



100 Years Standing Up for American Enterprise
U.S. CHAMBER OF COMMERCE

Statement of the U.S. Chamber of Commerce

ON: Benefits of Expanding U.S. Services Trade Through an International Services Agreement

TO: Hearing of the House Ways and Means Subcommittee on Trade

BY: U.S. Chamber of Commerce

DATE: Thursday, September 20, 2012

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business manufacturing, retailing, services, construction, wholesaling, and finance — is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 116 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

The U.S. Chamber of Commerce is pleased to submit this statement for the record to the House Ways and Means Subcommittee on Trade for its hearing on “The Benefits of Expanding U.S. Services Trade Through an International Services Agreement.” The U.S. Chamber is the world’s largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

No priority facing our nation is more important than putting Americans back to work. More than 8 percent of the U.S. workforce is unemployed — a figure that soars to nearly 15 percent when those who have stopped looking for jobs and the millions of part-time workers who want to work full time are included. As a nation, the biggest policy challenge we face is to create the 20 million jobs needed in this decade to replace the jobs lost in the recent recession and to meet the needs of America’s growing workforce.

World trade must play a central role in reaching this job-creation goal. After all, outside our borders are markets that represent 80 percent of the world’s purchasing power, 92 percent of its economic growth, and 95 percent of its consumers. The resulting opportunities are immense, and many Americans are already seizing them: One in three manufacturing jobs depends on exports, and one in three acres on American farms is planted for hungry consumers overseas.

However, the international playing field is often unfairly tilted against American workers and companies. While the U.S. market is largely open to imports, many other countries continue to levy steep tariffs on U.S. exports, and foreign governments have erected other kinds of barriers against U.S. goods and services. In recent years, new forms of protectionism have emerged, including discriminatory industrial policies, an enhanced role for state-owned enterprises, local content rules, subsidies, and other measures that discriminate against U.S. products, services, and companies.

The bottom line is simple: Without a pro-active and determined trade agenda, American workers and businesses will miss out on huge opportunities. U.S. companies and the workers they employ will be shut out of foreign markets by unfair foreign trade barriers. Our standard of living and our standing in the world will suffer.

The Key Role of Services

The challenges and the opportunities we face on the trade agenda are perhaps greatest for our service industries. These sectors generate approximately 75 percent of U.S. economic output and about 80 percent of U.S. private sector employment. In fact, according to the Bureau of Labor Statistics, service industries employ about 95 million of America’s 111 million private sector workers. Moreover, the service sector employs more than 75 percent of the workers in every Congressional district across the country.

Not unlike agriculture and manufacturing, the service sector is highly dependent on access to overseas markets. In 2011, U.S. services exports reached \$605 billion while the United States enjoyed a services trade surplus of more than \$179 billion. In fact, services exports now account for almost 30 percent of U.S. exports and about 15 percent of U.S. imports. The United

States is home to large numbers of world-leading services firms in such sectors as audiovisual, banking, energy services, express delivery, information technology, insurance, and telecom.

However, U.S. services exports should be much larger given that the U.S. exports less than 3 percent of America's \$16 trillion in gross services output. By comparison, manufacturing exports run at 18 percent of U.S. gross output, and agriculture's figure is closer to 30 percent, according to Ed Gresser from the Global Works Foundation.

Trade Liberalization in Services

Since services dominate the global economy, initiatives that help services grow can play an outsized role in generating economic growth and jobs. In fact, the World Bank's annual *World Development Indicators* survey reports that services account for 70 percent of world output, up from approximately 59 percent in 1990.

Unfortunately, liberalization of services trade has been stuck in the long-dormant Doha Round of World Trade Organization (WTO) negotiations for more than a decade. In fact, the services sector received very little attention even in the Doha Round as areas such as agriculture and manufacturing trade consumed all of the oxygen in the room. The most attention services received during the Doha Round was the "signaling conference" that took place in July 2008 in Geneva, Switzerland. Unfortunately, only one-third of WTO member countries presented initial or revised services offers during the Doha Round.

Since the WTO's General Agreement on Trade in Services (GATS) entered into force in 1995, countries have largely achieved services trade liberalization through bilateral or regional trade agreements. In most instances, those agreements have simply locked in the status quo for access to local services markets while some go further in selected sectors. Most recently, the U.S.-Korea Free Trade Agreement (KORUS) contains some of the most ambitious and far-reaching services commitments ever negotiated by the United States. However, little progress has been achieved at the multilateral level to liberalize services trade since the GATS came into effect.

International Services Agreement (ISA)

Fortunately, a growing number of both developed and developing WTO member countries — including Australia, Canada, Colombia, Costa Rica, Israel, Japan, Mexico, Pakistan, and the United States as well as the European Union, among others — have been exploring different negotiating approaches aimed at liberalizing services. These discussions are aimed at launching negotiations for an International Services Agreement (ISA) among a coalition of interested parties and have been taking place in Geneva since the beginning of the year.

Such initiatives among a "coalition of the willing" are not new to the WTO. The Government Procurement Agreement (GPA) and Information Technology Agreement (ITA) are good examples of highly successful agreements reached among an ambitious subset of WTO members. Even WTO Director-General Pascal Lamy has argued the plurilateral approach is not a new concept in the WTO, saying he was amazed by the "theological and Byzantine" debate around the topic.

According to a joint statement released by the participating ISA countries on July 5, 2012:

- Over the past several months a number of WTO Members have been exploring different negotiating approaches aimed at progressing the liberalization of trade in services.
- We have found that the WTO General Agreement on Trade in Services (GATS) provides a strong foundation. At the same time, there have been considerable developments in advancing the liberalization of trade in services in the sixteen years since its conclusion.
- A significant number of Members have made great advances in opening up their markets, both autonomously as well as through more than 100 services trade agreements notified to the WTO. Many of these agreements have broken new ground both in terms of market access and in the development of improved services trade rules.
- We believe it is time to bring this progress back to Geneva with the ultimate aim of reinforcing and strengthening the rules-based multilateral trading system.
- We plan to move our exploratory discussions to a new phase aimed at clearly defining the contours of an ambitious agreement on trade in services to allow us to undertake any necessary consultations or procedures prior to any negotiations.
- Any such agreement would build upon the achievements of the GATS and the developments mentioned above. Such an agreement would aim to capture a substantial part of the liberalization achieved in other negotiations on trade in services. The outcomes of the agreement could then be brought into the multilateral system.

Any such agreement should:

- Be comprehensive in scope, including substantial sectoral coverage with no a priori exclusion of any sector or mode of supply;
- Through negotiation, include market access commitments that correspond as closely as possible to actual practice and provide opportunities for improved market access; and
- Contain new and enhanced rules developed through negotiations.
- We encourage other WTO Members who share a high level of ambition for the liberalization of trade in services, including these objectives, to take part in this effort. We are considering how to further broaden participation of developing countries and how to take into account the interests of least-developed countries.
- We plan to intensify our work from September to develop these concepts further and begin working on the mechanics for achieving our shared objectives.

More than anything, it is clear that the ISA is a result of both the impasse in the Doha Round and the pent up demand by interested WTO member countries to liberalize services that has not come to fruition since the founding of the GATS. In the weeks and months ahead, participating member countries will have ample opportunity to talk about both the architecture and the scope of such an agreement.

On architecture, participating countries may feel that the best pathway forward is to pursue an agreement under Article V of the GATS provided that the agreement covers “substantial product coverage” and eventually eliminates “substantially all discrimination” between the parties. However, it is clear that there is strong interest among all of the participating countries in ultimately bringing such an agreement back to the WTO at some point down the road. Indeed, there is precedent for such plurilateral agreements ultimately attracting new participants and being adopted universally among WTO members.

In the meantime, other WTO member countries that are interested in this negotiation should join as well. Those who don’t want to join need not do so, but they will be missing out. On scope, it would be important for the ISA to address new disciplines that were not covered under the GATS, including issues regarding state-owned enterprises, cross-border data flows, and forced localization to name a few.

While the talks are at an early stage, what is most important is that these discussions are happening at all, and there continues to be a great deal of interest in moving forward on a services trade liberalization agenda. As U.S. Trade Representative Ron Kirk has said: “The services discussion is one of the most constructive and productive activities happening in Geneva right now — a hopeful counterpoint to recent years of impasse in the Doha talks — and it is good news that they are moving forward. I’m confident that this effort has the potential to expand, succeed, and ultimately strengthen the multilateral trading system, facilitating global trade in services and supporting jobs for workers in this vital sector.”

Conclusion

Services are vital to economic growth and job creation not just in the United States but across the global economy. Moreover, they are essential to the well-being of both the agricultural sector and the value chain of modern manufacturing. The pent up demand for services of all kinds can be a key driver of economic growth, not only in the United States but worldwide, for decades to come.

The U.S. Chamber of Commerce strongly supports the proposed International Services Agreement. It has the potential to strengthen our economic recovery as well as the global rules-based trading system. The Chamber strongly urges that negotiations for the ISA be formally launched as soon as possible with a goal of concluding by the end of 2013.

Contact: Christopher Wenk
Senior Director, International Policy
U.S. Chamber of Commerce
1615 H Street, NW
Washington, DC 20062
Phone: (202) 463-5660
cwenk@uschamber.com