Services Trade Means U.S. Economic Growth: You Cannot Make it, Move it, Buy it, or Sell it Without Services.

Services Trade and Investment Creates High Paying U.S. Jobs
- Nearly 10 million U.S. services sector jobs are directly supported by U.S. services trade and investment, and this does not even include all the U.S. services jobs that are integrated into global supply chains and involved in production of manufacturing and agriculture exports.
- Overall, services companies that export pay higher wages and report higher productivity than those that do not.
- American services exports have an untapped potential—eliminating foreign barriers to trade in services and digitally enabled trade could increase U.S. services exports by as much as $860 billion to $1.4 trillion, creating as many as 3 million new American jobs.

Investment is Key to U.S. Service Sector Growth and Jobs
- Most services trade occurs through inbound or outbound investment. This is because many services sectors, such as financial services, telecommunications, professional services, are heavily regulated and must invest abroad to meet local regulatory requirements. In addition, many services firms must be in proximity to their foreign customers to provide their services.
- Overseas investments by U.S. services firms support more than 700,000 American-based jobs and enable American services firms to reach customers in new markets that they could not
otherwise serve through their American operations alone. Inbound foreign direct investment in services, totaling $2.2 trillion in 2016, supported 4.4 million U.S. jobs the previous year.

**Services Significantly Reduce the U.S. Trade Deficit**
- America’s global comparative advantage in services has produced a consistent global trade surplus. In 2017, the surplus amounted to $250 billion, which offset the goods deficit decreasing the total U.S. trade deficit to $550 billion.

![U.S. Trade Balance (in millions of dollars)](chart)

**Digitally Enabled Services and Technology are Major Drivers of Economic Growth, Especially Manufacturing and Agriculture**
- On average, services account from 25 to 50 percent of manufacturing input both via traditional areas such as R&D, telecommunications, financial services, and distribution; but also increasingly through inclusion of smart technologies and generation and interpretation of big data.
- A similar pattern has also developed in agriculture where a combination of traditional services along with smart technologies and digital services helps the United States remain a top agricultural exporter.

**Importance of Trade and Investment Agreements**
The potential for U.S. services sector growth and job creation can only be realized with new market opportunities. Trade and investment agreements that level the playing field enable American services suppliers and their workers to compete in foreign markets.
CSI believes that when crafting responses to trade distorting measures it is critically important to consider any potential collateral damage that may be inflicted on a particular sector or sectors of the U.S. economy, including the effects of foreign retaliatory action in response to the enactment of a U.S. measure or implementation of a U.S. action. CSI continues to expand its outreach to both branches of government and will undertake outreach to local (or “grassroots”) level officials and associations. This is especially important given the new Members of the 116th Congress.

An important part of moving ahead on a new American competitiveness agenda is investing in the future of our workers as well as businesses. Where gaps in skill and education remain, CSI supports efforts to help workers train and adapt to new industries with high potential for growth.

Core Objectives for U.S. Economic Growth Through U.S. Services and Digitally-Enabled Trade

Creating market access through elimination of services trade and investment barriers: The elimination of specific barriers to entry of cross-border services trade and investment, coupled with high-standard investment protections enforced by investor-state dispute settlement, are essential to helping U.S. services companies compete in foreign markets, especially emerging markets. Trade and investment agreements that promote open investment and strong enforcement mechanisms are the single best approach to achieving this goal. The United States must also resist efforts to insert cultural carveouts in trade agreements.

Ensuring forward-looking trade commitments on digital trade: Digital provisions of the USMCA set rules to accommodate emerging technologies and the rise of digitally-enabled services that are
transforming sectors across the economy. To support these efforts, it is imperative that any “new services” that emerge must be covered by services, investment, and digital trade commitments. A key part of this effort must be observance of the existing moratorium on e-commerce duties in bilateral and multilateral agreements, and inclusion of the moratorium in any future trade agreements.

**Securing free flow of data and reversing the forced localization trend:** Government policies that limit the free flow of data and require data localization create prohibitive market access barriers for U.S. companies both large and small. Such measures undermine competitiveness and limit consumer access to modern and efficient digital services. Governments can promote legitimate public policy objectives such as privacy, consumer protection, and cybersecurity using non-discriminatory and non-trade-restrictive means. The United States should continue to push for modern rules to ensure the free flow of data across borders, prohibit the forced localization of data storage facilities, enable open internet platforms to facilitate transactions and communications among millions of businesses and consumers, and foster trust in technology for all services sectors. Consistent with U.S. TPA objectives, American negotiators should continue to press to include 21st century provisions in trade agreements to achieve these goals.

**Maintaining strong enforcement of services and digital trade commitments in** U.S. bilateral and multilateral trade agreements is key to maintaining U.S. strength in the global economy. Passage and implementation of the services related, digital trade, and customs and trade facilitation provisions of the USMCA is also critical, as is making services and digital trade objectives priorities in prospective agreements with China, Japan, the EU, the UK and any other bilateral trade agreement as well as in the WTO e-commerce discussions.

**Promoting greater regulatory transparency, due process, and non-discrimination:** Strong regulatory transparency and due process are core U.S. values that we ought to continue to promote worldwide. The United States must ensure that our trading partners do not use discriminatory or unduly burdensome rules and regulations to unfairly delay or prevent U.S. companies from competing globally.

**Strengthening the U.S. role in global value chains:** In today’s globalized economy, one service or good may cross multiple countries’ borders before the final product is complete. Facilitating trade digitally and physically across borders by eliminating unnecessary rules or simplifying burdensome procedures will ensure services and goods are delivered efficiently to customers across the globe.

**Ensuring State-Owned /State-Supported Entities (SOE/SSEs) compete fairly:** When engaging in commercial activities, SOE/SSEs should be subject to the same disciplines, on the same basis, as other domestic and foreign enterprises; including parity of treatment with respect to regulation, licensing, transparency, business operations, and public procurement. Subsidies for SOE/SSEs, where they exist, should also be subject to disciplines.
**Key Issue Areas**

There are multiple opportunities for the United States to lead the way in strengthening the rules-based trading system and providing greater services and investment market access to promote American competitiveness.

**USMCA Passage & Implementation**

- The USMCA, finalized in October 2018, is commendable for: maintaining the trilateral structure of NAFTA, financial services provisions including the first-ever data localization provisions and expanded protections for electronic payment services (EPS), an updated delivery services annex, digital trade provisions, a strong telecommunications chapter, and, if implemented in meaningful ways, streamlined customs procedures and modestly increased *de minimis* levels for Canada and Mexico. CSI supports the USMCA and looks forward to working with the Administration and Congress to address outstanding issues, secure passage of the agreement, and ensure its full implementation.
While supporting USMCA overall, CSI notes that the Agreement contains a number of concerning elements, such as a significant roll-back of the investor-state dispute settlement remedy, continuation of Canada’s cultural carveout and the explicit carveout of financial services from the Government Procurement Chapter. CSI believes that none of these elements should serve as precedent for any future U.S. trade agreements.

China

- As the second largest market for U.S. services exports as of 2017, China is a market of great commercial importance to U.S. services suppliers. Unfortunately, while the U.S. maintains a $38 billion services trade surplus with China, widespread barriers continue to impede U.S. services providers’ operations in the market.
• This includes existing and proposed discriminatory regulations in areas such as restrictions on data flows, information technologies, cloud computing, telecommunications, equity cap limitations, licensing restrictions, and outright bans on foreign investment. As the United States pursues negotiations with China, it is critical that the parties address both near term and longer-term services, investment, and digital trade barriers. In addition, the U.S. should ensure that any threat of reciprocal punitive measures by China be minimized.

WTO
• CSI Members are longstanding supporters of the WTO, including the General Agreement on Trade in Services (GATS), which established rules and a minimum level of market access that has been the starting point for deepening trade relations bilaterally and in free trade agreements.
• It is critically important that WTO members join together to produce positive proposals for WTO particularly in the areas of transparency and dispute settlement. WTO members should make every effort to ensure that the appellate body is able to continue to function. CSI members will continue to express their strong support for the institution of the WTO, including its dispute settlement process.
• In addition, CSI commends WTO members participating in the Joint Statement Initiative on E-Commerce for all the constructive work that has been done over the past year and urges WTO Ministers to make every effort to continue progress toward the negotiation of a high standard e-commerce framework. CSI supports making the moratorium on duties on e-commerce permanent and addressing U.S. interests in expanding services and digital trade opportunities in emerging markets.

Emerging Markets
• Emerging markets such as India, Indonesia, Vietnam, Malaysia, Brazil, the Middle East and Africa, among others, present some of the largest potential customer bases in the world and could generate significant growth for U.S. services providers.

• Demand from growing populations in these markets and rapidly expanding internet connectivity through mobile devices is likely to present opportunities for U.S. services firms in the Information and Communications Technology (ICT), insurance and other financial services, and logistics sectors.

• However, many of these markets—such as India, Indonesia, and Vietnam for example—are implementing alarming investment and digital trade through the increased use of forced data localization measures, investment restrictions, threatened duties on digital goods and services and taxation measures which will adversely impact most if not all U.S. services suppliers. CSI will remain very engaged in efforts to combat these pernicious and unjustified data localization measures, investment restrictions and potential imposition of duties and taxes in these countries as well as others that may arise.

  o U.S. services companies have a comparative advantage now, and the U.S. ought to capitalize on that advantage by entering these markets as soon as possible. U.S. companies cannot afford to wait for one negotiation at a time.

• As the Administration has indicated interest in pursuing a trade agreement with an African country as a potential “model FTA” for the United States, CSI stands ready to engage on member regional priorities, highlighting the importance of services and digital trade in any future U.S. trade and investment agreements to ensure such related provisions are a priority for negotiations.

Japan

• Bilateral negotiations with Japan have potential to be a win-win opportunity for two longstanding allies to demonstrate leadership in forging 21st century trading rules in the Asia-Pacific region and establishing a model for future regional trade.

• In light of the large degree of common support for services and digital trade objectives in the United States and Japan, CSI members’ preferred approach is a comprehensive FTA consistent with the Bipartisan Congressional Trade Priorities and Accountability Act (TPA) of 2015.

• This will ensure due consideration of congressionally mandated objectives for services, investment, digital trade, transparency, regulatory cooperation, and enforcement; and that TPA guides any implementing legislation. The negotiations should be carried out in a transparent and efficient manner that minimizes commercial uncertainty and enables trade and investment flows to continue to promote economic growth.

• CSI believes that services and digital trade should remain priorities as the bilateral negotiations proceed and should be addressed in the initial stage of negotiations with Japan.

European Union and the UK
• With the Administration’s notification to Congress of its intent to enter into negotiations with the European Union (EU) and United Kingdom (UK), CSI supports bilateral negotiations with the EU and UK regarding services, investment, and digital trade consistent with TPA objectives. Such objectives should include greater regulatory cooperation and stakeholder input, particularly in financial services.
• With regard to U.S.-UK bilateral negotiations, CSI urges both the UK and EU to take all measures necessary to guarantee the continuation of business operations without interruption, legal or otherwise, in order to ensure a smooth transition and lessen any harmful impact on the local markets. This would include prioritizing equivalence measures necessary for UK-based operations to conduct business in the EU (such as solvency and supervision regulations for financial services firms), a consistent visa regime, and ensuring a smooth transition in GATS and other commitments at the WTO.

A Services Agreement with Like-Minded Countries
• The TiSA negotiations included 50 countries (including all of the EU member states) and covered over 70 percent of global trade in services. These countries share a commitment to reducing trade and investment barriers that undermine the international competitiveness of services companies.
• A resumed TiSA negotiation could complement and reinforce the work done on the WTO e-commerce work program. The Administration could rename the initiative as it saw fit.
• Key to success would be finding a path forward with the EU on Data Flows.
• Resuming, and concluding, a high-standard TiSA by the Administration could provide a major boost to U.S. services exports and jobs.

APEC
• CSI believes that it is important to continue to press forward in APEC with the services competitiveness agenda and ambitious digital agenda in 2019.