

Reducing Barriers to Services Trade: The U.S. Case

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Overview

- A primer on trade in services
- Expectations about the pattern of trade in services
- Some data: the world
- Some data: the U.S.
- The U.S.: issues and opportunities
- Conclusion

A primer on trade in services (1)

- Trade in services is different
- Four modes
 - Cross-border
 - Consumption abroad
 - Commercial presence
 - Temporary presence
- Interactions with FDI and immigration policies

A primer on trade in services (2)

- Services are often regulated
 - Airlines and other transport; banking and securities; telecommunications; etc.
 - Professional services
- Government regulation adds an extra layer of complexity and resistance – the regulatory rationales and regimes – to reducing barriers

A primer on trade in services (3)

- The GATS
 - Good intentions; but
 - Riddled with loopholes and exceptions; excessive deference to domestic regulation
- Slow progress: “...commitments under the GATS have generally remained modest...” (Adlung and Roy, 2005, p. 3)

Expectations about patterns of trade in services

- We would expect to see rising levels of trade in services
 - Income elasticities of demand for services tend to be greater than 1.0
 - Improvements in underlying technologies
 - Allow lower prices, better quality, greater varieties
 - Permit greater geographic reach by providers
 - Digitization and lower telecommunications costs
 - Reduced barriers

Some data: the world (1)

	<u>2005</u>	Avg. ann. % ch. <u>1980-2005</u>
Trade in services	\$2,415B	7.85%
Trade in goods	\$10,539B	6.74%
World GDP	\$44,455B	5.47%

Leading exporters and importers, 2005

Goods	Services	Goods	Services
<u>Exp</u>	<u>Exp</u>	<u>Imp</u>	<u>Imp</u>
1. Ger.	1. US	1. US	1. US
2. US	2. UK	2. Ger.	2. Ger.
3. China	3. Ger	3. China	3. UK
4. Japan	4. France	4. France	4. Japan
5. France	5. Japan	5. UK	5. France

Some data: the U.S. (1)

	<u>Value</u> <u>in 2005</u>	<u>Avg. ann. % ch.</u> <u>1980-2005</u>
Services Exports	\$381B	8.67%
Services Imports	\$315B	8.44%
Goods Exports	\$895B	5.69%
Goods Imports	\$1,677B	7.92%
GDP	\$12,479B	6.18%

Some data: the U.S. (2)

	<u>Services (\$B)</u>			<u>Goods (\$B)</u>		
<u>Year</u>	<u>Ex</u>	<u>Im</u>	<u>Bal</u>	<u>Ex</u>	<u>Im</u>	<u>Bal</u>
1992	\$177	\$120	\$58	\$440	\$537	\$-97
1995	219	141	78	575	749	-174
1998	263	181	82	670	917	-247
2001	286	222	64	719	1146	-427
2004	344	290	54	808	1473	-665
2005	381	315	66	895	1677	-783
ann%ch	6.05%	7.73%		5.62%	9.16%	

Some data: the U.S. (3)

	<u>2005 (\$B)</u>	
	<u>Ex</u>	<u>Im</u>
Travel	\$82	\$69
Passenger fares	21	26
Other transportation	42	62
Royalties & license fees	57	25
Other private services	158	99
U.S. military	19	30
U.S. Gov. Misc	<u>1</u>	<u>4</u>
Total	\$381	\$315

Some data: the U.S. (4)

Sales of services through affiliates (\$B)

<u>Year</u>	by U.S. <u>affiliates</u>	by foreign <u>affiliates</u>	<u>Diff.</u>
1992	\$141B	\$128B	\$13B
1995	190	150	40
1998	286	246	40
2001	422	368	54
2004	490	383	107
ann % ch	10.94%	9.56%	

The U.S.: Issues and opportunities (1)

- The U.S. is relatively open with respect to trade in services
- Some major exceptions
 - Domestic airline cabotage
 - Fly America Act (for U.S. Govt. financed)
 - Domestic water cabotage (Jones Act)
 - Government impelled cargoes
 - Satellite broadcasting spectrum

The U.S.: Issues and Opportunities (2)

- More subtle problems
 - Regulation by the 50 states (e.g., insurance)
 - GSEs (Fannie Mae, Freddie Mac, FHLBs)
 - NRSROs (Moody's, S&P, etc.)
 - Others?
- The new problems
 - Tightened immigration procedures
 - Offshore outsourcing of services

The U.S.: Issues and opportunities (3)

- There would clearly be gains from reduced restrictions by the U.S. and abroad
- Reduced restrictions abroad may not occur without reductions in prominent U.S. restrictions
- Reductions may be difficult politically

Conclusion

- Trade in services is special
- Trade in services is a growing area, for the U.S. and the world
- The U.S. has a comparative advantage in services
- The U.S. is comparatively open, but has some prominent restrictions and some lurking “hotspots”
- Progress is possible but may be difficult