

Ideas in International Political Economy: The Liberalization of Trade in
Services

by

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B.A., University of Victoria, 1994

A Thesis Submitted in Partial Fulfillment of the
Requirements for the Degree of


MASTER OF ARTS


in the Department of Political Science

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ABSTRACT: This thesis contends that in the process by which the liberalization of trade in services became institutionalized in the Final Text of the General Agreement on Trade in Services (GATS), analysis must include consideration of the role of internationally-disseminated ideas. Currently, structural approaches which reduce all consideration to actors' functionally-determined material interests dominate the study of international trade agreements. Such approaches, which assume that rising support for trade liberalization is a simple consequence of the globalization of actors' interests, cannot explain the movement towards the GATS due to the overall low level of globalization in the service economy. As such, the author proposes to test the utility of Transnational Historical Materialism and the epistemic communities approaches, which both include consideration of the causality of ideas, as guides to the trade in services story. While the evidence suggests the importance of internationally-disseminated ideas in this process and the unworkability of narrowly-structuralist theories, conclusions as to the usefulness of the two ideational approaches is necessarily more tentative. While the epistemic communities approach is hampered by its failure to theorize the contestable and normative nature of ideas, the approach does provide several useful concepts. Transnational Historical Materialism is hampered by its generality as a theorization of international political economy, however, its emphasis on international class formation and the role of ideas in that formation do provide important insights into the trade in services story.

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Table of Contents

	Page
<i>Table Of Contents</i>	- iii
<i>List of Tables</i>	- vii
<i>Introduction</i>	- 1
<i>Chapter #1: The Liberalization of Trade in Services, Globalization, Interests, Ideas and the GATT</i>	- 10
The Liberalization of Trade in Services	- 10
Theoretical Background: Structurally Determined Interests and Ideas	- 14
Rational Choice, Interest-Based Approaches and the Trade in Services Story	- 19
Ideational Approaches to International Political Economy - Transnational Historical Materialism and Epistemic Communities	- 20
Transnational Historical Materialism	- 21
Transnational Historical Materialism and the Trade in Services Story	- 26
Epistemic Communities - Uncertainty and the Re- construction of Interests	- 28
Epistemic Communities and the Trade in Services Story	- 31
Testing the Relative Merits of Transnational Historical Materialism and Epistemic Communities in Explaining How Ideas Matter	- 33
Outlining the Chapters to Follow	- 35
<i>Chapter #2 : The Trade in Services Argument - The Changing Structure of International Exchange in Services?</i>	- 38
1) Epistemic Communities, Transnational Historical Materialism and the Changing Structure of International Exchange in Services	- 41

2) Defining Trade In Services	-	43
Traditional Thinking About Trade in Services	-	43
Conceptualizing "Trade in Services"	-	46
The Link Between Trade in Services and Investment	-	52
3) The Trade in Services Statistics	-	57
Revolutionary Growth in Trade in Services?	-	57
The Problem with the Official Statistics According to Advocates of Liberalization	-	65
The Statistics - Conclusions	-	70
4) Structural Change in International Exchange in Services	-	71
The Growth in Specialized Business Services and Corporate Downsizing	-	71
The Concentration of Trade in Services Amongst Only a Few Multinationals	-	74
The Concentration of Trade in Services Exports Amongst Very Few Countries	-	75
Conclusions	-	76
<i>Chapter #3: The History of the Trade in Services Argument</i> <i>- The Origins of an Idea</i>	-	78
1) Genesis of a New Way of Seeing Exchange in Services	-	78
The Origins of Ideas?	-	79
Epistemic Communities, Transnational Historical Materialism and the Origins of Ideas	-	80
The Origins of the Trade in Services Argument	-	82
First Official Recognition of "Trade in Services"	-	83
2) The US Congress Mandates Negotiations on Trade in Services	-	85
3) Services and the Tokyo Round	-	88
Conclusions	-	90

<i>Chapter #4 : Broadening Support for the Trade and Services Argument - The Dissemination of the Idea to the Advanced Capitalist Nations</i>	-	92
1) The Intellectual Campaign in Support of the Trade in Services Argument (1974 - 1982)	-	92
Intellectual Campaigns, Epistemic Communities and Transnational Historical Materialism	-	93
The Spread of the Trade in Services Argument in the United States' Trade Policy Community	-	96
The Spread of the Trade in Services Argument Within the United States' Private Sector	-	97
The Spread of the Trade in Services Argument Outside of the United States	-	99
The Role of United States-Based Multinationals in the Intellectual Campaign	-	100
2) Services and the Uruguay Round Agenda?	-	102
The OECD Enters the Fray Again - The OECD Study of Trade in Services (1979-1980)	-	103
The Results of the Intellectual Campaign	-	105
Getting Services In the Uruguay Round	-	106
The Emerging International Policy Consensus Outside of the Trade Policy Community	-	114
Conclusions	-	116
<i>Chapter #5: Convincing the Skeptics - Getting Services Included into the GATT</i>	-	118
1) The Opposition of Developing Nations:	-	119
UNCTAD - The Dissenting Voice?	-	121
2) Absence of Alternatives	-	126
Developing Nations and Liberalization	-	128
The Uruguay Round, Services, and Tensions Amongst Developing Nations	-	129
3) The Uruguay Round and the Continued Opposition of the Developing Nations:	-	132
A Renewed Intellectual Campaign in Support of Trade in Services	-	132
The Trade Policy Community Closes Ranks	-	135

Convincing the Developing Nations	-	137
The OECD Again	-	139
The 1986 GATT Ministerial Declaration	-	140
The GATT Negotiations on Trade in Services and The Changing Attitudes of Developing Nations	-	142
Intellectual Currents at the Uruguay Round	-	144
4) The Results of the Uruguay Round on Services	-	145
Conclusions	-	150
<i>Chapter #6 Conclusions - Epistemic Communities and Organic Intellectuals</i>	-	153
Narrow Interest Based Approaches and the Trade in Services Story	-	154
Ideational Approaches and Trade in Services	-	155
Epistemic Communities, Rational Problem Solving and the Adoption of New Ideas	-	156
Transnational Historical Materialism	-	158
Globalization and Trade in Services	-	160
<i>Bibliography</i>	-	162

List of Tables:

	Page
Table 1 - U.S. Foreign Transactions in the National Income and Product Accounts	- 59
Table 2 - Canadian Trade in Goods and Services	- 64
Table 3 - Canadian Trade in Services	- 64

Introduction:

The research for this study began as a result of an interest in globalization and international trade agreements. I was particularly interested in how the relationship between globalization and the prolific spread of liberalizing trade treaties was conceptualized in the International Political Economy literature. Many writers have assumed that the processes of globalization are manifested primarily through the spread of transnational economic links which, by altering the objective material interests of important economic actors, alters the attitudes of domestic political coalitions away from protectionism towards support for a more liberalized international trade regime.¹

I was originally concerned that this type of analysis (labeled as "narrowly-structuralist" in this thesis) underestimated the impact of other aspects of globalization, such as the growing importance of international institutions and internationally-disseminated ideas. In effect, narrowly-structuralist approaches to globalization, which see globalization as nothing more than a changing set of structural conditions - the increasing preponderance of transnational economic organization over national - fail to conceptualize globalization as a broader social process, and as such, may misrepresent the actual patterns of causation underlying the emerging liberalized trade regime.

In addition, one of the major implications of such narrowly-structuralist approaches to globalization - the one that has continued to fuel my interest in this debate - is that if globalization directly causes a reworking of domestic political agendas through nothing more than its internationalization of structural interests, then states or political collectivities are more often than not cast as passive "victims" of globalization, powerless to affect this technologically-determined re-structuring of the world around them. Indeed, arguments for a capitulation to the unquestioned "forces" of globalization are rife in political debate worldwide. If, however, globalization is a broader social process in which acts of political commission, the dissemination of ideas and the construction of international rule-making institutions for

¹See for example Helen V. Milner, Resisting Protectionism: Global Industries and the Politics of International Trade, (Princeton: Princeton University Press, 1988) and Robert Keohane and Helen V. Milner, Internationalization and Domestic Politics, (New York : Cambridge University Press, 1996).

example, have played an important role, then this reveals globalization to be, at least in part, an agentic political process; and therefore not a predetermined course of change but a set of contestable goals and outcomes that should be subjected to scrutiny and broader political debate. In short, narrowly-structuralist approaches to trade agreements de-politicize these agreements as constructive aspects of globalization, and, as such, curtail adequate political scrutiny of these events. More to the point, they may ultimately serve to undermine a sense that alternatives to the capitulation to globalization are possible - that political collectivities have choices in the new world order.

In probing these general questions about the nature of globalization, the debate concerning trade in services offered an excellent opportunity to explore the role of internationally-disseminated ideas as part of an explanation for the international consensus in support of liberalizing trade in services that emerged during the Uruguay Round of the GATT. This consensus was embodied in the final text of the General Agreement on Trade in Services (GATS). The low level of economic globalization in the service sector strongly suggested that narrowly-structuralist approaches would have a great deal of difficulty explaining the emergence of this consensus. In fact, this thesis argues that the dissemination of ideas (in this case, ideas in support of liberalizing services trade) played a crucial role in building the international consensus necessary for the successful completion of the GATS. As such, this may have ramifications for how globalization is theorized.

While examining the potential role of internationally-disseminated ideas in the trade in services story was a result of these broader concerns about how the process of globalization is conceptualized, it also offered an opportunity to examine the usefulness of two prominent analytical approaches which include consideration of ideas in primarily structural accounts of international political economy - Robert Cox and Stephen Gill's Transnational Historical Materialism and Peter Haas's epistemic communities.²

²See Robert W. Cox, Production, Power, and World Order, (New York: Columbia University Press, 1987); and, Stephen Gill, American Hegemony and the Trilateral Commission, (Cambridge University Press, 1990) and Peter M. Haas "Introduction: epistemic communities and international policy coordination", International Organization, 46, 1 Winter 1992. pp. 1-35.

While both approaches argue that ideas are important they differ substantially on their conceptualization of both the nature of ideas themselves and what motivates their acceptance by actors. From the perspective of Transnational Historical Materialism, ideas exert an impact through the process of class formation. While ideas ultimately spring from normative interests, their dissemination in hegemonic discourses helps to shape transnational class relations. Ideas are produced and disseminated by "organic intellectuals" attached to one class or fraction as part of the process of manufacturing an intra-class consciousness and influence global society more generally. Furthermore, the impact of ideas on the process of class formation is pitched at a fairly general level of broad competing ideological discourses, such as the confrontation between the ideals of neo-liberalism and those of embedded liberalism.

The epistemic communities perspective, on the other hand, assumes that ideas can influence international political economy only during periods of intellectual uncertainty in which actors, reacting to some underlying structural change, are open to new ways of thinking which redefines their structurally-determined interests. Epistemic communities are a policy-area-specific set of intellectuals committed to just such a set of new ideas. Far from being normative, the ideas they produce and distribute are assumed to be rational responses to the problems posed by uncertainty, and the adoption of their ideas is ultimately based on the success of these ideas as a response to that uncertainty. These differences in the theorization of how ideas matter is taken up in some detail in the latter stages of this thesis.

The relationship between ideas and structural conditions in shaping the trade in services consensus could be explored in a variety of ways. However, from the outset, two approaches in particular captured my interest. Firstly, I thought I could try to do detailed comparative national studies in an attempt to explain why specific states, which arguably had no structurally-determined interest in liberalization of services, would agree to include services in the GATT. On the other hand, my research could proceed along more macro-level lines of inquiry, attempting to link a statistical examination of the overall low levels of globalization in the services sector to a historical examination of the international processes involved in the trade in services story itself.

Originally, it was my intention to attempt the first method, to explore in detail the events of the trade in services story in two countries - Japan and Canada. I suspected that the support both of these governments gave the movement towards liberalization of trade in services, despite the fact that their highly protected service sectors stood to lose greatly in a liberalized service regime, could be explained by the influence of ideas.

I theorized that evidence that these nations' positions were motivated by pressure from domestic business organizations, when combined with consideration of the fact that these nations' service industries were overwhelmingly not globalized, would allow me to argue that there was then a clear dissonance between the policy demands of these business organizations and their objective material interests, and that, therefore, the role of ideas was perhaps more important than the role of structure in explaining the support for liberalizing trade in services via the GATT. Evidence that service businesses in these countries supported the idea of liberalization, despite the fact that they were not part of a globalized web of services production, would directly contradict the entire drift of the narrowly-structuralist literature on trade liberalization. Narrowly-structuralist approaches assume that the *only* factor important in explaining a company's position on trade liberalization is the degree to which its operations are globalized. Globally-oriented firms support liberalization. Nationally-organized firms support protectionism.

However, as is often the problem with case studies, such specific evidence as this was ultimately not available, while on the other hand, a surprising amount of information was available on the history of the international campaign for liberalizing trade in services. As such, this study pursues the second research option alluded to above, that of a macro-level, international and historical exploration of the trade in services story itself. This approach requires that the argumentation move in two stages. In the first, this thesis deals with the statistical evidence on trade in services which tests the applicability (or inapplicability, in this case) of a narrowly-structuralist approach to the trade in services story. In the second stage, exploration moves to an examination of the actual processes at work in the events leading up to the GATS. In this stage the important issue is not so much comparing and contrasting the usefulness of structural versus ideational approaches, although this is by no means ignored, but rather

exploring how ideas mattered and, therefore, evaluating the relative merits of Transnational Historical Materialism and the Epistemic Communities approaches in adding to our understanding of the trade in services story. While this "two-step" argumentation makes some parts of the argument in this thesis a little unwieldy, it also facilitates careful consideration of the theoretical areas of disagreement, not only between the narrowly-structuralist and ideational approaches, but also between the ideational approaches themselves.

Chapter 1 explores the relevant theoretical literature and derives some hypotheses from the narrowly-structuralist and ideational approaches for the trade in services story, and also provides an introduction to the trade in services issue itself.

Chapter 2 embodies the first stage of my overall argument. It explores the viability of narrowly-structuralist approaches in the trade in services story. The core element of narrowly-structuralist approaches to trade agreements is that the increase in support for liberalizing trade agreements in recent years is a simple consequence of the increasing internationalization of firms. After exploring the statistical evidence, which when combined with a definitional analysis of "trade in services" shows little in the way of globalization in the service sector, I argue that such an approach is an inadequate guide to explaining the GATS. Chapter 2, by exploring definitional issues related to "trade in services" also makes the case for the importance of ideas in that it underscores the degree to which the arguments and assumptions in support of liberalizing trade in services bore little resemblance to reality. This makes their adoption in the final text of the GATS even harder to explain from a purely structural perspective.

It is important to note that Chapter 2 does not completely deny a role for structure in the trade in services story, however. To the contrary, once the case is made against *narrowly-structuralist* perspectives, the concluding section highlights the degree to which what international "trade in services" that did exist at the time was overwhelmingly the preserve of a handful of US-based service multinationals - a fact of no small significance in that it was these same companies which made sure that the issue rose to international prominence. This structural "imperative" in the services debate, though not the structural condition assumed to exist by in narrowly-structuralist approaches, actually aids in the assessment of the two ideational methods in

that it suggests that the initial motivation for international discussion of the issue emanated from the normative interests of these multinational firms. The idea of liberalizing trade in services served their interests.

The following three Chapters move on to the second stage of my argument. They look at the chronological history of the trade in services story in an effort to explore the actual processes involved in these events with a particular eye towards examining just how ideas mattered. Thus, most of the analytical questions of these Chapters revolve around evaluating the merits of the two ideational approaches, Transnational Historical Materialism and epistemic communities, in conceptualizing how ideas matter.

Chapter 3 covers the origins of the trade in services idea itself, from its genesis in London-based neo-liberal think-tanks to the first consideration of the idea in international trade policy circles. This discussion of the origins of the idea underlines the importance of internationally-disseminated ideas in these early stages by highlighting the fact that the recasting of "international exchanges in invisibles" as "trade in services" represented a radical departure from existing paradigmatic beliefs. Also this examination allows for a detailed exploration of the two ideational approaches' competing accounts for where new ideas come from. The question is whether the ideas of the trade in services argument were initially a value-neutral intellectual response to the problems of uncertainty developed by an epistemic community or were normative, interest-serving arguments produced by organic intellectuals working in conjunction with transnational capital. Chapter 3 also re-emphasizes the role played by US multinationals in first promoting the issue of liberalization trade in services.

Chapter 4 continues the examination of the historical processes of the debate concerning trade in services from the debacle of the Tokyo Round negotiations on services to the early 1980s when most Advanced Capitalist Countries came to support the idea of liberalization via the GATT. This broad level of support is surprising given the disparity of structurally-determined interests on the issue. Chapter 4 makes the case for the importance of ideas in this process. In particular, this Chapter examines the role of international intellectuals and organizations in disseminating ideas in support of liberalizing services and in altering the existing causal and normative assumptions of national trade policy-makers. While the Chapter argues that such agreement to liberalize services would not have been possible in absence

of these internationally-disseminated ideas, it also explores the two ideational approaches utility in these events. As was the case in Chapter 3 the disagreement between these perspectives over the value-neutrality/issue-specificity of ideas versus the normative interest-defining and interest-serving nature of ideas is once again of some importance in assessing the two methods usefulness.

Chapter 5 deals with the spread of support for liberalizing trade in services to the developing nations and with the substance of the final GATS negotiations themselves. The principle issue in this Chapter is the evaluation of why, during the negotiations the developing nations suddenly altered their positions on liberalizing services - from outright opposition to outright support? I show that pro-liberalization intellectuals, the lack of alternative discourses, and a capitulation to broader neo-liberal ideas all played a role in this reversal. Indeed, the role of neo-liberal ideas in general in this stage of the debate on services offers extremely valuable insights into the merits of the two ideational approaches. That is, the intrusion of broader (i.e. non-issue-specific) ideas into the debate directly contradicts several of the basic assumptions of the epistemic communities approach.

The concluding Chapter reiterates the broad theme of this thesis that consideration of questions of structure *alone* do not provide an adequate basis for explaining the successful completion of the GATS. Indeed, the argument is that ideas and the intellectuals and organizations which articulate them played an important role in paving the way for the GATS. While US service-sector multinationals were important in raising the issue to international prominence, the broad consensus in support of liberalization which eventually emerged cannot be explained by attention to this factor alone. As such, this thesis has important insights to offer on how the process of globalization should be theorized in international political economy. I argue that consideration must also be given to non-structural factors such as the international dissemination of ideas and thus argue that at least in some instances the process of globalization is an agentic one.

Conclusions as to the effectiveness of the two ideational approaches are necessarily more tentative. However, the epistemic communities approach, in failing to consider the normative and contestable nature of ideas themselves, distorts both where the trade in services ideas came from and what motivated their adoption. As a result, the approach, while offering

several useful nodal concepts such as the "epistemic community", ultimately fails to provide an accurate guide to the trade in services story. On the other hand, Transnational Historical Materialism and its emphasis on transnational class formation and the role of ideas in class formation offers a better guide to the impact of ideas in the services debate. However, the overall generality of the approach makes it extremely difficult to use in the manner required by a case study such as this. While the approach rightfully suggests the importance of the broader ideological currents of neo-liberalism in events such as trade in services, future effort will be needed to specify this theory more concisely, thereby allowing the generation of hypothesis's of the type required by case studies.

I hope that readers will gain from this study some sense of the importance of ideas and the intellectuals who disseminate ideas in the making of international trade agreements and therefore also the importance of internationally-disseminated ideas in the process of globalization.

This work also suggests several avenues for future scholarship. First, the lack of evidence concerning the specific motivations for individual nations' support for the GATS might be overcome by additional inquiry. That is, future scholarship could attempt to more directly tie the evidence that service industries continue to be overwhelmingly organized along national lines to the policy demands of these industries for international liberalization; thereby, hoping to more conclusively resolve this dispute over the causality of structures versus ideas in the trade in services story. This might be accomplished by looking at several countries important in the trade in services debate, such as the US, the UK, India, Brazil and a number of European countries. While such hard evidence was not available in the case of Canada and Japan, this might not be the case with other nations. Additionally, future research may be enhanced by interviews with important actors in the trade in services story. In any event, future investigation of trade in services will have to continue to grapple with the apparent discrepancy between a consensus in support of international liberalization and the lack of globalization in the services sector (and the problems these facts pose for narrowly-structuralist approaches to International Political Economy).

Additionally, future research might look more closely at the role of the Organization for Economic Cooperation and Development (OECD) in the

trade in services story. At several important junctures, the OECD intervened in the services trade debate, lending its support to the cause of liberalization. While the OECD is officially an inter-governmental organization, its early and consistent support for liberalization (ahead of many of its member countries) may suggest the need for closer scrutiny of how exactly the OECD functions on issues like trade in services. That is, the ease of access for the leading advocates of trade in services liberalization and the heads of transnational service companies to the OECD's centres of power suggest clues as to why the OECD was such a firm supporter of liberalization in this case. Future research on the OECD and trade in services might expand our knowledge of the role of international institutions in globalization as well as adding to our understanding of the trade in services story

Also, the research done by this study suggests the need, when examining international trade agreements, to look more closely at the processes and events leading up to these agreements, and less at assumed causal relationships between the level of globalization and public policy outcomes. Future scholarship should be wary of assuming a one way relationship between structural considerations and trade policy outcomes.

Chapter #1: The Liberalization of Trade in Services, Globalization,
Interests, Ideas and the GATT

"Although the attention of trade policy makers is now focused primarily on curbing agricultural subsidies . . . in reality this is the last gasp of yesterday's agenda. The big issue looming for the future is trade in services"

Henry Freeman³

"The empires of the future are the empires of the mind"

Winston Churchill⁴

The Liberalization of Trade in Services

During the 1980s international "trade in services" became an increasingly important issue for policy makers, intellectuals and business leaders alike. This trend is puzzling. While the service sector had always been a large component of industrialized nations' economies and indeed after the second world war services gradually came to represent over half of total national economic activity in most nations, this did not in itself account for the new dialogue concerning "trade in services". In the 1980s something had clearly changed. This change was in essence that individuals and organizations increasingly argued that services, which had traditionally been thought to require some sort of face to face exchange between producer and consumer, could be traded internationally.⁵ Essentially, business leaders and sympathetic policy makers came to a consensus that not only could services be traded across borders like manufactured goods, but also that the many barriers to this trade in the form of domestic service sector regulation must be eliminated through a coordinated program of international liberalization. As

³Cited in Charles J. McMillan, Japan's 21st Century Challenge-Services, Canada-Japan Trade Council, March 1991, p. 26.

⁴Cited in Emanuel Adler and Peter M. Haas, "Conclusions: epistemic communities, world order, and the creation of a reflective research program," International Organization, 46, 1, Winter 1992.

⁵Brigid Gavin, "New horizons in international trade: towards free trade in services", The World Today, Volume 39, (January-December 1983), p. 194.

a result of this emerging convergence in beliefs regarding "trade in services" the issue was eventually put on the agenda of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT).

At the Uruguay Round, advocates of services liberalization attempted to use GATT structures and obligations to force states to open and deregulate their service sectors, paving the way for an expansion of services "trade". While they would ultimately fail in the final text of the General Agreement on Trade in Services (GATS) to force the massive market openings that the most zealous proponents of liberalization might have wished, they did manage to formally institutionalize both services, and perhaps more importantly, investment (in service industries) into the GATT framework. This institutionalization is of no small significance. At the very minimum it serves to protect existing market openings in services from future governments that may wish to change policies, and it may also pave the way for a substantial redefinition of individual governments' powers to regulate their own service economies in autonomous ways.

While the history of these events will be taken up in some detail in the chapters to follow, what is most important to emphasize at this point is the surprising degree to which conceptualizing international exchanges in services as "trade in services" represented a radical redefinition of these activities from previous paradigmatic beliefs. While the actual economic phenomena itself and its regulation by international agreements was not new, conceptualizing international exchange in services as "trade in services" was. Services, where they crossed borders, had been regulated internationally for decades but had never been considered to be a type of "trade" or even to be a single economic sector. The industries comprising services, among which the most important in international exchange include such diverse areas as shipping, transportation, communications, banking, financial services, business services, insurance, and an array of consulting industries, were rarely lumped into one category analytically. Rather, international exchange in services had been regulated on an industry-specific basis through sectoral international regimes like the International Maritime Organization, the International Telecommunications Union and the Universal Postal Union.

Mark W. Zacher and Brent A. Sutton in, Governing Global Networks - International Regimes for Transportation and Communications, explored these international service regimes as they existed up to the 1970s. Their

work is a useful starting point for discussion of the emergence of the trade in services discourse in that it provides a window into the thinking about international service regulation up to that time. Zacher and Sutton argue that the international service regimes which emerged in the post-war period were constructed on the basis of several widely held "norms". Firstly, these regimes contained a strong sense of jurisdictional rights and obligations among which the right of states to exclude foreign firms from providing services was one of the more important. Secondly, these regimes were more often than not cartel-like in their willingness to engage in market sharing and price stabilization agreements.

These norms, evident in many of the key sectors of what would come to be defined as "trade in services", helped to promote two highly prized goals. They helped to remove barriers to international connections in transport and communication while at the same time protecting state control over important aspects of their domestic economies.⁶ In short, these regimes sought to maintain the authority of states to regulate their service sectors autonomously - normally in ways other than a purely free market approach. Indeed, Zacher and Sutton argue that in their involvement in these regimes, states were, ". . . more concerned about maintaining control over entry of foreign services than they [were] with regard to entry of manufactured goods because market access for services generally involves the right of foreign firms to establish subsidiaries and to enter into open competition with national firms. This, of course, [was] anathema to states that want[ed] to assure certain market shares for national firms."⁷

It should be emphasized that their work highlights the degree to which international service regimes, far from being sites of international liberalization, upheld strongly anti-competitive and anti-*laissez faire* norms:

Until very recently an important pillar of the international cartels in the air transport, postal and telecommunications regimes was that they enhanced states' control of their economies. States wanted this control because these industries had widespread effects in their societies, their international revenues subsidized domestic networks, and their ownership by nationals was seen as

⁶Mark W. Zacher and Brent A. Sutton, Governing Global Networks: International Regimes for Transportation and Communications, (Cambridge: Cambridge University Press, 1996), p. 5.

⁷Zacher and Sutton, Governing Global Networks, p. 214.

an attribute of independent statehood. In fact, there was a general assumption . . . that any self-respecting nation owned and controlled its own air transport, telecommunications, and postal industries.⁸

States wanted strong national monopolies, enhancing national economic control and feared the consequences of "destructive competition".⁹

Thus, intellectually at least, international exchange in services was governed by strong anti-free-market norms that, while encouraging international connections, neither encouraged international competition, nor significant surrenders of state policy autonomy. While these norms could superficially be categorized as an aspect of post-war "embedded liberalism", the important point to be made here is that the emerging redefinition of these industries as a single *service sector*, now to be regarded as international *trade*, and the accompanying attempt to liberalize the barriers to such trade via the GATT represented a radical departure from the existing normative and material structures of the global service economy.

Institutionalizing trade in services into the GATT framework will have profound implications for domestic regulatory structures and the businesses that benefit from these structures. First, service sectors have traditionally been extremely regulated and protected relative to the manufacturing sector and an international agreement requiring governments to eliminate some of these regulations will force domestic service sector companies to compete with international firms for business. This could have severe effects on the material interests of these previously-protected companies. Second, such a move will also reduce the ability of states to set autonomous regulatory policy goals. Third, the concept of services as an internationally tradable commodity for which liberalization would have assumed welfare-maximizing benefits represented a radical change in how these activities were traditionally conceptualized.¹⁰ Because of these factors, and because trade in services was put on the international liberalization agenda before there was a great deal of economic analysis of the policy area, it would seem to be reasonable to expect that this issue would have been politically divisive. Companies with

⁸Zacher and Sutton, *Governing Global Networks*, p. 220.

⁹Zacher and Sutton, *Governing Global Networks*, p. 220.

¹⁰David Greenaway and André Sapir, "New Issues in the Uruguay Round, Services, TRIMs and TRIPs", *European Economic Review*, 36, (1992), p. 514.

protected national monopolies in the service sector, such as chartered banks, phone companies and cable television services (the list is almost endless) would quite possibly oppose such a policy and wish to pressure their governments not to agree to institutionalize services liberalization in the GATT. However, this was not the case. There has been a fairly high level of general agreement on the perceived benefits of liberalization both within the international business community and amongst most national trade policy makers.¹¹

This study argues that this "consensus" in attitudes supporting the liberalization of service trade, and the process by which the consensus emerged, is consistent with the general hypothesis that ideas matter in international political economy. The prevalence of these attitudes cannot be explained without some account of the international dissemination of ideas. As such, this introductory chapter will explore two existing theoretical tendencies in the study of International Political Economy, which adopt very different perspectives on the impact of ideas. The first of these tendencies reduces all consideration to structural concerns, eliminating the need for the consideration of extraneous factors such as "ideas". The second argues that ideas and structures both matter though there is considerable disagreement about the relative impact of, and the relationship between, these two factors. In this chapter I first review each of these theoretical approaches and then develop specific hypothesis that can be evaluated in the historical and comparative research that follows. Additionally, I am especially interested in developing a better understanding of the relative explanatory merits of two popular theoretical approaches which have attempted to incorporate ideas into an understanding of International Political Economy; Robert Cox and Stephen Gill's Transnational Historical Materialism, and Peter Haas's epistemic communities.

Theoretical Background: Structurally Determined Interests and Ideas

Within the discipline of International Political Economy (IPE) there is a widespread resurgent interest in the role of ideas. "After a long period of indifference, and even hostility, toward ideational explanations in political

¹¹Greenaway and Sapir, "New Issues in the Uruguay Round", p. 514.

science, the time for "ideas" has come again, especially in the field of international relations."¹² Since the early 1970s "ideas" have not been seriously probed except by reflectionists, neo-marxists, and others, who might be described as being on the margins of the field.¹³ Rather, rational choice, interest-based perspectives have dominated regardless of perspective - Realist, Liberal or Marxist.¹⁴ Because of its implicit rejection of these traditional approaches, this new-found interest in ideas is creating a fault line in IPE between ideational and purely interest based approaches. This is particularly evident in the study of trade policy and the orientations towards liberalization and protectionism.

A great deal of IPE literature over the past decade attempts to explain the ascendance of the pro-trade-liberalization argument over trade protectionism in international circles. This work, although often sharing a common concern with the role of "globalization" or "internationalization" can be divided into two quite different ontological positions about just what these processes are and how they have affected attitudes towards free trade versus protectionism. Firstly, there is the rational choice/interest based or, perhaps better put, structural variant, which contends that the process of internationalization in domestic policy preferences by the business community and also by state policy makers is motivated causally by objective changes in the structure of the global economy. From this perspective, changes in the ideas or preferences of actors can be "read off" changes in their position in the global economy. In the case of free trade versus protectionism, the free trade, or *laissez-faire* position has become increasingly dominant simply because of the fact that more firms have internationalized, thereby making them inherent opponents of closed markets.

The second general approach, although difficult to label because it includes a number of radically different methodologies, shares a different view of globalization as a process. It might be argued that the common element of this perspective is an opposition to the structural rationalism of the other perspective, thus one might call this the "anti-structuralist" tendency. Perhaps the common denominator from this perspective is an

¹²John Kurt Jacobsen, "Much Ado about Ideas: The Cognitive Factor in Economic Policy," World Politics Vol. 47, January 1995, No. 2., p. 283.

¹³Jacobsen, "Much Ado about Ideas," p. 284.

¹⁴Jacobsen, "Much Ado about Ideas," p. 284.

interest in the role of ideas. From this perspective globalization, far from being *just* a technologically driven objective economic process, is also a political process in which internationally disseminated ideas have played an important role; that international connections between state and non-state actors, whether individuals or institutions, help to disseminate ideas which then have an effect on domestic political outcomes.¹⁵

The first group, the "rationalist" or structural variant is most clearly illustrated in Helen V. Milner's, Resisting Protectionism. Milner's influential book attempted to explain why protectionist policies were not adopted in the 1970s despite similar economic conditions as existed in the 1920s. Indeed, it offers an extremely concise theory of how transnational links affect policy outcomes. She contended that the key to understanding why the tendency towards protectionism was "resisted" in recent decades is to recognize that growing economic interdependence meant that more and more firms had an objective interest in open markets and therefore had an anti-protectionist policy preference. In Milner's view, therefore, the key to understanding the different international trade policy patterns of the 1920s and 1970s is the different objective level of interdependence.¹⁶ Indeed, Milner pushed her point even further, rejecting arguments that highlight the importance of international institutions like the GATT in explaining the persistence of trade liberalization, since from her perspective such institutions performed only a "mediating role" for underlying structurally-based interests.¹⁷ For Milner, the crucial factor explaining changing attitudes towards liberalization and protectionism has been the changing preferences of corporations as they became more internationalized, and the resulting re-orientation of domestic political coalitions away from protectionism towards liberalization.

It is important to emphasize this point. Milner defines the international orientation of a firm by its export dependence and by its

¹⁵Thomas Risse-Kappin's work is probably the best example of this type of general argument. As well, Ngaire Woods' work is also in this vein. See respectively, Thomas Risse-Kappin, "Ideas do not float freely: transnational coalitions, domestic structures and the end of the cold war", International Organization Volume 48, Number 2, Spring 1994; and, Ngaire Woods, "Economic Ideas and International Relations: Beyond Rational Neglect", International Studies Quarterly, Volume 39, Number 2, June 1995.

¹⁶Helen V. Milner, Resisting Protectionism: Global Industries and the Politics of International Trade, (Princeton: Princeton University Press, 1988), p.15.

¹⁷Milner, p. 14.

"multinationality".¹⁸ What is intended by this is an assumption that these material measures of a firm's internationalization allow a simple causal determination of their preference in ideas. For Milner, the preferences of corporations can simply be "read off" their economic position. Indeed, Milner underlines her rationalist commitments, ". . . societal actors can and do understand the preferences generated by their structural positions within the economy."¹⁹ Such an assumption is closely tied to the increasing use of Public Choice Theory in the study of IPE.

Public Choice Theory in IPE rests on two straightforward ontological premises: that individuals are the basic unit of analysis and that individuals can rationally ascertain their objective interests.²⁰ While these assumptions are superficially the same as those of Milner there is one important distinction. Her focus, rather than emphasizing individuals, emphasizes individual firms. Kenichi Ohmae's The Borderless World, represents a rationalist Public Choice perspective more clearly committed to the individual as the basic unit of analysis in explaining the processes involved in globalization. Although the outcomes of his account end up being effectively similar to Milner's, it is clear that for Ohmae the agents of interdependence are not corporations but individual consumers.²¹ In an even more purely liberal-rationalist vein than Milner, it is the appetites of consumers that have driven interdependence and created the "borderless world":

Companies have to do that because more informed and demanding customers are coalescing in all developed countries. It is they who really have the power, not the organizations who sell to them It is these customers who are driving them to operate, develop, make and sell in many countries at once and who in the process are helping to create a borderless economy where trade statistics are meaningless.²²

¹⁸Milner, p. 18.

¹⁹Milner, p. 17.

²⁰Bruno S. Frey, "Public Choice and Global Politics", International Organization, Winter 1984, Volume 38 Number 1, pp.200-201.

²¹Kenichi Ohmae, The Borderless World: Power and Strategy in the Interlinked Economy, (New York: Harper Business, 1990), p. 172.

²²Ohmae, p. ix.

The key in understanding "globalization" or "internationalization" as a phenomenon from both of these rationalist perspectives is that interdependence is something that manifests itself, ". . . within the state not at the level of the state."²³ Here the idea is that domestic social actors are the agents of interdependence and that their economically-determined orientation towards internationalization alters, through some sort of pluralist process, the objective policy preferences of states. More clearly stated, interdependence alters the interests of individuals and corporations and therefore their ideals, which then alters the objective policy preferences of states which respond to these domestic agents. *According to approaches like those of Milner then, ideas come from interests: from the position of an actor in the global economy logically flow ideological preferences which support these structurally-given interests.*

Milner's arguments about liberalization and protectionism are not an isolated example of an extreme and unusually narrow approach to the study of International Political Economy. In fact, Milner's type of analysis seems to have risen in popularity since its publication in 1988. IPE *grandee* Robert Keohane recently co-edited a collected volume with Milner, Internationalization and Domestic Politics, gathering together many of the leading lights of American International Political Economy, which argues essentially the same themes as Milner's earlier work. The book attempts to grapple with the difficult relationship between International Relations and domestic politics but in fact sets out a very narrow view of the impact of internationalization. The editors argue quite simply that, "internationalization [can be] measured by such indicators as changes in trade as a proportion of Gross Domestic Product (GDP) or the ratio of a country's net foreign investment to its total domestic assets. Internationalization, as used in this volume, refers to the process generated by underlying shifts in transaction costs that produce observable flows of goods, services and capital."²⁴ Internationalization is nothing more than the rising level of economic interactions driven by technological change that reduces transborder transaction costs. Consistent with Milner's earlier work argue that:

²³Milner, p. 291.

²⁴Robert Keohane and Helen V. Milner, Internationalization and Domestic Politics, (New York: Cambridge University Press, 1996), p. 4.

Internationalization affects the opportunities and constraints facing social and economic actors, and therefore their policy preferences - not necessarily the basic values that actors seek (power, money, or virtue as they define it) but their choices about which policies will best achieve their fundamental goals. . . . As incentives change through internationalization, we expect observable changes in economic policies and in political institutions. Possible changes include the liberalization of foreign trade and investment policies, the deregulation of domestic markets, shifts in fiscal and monetary policy, and changes in the institutions designed to effect these policies.²⁵

Thus, they operationalize their independent variable - the increase in internationalization - as growth in trade statistics. Their dependent variables are two fold, "The policy preferences of relevant socioeconomic and political agents within countries toward national policies and . . . national policies and national policy institutions themselves."²⁶ Based on this model they predict (and conclude) that, ". . . internationalization [as a purely economic phenomenon] effects the policy preferences of actors within countries in broadly predictable ways, based on the economic interests of the actors."²⁷ Thus, echoing Milner's earlier work the basic premise is unchanged; measurable increases in the level of economic interpenetration result in a shift in policy preferences away from protectionism and towards liberalization.²⁸

Rational Choice, Interest-Based Approaches and the Trade in Services Story

One of the great benefits of the approach laid out by Milner and like-minded colleagues is its inherent parsimony. Developing testable hypothesis

²⁵Keohane and Milner, Internationalization and Domestic Politics, p. 4.

²⁶Keohane and Milner, Internationalization and Domestic Politics, pp. 4-5.

²⁷Keohane and Milner, Internationalization and Domestic Politics, p. 5.

²⁸It is interesting and perhaps a little disappointing to note how little this approach differs from the liberal International Relations "Interdependency" literature of the early 1970s of which Keohane himself was a leading ideologue. This literature laid out the same set of assumptions although less clearly focused on economic transactions. In fact, the authors of this volume admit that the defining characteristic of the IPE side of their volume is the heavy influence of contemporary economic models on their approach to interdependency. See, Keohane and Milner, Internationalization and Domestic Politics, p. 7-9.

is not difficult. In order for this model to explain the consensus in support of liberalizing trade in services via the GATT we would expect there to be clear and visible evidence of a massive internationalization of the global service economy.

However, an empirical assessment of the changing structure of "trade in services", provided in some detail in Chapter 2, shows that narrowly-structural arguments like those just described simply cannot account for the consensus on services. Theoretical approaches to the study of international political economy which rely on *purely* structural analysis would seem to be a non-starter in the case of trade in services. Specifically, Milner's attempt to reduce all questions of the international attitudes towards liberalization and protectionism to the degree of globalization of economic actors' interests is particularly problematic. As it will become apparent below, this method cannot be applied successfully to trade in services because of the overall low level of globalization (i.e. little in the way interdependence) within the service sector. Indeed, the combination of the surprising lack of globalization in services with the fact that what globalisation there is, is the almost exclusive province of a handful of firms and even fewer countries, would seem to preclude the kind of broad international consensus that emerged in support of liberalizing trade in services. Very few actors had an objective, structurally-based interest in liberalization; most, according to Milner's methodology (due to their national rather than transnational organization) had just the opposite interest. Unlike the manufacturing sector, most service firms do not trade or conduct business across borders. Thus, given the narrow structural argument put forward by Milner, attention to this structural condition alone would lead one to assume that such a consensus in support of liberalization would be very unlikely ; nevertheless, it has occurred.

Ideational Approaches to International Political Economy - Transnational Historical Materialism and Epistemic Communities

Many disagree with such a narrowly structural account of why pro-liberalization policies have become more popular. Scholars working from a range of theoretical paradigms have become increasingly concerned with the role which ideas, specifically the transnational dissemination of ideas, has on

world politics. With the rapid increase in the scope of international social and economic connections, studies from a range of perspectives have sought to integrate the concept of "ideas" into primarily structural or functional accounts of international political economy. These approaches share the common purpose of seeking to overcome the structural reductionism that has dominated much of the International Relations literature on internationalization by putting more emphasis on the role that internationally disseminated ideas have had on the changing attitudes of elites and on the evolution of global political and economic structures. In particular, Marxists like Robert Cox and Stephen Gill as well as a number of liberal analysts including the "epistemic communities" perspective are leading the way in conceptualizing how ideas "matter" in international political economy.

Transnational Historical Materialism

For Marxists like Cox and Gill the impact that ideas have in International Relations is through the process of class formation which they conceive of as a dialectical interaction involving both ideas and functionally-determined material interests emerging from the process of production.²⁹ Cox and Gill both argue that since the 1970s a Transnational Capitalist Class has been emerging as the dominant or hegemonic fraction of capital; a class formed both by objective changes in the process of production and also by the dissemination of new ideas. Indeed, their arguments are in part a response to the vulgar "economism" of other Marxist approaches which would negate all but technological and economic change in explaining the emergence of a new global class alignment.³⁰

For Cox and Gill, ideas are an important unit of analysis because they make a potential class a reality. Classes are seen to be social constructs built

²⁹See: Robert W. Cox, *Production, Power, and World Order*, (New York: Columbia University Press, 1987); and, Stephen Gill, *American Hegemony and the Trilateral Commission*, (Cambridge: Cambridge University Press, 1990).

³⁰ See for example Scott R. Bowman, "The Ideology of Transnational Enterprise", *The Social Science Journal*, Volume 30, Number 1, 1993, p. 49. Bowman's work, although superficially concerned with the role of ideas in world politics, assumes that ideas are simply produced by Multinational Corporations to legitimate their objectively-given material interests. Such an approach denies the importance of ideology in defining what those objectively given interests are.

through collective experience.³¹ For them, ideas and the institutions which propagate these ideas, are the glue that holds the Transnational Capitalist class together. This is not to say that material factors such as the current structure of the economy are not crucial to class formation. Cox, for example, explicitly argues that the dominant group within the dominant mode of production will always have a better opportunity to exercise hegemony over other potential classes or fractions. However, this hegemony is not given, it is obtained by political struggle upon a triumvirate of transnational social forces: material capabilities, institutions, and ideas.³² Perhaps the best way to capture this dialectical conception of the link between material forces and ideological struggle in class formation is, ". . . grounded in the proposition that people do make their own history, though not in conditions of their own choosing."³³ The bottom line is that Cox, Gill and their colleagues have argued that in order to conceptualize the emergent world order, examination must be made of the social forces of ideas (ideologies, ethics and intersubjective meanings) as well as the material aspects of social life.³⁴

Within this broadly Gramscian-inspired methodology, the disciples of Transnational Historical Materialism have "highlighted" a number of key concepts which have allowed them to develop a history of class formation since the end of the Second World War. These concepts include: 1) Hegemony, which is the intellectual leadership of one class or fraction over others; 2) Organic Intellectuals, who are the individuals who aid the construction of a hegemony through their "consciousness-raising" activities; and, 3) the Historic Bloc, which is understood as the combination of a hegemonic class with allied classes and factions cemented through institutionalized or constitutional links which themselves embody the ideology of the hegemonic class.

Gill, Cox, and others, based on these concepts, argue that following World War II a post-war Historic Bloc emerged. This Bloc was grounded in:

³¹Cox, *Production, Power, and World Order*, p. 355.

³²Cox, p. 357.

³³Cox, p. 358.

³⁴Stephen Gill, "Theorizing the Interregnum: the Double Movement and Global Politics in the 1990's", in Bjorn Hettne, ed., *International Political Economy - Understanding Global Disorder*, (Halifax: Fernwood Publishing, 1995), pp. 67-68.

. . . the substantial congruence of ideas, institutions, and policies among the leading capitalist nations, in a system of "embedded liberalism". This involved the emergence and consolidation of the ideology of the "mixed economy", which along with the rise of the Cold War, was important in the reconstruction (or creation) of the liberal-democratic form of rule in the West and Japan.³⁵

This post war Historic Bloc was synthesized through the leadership of American-based multinationals, Wall Street financial institutions, state apparatuses, centerist political parties united around an internationalized version of New Deal principles, and associated forms of capital-intensive, mass consumption accumulation.³⁶ What is important is that in their analysis, this post-war Historic Bloc was rooted in both material and normative structures of society.³⁷

The seeds of the post-war Bloc's disintegration were inherent in its own structure. Transnational Capital, one of the important fractions within the larger Bloc, became increasingly hegemonic from the late 1960s on, and Transnational Capital's greater appetite for open and deregulated markets in combination with technological change worked to increase its own structural power.³⁸ It is of course implicit in their account that the increasing structural power of Transnational Capital was based not just on economic and technological changes, but also on an increasing ideological hegemony of Transnational Capital.³⁹

In fact, Gill has argued that the ideology of Transnational Capital (and its *laissez faire* preferences) has become hegemonic and as such is reconstructing the post-war world order into what might be described as a potential Transnational Capital Historic Bloc based on a shift to a neo-liberal Anglo-American-based set of ideas. "This neo-liberal shift involves, then, the growing strength and positional power of neo-liberal ideas, their application in the practices and organizational forms of key social institutions, and the reconfiguration of material power relations and a redistribution of wealth . .

³⁵Stephen R. Gill and David Law, "Global Hegemony and the Structural Power of Capital," *International Studies Quarterly*, (1989) 33, p. 478.

³⁶Gill and Law, "Global Hegemony and the Structural Power of Capital," p. 478.

³⁷Gill and Law, "Global Hegemony and the Structural Power of Capital," p. 478.

³⁸Gill and Law, "Global Hegemony and the Structural Power of Capital," p. 480.

³⁹Gill and Law, "Global Hegemony and the Structural Power of Capital," pp. 480-481.

.".40 According to his argument, these neo-liberal ideas are disseminated by organic intellectuals working within private Transnational-Capital based institutions like the Trilateral Commission and inter-governmental organizations like the OECD.⁴¹

Cox and Gill contend that Transnational Capital has been able to develop a hegemonic class consciousness based on these neo-liberal ideas in that members of this class have been "schooled" by organic intellectuals to understand their common interest in constructing and maintaining an international economic system in which they will be structurally dominant.⁴² Institutions like the Trilateral Commission, the IMF, private international affairs institutes, leading corporations, along with international media, business schools and management training programs have all helped to articulate an ideology which serves to socialize potential members into a real class consciousness. Specifically, Gill's work on the Trilateral Commission has sought to document the role that individuals disseminating neo-liberal ideals within international institutions have had in the formation of Transnational Capital, concluding that, ". . . the basic role of the Commission has been in internationalizing the outlook of its members. In this process, apart from underlying material forces, intellectuals played a leading role."⁴³

The important point here is that Gill believes that many of the policies adopted throughout the world in the late 1980s favoring economic liberalization (in the case of this thesis, trade in services) would not have occurred without the ideological formulation and consciousness-raising activities provided by the organic intellectuals of Transnational Capital.

While research on aspects of strategic consciousness and ideology formation at the elite level is in its infancy, some work has identified the way in which business and government leaders of different countries seek to develop a common outlook on the general conditions of existence of the international order What we are suggesting, however, is that during the 1970s and 1980s the emphasis, certainly with regard to economic policy has shifted

⁴⁰Gill, "Theorizing the Interregnum", p. 69.

⁴¹Gill and Law, "Global Hegemony and the Structural Power of Capital," p. 484.

⁴²Cox, p. 359.

⁴³Gill, American Hegemony and the Trilateral Commission, p. 210.

towards a definition of questions and concepts which is more congruent with the interests of large-scale, Transnational Capital.⁴⁴

Thus Transnational Capital's hegemony is constructed both on a material basis in terms of its objective structural power and through its strategic class consciousness.⁴⁵ Furthermore, the emerging intellectual hegemony and material power of this class has allowed it to begin reconstructing the post-war Historic Bloc in ways more consistent with its own ideological preferences.

Gill in particular has argued that the domination of Transnational Capital has become so complete since the late 1980s that a new phase had begun, which he has labeled as the "new constitutionalism". The term "new constitutionalism" describes the efforts of the organic intellectuals of Transnational Capital to develop a "politico-legal" framework for the reconstruction of capital on a global scale. That is, an attempt to formally institutionalize the neo-liberal ideas of Transnational Capital into international institutions or regimes which in their very structure and frameworks would then support the interests of Transnational Capital as ideology alone is understood to be inadequate to cement a potential Transnational Capital-based Historic Bloc.⁴⁶ The ideological preferences of Transnational Capital are being written into "constitutional-like" international agreements which protect the power of Transnational Capital and curtail the authority of other sites of power. "The new constitutionalism seeks to reinforce a process whereby government policies are increasingly accountable to International Capital, and thus to market forces. Sovereignties, political associations and forms of state are redefined to reflect this new categorical imperative."⁴⁷ Indeed:

. . . a key characteristic of global politics in the last decades of the twentieth century is a redefinition of the role and purpose of government in the emerging world order. This has been a transnational process, involving both key elements in the state structures of the most powerful members of the G7, and drawn from private banks, corporations, think tanks, universities, and

⁴⁴Gill and Law, "Global Hegemony and the Structural Power of Capital," p. 484.

⁴⁵Gill and Law, "Global Hegemony and the Structural Power of Capital," p. 484.

⁴⁶Gill, "Theorizing the Interregnum," p. 78.

⁴⁷Gill, "Theorizing the Interregnum," p. 79.

conservative and liberal political policies as well as influential private international-relations councils such as the Trilateral Commission and the World Economic Forum. ⁴⁸

Institutions such as the G7, the World Bank, and the GATT are seen as attempts to give legitimized form to the ideas of Transnational Capital, creating institutional structures which aid in ameliorating conflict within this emergent Historic Bloc while protecting its structures from outside challenges. "Politically, what is occurring is a process whereby new constitutional and treaty arrangements are put in place to institutionalize the privileges of capital on a world scale - and in so doing to undermine the sovereignty and political autonomy of individual nation-states . . .".⁴⁹

Furthermore, the potential construction of Transnational Capital's hegemony into a Historic Bloc has been greatly aided, according to this perspective, by the absence of alternatives. In the current period one of the keys is the absence of a counter-hegemonic discourse or a material-structural basis for a potential counter-hegemonic Bloc.⁵⁰ While there is opposition to the potential formation of a Transnational Capital Historic Bloc it is weak and disorganized, lacking both a normative, potentially-hegemonic ideological discourse and suffering from the weakened material basis for such an alternative force. This can be witnessed in the declining power of both organized labor and the political disintegration of the developing nations as an effective political force on the world stage.

Transnational Historical Materialism and the Trade in Services Story

Developing this historical account of class formation into a research model which offers insights and predictions for the trade in services story is no simple task. There has been very little in the way of attempts to this point to "operationalize" Transnational Historical Materialism as a research methodology. Furthermore, the open-endedness of the theory reduces one's ability to develop testable research hypothesis. However, based on the foregoing account for the rising hegemony of Transnational Capital, the potential formation of a new Historic Bloc, and the concepts used in this

⁴⁸Gill, "Theorizing the Interregnum," p. 86.

⁴⁹Gill, "Theorizing the Interregnum," p. 72.

⁵⁰Gill and Law, "Global Hegemony and the Structural Power of Capital," pp. 486-490.

account, we would expect to see a number of important tendencies or indicators of how these processes affected the trade in services story:

- 1) First, we would expect above all else to see ideas playing an important role in the trade in services story. As one of the basic premises of Transnational Historical Materialism is that ideas must be considered in analysis of international political economy, for this approach to have something useful to say that is distinct from more rational choice/interest-based approaches ideas must be shown to have a causal impact on global political order.
- 2) Second, we would expect to see evidence of organic intellectuals active in cooperation with the leading elements of capital, working within international institutions, attempting to define the class-perspective of trade in services and to make that perspective the hegemonic discourse within global political circles.
- 3) Third, and related to the previous point, we would expect to see a clear congruence and interaction between the ideas regarding trade in services disseminated by these organic intellectuals and the broader neo-liberal intellectual hegemony documented by Gill and his colleagues. We would expect the perspective developed by these organic intellectuals on trade in services to closely correspond to the principles of the Anglo-American neo-liberal discourse and the interests of leading sectors within Transnational Capital.
- 4) Fourth, we would expect to see evidence of Gill's "new constitutionalism". We would expect to see evidence in the trade in services story of Transnational Capital's attempt to institutionalize its ideological preferences into internationally binding agreements which privilege its structural position, protecting it from outside challenges and curtailing the autonomy of states (both present and future) from pursuing policies opposed to the interests of Transnational Capital. In fact Gill himself has drawn attention to the GATT negotiations as one of the principal sites of this new constitutionalism, "A good example of the way that conflicts in modern capitalism are mediated and synthesized politically is the GATT negotiations, which have been almost totally dominated by corporate interests (mainly from G7 countries). The major thrust of

the negotiations has been to reinforce the property rights and entry and exit options of transnational corporations."⁵¹

- 5) Fifth, we would expect that the absence of a counter-hegemony might play a role in the apparent consensus in support of liberalizing trade in services via the GATT.

Epistemic Communities - Uncertainty and the Re-construction of Interests

While there have been a number of liberal approaches which have attempted to document the role of ideas in international political economy, the most interesting amongst these is the epistemic communities methodology developed by Peter Haas. Indeed, the relevance of this approach in this case is especially heightened due the fact that one of the major examples of an epistemic community identified by Haas and his colleagues was the collection of academics, bureaucrats and business people who succeeded in putting service trade liberalization on the international agenda.⁵²

Haas starts from the ontological position that individuals can learn new patterns of reasoning which may result in a substantial redefinition of what constitutes their "objective" material interests.⁵³ Haas believes that international structure and domestic politics continue to be key determinants of global politics. However, under conditions of uncertainty, he contends that policymakers must rely on expert advice and new ideas to define what their interests are. Thus, Haas's argument in its simplest form is that in *some instances* interests are reconstructed through the dissemination of new beliefs.

To try to provide a model as to how this reconstruction occurs, Haas developed the concept of an epistemic community. "An epistemic community is a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy

⁵¹Gill, "Theorizing the Interregnum," p. 71.

⁵²William J. Drake and Kalypso Nicolaidis, "Ideas, interests, and institutionalization: "trade in services" and the Uruguay Round", International Organization, 46, 1, Winter 1992, pp. 37-100.

⁵³Peter M. Haas, "Introduction: epistemic communities and international policy coordination", International Organization, 46, 1, Winter 1992, p. 2.

relevant knowledge within that domain or issue area."⁵⁴ Epistemic communities are abstract social collectivities, not formal organizations - they are discernible only by their shared normative and causal beliefs and by the common issue area to which they devote their activities. For Haas, "Epistemic communities are less a "new" international actor or unit of analysis than they are a vehicle for the development of insightful theoretical premises about the creation of collective interpretation and choice."⁵⁵

It is Haas's belief that when doubt or uncertainty arises amongst policy makers due to some *underlying structural change*, epistemic communities committed to new ideas may exert a great deal of influence over the design of new policies by providing actors with new insights as to the "true" nature of global politics and what their new interests as decision makers are in this changed environment. Assessing the impact of ideas on global politics is somewhat simplified then by identifying conditions of uncertainty and the existence of a policy-specific epistemic community.

However, acknowledging that his work represents an attempt to find a causality for ideas as a determinant of global politics, it is the opinion of this author that it is not adequate to capture the full scope of how ideas construct interests, and therefore the method may not be an accurate guide to how ideas mattered in the case of services.⁵⁶ This theoretical shortcoming will be apparent below. Nevertheless, this work deserves consideration. In particular, the concept of uncertainty merits further exploration. As Haas rightly points out, where there is uncertainty objective interests cannot be the

⁵⁴Haas, p. 3.

⁵⁵Emanuel Adler and Peter M. Haas, "Conclusion: epistemic communities, world order, and the creation of a reflective research program', International Organization, 46, 1, Winter 1992, p. 368.

⁵⁶One of the major consequences of Haas's approach is that he assumes that epistemic communities and their ideological effects are issue-specific. As a result, his approach seems to preclude the possibility that broader ideological currents may have an effect on the principled or causal beliefs of the epistemic community as a whole or on how readily other actors accept the issue specific pronouncements of the epistemic community. For example one issue that will be crucial to my own assessment of the usefulness of Haas's method will be that of how the consensus in support of service sector liberalization relates to the general movement towards a more neo-liberal or laissez-faire set of ideals by international elites on a whole range of policy areas. If it is the case that the broad commitment to liberalization played a part in affecting the preferences of both policy makers and business leaders in regards to the liberalization of services then Haas's method would appear to be flawed because it would seem to preclude such a process. In any event, this will be taken up in more detail below.

direct causal determinants of policy outcomes because it is difficult for actors to know what their interests "really" are.⁵⁷ Thus the concept of ideas as a "stand alone" causal variable in determining international order may be most visible and therefore most testable under such conditions. The logic of applying the model to a case study of trade in services should become obvious in Chapter 2 when the level of uncertainty surrounding the issue will be self evident!

William J. Drake and Kalypso Nicolaidis, working in cooperation with Peter Haas, attempted to apply the epistemic communities methodology to the case of services in a very good article titled "Ideas, Interests, and Institutionalization: "trade in services" and the Uruguay Round". In its simplest form their argument was that "trade in services" would never have got on the agenda, or even less written into the final agreement of the Uruguay Round, had it not been for the activities of a trade in services epistemic community. According to them this loose coalition of intellectuals, trade policy makers, and business leaders, succeeded in redefining how international exchange in services was conceptualized in light of their arguments that the entire service sector was going through a process of globalization:

Governments would not have confronted this choice if new ideas had not emerged. True, there were by the mid-1970's powerful U.S. based TNC's that wanted greater freedom to sell services abroad in what were heavily regulated markets. But states could have managed these pressures by adopting regulatory rules on an industry-by-industry basis. It was only when analysts showed that diverse cross-border, transactions in telecommunications, finance, management consulting, construction, and so on had the common property of constituting "trade" that comprehensive liberalization on a pan-industry basis became an issue on the global agenda.⁵⁸

Their argument was that at the same time as service industries were globalizing, which raised new issues resulting in a great deal of uncertainty, a relatively small group of intellectuals began to argue that this process of globalization meant that services were now being traded across borders much

⁵⁷Adler and Haas., p. 14.

⁵⁸Drake and Nicolaidis, p. 38.

like goods and because of this, such "trade" could be liberalized by using GATT structures to reduce trade barriers.

When this discourse or "*trade in services argument*" first arose, governments had no idea whether comprehensive liberalization would be good. "If anything their existing intellectual frameworks and material interests pointed in exactly the opposite direction. Services had been regulated heavily for centuries and state institutions and organized social constituencies opposed to open competition were embedded deeply in domestic politics."⁵⁹ According to Drake and Nicolaidis, "It took a fundamental change of the mind-set of all parties involved to believe that the long-term benefits of trade liberalization could outweigh the substantial adjustment costs and risks involved."⁶⁰ Interested parties would have to believe that services were traded, that they were being exported on a previously unheard of scale, and as such that if liberalized, services specialization (aside from being welfare-maximizing according to trade theory) could allow many companies and countries to expand their exports of such services. In short, all those involved would have to come to see services as logically falling within the trade policy discourse.⁶¹ This change in mindset paved the way for an international consensus in support of services trade liberalization and, according to Drake and Nicolaidis, this change was the direct result of an epistemic community's redefining the way those involved conceptualized their own interests in an environment of uncertainty. "The shift to a trade discourse was a revolution in social ontology; It redefined how governments thought about the nature of services, their movement across borders, their roles in society, and the objectives and principles according to which they should be governed."⁶²

Epistemic Communities and the Trade in Services Story

Within this approach there are several key assumptions made by Drake and Nicolaidis in accordance with the epistemic communities model which

⁵⁹Drake and Nicolaidis, p. 38.

⁶⁰Drake and Nicolaidis, p. 38.

⁶¹As will be shown in Chapter 2, this was no easy task given the problems with these assumptions.

⁶²Drake and Nicolaidis, p. 38.

require examination if the model's account of the trade in services story is to be viewed as helpful or accurate:

- 1) First, we would expect to see clear evidence of a substantial structural change occurring within the services economy. Since the method assumes that an epistemic community's ideas redefine actors beliefs only in an environment of uncertainty, uncertainty being produced by structural change, we would assume there to be a clearly visible revolution occurring in the service economy if the ideas produced by the epistemic community were to have any substantial effect.
- 2) Second, and related to the previous point, we would expect that the ideas produced by the epistemic community are rational responses to this uncertainty or structural change. Since the approach assumes that members of the epistemic community are rational problem-solvers and the ideas propagated by an epistemic community according to the methodology are rational responses to the underlying structural changes producing the initial uncertainty, we would expect the ideas themselves to be a rational response to that structural change. In point of fact, Drake and Nicolaidis believe that the "trade in services argument" is just such a rational value-neutral response to a changing environment.⁶³
- 3) Third, based on Peter Haas's own work and that of Drake and Nicolaidis we would expect that the ideas produced by the trade in services epistemic community would be "issue specific". We would expect the ideas to be stand-alone responses to the changes within the service sector rather than the product of broader intellectual currents. Also we would expect those idea's success in changing actors' attitudes to be due to their success as responses to the problems of uncertainty *within the service sector* rather than due to their linkage to other ideas.
- 4) Fourth, we would expect to see clear evidence of the activity of an epistemic community dedicated to the trade in services issue. We would expect to see a discernible group of intellectuals, policy makers, and international business leaders sharing a common set of

⁶³Drake and Nicolaidis, pp. 39-40.

- normative and causal beliefs working to redefine how other actors conceptualize the international services economy.
- 5) Fifth, according to the approach, an epistemic community's influence depends heavily on its access to top policymakers. Thus we would expect to see a number of high level policy makers either influenced by or active in the epistemic community.
 - 6) Sixth, based on the epistemic communities method, such communities are normally split into two discernible tiers, the first being directly "interested" parties (business people, politicians and policy makers) the second being comprised of more "purely intellectual parties" such as academics. The organizational independence and "impartiality" of the latter, according to the approach, helps to legitimize the views of the former and thereby plays an important role in the acceptance of the ideas by those outside of the epistemic community. Thus, we would expect to see evidence of this process at work.

Testing the Relative Merits of Transnational Historical Materialism and Epistemic Communities in Explaining How Ideas Matter

The basic argument of this thesis is that explaining how trade in services got on the international agenda requires some account of the dissemination and causality of ideas - structural factors are not enough. However, as already mentioned there is a second goal, that of comparing and contrasting the relative utility of Transnational Historical Materialism and the epistemic communities methodology in adding to our understanding of just how ideas mattered in the case of trade in services. As such, it would seem useful to highlight the key areas of agreement and disagreement of the two ideational approaches.

At a broad level there are many areas of similarity. Both of these models attempt to integrate a causal role for ideas into accounts of international political economy. As well, the twin concepts of "organic intellectuals" and an "epistemic community" are not effectually dissimilar *in how they would be observed*. In Chapters 3, 4, and 5 the loose coalition of organizations and individuals which created the trade in services argument and disseminated this gospel, helping to pave the way for the inclusion of services into the

GATT, will be described in some detail. Aspects of this campaign might fit either category and validate either methodology. However, there are several significant differences (other than the obvious normative issues) between the two approaches which relate directly to their evaluation as useful analytical models in this case. These areas of theoretical disagreement centre mainly on the two approaches' alternative explanations of where ideas come from and what motivates their acceptance.

Firstly, while Haas and his colleagues see the rise of new ideas as a response to "uncertainty" which provides a discursive opening for the redefinition of interests, Gill and Cox's approach in general would contend that the rise of new ideas is related to the hegemonic ambitions of a particular class or class fraction and, as such, ideas themselves are an aspect of political struggle rather than a purely-intellectual, scientific-like response to uncertainty. In short, the "epistemic communities" argument almost completely abstracts the "new ideas" from material interests while Gill and Cox's methodology would seek to link these new ideas to material interests, even if this link cannot entirely explain the dominance of such ideas. The explanation for their dominance lies elsewhere in the consideration of hegemony and the role of organic intellectuals in constructing such a hegemony.

The related research question for this thesis is whether the consensus in favor of liberalizing trade in services, was simply a rational response to a changing environment, or perhaps related to the hegemonic ambitions of one fraction of capital. This question can be explored in several ways. In Chapter 2, the underlying level of structural change, or globalization, in the service sector will be explored. Obviously, for there to be uncertainty, requiring rational problem-solving solutions something must have been changing. Services must have been globalizing. As well, in Chapter 3, the actual story of how the idea first emerged, who created it, and why it was initially so popular, will be documented with an eye towards evaluating whether this process was a value-neutral response to problems posed by uncertainty or related to Transnational Capital's hegemonic ambitions.

Secondly, while Cox and Gill's method places the impact of ideas at a fairly general level, Haas and his colleagues assume that the ideas spread by an epistemic community are issue-specific recommendations. As a result, one of the crucial questions in evaluating the relative merits of these

approaches will be to examine what has motivated the general support for liberalization of services in government and business circles. Was it a broad ideological commitment to liberalization across a range of issues, a general rising tide of neo-liberalism, which was played-upon by advocates of service-sector liberalization (this would correspond to Cox and Gill's approach) or was it the result of a broad adherence to the issue-specific recommendations of a trade in services international epistemic community? More clearly put, have individuals and groups adopted the idea because it fits into their beliefs about the merits of liberalization in any area or because they have been intellectually convinced of the merits of the specific policy by an epistemic community? This area of disagreement will be explored at a number of junctures.

Outlining the Chapters to Follow

As already mentioned, Chapter 2 will make the case against the possibility of a purely structural approach producing a viable account of the consensus in support of trade in services liberalization. It also assesses the trade in services argument's own merits, exposing problems with its basic assumptions and highlights the degree to which the concern really had more to do with barriers to investment than barriers to trade. However, the most important point to be drawn out of Chapter 2 is that despite the fact that so many who have written about trade in services have assumed that the volume of this trade was skyrocketing - that services was going through a massive process of globalization - this was simply not the case. In fact, trade in services as percentage of global trade actually declined in the period leading up to the decision to include negotiations on services in the Uruguay Round of the GATT!⁶⁴ Obviously, such being the case, any argument that the international consensus that trade in services should be liberalized via the GATT was the simple product of a structural change in the international economy which had altered the material interests of service sector companies would seem to be a non-starter. Any explanation for how and why the

⁶⁴Mario A. Kakabadse, International Trade in Services: Prospects for Liberalization in the 1990s, (London, Atlantic Institute for International Affairs: 1987), p. 25.

consensus in support of the liberalization of trade in services emerged must, therefore, deal, at least in part, with the spread of new ideas.

While Chapter 2 suggests that narrowly-structural approaches are not much help in explaining trade in services liberalization, Chapters 3, 4 and 5 make the case for the importance of the dissemination of ideas in helping to produce the consensus in favor of liberalizing trade in services. Chapter 3 explores the origins of the trade in services argument itself, where it emerged, how and why it quickly gained adherents, and why early attempts to liberalize trade in services failed. The key issue in Chapter 3 will be to compare and contrast the narrowly-structuralist and the two ideational approaches' explanations for where new ideas come from. In Milner's approach they come from interests alone. From the epistemic communities perspective they are a response to uncertainty. From the Transnational Historical Materialism perspective they are a product of the hegemonic ambitions of particular factions or classes.

Chapter 4 explores the spread of support for the trade in services argument from its early adherents in the United States and Britain to the majority of Advanced Capitalist States. It makes the case for the importance of ideas in this process arguing that the "trade in services argument", successfully convinced all those interested in international trade negotiations from these nations that: 1) services were being traded internationally; 2) such trade was subject to trade barriers that should be liberalized; 3) liberalization efforts should be focused on the GATT ; and 4) such liberalization was in all parties' interests despite the evidence that only a small number of firms and an even smaller number of nations actually benefited from existing trade in services. It is this "trade in services argument", its attendant basic assumptions, and its widespread dissemination and acceptance by Advanced Capitalist States in the period leading up to the Uruguay Round that at least in part explains why a consensus in support of liberalizing exchange in services through the GATT emerged. In order for national trade negotiation teams and business communities, outside of those small numbers of firms and countries that actually benefited from international exchange in services, to endorse its inclusion in the GATT they first had to accept these ideas that services were in fact tradable, being traded on a wider scale than previously possible, and as such that liberalization could provide them with new opportunities for exports through specialization in service industries. This is

what large service-deficit industrialized nations like Japan and Canada would come to believe - despite evidence that these points were simply incorrect.

Chapter 5, which examines the struggles at the Uruguay Round itself over the issue, mainly deals with the opposition of the developing nations and once again highlights the importance of ideas. I argue that it was the eventual acceptance of the trade in services argument by the developing nations which cleared the way for the institutionalization of services liberalization into the GATT.

The concluding Chapter will attempt to tie the evidence gathered from this case study to the general hypothesis that "ideas matter". The argument of this thesis is that the broad consensus in most countries in support of trade in services liberalization which the final text of the General Agreement on Trade in Services (GATS) section of the GATT embodies, cannot be explained by attention to material factors *alone*. Some causality must be attributed to the international dissemination of ideas if we are to understand both why the issue got on the international agenda and why there was not more opposition to the move, given the disparity of material benefits emerging from services trade. As well, the author will attempt to offer some conclusions on the relative utility of the two principal theoretical approaches outlined in Chapter 1 in explaining the move towards services liberalization.

Chapter #2 : The Trade in Services Argument - The Changing Structure of International Exchange in Services?

"After an arduous journey of four years from Venice to Shang-Tu near modern Peking, Marco Polo arrived in 1275 at the court of Kublai Khan, the Mongol Emperor of China. He brought the Emperor glass and jewelry produced by Venetian craftsmen and letters from the Doge of Venice and from Pope Gregory VIII in Rome. He also brought along something even more important to Kublai Khan, knowledge and professional skills, and for the next seventeen years Marco Polo worked for Kublai Khan as an advisor and emissary before returning to Venice in 1292."

Geza Feketekuty, Office of the USTR, 1986⁶⁵

For Geza Feketekuty, often given the title of "the father of trade in services" in his role within the United States Trade Representative's office of promoting the issue internationally, the story of Marco Polo represents that of an entrepreneur exporting services. For him, trade in services has existed for as long as tribes, villages, or cities have traded and visited with each other, "As people traveled, they carried skills, knowledge, information, and artistic talent from one country to another. Scientists, engineers, astronomers, and experts on many other subjects have traveled to other countries since time immemorial, offering their advice to foreign kings and merchant princes."⁶⁶ Feketekuty and other advocates of the liberalization of international service transactions have been confronted by the problem, however, that because these transactions were proportionately small they were often ignored as a distinct types of economic activity. In short, while trade in services may have existed from time immemorial, it has not always been recognized as such. For people like Feketekuty this has become an increasingly problematic view as the technological revolution in communications and transportation since the end of the Second World War has resulted in an equally significant revolution in the possible scope for these type of transactions. That is,

⁶⁵Geza Feketekuty, International Trade in Services - An Overview and Blueprint for Negotiations, (Washington: American Enterprise Institute/Ballinger, 1988), p. 37.

⁶⁶Feketekuty, International Trade in Services, p. 39-9.

technological change potentially allows services trade to be conducted on a global scale in a way that was never possible in the past. In fact advocates of liberalization assume that, enabled by this technological change, services trade has indeed gone through a massive globalization process apparently comparable in scope to the industrial revolution itself!⁶⁷

Advocates of liberalization of trade in services all share this assumption that there has been a technologically-determined globalization occurring in the service sector.⁶⁸ Many of them in fact have concluded that this technological change has not just enabled but has actually directly *forced* a globalization of service industries through the dynamic of international competition.⁶⁹ From the perspective of people like Brigid Gavin service industries like banking have "gone international" due to consumer demand and technological changes. In either case all proponents of liberalization were in agreement that the pace of globalization, although significant, was being impeded by barriers to these type of transactions. Basing their arguments on the assumption that a technological revolution had facilitated an internationalization of services transactions beginning in the 1970s, analysts argued that "trade in services" must therefore be liberalized to continue to promote economic growth through expanding service exports.

In simplest form the various advocates of service trade liberalization were arguing :

- 1) that there had been a revolution in the potential scope for international "trade in services";

⁶⁷Feketekuty, *International Trade in Services*, p. 41. Richard A. Walker has dealt at length with the problems of classification and definitional boundaries inherent in this "service economy thesis" so rigidly adopted by Feketekuty and other services trade liberalization proponents. He argues that this oft-repeated assumption that society is moving through a transition from an industrial-based economy to a "service" or "post-industrial" economy similar in scope to the changes of the industrial revolution is simply incorrect and based on an unwillingness to actually explore the concepts and assumptions of this view. This Chapter will show that the "trade in services thesis", which is a small but related argument to the one touched on by Walker, suffers from a similar lack of critical rigor. See Richard A. Walker, "Is There a Service Economy? The Changing Capitalist Division of Labor", *Science and Society*, Vol. XLIX, No. 1, Spring 1985, pp.42-83.

⁶⁸See for example, Joan Edelman Spero, "Trade in Services: Removing Barriers", *PS*, Winter 1983, p. 17.

⁶⁹Gavin, Brigid, "A GATT for International Banking," March/April 1985, *Journal of World Trade Law*, p. 123.

- 2) that this revolution in "trade in services" had made international exchange in services analytically the same as international merchandise trade;
- 3) that this type of economic activity was as a result growing rapidly, challenging the importance of manufacturing trade in many countries; and,
- 4) that because of these factors it should be liberalized under the aegis of the General Agreement on Tariffs and Trade (GATT).

These four points cumulatively embody the basic "trade in services argument". It is this argument and its attendant assumptions which by the late 1980s would be the dominant international view amongst business leaders and trade policy makers when they thought about exchange in services.

This chapter will empirically expose the key problems with this argument: that analysis of how services are actually transacted internationally and the statistical evidence of such trade show that most services exchange is analytically not similar to trade and, more importantly, that the revolution in the scale of international trade in services was grossly overestimated by proponents of liberalization. That is, the assumption which emerged in the 1970s and became the dominant international view after 1986 that "trade in services" had gone through a revolution apparently equal in scope to the Industrial Revolution is at best empirically unsupported and at worst completely incorrect. However, the point of this chapter is not merely to engage these assumptions, exposing their highly contested nature, *per se*; rather, it is also to show that because of the empirical evidence about the actual structure of international exchange in services, theoretical approaches to the study of International Political Economy which rely on *purely* structural analysis would seem to be a non-starter in explaining the level of international consensus which emerged around trade in services liberalization by the late 1980s. In particular, Milner's attempt to reduce all questions of the international attitudes towards liberalization and protectionism to the degree of globalization of economic actor's interests while claiming to control for all other non-structural factors is particularly problematic due to the simple fact that the service sector had not gone

through any profound process of globalization in the period leading up to the Uruguay Round. This argument will be developed throughout this chapter.

1) Epistemic Communities, Transnational Historical Materialism and the Changing Structure of International Exchange in Services

As noted there are several areas of disagreement between Haas's epistemic communities approach and Gill and Cox's Transnational Historical Materialism in conceptualizing how ideas matter in international political economy. The first of these theoretical disagreements centered on how these "ideational" approaches link back to consideration of changes in structure. For Haas's approach this is accomplished through the concept of uncertainty. Haas, while believing that international structure continues to be a key determinant of global politics, argues that under conditions of uncertainty, which is produced by some underlying structural change, actors must rely on expert advice and new ideas to define what their new objective interests are.⁷⁰ Thus structural conditions or, perhaps better put, structural changes, are very important for Haas in creating the intellectual uncertainty that opens the door for the causality of an epistemic community's ideas. Furthermore, the ideas of the epistemic community are assumed to be rational problem-solving responses to that same uncertainty.

On the issue of uncertainty then, the link between structure and ideas, Haas's approach as employed by Drake and Nicolaidis in regards to trade in services accepts the arguments of proponents of liberalization that technological change had produced a revolution in services trade. This revolution produced the necessary analytical "uncertainty" to open the door to the new ideas about the tradability of services, thereby altering the very thinking of important actors about exchange in services. As such, the evidence below that there was no such revolution would suggest that this way of conceptualizing the link between ideas and structural change at least in the case of services is problematic. Also, the data below suggests that the ideas of the trade in services argument, was not rational responses to uncertainty but a set of contestable normative commitments. Indeed, this may be the biggest blind spot in the epistemic communities methodology in that its failure to problematize the way ideas may often *define* reality as

⁷⁰Haas, p. 2.

opposed to simply *reflecting* reality means that the approach might, as in the case of services, simply fail to capture the actual causality of ideas. In short, the approach fails to ask the question of whether a new set of beliefs or a new way of conceptualizing something is simply a rational response to objective structural change or if it is a normative value-laden set of ideas. Drake and Nicolaidis, applying the methodology as set out by Haas fail to question the ideas of the trade in services argument itself and, as such, fail to grasp both the contestable nature of those ideas and also just how important the dissemination of these ideas were in the case of the services story.

Assessing the usefulness of how Transnational Historical Materialism conceptualizes the link between ideas and changing structure is somewhat more difficult since no attempt to apply the approach to trade in services has been made in the past. However, this approach also attempts to assert the importance of both ideas and structurally determined interests in international political economy. The links between these two forces are open ended - that is, the link between possible changes in the social order of production and changing ideas has no one way causality. Instead, both are aspects of political struggle. From Gill and Cox's perspective a change in class structure could be the result of changing ideas, a change in the order of production due to technologically-determined globalization, or both. As such, when examining the structure of international exchange in services, there is no hard and fast rule emerging from this perspective as to what structural conditions would be expected to explain the eventual level of consensus in support of liberalization. However, there are some important existing structural conditions in the service sector which, when considered in light of the following chapter's history of the issue, may help to validate the Coxian approach and its emphasis on the importance of organic intellectuals and intellectual hegemony in class formation. That is, the trade in services argument, although not produced as an intellectual justification for the objective material interests of multinational service companies, nonetheless served those interests and any account of its popular acceptance amongst elites which neglected that fact would be inaccurate.

The basic overarching argument of Gill's Trilateral Commission was to stress the degree to which in the contemporary period a particular fraction of capital - Transnational Capital - has increasingly exercised an intellectual hegemony over capital as a whole. As such, the important structural issue

for this Chapter in regards to Transnational Historical Materialism might not be so much the degree of overall globalization within the services sector but the degree to which the internationalization of services that does exist is heavily dominated by only a handful of multinational companies. This structure helps to explain why leading international service companies had an interest in liberalization and played an important role in putting it on the international agenda, but it does not help to explain the broad level of consensus which eventually emerged. The fact that liberalization of services trade would probably serve only the material interests of a handful of corporations, perhaps even to the detriment of the majority of the world's service firms which benefit from existing regulatory frameworks, would seem to suggest the need for any account of the overall level of consensus in support of liberalization to be based at least in part on consideration of the intellectual hegemony of leading elements of Transnational Capital over capital as a whole.

In any event, it would seem logical to begin with an account of the "trade in services argument" itself.

2) Defining Trade In Services

Traditional Thinking About Trade in Services

According to Feketekuty at the USTR, "The power of ideas to shape public perceptions of policy issues and even to shape public perceptions of reality has been amply demonstrated with respect to services. Old ideas about services, distilled by economists and social theorists many years ago, have a powerful hold on public perceptions about both the productivity and the tradability of services."⁷¹ Unfortunately, for Feketekuty and other advocates of service trade liberalization, many people outside of the trade policy community influenced by "old ideas" have continued to think that services are largely an unproductive activity and that services are not tradable.

Services have always suffered from a degree of intellectual scorn from economists and policymakers. This lack of regard probably began with Adam Smith and his prejudice against services, labeling them in The Wealth of

⁷¹Feketekuty, International Trade in Services, p. 59.

Nations as unproductive and "a burden on society".⁷² Thus, from the origins of modern economics the distinction between goods and services was to a certain degree based on a distinction between productive and un-productive forms of economic activity. Because of this long-standing prejudice against non-manufacturing based production, services were not even identified as a sector of economic activity until 1939.⁷³ When services were discussed at all they were simply categorized as everything that was not manufacturing or agriculture, thus no comprehensive policies relating to services as a distinct sector with similar service-sector-like-characteristics existed.

One of the consequences of this prejudice and lack of analysis of services as a sector is that this translated into a similar blindness to *international* transactions in services. Cross-border exchanges in services were simply treated as economic invisibles when not subject to an international sectoral regime.⁷⁴ Little systematic thought or economic analysis was given to such exchanges. Furthermore, because exchange in services was not thought of as a single sector of activity, individual service areas which happened to be rendered internationally were often subject to industry-specific international regulatory agreements such as the International Telecommunications Union or the Chicago Convention of the ICAU rather than any broad service-sector regime in the way that the GATT covers manufacturing trade.⁷⁵ Indeed, one of the more significant contributions of those who began to study services trade in the 1970s with an eye towards liberalization was their success in getting trade policy negotiators to think of trade in services as a single sector, as a group of activities with similar economic characteristics, despite the fact that much analysis shows that services did not have similar sectoral characteristics. Some services were traded somewhat like goods and most were not, and yet advocates of liberalization succeeded in promoting international dialogue about liberalizing "services" trade as if they were one homogenous type of activities in the way that trade in goods are. Given that industries were lumped into the services category in the first place because

⁷²Quoted in Feketekuty, International Trade in Services, p. 60-62.

⁷³Deepak Nayyar, "The Political Economy of International Trade in Services", Cambridge Journal of Economics, 12, June 1988, p. 280.

⁷⁴Drake and Nicolaidis, p. 44.

⁷⁵Murray Gibbs, "Continuing the International Debate on Services," (1985), Journal of World Trade Law, p. 199.

they were simply residuals or leftovers that did not fit elsewhere, this intellectual move is interesting in itself.⁷⁶

Throughout the post war period there seems to have been little interest in liberalizing international exchange in services (the term "trade in services" did not appear until 1973 when advocates of liberalization coined the concept). There were some calls for liberalization of invisible transactions:

The OECD convention of 1960 called broadly for the elimination of obstacles to the "exchange" of services, yet subsequent instruments with more explicit language dealt primarily with the treatment of foreign direct investment (FDI) and payments. Similarly the Treaty of Rome endorsed the "free movement" of services among member states of the European Community (EC), but the EC Commission did not begin to develop and enforce detailed "trade" rules until the launching of the 1992 program.⁷⁷

Calls for liberalization of invisibles and demands for liberalized rules of establishment through investment in foreign markets such as these were largely ignored, suffering from both a lack of enthusiasm and often outright opposition.⁷⁸

Additionally, in the heady days of sustained growth and rising prosperity based on manufacturing the historical prejudice against services in classical economics was further enhanced by the visible evidence of the low rates of pay and status accruing to the majority of those who worked at the bottom end of the wage scale in service industries. Perhaps even more importantly, were the historically low levels of productivity growth in services relative to manufacturing in the post-war years.⁷⁹ As a result, categorizing exchange of services as trade in "invisibles" in balance of payments statistics seems to have been appropriate. Exchange in services was both categorically and intellectually "invisible".

These assumptions about international exchanges in services had become increasingly unacceptable according to Feketekuty and other proponents of liberalization, because they failed to recognize the fact that

⁷⁶Jonathan David Aronson and Peter F. Cowhey, Trade in Services : A case for Open Markets, (Washington: American Enterprise Institute, 1984), p. 3.

⁷⁷Drake and Nicolaidis, pp. 44-45.

⁷⁸Pascal Petit, Slow Growth and the Service Economy, (London: Frances Pinter, 1986), p. 107.

⁷⁹Feketekuty, International Trade in Services, p. 63.

services were being traded in analytically similar ways to goods, that such trade had grown out of all proportions, and most importantly that the old thinking cut against the interests of those firms engaged in this "trade":

A model of the world economy that does not accommodate trade in services has become increasingly unacceptable to enterprises selling services. These enterprises do not see a fundamental distinction between the sale of services and the sale of manufactured goods to customers in other countries; yet they see governments spending a great deal of effort in reducing foreign barriers to the sale of manufactured products and very little effort in reducing foreign barriers to the sale of services. The only obvious difference is that the sale of manufactured products to foreigners has been called trade and the sale of services to foreigners has not been called trade. It is therefore natural for them to ask why the sale of services to foreigners should not be considered a form of trade and given equal treatment by governments.⁸⁰

Those who fail to support the efforts of Feketekuty and others were then viewed as the prisoners of old ideas who failed to grasp the new reality. "A revolution in human thought was required in order to develop both the means and the will to identify and measure the growing trade in services. That revolution in thinking has only begun, and it may be some time before public perceptions have adjusted to the new economic realities."⁸¹ The problems with this view, however, is that most international exchanges in services are *not* analytically similar to trade in goods, that there are also significant functional differences between types of service transactions which make a sectoral definition extremely difficult and lastly that, while theoretically technological change has made some types of international exchange in services more likely, a revolution in the volume of this trade had not occurred by the late 1980s.

Conceptualizing "Trade in Services"

The term "trade in services" seems a contradiction, "The word trade connotes getting something from here to there. The word services, interpreted through the prism of daily life, evokes an image of an activity that

⁸⁰Feketekuty, International Trade in Services, p. 70.

⁸¹Feketekuty, International Trade in Services, p. 72.

is bounded by the here and now, an activity that requires producers and consumers to be at the same place at the same time."⁸² Intuitively then:

The term trade in services thus seems an oxymoron, a term that contains an internal contradiction. The impression that trade in services is not really possible, and if possible could not be very large, is not merely an opinion of uninformed people. Until recently, this was the opinion of most government officials, professors of economics, and business executives, even those who were making a living selling services to foreigners.⁸³

As I have already pointed out the term was not coined until the 1970s. Despite its frequent use since then, discussion of trade in services remains somewhat conceptually nebulous, lacking any overall analytical clarity of what is actually meant by "trade in services", "In the absence of a developed 'theory' of trade in services, the theory of trade in goods has often been applied on an ad hoc basis. This follows from the suggestions by some economists that international trade in services is the same from an analytical point of view as trade in goods."⁸⁴ In general, those who support the liberalization of international services transactions use the term in a way that covers all service transactions including internationally-provided services that are delivered through foreign investment, while others in the minority argue that only some services are traded in analytically similar ways to trade in goods and therefore justifiably merit being included under the category of "trade in services". The important issues for this section are then to examine how services are transacted internationally, if and what types of services are traded, and the relationship between services trade and foreign investment.

Notwithstanding traditional prejudice against services in classical economics, the only way analysts have been able to define services to date is by outlining how they are different from goods. For services, "First, the production of the service and its consumption are, as a rule, simultaneous, and second, the producer and the consumer must interact with each other."⁸⁵ Goods on the other hand can be produced, they can be stored and they can be

⁸²Feketekuty, International Trade in Services, p. 1.

⁸³Feketekuty, International Trade in Services, p. 2.

⁸⁴Gary P. Sampson and Richard H. Snape, "Identifying the Issues in Trade in Services," The World Economy, 1985, p. 171.

⁸⁵Nayyar, "The Political Economy of International Trade in Services", p. 280.

transported across borders. Because they can be transported, trading goods does not require that the producer move to the country of the consumer or that the consumer move to the producer, the only thing that necessarily moves between the two countries are the goods themselves.

This analysis actually can be traced right back to Adam Smith who argued that the principal distinction of a service from a good is that a service disappears at the moment of its consumption.⁸⁶ Richard Walker has argued against this categorization (Indeed, he rightly points out that many goods disappear at the moment of consumption!) in that a more critical analysis shows that many services are like goods, or are ancillary to goods production and as such the divide between goods and services in contemporary analysis is both arbitrary and misleading. Despite his argument, however, since the important issue for this section is the question of the applicability of trade concepts to international exchanges in services the important distinction is not so much to be found by exploring production, as Walker suggests for a solution, but in how international transactions in goods and services are functionally undertaken. As such, this author will not dig deeper into the problems of distinguishing the production of goods from the production of services other than to note that indeed the divide is not perishability as the drift of Adam Smith's analysis suggests, but rather, transportability, in the case of international exchange in goods and services.

Since goods can be stored, unlike *most* services, they can be shipped from one country to another. Traditionally, international trade liberalization agreements have focused their efforts almost exclusively on removing barriers to this type of transaction, the movement of a tangible good, and it is to this type of exchange that trade theory and the theory of comparative advantage have been applied. Trade in services is understandably more complex due to the fact that, ". . . services do not physically cross borders the way goods and commodities do. As a result it is difficult to determine when trade has occurred and to quantify the trade that does take place."⁸⁷

International exchange in services can theoretically occur in four functionally different types of transactions:

⁸⁶ See Richard Walker, "Is There a Service Economy?", p. 53.

⁸⁷ Ronald K. Shelp, "Trade in Services", Foreign Policy, (1986-7), p. 66.

- (a) those in which the producer moves to the consumer (such when a ballet goes on tour, entertaining people in foreign cities),
- (b) those in which the consumer moves to the producer (such as tourism),
- (c) those in which the producer and the consumer move to each other (education services for example), and most importantly,
- (d) those in which neither the consumer nor the producer moves to each other.⁸⁸

While the first three types of transactions require the physical proximity of producers and consumers unlike trade in goods, the fourth type uniquely does not. This type of transaction can be conducted across borders with the aid of modern communications technology. For example, an architectural firm in one country could design a building for a firm in another country, simply sending them the plans. Likewise, a firm in one country could perform data processing for clients in another country without face to face communication. The key here is that these type of services can be produced in one country, often can be stored (which is unique amongst services) and transported or transmitted to consumers in another country without the need for the producer to have some sort of establishment in the foreign country. The film industry is one historical example of this type of service. In this sense this type of transaction is unique in that it can be *traded* in ways analytically similar to trade in goods. The list of actual services that can be theoretically transacted in this way is quite long, it includes: accounting services, legal services, advertising and marketing, engineering, architectural design, data processing, software design, some types of banking services, publishing, and a host of other scientific and technical services.

There are three key issues to be raised here. Firstly, it is these type of services, sometimes referred to as "separated services", as "other", or as "specialized" business services in official trade accounts from which examples of trade in services are inevitably drawn by advocates of liberalization. These are the services that are at least theoretically traded like goods; however, when advocates of liberalization talk about the scope of trade in services they refer to statistics based on all four types of services transactions and when

⁸⁸Based on Nayyar, "The Political Economy of International Trade in Services", p. 281.

international negotiations on services began at the GATT in 1986 it was on international service transactions as a whole rather than just these traded services. Secondly, it should be immediately recognized that at least *in theory* in recent years the possibilities for transacting separated services across borders has increased, ". . . which is attributable to technological change on the one hand and a near-revolution in transport on the other."⁸⁹

Undoubtedly, ". . . the *possibilities* for trade in erstwhile traded services have become much larger."⁹⁰ Lastly, the reason this distinction between those specialized business services which might be thought of as "traded" and those which require the physical proximity of a local establishment of a foreign subsidiary (the producer to "move" to the country of the consumer) is important is that discussion of "trade in services" when this distinction is not made conflates trade issues with investment issues. This becomes clear when barriers to trade in services are identified.

There are theoretically three types of barriers to broadly-defined "trade in services" (all types of international services transactions) identified in the literature:⁹¹

- 1) Those that restrict trade in services per se. (Separated services that can actually be traded across borders)
- 2) Those that restrict the movement of factors producing the services. (Investment and labor mobility restrictions)
- 3) Those that restrict the movement of receivers of services. (Such as restrictions on citizens' rights to travel)

For the first type, barriers in trade of separated services could take the form (in theory) of a tax on data transmissions or worse yet barriers to communications links. Gary Sampson and Richard Snape in their influential work on trade in services argue, however, that in practice, unlike goods, separated services trade is very difficult to inhibit.⁹² In point of fact, they offer no examples of an actual trade barrier to separated services although theoretically it is not hard to think of some types of barriers to this

⁸⁹Nayyar, "The Political Economy of International Trade in Services", p. 282.

⁹⁰Nayyar, "The Political Economy of International Trade in Services", p. 282.

⁹¹Based on Sampson and Snape, "Identifying the Issues in Trade in Services," p. 173.

⁹²Sampson and Snape, "Identifying the Issues in Trade in Services," p. 175.

type of trade. For example, Canadian cultural content laws in broadcasting would seem to be a barrier to US firms selling their entertainment services in Canada. Nevertheless, little attention in the actual discussion about barriers to trade in services has ever been directed at barriers such as these. However, liberalizing these type of transactions would not be dissimilar from liberalizing trade in goods, "It requires the absence of barriers to international contracting and to sending and receiving mail and electronic and telegraphic transmissions. Freedom of movement of factors of production or receivers would not be required."⁹³ One can see that at least for this type of transaction, the issues raised by calls for liberalization are not entirely dissimilar to those raised by trade in goods.

The second type of barriers, barriers to the movement of factors of production such as physical capital, labour and financial capital (investment) are more important. Firstly, the movement of physical capital, such as equipment necessary in providing services, is nothing more than merchandise trade which is already covered by a host of international and regional free trade agreements, and as such has little to do with liberalizing trade in services itself.⁹⁴ The movement of labor, according to Deepak Nayyar, although interesting theoretically to some advocates of liberalization, has never been discussed seriously at the GATT or anywhere else.⁹⁵ If this was not self evident in the examples above of ballets, architectural design and data processing, discussion of service trade always revolves around trendy information-based industries rather than more traditional forms of exported services such as foreign domestic workers or imported manual labor. While this undoubtedly reflects certain biases of the intellectuals and business leaders who advocate services liberalization it is also reflective of the larger fact that the real factor of production which advocates were concerned to remove barriers to was investment. "Trade in services" is much better understood as "investment in services".

The third type of barrier, those which inhibit the movement of service receivers to producers seems to exist only in theory. The only example of a

⁹³Sampson and Snape, "Identifying the Issues in Trade in Services," p. 177.

⁹⁴Sampson and Snape, "Identifying the Issues in Trade in Services," p. 175.

⁹⁵ Sampson and Snape do talk about guest workers but true to form it is only about the freedom of movement of professionals and business people rather than the movement of third world service workers. Obviously this is an omission which is suggestive of the point that real freedom of movement of labor was not really considered.

trade barrier of this type is Indonesia's departure taxes on residents leaving the country.

The Link Between Trade in Services and Investment

By now it should be clear that the key to understanding the concept of trade in services and proposals for its liberalization is that outside of the tradable separated or specialized business services, what was being called for was not just a liberalization of trade in services but a liberalization of the movement of factors of production of services - in particular, investment. "What has been said so far leads to the conclusion that free trade in services would require freedom of movement of factors of production, of 'separated' [tradable] services and of service receivers."⁹⁶ Because only in the case of separated services (services that can be traded across borders without physical proximity) are the issues analytically similar to trade in goods, liberalizing international exchange in services, would require the removal of investment barriers to local establishment by multinational service firms. Of course international attempts to systematically reduce barriers to investment have had little success in the past, but proponents of service trade liberalization argue in various ways that in this case liberalizing trade in services without liberalizing investment would not be desirable.⁹⁷

For example, the highly regarded work of Sampson and Snape argues that:

Restricting the movements of factors (or of receivers of services) will inhibit (i) the international movement of the services, (ii) the equalization of the prices of these services internationally, (iii) the tendency to narrow the international differences in the prices of factors of production. Barriers to the movement of factors or receivers will thus provide protection to some factors of production, even if there are no barriers to trade in . . . 'separated' services.⁹⁸

Remembering that Sampson and Snape also argued that there was little in the way of barriers to separated service trade, or even that such barriers could be effective, it would seem to flow analytically from their argument that the

⁹⁶Sampson and Snape, "Identifying the Issues in Trade in Services," p. 177.

⁹⁷Sampson and Snape, "Identifying the Issues in Trade in Services," pp. 177-8.

⁹⁸Sampson and Snape, "Identifying the Issues in Trade in Services," p. 178.

dialogue about liberalizing trade in services is really more, ". . . related to the right to 'establish' in the country purchasing the service and/or the right to import foreign labor. In such cases the link between the attitude of the host government to foreign investment and the granting of work permits is crucial. Thus the 'barriers' to imports of services may well be the rules applying to foreign investment and work permits."⁹⁹

Sampson and Snape were not unique in their view. Steven Benz has also argued that there is a fine line between trade and investment in services. Benz argued that a service can be provided internationally either by directly supplying the service or by establishing a local subsidiary, the problem according to Benz is that the second option is heavily regulated and therefore is not always an available choice for service providers.¹⁰⁰ If then, the service can not be sold without the physical proximity of a local establishment then trade in services is not possible. Thus barriers to establishment must be liberalized to facilitate trade in services.

Likewise, Geza Feketekuty's book deals at length with the need to liberalize investment restrictions to liberalize trade in services:

Many services, particularly services sold to households and small business enterprises, can be exported only in conjunction with the local production of services by foreign owned enterprises. Any conclusions about trade in these services has to be based on an explicit recognition of the link to investment, and a question can be raised whether the theory of comparative advantage can deal with this link.¹⁰¹

The unique element to Feketekuty's argument was his attempt to actually apply trade theory, in particular the theory of comparative advantage, to international *investment* in services, despite the fact that trade theory has traditionally had little to say about investment and investment barriers.¹⁰² Essentially what Feketekuty and some others argue is that investment in services through the process of specialization and comparative advantage actually explains the concentration of international "services trade" in a

⁹⁹Sampson and Snape, "Identifying the Issues in Trade in Services," p. 180.

¹⁰⁰Steven F. Benz, "Trade Liberalization and the Global Service Economy," Journal of World Trade Law, (1985), p. 101.

¹⁰¹Feketekuty, International Trade in Services, p. 103.

¹⁰²Feketekuty, International Trade in Services, p. 104.

relatively small number of countries - that exporting services through foreign investment is the United States' area of specialization in international commerce while other countries specialize in goods export. From this perspective, failing to liberalize the flows of such investment would only prevent the assumed welfare-maximizing benefits of this specialization. It should be noted that these arguments were produced almost exclusively by the Trade Policy Research Center in London (a strong supporter of liberalization), and it would seem from Feketekuty's own admission that this was a minority position amongst economists. Most reject the application of trade theory (specialization and welfare maximization) to investment functions specifically.¹⁰³ Despite this he nevertheless argued that:

Barriers to trade in services need to be distinguished from barriers to the establishment and operation of foreign-owned firms producing services. Regulations limiting the local production and sale of services by companies owned by foreigners are usually considered not trade barriers, but investment barriers. Nevertheless, restrictions on foreign investment in services can have a restrictive effect on cross-border trade in services, since trade and investment are often closely linked. Barriers to foreign investment in services thus frequently also constitute barriers to trade in services.¹⁰⁴

Several early surveys of business leaders conducted in order to document actual barriers to trade in services underline the relationship between calls for a liberalization of trade in services and barriers to investment. These studies, conducted by the US Chamber of Commerce in cooperation with the USTR (now the USTR Official Inventory of barriers to trade in services), a 1983 study done by Price Waterhouse on barriers encountered by US industry, and a report by Peat, Marwick and Mitchell for the EC Commission completed in 1986, all emphasize the degree to which business people had assumed "trade in services" to include investment in foreign services and thus investment barriers to be trade barriers. According to these surveys, ". . . most barriers to trade in services take the form of

¹⁰³Feketekuty, International Trade in Services, pp. 120-124. See also Shelp, p. 67.

¹⁰⁴Feketekuty, International Trade in Services, p. 133.

regulations that limit the right of foreign firms to establish themselves in the local market, and limit what foreign-owned firms are allowed to sell."¹⁰⁵

This point is further evidenced in one of the few actual empirical studies of how services are really transacted on an international basis, that done by Magnus Bloomstrom and Robert E. Lipsey, who unlike almost everyone else writing on trade in services were skeptical of some of the assumptions being made by proponents of liberalization. Bloomstrom and Lipsey's work, a macro study of the activities of US service firms operating in Latin America, argues that despite the broad definition of "trade in services", most international exchange in services at least in Latin America is conducted by foreign direct ownership of service companies. They argue that, "The data suggest that, because many services are difficult to trade, service industry affiliates are less likely than manufacturing industry affiliates to be part of a worldwide allocation of production by multinationals to take advantage of differences in factor prices."¹⁰⁶ Because there is little "trade" in services directly from the US to Latin America, rather MNC's operate or own foreign affiliates in those countries. "The important policy issues thus involve barriers to the establishment and operation of affiliates in host countries rather than trade barriers."¹⁰⁷ More specifically, they conclude that the debate over trade in services (at the GATT and elsewhere) when expressed in official statements fails to distinguish, ". . . among several versions of what constitutes this trade. . .".¹⁰⁸

In point of fact, they argue that of all the types of service transactions it was those that involved investment in foreign service firms which mattered most in the GATT dialogue about trade in services - particularly to American advocates of liberalization. This type of "trade", ". . . accounts for almost all of the service industry sales to foreigners by US firms."¹⁰⁹ What their study emphasizes other than the overall low level of globalisation within services industries (which will be discussed below) is the degree to which structurally, services trade is much less about trade than it is about investment issues.

¹⁰⁵Feketekuty, *International Trade in Services*, p. 137.

¹⁰⁶Magnus Bloomstrom and Robert E. Lipsey, "US Multinationals in Latin American Service Industries, *World Development*, Vol. 17, No. 11, 1989, p. 1769.

¹⁰⁷Blomstrom and Lipsey, "US Multinationals in Latin American Service Industries", p. 1769.

¹⁰⁸Blomstrom and Lipsey, "US Multinationals in Latin American Service Industries", p. 1769.

¹⁰⁹Blomstrom and Lipsey, "US Multinationals in Latin American Service Industries", p. 1770.

Thus, advocates of free trade in services were in fact calling for a fairly radical redefinition of the purposes of trade policy generally and the role of the GATT specifically.¹¹⁰ While discussion of investment barriers had never gone anywhere in the past, what these people wanted was for the GATT to take on the institutional role of promoting liberalized investment rules in the area of services.¹¹¹ What made this particularly radical was that unlike barriers to trade in goods, barriers to investment in services were rarely created with the goal of impeding imports of foreign competitors in the first place:

Controls on imports of services rarely serve the exclusive purpose of restricting trade and are usually feasible only to the extent that the government regulates or controls all transactions in a particular category, whether they relate to trade in services or not. Indeed, the basic rationale of the underlying control mechanisms usually has nothing to do with trying to control trade in services per se.¹¹²

Many barriers to investment in services have some unrelated public-interest-maximizing goal in mind (at least theoretically!). Despite this fact, such regulations were to be subjected to consideration for liberalization. Perhaps more clearly put by Feketekuty, the "father" of trade in services himself:

What may be a barrier to a business could well be an essential regulation designed to achieve mandated domestic regulatory goals. In order to decide whether these barriers can be modified or eliminated in the course of trade negotiations, each of these measures will have to be weighed in terms of the extent to which its removal will adversely affect the achievement of mandatory regulatory objectives in other policy areas and the extent to which the regulatory objectives could be pursued by other measures that create less of a barrier to trade.¹¹³

Obviously, this testifies to the uphill battle faced by proponents of getting services included into the GATT. In order to achieve their goals they would

¹¹⁰Many have stated simply that discussion of putting services into the GATT represented a radical challenge to the traditional jurisdiction of the organization. See for example, John H. Jackson, Restructuring the GATT System, (London: Pinter Publishers, 1990) p. 4.

¹¹¹This is a point made also by Petit, page 190.

¹¹²Feketekuty, International Trade in Services, p. 130.

¹¹³Feketekuty, International Trade in Services, p. 145.

have to convince people that services should be thought of as trade and should be liberalized. They would have to convince the international trade policy community that liberalizing investment would also be necessary, even if barriers to such investment had nothing to do with trade issues. Most importantly, they would have to convince people that such a liberalization was necessary because of a near-revolution in the volume of such trade, an assumption which was flawed.

3) The Trade in Services Statistics

Revolutionary Growth in Trade in Services?

Advocates of liberalization complained incessantly in their articles that the real obstacle to getting services on the GATT agenda was getting people to see the rising economic importance of trade in services. "People have such a hard time believing that trade in services is important because they cannot see it and it is very difficult to measure. Trade in services has justifiably been called trade in invisibles."¹¹⁴ For such advocates, their opponents needed to, ". . . overcome the difficulty of visualizing trade in services."¹¹⁵ This seems to have been particularly frustrating given the prevalent assumption that trade in services was skyrocketing in volume.

Within domestic economies since the end of the First World War there has been a gradual statistical increase in service sector employment. Between 1920 and 1970 growth in transportation, communications, banking and government services raised employment in services to over half the total labour force or more in Advanced Capitalist nations.¹¹⁶ While international transactions in services lagged far behind this spectacular domestic economic growth, as noted above in the 1970s there began to emerge a widely held assumption (propagated by advocates of liberalization) that due to technological change services had become far easier to trade across borders and it was assumed that this was resulting in actual growth in such trade. In short, it was believed that services were globalizing in the way that manufacturing industries already had.

¹¹⁴Feketekuty, *International Trade in Services*, p. 27.

¹¹⁵Feketekuty, *International Trade in Services*, p. 27.

¹¹⁶Brigid Gavin, "New Horizons in International Trade: Towards Free Trade in Services," *The World Today*, (May 1983), p. 194.

This view is particularly evident in an article written by Joan Edelman Spero of American Express. Spero argues that international trade in specialized business services had skyrocketed by 1980 due to technological change.¹¹⁷ To back up her argument, using official balance of payments figures she argued that total world trade in services had risen in value to \$550 billion (US) in 1980, or about 20% of total world trade.¹¹⁸ She was not alone in this type of argument, Drake and Nicolaidis have said much the same thing in their epistemic communities approach to trade in services, "While only 10 to 15 percent of services are rendered commercially across borders, service exports nevertheless are now generally estimated to be worth over \$700 billion per year and make up 25 to 30% percent of World Trade."¹¹⁹ By comparison worldwide trade in services in 1970 is reputed to have totaled only \$100 billion(US), as represented by official balance of payments statistics.¹²⁰

While these numbers would seem to support the arguments made that services were globalizing and also would support the kind of structural approach advocated by Milner in explaining the consensus which would eventually emerge in support of liberalizing services trade, they are only superficial. Perhaps a more important statistic than the dollar value growth in services trade in the inflation-mad 1970s was the overall proportion of the world economy which they comprised. The proportion of world GDP made up by world exports in services rose only from about 7% in 1970 to about 11% in 1980.¹²¹ Furthermore, in relation to trade in goods the numbers for trade in services' growth are modest, "We can only note that the expansion of trade in services kept pace with the expansion of trade in goods. Thus, the value of exports of services was almost 1/3 the value of merchandise exports in the world economy, *throughout* the period under review."¹²² Actually, between 1970 and the early 1980s trade in services actually shrunk slightly in proportion to trade in goods!¹²³

¹¹⁷Spero, "Trade in Services: Removing Barriers", p. 18.

¹¹⁸Spero, "Trade in Services: Removing Barriers", p. 17.

¹¹⁹Drake and Nicolaidis, "Ideas, interests, and institutionalization," p. 37.

¹²⁰Nayyar, "The Political Economy of International Trade in Services", p. 284.

¹²¹Nayyar, "The Political Economy of International Trade in Services", p. 290.

¹²²Nayyar, "The Political Economy of International Trade in Services", p. 284.

¹²³See table from Nayyar, "The Political Economy of International Trade in Services", p. 285.

Indeed, statistics from the US department of Commerce make much the same point. This is important as the US was both the largest importer and exporter of services, and if a revolution in the scale of international exchange in services were occurring, we would expect to see clear evidence of this in the case of the United States:

	1960	1965	1970	1975	1980	1985
exports of merchandise	20.5	27.8	44.5	109.6	226.0	222.4
exports of services	4.8	7.6	12.4	26.7	53.2	79.7
imports of merchandise	15.2	22.2	40.9	99.0	248.6	343.3
imports of services	7.6	9.3	14.9	23.7	45.3	74.3
total trade in merchandise	35.7	50.0	85.4	208.6	474.6	565.7
total trade in services	12.4	16.9	27.3	50.4	98.5	154.0
services as a % of merchandise trade	36%	34%	32%	24%	21%	27%

Between 1965 and 1985, totals for US trade in services actually shrunk substantially in proportion to US trade in merchandise. Furthermore, US services trade was consistently smaller than 1/3 of the value of US manufacturing trade from 1970 to 1985.

Importantly, these overall statistics, both for the world and for the US specifically, were disappointing to services advocates because they were based on the official balance of payments statistic's categorization of "trade in services" which includes items which are not trade in services! As will be discussed in some detail most of the total for services trade is actually investment. The category of "services" in balance of payments statistics is a

¹²⁴Extrapolated from, United States Department of Commerce, National Income and Product Accounts of the United States, Volume 2, 1959-88, (Washington: Economics and Statistics Administration, Bureau of Economic Analysis, 1992), Table 4.1. Exports and imports of merchandise include totals for all durable and nondurable goods. Exports and imports of services include all payments for services as well as foreign direct investment (minus interest, dividends, and reinvested earnings). Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included as services. In addition, totals for services were adjusted upwards following a series of reclassifications which began in 1981.

residual for all "invisible" transactions and, as such, only a portion of its total represents real exchange in services. If income from investment is removed, the totals for trade in services are not only very small but show little growth from 1970 up until 1986 when the GATT would make its landmark decision of including services in the Uruguay Round.

One of the better assessments of the data on services trade can be gleaned from Stephen Cohen and John Zysman's, Manufacturing Matters. Cohen and Zysman argue that the US trade policy community's belief that service exports could compensate for the US manufacturing sector trade deficit was wrong because it was based on a false set of assumptions about services trade. US advocates of service trade as a panacea for America's economic problems simply overestimated the scope of real service exports. "Services constitute a very small proportion of our international trade, and despite recurrent predictions to the contrary and policies predicated on them, there is no indication that the situation will soon change in ways that matter qualitatively."¹²⁵ The data on which optimists in the US, and proponents of liberalization elsewhere, have based their assumptions are confused according to this book on two levels; firstly by misleading classifications in trade accounts and secondly by the argument used by advocates of liberalization that the statistics were simply too "murky" or incorrect and therefore theoretical case studies conducted by these same advocates were the only way to understand what was "really" going on.¹²⁶

Along these lines Pascal Petit argued that most of what is statistically referred to as trade in services should be labeled "fictitious". He argued that over half of all "trade in services" in balance of payments figures are actually comprised of such fictitious services. Breaking down the 1985 statistics for trade in services within the European Community, Petit showed that of trade in services, 32.4% of the total alone is accounted for by passenger and freight transportation costs (which is not really related to discussion of trade in services liberalization). Another 40%, the largest single portion of trade in services, falls under the heading of investment income which Petit suggests has little to do with trade in services directly.¹²⁷ It should be noted that Petit

¹²⁵Stephen S. Cohen and John Zysman, Manufacturing Matters, The Myth of the Post-Industrial Economy, (New York: Basic Books, 1987), p. 29.

¹²⁶Cohen and Zysman, Manufacturing Matters, p. 30.

¹²⁷Petit, Slow Growth and the Service Economy, pp. 84-85.

had good cause to make such an argument. Direct foreign investment when included in trade in services statistics, ". . . does not make a distinction between direct foreign investment in goods and direct foreign investment in services, and simply lumps together income from investment abroad in both good and services; this would tend to overestimate international trade in services."¹²⁸ Even if we accept that income from foreign investment in services industries constitutes "trade in services" (which this author does not), this category includes income that has nothing whatsoever to do with services! Indeed, the category of investment under the heading of trade in services also includes interest payments on external debt which, "strictly speaking, cannot be described as trade in services."¹²⁹ Separated or specialized services, those services which arguably are traded internationally (such as engineering, advertising brokerage, financial management, leasing agreements, royalties, patents licenses etc.) accounted in 1985 for only about 25% of total EC trade in services according to Petit.¹³⁰

Looking at these statistics over time Petit accepts that in 1972 total "trade in services" in balance of payments figures represented an amount equal to 1/4 of manufacturing trade and that this ratio had not changed by 1982. "However this stability hides very different patterns of development for different types of services."¹³¹ In general, older services like transport and travel have grown less rapidly than trade in goods meaning that between 1970 and the early 1980s the portion of trade in services represented by these industries had shrunk somewhat. Specialized services that are arguably traded, those transacted between global firms across borders, had grown in volume only slightly more rapidly than trade in goods, meaning that proportionately more of the trade in services category was now represented by real trade in services (more on this below).¹³² However, "these figures have not yet had more than a modest impact on the balance of payments, since in 1981 they represented on average only 11 percent of exports and 8 percent of imports of goods [amongst EC countries] - much less than the 1/3 of total

¹²⁸Nayyar, "The Political Economy of International Trade in Services", p. 283.

¹²⁹Nayyar, "The Political Economy of International Trade in Services", p. 283.

¹³⁰Petit, Slow Growth and the Service Economy, p. 84.

¹³¹Petit, Slow Growth and the Service Economy, p. 90.

¹³²Petit, Slow Growth and the Service Economy, p. 91

trade usually trumpeted by trade in services experts.¹³³ Petit does qualify this, however, by arguing that if their growth continued they could become a significant portion of international trade at least to the United States and United Kingdom, representing as much as 1/3 of manufacturing trade by 1990 in both of those countries.¹³⁴

According to Petit, however, the more significant trend was that the overall growth within total "trade in services", the growth that allowed it to keep pace with growth in manufacturing trade over the 1970s and 1980s, was largely due to growth in international investment proceeds:

It is only the growth in income from financial investment therefore that has made any significant contribution to the increase in the share of services in the balance of payments. The fact that two very different entities are amalgamated under the heading 'services' leads to often very mistaken generalizations about the opportunities for extending markets.¹³⁵

To give a clearer idea of how misleading the statistics on trade in services can be there is a useful example in Manufacturing Matters. In 1984-85, right before the start of the Uruguay Round which would make services a major topic of negotiation, the United States had a manufacturing trade deficit of \$36 billion. This was offset according to the US Council of Economic Advisers by a \$33 billion surplus in services. However, all but \$7.5 billion of that surplus in "services" was actually interest on investment income from abroad, not exported trade in services. Furthermore, of that \$7.5 billion only a portion of it represents what can fairly be called "trade in services".

According to the US Department of Commerce, trade in services (minus investment income), should be broken into five categories:

- 1)Travel
- 2)Passenger Fares
- 3)Transportation (of goods)
- 4) Property Rights

¹³³Petit, Slow Growth and the Service Economy, p. 91.

¹³⁴Petit, Slow Growth and the Service Economy, p. 91.

¹³⁵Petit, Slow Growth and the Service Economy, p. 93.

5) Other Business Services (which are often referred to in the literature as specialized or separated services)

It is of course, Other Business Services from which the examples of trade in services are always drawn by advocates of liberalization and as noted above these are the only services which analytically have qualities like trade in goods (i.e. that they can be transacted across borders without the producers or consumers moving to one another). Interestingly, in the United States, the major exporter of such services, in 1984-5, this category made up only about 13 percent of the total "trade in services", even when income from investment was already excluded from the total. "At first glance the Other Business Services category looks like a Western River: It's a mile wide and an inch deep, and doesn't move much water. It is by far the broadest of all the trade categories: it would take the better part of a page just to list its components. But the dollar amounts are quite small. Certainly they are too small to support the burden of the argument placed on it . . .".¹³⁶

This argument for the almost minuscule totals for real trade in services is backed up by other sources including J. D. Aronson and Peter Cowhey, two proponents of liberalization. According to their statistics, in 1980 US exports of other business services totaled only \$4.6 billion while US manufacturing exports were \$284.2 billion! This means *real* trade in services equaled less than 2 percent of manufacturing trade!¹³⁷ Perhaps even more clear evidence for the overall low level of globalization and lack of interdependence in the service sector is the simple fact that the share of the US economy represented by specialized or other business services, those most tradable of services in the leading export country in services, actually fell from 1973 to 1982!¹³⁸ Hardly the stuff of revolutions!

A similar argument can be made in the case of Canada. In 1991, Statistics Canada released its, Volume Estimates of International Trade in Services. The Statistics Canada data, which removes investment from the category, shows that Canadian exports and imports of services, both as a percentage of trade in goods and as a percentage of Canadian current account, declined between 1970 and 1990:

¹³⁶Cohen and Zysman, Manufacturing Matters, p. 33.

¹³⁷Aronson and Cowhey, Trade in Services, p. 7.

¹³⁸Petit, Slow Growth and the Service Economy, p. 106.

	1970	1975	1980	1985	1990
exports of goods	77	80	82	82	78
exports of services	15	13	12	11	12
ratio: services/ goods	0.19	0.16	0.14	0.13	0.15
imports of goods	66	73	71	69	66
imports of services	19	16	15	14	15
ratio: services/ goods	0.29	0.22	0.21	0.20	0.22

Statistics Canada also separated the trade in services category into its constituent parts; travel, freight and shipping, business services, government transactions and other services:

	Exports of Services				
	1970	1975	1980	1985	1990
Travel	37	34	31	32	33
Freight and Shipping	35	32	36	29	24
Business Services	19	25	27	33	36
Government Transactions	6	6	4	4	4
Other Services	4	4	3	3	4
	Imports of Services				
	1970	1975	1980	1985	1990
Travel	36	34	33	34	40
Freight and Shipping	28	29	25	21	18
Business Services	29	29	34	37	36
Government Transactions	6	5	7	6	4
Other Services	2	2	2	2	2

¹³⁹Reproduced from Table 1, Statistics Canada, Volume Estimates of International Trade in Business Services, (Ottawa: National Accounts and Environment Division, 1991), p. 15. Reprinted from National Income and Expenditure Accounts, Third Quarter 1991 (Catalog No. 13-001)

¹⁴⁰Reproduced from Table 2, Statistics Canada, Volume Estimates of International Trade in Business Services, p. 15.

This data confirms Petit's argument, concerning the statistics for the EC - that tradable business services were becoming more important within the category of trade in services as whole. However, what this data also suggests is that the totals for real trade in services, those included in the category of business services, despite some growth, remain proportionally small compared to trade in goods (and for that matter the size of the domestic service economies).

For example, in 1990, Canadian exports of services equaled only about 15 percent of the total for exported goods (see Table 2 above). In that same year, business services amounted to only 36 percent of total exports of services, meaning that total exports of business services equaled only about 5 percent of total exports of goods in that year. Also in 1990, total imports of business services equaled at most only 8 percent of total imports of goods. Furthermore, the numbers did not change greatly over time. In 1970 total imports of business services equaled about 5 1/2 percent of total imports of goods. A two percent shift over twenty years hardly seems a basis upon which to substantiate a claim that a revolution was occurring in the scale of trade in services.

To be fair, even advocates of liberalization who looked at these numbers more closely accepted the fact that they were hardly a convincing basis upon which to construct an argument that trade in services was going through a revolution. Murray Gibbs, for example, stated simply that, "The current interest in trade in services cannot be attributed to rapid growth in trade in this area, at least if official balance of payments figures are relied upon."¹⁴¹ However, many who studied trade in services chose to argue instead that these statistics were simply wrong and "grossly underestimated" the total scope of services trade.¹⁴²

The Problem with the Official Statistics According to Advocates of Liberalization

One of the more amazing aspects of how trade in services liberalization got on the international agenda is the degree to which proponents were able to deflect consideration away from objective or official measures of services

¹⁴¹Gibbs, "Continuing the International Debate on Services," p. 203.

¹⁴²Shelp, "Trade in Services", p.77.

trade which made their arguments more difficult to support. Various theories as to why the official statistics which showed little globalisation in the services sector could not be trusted gained support. Examining these explanations is useful in that it gives one a good appreciation of how important ideas about trade in services were in promoting the issue, keeping in mind the forgoing argument that services trade despite arguments to the contrary is still a relatively small component of international economic exchange.

Perhaps the most fanciful explanation for the "disappointing" statistics on trade in services was that some argued that much of what is statistically counted as merchandise trade has an implicit service trade contained in the cost of the goods.¹⁴³ For example, cars traded from one country to another contain within their price costs for research, engineering and a host of other services that went into their design and production and, as such, some of the value of those cars should be counted as trade in services according to this line of reasoning. Of course, such an argument hardly supports the claim that services trade was going through revolution-like growth since this argument could be made about all trade in goods throughout history and it is also difficult to see how this type of "trade in services" constitutes a distinct economic activity that must be liberalized through the GATT. The fact of the matter is that these implicit services, as part of the cost of a traded tangible good are covered by existing merchandise trade agreements.

Other proponents, deflecting attention away from the balance of payments statistics on trade in services themselves, have argued that the growth of services *within domestic economies itself* represents an explanation for why trade in services must be liberalized. From this perspective, developed firstly by Geza Feketekuty, the shift from manufacturing to services in developed countries' economies was itself a response to trade competition in manufacturing goods from developing nations; as such, the "specialization" and "comparative advantage" of countries with large domestic service sectors must be responded to with liberalization so that countries that have the comparative advantage in

¹⁴³Nayyar points out this argument in, "The Political Economy of International Trade in Services", p. 282.

services can compete internationally.¹⁴⁴ This follows logically from the application of trade theory to services discussed earlier.

This idea that the growth of services within domestic economies was itself a product of trade competition, and therefore only a derivative aspect of globalization in manufacturing trade, would help make the case for liberalization of services exchange, but only if services were indeed tradable. If it was possible to export such services then removal of barriers to such transactions would seem a logical response to the liberalization of manufacturing trade. To do otherwise, according to trade theory, would be to prevent the welfare-maximizing benefits of economic specialization, and would be unfair to those countries with a comparative advantage in services trade. However since the argument that services could be exported rested in large part an assumption that such trade already existed in large quantities attention once again turns to the fact that the statistical evidence suggest that service were not being traded on a previously unheard of scale. What "services trade" existed was mainly comprised of investment. As such, the application of trade theory to the phenomenon would seem flawed.

In any event, as Murray Gibbs has pointed out, such an argument that growth in domestic services was a direct product of international trade competition is simply incorrect in that it ignores

. . . the difference in tradability of goods and services. It is estimated that less than 8 per cent of services are traded, and being less exposed to the possibilities of international competition, services are less likely to respond to external developments. The shift from manufacturing to services may be less an "adjustment to" than a "retreat from" international competition. The application of the theory of comparative advantage to the service sector is seriously questioned by many economists.¹⁴⁵

The views of orthodox economists aside, there are many explanations for the growth in domestic services sectors, not the least of which is the growth of government services since the 1950s. To assume that growth in service sector employment was nothing more than the product of competitively-driven

¹⁴⁴Gibbs, "Continuing the International Debate on Services," p. 203-4.

¹⁴⁵Gibbs, "Continuing the International Debate on Services," p. 204.

trade specialization ignores these other more established explanations which have nothing to do with the trade in services argument.¹⁴⁶

A simpler and more commonplace response to the disappointing statistics on trade in services than the theoretical "innovation" of Feketekuty, was the argument that, statistically, the numbers simply could never be right due to measurement error. For instance, supporters of liberalization often made reference to the "black hole" of services trade in balance of payments figures. In some years total exports of invisibles as compared to total imports were off by as much as a \$100 billion (US) according to IMF statistics.¹⁴⁷ As such, many took this as evidence of the fact that while a revolution was actually occurring, the numbers simply did not reflect it and therefore we should trust intuition rather than the numbers - because the numbers simply could never be right for a variety of reasons:

. . . it has become obvious that governments will never be able to collect data of the same detail and quality as the existing data on trade in goods. Not only are services much more difficult to define with great precision, but there is tremendous public resistance to the detailed reporting that would be necessary. It is likely therefore, that many of our most important insights into trade in services will not come from aggregate data collected by governments but from case studies carried out by individual economists.¹⁴⁸

One would have assumed that those arguing for a radical redefinition of existing world trade policy would have had to provide evidence to support their arguments as to why this change in direction was necessary. In the case of trade in services such a burden of proof was never required.

¹⁴⁶Furthermore, this type of argument ignores the degree to which much of service sector employment may be related directly to goods production. As Richard Walker rightfully points out, expansion in the number of service sector employees may be derivative of an increasing reliance in some countries on indirect service labor to improve productivity in goods production. See Walker, "Is There a Service Economy?", pp. 80-83. As well, as Walker argues that this type of view relies on an assumption that the service sector's preponderance in the economy of industrialized nations is something new. As he rightfully points out, domestic service sector employment has in all likelihood outstripped employment in manufacturing for almost a century. This is most certainly the case in the United States. See Walker, "Is There a Service Economy?", p. 81.

¹⁴⁷Shelp, "Trade in Services", p.67.

¹⁴⁸Feketekuty, International Trade in Services, p. 32.

The most sophisticated explanation for why the numbers could not be trusted and the one that would ultimately convince many observers was provided by Aronson and Cowhey. According to them, the overall statistics, ". . . makes one wonder why American officials were eager to liberalize trade in services."¹⁴⁹ In fact, they argue that the statistics were not a good guide for studying trade in services, "Obviously, a disparity exists between the intuition of American policy makers that services have been driven by US strengths in information and financial skills and the US trade statistics. A more careful analysis of the data suggest that intuition has been a better guide than the official statistics."¹⁵⁰ Essentially, they argue that it is unfair to remove income from investment from totals for trade in services since some or much of this investment income may actually be "trade in services" measured incorrectly. Much of this income may be derived from foreign service subsidiaries. While their argument may have some credibility, indeed Congress in the United States accepted this methodology by choosing to arbitrarily include half of all investment income under the heading of trade in services in their official policy pronouncements, there is nevertheless a significant problem here. If the only way that "trade in services" becomes statistically significant in the way in which advocates of liberalization would like it to be is by including investment income under the heading of services this actually undermines the entire attempt to categorize "trade in services" as a trade issue to be dealt with by the GATT. It would seem that either proponents of liberalization would have to accept that the revolution in information technology and transportation as it related to services existed more in theory than in practice or they should have had to admit that the discourse on trade in services would better be taken up in some sort of a forum on investment issues. Such admissions were never required. The attempt to apply trade theory to international exchange in services while arguing that this "trade in services" was growing at such a rate that it compared to the industrial revolution simply does not work analytically. It leaves one with the sense that there was some sort of intellectual sophistry going on. Yet, most of those involved in the discussions leading up to the Uruguay Round would come to accept that services were being *traded* on a

¹⁴⁹Aronson and Cowhey, Trade in Services, p. 6.

¹⁵⁰Aronson and Cowhey, Trade in Services, p. 7.

previously unheard of scale and that as such they should be liberalized through the GATT to allow for the welfare-maximizing effects of trade specialization.

The Statistics - Conclusions

Aside from the degree to which the foregoing arguments underline the questionable and value-laden claims made by the proponents of liberalization and therefore the insubstantiability of the broad international consensus in support of the "trade in services argument" which emerged, the most important inference that can be drawn from them for the purposes of this thesis is the degree to which the statistics on trade in services emphasize an overall low level of globalization and interpenetration of service industries. Indeed, this was one of the principal conclusions of the Bloomstrom and Lipsey study discussed earlier.¹⁵¹ The broad international consensus which emerged in the late 1980s - that services were being traded on a previously unheard of scale, that they were analytically the same as trade in goods, and that their trade should be liberalized by institutionalizing services into the GATT - simply cannot be explained in the narrowly structuralist manner pioneered by Milner and others. The one thing most clear about these numbers is that most service industries and most service firms were still organized on a national rather than transnational basis - the scale of transnational services trade was still dwarfed by domestic service industries. At best, only 8 percent of services were being traded across borders.¹⁵² As such, this structure, if we were to follow the logic of Milner's argument would have predicted either little structurally-determined support for liberalization, or at least widespread support for the status quo in the relatively protected service sector.

Likewise, the epistemic communities approach employed by Drake and Nicolaidis falls into similar difficulties due to its assumption that the international "uncertainty" about trade in services was *caused* by a near-revolution in the scale of services trade. It would seem that explaining both the origins of trade in services as a topic of international debate and the eventual international consensus in support of liberalization requires *both* a

¹⁵¹Blomstrom and Lipsey, "US Multinationals in Latin American Service Industries", p. 1774.

¹⁵²Gibbs, "Continuing the International Debate on Services," p. 204.

more flexible understanding of how the changing structure of services helped to put the issue of trade in services on the agenda, and crucially, requires an understanding of how the ideas themselves, the "trade in services argument" helped to produce the international consensus in support of liberalizing trade in services. It also requires that those ideas themselves are conceptualized, not as rational, scientific-like, value-neutral responses to a structural change, but as politically and analytically contestable, normative arguments of those committed to the cause of liberalization.

4) Structural Change in International Exchange in Services

The above arguments are not intended as evidence that there has been no structural change in international services industries since 1970, nor are they intended as proof that there are no important structures in the services economy which may have played a role in the trade in services story. Quite to the contrary, there are three important structural considerations in relation to trade in services. First, there has been some rise in the importance of specialized business services within the category of services as whole, a statistical shift probably explained by nothing more than corporate downsizing. Second, what trade in services there is, although small in volume, is almost totally the preserve of a handful of leading multinational corporations. Third, the concentration of services trade in a few corporations is paralleled by the concentration of the benefits of such trade in only a few countries. All of these factors offer important clues as to why services got on the trade agenda while offering only further evidence that would lead one to conclude that in the absence of ideas an international consensus in support of liberalization would have been unlikely.

The Growth in Specialized Business Services and Corporate Downsizing

As noted in the discussion of Pascal Petit's work, the only real growth in trade in services (that was not entirely attributable to increasing investment proceeds) occurred within the category of specialized or "other business services". While Petit concluded that such growth was small, he did argue that it was becoming statistically significant to both the US and UK, the two nations which "led the charge" for trade in services liberalization, a fact

which we shall see in the next chapter was of no small significance. This trend is also significant for the fact that it was related to broader patterns in international business such as corporate downsizing and the overall concentration of services trade.

It should be understood firstly that specialized business services are unique, not only due to their tradability as opposed to other types of services, but also, due to the fact that as transactions they are almost universally conducted between multinational corporations. Unlike most service industries such as entertainment, restaurants, basic banking services, the services consumed on a daily basis by individuals, specialized business services, consulting, data processing, engineering etc., are most often provided by one multinational corporation to another. "Most services produced in an economy are purchased by individual consumers, while most imported [or traded] services are purchased by business."¹⁵³ This of course relates back to the definition of trade in services by which it was made clear that all other types of services required the physical proximity of producer and consumer and therefore could not be traded in the way that specialized services could, "In contrast, many of the services purchased by business can be produced at a distance and this opens up greater opportunities for trade. The large corporations that buy services around the world operate in an environment that is very difficult for an individual to comprehend on the basis of personal experience."¹⁵⁴

There are important functional reasons why corporations often buy services internationally, "Every commercial enterprise, whatever it produces, needs a large number of service inputs in running the business. It needs the services of accountants, tax advisors, management experts, market analysts, personnel managers, lawyers, economists, computer programmers, system analysts, salesmen, statistical analysts and financial experts."¹⁵⁵ In recent years it would seem that demand for specialized services has increased. Crucially, in the past these services were more often than not produced within the firm, and if this firm was multinational with subsidiaries in many countries the use of these specialized services would result in some "trade in services" as a foreign subsidiary might pay its parent or related affiliate for

¹⁵³Feketekuty, International Trade in Services, p. 5.

¹⁵⁴Feketekuty, International Trade in Services, p. 5.

¹⁵⁵Feketekuty, International Trade in Services, p. 8.

some sort of management services. However, the trend, of late, toward more specialized services has resulted in an increasing use of "contracting out" which means that what was once produced within a firm is often now bought from an un-related corporation resulting in even more trade in services of this type. This trend, it has been argued, has been driven in part by increasing economies of scale which meant that MNC's were becoming more efficient and skilled in providing such services. Essentially the argument is that in the early 1970s major manufacturers and service companies, because of their economies of scale, increasingly excelled at producing high quality services and, as such, enabled by technological change, they began to sell those services to other companies.¹⁵⁶

This dynamic was driven in no small part by corporate downsizing of major manufacturers:

During the period of declining economic activity and increased foreign competition, firms have been laying off personnel in an attempt to reduce costs and increase productivity. Many of these former employees of manufacturing firms who would have counted as being employed in the manufacturing sector (even though many of them would have had essentially service tasks) have found jobs in various service activities.¹⁵⁷

Needless to say, the service firms which now employ these people get much of their work through contracts with the same "downsized" manufacturing firms, the only difference therefore being that these workers are now employed in "international service trade" rather than in manufacturing. These trends help to explain the statistical growth in specialized business services trade. However, it should be pointed out that this change is not so much a qualitative one as much as it is quantitative. These services have been provided internationally for quite some time, they are now just more visible as distinct activities because they are no longer necessarily part of a manufacturing multinational. Importantly, these trends also help to explain the heavily concentrated nature of services trade within only a few multinational corporations and a few countries.

¹⁵⁶See Nayyar, "The Political Economy of International Trade in Services", p. 289. or Feketekuty, International Trade in Services, pp. 49-50.

¹⁵⁷Gibbs, "Continuing the International Debate on Services," p. 206.

The Concentration of Trade in Services Amongst Only a Few Multinationals

Historically, the service business has been dominated by small and medium sized firms. In the case of internationally traded services this has changed gradually in recent decades. In this context the most important change in the structure of services trade may well be the increasing domination of what trade in services there is by large service multinationals usually based in the United States. These "Transnational Service Conglomerates" through mergers and buy-outs of smaller firms have become active in an ever wider range of service sectors, trying to take advantage of their internal economies of scale.¹⁵⁸ Indeed, by the early 1980s, of the top 200 multinational corporations, 82 were primarily service exporters (either through trade in services or investment in foreign affiliates in other countries). Perhaps even more importantly, those 82 firms earned as much as two-thirds of the total profits accumulated by the top 200 firms!¹⁵⁹ Indeed:

International trade in services has become big business. In the United States, many companies that supply international services - American Express (travel services), Citibank (financial services), Pan American (air transport services), Sea Land (ocean and land transport services), AIG (insurance), AT&T (Communications), and EDS (data processing) are among the largest companies in the country. These firms have become far more conscious than in the past of the advantage of influencing government policies that affect their ability to deliver services worldwide, and their rapid growth in recent years has given them the clout to get attention from the government. Both business executives and government officials are thus more inclined than in the past to look to barriers in services as key commercial issues.¹⁶⁰

In short, trade in services is increasingly dominated by a handful of leading multinational corporations. "It appears, therefore, that the world of transnational corporations in the service sector is not small, even when

¹⁵⁸This term seems to have been coined in Frederick F. Clairmonte and John H. Cavanaugh, Transnational Corporations and Services: The Final Frontier, (Sidney: Transnational Corporations Research Project, 1984)

¹⁵⁹Nayyar, "The Political Economy of International Trade in Services", p. 289.

¹⁶⁰Feketekuty, International Trade in Services, p. 40.

compared to their counterparts in the manufacturing sector which have been there much longer The service sector in the contemporary world has thus developed very different characteristics from those prevailing even two decades ago."¹⁶¹

This pattern of corporate concentration was due in no small part to the waves of mergers that began in the late 1970s and early 1980s which have served to create the Transnational Service Conglomerate(TSC). This was true particularly in the financial sector where wave after wave of mergers made large financial services multinationals like the international banks and financial services companies even larger. For example, by 1984 American Express, one of the early advocates of liberalizing trade in services, had already purchased, the Trade Development Bank of Luxembourg for \$550 million, the Investment House of Shearson Loeb Rhodes for \$930 million and Warner Communications for \$175 million. These and other purchases served to diversify its activities into other service sectors, making it a TSC.¹⁶²

The Concentration of Trade in Services Exports Amongst Very Few Countries

The concentration of services trade within a few companies is paralleled by a concentration of exports of services from even fewer nations. In 1981 the US and UK had the two biggest trade surpluses in services.¹⁶³ More specifically, according to IMF balance of payments statistics for 1983, the five leading countries in total service exports (including investment etc.), the USA, France, the UK, West Germany and Japan combined accounted for 53 percent of total world service exports. The share of the top ten was 73 percent!¹⁶⁴ Furthermore these exports were almost exclusively the preserve of the developed nations, with Singapore being the only developing nation to crack the top 15 in exports. Even more concentrated were the *net positive trade balances in services trade*. That is, if countries with positive net trade balances in services, those that most benefit from trade in services, are separated out from those that are net losers, the percentages of net positive

¹⁶¹Nayyar, "The Political Economy of International Trade in Services", pp. 289-290.

¹⁶²Clairmonte and Cavanagh, "Transnational Corporations and Services", pp. 27-28.

¹⁶³Gavin, "New Horizons in International Trade: Towards Free Trade in Services," p. 194.

¹⁶⁴Kakabadse, International Trade in Services, p. 27.

service trade accruing to key countries is staggering. In 1982, based on OECD statistics, the five leading net positive exporters of services, the US, the UK, France, Italy and Spain, combined, accounted for a staggering 68 percent of total net positive exports in services.¹⁶⁵ This concentration of huge positive service trade balances and the benefits accruing from these positive balances in only a small number of nations is markedly different from trade in goods. Such an uneven pattern of development of trade in services implies from a narrowly-structuralist perspective that countries which had a large surplus in services and for which services constitute a large part of total exports, were likely to have a substantial interest in the liberalization.¹⁶⁶ While the big losers in services trade, those nations which import far more services than they export, countries like Japan, Canada and the developing nations (in fact, the vast majority of nations) would have just the opposite interest *vis a vis* liberalization. Despite this structural condition, countries like Japan and Canada, two nations with extremely large service trade deficits, were important supporters of the American efforts to get services into the Uruguay Round even though they would likely experience even greater foreign entry into their domestic markets.

Overall, the concentration of services trade suggests that while services trade may not have been growing rapidly as a proportion of global economic activity, it was becoming more important to a number of leading multinationals and to key countries, like the United States.

Conclusions

As shall be seen in the following chapter, the concentration of benefits from trade in services suggest that structural analysis may provide important insights into how and why services trade liberalization got to the top of the international agenda and stayed there. The fact the "trade in services" were the almost exclusive preserve of leading multinational companies and the few countries which were home to those companies is of no small significance. However, these structures, which helped to make trade in services an important concern for key actors like the US Government, in the

¹⁶⁵OECD, Services: Statistics on International Transactions, (Paris: OECD, 1992). Based on stats drawn from table A.

¹⁶⁶Nayyar, "The Political Economy of International Trade in Services", p. 287.

absence of an important role for ideas, would also seem to preclude the kind of broad support for liberalizing trade in services which emerged in the 1980s. From a narrowly-structuralist perspective institutionalizing trade in services liberalization into the GATT should have been extremely unlikely. Nevertheless, despite the fact that most service sectors and service firms continued to be organized on a national basis, no effective organized opposition to liberalization emerged.

Throughout the 1980s influential proponents of liberalization like Ingo Walter and Ronald Shelp (of American Express) worried that the longer negotiations on services took the more likely it became that the mass of domestic service industries and firms that benefited from existing protection would organize politically to oppose to discussion of liberalization of trade in services. However, as we shall see, the ideas of proponents of services trade liberalization reached such a level of total consensus in international circles that no organized oppositional discourse was possible. While there is evidence of resistance by some countries and some firms to liberalization in the negotiation phase, this opposition never amounted to questioning the goals of liberalization in principle, or whether services were actually traded, or, perhaps most importantly, whether the GATT was the appropriate forum for negotiations on services. The fears of Shelp and Walter were unfounded. Indeed, the only serious opposition to including services in the GATT was provided by leading developing nations who opposed the move, not due to domestic pressure, but because they questioned the logic of the trade in services argument and because they felt that its inclusion in the GATT should be held back until the OECD nations gave ground on the issues of concern to developing nations. At the very least, the narrowly structuralist approach outlined by Milner in Resisting Protectionism, would seem to be a less than useful guide in explaining the level of support for including the liberalization of trade in services on the GATT agenda.

Chapter #3: The History of the Trade in Services Argument - The Origins of an Idea

"The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas."

John Maynard Keynes, 1935¹⁶⁷

"Our analysis should be concerned with structural change and with the question of human agency."

Stephen Gill, 1995¹⁶⁸

1) Genesis of a New Way of Seeing Exchange in Services

One of the more spectacular aspects of the trade in services story is the speed with which the idea that exchange in services could and should be liberalized became the dominant international view - spectacular because the idea was so new. While debates about the benefits and drawbacks of merchandise trade liberalization have been going on for hundreds of years and trade theory has reached an almost common currency in public debate, no one, not even the most rabid *laissez-faire* disciple had argued that services were being traded and should be liberalized as trade until the 1970s. Despite this, in just over a decade this idea would be institutionalized into the GATT, "This is a remarkably short time if one considers that before 1973 there had been no public discussion of trade in services, no one had thought about the issue in a systematic manner, most people thought that services were not

¹⁶⁷ Feketekuty, International Trade in Services, p. 59.

¹⁶⁸ In Gill, "Theorizing the Interregnum," p. 66.

tradable, and it would have been difficult to find a trade policy official who thought that services had anything to do with trade policy."¹⁶⁹

As has already been mentioned, there had been isolated calls for liberalization of "invisible transactions" prior to the 1970s and several conventions were agreed to which had attempted to liberalize aspects of what would be called services trade. While these agreements remained inconsequential, their very substance illustrates the degree to which prior to the 1970s no one thought of services as a category of international trade. In fact, international discussion of exchange in services rarely ever dealt with *services* even as an economic category, and even rarer still promoted the cause of liberalization; rather, individual service sectors, far from being liberalized, had traditionally been regulated by special industry-specific conventions.¹⁷⁰ Thus, the "trade in services argument", the idea of visualizing international exchanges in service as one sector, as "trade in services", was radically new. In sum, the trade in services argument represented a radical challenge to the existing paradigmatic beliefs regarding services and yet the idea gained ascendancy in a very short period of time. An examination of this history can only leave one with a sense that the dissemination of the idea itself must be considered in any explanation of why services got included on the GATT agenda.

The Origins of Ideas?

For this Chapter there are two overarching questions: 1) Where did the trade in services idea or argument come from ; and, 2) Why did it gain adherents so quickly? While narrowly-structural approaches to the study of IPE have a clear explanation of why one set of ideas becomes popular at a given time, such perspectives have no clear account of where new ideas initially come from. This is because such perspectives assume that ideological preferences spring naturally from the interests of actors. Ideas are nothing more than intellectual hooks used to justify given material interests.¹⁷¹ Inevitably then, such perspectives must assume that there is an inexhaustible supply of such "intellectual hooks" already created and readily available for

¹⁶⁹Feketekuty, *International Trade in Services*, p. 295.

¹⁷⁰Gibbs, "Continuing the International Debate on Services," p. 199.

¹⁷¹Jacobson, "Much Ado About Ideas", p. 285.

interested actors to use or must simply ignore where the cognitive production of new ideas occurs. In either event such a perspective would then ignore where the trade in services argument actually came from, instead starting the trade in services story at the point where US multinationals adopted the ideas as a justification for their interests. Unfortunately, as will be shown below such a perspective not only ignores the actual course of events but also leaves one with the sense that had a small number of intellectuals in London not "invented" the idea then there would have been no such "intellectual hook" available to US service multinationals.

Epistemic Communities, Transnational Historical Materialism and the Origins of Ideas

Based on the hypotheses set out in the opening chapter it should be clear that both the epistemic communities and Transnational Historical Materialism perspectives assume that ideas are produced by innovating intellectuals, an epistemic community in the first instance and a group of organic intellectuals in the latter. The similarities end there.

On the issue of where new ideas come from, the epistemic communities perspective assumes that new ideas are rational responses to some sort of structural change and the resulting intellectual problems posed by uncertainty. Furthermore, the ideas are thought to be issue specific and related only to the assumed structural changes occurring within a delineated sector. In the case of services, Drake and Nicolaidis are emphatic that the trade in services epistemic community is issue specific. "They are services experts, period. They generate ideas specifically to promote a new multilateral project heretofore ignored by the trade policy profession."¹⁷²

The Gramscian-inspired approach of Gill and Cox assumes that ideas are normative and closely related to the hegemonic ambitions of a particular class or class fraction. It also assumes (implicitly) that issue-specific ideas like the trade in services argument are related to broader hegemonic or potentially hegemonic normative discourses. That is, new ideas come in part from emergent interests and in part from broader intellectual currents which pre-condition new analysis. In short, from this perspective we would expect to

¹⁷²Drake and Nicolaidis, p. 40.

see an interaction of the trade in services argument with broader ideological discourses.

The previous Chapter made the point that the trade in services argument could not be seen as simply a rational response to changing structural conditions, since no such changes in the global services economy had occurred prior to the Uruguay Round. Consequently, it is difficult to accept the epistemic communities argument that the trade in services argument a rational response to uncertainty.

On the case of issue-specificity versus the impact of broader intellectual currents, once again the position of the epistemic communities approach may not be an accurate guide to how ideas mattered in the case of trade in services. At several junctures in this Chapter (and in those that follow) a broader intellectual commitment to free trade may have played a significant part in defining actors and intellectuals' attitudes towards the trade in services argument. In fact, as will be seen below, these broader intellectual commitments may even have played a role in helping condition how the issue was first analyzed. That is, the trade in services argument was created in a partisan attempt to apply the intellectual rationales of free trade in merchandise to the case of services.

As to why an idea gains popularity, both perspectives assume that it rests in part in the success of its proponents, whether an epistemic community or organic intellectuals in disseminating the idea, and influencing important actors. However, beyond this basic level of similarity, again the two approaches provide implicit theoretical disagreement. From the epistemic communities perspective an idea gains popularity in large part because of its value to actors as a rational response to emerging uncertainty. From the Coxian perspective ideas become more or less popular in part due their success as an articulation of the ambitions or interests of classes or class fractions and due to their success as hegemonic discourses. As will be seen below, the initial popularity of the trade in services idea in the US, the popularity that really put it on the international agenda, was almost entirely traceable to some US multinationals' recognition that it served their interests - that the idea helped them to better understand what their interests were vis a vis international service regulation, that it helped expand the pro-free trade coalition of multinational companies in the United States, and that it more

successfully articulated the interests of US service multinationals than other ideas had in the past.

The Origins of the Trade in Services Argument

Most observers have placed the origins of the debate about including services in the GATT to the mid-1970s when the US Congress, under pressure from US service-sector multinationals, mandated that the United States Trade Representative (USTR) should seek liberalization of barriers to trade in services in the upcoming Tokyo Round of the GATT.¹⁷³ Such a view, however, not only misrepresents the actual flow of events, but perhaps more importantly misrepresents the pattern of causation involved in these events. This account is logical only if one assumes that the idea spawned naturally from the interests of these companies, and yet as we have already seen no one had thought of international exchange in services as trade before, even though the phenomenon had been occurring for some time. The fact of the matter is that US service multinationals would not have been calling for such a move had they not been handed the idea by a small group of European *laissez-faire* visionaries.

The story actually begins in 1968 when Hugh Corbett, a writer on trade issues, established a new think tank in London, the Trade Policy Research Centre, with the goal of creating a more "informed" public opinion on trade policy and the undoubted benefits of free trade. Rather uniquely, as Corbett was laying out the proposed research agenda for his new Centre, it occurred to him that services were playing an increasingly important role in the world economy, "Indeed, it would have been difficult for an economic observer in London during the 1960s not to be aware of the rapid growth of international services."¹⁷⁴ As a result Corbett commissioned Brian Griffiths, an economist at the London School of Economics, to study international exchange in services and restrictions on transactions in the services sector. This study was the, ". . . starting point for much of the subsequent work in the field of

¹⁷³Murray Gibbs in his brief history of the issue "Continuing the International Debate on Services," Journal of World Trade Law, (1985) pp. 199-201, is illustrative of this assumption which is implicit in many other sources as well.

¹⁷⁴An account of these events can be found in Feketekuty, International Trade in Services, p. 296.

services and the Trade Policy Research Centre . . . [has] played a key role in the development of international thinking on trade and investment in services since that time."¹⁷⁵ The work done at the Centre in these early years established all of the basic concepts of the trade in services argument - that services could be produced in one country and exported to consumers in another, and could therefore be traded despite existing barriers, and flowing logically from the Centre's normative commitments to free trade these flows of trade should be liberalized like other forms of trade. It is important to note this. The Centre's general commitment to free trade played an important role in "conditioning" its analysis of the need for liberalization in services.

First Official Recognition of "Trade in Services"

At the same time as Corbett and Griffiths were first probing the issue of services and their tradability, in September of 1972 the OECD sponsored a "Report by the High Level Group on Trade and Related Problems" as an intellectual basis for the proposed Tokyo Round of the GATT (often referred to as the Rey Group as it was chaired by Jean Rey, a former president of the European Commission). Shockingly, since there was almost no study of the issue, the OECD Report contained a short chapter on "trade in services"; thereby coining the term:

The services sector, like the industrial sector, is experiencing a measure of internationalization and interpenetration. For some countries trade in services is at least as important as, and in some cases more important than, merchandise trade . . . The Group has not made a detailed examination of questions concerning international trade in services. It considers however that, from the point of view of international economic relations, this sector poses problems similar in nature to those met in merchandise trade. Given that services are a sector which seems likely to expand rapidly in countries' economies, the main need is to avoid any tendencies to protectionism and to aim at achieving a more thorough liberalization.¹⁷⁶

¹⁷⁵Feketekuty, *International Trade in Services*, p. 296.

¹⁷⁶OECD, *Report of the High Level Group on Trade and Related Problems*, (Paris: OECD, 1973), p. 63.

What was key is that this was the first time a major international body had taken the position that services were like trade in goods and were subject to protectionism, "The issue had never been framed in this manner by the regulatory agents and institutions governing service industries."¹⁷⁷ Indeed, the report framed all of the crucial arguments which would guide thinking about exchange in services for years to come. It argued without any data that services were being transacted across borders in an ever-increasing volume that was likely to continue and perhaps more importantly that these transactions were analytically the same as trade in goods and should be liberalized in a similar fashion. Thus, the essential ingredients of the "trade in services argument" were born in 1972. The Rey Group suggested that the OECD should undertake steps towards liberalization of services trade while stopping short of actually arguing that the upcoming GATT Tokyo Round should specifically address trade in services.

The Rey Group did not simply stumble on to this idea, nor did it include the chapter on services at the behest of any state or group of businesses with an interest in liberalization. Geza Feketekuty as well as Drake and Nicolaidis have argued that, "The decision to include a chapter on trade in services was largely due to several individuals associated with the preparation of the report."¹⁷⁸ One was Bill Eberle, a prominent American businessman; another was Bertil Ohlin, a Swedish economist, and the third was Sir Richard Powell, who had been extensively briefed by a study group put together by Corbett and Griffiths at the Trade Policy Research Center. This was not the only connection between the Trade Policy Research Centre and the OECD Group. Harold Malmgren, the American trade policy expert who had been hired by Rey to draft the papers used by the OECD in preparing its report was also a long-time friend of Corbett's, "Drawing on their own experiences and those of their associates, they shared the view that services were of growing importance to world trade and that barriers to services would need to be addressed more systematically by governments."¹⁷⁹

While it would not be until 1975 that the Trade Policy Research Centre would finally publish its own work on trade in services, the Centre had

¹⁷⁷Drake and Nicolaidis, p. 45.

¹⁷⁸Feketekuty, International Trade in Services, p. 298. Feketekuty was working for the OECD at the Time.

¹⁷⁹Feketekuty, International Trade in Services, p. 298.

already accomplished more than it could have hoped for by converting at least some participants of the OECD to the cause of trade in services liberalization. Nevertheless, when it published its own study, the Centre turned up the heat by diverging from the OECD's conclusions, arguing that the issue should be dealt with immediately in the Tokyo Round of the GATT. Relatedly, the Centre's members attempted to broaden the dialogue about the issue by publishing numerous pro-service-trade-liberalization articles in their own journal, The World Economy.¹⁸⁰

2) The US Congress Mandates Negotiations on Trade in Services

While this idea that services were traded and should thus be liberalized gained little momentum in international trade policy circles in the early 1970s, despite the OECD Report, they found an instant currency across the Atlantic in the United States:

For American-based TNC's, the "trade" category had a dual appeal. Internally it rolled together a new political coalition of companies from diverse industries by underscoring their common problems and justifying their external demands. Externally, it gave them each a potent discursive weapon with which to advance these demands by redefining industry-specific policies as "protectionism", a charge that was less easily ignored by foreign governments than were ad hoc appeals for regulatory flexibility.¹⁸¹

Given that actual trade in services, although small, was increasingly dominated by only a few multinationals, most of which were based in the US (Companies like, American Express, Citibank, Pan American, Sea Land, AIG, AT&T and EDS), to a certain extent the particular salience of the trade in services argument in the United States was structurally given; simply put, a small number of huge US firms, and the US itself had the most to gain from liberalization of barriers to entry into international service markets and little to lose given the US's already more lax regulatory barriers to international investment.

¹⁸⁰Drake and Nicolaidis, p. 46.

¹⁸¹Drake and Nicolaidis, p. 46.

There were other important factors peculiar to the US. The trade in services liberalization idea potentially could help strategists at the USTR widen the pro-free-trade constituency within the US at a time when some firms and industries were calling for protection.¹⁸² In particular it might help offset the influence of organized labor which was now clearly in the protectionist camp. As well, conditions were ripe for a refocusing of the US trade agenda. In seeking the necessary congressional authorization to participate in the Tokyo Round the US administration had thrown open the door to a relatively wide ranging debate on US trade policy. In this debate the new ideas about trade in services received an open hearing by Government leaders and trade policy experts.

The first US company to promote "trade in services" as an issue to be dealt with by the GATT during the Tokyo Round was Pan American Airways:

Pan American had run into some difficulties in persuading a number of countries that it was as qualified to carry the international mail as the national airline, and it seemed to Pan American that national regulations preventing them from carrying the mail were no different from barriers to trade in goods. Pan American had also run into restrictive regulations on aircraft repairs, which it believed could be dealt with in the context of trade negotiations.¹⁸³

Specific concerns like these were crystallized by Ron Shelp, the vice president of American International Group (at that time the world's largest insurance provider) into a full blown campaign for including services in the Tokyo Round. Shelp, who had previously worked with the International Department of the US Chamber of Commerce on trade issues, realized the full potential that expanding the definition of trade to services held for advocates of liberalization. Shelp believed that if services could be included under the definition of trade then the government would give US exporters of services the same type of support in international negotiations for liberalization that those exporting goods received:

Shelp organized a full-fledged campaign to extend many of the provisions of the United States Trade Act to include services.

¹⁸²Drake and Nicolaidis, p. 46.

¹⁸³Feketekuty, *International Trade in Services*, p. 300.

Representatives from a number of service industries joined the campaign and offered public testimony in hearings organized by the Senate Finance Committee. Persuasive testimony was offered by representatives of the Air Transport Association, The American Institute of Merchant Shipping, and the National Constructors Association.¹⁸⁴

What Shelp had realized was that because of the normative commitments of the trade policy community to free trade, putting services within a trade discourse inherently would help propel the cause of liberalization more effectively than might otherwise be the case. This is an important point to emphasize. What Shelp and other US advocates had recognized from the outset is that policy makers, negotiators and business leaders themselves would more readily support the logic of liberalizing trade in services if the idea were dealt with as an aspect of trade policy and within the discursive limitations of trade theory. It is not clear whether Shelp and his colleagues chose this course because they believed the trade in services argument as laid out in London and Paris or because the argument borrowed from London simply made strategic sense. Nevertheless, this was not the only juncture at which piggybacking the idea of liberalization of exchange in services on the attitudes surrounding trade theory and neo-liberalism more broadly helped to influence outcomes.

As a result of the campaign organized by Shelp, the US Congress decided to expand the definition of international trade in the 1974 US Trade Act to include services, mandating that the US administration should seek liberalization of services in the upcoming Tokyo Round of the GATT. Negotiators were obligated under US law to pursue the goals laid out in the Trade Act.

By 1974 two important trends were emerging. Firstly, the trade in services argument was gaining adherents. "Trade officials seeking new turf and constituencies, politicians wanting to appear farsighted, industry analysts concerned with the operational consequences of competition, academics intrigued by the analytic challenges, corporate lobbyists hoping to legitimate their private agendas - these and other groups were converging around the trendy question of services."¹⁸⁵ Secondly, international debate about

¹⁸⁴Feketekuty, *International Trade in Services*, p. 300.

¹⁸⁵Drake and Nicolaidis, p. 46.

exchange in services liberalization was now encased within the parameters of trade discourse:

Internationally, the predominately Anglo-American analysts who first posed the issues established the terms of discourse to which other members later had to respond. The very act of defining services transactions as "trade" established normative presumptions that "free" trade was the yardstick for good policy against which regulations redefined as non-tariff barriers, should be measured and justified only exceptionally.¹⁸⁶

Despite these mutually reinforcing trends, discussion of services at the Tokyo Round was brief, confused, and produced little in the way of results.

3) Services and the Tokyo Round

The general view of the failure of the Tokyo Round to grapple with services liberalization is that too few people took the argument that services were traded very seriously, or at the very least, most participants did not "understand" the issue. Discussion about services was understandably chaotic then, lacking any sense of what the relevant topics were. "Without a shared causal belief that services were indeed tradable, it was impossible to discuss the question coherently, much less negotiate."¹⁸⁷ Until participants accepted the logic of the trade in services argument little real discussion was possible. Geza Feketekuty of the USTR does not share this assessment, however, stopping short of accepting that no one believed services should be discussed as a trade issue, concluding rather, that discussion was simply premature. "Getting agreement among a large number of countries to initiate comprehensive negotiations on a new topic, particularly a topic as new and as different as trade in services, however, proved difficult."¹⁸⁸

It is interesting to note that despite the Congressional mandate to negotiate on services, made on behalf of the US service multinationals, the US negotiating team (of which Feketekuty was a member) did not take the goal of a comprehensive liberalization of services trade very seriously. It was

¹⁸⁶Drake and Nicolaidis, p. 40.

¹⁸⁷Drake and Nicolaidis, p. 47.

¹⁸⁸Feketekuty, International Trade in Services, p. 191.

felt that the issue was too complex and not well enough understood to proceed along the lines demanded. The US negotiating team itself did not fully understand the issue. Nevertheless, the US negotiators who had to comply with the mandate did push for a number of minor provisions in the Tokyo negotiations aimed at liberalizing services. "On the basis of this strategy, the United States succeeded in inserting references to services in three nontariff agreements [the Government Procurements, Standards and Subsidies Codes]. The three references to services established relatively modest, indirect obligations on the treatment of services and they applied to services only insofar as they affected trade in goods."¹⁸⁹

Despite these "victories", subsequent analyses of the Tokyo Round suggests that many GATT observers and participants thought the discussion of services was insignificant. Indeed, one history of the Tokyo Round written in the midst of the 1980s debate about including services in the Uruguay Round does not even discuss services.¹⁹⁰ Another does likewise, although to an even higher degree in that while discussing the role of the Rey Group in laying the intellectual groundwork for the Round, it completely ignores the Rey Group's discussion of services and the subsequent debate about services at the Tokyo Round.¹⁹¹ While these are only isolated examples, the complete lack of information on the US services initiative at Tokyo is certainly suggestive of the fact that most saw the services issue as a largely irrelevant side show to the more traditional trade issues.

Despite the modest results, however, the farce of services negotiations at the Tokyo Round should not be completely ignored because it did help to set the precedent that services were a trade issue and, in particular, that they were a GATT issue. Feketekuty as a member of the US delegation to Tokyo emphasized this point. Echoing Shelp's realization of the importance of firmly entrenching services within the bounds of the trade policy community, Feketekuty noted that:

¹⁸⁹Feketekuty, International Trade in Services, p. 304.

¹⁹⁰John H. Jackson, Jean-Victor Louis, and Mitsuo Matsushita, Implementing the Tokyo Round - National Constitutions and International Economic Rules, (Ann Arbor, University of Michigan Press, 1984).

¹⁹¹Gilbert R. Winham, International Trade and the Tokyo Round Negotiation, (Princeton: Princeton University Press, 1986), pp. 75-76.

The most fundamental issue with respect to multilateral trade negotiations in services is whether the liberalization of trade is an appropriate objective in services. It is fundamental because the motivation for all multilateral trade negotiations has been to liberalize trade and the whole intellectual framework that supports trade negotiations is based on the proposition that the reduction of trade barriers will generate economic gains as trade expands. There would be very little reason to pursue trade negotiations in services if liberalization were not an appropriate objective.¹⁹²

Essentially, Feketekuty believed that if the case could be made that services were a trade issue, that they were being traded like goods on a previously unheard of scale, it would then be unquestioned by most participants in the trade policy community that services should be liberalized. However, in light of the Tokyo services debacle, the first step would be to convince people that services were indeed being traded like goods.

Conclusions

While it is undoubtedly true that trade in services got on the international agenda initially because of the demands of US service multinationals, this is not the full story. Even though these firms had been selling services internationally for some time they had never thought of defining these activities as "trade" in the past. Despite the fact that the trade in services argument helped to define and legitimate their interests better than had previous ideas about their activities had, they had not "produced" this intellectual justification or "hook" themselves. To the contrary, it took a small group of *laissez-faire* disciples working on the other side of the world to formulate this idea, disseminate it (in part via the OECD), and thereby radically redefine how these companies conceptualized their own interests. This history suggests that it is inappropriate to assume that ideas flow directly from interests. Such a view presupposes that all possible ideas or ways of conceptualizing something are already articulated and are thus readily available to interested parties. However, the trade in services argument had

¹⁹²Feketekuty, International Trade in Services, p. 200.

to be created before it could define and justify the interests of service multinationals.

This is not to say, however, the role of these corporations at this stage should be ignored. Rather, their role is suggestive of a major weakness of the epistemic communities approach. As was shown in the previous Chapter the trade in services argument was not a rational reflection of some underlying change in structure. In this Chapter it was shown that these ideas were created explicitly for normative reasons and became popular for normative reasons. Far from being an issue-specific rational response to uncertainty, a broader commitment to free trade pre-conditioned the Trade Policy Research Centre's thinking about trade in services and this in conjunction with the structural position of service multinationals helps to explain why the idea gained adherents so quickly. Thus, Transnational Historical Materialism's insistence on the normative, interest-defining, and interest-serving nature of ideas, and the need to conceptualize issue-specific ideas as part of broader hegemonic discourses seems a more accurate guide to the origins of the trade in services argument.

Chapter #4 : Broadening Support for the Trade and Services Argument - The Dissemination of the Idea to the Advanced Capitalist Nations

"Trade officials have to be sensitive to the impact of trade policy measures on both the economic interests of different industries and the achievement of policy goals in other areas of domestic and foreign policy. In order to pursue an expansionary trade policy, it is usually necessary to convince a large number of business leaders, workers, and policy officials that proposed measures are fair and advantageous to the country as a whole. The process that is used to manage trade policy is usually as important as the outcome of trade policy."

Geza Feketekuty, 1987¹⁹³

"Trade in Services is the major trade issue of the 1980s. It is time for us to recognize this reality."

Henry Freeman, American Express¹⁹⁴

1) The Intellectual Campaign in Support of the Trade in Services Argument (1974 - 1982)

Following the failure at Tokyo, advocates of liberalization such as Feketekuty at the USTR and those at the Trade Policy Research Centre in London concluded that the main problem confronting the liberalization of services trade was a lack of understanding about the issue:

. . . very few businessmen, including those in the services sector, looked at international service activities in trade terms. In fact, most people, including most economists, thought that one of the principal distinctions between services and goods was that services were not tradable and that economic activity in the services sector was therefore insulated from global economic pressures.¹⁹⁵

¹⁹³Feketekuty, *International Trade in Services*, p. 150.

¹⁹⁴Benz, "Trade Liberalization and the Global Service Economy," p. 95.

¹⁹⁵Feketekuty, *International Trade in Services*, p. 305.

Most trade policy officials also shared these assumptions. What the Tokyo Round had shown was that before services could be seriously dealt with by the GATT these assumptions would have to be changed. National trade negotiators, trade policy experts, business leaders, politicians and involved economists would all need to come to share the beliefs propagated by the Trade Policy Research Centre, the OECD, and US service multinationals that services were traded like goods, that this trade was of growing importance to all nations due to technological change and that these transactions should be liberalized within the framework of the GATT.

In his 1988 book on services, Feketekuty boldly claims that he actually was the first to perceive the need for an international "intellectual campaign" to spread the trade in services gospel and, moreover, he claims to have led this campaign!¹⁹⁶ He asserts that the success in getting services on the GATT agenda was directly attributable to this intellectual campaign. This crusade on behalf of the trade in services argument began slowly, spreading first in the United States and then as it gained momentum many European actors also joined the cause.

Intellectual Campaigns, Epistemic Communities and Transnational Historical Materialism

As it was shown in the previous Chapter, the structural conditions of international services exchange helped to explain why the issue became so popular with US service multinationals. Based on Chapter 2, however, and its documentation of the sharp inequities of international services trade (the concentration of the benefits of such trade amongst only a few companies based in an even smaller number of countries), such conditions would seem to indicate that a broad consensus in support of removing barriers to services trade would have been unlikely if the structure of the international service economy was all that mattered. This fact suggests the need for alternative explanations. I argue that the dissemination of the trade in services argument or idea itself is one factor which played an important, if not key, role in producing that consensus. In short, the ideas and their international

¹⁹⁶Feketekuty, *International Trade in Services*, p. 306. He describes the "plan" of this campaign in some detail on p. 306.

dissemination are an important part of the explanation for how trade in services was institutionalized in the GATT.

Drake and Nicolaidis have argued that governments outside of the US would never have agreed to put services into the GATT had the ideas disseminated by the trade in services "epistemic community" not altered their thinking about international exchange in services. Based on the hypotheses set out in Chapter 1, this Chapter will document the efforts of the trade in services "epistemic community" to enact this change. Two assumptions from the approach are important here:

Firstly, the epistemic communities approach assumes that the success of such a community depends heavily on its access to top policy makers. In fact, normally we would expect important policy makers themselves to be included amongst the ranks of an epistemic community. Epistemic communities are not formal organizations, as "communities" their boundaries are delineated only by members' adherence to the normative and causal commitments inherent in their shared ideas. We would expect then to see clear evidence of the substance of these ideas being adopted by policymakers if we are to accept that the ideas themselves are an important explanation of the emergent consensus in support of liberalization.

Secondly, since whether or not an actor is a member of the community depends on their intellectual commitments rather than the formal positions they hold, epistemic communities normally include members from a variety of backgrounds. Membership can, however, be broken into two broad tiers. Those in the first tier are directly interested parties such as members of governments, formal international agencies, and private firms while those in the second tier are more "purely intellectual" analysts such as, academics, lawyers, industry specialists and journalists. Importantly, the approach contends that while both of these tiers share a conceptual framework and agenda, the latter tier's organizational independence from direct material concerns helps to legitimize the views of the former by giving them a stamp of "neutral" credibility in the eyes of skeptical policy makers.¹⁹⁷ As such, we would expect the intellectual "legitimization" provided by more "purely intellectual" analysts to be an important aspect of the spread of the trade in services consensus.

¹⁹⁷Drake and Nicolaidis, p. 39.

In contrast, Transnational Historical Materialists argue that the formation of an international hegemony requires a far-sighted political consciousness on the part of the intellectual leadership of dominant groups. "The question of conscious action presupposes a group of thinkers and practitioners who can theorize on the nature of global change, and generate concepts which can chart a path towards a reconstructed order."¹⁹⁸ From their perspective the ideas or concepts at the heart of such a hegemonic order are generated by organic intellectuals:

According to Gramsci, any historic bloc requires 'organic intellectuals' to help cement the links between structure and superstructure. These intellectuals are the 'concrete articulators' of the hegemonic ideology which provides cohesion for, and helps to integrate the historic bloc A hegemonic ideology is necessarily produced by, and depends on, a long and difficult, often very contradictory process whereby, 'conceptions of the world are created and destroyed, reformulated, and reconstructed through intellectual activity.' To secure its hegemony, therefore, a dominant class or class fraction needs creative intellectuals 'to elaborate, modify and disseminate its class conception of the world'.¹⁹⁹

Indeed Gill's own work, drawing on Gramsci, has been particularly interested in the role of the institutional frameworks or organizations in which organic intellectuals develop and disseminate their conceptions which help to manufacture such a hegemonic class consciousness. These are 'ideological apparatuses'.²⁰⁰ His work on the Trilateral Commission stressed the role of organic intellectuals working within the ideological apparatus of the Commission in promoting an international class conception of the world.

In the first Chapter it was hypothesized that from this perspective in the case of trade in services we would expect to see a number of important indicators if this method is to be of use. Among these are two of particular importance for this Chapter. Firstly, it was argued that we would expect to see clear evidence of organic intellectuals, working within both private and public international institutions, attempting to define both the transnational class-perspective of trade in services and attempting to make that perspective

¹⁹⁸Gill, American Hegemony and the Trilateral Commission, p. 51.

¹⁹⁹Gill, American Hegemony and the Trilateral Commission, p. 52.

²⁰⁰Gill, American Hegemony and the Trilateral Commission, p. 52.

the hegemonic discourse within global political circles. Below, it will become apparent that the case of trade in services offers a similar opportunity to that of the Trilateral Commission to stress the role of organic intellectuals working within various institutions in helping to produce and disseminate such a class conception of the international service economy - a conception which it can be argued, based on Chapter 2, related materially to only the interests of a few multinational corporations.

Secondly, from this perspective we would expect to see a clear congruence between the ideas generated by these organic intellectuals in regards to services and the broader emergent neo-liberal intellectual hegemony. We would expect there to be clear linkage between the ideas of the trade in services argument specifically and the Anglo-American neo-liberal ideological preferences of Transnational Capital more generally if the details of the trade in services story correspond to the contentions made by Gill and his colleagues.

The Spread of the Trade in Services Argument in the United States' Trade Policy Community

In the late 1970s Hank Greenberg (the president of AIG, and a colleague of Ron Shelp's) was appointed to the Presidential Advisory Committee for Trade Negotiations which, ". . . provided high-level private sector advice to US negotiators, and once on the Committee, Greenberg kept reminding Strauss [the USTR at that time] of the legislative mandate on services."²⁰¹ At the same time, Feketekuty continued to promote the issue both as the USTR's representative on the OECD's Trade Committee and as a special counselor to the USTR. Indeed, he served in the USTR as the defacto "house intellectual" on services.²⁰² The USTR, spurred on by these early converts to the trade in services gospel gradually threw its weight behind a campaign in support of service trade liberalization under the leadership of, ". . . Feketekuty, the most visible, prolific, and influential analyst of the time. His activism in congressional hearings, efforts in organizing interagency and business coalitions, and writing and speaking activities have led some to regard him as

²⁰¹Feketekuty, *International Trade in Services*, p. 305.

²⁰²Drake and Nicolaidis, p. 50.

the 'father of trade in services'."²⁰³ Along these lines the USTR began to circulate a "trade in services" newsletter to those interested in the issue.

Prompted by the interest in services trade in and around the office of the USTR and leading US multinationals, in 1976, the US Department of Commerce conducted the first comprehensive study of the issue, entitled U.S. Service Industries in World Markets. Although this study understandably reflected a US bias, most studies that have followed have in large part merely restated the conclusions of this original study.²⁰⁴ The study argued that the main problem confronting international service companies was investment barriers which often prevented them from operating and owning affiliates abroad. While it has already been noted that this study only emphasized the degree to which exchange in services was really an investment issue rather than a trade issue, these contradictions were never explored at the time as this study was thought to be further proof of the need for liberalization of "trade in services".

The Spread of the Trade in Services Argument Within the United States' Private Sector

Efforts such as these inside the government to increase awareness of services trade were supported by activities of advocates in the private sector aimed both at pushing the government to act and at promoting greater support for the cause amongst the business community. At the same time as Hank Greenberg was repeatedly reminding the USTR of the issue, Ron Shelp, of AIG Insurance, persuaded the US Chamber of Commerce to organize a services committee, which could monitor the Government's response to the 1974 Trade Act legislation and exert pressure on the administration to take the legislation seriously.²⁰⁵

Shelp continued to be a key player in building support for services liberalization, in part due to the number of "hats" he wore. Shelp was a member of the OECD's Business Industry Advisory Committee, he headed the US Chamber of Commerce Services Committee (which he had worked to create) and he chaired the Industry Sector Advisory Committee on Services.

²⁰³Drake and Nicolaidis, p. 50.

²⁰⁴Benz, "Trade Liberalization and the Global Service Economy," p. 101.

²⁰⁵Feketekuty, International Trade in Services, p. 305.

His most important contribution, however, may have been his own intellectual contribution to the campaign, his influential book, Beyond Industrialization.²⁰⁶ The book, while supporting the assumptions of the trade in services argument, also called for a new round of GATT negotiations on the issue.

Shelp was not the only business leader involved in the campaign at this time. American Express executives, Henry Freeman and Joan Edelman Spero, also became active, participating in conferences, publishing articles and lobbying officials to promote service trade liberalization. Spero and Freeman, ". . . also used their membership in a variety of business organizations and public policy research institutes to persuade these organizations to launch research studies on trade in services."²⁰⁷ Their work would not go unrewarded for long:

Through the efforts of Shelp, Freeman, and others a long list of organizations and institutions became involved in carrying out studies of trade in services, in sponsoring seminars and conferences, and in passing resolutions in support of trade negotiations on services. The list of organizations includes the US Council of Foreign Relations, the National Foreign Trade Council, the Committee for Economic Development, the Conference Board, the Center for Strategic and International Studies, and the American Enterprise Institute.²⁰⁸

As well, the US Chamber of Commerce and the US Council for International Business launched similar activities.²⁰⁹

Perhaps most crucial at this stage was the US Chamber of Commerce's survey of barriers to service trade conducted on *behalf* of the USTR:

The data collected from that survey, organized by industry and type of barrier, provided the first comprehensive overview of the barriers faced by businesses engaged in international trade in services. This document which has come to be referred to as the US

²⁰⁶Ronald K. Shelp, Beyond Industrialization: Ascendancy of the Global Service Economy, (New York: Praeger, 1981). Drake and Nicolaidis identify Shelp as the second most important individual, after Feketekuty, in promoting the issue of trade in services liberalization.

²⁰⁷Feketekuty, International Trade in Services, p. 308.

²⁰⁸Feketekuty, International Trade in Services, p. 309.

²⁰⁹Drake and Nicolaidis, pp. 49-50.

Trade Representative's Inventory, remains one of the most detailed sources of information about barriers in this area.²¹⁰

In response to the study, the USTR established a Services Policy Advisory Committee, made up largely of chief executive officers of major firms in each of the major service industries.

The Spread of the Trade in Services Argument Outside of the United States

In London, the Trade Policy Research Centre continued to play a leading role in promoting trade in services, organizing conferences around the world. Feketekuty in his book, emphasized the particular importance of the Centre in these early phases of the issue. "Studies sponsored by the Trade Policy Research Center . . . provided a growing body of literature on trade in services that could be used as background material by governments when preparing their position on issues discussed in the OECD and the GATT."²¹¹ The Centre also used its journal, The World Economy, as a forum to give researchers an opportunity to publish articles on trade in services at a time when mainstream journals would not accept them.²¹²

The Centre was not alone in its efforts. The International Chamber of Commerce also played an important role in promoting the issue. "Hans Svedberg, a Swedish businessmen became the head of a services working group in the International Chamber of Commerce, and this group produced a clear and forceful statement in support of negotiations on services in 1981."²¹³ This move should hardly be surprising since the head of the International Chamber's Trade Committee was Bill Eberle, one of the three OECD Rey Group members who had first put the issue on the international agenda in 1972!²¹⁴

By the end of the 1970s a whole range of international organizations joined the ranks of supporters of trade in services liberalization, promoting the issue by organizing international conferences, ". . . including the World

²¹⁰Feketekuty, International Trade in Services, p. 309.

²¹¹Feketekuty, International Trade in Services, p. 310.

²¹²Feketekuty, International Trade in Services, p. 310.

²¹³Feketekuty, International Trade in Services, pp. 310-311.

²¹⁴Feketekuty, International Trade in Services, p. 310.

Bank, the Center for the Study of International Negotiations in Geneva, the Center for Transnational Corporations in New York, the Atwater Institute in Montreal, *Promethée* in Paris, and the Services World Forum, a private support group headquartered in Geneva."²¹⁵ As well, the informal trade in services newsletter which had been produced and distributed by the USTR was replaced by a number of private sector publications. The Coalition of Service Industries in the United States, the Liberalization of Trade in Services Committee (LOTIS) in the United Kingdom and *Progress* in Geneva all took on the task of producing and distributing newsletters that kept supporters informed of progress.

The Role of United States-Based Multinationals in the Intellectual Campaign:

Given the structures of international exchange in services it should hardly be surprising to note that U.S.-based multinationals also played a role in disseminating the idea:

Anticipating new protectionism at a time when services were increasingly important, American-based TNC's endeavored to refocus the international agenda. In a variety of multinational business associations, American firms urged their foreign counterparts to take up the cause. This was no easy task, since some of them benefited from protection. But those oriented toward global markets were learning the potential advantages of liberalization, and given the mood in Congress, their acceptance of increased competition at home might be an acceptable price to pay for continued access to the lucrative American market.²¹⁶

Because of the involvement of many US MNCs, some, like Murray Gibbs for example, have argued that the inclusion of services on the agenda of "various international organizations" has been driven primarily by US public and private sector pressure:

To support its initiatives in GATT, the United States attempted to develop an international consensus for negotiations on services, inter alia, by supporting academic research and high level seminars, and through a work program initiated in the

²¹⁵Feketekuty, *International Trade in Services*, p. 311.

²¹⁶Drake and Nicolaidis, p. 49.

OECD. These various activities shared a common characteristic, service issues were invariably presented in a trade context, using terminology and concepts borrowed from GATT and other trade agreements.²¹⁷

While there is some truth in this view, the emphasis on the role of the US ignores the fact that many of the international organizations that were rallying to the cause of liberalization such as the International Chamber of Commerce, LOTIS in the United Kingdom, Progress in Geneva, and the World Bank were not simply shells for promoting US interests.²¹⁸ Indeed, while Gibbs' point is well taken it needs to be added here that the support of many of these non-American groups helped to broaden support by legitimizing the sectional interests of US multinationals. Indeed, this is one of the epistemic communities approach's main arguments; that those who do not appear to have objective interests in a cause help lend credibility to the demands of those who do. Academics publishing for the Trade Policy Research Centre and support from the International Chamber of Commerce etc. undoubtedly helped alleviate the sense that US service giants might have been bamboozling other countries with the trade in services idea. The support of these groups lent credibility to the idea itself and helped to legitimate its basic assumptions.

While more and more international institutions were joining the cause, events back in the United States were increasing the pressure for liberalization. In 1979 William Brock became the USTR and he proceeded to take services far more seriously than they had been in the past.²¹⁹ Indeed, the Foreword to Feketekuty's book on trade in services published by the American Enterprise Institute (more on this below) was written by Brock. In this Foreword he went on record, in hindsight, with his views on the matter, affirming many of the assumptions of the trade in services argument.²²⁰ In

²¹⁷Gibbs, "Continuing the International Debate on Services," pp. 199-200.

²¹⁸Gibbs' argument here reflects a tendency in much of the literature on services to overemphasize the role of the US Government. This is hardly surprising since such an argument flows logically from the prevalence of narrowly-structuralist analysis in the study of trade policy. Since the US from a structural perspective had the most to gain from such a deal on services it is simply logical to conclude therefore that it must have been the US Government that forced the creation of the GATS.

²¹⁹Feketekuty, International Trade in Services, p. 305.

²²⁰Feketekuty, International Trade in Services, p. xviii.

the following section Brock's importance will be evidenced as he was perhaps most responsible for getting trade in services included in the 1982 GATT Multilateral Meeting, the first step in getting it included in the Uruguay Round.²²¹ Brock made services a top US priority in the next round of GATT negotiations.

Brock's commitment to the cause was in part driven by events in US domestic politics. According to Murray Gibbs, the incoming Reagan Administration made services a top priority. This increased interest was due to a number of factors. Firstly, the Reagan people wanted to find an issue to match the Carter Administration's Tokyo Round accomplishment. Also, with its stated *commitment to free trade*;

. . . the Reagan Administration obviously had an interest in encouraging the formation of a coalition among international service industries which could throw its weight on the side of other liberal interests (e.g. agriculture), to offset the traditional protectionist lobbies (e.g., textiles and clothing) which had been growing in strength due to the shift of most organized labor to the protectionist camp.²²²

Once again, it is interesting to note at this juncture how an overall ideological commitment to the free market and free trade helped to predispose the Reagan Administration's thinking about trade in services.

2) Services and the Uruguay Round Agenda?

Drake and Nicolaidis argued that by 1980, an epistemic community had clearly emerged around services. A group of intellectuals, policymakers and business leaders with shared causal and normative commitments had attached themselves to the services issue.²²³ At this point the trade in services community's influence was more. ". . .intensive than extensive. Internal influence was strong and skewed as classical liberal thinking in the American mode shaped the agendas of those who were aware of the issues. But external influence on policymakers outside of the United States and

²²¹Feketekuty, *International Trade in Services*, p. xix.

²²²Gibbs, "Continuing the International Debate on Services," p. 200.

²²³Drake and Nicolaidis, p. 49.

Britain was still weak, as their interest in the subject was tentative and weak."²²⁴ Regardless of their limit scope, however, the impact of the pro-liberalization community on international thinking about services quickly gained momentum. Specifically, calls for serious negotiations at the GATT became more numerous and emanated more frequently from sources outside of the US government.

By 1981 the International Chamber of Commerce in Paris, already supportive of the trade in services argument was demanding the liberalization of services:

A vigorous and comprehensive liberalization of international trade in services is now urgently necessary. The International Chamber of Commerce therefore urges all governments to enter into reciprocal and mutually advantageous undertakings to reduce impediments to international trade in services in as far-reaching a manner as possible The ICC believes that the inclusion of trade in the international market economy system is the best guarantee for the continued growth of international trade in both visibles and invisibles. In calling on governments to liberalize trade in services, the ICC recognizes that, as in the case of trade in goods, *free trade in services is the standard against which the liberalization process should be measured.*²²⁵

Indeed the ICC now endorsed the concept of a new round of serious GATT negotiations on services. A number of other business lobbies quickly followed suit.²²⁶

The OECD Enters the Fray Again - The OECD Study of Trade in Services (1979-1980)

Perhaps the most important event in this period was the OECD's decision in 1979 to undertake its own study of trade in services. OECD discussion about services liberalization had actually been stalled throughout the 1970s due to disagreement between Anglo-American and European analysts over the issue. Disagreement had centered on whether OECD research on services should be undertaken by the Trade Committee or the

²²⁴Drake and Nicolaidis, p. 50.

²²⁵Feketekuty, International Trade in Services, p. 71.

²²⁶Drake and Nicolaidis, p. 49.

Invisibles Committee which had traditionally had responsibility for services.²²⁷ In 1979 it was decided that the long-awaited study should be done by the Trade Committee. Of course, the very decision that services were a trade issue is itself suggestive that the OECD was rapidly moving towards support for the trade in services argument. Even more interesting, this study did not set out to study trade in services per se, but *barriers* to trade in services, seemingly already to have completely accepted the logic that international exchanges of services were trade!²²⁸

The US, which provided much of the work for this report, simply updated the US Chamber of Commerce's 1976 study of foreign service trade barriers and submitted it to the OECD as the basis of the larger project. Other countries then performed similar indexes for the study. These research programs were conducted along analytical lines and assumptions identical to those used by the early "epistemic community analysts" or "organic intellectuals" in the private sector, like those of the Trade Policy Research Centre.

The OECD Trade Committee was now the focal point for a reevaluation of services transactions and regulations across member countries. Other OECD committees responsible for individual industries submitted background papers, as did governments, TNC's and independent analysts. These assessments indicated that services liberalization might well invigorate a sluggish world economy, offset declining competitiveness and protectionism in goods markets, and yield gains for countries other than the United States. Governments began to reassess the parameters of their reticent stances, and the OECD ministers declared in 1981 that GATT negotiations merited further consideration.²²⁹

In relatively short order, the Trade Committee had come to share the assumption of the USTR and other advocates of liberalization that trade concepts could be applied to services. This led to a decision to draft a document that laid out the key concepts and principles that *could* serve as the foundation for a future trade regime for services. This document, Elements

²²⁷Feketekuty, International Trade in Services, p. 314.

²²⁸Feketekuty, International Trade in Services, p. 315.

²²⁹Drake and Nicolaidis, p. 51.

of a conceptual Framework for Trade in Services²³⁰, was not published for public consumption until 1987, although work had been completed as early as 1981-1982.²³¹ The paper essentially enshrined a conceptual consensus within the OECD that services could be treated as analytically similar to trade. Indeed, the OECD Trade Committee's work on services biggest ". . . achievement [had] been developing a conceptual framework for service trade modeled on fundamental GATT principles such as national treatment, which requires that imported merchandise receive regulatory and fiscal treatment equivalent to domestically produced products, and transparency of regulations and rules affecting trade."²³²

The Results of the Intellectual Campaign

The key at this point of the story was that the fundamental beliefs of the trade in services argument had already crystallized among many international business leaders and were becoming intellectual givens when "services trade" was discussed by many policy makers. These were that:

[S]ervices, and in particular, business services were increasingly viewed as a productive new locus of wealth creation; as independent outputs in a lucrative market instead of derivative inputs to goods production; as measurable in value; as continuous rather than ephemeral and temporary . . . as traded between different entities rather than jointly provided by cartel members; as moving across borders through identifiable delivery paths (via networks or via the movement of suppliers); and, above all, *as a coherent class of activities subject to similar regulatory NTBs and meriting liberalization under a common set of general trade principles* [sic].²³³

In short, more and more actors were now accepting the basic assumptions of the trade in services argument.

It was within this increasingly prevalent way of seeing and conceptualizing exchange in services that international calls for including the

²³⁰OECD, Elements of a conceptual Framework for Trade in Services, (Paris: OECD 1987)

²³¹Feketekuty, International Trade in Services, p. 318.

²³²Shelp, "Trade in Service", p. 72. See this article for information on the work done by the OECD's Trade Committee on services prior to the opening of the Uruguay Round.

²³³Drake and Nicolaidis, p. 50.

issue as a full negotiating item in the Uruguay Round would be dealt with by trade ministers. Simply put, in the few years that had passed since the end of the Tokyo Round, by 1980-81, many of the basic assumptions about services had begun to change.

Getting Services In the Uruguay Round

Observers of the lead-up to the Uruguay Round were extremely skeptical about the possibilities of services being fully integrated into the GATT. Indeed, Robert Gilpin (a leading structuralist) felt that there were significant obstacles to the possible liberalization of services. "Understandably, then, negotiations for increased economic liberalization in the service industries are extremely sensitive politically and raise the issue of whether a greater harmonization of domestic societies is necessary."²³⁴ Because of this he believed that the attempt to liberalize services via the GATT would not prove to be successful.²³⁵ Nevertheless, supporters would gain momentum quite quickly, largely due to the influence of the trade in services argument. "The analytical work and the discussions that have taken place in the OECD over the past eight years [had] created a substantial consensus among developed countries on the desirability of launching negotiations on trade in services in the GATT."²³⁶

In the autumn of 1982 the GATT convened its first Ministerial Meeting since the launching of the Tokyo Round in 1973, when services had first been raised tentatively by the US (before it and everyone else fully "understood" the issue). At this meeting the US proposed that those laying the groundwork for the next round should be prepared to include services. William Brock, the USTR, emphasized that the US intended to place particular emphasis on the new issues of intellectual property and services. Interestingly, prior to the meeting, Brock put forward his ideas on how GATT negotiations could include services in an article entitled, "A Simple Plan for

²³⁴Robert G. Gilpin, "The Implications of the Changing Trade Regime for US - Japanese Relations," in T. Inoguchi and D. L. Okinato eds., The Political Economy of Japan - Vol. 2 - The Changing International Context, (Stanford: Stanford University Press, 1988), p. 146.

²³⁵Gilpin, "The Implications of the Changing Trade Regime," p. 146.

²³⁶Feketekuty, International Trade in Services, p. 191-192.

Negotiating Trade in Services," in The World Economy, which of course was published by the Trade Policy Research Center in London.²³⁷

Despite the recent Ministerial Declaration of the OECD, many felt that the US proposal to include services on the negotiating agenda of the new round was extremely premature. The European Commission, for example had just launched its own inter-services group to assess the issue:

Members of the EC were uncertain about their competitiveness in liberalized markets, worried about preserving existent regulatory objectives, and skeptical about the applicability of traditional trade concepts and principles to some service transactions. Hence, during the ministerial meeting the EC representative did not oppose further exploration, but neither did he commit to the idea of services negotiations.²³⁸

The developing nations rejected both the proposals of the US and their "conceptual claims". The Group of 77, led by Brazil and India of the Group of Ten, completely, ". . . unaffected by the epistemic community analysis of the trade properties of services. . . " and argued that the GATT regime had no legal jurisdiction over economic exchanges in services.²³⁹

Despite this opposition, the Ministers kept the possibility of services negotiations alive by putting the issue on the back-burner, delaying a decision by calling for national studies of the issue to be presented for review at the 1984 Session of the Contracting Parties before any final decision was made. At the time, proponents of liberalization were quite pleased with this decision. Joan Edelman Spero, of American Express commented that the decision by GATT Ministers to call for studies of the issue, ". . . legitimates trade in services in a way that no other international agreement has done before. It sets the stage for the next crucial step towards liberalization of trade in services . . .".²⁴⁰

Once the GATT made this call for national studies things really got underway, ". . . governments not only needed substantive input on the nature and trade properties of services transactions but also needed strategic

²³⁷ William Brock, USTR, "A Simple Plan for Negotiating Trade in Services," The World Economy, 1982.

²³⁸ Drake and Nicolaidis, p. 52.

²³⁹ Drake and Nicolaidis, pp. 52-53.

²⁴⁰ Joan Edelman Spero, "Trade in Services: Removing Barriers", PS Winter, 1983, p. 23.

input on what liberalization might mean for their national policies and capabilities."²⁴¹ The U.S. developed its own comprehensive study for presentation to the GATT secretariat and its trading partners.

It argued that services were growing in international economic importance and noted the central role of the information revolution in spurring this development. The report also stressed that deregulation of many service industries would help the US economy and argued that liberalizing service trade according to the GATT rules would benefit the world economy as much as had freer merchandise trade.²⁴²

These arguments were backed up with a number of statistics, none of which grappled with the reality of the lack of growth in the scale of international exchange in services:

The economics driving the U.S. effort - which is heartily endorsed by Congress - are impressive. The United States is the world's first and largest service economy, with 75 per cent of its work force employed in service industries and 69 per cent of the gross national product (GNP) produced by services. Job creation has been spectacular: Seventeen million out of twenty million jobs created in the 1970s were in services. Further the United States has a competitive edge in many services such as insurance banking, and motion pictures, and the services associated with the explosion of information technologies - data procession and data base services, satellite transmissions and similar telecommunication services.²⁴³

Fifteen other countries (including Canada, the UK, the Netherlands, Japan, Sweden, Finland) and the EC Commission completed similar studies that reached the same conclusions.²⁴⁴ Essentially, what happened was that after these industrialized countries "did their homework", that is performed their own focused study of the issue based on the logic of the trade in services argument, their positions shifted quite rapidly as they came to believe that they also might *gain* from liberalization. As such, this was a crucial turning point according to Drake and Nicolaidis' epistemic communities approach

²⁴¹Drake and Nicolaidis, p. 54.

²⁴²Shelp, "Trade in Services", p. 73.

²⁴³Shelp, "Trade in Services", p. 76.

²⁴⁴Shelp, "Trade in Services", p. 73.

and for that matter Transnational Historical Materialism. It was only at this point that actors, responding to the ideas propagated by the "epistemic community" or "organic intellectuals", began to redefine their perceptions of self interest in accordance with these new ideas.²⁴⁵

The cases of Japan and Canada, two of the first countries to complete studies supportive of the US position, are illustrative of the degree to which these countries' positions are surprising unless it is understood that their thinking may in part have been conditioned by the assumptions of the trade in services argument. Japan and Canada were consistently two of the largest, if not the largest, deficit nations in international exchange in services. Both countries already "imported" a great deal of services and had developed only a very limited capacity to "export" services. While nothing conclusive can be said in either case, the dissemination of ideas does seem to be an important consideration in both instances.

Observers at the time argued that based on past evidence the Japanese government would be automatically hostile to the US demands for the liberalization of services trade. "US demands on Japan to open its economy in these areas are resisted because they are perceived to threaten Japanese cultural values and national self sufficiency in strategic sectors."²⁴⁶ At the time there were growing tensions in US-Japanese relations over services. American analysts were concerned that closed and regulated Japanese service markets (particularly financial services) were preventing US firms from succeeding in the Japanese market; thereby, advantaging Japanese firms in international competition. This "led to concerns that regulatory practices and *Keiretsu* ["oligopolistic practices"] in Japan are creating the same sort of bastion market in banking that US firms have faced in other businesses."²⁴⁷ These charges were not without basis. The Japanese government had in fact been attempting to limit the intrusion of US service providers into the Japanese market in response to the US "trade" surplus in services which had grown to about \$10 billion a year. Essentially, by incorporating select US companies into Japan's domestic service oligopolies, the Japanese government hoped to give some of the more vocal US supporters of a more

²⁴⁵Drake and Nicolaidis, p. 56.

²⁴⁶Gilpin, "The Implications of the Changing Trade Regime", p. 145.

²⁴⁷C. Fred Bergsten and Marcus Noland, Reconcilable Differences? United States-Japan Economic Conflict, (Washington: Institute for International Economics, 1993), p. 170.

"open" Japanese services market a stake in the status quo. "Once in, the incumbent US firms lose interest in liberalization per se and discourage the US Government from continuing its pressure."²⁴⁸

Despite the weak position of Japan in international services trade, its historical hostility to opening its own services market and its attempts to mute the opposition of US firms to existing anti-competitive practices, surprisingly, "Japan was the first country to join the American cause and was soon followed by Britain, Canada, France and Switzerland. Japan's national study had shown a trade deficit in services, but the new thinking in and out of government circles was that a regime could stimulate regulatory innovation *and the growth of an export capability* while deflecting criticisms on trade in goods."²⁴⁹ Indeed, Japan's support for negotiations on services was not simply a strategic move to avoid discussion of Japanese protectionism in goods trade; attitudes had begun to change in Japan:

[The] steps Tokyo is taking suggest much more than a public relations ploy. Prime Minister Yasuhiro Nakasone, in a little-noticed speech in New York following the Williamsburg, Virginia, economic summit in 1983, discussed extensively the challenge Japan faces in transforming itself into a post industrial society. Since then, the Ministers of Foreign Affairs and International Trade and Industry, as well as the Planning Agency, have undertaken major research programs on services. Several Government-led business delegations have visited the United States and Western Europe to examine their service industries. Every indication suggests that Japan views a strong service sector as essential to its future competitiveness.²⁵⁰

Essentially, the Japanese government had come to believe that liberalization of services might be in their interest because it might create new opportunities for developing an export capacity. Obviously, to believe this the Japanese government had to believe that it was possible to meaningfully export services on a large scale; that is, they first of all had to accept the trade in services argument.

It should also be noted that Japanese business leaders in the period leading up to the start of the Uruguay Round were thought to be moving to a

²⁴⁸Bergsten and Noland, *Reconcilable Differences*, p. 159.

²⁴⁹Drake and Nicolaidis, p. 57. See also Shelp, p. 80.

²⁵⁰Shelp, "Trade in Services", pp. 80-81.

more anti-statist, neo-liberal set of ideological preferences across a range of issues mainly touching on the level of *internal regulation* within the Japanese economy.²⁵¹ This also may have played a role in conditioning Japan's thinking about trade in services. Indeed, Fred Bergsten and Marcus Noland, two experts on US-Japanese economic relations, argued that attitudes towards services regulation began to change in the 1980s. According to them the Japanese Government was sincerely interested in changing course towards significant service sector deregulation.²⁵² Indeed, following Japan's decision to support the US services initiative it would seem that Japanese companies increased their efforts to export more services in those sectors where such exports were possible. In 1990 accusations surfaced amongst a number of US banking experts that Japanese companies were "dumping" financial services on the US market in order to expand their market share.²⁵³ While all this is certainly suggestive that Japanese thinking may have been influenced by the ideas of the trade in services argument - that it was possible to meaningfully export a large number of services - it is important to recognize that an overall adoption of neo-liberal principles may have played a role in this change of heart on service sector openness. Once again, this directs attention to the role of broader ideas - in this case the emergent hegemony of international neo-liberalism - in the trade in services story, rather than the issue-specific influences of the trade in services argument by themselves.

In Canada, the federal government formed an independent task force to assess what its interests might be in negotiations on services. Despite Canada's poor performance in international exchange in services and the potential vulnerability of many Canadian service industries such as banking to competition from more competitive US service companies, the Canadian study supported the idea of GATT negotiations on services.²⁵⁴

This needs to be emphasized. Canada amongst all the OECD nations was in perhaps the weakest position *vis a vis* international trade in services due to its physical proximity to the US, its (largely) shared linguistic community

²⁵¹See Allinson, Gary D., "Japan's Keidanren and Its New Leadership", Pacific Affairs, (Fall, 1987), No. 60, pp. 385-407.

²⁵²Bergsten and Noland, Reconcilable Differences, pp. 170-171.

²⁵³Bergsten and Noland, Reconcilable Differences, p. 170.

²⁵⁴Shelp, "Trade in Services", p. 78.

with the US, and the fact that US service companies already had a strong foothold in many Canadian service sectors. In fact, cultural content laws and investment restrictions were perhaps the only thing preventing a full integration of the Canadian services market into the web of US service multinationals. A deal at the GATT which for instance would remove barriers to investment in industries like broadcasting or barriers to the distribution of US books and magazines in Canada could in all likelihood remove the last protection Canadian service companies have from being squeezed out of the domestic services market entirely. Nevertheless, the Canadian government strongly supported the US initiative.

This support is very difficult to explain if one were to consider only Canada's structurally-determined interests on this issue. However, in the absence of clear evidence which proves a key role for ideas little can be said here other than that it would seem illogical to conclude that the dominance of neo-liberal, deregulatory and pro-free trade ideas in Canadian business and policymaking circles played no role. In fact, the ascendance of these ideas in Canada during the 1980s makes the Canadian government's position none too surprising. Indeed, similar arguments were often made about Canada's likely lack of competitiveness in the Canada/United States Free Trade Agreement or the North American Free Trade Agreement (NAFTA) for that matter (and thus what Canada's true material interests *vis a vis* those agreements were) and yet in both instances the government chose the path of liberalization. Little can be said conclusively, however.

Nevertheless, it is interesting to note how the closed network of trade policy experts may have played a role in orienting Canada's national study on services trade. Indeed, it once again suggests the importance that placing services in the trade policy context had on promoting liberalization. The Canadian Government, as part of its research on services prior to the Uruguay Round, conducted a major study in cooperation with the Institute for Research on Public Policy. Rodney de C. Grey, a veteran Canadian trade negotiator (rather than an expert on services regulatory frameworks) who had worked at the Tokyo Round was commissioned to do the project. Interestingly, Feketekuty had also worked on the US team at Tokyo and it should hardly be surprising therefore that for advice on the project de C. Grey

went straight to Feketekuty!²⁵⁵ He also consulted Murray Gibbs, Harold Malmgren, and Gary Sampson, all strong advocates of the trade in services argument, and it is therefore not surprising that de C. Grey's study affirmed the trade in services argument in its entirety.²⁵⁶

While the discussion of Japan and Canada's positions on the trade in services issue and the precise motivations for their support must remain somewhat tentative, it does seem that the impact of ideas, and their adoption by important policymakers at this point was crucial. In order for countries like Canada and Japan to support the idea of negotiating services liberalization via the GATT they had to accept *at a bare minimum* the tenets of the trade in services argument. They had to accept that this was a trade issue, or at least a "trade-like" issue that could be dealt with by the GATT. As such, they had to believe that there was actually a great deal of this trade occurring rather than just investment. Since this was not the case, the importance of ideas at this stage would seem to be crucial. Despite the fact that the scope of such trade had been consistently overestimated, most developed countries now saw the inclusion of services in the GATT as an opportunity to expand their own exports.²⁵⁷ Policymakers in these countries also had to accept the application of trade theory to trade in services in that agreement to discuss services liberalization seems to presuppose that such a move would not only offer potential for new exports to individual states and companies but also would be welfare-maximizing since that is the entire assumption behind trade negotiations.

The epistemic communities and Gramscian-inspired methodologies seem very salient here in that the uncertainty surrounding the wholesale application of trade theory to services seemed to have been eroding as governments increasingly re-aligned their interests in accordance with the causal and normative assumptions made by trade in services advocates. The chaos of discussion about services in the Tokyo Round, the uncertainty of what issues and interests were involved, was being replaced by a consensus

²⁵⁵Rodney de C. Grey, "The Services Agenda", The Institute for Research on Public Policy, 1990, p. xix.

²⁵⁶See de C. Grey, "The Services Agenda".

²⁵⁷Jock A. Finlayson and Ann Weston, The GATT, Middle Powers and the Uruguay Round, Middle Powers and the Uruguay Round, Middle Powers in the International System, No. 5, (Ottawa: The North-South Institute, 1990), p. 28.

that services could and were being traded on a revolutionary scale and a normative commitment that they should be liberalized in the GATT. Indeed, Joan Spero of American Express argued at the time that it had been extremely difficult for negotiators up to this point to talk about services because, perceiving ones interests was difficult in the "absence of a uniform, universally accepted data base."²⁵⁸ The lack of understanding of how service trade "worked" and what asymmetries of interest were involved had made negotiation impossible up to this point. As a result of both the OECD study and the GATT national studies most national trade negotiating teams from Advanced Capitalist States were coming to share the views of the United States by 1983-84.²⁵⁹ They were now defining their interests around the possibility of negotiations in accordance with the ideas produced at the Trade Policy Research Centre some ten years earlier.

Indeed, analysts from well outside of these two methodological paradigms have made surprisingly similar arguments about this stage of the process. For example, for Stephen Benz this was an important step because:

Before constructive work [could] take place, there first has to be *an adequate theoretical and numerical framework for policy analysis* in the framework of international services trade and investment The first necessity then before liberalization can occur, is for us to be able to understand and track the flows of our modern complex service economies. . . . The Europeans have been wary of granting any concessions without first having an adequate data base, which is why up to the present time most of the activity in international forums on services has consisted of the submission of country studies.²⁶⁰

The studies produced at this stage along lines based on the analytical assumptions of the trade in services argument provided a "data base" or better put, a shared basis of causal assumptions upon which discussion could proceed.

The Emerging International Policy Consensus Outside of the Trade Policy Community

²⁵⁸Spero, "Trade in Services: Removing Barriers", p. 18.

²⁵⁹Feketekuty, *International Trade in Services*, p. 319.

²⁶⁰Benz, "Trade Liberalization and the Global Service Economy," p. 98.

At the same time as national trade negotiating teams from developed nations were reevaluating their stances towards trade in services, moving towards consensual support for the trade in services argument, there was an equally clear consensus emerging within international political circles. While developed nations' trade negotiating agencies were compiling their GATT studies in preparation for the 1984 Contracting Parties Session a consensus in support of institutionalizing services trade into the GATT was growing. Within international academic and intellectual circles a high level of consensus about the fundamentals of trade in services had already emerged. "Disagreements were confined to the issue of which GATT principles and processes were right for which transactions, rather than to the question of whether services should be treated as trade in the first place."²⁶¹ It is also important to note that at this stage, as the likelihood of actual negotiations grew, pro-liberalization forces recognized that actual liberalization would be a slow process of progressive opening of markets rather than an immediate elimination of barriers. Advocates realized the application of GATT principles would involve a slow and gradual process of liberalization. As such they focused most of their attention on campaigning only for the inclusion of services into the GATT framework, thereby institutionalizing the goal of liberalization, rather than campaigning for specific liberalizations.²⁶²

Supportive arguments in favor of the move were numerous. Dozens of journal articles appeared arguing the basic presumptions of the pro-liberalization movement, "They generated dozens of articles in new newsletters such as The Service Economy and in established economic journals such as The World Economy, and the Journal of World Trade Law."²⁶³ Indeed, a whole new set of arguments began to emerge. Ronald Shelp , Joan Edelman Spero (who were now colleagues at American Express) and Steven Benz all in various published articles argued that protectionism was actually *growing* in international services trade. Shelp actually argued that rising protectionism was the "real concern" behind the movement.²⁶⁴ Benz, although he offered nothing in the way of specifics, argued that

²⁶¹Drake and Nicolaidis, p. 60.

²⁶²Drake and Nicolaidis, p. 63.

²⁶³Drake and Nicolaidis, p. 59. See footnote at the bottom of the page.

²⁶⁴Shelp, "Trade in Services", p. 77.

"barriers to trade in service are growing in scope and severity New barriers are beginning to arise over some previously unrestricted national service markets in the area of electronic communications and information transmittal."²⁶⁵ Spero argued much the same, although again with no evidence:

With the increasing importance of services to national economies and to trade these barriers have become more significant and more onerous. Moreover, in a time of recession, protectionism is growing against services as well as goods. . . . Barriers against the flow of services are putting a brake on the development of some of the most dynamic sectors of an increasingly interdependent world economy . . .²⁶⁶

Indeed, in all of the literature on trade in services no article to the knowledge of this author ever offered an example of a newly erected barrier to trade in services. The need to put services into the GATT to prevent even more protectionism was just another example of a pro-liberalization argument that never had to be tested.

Conclusions:

While a clear consensus in support of going forward with services negotiations within the tentative Uruguay Round had emerged amongst developed nations by the end of 1984, there were still arguments against the move. These arguments emanated principally from the United Nations Conference on Trade and Development (UNCTAD) and leading developing nations. The erosion of this opposition in the face of rising support for liberalizing "trade in services" will be taken up in the next Chapter. However, at this point it would seem important to examine how well the two ideational approaches under study can explain the emergence of this consensus in support of services liberalization amongst the developed nations.

First, it was argued that if either the epistemic communities perspective or that of Transnational Historical Materialism are to be useful guides in the

²⁶⁵Benz, "Trade Liberalization and the Global Service Economy," p. 99.

²⁶⁶Spero, "Trade in Services: Removing Barriers", p. 20.

trade in services story we must, at the very least, be able to see evidence of the effects of the ideas themselves on the causal and normative assumptions of actors. It is difficult to see how such widespread support for including services into the GATT could have emerged in the absence of such ideas. To agree to negotiate on services states had to believe that: 1) services were being "traded" on an ever-increasing scale, 2) they could be liberalized through the GATT's merchandise trade regime, and, 3) if liberalized, such trade could provide for expanded exports and/or the welfare-maximizing effects of trade specialization. Despite the fact that these assumptions were all in varying degrees inaccurate, this had become the dominant view amongst developed nations. Furthermore, they had become the dominant view from nations whose structural interests directly opposed liberalization - nations like Canada and Japan.

It was also argued that from the epistemic communities perspective the "second tier" of community members the "purely intellectual" analysts with no direct material interests in the cause helped to lend credibility to the more directly involved advocates. Certainly it is reasonable to assume that the broad support for services liberalization from such a wide number of international institutions (perhaps most importantly the OECD) served to lend credibility to the arguments first posed by the Trade Policy Research Centre and US multinationals.

It was also argued that from the Coxian perspective we would expect to see an interrelationship between the acceptance of the trade in services argument and the emergent hegemony of neo-liberal ideas more broadly. In the case of the increasingly fervent support for the idea in the US after 1980 the role of broader pro-free trade and pro-liberalization/deregulation arguments particularly in conditioning the Reagan Government's firm support for the issue is clear. As well it would seem illogical to separate the apparent acceptance of the idea in Japan from the rising political salience of deregulation and liberalization in Japanese political circles. Evidence of such ideological "spillover" directly contradicts the epistemic communities method's arguments about the issue specificity of ideas. Furthermore, these were not the only instances of this factor at work in work in the trade in services story.

Chapter #5: Convincing the Skeptics - Getting Services Included into
the GATT

"What we've got to do is broaden the trade debate to include financial services, which I see as a priority. The question we're confronting is 'will stocks and bonds go the way of automobiles and steel?'"

Rep. Charles E. Shumer (D - NY), 1991²⁶⁷

In the last Chapter it was suggested that if either the epistemic communities approach or that of Transnational Historical Materialism are to offer anything at all to the trade in services story as approaches, we must at the very least be able to see clear evidence of the role of ideas in shifting the attitudes of nations towards trade in services. It was argued that such was indeed the case amongst developed nations. The broad support for including services into the GATT framework amongst developed nations must in part be based on the acceptance of the trade in services argument by these nations. The same can be said of the developing nations.

While a consensus in support of institutionalizing services trade into the GATT was clearly evident amongst OECD nations by 1984, there was still significant opposition to such a move emanating from a number of influential developing nations and the United Nations Conference on Trade and Development (UNCTAD). Within only a short period of time this opposition would dissipate as the path would be cleared for negotiations on services. In fact, so much would this opposition erode that services' once most vocal opponent, the government of India, would actually be disappointed with the final results of negotiations which did not open up international services trade nearly enough! In this reversal, the influence of ideas, propagated by intellectuals, international organizations and policymakers will again be an important consideration. Much of this chapter will be dedicated to making this argument.

As well, one of the things stressed in Drake and Nicolaidis' approach to trade in services is that the trade in services argument gained ascendancy in

²⁶⁷ New York Times, 21 September 1991, or cited in Bergsten and Noland, Reconcilable Differences, p. 167.

part due to the fact that there were not clearly viable alternative discourses which addressed the specific changes the service sector was assumed to be undergoing. As will be developed below, they argued that opposition to including services in the GATT eroded because changes in the structure of the services sector meant that no good alternative normative and causal conceptualizations existed. Setting aside the problem of Drake and Nicolaidis' belief that there was an earth-shattering change occurring in international services exchange, the importance of this lack of an alternative discourse is something hypothesized by Transnational Historical Materialism as well. In short, Gill has argued that part of the reason for the success of Transnational Capital's hegemony in the current period is based on the lack of a clear oppositional discourse and the absence of effective political coalitions to articulate those counter-hegemonic discourses. It should be noted, however, that while both approaches stress the importance of a lack of viable alternatives in paving the way for the acceptance of new ideas, for the epistemic communities approach ideas are issue specific, and thus it is not the absence of a counter-hegemonic ideology that was important in the trade in services story, but simply the absence of effective alternative accounts of trade in services specifically. This point will be developed in regards to the trade in services story.

Also, in the closing section of this Chapter, which documents the actual scope of the final General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO) (the successor to the GATT) Gill's arguments regarding the "new constitutionalism" will be explored.

1) The Opposition of Developing Nations:

Opposition to including services on the Uruguay Round agenda from the developing nations was not a wholesale attitude evident amongst all developing nations. Rather, opposition mainly emanated from the Big Five of the Group of Ten who were led by Brazil and India.²⁶⁸ The Group of Ten, which had traditionally provided leadership on the issues of concern to developing nations in international negotiations, had been around for some

²⁶⁸The Big Five of the G10 was comprised of Argentina, Brazil, India, Egypt and Yugoslavia. The remainder of the G10, with some variation from time to time, included, Chile, Jamaica, Pakistan, Uruguay and Peru.

time. Indeed, most in the GATT community felt that historically no GATT agreement could be completed without the acquiescence of the Group of Ten (G10).²⁶⁹ Thus, the opposition of the Big Five of the G10 to the inclusion of services in the Round was extremely troublesome for proponents of liberalization.

Brazil and India's opposition to including services in the Round was based on a number of factors. The government of Brazil simply believed it to be "naive" and "theoretical" to think that unilateral liberalization in services would benefit the Third World.²⁷⁰ India's opposition was grounded on several factors:

- 1) The GATT had failed to advance the interests of developing nations in trade in goods so why would services be any different?
- 2) Negotiations on services were often viewed as a form of "neo-imperialism", a way of extending the privileged position of multinationals based in Advanced Capitalist States.
- 3) Confusion. The GATT's own economists did not fully understand the issue.
- 4) The inclusions of services in the GATT would, ". . . not result in comparative advantage and protection for infant service industries in [developing countries]."²⁷¹

This last point was probably most important. There was a deep-seated concern in India that any GATT deal on services should *not* include banking, insurance and the basic telecommunications sector as the thinking was that these were important sectors in development and India did not want to open its "infant industries" to international competition.²⁷² Other developing

²⁶⁹Rajiv Kumar, "Developing-Country Coalitions in International Trade Negotiations", in Diana Tussie and David Glover eds., The Developing Countries in World Trade, (Boulder: Lynne Rienner Publishers, 1993), p. 206.

²⁷⁰Chakravarthi Raghavan, Recolonization, GATT, the Uruguay Round and the Third World, (Penang: Third World Network, 1990), p. 111.

²⁷¹Surjit S. Bhalla, "India", in Patrick A. Messerlin and Karl P. Sauvant eds., The Uruguay Round: Services in the World Economy, (New York: United Nations Centre on Transnational Corporations, 1990), p. 190.

²⁷²S. K. Bhattacharya, "The Uruguay Round of Negotiations: A Tortuous Journey from Punta Del Este to Marrakesh", in K.R. Gupta ed., GATT Accord and India, (New Delhi: Atlantic Publishers, 1994), p.38.

nations felt that the US approach to trade in services would preclude any potential benefits for their own trans-border labour services.²⁷³

While this opposition principally manifested itself in a refusal to put services on the Uruguay Round agenda when this was first suggested by developed nations, the government of India also argued that if services liberalization was to be discussed then the use of the old sectoral regimes like the International Telecommunications Union should be explored as more appropriate forums.²⁷⁴

UNCTAD - The Dissenting Voice?

Given the emergent fault line over trade in services between the Advanced Capitalist States and leading developing nations, it is hardly surprising that UNCTAD should play a role in this story. UNCTAD was widely viewed by developing and developed nations alike as a partisan forum "biased" towards the concerns of developing nations. Indeed, the attempt to negotiate a new commodity order within UNCTAD in the 1970s had been the centerpiece of the Group of 77's efforts to give substance to the ideas of the New International Economic Order, an order whose intellectual heritage was to be the Keynesianism and embedded liberalism of an earlier age and not the neo-liberalism embodied by the trade in services argument. UNCTAD staff in the past had played an important role in articulating the interests of the developing nations, helping to develop policy positions and promote program items for the Group of 77.²⁷⁵ Furthermore as the 1980s opened the developing nation supporters of UNCTAD were intent on making it a more influential and effective institution. In this expanded role UNCTAD was to seek "more explicit authority to offer recommendations on any issue that affects the developing countries, even if the legitimate arena of settlement were elsewhere."²⁷⁶

It should hardly be surprising then that UNCTAD would wade into the services debate. UNCTAD, in response to the rapidly growing consensus

²⁷³Finlayson and Weston, The GATT, Middle Powers and the Uruguay Round, Middle Powers and the Uruguay Round, p. 47.

²⁷⁴Raghavan, Recolonization, GATT, the Uruguay Round and the Third World, p. 111.

²⁷⁵Robert Rothstein, Global Bargaining, UNCTAD and the Quest for a New International Economic Order, (Princeton, Princeton University Press, 1979), p. 191.

²⁷⁶Rothstein, Global Bargaining, p. 180.

amongst OECD countries in support of putting "trade in services" into the GATT framework, launched its own studies at the request of many developing nations. UNCTAD's work provided a clear and forceful opposition to the trade in services argument. It contained three general overarching criticisms of the arguments being made by pro-liberalization forces:

They questioned the applicability of trade concepts and placed quotes around the phrase "international trade in services" in their reports. They maintained that even if some services transactions could be viewed as trade, these were exceptions to the more typical phenomenon of services delivery via FDI, which was outside the jurisdiction of GATT. Therefore, a restrictive definitional boundary needed to be drawn. Perhaps most importantly they worried that a liberal regime might benefit the large TNC's that dominated global markets more than it did development.²⁷⁷

Such arguments might have provided a basis for opposition to putting services into the GATT had they been reinforced. However, UNCTAD's profile on the trade in services issue steadily declined. Furthermore, there is evidence that opinions within UNCTAD subsequently shifted. In fact, there were a number of factors at work within UNCTAD that may have left it poorly positioned to articulate the developing nations' opposition to including trade in services in the GATT.

Organizationally UNCTAD had two major problems. Firstly, UNCTAD had internal staff problems which fostered divisions over the perceived role of the organization. Starting in the late 1970s, UNCTAD's staff, like the United Nations' staff, were undergoing a process of "politicization" - a process by which fears for the future of their jobs made them increasingly partisan on behalf of national interests.²⁷⁸ Such a trend undoubtedly could undermine the effectiveness of the organization as an international advocate from the perspective of the developing nations, particularly since the majority of UNCTAD's staff traditionally came from industrialized nations.²⁷⁹ Furthermore, UNCTAD staff, because of UNCTAD's specific role as an advocate for development, were caught between dual roles as advocates for

²⁷⁷Drake and Nicolaidis, p. 58.

²⁷⁸Rothstein, *Global Bargaining*, p. 183.

²⁷⁹Rothstein, *Global Bargaining*, p. 184.

redistribution on behalf of the developing nations and their role as professionals. Many UNCTAD delegates from developing nations felt that too often UNCTAD staff members did not support the interests of developing nations strongly enough. Delegates from industrialized nations on the other hand felt the staff was too partisan in favor of the developing nations. "In effect, one group wanted the staff to be stronger advocates (of its views), and the other group wanted the staff to be more impartial and professional (according to its standards of professionalism)."²⁸⁰ Thus, there was no consensus viewpoint on the role of the staff as many rejected the idea that they were to be advocates for the less advantaged nations.

The second major factor which may have undermined UNCTAD's potential as an oppositional force on services were the structures of UNCTAD's delegate groupings themselves. The Group of 77 membership subbloc, which dominated UNCTAD (the Secretary General was little more than their prisoner), was subdivided into three geographical regions. These regions between themselves would attempt to hammer out a consensus "developing nation view" for presentation to the UNCTAD membership as a whole. If there was no consensus amongst these regions, little would be done, and UNCTAD would lapse into ambivalence and silence.²⁸¹ From the late 1970s onward disagreement among the G77 nations increased as they were often divided along have and have-not lines, making consensus and, therefore, action more difficult for UNCTAD.²⁸² Indeed, much of the drift of Robert Rothstein's argument about the organizational structures of UNCTAD is that in the absence of a unified Group of 77, UNCTAD would become a less effective and vocal supporter of the developing nations' interests.²⁸³ Given that the G77 was divided over the inclusion of services in the Uruguay Round (more on this below) and divided along geographical lines (the Asian members generally supported including services in the Round) it seems reasonable to assume, therefore, that effective opposition by UNCTAD to the services initiative would be unlikely.

While the internal problems within UNCTAD might explain why the organization lapsed into silence, they do not explain the evidence of a change

²⁸⁰Rothstein, *Global Bargaining*, pp. 189-190.

²⁸¹Rothstein, *Global Bargaining*, p. 195.

²⁸²Rothstein, *Global Bargaining*, p. 200.

²⁸³Rothstein, *Global Bargaining*, p. 200.

in views within UNCTAD. That is, UNCTAD staff may, by accepting the arguments of pro-liberalization advocates, have done more than simply remain silent on the issue, they may actually have helped to undermine the basis for opposition to services provided by the earlier UNCTAD work.

Along these lines, it must be noted from the outset that UNCTAD's role as an advocate for developing nations should not be overestimated. From the start UNCTAD had never been a "revolutionary" organization.

"[T]hroughout most of its history, revolutionary goals were primarily rhetorical: in general, the prevailing intellectual climate was dominated by conventional assumptions about trade and aid, and the developing countries were too weak to refuse whatever was offered."²⁸⁴ The case of trade in services may be just such an example of an issue in which UNCTAD adopted "conventional assumptions".

Frederick F. Clairmonte and John H. Cavanaugh's 1984 study, Transnational Corporations and Services: The Final Frontier, done on behalf of the Transnational Corporations Research Project at the University of Sidney was also prepared for Trade and Development: An UNCTAD Journal as Clairmonte at that time was actually serving as an UNCTAD staff member.²⁸⁵ What is interesting about this paper is that despite its attempt to echo UNCTAD's oppositional concerns to liberalizing trade in services, Clairmonte and Cavanaugh actually support or explicitly subsume many of the arguments made by supporters of liberalization.

Basically, Clairmonte and Cavanaugh set out to re-emphasize UNCTAD's concern that liberalizing trade in services would only exacerbate the huge disparities which existed in services exchange between developing nations and the US and UK in particular. Their argument was that a framework for liberalization might force developing nations to import even more services, while their exports would remain effectively nil.²⁸⁶ This in fact would be the probable outcome given that "services exports" mainly occur through multinationals' direct investment or outright purchase of small overseas subsidiaries. However, at different points throughout the project they emphasize their opinion that exchange in services - they actually

²⁸⁴Rothstein, Global Bargaining, p. 193.

²⁸⁵Frederick F. Clairmonte and John H. Cavanaugh, "Transnational Corporations and Services: The Final Frontier", Trade and Development: An UNCTAD Journal (No. 5, 1984).

²⁸⁶Clairmonte and Cavanaugh, Transnational Corporations and Services, p. 14.

call it trade in services without putting quotations around the term - was going through a process of globalization in which such trade was already a huge phenomenon and was continuing to grow.²⁸⁷ They argued that this process of globalization was in large part technologically driven. This should hardly be surprising, as has already been shown it was after all the basic assumption of the trade in services argument that had sparked the entire GATT-services initiative. The important point for present purposes, however, is that despite its opposition to liberalization, this paper failed to contest the basic premises of the trade in services argument. While the authors were concerned about possible negative consequences of a GATT agreement to liberalize services barriers, they failed to question whether services were actually being traded on a previously unheard of scale and whether this phenomenon bore any resemblance to trade at all.

By accepting the untested causal assumptions of the trade in services argument (although perhaps not its normative content), staff at UNCTAD may have contributed to the growing support for the argument. That is, UNCTAD as a potential site of alternative discourse, and as an established advocate for the interests of developing nations, by accepting the core assumptions of the trade in services argument may have inadvertently helped to undermine the basis for opposition by the developing nations. At the very least, it did little to slow the acceptance of the trade in services argument. In essence, their argument that an agreement might be bad for the trade balances of developing nations was a poor basis for opposition to the pro-liberalization forces. It was not an effective oppositional discourse. This point would be driven home when many developing nations changed their position to support of the initiative, as they were convinced that their lower labor costs potentially gave them a competitive advantage in service trade exports. Of course this assumes that countries actually can export services across borders rather than have domestic firms invest in foreign branch operations as the vehicle of export - a largely flawed assumption.

Furthermore, Clairmonte was not the only UNCTAD member important in the trade in services story. In fact, Murray Gibbs, an advocate of the trade in services argument whose articles have been referenced several times in this thesis was the Chief of the Systemic Issues Section of UNCTAD!

²⁸⁷Clairmonte and Cavanaugh, *Transnational Corporations and Services*, pp. 2-3.

2) Absence of Alternatives

Consideration of UNCTAD's ineffective and uncertain opposition is representative of a larger point made by Drake and Nicolaidis. In this key pre-negotiation phase the international "debate" concerning trade in services, while promoting a consensus in favor of liberalization amongst those perhaps pre-disposed to such a view, failed to produce viable counter arguments. Those who might oppose liberalization were in difficulty because of their lack of a theoretical basis upon which to ground their arguments. Drake and Nicolaidis argue that "[a]lthough there was an established body of regulatory theory arguing against open entry into services industries, there was evidence that technological and market changes were undermining its continued applicability, as in the case of telecommunications monopolies."²⁸⁸ Of course, this "evidence" was provided by pro-liberalization intellectuals! Drake and Nicolaidis believed that the changes going on in international services trade had undermined the effectiveness of oppositional discourses. In fact, Zacher and Sutton in their study of services regulation argued effectively the same thing - that the possibilities for a liberalized service regime were created in part due to the erosion of the old anti-competitive, sectoral services regimes.²⁸⁹ They argued that the decline in importance of these regimes was due to a combination of ". . . technological change, academic studies decrying the economic costs of monopolies and cartels, a growing acceptance of 'deregulated' markets, and pressure from certain countries."²⁹⁰ Setting aside the problems with some of these assumptions detailed in Chapter 2, it is important to recognize nonetheless that the norms or *ideas* which had made up the substance of these regimes had eroded and as such the old paradigm of services discussed in Chapter 1 was no longer a good basis of opposition to trade in services liberalization. The anti-competitive and jurisdictional protection of state autonomy norms, which had underpinned these regimes according to Zacher and Sutton, were no longer politically salient.

²⁸⁸Drake and Nicolaidis, p. 56.

²⁸⁹Zacher and Sutton, Governing Global Networks, p. 5.

²⁹⁰Zacher and Sutton, Governing Global Networks, p. 220.

Ingo Walter, a supporter of liberalization, also made this point. Walter argued that opponents of the move would have a difficult time finding support for their position because many of the traditional justifications for barriers to foreign market entry were less relevant than they had been in the past. For example, countries were less able to claim that they derived public goods from a nationally organized and nationally regulated financial industry in an environment of globalization. This undermined much of the logic of existing national banking regulation.²⁹¹ Also, potentially adversely effected companies could not argue that there would be massive job loses like in manufacturing because foreign firms delivering services through investment would probably employ just as many domestic workers as the domestic service sector companies they replaced would have.²⁹² Of course, Walter neglected to point out that opponents could simply point to the problems inherent in the trade in services argument itself!

In any event, in the absence of effective oppositional intellectual leadership of the type provided by UNCTAD in the past, the discussion of services never produced a viable opposition:

[T]his critical phase of the pre-negotiations failed to produce a widespread intellectually informed oppositional discourse of the sort evident in the debate about the new international economic order and the debate about the new international information order, which had both taken place in the 1970s. In 1984, many LDCs remained opposed to services negotiations, but they did so on a shaky intellectual ground. During the next few years, that ground would progressively give way.²⁹³

As has already been mentioned, this is an important aspect of Gill's approach to the formation of Transnational Capital. The absence of effective oppositional discourses aided in the emergent hegemony of Transnational Capital. However, Gill also put emphasis on the erosion of alternative political forces as an important consideration in explaining the ease with which Transnational Capital has emerged as ideologically and politically

²⁹¹Ingo Walter, Global Competition in Financial Services: Market Structure, Protection, and Trade Liberalization, American Enterprise Institute, (Cambridge Mass: Ballinger, 1988), p. 121.

²⁹²Walter, Global Competition in Financial Services, p. 121.

²⁹³Drake and Nicolaidis, p. 64.

hegemonic. In fact, one of Gill's arguments in this vein is that in the current context, compared to the movement for the New International Economic Order of the 1970s, the Third World has fragmented past the point where it can be regarded as an autonomous political force in world affairs.²⁹⁴ As such, a politically cohesive coalition of developing nations was no longer the basis of a potentially counter-hegemonic force. True to his theory, Gill highlighted the importance of transnational class formation in explaining the erosion of this opposition.

Many of today's third World leaders and administrators were trained in the West's Universities in an era of conservatism and in a period when *laissez faire* economics achieved something of the status of a holy doctrine. Many such individuals have assumed high office in their own countries. Others have, or may have, worked as employees for the World Bank or IMF. Their "domestic" constituency is affluent urban dwellers in the Third World."²⁹⁵

Hypothetically, from Gill's perspective the absence of alternatives to the trade in services argument would not necessarily be due to structural changes within the services sector which had made other conceptualizations ineffective (as contended by Drake and Nicolaidis), but because the interrelated trends of the rising intellectual hegemony of neo-liberal discourses and the erosion of an effective political basis for counter-hegemonic opposition made *the acceptance of such ideas more likely*. This area of disagreement will be explored in the context of developing nations' opposition to trade in services' liberalization.

Developing Nations and Liberalization

It should be recognized from the outset that in the lead up to the Uruguay Round the governments of many developing nations had begun to adopt more clearly *laissez faire* policies on trade and development, influenced by the visible evidence of rapid development in the newly industrializing countries.²⁹⁶ In fact, a growing number of developing

²⁹⁴Gill, "Theorizing the Interregnum", p. 72.

²⁹⁵Gill, "Theorizing the Interregnum", p. 73.

²⁹⁶Manuel R. Agosin and Diana Tussie, Trade and Growth - New Dilemmas in Trade Policy, (London: St. Martin's Press, 1993), pp. 1-2.

countries were embracing *unilateral* trade liberalization as a development strategy.²⁹⁷ While external pressure was a key in provoking this change in many countries and continues to be important, it also needs to be recognized that the leadership of many developing nations had in fact come to *believe* in the benefits of liberalization.²⁹⁸ This is a marked change in direction. Between 1986 and 1991 alone, thirty developing nations undertook such unilateral trade liberalizations.²⁹⁹ This movement to support for liberalization was inversely paralleled by a declining interest amongst developing nations in market stabilization-style agreements.³⁰⁰

While this once again highlights Transnational Historical Materialism's emphasis on the need to consider the effect of the trade in services argument in light of broader ideological currents flowing from the emergent hegemony of Transnational Capital, it also meant that Brazil and India, in attempting to speak for developing nations in opposition to services liberalization, were on slippery ground.

The Uruguay Round, Services, and Tensions Amongst Developing Nations

Analysts of negotiating strategies at the GATT have argued that one important aspect of the Uruguay Round was the growing difficulty of talking at all about a "developing country strategy" because of the growing differences and specificities of the economies in these countries.³⁰¹ While many developing nations were eager to start the Round in anticipation of market openings, the self declared G10 leadership of the developing nations had attempted throughout the 1980s to hold off on agreeing to start a new round until the agenda corresponded more fully to the interests of "the developing nations".³⁰² Right from the outset, fractures over this stance eroded the cohesiveness of the developing nations.

²⁹⁷Diana Tussie and David Glover, The Developing Countries in World Trade, (Boulder: Lynne Rienner Publishers, 1993), p. 1.

²⁹⁸Tussie and Glover, The Developing Countries in World Trade, p. 1.

²⁹⁹Tussie and Glover, The Developing Countries in World Trade, p. 1.

³⁰⁰Tussie and Glover, The Developing Countries in World Trade, p. 3.

³⁰¹Alejandro Jara, "Bargaining Strategies of Developing Countries in the Uruguay Round", in Diana Tussie and David Glover eds., The Developing Countries in World Trade (Boulder: Lynne Rienner Publishers, 1993), p. 11.

³⁰²Kumar, "Developing-Country Coalitions in International Trade Negotiations", p. 207.

Some of the supporters of getting the Round started, particularly Korea and ASEAN members, had begun to resent the interference of the less-developed Big Five of the G10. This was particularly problematic to the East Asian nations since their share of world trade was far larger.³⁰³ Further hurting the Group of Ten was the fact that when these fractures over strategy began to emerge, the Advanced Capitalist Countries and the US in particular concluded that it was no longer necessary to deal with the demands put forward by the Group of Ten. Instead, they could now negotiate directly with individual developing nations without the mediation of the G10.³⁰⁴

Eventually, these disagreements resulted in the developing nations breaking into three separate groupings. The first group, the Big Five (and especially Brazil and India), strongly opposed including services in the Round. Their research had shown that any comparative advantage they might have in services trade would be wiped out by a services deal.³⁰⁵ A second group supported including services and other new issues in the Round, either for perceived economic advantages, or for political reasons. Colombia, Chile and Korea were the principal proponents of this position. The third general grouping was the mass of nations who were in between these two poles. This group would support the general consensus of the developing nations on the new issues no matter what that might be.³⁰⁶

There were several important ramifications of these developments. Services as an issue and the dialogue as to whether it should be included in the Round had helped to shatter the informal cooperation of developing nations at the GATT.³⁰⁷ Also what this account suggests is that opposition to including services in the Round amongst developing nations was not widespread. Rather, it was principally India and Brazil which opposed the move. The remaining developing nations were either supportive or ambivalent. Thus, the task of convincing the developing nations to join in GATT Negotiations on Services (GNS) really amounted to nothing more than the need to convince only a handful of nations rather than the entire

³⁰³Kumar, "Developing-Country Coalitions in International Trade Negotiations", p. 207.

³⁰⁴Kumar, "Developing-Country Coalitions in International Trade Negotiations", p. 207.

³⁰⁵Kumar, "Developing-Country Coalitions in International Trade Negotiations", p. 207. On that same page Kumar argues that eventually India would come to believe exactly the opposite.

³⁰⁶Kumar, "Developing-Country Coalitions in International Trade Negotiations", p. 207.

³⁰⁷Kumar, "Developing-Country Coalitions in International Trade Negotiations", p. 208.

Group of 77. As well, it is important to note that the resentment amongst many developing nations' negotiating teams towards the Big Five's belief that they could dictate the non-inclusion of services in the Round on "behalf" of the developing nations led to the formation of the Jarmillo Group.³⁰⁸ Below it will be seen that the Jarmillo Group would play an important role in shifting views amongst developing nations to support for negotiations on services.

While hostility amongst developing nations, divergent interests owing to their positions in the global economy, as well as the rising salience of pro-free trade sentiments amongst these nations played a role in weakening the position of anti-services nations there is one further point to be made before exploring how that opposition actually collapsed. Underlying all these disagreements between developing nations was the collapse of the broader idea that international agreements needed to be geared towards fostering growth in the developing nations. This belief had collapsed in light of the broader unraveling of Keynesian ideas. Simply, the idea that the developed countries bore some sort of responsibility for helping poorer countries to develop had eroded, "The Keynesian rationalization of this position, with its notion that growth in the developed economies was in danger of being brought to a halt in the absence of development in the Third World (the argument most eloquently put forward by the Brandt Commission), also worked itself out at the end of the previous decade. Any negotiating position based on these premises essentially became irrelevant for real bargaining."³⁰⁹ This once again suggests the importance of ideas, or more precisely, changing ideas, in the trade in services story.

Nevertheless, the Big Five continued to fight against including services in the Uruguay Round. While many developing countries supported the inclusion of services because they wanted the Round to go forward, the Big Five did manage to succeed in getting services put into a separate "track" of negotiations, the GATT Negotiations on Services (GNS). This kept services separated from the other talks. Furthermore, throughout the early stages of the GNS itself they continued to inhibit progress on services by demanding a deal on agriculture first.³¹⁰ However, this opposition ended abruptly once

³⁰⁸Kumar, "Developing-Country Coalitions in International Trade Negotiations", pp. 208-209.

³⁰⁹Kumar, "Developing-Country Coalitions in International Trade Negotiations", p. 216.

³¹⁰Kumar, "Developing-Country Coalitions in International Trade Negotiations", p. 209-210.

negotiations got seriously underway as these nations came to accept the assumptions of the trade in services argument.

In the end the most significant contribution of the G10 on services, though visible only in retrospect, was their success in delaying real negotiations on services only until their own views had been altered.

3) The Uruguay Round and the Continued Opposition of the Developing Nations

In the Autumn of 1985, the Contracting Parties of the GATT finally convened for their pre-round meeting to set the agenda. By this point, an informal consensus had emerged in favor of going forward with the Uruguay Round. This meeting established a preparatory committee which had until July of 1986 to produce a draft declaration that would serve as the terms of reference for negotiations during the new Round. The inclusion of services in the declaration was still in question due to the continuing opposition from many developing countries. Nevertheless, the GATT leadership encouraged advocates of services liberalization to continue their efforts to convince other nations to agree to proceed. In particular, they encouraged the newly formed Jarmillo Group to continue "its work and prepare recommendations to be considered in the next session of the Contracting Parties."³¹¹

The "Jarmillo Group" (named after Colombia's ambassador) was a loose group of nations which had formed within the GATT to promote negotiations on services. This group, which included many developing nations, emerged as a counterweight to the opposition of Brazil and India. Drake and Nicolaidis argue that over the next few months the Jarmillo Group succeeded, in conjunction with intellectuals outside of the GATT, in convincing many of the opposed developing countries that negotiations on services were actually *in their interests*. Indeed, it is their argument that much of the developing nations' opposition had been based simply on a lack of information, but as they were exposed to the ideas of the pro-liberalization community they gradually altered their views.³¹²

A Renewed Intellectual Campaign in Support of Trade in Services:

³¹¹Drake and Nicolaidis, p. 65.

³¹²Drake and Nicolaidis, p. 66.

In this period of time, between the 1985 meeting and the scheduled release of the Uruguay Round Declaration in 1986, with services potentially on the negotiating agenda, dozens of international organizations became active in studying and promoting "services trade" as an issue. Included were a wide range of organizations reflecting both an institutional and geographic diversity: the Services World Forum, the Centre for the Study of International Negotiations (Geneva), the Applied Services Economic Center (Geneva), Prométhée (Paris), Centre d'Etude de l'Economie des Services (Lyon), the International Service Institute (Tempe), the Berkeley Roundtable on International Economics, the Netherlands Economisch Instituut, the Canadian Institute for Research on Public Policy, the Pacific Trade and Development Conferences, the Institute for World Economics of the Hungarian Academy of Science, and the EC Commission among many others.³¹³ Amongst the organizations already mentioned that had been active on the services issue for years, perhaps the key member in this renewed intellectual campaign was the American Enterprise Institute (AEI), whose book series was perhaps the cornerstone of pro-liberalization thinking in the negotiating stage.³¹⁴

AEI, a leading right-wing think tank in the U.S. is representative of many of the private sector organizations involved around the services issue. It has a relatively straightforward and normative mission statement. Of its book series on services it declared, "The American Enterprise Institute's Trade in Services Series represents an important step toward creating the policy alternatives necessary to enhance the international competitiveness of American Services."³¹⁵ AEI's larger mandate was aimed at identifying challenges to US Trade Policy. They chose, however, to focus their energy at the new issues in international trade in the 1980s, trade in services and intellectual property rights. The book series itself was developed in response to the sense at AEI that on services much study needed to be done before serious policy questions could be probed. Their project was designed to fill this gap. AEI published eight specific books on services trade, most written by

³¹³Drake and Nicolaidis, footnote, p. 75.

³¹⁴Drake and Nicolaidis, p. 75.

³¹⁵This appears in the Editor's Forward to all eight books in AEI trade in services series. See for example, Walter, Global Competition in Financial Services, pp. xiii-xv.

non-academics. "All of the books in the series employ two main goals: first, to analyze the dynamics of international competition for each of . . . seven [service] industries, identifying existing and potential barriers to trade, and second, to formulate and assess policy approaches for opening service markets through an umbrella service agreement and subsequent individual sector agreements in GATT."³¹⁶ As well, AEI felt that its role was to promote the results of these studies through conferences, seminars and televised forums:

We aim to make our findings known to government officials, trade experts, the business and financial communities, and concerned members of the public. To that end during 1987 we convened major conferences in London, Geneva and Washington, and in early 1988 the team of authors traveled to Tokyo and Singapore. Thus, as with all AEI projects we have sought to ensure that the studies not only make a significant contribution to scholarship but also became an important factor in the decision-making and negotiating processes.³¹⁷

Shelp, Feketekuty, and Ingo Walter all contributed books to this series which completely affirm the trade in services argument. Indeed, Ingo Walter, before writing his book in the series, Global Competition in Financial Services - Market Structure, Protection and Trade Liberalization, also wrote a book for the Trade Policy Research Centre in London on the same topic.³¹⁸

The size of AEI's influence was understandably magnified at this stage partially because it had gathered together many of the longest running and most influential services campaigners, but also because American Express graciously agreed to fund the distribution of copies of all of the books to all GATT participants!³¹⁹ AEI is a wonderful example of "organic intellectuals" at work. The institute gathered together like-minded policy makers from the USTR, members of industry and think tank members from London, all helping to promote the ideas of liberalization in work done under the banner of a private research organization but specifically funded and distributed by American Express.

³¹⁶This appears in the Editor's Forward to all eight books in AEI trade in services series. See for example, Walter, Global Competition in Financial Services, pp. xiii-xv.

³¹⁷Walter, Global Competition in Financial Services, p. xv.

³¹⁸Walter, Global Competition in Financial Services, p. xviii.

³¹⁹Drake and Nicolaidis, p. 75.

The Trade Policy Community Closes Ranks

It should also be noted that once again at this stage the importance of services liberalization being dealt with within the existing trade policy community manifested itself. Observers have argued in the past that the trade policy community is in many ways a closed fraternity of like-minded individuals committed to the cause of liberalization. Indeed, Feketekuty as a member of this fraternity acknowledged this at some length.³²⁰ As already noted above, the personal connections between these people may have helped to condition the national studies done by negotiating teams in preparation for GATT talks as was the case in Canada. Rodney de C. Grey's affiliation with Feketekuty and others may have skewed his analysis of Canada's interest in the issue. Regardless, at this point the fraternity-like mentality helped to continue progress towards consensus on the services issue. Negotiators and trade policy officials who opposed the move and questioned the assumptions of the trade in services argument were scorned by their converted colleagues as "protectionists", perhaps the worst of sins in the GATT community.³²¹ Indeed, one example of what happened when you disagreed with the assumptions of liberalization supporters was when a Canadian bureaucrat told Peter Robinson, a liberalization advocate, that there was no such thing as "trade in telecommunications". The official was publicly disparaged as an example of ridiculous "old thinking" and yet this unnamed official was probably correct.³²²

The "trade policy arena" may have also been to the particular disadvantage of the developing nations which opposed negotiations on services. According to Chakravarthi Raghavan, who has argued that the inclusion of services in the Uruguay Round was part of a broader attempt by developed countries at the Uruguay Round to tighten their control over the world economy by imposing even greater rules on how developed countries run their internal economies, the GATT was chosen as a vehicle for the liberalization of services because it was where potential opponents like the

³²⁰Feketekuty, *International Trade in Services*, p. 160.

³²¹Gibbs, "Continuing the International Debate on Services," p. 213.

³²²Peter Robinson, "Globalization, Telecommunications and Trade", *Futures*, October 1991, p. 805.

developing nations were weakest in international political circles.³²³

Raghavan's arguments are interesting because they are similar in their analysis of the GATT to that of Gill's "new constitutionalism".

Raghavan argues that at the negotiating table, teams from OECD nations, in particular the US, engaged in a deliberate strategy of attempting to "bamboozle" opposing countries. Proponents of liberalization deliberately shied away from discussing the principles of "services trade", instead focusing only on reducing what they had already determined to be barriers to trade in services.³²⁴ Indeed, Raghavan argues that the use of terms like "trade" in incorrect contexts in place of substantive discussion on the properties of exchange in services were part of a "deliberate" effort by the US and other Advanced Capitalist Countries "to confuse the unwary and extend GATT and international jurisdiction beyond 'trade'."³²⁵ Amidst all the confusion and contention over the concepts of the trade in services argument:

There has been a deliberate effort to use the nebulous situation, where the large majority of the third world countries have no clear idea of what they would be committing themselves to, to forge a framework that would have no clear definition and bring under 'services' only those sectors of advantage to the [developed nations] Also, with 'trade' itself not being defined, the agreement could be made to cover not merely instances where the 'service' crosses the border for delivery, but right of 'establishment' for the providers of services to locate themselves in the foreign country and produce the service.³²⁶

The attitude of the developed nations' negotiating teams towards their more reticent developing nation colleagues was "[s]ign now, define its meaning latter".³²⁷

³²³Raghavan, Recolonization, GATT, the Uruguay Round and the Third World, pp. 16-17 and p. 60.

³²⁴Raghavan, Recolonization, GATT, the Uruguay Round and the Third World, p. 104.

³²⁵Raghavan, Recolonization, GATT, the Uruguay Round and the Third World, p. 104. It is interesting to note that similar accusations were made against the supporters of the NIEO. It has been argued that advocates of the NIEO in international negotiations deliberately shied away from talking about the specifics of the NIEO, choosing rather to focus on building consensual support for the broad "principles" of the initiative before proceeding to discussion of what policy changes it would actually entail. See Rothstein, "Global Bargaining", p. 24.

³²⁶Raghavan, Recolonization, GATT, the Uruguay Round and the Third World, p. 105.

³²⁷Raghavan, Recolonization, GATT, the Uruguay Round and the Third World, p. 108.

Convincing the Developing Nations

One of the major themes of the renewed intellectual campaign in 1985 was the argument that liberalizing services could actually be in the interests of low-wage developing nations. A whole host of articles made this point.³²⁸ The often-repeated contention was simply that the developing nations' opposition to the US position was based on the incorrect assumption that they were at a comparative disadvantage in services.³²⁹ These articles invariably argued that the lower labor costs of the developing nations offered a potential comparative advantage which these states might use to expand their "service exports". These articles were geared directly at allaying the fears of the developing nations.³³⁰

This argument is interesting in that it exposes some of the unprobed contradictions of the trade in services argument. While theoretically the lower labor costs of the developing nations could allow these nations a new export potential in services, this would only be the case if it were in fact possible to truly export or trade services on a large scale. In Chapter 2, I made the case that most of what was referred to as trade in services was simply investment in foreign services. As a result it is difficult to see how developing countries and their lower labor costs would be well placed to export more services! This is particularly evident when barriers to various modes of delivery of service trade were considered. At no time was there serious discussion about liberalizing barriers to services exported via low-wage labor mobility. For example, none of the pro-liberalization academics, trade negotiators or business leaders ever considered that the GATT could be used to remove barriers that impeded the importation of guest laborers, one area where it might be argued that developing nations did have a potential comparative advantage. When the barriers to the ability of producers to move to the site of consumers as a delivery channel was considered it was

³²⁸ See for Example, A.F. Ewing, "Why Free Trade in Services is in the Interest of Developing Countries," 19 *JWTL*, Mar-April 1985 and Jagdish N. Bhagwati, "Splintering and Disembodiment of Services and Developing Nations", *The World Economy*, Trade Policy Research Centre, 1985.

³²⁹ Bhagwati, "Splintering and Disembodiment of Services and Developing Nations", p. 134.

³³⁰ Drake and Nicolaidis, p. 59. See footnote at the bottom of the page.

always about the freedom of movement of professionals and business people rather than the movement of Third World low-wage workers.³³¹

Regardless of the problems inherent in this argument, it was very persuasive. Without any substantive critical exploration of the assumption that services were being *traded* on ever increasing scale (critical exploration of the type that might have been provided by UNCTAD), the logic of the low-wage-advantage argument was very compelling to developing nations. For example, this argument was attractive to a country like India which felt that its construction and engineering design services, as well as its business and professional services, benefited from such a comparative advantage and therefore were on the verge of expanding their "exports".³³² Indeed, this argument played a key role in altering India's thinking about a potential GATS deal and in conjunction with the efforts of the Jarmillo Group, in persuading trade officials from other developing nations, helped to clear the path for negotiations on services.

Undoubtedly part of the reason for the success of trade in services intellectuals in shifting the views of the developing nations was the fact that the "renewed intellectual campaign" aimed at the concerns of developing nations included amongst its ranks supporters from the UN as well as advocates from the opposing countries themselves. For example, Kenneth Heydon, in his study on behalf of the United Nations Centre on Transnational Corporations argued that "[a] reduction in domestic barriers to service imports is likely to give rise to development opportunities in the short term In the longer term there are likely to be dynamic growth opportunities from the transfer of skills, frequently as a consequence of the operation of multinational service providers."³³³ Thus he concluded that, "Although the nature of developing countries' competitiveness is difficult to characterize, there are indicators of revealed comparative advantage that suggest a growing, if modest, role for these countries in international [services] trade."³³⁴

³³¹Sampson and Snape, "Identifying the Issues in Trade in Services," p. 175.

³³²See for example K. V. Swaminathan, "Emerging Opportunities in the Services Sector", in k. R. Gupta, GATT Accord and India, (New Delhi: Atlantic Publishers, 1994), pp. 69-71.

³³³Kenneth Heydon, "Developing Country Perspectives", in Patrick A. Messerlin and Karl P. Sauvant eds., The Uruguay Round: Services in the World Economy, (New York: United Nations Centre on Transnational Corporations, 1990), p. 160.

³³⁴Heydon, "Developing Country Perspectives", p. 163.

As well, pieces began to surface from within the concerned developing countries arguing that their government's desire not to include services in the Round was incorrect. Some of these items had the stamp of approval from organizations which had traditionally supported the interests of developing nations. For example Surjit S. Bhalla's article on India's attitude towards services, published by the UN Centre on Transnational Corporations supported the trade in services argument emphatically. Bhalla argued that growth in services had been rapid in India, more so than the manufacturing sector. This rapid growth was concentrated in areas linked to banking. As such, India's arguments against including services in the GATT were "ridiculous". He argued that India's interests were exactly the opposite.³³⁵ Likewise, in the same volume the UN Centre on Transnational Corporations also included a piece on Brazil, written by Carlos Alberto Primo Braga that argued that liberalization of services was also in Brazil's interests and as such Brazil's opposition was likewise incorrect.³³⁶

The OECD Again

Once again at this juncture, with the inclusion of services on the GATT agenda hanging in the balance early in 1986, the OECD helped lend credibility to the cause of liberalization advocates. The OECD finally released its long since completed paper, Elements of a Conceptual Framework for Trade in Services, which laid out the intellectual consensus that had emerged around services negotiations within the OECD.³³⁷ Indeed, by this time the OECD was already attempting its own program of liberalization:

Industrial countries took a first step toward the development of an international regime on international information flows with the adoption of the OECD Declaration on International Data Flows in 1985. This declaration commits countries to minimize barriers to the international flow of information. It recognizes the right of countries to establish regulations for the protection of individual

³³⁵Surjit S. Bhalla, "India", in Patrick A. Messerlin and Karl P. Sauvant eds., The Uruguay Round: Services in the World Economy, (New York: United Nations Centre on Transnational Corporations, 1990), p. 190.

³³⁶Carlos Alberto Primo Braga, "Brazil", in Patrick A. Messerlin and Karl P. Sauvant eds., The Uruguay Round: Services in the World Economy, (New York: United Nations Centre on Transnational Corporations, 1990), pp. ??.

³³⁷Feketekuty, International Trade in Services, p. 192.

privacy and national security, and the maintenance of vital data within national borders, but it also commits countries to minimize the disruption of international flows of data in connection with the enforcement of such regulations.³³⁸

It was in this context of ever increasing consensus and *legitimacy* surrounding the trade in services argument that a final decision was made to include services in the Round.

The 1986 GATT Ministerial Declaration

When the Contacting Parties convened in Uruguay in September of 1986 the Ministerial Declaration opening the Round, despite the continued reservations of some developing nations, by consensual agreement, included trade in services.³³⁹ As already mentioned the Declaration, due to the continued opposition did at least place the services negotiations in a separate track from that of goods, the GNS. This Declaration, which was intended to lay out the agenda and embody the goals which the Round was to strive for, set out three specific objectives for the GNS. First, at the operational level the Declaration stated "that the negotiations should seek to develop a system of principles and rules for trade in services generally to be supplemented by rules for specific sectors."³⁴⁰ This represented the concept already developed at the OECD that while there was to be a common framework of rules regarding services, the individual sectors were not to be treated the same. There would be individual agreements on individual sectors:

The language of the Uruguay Declaration supports the traditional trade policy view that general, across-the-board rules are needed to advance the liberalization of trade barriers. At the same time, the Uruguay Declaration also recognizes that sectoral differences are more fundamental in services than in goods and that effective negotiations ultimately have to get down to a sector by sector level. . . . A Framework approach puts the emphasis on general economic principles that are difficult to oppose in the abstract, and once agreed

³³⁸Feketekuty, *International Trade in Services*, p. 168.

³³⁹General Agreement on Tariffs and Trade, *Ministerial Declaration*, September 1986.

³⁴⁰See Feketekuty, *International Trade in Services*, p. 195.

can provide a basis for challenging restrictive arrangements that serve narrow sectoral needs and interests.³⁴¹

Second, the Declaration stated simply that the broad goal was that the negotiations were intended to achieve an expansion of services trade "under conditions of transparency and progressive liberalization."³⁴² Third, the Declaration implicitly linked the goal of liberalization to the welfare-maximizing gains that GATT negotiators believed they could create through the construction of a GATT services regime:

This language serves to remind negotiators that the ultimate purpose of their efforts should be to promote economic growth and development. It is also a statement of conviction that liberalization of trade in services and the development of an agreed framework of rules for trade in services can advance the economic growth of all countries, as well as the development of developing countries.³⁴³

It should be noted that the declaration affirmed the rights of nations to pursue their own regulatory objectives, however these objectives would have to be pursued in as non-discriminatory a fashion as possible.

Ten years earlier such normative and causal agreement on services would not have been possible. Indeed, while it is certainly true that services got on the agenda through the back door, kept alive in the pre-negotiation phases despite opposition from many countries by the determined support of leading nations like the US, as time had passed most nations came to look favorably on institutionalizing services into the GATT. "Initially a controversial topic, within a couple of years a virtual consensus had emerged in the Uruguay Round negotiating group that all countries had a potential interest in agreeing to certain rules and procedures regarding measures affecting trade and investment in services."³⁴⁴

³⁴¹Feketekuty, *International Trade in Services*, p. 195.

³⁴²Feketekuty, *International Trade in Services*, p. 195.

³⁴³Feketekuty, *International Trade in Services*, p. 196.

³⁴⁴Bernard M. Hoekman, "New Issues in the Uruguay Round and Beyond", *The Economic Journal*, 103, (November), p. 1532. See also Nayyar, "The Political Economy of International Trade in Services", p. 290.

The GATT Negotiations on Trade in Services and The Changing Attitudes of Developing Nations

Without engaging in a detailed account of the wheeling and dealing that went on during the Round (a subject better suited for a long book itself!) it is nonetheless important to make the point that among the developing nations still somewhat opposed to liberalizing services there was a massive sea change in attitudes during negotiations. This change in direction is most evident in the case of India which had long been the most vehement of opponents to including services in the Round.

As already touched on, India was concerned about the effects that a GATS deal might have on banking, insurance, shipping and communications, all of which were (to varying degrees) part of the public sector in India. The government was understandably concerned about the possible effects of international competition. However, over the period of negotiations, two things happened: internally, India's general attitude became more clearly de-regulatory towards service industries; and externally the Indian negotiating team came to believe that India, far from being hurt by liberalization of services, stood to gain. Internally, liberalization in some of these sectors combined with government intentions toward further liberalizations in the banking and insurance industries may have contributed to altering the views of the government *vis a vis* a GATS deal.³⁴⁵ Externally, the trade negotiating team began to believe, *based on the trade in services argument* that with India's lower labor costs and rapidly expanding domestic services sector, that a deal on services which would open up developed countries' markets could allow for the expansion of exports by Indian companies, particularly in the construction and specialized business services sectors.³⁴⁶ This expansion in export capacity in these sectors was thought possible if the GATS deal would allow for the movement of Indian professionals in these industries for temporary work in other countries.³⁴⁷ Also, India became concerned that high technology services from developed

³⁴⁵K. V. Swaminathan, "Emerging Opportunities in the Services Sector", in K. R. Gupta ed., GATT Accord and India, (New Delhi: Atlantic Publishers, 1994), p. 63.

³⁴⁶Swaminathan, "Emerging Opportunities in the Services Sector", pp. 61-71.

³⁴⁷ S. K. Bhattacharya, "The Uruguay Round of Negotiations: A Tortuous Journey from Punta Del Este to Marrakesh", in K.R. Gupta ed., GATT Accord and India, (New Delhi: Atlantic Publishers, 1994), p.38.

economies be available via a GATT deal to Indian firms as this was thought to be crucial to long-term competitiveness in manufacturing (something proponents of liberalization had always argued).³⁴⁸

All of these arguments are readily apparent in the Indian government's official position on the outcome of the Round. While the government admitted that they had opposed the inclusion of services in the Round because they feared an across the board opening of domestic markets, as it became increasingly apparent that such a massive opening would not be required by the GATT their position on services changed. In fact, the government now thought they could benefit in the area of movement of professionals delivering services.³⁴⁹ So much was this the case that the government of India was actually disappointed that there was not more success in opening markets in the final deal.³⁵⁰

The case of India was not unique. Many developing nations, having considered the arguments that they had the comparative advantage in services trade due to lower labor costs, began to push not against a services deal, but, rather for a more comprehensive program of liberalization. In fact, as negotiations progressed both the US and EC became more defensive as they worried about the implications of a bad agreement. "Thus they sought either to open up their markets on a conditional MFN basis (among other exceptions), to exclude entire sectors from the coverage of the agreement, or both."³⁵¹ To some degree the positions had reversed. In fact, joint action by the broadly pro-liberalization Latin American and Caribbean states played a key role in the success of the eventual agreement.³⁵² Despite this wheeling and dealing, however, it can safely be concluded that at the very least, opposition to including services within the GATT structure had completely vanished.

³⁴⁸K. V. Swaminathan, "Emerging Opportunities in the Services Sector", p. 62.

³⁴⁹Ministry of Commerce, Government of India, "Uruguay Round Negotiations: An Assessment", in V. Ramachandriah, *GATT Accord: India's Strategic Response*, (New Delhi: Commonwealth Publishers, 1994),, p. 41.

³⁵⁰Ministry of Commerce, Government of India, "Uruguay Round Negotiations: An Assessment", p. 41. In order to get the developed nations to open up their markets in these areas India actually offered to fully open up its own telecommunications industry in trade off. However, this proposal never went anywhere.

³⁵¹Jara, "Bargaining Strategies of Developing Countries in the Uruguay Round", p. 25.

³⁵²Jara, "Bargaining Strategies of Developing Countries in the Uruguay Round", p. 25.

Intellectual Currents at the Uruguay Round

Amongst participants at the Uruguay Round there were a number of important intellectual currents both pertaining specifically to the GATT and to the perception of the international economy more broadly that may have helped speed the inclusion of services into the final GATT-WTO structure. In general, the Uruguay Round marks the continuing trend of the GATT away from simply negotiating tariff reductions towards rule making requiring changes in domestic policy. The General Agreement on Trade in Services (GATS) intrusion into domestic service sector regulation is only an example of this.³⁵³ Indeed, the GATS' theoretical coverage of foreign direct investment barriers has been expanded on intellectually at least in post-round debate. That is, calls for WTO trade negotiations have emphasized a change in focus, that the organization's efforts, rather than focusing on just investment as it relates to services, should simply focus on barriers to all forms of FDI.³⁵⁴ The GATT should not only be a trade liberalizing regime but an investment liberalizing regime as well; the GATT-WTO should simply be a liberalization regime regardless of the mode of globalization involved in individual transactions.³⁵⁵

As well, there were broader ideological currents in the Uruguay Round, which implicitly lent support to the underlying assumptions of the trade in services argument's emphasis on the "revolutionary" increases in the scope for such trade. This intellectual current might be labeled a "technological fetishism" in which many of the participants, awed by the radical changes in communications technology, closely associated the pace of globalization to the increasing availability of information flows etc.. Many saw globalization as entirely the result of such technological change.³⁵⁶ Furthermore, it was assumed that attempts to impede this technologically driven process of

³⁵³Hoekman, "New Issues in the Uruguay Round and Beyond", p. 1528.

³⁵⁴Hoekman, "New Issues in the Uruguay Round and Beyond", p. 1528.

³⁵⁵See for example DeAnne Julius, "International Direct Investment: Strengthening the Policy Regime" in Peter B. Kenan, ed., Managing the World Economy: Fifty Years After Bretton Woods, (Washington, DC: IIE, 1994) and Geza Feketekuty, The New Trade Agenda, Group of Thirty Occasional Papers 40, (Washington DC: Group of Thirty, 1990).

³⁵⁶See Peter Robinson, "Globalization, Telecommunications and Trade", p. 801, for example. His article is rife with this type of "fetishism".

globalization were doomed to failure. Arguments that it had become impossible to control the crossborder transmission of information and intangibles, obviously supported the assumption that there was a revolution going on in the scope for trade in services.³⁵⁷

Such a sense was evident in the Canadian Government's studies of services. Rodney de C. Grey's comprehensive exploration of the issue, done in partnership by the Government with the Institute for Research on Public Policy, expresses this succinctly:

Moreover, technological change increasingly makes possible a process of intermediation in service activities - a separation in space or time of the ultimate recipient of services from the original producer of those services and the possibility of trade in such services across national boundaries brings within the scope of international negotiations and rules a vast range of activities previously missing from the trade policy arena.³⁵⁸

Also, there was the increasing salience of the pro-free trade argument throughout the world, represented by the myriad of bilateral and multilateral trade liberalization agreements signed prior to and during the Uruguay Round negotiations. Such currents as these undoubtedly played at least a small role in easing the unquestioning acceptance of the trade in services argument at the Round.

4) The Results of the Uruguay Round on Services

Despite the optimism of many pro-liberalization advocates surrounding the watershed decision to include the section on services in the Ministerial Declaration of the Uruguay Round, once negotiations began they did not produce widespread, across-the-board liberalization that the early advocates had originally hoped for. First, during negotiations, the classical-liberal arguments of the early Anglo-American pro-liberalization proponents were slightly watered down to a more "managed" liberal variant brought on by European countries and some of the developing nations who recognized the

³⁵⁷This is implicit in Robinson, "Globalization, Telecommunications and Trade", p. 802 for example.

³⁵⁸de C. Grey, "The Services Agenda", p. x.

"political realities" of domestic regulation.³⁵⁹ This change would manifest itself principally in the voluntaristic approach that would be taken to the opening of markets embodied in the final General Agreement on Trade in Services (GATS), agreed to at the close of the Round (more on this below). This change in attitude was due in no small part to the fears raised by some companies and some countries that a massive sudden market opening might be devastating. Some of the firms most vulnerable to international competition began to express concern at the speed with which services were moving towards liberalization.³⁶⁰ However, as Drake and Nicolaidis have argued this should not be taken as evidence for the unimportance of the trade in services argument or idea in changing the overall attitudes about services. Despite all the wheeling and dealing, desires by individual states to protect aspects of their regulatory regimes, negotiators at this stage were choosing from a limited range of trade-related concepts first applied to services by the advocates of trade in services liberalization. Drake and Nicolaidis' point was simply that once the issue entered the negotiation phase no one was seriously questioning whether services were traded and that some form of a deal to promote liberalization would be good, rather the main divide in negotiations seems to have been over speed, "In short, while the United States was pushing for full and rapid liberalization as the baseline from which deviations would be made only exceptionally, the majority of countries wanted existing policy arrangements to serve as the baseline from which liberalization departed selectively."³⁶¹ Thus, the structure of the GATS/World Trade Organization deal would not force liberalization as much as "it would simply institutionalize rules within which governments selectively opened market niches on a non-discriminatory basis."³⁶² While concerns about different countries' material interests *vis a vis* a massive and comprehensive program of liberalization become crucial to the outcome of the GATT talks at this stage, this is hardly surprising. However, as Drake and

³⁵⁹Drake and Nicolaidis, pp. 68-69.

³⁶⁰Drake and Nicolaidis, p. 77. They offer little in the way of evidence however other than the USTR's fears that these type of firms would mount opposition. Indeed there is little actual evidence of this opposition anywhere except for the repeated fears by advocates of liberalization that unless an across the board sweeping program of liberalization were agreed to quickly, such opposition would inevitably coalesce.

³⁶¹Drake and Nicolaidis, p. 85.

³⁶²Drake and Nicolaidis, pp. 85-91.

Nicolaidis argue, how these policy makers thought about these interests had already been redefined via the work of the trade in services argument and its proponents.

After lengthy negotiations the final draft of the GATS included three elements: 1) A set of very general rules that should apply to measures affecting trade in services; 2) Specific commitments that apply to those service sectors and subsectors that are listed in a party's schedule to be liberalized ; and, 3) A set of annexes that take into account the specifics of some sectors to allow for temporary exemptions from the Most Favored Nation (MFN) obligation of the GATT. The GATS structure as it applies to barriers which affect trade in services, essentially duplicated the four-part typology of modes of delivery for services laid out by Sampson and Snape, two proponents of the trade in services argument, whose analysis was described in Chapter 2 (The movement of producer to consumer, the movement of consumers to producers, the movements of both, or neither). The important point being that all four possible modes of service delivery are covered in principle only. "The extent to which different modes can be used by foreign suppliers to provide specific services is determined by a country's *schedule of commitments*."³⁶³ That is, if a country agreed to open up one sector for international competition by voluntarily including it in its official GATS Schedule of Commitments, such as basic banking services, it only had to open to mode's of delivery it specifically agreed to accept. In its Annexes it was allowed to bar the use of specific modes of delivery that it did not wish to allow. For example, nation A could open up its basic banking services market to international competitors from nation B, but only through the mode of delivery in which the foreign banks would move to the consumer (by opening up local branches). Nation A would not be required to allow those foreign banks to offer basic banking services via the phone for example from a branch in nation B because this would be a different mode of delivery which nation A had specifically listed in its Annexes as a non-liberalized method. It should be noted of course that any listed commitment to open a sector and a mode of delivery is covered by GATT Most Favored Nation obligations. Such a listing would mean that nation A's banking sector would be open to

³⁶³Hoekman, "New Issues in the Uruguay Round and Beyond", p. 1532.

competitors from any nation, not just nation B.³⁶⁴ Thus, the basic GATT principles of MFN and National Treatment are country and sector specific depending on what sectors a country has voluntarily agreed to liberalize and what modes they have listed as not acceptable methods of delivery.³⁶⁵

It is extremely important to note here that what this meant was that in principle the GATT now covered investment where such investment was viewed as a mode of delivery of services. The trade in services argument snuck investment into the GATT framework for the first time. Also it is crucial to understand that this structure prevents states from closing markets to international firms and foreign competition once they have been listed for liberalization. Essentially, once a sector has been opened under the GATS, future governments cannot decide to re-regulate an industry in a discriminatory way without violating the terms of the treaty. This structure is the essence of Gill's "new constitutionalism" described in Chapter 1. Such an international agreement serves at the very least to protect the interests of multinationals from governments, present or future, which might wish to adopt different policies in relation to services exchange.

Once this basic structure was in place, negotiators then set about the task of browbeating each other in to including as many sectors and modes of delivery as possible into their Schedule of Commitments for liberalization. Interestingly, the success in this phase of negotiations was limited in part due to the fact that this structure itself may have been an impediment to liberalization! Two major countries could agree to open a service sector to competition by agreeing to remove investment barriers, for example, but, because of the GATT structure, every other country would potentially gain the same benefits without a reciprocal opening of their own markets. Thus, while most states might well agree in principle to the goal of liberalizing services trade, without a reciprocal market opening there was not a great deal of incentive to voluntarily open markets.

It should also be noted that there were other reasons why there was little in the way of hard agreements for widespread liberalization in the Uruguay

³⁶⁴Hoekman, "New Issues in the Uruguay Round and Beyond", p. 1532.

³⁶⁵This discussion can also be drawn from Bernard Hoekman, "Assessing the General Agreement on Trade in Services", in Will Martin & L. Alan Winters eds., The Uruguay Round and the Developing Economies, World Bank Discussion Papers, 307, (Washington DC: The World Bank, 1995) pp. 327-364.

Round. Specifically, Ron Shelp may offer one of the best reasons: prior to the round for most pro-liberalization supporters the only clearly defined goal was that of getting services institutionalized into the GATT. Recognizing the difficulty of this task alone, few specifics of what this would include in terms of policy prescriptions ever surfaced prior to the Round.³⁶⁶ Indeed, Shelp own list of specific goals for the Round included only "a freeze on new service trade barriers, negotiations to reduce existing trade barriers *once* service trade rules are in place, and identification of priority service-trade sectors and problems."³⁶⁷ Once again, few specifics were offered other than the institutionalization of liberalization and a protection of the status quo. Despite the general adherence to the trade in services argument by the start of the round in 1987, "most individual service industries [had] not laid out their objectives - despite several administrative requests to do so. Most have talked in the same sweeping generalities that have characterized administrative pronouncements."³⁶⁸

In any event, while one can easily argue that there was little in the way of real liberalization achieved at the Uruguay Round, "significantly more was achieved than most observers - including optimists - would have thought feasible in 1986."³⁶⁹ If the results of the Tokyo Round are compared to those of Uruguay the results are not meager but spectacular, given the relatively short period of time between the two Rounds. The international trade policy community had moved from a point where there was no causal and normative agreement on how "trade in services" should be conceptualized, to point where there was substantive consensus in support of the broad generalities of the trade in services argument.

Attempts to quantify the breadth of the final text of the GATS provisions for opening markets have made similar arguments to those of this thesis. "Commitments made in the Uruguay Round in services are best described as bound standstill agreements for policies pertaining to specific sectors . . . liberalization awaits future rounds of negotiations."³⁷⁰ The World Bank's evaluation suggested that high income countries scheduled about 45 percent

³⁶⁶Shelp, "Trade in Services", p. 82.

³⁶⁷Shelp, "Trade in Services", p. 82.

³⁶⁸Shelp, "Trade in Services", p. 83.

³⁶⁹Hoekman, "New Issues in the Uruguay Round and Beyond", p. 1533.

³⁷⁰Hoekman, "Assessing the General Agreement on Trade in Services", p. 327.

of their service sectors while low and middle income countries as a group only about 12 percent.³⁷¹ However, these statistics hid the fact that within these scheduled market openings many modes of delivery were blocked. "Only 25 percent of the universe of services was scheduled by high-income countries without listing any exceptions to national treatment or market access obligations. For developing countries as a group the figure is 7 percent. Much remains to be done."³⁷²

UNCTAD's response to the GATS was similar. While UNCTAD has been unable to quantify the number of concessions contained in the GATS, let alone assess their effect on the global service economy, they have concluded that the final deal will probably most affect transactions between industrialized and developing nations because in many ways the deal represented an enshrinement of the status quo between OECD nations.³⁷³

Conclusions:

The GATS is a landmark agreement even though it has not had a dramatic, immediate impact on barriers to international exchange in services. It signifies the extension of the jurisdiction of the GATT beyond merchandise trade. In the long term this will mean that states participating in the GATT will have less autonomy to set alternative domestic regulatory goal in regards to investment rules, cultural content laws and other goals that might in some way contradict the now-institutionalized rules of international service regulation. Furthermore, subsequent negotiations will expand its coverage to more sectors in more countries. More importantly, however, the GATS' institutionalization of the *laissez-faire* norms of neo-liberalism into the GATT's coverage of services means that future policy makers and intellectuals will have to respond to this structure regardless of whether the specifics of the trade in services argument are still broadly accepted. Institutionalization of the idea into the structures of the GATT means that liberalization is now the privileged goal and opponents (present or future)

³⁷¹Hoekman, "Assessing the General Agreement on Trade in Services", p. 327.

³⁷²Hoekman, "Assessing the General Agreement on Trade in Services", p. 327.

³⁷³Fritz Franzmeyer, "The Consequences of the Uruguay Round for the OECD Countries", in Harold Saunder and András Inotai eds., World Trade After the Uruguay Round - Prospects and Policy Options for the Twenty-First Century, (London: Routledge, 1996), p. 60.

will have to respond to more than just the ideas, they will have to respond to the institutional momentum of liberalization. In the future, deviation from the now-orthodox views in support of liberalization will be more difficult.

This was the argument of Gill's "new constitutionalism" outlined in Chapter One. Gill argued that regardless of whether neo-liberal Anglo-American ideas remain dominant in international circles, the widespread currency of these ideas in the current phase is being used to erect institutional structures which will continue to cement the bonds of the Transnational Capital's Historic Bloc even if the ideas underpinning them lose some of their effectiveness. That is, even if ideas change Transnational Capital's interests will still be protected by the international treaties and agreements enacted in this period of neo-liberal hegemony.

While the GATS agreement does not bode well for the future of state policy autonomy it does bode well for transnational corporations:

The services sector represents the final frontier in their global reach. The relocation of manufacturing production by transnational corporations, straddling the world economy, has ultimately brought about the internationalization of industrial capital. The quest for a right of access to markets for services and the right of establishment to investment in services, are a step towards the internationalization of finance capital on a world scale. The right of establishment would guarantee the presence of transnational corporations, national treatment would ensure parity with domestic firms, and the absence of restrictions on transborder data flows would bestow on them an overwhelming absolute advantage In such a context, it is hardly surprising that the lobbies of transnational corporations are an extremely important factor underlying the US position.³⁷⁴

This final text of the GATS represents a significant victory for proponents of liberalization, especially when one considers that only ten years earlier very few people had even heard the term "trade in services".

This Chapter argued that the final institutionalization of services into the GATT would not have been possible (or at least would have proven much more difficult) had the trade in services argument in conjunction with the growing salience of neo-liberal principles in international circles not altered the attitudes of Third World Governments towards services

³⁷⁴Nayyar, "The Political Economy of International Trade in Services", pp. 292-3.

liberalization. The trade in services "epistemic community" or "organic intellectuals" played an important role in convincing developing nations, in accordance with the trade in services argument, that a deal on services might be to their benefit. As was the case for the developed nations, for Third World Governments to believe this they would have to believe that it was possible to meaningfully export services in ways somehow different from just investment. To take the risk of opening their markets to greater ownership and control by multinational service giants they had to believe that it was possible to also successfully export their own services in ways which they had not been able to in the past. This was where the trade in services argument and its attendant assumptions most clearly played a role in the trade and services story.

Also, the success of the trade in services argument in effecting this change was aided by the lack of alternatives for developing countries. Support for the old service regimes had eroded, and the debate about including services in the Round failed to produce viable counter arguments. While Drake and Nicolaidis believe this lack of alternatives was due to the underlying structural change in the services economy, the evidence suggests that more important was the growing adherence to neo-liberal ideas in international circles, which not only undermined the old regimes and their anti-competitive norms, but also undermined the possibility of a developing country coalition. This lack of alternative discourses was due to the success of neo-liberalism as a hegemonic discourse, not the success of the trade in services argument as a response to uncertainty. Once again the epistemic communities approach's problematic assumptions about where ideas come from and why they are adopted, hamstrings the ability of the approach to adequately capture how ideas mattered in the trade in services story. Rather, the evidence from the change in opinion of developing countries suggests the need to link consideration of the trade in services argument to the broader success of neo-liberal discourses, consistent with the Coxian approach.

Chapter #6 Conclusions - Epistemic Communities and Organic Intellectuals

"Many years ago, it was said: "What is good for General Motors is good for the United States." In the present context, this perception may well be rephrased to read: "What is good for American Express is good for the United States."

Deepak Nayyar³⁷⁵

"The growth in this global power has been accompanied by a neo-liberal, laissez faire discourse which accords the pursuit of profit something akin to the status of the quest for the holy grail; and the agencies associated with this discourse are staffed by neo-classical economists who assume - in matters of social policy - the role of a modern priesthood. Deviation from this orthodoxy is viewed as a sign of either madness or heresy, a view which acts to disarm criticism and to subvert the development of alternatives."

Stephen Gill, 1995³⁷⁶

After the landmark decision by the GATT in 1986 to include services as a full-fledged negotiating item in the Uruguay Round, advocates of liberalization expressed constant fear that at any moment the fragile consensus in support of liberalization might be shattered.³⁷⁷ It was thought that those who already opposed the move, although few in number, had a "potential ally in a huge but amorphous and un-mobilized interest group: the large majority of service concerns that are not involved in international commerce."³⁷⁸ Indeed, Ron Shelp, who had campaigned for over a decade on behalf of liberalizing services, feared that even some of the US industries which had originally supported the move might change their minds. "Some U.S. service industries [like shipping] will almost certainly oppose any multilateral negotiations that affect their fortunes. It is difficult to imagine that this highly protected industry would agree to surrender its special

³⁷⁵Nayyar, "The Political Economy of International Trade in Services", p. 293.

³⁷⁶Gill, "Theorizing the Interregnum", p. 66.

³⁷⁷See Shelp, "Trade in Services", p. 78; and Walter, Global Competition in Financial Services, p. 114.

³⁷⁸Shelp, "Trade in Services", p. 78.

arrangement and make the kind of concessions that other countries would demand in return for concessions of their own."³⁷⁹ Possible opposition to the idea of institutionalizing liberalization into the GATT was even thought to be likely from some multinationals that had already penetrated heavily regulated foreign service markets, as liberalization would make it easier for new competitors to challenge their privileged positions in these markets.³⁸⁰ But an organized opposition to including services in the GATT never emerged. The consensus that services were a trade issue and could appropriately be dealt with by the GATT was never seriously challenged by those firms and those states whose interests might be adversely affected by such a deal. An explanation of this outcome requires at least some attention to the importance of ideas.

Narrow Interest Based Approaches and the Trade in Services Story

The principal problem of a narrowly-structuralist or interest-based approach to the trade in services story is not its insistence on the importance of structural factors in contributing to the attitudes of actors, but rather its insistence on a one-way causal relationship between ideas and interests. Because of the insistence that an actor's attitudes towards liberalization and protectionism are explained by the actor's functional position in the global economy, and by this *alone*, in order for this approach to explain the broad level of support for the trade in services argument there must have been a widespread internationalization of actors' interests occurring. In order for the "sea change" in attitudes regarding international exchange in services to happen there must have been an equal "sea change" in the international services economy. Since services were not, and had not, gone through a massive process of globalization prior to the Uruguay Round, such an approach is simply inadequate on its own in this case.

As well, because this type of approach assumes that ideas can simply be read off interests, it tends not to examine where and how the formation of new ideas actually occurs. Seemingly, they must assume that there is an

³⁷⁹Shelp, "Trade in Services", p. 83.

³⁸⁰Petit in, Slow Growth and the Service Economy, argues in his footnote 11 on page 120 that many firms might not support liberalization because even those that have penetrated international markets in the past were now privileged by existing frameworks of regulation.

inexhaustible supply of ideas readily available to actors to justify their functionally-determined interests. The problem with such a view, however, is that in the case of the trade in services story a compelling argument can be made that had London-based free trade ideologues not created the trade in services argument (which was such a radical challenge to existing paradigmatic views on services), then multinational service companies would not have been able to define their "functionally-given" interests in line with these ideas. The idea simply had not existed in the past, despite the fact that some companies had been "trading" services internationally for some time. Again, the evidence suggests the inadequacy of narrowly-interest based approaches in explaining the trade in services story.

Ideational Approaches and Trade in Services

As some have observed, approaches to IPE that suggest the importance of considering ideas in conjunction with questions of structure, face an up-hill battle. Approaches highlighting the importance of ideas are in a difficult position because they are under the constant strain of having to prove the utility of ideas as "stand alone" variables where interest-based approaches are *totally* useless; otherwise orthodoxy in the field leads to their rejection as an important contribution to the study of IPE. That is, if interest-based approaches are at all tenable then the "mainstream" IPE community feels that there is simply no need to consider alternative approaches. To overcome this prejudice, "ideas must be shown to exert influence *untainted* by the interests they have just been shown to interpenetrate."³⁸¹ Thus, ideational approaches often end up sounding defensive, attempting to downplay or understate the importance of structurally-determined interests in order to highlight the causality of ideas, despite the fact that many ideational approaches are actually attempts to add consideration of ideas to primarily structural methodologies!

While this author has argued that narrowly-structural methods like Milner's are completely untenable in the case of the trade in services because of their excessive privileging of interests in analysis, it has never been the intention to argue that structural conditions were not important. In fact, it has been argued that the privileged position of giant, American-based service

³⁸¹Jacobsen, "Much Ado about Ideas," p. 286.

multinationals in the international services economy was an important aspect of the trade in services story. It was these transnationally-organized companies that brought the trade in services argument to the international agenda. It has been argued, however, that the acceptance of the trade in services argument so broadly in international circles and its eventual institutionalization into the GATT cannot be explained by these same structural conditions alone. The trade in services argument, its international dissemination, and international acceptance have to be considered as well.

Along this same line of thought this author has not found the two ideational approaches to be without fault; rather, there are significant problems with both approaches' utility in the trade in services story.

Epistemic Communities, Rational Problem Solving and the Adoption of New Ideas

From the epistemic communities approach, as laid out by Drake and Nicolaidis, the trade in services story follows a set path consistent with the assumptions of this methodology. Firstly, a new idea, in this case the trade in services argument, emerged as a rational problem-solving response to an underlying structural change in international services exchange. This idea, adopted and distributed by a "trade in services" epistemic community succeeds in an environment of uncertainty (due to the underlying structural change) in redefining actors' conceptualizations of how the services economy works and what their new interests are in this changed environment. In this process the access of the epistemic community to top policy makers and the success of apparently "value-neutral" second tier community members like academics in legitimizing the views of more partisan actors were two important considerations. Also the idea's success in redefining actors' thinking rested in part on the degree of uncertainty and the degree to which the ideas themselves were a successful response to the changing structure.

Some of the concepts of this approach do help to focus the attention of research on events and patterns that aid in properly capturing the trade in services story. The nodal concept of the "epistemic community" itself does have some explanatory value in the case of services in that it focuses attention on the key role in this story of innovating intellectuals, a "pro-service-trade-liberalization" epistemic community in laying the intellectual groundwork for the inclusion of services in the GATT. As well, in the trade

in services story, international organizations like the OECD, the World Bank, United Nations Centre on Transnational Corporations and to a lesser extent UNCTAD all helped play a role in lending less-clearly partisan support to the substance of the ideas themselves, consistent with the methodologies' theorization of two intellectual tiers within an epistemic community. Undoubtedly, the support of these institutions helped to make the acceptance of the ideas by other actors easier than it would have been if only clearly partisan groups (like the US service multinationals themselves) supported the idea.

Nevertheless, there are significant problems with the approach, mainly centering on its assumptions of where new ideas come from and why they are accepted. First, it has been noted from the outset that in Haas's method the ideas produced by an epistemic community are simply rational-scientific responses to an objective set of structural changes which create uncertainty. Because of this assumption, the approach fails to problematize the contestable nature of the ideas themselves. While one could theoretically challenge Haas and his colleagues' assumptions about the scientific nature of ideas, more to the point in this thesis is the simple fact that the assumption leads to an empirically inaccurate set of conclusions about the trade in services story. The trade in services argument was normative and contestable, not value-neutral and scientific, and this makes the eventual consensus in support of liberalization even more surprising. Haas's approach as attempted by Drake and Nicolaidis actually underestimates the power of ideas in this case by assuming that the ideas were rational responses to changes in economic structure.

Second, the approach runs into difficulty over its claim that the ideas propagated by an epistemic community and their effects are issue and policy specific rather than related to broader ideological currents. While once again, one could argue that such a view of ideas is theoretically arbitrary, the fact of the matter is that this contention runs into difficulty in the case of services. At numerous junctures throughout the trade in services story broader ideological currents in support of liberalization played a role in facilitating the adoption of the trade in services argument. Indeed, simply placing services in a trade policy discourse helped contribute to events. Part of the success of the trade in services argument in capturing the imagination of actors was due to the fact that an overall commitment to neo-liberal, *laissez-faire* discourses

preconditioned actors' acceptance of the idea. This was the case in the creation of the idea, in its initial popularity with US policymakers and business leaders, and was also the case in that the absence of alternative conceptualizations was in part attributable to the broader hegemony of neo-liberal ideas. Such being the case, it seems hard to isolate the trade in services debate from broader ideological currents without doing an injustice to the account of how a consensus in support of services liberalization was reached. The trade in services argument was not created as a rational response to the problems of uncertainty and not accepted by actors solely because of its success as a response to that uncertainty; rather, commitment to the assumptions of the trade in services idea were often normative and related to the rising salience of neo-liberal ideas.

Transnational Historical Materialism

The concept of the "organic intellectual", which is at the heart of Transnational Historical Materialism's relevance to the trade in services story, mirrors the success of the "epistemic community" concept in focusing attention on the role of trade in services advocates in contributing to the consensus in support of including services in the GATT. As well, Gill's "new constitutionalism" bears consideration in the trade in services story. The GATS seems to embody his arguments about Transnational Capital's attempt to create an international political-legal framework to privilege its interests in world affairs. The GATS deal could represent one aspect in the formation of a Transnational Capital Historic Bloc.

However, the real success of the approach's applicability to the trade in services story rests on its recognition of the normative, contestable, and constructive nature of ideas themselves and on the theory's emphasis on the need to link the trade in services story to broader ideological and political developments relating to transnational class formation. Consistent with these assumptions the creation of the ideas of the trade in service argument were part of a partisan, normative attempt to apply neo-liberal ideology and liberal trade theory to services. As well, the acceptance of the ideas at a number of junctures was "pre-conditioned" by the rising intellectual hegemony of those same neo-liberal ideas. This was partially the case in the US Government's firm support for the issue. It was also a factor evident in

Japan's support for the issue. As well, the domination of neo-liberal, *laissez faire* ideas helped condition Third World countries' eventual acquiescence to the ideas.

This suggests that it is not intellectually or empirically accurate to artificially separate the trade in services story from broader accounts of the rising ideological and structural hegemony of Transnational Capital. However, while avoiding this artificial separation, based on the evidence of the thesis would seem to be a more accurate way of capturing the patterns of causation involved in the trade in services story, it is however, also a major drawback to the usefulness of Transnational Historical Materialism.

While the approach is theoretically interesting, quite possibly a good guide to the broad generalities of international class formation and the role of class formation in IPE, as well as having some useful nodal concepts like "organic intellectuals", its emphasis on such factors makes it extremely difficult to use in the manner that a *case study* requires. A history of trade in services written from this perspective would seemingly end up becoming a history of the hegemony of Transnational Capital, the erosion of the Post-War Historic Bloc and the absence of counter-hegemonic forces in international politics. While the evidence of this thesis suggests such considerations are very important in the trade in services story, there is something to be said for parsimony and a clear specification of the important concepts of a theory. The fact that its proponents have to this date been either unwilling or unable to deviate from the broad generalizations of Transnational Historical Materialism toward more specification of the approach makes the theory somewhat unwieldy and complex to use in analysis of specific movements in international political economy.

This is not to suggest that what is required here is a set of clear causal statements of the type provided by the narrowly-structuralist school - analysis that amounts to little more than: Structure "A" causes outcome "B". Rather, what is required is simply a clearer definition of the concepts of Transnational Historical Materialism and a clearer specification of the history of transnational class formation in recent decades. This approach simply leaves too many specific questions unanswered to allow the type of analysis that a case study requires. At what point did Transnational Capital's neo-liberalism become hegemonic, the late 1970s, the 1990s or not yet? How, precisely, would a Historic Bloc be distinguished from hegemony? Without clearer

specifications such as these, at times Transnational Historical Materialism seems little more than a toolbox of concepts from which almost anything can be argued.

Despite these concerns, however, the evidence of this thesis suggests that the broad arguments of Transnational Historical Materialism may provide a useful starting point for conceptualizing how ideas matter in international political economy.

Globalization and Trade in Services

As I alluded to in my introduction it was initially an interest in how the process of globalization was theorized that drew me to the debate between the role of ideas and interests in international political economy. I was concerned that narrowly-structuralist approaches, by reducing globalization to nothing more than a technologically-determined expansion of cross-border economic links, had extremely dire implications for political constituencies attempting to grapple with the problems created by globalization. Simply, if globalization is a technologically-determined structural change and nothing else, then it fuels the sense that governments have no choice but to adopt policies which reflect and endorse these changes. If, however, ideas and institutions play a role in globalization - if globalization is as much a political process as an economic one - than it raises the question that international agreements which enshrine globalization (like the GATS) are not simply inevitable or logical responses to unchangeable economic forces, but rather acts of conscious political commission. Thus, it suggests the possibility of a wider range of choices for policymakers than might be inferred from a narrowly-structuralist approach.

Given the arguments of this thesis that the trade in services argument was not a rational response to changing structural conditions nor simply a recognition of the globalization of actors' interests in the service sector, but rather, a normative and contestable set of constructions, then the GATS should be understood as in part a result of conscious political commission. In the case of services people made their own history, though perhaps not in conditions of their own choosing. I hope, therefore, it is apparent to the reader that this thesis, by rejecting the narrowly-structuralist arguments that dominate the trade policy literature, is also rejecting the implicitly narrow

conceptualization of globalization set out in that literature. Globalization, at least in the case of trade in services, is not just an unchangeable and unquestionable economic process, but a political and social process in which the dissemination of ideas has played an important role.

Indeed, given the details of the trade in services story, it seems reasonable to ask; had trade policy officials, international organizations and intellectuals been more skeptical of the claims of the pro-liberalization community, would there have been a GATS?

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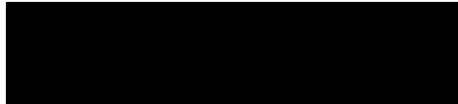
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Title of Thesis:

Ideas in International Political Economy: The Liberalization of Trade in Services

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September 17, 1997