Chapter 6

Transatlantic Cooperation to Open Services Markets: Implications for Multilateralism

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Introduction

Technological changes and the demise of "natural monopoly" arguments for state-provision or control of major service industries have allowed an increasing number of services markets to be contested internationally through telecommunications networks and foreign direct investment (FDI). While the policy reforms—liberalization, privatization—that have allowed the expansion of trade in services have mostly been implemented by governments autonomously, countries have also sought to negotiate better access to foreign markets for both FDI and cross-border trade in services. One of the major results of the Uruguay Round (1986-93) was the creation of the General Agreement on Trade in Services (GATS),[2] and almost all recent preferential trade agreements include provisions on services.

An important policy question is what international cooperation and trade agreements can/should do to support domestic regulatory reform. In principle, trade agreements can provide a focal point for policy reforms ("good regulatory practices") as well as a mechanism to enhance access to export markets. The stylized fact that looms large here is that very little progress has been made to date in using the GATS to lock in unilateral reforms that have already been imple-

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[2] The original GATT-1947 did not cover services for a simple reason: at the time the GATT was negotiated services were mostly nontradable.

mented, let alone in inducing new liberalization. At the same time, an increasing number of countries are pursuing or have signed bilateral or regional trade agreements that include service sector commitments, and bilateral investment treaties that include services investment. It is rather unclear what implications this has for the multilateral trading system (the WTO): are these building blocks or stumbling blocks for a more integrated world in which the most efficient and competitive firms will be able to supply markets?

The question that motivates this chapter is what a possible bilateral agreement or set of agreements on services between the EU and the U.S. might imply for the rest of the world, more specifically, the multilateral trading system. The issue is of particular importance given that the EU and the U.S. have been the anchors of the GATS: the WTO has been the primary forum for the parties to negotiate binding disciplines on services trade policies. Although both the EU and the U.S. have been active proponents of bilateral and regional trade agreements with third countries, a new transatlantic framework for economic integration between the EU and the U.S. would imply a shift in focus and emphasis for both parties that could have major implications for the multilateral trading system.

The chapter begins in section one with a brief discussion of why services liberalization and regulatory reform matters for the trading system and the world economy. Section two reviews the status quo in the WTO on services liberalization commitments and suggests a number of possible explanations for the rather limited progress that has been made to date. Section three discusses whether the factors that appear to impede multilateral progress might be easier to overcome in a bilateral or regional setting. Section four turns to the possible content and implications of closer EU-U.S. cooperation on services for the rest of the world. In Section five some proposals are made that aim to increase the payoffs of bilateral EU-U.S. cooperation for the rest of the world, in particular developing countries. Section six concludes.

1. Why Services Liberalization Matters

Services have unique characteristics that affect their tradability. Typical characteristics include:

1. intangibility—so that international transactions in services are often difficult to monitor, measure and tax;
2. nonstorability—so that production and consumption often must occur at the same place and time;
3. differentiation—services are often tailored to the needs of customers; and
4. joint production, with customers having to participate in the production process.

As the conventional definition of trade—where a product crosses the frontier—would miss out on a whole range of international transactions, the WTO defines trade to span four modes of supply:

- *Mode 1—Cross-border*: services supplied from the territory of one country into the territory of another.
- *Mode 2—Consumption abroad*: services supplied in the territory of a nation to the consumers of another.
- *Mode 3—Commercial presence*: services supplied through any type of business or professional establishment of one country in the territory of another (i.e., FDI).
- *Mode 4—Presence of natural persons*: services supplied by nationals of a country in the territory of another.

There are powerful economic reasons to pursue policies to increase the contestability of services markets through all four of these modes. An efficient, competitive financial sector is critical in ensuring that capital is deployed where it has the highest returns.[3] Lower cost and higher quality telecommunications will generate economy-wide benefits, as this service is both an intermediate input and a "transport" mechanism for information services and other products that can be digitized. Similarly, transport services contribute to the efficient distribution of goods within and between countries and are the means through which service providers move to the location of clients (and *vice versa*). Business services such as accounting and legal services reduce transaction costs associated with the operation of financial

[3] See Hoekman (2006) for a survey of the literature analyzing the effects of services liberalization.

markets and the enforcement of contracts. Retail and wholesale services are a vital link between producers and consumers, with the margins that apply in the provision of such services influencing the competitiveness of firms on both the local and international market.

Because many services are inputs into the production of other services and goods, their cost and quality affects the ability of all firms in an economy to compete. Greater competition by opening access to foreign service providers will reduce what Konan and Maskus (2006) call the cartel effect—the markup of price over marginal cost that incumbents are able to charge due to policies that restrict entry; and attenuate what they call the cost inefficiency effect—the fact that in an environment with limited competition, the marginal costs of incumbents are likely to be higher than if entry was open.

In practice, FDI will often be a major channel for foreign providers to supply services and reduce these cost effects. Markusen, Rutherford and Tarr (2005), for example, develop a model where services FDI is a source of new knowledge and competitive pressure, and helps host countries to produce and export more advanced products. In their model, as barriers to trade in producer services fall, costs of imported services drop, and imports (including through FDI) rise and displace domestic firms. However, the additional varieties available to the economy generate positive externalities for final goods production, raising TFP and welfare disproportionately.

Country simulation studies that analyze the likely impact of services liberalization conclude that removing policies that increase costs can have much greater positive effects on national welfare than the removal of trade barriers—see e.g., Konan and Maskus (2006), Jensen, Rutherford and Tarr (2006), and Rutherford, Tarr and Shepotylo (2005). Instead of the "standard" half to one percent increase in welfare from goods liberalization, introducing greater competition on services markets that removes cost inefficiencies raises the gains to the five to 10 percent range or more. These large effects of services liberalization reflect both the importance of services in the economy, the extent to which they tend to be protected, and the importance of incorporating FDI into the analysis as a "mode of supply".

One does not have to rely on casual empiricism or numerical general equilibrium modeling to make the case for services liberalization.

There is a rapidly expanding body of econometric evidence that policy reforms to increase competition in services industries, including through international liberalization, can help boost growth prospects and enhance welfare. Mattoo, Rathindran and Subramanian (2006) analyze the effects of trade and investment openness for the financial and telecommunications sector on growth in a cross-sectional analysis. Controlling for other determinants of growth, they find that countries that fully liberalized the financial services sector grew, on average, about one percentage point faster than other countries. Fully liberalizing both the telecommunications and the financial services sectors was associated with an average growth rate 1.5 percentage points above that of other countries. Focusing on a sample of transition economies, Eschenbach and Hoekman (2006a) explore the impact of financial and infrastructure services policy reforms on per capita income growth of transition economies using time-series data for the 1990-2004 period. Controlling for standard potential explanatory variables, they find that improvements in services policies—infrastructure and finance—have an important, statistically significant positive impact on per-capita growth. Thus, there is a positive relationship between services liberalization, services performance and aggregate performance of the economy. A major channel for the growth effects of services policy reforms is through total factor productivity at the firm level. FDI in services has been found to be an important mechanism through which "good practices" and knowledge is diffused to host countries (Arnold, Mattoo and Narcisco, 2006; Arnold, Javorcik and Mattoo, 2006).

2. The Status Quo: GATS

As mentioned, there is no binding EU-U.S. framework governing bilateral services trade and investment-related policies. Although there are sector-specific agreements—e.g., in the area of cross-Atlantic air transport—the primary forum for such cooperation is the WTO. GATS disciplines operate at two levels. First, there is a set of general rules that apply across the board to measures affecting trade in services, of which the most important are transparency and the most-favored-nation (MFN) principle. Second, there are sector-specific commitments by WTO Members on market access and national treatment. Article XVI lists a set of market access-restricting measures that

Members may not maintain or adopt, unless listed in their schedule.[4] Article XVII bans discrimination against foreign services or service suppliers, with the exception of any specific measures a Member schedules. The scope of the specific commitments is determined by which sectors a Member decides to include, and the exceptions it schedules to market access and national treatment. Thus, schedules of specific commitments are made on a sector-by-sector and mode-of-supply basis, with countries having the option of making no commitments, a partial commitment, or a full commitment—i.e., specifying that no limitations are maintained on market access and/or on national treatment.

The resulting complexity makes it difficult to "quantify" the coverage of GATS schedules. Although arbitrary, one simple and transparent way of measuring and comparing commitments is to give a weight of zero to "unbound" type commitments; a weight of 1 to commitments implying no restriction on national treatment or market access (i.e., "none" is scheduled—see Table 6.1), and a weight of 0.5 to commitments where some restrictions are maintained but a service sector has been scheduled. Table 6.1 illustrates the picture that results for the EU (similar data can be compiled for the U.S.). The indices provide a basis for cross-country comparisons and monitoring changes in commitments over time.

In the Uruguay Round no WTO member came even close to locking in all unilateral reforms that had already been implemented—the (weighted average) coverage of specific commitments as of 1995 did not exceed 50 percent for most countries (Hoekman, 1996). Most developing countries have commitments that are well below 50 percent of all services and modes of supply. Adlung and Roy (2005) note that with the exception of commitments by a number of countries to liberalize access to telecommunications markets little progress was made in extending the coverage of the GATS post-1995. They also point out that the provisional (conditional) offers made by WTO members in the 6 years following the launch of new negotiations on services (mandated by the GATS to commence in 2000, and subse-

[4] These include limitations on: (a) the number of service suppliers; (b) the total value of services transactions or assets; (c) the total number of services operations or the total quantity of service output; (d) the total number of natural persons that may be employed in a particular sector; (e) specific types of legal entity through which a service can be supplied; and (f) foreign equity participation (e.g. maximum equity participation).

Table 6.1 GATS Commitments by EU-15 Member States, by Mode of Supply

	Market Access				National Treatment				
Mode:	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**All**
EU*	52.6	68.1	67.1	0.0	52.3	68.4	67.4	0.0	47.0
Belgium	51.0	68.1	64.2	0.3	51.0	68.4	67.4	1.0	46.4
Germany	51.6	66.8	65.5	1.0	50.3	67.7	67.1	0.6	46.3
Denmark	51.3	67.1	65.8	2.6	51.9	68.4	65.8	3.9	47.1
Spain	51.0	68.1	59.7	1.3	52.3	68.4	67.4	1.9	46.3
France	49.4	67.4	57.1	6.5	50.6	68.4	66.5	1.0	45.8
Greece	45.2	67.4	56.1	9.0	49.4	68.4	66.8	0.0	45.3
Italy	46.8	67.7	57.4	2.9	47.1	68.4	66.5	7.7	45.6
Ireland	50.6	68.1	63.5	0.0	51.0	68.4	67.4	0.0	46.1
Luxembourg	52.6	68.1	66.8	0.0	52.3	68.4	67.4	0.0	46.9
Netherlands	52.6	68.1	66.8	0.0	52.3	68.4	67.4	0.0	46.9
Portugal	43.5	67.7	51.0	2.9	49.0	68.4	67.1	4.2	44.2
UK	52.6	67.7	66.1	0.0	52.3	68.4	67.4	0.0	46.8
Austria	55.8	68.7	64.8	8.7	53.5	68.7	67.7	10.0	49.8
Sweden	47.4	60.0	50.0	0.6	48.1	60.0	53.5	1.9	40.2
Finland	51.3	58.7	52.3	0.6	52.6	58.7	56.8	36.1	45.9
Standard deviation	3.2	3.0	6.1	3.1	1.8	3.2	4.3	9.2	2.0
Mean	50.2	66.6	60.5	2.4	50.9	67.2	65.5	4.6	46.0

Source: Eschenbach and Hoekman (2006b).

quently folded into the Doha Round) are not ambitious. Essentially offers were limited to further (still incomplete) lock-in of past liberalization. While not without value, of course, this suggests there is limited interest in using the GATS as a vehicle to push forward liberalization of markets.

Continuing the focus on the EU, Table 6.3 matches the proposals (offers) EU countries made in the Doha Round as of 2003-2004 against the prevailing GATS regime that is summarized in Table 6.1. These data cover the most recent proposals that were made available publicly. The data in Table 6.2 are drawn from an analysis by Langhammer (2005), based on a methodological approach very similar to

Table 6.2 EU Members GATS Doha Offers by Mode, 2003

	Market Access				National Treatment				
Mode:	1	2	3	4	1	2	3	4	All
EU*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Belgium	57.1	89.4	84.5	0.4	56.6	90.3	86.7	2.2	58.4
Germany	56.6	87.6	81.9	1.8	55.3	88.5	85.0	2.2	57.4
Denmark	60.2	89.4	85.4	2.7	59.3	90.3	84.5	4.4	59.5
Spain	57.5	89.8	78.3	1.3	57.5	90.3	86.7	1.3	57.8
France	51.8	88.5	79.2	9.7	54.0	90.3	84.5	2.7	57.6
Greece	55.8	89.4	83.6	4.9	54.9	90.3	85.8	0.9	58.2
Italy	50.4	88.9	77.0	5.3	49.1	90.3	85.4	9.3	57.0
Ireland	56.6	89.9	85.8	0.0	55.8	90.3	86.7	0.9	58.3
Luxembourg	61.5	89.8	86.7	0.4	60.2	90.3	86.7	0.9	59.6
Netherlands	59.7	89.8	86.7	0.0	58.4	90.3	86.7	0.9	59.1
Portugal	54.0	89.9	74.8	2.7	53.1	90.3	84.1	6.6	56.9
UK	60.6	89.9	86.7	3.5	59.3	90.3	86.7	0.9	59.7
Austria	65.5	87.2	82.3	6.2	62.4	88.1	85.0	1.8	59.8
Sweden	57.5	80.5	74.3	1.3	56.6	81.4	74.8	3.1	53.7
Finland	58.8	77.0	74.3	0.9	58.8	78.3	75.2	57.1	60.1
Standard deviation	3.8	3.8	4.7	2.8	3.3	3.7	3.9	14.2	1.6
Mean	57.6	87.8	81.4	2.7	56.8	88.6	84.3	6.3	58.2

Source: Langhammer (2005).

that used to construct Table 6.1. The EU offer substantially increases the average "coverage ratio" from 46 to slightly above 58 percent. At the aggregate level the standard deviation would fall from two to 1.6, indicating an increase in uniformity at the EU member state level. In terms of the various modes, commitments in mode 4 improve but remain far below that in other modes. Only Finland's offer on mode 4 is far-reaching, but only for national treatment. In relative terms the smallest expansion in commitment levels occurs for mode 1, possibly reflecting concerns about offshoring. In contrast to mode 1, the increase in the proposed level of bindings for modes 2 and 3 is significant, rising to over 80 percent. For mode 3 market access commitments the variance across EU members would fall, but the structure of commitments remains similar to the pre-Doha status quo, i.e., the "lagging" countries are mostly the same—only Greece would converge to the EU average as a result of the offers that were on the table as of 2004. However, in all cases where national sensitivities on mode 3 appear to remain, the level of proposed commitments on mode 3 is substantially higher than for mode 1.

GATS: Why So Little Progress?

The EU and the U.S. have among the most comprehensive GATS schedules. Most other WTO members have made substantially fewer commitments. One hypothesis for the limited performance of the GATS is that the forces (export interests) that have been harnessed to allow the reciprocal liberalization of trade in goods do not prevail sufficiently in the services context. Another possibility is uncertainty: binding commitments may need to be preceded and/or complemented by actions to improve the regulation of service markets and ensure that social objectives are met. Yet another possible explanation is that services lend themselves better to bilateral/regional cooperation, reflecting either political or economic considerations (similarity in income levels, geographic proximity, etc.). What follows first briefly discusses the hypotheses just mentioned.

The basic mechanism that makes trade negotiations "work" is that exporters are given incentives to oppose import-competing industries seeking to maintain protection. Negotiations alter the prevailing political economy equilibrium that has generated the status quo set of policies in each country. Insofar as the services agenda revolves around market access, standard reciprocity dynamics should work as well or badly as they do in the case of trade in goods, i.e., resistance to welfare-improving reforms by those currently benefiting from restrictive policies can be overcome by offering export interests better access to foreign markets. Trade agreements can also be a vehicle for improving services regulation and help prevent regulatory capture, through both surveillance and setting rules of the game that make such capture less likely– e.g., a requirement that regulators be independent.

The lack of progress in expanding the coverage of the GATS suggests that reciprocity is not working its magic for services. One potential reason is that the export side of the mechanism may be weaker than in the case of goods. In the case of developing countries—the majority of the WTO membership—most are small and therefore not of great interest to the large players in the WTO, constraining their prospects of negotiating significant additional access to major markets.[5] Moreover, many developing countries are not or do not do not perceive themselves to be (potential) services exporters. A relatively skewed pattern of export interests also prevails in many higher-income countries.

It is helpful to explore the pattern of export interests across "types" of countries across each of the four modes of supply. In the case of mode 1, developing countries tend to be net exporters, while OECD countries engage in substantial two-way trade. A major feature of this type of trade is that it has not been subjected (yet) to major policy barriers. Often mode 1 trade is not constrained at all, although policy can certainly disrupt mode 1 trade. A recent prominent example is on-line gambling. Clearly importing countries may reserve an activity to the State or ban it altogether. But most of the business process outsourcing, call centers, etc. that are growth areas for many countries are not constrained by trade policy measures in the destination or importing country. While there is increasing opposition to mode 1 trade in the EU and U.S. driven by a fear of job losses, outside of government contracts currently little is done to restrict such activities from being "offshored." As discussed further below, the potential for expansion of mode 1 transactions is reduced by existing regulation relating to licensing etc. of service providers. The policy question here is whether there is much scope to agree to mutual recognition or harmonization of regulatory requirements.

Turning to mode 2, most of the export action revolves around travel/tourism. Tourism is frequently a major source of foreign exchange earnings for developing countries, but is also important for the EU and the U.S. However, there are relatively few barriers imposed by "importing" (i.e., the source) countries on tourism. The key policy determinants of tourism performance are under the control of the exporter (the destination country). Export revenue generated depends primarily on measures that the tourism destination country puts in place itself. An exception concerns air travel, as monopoly on bilateral routes can greatly increase the price of air travel and reduce exports of tourism services.[6]

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[5] Note that in contrast to goods, developing countries do not have nonreciprocal preferential access to OECD service markets. That is, there is no GSP for services.

[6] In practice the charter industry has offset this constraint to some extent.

Turning to mode 3, most developing countries do not have significant "offensive" interests, in contrast to high-income economies. Both the EU and the U.S. are demandeurs on mode 3, with emerging markets the primary targets. The EU and the U.S. are of course the dominant sources of FDI in services, accounting for both the lion's share of North-North and North-South flows/stocks. Given that both the EU and the U.S. are relatively open to FDI, including in services, the bilateral issues here revolve around specific sectors that are deemed sensitive, and where progress in market opening has been impeded for many years: e.g., aviation, cabotage, and audio-visual services. In contrast, the North-South agenda is much broader, and thus more interesting to a wider set of industries in both countries.

The one mode where all developing countries do confront particularly high barriers and that is therefore of great relevance to potential exporters is mode 4. It is unlikely however that much can be achieved on mode 4 access to high-income country markets, especially for less skilled services activities. Mode 4 is very politically sensitive and in practice, insofar as importing countries are willing to consider relaxing barriers, experience suggests they will do so only on a bilateral basis in a bilateral setting. However, the lack of serious prospects for mode 4 liberalization in the GATS framework effectively removes many potential export interests in many poor developing countries from the process.

The foregoing suggests that a key dimension of the reciprocity mechanism—services exporters—is either missing or much weaker in many WTO members—especially many developing countries—than is true for goods. Exceptions are the large service firms headquartered in high-income economies, in particular the EU and the U.S. These have clear interests in selling more services to both OECD and to the larger developing countries. This is mostly a mode 3 agenda. Another exception is the developing country export interest in mode 4. Thus, if trades are to be restricted within the services arena, it would have to involve deals that are limited to mode 3 exchanges (largely an intra-OECD/large emerging markets affair) or that involve access to developing nations for mode 4 in the OECD (i.e., EU and U.S.) in return for mode 3 access for European and American firms. As mode 4 liberalization on an MFN basis is currently a non-starter, the reciprocity constraint implies that large service firms from the EU and U.S. must be willing to throw their weight behind efforts to reduce protection of agriculture and manufactures to "buy" better access to developing countries. To date, there has been little evidence of such a dynamic emerging in the EU or in the U.S.

There are two other reasons why reciprocity may be a weaker instrument. First, the incentives for domestic political engagement by a variety of groups to favor unilateral liberalization are likely to be stronger for many services. Second, there are likely to be incentives for sector regulators to resist international cooperation on regulatory measures that is anchored in a trade agreement/motivated by trade concerns.

Because inefficient service industries generate costs for downstream users in many sectors, unilateral reform incentives may be larger than for trade in goods and be less susceptible to roll-back, reducing the need to use international commitment mechanisms such as trade agreements. Allowing high cost, low quality services to dominate on a market will be detrimental to almost everyone in an economy, with large users having strong incentives to push for measures—such as deregulation, privatization, and liberalization—that generate more competition in the provision of these upstream suppliers of inputs (Hoekman and Messerlin, 2000). With the exception of the EU—where the Single Market initiative and on-going efforts to integrate markets have played an important role—in practice most reforms implemented by countries since the 1980s have been autonomous. Although for much of this period multilateral commitment mechanisms did not exist and thus were not an option, the extent of unilateral reform that has occurred suggests such mechanisms may not be needed as much as in the case of goods trade.[7]

Hoekman and Messerlin (2000) also argue that the scope for traditional reciprocity-driven services market access negotiations may be more limited than for goods because of concerns relating to regula-

[7] Recent research helps explain the unilateral reforms that have been observed in many countries. Grossman and Rossi-Hansberg (2006) develop a model of offshoring of services in which all factors, skilled and unskilled, gain. Markusen, Rutherford and Tarr (2005) conclude that trade in services may be a general equilibrium *complement* for unskilled local labor (in that it fosters overall demand for such labor). Konan and Maskus (2006) find that adjustment costs associated with service-sector reforms may be lower because most services will continue to be produced locally (for technical or economic reasons), after liberalization there will still be demand for labor in services. These results do not imply that there are no losers from services liberalization, but do suggest that there may be fewer losers and more gainers than in the case for goods liberalization.

Table 6.3 Post-2000 PTAs that Include Services

PTA	Entry into Force	Date of Signature	WTO Notification	Negative or Positive List?	GATS-type Market Access Obligation for Mode 3?
New Zealand—Singapore	Jan '01	Nov '00	Sept '01	Positve	Yes
EFTA—Mexico	July '01	Nov '00	Aug '01	Positve	Yes
EC—Mexico	Mar '01	Oct '00	June '02	Positve	Yes
Chile—Costa Rica	Feb '02	Oct '99	May '02	Negative	No[1]
Japan—Singapore	Nov '02	Jan '02	Nov '02	Positve[2]	Yes
Singapore—Australia	July '03	Feb '03	Oct '03	Negative	Yes
U.S.—Chile	Jan '04	June '03	Dec '03	Negative	Yes
U.S.—Singapore	Jan '04	May '03	Dec '03	Negative	Yes
Chile—El Salvador	June '02	Oct '99	Mar '04	Negative	No[1]
Republic of Korea—Chile	April '04	Feb '03	April '04	Negative	No[1]
EC-Chile	Mar '05	Nov '02	Nov '05	Positve	Yes
EFTA—Singapore	Jan '03	June '02	Jan '03	Positve	Yes
China—HKC	Jan '04	Sep '03	Jan '04	Positve[3]	Yes
China—Macao China	Jan '04	Oct '03	Jan '04	Positve[3]	Yes
EFTA—Chile	Dec '04	June '03	Dec '04	Positve	Yes
U.S.—Australia	Jan '05	Aug '04	Dec '04	Negative	Yes
Thailand—Australia	Jan '05	July '04	Jan '05	Positve	Yes
Panama—El Salvador	April '03	March '02	April '05	Negative	No[4]
Japan—Mexico	April '05	Sep '04	April '05	Negative	No[4]
U.S.—Bahrain	Aug '06	Sep '04	—	Negative	Yes
U.S.—Oman	—	Jan '06	—	Negative	Yes
U.S.—CA + DR	Mar '06	Aug '05	Mar '06	Negative	Yes
U.S.—Morocco	Jan '06	June '04	Jan '06	Negative	Yes
U.S.—Peru	—	April '06	—	Negative	Yes
Japan—Malaysia	—	Dec '05	—	Positve	Yes
Korea—Singapore	Mar '06	Aug '05	Feb '06	Negative	No
U.S.—Colombia	—	Feb '06[5]	—	Negative	Yes
Singapore—India	—	June '05	—	Positve	Yes

[1] nor for mode 1; [2] Japan used negative list for mode 3 NT; [3] for China; [4] neither for mode 1; [5] conclusion of negotiations.

Source: Roy, Marchetti and Lim (2006).

tory autonomy—a perception that harmonization may not be optimal, and that marginal "quid pro quo" changes to domestic regulatory policies will not enhance welfare, and indeed, could easily lower it. The situation here is very different from that applying to merchandise trade liberalization, where marginal, reciprocal reductions in tariffs will be welfare improving for small countries and the world as a whole, and where reciprocity is needed for large countries to gain from liberalization. Sectoral regulators can be expected to be less than enthusiastic about efforts to negotiate their turf. An additional complicating factor is that successful liberalization in developing countries will often require substantial strengthening of domestic regulatory institutions and infrastructure.

The upshot of all this is that traditional, mercantilist bargaining on a country-pair basis through a request-offer process may not do much to generate additional liberalization and policy reform. Moreover, the limited incentive for many developing countries to use the reciprocity mechanism suggests a shift to a small group, plurilateral approach may be more fruitful. As discussed further below, this may be one way EU-U.S. cooperation on services could support multilateral progress.

3. Preferential Trade Agreements: an Alternative?

International cooperation on trade in services is of course not limited to the GATS. Preferential trade agreements (PTAs) to liberalize international transactions in services became increasingly prominent starting in the 1990s. One reason may be the slow progress achieved in the WTO. Although many early PTAs did (and do) not go much beyond the GATS, more recent vintage agreements often do. Roy, Marchetti and Lim (2006) conclude that the substance of the disciplines (rules) that are included in recent PTAs are not dissimilar to those in the GATS, but that many of the PTAs covering services reported to the WTO since 2000 tend to have a sectoral coverage that greatly exceeds the commitments the countries involved made in the GATS (see Table 6.3). This applies both to the existing GATS commitments and the offers that were on the table in the Doha Round as of mid 2006 when the talks were suspended. They also find that PTAs that involve the U.S. have the most comprehensive coverage and deepest levels of commitments. As can be seen from Table 6.3, the U.S. figures much prominently in the list of recent PTAs than does the EU, reflecting the decision of the EU to put new negotiations on PTAs on hold during the Doha Round. However, the 2006 trade strategy of the EU puts great emphasis on regional integration, suggesting that the share of the EU in such PTAs will rise in the future. Historically the EU has accounted for the majority of PTAs notified to the WTO.

Lack of progress in Latin America (the FTAA), the large number of exceptions in many PTAs, and the resistance inside the EU to fully liberalizing intra-EU services trade all illustrate that the challenges to services liberalization may not be that much easier to address regionally than multilaterally. It continues to be the case that most services policy reforms tend to be implemented unilaterally. The experience of the EU—by far the deepest regional initiative to date—illustrates that achieving regional liberalization of services markets is difficult. To a large extent the 1992 Single Market initiative revolved around actions aimed at integrating services markets. Numerous papers have documented how national regulatory regimes continue to segment EU services markets. Kox and Lejour (2006) for example analyze the impacts of remaining policy heterogeneity on trade and investment costs for EU service firms doing business in other EU countries. Complying with idiosyncratic national regulations generates fixed market-entry costs for each export market. They develop an indicator for bilateral policy heterogeneity—based on an OECD dataset of product market regulation—that is used to explain bilateral services trade and services FDI in the EU using a gravity model. They find a strong negative impact of policy heterogeneity costs on intra-EU services trade and FDI. Kox and Lejour project that the original 2004 Services Directive could increase intra-EU services trade by 30 to 62 percent and direct investment in services by 18 to 36 percent.

That said, when it comes to the regulatory agenda, it may be easier/more feasible to implement strategies such as mutual recognition—as done in the EU Services Directive—to lower the costs of regulatory heterogeneity and redundant or duplicative regulatory requirements. That there are potential gains from this is clear, but equally clear is that making progress is difficult. As mentioned, even in the EU there still remains much scope for further liberalization of trade in services.[8] Progress in other regional agreements is much less than in

[8] See, e.g., Kox and Lejour (2006) and Lejour and Palma Verheijden (2004). The latter compare the intensity of intra-EU trade in services with that observed in Canada and find that trade in the latter is two times higher as a share of GDP than in the former.

Figure 6.1 U.S. Services Exports and Sales by U.S. Foreign Affiliates

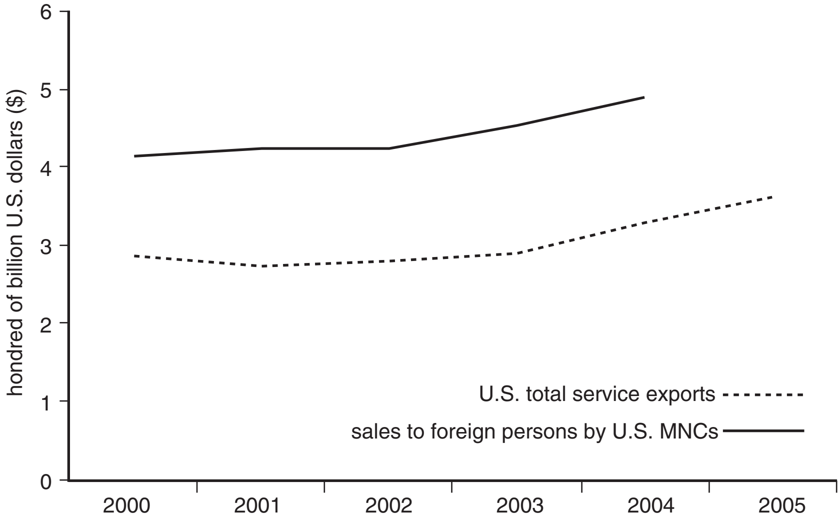
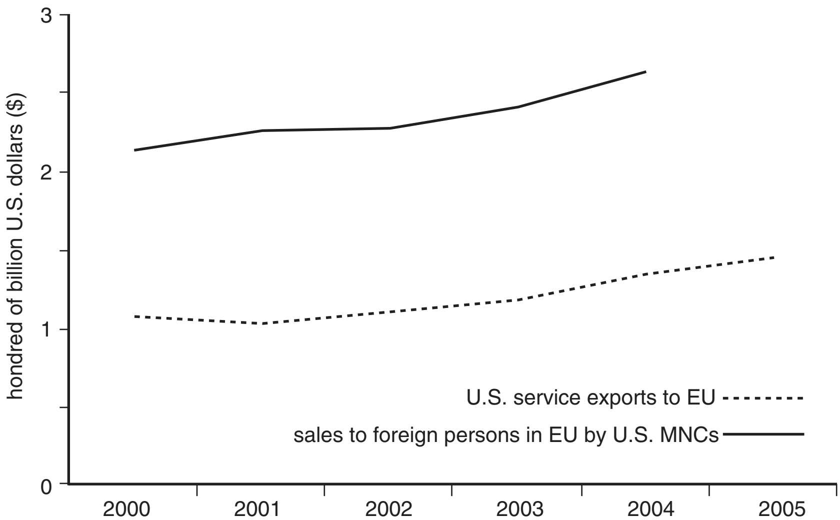


Figure 6.2 U.S. Services Exports to EU and Sale of Services by U.S. MNCs



the EU. Park (2002), for example, employs a cross-section gravity analysis of services trade flows and finds that the EU is the only arrangement where intra-regional trade is more than predicted. For other Agreements such as Mercosur, NAFTA, and the Andean pact, trade in services is less than what would be predicted.

The extent of transatlantic integration (more precisely, contestability) of services markets is already significant. About 40 percent of all U.S. cross-border service exports go to the EU-25, while some 35 percent of all EU service exports go to the U.S. These ratios are much higher than for goods trade: 21 percent of U.S. exports of goods go to the EU, whereas the U.S. accounts for 24 percent of EU exports. Shares in EU-U.S. FDI flows and stocks are similarly higher than merchandise trade shares: some 40 to 45 percent of total annual outward and inward FDI flows for the EU-25 go to (come from) the U.S. These FDI flows and stocks in turn generate a significant amount of "foreign affiliate trade in services" (FATS). In the case of the U.S., which collects and publishes detailed data on both cross-border trade in services and sales by affiliates of U.S. services firms in host countries, the overall value of FATS dominates cross-border services trade, illustrating that although services have become more tradable in recent years, geographic proximity remains crucial for the provision of many services. The ratio between FATS and cross-border trade in services for sales to the EU is significantly greater in the bilateral relationship with the U.S. than it is for overall U.S. exports of services (Figures 6.1 and 6.2). This suggests that the EU is more open to FDI from the U.S. than the rest of the world. It is likely that the same is true for the EU-25, although equivalent detailed data on FATS is not available.

4. Possible Multilateral Implications of Transatlantic Cooperation on Services

Although the data reveal that transatlantic trade and investment in services is already relatively high, other contributions to this volume make clear that there are still numerous policies that restrict access or violate national treatment in both markets. In the U.S., abstracting from policies that restrict foreign ownership of or participation in specific sectors such as air transport and maritime cabotage, many of these operate at the state level, while in the EU most of the issues concern policies applied by member states, many of which also figure on the agenda of the intra-EU effort to further integrate the European services markets. Recent research on the potential gains from further regulatory reform and harmonization/ mutual recognition initiatives in the EU and the U.S. services relationship concludes that in principle there is a significant incentive to pursue such reform—e.g., OECD (2005) estimates comprehensive services reforms could raise per capita GDP by over 3 percent in the EU and U.S. A key question however is what could be done through *bilateral* cooperation to realize these potential gains—i.e., to implement the needed reforms. To what extent can bilateral EU-U.S. cooperation be an effective means of implementing the needed *domestic* reforms?

Past experience suggests it may be very difficult to harness bilateral cooperation to remove remaining restrictions on market access and national treatment. These barriers are mostly in sensitive sectors where there are long-standing concerns in both the EU and the U.S. about liberalization, partly motivated by cultural and security objectives. To crack these "hard nuts" it is necessary—as is true in the WTO setting—that there be enough on the table to mobilize the internal political forces needed to overcome the opposition of those groups that support the status quo. Given that both the EU and the U.S. are very open to trade in goods (agriculture being of course an exception), and insofar as strongly felt non-economic considerations enter into the equation—as is the case in a number of remaining protected sectors (e.g., audiovisual, maritime cabotage)—putting together an agenda that will allow major progress in further opening remaining services markets is a substantial challenge.

A relevant consideration here is that for large services firms that operate globally—most of them European or American—many of the prevailing regulatory requirements are a cost of doing business that can be overcome relatively easily by hiring locally certified professionals. It is something they would do anyway for good business reasons. The firms that are most affected by regulatory differences are the smaller ones. That suggests it is these firms that will have to organize and push for/support reforms. But their characteristics—small, dispersed, etc.—and the high degree of uncertainty they confront regarding likely benefits for them makes it difficult for the required organization to materialize.

Yet another factor that will affect the power of bilateral cooperation to support national regulatory reform—which is a large part of the proposed transatlantic agenda—is that dealing with regulatory costs (and reducing the associated rents where these exist) will be good for consumers on each side of the Atlantic, but may not do much to increase trade. Instead, the main effect is likely to be more domestic entry into the markets concerned. Not only are there transactions costs associated with international competition, the need to employ local labor and other factors of production in order to sell services—many of which remain difficult to trade via mode 1—may imply that EU (U.S.) firms may not have that much of an advantage over U.S. (EU) firms in newly opened market segments. If so, this will have implications for the political economy dynamics—it may reduce the incentive for service firms to lobby for/support bilateral opening/cooperation.

Progress to date on the services agenda under the Transatlantic Economic Partnership has been limited. Perhaps the most important element of this agenda—an EU-U.S. air services agreement—has yet to be achieved, although the 2006 phased open skies agreement suggests that progress towards the realization of free trade in aviation services may emerge over time. Little progress has been made on mutual recognition of professional qualifications. All this suggests that the return to bilateral efforts to open services markets further—if defined as the removal of explicit discriminatory restrictions—may be relatively low. If the EU and U.S. are unlikely to achieve much more than they have already implemented unilaterally and what they have committed to (will commit) in the GATS, perhaps the rest of the world has little need to worry about EU-U.S. cooperation in this area. At the same time, the implications of this scenario for EU and U.S. citizens are that there would be little in the way of additional benefits from cooperation.

Much of the discussion on the possible content of transatlantic cooperation in the services area has centered on differences in regulatory regimes for specific sectors or activities, as opposed to relaxing discriminatory barriers to trade. Greater acceptance of the principle of mutual recognition—agreement that regulatory standards in an area are essentially or substantively equivalent—could do much to enhance the contestability of markets and reduce compliance costs by eliminating duplicative and redundant requirements. Achieving progress on this front is difficult and will take time and mutual trust and understanding of regulatory systems and compliance—a precondition is not just agreement on the equivalence or adequacy of the substantive norms that apply in each market, but also that these norms are enforced. The approach being proposed in the Framework for Advancing Transatlantic Economic Integration (EU-U.S. Summit, 2007) stresses dialogue: the establishment of joint mechanisms and processes to assess the impact of regulatory regimes and to enhance timely access to information on proposed regulations, and a Transatlantic Economic Council to guide the process and review progress. From a multilateral perspective, progress towards reducing redundant regulatory costs through the type of "soft law" and non-binding cooperation will clearly benefit the EU and U.S. However, only a number of issues relating to financial markets are mentioned as a "lighthouse priority project" in the 2007 Summit: accounting standards (mutual recognition of U.S. GAAP and the IFRS), auditor oversight, reinsurance regulation, and mutual recognition in the filed of securities regulation ("where appropriate"). Other services do not figure as a priority.

What would be the effect of transatlantic regulatory cooperation and recognition on the rest of the world? As long as regulatory cooperation is not explicitly discriminatory, firms that have established in either the EU or U.S. will be able to contest the other market more easily, whatever their "nationality." The same will not necessarily be true for cross-border trade, however, as home country regulation in third countries may not be accepted by either the EU or the U.S., even if equivalent to what is required by regulators in those markets. Thus, a bias towards FDI/mode 3 trade may emerge. However, on balance the type of regulatory cooperation and "learning" that is envisaged in the proposed EU-U.S. framework is unlikely to be detrimental to the rest of the world, as long as the EU and the U.S. apply policy reforms on a nondiscriminatory basis whenever this is feasible. This will depend on what the precise nature of an agreement is—e.g., recognition of qualifications or home country licensing and regulatory supervision can only be extended to other countries if they satisfy the substantive requirements (minimum standards).

5. Transatlantic Cooperation in Support of Multilateralism

While there clearly are potential gains from deeper transatlantic cooperation for EU/U.S. firms and households, arguably most of the potential gains from cooperation are to be found at the global level, along the lines discussed previously—better access to emerging markets (through FDI—mode 3) and enhanced access to the EU and U.S. markets through modes 1 and 4. Just to give one example: lack of portability of health insurance in the EU and the U.S. that limits reimbursement of medical expenses to certified national facilities imposes both a major cost and reduces trade opportunities significantly. The potential impact of permitting portability of insurance could be substantial. Mattoo and Rathindran (2006) find that extending health insurance coverage in the U.S. to overseas care for just fifteen types of tradable treatments could produce savings of over $1 billion a year even if only one in ten American patients travel abroad for treatment. The lower costs of health services abroad offer not just cost savings but the opportunity to extend medical benefits to people who currently are not insured. However, the likely destination countries for such services are more likely to be Mexico, Central America or India than the EU. Similarly, there is great potential for increasing trade through mode 1, given that the current magnitude of international outsourcing/offshoring is only a few percent of the overall extent of outsourcing of services tasks—most of which remains intra-national.

This economic argument for taking a broader (global) view of the services liberalization/reform agenda can be complemented by—and be complementary to—the realization of the non-economic objectives that reportedly may motivate EU and U.S. policymakers in pursuing transatlantic cooperation: to overcome some of the major policy differences between the EU and U.S. in recent years (global warming; national security). Shifting the focus of cooperation to complement the pursuit of narrow economic bilateral interests through actions to bolster the multilateral trading system and the ability of developing countries to exploit trade opportunities and improve domestic regulation may help to achieve shared foreign policy/security objectives. What follows sketches out some areas where EU-U.S. cooperation could support both the global good and shared bilateral interests.

Three specific actions could be pursued by the EU and U.S. to attain both economic and non-economic objectives

1. engage in the WTO along plurilateral lines in a way that generates economically meaningful results for both the EU-U.S. and the rest of the world;

2. develop a joint approach to provide financial and technical assistance to low-income countries to improve service regulation and enforcement; and

3. join forces on financing a global initiative on transparency of services policies and performance/outcomes.[9]

Nondiscriminatory Plurilateralism

It was mentioned in section two that moving forward in the GATS context—which arguably offers the greatest potential gains for both the EU and the U.S.—might best be pursued on a plurilateral basis where the outcome is extended to all WTO members on a MFN basis. Analogous to what was done in the Information Technology Agreement, agreement could be sought among a subset of WTO members regarding the sectors that are of common economic interest and the types of commitments to be made. The idea is to create a focal point for liberalizing commitments—either by agreeing on a certain threshold level of commitments or via a "zero-for-zero" analogue—e.g., the number of sectors or sub-sectors without any national treatment exceptions.[10] The prospects for small group approach were enhanced by the Hong Kong ministerial meeting, which explicitly put forward the option of "plurilateral" negotiations among a subset of willing members. Past experience suggests that for liberalization agreements to be applied on a MFN basis, the "internalization" ratio needs to be fairly high—on the order of 90 percent of total trade. As the EU and the U.S. dominate many (most) service sectors, cooperation between them would already greatly facilitate satisfying this constraint.

[9] The focus here is only on services. As noted in Burwell (2007), there are other areas in which joint action could make a difference in assisting developing countries, e.g., agreement on adopting rules of origin for beneficiaries of trade preferences that offer the greatest degree of market access.

[10] See e.g., Mattoo and Wüntsch (2004). As noted previously, the rationale for a small group approach is not to let poor country governments "off the hook" but to recognize that there is little they can do to influence the outcome of market access negotiations. As they have few incentives to play this game, they will find it hard to argue domestically that the *quid pro quo* received justifies potentially painful domestic reforms.

National Treatment vs. Disciplines on Domestic Regulation

As reciprocity dynamics depend on export interests, the focus should be on policies that most directly restrict access to foreign markets. A corollary "benefit" of targeting such policies is that it permits accepting whatever general regulatory requirements are in place in a market. If so, regulatory agencies should be much less concerned about the outcome of the negotiating process.

The provisions of the GATS dealing with domestic regulations are weak. The reason is straightforward: effective multilateral disciplines can rapidly encroach upon national sovereignty and could unduly limit regulatory freedom. The weakness of the disciplines on domestic regulation is often argued to reduce the relevance of the GATS as a pro-competitive instrument. Stronger disciplines for domestic regulations could be beneficial in enhancing the contestability of service markets and lowering the costs and increasing the quality of services. Indeed, as domestic regulation applies to all firms whatever their nationality, it may be a more important source of inefficiency/costs than policies that discriminate against foreign suppliers.[11]

That said, dealing with regulatory differences is much more difficult that identifying discriminatory policies. The EU demonstrates how hard it is to pursue policy harmonization and mutual recognition. Pursuing effective horizontal disciplines for regulation in the GATS is orders of magnitude harder, even if limited to a small group setting, given the absence of a clear commitment to pursue market integration and the absence of the types of supra-national institutions that exist in the EU. This observation applies equally to the EU and the U.S., where the 50 states are the loci for much of the regulation that affects the ability to provide services (and the costs of doing so). While making discriminatory policies the primary discipline to be negotiated would cover only a share of the prevailing restrictions, it is not trivial. Thus, national treatment implies the right of establishment as long as domestic firms are permitted to contest a market. Given that FDI in

[11] That is, the "rectangles" associated with regulations that raise costs for all users, limit entry possibility for all new service firms independent of nationality, or are simply redundant because similar but different rules already apply to foreign firms in their home market may be much larger than the "triangles" generated by the efficiency losses from (the tariff equivalent of) discriminatory policies. See Prowse (2006) for an in-depth discussion of aid for trade issues and options.

services will create employment and is often subject to less opposition than efforts at regulatory harmonization or recognition (Messerlin, 2006), this can be an effective way to increase competition on markets.

While the proposed approach will certainly generate gains from international cooperation that are less than if cooperation were to extend to regulatory measures that segment markets, it is not that clear in any event that much can be done through the GATS on domestic regulation. By removing one, important, reason for regulators to oppose their governments making commitments in "their" area, resistance from a powerful set of interest groups in all countries could be greatly reduced. A focus on policies that discriminate would not only diminish fears of the intrusiveness of the GATS, it would also reduce uncertainty regarding the implications of making commitments.

"Aid for Trade" and Adjustment Assistance: Complementing the GATS Framework

Benefits from liberalization—and thus GATS commitments—may be limited or nonexistent in the absence of appropriate regulation. In many developing countries governments confront substantial uncertainty as what complementary measures may need to be put in place to support liberalization. Developing countries also confront resource constraints—the needed institutions and human capital may not be available or in very short supply. Substantial uncertainty may also prevail as to the size and distribution of the (adjustment) costs and likely benefits of reforms. The increasing tradability of services (through offshoring and international outsourcing) will also generate adjustment costs, the prospect (fear) of which has already generated calls for limiting liberalization and restricting trade, in both developed and developing countries.

Addressing such concerns is important in both maintaining the existing level of openness to services trade and in further opening markets to services trade and investment. Policy advice and assistance for regulatory reform and public investments in services infrastructure is of course provided by international financial institutions and specialized agencies. However, there is virtually no link between these processes and services negotiations in the WTO. This disconnect persists even though it is clear that improved regulation—ranging from prudential regulation in financial services to pro-competitive regulation of network-based services—may be critical to realizing the benefits of services liberalization. Weaknesses in existing mechanisms for prudential or pro-competitive regulation, the need to alleviate adjustment costs, and the desire to ensure universal access in liberalized markets are all examples of potential good reasons to hold back on making binding liberalization commitments. Such considerations may help explain the limited use that has been made by poor countries of the GATS and their resistance to making additional specific commitments to open/guarantee access to their markets.

Development assistance that focuses on strengthening domestic regulation and attaining social objectives such as universal access to a specific service could do much to change this situation. Both the EU and U.S. have supported the call for an increase in "aid for trade" that has been made in recent years, most recently at the 2005 Hong Kong WTO ministerial.[12] It is noteworthy that services have not attracted much attention in the aid for trade discussions to date. Much of the aid for trade agenda at the country level revolves around improving the quality and cost of services. It goes far beyond technical assistance to help countries make market access commitments, and extends to assistance for regulatory strengthening and resources to strengthen services-related infrastructure. To benefit from trade opportunities, many developing countries need to bolster the competitiveness of their firms and farmers by lowering the cost of, and increase access to, services such as transport, finance, and communications. This in turn requires a mix of policy reforms—including liberalization—as well as investments in infrastructure, training, and institutional strengthening. A joint effort by the EU and the U.S. to channel more assistance to these areas would help increase the benefits that accrue to these countries. A concerted aid effort does not imply ceasing to seek to negotiate binding disciplines. Instead it would put greater stress on the improvement of service sector performance and the use of (need for) assistance to attain such improvements.

[12] See Prowse (2006) for an in-depth discussion of aid for trade issues and options.

Transparency—Documenting Services Policies and Their Impacts

The functions of the WTO extend beyond rulemaking and enforcement. One of its tasks is to increase the transparency of member trade policies through the Trade Policy Review Mechanism (TPRM) (Art. III WTO). The objective of the TPRM is "…achieving greater transparency in, and understanding of, the trade policies and practices of Members… [through] the regular collective appreciation and evaluation of the full range of individual Members' trade policies and practices and their impact on the functioning of the multilateral trading system. It is not, however, intended to serve as a basis for the enforcement of specific obligations under the Agreements or for dispute settlement procedures, or to impose new policy commitments on Members." (Annex 3, WTO). Annex 3 WTO, Section B states further that "Members recognize the inherent value of domestic transparency of government decision-making on trade policy matters… and agree to encourage and promote greater transparency within their own systems, acknowledging that the implementation of domestic transparency must be on a voluntary basis and take account of each Member's legal and political systems." Services are included in the ambit of the TPRM. Indeed, the WTO is currently the only multilateral body that has the mandate to review all the services trade-related policies of countries.

In practice, despite the TPRM, rather little is known about national services trade-related policies.[13] The same is true of services "performance". The WTO could be a much more effective focal point for regular interactions on and monitoring of the services policies that are applied by its members. No other organization has as strong an incentive to do so. The absence of a comprehensive effort to document and monitor national service sector policies is in part a reflection of the revealed preferences of WTO members, which in turn reflect a mix of resource constraints and a desire to prevent regular and multilateral scrutiny of policies. Only the former is a legitimate reason for the status quo. A concerted effort by the EU and U.S. to finance a global data collection effort would remove the resource constraint.

[13] One reason for this is the positive list approach that was chosen to determine the coverage of GATS specific commitments. In contrast to the negative list approach applied in U.S. free trade agreements, a positive list does not generate full information the extent to which applied policies discriminate against foreign firms.

Financing a major effort to compile data on applied policies, prevailing market structures and indicators of service sector performance may do more to promote global reform in the medium term than a focus on (bilateral) market access negotiations. Reform requires domestic constituencies to implement and sustain it—comprehensive data on policies and outcomes will allow think tanks, industries, NGOs, etc. both to compare their own countries to others and let researchers assess the effects of prevailing policies, and the impacts of liberalization. At present no such comprehensive data on policies or performance exists. It is a global public good, which helps to explain why it is underprovided. Joint EU-U.S. leadership in providing this public good could do much to promote further market access and related reforms in all countries.

More frequent and in-depth analysis of services trade policies in WTO members—as well as the extent to which high-income countries have provided assistance to address priorities that were identified by developing countries, mentioned earlier—could support more constructive engagement of business and NGOs with the WTO and the GATS. If WTO members were to expand the transparency mandate of the organization to make the WTO a focal point for multilateral discussions and assessments of the state of members' service sectors, the institution could do much to help address the needs of its poorer members by raising the policy profile of the services agenda in these countries and identifying where investments/assistance are needed. By combining its commitment and monitoring "technologies" to mobilize liberalization commitments that are conditional on assistance, and monitoring the delivery and effectiveness of such assistance, the process could play a useful role in both helping members improve the performance of service sectors and expand the coverage of the GATS.

While ideally pursued through the WTO, the proposed transparency initiative can be implemented (i.e., financed) bilaterally, with the actual process outsourced to one or more organizations that have the capacity to manage the collection and compilation of the required information. The effort should involve research and public interest bodies in all the countries concerned. These bodies can do much to help shed light and build consensus by identifying good (better) policies, their economic impact, including distributional effects within and across countries, and whether alternative instruments exist that could attain governmental or societal objectives (more) efficiently.

6. Concluding Remarks

Increasing the contestability of service markets is likely to generate significant welfare gains for all countries. This applies as much to the EU and the U.S. as it does to lower-income nations. In contrast to many other WTO Members, both the EU and the U.S. are already relatively open to international competition in services. Both parties have among the most comprehensive commitments in the GATS. Bilateral trade and investment flows of services are already large. This is not to deny there are barriers to bilateral trade in services. Several important sectors remain relatively closed. However, the main factor that segments markets is regulatory in nature. This is clearly recognized in the 2007 Framework for Advancing Transatlantic Economic Integration. However, although well worth pursuing, making concrete progress to towards convergence and/or mutual recognition will not be easy. The EU experience illustrates that this is a difficult process that will take substantial time and require concerted attention from policymakers.

From a narrow economic perspective, a case can be made that greater potential gains from international cooperation between the EU and the U.S. that targets services are to be found in other markets, in particular emerging markets. That suggests attention and resources should also be directed to the WTO. A joint effort by the EU and U.S. to cooperate in moving the multilateral liberalization agenda forward could generate not just larger benefits in terms of improved access to markets for EU and U.S. firms, but also generate benefits for developing countries—where the potential gains from services reforms are very large. To date, the GATS has not been a very effective mechanism to promote greater liberalization. Bilateral agreements are sometimes more ambitious, but even if they are more effective—the jury is still out—they constitute a piecemeal approach. A concerted effort by the EU and the U.S. toward nondiscriminatory plurilateralism; directing "aid for trade" to the services agenda in developing economies; and investing in global transparency, monitoring and evaluation could do much to build and maintain support for liberalization and open markets, not just in developing countries but, as importantly, in the EU and the U.S. The challenge is as much to keep markets open as it is to further open them.

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