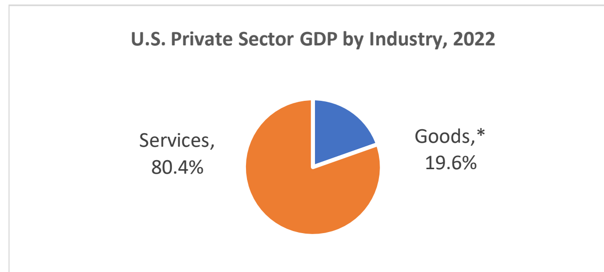
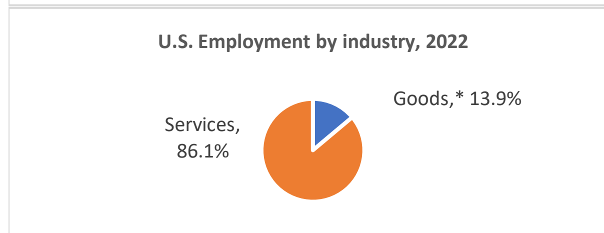
Congress can no longer overlook the U.S. services sectors.
Too much is at stake.

U.S. jobs and economic growth are at stake

When Congress enacts legislation that impacts services, **it affects everyone in the United States** because **services are purchased every day by every household in the United States**. The U.S. is a services economy with services accounting for 80% of U.S. GDP and 86% of total U.S. jobs. The sector includes important services like transportation, warehousing, banking, insurance, energy transmission, information technology, and telecommunications, all **fundamental to the operation of every sector of the American economy**.

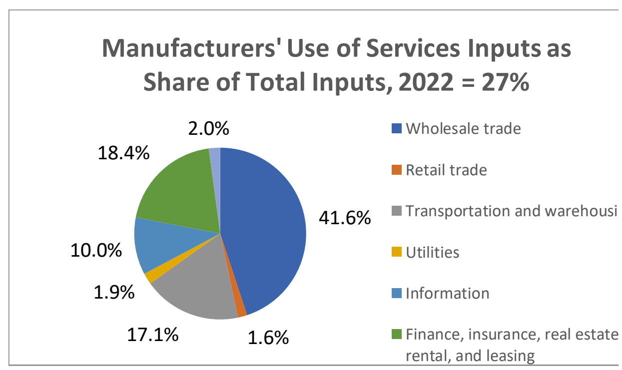




Source: Dept. of Commerce, Bureau of Economic Analysis; *Goods include agriculture, forestry, mining, and construction.

U.S. manufacturing and agriculture are at stake

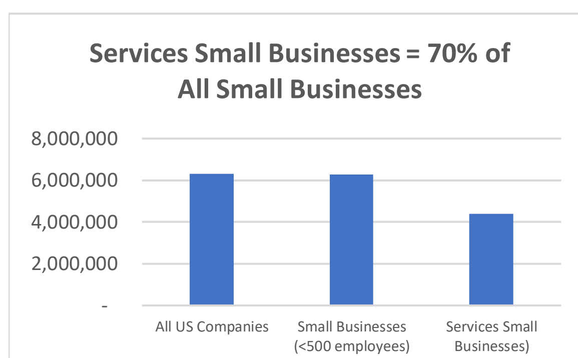
In 2022, services totaling $1.2 trillion accounted for over 27% of the total value of manufacturing inputs; the share is even higher, 30%, in agriculture. For manufacturing, key services inputs include wholesale trade, transportation and warehousing, finance and business services.



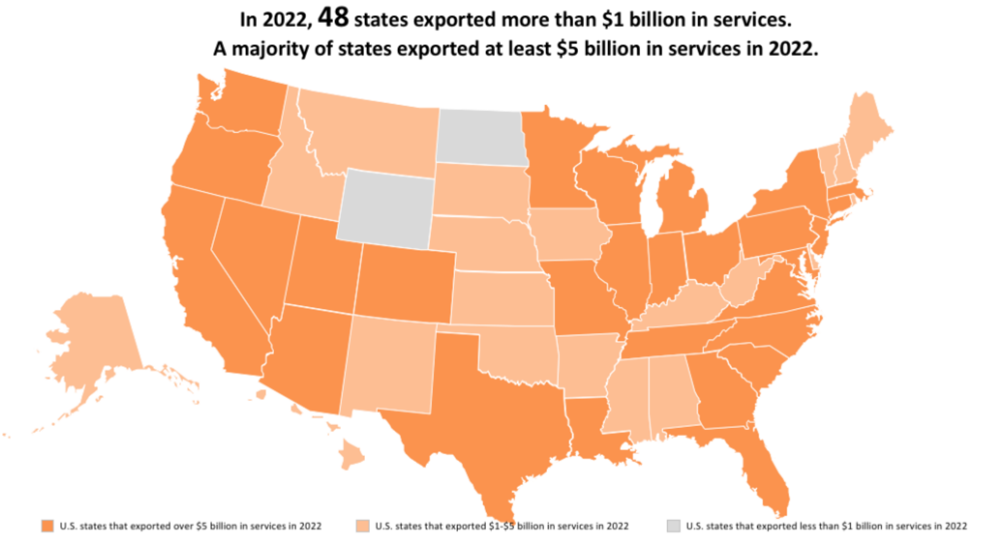
Source: Dept. of Commerce, Bureau of Economic Analysis.

Small business growth opportunities are at stake

99.7% of all U.S. companies are small businesses and **70% of small businesses identify as services suppliers.** Small businesses, most of which are service suppliers themselves, rely on digital services and the cross-border data flows that enable them in order to build, grow, design, finance, sell, and transport their products. Small businesses founded in the last four years have digital adoption rates equal to or higher than larger firms. These digital tools allow them to access foreign markets, which are critical to the growth and innovation of U.S. small businesses—the engine of our economy.



Services trade and investment matters to all 50 states and every congressional district



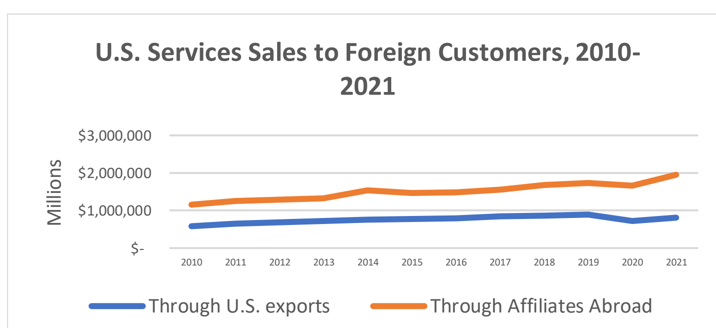
U.S. services suppliers need access to foreign markets

For services to continue to support U.S. economic growth, jobs, resilient supply chains and environmental sustainability, **U.S. services suppliers need access to foreign markets through exports and investment**. **Why?**

- To thrive, U.S. services providers need access to the more than **95 percent of the world's consumers who live outside the United States**, in developed and developing country markets.
- **Services are critical to the smooth functioning of the global supply chains of U.S. manufacturers.** The U.S. semiconductor industry, for example, relies heavily on U.S. research, design and software services in its global supply chains.
- **Services trade and investment promote environmental sustainability**. By offering world class digitally enabled services and technologies, such as cloud services and AI, U.S. services providers play an important role in promoting lower carbon emissions in agriculture and manufacturing in domestic and foreign markets.

The U.S. leads in services exports

Consequently, U.S. services exports have grown steadily (except during the pandemic) over the last decade. At $900 billion, **the United States is the largest commercial services exporter in the world**, according to WTO [data](). Services trade has enabled the U.S. to maintain a positive trade surplus.



Source: Dept. of Commerce, Bureau of Economic Analysis

Services investment also matters

As key as exports are, sales through U.S.-owned foreign affiliates are especially important to U.S. services companies, and these represent the majority of U.S. services provided to foreign customers. This is because many services are heavily regulated and can only be supplied by establishing an on-site presence in foreign markets in order to meet those regulatory requirements. For example, financial services are subject to local prudential regulations such as minimum capital requirements, and telecommunications is another heavily regulated sector with local presence requirements.

Other reasons a foreign investment is required include the need for proximity to customers (e.g., wholesaling, banking or retailing), or a need to adapt to unique local needs (e.g., media services). Decisions to locate investments in other country markets is not driven by low foreign wages, or lax enforcement of environmental or labor standards.

Foreign services jobs are not offshored U.S. jobs. In fact, the jobs supported by services foreign direct investment would not be reshored to the United States absent the investment: they would simply not exist.

Sales of Top Ten Services Provided by U.S.-Owned Foreign Affiliates, 2021
(Billions of Dollars)

Other wholesale (ex. fuel, drugs, equip/supplies)	$893
Finance, except depository institutions	340
Petroleum and petroleum products wholesaling	326
Drugs and druggists' sundries wholesaling	313
Publishing industries	243
Retail oth. than gen'l merch stores, clothing/access stores	228
Insurance carriers and related activities	215
Other information services	211
Professional and commercial equipment and supplies wholesaling	204
Computer systems design and related services	159

Source: Dept. of Commerce, Bureau of Economic Analysis

The U.S. itself is encouraging foreign direct investment in infrastructure and related services to help close the digital divide in IPEF. In order for U.S. services firms to invest abroad they need the commercial and legal certainty of investor safeguards, including "protections against arbitrary or discriminatory treatment; guarantees of compensation when in the case of expropriations; the right to transfer funds into and out of the country; and prohibitions on local content requirements, technology transfer requirements and other types of performance requirements."[1] But they also need the certainty that these disciplines will be implemented and enforced.

Most investor protection cases are brought by individuals and small businesses, not large multinationals. **Investor protections do not undermine the right to regulate** in areas like the environment. Finally, investor protections under U.S. agreements have built in mechanisms to ensure that the claims are not frivolous. In fact, bringing an investor protection claim is typically a last resort that can mean the end of the ability to make any future investments in the respondent country.

Removing investors' ability to hold countries accountable would sorely undermine the force of investment disciplines, make U.S. services sectors less competitive internationally and would also undermine efforts to promote the rule of law especially in developing countries.

Services trade and investment matter to American workers

U.S. workers in all 50 states and every congressional district benefit from services trade and investment.

- **Export-intensive services firms pay higher wages** (15.5% more) than services firms that are not export intensive. The wage premium is even stronger for blue-collar workers: they earn 18% more than their white-collar colleagues (12%).[2]
- **The U.S. parents of foreign affiliates services providers employed nearly 20 million U.S.-based workers in 2021**, according to the Department of Commerce, many of whom have jobs focused on providing support to the company's international affiliates.
- U.S. digital exports support an estimated 3 million direct and indirect jobs in every U.S. state.[3]
- **Investments in the United States of foreign services providers employ millions of American workers, 7.6 million in 2021, according to the Commerce Department.**

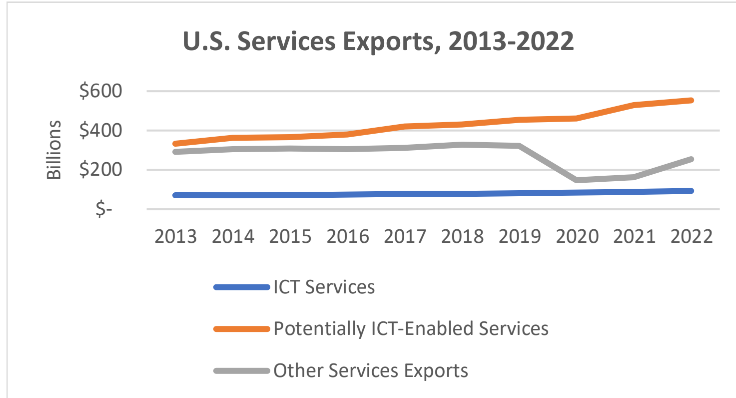
[1] Office of the U.S. Trade Representative, Fact Sheet on U.S. Investment Agreements

[2] 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.

[3] U.S. Chamber of Commerce, *The Digital Trade Revolution: How U.S. Companies and Workers Can Benefit from a Digital Trade Agreement*, update forthcoming.

Digital services exports are key to U.S. services growth, particularly to small firms

The digital economy and digital trade are growing rapidly. According to the Commerce Department, **65% of the digital economy is digital services**: e-commerce, cloud services, telecommunications services, internet and data services. Digital exports that are information, communication and technology ICT services have been growing over the last decade.



Source: U.S. Chamber of Commerce, *The Digital Trade Revolution: How U.S. Companies and Workers Can Benefit from a Digital Trade Agreement*, 2024.

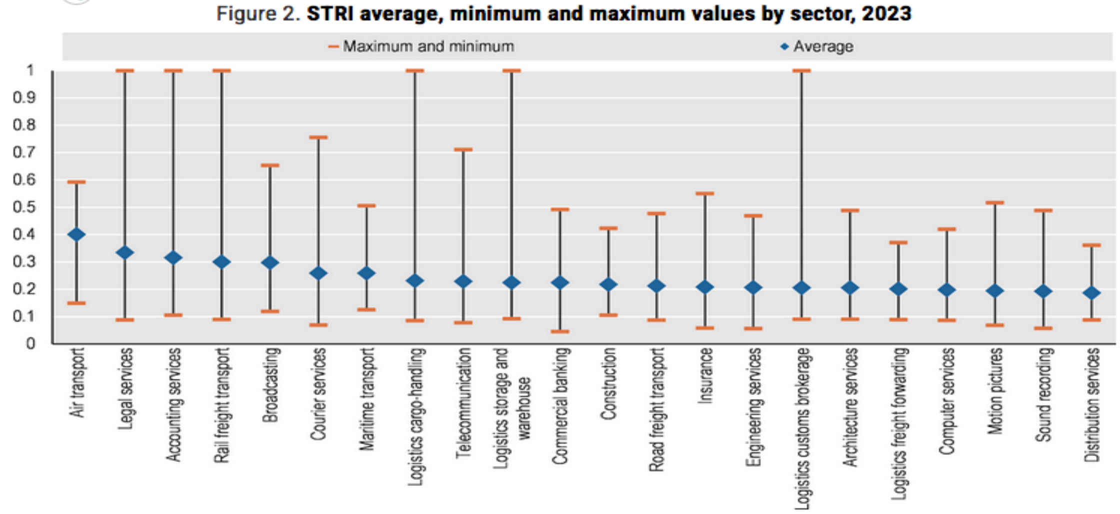
Other services are increasingly delivered to foreign customers digitally, but the exact value that is done in this manner so far cannot be determined. They include business services, which may be delivered over the internet to a customer or in person at the customer's location. Exports of these services, often referred to as "potentially ICT-enabled services" are also growing strongly.

Digital tools have been a boon to small businesses seeking to break into export markets for their goods and services, and/or to grow those exports.

Barriers to American services trade and investment are increasing

The Organization for Economic Cooperation and Development found that barriers to services trade continue to be high across countries and sectors, and some countries introduced new policies in 2023 affecting the supply of services through commercial presence and foreign investment. **These barriers disadvantage not only U.S. services sector workers, but also American manufacturing workers and those employed by small- and medium-sized firms**

Figure 2. **STRI average, minimum and maximum values by sector, 2023**



Note: The STRI takes values between zero and one, one being the most restrictive. The STRI database records measures on a most favoured nation (MFN) basis towards third countries. Preferential trade agreements are not taken into account. Air transport and road freight cover only commercial establishment (with accompanying movement of people).

Source: OECD STRI database (http://oe.cd/stri-db).

Source: OECD Services Trade Restrictiveness Index, 2023

Several countries introduced new foreign investment screening mechanisms or revised existing ones, establishing tighter scrutiny of investment in sectors, such as computer services, telecommunications, broadcasting, transport, and commercial banking. The requirement to transfer U.S. technology in order to invest abroad also remains a barrier.

Moreover, the tightening of rules on cross-border data flows and introduction of entry limits for foreign e-commerce platforms added to the challenges faced by services providers, especially in ICT services sectors. The number of countries with data localization requirements has nearly doubled in the past four years to 62.

Other more targeted tightening policies were identified in some sectors. such as transport and telecommunications services.[4]

Trade disciplines are vital to promoting U.S. exports and outbound services investment

Trade agreements can eliminate barriers that force companies to set up operations in foreign countries to have a commercial presence. These agreements can be used to ensure baseline protections for American services providers exporting to or investing in foreign markets. For exporters, these include:

- Not requiring the establishment of local presence to supply a service
- Requiring non-discriminatory treatment of foreign service suppliers
- Not restricting or banning the provision of a service, especially bans that are not justified by legitimate public policy or national security concerns
- Banning customs duties on e-commerce, plus other trade facilitation provisions
- Requiring governments to be transparent about licensing requirements and other technical regulations
- Not requiring the use of local services technical standards and recognizing international consensus based standards
- Enabling transfers of data across borders/prohibit requirements to store and/or process data locally

For investors, these also include:

- Prevention of expropriation
- A minimum standard of fairness in treatment
- Non-discriminatory treatment
- Other safeguards that promote the rule of law and impartial enforcement
- These provisions have been included in U.S. bilateral investment treaties and trade agreements for the past three decades and have been an important source of protection and certainty for U.S. investors in foreign markets.

At the same time, 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, that their personal data and privacy are protected, particularly through enactment of federal privacy legislation, and that Artificial Intelligence (AI) is used responsibly.

CSI supports a greater congressional role in restoring U.S. leadership on services and digital trade

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[4]Organization for Economic Cooperation and Development, *OECD Services Trade Restrictiveness Index: Policy Trends up to 2024*, February 2024.

We urge Congress to encourage U.S. leadership in building on existing services trade and investment agreements and to not retreat. On digital trade, while it is also important to build on as well as adapt existing rules where necessary to meet the challenges of evolving digital services and technologies, it should be in a manner that has the least trade restrictive impact while taking into account important privacy, national security and consumer protection objectives. Other nations are meeting these challenges while moving ahead with trade agreements. The U.S. should be able to do so as well.
On digital trade: Congress should urge the Administration to engage in an evidence based, transparent discussion with Congress and stakeholders in building a balanced U.S. digital trade policy.

Future Path on Promoting the Benefits of Services and Digital Trade

1. **WTO:** Work for commercially meaningful digital trade facilitation rules (including electronic payment services), a permanent e-commerce moratorium, and a road to future negotiations on cross border data flows, prohibition on data localization and mandatory transfer of source code. Support a substantive e-commerce work program that provides capacity building that enables developing countries and lesser developed countries to participate in the digital economy and highlight benefits of VATs and GSTs over tariffs in building support for an extension of the WTO E commerce moratorium at MC 14. We support commitments to personal privacy protections. It is important that any privacy protections not employ language that could be abused by authoritarian governments as justification to stifle freedom of expression and information flows.
2. **Africa, Kenya:** Negotiate commercially meaningful services and digital commitments in a comprehensive U.S.-Kenya FTA. Support AGOA reforms that create greater opportunities for development of the African continent and greater trade engagement with the U.S.
3. **UK:** Resume FTA negotiations with the UK, one of the U.S.'s most important services and financial services trade and investment partners.
4. **National Security Concerns:** We recognize the importance of addressing genuine national security challenges with China. It is important to promote a U.S. policy and regulatory approach on services and digital that derisks but does not decouple with China. It is important to promote a balanced approach to national security concerns that avoids collateral damage and unintended consequences that undermine the benefits of U.S. services and digital trade, particularly to American workers and small businesses.
5. **Asia, China, India:** Promote commercially meaningful services and digital disciplines and commitments in IPEF, and revisit joining CPTPP. Work to promote discplines that combat discriminatory Chinese services and digital policies and regulations, and counteract China's influence in the region. Engage constructively in the Trade Policy Forum and the U.S.-India Financial Regulatory Dialogue.
6. **Europe:** Make the TTC a mechanism to promote cooperation on AI standards and other digital policies and to ensure that policies and regulations on cloud and other digital services do not become trade barriers.
7. **Americas:** Prioritize commercial enforcement of USMCA services, digital, financial services, and telecom disciplines. Engage constructively in APEP on services and digital with like-minded countries, including Costa Rica. Address ongoing services and financial services barriers on a bilateral basis.
8. **Restart TiSA negotiations:** The best path forward to secure meaningful services and digital disciplines and commitments is to restart the TiSA negotaions with like-minded countries. Building on the original TiSA participants and potential new participants participating in the WTO E-Commerce JSI could create a strong base of support for restarting the TiSA negotaions.

9. **Investment:** Preserve investment disciplines and investor protections for services and financial services providers.
10. **OECD:** Recognize the OECD as an important global thought leader and center developing global policies on services and digital trade through the continued importance of the Services Trade Restrictiveness Index (STRI), the WTO e-commerce moratorium, coordination on development of Data Flows with Trust (DFFT), AI, privacy and other areas.
11. **APEC:** Support work on services structural reform, greater coordination on digital standards development and coordination of work of the Group on Services and work of the Digital and Telecommunications Committee on digital building blocks and cloud principles.

About CSI:

The Coalition of Services Industries (CSI) is a three decades old trade association that is only US trade association that exclusively promotes services trade policy. CSI represents a broad spectrum of US services industries including financial services, media and entertainment, distribution, telecommunications, information technology, professional services. We represent companies both large and small and a number of our members both provide services and are manufacturers. We have international as well as domestic as Co-Chair of the Global Services Coalition and the Asia Pacific Services Coalition. CSI works closely with Congress through the House Services Caucus, Digital Services Caucus, House and Senate Trade Committees, and Energy and Commerce, Banking, and Financial Services Committees.