



GLOBAL SERVICES SUMMIT

21st Century Rules-Based Trade

October 17, 2018

EXECUTIVE SUMMARY

On October 17, 2018, the Coalition of Services Industries (CSI) hosted the Tenth Annual Global Services Summit, “21st Century Rules-Based Trade,” providing Administration, Congressional, academic, and private sectors views on the challenges of updating trade rules on a global, regional, and bilateral basis to ensure those rules promote the growth of services trade and investment, especially digitally-enabled services.



CSI President Christine Bliss delivers Global Summit opening remarks at the Reagan International Trade Center.



CSI Chair Laura Lane (UPS) and the Chairman of the U.S. Council of Economic Advisors, Kevin Hassett, discuss the importance of services to the U.S. economy and global trade.

The View from the White House: A Conversation with the Chairman of the White House Council of Economic Advisers (CEA)

The Summit opened with a conversation between Laura Lane and Kevin Hassett about the role of CEA in promoting U.S. economic growth, particularly in services, the importance of trade in the Administration’s economic agenda and its trade priorities, particularly the U.S.-Mexico-Canada Agreement (USMCA).

Hassett highlighted the role of tax reform in producing an expected growth of 4% in GDP in the fourth quarter. He said the Administration’s economic policy priorities are to promote economic growth through tax reform, fewer regulations, and trade. The Administration believes these priorities have established a “new normal” under which the U.S. economy is growing more rapidly than it did under the prior Administration.

The Administration intends to use the USMCA, including its labor and environmental provisions, as a model for future trade negotiations with the EU, UK, and Japan. Hassett said that the Administration’s trade priorities include WTO reform through more symmetrical global trade, and the removal of all tariff and non-tariff barriers; he noted the Administration would also use bilateral agreements to achieve zero tariffs. Hassett said the Administration believes the WTO dispute settlement process has no teeth. He expressed great dissatisfaction with the inability of China to abide by WTO rulings and noted that, by the time the WTO issues a ruling, China has already inflicted commercial damage.

Hassett said that services is on the Administration’s radar, and he understands there is much work to do to make trade agreements consistent with 21st century practices.

Lane lauded the digital trade and e-commerce provisions in USMCA, including strong language on data localization and cross-border data flows with respect to cloud and other services, as well as language that would make trade more inclusive of SMEs. Lane

noted some companies' continued concerns related to USMCA, including improving border processes to facilitate more trade and improving the *de minimis* language.

21st Century Trade Rules to Encourage Innovation in Digital Services and Technologies

Ambassador Demetrios Marantis (Senior Vice President, Global Government Affairs at Visa and CSI Board member) explained how digital payments are a critical enabler of modern commerce and digital trade. He provided an overview of threats to the growth of digital services, and he recommended five policies (listed below) that governments should adopt to allow digital commerce to flourish.

The idea of a cashless society is becoming increasingly real as digital payments are becoming ubiquitous.

Digital payments allow buyers and sellers to transact securely regardless of physical location. Specifically:

- Consumers are no longer limited to local store inventory.
- Merchants are no longer limited to foot traffic.
- Businesses, especially in developing countries, now have access to a global customer base.

However, some governments are erecting borders in cyberspace and implementing protectionist policies (e.g. data localization mandates or limits on cross-border data flows) that undermine e-commerce. Many countries have enacted nationalized Electronic Payment Systems (EPS) that favor local suppliers and force foreign companies out of the local market; this distorts trade and can have the same adverse effects as tariffs.

Ambassador Marantis recommended five policies that governments should adopt to allow the digital ecosystem to flourish: 1) ensure the free flow of data across borders; 2) maintain a level playing field to ensure domestic and international suppliers compete on the basis of their value and functionality rather than preferential treatment; 3) ensure technology neutrality; 4) facilitate interoperable technology standards; and 5) recognize the costs of data localization.

The digital trade chapters in the CPTPP, and especially the USMCA, include most if not all of these

elements and set an important precedent for further work to implement these policies.

Hopefully, the WTO discussions and launch of e-commerce negotiations will incorporate these policies as well.



Moderator Sarah Thorn (Walmart) and panelists Matthew Reisman (Microsoft), Brian Bieron (eBay), Ralph Carter (FedEx Express), and Jennifer Taylor Hodges (BT Group) discuss how digital services and technologies promote MSME growth.

Ensuring Emerging Digital Services and Technologies Promote MSME Growth

Sarah Thorn of Walmart framed the panel discussion in terms of how to create the right policy framework in the face of protectionism coupled with anxiety over disruptive technological change. She also asked panelists to address whether the provisions in the recently negotiated USMCA on digital trade, services, financial services, and customs can help develop such a framework. Finally, panelists were asked to describe how each of their companies are working to develop the right digital services and technology ecosystem to promote MSME economic inclusion and growth.

Matthew Reisman spoke about how Microsoft's cloud and AI technologies can help people derive value from data by identifying new customers, organizing administrative processes, and sourcing materials more efficiently. He also noted how these digital services and technologies can provide educational access to displaced populations (such as Syrian refugee youth) and aid relief response to famine and natural disaster. On creating a positive policy framework, Reisman lauded the beneficial outcomes on digital trade, notably the provisions on data flows, privacy, and cybersecurity in the USMCA; he also encouraged building on those provisions.

Brian Bieron cited eBay data showing Internet platform-based growth has been consistent across wealthy and struggling communities, suggesting that their platform can help level the playing field for MSMEs. He also noted that eBay data indicates that while in the traditional economy, half of all the new enterprises created in America between 2011 and 2015 were in just 20 counties (out of 3,100 counties in America) in just seven states; half of all new eBay enterprises were in 76 counties across 24 states. This is powerful evidence of the power of Internet platforms like eBay to create more inclusion. Bieron noted that the USMCA was an excellent agreement in terms of the prohibition of data localization, cross-border data flows, and customs streamlining, but not as strong on *de minimis*.

Ralph Carter discussed the logistics side of e-commerce, noting that FedEx moves over 14 million packages each day. He noted the challenges FedEx faces at the border, as governments are increasing scrutiny of smaller packages and imposing more administrative requirements, including taxation. In addition, some local retailers are pushing their governments to slow down the flow of e-commerce. Carter praised the Trade Facilitation Chapter of the USMCA.

In terms of promoting a positive policy environment, FedEx supports the WTO e-commerce initiative and is working to include trade facilitation. FedEx is also working through a WCO working group to come up with standards and best practices for customs agents to deal with the surging volume of packages. The challenge is to find ways to use technology to give border agencies the tools to effectively manage data relating to the hundreds of thousands of new participants in the global supply chain. The first tool is reliance on risk management rather than inspections. The second tool is a new “Trusted Trader” model that allows small traders to sign up and become known Trusted Traders so they can receive facilitation in border inspections.

Jennifer Taylor Hodges discussed the role of communications providers in global value chains such as providing cloud facilitation and cybersecurity services to medium and large enterprises and governments in 180 countries. BT essentially acts as a data logistics company focused on making its customer data accessible globally and securely across supply chains end-to-end. Half of BT’s supplier base are

MSMEs. BT’s key digital trade policy priorities include: continued ability to transfer data across borders (in compliance with data protection norms and enhancing consumer trust); no data localization obligations (which disproportionately harm MSMEs); and consideration of telecom services and global competition norms.



Moderator Jenny Leonard (Bloomberg News) and panelists Nadeam Elshami (Brownstein Hyatt Farber Schreck), Patricia Buckley, Ph.D. (Deloitte), and Kevin Madden (Hamilton Place Strategies) discuss how to develop more effective messaging on trade in services.

Trade Messaging: Getting Services Above the Fold

Moderator Jenny Leonard encouraged the panelists to discuss ways to retool trade messaging to ensure that the importance of services trade reaches all constituencies in an impactful way. She also asked panelists to discuss the lessons learned from the legislative battle over TPP enactment. Leonard also highlighted the challenge of handling China services issues in trade messaging.

Deloitte economist Patricia Buckley cited her recent report which highlights that services output and employment are currently rising and are likely to rise even faster in the future. Dr. Buckley noted that since services already contributes 79 percent of U.S. GDP, 85 percent of total U.S. employment, and creates a \$243 billion trade surplus, the fact that services growth will increase at a more rapid rate necessitates publicizing the importance of services trade. On services trade messaging for the USMCA, Dr. Buckley noted the U.S. services trade surpluses with Canada and Mexico are a way to shift the discussion away from manufacturing. IP and financial services comprise the lion’s share of the services surplus—a surplus which supports high-paying, high-growth U.S. jobs.

On U.S.-China services trade messaging, she noted the U.S.'s nearly \$40 billion surplus in services trade with China needs to be part of the conversation. It will be only a short matter of time before China runs out of American goods on which they impose tariffs. China's attention will then turn to China's services imports from the U.S.

Kevin Madden of Hamilton Place Strategies framed the issue of messaging through the lens of the TPA fight in 2015, the "last successful trade win" in Congress. During that campaign, stakeholders deployed a simple and disciplined message that high standards are important, trade is personal, and the U.S. needs to be an economic leader. Madden recommended "Americanizing the services debate" by making the argument that services are vital to U.S. "economic pre-eminence" and have a real impact on local jobs.

He highlighted the importance of being ready to position oneself as a resource outside the government to an Administration that does not have much expertise on services issues. The agricultural community is a good example of how to design effective messaging to win votes—they don't talk about trade as an economic theory, but as the key to wages and economic health.

Nadeam Elshami of Brownstein underscored the importance of understanding one's audience, learning from the past, and making trade personal. This means breaking through the old paradigm of "fair trade" and "free trade" to instead push for "new trade" and explaining how that affects constituents. Elshami said that the USMCA will be hard to sell to liberal members of Congress and that its prospects for passage could be improved if it was coupled with jobs or infrastructure legislation. He also emphasized the importance of spotlighting the interconnection between services and both manufacturing and agriculture.



Gary Campkin (The CityUK) introduces the armchair discussion between UK Ambassador Kim Darroch and Tom Leonardi (AIG)

Luncheon: Armchair Discussion between UK Ambassador Kim Darroch and AIG's Tom Leonardi, on Brexit and US-UK trade

Gary Campkin introduced the armchair discussion with Ambassador Darroch by highlighting the importance of the transatlantic relationship and the opportunities for the UK and the U.S. to reach a high-standard agreement on trade and regulatory issues. Tom Leonardi of AIG framed the discussion around the Brexit deal and a potential U.S.-UK FTA, and the potential deals' impacts on the U.S. services sector.

Ambassador Darroch noted that services accounts for 80 percent of the British economy, with financial services playing a major role. The UK wants a Brexit outcome that will allow the UK to keep as much services access to the EU market as possible and have the ability to negotiate bilateral FTAs around the globe, especially with the U.S., the UK's most important bilateral relationship. The Ambassador said he is reasonably confident a UK withdrawal deal will be reached with the EU but did not think there would be any major announcements about a possible deal until maybe later in the fall.

In discussing how the U.S. and UK are laying the groundwork for FTA negotiations post-Brexit, the Ambassador said the UK expected the U.S. to demand greater agricultural market access while the UK would seek greater access for federal and state government procurement, as well as more access to U.S. service sectors. He added that digital trade would be a "top priority" in a U.S.-UK bilateral agreement; digital trade would need to achieve a balance between safety and security. He also said that it would be important to use a "regulatory sandbox" in the digital area.



Moderator Claire Reade (Arnold & Porter) moderates the discussion on U.S.-China trade with panelists Craig Allen (U.S.-China Business Council), Ely Ratner (Center for a New American Security), Scott Kennedy (Center for Strategic and International Studies), and Charles Freeman (U.S. Chamber of Commerce).

U.S.-China Trade: Creating a Path from Conflict to Positive Resolution

Moderator Claire Reade introduced the panel discussion by noting that the Trump Administration appears to be split on the end goal of its trade battle with China; is it meaningful, long term economic reform or is it a permanent reduction in U.S.-China interdependence? The U.S. needs to be cautious in relying on Chinese promises of reform since China’s long history of broken promises is what has led to the current trade war. Reade noted that the Administration’s escalating tariffs on Chinese imports, efforts to limit Chinese access to U.S. technology, and the U.S. decision to withdraw from the Universal Postal Union Treaty have led to a significant paradigm shift in U.S. China policy. Given that state of play, Reade asked each panelist to comment on the best way to pave a positive path forward in bilateral relations with China and is that in fact an achievable goal.

Craig Allen asserted that China’s economy remains resilient and is on track to post GDP growth of over 6% this year and is girding itself for the impact of tariffs by lowering reserve requirements for banks and increasing fiscal spending. Allen is optimistic that a bilateral trade deal can be reached with China as long as the focus remains on economic and trade issues and not strategic or military concessions. He warned of the potential devastating consequences if the U.S. strategy “decouple[d]” the two countries economically and diplomatically.

Scott Kennedy noted that the U.S. should seek cooperation with Europe and Japan in order to

pressure China. Kennedy predicted China will make things harder for U.S. companies by initiating anti-monopoly investigations and burdensome tax audits. He also noted that U.S. efforts to challenge the national security rationale for China’s Great Firewall or barriers to U.S. cloud services companies are being undermined by the Administration’s invocation of national security under Section 232 to impose steel and aluminum tariffs.

Ely Ratner said he did not expect a resolution in the trade conflict with China due to renewed focus on contentious national security issues. Ratner said that in his view the Administration aims to permanently decrease U.S. dependence on China. He expects the U.S. to maintain a tough stance on China trade regardless of the results of the midterm elections.

Charles Freeman noted that while many U.S. companies are still doing well in China, the bilateral trade dispute is threatening China’s unilateral liberalization. China feels that the U.S. has the weaker hand in this trade dispute and expects the midterm elections to further weaken Trump’s leverage towards China. Freeman believes China responds to trade complaints far more fully when they are addressed through a multilateral framework such as the WTO or when pressure is exerted upon them through regional trade agreements such as TPP. Thus, the U.S. exit from TPP forfeited a huge opportunity in terms of forcing Chinese reforms. Freeman said those in the Administration who desire “permanent decoupling” do not understand the extent of U.S.-China economic interdependence.



Deborah Stalker (Chubb) gives a presentation on blockchain.

Welcome to Blockchain

Deborah Stalker explained that blockchain technology is a subset of distributed ledger technology, meaning that the computer platform, the ledger, is

decentralized, and distributed among a number of different computers. In other words, all participants see the same thing in real time. The ledger system is one where entries cannot be corrected or erased; users can only make a corresponding correcting entry. If one tries to go back and change the entry, everyone on the network would see the attempt and shut it down.

Blockchain consists of “blocks” that are recorded transactions in a commonly shared ledger. Each transaction is recorded in a separate block. It is all chronological and time-stamped and connected like links in a necklace. Blockchain is harder to hack because the information is spread out among different computers and everyone with access has the same copy of the same information.

Examples of the potential uses of blockchain in insurance include:

- first notice of loss
- certificates of insurance
- tracing of stock certificates (rendering paper certificate unnecessary), and
- shipment tracking (as each block on the chain has that unique identifier so you can track it from the beginning point to the end point)



Moderator Sahra English (center) (Mastercard) leads the discussion with panelists Thomas M. Dailey (Verizon), David Weller (Google), Annette Mueller (Maersk GTD Inc.), Douglas Bell (Deputy Assistant Secretary (DAS) for Trade and Investment Policy, U.S. Treasury Department), and Deborah Stalker (Chubb)

The Road Ahead on Trade and Emerging Technology

Moderator Sahra English opened the discussion by noting how technological innovation is key to the success of all sectors of the U.S. economy. She asked panelists to address challenges in developing policies to promote emerging technologies, especially fintech.

She also asked panelists to identify likely trade barriers that could undermine development of new technologies, particularly with regard to cross-border data flows, data localization, and the ability to employ 5G technology.

DAS Doug Bell spoke about the importance of getting trade rules and regulations right with regard to emerging technologies, particularly in financial services. He said Treasury is intent on developing policies around automatic payment systems that ensure a competitive and level playing field for U.S. industry around the globe. At the same time, Treasury is sensitive to U.S. prudential regulatory objectives, including financial stability, cybersecurity, privacy, financial inclusion, anti-money laundering, and anti-terrorist financing. Bell said the USMCA financial services data localization provisions were an example of Treasury striking a balance between the elimination of protectionist measures with the assurance that financial regulators have access to the information they need.

Annette Mueller described how Maersk and IBM are working on TradeLens, a blockchain-enabled solution designed to exchange events data and handle document workflows. She noted that Maersk GTD employed the blockchain solution on an international cargo shipment of fresh flowers from Kenya to the Netherlands as a way to reduce the need for paper documentation, create trust and security, and improve global supply chain efficiency.

David Weller discussed how Google is implementing AI and machine learning (ML) in e-commerce platforms to break down barriers to trade, such as language, and connect entrepreneurs. For example, Google has applied AI/ML technology to improve Google Translate with a tool called Smart Compose, which can finish one’s sentences and increase efficiency. A recent MIT study noted that there was an 18% increase in eBay small business sales after eBay improved its ML translation system in 2014. Google also used AI/ML technology to tackle the world’s overfishing problem by partnering with NGOs in a project called Global Fishing Watch. The project collects data from commercial vessels to map global fishing patterns, which allows governments to see overfishing sites and enforce international fishing agreements.

Thomas Dailey spoke about how Verizon’s 5G technology enables voice communications, data

movement, and trade. This 5G technology is already deployed in four U.S. cities and will be used by wireless companies to enable AI, augmented and virtual reality, industrial robotics, and telemedicine. 5G is fundamentally different from other, earlier 3G and 4G wireless technologies in that it: has super low latency (meaning the time it takes for a signal to go back and forth from a device is very fast); has super-fast speeds in the gigabit range; can handle a very high volume of data; and has an extended battery life. The Verizon 5G network uses software to create an environment for the data to be moved, secured and stored over the Internet and private networks. The data is pushed to the end of the network closer to the end-user, uses fiber that can handle heavy data loads, and has an ultra wide-band network.

Dailey stressed the importance of data flows, arguing that a strong regulatory framework would encourage innovation and open up new markets.



Rick Johnston (Citi), introduces Summit keynote speaker, the Under Secretary of Commerce Gil Kaplan.

Keynote Speech by the Hon. Gil Kaplan, Under Secretary of Commerce for International Trade

In introducing Commerce Under Secretary Gil Kaplan, Rick Johnston praised Kaplan for his deep

experience in trade law and his role as one of the leading trade officials working on trade and investment issues affecting the services sector. While recognizing the Trump Administration's focus on the trade deficit in goods, Johnston cited recent comments by Mike Corbett, Citi's CEO, including the fact that 1% of the U.S. economy is driven by agriculture, 19% is driven by manufacturing, and 80% of the U.S. economy is driven by services. He highlighted the need to defend the ability of U.S. services companies to expand foreign market access and the need to be persistent in minimizing foreign trade and investment barriers that are too often based on protecting domestic industries rather than relying on sound economic principles.

Under Secretary Kaplan highlighted the importance of the services sector in the U.S. economy, which accounts for 82 percent of private-sector employment (94 million jobs). He also noted the U.S. is the world's top exporter and importer of services. (Note: CSI has compiled services employment data and services import and export data for every district and state across the country.) He also noted that 5.9 million U.S. jobs are supported by digital trade.

The Under Secretary said that he expects the USMCA to be the model for U.S. trade agreements with the EU, Japan and the UK. In those agreements the U.S. will continue to insist that cross-border data flows remain unimpeded and that data localization requirements be eliminated.

Under Secretary Kaplan discussed ITA's plans to enhance the services sector and maximize the global competitiveness of the U.S. economy by looking at how: 1) the Administration's trade policy is building a new framework of improved, rebalanced trade agreements to grow our economy; 2) the U.S. digital economy strategy is designed to ensure that U.S. companies can fully capture competitive gains in this area; and 3) the U.S. is strengthening financial services and supply chain services to reduce costs and improve competitiveness.

Commerce has also begun a national conversation on a forward-thinking approach to consumer data privacy designed to provide high levels of protection to individuals while giving organizations the legal clarity and flexibility required for innovation. ITA will continue to facilitate cooperation with foreign nations on enforcement of privacy agreements.

Going forward the U.S. will focus on FinServ trade, data localization measures, caps on foreign direct

investment, and foreign postal service preferences and market access restrictions, particularly with Vietnam and India. Under Secretary Kaplan noted concerns with the Administration's tariffs on China, but said the tariffs had been imposed only after the Administration's thorough review, and that they were needed to address China's forced technology transfers, unfair licensing, theft of IP, and computer hacking.

Please note that video of the Summit panels can be viewed on CSI's YouTube Channel, [Services Trade](#). You can also access specific panels and remarks by clicking the following links:

[Opening Remarks](#)

[The View from the White House](#)

[21st Century Trade Rules to Encourage Innovation in Digital Services and Technologies](#)

[Ensuring Emerging Digital Services and Technologies](#)

[Promote MSME Growth](#)

[Trade Messaging: Getting Services Above the Fold](#)

[U.S.-China Trade: Creating a Path from Conflict to](#)

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For more information on the Summit, please visit <https://servicescoalition.org>.



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