The Role for a US-China BIT in Increasing Trade in Services

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Employment by Sector in China

- Non-Urban Primary: 33%
- Non-Urban Secondary: 26%
- Non-Urban Tertiary: 22%
- Urban Secondary: 8%
- Urban Tertiary: 10%
- Urban Primary: 1%

Employment by Sector in Urban China

Employment by Sector US

Service Sector Productivity

Labor productivity in services

Source: Estrada, Noland, and Park (2012)
U.S. has Comparative Advantage

Figure 5.1 US balances of trade in goods and services, 1992–2009

Tradable Services are Skill Intensive

<table>
<thead>
<tr>
<th>Worker Characteristics for Select Industries</th>
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<tr>
<td><strong>Manufacturing (NAICS 30s)</strong></td>
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<td>Non-tradable Industry &amp; Tradable Industry</td>
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<td>Number of Workers</td>
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<td>Average Earnings</td>
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<td>Share with B.A.</td>
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<td>Share in Tradable Occupations</td>
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<td><strong>Professional Services (NAICS 50s)</strong></td>
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Source: Author's calculations, 2007 American Community Survey
Average Years of Schooling by Age Cohort, 2010
Figure 5 OECD Services Trade Restrictiveness Index for China, by sector
Modes of Service Trade

• Mode 1 – Cross-border provision, e.g. software produced in one region and shipped via internet to another region

• Mode 2 – Consumption abroad, e.g. consumer travels to resort to consume service

• Mode 3 – Commercial presence in foreign region, e.g. restaurant opens local branch to serve foreign demand

• Mode 4 – Temporary movement of natural persons, e.g. consultant travels to customer to deliver services
Conclusion

• Big “win-win” opportunity for China and US to increase growth by trading services

• Reducing impediments to foreign direct investment is an important prerequisite to increased trade

• A robust China-US BIT could play an important role in this process
Thank You
Service Firm Export Engagement Lags

Business Service firm export participation lags Manufacturing
  – 20% of manufacturing plants export
  – 5% of service establishments export

Business Service sector export-to-sales ratio lags Manufacturing
  – 20% of manufacturing output exported
  – Less than 5% of tradable business service output is exported
Figure 6 OECD Services Trade Restrictiveness Index for the United States, by sector

- Restrictions on foreign ownership
- Restrictions on the movement of people
- Other discriminatory measures
- Barriers to competition
- Regulatory transparency
- Average
- Minimum