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SERVICES, THE SWEET SPOT OF AMERICAN TRADE COMPETITIVENESS

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The impact of the coronavirus has been worldwide, deep and devastating. No sector, industry or company has been spared the wrath of COVID-19. With lost economic output of nearly $3 trillion, different regions fared differently. Median middle-income countries experienced a GDP growth decline of 8.7%, wealthier countries 6.4%, and low-income countries 5.2%.

Perhaps no economic feature of the global economy has been affected more than *trade*, with merchandise trade having fallen nearly 6% during the first year of the pandemic and services trade by over double that amount (the latter no doubt due to a huge falloff in foreign travelers). To use an analogy from biology, if trade is the cardiovascular system of international commerce, supply chains are the oxygenated blood that runs through the arteries. And the current system is one in dire need of a bypass operation. The U.S. is the best case in point. Container ship logjams at the ports of Los Angeles and Long Beach have contributed to shortages and inflation for over a year. A shortage of semiconductors has crippled manufacturers (particularly motor vehicles) dependent on those inputs; and a scarcity of dockworkers, truckers, and warehouse space have produced a domino effect. While the congestion has improved somewhat over the past month, offshore producers have still not geared up production to pre-pandemic levels.

During the early days of the pandemic, the shortages of personal protective equipment, ventilators and other medical related products—many produced offshore—shined the spotlight on the nation's sourcing vulnerabilities, with calls to onshore much more of our manufacturing or at the very least to nearshore it. While it makes perfect sense to build redundancy through domestically-manufactured goods—one of national strategic importance—in most all other cases the economics of production and distribution are not cost-effective.

America's global competitive advantage is not in manufacturing but *services*. The value added of U.S. manufacturing as a percentage of GDP is barely 11% and has been declining for the last two decades. Services account for over 80% of U.S. employment and 79% of GDP. The services sector runs the gamut from banking and finance, accounting, real estate, hospitality, engineering and construction to retail, health care, and education. And it is important to note that manufacturing can have a large services component as well—mainly intellectual property (IP) that goes into the design of aircraft, smartphones, motor vehicles, machinery and medical equipment. Nearly 28% of jobs in the U.S. emanate from IP-intensive industries as does 39% of U.S. GDP.

One industry in the services sector that is often overlooked is higher education. Foreign students coming to study in the U.S. generated $44 billion alone; and five universities in the U.S., including

NYU, Columbia, and Indiana enroll nearly 75,000 pupils. Tallying the tuition they pay, students' spending for goods and services, and their domestic travel and tourism are considered U.S. export sales. Additionally, a number of American universities have established centers and campuses overseas, such as NYU, Carnegie Mellon, FIU, and Georgetown. And let's not forget that industry giants Apple, Amazon, Google, and Facebook—all of whom are exporters--were all founded by first- or second-generation immigrants, many whom came to the U.S. first to pursue their university studies.

Our economy is rapidly becoming more knowledge-based and innovation-oriented, and this is where we can compete in the global marketplace. A manufacturing renaissance is a pipe dream, and isolationist-protectionist politicians who rant about recreating an industrial American industrial landscape akin to the 1950s are acting foolishly and irresponsibly. Where the U.S. does succeed is in marrying intellectual property to manufacturing, thereby boost our exports.

To sustain America's competitive advantage in services exports certain actions must be undertaken. These include investing considerably more in STEM at the university level; greater investment in public and private R&D as well as for start-ups and later-stage firms; expanded recruiting of foreign talent to come to the U.S. to study and work; and vigorous outreach efforts by governmental and business organizations to make small and medium-size firms aware of the profitable opportunities in selling to foreign markets. These measures--by no means a comprehensive list-- will allow the nation to hit the sweet spot of national export competitiveness.

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