

Schultz, Siegfried

Article — Digitized Version

Barriers in services trade: The state of negotiations and prospects

Intereconomics

Suggested Citation: Schultz, Siegfried (1993) : Barriers in services trade: The state of negotiations and prospects, Intereconomics, ISSN 0020-5346, Nomos Verlagsgesellschaft, Baden-Baden, Vol. 28, Iss. 5, pp. 215-221,
<https://doi.org/10.1007/BF02926205>

This Version is available at:

<https://hdl.handle.net/10419/140415>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Siegfried Schultz*

Barriers in Services Trade: The State of Negotiations and Prospects

Trade in services constitutes one of the still unresolved problems in the Uruguay Round. What progress has been made so far in this field? Which are the remaining points at issue? What are the prospects for agreement on a comprehensive solution?

The surprising trade policy decisions at the world economic summit in Tokyo revived the discussion on the current GATT world trade round, although in the meantime things have calmed down, because of the lack of progress in Geneva. The tariff and non-tariff liberalization package of the big four (the EC, USA, Japan and Canada) actually means nothing more than the intention to reach an agreement on one of the open areas of the eighth world trade talks (Uruguay Round), market access for industrial products. However, there has been hardly any progress on the unresolved core problems of the Uruguay Round, agriculture and trade in services. Whilst the USA and Germany want to include the arrangement to reduce agricultural subsidies (the Blair House Agreement) in the GATT, the French government questions this. In services the position already reached was summarized and certain progress in market access for financial services is mentioned. The impression therefore remains that the central questions were avoided in Tokyo because of insufficient willingness to compromise and there is therefore no guarantee of a successful conclusion to the negotiations before the end of the year. The treatment of services in the Uruguay Round and the current state of discussions are summarized below.

There have been trade barriers in the area of international services for many years, but in recent years there has been a noticeable increase. There is consensus on the facts of the case, even if empirical verification of

sharply defined measurement concepts runs into difficulties.

These barriers are mainly measures with effects on trade which treat directly competing domestic and foreign suppliers differently. Whether they serve expressly to protect against foreign competition or are a trade-impeding side-effect of a different (economic) policy aim is of little interest to the importer or final consumer. It is certainly relevant, however, in the multilateral discussion process about increased liberalization in international trade in services in so far as only negotiable barriers should actually be on the agenda of the negotiations.

In the practice of international trade in services, as in the case of non-tariff barriers in trade in goods, a number of limiting factors appear. They are linked to the following points or affect the following areas:

- Discrimination against services supplied on the domestic market by firms based abroad (in the country of origin or financial centres).
- Prevention of opening of branches for local representation.
- Restrictions on foreign firms founding (independent) subsidiaries in the country.
- Restrictions on the business activity of permitted domestic subsidiaries (e.g. the exclusion of certain activities, the limiting of transfers of profits).
- Conditions for staff with foreign nationality staying (temporarily) in the country.
- Obstruction or prevention of the transfer of know-how.

* Deutsches Institut für Wirtschaftsforschung, Berlin, Germany. Abridged and revised version of a chapter of a study recently carried out for the Federal Ministry of Economics: Hans J. Petersen, Fritz Franzmeyer, Herbert Lahmann, Siegfried Schultz und Christian Weise: Die Bedeutung des internationalen Dienstleistungshandels für die Bundesrepublik Deutschland, DIW-Beiträge zur Strukturforchung, Heft 145, 1993.

Motives

As a rule the barriers to international trade in services consist of a number of measures which have existed for different lengths of time and were introduced for different reasons. Considerations about abolishing these barriers must take this spectrum into account in order to avoid unrealistic expectations. The following aspects exist both for the specific barriers and those which affect the entire sector:

- *Domestic power over key areas of the economy:* in both industrialized and developing countries there are restrictions in some branches of services on imports, business activity or the employment of foreigners in management positions in the country, which are justified by the claim that these branches are important for the domestic economy (independence, national security).
- *Infant industry argument:* mainly used by developing countries, (temporary) protection against cheaper imports should make it easier to build up a domestic service infrastructure.
- *Balanced sector structure:* for a number of countries diversification of the structure of the economy is an integral part of the concept of development.
- *Improvement in the balance of payments:* a long-term lack of foreign currency will result in a protectionist trade policy.
- *Employment policy:* in spite of potentially serious reductions in efficiency, preference is often given to the employment of nationals.
- *Consumer protection:* typical examples are measures against aggressive and exaggerated advertising by foreign suppliers and limited access for foreigners to certain professions (e.g. auditors, lawyers, architects). With such entry barriers in areas with strong specific national differences certain professional standards can be ensured.

¹ See G. P. Sampson, R. H. Snape: Identifying the issues in trade in services, in: *The World Economy*, Vol. 8 (1985), pp. 172 f. and pp. 179 f.

² The basic material comes from various documents compiled over the years by international organizations as the empirical basis for the discussion about barriers to trade in services. These include principally GATT documents (submissions by the Secretariat and studies by individual delegations), OECD documents, UNCTAD papers on subsectors, and other material which has become available since the completion of an earlier DIW study. See Peat, Marwick, Mitchell & Co., management consultants (in collaboration with Malmgrem, Golt and Kingston & Co.): *A typology of barriers to trade in services*, no place given 1986; Scientific Consulting, Dr. Schulte-Hillen/BDU: *Hindernisse für den EG-externen Handel mit Dienstleistungen der Bundesrepublik Deutschland*, Cologne 1989.

□ *Other motives:* these include additional revenue-raising for the public sector, forced transfer of know-how and the preservation of social standards and cultural identity.

This wide-ranging catalogue of motives confirms the above assertion that there is not necessarily a protectionist intention behind every measure which a foreign supplier sees as a barrier to trade. Admittedly, for those foreign producers whose business is obstructed or who are even kept out of the market it is not the motive, but the restriction itself which counts. However, in order to identify those barriers capable of bringing about international liberalization, a knowledge of the causal factors of measures with protectionist effects is essential.

Forms

From the point of view of the form of the individual barriers, the theoretical literature provides no contribution as to the way towards systematization.¹ In empirical investigations² mainly enumerative lists of barriers are to be found which are orientated towards what is encountered in practice. Here it will be attempted to take into account the individual forms as far as possible, but to summarise them in groups under particular key words. The instruments mentioned are, independent of their importance for trade policy, assigned to that aspect of business activity which they affect the most.

Despite different interests and different methodological procedures a few general observations can be made:

- The individual areas of the service sector have not been researched and documented to the same extent. It must therefore be distinguished between those subsectors which are covered in virtually all national investigations for GATT and in the framework of OECD sector studies (banking, insurance, construction, air transport, shipping, and telecommunications and information services) and those which are only occasionally recorded (e.g. tourism, specialist service professions, advertising, film, television).
- The empirical accounts of country studies for GATT concentrate on the existing rules and restrictions in the particular country; only studies in the USA and the UK,

³ Furthermore, the originally worldwide documentation of the US Special Trade Representative, which was differentiated according to countries and sectors, is unfortunately no longer available. The originally dual presentation in the annual USTR publication – on the one hand a documentation of global barriers and on the other a description of the American position on multilateral trade talks – has been limited to the second aspect since the mid-1980s. The once planned collection of material by the British export economy has not filled this gap.

⁴ See Scientific Consulting, op. cit., Table pp. 16-17.

URUGUAY ROUND

Denmark, Germany, Canada and the Netherlands deal with barriers in third countries. There is a conspicuous dominance of Anglo-American material.³

□ As a consequence of the pressure on the part of the relevant export industry, the available documentation is mainly from countries in the northern hemisphere, i.e. there is little corresponding work from developing countries; the same is true of the area which covers what is now the CIS and the Central and East European countries.

Practical Relevance of the Barriers

The structuring of the very diversified panorama of restrictions is an important step towards the systematization of the collection of information. As yet there are, however, no wide-ranging investigations on the frequency with which the individual measures are resorted to—like with non-tariff barriers in trade in goods—or on the actual effect on trade flows. Studies on the characteristics in subsectors of the service sector of the kind used for years by the OECD committees dominate. Surveys of German firms about their experiences of defensive practices in foreign markets have not yet shown the required transparency. Many firms have divided their specialist knowledge between various departments and are obviously very hesitant to cooperate⁴—either because

they believe that they have enough knowledge within their market segment or because they do not attach a great importance to trade in services within the activity of their firm.

The results of the investigation mentioned above should not be overinterpreted because the authors draw attention to a number of restrictions. The degree of effective obstruction could not be included. However, the study recognizes the significance of barriers affecting more than one sector. Almost 50% of all barriers investigated for German firms apply to the whole service sector. Among the individual services examined barriers in banking and shipping dominate. The remaining 25% of barriers are divided amongst ten further subsectors.

Furthermore, those practices which are actually used as defensive measures by no means always serve a trade policy purpose (consumer protection). Neither are all of the measures listed intended to defend against foreign goods (public monopoly). The word protectionism in the sense of active trade policy cannot, therefore, be applied completely here. Otherwise there would be a danger of unrealistic expectations, and a comprehensive liberalization would make necessary intervention into national rules and laws, with which other goals are pursued.

Table 1
The Effects of Trade Barriers in Important Areas of the Service Sector
An evaluation of GATT and OECD documents

Starting point of the barrier/ instrument used	Type of trade	Areas affected	Transparency of the measures	Application
Banking				
Branch	Local presence	Sector-specific	No	Discriminatory
Current business	Cross-border	Mainly sector-specific	No	Discriminatory
Competitive conditions	Mainly cross-border	Sector-specific	No	Discriminatory
Shipping				
Competitive conditions	Mainly cross-border	Inconclusive	No	Discriminatory
Administrative barriers	Cross-border	Inconclusive	Inconclusive	Inconclusive
Insurance				
Branch; participation	Local presence	Mainly sector-specific	No	Inconclusive
Cross-border activities	Cross-border	Mainly general	Mainly yes	Inconclusive
Competitive conditions	Mainly cross-border	Inconclusive	No	Discriminatory
Reinsurance	Cross-border	Sector-specific	No	Discriminatory
Construction				
Competitive conditions	Mainly cross-border	Mainly sector-specific	Mainly no	Mainly discriminatory
Taxes and subsidies	Cross-border	Sector-specific	No	Discriminatory
Capital transfers	Cross-border	General	Yes	Non-discriminatory
Air travel				
Market access	Cross-border	Mainly sector-specific	Mainly no	Discriminatory
Taxes and subsidies	Cross-border	Mainly general	Mainly no	Discriminatory
Current business	Cross-border	Sector-specific	No	Discriminatory
Telecommunications/information services				
Cross-border activities	Cross-border	Sector-specific	Mainly no	Mainly non-discriminatory
Competitive conditions	Mainly cross-border	Mainly sector-specific	Mainly no	Mainly discriminatory
Technical standards	Cross-border	Sector-specific	No	Discriminatory

Source: drawn up by the DIW on the basis of the investigation of Peat, Marwick, Mitchell & Co., 1986, Tables 2-7.

Obstruction is not necessarily the same in each individual branch of the service sector. If the effects on important subsectors are summarised – here banking, shipping, insurance, construction, telecommunications and information services, and air traffic – it becomes clear that protection against new suppliers trying to enter the domestic market concentrates on

- the record of the firm's branch in the country and
- the competitive conditions with domestic firms.

Furthermore, taxes and subsidies and branch-specific measures play a role. With respect to the results of the Peat, Marwick & Mitchell study, which are based on GATT and OECD material, standard patterns can be determined for each major branch (see Table 1).

According to this, the – mainly international (exceptions being banking and insurance) – services of foreign suppliers are obstructed more through sector-specific measures than general measures which affect the whole service sector. The use of these general measures is as a rule insufficiently transparent and without exception discriminatory, thus disadvantaging foreign supply.

The results of the OECD working groups point in the same direction. The investigations carried out until now have made it clear that there are a range of branch-specific characteristics which do not justify a general cross-sectional analysis of the barriers. Moreover, a lot more is being proceeded with in a parallel way: the vertical attempt continues to be pursued where there are specific characteristics within a branch of the service sector, and the horizontal attempt is the general level for the globally relevant questions.

Treatment in the Uruguay Round

The subject of services and liberalization is one of the focal points on the agenda of the Uruguay Round. This is an expression of the belief that worldwide unexploited potential can be better used through international agreement on the structure of trade in services. Through multilaterally agreed concepts, principles and rules, three goals are to be pursued:⁵

- the creation of a multilateral framework including the formulation of rules for individual subsectors;
- the expansion of trade in services with the condition that there be transparency and gradual lifting of barriers to trade, and
- the (trade-supported) promotion of economic growth of all trading partners and catching up of the Third World.

In the preparatory phase of the Geneva negotiations the

question of the inclusion of trade in services in the Uruguay Round of negotiations was one of the main points of conflict which could have caused the failure of the Uruguay Round before it even started. As a reflection of the interdependent interests of parties involved in the negotiations, the central position of the service sector has since changed very little. Looking back it can be established that the pragmatic agreement in favour of a separate negotiating procedure for services reduced the initial conflict, and with the basic decision for a separate international agreement on trade in services (GATS) it will be easier to take the different interests of the country groups involved into account. The *industrialized countries* continue to be interested in an expansion of international trade in services. For most of them an agreement including as many countries as possible still seems advantageous. It should become a general framework agreement with annexes for the regulation of branch-specific problems.

A number of *developing countries* fear for the survival of their service sectors (except for tourism), since the provision of many of the increasingly internationally traded services is very technology- and capital- intensive, both in terms of physical and human capital. Here the industrialized countries, which already dominate international trade in services, have a comparative advantage. This was a reason for the developing countries to oppose reductions in trade barriers in this sector for the time being – which admittedly also means to a certain extent not taking advantage of productivity-increasing modern inputs in the production of goods.

The industrial and developing countries initially had opposing views in the negotiations. The now open questions within the service sector are, however, apart from tensions between industrialized and South East Asian countries with respect to financial services, characterized less by differences between North and South than by conflicting interests between the main trading partners amongst the industrialized countries and differing ideas from country to country on the extent of state intervention and the degree of international liberalization.

Sector-specific difficulties also prevented rapid progress in the negotiations about the service sector. Compared with trade in goods the situation is aggravated by the facts that

⁵ See GATT: Draft ministerial declaration on the Uruguay Round, Punta del Este, 20.09.86, Annex, pp. 23-24; GATT: Focus – Newsletter, Uruguay Round Special Issue, No. 61 (May 1989), Part II, p. 15; M. Marconini: The Uruguay Round negotiations on services: An overview, in: P. A. Messerlin and K. P. Sauvart (eds.): The Uruguay Round: Services in the world economy, World Bank/UNCTC, Washington D.C./New York, N.Y. 1990, pp. 3 f.

- international trade in services more frequently requires cross-border factor movements and the establishment of branches of firms in the buyer country and – an expression of the problem –
- the controlling interventions of the public sector are in general more frequent and far-reaching.⁶

The success of the negotiations can be measured in terms of various criteria. These include a large number of signatory states, political acceptance (e.g. in the US Congress) and “economic substance”, i.e. the ability to change national policies to move in a direction which is appropriate in terms of economic aspects.⁷ These aims cannot be achieved independently of each other. An agreement which is strongly orientated towards the last criterion will therefore be very unlikely to fulfil the other two. Until now the predominant aim of the current Uruguay Round seems to have been a mixture of the first two aspects.

Present Status

The actual position cannot always be precisely determined because the negotiations work on the basis that no text is binding until the overall outcome of the Uruguay Round has been reached. In the meantime, therefore, any picture can only show preliminary statements. In any case, in an enervating process of discussions, definitions and concepts for the envisaged GATS could be clarified.

With respect to the initial commitments for liberalization, there are currently 56 offers (including the EC as one “country”), which on the one hand involve not worsening the current situation, i.e. introducing no new barriers to trade (standstill), and on the other reducing those barriers which are contrary to GATT rules (rollback). However, they are without exception linked to success in the entire negotiations about services. The USA, originally the driving force behind a comprehensive elimination of trade barriers in services, changed its negotiating strategy in March 1992 and explained that it wanted conditions to be attached to most-favoured nation treatment in various areas (air transport, financial services, shipping, telecommunications). This affects around three quarters of all trade in services. Free access is only to be granted when it is also given by the partner country. The negotiating partners took this as a considerable narrowing of the initially wide-ranging liberalization offer in important

subsectors. In fact, it is not immediately clear whether this is simply a reversible, tactical manoeuvre or whether it reflects the emergence of reservations on the part of the respective domestic economic associations with respect to changes in the competitiveness of American service sector firms. However, not only the Americans are opposed to the clause giving unrestricted most-favoured nation status in the framework agreement. A good three dozen other countries have registered their objections.

In the “sector annexes” – ten were originally envisaged – it is not yet certain which branches will in the end receive special treatment. In Punta del Este (September 1986) it became apparent that some special rulings were needed in order to take account of the peculiarities of the very heterogeneous subsectors within the general framework concept. The USA has particularly far-reaching wishes for exceptions from a binding ruling (sea transport, telecommunications). But the European Community also wants to see exceptions for individual branches of services (audio-visuals, air transport).

During the meeting of ministers in Brussels, outlines for transport (air and sea), and the audio-visual branch and telecommunications were already being circulated.⁸ An annex on financial services was added in the agreement outline of GATT Director General Dunkel (December 1991); for an annex on *sea transport* there was insufficient consensus at this point in time.⁹ Here it was and is above all the Americans who expect more chances for employment of their transport fleet from a bilateral procedure. Also, some developing countries are hesitating to take on substantial obligations. The annex on *air traffic* has no great material significance because traffic rights are negotiated bilaterally anyway and only auxiliary services such as maintenance and non-discriminatory access to the infrastructure are involved here. In the *telecommunications* agreement the rights of private suppliers of basic services vis-à-vis the supply from foreign state monopolies are to be regulated. The problems here are mainly a result of the different market structures in the USA and Europe. It is an open question whether the solution consists of further subdivision and creation of regulations for individual subsectors (e.g. mobile communications). Within the context of the additional regulation for *financial services* (banks, insurance, broking, leasing) the right to national supervision rules is explicitly recognized. By allowing this possibility a large part of the potential for conflict has disappeared. Structural

⁶ See inter alia B. Hindley: Services, in J. J. Schott (ed.): Completing the Uruguay Round: A results-oriented approach to the GATT trade negotiations, Washington D.C. 1990, pp. 130 f.

⁷ See B. Hindley, quoted in R. McCulloch: Services and the Uruguay Round, in: The World Economy, Vol. 13 (1990), p. 345.

⁸ See M. Marconini: Negotiating for change: An overview of services in the Uruguay Round, seminar paper, Tunis 1991, p. 9.

⁹ The other sector annexes suggested there cover air traffic, telecommunications and mobility of persons for the production of services in the framework of the agreement.

problems come from the unequal size of the areas in which different banking laws apply: whereas US laws are only valid for each individual state, the same rules apply in the whole of the EC. The question which has so far not been cleared up comes from the (US) concern that there may not be sufficient multilateral commitment to give the agreement worldwide validity.

There is a special problem in the *audio-visual* area. This branch is not mentioned in the text of the agreement. Here the EC is insisting that the special features should be considered as acknowledged exceptions to liberalization, but the USA and Japan do not agree. From a non-European perspective objections are being made against strong quantitative restrictions on the EC market. The USA especially sees here an expanding field for its export industry. From the European point of view, however, audio-visual services are not fully commercially tradeable products, out of consideration for the position of France which claims that this is a sensitive area because questions of cultural significance are involved. On the other hand, from the German side there are constitutional problems. The independence of the German *Länder* in matters of education and culture gives, as they see it, the German Federal Government no power to agree to binding obligations in the context of international negotiations. The solution could be to divide up the market. In the privately run radio and TV area as well as in film and video production and sales there might be further opening, whilst certain programme segments would still be subject to some state-formulated rules.

In the course of the reorganization of the talks *procedural* points were improved in Geneva in order to make swift progress with the rest after the hoped-for political breakthrough. The tightened negotiating structure was supposed to guarantee a smooth transition at any time from technical consultations to substantial negotiations.

Progress but no Clear Perspective

In the past six years there has been much clarification of the relationships in the various branches of the service sector. Even the opponents have moved closer together. Nevertheless, a few expectations remain open. In view of the distance to be covered the claims have obviously been too high, and the global economic conditions for a successful conclusion are currently insufficient.¹⁰ Some of the expectations linked to the Uruguay Round could probably never have been realized because they were unrealistically high.

¹⁰ See S. Schultz, C. Weise: Hohe Ausgangsziele nicht erreichbar, in: DIW-Wochenbericht No. 48/1992.

There is also a structural problem. The differing economic weights of the negotiating partners show in their interests: whilst the "little" ones are for comprehensibility and certainty about the legal position and therefore want a clearly defined set of rules, the large trading blocs of the EC, the USA and Japan can create new facts through their own autonomous behaviour. The practice of unilateral threats of sanctions is a much discussed example here. American trade representatives have repeatedly confirmed that the USA will continue to insist on its right to use unilateral punitive measures according to Article 301 of its trade law. It follows from this that in the discussion about new rules to be agreed multilaterally the abolition of trade barriers should be "flexible". That is, the narrower and firmer the new rules are, the less inclination will there be to a final liberalization. The willingness to achieve a definitive opening – this includes above all the offers of the "majors" – is the greater, the easier action can be taken against possible "market disturbances".

Since the beginning of the Uruguay Round some seven years ago there has been substantial progress in contents, but some delegations have also changed their negotiating positions. In particular the initial rejection by some developing countries has become a positive basic position. Nevertheless, a number of them have a problem because the agreement on services will impose a rule framework on them which will restrict their freedom to determine their internal economic policy.

The so-called mid-term review in Montreal (1988) and the ministers conference in Brussels (1990) should not be seen as serious failures with respect to multilateral negotiations about services, since there was at that time a need for considerable factual explanation – a few problems typical for certain sectors were not sounded out sufficiently – and there were no clear proposals which could be used for a decision. In the meantime there is a draft text for GATS which on the whole has consensus. Admittedly, this should not lead us to believe that there are no open questions. These include a lack of clear definitions (how much foreign capital constitutes a "commercial presence"? how will rules of origin in the service sector be operationalized?), the extent of market access and national treatment for foreign suppliers. In addition to agriculture, textiles and trade-related intellectual property rights (TRIPs), services are certainly one of those areas with open disagreement. Still, services alone would probably not have been an insurmountable obstacle to a conclusion, but in the course of the clearing of advantages on all sides (e.g. Argentina will not agree to GATS before it receives more concessions in agriculture) they are part of the problem area in the overall context. In this respect the uncoupling of the service sector, which is

formally negotiated separately, may theoretically be perceivable, but for the moment it is politically out of the question. Within the delegations there is a conspicuous unwillingness to openly consider taking services out of the total negotiations package as long as there is hope for successfully concluding the negotiations in view of the expected positive impulses for the whole world economy.

In other words, the current global economic climate does not seem to be a breeding ground for a comprehensive GATS with far-reaching compliance with existing GATT principles. The positions of the important actors are clear to all involved, important advances have been made, but the positions in certain key points have not yet been linked.

Uncertain Chances for Concluding the Round

In the first half of 1993 hopes were repeatedly linked to the passage through Congress, without the possibility of modifications, of the US government mandate on the conclusion of international trade contracts (fast track authority). The period in office of the previous GATT Director General was also extended until then. However, the period after the French referendum on the Maastricht Treaty allowed no further "large solution" in the sense of substantial results in all incompleting areas of negotiation. No initiatives worth mentioning could realistically be expected during the American presidential election campaign, either. At the end of June the US Senate approved the renewed extension of the "fast track" mandate. Considering the reservations in Congress against the comprehensive trade mandate, which were already noticeable in May 1991, the administration cannot be expected to have such a free hand again. The present authorization means that by 15th December the draft treaty, after being initialled by the trade ministers of all negotiating parties, must be submitted and that the President will notify Congress of his intent to conclude such an agreement by mid-April 1994. To this end negotiations must be seriously resumed in September and swift progress will be a prerequisite.

Fears that a drying up of negotiations without tangible results will mean the end of GATT in its current form seem exaggerated. It can, admittedly, be feared that it will be further materially undermined, because world trade is increasingly being conducted under conditions which are not covered by the multilaterally agreed set of rules. If multilateral negotiations were to fail it could be expected that the willingness of the negotiating partners to achieve liberalization and non-discrimination would in the future be increasingly directed towards – mainly regionally organized – groups such as customs unions, free trade

areas (EFTA, LAFTA, NAFTA), common economic areas (European Economic Area) or "GATT plus". Such regionalism may mean discrimination between countries belonging to different blocs and will bring smaller welfare economic gains, but for the individual members it is the rational alternative below the threshold of worldwide use of most-favoured nation status.

In practice all the country groups represented in the negotiations have until now proceeded at the same time on the multilateral, regional and bilateral levels.¹¹ For instance, although the USA supports the multilateral procedure in GATT in general, this did not prevent it from reaching bilateral agreements with important trading partners (e.g. Canada and Israel). The same is true of the EC, which participates in the Geneva negotiations, but may decide to extend the bilateral agreement with Israel to the service sector. With regard to most of the EFTA countries this is implied in the prospect of accession (and its first stage, the European Economic Area). At the start of the Uruguay Round many developing countries saw a liberalization in the service sector more as a threat to their chances for development. Hence their request for preferential treatment here, too. Since they have too little power in bilateral negotiations, they prefer multilateral talks. Meanwhile, there are also signs that – similarly to the case of Brazil – initial strong rejection is giving way to a more open position.

As to whether the multilateral negotiations will regain life this autumn and whether there remains sufficient time to agree on a comprehensive solution, no one can be certain at the moment. What is certain, however, is that without more extensive offers from the capitals a comprehensive solution will not be possible in Geneva. If these do not materialize efforts will have to be concentrated on avoiding a complete failure and consolidating the results achieved so far.

From a theoretical point of view the multilateral path is, in the long term, certainly the most desirable variant on the shaping of conditions in international trade in services. In reality, however, a multilateral regime with effective rules on liberalization would be difficult to realize at the present time, because of the complex negotiating matter and various conflicting interests in the negotiations as a whole. To this end, a mixture of – possibly decreasing – multilateralism and spreading regionalism, with a tendency towards liberalization clubs, would certainly not be satisfactory, but, with an option for expansion at a later date, should not be turned down immediately.

¹¹ See here and in the following H. Knorr and A. Tegge: Liberalization strategies for free trade in services, in: *INTERECONOMICS*, Vol. 25, No. 5 (Sept./Oct. 1990), pp. 226 and 228.