



9 September 2004

UNITED NATIONS
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
STATISTICS DIVISION

**Meeting of the Technical Subgroup of the
Task Force on International Trade in Services,
Movement of Natural Persons – Mode 4
Paris, 15-16 September 2004**

Statistics related to GATS Mode 4 Trade in Services for Hong Kong, China

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Introduction

1. The *MSITS* describes four modes (cross-border supply, consumption abroad, commercial presence, and presence of natural persons) through which services may be traded internationally, by considering the location of both the supplier and consumer of the traded service.

2. GATS Mode 4 of supply of services (presence of natural persons) describes the process by which an individual moves to the economy of consumer to provide a service, whether on his or her own behalf or on behalf of his or her employer (*MSITS* para 2.19). It covers both supply of services (commodity-type services in a *BPM5* sense) and also the provision of labour inputs to production, where these are on a 'nonpermanent basis'. (GATS provides no definition of nonpermanent employment. Generally, it refers to employment of a substantially longer period than the one year rule, and economies have commonly defined it as between two and five years.)

3. In other words, Mode 4 services may be directly supplied (by self-employed individuals abroad or by employees abroad sent by non-resident firms to the host economy), or be indirectly supplied (with the individual abroad working for a service supplier resident in the host economy). In general, trade in services through Mode 4 of supply often takes place through nonpermanent employment.

4. It is important to note that, under Mode 4 of supply of services, the presence of foreign natural persons is generally not for permanent employment in the receiving economy (as self-employed or by an establishment located there), but for the purpose of temporarily supplying a service there. When the service product has been delivered, the presence is to be terminated, and the foreign natural person should leave the economy.

5. Nevertheless, if an individual engages in 'nonpermanent' employment in an economy for a period long enough for changing his or her residence status, the economy will record workers' remittances when the individual remits funds to non-residents, and migrants' transfers at the time when the residence status of the individual changes.

Methods for Deriving Statistics on Mode 4 of Supply of Services for Hong Kong and the Data Sources

6. Pragmatically, it is possible to derive some information on Mode 4 services transaction from *BPM5* statistics. For example, some *BPM5* Services components can be further broken down by mode of supply to provide information on Mode 4 transactions (where the supplier travels to the territory of the consumer): construction

* On 1 July 1997, Hong Kong became a Special Administrative Region of the People's Republic of China. Under the principle of "one country, two systems", Hong Kong is a separate economic territory. Data on transactions with the mainland of China are treated as external transactions of Hong Kong.

services (broken down between Modes 3 and 4); computer and information services; other business services; personal, cultural and recreational services (between Modes 1 and 4).

7. The component of Compensation of Employees (part of the BoP Income Account) also provides information on Mode 4 activity of provision of labour across national economic boundaries where employment is for less than one year. It covers income in the form of wages, salaries, and other compensation received by non-resident individuals who are employed for less than one year in resident enterprises that are producing goods and services.

8. For cases where nonpermanent employment occurs for more than one year, only partial information can be obtained from the *BPM5* Workers' Remittances component since it includes remittances by permanent workers as well. In principle, workers' remittances refer to the residual of income earned in the migrants' new economies after allowance for expenditure and savings of the migrants in their new home economies. In this sense, workers' remittances underestimate the value of services supplied through Mode 4.

9. In Hong Kong, since statistics on Mode 4 of supply of services are currently not compiled separately, the existing statistical systems do not cater for separate identification of supply of services through presence of natural persons in external transactions in services. Yet such Mode 4 transactions are covered by relevant GDP and BoP statistics of Hong Kong. The data sources and methods for deriving major statistics on Mode 4 services are discussed below.

Trade in Services

10. Data for the compilation of trade in services statistics of Hong Kong mainly come from the Annual Survey of Imports and Exports of Services (ASIES), supplemented by Programme of Annual Economic Surveys (PAES), Quarterly Survey of Service Industries (QSSI) and administrative returns.

11. At present, data collected from these surveys do not support separate identification of services supplied through presence of natural persons. For *BPM5* Services components that straddle across different modes of supply, breakdown statistics for Mode 4 of supply can, in principle, be compiled (e.g. construction services may be supplied through Modes 3 and 4, whereas computer and information services through Modes 1 and 4). Nevertheless, in the absence of relevant indicators, the introduction of these breakdowns will necessitate significant resources.

Compensation of Employees (CE)

12. Currently, data on CE outflow arising from payments to non-resident workers in Hong Kong by Hong Kong companies are obtained from the Survey of External Claims, Liabilities and Income (SECLI). Since CE inflow were considered insignificant relative to other components of factor income inflow generated from external investment when the compilation system of GNP was set up in 1994, token estimates of CE inflow are made with reference to data on CE outflow obtained from SECLI, on the assumption

that the inflow of CE balances the outflow. Such approach is used to minimize the impact on GNP due to unavailability of reliable estimate on CE inflow.

13. With the availability of more relevant data from various sources in recent years, enhancements to the methodology for compiling CE flows will be made. In particular, token estimates of CE inflow will no longer be made. For Hong Kong residents who have worked as employees (not employed by companies in Hong Kong) in the mainland of China, the relevant data are available from a special enquiry on “Hong Kong residents working in the mainland of China” via the General Household Survey (GHS) since 1988. Hence, such data can be used to estimate the CE inflow of this category, given that the number of Hong Kong residents working in other economies is relatively insignificant.

14. As explained above, this component of CE under the BoP Income Account provides information on Mode 4 activity of cross-border provision of labour for employment less than one year.

Workers’ Remittances

15. Data models are used for estimating workers’ remittances of Hong Kong. Three parameters are required, namely, (i) number of workers, (ii) average earnings, and (iii) percentage of earnings remitted. The value of these parameters may differ for different types of workers. There are several sources of workers’ remittances outflow from Hong Kong, including that from foreign domestic helpers, imported labour and foreign professionals.

16. For cross-border provision of labour where nonpermanent employment occurs for more than one year, this Workers’ Remittances component only provides partial information since it includes remittances by permanent workers as well. As explained above, workers’ remittances refer to the residual of income earned in the migrants’ new economies after allowance for expenditure and savings of the migrants in their new home economies. In this sense, workers’ remittances underestimate the value of services supplied through Mode 4.

Migrants’ Transfers

17. Estimates of migrants’ transfers of Hong Kong are derived using data models. Parameters used in the models are formulated based on information from administrative returns and other sources. Input assumptions will be used where appropriate. The data model is constructed based on two major input parameters, namely, (i) number of migrants, and (ii) average value of migrants’ net worth. Estimate of migrants’ transfers for the reference period is equal to the product of these two input parameters. To enhance precision of the estimate, different average values of net worth are used for different types of migrants. Nevertheless, the part related to Mode 4 activity cannot be singled out.

Future Development

18. Increasing globalization leads to cross-border movement of individuals who move to take up employment on a nonpermanent basis. Firms operating internationally increasingly need to transfer expertise through the temporary relocation of specialists and professionals. This gives rise to associated transfers of funds (e.g. workers' remittances) between economies. There is strong emerging policy interest in these individuals.

19. Nevertheless, it is clear that *BPM5* statistics do not provide complete coverage of Mode 4 services, particularly in the area of nonpermanent employment. IMF is now in the process of updating the *BPM5*, with a plan to publish a new version of the manual by end-2008. In the next *BPM*, a supplementary presentation is proposed to draw together relevant components of services that are relevant to the movement of workers on a nonpermanent basis (compensation of employees, workers' remittances, migrants' transfers and relevant financial flows and positions). The presentation may also include data on certain resident-to-resident transactions undertaken by those with connections to other territories (such as expenditure by long-term guest workers).

20. To assist compilers of statistics by mode of supply, IMF also proposes to provide an appendix in the next *BPM* to describe the links and the differences between the data included in BoP statistics and the four modes of supply of services (cross-border supply, consumption abroad, commercial presence, and presence of natural persons).

21. In relation to the Mode 4 of supply of services, IMF proposes a possible definition of nonpermanent residents as follows: workers, students, patients, and their accompanying dependents who have lived or intend to live in one or more territories other than their home territory for a period from one year to five years, with an intention to return to the home territory at the end of that time. (Depending on the circumstances, intention could be identified from surveys, the type of visa issued, or past patterns of behaviour by that class of people.)

22. Hong Kong will keep in view of the above development and will consider implementing relevant proposals which are of analytical interest to Hong Kong.

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September 2004*