



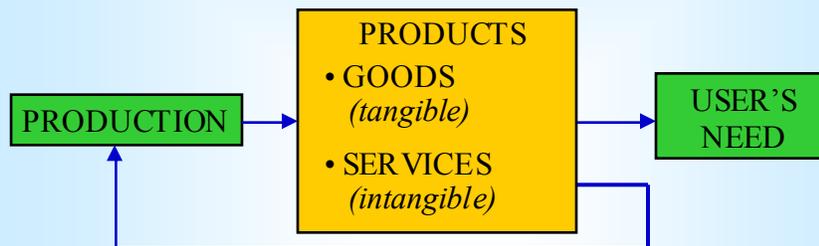
Measuring Trade in Services

Why do we need to measure trade in services?



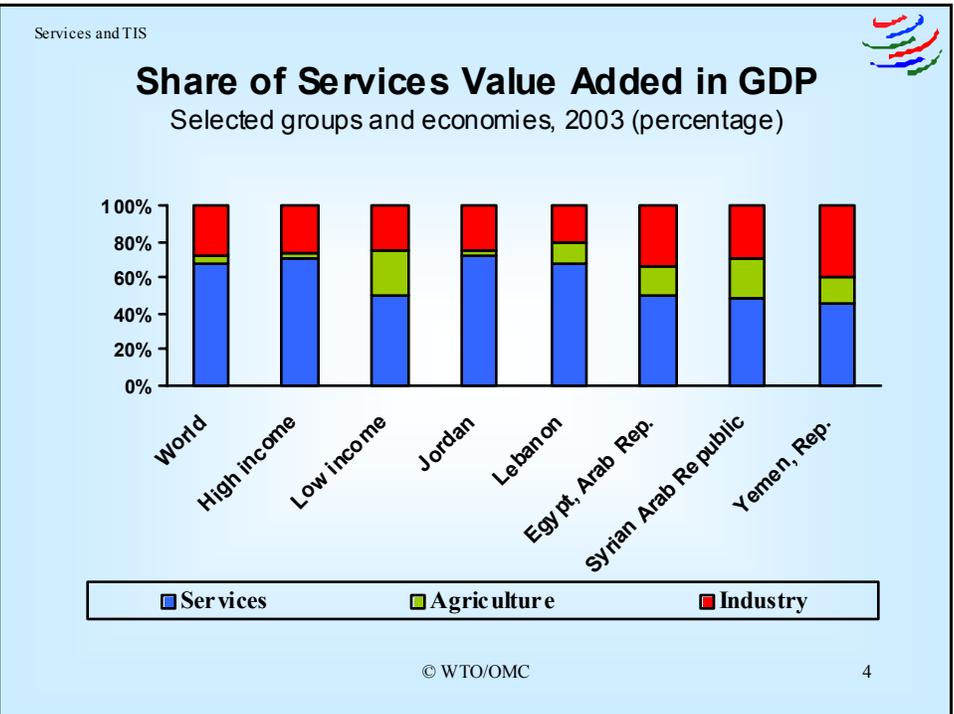
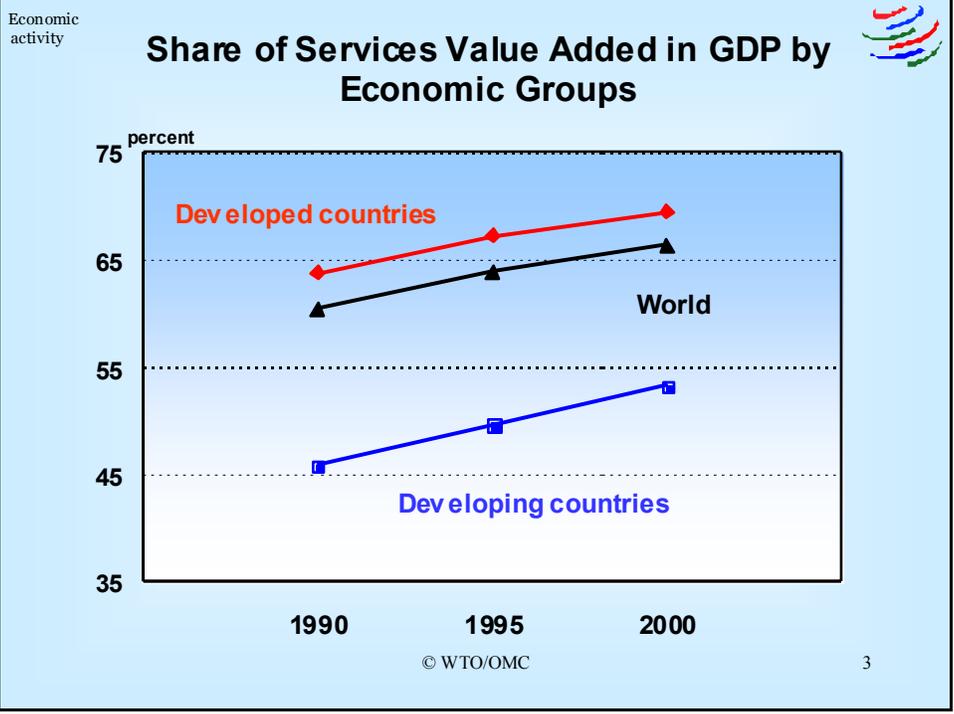
Services

- **Intangible**



- **Key role in the economy**

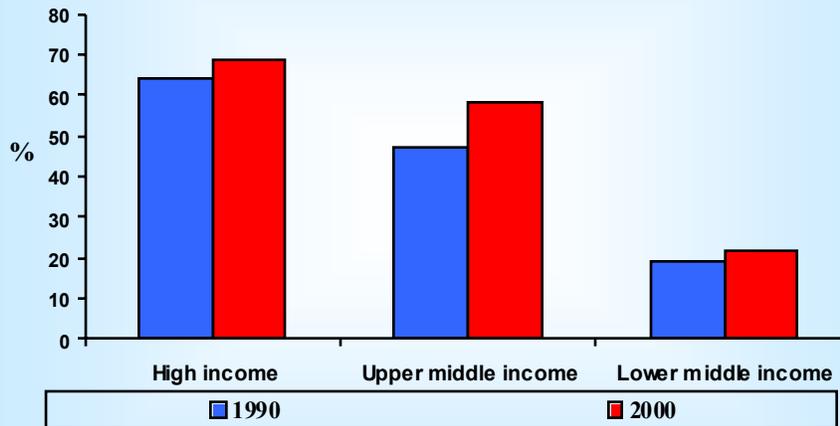
- transport, telecommunications...
- long term benefits - environmental, educational services...





Share of Services Employment, 1990 and 2000

(percentage of total employment)



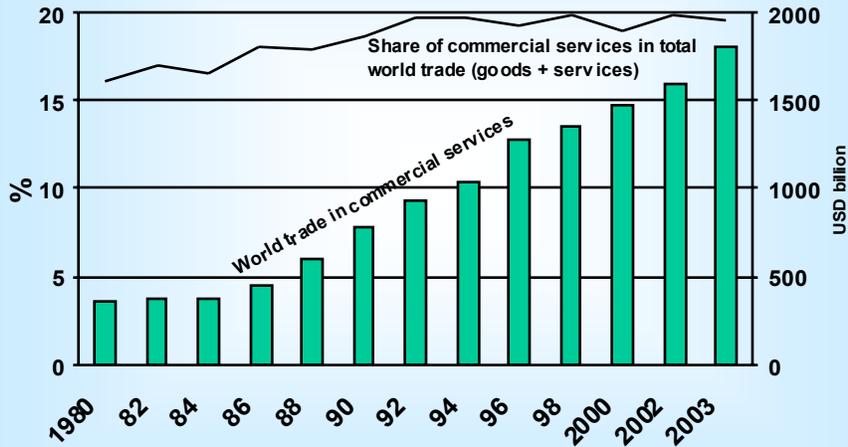
Services in International Trade

- Certain services - international transport and communication - have been traded for centuries
- Services have become tradable as a result of:
 - technical progress (e-banking, tele-medicine, distance learning)
 - government retrenchment
 - market liberalization and regulatory reform



World Trade in Commercial Services, Total Exports, 1980-2003

(USD billion and percentage)



Some Characteristics of Trade in Services

Services: 20% of total world trade, 2/3 of GDP

Intangible → non-tradable and non-storable

Simultaneity of production and consumption
Role of local establishment

Strong government involvement

Public service obligations, infrastructural importance
(transport, telecommunications, etc.)

Conventional trade statistics do not cover all international trade in services

Services delivered by foreign affiliates > conventional international trade in services.



Measuring Trade in Services

Introduction to GATS and Modes of supply

© WTO/OMC

9

GATS



Services in the Multilateral System: Since 1995

| YEAR | ROUND | PARTICIPANTS |
|---------|-------------------------------------|--------------|
| 1947 | Geneva | 23 |
| 1949 | Annecey | 13 |
| 1951 | Torquay | 38 |
| 1956 | Geneva | 26 |
| 1960/61 | Dillon Round | 26 |
| 1964/67 | Kennedy Round | 62 |
| 1973/79 | Tokyo Round | 102 |
| 1986/93 | Uruguay Round (Creation of GATS) | 123 |

© WTO/OMC

10



GATS: Scope, Coverage, Definition

- MEASURES AFFECTING TRADE IN SERVICES AT ALL GOVERNMENT LEVELS
- ALL SERVICES
(except air traffic rights and services supplied in the exercise of governmental authority)
- FOUR MODES OF SUPPLY
 - Cross-border supply
 - Consumption abroad
 - Commercial presence
 - Presence of natural persons



The GATS Pillars and Commitments

GATS Pillars

Set of **general obligations and disciplines**
 Countries **schedules of specific commitments**
Annexes on specific issues

Commitments under GATS

By **services sectors**
 By **mode of supply**



The Services Sectoral Classification List GNS/W/120

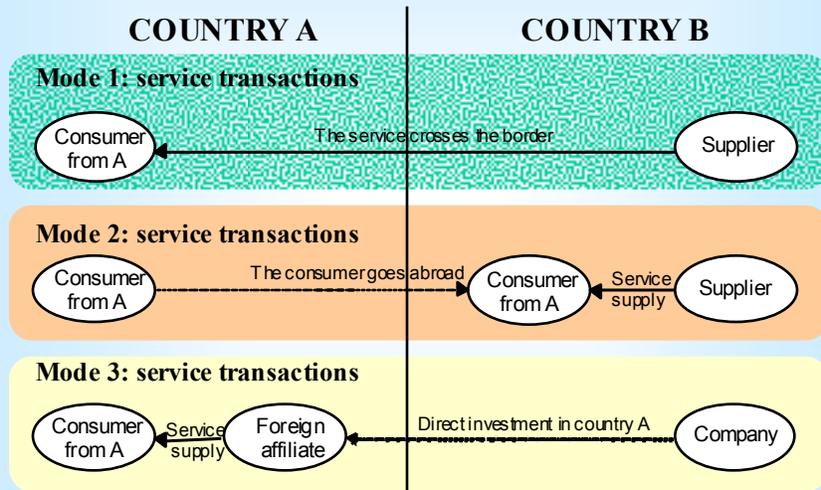
1. Business services
2. Communication services
3. Construction and related engineering services
4. Distribution services
5. Educational services
6. Environmental services
7. Financial services
8. Health-related and social services
9. Tourism and travel-related services
10. Recreational, cultural and sporting activities
11. Transport services
12. Other services not included elsewhere



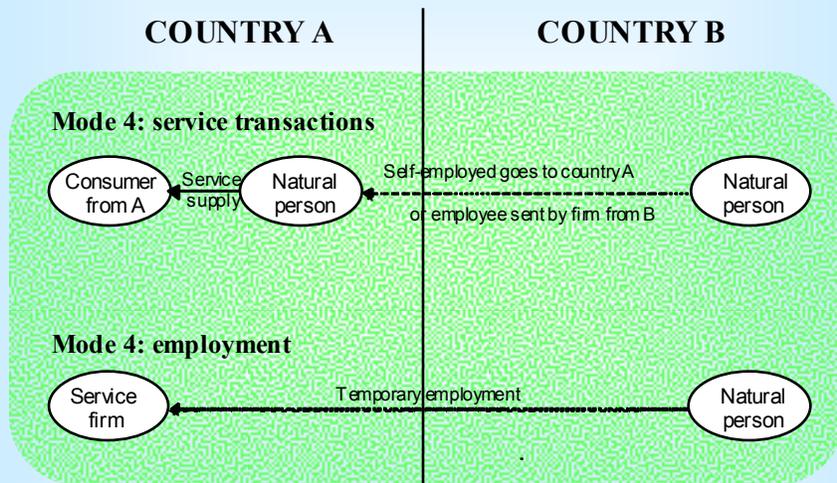
Description of the Sectors

- MTN. GNS/W/120 of July 1991 divides sectors into 12 groups
- Altogether ~ 160 sub-sectors identified
- Corresponding code of the Central Product classification (CPC), Provisional version
- Note: CPC is a tool, Members may describe sectors by using other definitions

The 4 Modes of Supply Under GATS (1/2)



The 4 Modes of Supply Under GATS (2/2)





The 4 modes of supply: health services (example)

- Mode 1 : Tele-diagnosis
- Mode 2 : Hospital treatment abroad
- Mode 3 : Foreign-owned clinic
- Mode 4 : Short-term employment of foreign nurses or physicians



Commitments in Specific Sector

Modes of supply: 1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons

| Sector or subsector | Limitations on market access | Limitations on national treatment | Additional commitments |
|---|--|---|------------------------|
| 8. HEALTH RELATED AND SOCIAL SERVICES | | | |
| A. <u>Hospital Services</u> (CPC 9311) | 1) Unbound 2) Unbound 3) Only through incorporation with a foreign equity ceiling of 51 per cent 4) Unbound except as indicated in the horizontal section | 1) Unbound 2) Unbound 3) None 4) Unbound except as indicated in the horizontal section | |



Horizontal Commitments

Modes of supply: 1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons

| Sector or subsector | Limitations on market access | Limitations on national treatment | Additional commitments |
|---------------------------------------|--|---|------------------------|
| I. Horizontal Commitments | | | |
| ALL SECTORS INCLUDED IN THIS SCHEDULE | 4) Unbound, except for the temporary presence for up to three years of the following categories of persons: A. <u>Services Salespersons</u> ... B. <u>Intra-corporate Transferees</u> ... Executives ... Managers ... Specialists ... Professionals ... C. Personnel Engaged in Establishment ... | 4) Unbound, except for measures concerning the categories of natural persons referred to in the Market Access column. | |



User's statistical needs

- Inform decisions on negotiating priorities and strategy
- Negotiate specific commitments in trade in services
- Support comparison of commitments
- Monitor compliance and resulting changes for types of services
- Statistical background for settling disputes
- Facilitate assessment of extent of liberalization achieved
- Aid evaluation of market access opportunities



REMEMBER

Statistical information needed

- **By service sectors**
- **By Modes of supply**
 - Mode 1: Cross-border trade
 - Mode 2: Consumption abroad
 - Mode 3: Commercial presence
 - Mode 4: Presence of natural persons



Measuring Trade in Services

The statistical framework



What is the problem for the statistical framework?

Goods

“cross-border”

response:

- International Merchandise Trade Statistics (IMTS), Rev.2
- Compilers Manual

Services

- mode 1: “cross-border”
- mode 2: consumption abroad
- mode 3: commercial presence
- mode 4: presence of natural persons

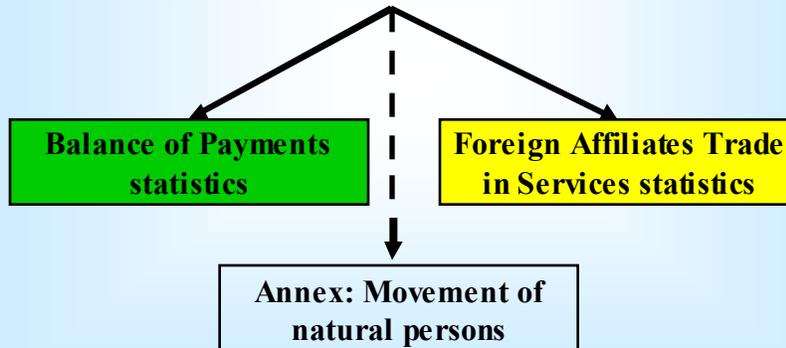
response:

- Manual on Statistics of International Trade in Services (MSITS)
- ~~Compilation guidance~~



The Manual on Statistics of International Trade in Services

Guidelines and recommendations on the measurement of trade in services





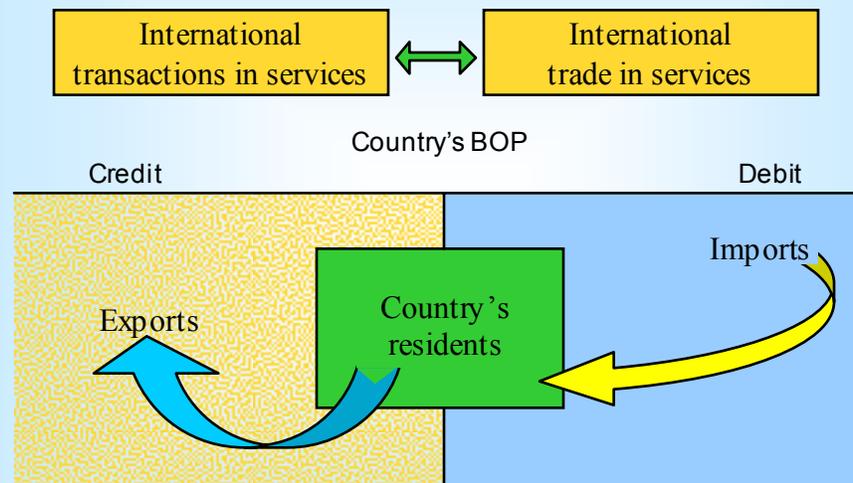
BOP Key Concepts

BOP → transactions between residents and non-residents

- **What is a transaction?**
 - involves **change in ownership** of a resource (real or financial)
- **What is a resident of a country/economy?**
 - institutional units (individual, enterprise, association, government unit...)
 - **centre of economic interest**,
 - economic territory of the country.



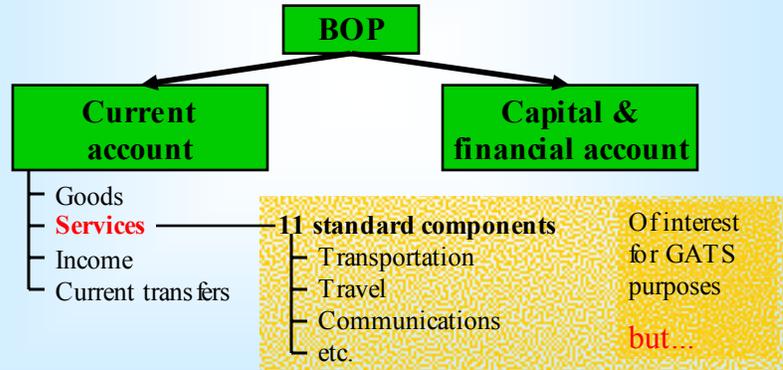
Trade in Services in BOP Statistics (1/3)



Trade in Services in BOP Statistics (2/3)



BOP summarises transactions of an economy with the rest of the world



Trade in Services in BOP Statistics (3/3)

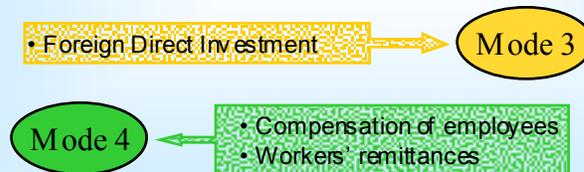


- **More detail needed than BPM5 services components**

➡ MSITS introduces EBOPS (breakdown of BPM5 services)

- **Most services delivered under Mode 3 and Mode 4 are not covered**

However, some BOP indicators help ful:





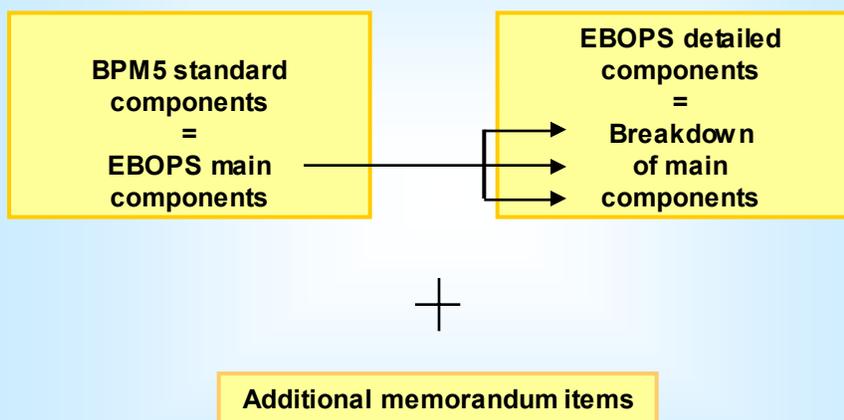
EBOPS

Extended Balance of Payments Services Classification

- **What is it?**
 - product-based classification,
 - **consistent** with and **more detailed** than 11 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: a Synthetic View





EBOPS Main Components

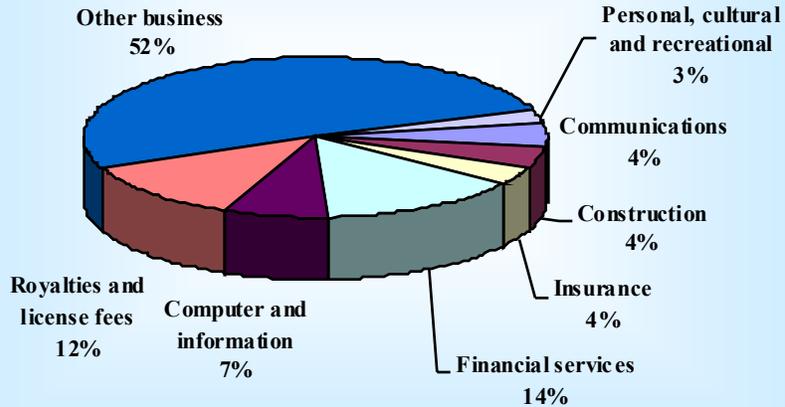
Commercial services:

- 1. Transportation
- 2. Travel
- 3. -10. Other commercial services
- 11. Government services
(not in GATS)

- 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



World Estimated Structure of Other Services Exports, 2001





EBOPS Detailed Components

Breakdown of main 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

... WTO/OMC



EBOPS Memorandum Items and Alternative Aggregations

• Memorandum items: useful additional information:

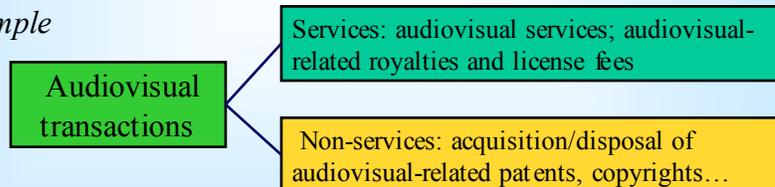
Example

Travel

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

• Aggregations of services and non-services transactions

Example



Allocation of BOP/EBOPS Services Items to Modes of Supply (1/2)



As a first step, MSITS proposes a simplified approach:

- Items deemed to be predominantly delivered through one mode

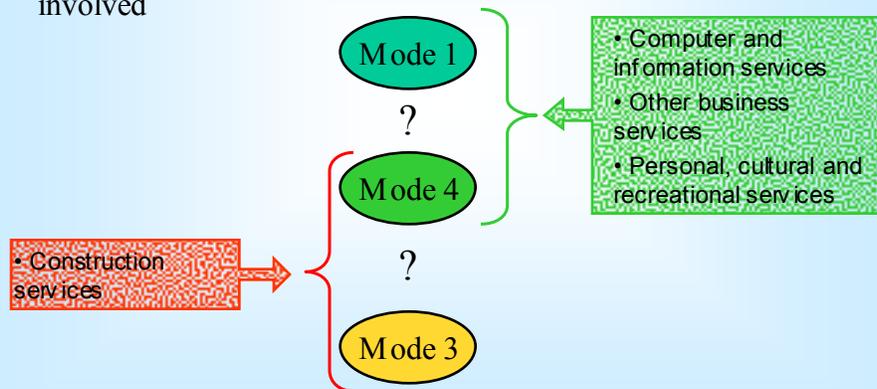


Allocation of BOP/EBOPS Services Items to Modes of Supply (2/2)



Simplified approach (continued):

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





Statistics by Trading Partner

MSITS recommendations

- Compile international trade in services statistics on an individual trading partner basis
- At least for :
 - Services as a whole
 - 11 main services components of BPM 5/EBOPS
 - Main trading partners
- If possible:
 - More detailed EBOPS level
 - Common geographical basis for all trade in services data



REMEMBER

Trade in services between residents/nonresidents

- Measured in the balance of payments, within the current account
- Do not cover the whole of trade in services (in particular Mode 3 and Mode 4)
- Need for more detail in terms of service sectors (EBOPS)
- Not allocated by modes of supply
- Need for statistics broken down by partner



UNCTAD's estimate

- Total sales of foreign affiliates were about 18.5 trillion \$ in 2001
- World exports (goods and services) are estimated at 7.4 trillion \$ in 2001
- that is, 2.5 times higher



Typical questions on globalization and the monitoring of GATS

- Is a part of the economy controlled by foreigners? To which extent? Which sectors? By which countries?
- What are the characteristics of foreign affiliates compared to national firms?
- What is the relative importance of mode 3?
- What is the extent of trade covered by mode 3 commercial presence?

Principles Underpinning FATS Statistics



In line with international standards

- *SNA 1993* (National Accounts)
- *BPM5* (BOP)
- *OECD Benchmark Definition of FDI*

 FATS closely linked with Foreign Direct Investment (FDI)

FATS Statistics: Main Features



What do FATS statistics measure?

- A range of indicators on the activity of **foreign affiliates**
- With a particular **focus on services**

What are FATS statistics useful for?

- Focus on services – measuring **Mode 3** (commercial presence)
- Help understand the phenomenon of **globalisation**

Concepts & definitions

- Manual on Statistics of International Trade in Services
- OECD Handbook on Economic Globalisation Indicators

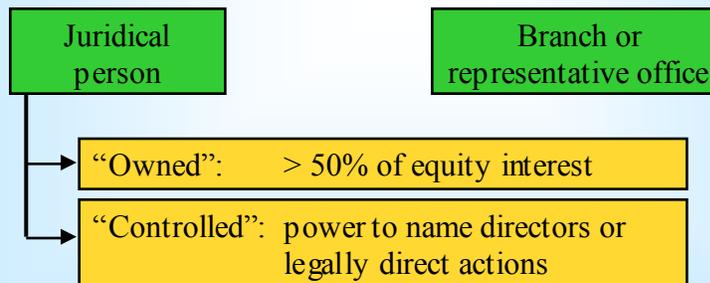


The Commercial Presence in GATS

GATS' main text

Supply of a service (...) through **commercial presence** in the territory of any other Member

GATS' definitions: Commercial presence



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)

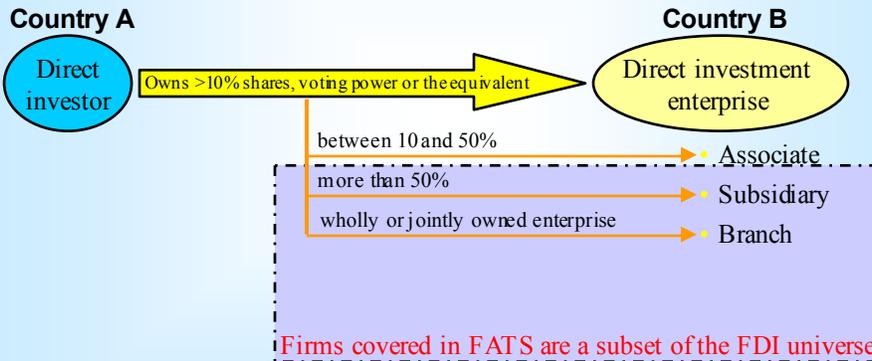
• Types of producers

Affiliates producing goods, services

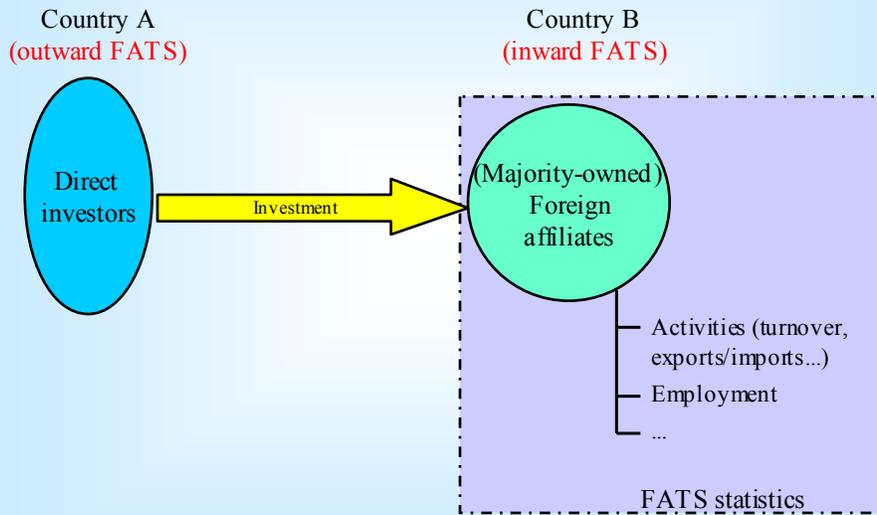


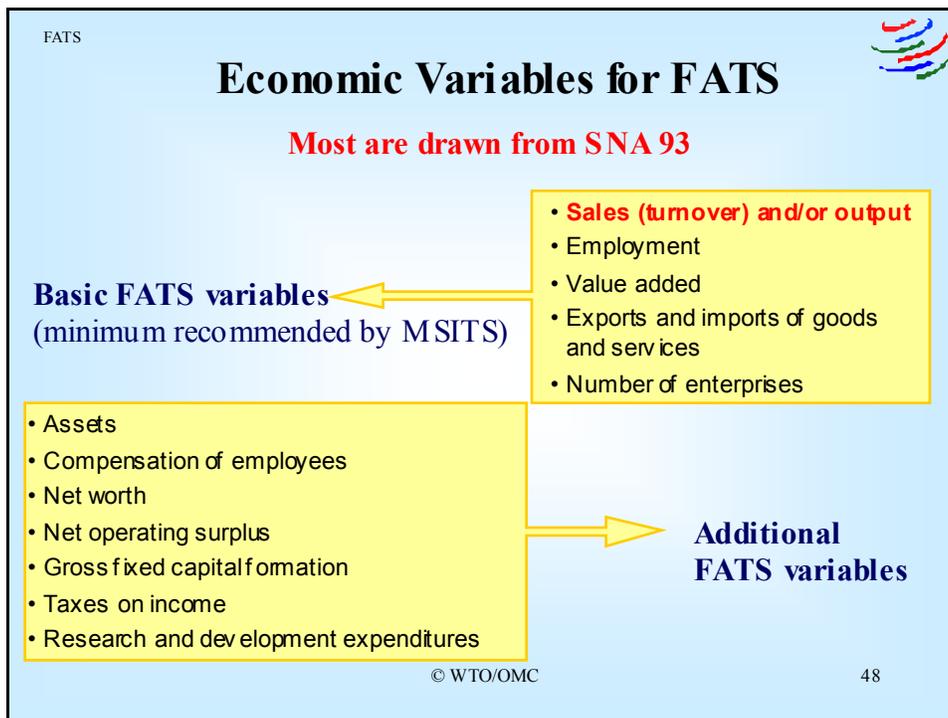
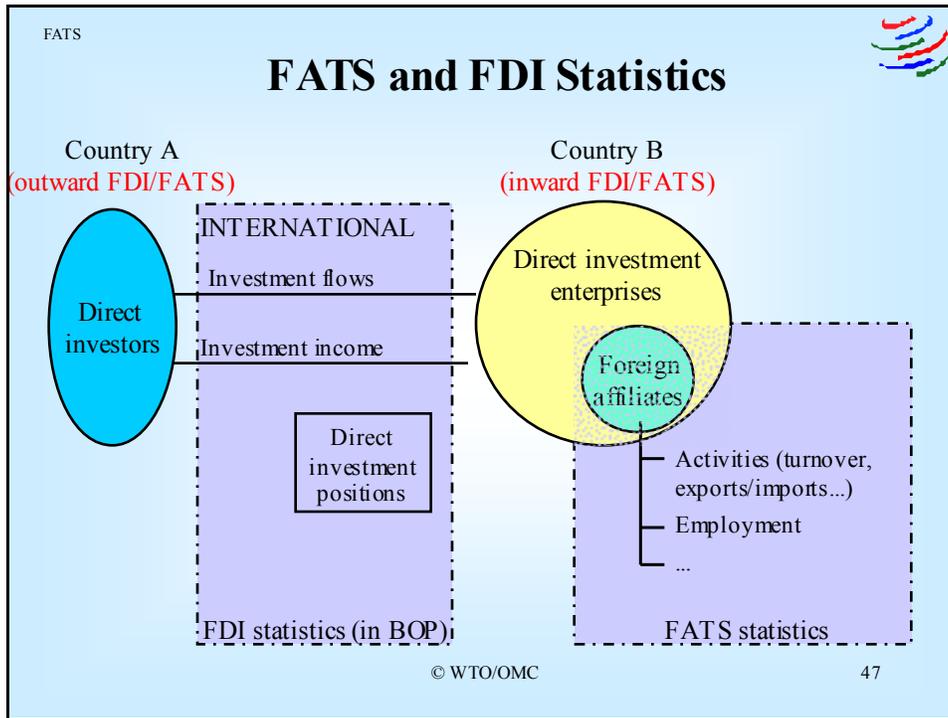
Relations with the FDI Universe

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



What Do FATS Statistics Describe? Inward / Outward FATS





Attribution / Classification of FATS Variables



- **Geographical breakdown**
 - **outward FATS** → country of the affiliate whose operations are described
 - **inward FATS** → country where the direct investor is resident
- **Classification by activity and by product**
 - **Priority**: classified by primary activity of the foreign affiliate
 - According to ISIC Categories for Foreign Affiliates (**ICFA**)
 - ICFA can be linked with EBOPS (to a limited extent)

REMEMBER



FATS statistics

- **Usefulness for measuring Mode 3 (commercial presence) and to understand globalisation**
- **Focus on the operations of majority-owned foreign affiliates**
 - of resident direct investors abroad (**outward FATS**)
 - of foreign direct investors, in the compiling economy (**inward FATS**)
- **Five basic variables, and additional variables**
 - Attributed by partner country
 - Classified as a priority on the basis of the primary activity of the foreign affiliate (ICFA – focus on services)



Main Issues for Measuring Mode 4

Mode 4 in MSITS

- MSITS recognises that a statistical framework needs to be developed for measuring Mode 4
- Annex in MSITS as a first step



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 and GATS' Annex in terms of

Purpose of stay

In respect of the **supply of a service** 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



Main Issues for Measuring Mode 4

Mode 4 in MSITS

- MSITS recognises 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
- Determining the indicators to measure Mode 4



Natural Persons and Mode 4

Natural persons concerned by Mode 4 trade in services:

Independent service suppliers / Employees of service suppliers moving abroad to deliver a service, or as business visitors

Intra-corporate transferees sent to a service-producing affiliate abroad

Areas of uncertainty

- employment with domestic firms?
- what does the supply of a service refer to?
- skill level: many commitments currently focus on highly-skilled workers



Mode 4 and “Temporary”

GATS does not define “temporary”

- **In WTO Members’ schedules of commitments**
Varies between about **3 months** (business 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



Statistics for Measuring Mode 4

| Categories | Statistical coverage |
|---|---|
| → I. Service contracts, delivered in the host country by independent foreign supplier, or its employee(s) | BOP: Service transactions between resident and non-residents, major BPM5 services components <u>Migration statistics</u> : Visitors and foreign business travellers |
| II. Employment contracts (non-permanent), for foreigners, in all domestic firms | BOP: Compensation of employees, with adjustments (service sectors, short-term but more than one year, etc.) Employment/migration statistics: 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 (or by identifying foreign non-permanent employment) |



Mode 4 and 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 providers »



Improving Mode 4 Related Statistics

Main difficulty in measuring Mode 4

⇒ Identify in available statistics the relevant subset of services and workers

Indicators on the value of Mode 4 services

- Identify Mode 4 in services sub-items and other indicators

Migration/labour statistics

Sounder ground for improvement



REMEMBER

Measurement of Mode 4

- **Coverage**
 - natural persons involved?
 - temporary?
- **Statistics for measuring Mode 4**
 - value of services traded / number of natural persons
 - BOP services
 - BOP compensation of employees / workers remittances
 - migration / employment statistics



Modes of Supply and Statistical Domains

| Mode of Supply | Relevant Statistical Domains |
|--|---|
| <i>Mode 1: Cross border supply</i> | BOP: commercial services (excluding <i>travel</i> and <i>construction services</i>) |
| <i>Mode 2: Consumption abroad</i> | BOP: <i>travel</i> |
| <i>Mode 3: Commercial presence</i> | FATS statistics BOP: FDI data, <i>construction services</i> |
| <i>Mode 4: Presence of natural persons</i> | Insufficiently covered BOP: commercial services (excluding <i>travel</i>) BOP: compensation of employees and workers' remittances |



Sales by GATS Modes of Supply: Statistical Approximation

Estimates at World level:

- Mode 1 - ~ 35 %
- Mode 2 - ~ 10 - 15%
- Mode 3 - ~ 50 %
- Mode 4 - ~ 1 - 2%

Situation differs across services sectors and countries

MSITS' Phased Approach to Implementation (1/3)



Consists of a set of 10 recommended elements

- **Core elements**

→ would provide a basis for internationally comparable statistics

- **Other elements** (long-term)

→ considerable increase in detail of available information on trade in services

MSITS' Phased Approach to Implementation (2/3)



5 core elements

- ➔ Implement BPM 5 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

© WTO/OMC

63

MSITS' Phased Approach to Implementation (3/3)



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

© WTO/OMC

64