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# Some Urge U.S. to Focus on Selling Its Skills Overseas

By **CATHERINE RAMPELL**

In the drive to double America's exports, Washington has been focusing on manufacturers. But that may be the wrong target.

With an educated work force, a culture of innovation and strong capital markets, the United States has a larger comparative advantage in high-skilled services like engineering, law and finance than in lower-skilled manufacturing jobs that rely on cheap labor.

For these reasons, economists see tremendous potential for growth — if, that is, Washington helps clear the way.

“There is for some reason this manufacturing fetish in America that is not consistent with U.S.'s fundamental economic interests.” said Aaditya Mattoo, the research manager at the World Bank. “Meanwhile, there are these barriers which American services companies face in establishing abroad, and no one talks about them.”

Under current policy, manufacturing companies enjoy special tax cuts and other subsidies, and can count on the government to protest when American goods face unfair tariffs. For example, when [India](#) passed tariffs on alcohol imports that tripled the price of Jack Daniels whisky, the United States fought back. But to this day India requires New York Life Insurance to give three-quarters of its Indian profits to a local partner, Washington does not intervene.

As the developed world has gotten wealthier, global demand for skills and services — especially the higher-end ones — has risen.

In the United States, services increasingly dominate the economy. Employment in this sector has risen steadily since the 1960s, with 70 percent of Americans now working in service industries.

And America already exports more services than any other country in the world, even more than the next two competitors combined. In 2011, that amounted to \$612 billion exported in services, up 10.1 percent from 2009, and up 136 percent since 1991.

Still, there is great untapped potential for more, since all of these exports are being sold from a tiny share of all the American companies that could participate in the global marketplace.

“There is this huge infrastructure boom where these big, fast-growing economies are going to need to build out their roads, sewers, telecommunications networks, factories, airports, harbors, you name it,” said J. Bradford Jensen, an economist at the Peterson Institute for International Economics and author of a [recent book](#) on global services trade. “All those projects require armies of architects, engineers, project managers, financial insurers. These are all the kinds of tradable services that we have an advantage in providing.”

Given these opportunities, Mr. Jensen estimates that the United States has the potential to more than double its annual exports of services annually, creating an additional \$800 billion in tradable business services like engineering and law alone. (“Tradable” refers to services that can easily be done across borders, as opposed to work like cutting hair or drawing blood.)

Meeting this potential in business services would support or create about three million jobs, by his estimate. These jobs pay significantly higher wages than manufacturing jobs, even when controlling for how educated workers are and other demographics, he added.

To some extent American companies are staying at home because of cultural or language barriers, worries about intellectual property protection and corruption, and sometimes lack of interest.

Often, though, countries ban or place quotas on services from abroad that make these imports prohibitively expensive. One [2010 study](#) estimated discrimination against services imports in some of the major emerging markets like China, India and Indonesia was effectively equivalent to a tariff on these imports of more than 60 percent.

In Malaysia, for example, [80 percent of television programming](#) must originate from local production companies owned by ethnic Malays. Brazil has similar [quotas](#) for movie screenings.

In other cases, foreign laws make it extremely expensive or complicated for American entrants. In India, foreigners are not allowed to own more than 26 percent equity in an insurance company, regardless of how much the local partners provide.

“Taking a minority shareholding and doing 100 percent work doesn’t hold up for us,” Ajit Jain, who heads Berkshire Hathaway’s reinsurance business, told an [Indian newspaper](#) last year. The company opted to sell another company’s insurance products through a Web site rather than to expand its own underwriting business in India. Mr. Jain did not return calls from The Times.

China has many similar partnership requirements, along with other limits on foreign businesses. For example, the government tightly restricts the routes of planes operated by foreign delivery services.

“There’s a very narrow band of space we can fly in,” said Daniel J. Brutto, the president of U.P.S. International. “If there’s bad weather in China, our planes are not going anywhere. That means our deliveries will take longer.”

Other American companies have been comparably restricted, if they can get into the country at all.

Cigna has been selling health insurance in China since 2003 (with a Chinese partner), but has been allowed to expand into only one new province a year, according to Tyrrell Schmidt, Cigna International’s chief marketing officer.

A director at a major international bank — who asked to remain anonymous for fear of retaliation from the Chinese government, as did managers at other companies interviewed about expanding abroad — said the organization had scores of employees in China, and about 90 percent of them were there solely to deal with the country’s regulatory issues and licensing requirements for foreigners.

Most of America’s public efforts to increase exports to China, however, involve whether the country’s currency policies are making its goods artificially cheap.

“What we really care about is market access,” said Eswar S. Prasad, a trade economist at Cornell University who focuses on China. “And that’s where we’re having trouble getting politicians to take notice.”

Part of the reason that the United States doesn’t aggressively protest when other countries hinder services is that it doesn’t have the authority.

Multilateral trade agreements have led to relatively freer trade in goods, but not in services. The United States can file a dispute with the World Trade Organization over a tariff, but generally cannot do the same for licensing fees, partnership requirements and other obstacles that countries can impose on services.

The United States has negotiated freer market access with a few countries, including South Korea and **Chile**. Though a broader services agreement has been talked about for decades, it has repeatedly been put off for various reasons.

Developing countries have declared they must liberalize trade in agriculture before even considering services, and Congress is reluctant to dismantle its generous agricultural subsidies.

Another obstacle is that the states, and not the federal government, control market access for many services through licenses. For example, the federal government doesn't control whether a worker can practice law in Arizona; Arizona does. That makes it difficult for America's federal trade negotiator to work with other countries over licensing issues.

Some business leaders also want to fight **protectionism** with protectionism rather than invest more efforts in trade negotiations.

Because some foreign governments allow only their own engineering firms to bid on state-financed projects, there are questions about whether American projects should remain open to international competitors.

"It's not a level playing field," said Gregs G. Thomopoulos, the chief executive of Stanley Consultants in Muscatine, Iowa, and a past president of the **International Federation of Consulting Engineers**. He said the American government should retaliate by blocking foreign bids on American aid projects.

"We're using American money and we need to showcase American experience," he said. "What better way to help the job process than by employing American firms and American staff who pay taxes here?"

Perhaps the most basic constraint is not abroad but here in the United States, which has relatively tight **immigration** controls. Services often require workers to travel freely across borders. Asking India to allow American consultants to enter and leave Delhi at will is difficult if the United States cannot — or, more accurately, will not — reciprocate.

Economists acknowledge concerns about freer trade displacing some American workers. But they say the United States would nonetheless have a net gain in jobs if borders everywhere were more open.

"We need to have a visa policy that allows businesses to operate efficiently at home and abroad, and that allows all professionals to be able to move back and forth between

corporate offices,” said Jeffrey J. Schott, a former trade negotiator and now senior fellow at the Peterson Institute. “If we don’t, why would anyone else?”