

BROOKINGS

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Forging a New Path in North American Trade and Immigration

Panel 2: Services and Digital Trade

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Global Digital Trends

- 3.7 billion people have access to the internet
 - » Over 50% of the world does not have internet access
- Internet access is mobile
- Entire economies are becoming digital
- Transformation in international trade

Digital Trade Opportunities

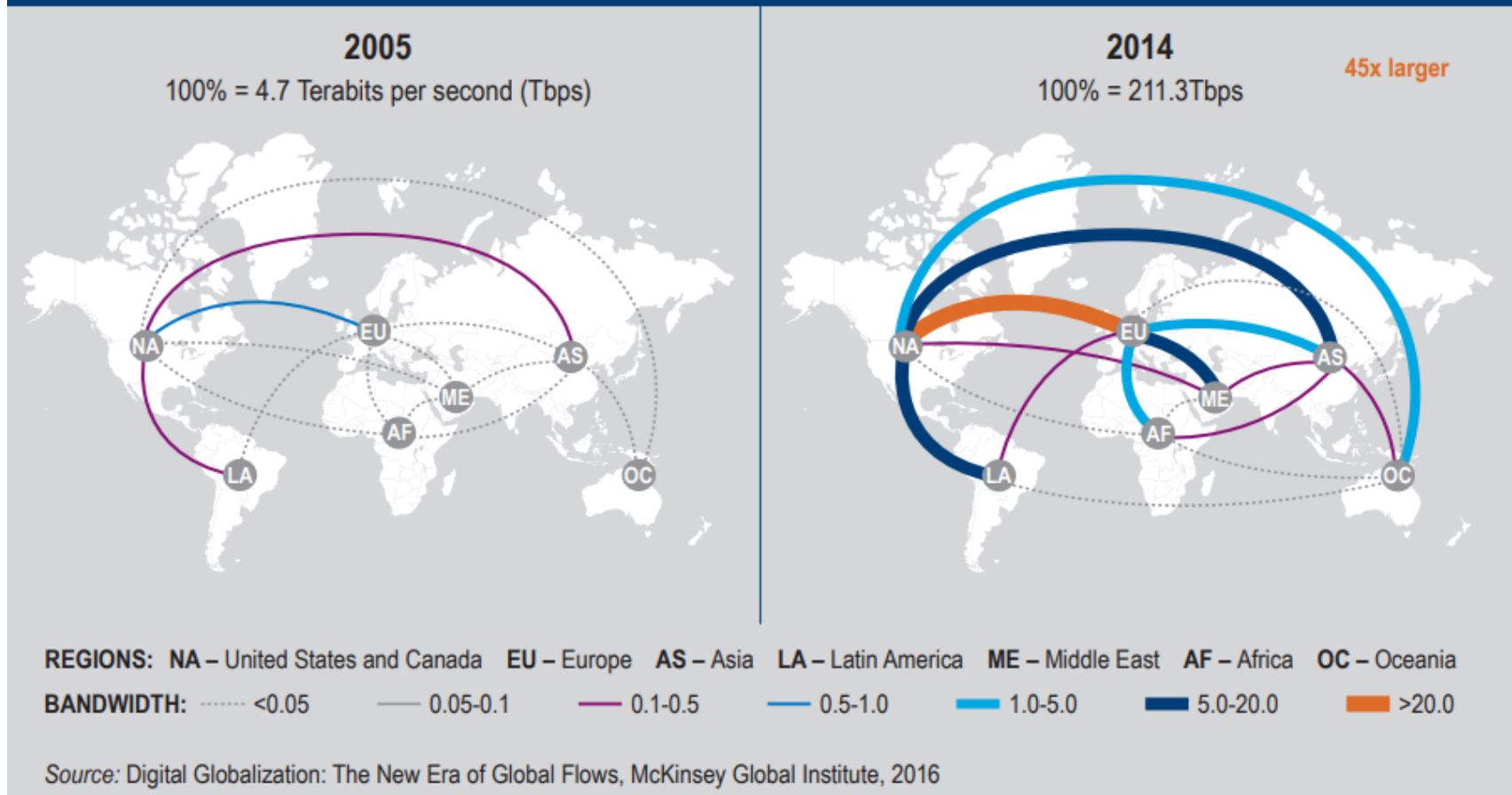
- **Global data flows raised GDP by 3.5%**, or ~\$2.8 trillion in 2014 and up to \$11 trillion by 2025 (McKinsey 2016)
- **Ecommerce sales were over \$27 trillion** in 2017 (UNCTAD 2019)
 - 88% B2B, 12% B2C
-

Digital opportunities for the United States

- US internet and data use increased GDP by 3.4-4.8% and supported up to 2.4 million jobs (ITC 2014)
- From 2006-2016 the U.S. digital economy:
 - Grew at an average annual rate of 5.6 percent (compared to average U.S. economic growth during this period of 1.5 percent)
 - Accounted for 6.5 percent of US output
 - Accounted for 3.9 percent of employment and 6.7 percent of employee compensation (BEA 2018)

Cross-border data flows underpin international trade

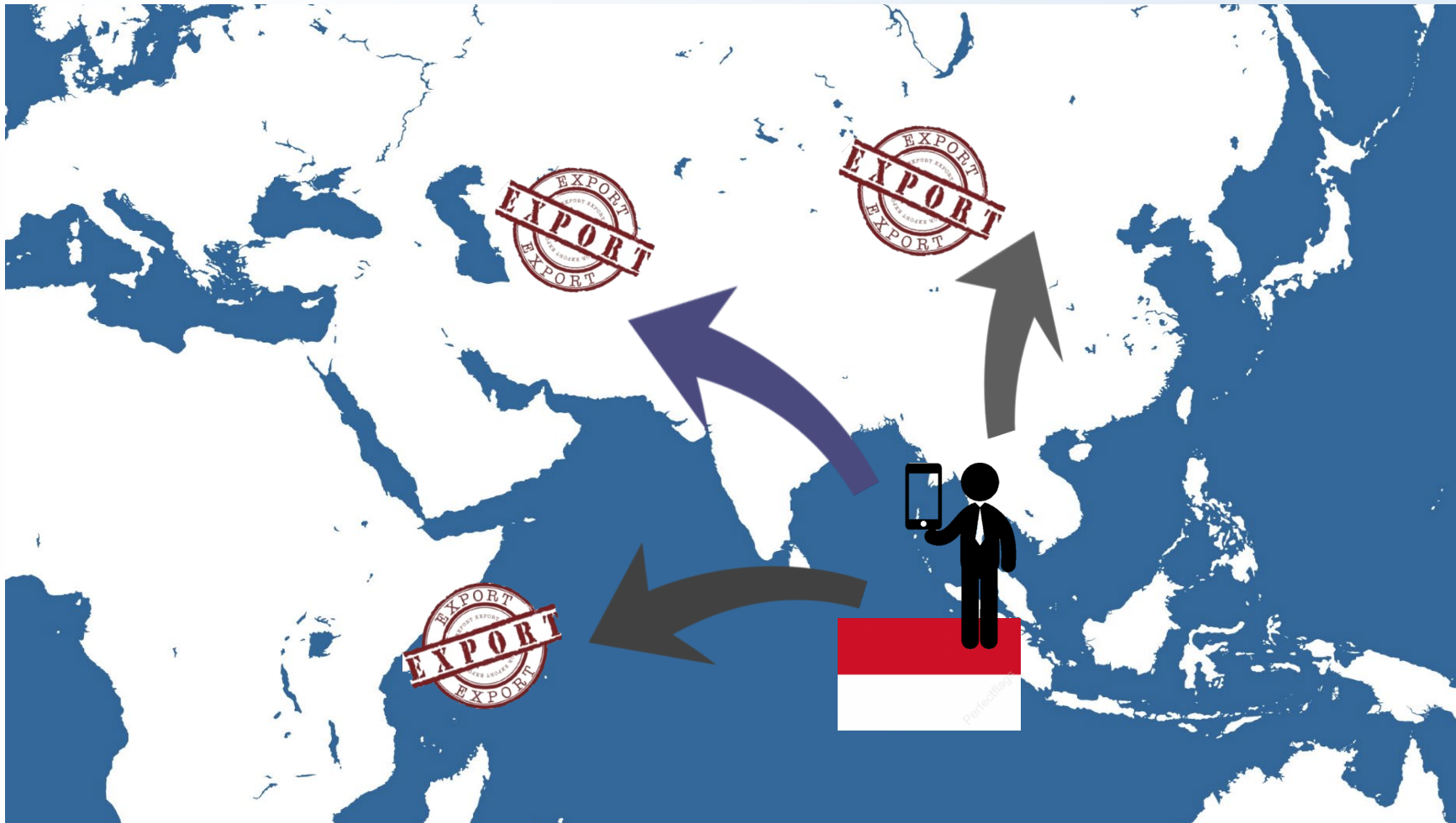
Figure 1. Growth of global cross-border data flows 2005 vs. 2014



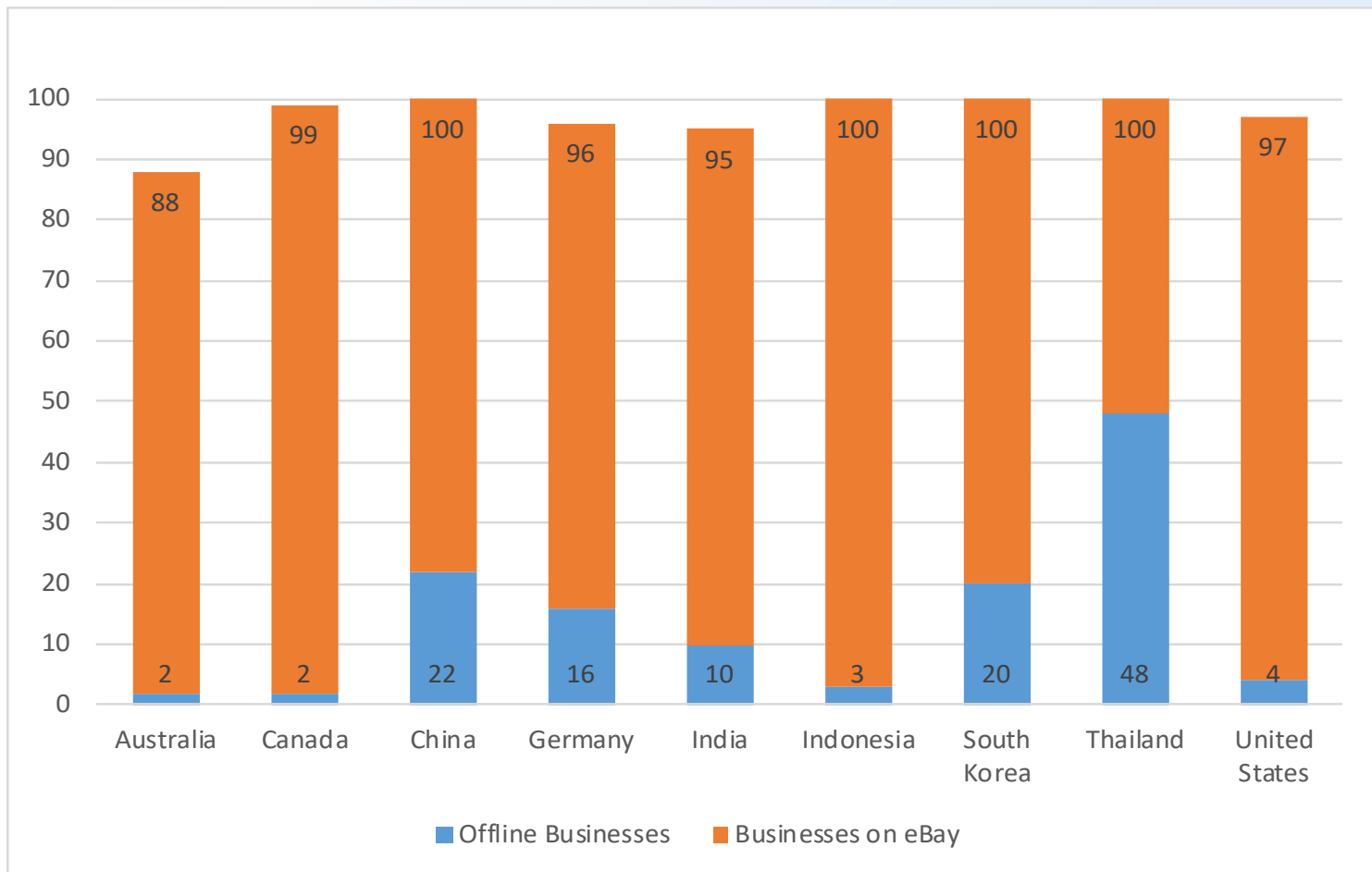
Cross-border data flows are transforming international trade

1. Platforms
2. Digital Services
3. Increased services value-add in manufacturing
4. Global Value Chains

1. Trade over digital platforms



Trade over digital platforms



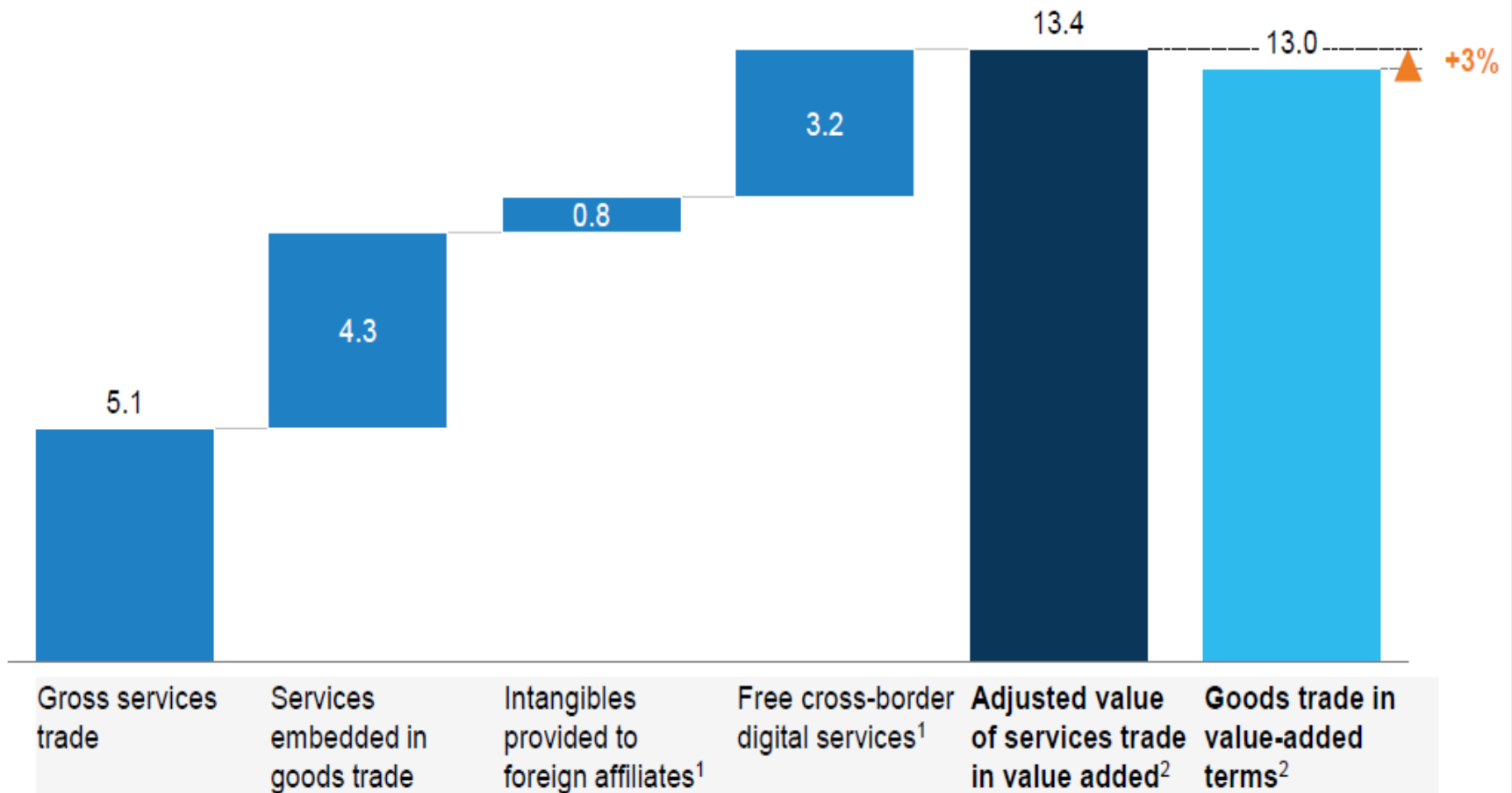
USMCA should increase ecommerce

- Cross-border flows of information, including financial information
- Improved market access for services industries
 - » Express delivery
 - » Logistics
 - » Financial
- Raised de minimis levels
 - » \$117 tariff -free threshold
- Investment – e.g. Walmart omnichannel ecommerce strategy
- USITC estimates increase of US ecommerce exports of:
 - » \$332 million to Canada
 - » \$91 million to Mexico

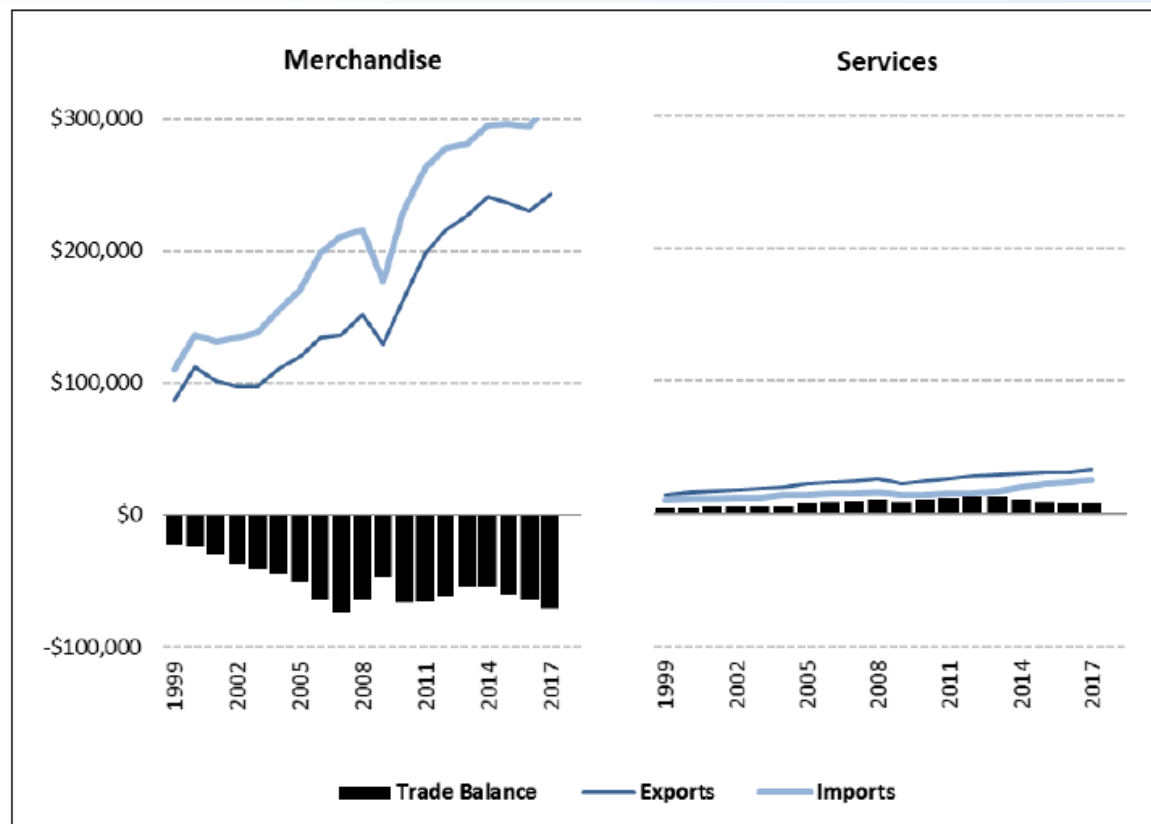
2. Trade in Services



Taking into account undermeasured aspects of services trade, services account for more than half of value added in overall trade (\$ trillion, 2017)



U.S. Trade with Mexico: 1999-2017 (U.S. \$million)



U.S. cross-border services trade, 2017 (\$billion)

	Imports			Exports		
	Canada	Mexico	Rest of world	Canada	Mexico	Rest of world
Travel services	8.6	17.1	109.3	17.4	17.9	175.4
Professional services ^b	8.5	2.9	93.0	11.1	3.1	140.1
Professional and management consulting services	3.1	0.7	39.6	7.8	1.5	69.6
Legal services	0.2	0.0	3.0	0.8	0.2	9.0
Accounting services	0.3	0.1	2.4	0.2	0.2	1.4
Technical, trade-related, and other business services	3.1	1.6	21.0	3.0	1.4	28.9
Architectural and engineering services	(c)	(c)	(c)	1.0	0.4	8.9
Research and development services	2.3	0.5	32.5	0.4	0.2	41.6
Charges for the use of IP ^d	1.7	0.7	48.9	8.4	3.6	116.4
Audiovisual and broadcasting services	0.7	0.6	11.9	1.9	0.7	19.0
Other charges for IP	1.0	0.1	37.0	6.5	2.9	97.4
Transportation services	5.4	3.1	93.2	7.0	4.0	77.6
Financial services ^e	2.2	0.4	26.3	7.0	1.4	101.2
Computer services	3.9	0.6	27.5	2.8	0.9	19.2
Insurance services	0.6	0.0	50.1	1.8	0.4	15.8
Telecommunication services	0.3	0.4	4.8	0.6	0.3	10.0
All other services ^f	1.8	0.3	30.9	2.3	1.3	50.6
Total	33.0	25.5	484.0	58.4	32.9	706.4

U.S. affiliate sales and purchases, 2016 (\$billion)

	Canada		Mexico	
	Sales of services abroad by U.S.-owned foreign affiliates	Purchases of services from foreign-owned U.S. affiliates	Sales of services abroad by U.S.-owned foreign affiliates	Purchases of services from foreign-owned U.S. affiliates
Retail services	23.2	12.0	9.1	(b)
Wholesale services	18.1	11.3	4.4	0.8
Professional, technical, and scientific services ^d	15.8	9.4	3.8	
Legal	0.0 ^c	(b)	0.0 ^c	0.0 ^c
Accounting	0.6	0.0 ^c	0.1	(b)
Other professional	15.2	9.4	3.7	
Finance and insurance services ^e	10.6	34.5	10.6	0.1
Information services	9.3	8.7	2.8	(b)
Data processing services ^f	3.1	(b)	(b)	
Telecommunication services	1.2	(b)	(b)	(b)
Audiovisual and broadcasting services ^g	1.2	0.4	0.3	0.0 ^c
Other information services	3.8	8.3	2.5	(b)
All other services ^h	43.4	24.1	8.9	8.2
Total	111.1	100.0	39.6	9.1

Estimates of Digital Services Trade

- US exports globally of digitally-deliverable services were 61 percent of total US services exports and 53 percent of services imports (USITC 2014).

Canada

- US second largest export market for computer services (12% or \$2bn in 2016)
 - » Data entry, computer system analysis, design and engineering
- Second large source of US computer services imports

Mexico

- 9th largest export market for computer services
- Rapid growth – 18% p.a. 2006-2016

New services market access under USMCA

Canada

- Remove provincial requirements e.g. citizenship, commercial presence, permanent residence
- New mode 1 for auditing
- Financial services

Mexico

- Professional i.e. legal, architecture, engineering
- Computer and related services
- Other business i.e. technical testing and analysis
- Environmental services
- Transport services
- Financial services

Relevant USMCA Digital Trade Commitments

- Cross-border information flows including financial
- No data localization
- No source code
- Stronger IP
 - » Third party intermediary liability
 - » Interactive Computer Services
- Services Market Access
- MRAs/Professional Services
- Investment – but limited ISDS

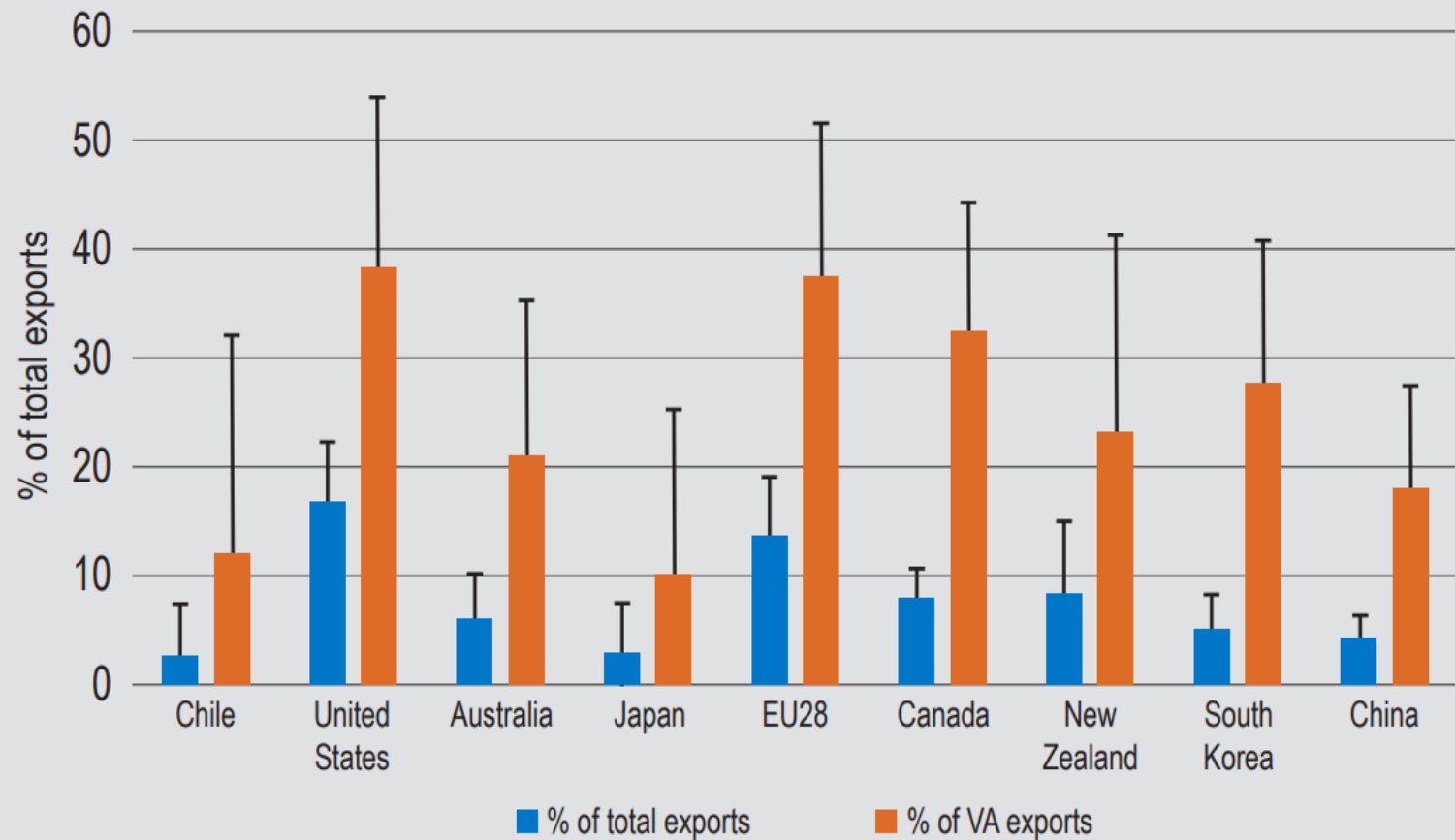
3. Digitization of Goods – “Servicification”



“Servicification”

- Fragmentation of manufacturing and outsourcing tasks
- Relies on trade in services
- Manufacturing 4.0 and role for AI
 - » Data and services inputs
 - » Omnidirectional information flows
 - » Supply chain 4.0
- Access to skilled workforce

Digitally-deliverable services exports



Source: OECD TiVA, own calculations

Relevant USMCA Digital Trade Commitments

- Cross-border information flows including financial
- Not data localization
- No source code
- Stronger IP
 - » Third party intermediary liability
 - » Interactive Computer Services
- Services Market Access
- Tariffs
- Investment – but limited ISDS

4. Global Value Chains and digital trade

- Trade within GVC driven majority of global trade – but slowdown post 2008 financial crisis
- GVC enabled by ICT and data flows
- Help industrialization in developing countries (Baldwin)
- Productivity gains
 - » Division of labor
 - » Increased competition
 - » Learning externalities
 - » Technology spillovers

US-Mexico Trade

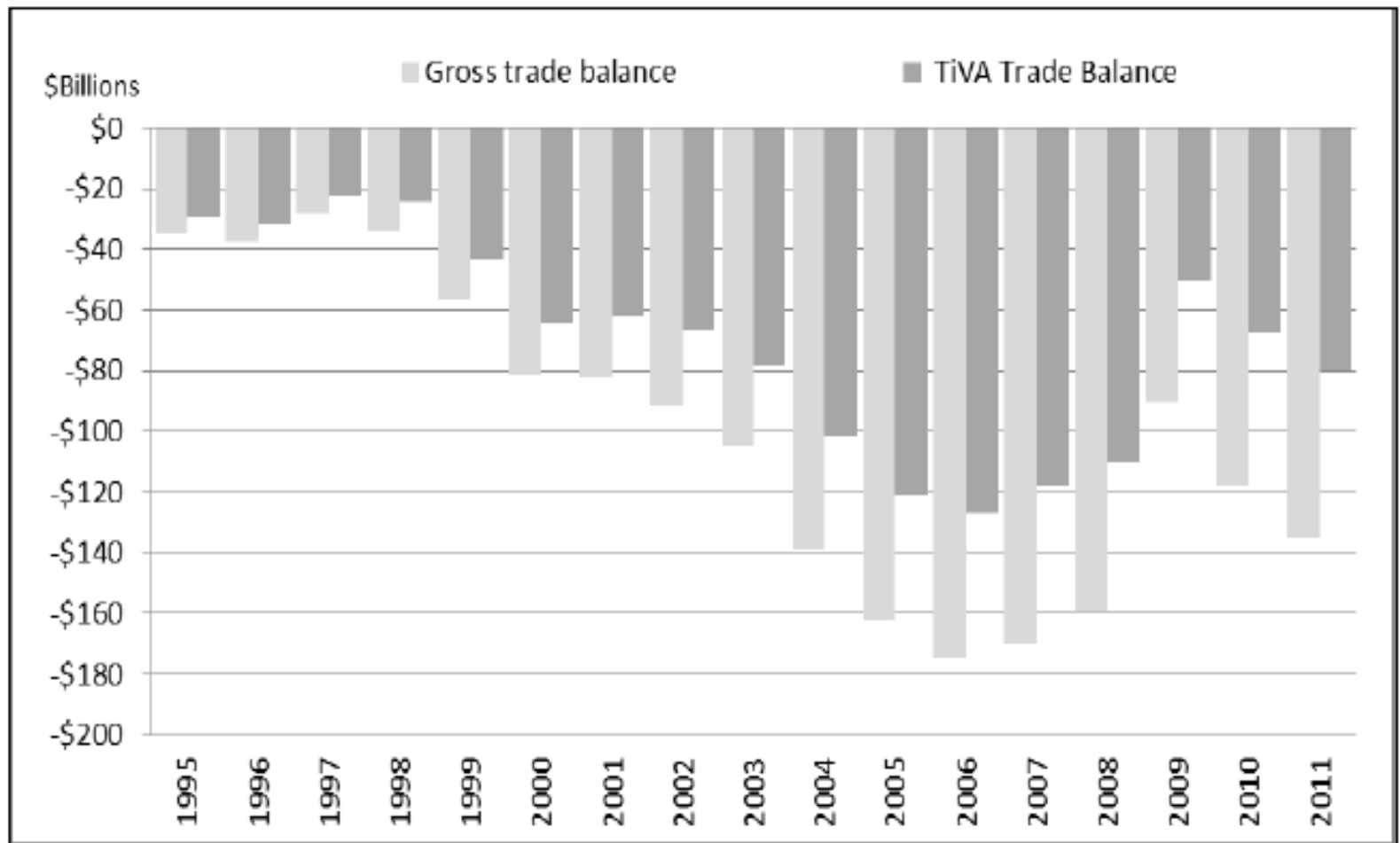
US Exports to Mexico

Items (NAIC 4-digit)	2014	2015	2016	2017	2018	% Total Imports from Mexico
Petroleum and coal products	19.6	15.4	15.9	21.6	28.8	11%
Motor vehicle parts	18.4	20.8	19.8	19.8	20.2	8%
Computer equipment	15.9	16.2	16.5	15.7	17.4	7%
Semiconductors and other electronic components	10.9	11.4	12	12.2	13.1	5%
Basic chemicals	10.1	8.5	8.1	9.4	10.3	4%
Other	166.1	164.2	157.8	164.6	175.2	66%
Total	241.0	236.5	230.1	243.3	265.0	

US Imports from Mexico

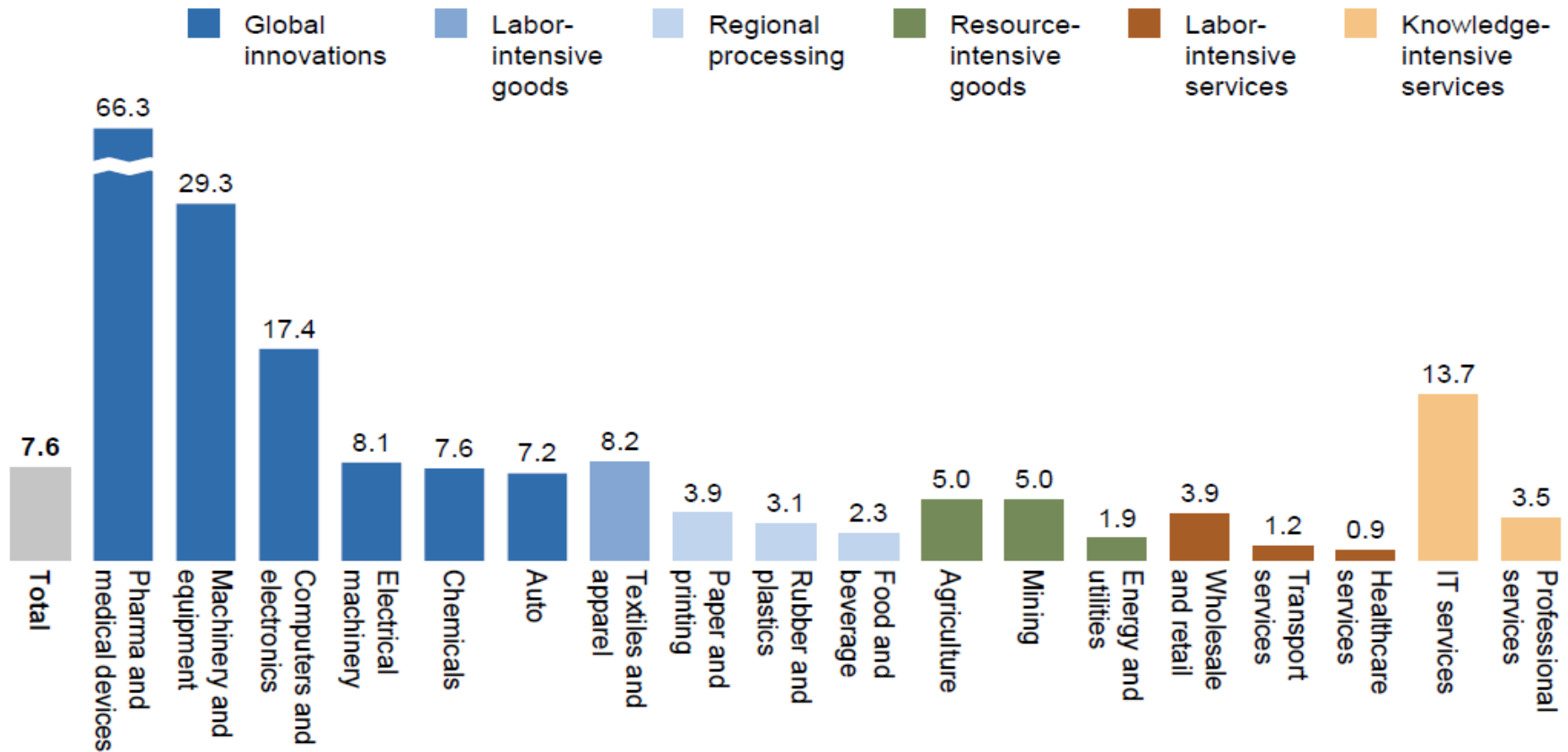
Items (NAIC 4-digit)	2014	2015	2016	2017	2018	% Total Imports from Mexico
Motor vehicles	46.2	50.0	49.3	57.4	64.5	19%
Motor vehicle parts	40.3	43.9	46.0	45.5	49.8	14%
Computer equipment	13.8	17.1	18.2	20.2	26.6	8%
Oil and gas	27.8	12.5	7.6	10.1	14.5	4%
Electrical equipment	10.1	10.5	10.5	11.1	11.9	3%
Other	157.5	162.4	162.3	170	179.2	52%
Total	295.7	296.4	293.9	314.3	346.5	

U.S. Total Trade and Value Added Balances with NAFTA Countries: 1995-2011 (\$billions)



Increase knowledge intensity of global value chains

Change in capitalized spending on intangibles as share of revenue¹
 Percentage points, 2000–16

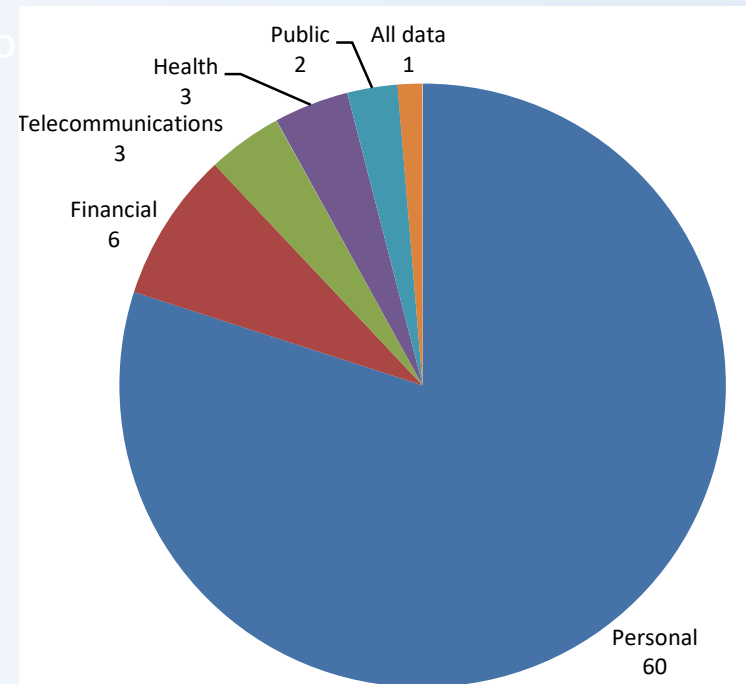
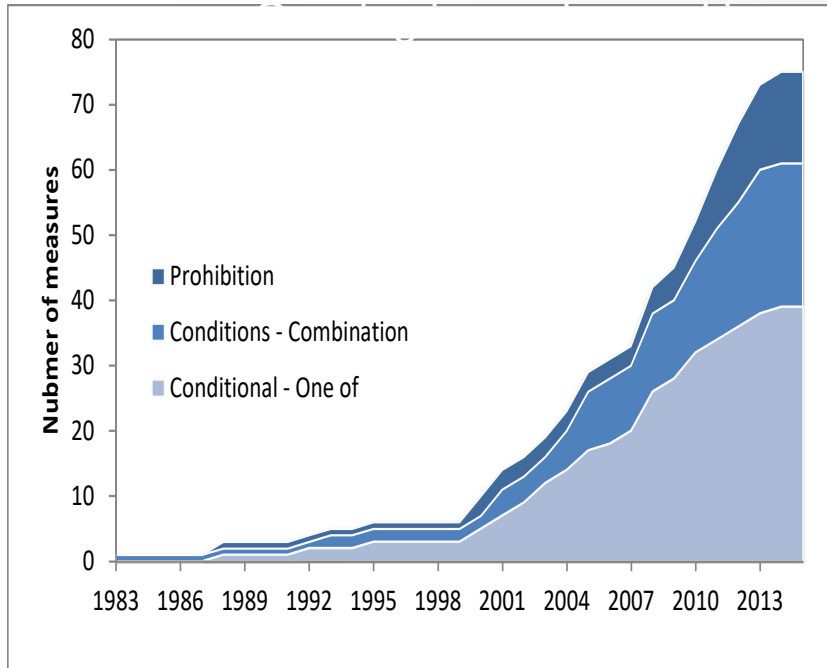


Capitalized spending on intangibles as % of revenue, 2016

13.1	80.0	36.4	25.4	16.4	14.9	12.2	16.6	9.8	11.5	7.1	9.1	5.0	3.9	8.9	4.1	4.2	18.9	10.3
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Data Localization Requirements



Restricting cross-border data flows

- **Privacy**
 - » EU GDPR
- **Law Enforcement**
 - » U.S. Cloud Act
- **Cybersecurity**
 - » Chinese and Vietnamese cybersecurity laws
- **Censorship**
 - » Halal internet
- **Protectionism**
 - » Amazon/Alibaba; Google/Baidu, Facebook/Tencent

Reducing Uncertainty

CPTPP & USMCA digital trade chapters

- Prohibit customs duties and discriminatory measures applied to digital products distributed electronically
- Free flow of information subject to exceptions
- No data localization
- No source code disclosure
- Importance of interoperability amongst privacy regimes
- Collaborate with industry to address cybersecurity
- Promote open access to government-generated public data
- Intellectual Property – third party intermediary liability and balanced copyright law

Digital Economy and Trade Project

www.brookings.edu/digital-economy-and-trade-project/