

ASEAN-U.S. TRADE IN  
INFORMATION-INTENSIVE SERVICES:  
POLICY ISSUES

by

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### I- Importance of Information-Intensive Services in the World Economy

According to the U.S. Department of Commerce, American-produced services that are of importance in international trade are provided by the following industries: accounting, advertising, banking, communications, computers, construction and engineering, education, employment, franchising, health, insurance, law, motion pictures, shipping and air transport, and tourism (Krause 1982, p. 57). A moment's reflection suggests that a least common denominator of these areas of economic activity--with the possible exception of construction--is their extensive and intensive use of information as a factor of production. Hindley and Smith (1984; quoted in Yuan 1988, p. 120), for example, note that "international transactions in services tend to be organized around information and its exploitation."

It is easier to characterize information indirectly by reference to the sectors of the economy in which it predominates than to define it directly by its properties. No effort will be made here to do the latter. Instead, information will be taken as an undefined but intuitively clear concomitant of economic output. Many theoretical treatments of production, in fact, consider information as an input alongside more traditional ones such as land, labor, capital, and entrepreneurship. How did the concept of information in the economy develop, and why is information so important today in the promotion of trade between industrialized countries such as the United States and developing areas such as ASEAN?

Early efforts (see Lamberton 1984 for details) by economists (Arrow, Machlup) and by non-economists (Bell, Shannon, Weaver) were instrumental in gaining acceptance of the notion that information plays a vital role in economic life. Porat (1977), following up on work by Machlup, made detailed use of national income accounting data and input-output techniques to determine the share of the U.S. gross national product attributable to the information sector. The share stood at 21 per cent in 1967, the year for which Porat assembled his data. By all accounts, this figure has increased significantly since that time.

Many authorities argue that the emergence of the information sector in the advanced industrial economies of the late twentieth century--and its overtaking of the manufacturing sector as a contributor to GNP--is comparable in scope and importance to the Industrial Revolution of the nineteenth century, when the contribution of the manufacturing sector, aided by steam power, the factory system, and other technical and managerial innovations, first exceeded that of agriculture in the industrializing countries. The extent and pace at which information overtakes the manufacturing sector is, in fact, taken by many as a characteristic feature of today's "post-industrial" world economy and society.

Developing countries, almost by definition, lag behind the industrialized nations in the extent to which their economies use and produce information-sensitive goods and services. There is broad agreement today among economic theorists and policy makers that concentration on the information sector, and on information-intensive goods and services in the economy, is a necessary policy in any broad and successful strategy of economic development. Previously, policy makers and international lending institutions exhibited considerable skepticism towards information as a concept or towards information

infrastructure as a prerequisite for development. The definitional vagueness and incorporeality of information placed it at a disadvantage with other, more tangible, infrastructural sectors such as health, transportation, and agriculture. Today there is growing awareness that information, and the telecommunications links over which it is transmitted, play a fundamental role in the development process not only by increasing the quantity of goods and services produced and traded, but by creating the conditions necessary for the networks and markets to evolve in which modern production and trade are even possible. In a word, telecommunications networks act as the nerve center of the modern industrial economy, and the information sector is the brain in which that center is located.

## II- Present Regulation and Protection of Information-Intensive Services

Industrialized and industrializing countries have adopted numerous policies to regulate and protect their information sectors. Section II examines the types, motivations, and effectiveness of these policies in three specific areas: telecommunications, banking, and intellectual property.

### A. Telecommunications

Historically, telecommunications links and systems have been introduced under the protective aegis of state monopoly. This has been so for a number of reasons, the most prominent of which are economies of scale and national security considerations. Except for the United States, government monopolies in post, telegraph, and telephone activities (PTT ministries) were the norm for industrialized and developing countries well into the 1970s and, in some cases, up to the present. The following are the major ways in which telecommunications networks are regulated and protected from competition.

1. Monopolization--A single enterprise can be chartered by the national parliament and protected from competition. It can be part of a public bureaucracy, as in the case of PTT ministries, or it can be a private firm (such as Comsat in the United States) protected from competition so that it can exploit a particular technology or market.

2. Standardization--State-mandated technical standards can be determined in such a way that they pose effective barriers to the market entry of firms wishing to compete with the incumbent.

3. Procurement--State procurement practices can favor a select circle of large supplier firms, foreclosing the entry of smaller competitors. Less frequently, the state itself undertakes the manufacture of telecommunications gear and components, often through for-profit subsidiaries (as is the case in France).

4. Prohibition of foreign competition--Entry of foreign entities such as manufacturers or network operators is generally difficult or impossible. Such policies are usually justified on national security grounds, but their effect is to reduce direct foreign investment and trade in services and manufactured goods.

5. Radio and television broadcasting--Practically all developing countries and many industrialized countries designate radio and television broadcasting as a state activity, financially supported by taxes or user fees. Some countries allow a modicum of commercial programming by private broadcasters, supplemented by state-supported public programming. The balance between public and private broadcasting is in many countries a political (France, Italy) or even ideological (West Germany) matter of some consequence. Others countries (Australia, Canada, Great Britain, Japan) have achieved a

political consensus on the optimum balance of the two. The United States is unique in having exclusively commercial radio and television stations supported completely by advertising revenues.

In all countries, however, licensing of radio and television broadcasters is tightly controlled by national authorities. The theory for such restriction has to do with the presumed scarcity of the radiofrequency spectrum used for broadcasting, although recent developments in transmission, modulation, and switching techniques have greatly increased the capacity available. The U.S. cable television industry, for example, has many more channels than it can profitably program and sell.

6. Transborder data flow (TBDF)--Many countries prohibit or heavily regulate the flow of certain types of data that are telematically transmitted across international boundaries. Typical examples of TBDF include the transmission over private leased facilities of data from a developing to a developed country for storage or processing in the latter; communications between the headquarters of a multinational corporation in an industrialized country and one of its subsidiaries overseas; and data transmitted for commercial purposes using public international data channels. Although seemingly arcane and specialized, TBDF has been the subject of intense concern among diplomats, academics, and researchers in international organizations such as the OECD in recent years. Authorities engaging in TBDF regulation generally claim they are doing so to protect the privacy of their citizens and firms or, indeed, to preserve the sovereignty of their country itself. Dispassionate analysis usually suggests a stronger economic motive in TBDF regulation akin to that underlying the more conventional barriers to international trade.

#### B. Banking

According to the ASEAN-U.S. Business Council (1988, p. 62), protection of domestic ASEAN banks, in the form of discrimination against foreign banks, includes the following practices: (1) bans or limits placed on the establishment of branches; (2) the inability to underwrite government securities; (3) limits on the range of services a foreign bank can offer, such as managing trust funds or issuing negotiable certificates of deposit; and (4) prohibitions against purchasing local property or business premises. It should be noted that these practices hold with particular severity in the ASEAN Four (Indonesia, Malaysia, the Philippines, and Thailand) and much less stringently in Singapore, which has many foreign banks and an economic structure and political culture relatively amenable to foreign banking. In fact, foreign institutions hold 89 per cent of all financial assets and 75 per cent of all deposits in Singapore (ASEAN-U.S. Business Council 1988, p. 62).

There is no need to rehearse here the vital role of commercial and investment activities by foreign banks in catalyzing the development of ASEAN countries and other rapidly growing areas. Barriers such as those noted above curtail the ability of banks to offer attractive interest rates to their depositors; to realize capital growth and effect cost control; and to facilitate customers' access to their deposits. While restrictive banking regulations might confer benefits on the small number of a developing country's citizens who in a position to marshal and to profit from the lending of capital for domestic development, the overall effect is definitely antithetical to economic development.

### C. Intellectual Property

The major forms of intellectual property are patents, copyrights, and trademarks. These economic phenomena share the attribute of being unique and

creative outputs that are easy to copy or otherwise appropriate once they enter the marketplace. Thus, an economic case is generally made for protection of intellectual property on the grounds that those individuals or firms engaging in the creative effort to devise intellectual property would have no monetary incentive to do so if the legal environment did not proscribe appropriation of such property without just compensation of the creators.

According to a poll of U.S. businessmen exporting to ASEAN countries, the absence of intellectual property rights in ASEAN countries ranked second highest on a list of 15 major barriers to U.S.-ASEAN trade (ASEAN-U.S. Business Council 1988, p. 57-67). The industries in which this absence was particularly significant included entertainment, pharmaceuticals, electronics, software, and publishing. Such activities require high initial investments in research and development or artistic production; exhibit high failure rates; and require significant market entry costs over long periods of time before product sales are possible. Businessmen polled perceived ASEAN countries as sources for pirated or counterfeit products being traded internationally. It is true that many developing countries countenance such activities as a deliberate, if legally and ethically ambiguous, tool of economic development.

### III- Reasons for and Consequences of Regulation and Deregulation of the Information Sector in Industrialized Countries

Section III focuses on recent trends in government policy toward information-intensive activities in developed countries. This survey often collapses particular information sectors such as telecommunications, banking, and intellectual property. Subsections will follow country by country. Snow (1986); Snow and Jussawalla (1986, pp. 141-168); and Bruce, Cunard, and



Director (1986) offer detailed summaries of these developments.

A. United States

Beginning in the 1970s the United States commenced a thorough review of its regulated industries and of the benefits and costs of such regulation. Over the next decade a broad range of policy initiatives succeeded in deregulating many industries that had previously been under strict regulatory control.

Two such initiatives came in the transportation industry which, as a communications-related part of the economy, is information-intensive. The commercial trucking industry was deregulated over a number of years. A more dramatic instance involved the domestic civil aviation industry. During the Carter administration Prof. Alfred E. Kahn, a well-known regulatory economist, became the chairman of the Civil Aeronautics Board (CAB). Subsequently, board members dismantled numerous instances of heavy and unnecessary regulation, involving mostly barriers to entry in particular geographical markets. For example, air carriers can now announce their entry into a given inter-city market and specify the associated fare structure without engaging in lengthy adversarial hearings. Ultimately the CAB was so successful in its job that its members presided over the board's consciously planned administrative demise.

By far the most striking instance of deregulation in the United States, however, is that of broadcasting and telecommunications. In broadcasting, cable has been slowly but steadily deregulated for more than a decade. In addition, cross-ownership limitations involving print and broadcast media have been somewhat eased recently by the Federal Communications Commission (FCC).

In telecommunications, the extreme market segmentation policy of the FCC was gradually dismantled beginning in the late 1960s. In the Nixon White House

of 1970, an important policy statement paved the way for market competition in the domestic communications satellite arena, even though the Communications Satellite Act of 1962, which had created Comsat as the American signatory of the INTELSAT operating agreement, had awarded Comsat a monopoly in overseas satellite traffic.

FCC policies and decisions can be cited virtually at random for the period since the mid-1970s as proof of the rapid and thoroughgoing deregulation of the information industries since that time. For example, "foreign" attachments to telephone instruments, as well as competitive value-added services such as call forwarding and radio paging, gradually became available. Another satellite-related executive decision in 1984 approved private American entities as potential competitors with INTELSAT in the wholesale provision of satellite circuits to U.S. markets, although Comsat still maintains most of its retail monopoly. Bypass of Comsat, however, is strongly favored in many policy circles and may become a reality--if only in part--in the near future.

The most sweeping single instance of regulatory liberalization in the U.S. information sector is the Modified Final Judgment (MFJ) approved in 1982 between the U.S. Department of Justice and the American Telephone and Telegraph Company (AT&T), which were adversaries in convoluted and seemingly endless antitrust proceedings. In return for having the government's antitrust case dropped, AT&T agreed to its own divestiture into seven regional holding companies which, according to the MFJ, would be allowed to compete with each other and expand their business activities into overseas markets and non-telecommunications areas as well. Enforcement of the MFJ, in the hands of Federal Judge Harold Greene, has given him tremendous discretionary power of the type usually exercised by the FCC, Congress, or antitrust authorities.

Opinions on the extent to which Judge Greene's enforcement of the MFJ has contributed to greater competition and less regulation are decidedly mixed (see Faulhaber 1987 for a critical view).

Finally, a major theme of U.S. liberalization of information markets more generally has been the progressive blurring by new technology of the traditional distinction between telecommunications and computing services. The Computer I, II, and III proceedings of the FCC have explored this phenomenon and to a significant extent removed the artificial barriers and market segmentations that previously existed. This in turn has given America's trading partners in Western Europe and Japan the challenge and opportunity to do likewise. The asymmetry of regulatory structures, procedures, and laws across international boundaries, however, is still a major obstacle to international trade in information-intensive services.

#### B. Western Europe

The United Kingdom bears particular mention as the first, and to date only, European nation to privatize its domestic telecommunications network and subject it to some measure of competition. This took place in 1984, when British Telecom (BT) shares were offered for public sale and the Mercury consortium was licensed to compete with BT. The Thatcher government expressly presented this legislation as motivated at least in part by ideological objectives: to increase the strength and extent of competitive market forces in the British economy, and to reduce the role of government in the economic sphere.

In international information services trade the United Kingdom is perhaps the most competitive country in the world. Two gigantic private enterprises, BT and Cable & Wireless, are competing with each other and with overseas

telecommunications entities of other industrialized countries for the domestic and international carriage of traffic and the establishment of associated networks and facilities. The success of these two enterprises, particularly in markets such as Hong Kong and elsewhere in Asia and the Pacific, can be ascribed to their long experience and to the environment of minimally regulated private competition within which they are allowed to operate.

France offers a polar case of tight government monopoly "liberally applied" and of an entrepreneurially activist state. Numerous for-profit subsidiaries of the French telecommunications authority compete successfully throughout the world, notably in the United States, where customers include the Department of Defense, a government agency not known to favor foreign procurement. French government officials early in the first Mitterrand government declared that cooperation was preferable to competition in telecommunications matters, and that domestic broadcasting policy would emphasize decentralization of the historically overcentralized French state rather than deregulation. Initial hesitant steps in the latter direction, however, have been more in evidence since recent electoral reversals in the dominant party and despite President Mitterrand's re-election in May 1988.

West Germany, which undertook a series of insightful studies by government commissions and private consultants favoring at least gradual liberalization of information technology industries, has nonetheless continued to maintain the primacy of the Deutsche Bundespost in telecommunications matters domestically and internationally and to react conservatively to recommendations that competition be increased and some functions be privatized. For example, West Germany opposes the notion of competition with INTELSAT for international satellite circuits, and continues to use conventional value-based pricing

rather than cost-based pricing for international leased circuits.

Nevertheless, some steps have been taken in the direction of liberalization that are certain to enhance West Germany's competitiveness in international information services trade. For example, it has administratively separated the Bundespost's often conflicting functions as a standard-setter, standard enforcer, and network competitor. In addition, procurement practices of the Bundespost have been overhauled to give greater chances to small, new suppliers at the expense of entrenched, long-time incumbents.

As members of the European Community (EC) draw closer together politically and economically, information services liberalization and coordination will become a matter of common concern, policy, and legislation at the European level. Increasingly, Western Europe is seen as a single, almost monolithic trading bloc by industrialized nations, ASEAN, and other countries alike. The best example in the information area is the recent issuance of the Green Paper (Commission of the European Communities 1987), a document recommending widespread and coordinated action by EC members in the introduction of market incentives, private ownership, and deregulation in domestic and international telecommunications areas. Numerous medium-sized European countries, including Italy, the Netherlands, Spain, and Sweden, are presently undertaking their own studies of the costs and benefits of liberalizing their information sectors.

### C. Japan

Japan's 1984 privatization and exposure to competition of its domestic telecommunications carrier, Nippon Telegraph and Telephone (NTT), resembles, at least superficially, similar legislation in the United Kingdom enacted at about the same time. If anything, the subsequent competition in the domestic arena has been more spirited in Japan--where a number of vigorous small and medium-

sized competitors have established market footholds against NTT--than in the United Kingdom, where the single licensed competitor, the Mercury consortium, has attracted only marginal traffic flows in competition with BT.

The motives for the changes in Japan, however, were rather different from those in the United Kingdom. In the latter, as has been seen, political philosophy was the dominant factor. In Japan, however, quite pragmatic motivations underlay the new policies. The Japanese Diet passed its legislation liberalizing the domestic information sector after it became evident that this would strengthen Japan's domestic economy and international trading posture. This conclusion emerged in part from the dynamics of a lengthy interministerial debate between the Ministry of International Trade and Industry (MITI) and the Ministry of Posts and Telecommunications (MPT). It is noteworthy that Japan's international carrier, Kokusai Denshin Denwa (KDD), has been a private corporation since the 1950s. Although KDD at present has a monopoly in overseas traffic from Japan (unlike the United States and the United Kingdom, where the dominant overseas carriers must compete with others), the question of introducing competition with KDD is under examination.

#### D. Consequences of Information Deregulation in Industrialized Countries

The primary beneficiaries of increased liberalization in the information sectors of industrialized countries have been businesses, primarily multinational corporations. This is not surprising, since much of the liberalization has been directed to the demand or user side, at the instance of firms that have joined into effective domestic and international lobbying groups favoring deregulation.

The international business community has benefited in three major ways from liberalized government policy toward information services. First, intra-

firm communications, whether domestically or internationally, have become less expensive and more convenient. Second, value added or third-party services, as a result of the liberalization process, are now available to customers in greater quantity and variety and at lower costs than previously. Both of these processes, particularly the latter, have contributed substantially to the volume of international trade in information services among the major industrialized countries. Finally, the efficiencies and market incentives introduced for the first time into gigantic telecommunications networks previously owned by governments and operated under bureaucratic and political criteria have established conditions more generally conducive to economic growth and international trade.

Several matters bear mention at this point. First, although the benefits of liberalization initially accrue to the business communities of industrialized countries, there is every expectation and indication that information sector liberalization will eventually benefit the entire economies of both developed and developing countries. Naturally, wise government policy must play a major role in seeing to it that market forces and judiciously chosen public-sector initiatives combine to bring about this highly desirable result. Second, there are also efforts afoot to examine and implement information service liberalization in less developed and newly developing countries; this process tends to confirm Snow's (1985) thesis that such liberalization is both a cause and a symptom of the process of economic development. South Korea, for example, a country with close ties to ASEAN, is carefully considering initial steps toward information sector deregulation, particularly in the data communications area. In addition Hong Kong, which has long complemented its colonial status with an extremely laissez-faire economic

environment, has for some time had its telecommunications networks in private hands. Anticipating its absorption into China at the end of the next decade, Hong Kong is acting as a catalyst for the construction of modernized telecommunications networks northward across the Chinese mainland.

Finally, the international effects of liberalization have been less impressive than its domestic consequences. This is because international trade in information-intensive services, given the prevalence of most favored nation arrangements and multilateral agreements, can usually reach a level of quantity and variety no greater than that allowed by the policies of the least liberalized country. Thus, it is not surprising that further benefits of liberalization among Western European countries have been stymied by the lack of movement in its least active members, notably France and West Germany. Additional liberalization will be forthcoming in primarily multilateral, regional fora such as the EC or the General Agreement on Tariffs and Trade (GATT) negotiations. This fact should be encouraging to the members of ASEAN as they contemplate the role of their regional organization in stimulating greater trade in information-based services among themselves and with the major industrialized countries.

#### IV- Policy Recommendations for the United States and ASEAN

On the basis of the information presented and arguments advanced in Sections I, II, and III, the following policy initiatives by the United States and (as appropriate) by ASEAN members individually and collectively are recommended. The probable effects of these initiatives, if implemented, are set forth in Section V.

##### A. Greater Liberalization and Privatization in the Information Sector



ASEAN countries should examine the benefits to be gained from relaxing the often onerous regulatory and non-regulatory burdens in their telecommunications, banking, and other information-intensive industries. In particular, the domestic and overseas telecommunications networks and the services they provide merit special consideration as the nerve center of the information-intensive sector. Specific policies could include high-level inquiries into changes in telecommunications policies, an initiative already undertaken by virtually all major industrialized countries; partial or complete privatization of networks or network components; and easing of restrictions on procurement, standard setting, licensing, and other government regulations and activities.

B. More Treaties on Intellectual Property

Treaties protecting originators of patents, trademarks, copyrights, and other forms of intellectual property should be negotiated and signed on a bilateral or multilateral basis between the United States and those ASEAN countries not yet subscribing to such provisions. Deliberations and common policy within ASEAN, indeed, could be a valuable catalyst in putting the negotiations leading to such a treaty on a multilateral basis.

C. Revision of U.S. Antitrust Laws to Facilitate International Trade

American competitiveness in international trade is blunted by provisions of U.S. antitrust laws that were passed many years ago when the United States was not the major trading nation it is today. The Webb-Pomerene Act of 1918 (see Krause 1982, pp. 87-88), which allows American firms to cooperate for the purpose of exporting, has not been very effective. Authorization of U.S. export trading companies along the lines of those in Japan might be the best approach to take.

#### D. Relaxation of Foreign Equity Controls in ASEAN Countries

Although there is a diversity among ASEAN countries, each reduces its ability to attract foreign investment in information intensive services by placing restrictions on the extent of foreign ownership. These restrictions are often politically motivated, especially in former colonial areas that have traditionally pursued policies of import substitution to foster economic development. Such policies, however, are particularly inimical to the export-led, high-growth strategies increasingly being adopted by developing countries as a more effective path to economic growth.

#### E. Relaxation of Controls on Foreign Banking

To promote their domestic banking sectors, ASEAN and other countries often adopt protectionist legislation heavily disadvantaging foreign banks. Particular restrictive policies include limits placed on the range of services a foreign bank may offer; prohibitions against the purchase of local properties or business premises; restricted access to host-country government funds; and the inability to underwrite host-country government securities. Among ASEAN members, only Singapore appears to practice a relatively open and non-discriminatory policy toward foreign banks. At least partly for this reason, it is rightly regarded as the "Switzerland of Asia."

#### F. Continued Emphasis on U.S. Export Consciousness

Despite continuing efforts by the U.S. Department of Commerce and other government agencies to promote U.S. exports, the United States is justly perceived by the ASEAN countries and other developing trading partners as having a national culture resistant to international trade. This inclination is conditioned by its history as a large and self-reliant continental power able to import a diversified basket of luxury and other goods in return for a

narrow and traditionally defined spectrum of agricultural and high-technology exports. In its swift transition from the world's largest creditor nation to the world's largest debtor, some of this anachronistic consciousness persists and hampers badly needed export awareness in the United States. Joint government/private sector campaigns to increase export awareness and information among the business community and the general public in the United States should continue and increase.

G. Relaxing Limits on Professional Services by Foreigners

Understandable protectionist impulses have given rise to legislation in ASEAN and other countries that sharply limits the ability of foreign professionals--typically in information-intensive professions and specialities such as financial planning, architecture, engineering, construction, law, telecommunications, and accounting--to practice their occupations overseas. The United States is not without blame in this area as well, although there are numerous asymmetries of supply and demand involved. ASEAN could well learn from the EC's experience in opening up its vast internal market to professionals from throughout Western Europe. More urgently, ASEAN needs to allow greater leeway for professionals to plan, design, implement, and operate large-scale development projects requiring significant infusions of foreign capital and expertise.

H. Reduction of Marketing Restrictions in ASEAN Countries

ASEAN countries vary considerably in the extent of such restrictions. Indonesia, for example, requires that the distribution of all products except textiles be carried out by Indonesian nationals, while the ASEAN Four impose various restrictions on the foreign import, refining, pricing, and distribution of petroleum and other hydrocarbon products (ASEAN-U.S. Business Council 1988,

p. 60). The World Bank estimates, for example, that Indonesia's restrictions on the distribution of imported steel and plastic products have increased the prices of those commodities by 25 to 45 per cent. While this instance involves physical goods rather than services, the marketing and distribution functions alluded to are themselves information-intensive services vital to completing the chain of international trade.

#### I. Liberalization of ASEAN Access to U.S. Markets

ASEAN countries see five primary manifestations of what they perceive to be barriers to entry of their goods into the United States. These are (1) inconsistency and unfairness of U.S. laws and policies, such as subsidies and trade controls; (2) quotas in areas such as textiles and sugar; (3) high tariffs and goods such as clothing and certain kinds of foods; (4) unrealistically high product standards such as those of the Food and Drug Administration (FDA); and (5) rigid procedures for obtaining import certificates or for licensing in general (ASEAN-U.S. Business Council 1988, p. iv). Fortright political leadership by the White House and Congressional leaders should be exerted to overcome the partisan and regional pressures for trade-reducing restrictions of this nature.

#### J. Development of Better Theory and Data

Numerous authorities, including Lee and Naya (1988a, 1988b) and Yuan (1988), have noted the dearth of disaggregated data relating to international trade and investment in services, and more fundamentally to the persistence of conceptual gaps in the theoretical underpinnings of important concepts and distinctions, such as the difference between international trade in services and direct foreign investment. Practical policy initiatives built on the shifting sands of such theoretical and empirical uncertainties cannot obviously

be fully effective. Basic research on the theory of international trade must continue and increase so that these gaps in theory and data can be closed as rapidly and completely as possible.

#### V- Prospects for Trade Expansion and Growth from Policy Proposals in Part IV

Since the overall causal nexus is still poorly understood, no effort will be made to relate particular policies recommended in Part IV to particular effects. No doubt each individual policy could give rise to several desirable outcomes; conversely, it seems clear that each individual economic consequence listed below can be seen as having resulted from more than one of the policies in Part IV. Thus, the complex of desirable economic consequences which follows can be thought of collectively as resulting from the implementation of the policies recommended in Part IV, also taken as a whole.

##### A. The Transition to Export-Led Growth

The policies proposed can be expected to facilitate a transition to export-led, high-growth trade strategies in ASEAN countries, replacing an import substitution outlook. Export-led growth stresses comparative advantage, efficiency in production, technology transfer, and employment rather than balance of payments factors as national goals (ASEAN-U.S. Business Council 1988, p. 64). Such a policy is much more promising than import substitution in a world of high technology where information production, storage, transfer, and processing constitutes a greater portion of the gross national product than does manufacturing in the major industrialized countries. Productive efficiency and technology transfer are touched on in greater detail immediately below.

##### B. Allocative (Productive) Efficiency and Price/Cost Reductions

Lee and Naya (1988b, p. 171) note the following:

For ASEAN economies liberalization will do more than improve allocative efficiency. Because internationally transacted services, especially those provided by foreign affiliates, tend to be producer services, liberalization will lower the prices of producer services to their users, which include other service industries. Liberalization will thus decrease absolutely and relatively the prices of service-intensive commodities.

Thus, trade liberalization policies will reduce the prices of service-intensive commodities absolutely and relatively. Service-intensive commodities, as has already been noted, are in effect information-intensive commodities as well. Price reductions in such services, whether produced domestically or imported, will enable the countries involved to expand their informational infrastructures more cheaply.

#### C. Technology Transfer

Lee and Naya (1988b, p. 172) argue that high-technology services, "whether imported or transferred through foreign affiliates, represent a form of technology transfer." Such a transfer "may be more important than any other effect of liberalization of service industries" due to the key position of the service sector--effectively the information sector--in the ongoing "information revolution."

In this regard, however, Lindsey (1986a, 1986b) offers some warnings. He distinguishes between the transporting and the transfer of technology. In cases of transfer "not only movement, but also control" is connoted. Further:

For proprietary reasons..., locals are not trained to take over the job of...expatriates.

...

Technology is the translation into practice of technological knowledge. When technology is acquired by transfers, however, this process of translation is undertaken by foreigners. Transfers of technology thus substitute for indigenous effort (Lindsey 1988a, pp. 227-228).

Thus, the extent to which a country benefits from technology transfer depends in part on the extent to which its own citizens acquire working access to that technology. Nevertheless, it is clear that trade in services is the form of international commerce most promotive of beneficial technology transfer.

D. Information Sector Liberalization as a Stimulus to Economic Growth

Snow (1985) has argued as follows. It is true that government monopoly and operation are appropriate for many public utilities in the early stages of economic development. As the economy matures, however, liberalization of the information sector, particularly of telecommunications networks, is both an effect of and a prerequisite for sustained economic growth. For example, economies of scope and scale, demand-based pricing, and natural monopoly properties generally become less influential as the level of trade, output, and income increases. Variety and flexibility in information-intensive services, which are qualities particularly important to business users, become more significant as development and trade proceed, and such properties are much more rapidly forthcoming given the incentives offered by private ownership and an unregulated marketplace. Naturally, ASEAN countries will wish to assess carefully how far they have advanced along this continuum individually and collectively. As development proceeds, however, it is clear that liberalization will become more rather than less advisable.

E. Effect of Competition and Market Incentives on Government Efficiency

Naturally, many infrastructural and other tasks--such as electricity, water, transportation, health, broadcasting, and education--remain in government hands during the process of economic development (see Snow 1988).

To the extent that particular sectors such as telecommunications become privatized or deregulated, however, they serve as a touchstone against which the public and private sectors can be compared by users, voters, and taxpayers as to their relative efficiency and flexibility. It is true that many of these infrastructural tasks are at first highly redistributive in nature and so cannot make full use of market incentives or efficient production and pricing regimes. Other things being equal, however, such tasks can be carried out more efficiently if policy makers, administrators, and the civil service in general observe the salutary effects of liberalization in allied sectors and sense the possibility that their own paychecks may someday be issued by private entrepreneurs. Jonscher (1984), for example, has noted the bracing effect on British Telecom personnel of contemplating such eventualities.

#### F. Social, Cultural, and Political Effects

Numerous non-economic benefits can also be awaited from information services trade and investment liberalization between the United States and its ASEAN partners. Crone (1983), for example, discusses the national and regional security priorities of the United States and ASEAN members as a motivating force in the economic arrangements that these nations have arrived at. To a certain extent, of course, national security and economic goals may conflict or diverge; for example, import substitution in an effort to develop economic self-reliance will certainly not create an efficient economy. More generally, however, a growing and diversifying economy will ease both domestic and international political tensions by incorporating greater numbers of people into middle-class incomes and jobs and thereby attenuating the distributional tensions so characteristic of developing nations.

Writing six years ago, Krause (1982, p. 74) noted:



...the governments of the ASEAN countries are essentially authoritarian and centrally directed. They tend to have strong executive heads but not well-developed political institutions....In this respect they resemble most other third world countries. In countries that have not experienced pluralistic democracy, political cultures are more receptive to authoritarian rule. With further economic development and the creation of a large middle class this situation can be expected to change.

The benefit of hindsight confirms the wisdom of Krause's suggestion that a growing middle class (perhaps the most immediate beneficiary of economic development) will temper authoritarianism and promote pluralistic democracy. This in turn relates to two of the most frequent complaints of U.S. businessmen dealing with ASEAN countries: bribery and corruption, and "communal advancement policies" (see ASEAN-U.S. Business Council 1988, p. 59, 64). The latter refers loosely to laws and rules designed to promote the welfare of particular indigenous ethnic groups, often through what would appear to Western eyes as discriminatory legislation disadvantaging other groups.

It is clear that a vigorous and growing middle class is the best defense against the excesses of authoritarian and antidemocratic rule, in particular these two practices referred to by U.S. businessmen with experience in ASEAN countries. Adoption of the trade and investment policies outlined in the previous section would appear to be the best hope for encouraging economic development and the growth of a new middle class in America's ASEAN trading partners.

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