Lights and Shadows at the Level of the Mode 4 of Flows of Services

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Abstract

The assessment of intangible asset flows with a high level of accuracy is still a challenging analytical and methodological issue. Despite the growth in terms of internationalization the share of this flow still remains below the potential that could be exploited. The main purpose of the paper is to analyze the extent to which commitments have been made by the Member States of the WTO, in order to be able to capture the most sustainable operational trends at international level. In order to achieve the highest level of methodological relevance, the author stressed some effects of the challenges arising from current level of globalization. Confirming the hypotheses assumed, the research shows that the issues analyzed have put significant emphasis on securing better commitments on the temporary movement of natural persons, especially for those categories "de-linked" from commercial presence.

Key words: International competitiveness; Mode 4; commitments and derogations; simplified allocation approach; good practices.
J.E.L. classification : O40, O52, O57.

1. Introduction

We live in an age where the relationships between traditional sectors of the economy are changing and new ones are added, intensive in advanced knowledge and creativity, techno-industrial paradigms and development fundamentals are changing, focusing on intangible assets, in which being competitive means something other than a few years ago and in which, thanks to information and communication technology (ITC) in the international trade circuit, all states participate more and more actively but also quasi-totality of the organizational architectures. All these transformations occur at a rate that makes them difficult to manage, the mechanisms under which the supply of goods and services has been planned for several decades are redefined, consumption habits are diverse, users of products and services looking more to maximize their satisfaction. their suppliers assured it. One of the sectors of the modern economy that records a very high dynamics and hosts the most in-depth structural transformations is that of services, which have contributed to increasing the level of tertiarization of economies, this sector generating most of the increase in welfare and providing the most and most attractive jobs.

Although for most of the postwar period, the services sector remained heavily regulated at the national level and the liberalization process was delayed internationally, upon the enactment of the General Agreement on Trade in Services (GATS) at the end of the Uruguay Round of Multilateral Trade Negotiations, some more predictability in this sector has been added as well, the wide range of services being structured in four specific modes of delivery. Although the range of services traded cross-border is heterogeneous, it has a certain harmony in terms of the factors that influence the volume, structure and geographical orientation of flows with these particular economic assets, their features, their development philosophy and their growing role. play as determinants of the new competitiveness.

Economic macrocycles are redefining themselves, both in terms of the succession of their phases and the depth of recession or crisis, the prescriptions prescribed by the relevant schools of thought are gradually becoming inapplicable, the challenges are more and more profound and the capacity of traditional economic systems to adapt was short-circuited deeply.

An analyst of these transformations (Saxer, M. 2017) stressed that in order to orient economic realities towards the new paradigm of socio-human economy, in which the behaviors of societal actors prevail, it is necessary for public policies to focus on aspects such as „ *Level the playing field for human work; invest in full capabilities for all; boost consumption demand through basic income; distribute sources of wealth more evenly; remunerate socially beneficial work*".These changes of dominant logic also concern the services sector, in general, and especially that of the services that GATS categorize in mode 4 of delivery (movement of natural persons).

These are the analytical and methodological foundations from which the author of this paper started, approaching as main analytical vectors: the inclusion of the services sector in the parameters of the new competitiveness; clarifying the main concepts and operational mechanisms in the services sector; highlighting the most complex opportunities but also threats related to the services belonging to mode 4 of provision; analyzing the way in which the member states of the European Union relate to this sensitive subsector of services and briefly underlining the state of affairs existing in Romania more than 10 years after the accession to the demanding European regional economic grouping.

2. Theoretical background

Although we can say that the idea that knowledge has become the main driver of business development is almost a cliché, it is equally true that successful companies are only those that innovate constantly, or have access to continuous innovation, based on new technologies. and attract knowledge, skills and cognitive abilities. Some autors (Calhan, O. Acdag, G. Oter, Z. 2020) define it as „*Possession of knowledge, practical experience, organizational technology, customer relations and professional skills that allow the company to gain competitive strength in the market* ." Nowadays, most authors have established that the structure of intellectual capital comprises three components: human capital, relational capital and organizational capital. Human capital represents the intellectual skills and abilities of individuals, as well as the behavior of members of the organization towards them. Relational or social capital refers to the relationships between people inside or outside companies.

Organizational capital is represented by intellectual property, organizational culture and trust capital in the future of the organization. Following the detailed analysis of the intellectual capital structure, various investment possibilities can be observed so that the company can have strategic advantages. The big trading forces have understood that the resources they have are not enough to achieve global success, so investing in every components of intellectual capital is a strategic investment in competition for markets. Intellectual capital has become such an important resource, regionally and globally, that some states resort to economic measures that are supposed to aim to protect intellectual capital. The component of intellectual capital that is most often controversial is intellectual property and the guarantee of rights over it. Intellectual property refers to knowledge or information that can be incorporated simultaneously into tangible objects in an unlimited number of copies, more precisely the property is in the information or knowledge reflected in those objects. Intellectual property is structured in two main categories: copyright and industrial property; the first category refers to the artistic aspect, and the second to the industrial aspect. The analysis of the literature certifies that even in this way of conducting transactions with intangible assets, aggregate profitability is influenced by the parameters pointed out by a reputable analyst (Michael Porter, 2008).

Regarding that subcategory of services that GATS classify in mode 4 of delivery (movement of natural persons), most participating states to the international trade system have made very few commitments in this area of services provided between residents and non-residents of a given economic territory. Structured concerns regarding the estimation of the structure of service flows according to the way of delivery can be found in Karsenty (2000), Maurer et al. (2008), Magdelaine and Maurer (2008) .. To these can be added the analyzes performed by OECD (2015) or WTO (2016) experts. In addition to the analyzes regarding the size, structure and dynamics of trade flows of services, the studies whose authors dealt with the diversification and growth of the efficiency of the barriers in the way of these trade flows have multiplied. Roy, Marchetti and Lim (2007), Marchetti and Roy (2014). Based on data provided by both the World Bank and the WTO, it can be concluded that services provided as per the requests of Mode 4 remain one of the most restricted types of services. The arguments in favor of this idea are based on the Services Trade Restrictiveness Index (STRI) developed by the OECD Secretariat. The most sensitive issue remains the existence of a dynamic series of data covering the full range of internationally traded services and ensuring the comparability of the information held. The existence of comparable and relevant dynamic data sets on international trade in services would have as main positive effects improving the negotiating process and clarifying some critical trade policy priorities.

Scientific concerns regarding the delimitation of ways of structuring service flows have been around for a long time, but the best structured schemes for their analysis date back to 1985 (Sampson and Snape. 1985) . A fairly complete analysis of the same issue and find other authors (Marchetti , J. and Mavroidis , p . 2011) that make an interesting comparison between painting him international trade existed prior to the GATS and the future of this moment. An interesting institutional experience in capturing the specifics of the process of radiography of correlations and defining causalities for the international trade picture of service flows is provided by the steps taken at EU level to harmonize methodologies for highlighting and quantifying data at Eurostat. (Rueda-Cantuche, J . Kerner, R . Cernat L . Ritola, V . 2016) One of these authors (CERN, L. 2014) previously proposed to add a fifth mode of performance is the SAS schemes: „*Services embodied in the exports of manufacturing goods"*

3. Research methodology

In this paper the author opted for a mainly phenomenological analysis, and, with the help of the positivist dimension, sought to capture the most representative and useful causal relationships relevant for the analyzed phenomena. In this paper were multi-parameter analyzed few relevant economic phenomena connected to the new competitiveness in the sector of services, especially those belonging to *Mode 4 of delivery,* the most relevant correlations and causal relationship were highlighted, illustrating them both based on the literature and with the help of statistical databases published by, Eurostat, OECD and National Bank of Romania. In this way, the author have tried to correlate the economic effects of transformations to challenges that the European Union has to overcome in a more dynamic but turbulent regional and international business environment.

4. Findings

More and more analysts point out that we are at a time when the factorial picture of international trade is changing rapidly and profoundly. Besides natural resources, capital, the financial intensity of technological and determinants and social or cultural, a growing role in the global economy and intellectual capital lies within its talent and attitude of its owners. Cross-border mobility of human resources is one of the main features of the current international economic picture and, in relation to this phenomenon, the share of trade in intangible assets is growing faster. As highlighted in the latest WTO Report (2019) " *Trade in services creates welfare gains .....through a more efficient allocation of resources, grater economies of scale, and an increase in the variety of services on offer".* Related statistics are relevant for the dynamics of the services sector in recent decades. As a result of the growing openness of all national economies to the external economic environment, the increasing commercialization of services that were not previously traded across borders, the greater elasticity of demand for services to income and the international harmonization of Many national regulations in this field, the growth rate of international trade in services has surpased the rate at which trade in goods, as well as industrial or agricultural production, has increased. Following these developments, the volume of international trade in services exceeded in the year 20 1 9 digits to 15 . 000 billion dollars. This figure should be viewed with caution as a large proportion of international statistics, even the most relevant ones , do not include all four modes of service delivery defined in the General Agreements on Tariffs and Trade (GATS). In recent years, more and more analyzes of the global economic picture, one composed of four sectors (primate, secondary, tertiary and quaternary) have taken into account the statistical asymmetries that persisted for many decades and introduced a growing number of services. part of what makes up Module 3 of service provision, ie transactions with intangible assets carried out between subsidiaries or branches of large multinational companies. As for the other ways of providing services, the records made in national statistics are getting closer to the real level of transaction volume, which allows to draw conclusions that increase scientific rigor, the accuracy of highlighting the parameters and the correctness of extrapolations made.

The picture of cross-border service flows is one that is in dynamic transformation, bears the imprint of an increasingly diverse range of influencing factors, is increasingly radiographically correct and allows researchers to position themselves correctly both epistemologically and praxiologically. Based on the statistics provided by Eurostat, which capture the economic flows mainly in the European Union but also those collected by the Secretariat of the World Trade Organization and made available to the international community, an analyst can decrypt the messages transmitted by the market , can make multi-parameter evaluations and formulate recommendations for public policy or academic utility. In this paper, the author aims to capture the identifiable lights and shadows at the level of international service flows, insisting on those belonging to Mode 4 of service delivery.

The main challenge for researchers in this thematic area is related to the availability of relevant and comparable information on trade in services as a whole and in trade in services that can be included in mode 4 of their provision. Especially regarding the services of this kind, the available information is relatively scarce and often incomparable in order to allow the highlighting of specific factors, the formulation of articulated ideas regarding the defining elements, the anticipation of trends and the argumentation of conclusions. One of the main difficulties of an analytical and methodological nature concerned the clear delimitation between traditional employment contracts and the taxonomy of activities in the field of international services. From this ambiguity derives one of the main methodological asymmetries that make it difficult to accurately measure the volume of such services, calculate productivity in this sector and determine the contribution of these services to creating added value. Because we do not have robust estimates on this way of providing services, based on existing data we can only conclude that these service flows are in last place with regard to the share of total services traded cross-border. It is not easy to distinguish between t temporary labor mobility and trade in services throught the presence of natural persons (mode 4) . Article I.2 (d) of the GATS defines mode 4 trade as " *the supply of a service by a service supplier of one Member, through the presence of natural persons of a Member in the territory of any other Member* ". Additional explanations on mode 4 could be found in the GATS Annex on the Movement of Natural Persons Supplying Services under the Agreement which states that there are two types of natural persons: those who are service suppliers; and those who are employed by a service supplier.

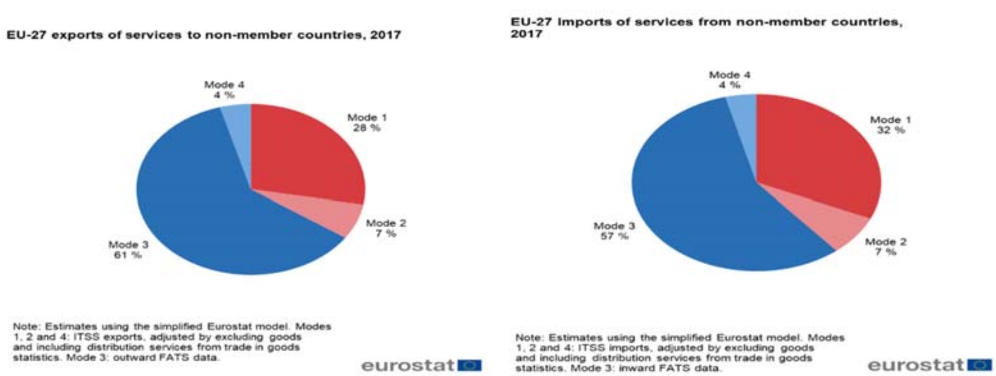
The first type, covers a self-employed person who is remunerated directly for the supply of a service by customers in the host country. There is a slight misunderstanding about what is covered by the second category which comprises " *natural persons of a Member who are employed by a service supplier of a Member* ". In other words, a distinction is made between the natural person and the service supplier.

Although financial and logistics services account for more than 20% of total service flows and ITC-related and research, development and innovation services have the highest growth rates annually, still a number of categories of services, especially those of education, health or related to the environment, remain with very small shares in the equation of this dynamic flow of the international economy. There have also been some good changes in the participation of various groups of countries in international trade in services. Although the share of developing countries has steadily increased in total service flows (25% of total exports and 34.4% of imports) , the least developed countries still have very small shares in this trade flow (0, 3% for exprot and 0.9% for imports). Positive developments that deserve to be highlighted have also occurred in the following areas of service provision: increasing the level of participation of small and medium enterprises; involvement of women in service activities; transforming the service sector into a significant one in terms of providing value-added. International transactions with services become important vectors of sustainable economic growth processes, contribute to increasing the external competitiveness of a national economy and make possible the inclusion of inclusiveness in terms of skills, gender and the location of economic activity.

Among the factors that significantly influence transactions with the most relevant services will be in the future the following: technological progress; regulatory and institutional reforms being implemented in most countries of the world; the volume of investments made in the physical and digital infrastructure of more and more national economies; the steps taken towards codifying competition rules; demographic changes, in particular those related to expanding the percentage of the middle class and enhancing education worldwide; the development of revenues convergence or climate change at regional and global level. Flows of the services traded under the Mode 4 provision were heavily influenced by the dynamic balance between supply and demand. The occurence of an imbalance between demand and supply determinants in most markets reflects the disruption of the demand-supply relationship and the need to recompose the defining vectors for this relationship. The determinants of demand are consumer income, the price of related products, the expected price in the future, the number of potential customers and consumer tastes, all of which are factors that change demand, ie change the relationship between demand and product price. Analysis of the determinants to detect the degree of influence of each determinant. An important factor in market equilibria is consumer income which influences the quantity demanded on the market and in particular the nature of the goods in a market. Consumers generally buy a certain product of a certain quality, and when revenues fall for various reasons, consumers tend to buy goods at a lower price and of a lower quality, thus influencing market stability. The determinants of supply are the price of resources, the price of other goods, technology, the number of bidders, market prospects, the cost of production, taxes and subsidies, and natural and socio-political events.

An interesting picture of export-import transactions with services carried out by the Member States of the European Union can be radiographed taking into account numerous analytical and methodological variables. In this paper, the author proposed to make the analysis having as parameter the structuring of these very dynamic exchanges according to the 4 ways of providing services included in the General Agreement on Trade in Services (GATS). The situation of structuring EU exports and imports of services according to this parameter can be found in Figure no. 1.

Figure no. 1 EU exports and imports towards / from countries outside the EU, broken down by the four modes of supply.



Source: European Union. Eurostat. 2019.

In trade in services, the European Union annually registers very large trade surpluses, in 2018 it will be 242 billion euros. If we analyze the structure of transactions with services on the 4 modes of provision, we will find that the most significant excess is reported is reported in the case of services belonging to mode 3, which counts for more than 90% of the total trade excess. Mode 1 of the provision of services registered a trade deficit. Modes 2 and 4 for the provision of services also have surpluses, but they have quite low levels, mode 2 with a smaller surplus and mode 4 with a slightly more substantial one of 18 billion euros.

The statistical data show that the participation of each major class of services in the whole trade in services carried out by the Member States of the European Union is quite different, the largest share being held by the services related to mode 3 of service delivery (movement of natural persons which contributes 61% of exports and 57% of imports. By subcategories of services, the structure of imports is as follows: the subcategory of other services holds 27%; transport services hold 20%; telecommunications and information technology services 17% and financial services 11%.

We can also get an interesting picture if we analyze the participation of the differents Member States of the European Union in international trade in services. In the way of providing the most representative services for the European Union, mode 3, the best represented in export are countries such as France, Italy, Germany and Sweden and in import we find as well positioned countries such as the Czech Republic, Romania, Slovakia and Bulgaria. Per each of the EU Member States, the representation of the 4 specific ways of providing services is very different for both export and import. This situation is strongly influenced by factors such as: the level of tertiarization of the economy (the percentage of the services sector in GDP structure); the distinct stage of co-commerciality of the diverse categories of services in the EU Member States; technological intensity for the economy as a whole and especially in the service sectors; different expertise at the level of companies whose object of activity is the provision of services. Mode 4 of service delivery, which groups a smaller volume of total services exported or imported by EU Member States, is found with more significant export shares in countries such as Malta, Poland and Romania (over 10% of total services). exports). Regarding imports of services belonging to mud 4 of the provision of services, both from Member States and from non-EU countries, the best placed as a percentage of total service transactions are Romania (12%) Malta and Poland (11%) and Estonia and Slovakia (10%).

Table no. 1. Status of Romania's transactions with certain services belonging to Mode 4 of provision (Eur million)

Nr. Crt.	Type of services	2019 (January-September)			2020 (January-September)		
		Export	Import	Net	Export	Import	Net
1	Research and development services	219	538	-320	309	267	41
2	Professional and management consulting services	1785	1094	693	1657	1072	586
	▪ Legal, accounting, management consulting, and public relations services	1227	724	501	1078	709	369
	• Legal services	92	34	59	79	35	46
	• Accounting, auditing, bookkeeping and tax consulting services	233	93	139	211	78	131
	• Business and management consulting and public relations services	901	600	301	787	595	191
	▪ Advertising, market research, and public opinion polling services	561	3370	192	580	363	218
3	Technical, trade-related, and other business services	2041	1931	112	2104	1946	258
	▪ Architectural, engineering, scientific, and other technical services	1003	466	536	1007	441	566
	• Architectural services	6	6	4	0	5	0
	• Engineering services	513	122	391	515	97	418
	• Scientific and other technical services	479	341	140	488	338	151
4	PERSONAL, CULTURAL, AND RECREATIONAL SERVICES	56	75	-18	63	41	20

Source: National Bank of Romania. Statistics, 2020

The analysis of the data contained in the tables shows that, in the last two years, Romania registered positive developments in all categories of such services in terms of trade balance, which was in surplus with only two exceptions. Due to developments related to the COID 19 pandemic, in 2020 the volume of these transactions decreased but not at the same pace as the transactions related to other important categories of services, especially those related to modes 1 and 2. That transactions with these types of services are less sensitive to the manifestation of extra-economic phenomena.

Therefore, it is recommended that public authorities continue the process of structural deregulation and support of private entrepreneurs to focus on these categories of services but also entrepreneurs must identify opportunities in this complex sectoral area, to organize in order to prioritize and seize the opportunities identified and equip themselves with the means and operational mechanisms with which to achieve European and international competitive success.

5. Conclusions

The analyses performed within these researches proved that transformations occur at a rate that makes them difficult to manage, the mechanisms under which the supply of services has been structured for many decades are redefined, consumption habits are different, users of products and services looking more to maximize the satisfaction their suppliers promised it.

It becomes more obvious that the main analytical drivers of services available under the umbrella of Mode are: the integration of the services sector in the standards of the new competitiveness; explaining the main concepts and operational devises in the services sector; highlighting the most complex opportunities but also threats related to the services belonging to mode 4 of provision; analyzing the way in which the member states of the European Union relate to this sensitive subsector of services and briefly underlining the state of affairs existing in Romania more than 10 years after the accession to the demanding European regional economic grouping.

Transactions with services belonging to mode 4 of provision are less sensitive to the manifestation of extra-economic phenomena. Therefore, it is recommended that public authorities continue the process of structural deregulation and support of private entrepreneurs to focus on these categories of services but also entrepreneurs must identify opportunities in this complex sectoral area, to organize in order to prioritize and seize the opportunities identified and equip themselves with the means and operational mechanisms with which to achieve European and international competitive success.

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