

B. General Agreement on Trade in Services, modes of supply and statistical frameworks

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1.5. MSITS 2010 describes the structure and guiding principles of GATS and its scope. When making commitments in GATS negotiations, WTO members often make reference to the Services Sectoral Classification List (MTN.GNS/W/120 (W/120)). The list should be viewed as an optional classification system of services sectors for negotiating purposes, rather than as a statistical classification such as EBOPS 2010,^[1] which is used to compile and publish resident/non-resident trade in services statistics.^[2]

1.6. According to GATS, the international supply of services can take place through four different modes of supply that depend on the territorial presence of the supplier and the consumer at the time of the transaction. The four modes can be described as follows:

- (a) **Mode 1 (cross-border supply):** the supply of services from the territory of one member into the territory of any other member;
- (b) **Mode 2 (consumption abroad):** the supply of services in the territory of one member to a service consumer of any other member;
- (c) **Mode 3 (commercial presence):** the supply of services by a service supplier of one member, through a commercial presence in the territory of any other member;
- (d) **Mode 4 (presence of natural persons):** the supply of services by a service supplier of one member, through the presence of natural persons of a member in the territory of any other member.^[3] Mode 4 is further described in box 1.1.

1.7. Existing statistical frameworks can be used as a basis for the production of data to satisfy the information needs of GATS regarding modes of service supply. For example, the value of the international supply of services of a country can be established once statistics on the output of foreign controlled affiliates have been developed for the services sector to accompany the balance of payments (BOP) services statistics. The combination of both data sets would cover all four modes, provided that compilers ensure that appropriate breakdowns are delivered (i.e., service type, mode of supply, partner country and exchanges between related and unrelated trade). As MSITS 2010 explains, to produce a complete picture of the international supply of services, additional data, including both monetary and non-monetary indicators, are still necessary.

Box 1.1 Clarifying mode 4 from a statistical perspective

Chapter V of MSITS 2010 introduces mode 4 in a statistical context on the basis of the description of article 1 of GATS and the annex on movement of natural persons supplying services under the Agreement. Mode 4 can, in general, be described as covering foreign natural persons entering the host economy to perform the following activities:

- (a) Fulfil service contracts directly (contractual service suppliers): this covers self-employed persons (independent professionals) or employees of a foreign service supplier;
- (b) Work in a foreign affiliate that delivers services (intracorporate transfer or direct recruitment by the affiliate);
- (c) Negotiate a service contract (services sellers) or the constitution/acquisition of an establishment supplying services (persons responsible for setting up commercial presence) or market a service, etc.

Persons covered under mode 4 are those providing services under a service contract. Therefore, persons crossing a border to access the employment market, as well as persons present for the production of goods or the provision of services supplied under governmental authority, are excluded. Permanent migration is also excluded from mode 4 movements (GATS does not apply to measures affecting residence, citizenship or employment on a permanent basis).

Persons covered by mode 4 are, therefore, not limited to foreign persons directly involved in the rendering of services (as indicated in (a), above), but also include those persons whose presence abroad is instrumental in the provision of a service (items (b) and (c)). Therefore, data to be compiled in connection with mode 4 of the supply of services cover:

- (a) The value of services supplied directly by persons moving under mode 4 commitments as indicated under (a) above, that is, the value that, in general, would be measured as trade in services in the balance of payments (BOP). The exception would be for services supplied by self-employed persons staying more than a year (still in the context of a service contract). However, normally such persons will represent a small proportion of the mode 4 population and their change in residence will be difficult to identify in practice, and the value of the supplied services would still be recorded under services in the BOP. Compiling the mode 4 value of services is not relevant for persons entering the host economy to perform activities described in points (b) and (c), above. In fact, the work of persons covered by point (b) is considered instrumental to the output of foreign affiliates that supply services through a commercial presence (mode 3). Persons covered by point (c) are not producing or delivering a service to consumers at the time of their presence in client's country. They are, rather, engaged in negotiations for an eventual future supply of services;
- (b) Non-monetary (quantitative) data on the number of natural persons crossing borders to supply services (or the number of trips of such persons) for all three categories described above (see chapter 16 of the present *Guide*).

Note: See chapter V of MSITS 2010 for more information.

1.8. For the compilation of data on the value of the international supply of services, MSITS 2010 develops a phased approach that includes (a) the compilation of resident/non-resident trade in services statistics in the context of the BOP, suggesting a breakdown of transactions, according to EBOPS 2010, by partner country, mode of supply (mainly referring to modes 1, 2 and 4) and the relationship between the trading parties, and (b) the development of FATS, exclusively referring to mode 3. FATS should include data on output (or sales/turnover if output is not possible) broken down by service type (or service activity, if type is not possible), by partner country (i.e., country of operation of affiliate for outward FATS, or of the ultimate controlling institutional unit (UCI) for inward FATS), and identifying to whom the output is sold, with a particular interest in the output sold within the country in which the controlled affiliate has been established.

1.9. MSITS 2010 also recommends the compilation of other indicators (both monetary and non-monetary) of interest to users, including other FATS variables (employment, value added, number of enterprises, etc.); non-monetary quantitative indicators for mode 4 (i.e. the number of individuals crossing borders and temporarily abroad to provide services in the context of service contracts) and mode 2 (individuals going abroad to consume services); and indicators such as foreign direct investment (FDI), service sector indicators or services trade by enterprise characteristics (STEC).

1.10. For services negotiations, especially within the GATS framework, users need comprehensive information on the international rendering of services and their mode of supply, as well as on the operators taking part in those operations and the operations' main features. That need has led to the development of statistics on the international supply of services that go beyond the primary reason for calculating the BOP. Proper legal and institutional arrangements are extremely important for the development of the statistics needed for analysing the international supply of services. In most cases, the compilation of such statistics is a cooperative effort of several agencies, such as the national statistical office, the central bank, the ministry of the economy and the national agency in charge of trade negotiations. This collaborative process calls for better coordination of data collection and compilation among different institutions (see chapters 2 and 3 for details).

1.11. In order to maximally exploit the potential of combining and comparing statistics on the international supply of services within and between countries, compilers are encouraged to use internationally-accepted concepts and methods and classification systems when developing their data collection and compilation systems. In the case of trade in services, those concepts include MSITS 2010 and related international statistical systems and frameworks, such as BPM6, the 2008 SNA and *OECD Benchmark Definition of Foreign Direct Investment*, 4th edition (BD4). For modes of supply, compilers should align with the framework developed in chapter V of MSITS 2010. In terms of classifications for BOP services transactions and FATS, as well as for modes 4 and 2 quantitative indicators, compilers should, to the extent possible, use EBOPS 2010, the International Standard Industrial Classification of All Economic Activities (ISIC), rev.4, and the partner country data classifications used in the BOP Data Structure Definition, which was prepared in the context of the Statistical Data and Metadata Exchange (SDMX) initiative, sponsored by seven international organizations: Bank for International Settlements, European Central Bank, Eurostat, the International Monetary Fund (IMF), OECD, the United Nations and the World Bank.^[4]

1.12. If compilers deviate from the internationally-accepted concepts and methods and classification systems to, for example, reflect specificities of their economies or to take into account certain statistical frameworks adopted in their countries, they are encouraged to develop classification systems that are compatible with those listed above and construct the appropriate tables for conversion to international systems.

Next: [C. Statistics on resident/non-resident transactions in services](#)

[1] See MSITS 2010, annex 1.

[2] A correspondence table has been developed between the Services Sectoral Classification List (W/120) (World Trade Organization (WTO), document MTN.GNS/W/120); and the 2010 Extended Balance of Payments Services Classification (EBOPS 2010) (see also MSITS 2010 paras. 2.11-2.23).

[3] A "natural person of a member" is defined as a national of that member or to a non-national who has the right to permanent residence in that member. See article XXVIII of GATS for further information.

[4] In the Area Dimension (CL_Area) of the Balance of Payments (BOP) Data Structure Definitions (DSD), individual country coding follows the International Standard for country codes and codes for their subdivisions (ISO 3166). The latest version of the BOP DSD is available on the Statistical Data and Metadata Exchange (SDMX) website (http://sdmx.org/?page_id=1747).