Services Exports

Office of Service Industries
Douglas B. Cleveland
December 2000 *(Updated July 2001)*

The United States is the world's premier services exporter, with U.S. services competitive in markets around the globe. U.S. services exports reached a record $293 billion in 2000, and are forecast to reach or pass the $400 billion mark by 2004. U.S. services exporters are expected to thrive in the decade ahead, as international markets continue to expand due to economic growth, technological change, regulatory reform, and internationally negotiated liberalization.

A recent Page 1 *Wall Street Journal* article leaves little doubt as to the rising importance of U.S. services exports: ***Services May Lead U.S. to Trade Surplus*** proclaims the boldfaced headline of the December 4 Outlook piece. The article goes on to cite a University of Michigan forecast of $650 billion in U.S. services exports by 2010 -- well over double last year's level -- noting that trade volumes of that magnitude would put services exports on a par with the combined volume of our current exports from U.S. farms and factories.

The news about U.S. services exports rests on the deeper reality that the U.S. economy is today in many respects a services-driven economy: no matter how the service sector is defined, it is today the largest single feature of the economic landscape. Defined broadly (that is, defined as encompassing all sectors other than agriculture, mining, and manufacturing), the nation's output of services now accounts for about 80 percent of all private sector output, and the service sector now accounts for upwards of 80 percent of all private sector non-farm jobs.

Today's service sector jobs come from an enormous range of industries far too varied to list here. Among others, the sector includes architecture, construction, and engineering services; banking, insurance, and other financial services; education and healthcare services; energy, environmental, and related services; entertainment services; information and telecommunications services; legal and other business services; retail and wholesale trade; and travel and transportation services.

Remarkably, services are poised to play an even larger role in the U.S. economy. Service sector jobs are projected to account for virtually the entire net gain in employment over the next decade, with firms both large and small playing key roles in this services-driven economic expansion. For example, while small firms comprise most of the service sector, many of the most prominent exporters are large corporations with extensive global operations -- including many of the largest U.S. industrial and high-tech firms, whose operations and sales are increasingly services-based.

The predominant role of services in the economy is linked not only to expansion in skilled jobs, but also to leadership in the development and commercialization of technology, and in turn, to global competitiveness. On the trade front, U.S. services exports nearly doubled during the 1990s, to reach a record $293 billion in 2000 (or $279 billion in commercial services, that is, after excluding certain government and military transactions included in services).

Moreover, the U.S. runs a sizeable services trade surplus, especially impressive considering the relatively open access that foreign firms have traditionally enjoyed in U.S. markets compared to the limited market access often afforded to U.S. services abroad. U.S. commercial services exports outpaced U.S. imports by $78 billion in 2000, for a commercial services trade surplus that offset almost a fifth of the $452 billion deficit recorded for U.S. trade in goods.

Finally, a closer look at where our exports go reveals that U.S. services producers are competitive in markets around the globe. Key markets include the EU ($90 billion in U.S. commercial services exports in 2000), Japan ($34 billion), and Canada ($23 billion). As a group, the relatively advanced, industrialized economies import about half of all U.S. services exports.

Importantly, there is also a growing number of significant emerging markets for U.S. services. With $14 billion in U.S. services exports, Mexico is the largest of these emerging services markets. Notably, however, there are now over a dozen emerging markets around the world that import over $1 billion in U.S. services each year -- Argentina, Bermuda, Brazil, Chile, and Venezuela in this hemisphere, and in Asia, China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand. In 1997, South Africa became the first of Africa's emerging economies to import over $1 billion per year in U.S. services.

Looking ahead, economic growth, regulatory reform, and liberalized access to foreign markets are some of the factors likely to have the greatest impact on future U.S. services export levels. They are also among the most difficult factors to predict with any confidence. For example, the Asian financial crisis led to a sharp, unforeseen slowdown in U.S. services export growth in 1998 and 1999, as well as to the first decline in the services surplus since the early 1980s.

Although events such as the Asian financial crisis can clearly dominate near-term developments, they also highlight the strength and durability of the trend toward higher services export levels. After the slowdown of 1998 and early 1999, U.S. services export growth quickly recovered, with 1999's full-year gain of 5 percent followed by a robust 9 percent increase in U.S. services exports in 2000.

Given the above, and with services exports forecast to reach and perhaps pass the $400 billion mark in 2004, there is a general consensus that the importance of U.S. services exports can only increase in the decade ahead. With a new round of global services trade negotiations now getting underway in Geneva, for example, each one percent increase in U.S. exports resulting from our ability to negotiate improved market access for U.S. services providers will add some $4 billion to our services exports total in 2004, which in turn will support well over 55,000 new U.S. jobs.