Services Trade: Essential Fuel for U.S. and Global Economic Growth

CHRISTINE BLISS, PRESIDENT,
THE COALITION OF SERVICES INDUSTRIES
SERVICESCOALITION.ORG

The Role of Services in the U.S. Economy

The United States is the most competitive services economy in the world, employing over 75 % of the American workforce and exporting over $684 billion in private services in 2014. Services companies and their employees in all fifty U.S. states contribute to the United States' services trade surplus of over $230 billion. (source: CSI and BEA)

- **What do Services Contribute?**
  - Services contribute a major source of economic growth in the United States and globally.
  - They perform as a key enabler of economic and commercial activity, from multi-national companies to small-and-medium sized enterprises (SMEs).
  - They act as critical input for manufacturing and agriculture.

- **How are Services Transforming the Economy?**
  - Services have transformed every sector, especially through digital trade.
  - Digital trade is the ability to move data freely across borders via the Internet, allowing individuals and businesses to participate in the global supply chain.
  - There is untapped potential for greater economic growth through services.

What are Services?

Accounting

Audio/Visual

Banking

Insurance

E-Commerce

Energy

Retail

Social Media/Advertising

Delivery & Logistics

Information Technology

Telecommunications

Services & Jobs

- The services sector accounts for 8 out of every 10 jobs in the United States and contributed 67% of U.S. GDP in 2014.
  - To place that into perspective, manufacturing contributed 20% of U.S. GDP in 2014.
  - In 2011, 25% of intermediate inputs purchased by manufacturers were from the services sector. (source: USITC)

- In 2014, services provided 70 percent of jobs in 49 out of 50 states.*

- Nationally, services job employment is over 7 times greater than manufacturing job employment.

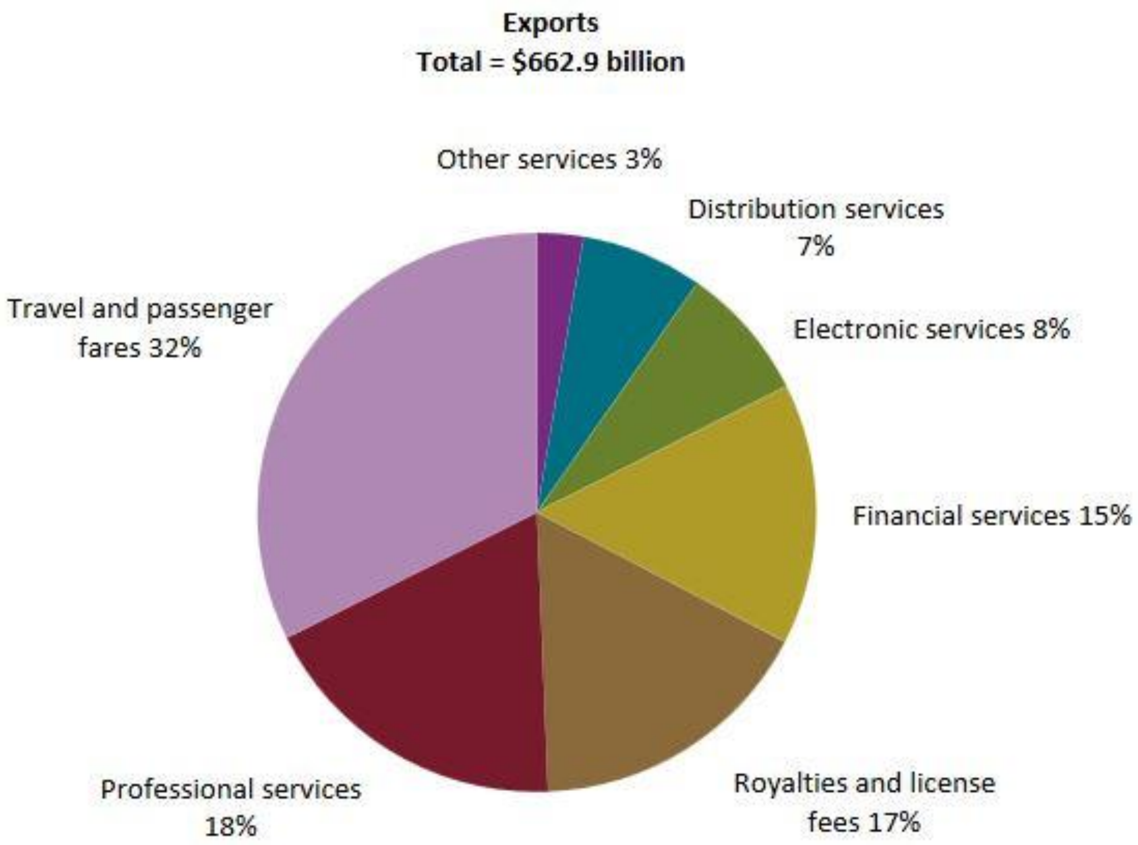
- Wyoming and North Dakota have the highest percentage of agricultural employment (13 percent and 9 percent respectively). Services jobs are more than 5 times greater than the number of agricultural jobs in Wyoming, and more than 7 times greater than agricultural jobs in North Dakota (2014).

- Individuals who have export-related jobs generally make 18% more than individuals with non export-related jobs.

*(source: CSI, with data from Trade Partnership and Moody's Analytics)

Services & Exports

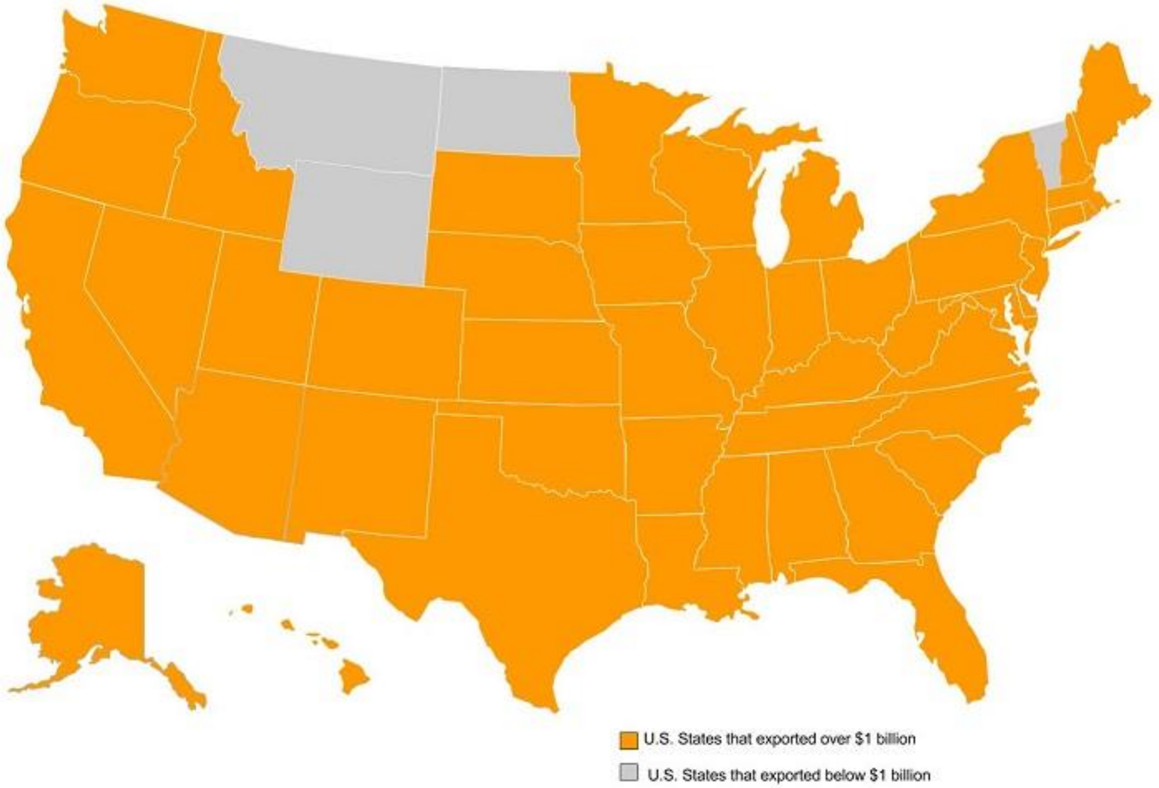
The graphs below show U.S. services exports in 2013.



Source: USDOC, BEA, Survey of Current Business, October 2014, 1–2

The Benefits of Services Exports are Nation-wide

In 2014 forty-six states exported more than $1 billion in services. All the states that exported more than $1 billion are highlighted in orange below.



Source: CSI

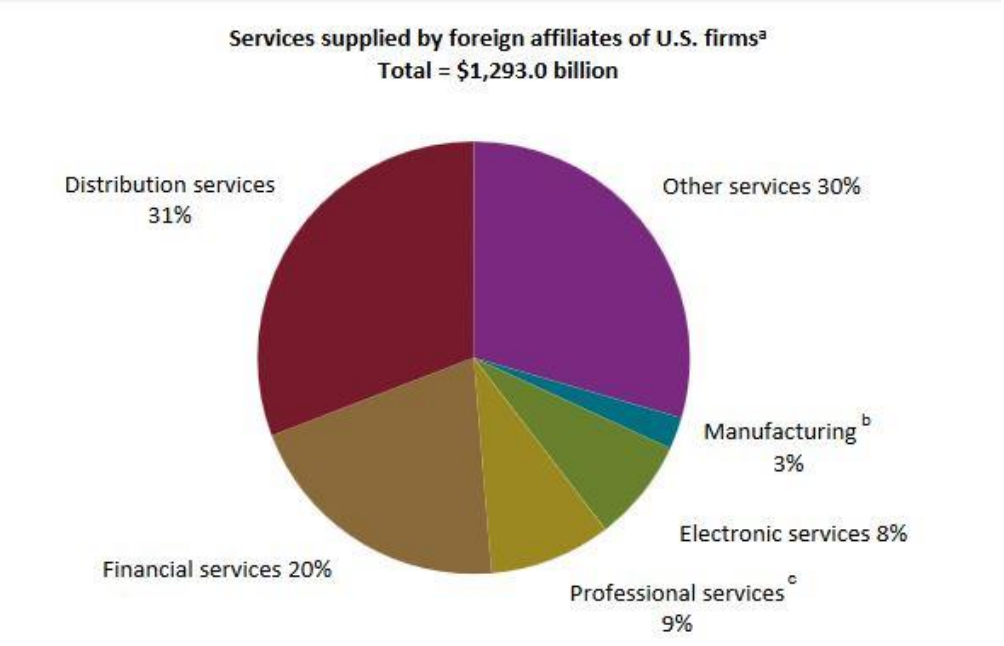
Services and Investment

<u>Investments</u>

- Total U.S. services foreign direct investment abroad totaled just over $4 trillion in 2014. (source: BEA)

- In 2014 the United States invested $161 billion in information services, $708 billion in finance and insurance services, and $108 billion in professional and business services. (source-BEA)

- The graph below shows services supplied by foreign affiliates of U.S. firms. Services investment does not take away U.S. jobs, it creates jobs that may not have been otherwise available.



Source: ITC, 2012 data (the most recent available)

Services & the Digital Economy

- The digital economy is a major force behind the growth and innovation of services trade. In 2012, there were 2.7 billion people connected to the Internet, and that number has only grown. (source: ICT Facts and Figures, International Telecommunications Union 2013)
    - Cross-border e-commerce is estimated to represent between 10 to 15 % of total global e-commerce and is forecast to grow from about $80 billion in 2014 to as high as $350 billion by 2025. (source: ITC)

- If innovation in digital technologies and the rise of emerging economies continues, global services trade flows could nearly triple by 2025. Economies that have more connections to the digital economy see up to 40% more benefit from participation than other economies that are less connected. (source: McKinsey Global Institute, *Global flows in a digital age, How trade, finance, people, and data connect the world economy,* 2014)

- The digitization of trade:
    - has created purely digital goods and services that are either transformations of physical flows of trade or are entirely new products,
    - has created "digital wrappers" that enhance the value of physical trade flows and
    - has developed digital platforms that facilitate cross-border production and exchange. (source: McKinsey Global Institute, *Global flows in a digital age, How trade, finance, people, and data connect the world economy,* 2014)

Services: U.S. and Global Potential

- While the United States is the world's leading services exporter, it still has tremendous scope to expand its services trade. Services account for almost 80 % of the value-added in the U.S. economy, but only about 30 % of its trade. (Source: World Bank, World Development Indicators and J. Bradford Jensen, *Global Trade in Services: Fear, Facts, and Offshoring,* 2011)

- Nearly 40% of services that are tradable have not reached their export potential. (Bradford Jensen)

- Today, as few as 3% of American services providers export, compared to 25% of manufacturing companies, yet services are roughly 30% of total U.S. exports. (Bradford Jensen)

The General Agreement on Trade in Services (GATS)

- The World Trade Organization (WTO) implemented the GATS in 1995. All members of the WTO are signatories of the GATS and have to assume the obligations of the agreement (the WTO currently has 162 member-states). (source: WTO)
- Things to know:
  - The agreement established the 4 modes of services trade:
    - Mode 1-Cross Border Trade
    - Mode 2-Consumption Abroad
    - Mode 3- Commercial Presence
    - Mode 4- Presence of Natural Persons
- Trade Terminology:
    - <u>Positive List</u>: a positive list refers to members listing sectors they would like to liberalize in their schedules.
    - <u>Negative List</u>: a negative list refers to members listing the sectors they do NOT want to liberalize in their schedules. The United States prefers a negative list approach because it is more inclusive.
    - <u>Dispute Settlement:</u> Dispute settlement allows a member to request consultations with a second member who they believe has breached obligations under the GATS. If there is no agreement between members, then the complaining member may request an independent panel of three experts to rule on the case.

What are Bilateral and Multilateral Rules on Services Trade?

- General Agreement on Trade in Services (GATS)
- Free Trade Agreements (FTAs)
- Bilateral Investment Treaties (BITs)

GATS: The Format

The GATS is broken into four major sections:

- **General Obligations**
- **Specific Commitments, which include market access and national treatment**
  - Market Access
  - National Treatment
- **Commitment of Schedules**
- **Annexes**

Free Trade Agreements (FTAs)

- Free trade agreements are between two or more countries.
  - Cover goods, services, and protection for investors and intellectual property rights.
  - The U.S. has FTAs with: Australia, Bahrain, CAFTA, Chile, Colombia, Israel, Jordan, Korea, Morocco, NAFTA, Oman, Panama, Peru, Singapore.
  - TPP negotiations have concluded but ratification by member-states is still pending.
- Unlike the GATS, which uses a positive list to schedule commitments, the U.S. uses a negative list approach for all its FTAs. Core services chapters in FTAs include:
  - Chapter on Investment (applies to goods and services)
  - Chapter on Cross Border Trade in Services
  - Chapter on Telecommunications
  - Chapter on Financial Services
  - Chapter on E-commerce

Key Services Trade Restrictions

Digital Trade

- Trade agreements should:
  - Enable the free flow of data across borders (barring safeguards of privacy/security).
  - Prohibit discrimination and trade distorting conditions across all services sectors.
  - Prohibit data localization of operations, including data storage.

Discriminatory Treatment

- Trade agreements should ensure all foreign companies participating in a local market are treated in the same, fair manner as domestic companies.

Leveling the Playing Field with State-Owned-Enterprises (SOEs)

- Trade agreements should:
- Require SOEs to compete fairly with private enterprise in trade and investment.
- Include non-discriminatory rules that apply to all commercial purchase and sales of SOEs, including transparency rules and impartial regulations.

Liberalizing Investment

- Trade agreements should allow market entry through freedom to establish foreign operations free of equity caps or restrictions on the form of establishment.

The Trade in Services Agreement (TiSA)

- The TiSA is a "plurilateral" agreement that includes many WTO countries, but it is being negotiated outside the WTO as a GATS Article V free trade agreement. The countries participating in the TiSA represent 70 % of the world's trade in services. Negotiations are currently between 23 economies, including:
  - Australia, Canada, Chile, Chinese Taipei, Colombia, Costa Rica, the EU, Hong Kong, Iceland, Israel, Japan, Korea, Liechtenstein, Mauritius, Mexico, New Zealand, Norway, Pakistan, Panama, Peru, Switzerland, Turkey, and the United States.

- The TiSA has used the GATS as a foundation to update international services rules. The TiSA aims to address new barriers to services trade that have been created in the digital age, such as restrictions on the free flow of data.
  - Unlike the GATS, the TiSA uses a hybrid approach in market access and national treatment obligations i.e. market access is treated under a positive list approach and national treatment is treated under negative list approach.

The Trans-Pacific Partnership (TPP)

The Trans-Pacific Partnership is a regional free trade agreement involving goods, services, and agriculture. Participating member-states include:

- Australia
- Canada
- Chile
- Brunei
- Japan
- Malaysia
- Mexico
- New Zealand
- Peru
- Singapore
- United States
- Vietnam

- Negotiations were concluded in October 2015. At the present time all member-states have returned to their countries to ratify the agreement domestically.

- So why the Trans-Pacific Partnership?
  - In 2013 U.S. exported $178 billion in services to TPP countries, and there has been a 6.9% growth in U.S. services exports to TPP between 2011-2013 (these numbers to do not include Brunei, Peru, or Vietnam).
  - In 2014 U.S. foreign direct investment in Asia & the Pacific was $738.8 billion, an increase from 6.1% from the previous year. (source: BEA)

The Transatlantic Trade and Investment Partnership (TTIP)

- The TTIP is a comprehensive trade agreement consisting of goods, services, and agriculture that is currently being negotiated between the United States and the European Union (EU), which includes 27 members states.

- The United States and the EU currently have over $3.7 billion in investment in each others' economies. (source: USTR)

- U.S. trade in private services with the EU (exports and imports) totaled an estimated $470 billion in 2014. Services exports were $267 billion; services imports were $203 billion. (source: USTR)

- The U.S. services trade surplus with the EU was $64 billion in 2014. (source: BEA)

The U.S.-China Bilateral Investment Treaty (BIT)

- A Bilateral Investment Treaty (BIT) is an agreement between two countries that establishes rules for foreign investors and investments in both countries. BITs are intended to give investors more protection, freedom, and market access when investing in foreign markets. The United States currently has BITs with 42 nations and is working on one with China.
  - In 2012 cumulative Chinese investments in the United States totaled $5.2 billion, which is less than 1% of total foreign investment in the United States.
  - In 2013 American investments in China reached $3.4 billion, which was only 3% of total foreign investments in China.
- The U.S.-China BIT creates an opportunity to expand investment options for American and Chinese companies. A completed agreement would particularly benefit American investors who have lacked many freedoms and protections while investing in China. (source: CSI & USTR)

Thank You