



Services and Digital Trade Can Drive Inclusive Prosperity for All Americans

U.S. services and digital trade support a policy agenda that promotes domestic growth and jobs to drive a strong economic recovery. To accomplish this, the U.S. trade agenda should leverage U.S. leadership in innovative services and digital trade to ensure that U.S. workers, their families, and their communities as well as the overall economy benefit from the next era of international demand for American goods and services.

How can services and digitally enabled services help the average American worker?

These benefits occur in several ways. Services, especially digitally enabled services and technologies and the efficiencies they bring, underlie every sector of the economy, from manufacturing to energy to transportation and to agriculture, through innovations like cloud services, telemedicine, e-commerce, online education, and remote work capability. World class U.S. research and development that ensures we maintain our global competitive edge in these areas in conjunction with new innovations enable a better quality of life for all American families through advances in services and technology that drive efforts to fight disease, battle climate change, deliver health and social services, and other activities. These not only improve the lives of American families as consumers, but also help create U.S. jobs that support them—like American workers that lay the cable and set up networks to expand broadband access to underserved rural and urban communities, to the IT technicians that install and service smart technologies in our homes, cars and schools, to the logistics workers that warehouse and transport the groceries and products we buy in store.

Expanding services and digital trade is an important part of ensuring these benefits become more broadly available since relying on domestic demand alone will not generate sufficient revenue to fuel an economic recovery and continued growth. Priority must also be placed on the removal of barriers to data flows that increasingly fuel not just services activities, but all activity across the economic spectrum. More should also be done to connect the average American worker to existing and future job opportunities supported by services and digital trade, many of which are higher paying than traditional manufacturing jobs for non-college educated workers. These measures should be complementary to the enforcement of strong labor and environmental standards, as well as other measures to enforce sustainability.

Learning the Lessons of the Pandemic

COVID-19 has magnified the importance of services and accelerated the digitization of all sectors of the global economy. Data flows have enabled businesses of all sizes and in all sectors to expand their global reach by integrating staff around the world, building global customer networks, and securing global payments. U.S. manufacturers with digitized supply chains, and automated production and distribution networks have demonstrated stronger resiliency throughout the course of the pandemic. The economic fallout that resulted from the COVID-19 crisis has led U.S. businesses in all sectors to rapidly evaluate how to digitize global supply chains to help ensure their viability and competitiveness throughout the crisis and in the future. As a result, there is an increased understanding and appreciation for digital modes of commerce along with the role of digitally enabled services in all sectors.

The pandemic has also underscored how important it is for data to be shared freely across borders, ensuring that important exchanges of information and the delivery of key goods and services are not delayed. Digital services and platforms have been critical to the resilience of U.S. businesses in a period

of economic stress, facilitating the continued operation of U.S. SMEs during the COVID-19 crisis. Online marketplaces give small businesses access to customers around the world, and digital technologies, software and services make them more efficient. By enhancing the ability of small and medium size companies to access global markets, digital services and platforms are making trade more inclusive and ensuring a broader distribution of the benefits of globalization.

Services Trade Can Create High-Paying American Jobs

To create new jobs for unemployed Americans, policymakers should focus on harnessing the opportunities afforded by trade policies, negotiations and programs that increase America's participation in the international marketplace. Innovative services trade policies can be a critical driver of U.S. job restoration and economic recovery. Services trade supports over 10 million American jobs in all 50 states. These jobs are often higher paying. One study found that export-oriented service firms pay 15.5% above the going rate for their domestic peers. The export earnings premium was especially large for non-college educated workers.

CSI member companies have spearheaded nationwide programs that train high-school graduates and reskill workers for career-track jobs in the services sector. The administration and Congress should collaborate with services firms to expand worker training and re-skilling programs that connect high school graduates and un- and underemployed Americans to well-paying, 21st century jobs.

Services Trade Can Promote a Greener, More Sustainable Economy

The U.S. services sectors have developed and harnessed the power of data science, artificial intelligence, digital technologies, and sustainable finance and insurance instruments to help address the current environmental crisis. The administration and Congress should explore policies and investments in skills training for U.S. services sector jobs in environmental services and those related to sustainability and green infrastructure. Likewise, policymakers should pursue robust services trade agenda to facilitate U.S. exports of environmental and related services that in turn support American export-oriented services jobs.

Services Support Manufacturing and Agriculture Exports

U.S. manufacturing and agriculture exporters rely on services such as logistics, online data storage, digital communication and inventory management tools, and financial services. American services make traditional industries more internationally competitive: One study found almost 30% of the value of manufactured U.S. exports came from services.ⁱ And because of the close link between services and goods exports, U.S. trade actions that affect goods imports in turn hurt higher-paid service workers with a high school degree.

Services Trade Matters

On a value-added basis, services – both those exported directly and those used to produce goods exports – account for more than 60% of the value of U.S. exports.ⁱⁱ That is well above the average for advanced economies. The U.S. is the world's biggest services supplier, with \$808 billion in cross-border exportsⁱⁱⁱ and nearly \$1.6 trillion in services through overseas offices.^{iv} Professional services, telecom and IT services exports have recently grown at double-digit rates.^v The U.S. has generated consistent services trade surpluses for three decades in a row.

Digital Protectionism Damages the Broader Economy

Preserving American services leadership requires improving the environment for digital trade. Not only has the delivery of many services gravitated online, but American companies have pioneered new digital markets such as cloud services, video games and other entertainment, artificial intelligence, and internet of things (IoT) services. To reap the full benefits of these innovations, the U.S. must address a growing wave of digital protectionism.

To create a level playing field that enables American services suppliers and their workers to better compete in foreign markets and grow jobs at home, the U.S. trade agenda should focus on the following objectives.

Core Priorities for a Global Competitiveness Trade Agenda

- 1) **Global Engagement with Allies:** The administration should re-energize relationships with allies and coordinate closely on issues including digital trade barriers, sanctions, and geopolitical threats. In particular, the U.S. should prioritize re-engagement with the EU, and bilateral dialogue on issues related to the EU's digital agenda, a mechanism for transatlantic data flows, and a transparent and non-discriminatory AI certification process.
- 2) **Cross-Border Data Flows:** The administration and Congress should prioritize efforts to combat digital protectionism, including forced data localization measures. To that end, the U.S. should work with allies to support a shared approach to bridging the knowledge gap on cross-border data flows and build consensus in multi-stakeholder settings like the G20, G7, the Financial Stability Board, APEC and elsewhere. These efforts should include strategies to counter assertions by other governments that restrictions on data flows are necessary to achieve certain policy objectives, including by promoting non-discriminatory privacy regimes that facilitate interoperability.
- 3) **China:** Work closely with other like-minded trading partners to address unfair trade practices of common concern and adopt a more consistent, coordinated "whole of government" approach in developing a strategic China policy and more effective enforcement approach. Cooperation with other countries could include consideration of re-engaging with CPTPP members, including the possibility of negotiating an agreement on digital trade and services. China must be held accountable to its trade commitments, both multilaterally and bilaterally. The phase-one bilateral agreement entered on January 15, 2020 must be fully implemented and strictly enforced. In addition, the U.S. should make it a priority to address other ongoing services and investment barriers in China.
- 4) **India:** Address the existing and proposed highly discriminatory services and digital trade barriers that severely disadvantage U.S. companies in all industries. Further, any bilateral deal to restore India's GSP benefits should include a structured bilateral dialogue on services and digital issues.
- 5) **Monitoring and Enforcement:** Implement and enforce existing bilateral, regional and multilateral services and digital trade disciplines and market access commitments, especially in the USMCA and China Phase One agreement. In cases where market access barriers fall outside the scope of U.S. bilateral and regional agreements, the Biden administration and Congress should explore other avenues to address services barriers, including standards setting and technical assistance. Enforcement actions should not result in collateral damage to U.S. services firms.
- 6) **Trade Agreement Negotiations:** Understanding the administration's immediate priority will be responding to the COVID-19 crisis and rebuilding the domestic economy, the Biden administration should consider a variety of options to pursue its services trade objectives.
 - **Comprehensive FTAs:** Continue ongoing/pending negotiations (e.g., with the U.K., Japan, the EU and Kenya) and work towards longer term ambitions (including joining CPTPP). Comprehensive FTAs should cover areas including services, investment, financial services, telecommunications, trade facilitation and digital trade provisions. These agreements should be negotiated consistent with U.S. Trade Promotion Authority, which should be updated and renewed in 2021, with the possible inclusion of revised services, digital, and investment provisions.
 - **Sector-Specific Agreements:** If concluding a comprehensive FTA in the near term proves to be difficult, the U.S. could pursue a U.S.-UK services and digital trade agreement. Additional free-standing digital trade and services agreements could also be pursued on a bilateral, regional and multilateral basis, which would provide a means of addressing significant impediments quickly and efficiently. However, in no way should sector-specific agreements fall short of the high-standard services commitments being negotiated in comprehensive U.S. free trade agreements. In fact, due to their limited nature, sector-specific agreements should strive for even higher standard commitments.

- **Resumption of TiSA:** The Biden administration should also consider the resumption of TiSA, which, in addition to providing for comprehensive market access commitments, also contains chapters dedicated to digital trade and environmental services.

Any trade agreement the U.S. pursues should promote competitiveness of the services that fuel economy-wide growth through:

- Provisions that address services market access and investment barriers, incorporate high-standard investment protections, and cover new services and cultural industries
 - High-standard digital trade disciplines, including on the free flow of data across borders, a ban on forced localization requirements in all services sectors, and a prohibition on the imposition of customs duties on electronic transmissions
 - Modernized trade facilitation and customs simplifications
 - Greater regulatory transparency, due process, and non-discrimination against foreign-owned and -operated companies
 - Disciplines ensuring State-Owned/State-Supported Entities (SOE/SSEs) act in accordance with commercial considerations, including in financial services
 - Provisions strengthening the ability of U.S. services firms to participate in global value chains, including provisions devoted to delivery services
 - An effective dispute settlement mechanism, and;
 - New disciplines to prevent the abuse of standards and conformity assessment procedures against U.S. services suppliers.
- 7) **WTO:** The Biden administration should work towards achieving a high-standard WTO e-commerce framework agreement that includes provisions to ensure free data flows, prohibitions on data localization in all sectors, a permanent moratorium on e-commerce duties, trade facilitation, and services market access commitments. The U.S. should seek a 2021 WTO Ministerial outcome that includes the extension of the e-commerce moratorium, an agreement on services domestic regulations, and a consolidated e-commerce text. The U.S. should also take a leadership role in driving positive reform of the WTO, including with respect to decision-making procedures and dispute settlement. Finally, the U.S. should encourage further plurilateral efforts like the Joint Statement Initiatives on e-commerce and Small and Medium Size enterprises.
- 8) **Digital Services Taxes:** Support OECD multilateral negotiations to reach consensus on Digital Services Taxes and should oppose discriminatory DSTs.
- 9) **Sanctions and Export Controls:** Sanctions and export controls can be vital tools to achieve national policy objectives. It is critical for U.S. global competitiveness that these objectives be clearly defined and that policy actions be narrowly tailored to advance those objectives and avoid unintended economic harm. To facilitate informed policymaking, the process must include sufficient stakeholder notice-and-comment periods.
- 10) **APEC:** The U.S. should pursue an ambitious digital trade agenda, including support for permanent extension of the e-commerce moratorium among APEC members as well as in the WTO. In addition, the U.S. should demonstrate regional leadership and its commitment to global engagement by hosting APEC 2023.

CSI is the leading industry association devoted to promoting the international objectives of the U.S. services sector. Our members include companies that provide financial services, information and communication technology services, telecom services, express delivery and logistics, media and entertainment, distribution, and professional services.

ⁱ <https://www.oecd.org/industry/ind/TIVA-2018-United-States.pdf>, p. 4

ⁱⁱ <https://www.oecd.org/industry/ind/TIVA-2018-United-States.pdf>, p. 4

ⁱⁱⁱ <https://www.usitc.gov/publications/332/pub5094.pdf>, p. 19

^{iv} <https://www.usitc.gov/publications/332/pub5094.pdf>, p. 28

^v <https://www.usitc.gov/publications/332/pub5094.pdf>, 2. 25