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The importance of services data collection and analysis in the WTO GATS context

- **Challenge:**
- **Developing statistical capacities to measure trade in services**
- **Improving the usefulness of statistics on trade in services in the context of GATS and other trade negotiations**

Outline of presentation

- I. Usefulness of statistics for negotiating services
- II. GATS modes of service supply
- III. Classification systems:
- IV. Recording trade in services between residents and non-residents
 - Cross border trade – modes 1&2
- V. Foreign Affiliates Trade in Services Statistics (FATS) – mode 3
- VI. Mode 4 statistics
- VII. Imperfect correspondence between classification and recording systems
- VIII. Challenges of developing data on trade in services

Part I:

Data as the basis for negotiating services

- to analyze and inform policy makers re: services sector development
- to obtain benchmarks or baselines for negotiations
- to identify new service areas of growth that can be pursued in market access negotiations
- To promote transparency in trade in services statistics

Data as the basis for negotiating services

- ❖ Trade negotiators require statistics
 - As a guide to negotiate specific commitments in trade in services
 - To monitor compliance and the resulting changes for each type of service.
 - Statistics can aid the evaluation of market access opportunities;
 - Inform decisions on negotiating priorities and strategy;
 - Support the comparison of commitments;
 - Facilitate the assessment of the extent of liberalization achieved in specific services and markets;
- Provide a statistical background for the settling of disputes.
- ❖ Private business also needs the information
 - To be aware of the possibilities offered by trade liberalization.
- ❖ The analysis of markets requires that trade data can be linked to output data, whether in terms of activities or of products

Part II:

I. GATS modes of service supply

Detailed View of Modes of Service Supply (GATS) used by trade negotiators

- **Mode 1 – Cross-border**
- **Mode 2 – Consumption abroad**
- **Mode 3 – Commercial presence**
- **Mode 4 – Presence of natural persons**

Cross-border Supply (Mode 1)

- Service crosses border
- No movement of producer or consumer
- Examples:
 - Customer support (call centers)
 - Telecommunications
 - Remote diagnostic services (telemedicine)

Consumption Abroad (Mode 2)

- **Consumer travels to the location of the producer**
- **Examples**
 - **Tourism**
 - **Education (study abroad)**
 - **Medical services (involving travel)**

Commercial Presence (Mode 3)

Foreign Direct Investment:

- Service is delivered through a locally established affiliate eg. The establishment of a branch of a foreign based firm such as a legal office or bank

Temporary movement of natural persons (mode 4)

- **Natural person (individual) travels to the country where production occurs**
 - Self-employed service producer
 - Employee of service producer

Temporary movement of natural persons (mode 4)

Important question: At what point does the person become a “resident” of the country where the service is provided?

- BOP conventions – After 1 year.
- GATS – Whatever is agreed, but may be longer than 1 year.

Mode of Supply – Practical Considerations

- Many transactions can be multi-mode transactions
 - Example: FDI in architect office
- Company accounting systems – Generally don't maintain information by mode of supply

Mode of Supply – Practical Considerations (cont'd)

- **Despite the difficulties, there are some things we do know**
 - Resident / nonresident transactions (modes 1, 2, and 4) collected separately from sales through affiliates (mode 3)
 - Construction (mode 3) usually available as a separate category

Mode of Supply – Known information

- Some mode 2 transactions are separately identifiable (transactions of tourists, medical patients, students)
- Some cross border transactions cannot be separated between mode 1&2 eg. telecoms
- Some transactions are viewed as Mode 1 by convention (basic telecommunications, transportation, royalties)

Modes of Supply and Statistical Domains



Mode of Supply	Relevant Statistical Domains
<i>Mode 1: Cross border supply</i>	BOP: commercial service (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: <i>construction services</i> FDI data
<i>Mode 4: Presence of natural persons</i>	Insufficiently covered BOP: commercial service (excluding <i>travel</i>) BOP Statistics: Compensation of employees and workers' remittances

Part III

Classification Systems:

- **United Nations Central Product Classification (CPC) List**
- **WTO GATS Sectoral Classification List W/120**

United Nations Central Product Classification List

What is the CPC ?

- ❖ **The Central Product Classification (CPC) constitutes a comprehensive classification of all goods and services.**
- ❖ **CPC presents categories for all products that can be the object of domestic or international transactions or that can be entered into stocks.**
- ❖ **For services, CPC, Version 1.0 (1998) is the first international classification covering the whole spectrum of outputs of the various industries.**
- ❖ **Version 1.1 (approved in 2002) is intended to incorporate modifications due to recent changes in economies worldwide and sustained technological advancement**

United Nations Central Product Classification List

What does it do

- ❖ It is intended to serve as an international standard for assembling and tabulating all kinds of data requiring product detail,
- ❖ including industrial production, national accounts, service industries, domestic and foreign commodity trade, international trade in services, balance of payments, consumption and price statistics.
- ❖ Other basic aims are to provide a framework for international comparison and promote harmonization of various types of statistics dealing with goods and services.
- ❖ It provides a basis for recompiling basic statistics from their original classifications into a standard classification for analytical use.

The 10 Sections of the CPC

❖ Contents of section 0 – 9

0 – 4: Goods (transportable)

- 0 - Agriculture, forestry and fishery products
- 1 - Ores and minerals; electricity, gas and water
- 2 - Food products, beverages and tobacco; textiles, apparel and leather products
- 3 - Other transportable goods, except metal products, machinery and equipment
- 4 - Metal products, machinery and equipment

5 – 9: SERVICES (MAINLY)

- 5 - Construction services
- 6 - Distributive trade services; lodging; food and beverage serving services; transport services; and utilities distribution services
- 8 - Business and production services
- 9 - Community, social and personal services

Explanatory notes for sections 5 to 9 -

- ❖ For sections 5 – 9 the CPC provides descriptions (explanatory notes) and rules of interpretation of services that are included in each subclass and those that are excluded, for reference purposes
- ❖ For sections 0 – 4 the explanatory notes (and rules of interpretation) of the Harmonized System apply as the transportable goods in CPC are defined in terms of the Harmonized System

Application of the CPC

- ❖ Provisional CPC was used for the elaboration of the categories of services that were used during the negotiations leading to GATS that were conducted during the Uruguay Round
- ❖ The CPC was also used to describe the balance of payments services components recommended in BPM5.
- ❖ The CPC, Version 1.0 was used to define more precisely the balance of payments services components recommended in EBOPS
- ❖ CPC can be used to establish national product classifications (by using CPC subclasses and taking into account their scope)

For trade negotiators – classification list developed **GNS/W/120**

- ❖ **In 1991, the GATT secretariat produced a note setting out a classification of service sectors, known as the GNS/W/120 Services Sectoral Classification list, resulting from consultations with member countries.**
- ❖ **The list identified relevant sectors and sub-sectors with regard to national services regulations so that specific commitments on these regulations could be made and negotiated.**

For trade negotiators – classification list
developed **GNS/W/120**

- ❖ **GNS/W/120 should thus be considered as a negotiating list rather than as a statistical classification.**
- ❖ **In order to assist the clear delineation of each sub-sector, codes from Provisional CPC were assigned to each of the subsectors.**

For trade negotiators – classification list developed **GNS/W/120 Major**

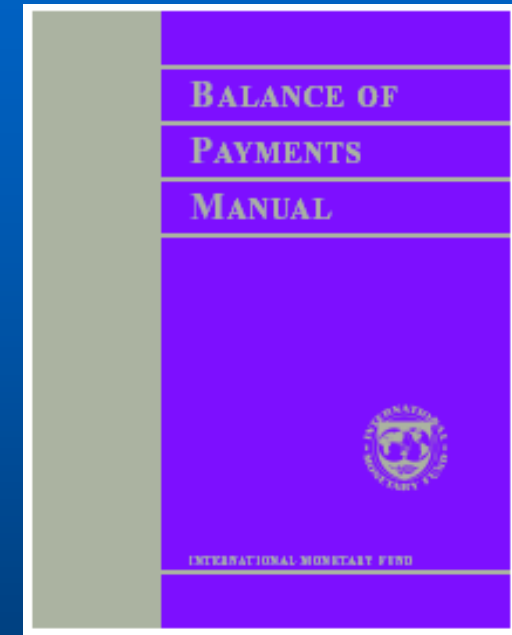
❖ **Categories**

- ❖ The 12 major sectors in the GNS/W/120 list are:
 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 services.
 11. Transport services.
 12. Other services not included elsewhere.

Part IV

- **Recording trade in services between residents and non-residents**
- **IMF Balance of Payments Manual 5 (BPM5)**
- **Extended Balance of Payments (EBOPS)**
- **Foreign Affiliates Trade in Services Statistics (FATS)**

IMF Balance of Payments Manual 5 (BPM5)



BPM – What does it do?

- ❖ **The Balance of Payments Manual (BPM) provides the conceptual framework for the compilation of the balance of payments which records external transactions (and the stock of external financial assets and liabilities).**
- ❖ **An accompanying Compilation Guide provides practical guidance for using sources and methods to compile statistics on the balance of payments (and the international investment position)**

BPM5 and trade in services

- ❖ The fourth edition of the Manual published in 1977 was highly deficient in the coverage of trade in services.
- ❖ In the fifth edition of the Manual published in 1993 considerable disaggregation was introduced in the classification of international services transactions due to
 - a) unprecedented growth in the volume of international trade in services and
 - b) heightened analytical and policy interest in trade in services – in particular in the context of the GATT negotiations on services

BPM5 and the CPC

- ❖ **The classification of international transactions in services, which is included among the standard components of the balance of payments, provides for the recording of all international trade in services.**
- ❖ **The classification is not as detailed as the CPC as only international transactions are covered.**
- ❖ **The categories have been built up from the subclasses (five-digit codes), classes (four-digit codes), groups (three-digit codes), and divisions (two-digit codes) of the CPC, although the classification seeks correspondence with the CPC mostly at the three-digit level**

Major Services Categories in BPM5



Commercial services

1. Transport

2. Travel

3 -10 Other Private Services

11. Government services

- 
- 3. Communication 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**

Major differences with CPC

- ❖ Two categories in the balance of payments classification of services, namely, travel and government services n.i.e. do not have analogues in the CPC.
- ❖ Most processing and the value of most repairs are included in the balance of payments under goods on the practical grounds that most processing involves transformation of the goods and most repairs are made to investment goods.

Shortcomings of BPM5

- Too aggregated to shed light on sectoral trade, esp. for small economies where exports are small
- Other Business Services – which exactly?
- Personal, Cultural & Recreational – need more detail; Cultural & recreational services very important to some states but very poor data collection makes it difficult to formulate policy decisions
- Little convergence between what is included in BOP data and how sectoral negotiations on services take place
- Negotiation of market access in about 155-160 service activities while BPM 5 gives trade data for only a few sectors

Example: BPM5 – W120 list

Communication Services in BPM5

Other services

- **Communication Services**
 - **Postal and courier**
 - **Telecommunications**

Example: BPM5 – W120 list

- 2. COMMUNICATION SERVICES IN GATS W120 LIST

- A. Postal services 7511

- B. Courier services 7512

- C. Telecommunication services

- a. Voice telephone services 7521

- b. Packet-switched data transmission services 7523**

- c. Circuit-switched data transmission services 7523**

- d. Telex services 7523**

- e. Telegraph services 7522

- f. Facsimile services 7521**+7529**

- g. Private leased circuit services 7522**+7523**

- h. **Electronic mail** 7523**

- i. **Voice mail** 7523**

- j. **On-line information and data base retrieval** 7523**

- k. **electronic data interchange (EDI)** 7523**

- l. **enhanced/value-added facsimile services, incl.** 7523**

- **store and forward, store and retrieve**

- m. **code and protocol conversion** n.a.

- n. **on-line information and/or data**

- **processing (incl.transaction processing)** 843**

- o. **other**

Extended Balance of Payments - EBOPS

Characteristics:

- ❖ Based on BMP5
- ❖ Introduces additional detail
- ❖ Internationally accepted coding system
- ❖ 85 items and 24 memorandum items
- ❖ Defined in terms of CPC, Version 1.0 (to the extent possible)

Extended Balance of Payments

Development of EBOPS

- ❖ In 1996, OECD and Eurostat, in consultation with IMF, developed for use by their members a more detailed classification than that of BPM5 for international trade in services by breaking down a number of the BPM5 service items
- ❖ The *Joint OECD-Eurostat Trade in Services Classification* can be characterized as a disaggregation of the BPM5 classification for balance of payments transactions in trade in services
- ❖ With the exception of Construction services (which also effects Other business services, compiling and reporting on the basis of the Joint Classification simultaneously satisfies IMF requirements.
- ❖ The Joint Classification is also partially linked to the Central Product Classification through its relationship with BPM5

Extended Balance of Payments

Development of EBOPS

- ❖ The Joint Classification represents a first attempt to take account of GATS, particularly as regards financial services and telecommunications, and it also reflects the statistical implications of the completion of the European Communities' Single Market in Services, which entailed a great number of directives relating to financial, telecommunications, transport, tourism and audiovisual services
- ❖ EBOPS, as recommended in the present *Manual*, is a disaggregation of the Joint Classification
- ❖ Developed based on the experience with the Joint Classification.

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

...

Manual on Statistics of International Trade in Services (MSITS)

- **Published in 2002 jointly by 6 international organizations**
 - **United Nations**
 - **European Commission**
 - **International Monetary Fund**
 - **OECD**
 - **UNCTAD**
 - **World Trade Organization**

MSITS - Coverage

- Resident / non-resident trade
 - Consistent with *BPM5*
 - But with more detailed classification for services (EBOPS)
 - And treatment of mode of supply
- Sales through affiliates (Foreign Affiliates' Trade in Services – “FATS”)

EBOPS and BPM5

- ❖ The statistical framework of the *Manual* (MSITS) with regard to resident/non-resident transactions is based on BPM5, which contains, among other things, recommendations for the definition, valuation, classification and recording of resident/non-resident trade in services.
- ❖ The *Manual* does not set out to change the BPM5 broad service components but it does call for more detail so as to identify services that feature significantly in international trade in their own right

EBOPS and the MSITS

- ❖ The Manual on Statistics of International Trade in Services (*the Manual*) was published in 2002.
- ❖ Response to increased needs:
 - Globalization caused by technological advances and liberalization
 - Needs of GATS which was passed in 1995
- ❖ The *Manual* recommends the Extended Balance of Payments Services Classification (EBOPS) for the compilation and recording of transactions between residents and non-residents



Mode 3 -FATS Statistics

- MSITS provided 1st internationally accepted guidelines for compilation
- Takes cues from 1993 *System of National Accounts*
- Industry classification based on International Standard Industrial Classification (ISIC)

Mode 3 -FATS

What are FATS statistics?

- Information relevant to services delivered through FDI by foreign affiliates
- A range of indicators pertaining to the activities of foreign affiliates
 - With a particular focus on services

Major uses of FATS statistics

- **Globalization analysis**
 - Applicable to goods as well as services
 - But particularly relevant for services, due to the frequent requirement for proximity between producer and consumer
- **Monitoring the GATS commercial presence mode of supply (Mode 3)**

Who collects FATS

- Some OECD countries*

Source: WTO, Measuring Trade in Services, November 2003

Part VI

- **Statistics - Temporary movement of natural persons – mode 4**

Mode 4 – important for developing countries

Provide negotiators and policy makers with vital information when considering:

- **Potential growth in services sector**
- **Identifying new market access opportunities as they transition out of traditional economic sectors**

Mode 4 and BOP statistics



What can be used?

BOP Items	Relevance	Limitations
Compensation of employees	Employment contracts, generally < 1 year	Includes workers not relevant for Mode 4 (non-services, and non-temporary)
Workers' remittances	Indirect valuation for employment > 1 year	<i>Indirect</i> indicator, and includes permanent migrants
Services transactions	Service contract with the importer	Include other modes of supply

Mode 4 and FATS statistics

What would be useful?

- Employment data
Compensation of services employees

Why relevant?

- Many commitments relate to intra-corporate transferees

How could it help?

Identification of employment in foreign-owned firms

Mode 4 and other sources



- Statistics on number and type of **work permits** granted

Information from **social security/health insurance** schemes

Statistics on **arrivals and departures** from migration offices

Household surveys/population censuses

Part VII

- **Imperfect correspondence between recording and classification systems covering trade in services**

Imperfect correspondence - EBOPS and CPC

- ❖ Detailed definitions of EBOPS categories are provided by a correspondence table provided in annex III of the *Manual* linking the EBOPS with CPC Version 1.0
- ❖ The correspondence tables provide partial statistical link between domestic production and trade in services.
- ❖ The need for a convergence of the product classifications of industry and trade, for comparative purposes, requires further development work to more closely align the structural components of EBOPS and CPC.

Imperfect correspondence - EBOPS and CPC

- ❖ **The correspondence shown in annex III of the MSITS is an important first step in this direction, which clarifies the definition of EBOPS through the use of the detailed categories of CPC.**

CPC defines EBOPS categories more precisely, an example

- ❖ 246 Postal and courier services
 - 64240 Miscellaneous local delivery services
 - 68112 Postal services related to parcels
 - 68113 Post office counter services
 - 68119 Other postal services
 - 68120 Courier services

Non-correspondence EBOPS and CPC

- ❖ Three areas of EBOPS emphasize the mode of consumption of goods and services rather than the type of product consumed.
 - For “Travel”, “Construction services” and “Government services, n.i.e.”, a wide **range of goods and services** may be traded or consumed.
 - Hence for these service categories, as in BPM5 and the Joint Classification, a correspondence with CPC, Version 1.0 cannot be established.
- ❖ It is not possible to establish a one-to-one correspondence between EBOPS and CPC, Version 1.0 because in places CPC, Version 1.0 calls for more detail than is shown in EBOPS, while in a few areas the reverse is true.

WTO GATS Sectoral Classification List W/120

Link EBOPS – CPC – GNS/W/120

Two correspondence tables in Annex III of the MSITS Manual

1. EBOPS - CPC, Version 1.0 - GNS/W/120 correspondence (Link to specific GATS services)

Example:

EBOPS/CPC. version1,.0

GNS/W/120

83540 map making services

1.business service

F. Other business

m. related scientific and technical consulting services

1. GNS/W/120 - CPC, Version 1.0 - EBOPS correspondence (Link to statistics)

WTO GATS Sectoral Classification List W/120

Link EBOPS – CPC – GNS/W/120

Two correspondence tables in Annex III of the MSITS Manual....contd.

[GNS/W/120](#) - [CPC, Version 1.0](#) - [EBOPS](#) correspondence (Link to statistics)

Example:

GNS/W/120 -
Taxation services

CPC. version1.,0

82310 corporate tax planning and consulting

82320 corporate tax preparation and review services

82330 Individual tax prep. And planning services

EBOPS

276 Accounting, auditing,
bookkeeping and tax

consulting serv

Note: Annex IV provides Correspondence between ISIC Categories for Foreign Affiliates (ICFA) and Extended Balance of Payments Services Classification (EBOPS)

WTO GATS Sectoral Classification List W/120 Differences GNS/W/120 to BPM5/ EBOPS

The 11 main BPM5 services components when compared with the GATS, show several differences in coverage:

- ❖ For the most part, the component *government services, not included elsewhere*, is excluded from GATS.
- ❖ Some transactions considered as services under GATS are recorded under *goods* in BPM5; this concerns the value of repairs of most goods that are sent abroad for repair, as well as most processing services.

WTO GATS Sectoral Classification List W/120 Differences GNS/W/120 to BPM5/ EBOPS

- ❖ **The 11 main BPM5 services components when compared with the GATS, show several differences in coverage.....:**
- ❖ **Some BPM5 components, especially *travel*, include transactions in goods.**
- ❖ **BPM5 includes payments for *royalties and license fees*. Except for franchise payments, this component is excluded from GATS coverage.**

WTO GATS Sectoral Classification List W/120

EBOPS categories → GNS/W/120 sectors

Conclusions

- different scope (such as Travel, incl. goods)
- EBOPS not detailed enough (Other business services, cultural or educational services)
- The more detailed EBOPS data is available the better the correspondence to GNS/W/120 sectors and sub-sectors

The Challenges of developing data on TIS

- Developing data on trade in services can be challenging due to the lack of the kind of central collection point that exists for trade in goods.
- It is usually necessary to employ multiple methods of collection / estimation.

Methods of collection / estimation

- **Surveys**

- Can collect precisely the information desired
- But, can be difficult to identify all transactors, particularly for imports
- Reporting burden may be an issue

Methods of collection / estimation (Cont'd)

- **Multiplying per capita amount from one source by transactions volume from another source**
 - **Per capita estimate can be based on a sample**

Methods of collection / estimation (Cont'd)

- **Use of partner country data**
 - Sometimes partner country may be in best position to collect the data
 - Can economize on resources

Methods of collection / estimation (Cont'd)

- **Banking data**
 - Can sometimes be used where foreign exchange transactions are controlled
 - But:
 - Transactions may not pass through domestic banks or may be netted.
 - Bundled transactions may present difficulties.
 - Data collection by type of service and partner country a secondary purpose of the collection.

Potential Pitfalls

Data users may interpret as exports and imports of services transactions that are not regarded as such from an economic accounting perspective.

For example:

- Sales by foreign affiliates
- Compensation of nonresident employees
- Remittances

Items whose status as goods or services may not be correctly identified

- Repair - Treated by *BPM5* partly as trade in goods and partly as trade in services
- Construction – Usually considered goods-producing in domestic accounts, but treated by *BPM5* as trade in services.
- Merchanting – Involves changes in ownership of goods, but treated by *BPM5* as trade in services

Items whose status as goods or services may not be correctly identified (Cont'd)

Computer software

- Custom programming is a business service
- Rights to general use software are recorded as royalties and license fees
- Packaged software is (usually) a good

Part VIII

Challenges of developing data on trade in services

- **Only a few countries report the full BPM5 requested detail**
- **Data reliability and inter-country comparability**
- **Countries that have not started to collect FATS statistics**
- **A true assessment of services provided via mode 4 requires information beyond BPM5 and FATS and requires the development of a coherent statistical framework for this mode**

Part VIII

Challenges of developing data on trade in services

- Identification and provision of technical assistance to develop statistical capacities on measuring trade in services
- Better statistics mean better negotiations

Thank You



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