At the meeting on services held on 7 June 1985, the secretariat was requested to prepare a summary of information made available by relevant international organizations regarding their activities in the field of services. To this end, the secretariat has used the documentation referred to in paragraphs 170-185 of the first analytical summary of information exchanged among CONTRACTING PARTIES (MDF/7), together with any additional material received from the organizations concerned.

International organizations which have submitted information have been asked to comment on the parts of this summary which relate to their activities. Since comments have not yet been received from all organizations, any changes required in the present text will be circulated as addenda or corrigenda.

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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD)

1. Trade in Specific Service Sectors

Since its establishment, UNCTAD has been deeply involved in trade in specific service sectors, notably shipping, insurance, transfer of technology and financing related to trade. This work has led to the negotiations in UNCTAD of certain instruments, particularly in the areas of maritime transport and transfer of technology. The UNCTAD secretariat has also been executing technical co-operation programmes with respect to these services, including those for the least developed countries. Services issues have also been addressed in the context of UNCTAD's work on restrictive business practices in the service sector falling within the scope of application of the Set of Principles and Rules.

2. Structural Adjustment and the Service Sector

In its resolution 250(XXIV), the Trade and Development Board at its 24th session (March 1982) agreed, inter alia, that when dealing with policies, as well as their underlying factors, that influence structural adjustment and trade, in-depth analyses should not be limited to manufactures, but should devote commensurate attention to the situation in the fields of agriculture and services. Pursuant to this mandate the secretariat prepared a study on "Protectionism and Structural Adjustment: Production and trade in services, policies and their underlying factors bearing upon international services transactions" (TD/B/941). The study covered a number of inter-related topics in the field of services such as a conceptual overview of the nature of international service transactions, some of the principal determinants of structural patterns in the international services sector, statistical information on production, employment and trade in the sector, and measures affecting international service activities, including both trade-related and investment-related measures.

In addition, in its resolution 286 (XXVIII), the Trade and Development Board at its 28th session (26 March-6 April 1984) decided that "attention should be given to identifying trends in all factors important to the structural adjustment process, such as technological development, demand, and international trade and to factors of production, in particular labour and capital". In this regard, a study on "Problems of protectionism and structural adjustment, Part II: Trends in production and trade in all sectors and their underlying factors". (TD/B/1039) was prepared by the secretariat, and in the study the service sector was reviewed.

3. Services and Development Process

The Conference at its sixth session in Belgrade (6 June-2 July 1983), in resolution 159 (VI), instructed the Secretary-General of UNCTAD to continue the studies of the issues involved in the area of services and agreed that UNCTAD would, inter alia, consider the role of services in the development process, the special problems of the least developed countries to be kept in view. In this regard, the secretariat prepared a study on "Services and the Development Process" (TD/B/1008) which was submitted to the twenty-ninth session of the Board. Supporting sector studies on the transfer of technology, shipping, and insurance produced by the UNCTAD secretariat, and a study on transborder data flows prepared by the UN Centre on Transnational Corporations were also submitted to the Board (TD/B/1012, 1013, 1014).
The study on "Services and the Development Process" (TD/B/1008) basically concentrated on two issues, the role of services in the growth and development of the domestic economy, with emphasis on the situation in developing countries, and issues relating to services in the international context. In the former part, the evolution of thoughts and theories on the role of services in the economy, production and services in developed and developing countries and interlinkages between services and the rest of the economy was reviewed. In the latter part, the general profiles of the world market for services, the importance of traded services to particular countries, conceptual issues on trade in services, and other relevant issues such as information technology and the role of transnational corporations in services were discussed.

The document also examined the rationale behind regulations on services, at the national and international levels, and it summarized the current international debate on services, in both governmental and non-governmental circles. In this context, existing bilateral arrangements dealing with trade and foreign investment in services, and the existing multilateral framework in the areas of shipping, insurance, technology, restrictive business practices and economic co-operation among developing countries in services were reviewed.

4. Future Work of UNCTAD

The Trade and Development Board at its thirtieth session (March 1985), pursuant to the invitation from the Conference to consider appropriate future work, agreed in its decision 309 (XXX) that UNCTAD's contribution, in addition to the ongoing work on specific sectors of services, should encompass the following four aspects:

(a) Consideration of the definitional aspects of services

The secretariat reviewed various approaches and methodologies adopted in a variety of studies prepared by governmental, private and academic bodies to determine the actual role of services in an economy, and emphasized the importance of identifying the "interlinkages between services and other sectors of the economy. In analyzing the role of services in the development process, the secretariat is examining the definitional issue from the point of view of the relationship between services and production, distribution and consumption of material goods. The secretariat keeps contacts with the member States and seeks information on the studies that are planned or underway and the specific aspects being covered particularly the approach being taken to definitional issues.

(b) Further in-depth studies of the role of services in the development process to enable countries to analyze the role of the services sector in their economies and its contribution to all aspects of the development process

Further in-depth study of the role of services in the development process will be carried out taking into account fundamental differences between economies of countries. In developed countries, the growth of the services economy is often viewed as a final step in the development process with the movement in the employment from the primary to the secondary sector and finally to the tertiary sector. In the case of many developing countries employment, however, has shifted directly from the primary to the tertiary
sector and is itself a phenomenon requiring further analysis. The question of the availability of producer and distributor services as constituting a pre-requisite for industrialization, rather than a consequence of it, will also be focussed on in the further work of the secretariat, as will the likely extent of the contribution of the "informal sector" to services' output. Another important issue requiring an in-depth study is the role of "new" services in developing countries, for example, accounting, advertising, marketing, telecommunications and telematics. In this regard, issues that need to be addressed concern the extent to which developing countries can develop their own indigenous skills in these areas, as well as the opportunities and problems that may arise in their trying to develop these services through joint ventures and other partnership arrangements with foreign companies.

The importance of the interlinkages between services and other sectors of the economy, notably agriculture, mining and industry, requires further analysis. In selecting particular service industries for detailed study, priority would be given to those having such interlinkages, for example, financial services and marketing and distribution. It should also be mentioned that, on account of the particular importance of "data" as a basic input to the international service industry, the UNCTAD secretariat is collaborating with the United Nations Centre on Transnational Corporations in a study of data services.

(c) Strengthening and refining of the data base at the national, regional and international levels, together with methodological improvements in this field

Initial discussions have taken place with the principal bodies in the United Nations system involved in the collection of service statistics. Contacts between UNCTAD and United Nations Statistical Office (UNSO) have indicated some new avenues for further co-operation, especially in the context of input/output data, and in the ongoing projects in which UNSO is involved, inter alia, the International Comparison of Purchasing Power and the new product classification for services (Central Product Classification) exercises, which should establish the basis for service statistics in the future. The secretariat is also maintaining contacts with other international organizations dealing with services, in order to make full use of existing statistics, and to be kept informed of new developments in methodologies and data collection. Among others, the Economic Statistics and National Accounts Division of OECD is contacted on a regular basis. At the same time, the secretariat is following progress in the World Bank and the International Monetary Fund in this area, in particular with regard to the IMF Direction of Trade Statistics.

(d) Assisting upon request and within available resources, member States in their analysis of the role of services in their economies

Requests have been made by a number of developing countries, including the least developed and island countries, for assistance in carrying out their national assessments. In responding to such requests, the secretariat has given priority to assistance in the undertaking of a few pilot studies. Such studies are providing experience in applying the methodology for national assessments proposed in the annex to the previous report to the Board and are enabling the secretariat to design the programme of assistance called for in paragraph 2 of decision 309(XXX). The envisaged programme would involve close collaboration with the United Nations regional, economic and social commissions and other international organizations with competence in services.
Technical Consultancy services

The ITC report "Study of the Development of Foreign Trade in Technical Consultancy Services from Developing Services" (ITC/DPM/84/6) represents the first phase of a study initiated by the International Trade Centre UNCTAD/GATT in response to a number of requests from developing countries for assistance in expanding their foreign trade in services.

The main objectives of this survey were to make an overview of the situation in selected countries with regard to: (1) the supply of, and the demand for, technical consulting services; (2) the potential for, and constraints involved in, the development in exports of services from the selected countries; (3) the way in which ITC could best help developing countries to improve their exports of technical consultancy services; and (4) the scope for ITC to follow up this study with a more in-depth analysis of the supply/demand constraints rather than prospects, aimed at improving the development of, and trade in, services. It should be noted that ITC's assistance in this area, presently modest, is limited to: consulting engineering, operations, maintenance, management, computer software, trade information and training.

The report notes that the service industries, which have only recently been developed in many third world countries, are often the result of the large industrialization programmes being realized in these countries. Some developing countries have now built up sufficient service industry capabilities to allow them to export selected services and thus make a significant contribution to their export earnings. However, exports of services from developing countries as a group are still insignificant compared with those of the leading industrialized countries.

Technical consulting services form a major service industry that has been successfully exported by a number of developing countries and could offer potential for growth if some of the basic constraints to export could be overcome. One beneficial effect of exporting technical consulting services is that it improves the potential for the export of manufactured and engineered goods and construction services. It is found that one unit of consultancy can allow the generation of two to four units of engineered goods.

Several development assistance agencies are currently assisting developing countries to build up their consulting services in order to speed up industrialization. In several countries the development of local consulting services is sufficiently advanced to allow the export of these services. Several of these specialized agencies have developed or have proposed programmes for training, co-ordination, supply and collection of information in this area.

The point is made that the first step in any export development programme is to set up a focal point for the foreign trade in services that would help to co-ordinate the various projects and programmes to make them more effective.

The large market for consulting services that exists throughout Asia, Africa and Latin America is worth several billion dollars; £1.15 billion was spent by the World Bank alone in 1983. The market is usually supplied by foreign consultants, with the majority of contracts being taken by the
consulting firms from industrialized countries, even though there may be a sufficient supply of local consultants available. The share of developing countries in the consulting services market is not proportional to their supply capability.

The relatively less developed countries tend to allocate the majority of their consulting business to firms from industrialized countries while the more developed countries often make it mandatory that local consultants (though often from the public sector) have some involvement in projects.

The report points out that the cost element is one of the major reasons why consulting firms from developing countries have not been more successful. The high cost of business promotion and tendering, where competition is intense and the chances of being a successful bidder are low, often result in a lack of interest in overseas work, particularly where any modest profit is subject to a high level of corporate taxation. The problem of obtaining foreign exchange, particularly for business promotion for those companies with a weak financial base, makes it very difficult for them to market their services. There is often a lack of government support, both in helping to ensure a continuous supply of work at home and in providing export incentives and support, which makes it difficult for consulting firms to compete on export markets. The report goes on to say that governments of industrialized countries, which are trying to increase exports in the whole range of services, particularly consulting, often offer a wide range of incentives to their consulting firms. These incentives include export credit incentives, low interest bilateral funding to potential clients as well as commercial support in obtaining advance information on projects and commercial intelligence.

Developing country consulting firms often cannot get recognition with the major multilateral aid funds and international agencies owing to their lack of recognized qualifications. Many cannot obtain these much-needed qualifications because their governments do not support the consulting industry in their own countries and give key projects to foreign consultants. Lack of sufficient advance information about a project, say the authors, precludes a developing country consulting firm from even prequalifying.

Trade in consulting services must only be promoted in those countries that have already developed a sufficiently strong base of domestic consulting services. The development of this base must be encouraged by helping those consulting firms that are professionally competent to get more work in their own countries; this development of the necessary skills will eventually allow them to market their services overseas.

Often governments require that a portion of some projects be sub-contracted to -, or that some sort of joint venture be undertaken with -, local consulting firms to ensure transfer of technology and to improve a local firm's ability to manage a project.

The report points out that major constraints to developing country consulting firms are the following: (1) lack of advance information concerning projects; (2) lack of financial support for commercial development; (3) lack of government support in obtaining domestic contracts
which often precludes pre-qualification for similar projects overseas; (4) lack of commercial experience and market development; (5) lack of infrastructural organization in the country to improve the export of services; (6) lack of recognition by international or multilateral funding agencies; and (7) lack of interest (by local consulting firms) in pursuing work overseas owing to the slim chance of success compared with the high cost of market development.

As a result of their own industrial development, some developing countries have a large number of individuals or firms that provide consulting services. These individuals or firms are often highly competent and could offer a range of services to other developing countries. The value of the demand for consulting services in the developing countries is now of the order of several billion dollars. Often, large parts of many projects could be executed by domestic consulting firms if more efforts were made to give this work to them by means of joint ventures or subcontracts. Efforts are being made to develop both the supply and exports of consulting services from developing countries by a number of international agencies such as ILO, UNESCO, UNIDO, World Bank, UN regional commissions, regional development banks as well as associations of consulting engineers, such as FIDIC.

The report recommends that ITC assist in promoting the export of consulting services from several developing countries. Initially, the Centre should focus on developing an infrastructure to improve and consolidate professional capabilities and to assist governments in the development of an export market promotion strategy.

The strategy for the development of this infrastructure should include the following provisions: (1) policy to encourage the development of skills in the industry through professional training programmes, encouragement of contacts between foreign expertise and local consultants, participation of local consultants in international seminars, and an active encouragement of joint ventures between local and multinational consultants; (2) use of local consultants to provide them with regular work in their own countries, which would help them to gain work and recognition abroad; (3) active and visible support to consulting associations; (4) assurance that the correct financial incentives to the industry are available to enable them to compete on export markets; and (5) provision of necessary government administrative and institutional support to the industry, including commercial intelligence from the commercial departments of embassies.

A major role of ITC should be to provide support to a central focal body such as the major consulting associations in each country. This support would include the following elements: (1) development of an export promotion and technical assistance programme to develop consulting services, possibly in conjunction with other development assistance agencies for the development of local consulting associations, that would build up consulting skills and lead to the creation of a cohesive policy for the industry; (2) assist national trade associations in the registration of their members with development assistance agencies which use consulting firms; (3) organize training programmes in marketing and related subjects; (4) assist the
national trade associations to establish contacts with representatives of development funds and international agencies; and (5) work with the national trade associations to help them gain recognition and credibility.

The study suggests that government agencies take six specific actions.

First, regarding continuity of work, an incentive programme providing advantages for foreign firms that associate with local firms would greatly increase local participation in grant-financed and other technical assistance projects that tend to be awarded to foreign firms. The flow of information to the private sector on public sector work opportunities should be increased.

Second, regarding co-operation with consulting associations, governments should be encouraged to co-operate more closely with domestic consulting firms and individuals and to give more recognition to domestic consulting associations. This would provide a forum for consultants and governments to discuss problems and allow associations to establish legal standards, thereby raising the standing of the profession at home and internationally. The associations could then lay down and promote professional codes of conduct within the industry.

Third, regarding financial incentives, ITC could assist governments to analyse the financial incentives made available to successful consulting firms by industrialized countries. Governments policies that encourage severe price competition among local consultants should be modified to ensure that weak and incapable firms are not awarded contracts exclusively on price. Prompt payment should also be encouraged.

Fourth, regarding institutional support, ITC could assist governments to set up an institutional infrastructure to promote the development and exports of consulting services, which could be responsible for registering and maintaining project lists, etc.

Fifth, regarding development of skills, emphasis must be placed upon the development of skills within consulting firms through short training seminars on management and business development, engineering systems and project management. Financial assistance should be found to enable more local consultants to attend selected international conferences for consultants and international training courses. A programme of joint ventures could provide on-the-job training within the context of projects organized and executed by foreign firms and could be accompanied by short visits by local consultants to the foreign firms' headquarters.

Sixth, governments should encourage the establishment of carefully developed and well promoted joint ventures. Great care must be taken to identify the options and to improve selection procedures to include evaluating the competence of the local firms. Training within joint ventures should be well encouraged and the terms of reference for joint ventures should be well defined so that there is a clear delineation of tasks to be performed by each party.

The report on the second and third phases of the Study, which were financed by grants to the ITC and from the Government of India, was published on 1 May 1985 (ITC/DPMD/85/15). The main objectives of the second and third
phases were to provide a detailed analysis of the situation in selected countries with regard to:

- The supply of, and demand for, technical consulting services;
- The potential for, and constraints involved in, the development of the exports of services from each country;
- Those technical consulting services that could be developed for export in each selected country;
- The ways in which ITC could best help those selected developing countries to improve their exports of services.

A twelve and a half month survey was carried out in two phases beginning in December 1983. In the first phase, from 12 December to 12 July 1984, detailed supply surveys were carried out in four Asian countries (Bangladesh, India, Pakistan and the Philippines) and demand surveys were made in the Middle East in Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (Abu Dhabi). In the second phase from 12 July to 31 December 1984, supply and demand surveys were undertaken in three countries in Latin America (Argentina, Brazil and Peru) and three countries in Africa (Egypt, Ivory Coast and Kenya).

In order to determine the extent to which technical consulting services from developing countries were used by development assistance agencies and to determine the potential for exporting consulting services from developing countries, a series of visits was made to several selected development assistance agencies. Visits were also made to selected agencies and associations that have been trying to assist the export development of consulting services throughout the world in order to determine what they were doing and to find out how future programmes could be co-ordinated.

The major demand for technical consulting services exists in the Middle East and South East Asia; demand in these two regions is estimated to range between $3 billion and $5 billion out of an estimated total world demand of $8 billion. It is claimed that this market is growing at about 10 per cent per annum. Since many of the countries in which there is a demand for consulting services lack sufficient skilled manpower, many domestic companies are often dependent upon foreign nationals recruited abroad. There is a good potential for developing countries, selectively to market operations and maintenance services, usually in a joint venture with a local partner, in both Africa and the Middle East. The best potential in this field lies in running process plants and power stations, hospital management, computer operations and training.

The current market downturn notwithstanding, the Middle East will remain, for the foreseeable future, one of the world's main trading areas and a particularly important market for services from developing countries. Marketing of engineering consulting services in Middle Eastern countries will continue to be very difficult on account of the extreme competitiveness of the market during a time of diminishing projects. It will be even more difficult for any consulting engineering firm that does not have a physical presence in a particular country to enter the market in that country. A
significant number of local engineering consulting firms that have recently been established are forcing their governments to give them preferential treatment on government contracts. Considerable legislation has been set up to give domestic companies a mandatory share of contracts. However, foreign firms still fund many potential projects that can be developed in all countries in the region, particularly where appropriate technology or special skills are required.

The discontinuity of cash flow in certain countries is making it hard for developing country firms to remain active in those markets. In order to remain on the market, it is necessary to establish a local office but the high cost of maintaining such an office makes it essential to maintain a workload.

Arab funds now claim that they wish to see greater use of consulting firms from developing countries and, in particular, greater co-operation between industrialized and developing country firms. Some funds now give a price preference to firms from developing countries. In general, in almost every developing country, most project work must be externally financed by the consultant. Hence those countries that offer the best credit incentives will often win the contract.

The study recommends that ITC assist in promoting the export of consulting services from several developing countries and assist governments in developing an institutional organization for the promotion of exports of services in selected developing countries that have the potential to export their services. This organization would contribute to the exchange of views between government and industry in the problems of exporting services and in coordinating assistance for problem solving. The organization would be a source of information, assistance and advice to national exporters. It would be structured to include five separate groups that would provide a wide range of services including the following: policy and planning, market development, specialized support services, trade information and training.
The UNCTC report "Transnational Banks: Operations, Strategies and their Effects on Developing Countries" (ST/CTC/16) aims at furthering the understanding of the nature, structure and operations of transnational banks and their effects on host, particularly developing countries, with a view to reaching a number of conclusions which may assist policy-makers in these countries in their relations with transnational banks. For the purpose of this report, transnational banks are defined as deposit-taking banks with branches or majority-owned subsidiaries in five or more different countries and/or territories. Applying this definition, 84 transnational banks were identified in 1975.

The report contains four chapters. The first of its four chapters gives a brief summary of the study's major findings and discusses issues relating to the policy options of the major parties concerned: developing countries, transnational banks, home countries and the international community. The second chapter deals with the nature and structure of transnational banks. The third focuses on the transnational banks' strategies in international operations and their implications for developing countries, and the fourth focuses on their local operations and on the national regulation of transnational banks, together with the implications for developing countries.

In order to deal with these questions, two sets of studies were conducted. First, a number of field studies were undertaken on major transnational banks headquartered in Canada, France, the Federal Republic of Germany, Japan, Switzerland, the United Kingdom of Great Britain and Northern Ireland and the United States of America, with respect to the banks' global structures and their strategies of international operations, particularly in developing countries. In addition, an in-depth study was undertaken of the external borrowing of Peru from transnational banks over the period 1965-1976. Second, research was carried out in a number of developing countries in Africa, Asia and Latin America in order to analyze local operations of transnational banks and their implications for the development process. However, difficulties in obtaining disaggregate data severely limited the depth of this analysis. Therefore, the report is able to discuss findings with regard to local operations of transnational banks in comparison with those of national financial institutions in only two countries: Malaysia and Thailand. Although the field studies do not permit any generalizations, some of their findings may be instructive and possibly useful for policy-makers in developing countries. The discussion of national regulation of transnational banks' local operations is based on data relating to nine developing countries: Brazil, India, Kenya, Malaysia, Mexico, Nigeria, Republic of Korea, Thailand and Venezuela. Data from the original research carried out by the United Nations Centre on Transnational Corporations are supplemented by evidence from the available literature on the subject.

Regarding the major activities of transnational banks, substantial differences exist among the banks in the type of services which they provide and on which they depend. The dominant lines of banking services include: (a) consumer banking: lending to individuals or households in relatively
small amounts; (b) commercial banking: lending in large amounts (millions of dollars) to business, predominantly transnational corporations, and/or government borrowers; (c) money market operations: placing funds with other banks or financial intermediaries and investing in public securities markets; (d) trade finance: advancing credit, generally short-term, to finance the export or import of goods; and (e) fiduciary operations: managing the funds of others.

A review of the international operations of individual transnational banks indicates that their approaches to dealing with developing countries differ widely. Despite the range and variations, however, these approaches can be grouped in three main categories: derivative, constituent and integral.

One group of transnational banks derive their business with developing countries from other operations that are of primary importance to the banks. These operations include commercial services for transnational corporations, which may prompt the banks to do business with the governments of countries where there are important transnational corporation clients; money market operations, which draw them into lending to central banks of developing countries; and trade finance, often supported by the home government's guarantees, which may result in short-term loans to buyers in developing countries. The banks with such business, which is called here derivative, do not as a rule have a substantial network in the developing countries, or perhaps in any other part of the world, and any presence which they may have tends to consist more of representative offices than of branches or subsidiaries.

For the second group of transnational banks, business with developing countries is more important than for the first, constituting one among several substantial and independent activities. Often, for historical reasons, international operations involving developing countries have a standing of their own within the banks, separate from the other lines. The developing countries network has a certain power with the bank. It provides a source of revenue that helps the bank to diversify its operations and spread its dependence among various markets, thus smoothing income flows. The other lines range from domestic commercial banking in the transnational bank's home country to diversified consumer and commercial banking in all industrial countries or money market operations. In general, transnational banks in this category may be more flexible in their transactions with developing countries. They offer a potential for the growth of developing country business.

The third group of transnational banks maintain operations with developing countries that are of fundamental consequence to them. These banks have substantial networks in many developing countries from which they derive the bulk of their revenues. Their very dependence upon this business with developing countries, called here integral, makes these banks consider very carefully the global implications of any bargain with a particular developing country.

Whether a transnational bank's business is derivative, constituent or integral affects the way in which it allocates credit, prices its loans, and imposes conditions on the use of funds.
The local operations of transnational banks in host developing nations are conducted through branch offices, affiliated banks or banking subsidiaries, finance subsidiaries, and representative offices. The chief operational distinction among these is that branches and affiliated banks and banking subsidiaries can hold domestic deposits, i.e., local savings, while the other two forms usually cannot. Branches, affiliated banks and subsidiaries can make loans, whereas representative offices cannot, although the latter can be important in arranging loans made by the other forms or by offshore units of the parent transnational bank. The particular wholesale and retail banking functions performed depend on the regulatory policy of the host government and on the role of the host country in the global strategy of the parent bank.

Banking regulations and other banking policies of nine developing countries (Brazil, India, Kenya, Malaysia, Mexico, Nigeria, Republic of Korea, Thailand, Venezuela) reflect the infant industry protection approach. The objective of these policies is twofold: to minimize the access of transnational banks to local savings and to promote national financial institutions. Access to local savings by transnational banks is curbed by imposing restrictions on the number, location and services of their branch offices. A variety of supplementary policies are designed to promote national institutions.

Developing countries are both hosts to transnational banks' local operations and external borrowers from the parent banks and their offshore branches. In their role as hosts, many developing countries have reached a high level of sophistication in influencing the activities of transnational bank entities, although there are still some aspects that require the attention of national banking and financial authorities. Since the end of the Second World War, developing countries' banking policy has chiefly been directed to nurturing and promoting national financial institutions. As a part of this effort, the main thrust of their regulations in regard to transnational banks has been to curtail and control the access of foreign banks to local savings, through restrictions on the number, location and scope of transnational banks' local branch offices. This policy has been successful in spurring the development of local banks and their own branch offices, and in encouraging them to assume a greater share in the mobilization and allocation of domestic savings. However, innovations in transnational bank' local operations may require national banking authorities to adopt more broadly differentiated policy instruments.

The major gap in host policy results from concentration on the form of the transnational banks' presence: developing countries seem to distinguish among a branch, a subsidiary and a representative office much more than among the operations they perform. Supplementary policy instruments are required to deal with the activities of affiliates and finance subsidiaries which perform a number of functions, some of which were formerly carried out by branches while others are new. Many of these activities are not covered by current policy instruments.

These instruments need not necessarily be restrictive. In some cases, banking authorities in developing countries might be well advised to consider and evaluate the possibilities of using non-discriminatory credit and/or tax instruments to promote transnational bank activities in line with financial market and general development objectives.
Developing countries, as external borrowers, could make an important effort to improve their negotiating capacity. The most obvious need is for systematically collected information about loan negotiations and differences among transnational banks. Another problem which may require attention is that in many cases developing countries do not possess sufficient personnel trained in external operations. One solution might be co-operation among countries facing similar problems, with a view to setting up relevant information systems and training programmes.

Finally, the report points out that transnational banks, the single most important global mobilizers of savings and allocators of financing, can no longer be expected to perform the services they have been extending to the developing world during the 1970s. By themselves, they cannot alter the cost and term structures of their external financing of developing countries. A concerted effort by transnational banks, developing countries and home nations is needed to solve what is a paramount problem of the international community.

Reinsurance

The UNCTC report "Transnational Reinsurance Operations" (ST/CTC/15) examines the structure of transnational reinsurance and deals briefly with some possible implications of the dependence of developing countries on foreign reinsurance. It consists of two chapters. Chapter I describes the international reinsurance market, the main firms, their degree of concentration in this market and their regional distribution. In Chapter II, the implications of foreign reinsurance for developing countries are summarized together with the measures they may adopt to strengthen their retention and underwriting capacities. The report draws on the existing literature and discussions with representatives of the industry, scholars and other experts. The Centre also drew upon the reports and the experience of the Special Programme on Insurance of the United Nations Conference on Trade and Development.

The internationalization of production has been closely followed by an increase in activities of transnational corporations in the service sector. Firms in this sector have usually been drawn abroad in the wake of their clients' expansion, although sometimes the motive for expansion abroad has been to offer their services to domestically-owned concerns in host countries. The insurance business is to a large extent transnational. To obtain a better risk distribution and higher growth rates, transnational insurance corporations attempt to operate in as many countries as possible. International expansion is a means not only of increasing the net volume of business of these corporations but also of achieving profit maximization through better risk distribution.

Insurance companies cede part of their risks to reinsurers. Thus, a reinsurance company is an insurance company's insurance company. This situation enables insurers to underwrite a larger amount of business than would otherwise be possible by protecting them both from a series of small losses and from a single big loss arising out of a major catastrophe.

The report concentrates on reinsurance rather than insurance because dependence on foreign reinsurance is much more persistent than dependence on foreign insurance. With an increasing number of countries limiting or
excluding direct foreign participation in national insurance markets and restricting the foreign ownership of insurance companies, international reinsurance is gaining in importance in the international arena. Even in countries where the insurance sector has been totally nationalized, dependence on foreign reinsurance cannot be eliminated altogether. This is particularly the case in developing countries, where the premium income is relatively small and where large risks cannot be covered by the premium receipts generated there. The volume of reinsurance services which these countries purchase abroad in order to balance their portfolios has therefore increased significantly.

The dependence of emerging insurance markets in developing countries on foreign reinsurance is generally extensive. The degree of such dependence varies, however, from one country to another according to the structure of each market, its degree of development and the types of risks covered.

Developing countries are concerned about the cost of foreign reinsurance for two main reasons. The first is the cost in foreign currency and the second is the negative impact that excessive recourse to reinsurance has on the growth and development of the domestic insurance industry.

Regarding the regulatory measures, the report notes that the functioning of co-insurance and/or pooling arrangements obviously requires a willingness by companies in the same market to co-operate in underwriting risks. (Co-insurance consists in sharing an insurance contract among a number of companies. Pooling is a way of gathering risks on a broader level than that of individual companies, and then distributing them among various companies according to each participant's retention capacity.) Grouping local companies together does not always work; partly because some may be unwilling to put the interests of the market before their own private interests, and also because of mistrust of other insurers. Here government guidance could be useful, inducing local insurers to share the business as much as possible before resorting to foreign reinsurance. In fact, regulations in some developing countries prohibit the seeking of reinsurance outside the country until locally available capacity has been used up. In Mexico, for instance, direct insurance companies are required to reinsure at least 50 per cent of the surplus in the local market. In Venezuela, there is an obligation to reinsure locally at least 40 per cent of the surplus of proportional covers in the local market. Some developing countries go even further and prohibit direct writing companies from reinsuring outside the local market; in such cases local insurers are required to place the excess of their retention with a central reinsurance company, whose most important function is to retrocede part of its surpluses to the local companies so that full use may be made of local capacity.

The most common degree of control over outward reinsurance is the requirement that the local insurers should cede a stipulated portion of each risk, or of the surplus of each risk, to a domestic central reinsurance company. This is the case in India, Iran, Kenya, Nigeria, Pakistan and Turkey and many other countries. Sometimes there is no legal obligation to cede a portion of each risk to the central reinsurer, but it takes place nonetheless on a voluntary basis, normally called "agreed cessions". This system is applied in a number of countries, including Israel, Kuwait and the Sudan.
Some countries prohibit by law the formation of subsidiaries of foreign companies, which tend by their very nature to reinsure heavily with their principals abroad. In a number of developing countries, reinsurance treaties have to be submitted to the insurance supervisory authorities, and even to central banks, for approval before they are concluded. Such measures are designed to give the authorities an opportunity to judge whether these arrangements are compatible with the real needs of the industry and whether a reasonable price is to be paid. It also allows monetary authorities to judge whether reinsurance proposed is in line with the economic and financial interests of the country. These measures have not, however, always proved helpful because of the difficulty experienced by the control authorities in developing countries in assessing the risk situation. Still, some countries even resort to discriminatory taxation to discourage reinsurance abroad and place restrictions on the remittance of funds between the ceding company and the reinsurer. In Israel, for example, a tax of 15 per cent is applied on all reinsurance premiums transferred abroad. Such extreme practices would seem to be injurious to the orderly functioning of reinsurance arrangements.

As a general rule, it would make sense to adopt measures that can strengthen the capacity of local companies rather than measures that are injurious to the international flow of exchange of services. Some countries, for instance, have introduced legislation to increase the minimum paid-up capital: this is the case in Indonesia, the Philippines and Thailand. In other countries, laws or directives have been issued encouraging or obliging small and technically weak companies to merge into larger and more effective units. Tunisia and Morocco have taken measures which require a minimum amount of annual turnover for renewing the registration of companies operating in their markets. Also, in connection with increasing the capitalization of insurance companies, some countries have introduced regulations prohibiting insurance companies from paying large dividends to their shareholders.

The expansion of the reinsurance requirements of developing countries, coupled with a desire to save foreign exchange, has prompted many governments of developing countries to set up central reinsurance companies, normally with public participation in their share capital. These companies are endowed with compulsory or agreed cessions from all direct writing companies operating in the market, whether national or foreign. Moreover, compulsory cessions are often accorded to these companies against low commission terms in order to favour their quick growth. Because they receive a cross-section of the local business, these companies now have a considerable retention capacity and in many cases business ceded to them falls short of half of their capacity. These companies also retercede part of their surpluses to the local companies, thus making it possible to use local capacity that would otherwise have remained unused. A considerable part of the strength of these companies derives from their ability to offer to outside markets a fairly large amount of business with a reasonable degree of spread. This gives them bargaining power when seeking retrocessions in the international markets, thus enabling them to obtain terms normally more favourable than those obtained by individual insurers. Moreover, central reinsurers have a better chance of obtaining more favourable reciprocal business. Some of these companies, by monitoring terms and conditions offered by direct insurers, and by insisting on strict tariff rates, contribute to the reinsurance terms obtained by such markets as a whole. Finally, an important aspect of the
activities of these companies is their ability to function on a world-wide scale. Having a broad home base with a wide spread of capacity and know-how which they develop through their contacts with the ceding companies and their retrocessionaires, they can contribute to the expansion of world capacity. If central reinsurers have not yet played a major rôle, it is likely that they will do so in the future, considering the increasing demands of cover for larger risks.

The functioning of a central reinsurance company requires a sufficiently large market. As insurance markets in some developing countries are very small, a local reinsurer is less able to meet the needs of the national economy. Such markets need to band their efforts together at a regional or sub-regional level to create common reinsurance units. The creation of such regional units allows these markets to overcome the constraints and difficulties arising from their exiguity, the scarcity of their financial resources and the lack of the technical expertise necessary for the good running of a reinsurance company. Such regional reinsurance units created by some developing countries take two forms: regional reinsurance companies, and regional reinsurance pools.

During the last decade, several regional reinsurance corporations were created as joint ventures between a number of countries belonging to the same region or continent. These corporations took the form of inter-state bodies or inter-company bodies with strong state backing. These regional companies are supported in all cases by legislation or agreements binding the member markets to cede to them a prefixed percentage of all their outward treaty cessions. While cessions to central reinsurance companies are priority cessions, cessions to regional companies are simply shares of outward treaties. Also, the terms of cessions to regional reinsurers are the same as to all other reinsurers. Most of these regional reinsurance companies, after regaining a share of the business received under compulsory or agreed cession, redistribute a part of their surplus among the markets of the region for their net line, with the balance going to foreign markets, normally against reciprocity agreements. Since regional reinsurance companies came into existence fairly recently, there is not enough experience to assess their effectiveness in increasing regional capacities and in curtailing reinsurance expenditure outside the region. However, it is believed that through their expected balanced portfolio and the wide geographical distribution of their business, they will be able to develop higher levels of retention, and they are expected, as they gain in expertise, to provide technical assistance to direct companies operating in the respective regions.

A number of regional pools have also been set up with the aim of increasing the retention capacity within the region concerned and reducing the outflow of foreign exchange outside it. Business underwritten by members belonging to such pools is put into one basket, and then redistributed to each of them according to pre-established shares. Any surplus after such redistribution is retroceded abroad from common account. Occasionally, regional pools also accept business from non-member companies and from outside the region.
So far, however, none of these regional pools has succeeded to the extent anticipated. The basic problem facing them seems to be that only a few insurers in a few member countries are willing to make substantial cessions or to accept retrocessions from the pool. The pools cannot develop without adequate support.

Shipping

The UNCTC report "Transnational Corporations in the Shipping Industry: The Case of Bauxite/Alumina" (E/C.10/1982/14) examines the rôle of transnational corporations in the shipping sector. The report begins with an overview of the rôle of transnational corporations in the shipping of dry bulk exports. Chapter I discusses the structure and characteristics of world production and trade in bauxite/alumina. Chapter II discusses the experiences of three developing bauxite-exporting countries in developing their shipping capabilities through joint ventures. Chapter II concludes with some potential benefits which may accrue to bauxite-exporting countries from this participation.

The case of bauxite/alumina was chosen since it constitutes an example of the control of shipping by largely vertically integrated transnational corporations, and demonstrates the alternative open to developing countries for the shipping of their export commodities. The report draws on the existing literature and on interviews with experts.

Shipping is a vital link in the chain of production, processing, marketing and distribution of many commodities, especially between developed and developing countries. Shipping arrangements can thus significantly affect the level of benefits which developing countries derive from the exploitation of their natural resources. The control of transport arrangements, participation in shipping and the level of rates charged are elements in determining how the total benefits are divided between the exporting country and its trading partners.

Many of the commodities derived from the exploitation of the developing countries' natural resources are shipped as bulk cargoes. Approximately a quarter of world cargoes is bulk dry cargo which is carried mainly by specialized bulk carriers. In the major dry bulk trades, transnational corporations exercise control over maritime transport in various ways, partly because of participation agreements or long-term contracts with supplier countries which give transnational corporations the right to influence transport, and partly because they can insist on buying on f.o.b. terms. In the major dry bulk cargoes it is estimated that 87 per cent of bauxite/alumina, 80 per cent of iron ore, 65 per cent of phosphate and two-thirds of coal can be considered captive cargoes of transnational corporations with vertically integrated operations.

Such control over transport makes it possible to set freight rates and hence prices to the exporting countries, which may or may not correspond to arm's length prices and thereby affect the distribution of benefits between the exporting countries and the transnational corporations. This practice is clearly possible when transnational corporations use company-owned vessels or the services of independent but closely related shipowners with whom the companies have long-standing relationships.
The experiences of Guyana, Jamaica and Guinea described in the report indicate that developing exporting countries can secure benefits from participation in the ocean carriage of bauxite/alumina. Such benefits are not only to be seen in increasing profits, foreign exchange earnings and employment opportunities but relate also to marketing strategy and the enhancement of bargaining power and availability of options for participation in the international bauxite/alumina industry. These benefits are only to a certain extent linked to the ownership of vessels but can also be secured through chartering, as the case studies show. The three companies make extensive use of chartered ships and only a smaller percentage of their total shipments is done on company vessels.

The annual reports of the three companies studied indicate that developing countries may profit from participation in the shipping of their bauxite. Guybulk, the joint venture formed between the State-owned bauxite company of Guyana and A/S Bulkhandling, has reported successful operations since its inception in 1974. The Jamaica Merchant Marine reported operating profits in 1978, 1979 and 1980 respectively. (JMM's business includes the transport of banana and grain besides bauxite.) The experience of JMM shows substantial net foreign exchange earnings in 1979 and 1980. Guinomar has also been operating successfully since its inception in 1980.

The economic benefits from involvement in the shipping of bauxite and alumina can be enhanced, as the cases show, by securing backhaul cargoes. In the case of bauxite exports from Guyana, petroleum coke to Venezuela constitutes a profitable backhaul cargo operation for Guyana. Grain back to the Caribbean called for special self-discharging ships which were not always readily available. Guyana also bought a ship to carry back caustic soda in view of the freight savings that could be made. It was also uneconomical for Guyana to sell rice to the Libyan Arab Jamahiriya until it began to carry the rice with the bauxite in compartmentalized ships. Brazil, which is now becoming a major exporter of bauxite appears to be in a better position than other developing bauxite-exporting countries to capitalize on backhaul cargoes, because a significant part of its bauxite flow is compatible with its bulk imports from the United States and Canada, from which it imports substantial quantities of grain, fertilizer and coal. In the case of its exports to Europe, however, there are no comparable opportunities for backhaul cargoes to Brazil.

Employment benefits can accrue to the host country with the operation of a domestic vessel. These benefits, however, tend to be modest since ships are capital intensive. The standard bulk carrier which was serviced by a crew of 50 in 1950 is serviced today by a crew of 30; by 1990 it is likely to have a crew of only 14, which will consist of either officers or officer candidates. Assuming that the standard bulk carrier would cost about US$50 million by 1990, the employment ratio would then be only one job per US$4 million of investment. Training programmes would be needed in order to provide officers and crew for these highly automated ships, but such programmes are already in effect in Jamaica, Guyana and Guinea.

The point is made that, by participating in shipping, the bauxite-exporting countries can enhance their bargaining power in freight-rate negotiations with the transnational corporations. Shipping costs vary greatly, depending on the available draught at the points of origin and destination, the type of vessel used, the type of port and harbour
facilities available, the length of the voyage and the availability of backhaul cargo, among other things. Direct knowledge of actual shipping costs strengthens the position of bauxite-exporting countries in freight-rate negotiations. Countries which are near their markets and have favourable shipping conditions, such as Jamaica, can thus bargain more aggressively for higher prices for their bauxite. The experience of all three countries studied indicates that the knowledge gained from their own shipping ventures was essential in enabling these countries to take responsibility for the shipment of their bauxite/alumina.

Market development and diversification is another advantage of having an independent shipping capability, as is demonstrated especially by the case of Guyana. It was the formation of a shipping subsidiary that enabled Guybau to maintain and expand its markets for calcined bauxite.

The report points out that the successful realization of these benefits was dependent on a number of conditions that were necessary for making these ventures economically feasible. National participation in production and marketing was as much a basis as regularity and predictability of export flows. Access to technical know-how, including the ability to select the kind of ships and shipping arrangements appropriate to the specific production and shipping conditions of the country and close attention to training at all levels, as well as access to finance on reasonable terms, proved to be instrumental in the success of the operation. The ability to procure backhaul cargo was also important in securing economic visibility. Many of these problems were solved in the cases examined through the joint ventures concluded between these countries and a foreign partner.

The authors point out that each of the cases studies has its individual characteristics. Countries that might consider venturing into bulk-shipping will have to examine the underlying conditions case-by-case, especially with a view to the economic feasibility of a shipping venture. This is all the more necessary because shipping is essentially a high-risk business. The cases of Jamaica, Guyana and Guinea prove, however, that under favourable circumstances and with an adequate policy, developing countries can successfully engage in shipping their bulk exports.

Advertising

The UNCTC report "Transnational Corporations in Advertising" (ST/CTC/8) examines the structure of transnational advertising, describing the strategies of the major transnational advertising agencies and their relations with the mass media, and deals briefly with some possible implications that the activities of these agencies may have for host countries as well as with some regulatory measures that governments have adopted. The report is based mainly on existing literature and some discussions with the industry. No case studies in host countries have been conducted. The report does not attempt to assess the impact of transnational advertising agencies on host, particularly developing countries, or offer policy recommendations, although it discusses issues relevant to these countries.

The report contains five chapters. Chapter I describes the background, structure and geographical distribution of the transnational advertising industry, and Chapter II deals with expansion and strategies and the relationships of the industry to its clients, including its future prospects.
The issue of dependence of the mass media sector on advertising revenues and some of its implications is taken up in Chapter III, together with an examination of advertising expenditures by different media in various regions. Chapter IV gives an overview of over-all advertising effects and deals with some implications that the advertising of the products of transnational corporations may have for developing countries. Finally, Chapter V describes the general trend towards government regulation and increasing self-regulatory activities by the industry, giving examples in both cases.

In Chapter V, it is noted that in most countries there exists some degree of government regulation of advertising, either in the form of statutes and laws or of administrative practices. Regulation is also achieved on an ad hoc intervention basis, such as that provided by the Ombudsman institution in the Nordic countries. Self-regulation is also encountered in many countries, where the advertising/communications industry has taken the initiative or responded to government regulations.

The regulation of advertising has two objectives; first, the protection of the consumer against factually misleading advertising or excessive intrusion upon individual privacy in terms of media pressure; and, second, the protection of an advertiser against unfair practices of a competitor.

In general, regulation is more common in developed than in developing countries. Perhaps as many as six out of 10 developing countries have no consumer protection laws at all. Many of these countries do not have the resources or the experience to design and administer standards of the kind found in the developed countries. Moreover, developing countries may find it difficult to carry out regulations enacted.

Most of the complaints about advertising focus on particular product categories, such as alcoholic beverages and tobacco, pharmaceuticals sold without prescriptions, mail order products, financial and real estate schemes, and particularly products whose advertising is addressed to children. The regulation of the advertising of specific products is not, however, the only type of regulatory activity that affects the business of advertising throughout the world. Regulations exist also which affect the ownership of the advertising agencies, prohibit some types of advertising techniques, such as comparative advertising, and limit foreign-made commercials.

Restrictions of foreign ownership of advertising agencies seem to be increasing throughout the world. From the perspective of the transnational advertising agencies and their global clients, this trend is seen as a serious threat.

Some examples of the major developments can be grouped into the following categories:

(1) Ownership of the agencies. In Costa Rica a law provides for the national majority ownership of the media and the agencies. In Venezuela, Colombia, Ecuador, and Peru, a maximum of 19 per cent of foreign ownership of advertisement agencies is allowed.
(2) Media time limits for advertising. In the Federal Republic of Germany, TV advertising on the commercial stations is restricted to 20 minutes per day in blocs of 5-7 minutes between 5.00p.m and 8.00p.m with no advertising on Sunday and holidays. In the Netherlands, since 1 April 1978, TV commercials must be confined to five-minute blocs in the evenings. In Turkey, the State-owned commercial TV carries 12 minutes of non-commissionable advertising each evening in three-minute blocs.

(3) Products banned or for which advertising content is supervised. Sweets and soft drinks are under proposal of ban in the United States and the United Kingdom. Medical product advertising must be supervised as to content in Denmark, the Federal Republic of Germany and Italy.

(4) Restrictions on type of advertising techniques. Restriction on comparative advertising are enforced in the Federal Republic of Germany, France, Belgium, Austria, Italy and the Netherlands.

(5) Restrictions on foreign languages and materials. A French law forbid the use of foreign words and expressions when French equivalents can be found in the official dictionary. This reaction against "Franglais" (anglicized French) applies particularly to TV commercials. A similar law was recently passed by Belgium. Peruvian regulations stress the protection and enhancement of the national culture and of the "Peruvian way", and therefore endeavour to ban foreign-inspired models and materials. The Philippine government encourages the use of Tagalog "due to a desire for preserving the national heritage and independence from foreigners". The Actors and Announcers Equity Association of Australia imposes a limit of 20 per cent on foreign materials with no "local talent" content. It will usually accept foreign talent if local actors or announcers are paid in parallel or a fee is paid to the Association.

The report points out that the advertising industry has been motivated to self-regulate by the fact that total absence of regulations may induce governments to take measures in a manner that the industry might find undesirable. Another motive has been to protect the industry from unfair internal competition. Self-regulation involves the setting of standards by providing objective arbitration of complaints and disputes outside the framework of government. The degree of self-regulation throughout the world varies, of course, from country to country, according to needs, cultural and social values and levels of development.

In a number of countries, the self-regulatory bodies deal with complaints by setting pre-clearance systems, whereby advertisements are reviewed before their appearance; and monitoring systems, whereby problem-categories are spot-checked and the self-regulatory bodies on their own initiative raise questions of truth and ethics. Moreover, in many countries, specialized self-regulatory bodies are being formed to deal with problems posed by special product categories. In Belgium, for instance, a specialized self-regulatory body now exists for the purpose of providing regulation over the sale of products through the mail.

Many large advertising agencies and even the media in some countries have their own standards or codes of conduct. Thus, in most countries where television pre-clearance exists, it is considered sufficient and commercials
are not submitted to the authorities for clearance. Complaints about advertising made after broadcasting are usually made by competitors rather than the public.

Codes also exist in many transnational corporations involved in the manufacture and sale of consumer packaged goods. However, given the fact that a relatively low degree of control is exercised by headquarters over material that does not involve trademarks, this general type of self-regulation is not necessarily in all instances an important factor. A number of companies, however, also issue broad guidelines to their subsidiaries abroad to carry out advertising that is in accordance with the International Code of Advertising Practice issued by the International Chamber of Commerce which, for instance, provides that "all advertising should be legal, decent, honest and truthful". The extent of the application of this in developing countries is not documented, and some professionals in the advertising industry seem to be only vaguely aware of its existence. Besides, its effectiveness obviously depends to a greater extent on the interpretation given to the broad terms used.

In sum, the substantive issues surrounding the subject of regulation revolve around certain product categories which provoke the greatest amount of controversy (such as alcoholic beverages, tobacco, pharmaceuticals, etc.) and advertising methods and strategies most frequently criticized (such as advertising aimed at young audiences, comparative advertising, etc.).

The point is made that, although self-regulation has obvious advantages, it may not always be adequate, especially in controversial areas. Hence, some government regulation seems inevitable, but its extent can depend on the degree of responsibility shown by the industry. Moreover, the actual general trend seems to be towards increasing government regulation of advertising.

Tourism

The UNCTC report "Transnational Corporations in International Tourism" (ST/CTC/18) focuses on the role of transnational corporations in the development of the tourism industry in developing countries. It presents an overview of the structure of the international tourism sector, followed by an analysis of the operations and impact of transnational-associated hotels, airlines and tour operators on the development of tourism industries in developing countries. It concludes with some policy measures that developing countries may consider in their dealings with transnational corporations involved in tourism activities.

The definition of a transnational corporation used here is a broad one. It covers not only foreign firms with direct investments in a particular host country but those firms having all major forms of contractual arrangements, and enterprises in host countries. This is an extension of the traditional concept of a transnational corporation, but in international tourism at least, although there is comparatively little foreign direct investment, there is a considerable foreign influence on the extent and pattern of tourism development in many countries.

Three major types of transnational corporations were identified for the purposes of the report: hotels, airlines and tour operators. Two issues were considered important with regard to the potential involvement of
transnational corporations in the tourism industry of a country: the rôle, if any, that these corporations can play in the industry; and the package of policy instruments needed to ensure that their participation is compatible with over-all goals of economic development.

The report notes that the rôle and impact of transnational corporations is different in each of the three sectors discussed in the report. In the hotel sector, the provision of knowledge of how to design and construct a hotel and how to operate it efficiently is a key element of the transnational corporation impact; at the same time, the knowledge transferred tends to presuppose that a particular type of market is to be served, and, in this respect transnational hotel chains have to a certain degree fashioned the type of tourism activity attracted to developing countries. However, some of the advantages of transnational-associated hotels are transitory and mostly relevant to the kind of tourism which is usually associated with the "take off" stage in a country's tourism development. As the newly developing tourist-receiving countries move into a more mature phase, they may seek to promote special-interest tourism based upon country-specific advantages. In this process they may find not only that the advantages of transnational corporation participation dwindle, but that the experience and know-how they have gained in the first phase of development will help them to create a distinctive and viable domestic hotel sector.

The point is made that the airlines sector, on the other hand, is dominated by national and international regulations, the question of which airlines are to serve which routes being largely settled around a conference table. In this connexion, the problem of developing countries is one both of lack of bargaining power and of inability (because of insufficient economies of scale) to compete effectively for the main international air routes. This inevitably leads to a degree of dependence by some tourism-intensive countries (for instance, the Caribbean islands) on foreign airlines for the transportation of tourists there. Should the routes involving these countries become less profitable than alternative routes, foreign airlines might cease to supply them, thus causing the host countries severe economic difficulties. Some airlines in the more advanced developing countries, particularly of South-East Asia, have managed to break into the market and grow to a size which allows them to compete effectively with developed country airlines. In the case of other smaller countries, the economies of scale in international airline operations have been an obstacle in this respect. This problem must be addressed at a reasonably early stage in the tourist development programme, before developed country airlines get too firm a grip on the market. Government subsidies or the regionalization of national airlines (for example, British West Indian Airlines) may help in this process.

In the tour operations sector, the function of the foreign tour operator is to act as a "broker" in the marketing of tourist-related services between customers from the tourist-generating countries and the producers of such services in the tourist-receiving countries. The concern of tourist-receiving countries here is dependence on a limited number of foreign tour operators. It would be unrealistic, however, to assume that, in the foreseeable future, tour operators based in the recipient countries would be able to supply more than a small fraction of foreign tourists. Therefore,
say the authors, governments of developing countries should see to it that foreign tour operators behave in a way consistent with national objectives. To this end, developing country airlines or the foreign branches of their national tourist offices engaged in tour-promoting activities should develop close links with the foreign tour operators. Foreign tour operators should utilize local airlines, local hotels and local tour operators to the maximum extent possible, so that the type of tourism which the host country wishes to encourage is promoted and also the share of the tourist dollar which remains in the host country is maximized.

The contribution of transnationals as a whole is greater than the sum of their constituent parts. In particular, the control of transnational-associated hotels, airlines and tour operators over the markets for tourism from the tourist-generating countries is of crucial significance. Decisions as to how far a particular tourist destination is to be promoted by an airline or tour operators may be influenced by the global economics and strategy of the transnational rather than the welfare of individual host countries. Thus, say the authors, some host countries, and particularly those which are largely dependent on one country as a source of tourists, are in an extremely vulnerable position.

The impact of transnationals involved in the tourism sector is likely to vary with the form of tourism and a country's level of economic development, its structure of resources and the amount of infrastructure. Thus, the impact of transnational-associated hotels in the larger diversified developed economies, and in some of the more advanced developing countries, is likely to be different from the impact in the smaller Carribbean or African countries, which are either heavily dependent on tourism for their economic welfare or have a tourism sector which is in the formative stage and heavily reliant on foreign resources and control.

The report goes on to say that policy towards transnational corporations in tourism may often be regarded as part of an over-all policy towards transnational corporations in general. Indeed, a good deal of the impact of transnational corporations in the tourism sector - in other words, that impact which is attributable to their transnational character per se - is likely to be similar to that which arises from transnational activity in general. Host government policies towards transnational participation in the development of the tourist industry should include the following: encouraging, to the fullest possible extent, competition among transnational corporations and/or between such corporations and domestic companies; ensuring that transnational corporations operating in a sector of the tourist industry do not exploit their monopoly power and do not make decisions which conflict with national economic development goals; strengthening their own bargaining capacity vis-à-vis transnational corporations by becoming better informed of their options for promoting tourism and of the costs and benefits associated with different contractual forms of transnational participation; and, lastly, improving their negotiating tactics.

In some instances, unilateral action by host Governments needs to be supplemented by outside expertise or by multilateral action taken by groups of host countries or by regional associations. The same is true, of course, in other sectors of activity in which transnational corporations are involved and, in both instances, multilateral action may mean either harmonized
policies or policy instruments accepted by groups of countries, for instance, in respect of taxation, restrictive business practices etc., or the adoption of a comprehensive code of conduct for transnational corporations. Many of these policy instruments or guidelines will be as applicable to transnational corporations in the tourism sector as elsewhere, but specific or supplementary provisions may be necessary to cover the unique impact of transnational corporations in that sector. For example, more attention may be needed to be focused on the timing and terms of management contracts, franchises or technical service agreements; on the training facilities offered by transnational corporations; on the need for greater integration with local culture; on the kind of markets which they might be encouraged to serve; on the relationship between foreign and domestic tour operators, particularly in supplying ground services and tours in the host country; on the relationship between airlines and local hotels and between the hotels and tour operators; on the servicing of aircraft and the source and type of meals served on flights; on the sharing of airline routes; on the recruitment and training of air crews; on the provisions or non-provisions of casinos and restaurant facilities; on the marketing of particular hotels or regions in host countries by foreign tour operators; on the pricing of air travel and the provision of stop-overs on charter flights destined for other countries; on the forms of transnational corporation involvement and the possible timing of "disinvolvement". All these and many other matters may demand a common approach.

Several times in the report attention is drawn to some general issues in respect of international tourism which the presence of transnational corporations has brought to light but has not in itself caused. The impact of foreign tourists - particularly wealthy foreign tourists and those from different cultures - on the social and developmental fabric of the recipient countries is a case in point. The point is made that rarely are transnational corporations *per se* responsible for such an impact, although they may be one of the leading channels of its manifestation, and may in some cases, because of their distinctive features, have added to it. Similarly, the rapid growth of international tourism has emphasized the need for an integration of tourism with other aspects of economic development. Yet only a minority of countries recognize this and have made a conscious effort to bring it about. The consequences of tourism for the employment of women and the demand for ancillary products and services, for instance, laundering, souvenirs and local crafts, hotel equipment and machinery, restaurants and cafés, entertainment facilities, tour buses, taxi services, roads and communications, airport and public utility services, are no less far-reaching. Again, a conscious policy of governments is called for to ensure that the provision of these products and services keeps pace with the inflow of new tourist traffic.

The point is made that, although the report makes no specific or detailed policy recommendations to host governments in their dealings with transnational corporations, for some countries such recommendations may be fully justified. A selection of policies actually pursued by host governments are described in the report and some, at least, of these may usefully be adopted by other countries, say the authors. For example, some Caribbean governments consider it appropriate to levy an excess profits tax on transnational corporations (and/or other hoteliers) the proceeds of which may be used to finance local training facilities. In India, hotels are
allowed to import provisions or machinery according to the foreign exchange they earn from their clients. In Fiji and Jamaica, foreign visitors subsidize the domestic population, who are charged lower rates by hotels there; in other countries, international hotels may be treated more favourably than domestic hotels. The rôle of fiscal incentives and exchange regulations, both for businesses and private individuals, varies enormously between countries, as do expenditure and airport taxes. In all these matters, the appropriate policy will vary considerably according to country-specific circumstances.

Transnational involvement in the international tourist industry does not come only from the developed countries. In the next two decades, the rôle of transnational corporations from the less developed countries is likely to increase substantially. In the airlines sector, this is likely to be most dramatically shown by the growth of the Singapore and Thai airlines, and the airlines of India, of some Latin American countries and of the more advanced countries of Africa. In the hotel sector, Colombian, Hong Kong, Indian and Mexican transnationals are already actively involved abroad. Depending on the growth of outward tourism from these countries, more developing countries may be expected to establish hotel chains and to penetrate foreign markets, often jointly with their national airlines. As this happens, the rôle of tour operators from developing countries will become more important.

The authors state that, in formulating their policies for tourism over the next 10 to 20 years, governments should concentrate on viewing the structure of the international tourist industry as it is likely to be rather than as it is now. In the last resort, it will be forces largely outside the control of individual governments that will shape the future of international tourism. Chief among these are the growth in real disposable income and its distribution between countries, travel costs and facilities, and the availability, quality and cost of tourist facilities in the recipient countries. The rôle of governments in the latter can be quite crucial. In their attitudes and policies towards transnational corporations in particular, governments will have to decide whether their basic wish is to pursue a policy of self-reliance in tourism, or whether they wish to be part of an integrated world-wide network of facilities for tourists in which they are both originators and receivers. Current trends suggest that, for most countries, the latter scenario is more likely to dominate the thinking and policy about tourism, at least for the foreseeable future. In a world of increasing, yet controlled, interdependence in tourism where cultural and other differences are emphasized more than they have been in the past, there is room for many sectors in the tourist industry, including foreign and domestic transnational corporations, state-owned companies and, perhaps most important of all, independent locally owned and managed enterprises.

Computer services

The UNCTC report "Transnational Corporations and Transnational Data Flows" (ST/CTC/23) provides an overview of the main characteristics of the rôle and impact of transnational corporations in transborder data flows.

The report begins by briefly describing the increasing rôle of the production and distribution of information goods and services in economic activities, a rôle for which developments in the computer and
telecommunications technologies and their merger into telematics are one of the principle driving forces. These developments are also principally responsible for the rise of transborder data flows. Following a definition of transborder data flows and a description of the infrastructure of these flows, the role of transnational corporations in commercial and corporate transborder data flows is documented and principal features of this new phenomenon are summarized. The next and main section deals with the impact of these flows on host, especially developing countries. After some general considerations have been outlined to place this section into a proper perspective, the potential benefits and problems related to transborder data flows are indicated and prospects for future developments assessed. The issues raised by this new phenomenon have prompted a number of guidance or regulatory efforts, the subject of the following section. These are examined in regard to transborder flows of personal data and transborder flows of non-personal data. In a concluding section, possible areas of future work are outlined and the need for further research and awareness-raising work is noted.

Over the past decade, rapid advances in both computer and telecommunication technologies have led to their convergence into a new activity, telematics. Modern telecommunication facilities have overcome time and distance as major obstacles to the access of sophisticated computer services for the processing, storage and retrieval of machine-readable data. The transnationalization of this process, in turn, has given rise to transborder data flows: international data transmissions over transnational computer-communication systems. Transnational corporations are of key importance to this new activity. For them, transborder data flows are both a commercial good and a management tool.

The report goes on to say that more specifically, transnational corporations play a central role in establishing the required telecommunication infrastructure; they produce the necessary computer hardware, software, and peripheral equipment; and they offer a growing range of data-processing services as well as access to an expanding number of machine-readable data. In the process, an international market has been created for transborder-data-flow equipment, software and technology as well as for the production, processing, transport and technology as well as for the production, processing, transport and distribution of a wide variety of data of economic, political, social and legal interest. In addition, transnational corporations utilize transnational computer-communication systems for the rationalization of world-wide corporate management. As a result, transnational corporations have improved their capacities to manage and co-ordinate their global operations more efficiently. The point is made that, to date both access to the international data market and the utilization of the underlying technology and equipment for various purposes have remained almost exclusively confined to institutions of the developed market economies. The experience of developing countries (which reflects, of course, their level of development) has been mainly one of supplying data, buying the processed data (information) and acquiring the capital goods needed for their essentially rudimentary telematics sectors.

The significance of these developments lies in the importance of appropriately applied, accurate domestic and foreign information as a central factor for decision-making, including for all matters related to development. Information is a precondition for identifying alternatives, reducing
uncertainty about their implications, and facilitating their implementation. As such, it is also a critical resource for enhancing bargaining strength in the pursuit of clearly defined purposes.

The report points out that, in the light of the importance of information, the present structure of the international data market and the uneven distribution of the capabilities for applying transborder data flows raise a number of concerns. For the developing countries, in particular, they include the implications of transborder data flows for the international division of labour; the capacity of the developing countries to establish their own telematics and transborder-data-flow facilities; the competitiveness of domestic corporations of host countries; the bargaining position of host countries vis-à-vis transnational corporations and, more generally, the developed countries; and even issues relating to national sovereignty. Naturally, the nature of any possible impact may be a function of the level of development. Moreover, care has to be taken to distinguish the specific impact of transborder data flows from the general effects of automation and telematics; these effects are not being considered in the report.

The implications of these concerns about transborder data flows, say the authors, reach beyond the economic sphere and may affect the relations between developed and developing countries in general. For, to the extent that information is a basis of power, the ability to collect, store, access, process and work with it can give countries (as well as groups and institutions within them) political, economic and social advantages over other countries (and their groups and institutions). Transborder data flows may thus lead to an accentuation of existing imbalances, and in fact the emergence of a new set of imbalances, between the developed and the developing countries. On the other hand, if the developing countries' capabilities to utilize transborder data flows and their access to the international data market can be improved sufficiently and these flows allow applications that are useful for developing countries, they may become an instrument for the advancement of the development objectives of the developing countries. In fact, under certain circumstances, transborder data flows may contribute to the establishment of an informational infrastructure for a more self-reliant development in the framework of greater economic co-operation among developing countries. A key issue is therefore, say the authors, how it can be ensured that the entire international community can participate in the opportunities created by transborder data flows through the provision of adequate access to the international data market and through the strengthening of appropriate national industrial and guidance capacities.

The report notes that at present, there exists no legal infrastructure to sustain the transition to the information economy nor, add the authors, the transition to a world economy in which commercial and corporate transborder data flows of transnational corporations are bound to play a growing rôle. This lacuna exists although it is increasingly recognized that information is a key ingredient in decision-making, especially regarding the economic development of both developed and developing countries.

This situation may represent both an opportunity and a challenge. In a relatively undefined legal environment, and with respect to an activity that is only beginning to become important, vested interests are not omnipotent and positions are not frozen. Hence, preconditions are still favourable for
a co-operative approach that balances the legitimate claims for national sovereignty and development with the very real need for transborder data flows. The challenge is to seize this opportunity and to consider how to ensure through the strengthening of national capacities and, if the need arises, through collective action that the entire international community participate in the benefits associated with telematics and transborder data flows. The report points out that for the developing countries, in particular, the ability to access the international data market and to utilize fully the underlying technology and equipment may, in fact, be an important element for the realization of the new international economic order. Transborder data flows could lead to an accentuation of existing imbalances between the developed and the developing countries, but they can surely also be utilized for redressing these imbalances.

Policy-formulation regarding transborder data flows requires a thorough understanding of the implications associated with this phenomenon. In view of the paucity of empirical research findings, it is very difficult to offer precise conclusions about the multifaceted effects of these flows. This is particularly unfortunate since many developing countries might, on the one hand, want to speed up the introduction of transborder-data-flow technology in order to reap its potential benefits, while, on the other hand, they will want to avoid the potential problems associated with it. Thus, say the authors, a full appreciation of the possible costs and benefits of transborder data flows and an examination of the conditions under which the application of these flows can be most useful are required.

The report goes on to say that probably the most important question to examine empirically and in detail would be the impact of transborder data flows on developing countries and the rôle of transnational corporations in it. In the same manner in which a number of developed countries, most notably Canada and France, have found it necessary to prepare in-depth evaluations of the effect of transborder data flows on their societies and economies, it may also be useful for individual developing countries to study the consequences of this new phenomenon for their societies and economies, particularly in the light of their development objectives. After a number of such case studies have been conducted, some generalizations could conceivably be made that would permit conclusions about the type of actions that may be advisable. At the same time, it may be possible to indicate to what extent the experiences of developed countries in this area are relevant and useful to the developing countries.

Such work would have to identify possible areas of application of transborder data flows in the light of over-all development objectives, i.e., the specific purposes they are meant to serve. It would also have to aim at establishing an inventory of information resources that can be mobilized individually or collectively by developing countries to fulfil these purposes. In this context, it would, furthermore, be useful to analyse how the objectives and identified resources could be translated into national production and distribution structures and how the performance of these structures could be evaluated and monitored. Moreover, it would, of course, be necessary to study which resources could be more advantageously obtained, in a complementary manner, from the international market and through transnational corporations.
Another topic of research relates to the question of access to the international data market, a market in which transnational corporations play a central rôle. On the basis of an analysis of the dimensions, nature and structure of this market and especially the type and costs of services and data available, alternatives could be determined as to how access to this market could be improved and how its resources, in a complementary manner, could best be utilized for the objectives of the developing countries.

A third area of research is closely related to the preceding two and concerns the negotiating capability of host, especially developing countries. A key question here, say the authors, is how transborder data flows could best be used to host countries to assist them in negotiating mutually advantageous contracts and agreements on the whole range of their interactions with developed countries in general and transnational corporations in particular.

Since a number of countries have already initiated policies addressed to transborder data flows of which most affect directly the commercial and corporate operations of transnational corporations, it may also be useful to examine the experiences of these countries in formulating and implementing their policies, particularly in the light of the objectives they have set themselves.

Finally, say the authors, more needs to be known about the effects of the application of transborder data flows on the relations between host, especially developing countries and transnational corporations. Questions of particular interest in this context concern the impact of transborder data flows on the centralization or decentralization of key corporate functions, the intra-firm division of labour, training of the labour force, industrial relations, and the ability of foreign affiliates to pursue a policy that is responsive to the needs of host countries.

The overall purpose of UNCTC report "Transborder Data Flows: Access to the International On-line Data-base Market" (ST/CTC/41) is to provide a description of the on-line data-base market to enable developing countries to assess the usefulness of this new resource.

More specifically, the objectives of this study are fourfold, each of which is dealt with in a separate chapter. The first objective is to describe the international on-line data-base industry. This requires first a presentation of basic definitions and a brief discussion of data reliability, before the nature of the data-base industry can be addressed and costs and pricing strategies can be examined. The second objective is to delineate the dimensions of the international on-line data-base market and the rôle of transnational corporations in it. Here, the origins of this market are traced, the dimensions of the market are documented and the rôle of transnational corporations is pointed out, including examples of organizations active in the on-line market. The third objective is to describe the potential relevance of on-line data bases for developing countries. After the methodology used has been outlined, the preliminary results as regards the likelihood of finding relevant information on fourteen illustrative search topics in on-line data bases are presented (with examples, where possible, of records that have information relevant to these topics), and some general observations about the usefulness of on-line data
bases are made. The fourth objective is to identify a number of ways in which developing countries might be able to strengthen their information resources in the area under discussion. Beginning with the importance of increasing awareness in this area, various methods of improving the access of developing countries to relevant on-line data-bases are reviewed, alternatives for strengthening domestic capabilities are discussed and the rôle of international organizations is noted. In a final chapter, the study's findings are summarized, some conclusions are drawn and some suggestions for further work are indicated. Annexes I and II to this document contain a select annotated list of some data-base directories and a case study of the experience of Mexico with the use of on-line data bases, respectively.

On-line data bases are a segment of the information market that is rapidly growing. However, say the authors, to date most of the on-line data have been produced, transmitted and consumed by institutions of the developed countries, especially transnational corporations. On the other hand, given the configuration of the transnational telecommunication networks, most developing countries are not linked to these networks and hence have access to on-line data base only through long-distance telephone dialing, which makes the use of this information resource almost prohibitively costly. The result, which is further accentuated by the inadequate telematics infrastructure in many developing countries, is that most of these countries do not actively participate in the transborder flow of data originating in on-line data bases. Therefore, they are, de facto, not in a position to use an information resource whose importance is growing.

It would seem that data resources, at least in some developing countries, can be strengthened through better access to relevant data in the international on-line data-base market and through the improvement of domestic and regional capacities in the area of data use and processing. These approaches are not mutually exclusive. Rather, they can be complementary, leading eventually to a mix of self-reliance and interdependence that is of mutual benefit. A number of alternative approaches have therefore been outline in the study.

The report points out that a precondition for any action in this area is that decision makers should be aware of the growing importance of transborder data flows associated with on-line data bases, the possibilities offered by new technologies and the potential costs and benefits associated with them. International organizations can play a particular rôle, be it through the dissemination of pertinent documentation, through seminars or through other means.

International organizations can also directly assist developing countries in strengthening their information resources. This can be partly done by providing access (usually on preferential terms) to the data bases developed by them. Such support can consist, in part, of assistance in the development of national or regional information systems. Some efforts in this direction are already under way, even if they do not focus on on-line data bases.

The report notes that there are a number of barriers to the use of on-line data bases. These include telecommunication costs, lack of training and education, language barriers and limited access to the full text of
documents. At present, access to on-line systems through telecommunication networks is available only to developed countries and a few developing countries. For many developing countries, where links to telecommunication networks would be needed, the current volume of the international traffic of data usually does not seem to justify the high investment costs of establishing such links. One alternative to access to the existing telecommunication networks is the existing telex network through which access to on-line data bases can be gained. Even if intercontinental telex is slow and relatively expensive, occasional users may find it more convenient than buying or renting computer terminals and modems. Finally, of course, the costs of actually using data bases have also to be taken into account.

Training, education and user assistance are essential, especially for users in remote locations. Users need complete, clearly written user materials, and they must have ready access to system and data-base training seminars. Governments in developing countries can help prospective users by sponsoring training and educational seminars. Once a cadre of skilled users has been created they can become a valuable source of assistance to colleagues and potential users. As has been proved in many developing countries, on-line user groups have been a most effective way to obtain local assistance; they can also serve as a conduit for users to express their needs to on-line services and data-base producers.

The language barrier can be formidable to the user of on-line services. Most of the publicly available data bases are in English and some, particularly those being developed in Western Europe, are in the languages of the country of their origin. Although some efforts are being made to develop multilingual thesauri, switching languages and other computerized aids to overcome the language barrier, it is not likely that any of these will be available in the near future on a wide scale. Governments and corporations could help prospective data-base users by providing assistance in translation, particularly of user manuals and other printed user aids.

The point is made that one of the greatest problems facing developing countries in the area of information retrieval is how to obtain access to the full text of documents referred to in data bases. This problem can be compounded by the use of on-line data bases because they give users access to references to many more records than they had before they searched on-line data bases. It may take weeks for a user in a developing country to obtain a copy of a cited reference. At present, facilities for electronic document transmission are not yet available world-wide, but some users may find advantage in using the electronic mail capabilities offered by some on-line services and time-sharing companies.

There are a number of ways, say the authors, in which developing countries could begin to strengthen their domestic capabilities in the area of on-line data bases, provided this is found to be cost-effective. These might include the establishment of search centres in developed countries, the creation of specialized information centres, the establishment of national data bases and the building of regional networks.

An interim possibility for users in developing countries to gain access to on-line data-base services might be to establish search centres in information-rich countries. Such search centres would be geographically
close to on-line services, have easy access to telecommunication networks and be able to receive prompt help-desk-type assistance. Another alternative could be for a developing country to use information brokers located in the countries of interest, assuming that the costs are commensurate with the benefits. Such interim steps might tend to lessen the widening of the information gap between developed and developing countries until such time as other actions lead to a direct strengthening of the domestic capabilities of developing countries.

Another option could be the creation of specialized information centres. These could consist of small teams whose task would be to translate issues calling for decision into specific information requests. Their task would be not only to answer the questions asked of them, but also to disseminate information. Such centres would be oriented towards specific objectives and subject areas. Their specific feature would be that the information they collect and provide, directly relevant to the persons in charge of performing specific tasks, would be designed for action.

In view of the present high costs of telecommunications to the countries in which on-line services are available, some developing countries might want to establish their own capacities for generating, collecting, structuring, disseminating and using information in the form of data bases. Such an approach could conceivably offer a cost-effective alternative to telecommunication-linked networks and, perhaps even more importantly, stimulate the development of a local information industry. Copies of many data bases are available on magnetic tapes, which can be mounted on local computers. This possibility may become all the more suitable as the price of hardware decreases; but the cost of computers capable of handling a major bibliographic data base is still rather high and there are very few computer programmes that will perform effective bibliographic searches on small computers. However, new applications, like VIDEOTEX, may change the calculations here as well.

Between a national information system and the international market, some form of interface may be desirable at the regional level. For most developing countries, the establishment of a regional network, either of a centralized or a distributed nature, may be a way to benefit from economies of scale in gaining access to the international on-line data-base market. The sharing of costs and services might be the only means for many countries to gain such access.

The report states that, as indicated earlier, the various approaches outlined are not mutually exclusive. Central to all of them is the same objective: to strengthen the information resources available to developing countries. Better access to relevant on-line data bases and improved domestic capabilities to generate, collect, structure, disseminate and use information can help to ensure that developing countries have the information they need for their development efforts. These approaches, especially the strengthening of domestic capacities, might help to ensure that the information gap between developed and developing countries is not further widened, or even that it could begin to close.

The UNCTC report "Transborder Data Flows and Brazil" (ST/CTC/40) was prepared by the Special Secretariat of Informatics of the National Security Council of the Presidency of the Republic of Brazil in co-operation with the Ministry of Communications of Brazil.
The study focuses on the implementation of Brazil's co-ordinated policies governing the interrelated fields of telecommunications, informatics, telematics and, most important, transborder data flows. For each of these fields, the policies adopted and the regulatory and institutional frameworks established by the government are outlined, the implementation of the policies is documented, an analysis and evaluation of their impacts are presented and issues requiring attention in the future are identified. The report contains five main chapters which analyse the technical concepts and overall context, telecommunications, informatics, telematics and transborder data flows.

The report states that, since information resources are crucial to decision-making and can be important sources of economic and political power, their location and use are of great significance. Brazil views the increased availability of information as an opportunity to reduce inequalities of power and to bridge gaps that exist between countries. Transborder data flows via transnational computer-communication systems play a particular rôle in this process by contributing to the transfer of information resource such as computer hardware, software, data bases and information jobs. The computer-communication systems are not only used for standard internal communication purposes, but also to assist in the performance of a variety of functions that would otherwise be undertaken by foreign affiliates. Thus, these systems can change the manner in which foreign affiliates conduct their operations in any industry and, ultimately, can affect development processes. Most effects are based on the location of information resources and the impact this has on the autonomy of corporate systems.

The report notes that, as transnational corporations are the main users of transnational computer-communication systems in Brazil, the government's policies on information resources pay special attention to their operations. Carefully embedded in the country's overall industrial policy, these policies are guided by four principal objectives: (1) to maximize information resources located in Brazil, be they imported or produced locally; (2) to acquire and maintain national control over the decisions and technologies relating to Brazilian industries; (3) to broaden public access to information; and (4) to administer information resources in such a manner that they enhance the country's cultural and political environment. These four objectives have led to considerable efforts to build the necessary infrastructure (an appropriate telecommunication network and a viable informatics sector) and they have shaped clearly defined policies regarding telematics (the merger of telecommunications and informatics) and transborder data flows (the extension of telematics to the international realm). The ultimate aim of these objectives, which is pursued with caution so as to minimize conflicts of interest with transnational corporations, is to create information industries and linkages that contribute positively to Brazil's overall development. The principal purpose of the country case study is to contribute to a better understanding of the rôle of transnational corporations in transborder data flows, the impacts of these flows on Brazil and the effects of Brazil's policies in this area.

The study was undertaken at a time when the rapid convergence of informatics and telecommunications into telematics and the extension of telematics into the international realm through transborder data flows have become an issue of increasing importance. As a result, transnational
computer-communication systems are proliferating in numbers and are becoming of great significance for both the corporate entities and countries in which they are used. In the case of Brazil, the number of such transnational links increased from one at the beginning of 1979 to 29 at the beginning of 1982. All indications are that a rate of growth of about three new links per month will be maintained in the foreseeable future.

The overwhelming number of transnational computer-communication links established in Brazil, 27 out of 29, have been created by transnational corporations, for either corporate or commercial purposes. Hence, any transborder-data-flows policy must automatically deal with issues related to the transnational management of these firms. Conversely, it appears that any governmental policy dealing with transnational corporations should also address the question of transborder data flows. In both cases, the government of Brazil has come to regard transborder data flows as commodity exchanges and, in principle, treats them as such.

The point is made that in many cases, transborder data flows serve as an administrative tool and are used in a relatively neutral manner. However, a number of applications for corporate transnational computer-communication systems in Brazil have tended both to rely on information resources located abroad and to shift a certain degree of managerial and operational control over some functional areas towards the parent corporations. From the perspective of these corporations, such strategies are certainly understandable as they are intended to increase corporate efficiency. From the point of view of Brazil, however, the potential impact of these strategies on development and national independence must also be taken into account.

The report notes that these considerations are reflected in the principal objectives underlying Brazil's policy regarding transborder data flows. It is a policy that emphasizes in particular the maximization of the amount of information resources (computers, software, data bases and skills) located in the country, together with some degree of technological and operational autonomy of local affiliates of transnational corporations. In its essence, therefore, Brazil's transborder-data-flow policy seeks to orient the usage of links in a manner that contributes to the development prospects of the country. The authors state that the policy is an instrument for the stimulation of the development of a national data-service industry and, in a broader context, for the strengthening of national independence in the framework of international interdependence. The experience gained with Brazil's transborder-data-flow policy indicates that a well-defined transborder-data-flow strategy, grounded in clear telecommunication, informatics and telematics policies, allows for the usage of transborder data flows in a manner that serves national objectives and is acceptable to the users of transnational computer-communication systems.

It is fully recognized, say the authors, that this study is just a first step towards a better understanding of transborder data flows, their impacts and the effectiveness of national policies. The government of Brazil also recognizes that, at this stage, its experience with transborder data flows and transnational corporations may contain elements of a special case and,
while based on a clear policy, is too recent to determine general patterns on this issue. Therefore, this report contains merely preliminary results which are not necessarily applicable to other countries.

This suggests that more country case studies on the developmental impact of transborder data flows and the rôle of transnational corporations in them are needed. It would, in fact, be desirable if countries with a wide range of developmental situations, policy approaches and experiences with transborder data flows were to take advantage of the opportunity offered to prepare country case studies on the impact of transborder data flows and the rôle of transnational corporations in them. This would permit countries beginning to address themselves to this matter to receive the maximum benefit from experience gained elsewhere.

The authors conclude that the government of Brazil hopes that the continued work of the United Nations Centre on Transnational Corporations and the Commission on Transnational Corporations on transborder data flows will lead to further reports which, like this case study, are meant to contribute to a better understanding of transborder data flows, the rôle of transnational corporations in them and their impact on home and host countries, particularly developing countries. The government of Brazil also hopes that the Commission on Transnational Corporations will remain a forum in which issues related to transborder data flows can be discussed co-operatively by the international community, taking into account the interests of all parties concerned.

The UNCTC report "Transborder Data Flows and Poland" (ST/CTC/50) was prepared by the Foreign Trade Data Centre of Poland at the request of the Ministry of Foreign Trade of the Government of Poland. The study consists of three main chapters. Chapter I contains a general overview of the implications of transborder data flows, followed by a brief discussion of the methodology used. In the second chapter, the basic characteristics of Poland's telecommunications and informatics infrastructure are described. The third chapter deals with transborder data flows.

Telecommunications in Poland, as in many other countries, is a state monopoly. The only user of the network is the Polish Post, Telegraph and Telephone, providing public services to individuals and institutions. The point is made that, because of the current economic situation in Poland, the improvements of the telecommunication infrastructure foreseen in the short- and long-term plans will be selective and focus mostly on the upgrading of international telephone links. The telegraph and telematic network will be equipped with digital exchanges and, eventually, all work stations will have adequate local and long-distance communication facilities. Naturally, this upgrading will be accompanied by considerable development and modernization of the present telecommunication network, and it will bring about an increase of its density and traffic capacity.

The report goes on to say that Poland's informatics sector, the second building block for the development of transborder data flows, is better developed than its telecommunication sector. This is a result of government policies during the 1970s and co-operation in informatics among socialist countries within the framework of CMEA. The country's computer park and
related equipment is satisfactory for Poland's stage of development. However, because of the already existing restrictions in developed market economies on trade with socialist countries and the recent trade restrictions imposed by some of those countries, the overall situation in this sector could deteriorate in the coming years. In order to prevent this from occurring, co-operation with CMEA is being intensified within the framework of specialization agreements for the production of hardware.

Transnational corporations play an important rôle in Poland's co-operation with developed market economies regarding the establishment of indigenous informatics and telecommunication industries. In particular, they are very important trade partners for the import of hardware and software needed for transborder data flows, especially as regards analogue and hybrid data-processing machines. The attitude of transnational corporations towards trade with Poland and their responsiveness to pressures by governments are, therefore, crucial factors influencing the development of Poland's informatics and telecommunication industries and thus the infrastructure for transborder data flows.

An important component of the expansion of Poland's information resources is the appropriate use of transborder data flows. Poland does not yet have separate policy guidelines or legal instruments applicable to transborder data flows; developments in this area are ruled by the legal instruments pertaining to telecommunications and informatics. The principal rule in this area, say the authors, is to develop transborder-data-flow linkage selectively, focusing especially on information-intensive industries. Decisions are based on a cost-benefit analysis of particular undertakings.

Poland's international telecommunication network permits transborder data flows on a considerably larger scale than are taking place to date. The national network is linked with the international telecommunication network by coaxial cables, radio-relay links and satellite connections provided both by the INTERSPUTNIK and INTELSAT satellite systems. It is planned to increase the number of connections and to improve their quality in order to meet the growing demand for international connections.

To the extent that transborder data flows take place through the telephone and telegraph network, two types of services can be distinguished: the leasing of telecommunication connections to subscribers and the use of public telephone and telex networks. It is, however, impossible to determine which telephone and telegraph connections are used for transborder-data-flow purposes, as one does not know which data are transmitted in digital form or are converted abroad into digital signals and stored in machine-readable form. Furthermore, no data exist on the number of terminals used in transborder-data-flow connections. At the present time, only few on-line transborder-data-flow connections exist. Overall, it is estimated that transborder data flows constitute roughly 1 per cent of all international information flows, and the existing telecommunication network is sufficient to accommodate the present data-communication requirements as to speed, quality and volume. However, transborder data flows are likely to increase substantially in the future.
The report notes that the socialist countries do not yet have the telematics networks and data bases to be a major factor in commercial transborder data flows. But this situation is beginning to change. The first step was made by Hungary's establishment of the NEDIX network which is connected with networks in developed market economies. In the case of Poland, the use of services offered by corporations in developed market economies is confined to the use of closed user-group networks and access to a number of data bases abroad. Data from data bases are mostly obtained on tapes and only a few have on-line connections. The full use of data bases located abroad is to a large extent a function of the economic situation in Poland and the state of relations between the developed market economies and the socialist countries. The latter factor currently plays an important and unfavourable role. Intensified efforts are, therefore, under way within CMEA to create data bases for a wide variety of purposes and to produce the basic telecommunication and informatics equipment required to use them.

Corporate transborder data flows are effected mostly on an inter-firm basis through closed user-group networks. However, examples of intra-firm transborder data flows exist as well. These involve agencies and technical offices of mostly transnational corporations which transfer data mostly by way of telex lines to the electronic data-processing centres of their parent corporations. Existing transborder-data-flow links by foreign firms are few, because the still limited operations of those firms do not give a sufficient economic justification for the further development of transnational computer-communication systems. The closed user-group networks to which Poland is linked are, therefore, the country's principal circuits for transborder data flows.

Poland's involvement in closed user-group networks reflects the government's policy to develop transborder-data-flow links selectively, giving priority to those in information-intensive industries that are of particular importance to the country. The closed user-group networks in which Polish institutions participate are SITA (commercial, technical and administrative information related to air transport and associated activities), various press-agency networks (especially Reuters) and the Global Telecommunication System (exchange of meteorological observational data). Its positive experience with the operation of those systems has convinced the government to expand Poland's involvement in closed user-group networks; Poland is expected to join a few other of those systems, including SWIFT (bank information).

At the present time, the importance of transborder data flows for Poland is somewhat limited since the volume of flows is still rather small. However, the growing importance of transborder data flows is fully recognized since they are an expression of the general movement towards a future information economy. In the light of this, policies have been adopted, within the framework of national planning and regional co-operation (CMEA); to foster the strengthening of information resources in Poland and to take all necessary steps to secure the success of those policies. Because of those policies, Poland has already begun to move from the import stage to the stage of establishing indigenous production facilities for selected
information resources. The further expansion of information resources will require intensified co-ordination of economic plans within CMEA in this area and, if possible, greater co-operation with developed market economies, including transnational corporations headquartered in those economies.

The key variable for the development of information resources and the transborder data flows associated with them is the availability of financial resources to meet the required expenditures. Because of the relative scarcity of those resources, both internally and externally, Poland will have to pursue a selective development policy to strengthen its information resources. This is reflected in the specialization agreements for the production of hardware within the framework of CMEA and the selective introduction of closed user-group linkages. Apart from this constraint, several technical, human and legal problems will have to be addressed.

The report concludes that the range of obstacles facing the full use of transborder data flows for the mutual benefit of all parties involved is wide. Nevertheless, the government of Poland hopes that international co-operation in this area is feasible and that international discussions can help resolve any problems connected with transborder data flows, with a view to facilitating their growth between all countries - and especially countries with different socio-economic systems - under circumstances in which the positive effects of transborder data flows can be maximized while negative ones are minimized. In this respect, the work of the United Nations Commission and Centre on Transnational Corporations concerning transborder data flows and the role of transnational corporations in them is a very valuable initiative which can be of great assistance to the entire international community in reaching a better understanding of the importance and impact of transborder data flows.

The UNCTC report "Transborder Data Flows in the Context of Services and the Development Process" (TD/B/1016) contains a modified version of the introduction and final chapter (summary, conclusions and policy implications) of a study on trade and foreign direct investment in data services, undertaken by the United Nations Centre on Transnational Corporations at the request of the Permanent Secretariat of the Latin American Economic System (SELA). The report has been made available by the Centre, at the request of the UNCTAD secretariat, to the UNCTAD Trade Development Board in September 1984.

The report examines the importance and impact of the emerging data-service industries, especially in Latin America; clarify conceptual issues related to trade and foreign direct investment (FDI) in data services; document the dimensions of various forms of international transactions in services; analyse the determinants of these transactions; review the policies and issues relating to them; and outline possible actions at the national, regional and international levels for dealing with questions related to data services.

The report states that developments in trade and FDI in data services appear to have three major impacts on transnational corporations and their relations with host developing countries.
First, the rapid international expansion of new firms and industries based on electronics (including data services) means that developing countries face an increasing number of foreign direct investment proposals from these sources. Moreover, the growth of trade and FDI in data services has facilitated the internationalization of service industries, which are also seeking increasingly investment opportunities in developing countries.

Secondly, in considering these proposals, developing countries must ensure that they strengthen their position in the intra-firm and international division of labour. In effect, there may be a risk that advances in data technology will undermine the competitiveness of developing countries in established industries, leaving them as suppliers of a shrinking range of labour-intensive products and as marketing and distribution outlets for transnational corporations. Particularly as regards data services, averting this situation will require a determined effort to upgrade the local technical and educational infrastructure, together with a negotiating stance appropriate to ensuring that transnational corporations do transfer to host developing countries the skill base needed for data services.

Third, in seeking to ensure that such a skill transfer occurs, developing countries will need to take into account changes in the internal structure of transnational corporations associated with the growth of transborder data flows. Particular attention may have to be paid to ensuring the autonomy and independent viability of foreign affiliates, and notably their capacity to carry out a full range of management functions. Here again, local content requirements - especially as regards data services - may have a role to play.

In spite of these risks, it must be kept in mind, say the authors, that the data technologies and the role of transnational corporations in them offer a wide range of opportunities for developing countries to improve their economic situation. It is for developing countries to seize such opportunities through the adoption of policies that permit the application of these technologies in a manner that strengthens their domestic data resources, while drawing on the proven ability of transnational corporations to combine efficiently the various factors of production and, in particular, pioneer and utilize new technologies.

The report concludes that data technologies form the nexus around which domestic economic and social activities and international economic exchanges will be restructured in the years to come. While this process has begun in the developed market economies and is led by corporations (especially transnational ones) from these countries, it is only a question of relatively little time until it will fully engulf the developing countries as well. The developments documented in the report concerning the data industries and especially trade and FDI in data services are an expression of these changes. Driven by a highly dynamic technology, they proceed with singular rapidity, and regardless of whether or not individual countries take cognizance of them.

The report goes on to say that as with all new developments, they entail both risks and opportunities. By incorporating skills (including sophisticated skills) into equipment and creating new efficiencies, data
technologies are changing the relative importance of different factors of the production process, particularly that of the labour factor. The implications of such a development, which finds its clearest expression in automation, can be wide-ranging, especially for developing countries. They could include such opportunities as the creation of new industries; leap-frogging in other industries; easier access to needed information; and improved transparency of world markets. But they could also include new uncertainties concerning such areas as the nature of comparative advantage, the location of established industries, patterns of foreign direct investment, technology and trade flows, dependency and the international division of labour. It is not surprising, therefore, that access to and the location of data resources, especially data goods and data service industries and the skills to use them, are increasingly regarded as being of strategic importance for economic development. In all of these processes, transnational corporations play a crucial rôle: since they occupy a central position in the world economy, the fact that they are the principal originators, suppliers and users of data technology makes them the most important agents of change.

Although and, perhaps, precisely because the exact implications of the changes brought about by the data technologies cannot yet be determined in detail, it is important to ensure, especially for developing countries, that these countries benefit from them and that any negative effects are kept to a minimum. The authors state that, without policies developed for this purpose, the impact of the data technologies on developing countries may be determined more by the uneven distribution of economic (and especially data) resources between North and South, and less by a rational utilization of all resources and possibilities that are available world-wide.

This inherent need to formulate policies regarding data technologies is further given urgency by the desire of a number of important countries to establish an international framework for trade and FDI in services, of which data services are a central component. It is important that negotiations on such a framework, if they should ensue, take the special circumstances of the developing countries fully into account. This, in turn, requires considerable awareness-raising, discussion and co-ordination among developing countries. Only the developing countries themselves, say the authors, can ensure that such negotiations lead, if they take place, to a framework that reflects the interests of all countries and which, in this manner, can form a viable basis for the movement towards an international information economy.

INTERNATIONAL CIVIL AVIATION ORGANIZATION (ICAO)

The ICAO reports "Annual Report of the Council", 1983 and 1984 (Doc.9421 and 9451) describe the activities and developments in ICAO in those years. Chapter I deals with the principal trends and developments in civil aviation. It is sub-divided into nine sections: traffic on scheduled services; non-scheduled commercial air transport; financial results of scheduled airlines; airline fares and rates; inter-airline co-operations; general aviation; fleet development; safety; technical trends and developments.
Chapters II to VIII deal with air navigation, air transport, joint financing, technical assistance, constitutional and legal questions, relations with other international organizations, organization and administration.

The ICAO report "A Review of the Economic Situation of Air Transport 1972-1982" (Circular 177-AT/67) analyses the significant aspects of the air transport trends and developments from 1972 to 1982. Technical descriptions are given of operators and their fleets, scheduled and non-scheduled traffic and financial trends. Regarding prospects of air transport, external factors affecting traffic growth (such as international trade, tourism and telecommunications) as well as industry factors (such as fares and rates, airline costs, load factors, price competition, availability of airline services and factors affecting air freight) are analyzed.

The Study "International Air Passenger and Freight Transport - Africa" (Circular 189-AT/73) is one of a series which covers Latin America and Caribbean, Asia and Pacific and the Middle East. It examines the development of international air passenger and freight transport to, from and within Africa. The objective of this and similar regional studies contracted since 1976 is to assist States in the development of air transport services by providing current information on trends and developments in the air transport field, and by indicating obstacles to further development and measures to overcome these obstacles.

The African region, for the purposes of this Study, comprises 52 States and two extra-regional States with dependent territories. The Study deals with the development of international air passenger and air freight services, to, from and within this region during the decade ending December 1983 within the constraints of available and reliable data and concentrates on questions of organization, economics, finance and facilitation. The Study is intended to be a general review of trends and developments and obstacles to further development. The work presupposes that, where necessary, States will make and implement their own plans for development.

About 125 airports in the region received international scheduled air services in 1983, four more than in 1977. Airports in Africa are managed under differing institutional arrangements, some being managed by the civil aviation administration, others by autonomous agencies under government control, including the multinational Agence pour la Sécurité de la Navigation aérienne en Afrique et à Madagascar covering 14 States, and yet others by commercial organizations. Charges for air traffic operations at airports in the region tend to be comparable to the world average, but revenues from non-aeronautical sources remain relatively low although their proportion of total revenues has been rising in recent years.

The 70 international air carriers based in Africa employed approximately 92,000 persons in 1983. Increased cooperation between airlines in Africa on a regional or sub-regional basis continues to be encouraged by governments through the OAU and AFCAC with a prime concern being the provision of better air transport services between African States. Air Afrique continues to exemplify the possibilities of multinational cooperation in the provision of air services, and progress has been made in cooperation between airlines on matters such as technical pools and training, mainly within the framework of AFRAA.
Significant characteristics of the regulation of scheduled services by African States are the protection given to national carriers and the application of the principle of reciprocity in bilateral relationships. In their bilateral agreements, African States tend to pursue the predetermination method of capacity control and to place the primary emphasis on third and fourth freedom operations. The exchange of fifth freedom traffic rights is an important issue for many African States, and some groups of States have created "regional cabotage zones" to protect local traffic for third and fourth freedom operators by excluding fifth freedom operations from outside the zone. The question of fifth freedom rights is also closely linked to the problem of improving intra-African air services. The African Civil Aviation Commission (AFCAC) and other regional bodies have consistently advocated the liberal grant of this traffic right, between African States, on the basis of reciprocity, to assist the development of the intraregional route network on an economic basis.

Non-scheduled passenger operations are of significance for a few States, which accept specific types of charter, such as inclusive tours, as part of a wider tourism strategy. These States have well established non-scheduled policies, but the majority of States treat applications for non-scheduled operations on an ad hoc basis and take a restrictive approach towards this kind of service in order to protect the position of their scheduled carriers. There has been less regulatory involvement by States in respect of the sizeable new freight markets developed by African non-scheduled carriers.

Between 1977 and 1984 the region's route network improved slightly, both within Africa and between African and other regions but improvements were uneven. Two factors that have hindered improved long-haul services in Africa are inadequate traffic and the inability of airlines to obtain fifth freedom traffic rights to supplement their third and fourth freedom traffic. Nevertheless, there have been some encouraging developments in recent years including the establishment of a joint airline operation on one of the transcontinental routes crucial to the over-all network.

International fares and rates to, from and within the region are to a large extent developed within the framework of IATA, AFRAA and, for routes between France and many francophone States in Africa, the Association internationale de Transporteurs aériens (ATAF). For routes to and from the Middle East AFRAA airlines also coordinate tariff proposals with member airlines of the Arab Air Carriers Organization (AACO). In order to strengthen tariff coordination, a convention creating an African Air Tariff Conference (AFRATC) for international airlines of the region is awaiting ratification by a sufficient number of States before coming into effect. The IATA and AFRATC tariff coordination mechanisms are strongly supported at a governmental level by the African Civil Aviation Commission (AFCAC), which is also concerned with the monitoring of tariffs and tariff policy.

In recent years the multilateral coordination of passenger fares within the regional and between West Africa and Europe/Middle East has functioned effectively, but tariff negotiations for other interregional routes has been hampered by various factors, including differing airline positions concerning stopover and transfer restrictions and concerning fare differentials between different classes of service.
As in other regions, tariff abuse has been an increasing problem and IATA and AFRAA are coordinating their efforts to eliminate abuse in markets where it is prevalent.

Procedural requirements and practices which unnecessarily inconvenience air travellers and delay their processing through clearance controls at airports, continue to prevail in certain African States. Most delays can usually be traced to excessive documentary requirements for passengers and their baggage and to detailed examination practices. Adequate passenger terminal facilities have been established at some airports but at many other locations the facilities are no longer adequate, leading to difficulties in controlling the passenger flows both inside and outside terminal buildings. The most serious problem in cargo facilitation stems from the inadequacy or absence of warehouse space at certain airports.

International scheduled passenger traffic of African carriers is forecast to grow at 8 per cent a year and their international freight traffic at 9 per cent between 1982 and 1992. These forecasts are about four percentage points below the growth recorded in the previous decade and are generally comparable with those of other organizations. The growth in passenger and freight traffic for the Northern and Eastern Sub-regions is expected to be higher than the average rates for the region as a whole.

Air transport in Africa has undergone rapid development and change during the past decade and substantial investments have been made in airports and aircraft. However, the financial results of air transport operations in the region have not generally been satisfactory. A variety of problems of a regulatory, financial and organizational nature will need to be dealt with by governments and industry if development is to continue on a sound economic basis.

Certain problems of a world-wide nature which may constitute obstacles to development are currently under consideration by ICAO and accordingly are not considered in this Study although they are referred to in the body of the Study. These problems relate to such matters as the establishment of a framework for dealing with differences in regulatory policies with respect to capacity, non-scheduled air transport, and the methods and principles applied in the establishment of fares and rates.

Effective action clearly involves not only civil aviation authorities, airport administrations and airlines but also those government departments concerned with such matters as tourism, trade and transport in general, environment and resource control, finance, and customs and immigration. In the private sector, responsibility may fall not only on air carriers but also on other bodies interested in the promotion of air tourism and air freight. Accordingly, it is desirable that all interested bodies be involved, both public and private, and that cooperative action be encouraged. The Study then proposes a series of measures to remedy problems in various areas such as air transport and planning, air carriers, airports and route facilities, and facilitation of international air passenger and freight traffic.

The Policy and Guidance Material on International Air Transport Regulation and Tariffs" (Doc. 9440) compiles conclusions and decisions in the fields of fares and rates and regulation of air transport. The conclusions
and decisions included are those currently in effect which have received the endorsement of either the Assembly or the Council and are addressed to States or which directly impinge on the conduct by States of their air transport activities. Nevertheless, where an Assembly Resolution is directed to the Organization as well as to States the Resolution in its entirety has been included. The subject matters covered are (1) regulation of air transport (exchange of rights, definition of a scheduled international air service, regulation of capacity in international air transport services, international coordination, registration of agreements and arrangements and international airmail); (2) international fares and rates (standard bilateral tariff clause, multilateral mechanisms for the establishment of fares and rates, practices and procedures concerning the establishment of fares and rates, rules and conditions associated with scheduled passenger fares, tariff enforcement).

The "Manual on the Establishment of International Air Carrier Tariffs" (Doc. 9364) deals with the establishment of international passenger fares and freight rates, both scheduled and non-scheduled, but not charges for the carriage of mail. The subjects of rules and conditions associated with fares and rates, including such items as compensation for denied boarding, baggage allowances and charges, and airline conditions of carriage, will be incorporated in a subsequent edition of the Manual. The Manual is divided into four parts, along the lines of the subject matters referred to above.

In Part I, tariff policies pursued by governments, the Manual points out that the present air transport regulatory system has evolved from the Chicago convention and the freedom it enshrines for States to pursue national policies in matters of air tariffs. This was the basis for the development of the present system of bilateral agreements between States which incorporate the regulation of tariffs for scheduled services. In most regions this regulatory framework for tariffs is characterized by delegation of the responsibility for negotiating the tariffs to the airlines in the first instance, with submission of the airlines' tariffs proposals to the government authorities for approval. The regulation of non-scheduled operations is founded on a system of unilateral control by States, although regulation of non-scheduled tariffs has recently been incorporated in a few bilateral agreements. Whereas there is a trend amongst governments towards multilateral coordination of their tariff policies, new and divergent policies are also emerging, primarily characterized by a greater reliance on market forces as the means of regulating air transport tariffs.

In Part II, international organizations concerned with fares and rates, the Manual notes that most governments delegate responsibility to airlines to negotiate mutually acceptable tariffs for scheduled services, any resulting proposals being filed with the governments concerned for approval. In order to facilitate and coordinate tariff negotiations, various associations of airlines have established multilateral mechanisms.

The only worldwide negotiating mechanism is the tariff co-ordinating conference system of the International Air Transport Association (IATA), through which a number of principles and procedures for agreeing, constructing and filing tariffs have been developed. In addition to IATA a number of regional airline bodies are involved in co-ordinating tariffs amongst their member airlines. All of them co-ordinate their tariff activities with those of IATA to a greater or lesser extent, and in some
cases they hold regional meetings prior to IATA's tariff co-ordinating conferences in order that their member airlines may reach joint positions for development in the IATA forum.

There are no formal carrier mechanisms for negotiating non-scheduled tariffs, prices generally being proposed by individual carriers for government approval, but international associations of non-scheduled carriers play a role in influencing government policy regarding non-scheduled tariffs. Intergovernmental air transport organizations, notably ICAO and regional civil aviation organizations, are engaged in monitoring tariff developments and in co-ordinating government tariff policies.

A number of other international organizations, while not designated uniquely to the field of air transport, have an interest in air carrier tariff matters. Such bodies, both governmental and non-governmental, may affect tariffs through influence or action on behalf of their memberships which are often regional groupings (for example the European Economic Community) or special interest groups (for example the International Business Travel Association).

In Part III, government practices in dealing with fares and rates, the MANUAL lists procedures established for the submission of airline proposals for international tariffs and for government action on them which relate to:

(a) the scope and content of the tariff submissions;
(b) the promulgation of the submissions amongst interested parties;
(c) the periods prior to implementation during which the submissions are to be filed by the airlines and acted upon by the governments;
(d) the scope of government action; and
(e) provisions in the event of expiry or disapproval of tariffs.

These procedures are primarily established by individual governments, with certain of them being negotiated between pairs of governments and reflected in bilateral agreements. The European Civil Aviation Conference (ECAC) initiated work towards harmonization of government practices, the results being embodied in 1967 in an International Agreement on the Procedure for the Establishment of Tariffs for Scheduled Air Services. This Agreement was developed for global application by an ICAO Air Transport Conference and by the ICAO Council, the outcome being the publication in 1978 of a Standard Bilateral Tariff Clause.

In Part IV, guidelines for evaluating levels and structures of fares and rates, the Manual notes that in evaluating international air carrier tariffs governments are usually concerned with a broad spectrum of national interests, including the interests of all national carriers and the interests of users. The air carriers which propose tariffs would normally be expected to ensure that their proposals are consistent with their own commercial interests and economic viability.

Evaluations of freight rates tend to be specialized in nature. The economic criteria on which freight rates may be based depend on whether the freight is carried on all-cargo services, on services established primarily
for carrying passengers, or on services where both categories of traffic are of major importance. On routes where more than one type of service is offered, the levels and structure of freight tariffs are likely to reflect the economics of the various types of operation concerned.

Where evaluations of non-scheduled tariffs are undertaken, they tend to be both specialized and limited, the main concern usually being to ensure that the tariffs bear an appropriate relationship to those for scheduled services.

The study on "Regional differences in fares, rates and costs for International Air Transport 1982" (Circular 188-AT/72), covering the calendar year 1982, is the eighth to have been carried out pursuant to ICAO Assembly Resolution A21-26 [Clauses 1(b) and (d)], which directs the Council to undertake analyses of regional differences in the level of international passenger fares and corresponding differences in the level of airline costs.

For 17 international route groups, comprising all international routes, passenger, freight and mail revenue yield data are presented in Chapter II for scheduled services along with passenger and freight revenue yield data for non-scheduled operations. For the same route groups regional differences in the costs related to the scheduled service passenger yields are presented in Chapter III. Finally, in Chapters IV and V, certain of the causes of regional differences in costs are identified and indications given of the kind of measures that might be taken to reduce costs and fares in those regions where they are high.

The factors which have been considered are:

(a) the effect on aircraft operating costs of differences among route groups in aircraft equipment being used;
(b) the effect of differences among route groups in the average length of flight stages;
(c) the effect of varying prices of fuel and oil in different parts of the world;
(d) the effect of different levels of airport user charges in different parts of the world;
(e) the effect of differences in the average load factor achieved on each route group; and
(f) other factors, including "station expenses", "passenger services", "commission", "ticketing, sales and promotion" and "general, administrative and miscellaneous".

WORLD INTELLECTUAL PROPERTY ORGANIZATION (WIPO)

In a recent letter to the Director-General of GATT, the Director-General of WIPO made the following points: "The services rendered by individuals or enterprises are frequently advertised and furnished by using trademarks,
called, in this context, "service marks." One of the main activities of WIPO consists in the promotion and securing of international cooperation in the protection of marks, originating in one country, in other countries.

If the notion of "services" includes broadcasting and/or publishing, and where what is broadcast or published are literary or artistic works (including music and motion pictures) or phonograms, all the activities of WIPO concerning copyright and the so-called neighbouring rights (that is, rights neighbouring on copyright, including the rights of performing artists manufacturers of phonograms and broadcasting organizations) become relevant for the purposes of your study.

Protection against unfair competition is a further aspect of intellectual property covered by the Paris Convention for the Protection of Industrial Property, a treaty administered by WIPO.

There are also other fields in the activities of WIPO which, perhaps less directly but nevertheless, concern the protection of the rights of persons and enterprises who or which deal in services. Our patent information activities are among them.

The relevant documentation of WIPO in this field is enormously voluminous and encompasses more than a century. It comprises, in any case, the texts of the intellectual property treaties administered by WIPO, the reports on past and ongoing WIPO activities and the plans - in the form of proposals in our program and budget documents - for future WIPO activities.

With reference to the last sentence of the second paragraph of your letter of 12 February 1985, I should like to observe that whereas WIPO's activities do concern "the harmonization of national legislations or the establishment of internationally agreed principles on the protection of intellectual property," we have no "specific information concerning volume and direction of financial flows related to licence fees and royalties". We do have, however, information on the provisions of patent, trademark and other laws governing the approval of contracts for such payments."

The WIPO brochure entitled "WIPO, General Information, 1984" gives some information about the international protection of industrial property and the international protection of literary and artistic property or copyright.

**Industrial property**

Industrial property deals principally with the protection of inventions, trademarks and industrial designs, and the repression of unfair competition.

The three subjects first mentioned have certain features in common because protection is granted for inventions, trademarks and industrial designs in the form of exclusive rights of exploitation. The repression of unfair competition is not concerned with exclusive rights, but is directed against acts of competition contrary to honest practices in industrial or commercial matters.

No international treaty defines these concepts, and the laws of the various countries differ from each other on several important points. It is not possible, therefore, to give generally accepted definitions of the various forms of industrial property. The following descriptions should be considered as general indications of their more common characteristics.
Inventions

An invention is a novel idea which permits in practice the solution of a specific problem in the field of technology. Under most legislations concerning inventions, the idea, to be protected by law ("patentable"), must be new in the sense that there is no indication that it has already been published or publicly used; it must be non-obvious in the sense that it would not have occurred to any specialist in the particular industrial field, had such a specialist been asked to find a solution to the particular problem; and it must be immediately applicable in industry in the sense that it can be industrially manufactured or used.

A patent is a document, issued by a government office, which describes the invention and creates a legal situation in which the patented invention can normally only be exploited (made, used, sold, imported) with the authorization of the patentee. This protection of the invention is limited in time (generally, 15 to 20 years).

In the Soviet Union and a few other countries, inventors may apply either for patents or for inventors' certificates. Under the latter, the exclusive right to the invention belongs to the State, but the inventor has a right to financial and other rewards.

Trademarks

A trademark is a sign which serves to distinguish the goods, as does the "service mark" with regard to services, of an industrial or a commercial enterprise or a group of such enterprises. The sign may consist of one or more distinctive words, letters, numbers, drawings or pictures, emblems, monograms or signatures, colours or combinations of colours, and under some legislations it may also consist of the form or other special presentation of containers or packages for the product (provided they are not solely dictated by their function). The sign may, of course, consist also of combinations of any of the said elements.

Although, in some countries and in some situations, a trademark may be protected without registration, it is generally necessary for effective protection that a trademark be registered in a government office (usually the same office as that which grants patents). If a trademark is protected, then no person or enterprise other than its owner may use it - or any trademark so similar to it that its use would lead to confusion in the minds of the public - at least not on or in connection with goods or services regarding which such confusion might arise. The protection of a trademark is generally not limited in time, provided its registration is periodically (typically, every five or ten years) renewed and, in many countries, its use continues.

Industrial designs

An industrial design is the ornamental aspect of a useful article. This ornamental aspect may be constituted by elements which are three-dimensional (the shape of the article) or two-dimensional (lines, designs, colours) but must not be solely dictated by the function for which the useful article is intended. To be eligible for protection in a country, industrial designs must be original or novel and must be registered in a government office.
Protection of an industrial design means that it may not be copied or imitated without the registered owner's authorization, and copies or imitations made without such authorization may neither be sold nor imported. Protection is given for a limited period of time (generally, 5 to 15 years).

Unfair competition

The repression of unfair competition is directed against acts of industrial or commercial competitors which are contrary to honest practices, including, in particular (1) acts which may create confusion with the establishment, the goods, or the industrial or commercial activities of a competitor; (2) false allegations which may discredit the establishment, the goods, or the industrial or commercial activities of a competitor; (3) indications or allegations which may mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity of goods.

International protection

The laws of a country relating to industrial property are generally concerned only with acts accomplished or committed in the country itself. Consequently, a patent, an inventor's certificate, a trademark registration, or the registration of an industrial design, is effective only in the country where the government office effected the grant or the registration. It is not effective in other countries. Therefore, if the owner of a patent, an inventor's certificate, a trademark or a design desires protection in several countries, such protection must be obtained in each of them separately (except in eight different situations).

It was in order to guarantee the possibilities of obtaining protection in foreign countries for their own citizens that in 1883 eleven countries established the International Union for the Protection of Industrial Property by signing the Paris Convention for the Protection of Industrial Property.

The Paris Convention expressly provides that all or any of the member States may conclude separate, special agreements on particular aspects of industrial property. Such special agreements may not, of course, be in conflict with the provisions of the "general" (i.e., Paris) Convention.

Twelve special agreements - nine of which are called "Agreements" and three of which are called "Treaties" - have been concluded so far under the aegis of the Paris Union. Two of them have not yet entered into force.

The Paris Union and WIPO - which furnishes the Secretariat of the Union - pursue the aim of strengthening cooperation among sovereign nations in the field of industrial property. The aim is to ensure that such protection be adequate, easy to obtain, and, once obtained, effectively respected.

The protection of industrial property is not, of course, an end in itself: it is a means to encourage industrialization, investment, and honest trade.
Copyright: Protected works

The subject matter of copyright is usually described as "literary and artistic works". The form in which such works are expressed may be words, music, pictures, three-dimensional objects, or combinations thereof (as in the case of an opera or a motion picture). Practically all national copyright laws provide for the protection of the following types of works:

(1) literary works: novels, short stories, poems, dramatic works and any other writings, irrespective of their content (fiction or non-fiction), length, purpose (amusement, education, information, advertisement, propaganda, etc.), form (handwritten, typed, printed; book, pamphlet, single sheets, newspaper, magazine); whether published or unpublished; in most countries "oral works", that is, works not reduced to writing, are also protected by the copyright law;

(2) musical works: whether serious or light; songs, choruses, operas, musicals, operettas; if for instruments, whether for one instrument (solos), a few instruments (sonatas, chamber music, etc.), or many (bands, orchestras);

(3) artistic works: whether two-dimensional (drawings, paintings, etchings, lithographs, etc.) or three-dimensional (sculptures, architectural works), irrespective of content (representational or abstract) and destination ("pure" art, for advertisement, etc.);

(4) maps and technical drawings;

(5) photographic works: irrespective of the subject matter (portraits, landscapes, current events, etc.) and the purpose for which made;

(6) motion pictures ("cinematographic works"): whether silent or with a sound tract, and irrespective of their purpose (theatrical exhibition, television broadcasting, etc.), their genre (film dramas, documentaries, newsreels, etc.), length, method employed (filming "live", cartoons, etc.), or technical process used (pictures on transparent film, on electronic videotapes, etc.).

Many copyright laws protect also "works of applied art" (artistic jewelry, lamps, wallpaper, furniture, etc.) and choreographic works. Some regard phonograph records, tapes and broadcasts also as works.

Rights recognized

Copyright protection generally means that certain uses of the work are lawful only if they are done with the authorization of the owner of the copyright. The most typical are the following: the right to copy or reproduce any kind of work; the right to perform in public, particularly musical or dramatic works and motion pictures; the right to make sound recordings of the performances of literary or musical works; the right to make motion pictures of literary works or to include in motion pictures almost any kind of work; the right to broadcast, by radio, television or other means, any kind of work; the right to translate literary works.
Some of these rights, under some of the national laws, are not exclusive rights of authorization, but merely rights to remuneration. In special circumstances, some laws make some uses completely free: for example, copying for personal use or use or performance in schools.

The owner of the copyright may generally transfer his right or may license certain uses of the work. Many countries, however, regard the so-called "moral rights" of the author as inalienable. Such moral rights typically protect against the deformation or mutilation of the work in the course of its use, and the omission or changing of the author's name on the work.

Protected persons

Copyright generally rests in the author of the work. Some laws provide for exceptions and, for example, regard the employer as the first (the original) owner of copyright if the author was an employee and was employed for the very purpose of producing the work. In the case of certain types of works, particularly motion pictures, national laws provide for different solutions to the question who should be the first owner of copyright in such works.

Acquisition of copyright

The laws of most countries provide that protection is independent of any formalities. However, in a few countries, full protection is conditional upon compliance with certain formalities, such as registration in a government office, payment of registration or renewal fees, or the affixing of a "copyright notice" on published copies.

Duration

Copyright protection is limited in time. Many countries have adopted, as a general rule, a term of protection that starts at the time of the creation of the work and ends 50 years after the death of the author. Other systems exist in other countries, and, even in countries where the "life-plus-50 years" rule exists, there are exceptions either for certain kinds of works (e.g., photographs, motion pictures) or for certain uses (e.g., translation).

International Protection

The laws of a country relating to copyright are concerned with acts accomplished or committed in the country itself. In other words, copyright protection based on national law is only effective in the country concerned. It is not effective in other countries. It is only through international treaties that protection in foreign countries is guaranteed. There are several such treaties, both bilateral and multilateral. Among them, the Berne Convention is the oldest and provides for the most guarantees.
INTERNATIONAL MONETARY FUND (IMF)

In December 1984, the IMF decided to appoint a Working Party, chaired by Mr. Pierre Esteva of France, to investigate the statistical discrepancy in world current account balances. This issue has been referred to by IMF Executive Directors in the context of the World Economic Outlook discussions, and Board members have suggested that investment income flows and the financial services of offshore centres should receive priority attention. The Working Party held its first meeting in mid-January 1985, and is scheduled to present an interim report to the Managing Director before the end of 1985. Copies of the Working Party's reports will be made available to the GATT Director-General.

UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE (ECE)

1. General Characteristics and Conceptual Framework of Services

The ECE report "A Preliminary Survey of Intra-Regional Trade in Services" (Trade/R.423) provides a preliminary survey of intra-regional trade in services between industrialized market economies, on one side, and eastern Europe and the USSR, on the other side.

Regarding national developments, it is noted that more than one-half of the active population in the ECE region is employed in the service sector (inclusive of transport) and the contribution of this sector to gross national product is certainly high (more than 60 per cent in the United States, for example), although it is difficult to measure and may well be understated in national accounts.

The growth of employment in services has been pronounced everywhere in the last three decades as can be illustrated by the following figures, although these are not precisely comparable owing to differences in national statistical conventions. In 1940 only 11.7 per cent of the active population were employed in the "non-productive sphere" of the USSR. This sphere, as defined in the material product system (MPS) of national accounts, includes housing and social and personal services but excludes transport, communications and trade. By 1960 the corresponding figure had risen to 17 per cent; in 1965 it was 20 per cent, in 1968 22 per cent, and in 1977 more than 25 per cent. In the United States the service sector's share of those employed increased from about 47 per cent in 1940 to 54 per cent in 1960, 55 per cent in 1965, 60 per cent in 1970, and 68 per cent in 1977. (Untied States service sector includes wholesale and retail trade, finance, insurance, real estate, general government as well as services traditionally so designated.) The same trend can be observed in all ECE member countries for which data are available.

The service sector of the economy is understandably an important source of "new jobs". In all ECE countries, most of the net increase in employment in recent years has occurred in that sector. In countries where labour is in short supply, an improvement in the efficiency of services could lead to economy of manpower: it has been estimated, for example, that rationalization and mechanization of transport would permit a saving in labour of between 1.5 and 2 million Soviet workers in the period up to 1985.
Regarding international developments, it is pointed out that invisible trade accounts for about one-fourth of world trade. The invisible trade account is, however, growing much faster than visible trade, and its rate of growth is accelerating: in 1978 it increased by 14 per cent in value, and in 1979 by 24 per cent. (These data are drawn from the Annual Report 1980-81 of the London Committee on Invisible Exports.) The same trend can be observed in east-west trade. The growth of invisible trade is remarkable, particularly since it occurs in a period when merchandise trade has lost much of its earlier dynamism. In fact, invisibles have become a strong factor of growth in international trade as well as in national employment. Whilst the growth of the international transport and insurance sectors may be seen to be complementary to the growth of international trade, and the growth of international tourism to be associated with rising standards of living, no clear-cut correlations can be made between the growth of, say, international legal services (which recently proved to be the largest export industry in New York, outranking the clothing industry) and other economic indicators.

Traditionally, invisible earnings are divided into four sectors: investment income, tourism, transport, and other services. Since the east-west aspects of international capital movements and revenue are a major subject in themselves and have been dealt with extensively elsewhere, they are considered to be beyond the scope of document TRADE/R.423 which is limited to the remaining three sectors.

International tourism is one of the world's major growth industries. The tourist trade is predominantly intra-regional with the ECE region, although liberalization of air-fare structures has led to increasing internationalization. In 1979, more than two-thirds of international tourism receipts accrued in the ECE region. However, travel undertaken in the ECE region is mainly between countries having the same kind of economic and social systems. Data on international tourism receipts are not available for all ECE member but, on the basis of available information, "east-west tourism", i.e. travel between ECE member countries having different economic and social systems, may be estimated to have generated receipts of about US$1.5 million during 1979, i.e. about 2 per cent of world tourism receipts, with a net surplus (of about US $600 million) for the east European countries.

Regarding international transport, the ECE region accounts for almost 60 per cent, including tonnage registered in Liberia and Panama, of the total gross registered tonnage of all merchant fleets in the world and more than one-half of the world's railroad track and rolling-stock. Seven ECE countries (France, the Federal Republic of Germany, the Netherlands, Sweden, the United States, and the USSR) not only supply almost all of the commercial aircraft registered in the world but they also maintain and service them. About 80 per cent of those persons who travel by air live in the ECE region, and two ECE countries (the United States and the USSR) account for more than one-half of the world's air passengers.

Although rail is the principal mode of transport in the ECE region, shipping is more important for the transport of goods in international trade. It has been estimated that 75-80 per cent of the total volume of international goods transport is carried by merchant shipping. In 1976
westbound flows from the east European countries taken together amounted to 147.1 million tons, and the reverse trade flow to 41.0 million tons. Significant differences exist between the relative importance of various modes of transport in the ECE region depending on the direction of trade: the ECE Secretariat has estimated that sea transport accounted for 60 to 66 per cent of westbound traffic in the period 1968-1976, but that the share of sea transport was only 35 per cent of eastbound traffic for the same period. Railways accounted for the largest share in eastbound traffic (41-49 per cent) but for only one quarter (23-27 per cent) in westbound traffic. Road transport is relatively small in volume but increased faster than other modes, pipeline and air transport excluded, at a rate of about 14 per cent per year in both directions.

The ECE's "Economic Survey of Europe in 1984-1985" contains a chapter dealing with recent developments in the non-material sphere of the economies of Eastern Europe and the Soviet Union. The chapter covers basic features of the non-material sphere, factor input, indicators on non-material sphere services and the economic significance of the non-material sphere.

II. National and International Regulations Governing Individual Services Sectors

Concerning international transport, the differences between modes of transport in westbound and eastbound traffic indicate that different policy preferences may exist. In market-economy countries, freight flow control is exercised by individual consigners and consignees whereas in planned-economy countries, where the state has a monopoly of foreign trade and transport, comprehensive control of all stages of freight traffic is, or is intended to be, geared to meet overall national interests and not only those of individual foreign trade enterprises. There is a general tendency for sea transport to play a more important rôle in total freight transport to and from Poland and the USSR (both important shipping nations) than to and from other east European countries.

Several services which are important internationally, such as accounting and legal services, do not lead themselves readily to east-west exchanges owing to differences in economic and social systems, although limited use of such services is made by overseas affiliates and subsidiaries.

Other services, such as advertising, can be and increasingly are exchanged in east-west trade. However, differences in economic and social systems lead to substantially lower levels of advertising in eastern than in western countries. Most east-west foreign trade advertising is done through eastern specialized advertising organizations such as Vueshtorgreklama in the USSR, Agpol in Poland, and Hungexpo in Hungary, which report to the respective Ministries of Foreign Trade. A survey of foreign trade advertising agencies in eastern Europe may be found in International Trade Centre UNCTAD/GATT; Exporting to the Socialist Countries of Eastern Europe: A Guide to Marketing Techniques, Geneva, 1971, Chapter IX. Some discussion on the rôle of advertising in east-west trade has taken place in the framework of Seminars on East-West Trade Promotion, Marketing and Business Contacts organized by the ECE: (See, for example, "Investment equipment advertising in east-west trade", TRADE/INF.4.)
Banking encompasses a wide range of services in addition to financing activities. The growth of east-west trade has led to a substantial expansion of east-west banking connections, particularly in the 1970s. More than twenty western banks have offices in eastern countries now have subsidiaries or branches in western Europe, and seven banks owned by USSR banks have branches in Austria, the Federal Republic of Germany, France, Luxembourg, Switzerland, and the United Kingdom. (A list of these banks can be found in Banking and sources of finance in Comecon, Banker Research Unit, London, 1978, Appendix.) Their tasks include the short and medium-term financing of trade with eastern countries, using funds generated outside these countries; most of them also provide fee-based services such as leasing, foreign exchange trading, and loan syndication.

The very rapid growth of international banking markets and of other services, such as tourism, has been supported by - and has in turn supported - a very rapid growth of international communications, notably telecommunications. As a result of increasing digitization of equipment, telecommunication networks are able to transmit not only speech and writing but also data and images. Data from the International Telecommunications Union show the growing share of ECE countries in the rapid expansion of telecommunications services.

Since the same (digital) techniques are increasingly used by both of them, the traditional dividing line between communications and computer services has begun to fade. At the same time, increased productivity of international communications and subsequent cheap rates for long distance electronic transmission have encouraged users of computer services to make increasingly greater use internationally of them. To cite an example: the Bulgarian, Hungarian and Polish national airlines book even local flights through a reservation system running on a computer located in Atlanta, Georgia (United States). The countries of eastern Europe and the USSR are rapidly gaining experience in this field of activity and already offer some software for sale in addition to creating much of their own.

Concerning foreign contract operations of construction, engineering, consulting and other technical services, many east-west turnkey projects almost certainly include a large service component but the exact amount of these components is not known. In Hungary, imports of technology are often statistically recorded separately from imports of goods since know-how transmitted together with the corresponding machinery and equipment is dutiable, whereas technology imports for subsequent exports are duty-free. (For further information, see SC.TECH./SEM.8/R.4:TRADE,SEM.5/R.4 for an account of Hungary's international trade in licences.) Important as they undoubtedly are qualitatively, east-west contractual exchanges of technical services are quantitatively limited (probably less than 0.5 per cent of the world total) and are hampered by diverse restrictions on both sides. (The problems connected with such exchanges are well illustrated in a study of the experience of Swedish companies concerning east-west industrial co-operation, Industriellt samarbete med öststaterna, section 8.2, STU, Stockholm, 1980).

Franchising is a particular method of marketing a product or a service. Many such operations of this kind are in the field of fast foods, auto-rental services and hotel/motel business; the two latter services, especially, play an important rôle in an east-west context. Thus, the major international auto-rental companies have franchised operations
throughout the ECE region, and several multinational western hotel in eastern Europe and the USSR. Whilst the revenue collected from franchising contracts may not be large, this method of marketing services provides the franchisor with additional income from minimal investment while the partner in the transaction obtains access to marketing and service know-how on a pay-as-you-earn basis. It is well suited to operations in countries where foreign ownership or management is restricted. Its future growth in the east-west context is related also to the development of east-west travel.

Regarding insurance, the centrally-planned economies have nationalized their insurance services and, as a rule, one company (or two companies in the case of Czechoslovakia and Poland) handles all foreign insurance and reinsurance: it places outward reinsurance on the international markets for some of the risks involving foreign currency and writes reinsurance from other markets, particularly developing countries. The largest insurance company in the centrally-planned-economy countries is Ingosstrakh in the USSR with subsidiaries in Austria, the Federal Republic of Germany and the United Kingdom. Some bilateral agreements or accommodation of "equitable sharing" of insurance, notably cargo insurance, have been concluded between eastern and western ECE member countries. (Document TRADE/R.441 concentrates on east-west reinsurance.)

The concept of leasing is known in all ECE countries, although only a few isolated cases of east-west leasing had been reported until recently. The third Seminar on East-West Trade Promotion, Marketing and Business Contacts, held in 1975, was partly devoted to leasing in trade between market economy and centrally-planned-economy countries in the ECE region and provided the first opportunity for a multilateral discussion of east-west leasing operations. (See Licensing and Leasing, TRADE/INF.2). Within the context of east-west relations, leasing is usually regarded as a means of providing equipment on rental terms to eastern countries. However, eastern countries also produce a range of products - for example, transport equipment and agricultural machinery - suitable for leasing. The ECE Secretariat in 1977 put forward a proposal covering some means of improving the financing of east-west industrial co-operation, which included the possible establishment of an east-west European leasing company to support the expansion of east-west leasing operations (see TRADE/R.355).

In its conclusions, the report quoted (TRADE/R.423) notes that in 1980 east-west trade in services other than investment probably amounted to some US$4-5 billion or to less than one-fifth of east-west trade in goods. For a number of ECE member countries, receipts from international sales of services provided the foreign currency needed for a further expansion of imports. But relatively little is known about the composition and modalities of this trade. Whilst work is now underway in other international and regional organizations to identify the problems encountered in the international service trade in general, relatively little attention has so far been paid to the east-west dimension of this trade as a whole. Much further work is needed to improve the existing inadequate data base in order to lay the basis for future study and discussion. Additional information is also needed about current activities in other organizations and by national authorities to promote the development of international trade in services, in particular on east-west aspects of this trade. Moreover, it might be useful for the ECE Secretariat to prepare
an assessment of east-west trade in a given service industry. In this connection, it is recalled that the ECE Inland Transport Committee regularly reviews developments and prospects regarding east-west European goods traffic flows. While the World Tourism Organization collects a great deal of relevant information, its activities are mainly directed to general problems facing the tourism industry, and specifically towards developing countries. In the light of the above, the ECE Committee on the Development of Trade invited the secretariat to report on work underway on international services in other international and regional organizations as well as in national administrations (see document TRADE/R.461). It also invited the ECE Secretariat to assemble and analyse existing economic information about east-west trade in services and to put forward, for consideration by the Committee, proposals concerning additional information about such trade which might usefully be collected.

UNITED NATIONS ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN (ECLAC)

The ECLAC report "International Trade in Services: The Case of Latin America and the Caribbean" (E/CEPAL/SEM.15/R.3, 1 August 1983) sets out that this initial approach to the regional discussion of services enables the authors to assess, with some clarity, the tremendous importance of that sector, not only in world economic activity but also in the region's economic relations with other areas.

The definitions, classifications, and other elements that enable the authors to isolate and distinguish the activity of services from other economic activities are conceptually diffuse and very imprecise. This means that, more frequently than should be the case, services activities are defined in a purely residual manner. What is certain is that the services sector comprises an extremely broad spectrum of very heterogeneous activities. This heterogeneous character of services not only hampers the definition of clearly defined limits for the sector but also impedes the identification of general principles relevant to services as a whole. Different services have different marketing channels, different production processes, and other differences that make it difficult to approach them using the same types of criteria employed in analysing physical goods, particularly in relation to the theory of international trade.

Using the broadest definition (the residual activity that remains once manufacturing, agriculture, and mining have been factored out), the report points out that the services sector contributed 64 per cent of world wealth generated in 1979. In the case of the industrialized countries, the contribution of that sector exceeded two thirds of GDP, while in the developing countries its contribution was 50 per cent and in Latin America 60 per cent for the same year. Unlike other sectors, the share of services in GDP is relatively rigid and independent of a country's level of development. It is unlikely to fall below 50 per cent or rise above 65 per cent of GDP. The variations are to be found inside the sector, especially in respect of the relative importance of the industries that comprise it. It has a notable impact on the capital formation process and on employment. It is estimated that 56 per cent of fixed capital formation in developing countries takes place in the services sector. Moreover, services in developing countries employ, on average, 28 per cent of the working population.
Turning to the internationalized services sector, it is worth noting, say the authors, that total exports of services are equivalent in value to about 35 per cent of exports of goods (US$610.4 billion in 1980). The internationalization of the goods economy has been followed pari passu by that of services. The dominance of the developed countries in trade in goods is even more pronounced in trade in services. In 1980 those countries accounted for 83 per cent of exports and 71 per cent of total imports of services, the United States being the leading exporting country (20 per cent of the world total).

As a group, the developed economies are net exporters of services and achieve the largest surplus in the accounts grouped under the heading "payment of factors". This is not surprising if one takes into account the predominant rôle of the industrialized countries in direct foreign investment and external financing activities. As a corollary to the above, the developing countries are net importers of services and their largest imbalance is recorded in "payment of factors".

While the most dynamic components of the foreign trade of industrialized countries are profit remittances, banking and insurance services, design, engineering and construction, royalties, licences and other financial flows from subsidiaries, the most significant items for the developing countries are travel, transport, and, in certain cases, engineering and consulting services (Brazil, Korea, Singapore).

Latin America and the Caribbean export less as services (4.9 per cent of the world total) than as goods (5.4 per cent). The region's figures are higher for import of services (8.6 per cent in 1980). Like the other developing countries, then Latin America is a net importer of services. This imbalance amounted to US$27.5 billion in 1980 (more than 3.5 times the deficit in goods, which was only US$7.8 billion). Approximately two thirds of the deficit was the result of imbalance in the accounts that comprise the "payment of factors". It should not be forgotten that in 1980 the region paid out a total of US$13.6 billion in interest on the foreign debt alone.

The remainder of the imbalance came basically from trade in "transport". However, thanks to the efforts of the region to expand its national fleets, this particular account shows a consistent trend toward correction of the imbalance.

The most important component of the activities included under "non-payment of factors" is the category "travel". In 1980 it represented 42.8 per cent of the credits and 35.2 per cent of the debits under this heading. Its significance, however, varies with individual countries of the region. It is particularly significant for those countries closest to the United States (the country that generates the largest number of tourists) and for countries having a common border with several countries (Uruguay and Ecuador, for example).

While in general the development of internationally marketable services would appear to require a solid national infrastructure and abundant human, technological, and capital resources, there are nevertheless some activities, say the authors, that appear to offer good possibilities for development in the region. This is true both for the promotion and development of activities aimed at external markets (tourism, for example) and for import replacement at national, sub-regional and/or regional level (engineering, design, maintenance and repair of transport equipment, films, advertising, and others).
A programme of work in the internationalized services sector should, in the view of the authors, be structured with a view to answering the following questions:

(1) Which are the services undertakings that are of interest to promote for the region as a whole and for the individual countries?

(2) What possibilities does the region have for developing - in the medium term - an internationalized services sector of a certain magnitude, competitiveness, and efficiency?

(3) What are the possibilities that such development could take place in the market structure favoured by GATT, and to what extent would this be compatible with the interests of the developing countries in the area of services?

Consequently, the programme would attempt to give preferential coverage to the following nine topics:

(i) Design of a programme to improve statistical data on services provided internationally by Latin America;

(ii) Identification of services industries with potential for development in the region;

(iii) Specific sectoral studies in the internationalized services sector;

(iv) Identification of related areas for negotiation;

(v) Identification of common interests with other developing regions;

(vi) Inventory of obstacles and restrictive business practices that prejudice trade in services of the region;

(vii) Identification of specific services industries that could take advantage of existing economic integration schemes;

(viii) Study of possible ways of financing the region's foreign trade in services;

(ix) Studies on the evolution of and trends in prices of the various services provided internationally.


The report points out that, first of all, Latin America will have to try to distinctly separate the multilateral discussions on services transactions from those related to international investment flows. Clearly, political and economic projections of these two areas prevent a common approach, and a "global" presentation only leads to confusion as to the real reasons behind these initiatives on services.
The adoption of any coherent and comprehensive policy on international trade in services must have as its main axis a precise definition of the specific ways in which services fit into the domestic economy, and the forms in which they are compatible with the needs of economic efficiency and other objectives, such as full employment and the rate of return on capital, the easing of external or internal political pressures, concerns about national security and independence, preservation of cultural identity and specific lifestyles and consumer habits, etc.

Relevant background material, say the authors, should include the Buenos Aires Platform in which the Group of 77 adopted a common position with a view to the Sixth Session of UNCTAD. They also defined a general position in regard to services, consisting of: (i) strengthening activities of this sector in developing countries; (ii) avoiding the negative effects for developing countries of the existing structure of international transactions in services; and (iii) considerably increasing income from this sector.

The Group agreed to ask the UNCTAD Secretariat to prepare a programme of action for achieving the above-mentioned objectives. In addition it recommended (i) that studies should be carried out in order to identify and set priorities in regard to services of particular importance for developing countries; (ii) that programmes should be proposed for securing greater participation by developing countries in world trade in services; (iii) that recommendations should be made on multilateral co-operation mechanisms guaranteeing special, differential and more favourable treatment for developing countries in respect of services; and (iv) that information on services should be reproduced and circulated systematically.

The Conference, for its part, adopted a resolution on this subject in which it was recognized that trade in services need closer analysis and better understanding and that UNCTAD should pursue its studies on matters relating, inter alia, to the rôle of the services sector in the development process.

At regional level, a decision adopted by the Secretariat of the Latin American Economic System (Decision 24) proposed various studies that would allow exhaustive analysis of the rôle of services and international transactions by this sector in the development process and economies of the member States. It was also decided to convene a Latin American co-ordination meeting in the third quarter of 1984 with a view to developing a joint position on this matter.

Against this background, the report points out that a Latin American work programme on these issues should take account of the following:

1. Services

(a) The highly disparate nature of services makes it difficult to identify specific problems or characteristics that could facilitate comprehensive analysis of them and the adoption of common principles and criteria to be included in a general framework.
(b) In view of the above, it is more advisable - in an initial stage - to divide up the discussions on services on the basis of specific industries. This will require identification of those sectors that are most important to the economic development of the region, and of the most appropriate fora for multilateral negotiation of the issues. In this respect, it would appear useful to call for strengthening of the work of specialized agencies such as UNCTAD, ILO, ITU and others since they are already active in those areas and may be in a better position to recognize imbalances between the tertiary sectors of the North and the South.

(c) Studies conducted on specific industries would facilitate improvements in the very limited statistical base available for this subject. The studies should also consider solutions to a number of conceptual and definition problems that arise in measurement of international services transactions. Equally, or perhaps more important in data collection are efforts to systematize and regularize a mechanism of contacts with the various domestic providers of services and the principal groups of users. This would generate valuable information that would in turn facilitate the adoption of consensus positions at both national and regional level.

(d) Countries should explicitly define those strategic services industries which they believe should only be allowed to produce through domestic initiative (whether public or private).

(e) The diversity of situations encountered in the countries of the region - in which there is predominantly a "traditional" services sector with few tradeable components - provides considerable scope for regional and sub-regional integration and co-operation. This is an area that should be given priority consideration in designing specific studies since many industries that at present are not really economically viable at national level could become so through the economies of scale that would result from integration. On the other hand, there are complexities that stem from the heterogeneous characteristics of the Latin American economy and are reflected in the different levels of development reached by different countries and dissimilar market structure and size.

(f) With reference to studies on the impact of services on overall economic development, support should be provided to assist countries in their efforts to prepare such studies, and that those studies should stress the multifaceted role of services and the interaction between services and the quality, level, and dynamism of economic activity. One crucial element should be identification of the external economies and diseconomies implicit in alternative policies for the development of services, as well as definition of those factors central to a strategy for "modernization" of the services sector in the countries of the region.

(g) Services, by their very multifaceted nature, normally comprise of activities subject to a variety of regulations whose purpose is generally to neutralize any possible negative effects that such activities might have on other socio-economic goals set by countries. It is precisely such regulations that the
industrialized countries term "obstacles" to trade in services. One important task, therefore, is the formulation of multilaterally accepted criteria allowing a clear differentiation to be made between "regulations" for the industry and "obstacles" to trade in services.

(h) Depending upon developments on the points mentioned above, progress could be made toward identifying problems common to several services industries, and which could be more readily solved through international co-operation. Only then will it be possible to try to develop a set of multilateral and generally applicable standards to regulate such co-operation.

(i) Given the fact that even among industrialized countries there appears to be no consensus on the best way to deal with international co-operation in services, it is advisable to carefully follow national studies and policies on this subject in order to identify any areas in which the interests of the region and of some of the industrialized countries coincide. Such efforts could be clearly beneficial for defence of regional positions. One key element should be an examination of national regulations affecting specific industries in industrialized countries and the official justification for them. Particular attention should be paid to the work of the European Economic Community.

2. Investment Flows

The report notes that investment flows appears to be the focal point of the interest of some developed market-economy countries in liberalizing "services". It is true that, in part, internationalization of services is linked to the right of establishment of affiliates or subsidiaries in other countries, since only in this way can the sale of services take place in those countries. However, it is too risky to generalize some arguments, that may be partially valid in discussing this topic, to the broad and very complex problem of international investment flows.

There is no reason to think that any advance achieved by the developed countries in the area of affiliates and subsidiaries will not be used in the future as a vehicle to extend the scope of application to direct investment in general.

The region has a history of conflicts involving foreign investments. It has not yet been possible fully to clarify its real impact on the economic development of the region. With the exception of Decision 25 of the Cartagena Agreement, it has not yet been possible to adopt a regional consensus on this subject. The experience of the Andean Group is an important background element to consider in discussions on investment.

For these reasons it is necessary to avoid any comprehensive treatment matters concerning affiliates and subsidiaries and to restrict consideration of this area in multilateral fora to cases related to issues bearing on a particular services industry. This would make it possible to find specific solutions limited in their application to the particular needs of the services industry in question.

With respect to investment flows in general and the bilateral treaties that some industrialized countries are promoting, it would be advisable if,
prior to adopting any new commitments, the Latin American countries were to institutionalize a mechanism for consultation and exchange of information that would make it possible not only to benefit collectively from individual experience, but also to help to build up a regional consensus on a common approach to this issue.

The ECLAC report "Conclusions of the Seminar on International Trade in Services" (E/CEPAL/SEM.15/R.6, 27 April 1984) sets out that there was agreement that most of the principles upheld by the General Agreement on Tariffs and Trade are not applicable to international transactions in services, and that provisions such as those on most-favoured-nation treatment, national treatment, and the right of establishment should not and could not be extended to apply to an area as complex and heterogeneous as that of services. An appeal was made to countries to take full precautions in respect of the offensive launched by a number of industrialized countries to promote bilateral treaties on investment. Specifically, a proposal was made to hold informal consultations among countries with a view to minimizing the risks of conflict between the interests of Latin American countries and the interests of the countries that are promoting such treaties.

ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

Banking

The OECD report "International Trade in Services: Banking" (21 84 03 1) reviews obstacles to trade in services in the banking sector of the OECD member countries and analyses their nature and significance.

In determining the scope of the survey, the Financial Markets Committee agreed to adopt a broad definition of "trade in services". Accordingly, the enquiry was extended to cover the following areas: (1) de-novo entry and establishment of foreign banking organisations; (2) acquisition by foreign banking organisations of participations in indigenous banks; (3) operations of established foreign-owned banking organisations; (4) cross-border international banking operations.

With a view to properly identifying the impediments existing in the banking sector, Member countries were invited to reply to a "Questionnaire on Possible Obstacles to international Banking Operations" (Annex I to the report). The results of this survey, together with comments submitted by the Capital Movements and Capital Markets Committee of the Business and Industry Advisory Committee (BIAC), were discussed by the Expert Group on Banking and subsequently approved by the Committee on Financial Markets which agreed on the text including the inventory of impediments to international banking operations which is annexed to the report (Annex II to the report).

The analysis of the results of the survey has brought out the relevance of existing OECD investment instruments with regard to the four broad areas
in which restraints on trade in banking services may arise through either official restrictions or discriminatory administrative practices. Section II of the report examines the relationships between OECD instruments and impediments to international banking operations.

Regarding the analysis and assessment of obstacles, the report concludes that any classification of identified obstacles by order of importance has its limitations. It would, nevertheless, appear from the review of obstacles that, as far as member countries are concerned, the most serious impediments relate to limitations to the granting of right of establishment to foreign-owned banks. Current regulations and policies provide scope for some foreign banking presence in all member countries; but in a number of instances, the right of establishment of "operative" bank offshoots (agencies, branches, subsidiaries) is either not granted or is severely limited.

Restrictions on aspects of establishment other than licensing per se (e.g. reciprocity considerations, special authorisation modalities, differential licensing requirements) may severely affect foreign banks' ability to compete on equal footing with domestic institutions. Although the number of discriminatory provisions in this area would appear to be fairly limited, hindrances to the establishment of foreign banks often arise from administrative practices, the importance of which may be compounded by lack of transparency.

The importance of limitations to right of establishment in the banking sector may be somewhat attenuated if possibilities exist for foreign banks to provide financial services to residents of a given country either through offshore operations or by operating in the domestic market through local establishments that are not considered to be "banks" according to national legislation. It remains true, however, that access to the local market through authorisation to have a physical, operative presence is a prerequisite to the pursuit of banking business proper.

The report goes on to say that it is difficult to form an opinion of the extent to which existing restraints on the acquisition of participations in indigenous banks effectively limit the scope for international trade in banking services. No doubt, the severest impact of such restraints is felt in those countries which concurrently prohibit or severely restrict de-novo entry. On the other hand, countries applying a liberal policy with regard to de-novo entry offer foreign banks a viable alternative to the establishment in the local market via the acquisition of indigenous banks. Finally, a large number of member countries allow foreign banks to take minority participations in local institutions. This may provide foreign banks with an opportunity for complementing and strengthening their correspondent network and for the provision of services to customers in countries where a full-scale presence would not necessarily be warranted.

The results of the survey suggest that when foreign institutions are admitted as fully-fledged banks, member countries generally apply national treatment to them and only a few instances are noted in this survey where such is not the case. Of significantly greater importance for the competitive
position of foreign banks may be the effect of a number of regulatory provisions which, although formally applied in a uniform manner to all financial institutions operating in a country, in practice bear more heavily on foreign banks than on their local competitors.

In the field of cross-border transactions, the numerous impediments that exist in a number of countries are not generally intended to discriminate against non-resident banks and usually result from measures governments have taken in pursuit of other policy objectives. It remains, however, that they may run contrary to the principle of liberalisation of capital movements and, in practical terms, may limit severely market access by foreign banking institutions.

Insurance

The OECD report "International Trade in Services: Insurance (21 84 01 1) surveys and analyses obstacles existing in the insurance field in order to obtain as clear an idea as possible of the difficulties encountered today by international insurance business in member countries.

Part I of the report analyses the results of the survey based on questions covering member countries' practices applying either to international insurance operations or to the establishment of foreign insurers, subject to reciprocity and, more generally, a number of measures and practices concerning the establishment of branches of foreign concerns such as, for instance, financial requirements, taxation, regulations relating to the nationality of personnel and government procurement. Part II of the report recapitulates these results and Annex I presents them in the form of summary tables.

The reports notes that international insurance activities may take the form of international rendering of services, which correspond, in the area concerned, to international trade in goods or they may be carried out in the form of services provided by subsidiaries or branches of foreign insurers established in a given country. The proportion of international activities carried out in the latter form is larger in the insurance sector, as perhaps in other services sectors, than in the case of trade in goods. This is due to the fact that in the insurance sector, it is often necessary that foreign concerns be established in a country to be able to offer their services on a competitive basis in that country's market.

Obstacles exist to both forms of international insurance activities mentioned above. Without attempting to classify these obstacles in a strict order of importance, it may be said that the most serious impediments, i.e. those which affect most significantly enterprises wishing to engage in international activities, concern establishment in terms of both number of restrictions and degree of severity.

The first obstacle, as regards establishment concerns licensing. The initial authorisation to establish and to participate in a market is a pre-requisite to all pursuit of business, and other aspects of establishment
are devoid of significance without this authorisation. In the report, emphasis has been on conditions of access of branches but it should be noted that, in the insurance field, although there often is no significant distinction made in the treatment of different forms of establishment (subsidiary, branch or agency), the conditions of access of subsidiaries can sometimes be more favourable.

Limitations on licensing may involve the withholding of a licence or delays in replying to applications from non-established foreign insurers or from established insurers wishing to extend their activities to new classes of insurance. Restrictions on the foreign insurer's opportunities, whether they consist of a prohibition to render certain services or result from authorisation procedures under which applications by foreign concerns to introduce a new service are rejected or delayed until domestic insurers are ready to provide it themselves, finally achieve similar results.

The report goes on to say that the second most serious category of obstacles also affects establishment. It concerns the operational terms under which foreign companies, and in particular their branches, are required to function, some of the conditions imposed directly affecting their ability to compete on equal terms with domestic companies. The following areas stand out as being of special concern in this regard, differential treatment of foreign firms compared to national firms with respect to financial and other requirements; discriminatory fiscal measures which can have a significant impact on a foreign insurer's ability to compete; government procurement practices which involve a preference that government insurance contracts be placed with domestic insurers; requirements concerning the recruitment of staff, particularly managerial staff. While a wide range of other discriminatory practices exist besides these basic categories, generally those practices constitute more an irritant than a serious impediment.

The third important group of obstacles, say the authors, do not concern establishment but interfere with the freedom of insurance transactions, i.e. the freedom to provide services. Some countries impose restrictions even on the two insurance classes of activities which historically have been expected by their very nature to be freely transacted internationally, i.e. insurance relating to goods in international trade and re-insurance. Impediments in the area of services often consist of restrictions or conditions which may limit to a varying degree the freedom to transact, but even when transactions are permitted, other impediments, such as, for instance, taxation, may have the same deterrent effect as outright prohibition.

Finally, the report notes a number of exceptions to the principle of non-discrimination of the Code of Liberalisation of Current Invisible Operations of the OECD, a principle under which member countries are required to accord equal treatment being permitted only in the case of countries forming part of a special customs or monetary system. Some of the exceptions noted result from the application by certain member countries of the reciprocity principle, for instance as regards establishment, and, in some
cases, in the context of bilateral agreements. The information on this subject in the report is not complete and work is currently under way to supplement it.

Shipping

The OECD report "Maritime Transport 1983" (76 84 01 1) prepared by the Maritime Transport Committee covers developments of interest in the field of shipping during 1983 and, wherever possible, the early part of 1984 and sets recent developments within the framework of longer-term trends in international shipping and trade.

Chapter I describes international shipping developments during 1983 in the context of national and international shipping policies. Chapters II and III discuss recent trends in shipping demand and supply and Chapter IV shows how the interaction of supply and demand was reflected in the world freight markets during 1983 and the early months of 1984. Chapter V, on the other hand, provides an inventory of problems and difficulties OECD member countries experienced in their shipping relations among themselves and between OECD member and non-member countries. The report is accompanied by a statistical annex which brings together the principal elements of international seaborne trade and bulk commodities, the world fleet and the various freight markets.

The report describes those aspects of national and international shipping practices with which the Maritime Transport Committee has been particularly involved during 1983, a year characterised by depressed conditions similar to those in 1982. International seaborne trade decreased for the fourth year in succession and, by the end of 1983, amounted to only 84 per cent of the 1979 seaborne trade record. As a consequence, world shipping markets were marked by a large tonnage surplus overhanging almost all markets. Towards the end of 1983, trading conditions improved somewhat; however, a return to reasonably balanced market conditions can hardly be expected during 1984. The economic difficulties for world shipping were compounded by intensified protectionist pressures. The report points out that many developing countries introduced new cargo reservation laws, enforced existing laws more rigorously and established Freight Bureaux, thus restricting shippers in their choice of ships and depriving them of free and fair competition. The Maritime Transport Committee continued to monitor these developments as well as the non-commercial competition from Soviet shipping lines, in particular as the USSR lines did not show any real willingness to reach an equitable commercial compromise with Western lines. Furthermore the Committee closely followed legislative developments in the United States as well as the dialogue between the United States and the Consultative Shipping Group, aimed at agreeing policies which would preserve, to the maximum extent possible, the OECD concept of an open and multilateral trading system in world shipping.

The report brings together a consolidated summary of the problems and difficulties which have been found to be of major concern to member countries in their shipping relations with non-member countries and among themselves.
The report points out that the main obstacles, which clearly show that the traditional concept of free circulation in free and fair competition is at risk at present, are: unilateral cargo reservation and flag preference, bilateral division of cargo, non-commercial competition from state trading countries, the different application of competition policy to liner shipping, cabotage shipping, mobile offshore vessels and subsidies/fiscal benefits to shipping. The point is made that the arrival of a large number of new participants from developing and state-trading countries, which do not subscribe to this concept, but together with certain measures taken by countries normally subscribing to the concept, makes it all the more necessary to intensify the search for multilateral arrangements. Such arrangement, which are at present under discussion within the "General Shipping Policy Discussions" of the Maritime Transport Committee, should contribute to reasonable stability in the development of world shipping and prevent an uncontrolled rush towards bilateral deals which are most unlikely in the long term to be in the interest of either the users or the providers of shipping services. In this respect the Maritime Transport Committee is working in close co-operation with the OECD Committee on Capital Movements and Invisible Transactions, and is in the process of preparing a series of proposals, inter alia with a view to contributing to that Committee's work on updating the Code of Liberalisation of Current Invisible Operations.

Professions

The OECD report "Competition Policy and the Professions" (24 85 01 1) is a report by the Committee of Experts on Restrictive Business Practices on the relationship between competition policy and the professions. The report examines two broad questions. First, Chapter 1 describes the organization and the legal status of the professions and compares the extent to which professionals are subject to competition law in member countries. Second, Chapters 2 to 5 review a range of practices that have been adopted to regulate the professions, especially restriction on entry, advertising and business structure and the use of collective fee-fixing systems, to assess whether these practices are compatible with the objectives of competition policy. In this context, the term "profession" is used in a somewhat restricted sense in this report. For the most part, only professionals engaged in private practice raise issues with respect to competition policy. For this reason, the experience of professionals employed by the government or by enterprises is not addressed in the report, except to the extent to which private practitioners compete with professionals in the public sector. However, it is important to recognise that the members of the professions are often subject to both private self-regulation through their associations and to government laws and regulations, and it is the mode of regulation which often determines both the legality and rationale for a particular practice.

The report states that it would seem that the exemptions certain professions enjoy from the rules of competition should be considered individually on their own merits. Application of competition policy to the professions must be carefully balanced to ensure that the benefits of regulation, e.g. the quality and integrity of the professions are preserved, while the costs of excessive or ineffective restrictions are checked.
To evaluate the reasons and justifications for present policies concerning the regulation of the professions, it is useful to consider several factors. These include the relevant interests involved, the existence of less restrictive regulatory alternatives and the extent to which particular practices restrict competition. First, policies should be based on a careful balancing of all relevant interests affected. In most cases, this would include all present members of the profession (including non-members of associations), prospective practitioners, consumers, societal needs with respect to the appropriate number and quality of professional services and potential competitors, such as alternative service providers. Second, it should be considered whether less restrictive alternatives exist which can achieve the same goals. Third, the impact of a particular practice on competition in the relevant market should be assessed.

Generally, it should be recognised, say the authors, that each profession must be assessed individually and that regulatory policies must be tailored to the requirements and characteristics of each. Moreover, reforms designed to facilitate the use of paraprofessionals or to permit the provision of services by other professionals may, under certain circumstances, be fruitful and cost-effective, as long as appropriate quality safeguards are maintained.

The experience in member countries that have adopted extensive reforms, as well as survey material, show that competition is most likely to occur where reforms are comprehensive, i.e. removal of restrictions on advertising and business structure in conjunction with the abolition of mandatory fee schedules within a profession. In professions where fees are set by fixed schedules or government regulations, for example, reforms to allow advertising of prices may not be sufficient to stimulate competition. Similarly, innovative new business structures may not develop if they are unable to inform the consumer of their services or fees through advertising. Finally, say the authors, the reforms in the three professions considered in particular (doctors, lawyers and architects) can have important implications when applied to professions not directly addressed in the report.

The report concludes that, in view of the importance of professional services in national economies, member countries should undertake a re-examination of present regulatory frameworks, including government statutes, laws and policies and the rules and activities of chambers or professional associations, and the relation between the professions and competition law, to consider (a) whether the initial reasons which gave rise to general or specific exemptions for the professions from competition law remain valid under contemporary conditions; (b) the extent to which present regulatory frameworks have achieved their objectives and the social and economic costs of exempting the professions from competition law; and (c) whether the same objectives could in fact be achieved under contemporary conditions by the more vigorous application or extension of competition law to the professions so as to allow increased operation of free market forces, subject to appropriate safeguards on the quality of professional services.

In undertaking such reviews, member countries should consider (a) the experiences in other nations in which efforts have been undertaken to apply competition law to the professions and to public sector activities so as to
increase competition; (b) the extent to which present policies fully consider all relevant interests, including consumers, potential entrants to the professions, and alternative providers of professional services; (c) whether increased competition and increased application of the competition laws would be useful in promoting the public interest and in alleviating the adverse effects which may result from present policies granting exemptions to the professions; and (d) the appropriate extent to which the professions should be allowed to regulate themselves, consistent with public policy, and the advantages of providing limited as opposed to broad grants of authority to chambers or professional associations.

Specifically, member countries should act to ensure that express or implied exemptions from competition law are no broader than necessary to achieve the public interest objectives of the regulatory frameworks.

To ensure that entry to the professions is fair and equitable, the following features seem desirable in a regulatory framework: (a) transparency of qualitative and quantitative entry criteria; (b) use of objective criteria to evaluate new entrants which directly measure the skill of candidates and which are not designed or applied to limit entry for economic reasons; and (c) procedures to ensure fulfilment of public interests in the entry process, including accrediting of training schools and examination requirements.

In undertaking reviews of entry procedures, member countries should consider the extent to which existing policies reserving specific functions and duties to licensed professionals continue to remain valid. In reviewing such policies, they should consider (a) the extent to which present laws or regulations are sufficiently precise in describing the services reserved to licence holders; (b) steps which can be taken to allow paraprofessionals to provide routine and simple services, subject to safeguards as to quality; and (c) the appropriateness of using certification in certain professions, a procedure which reserves only the exclusive right to use the title to members of the profession, but does not exclude others from offering similar services.

Member countries should review their policies concerning the right of foreign professionals to practise on a permanent or temporary basis. While observing their obligations under the OECD Code of Liberalisation of Current Invisible Operations, they should endeavour to take steps to recognise, on a reciprocal basis, education and training received in other countries, where equivalent, and not prohibit entry into the professions on the sole basis of nationality.

Governments should, where appropriate, consider the extent to which functions carried out by the public sector can be provided by the professions, to order to allow more effective competition in those sectors for which the public sector has so far been responsible.

Member countries should take action to ensure that consumers have sufficient information to select among professional services. Subject to safeguards against false, deceptive or misleading representations, countries should take steps to ensure that professionals are able to provide consumers
with adequate information concerning their availability, special skills and, where compatible with the type of professional service provided, fees and charges.

In view of the general policy under national competition laws against collective efforts to set or fix prices, member countries should review the methods by which fees and charges are set in the professions. In particular, where not necessary to facilitate public or third-party insurance plans, the need and justification for mandatory fee schedules, or other procedures, such as fixed minimum prices, which exert coercive pressures toward standardised prices, should be carefully examined. Where mandatory fee schedules are used, countries should consider whether less restrictive measures can be adopted. Where indicative or suggestive fee schedules are used, countries should ensure that such schedules are not enforced or applied in a manner which gives them the effect of mandatory schedules. Countries should further consider action to ensure that professional rules do not prevent competitive bidding, where appreciable, within the engineering or architectural professions.

The use of new and innovative business structures to provide professional services can potentially result in cost and efficiency savings. Subject to appropriate safeguards to ensure that professional practitioners retain an appropriate level of responsibility and liability with respect to the clients for their services, member countries should consider actions to ensure that statutes and professional rules do not unduly restrict the freedom of professionals to affiliate in new forms of business structures.

Tourism

The OECD report "Obstacles to International Tourism in the OECD Area" (18781) reviews obstacles to trade in services in the tourism sector of the OECD member countries and analysis their nature and significance.

In initiating the examination, the Tourism Committee was governed by two main principles. Firstly the possibility of travelling from one country to another, for business or pleasure, should be considered as a right and not a privilege. This concept is a relatively recent one since the phenomenon of mass international tourism is one that has only developed in the last quarter of the century. However, the importance of tourism, which is now the largest of the individual service industries, is such that it can no longer be regarded as a luxury, but as an essential part of present day society in which the use of leisure is of growing significance. Secondly, the provision of services to the tourist, before his departure, during his transportation and after his arrival should be governed by the normal rules of commercial competition, in accordance with the philosophy behind the OECD's two Codes of Liberalisation. Any measure which imposes barriers to the operation of normal competitive activities or which gives advantages to the nationals or national enterprises of one country over those of another should be regarded as an obstacle, even if it does not have the effect of discouraging the tourist from international travel.

Based on these two principles, the evaluation exercise was undertaken. The detailed results of the inventory are contained in Annex IV of the report and the material is analysed in the various sections of the report, together
with particular conclusions and recommendations. The point is made that three main conclusions have emerged from the exercise which form the main concern of the Committee in its future work.

First, international tourism within the OECD area does not suffer excessively from discriminating obstacles, at least by comparison with other sectors. While efforts should be made to ameliorate the situation, the tourism industry as a whole does not appear seriously concerned by the existing distortions.

Second, the sector covering the "facilitation" categories listed in Annex I of the report is still subject to substantial restrictions. These are customs formalities and duty-free allowances, currency restrictions, entry visas, identity documents and limits on stay, movement and insurance of road vehicles and coach. The available instruments to correct them are inadequate and need to be strengthened, provided the will to do so exists in the various member governments.

Third, tourism, in spite of its importance, is still regarded as an adjunct and is affected by restrictions which are imposed upon it for the benefit of other spheres of governmental activities such as immigration control and labour policy, balance of payment improvements, etc. The image of tourism and its low position in the priorities of governments need to be substantially improved.

As a follow-up to this report, the Tourism Committee has completed the elaboration of a Decision and Recommendation, to be submitted to the OECD Council for adoption, covering a considerable number of aspects of international tourism. It is particularly directed to liberalizing and ameliorating customs facilities, documentation, the importation of tourism promotional material and other articles used in tourism-associated activities, the international circulation of private vehicles, the imposition of departure taxes and the facilitation of the employment of fixed-term workers in the tourism sector. It also seeks to discourage measures which distort competition or discriminate in favour of national enterprises in the tourism industry and to establish a review procedure to measure progress towards the targets set up. At the same time, the Committee, in close collaboration with the OECD Committee on Capital Movements and Invisible Transactions, has agreed upon extensive liberalization of the financial aspects of tourism, including the unlimited use of credit cards for tourism expenditure and the doubling of the minimum amount of money that tourists may take with them without justification of use.

Statistics on Trade in Services

The OECD report "Statistics on Trade in Services: Availability and Work in Progress" (TC/WP(84)54/1st revision) presents background information on the availability of data on trade in services and reviews on-going work in this area. A few OECD Member countries provide definitions and explanations of the service items in their balance-of-payments statements. The report notes that only the United States differentiates between service transactions with affiliated and with unaffiliated non-residents. The United States is also the only country that collects data on service transactions pertaining to direct investment firms in the United States and abroad. Substantial divergences exists from country to country concerning definitions of service items. The 1977 Fourth Edition of the Balance of Payments Manual of the
International Monetary Fund does not give definitions of many items such as banking, computer services, construction, consultancy, exploration and franchising. For other items there exist very general definitions in the Manual. The report also briefly reviews work in progress in Canada, the European Economic Community and the United States.

SECRETARIAT OF THE LATIN AMERICAN ECONOMIC SYSTEM (SELA)

The SELA report "Services and the Development of Latin America" (SP/RCLA/SERV/DT No.2 Rev.1) reviews the role of services in the development process and economies of the SELA Member States.

The report comprises six chapters consisting respectively of a review of the discussions which have taken place on services in various international and regional fora (Chapter I); an analysis of the relationship between the service sector and the economic development process (Chapter II); an assessment of the importance of services in the economies of the region (Chapter III); a review of the national, regional and international legal framework of the various service-related activities (Chapter IV); and a presentation of the positions of the different countries regarding the possibility of initiating international negotiations on services and the eventual implications of such negotiations on services and the eventual implications of such negotiations for the Latin American countries (Chapter V). Finally, several recommendations are submitted as to some courses of action at the national, regional and multilateral levels (Chapter VI).

The report is a preliminary approach to the study of the role of services in the Latin American development process and its impact on the region's international transactions. It also attempts to facilitate concerted action on the part of the region in international debates on the subject.

The countries of the region have been attaching particular importance to the international debate and have outlined their preliminary position with regard to the subject in a series of regional fora (Co-ordination Meeting prior to the Ministerial Meeting of the GATT; Consultation and Co-ordination Meeting prior to UNCTAD VI; IX Regular Meeting of the Latin American Council; Latin American Economic Conference). On the one hand, they are in favour of a more exhaustive study of the role of services and of international service transactions in the development process and in national economies and, on the other hand, they are of the opinion that the development of the service sector in the region should be stimulated by means of regional co-operation as stated in the Quito Declaration and Plan of Actions. Furthermore, the region deems it advisable to participate jointly and in a co-ordinated fashion in the international debates scheduled.

The report analyses the relationship between the service sector and the economic development process. A preliminary examination suggests the advisability of establishing conceptual criteria with respect to service activities, of assessing their present and potential importance in national economies and of pointing out the effects of technological innovations on the sector and on Latin America's development.
In the first place, it is argued that the traditional theoretical and analytical tool of economics should be revised if they are to be applied to the service sector, in view of the specificity and autonomy they have acquired in relation to other production activities. As a basic criterion, it is argued that, unlike goods, service production and consumption are usually simultaneous operations: the service is "consumed" at the moment it is provided. Consequently, in most cases, the fact of providing or selling it implies the presence of the person or enterprise which provides the service. Therefore, when this presence is not temporary, the service, from the point of view of the country in which it is provided - which is the point of view taken for the purposes of the study - becomes investment and not trade.

As a first consequence of this consideration, the report points out that computations of international service transactions should not include the so-called factor services (income from the factors of production). This conceptual precision is necessary if one is to measure the importance of services in national economies and to define the concept of international service transactions.

Secondly, it is pointed out that service production and consumption, thus defined, are basically national activities and that their contribution to domestic economic activity is much more important than their relative contribution to a country's exports or imports. The data available illustrate their decisive contribution to the gross national product and employment, as well as their relatively much lesser weight in global foreign trade. In 1979, services contributed 50 per cent of the developing countries' GNP (Latin America, 60 per cent) and absorbed from 40 to 53 per cent of the labour force. As for service transactions, in 1980 they represented only 20 per cent of merchandise exports and almost 25 per cent of imports.

Another element which should be taken into account when assessing the relationship between services and economic development is their sensitivity to technological innovations and the side-effects on production, consumption and external economic relations of the incorporation of technology into service activities and into the very creation of new services based on technological advances. In this respect, the microelectronics and data industries are taken as an example, in view of their strategic effects. They not only tend to transform the goods and service production processes, but also modify the nature of international transactions and create new trade and international investment modalities, in which a decisive role is played by transnational corporations, which are the main generators and, up to now, users of transborder data flows. The study maintains that the scope of these changes obliges Latin America to take into account the transnational corporations in their development planning and in their international economic policy, in order to take advantage of the opportunities they afford and overcome the risks they entail.

The report reviews the role played by the service sector in production, employment and international trade in Latin American countries. Attention is drawn to the fact that statistical limitations prevent an adequate knowledge of the importance of services in the different economies.
Strictly speaking, only non-factor service transactions should be considered as service trade. Although factor services, that is to say payment to the factors of production, capital, labour and technology, imply financial transactions between residents and non-residents, they are not strictly speaking international trade in services and should not be considered as such.

The difficulties mentioned are common to all countries and raise the need to adapt the statistical base currently available, in order to acquire a better knowledge of the role of services in economic development and international transactions. This is a task which Latin American countries should undertake without delay, and, to this end, the countries of the region and the appropriate regional and international organizations could initiate a joint effort.

The importance of the service sector in Latin American countries should not lead to the conclusion that this is the most dynamic sector of the economies of the region. A sectoral analysis reveals that the activities of the "trade and financial services" sector, which are usually the least productive, are of great importance in most of the countries of the area, whereas the "other services" category, which includes informatics and computer activities, fields that are at the core of the so-called high technology industries, tend to be of lesser importance.

The service sector employs the largest number of persons, both in the industrialized and developing countries. In Latin America, approximately 46 per cent of the economically active population is employed in the tertiary sector. There are, however, notable differences from country to country. The level of employment in the service sector is very high in countries such as Barbados (80 per cent in 1982) or Grenada (62.8 per cent in 1981), and much lower in countries such as Bolivia, El Salvador, Guatemala and others, where less than 30 per cent of the population is employed in those activities. In countries such as Argentina, Chile, Panama, Uruguay and Venezuela, the level of employment in service activities is round 55 per cent.

With regard to the international service trade, industrialized countries occupy a dominant position. In 1980 their imports represented 70 per cent of total world service imports and their exports over 80 per cent; their sectoral trade balance registered a surplus of almost US$ 10 thousand million. In developing countries, on the other hand, their service trade deficit in that year in services was US$ 57.2 thousand million, approximately US$ 9 thousand million of which corresponded to Latin America. In 1982 the region's deficit remained at the same level as in 1980, and it is important to note that by and large, over 50 per cent of Latin America's service trade deficit corresponds to "transport and insurance" trade, followed by "travel" and "other private services". Again, the situation varies from country to country. In Venezuela case, for example, over 60 per cent of the total deficit in 1982 corresponded to travel expenses, whereas in countries such as Mexico, that category shows a surplus. In general, most of the countries of the region tend to show a deficit in "transport and insurance" and a surplus in "travel", which sectors represent almost 75 per cent of Latin America's international trade in services.
As mentioned previously, the information available in national accounts and balance of payments does not give a clear idea of the importance of services and their significance in the different economies, nor does it reflect the relationship of services to other areas of economy activity. In order to compensate, at least partially, for these short-comings, the Permanent Secretariat has established close co-operation with UNCTAD and other organizations such as the United Nations Centre on Transnational Corporations, to study certain specific service sectors in the region, such as banking, consultancy and engineering, insurance, shipping and informatics. These studies will be intensified in the future if the Member States deem it advisable.

Up to now only very preliminary results have been obtained, and due to the fact that information has only been obtained from a few countries, regional trends are not discernible. Nevertheless, it is worthwhile to indicate some of the conclusions reached.

In recent years the banking sector has increased its share in the gross national product, employment and capital formation in the countries analyzed, and its importance is reflected in its role as financial intermediary in all domestic and international economic activities. The majority of the countries of the region have restrictive regulations as regards direct operation of foreign banks in their economies, but some have a more open system. The different banking regulations stem basically from policies governing the sector's institutional development, the attraction and allocation of resources and controls on profit remittances abroad. Latin America has not escaped the world-wide phenomenon of the internationalization of banking activity, and a greater concentration of banks has taken place in several countries of the region.

As for engineering and consultancy services, it is interesting to note that this sector employs approximately 4 per cent of the region's active population and 8 per cent of the labour force employed in the service sector in general. Nevertheless, the fact must not be overlooked that the importance of this sector cannot be assessed exclusively on the basis of the aforementioned indicators. Consultancy and engineering have a significant effect on a country's style of development, because of their influence of man-power training, technological and management capacities and the development of basic infrastructure.

Shipping is also a highly significant factor in economic development. Almost all Latin American countries transport over 30 per cent of their trade by sea. The development of this sector is related to associated activities such as shipbuilding and repair, insurance and bank services, telecommunications and freight brokerage. In 1983, Latin America's merchant fleet represented 3.3 per cent of world shipping, and 13.3 per cent of freely registered world tonnage. As for ocean freights, they represent the region's most important item of foreign trade after oil.

Finally, in relation to information services, it is to be noted that the development of data technologies is very limited in Latin America. Only Brazil has a comprehensive policy in this area which assigns priority, within a broader industrial policy context, to the development of data resources located in the country, and to the need to acquire and maintain national
control over decisions and technologies related to Brazilian industries. Other countries have also established policies, but only in connection with segments of the data service industries such as programme production, data processing and, naturally, telecommunication services. With respect to the latter almost all the countries have formulated policies.

Some of the national regulations concerning services are also reviewed, and reference is made to the existence of a general tendency, both in developed and developing countries, to consider, for reasons of public interest or national security, that services in general and certain ones in particular should be subject to regulation and surveillance, and that certain activities should be reserved for the government or nationals of the respective country.

In Latin America, certain rules which affect the service sector stem from economic development policies implemented by the countries, at both national and regional level. In the Andean Group, Decision 24 established certain rules which limit and, in some cases, exclude the participation of foreign capital in certain activities. These include the financial sector, public utilities, local transport, advertising, mass media and national marketing enterprises. Furthermore, foreign enterprises have limited access to internal credit and do not enjoy the advantages offered by the Andean Group’s liberalization programme, which might in future result in a preference in favour of services produced by the enterprises which meet the requirements established by Decision 24.

The regulations in Latin America governing the sectors studied for the purposes of the document - consultancy and engineering, shipping, the banking system, insurance and transborder data flows are also tailored to meet the aforementioned objectives. Although these regulations are highly developed in some sectors, as for example financial services, they are very limited in others. Such is the case of data services, which merit particular attention in view of their growing importance in economic development.

In order to demonstrate that Latin America and the Caribbean have substantial experience in the service area, which can serve as a basis for future initiative in this area, the document reviews the co-operation efforts undertaken at both regional and subregional level. Reference is first made to the activities pursued within the framework of SELA, almost all of which are directly or indirectly related to services. Other co-operation efforts within the ambit of subregional arrangements are also mentioned, and reference is made to numerous specialized associations, private or intergovernmental, which are connected with service co-operation in the region.

From the perspective of the developing countries, and in particular the Latin American countries, the question arises as to GATT’s effectiveness in promoting their basic interests in the field of trade. The report notes that the deterioration of the GATT principles and regulations, which has been evidenced lately, has resulted from the adoption of measures and policies by the industrialized countries which are incompatible with their multilateral obligations. The conditional application of the most-favoured-nation clause, the recourse to flexible protection measures and the exclusion from international regulatory arrangements of sectors vitally important to the
developing countries, such as textiles and agriculture, have led to a practical application of the GATT regulations and principles which belies the objectives originally pursued. This situation gives rise to serious doubts, say the authors, as to the advisability of extending GATT's area of responsibility, since, as the developing countries themselves recently stated, previous commitments must first be fulfilled and its present work programme carried out.

On the other hand, there seems to be no general consensus with regard to the international principles or regulations which guide negotiations on services. Certain elements are presented as food for thought with respect to the applicability of certain international norms and principles to the issue of trade in services. One conclusion which can be drawn from the analysis is that due to the close relationship existing between trade and investments in services, the application of principles such as "national treatment", the "right of establishment" and others, does not have the same connotation as in the case of trade in goods. There is no doubt that the indiscriminate application of these principles, in the case of investments in services, affects government policies and measures which regulate foreign involvement in various service sectors in practically all countries. It seems advisable, therefore, before making any determination on such matters, to demarcate more precisely the activities which might eventually be treated at the international level and those which must necessarily continue to be governed by national regulations.

Certain conclusions and suggestions stem from the analyses contained in the report, with regard to the course of action which could be taken by the countries of the region.

The report points out that at the national level, it seems necessary to undertake national studies without delay and with the support of the appropriate regional and international organizations. These are indispensable if detailed analysis is to be made of the role of services in the development and economies of the countries of the region. At the regional level, it would seem advisable to study the situation of the different service sectors, in order to make an assessment of the possibilities for regional co-operation and the possible areas of complementarity that may exist among the countries of the region.

The point is made that any decision with respect to the advisability or otherwise of initiating international discussions on services should be preceded by a more extensive and profound knowledge of their role in the development of Latin American countries. In the meantime, the position should be taken that, whatever the treatment given to the subject at the international level, it should be aimed at preserving the development goals pursued by the countries of the region, and this is also valid with respect to the forum or fora which are eventually selected for the proposed negotiations if they take place.

The report notes that the idea of holding international negotiations on the service trade, as has already been pointed out, only enjoys the firm support of a limited number of industrialized countries. The proposals drawn up by these countries have not been backed by the other industrialized countries and, even less so, by the developing countries. One particular
factor which has been taken into account by the latter when studying the subject of services is that the benefits which the developing countries might eventually obtain from international negotiations on trade in services have not been clearly determined. This fact is of particular importance to Latin American countries since they are net service importers and only a medium- or long-term increase can be expected in their export capacity in the sector, and that only by means of a deliberate effort in this regard. Furthermore, it is important to note that the inclusion of the subject of services in a new round of multilateral trade negotiations may result in the negotiation of concessions as regards goods, thereby placing the developing countries in a situation in which they would be making concessions in services in exchange for concessions already obtained as regards goods, for example under the GSP, which were obtained on a preferential and non-reciprocal basis.

Finally, attention should be drawn, say the authors, to the importance of co-ordinated action by the developing countries in the international discussions which will soon be taking place, and the consequent need for the Latin American countries to take a common stand with regard to the subject of services. This would counteract the trend towards bilateralism postulated by certain developed countries and strengthen the bargaining power of the developing countries, both individually and collectively.

The SELA "Final Report of the High-Level Latin American Co-ordination Meeting on Services" (SP/RCLA/SERV/DF No.1) adopted the following conclusions and recommendations at the national, regional and international levels:

A. At the national level

1. To underline the importance for Member States to analyze, as soon as possible, the services sector in their economies and its contribution to the development process, with the aim of working out a national service production and marketing strategy. In formulating this strategy, special attentions should be paid to the potential for regional co-operation, as well as the possibility of adopting import substitution policies and promoting imports in those service activities in which this may be considered appropriate.

2. To request the Permanent Secretariat, in close consultation and with the collaboration of Member States, to draw up a methodology for use by the countries in the analyses mentioned in the foregoing paragraph which will meet the objectives provided for in this document and facilitate their harmonization.

B. At the regional level

1. To study the situation of various service activities, with a view to mobilising the potential for regional co-operation, including the possible areas of complementarity among the countries of the region. In order to give impetus to the implementation of the recommendations of the Quito Declaration and Plan of Action, these studies must pay special attention to the need to identify actions that make it feasible to develop indigenous technologies in the region; the definition and
implementation of appropriate mechanisms for the diffusion and transfer of new technologies; the identification of specific areas which lend themselves to regional co-operation schemes; and, in the execution of the national and multilateral projects, the granting of preferential treatment for national service enterprises in Latin America and the Caribbean.

2. To recommend that the Latin American Council adopt a work programme for the SELA Permanent Secretariat designed to promote these actions at the regional level. This work programme would envisage, inter alia, the following activities: (a) furthering the studies underway in the areas of informatics, insurance and reinsurance, banking, transport and consultancy and engineering; and preparing studies on tourism, taking into account existing analyses in this area; (b) considering the possibility of preparing studies on other traditional and non-traditional service activities; (c) studying the possibility of setting up new Latin American firms to market services, as well as strengthening existing ones; (d) the improvement of the statistical base concerning traditional and non-traditional service activities; (e) the identification of service activities with a potential for autonomous development in the region, so as to determine the possibilities for industrial, technical and technological co-operation which they may offer; (f) the analysis of the obstacles encountered by the region's service exports in external markets; and the study of the obstacles in third countries which hamper or complicate the acquisition of services by the countries of the region; and (g) the analysis of the interrelationships existing in some service activities between national and foreign capital, the external debt and international transactions.

3. To recommend the holding of seminars, in order to expand and deepen knowledge of the problems and importance of the service sector for the countries of the region.

4. To recommend that, for the implementation of this work programme, the permanent Secretariat seek the co-operation of relevant regional and international agencies and institutions, bearing in mind the work they are carrying out in this area.

C. At the international level

1. As regards the international discussions on services it is felt that, in the light of the present and future economic importance of services, any international discussion of the subject, whatever its scope, should seek to safeguard the economic development roles pursued by the developing countries.

2. A greater knowledge of services in the development and economies of the region is fundamental and should be a precondition of any decision about the expedience or otherwise of launching on services.

3. In this regard, it is the view that UNCTAD, whose central purpose relates to development problems and services, should play a more important role in analysing and discussing the sundry ramifications of services and development.
4. During the twenty-ninth Session of the Trade and Development Board, to attempt to get UNCTAD to include in its work programme the following activities envisioned in the Buenos Aires Platform: (a) to conduct studies to identify and establish priorities with regard to services of special importance to developing countries and draft programmes that permit the developing countries a larger share of international trade in services. These studies must also cover those services that do not fall within the specific competence of existing international organizations; b) to include in these studies recommendations for the establishment of multilateral co-operation mechanisms in services which may benefit developing countries. To this end, the UNCTAD Secretariat may seek the support of member countries and international organizations in gathering the statistical data and information needed for that purpose. Those mechanisms ought to ensure differential and more favourable treatment for developing countries in the service sector. The UNCTAD Secretariat must also systematically gather and disseminate all relevant information on services; (c) to establish technical assistance programmes for developing countries in the area of services; and (d) in tackling the tasks mentioned above, to take into account the special problems of the least developed countries.

5. Concerning the consideration of services at the XL Session of the GATT CONTRACTING PARTIES, it is reiterated that that body was conceived for the sole purpose of regulating the goods trade and, therefore, has no competence in the area of services.

6. Likewise, to reaffirm the position taken on May 4, 1984 by the developing countries which are contracting parties to the General Agreement that "urgent and undivided attention must be given to the implementation of measures and commitments" benefiting developing country trade, as is set out in the work programme adopted at the 1982 Ministerial Meeting. As was indicated in that statement, "unless and until the work programme is fully implemented in this manner any initiative such as the holding of a new round of negotiations in GATT would be lacking in credibility and devoid of relevance particularly for developing countries".

7. In this context, the unity of developing countries is essential to co-ordinated action in international discussions on services, to which end it would be appropriate to promote the adoption of common positions with the remaining developing countries on this matter. Concerted action by developing countries would, moreover, counteract the trend towards bilateralism advocated by some developed countries and strengthen their individual and collective bargaining position. The inclusion in bilateral agreements of rules and principles applicable to service transactions can weaken the position of developing countries and lead, in the long run, to the granting of concessions which replace multilateral effort and co-ordination among all countries.

8. In view of initiatives to obtain service-related concessions from developing countries as a condition for maintaining advantages for merchandise exports under the Generalized System of Preferences, to reject such procedures and reiterate that those schemes must be guided by the principles of non-discrimination and non-reciprocity, without being subject to any form of "graduation".
9. The importance of the initiative in the field of services being undertaken by the Group of 77 within the Caracas Action Programme was underlined, and all Latin American countries are exhorted to play an active role in those activities.

10. Finally, it is decided to distribute these conclusions and recommendations, as well as the report prepared by the SELA Permanent Secretariat on "Services and the Development of Latin America", at the twenty-ninth Session of the Trade and Development Board.

SELA Decision No. 192 "Services and the Development of Latin America" reads as follows:

The Latin American Council decides:

**Article 1** - To approve the Conclusions and Recommendations of the High-Level Latin American Co-ordination Meeting on Services;

**Article 2** - To underline the importance for Member States to analyze, as soon as possible, the services sector in their economics and its contribution to the development process, with the aim of working out a national service production and marketing strategy. To that end, to request the Permanent Secretariat, in close consultation and collaboration with Member States, to draw up as soon as possible a methodology for use by the countries in rendering said analyses compatible;

**Article 3** - To request the Permanent Secretariat to carry out the work programme approved in the High-Level Latin American Co-ordination Meeting on Services with the collaboration of regional organizations and institutions and UNCTAD, establishing priorities on the basis of the sector's importance for the region's development and taking into account the need to create indigenous capabilities. In carrying out this work programme, existing inter-relationships in some service activities between national and foreign capital, external indebtedness and international transactions shall be kept in mind.

**Article 4** - To implement the actions required for mobilising the potential for regional co-operation, including the possible areas of complementarity among the countries of the region.

**Article 5** - To reaffirm that, in the light of the present and future economic importance of services, any international discussion of the subject, whatever its scope, must seek to safeguard the economic development goals pursued by the developing countries and that a greater knowledge of services in the development and economies of the region is fundamental and must be a precondition of any decision about the expedience or otherwise of launching discussions on services.

**Article 6** - To reiterate that the GATT forum is exclusively restricted to regulating merchandise trade and, therefore, has no competence in the area of services.

**Article 7** - To underline that the unity of developing countries is essential to co-ordinated action in international discussions on services, to which end it is necessary to strengthen actions relating to the adoption of a common stand at the regional level, in the Group of 77 and at other levels of interregional co-ordination.
SEL A Decision No. 221 "Modalities of Co-operation in the field of Informatics and Electronics" reads as follows:

The Latin American Council decides:

Article 1 - To authorize the Permanent Secretary to hold consultations with the Member States in order to identify possible forms of co-operation in the field of Informatics and Electronics.

Article 2 - That the objectives of this co-operation could include:

(a) Promoting initiatives for the purpose of buttressing regional self-sufficiency in the sector and closing the technological and industrial gap vis-à-vis the developed countries;

(b) Information sharing on national legislation concerning informatics and electronics fields;

(c) Undertaking industrial complementarity activities in the informatics and electronics fields;

(d) Examining the possibilities of harmonizing national legislations on the subject.

Article 3 - To request the Permanent Secretary to present to the member states a report on the consultations mentioned in Article 1 of this Decision within a maximum of 180 days and, in the light of these consultation, take the necessary action.

INTERNATIONAL LABOUR ORGANIZATION (ILO)

[This item will be completed later.]

INTERNATIONAL TELECOMMUNICATION UNION (ITU)

The ITU report "The Missing Link" issued in December 1984 recommends ways of stimulating the expansion of telecommunications across the world. The report contains nine chapters: the role of telecommunications, the situation today, international co-operation, the choice of technology, internal organization and management of telecommunications, training, research and development and local manufacture, a Centre for Telecommunications Development, Financing the Development of Telecommunications.

An executive summary gives a condensed analysis of the arguments and recommendations of the report. Extracts of this summary are given below.

An expanded world telecommunications network would benefit both developing and industrialised countries. The process of improving an expanding networks in developing countries will create a major market for telecommunications equipment. A more comprehensive world system will
increase international traffic to the advantage of the operators. Where information flows so does commerce. More world trade and other contacts will increase understanding. An expanded telecommunications network will make the world a better and safer place.

We believe that by the early part of the next century virtually the whole of mankind should be brought within easy reach of a telephone and, in due course, the other services telecommunications can provide. That should be the overriding objective. Achieving this will require a range of actions by industrialised and developing countries alike.

Telecommunications have often been neglected in favour of other sectors such as agriculture, water and roads. Telecommunications should be regarded as a complement to other investments and an essential component in the development process which can raise productivity and efficiency in other sectors and enhance the quality of life in the developing world.

Telecommunications play an essential role in emergency and health services, commerce and other economic activity, in public administration, and in reducing the need to travel. There is moreover a clear link between investment in telecommunications and economic growth.

The economic and social benefits an efficient telecommunications system confers on a community or a nation can be clearly perceived. The system can also be used as a channel for education, for disseminating information, encouraging self-reliance, strengthening the social fabric and sense of national identity, and contributing to political stability.

Dramatic technological advances are taking place at a time when the role of telecommunications in the process of development is more important than ever. In our view no development programme of any country will be balanced, properly integrated, or effective unless it accords telecommunications an appropriate role.

Telecommunications link all countries. But there is a wide disparity in the extent and quality of service as between industrialised and developing countries, and within developing countries between urban and remote areas. This reflects differences in economic capability, historical experience and in the priority given to investment in this sector.

Uneven distribution of telephones is not the only problem. In many developing countries service may not be available even to those close to a telephone exchange. The service may be out of order for long periods. The causes of these and other shortcomings may include inadequate equipment and maintenance, or lack of trained staff.

In attempting to remedy this situation operating entities in developing countries face various problems. They may be unable to find the investment capital to improved and expand the network. With few exceptions there is no indigenous manufacture of telecommunications equipment. Most of this has to be bought abroad out of the scarce reserves of hard currency for which, in most developing countries, there are competing demands. At the same time, national policies can deter inward investment.
Most equipment is designed for use in advanced countries with temperate climates and may not suit conditions in developing countries where, in any case, there may not be enough staff trained to install, use and maintain it. Changes in manufacturers' products can create problems over spare parts for obsolescent equipment.

The more remote areas of developing countries pose special difficulties because of the distances involved, the terrain and sparse population. Profitability alone is an inappropriate criterion for investment in these areas; indirect benefits have to be taken into account. Since telecommunications operators' main business and source of profit are in urban areas, the incentive to invest there will be strong. If the service in these areas is neither efficient nor comprehensive, operators may see little point in providing service to remote areas.

The quickening pace of change in technology has widened the range of technical options and complicated the choices developing countries have to make. The future offers improved quality and new capabilities at lower cost. We believe that public telecommunications systems will, over time, become wholly digital. The change from analogue to digital will take many years and it is for the operating entities in each developing country to take their own decisions. Conditions in remote and rural areas suggest that satellite or radio systems may offer cost-effective solutions. Not enough is being done to develop this potential. We recommend that manufacturers and operators be encouraged to develop systems which will enable the needs of the more remote areas of developing countries to be met at lower cost.

Selection of product can be as important as choice of technology. Buyers must know what is available on the market. We recommend that the ITU, in conjunction with manufacturers of telecommunications equipment and components, consider compiling a comprehensive catalogue of telecommunications suppliers and systems currently in use.

Many problems over availability and quality of service in developing countries are symptoms of inadequacies in organization and management, rather than shortage of investment finance. While some countries have made impressive progress in overcoming these, in others, shortcomings persist. Many countries cannot be expected to make the necessary improvements without help.

It is for governments to decide whether telecommunications are publicly or privately owned, and whether competition should be admitted. But telecommunications should be run on business lines as a separate, financially self-sustaining enterprise. It should be properly managed and planned with effective controls.

All stages of planning, procurement and installation of capital plant should be closely monitored. Where possible procurement should be competitive and major procurement decisions should be taken openly at senior level. Procurement processes should be subject to independent audit. We recommend that developing countries consider pooling their purchases of appropriate equipment including terminals and components. We also recommend that, when purchasing equipment, developing countries ensure that the contract includes commitments on the supply of spare parts, training, commissioning, post-installation and maintenance.
We recommend that telecommunications operators in developing countries review their training needs and resources, and prepare systematic training plans; that developing countries use the resources available through the IPDC; that industrialised countries organise seminars to improve the qualifications of experts from developing countries; that the research and development (R & D) institutes we propose below be developed as a source of higher technologies, supervisory and managerial training and as coordinating agencies for external training opportunities; that the ITU supplement the catalogue of training opportunities with information about training opportunities in the private sector; and that operators and manufacturers consider how they can enhance the training opportunities they offer to developing countries.

The majority of developing countries depend at present on R & D in industrialised countries. Little of this is directed to the distinctive needs of the developing world, for instance for more cost-effective equipment to serve remote areas.

R & D geared to developing country needs will best be undertaken by establishments in the developing world. Some larger countries already have such establishments, but most lack the necessary resources.

Conditions and needs are often similar throughout a region or sub-region and it may be advantageous to create regional or sub-regional R & D institutes. These should wherever possible be developed out of an existing entity and concentrate on the specialised requirements of the countries they serve. They should adapt existing designs and use modules and components available on the world market.

We recommend that the major regional and sub-regional political and economic organizations consider as soon as possible how best R & D institutes might be established.

Manufacture of telecommunication equipment in developing countries reduces foreign exchange problems and dependence on the major international firms. Equipment and spare parts which are needed but are no longer available can continue to be produced.

We recommend that developing countries review the possibilities for local or regional manufacture. We further recommend that manufacturers in industrialised countries consider the scope for cooperation with developing countries in local or regional manufacture.

As an immediate step to improve the present arrangements for assisting developing countries, we recommend that a Centre for Telecommunications Development be established by the Administrative Council of the ITU during 1985. The Centre would comprise a Development Policy Unit, which would collect and analyse data on policies and experiences from around the world; a Telecommunications Development Service organised into teams of specialists to offer high calibre advice to developing countries on aspects of creating and operating an effective public network; and an Operations Support Group, which would provide assistance with specific projects. The work of the Centre would complement the activities of the Technical Cooperation Department (TCD) of the ITU.
As a means of reducing trade risks in the telecommunications sector and the cost of insuring against these, we recommend that industrialised countries extend export/import financing and insurance cover to suppliers of telecommunications equipment. We also recommend that the International Bank for Reconstruction and Development (IBRD) consider including telecommunications in its proposal for multilateral guarantees against non-commercial risks. Where projects are financed in part by IBRD loans we recommend that finance agencies consider cross-default arrangements as a form of insurance.

Operating entities in industrialised countries which provide international telecommunication services have an interest in improving the ability of their counterparts in developing countries to handle international traffic effectively. We recommend that member states of the ITU consider setting aside a small proportion of revenues from calls between developing countries and industrialised countries to be devoted to telecommunications in developing countries or contributed for example to a fund to finance pre-investment costs.

We have examined other methods of financing that would take time to put into effect. For example, a surcharge might be raised on domestic or international traffic or on expenditure on investment. This and other ideas require further analysis and we hope that industrialised and developing countries and international agencies will contribute to the debate.

We recommend that governments of industrialised countries review their financing instruments and institutions to ensure that they can meet the financing requirements of extending telecommunications networks in developing countries.

We recommend further that member states of the ITU, in collaboration with international finance agencies, study the possibility of a revolving fund and of telecommunications investment trusts as methods of raising funds for investment in telecommunications, with a view to putting these ideas into effect by the next Plenipotentiary Conference at the latest. The Secretary-General of the ITU is invited to report to the Plenipotentiary Conference on progress made with these studies.

We recommend that the Secretary-General of the ITU, in the light of progress on our other recommendations, study the idea of an organisation to coordinate the development of telecommunications world wide (WORLDTEL) and submit his conclusions to the Plenipotentiary conference.

WORLD TOURISM ORGANIZATION (WTO)

[This item will be completed later.]