Trade in Services Matters

Michael Sposi
Southern Methodist University

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Forging a New Path in North American Trade & Immigration
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.
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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

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Services generally thought of as “nontradable”:
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- 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

![Bar chart showing the log change in trade for different distance ranges. The y-axis represents the log change in trade, and the x-axis represents distance in miles. The bars are color-coded with blue for goods and red for traded services. The distances are divided into five categories: (350, 750), (750, 1500), (1500, 3000), (3000, 6000), and (6000+).]

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.

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.
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Structural change will restrict growth in openness

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▶ 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

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

Joshua P. Meltzer
Senior Fellow
Brookings Institution