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Before the United States International Trade Commission

Investigation: (No. TPA-105-003) United States-Mexico-Canada Agreement

November 15, 2018

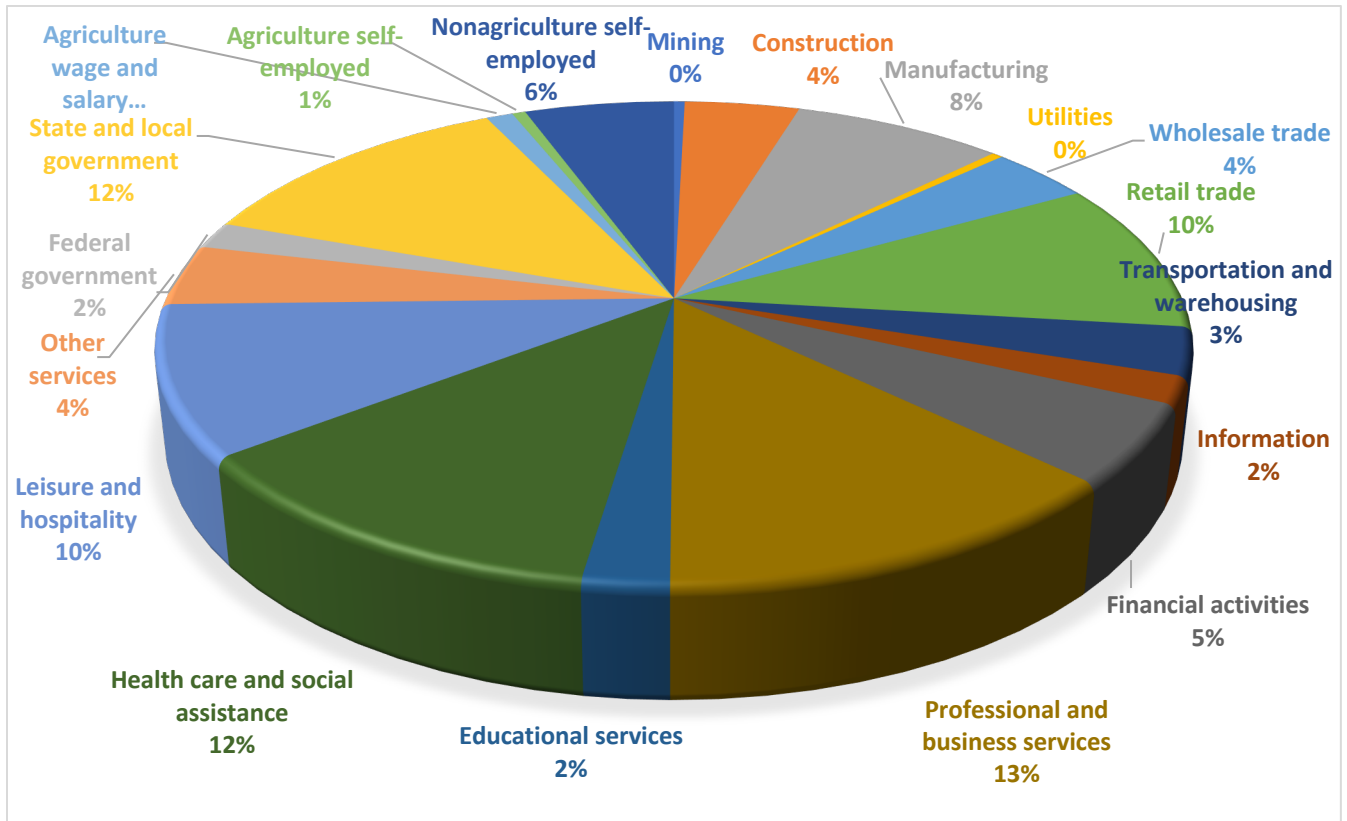
Thank you Chairman Johanson and Commissioners for the opportunity to testify on the United States-Mexico-Canada Agreement (USMCA). Trade in Services International (TiSI) is dedicated to helping small and medium-sized enterprises and service firms leverage the global services economy for export expansion, employment, and sustainable development. TiSI offers advisory services on trade and investment, economic development, and women's economic empowerment. Clients include multilateral institutions and donor agencies. My testimony will focus on the provisions of the Agreement particularly important to women's economic empowerment.

In the United States in 2012, women-owned firms (51% ownership), represented 36% of all businesses (9.9 million), accounted for 15% of all employment (8.4 million people), and generated 12% of all sales (1.4 trillion US\$) largely in the services sector.ⁱ Over 80% of women-owned firms are small to medium-sized enterprises.ⁱⁱ Trends are favorable for women-owned enterprises and opening markets abroad can boost their growth. The USMCA can secure expanded market access for these firms with commitments in services, small and medium-sized enterprises, and digital trade. Implementation of commitments to eliminate sex-based discrimination in the workplace can also raise female labor force participation ratesⁱⁱⁱ creating economic prosperity.

Women in the United States, Mexico, and Canada have much in common. They are all principally employed in the services economy. In the United States and Canada, 90% of women who work are employed in services. In Mexico, 80% of women who work are employed in services.^{iv} Women in North America work in business services, legal, accounting, architectural services, communication, distribution, educational, environmental, financial, health related, tourism and travel, recreational, cultural and sporting, and transport services.

In the United States the shift to a services economy is reflected in employment data as illustrated in Figure 1. For example, employment in professional and business services exceeds manufacturing employment by 5%. From 2006 to 2016, the fastest growing services sectors were health, information, and professional business services.^v Online commerce and international transportation make almost all services tradable via cross-border online trade, consumption abroad, investment, or temporary movement of people.

Figure 1: U.S. employment by major industry sector 2016



Source: U.S. Department of Labor Bureau of Labor Statistics.

(NB: Sectors displaying 0% have less than 1% of employment; mining = .4%; utilities = .4%).^{vi}

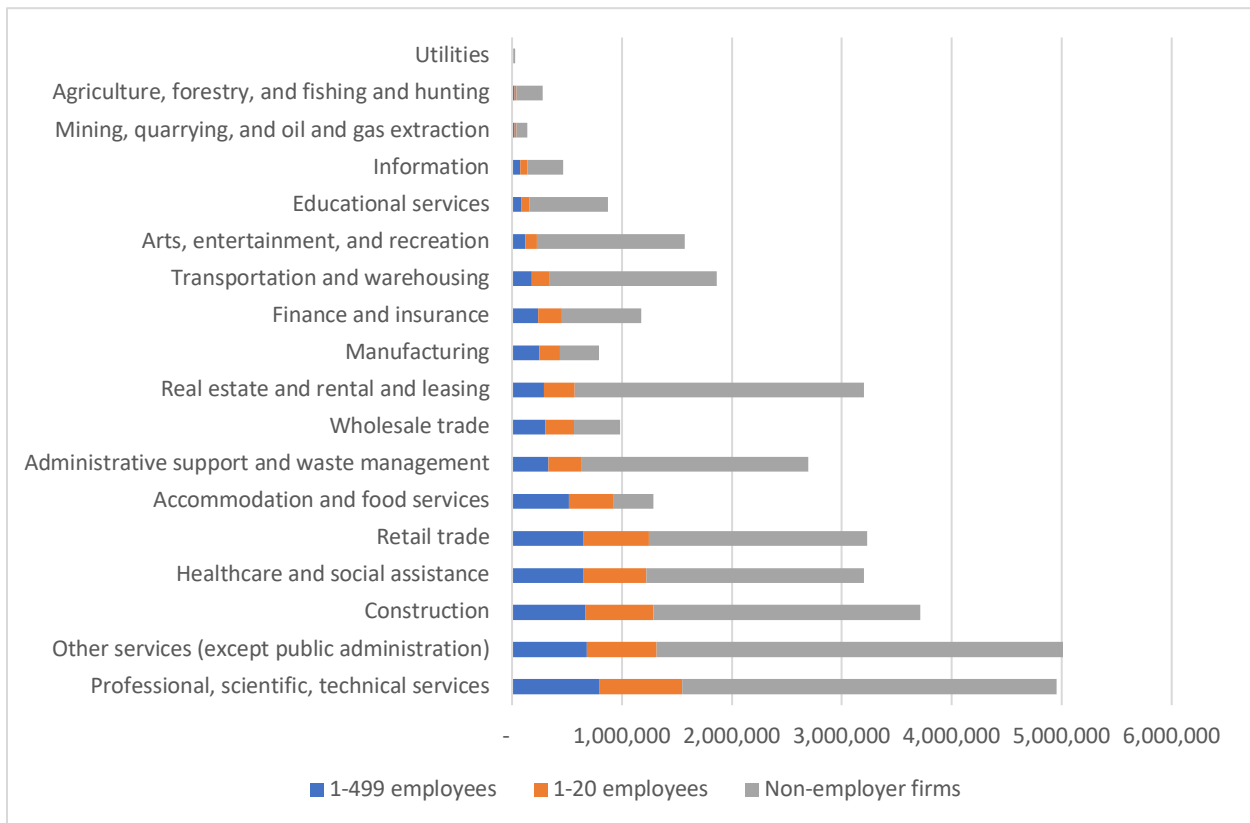
The majority of trade in services takes place through establishment; however, online trade, services consumption by business, student, and tourist visitors, and the temporary movement of service industry employees are also important modes of supply. The North American services economy stands to gain to the degree that the USMCA increases confidence in investment, promotes online trade, provides a welcoming environment for travelers - including medical patients, and facilitates the temporary movement of people. Furthermore, as services are an important intermediate input into each sector of the economy,^{vii} more fluid trade of high quality, competitively priced services will enhance productivity in the United States, Mexico, and Canada.

The USMCA’s Chapter 15 on Cross-border Trade in Services contains national treatment, most-favored-nation treatment, and market access provisions valuable to small service providers. The prohibition against requiring establishment is of particular benefit to small service providers with limited resources (Article 15.6). Securing open and timely payments and transfers (Article 15.12) creates a more competitive position for small providers. Creating more efficient, transparent, and timely administrative procedures affecting trade in services (Article 15.8) will help level the playing field for small providers. This is important in Mexico where the cost of business start-up procedures for women is estimated to be 17% of gross national income per capita.^{viii} In the U.S., the rate is 1.1% and .4% in Canada.^{ix} A high rate suggests inefficiency and opaque procedures. Chapter 15 promotes transparency and good governance.

The USMCA’s Chapter 17 on Financial Services has the potential to increase the scope and quality of financial services in the United States, Mexico, and Canada under national treatment (Article 17.3), most-favored-nation treatment (Article 17.4), and market access (Article 17.5) provisions. Chapter 17 creates market space for the provision of new financial services (Article 17.7) while recognizing the primacy of prudential regulation. Deepening the scope and quality of financial services is particularly valuable in Mexico, where only 33% of women maintain an account with a financial institution or with a mobile money service provider. The rate in the U.S. is 92% percent and 99% in Canada.^x Going without banking, insurance, or securities services has knock-on effects for women’s agency and entrepreneurship. Creating a robust financial services market that offers quality products to women can help secure their long-term financial security.

The USMCA’s Chapter 15 on Small and Medium-sized Enterprises recognizes the potential of SMEs to contribute to economic innovation. The chapter outlines commercially valuable areas of cooperation in small business support infrastructure, finance, and export promotion. A committee on SME issues as well as an SME dialogue are established to deepen cooperation and consultation with SME stakeholders. The SME chapter catalyzes the private sector and donor agencies to facilitate finance and export opportunities for SMEs. A 2015 snapshot of U.S. small businesses by industry and firm size illustrates the commercial value of expanding export opportunities for SMEs. The U.S. Small Business Administration estimates that there were 30.2 million small businesses with 58.9 million employees representing 47.5% of the private workforce, which created 1.9 million net jobs in 2015.^{xi}

Figure 2: U.S. small businesses by industry and firm size 2015



Source: U.S. Small Business Administration 2018 Small Business Profile.^{xii}

Implementation of commitments to eliminate sex-based discrimination in employment, under Chapter 23 on Labor (Article 23.9), can increase female labor force participation rates. The percentage of women who participate in the labor force is 55% in the United States, 60% in Canada, and 44% in Mexico.^{xiii} Raising female labor force participation rates enhances per capita income and economic growth.^{xiv} Mexico, for example, was recently advised by the IMF to improve the investment climate, strengthen the rule of law, and find a more efficient means of enforcing anti-discrimination law to raise economic output and foster growth.^{xv} It is estimated that the U.S. could raise GDP by 5%, if female labor force participation rates were on par with male participation rates.^{xvi}

The USMCA's Chapter 19 on Digital Trade can expand export opportunities for service firms and women entrepreneurs. Parties have agreed to keep online transactions free of customs duties, secured non-discriminatory treatment of digital products, and affirmed the principles of the UNCITRAL Model Law on Electronic Commerce of 1996. Recognition of electronic authentication and signatures will reduce administrative costs for service firms and women entrepreneurs. Cooperation in online consumer protection and online privacy will increase confidence in online transactions. Adherence to principles on access to and use of the Internet for digital trade will deter rent seeking and promote innovation. Small providers will benefit in particular from the prohibition of localization requirements.

The USMCA is particularly important to our neighbors as Canada's trade to GDP ratio stands at 64% and Mexico's trade to GDP ratio stands at 76% while the U.S. trade to GDP ratio is 26%. These ratios reflect the relative importance of world trade to each economy and the comparative, "dependence of domestic producers on foreign demand and of domestic consumers on foreign supply."^{xvii} Only a quarter of trade represents finished products; intermediate inputs including services, capital, and technology account for three quarters of trade.^{xviii} Thus the free and fair flow of trade between the United States, Canada, and Mexico - exports and imports - are critical to the vibrancy and evolution of all of our economies. Economic prosperity in Mexico and Canada generates economic prosperity in the United States. Thank you for this opportunity to comment on the USMCA and I welcome questions.

ⁱ U.S. Small Business Administration, Women's Business Ownership: Data from the 2012 Survey of Business Owners, Issue Brief Number 13, May 31, 2017.

ⁱⁱ Ibid.

ⁱⁱⁱ The female labor force participation rate is the proportion of the female population ages 15 and older that is economically active, The World Bank Database: Gender Statistics (<http://datatopics.worldbank.org/gender/>).

^{iv} Data from World Bank Database: World Development Indicators (<https://data.worldbank.org>).

^v U.S. Department of Labor Bureau of Labor Statistics see "output by major industry sector under 2006-1016" within employment tables (<https://www.bls.gov>).

^{vi} U.S. Department of Labor Bureau of Labor Statistics (<https://www.bls.gov/emp/tables/employment-by-major-industry-sector.htm>).

^{vii} Evidence of the use of services as an intermediate input into other sectors of the economy is well illustrated by the U.S. Bureau of Economic Analysis Input Output tables found at (<https://www.bea.gov/industry/input-output-accounts-data>).

^{viii} Cost to register a business is normalized by presenting it as a percentage of gross national income (GNI) per capita (World Development Indicators (<https://data.worldbank.org>)).

^{ix} The World Bank Database: Gender Statistics (<http://datatopics.worldbank.org/gender/>).

^x The World Bank Database: Gender Statistics (<http://datatopics.worldbank.org/gender/>).

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- ^{xi} U.S. Small Business Administration (<http://www.sba.gov>).
- ^{xii} U.S. Small Business Administration (<http://www.sba.gov>).
- ^{xiii} The World Bank Database: Gender Statistics (<http://datatopics.worldbank.org/gender/>).
- ^{xiv} K. Elborgh-Woytek, M. Newiak, K Kochhar, International Monetary Fund Staff Discussion Note, Women, Work and The Economy: Macroeconomic Gains from Gender Equity, September 2013 (SDN/13/10).
- ^{xv} International Monetary Fund, Mexico 2016 Article IV Consultation, November 2016, (IMF Country Report No. 16/359).
- ^{xvi} K. Elborgh-Woytek, M. Newiak, K Kochhar, International Monetary Fund Staff Discussion Note, Women, Work and The Economy: Macroeconomic Gains from Gender Equity, September 2013 (SDN/13/10).
- ^{xvii} The World Bank, World Integrated Trade Solution Database (<http://www.wits.worldbank.org>).
- ^{xviii} OECD, Trade Policy Implications of Global Value Chains, 2015. (<http://oecd.org/trade>).