

# Transatlantic Cooperation on Services: Supporting Multilateralism

Bernard Hoekman\*

World Bank

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\* Views expressed are personal and not to be attributed to the World Bank

# Plan of paper

- The WTO status quo: why so little progress if service openness matters so much
- Can/does bilateralism (regionalism) do better?
- What are relative payoffs of EU-US cooperation?
- There are greater potential gains from EU-US cooperation that supports multilateral progress

# Why (global) service openness matters

- Big gains for users of services
- Services a major determinant of competitiveness
- “Spillover” effects on growth and economic performance
- Large potential for market access gains for EU and US service firms
  - Mostly in rest of the world
- Indirect benefits as growth increases trade etc.

# The WTO status quo (GATS)

- 4 modes of supply – includes factor movement
- MFN & transparency
- 2 specific commitments (“positive list”)
  - National treatment
  - Market access (mostly QR type policy constraints)
- Uruguay Round
  - limited to partial scheduling of already implemented liberalization
  - Weighted average coverage < 50% for OECD; full commitment < 20%; less for most other countries

# Post-2000 Negotiations/Doha

- Little progress to expand GATS (so far 6 years ...)
- Bit of a puzzle:
  - Services should matter to governments for themselves
  - Services should matter for overall Doha Round:
    - (Developing) countries seeking agriculture & manufactures liberalization in “North” need to offer a quid pro quo
    - “North” tends to be demandeur in services – major area of interest to EU and US

# Why such limited traction?

- Less “need” for trade agreements?
  - Lot of unilateral reform been implemented
- Uncertainty re: costs/benefits of commitments?
  - E.g., spillover effects of Telmex and Gambling cases
- “Globalization backlash”: offshoring, EU Services Directive; anti-immigration, etc.?
- Complexity of services agenda?
  - Mix of regulation and discriminatory policies
  - Regulators worry about trade negotiators

# A “reciprocity problem”?

- WTO driven by reciprocity
  - Need export interests to push for national reforms
- For many developing countries, services export interests nonexistent, not constrained, or confront non-negotiable barriers
  - Mode 1: few effective policy barriers
  - Mode 2 (tourism): own policies matter most
  - Mode 3: few export interests except in “BRICs+”
  - Mode 4: very little prospect of market opening

# Scope for reciprocity limited

- Mostly a large-firm agenda
- A matter of mode 3 (FDI) and related complementary inputs
- Given weak mode 3 interests of most developing countries, need mode 4 as quid pro quo within services
- If this too hard, cross-issue linkage needed:
  - Mode 3 access in South for agriculture ....

# Further complications

- In addition to standard forces opposing reform (firms, unions, less-skilled workers) have:
  - Regulators
  - More skilled workers – “white collar”
  - NGOs, civil society
- Regulators worry about autonomy and negative spillovers of a market access driven negotiation
- Civil society worries about realization of social objectives, ownership, immigration, etc.

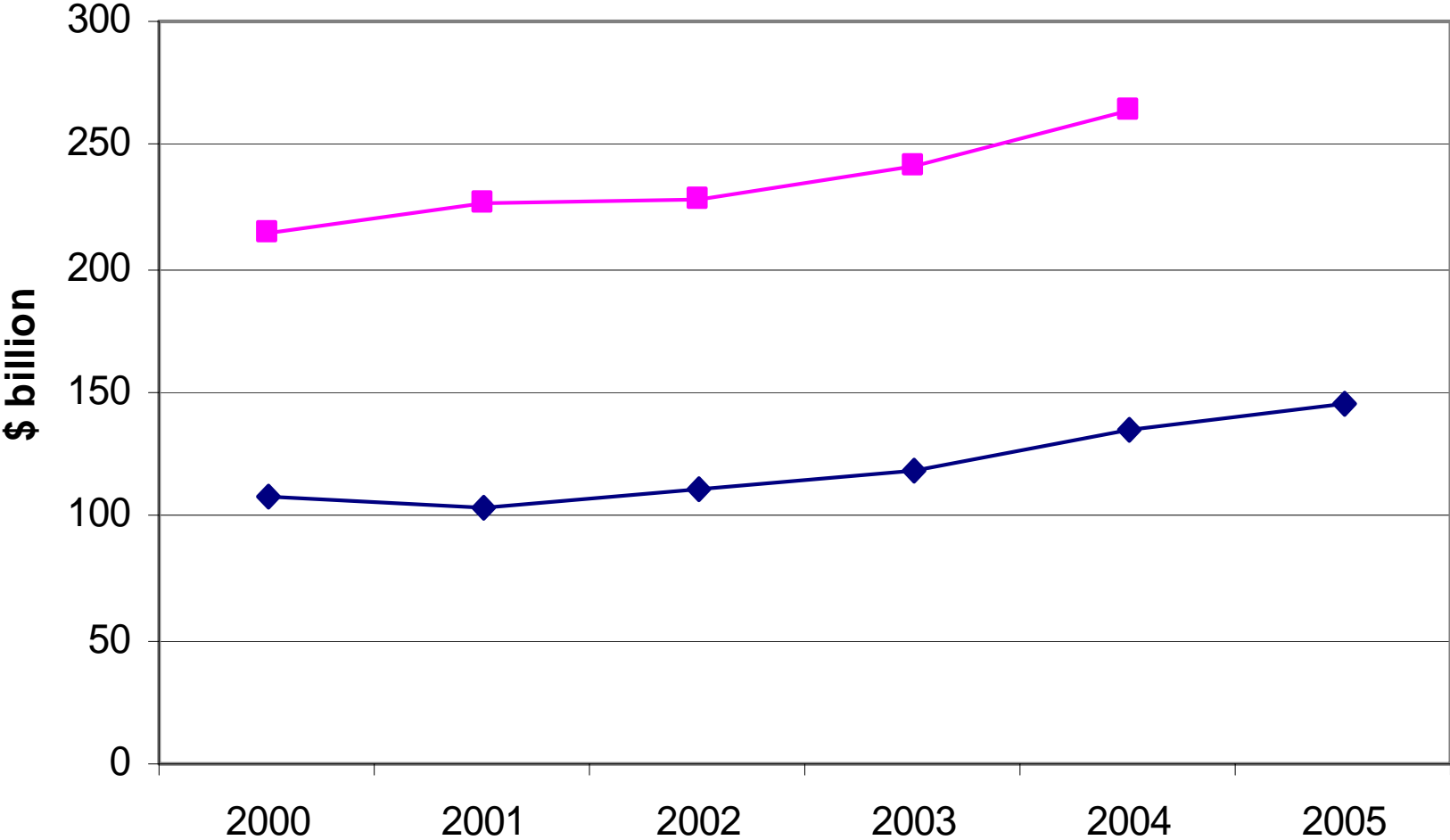
# Is bilateralism better?

- Clearly revealed preferred by many governments
- What do you get from a PTA?
  - May be more feasible mechanism for regulatory harmonization/recognition
  - And for negotiating access in sectors (e.g., aviation)
- But, to date, except for EU, more talk than action?
  - Have only limited commitments in most PTAs and little information on implementation

# What could EU-US cooperation do?

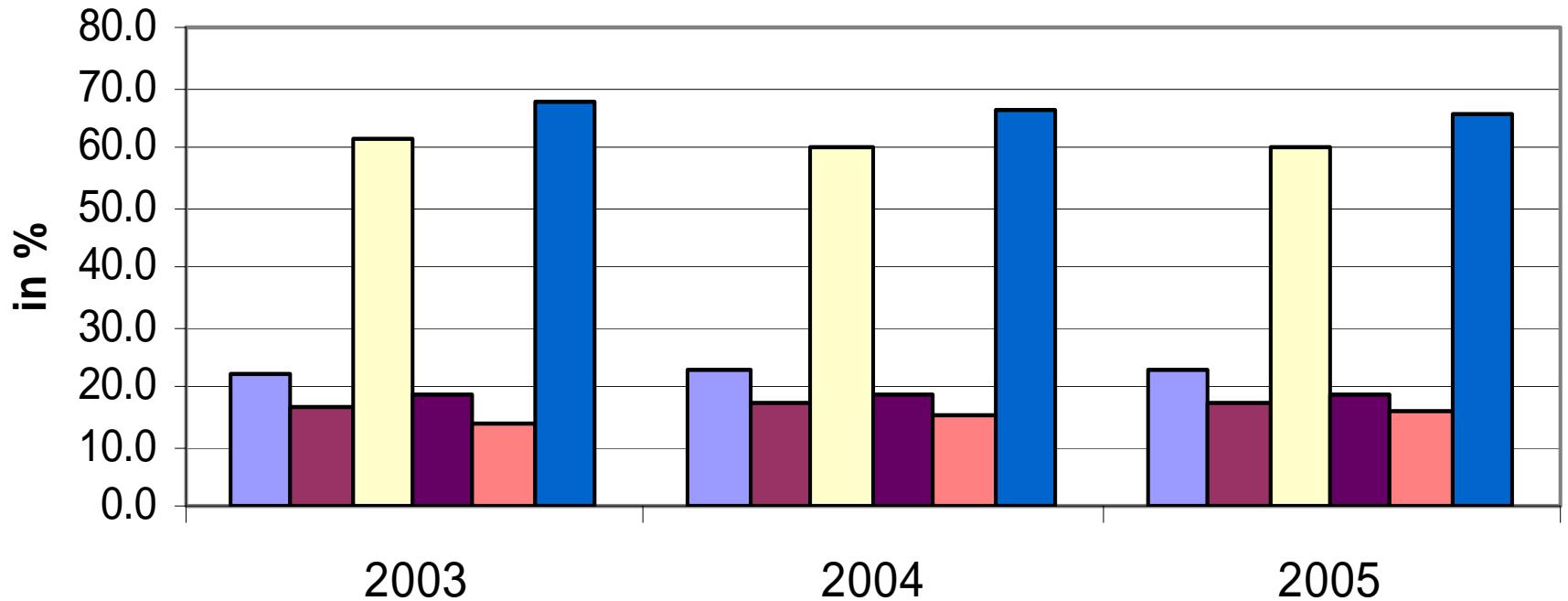
- Trade and investment relationship already strong
- Each is the other's main partner on non travel/transport services
- Barriers are in a few key sectors; general source of market segmentation is regulatory
- Can these issues be addressed bilaterally?
  - Political economy incentives too weak to harness bilateralism to pursue national (sub-national) reforms
- If little progress likely, no need for rest of the world to worry?

# US service exports to EU and sale of services by US MNCs



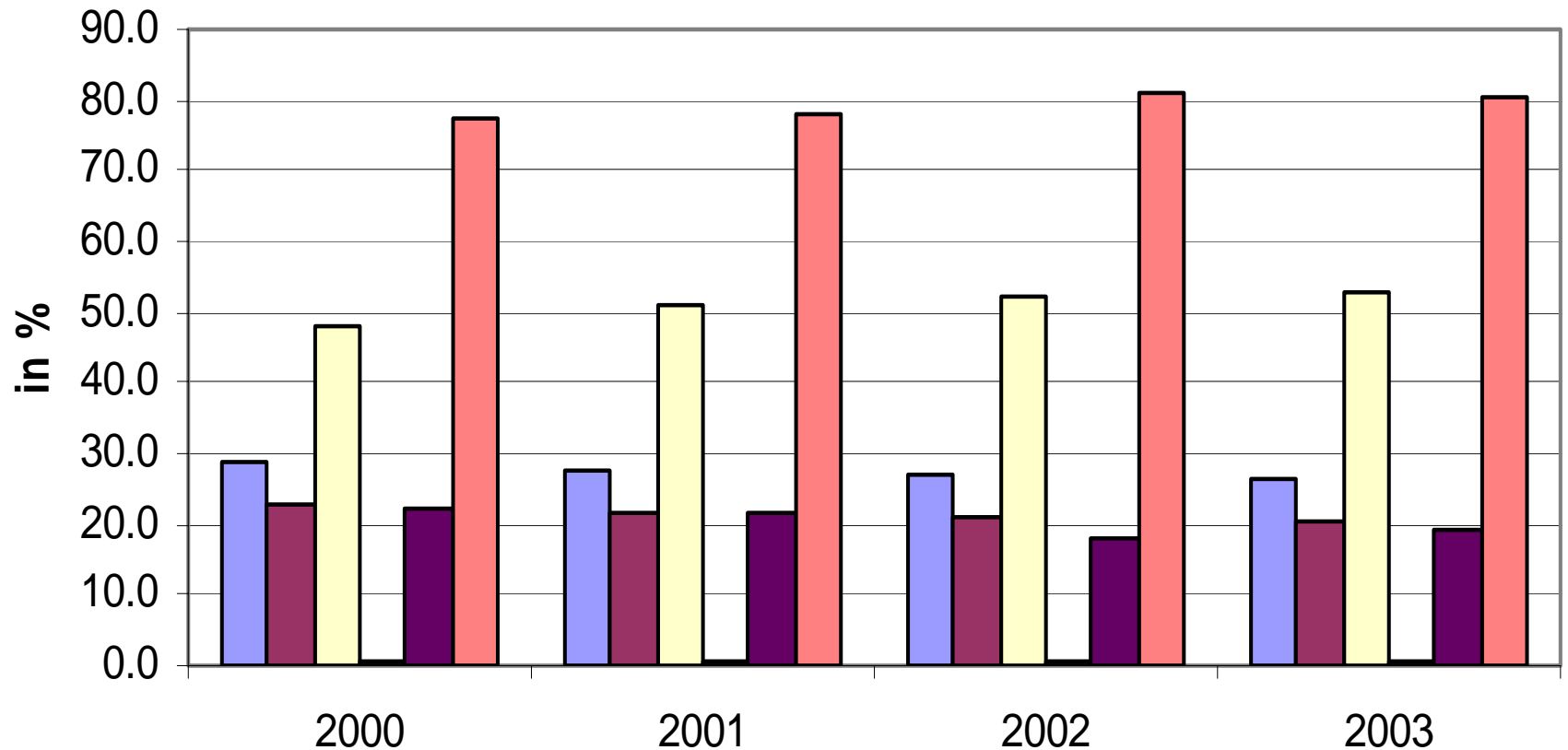
—◆— US service exports to EU    —■— Sales to foreign persons in EU by US MNCs

# Shares of US service exports to the world and EU



- US total travel service exports
- US total other service exports
- US transportation exports to EU
- US total transportation exports
- US travel service exports to EU
- US other services exports to EU

## Shares of EU service exports to the world and US



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EU total travel service exports

EU total transportation exports

EU total other service exports

EU travel service exports to US

EU transportation exports to US

EU other service exports to US

# Cooperate to support global reform

- Adopt a “plurilateral approach” limited to critical mass of large players; allow free riding of rest
- Remove regulatory opposition by removing generally applicable regulation from the table
  - Focus only on discriminatory policies, e.g., full national treatment on a sectoral basis
- Engage poor countries differently: instead of request-offer reciprocity, a concerted focus on “aid for trade” focused on services
  - Constructive engagement to satisfy preconditions to benefit from liberalization

# Conclusions

- Big(ger) gains likely to come from a global focus
  - Direct: higher barriers in rest of world
  - Indirect: generate greater growth in rest of world
  - “Non-economic” payoffs: security
- Bilateralism may do little to further enhance competition on EU-US service markets
- But, can/should harness bilateral cooperation to support the global openness agenda