

Globalisation of Services

Two recent news items underscore trends toward the globalization of services. Aeroflot, the Russian national airline, announced that it had contracted with the Marriott Corporation's In-Flite Services Division to provide catering services. In New York? No. Aeroflot had agreed to a contract under which Marriott (now Cater Air) assumes the management of Aeroflot's 'hub kitchen' in Moscow.

Several weeks earlier, New York Life Insurance Company announced that it had established a new office for handling claims of its American policy holders that would enable it to reduce its claims handling costs while preserving service levels. In New York? No. In Shannon, Ireland. Every weekday afternoon, claims that have come in that day are placed on an Aer Lingus jet to Ireland, where there is a surplus of well-educated white-collar workers to process them.

Just to underscore the point, two million Americans were watching the ABC Night Line television show at 1 a.m. on the night of October 19, 1987, the stock market crash. The reason? To find out how the Tokyo Stock Exchange had responded the next day. If indeed we needed it, this was a vivid reminder of the extent to which the world service economy has become one, thanks largely to improvements in transportation and communications, and the establishment of standards. These made possible the creation of worldwide networks for business transactions, networks that penetrate national borders and render national policies less important than global ones.

Some months ago, I had discussed in one of my columns, about service firms achieving excellence. It might be a repetition, but excellent service firms do not necessarily follow the flag. Thus we find Scandinavian Airlines system training Texas Air (Continental Airlines) personnel. And one of the fastest-growing markets for the US-based Service Master Company is its management of support services for hospitals in Japan. Recently, Abudhabi Commercial Bank has joined hands with India's State Bank of Travancore to extend their services to the relatives of their account holders in the Gulf. It is this service to foreign customers in foreign markets that represents an increasingly attractive, but largely unmeasured, component of foreign trade. Unfortunately, I have not come across many local service firms which are globally competitive.

The more important trend towards globalisation is a force for the performance of service everywhere. And because of differences in time around the world, it has fostered 24-hour service, most recently in financial markets. New technologies have reinforced the trend by making it possible to locate information-intensive service operations literally every- where, taking advantage of favorable labor or communication economies. In addition to the development of new technologies, the deregulation of service industries particularly in England and the US, the privatization of many state owned service businesses from India to Mexico and France, the reduction of trade barriers in services, and more widely. accessible labor markets. are fostering globalisation. Deregulation and Privatization: Deregulation and privatization are contagious because they make it possible for firms to operate most effectively, making them more formidable competitors. To the extent they are allowed to compete across national boundaries with regulated or nationalized competitors. There is a strong motive to deregulate or privatize the latter. This has been especially true for transport, communications and financial services where the very nature of the service spans national boundaries.



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Infact, the unleashing of entire service industries to hone their competitive skills in several highly developed nations, along with perceived financial strengths and a ready international market for services that 'follow the customer's flag,' have made the governments of less developed economies careful of lowering world trade barriers in services. Only recently have countries with highly developed

service economies been able to bring the issue to the top of the agenda of GATT, the General Agreement on Tariffs and Trade, which officially sponsors such multinational negotiations. Among the levers, bringing reluctant participants to the negotiating table are deregulation and privatization. To draw a parallel, had it not been for the arm-twisting policies of the World Bank and the IMF, India and Mexico would never have opened up as it is now.

Lower Trade Barriers:- Airlines may not pick up or drop off passengers traveling between two cities in a foreign country. Data may not be transmitted freely across some borders. And preferential treatment is given to domestic investment brokers, insurers and others when foreign firms try to compete for such business. (This last one is probably the reason for banks like Citibank to circumvent Central Bank guidelines). But the barriers are coming down.

This is particularly true on a regional basis, with the further liberalization of trade in goods and services in Europe by 1992 and the first steps toward a North American common market taken by Canada and the US in reaching an agreement to liberalize trade between them. Closer home, the GCC countries should also work for a common GCC market instead of the present shows of cultural and other festivals.

The pressures for the elimination of global trade barriers in services will be greatest in those industries linked by necessity to worldwide networks. Already, telecommunications barriers have been breached. Barriers to financial services, an industry bound by global relationships are coming down. And as airlines and other transport networks invest in each other and form partnerships to enhance their global reach, as American Airlines and British Airways, Continental Airlines and SAS, KLM and Northwest, and Delta Airlines and Swissair have done already, it will be more and more difficult to preserve old barriers.

■ Globalisation of Service Labor Markets: The lowering of trade barriers will continue to encourage the crossing of national boundaries to hire labor, especially for information-intensive services not requiring personal contact with the customer. That is why so many US firms have found a gold mine in India for the development of software solutions.. High-tech, low- touch' service firms will increas

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-ingly scour the world for the places to locate their 'factories'. We should not assume that they will have complete mobility, however. Nor will they operate most effectively as nomads following the latest low-cost labor market. But this phenomenon will provide further encouragement to countries with low wage structures to both lower barriers to the cross-border transmission of information and develop low-cost multinational communications services.

The increased potential for the flight of jobs from one country to another, just as capital flows quite freely and rapidly today, will further draw countries and trading regions together in their economic planning activities. While some labor, business and government leaders may fear the possible loss of jobs that this could entail, managers who thrive on excellence should see it as one more challenge to compete globally for jobs as well as business.

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