

000861

Revised: 12/28/87

DOCUMENT II

5

1

SPECIAL PROBLEMS OF STATISTICS ON INTERNATIONAL

TRADE IN SERVICES

(Prepared by the United Nations Statistical Office  
and the IMF Bureau of Statistics)

New York/Washington, D.C., December 1987

## I. INTRODUCTION

1. The main purpose of the present paper is to facilitate the completion of the Questionnaire on Statistics on Trade in Services. This questionnaire was prepared jointly by the International Monetary Fund and the United Nations Statistical Office within the programme of promoting statistics on services, and on trade in services in particular.

2. The present paper is not entirely self-contained. It should be used in conjunction with the paper entitled "The Concept of Services in Statistics," prepared by the Statistical Office of the United Nations, which is also attached to the questionnaire on statistics on trade in services. While that paper covers the conceptual issues that are common to statistics on domestic and international trade in services, the present paper concentrates on the problems that are specific to the statistics on international trade in services.

3. In preparing this paper use was made of the conclusions reached by the Expert Group on External Sector Transactions for the Revision of the System of National Accounts (SNA) and of the recent work on statistics on trade in services by the UNCTAD, OECD, and the European Communities. Comments received from these three organizations on earlier trade in services documents, as well as requirements expressed within the framework of the Group on Negotiations on Services (GNS) were all taken into account.

4. The paper contains three parts. In Section II, conceptual problems of trade in services are reviewed, while Section III considers some data collection and organizational problems.

## II. THE CONCEPT OF SERVICES IN INTERNATIONAL TRADE

5. General problems of the concept of services are discussed in the paper entitled "The Concept of Services in Statistics." The main conclusions of that paper, though some of them have a tentative character, are as follows:

- The concept of services used for compiling statistics on trade in services should be entirely consistent with the SNA concept for "goods and services."
- There is as yet no generally accepted distinction between services and goods. It seems that there is no single criterion on the basis of which that distinction can be made. Several criteria could be used in conjunction, and even then, some conventions cannot be avoided in borderline cases.
- It would be highly desirable to use the same concept of services in compiling statistics on domestic and international transactions.
- Appropriate terminology should take care that the difference in the distinction between merchandise and nonmerchandise flows on the one hand, and between goods and services, on the other does not cause any confusion.

6. That paper also dealt with some borderline cases in delineating services from other flows (e.g., income), in particular with those that

are relevant for statistics on both domestic and international transactions in services. There are, however, a number of further borderline problems that are specific for statistics on trade in services. Most of these are connected with the definition of resident/non-resident units in compiling data on international trade in services. These problems are considered in the present document.

### Merchanting

7. Merchanting is defined in the fourth edition of the Balance of Payment Manual (BPM) of the International Monetary Fund (paragraph 337) as follows: "When goods are acquired and relinquished again without crossing the frontier of the economy in which their temporary owner is a resident, the temporary owner is considered to have been engaging in merchanting transactions." The problem with this type of transaction is that, on the one hand, it is connected with the purchase and sale of goods; on the other hand, however, these goods do not cross the frontier of the country. The BPM fourth edition proposes to treat merchanting as an export of services. This treatment, which seems to be followed in practice in the majority of countries, results in asymmetries in the merchandise and services accounts at the global level. The treatment in the third edition of the BPM was to include merchanting as part of the merchandise item.

Construction abroad

8. Resident construction enterprises may be engaged in construction work abroad. This raises a number of problems connected with the definition of residents.

9. One of the principles of the SNA and the BPM in distinguishing resident from non-resident economic units is based on the length of the activity (presence) abroad; as a rule of thumb the one-year time limit is accepted as a cut-off point. If this rule were applied to enterprises engaged in construction activities, then

- Units engaged for more than one year in construction activities abroad would become residents of the host country (as direct foreign investment); thus, their production would not constitute an export or import of either goods or services, since it would be a transaction between residents (of the host country).
- Units engaged for less than one year would remain residents of the home country; thus their sales would constitute import of the host country and export of the home country. In this case, a question would arise as to whether the import and export would represent a trade in goods or services. This question is referred to in paragraphs 30 and 31 of the document "The Concept of Services in Statistics."

10. Views on this issue, as well as national practices, seem to differ.

As it turns out from the replies on the recent OECD questionnaire

- there are (presumably) countries that treat all construction abroad as export of goods or services;
- there are countries that prefer to treat all construction abroad as foreign direct investment;
- there are countries that favour the one-year cut-off point;
- there are countries that would like to make a distinction between the alternatives, but on a basis other than the one-year cut-off point.

#### Installation of equipment abroad

11. The Expert Group on External Sector Transactions recommended that units engaged in installation of equipment abroad should be considered residents of the home country. In line with this, it was recommended that income from installation abroad should be recorded as an export of services.

### Freight and insurance

12. In connection with freight and insurance relating to export and import of goods, the question arises as to whether the value of the freight and insurance should be treated as an export/import of services, or should be regarded as part of the value of the goods exported/imported. In this respect there is a difference between the present SNA and the present BPM in the valuation of imports; while in the SNA imports are valued on a c.i.f. basis, the BPM recommends the f.o.b. basis of valuation. In the process of harmonization between the SNA and the BPM, the Expert Group on External Sector Transactions proposed that the SNA should switch to the valuation of imports at f.o.b. prices.

13. In connection with insurance there is a further problem, which may impair comparability and consistency among various bodies of statistics. The output of insurance enterprises according to the SNA is equated to the service charge, which is measured as the difference between premiums received and claims paid. (In the case of life insurance a third element, i.e., net additions to actuarial reserves, has also to be taken in account in computing the service charge). The insurance service charge so computed is to be allocated to the different classes of policy holders (encompassing



both residents and nonresidents) in proportion to the gross premiums paid by them. While such an approach can be adopted in the case of the country providing the insurance services, it is not practicable to apply this convention from the standpoint of the country purchasing insurance services from abroad.

14. On practical grounds, a simplified approach is adopted in the BPM by measuring the service charge as the difference between premiums received/paid and claims paid/received without regard to the mix of resident/non-resident policy holders. Such an approach, however, can lead to a negative figure for services rendered (acquired) when claims paid abroad are abnormally large relative to premiums received from abroad.

15. Differences between the SNA and the BPM were briefly considered by the Expert Group on External Sector Transactions. The Group saw the possibility of harmonization with regard to casualty insurance by approximating the service charge as a percentage of the gross premium. However, the Group agreed that it would be inappropriate to recommend that treatment until a full evaluation of the treatment of the complex of insurance transactions, including those related to life insurance and pension funds, would be in place. The Group, therefore, forwarded the matter to the Group on Production Accounts, the Group on Financial Flows, and the Group on the Household Sector Accounts and Income Distribution.

Statistics for an examination of the relevant issues, including the issues pertaining to the treatment of insurance on imports in the input-output table.

#### Revenues of self-employed

17. Revenues from abroad of self-employed, like fees received by lawyers, artists, etc., should be treated as exports/imports of services. This seems to be the general view of the overwhelming majority of compilers (as it turns out from the recent OECD survey), although some countries treat these flows as labour income (thus, as income flows, instead of exports and imports of services).

#### Franchising

18. A franchise agreement typically refers to an agreement under which the franchisee may use the trademark of the franchisor and undertake to conduct a business or sell a product or service in accordance with methods and procedures prescribed by the franchisor. In addition, the franchisor may undertake to assist the franchisee through advertising, promotion, and other advisory services. The ambiguity in respect of the treatment of franchising stems from the fact that the income of the franchisor consists of both services (e.g., advertising, advisory services) and

income from property (e.g., from the use of the trademark of the company). According to replies received to the OECD questionnaire, the majority of countries consider the first element to be the dominant one and therefore classify franchising as a service activity. There may be considerable differences in the character of franchise agreements that require further elaboration.

Flows between parent companies and foreign affiliates

19. Foreign affiliates - according to the SNA and BPM - are residents of the country where they are operating. Their transactions with other residents of that country do not represent exports or imports. However, when the influence of the rest of the world on domestic service industries is investigated, these transactions may be of considerable interest. Nevertheless, it would not be appropriate to call them exports and imports of services (goods).

20. There are, however, genuine export-import transactions in the parent company - foreign affiliate relationships:

- (i) A foreign affiliate may provide a service to its parent company. For instance, by selling tickets, the KLM sales office in New York provides a service to the Dutch airlines company the value of which is taken to be equivalent to the operating cost of the sales office.

(ii) A parent company may provide a service to its foreign affiliates.

For instance, a Philips manufacturing unit located outside the Netherlands may receive administrative, advertising, or other services from the parent company in the Netherlands.

21. There is no conceptual reason why these transactions should not be recorded as exports/imports of services. However, various practical difficulties may arise. For instance, even if the information on the financial flows between parent companies and foreign affiliates is available, it may be difficult to separate the service element from the entrepreneurial income or property income elements (the latter two, being incomes, should not be treated as services).

#### Direct purchases by households

22. Non-resident households (tourists, etc.) may buy on the domestic market both goods and services, and resident households, as tourists, etc., also may buy both goods and services abroad. It is clear from the SNA and BPM conventions that (i) these flows are exports and imports of services, and that (ii) these flows are not covered by merchandise trade. If all these transactions were treated as exports/imports of services then the rule that the distinction between goods and services should be the same in domestic transactions and in international trade would be violated. For instance, while a tape recorder sold to a resident household

would be a sale of goods, the same tape recorder sold to a non-resident household would be classified as a service. More information would be needed on the extent to which it is feasible and considered worthwhile to make the distinction between goods and services within the flow direct purchases by households.

Direct purchases in the domestic market by extra-territorial bodies

23. Much the same considerations as in paragraph 22 apply here.

III. OBSERVATION OF TRADE IN SERVICES

24. Export and import data on services are difficult to obtain, since services, in general, do not pass customs. There are cases

- where the service producer moves to the service recipient to provide the services (e.g., installation, technical assistance)

- where the service recipient moves to the service producer (e.g., medical treatment)

- where both the producer and the recipient move to a third place (some transport services, e.g., the transportation of a German passenger by PanAm from New Delhi to London)

- where neither the producer nor the recipient moves, yet the service is provided (e.g., some communications services, insurances services)

25. Taking all this into account, there does not seem to be any better way to obtain the information needed than to use the following two main sources:

(i) reports by the producers/users of services on how much services they sold/purchased to/from non-residents

(ii) records of monetary authorities (e.g., central banks) on payments made to and received from abroad in connection with services.

26. Both these observation methods are beset with difficulties. As to the first source, the details and frequency with which the details can be collected from producers/users of services is limited. Some producers may not even know whether their clients were residents or non-residents. Non-response and omissions may also constitute limitations. As to the second source, in addition to some coverage problems (some payments may escape controlled channels), a major difficulty often encountered is in the separation of payments for services from payments for non-services.

27. Special difficulties may be encountered in respect of service flows between parent companies and affiliates abroad. These flows are often intra-company flows, and it may therefore occur that explicit payments are not made (various flows - services and non-services - are netted against each other) or that some payments may have a nominal value only.

28. Notwithstanding the fact that BPM practice already has a long tradition, and that the IMF already collects some information on the statistical procedures followed, in reality, relatively little is known on the details of the problems encountered. Even some countries with very developed statistics consider the coverage of their statistics on trade in services insufficient and try to improve the observation methods of these flows. Even bigger problems may be encountered in developing countries.

29. In view of the difficulties in measuring the flows on trade in services, it is thought that it would be useful to summarize the experiences in this field of the more advanced countries in order to be able to provide some guidelines for countries that have less experience in this field.