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Working Party on GATS Rules

INTER-AGENCY TASK FORCE ON STATISTICS OF INTERNATIONAL TRADE IN SERVICES

PROGRESS REPORT, MAY 2000

Background Note by the Secretariat

Responding to a request from the Working Party on GATS Rules, at its meeting of 4-5 May 2000, this Note briefly describes past and future work of the *Inter-Agency Task Force on Statistics of International Trade in Services*. The special focus is on work on the *Manual on Statistics of International Trade in Services* and short-term prospects in this area. The Annex provides a short overview of the Manual. More detailed information, including the draft Manual itself, is available in the Secretariat.

I. MAJOR ACHIEVEMENTS

In 1994, following requests from GATT and UNCTAD representatives, the United Nations Statistical Commission decided to establish the *Inter-Agency Task Force on Statistics of International Trade in Services* (Task Force), with the following major objectives:

- (i) to strengthen co-operation between international organizations in the area of trade in services statistics, and to liaise with other agencies or groups involved in it;
- (ii) to promote the development of international concepts and definitions and classifications for trade in services statistics; and
- (iii) to improve the availability, quality and comparability of trade in services statistics collected at international level.

The Task Force is convened by the Organisation for Economic Co-operation and Development (OECD) and consists of members of the Statistical Office of the European Communities (EUROSTAT), the International Monetary Fund (IMF), the United Nations Statistics Division (UNSD), the United Nations Conference on Trade and Development (UNCTAD), the World Bank, and the WTO Secretariat.

From the outset, it was agreed that the Task Force would focus on the statistical requirements of GATS. However, given the huge gap between these requirements and available statistical data, concepts and practices, the Task Force considered its work as a long-term exercise.

It first examined the activities and requirements of international institutions in this field, and especially those of the WTO. It then analysed existing gaps between statistical frameworks and statistical needs, and the extent to which a new statistical framework could contribute to closing these gaps.

At its fifth meeting, in May 1996, the Task Force decided to develop a conceptual framework and classifications for statistics on trade in services to be published in a *Manual on Statistics of International Trade in Services* (Manual). The objective was to meet requirements of GATS as far as possible, while ensuring compatibility with existing statistical systems, especially the 5th edition of the Balance of Payments Manual (BPM5) and the System of National Accounts (SNA 1993), and without creating excessive additional burden on reporting countries. It was also decided that the Manual's guidelines should be suitable for a phased implementation (i.e. countries could implement the guidelines flexibly and progressively, according to, *inter alia*, their own requirements).

An outline was prepared, and provisional drafts were produced, calling on both external consultants and contributions from Task Force Members. These drafts were also reviewed by national representatives at several meetings of the United Nations and OECD.

The first complete draft of the Manual (5 November 1999) was circulated by the U.N. and the IMF to national statistical institutions and Central Banks of their member countries as part of a world-wide review, and made publicly available on the OECD's web pages¹. Over 60 National Statistical Offices, Central Banks and National Economic Institutes responded with comments to the Task Force by the end of January, 2000. A vast majority of respondents warmly welcomed the Manual. They recognized its positive impact on statistics of trade in services, as well as its usefulness as a guide for the improvement of statistical compilation systems. The phased approach recommended in the Manual was found to be particularly appropriate. However, many respondent countries noted that collection of additional statistical data would imply additional burden on compilers and on their financial resources. A vast majority of them stressed that they would be able to implement the advanced requirements only in the long term. In a number of cases, statistical offices were unaware of the needs of their national trade negotiators.

At its tenth meeting, in February 2000, the Task Force reviewed the countries' comments and decided on the appropriate modifications to the draft Manual.

II. FUTURE WORK AND PROSPECTS

Members of the Task Force are now redrafting the *Manual* to take account of comments received as a result of world-wide consultations with a range of statisticians and users of statistics, including balance of payments compilers, national accountants, compilers of data on employment and income, classifications experts, statisticians responsible for the compilation of data on production and/or use of services, and trade negotiators. This next draft of the *Manual* will be discussed at a meeting of UN experts in July 2000. Following this meeting, and after further redrafting as appropriate, the *Manual* will be translated into the official languages of the United Nations (French, Spanish, Russian, Arabic, and Chinese as well as English) before being presented to the United Nations Statistical Commission for its approval in 2001. Following this approval, the *Manual* will be co-published by the European Communities, IMF, OECD, UN, UNCTAD and WTO.

¹ [http://www.oecd.org/std/serv\(99\)2.pdf](http://www.oecd.org/std/serv(99)2.pdf).

The Manual represents a considerable progress in the area of statistics on trade in services, and in particular, it provides for:

- a much more detailed classification than currently available (BPM5) for the compilation of trade in services between residents and non residents;
- concepts and definitions for FATS statistics (GATS mode3);
- a classification for FATS statistics; and
- clarification and guidelines on the statistical treatment of GATS' mode of supply;

However, it should be noted that the first version of the Manual will be only a first step towards fulfilling GATS' statistical needs. First, the Manual's classifications still lack considerable detail with regard to requirements arising from negotiations (ultimately, the detail of the Central Product Classification would be needed). Second, availability of data broken down by partner countries is expected only for major items in the classifications. Third, although partial guidelines on the statistical treatment of GATS' modes of supply are given, it is not expected that countries would be able to compile complete statistics by mode of supply in the foreseeable future. Finally, implementation of the Manual will likely take some time, even for countries with advanced statistical compilation systems. Successful implementation will depend on efforts by national statistical agencies and Central Banks, and, above all, on the willingness of governments to provide the necessary resources.

ANNEX

Overview of the Manual on Statistics of International Trade in Services

The first *Manual on Statistics of International Trade in Services (Manual)* is being prepared by the Interagency Task Force authorized by the United Nations Statistical Commission on Statistics of International Trade in Services (the Task Force) to meet the needs of a variety of producers and users of statistics on international trade in services. These include in particular statistical compilers, but also governments and international organizations that must use statistical information in connection with international negotiations pertaining to trade in services, and also businesses and others that wish to assess developments in international services markets. A particular impetus for the preparation of a separate manual on statistics of international trade in services has been the recent tendency for trade agreements to cover services as well as goods, and the need for statistics both to guide the negotiations relating to these agreements and to monitor the outcomes.

The *Manual* describes the four modes through which services may be traded under GATS. While the *Manual* features important new areas in the field of international services statistics, it does so by building upon, rather than by modifying, internationally agreed standards for statistical compilation. It provides a framework and a set of recommendations that will allow for the provision of a range of statistics on international trade in services. These recommendations are summarized in Chapter 1 and elaborated on in the remainder of the *Manual*. Chapter 2 proposes the framework and describes its links to existing international standards and frameworks. Chapter 3 focuses on the compilation of statistics relating to resident-nonresident trade in services, building on the balance of payments framework described in the fifth edition of the *Balance of Payments Manual (BPM5)*. Chapter 4 recommends standards for compiling statistics on “foreign affiliates trade in services”, or FATS, drawing to a considerable extent on the concepts and definitions of the *System of National Accounts 1993 (1993 SNA)*.

The *BPM5* framework contains, inter alia, recommendations for the definition, valuation, classification, and recording of resident-nonresident trade in services. By building on this framework, the *Manual* recommends extending the *BPM5* classification of transactions by type of service to provide more detail through the Extended Balance of Payments Services (EBOPS) classification. While not yet complete, a draft correspondence table showing the relationship between the EBOPS classification and version 1.0 of the Central Product Classification is included as an annex to the *Manual*. This table assists in the provision of clear definitions of the various components of the EBOPS classification. Except for the treatment of *construction services* (discussed in subsection 3.8.4 of the *Manual*), the recommendations contained in the *Manual* are consistent with *BPM5*. Thus, a country’s balance of payments statistics will provide many of the data that are needed to implement the recommendations relating to the measurement of resident-nonresident trade in services. Recommendations are made in the *Manual* on the attribution of resident-nonresident transactions across the modes of supply.

As well as providing services by way of trade between residents and nonresidents of an economy (measured in balance of payments statistics), an economy may also supply services internationally through the activities of foreign affiliates abroad. The *Manual* recognizes this in its discussions on and recommendations for FATS statistics, which comprise the major part of the third mode of supply, commercial presence. Included are recommendations on (1) the selection of foreign affiliates to be covered (which follows the definition of foreign-controlled enterprises used in the *1993 SNA*); (2) the attribution of FATS statistics (including a discussion on attribution by activity and by product); and (3) the variables to be compiled. While this is a less well-developed area statistically than the balance of payments statistics, some FATS statistics for foreign-owned affiliates

in the compiling economy may be found in, or derived from, existing statistics on domestic production, including national accounts statistics based on the recommendations of the *1993 SNA* .

The recommended basic FATS variables discussed in this draft of the *Manual* are: number of enterprises, sales (turnover) and/or output, employment, value added, and exports and imports of goods and services. Additional FATS variables identified are assets, compensation of employees, net worth, net operating surplus, gross fixed capital formation, taxes on income, and research and development expenditures. The definitions of these variables are drawn from the *1993 SNA*.

The final area in which the *Manual* moves beyond existing statistical frameworks is in the area where enterprises producing services in one country employ individuals who are residents of another country (in the *BPM5* and *1993 SNA* sense) on a short-term basis. While some limited data are available from balance of payments statistics, there is a need for further development of statistics related to employment and income of foreign nationals. However, this area, which is part of the fourth mode of supply (presence of natural persons), is still under discussion by the Task Force, so there is relatively little discussion on, or recommendation for, compiling relevant statistics included in the current draft of the *Manual*.

The *Manual* proposes a phased approach to implementation, so that countries, including those that are beginning to develop statistics on international trade in services, can implement these developments gradually and 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. However, the order is quite flexible, so that countries can meet the priority needs of their own institutions. Full implementation - to be seen as a long term goal, would represent a considerable increase in the detail of information available on trade in services.
