COALITION OF SERVICES INDUSTRIES

SERVICES AND DIGITAL TRADE 101

Services and Digital Trade Should Be Prioritized on the U.S. Trade Agenda

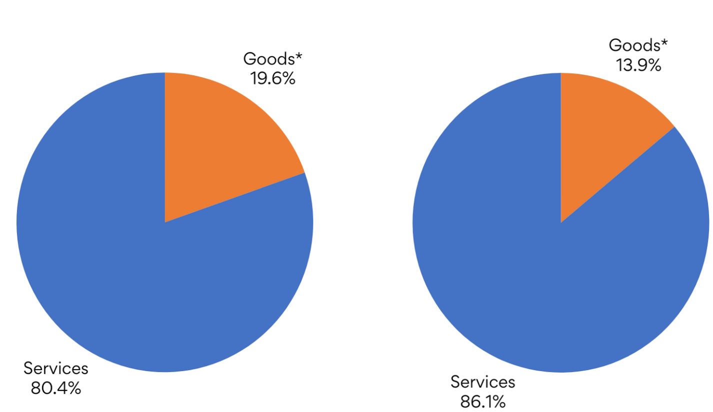
U.S. jobs and economic growth are at stake.

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 importance services including logistics, banking, insurance, electronic payments, information technology, telecommunications, and distribution, all fundamental to the operation of every sector of the American economy.

U.S. tech leadership is at stake.

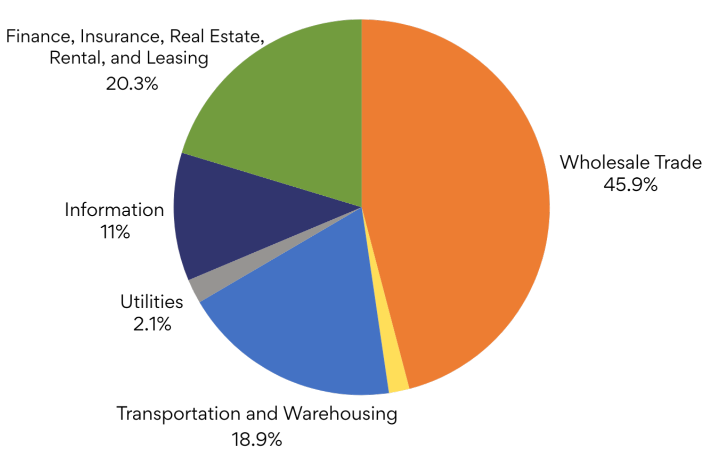
American-led digital innovation, including the development and use of artificial intelligence (AI), is a core extension of U.S. economic and national security leadership and influence. Promotion of U.S.-led investment in digital services, infrastructure and innovation around the world will help diffuse American technology rather than Chinese alternatives. American-led innovation is responsible for 18 million American jobs and adds $2.3 trillion to the U.S. economy. Every sector of the economy is a part of the digital economy — digital infrastructure is a core factor of production that powers innovation and economic growth.

US PRIVATE SECTOR GDP BY INDUSTRY, 2022 | **US PRIVATE SECTOR GDP BY EMPLOYMENT, 2022**



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

MANUFACTURER'S USE OF SERVICES INPUTS AS SHARE OF TOTAL INPUTS, 2022 = 27%



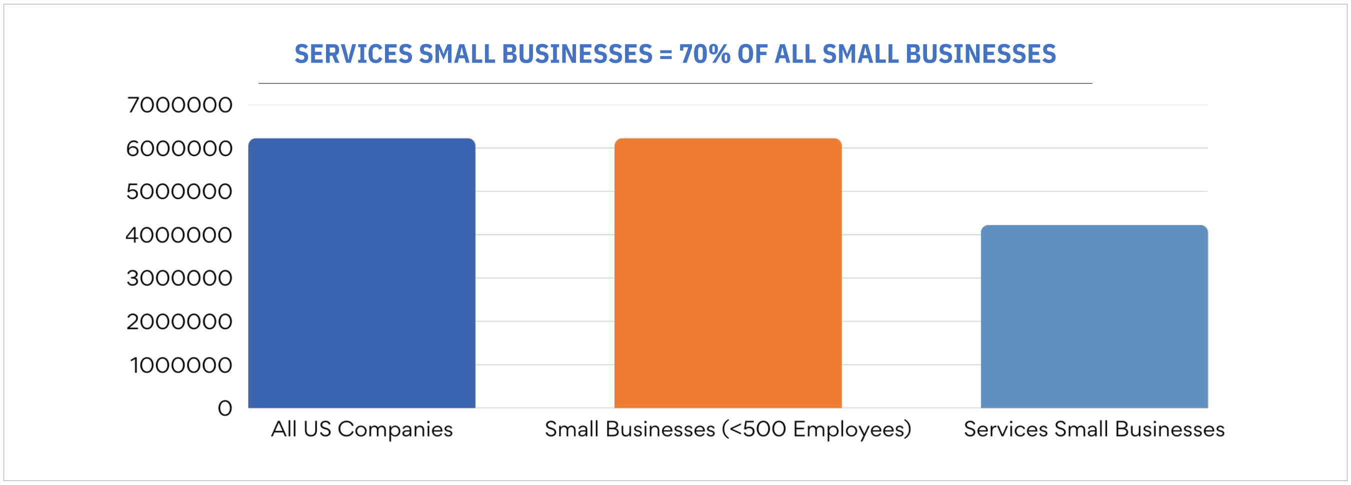
Source: Dept. of Commerce, Bureau of Economic Analysis.

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.

Small business growth opportunities are at stake.

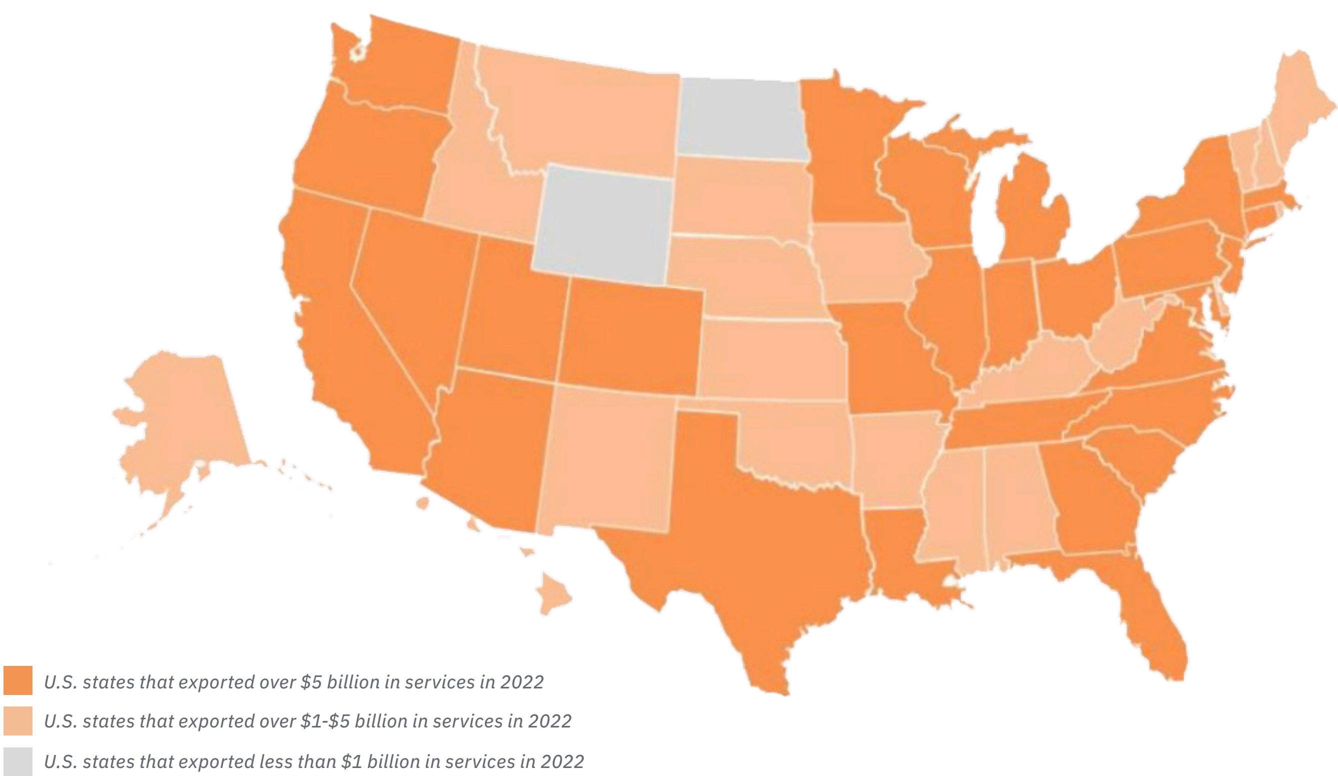
99.7% of all U.S. companies are small businesses and 70% of small businesses identify as services suppliers. Small businesses, most of which are service suppliers themselves, rely on digital services and the cross-border data flows that enable them to build, grow, design, finance, sell, and transport 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.

In 2022, 48 states exported more than $1 Billion in services.

A majority of states exported at least $5 Billion in services in 2022.



U.S. services suppliers need access to foreign markets.

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

To thrive, U.S. service 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.

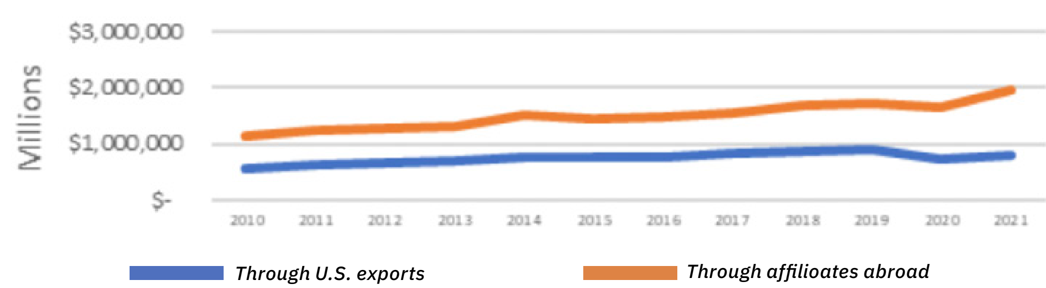
Services trade and investment promote environmental sustainability. By offering world-class, digitally enabled services and technologies, such as cloud services and AI, U.S. services providers play an important role in promoting lower carbon emissions in agriculture and manufacturing in domestic and foreign markets.

Services trade has enabled the U.S. to maintain a positive trade surplus.

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.

US SERVICES SALES TO FOREIGN CUSTOMERS, 2010-2021



Source: Dept. of Commerce, Bureau of Economic Analysis

Services investment 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 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 are not driven by low foreign wages, or lax enforcement of environmental or labor standards

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

Wholesale services (example: fuel, drugs, equip/supplies)	$893
Finance, except depository institutions	$340
Petroleum and petroleum products wholesaling	$326
Drugs and druggiests' sundries wholesaling	$313
Publishing industries	$243
Retail other than general merch stores, clothing/accessory 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: Department of Commerce, Bureau of Economic Analysis

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." But they also need the certainty that these disciplines will be implemented and enforced.[1]

Most investor protection cases are brought by individuals and small businesses, not large multinationals. Investor protections do not undermine a nation's sovereignty or 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 investor will likely not 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 undermine efforts to promote the rule of law, especially in developing countries.

The jobs supported by services foreign direct investment would not be reshored to the United States absent the foreign investment: they would simply not exist.

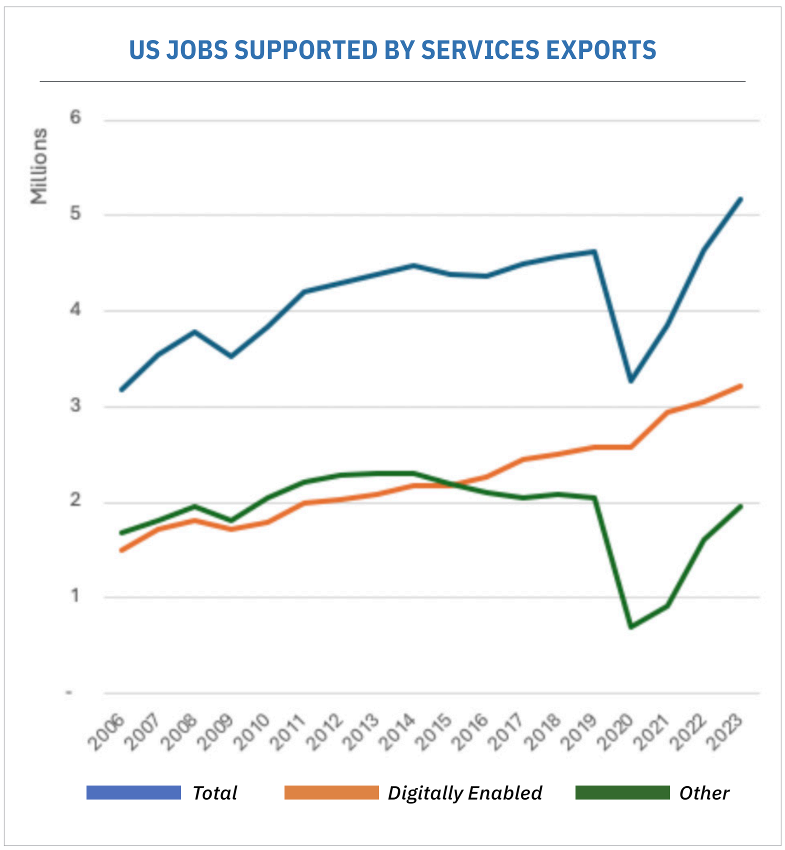
Services trade and investment create good jobs in all 50 states.

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 forffeign affiliates services providers employed over 30 million U.S.-based workers in 2022, 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.*

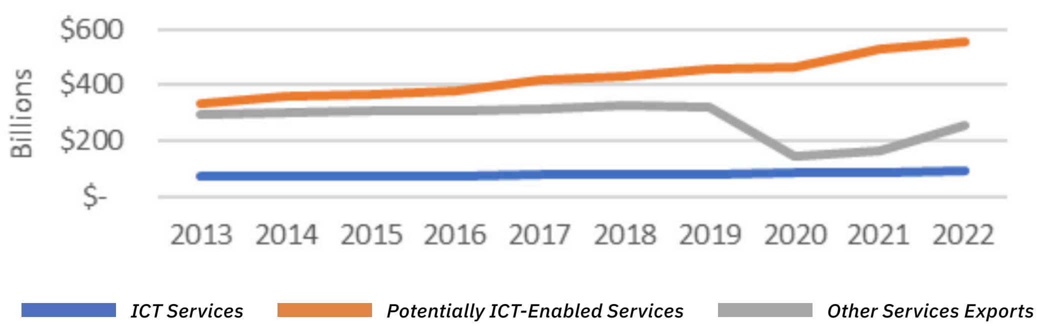
Digital services exports are key to U.S. services growth, particularly to small firms.

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.

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 and play a pivotal role in bolstering U.S. technology leadership, including in areas like artificial intelligence.

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 SERVICES EXPORTS HAVE STEADILY GROWN FROM 2013-2022



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

Barriers to U.S. 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.

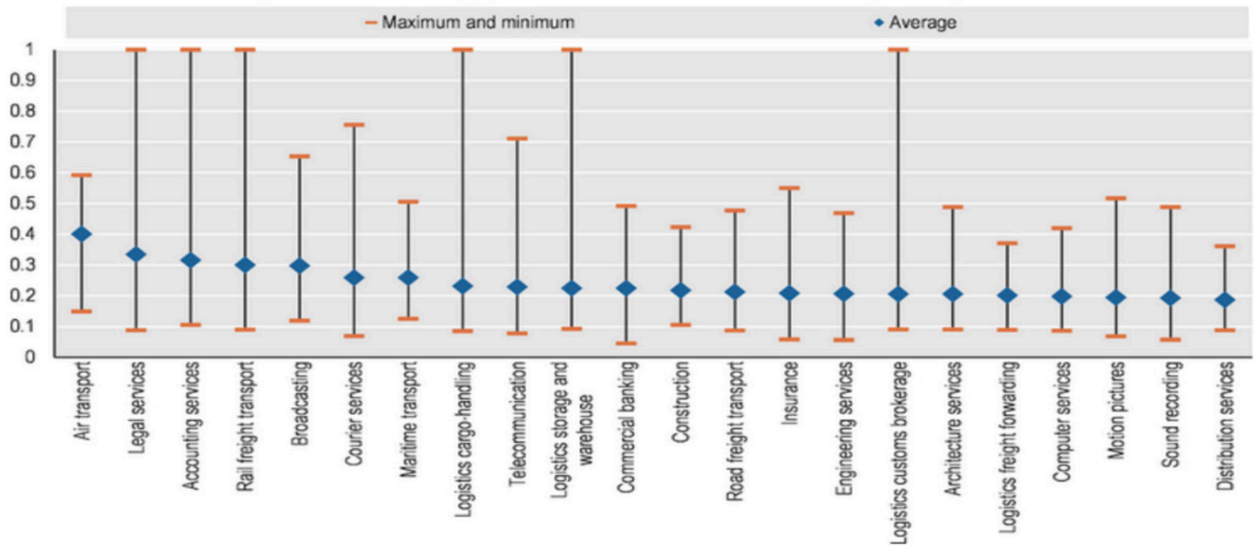
Several countries introduced new foreign investment screening mechanisms or revised existing ones, establishing tighter scrutiny of investment in sectors, such as computer services, telecommunications, broadcasting, transport, and commercial banking. The requirement to transfer U.S. technology to invest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

[4] *Organization for Economic Cooperation and Development,* OECD Services Trade Restrictiveness Index: Policy Trends up to 2024, *February 2025*

SERVICES TRADE INDEX AVERAGE, 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).

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, and 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.

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.