



# TOUCHING THE INTANGIBLE: A CONCEPTUAL FRAMEWORK FOR TRADE IN SERVICES

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## Outline

- A. Characteristics and economic importance of services
- B. The framework for WTO rules (GATS)
- C. Trade in services negotiations
- D. The Manual on Statistics of International Trade in Services
- E. Trade in services data sources
- F. Data availability and dissemination of International Organizations
- G. Services in trade statistics: Current State and Future Prospects
- H. Developing countries and services trade statistics

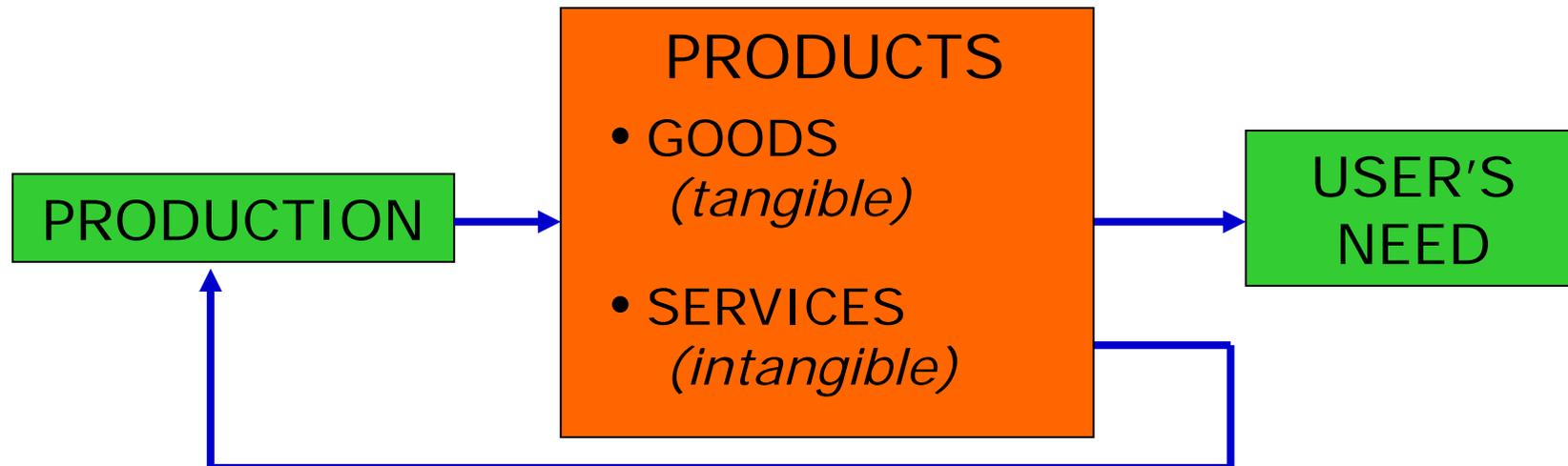


## A. CHARACTERISTICS AND ECONOMIC IMPORTANCE OF SERVICES



## The concept of services

Intangible output of a production process



### Key role in the economy

- transport, telecommunications...
- long term effects - environmental, educational services...



## Services characteristics

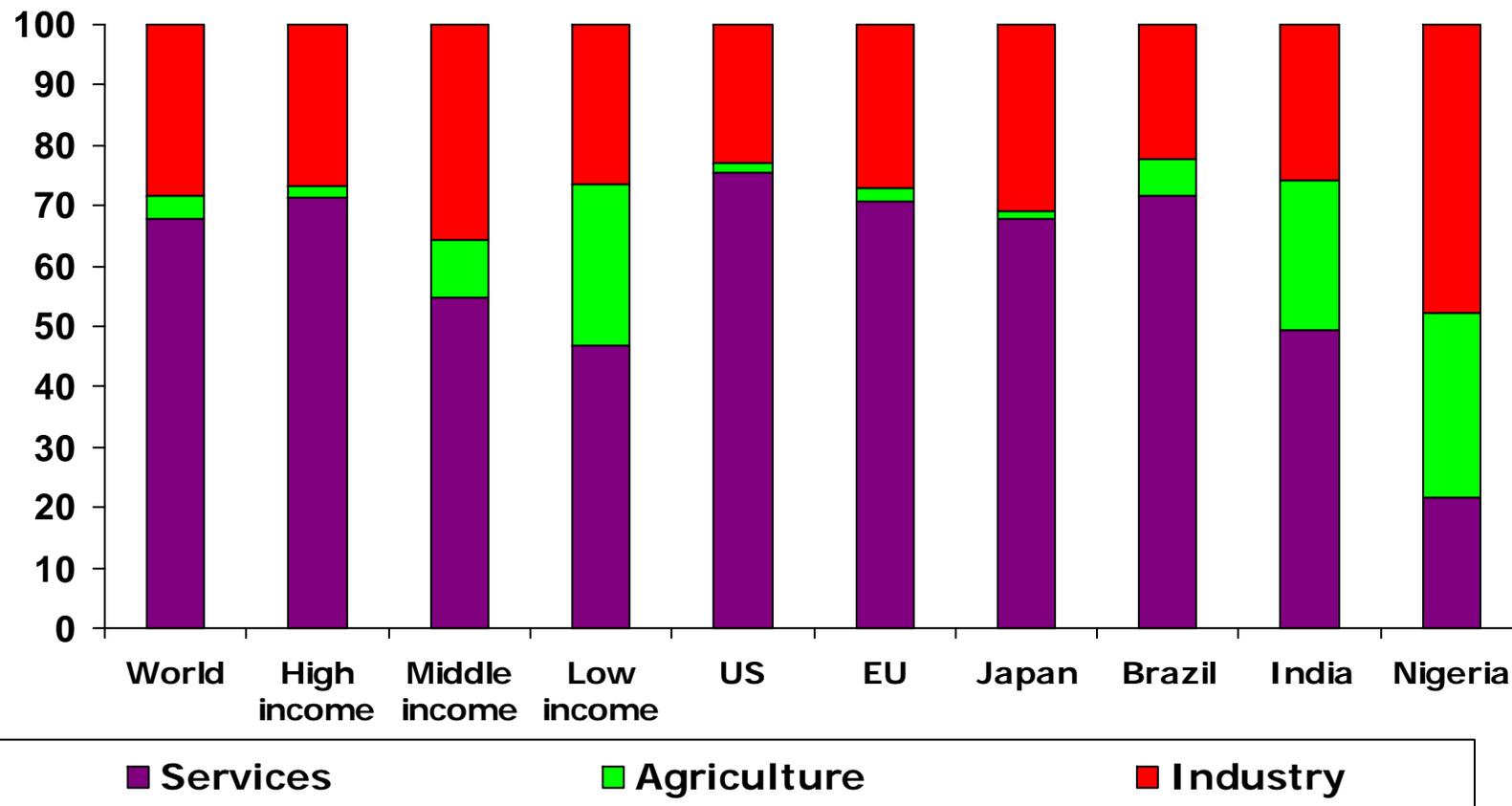
- Because services are often not storable, their exchange frequently requires the proximity of supplier and consumer – providers must move to the location of the buyer/consumer of a service, or vice versa.
- Because services are intangible and often difficult if not impossible to store they tend to be embodied in goods, information flows or in people.



## Some stylized facts

### Share of Services Value Added in GDP

Country groups and selected countries, 2001 (percentage)





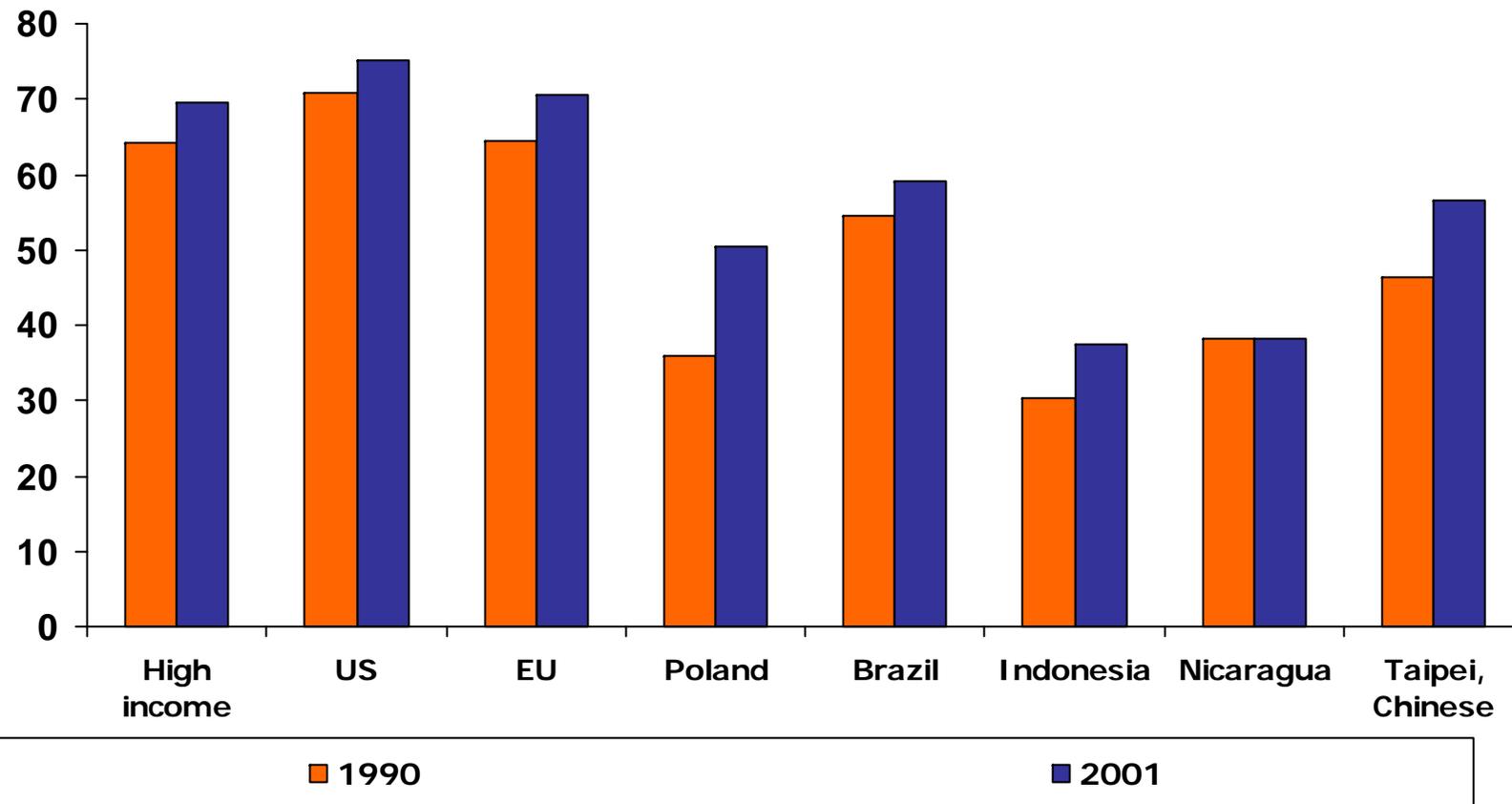
## Services and GDP

- Services currently represent more than two thirds of World Gross Domestic Product (GDP).
- The share of services value added in GDP tends to rise significantly with the countries' level of income (71% on in high income countries, against 55% and 47% respectively in middle and low income countries).
- Even in the latter group, the production of services is generally a core economic activity.
- Significant differences exist between countries within the same income group, e.g. India and Nigeria, two low-income countries whose respective shares of services in GDP are 49% and 22%.



## Stylized facts

**Share of Services Employment, 1990 and 2001**  
(percentage of total employment)





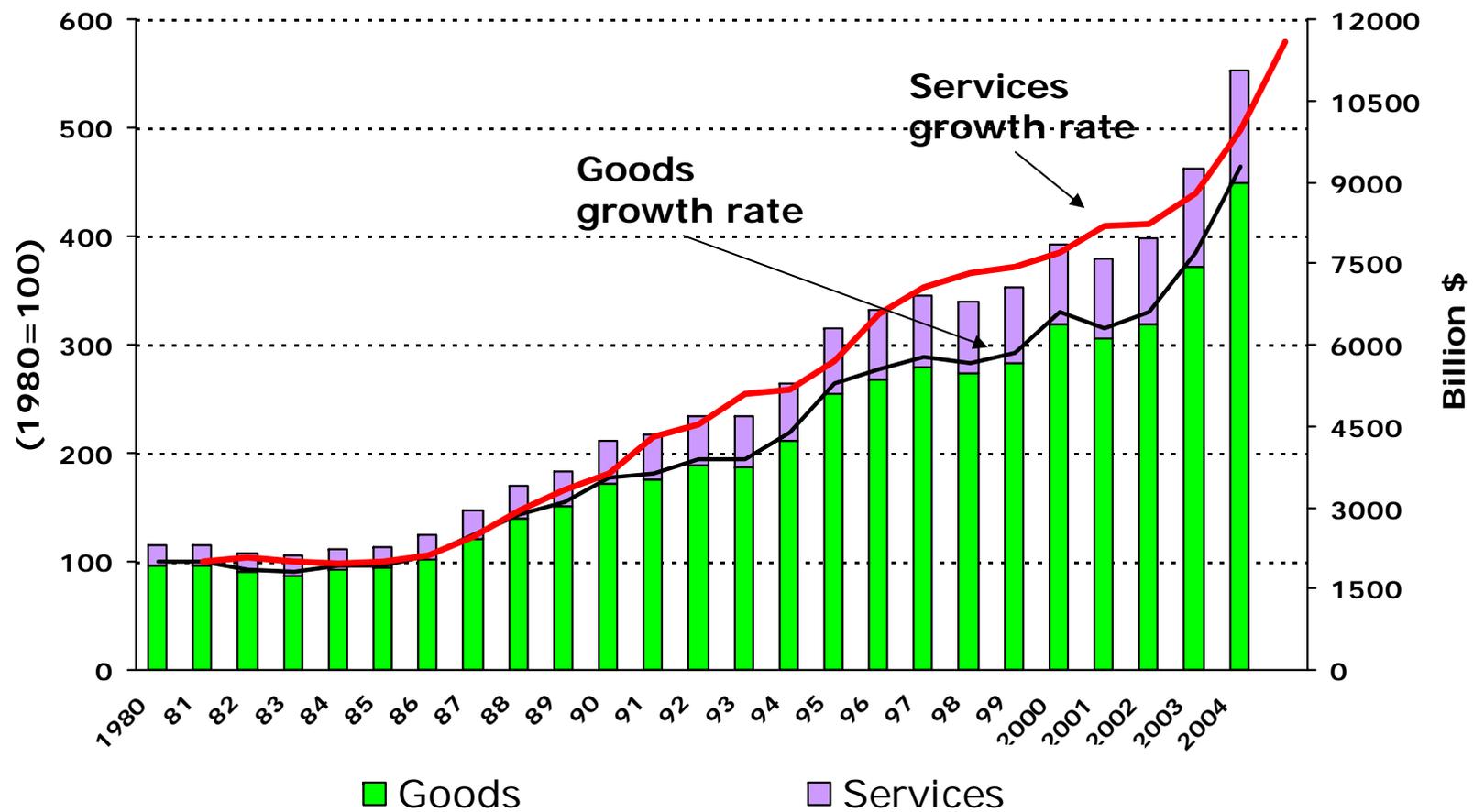
## Services employment

- The current importance of the contribution of the services sector to GDP, is also mirrored in employment statistics.
- A significant shift of employment from the agriculture and industry sectors to the services-producing sector can be observed.
- Services' contribution to total employment gained on average 5% in high income countries. The increase was much sharper in upper middle income countries (e.g. Poland).
- The share also rose in most lower middle income countries.



# Services trade patterns

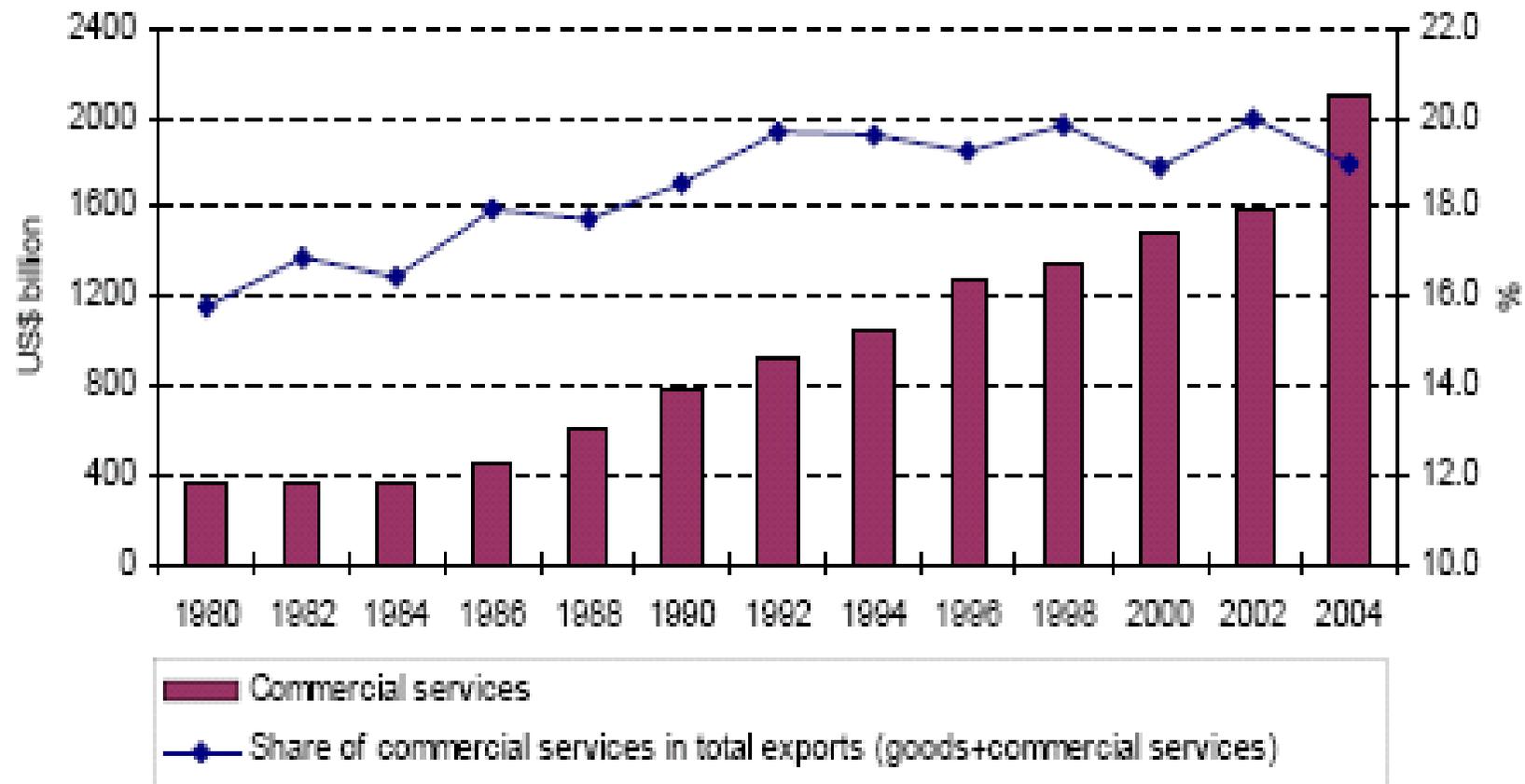
## Exports of Goods and Services, 1980-2004





# Commercial services trade patterns

World trade in commercial services, total exports, 1980-2004  
(USD billion and percentage)





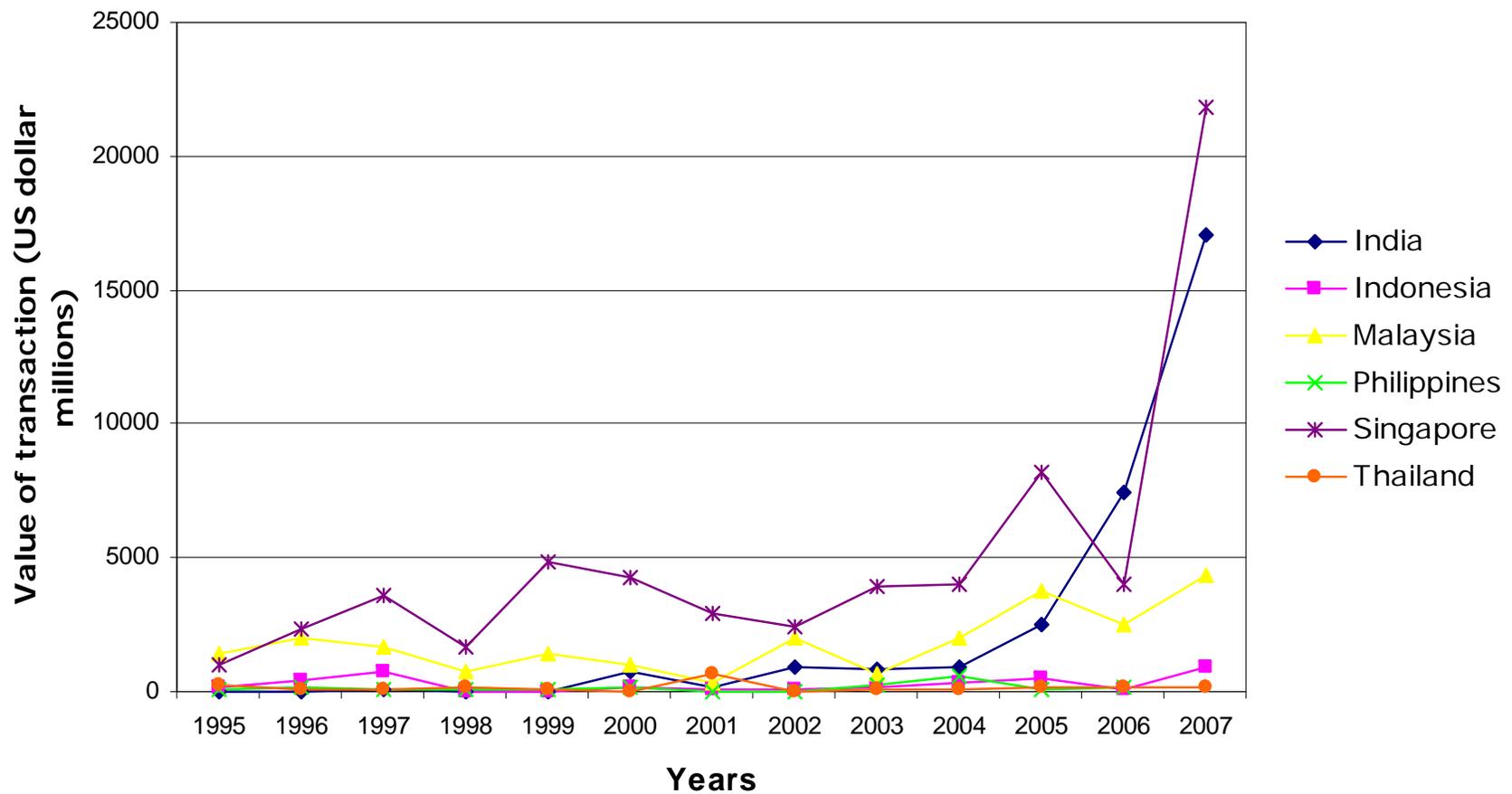
## Services trade patterns

- In some cases, the share of services in world trade contrasts with the central contribution of services production in domestic economies.
- Due to their intangible nature, trade in services is inherently subject to more constraints than trade in goods.
- The delivery of a (intangible) service is seldom dissociated from its production and its consumption.
- The need for proximity for supplying services has led providers to deliver their products through a commercial presence abroad (establishment of foreign affiliates).



## FDI patterns in services

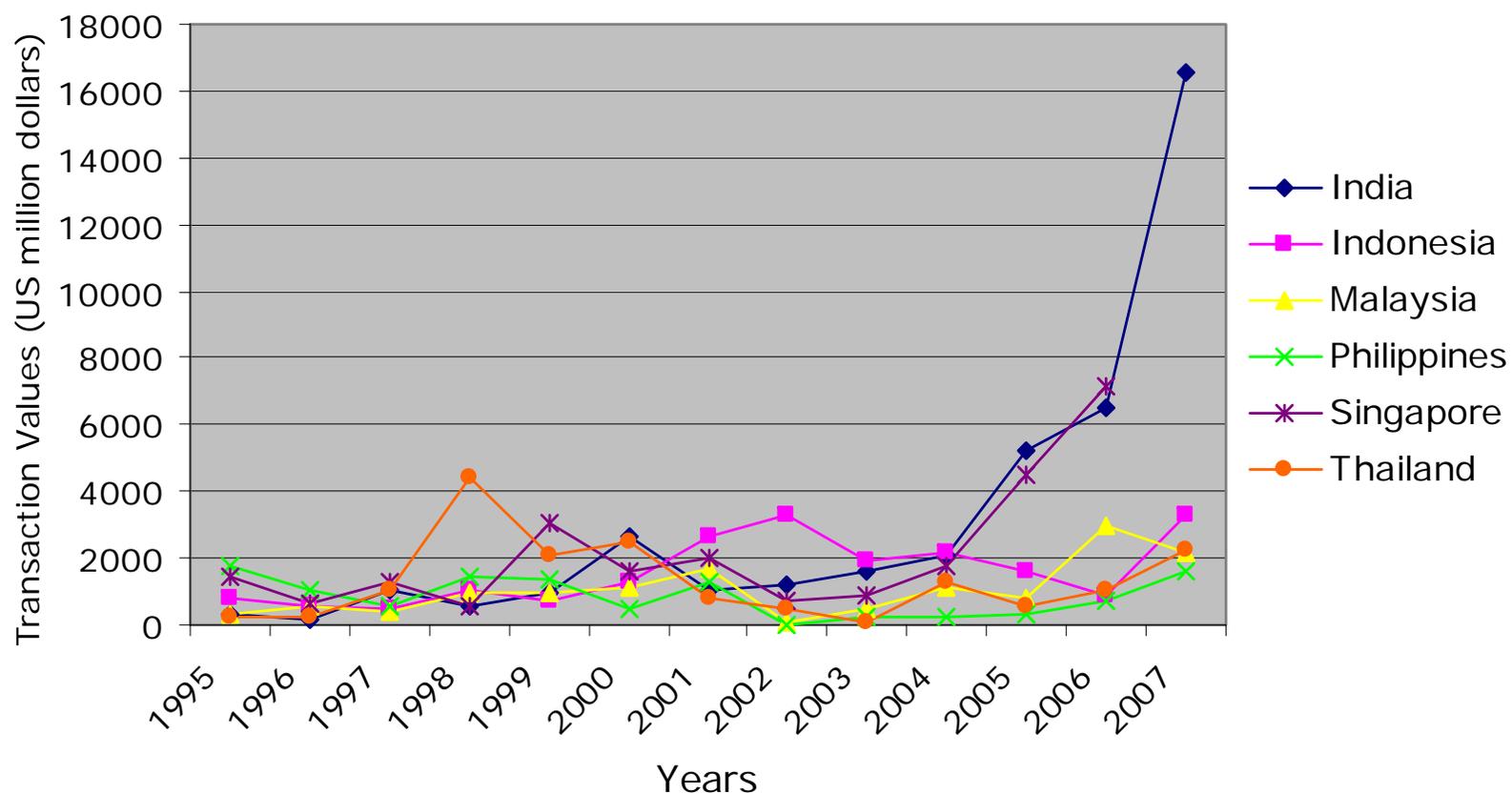
FDI Outflows, 1995-2007 million dollars





## FDI patterns in services

FDI Inflows, 1995-2007 million dollars





## B. THE FRAMEWORK FOR WTO RULES (GATS)



## Why GATS came into existence

- The creation of the GATS was one of the landmark achievements of the Uruguay Round, whose results entered into force in January 1995.
- The GATS was inspired by essentially the same objectives as its counterpart in merchandise trade, the General Agreement on Tariffs and Trade (GATT).
  - Creating a credible and reliable system of international trade rules
  - Ensuring fair and equitable treatment of all participants (principle of non-discrimination);
  - Stimulating economic activity through guaranteed policy bindings
  - Promoting trade and development through progressive liberalization.



## Trade in Services definition

- The GATS does not define services but does define **trade in services**.
- The definition covers not only the cross-border supply of services but also transactions involving the cross-border movement of capital and labour.
- The supply of many services is possible only through the simultaneous physical presence of both producer and consumer.
- There are cases in which, to be commercially meaningful, trade commitments must extend to cross-border movements of the consumer, the establishment of a commercial presence within a market, or the temporary movement of the service provider himself.



## GATS: services covered

- The GATS applies in principle to all service sectors, with two exceptions.
  - Article I(3) of the GATS excludes **services supplied in the exercise of governmental authority**: services that are supplied neither on a commercial basis nor in competition with other suppliers.
  - Examples are social security schemes and any other public service, such as health or education, that is provided at non-market conditions.
  - The Annex on Air Transport Services exempts from coverage measures affecting air traffic rights and services directly related to the exercise of such rights.



## Services Sectors

- Communications, all types
- Construction
- Distribution
- Education
- Environment
- Financial
- Health and social
- Tourism
- Recreation & cultural
- Transport, all types
- Business and professional
- Other



## Modes of Supply

- The GATS distinguishes between four modes of supplying services:
- **Cross-border supply** is defined to cover services flows from the territory of one Member into the territory of another Member. E.g. Banking or architectural services transmitted via telecommunications or mail.
- **Consumption abroad** refers to situations where a service consumer (e.g. tourist or patient) moves into another Member's territory to obtain a service.



## Modes of supply

- **Commercial presence** implies that a service supplier of one Member establishes a territorial presence through ownership or lease of premises, in another Member's territory to provide a service (e.g. domestic subsidiaries of foreign insurance companies or hotel chains)
- **Presence of natural persons** consists of persons of one Member entering the territory of another Member to supply a service (e.g. accountants, doctors or teachers). The Annex on Movement of Natural Persons specifies, however, that Members remain free to operate measures regarding citizenship, residence or access to the employment market on a permanent basis.



## GATS: obligations

- Obligations contained in the GATS can be categorized into two broad groups
- **General obligations**, which apply directly and automatically to all Members and services sectors
  - Unconditional
- **Commitments** concerning market access and national treatment in specifically designated sectors. Such commitments are laid down in individual country schedules whose scope may vary widely between Members.
  - Conditional



## General Obligations

- **MFN Treatment:** Under Article II of the GATS, Members are held to extend immediately and unconditionally to services or services suppliers of all other Members “treatment no less favourable than that accorded to like services and services suppliers of any other country”. Derogations are possible in the form of so-called Article II-Exemptions.
- **Transparency:** GATS Members are required, *inter alia*, to publish all measures of general application and establish national enquiry points mandated to respond to other Member's information requests.



## Specific Commitments

- **Market Access** (Article XVI) is a negotiated commitment in specified sectors. It may be made subject to various types of limitations.
- **National Treatment** (Article XVII) A commitment to national treatment implies that the Member concerned does not operate discriminatory measures benefiting domestic services or service suppliers.
  - relevant benchmark: no modification of “the conditions of competition” in favour of domestic like services or service suppliers.



## Types of Market access limitations

- Number of service suppliers
  - new licenses subject to economic needs
- Value of transactions or assets
  - assets of foreign banks limited to x percent of total bank assets
- Total number of operations or quantity of output
  - restrictions on broadcasting time for foreign films
- Total number of natural persons
  - no more than x foreigners per outlet
- Type of legal entity or joint venture
  - foreign presence only via subsidiaries
- Maximum foreign capital participation
  - foreign equity limited to 49 percent



## Typical national treatment limitations

- Discriminatory subsidies and other financial measures
- Nationality and residency requirements
- Licensing, qualification and registration requirements
- Technology transfer/training requirements
- Local content requirements
- Prohibitions on land/property ownership
- Limitations on insurance portability, use of education grants, etc.



## Services schedules

- Each WTO Member is required to have a **Schedule of Specific Commitments** which identifies the services for which the Member guarantees market access and national treatment and any limitations that may be attached.
- Most schedules consist of both sectoral and horizontal sections.
  - The “Horizontal Section” contains entries that apply across all sectors subsequently listed in the schedule. Horizontal limitations often refer to a particular mode of supply, notably commercial presence and the presence of natural persons.
  - The “Sector-Specific Sections” contain entries that apply only to the particular service.





## GATS and developing countries

- Article V requires Members, *inter alia*, to negotiate specific commitments relating to the strengthening of developing countries' domestic services capacity; the improvement of developing countries' access to distribution channels and information networks; and the liberalization of market access in areas of export interest to these countries.
- Article XIX provides that liberalization takes place with due respect for national policy objectives and Members' development levels, both overall and in individual sectors.



## C. TRADE IN SERVICES NEGOTIATIONS



# Services in the Doha negotiations

## Objectives and Principles

- Progressive liberalization; increasing participation of developing countries; appropriate flexibility for individual developing countries; special priority for LDCs; no change in structure and principles of GATS; due respect for national policy objectives.

## Scope

- No prior exclusion of sectors or modes; negotiation of (current) MFN exemptions; target dates for negotiations on GATS Rules and Domestic Regulation.

## Modalities and Procedures

- Negotiations shall start from current schedules; request-offer approach as the main method; negotiating credit for autonomous liberalization based on common criteria; ongoing assessment of trade in services.



# Services Negotiations

## The July Package

- Need for progress on offers by May 2005, especially in areas of interest to developing countries.
- Negotiations to accelerated on rules (procurement, subsidies and emergency safeguards), plus domestic regulation.
- The initial offers or new or improved commitments were made known to all WTO members since everybody would be affected by their entry into force



## Services Negotiations

- At the target date of March 31 2004, only 12 offers were available, to be followed by 26 more submissions prior to the Cancun Ministerial Meeting in September 2004.
- Although this number has increased significantly (70 initial and 30 revised by mid April 2006) the geographic participation remains uneven.
- There is a sense of disappointment concerning the quality of commitments.
- Less than 7% of the 480 odd exceptions have been earmarked for removal.



## Hong Kong

- In addition to bilaterals, requests and offers on a (voluntary) plurilateral basis; offers to be submitted by 28 February 2006
- Model objectives
- New timeline
- Work to continue on rules, particularly on domestic regulation



## Formulae vs. Request-and-offer

Alternatives to approach international negotiations

### Formulae

- Difficult to design for services negotiations because many different unquantifiable instruments affect access to markets.

### Request-and-offer

- Allows considerable freedom in deciding on the intensity of liberalization.
- Preferred by developing countries

### More ambitious approach

- New frameworks for negotiations in modes 1 and 4 where developing countries have a comparative advantage.



## Facilitating Liberalization

- While market access is negotiated in the WTO, policy advice and assistance for regulatory reform are provided by multilateral institutions.
- There is not a clear link between the two processes
- Two things are needed
  - More policy research to help design reform programs
  - More technical support and resources to improve the regulatory environment



## D. THE MANUAL ON STATISTICS IN INTERNATIONAL TRADE IN SERVICES



## Trade in services statistics

- There has been an increasing demand for detailed, relevant and internationally comparable statistical information on trade in services.
- Trade negotiators require statistics, possibly by mode of supply, as a guide to negotiate specific commitments and to monitor their economic impact for each type of service.
- Statistics are necessary to evaluate market access opportunities, compare liberalisation commitments, assess the extent of liberalisation reached in specific sectors/markets and provide statistical background for the settlement of disputes.



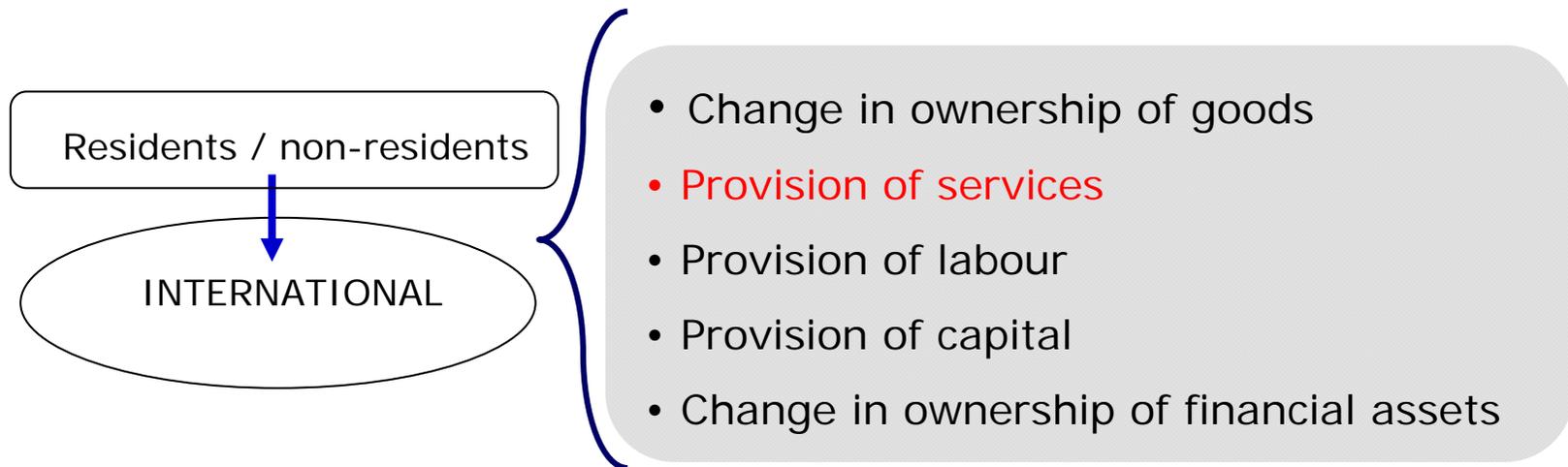
# Manual of Statistics in International Trade in Service

- Guidelines and recommendations on the measurement of trade in services
  - Statistics on Resident-Non Resident Trade in Services (BOP).
  - Foreign affiliates trade in services statistics
  - Mode 4 statistics



## BOP key concepts: international transaction

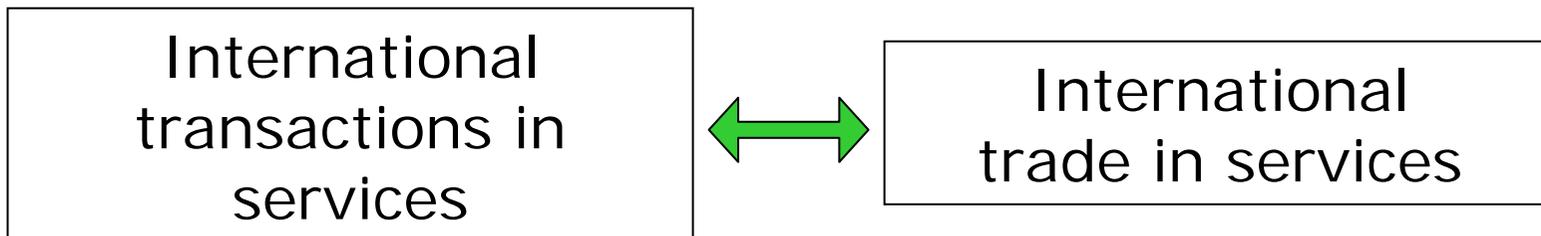
- A country's BOP is a balanced statistical statement that summarizes the economic transactions of its residents with the rest of the world.
- A transaction is an economic flow that involves change of ownership of goods and/or financial assets, the provision of services, or the provision of labour or capital.





## BOP key concepts: what is a service transaction

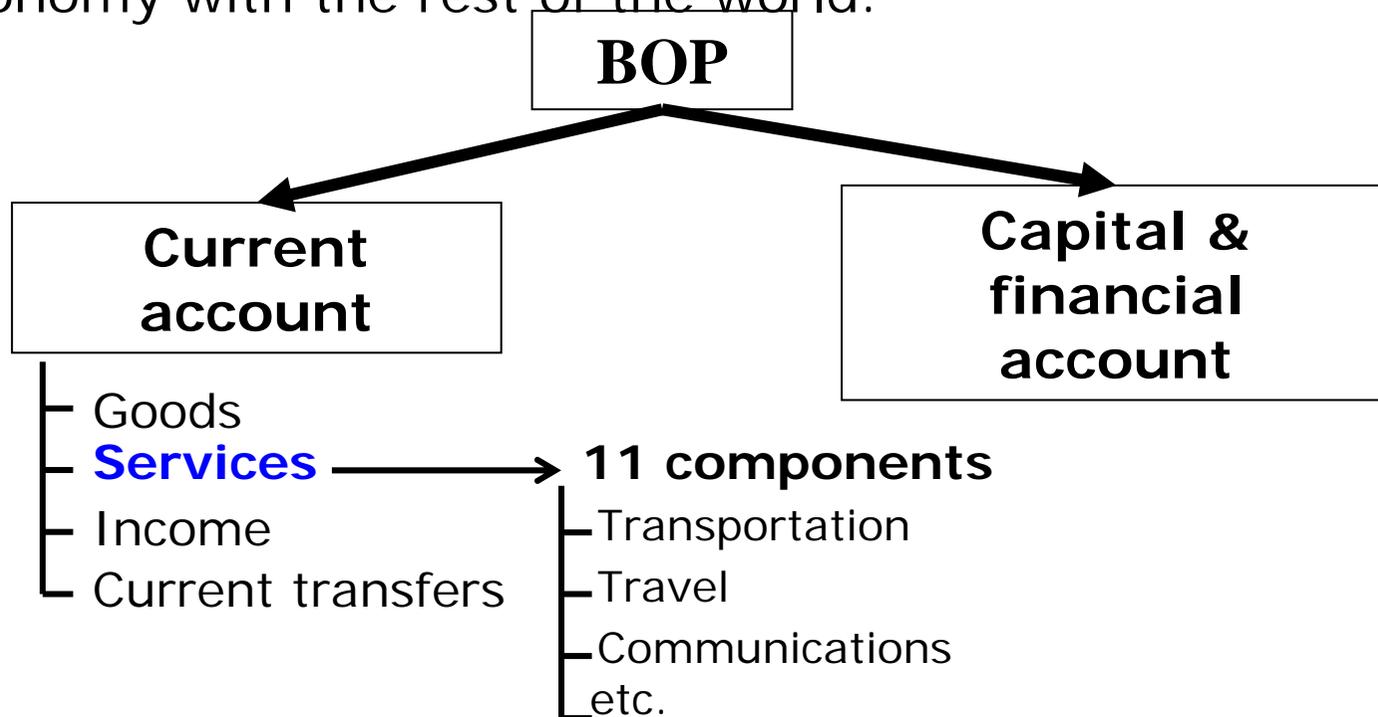
- Services international transactions are in practice referred to as trade in services.
- These transactions are in general to be recorded gross, with each service item displaying a credit and a debit value, representing respectively exports and imports of that service.





## BOP statistics

- BOP which conform to the 5th edition of the IMF *Balance of Payments Manual* (BPM5) summarize transactions of an economy with the rest of the world.





## Principles of recording

- **Valuation:** market prices (price agreed between seller and buyer).
- **Time of recording:** time at which services are rendered (accrual accounting).
- **Unit of Account:** transactions converted to a common unit of account (national currency, USD)



## The concept of residence

- The residence concept is not based on nationality or legal criteria but on a transactors centre of economic interest.
- For political purposes may not always be appropriate for economic purposes, the economic territory of a country is used as the relevant geographical area to which the concept of residence is applied.
- The economic territory of a country consists of the geographic territory administered by a government.
- An enterprise has a centre of economic interest in an economy when it engages or intends to engage in economic activities on a significant scale, and over a long time period (one year rule).



## Extended Balance of Payments Services Classification

What is it?

- product-based classification,
- consistent with 11 BPM5 services components,
- more detailed than BPM5 services components,
- including additional memorandum items.

How can it be used in the framework of GATS negotiations?

- MSITS provides a table of correspondence between EBOPS / CPC Rev.1 / GATS list of services GNS/W/120.



# EBOPS Main Components

## Commercial services:

- 1 Transportation
- 2 Travel
- 3-10 Other comm. services

3. **Communications services**
4. **Construction services**
5. **Insurance services**
6. **Financial services**
7. **Computer and information services**
8. **Royalties and licence fees**
9. **Other business services**
10. **Personal, cultural and recreational services**

11. **Government Services**  
(not in GATS)



# EBOPS detailed components

## 1. Transport

- Sea transport (passenger, freight, other)
- Air transport (passenger, freight, other)
- Other transport (passenger, freight, other)
  - Space, Rail, Road, ...

## 2. Travel

- Business travel
  - Expenditure by seasonal and border workers
  - Other
- Personal travel
  - Health-related expenditure
  - Education-related expenditure
  - Other

## 3. Communications services

- Postal & courier
- Telecommunication

...etc

...



## EBOPS Memorandum Items and Alternative Aggregations

- Memorandum items: useful additional information:

### Example: TRAVEL

- Expenditure on goods
- Expenditure on accommodation and food and beverages
- All other travel expenditure

- Aggregations of services and non-services transactions

### Example: AUDIOVISUAL TRANSACTIONS

- Services: audiovisual services; audiovisual-related royalties and license fees
- non-services: acquisition/disposal of audiovisual-related patents, copyrights...



## Allocation of BOP/EBOPS Items to Modes of Supply

- MSITS proposes a simplified approach: items deemed to be predominantly delivered through one mode

### MODE 1

- Transportation (except supporting and auxiliary services to carriers in foreign ports),
- Communications services
- Insurance services
- Financial services
- Royalties and license fees

### MODE 2

- Travel (excluding purchases of goods)
- Supporting and auxiliary services to carriers in foreign ports



## Allocation of BOP/EBOPS Items to Modes of Supply

- Items for which significant elements of 2 modes of supply are involved:

### MODE 1 and MODE 4

- Computer and information services
- Other business services
- Personal, cultural and recreational services

### ■ MODE 4 and MODE 3

- Construction services



## Foreign Affiliates Trade in Services Statistics

- Principles for recording FATS statistics
  - The FDI universe
  - Firms covered
  - Statistical units
  - Time of recording
  
- Economic variables
  
- Attribution (classification) of FATS variables
  - By country
  - By activity and by services products



## Usefulness of FATS Statistics

- What are FATS statistics useful for?
  - Focus on services measuring Mode 3 (commercial presence).
  - Help understand the phenomenon of globalization.
  
- What do FATS statistics measure?
  - A range of indicators on the activity of foreign affiliates
  - Inward and outward FATS
  - With a particular focus on services



## Principles underpinning FATS Statistics

- In line with international standards
  - SNA 1993 (National Accounts)
  - BPM5 (BOP)
  - OECD Benchmark Definition of FDI
- FDI statistics may be used as an interim indicator where FATS are not compiled



# The FDI Universe

- FDI: the direct investor makes an international investment to obtain a lasting interest in an enterprise abroad

**Country A**

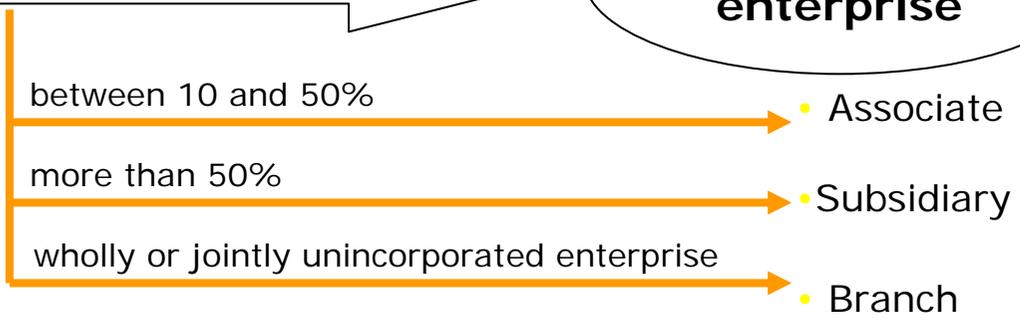
**Direct investor**

- individuals
- enterprises
- associated groups of individuals/enterprises
- governments...

Owns >10% shares, voting power or the equivalent

**Country B**

**Direct investment enterprise**





## Firms Covered in FATS

- Ownership criteria
  - Majority-owned foreign affiliates (a single foreign investor owns more than 50% of their ordinary shares or voting power):
  
- Types of producers
  - Affiliates producing goods, services
- Units considered in FATS statistics may be
  - Enterprises
  - Establishments of enterprises



## Time of recording FATS Variables

### ACCRUAL BASIS

- Recording when the transaction occurs rather than when the related payment is made

### PERIOD OF RECORDING

- Flow variables: reference year
- Stock variables: end of reference year

### REFERECE YEAR

- Calendar year in principle
- If only fiscal or accounting year is available



# Economic Variables for FATS

## **Basic FATS variables** (minimum recommended by MSITS)

- Assets
- Compensation of employees
- Net worth
- Net operating surplus
- Gross fixed capital formation
- Taxes on income
- Research and development expenditures

- Sales (turnover) and/or output
- Employment
- Value added
- Exports and imports of goods and services
- Number of enterprises

## **Additional FATS variables**



## Classification by activity and by product

- FATS variables classified as a first priority on an activity basis
  - Foreign affiliates classified by their primary activity
  - According to ISIC Categories for Foreign Affiliates (ICFA)
  - ICFA can be linked with EBOPS (to a limited extent)
- Long-term priority...
  - FATS variables such as sales, imports and exports should also be broken-down by product.



## The movement of Natural Persons

- The movement of natural persons in GATS
  - Mode 4 service suppliers
  - Temporary movement
  - Relations to existing classifications
  
- Statistics for measuring Mode 4
  - BOP statistics
  - FATS statistics
  - Migration statistics
  - Other possible sources
  - Improving Mode 4-related statistics



## The issues of measuring Mode 4

- Mode 4 in MSITS
  - MSITS recognizes that a statistical framework needs to be developed for measuring Mode 4
  - Annex in MSITS as a first step
- Main statistical issues
  - Determining the coverage of Mode 4
  - Only fragmentary indicators available.



## The Movement of Natural Persons in GATS

- Relevant framework
  - GATS' main text: mode 4 presence of natural persons
  - GATS' Annex: movement of natural persons
- Description of Mode 4 in GATS' Annex in terms of:
  - Purpose of stay: Fulfilling a service contract, whether as a service supplier (self-employed) or as an employee
  - Duration of stay: **Temporary**. Measures regarding citizenship, migration, residence and permanent employment are not covered



## Mode 4 services suppliers

- From the point of view of the recipient/importing country Mode 4 comprises services delivered in the framework of:
  - **service contracts** with foreign service suppliers (the individuals themselves or their employer)
  - **employment contracts** between foreign enterprises established in the host country and foreign individuals
- Areas of uncertainty:
  - what does the supply of a service refer to?
  - many commitments currently focus on highly-skilled workers
  - for independent service suppliers, difficult to establish borderline between service and employment contract.



## Mode 4 and “Temporary”

GATS does not define “temporary”

- In WTO Members' schedules of commitments
  - Varies between about 3 months (businesss visitors) and 2 to 5 years (intra-corporate transferees)
- In international statistical standards (BPM5, SNA, migrations)
  - One-year rule: distinction between residents/non-residents
  - Statistics on residents also include Mode 4 service suppliers



## Mode 4: existing classifications

- UN CPC: Basis for classifying services as product of economic activity, including services delivered through Mode 4
- ISCO-88: Distinguishes categories of employment: can facilitate linkages statistics/negotiations
- UN ISIC: \_Industrial classification: relevant if statistics by occupation are not available
- ICSE-93: Status in employment: identifies « independent service provides ».



## Statistics for measuring Mode 4

Categories	Statistical coverage
I. Service contracts, delivered in the host country by independent foreign supplier, or its employee(s)	<u>BOP</u> : Service transactions between resident and non-residents, major BPM5 services components
II. Employment contracts (non-permanent), for foreigners, in all domestic firms (not of interest for assessing mode 4)	<u>BOP</u> : Compensation of employees, with adjustments (e.g. sectoral breakdown and duration) <u>Employment/migration statistics</u> : short-term migrants working in services. Would need adjustments for short-term but more than one year
(a) of which: foreign-owned or controlled resident services companies	A subset of the above; could be derived using the FATS register



## BOP and Mode 4

### BOP ITEMS

- Services (especially computer & information, other business, personal cultural & recreational, and construction services)

### RELEVANCE

- Service contracts with the importer

### LIMITATIONS

- Include other modes of supply



## Migration statistics and Mode 4

### RELEVANT FRAMEWORK

- UN Recommendations on Statistics of International Migration
- Include temporary migrations for the purpose of work

### RELEVANT CATEGORIES

- Foreign border-workers
- Visitors and foreign business travellers
- Some sub-categories of other migrant workers (within limits of occupation/activity): seasonal migrant workers, project-tied
- Workers and temporary migrant workers.



## FATS and Mode 4

### RELEVANT VARIABLES

- Employment
- Compensation of employees

### WHY RELEVANT?

- A number of commitments relate to intra-corporate transferees
- It could help to separate identification of foreign non-permanent employment



## Other possible sources

- Statistics on the number and type of work permits granted (e.g. by duration / occupation)
- Information from social security systems / health insurance schemes in which foreigners may be distinguished
- Statistics on arrivals and departures from migration or tourism authorities (origin/destination, length of stay, purpose of stay...)
- Household surveys / population censuses



## Improving Mode 4 related statistics

- Main difficulty in measuring Mode 4 is to identify in available statistics the relevant subset of services and workers
- Migration/labour statistics; sounder ground for improvement. However not in short-term, and GATS Mode 4 not translated in precise statistical requirements



## E. TRADE IN SERVICES DATA SOURCES



## Data sources

- Data sources for BOP statistics
  - International Transactions Reporting System (ITRS)
  - Enterprise surveys
  - Combining ITRS and enterprise surveys
  - Other sources
  
- Data collection systems for FATS statistics
  - Key features for the collection of FATS statistics
  - Examples of country practices
  
- Data comparability and reliability
  - BOP asymmetries
  - IMF initiatives related to data quality



## Collection systems for BOP statistics

- Main alternatives for the collection of BOP statistics
  - International Transaction reporting System (ITRS)
  - Enterprise surveys
  - A combination of both systems
  
- Possible supplementary sources
  - Surveys of travelers and household expenditure surveys
  - Official sources and government transactions
  - Partner countries and International Organizations



## ITRS

- Coverage
  - All services transactions
- Responsibility
  - (generally) the national central bank
- Respondents
  - domestic banks (indirect reporting)
  - residents holding accounts abroad or involved in
  - clearing/netting schemes (direct reporting)
- Advantages
  - timely, comprehensive, few respondents
- Limitations
  - transactions proxied by payments, possible misclassifications



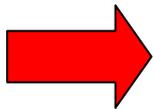
## Enterprise surveys

- Coverage
  - all service transactions
- Responsibility
  - (generally) the national statistical office
- Respondents
  - sampled enterprises who are international transactors
- Requisites
  - high quality business register
  - appropriate techniques for sample design, preparation of
  - questionnaires, and processing of survey results



## ITRS and Enterprise Surveys: some examples

- System mainly based on enterprise surveys, with no use of ITRS. E.g. United States, UK.
- Systems mainly based on ITRS, using a limited form of enterprise surveys. E.g. France
- Systems mainly based on enterprise surveys, using a limited form of ITRS. E.g. The Netherlands

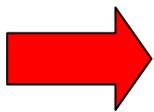


Great benefits to be drawn from co-operation  
between different institutions



## Other sources for BOP

- Surveys of travellers
  - Surveys conducted at borders (e.g. migration surveys)
  - Household expenditure surveys
- Official sources
  - Government transactions
    - Statistics as a by-product of official institutions' activities
- Other sources
  - Data from partner countries
  - Data from International Organizations

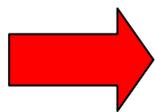


Interest of BOP compiler to co-operate with other institutions



## Collection system for FATS statistics

- Two different populations, requiring different approaches
  - Inward: enterprises surveyed directly on their activity (easier to collect)
  - Outward: resident parent companies surveyed on the activity of their affiliates abroad
  
- Different systems for collecting FATS statistics
  - Surveys collecting FATS data
  - Identify FATS in statistics on resident enterprises (only for Inward FATS)



Links with FDI in both cases  
(identification of the FATS population)



## Existing statistics for resident enterprises

- Which sources?
  - Existing statistics on resident enterprises (employment, turnover...)
  
- How can FATS statistics be obtained?
  - identify inward FATS population within resident enterprises
  - aggregate data collected across the foreign-owned population of resident enterprises



## Examples: countries practices collecting FATS

- Inward and outward collected on the basis of FDI surveys. E.g. US
- Outward based on FDI surveys, inward on resident enterprise statistics. E.g. Belgium
- Only inward collected, based on resident enterprise statistics. E.g. Denmark, Spain.
- Inward and outward collected through a separate survey. E.g. Sweden



## Asymmetries: types, causes, corrections

- Different types of asymmetries due to misallocations, different recording thresholds, difficult geographical identification...
  - Bilateral (two countries)
  - Multilateral (e.g. intra-EU)
  - Global (World): for services, imports > exports
- How can they be corrected?
  - « bottom-up » approach: study of causes and reconciliation
  - « top-down » approach: mathematical model allocates asymmetries



## Data quality: IMF initiatives

- Two initiatives to assess data quality

### SDDS

- Identifies best practices in the dissemination of data
- 4 dimensions: the data, public access to the data, integrity of the data, and data quality
- Concerns specific countries, which must observe specific standards

### GDDS

- Approach similar to SDDS with respect to data quality
- Open to all IMF Members
- Less prescriptive than SDDS
- Emphasis: long-term



## F. DATA AVAILABILITY AND DISSEMINATION OF INTERNATIONAL ORGANIZATIONS



## Availability of data

- Compilation of trade in services is relatively well established and widespread
- BPM5 standard components widely compiled: the number of countries reporting these data has more than doubled since 1997 (breakdown of exports)
- Significant progress has been made in compiling more detailed items, and in compiling a breakdown by partner country.



## International dissemination of BOP/EBOPS statistics

- Broken down by type of services
  - Eurostat, OECD, IMF
  - these organisations are adapting a co-ordinated collection on an EBOPS basis
  
- Statistics broken down geographically
  - Eurostat and OECD
  - UNSD conducting feasibility studies for worldwide collection



## International dissemination of BOP/EBOPS statistics

Publication	Country coverage	By type of service	By partner country
<i>IMF Balance of Payments Statistics Database</i> (book and CD-ROM)	IMF members	Yes BPM5 and EBOPS* (provided to IMF on voluntary basis)	No
<i>Eurostat New Cronos Database</i> (on-line and CD-ROM)	EU members, total EU, euro area, EU candidate countries	Yes EBOPS*	Yes 65 partner countries and partner regions
<i>OECD Statistics on International Trade in Services</i> (a joint publication of OECD and Eurostat) (book, on-line and CD-ROM)	OECD members	Yes EBOPS*	No
<i>OECD Statistics on International Trade in Services</i> <i>Detailed Tables by Partner Country</i> (book, on-line and CD-ROM)	27 OECD members and Hong Kong	Total services Transportation Travel Other commercial serv. Government serv. n.i.e.	Yes 65 partner countries and partner regions
<i>WTO's International Trade Statistics</i> (book, on-line and CD-ROM)	All countries	Yes Summary data and analysis	No

\* From 2003. Joint OECD-Eurostat Trade in Services Classification up to 2002.



## Collection of FATS statistics

### COLLECTED BY EUROSTAT AND OECD

- Common questionnaire to member countries:
- Inward and outward FATS:
  - by activity (37 categories of ISIC)
  - by country of origin/destination of investment
- DISSEMINATION
  - OECD: Measuring globalisation: the role of Multinationals in OECD economies
  - Eurostat: publication in the Statistics in focus series, and in the New Cronos reference database
  - UNCTAD: World Investment Report



## Availability of FATS statistics

	Inward			Outward		
	Number of employees	Turnover	Value added	Number of employees	Turnover	Value added
Austria	x	x		x	x	
Belgium	x	x		x	x	
Czech Republic	x	x	x			
Denmark	x	x	x			
Finland	x	x	x			
France	x	x	x		x	
Germany	x	x		x	x	
Hungary	x	x	x			
Ireland	x		x			
Italy	x	x		x	x	
Japan	x	x	x			
Luxembourg	x	x		x	x	
Netherlands	x	x	x			
Norway	x	x	x			
Poland	x	x				
Portugal	x	x	x	x	x	x
Sweden	x	x	x	x		
Turkey	x	x	x			
United Kingdom	x	x	x			
United States	x	x	x	x	x	x



## FDI statistics as an alternative

- State of implementation
  - Many countries collect FDI flows, with geographical and activity breakdown (more data for inward than outward)
  - Fewer countries collect FDI income flows
- Collection and dissemination
  - Eurostat and OECD: FDI inward and outward stock, flows and income (by industry and country)
  - IMF: FDI positions, flows and income, no industry and partner breakdown
  - UNCTAD



## G. SERVICES TRADE STATISTICS CURRENT STATE AND FUTURE PROSPECTS



## MSITS' phased approach to implementation

- Consists of a set of 10 recommended elements
- Core elements: would provide a basis for internationally comparable statistics
- Other elements: considerable increase in detail of available information on trade in services (Long term)



## 5 core elements

- Implement BPM5 recommendations for trade in services.
- Compile BOP services according to EBOPS, starting with items of major economic importance to the country.
- Compile FDI by ISIC categories of activity
- Compile basic FATS variables broken down by ICFA categories of activity
- Compile statistics by partner country



## 5 other elements

- Full implementation of EBOPS
- Compile FATS additional detail
- Compile statistics on the presence of natural persons
- Split BOP trade in services among trade between related parties / trade with unrelated parties.
- Allocate BOP trade in services by mode of supply



## Recent progress

- Dramatic improvement of quality and quantity of statistics on resident/non-resident trade in services
  - For BPM5 main items, but also for more detailed items
  - FATS statistics are increasingly compiled



## Short term plans

- Eurostat: 2 regulations (binding)
  - on the compilation of FATS statistics
  - on BOP statistics, embodying EBOPS
- IMF :collect data according to EBOPS from 2003 (voluntary basis)
- OECD
  - expand the collection of BOP trade in services by partner country
  - request BOP trade in services broken down by EBOPS, and BOP indicators on Mode 4
- UNSD: assess feasibility of collecting BOP trade in services by partner country from non-OECD countries
- UNCTAD: expand data collection on FATS



## Future challenges

- The guidelines of MSITS – once implemented by a large number of countries – will provide statisticians, economists and trade negotiators with eagerly waited data on trade in services.
- MSITS identifies needs for further methodological work in two main areas:
  - A satisfactory linkage of statistics with GATS modes of supply is not feasible at present. (see table)
  - the creation of a statistical framework in an annex on the movement of natural persons supplying services under GATS.



## Correspondence between modes of supply and statistical domains

Mode of supply	Relevant statistical domains	Inadequacies
<i>Mode 1:</i> Cross border supply	BOP: commercial services (excluding <i>travel</i> and <i>construction services</i> )	BOP does not allow a separation between <i>Modes 1</i> and <i>4</i>
<i>Mode 2:</i> Consumption abroad	BOP: <i>Travel</i>	<ul style="list-style-type: none"> <li>• <i>Travel</i> also contains goods and is not subdivided into the different categories of services consumed by travellers</li> <li>• Some transactions related to this mode of supply are also in other BOP categories</li> </ul>
<i>Mode 3:</i> Commercial presence	FATS statistics BOP: FDI data (supplementary information) BOP: <i>construction services</i>	<ul style="list-style-type: none"> <li>• Very few countries produce FATS data</li> <li>• FDI statistics cover a larger subset, not only (majority) controlled companies</li> <li>• Not distributed between <i>Modes 3</i> and <i>4</i></li> </ul>
<i>Mode 4:</i> Presence of natural persons	BOP: commercial service (excluding <i>travel</i> ) BOP statistics: <i>compensation of employees</i> and <i>workers' remittances</i> (supplementary information)	<ul style="list-style-type: none"> <li>• BOP does not allow a separation between <i>Modes 1</i> (<i>3</i> for <i>construction services</i>) and <i>4</i></li> <li>• no relationship with <i>Mode 4</i> but of interest for labour mobility</li> </ul>



## Areas where improvements are needed

- BOP trade in services
  - Few countries report the full BPM5 detail
  - Lack of reliability
  - Documentation on coverage and deviations from international standards not available
  
- FATS
  - Lack of reliability and comparability
  - No FATS collected outside OECD
  - Confidentiality severely limits data availability
  
- No framework for statistics by mode of supply, in particular for Mode 4



## H. DEVELOPING COUNTRIES AND SERVICES TRADE STATISTICS



## What about developing countries?

- One of the final purposes of the collection of trade in services statistics is to use them for economic policy analysis and to implement a project on the quantification of trade in services barriers.
- Having data only for developed countries can generate selection problems in the policy analysis performed.
- The available data won't give us a complete picture on the causes and implication of trade in services barriers.



## Developing countries data availability

- Most of the trade in services datasets cover principally developed countries.

### BOP data

- Trade in services flows from developing countries to developed ones and vice versa can be derived from the bilateral trade in services data of OECD countries
- Flows between developing countries are not available.

### FDI data

- Information on developing countries as hosts' economies for foreign investment
- Data for FDI of firms located in developing countries is very rare



# BOP data for developing countries

Shares of services exports to OECD countries by category (1999-2005)

<b>Country</b>	<b>Travel Services</b>	<b>Transportation Services</b>	<b>Other commercial Services</b>
Argentina	0.27	0.46	0.29
Brazil	0.73	0.96	0.17
Chile	0.5	0.19	0.14
China	0.29	0.94	0.23
Colombia	0.05	0.14	0.07
Egypt	0.35	0.25	0.07
Hong-Kong	0.43	0.39	0.16
India	0.47	0.37	0.12
Indonesia	0.35	0.39	2.93
Iran	0.07	0.18	0.46
Israel	0.28	0.41	0.12
Malaysia	0.14	0.46	0.15
Pakistan	0.05	0.01	0
Philippines	0.63	1.69	1.04
Romania	0.94	0.25	0.23
Russia	0.18	0.38	0.23
Saudi Arabia	..	..	0.12
South Africa	0.3	1.08	0.52
Taiwan	0.52	1.18	0.13
Thailand	0.37	0.4	0.2
Ukraine	0.06	0.05	0.1
Venezuela	0.77	1.03	0.63
Vietnam	0.08	..	0.02



## Some results are puzzling

- For countries like Indonesia, Philippines, Taiwan and Korea, for some services categories the share of exports to OECD countries is bigger than one.
- Contrary to our expectations for most countries the shares of *Other Commercial Services* are represented by very small values.
- Example the case of India, for the category *Other Commercial Services*, the exports to OECD countries represent on average only 11% of its total exports in services.



## How to improve developing countries data on trade in services (ITFSTS)

- Understand if the conceptual framework of the Manual has been useful for developing countries to better structure and report the statistics they compile on international services trade.
- Which have been the recent developments of plans to put into operation the collection of services trade data for developing countries?
- Being aware of the difficulties faced by these countries (e.g. low resources for their statistical offices) is there a way to facilitate the implementation of the Manual.



## Some suggestions

- Develop a benefit-cost analysis on the collection of services data for developing countries to make them able to learn about the net advantages they will get from having complete and reliable trade in services statistics.
- Identify a set of pilot countries to realize the cost-benefit analysis on the compilation of trade in services statistics and examine the effectiveness of this analysis through the readiness and the efficiency in the collection of services data from this sub set of countries.
- Collaborate with developing countries to understand their willingness to generate better trade in services statistics and to give them the right incentives and strategies for the data collection processes through a cost-benefits examination.



## What have we learnt form this?

- There exist some stylized facts on the presence of a steady growth of international investment and trade in services.
- The development of statistics on trade in services has lagged behind the reality about the increasing importance of services in international markets.
- The *MSITS* encourages governments to harmonize their data on services and to provide more appropriate statistical tools for economic analysis and policy-making.
- Developing countries need to have better incentives in to to invest in some infrastructures for collecting trade in services data.



## Keys for improvement

- Efforts by national agencies in charge of statistics
- Governments' willingness to allocate resources to statistics
- Co-operation between national institutions
- Co-operation between international and regional institutions, and support to national initiatives
- Effective technical assistance
- Compilation guidance