MEETING THE WTO AGENDA FOR STATISTICS ON TRADE IN SERVICES

June 2004

EXECUTIVE SUMMARY

Trade in services is becoming increasingly important to many countries. Following the publication by the UN of the Manual of Statistics on International Trade in Services, considerable progress has been made in developing, expanding and harmonising data collection systems. Key elements in fulfiling the manual's requirements have included:

- Many OECD countries publish data on the 11 categories listed in the extended balance of payments (EBOPS) classification, much of which was already being collected.

- The number of OECD countries publishing internally generated data on trade in services by partner country has increased from 8 in 2000 to 26 in 2003. Half of these countries include a breakdown of trade with at least 40 partner countries. Eurostat publishes standardised data for a further 10 countries covering trade in services with 16 partner countries.

- International coverage of trade in services by partner country covers 92% of world trade through the use of mirror data for smaller countries.

- 20 OECD countries publish data on FATS mode 3 commercial presence although coverage is variable. Nearly all of these 20 countries publish indicators on employment, turnover and value added for inward FATS. Only 10 countries publish data on outward FATS, mainly on employment and turnover. Turnover of foreign affiliates is usually much greater than service exports.

- Data on Mode 4 presence of natural persons is limited at present. The contribution to GDP arising from net flows of worker remittances is generally small and at its highest between 4% and 7% for a few developing countries.

Key ongoing challenges that are being addressed include:

- The establishment of new data collection systems by many countries, with direct reporting frequently taking the place of data previously collected through bank settlement. New initiatives are also underway to meet the demand for categorisation by modes.

- Incorporating changes in balance of payments methodology that may emerge from the review of the fifth edition of the Balance of Payments Manual (BPM5), scheduled for completion in 2008.

- The use of mirror data by international organisations to assess quality by monitoring asymmetries and global imbalances in trade figures, particularly in rapidly expanding areas such as offshoring. A methodological soundness questionnaire and the publication of metadata will also have a role in quality assurance

. Defining multinational enterprises (MNEs) and achieving consistency in MNE data.

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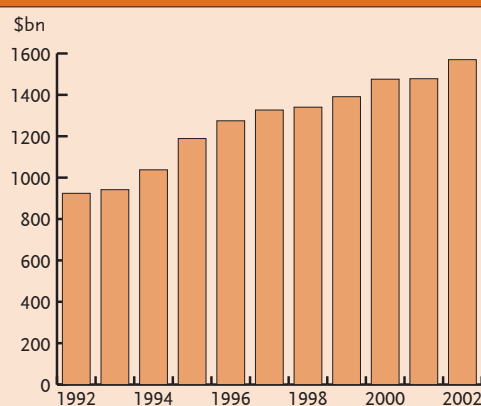29-30 Cornhill
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Chart 1 World exports of commercial services

Source: IMF

International coordination and development of statistics on trade in services
An Interagency Task Force authorised by the United Nations Statistical Commission was responsible for the production of a manual on Statistics of International Trade in Services, which was published in 2002. The need for a manual was prompted by the increasing importance worldwide of trade in services and growing demand for data associated with the negotiation or monitoring of agreements reached under the WTO's General Agreement on Trade in Services (GATS).

The OECD-Eurostat Experts Meeting on Trade in Services Statistics has also had a continuing role in the international coordination of development work on trade in services statistics. An annual meeting of this group provides an opportunity for national and international statistical agencies to discuss how some of the difficulties surrounding trade in services statistics can be resolved. This brief draws on some of the papers circulated for the most recent meeting in April 2004, which can be downloaded from the International Trade Statistics section of the OECD website *www.oecd.org*.

INTRODUCTION

Trade in services is becoming increasingly important to many countries worldwide having risen by 50% from $996bn in 1993 to $1494bn in 2001 (Chart 1). Despite this growth, significant restrictions remain on trade in services, which are caused by various barriers to trade and market access. This is an issue which the World Trade Organisation (WTO) has sought to address over the past decade both in the Uruguay round and in the current Doha round of negotiations. Negotiations on trade in services take place under the General Agreement on Trade in Services (GATS) which became effective in 1995.

The lack of statistics means that not only is the WTO restricted in its ability to assess the impact of previous agreements, but also causes many countries to adopt a cautious approach to market opening offers in the first place - on the basis that the WTO would not be able to properly assess the impact of any subsequent agreement. This puts a brake on the whole WTO process that is designed to deliver improved market access and liberalisation of trade in services.

The challenge facing national and international statistical organisations on trade in services is twofold, firstly in overcoming the inherent difficulties in collecting statistics on trade in services that come within existing international statistical standards; and secondly in capturing data that fits with the broader view the WTO takes on trade in services:

On the first point, the compilation of data on trade in services is more difficult than for goods for a number of reasons. These include the lack of clear definitions for some service activities, the difficulty in identifying which companies are importing or exporting services and the absence of cross border documentation which makes the monitoring of trade in goods more straightforward.

Regarding the second issue, the broader view on trade in services in the WTO is based on the need for information that reveals the extent of international companies' commercial presence in other countries and also measures the short term placement of staff or consultants in other countries in support of a company's international operations. The objective in taking a broader view is to capture the impact of decisions on the location of enterprises made by international companies. Such decisions underpin global strategies for procurement, operations, marketing and innovation and will be influenced by removal of barriers to market access. This broader view of trade in services is captured in Modes 3 and 4, described in the next section starting on page 3. Conventional trade in services data are included in Modes 1 and 2.

A full assessment of international companies' operations by the WTO is likely to require data on foreign direct investment, portfolio investment and other balance of payments information in addition to data on trade in goods and services and the activities of foreign affiliates.

THE MANUAL ON STATISTICS OF INTERNATIONAL TRADE IN SERVICES

In order to improve existing measures of trade in services and develop methodology in new areas, an inter-agency taskforce was established in the late 1990s. It was given a remit to produce a manual that could be used as a guide for countries in the collection of statistics on international trade in services on a consistent and comparable basis. Members of the taskforce involved all the key international organisations including the OECD, UN, Eurostat, WTO, IMF, UNCTAD and ILO. The Manual on Statistics of International Trade in Services (MSITS) was published in 2002, following widespread consultation and input from national statistical organisations, other users of statistics and trade policy negotiators.

Since the Manual's publication many countries have been seeking to implement its recommendations. The inter-agency task force has a continuing role in development work and facilitating the process. This brief sets out the main objectives of compiling the Manual, the progress that has been made and notes some of the difficulties that countries are facing.

Main objectives in developing statistics on trade in services
Unlike trade in goods where trade always requires the physical movement of the good across borders, international trade in services takes place in a number of ways or modes depending on the nature of the service. Some of the key limitations of current data on trade in services are summarised in the side panel. To address both these issues and tackle the broad agenda presented by the WTO, there were three broad challenges which the interagency taskforce needed to address through the manual:

-   Developing new methodologies for the collection of statistics for all four GATS *modes of supply*.

-   Designing a classification of *products* to facilitate the collection by countries of statistics on different categories of service transactions on a consistent basis.

-   Using the new methodologies and classification to enable countries to collect data on the *geographic breakdown of trade with partner countries*.

Limitations of current data on international trade in services

Some of the limitations cited by *Stats on FATS*, a paper by Julian Arkell that was commissioned by The Mark Twain Institute, include:

-   BOP data lump many services together into broad categories and departing from CPC product classification.

-   BOP data do not cover all the four modes of supply or distinguish between them.

-   A firm qualifying for inclusion in FDI data if it owns more than 10% of a foreign company, but without making reference to the GATS concept of controlling interest.

-   The earnings ('or compensation') of a person working abroad not being allocated to service sectors.

-   Patchy coverage of data in assessing operations of subsidiaries with available data being drawn from three not necessarily compatible sources, including FDI data on investment flows and stocks; production statistics for output and market share; and structural business statistics for activity variables such as numbers of firms, employment and services supplied.

Table 1 Four modes of supply: statistical criteria		
Territorial presence of transactors	**Mode of supply**	**Major statistical areas**
Consumer outside territory of residence	**Mode 2**: consumption abroad	BPM5
Consumer within territory of residence Supplier outside territory of consumer	**Mode 1**: cross-border supply	BPM5

Supplier in the territory of the consumer
  (a) through commercial presence
  (b) through the presence of natural persons
	Mode 3: commercial presence
	Mode 4: presence of natural persons
		FATS
		BPM5/Others

Source: UN Manual on Statistics of International Trade in Services

In addressing these three areas, the authors of the manual sought as far as possible to adapt and work within the existing statistical frameworks to accommodate the demands for new data in the three areas identified:

Modes of supply   The four modes through which services could be transacted, which are identified in the GATS, are key planks of the Manual (Table 1): cross border supply of services (Mode 1); consumption abroad by the consumer (Mode 2); commercial presence of the supplier in the territory of the consumer (Mode 3); and the presence of natural persons in the territory of the consumer (Mode 4). For statistical purposes the Manual defines the modes as being mutually exclusive, although overlap is assumed in the GATS legal texts.

Methodologies for Modes 1, 2 & part of 4 had already been incorporated within the conventional coverage of balance of payments data, most recently in the fifth edition of the IMF's Balance of Payments Manual (BPM5) published in 1992. Therefore, the manual also needed to address Mode 3 commercial presence and presence of natural persons in Mode 4. Both had been introduced by the WTO under the GATS and, as noted on page 1, represented a broadening of the scope of trade in services beyond the conventions in BPM5. The Manual has had to consider ways of generating data on Mode 3 and part of Mode 4:

Commercial presence (Mode 3)   By including commercial presence as supply mode 3, the GATS has created a need for information on the activities of foreign affiliates in host economies. Because foreign affiliates are resident entities in their host country, their sales in those countries are not recorded in the conventional balance of payments accounts, which are only concerned with cross-border transactions between residents and non-residents.

In order to address the requirement for data on Foreign Affiliate Trade in Services (FATS), the Manual proposes the collection of data on sales, employment, value added, number of enterprises and exports and imports of goods and services. The Manual recommends that these FATS variables are classified according to the ISIC Categories for Foreign Affiliates (ICFA) - ISIC being the International Standard Industrial Classification. This will build on a survey undertaken by OECD and Eurostat since 1997. Trade will ideally be allocated on the basis of the ultimate beneficial owner. The process of data collection is likely to be 'two-speed,' as data on inward FATS is easier to collect than outward FATS.

Presence of natural persons (Mode 4) The importance of short-term placements is increasing with the growth in cross-border investment and rising demand for skilled labour flowing from advances in technology. The movement of skilled personnel and the ability to pull together international teams on short-term projects is also being facilitated by the falling cost of transport and communications. Placement of individuals and teams give support to the expansion of global business networks, particularly in the fields of marketing, sale or after-sale servicing.

Some trade in services in mode 4, presence of natural persons, is already

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The manual's recommendations on priorities for implementation

Core priorities Five core priorities were recommended for implementation by the Manual:

1. BPM5 recommendations, including the definition, valuation, classification and recording of trade in service transactions

2. Product data stage I: disaggregating EBOPS classification

3. Partner country data for trade in services in total and also covering main types of services in BPM5

4. Foreign direct investment statistics on flows, income and stocks, classified by ICFA activity

5. *Foreign Affiliate Trade in Services (FATS) (Mode 3)* basic variables collected on sales or output, employment, value added, trade in goods and services and number of enterprises

Other elements to be implemented subsequently include:

FATS (Mode 3) further variables on: e.g. assets, capital investment, profits, taxes on income, R & D etc

Persons working abroad (Mode 4) statistics on the presence of natural persons

Intra-firm trade in services data identifying trade between related and unrelated firms

Product data stage II: classifying other aspects of EBOPS classification such as memorandum items

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Table 2 ISCO-88 categories of occupations

1. Legislators, senior officials and managers
2. Professional
3. Technicians and associate professionals
4. Clerks
5. Service workers and shop and market sales workers
6. Skilled agricultural and fishery workers
7. Craft and related trades workers
8. Plant and machine operators and assemblers
9. Elementary occupations
0. Armed forces

Source: Internaitonal Labour Organisation

collected in a few areas, such as trade in business, computer and construction services, as well as through compensation of employees. Elsewhere the trade-related movement of natural persons poses measurement problems that cannot easily be resolved within existing frameworks. Construction of a new conceptual basis for collecting such data needs to provide a mechanism for defining 'foreign' and 'temporary', so that mode

4 suppliers can be identified, with data on their occupation, skill level and sector also needing to be collected. Some countries have linked their classification of occupation to the International Standard Classification of Occupations (ISCO-88) developed by the International Labour Organization (Table 2). ISCO-88 provides a sound basis for international comparability of statistics on categories of foreign persons, according to the manual.

Improved statistics on Mode 4 would enable governments to manage mode 4 entry more effectively and help to inform GATS negotiations. Lack of data means authorities often do not know how many people are entering the country as mode 4 suppliers.

Product data In order to capture a wider range of activity to help inform the GATS process, the inter-agency task force developed an extended balance of payments services (EBOPS) classification based on the existing BPM5 product classification already used by the UK and many other countries (Table 3). The EBOPS classification is based on the experience gained by OECD and Eurostat on previous classification of trade in services. The EBOPS classification consists of the 11 categories defined in BPM5, each of which can also be broken down into constituent components. Countries are now required to produce data based on the EBOPS classification as a minimum requirement. The EBOPS classification also includes a number of memorandum items which countries may wish to collect but will not be required to do so. These include an estimate of financial intermediation services indirectly measured (FISIM), which is a measure of the net margin generated in lending to and borrowing from foreign customers.

Geographic or partner country breakdown As a general rule, it will only be possible to break down trade on a product basis between countries at the aggregate EBOPS level for the 11 broad categories. Beyond this there are considerable problems relating to confidentiality of data and asymmetries, the latter indicated by, for example, the exports of a service sector identified by country A to country B, not being reflected in country B's measure of its import of that service from country A.

Table 3 Trade in services EBOPS categories

1. Transportation
2. Travel
3. Communications services
4. Construction services
5. Insurance services
6. Financial services
7. Computer and information services
8. Royalties and license fees
9. Other business services
10. Personal, cultural and recreational services
11. Government services (not included elsewhere)

Source: IMF & OECD

Table 4 Product data: net exports of financial and business services

Net exports, $m, 2002

	Banking & other financial services	Insurance	Total financial services	Other business services
UK	15735	9241	24976	20100
Switzerland	6668	2308	8976	2031
Germany	550	5867	6417	-11155
Belgium/Luxembg.	5089	189	5278	2230
Ireland	1110	596	1706	-13810
Korea	815	-522	293	-4451
Spain	248	-232	16	-1922
Italy	25	-449	-424	-3335
France	-440	-468	-908	1776
Netherlands	-444	-782	-1226	-1012
Canada	-669	-1028	-1697	367
US	10594	-12508	-1914	19119
Japan	1500	-3575	-2075	-7294
Mexico	-200	-5308	-5508	-830
Other countries	-843	-1722	-2565	-3643
OECD total	39738	-8393	31345	-1829

Source: OECD

Table 5 International coverage of trade in services by partner country

2001	Total exports £bn	Total available export data by partner country, % of total exports	
		Data Reported to OECD	Reported data & mirror data
World	1494	75.0	91.7
OECD	1165	93.7	97.6
NAFTA	329	94.7	95.9
OECD Asia and Oceania	114	97.1	97.4
EU total	633	98.4	98.4
OECD Europe other	89	51.8	98.4
Africa	32	0.0	76.8
America	370	84.0	99.6
Asia and Oceania	333	42.3	73.5
Europe	757	88.4	96.6

Source: OECD, IMF

PROGRESS IN IMPLEMENTATION OF THE MANUAL

Over the past five years there have been developments in the collection of data on trade in services. Many countries, particularly in the OECD, have taken forward work programmes to implement the manual's recommendations. The OECD and EU have compiled data collected by countries on a consistent and comparative basis. Most progress has been made in the area of product data and trade with partner countries. Rather less progress has been made on mode 3 commercial presence and mode 4 presence of natural persons. Progress in each of these areas is detailed below:

i. Product data

Most OECD countries have for a number of years been collecting data on the 11 categories listed in the extended balance of payments (EBOPS) classification. Such data is published jointly by the OECD and Eurostat in *OECD Statistics on International Trade in Services* (Table 4). According to these data, the UK in 2002 had the highest trade surplus in both financial services and other business services with surpluses of $25.0bn and $20.1bn respectively. Other Business Services includes legal services, accountancy and management consultancy. The other major net exporters of financial services were Switzerland, Germany and Belgium/Luxembourg, while the US trade position was substantially affected by insurance claims associated with September 11. The US was the only other substantial net exporter of other business services.

ii. Trade in services with partner countries

Geographic breakdown The extent of the geographic breakdown published by many countries has increased. Over the past three years the number of national statistical agencies publishing data on trade in services by partner country has expanded substantially with OECD publishing 2001 data from 26 countries in the 2003 edition of *OECD Statistics on International Trade in Services Detailed Tables by Partner Country* (Table 6); with over a half of the reporting countries providing a breakdown of at least 40 partner countries. Trade in services data for 22 countries is also being disseminated by Eurostat in the 'New Cronos' database.

In the earlier data for 1998, only 8 countries published their own internally generated partner country data, which covered trade in services with between 30 and 55 partner countries. Eurostat also collected and published data on a further 10 countries at that stage, which was done on a standardised breakdown of trade in services with 16 partner countries.

International coverage As a consequence of the initiatives taken by many countries, data on trade in services with partner countries, reported to the OECD from its member countries is comprehensive in coverage, typically accounting for over 90% of exports of OECD countries. The extent of global coverage is facilitated by OECD countries accounting for 76% of international trade in services (Table 5).

Coverage becomes more patchy from countries that are not members of the OECD, with no data reported from Africa and less than half of trade from

Table 6 Coverage of trade in services by partner country		
Number of partner countries for which data on trade in services was available to the OECD, as at:		
	end-2000	July 2003
Australia	30	32
Austria	16[1]	63
Belgium-Lux	16[1]	65
Canada	55	60
Czech Republic	0	196
Denmark	0	42
Finland	16[1]	65
France	140	61
Germany	28	30
Greece	16[1]	42
Hungary	0	65
Ireland	0	3
Italy	16[1]	55
Japan	30	32
Korea	0	3
Mexico	0	2
Netherlands	16[1]	65
New Zealand	0	25
Norway	0	21
Portugal	16[1]	65
Slovak Republic	32	59
Spain	16[1]	24
Sweden	0	42
Switzerland	0	0
Turkey	0	29
UK	64	64
US	33	33
EU	16[1]	40[1]

[1]published by Eurostat
Source: OECD

Asian countries in total. This contributes to the lower level of coverage at the global level, just 75%. When the OECD also takes account of mirror data, which is corresponding countries' import data, then the overall level of coverage is much higher rising to 92% at the global level and higher still for some regions.

iii. Mode 3 Commercial presence: Foreign affiliate trade in services (FATS)

Some countries have begun to develop collection of FATS data, although the extent of the coverage is limited. Data reported to the OECD was published in 2001 for the first time in the OECD's *Measuring Globalisation: The role of multinationals in OECD economies (Volume II: Services)*.

Only the US, Japan and Portugal publish data for the key FATS indicators of turnover, employment and value added for both inward and outward investment (Table 7). Most countries tend to publish more data on inward FATS - the activities of foreign affiliates in their own country arising from inward investment - than they do on outward FATS. The latter includes measures of activity of foreign affiliates of national firms generated as a result of outward investment in foreign countries. The UK and Italy publish no data at all for indicators relating to outward FATS. Germany publishes data on turnover and employment for both inward and outward investment, but none on value added or trade.

Inward FATS Data on inward FATS show that foreign controlled enterprises' share of service industries' turnover was usually higher their share of employment (Chart 2). The higher productivity this implies may result from one or both of two factors. These are that foreign controlled companies tend to invest in less labour intensive service industries, or that foreign investors are more efficient than their domestic counterparts. The extent of foreign investment tends to be relatively higher in smaller countries which may lack critical mass in some activities. Eastern European countries, such as Hungary, have attracted considerable foreign investment over the past decade. Amongst larger European countries foreign companies' 21% share of service industries' turnover in Italy in 1998 was the highest, followed by 17% in the UK, and 9% in France. The share of foreign control in the US is lower still at 8%, partly related to the huge size of the US economy, and only 1% in Japan.

Outward FATS Japan features much more prominently in outward FATS indicators, with the turnover of its foreign affiliates eight times the value of service exports from Japan in 1998 (Table 8). Turnover of US affiliates was higher in absolute terms than Japanese affiliates, although only three times the volume of US service exports. Germany is close to the US in terms of the broad ratio of foreign affiliate revenue to service exports and much higher than France. Finland's ratio was also high, a reflection of it being a base for some large international companies which have substantial operations in other countries.

Table 7 Indicators published on FATS

Indicators on FATS published by selected countries

	Inward FATS			Outward FATS		
	Turnover	Employment	Value added	Turnover	Employment	Value added
Austria	X	X	-	X	X	-
Belgium	X	X	-	X	X	-
Czech Republic	X	X	X	-	-	-
Denmark	X	X	X	-	-	-
Finland	X	X	X	-	-	-
France	X	X	X	-	X	-
Germany	X	X	-	X	X	-
Hungary	X	X	X	-	-	-
Ireland	X	-	X	-	-	-
Italy	X	X	-	X	X	-
Japan	X	X	X	X	X	X
Luxembourg	X	X	-	X	X	-
Netherlands	X	X	X	-	-	-
Norway	X	X	X	-	-	-
Poland	X	X	-	-	-	-
Portugal	X	X	X	X	X	X
Sweden	X	X	X	X	-	-
Turkey	X	X	X	-	-	-
UK	X	X	X	-	-	-
US	X	X	X	X	X	X

Source: OECD

Chart 2 Inward FATS: Foreign controlled turnover and employment in services

% share of turnover and employment under foreign control in service industries, 1998

Source: IMF

Table 8 Outward FATS: exports of services and turnover of affiliates

Net exports, $bn, 1998

	Exports of services $bn	Turnover of foreign affiliates $bn	Turnover of foreign affiliates as % of service exports
US	260	807	310
Japan	62	501	803
Germany	86	232	270
France	85	106	125
Belgium	38	34	90
Finland	7	29	440

Source: OECD

iv. Mode 4 Presence of natural persons

As noted on page 3, some data on trade in services in mode 4, presence of natural persons, is collected in a few areas, such as trade in business, computer and construction services. Data collected on, for example, workers remittances, compensation of employees and migration, sheds some light on mode 4. None of these can fully determine the various variables connected with people employed abroad on a short term basis by independent service providers, and by other companies that are foreign to the host country.

The OECD has undertaken a study to calculate the net flow of remittances into and out of 30 OECD countries and 27 large non-OECD countries. This found that the net impact of remittances on GDP was highest in Africa where they added 1.1% to Africa's GDP in 2000 (Table 9). The 6.8% net impact of remittances on Sudan's GDP was the highest amongst individual countries with other major beneficiaries being the Philippines, Pakistan, Morocco, Bangladesh and the Ukraine, each with a net impact of over 4% of GDP.

CONTINUING CHALLENGES IN IMPLEMENTATION OF THE MANUAL

The previous section has described the progress made by national and international statistical organisations in implementing the key priorities set out in the manual. This process involves a number of ongoing challenges: clarifying the definition of multinational enterprises (MNEs) and the adequacy and consistency of existing data sources on MNEs; developing new systems for collecting data where current sources are inadequate; incorporating developments in balance of payments methodology; and ensuring the quality of data.

1. Defining multinational enterprises (MNEs) and achieving harmonisation and consistency of MNE data

MNEs account for a large share of foreign direct investment, trade and the activities of foreign-controlled affiliates. The OECD, which compiles statistics on theses indicators states, "it is crucial that statistics relating to MNEs should be developed on a compatible basis so that they can provide correct and complete assessments to policy and and decision makers as well as for other types of analytical work and research."

Some OECD databases are based on joint questionnaires with other international agencies as part of a coordinated drive to harmonise and avoid duplication. These questionnaires include the joint OECD/Eurostat survey of FDI statistics. Further efforts may yet be required to harmonise some OECD statistics and their underlying methodology in order to provide more compatible statistical series.

2. Establishing new systems of data collection

In addition to international efforts to harmonise and improve coordination of databases, many countries have needed to construct new systems for collecting data on trade in services. These have often involved developing direct reporting systems to supplement or replace data previously collected

Table 9 Impact of net flows of remittances on GDP				
Flows of remittances, 2000				*Impact of*
			Net	*net inflow*
	Inflow	Outflow	inflow	*on GDP*
Flows for countries in:	$bn	$bn	$bn	%
Africa	10.4	4.2	6.2	*1.1*
Asia	43.4	39.0	4.4	*0.1*
Europe	19.6	16.2	3.4	*0.0*
Latin America	16.2	1.8	14.4	*0.7*
North America	1.6	29.6	-28.0	*-0.3*
Oceania	0.3	0.8	-0.5	*-0.1*
World total	91.5	91.5		
Flows for countries with greatest net impact on GDP:				
Sudan	2.0	0.1	1.9	*6.8*
Philippines	1.1	0.1	1.0	*5.9*
Pakistan	0.8	0.3	0.5	*4.5*
Morocco	1.1	0.0	1.1	*4.2*
Bangladesh	0.5	0.0	0.5	*4.0*
Ukraine	0.3	0.0	0.3	*4.0*

Source: OECD

Countries that have introduced direct reporting systems

Eastern European countries have been affected by liberalisation of their economies, with many having developed survey-based reporting systems following the opening up of their markets in the early 1990s.

The Czech Republic, for example, used to be entirely reliant on a settlement based system which involved a small number of banks. Following liberalisation, dozens of banks were established and many new enterprises were created. As a result, cross-border business became widespread, involving a much larger number of economic agents and transactions. While the settlement system is still the main source of information for trade in services other alternative sources have been introduced. In transportation, these involve using survey data collected by companies in air and rail transport and the transportation of natural gas and oil. Cross-border movements are used for the travel account, but these are supplemented with information on purchases of currency and credit card information from banks, as well as information from hotels and travel agencies.

In *Jamaica* surveys were introduced in the wake of liberalisation of foreign exchange controls, accompanied by a strengthening of legislation. Moral suasion was used to ensure compliance with surveys and other data sources were identified to fill gaps and facilitate the tracking of new transactions as they came onto the market.

In the wake of liberalisation, *the Philippines* also recognised the limitations of the bank reporting system and the central bank of the Philippines (BSP) introduced a survey on cross border transaction settled through accounts abroad and intercompany offsetting accounts. The BSP has also strengthened the monitoring of transactions settled through the domestic banking system but which are not reported for statistical compilations. It is also looking at how to collect information on transactions routed through the foreign currency units of banks.

through systems based on bank settlements or from foreign exchange controls. (Examples are detailed in the side panel on page 8.) New systems and databases are also being developed by some countries to provide data on modes of supply particularly Modes 3 and 4.

Developing direct reporting Direct reporting includes the use of surveys and administrative sources, when data has already been collected by a government agency for other purposes. The introduction of a new system in some countries may have been a direct result of liberalisation. In the eurozone it was necessitated by the introduction of the euro in 1999 which resulted in the disappearance of cross border foreign currencies flows, previously used to underpin a bank settlement system.

Before they embarked on liberalisation, foreign exchange control provided many countries with a mechanism for recording the cross border flow of funds, as payments typically require approval and receipts need to be registered. Primary balance of payments data can be generated from these records and be duly classified on a regular basis. Following liberalisation countries usually lose significant proportions of their databases, especially the flows relating to services and income, transfers and financial transactions.

The main benefits and shortcomings of direct reporting systems are listed in the side panel. Many of the shortcomings can be tackled through enhancing the detail and coverage of the survey form, which on its own may lead to other counterparties emerging. Forms also may need adapting for different industries. Many countries have also developed more sophisticated databases to ensure more firms are identified. Samples of smaller firms can therefore be scientifically constructed with results grossed up to produce estimates for the whole economy. Such sampling is essential in the services sector, given the vast numbers of small service businesses, well in excess of a million in each of the largest economies worldwide.

Data on modes of supply National and international agencies have been developing systems specifically for the collection of data on modes of supply, particularly mode 3 FATS and mode 4 presence of natural persons.

OECD and Eurostat, for example, use a common FATS questionnaire for collecting data on Mode 3 FATS, although coverage is limited particularly on outward FATS as indicated on page 7. Eurostat is also close to finalising agreement on a Regulation on FATS which would establish a common framework for the systematic production of Community statistics on the structure and activity of foreign affiliates. Information required on FATS may be collected using any relevant sources. A programme of pilot studies is envisaged which would investigate the feasibility and costs of collecting data on additional variables and breakdowns.

A number of countries are in the process of building systems to fill gaps in modes of supply, particularly modes 3 and 4. While the focus of mode 4, as indicated on page 4, is on temporary movement or persons there is no timeframe within the GATS as to what should be regarded as temporary. For

Direct reporting systems: advantages & shortcomings

Advantages of direct reporting systems include:

- Organisations being directly responsible for the provision of data rather than being indirectly responsible under the bank settlement system.

- Ability to access information only available from the firm originating the transaction, as in freight transport, construction, communications services and which would not appear in bank settlement.

- The correct timing of the service can be pinpointed.

Shortcomings of direct reporting through surveys that have arisen include:

- Incomplete coverage, if firms regularly engaged in the import or export of a service are not identified.

- Under-reporting, if firms deem the value of a service so negligible as to be not worth reporting.

- Use of a standard form for all trade in services, which may be inappropriate for financial services such as insurance.

- Inadequate number of respondents which may give rise to difficulties in disclosure due to breaches of confidentiality.

statistical purposes agencies may therefore take a broader view of mode 4 as including all foreigners who are employed in a foreign company established abroad or supplying services without permanent presence in the country, as in a construction project. The Manual includes statistics on foreign nationals in service firms that are foreign affiliates, but does not take account of either foreign nationals employed in service firms controlled by the host country, or of foreign nationals employed in non-service firms.

3. Incorporating changes in balance of payments methodology

Balance of payments methodology is currently based on BPM5 agreed in 1993. A review of BPM5 has commenced which is scheduled for completion in 2008. It is taking place in parallel with a review of methodology of the United Nations System of National Accounts also agreed in 1993 (SNA 93), which will have implications for the review of BPM5. While not expected to result in major reforms, some changes affecting trade in services data are expected to emerge. Those likely to affect insurance and banking are sum-marised in the side panel.

Other key changes that have implications for definition of trade in services that are likely to be implemented include:
- Repairs and servicing of goods that are currently included in goods, to be categorised as services.
- Changes in definitions of criteria for residency.
- Resolution of asymmetries where possible, particularly those relating to offshoring (detailed in the next section).

4. Ensuring data quality

International organisations are using three means of monitoring data quality at the global level: the analysis of asymmetries and global imbalances; a survey on methodological soundness and compilation of metadata:

Bilateral and multilateral asymmetries In theory, exports declared by one country should be equal to the imports of the same product declared by the partner country. So any bilateral asymmetries, i.e.differences in exports and imports recorded by the two countries, and global imbalances that arise can provide an indication of international comparability of data and be tracked over time.

To address problems of asymmetries a number of bilateral and multilateral initiatives are seeking to reconcile statistics. In a bottom-up approach groups of two or more countries scrutinise the main asymmetries in order to find their origin and take appropriate actions. The US and Canada regularly perform this exercise as have some EU countries on an ad hoc basis. In a top-down approach a model is built which, for example, distributes and eliminates intra-EU asymmetries on the basis of methodological information provided by each member state.

An OECD analysis using mirror statistics for trade in 2001 between the US, Japan and the EU was undertaken for the main categories of services' trade: transportation, travel, government services, other commercial services and

Expected changes to balance of payments methodology that may affect financial services

Insurance: The measurement of insurance services is expected to change broadly from one based on premiums less claims to premiums less 'adjusted' claims. The effect will be to smooth claims over a longer period and ameliorate the volatility of insurance output in national accounts caused by large claims arising from natural disasters or terrorism. This will also result in a smoothing of trade in insurance services data.

Financial intermediation services indirectly measured (FISIM) Banks and other intermediaries generate a margin or "turn" on their lending and borrowing activities with foreign clients. This is currently classed as investment income in the balance of payments but the intention in the review of BPM5 is to regard this as part of a bank's intermediation services earnings, therefore including it within trade in services and bringing it into line with SNA 93. Calculation of FISIM would provide a broader picture of the margin income of banks, which is understated in the current trade in services data which only takes account of fees and commissions.

Table 10 Asymmetries in EU/US bilateral data on trade in services			
2001	Exports $bn	Mirror imports $bn	*Asymmetry coefficient*
EU to US			
Transportation	28.2	21.2	*0.28*
Travel	23.4	20.3	*0.14*
Govt. services	3.5	7.9	*-0.77*
Other commercial servs.	53.0	24.2	*0.75*
Total trade in services	108.1	73.7	*0.38*
US to EU			
Transportation	13.7	21.8	*-0.46*
Travel	21.5	22.2	*-0.04*
Govt. services	2.5	1.7	*0.42*
Other commercial servs.	51.0	64.1	*-0.23*
Total trade in services	88.7	109.8	*-0.21*

Source: OECD

total services. Some of the data in this exercise for trade between the EU and US only is included in Table 10. It illustrates the discrepancies that exist when measuring trade in services. For instance, the EU's exports to the US are $108bn, while the US recorded imports from the EU are $73bn. This produces an asymmetry coefficient of 0.38. In general, the more detailed the breakdown the greater are the discrepancies in the mirror data and the bigger the coefficient. No discrepancies in the data would produce a coefficient of 0.

An OECD study of multilateral asymmetries took the exports of the US, Japan and EU countries to individual OECD countries for the same set of trade in services. Mirror imports reported by partner countries were also collected with asymmetry coefficients calculated. These coefficients help to identify the extent to which a country is relatively over or underestimating its imports and exports. In general the EU15 countries tend to report higher exports to other OECD countries in most categories, compared to figures collected by partner countries (Table 11). This contrasts with the US which is declaring lower exports than its partner countries in other commercial services and transportation. Overall, with an asymmetry coefficient of just 0.07, the discrepancies in exports declared by Japan with the rest of the OECD are less overall than trade in services of the EU15 or US with the rest of the OECD.

The growth of international offshoring presents a particular challenge as a cause of significant asymmetries in trade in computer and information services that are provided cross border. Offshoring may be supplied internally (internal offshoring) or externally (offshore outsourcing). According to McKinseys internal offshoring in 2001 totalled an estimated $22bn and offshore outsourcing a further $10bn. Asymmetries are highlighted by comparing India's reported exports of trade in services with that compiled by partner countries. India is a major destination for offshored services, having grown to become the sixth largest exporter of other business services and computer and information services in 2001. Its global market share of such services was up to over 4% from less than 1% in 1995.

India reported exports to all countries of $24.9bn in 2002 compared with a total of $4.3bn of services trade with India reported in major importing countries in the EU, North America and Japan (Table 12). Moreover the 83% discrepancy had grown from 61% in 1997. Taking Indian $9.6bn recorded exports of computer and information services alone the discrepancy was even greater at 97% in 2002 with only $294m of imports recorded by the same economies.

OECD/Eurostat questionnaire on methodological soundness In order to assess progress made by individual countries in implementation of the Manual on Statistics of International Trade in Services, OECD-Eurostat circulated a detailed questionnaire to member countries, to which 30 out of 37 countries have responded. The survey has produced positive feedback and been a useful process for many compilers in helping to shape further developments. OECD/Eurostat have noted that some harmonisation of

Table 11 Asymmetries in EU 15/OECD multilateral data on trade in services

2001	Exports $bn	Mirror imports $bn	*Asymmetry coefficient*
EU15 to rest of OECD			
Transportation	40.8	36.4	*0.11*
Travel	35.1	34.2	*0.02*
Govt. services	3.8	8.5	*-0.77*
Other commercial servs.	72.5	47.9	*0.41*
Total trade in services	152.1	127.0	*0.18*
Japan to rest of OECD			
Transportation	13.7	11.6	*0.16*
Travel	1.7	5.1	*-1.00*
Govt. services	0.7	1.7	*-0.83*
Other commercial servs.	23.5	16.7	*0.34*
Total trade in services	39.6	36.9	*0.07*
US to rest of OECD			
Transportation	26.3	35.0	*-0.29*
Travel	42.9	38.8	*0.10*
Govt. services	3.4	2.3	*0.37*
Other commercial servs.	85.1	111.5	*-0.27*
Total trade in services	149.3	174.2	*-0.15*

Source: OECD

Table 12 Asymmetries in reporting of India's trade in services

$m	1997	2000	2002
Total trade in services			
Exports to all countries reported by India	9111	19175	24859
Imports from India reported by:			
US	1224	1896	1667
EU	2241	2268	2275
of which: UK	702	865	1007
Japan		423	326
Canada	117	107	---
Reported imports total	3582	4694	4268
Discrepancy	5529	14481	20591
% of Indian exports unaccounted for:		*61*	*76*	*83*
of which: Computer and information services			
Exports to all countries reported by India		6341	9600
Imports from India reported by:			
US		135	80
EU		114	177
Japan		13	37
Reported imports total		262	294
Discrepancy		6079	9306
% of Indian exports unaccounted for:			*96*	*97*

Source: OECD, based on Reserve Bank of India, US Bureau of Economic Analysis, Eurostat, UK Office for National Statistics, Bank of Japan, Statistics Canada

responses is required before general conclusions can be obtained.

Compilation of metadata Metadata is the methodological information published by countries. The compilation and maintenance of metadata is crucial to the interpretation of trade in services data, particularly when aggregated by OECD or Eurostat. An effort has been made by OECD to ensure that metadata is linked to data as recommended in OECD's dissemination policy.

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This IFSL brief has been compiled by Duncan McKenzie.

Its purpose is to set out how the development of trade in services statistics is meeting international demand for more comprehensive data, particularly from trade negotiators. The brief summarises the progress that has been made and the challenges that remain.

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