

# I. General introduction and foundations of the Manual

## A. Introduction

1.1. The *Manual on Statistics of International Trade in Services* addresses the needs of a variety of producers and users of such statistics. While it is primarily a guide for statistical compilers, it is also a useful tool for governments and international organizations that use statistical information in connection with international negotiations on trade in services. Furthermore, it can aid businesses and others that need to monitor developments in international services markets.

1.2. The first version of the *Manual* was approved and adopted by the United Nations Statistical Commission at its thirty-second session in March 2001 and was officially published in 2002. It represented an important advance in providing a clearer, more detailed and comprehensive system for the measurement of services trade.

1.3. This *Manual* is particularly important for trade agreements, since these now often cover services in addition to goods. Statistics are consequently needed on both, to guide negotiations and to support implementation of these agreements. The most well known and wide-reaching agreement involving services is the *General Agreement on Trade in Services* (GATS), which became effective in 1995. The need for statistics has fuelled the demand for development of a more comprehensive and better integrated approach to statistical issues pertaining to trade in services.

1.4. The term *international trade in services* is construed broadly in the *Manual*. It covers trade in services in the conventional sense of transactions (exports and imports) between residents and non-residents. In addition, it covers services delivered through locally established, but foreign controlled enterprises. These transactions are covered by *Foreign Affiliates Statistics* (FATS)<sup>1</sup>. Also discussed are cases where individuals are temporarily present abroad to supply a service. Although it extends the concept of

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<sup>1</sup> The name of FATS has been changed from *Foreign Affiliates Trade in Services* to the more general *Foreign Affiliates Statistics*. For historical consistency the abbreviation FATS has been maintained.

*trade in services*, it does not extend the concept of *services*, and it conforms almost entirely to existing international statistical standards. Discussion of the usage of the terms *services* and *international trade in services* in this *Manual* is provided in boxes 1 and 2, respectively.

1.5. The conceptual framework of the *Manual* is not only built around the requirements of GATS negotiations, but also on the concepts defined in the System of National Accounts (SNA) and the Balance of Payments Manual (BPM), and those related to FATS. The *Manual* is written along the lines of those three pillars, worked out in Chapters II, III, IV and V. Since the publication of the first version of the *Manual*, SNA and BPM have been significantly revised, as have related classifications such as the Central Product Classification (CPC) and International Standard Industrial Classification of all Economic Activities (ISIC). To keep its concepts and definitions consistent, the *Manual* has been updated accordingly.

## B. Overview of changes to the Manual

1.6. Aside from updates to the *Manual* due to changes in related conceptual frameworks and classifications, the opportunity was taken for an overall review. A short questionnaire was constructed by the inter-agency Task Force on Statistics of International Trade in Services (SITS) and was sent to all national, regional and international institutes that either compile or use trade in services statistics. Respondents were given the opportunity to comment on specific questions and to add other remarks if so desired. The general outcome of this worldwide consultation was that only minor updates were recommended, like the inclusion of a breakdown by partner country to the second, third and fourth recommendation in the priority list. Chapter III reflects the updates in the recently released sixth edition of the Balance of Payment Manual (BPM6). Chapter IV now separates more clearly inward and outward FATS and is aligned with updates given in BPM6, the OECD Benchmark Definition 4<sup>th</sup> edition (BD4) and the OECD Handbook on Economic Globalisation Indicators. Further, a more in-depth discussion of modes of supply is given in a separate chapter (Chapter V). Finally, an

analytical annex has been added and other annexes have been updated.

1.7. BPM6 differs from its previous version on a number of issues, including some in the Goods and Services Account. Following the recommendation of the 2008 SNA to never impute change-of-ownership certain economically important items were rearranged in the classification of goods and services. *Goods for processing (without change of ownership of the goods)* and *Repairs* were reclassified from goods to services; and *Merchandising* was moved in the opposite direction. The Extended Balance of Payments Services Classification (EBOPS) is an extension of the main services components of the Balance of Payments. Consequently, the EBOPS classification was significantly changed by introducing *Manufacturing services on physical inputs owned by others* and *Maintenance and repairs n.i.e.* as two new main components and removing *Merchandising* from *Other business services*. Annex III provides tables showing the correspondence between the updated EBOPS, the revised Central Product Classification (CPC, Ver.2) and the GNS/W/120 list of services generally used in GATS negotiations.

### C. Foundations of the Manual

#### *GATS modes of supply*

1.8. An important feature of the *Manual* is a description of the modalities through which services may be supplied, of which GATS identifies four: *cross border*, *consumption abroad*, *commercial presence* and *presence of natural persons*. Distinctions between these modes are based on whether the service supplier, the consumer, or neither, are present in one country or another for the transaction to be effected.

1.9. Drawing on work conducted by the Organisation for Economic Co-operation and Development (OECD) and the Statistical Office of the European Communities (Eurostat) as well as on the experience of a number of countries on collecting data on services supplied through subsidiaries and branches abroad, the *Manual* reflects an emerging international consensus on the need for statistics on *commercial presence* of firms in which a foreign investor has control. These firms are classified as a first priority on an activity basis (i.e., by industry of the producer rather than by type of service produced). Industry groupings drawn from the new version of the International Standard Industrial Classification for all

economic activities (ISIC, Rev.4), are provided for use in reporting these statistics to international organizations. These groupings, known as the *ISIC Categories for Foreign Affiliates* (ICFA), allow the activities of services enterprises to be viewed in the context of the activities of all enterprises. Although detail by product for foreign-owned firms is encouraged to enable comparability between FATS and trade between residents and non-residents, compilation on a product basis will remain a longer-term goal for most countries because of current limitations on data collection.

1.10. The most pertinent information on the activities of affiliates may be considered to be data on their sales. Services delivered through transactions between residents and non-residents are mostly measured in terms of sales, and a comparable measure must be available for affiliates in order to measure services delivered through foreign affiliates on a parallel basis. However, additional information is generally required for an adequate assessment of the economic effects of affiliate operations and of measures to liberalize the supply of services through the commercial presence mode. Accordingly, the *Manual* recommends multiple indicators, or variables, for FATS, rather than sales only.

1.11. Since the publication of the first version of the *Manual*, significant improvements have been made in developing concepts and definitions for the supply of services through the *presence of natural persons*. This newly developed framework is included in Chapter V of this *Manual*.

#### *International standards for economic statistics*

1.12. The approach of the *Manual* is to build on internationally agreed standards for compilation. First and foremost among these standards is the already mentioned BPM6, which contains recommendations for the definition, valuation, classification, and recording of resident/non-resident trade in services. Also important is the 2008 SNA, whose concepts and definitions underpin many of the *Manual's* recommendations about data on services delivered through foreign affiliates.

1.13. The *Manual* provides descriptions of the major services involved in international trade as well as the GATS nomenclature and provisions. However, for a range of services that have attracted particular attention in trade negotiations, there is insufficient agreement on a detailed taxonomy and corresponding statistical treatment such as internet-related services.

1.14. The *Manual* does not give more than summary practical guidance to national compilers as this is the purpose of the IMF *Balance of Payments Compilation Guide*.<sup>2</sup> It is recognized, however, that the successful implementation of the *Manual's* recommendations will be greatly aided by further guidance and technical support from international agencies to supplement existing provision. The Task Force on SITS has, therefore, committed itself to provide compilation guidance to help producers of the statistics in the actual implementation of the recommendations of the *Manual*.

1.15. The treatment in the present *Manual* of both balance of payments statistics on trade in services and FATS, even within the constraints of current statistical frameworks, represents a significant step toward building links between these two bases. This linkage poses a challenge to statisticians who may draw on expertise and information spread among central banks, national statistical offices, and government ministries. As statistics on trade in services are developed, more cooperation will be required among the institutions involved.

1.16. Measurement of trade in services is inherently more difficult than measurement of trade in goods. Services are more difficult to define. Some services are defined through abstract concepts rather than by any physical attribute or physical function. Unlike trade in goods, for trade in services there is no package crossing the customs frontier with an internationally recognized commodity code; a description of the contents; information on quantity, origin, and destination; an invoice; and an administrative system based on customs duty collection that is practiced at assembling these data. The required information on services trade, once defined, is dependent on reaching a common understanding of concepts with data providers. It depends on information that may be reported either from business accounting and record keeping systems or by individuals, and on a variety of data sources, including administrative sources, surveys, and estimation techniques.

1.17. National agencies need to weigh the demand of users for more detail about services trade against the cost of collection, the burden of extra information provision on business, and the need for certain minimum quality thresholds. As with other statistical data collections, there is a requirement in most countries to protect the confidentiality of individual firms' data. These constraints and considerations limit in a very real sense

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<sup>2</sup> Washington, D. C., 1995.

the amount of detail on international trade in services that it is practical to provide. The level of detail set out in the *Manual* accordingly represents a compromise between the need that trade negotiators, analysts, and policy makers have for information and the difficulties of data collection that national agencies may encounter.

#### **D. Set of recommended elements for phased implementation**

1.18. The *Manual* recommends a complete set of elements for compilers to implement that build on internationally agreed standards so as to progressively achieve comparability of published statistics on international trade in services. These elements, if fully implemented, would represent a considerable increase in the detail of information available on trade in services. It is recognized that many countries will see the full implementation of the recommendations as a long-term goal. It is also recognized that active cooperation between data compiling institutes at national level is necessary to integrate the various elements of trade in services from balance of payments, foreign direct investment and foreign affiliates, into one framework. The main elements are listed below and represent a summary of the recommendations.

1.19. The first four are proposed as *core* elements to tackle first. It is suggested that these core elements should be given particular priority and that the other elements can be implemented incrementally thereafter. The four core elements would, when implemented, provide a basis for a common internationally comparable basic data set. All countries, including those that are beginning to develop statistics on international trade in services, can follow this phased approach to begin to structure available information in line with this new international standard framework. The sequence of elements, as suggested, takes into account the relative ease that many compilers may find in their implementation, commencing with the easier elements. However, the order is intended to be quite flexible so that countries can meet the priority needs of their own institutions.

#### *Metadata requirement*

1.20. In general, as countries implement the recommendations in the present *Manual*, it is suggested that they provide explanatory notes along with published data in order to enhance the transparency of their methodologies and users' ability to compare data

internationally. These notes should include information about data coverage and definitions, particularly where these deviate from the *Manual's* recommendations. Such metadata provide users of the statistics with useful background information on such things as how the data are collected or estimated, where coverage is thought to be deficient, and where the data deviate from the internationally agreed standards (as described in the present *Manual*). The provision of such explanatory notes along with the actual data is a practice now followed by many countries in a broad range of statistics.

1.21. This *Manual* recommends for EBOPS, FDI statistics and FATS to include a breakdown by partner country. For transactions between residents and non-residents, the aim would be first to report partner detail at the level of services trade as a whole, second for each of the main types of services in BPM6 and as a longer term for more detailed EBOPS items. In the case of FATS and FDI, it would be to report partner detail both in the aggregate and for the major industry categories within ICFA. In both cases, it is recommended that countries give a higher priority to providing data with respect to their most important trading partners.

### ***1. Recommended core elements***

#### ***BPM6***

1.22. Implement the BPM6 recommendations, including the definition, valuation, classification and recording of service transactions between residents and non-residents.<sup>3</sup>

#### ***EBOPS: first part – some detail***

1.23. Compile balance of payments data according to EBOPS,<sup>4</sup> which involves disaggregating the BPM6 standard components for services into EBOPS subcomponents. Where the compilation of the main EBOPS classification is developed and carried out in stages, compilers should commence by separately identifying those EBOPS subcomponents of major economic importance to their own economies. Where data for related memorandum items are available as part of this compilation process, these memorandum items should also be compiled. As mentioned in para 1.21, the aim would be to report partner country detail

<sup>3</sup> See paras. 3.1-3.xx below and annex II.

<sup>4</sup> See paras. 3.xx-3.xxx below and annex II.

first at the level of services trade as a whole and then for each of the main types of services in BPM6 and EBOPS.

#### ***Foreign direct investment statistics***

1.24. Collect complete statistics on foreign direct investment (FDI) (i.e., the flows, income, and period-end positions) classified by ISIC, Rev.4 activities to be complementary to FATS. For those countries that must delay the implementation of FATS, FDI statistics provide an alternative interim indicator of *commercial presence*.<sup>5</sup> It is further recommended to report partner country detail both in the aggregate and for the major industry categories.

#### ***FATS: basic variables***

1.25. Record certain basic FATS, such as sales (turnover) and/or output, employment, value added, exports and imports of goods and services, and number of enterprises. For achieving comparability when reporting to international organizations, these are classified by specified activity categories based on ISIC, Rev.4, i.e., ICFA.<sup>6</sup> Again it is recommended to report partner country detail both in the aggregate and for the major industry categories within ICFA.

### ***2. Other recommended elements***

#### ***EBOPS: second part – full detail***

1.26. Complete the implementation of EBOPS<sup>7</sup> to the extent relevant to the compiling economy, including the memorandum items. As above, memorandum items should be compiled where the data are available as part of the data collection process for the related EBOPS components. Other memorandum items should be compiled where there is a demand for these data in the compiling economy. An elaboration of the full EBOPS classification and its memorandum items together with their correspondence to CPC, Ver.2 is shown in annex III.

#### ***FATS: further details***

<sup>5</sup> See para. 4.x and box 7.

<sup>6</sup> See paras. 4.xx-4.xx below and table 3.

<sup>7</sup> See paras. 3.xx-3.xxx below and annex II.

1.27. Augment the basic FATS variables by compiling data on additional aspects of the operations of foreign affiliates, such as assets, compensation of employees, net worth, net operating surplus, gross fixed capital formation, taxes on income, research and development expenditures and purchases of goods and services.<sup>8</sup>

1.28. Detail of sales by product is desirable, not least because of the potential comparability between FATS data and trade between residents and non-residents. While compilation on this basis may well have to remain a long-term goal for most countries, as a first step toward a product basis, countries may wish to disaggregate sales in each industry as between services and goods. In addition, countries that are building their statistical systems for FATS on existing data systems that already include product detail may wish to use this detail from the outset because it could help them in monitoring commitments under GATS that are specified in terms of services products. Similarly, countries that are building their FATS data systems from the ground up should consider the feasibility of providing for a product dimension.<sup>9</sup>

#### *Trade between related<sup>10</sup> and unrelated parties*

1.29. Within the statistics on trade in services between residents and non-residents, separately identify the trade with related parties from that with unrelated parties.<sup>11</sup>

#### *GATS modes of supply*

1.30. Allocate the transactions between residents and non-residents over the GATS modes of supply. The simplified procedure set out in Chapter V may be used as a starting point in compiling this allocation.

#### *Presence of natural persons*

1.31. Collect statistics on natural persons under the GATS framework, both those from the compiling economy present abroad and foreign natural persons present in the compiling economy. The statistics would be collected in the context of the supply of services,

taking into account the needs, resources, and special circumstances of the compiling country. In this process, the framework and definitions set out in Chapter V should be followed.

### **E. Organization of the Manual**

1.32. Chapter II of the present *Manual* discusses user needs, describes links with existing international frameworks, sets out the approach of the *Manual* with a statistical framework for measurement of international trade in services, and considers GATS and modes of supplying services. Chapter III addresses services trade between residents and non-residents, describes EBOPS in detail and explains how its components should be measured. Chapter IV describes the domain of FATS, the criteria used to define the coverage of FATS, the classifications used, and the variables recommended for compilation. Chapter V gives a more in-depth explanation of the GATS modes of supply, including measuring flows of trade in services delivered through the presence of natural persons.

1.33. Supplemental information is provided in the annexes. The old Annex I (Presence of natural persons supplying services under GATS) is now included into the new Chapter V (Measuring modes of supply). The annex on tourism satellite accounts has been updated and a new annex has been added, namely one dealing with analytical indicators of SITS data. Other annexes cover EBOPS; the correspondence between EBOPS, CPC, Ver.2 and GNS/W/120, and between ISIC, Rev.4 and ICFA; the GATS; and the list of services used by GATS negotiators. A glossary and bibliography conclude the Manual.

<sup>8</sup> See paras. 4.xx-4.xx

<sup>9</sup> See paras. 4.xx-4.xx

<sup>10</sup> Trade with related enterprises is defined to include trade with all enterprises with which there is a direct investment relationship.

<sup>11</sup> See paras. 3.xx-3.xx

### **Box 1. Services definition**

The term “*services*” covers a heterogeneous range of intangible products and activities that are difficult to encapsulate within a simple definition. Services are also often difficult to separate from goods with which they may be associated in varying degrees.

The present *Manual* generally respects the 2008 SNA use of the term *services*, which is defined as follows (para 6.17): “**Services are the result of a production activity that changes the conditions of the consuming units, or facilitate the exchange of products or financial assets.** These types of service may be described as transformation services and margin services respectively. Transformation services are outputs produced to order and typically consist of changes in the conditions of the consuming units realized by the activities of producers at the demand of the consumers. Transformation services are not separate entities over which ownership rights can be established. They cannot be traded separately from their production. By the time their production is completed, they must have been provided to the consumers.”

The 2008 SNA then qualifies this as follows (para 6.18 and 6.19): “The changes that consumers of services engage the producers to bring about can take a variety of different forms as follows: a. Changes in the condition of the consumer’s goods: the producer works directly on goods owned by the consumer by transporting, cleaning, repairing or otherwise transforming them; b. Changes in the physical condition of persons: the producer transports the persons, provides them with accommodation, provides them with medical or surgical treatments, improves their appearance, etc.; c. Changes in the mental condition of persons: the producer provides education, information, advice, entertainment or similar services in a face to face manner.”

“The changes may be temporary or permanent. For example, medical or education services may result in permanent changes in the condition of the consumers from which benefits may be derived over many years. On the other hand, attending a football match is a short-lived experience. In general, the changes may be presumed to be improvements, as services are produced at the demand of the consumers. The improvements usually become embodied in the persons of the consumers or the goods they own and are not separate entities that belong to the producer. Such improvements cannot be held in inventories by the producer or traded separately from their production.”

The 2008 SNA recommends the use of CPC, Ver.2 for the classification of products or outputs of industry (where services products are approximately classified in sections 5 through 9) and of ISIC, Rev.4 for the classification of industry. In practice, service industries (or activities) are mainly taken to be those in sections G through S of ISIC, Rev.4, with some exceptions in other sections. In BPM6, the concept of services is essentially that of the SNA 2008, even though the BOP services components *travel*, *construction* and *government goods and services n.i.e.* include some goods acquired by travelers, construction companies, embassies or their foreign personnel. On the other hand, under certain circumstances international trade in goods may indistinguishably include such service charges as insurance, maintenance contracts, transport charges, royalty payments and packaging.

Examples of service activities are wholesale, retail, certain kinds of repair, hotel, catering, transport, postal, telecommunication, financial, insurance, real estate, property rental, computer-related, research, professional, marketing and other business support, government, education, health, social, sanitation, community, audiovisual, recreational, cultural, personal, and domestic services.

## **Box 2. International trade in services**

Before the publication of the present *Manual*, the conventional statistical meaning of *international trade in services* was that described in BPM6, which defines international trade in services as being between residents and non-residents of an economy. This also corresponds very closely to the concept of trade in services in the “rest of the world” account of the 2008 SNA. Such trade is described in Chapter III of the present *Manual*.

This concept of international trade in services combines with the concept of international trade in goods, to form international trade in the BPM6 Goods and Services Account. But as described in box 1, it is not always possible to separate trade in goods from trade in services.

Services differ from goods in a number of ways, most commonly in the immediacy of the relationship between supplier and consumer. Many services are non-transportable, i.e., they require the physical proximity of supplier and customer—for example, the provision of a hotel service requires that the hotel is where the customer wishes to stay, a cleaning service for a business must be provided at the site of the business, and a haircut requires that both hairstylist and client be present.

For international trade in such non-transportable services to take place, either the consumer must go to the supplier or the supplier must go to the consumer. Suppliers may also prefer providing their services by being present in the country of the consumer rather than cross-border. International trade agreements concerning services, in particular those embodied in GATS, make provision for agreement on suppliers having a presence in the country of the consumer.

Therefore, the *Manual* extends the scope of *international trade in services* to include the supply of services through foreign affiliates established abroad. Such supply of services and its related statistics, described here as *Foreign Affiliates Statistics* (FATS), are explained in chapter IV.

The *Manual* also covers international trade in services as services supplied by the presence of foreign individuals, either as foreign service suppliers themselves or employed by a foreign service supplier, which is either the mother company or the foreign affiliate of the mother company. However, non-resident persons employed by host country companies that are not owned by a foreign parent are outside the scope of international trade in services. A large part of services supplied through the presence of natural persons is covered by the BPM6 and FATS frameworks. An in-depth discussion of it is given in chapter V.

*Note:* Although the *Manual* extends the general scope of the term “international trade in services” to accommodate the GATS provisions, the *Manual* does not suggest that provision/acquisition of services by foreign affiliates established abroad be referred to as exports/imports of services. These terms are reserved to reflect trade in services between residents and non-residents of different economies.