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Intereconomics

Suggested Citation: Schultz, Siegfried (1989) : Developing countries and services: Interests of the Third World in the Uruguay Round, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 24, Iss. 5, pp. 227-233,
<https://doi.org/10.1007/BF02928639>

This Version is available at:

<https://hdl.handle.net/10419/140203>

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Siegfried Schultz*

Developing Countries and Services

Interests of the Third World in the Uruguay Round

Most developing countries have shown reluctance towards the inclusion of trade in services in the normal GATT negotiating framework, as demanded by industrialised countries. What are the reasons for their scepticism?

At the start of the Uruguay Round the developing countries' attitude towards the inclusion of services in the negotiations was very mixed. In spite of the joint declaration by 23 countries in June 1985, there were influential voices expressing deep scepticism or even openly rejecting the idea of a new round. The "Group of Ten"¹ was especially prominent in this respect. The interest of the Third World lay primarily in tackling the acute debt problems and in holding negotiations on greater external development assistance, be it via significantly improved export opportunities, increased commercial credit or more generous capital aid. The leading opponents, Brazil and India, based their rejection of the round on their conviction that the OECD countries would not even be prepared to countenance significant liberalisation in those sectors in which developing countries have comparative advantages, such as textiles and steel. Some other developing countries were reluctant to commit themselves to including services in the GATT – in other words to opening their markets to a supposed horde of foreign suppliers – without a guarantee of improved access to the markets of industrial countries for their own products.²

Part of their hesitancy could be explained by the difficulty of predicting with some degree of certainty whether a more liberal or a more protectionist stance would bring greater advantages, given developments in the field of modern technology. The main reasons developing countries as a group gave for not treating

issues relating to services in the GATT negotiations were:³

- ☐ concern that the industrial countries would pay less attention to settling existing problems still unresolved from the Tokyo Round;
- ☐ doubts whether the liberalisation of trade in services would bring them benefits, since the promising areas are in "modern services", which are provided mainly by firms in or from industrial countries;⁴
- ☐ fear that the sensitive issue of foreign direct investment would be introduced into the GATT talks;
- ☐ reservations about applying GATT rules to services as long as industrial countries circumvented GATT rules on merchandise trade to the detriment of developing countries;
- ☐ a desire to retain the option to develop their own non-traditional services sector in view of its role in the development process.

The opening declaration at the start of the Uruguay Round gave the negotiations on trade in services a special role, in that they would be conducted outside the normal GATT negotiating framework.

¹ Argentina, Brazil, Cuba, Egypt, India, Nigeria, Peru, Tanzania, Vietnam and Yugoslavia.

² S. Schultz: GATT: Aktuelle Handelspolitik gegenüber der Dritten Welt, in: DIW-Wochenbericht, No. 36, 1986, p. 456.

³ K. A. Koekkoek: Trade in services, the developing countries and the Uruguay Round, in: The World Economy, Vol. 11 (1988), No. 1, pp. 151-157, here p. 152, and US Congress/Congressional Budget Office: The GATT negotiations and U.S. trade policy, Washington 1987, pp. 131 f.

⁴ More precisely "post-industrial countries" or countries offering more advanced services.

* Deutsches Institut für Wirtschaftsforschung (DIW), Berlin. Paper presented to the Annual Conference of the Development Committee of the Gesellschaft für Wirtschafts- und Sozialwissenschaften (Verein für Socialpolitik) in Frankfurt am Main on 19th May 1989.

Before the separate negotiating group on the problems of internationally traded services was established, the lengthy debate on the similarities and differences between merchandise trade and trade in services⁵ highlighted the following points:⁶

□ the means of protecting services are different from those for goods, since services are not subject to customs duties or other restrictions associated with the crossing of national borders. Instead, protection takes the form of restrictions on the foreign suppliers' right of establishment for the purpose of providing services and/or discriminatory administrative decrees or other regulations;

□ state involvement in the provision of services and in international trade in this sector is greater than in the merchandise sector (employment policy, balance-of-payments considerations, infant industry policy, consumer protection, national security, the preservation of social and cultural characteristics);

□ services cannot be stored; typically the producer and the consumer must be present simultaneously. (There are various exceptions to this rule and they are increasing rapidly with the spread of modern technology, especially telecommunications.)

The reluctance or opposition of most developing countries towards the inclusion of trade in services in the normal GATT round of negotiations stemmed mainly from concern for their service industries, which are not internationally competitive by comparison with their counterparts in industrial countries. The high R and D input and the significant technological content in a range of specialised services were a prominent factor in this, but the question of transnational corporations, that of

the right of establishment, which is a key issue for various service industries, and the problems stemming from the fact that a substantial volume of services can be embodied in physical goods also helped determine the developing countries' attitude.⁷

Their scepticism was further increased by the fact that some of the trade agreements reached outside the GATT framework do not have binding force. Such agreements, such as those on the various systems of preferences, are based on voluntary, unilateral concessions and can be terminated by the conceding party on political or economic grounds. Since this can jeopardise market access, it introduces uncertainty into longer-term production decisions.

The experiences some developing countries have had in the trade field have further reduced their already limited inclination to bring further sectors into the GATT system. One such experience of developing countries was their de facto exclusion from crucial sessions during the Tokyo Round in which only main suppliers and/or the major industrial countries actively participated. Developing countries were often presented with a cut and dried package (as with some of the codes) or a final decision (tariff reductions, for example) that they could only accept or reject in toto.⁸

Furthermore, a number of industrial countries have shown the developing countries a bad example by undermining formally agreed GATT rules as soon as national interests were at stake. In this context one could mention the GATT panels; it has by no means always been possible to implement their decisions in disputes between contracting parties. If major industrial countries show how little agreements mean to them, it is

Developing Countries which have accepted the MTN Agreements from the Tokyo Round

Anti-Dumping Code	Subsidies Code	Import Licensing Code	Government Procurement Code	Technical Barriers to Trade Code	Customs Valuation Code
Brazil	Brazil	Argentina*	Hong Kong	Argentina*	Argentina
Egypt	Chile	Chile	Israel	Brazil	Botswana
Hong Kong	Egypt	Egypt	Singapore	Chile	Brazil
India	Hong Kong	Hong Kong		Egypt	Hong Kong
Korea	India	India		Hong Kong	India
Mexico	Indonesia	Mexico		India	Korea
Pakistan	Israel	Nigeria		Korea	Malawi
Singapore	Korea	Pakistan		Mexico	Turkey*
Yugoslavia	Pakistan	Philippines		Pakistan	Yugoslavia
	Philippines	Singapore		Philippines*	Zimbabwe
	Turkey	Yugoslavia		Rwanda*	
	Uruguay			Singapore	
	Yugoslavia*			Tunisia**	
				Yugoslavia	

* Signed (acceptance pending).

** Non-contracting party to GATT.

difficult or impossible to persuade developing countries to take the rules seriously and to convince them that their interests will be adequately served by the existing system.⁹

Cautious Optimism

The developing countries' initial predominant rejection of negotiations at international level has now given way to cautious optimism, although their attitude towards a multilateral trading system and in particular to the current GATT round of negotiations continues to be coloured by concern to protect their interests. Their attitude has been influenced positively¹⁰ by:

- ☐ the application of tariff reductions negotiated in earlier rounds to all GATT contracting parties (the most-favoured-nation principle);
- ☐ the granting of exemptions in cases in which adherence to obligations under the General Agreement would have led to serious economic difficulties;
- ☐ the possibility of settling disputes in an impartial forum if the developing countries involved have the impression that their rights under the GATT are being infringed by other contracting parties;
- ☐ the special status accorded to developing countries in Part IV of the GATT and the "enabling clause", which allows them to derive trade advantages from unilateral concessions by lifting the reciprocity requirement. This applies not only to tariff reductions but also to preferential tariffs under the Generalised System of Preferences, non-tariff barriers (provided they are covered by GATT codes¹¹) and regional preference agreements among Third World countries.

Since the start of the negotiations developing countries have participated in the detailed discussions on the following issues as contracting parties to the GATT:

- ☐ the general characteristics of developing countries;

⁹ S. Schult: Dienstleistungen und GATT, in: Beihefte der Konjunkturpolitik, No. 34, Duncker & Humblot, Berlin 1987, pp. 151-173, here p. 153.

⁶ K. A. Koekkoek, op. cit., p. 151, and GATT: "Focus" Newsletter, No. 60 (March-April 1989), p. 4.

⁷ S. S. Saxena: The Uruguay Round: Expectations of Developing Countries, in: INTERECONOMICS, Vol. 23 (1988), No. 6, p. 274.

⁸ On the possibilities for and limits to a common approach, see C. Hamilton and J. Whalley: Coalitions in the Uruguay Round: The extent, pros and cons of developing country participation, NBER, Working Paper No. 2751, Cambridge Mass. 1988.

⁹ OECD, TC/WP (86) 59, pp. 4 f.

¹⁰ OECD, op. cit., p. 4.

¹¹ See the table.

- ☐ the conceptual framework, the statistical basis and methodological questions;

- ☐ the significance of national and international regulations concerning the services sector for world trade in services; and

- ☐ problem areas that may bring multilateral bodies into play.

One of the consequences of the developing countries' justified scepticism was the call for transparency expressed in the Ministerial Declaration at the opening of the Uruguay Round; primarily this means avoiding excessive concentration on consultations in closed groups.

Why Multilateral Rounds of Negotiations?

In contrast to the doubts previously harboured by some developing countries about the prospects of an export-oriented growth strategy, the current pessimism regarding exports reflects concern not that the markets are insufficiently large but that as a result of growing protectionist tendencies they will be closed as soon as significant market success has been achieved.¹² The Uruguay Round of multilateral trade talks reflects an attempt gradually to dispel such scepticism by means of internationally agreed steps towards reliberalisation. Multilateral "rounds" of negotiations have proved beneficial in this respect because

- ☐ typically the advantages of protectionism are reaped by the few (producers) while the costs are spread among the many (consumers). In this case the pressure exerted by national producer lobbies is particularly dangerous; a stronger commitment to free trade found in the multilateral bodies provides some counterweight;
- ☐ while talks are under way at international level, protectionist tendencies in national legislatures can be held in check by pointing to the delicate balance of the negotiations;
- ☐ in the United States in particular protectionist elements in Congress can gain the upper hand if no new multilateral discussions are in progress.

A number of developing countries have expressed reservations about some of the key GATT rules. These include both the selective use of safeguard clauses, whereby individual countries can be "targeted", and the weaknesses of the monitoring and dispute settlement

¹² J. N. Bhagwati, A. O. Krueger and R. H. Snape: The multilateral trade negotiations and developing-country interests: introduction, in: The World Bank Economic Review, Vol. 1, 1987, No. 4, pp. 539 f.

procedures. In particular, the dispute settlement panel does not have sufficient power to implement its own recommendations. A strengthening of the GATT's right and ability to investigate, expose and prosecute violations of treaty provisions and other arrangements is entirely in the interests of the developing countries.¹³ There is a greater chance of this happening in a multilateral system of rules and procedures than in bilateral agreements, which the industrial countries involved often use to impose their discriminatory protection measures. An effective monitoring mechanism within the GATT provides a better guarantee of national trade policy harmonisation than can be achieved by acting individually, for lack of sufficient economic power. This is particularly true of small or economically weak countries, especially those of the Third World.

An important reason for developing countries to take part in multilateral trade talks is their interest in curbing protectionist tendencies in industrial countries. They come nearer to achieving this goal if they themselves offer to lower their trade barriers. This applies especially to the newly industrialising countries. By refusing to liberalise in any way they run the risk that the industrial countries – with the USA in the lead – will set store by negotiations “within the family” and will naturally confine the advantages to this group.¹⁴

If the developing countries were to adopt a common position in the negotiations it would not necessarily mean that all countries had to accept the same obligations in the Uruguay Round; NICs can undoubtedly tolerate more competition from industrial countries than can countries at a lower level of economic development and the dismantling of restraints to trade in more advanced countries would benefit other

developing countries. As a general negotiating principle, it would be advisable for the developing countries to liberalise access to their markets for a limited period and to offer permanent removal of restrictions in exchange for the dismantling of obstacles to trade in industrial countries.¹⁵

Services in the Development Process

Services play an important role both internally and externally for a growing number of developing countries.¹⁶ The composition of the domestic supply of services changes as the economy develops. Services meet part of the basic needs of the population, help create jobs and are part of the infrastructure. As the level of development rises, services used as inputs by other producer sectors increase in importance. The creation of a services infrastructure enhances the country's attractiveness for advanced technology and its ability to absorb it; the ability to innovate and competitiveness are also increased in the goods-producing sector.¹⁷

Some developing countries, such as Hong Kong, Korea and Singapore, have become important exporters of services, but in most developing countries the demand for services is increasingly met by suppliers from industrial countries, thus consuming scarce foreign exchange.

Most developing countries are concerned that the negotiations may pay too little regard to their development needs. Hence the demand (from Mexico) that the question of opening the borders to migrant workers be included in the talks, whereas the industrial countries wish to exclude precisely this issue if possible. Moreover, the developing countries are unanimously of the opinion that development is an objective whose details should be decided nationally and that it goes far beyond merely economic growth. Those developing countries that are significant suppliers of services in world markets are interested in multilateral negotiations, but when it comes to protecting their own service industries in the domestic market they are at one with the majority of Third World countries in seeking protective measures.

UNCTAD¹⁸ stresses the central role services play in the development process and uses this as the main argument against liberalising this sector. Modern services, in particular, are underdeveloped in Third World countries. Some foreign presence would undoubtedly help stimulate the development of an indigenous service industry in these countries (through technology transfer, the demonstration effect and the desire to compete),¹⁹ but rapid liberalisation would lead to a flood of imports. Above all, UNCTAD fears there

¹³ Alberto Valdés: Third World Interests in the Uruguay Round, in: “economic impact”, No. 61 (1987/5), p. 23 (abridged version of a paper published in: The World Bank Economic Review, Vol. 1, 1987, No. 4).

¹⁴ B. Balassa: Interest of developing countries in the Uruguay Round, in: The World Economy, Vol. 11, 1988, No. 1, pp. 39-55, here pp. 49 and 53.

¹⁵ B. Balassa: The newly industrializing countries in the world economy, New York and Oxford 1981, chapter 16.

¹⁶ See H. Keppeler: Die Bedeutung des Dienstleistungssektors für die Entwicklungsländer – Ansatzpunkte für die bi- und multilaterale wirtschaftliche Zusammenarbeit. Forschungsberichte des Bundesministeriums für wirtschaftliche Zusammenarbeit, Vol. 77, Munich, Cologne and London 1986, pp. 24 ff. and 38 ff.

¹⁷ GATT: “Focus” Newsletter, No. 60, March-April 1989, p. 5.

¹⁸ Cf. UNCTAD: Services and the development process, TD/B/1008/rev. 1, Geneva 1985, and UNCTAD: Services and the development process: further studies, TD/B/1100, Geneva 1986.

¹⁹ K. A. Koeckoeck: Developing Countries and Services in the Uruguay Round, in: INTERECONOMICS, Vol. 22 (1987), No. 5, pp. 234-242, here p. 238.

would be a danger that local services would not be able to evolve sufficiently on the basis of domestic technological development. The development of an independent and efficient services sector would take time and would therefore require protection. Hence the majority of developing countries envisage the signatories to an agreement being automatically granted unrestricted advantages (especially access to information networks and qualified training) but that a link would be established between their level of development and the concessions they would have to make, so that less developed countries would have to offer less in exchange. The majority of industrial countries counter this by demanding that obligations increase as the level of development rises over the years (graduation). This does not mean that the newly industrialising countries would necessarily have the same obligations as the industrial countries or that they would have to dismantle their trade restrictions at the same pace, but some reduction in the level of protection should be announced in the course of the negotiations.²⁰

Direction of the Debate about Services

The Punta del Este declaration expressly states that the multilateral regulations to be formulated on international trade in services should build on the work and arrangements of existing international organisations. These include the agreements, conventions and procedural rules established in the fields of civil aviation (ICAO), international air transport (IATA), shipping (IMO), telecommunications (ITU) and satellite communications (INTELSAT). However, the work on invisible trade and capital movements (OECD) and trade restrictions such as restrictive business practices (UN/UNCTAD and OECD) also belong under this heading. The purpose of many of these sectoral agreements is primarily to establish technical standards and to pool resources. The initial aim of the group of developing countries was to confine the international discussion of services as far as possible to UNCTAD, which already had responsibility in this field, and to the sectoral organisations ICAO and ITU.²¹

²⁰ B. Balassa: Interest of developing countries in the Uruguay Round, op. cit., pp. 48 and 50.

²¹ Commonwealth Secretariat: The Uruguay Round of multilateral trade negotiations: Commonwealth interests and opportunities, London 1986, p. 34.

²² P. Nicolaidis: The problem of regulation in traded services: The implications for reciprocal liberalization, in: Außenwirtschaft, Vol. 44, 1989, No. 1, pp. 29-57, here p. 48.

²³ For details, see F. A. Blankart: Trade in Services, Definition eines GATT-Verhandlungsgegenstandes, in: Außenwirtschaft, Vol. 44, 1989, No. 1, pp. 5-16, here p. 11.

The aim of liberalising services is a central element in the US initiative to include the issue of services on the agendas of various international organisations. At the time of the Tokyo Round of GATT negotiations the US Administration received a mandate from Congress under the 1974 Trade Act to negotiate agreements on services. Virtually no use was made of those powers; at that time the attention of the USA and its main trading partners was still focussed on other issues. Only the codes on the calculation of customs values and public procurement address aspects of trade in services.

The services issue was significantly upgraded with the coming of the Reagan era and has since been one of the main US concerns in the negotiations. A broadly based campaign was launched, aimed at achieving "international consensus" in favour of negotiations under the auspices of GATT and supported by an intensive programme of research, symposia and detailed studies by the OECD.

The proposals put forward so far in the negotiating group on services relate mainly to the principles that could be helpful in reaching agreement. Detailed plans for including services and restraints on trade in services have yet to be produced. The most comprehensive proposals have come from industrial countries, primarily the USA and the EC.²² They aim if possible to include all tradable services in the negotiations. Other countries have submitted confidential discussion papers on particular aspects, such as transparency and non-discrimination.

The objectives of the US and EC proposals are very similar. The only differences between them are that the Americans lay greater stress on the right of establishment and the "national treatment",²³ whereas the Europeans emphasise more the individual liberalisation measures. Both proposals are based on the assumption that liberalisation is compatible with the development aims of Third World countries; however, it is not worked out how liberalisation is to be reconciled with the expectations of those countries where regulation and protection are a central part of their "philosophy".

Neither set of proposals limits the types of services to be covered in the negotiations. All branches of services are negotiable, but international discussion will not extend to every individual national regulation. The right of sovereign states to regulate developments within their own economies is not disputed. The negotiations are to concentrate instead on those areas of policy that affect foreign trade and the ability of foreign suppliers of services to gain access to the domestic market.

The US and EC proposals differ in their approach to one key question, namely the treatment of third parties.²⁴ Whereas the USA wants only participating countries to enjoy the advantages of liberalisation (conditional most-favoured-nation treatment), the EC proposals would enable all countries to reap the benefits (unconditional most-favoured-nation treatment). International diplomacy is in a dilemma here: on the one hand, the position of an important trading nation cannot be ignored, but on the other hand discriminatory measures violate the principles of the GATT. Conditional concessions can be misused, in other words used to conceal a protectionist stance. That being so, liberalisation cannot succeed without some degree of supranational surveillance.

Among the developing countries, only Argentina has come forward with a concept for organising trade in services. Its main components are: (1) developing countries cannot realistically be expected to shoulder the same obligations as industrial countries; (2) developing countries should have opportunities to expand their exports and increase their share of the world market; (3) transnational corporations should be made to transfer technology and know-how to developing countries. All three points are aspects of the general demand for preferential treatment of developing countries in the reshaping of trade relations between North and South. Moreover, Argentina, Brazil and India are prepared for confrontation in defence of national safeguards for certain types of services (e.g. cross-border data transfer, communications, financial services), which they classify as being as sensitive as matters of national security.²⁵

In their mid-term review of the Uruguay Round²⁶ the Ministers reinforced the previously stated negotiating aims for the services sector. The range of services to be covered is to be as broad as possible, although certain services can be partly or wholly excluded. On the delicate question of which cross-border transactions should be negotiable, there is agreement that future

negotiations should cover not only supplied services and consumers but also factors of production to the extent that this is essential to the provision of the services but does not lead to the permanent immigration of persons.

Conclusions and Prospects

Developing countries view the opportunities offered by a round of negotiations on services in terms of its usefulness in the context of their most pressing problems. These include rapid development, solution of the debt crisis and the removal of trade barriers for their merchandise exports.

Given the structure and trends of trade in services, future export opportunities are likely to be weighted heavily in favour of the industrial countries, a reflection of the provision of "modern services", which require a high input of capital and training. Only countries such as Singapore, Korea and Taiwan have no permanent deficit in their services trade; in some areas they have even recorded significant export successes.

The liberalisation of services is not a zero-sum game, in other words the industrial countries' export successes do not necessarily mean corresponding "losses" for developing countries.²⁷ Firstly, developing countries are not the main consumers of internationally traded services; industrial countries are both the most important exporters and also the largest importers. Secondly, increasing trade in services can serve as a vehicle for technology transfer and encourage direct investment, without which it is almost impossible to achieve modernisation and long-term development.

The developing countries have voted almost unanimously for protection for their developing domestic service sector. Their concern for national industries that they fear will otherwise remain permanently backward has two aspects: (a) fear that their share of world trade in services will stagnate at the present level, and (b) concern on development policy grounds that the supply of services from industrial countries will continue to predominate as a consequence of liberalisation.

The question therefore arises as to the scale of comparative advantages to be derived from the provision of higher-value services in developing countries. As an OECD working party²⁸ has observed,

²⁴ P. Nicolaidis, *op. cit.*, p. 50.

²⁵ C. VanGrasstek: Trade in services: Obstacles and opportunities, in: "economic impact", No. 59 (1987/3), pp. 46-51, here p. 49 (updated version of a paper for the Overseas Development Council: Negotiating U.S.-Third World trade in services: Obstacles and opportunities).

²⁶ Session of the Trade Negotiations Committee from 5th to 9th December 1988 in Montreal and from 5th to 8th April 1989 in Geneva. See GATT: News of the Uruguay Round of Multilateral Trade Negotiations, NUR 027 (24th April 1989) and MTN.TNC/11 (21st April 1989), pp. 38 ff.

²⁷ J. J. Schott and J. Mazza: Trade in services and developing countries, in: *Journal of World Trade Law*, Vol. 20, No. 3 (May-June 1986), pp. 253-273, here p. 273.

²⁸ OECD, Working Party of the Trade Committee: North-South trade: Developing country interests in trade in services (Note by the Secretariat), TC/WP (86)64, p. 5. See also S. Lall: The Third World and comparative advantage in trade in services, in: S. Lall and F. Stewart (eds.): *Theory and Reality in Development: Essays in honour of Paul Streeten*, Oxford 1986, pp. 122 ff., and P. Streeten: Gains and losses to countries from trade in services, manuscript, November 1987, p. 8.

the dynamic effects of trade in services have remained "underexploited" so far; by importing services that they cannot yet provide cheaply themselves and developing their physical and human capital a number of countries can modify their export structure and develop a competitive range of services. For example, today Singapore has a comparative advantage on account of its good communications infrastructure and well qualified workforce. This dynamic element is not confined to newly industrialising countries; India and Thailand have become important suppliers of technical services. Moreover, the developing countries retain their traditional comparative advantage of lower labour costs in certain service industries, such as tourism. Finally, new fields with comparative advantages are opening up for developing countries, such as more sophisticated services in which a shift in their direction is discernible. Examples of services imported by industrial countries include type setting in Korea, data recording in the Philippines, Korea and Barbados and computer software from India and Pakistan.

²⁹ J. N. Bhagwati: Trade in services: Developing country concerns, in: "economic impact", No. 62 (1988/1), pp. 58-64, here p. 58 (abridged version of a paper published in: The World Bank Economic Review, Vol. 1, No. 4, September 1987).

The detailed discussion of procedural questions between the "Group of Ten" – mainly Brazil and India in this instance – and the United States before the opening of the talks in Punta del Este long overlaid fundamental differences of approach on the issue; the United States and more recently the EC as well want to grant concessions on their merchandise imports in exchange for more liberal conditions for their exports of services. By contrast, the developing countries insist that the industrial countries should resolve the old problems of merchandise trade by means of "standstill" and "rollback" arrangements under existing GATT obligations, which they have not wholly fulfilled up to now. Hence in their view there is no justification for wanting to link concessions on merchandise trade and trade in services.²⁹

For the majority of developing countries multilateral negotiations are an appropriate path, since this approach provides the most effective protection for the economically weak. To minimise disappointment over the outcome of the Uruguay Round, no more than freer trade in the services sector should be expected; it would be unrealistic to envisage the complete removal of restraints.

George C. Abbott*

Loan Loss Provisioning

Before the background of the debt crisis loan loss provisioning has been gaining in importance, as one of the measures adopted by banks to reduce their exposure in highly indebted countries and to strengthen their balance sheets. Prof. Abbott examines the concept and forms of provisioning, and discusses the recent establishment of international guidelines and their likely effects on the debt crisis.

By the nature of their operations, banks are discreet, prudent and cautious institutions. They do not throw around their clients' money or engage in imprudent lending on a massive scale. Yet, in retrospect, this is precisely what they did in the 1970s and early 1980s. There was also a lot of imprudent borrowing on the part of the developing countries, but this aspect of the debt crisis is well-covered in the literature, and for purposes of this paper, can be taken as read. Of more

immediate concern is the way the banks reverted to form once the crisis broke, and the effect which their actions have had on the course of the crisis.

Basically, the banks reacted to the debt crisis in two ways. Firstly, they reduced the amount of lending to debtor countries, and secondly, they sought to call in outstanding loans. The purpose of these mutually reinforcing actions was to reduce their exposure in problem debtor countries. In 1982, for example, the claims to capital ratio of the 9 US money centre banks in

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