

II. Conceptual framework for the development of statistics on international trade in services

A. Introduction

2.1. The present chapter identifies the need for a framework within which to compile statistics on international trade in services, describes relevant aspects of existing statistical systems and standards, and sets out the approach and framework adopted in the *Manual*.

2.2. Section II.B discusses the users' statistical requirements addressed in the *Manual*. It considers both general requirements and the detailed information needs of GATS with regard to classification detail, information by origin and destination, and information by modes of supply. Section II.C carries out a review of standard statistical systems and classifications related to trade in services. This review describes relevant aspects of existing statistical standards, for which consistency with the *Manual* is sought, and assesses the extent to which the *Manual* needs to complement these standards as the best means of meeting the user needs discussed in the previous section. Section II.D describes the *Manual's* approach and its main framework, as built on the 2008 SNA and BPM6 statistical systems, and identifies one area where it goes beyond these systems. The main framework has three major components:

- BPM6 concepts and classification related to international trade in services (transactions between residents and non-residents);
- BPM6 extensions, providing for more detailed information on transactions by product category and by partner country;
- FATS that complement BPM6, dealing with aspects of international trade in services, as broadly defined in GATS, that are beyond the scope of BPM6 (e.g., transactions between residents);

B. Need for a statistical framework on international trade in services

1. Globalization and multilateral services trade negotiations

2.3. Rapid technological advances in the past few decades in transport, computing and telecommunications, including the development of the Internet and electronic commerce, have resulted in enterprises availing themselves of more distant resources for production and enabled them to serve ever wider markets. This trend towards globalization, reinforced by liberalization policies and the removal of regulatory obstacles to economic activities, has fuelled the steady growth of multinational enterprises, international investment and trade in goods and services. Better communication and transport have also facilitated the movement of people for the purposes of tourism, migration, employment and trade in services.

2.4. Service industries are the largest recipients of international investment flows, accounting for approximately two thirds of global outflows for the period 2003-05.¹ Services comprise about one fifth of worldwide trade in balance of payments terms. There are currently few reliable international comparisons of FATS, but according to information available for OECD economies at the time of writing,² it is estimated that the value of services delivered to markets through foreign affiliates is at least as high as the value of exports (or imports) of services recorded in the balance of payments. For the United

¹ United Nations Conference on Trade and Development, *World Investment Report 2007: Transnational Corporations, Extractive Industries and development* (New York and Geneva), 2007.

² OECD, *Measuring Globalisation, the Role of Multinationals in OECD Economies, Volume II, Services*.

States in particular, in 2005, services delivered to foreign markets by non-bank majority-owned foreign affiliates of United States companies, and to United States markets by non-bank majority-owned affiliates of foreign companies, largely exceeded (approximately 1.5 times) the respective values of the exports and imports of services recorded in the United States balance of payments.³ The development of statistics on trade in services has lagged behind the changing reality of the marketplace. The present *Manual* is designed to encourage Governments to implement statistical concepts that provide a better overview of international trade in services for economic analysis, development, policy-making and trade negotiations.

2.5. An important response of the international community to the rapid expansion of trade has been the creation of the World Trade Organization (WTO), which entered into force on 1 January 1995 as a result of the Uruguay Round of multilateral trade negotiations. The WTO provides a common framework for the conduct of trade relations among its members. Its main functions are to facilitate the implementation, administration and operation of the multilateral trade agreements; to provide a forum for further negotiations; to review national trade policies; and to secure solutions to trade disputes. The three principal WTO agreements are the General Agreement on Tariffs and Trade (GATT) of 1994, the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The GATS is the first set of legally enforceable disciplines and rules at the multilateral level to cover international trade in services.⁴

2.6. Governments require statistics to support the negotiation of specific commitments in trade in services and thereafter to monitor developments in the areas concerned. Statistics can aid the evaluation of market access opportunities; help to prepare decisions on negotiating priorities and strategies; facilitate the assessment of the extent of liberalization achieved in specific service markets; and provide a statistical background for the settling of disputes. The private business also needs information to identify

potential trade opportunities. The analysis of market developments requires to link trade data with output data, whether in terms of activities or of products.

2.7. The *Manual* acknowledges the tight constraints under which statistical compilers operate, whether in national statistics offices, central banks or other institutions, as well as the need not to burden private enterprises unduly, while still providing a clear ultimate goal for a conceptually complete framework.

2. The General Agreement on Trade in Services

(a) Structure and guiding principles of GATS

2.8. The GATS is a multilaterally agreed legal framework for trade in services which provides a system of enforceable obligations and commitments for services trade, applying to all members of WTO. It has three main objectives: to progressively liberalize trade in services through rounds of negotiations; to encourage economic growth and development through liberalization of trade in services; and to increase participation of developing countries in world trade in services. By the same token, the agreement expressly recognizes the right of members to regulate the supply of services in order to meet national policy objectives.

2.9. GATS establishes a set of rules and disciplines governing the use by WTO members of measures affecting trade in services. Such measures may consist of laws, regulations, administrative actions and decisions in respect of the purchase, payment or use of a service or the presence of foreign service suppliers. The GATS disciplines extend across all government levels, including non-governmental bodies in the exercise of delegated powers, subject to two particular carve-outs (see paragraph 2.11).

2.10. The GATS defines the “supply of a service” to include the production, distribution, marketing, sale and delivery of a service.

2.11. The agreement covers all services, except the core of air transport services⁵ (i.e. measures affecting air traffic rights and directly related services), and services provided in the exercise of governmental authority (i.e. services supplied neither on a commercial basis nor in competition with one or more service suppliers). While defining trade in services in terms of four modes of supply, the GATS contains no definition of what

³ United States Bureau of Economic Analysis, *Survey of Current Business* (Washington, D.C.), October 2007.

⁴ World Trade Organization, *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts* (Geneva, 1995), annex 1B.

⁵ This exclusion is subject to periodic review.

actually constitutes a service. It is no different in this regard from its counterpart in merchandise trade, the GATT, which contains no definition of a good.

2.12. The GATS consists of the text of the agreement, including a set of *general obligations*, many of which apply directly and automatically to all WTO members and all services; several *Annexes* covering specific sectors (e.g. air transport services, financial services) or trade-related policy matters; and members' schedules of *specific commitments* defining the sectors and modes of supply in which a member has undertaken access obligations.

2.13. First and foremost among the *general obligations* is the principle of *most-favoured-nation* (MFN) *treatment*, which forbids any form of discrimination between services and service suppliers originating in different members. Thus, regardless of the degree of foreign competition that a member allows in a sector, it must apply the same conditions to services and service providers from all other WTO members.⁶ Another general obligation (transparency) requires WTO members to publish all trade-related measures and establish national enquiry points to respond to other members' information requests.

2.14. *Specific commitments*, relating to market access, national treatment and any additional undertakings, are specified and bound in national schedules as a result of negotiations.⁷ While the GATS requires all member governments to submit such a schedule, it does not obligate them to assume commitments in any particular sector or type of transaction (mode of supply). In turn, this leaves scope to adjust the level and structure of commitments to country-specific objectives and constraints. Specific commitments may be undertaken with regard to any service sector and to any mode of supply covered by the GATS. For a given sector and

mode, the relevant commitment may vary between full competition and denial of any degree of market access and national treatment. In many cases, members have opted for an intermediate solution, subjecting their commitments to particular limitations. The GATS contains an exhaustive list of market access limitations, including quota-type ceilings on the number of service suppliers, their operations or employees, and restrictions on the legal form of establishment or the participation of foreign capital. Frequently used national treatment limitations concern the eligibility of foreign suppliers for subsidies and restrictions on foreign land ownership.

2.15. The assumption of specific commitments does not prevent Governments from regulating the services or the suppliers concerned for quality and other policy purposes. The agreement seeks to ensure, however, that the relevant standards, requirements and procedures do not constitute unnecessary barriers to trade in services. The precise content of these disciplines is subject to negotiation at the time of writing the Manual.

2.16. Under GATS, WTO members are committed to entering into successive rounds of trade liberalizing negotiations.⁸ The agreement provided that the first such round was to begin not later than five years from its date of entry into force. Accordingly, the current round of negotiations began on 1 January 2000, and has since been integrated in the timeframe of the Doha Development Agenda. At the time of writing of the *Manual* these negotiations were underway.

(b) Services Sectoral Classification list – MTN.GNS/W/120

2.17. In 1991, the GATT Secretariat produced a note setting out a classification of service sectors, (document MTN.GNS/W/120, Services Sectoral Classification list, hereinafter W/120) based on consultations with members. The list identifies relevant sectors and sub-sectors so as to enable members to undertake specific commitments. W/120 should thus be viewed as an – optional – classification system for trade negotiating purposes, rather than as a statistical classification. It is reproduced in full in annex xx. For the sake of clarity,

⁶ An Annex on MFN exemptions allowed WTO members to list exemptions for measures existing at the date of entry into force of GATS (or date of accession). These exemptions should in principle last no longer than 10 years; they are subject to review and must be (re)negotiated in subsequent trade rounds. New exemptions can be granted only in special circumstances and require a waiver under the WTO agreement. Around 100 members maintained such exemptions at the time of writing.

⁷ When commitments are “bound” in national schedules, this means that in general they cannot be easily modified or withdrawn; because “unbinding” is a difficult process, the commitments are virtually guaranteed conditions for foreign exporters and investors.

⁸ Commitments are often negotiated bilaterally at the sectoral and mode level, and then extended to all WTO member economies in compliance with the MFN principle; to support the negotiation process, it would thus be useful to have statistical information by origin and destination at a detailed product level.

codes from the Provisional CPC⁹ were assigned to as many sub-sectors as possible.

2.18. The 12 major categories in the 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.

2.19. The List may evolve over time, and the services trade negotiators may use other classifications in negotiations, as has been the case for basic telecommunications, financial services and maritime transport. In general, however, members have tended to avoid any major changes in order to ensure the stability and comparability of commitments over time.

(c) The four GATS modes of supply

2.20. In GATS, trade in services is defined as the supply of a service:

- a. from the territory of one [WTO] Member into the territory of any other Member;
- b. in the territory of one [WTO] Member to the service consumer of any other Member;
- c. by a service supplier of one [WTO] Member, through commercial presence in the territory of any other Member;
- d. by a service supplier of one [WTO] Member, through presence of natural persons of a Member in the territory of any other Member.

2.21. The GATS modes of supply are thus defined depending on the location of the supplier and the consumer when a service is supplied taking into account their nationality/origin (see Chart 1). These 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 and amusement parks abroad are typical examples); 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 foreign bank investing in a host economy to create a subsidiary in order to supply banking services); and presence of natural persons 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). A more detailed description of modes of supply is provided in Chapter V.

C. Statistical systems and classifications related to trade in services

2.22. The *Manual* seeks consistency with international standards related to trade in services. These standards are reviewed below. In particular, compatibility with the following systems and classifications is given the highest priority: BPM6, the 2008 SNA, ISIC, Rev.4 and CPC, Ver. 2.

2.23. The key standards on which the *Manual* builds are noted below; fuller treatment of transactions between residents and non-residents and foreign affiliates systems appears in Chapters III and IV, respectively. A brief summary of the relevant concepts contained in the standards is also given below.

1. Statistical frameworks

(a) System of National Accounts, 2008¹⁰

2.24. The *System of National Accounts, 2008* is an integrated system of accounts related to the economic activities and sectors of the economy of a country. 2008 SNA provides a definition of services and distinguishes transformation services from margin services (see SNA chapter 6).

2.25. To capture the transactions between an economy and all others, the 2008 SNA provides an account called

⁹ The provisional CPC has since been superseded by CPC Version 1.0, CPC Version 1.1 and CPC Ver. 2.

¹⁰ include release date

the “rest of the world”, which it also refers to as the “external transactions account”. Within this account is an “external account of goods and services”, in which trade in goods and services are separately recorded.

2.26. The 2008 SNA identifies “foreign-controlled corporations” as sub-sectors of the two institutional sectors - *financial corporations* and *non-financial corporations*. Foreign-controlled enterprises are defined more broadly in the 2008 SNA than the foreign-controlled subset of foreign affiliates covered by FATS and described in Chapter IV below. The difference is that the 2008 SNA considers some “associated enterprises” which are enterprises in which the non-resident ownership is between 10 per cent and 50 per cent, as foreign-controlled (e.g control of the board or other governing body, control of the appointment and removal of key personnel, control of key committees of the corporations) whereas this *Manual* excludes associated enterprises. Enterprises covered in the FATS framework are therefore a subset of foreign-controlled enterprises as defined in the 2008 SNA.

2.27. However, this *Manual* encourages countries that can do so to provide supplemental statistics covering other cases such as majority ownership by multiple unaffiliated foreign direct investors, ownership of exactly 50 per cent by a foreign direct investor, and cases where effective control is deemed to have been achieved through a minority stake in an enterprise.

2.28. 2008 SNA statistics on foreign-controlled enterprises relate to those enterprises operating in the compiling economy (“inward”) that are controlled by non-residents. The 2008 SNA statistics for a given compiling country do not provide information on enterprises established abroad (“outward”) that are controlled by residents of that country (though these enterprises would be covered by the 2008 SNA statistics of their respective host countries).

2.29. The 2008 SNA provides the definitions of most of the economic variables that Chapter IV recommends should be collected for FATS. These include the priority variables (output, sales, employment and value added) as well as the lower priority items (financial and non-financial assets, net worth, operating surplus, gross fixed capital formation, taxes on income and compensation of employees). The 2008 SNA also provides the definition of an enterprise, which is required for compiling the priority variable *number of enterprises*.

(b) *Sixth edition of the IMF Balance of Payments and International Investment Position Manual (BPM6)*

2.30. BPM6 describes the conceptual framework that underlies the international investment position, the balance of payments and the other changes in assets and liabilities account. The balance of payments is a statistical statement that summarizes transactions of residents of an economy with non-residents during a period. A transaction is an interaction between two institutional units that occurs by mutual agreement or through the operation of the law and involves an exchange of value or a transfer. Transactions between residents and non-residents consist of those involving goods or services, acquisition of assets, compensation of employees; dividends; etc. and those (such as taxes, debt forgiveness, grants, personal transfers, etc.) that are classified as transfers.

2.31. The 2008 SNA and BPM6 have a common conceptual framework. The definitions of residence, valuation, and time of recording and the principles of accrual accounting recommended in the present *Manual* are the same as those in both BPM6 and the 2008 SNA.

2.32. The international transactions in trade in services that take place between residents and non-residents of an economy that are described in the present *Manual* are based on the BPM6 classification and definition of services, but the detail recommended in Chapter III of the present *Manual* is greater than that of BPM6.

2.33. The scope of *international trade in services* between residents and non-residents in the present *Manual* is the same as that in BPM6.

(c) *International Recommendations for Tourism Statistics 2008* and *Tourism Satellite Accounts: Recommended Methodological Framework 2008*

2.34. The *International Recommendations for Tourism Statistics 2008*¹¹ (IRTS 2008) were developed by the World Tourism Organization (UNWTO) and the United Nations. IRTS 2008 provides the comprehensive methodological framework for collection and compilation of tourism statistics and should be viewed as an important foundation of the System of Tourism Statistics. The development of this system is closely linked to the second set of international recommendations related to tourism statistics which are

¹¹ United Nations publication, Sales No...

the *Tourism Satellite Accounts: Recommended Methodological Framework 2008*,¹² (TSA-RMF 2008) developed by Eurostat, UNWTO, OECD and the United Nations. TSA-RMF 2008 sets out a framework to measure the economic contribution of tourism in an internationally comparable way. IRTS 2008 and the TSA-RMF 2008 respect the definitions and norms of the 2008 SNA, where relevant. The coverage of the expenditure of individuals traveling in a country other than that of their residence as described in the present *Manual* and the international tourism expenditure as described in the IRTS 2008 and TSA-RMF 2008 differ to some extent and the relationship between them is described in Annex xx. The balance of payments data on travel as defined in paragraphs 3.xx-3.xx below, are one source of data on inbound and outbound tourism expenditure as defined in tourism statistics recommendations. These recommendations, consistently with BPM6, also allow for a breakdown of non-resident visitors' expenditure according to a breakdown of products, with special emphasis on tourism characteristic products, that may be useful for GATS.

(d) *International Merchandise Trade Statistics*

2.35. The United Nations publication *International Merchandise Trade Statistics: Concepts and Definitions, Revision 2*³ (IMTS, Rev.2) contains the recommendations of the Statistical Commission regarding statistics of international merchandise trade.¹⁴ The implementation of these recommendations results in data that better meet the needs of a variety of national and international users and that are more comparable with other statistics compiled in the framework of the 2008 SNA and BPM6. IMTS provides a brief description of flows of goods between residents and non-residents that are not covered by merchandise trade statistics and identifies those services of which the value is included in the value of imported and exported goods (see Annex xx for further information).

(e) *International migration frameworks and the Recommendations on Statistics of International Migration*

2.36. The *Recommendations on Statistics of International Migration, Revision 1*¹⁵ (RSIM Rev. 1) set out a framework for reporting statistical information that measures international migration flows and stocks, including how population censuses can help gather information on foreign persons. The framework builds on the taxonomy of traveler inflows and outflows, and it gives priority to the identification of internationally mobile individuals who satisfy simple general definitions of short-term and long-term migrants. The recommended period of stay for inclusion among the former is three months, and for inclusion among the latter one year or more. Persons staying for periods shorter than three months are not included in these recommendations. Thus, the use of the term migrant is somewhat broader than that of residents in BPM6, where an actual or intended stay of a year or more is required. A fuller taxonomy of migrants and other travelers is provided in RSIM, Rev. 1.¹⁶ An ILO publication¹⁷ provides an extensive discussion on sources of migration statistics.

(f) *OECD Benchmark Definition of Foreign Direct Investment*

2.37. Foreign direct investment has assumed a crucial role in the internationalization of economic activities. The fourth edition of the *OECD Benchmark Definition of Foreign Direct Investment*¹⁸ (BD4) provides operational guidance, within the conceptual framework of BPM6 and as an elaboration of it, on how foreign direct investment data should be compiled to meet internationally agreed standards. The OECD Benchmark Definition also provides recommendations on indicators of globalisation based on statistics of foreign direct investment and activities of multinational enterprises (AMNE). The AMNE statistical framework described in the OECD Benchmark Definition is consistent with the FATS framework of the *Manual*.

¹² United Nations publication, Sales No. E.01.XVII.9 [update].

¹³ United Nations publication, Sales No. E.98.XVII.16.

¹⁴ At the time of publication of the *Manual*, the third revision of IMTS (IMTS, Rev. 3) was under way and should be finalized shortly after the release of the *Manual*.

¹⁵ United Nations publication, Sales No. E.98.XVII.14.

¹⁶ *Ibid.*, box xx.

¹⁷ R.E. Bilborrow, Graeme Hugo, A.S. Oberai and Hania Zlotnik, *International Migration Statistics: Guidelines for Improving Data Collection Systems* (Geneva, International Labour Organization, 1997).

¹⁸ Paris, 1996.

(g) OECD Handbook on Economic Globalisation Indicators

2.38. The *OECD Handbook on Economic Globalisation Indicators* provides a framework of methodological and statistical guidelines for constructing indicators, on an internationally harmonized basis, for use by policy makers and for the systematic monitoring over time of the progressive degree of worldwide economic integration. It also provides detailed recommendations for compiling statistics of AMNE which are consistent with the OECD Benchmark Definition. GATS obligations and commitments relate to many aspects of the presence of enterprises established abroad, which supply services through mode 3, *commercial presence*. As explained in paragraphs 4.xx-4.xx below, FATS provide information on the activities of majority-owned foreign affiliates. Although the OECD Handbook covers a wider canvas than FATS (foreign direct investment, technology, trade), the FATS framework in this *Manual* has been conceived in a way that is consistent with the framework that is defined in the OECD Handbook as well as the OECD Benchmark Definition.

2. Statistical classifications

(a) Central Product Classification, Version 2

2.39. The *Central Product Classification, Version 2* is a part of the international family of economic and social classifications. It constitutes a comprehensive classification of all goods and services. It is the standard for all products that are an output of an economic activity, including transportable and non-transportable goods and services as well as originals. For the description of goods, CPC, Ver.2 is fully harmonized with the *Harmonized Commodity Description and Coding System 2007*¹⁹ (HS) of the World Customs Organization. CPC, Ver.2 covers the whole spectrum of outputs of the various industries, and it can serve the different analytical needs of statistical and other users and is particularly useful for services. The general service product classification of CPC serves as a guideline for the elaboration of classifications for specific areas of the economy, including international trade in services. For example, the Provisional CPC was used for the elaboration of the categories of services that were used mostly for setting up the initial schedules of commitments at the end of the Uruguay Round and for the changes, including in the context of WTO

¹⁹ Brussels, World Customs Organization, 2005.

accessions, that have been made since. The CPC, Ver. 2 is used to describe the balance of payments services components recommended in BPM6.

(b) International Standard Industrial Classification of All Economic Activities, Revision 4

2.40. The *International Standard Industrial Classification of All Economic Activities, Revision 4* is a basic tool for fostering international comparability of data across a wide range of economic and social statistics, including production, value added, employment and other economic statistics. It is a standard classification of productive economic activities linked as far as possible with the way economic processes are organized in units. An industry is thus defined as the set of production units engaged primarily in the same or similar kinds of productive economic activity. Criteria relating to the economic transactors (e.g., financial institutions) and to types of transactions (intermediate and final consumption, capital formation etc.) reinforce the considerations for identifying stages of production. In line with the United Nations programme for the harmonization of international economic classifications, ISIC, Rev.4 categories are correlated with those of CPC, Ver.2. A correlation table indicates the main kinds of activities that produce particular goods and services.

(c) ILO International Standard Classification of Occupations 2008

2.41. The *ILO International Standard Classification of Occupations* (ISCO-2008) provides a sound basis for international comparability of statistics on the categories of foreign natural persons who are participating in the delivery of traded services. This framework might be used for conducting negotiations concerning mode 4 as well, mainly in professional services²⁰. The availability of statistical information on employment in all or the selected categories—for example, from the latest population census or a labour force survey—could provide an interesting source of information for negotiating and monitoring purposes. Further work may have to be done, however, to identify

²⁰ Some examples of CPC categories that correspond to the classification of ISCO-88 and are covered by the commitments are legal professionals (ISCO 242 and CPC 861), accountants (ISCO 2411 and CPC 862), engineering professionals (part of ISCO 214 and CPC 8672), architectural professionals (ISCO 2141 and CPC 8671) and medical professionals (ISCO 222 and 223a.o. and CPC 9312).

the main occupational groups included or likely to be included in future commitments.

D. Approach and framework of the Manual

2.42. To address the needs identified in paragraphs 2.xx.-2.xx above, two basic principles underlie the *Manual's* approach:

- (a) consistency with international standards related to trade in services, extending them where necessary and feasible;
- (b) phased implementation.

These principles facilitate the introduction and progressive implementation of a set of distinct elements in a flexible way to meet each country's priorities, while at the same time improving inter-country comparability. Throughout its coverage of international services transactions, links are provided between the *Manual* and relevant international standards.

1. Approach of the Manual

2.43. The *Manual's* framework has two main building blocks for describing international trade in services. These are transactions between residents and non-residents (based on BPM6) and trade in services through the operations of foreign affiliates based on Foreign Affiliates Statistics (FATS). It is complemented by a description of how to use statistics on trade in services with respect to international agreements.

2.44. The scope of the *Manual* is described in five parts: BPM6 services and related transactions, BPM6 extensions, FATS, statistics on trade in services through the presence of natural persons and the need to develop statistics by trading partner. The five components are presented in paragraphs 2.xx-2.xx below.

2.45. The *Manual's* statistical framework with regard to resident/non-resident transactions is based on BPM6, which contains, among other things, recommendations for the definition, valuation, classification and recording of resident/non-resident trade in services. BPM6 is a primary source of statistical guidance on international trade in services, international investment transactions and economic flows associated with the movement of workers. Extensions to BPM6 are developed in the *Manual* to provide for a more detailed treatment of service transactions between residents and non-residents by

product category and by partner countries. The *Manual* does not set out to change the BPM6 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. Examples of this more detailed treatment are in the areas of transport, insurance and pension services, charges for the use of intellectual property, business and professional services, and personal services.

2.46. In addition to trade in services between residents and non-residents, services may be supplied through foreign affiliates in host countries. The FATS system, which draws to a great extent on the concepts and definitions contained in the 2008 SNA, has been designed to provide information on the activity of foreign affiliates that is out of the scope of BPM6. The *Manual's* framework is based on FATS as a complement to, and in parallel with, BPM6.

2.47. The *Manual* proposes in chapter xx a statistical approach that may be used in allocating BPM6 and FATS service transactions to the GATS modes of supply. It proposes a simplified approach as a starting point. The approach draws on the correspondence between commercial presence and FATS, as well as between the other modes of supply and transactions between residents and non-residents, as captured in BPM6 services components. It also includes systematic criteria for the allocation of modes of supply and simplifying methods and guidelines for the treatment of complex transactions. Although most of the information required to measure the supply of services through mode 4 is available through the BPM6 services components and FATS system, the *Manual* also outlines the issues arising in a more comprehensive analysis of services provision through mode 4.

2.48. The descriptions of BPM6, its extensions, FATS and issues surrounding modes of supply are discussed only briefly in the present chapter because fuller descriptions are provided in other chapters of the *Manual*.

2. Statistics on trade in services from the balance of payments

2.49. Balance of Payments statements summarize notably the economic transactions of an economy with the rest of the world for a specific period. Two key concepts are involved: *transaction* and *residence*. A *transaction* itself is defined as an interaction between two institutional units by mutual agreement that reflects

the creation, transformation, exchange, transfer or extinction of economic value and involves changes in the volume, composition, or value of an institutional unit's assets and liabilities. It involves purchases of goods or services, acquisition of assets, compensation of employees; dividends; etc. and those (such as taxes, debt forgiveness, grants, personal transfers, etc.) that are classified as transfers. *Residence* is central because the identification of transactions between residents and non-residents underpins the BPM6 system. The definition of residence that is used in BPM6 is identical to that in the 2008 SNA, and is based on a transactor's centre of predominant economic interest. Since political boundaries may not always coincide with those appropriate for economic purposes, the *economic territory*²¹ is used as the relevant geographical area for the characteristic of residence. Each institutional unit is a resident unit of one and only one economic territory determined by its center of predominant economic interest.

(a) Main BPM6 standard services components

2.50. BPM6 statistics are arranged within a coherent structure to facilitate their use and adaptation for many purposes, including policy formulation, analytical studies, projections, bilateral comparisons of particular components or total transactions, and regional and global aggregations. The 12 main BPM6 standard services components are:

1. Manufacturing services on physical inputs owned by others
2. Maintenance and repair services, not included elsewhere (n.i.e.)
3. Transport
4. Travel
5. Construction
6. Insurance and pension services
7. Financial services
8. Charges for the use of intellectual property n.i.e.
9. Telecommunications, computer, and information services
10. Other business services
11. Personal, cultural, and recreational services
12. Government goods and services n.i.e.

2.51. These 12 services components together match the GATS product coverage relatively well, with several exceptions. First, for the most part, the component

²¹ For a definition of economic territory, see para. 3.xx below.

government goods and services n.i.e. is excluded from GATS.²² Second, some transactions considered as services under GATS are recorded under *goods* in BPM6; this concerns the value of most merchanting and wholesale and retail trade services. Third, some BPM6 components, especially *travel* and *construction*, include transactions in goods. Fourth, BPM6 includes charges for the use of intellectual property (except for franchise payments, this component is not captured by the Services Sectoral Classification list W/120).

(b) The Extended Balance of Payments Services Classification 2010

2.52. The Extended Balance of Payments Services Classification has been devised for the first edition of the *Manual* based on the experience gained with the implementation of the *Joint OECD-Eurostat Trade in Services Classification*²³ at the end of the 1990s. The first version of EBOPS was a disaggregation of the Joint Classification. Based on its previous version, EBOPS 2010, as recommended in the present *Manual*, is a disaggregated sub-system of the BPM6 services classification. Annex xx shows the relationship between EBOPS 2010 and the BPM6 classification of services. Correspondence tables are provided in annex xx linking the EBOPS 2010 with CPC, Ver.2, thus providing greater detail and a necessary although partial statistical link between domestic production and trade in services. There is an ongoing need for a convergence of the product classifications of industry and trade, for comparative purposes. This development work to more closely align the structural components of EBOPS and CPC is taken into account in this *Manual*. The correspondence shown in Annex xx clarifies the definition of EBOPS 2010 through the use of the detailed categories of CPC, Ver.2. As described in Chapter III, EBOPS 2010 contains main categories that

²² Article 1 of GATS, describing the scope of the agreement, excludes services supplied in the exercise of governmental authority, meaning any service that is supplied neither on a commercial basis nor in competition with one or more service suppliers (see annex xx).

²³ Organisation for Economic Co-operation and Development and Eurostat, *OECD Statistics on International Trade in Services* (Brussels/Luxembourg and Paris, 2000), appendix 1. The Joint Classification represented a first attempt to take account of GATS particularly as regards financial services, 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.

are identical to the 12 major BPM6 standard services components, as well as further details that are consistent with BPM6. The harmonization is bolstered by the standardization of the coding systems for identification and reporting purposes.

3. Statistics on services supplied through direct investment - Foreign Affiliates Statistics

2.53. Affiliates are often established abroad to deliver services that require close contact between the supplier and the consumer. In the present *Manual* and following GATS coverage, domestic sales by foreign affiliates are covered by the term “international trade in services”. However, because foreign affiliates are resident entities in their host country, their sales in these countries are not recorded in the balance of payments, which are only concerned with transactions between residents and non-residents.

2.54. FATS have been designed to capture such information. In addition, FATS include a range of other statistical indicators so as to assess diverse aspects of the globalization phenomenon and to monitor the commercial presence mode of supply in a variety of contexts, such as those relative to trade, domestic output and employment.

(a) Foreign direct investment

2.55. Foreign direct investment is usually a precondition for the establishment of a *commercial presence*. FDI statistics are thus a relevant complement to FATS as information on the *commercial presence* mode of supply. Where countries do not compile FATS, FDI statistics may be the only available quantitative information relating to this mode of supply.

2.56. FDI reflects the objective of obtaining control or a significant degree of influence by a resident entity in one economy on the management of an enterprise resident in another economy. Direct investment includes the initial transaction between the two entities and all subsequent financial transactions between them and among affiliated enterprises, both incorporated and unincorporated. The BPM6 defines an entity or group of related entities that is able to exercise control or influence over another entity that is resident of a different economy as a direct investor, and the entity subject to control or a significant degree of influence is called a direct investment enterprise. Direct investment relationships arise when a direct investor owns equity that entitles it to 10 per cent or more of the voting

power in the direct investment enterprise (either directly or indirectly). In inward and outward direct investment statistics, where feasible, the direct investment enterprise should be classified by its industrial activity in the host country and by the industrial activity of its direct investor.

2.57. A foreign direct investor is an individual or household, an incorporated or unincorporated public or private enterprise, an investment fund, a government or international organization, a nonprofit institution in an enterprise that operates for profit, an estate, trustee in bankruptcy or other trust or any combination of two or more of the above. For two or more individuals or other entities to be considered a combination they must be in a direct investment relationship or have a family relationship for individuals. . A direct investment enterprise is a subsidiary or an associate (either incorporated or unincorporated) operating in a country other than the direct investor’s country of residence. The conceptual basis for compiling foreign direct investment statistics has been defined in BPM6 and in the OECD Benchmark Definition, involving such concepts as direct investor, direct investment enterprise, control or significant degree of influence on management and at least 10 per cent voting power or the equivalent.²⁴ Control is defined in the Framework of Foreign Direct Investment Relationship (FDIR) and is deemed to exist if there is majority ownership of the voting power at each stage of the chain of ownership.

(b) FATS: concepts and classification

2.58. FATS measure amongst other aspects the commercial presence abroad of service suppliers through affiliates in foreign markets, and are therefore closely related to statistics on FDI. Data on the activities of the foreign-controlled affiliates in the compiling economy are usually referred to as *inward FATS*, and those relating to the controlled foreign affiliates of the compiling economy that are established abroad are referred to as *outward FATS*. FATS cover a range of variables that can comprise some or all of the following: sales (turnover) and/or output, employment, value added, exports and imports of goods and services, number of enterprises, assets, net worth, net operating surplus, gross fixed capital formation, taxes on income, research and development expenditures, compensation of

²⁴ For additional detail on direct investment concepts and definitions, see box xx.

employees, purchases of goods and services and other aspects of potential interest to policy makers.

2.59. Ideally, it would be possible to attribute FATS variables on the basis of either the industrial activities of producers or the types of products produced and sold. Data on a product basis would identify the specific types of services delivered through the commercial presence mode of supply and could most readily be compared with data on services delivered through trade between residents and non-residents. However, some FATS variables, such as value added and employment, do not lend themselves to a product classification. Also, for some countries, FATS may be developed as a subset of domestic enterprise or other statistics that are classified only on an activity basis. Further, for some purposes, the data may need to be viewed in conjunction with data on stocks and flows of foreign direct investment, which would normally be classified by activity but not by product.

2.60. The *Manual* thus recommends that FATS variables be classified by activity according to the ISIC Categories for Foreign Affiliates, a group of categories derived from ISIC (see Chapter IV below and Annex xx). ICFA covers all kinds of activities, including goods production. ICFA was designed so as to provide the best possible link with EBOPS 2010 in order to facilitate as much as possible the comparability of the two sets of statistics (see Annex xx on the link between ICFA and EBOPS 2010). This basis of presentation allows activities of services enterprises to be viewed in the context of the activities of all enterprises. In addition, where a cross-classification by product is possible, it provides a framework for displaying services produced as a secondary activity by enterprises classified as goods producers.

(c) FATS and other statistical frameworks

2.61. FATS, as conceived in this *Manual*, build upon existing statistical frameworks. They fall within the overall domain of the 2008 SNA and observe the conventions of both BPM6 and BD4 in relation to foreign direct investment. They look to CPC and ISIC for product and activity classifications and to International Labour Organization (ILO) standards for employment variables. They also have been defined in a way that is consistent with the standards defined in the OECD Handbook on Economic Globalization Indicators for the measurement of AMNE and BD4. FATS

capture the activities of foreign-controlled subset of foreign affiliates that form a subset of enterprises on the register of direct investment enterprises, and cover a wide variety of indicators on both their domestic and foreign operations.

2.62. Direct investment enterprises comprise those entities that are identified as subsidiaries (investor owns more than 50 per cent), and associates (investor owns 50 per cent or less), either directly or indirectly owned by the investor” (2008 SNA, paragraph xx.xxx). Further, foreign-controlled enterprises as defined by the 2008 SNA include subsidiaries (including quasi-corporations), but associates may be included or excluded according to an assessment of foreign control.

2.63. FATS, as described in Chapter IV below, is compiled for the foreign-controlled subset of affiliates as defined in FDIR. In the real world, ownership structures can be very complex; in addition, actual management responsibilities may bear little or no relationship to the formal legal structure of the enterprise. Although it does not cover every possible case, Chapter IV provides practical guidance on determining statistical coverage under different ownership structures (more comprehensive treatment of these issues is outlined in the OECD Handbook on Economic Globalization Indicators).

4. Statistics on services supplied through presence of natural persons and statistics on labour mobility

2.64. Given the high political and economic interest of governments in monitoring the movement and presence of foreign persons, there exists a particular need for measuring related international transactions. Although the emphasis here is on measuring the trade flows created through the movement (flow) and presence (stock) of natural persons in an economy (i.e. mode 4, as well as implications for trade in services in general), some aspects go beyond and are more closely linked to the concept of labour mobility (whether it be related to services, agricultural or manufacturing activities). While it is important to identify all diverse needs, the focus here is to identify those directly related to trade in services.

2.65. Trade in services through presence of natural persons (mode 4) and labour mobility may be distinguished by the type of contracts underpinning the transactions. While employment contracts are related to labour mobility, mode 4 is defined by the fact that it is a

service contract that takes place between the supplier and the consumer of the service.

(a) Balance of payments statistics on trade in services through presence of natural persons (mode 4)

2.66. Mode 4 categories of persons considered in the *Manual* are generally referred to as:

- *Contractual service suppliers*, whether employees of a foreign service supplier or self-employed. These persons enter the territory of the consumer in the context of a service contract;²⁵
- *Intra-corporate transferees and foreign employees directly recruited by foreign established companies*: the service supplier has a commercial presence abroad and sends its employee to its affiliate or foreigners are directly recruited by the affiliate. The supply of the service to the consumer is carried out through a commercial presence²⁶; and
- *Service sellers / persons responsible for setting up commercial presence*. There is initially no actual service supply for this category of persons.²⁷

2.67. A more detailed description of the distinction between services and employment contracts and more generally on measuring mode 4 is provided in Chapter V.

²⁵ Some self-employed persons may also establish in the host market and supply services from within this territory. Although a mode 4 commitment guarantees the right for this person to be present in this territory, it is considered in this *Manual* that the supply of the service is carried out through a commercial presence.

²⁶ The mode 4 commitment guarantees the right for the (foreign) service supplier to have (foreign) natural persons working in the affiliate. The supply of the service to the consumer is through the affiliate. For foreigners directly recruited by the foreign affiliate there may be ambiguity with respect to their coverage under mode 4 as one could consider, in particular for foreigners recruited from within the host economy, that these individuals are seeking to access the employment market of the host economy.

Intra-corporate transferees are a particularly relevant grouping as many commitments are made and negotiations carried out with respect to this category of persons.

²⁷ Their movement in order to conduct negotiations is guaranteed by commitments under mode 4.

2.68. Balance of payments services transactions include the value of trade in services produced through mode 4. The main difficulty lies in the separate estimation of this mode of supply within given services transactions.

(b) Balance of payments statistics on labour mobility

2.69. Balance of payments labour-related flows (personal remittances, of which compensation of employees, personal transfers, worker's remittances) can be used to assess the benefits of home economies with respect to international migration including labour mobility.

2.70. While labour-related flows give information on a country's income generated through transfers of people moving abroad or migrating, personal remittances are not a substitute for the value of trade under mode 4, as described above. In addition, important differences exist in terms of coverage of persons. For example, personal remittances may cover transfers related to employment in non-services sectors as well as earnings of persons employed by international organizations. In conclusion, in the context of mode 4, personal remittances are only supplementary information of a different type (i.e. relating to the movement of persons in general) that may be useful from an analytical perspective of labour mobility but not as a measure for GATS mode 4.

(c) Statistics on the number of persons involved in mode 4 trade and labour mobility

2.71. In addition to international transactions related to the movement of persons, in order to have a fuller picture of the implications of these movements (either from a trade perspective or with respect to labour mobility), statistics on the number of foreign persons moving (flows) and present (stocks) in a host country are an important complement. The *Recommendations on Statistics of International Migration, Revision 1* set out a framework for reporting statistical information that measures international migration flows and stocks. Although this framework does not provide the full breakdown necessary for the analysis of trade in services and labour mobility it should serve as a basis for the collection of this type of information. The *2008 International Recommendations for Tourism Statistics* may also serve as a basis for collecting statistics on the number of persons involved in mode 4 trade. Chapter V provides further information with respect to the use of these frameworks.

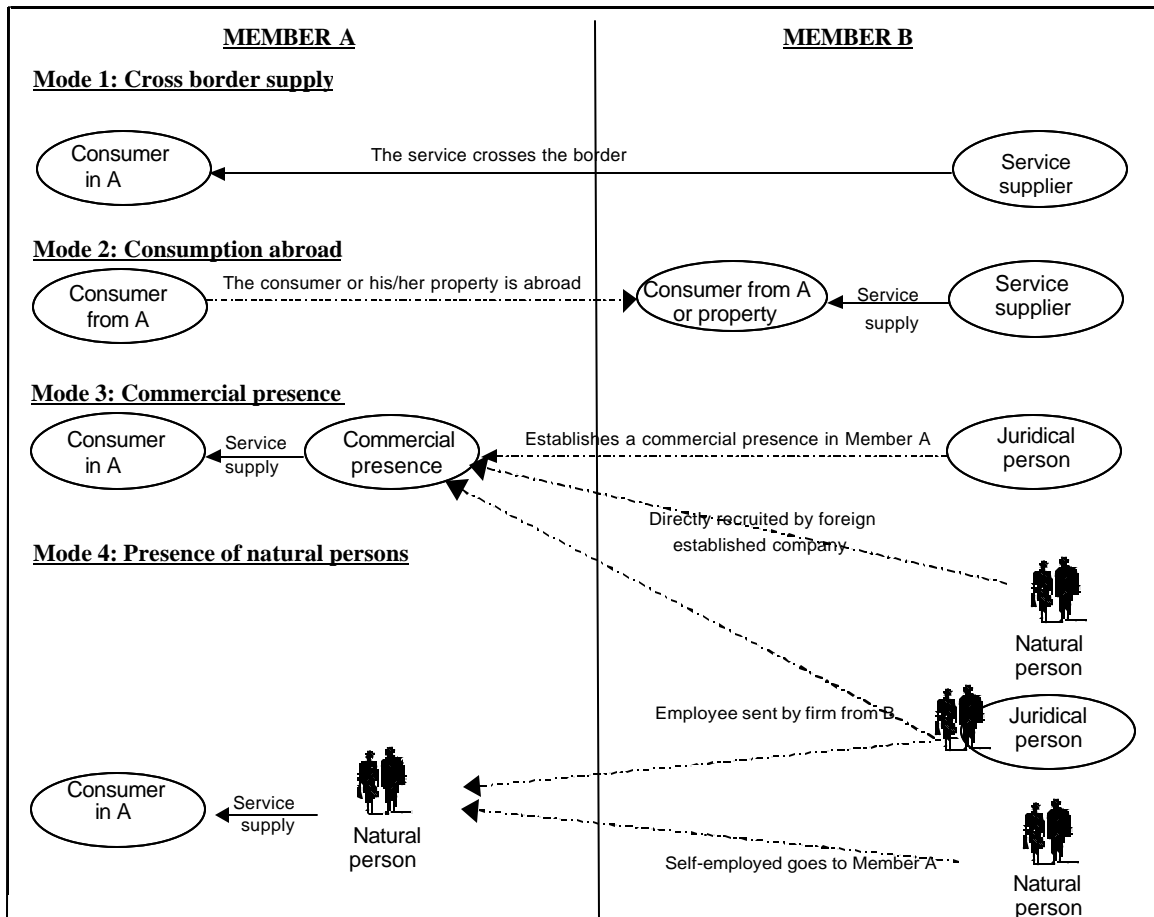
2.72. Various sources exist to collect this information such as administrative sources (population registers, permit data, visas), census data, enterprise surveys, labour force surveys or other types of household surveys, border/passenger surveys etc.²⁸

5. Analysis of international trade in services by origin and destination

2.73. International trade in services statistics by origin and destination are needed for analytical and policy purposes and for use in bilateral and multilateral negotiations. Country or regional analysis of trade in services, whether associated with international transactions, foreign direct investment, or FATS, is a necessary complement to both product and economic activity classification systems. To the extent feasible, an identical geographical basis should be used for all related sets of services statistics. The geographical allocation of services transactions in the balance of payments is to the country where the provider or acquirer of the service is resident.

²⁸ For instance, the compilation guide issued by the Luxembourg Group on Remittances (to be released) includes a proposed list of characteristics of remittance senders (type of remittance sender, status in employment, length of stay abroad, country of origin etc.) which can be used in collecting information on the number of persons linked to labour mobility and remittances.

Chart 1. Synthetic view of modes of supply⁴⁵



⁴⁵ For commercial presence and presence of natural persons the service might also be exported to either B or a third member. A more detailed description of modes of supply is provided in chapter xx.

A natural person of a member is defined in GATS Article XXVIII(k) as a national of that member or a natural person which has a right to permanent residence in that member. A natural person which is not a national of a member but is a permanent resident of it may be covered only when the member concerned does not have nationals or, subject to additional qualifications in its acceptance to the GATS, accords substantially the same treatment to permanent residents as to nationals in respect of measures affecting trade in services. A juridical person means any legal entity duly constituted or otherwise organized under applicable law, whether for profit or otherwise, and whether privately-owned or governmentally owned, including any corporation, trust, partnership, joint venture, sole proprietorship or association.