

Ministry of Commerce of the P.R. China
International Service Trade Conference,
Beijing, 26-27 September 2006

**The present development
and prospect of international
trade in services**

(key principles, challenges and obstacles)



Presentation by Matthias Reister

Chief Commodity Trade Statistics Unit,
United Nations Statistics Division, International Trade Statistics Section,
2 United Nations Plaza, DC2-1540, New York, New York 10017,
Phone: (917) 367-7098, Fax: (917) 367-5106, e-mail: reister@un.org

- Part 1: **Concept and definition of international trade in services** according to the Manual on Statistics of International Trade in Services (referred to in the following as the *Manual*)
- Part 2: **International data availability** - Current status and future developments
- Part 3: **Methodological framework and guidelines** - Current status and future developments
- Part 4: **Data compilation** - Current status and future developments
- Part 5: **UNSD activities** in international trade in services

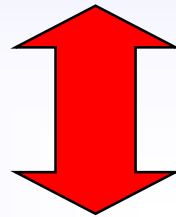
Part 1: Concept and definition of International Trade in Services in the *Manual*

What are services? – 3 characteristics can be attributed to services

1. Not separate entities over which ownership rights can be established.
2. They cannot be traded separately from their production (by the time their production is completed they must have been provided to the consumers).
 - Many services require physical proximity of provider and consumer
 - Services perceived as **less easily tradable** than goods.
3. Typically consist of changes in the condition of the consuming units realized by the activities of the producers at the demand of the customers

Definition of International Trade in Services

> Balance of Payments/ National Accounts:
resident – nonresident transactions



> The Manual on Statistics of International Trade in Services: **looks how services are provided (supplied) internationally**

The Manual defines 4 Modes of how services are supplied

looking at both, the location of the supplier and the location of the consumer

- **Mode 1 or cross-border supply**
→ the service is crossing the border
- **Mode 2, consumption abroad**
→ the consumer goes abroad
- **Mode 3, is called commercial presence**
→ service provided through foreign affiliate
- **Mode 4, presence of natural persons**
→ individual moves abroad to supply a service

Reason for extended definition

- This extended definition of international trade in services is a **response to the statistical needs of trade negotiators**, as in 1995 the General Agreement on Trade in Services (GATS) became affective and exactly specifying these 4 modes of service.
- To understand the concept of the 4 modes of supply one has to understand that trade negotiators are thinking in terms of market access and the **4 modes of supply are the different forms of market access** to the services market of a country.

Reason for extended definition (continued):

The GATS agreement has to be seen in the context of the phenomenon of globalization which has at least 5 aspects:

1. trade in goods and increasingly services
2. the increase of foreign direct investment
3. the increase in short term capital flows
4. knowledge transfer and
5. the movement of people

→ **The *Manual* tries to cover aspects of 4 of these 5**

The *Manual's* broader view on trade in services

- ❖ Conventional Resident/ non-resident trade in services – **Chapter 2 of the *Manual***

- ❖ Consistent with BPM5
- ❖ Covering Mode 1 and Mode 2

- ❖ Sales through affiliates (Foreign Affiliates' Trade in Services – “FATS”) - **Chapter 3 of the *Manual***

- ❖ Movement of natural persons supplying services under GATS - **treated in Annex 1 of the *Manual***

The *Manual* - huge accomplishment...but problems for statisticians resulting from extended definition

1. **Confusion what to call trade in services** – apparently there will be trade in services without export or imports
2. **Serious problems in defining the exact scope of statistics of international trade in services** – for example shall we include foreign affiliates which are providing predominately goods, unclear scope of statistics on temporary movement of individuals (Mode 4)
3. **How to measure by and combine the modes of supply** - Implied need to come up with an overall measurement for the total trade in services by mode of supply – to which the Manual provides no assistance and which is extremely difficult, given the many linkages and overlaps between the different modes of supply.

Part 2: International data availability – current status and future developments

Existing data collections:

- **BOP statistics maintained by IMF**: covers resident-nonresident trade in services, information on FDI, some Mode 4 related information, worldwide coverage
- **OECD statistics** on resident-nonresident trade in services, FDI, Globalization indicators concerning FATS statistics, OECD countries plus X
- **Eurostat statistics**: resident-nonresident trade in services by partner, draft regulation on compilation of FATS statistics, limited to EU members
- **UNCTAD** – database on FDI statistics, worldwide coverage
- **UNSD** – pilot database on resident-nonresident trade in services, worldwide coverage
- **Regional organizations** have databases on specific issues, for example remittances, regional coverage

Expected future developments:

- **IMF BOP statistics:** only resident-nonresident trade, extension in number of service categories, no partner breakdown
- **OECD:** will extend resident-nonresident trade data by partner and service categories
- **Eurostat** – improvements in BOP statistics, explosion of data availability on FATS
- **UNSD** will push for more services detail by partner country
- ← NO international data collection on mode 4
- ← NO international database covering modes of supply ??
- ← NO single global source for residents-nonresident and FATS statistics

Part 3: Methodological framework – current status and future developments

Current status – resident-nonresident trade in service:

- 1.) The basic framework for services trade between resident-nonresident is the IMF Balance of Payments Manual Fifth Edition (BPM5), (which is currently being revised) and the Manual on Statistics of International Trade in Services (2002)
 - ☺ BPM generally accepted statistical framework for international economic statistics,
 - ☺ over time increased elaboration of services categories,
 - ☺ the **Manual** introduced EBOPS, the Extended Balance of Payments Services Classification and provides more explanation on the contents of the different categories,
 - ▼ limited number of services categories (about 100),
 - ▼ EBOPS classification not fully product based - two main categories, travel and government services transactor based, also construction services range of goods and services
 - ▼ Clarifications needed on the exact contents of certain item and on special issues like call centers, second homes
 - ▼ EBOPS breakdown not reflecting importance of different services categories (i.e. travel item),

Current status – FATS:

2.) The *Manual* developed the first statistical framework for FATS statistics (the *Manual* is now under review):

- ☺ defines the basic conceptual issues and variables,
- ☺ closely linked to existing business statistics and FDI statistics,
- ▼ more clarification required on control/ownership criteria,
- ▼ aggregation of national data, data by partner
- ▼ national application of ownership criteria and options regarding scope affect comparability.

Current status – Movement of persons:

3.) The *Manual* covers mode 4 of supply in Annex 1, (now under review as part of the revision of the Manual with the goal to establish a statistical framework for Mode 4):

- ▼ no statistical framework available,
- ▼ unclear scope (temporary, supplying services)
- ▼ GATS data requirements difficult to reconcile with existing statistical frameworks, i.e. criteria for temporary is 1 year in many statistical frameworks while GATS mode 4 supply might entail longer stays in host country,
- ▼ Mode 4 supply mostly already included in the measurements of other modes of supply

Current status (continued):

- 4.) The *Manual* extended the definition of trade in services and has strong focus on modes of supply.
- ▼ Only very general recommendations on how to arrive to statistics of international trade in services by modes of supply.
 - ▼ Unclear how to combine resident-nonresident trade in services with FATS and Mode 4 statistics (many overlaps and links)

Expected future development – expected results of BOP revision and revision of the Manual

1.) Resident-nonresident trade in services:

- Revision of BMP5 will lead to extension of the scope of trade in services (goods for processing, repair),
- slight rebalancing and re-arrangement of EBOPS classification, some more detail,
- contents of individual categories will be further clarified, in particular taking into accounts discussions of BPM5 revision/ SNA update .
- EBOPS will continue to limit the detail by which trade in services statistics can be compiled.

Expected future development – expected results of BOP revision and revision of the Manual

2.) Mode 3 - FATS statistics:

- methodological questions will be further clarified,
- revised Benchmark Definition of FDI will be taking into account.
- Recommendation on compilation/ scope will become more concrete.

Expected future development – expected results of BOP revision and revision of the Manual

3.) Mode 4:

- Scope (value and persons) of Mode 4 will be clarified in the new chapter on Mode 4
- Identification of value of mode 4 services trade will be limited to a certain category of individuals (contractual service suppliers)
- Value of Mode 4 trade will mainly be recorded/identified under relevant services items of the balance of payments,
- The scope regarding the number of persons will be different

Expected future development – expected results of BOP revision and revision of the Manual

4.) Revision of the *Manual*

- Stronger orientation on needs of compilers,
- Issue of modes of supply will be clarified in an annex.

Part 4: Compilation and compilation guidance - Current status and future developments

Current status:

- ***No compilation guidance beyond BOP compilation guide***
- ***Resident –non resident trade in services and FATS statistics compiled independently***
- ***Resident-nonresident trade in services***
 - ***can be extremely difficult to compile – each service category might requires different approach, high number of surveys required, difficulties to obtain full coverage, more difficulties with imports than exports***
 - ***main approaches: (i) International Transaction Reporting System (ITRS), possibly supplemented by surveys, (ii) one main survey , (iii) high number of different specialized surveys or (iv) mix of ITRS and enterprise surveys***

Current status: (continued)

- ***FATS statistics***
 - ***Countries are building on existing business statistics/ enterprise surveys (for inward FATS) and FDI statistics (for outward FATS) or are conducting separate surveys for FATS.***
 - ***In many developing countries no FATS statistics established.***
 - ***Lack of comparability***
- ***Mode 4 compilation (number of persons and value)***
 - ***BOP statistics provides some indicators regarding the value of mode 4 supply such as compensation of employees, migrants' transfers and remittances***
 - ***Beyond these indicators data is non-existent.***

Future developments :

- ***Development of compilation guidance for individual categories of resident-nonresident trade in services, for FATS statistics and for mode 4***
- ***Resident-nonresident trade in services by partner will become more prevalent***
- ***More enterprise surveys vs. ITRS***
- ***Inward FATS as integral part of system national enterprise surveys and business statistics***
- ***Outwards FATS extension of FDI surveys***
- ***Identification of value of mode 4 within items of the balance of payments***

Part 5: UNSD activities in international trade in services

Part 5: UNSD activities in international trade in services

1. *Collecting and disseminating resident-nonresident trade in services by partner country (UN ServiceTrade).*
2. *(i) Participation in update of the **Manual**, (ii) development of compilation guidance and (iii) technical assistance activities to support countries in the implementation and collection of statistics of international trade in services.*
3. *Center of information/ establishment of knowledge base (containing reference materials, clarifications, compilation guidance, best practices, country studies) → newsletter of TF, → hosting TF website, → technical assistance knowledgebase*

**Thank you
for your attention**