

increase in productivity of service production; greater transparency of markets; blurring of the borders between sectors; changes in the barriers to entry; and further internationalization of services. He suggested that the enhanced transportability of many services has become the major achievement of information technologies on trade in services.

-Trade with foreign affiliates and intra-industry trade

Trade in services with foreign affiliates is at the heart of many policy and academic debates. In the early 1990's, about 50% of the global stocks of FDI was in service activities.⁸¹ Trade with foreign affiliates is important for services industries because it constitutes an important means by which they can participate in foreign markets, especially when a presence is required to implement commercial activities.

Firms competing in a more globalized and deregulated world seek low-cost and quality combination of services and goods inputs to maximize their profits. Intra-industry trade is largely conducted worldwide by multinationals producing both goods and services to enter in the production of other products. The theory of intra-industry trade is relevant to services trade. The theory is based on the understanding that trade occurs when economies of scale internal to a firm are so large that they go beyond the capacity of their domestic market or because of product differentiation. In the case of services, it seems that the latter is more relevant than the former due to the importance of the quality component of services. Regarding the first assumption on economies of scale, the case is not significantly different for goods than for services. Consequently, due to the product differentiation postulate, the theory of intra-industry trade in services might be more appropriate than that of comparative advantage that assumes a single homogeneous good.⁸²

⁸¹ UNCTAD and World Bank (1994)

⁸² Richardson in Giarini (1987)