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Statement on US Participation in the World Trade Organization

Committee on Homeland Security & Governmental Affairs Subcommittee on Federal Financial Management, Government Information & International Security

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INTRODUCTION

Thank you, Mr. Chairman, for the opportunity to testify today on U.S. engagement with the World Trade Organization (WTO). The Coalition of Service Industries (CSI) is the leading business organization dedicated to the reduction of barriers to US services exports. CSI was formed in 1982 to ensure that US trade in services, once considered outside the scope of U.S. trade negotiations, would become a central goal of future trade liberalization initiatives.

In my statement today, I will touch upon the benefits to the United States from our participation in the WTO, and the need for US leadership in the organization. I will then discuss the important role that the service sector plays in the US economy, and the potential gains that this vital sector will see from a successful WTO Doha Round. Finally, I will address the state of crisis that the services component of the Round currently faces.

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US leadership has driven multilateral trade liberalization since the establishment of the GATT in the immediate postwar period, and its successor organization, the WTO, in 1995. During this time, both Republican and Democratic Administrations have led in the effort to lower barriers to international trade, with tremendous benefits accruing to both the United States and its trading partners as a result.

The continued focused and determined engagement of the United States in the WTO is critical to US economic interests. In that regard, Congress' strong disapproval last month of a resolution to withdraw the US from the WTO, was welcomed by the business community. If the US is perceived to be abandoning the WTO, then many countries might quickly ignore WTO rules, with significant negative impact on US trade interests.

We support efforts to liberalize bilaterally and in that regard strongly support ratification of CAFTA. We were pleased with the Senate's recent vote in favor of the pact, and have been encouraging members of the House of Representatives to follow suit.

But we believe WTO negotiations must now take center stage in the US drive to obtain trade liberalization. It is the only means of achieving liberalization globally and drawing the maximum number of countries into the disciplines of a rules-based trading system. The Doha Round has itself reached a critical stage requiring concentrated attention by US negotiators. Unlike FTAs, which are negotiated bilaterally or with a small number of trading partners, WTO negotiations lead to liberalization by all WTO members.

The US joined the WTO because it was in our interest to do so, the same reason why 147 other members have joined the organization, and why 31 other countries are working to join it. The US played a major role in writing most of the WTO rules, and as the world's largest trader, is a primary beneficiary of those rules. By adhering to those rules – as all other WTO members must also do – we foster an environment of predictability and certainty that facilitates international trade, and thus supports economic growth and jobs in the United States.

BENEFITS TO THE UNITED STATES FROM PARTICIPATION IN THE WTO

The WTO is the foundation of the world trading system. With a membership that includes 148 nations and nearly all the world's significant economies, it is the broadest forum within which trade barriers are reduced, market access is enlarged, rules for fair trade are set, and disputes are adjudicated. Without the WTO, there would be no vehicle for global services liberalization, and until its establishment ten years ago, there wasn't. It has been effective in removing trade barriers that had long restricted international trade, and US companies, workers, consumers, and families have benefited tremendously as a result. The institution is crucial for the United States to maximize its advantages from the global economy.

The relationship between higher economic growth and expanded international trade through reduction of trade barriers is well understood, and has been demonstrated by study upon study. According to one estimate, trade and investment liberalization, combined with advances in transportation and communication technology, has generated an increase in U.S. income of roughly \$10,000 per household.¹

Along with agricultural and industrial goods, services are one of the three "pillars" of the Doha Round. However, services are still a relatively new item on the multilateral trade agenda. Only during the 1980s did serious work begin to define and quantify services trade, and only during the Uruguay Round did services negotiations commence. The end of the Uruguay Round resulted in the adoption, by all GATT/WTO members, of the General Agreement on Trade in Services or GATS, which spelled out the terms under which liberalization of trade and investment in services would be pursued. The GATS provides a valuable framework for liberalization, while safeguarding the ability of members to regulate services. It does not force the privatization or deregulation of state-regulated services, as some groups contend, nor does it preempt the authority of US states in regulatory matters.

The inclusion of services in the Uruguay Round was a groundbreaking achievement. It opened up services markets and for the first time provided a means by which WTO members could make commitments to liberalize international trade and investment in a wide array of service sectors.

The WTO has produced successes for services. For example, the 1997 Financial Services Agreement and the Agreement on Basic Telecommunications provided market access, national treatment, and established important disciplines in two vital service sectors. Those agreements,

¹ "The payoff from Globalization." Gary Hufbauer and Paul Grieco, Washington Post, June 7, 2005.

combined with other services commitments made at the end of the Uruguay Round, formed the basis for further negotiation when broad-based services negotiations were launched in 2000 as required by the agenda built into the Uruguay Round. That negotiation was subsequently subsumed into the Doha Round.

Since the adoption of the agreement establishing the World Trade Organization, US crossborder services exports have grown steadily, from \$186 billion in 1994 to \$338 billion last year. The US is by far the world's largest service exporter, exporting twice the value of commercial services as the next largest exporter, the UK. As a share of world commercial services exports last year, the United States represented 15.2%, and the UK 8.1%. Other major service exporters include China (2.8% of the world total), Hong Kong (2.6%), Canada (2.2%) and Korea (1.9%). The United States also enjoys about a \$50 billion *surplus* in services trade, partially offsetting our goods deficit and our shrinking agricultural surplus.

Sales of services by US affiliates in foreign markets is even larger, rising from \$190 billion in 1995 to over \$400 billion in 2002. The operations of these affiliates are vital to US companies' global competitiveness, and thus to American jobs. If we combine total US crossborder exports of services with sales by foreign affiliates, we get a sum roughly equal to the GDP of Canada.

By establishing a framework for services liberalization, the WTO has significantly advanced US economic interests. We believe that now is the time to build on that work by negotiating deeper, more liberalizing commitments that provide new commercial opportunities across the breadth of the service sector.

In the current Round, the United States has requested that its trading partners liberalize their market for numerous services, including banking, insurance, asset management, and other financial services; express delivery services; audiovisual & entertainment services; telecommunications services; computer & related services; legal, accounting, and other professional services; and many others. These are all areas in which US suppliers are extremely competitive and will benefit significantly from greater access to foreign markets. However, only through robust US participation and continued sharply focused leadership in the WTO will it be possible to realize these gains.

THE IMPORTANCE OF SERVICES TO THE US ECONOMY

The service sector is vital to US economic growth and vitality. To quote directly from a bipartisan Dear Colleague letter circulated in the House of Representatives in March, "Many of us may not fully appreciate that services represent the overwhelming share of our country's employment, economic output, a large and growing share of our foreign trade, and are key to the future growth of the American economy."²

We agree. I have already mentioned services' role in our international trade. In addition, services account for nearly four-fifths of US economic output, and 87 million Americans are employed in the service sector - 80% of the private sector workforce. By Labor Department reckoning, 90% of all the new jobs created in the US between now and 2012 will be in the service sector.

Viewed against that backdrop, the importance of securing meaningful services liberalization in the Doha Round is manifest. Congress clearly understands this too – late last month, 56 members

² "The Importance of Services to the US Economy." Dear Colleague letter, signed by Congressmen Ben Cardin and Jim Kolbe, March 18, 2005.

of the House sent a letter to USTR Portman strongly urging that the services component of the Round be given attention and priority commensurate with its importance to our economy.³

However, developing countries too have a big stake in services liberalization. Even in lower income developing countries, services account for an average of nearly 50% of GDP, and services is the fastest growing sector in many developing country economies. For example, China's commercial service exports have grown 95% since 2000. So while the United States clearly has the dominant interest in the WTO services negotiations, other countries have an important – and growing – stake in those talks as well.

THE POTENTIAL GAINS FROM A SUCCESSFUL DOHA ROUND

In 2004, global services trade was only about 24% of the value of global goods trade.⁴ The figure is low in part because of the prevalence of barriers to services trade. While tariff and non-tariff barriers to goods and agricultural products have been reduced significantly over the course of successive multilateral trade Rounds, this process is only beginning in services. Thus, the marginal gains to be had from further services liberalization are much greater than in other sectors.

As previously noted, the US enjoys a services trade surplus. Foreigners have a high propensity to consume US services, so further liberalization, as is being pursued in the WTO, will materially stimulate US services exports. As a result, these exports could more significantly offset the structural goods deficit.

Catherine L. Mann, in a study for the Institute for International Economics wrote:
*"...as income in a foreign country grows, its imports of US services tend to rise disproportionately. Successful broad-based negotiations on trade in services will likely increase US exports of services even further, with a positive effect on the trade deficit. The long-term trajectory of the US external balances could be altered significantly by the combination of successful service-sector negotiations and broad-based liberalization and deregulation at home and especially abroad. These together would unleash higher productivity and faster growth at home and abroad, which would narrow the US current account deficit."*⁵

My point is that the United States has a powerful national economic security interest in making the Doha Round a major success. But so does the rest of the world economy. The potential benefits to the United States (and to all our trading partners) from a successful Round are tremendous. Moreover, a variety of studies have shown that the greatest gains for the US are to be had in the services sector, which is not surprising in light of its prominent role in our economy. According to one University of Michigan study, if all barriers to worldwide trade in goods, agricultural products, and services were dismantled, the US would enjoy a welfare benefit of an astonishing \$542 billion, and the bulk of this - \$466 billion – would result from the elimination of services barriers.⁶

³Letter from 56 members of the House of Representatives to United States Trade Representative Robert Portman, June 24, 2005.

⁴World Trade Organization: "World Trade 2004, Prospects for 2005," April 14, 2005.

⁵Catherine L. Mann, "Is the U.S. Trade Deficit Sustainable?" Institute for International Economics, 1999.

⁶Brown, Drusilla K., Kozo Kiyota, and Robert M. Stern, "Computational Analysis of the U.S FTA with the Southern African Customs Union (SACU)," University of Michigan, July 6, 2004.

Unfortunately, the WTO services negotiations, and therefore the potential gains that I have just cited, are in jeopardy. They are in jeopardy because the services offers that have been tabled provide for very little new liberalization, and in many cases do not even reflect current practice. The political will necessary to formulate and table substantial services offers is simply absent in too many countries. This view is widely shared among trade officials and observers in Washington, in Geneva, and in many capitals, and has been echoed in several visits to the WTO and to foreign capitals that CSI has organized this year. Without a decisive push by the US (and other key WTO members) the Doha Round could well reach a point where, having finally achieved agreement on agricultural liberalization, for example, there simply will not be sufficient time left to adequately address services before the Round's conclusion.

LOOKING AHEAD

It has become a cliché to say that more than 95% of the world's population, and four-fifths of the world's economy, lies outside our borders. Cliché or not, we need to be able to compete, on better terms, in foreign markets in order to drive economic growth and job creation here in the United States. This is precisely the goal of our participation in the WTO.

As members of the House of Representatives said in their letter to Ambassador Portman last month, "The US is the most competitive services supplier in the world, but foreign barriers hinder the ability of American companies to sell services abroad. By pushing for a reduction in restrictions of trade in the services industry, we help create more American jobs, expand US trade, and grow the American economy. "

Top priority must be placed on a successful conclusion to the services negotiations. All members of the global trading system have a stake in the future of the WTO and the Doha Round, but it is the US that stands to gain the most, and we must therefore continue to participate actively and vigorously in the WTO.

Very important meetings are taking place in Geneva between now and the end of this month, when WTO members are to agree on the outlines of a package to be adopted at the next WTO Ministerial meeting in Hong Kong this December. The Hong Kong Ministerial itself will in large part determine whether it will be possible to successfully conclude the Doha Round by the end of 2006 or early 2007. We hope, as policymakers consider the US relationship with the WTO and the benefits our participation brings, that they will focus on ensuring that the Doha Round concludes successfully, which means comprehensive new liberalization across the range of service sectors, as well as in other areas under negotiation. We simply will not accept an outcome that relegates services to secondary status in a Round dominated by agriculture.

I thank you for your time, and would be glad to answer any questions you might have.