Chapter 4

Trade in Services

4.1 A Fresh Look

Much of the motivation for the fresh look at services trade comes from the Group of Negotiations on Services (GNS) being conducted in the context of the Uruguay Round of Multilateral Trade Negotiations. The realization that services, which generate substantial employment, gross domestic product, and a surprising amount of world trade, has encouraged the establishment of several study centers devoted to services. For example, the Services World Forum meets annually in Geneva to compare notes on the discoveries made concerning the global service economy (Bressand and Nicolaïdis, 1989). Other Geneva based organizations dealing with services topics include the Research Programme on the Service Economy (PROGRES), The Geneva Association, and the Applied Service Economic Centre. The Fishman-Davidson Center for the Study of the Service Sector was established in 1982 at the Wharton School and has made significant contributions already (e.g. Inman, 1985). National coalitions of service industries have organized in the United States, United Kingdom, Australia, Japan, Sweden, Argentina, New Zealand and Hong Kong. In addition to coordinating the interests of service industries domestically, the coalitions have held their sixth annual international conference in 1990 to discuss topics of mutual interest at an international
Considerable resources are now being used to analyze trade in services. The following pages assemble some of the interesting results and describe the continuing debates among experts. One of the most important confusions involves the debate regarding the applicability of comparative advantage and the usefulness of the Heckscher-Ohlin paradigm of trade based on relative factor endowments. Another avenue of thought leads to analysis of the role of economies of scope and scale in services trade, drawing on the so called new international trade theory of imperfect competition. Those debates often touch on issues of measurement, service quality and prices, and the linkages between goods and services. In addition, the identification of barriers to trade in services is essential to make sense of the impending moves towards liberalization in the GNS. Issues concerning developing countries and the role of services in the development process logically precede a preliminary assessment of the trade in services negotiations at the end of this chapter.

Bringing trade in services into the negotiating limelight was followed by a plethora of academic scrambling to gain a better understanding of services trade. The sequence of events is an unusual feature of the negotiations, (Nicolaidis, 1989). As a result of this rush for knowledge several misleading conclusions can be found in early work. Due to data limitations, heavy reliance on the Fisher-Clark stages hypothesis (described in the previous chapter) and oversimplification, authors drew policy conclusions that are not well supported by facts.

Observers of the U.S. economy noted that service sector employment was expanding rapidly and alleged that service labor productivity lagged behind manufacturing labor productivity. The conclusion intimated was that the U.S., as an emerging service economy, was going to suffer declining productivity. Thus only a conscious government industrial policy favoring manufacturing and obstructing service activities would ensure growth in the U.S. economy. Whether or not labor productivity in services is lower than in manufacturing is subject to em-