



Trade and Services

Office of the United States Trade Representative
Benefits of Trade – January 2007

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Services Trade Fuels Growth of U.S. Economy

The United States Is a Service Economy

The United States has the world’s largest economy and the highest per-capita Gross Domestic Product (GDP) among major countries. Corn and cars may be iconic symbols of American prosperity, but the dominant sector of the U.S. economy is services.

Today, services are the essential infrastructure of a modern economy. Telecommunication networks, computer networks, distribution networks, and other technology-rich inputs underpin a new kind of business reality. Services businesses are “force multipliers” that expand opportunities and increase productivity across other sectors of the economy.

- In 2005, services industries accounted for 68 percent of U.S. GDP and 79 percent of real GDP growth (Fig. 1).¹ Even in traditional industrial and breadbasket states, services provide most of the economic activity: In Michigan and South Dakota, for example, services industries account for two-thirds of state GDP.²
- The size of U.S. economy has doubled since 1990, driven mainly by the growth of the services sector. Information services, professional and business services, and finance and insurance made up 21.6 percent of GDP, yet accounted for 38.2 percent of GDP growth in 2005 (Fig 2).³

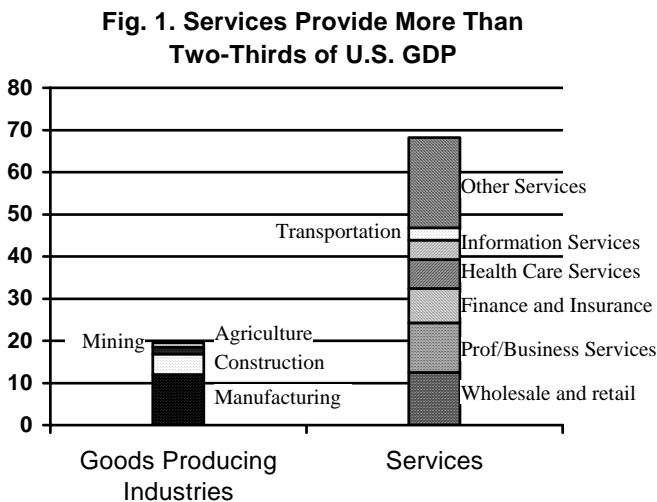
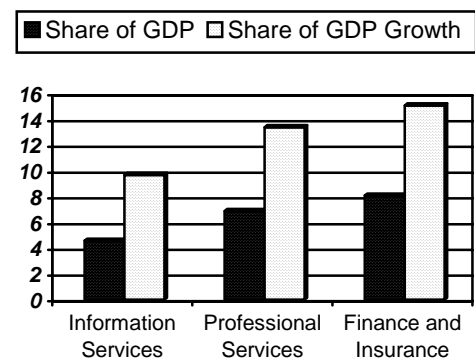
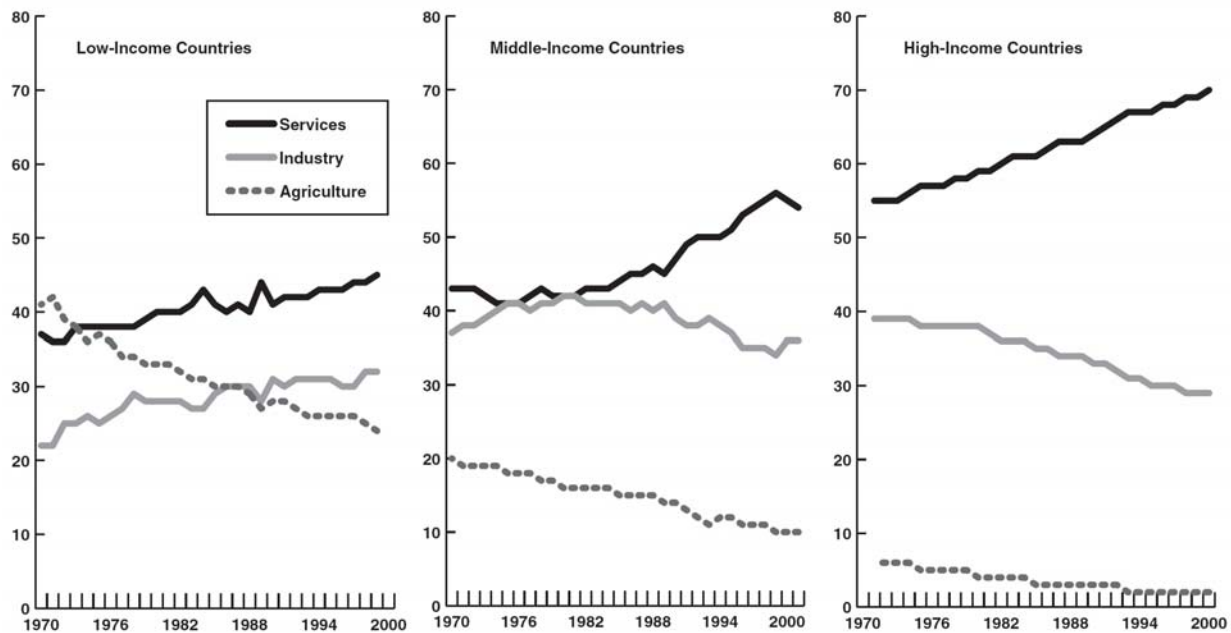


Fig. 2. Twenty Percent of the Economy Accounted for Nearly Forty Percent of GDP Growth in 2005



- Eight of every 10 U.S. jobs are in the services sector. Services industries provide more new jobs than the rest of the U.S. economy combined.
- Over the past two decades, the services sector has created almost 40 million new jobs across the full range of services: software engineers, nurses, mortgage specialists, lawyers, instructors, mutual fund managers, film and television technicians, insurance agents, tour operators, and many others.
- What has been true for the United States has been true for countries around the world: a rise in per-capita incomes is associated with the growth of the services sector (Fig. 3).⁴

**Fig. 3. Services Sector Growth During Economic Evolution
Percent of GDP, 1970-2001**



This growth is driven by both business and consumer demand. Businesses demand ever-more efficient communication, finance, energy, transportation, and distribution services as essential inputs into their production of goods and other services. Innovation in these critical “infrastructure” services boost productivity and growth throughout the economy. Indeed, overall U.S. manufacturing output has increased 57 percent since 1991.⁵

For consumers, as incomes grow, demand expands for services such as banking, telecommunications, tourism, and entertainment, and expands more rapidly than demand for manufactures or agricultural products.

Expanding our service economy, in part through rules-based trade and investment liberalization, will help sustain and create high quality jobs for Americans.

As a Services Economy, Boosting Trade in Services is Essential to U.S. Economic Growth

One proposition commands almost unanimous assent within the economics community. That proposition is that free trade among nations promotes economic prosperity. Benjamin Bernanke, Chairman of the Federal Reserve Board

Trade liberalization has contributed an additional \$1 trillion, or \$9,000 per household, to U.S. annual incomes since 1945.⁶ Trade lowers costs for consumers and businesses, enhances competition and innovation, improves choice, quality, and diffusion of technology, attracts investment, and allows for efficient allocation of resources. This is no less true for services than it is for goods.

- International services markets offer huge opportunities for U.S. firms and their employees, accounting today for nearly one-third of total U.S. exports. The U.S. provides many high-value services to users abroad, including financial, legal, engineering, architectural, and software development services.
- The United States is the world's leading services-exporting nation, and services exports have nearly doubled since 1994. The demand for high-quality services at home contributes to a global comparative advantage in the delivery of many different services overseas.
- While the United States runs trade deficits in goods, it enjoys large trade surpluses in services. In 2005, the U.S. recorded a \$66 billion surplus on services exports totaling \$381 billion. This surplus was 22 percent higher than in 2004.⁷
- Sales through U.S. services companies operating abroad reached \$490 billion in 2004.⁸ These international transactions support high-paying jobs across the United States.
- Total elimination of global barriers to trade in services, by one estimate, would raise U.S. annual income by over \$460 billion, or \$6,830 per family of four.⁹

¹ Bureau of Economic Analysis (May, 2006), Annual Industry Accounts.

² Bureau of Economic Analysis (November, 2006), Survey of Current Business, Regional Data.

³ Bureau of Economic Analysis (May, 2006), Annual Industry Accounts.

⁴ Bailey, M., D. Farrell, and J. Remes (2006) *The Hidden Key to Growth*, The International Economy, Winter.

⁵ Bureau of Economic Analysis (October, 2006), Gross-Domestic-Product-by-Industry Accounts, 1947-2005.

⁶ Bradford, S.C., P.L.E. Grieco, and G.C. Hufbauer (2005), "The Payoff to America from Global Integration." *In: The United States in the World Economy*, Institute for International Economics.

⁷ Bureau of Economic Analysis (November, 2006), Survey of Current Business, Transaction Tables.

⁸ Bureau of Economic Analysis (November, 2006) Survey of Current Business, Operations of U.S. Multinational Companies.

⁹ Stern, R. (2005), *The Place of Services in the World Economy*, RSIE Discussion Paper No. 530.