

Statistical issues International Trade in Services

1. Introduction

Establishing methodological bases for the statistics of international trade in services, as well as the developing of data collection on this basis is timely from several aspects. Besides the ever increasing role of service sector played in the national economy neither the international trade of services is negligible any more.

2. An increasing interest in the clarification of methodological issues and in providing for the preconditions of a world level study can be observed on the part of international organizations (UN, IMF etc.).

3. National and international data available reflect, however, the fact that several methodological problems hinder the observation of international trade in services, namely:

- there is no generally accepted definition of services either in the national or in the international literature, consequently neither the definition of international trade in services is given;
- service statistics must be in harmony with SNA at the international level, but SNA does not make distinction between goods and services;
- service items included in the Balance of Payments of Hungary comprise several overlaps with other categories, (goods, factor income, capital transactions).

4. Aiming at the development of the methodology of service statistics in the following we make suggestions for the conceptual definition. Further we describe some borderline cases along with the statement of our opinion in this respect.

5. I. The general definition of services and of international trade in services.

The ever increasing role of services motivated several authors to make efforts for an exact conceptual definition of services. But due to the extremely wide scale of service activities there is no generally and interna-

tionally accepted definition.

6. Besides several kinds of approaches (e.g. from the sectoral- or activity aspects) the main characteristics of services are present in nearly each literature dealing with this subject.

First, the result of services is not materialized in the form of a new product; the production and consumption of services is - in general - not separated in the time and in the space; and the supply of services postulates an actual consumer.

7. With due consideration to the above, we suggest the following definition of services:

Services are the result of activities, which are provided directly to consumers in the form of improvement in the condition of an economic unit or a person or a good, without producing a new product. The improvement may take the form of repair, maintenance, transport, distribution, storage, development of an object (process, system etc.), and it may relate to physical or mental condition of a person or a group of persons.

8. Based on the conceptual definition of services, we suggest the following definition for the international trade of services to be accepted:

All the services and activities performed on basis of an agreement concluded between domestic and foreign partners are qualified as international trade of services.

9. Main types of transactions qualified as international trade of services are the following:

- 1/ Cross-border transactions (voice, image, data etc.)
- 2/ Travel of the consumer (tourism, study, sick persons etc.)
- 3/ Travel of the producer of services (lawyers, advisers, organizers etc.)
- 4/ Travel of the producer and consumer into a third country.

10. The following - not comprehensive - enumeration covers the transactions belonging to the scope of international trade in services.

Regarding the order of the list, we followed - as far as possible - the draft "Classification of the foreign

trade of services" prepared by the IMF Statistical Office: as in the future probably this draft will serve as a basis for international data collection and for potential comparisons.

1. Transport services supplied to non-residents, passenger transport paid in foreign currency. (The transportation of Hungarian export products realized by Hungarian transport agencies cannot be separated from the product turnover.)
2. Storing and packing services.
3. Export-Import transaction between foreign affiliate and its parent company is qualified either as product turnover or as services. (Transactions between a foreign affiliate and an other company of the given country do not represent exports or imports.)
4. Travel abroad organized by travel agencies.
In our opinion, international tourism as a whole belongs to the scope of foreign trade of services (as seen also in the draft classification of IMF), but in case of private travels - the greater share in tourism - incomes and expenditures from (for) selling goods - and services cannot be separated from each other.
5. Education of foreigners (With the exception of post-graduate training supported by foreign scholarship.)
6. Hunting activities of foreigners
7. Organizing conferences
8. Services of the post and telecommunication
9. Construction abroad. (Details under the section dealing with borderline cases.)
10. Processing, if it is limited only to a given phase of the production.
11. Repair and maintenance. (Problems involved with such activities are considered in details under borderline cases.)
12. Agent's activities
13. Financial broker's activities and other activities

belonging to the scope of financial transactions

14. Insurance
15. Leasing (excluding financial leasing).
16. Research works, software originals
17. Quality control activity
18. Business services, legal services
19. Publicity and propaganda activities
20. Computer services
21. Data processing activity
22. Cultural services. Pictures, broadcasting, TV and other entertaining services
23. Health services, e.g. health services offered for foreigners
24. Income originating from sports events, expenditures in this connection.

11. II. Delimitation of services

Beyond and over the above enumerated activities there are so-called borderline cases where it is not unambiguous whether they belong to the scope of goods or services. Some categories which occur rather frequently and the classification of which has to be decided, are the following:

- a/ Processing undertaken against foreign order (active) and processing done by foreigners (passive). According to the present Hungarian practice, the costs of processing is indicated in the direct foreign trade turnover. (Value of any material imported or exported for processing is not included in the data of foreign trade statistics.)
In our opinion, if processing represent an organic part of the production of new goods, it has to be considered as production; if such activities do not alter the basic characteristics of an already existing product, it should be considered as services.
- b/ Construction work abroad. In the international prac-

tice, construction work performed abroad is not treated in a standardized way. One crucial point here is the question: how long the economic unit engaged in construction activity. For time limit there is generally one year indicated in the international practice. Construction work abroad of less than one year duration is considered - depending of the nature of work - as exportation either of goods or of services. In case of construction activities longer than one year period, the value of work is accounted as home performance of the recipient country; the income of contractor is considered as capital income while the transfer of such income to the donor country is considered as capital transfer.

In our national practice construction abroad is distributed by other aspects. The two most frequent forms of activities in this scope are:

- construction of complete unit on basis of an agreement, and
- construction- and mounting activity without material input.

The end-product of complete construction work performed by Hungarian contractors abroad represent new goods (building, bridge, road etc.) which is to be accounted in the foreign trade statistics as goods export - as output of the contractor company. If the transaction is realized within the form of prime contract, actual production is realized by the subcontractors, the activity of the prime contractor is to be qualified as service activity. It may occur that in the course of construction work abroad certain work-phases are undertaken by workers of a third country. If such work is undertaken by Hungarian workers, it is exports of services; if Hungary places an order for such work, it is imports of services.

- c/ Installations of equipment abroad can be qualified - in our opinion - as service activity.
- d/ Repair and maintenance. Activities under this category do not produce new products, so the international practice considers them to be services. IMF, however, in the new draft classification suggest to account general overhaul as product turnover and only minor repairs as services.

In our opinion repairs should be treated always as

services, independently from the extent of work and from the product concerned

- e/ Under leasing services the letting out of different goods for pre-set periods against rental is to be understood. This is to be considered as service activity. Exceptions are financial leasings where the owner gives only his financial means for a given transaction and after the user paid the rent costs, the object becomes his property. The turnover realized within the frame of financial leasing is suggested to be accounted as product turnover because of the alteration occurred in the proprietorship of the goods.
- f/ Reexport activity is characterized by the fact that it serves financial and marketing policy objectives and thus it belongs to the scope of services. In our opinion it would be expedient to account rather the balance of income and expenditure of re-export activities, not under the category of product turnover but in the frame of international trade of services.
- g/ Income from property other than financial assets /pictures, sculptures, first copy of softwares, complete design-documentation of a building etc.; regarding their essentials they are outputs of creative mental work, so they should be considered - in our opinion - as services.

If the author is going to realize certain rights acquired in the course of his creative work abroad, the income resulting thereof (namely the amount received for a patent, a know-how, a trade-mark, a copyright etc.) is no more service from the foreign trade aspect, but is qualified as a property income.

- i/ Revenues of self-employed (e.g. fees received by lawyers, artists) is to be treated as exports of services if the individual in question is not resident of the recipient country. Namely, self-employed offers similar services in the field of culture, health care, education etc. as those supplied by members of different institutions. But if the self-employed is resident of the recipient country, the revenues of his performance is income from labour, and the transfer of such income would be treated as flow of labour income.