

Trade in Services Matters

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Forging a New Path in North American Trade & Immigration

Re-examining our view on international trade

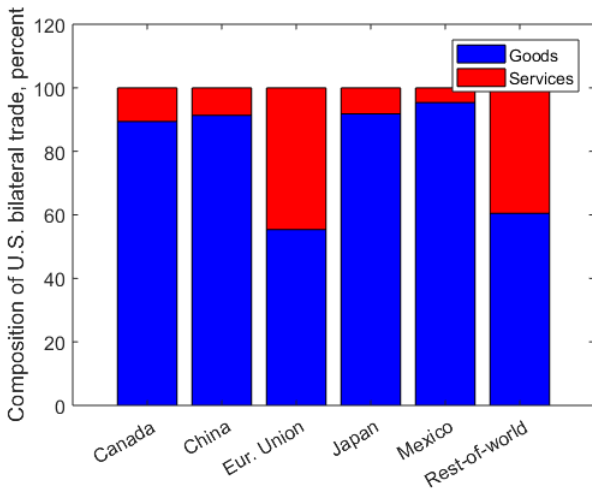
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 - ▶ Focused on goods (agriculture, commodities, and manufacturing).
 - ▶ Tariffs and quotas applied to by customs.
 - ▶ Physical transportation costs.

Re-examining our view on international trade

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- ▶ Services often treated as “nontradable”:
 - ▶ ...but many services are indeed tradable.
 - ▶ Transport, Financial, Consulting, Engineering, Research,...

Re-examining our view on international trade

Services account for sizable share of U.S. trade



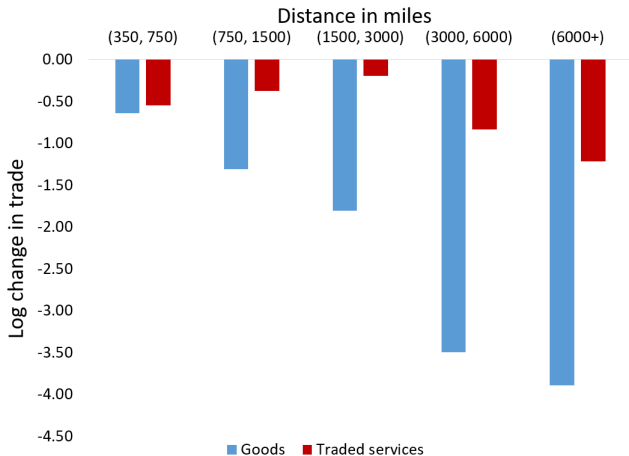
Source: World Input-Output Database; Authors' calculations.

Re-examining our view on international trade

- ▶ Traditional view on international trade:
 - ▶ Focused on goods (agriculture, commodities, and manufacturing).
 - ▶ Tariffs and quotas applied to by customs.
 - ▶ Physical transportation costs.
- ▶ Services generally thought of as “nontradable”:
 - ▶ ...but many services are indeed tradable.
 - ▶ Transport, Financial, Legal, Consulting, Engineering, Research,...
 - ▶ Distance far less important when information is shared digitally.

Re-examining our view on international trade

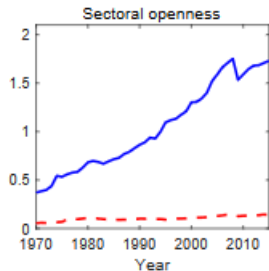
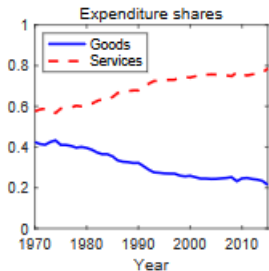
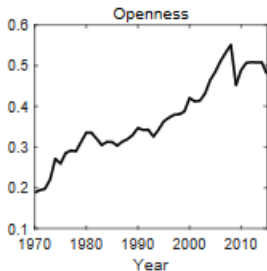
Distance is less of a barrier for services than for goods



Source: Authors' calculations.

Prominent global patterns

- ▶ Trade has grown remarkably as a share of world GDP.
- ▶ Global expenditures have shifted away from goods, toward services.
- ▶ Both sectors have become more open over time - more so for goods.



Source: Lewis, L., Monarch, R., Sposi, M., and Zhang, J. "Structural Change and Global Trade." Federal Reserve Bank of Dallas Working Paper No. 333.

Prominent global patterns

Increased openness

- ▶ Causes of increased openness:
 - ▶ Declining trade barriers - trade policy, transportation costs.
 - ▶ Industrialization in emerging economies - contributing to global trade.
- ▶ Consequences of increased openness:
 - ▶ Lifted large portions of the world out of poverty.
 - ▶ Improved quality and lowered prices in advanced economies.

Prominent global patterns

Structural change

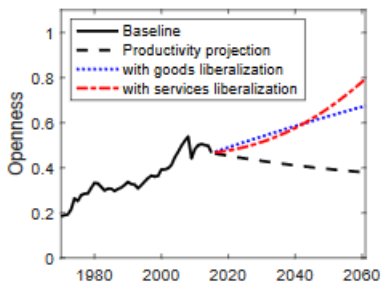
- ▶ Causes of structural change from goods to services:
 - ▶ Higher incomes - services contain luxury goods.
 - ▶ Faster productivity growth in goods than in services.
- ▶ Consequences of structural change from goods to services:
 - ▶ Dampened aggregate openness - shifting resources to less open sector.
 - ▶ Limited the benefits from lowering tariffs on goods.

What does the future hold?

- ▶ No reason to expect structural change to stop.
- ▶ Most reductions in trade barriers on goods have been exhausted:
 - ▶ Tariffs and quotas are very low (in spite of recent protection).
 - ▶ Policy can do very little about physical transportation costs.
- ▶ If trade barriers on goods do not decline fast enough, openness will likely contract.

What does the future hold?

Structural change will restrict growth in openness



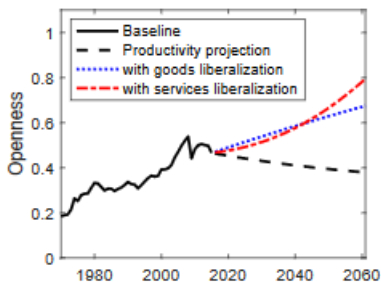
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 - ▶ Policy can do very little about physical transportation costs.
- ▶ If trade barriers on goods do not decline fast enough, openness will likely contract.
 - ▶ Trade policy should pay attention to services (Ch. 15-20 of USMCA).

What does the future hold?

Long-run benefits from liberalizing trade in services



Source: Lewis, L., Monarch, R., Sposi, M., and Zhang, J. "Structural Change and Global Trade." Federal Reserve Bank of Dallas Working Paper No. 333.

- ▶ Liberalizing services trade has greater potential returns.
 - ▶ Services occupy growing share of economy.

Next up: Expert panelists

Service and Digital Trade

Anupam Chander

Professor of Law

Law Center, Georgetown University

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