and extent of benchmarking found in all subject trading partners with respect to each subject service industry (two right-hand columns).

These correspond to "best case" and "worst case" scenarios. The best case scenario, which reflects Canada-wide, EU-wide, and U.S.-wide commitments only, provides an indicator of full commitments and the extent of benchmarking found in Canadian provinces, EU member states, or U.S. states that have not listed additional restrictions. The worst case scenario, which takes into consideration the commitments scheduled by Provinces, member states, and States provides in table 4-1 an indicator of the number of full commitments offered by the most restrictive province, member state, or state, and in table 4-2 the extent of benchmarking undertaken by the most restrictive Province, member state, or State.

The worst case scenario may be based on the commitments of a single Province, member state, or State. For example, the EU schedule identifies a full commitment to market access for telecommunication service providers that wish to establish a commercial presence in the

European Union. However, Portugal has added a partial commitment regarding market access that limits foreign ownership to 25 percent. Under the best case scenario, the European Union records a full commitment. Under the worst case scenario, the European Union records a partial commitment due to Portugal's additional restriction.

Treatment of Dates in the Schedules

Commitments scheduled under the GATS became effective January 1, 1995. In a few instances, however, dates were written into the commitments to delay the removal of restrictions from particular service industries. For example, the United States indicated that cross-border supply and commercial presence for passenger transport services would be unbound until 1997 and 2001, respectively. After those dates, there would be no limitations. In an effort to assess the commitments as they affect U.S. industries today, these commitments were counted as "unbound" in the quantitative assessment. This also ensures a conservative assessment of the schedules overall.

Table 4-1

Table 4-1 expresses the number of full commitments as a share of the total entries made by each trading partner. Composite shares reflect the extent to which full commitments have been offered by trading partner (bottom row) and by industry (two right-hand columns). The higher the share, the less restrictive the market. Partial commitments are not reflected in the shares appearing in table 4-1 because they vary too much in terms of restrictiveness. Full commitments are reflected because they identify barrier-free industries and modes of delivery.

For example, the first cell of table 4-1 reflects Canada-wide full commitments regarding professional services. For the purpose of this discussion, the professional services industry consists of 10 subsectors: legal services, accounting services, taxation services, architectural services, engineering services, integrated engineering services, urban planning services, medical and dental services, veterinary services, and services provided by midwives and nurses.[6] Canada-wide full commitments number five with respect to legal, accounting, and architectural services, and six for taxation, engineering, integrated engineering, and urban planning services, for a combined total of 39 full commitments. Since there are 10 subsectors comprising professional services, and 8 possible entries within each subsector,[7] there are 80 entries applicable to professional services. Hence, full commitments account for 49 percent of all Canada-wide entries applicable to professional services.

Canada's worst case scenario takes into consideration the restrictions added to the national schedule by the Canadian provinces, resulting in a lower share of full commitments. The provinces list many restrictions applicable to architectural, engineering, and integrated

[6] The subsector entitled "other professional services" was omitted from the calculations. This has the effect of reducing the total possible entries under the major heading of professional services by eight.

[7] Schedule entries correspond to modes of supply. Four entries are made with respect to market access, and four more are made with respect to national treatment.

engineering services, thereby reducing the number of full commitments from 39 to 28. As a result, full commitments account for 35 percent of entries applicable to professional services under Canada's worst case scenario.

Composite shares for trading partners (bottom row) were derived in a similar manner. Under Canada's best case scenario, full commitments in all of the subject industries totaled 435. Dividing the number of full commitments by Canada's 1,152 total possible entries results in a composite share of 38 percent. Under Canada's worst case scenario, the number of full commitments falls to 381, resulting in a composite share of 33 percent.

Composite shares for the subject industries (two right-hand columns) reflect a similar methodology. For example, Canada, the European Union, the United States, Japan, and Mexico made 400 entries with respect to professional services. Reflecting the best case scenarios for Canada, the European Union, and the United States, full commitments scheduled by the subject trading partners number 183, accounting for 46 percent of total entries. Reflecting the worst case scenarios for Canada, the European Union, and the United States, full commitments number 137, or 34 percent of total entries.

Table 4-2

Table 4-2 expresses the number of full and partial commitments as a share of the total entries made by each trading partner for each industry. Composite shares reflect the overall extent of benchmarking by trading partner (bottom row) and by industry (two right-hand columns). The higher the share, the greater the extent of benchmarking. Both full and partial commitments identify trade-impeding measures and prohibit trading partners from making these measures more restrictive. Hence, both act as benchmarks.

For example, the first cell of table 4-2 reflects Canada-wide full commitments regarding professional services. As in the previous discussion, the professional services industry consists of 10 subsectors: legal services, accounting services, taxation services, architectural services, engineering services, integrated engineering services, urban planning services, medical and dental services, veterinary services, and services provided by midwives and nurses.[8] Canada's country-wide full and partial commitments number 8 with respect to 7 out of 10 of these subsectors, for a combined total of 56. Since there are 80 entries applicable to professional services, full and partial commitments account for 70 percent of all Canada-wide entries applicable to professional services.

Canada's worst case scenario takes into consideration the restrictions added to the national schedule by the Canadian provinces. In several instances, full commitments are replaced by partial commitments (resulting in no change in benchmarking), but in no instance was a full or partial commitment replaced by an unbound restriction. Consequently, the share of entries occupied by full and partial commitments remained the same at 70 percent.

Composite shares for trading partners (bottom row) were derived similarly. Under Canada's

[8] The subsector entitled "other professional services" was omitted from the calculations. This has the effect of reducing the total possible entries under the major heading of professional services by eight.

best case scenario, full and partial commitments to all the subject industries totaled 684. Dividing this number by Canada's 1,152 total possible entries results in a composite share of 59 percent. Under Canada's worst case scenario, the number of full and partial commitments remains the same at 684, yielding a composite share of 59 percent again.

Composite shares for the subject industries (two right-hand columns) reflect a similar methodology. Canada, the European Union, the United States, Japan, and Mexico made 400 entries with respect to professional services. Reflecting the best case scenarios for Canada, the European Union, and the United States, full and partial commitments scheduled by the subject trading partners number 274, accounting for 69 percent of total entries. Reflecting the worst case scenarios for Canada, the European Union, and the United States, full and partial commitments number 251, or 63 percent of total entries.

Table A-1
GATT services sectoral classification list

Number	Subject Industry	Subsector
	Business services	
	Professional services	
1.		Legal services
2.		Accounting, auditing, & bookkeeping services
3.		Taxation services
4.		Architectural services
5.		Engineering services
6.		Integrated engineering services
7.		Urban planning & landscape architectural services
8.		Medical & dental services
9.		Veterinary services
10.		Services provided by midwives, nurses, physiotherapists & para-medical personnel
11.		Other[1]
	Computer and related services	
12.		Consultancy services related to the installation of computer hardware
13.		Software implementation services
14.		Data processing services
15.		Data base services
16.		Other
	Research and development services	
17.		R&D services on natural sciences
18.		R&D services on social sciences & humanities
19.		Interdisciplinary R&D services
	Real estate services	
20.		Involving owned or leased property
21.		On a fee or contract basis
	Rental/leasing services without operators	
22.		Relating to ships
23.		Relating to aircraft
24.		Relating to other machinery & equipment
25.		Relating to other transport equipment
26.		Other

Table A-1—*Continued*
GATT services sectoral classification list

Number	Subject Industry	Subsector
	Business services—*Continued*	
	Other business services	
27.		Advertising services
28.		Market research & public opinion polling services
29.		Management consulting services
30.		Services related to management consulting
31.		Technical testing & analysis services
32.		Services incidental to agriculture, hunting, & forestry
33.		Services incidental to fishing
34.		Services incidental to mining
35.		Services incidental to manufacturing
36.		Services incidental to energy distribution
37.		Placement & supply services of personnel
38.		Investigation & security
39.		Related scientific & technical consulting services
40.		Maintenance & repair of equipment (not including maritime vessels, aircraft, or other transport equipment)
41.		Building-cleaning service
42.		Photographic services
43.		Packaging services
44.		Printing, publishing
45.		Convention services
46.		Other
	Communication services	
47.	Postal services	(none)
48.	Courier services	(none)
	Telecommunication services	
49.		Voice telephone services
50.		Packet-switched data transmission services
51.		Circuit-switched data transmission services
52.		Telex services
53.		Telegraph services
54.		Facsimile services
55.		Private leased circuit services
56.		Electronic mail
57.		Voice mail
58.		On-line information & data base retrieval
59.		Electronic data interchange (EDI)
60.		Enhanced/value-added facsimile services, incl. store & forward, store & retrieve
61.		Code & protocol conversion
62.		On-line information and/or data processing (incl. transaction processing)
63.		Other[1]

Table A-1—*Continued*
GATT services sectoral classification list

Number	Subject Industry	Subsector
	Communication services—*Continued*	
	Audiovisual services	
64.		Motion picture & video tape production & distribution services
65.		Motion picture projection services
66.		Radio & television services
67.		Radio & television transmission services
68.		Sound recording
69.		Other[1]
70.	Other[1]	(none)
	Construction and related engineering services	
71.	General construction work for buildings	(none)
72.	General construction work for civil engineering	(none)
73.	Installation and assembly work	(none)
74.	Building completion and finishing work	(none)
75.	Other	(none)
	Distribution services	
76.	Commission agents' services	(none)
77.	Wholesale trade	(none)
78.	Retailing	(none)
79.	Franchising	(none)
80.	Other[1]	(none)
	Educational services	
81.	Primary education services	(none)
82.	Secondary education services	(none)
83.	Higher education services	(none)
84.	Adult education	(none)
85.	Other education services[1]	(none)

Table A-1 —*Continued*
GATT services sectoral classification list

Number	Subject Industry	Subsector
	Environmental services	
86.	Sewage services	(none)
87.	Refuse disposal services	(none)
88.	Sanitation and similar services	(none)
89.	Other	(none)
	Financial services	
	All insurance and related services	
90.		Life, accident, & health insurance services
91.		Non-life insurance services
92.		Reinsurance & retrocession
93.		Services auxiliary to insurance (incl. broking & agency services)
	Banking and other financial services	
94.		Acceptance of deposits & other repayable funds from the public
95.		Lending of all types, incl., *inter alia*, consumer credit, mortgage credit, etc.
96.		Financial leasing
97.		All payment & money transmission services
98.		Guarantees & commitments
99.		Trading for own account or for account of customers
100.		Participation in issues of all kinds of securities
101.		Money broking
102.		Asset management
103.		Settlement & clearing services for financial assets
104.		Provision & transfer of financial information
105.		Advisory, intermediation, & other auxiliary services
106.	Other[1]	(none)
	Health-related & social services	
107.	Hospital and other health care facilities	(none)
108.	Other human health services	(none)
109.	Social services	(none)
110.	Other[1]	(none)

Table A-1—*Continued*
GATT services sectoral classification list

Number	Subject Industry	Subsector
	Tourism and related services	
111.	Hotels and restaurants (excl. catering)	(none)
112.	Catering	(none)
113.	Travel agencies and tour operators	(none)
114.	Tour guide services	(none)
115.	Other[1]	(none)
	Recreational, cultural, and sporting services	
116.	Entertainment services	(none)
117.	News agency services	(none)
118.	Libraries, archives, museums and other cultural services	(none)
119.	Sporting and other recreational services	(none)
120.	Other[1]	(none)
	Transportation services	
	Maritime transportation services	
121.		Passenger transportation
122.		Freight transportation
123.		Rental of vessels with crew
124.		Maintenance & repair of vessels
125.		Pushing & towing services
126.		Supporting services for internal waterway transport
	Internal waterways transportation services	
127.		Passenger transportation
128.		Freight transportation
129.		Rental of vessels with crew
130.		Maintenance & repair of vessels
131.		Pushing & towing services
132.		Supporting services for internal waterway transport

Table A-1—*Continued*
GATT services sectoral classification list

Number	Subject Industry	Subsector
	Transportation services—*Continued*	
	Air transportation services	
		Passenger transportation
133.		Freight transportation
134.		Rental of aircraft with crew
135.		Maintenance & repair of aircraft
136.		Supporting services for air transport
137.	Space transportation services	(none)
138.		
	Rail transportation services	
		Passenger transportation
139.		Freight transportation
140.		Pushing & towing services
141.		Maintenance & repair of rail transport equipment
142.		Supporting services for trail transport services
143.		
	Road transportation services	
		Passenger transportation
144.		Freight transportation
145.		Rental of commercial vehicles with operator
146.		Maintenance & repair of road transport equipment
147.		Supporting services for road transport services
148.		
	Pipeline transportation	
		Transportation of fuels
149.		Transportation of other goods
150.		
	Services auxiliary to all modes of transportation	Cargo-handling services
151.		Storage & warehouse services
152.		Freight transport agency services
153.		Other
154.	Other transportation services[1]	
		(none)
155.		
156.	Other services not included elsewhere[1]	(none)

[1]Entries for these subsectors were discarded from the calculations.

Source: General Agreement on Tariffs and Trade, *Services Sectoral Classification List* (MFN.GNS/W/120) and national schedules of commitments.