White Paper 2:
Addressing Foreign Services Trade and Investment Barriers Benefits American Workers and Must Remain a Priority

Past Liberalization of Services and Investment Barriers Has Been Good for American Workers

U.S. free trade agreements (FTAs) have covered services since the U.S.-Israel Free Trade Agreement. Over time, the scope and sophistication of that coverage has expanded to reflect economic, environmental and technological developments. Provisions affecting digital trade have been included in all U.S. FTAs since the agreement with Jordan.

These services provisions of U.S. FTAs have been good for American workers. A 2021 ITC study found that U.S. bilateral or regional FTAs have had a net positive impact on services sector output and jobs. As a result of increases in U.S. output, FTAs expanded U.S. employment in services sectors covered by FTAs by a net of 323,970 workers, the most of any sector. [1] Workers in other services sectors (those not directly affected by provisions in FTAs, like construction) also benefited from FTA-related increases in U.S. output, by 121,520 jobs.[2] About 82,000 of these jobs were held by workers with up to a high school level of education.[3]

+324,000

Increase in U.S services sector employment as a result of U.S. FTAs

U.S. trade agreements recognize the importance of giving domestic regulators at the national, state and local levels the discretion to implement legitimate public policy objectives through domestic regulation. Recognition of the right to regulate is a core principle of U.S. FTAs and is noted in the Preamble to the General Agreement on Trade in Services (GATS). Pursuing new services trade liberalizing opportunities does not undermine this regulatory prerogative. Indeed, for example, provisions should be included that ensure that parties can protect consumers from fraud and deception when they engage in digital trade, and that their personal data and privacy are protected.

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[1] United States International Trade Commission, *Economic Impact of Trade Agreements Implemented under Trade Authorities Procedures, 2021 Report*, p. 100. Due to historical data constraints, the ITC did not consider the impacts of the Uruguay Round Agreements, the U.S.-Israel FTA, nor the U.S.-Mexico-Canada Agreement as it had only recently gone into effect.
[2] United States International Trade Commission, *Economic Impact of Trade Agreements Implemented under Trade Authorities Procedures, 2021 Report*, p. 100.
[3] United States International Trade Commission, *Economic Impact of Trade Agreements Implemented under Trade Authorities Procedures, 2021 Report*, p. 103.

A Rising Tide of Services and Digital Trade Barriers Threatens These Benefits

A robust U.S. trade agenda for services and digital trade is especially important now because foreign barriers to services and digital trade and investment are increasing. These barriers disadvantage not only U.S. services sector workers, but also American manufacturing workers and those employed by small- and medium-sized firms. The Organization for Economic Cooperation and Development found that the services regulatory environment, particularly for foreign investment, became more restrictive in 2020 and the pace of tightening has accelerated.[4] The Information Technology and Innovation Foundation found that the number of countries that have enacted data localization requirements has nearly doubled from 35 in 2017 to 62 in 2021.[5]

Core Principles for Digital Trade Agreements

1 Prohibit digital customs duties
2 Secure basic non-discrimination principles
3 Expand market access for investment and cross-border services, including those delivered digitally
4 Enable cross-border data flows
5 Prevent localization barriers
6 Ban forced tech transfers and protect critical source code and algorithms
7 Foster innovative encryption products
8 Ensure technology choice
9 Promote a free and open Internet
10 Support data innovation
11 Advance strong and balanced protection of IP rights
12 Promote transparency and stakeholder participation in the development of regulations and standards
13 Encourage exports of goods sold online with higher tax-free and tariff-free thresholds
14 Advance innovative authentication methods
15 Enable paperless trade
16 Require cross-border interoperability of e-invoicing systems
17 Enhance secure and interoperable e-payment systems
18 Foster digital trade through international standards
19 Deliver enforceable consumer protection
20 Ensure adequate protection of personal data
21 Promote cooperation on cybersecurity
22 Create a safe online environment
23 Develop ethical and government frameworks for the use of AI technologies
24 Increase trade and investment opportunities for SMEs and create jobs for workers
25 Increase access to retraining and digital skills
26 Cooperate on digital capacity building
27 Encourage recognition of labor rights
28 Recognize digital inclusion as a driver of economic and social development
29 Ensure mutual recognition of digital identities
30 Promote equality of opportunity in digital economies

The United States needs to lead global efforts to remove these costly barriers to services and digital trade. For trade policy to align with the realities of today's services trade, the Administration's agenda should include a commitment to update World Trade Organization (WTO) General Agreement on Trade in Services (GATS) by expanding services market access commitments and adopting strong rules on digital trade, whether that takes place multilaterally through WTO e-commerce negotiations, regionally through an Asia-Pacific digital-trade agreement, another form of trade pact, or some combination of these. "Advancing U.S. digital governance, which promotes democracy, rule of law, and transparency in the region, is a key part of a global strategy to counter China, as well as to expand U.S. markets to support U.S. workers," concluded an American Leadership Initiative

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[4]Organization for Economic Cooperation and Development, *OECD Services Trade Restrictiveness Index: Policy trends up to 2021*, February 2021.
[5] Nigel Cory and Luke Dascoli, *How Barriers to Cross-Border Data Flows Are Spreading Globally, What They Cost, and How to Address Them*, p.3.

report highlighting the benefits of a Pacific Digital Agreement.[6]

The world is not waiting for us. For example, Singapore and Australia signed a digital economy agreement in 2020, and Singapore, New Zealand and Chile signed the Digital Economy Partnership Agreement, also in 2020; Korea plans to join this agreement. The European Union plans to seek digital partnership agreements with Japan, Korea and Singapore as part of its Indo-Pacific strategy. These agreements would set interoperability of standards for emerging technologies like artificial intelligence that will influence supply chains for years to come.

A trade deal would align with administration China policy. A high-standard trade agreement on services and digital trade in the Asia-Pacific would strengthen ties with allies and complement the Biden-Harris administration's foreign policy objectives. By codifying rules to create an open and non-discriminatory framework for digital commerce, the United States would help protect what has essentially become critical infrastructure for global trade.

Services and digital trade are also central to supporting manufacturing and maintaining U.S. economic competitiveness. By reducing trade barriers and streamlining access to digital goods and services – including e-payments and financing -- a high-standard agreement would aid the small businesses that typically have more trouble navigating overseas markets.

Reducing Services Trade and Investment Barriers Benefits American Workers

As U.S. services and digital trade grows with the elimination of foreign barriers, the number of these good jobs can be expected to increase, with positive ripple effects through the economy. A $1 million increase in final demand for professional, scientific and technical services generates 4.3 direct jobs and another 15.3 indirect jobs throughout the economy; management of companies, 3.6 direct and 12.4 indirect; finance and insurance, 2.0 direct and 10.8 indirect, and information, 2.0 direct and 10.9 indirect.[7]

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[6] *American Leadership Initiative, Next Steps for U.S. Digital Leadership: Advancing Digital Governance with the Pacific and Europe*, July 2021, p. 9.

[7] Josh Bivens, Economic Policy Institute, "Updated Employment Multipliers for the U.S. Economy," Table 2, January 23, 2019, https://www.epi.org/publication/updated-employment-multipliers-for-the-u-s-economy/?fbclid=IwAR3ZC293MrtIq2z_4T40uJtCEXCkh21gn_HEheq-rQaSjxxbSo8GVWe3gwA,

It helps workers earning middle class wages, many with no college degrees. U.S. Government 2019 employment data show that firms employed nearly 52 million workers in services occupations earning middle class wages as defined by Pew Research Center.[8] Most American households today "sustain a middle-class living through work in areas outside manufacturing, especially in services sectors where the United States has comparative advantages."[9] An increase in services exports expands these job opportunities for American workers.

52 million

Workers in services occupations earning middle class salaries

At the same time, U.S. companies and government must coordinate to expand training and reskilling programs, so American workers can take better advantage of new opportunities in overseas markets. To learn more about work force development programs in the services and digital trade industries, read CSI paper here.

It helps manufacturing workers. The benefits of reducing trade and investment barriers accrue not just to services sector workers, but in those in manufacturing as well. U.S. manufacturers have historically relied on services such as finance, marketing, payments, insurance, logistics, and distribution to produce and ship their products to international markets, all of which are now digitally enabled in important ways. In addition, with the growing availability of digital services, manufacturers have come to rely even more on services in the form of e-payments, social media-based marketing and cloud storage, to take a few examples. The ITC found that by reducing costs and increasing the variety of services available to U.S. manufacturers, services trade liberalization could serve as "an important component of efforts to boost manufacturing competitiveness," in particular for motor vehicles.[10]

It helps blue-collar workers. Export-intensive services firms pay higher wages than services firms that are not export intensive. Workers at export-intensive services firms earn 15.5% more than workers in other services firms. The wage premium is even stronger for blue-collar workers: they earn 18% more than their white-collar colleagues (12.0%).[11] An expansion of services trade flowing from barrier reduction increases job opportunities for these workers.

+18%

How much extra blue-collar workers in services exporting firms earn compared to non-exporting firms.

It helps women and minority workers. Women account for 53% of all private sector services jobs.[12] Minorities account for 29% of total private sector services

[8] Bureau of Labor Statistics, Employment Projections program, Table 1.1, "Employment by Major Occupational Group, 2019 and Projected 2029," and Pew Research Center, "Are You in the American Middle Class? Find Out with Our Income Calculator," Factank, July 23, 2020. Pew defines the middle class in 2018 as three-person households earning between $48,500 and $145,500.
[9] Carnegie Endowment for International Peace, Making U.S. Foreign Policy Work Better for the American Middle Class, September 23, 2020.
[10] ITC, op. cit., p. 3-14-15.
[11] David Riker, "Export-Intensive Industries Pay More on Average: An Update," U.S. International Trade Commission, Office of Economic Research Note, No. 2015-04A, April 2015.
[12] Bureau of Labor Statistics, 2020 data extracted September 13, 2021, https://www.bls.gov/ces/data/.

employment.[13] An expansion of U.S. services output related to the reduction or elimination of foreign barriers to U.S. services exports will have a positive impact on these workers.

It helps small businesses. Digital tools increasingly enable small businesses to export. Internet platforms afford small businesses new opportunities to offer their goods and services globally, and software and services enable small businesses to operate more competitively and efficiently. The challenges imposed by barriers to services trade are especially acute for smaller firms. In a national survey of over 3,800 small companies, small business owners listed their top export barriers as foreign regulations (such as taxes, data localization requirements, privacy rules, and liability risks), tariffs and customs procedures, payment collection, company resources, and risk and infrastructure.[14] That study estimated that improving market access would boost small business sales abroad by over 14% over the ensuing three years. That would in turn increase U.S. economic output by $81 billion and add 900,000 American jobs.

90%

Share of total minority-owned small businesses that are services firms

Addressing Trade Barriers Will Not Promote Offshoring and a "Race to the Bottom"

Decisions by U.S. services firms on where to locate their operations and how to access foreign markets differ from their manufacturing counterparts in several respects. First, many services sectors such as financial services, telecommunications, and some professional services, are heavily regulated and therefore are required to establish a presence in foreign markets in order to offer their services there. Second, many of these services as well as others such as distribution and transportation must be close to their customers in order to provide them with services and must therefore have foreign affiliates to operate in foreign markets. In 2018, two-thirds of the value of services provided internationally by U.S. firms was delivered through U.S. affiliates located abroad.[15] Nearly three-quarters of that investment was located in developed markets.[16]

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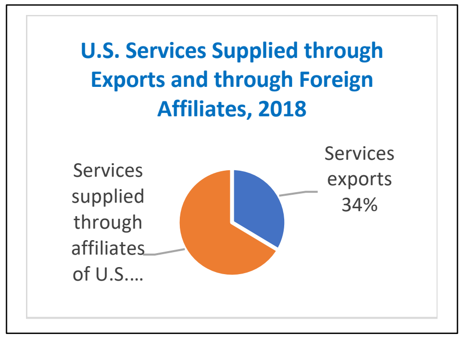
[13] Bureau of Labor Statistics, 2019 data extracted September 13, 2021, https://www.bls.gov/cps/demographics.htm#race.

[14] U.S. Chamber of Commerce and Google, *Growing Small Business Exports: How Technology Strengthens American Trade*, 2019, p. 8.

[15] Shari A. Allen, Alexis N. Grimm, Christopher Paul Steiner, and Rudy Telles Jr., "Trade in Services in 2019 and Services Supplied Through Affiliates in 2018," *Survey of Current Business*, October 2020, https://apps.bea.gov/scb/2020/10-october/1020-international-services.htm.

[16] Bureau of Economic Analysis, "Balance of Payments and Direct Investment Position Data, 12019," extracted September 14, 2021.

Establishing abroad in order to meet local regulatory requirements and to meet customer needs in person does not come at the expense of U.S. workers. In fact, services providers operating through investments in foreign markets employed more than 20 million workers at headquarters and other U.S.-based locations to support these foreign operations.[17] The global work of American multinational companies is concentrated in the United States, not in their affiliates abroad. For example, industry experts estimate that more than 32,000 domestic jobs are created as a result of international property and casualty insurance trade, resulting in more than $3 billion in U.S. payroll and employment benefits. That payroll, in turn, produces hundreds of millions of dollars in federal, state, and local payroll and sales taxes for the U.S. economy.[18] By expanding sales for U.S. services (and other sectors) through foreign affiliate sales, U.S. parent companies can increase employment in the United States.



Trade agreements can eliminate barriers that force companies to set up operations in foreign countries to have a commercial presence. For example, elimination of requirements that telecom/media services require a commercial presence could drive more of those services to be delivered as exports from the United States.[19]

Conclusion

In conclusion, a substantial body of U.S. government research has documented the benefits that accrue to U.S. workers from expanded services trade and investment commitments. Liberalized services trade has been shown to boost U.S. employment, while blue-collar workers in export-oriented services jobs earn higher wages. A reduction in trade barriers would also benefit small business through expanded export opportunities. Amid a growing wave of protectionism in foreign markets, there is a compelling rationale for the U.S. to pursue an ambitious services and digital trade agenda.

[17] Bureau of Economic Analysis, "Selected Operating and Financial Data of U.S. Parents, by Industry of U.S. Parent, 2018," extracted September 14, 2021.
[18] American Property and Casualty Insurance Association, unpublished data.
[19] However, not all "offshored" jobs can be brought back to the United States. Some U.S. workers have little interest in doing some of these jobs; others would more likely be performed by local workers in any event.