"The Promise of Trade in Services: How Trade Negotiations Benefit the US Economy"

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The naked fact is that services increasingly dominate the world economy. Most of global GDP is in services (in the US and UK about 80%, in Hong Kong, more than 95%).

This is an irreversible force. In 1800 almost every American was engaged in agriculture. By 1931 a majority were employed in services and now about 75% of Americans have services jobs.

Thus the idea that the US can "restore its manufacturing base" is an utter delusion. To do so would require excesses of industrial policy that would shock even Donald Trump.

My message is that the US is a service economy and is the world's major, most competitive supplier of services.

But, the level of its engagement in the global economy is low, lagging manufacturing, due in large part to blocked access to big foreign markets.

Services trade has enormous potential to create new economic activity at home through business abroad.

Many especially fast growing countries have maintained barriers to services trade.

The best way to remove these is through trade negotiations, like the TPP, which should be implemented now.

Public policy should encourage the great strengths of the US economy: services and the digital services revolution that enables US business expansion here and abroad.

It might help to define a "service".

The Economist once called it "something that drops on your foot and doesn't hurt".

In fact services are legally defined in four different categories, or "modes of supply" by the WTO General Agreement on Trade in Services (GATS) of 1995.

> Cross border supply, like when architectural plans are sent by internet from New York to a builder in Paris
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> Consumption abroad, like when a Japanese patient visits the US for medical care at Hopkins
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> Commercial presence, like when a US company opens an affiliate in a foreign country (entails the right of establishment)
>
> Temporary movement of natural persons across borders to work, like when an Indian software engineer enters the US with a visa to work for Bechtel (this is not tourism and not immigration)

The US services sector is the world's most competitive

In 2015 US services exports were $750 billion, with a surplus of $262 billion, compared to 2015 goods imports of 1.2 trillion, and a deficit of $763 billion.

But the vast and diverse services sector is very difficult to analyze.

Service jobs span the entire economy. Many of these jobs are in manufacturing facilities. The manufacturing sector increasingly buys, produces, sells and exports services (referred sometimes as the "servicification" of manufacturing).

But many jobs are effectively "non-tradable," for example, hairdressers…except when a random German traveler comes in for a cut; then, that service is an export (though that exchange is never registered as such).

The most cogent approach to dealing with this, first explored by Dr. Brad Jensen of Georgetown University, is to identify *what services are tradable* (Jensen: Trade in Services: Fears, Facts and Offshoring).

> Tradable services are business services (NAICs 50's]: They are information [publishing, software, telecommunications, and the internet]; finance and insurance; real estate; professional, scientific and technical services [accounting, legal, consulting and engineering]; management of companies; and administrative and waste management services.

This may sound like a narrow corner of the US economy but in fact business services account for 24% of US employment – about 3 times that of manufacturing (8%)

The number of these business services jobs has continued to grow to make up for lost manufacturing jobs. They are good jobs.

Tradable services provide much higher pay -- more than 20% higher than manufacturing -- and longer lasting jobs, especially in US multinational companies.

But the potential of US services trade has only begun to be tapped

25% of manufacturing establishments export, but only 5% of services establishments do. Manufacturing exports are 20% of sales, services exports are 4% of sales.

The reasons for this are difficult to parse partly because US statistics about services trade are so poor. US Government statistics report 30 categories of services versus 10,000 categories for manufactures trade.

How can the enormous potential of US services exports be realized?

Obviously there are aspects of doing business in foreign countries, like language, that might discourage a US businessman. But as the manufacturing sector shows, these are readily surmountable.

Most students of this issue think that US services exports are stymied by complicated and flatly protective foreign governments' rules and regulations, especially in the BRICs and fast growing countries like Malaysia and Viet Nam.

The best response, we believe, is trade negotiations: like TPP, TTIP and TISA.

Unfortunately services are a relative newcomer to the multilateral trade negotiations arena. Most progress in services negotiations has occurred in bilateral agreements.

Services trade was not recognized as a critical element of global trade until the 1995 Uruguay Round and its General Agreement on Trade in Services, an extremely important milestone. There was no accepted rule of law in services trade until then.

While the textual rules of GATS are very good, and actual commitments to liberalization of services in the Uruguay Round were taken by many developed countries, most of the rest of the members stood by with very poor commitments.

To make up for this, the WTO's built in work agenda, mandated by the Uruguay Round, called for new services negotiations to start in 2000.

"Services 2000" was ignored and the Doha Round was begun in November 2001. Likely the last multilateral negotiation of its kind, it has sputtered out with absolutely no progress on any of its major objectives, certainly not on services.

My personal experience as the new President of the Coalition of Service Industries, in 1996, was that it was very tough to get our own government to understand the

importance of services trade. Manufacturing and agriculture set the agenda. In general our government especially the Commerce Department is goods focused.

It wasn't until the closing years of the Doha Round that USTR, led by Ambassador Susan Schwab, took services seriously.

As a response to the foundering Doha Round, the US negotiated a number of increasingly high quality bilateral agreements with major trading partners. These do provide for liberalization of services, and these are the bedrock on which the Trans Pacific Partnership, and other proposed agreements, are built.

Goods on the other hand have been the subject of negotiation since the 1932 Reciprocal Trade Agreements Act. Barriers to trade in goods, mainly tariffs, have been pared down through successive "rounds" of multilateral trade agreements from the 1930 Smoot-Hawley Act levels (about 50%), to single digits, for most of our major trading partners.

Conclusions:

The US is a service economy and is the world's major, most competitive supplier of services.

The level of its engagement in the global economy is low, lagging manufacturing due in large part to blocked access to big foreign markets.

Services trade has enormous potential to create new economic activity at home through business abroad.

But many countries have maintained barriers to this trade.

The best way to remove these is through trade negotiations, like the TPP, which should be implemented now.

Instead of looking back to the manufacturing economy of the 1950s, public policy should encourage the great strengths of the US economy: services and the digital revolution that fires US business expansion here and abroad.