



# Services Exports and the U.S. Economy

Office of Service Industries  
Douglas Cleveland, March 2003

Today, services are what most businesses around the world produce and sell, and in most countries, what most people do for a living. Services make possible the essential commercial infrastructure underlying all modern markets, both domestic and international. They provide invaluable opportunities for expanded employment, entrepreneurship, and investment. They contribute in countless ways to higher living standards, in cities and small towns alike, and in countries at virtually all income levels. And not least, in recent decades, services have also come to account for a large and growing share of global trade and investment.

The United States is today the world's premier producer and exporter of services. Defined broadly, the service sector is by far the largest component of the U.S. economy, accounting for 81 percent of private sector output and for 84 percent of private nonfarm employment (a record 95 million jobs in 2001). These service sector jobs come from a wide range of industries, including retail trade (24 million jobs in 2001), education (12 million), health (11 million), finance, insurance, and real estate (8 million), wholesale trade (7 million), social services and membership organizations (6 million), transportation (5 million), recreational and entertainment services, including movies, radio and television (3 million), telecommunications (1.2 million), and many others, from architecture to legal services to utilities. Construction (8 million jobs) is often treated as a distinct sector; it also is covered here since its output is considered a service in terms of international trade.

In the coming decade, the service sector will continue to account for virtually all net gains in U.S. employment, with small, medium-sized, and large companies all playing key roles in terms of capital formation, business expansion, and new jobs. Small firms comprise most of the service sector, for example, and will inevitably play a vital role in service sector job growth in communities across the nation. Large services exporters are often counted among the ranks of the nation's largest companies, including many of the largest industrial and high-tech firms, whose operations and sales are increasingly services-based.

The prominent role of services in the U.S. economy translates not only into jobs, but also into leadership in the development and commercialization of technology, and global competitiveness. For example, a hallmark of many competitive firms is their strategic use of modern information technologies. By this gauge, the U.S. service sector truly stands out: the information sector itself purchases nearly four times more of its own information-intensive output than the manufacturing sector;

similarly, the transportation and trade sectors combined purchase more of the information sector's output than does the manufacturing sector, as does the professional and business services sector. These purchases do much more than make the service sector more competitive; they also have spillover effects in terms of the productivity and competitiveness of the U.S. economy as a whole.

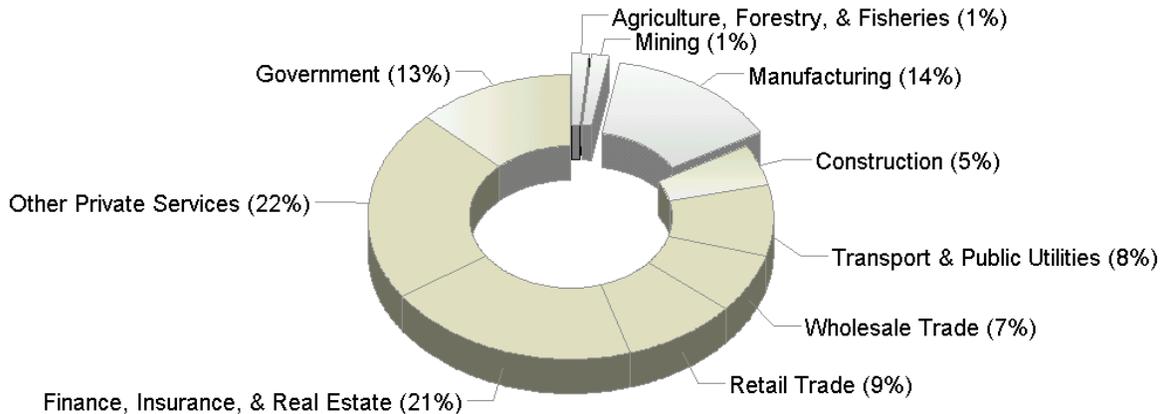
International trade and investment are also increasingly important features of the service sector's contribution to the U.S. economy, and not just in terms of exports. The United States is not only the world's largest single services exporter, but the world's largest services importer as well: these imports benefit the economy both in terms of wider consumer choices and in terms of U.S. firms having access to the widest array of business and industrial services available. Foreign investment yields other important benefits, especially in the case of services, where a local presence is often necessary: foreign sales of services by U.S. foreign subsidiaries now exceed cross-border services exports (\$393 billion vs. \$277 billion in 2000). U.S. services exports complete the picture: in 2002, commercial services exports accounted for 28 percent of the goods and services export total, and registered a \$58 billion services trade surplus that offset 12 percent of the merchandise deficit.

U.S. services are thus clearly competitive, both in the U.S. market and worldwide. Major markets for U.S. exports include the European Union (\$86 billion in imports of U.S. commercial services in 2001), Japan (\$31 billion), and Canada (\$24 billion). Mexico is the largest of the emerging markets for U.S. services (\$15 billion), but notably, over a dozen emerging markets around the world now import more than \$1 billion in U.S. services each year, including Argentina, Bermuda, Brazil, Chile, and Venezuela in this hemisphere and, in the Asia and Pacific region, China, Hong Kong, India, Indonesia, South Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand. Eastern Europe and the Middle East offer U.S. firms many other promising markets, and in 1997, South Africa became the first country in Africa to import more than \$1 billion per year in services from the United States.

Looking ahead, developed and emerging markets both promise continued growth in U.S. services exports, particularly in markets where technological innovation, regulatory reform, and international trade help foster dynamic local economies. U.S. services exports nearly doubled during the 1990s, and they continue to show strength today in the face of weak global economic growth. After falling from the record \$277 billion reached in 2000 to \$266 billion in 2001, U.S. services exports recouped most of that decline to reach \$276 billion in 2002, and they are forecast to reach \$335 billion by 2005, when the current round of global services trade negotiations is scheduled to conclude. At that level, each one percent increase in exports due to improved market access for U.S. services will add more than three billion dollars to U.S. exports, supporting more than 50 thousand new U.S. jobs.

The service sector – which broadly defined includes all industries other than agriculture, mining, and manufacturing – is by far the largest component of the U.S. economy,

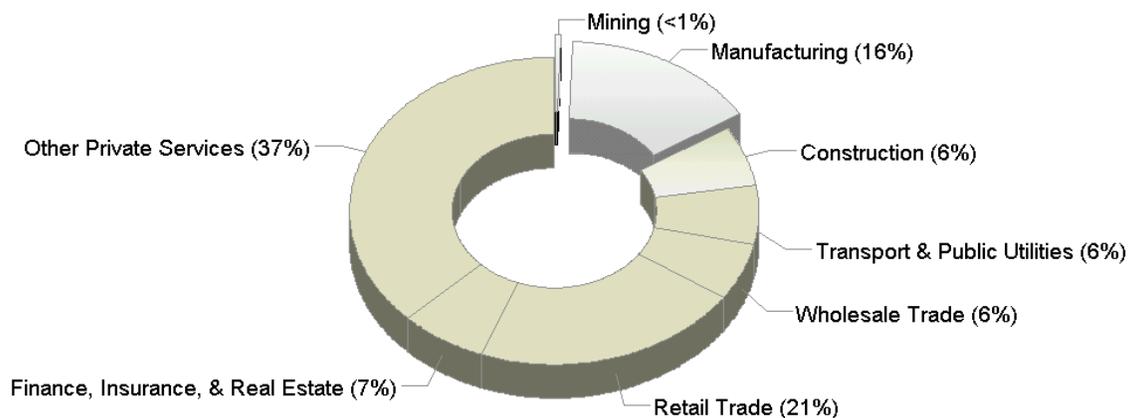
### Gross Domestic Product



Based on Bureau of Economic Analysis estimates for gross product by industry for 2001. Construction is treated here as part of the service sector because the construction sector's output is considered a service in the international trade context.

... and now accounts for about four fifths of U.S. GDP and private non-farm employment.

### Employees on non-agricultural payrolls



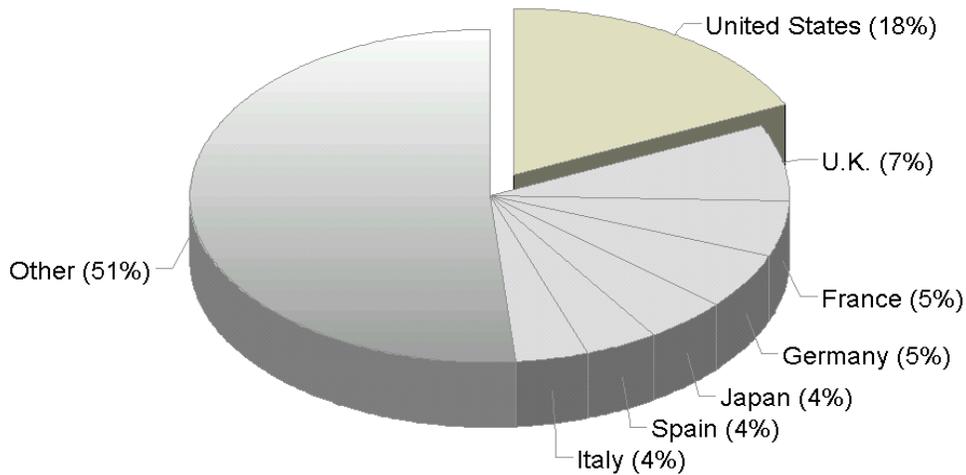
Based on Bureau of Economic Analysis estimates for employment by industry for 2001.

U.S. Department of Commerce, International Trade Administration, Office of Service Industries (March 2003)

The world's premier services exporter, the United States accounts for nearly one fifth of all global services exports.

**Shares of worldwide services exports**

(Global services trade in 2001: \$1.5 trillion)

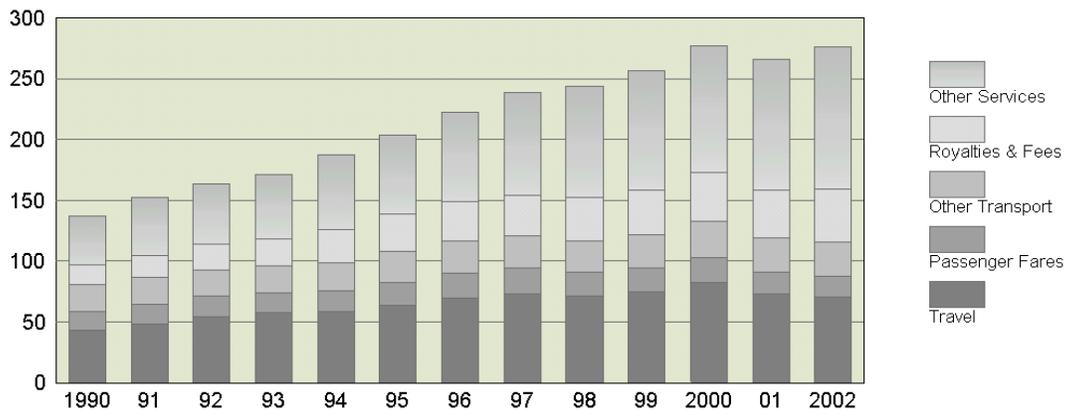


Based on World Trade Organization estimates for global services trade in 2001.

U.S. services exports rose by 4 percent in 2002, to \$276 billion, despite a second year of declining travel and passenger fare exports.

**U.S. exports of commercial services**

Billions of dollars

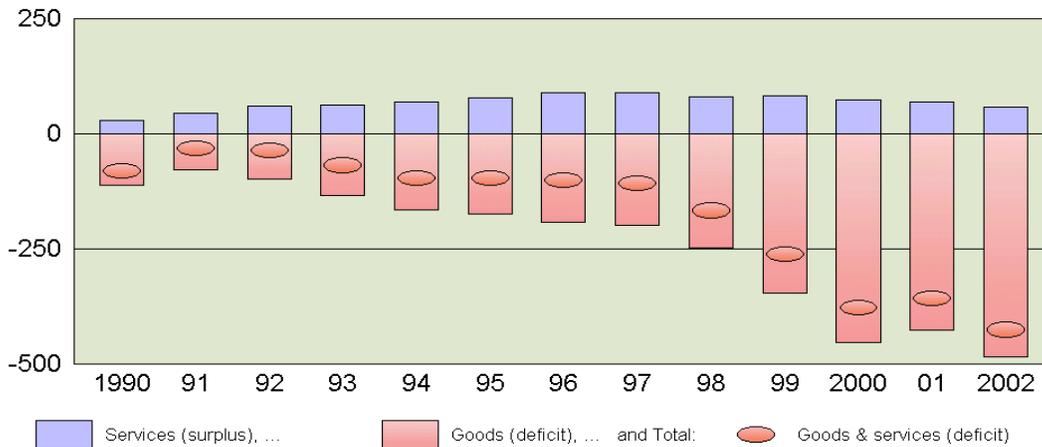


Based on Bureau of Economic Analysis estimates.

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Last year's \$58 billion U.S. services trade surplus offset 12% of the \$484 billion deficit on U.S. trade in goods.

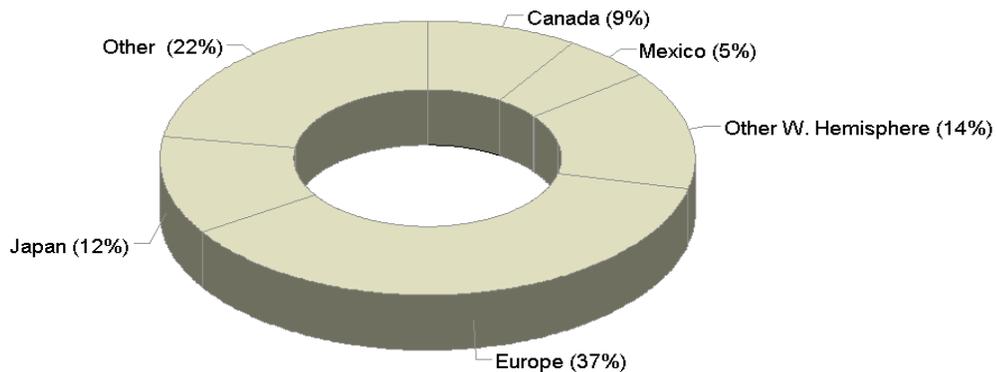
Billions of dollars



Based on Bureau of Economic Analysis estimates.

Major markets include Canada (\$24 billion in 2001 exports), the EU (\$86 billion), and Japan (\$31 billion). Mexico is the largest emerging market for U.S. services exports (\$15 billion).

Share of U.S. commercial services exports, 2001

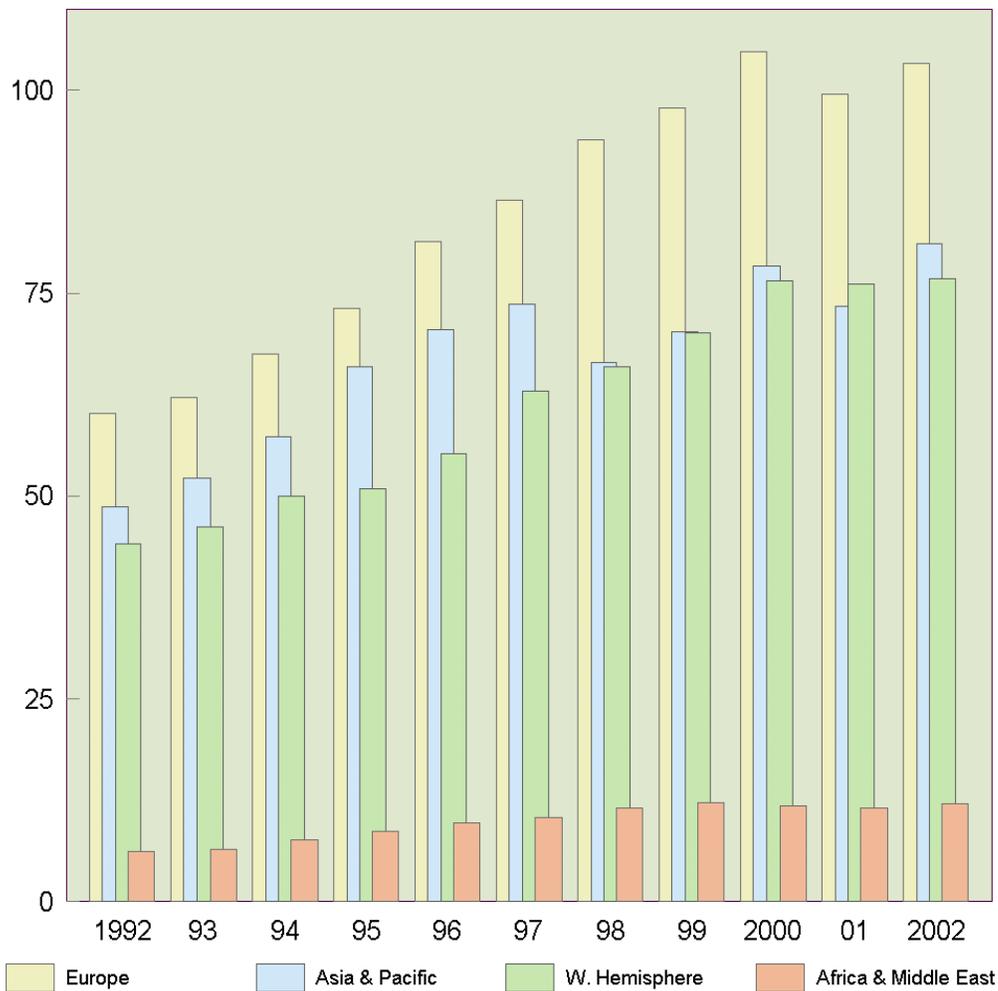


Based on Bureau of Economic Analysis estimates.

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U.S. services exports increased by \$10 billion last year, to \$276 billion, returning to just shy of the record \$277 billion mark reached in 2000. Gains were concentrated in exports to Europe and Asia and the Pacific.

U.S. exports of commercial services  
Billions of dollars



Based on Bureau of Economic Analysis estimates.

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## Major Groups of Services Exports, 2001

|   |              |
|---|--------------|
| <b>U.S. commercial (private) services exports, billions of dollars</b>                  | <b>266.2</b> |
| <b>Travel</b>   | <b>73.1</b>  |
| <b>Passenger fares and freight and port services</b>                                    | <b>46.3</b>  |
| Air freight and port services   | 13.1         |
| Ocean freight and port services   | 12.6         |
| Other transportation services   | 2.6          |
| Passenger fares   | 18.0         |
| <b>Banking, insurance, and other financial services</b>                                 | <b>26.7</b>  |
| Financial services  | 18.0         |
| Insurance, premiums received  | 8.7          |
| and losses paid (the U.S. exports total above is based on premiums net of losses)       | -8.6         |
| <b>Industrial services, operational leasing, and R&amp;D</b>                            | <b>20.3</b>  |
| Equipment installation, maintenance and repair services                                 | 4.5          |
| Industrial engineering services   | 0.8          |
| Industrial processes*   | 4.9          |
| Operational leasing   | 4.6          |
| Research, development, and testing services   | 5.6          |
| <b>Education and training</b>   | <b>12.0</b>  |
| Education   | 11.5         |
| Training services   | 0.5          |
| <b>Computer software and computer and information services</b>                          | <b>10.9</b>  |
| Computer and data processing services   | 2.6          |
| Computer and information services – intrafirm transactions (U.S. receipts)              | 1.1          |
| Database and other information services   | 2.2          |
| General-use computer software*  | 5.0          |
| <b>Broadcasting, entertainment, and publishing</b>                                      | <b>10.1</b>  |
| Books, records, and tapes*  | 0.4          |
| Broadcasting and recording of live events*  | 0.3          |
| Film and television programs (distribution and broadcast rights)                        | 9.2          |
| Sports and performing arts  | 0.1          |
| <b>Accounting, consulting, legal, management, and marketing services</b>                | <b>9.3</b>   |
| Accounting, auditing, and bookkeeping services  | 0.4          |
| Advertising services  | 0.5          |
| Legal services  | 3.1          |
| Management, consulting, and public relations services                                   | 3.8          |
| Franchise fees*   | 0.6          |
| Trademarks*   | 1.0          |
| <b>Telecommunications</b>   | <b>4.8</b>   |
| <b>Architecture, construction, engineering, and mining services**</b>                   | <b>2.6</b>   |
| Architectural, engineering, and related technical services                              | 1.6          |
| Construction  | 0.8          |
| Mining services   | 0.2          |
| <b>Other services (partial list of services not covered by categories listed above)</b> |              |
| Medical services  | 1.7          |
| Royalties and license fees – intrafirm transactions (U.S. receipts)*                    | 25.9         |

\* Royalties and license fees received for rights to broadcast live events, use proprietary techniques or trademarks, distribute software, etc.

\*\* These exports are calculated as gross receipts of \$6.1 billion less merchandise exports of \$0.7 billion and foreign expenses of \$2.7 billion.

Based on the preliminary detailed estimates presented each fall in the Bureau of Economic Analysis publication, Survey of Current Business (see [www.bea.gov](http://www.bea.gov)).

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