

**BENEFITS OF EXPANDING U.S. SERVICES TRADE
THROUGH AN INTERNATIONAL SERVICES
AGREEMENT**

HEARING
BEFORE THE
SUBCOMMITTEE ON TRADE
OF THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
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**BENEFITS OF EXPANDING U.S. SERVICES
TRADE THROUGH AN INTERNATIONAL
SERVICES AGREEMENT**

THURSDAY, SEPTEMBER 20, 2012

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:30 p.m., in room 1100, Longworth House Office Building, the Honorable Kevin Brady (Chairman of the Subcommittee) presiding.

[The advisory of the hearing follows:]

HEARING ADVISORY

Brady Announces Hearing on the Benefits of Expanding U.S. Services Trade Through an International Services Agreement

Thursday, September 13, 2012

Congressman Kevin Brady (R-TX), Chairman, Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the benefits of expanding U.S. services trade through an international services agreement. **The hearing will take place on Thursday, September 20, 2012, in 1100 Longworth House Office Building, beginning at 2:00 P.M.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing. A list of invited witnesses will follow.

BACKGROUND:

On July 5, 2012, the United States and a key group of other World Trade Organization (WTO) Members announced plans to intensify ongoing discussions in Geneva on an international services agreement to define “the contours of an ambitious agreement on trade in services.” Thus far, twenty economies—both developed and developing—are participating, representing a strong majority of global services trade: Australia, Canada, Chile, Colombia, Costa Rica, the European Union, Hong Kong, Israel, Japan, Korea, Mexico, New Zealand, Norway, Pakistan, Peru, Singapore, Switzerland, Taiwan, Turkey, and the United States. In their July 5 statement, the participating economies noted that the initiative is meant ultimately to reinforce and strengthen the multilateral trading system. Participants also stated that the agreement should be comprehensive in sectoral scope, contain new and enhanced rules that countries have developed since the WTO *General Agreement on Trade in Services* entered into force in 1995, increase market access commitments to be as close as possible to countries’ current practices, and produce new market access improvements.

An international services agreement could generate substantial benefits for the U.S. and global economies. The services sector accounts for the largest share of most economies, and the United States exports more services than any other country—fourteen percent of global services exports. According to a July 2012 report by the independent U.S. International Trade Commission (ITC), U.S. cross-border services exports totaled \$518 billion in 2010, generating a \$160 billion trade surplus—the world’s largest. Services exports sold by U.S. firms invested abroad totaled \$1.1 trillion in 2009. Globally competitive U.S. services firms have very significant market shares in many services subsectors, including infrastructure services, movie and television production, engineering, financial services, computing and IT services, consulting, publishing, education, healthcare, retail, tourism, telecommunications, logistics and distribution, agricultural services, and professional services.

Services trade is a major source of well-paying U.S. jobs. The services sector employs over 80 percent of Americans, according to the ITC. One subset of services that is highly tradable—business services, such as industrial design, accounting, and legal services—account for approximately a quarter of U.S. private-sector jobs. These services are also highly paid, very substantially exceeding average U.S. wages.

Services exports are growing, rising from approximately 8 percent of U.S. exports in 2000 to over 12 percent in 2010. U.S. services exports encounter substantial non-tariff barriers (NTBs) around the world, however, which keep our services trade from reaching its full potential. Traditional barriers to services exports include sectoral prohibitions on foreign participation, foreign equity limitations, discriminatory

regulatory requirements, lack of transparency, and nationality requirements for service providers. In addition, U.S. services firms are encountering a new generation of 21st-century NTBs, including restrictions on data flows, forced localization, and unfair competition from state-owned enterprises. The degree of U.S. openness to services is far greater than the average around the world. As a result, an international services agreement may create disproportionate opportunities for U.S. services exporters as the United States pushes countries to approach U.S. levels of openness.

In announcing this hearing, Chairman Brady said, **“Expanding services trade means creating good U.S. jobs. I am enthusiastic about the work USTR is doing in Geneva to move toward launch of negotiations on an international services agreement. A services agreement would reduce barriers abroad for U.S. services providers and produce major benefits and job growth here at home. By ensuring that benefits are available only to those countries that commit themselves to the high standards of the agreement, we can encourage participation by a wide range of developed and developing countries. I am also optimistic that a successful agreement will help reinforce the important role of the WTO.”**

FOCUS OF THE HEARING:

The focus of the hearing is on the benefits of expanding U.S. services trade, including by negotiating an international services agreement. The hearing will address the importance of services exports as a source of well-paying U.S. jobs and economic growth. In addition, the hearing will examine the current state of ongoing discussions concerning an international services agreement and explore how best to support a successful initiative.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select “Hearings.” Select the hearing for which you would like to submit, and click on the link entitled, “Click here to provide a submission for the record.” Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, **by the close of business on Thursday, October 4, 2012**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-6649.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and **MUST NOT** exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available at <http://www.waysandmeans.house.gov/>.

Chairman BRADY. Good afternoon. I want to welcome everyone, extend a special welcome to Ambassador Michael Punke and our private sector witnesses. Welcome, Ambassador.

Let me also recognize Bob Vastine, the longtime President of The Coalition of Service Industries who stepped down yesterday and Ambassador Peter Allgeiere, CSI's newly installed President. These are two great leaders. Bob has had a long and distinguished career in government and the private sector, and we have all benefited so greatly from his tremendous expertise and sound contributions. Thank you, Bob.

And as Co-chair of the Congressional Services Caucus, I join CSI and its Members in expressing appreciation for Bob's work and in wishing him well and in welcoming Peter, with whom I look forward to working with in his new role.

I would also like to take a moment to acknowledge the service of Viji Rangaswami, the Ways and Means Minority Chief Trade Counsel, who will be leaving the Committee after over a decade of service. She has made important contributions in her work on free trade agreements, our preference programs, our trade remedy laws, trade adjustment assistance, and China policy. Viji, we will miss your enormous expertise, your spirit of compromise and your good humor. I know that my colleagues join me in wishing you the best of luck.

In this economy creating U.S. jobs must be job number one. That is why we are here today to discuss U.S. services trade. We have a major opportunity at hand. By negotiating an International Services Agreement that lowers barriers to U.S. service exports, we can rev up a great engine of American job creation.

The service sector accounts for over three-quarters of American jobs and economic growth. These are not the stereotypical low wage, low skilled jobs that some would scornfully call McJobs. Services jobs pay well. For example, our businesses services sector, which includes engineering and design, computing and data processing, consulting and other services provided to business, these jobs pay nearly 20 percent more on average than jobs in manufacturing, averaging nearly \$60,000 a year higher than the national average. With over a half trillion dollars in services exports last year, America is the world's most successful services exporter. In fact we export more services than the two next largest service exporting countries combined.

Because American service providers are such strong global leaders across many services sub-sectors, the United States has long

generated a large trade surplus in services, which helps offset our deficit in goods trade.

Our global competitiveness is not automatic, however. American service providers must be able to maintain a global presence to sell our services around the world. Their success depends on having on the flexibility to move their data and their know-how around the world. Yet U.S. service providers continue to face major trade barriers. For example, countries impose equity caps, restrict data and capital flows, dictate the nationality of senior officials and impose discriminatory licensing and regulatory requirements. But if we are able to lower services trade barriers around the world, our American services providers are well positioned to compete and win and will generate major new U.S. employment.

These employment gains will come not just in the services sector, but throughout the American economy. That is because services trade facilitates all economic activity. E-Bay recently did an interesting study that found its online auction services have allowed a vast number of small businesses in the United States to become exporters. The National Association of Manufacturers and the Farm Bureau have produced two papers, and without objection I enter them into the record, laying out the many ways their members depend on U.S. services firms' global operations to design, finance, market, transport and service American agriculture and manufacturing exports.

The papers follow:

National Association of Manufacturers Paper

American Farm Bureau Federation Paper

Chairman BRADY. In short, we focus on services not instead of manufacturing and agriculture but to the benefit of manufacturing and agriculture. As a result, I am very enthusiastic about the work that Ambassador Punke is doing in Geneva on services trade policy. Thanks to his leadership, 19 WTO members, accounting for three-quarters of global services trade, agreed in July to intensify discussions this fall about an International Services Agreement.

This is an opportunity to extend to a much broader set of countries the higher standard services rules from our bilateral trade agreements. By pursuing an ambitious agreement that results in real trade gains for participants, we can generate new momentum for trade liberalization and ultimately reinvigorate WTO negotiations that create incentives for broad Membership. The benefits of the agreement should be available to all WTO members that are willing to commit to the agreement's high standards.

An International Services Agreement holds great promise for American workers and our economy, and I believe it would be met with bipartisan enthusiasm in Congress.

And before yielding to the Ranking Member, without objection the opening statement of all Members will be included in the record.

At this time I yield to Mr. McDermott for his opening statement.

Mr. MCDERMOTT. Thank you, Mr. Chairman. Before I read my statement I would like to acknowledge Viji's leaving. As a Member who represents a very trade dependent district with a major port and a major exporter of the United States and a lot of other large exporters operating out of my State, when you become the ranking

member on the Ways and Means Committee on the Trade Subcommittee, you ought to know something, but I admit I am a doctor and I don't know very much. But without the assistance of Viji as a teacher, I would not be able to do this job. And we will miss her, I will miss her, and the committee will miss her. And I want her to know it and she didn't want anybody to say anything publicly about her, but Viji, please stand up. She always knew that the Member was the one who should be out in front.

This hearing really is an opportunity to consider the importance of trade and services and the prospects of negotiating an International Services Agreement under the auspices of World Trade Organization, but before we think about the future prospects I would like to briefly recall where we have been the last few years with the WTO Doha Round.

Doha was proceeding slowly to a dead end, yet some in the international community were cheering us on, we are almost there, we are almost there. I don't know how many times I have heard people come in my office and say that. But fortunately the USTR wasn't interested in proceeding on a path to a dead end. Ambassador Punke, you deserve a great deal of credit for helping steer the WTO members onto a more constructive path, one that I think will strengthen the WTO as an institution in the long run.

What is more, our stakeholders and our trading partners appreciate your frank, but respectful and deliberative approach to these challenges. Thank you for your work on these issues and for testifying here before us today.

This new path is just beginning to take shape, but it looks as if trade and services, a major and growing component of the world's trade and area where the United States enjoys a trade surplus, will be an important part of the path forward.

In my view, the International Services Agreement under the auspices of WTO is an exciting opportunity. It appears to be the best way to achieve two objectives that often compete with one another in trade negotiations, ambition and inclusion. We want an ambitious agreement, one that significantly opens new markets for U.S. companies and workers. At the same time we want to promote a more inclusive international trading system; one that encourages the participation of all countries that are willing to make ambitious commitments.

The WTO is the best place, it may be the only place for such an agreement to be negotiated. To open new markets we will need to tackle new barriers. Among other things, that means ensuring state-owned enterprises compete on a level playing field, that data flows are not subject to unjustifiable restrictions, and that standards are not used to discriminate against foreign suppliers.

I hope the United States and other interested WTO members will lay the groundwork this fall for a successful negotiation. In particular, I would be interested in getting a better understanding of the position of our European partners in this endeavor. At the end of the day I am confident that the EU will recognize that a services agreement would benefit European service suppliers just as much as American suppliers. I also expect Brussels will recognize the systemic importance of negotiating an ambitious new agreement under the auspices of the WTO.

And I commend the chairman for having this hearing. Thank you.

Chairman BRADY. Thank you, Mr. McDermott. And I am very pleased to turn to our first witness, Ambassador Punke, who is Deputy U.S. Trade Representative and Permanent U.S. Representative to the World Trade Organization. Ambassador, thank you for coming today and for the energy, creativity and intelligence that you bring to the important work you are doing in Geneva. We look forward to hearing from you, and you have 5 minutes.

STATEMENT OF AMBASSADOR MICHAEL PUNKE, DEPUTY UNITED STATES TRADE REPRESENTATIVE AND PERMANENT REPRESENTATIVE TO THE WORLD TRADE ORGANIZATION (WTO)

Ambassador PUNKE. Thank you, Mr. Chairman and Members of the Committee. I very much appreciate the invitation to speak before the Committee today. My focus will be on our efforts to develop a new International Services Agreement, but I want to take a moment to frame the efforts with a brief assessment of the state of play in the World Trade Organization.

The WTO is clearly an institution at a crossroads. After more than a decade of unsuccessful negotiations in the Doha Round, the collective Membership finally acknowledged last December that the round is at impasse. This situation has resulted in a fair amount of doomsday predictions in Geneva. But our view is that the WTO can't fix its problems without first acknowledging them. What is more our successful effort to turn the page on Doha is creating important new opportunities. It has provided a useful reminder of non-Doha aspects of the institution. It has also challenged us to learn from our collective mistakes in the Doha negotiation and to craft more constructive and productive pathways forward.

Already only 8 months after the eighth Ministerial Conference there is a marked new energy in Geneva. Technical negotiations on a multilateral trade facilitation agreement are advancing. Discussions are underway to expand the product coverage of the Information Technology Agreement, or ITA. These efforts are examples of how we are pursuing the President's goal of doubling U.S. exports and creating new jobs for America's farmers, ranchers, workers, companies and entrepreneurs.

And as we look to new pathways in Geneva our work this year on services is particularly promising. Over the past several months we have been working with a group of like minded WTO members to explore new ways forward. This group with the admittedly bad name of Really Good Friends of Services, or RGF, first got together in the early years of Doha Round as a means for those Members with a strong interest in services to coordinate their efforts. A hallmark of the RGF is its diversity. The group includes a mix of developed and developing countries that substantially reflects a cross section of the interest of the WTO as a whole. Above all the RGF discussion has motivated by the conviction that opening up services markets is a critical factor in supporting economic development.

The genesis of the ISA, the International Services Agreement, lies in our hard nosed assessment that we simply will not be able to make progress on services trade liberalization any time soon

under existing WTO frameworks. The positions of the major players are too firmly entrenched and too closely tied to a web of other issues.

Meanwhile we hear the frustration from stakeholders who are understandably fed up with a lack of progress. The world has changed and our rules need to catch up. To take but one example Internet usage is 500 times greater now than when the Doha Round was launched in 2001, bringing with it a multitude of new issues related to cross border trade, such as policies that affect data flows and storage. Our stakeholders want us to get to work in addressing these and a host of other issues.

Faced with a choice between doing nothing or trying something different, we have begun to explore the feasibility of using a new multiparty services trade agreement to lay the pathway to further globalization services liberalization.

The most logical place for us to start was to look at the more than 100 service agreements that have been notified to the WTO in the 18 years since the General Agreement on Trade in Services entered into effect, an exercise that we have conducted over the past 8 months. Many of these agreements achieve a much higher standard for market access and incorporate new or improved rules to address real world problems.

We believe it is time for forward thinking WTO members to consolidate these improvements and lay the foundation for extending them to the multilateral system. The first step in achieving our vision is to bring the achievements of these varied agreements under a single umbrella, the ISA. Like existing U.S. FTAs, the agreement would encompass all service sectors and modes of supply, and impose a high standard for liberalization. The agreement would also provide a new platform where we could work to build a stronger international consensus on improved rules to address now issues.

The potential benefits are compelling. By moving to a multiparty agreement that reaches across geographic lines, we can create a steppingstone from the web of bilateral and regional deals back toward the multilateral system. By establishing high standards for market access we can influence the norms of international trade. By developing new provisions we can provide leadership to the global trading system.

In addition to these systemic benefits, the ISA also offers the potential to strengthen our economic relationship with the other participants. In just 6 months the RGF group has grown from 16 Members to 20. The United States currently has FTAs with only 10 of the 20 Members. The ISA therefore offers a venues to work on deeper services integration with partners as diverse as Japan, Taiwan, Israel, Pakistan and Turkey.

Progress to date has been extremely encouraging. Last summer we reached agreement on a core set of objectives and agreed to intensify our efforts this fall. Our next step is for the group to develop more specific negotiating parameters so that each participant can conduct domestic consultations necessary in order to proceed.

As for timing we do not have a hard deadline but would like to see things move forward as quickly as possible. We are planning to have monthly meetings from September through December. Throughout this process the administration will continue to consult

closely with Congress and stakeholders to develop and refine U.S. objectives.

We very much appreciate this hearing as a part of that process and look forward to the conversation today.

Chairman BRADY. Thank you, Ambassador.

[The prepared statement of Ambassador Punke follows:]

**Testimony of Ambassador Michael Punke
Deputy United States Trade Representative**

September 20, 2012
House Ways and Means Committee Hearing
1100 Longworth House Office Building
Washington, D.C.

Chairman Brady, Ranking Member McDermott, Members of the Committee, I very much appreciate the invitation to speak before the Committee today. My focus will be on our efforts to develop a new International Services Agreement, but I want to take a moment to frame these efforts with a brief assessment of the state-of-play in the World Trade Organization.

Quite frankly, the WTO is an institution at a crossroads. After more than a decade of unsuccessful negotiations in the Doha Round, the collective membership finally acknowledged last December that the Doha Round is at impasse. This situation has resulted in a fair amount of hand-wringing and doomsday predictions in Geneva. But our view is that the WTO can't fix its problems without first acknowledging them.

What's more, our successful effort to "turn the page" on Doha is creating important new opportunities. It has provided a useful reminder of non-Doha aspects of the institution. It has also challenged us to learn from our collective mistakes in the Doha negotiation and craft more constructive and productive pathways forward.

Already, only eight months after the 8th Ministerial Conference where members emphasized the need for new approaches, there's a marked new energy in Geneva. Technical negotiations on a multilateral trade facilitation agreement are advancing. Preparations are underway to expand the product coverage of the Information Technology Agreement, or ITA, and are picking up steam. We also are working to address development concerns. Just before the summer break, the US contributed to work in completing a new set of guidelines streamlining the WTO accession process for least developed countries. Beyond this work, Members are continuing quiet discussions on how to deal with the more intractable issues.

The United States is committed to the WTO and wants to make it work more effectively in the interests of all Members. This includes using the WTO General Council and Committee system to raise issues that we consider to be important, such as trade protectionist measures. We want to encourage healthy debate and, where possible, explore the potential for the negotiation of new trade opportunities.

At the end of the day, all of these efforts are part of the President's goal of doubling US exports and creating new jobs for America's farmers, ranchers, workers, companies, and entrepreneurs.

As we look to new pathways in Geneva, our new work this year on services is particularly promising.

Over the past several months we have been working with a group of like-minded WTO members to explore ways forward. This group, with the admittedly bad name of the "Really Good Friends

of Services” or RGF, first got together in the early years of the Doha Round as a means for those Members with a strong interest in services trade to coordinate efforts. Since then, the RGF membership has increased and the group has been instrumental in providing leadership on DDA Services as well as WTO services generally.

A hallmark to the RGF is its diversity. The group includes a mix of developed and developing countries that substantially reflects a cross-section of the interests of the WTO as a whole. Above all, the RGF discussion has been motivated by the conviction that opening up services markets is a critical factor in supporting economic development, not just for each Member, but globally. Services provide both the infrastructure and the lubricant that makes the global economic system work. Many services are key infrastructure industries: Information and communications, financial services, distribution and logistics, energy and environmental services – networks that are essential for all economic activity. Similarly, professional services like legal and accounting services play an important role in enabling markets to function.

With the continued stalemate of the WTO negotiations, the RGF was a natural place to turn to develop new pathways to global services trade.

The genesis of the ISA – International Services Agreement - lies in our hard-nosed assessment that we simply will not be able to make real progress on services trade liberalization any time soon under existing WTO frameworks. The positions of the major players are too firmly entrenched, and too closely tied to a web of other issues.

Meanwhile, we hear the frustration from stakeholders who are understandably fed up with the lack of progress. The world has changed and our rules need to catch up. To take but one example, Internet usage is 500-times greater now than when the Doha Round was launched in 2001, bringing with it a multitude of new issues related to cross-border trade, such as policies that affect data flows and storage. Our stakeholders want us to get to work in addressing these and a host of other issues.

Faced with a choice between doing nothing or trying something different, we have begun to explore the feasibility of using a new multiparty services trade agreement to lay the pathway to further global services liberalization.

The most logical place for us to start was to look at the more than 100 services agreements that have been notified to the WTO in the 18 years since the General Agreement on Trade in Services (GATS) entered into effect, an exercise that we have conducted over the past eight months. Indeed, many of these agreements achieve a much higher standard for market access and incorporate new or improved rules to address real-world problems.

We believe it is time for forward-thinking WTO members to consolidate these improvements and lay the foundation for extending them to the multilateral system. The first step in achieving our vision is to bring the achievements of these varied agreements under a single umbrella, the ISA. Like existing U.S. FTAs, the agreement would encompass all service sectors and modes of supply and impose a high standard for liberalization. The agreement also would provide a new platform where we could work to build a stronger international consensus on new and improved rules to address new issues.

The potential benefits are compelling. By moving to a multiparty agreement that reaches across geographic regions, we would create a stepping stone from the web of bilateral and regional deals back toward the multilateral trading system. By establishing high standards for market access, we can influence the norms of international practice. By developing new provisions, we can provide leadership to the global trading system.

In addition to these systemic benefits, the ISA also offers the potential to strengthen our economic relationships with the other participants. In just six months, the RGF group has grown from 16 members to 20 with the addition of Peru, Costa Rica, Israel, Turkey, and just this week Panama.¹ The United States currently has FTAs with only 10 of the 20 members.² The ISA therefore offers a venue to work on deeper services integration with partners as diverse as Japan, Taiwan, Israel, Pakistan, and Turkey.

Progress to date has been encouraging. We have reached agreement on a core set of objectives, and agreed to intensify our efforts this fall. Our next step is for the group to develop more specific negotiating parameters so that each participant can conduct the domestic consultations necessary in order to decide how to proceed.

While we are pleased by early signs of progress, it is important to keep in mind that with a group of 20 participants with varied interests, there are likely to be differences of opinion. As we intensify our discussions, these differences may become more pronounced and some members may even choose to reduce their engagement. This would be a natural and healthy part of any negotiating process that should be embraced rather than feared.

As for timing, we do not have a hard deadline, but would like to see things move forward as quickly as possible. We are planning to have monthly meetings from September through December. Throughout this process, the Administration will continue to consult closely with Congress and stakeholders to develop and refine U.S. objectives. We appreciate this hearing as a part of that process, and look forward to the conversation today.

¹ The 20 participants are: Australia, Canada, Chile, Colombia, Costa Rica, European Union, Hong Kong, Israel, Japan, Mexico, New Zealand, Norway, Pakistan, Panama, Peru, Korea, Switzerland, Taiwan, Turkey, and United States of America.

² The 10 with which the United States does not have an FTA are: European Union, Hong Kong, Israel, Japan, New Zealand, Norway, Pakistan, Switzerland, Taiwan, and Turkey.

Chairman BRADY. Members, as we move forward in this round, with Mr. McDermott's permission, we are going to limit questions to 3 minutes. Here is the schedule for our witnesses and the audience. We have a classified briefing at 3 o'clock regarding Libya, Egypt and other matters with Secretary Clinton. We expect votes to occur at the end of that classified hearing around 4 o'clock, 4:15. And so at 3 o'clock we will recess until 5 minutes after the last vote in that series.

So Ambassador Punke, I'm very impressed with the large group of important WTO members you are bringing to the table for the ISA. It appears though several of the leading emerging economies, China, India and Brazil for example, don't seem to be interested in

pursuing this agreement. Yet you look at some of the more important emerging economies that are joining, such as Turkey, Pakistan, Panama, Mexico, Costa Rica, Colombia, Peru and Chile, because of how quickly those emerging economies have moved forward, those are real promising markets in services. And so if we reach agreement, we have the chance to produce we think some real trade benefit.

And so our challenge is to achieve robust emerging market participation. So the two questions, one I am interested in your views in how we keep those countries interested and at the table as you move through it. And second, my thought is that we are going to be better able to achieve maximum participation to the degree that benefits should be available to any WTO member that agrees to meet the high standard and available only to those members. And so I would like your remarks on that.

Ambassador PUNKE. Well, thanks for that. I think it is important to emphasize that our preferred method of expanding services liberalization was through the Doha Round and through the broadest multilateral configuration possible. The fact of the matter is that on an intensive basis for the first 2 years that I was in my position in Geneva and long before that, we had been trying to engage in that services conversation and with emerging economies and it was not successful. They are not ready to move right now on services trade. And so it was only very reluctantly that we came to the conclusion that the only decision that we faced was wait for them for some indeterminate period of time or to move forward with a smaller group of like-minded members. And obviously the choice that we have embraced is to move forward with those who are ready to move forward now.

I think what we are seeing is that that is a way of creating momentum. And the worse thing I think that we could do in Geneva is have a situation where we have completely ceased to be able to conduct trade negotiations anymore. And so I think the path that we are pursuing with the plurilateral agreement with the ISA is an opportunity to show momentum and then build outward from that.

The other aspect of your question, Congressman, concerning how we extend these benefits, I think it has been the very strongly held position of the United States that it is not acceptable for major participants to free ride on concessions made by others. And so we have been very clear from the beginning that when it comes to major participants in the global trading system that we can't envision an outcome in which countries would have the benefit of concessions without providing obligations themselves.

Chairman BRADY. I think that is where we hit the right balance between ambition of higher standards but also maximum participation. So thank you.

Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman. As you are putting this together, some WTO members want to do it, some don't. Those who are sitting out, some of them think that this will weaken WTO as an institution if you would have a subset of people negotiating in this way, and the European Union in some ways is a part of that or at least seems to be. I would like to hear your feel-

ing about the negotiation, what it does to the whole WTO to have one set willing to negotiate and another set sitting out sort of waiting for I don't know what, Godot I suppose. So I really would like to hear your insider perspective on those negotiations and what is going on that they don't want to participate in the larger negotiation.

Ambassador PUNKE. Well, to take the Europe piece of your question first, we have been engaging over the course of the last several months and weeks in an ongoing conversation with our European colleagues to figure out the best way to accommodate our mutual interest and needs in this negotiation and others. And the line that that conversation takes is not always a straight line, in fact it seems to be always a jagged line. But I do feel like in the last couple weeks in particular that we have gotten closer to figuring out a pathway that both of us can agree upon for moving in particular the ISA forward.

Congressman, we have our next meeting of the Really Good Friends in the first week of October, and I am very hopeful at this juncture that we will be in a position then to give more clarity to what that path would be.

But I want to touch briefly on the broader question you asked, which is how does the system accommodate at the same time these multilateral discussions with discussions in other configurations, for example plurilateral discussions. And you would get the sense sometimes from listening to the recent debate that this is the first time that there has ever been a plurilateral in the history of the WTO. And in fact that is decidedly not the case.

In fact, in December at the ministerial meeting on the opening day the members of the WTO ballyhooed as one of their great achievements a plurilateral agreement, which by the way happens to not be extended on an MFN basis, and it is called the GPA, the Government Procurement Agreement. And so we all ballyhooed that result on day one of the ministerial meeting last December and on the last day of the ministerial in December people were gnashing their teeth about a possible plurilateral kite called the International Services Agreement that somehow is going to bring down the system.

We think that the system for a long time has been able to accommodate plurilateral agreements, multilateral obligations. Many of the countries that are most critical of the ISA for not being multilateral discussions are some of the same countries that are most active in pursuing bilateral agreements. And so the fact of the matter I think is that there is a lot of resilience in the system and the worst thing we can do in Geneva, as I said before, is to have a situation where no negotiations are taking place.

Mr. MCDERMOTT. Thank you.

Chairman BRADY. Mr. Reichert is recognized for 3 minutes.

Mr. REICHERT. Thank you, Mr. Chairman. Welcome and thank you for your testimony, Ambassador. I am a member of the President's Export Council and also the cochair of the Congressional Services Caucus, and part—some of the discussions that we have around this issue is how do we emphasize the services sector as an enabler of economic activity and a facilitator for trade of manufactured and agricultural goods. And I think—I applaud you for being

a champion of this, because more and more people across the country really need to become aware of the fact that the services sector is truly a player when it comes to increasing our trade and decreasing our trade deficit.

So my question is you have discussed in your testimony the WTO agreement that focuses on the services, the General Agreement on Trade and Services, GATS, and it was negotiated over 16 years ago. Since that time economies have evolved and in response we have developed important new liberalizing rules for services. So for example, our trade agreement with Korea takes steps to ensure that countries do not unnecessarily restrict cross border data flows. Now we are seeking to further develop those rules in TPP. Could you elaborate on the new services trade rules that have been developed since GATS?

Ambassador PUNKE. I think that the first part of your question is something that has really been driven home to me in listening to conversations, for example this week as part of the CSI's summit on services, and that is that not only are services important to economies for the services that countries export, including the services obviously that we export, but having modern services available in your country is a fundamental element of the basic infrastructure of being a modern economy. And as you emphasized and as Chairman Brady emphasized, having good services is a critical component for conducting successful trade in manufactured goods and in agricultural goods.

In a typical automobile factory, for example, 20 percent of the jobs are services jobs, like design and advertising. A car that rolls off of the assembly line in Detroit requires 10 million lines of computer programming to run the computer systems on a typical car. So this line between services and manufacturing and agriculture, as you point out, is one that breaks down pretty quickly when you start to look at the real world examples. Yet, as important as services are, and when you think about how quickly technology changes, it is phenomenal that we haven't in a multilateral setting updated our agreement for 16 years.

I mentioned that if you go back to 2001 Internet usage was 500 times less than what it is today. If you go back to when the GATS was signed in 1994 we didn't have an Internet and yet that is our basic document for, our basic multilateral document for establishing the rules on services trade.

The issue that you raised, data flows and data protection, is one of the critical ones that I think many members of the Really Goods Friends group are interested in developing new disciplines to address. And I think that is a reflection of the recognition in all of our countries that we need to update our rules.

Mr. REICHERT. I appreciate it. Thank you, Mr. Chairman.

Chairman BRADY. Thank you. Mr. Herger is recognized.

Mr. HERGER. Ambassador Punke, I believe the Trans-Pacific Partnership is an important vehicle for expanding U.S. services trade. I am also enthusiastic about the ongoing high level working group with the European Union which I hope will lead among other things to important new services trade commitment between our world leading services economies. Could you describe the rela-

tionship among TPP, The EU initiative and an International Services Agreement?

Ambassador PUNKE. Well, it is an important question and I think all three of the four that you are talking about give us different opportunities for promoting the same goal of increasing our services trade. I think as a very general matter that when you look at bilateral agreements versus regional or plurilateral agreements versus multilateral agreements the advantage that you have with a multilateral agreement is it that you have the broadest coverage in terms of participants, but oftentimes because of that broad participation you get commitments that are not as deep. I think the other end of the spectrum is a bilateral agreement, where you have a very narrow number of participants, namely two, but you have the potential for very deep commitments.

I think what the ISA gives us is potentially something in between. And on the one hand we have a very significant number of participants already. The 20 participants that have begun this discussion comprised about 70 percent of global trade and services already. And yet some of those participants in that group, as I mentioned half of them, are countries that the United States doesn't have Free Trade Agreements with. And many of the important ones are not participants in something like TPP. For example, we have Turkey and Israel that are participating in the ISA discussion.

So I think the ISA gives us both an opportunity to negotiate disciplines that might not be covered in other areas and an opportunity to bring participants into the discussion that we otherwise wouldn't be talking to. That is just the significance of the group itself. Beyond that systemically I think creating this platform already has drawn the interest of five countries who have decided that they want to participate in this formative stage. And I think there is even greater potential if we can create this platform in a successful way to attract others into what we hope will be an ambitious level of obligation.

Mr. HERGER. Thank you.

Chairman BRADY. Mr. Smith is recognized.

Mr. SMITH. Thank you, Mr. Chairman, and thank you, Ambassador, for coming here today. In early July in a press release the WTO members participating in International Services Agreement discussions said that they would undertake necessary consultations or procedures prior to any negotiations.

Can you perhaps reflect or share your perspective on the steps that USTR or the EU or other countries are taking with respect to those consultations or procedures?

Ambassador PUNKE. Well, I will comment on ours. I think that exercises like this hearing obviously are a critical part of our ability to provide transparency to the discussions that we are having. In the ISA we are obviously in a very early stage where we haven't yet even agreed specifically on what the architecture of the agreement will be, but we have made a very large effort to reach out to members of your staff, you know, going back even to last December I think when we were first starting to talk about the potential of exploring with other partners in Geneva the possibility of a new type of services agreement. We have taken a lot of opportunities to

discuss this with various stakeholder groups, including this week for example participants in the CSI summit.

I would anticipate, Congressman, that as this process and the architecture becomes clearer that the formal and informal consultation that we have with Congress and stakeholders will intensify. For example, through mechanisms like public hearings and Federal Register notices.

Mr. SMITH. Thank you, I yield back.

Chairman BRADY. Thank you. Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman. I apologize for being late. As you know the full committee is on the floor currently debating the TANF legislation.

Mr. Ambassador, some of the countries currently causing the most difficulty for U.S. service suppliers are not participating in these negotiations for a plurilateral services agreement. Example, Brazil. Recently Brazil implemented very restrictive reinsurance limitations requiring insurers to cede more than 40 percent of gross written premium to local reinsurers, not unlike China in restricting insurers from ceding more than 20 percent of a single line of business to an affiliate. What are the strategies afoot with your office to encourage some of our market priority countries, such as Brazil, to join these negotiations so that we can actually allow American companies to fully compete and participate?

Ambassador PUNKE. Well, Brazil is a country right now where I don't want to over promise, because frankly we have been addressing this type of issue with Brazil for a long time in the WTO context and we have been frustrated in that effort. One of the things that was interesting in the discussion that we listened to this week in CSI, at the Coalition of Services Industries summit, was a discussion by a large number of developing countries that see services as an important component of their development strategy, specifically opening up their services market as a component of their development strategy. And we heard countries like Costa Rica and Mexico talk about how important that that has been for them. They have come to that conclusion through their own analysis and process. Brazil seems not to have come to that conclusion yet. In many instances China seems not to have come to that conclusion yet. And that is at the end of the day I think the reason why we haven't made more progress multilaterally on services, is because major players like India, China and Brazil simply don't see the universe that way yet.

That is frustrating, but at the same time I think what we have decided is that we are not going to let that keep the rest of us from pursuing liberalization, for example, through the ISA. In the meantime I think we have to address the type of issue that you are raising, reinsurance in Brazil for example through bilateral opportunities.

Mr. NEAL. And foreign direct investment in China, that is a compelling issue as well, the limitations that they placed on competition. I think that is a considerable issue for this committee. The advocacy that we often take is to open markets everywhere only to discover some of the trade practices that are embraced down the road really don't level the playing field.

Ambassador PUNKE. Well, and China is an interesting example and obviously is a very large focus of our efforts in Geneva and across the board in terms of our trade policy. We have had one small success with China recently in the services area, specifically on the investment issue with third party auto insurance. And as you know, Congressman, the Chinese opened up that market last spring.

Mr. NEAL. Right.

Ambassador PUNKE. We have been watching very carefully how the implementation of that obligation is taking place. Our initial signs are that this is starting to create opportunities for our insurance companies. The Chinese ultimately came to the conclusion that it was in their interest to and helpful to them to have that competition and to have our high quality services providers in that market.

Obviously we need to be able to succeed ultimately to have more countries come to that conclusion, which we see as being a very obvious one, that services are a fundamental part of your infrastructure.

Mr. NEAL. The 49 percent rule, as you know, is problematic in terms of control.

Chairman BRADY. Thank you, Mr. Neal. Ambassador, clearly there is bipartisan interest for this agreement. This is important work, you are doing good work, and I appreciate and encourage you to continue the consultations with both parties as you go forward on this agreement. Thank you for making time on your busy global schedule to be with us today.

As I mentioned, because of a classified briefing the subcommittee stands in recess unless 5 minutes after the last vote in the next series, which we expect will be somewhere between 4:15 and 4:30.

[Recess.]

Chairman BRADY. Folks, with Mr. McDermott's permission, with the vote schedule and all that continues to change today, we want to be very respectful of your time. So we are going to continue with our second panel of witnesses. We will break for votes, come back for questioning. Again, we will try to move through this as best we can. Thank you for your patience here.

I am very pleased to be able to introduce such an impressive set of senior representatives from the private sector. They represent a wide spectrum of services subsectors, from education, the airline optimization, to energy services, to insurance, to express delivery.

Dr. Brad Jensen is a Professor of Economics and International Business at Georgetown University's McDonough School of Business. He will testify about his groundbreaking research on services trade, which the Peterson Institute published to great acclaim last August. Dr. Jensen is also prepared to discuss the increasingly dynamic education services sector given his employment in that sector.

Mr. Tom Klein is President of Sabre Holdings, a leader in providing software and consulting to optimize the efficiency of the airline industry. Sabre's leadership in the travel services sector, which is the largest U.S. services export, is further reinforced by its ownership of Travelocity, the online travel reservation site.

As Vice President of GE Energy, Mr. Karl Fessenden leads General Electric's Power Generation Services business. And I proudly represent the Eighth District of Texas, where energy services are key to who we are. So I look forward to hearing Mr. Fessenden's testimony.

Mr. Charles Lake is chairman of Aflac Japan. He is based in Tokyo. So I believe he gets the prize for traveling the farthest distance to be able to testify before us today. Financial services, including Aflac's insurance business, are one of the largest U.S. services exports. So I look forward to hearing Mr. Lake's testimony.

And finally, Mr. Dan Brutto is President of UPS International. He will speak to us about logistics services, and specifically express delivery, which is probably the quintessential example of a service that facilitates U.S. trade.

Gentlemen, thank you for coming to speak with us today. I ask that you limit your statements to no more than 5 minutes. So let's start with Dr. Jensen.

STATEMENT OF DR. J. BRADFORD JENSEN, PROFESSOR OF ECONOMICS AND INTERNATIONAL BUSINESS, MCDONOUGH SCHOOL OF BUSINESS, GEORGETOWN UNIVERSITY

Mr. JENSEN. Chairman Brady, Members of the Committee, thank you.

Chairman BRADY. If you could hit that microphone.

Mr. JENSEN. Chairman Brady and Members of the Committee, thank you for the opportunity to testify regarding the significant and often overlooked opportunity for growth through exports of U.S. business services. I think we all recognize that the service sector is large and diverse, I think too diverse to be analytically tractable. So for my comments today, I would like to focus on what I call business services, which are the industries classified by the North American Industrial Classification System, starting with five. This includes the information sector, which includes importantly software, media industries, telecommunications and Internet; the finance sector, insurance, professional, scientific and technical industries—think accountants, architects, engineers, attorneys—and administrative support sector.

This might sound niche, but these sectors, what I call the business service sector, accounts for 25 percent of employment in the United States labor force. In contrast, the manufacturing sector accounts for 10 percent of employment. So the business service sector is two-and-a-half times the size of the manufacturing sector in terms of employment.

In addition, these are good jobs. The wages in tradable business in business services are 20 percent higher than the wages in manufacturing. In addition, business services are tradable. U.S. exports of services are growing rapidly, and now account for 30 percent of U.S. exports. And business services are an important source of this growth.

I would like to understand better what is going on. Unfortunately—

Chairman BRADY. Dr. Jensen, if you would—either someone has to get up when the alarm is ready to beep, or we are having some technical difficulties. Can you punch your microphone off and on

again? That is not it. Does someone have a BlackBerry close to the microphone? Let's try it again, Dr. Jensen. You have a great testimony. I just want to make sure it works. Try it again.

Mr. JENSEN. Thank you. Okay. So U.S. exports in services are growing rapidly, now account for 30 percent of U.S. exports. And business services, the kinds of things that I classify as business services, are an important source of growth. So I would like to understand better what is driving this. Unfortunately, however, official statistics do not provide anywhere near enough detail to examine trade in services adequately. A big part of my research has been to develop a methodology that allows us to identify, using the geographic distribution of production of services within the United States, allows me to identify at a very detailed level what business services are traded within the United States, and thus what are at least in principle tradable internationally.

What I can do is then add up at a very detailed level how much employment there is in tradable business services. And what we see is that there is a big chunk of employment in the United States. Fourteen percent of the labor force is in tradable business services. This is larger than the entire manufacturing sector.

Beyond the size of the tradable business service sector, what might be more surprising is how different the workers in this sector are. Workers in tradable business services are qualitatively different than either workers in manufacturing or workers in nontradable business services. They have much higher educational attainment and much higher earnings. Workers in the tradable business service sector are twice as likely as workers in either manufacturing or nontradable business services to have a college degree and an advanced degree.

Business services are very skill-intensive. The skill intensity of business services, combined with the fact that the U.S. is still a relatively skill abundant place, means that the U.S. has comparative advantage in these activities. The U.S. consistently runs a trade surplus in business services. Yet in spite of comparative advantage in services and globally competitive service firms, as represented by the other panelists, U.S. business service firm participation in exporting lags the manufacturing sector. When we look at the share of business service firms that export, it is much lower than in the manufacturing sector. Only 5 percent in business services compared to about 25 percent in manufacturing. If I look at exports to sales ratios in tradable business services, much lower than in manufacturing. We should be exporting more.

The reason is we are—certainly a key contributor to this is, this data from the World Bank suggests, is that the large, fast growing markets have relatively high barriers to services trade. India, Indonesia, China, Brazil all have high impediments to services trade. We need to kick the door down. There is enormous opportunity here. And I think my time is up. So thank you.

Chairman BRADY. Thank you, Dr. Jensen, very much.

[The prepared statement of Mr. Jensen follows:]

Opportunities for U.S. Exports of Business Services

Statement by

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to the

Subcommittee on Trade
Committee on Ways and Means
United States House of Representatives

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The United States has a significant opportunity for increased growth through exports of business services that is going unrealized because of trade barriers in large, fast-growing countries like India, China, and Brazil.¹

1. The U.S. business service sector is large (accounting for 25 percent of the labor force), growing rapidly (employment in business services increased roughly 30 percent in the decade prior to the financial crisis), and pays relatively high wages (on average more than 20 percent higher wages than the manufacturing sector).
2. Many business services are traded within the United States and thus could be traded internationally. Many service activities—software, architectural services, engineering and

¹ The material in this statement is taken from my recent book *Global Trade in Services: Fear, Facts, and Offshoring* (2011) and my recent Peterson Institute for International Economics *Policy Brief* “Framework for the International Services Agreement” with Gary Hufbauer and Sherry Stephenson.

project management services, and insurance as examples—appear to be traded within the United States and thus are at least potentially tradable internationally. Approximately 14 percent of the workforce is in business service industries I judge to be tradable. In comparison, only about 10 percent of the workforce is in the manufacturing sector.

3. The United States has comparative advantage in business services. The U.S. consistently runs a trade surplus in services. Service exports now account for almost 30 percent of U.S. exports, and about 16 percent of U.S. imports are service imports. The United States has consistently maintained a positive trade balance in services, with service exports exceeding service imports. The trade surplus in services was \$172 billion in 2011 (triple the surplus in 1992).
4. In spite of having comparative advantage in business services and globally competitive business service firms, U.S. service firm participation in exporting lags significantly behind export participation in the manufacturing sector. About 25 percent of manufacturing plants export; in business services, only 1 in 20 establishments export. Looking at exports-to-sales ratios in manufacturing, about 20 percent of manufacturing sales are exported; in tradable business services, less than 5 percent of sales are exported.
5. An important source of the lagging export performance is likely to be the high barriers to services trade imposed by the large, fast-growing emerging markets. India, China, and Brazil (countries where U.S. comparative advantage is most pronounced) all have relatively high barriers to services trade, much higher than the U.S. or other developed countries.
6. The United States should be working aggressively to open the large, fast-growing economies to services trade. The International Services Agreement offers an excellent opportunity to initiate the process of liberalization in the service sector. The U.S. should seek to exploit this opportunity and create additional venues to engage the large, fast-growing economies in services liberalization negotiations.

BUSINESS SERVICES ARE IMPORTANT

Most observers know that the United States and many developed economies are now “service economies,” correctly grasping that, depending on which industries are included, services account for 50-80 percent of U.S. employment and close to these levels in most developed economies. But few observers know how important is the rapidly growing business service sector, which I define to include the industry groups in the North American Industrial Classification System (NAICS) 50s. This group includes the information, finance and insurance, real estate, professional, scientific, and technical industries; management, administrative support, and waste remediation industry groups; and industries such as software, engineering services, architectural services, and satellite-imaging services.

This selection may sound like a set of niche industries, but the notion that business services are a niche is incorrect. The business service sector accounts for about 25 percent of the U.S. labor force – two and a half times the size of the manufacturing sector. Moreover, the business service sector is growing. Over the past decade or so, manufacturing sector employment has decreased by about 20 percent, while business services have increased by about 30 percent. And business service jobs are good jobs: average wages in business services are more than 20 percent higher than average wages in manufacturing.

Many people hold an outdated view of the U.S. economy. Just as an example, consider the relative size of one service industry, engineering services, relative to two important manufacturing industries: the automotive industry (including assembly and parts) and the aerospace industry. It might surprise you to learn that engineering services is the largest in terms of employment. Engineering services (NAICS 541330) employed 980,000 people in 2007 – more than the automotive industry (910,000) and more than twice as many as aerospace (440,000), according to the most recent Economic Census. Average earnings in engineering services (\$73,000) are significantly higher than in auto production (\$52,000) or even in aerospace (\$68,000).

BUSINESS SERVICES ARE TRADABLE

When we think of trade, most of us envision wheat, copper, crude oil, and manufactured goods such as clothing, furniture, consumer electronics, cars, and jet aircraft. We need only visit a port, border crossing, or big-box superstore to find an abundance of such goods from virtually every country in the world.

By contrast, many believe the service sector is largely insulated from the international economy. Because many services require face-to-face interaction between buyer and seller, the prevailing assumption is that most services are not tradable.

This belief has always been a misconception, and in today's economy, it is an increasingly inappropriate one. The falling costs of travel and increased ease of communications, thanks to the Internet, have vastly expanded opportunities for services to be traded across long distances, including across borders.

But this misconception is all too easy to understand. Official data on services trade is woefully inadequate to reveal the true potential of U.S. business services. Further, because services are intangible, trade in services can be somewhat harder to conceptualize than manufacturing. As a helpful guide, the General Agreement on Trade in Services' (GATS) definition of trade in services embodies four "modes":²

- Mode 1: cross-border provision, such as software produced in one country and shipped via the Internet to another.
- Mode 2: consumption abroad, as when a vacationer travels to a resort in another country and purchases hotel accommodations, meals, and other services there.
- Mode 3: commercial presence in a foreign country, such as a restaurant chain opening a branch outside its home country.
- Mode 4: temporary movement of natural persons across borders, such as a business consultant visiting a foreign client.

I will refer to modes 1, 2, and 4 as "cross-border" trade and include them in my definition of tradable services. While Mode 3, also called foreign direct investment or commercial presence,

² The General Agreement on Trade in Services can be downloaded in its entirety at http://www.wto.org/english/tratop_e/serv_e/gatsintr_e.htm

undoubtedly benefits the U.S. and global economy, because most employment associated with Mode 3 trade is in the “local” (meaning foreign) market, I will not refer to this as a tradable service. It is true that the parent company and its overseas affiliates exchange headquarters services, but these types of flows (and the employment associated with them) would be very difficult to identify with existing data. As a result, I will leave Mode 3 trade to the side and focus on cross-border trade.

Cross-border trade in services (both exports and imports) more than doubled from 1997 to 2011. Service exports now account for almost 30 percent of U.S. exports, and about 16 percent of U.S. imports are service imports. The United States has consistently maintained a positive trade balance in services, with service exports exceeding service imports. The trade surplus in services was \$172 billion in 2011 (triple the surplus in 1992). This suggests that the United States has comparative advantage in tradable services, as we will discuss.

The Bureau of Economic Analysis divides “private services” into five main groups: travel, passenger fares, other transportation, royalties and license fees, and “other private services,” a catchall category that includes education, financial services, insurance services, telecommunications, and business, professional, and technical services. Other private services roughly encompass what I refer to as business services. Although all of the categories grew from 1992 to 2007, other private services grew the fastest: both imports and exports more than doubled. Other private services also contributed the most to overall service growth, accounting for more than half of the increase in service exports and about half of the increase in service imports. Business services trade is growing rapidly and is increasingly important.

It would be desirable to use detailed trade-in-services data from official statistics agencies to better understand where the growth in other-private-services trade (both which industries and which countries) is coming from. Unfortunately, currently available data fall far short of what is needed to adequately analyze the sources of services trade growth, let alone to understand the domestic impact of trade in services. Consider that for merchandise trade (i.e., goods), data on exports and imports of over 8,000 product categories are published monthly for most countries in the world. In contrast, only about 30 categories of service trade have only recently become available for a far more limited set of countries. Prior to 2006, even fewer categories are available. Going back to the mid-1990s, only about a dozen categories of services trade are available.

Lacking detailed official data, I pioneered a novel approach of using the geographic concentration of production within the United States – specifically, where production is concentrated and demand is not – to identify industries and occupations that appear to be “traded” within the United States. The logic for this approach is simple: If the supply of a service in one location is greater than consumers in that location are likely to want to consume, then the excess services must be being consumed elsewhere. The key advantage of this approach is that fairly detailed data for domestic production is available.

The notion of using geographic concentration to identify tradable activities is related to a long tradition among geographers and regional economists of using the geographic concentration of economic activity to identify a region's export or manufacturing base. The idea was that if a region specializes in a manufacturing activity – think airplanes in Seattle or automobiles in Detroit – it is likely to export the product in which it specializes.

When trade costs are low and there are reasons to concentrate production in one location (such as capitalizing on increasing returns to scale or accessing natural resources or workers with specific skills), we will observe concentrations of production that exceed local demand (Detroit and cars; Seattle and airplanes). Instead, if trade costs are large, we will observe production distributed ubiquitously with demand (think barber shops and grocery stores).

Geographic concentration of production allows us to identify service activities that are tradable at a very detailed level – far more detailed than official services trade data allow – and add up the amount of employment in these tradable activities.

The results are striking. In contrast to traditional characterizations of services as predominantly nontradable, a significant share of total employment is in tradable service industries. In the business service sector alone, more workers are in tradable industries (14 percent of the labor force) than in tradable manufacturing industries (10 percent of the labor force). Although it is true that some large service subsectors (such as education, health care, personal services, and public administration) have low shares of employment in tradable industries, because the service sector is much larger than the manufacturing sector, the number of workers potentially engaged in international trade in services exceeds the number of workers engaged in manufacturing.

Even more surprising than the size and scope of tradable services is how different workers in these tradable business service activities are from those in either non-tradable

business service activities or the manufacturing sector. In the manufacturing industry, about 24 percent of workers have a B.A., and about 7 percent have an advanced degree. Similarly, in non-tradable business services, about 29 percent have a B.A., and 7 percent have an advanced degree. By contrast, looking at the approximately 18 million workers in tradable business services, about 50 percent have a B.A and almost 20 percent have an advanced degree. Moreover, earnings are much higher than in manufacturing and non-tradable business services. Even controlling for worker characteristics such as age, gender, race, education, industry, sector, and occupational category, occupations in tradable industries pay about 20 percent more than non-tradable work in the same sector and the same occupation.

To recap: many business service activities are tradable. In fact, more Americans work in the tradable business service sector than in the entire manufacturing sector. The average wages earned in tradable business services are significantly higher than average wages in the manufacturing sector and in other services sectors. The source of this earnings differential is the level of education and skill required to work in the tradable business service sector, as they encompass very skill-intensive activities.

THE UNITED STATES HAS A COMPARATIVE ADVANTAGE IN BUSINESS SERVICES

Comparative advantage tells us that a country will have a comparative advantage in activities that are intensive in the use of factors or inputs abundant in that country. For example, the production of aluminum, which is sometimes referred to as solid electricity, is very energy intensive. Thus, regions where energy costs are low – because of hydroelectric producing dams or other sources of inexpensive electricity – have a comparative advantage in producing aluminum. Indeed, aluminum production tends to be concentrated in areas where electricity is cheap.

One important factor on which countries differ is skilled labor: some countries have many highly skilled workers, while others have mostly unskilled workers. Although skill is very difficult to measure, more educated workers generally possess greater skills. Educational attainment can thus be used as a proxy for skill. Data on educational attainment show that even compared with other developed economies, the United States has been and remains relatively

skill abundant. The United States' skill abundance relative to China and India, two very populous countries where average educational attainment has been historically low, though rising, is even greater. Because the United States is a relatively skill-abundant country, the theory of comparative advantage suggests that the United States should produce and export skill-intensive goods and activities, and should import goods and activities intensive in low-skilled labor.

To understand how comparative advantage shapes the location of production and trade flows, let's begin by examining the manufacturing sector, where the data are much better. The manufacturing data show that there is considerable variation in skill intensity across industries within the sector. Some industries have very low average educational attainment: for example, only 7 percent of workers in animal slaughtering and processing have a college degree, and only 1 percent have an advanced degree. At the other extreme, 56 percent of workers in the aerospace products industry have a college degree, and 22 percent have an advanced degree.

The data also show that average earnings tend to be higher in industries with higher educational attainment. Indeed, the relationship is quite strong statistically. This relationship is useful for our purposes because some data sources lack information on educational attainment, requiring us to use average wages as a proxy for skill.

When we examine import data, we see that imports from low-wage, labor-abundant countries (like China) are concentrated in low-wage, labor-intensive industries such as apparel, leather goods, and furniture. These are the industries in which U.S. firms and workers face stiff competition from low-wage imports. By contrast, high-wage, high-skill manufacturing industries like transportation equipment, chemicals, and petroleum, and coal products (i.e., refining) face very little competition from low-wage imports.

Comparative advantage also shapes which products the United States exports. Manufacturing industries that pay relatively high wages (which, again, we interpret as being highly skill intensive) tend to export more than lower-paying industries, consistent with comparative advantage. Indeed, there are strong positive correlations between export participation, whether measured in terms of the exports-to-sales ratio or in terms of the share of plants that export, and average wages in an industry. These correlations are consistent with the notion that the United States has comparative advantage in activities that are skilled-labor intensive.

Trade in general, and specifically trade with low-wage, labor-abundant countries such as China, has shaped the allocation of economic activity within the U.S. manufacturing sector, and even within manufacturing industries, in ways that are consistent with U.S. comparative advantage. The United States tends to import low-wage, labor-intensive products from low-wage, labor-abundant countries and to export products that are relatively skill intensive.

So, how will services fare in a globalizing world? The United States today has a large *positive* trade balance in services, and many tradable services seem consistent with U.S. comparative advantage. This suggests that the U.S. service sector is likely to benefit, rather than suffer, from increased trade in services.

Let's examine how comparative advantage should play out in services. In terms of skills and earnings, services exhibit similar patterns as the manufacturing sector. There is significant variation across service industries in the share of workers with a college degree. For example, only 5 percent of workers in barber shops have a college degree, and only 1 percent have an advanced degree. In contrast, 76 percent of workers in software publishing have a college degree, and 27 percent have an advanced degree. Again, the relationship between educational attainment and wages is also quite strong: industries that use higher shares of college-educated workers have higher average earnings.

Unfortunately, detailed official information on exports is available for only a subset of service industries. In these industries, though, just as in manufacturing, service industries that pay higher wages tend to have higher export participation in terms of higher exports-to-sales ratios, higher exports per workers, and higher shares of exporting establishments. The U.S. seems to have comparative advantage in high-skill, high-wage business service activities.

Data on the import side is even more lacking. One might assume from reading the business press that most business, professional, and technical service U.S. imports come from India. Yet official statistics show that two-thirds of service imports come from Canada, Western Europe, Japan, Australia, and South Korea -- developed countries similar to the United States -- rather than from low-wage, labor-abundant countries. These countries have comparative advantage in high-skill activities; less developed nations do not.

The United States runs a persistent trade surplus in services (in marked contrast to its large and persistent trade deficit in goods) and is the world leader in service exports. Many service activities require high levels of skill, and the United States has an abundance of skilled

workers. When the United States does import services, it tends to import them from other high-wage, high-skill countries. These facts indicate that the United States and other developed economies have comparative advantage in tradable services and would likely benefit from increased services trade with the rest of the world.

CAPITALIZING ON OPPORTUNITIES

The data suggest that great opportunities are available for U.S. service providers. Yet despite having comparative advantage in services, the U.S. service sector is nowhere near as globally engaged as the manufacturing sector. Looking at plant-level or establishment-level data, about 25 percent of manufacturing plants export. In services, only 1 in 20 establishments export. Looking at exports-to-sales ratios in manufacturing, about 20 percent of manufacturing sales are exported; in services, less than 5 percent of sales are exported.

In a sector where the United States seems to have a comparative advantage, why does it export so little? Research by the World Bank suggests that the United States is already relatively open to trade in services. In contrast, a number of large and fast-growing countries, notably China, India, Indonesia, and Russia, have relatively high barriers to imports of services. Other increasingly important economies, notably Brazil and Korea, maintain lower but still high barriers to service imports.

These impediments are not in the form of tariffs. Instead, a thicket of domestic regulations, policies, and industrial practices abroad make it difficult to provide business services in these countries. For example, many countries place requirements for and restrictions on “commercial presence.” That is, if you’re an architect who wants to work abroad, you need to establish an office; however, you can’t establish an office until you demonstrate that a need exists for your service. This type of Catch-22 – along with economic-needs tests, requirements for local joint ventures, licensing accreditation, differential tax treatments, and government procurement practices – makes the export of U.S. services difficult, if not impossible.

The United States should be pushing aggressively to reduce barriers to services trade. Service trade liberalization in the fast-growing emerging markets would allow U.S. firms with comparative advantage in business service provision to start exporting, or to increase their exports, to these countries. The U.S. economy would benefit from increased national

productivity as services production becomes increasingly specialized in high-performing business services. So would the economies of other developed countries, like Canada, Japan, and many EU countries, all of which are similar in comparative advantage to the United States and would likely see their business service exports grow as well. The countries that liberalize also would benefit from the increased productivity that comes from being able to import business services, as inputs to their own production, the world's best quality at the best price. They might also then be able to expand their exports of middle-skilled standardized services, like back-office operations and call centers.

As an example of the win-win nature of increased trade in services, consider that the world, led by a number of fast-growing developing countries, is about to undertake an infrastructure boom of historic proportions. It is estimated that over \$40 trillion could be spent on infrastructure of all types worldwide over the next 25 years, more than 80 percent of it outside the United States. China and India alone have infrastructure needs valued at \$10 trillion over that period, and even many developed countries are facing huge expenditures to replace and refurbish their decaying infrastructure systems. All this represents a potential bonanza for construction and engineering firms and for international banks and financial service providers.

Many U.S. service firms are competitive in the types of business services that will be needed for these projects and some are already helping to build state-of-the-art infrastructure in emerging markets like India and more developed economies like South Korea.

Much of the spending for infrastructure in the coming boom is likely to be controlled or financed, at least in part, by governments – national, regional, and local. Those governments are sure to be subject to domestic political pressure to favor domestic producers in granting contracts for this work. This makes guaranteeing equal treatment in government procurement a crucial issue for foreign service providers. The WTO's Agreement on Government Procurement was negotiated during the Tokyo Round of GATT negotiations in the early 1980s with the intention of reducing preferences to domestic firms in public procurement and opening public works spending to international trade. Its coverage was extended tenfold in the subsequent Uruguay Round and now extends to government purchases totaling several hundred billion dollars annually. However, this large sum obscures the fact that, to date, only a relative handful of countries have signed the agreement, virtually all of them in the developed world. In particular, none of the large developing countries expected to account for the bulk of infrastructure

spending in coming decades – Brazil, China, India, and Russia – are participants in the agreement.

The United States should pursue services liberalization through any and all means available. Two current opportunities are the Trans-Pacific Partnership negotiation and the International Services Agreement negotiation. Both of these venues provide opportunities to strengthen commitments in the services area. While both negotiations have the short-coming that none of the large, fast-growing emerging markets are currently participating, both offer opportunities for the large, fast-growing economies to join in the future.

Chairman BRADY. Mr. Klein.

STATEMENT OF THOMAS KLEIN, PRESIDENT, SABRE HOLDINGS

Mr. KLEIN. Yes. Mr. Chairman, Members of the Committee, thank you for the opportunity today. Our team in South Lake, Texas, is honored for this opportunity. Sabre Holdings is a software and electronic services distribution company.

Chairman BRADY. Mr. Klein, can you make sure the microphone is on?

Mr. KLEIN. Yes, sir. Our company is a software and electronic distribution services company serving the global travel industry. We employ about 10,000 people, 4,500 in the United States, and do business in 135 countries around the world. You may recognize Travelocity.com, our consumer brand. Sabre helps airlines be more efficient. We make it easier for travelers around the world to visit the United States, where tourism and business travel dollars work to strengthen our economy and count as exports.

Although we are a mid-sized company, we believe we can compete with anyone in the world, and we focused intensely on the international market. In our fastest growing business, our software business, in 2001 just 12 percent of our revenues came from international markets. But we invested heavily to build out our global capabilities. It took time, it took money, and we have seen great results. Today, we have 65 percent of our revenues from those businesses coming from international markets. That number will increase to about 75 percent over the next 3 years.

We are meeting the global demand by creating many new high paying jobs. Since the beginning of 2010, we have added over 1,400 positions globally, and more than 800 of these jobs in the United States. The average American technology worker at Sabre makes \$87,000 per year.

Yet as innovative and world class as our software services become, the international playing field is not always level. It is often tilted. In those cases, we find it difficult, if not impossible, to compete.

We all know that we need update our international legal framework for services. The WTO General Agreement on Trade Services is over 15 years old. In that time, we have seen the travel industries change dramatically. We have also seen the technology industry change dramatically. More than ever, individuals are searching for and booking travel online. And the biggest growth in consumer-driven travel is outside the United States. Yet the trade rules haven't kept up. Governments take advantage of this vacuum to create protective measures and stymie competition.

An International Services Agreement is a strong step in the right direction. And taken at its fullest potential, a high standard agreement will lower barriers to important markets, create much needed pressure on other countries that are not participants in this discussion, like China, and will help generate momentum toward liberalization more broadly at the WTO.

Such an agreement has the potential to help our company in a number of ways. One important benefit that a services agreement may offer is increased transparency. The more countries play by the same rules, and the more we know what those rules are, the easier it is to do business and resolve disputes when they arise. FTAs have traditionally included strong transparency provisions, for example, requirements that countries publish regulations in a clear and timely manner, and consult with stakeholders. Replicating these successes on a large scale would only benefit American companies, small and large alike, doing business overseas.

One challenge for companies like ours is that countries often deny operating licenses to foreign companies in order to protect their own domestic enterprises. For example, China's state-owned

travel distribution monopoly, TravelSky, is the only licensed provider of passenger reservation services and airport departure and control systems in that country. Foreign competitors, including Sabre, are fully shut out.

Another challenge in our industry is often called in the technology industry the big data trend, how to store and search and access huge amounts of data in a way that is timely and useful for consumers. In a global environment, having control over how that data is stored and distributed and used is critically important to our business and our customers. An agreement that ensures that data can flow freely across borders would be a powerful tool for our business.

The value of trade agreements is proven by our own experience in Chile. We have had tremendous success there, including with LAN Airlines, which recently chose Sabre as its airline reservation system and operation system provider. Our presence in that country before the FTA was much smaller, with a European competitor dominating the market. After the FTA was signed, the Chilean Government put out an RFP requiring any bidder to use our European competitor's automation services. We brought that violation to the FTA, to the attention of the Department of Commerce, and within 2 days our government officials communicated the concerns to the Chilean officials, who acknowledged the violation and fixed the RFP. It was breathtaking how quickly things can happen when there is clarity around what the regulations are.

What is more, we looked at the numbers, and we also saw a significant increase in visitors to the United States from Chile following the enactment of that FTA. That means more travel and tourism dollars going to our local economies to create jobs here at home.

Mr. Chairman, thank you for holding this hearing. As was reported yesterday, the travel industry has been and continues to be one of the strongest job creators in the current economy. And our view is that a high standard International Services Agreement would only help continue that trend.

I look forward to your questions.

Chairman BRADY. Thank you, Mr. Klein.

[The prepared statement of Mr. Klein follows:]

Written Testimony of Thomas Klein, President, Sabre Holdings
House Committee on Ways and Means, Subcommittee on Trade
September 20, 2012

INTRODUCTION

Mr. Chairman, Congressman McDermott, and Members of the Committee: thank you for the opportunity to testify today about the potential benefits of a services liberalizing agreement. My testimony will cover some of our challenges as an international company competing globally, as well as the role travel can play as a services export for our country.

My name is Tom Klein and I am the President of Sabre Holdings based in Southlake, Texas. We are a software and electronic distribution services company serving the global travel industry. We employ about 10,000 people (4,500 in the United States) and do business in 135 countries around the world. We are a leader in the airline software business, a top player in hospitality industry software after just seven years in that business, the largest processor of global reservations between travel agents and suppliers, and we own Travelocity.com, a leading online consumer travel brand.

We are a mid-sized company, and representative of the mid-sized sector in the United States. We have great people, innovative products, and a belief that we can compete with anyone in the world. We have worked hard to earn that position and I will try to outline a bit of our story. But to be clear, the international playing field is not always level. It is often tilted, and in those cases we find it difficult if not impossible to compete.

While our business cuts across a broad swath of the travel and technology sector, I will focus my remarks today on Sabre Airline Solutions, our airline software business, and opportunities there for international growth, services exports, and job stimulation.

BACKGROUND ON SABRE AIRLINES SOLUTIONS

Sabre Airline Solutions sells the world's broadest suite of airline-specific software – from reservations and airport departure control, to airline websites, pricing and revenue management, to flight operations and crew management – and more. We help airlines be more efficient and make it easier for travelers around the world to visit the United States, where tourism and business travel dollars work to strengthen our economy – and count as exports.

In 2001, after selling an \$800 million airline technology business that focused on hardware and network technology services primarily in North America, we recast our strategy, keeping our software portfolio and setting out to be a truly global provider of these high value services. At the time, we had just 12% of our revenues coming from international markets.

When we tried to expand internationally we learned quickly that we were viewed as a U.S.-focused supplier trying to do business in an increasingly global marketplace. Many international customers did not think our systems, most of which were developed in the United States, effectively took into consideration their unique needs. So while we had innovative, ground breaking solutions we often lost business to international competitors that “looked” more international. Amadeus, a Madrid-based company formed by Spanish, German, and French partners is one example; Lufthansa Systems in Germany is another. These companies had a head start selling into the global aviation industry, supportive partners commercially, and sometimes, local governments willing to help them in their efforts. Over the course of several years Sabre invested heavily to build out global capabilities and our own international “look.” We set up global development and delivery teams, we increased our local sales and account support coverage, and most importantly, we started to build software that was more flexible and responsive to the needs of the global marketplace. It took time and it took money – and we started to see results.

Over the past several years we have effectively sold our systems across the globe. We have provided major technology implementations in Vietnam, Saudi Arabia, Indonesia, Russia, the UK, South Africa, Ethiopia, Brazil, Mexico, and many more places. Our current yearly international revenues – export dollars for the United States – are over \$320 million, representing 65% of our total revenues today. The majority of our future growth is projected to be outside the United States, with international revenues increasing to \$600 million by 2015 – 75% of \$800 million in total projected revenues. China is an obvious example of incredible growth in business and consumer travel, as well as infrastructure. There are 82 new airports being built and 101 airports being expanded around that country, and airline passenger volumes are projected to grow at 7 to 10% for the foreseeable future.

We are meeting this global demand by creating many new high-paying jobs. Since the beginning of 2010, we have added over 1,400 positions globally, with more than 800 of these jobs based in the United States, where we currently have 450 openings to fill. The average American technology worker at Sabre makes \$87,000 per year.

Once challenged by the global marketplace, we adapted, and we are succeeding. Yet as innovative and world-class as our software services have become, we often face significant challenges in markets abroad that hinder our ability to sell and grow, which limits our export and job-creating potential. Despite the explosive growth in the Chinese travel market, for example, in some service categories, there is no opportunity for American firms to compete. We are simply blocked from selling our services to Chinese companies.

We recognize the value of strong government leadership in addressing barriers like these while working to promote American businesses and workers with partners that are willing to compete. In 2008, when Sabre was competing for a contract with Vietnam Airlines, the U.S. government, led by the Department of Commerce, worked closely with us to ensure we had the best possible opportunity to secure that contract – and we did. That next year, our revenue from Vietnam increased by \$4 million, and we added 20 new jobs and 10 of those in the U.S.

An international services agreement that opens markets and levels the playing field for U.S. businesses like ours competing overseas would create the right kind of opportunities for us to expand our international sales even more.

SERVICES LIBERALIZATION

We need a new international services agreement. The World Trade Organization (WTO) agreement providing the framework for global trade in services – the General Agreement on Trade in Services – is over fifteen years old. And efforts to negotiate a new, comprehensive WTO agreement through the Doha Round have stalled. In the meantime, we have seen the travel services industry change dramatically. More than ever, individuals are searching for and booking travel online, and the biggest growth in consumer-driven travel is outside the United States.

Yet, the trade rules have not kept up, and as a result, governments take advantage of this vacuum to erect artificial barriers and other protectionist measures that stymie competition. An international services agreement is a strong step in the right direction. Taken at its fullest potential, a high-standard agreement will lower barriers in important markets, create much-needed pressure on other countries that are not participants, like China, and help generate momentum toward liberalization more broadly at the WTO.

An agreement has the potential to help our company in a number of ways, such as addressing discriminatory licensing practices, increasing transparency, and protecting the flow of data across borders.

Discriminatory Licensing. Countries often indiscriminately deny operating licenses to foreign companies in order to protect their own domestic or state-owned enterprises. China's state owned travel distribution monopoly, TravelSky, for example, is the only company licensed to provide passenger reservations systems and airport departure control systems in that country. Foreign competitors, including Sabre Travel Network, are not allowed to provide global distribution system services to Chinese airlines and Chinese travel management companies.

The U.S. Commerce Department, in conjunction with Director General for Trade in Europe, has for the last five years urged the CAAC, the Chinese transportation ministry, to create an opportunity for U.S. and European travel distribution companies to engage in talks that would include technology demonstrations and discussions about the benefits to Chinese aviation of market opening. The CAAC has been unwilling to engage, and progress toward market opening has been painfully slow.

A recent development, however, is worth mentioning. The CAAC has recently adopted limited regulations that purport to allow individual foreign airlines and individual Chinese travel agencies to sponsor a foreign global distribution system (GDS) for the limited purpose of distributing international trips to and from China (but not for domestic travel). There are very significant administrative burdens associated with this scheme, but it appears to represent a small step forward. The Chinese domestic travel market, however, remains completely off limits to us.

We recognize that China is not part of the current services talks. But we believe that a multilateral services agreement that includes strong protections against discriminatory treatment is a strong step forward toward ensuring that American companies and workers can compete on a level playing field.

Transparency. Another important benefit that a services agreement may offer is increased transparency. The more countries play by the same rules, and the more we know about and have

input into those rules, the easier it is to do business – and resolve disputes when they arise. U.S. free trade agreements (FTAs) have traditionally included strong transparency provisions – for example, requirements that countries publish regulations in a clear and timely manner and consult with stakeholders. Replicating these successes on a larger scale would only benefit American companies, small and large alike, doing business overseas.

Data Flows. One challenge for our industry today is what we call “Big Data” – how to store, search and access huge amounts of data in a way that is timely and useful for consumers. Consider this: just two years ago, enterprises around the world stored more than seven Exabytes of new data – equivalent to about 28,000 times the amount of information that is stored in the Library of Congress. And this does not even account for the amount of data generated through social media.

In a global environment, having control over how this data is stored, distributed, and used is critically important to our business – and our customers. If we know, for example, that if 100 people searched for a 6am flight to Houston, where only an 8am flight existed, an airline might consider adding a 6am flight to meet the demand. An agreement that ensures data can flow freely across borders would be a powerful tool.

A TALE OF TWO COUNTRIES

The value of trade agreements to U.S. companies is proven by Sabre’s dramatically different experience in two South American countries: Venezuela, where no such agreement exists and our ability to do business suffered enormously, and Chile, where a free trade agreement facilitated our market presence and at least on one occasion, dramatically came to our rescue.

In Venezuela, U.S. companies have a challenging time doing business. We are subject to arbitrary and politically driven applications of local laws and to restrictions on repatriating money to the U.S. earned in that country. After years of building our market presence in that country, for no legitimate reason, the Venezuelan government nullified Sabre’s valid contracts with local travel agencies, claiming that they were anticompetitive. This finding surprised even our local lawyers since it was obviously in clear contravention of applicable local laws. This necessitated making contract modifications in order to placate agency officials and re-signing some 600 existing customers. This took much time, expense and effort in order to be able to continue Sabre’s local operations.

The currency control issue further exacerbates the difficulties of doing business in Venezuela. Our contracts requiring payment in U.S. dollars for services rendered by Sabre to local airlines, for example, are typically delayed due to a required but inconsistent approval process by a Venezuelan government agency. Trade agreements addressing these and similar issues would give Sabre national treatment status and would make doing business much more rewarding for us, our customers and the balance of trade.

In Chile, the story is completely different. The U.S.-Chile Free Trade Agreement gives companies like Sabre national treatment status and we have had spectacular success in that country, including with LAN Airlines, which recently chose Sabre as the airline’s reservation and

operational systems solutions provider and entered into a multi-year, full content distribution agreement with us. This contract resulted in at least 50 new technology jobs in the U.S.

Our presence in Chile before the FTA was much smaller, with a European competitor dominating the market. After the FTA was signed, a major Chilean government agency put out an RFP for travel agency services and required that any bidder use our European competitor's automation services. We brought this violation of the FTA to the Department of Commerce's attention. Within a matter of two days, Commerce assembled a team from the State Department, the United States Trade Representative and embassy officials in Santiago, which communicated the concern of the U.S. Government to the Chilean authorities who acknowledged the violation, and the tender favoring our competitor was promptly abandoned. It was breathtaking how well the process worked.

Existing U.S. free trade agreements have made important progress on addressing services barriers and ensuring protections for American companies doing business overseas. Replicating these successes on a larger, more global scale – such as through a more expansive services agreement with willing WTO partners – would help to strengthen our position as a global leader and provide important economic benefits.

TRAVEL TO THE U.S. AS AN EXPORT

While today's hearing focuses on a possible services agreement, it is important – as this Committee looks at numerous ways to grow international trade – to put travel in the broader context of U.S. exports. Money spent by foreign travelers counts as exports from the U.S. and creates travel industry jobs in the U.S. And those are jobs that are staying in the U.S.

The last year has seen an explosion in travel around the world, for business, pleasure, medical reasons, education, and family events. In 2011, travel was among the top 10 industries in 48 states and the District of Columbia, supporting a total of 14.4 million jobs. Travel-related spending totaled \$813 billion, leading to \$124 billion in tax revenue for federal, state and local governments. Additionally, the industry accounted for 2.7 percent of our nation's GDP.

However, from 2000-2010, the U.S. share of international travel dropped from 17 percent to 12.4 percent, despite an overall 40 percent increase in international travel globally. At the same time, travel to the U.S. from the majority of U.S. FTA partners increased. The number of visitors from Australia, for example, doubled in the seven years after enactment of the FTA, increasing from an average annual growth rate of 3.4% before the FTA to 10.6% after.

Regaining our lost share of international visitors will give our economy a much needed boost and lead to economic growth well beyond the travel industry. A return to 17 percent would attract 98 million more international visitors, create an additional 1.3 million jobs by 2020, and generate \$859 billion for the U.S. economy. An international services agreement would only help as we work to reach these goals.

In an era of hesitant economic recovery, the story around international travel has been a bright spot over the past several years. 2011 featured the largest trade surplus for travel and tourism ever for the United States, at \$43 billion dollars. Growth rates throughout 2012 continue to outpace 2011 numbers.

This growth is in part due to significant enhancements by the Department of State in visa processing. For instance, in the first half of 2012, visa demand in Brazil was up 48% over 2011. Visa demand in China was up 38%. By expanding personnel (paid for by visa fees), expanding consular service periods, and waiving repeat interviews for low-risk travelers, these increases have been achieved while visa interview wait times have gone down significantly. While these times vary, generally visas can be obtained in these high demand countries in less than 10 days.

In addition, the launch of advertising campaigns in key travel markets like the United Kingdom is sparking additional demand for travel to the U.S. There has been a 14% increase in the number of British nationals who intend to travel to the U.S. after the initial marketing campaign this year.

However, the fact that the U.S. is no longer losing ground in the race for international travel does not mean that our policy problems are solved. There are a number of enhancements to the visa and entry process that should be considered which would generate significant increases in the number of international travelers and the jobs that support their travel. Among these issues include:

- *Expansion of the Visa Waiver Program (VWP):* Two-thirds of international travelers coming from beyond the Northern Hemisphere arrived in the U.S. under the VWP which allows visa-free travel for up to 90 days for business or pleasure for citizens whose countries sign bilateral agreements with the U.S. to cooperate on a series of stringent counter-terrorism measures. Congress enacted temporary changes to the program in 2007 that allowed the Bush Administration to negotiate the entry of nine new VWP countries, most notably South Korea. However, new legislation is needed to shift the VWP's eligibility criteria to focus on visa overstays rather than visa refusals, which would allow countries such as Brazil, Poland, Croatia, Chile, and Israel to be considered for admission. Enacting H.R. 5741, the "Jobs Originated through Launching Travel Act of 2012," would represent a very important jobs bill – it is worth noting the VWP language is also included in the FY13 Department of Homeland Security appropriations bill in the Senate. The Congressional Budget Office has reported that the JOLT Act would not result in any increase in federal spending.
- *U.S. Customs and Border Protection staffing:* CBP is struggling to fulfill its counter-terrorism and facilitation duties due to significant shortfalls in its budget for front-line CBP officers. This shortfall is in part due to reductions in CBP fees received during the economic downturn in 2008-2010 that would have been used to hire and train more officers. However, it is also due to a provision in the 2011 U.S. - Colombia Free Trade Agreement. This agreement increased immigration fees on travelers from Canada, Mexico and the Caribbean, but instead of using the additional revenue to support CBP, the agreement dedicated those fees to deficit reduction to offset the loss of tariff revenue

from Colombia. This \$110M annual shortfall is having a major impact on CBP's ability to keep wait times manageable.

- *International Trusted Traveler Programs:* CBP has created the very successful Global Entry program with over 1,000,000 Americans eligible for expedited processing upon arrival in the U.S. The growth of Global Entry as a bilateral agreement with foreign governments to offer similar services in other countries has seen important but insufficient growth. Currently, CBP operates bilateral programs with Canada, the Netherlands, Mexico, and South Korea, and limited pilots with the United Kingdom, Qatar, and Germany. CBP has signed joint statements to develop future trusted traveler arrangements with Australia, Israel, New Zealand, and Panama. However, other than Canada, the volume of international applicants is very small, and this list does not include some of the largest in-bound travel markets such as France, Brazil, Japan, and Italy. The international aspect of Global Entry needs rapid expansion, as well as offering enrollment to selected populations of individuals affiliated with international organizations with whom the U.S. maintains significant relationships. CBP also needs to implement the 2011 law that will allow the U.S. to participate in the Asia-Pacific Economic Cooperation Business Travel Card program.
- *Coordination with Domestic Aviation Security:* Currently, foreign members of Global Entry's bilateral programs with Canada, the Netherlands, South Korea and other countries are not eligible for the Transportation Security Administration's Pre✓ "Trusted Traveler" program despite their successful background check. TSA should expand Pre✓ benefits to international members of these programs, while maintaining the randomness factor that may subject Pre✓ travelers for additional screening on any flight. We understand that discussions are underway that might allow Canadian members of the NEXUS program into Pre✓ as part of the "Beyond the Borders" initiative which would be an excellent first step. TSA should also expand Pre✓ to cover outbound international flights.
- *Reducing Redundant Baggage Screening:* The House of Representatives recently passed legislation, the "No-Hassle Flying Act of 2012" (H.R. 6028) sponsored by Rep. Joe Walsh (R-IL), that would remove the requirement that TSA rescreen luggage already screened at one of the 15 U.S. "pre-clearance" locations (nine in Canada, four in the Caribbean, and two in Ireland if TSA certifies that the screening meets U.S. standards.) We applaud this passage and hope that the Senate will consider the legislation soon.

On behalf of our employees in the United States and around the world, I thank the Committee for its leadership role on international trade issues. I look forward to your questions.

Chairman BRADY. Mr. Fessenden.

STATEMENT OF KARL FESSENDEN, VICE PRESIDENT, POWER GENERATION SERVICES, GE ENERGY

Mr. FESSENDEN. Chairman Brady, Ranking Member McDermott, and distinguished Members of the Committee, thank you for the opportunity to testify today on trade and energy services. Just a moment of background on myself. I joined GE in 1996, and have had leadership roles in the services side of both the aviation business as well as the energy portfolio over the last several years. Today, I will describe my Atlanta-based global organization,

Power Generation Services, known as PGS. I will share how we provide services across the U.S., across international borders through our commercial presence abroad. I will also discuss the challenges and opportunities we face and the ways the committee can help us overcome them. This subject is key, because removing barriers to energy services creates opportunities to grow the U.S. economy and to increase U.S. jobs.

APEC's recent success capping tariffs on some 54 environmental goods shows we can still make progress on trade liberalization. Similar efforts should be now undertaken on services, particularly energy services. Energy services is crucial to how GE helps our customers to provide clean, efficient, and reliable power. PGS provides electric utilities with services to support GE's gas and steam turbines, as well as other related equipment. Service support begins as soon as we install the plant at the inception of the power plant, and lasts until it is retired, which could be as long as 30 years. Our services span from contractual maintenance and equipment repairs to part provisioning and monitoring and diagnostics. We have nearly 7,600 employees in over 100 countries, of which 4,100 are based in the U.S., and we have more than 50 GE sites in 15 countries on six continents, and are in nine joint ventures.

GE's ability to be a large manufacturer in the U.S. is directly tied to the services we provide, and is a key reason our customers purchase power generation equipment from us. These factors offer opportunities and challenges. Gas turbines are GE's and our country's biggest clean energy export. We make these turbines in Greenville, South Carolina, where we have 3,400 employees. We also make steam turbines in Schenectady, New York, where we have 1,400 employees. Over 250 small to medium-sized businesses in 24 States feed into our supply chain. In the last 2 years, we have exported 100 percent of the gas and steam turbines we manufactured in the U.S. Providing services for these turbines is a long term repeat business that keeps jobs in the U.S. Clearly, it is key that we are able to service this equipment globally.

However, many countries enact restrictions that prevents or delays us from providing these services. The two restrictions that most limit my business are entry requirements and forced local content requirements. My workforce includes 4,000 employees who spend most of their time at our customers' sites making repairs and installing new parts. Today's environment demands that we are able to rapidly deploy these highly specialized energy services workers to sites in countries other than their home country. However, entry requirements, such as visa application and work permit processes by host nations, impedes us from quickly deploying them and delays the host nation from receiving the services they provide. The consequences of not responding due to lengthy work permit processes or customs delays are power outages and financial losses.

Local investments can help develop stable, prosperous economies by expanding long-term business opportunities. GE knows first-hand the benefits of being a responsible local business. We have seen how governments attract investments in local markets by establishing dynamic and entrepreneurial policies. However, in recent years numerous countries have imposed forced local content measures which we believe are inefficient and ineffective, and

should be avoided. Their widespread adoption may discourage foreign direct investment and inhibit economic growth.

We believe strongly in the power of free trade and open markets to strengthen the countries we trade with and invest in, supporting jobs, competitiveness, better governance, and strengthens the United States. In 2011, services accounted for almost 30 percent of GE's total revenues. As services grows in GE's portfolio, we rely on our ability to send an employee at a moment's notice to locations around the world. We believe we must establish multilateral agreements on liberalized trade and energy services. We should push for incorporating meaningful measurements and commitments in our FTAs. And we should develop a model international agreement to facilitate movement of highly trained energy services personnel between countries.

Thank you for the opportunity to speak today.

Chairman BRADY. Thank you, Mr. Fessenden.

[The prepared statement of Mr. Fessenden follows:]

Testimony before the United States House Ways and Means' Trade Subcommittee on Services

September 20, 2012

Karl Fessenden

Vice President, Power Generation Services

GE Power & Water

INTRODUCTION

Chairman Brady, Ranking Member McDermott and distinguished members of the Committee, thank you for the opportunity to testify today on trade in energy services. This is a subject I feel is critically important because removing barriers to energy services creates the opportunity to grow the American economy — and increase jobs. We can do this by building multilateral trade commitments on energy services, which are lacking in the current World Trade Organization services agreement. We should also continue to provide commitments in U.S. FTAs to remove restrictions to energy services, including those that force localization. One specific step the United States should take is to develop a model international agreement to facilitate and increase the international movement of highly-trained energy services personnel, who are critical to operating power generation assets around the world.

APEC's recent success in capping tariffs on a list of 54 environmental goods shows progress can still be made on trade liberalization. The Office of the United States Trade Representative deserves high praise for launching this tariff capping initiative and achieving outstanding results. Similar efforts should now be undertaken on services, particularly energy services.

Just a moment of background about me: I was born and raised in Massachusetts. I attended the University of Vermont for my bachelor's degree in mechanical engineering and received my master's degree in management from Rensselaer Polytechnic Institute. I joined GE in 1996 as part of our Aviation business in Cincinnati, and for the past several years, I have held leadership roles with the services side of GE's energy portfolio.

In this statement, I will describe my Atlanta-based global organization — GE's Power Generation Services business, known as PGS. I will also discuss how PGS provides services from the United States across international borders or through a commercial presence abroad. Finally, I will discuss the challenges and opportunities my business faces and ways the Committee can help us overcome them.

GE'S ENERGY SERVICES – POWER GENERATION SERVICES

Energy services is a core component of GE, playing a crucial role in how our customers provide clean, efficient and reliable power to their consumers. My global business provides electric utilities with lifecycle services to support GE's heavy duty gas turbines, steam turbines, generators, control systems and related balance of plant equipment. This service support begins as soon as we install our equipment at the power plant and can last through the time the equipment is retired, which could be as long as 25 to 30 years. Our services can be transactional (on a case-by-case basis) or

contractual, multi-year agreements. We have approximately 600 contractual agreements, predominantly in the United States and Europe.

With our services, utilities can maximize the performance of their equipment, manage costs and reduce risks, ultimately operating their power plants more efficiently and delivering more reliable power to their customers. Our services span from contractual maintenance, equipment inspection and field engineering services to equipment repair, parts provisioning and remote plant monitoring and diagnostics. And we can customize solutions, depending on whether our customers want to install, upgrade, maintain or optimize their power generation facility.

My business has nearly 7,600 employees, working in more than 100 countries around the world — 4,100 of these employees are based in the United States. We have more than 50 GE facilities in 15 countries on 6 continents, as well as 9 joint ventures.

ENERGY SERVICES SUPPORT EXPORTS

The need to be global — and local — along with a technology revolution, has altered the way we think about energy services and the way we operate our global business. Our ability to be a large manufacturer in the United States is directly tied to the services we provide, and is a key reason our customers purchase power generation equipment from us. These factors offer opportunities and challenges.

Gas turbines are GE's — and the country's — biggest clean energy export. In the United States, we make large gas turbines in Greenville, South Carolina and export these turbines around the world. Greenville is one of GE's largest manufacturing facilities in the United States, employing more than 3,400 people. GE also manufactures steam turbines and generators in Schenectady, New York, employing more than 1,400 employees. We have more than 250 small and medium sized businesses in 24 states that feed into our supply chain. In the last two years, we exported 100% of the heavy duty gas and steam turbines we manufactured in the United States. Providing services for these turbines is a long-term, repeat business that helps to keep jobs in the United States. As part of our service offerings, we ship more than 5 million parts a year around the world from key centers in Atlanta, Georgia and Amsterdam in The Netherlands.

For example, GE's \$3 billion 7,000MW power generation agreement with the Government of Iraq includes exporting 22 gas turbines made in Greenville and a multi-year services agreement to install and maintain these turbines. GE's service capabilities helped secure the equipment orders, and in turn the services agreement will support U.S. jobs long after GE ships the last turbine. Under that services agreement, GE will send both components and people from the United States to the power plant sites over the agreement period.

EXAMPLES OF SERVICING POWER GENERATION ASSETS

I'd like to share a couple of examples to help illustrate what we do on a daily basis to deploy components or people to foreign countries rapidly, often times on very short notice.

Last year, on the island of Cyprus, four GE gas turbines were knocked out of service by a huge explosion at a nearby naval station. We quickly deployed a GE service team to perform repairs and supply parts within days of the disaster. We sent more than 200 repair engineers and other technicians, who repaired or replaced more than 10 major turbine components on site. We were able to get two turbines back in service less than a year after the accident.

In Nigeria, we helped a customer who was having problems with a steam turbine. The original equipment manufacturer wanted the customer to ship a component to Asia for repair, significantly delaying completion of the work. GE was able to provide an on-site solution by quickly negotiating critical logistics issues such as obtaining work permits and visas, and navigating international customs to ship equipment to the site. We were able to get the customer up and running in about six weeks.

We are also investing to provide better service to our customers locally. We have invested more than \$250 million in a new manufacturing technology center in Saudi Arabia that employs 400 people and has serviced 450 gas turbines that power the Kingdom. GE supports the generation of half of the Kingdom's electricity through more than 500 turbines installed at various sites. Many of these turbines were manufactured in the United States. The center also provides extended service to more than 50 key customers in Saudi Arabia and across the Middle East, Africa and Europe.

Another important area of energy services is what trade experts call "cross-border supply." My team provides international services from the United States without having to physically leave the country. From our Generation IQ™ Center in Atlanta, we monitor power generation assets 24 hours a day, seven days a week around the world. We collect more than 30,000 operating hours of data from a fleet of more than 1,500 deployed gas turbine, steam turbine and generator assets owned by utilities. Using a combination of tools, the team analyzes the data and diagnoses problems ranging from failed sensors to combustion system contamination ... all without leaving Atlanta.

SERVICES RESTRICTIONS

The examples of energy services I just provided demonstrate the importance of GE's ability to provide services globally. However, many countries enact restrictions that prevent or delay us from providing our services. Exports of service, unlike goods, often require the establishment of local offices or facilities to be commercially feasible, which means that the right of establishment (and other related rights) is critical.

The two restrictions that most impact my business and limit our ability to work abroad are, first, entry and visa requirements, and, second, forced local content requirements.

Moving Employees Across Borders

Today's global, competitive marketplace demands that companies like GE maintain capabilities to rapidly deploy highly-specialized energy services workers to job sites in countries other than their home country. My workforce is extremely dispersed and diverse. While many employees go to an

office or work from home, we have more than 1,200 field engineers located around the world, who work in a small service center or at a customer's remote power plant. We have more than 800 plant operations and maintenance specialists who work at a customer's site, and we have more than 2,000 technicians and specialists who travel the world to make repairs and install new parts, often times on a moment's notice. Entry requirements by host nations impede GE from rapidly deploying these workers and delay the host nation from receiving the services these workers provide.

Specifically, visa application, work permit and residential permit processes often hinder a company's ability to rapidly deploy these workers. For large corporations like GE, the international nature of this population further complicates lead-time requirements for entry into host nations. Given the specialized nature of the skills our energy services workers perform to maintain the thousands of products associated with GE's power generation equipment, it is not economically feasible to hire and sufficiently train skilled workers in each country to respond to the array of situations our workers and customers face at any given time.

For example, if a key power plant shuts down and electricity stops flowing to consumers, the host nation would require immediate repair services to get the plant running. If the equipment was purchased from an international supplier, it is likely the service workers would need to travel from abroad to conduct the emergency repair. This need could be considered an issue of national security for some situations. And the cost of the shutdown could easily exceed \$2 million per day for local businesses.

Forced Localization Measures

At GE, we believe local investments can help develop stable, prosperous economies and enhance shareholder value by expanding long-term business opportunities. GE operates in more than 100 countries and has more than 300,000 employees, so we know firsthand the benefits of being a responsible, locally-focused business. We have seen how governments can attract investments in local markets by putting policies and regulations in place to foster a dynamic, entrepreneurial business environment and to create "win-win" opportunities for investors, local businesses, employees and communities.

In recent years, however, numerous countries have imposed forced local content measures, which we believe are ineffective and inefficient, and should be avoided. Their widespread adoption may discourage foreign direct investments and inhibit economic growth. These requirements often disqualify high-quality, financially secure foreign contractors, ultimately dissuading local investments by manufacturing companies. These requirements can also undermine the sourcing practices these manufacturers use to ensure product quality and reliability. Local content requirements may also be inconsistent with the adopting countries' obligations under the World Trade Organization and other trade agreements.

For us in the energy services sector, forced local content measures appear in the form of laws requiring our workers to be nationals of the country imposing the law, requiring specific procedures

to take place within the country or requiring local partners or majority local ownership. Other, more insidious policies also restrict the provision of energy services by foreign companies, such as cumbersome approval processes and standard setting or certifications that do not recognize foreign service providers.

As I have mentioned, the ability of my Power Generation Services team to rapidly deploy energy services workers to locations around the world at a moment's notice ensures that power plants around the world have assets that are online and available — ultimately providing electricity to consumers. Our services allow us to help utilities maximize turbine and generator asset value, availability, reliability and flexibility. These depend on global free trade for services.

CHALLENGES AND SOLUTIONS FOR ENERGY SERVICES TRADE

We believe strongly in the power of free trade and open markets to strengthen the countries we trade with and invest in — supporting jobs, competitiveness, rule of law and better governance; and strengthening the United States overall.

Trade in services is a growing part of GE's business. In 2011, product services (energy infrastructure, aviation, transportation and healthcare) accounted for almost 30% of GE's total revenues, and this number continues to rise. As services grow in GE's portfolio of product offerings, we rely heavily on our ability to send employees at a moment's notice to locations around the world and to easily operate and sell these services globally.

The old "vision" of trade, where goods are sourced and built in one country, placed on a ship and sent to another country, simply doesn't reflect modern business. Today, trade happens through integrated global supply chains, and includes life-cycle commitments to servicing, maintaining and operating the goods across international borders.

Services are often "sourced" globally, and measures that interfere with global sourcing of services (whether by the US or other governments) hurt the commercial competitiveness of service providers. A recent World Trade Organization and Organization of Economic Cooperation and Development report found an increase of protectionist measures. From an anecdotal perspective, we see it too — whether its "indigenous innovation" policies in China, local content requirements in Nigeria or "Buy America" policies in the United States. It is bad policy, and it is growing.

In the long-term, we must establish a multilateral agreement on liberalized trade in energy services. In the short-term, the United States should push for the incorporation of meaningful measures and commitments in all FTAs and in plurilateral forums, such as APEC, to remove services restrictions. We should ensure the right of establishment for commercial services facilities through high-standard bilateral investment treaties. Finally, we should include in trade agreements a section to facilitate and speed movement of highly-trained energy services personnel between countries.

Thank you for the opportunity to speak before you today.

Chairman BRADY. Mr. Lake, because the voting clock is quickly winding down, we are going to finish with your testimony, recess until 5 minutes after the vote series, which is just two or three, and then finish with Mr. Brutto. So Mr. Lake, you are recognized.

STATEMENT OF CHARLES LAKE, CHAIRMAN, AFLAC JAPAN

Mr. LAKE. Thank you very much. Mr. Chairman and Members of the Subcommittee, thank you for this opportunity to testify.

Aflac is a major employer in the United States, and a leading exporter of service to Japan. Thanks to the strategic leadership of our global CEO, Dan Amos, Aflac has been very successful. In 2011,

Aflac, which operates as a branch in Japan, generated \$18.4 billion in revenues there. It is the number one life insurer in Japan in terms of policies in force.

As U.S. service companies export their products to the world, it is critical that our government continues to vigorously enforce existing trade agreements, especially in light of the efforts to address new trade challenges. In addition, the United States should lead efforts to craft a WTO-plus International Services Agreement. Such an undertaking is a critical complement to efforts already underway to develop new global financial regulatory standards.

Allow me to explain. Following the global financial crisis, efforts to strengthen the global economic and financial regulatory architecture by creating new international rules and standards are underway, being led by the G-20 and the Financial Stability Board. We firmly support these efforts, and agree that the global crisis requires global solutions. The work of these entities must be underpinned by the international regime, such as the WTO, which are fundamentally defined by the legal authority in their Member governments granted through treaty or through commitments to undertake domestic implementing measures. These commitments contain clear legally binding rights and responsibilities. By contrast, institutions such as the G-20 or FSB have been established not through formal treaties, but through the political commitments of their respective leaders. Consequently, the scope of their activities must be limited by the existing authority of their member countries' executive branches.

However, in the rush to respond to challenges created by the global financial crisis, sometimes institutions overstep these limits. For example, in late 2011, International Association of Insurance Supervisors, or IAIS, began a review of how foreign branches are supervised around the world. From the beginning, this IAIS effort appeared to be agenda driven, with apparent bias against foreign branches, with this workstream leading toward the establishment of principles that would allow domestic regulators to force insurance companies to convert their branches into locally incorporated subsidiaries. This would be inconsistent with the legally binding commitments made by the many IAIS Members to abide by the WTO General Agreement on Trade and Services, or GATS. GATS prohibits any government measure that restricts the form of legal entity through which GATS Member provides services in another Member's territory.

In Japan, we are starting to see troubling signs in relation to this issue. According to a recently released policy statement, FSA is forcing—appears to be forcing foreign branches to convert to subsidiaries, which would be at odds with Japan's GATS commitments.

Another major challenge facing U.S. companies is that posed by state-owned enterprises, or SOEs, that compete with private insurance companies. There are many state-owned life insurance companies in Asia, including China Life Insurance, Life Insurance Corp. of India, Korea Post Insurance, and Japan Post Insurance.

These and other challenges facing the U.S. services industry point to a huge need for a strong WTO-plus International Services Agreement. For the ISA to have relevance, it must address issues

that confront us in the 21st century, while building onto WTO's GATS. There is no question that the G-20, FSB, and IAIS must continue their important work to strengthen the global economic and financial regulatory architecture. But given that these efforts can also lead to dramatic changes in the competitive environment, due care must be exercised to ensure that the process is not distorted to achieve the protectionist goals of their respective Member governments.

To this end, achieving a WTO-plus ISA can have a dramatic impact in preventing protectionism and promoting fair and free trade in services, while complementing the growing efforts of entities like the G-20, FSB, and IAIS. This calls for strong U.S. leadership. And to that end, in such efforts we stand ready to support this Subcommittee, the executive branch, and our State governments to craft a coherent integrated approach that achieves a win-win outcome for the United States and our trading partners around the world.

Thank you.

Chairman BRADY. Thank you, Mr. Lake.

[The prepared statement of Mr. Lake follows:]

**Testimony before
Subcommittee on Trade of the
Committee on Ways and Means**

Charles D. Lake II

Chairman, Aflac Japan

Washington, D.C.

September 20, 2012

Introduction

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to appear before you today on behalf of Aflac to discuss the benefits of expanding U.S. services trade through an International Services Agreement. My name is Charles Lake. I am Chairman of Aflac Japan.

Japan has significant relevance to the issue at hand as the world's 2nd largest life insurance market. It is second only to the U.S. and generates approximately \$390 billion in annual premiums. Moreover, U.S. companies have done well in this market and currently account for over 12 percent in terms of premium income. These statistics demonstrate that the Japanese life insurance market is extremely important for U.S. insurers in-and-of-itself as a market. Beyond this fact, given that the Japanese insurance market constitutes nearly 20 percent of the global insurance market in terms of gross premiums, precedents set in Japan have regional and global ramifications.

The views that I express here today reflect my experience, not only as a businessman, but also as a former practicing attorney and as an official at the Office of the U.S. Trade Representative (USTR) who took part in the negotiations of the General Agreement on Trade in Services (GATS) under the World Trade Organization (WTO). In addition, I currently serve as the Chairman of the U.S.-Japan Business Council and the International Committee of the American Council of Life Insurers (ACLI) — roles that provide insight into issues that confront the broader business community and that go beyond the specific scope of Aflac.

I am sure that many of you are familiar with Aflac through its U.S. operations and of course the Aflac duck. Aflac is a major employer in the states of Georgia, Nebraska, South Carolina, and New York, and Aflac's more than 75,000 agents sell the Company's products to customers throughout the United States. We continue to add jobs to the economy.

What you may not know is that Aflac is a leading U.S. exporter of services. Aflac entered the Japanese market in 1974 as a branch of its U.S. insurance company now domiciled in the State of Nebraska. Thanks to the strategic vision and over twenty years of leadership by our global CEO Dan Amos, Aflac has been very successful in Japan, generating \$18.4 billion in revenues in 2011 in that market. Indeed, Aflac is a great example of how American companies can, and do, succeed in Japan. We have found Japanese people to be extremely fair, willing to buy products from and work as business partners with companies like Aflac that offer the best products with the best value that meet the needs of Japanese customers. As a result, Aflac has become the number one life insurer in Japan in terms of individual insurance policies in-force, reaching a total of 22 million policies in force as of June 2012.

The Company's investment in Japan goes much deeper than providing top-quality products and services to our customers. Aflac is fully committed to creating and sustaining a work environment in which our employees can grow and perform at their very best and to participating actively as a good corporate citizen in Japan. Whether it's contributing to the Aflac Cancer and Blood Disorders Center in Atlanta or the Aflac Parents Houses in Japan, Aflac is a vital part of local communities in both the U.S. and Japan. In fact, even as we speak, Dan Amos is in Japan to announce the launching of the Tomodachi-Aflac Japan Medical Fellows Program in partnership with the Tomodachi Initiative, a public-private partnership founded in the wake of the Great East Japan Earthquake.

Through this program, Aflac is sending promising Japanese pediatric oncologists primarily from the areas devastated by the earthquake and tsunami for study at the Aflac Cancer Center in Atlanta, Georgia. The intent is to share best practices and the latest treatments and techniques with the next generation of medical practitioners from Japan.

Tackling 21st Century Issues in the Post Global Financial Crisis World

Aflac's success outside the U.S. market gives us deep insights into what it takes to be an effective international company running an operation in a foreign country. We strongly believe that we can compete effectively with any company as long as there is a level playing field. We do not seek special advantages from our Government as we compete with Japanese companies. But to ensure that the playing field is level, U.S. Government engagement is frequently necessary to combat protectionist measures designed to favor politically influential domestic players. Accordingly, we believe that it is essential that the United States continue to rigorously enforce existing trade agreements as well as lead the effort to craft a WTO-plus International Services Agreement which is comprehensive in sectoral scope and addresses head-on the growing array of "beyond the border" barriers that increasingly inhibit business activity.

The importance of undertaking an energetic effort to negotiate a WTO-plus International Services Agreement is made even more important by the fact that an enormous effort is

underway to establish new international financial standards that will have significant competitive impact on the business environment. In this context, the United States must continue to pursue a coherent and integrated strategic approach to engaging international financial standards-setting bodies on the one hand and in building a stronger trade and investment architecture under the WTO on the other.

To further elaborate on this point, I would like to first discuss how countries are responding to the lessons learned in the post global financial crisis world. Second, I would like to highlight some important policy questions raised by the fact that international standards-setting bodies are taking an activist approach to developing standards that affect the competitive environment. Third, I would like to discuss the unique challenge posed by the increasingly dominant role of state-owned enterprises.

The Enhanced and Increasingly Activist Role of International Standards-Setting Bodies

Following the impact of the financial crisis and Lehman shock, efforts to create new international rules and standards setting for the 21st century began at the first Group of Twenty or G20 Summit on Financial Markets and the World Economy in Washington in 2008. At that time, individual countries were taking urgent measures to stimulate their economies and stabilize their financial markets. As well as working at the national level, leaders saw the need to cooperate at the international level in order to restore global growth and implement needed reforms in the world's financial system. We firmly support efforts at the G20 in this regard and fully agree with the maxim that a "global crisis requires global solutions."

Leaders put together an action plan for reform that included actions to strengthen transparency and accountability and enhance sound regulation. In their declaration, the G20 leaders recognized that the reforms would only be successful if grounded in a commitment to free market principles, including open trade and investment, competitive markets, and efficient, effectively regulated financial systems.

Today, as the G20 and the Financial Stability Board (FSB) continue their efforts to strengthen the global economic and financial regulatory architecture, substantial progress is being made in the priority reform areas such as the Basel capital and liquidity requirements, the framework for globally systemically important financial institutions (GSIFs), resolution regimes, over-the-counter (OTC) derivatives reforms, shadow banking, and compensation practices. In the insurance area, the G20 has tasked the FSB in consultation with the International Association of Insurance Supervisors (IAIS) (the international insurance standard-setting body) to complete their work on identification of and policy measures for global systemically important insurers by April 2013. In addition, the IAIS adopted a new set of Insurance Core Principles (ICPs) in late 2011 and is undertaking a major effort to develop a comprehensive framework and methods to address regulatory and risk issues involved in group-wide supervision of so-called Internationally Active Insurance Groups (IAIG).

As this enormous effort continues, companies are being confronted by a number of new and old challenges. These challenges include, for example, adjusting business models to meet the requirements of the new global financial regulations as well as confronting new forms of protectionism that have emerged since the crisis. Business leaders and policymakers must work together to find ways to address these 21st century challenges that hold the key to unlocking substantial growth and prosperity in the future.

Balancing the Important Work of International Institutions with the Respect for the Authority of Democratically-Elected Legislatures

I would like to take a moment to highlight a couple of specific policy issues, particularly based on my experience as a former international trade negotiator and as an executive on the ground in Tokyo. One such issue is the necessity to strike a delicate balance between the critical need to make progress in the work of international standard-setting bodies on the one hand and ensure that the authority of duly-elected national and state legislatures is fully respected on the other. Care must be taken to ensure that the very important work of strengthening the global economic and financial regulatory architecture is not misused by global bureaucrats to distort the competitive field in favor of domestic champions from their home countries.

International organizations fundamentally are defined by the legal authority that their member governments grant them through treaty, or through commitments to undertake domestic implementing measures. The World Trade Organization (WTO) or the International Monetary Fund (IMF), for example, are international organizations whose scope of authority has been established by sovereign member countries entering into binding treaties or other agreements formally ratified and enacted by their governments. These agreements contain clear, legally-binding rights and responsibilities. The member countries, as sovereign states, agreed to forgo their freedom to act in certain circumstances, committing formally to comply with a structure with binding rules and consequences. This is one reason why this Subcommittee has been very active in exercising its constitutionally mandated oversight of the Executive Branch regarding its engagement in international negotiations such as the WTO Doha Round and the Trans-Pacific Partnership negotiations.

In contrast to the WTO or IMF, other international institutions such as the G20 or the International Association of Insurance Supervisors (IAIS), for example, have been established, not through formal, ratified treaties, but through the political commitments of their respective leaders. Because such institutions lack formal treaties in which member countries granted specific authorities, as a matter of international law, the scope of their activities must be limited by the existing authority of their member countries' executive branches. Anything beyond that scope would require additional legislative action at the national level. Given the complexity of having to deal with legislative and policy processes in the various member countries, changes in this arena must by necessity be evolutionary and not revolutionary.

However, in the rush to respond to the daunting challenges created by the global financial crisis and now the ongoing situation in Europe, it is easy for these institutions to overstep these limits, possibly crossing over into territory best occupied by duly-elected legislators or, at a minimum, by regulators and other government officials who are accountable to such elected legislators. For example, in late 2011, the IAIS undertook an ongoing workstream to review the supervisory practices among insurance supervisors with regard to how foreign branches are supervised in different jurisdictions around the world. From the very beginning the workstream appeared to be agenda-driven with apparent bias against foreign branches. Even though statistical analysis regarding the soundness of branches relative to mutual or stock companies has yet to be conducted, the IAIS workstream appears to be headed in the direction of establishing principles that would grant local authorities the right to force insurance companies to convert their branches into locally-incorporated subsidiaries.

This trend is inconsistent with the fact that the governments of many IAIS members have made legally binding commitments to abide by the WTO General Agreement on Trade in Services or the GATS as well as the OECD Code of Liberalization of Current Invisible Operations (“OECD Code”), which both strongly protect the ability to operate through branches. GATS Article XVI (2) prohibits any government measure which “restricts or requires” the form of legal entity — e.g., foreign branch, subsidiary — through which a GATS member supplies a service in the territory of another member. The OECD Code meanwhile requires member countries to “ensure equivalent treatment for national insurers and insurers from other Members so that the latter shall not be liable to heavier burdens than those imposed on national insurers.”¹ It is possible that if this workstream were to continue along its current path, the IAIS could ultimately set standards that are inconsistent with duly-enacted U.S. laws.

More specifically in the Japan context, we are starting to see troubling signs in relation to this issue. Japan’s Financial Services Agency or FSA recently released its “Annual Supervisory Objectives for Insurance Companies, etc. for Program Year 2012” which covers July 2012 through June 2013. This document sets forth the FSA’s top supervisory priorities for insurance companies for the coming year. In it, the FSA states that foreign branches:

¹ Both the GATS and the OECD Code permit member countries to take measures “for prudential reasons.” However, under the GATS, prudential reasons cannot be used as a “means of avoiding the Members’ commitment or obligations.” Similarly, the OECD Code limits the scope of “prudential considerations” by incorporating the following provision with respect to insurance and private pensions:

*Prudential considerations.
Members may take regulatory measures in the field of insurance and pensions, including the regulation of promotion, in order to protect the interests of policyholders and beneficiaries, provided that those measures do not discriminate against non-resident providers of such services.*

are directly or indirectly subordinate to foreign headquarters and holding companies that are not subject to Japanese laws and regulations, etc., and the management/control methods, etc., of some [of these foreign headquarters and holding companies] cause a risk that overall control in their Japan operation may not function fully and properly. Therefore, it is important for their Japan operation to be granted sufficient authority and responsibility whereby it can establish internal control and management control systems in Japan with a clear decision-making process **(depending on the size and business content of the Japan operation, it is appropriate to incorporate branches as local subsidiaries of foreign insurance companies).** (Emphasis added)

I have been living on the ground in Tokyo now for thirteen years and have had a great working relationship with Japan's FSA during this time. I consider many of its officials my personal friends as I have known them for more than 20 years, thanks to the relationships we formed when I served as the Director of Japan Affairs at USTR. Thus, I know based on my own experience that Japan's FSA is a sophisticated world-class regulator. However, despite this fact, the current global environment and the speed to which regulators must develop and implement new regulatory standards in response to the G20, FSB, and IAIS agenda can lead to supervisory policy statements, such as this one, that appear to be at odds with legally-binding commitments that its government made at the WTO and the OECD.

I am optimistic that this issue will be ultimately resolved in a manner consistent with sound regulation and compliance with Japan's international obligations. If it were not, it could set a precedent allowing foreign governments to use the IAIS process to effectively renegotiate their international trade commitments. Today, I provide this issue as an example of the type of issues that confront the industry and that require a careful watch by this Subcommittee and relevant government agencies.

The Challenge Posed by State-Owned Enterprises

Another major challenge facing U.S. services companies more generally is that posed by state-owned enterprises or SOEs. There is a tendency for people to think that state capitalism is mostly an issue for companies operating in China, and certainly the rise of China is fuelling an increase in the power and influence of state-owned enterprises.

However, businesses can also find the playing field skewed in favor of state-owned or supported enterprises in democracies such as Korea, Brazil, India, and also in Japan. In Japan, an increasingly important challenge for foreign and domestic companies is the need to compete with a huge, government-owned, controlled, and favored insurance company — Japan Post Insurance. Japan Post Insurance is the largest insurance company in the world and, along with Japan Post Bank, is part of the world's largest financial institution. It holds nearly a third of all assets in the industry, worth 96.8 trillion yen, and received 7.3 trillion in premium income in 2010 — approximately a quarter of the industry total.

Unlike the trade friction years of the 1980s and 1990s, what makes this issue unique is that there is total consensus between the private sector companies from Japan, the United States, Europe and Canada that a level playing field must be established between private insurance companies and Japan Post. To this end, the Life Insurance Association of Japan (LIAJ) and eight other banking industry associations in Japan have issued statements calling for a level playing field just as the ACLI, the Coalition of Services Industries (CSI) and other U.S. trade associations have done.

In my view, the challenge the private sector faces is not only in the domestic regulatory environment where Japan Post receives different and more lax regulation and oversight, but also in the favorable treatment of Japan Post with regard to international standards and global best practices. For example, the IAIS recently revised its Insurance Core Principles, which provide a globally-accepted framework for the supervision of the insurance sector and is intended to apply to insurance supervision in all jurisdictions regardless of the level of development or sophistication of the insurance markets and the type of insurance products or services being supervised.

Despite the fact that the IAIS has explicitly set forth that the Insurance Core Principles are intended for all insurance companies in all jurisdictions, including for SOEs, in many cases SOEs are not subject to the same level of scrutiny regarding their compliance with the principles as private sector companies. State-owned insurers compete with private insurance suppliers, and because the state-owned companies are often “national champions,” they enjoy special privileges beyond more lax regulation, which distorts the competitive environment.

Given their size and role in the market, policymakers will be unable to properly reform the global regulatory system and ensure the strength of the international financial system if state-owned enterprises, some of the world’s largest and systemically important financial institutions, are not subject to the same international regulatory oversight and domestic enforcement as their private sector counterparts.

State-Owned Insurers Are Often Overlooked by the International Regulatory Regime

Looking at the practical application of supervisory standards, where the rubber hits the road, the IMF and World Bank use IAIS Insurance Core Principles as the metric for conducting audits of national regulatory and supervisory systems for insurance pursuant to the Financial Sector Assessment Program (FSAP). These audits are a cornerstone of the FSB’s efforts to ensure global financial stability by providing meaningful information to policymakers. They can have a substantial impact on the enactment of legislation and regulations in subject countries, and represent an important tool for reform.

But I must point out that when the IMF or World Bank conducts an FSAP — whose stated aim is to apply IAIS standards in examining national insurance markets — countries can avoid the IAIS prescriptions by excluding certain insurance providers from

stress tests and other forms of scrutiny on the grounds that they are subject to different regulatory schemes than ordinary private insurers.

For example, in the IMF's 2012 FSAP review of Japan, Japan Post Insurance was exempted from the stress test applied to other FSA-supervised insurance companies. The omission of such a major insurer from full FSAP review highlights the disconnect between IAIS standards and the way they are being applied in FSAP audits and reported back to policymakers.

To develop a sense of the scope of this problem, the ACLI has suggested that IAIS consider a thematic review and ask all of its members to report any insurance supplier that is not within the scope of the domestic insurance regulatory authority and, therefore, is able to slip away from international scrutiny. As emerging economies with state-capitalist tendencies play a bigger and more important role in the global financial system, in addition to distorting competition in the market place, the massive hole in the global financial services regulatory architecture could potentially provide a major source of systemic risk.

There are many state-owned life insurance companies operating in Asia. Examples of other major players include China Life Insurance (Group), the Life Insurance Corporation of India, and Korea Post Insurance. These entities are frequently supervised and regulated in a more lenient manner than private companies. Reflecting on lax supervision, they may or may not maintain internal controls and risk management systems comparable to those of private insurance suppliers. In other words, they sometimes operate in supervisory blind spots and represent risks to the financial system of unknown dimensions. Efforts to ensure a stable global financial regulatory system and to deepen economic integration in a bid to bolster growth are, therefore, being undermined by the emergence of state capitalism in increasingly important economies.

In 2011, 106 SOEs were featured in the Fortune 500 list of the world's largest companies. Four of the top ten largest companies in the world are SOEs, three Chinese and the other Japan Post. With emerging economies in Asia experiencing rapid growth, they have become more integrated in the global trading system and, in turn, have become increasingly important players in the global economy.

For companies operating in the Asia-Pacific region, SOEs are proving to be a formidable force posing a serious threat to fair competition in the marketplace and providing challenges as the regional trade, investment and regulatory architecture evolves.

Conclusion

These and other challenges facing the U.S. insurance and other service industries point to a huge need for a robust WTO-plus International Services Agreement. There is no question that the G20, FSB, and IAIS must continue their important work to strengthen the global economic and financial regulatory architecture. But given that these efforts can also lead to dramatic changes in the competitive environment, due care must be exercised to ensure that the process is not distorted by others to achieve the protectionist goals of their respective member governments. To this end, a robust effort to negotiate a WTO-plus International Services Agreement can have a dramatic impact in preventing protectionism and in promoting fair and free trade in services. We need the “services bicycle” to get going and to move faster to increase the momentum.

However, for the ISA to have relevance and be an important component to the establishment of a 21st century trade and investment architecture, it will need to do more than repackage provisions in the WTO’s General Agreement on Trade in Services and deal with 21st century issues such as regulatory coherence and SOEs, as well as building further on traditional market access and expansion issues. Given the immediacy of the challenges facing the industry, it is pertinent that negotiations move swiftly and in a transparent manner.

Additionally, as I have discussed, in this post-global financial crisis world, the role of international standard-setting bodies and other international institutions in shaping the global economic and regulatory environment in which U.S. companies operate will only grow. In this context, a coherent integrated strategic approach to engaging these international organizations and countries is absolutely necessary. This approach must build on the past excellence that has been the hallmark of the United States in its execution of external economic affairs and in its engagement at international economic institutions. Many around the world believe that the U.S. Government is one of the most effective leaders in these international fora in setting the agenda and in influencing the outcome through its sophisticated use of hard and soft power.

The United States must continue to do this by effectively managing the policy development process and by strategically incorporating into this coherent, integrated, strategic approach, key players in U.S. regulation and trade, such as the United States Trade Representative, the Departments of Treasury, State, and Commerce, as well as key players such as state regulators and the National Association of Insurance Commissioners and others. If we fail to do this, the United States may find itself just merely responding to the developments in the international standards-setting efforts with detrimental results on U.S. interests. Instead, the preferred outcome is that the United States plays a major leading role in the shaping of the global regulatory and trade architecture and in defending and advancing a level competitive playing field while ensuring sound prudential regulation. We in the industry stand ready to support this Subcommittee, the Executive Branch, and our State Governments to achieve a win-win outcome for the United States and our trading partners around the world.

Chairman BRADY. The Committee stands in recess until 5 minutes after the last vote, which should be very soon. Thank you.
[Recess.]

Chairman BRADY. The hearing is called back to order. Thank you again for your patience, all of you. Mr. Brutto, you are recognized.

STATEMENT OF DANIEL BRUTTO, PRESIDENT, UPS INTERNATIONAL, ON BEHALF OF THE COALITION OF SERVICE INDUSTRIES

Mr. BRUTTO. Chairman Brady, members of the Trade Subcommittee, on behalf of UPS and the Coalition of Service Industries, thank you for the opportunity to address the critical issue of removing obstacles to global trade in services. As President of UPS International responsible for our company's global expansion, I can think of no trade issue that affects the U.S. economy more profoundly than the services sector. The U.S. is the world's most successful services exporter, so expanding service trade through an International Services Agreement would greatly benefit the United States.

Services are the lifeblood of our economy and of global commerce, the indispensable enabler of everything from trade in agriculture and manufacturing to the development and sale of high-tech products. If you want to make it, move it, buy it, or sell it, you need services. Professional, financial, retail, and of course delivery and logistics services to get products to market. The beneficiaries of efficient, unrestricted express delivery services are not just Fortune 500 manufacturers with global supply chains that depend on fast-cycle logistics. There are also millions of small and medium-sized enterprises trying to ensure their products cost-effectively reach the shelves of the global marketplace, or to the doorsteps of their customers in Beijing and Berlin, as well as Beaumont and Berea.

At UPS, we have been working in a partnership with the U.S. Commercial Service for the last 5 years to support U.S. companies in exporting to countries around the world. In 2010, we launched the Beyond One: New Export Markets initiative to support efforts to expand the global reach of businesses that currently export to only one country. This is an issue that rises to the very top of our organization. Our Chairman and chief executive officer, Scott Davis, serves on the President's Export Council, and UPS has supported the national export initiative since its inception in 2010.

The U.S. leads the world in services. This sector accounts for more than three-quarters of our Nation's private sector GDP, and over 83 percent of our private sector employment. That is the good news. The problem is that we face significant barriers from complex customs processes, limited market access, to new areas like forced localization and unfair advantages given to state-owned enterprises.

A recent study by Georgetown University international trade economist and this panel's first witness, Brad Jensen, suggests that removing these barriers would create three million more jobs in the U.S. So how do we create these jobs? A range of initiatives hold promise. Allow me to identify a few.

First, the U.S. can and should continue to support the development of an international agreement on trade and services. And we applaud the work of the previous panel's witness, Ambassador Michael Punke, who is leading the ISA effort in Geneva. Although the world has witnessed rapid cross-border growth in services in trade and investment, the Doha Round after a decade has made little progress in liberalizing this sector on a multilateral global basis. That is why we need the negotiation of an ISA. An ISA that is open

to like-minded WTO members will help achieve a high standard agreement that provides nondiscriminatory market access, most favored nation, and national treatment. Ultimately, such an agreement would strengthen the WTO itself.

In addition to supporting international service agreements, regional plurilateral agreement like the TPP offer an important pathway to move the ball forward on services liberalization. We are glad to see that Mexico and Canada are on track to join the TPP, and we hope Japan will make the necessary commitments to join in the near future. These three countries alone buy almost 25 percent of the U.S. service exports. Other regional trading partners who share our liberalization should also have a way to join. Overall, the current TPP Member countries' efforts to include high standards services commitments will make this an important agreement for trade and services.

Third, there are bilateral opportunities for advancing open trade and services, including express delivery services. The U.S.-European Union High-Level Working Group is an important venue for that work. UPS is very supportive of the possible launch of negotiations of a U.S.-EU Free Trade Agreement to strengthen our strategic economic partnership across the Atlantic. We see strengthening the U.S.-EU trade relationship as a cornerstone of our own success.

In fact, our pending acquisition of Netherlands-based TNT Express underscores our commitment to supporting the growth of trans-Atlantic trade in helping the U.S. and European customers better tap the global market. This acquisition, our largest in our 105-year history, broadens UPS' global footprint. When you take a strong European brand and you combine it with a great American brand, the winners are the customers. And UPS is especially excited about the possibilities what a combined brand means to our customers here in the U.S. So a stronger partnership in trade between the U.S. and EU in time will bring tremendous benefits for both the U.S. and European exporters alike.

In difficult economic times, it is all too easy to become protectionist, but that policy never leads to economic growth or job creation. We have seen a growing list of restrictions being introduced abroad on trade services. We cannot afford to ignore these if we seek robust economic growth. Especially at this critical juncture in the global economic recovery, the U.S. must continue to provide an open market for trade and services on all fronts. An International Services Agreement holds great promise for expanding U.S. services exports and strengthening the WTO, as do each of the other initiatives I have discussed. Now is the time to pursue these to further stimulate U.S. growth and job creation. Thank you for the opportunity to testify.

Chairman BRADY. Thank you, Mr. Brutto.

[The prepared statement of Mr. Brutto follows:]



Written Testimony of Daniel J. Brutto

President, UPS International

Before the

United States House of Representatives

Committee on Ways and Means

Trade Subcommittee

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

September 20, 2012

Chairman Brady, Ranking Member McDermott, Members of the Trade Subcommittee, thank you for the opportunity to testify on the benefits of expanding U.S. services trade through an international services agreement (ISA).

I am testifying today on behalf of UPS, and as a member of the Coalition of Service Industries (CSI), which represents the interests of the dynamic American service economy and has shaped domestic and international economic policies on behalf of the services sector. CSI has been interested in an ISA for a long time, and has been a strong proponent of engaging in negotiations for an ISA since it became clear that success in the Doha Round was beyond our reach.

UPS is a global leader in logistics, offering a broad range of solutions including the transportation of packages and freight; the facilitation of international trade, and the deployment of advanced technology to more efficiently manage the world of business. UPS employs approximately 324,000 employees in the United States and 74,300 employees internationally.

In my written testimony, I will outline the importance of the services sector, elaborate on the role of express delivery services in facilitating trade, and highlight a number of opportunities, including an ISA, and challenges impacting the services trade.

SERVICES IN THE U.S. ECONOMY

The U.S. enjoys a strong comparative advantage in services. Services accounted for 78% of US private sector GDP in 2011, or \$11.8 trillion – roughly comparable to the combined economies of Japan, Germany, and the United Kingdom. Services jobs accounted for over 83% of US private sector employment, in fields ranging from highly-paid blue-collar work in construction and telecommunications, to summer jobs that help teens get ready for productive careers, to scientific research and engineering, financial services, arts and entertainment, and the professions. Across this wide range of industries, services jobs pay an average of \$60,608 per year. In addition, workers in export-intensive services industries earn 15-20% more than comparable workers in other service industries.

The U.S. remains the single strongest exporter of services in the world. Our services exports in 2011 reached \$588 billion with a surplus of \$193.5 billion. Both figures are new annual records. Total exports are likely, as in past years, to be more than twice the total of the 2nd and 3rd-ranking nations, and have grown by roughly \$100 billion since the economic crisis of 2008-2009. This export growth has enabled U.S.-based companies to keep up employment during a period of depressed domestic demand and slow growth.

Although U.S. services exports are strong, the U.S. still has the potential to export far more services. In a recent study, Dr. Brad Jensen of Georgetown University's Center for Business and Public Policy, my fellow panelist, estimated that U.S. services exports could be about \$860 billion more than they are now. Technological change, in particular widening Internet access worldwide – make this entirely realistic. This suggests about 3 million more US jobs could be created just from increased cross-border trade, if we can remove the many, complex barriers to our services trade. In UPS's experience, the primary barriers to international commerce and export growth are: navigating complex customs processes, access to capital, and finding global opportunities. With 87 percent of global economic growth over the next five years taking place outside the U.S., essential to increasing exports, is access to foreign markets through the negotiation and approval of new trade agreements such as an ISA.

While services trade is significant in itself, services are essential to enabling all international trade, including agricultural and manufacturing trade. High-tech services enable the research and development. Professional and financial services provide the support needed for the development and sale of products. Retail services provide the venue for the sale of products. And of course logistics and delivery services get products – auto parts, fresh food, specialized semiconductor chips – to and from the market. In short, services are the lifeblood of the economy. If you want to make it, buy it, move it or sell it, you need services.

THE ROLE OF EXPRESS DELIVERY SERVICES IN FACILITATING TRADE

UPS and other express delivery service (EDS) companies and their logistics operations are enablers of economic growth, providing fast, reliable, secure, door-to-door delivery of packages and documents to manufacturers, service providers, small and medium-sized enterprises (SMEs) and consumers. EDS are crucial to fast-cycle logistics, e-commerce and the efficient functioning of international supply chains, enhancing the movement of goods across borders and providing increased access to international markets, especially for SMEs, businesses in rural and reservation districts, and individuals or families using Internet auction sites to become exporters. By the same token, EDS companies make on-line shopping for consumers possible.

creating much greater choice, extending leisure time for families at home, and improving prices. The competitiveness and efficiency of the EDS sector is critical to developing worldwide value chains and supporting key industry growth in: research and development, manufacturing, distribution, transportation, retail and after-sale services and repair. Therefore, encouraging investment in and parity for global EDS companies will enhance global competitiveness and productivity.

Using UPS's expertise in trade promotion is an important part of our corporate engagement with the U.S. Government. In 2007, UPS became a strategic partner of the U.S. Commercial Service (USCS). Since the partnership's inception, UPS has counseled more than 18,000 customers regarding USCS' offerings. UPS and USCS also have convened more than 70 export-related customer seminars. With trade professionals in over 100 U.S. cities and in nearly 80 countries the USCS helps U.S. companies get started exporting to increase sales to new global markets.

In 2010, UPS launched the "Beyond One: New Export Markets" initiative. The objective of this initiative is to leverage UPS's USCS partnership to help single-market exporters – roughly 58 percent of the U.S.' 293,000 exporting companies as of 2010 – reach additional markets. UPS and USCS are also developing a suite of special programs to help boost exports. These programs include a UPS landing webpage and industry-specific pages, as well as the assignment of personnel specifically to handle companies looking to enter new markets.

One way the Congress can support the U.S. EDS industry immediately is to raise the customs de minimis level. The current de minimis level has not been changed since 1993. It does not reflect inflation and is an impediment to commerce, including online commerce. If the de minimis level were to be raised, the U.S. EDS industry would benefit from expedited deliveries of time-sensitive shipments and reduced costs.

POLICY CHALLENGES (1): MARKET ACCESS AND NATIONAL TREATMENT

The potential for addressing services trade and investment issues in an ISA is very encouraging. There is no lack of traditional services trade issues to be addressed, and new issues are emerging.

In all services negotiations in which the U.S. participates, a foundational objective is to achieve access to foreign markets. For services, the keystone is to achieve the right to establish your business in a foreign market, to own it fully, and to establish in the corporate form most suitable to your business. UPS has had some challenging experiences in this area, including our pursuit of a domestic license in China to provide competitive parcel delivery services within the Chinese domestic market – one of the largest untapped business markets worldwide.

Hand in hand with the right of establishment is the right to the same treatment that a local company receives, which is the freedom from discrimination by government and regulatory authorities (also known as 'national treatment'). This is particularly important for services companies, which are typically highly regulated, and where authorities may enforce onerous licensing requirements that stifle growth and tip the playing field toward local participants.

POLICY CHALLENGES (2): 21st CENTURY ISSUES

Together with these longstanding challenges, it is imperative that an ISA address some of the emerging 21st century issues faced by U.S. services companies around the world. These are

issues that have manifested themselves more recently, and thus are not covered adequately in existing trade agreements.

State-Owned Enterprises (SOEs)

One of the most important 21st century issues is that of foreign government policies that favor state-owned enterprises (SOEs) and state-supported enterprises (SSEs). These entities are sponsored as national champions, and they create major competitive distortions in markets around the world.

These market distortions take many different forms. Regulatory favoritism takes place when governments use policy instruments – such as regulations and subsidies – to change market results.

For instance, governments sometimes provide preferential market access to SOEs and SSEs, which adversely affects foreign companies selling to or competing with these favored domestic businesses. As noted earlier, the importance of promoting competitive neutrality with SOEs is particularly important to EDS providers that compete with national postal services.

Governments should ensure that there is a level playing field for all businesses, irrespective of ownership, and not confer competitive advantages on SOEs and SSEs at the expense of private business, including U.S. competitors.

Data Flows

Cross-border trade in services has grown in recent years, due in large part to the internet, which has allowed worldwide electronic delivery of previously untraded services. In the current global economic climate, it is more essential than ever for this growth, and the jobs created by it, to be sustained.

Knowledge-based services, including logistics services, business services, financial services, computer and information services, insurance services, audiovisual services, telecommunication, and professional services, can readily be delivered around the world via advanced communication networks. As stated in a recent article of *The Economist*, "services, which account for only 20% of world trade but are more important on a value-added basis, have hardly been liberalized at all." U.S. digitally-enabled trade in services was \$116 billion in surplus last year.

Such growth opportunities in ICT-enabled services are threatened, however, by the potential for restrictions on cross-border data flows. Many countries are considering restrictions on the location of storage and processing for various types of data, a problem that existing trade agreements do not address. For example, exceptions in the World Trade Organization General Agreement on Trade in Services give countries the right to regulate for national security, privacy, compliance with regulations, protection of public safety, and the prevention of fraudulent practices, to ensure the integrity of the financial system, among other reasons. Any of these reasons might be used as an excuse to block data flows and effectively create barriers to insurance and other forms of services trade.

While governments have the right to regulate, they should rely on market forces, voluntary best practices and public-private partnerships whenever possible. When regulation is necessary, it

should be done in the most narrowly tailored, least-trade-restrictive way possible to redress the specific and demonstrable policy concerns.

It is in the interest of the U.S. to address these cross-border data issues in all bilateral, regional and intergovernmental negotiations and organizations. For instance, an initiative could build on the U.S.-EU Trade Principles for ICT Services and the OECD Internet Policy Principles, and be added to the work on e-commerce and services trade in ongoing free trade agreement negotiations.

Forced Localization

Forced localization occurs when a country requires multinational companies to conduct their business activities domestically, or requires that business processes or hiring be conducted "in-country". While most companies prefer to source locally whenever it is reasonable to do so, forced localization is a growing impediment to economic efficiency and commerce. Forced localization can take many forms and reach across many services sectors. Examples include mandating in-country data processing centers, mandating that national systems are used for all electronic payments, requiring that national banks and depositories be used for financial transactions, and requiring that percentages of employees in sectors such as oil and gas exploration be nationals of the host country, among others.

As is the case with other forms of protectionism, forced localization in one country only encourages the spread of forced localization to other countries, to the detriment of global commerce and domestic economies alike.

THE SERVICES TRADE NEGOTIATIONS AGENDA

How do we address these challenges, and so take full advantage of our strength in services? I believe that an ISA presents an enormous opportunity for doing so.

The past year has seen remarkable achievements in trade liberalization, with the passage of free trade agreements with Korea, Panama and Colombia. We hope Congress will act soon to grant Russia permanent Normal Trade Relations tariff status with Russia's accession to the WTO last month.

Going forward, the new agenda over the next years offers a remarkable chance to open new opportunities in our relationships with the developed economies that now account for most of our services trade, and with rapidly growing developing regions. In addition to an ISA, the Trans-Pacific Partnership, the US-E.U. High Level Working Group, and the Trade and Investment Partnership for the Middle East and North Africa (MENA), and bilateral investment treaties (BITs) and bilateral trade and investment framework agreements (TIFAs) offer tremendous opportunities for expanding trade in services.

International Services Agreement (ISA or "plurilateral")

Perhaps the most exciting opportunity for expanding services trade and investment is an ISA. The current members of the "Really Good Friends of Services (RGF) represent well more than 70% of global services trade, and we expect that as more progress is made toward making the ISA a reality, more countries will join. The RGF must fashion an agreement that will take the best elements of the FTAs already negotiated and address the "21st century" issues" described above in one agreement. I was encouraged by the July statement of the RGF stating their

common purpose, and I urge the RGF members to push forward with negotiations. What is clear to us in the services sector is that an ISA must be the result of a high level of ambition and must be a high-standard agreement.

We applaud the work of USTR, especially Ambassador Michael Punke, who is leading this effort in Geneva. The ISA offers an important opportunity to establish a global standard ensuring the right to establish, and freedom from discrimination, in a transparent regulatory context.

Trans-Pacific Partnership (TPP)

The TPP provides another very important opportunity to liberalize global trade and investment in services. Our government is actively supporting disciplines on state-owned and state-supported enterprises (SOEs and SSEs) and the free flow of information in the TPP among other important endeavors. Of special concern to express delivery operators is the ability to compete on a level playing field with national postal operators that are SOEs and SSEs.

We are pleased that Mexico and Canada are on track to join the TPP, and hope that Japan will make the necessary commitments to join the TPP sometime in the near future. The three together have in recent years accounted for nearly 25 percent of U.S. services exports – including \$4.5 billion out of \$20 billion in freight receipts, by the Commerce Department's count of services trade - and are all among the top five markets for U.S. services exports. TPP should be open to all regional trading partners who wish to join it and can (1) accept the high standards being developed in this agreement, and (2) ensure that the negotiations will not be slowed down to accommodate their participation.

United States – European Union High-Level Working Group

The U.S.-EU High-Level Working Group presents an opportunity to increase cooperation and services trade between our two giant services-based economies. Our services trade relationship with the 27 European Union members is vast, accounting for \$300 billion of \$900 billion in total U.S. services trade, and nearly 10 percent of all world services trade. UPS is very supportive of the launch of the negotiation of a potential U.S.-EU Free Trade Agreement to strengthen our strategic economic partnership across the Atlantic. We see strengthening and deepening the U.S.-EU trade relationship as a cornerstone of our own success and our pending acquisition of Netherlands-based TNT Express underscores our own commitment to the European market and global trade more generally. This acquisition – our largest in our 105-year history – broadens UPS' global footprint. When you take a strong European brand and you combine it with a great U.S. brand, the winners are the customers. UPS is excited about the possibilities of what a combined brand means to our customers. So too a stronger partnership in trade between the U.S. and the EU will bring tremendous benefits for U.S. and European exporters alike.

The U.S. and the EU share a common outlook and a similar determination to maintain open markets. Both enjoy the benefits of liberalized services trade regimes. Both have cooperated in the WTO and other forums to expand their open approach to trade in services to other markets. Increased cooperation and communication between the U.S. and EU through the High-Level Working Group could expand opportunities for services trade between the two economies, improve the position our economies in relation to third parties, and define a path for policy in the global trading system.

Harmonizing transportation security requirements between the US and the EU must be a priority of the dialogue. The aim of harmonization should be to end up with "one-stop-security": if a package is screened in the EU, it should not need to be re-screened along its route as long as the supply chain remains secure. We applaud U.S. and EU efforts to complete the preparatory work on mutual recognition of trade partnership programs, namely the U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) and the EU Authorized Economic Operator (AEO) programs. We support trusted-trader programs, but ask that regulatory authorities recognize the efforts and costs behind the requirements and accordingly, ascribe commercially useful benefits to carriers and shippers as an acknowledgement of such cooperation and increased network safety. Both markets have agreed on the need for pre-landing information for air cargo and to work towards making this principle an international standard through the World Customs Organization (WCO). However, we hope that both governments will note that the most successful program to date is best evidenced in the U.S. Department of Homeland Security's (DHS) Air Cargo Advance Screening (ACAS) program. It is our understanding that EU authorities are examining a very similar program and it is our hope that such a carrier-initiated, risk-based system is employed on both sides of the Atlantic.

We support a common customs policy that adopts a reasonable de minimis value threshold for the imposition of duties and customs requirements. As I mentioned earlier, modernizing the de minimis level is important for making the EDS sector more competitive. Currently, the EU de minimis value is significantly below that of the U.S., creating barriers for small and medium-sized exporters. Harmonizing and raising the de minimis level would benefit shippers in both markets.

The U.S. and EU should avoid unilateral actions that could harm trade in services. Currently, the EU and the US are at odds regarding the imposition of a European Emissions Trading Scheme (ETS) designed to affect direct air carriers serving the EU. This dispute has the potential to adversely affect trade in services, particularly global transportation of goods and passengers, and it is of significance to our EDS industry. We urge the negotiating parties on both sides of the Atlantic to continue useful dialogue regardless of forum, and move forward constructively to harmonize efforts to reduce greenhouse gases. In doing so, the U.S. and EU must avoid any result that may serve to harm a transportation provider's ability to effectively and efficiently serve its customers in either market.

Trade and Investment Partnership for the Middle East and North Africa (MENA)

The Trade and Investment Partnership for the Middle East and North Africa was launched last year by the Administration to strengthen business ties between the U.S. and the MENA region. Though the U.S. Government does not intend for the initiative to lead to trade negotiations, the goal of government agencies in developing a roadmap to encourage MENA economic activity should be to move incrementally toward our trade and investment goals. I believe that the delivery and logistics services offered by UPS and other EDS providers can play a significant role in supporting economic growth in the MENA region, whose economies and people have suffered over decades from fragmentation, high internal trade barriers, and consequently low growth and in many countries falling living standards.

Bilateral Investment Treaties (BITs) and Trade and Investment Framework Agreements (TIFAs)

The U.S. government recently announced the conclusion of the Model BIT review. This marks an important milestone and provides the U.S. with another tool to address some of the

obstacles impeding the growth of services investment overseas. Likewise, TIFAs can lay the groundwork for greater integration and cooperation between economies.

In summary, the U.S. is the world's most successful services exporter. UPS believes expanding services trade, particularly through agreements like the ISA, would greatly benefit the United States. Even though services trade is an unrivaled source of well-paying U.S. jobs, U.S. services providers encounter substantial trade barriers around the world, including numerous - 21st-century barriers. It is essential that we promote commercially meaningful trade agreements that allow U.S. producers and manufacturers to compete on a level playing field in the global marketplace.

At this critical point in the global economic recovery, it is imperative that the U.S. continue to be a leader in the talks about an international services agreement in Geneva. Impressive progress has been made in advancing the U.S.' trade and investment priorities, but we must ensure that pressure to embrace protectionism is resisted. We cannot afford to turn the clock back on international services trade and international trade more broadly.

Thank you again for the opportunity to share UPS' views with you today. I am willing to answer questions and respond to specific inquiries going forward.

Chairman BRADY. We will start member questions of 3 minutes. One of the key takeaways from the testimony is how facilitating services exports helps our small and medium-sized business exports and helps our manufacturing and agriculture sectors as well. So this is all complementary. Mr. Brutto, real quickly, do you have any metrics at UPS to show how when you export more it helps facilitate small and medium-owned businesses do the same?

Mr. BRUTTO. Yeah, absolutely. And I can tell you that our most recent free trade agreements, our volume for small and medium-sized businesses is up over 20 percent. So our trade to South Korea with U.S. exports, our trade to Colombia, to Panama, we have seen

that growth. That gives our U.S. exporters access to those markets. The major inhibitor, though, is the complexity of duties and taxes and customs. The second is access to capital and understanding the markets, and sometimes a different currency. And three is the ability to sell the products in those foreign markets. And certainly the U.S. Commercial Service is working with us. It has helped many small and medium-sized customers. In fact, we have educated well over 2,000 small and medium-sized customers so they can effectively get into multiple markets.

Chairman BRADY. Right. And certainly Dr. Jensen's testimony is that the upside potential on this is remarkable for us. Mr. Fessenden, how does the export of GE's energy services help drive demand for GE's manufacturing side?

Mr. FESSENDEN. Well, certainly as I spoke our services is a revenue stream for 20 to 30 years after the initial transaction. But that initial transaction, of course, and the services are all based upon—or a lot of it is based upon our manufacturing of parts and repairs that comes out of the United States in support of our global business. So we are very tied to continuing to grow the manufacturing sector through the service support. It is very important.

Chairman BRADY. All right. Thank you, sir. Dr. Jensen, I know it is always a challenge to measure services on trade data. Government data is frankly not very good for services trade. I fear we often make policy decisions with a fraction of real time data. But to conclude, what have researchers found about facilitating services exports as far as helping manufacturing and ag become more competitive as well?

Mr. JENSEN. So the research is limited because the data impediments are large.

Chairman BRADY. Yeah.

Mr. JENSEN. There has been work that the World Bank has done that has looked at countries that have liberalized their services sector and find that it does increase productivity in the manufacturing sector. Work that I have been involved with the OECD suggests that increased business service imports increases exports' share of output, particularly in commodity-type manufacturing products. So I think, you know, we think of business services as facilitating manufacturing trade and also increasing the value of manufacturing trade.

Chairman BRADY. Right. Thank you, Mr. Jensen. Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman. Mr. Klein, I noticed when I was reading your testimony you were talking about a provision in the Colombia implementation bill that gives you some problems with Customs and the whole Customs funding.

Could you explain a little bit more in depth what you are talking about and why it makes a difference to Sabre? I don't know what exactly your business model is, but I don't understand how you and Customs get tangled up.

Mr. KLEIN. Sure. I think it really affects the travel industry and the tourism industry into the U.S. And let me explain. There were some numbers released yesterday that suggest that the tourism to the United States drives about \$153 billion of exports. That is up 8 percent in 2011 versus 2010. Customs staffing and efficiency at

the airports is a barrier to people wanting to come to the United States. The expectation across the travel industry, and our view is, that we should have world class services in our airports, that we should do the best job of anybody in the world of moving people and welcoming guests into the country, in that there is significant job creation and export benefit when we do. That problem is about to get bigger. We had a long term, almost a 10-year loss in tourism market share, global tourism market share in the United States. We went from 17 percent of global tourism to 12.5 percent. And we are back on the upswing. Again, big growth number last year. We are going to continue to grow. The budget for the CBP is tight, and they are not going to be able to add officers with this current budget. The view is they won't be able to add officers at the rate they are going to need to deal with the growth in tourism. And over time, that will hurt our ability to drive exports in the country.

So, look, it is—there is a bit of impact on our company. I think this is a broader issue for the tourism industry and for export and jobs growth in the United States because of the impact of international tourism.

Mr. MCDERMOTT. How do you measure the amount that standing in line impacts people's desire to come to the United States? I now have the global entry thing, which I suspect all of you do who are tooling around on the international scene. You walk through, put your fingerprints down, and away you go. And I watched those long lines at Seattle when I came back the last time, and I wondered how you measure the impact of that. People say I am not going to the United States because I have to stand in line?

Mr. KLEIN. That is a very fair question, Congressman. I think there is two things here. And I think from an industry perspective, the view would be in the United States we should be able to do this really well, and we should welcome guests into the country. And people are coming here, they are spending about \$4,000 a day. And when they get here, it drives jobs. We think the numbers are around for every 33 visitors we get, there is a job creation, one job created for every 33 visitors. To measure the exact impact is difficult. But the industry has done research around barriers to wanting to visit the United States. And one of them is perception of whether we want people to come here, and whether we are welcoming them, and then what the experience is when they get here, what the hassle factor is in coming through Customs and Immigration. And it is a factor in people's decisions when they have choice.

Mr. MCDERMOTT. Thank you.

Chairman BRADY. Thank you, Mr. McDermott. Mr. Reichert.

Mr. REICHERT. Thank you, Mr. Chairman. And thank you for your testimony and your patience this afternoon. As I mentioned earlier, I am on the President's Export Council, and the cochair of the Goods Movement Caucus. And there is a challenge in educating people on the need—well, on the benefit that services provides and enables and facilitates trade of manufacturing goods and agricultural goods. So I want to focus a little bit on how services exports facilitate trade in other U.S. sectors.

And so just to Mr. Klein real quick, you have explained how services such as those offered by Sabre enhance the efficiency of air-

lines, and how this both aids U.S. airlines exports and facilitates tourism and travel to the United States. But how could a services environment help a company like we have in Washington State called Boeing?

Mr. KLEIN. Sure. Thank you, Congressman. I think there is a couple ways. One, the optimization software that we sell to airlines helps them either optimize revenues or reduce costs. And healthier airlines are more likely to either refleet, modernize their fleet, or hopefully in a best case scenario, grow their fleet. I have a current example, a recent example at Aerolineas in Argentina, where they frankly didn't have the capability internally with their current systems to make some of those long-term fleet planning decisions and to decide what markets, what new markets might be profitable to fly into. We installed a series of operations software there, we put consultants on the ground to help them use it, and they now do have a fleet plan that also led to a commercial decision to join the Sky Team Alliance, which Delta is the big partner in that alliance, which adds 4,000 destinations in Argentina for Sky Team. It adds lots of options for Aerolineas coming north. Aerolineas is primarily a Boeing fleet. They do have a small aircraft fleet 190 or so Embraers who all have GE engines on them. And they are going to be in the process now of modernizing and also expanding their fleet in response to some of the intelligence they have gotten out of the systems we have provided. Those are just decisions they wouldn't have been able to make without our tools or potentially some of our competitors' tools.

Mr. REICHERT. I think it is important to note that I think Mr. Fessenden said that 30 percent of your business is services. So your employees understand it, and I think most of the employees at the companies that you represent understand that services is a key part of your business. How do we get that message out to the rest of the country is my question. And I don't have time for you to answer it. But I look forward to visiting with you maybe in the future.

Thank you, Mr. Chairman.

Chairman BRADY. Thanks, Mr. Reichert.

Mr. HERGER.

Mr. HERGER. Thank you, Mr. Chairman. I appreciate hearing the panel's experience on the role foreign direct investment plays in allowing your companies to export around the world, and how it impacts jobs in the United States. And in your experience, have you found that making investments abroad has helped or hurt your ability to create jobs here at home?

Mr. BRUTTO. I guess I will answer that. Simple. For UPS, every 22 packages that we export out of the U.S. creates a full-time U.S. job. So the simple math. The more we export out of the U.S.—and by the way, we started our international business essentially in 1975 in Canada, and in 1976 in Germany. And we have created literally thousands of U.S. jobs. And it is simple. I am overseas all the time. That is where I spend most of my time. I primarily work with companies to accept U.S. packages, as well as send their packages to the U.S. market. But a simple thing for us is 22 packages equals a full-time job.

Mr. HERGER. Anyone else?

Mr. KLEIN. Yes, at our company, in our software business most of our growth is international growth, ex-U.S. growth. On a 20 percent growth rate, we will increase jobs by about 10 percent. Half of that 10 percent will be in the United States. And as I said, those are \$87,000 a year jobs on average. So it is good job growth whenever we get points of growth outside the U.S.

Mr. FESSENDEN. Congressman, I would just like to add that, as I mentioned, 100 percent of our gas turbines and steam turbines manufactured in Schenectady, New York, and Greenville, South Carolina, and the 250 small and medium businesses that support our supply chain in the U.S. all were exported. And then we have 20 to 30 years of service revenue that will take parts that are manufactured from that supply chain and export them. So it is extremely important and supportive of U.S. jobs.

Mr. LAKE. If I may just jump in to make a comment on this as well. As I mentioned, in Japan we are generating \$18.4 billion in revenue. Of that, pretax operating earnings that same year is \$3.8 billion. Of that, 80 percent on average we repatriate back to the United States, which are reinvested in building our infrastructure here as well. So that is how we generate jobs as a company, as Aflac agents, and so on.

Mr. HERGER. You know, I might mention something that you are already aware of. What you have just said is not getting out to the American people. You know, when they hear and are aware of jobs going abroad, they assume we are losing American jobs. So I don't know what it is collectively we need do as businesses to get this message out, but it is imperative to be able to allow us in the Congress—some of us are already with you—but certainly in the Congress to be able to make sure that we do this. Maybe a last very quick one. I am interested in hearing from the panel about the types of nontariff barriers you encounter that undermine your ability to export services.

Maybe specifically, Mr. Lake, would you start off with what Aflac faces in Japan?

Mr. LAKE. I mentioned in my testimony two issues with respect to inside the border measures that affect our business. Certainly the state-owned enterprise issues that go beyond banking, insurance, express delivery as well, and how in an integrated way they create challenges for us. And I think that the key to understanding that is it is not even foreign versus domestic, it is private sector versus government-owned entities. That Banking Association of Japan, Life Insurance Association of Japan all very much want the same outcome, which is level playing field. And so this is very different from the kind of trade friction issues that we had 20, 30 years ago that warrants a strategic approach. And it is, again, not only in Japan, but it is in Korea and China. So those are the examples that I would cite.

Mr. HERGER. A very important hearing, Mr. Chairman. Thank you very much. But these are certainly issues that we as a Congress need to really concentrate. And of course we are talking with our allies, with our good friends, but yet we need a level playing field. Certainly the American people are demanding that. So thank you very much.

Chairman BRADY. No, thank you, Mr. Herger. Mr. McDermott is recognized for a deeply probing question.

Mr. MCDERMOTT. I don't know if I can rise to that level.

Mr. Lake, I want to hear about Japan Post. I have been over there and I have talked to them and talked to the Japanese Members of the Diet about these whole issues. From your point of view, explain to us what it is that makes it hard for you to do business, a service business in Japan in competition with the Japan Post.

Mr. LAKE. We as a company believe that we can compete with anybody as long as the playing field is level. And from that point of view, what are the advantages that Japan Post has that we do not? Japan Post is allowed to operate a banking holding company, insurance holding company in a way that we certainly wouldn't. There are a number of measures that are applied to Japan Post in a way that they are not applied to any other private sector, not only Aflac. So at the end of the day, if you go through all these measures that are applied, they are gaining advantages that no private sector company has, which gives them, with respect to capital, with respect to regulation, with respect to operating throughout Japan, the kind of advantages that no one has.

So it is not a question of ownership, but it is the specific measures that are applied to help them gain the competitive advantages that they have. That is part of the reason why, as I mentioned earlier, that domestic companies just last week as well as this week issued statements again calling for level playing field, and not allowing expansion of business because it is so huge, it is so difficult to compete with those advantages that I just talked about. And I think, as you know better than anybody else, this Committee has expressed concerns the past 10 years. The executive branch has as well. And I think we are coming to that point, in which they are about to expand further, that warrants appropriate response of this Committee as well as the United States Government, in our view, to deal with those issues.

Mr. MCDERMOTT. Thank you.

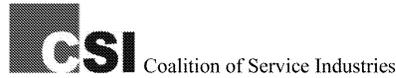
Chairman BRADY. All right. Thank you, Mr. McDermott. I think I speak for more than myself in saying this hearing has been very helpful in helping us document what a great opportunity you have at hand. By negotiating an International Services Agreement, we can expand our services sales around the world and rev up this great engine of U.S. job creation.

I want to thank each of the witnesses for their patience, for their insight, and for your ongoing work in keeping America globally competitive. I want to invite all of you to join me in enthusiastically supporting the work the USTR is doing to move forward with establishing an ISA.

Our record is open through October 4, 2012. I urge interested parties to submit statements for the record. On that, this hearing is adjourned.

[Whereupon, at 5:45 p.m., the Subcommittee was adjourned.]

[Submissions for the Record follow:]

Coalition of Services Industries 1**FOR THE RECORD****An International Services Agreement*****Advancing Liberalization Using a Next-Generation Plurilateral Approach*****January 19, 2012**

The enormous promise of open global markets for services trade and investment remains to be fulfilled. It is imperative that the international community now actively formulate an effective strategy to deliver new services trade and investment liberalization as part of a broader strategy to renew global economic growth. Two fundamental changes require this new and more focused approach.

First, ways and means of doing business in the 21st century global economy - and new barriers - are evolving much faster than the ability of traditional multilateral trade and investment negotiations to keep pace. For example, the Internet integrates services and manufacturing and, as a result, adds value throughout global supply chains and creates tremendous growth in cross border trade.

Traditional barriers to services trade are still very important. Equally important is creating an environment which enables technology-driven services trade and investment. For example, securing the ability to send and receive data over reliable networks is essential to facilitating cross-border trade in services since most such trade is, at its essence, the exchange of data. Manufacturing also depends on the transfer of data across borders. Other complex issues like the role of state-owned enterprises and regulatory coherence must also be addressed.

The very great promise for the US economy of open global markets for services direct investment, supported by a recent working paper by the US International Trade Commission staff, is only partially fulfilled. The international community must now devise an effective vehicle for delivering new services trade and investment liberalization that responds to the realities of this century's global business.

Second, it has become clear that the traditional approach to services liberalization through multilateral negotiations in the WTO is not welcomed by all its Members at this time. The WTO does, however, provide a useful framework on which those who are interested in moving forward can build.

These two fundamental factors mean that the United States and others committed to liberalization in the international community must find additional global pathways to develop 21st

century trade and investment rules for services. While the U.S. is vigorously pursuing cutting edge services liberalization in very important bilateral and regional free trade negotiations, these efforts should be complemented by exploring how to bring together the largest group of countries willing to work on the services trade and investment issues that spring from the realities of the new economy.

Alternative Pathway

In its January, 2009 paper titled "Forging the Way to Growth: Expanding World Markets for Services", CSI supported the Doha Round but recognized that if it could not fulfill its promise for services, "alternative pathways" should be considered, including under the auspices of the World Trade Organization and the General Agreement on Trade in Services (GATS). One of the most promising of these is the idea of a services "plurilateral" agreement pursuant to Article V of the GATS.

What Do We Mean by "Plurilateral"?

This type of plurilateral (the term can refer to several types of agreements) is an agreement – essentially an FTA - among a group of countries, the benefits of which apply only to the participants, not to all WTO members. Article V permits such preferential agreements if they satisfy several baseline standards: the agreement (1) provides substantial sectoral coverage, (2) makes no a priori exclusion of any sector or mode of supply, (3) provides for the elimination of existing discrimination, and (4) restricts the introduction of new discriminatory measures. To help meet the Article V requirement that the agreement cover "substantially all" service sectors, negotiations would use a negative list approach where all services are covered by the rules of the agreement, unless specifically excluded. This would be a major advance above current practice under the GATS where services commitments are based on a positive list approach which allows countries to bind selected sectors while excluding a tremendous amount of services trade from GATS disciplines. The agreement would of course be open to all who wish to join it provided that they can meet its standards and satisfy any other requirements established by the parties to the new agreement.

The Advantages and Scope of a Such an Agreement

Such a plurilateral, which we call an International Services Agreement (ISA), would be a means of achieving, with a number of countries representing a very substantial volume of services trade, multiple objectives which cannot be achieved through WTO negotiations in the foreseeable future:

- Providing additional motivation for compliance with current WTO obligations
- Legally securing or "binding" existing, "autonomous" liberalization among the parties.
- Obtaining new, bound market access, using the deeper commitments obtained by FTA agreements.

- The ability to pursue on a broader global basis, the new, more complex “next generation” issues that have grown in importance over the past 10 years, that we are currently pursuing in bilateral and regional agreements, including provisions to address restrictions on flows of data, the location of the infrastructure necessary to facilitate these flows, forced localization of business functions that can best be provided globally, and the increasing problems of competing with state-owned enterprises engaged in commercial activity.

Achieving a Critical Mass of Participants

An ISA would create a new dynamic to attract willing countries to a services agreement that is more comprehensive, and with deeper liberalization commitments. If the participating countries represent a large majority of global services trade, they would constitute a critical mass that would be a powerful incentive for some of the recalcitrant emerging market economies to join. This is the phenomenon that is now occurring in the TPP. The initial group of 5 countries has grown to 9, and now Japan, Mexico and Canada have expressed interest in joining the negotiating group. It is our hope that this plurilateral will help convince the emerging markets of the value of service trade and investment liberalization and provide an incentive not to be excluded.

Importantly, an ISA would complement and supplement efforts to achieve high level commitments on services and investment issues in TPP and other comprehensive FTAs by “plurilateralizing” with a larger group of countries the best of what we have and are achieving in bilateral and regional agreements. This, in turn, could create a more dynamic and positive environment in WTO negotiations and new FTA negotiations. By consolidating the achievements from the myriad of bilateral FTAs into a single, multiparty framework, it would establish an FTA-plus level of market access as the norm rather than the exception. It would also demonstrate that open markets can be achieved quickly rather than incrementally.

The ISA would be a major step toward integrating a very large number of existing FTAs. When negotiated among an initial group of countries, it could provide a platform which would create economies of scale in global services liberalization whereby new members could secure the benefits of liberalization of many FTAs through a single negotiation. The plurilateral agreement should be structured in such a way as to facilitate the entry of additional members over time, such as by using WTO-agreed provisions wherever possible and clearly identifying those steps necessary to dock into the agreement.”

With Existing and Growing Support

Finally, this idea has been endorsed by the APEC Business Advisory Council (ABAC), which called on APEC to incubate the idea of stand-alone services negotiations, and to build the critical mass necessary for them to commence. The Pacific Economic Cooperation Council and the Asian Development Bank Institute (PECC/ADBI) Taskforce on Services has likewise called for future services negotiations to be organized on a stand-alone, plurilateral basis, noting that

less than one third of the WTO members have made services offers in the Doha Round. It appears that there is now a growing interest in this pathway toward greater freedom of services trade and investment.

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FOR THE RECORD

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Services Trade Liberalization as a Foundation of Global Recovery

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February 24, 2012

Searching for growth in the aftermath of the 2008 financial crisis, governments, businesses, and academics often see exports and trade as central to a healthy recovery. But policy has struggled to respond, and the world's major negotiating forum – the WTO's Doha Round – has been stalemated for a decade. In these circumstances, the world needs an agenda uniting major economies willing to work together for their own benefit and for the common good. A determined effort to open services trade is an attractive option, holding potential to:

- Spark growth by helping exporters in the United States and elsewhere tap pent-up demand for information, innovative health and financial services, and promote investment in communications, physical infrastructure, and other high-employment, productivity-increasing parts of the economy;
- Bolster market confidence during a period of global economic weakness;
- Over the long term, promote employment through direct investment, support development as low-income farmers and entrepreneurs get easier access to customers and capital, and raise living standards by reducing transactional costs that raise prices for families.

This hope rests on simple facts about the global economy and the global trading system. Since the world's services sector is so big – responsible for 70 percent of world output, and employing a similar share of workers – a policy that helps services grow will be a good way to create growth and jobs in general. And since WTO rules today do less to guarantee predictability and open markets in services than in manufacturing, farming, or resource industry, opening services trade and investment can be a powerful way to help services grow.

This paper aims to help create the intellectual case for such an initiative, rather than to define a detailed agenda. But the outlines of a program for both mid-term recovery from crisis and long-term growth are not difficult to suggest in principle. By topic, it would address both traditional negotiating topics and emerging 21st-century issues related to the Internet and trade facilitation. By venue, it would rest upon a plurilateral agreement under Article V of the General Agreement on Trade in Services, but also extend to ongoing trade negotiations, for example in the Trans-Pacific Partnership talks, the Obama administration's initiative for the Middle East and North Africa, the Transatlantic Economic Council with the European Union, and other fora as well. In general it would set four goals:

- Open markets, or at minimum preserve existing level of openness to trade in services; refrain from introducing new discriminatory measures, including nationality or local content requirements; and address a 'negative list' of sectors, that is all services industries other than those participants specifically decide to exclude.
- Commit to provide transparent, impartial services regulatory regimes, including competitive neutrality in regulation of state-owned and state-supported enterprises.
- Seek open, non-discriminatory services investment climates with no restrictions on foreign equity, juridical form or number of service suppliers;
- Create strong rules to ease the flow of services and data across borders.

To make this case, this paper draws on new research examining American services industries, but illuminating opportunities common to many countries. It addresses the following topics: The scale of services as employers, producers, and exporters; the tradeability of services and the nature of cross-border services trade; the implications of foreign direct investment in services; and the barriers to services trade and options for addressing them.

I: SERVICES IN THE GLOBAL ECONOMY

(1) *Scale:* First, services are a powerful opportunity for growth and job creation because they are so big. They account for most of the world economy, and they employ most of the world's workers. They are also a powerful indirect way to promote healthy manufacturing, resource, and agricultural industries, because any complex goods-producing industry needs an efficient services sector to succeed.

- *Services make up most of the world economy:* The World Bank's annual *World Development Indicators* survey reports that services account for 70 percent of world GDP, up from 59 percent in 1990, and 64 percent in the millennial year 2000.¹ This is true for the United States as well as the world at large. American private-sector services output was \$9.95 trillion in 2010 – 80

percent of America's private-sector GDP,² and fully 16 percent of world economic output.³ Figures differ only by degree between rich, middle-income, and poor countries – services are smaller shares of developing economies, but above 60 percent of economic output for the developing world as a whole and rarely below 50 percent for any individual country.

- *Services are the world's main employers and create most new jobs:* Of the world's 3.2 billion-strong labor force, about 60 percent of men and 70 percent of women work in services. Services industries employ 95 million of America's 110 million private-sector workers – again about 80 percent of the total, and more than 75 percent of workers in every Congressional district⁴ – in jobs at all levels, from teenagers taking their first jobs in hotels and restaurants, to skilled blue-collar workers in logistics and telecommunications, to professional work in engineering, the professions, finance, and science. And as we will see below, at least in the United States exporting services industries employ more people than work in factories, farms, and mines combined.

(2) *Complementarities with industry:* Second, efficient services industries are essential to efficient goods production.

- *Services help produce advanced consumer goods:* The 1958 essay "I, Pencil: My Family Tree," hoping to educate the public on the complexity of global manufacturing, defined a first-grader's pencil as a combination of graphite from Sri Lanka, rapeseed oil from Java, cedar wood from Oregon, and pumice from Italy, all processed in a California factory – and brought together by a sophisticated shipping and logistical industry; shaped by machines designed by researchers and engineers to shape wood, insert molten graphite, and shape a device easily used by the fingers; and kept stable by the financial services and telecommunications that provide credit and coordinate delivery.

Important to manufacturing then, services are all the more so today. The global economy of Eisenhower's age, complicated as it may have been, was a world of one container ship able to carry 58 standard shipping containers, five satellites, and a single copper transatlantic telephone cable able to carry 36 telephone calls simultaneously. The modern world is linked by 5,000 communications satellites, fiber-optic cables to every continent, thousands of daily air-cargo flights, and a shipping industry moving 14 million containers every day. And the 6-year-old of 1958, drawing with a pencil on paper, is the technophile Baby Boomer of today. Her tablet computer is a small, apparently solid device – but actually a combination of extraordinarily complex software and parts fitted precisely together.

To produce such a thing requires a services system as far beyond that of her childhood as a tablet is beyond a pencil. The device is a symbiosis of American engineering, software and design, Taiwanese manufacturing

technique, Chinese assembly – and a logistical network involving trucking, air cargo and sea freight, coordinated by computer to deliver of millions of tiny parts at precise times each day, pick up completed goods from factories, convey them to ports and container ships in time to meet inventory schedules set by retailers worldwide, monitor production and delivery through ‘cloud’ computing, and coordinate credit and payment across a value chain using hundreds of firms.

- *Services bring the world high-quality food:* Modern agriculture likewise requires a sophisticated system of services. With an efficient logistics network - air and sea transport, computerized deliveries, cold-storage chains linking farms, ports, and buyers – American wheat and pork arrive daily in China for noodles and soups, Colombian flowers reach Chicago florist shops for Valentine’s Day, and Norwegian smoked salmon appears in Bangkok hotels. Without competitive logistical services, a third of India’s fruit and vegetable crop – for example, 10 million of 26 million tons of bananas –spoils between farm and market. This means lost income for hundreds of millions of Indian farm families, coupled with high food prices for India’s urban poor, who spend pay 49 percent of their income on food.⁵

(3) *Services help raise living standards:* And just as closed services markets and monopolies often mean lower incomes and higher costs of living, the capacity to tap information flows, capital, and logistics are powerful ways to improve life for the poor and the middle class.

- *Services promote development:* Fishermen and farmers in poor countries and small island states use PDAs (personal digital assistants) to tap the Internet to track the weather and fishing stocks to avoid delays in marketing their goods, take out insurance policies on boats and small equipment purchases, or find micro-credit from on-line charities. Families in rural areas and urban slums, with a cell phone and a subscription, can maintain constant contacts with clinics when a child or elderly relative is sick and requires monitoring over time, or alert caregivers to an accident. In these circumstances, market opening often brings rapid and large scale results; one consequence of Indian liberalization in insurance, for example, is that 42 million Indians have taken private life insurance policies since the sector opened in 2000. Governments too use sophisticated services to improve public services while reducing cost; Brasilia’s capital police force, for example, uses cloud computing to create an ‘electronic police station’ that allows the public to instantly report accidents and crimes, with the information routed immediately to police on duty.⁶
- *Services help middle-class families and shoppers:* For middle-class families in rich and poor countries alike, cloud computing, express-delivery firms, and technical innovation all unite to stretch family budgets an improve peoples’ lives. On-line auctions and stores enable individuals and families to compare

prices not only in local stores but also world-wide, find in minutes precisely the gift or necessity they need, and have it delivered to their home.

II. "TRADEABILITY" OF SERVICES AND CROSS-BORDER TRADE

Services are big; services are important; services have value for the poor and the middle class. How do services *trade* and services trade *policy* help them grow? Services trade in fact has great potential to drive growth – both through exports and through the release of pent-up domestic demand – and services trade policy has great potential to increase trade.

A. Many Services are Highly "Tradeable"

Many assume that services industries are not natural exporters. This is normal, since many of the services businesses one meets in daily life don't export. While a few restaurants, construction companies, hospitals, retail stores, and private schools are large enough to operate on global scales, most such businesses will always be local, relying on a small base of personally familiar customers. But many of these businesses can export as a secondary matter. A university can use on-line courses to teach students through distance education, while a hospital can offer radiological readings and monitor prescription use via telemedicine. And industries such as entertainment, financial services, computer and data services, and many others are as natural exporters as are car factories and wineries.

A rigorous look at services trade, done in 2011 by Dr. Bradford Jensen of Georgetown University explains in detail. Jensen's *Global Trade in Services: Fear, Facts, and Offshoring* defines and categorizes easily exported services in a strikingly original way, using a relative concept of "tradability" by looking at services which, within the United States, are bought throughout the country but produced in great quantities in a few places. If services are often bought in places where they are not made, they can also be sold across borders and are natural exporters.

By way of physical-goods analogy, clothes are worn and bricks used everywhere in the world, but clothes are highly tradeable and bricks less so. China and Vietnam make clothes in larger quantities than they need; Danes and Australians wear lots of clothes but make few. The production and use patterns show that clothes are highly tradable, and suggest (correctly) that Danes and Australians often wear clothes made in China and Vietnam. But bricks – in the United States as in Bangladesh, Paraguay and elsewhere – are usually made close to sites at which they will be used, as bricks are heavy, cheap, and relatively costly to ship over distances. The United States imports only 1 percent of the bricks it uses, and exports only 2 percent of the bricks it makes.⁷

Services are no different in principle, even if their output is weightless. Beauty services, produced everywhere and used at the point of production, are difficult to trade. Movies and news programs, often filmed in Los Angeles and New York, are

viewed nationwide in digital and broadcast form and are easy to export, assuming an open world market and a sophisticated telecommunications system.

Jensen identifies 27 especially easily traded services industries, with 6 receiving ratings of "3," meaning most easily exported. These are movies, music, software, "other information services" (dominated by Internet service providers), high-level financial services such as securities trading and mutual fund management, scientific research and development. Another 21 industries receive a "2" rating, meaning moderately tradable. These include insurance, architecture, independent artists, advertising, telecommunications, and many others. Altogether, Jensen finds that these industries employ 18.4 million Americans, about 3 million more than work in manufacturing, agriculture, and resource industries combined.

TABLE 1 SOME HIGHLY TRADEABLE SERVICES INDUSTRIES

Industry	Production Centers
<i>Software:</i>	Production concentrated in Seattle, Boston, San Francisco/Silicon Valley, Raleigh-Durham
<i>Internet Services Providers:</i>	San Francisco/Silicon Valley
<i>Financial Services:</i>	New York, Boston
<i>Motion pictures:</i>	Los Angeles
<i>Call centers, travel booking:</i>	North Dakota, South Dakota

Jensen, Global Trade in Services: Fear, Facts, and Offshoring, Peterson Institute for International Economics, 2011, pg. 45.

These tradeable services industries, incidentally, turn out to be very good places to work: they are large employers, pay well, offer safe places to work, and weathered the financial crisis better than most businesses. They pay their workers an average annual salary of \$66,540, which is about 20 percent above the \$53,000 national private-sector average.⁸ They suffer less than half the rate of on-the-job illnesses and accidents than America's economy-wide average.⁹ And their record as job-creators – especially the six industries rated "3" – has been strikingly good during a difficult period for the U.S. economy.

TABLE 2 TRADEABLE SERVICES INDUSTRIES AND U.S. EMPLOYMENT, 2007-2012

Industry	Jan. 2007	Jan. 2012	Change
All private-sector	115.0 million	109.9 million	-5.1 million / -4.5%
"2" services industries	13.66 million	13.24 million	-0.42 million / -3.0%
"3" services industries	2.11 million	2.18 million	+70,000 / +3.3%
Software publishing	248,000	270,000	+22,000
Securities/commodity trading	837,000	802,000	-35,000
Scientific R&D	528,000	573,000	+45,000
Movies & sound recording	378,000	371,000	-7,000
"Other information services"	120,000	165,000	+45,000
All other industries	99.2 million	94.5 million	-4.7 million / -4.7%

ii. Services Exports are Growing

Many services industries therefore are highly tradeable in principle. The rapid development of global telecommunications and the Internet is making them steadily more so. Each year, services trade via the Internet grows cheaper and easier, as communications technology, the Internet, and cloud computing systems all improve and the global on-line public – the equivalent of the world market for digitally transferred information – grows larger.

The international phone call, in essence a small cross-border transfer of data, provides a simple and convenient measurement. Since the year 2000 – a rough date for replacement of the old copper-cable network by modern fiber-optics – the cost of an international phone call from the United States has dropped from 50 cents to a dime per minute, or by 80 percent.¹⁰ As capacity has grown and prices fallen, the world's on-line public has grown from 300 million to over 2 billion, and information flows have grown at rates said by academic studies to be at 20 to 30 percent per year. These are the digitized versions of the images and sound that make up news and entertainment, payment of insurance claims and premiums, and the e-commerce orders between manufacturers or between shoppers and retailers.

The results are anecdotally obvious in industry and daily life alike. *iTunes* downloads, diagnoses delivered via telemedicine, news alerts arriving at computer terminals or TV screens, architectural blueprints bought by real-estate developers in Dubai and Shenzhen, pension accounts managed by New York financial industries, are all examples. How significant are they? Systematic data from the U.S. Department of Commerce and the World Trade Organization, published for the U.S. since 1986 and the world since 1999, suggest two points of reference.

(1) *Services exports are growing.* For the United States, cross-border exports of business services have risen by about \$200 billion, or from 8 percent of total exports in 2000 to 12.5 percent in 2010. For the world, growth as a share of world output has been only slightly slower, with business-service exports rising from 8.3 percent of the global total to 10.9%. The United States, as the largest exporter of business services, has had the most growth in absolute terms. But American export growth has been essentially average for the world, and export totals for many developing countries have grown even faster. India receives the most publicity but services exports from the Philippines, Morocco, Kenya, Georgia, Panama, and others have grown almost as rapidly as India's.

TABLE 3 U.S. Services Trade Growth 1990-2010

	1990	2000	2005	2010
US GDP	\$5,800	\$9,950	\$12,625	\$14,525
Total Exports	\$535	\$1,075	\$1,285	\$1,835
Services Exports	\$148	\$281	\$363	\$530
Transport	\$43	\$46	\$53	\$70
"Business services"	\$42	\$80	\$140	\$230
"Business services" export share	8%	8%	11%	12.5%

Source: Bureau of Economic Analysis, at http://www.bea.gov/international/international_services.htm

TABLE 3a World Commercial Services Trade Growth 2000-2010

	2000	2005	2010	Growth 00/10
World GDP	\$32,216	\$45,525	\$62,911	95%
Total Exports	\$7,669	\$12,655	\$18,045	135%
Services Exports	\$1,483	\$2,496	\$3,695	150%
"Business services"	\$640	\$1,160	\$1,968	210%
India	\$16	\$52	\$123	670%
Georgia	\$0.2	\$0.6	\$1.5	650%
Morocco	\$3	\$7	\$12	300%
Philippines	\$3	\$5	\$13	330%
Panama	\$2	\$3	\$6	200%
Kenya	\$1	\$1.5	\$3	200%
United States	\$80	\$140	\$230	190%
Thailand	\$13	\$20	\$34	160%
Costa Rica	\$1.9	\$2.6	\$4.4	130%
South Africa	\$5	\$11	\$14	130%
United Kingdom	\$119	\$204	\$227	110%
Jamaica	\$2.0	\$2.3	\$2.7	35%
"Business services" export share	8.3%	9.2%	10.9%	

Source: World Trade Organization, trade statistics reports for 2001, 2006, and 2011.

(2) *But services exports are low:* Big as these numbers seem, though, they are smaller than they ought to be. America's \$530 billion in services exports is a large figure – more than the combined total of 2nd-ranked Germany and 3rd-ranked Britain – but it is less than 3 percent of America's \$16 trillion in gross services output. The \$230 billion in exports of finance and insurance, information, business, professional, and technical services is only slightly higher, a bit above 3 percent of the \$6 trillion in gross business-service output. By contrast, manufacturing exports run at 18 percent of gross output for America, and agriculture's figure is close to 30 percent. Global breakdowns by industry-sector are not so fine and less easily tracked by gross output, but appear similar.

TABLE 4 U.S. Output and Exports: Services, Manufacturing, and Agriculture

Sector	Gross Output, 2010	Exports 2010	Export Share of Output
U.S. Private-Sector:	\$25.81 trillion	\$1.820 trillion	7.0%
Agriculture/fishing	\$0.37 trillion	\$105 billion	28.0%
Manufacturing	\$4.83 trillion	\$885 billion	18.0%
Services total	\$16.37 trillion	\$530 billion	3.2%
Business Services	\$6.13 trillion	\$230 billion	3.8%
Resources	\$4.24 trillion	\$42 billion	1.0%

* Bureau of Economic Analysis for Gross Output by Industry and for services exports; Census for agricultural, manufacturing, and resource trade data. Note that "Gross Output" is not a value-added measure, but the output by value of each part of a sector. Thus it is larger than GDP.

TABLE 4a World Output and Exports: Services, Manufacturing, and Agriculture

Sector	GDP 2010	Exports 2010	Export Ratio
World GDP	\$74.4 trillion	\$18.05 trillion	24%
Manufacturing	\$15.6 trillion	\$9.96 trillion	64%
Agriculture	\$2.2 trillion	\$1.36 trillion	61%
Services	\$52.1 trillion	\$3.70 trillion	7.0%

^a WTO Annual Trade Statistics Report 2011 for exports; IMF World Economic Outlook database, September 2011, for GDP; World Bank World Development Indicators 2011 for the sectoral shares of services, agriculture, and manufacturing in world GDP.

Thus services exports remain far below their potential. Jensen estimates that if the tradeable services industries exported in proportion to this potential, U.S. services exports could be about \$860 billion above their current level – that is, roughly \$1.4 trillion, rather than the \$530 billion recorded for 2010. Employment-to-output ratios suggest that this would likely mean a net addition of about three million more jobs. A similar calculation for the world as a whole yields a figure of \$15 trillion in exports – roughly a quarter of current world economic output, and a massive stimulus for employment in Europe, India, high-income Asia, the Philippines, the Caribbean, and many other parts of the world.

III. SERVICES AS CROSS-BORDER INVESTORS

This potential for growth in cross-border exports is intimately linked to cross-border services investment, and a successful services initiative will need to address both.

i. Scale of Cross-Border Services Investment

The large role of services in cross-border investment is again familiar from daily life – and perhaps more so than cross-border services trade. An American household may choose to subscribe to a French cable channel, and an American company may arrange a relationship with Taiwanese researchers – but either requires an act of will and a conscious choice. Contact with foreign services investors, by contrast, often proceeds entirely unnoticed – as Americans deposit paychecks in British-owned banks, buy groceries from Australian-owned shopping malls, and place calls via Scandinavian telecommunications networks. American services investment abroad is similar, ranging from the American Hospital of Dubai's specialist care in the United Arab Emirates, to management courses at the Johns Hopkins University Nanjing campus and lingerie sales at the Victoria's Secret shops in Toronto's Eaton Mall and Yorkdale Shopping Centre.

Again more systematic figures back up impressions from daily life. The basic data here are from the Commerce Department's Bureau of Economic Analysis for the United States, and from UNCTAD for the globe. UNCTAD's figures find world services direct investment stock at \$11.3 trillion in 2010, or nearly two-thirds of the world's \$18 trillion in total FDI stock, as against \$4.6 trillion in manufacturing and

\$1.4 trillion in mining and energy. This fraction appears to be stable over time. World FDI flows in 2010 were \$1.75 trillion, with \$1.11 trillion of this coming from services industries. Most of this is in rich countries – UNCTAD’s figures find developed-world markets holding over 70 percent of services FDI and much of the rest in wealthy “developing” destinations including Hong Kong, Korea, Taiwan, and Singapore.¹¹

TABLE 5 **World FDI by Sector**

	Total	Services	Manufacturing	Energy
World	\$17.95	\$11.30	\$4.96	\$1.69
United States outward	\$3.91	\$1.62	\$0.59	\$0.16
United States inward	\$2.34	\$1.59	\$0.75	n/a

UNCTAD, World Investment Report 2011

BEA’s figures for the United States track this global pattern. (With the methodological difference that BEA counts ‘holding companies,’ which can operate affiliates in a number of different sectors in a separate category accounting for \$1.6 trillion out of \$3.9 trillion in FDI stock abroad.) Of the total, natural-resource investment stock is \$0.18 trillion, manufacturing \$0.59 trillion, services \$1.62 trillion, with the largest shares going to financial services and information industries, and holding companies at \$1.6 trillion.¹² Foreign investment patterns in the United States are similar, though with a slightly higher share for manufacturing.

Measured by sales and employment, these projects are large parts of the world economy. BEA’s annual report finds U.S.-based services companies operating about 25,000 subsidiaries abroad, and selling about \$1.16 trillion worth of services to foreign customers in 2009. This is the equivalent of 8.3 percent of American GDP, and almost 2 percent of world GDP. Most are in rich countries, with western Europe in particular accounting for 53 percent of America’s overseas direct investment stock in services and \$623 billion of the \$1.16 trillion in sales.¹³

TABLE 6: Sales by U.S. Services-Industry Affiliates Overseas (2009)

<i>U.S. Overseas Services Sales</i>	<i>\$1.160 trillion</i>
U.S. Goods Exports	\$1.070 trillion
U.S. Services Exports	\$0.505 trillion

ii. Economic Implications of Services Investment Abroad

What effect do these projects have? Most obviously, they are job creators. BEA estimates that foreign services-sector investors employ 3.7 million Americans (in 2009, the most recent data available at this writing). This total includes 84,000 workers in computer systems design, 400,000 in financial services, 90,000 in publishing and 60,000 in telecommunications. Their employers, mainly based in Europe, Canada and Japan, paid \$240 billion in wages and benefits to Americans (an average of \$65,000 per worker per year), and conducted \$10 billion in research and development in the United States.¹⁴

Equally interesting, services investments seem to have a good effect for employment in the investing country as well as the host. Some of this is natural, as new services industries often create many associated jobs. The development of on-line auction sites, for example, has spurred growth and employment in the express-delivery firms which bring the items one purchases on line to the home.

An August, 2011, working paper by the International Trade Commission staff suggests that FDI-based services sales have another effect – that is, they can be net creators of employment at home as well as abroad, because overseas investment projects are bases for large exports of services *from* parent companies *to* foreign subsidiaries.

How does one account for this positive association between increased affiliate activity and domestic employment in U.S. multinational service firms? Intrafirm exports appear to be a key part of the answer. Such exports are conduits for the transfer of intellectual property and business services that support day-to-day operations and production of the final services sold to affiliates' local consumers. U.S. parent firms' exports of services to foreign affiliates totaled \$109.1 billion in 2009, or 22.5 percent of total cross-border service exports. The majority of these exports were in the form of intangible intellectual property. Management and consulting services; research, development, and testing services; and financial services were other large sources of intrafirm export earnings.¹⁵

These exports are diverse, ranging from copyright and patent royalty payments from foreign subsidiary to home company, to revenue from management and consulting, research and development, financial services and so on. The total includes \$7 billion in telecommunications, or nearly half of total telecom services exports; \$9.3 billion in exports of research and development, more than a third of the \$21 billion total; and similar fractions for advertising, management, computer services, and other industries. These exports amount to nearly a quarter of American services exports. In other words, foreign subsidiaries are some of the main buyers of the cross-border services exports discussed above.

This makes them a stabilizing factor during periods of low demand and recession at home, as services exports remain strong. In good times, they are significant net job creators. During the period of the ITC working paper, overseas services investment implied a net increase in U.S. employment of 697,000 jobs across fourteen services sectors employing about 64 million Americans at home. Thus, if the ITC's computer model is reasonably close, their operations abroad meant a net employment gain of 1 percent at home. This seems credible placed against real-world performance – BEA reports that services businesses with overseas operations added a net of 1.4 million jobs in the United States between 1999 and 2009,¹⁶ rising from 14.5 million workers to 15.9 million workers, as employment elsewhere in the private sector fell from 98 million to 96 million, or by about 2.5 percent. The comparison suggests that export earnings from successful foreign operations help to stabilize employment at American services providers during a period of slow growth.

Beyond the ITC's report, many overseas services subsidiaries are also large importers of goods. Health, telecommunications, and retailing are all examples. American retailers like Wal-Mart and Limited Brands – or European chains like Tesco and Carrefour – operate in dozens of countries, using established and trusted suppliers of consumer goods, medicines, and foods in the United States as well as local sources. Likewise U.S.-based hospitals have strong relationships with American manufacturers of medical devices, medical furniture, pharmaceuticals, and likely to use them for their foreign operations.

A final striking example comes from architecture and building. Specialized New York and Chicago architectural firms design most of the world's ultra-tall skyscrapers, such as Shanghai World Financial Center, Taipei 101, Burj Khalifa in the United Arab Emirates, and Freedom Tower in New York. These firms have designed 25 of the 37 ultra-tall skyscrapers opening around the world between 2008 and 2015.¹⁷ Their long-standing relationships with U.S.-based suppliers of glass, hydraulics, and specialized building materials boost exports of these goods during construction and afterwards in maintenance.

iii. Market Barriers and Pent-up Demand

But the very low level of cross-border services investments in lower-income countries suggests that as large as it may appear, global services investment is much lower than it could be. Here we find one of the world's major growth opportunities: a vast pent-up demand for sophisticated services, which in an opening world could simultaneously contribute to global growth and improve lives within developing countries. Three examples:

- *India* imposes across-the-board foreign equity limits on telecom service provision and bans investment in retailing and many transport sectors. Such policies have direct links to the rural poverty and food spoilage noted earlier. Poorer telecom quality means low-income and rural people cannot cheaply get information about daily-life needs – from weather reports to on-line conversations with hospitals. Limits on insurance trade likewise mean few farms, homes, and small businesses in developing countries are insured against floods or other natural disasters, which not only raises risks but limits entrepreneurialism and business formation. And of course the lack of sophisticated retailing and transport services industries, with their knowledge of supply-chain management and cold-storage transport of foods, is the main reason India suffers the high spoilage of food – and consequently the unnecessarily low rural incomes and high urban food costs referenced earlier.¹⁸
- *Ethiopia* bans foreign direct investment in micro-credit, a form of financial services directly designed to help the poor in urban slums and rural districts.¹⁹

- *Egypt* limits foreign equity in construction and transport, meanwhile, are deterrents to investment in a labor-intensive sector, in a country where high unemployment and weak job creation helped to prompt a revolution in 2011.

These blockages are comprehensible in political terms as the result of conflicts of interest between relatively small, focused monopoly industries serving as pressure groups on one hand, and the much larger but less focused interests of low-income farmers, consumers, and small entrepreneurs on the other. But in practice they are powerful ways to frustrate demand for investment in critical sectors, and to reduce flows of capital to people and businesses which could use them well.

IV: THE INADEQUATE SERVICES TRADE REGIME

To recapitulate: services are the global economy's largest sector and the largest employer. They are essential to the health of modern agriculture and the modern manufacturing value chain. The development of information and communications technology has reduced the cost of exporting services. And the pent-up demand for services of all types can be a principal driver of growth, not only in the United States but worldwide, for decades to come. And with services trade and services investment alike smaller than they should be, we come to policy.

Services trade agreements are no longer new and unfamiliar subjects for the world's trade negotiators. To briefly recap, negotiators have been working on services trade since the 1980s, and have some notable achievements:

- The WTO's General Agreement on Trade in Services (GATS) of 1994, which created definitions and sets out a rules framework somewhat like the GATT agreement of 1947 did for goods, with some limited success in liberalization;
- The WTO's agreements on Financial Services and Basic Telecommunications, respectively dating to 1997 and 1998;
- A 'moratorium' on application of tariffs to electronic transmissions over networks including the Internet, first agreed upon in 1998 and extended continuously since then.
- 15 agreements on WTO accession since the conclusion of these two agreements. These often (and unlike the GATS commitments of existing members) have stronger and more detailed provisions on services market access, and cover a series of significant trading economies – including China, Taiwan, Saudi Arabia, Vietnam, and Russia – which together cover about 8 percent of U.S. services trade and about 12 percent of world services imports.²⁰
- And separately, the 17 FTA relationships the U.S. has developed over the past decade, which generally contain detailed services-trade chapters, create

obligations on a 'negative list' basis that include the whole of the services sector, and apply to about 10 percent of U.S. services trade.

These accomplishments provide an important base of rules and obligations. But they remain modest and flimsy in comparison to agreements covering trade in goods – and are growing weaker, as the rapid development of the Internet and cloud computing creates new forms of trade. WTO agreements have done less to reduce barriers to trade in services – whether border barriers or investment – than for manufactured goods or agriculture. Thus large economies often retain quite closed markets. Many economies have missed opportunities to ease access to information, improve local and international marketing of farm products and manufactured goods. And with the advance of technology, as services trade depends on reliable and predictable data flows, data storage, and data transfer, a set of agreements dating to the mid-1990s look antiquated.

i. High and Persistent Market Barriers

Aaditya Mattoo, Ingo Borchert and Batshur Gotiiz of the World Bank have made a remarkable attempt to categorize services trade barriers and compare their severity across countries. Looking at the information available for five sectors - financial services, telecommunications, transport, retailing, and professional services such as medicine, architecture, and engineering – and examining barriers to entry, operations within a country, and the regulatory environment, they rate 103 countries on a scale from 0 to 100 of 'openness' to services, with 'zero' entirely open and 100 fully closed.

By subject area, the three authors find formal barriers most common with respect to direct investment. These range from full bans on investment, to limits based on equity caps – that is, legal limits on foreign owners to (say) 49 percent of a business – or numerical and geographical limits, which would mean a service can operate only 10 branches or in only 3 of 20 cities. Fewer formal barriers exist to block *cross-border* flows of services – but on the other hand, few countries have accepted trade obligations in the field, meaning restrictions can be applied quickly and predictability is absent.

By country type, the three find rich countries very open to trade and investment in finance, telecom, transport, and retailing, but often retaining relatively high barriers in professional services. Latin American services-trade policy is often comparable to rich-world policy (though some individual countries remain quite closed) except in telecommunications and financial services. East Asia and Africa are less open in general, and especially limited in telecommunications, while South Asia and the Middle East are most closed. By country, some samples:

- 0-20 – The most open countries (and many of the highest-income countries) have scores in this range. This range includes United States, Japan, Great Britain and New Zealand, all with scores around 20. Interestingly, these are

still viewed as more 'closed' than Trinidad and Ecuador, likely because of professional standards-setting and limits on temporary migration.

- *20-40* – Relatively closed countries include several European states, in particular France and Italy, as well as Mexico, Russia, Korea, and a number of sub-Saharan African countries such as Uganda, Mozambique, and Lesotho.
- *40-50*: More extensively closed economies include Egypt, China, and some major Persian Gulf economies such as Kuwait and Saudi Arabia.
- *50 and above* – These are extensively closed markets, and include several more Gulf economies, and two large ASEAN states. (The Philippines and Indonesia). Five countries score above 60, implying that they are the world's most closed services markets at least among the 103 surveyed countries: Ethiopia, India, Iran, Qatar, and Zimbabwe.

Services trade negotiations, so far, have made little impact on these barriers. The 1994 GATS agreement largely defined industries and modes of transmission across borders. The two agreements on Financial Services and Basic Telecom created 'floors' beneath which market access would not fall, more often than they actually opened markets. The same has been true for most WTO accession agreements since, though the networks of obligations these created for new members covered more industries. And the WTO's Doha Round talks, over ten years, offered strikingly little in the way of changing this landscape. The Bank's Aaditya Mattoo and Bernard Hoekman comment:

"As they stand today, Doha offers on services do not offer any liberalization of actual policy. Furthermore, two of the currently most protected areas in both industrial and developing countries, transport and professional services, are either not being negotiated at all or not with any degree of seriousness."²¹

Beyond this, the prominence of state-owned and state-supported enterprises in a number of emerging-market economies – that is, businesses owned or supported by governments, but acting as actors in private-sector markets rather than purely as providers of public services – raises newer questions which earlier agreements addressed only in passing, from regulatory favoritism to procurement and intellectual property protection.

ii. Absence of Rules to Protect Flows of Information

Thus the world services market remains relatively closed, with investment in poor countries depressed well below a 'natural' level and cross-border exports far less than they could be. And perhaps even more troubling than this is a widening gap in trade rules – the lack of protection for digital flows of information – which leaves the future of cross-border services trade highly uncertain.

Cross-border exports of business services, under formal definitions, proceed through several different "modes" – visits by individual businessmen and -women, mailed agreements and documents, and so on. But though formal data are lacking, it is likely that most cross-border services transactions – and very likely almost all growth in cross-border trade – reflects the transfers of information in digital form over the Internet. This is how most news, music, and audiovisual services reach buyers, how most financial transactions proceed, and how manufacturers and logistics industries coordinate production and delivery schedules for complex value chains. But though technology has made digital trade a large part of daily life, trade rules have not caught up.

Ideally, the WTO would have a binding agreement on data flows mirroring in virtual form the GATT agreement rules for tangible goods – that is, barring arbitrary blockages of data or requirements of "forced localization" of data within countries; creating exceptions to ensure the right to regulate in the public interest, whether for public safety, privacy, national concepts of public morals, or national security; and ensuring that these exceptions are invoked for good-faith regulatory policies which are non-discriminatory and apply to locally and internationally based information alike.

But very few such guidelines exist. No WTO agreement – and in fact no free trade agreement but the US-Korea FTA – has rules to help make data transfer policy as stable and predictable as goods flows. The only applicable multilateral rule is the temporary (though regularly renewed) 1998 WTO Ministerial Declaration on global electronic commerce, which stipulates that electronic transmissions should not be subject to tariffs.²²

This leaves movements of data far more vulnerable than movements of tangible goods, whether to arbitrary blocks on cross-border flows to investment-forcing policies that require businesses to locate servers and data within borders. Kazakhstan has experimented with such regulations for Internet search engines, Russia with requirements that all credit-card transactions be processed within the Russian Federation. These raise questions about both privacy rights and due process about information relating to individuals, and practical issues about loss of efficiency and added costs in supply-chain management and financial transactions.

Information flows therefore have a basic lack of security and predictability; and though the Internet is quite new and Internet-based trade is developing rapidly, in the absence of a commitment to free flows of information, trade of this sort is likely to be much smaller and less powerful a driver of growth and innovation than it should be – not just in this decade as the world looks for a way to recover from the damage of the crisis, but for the next generation.

V. CONCLUSION: TOWARDS AN AGENDA

A survey of services and their place in trade, then, shows facts, reveals an opportunity, and illuminates a large policy challenge. Services are the largest segment of the global economy. In principle, therefore, they can be a powerful driver of recovery from the crisis as exporters and investors.

The advance of information technology provides a necessary foundation for that role. The steady pace of satellite and fiber-optic deployment, 4G wireless serviced deployment, cloud computing, and Internet links among individuals, devices and firms all make trade in services steadily cheaper, faster, and simpler. In the right circumstances, services providers will be able to tap a gigantic pool of pent-up demand in the coming years for information, entertainment, financial services, health care, education and more tailored to families and communities of all types. The result can be a powerful support for growth, the creation of jobs, and an accelerated reduction of poverty.

But just as the invention of container shipping in the 1950s required the ambitious policy reforms of the Kennedy Round of the GATT system in the 1960s to match its potential two generations ago, so the world of services trade needs support from policy today. The edifice of services-trade policy built over the last two decades has done much, but remains a limited accomplishment. It has clarified issues and defined concepts through the GATS; experimented with broad agreements in Basic Telecommunications and Financial Services; and created smaller-scale precedents for more sweeping approaches through free trade agreements and WTO accessions. But these accomplishments remain limited, well short of a broad opening of markets, and falling behind real-world needs as cross-border trade shifts to the digital world.

The long-term weaknesses of the policy regime, meanwhile, are matched by an urgent real-world need for a source of growth. The crisis of 2008-2009 has faded. But economies remain weak almost everywhere in the world, sources of potential instability are apparent to all, and the demand necessary to drive investment is scarce. In such circumstances, the practical and psychological effects of an ambitious effort to open markets and tap demand can be powerful.

An ambitious services agenda that embraces all the regional and bilateral efforts to create open and fair services markets, would be greatly facilitated by a services free trade agreement - an International Services Agreement (ISA) - opening markets across sectors. An element of an ISA could be a binding agreement on data flows that would bar arbitrary blockages of data or requirements of forced localization of data infrastructure within a country, but reserve the right to regulate under agreed guidelines for public safety, privacy, public morals, and national security for example. The ISA would overarch and incorporate the services provisions of existing FTAs and the Trans Pacific Partnership, and new initiatives stemming from the EU-US High Level Dialogue, for example.

An International Services Agreement would be a next generation, powerful advance in the global trading system, helping to meet the immediate need for growth through exports and investment in a fragile post-crisis world economy, and to create a more efficient global economy with higher living standards in the long term.

In these circumstances, services trade policy reform can be both a basis for long-term growth, and a way to bolster the world's fragile recovery from crisis. There could be few better times to begin than now.

- ¹ World Bank, *World Development Indicators 2011*, Table 4.2 and *World Development Indicators 2002*, Table 4.2.
- ² Bureau of Economic Analysis, *GDP by Industry*, measured by value-added, <http://www.bea.gov/iTable/iTable.cfm?ReqID=5&step=1>
- ³ Figure for global economic outlook from International Monetary Fund, *World Economic Outlook Database*, September 2011 version, at <http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/weoselser.aspx?a=1&c=001&t=1>
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- ⁵ N. Vishwanadham, *Can India be the Food Basket of the World?* Indian School of Business Working Paper Series, December 2005, at http://www.isb.edu/faculty/Working_Papers_pdfs/Can_India_be_the_Food_Basket_for_the_World.pdf
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U.S. Chamber of Commerce



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.

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