

As prepared for delivery

**“Freeing the Intangible Economy:
Services in International Trade”**

Coalition of Service Industries Dinner

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Thank you very much for your warm welcome and for the opportunity to speak to you tonight.

I'd like to open by thanking Bob Vastine, the President of CSI, who has shown great leadership, energy, and advocacy on behalf of both the industry and America's drive to open markets around the world. I also want to express my appreciation -- and I am sure of all of yours -- to Dean O'Hare who has guided and built CSI into what it is today during his invaluable service as Chairman over the past nine years.

When I read *The Washington Post* this past Saturday, I saw a column by Marcela Sanchez titled “Fair Trade, A Click Away.” Ms. Sanchez's point was that new online shopping offered opportunities this holiday season to buy coffee from small farmer cooperatives in Latin America, crafts from Haitian artisans, and cocoa from growers in Brazilian rain forests. Great ideas. Yet Ms. Sanchez also enthused over how this new shopping network did not need trade negotiators, big business, or the other accoutrements of the world economy.

Ms. Sanchez is promoting an important insight about how small businesses and consumers from around the world can benefit from the digital economy. We are working with AID and NGOs to promote similar ventures as part of the Central American Free Trade Area negotiations. Yet it is useful to appreciate how this new economy really works.

To have e-commerce, countries need low cost, accessible, and effective telecommunications and Internet systems, unburdened by taxes and fees. They need reliable sources of electricity to operate online. Goods need to be packaged, shipped, and distributed in a timely fashion, with the cooperation, not corruption or costly circumventions, of customs officials. Purchasing requires reliable payment and credit. Goods trademarks need protection from counterfeiters; agricultural products must meet health standards. In brief, to help Ms. Sanchez's ideas to bear fruit, we need efficient services businesses -- in both developed and developing economies. And, I guess I have to add, we still need trade negotiators, however disagreeable, and free trade agreements to open markets and secure transparent, reliable, low-cost rules to enable the most efficient services providers, and producers of goods and farm products, to flourish.

This story underscores a larger point. Many Americans are unaware that services comprise the largest sector of the U.S. economy. It is no surprise, then, that the prominent role of services in

international trade is not widely appreciated. People ask themselves, “Services are haircuts, landscaping, and accounting -- how could these things be traded?” Yet billions of dollars worth of services are traded every day. At this very moment, trillions of bits of information -- news reports, computer software, legal opinions, tax forms, medical advice, and movies, just to name a few -- are being exchanged across private computer networks and the Internet. U.S. companies are flying overnight packages to customers in China, tourists from Brazil are eating at restaurants in Miami, advertising consultants in London are puzzling over how to sell fashions in New York, and engineers in Wichita are working to earthquake-proof Japanese skyscrapers.

The services trade is vast, and it is all around us. It is also intangible, consisting of things that cannot be packaged or built or held. Services are ideas and effort, expressed in electrons, on paper, film, or in the actions of people. They are knowledge, communications, and planning -- the glue that holds economies together. Services add value to goods and raw materials, and more than trade in physical products, they require interaction between buyers and sellers.

Perhaps *The Economist* magazine’s simple negative definition is best: If you can drop it on your toe, you know it is not a service.

The global services trade represents tremendous opportunities for businesses, big and small; for consumers; and for economies at all levels of development. Services are providing innovative tools for U.S. companies to compete globally and reach new customers, contributing to economic growth at home and abroad, and opening doors for entrepreneurs. Services promise poorer countries a chance to develop more quickly by combining a new type of industrial revolution with the information revolution.

Consider a couple of examples.

Delta Air Lines, one of the world’s largest air carriers, operates more than 6,000 flights daily to 438 destinations in 78 countries. Although Delta is based in the United States, many of its customers reside abroad.

When Delta was seeking to expand its business in Latin America, the company needed to find a way to handle the calls from an expanded Latin customer base. In the summer of 2001, Delta hit upon a solution: It would open a Latin America Contact Center in Santiago, Chile. Today, that center takes reservations and provides service to passengers from all across South and Central America. The center even handles Spanish calls placed from the United States. As a result of this investment, Delta has been able to expand its routes in Latin America, hire more flight crews and ground support, and provide better service to customers everywhere.

The experience of New York Life in India also reveals the win-win nature of the services trade -- and the importance of bringing down barriers. In April 2001, in response to the initial opening of India’s insurance market to foreign firms, New York Life launched a joint venture with Max India Ltd. Opening offices in eight major Indian cities, Max New York Life became

the first U.S.-Indian joint venture life insurance company to do business across India.

Over the last two years, Max New York Life has built successful local sales teams of thousands of people who earn wages far higher than average. In fact, New York Life's India venture already is one of the leaders in the life insurance industry's prestigious Million Dollar Round Table -- salespeople with more than 520,000 rupees in commissions. Business has been so good that the company has had to expand its offices to New Delhi, Mumbai and Chennai.

New York Life is also contributing to India's development. It is mobilizing the savings of Indians to build the economy. It is increasing awareness about the benefits of owning insurance. More citizens in India are becoming policyholders, managing risk and building wealth that can be transferred to their families, while mobilizing domestic capital to spur development. U.S. insurance companies, Indian policyholders, American investors, and India's economy have all been winners.

Services and the U.S. Economy

The United States is the undisputed global leader in services. No one comes close to all of you in productivity, creativity, and success in devising and marketing services. No nation is better poised to take advantage of a globalized services market.

The U.S. service industry's share of GDP is about 65 percent. Eight out of ten Americans earn their livings through services businesses. Over the past two decades, this sector has added almost 40 million employees. On average, service jobs pay on par with those in manufacturing.

Our service sector is open and global in its orientation, with exports of commercial services -- about \$279 billion in 2002 -- more than doubling since 1990. Studies of service-sector industries have found that labor productivity in the United States exceeds that of its major competitors—Germany, France, the U.K., and Japan -- by 30 percent in airlines, 30 to 40 percent in retail banking, 20 to 50 percent in telecommunications, and 10 to 50 percent in retail.

In total, U.S. services account for approximately 30 percent of the value of America's exports and nearly a fifth of the whole world's trade in services. In addition, U.S. multinational companies sell services through affiliates abroad. The combination of direct service exports and service sales by U.S. foreign affiliates, recognizing the possibility of some double counting, still totaled over \$720 billion in 2001 -- a value larger than the entire Canadian economy.

American companies are combining top-quality services with highly sophisticated supply chains to bring greater choice and lower prices to their foreign customers -- even as they create more jobs and higher returns for investors back home. For the millions of Americans who own stock in your companies in their 401(k)s and pension funds, the global success of U.S. service providers is more than a matter of academic interest.

Last summer, I visited a Wal-Mart global sourcing conference in Brazil and saw firsthand how small- and medium-sized developing world producers wanted to connect to the international stream of commerce. This October, I stopped by a Wal-Mart in Shenyang, a city in China's old industrial northeast. In addition to talking to the brothers who ran the Kodak Kiosk and eating at the Kentucky Fried Chicken on the premises, I asked some Chinese customers why they shopped at Wal-Mart: "Everyday low prices for quality goods," they replied. We filled a basket with American-made goods for sale there – including California pistachios that we brought back for Chairman Bill Thomas!

Wal-Mart provides retail services to more than 100 million customers per week. With about 900,000 employees in the United States and 300,000 abroad, Wal-Mart directly provides more jobs than just about any company in the world. It has indirectly created other jobs by successfully marketing U.S. products from companies such as Coca Cola, Johnson & Johnson, General Electric, and Tyson in difficult markets. And, as the holiday shopping rush attests, Wal-Mart and other great American retailers help consumers stretch their hard-earned dollars much farther.

It is not surprising that research points to significant potential U.S. gains from a reduction in global barriers. A study by the University of Michigan estimates that the elimination of service barriers would yield a \$1.2 trillion income gain for the world, \$450 billion of which would accrue to the United States. In 1999, the OECD reported that the United States could experience a 1.2 percent increase in its economy by cutting global trade barriers by just 25 percent. If services were excluded from that equation, however, the gains fell to just 0.2 percent.

The power and prominence of services in America's economy strengthens our industrial base by offering complementary and productivity-enhancing businesses. Despite the recent recession, manufacturing output in the United States still increased by 40 percent in real terms since 1991. Domestic production of durable goods is up 77 percent; electric and electronic equipment 361 percent; industrial machinery 159 percent; motor vehicles and equipment 84 percent; and fabricated metals up 30 percent.

These productivity gains would not have been possible without the availability of information technology services, management consulting, and engineering and other services.

U.S. businesses are increasingly producing more with less physical labor. This improved productivity frees human capital -- people -- to move into an expanding services sector, the output from which feeds productivity gains in other sectors. This virtuous cycle is the hallmark of a successful, dynamic economy.

Services as an Engine of Development

The services sector also offers innovative opportunities for developing countries to jumpstart

growth and development -- and to tackle endemic poverty.

The World Bank has reported that services typically account for around 50 percent of GDP in developing countries, and that services are the fastest growing sector in many of the least-developed economies. As a group, developing countries accounted for just over 18 percent of total world service exports -- up from 14 percent a decade earlier.

This growth in services points to substantial prospective gains from freer trade as nations learn to improve their services businesses while connecting them to regional and global markets. The World Bank estimates that services liberalization could yield income gains for developing countries about 4.5 times greater than gains for these countries from trade liberalization in goods alone.

Trade in services is creating substantial numbers of jobs in developing economies. Proctor & Gamble, for example, employs 650 tax preparers in the Philippines and over 1,000 recent university graduates at a site I visited in Costa Rica to help employees answer questions about benefit programs. In Ghana, Affiliated Computer Services-Business Process Solutions employs 150 data entry clerks who provide remote data entry services for Aetna. U.S. call centers provide good-paying service jobs to thousands in countries such as the Czech Republic, Estonia, Hungary, India, Jamaica, Morocco, and the Philippines. In Morocco, one of our FTA partners, these centers employ at least 2,000 people.

Developing countries scrapped burdensome regulatory and licensing requirements in order to create these opportunities. Further liberalization would also expand avenues for developing countries to trade services among themselves. The World Bank has estimated that developing countries would increase their annual income by \$900 billion just from eliminating their own barriers to trade in services.

Force Multipliers: Services as Critical Infrastructure

Indeed, I believe open services markets in developing countries are the critical “force multipliers” that support and expand opportunities, and increase productivity across other sectors of an economy.

Today, services are the essential infrastructure of a modern economy -- the bandwidth and digital conveyers of information and communications, knowledge industries, finance, help centers, distribution networks -- pathways that underpin a new kind of business revolution.

In the 19th Century, the United States needed foreign investment to build the economic infrastructure of commerce. The practical symbols of America’s industrial revolution -- the canals, railroads, bridges, ports, and roads -- were financed in no small measure by Old World capital.

Like the United States of a century ago, developing countries today need foreign investment, technology, and expertise to build a services infrastructure. Liberalizing their services markets will attract new investment and market participants, the rewards from which will extend far beyond better services.

Consider for a moment four service sectors that are prerequisites for development in the 21st Century.

Telecommunications. First, reliable, rapid, affordable communications are a basic necessity for international commerce. In many developing economies, however, even basic telephone service is unobtainable. Without good communication, businesses are largely limited to supplies that can be obtained locally, severely restraining productivity. The customer base is diminished, too.

Even when basic telecom services exist, the high cost and poor service provided by monopoly suppliers can hamstring local businesses. In Vietnam, one brave company that produces software for firms in the U.K. and Canada is forced to fly its product to clients on CDs because the telecom system is too antiquated for Internet access.

When countries have opened their communications markets to trade, they have reaped tangible rewards. The opening of Chile's telecommunication industry in 1994 led to rapid infrastructure modernization and the introduction of new services. Rates for local, long-distance, and international calls dropped by up to 50 percent -- a key factor in the decision by foreign investors like Delta Airlines to open call centers there. Liberalization of El Salvador's telecommunications industry has led to quality and infrastructure improvements, the expansion of cellular service to the entire country, and a reduction in the waiting period for a fixed line from as long as 6 years to a few days. Intel recently stated it would like to expand its operations in Costa Rica -- if the country opens up its telecom monopoly service -- one of our objectives in the CAFTA negotiations.

To replicate such success stories, U.S. services proposals seek to build on the Uruguay Round commitments and the landmark 1997 Basic Telecom Services Agreement by opening markets to competition for supplying both basic services, like telephone connections, and value-added services, such as information and Internet businesses. And as our recent telecommunications victory in the WTO against Mexico's Telmex shows, we intend to enforce these new obligations.

Financial Services. A second key lifeline for business is access to financial services. Without a means to intermediate savings -- whether via banks, insurance, securities, pension management, or other channels -- promising economic ventures will be stillborn. Financial institutions offer risk management services, export financing, currency services, savings vehicles,

and a host of other activities. In the 21st Century, these financial services are as critical to an economy as roads and bridges.

Liberalization of the financial services sector can help countries to leap up the development ladder, much like wireless technology can quickly bring modern, reliable communication to places that lack an infrastructure of wires and telephone poles. These firms facilitate access to capital, and introduce business practices, technology, and products honed in the global marketplace. Competition forces all financial firms to offer market rates of return to savers and lower cost capital to businesses.

The World Bank found that economic growth in countries with open financial services markets exceeded the growth of economies with closed financial services markets by a full percentage point; countries with open telecommunication and financial services markets exceeded the growth of closed markets by 1.5 percentage points. Developing countries that have taken aggressive steps to open their financial services markets -- like Singapore, Chile, and South Africa -- have begun to emerge as important regional financial centers.

Logistics. Third, for a business to be competitive globally, it needs access to advanced logistical services. Logistics is not a single occupation or industry; it is the group of services concerned with moving materials and information from their sources to places where they are used. The goal is to get the right product to the right place, in the right condition at the right time -- and at the right price. Logistics includes such services as purchasing, demand forecasting, production planning, inventory control, warehousing, distribution, and express delivery.

In his book The Elusive Quest for Growth, William Easterly of the World Bank documents that the disappointing record of Western development aid stems in part from the lack of these logistical services in underdeveloped countries. He describes the case of the Akosombo hydroelectric dam and adjacent aluminum smelting plant in Ghana, which failed because no one had adequately considered how raw materials would reach the factory, nor how the finished product could be economically delivered to buyers.

The increasing prominence of express delivery companies illustrates the importance of logistics in facilitating growth. Led by companies like FedEx and UPS, this burgeoning \$55 billion dollar sector enables vendors to match the speed of electronic ordering with rapid physical delivery. Moreover, express delivery companies are deeply engaged in creating and running modern supply chains.

Education and training. A final prerequisite for development is the means to educate and train a workforce. According to the OECD, there is a strong positive relationship between the health of a country's economy and the percentage of its population with access to higher education and specialized training. Here, too, the services trade stands ready to meet needs.

Each year, thousands of students travel to the United States to study. They take home

knowledge of engineering, science, mathematics, management, medicine, economics, and other disciplines essential to their country's development -- as well as some experience in democracy. Those students spend about \$12 billion annually in this country. U.S. businesses earn another \$400 million a year by providing specialized training to foreigners visiting the United States.

Traveling to the United States, however, is far beyond the reach of most people in developing countries. Education and training could be provided at lower cost in the countries where they are needed. Yet many countries continue to block U.S. companies from operating training programs or providing for-profit education.

In our multilateral and bilateral trade negotiations, we respect each country's choices concerning public education, yet private educational and training opportunities can complement public schools.

Communications, financial services, logistics, and education: Trade in all of these services -- and in many others -- is essential in laying the foundation for growing economies.

The Trade Negotiations Outlook

As all of you know, even with all the advantages for America and others of more open markets, free traders have our work cut out for us. You know the resistance we face from people who fear change or dislike competition. There are plenty of protectionists around the world, too. That is why we need your help.

We have been pressing for freer trade -- especially in emerging services markets -- globally, hemispherically, and through subregional or bilateral free trade agreements. The strategy of advancing on multiple fronts is paying off, especially in our drive through FTAs to achieve state-of-the-art provisions to assist sectors like those represented here tonight. We are making modern rules for 21st Century economies.

Indeed, this month we are moving into the closing stages of our FTA negotiations with Morocco, the five Central American economies, and Australia. These FTAs will have the highest quality services provisions, based on the Chile and Singapore FTAs you helped us enact this year. Next year we will seek to add the Dominican Republic to CAFTA and launch FTA negotiations with Thailand, Panama, Bahrain, Colombia, Peru, and -- when ready -- Ecuador and Bolivia. We will strive to complete our FTA with the five countries of the Southern Africa Customs Union.

The numbers are adding up.

Our new and pending FTA partners, considered together, would constitute America's third largest export market and the sixth largest economy in the world.

We are well on our way to creating hemispheric free trade through state-of-the-art agreements. Our current and pending FTA partners in the Americas encompass two-thirds of the Western Hemisphere's GDP, excluding the United States. We hope the FTAA will build on the experience.

Some major economies are unwilling or unable to negotiate FTAs with us because of their agricultural protectionism. If we omit these economies -- the EU 25, Japan, and Korea -- plus China, which just joined the WTO, the United States has completed or launched FTAs with countries representing 73 percent of U.S. exports and 69 percent of our two-way trade.

Most important for services providers, these U.S. FTAs are setting a high standard in all regions of the globe, creating models that will spread, and attracting other countries to sign up. As Edmund Burke said, "Example is the school of mankind, and they will learn at no other."

Of course, we also want to broaden and deepen the coverage of the General Agreement on Trade in Services, or GATS, through the WTO negotiations launched at Doha. To help spur these negotiations, the United States offered to eliminate all tariffs on goods and to make very deep cuts in agricultural tariffs and subsidies. Others passed up this opportunity at Cancun. As their disappointment sank in, we were the first to propose resuming work off the Cancun draft text. Many others have joined us, including all the APEC economies. My sense is that most WTO members will want to resume negotiations early next year; we will look for a serious commitment to move from hand-wringing to hands-on work, cooperation, and compromise.

In the Doha services negotiations, virtually all of the requests to us for improved commitments involve so-called Mode 4, movement of persons. Our response will influence their willingness to move to broader services liberalization.

As most of you probably know, some Members of Congress launched a major attack on the very limited, capped, and disciplined provisions in the Singapore and Chile FTAs concerning temporary business visitors and visas. One Senator even inserted an appropriations rider to block us from ever discussing the topic.

CSI, led by Bob Vastine, has helped us emphasize that services businesses -- including America's -- require moving people across borders. Yet I will be frank in telling you we have a lot more explaining to do. If we do not make a better case, we will be paralyzed in Congress and unable to help your industry, one of America's brightest lights.

So I will conclude by asking for even more energetic help from all of you in explaining the stakes of open markets for services and trade. We have to make the intangible concrete.

We know services are not tangible; you cannot hold them, touch them...or drop them on your toe. Yet we also know they are critical to the future of the United States, the global economy, and to the individual futures of millions of people around the globe. Our challenge -- together --

is to create a world where people everywhere can use their talents, skills, and drive to build better lives for themselves and their families through trade and openness.