International Services Agreement

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NBER
Why?

- Business Services: 25%
  - $56,000
- Personal Services: 25%
- Manufacturing: 10%
  - $46,000
- Construction: 5%
- Wholesale trade: 5%
- Retail trade: 3%
- Transportation and warehousing: 3%
- Federal Government: 2%
- State and Local Government: 12%
- Utilities: 0%
- Mining & Ag.: 1%
Employment Shares for Tradable Industries

- Business Services: 14%
- Public Administration: 2%
- Personal Services: 3%
- Trans/Warehouse: 3%
- Wholesale Trade: 2%
- Retail Trade: 2%
- Manufacturing: 10%
- Ag, Forest, Fish: 1%

Non-Tradable Industries: 63%

Source: Author’s calculations, 2007 American Community Survey
## Tradable Services are Different

<table>
<thead>
<tr>
<th></th>
<th>Non-tradable Industry</th>
<th>Tradable Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of Workers</strong></td>
<td>2,235,432</td>
<td>12,994,490</td>
</tr>
<tr>
<td><strong>Average Earnings</strong></td>
<td>$44,014</td>
<td>$49,952</td>
</tr>
<tr>
<td><strong>Share with B.A.</strong></td>
<td>16%</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Share with Advanced Degree</strong></td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Share in Tradable Occupations</strong></td>
<td>26%</td>
<td>34%</td>
</tr>
</tbody>
</table>

**Manufacturing (NAICS 30s)**

<table>
<thead>
<tr>
<th></th>
<th>Non-tradable Industry</th>
<th>Tradable Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of Workers</strong></td>
<td>8,038,246</td>
<td>18,430,199</td>
</tr>
<tr>
<td><strong>Average Earnings</strong></td>
<td>$42,226</td>
<td>$66,454</td>
</tr>
<tr>
<td><strong>Share with B.A.</strong></td>
<td>29%</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Share with Advanced Degree</strong></td>
<td>7%</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Share in Tradable Occupations</strong></td>
<td>31%</td>
<td>60%</td>
</tr>
</tbody>
</table>

**Professional Services (NAICS 50s)**

Source: Author’s calculations, 2007 American Community Survey
Figure 5.1  US balances of trade in goods and services, 1992–2009

Service Sector Employment Shares

Source: International Labor Organization, Laborsta database
Probability of Exporting: 1/4

Even controlling for “tradability” service establishments half as likely to export

For exporters, exports/sales ratios lower in business services than manufacturing

Source: Author’s calculations from 2002 Economic Census; Manufacturing (NAICS Industries 31-33), Business Services (NAICS Industries 51, 54, 56)
Impediments to Trade in Services

Figure 1: Restrictiveness of Services Trade Policies by GDP per capita, 2005

Note: GDP per capita, PPP is in constant 2005 international USD

Source: Gootiiz and Mattoo (2009)
Infrastructure Spending in BRICs

• Huge infrastructure boom underway – big opportunity for tradable service firms/workers
  – $40 Trillion, most outside of US
  – Architecture, financing, engineering services, water treatment, project management services...

• These are likely to be (at least partially) government projects and large, fast-growing economies are not participants in GPA
What is the potential?

- Thought experiment:
  - Increase exports/sales ratio in tradable business services to same level as manufacturing
  - Many reasons to question this number, but a place to start...

- “Back-of-the-envelope” numbers:

<table>
<thead>
<tr>
<th>Empl (million)</th>
<th>Sales (trillion)</th>
<th>Exports (billion)</th>
<th>Exports/ Sales (trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tradable Manufacturing</td>
<td>12</td>
<td>5</td>
<td>1000</td>
</tr>
<tr>
<td>Tradable Business Services</td>
<td>20</td>
<td>5</td>
<td>220</td>
</tr>
</tbody>
</table>

Additional Service Exports (.156 * $5T)
Services Negotiations

• GATS signed in Uruguay round
  – Deficiencies in structure of GATS (positive list)
  – No progress in 2 decades

• Doha
  – Only a third of WTO members presented an initial or revised offer during a decade of Doha negotiations
  – Offers rarely even matched existing practice
  – Services negotiations have “de facto” been a plurilateral

• Services liberalization agenda has moved to RTAs
A way forward...

• International Services Agreement
  – Self-selected group of countries
  – Agreement consistent with GATS Article V
  – Ideally attachment to WTO through waiver
    (requires ¾ WTO member approval)
    • Adv: WTO dispute mechanism; easier to join;
      strengthen WTO
  – Alternatively, GATS Article V notified to WTO
Key Elements

• Negative List

• Conditional MFN

• Aim for Mode Neutrality

• Mode 4 – temporary movement of persons
Key Elements

• Renegotiate existing elements of GATS:
  – Government Procurement Agreement
  – Regulatory policy
  – Government monopolies
  – Mutual recognition

• Emerging Issues:
  – State Owned Enterprises
  – Cross-border data flows
  – Forced localization
  – Investment protections
Prospective Participants

• 18 WTO members constitute almost ¾ of global services trade
  – US, EU(27), Australia, Canada, Chile, Costa Rica, Colombia, Hong Kong, Japan, Korea, Mexico, New Zealand, Norway, Pakistan, Peru, Singapore, Switzerland, Taiwan
  – Possible early additions: Barbados, Malaysia, Panama, Vietnam, Indonesia, Egypt, Russia

• Opportunity to pursue a high quality International Services Agreement
Wrap Up

• The time is right for an International Services Agreement (ISA)
  – Many services are tradable; large mutually beneficial gains to trade
  – Impediments to services trade are relatively high in large, fast-growing markets

• ISA offers a WTO-strengthening way forward

• Key elements: non-MFN, negative list, GPA
Thank You