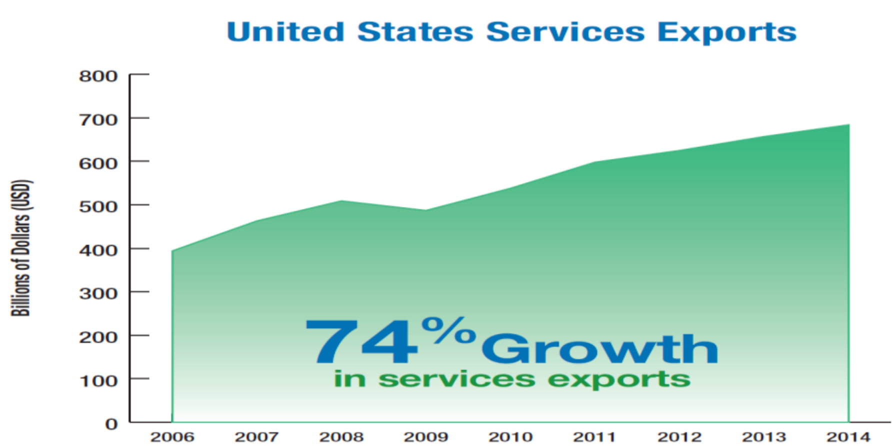
Services Contribute to American Competitiveness[1]

Services are a major engine of growth in the U.S. economy and play a substantial supporting and integrated role in both U.S. manufacturing and agriculture. Service providers are the largest source of U.S. jobs, generate the greatest percentage of national output, provide the impetus for productivity growth and technological innovation, and generate a considerable trade surplus. Without competitive services, an area where we lead in the world, the U.S. would not be the economic powerhouse it is today. To further strengthen the American economy, services must be an integral part of efforts to revitalize manufacturing, increase job creation, and expand competitiveness.

- **Services are a critical fabric of the U.S. economy, supporting jobs and higher wages.**
  - Services employ over 75 percent of the American workforce and contribute 80 percent of U.S. gross domestic product (GDP).
  - The United States is the world's largest exporter of services and a leader in services trade, generating a $262 billion trade surplus in 2015.
  - The surplus generated by services has been a bright spot in U.S. trade performance and has dampened the impact of the global recession on the U.S. economy.
  - Services exports are the most dynamic component of U.S. trade, growing by 74 percent between 2006 and 2014 (see graphic below).
  - Close to 5 million jobs are directly supported by U.S. services exports, and almost 700,000 U.S. jobs are supported by the activities of U.S. foreign affiliates.
  - Tradeable services account for 40 percent of U.S. services jobs, which require a higher level of education and provide higher earning potential than manufacturing or non-tradeable service sectors, which means that services companies that export pay higher wages. In 2016, the average hourly earnings in business and professional services was $30.72 per hour, compared to a manufacturing wage, which was $25.99 per hour.
  - 98 percent of all exporting companies are SMEs, many of which export services.

- **Services promote greater productivity in across all sectors, including in manufacturing and agriculture.**
  - Services account for 25 percent of inputs into manufacturing, and 47 percent of inputs for manufacturers in the electronics sector, which means greater efficiency and competitiveness.
  - The U.S. is the largest exporter of food products worldwide in part because of the supporting services, which includes including transportation, financial services, and information technology, among others.
  - Services in the U.S. (as well as other advanced economies) generate the greatest productivity gains; labor productivity in services outweighs labor productivity in manufacturing when compared as a contribution to GDP.
  - Importantly, most SMEs in the U.S. as elsewhere are service suppliers, with 68 percent of small businesses identifying themselves as a company within the services sector, as opposed to only 27 percent working within manufacturing and 5 percent within agriculture and mining.

- **Trade agreements are vital in promoting U.S. services trade.**
  - Opening overseas markets and negotiating trade agreements are critical to eliminate barriers to services trade and create a level playing field for U.S. firms.
  - Fully eliminating all foreign barriers to trade in services could increase U.S. services exports by as much as $860 billion to $1.4 trillion, creating as many as three million new U.S. jobs, and would benefit the whole country, as services firms from all 50 states export to foreign markets.
  - Not engaging in trade and/or pulling out of trade agreements would have a cascading negative effect on the U.S. economy, including job losses, stifled economic growth, and decreased U.S. competitiveness.
  - Europe is the most dynamic consumer of U.S. services exports, but emerging markets have a high demand for U.S. services.



[1]Based on the 2017 paper by Sherry Stephenson, ICTSD