

**Comments on WTO Discussion Paper
“Clarifying the Place of Tourism in the Balance of Payments and Related
Macroeconomic Frameworks”**

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Introduction

The WTO paper is an important step in fostering harmonization between the statistical treatment of travel-related activities in the balance of payments (BOP) and related macroeconomic statistics frameworks. It contains a comprehensive comparison of the concepts and definitions relating to travel-related activities in the *BPM5*, the Tourism Satellite Account (TSA),¹ and the international migration statistics. It also describes recent developments in the travel-related balance of payments methodology that are aimed at further harmonization.

The reconciliation of the statistical frameworks in the form of bridging issues is extremely helpful for identifying and describing differences and enhancing convergence. However, there is merit in augmenting the Bridge Table with the relevant *SNA93* definitions which, as described below, are not always entirely consistent with the *BPM5* definitions for travel-related activities. Also, to make the exercise more efficient, we suggest presenting a more detailed presentation of the non-reconciled/border issues to make the comparisons more compelling.

Our comments are largely focused on augmenting the list of non-reconciled/border issues and on providing the underlying rationale for employing certain travel-related concepts, definitions, and classification in the *BPM5* and the *Annotated Outline for the Revision of the Balance of Payments Manual, Fifth Edition*, with the objective of exploring further the potential for improving harmonization with other relevant macroeconomic frameworks.

Definitions

Tourism and travel

With regard to the definition of travel, we agree that it should be clarified in the new version of the *Balance of Payments Manual (BPM)*, as this is the issue that has caused many of the existing reconciliation problems. As stated in *BPM5*, footnote 3, page 64, the term *travel* is synonymous with the term *tourism* used in the *SNA*. However, the *SNA 93* clearly states that tourism (receipts) cover purchases of all types of goods and services made by *nonresidents*

¹ *Tourism Satellite Account: Recommended Methodological Framework*. United Nations publications, Sales No. E.01.XVII.9. Luxembourg, Madrid, New York, Paris, 2001.

visiting an economy for business or personal purposes (*SNA 93*, paragraph 14.110).² This definition was transformed in the *BPM5* into the following: “Travel covers primarily the goods and services acquired from an economy by *travelers*” (*BPM5*, paragraph 242). Thus, the scope of the travel component was narrowed, because the definition of travelers in *BPM5* and *SNA93* is narrower than the definition of “*non-residents* visiting an economy for business or personal purposes” (*BPM5*, paragraph 243, *SNA 93*, paragraph 14.16). This has caused a seemingly exceptional inclusion, under the balance of payments travel component, of some expenditures of groups of nonresidents visiting an economy that are not defined as travelers (see question on page 6, Para 1(b)). If one returns to the original *SNA93* definition of travel (tourism), it would not be necessary to specify the different types of individuals presently excluded from the definition of travellers but whose expenditures are included under the travel component in the BOP conceptual framework (Bridge Table proposal on page 7 can be revisited along this line).

It may be useful to include in the Bridge Table the TSA definition of tourism and address further the discrepancies between *BPM5* and TSA definitions of tourism/travel. The differences arising from the definition of “usual environment” versus “country of residence” should be documented in the Bridge Table.

To address the Bridge Table proposal on page 7, it may be useful to discuss whether it is feasible to explicitly cover in the *BPM* the concept of displacement from one economy to another.

Classification of expenditures of nonresidents visiting an economy for business or personal purposes

Business travel

There is the perception that splitting the BOP travel component into business travel and personal travel is to identify separately expenditures by nonresidents visiting the economy for business purposes (considered to be part of the intermediate consumption of producers), and those travel expenditures that are part of household final consumption (*SNA93*, paragraph 14.111). We agree with the comment on page 14, paragraph 6 that the breakdown of the travel component according to the main purpose of the trip may not necessarily serve this purpose. Also, as explained below, the issue is not only that a nonresident travelling for

² The rationale for such an approach is given in *SNA93*, paragraph 100. Unlike *SNA68*, the *SNA93* does not make a distinction between final consumption on a domestic and national basis, and therefore, does not separately identify direct purchases in the domestic market by nonresident households and resident households expenditures abroad within the classification of international transactions in services. Nevertheless, these direct purchases remain treated as separate adjustment items in the supply and use table or input-output tables, which comprise various types of goods and services that are lumped together as “travel” in the *BPM5*.

business incurs expenditures that pertain to both types of consumption (see comment on page 14, paragraph 3).

Currently, the *BPM5* presents two broad categories for nonresidents traveling on business: (i) visitors for business purposes and (ii) workers or employees (*BPM5*, paragraph 67, *SNA93*, paragraph 14.16). First, we agree with the Bridge Table proposal to clarify in the new *BPM* the distinction between travelling for *work purposes* and travelling for *business purposes* and to clarify in the TSA the difference between travel for *business* and *professional purposes* (Bridge Table proposals 2 and 4, page 12).

Second, our understanding is that all nonresidents visiting an economy for business purposes come to undertake a productive activity. They can be combined into three groups:

1. Employees undertaking a productive activity for enterprises that are not resident in the economy in which it takes place. Their productive activity does not contribute to the GDP of the country in which it takes place, and if a cross-border exchange later occurs as a result of the productive activity, it will be an exchange of product.
2. Employees undertaking a productive activity directly for enterprises that are resident in the economy in which it takes place (offering labor and receiving compensation of employees; the productive activity contributes to the GDP of the country in which it takes place).
3. Self-employed individuals undertaking a productive activity under GATS Mode 4 of supply (offering product, productive activity contributes to the GDP of the home country).³

As all three groups are nonresidents of the country visited, their personal purchases of goods and services are included in the BOP business travel component, irrespective of the economy to which their production activity is attributed or which country provided remuneration for the productive activity undertaken (*BPM5*, paragraph 247). Only the first group is unambiguously included in the TSA, on the grounds that their activities are “not remunerated from within the place visited” (Bridge Table, second column, page 12); the second one is clearly not included; and the treatment of the third is unclear.

Strictly speaking, expenditures for the first group can be seen as consisting of two parts: those expenditures that constitute intermediate consumption (e.g., hotel services provided

³GDP is not intended to measure the production taking place within the geographical boundary of the economic territory. Some of the production of a resident producer may take place abroad. For example, a resident producer may have teams of employees working abroad temporarily on the installation, repair, or servicing of equipment. This output is an export of a resident producer and the productive activity does not contribute to the GDP of the country in which it takes place (*SNA93* 6.239).

while the employee is traveling on business) of the home country and those that constitute final consumption. If such a split were made in the balance of payments, it would foster reconciliation with *SNA*.

For the second group, as in the case of border workers, the *BPM5* suggests that their personal expenditures be recorded under business travel (*BPM5*, paragraph 247). If one assumes that only non-business related expenditures are covered here, these will not be a part of intermediate consumption and therefore should not be in the business travel component. If one assumes that part of their expenditures would fall into intermediate consumption, e.g., accommodation provided by employer while the employee is traveling, this would be attributed to the intermediate consumption of the country visited. For the country that acquired travel services, this would imply that the travel import component will include its own intermediate consumption (business expenditures of the first group) and intermediate consumption of the country visited (business expenditures of the second group).

The third group, in principle, resembles the first one, but in practice expenditures of natural persons may be more difficult to split in order to reconcile with intermediate and final consumption.

Therefore, it may be useful to discuss the pros and cons of the possible changes in the BOP and EBOPS classifications to address this problem. It also would be useful to clarify the definition of seasonal and border workers and other business travel and address, in more detail, border-related travel issues, e.g., travel expenditures of shuttle traders.

Moreover, the above group may also be useful for developing statistics on remittances, as the compensation of employees component—a proxy of resident-resident remittances—does not cover the first and third groups.

A more elaborate explanation of all related balance of payments transactions, such as income, travel, other transactions in goods/services would be relevant (to address Bridge Table proposal on page 12).

In principal, we agree with Bridge Table proposal on page 9 that expenditures of the following subcategories should be reclassified under travel: (i) military base and embassy personnel and (ii) an accompanying dependent of an individual former mentioned, that are currently recorded under the government services component. However, it would hamper harmonization with the TSA, as these categories are not included there and would raise an issue of how to treat expenditures of dependents (business or personal travel).

Personal travel

Concerning the Bridge Table proposal on page 11 regarding the clarification of the analytical reason to justify the specific residency criteria for specific subcategories, the recent decisions of the IMF Committee on Balance of Payments Statistics do not endorse a change to the

treatment of students, medical patients, and ship's crews. These groups are likely to continue being exempted from the one-year rule.

Concerning treatment of refugees and nomads, the reference is given in the *Balance of Payments Textbook*⁴ and supported by the recent *BPM5* revision process.

Scope of expenditures included in the travel component in the BOP and in the TSA

It is necessary to go into more detail with regard to the scope of expenditures included in BOP travel component and in the TSA. The following is not an exhaustive list of possible discrepancies between the two frameworks: purchases of all types of goods and services made by *nonresidents* visiting an economy are included in travel expenditures in *SNA93* (paragraph 14.110); in BOP – travel covers *primarily* goods and services acquired from an economy visited (*BPM5*, paragraph 242); in the TSA – consumption activity in anticipation of the trip and after returning home is included (TSA, paragraph 2.5), while works of art and other valuables are excluded (TSA, paragraph 2.47).

The reconciliation between BOP passenger transportation component and transportation component in the tourism-related activity in the TSA should also to be studied.

⁴ Refugees are considered residents if they stay, or are expected to stay, for one year or more in their host countries. Persons taking refuge in another country for only a short period remain residents of their home economies (*Balance of Payments Textbook*, paragraph 90).