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After Covid, Services Are Where the Trade Action Is

James Bacchus

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The pandemic has showcased the digital economy, where the U.S. has enormous comparative advantages.

The U.S. economy's service sector was hit hard by the Covid-19 pandemic. Lately, however, it is showing signs of bouncing back. In January, the ISM Non-Manufacturing Index recorded its highest level since February 2019. The index dipped again last month, though, which should spur President Biden to make a priority of eliminating barriers to U.S. exports of services.

The U.S. is primarily a service economy, although many Americans don't realize it. While services account for 79% of gross domestic product and 82% of jobs, they constitute only 33% of all exports. The U.S. could do far better in the export department if trade in services were freer. Americans enjoy comparative advantages in sectors such as construction and engineering, but global trade in services is weighed down with regulatory, licensing and other barriers equivalent to tariffs of between 30% and 50% on U.S. exports.

Despite these restrictions, services are the fastest-growing sector of international trade. The pandemic forced a slowdown in the trade of goods, but as the world turned inward, growth in the trade of services sharply increased. While services exports make up only a fifth of all international trade, they have grown at three times the rate of goods exports in the past decade.

The line between manufacturing and services is getting blurry. Nearly a third of the gross value of goods derives from the services that go into making and delivering them. If the value added by services such as banking, insurance, transportation and other sectors is included in the goods tally, more than half of all U.S. exports can be attributed to the services sector.

Rules on trade in services were first agreed in the treaty that established the World Trade Organization in 1994. At the time, less than 2% of the world's population had internet access. Today it's nearly 59%, yet the rules haven't been updated since 1997, when WTO member countries agreed to some trade liberalization in financial services and basic telecommunications services. Most global rules on services trade still think it's the mid-'90s.

Until recently, opening foreign markets to exports of U.S. construction, engineering, transportation, logistics and other services was a bipartisan project. It failed because developing countries were reluctant to provide market access without U.S. concessions on agricultural subsidies and trade remedies such as countervailing duties. Frustrated by this failure, the U.S. and several dozen countries ventured outside the WTO and proposed a Trade in Services Agreement. President Trump was fixated on manufacturing and abandoned those talks when he entered the White House in 2017. Without American participation, they collapsed.

The Biden administration should renew those talks, ideally within the WTO. Negotiations should focus on ending the widespread discrimination in services trade by encouraging regulatory cooperation, mutual recognition, and harmonization; spurring domestic regulatory reforms; and applying the WTO rule that forbids discrimination against imports more widely to services trade.

New negotiations should center on removing barriers to trade in services that have arisen from digital technologies. There were no smartphones in 1997. A host of novel ways of providing services digitally have been devised since then, and Americans are in the forefront of providing them.

The U.S. is the largest trader of services in the world, ranking first in both exports and imports of commercial services. In a global “grand bargain” reducing barriers to trade the U.S. would gain the most, with a net welfare benefit of \$131 billion. Eliminating foreign barriers to services trade and digitally enabled trade could create as many as three million new American jobs. From healthcare to education, services that once had to be delivered face to face can now be delivered remotely.

Mr. Biden had a lot to say in his campaign about manufacturing jobs. He knows where the swing votes are. Now he needs to show that he knows how most Americans work, today and in the future. His trade policy must make freer trade in services a high priority.

Mr. Bacchus is a professor of global affairs at the University of Central Florida and an adjunct scholar at the Cato Institute. He served as a Democratic U.S. representative from Florida, 1991-95.