



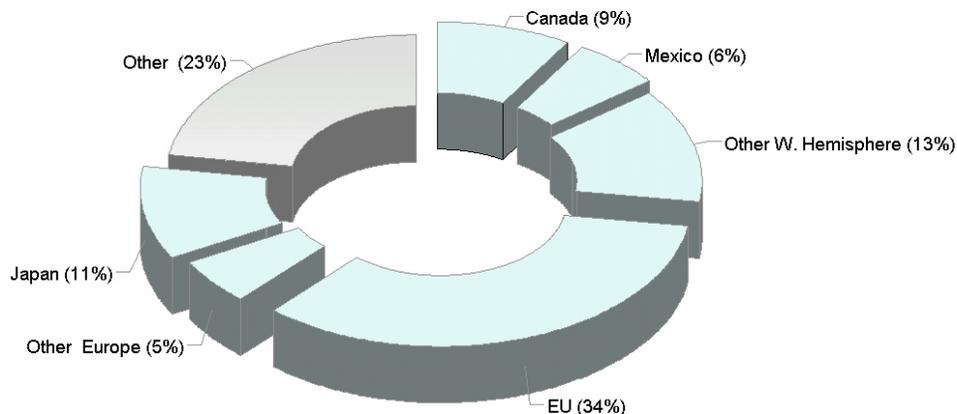
SERVICES EXPORTS AND THE U.S. ECONOMY

Office of Service Industries
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Today, services are what most businesses around the world produce and sell, and in most countries, what most people do for a living. Services provide the commercial infrastructure of modern markets, both domestic and international. Services provide invaluable opportunities for entrepreneurship, investment, and expanded employment, and 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, over the past two decades, services have come to account for a large and growing share of global trade and investment.

Major markets include Canada (\$24 billion in 2002 U.S. exports), the EU (\$96 billion), and Japan (\$30 billion). Mexico (\$16 billion) is the largest emerging market for U.S. services exports.

Shares of U.S. commercial services exports, 2002

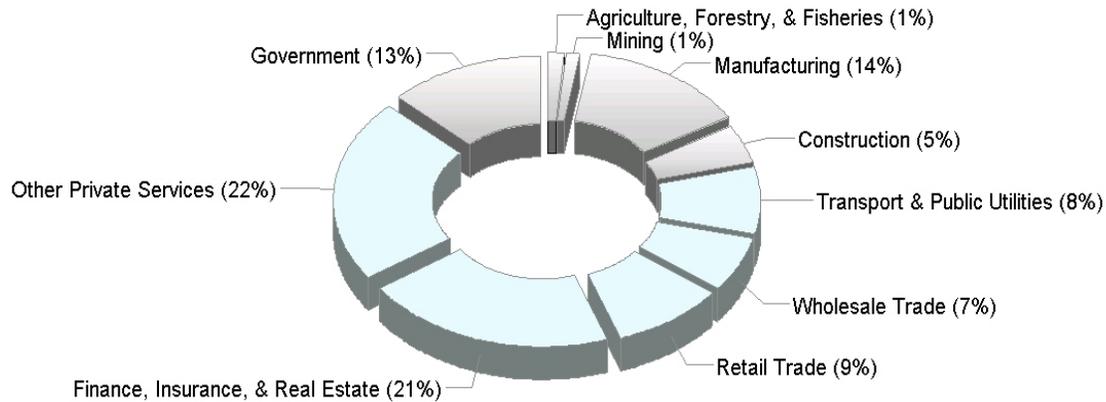


Based on Bureau of Economic Analysis estimates.

The United States is the world's premier services producer and exporter. As in all 'industrialized' economies, services are the largest component of the U.S. economy: services industries accounted for three fourths of private sector GDP and nearly four fifths of private nonfarm employment – 86 million jobs – in 2002. The many industries accounting for these jobs include retail trade (23 million jobs),

Whether defined broadly (e.g., including government) or narrowly, the service sector is by far the largest component of the U.S. economy.

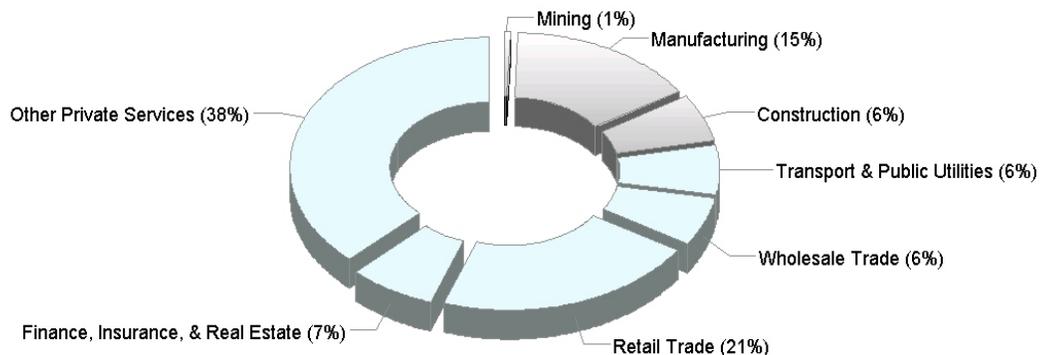
Gross Domestic Product



Based on Bureau of Economic Analysis estimates for gross product by industry for 2002. Although construction (5 percent) is typically treated as a distinct sector in measures of output and employment, its output is considered to be and is reported as a service when traded internationally. Conversely, although retail trade (9 percent) and wholesale trade (7 percent) are core components of the service sector (no matter how defined), their exports and imports are reported as indistinguishable components of other trade flows (e.g., wholesalers' margins on traded goods).

In 2002, private sector service industries produced 66 percent of U.S. GDP (total, including government) and 76 percent of private sector GDP, and accounted for almost four of every five nonfarm jobs in the private sector.

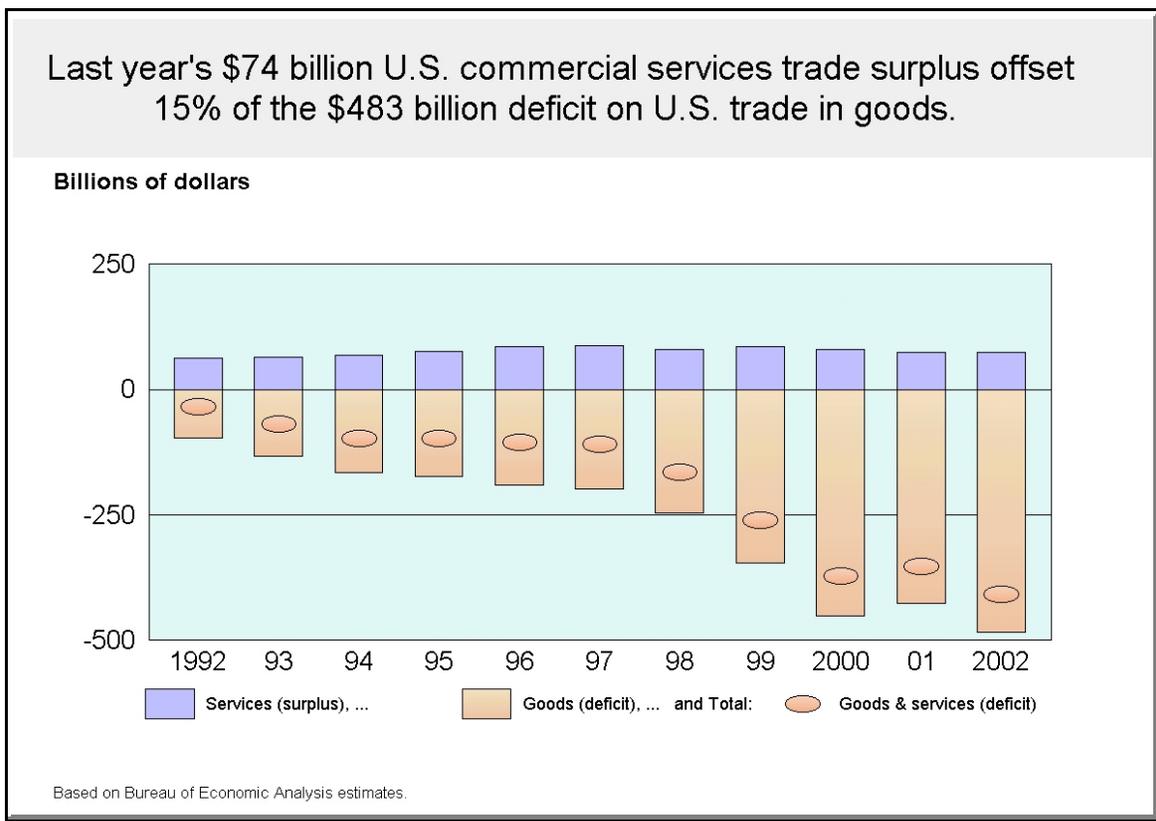
Employees on non-agricultural payrolls



Based on Bureau of Labor Statistics estimates for 2002 employment by SIC industry. NAICS-based data are now available for employment but not output. Whether measured on the basis of the SIC or the NAICS definitions, the core service sector industries accounted for 86 million private sector jobs in 2002.

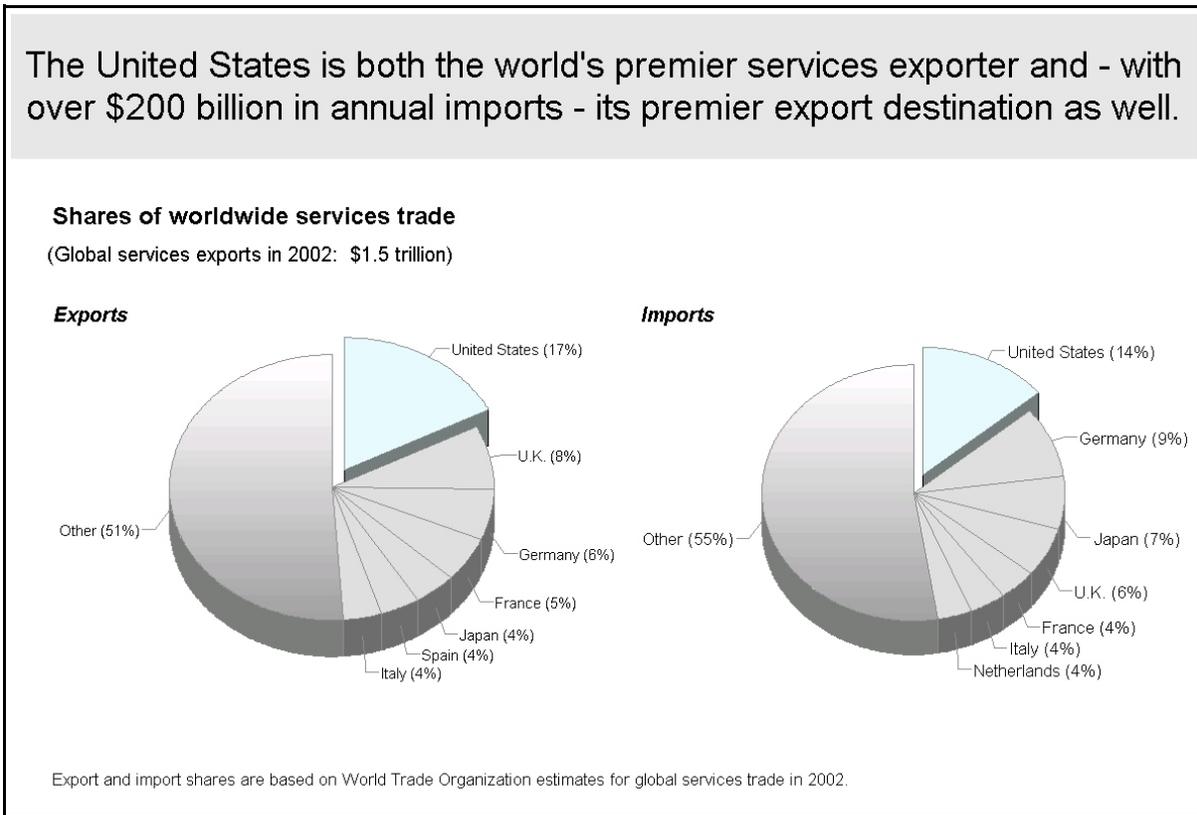
education (12 million), health services (11 million), finance, insurance, and real estate (8 million), wholesale trade (7 million), social services and membership organizations (6 million), transportation (4 million), recreational and entertainment services, including movies, radio and television (3 million), telecommunications (1 million), and many others, from architecture to legal services to utilities. (Although treated as a service in terms of international trade, construction is in this context considered a distinct sector, so it is excluded from the sector-wide figures above.)

In the coming decade, the service sector is forecast to account for almost 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, and small services firms will play a vital role in job growth. Major services exporters, on the other hand, are counted among the ranks of the nation's largest corporations, including many of the nation's 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 into jobs, and into leadership in the development and commercialization of technology, and global competitiveness. 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 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 more than make the service sector more competitive; they have spillover effects in terms of the productivity and competitiveness of the entire U.S. economy.

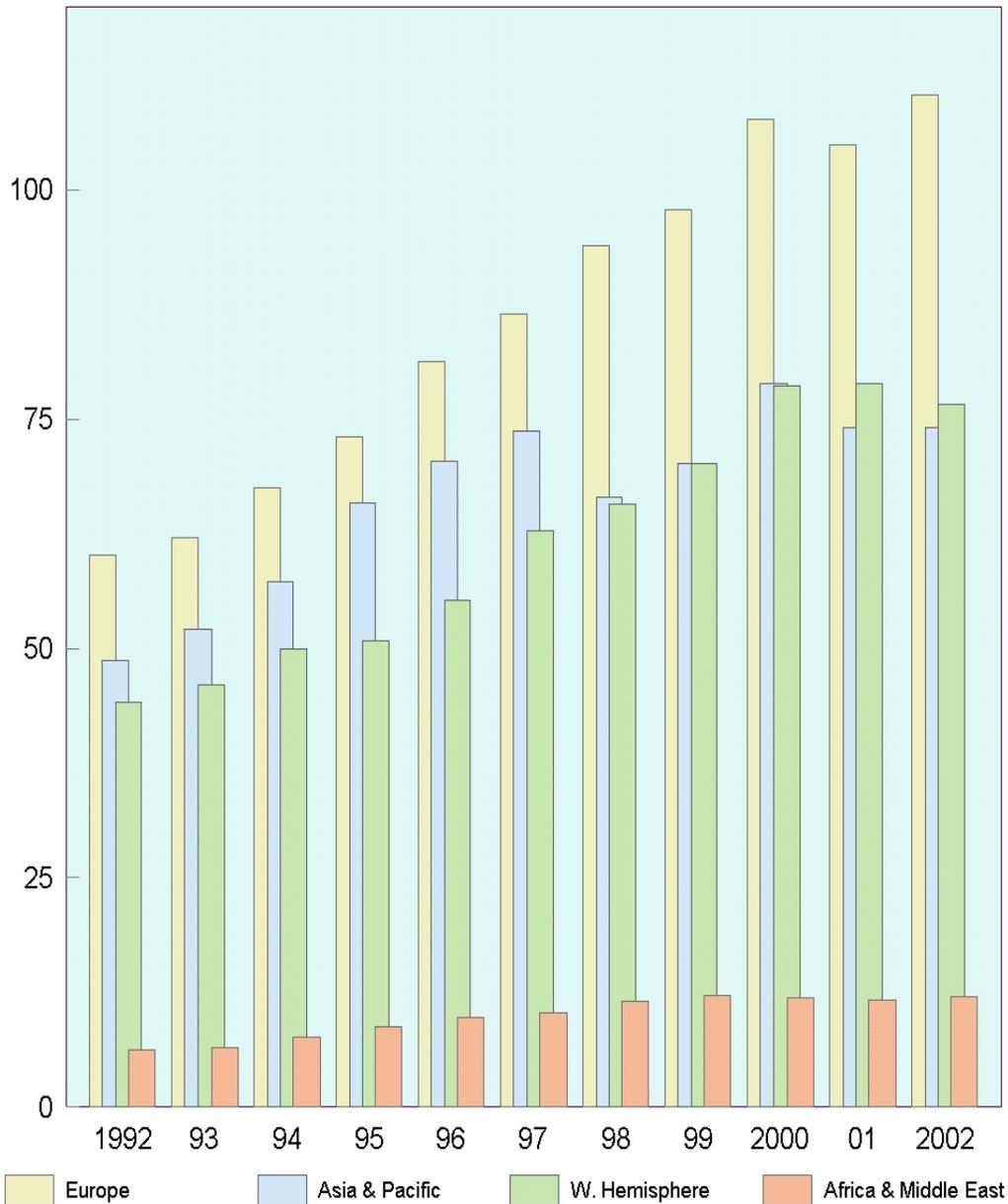


International trade and investment are also increasingly important features of the service sector's contribution to the economy, and not just in terms of exports. The United States is the world's premier services exporter, and its premier services export destination as well: these imports offer more choices to U.S. consumers, including U.S. firms. 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. companies' foreign subsidiaries now exceed cross-border services exports (\$432 billion vs. \$275 billion in 2001). Services exports complete the picture: in 2002, U.S. commercial services exports accounted for 29 percent of the goods and services export total, and the United States registered a \$74 billion services trade surplus that offset 15 percent of the merchandise deficit.

Major markets for U.S. exports include the European Union (\$96 billion in imports of U.S. commercial services in 2002), Japan (\$30 billion), and Canada (\$24 billion).

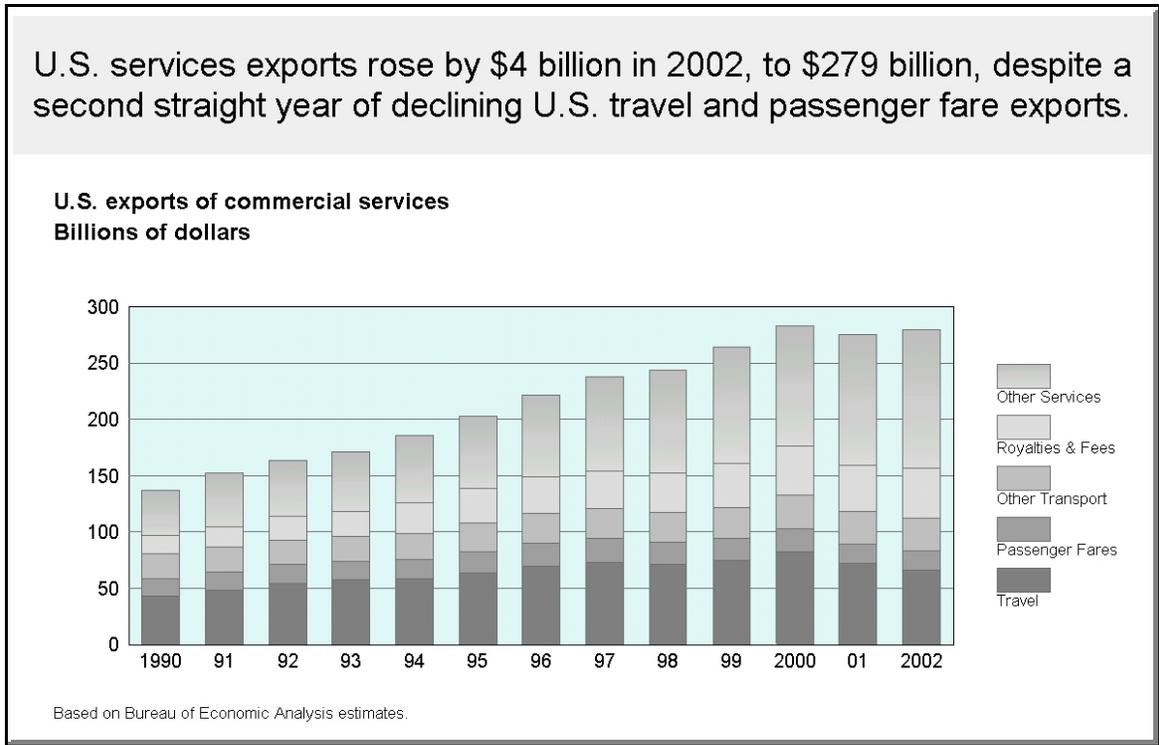
U.S. services exports regained half of 2001's \$8 billion decline last year. A \$5 billion gain in exports to Europe – to a record \$110 billion – was partly offset by a \$2 billion decline in U.S. exports within the hemisphere.

U.S. exports of commercial services
Billions of dollars



Based on Bureau of Economic Analysis estimates.

Mexico is the largest developing market for U.S. services (\$16 billion), but over a dozen others now import more than \$1 billion in U.S. services each year. These include 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 African nation to import more than \$1 billion per year in services from the United States.



Developed and developing 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, even in the face of two years of constrained global economic growth. After falling from the record \$283 billion reached in 2000 to \$275 billion in 2001, U.S. services exports recouped half of that decline to reach \$279 billion in 2002, and even conservative forecasts of global economic growth imply that U.S. services exports may well pass the \$400 billion mark by the end of the decade. At that level, each one percent increase achieved through negotiated free trade agreements and through multilateral negotiations will add four billion dollars to U.S. services exports, in turn supporting well over 50 thousand new U.S. jobs.