TRADE IN TELECOMMUNICATIONS SERVICES

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Freer trade in services is a U.S. trade priority. The bilateral trade agreements between the United States and Israel (1985) and the United States and Canada (1988) explicitly address the issue of trade in services. Services, along with intellectual property and trade-related investment measures are, for the first time, important topics of discussion within the context of the Uruguay Round of multilateral trade negotiations underway in the General Agreement on Tariffs and Trade (GATT).

Telecommunications services is at the heart of the services negotiations. (Financial services also are critical.) There is no space here for a lengthy examination of the history of the issue or for splitting hairs about fine points of definition.[1] Instead, I will concentrate on three blunt questions: (1) Why is there so much fuss about trade in telecommunications services? (2) What does the United States want and why? and (3) What are the negotiations likely to accomplish at the end of the Uruguay round of multilateral trade talks?

I. THE REAL ISSUES

Why is telecom such a big deal? The simple answer can be given in three words: growth, jobs and competitiveness. By now, almost all politicians and business executives understand that these three words lead inevitably to three other equally critical words: power, money and votes. To elaborate only slightly, we are all headed towards a global information society. Countries and companies, groups and individuals that do not get ready will be left behind. Countries are struggling to understand this new reality and are striving to make certain that their competitive interests are well served.

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[1] For extended discussions of telecommunication services distinctions see: JONATHAN DAVID ARONSON and PETER F. COWHEY, WHEN COUNTRIES TALK: INTERNATIONAL TRADE IN TELECOMMUNICATION SERVICES (Cambridge: Ballinger, 1988), Chapters 3-4, and ROBERT R. BRUCE, JEFFREY P. CUNARD and MARK D. DIRECTOR, FROM TELECOMMUNICATIONS TO ELECTRONIC SERVICES: A GLOBAL SPECTRUM OF DEFINITIONS, BOUNDARY LINES AND STRUCTURES (Austin: Butterworths, 1986).

Until twenty or so years ago telecommunications was a boring business. Telecommunications services were provided by monopolies everywhere. Most countries offered similar services under similar regulatory schemes. International telecommunications services were expensive and were controlled by an alliance of these same monopolies. Today, revolutionary technical, economic, and regulatory changes are sweeping across large parts of the globe and completely shaking up the industry. Large users, and computer manufacturers in particular, are gaining power relative to the old monopolists and telecommunication equipment manufacturers. The struggle for dominance continues. Decisions that will be made in the next decade about standards and rules for competition will influence which sectors which countries win and lose for decades to come.

It is now accepted that computer, communication and broadcasting technologies are merging. New communication and information providers are competing aggressively to capture tomorrow's markets. In various degrees, regulators in different countries are liberalizing, corporatizing, privatizing and deregulating pieces of their domestic telecommunications equipment and service markets.[2] This new excitement about competition and innovation is already recasting the international landscape. The problem is that governments are trying to manage today's markets with yesterday's rules, principles and procedures. Incremental reform of the trading rules isn't enough—a total overhaul is needed. This can be shown with the help of a chart adapted from our books and developed by my collaborator, Peter Cowhey.

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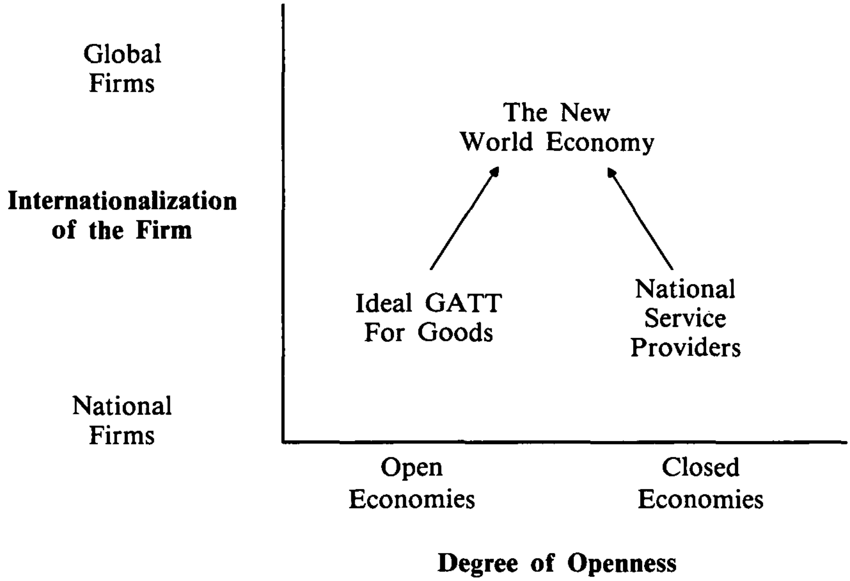
[2] At a minimum most authorities are allowing free competition in the provision customer premises equipment and are moving towards allowing competition in the provision of value-added and information services. Even conservative countries such as Germany and Mexico are moving in this direction.



In the past, goods were supposed to be produced in many countries and traded freely across borders—at least if you played by the rules. In contrast, services, including telecom services, were nationally produced, consumed and regulated. Today, goods and services are produced by global firms. Nontariff barriers have limited the free trade in goods. At the same time, services are being traded much more freely than in the past.[3] The real challenging question facing negotiators is not limited to trade in services. The question is can countries find a new and better way to manage a much more complicated world economy?

II. THE U.S. WISH LIST

United States trade negotiators and their counterparts around the world are spending a lot of time asking whether the GATT system can be modified and extended to cover trade in services. Definitions are debated. Data is collected. Awkward lines based on unclear definitions are etched between trade and investment issues. Jurisdictional battles abound. Brazil, India and others complain that the GATT should worry more about resolving old problems before

[3] Indeed, the international trade in telecommunications services makes it far easier to trade other services, including consulting services, design and engineering, animation, education, health care, and finance.

venturing into virgin territory of dubious appropriateness.[4] Long debates focus on the appropriateness of old concepts and principles such as transparency, progressive liberalization, national treatment, most-favored nation/non-discrimination treatment, market access and safeguards for trade in services. Indeed, in late 1988 at the Montreal Mid-Term Review of the Uruguay round negotiations, trade negotiators actually managed to agree on a four-page guide to what they were trying to accomplish.[5] Unfortunately, no formal agreement on services was possible because the ever ripe tussle between the United States and the European Community over agricultural subsidies was played out one more time. However, this same document was accepted as a working basis for progress by GATT contracting parties meeting in Geneva in April 1989.

As important as these preliminary bouts are, unless you are a trade junkie the details of these discussions induces slumber. There is no forest; there are no trees; there are only leaves. The real issue is straightforward. Just as the lines between sectors are eroding, the distinctions between trade, investment, and financial issues are also evaporating. That causes terrible problems, because most governments and international institutions are organized along functional lines. Treasury and finance officials are separate from, and more influential than, trade and commerce officials. The IMF and the World Bank worry about money and investment. Trade is left in the hands of a much less imposing institution—the GATT.

This is particularly important for telecommunications, because it may be necessary to invest in a country in order to be able to "trade" telecommunications services. What this requires, according to U.S. negotiators, is a guarantee of market access in other countries for U.S. telecommunications carriers wishing to trade basic and enhanced services.[6] In effect, U.S. trade negotiators, with strong support from the Department of State, argue that if investment in telecommunications facilities in another country is required to make trade in telecom-

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[4] The most often cited LDC complaint against the services initiative is Deepak Nayaar, *International Trade in Services: Implications for Developing Countries*, Exim Bank Commencement Day Lecture, 1986 (Bombay: Export-Import Bank of India, 1986). *See also* Jagdish Bhagwati, *Splintering and Disembodiment of Services and Developing Nations*, THE WORLD ECONOMY 7:2, 33-34 (June 1983).

[5] This is designated in the draft agreement among trade ministers as "Part II: Negotiations on Trade in Services," MTN.TNC/7(MIN), pp. 40-43.

[6] The U.S. Trade Representative was fond of calling this the "right to do business" in the early 1980s.

munications services possible, then it is a trade issue and should be mandated. Ironically, U.S. negotiators also insist that investment should not be made a condition of doing business. In other words, the United States wants to be able to invest enough in other countries to guarantee market access—to foster competition in the provision of telecommunications and information services among countries; but at the same time, it does not want its firms to be forced into excessive investments that are not needed to allow such trade to occur. Significantly, the focus is on the international exchange of telecommunications and other services. There is no expectation that countries need allow competition in the provision of domestic services.

III. Prospects

As sectoral and functional distinctions blur, narrow policy choices lose focus. High definition television may promise sharper pictures, but this and other innovations make policy makers' jobs in many countries more complicated. It is becoming harder and harder to distinguish among:

— Local, National, and Global Issues;
— Goods and Services;
— Trade, Investment, and Financial Issues;
— Computer, Communication, and Broadcast Technologies; and
— Basic and Enhanced Services.

In such an environment, broad, evolutionary, and flexible rules are needed to avoid descending into contradictory detail. The GATT is flawed as a focus for new service negotiations, but it is the best forum available. Creating a new institution is not in the cards. Further, the real problem is not figuring out where to go. The problem is figuring out how to get there.

If it succeeds, the Uruguay Round will accomplish sixty percent rather than twenty percent of its stated goals. The rules governing international commerce will be a bit broader and more liberal and the discipline a bit greater in successful negotiations. Success on services would result in the establishment of a weak set of rules, principles, and procedures that most countries would accept as valid in the conduct of the international exchange of services. Nobody expects that any country will be pushed to roll back existing barriers. They will merely commit themselves to placing no new restrictions on these sectors.

Beyond a general framework agreement designed to apply to as many services as practical, specific sectors will be considered in one form or another. Without telecom there will be no agreement. Indeed, certain general principles governing telecommunications may need to be in the general framework as well as in any sectoral code, appendix or annotation.[7] The goal is not to force every country to deregulate and privatize its monopolies and permit domestic facilities competition. That is simply not going to happen. The countries that have moved in that direction—the United Kingdom, Japan and now New Zealand— have done this for their own reasons.[8]

Instead, the United States and others are moving towards an agreement that may in some ways resemble the international airline business. Foreign companies will be allowed to "land" their services at specified gateways and will be allowed to charge whatever price they wish for their services. They will not, except in special cases, be allowed to compete in the provision of domestic service on their own facilities. In essence, the United States, Britain and even Japan are making it possible for telecom upstarts, computer firms, and large users to challenge and compete with the established monopolists in certain areas. The monopolists, for their part, are trying to limit potential future competition to as narrow an area as possible so that they can extend their monopolies and provide services as they see fit. A great deal rests on the outcome of these battles. The winners will be determined by choices and agreements made by the mid-1990s. That is why there is so much interest in and concern about meetings such as WATTC and negotiations such as the Uruguay round.

IV. A CONCLUDING THOUGHT

I live in the land of movies where everybody is either in the business or a civilian. I am a civilian, but let me borrow an idea from Hollywood. There is nothing anybody can do to make a good movie from a lousy script and bad footage. If the basics are there, however, then the final cut provides the difference between bad, good, and

[7] The Services Policy Advisory Committee to the U.S. Trade Representative has called for rules governing the behavior of monopolies and for guarantees for free flows of information to be included in any framework agreement that emerges from the Uruguay round services negotiations.

[8] It is perhaps not an accident that the United States, the United Kingdom and Japan are home to New York, London and Tokyo, the three financial centers the globe. Money managers and bankers in all three countries wanted better communications at cheaper prices. New Zealand is about to break up its telecom monopoly. It is probably only accidental that because of its location, New Zealand is the first financial market to open for business each business day.

great, and between success and failure. Trade negotiators worrying about telecom and other services are trying to make sure that the basics are on the table so that when the political leaders enter to make their bargains and final cuts it is possible that the result will be a success.