

# The GATS Agreement and the four modes of supply - a new ground for statisticians

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## 1. The General Agreement on Trade in Services (GATS)

The GATS, which came into force on 1 January 1995, is the first set of multilaterally negotiated, and legally enforceable rules covering international trade in services. When it was designed during the Uruguay Round, negotiators recognized that an Agreement on services covering only the traditional notion of trade, i.e., products supplied across borders, would not reflect the different ways in which services can be supplied. For a service to be effectively produced or delivered, the proximity between the consumer and the supplier is often a necessary condition. Thus, in addition to cross-border supply (mode 1), GATS also covers cases where consumers move outside their home territory to consume services (mode 2- consumption abroad), and cases where suppliers move to the territory of the consumers to provide their services, whether by establishing a commercial presence abroad (mode 3), or through the presence of natural persons (mode 4).

The pillars of the GATS are general obligations, which virtually apply to all services, and specific commitments resulting from negotiations, limited to sectors and modes of supply in which a member has chosen to undertake access obligations.

GATS calls for progressive liberalization through successive rounds of services trade negotiations. It also stipulates that, for each negotiating round, an assessment of trade in services in overall terms, and on a sectoral basis is to be carried out. Partly due to the lack of pertinent statistics, a collective and definitive assessment has not really taken place, and the assessment has become part of the WTO's ongoing activities in the field of services negotiations.

## 2. Statistical requirements

In merchandise trade negotiations, statistics on tariffs and trade have been extensively used to identify priorities, to formulate negotiating strategies, to evaluate and exchange commitments, and to assess the benefits of liberalisation. These types of statistical needs are, in principle, the same for services negotiations. However, the challenge posed to statisticians is much more difficult to meet in the case of services, as systems to measure international trade in services are not as developed as for merchandise trade, and due to the broad definition of services trade and the complex architecture of countries' commitments under the GATS.

In front of this difficult challenge, a pragmatic approach is to distinguish between (i) basic requirements, that would allow to set up general negotiating objectives and strategies, and provide a substantive input into the assessment of trade in services, and (ii) further requirements, with a longer term priority, that would provide a sound basis for the exchange of commitments.

As regard basic requirements, Balance of Payments (BOP) statistics are of primary relevance. However, BOP only covers transactions between residents and non-residents, and disregards, for example, local trade by foreign affiliates covered by GATS' mode 3, which has been estimated to surpass the three other modes of supply together. Thus, BOP statistics alone are far from providing a full picture of trade as covered by GATS. They constitute at best a proxy for cross-border trade and consumption abroad. Foreign Affiliates Trade in Services (FATS) statistics, as defined in the

Manual on Statistics of International Trade in Services (MSITS) have been precisely designed to complement BOP statistics in this respect.

MSITS proposes a phased approach to the implementation, where the core recommended elements include compilation of BOP and FATS statistics by service categories and by origin and destination, according to the MSITS classifications. Such statistics would provide for relevant internationally comparable data, and would well reflect basic requirements.

It should be noted that the assessment of trade in services is more an economic than a statistical exercise. To assess the wide effects of service trade liberalization in the economy, there is a need to relate trade, domestic production, consumption, and employment. Thus, data availability in these statistical areas, and consistency with BOP and FATS data, would also be of primary importance. The revision of major international activity, product, and BOP classifications currently under way by international organizations is an opportunity to improve consistency.

*The above remarks suggest that statisticians have started to meet the challenge with regard to basic requirements relatively well by developing relevant statistical concepts, definitions, and classifications in MSITS. The remaining task is now on developing compilation guidelines and support national implementation, especially for countries lacking expertise and resources.*

Further requirements, with a longer term priority, would allow for a systematic use of statistics in the negotiating context, such as for the exchange of commitments. They relate to further improvements with regard to reliability, comparability across countries and across time, and disaggregation by service category, by origin and destination, and by modes of supply.

Under the GATS, country commitments are made at a very detailed classification level, often defined in terms of provisional CPC subclasses. Many of these detailed service categories are currently not under the reach of statistical systems.

Furthermore, for each of these service categories, commitments are specified separately for each mode of supply. Although MSITS proposes a simplified approach to approximate trade values by modes of supply from BOP and FATS statistical systems, there is a need for further work in this area. In addition, these statistical systems do not well cover the presence of natural persons mode of supply, and it would be necessary to draw on other types of statistics, such as on employment and migration.

However, there is a limit to the contribution of statistics to the exchange of commitments, which are of a qualitative nature, and thus hardly quantifiable in an objective way.

There is certainly a long way to go before the statistical challenge can be fully met. However, it is worth reminding that the current availability of detailed, reliable, and country-comparable statistics on trade in goods is largely due to the pressure from a long history of multilateral trade negotiations in goods, which started more than 50 years ago. Comparatively, multilateral services trade negotiations are quite recent. We may nevertheless note that they have already brought substantial improvements, including the development of relevant concepts, definitions and classifications in MSITS, and the starting of FATS data collection in a number of OECD countries.

## **RÉSUMÉ**

*L' Accord Général sur le commerce des Services (AGCS) a posé un défi aux statisticiens. Ceux-ci ont bien relevé ce défi, notamment en ce qui concerne les concepts et classifications pour les besoins élémentaires, tels que l'évaluation du commerce des services requise par l'AGCS. Cependant, il reste encore un grand chemin à parcourir en ce qui concerne la mise en place de ces concepts et classifications, ainsi que pour les besoins plus évolués faisant appel à des statistiques à un niveau de détail très fin, et décomposées par mode de prestation. On peut s'attendre une amélioration continue de ces statistiques suite à la pression exercée par les négociations, comme il en a été pour les marchandises.*