The Future Stakes for U.S. Service Industries in East and Southeast Asia

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With the help of American leadership, we have perceived a favorable global environment for trade, investment and industrial restructuring, especially for those of Asia-Pacific economies. The growth stimuli include the dissemination of technology, knowledge, skill, market information, and demand—and, above all, growth-inducing institutional arrangements of open market capitalism. These all contribute to higher levels of labor productivity and efficiency. It is basically a region-wide economic agglomeration in which cross-border trade and investment are fundamentally market-driven. Henceforth, a hierarchy of countries in Asia Pacific contributed to regional economic growth in general and individual countries' economic development in particular.

What intrigues people most is how will those countries in East Asia fared in the future, especially into the era of services-centered or, rather, networked economy. Services industries, especially financial services, telecommunications and transport, are creating the reality of a global infrastructure for the world economy, an infrastructure that is greatly facilitating the adjustment of old industries and the development of new ones. The emergence of a truly global financial system, for example, will allow many developing countries to continue their growth trajectory, and to further narrow the gap with the developed world. Experiencing financial market turbulence in the late twentieth century, the East Asian countries have realized the crucial distinction between market liberalization and regulations. They are well aware of the merit of liberalization of market access while taking prudential measures necessary to safeguard the integrity of those markets. Therefore, this is the most promising region where the United States, as leader in world services industries, will have a great achievement.

We will first demonstrate in the following how trends of globalization have impacted states over the world socially, politically and economically and inflicted social resistances. Then we will show how the United States responded to the above resistance by adopting both protectionist and liberalizing measures. The Congress was forced to concede negotiating authorities to Administration and to concur with proclamation to engage in other regional and bilateral trade liberalizing agreements. In the subsequent section, we further claim the beneficial effects of developing services, especially producer services, in assuaging anti-globalization sentiment. It is most prominent in the region of East and Southeast Asia, which are testified in the next section. The last is a brief conclusion.

Globalization and Its Discontent

Globalization may be understood as increasingly interdependent relationships between economies, cultures, institutions, and nation-states. This type of interdependence has been described by Castells (1996) as a "network society."

> It is characterized by the globalization of strategically decisive economic activities, by the networking form of organization, by the flexibility and instability of work, and the individualization of labor, by a culture of real virtuality constructed by a pervasive, interconnected, and diversified media system, and by the transformation of material foundations of life, space and time, through the constitution of a space of flows and of timeless time, as expressions of dominant activities and controlling elites. This new form of social organization, in its pervasive globality, is diffusing throughout the world, as industrial capitalism and its twin enemy, industrial statism, did in the twentieth century, shaking institutions, transforming cultures, creating wealth and inducing poverty, spurring greed, innovation, and hope, while simultaneously imposing hardship and instilling despair. It is indeed, brave or not, a new world (Castells, 1997: 1).

Globalization describe the emergence of supranational institutions whose decisions shape and constrain the policy options for any particular nation-state. Also, globalization means the overwhelming impact of global economic process, including processes of production, consumption, trade, capital flows, and monetary interdependence. Furthermore, globalization denotes the rise of neoliberalism as a hegemonic policy discourse (Burbules and Torres, 2000: 1-2). It is also posited that globalization may be understood as "a construction used by state policy makers to inspire support for and suppress opposition to changes because 'greater forces' (global competition, responses to IMF or World Bank demands, obligations to regional alliances, and so on) leave the nation-state 'no choice' but to play by a set of global rules not of its own making" (Burbules and Torres, 2000: 2).

Burbules and Torres articulate three realms in which globalization has had significant impact: the economic, political, and cultural. From a globalization perspective, economic concerns are paramount, because "globalization effects employment," and necessarily, "touches upon one of the primary traditional goals of education: preparation for work" (Burbules and Torres, 2000: 20). Political impacts are key because globalization poses constraints on nation-state policy making. The cultural impact has relevance because global changes affect socio-cultural policies, practices, and institutions. It is also important as global societies takes on multicultural and intercultural characteristics. Multiculturalism, in turn, poses new challenges to socio-cultural policy and practice as institutions struggle to support a diverse population (Rhoads, 2003: 229).

A key concern is raised by Burbules and Torres: "a major question today is the extent to which societies will be able to pick and choose the ways in which, and the degree to which, they can participate in a global world; or whether, as with other

Faustian bargains, there is no halfway alternative" (Burbules and Torres, 2000: 17). This interpretation suggests that globalization involves a redefinition of the nation-state as part of the global economic system that it has in fact helped to create. This implies that that nation-state must march to the beat of global capitalism.

The consequence of the dominance of consumerist practices and the prevalence of a market-driven mentality is that the nation-state and its ability to serve the broad social demand becomes seriously weakened. Essentially, the nation-state loses its sovereignty as it becomes "bypassed by global networks of wealth, power, and information" (Castells, 1997: 354).

The dynamics of economic globalization thus have contributed to sentiment for social resistance. Furthermore, the anti-globalization movement has been brought to international prominence through three major protests: the December 1999 World Trade Organization ministerial meeting in Seattle, the September 2000 IMF-World Bank summit in Prague, and the July 2001 G-8 summit in Genoa. In Seattle, over 50,000 demonstrators wreaked havoc in the streets of Seattle over a 4-day period. In Prague, protesters close to 10,000 pushed the IMF-World Bank summit to end one day earlier. And, in Genoa, the G-8 summit faced with countless protesters clashed in the streets with thousands of police and military troops, which witnessed the death of Carlos Guiliani.

Perhaps the most prominent anti-globalization protests were those that took place in Seattle in December of 1999, where protesters controlled the streets, forced confrontation with police, and paralyzed downtown retail, and, most importantly, frustrated WTO talks. The Seattle protests sent a wake-up call to globalization proponents operating in the corporate arena. From Seattle and meetings of the World Trade Organization, to Genoa and the G-8 summit, to Washington, D.C. and meetings of the World Bank and IMF, to Davos and the World Economic Forum (WEF), to Quebec City and the gathering of Western Hemisphere leaders, the message from anti-globalization protesters is about the same as: "The violence comes from the WEF and its guests and their dangerous policies, such as sweatshops in Mexico and building dams. We don't want to improve them; we want to stop them" (Olson, 2001).

Concerns expressed by anti-globalization protesters have been fairly consistent: fear that corporate interests have too much say in global economic policies and that the benefits of globalization are unevenly distributed. The Mexican peso crisis at the end of 1994 and the financial crisis that broke out in mid-1997 in Asia show how unstable and unpredictable the globalized world economy has become.

Distress in Global Trends of Trade Liberalization

Besides discontent to globalization, the U.S. trade policy has been facing widespread criticism around the world. The Bush administration initiated an investigation of steel imports in 2001, imposed tariffs of up to 30 percent on a large portion of foreign steel shipments to the United States. The administration and Congress have agreed to roll back some apparel imports from the Caribbean and Central America. Drastic increases in new tariffs have been raised against lumber imports from Canada. Both Congress and the president have backed a new farm bill that perpetuates substantial subsidies for U.S. agriculture, even though the U.S. has for years scolded such practices abroad. All these have reinforced the concern that America is pursuing a unilateralist rather than a globally cooperative foreign policy. A recent complaint against European Ban on imports of generically modified food has further exacerbated the situation.

Moreover, these protectionist initiatives have surfaced at a time when the global trading system is already under severe strain. The U.S. is still retaliating against Europe from a previous dispute over beef. Europe threw a threat of counter-retaliation of up to $4 billion against U.S. tax subsidies for exports—a practice found illegal under the rules of the WTO. Japan and China engaged in a cycle of retaliation and counter-retaliation. U.S. backtracking on liberalization gives other countries an excuse to do the same thing and reduces the prospects for future reduction of barriers.

Further, the WTO's new dispute-settlement mechanism could break down under the intense pressure of a rapidly growing case load. The advent of several additional members has put the WTO to face severe challenges. This has pushed more and more countries to turn to regional and bilateral deals instead. Repeated financial crises and disappointing growth reinforce hostility toward globalization.

Most important, nothing was done to overcome the domestic debacle over globalization that plagued the United States throughout the 1990s. Congress rejected fast-track authority three times in the 1990s. It granted such authority to President Bush in 2001-2002 by a thin majority. These all reflect the fact that the U.S. public is split almost evenly over the theme of further globalization. But there is one particular factor which is hopeful in overcoming the stalemate—knowledge. A study by the Institute for International Economics, a think tank based in Washington, D.C., showed that workers with college experience welcome globalization, regardless of where they are currently employed, because they feel they can take advantage of it (Bergsten 2002: 89). Those who hold better educational prospect are less worried that the required adjustment will put them in worse situation.

The new American administration, whether being encouraged by partial support from those higher-educated people, decided to place high priority on getting trade policy back on track. To do so, it was engaged to pursue two-prone strategy: the launch of new international negotiations and congressional passage of fast-track legislation (renamed trade promotion authority, or TPA) to authorize their pursuit. The new negotiations, which were planned to conduct simultaneously at the multilateral, regional, and bilateral levels, are meant to create a momentum of liberalization on the world stage. They would further open world markets and promulgate new trade rules. And the passage of TPA would achieve the same outcome domestically. It is understood that Congress would not provide TPA unless it is indicated that doing so would bring substantial benefits to the United States through concessions by other countries.

So far, the above-mentioned two steps have been going well. The United States, working closely with the European Union (EU), forged an agreement at Doha in November 2001 to launch a comprehensive new round in WTO that, hopefully, would tackle virtually all relevant trade issues. With the prospects for an FTAA (Free Trade Area of the Americas) and bilateral negotiations with Chile and Singapore, and the envisaged agreements with Australia and perhaps New Zealand, Central America, Morocco, southern Africa, and possibly Thailand, the Doha Round is expected to accomplish a substantial package.

We want to emphasize, in the next section, that the U.S. may have gained most if she is engaged in liberalization of services trade, especially that of producer services.

Developing Producer Services to Assuage Anti-globalization

It is to be noted at the outset that the determinants of growth in producer services relate to the increasing complexity of both the external environment of the firms and their internal organization. Changes in industrial organization or organizational complexity have increased the need for producer services to facilitate the expansion of business in the market. Among the many factors that have contributed to the rapid growth in producer services is the sub-contracting of indirect production activities by corporations to independent producer service firms instead of relying on in-house service department (Noyelle and Dutka, 1988). This sub-contracting process in the provision of producer services is referred as externalization and/or unbundling.

Organizational changes in the production process have also given rise to growth in service labor (Bagchi-Sen and Sen, 1997). Also, as Noyelle and Ditka (1988) argued, until recently, manufacturing has been a principal component of a nation's exports, but increasingly producer services are emerging as a vital sector in the economy, especially in the cities. For some countries, such as the U.S., the U.K. or the Netherlands, a positive balance of trade in services compensates for a negative balance of trade in goods. Raising the level of service exports is therefore seen as a way of enhancing national economic performance.

The two main modes of delivery of services to international markets are cross-border transactions and sales through the affiliates of multinational companies (Borga and Mann, 2002). Cross-border transactions involve services sold by the residents of one country to residents of another country; these are international exports and imports in the conventional balance of payment (BOP) sense. They include service transactions within multinational companies and trade between affiliated parties. The full amounts of these transactions are recorded directly in the current account of the international transactions of the seller's country (exports) and the buyer's country (imports). Sales through the affiliates of multinational companies are sales to foreigners by the foreign affiliates of company X from home country Y. However, balance of payment accounting convention dictates that these sales are not counted as country Y international transactions because any foreign affiliates of company X are defines as firms resident in the countries in which they are located (rather than the home country Y of the parent company). Their sales abroad are therefore transactions between foreign residents; only the direct investor's shares of profits earned on these sales are recorded as country Y international transactions.

The actual mode of delivery used for international service sales depends on the type of service provided. Education, travel, telecommunications and some freight services are among those that can be more readily provided as cross-border transactions. Others, particularly, financial, professional, technical or business services, require regular and on-going contact with their customers and are therefore more likely to be delivered via affiliates located in the target markets. For most types of services there is a clear choice of delivery between one mode or the other. However, the overall balance between the two modes of delivery is important as far as the impact of services trade on national economy is concerned. Thus, even though the profits from the foreign affiliates of company X are repatriated, all the other returns on the production and supply of its services accrue to foreigners. For example, the salaries of the employees of the affiliates are major component. Cross-border exports are more beneficial to national economy than sales through affiliates because a very large proportion of the income generated by production of the services by company X accrue to labor and capital supplied within the country.

We can learn from the above how difficult when we try to measure the value or the volume of services transactions (see, *e.g.*, Petit, 1986). It is quite possible that both modes of delivery will apply to one transaction. One obvious example is a foreign affiliate of company X selling a service to foreign client Z but where some of the work is undertaken at the home country (parent) office of the company (see, *e.g.,* Borga and Mann). The amount received by the affiliate from the foreign client will be recorded under sales by affiliates, while the fee received by the parent office for its share of the work will be recorded as a cross-border transaction.

This is where the crucial role played by foreign direct investment comes in. Sales by foreign affiliates of company X follow some form of investment. And if production techniques and knowledge are uniformly distributed across national borders, the location of service production will simply depend on differences in factor costs, tariffs, transportation costs and the size of markets. Whether company X invests directly in production overseas will depend on whether there are firm-specific advantages with some form of institutions in the target market. This advantage should be great enough to outweigh the competitive advantage of the indigenous producers. These firm-specific advantages will be determined altogether by ownership-advantages, internalization opportunities and locational considerations (Dunning, 1981). Such factors can make it advantageous to locate service production in the market being served rather than exporting to them, particularly banking and other financial services, and telecommunications. On the other hand, foreign direct investment (FDI) is much less an option for passenger services, travel and shipping or for small and medium-sized services firms. These are more dependent on export transactions from their home country or via agents in the overseas market. Therefore, a substantial proportion of cross-border services exports are managed by multinational enterprises (MNEs).

Beneficial Effects of Services: Implication for East Asia

East Asia is the world's fast growing and, especially, most urbanized region. Cities such as Singapore, Kuala Lumpur, Jakarta, Manila and Bangkok, not to mention Tokyo, Shanghai, Seoul, and Taipei, all are endeavoring to reach favored position within the global economy. It is becoming increasingly clear that the survival of cities in a highly competitive global economy depends on their ability to accommodate the various requirements of global capital and investment such as technological infrastructure, human capital and services, especially producer services. Cities compete with each other for investment, and this is a competition in which the investors have considerable leverage (Cox, 1995: 214; Marcotullio, 2003: 220).

Nevertheless, differing from that of cities of similar standing in the developed economies, cities Asia generally provide a very distinctive context for exploring the development of producer services for they have lagged behind the region's success in manufacturing growth and trade (Daniels, 1999). Although the services sector has been a major employment sector in the cities (after manufacturing activities), the growth in producer services is a recent phenomenon. There is a strong tendency to relate this development to economic globalization processes (Morshidi, 2000). Therefore, *it can be inferred that the growth in producer services in Asian cities could provide the support for those cities to reach world city status.* Presently, most producer services are provided by local service providers, but pressures arising from the increasing globalization of producer services activities would necessitate the provision of these activities by MNEs. Trends towards internationalization of producer services provision are already a reality for many metropolitan areas in developed economies (Dunning, 1993).

Export-oriented producer services are overwhelmingly clustered within metropolitan cities, and interregional and international service trades are conducted largely by firms, institutions and facilities concentrated within urban areas. Furthermore, quite related to the export activities of cities is the fact that the larger the cities, the higher the concentration in these export services—the greatest variation being demonstrated by the complexity of corporate activities in the largest cities (Noyelle and Dutka, 1988). Global expansion of service companies—companies engaged in activities such as accounting, advertising and real estate—further invigorated the growth of international businesses in all sectors in the foreign market, in particular in their cities (Daniels, 2000).

There is plenty of evidence showing the rapid growth of international trade in services and FDI since the 1980s. They have together deepened interdependence within the world economy. Services and manufacturing firms are now producing more than ever outside their home countries so that, for example, 7 percent of global GDP is generated by the production of foreign affiliates of MNEs (UNCTAD, 1998) which are responsible for one-third of world exports. All this activity has raised the profile of services, their export potential and value to sustaining national economic well-being.

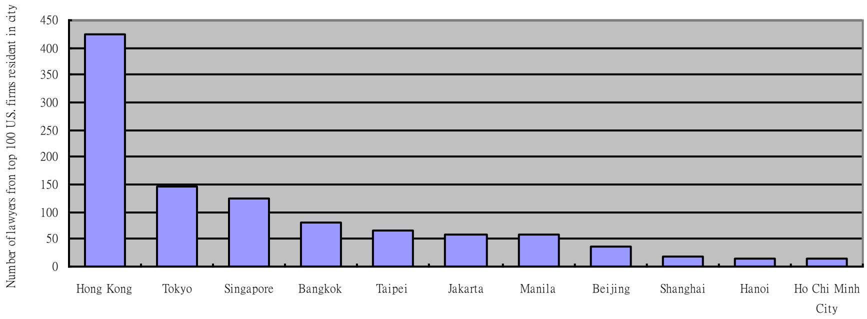
Accordingly, countries such as the U.S. or the U.K are strongly advocates of greater trade liberalization in services because of their large share of existing cross-border and FDI flows. Their service producers, especially MNEs, are already well placed to gain from more open arrangement in other countries. On the other hand, many developing countries anticipate that trade liberalization will undermine their existing, often fragile, service activities (especially knowledge and information services such as finance, business and professional services) and make them more dependent on imports and/or FDI from the leading service nations. But, whether these concerns are legitimate and many countries will continue to rely on trade in goods to enhance their national well-being, the latter can only be sustained if those goods are competitive. It is suggested that this will only be the case if the indirect role of services in this process is recognized. Some authors prefer to speak of a *goods-services continuum* (Illeris, 1996).

Production of goods has always relied on some services, but while in the past this may have been confined to administration or bookkeeping, for example, it now involves research and development (R&D), marketing, advertising, design or brand management. In addition, there are not only symbolic analysts, there are also symbolic goods (designer clothes, cars, houses and mobile phones) many of which are sold with service contracts or extended warranties. In addition, the trend during the past ten to fifteen years towards out-sourcing to independent service providers is now being re-evaluated by manufacturing companies (Daniels, 2000: 10). For example, the downstream added value (customization, management, servicing, upgrading) of their products is being acquired by other companies. The latter traditionally were less concerned with servicing, replacement with new products, or feedback from clients. But they now realized that those downstream added values might subsequently lead to further sales to the same set of clients. They can incorporate these relationships with clients into helping breaking down the distinction between the manufactured and service component of a product.

The implications of this process are that the distinction between service and manufacturing activities is becoming less clear (Daniels, 2000). Separate service and manufacturing companies are being replaced with manufacturing/service companies or conglomerates. Competition in the field of manufactured products requires a company's client base to be utilized as fully as possible. By including service-driven relationships profits can be more reliably assured. Manufactured products are therefore simultaneously more complicated and reliable and hence have longer life expectancy. Service relationships will compensate for this and help to foster long-term client relationships. The P/E ratio (a measure of the relationship between perceptions concerning the future profitability of a company and its share price) for manufacturing companies tends to be lower at present than service companies. This has encouraged manufacturing companies to diversify into services or service-related activities.

Indeed, the "demand for manufactured goods—both in terms of type of good and their quantity—depends upon what is happening in the service sector" (Riddle, 1986: 26) and the "service sector is, in truth, the facilitative milieu in which other productive activities become possible" (Riddle, 1986). A survey of the business community in the business community in Hong Kong indicated that business people view a freeing of trade in financial services as the highest priority, followed by other producer services (Yusuf and Evenett, 2002: 92). In the area of legal and accounting services, for example, international law firms provide advice to local and international firms on expanding their businesses, handling regulatory matters, managing their finances, and resolving disputes. They constitute an important force supporting a more rule-based business environment. Furthermore, law firms can solicit expertise from colleagues both in major financial centers in the world and in innovative places such as Silicon Valley, thereby helping East and Southeast Asian firms to raise funds overseas as well as to be familiar with the latest developments in business strategy and technological change. The cities in most regional company headquarters and foreign direct investment are also those with the closest links to international law and accounting firms (see figure 1). Hong Kong is in the lead, but other cities are also in prominent places in global services.

Figure 1 Connections to Leading U.S. Law Firms, Selected Asian Cities, 1997



Source: World City Relational Database (http://www.lboro.ac.uk/gawc). Reproduced from Yusuf and Evenett (2002), Figure 4.2.

Throughout the region, producer services account for one-quarter to one-third of GDP, but they remain relatively backward and inefficient compared to manufacturing industries. This is partially due to still limited supplies of knowledge workers in many countries, such as China and Indonesia. Although the shortage of such workers has been appreciably reduced in recent years, the accumulation of experienced professionals will take time. This reflects negligence in the past by governments, except in economies such as Hong Kong and Singapore, where governments have consciously sought to nurture services. East and Southeast Asian governments, preoccupied with manufacturing, did not realize that the environment for nurturing services is more complex than that for manufacturing, which could be built up in enclaves. The institutional arrangement adequate for manufacturing operations and the type of labors appropriate for the assembly line are not suitable for producer services, which need the inputs of skilled workers, applied information and communication technologies (ICTs), continuous innovation and international networking.

At the beginning of the 1990s, many economies still viewed the manufacturing sector as the engine of growth and the main source of innovation. Even though they recognized the large and growing share of services in GDP and their importance in supporting manufacturing, many East Asian economies still regard services as subsidiary to manufacturing. Policies were focused on creating and sustaining conditions supportive of manufacturing. Labor market and banking sector were meant to supply industry with low-priced inputs, trade policies were adopted to expand exports, technologies were used to enhance product and process innovation, and FDI measures were made to attract foreign capital to the manufacturing sector. However, a more balanced development strategy is needed where manufacturing and services will have to work intimately together to succeed in enhancing competitiveness. Productivity, profitability and market penetration of manufactured goods will not improve appreciably without efficiency and innovativeness of service inputs.

Financial services are now at the core of a dynamism in innovation and productiveness. Many other services such as research, logistics, supply chain management, fulfillment, back-office support and systems integration are increasingly outsourced to gain market strongholds. Furthermore, the development and diffusion of ICT have induced and supported innovation in such services area as finance, advertising, marketing, logistics, and supply chain management and, at the same time, have made it easier for firms to buy-in services and integrate them with other in-house and contracted activities. Therefore, for East and Southeast Asian economies, services emerged as a leading actor of a dynamic growth model. Other economies will join Hong Kong and Singapore in benefiting from the higher living standards created by services.

Prospect of U.S. Service Trade in East Asia

The share of services in national exports and in world trade has been changing. Between 1982 and 1997 the total value of world exports of merchandise and of commercial services[1] increased from US$ 2,287 billion to US$ 6,590 billion. At the major world regions a divergence between the distribution of merchandise and commercial service exports has appeared during the past decade. Merchandise exports have become more concentrated from source countries in North America, Western Europe and Asia as the share of other regions such as Africa, the Middle East, and Central and Eastern Europe has declined. On the other hand, the opposite has occurred for commercial services. Although 70 percent of world exports originated from Western Europe and North America in 1985 and the North American share held up in 1997, the position of Western Europe deteriorated significantly as Asia, in particular, improved its share of commercial service exports (see Table 1). It is likely that this relative dispersal of services exports reflect the ability of many countries, such as many of those in Asia, to capitalize on their natural assets as tourism destinations rather than as supplies of advanced knowledge and information services. Exports of the latter are dominated by small number of countries.

Table 1. Exports of Merchandise and of Commercial Services, World

[1] Commercial services are defined as transportation, travel and other private services and income. Balance of payments statistics (compiled by the International Monetary Fund) are currently the only source of comparable data on international service transactions. The statistics significantly underestimate services trade: (1) a number of important economies are not members of the IMF; (2) many service transactions are not recorded, especially those using electronic media and which are between the affiliates, etc. of multinational firms; (3) some countries do not provide statistics of certain service items; (4) statistics are sometimes reported on a net basis, *i.e.* exports minus imports, and (5) transactions may be misclassified, for example, as trade in merchandise rather than in services. See GATT (1993) for full details.

Region (% share), 1985 and 1997

	Merchandise		Services	
World region	1985	1997	1985	1997
North America	15.9	16.62	19.05	19.97
Latin America	5.56	5.13	4.60	3.91
Western Europe	39.81	41.57	50.68	45.60
Central and Eastern Europe/Baltic States/CIS	8.01	3.28	…	…
Africa	4.13	2.21	2.96	2.11
Middle East	5.25	2.99	…	…
Asia	21.35	28.22	16.12	22.71

Note: 1. … denotes less than 1 percent;
2. Because of rounding and estimation, some columns do not total 100.

Source: Merchandise Trade Section, International Relations and Services Section of the Statistics and Information Systems Division, WTO (1998). Reproduced from Table 2 of Daniels (2000).

The value of U.S. service exports now exceeds the value of imports and this helps to compensate for a trade deficit in goods (see Table 2). Europe and Asia and Pacific together accounted for more than two-thirds of total U.S. cross-border exports and imports of private services in 2001 (Chart 1). Three countries—the United Kingdom, Japan, and Canada—accounted for nearly a third of both total U.S. exports and imports of services (Borga and Mann, 2002: Table B). Of total cross-border trade in services, trade within MNEs accounted for US$ 62.3 billion, or 23 percent, of exports of private services and for US$ 41.5 billion, or 22 percent, of imports of private services.

The largest single category is "other private services" (Borga and Mann, 2002: Table C). The other major categories in the U.S. statistics include travel, passenger fares and royalties/license fees. Travel services cover goods and services, such as hotels, food, recreation, local transportation or gifts, purchased by U.S. residents traveling abroad and by foreign residents visiting the U.S. (business or personal visits of less than one year). This category tends to fluctuate in line with the dynamics of the U.S. economy and its effects on the ability of U.S. residents to travel abroad. Likewise, receipts from foreign travelers to the U.S. will be determined by the circumstances of their domestic economies. And passenger fares are the fares paid by foreign residents to U.S. airlines for transport between their home country and the U.S. or between other countries. The performance of this sector is dependent on the competitiveness of U.S. airlines on international routes and the extent which non-U.S. airlines are allowed to gain access to intra-U.S. routes and international transfer points.

Royalties and license fees are a classic cross-border export. These are transactions with foreign residents involving a wide range of often intangible rights and benefits. Processes, formulas, patented and unpatented techniques used in the production of goods or franchises, broadcasting rights, trademarks, copyrights and the rights to sell a product or service using a particular brand name are some of the transactions relating to services. In the case of the U.S., a large proportion of the royalties and license fees are attributable to the receipts to U.S. patent companies by their foreign affiliates, especially in manufacturing (notably the chemical industry). Ongoing receipts from these services are partly dependent on licenses or patents, for example, that may have been negotiated or registered some years ago. They also reflect on the creative capacity of the home country for enhancing existing services or to create new ones that can generate receipts for some time into the future.

Some of the sub-categories within other private services have grown at rates well in excess of the overall increase. The shares of business, professional and technical services rise very rapidly taking place of a declining share from financial services and from telecommunications services which are often regarded as “flagship” service exports. The deregulation of overseas markets in both services has not only opened up opportunities for U.S.-controlled firms but also increased competition, especially from the EU countries.

While the U.S. is a major player in world services trade, the pattern of its transactions is dominated by a very small number of countries (Borga and Mann, 2002: Table B). Many are also major destinations and/or origins of U.S. goods trade. Japan, the U.K., Canada and Germany are the dominant export destinations with a share close to two thirds of total U.S. services exports. At the broader regional scale, Europe was the destination of nearly a third of U.S. cross-border exports. This is not surprising given, for example, the large share of U.S. airlines in transatlantic passenger and freight traffic or the strong links between the U.K. and U.S. in other private services such as financial or business, professional and technical services. However, the service trade surplus with Asia and the Pacific (17 percent of U.S. service exports) reached US$ 16.8 billion in 2001. Using that year’s data, the cross-border channel for U.S. services exports is preferred to sales through foreign affiliates.

Table 2. Sales of Services to Foreign and U.S. Market Through Cross-Border Trade and Through Affiliates (in billions of US$)

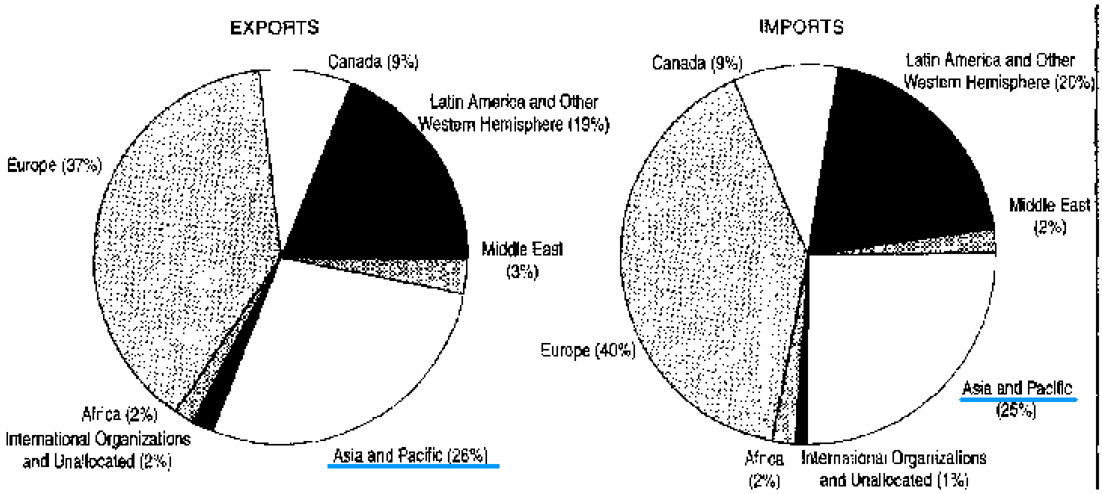
	Through cross-border trade		Through nonblank majority-owned affiliates	
	U.S. exports (receipts)	U.S. imports (payments)	Sales to foreign persons by foreign affiliates of U.S. companies	Sales to U.S. persons by U.S. affiliates of foreign companies
1986	77.5	64.7	60.5	n.a.
1991	152.4	99.9	131.6	119.5

1996	222.6	137.1	223.2	168.4
2001	266.2	192.3	392.8*	346.7*

*2000 values.

Source: Borga and Mann (2002), Table A.

Chart 1. U.S. Cross-Border Services Transactions: Share by Area in 2001



Source: Borga and Mann (2002), Chart 4.

On the other hand, with respect to U.S. multinational companies' foreign sales, we could find that the share of services sales in Asia-Pacific region exceeded their global average. The share of services in gross sales by U.S. foreign affiliates in Asia-Pacific accounted for 17.6% in 2000, compared with 14.2% for Canada and 16.3% for Europe. And when we exclude Australia and New Zealand from the Asia-Pacific, the share rose to 19.5% (Mataloni, 2002: Table 10.2). Therefore, the U.S. prospective sales of services are greater in East Asia than most other regions.

Conclusion

The pervasive trend of globalization inevitably threatened to transform cultures of many countries and, furthermore, to increase discrepancies between the rich and the poor. In adaptation to these global trends, many national governments had to accede to the necessity of change. There were many outcries to fend off the negative effects of globality or even revert to self-enclosure. Besides turbulences in WTO ministerial meetings, IMF and World Bank conferences and other occasions in many multilateral forums, the United States resorted, surprisingly in the past several years, to protectionist measures threatening to distort global trading system.

Fortunately, a new trend was forged to strengthen momentum in enhancing trade liberalization. Especially with subsequent negotiations on financial, telecommunications and transport services after GATS was concluded in the Uruguay Round, services sector took the occasion to demonstrate its merit. Many urban regions in the East Asia have witnessed prosperous development in producer services, which are conducive to help manufacturing sectors to thrive in regional production and global trade. Viewed from U.S. multinational corporations' foreign operations, we could also find the increasing ratio of services sales in East Asian countries compared to other places. This could be of help, at one hand, to the expansion of manufacturing sectors which are crucial for the region's overall development, and, on the other hand, to ameliorate negative effects of and, hence, resistance toward globalization.

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