

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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EVALUATING OFFERS IN THE SERVICES CONTEXT

Note by the Secretariat

1. At the meeting of the Group of Negotiations on Services commencing 27 May 1991, the Secretariat was requested by participants to prepare an informal note identifying considerations that participants may wish to take into account when evaluating offers from a national perspective. This informal note has been prepared in response to that request.
2. This note should be viewed as an "issues" paper in the sense that its purpose is to raise considerations that participants may wish to address when evaluating offers from a national perspective, and in so doing provide a basis for discussion. As participating countries will presumably wish to compare national offers with those of other participants, the comparability of offers across countries is also addressed. The intention of the paper is not to be exhaustive in the sense of identifying all the issues that need to be addressed, nor is its intention to provide definitive answers to the questions it raises.
3. The note has five parts. The first reviews the salient characteristics of the traditional techniques used in GATT tariff and non-tariff barrier negotiations, the objective being to assess the extent to which such procedures are relevant for evaluating offers relating to services trade and if such procedures may be adapted to apply in the context of services. The second part discusses the implications of the lack of quantitative information for trade in services when evaluating offers. In the light of the data availability, the third part of the note discusses the feasibility of designing quantitative indicators to compare offers, using the level of market access as a criterion, while the fourth part of the note discusses changes in the level of market access as a criterion for evaluating offers. The final part of the note contains concluding remarks.
4. It should be noted at the outset that it is unlikely that any single indicator that can be used with currently available statistics is likely to be considered generally acceptable in terms of quantifying offers. Qualitative criteria are likely to play a complementary role, especially if participating countries wish to take into account the degree to which offers imply a reduction in market access restrictions relative to the status quo.

I. Techniques Used in Tariff and Non-tariff Negotiations

5. In past tariff negotiations on merchandise trade, offers tended to be quantified by using readily available data on the current bilateral value of trade flows and the matching vector of tariffs. A central element in merchandise trade negotiations has also been the identification of the principal suppliers of specific products. The value of an offer has frequently been measured as the product of the proposed change in the tariff affecting a specific product and the value of imports of that product in a particular year.¹ While negotiations have focused mostly on changes in the level of tariffs as opposed to the tariff itself (e.g. the magnitude of the proposed/desired cut in the average level of tariffs), an alternative measure is the reduction in the dispersion across tariffs.

6. The procedures adopted in tariff negotiations do not normally centre on the implications of tariff reductions for changes in economic welfare, nor are they based on the extent to which trade flows are likely to change as a result of the offered changes in tariff schedules.² Instead, the approaches followed in tariff negotiations can be characterized as providing negotiators with a focal point; that is, something tangible enabling parties to set objectives, evaluate the position of others, assess negotiating progress and identify acceptable compromises with respect to a particular yardstick. In the case of tariff liberalization, the focal point is normally a measure that takes into account the relative magnitude of trade flows and the associated tariffs; it is simple to calculate using readily available data. In fact, the choice of the focal point frequently used in past negotiations (i.e. changes in trade-weighted tariff levels) appears to have been driven largely by data availability.

7. A number of analogies exist between negotiations on services and previous GATT negotiations on non-tariff measures. Some of the considerations that are relevant for services trade are not wholly new - having arisen also in the context of negotiations on "difficult-to-quantify" non-tariff measures. Some of the code negotiations during the Tokyo Round did not take a principal supplier and/or change in barriers to trade approach. The focus was rather on specific measures or rules, the implementation of which was assumed to increase market access. Alternatively, the focus was on easily quantifiable variables, such as the

¹Note that this procedure gives a zero weight to countries that have prohibitive barriers to trade in certain products.

²This would require a multicountry, multicommodity general equilibrium approach that is capable of taking into account intersectoral linkages (and thus effective rates of protection), use recent and credible estimates of demand, supply and substitution elasticities, and incorporate all relevant government policies, not just tariffs. Even this only provides an indication of the general equilibrium effect induced by what is offered. Dynamic effects, such as induced shifts in comparative advantage, are not taken into account.

value of past procurement for various government entities. This measure provided a focal point for the government procurement code discussions; it is unrelated to trade per se. If a quantifiable approach is to be adopted in the evaluation of offers in the context of the services negotiations, then a quantifiable counterpart to the more traditional trade-oriented "focal point" may have to be found.

II. Data Availability on Trade and Production of Services

8. Trade statistics for services are inaccurate, incomplete and not readily comparable across countries. Of the data that do exist, they neglect the sales of foreign-owned firms that have established a commercial presence, are incomplete with respect to cross-border flows of services, are highly aggregated and are not available on an origin and destination basis. This makes it impossible to identify principal suppliers, and the lack of estimates of the ad valorem equivalent of existing restrictions to services trade does not permit a calculation and comparison of levels and changes in levels of trade restriction. Indeed, there is to date no generally accepted definition of what constitutes a barrier to trade in services. Hence, even if service trade statistics were available and comparable across countries,³ the complexities associated with identifying and quantifying barriers to trade in services would still preclude the development of a quantifiable focal point equivalent to those used for merchandise trade.

9. The only source of comprehensive, comparable data are the production statistics found in the national accounts (i.e. GDP statistics). Such data, measure the importance of different sectors in total services output. The data can measure the total contribution of services to GDP or the total of a subset of sectors (e.g. non-government services plus construction). They also provide a measure of the importance of individual countries in total global output. Thus, the data can be used for both intra- and inter-country comparisons. Two possibilities exist, the first being to use value-added data and the second to employ gross output figures. Gross output data, which include the value of all the intermediate products that are used by an industry, are arguably a better indicator of the relative size of different sectors than value-added data. However, the number of countries reporting value-added data for service industries substantially exceed those that report gross output.⁴ The procedure described below can be applied using either measure.

³ Even if perfect trade data existed, it could be argued that their usefulness is limited given that they cover only a subset of the modes of delivery identified in the national offers. The Secretariat document Availability of Statistics on Services (MTN.GNS/W/94) illustrates the incompleteness of existing trade data.

⁴ It is possible to estimate gross output data by multiplying value
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10. The lack of data similar to that for merchandise trade and the complexities associated with identifying and quantifying barriers to services trade are not necessarily insurmountable problems in devising a focal point. In fact, in some instances, trade data may not be helpful. For example, which countries are principal suppliers at any given point in time may not be relevant as this may change over time. A focus on existing principal suppliers may neglect those countries that currently do not export (or import) significant amounts of a service but have the potential for doing so. Also, it may neglect small countries for which a specific activity might be of great importance.

11. As the value of an offer in a negotiating context is not necessarily a monetary measure - being more a yardstick - it may be possible to use readily available services-related data to find an alternative focal point.

III. Possible Quantitative Evaluation

12. From a national point of view, the problem is the following: can a quantifiable measure be constructed allowing a country to evaluate its own offer and to compare it to that of other participants? In what follows one possible procedure is outlined that would draw on currently available data. This procedure requires, however, subjective judgement on a number of important issues and illustrates the kinds of problems that must be resolved if a non-arbitrary quantitative measure is to be developed.⁵ Unambiguous solutions to some of the problems encountered are almost impossible, and in practice it will not be feasible - nor desirable - to exclude qualitative variables from an evaluation procedure. The proposed measure assumes initially that the evaluation criterion used is the level of market access that is implied by an offer. Difficulties that arise if the change in market access is used as a (perhaps complementary) criterion are discussed in the next section.

13. In making their offers, participants have adopted a "hybrid" of the positive and negative list approach; it is a positive list approach to the extent that all sectors on which participants are willing to consider making concessions are listed. Four modes of delivery are distinguished per sector. For each mode, limitations, qualifications and conditions on market access and national treatment are identified. This approach defines the basis for identifying the components that are relevant in evaluating offers. The components discussed in this section include: determining the total value of output of the offered sectors as a proportion of total service sector output or GDP; discounting the sectoral offers in the light of limitations, qualifications and conditions placed on market access and

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added figures by average gross output/value added ratios calculated from data reported by those countries that collect both series.

⁵An example of which would be counting the number of sectors offered and comparing this to the number of sectors on the reference list.

national treatment for each mode of delivery; and determining which sectors are most important in relation to individual participants' interests.

A. Output in offered sectors as a proportion of total output

14. A first step in arriving at a quantitative measure might be to determine the total value of output in the relevant sector as a proportion of total service output or GDP. To ensure that offers are comparable, it would, of course, have to be understood among participating countries what comprises the negotiable universe of service sectors, i.e. the denominator of any "coverage ratio." Also, while it is not necessary for countries to agree on a common nomenclature to implement the procedure, this would greatly facilitate cross-country comparisons.

15. Countries differ substantially in terms of the degree of disaggregation of their national accounts data, so it may not be possible to determine the relative importance of all sectors offered. If this is a problem, a number of benchmark economies could be constructed for the purposes of calculation. For example, countries could be grouped depending on their per capita income levels, with offers of countries with insufficiently detailed data being weighted by the sectoral composition of the appropriate benchmark economy. In this way the data from those countries with the most disaggregated and up to date figures can be used⁶ to provide one form of focal point for purposes of negotiations, even for countries for which GDP data are insufficiently disaggregated. To the extent that the necessary data is available, it could be provided by each country as part of its offer list.

16. The sectoral share measure is at best a starting point, as it does not take into account the extent to which there are limitations, qualifications and conditions on national treatment and market access. However, it can be regarded as the maximum value of the offer (implying no limitations, qualifications and conditions on national treatment and market access). To the extent that limitations, qualifications and conditions are maintained, the actual offer will be less than this upper bound. The implicit assumptions, therefore, are that the potential value of the offer is not necessarily related to the restrictiveness of the measure applied in the sector, and the focus is on the absolute level of market access, not on the change in restrictiveness.

⁶While GDP data for 138 countries are reported in the GATT database, most countries report figures at a high level of aggregation (i.e. five service sectors). However, more detailed data are available for a subset of countries, and these might be used to construct the "benchmark" country tables.

⁷As noted earlier, "value" in this connection should not be taken to imply a monetary measure. In any event, countries will attach differing
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17. Despite its obvious shortcomings, an advantage of this procedure is that the share of total output is neutral with respect to factors such as geographic location, endowments, levels of development, etc., which result in significantly different economic structures and sectoral compositions. If country A offers only 5 per cent of its service sector in GDP terms, while country B offers 15 per cent, one can say that, given the caveats mentioned above, in a relative sense B has offered three times as much as A. Also, this procedure allows countries a substantial amount of flexibility concerning the choice of the sectors to be included, and ensures that in evaluating offers, the size of a country's economy is taken into account. Another advantage is that focusing on the share of output on which market access is offered gives credit to countries that presently do not impose any barriers in certain sectors and therefore is not biased against countries with more liberal or open regimes.

B. Discounting offers in view of limitations, qualifications and conditions

18. Offers of market access and national treatment may have limitations, qualifications and conditions attached. For countries to be able to compare the value of offers it is necessary to discount offers on sectors where such measures are maintained. Possible limitations, qualifications and conditions on national treatment and market access combined with the existence of four modes of delivery implies eight possibilities for reducing the value of an offer below the maximum (i.e. the upper bound).

(i) Modes of supply

19. To evaluate offers it is necessary to determine the relative importance of modes of supply on a sector-by-sector basis, taking into account the complementarities that may exist between various modes. This requires a set of weights to be determined which can then be used in calculating the "effective" value of the offer in instances where restrictions are maintained on certain modes of supply. In principle, the weights will be determined by a mix of technical and economic factors. It is possible that only a subset of modes will be technically feasible. Also, which of these modes is used, or preferred, by suppliers will depend on economic and other factors (costs, need for physical presence, reliability, etc.).

20. Of the four modes of supply, each mode will presumably be of varying significance for different services sectors; some may be irrelevant because of technological or other factors. For example, offering zero restrictions on cross-border delivery or consumer movement in the context of retail banking services is of limited value, as retail banking services usually require a commercial presence. A commercial presence in retail

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importance to any given service sector, whatever its relative weight in total output.

banking may in turn require movement of personnel (management, technical support staff for data processing and information technology, etc.). If there are no restrictions on commercial presence, but there are restrictions on movement of the required personnel, market access may be severely limited. Equivalently, there may be no limitations on movement of personnel, there being instead restrictions on parts of the market (e.g. no deposit taking allowed). Again, the value of the offer will be reduced.

21. Establishing these weights on a sector-by-sector basis is clearly difficult. One practical procedure upon which a country could rely is sector-specific sample surveys. Even then it would probably be impossible to distinguish between domestic and international transactions. While labour-intensive and time consuming, the survey approach is rather straightforward. Thus, the problem here is not so much a conceptual one as one of time and resources. It should be noted, however, that the results of the survey would apply at a specific point in time. Over time, technological and regulatory developments will alter the relevance of the various modes.

(ii) Limitations and conditions on market access and national treatment

22. Assuming that a set of weights can be determined for the modes of delivery, a further requirement is to establish how such sectoral weights should be adjusted to reflect the implications of the limitations, qualifications and conditions on national treatment and market access. It would appear necessary to determine the relative restrictiveness of the conditions imposed on national treatment and market access.

23. This might be done by constructing a scale of 0 to 3, for example, with 0 implying that the combined measures affecting market access and national treatment have no real restrictive effect, 1 signifying a minor impact, 3 a major impact, and 2 somewhere in between. By adopting such a procedure, the degree of subjectivity is limited but certainly not removed. Prohibitions and "zero" restrictions should be relatively easy to identify. In the case of non-prohibitive restrictions, it may be possible to allocate measures into two groups. Any scale with more than four elements may, however, be more difficult to implement.

24. While such an approach will have a large subjective element to it, this is also the situation for non-tariff measures in merchandise trade. Compilations of non-tariff measures frequently involve subjective evaluations as to the restrictiveness of various measures (e.g. a global

⁸ An alternative might be to investigate patterns of trade and establishment for countries that maintain very liberal trade and investment regimes. However, this is not very useful given the high level of aggregation of existing data.

quota compared to liberal licensing. As noted, similar compilations might be made with respect to various conditions on national treatment and market access.

C. Determining relative ranking of sectors

25. The foregoing discussion assumed that the relative importance of a sector could be proxied by its share in total output. While this may be the case in many instances, it will at times not adequately reflect country-specific preferences. For example, although production data may indicate that the gross output of the transportation industry is five times that of financial services, and that therefore unrestricted access to transportation markets in a country is of greater quantitative significance than unrestricted access to financial markets, this does not necessarily mean that such access is more important for any given country. For the importing country, liberalization in financial services may be more sensitive than transport, while an exporting country may have much greater competitive advantage in the provision of financial services as opposed to transport services.

26. Thus, in the final analysis, the value of an offer for any given country can only be determined by the evaluating country itself, and is, to a large extent, an inherently subjective matter. In terms of applying the preceding approach to the ongoing negotiations, this implies that each country would have to determine two additional set of weights; one in terms of the sectors it is willing to offer and one for the sectors on which it wants to make requests.

IV. Possible Evaluation Based on Changes in Restrictions

27. Up to this point the focus has been on quantitative evaluation procedures that use the level of market access implied by an offer as a criterion. An alternative - perhaps a complementary - procedure is to take into account the extent to which countries offer to reduce existing restrictions. Some may argue that offers embodying significant rollback, (i.e. increased openness relative to the status quo), are of greater significance than offers that only imply a standstill.

28. Determining the relative value of standstill as compared to rollback commitments will presumably depend on a number of factors. For any given sector, it follows that a rollback offer will be of greater significance than a standstill offer. Furthermore, the value of the offer will increase with the extent of rollback offered. It is not the case, however, that rollback will always be more significant than standstill. For example, if a country maintains few or no limitations, qualifications and conditions on national treatment and market access for a sector, a binding of the status quo is likely to be of greater value than a minimal rollback offer by a country maintaining important restrictions in this sector. Of course, much depends on whether the country offering to bind a relatively liberal regime may, at some time in the future, be likely to impose restrictions.

If this probability is considered to be low, the value of the standstill may be limited. In general, all that can be said is that rollback in any sector in any country will, other things being equal, be preferred by trading partners to standstill.

29. In making cross-sector evaluations of offers, the larger an offered sector relative to total services output, the more significant the offer. And, the greater the rollback, the better the offer. Again, however, relative rankings may not always be easy to determine. Standstill of a relatively open regime for a relatively large sector might be given greater weight than an offer of rollback for a relatively small sector.

30. An implication of this is that even if the criterion of an evaluation procedure is the change in access to a particular market relative to the status quo, some kind of quantitative measure of the importance of a sector are likely to remain necessary. Finally, assuming that for any given sector, offers of rollback are considered to be of greater value than standstill, a question that is likely to emerge is that of a benchmark year. If countries are to be given credit for recent unilateral liberalization of market access, it will be necessary to define the term "recent."

31. In principle, the extent of rollback incorporated in an offer may be (part of) a focal point for purposes of negotiations. An example would be the relative magnitude (in GDP terms or service sector output) of the sectors in which rollback is offered as compared to sectors with only a standstill. Again, however, qualitative elements will have to be introduced, as account should be taken of the relative openness of each sector and the degree to which each rollback offer increases the possibility to compete in the sector concerned.

V. Concluding Remarks

32. It could be argued that what is required for the purposes of evaluating offers is a focal point or yardstick against which to compare different offers. One possible focal point is the value of offered sectors as a proportion of the total contribution of services to GDP. If this were to be pursued, data on the gross output of the sectors offered, both with and without restrictions, should be provided by countries as part of their offer list.

33. It appears obvious that such an approach would not be easy to implement. Nonetheless, it is perhaps the most straightforward methodology for quantifying offers, where quantification is understood to consist of the use of a simple yardstick. The yardstick approach, however, should not be confused with measures of economic value. Other possible procedures - especially those with a more "economic" focus - would be much more difficult to quantify as they are subject to substantially greater data requirements. For example, an approach relying on computable general equilibrium techniques to simulate the effect of liberalization using actual data on trade and production of sufficient disaggregation is

currently not feasible. Even if it were to be feasible, reasonable people can easily disagree on the appropriateness and effects of the assumptions underlying the models used.

34. Any evaluation procedure must, by the nature of the subject matter, have important qualitative elements; the factors that need to be taken into account are frequently not measurable. This would remain true even if perfect data on trade and production were to exist. The reason is that in certain circumstances it may not be obvious how to rank different offers for even the same sector. An example pertains to the relative weight that should be given to offers incorporating rollback as opposed to those consisting of standstill. One implication of the discussion is that although it is possible to design evaluation procedures, implementation can, in the final analysis, only be undertaken by countries themselves due to the many non-quantifiable considerations.

35. A final remark may be in order. This note has focused on possible evaluation procedures and focal points for services negotiations. It was emphasized that this does not imply a method for calculating the economic value of offers and concessions, but rather a negotiating tool. Thus, the yardstick chosen is unlikely to be of any relevance insofar as determining the value of concessions in the context of possible compensation or retaliation associated with future dispute settlement cases, discussions concerning renegotiation of schedules or withdrawal of concessions due to emergency safeguard protection.