

U.S. Trade in Private Services

Executive Summary

U.S. exports of private services exceed a half trillion dollars, and account for nearly one third of all U.S. exports of goods and services.*

- Growth in exports of services has outpaced the rise in imports. The U.S. trade surplus in services rose to a total of \$168.0 billion in 2010. The surplus has grown quickly since 2003, rising \$101.2 billion.
- Financial and business services contribute the most to the U.S. surplus, though fees for software and industrial process licenses, other royalties, and education services also contribute significantly.
- The surplus in travel and passenger fares increased \$29.8 billion from 2003 to 2010.
- The largest U.S. surpluses in services by country are with Canada, Japan, Ireland, Brazil, the United Kingdom, China, and Mexico.
- The U.S. services surplus with China has accelerated rapidly since 2007, from \$2.4 billion to \$10.4 billion in 2010, because of sharp gains in exports and relatively flat imports. Gains have been realized across all categories of services.
- The largest U.S. services deficit is with Bermuda, which is a major source of U.S. reinsurance imports. The second largest is with India, primarily because of U.S. purchases of computer services.
- The largest U.S. deficit by service type is in insurance. U.S. insurers purchased \$41.2 billion more in reinsurance than they sold in 2009.

*Services are non-tangible items of value, such as: travel, shipping, tuition, phone service, computer processing, and software licenses. Private services exclude government.

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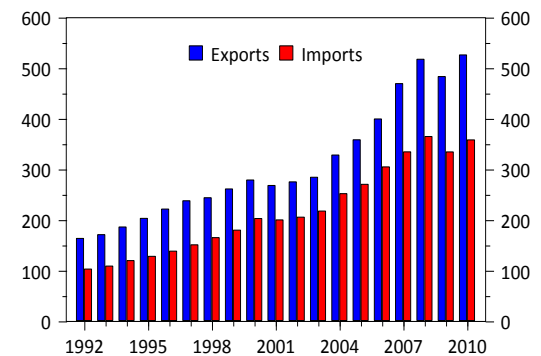
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U.S. Exports, Imports and Trade Balance

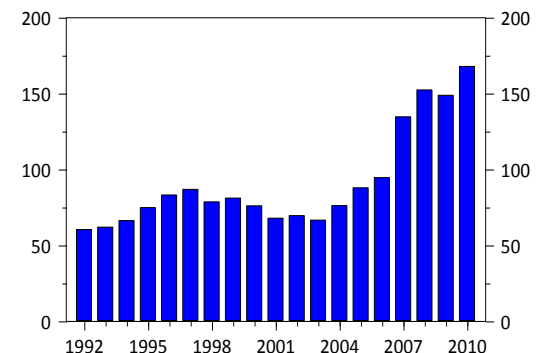
U.S. exports, imports, and trade balance in private services are seen in Figures 1 and 2. U.S. exports of private services amounted to \$526.6 billion in 2010, an increase of 8.8% from 2009. Imports totaled \$358.6 billion, an increase of 7.1%. (See Figure 1.) Exports and imports have grown sharply every year but one after 2003. Exports have grown an average of 9.2% per year, while imports have grown an average of 7.4%.

Figure 1: Exports and Imports of Private Services
Billions of dollars



Source: Bureau of Economic Analysis.

Figure 2: Trade Balance in Private Services
Billions of dollars



Source: Bureau of Economic Analysis.

Unlike U.S. trade in goods, U.S. trade in services has consistently shown higher exports than imports. The U.S. trade surplus in private services rose from \$66.7 billion in 2003 to \$168.0 billion in 2010. (See Figure 2.)

Figures 3a and 3b show exports, imports, and the trade balance in the services categories for which disaggregated data are collected. Limited 2010

data were available.¹

The largest category of exports of services by the United States was for travel (foreigners visiting the United States), which totaled \$103.1 billion in 2010. After travel, the largest categories of exports were for financial services (\$58.0 billion) and miscellaneous business services (\$56.8 billion).² On the import side, the largest categories were travel

Figure 3a: U.S. Exports, Imports of Private Services in 2009-10 by Type
Billions of dollars

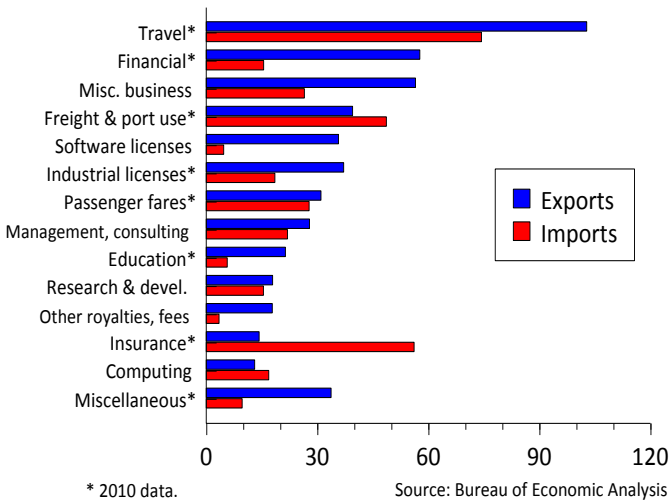
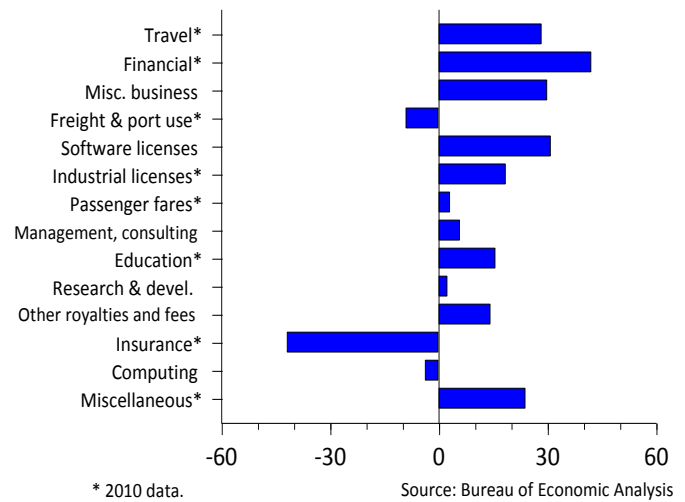


Figure 3b: U.S. Trade Balance in Private Services in 2009-10 by Type
Billions of dollars



DEFINITIONS

Services are non-tangible items of value that are either consumed when purchased or at a later date as specified by the terms of sale, such as school tuition or an airplane ticket. These are distinct from tangible items or “goods,” such as oranges or motor vehicles.

- Non-tangible items of value that foreign persons and companies purchase from the United States are U.S. exports of services. These include: visits to the United States; passenger fares paid by foreigners to U.S. airlines to reach U.S. destinations; use of U.S. freight and port services; payment of royalties and fees for the rights to use processes, software, or other items owned by U.S. persons and companies; education in the United States; and the purchase of commercial and miscellaneous services from U.S. persons and companies. Services provided by U.S.-owned affiliates in foreign countries are not included in the export figures.
- Non-tangible items of value that U.S. persons and companies purchase from other countries are U.S. imports of services. These include: travel in another country; passenger fares paid by U.S. persons to foreign airlines to reach foreign destinations; use of foreign freight and port services; payment of royalties and fees for the rights to use processes, software, or other items owned by foreign persons and companies; education in another country; and the purchase of commercial and miscellaneous services from foreign persons and companies. Services provided by foreign-owned affiliates in the United States are not included in the import figures.
- The difference between U.S. exports and imports is the U.S. trade balance.
- Private services do not include service transactions by the U.S. government (including the military).

by U.S. citizens visiting other countries, which amounted to \$74.6 billion in 2010, followed by insurance (\$56.5 billion) and commercial freight and port use (\$49.0 billion).³

The United States is a net exporter in most services categories. The largest U.S. trade surplus is in financial services (\$42.2 billion in 2010), followed by software licenses, miscellaneous business services and travel. The largest U.S. deficit is in purchases of insurance (an estimated \$41.9 billion in 2010). The United States is also a net purchaser of commercial freight and computing services.

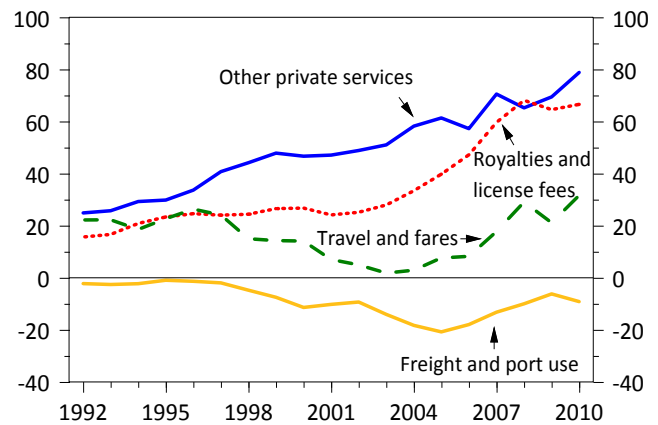
Figure 4 indicates how the U.S. trade balance in services has changed over time.⁴ The United States has gained in all four major categories since 2003, to a total gain of \$101.2 billion in 2010. Of these, royalties and license fees accounted for the greatest gain, \$38.6 billion. Travel and fares gained \$29.8 billion, other private services \$27.8 billion, and freight and port use \$4.9 billion.

It is also possible to look at these data at a country-specific level. As seen in Figure 5, the United States has the greatest surplus with Canada, followed by Japan, Ireland, Brazil, the United Kingdom, China, and Mexico. The United States has a surplus with nearly all other countries. The greatest deficits are with Bermuda, where there is a concentration of reinsurers, and with India, as a result of U.S. purchases of computer services.

U.S. Surplus with China is Growing Rapidly

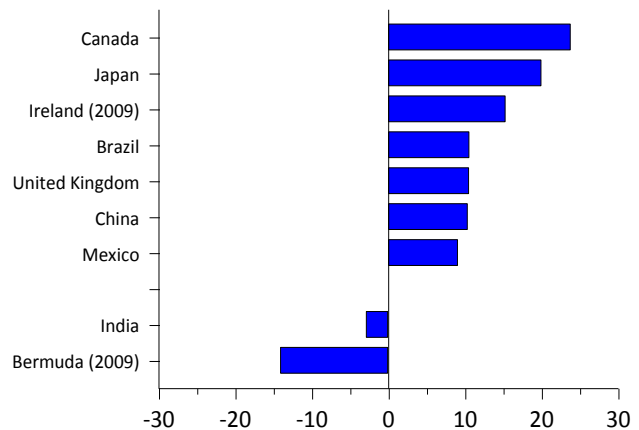
The last few years have seen tremendous growth in the U.S. surplus in trade of private services with China. U.S. exports of private services to China have been rising at an average annual rate of 18.4% since 2003, and have gone from \$5.7 billion in 2003 to \$20.1 billion in 2010. U.S. imports of private services from China, on the other hand, reached a peak of \$10.6 billion in 2007, but then fell to \$8.3 billion in 2009, and have picked up to \$9.7 billion in 2010. (See Figure 6.) The U.S. surplus

Figure 4: Trade Balance in Private Services
Billions of dollars



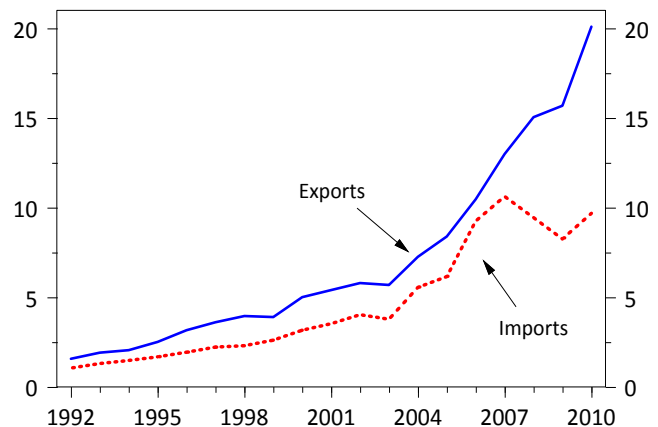
Source: Bureau of Economic Analysis.

Figure 5: Largest U.S. Surpluses and Deficits by Country in 2010*
Private services trade, billions of dollars



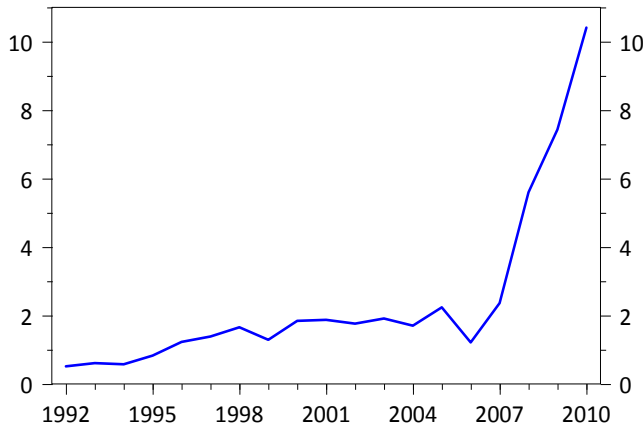
Source: Bureau of Economic Analysis. * 2009 data is used if 2010 is not available.

Figure 6: Exports and Imports of Private Services -- China
Billions of dollars



Source: Bureau of Economic Analysis.

Figure 7: Trade Balance in Private Services -- China
Billions of dollars



Source: Bureau of Economic Analysis.

with China has gone from \$1.9 billion in 2003 to \$10.4 billion in 2010, almost all of which has taken place in the last three years. (See Figure 7.)

The large increase in the U.S. surplus with China in the last three years (from 2007 to 2010) is mostly from an increase in the surplus of “other private services” and of travel and fares, and a lessening in the deficit of ocean freight and port services. (See table.) Roughly half the surplus growth in “other private services” comes from education services to Chinese students studying in the United States. The other half is in business and financial services. Travel and fares exports jumped 39.0 percent in 2010 alone. The improvement in the deficit of ocean freight and port services likely comes from faster growth in U.S. goods exports to China. U.S. goods exports rose an average of 13.2 percent per year over the past three years, while U.S. goods imports increased an average of only 4.3 percent per year.

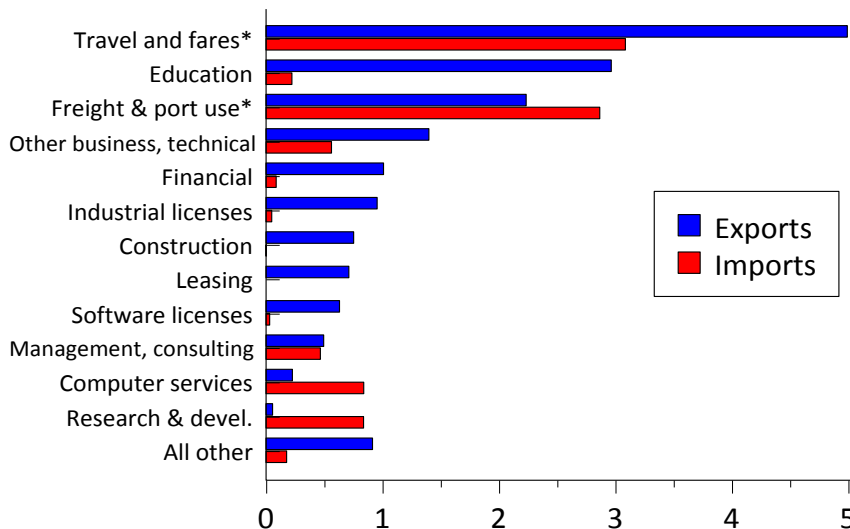
The Change in the U.S. Trade Surplus in Services with China, 2007 to 2010

	Billions\$
Total change over three years	+8.0
Other private services	+2.7
Travel and passenger fares	+2.4
Ocean freight and port services	+1.9
Royalties and license fees	+1.1

Source: Bureau of Economic Analysis

Most of the detailed data categories are only available for 2009. (See Figure 8.) The largest U.S. services receipts from China were travel and fares (\$5.0 billion), education (\$3.0 billion), freight and port use (\$2.2 billion), and other business and technical services (\$1.4 billion). The two largest categories of services the United States purchased

Figure 8: U.S. Trade in Private Services with China in 2009-10
Billions of dollars



* 2010 data.

Source: Bureau of Economic Analysis.

from China were travel and fares (\$3.1 billion) and freight and port use (\$2.9 billion).

The only services where the United States has a trade deficit with China are research and development (\$0.8 billion), computers (\$0.6 billion) and freight and port use (\$0.6 billion).

Largest U.S. Non-Insurance Services Deficit is with India

In the years just before the 2008-09 global economic crisis, U.S.-India trade in private services expanded rapidly. U.S. imports from India rose at an average annual rate of 38.1% from 2003 to 2008, while U.S. exports to India registered a 21.1% average annual growth rate. Exports and imports resumed growth in 2010, albeit slowly. (See Figure 9.)

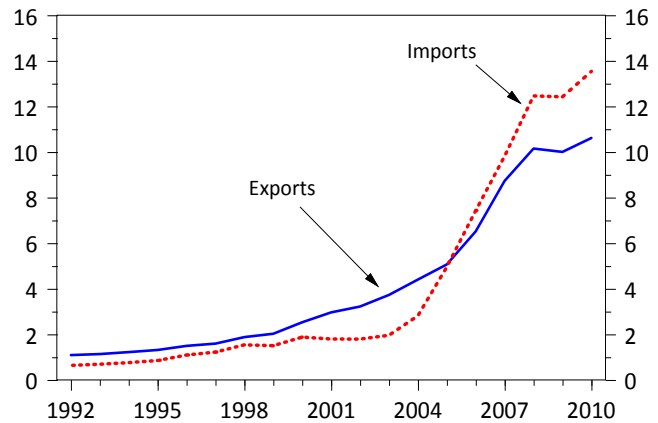
The United States had a trade surplus in services with India until 2006. Since then, there has been a growing trade deficit. The U.S. trade deficit in services with India has grown from \$0.9 billion in 2006 to \$2.9 billion in 2010. (See Figure 10.)

Most of the detailed data categories are only available for 2009. (See Figure 11.)

U.S. imports of computer and data processing services from India were \$5.5 billion, accounting for nearly half of all U.S. imports from India and 32.5 percent of U.S. global imports of these services. This category also contributed significantly to the U.S. services trade deficit with India, as the United States exports minimal computer services to India. U.S. imports of research and development, management and consulting, and other business and technical services from India are also significant and have contributed to the U.S. services trade deficit.

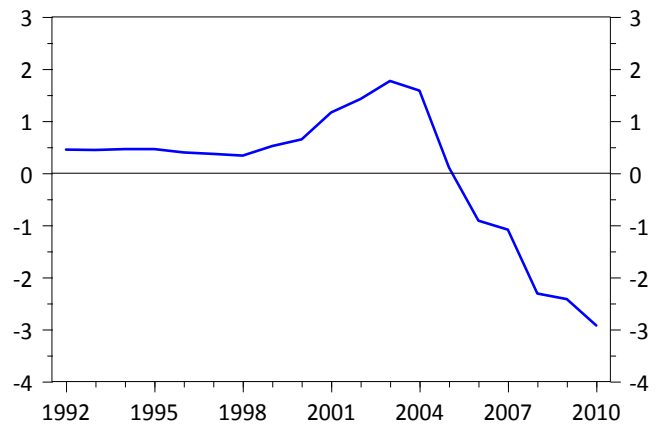
Two types of services helped to reduce the size of the U.S. deficit. U.S. exports of education services to India (\$3.2 billion) were significantly higher than imports. Travel and fares of Indian citizens visiting the U.S. were \$4.0 billion, while U.S. citizens visiting India spent \$2.3 billion in this category.

Figure 9: Exports and Imports of Private Services -- India
Billions of dollars



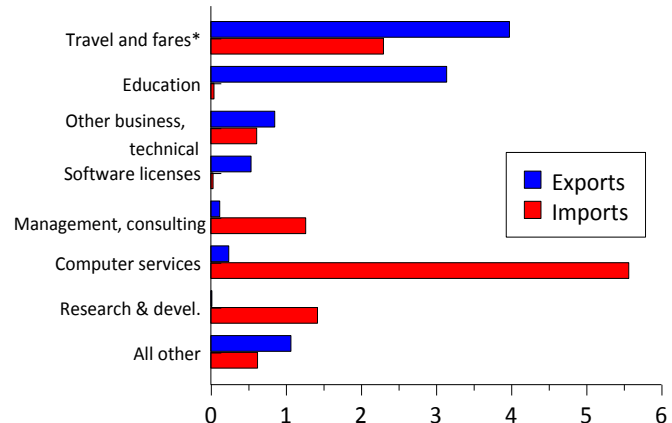
Source: Bureau of Economic Analysis.

Figure 10: Trade Balance in Private Services -- India
Billions of dollars



Source: Bureau of Economic Analysis.

Figure 11: U.S. Trade in Private Services with India in 2009-10
Billions of dollars

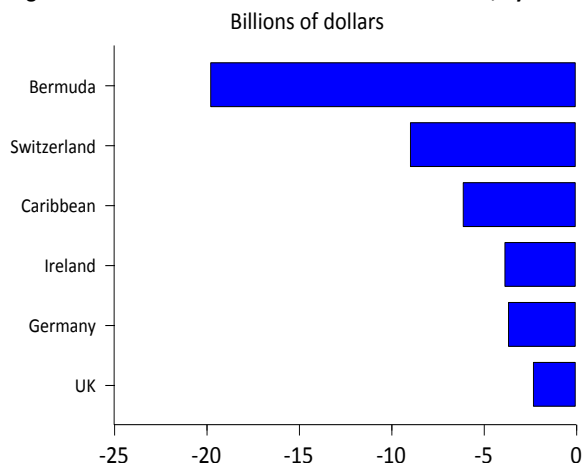


* 2010 data.

Source: Bureau of Economic Analysis.

Insurance is Largest Services Deficit

Figure 12: U.S. Trade Balance in Reinsurance in 2009, by Country



Source: Bureau of Economic Analysis.

U.S. imports of insurance services were \$40.6 billion larger than U.S. exports of the same in 2009, because of the U.S. importing reinsurance services from foreign companies.⁵ Reinsurance takes place when an insurance company gives part of its premium revenue from policies it has sold to another insurer in return for the other insurer taking on a part of the responsibility for the risks. U.S. imports of reinsurance primarily come from six countries or regions: Bermuda, Switzerland, the Caribbean, Ireland, Germany, and the U.K. Bermuda, alone, accounts for around half of total imports and Switzerland accounts for twenty percent of the total. (See Figure 12.)

Endnotes

¹ Source is Bureau of Economic Analysis, at www.bea.gov/international/. Quarterly data are found at “balance of payments detailed estimates.” Annual data is found at “international services.”

² Miscellaneous business services include engineering services, equipment maintenance and repair, telecommunications services, leasing, legal services, advertising, and other.

³ U.S. insurance companies purchased a net of \$41.2 billion in reinsurance from foreign companies in 2009. See the section that discusses the U.S. trade deficit in insurance.

⁴ The Bureau of Economic Analysis to date has reported 2010 data on these four categories; more detailed data will be forthcoming.

⁵ The Bureau of Economic Analysis measures insurance services as the difference between premiums paid and payouts for a “normal” year’s loss. The latter is calculated by a weighted formula that includes a six-year moving average of frequent losses and a 20-year average of infrequent or catastrophic losses. Insurance services also include investment income earned on funds owned by policy holders, commissions, brokering, loss adjustment and other.

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