

*International Competition in Services:  
Banking, Building, Software, Know-How...*

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## Foreword

As the nearly 100 member nations of the General Agreement on Tariffs and Trade (GATT) head into the Uruguay Round trade negotiations, the United States—chief advocate of an open international economy—finds many of its manufacturing industries less than competitive in that international economy. The Nation's trade deficit remains at unprecedented levels, our international debts exceed our credits, and living standards are headed downward. Few signs point toward a return to the comfortable position the United States enjoyed with respect to its trading partners and competitors 10 or 15 years ago.

Most simply, the U.S. dilemma can be put as follows. The international competitiveness of American firms in most manufacturing industries has been in decline, in large part because of growing competence in other parts of the world. As this assessment shows, the United States remains highly competitive in many service industries, but trade in services will remain small compared to trade in goods, and many of the benefits from foreign investments by American service firms accrue to the host nations where U.S.-based banks, insurance companies, accounting firms, and other suppliers of services do business. Services cannot right the Nation's trade balance, even granting the many ways in which a strongly competitive service sector benefits the competitiveness of American manufacturing firms.

As the U.S. negotiating strategy in the Uruguay Round emerges, the Nation's policy makers will have to balance the needs of service industries and manufacturing industries. These coincide some of the time, but not always. They will also need to decide in what ways and how strongly to press for measures that would strengthen GATT and further open the world trading system. Most importantly, Congress and the executive branch will have to continue seeking *domestic* policies that can help U.S. firms compete effectively, prepare Americans to work in the knowledge-based industries that will remain a major U.S. strength, and develop an approach to policies for economic adjustment suited to U.S. traditions and the Nation's political system. Past OTA assessments—as well as this one—show that the situation of U.S. industries has changed fundamentally over the last 15 years. The policymaking system has not caught up.

This assessment was requested by the Senate Committees on Governmental Affairs and Foreign Relations, and the House Committee on Small Business. OTA is grateful for the assistance provided by many individuals, inside and outside the Federal Government during the course of this assessment and in particular the cooperation of the Office of the United States Trade Representative and the Departments of Commerce, State, and Treasury. Full responsibility for the contents rests with OTA.



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