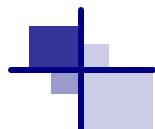


OF THE INTERAGENCY TASK FORCE ON STATISTICS OF INTERNATIONAL TRADE IN SERVICES

N°4 - December 2008



FOCUS

Measuring trade in services by mode of supply

Dear Reader,

The revision of the Manual on Statistics of International Trade in Services (MSITS) takes into account the revisions introduced in the forthcoming System of National Accounts (2008 SNA) and the Balance of Payments Manual (BPM6), as well as recent methodological developments in the Foreign Affiliates Statistics (FATS) framework. The revision process of MSITS was also the opportunity to develop a new chapter that discusses the measurement of trade flows by mode of supply, in particular of mode 4, and to provide new recommendations in this respect.

In the context of GATS negotiations, modes are generally referred to as: **cross-border supply (mode 1)**, where both the supplier and the consumer remain in their respective territories (which would correspond to the traditional notion of trade, covering, for example, services supplied by telephone or the Internet); **consumption abroad (mode 2)** where consumers are outside their home territory to consume services (international tourist activities or students going abroad to follow university courses); **commercial presence (mode 3)** where service suppliers establish (or acquire) an affiliate, branch or representative office in another territory to provide their services (for example a hotel chain investing in a host economy to create a subsidiary in order to supply accommodation services); and **presence of natural persons (mode 4)** where an individual (either the service supplier himself if he/she is a self-employed person or his/her employee) is present abroad in order to supply a service (for example an independent architect oversees a construction project or a computer specialist is sent abroad by his employer to supply an IT service). In terms of coverage of mode 4, for statistical purposes, the main types of

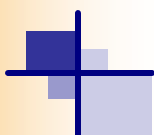
categories of persons identified in MSITS are:

- *Contractual services suppliers, whether employees of the foreign service supplier or self-employed.* These persons enter the country of the consumer in the context of a service contract;
- *Intra-corporate transferees and foreigners directly employed by the foreign established affiliate:* the service supplier has commercial presence abroad and sends its employee to its affiliate; and
- *Service sellers / persons responsible for setting up commercial presence.*

Developing statistical information on services sectors by mode of supply and origin and destination (partner country) can be used to improve individual countries' negotiation strategies, to monitor trade developments in general, or to compare and analyse the extent and effects of trade liberalization over time. While statistical frameworks need to be geared towards user needs, they also have to maintain consistency of time series over time. Furthermore, budget constraints and the respondent's willingness to provide additional information limit the extension of statistical coverage with respect to scope as well as descriptive variables. The MSITS strikes a balance between these constraints and needs. While it deals with the extension of the breakdown of the services item of the balance of payments classification and with the supply of services through foreign affiliates, the new chapter describes in more detail the supply of services through the presence of natural persons and measurement issues of trade in services by mode of supply. In the context of mode 4 it also provides further guidance on the differentiation between a service contract or

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FOCUS

an employment contract which may have important consequences, not only for the appropriate statistical classification of transactions, but also to determine if a person is covered or not under mode 4 in the statistical framework.

Two groups of variables are identified in order to assess trade in services by mode of supply: first the value of services 'exports' and 'imports'; and second a number of more specific variables necessary for a more complete assessment of trade in services as well as to respond to additional analytical needs. Such variables include foreign direct investment transactions and positions in services industries or the number of persons moving (flows) and temporarily present (stocks) abroad in the context of the supply of services. This article will mainly concentrate on the first measurement aspect, that is how to estimate the value of the supply of services broken down by mode.

Measuring the value of trade by mode of supply

MSISTS conceptualizes modes of supply in a statistical context. Without fully mirroring the GATS legal definitions, compiling statistics according to the recommendations of the manual would greatly improve the knowledge of negotiators and analysts with respect to the supply of services by modes. A comprehensive statistical treatment by mode of supply that would fully mirror the GATS legal definition and other GATS articles would be out of the scope of the MSITS. Such an approach would fail to ensure compatibility with international statistical systems, such as BPM6 and the 2008 SNA, and would demand excessive resources for implementation.

Before explaining how statistics can be used to estimate the value of services supplied broken down by mode, we need to specify the actual needs with respect to mode 4. For mode 4, the value of services trade is relevant only in the case of contractual service suppliers, whether these services are supplied by an employee of the service supplier or if the service supplier is a self-employed and

supplies the service himself. This information is not needed for intra-corporate transferees and foreign employees directly recruited by the foreign affiliate, and for services sellers/ persons responsible for setting up commercial presence. For the former the supply of the service by the service supplier (i.e. the juridical person) to the consumer is taking place through mode 3 (the mode 4 commitment enables the presence of the person in order for the service supplier to supply the service via mode 3) and for the latter there is no service transaction (the transaction takes place at a later stage).

To allow the allocation of services transactions to modes of supply in a systematic way, MSITS proposes criteria derived from the GATS definitions. The manual acknowledges that this allocation is only a first step in the estimation process and that further research and empirical information will be required to validate and to refine the estimates. These simplified criteria are based on the considerations that (a) to the extent that foreign affiliates are a good approximation of commercial presence entities, FATS provide most information for services supplied through mode 3; and (b) service transactions between residents and non-residents, as captured in the balance of payments accounts described in the BPM6 system, broadly cover mode 1, mode 2, and mode 4. It is therefore possible to derive much information on services transactions by modes of supply from BPM6 statistics and FATS. The figure below presents how FATS sales/output of services and balance of payments services transactions can be roughly allocated to modes of supply. The allocation may vary from economy to economy (general needs of economy, as well as taking into consideration more specific sectoral needs, data collection systems in place, resources, etc.). Items in italics are not separately available in the forthcoming BPM6/EBOPS.

Ideally, each international service transaction as recorded in the balance of payments, should be allocated among the different modes. However, as in many cases a single service transaction may involve more than one mode of supply, it is difficult for data compilers to identify a transaction's full complexity. To

THE MANUAL ON SITS
IS AVAILABLE AT:
[HTTP://
UNSTATS.UN.ORG/
UNSD/TRADESERV/
TFSITS/MANUAL.HTM](http://unstats.un.org/unsd/tradeserv/tfsits/manual.htm)

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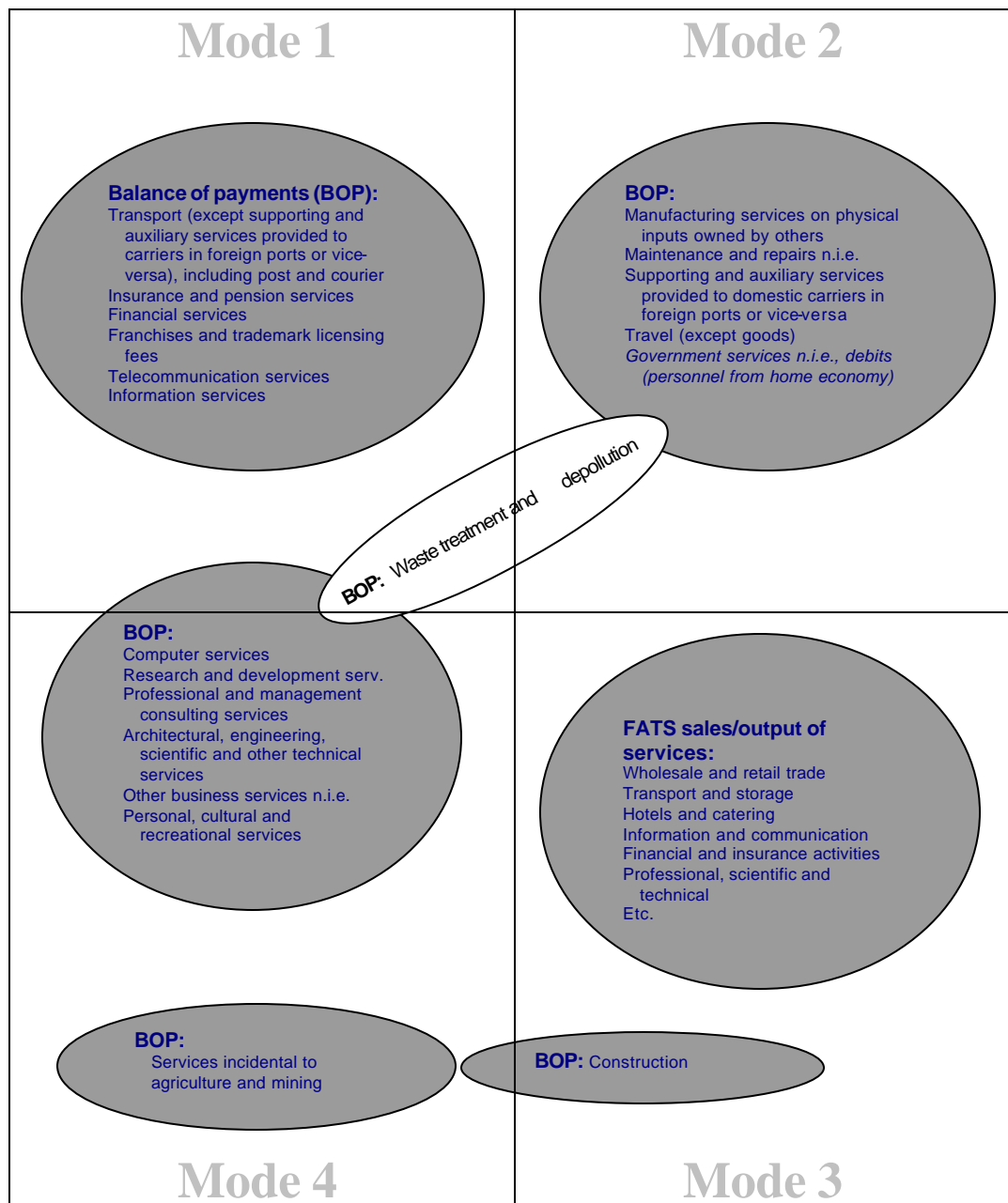


Figure 1: Simplified allocation of FATS and balance of payments data to modes of supply

Information about the SNA update and BPM5 revision is available at <http://unstats.un.org/unsd/nationalaccount/snarev1.asp> and www.imf.org/external/np/sta/bop/bopman5.htm,

simplify, each type of service can be allocated either to one dominant mode or, where there is no single dominant mode, to the most significant mode of supply. Examples are communications services (mode 1) or travel which is used to approximate mode 2. Other examples are services incidental to agriculture and mining which are deemed to be provided predominantly through mode 4. For other types of services the picture may be more complex as individual transactions might involve significant elements of different modes. To take a simple example, a consultant resident in

the compiling economy providing services to a non-resident client may supply the service either on-site (mode 4) or from the office of the consultant transmitting reports cross border (mode 1) or a combination of those two. For construction, companies may want to establish either a commercial presence-mode 3 (which would not qualify as a branch being created and which may involve a mode 4 presence) for a short period of time (a few months) and/or post own workers in the host economy under mode 4.



As shown above transactions falling under mode 4 are covered in BPM6 service components. However, in economic literature, often the balance of payments items compensation of employees and workers remittances are used to estimate the size of GATS mode 4 trade. Compensation of employees and workers remittances, covered under personal remittances in the forthcoming BPM6, are both measures of income flows originating from the movement of people or migration; as such, they cannot substitute BOP indicators which measure trade flows (transactions) that are specified and originating from service contracts between service suppliers and consumers.

One needs to note that self-employed service suppliers staying (or intending to stay) more than 12 months in the host economy will become residents of this economy and the transactions corresponding to the services

contracts will no longer be international transactions. In general, these persons will represent a small proportion of the overall mode 4 population in the host economy. Compiling countries for which the category of self-employed persons established in an economy other than their own (the compiling economy on the "imports" side or abroad for "exports") is believed an important share of the mode 4 population, may wish to estimate the value of services sales/output of these self-employed service suppliers.

For more information readers may refer to the draft MSITS Chapter 5 "Trade in services statistics by mode of supply" available at <http://unstats.un.org/unsd/tradeserv/TFSITS/msits.htm> and "Measuring GATS mode 4 trade flows", WTO staff working paper, available at http://www.wto.org/english/res_e/reser_e/ersd200805_e.htm.

REVISION OF THE MANUAL (MSITS 2010)

Task Force update—Planned revision timetable

The Interagency Task Force on Statistics of International Trade in Services (TFSITS) made a comprehensive plan to complete the revision

of the Manual on Statistics of International Trade in Services (MSITS) and the following timeline is set to comply:

August to November 2008

Worldwide consultation on draft of revised MSITS. Presentation of the draft Manual to the OECD Working Party on Trade in Goods and Trade in Services Statistics (Paris) Review revision progress and plans;

November 2008 to February 2009

TFSITS to review comments and re-draft MSITS chapters;

March-April 2009 TFSITS meeting and joint meeting with TFIMTS Bangkok

to review comments; and review the revised Chapters; review need for extra cross-cutting material affecting goods and services

June 2009

Finalize draft of MSITS Chapters and annexes;

Summer 2009

Prepare revised EBOPS-CPC and other concordances;

July–September 2009

Post the draft for final review, contacting countries to explicitly inform them about the possibility for input to this review and to publicize with Expert Groups;

November 2009 TFSITS meeting Paris

November 2009

Prepare submission to UNSC 2010 in coordination with TFIMTS as appropriate;

Spring-Summer 2010

Prepare MSITS publication

2008 world wide consultation

The draft chapters and annexes are placed on the TFSITS web-site and are available in English only at this time at the following address: <http://unstats.un.org/unsd/tradeserv/TFSITS/msits.htm>

National statistical offices, national banks and national authorities on trade were approached by the United Nations Statistics Division, Eurostat, OECD, the International Monetary Fund and the World Trade Organization. After the deadline of the responses for the worldwide consultation (24 November 2008) members of the Task Force were working on summarizing the responses and consulting within the Task

Force to reflect the suggestions received from member countries. As of 12 December more than 100 countries or international organizations responded to the request or completed the questionnaire. After completing the revision of the draft of the manual other round of the world wide consultation is to be organized in spring 2009 before the finalization of the manual (September 2009).

Please check the Task Force web-site for the most updated information about the status of MSITS at

<http://unstats.un.org/unsd/tradeserv/TFSITS/>

PAST EVENTS

Twenty-seventh Meeting of the Interagency TFSITS, Paris, September 2008

The Task Force discussed the following issues at its meeting: Summary outcome of OECD WPTGS meeting 22-24 September discussion on Manual, Revision of the Manual on Statistics of International Trade in Services, Promoting trade in services statistics including in Emerging and Developing Countries, Promoting the MSITS, Preparation of reports to IMF Balance of Payments Committee and UN Statistical Commission and other current businesses. Further details about the meeting are available at <http://unstats.un.org/unsd/tradeserv/TFSITS/meeting-2008-09.htm>

The Task Force meeting took place after the 1st Meeting of the Working Party on International Trade in Goods and Trade in Services Statistics – WPTGS organized by OECD. The trade in services session of the WP focused on the main proposed changes and questions related to the revision of the Manual on Statistics of International Trade in services. The items discussed were the revised EBOPS classification and updated FATS Chapter IV. Also, the new Chapter V on modes of supply and the new analytical annex were presented as well as the OECD SNA proposals on trade in intellectual property, a possible new annex on cross-cutting issue and a section on trade in Health services that will be included in the

analytical annex.

Analytical and research agenda items included a progress report on analytical work on a services trade restrictiveness index, working papers on an estimated dataset by modes of supply "Globalisation and services revisited" and on "Estimating bilateral flows in remittances". A project on a harmonized trade in services by partner database was also presented. For more information about WPTGS see: www.oecd.org/std/its/wptgs2008

Twenty-sixth Meeting of the Interagency TFSITS, Vienna, March 2008

The Task Force discussed the following issues at its meeting: Report from the UN Statistical Commission and issues regarding MSITS timetable, Trade and the Health Policy Interest, Revision of the Manual on Statistics of International Trade in Services, Knowledge transfer and technical cooperation, TFSITS Website and Newsletter and other current businesses. On the last day there was a joint meeting of TFSITS and the Task Force on International Merchandise Trade Statistics held covering the following topics: Report from the UN Statistical Commission, Cross-cutting issues – a *modus operandi* for joint meeting(s), Coverage of trade statistics for selected issues – the cases of goods for processing, merchandising, software and intra-firm trade of

Further information on the work of the Interagency Task Force on Statistics of International Trade in Services can be found at <http://unstats.un.org/unsd/tradeserv/tfsits/>

and the Task Force can be contacted at std.servstat@oecd.org

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multinationals, Coordination with SNA Globalization Group, Recommendation of the Joint Session and future work.

Further details about the meeting(s) are available at <http://unstats.un.org/unsd/tradeserv/TFSITS/meeting-2008-03.htm>

TECHNICAL CO-OPERATION AND SEMINARS

- APEC Capacity Building Seminar Workshop on Measurement of International Trade in Services 13 October 2008, Manila, Philippines;
- Regional Workshop for the CIS countries on Statistics of International Trade in Services: Challenges and Good Practices, 7-9 October 2008, Kiev, Ukraine organized by UNSD in collaboration with the State Statistics Committee of Ukraine, the Interstate Statistical Committee of the Commonwealth of Independent States (CISSTAT) and the European Free Trade Association (EFTA);
- International Seminar on Trade in Services. 16-17 October 2008, Beijing China;
- International Seminar on Measuring and Promoting Services Trade, organized by ProMexico, 29-31 October, Mexico City, Mexico;
- WTO 46th Geneva Trade Policy Course, session on trade in services statistics 30 October 2008
- ITC had technical cooperation planned in Pakistan and Philippines
- WHO Trade in Health Services, Vietnam, Spring 2009
- World Bank plans a seminar in South Africa in the coming months.

PUBLICATIONS AND DATABASES

Eurostat's recent publications on Statistics of International Trade in Services

1. EU International Trade in Services in 2006, Statistics in Focus 21/2008

The document analyses the EU trade services in 2006 in terms of its main partners and items for the period 2004-2006. The main data sources are Eurostat and IMF. In addition to data it gives some explanations of trends observed. The document is available at the following web-address: http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1073,46587259&_dad=portal&_schema=PORTAL&p_product_code=KS-SF-08-021

2. European Union International Trade in Services - Analytical aspects - Data 2003-2006, collection Statistical books, Eurostat, Edition 2008

This publication is about EU international transactions in services between 2003 and 2006 (EU-27, EU-25). It highlights the main trends of EU trade in services in 2006. It also presents statistics on international trade in services of the EU with the main partners for the main services items and internationally tradable services. Statistics on the geographical breakdown of services of the EU, Norway, the United States and Japan and a complete geographical breakdown for total services are also available for 2006. Further

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information is available at the following web- address:

http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1073,46587259&_dad=portal&_sc_hema=PORTAL&p_product_code=KS-EB-08-001

IMF Balance of Payments Statistics Yearbook and monthly CD-ROM

The BOPS yearbook includes annual aggregate and detailed time series for balance of payments and international investment position for countries; provides world and regional tables of balance of payments components and aggregates; and descriptions of methodologies, compilation practices and data sources used by individual countries. Further information is available at the following web- address: <http://www.imfstatistics.org/imf/>

OECD Statistics on International Trade in Services

Volume I: Detailed Tables by Service Category; and **Volume II:** Detailed Tables by Partner Country. Volume I is an annual joint publication with Eurostat and presents, for 30 OECD countries and the EU, balance of payments data by type of service at the most detailed level. The electronic version covers 1970-2006. Historic series are available to the extent that countries can report them.

Volume II provides partner country breakdowns by type of service. The electronic version provides breakdowns by partner and the EBOPS classification to the extent that countries can report them. It covers the years 1999-2006. Data are provided for 28 OECD countries, the EU, Hong Kong (S.A.R. China) and the Russian Federation.

The databases are available at the following address: <http://stats.oecd.org/wbos/Index.aspx?datasetcode=TISP>

UNCTAD global databank on world trade in creative products

UNCTAD's new global databank provides trade statistics on creative goods and services based on official data from more than 130 countries and covering the period 1996-2006.

The databank is intended for use by governments, businesses, academia, the media, international institutions, and members of the creative community, including independent artists and creators. It comprises factual data by country or region on some 235 products in the categories of arts and crafts, the visual arts, audiovisuals and media, and design and creative services.

The statistics are a starting point for improving market transparency and supporting governments in policy-making. They will also facilitate better understanding of the interface between culture, trade and technology as drivers of the creative economy.

Users may view, analyse and browse the data by choosing from tabular reports, country profiles, selected products, key players in major markets, and a variety of tables and charts. The database is available at the following web-address: <http://stats.unctad.org/creative/>

UNSD database on Statistics of International Trade in Services

Since 1 June 2007, a global database on International Trade in Services, UN Service Trade, is publicly and freely available at the UNSD website at the following address: <http://unstats.un.org/unsd/servicetrade/>

The main scope of UN ServiceTrade is resident to non-resident trade in services and some related data series, broken down by EBOPS category and partner country, starting with the year 2000 provided on an annual basis. The main sources of data and metadata are national statistical offices, central banks, Eurostat and IMF. All values are expressed in US dollars. Services are classified according to EBOPS and its

memorandum items and some additional BOP components and direct investment.

WTO International Trade Statistics and WTO Trade Profiles

In addition to merchandise trade data, this report provides comprehensive, comparable and up-to-date statistics on trade in commercial services (i.e. excluding government services n.i.e.) between residents and non-residents for an assessment of world trade flows by country, region and main services category. The coverage of statistics on international trade in services, which was expanded in 2007, has been updated in the latest paper edition. Major trade developments are summarized in the highlights of each chapter of the report. Total commercial services trade time series

for the last decade broken down by reporter are provided in the Appendix. The publication also presents available data on sales of services by foreign affiliates which is useful to estimate the supply of services through mode 3. The accompanying database is updated twice a year and contains time series from 1980 for total commercial services, transportation, travel and other commercial services.

The WTO Secretariat also updates twice a year its trade profiles series for 180 members, observers and other selected economies (once a year for the paper version). They present for each economy standard information on the structural trade situation (including commercial services trade) and relevant trade policy measures. The profiles are complemented with general macroeconomic indicators. For more information see: <http://stat.wto.org/>

EDITORIAL NOTE

The Newsletter of the Interagency Task Force on Statistics of International Trade in Services (TFSITS) is a joint publication of the members of the task force: the United Nations Statistics Division (UNSD), the Statistical Office of the European Communities (Eurostat), the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD), the United Nations Conference on Trade and Development (UNCTAD), the World Trade Organization (WTO) and the World Tourism Organization (UNWTO) - the Task Force is chaired by OECD. The Newsletter is prepared by the International Trade Statistics Section of the United Nations Statistics Division - Department of Economic and Social Affairs. This Newsletter does not necessarily express the official position of any of the members nor is it an official document of the United Nations.

Contact: United Nations Statistics Division, International Trade Statistics Section, New York, NY 10017, USA, (tradeserv@un.org)