

Summary of Replies to the UN/IMF Questionnaire
on Trade in Services

Statistical Office of the United Nations Secretariat
International Monetary Fund
(Bureau of Statistics)

New York/Washington, D.C.
August, 1989

Table of Contents

	<u>Paragraph</u>	<u>Page</u>
I. Introduction	1	1
II. The Concept of Services	4	1
III. Particular Borderline Cases		3
A. Processing	9	3
B. Repairs	12	3
C. Construction	14	4
D. Installation abroad	18	5
E. Computer software	20	6
F. Leasing	22	6
G. Merchanting	24	7
H. Franchising	27	7
I. Revenue of self-employed and contractual home workers	29	8
J. Authors' fees versus copyrights	30	8
K. License fees	33	9
L. Direct purchases by households	34	9
M. Direct purchases by extraterritorial bodies	36	10
N. Transport, insurance connected with exports and imports of goods	37	10
O. Insurance	40	10
P. Other items not specifically addressed in the questionnaire	44	11
IV. Obtaining Basic Data on Trade in Services	47	12
V. Summary Conclusions	51	14

I. Introduction

1. At the end of 1987 the Statistical Office of the United Nations Secretariat and the Bureau of Statistics of the International Monetary Fund circulated a questionnaire to national statistical offices and balance of payments compilers (mostly central banks) to obtain information on national practices in the compilation of statistics on international trade in services and to elicit views in respect to some related methodological issues. The questionnaire circulated, together with the two accompanying background documents, is annexed to this report.
2. In August 1988, a first summary of the replies to this questionnaire was circulated for comments. Subsequent to this date, replies to the questionnaire were received from 20 new respondents (representing 19 countries), and comments to the first summary were then forwarded by 10 countries. Therefore, as of June 1989, replies were received from a total of 74 respondents from 66 countries (there were only 8 countries from which the national statistical offices and the balance of payments compilers submitted separate replies). However, as replies from 3 countries did not contain any information that could be readily processed, the present document summarizes information from 63 countries only. Out of these 63, 21 are developed market economies, 5 are centrally planned economies, and 37 are developing countries (of which 10 are African, 16 are Asian, and 11 are Latin American and Caribbean countries).
3. As noted in paragraph 56 of the paper, work will continue in collaboration with interested international and regional organizations in the expansion of data on international transactions in services.

II. The Concept of Services

4. An overwhelming majority of the countries that responded agreed that the concept of services should be entirely consistent with the definition of goods and services in the United Nations' A System of National Accounts (SNA). France, India, the Netherlands, and the United States recognize that consistency with the SNA concept is generally desirable but question whether a complete consistency can be achieved. The United Kingdom commented that their general stance is that in order to achieve consistency with the SNA they would be content to accept some solutions on the trade in services front which are less than ideal, although much will depend on the importance of the service in question. Luxembourg and Singapore, while agreeing with the consistency requirement, commented that the SNA in certain respects needed modification. Japan and Zambia agreed that consistency is generally desirable but it might not be feasible to apply. The consistency requirement is rejected by Malawi and partly rejected by Colombia (i.e., by the central bank but not by the statistical office).
5. As to the question of how services should be distinguished from goods within the "goods and services" concept of the SNA, about seven eighths of the respondents agreed that this should be done on the basis of several criteria, as proposed in the background document annexed to the

questionnaire. Among these countries, New Zealand stated the tangible criteria as one of the most important and Chile suggested that a cost share element could complement the tangible criteria. Most of the countries that favored the use of several criteria for the distinction between goods and services, also noted that some conventions in this delineation could not be avoided. Only two countries preferred to make the distinction on the basis of a single criterion, while five countries felt that there was no need to separate goods from services.

6. Slightly more than half of the countries that responded felt that the distinction between goods and services should be the same in recording international transactions as it is in the treatment of domestic transactions. One fourth of the countries, while recognizing the usefulness of having the same services concept used in domestic and in external transactions, considered that, for various reasons, there should be some flexibility in this regard. Bulgaria, China, Colombia, France, Japan, Malawi, New Zealand, Senegal, Swaziland, Thailand, and Zambia felt that this identity was either not necessary or hardly feasible.

7. About three fourths of the countries that responded to the questionnaire preferred to have both the merchandise-nonmerchandise and the goods-services distinctions in external trade statistics. Six countries would like to have only the merchandise-nonmerchandise distinction and another six countries only the goods-services distinction. Attention should also be drawn to a terminological problem: some countries, e.g., Sweden and New Zealand, refer to the merchandise-nonmerchandise distinction as goods versus services. Therefore, some caution is to be exercised regarding the information provided on present national practices. Almost half of the countries report they have both a goods-services and a merchandise-nonmerchandise distinction in their statistics. The rest are almost equally divided into those that use only the merchandise-nonmerchandise distinction (17 countries) and those that use only the goods-services distinction (16 countries).

8. As to the wider concept of "services," which includes, in addition to nonfactor services, some factor services and/or transfers and/or sales by foreign affiliates where they are resident, almost three fourths of the respondents were willing to accept using the wider concept in certain contexts but preferred not to label it as trade in services. Ten countries rejected categorically the use of the wider concept, while five countries, Chile, Nepal, Panama, Jordan, and the United States, seemed not to be opposed to the use of the term "services" related to the wider concept; the latter two countries stated that the two concepts should be clearly defined to avoid confusion among users of statistics. New Zealand considered that the wider concept was desirable, but that it should not be called services and should not be used in balance of payments or the SNA. France mentioned that they did not envisage the wider concept useful in a strict balance of payments context.

III. Particular Borderline Cases

A. Processing

9. The Expert Group on External Sector Transactions for the Revision of the SNA (23 March - 2 April 1987) proposed that a distinction be made between processing activity that implied a substantial physical transformation of the goods and all other processing, and that the former be recorded on a gross basis in merchandise trade (trade in goods), while other processing be classified as a service transaction. Two fifths of the respondent countries agreed with this proposal (in a recent OECD enquiry this share was only one fourth), while the remaining countries were evenly divided as regards their preference to classify all processing activity under merchandise trade or as a service. Among the countries that favored the proposal for the split, New Zealand stated that the criteria they use for whether a substantial physical change has occurred or not is whether the commodity code has changed when the goods are reimported. This change in commodity code deserves particular attention according to Austria, since "additional identification possibilities" might be required. Peru proposed a ceiling, based on a percentage of the value of the good, as a reference for determining if the processing implied a substantial physical change.

10. As to present national practices, only three countries (Hungary, Malaysia, and New Zealand) make the distinction along the lines suggested by the Expert Group. About 60 percent of the countries include all processing transactions under merchandise trade, while the rest of the countries treat all processing as a service transaction. Chile includes only the labor cost of processing in services, while the cost of materials added to the initial value of the good is included in merchandise trade.

11. A number of countries referred to the practical (and some to the conceptual) difficulties of separating cases of processing where a substantial physical change to the goods was involved, from other cases. Hong Kong, which records all processing in merchandise trade, objected to the proposed separation based not only on the unfeasibility of obtaining the required information, but also on the undesirable effect that such a reclassification would have in its trade accounts, since the processing transactions are one of its major components. Cyprus, which supported the Expert Group proposal, suggested the desirability of better guidelines in making a distinction between the two kinds of processing activity.

B. Repairs

12. The Expert Group on External Sector Transactions proposed to include repair of investment goods in merchandise trade, while recommending that all other repairs be treated as services. Seven countries (Australia, India, Panama, Turkey, Singapore, Spain, and the United States) supported

this proposal. Hungary, Peru, and Sierra Leone also favored a split, but proposed that the distinction should also be based on other criterion like major repairs versus minor repairs. Norway also suggested to record repairs on movable equipment as services. Cameroon and Chile suggested that the cost of the repairs could be included as services, while the spare parts could be recorded as merchandise trade. The United Kingdom supported the Expert Group proposal in the interests of consistency with the SNA. On the other hand, 18 of the respondent countries proposed that all repairs be treated as services, while one country (Cyprus) proposed that all repairs be included in merchandise trade.

13. In practice, only one country (South Africa) identifies repairs on investment goods along the lines recommended by the Expert Group. Chile includes in services the labor cost of the repair while the spare parts needed are included in merchandise trade. All other countries treated all repairs in a uniform manner, i.e., about two thirds of them included them as part of services, while one third classified them in merchandise trade.

C. Construction

14. There was no disagreement with the proposal to classify construction activity in general as a goods-producing industry. As to the question whether subcontractors produce goods or services to the main contractor, 11 countries expressed an opinion. Nine of these countries preferred to treat subcontractors as goods producers, while Sri Lanka and Cameroon noted that some subcontractors may be considered as service producers.

15. In connection with construction activity undertaken abroad, the first question that needs to be addressed is whether that activity is to be attributed to a resident producer unit, or a nonresident producer unit (i.e., a resident unit in the country where the construction takes place). Where a nonresident status is accorded to the construction activity undertaken abroad, the actual owner of the firm is deemed to have a financial investment or a direct foreign investment in the branch or subsidiary that is undertaking the construction activity. A second question that needs to be addressed insofar as production is assigned to a resident producer unit is whether the construction activity should be classified as part of merchandise trade or as part of services.

16. The current guidelines for delineating resident from nonresident units in respect of enterprises temporarily engaged in production abroad are based on the length of operation of the enterprises, i.e., the one-year rule of operation is invoked as the cutoff point. Five countries (Australia, Canada, Kuwait, Peru, and the United States) prefer to split construction abroad between direct investment (nonresident producers) and services (resident producers). In the case of the United States, the distinction between resident and nonresident producers is based on several criteria, e.g., whether the unit is incorporated abroad, maintains

separate accounting records, has a substantial physical presence (plant and equipment or employees) abroad, pays foreign income taxes, etc. In the case of Canada, construction work undertaken through affiliates is classified as direct investment; in this connection, it is understood that the foreign affiliate is a going concern. If the foreign affiliate was established only for the duration of a specific contract, the entity is considered to be a resident producer and hence the construction activity is classified as a service transaction. Four countries (Cameroon, Colombia, Finland, and the United Kingdom) preferred to treat all construction activity as being undertaken by a nonresident producer (i.e., a foreign direct investment). Eleven countries (Belgium, France, the Federal Republic of Germany, India, Israel, Japan, Mexico, Norway, the Philippines, Spain, and Switzerland) suggested that all construction activity abroad be treated as undertaken by resident producers and classified under services. Poland and Senegal specify that construction materials exported in connection with construction activities abroad should be covered in merchandise trade; however, the rest of the value ("margin") of these construction activities should be treated as services. China, Cyprus (the statistical office but not the central bank), Hungary, and Tanzania were in favor of including construction activity in merchandise trade.

17. As to present statistical practices, only Norway attempts to make a separation of construction activity as between trade in services and the attribution of such activity to a notional resident enterprise abroad (direct investment); however, no attempt is made to split construction activity as between merchandise trade and trade in services. A large majority of countries (85 percent of those reporting) treat construction activity abroad as a service transaction. Five countries (Czechoslovakia, the Dominican Republic, Hungary, India, and Poland) classify construction activity under merchandise trade, while, in general, the United Kingdom treats all construction activity as constituting direct foreign investment.

D. Installation abroad

18. The Expert Group on External Sector Transactions recommended that in all circumstances installation activity undertaken abroad be attributed to the economy of origin of the producer. Currently, only the Dominican Republic distinguishes installation activity involving more than one year and similar activity completed in less than one year. All other countries do not make such a distinction in the case of installation work.

19. Twenty-seven countries treated all installation work abroad as a service activity. Argentina, Hungary, India, and Poland included all installation work in merchandise trade, while, in general, the United Kingdom and Cameroon classified it as part of foreign direct investment. Eight countries reported that currently their statistics did

not include installation activity, while nine respondents indicated that such activity did not take place in their countries.

E. Computer software

20. In background Document 1 entitled "The Concept of Services in Statistics", the suggestion was made that mass-produced software should be included in merchandise (goods) trade, while individualized (customized) software should be treated as trade in services. Three fourths of the replies supported this proposal, although some countries also mentioned the practical difficulties involved in the separation of the two types of software. Switzerland, Colombia, and France preferred to treat all software as services, while Bangladesh, Cyprus (the central bank but not the statistical office), India, Panama, the Philippines, and Sri Lanka (the statistical office but not the central bank) suggested including all software in merchandise trade.

21. As to present national practices, there are 16 countries which already follow the proposed distinction, viz., Argentina, Australia, Canada, Chile, Finland, Hungary, Israel, Malaysia, the Netherlands, (the statistical office but not the central bank), New Zealand, Norway, Panama, Poland, Sweden, the United Kingdom, and the United States. Greece also makes a distinction between software that is included in merchandise and software that is classified as services but uses different criteria for making such a distinction. Eighteen countries (Bahrain, Belgium, China, Cyprus, Czechoslovakia, Ecuador, India, Kuwait, Malawi, Mauritius, Nepal, the Philippines, the Republic of Korea, Sierra Leone, South Africa, Sri Lanka, Switzerland, and Thailand) include all software trade in merchandise trade, and six countries (Austria, the Dominican Republic, France, Paraguay, Singapore, and Spain) cover all software in services.

F. Leasing

22. All countries that responded agreed that operational leasing should be treated as a service. A large majority (19 out of the 24 replies) of the countries also supported the recommendation of the Expert Group on External Sector Transactions that goods exported/imported under financial leasing arrangements be included in merchandise trade. Canada, Cyprus (the central bank but not the statistical office), France, and the Philippines preferred to treat all forms of leasing as a service activity.

23. Present national practices are more diversified than what could be expected from the relative homogeneity in views. Less than one half of the replies (20 out of 45) indicated that countries treat operational leasing as service transactions and financial leasing as merchandise trade. Six countries include operational leasing in services but do not include financial leasing either in merchandise trade or in services.

Replies from 17 countries suggest that they include both operational leasing and financial leasing in services.

G. Merchandising

24. Merchandising is defined in the fourth edition of the Balance of Payments Manual (BPM) 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 merchandising transactions...." The BPM suggests treating merchandising as services.

25. Although no information was collected in the UN/IMF enquiry on views in respect of merchandising, the views of the developed market economy countries on this issue are known from the summary prepared by the OECD secretariat: "All (OECD) countries except France agree with the proposal to record merchandising as a service category. Germany proposes to clearly state in the definition of this item that changes in the stocks of goods owned by the trader (goods purchased but not yet resold) should not be recorded under services but under merchandise trade; in addition, gross figures should be available for bilateral balance of payments comparisons. The United Kingdom raises the question whether to allow differences between the start-period and the end-period stock levels to affect the current balance. Canada remarks that there might be elements of capital gain or losses. The Netherlands point to problems of geographical breakdown."

26. As to present national practices, an overwhelming majority (30 countries) record merchandising as service transactions and only four countries (Bahrain, Belgium, Czechoslovakia, and South Africa) record it as merchandise trade. In 12 countries, no merchandising transactions are recorded in the statistics, either because the transactions did not take place (Canada, China, Maldives, Sierra Leone, and Swaziland) or because data on the relevant transactions are not currently compiled (Hong Kong, India, Malawi, Mexico, Nepal, Norway, and Singapore).

H. Franchising

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

28. The overwhelming majority of the respondents (31 countries) treat franchising as a service activity. Only three countries (Australia, Finland, and Switzerland) exclude franchising from service flows and classify them as income flows. Six countries (China, Hong Kong, India, Mexico, Nepal, and Singapore) do not compile data on franchising, and four countries (Cyprus, Luxembourg, Maldives, and Sierra Leone) report such transactions to be non-existent in their cases.

I. Revenue of self-employed and contractual home workers

29. Practically all countries that responded agreed with the proposal made that revenue of self-employed persons should be treated as a service. As to the treatment of the contractual home worker, there seems to be a general agreement that this should be decided according to the type of contract: if it is a labor-type contract, the revenue should be treated as income from employment; if it is a subcontract with self-employed persons, the revenue should be classified as a service or a good depending on what is produced by the person in question.

J. Authors' fees versus copyrights

30. According to the SNA these two flows are to be treated differently. The sale by the author of his/her "writing services" (in the form of a manuscript) would be classified as a service payment analogous to the fees of a self-employed consultant. Conversely, periodic payments for the right to publish copyrighted material are to be treated as royalty payments (property income). Furthermore, a straightforward once-for-all payment to the author for all rights of publishing is proposed to be treated as a payment for the purchase of an intangible asset (paragraph 7.86 of the SNA). Since, in many cases, the different types of payments are difficult to distinguish (e.g., the transfer of the rights may take an explicit form, but it also may be implicit), and since the SNA does not go into the details of borderline cases, the existing recommendation may be subject to different interpretation and would require further elaboration.

31. Views on this issue differed substantially. Australia, Canada, the Federal Republic of Germany, and the United Kingdom suggested that further studies need to be undertaken on this subject. Bangladesh, Colombia, Mexico, Norway, Singapore, and the United States felt that, in part, authors' fees should be treated as a nonfactor service and that the portion representing periodic payments should be treated as property income. China proposed that the payment for copyrights be classified as an unrequited transfer. Cyprus, Hong Kong, Senegal, and Spain pointed to the difficulties of separating periodic payments for the use of copyrights as opposed to the one-time payment for the acquisition of such rights. The Philippines suggested that in all cases transactions relating to

copyrights be classified as services, while Hungary favored treating both authors' fees and copyrights as property income.

32. With regard to national practices, a number of countries refer to the difficulties of identifying the different types of payments. A large majority of the respondents (40 countries) include authors' fees in services, four countries (Cyprus, Finland, Hungary, and the Netherlands--the statistical office but not the central bank) treat them as income flows, while Malawi, Maldives, Sierra Leone, and Trinidad and Tobago indicate that they had no transactions to be reported. In most countries (37) that responded to the questionnaire, copyrights are classified as service transactions. However, countries like Australia, Finland, Luxembourg, the Netherlands, New Zealand, and Switzerland classify payments for the use of copyrights as income flows.

K. License fees

33. License fees, according to SNA rules, are to be treated as income from property and thus are excluded from service flows. At present, however, mostly for practical reasons, this treatment is followed by only seven countries (Australia, Finland, Luxembourg, the Netherlands, New Zealand, Norway, and the United States). Two countries (Hong Kong and Nepal) do not have any transactions to report in respect to license fees, while the majority of countries (39) treat license fees as services.

L. Direct purchases by households

34. As to whether or not a goods-services distinction could/should be made within the flow "direct purchases by households", most of the replies were negative. Altogether, 37 countries were against this distinction, 17 of them argued on feasibility grounds, six did not consider this separation worthwhile, while the remaining countries were simply against this distinction, presumably because they considered it neither worthwhile nor feasible. Only twelve countries considered the distinction both worthwhile and feasible, and two countries considered it worthwhile and feasible for exports only.

35. As to present national practices, only Belgium, Malawi, Sierra Leone, South Africa, Tanzania, Thailand, and Zambia separate goods from services within the flow "direct purchases by households" and include the goods component in merchandise trade and the remainder under services. Most countries (34) include the total of direct purchases by households under services. Five countries (Australia, Canada, Ecuador, Greece, and Singapore) do not provide for a category for direct purchases by households in their statistics.

M. Direct purchases by extraterritorial bodies

36. Most of the countries responding (29 out of 43) treat all purchases by extraterritorial bodies as services. Only Bahrain, China, Finland, Mexico, the Netherlands (the central bank but not the statistical office), Tanzania, and Sierra Leone distinguish goods from services within this flow and include the first component in merchandise trade and the second component in service trade. Six countries (Australia, Canada, Czechoslovakia, Ecuador, Greece, and Malawi) do not show a separate category for purchases by extraterritorial bodies in their statistics, two countries (Israel and Maldives) show this flow as nonexistent and three countries (Bulgaria, Nepal, and Philippines) do not compile these data.

N. Transport, insurance connected with exports and imports of goods

37. According to both the SNA and BPM, exports are to be valued at f.o.b. prices. However, the existing recommendations on valuation of imports differ: the SNA proposes c.i.f. and the BPM proposes f.o.b. valuation. Information was collected only on the method of valuation of imports (since it was assumed that the valuation of exports is fairly uniform).

38. Twenty three of the 59 responding countries value imports on both a c.i.f. and an f.o.b. basis. Twenty countries value only on an f.o.b. basis, while 16 countries apply only a c.i.f. valuation.

39. The Expert Group on External Sector Transactions recommended that, in the revised SNA, imports be shown on an f.o.b. basis in the external transactions account. This would provide for an alignment of the SNA with the BPM in this regard.

O. Insurance

40. According to the SNA, the output of the insurance industry is measured in terms of the service charge. In the case of casualty insurance, the service charge is equivalent to the difference between the premiums received and the claims paid (paragraph 6.37 of the SNA). In the case of life insurance, the service charge is considered to be equivalent to the excess of premiums received over the sum of claims paid and the net additions to the actuarial reserves, excluding the interest on these reserves which accrues to policy holders (paragraph 6.38 of the SNA). The service charge associated with a given type of casualty or life insurance is to be allocated among the various classes of policy holders in proportion to the amount of premiums they pay. Consequently, the amounts to be reflected as external transactions in insurance services would represent that part of the total service charge of the insurance industry that corresponds to the share of premiums received by the insurance industry from nonresident policy holders.

41. The BPM, concentrating on the treatment of insurance services related to external transactions only, proposes a simplified solution: premiums minus claims should be recorded as exports and imports of insurance services. (The BPM labels this difference as net premiums; however, it should be noted that in the SNA the term "net premiums" is used for premiums minus service charge and not for premiums minus claims.) The BPM recognizes that in this way the amount recorded "may reflect not only a service charge but also capital gains (losses) and prepayments (postpayments). Because of the practical impossibility of sorting out these various elements, however, net premiums are customarily taken to be the measure of the insurance service, and that treatment is recommended by this Manual" (paragraph 263 of the BPM).

42. Most of the responding countries (34) follow the BPM convention. Seven of them apply the BPM method on a gross basis (premiums and claims received were exports, premiums and claims paid were imports), and another seven countries apply the BPM method on a net basis, while the remaining countries do not indicate whether the BPM method is applied on a gross or a net basis. The United Kingdom's practice differs slightly from the BPM proposal: in measuring exports, overseas expenses as well as claims paid are deducted from premiums received. Four countries (the Federal Republic of Germany, at least in its national accounts practice, Hong Kong, Maldives, and the Philippines) follow the SNA proposal; another seven countries (Australia, Chile, Finland, Panama, the Republic of Korea, Sierra Leone, and Spain) follow broadly both the SNA and BPM recommendations. In Czechoslovakia and Bulgaria all insurance transactions are recorded as transfers; in Hungary, the nonmerchandise insurance transactions are treated as transfers.

43. The question of the appropriate treatment of the whole complex of transactions relating to the insurance industry is being examined by the Expert Group on the Revision of the SNA. Specifically, in the meeting dealing with financial flows and balance sheets several of these issues will be addressed, the conclusions of which would provide for a harmonized treatment of insurance transactions, both in the revised SNA and in a revised BPM.

P. Other issues not specifically addressed in the questionnaire

44. Several countries suggested the need for a reappraisal of the treatment of imputed banking output. The ongoing revision of the SNA will--in all likelihood--modify the treatment in this regard, which will also have some repercussions on the measure of services in the external context. According to the present SNA, all interest paid/received should be treated as property income flows (excluded from both merchandise and service trade).

45. Some of the replies suggested that more clarification be given to the delineation of capital gains and losses from trade in financial services. Some aspects of this borderline issue were dealt with in the OECD questionnaire, where, for example, a number of countries supported the proposal of the secretariat in that the capital gains and losses of professional dealers should be treated as payments for services. All these questions, however, require further study.

46. Australia commented on the problem of "bundling" of goods and services (and services and income). It preferred the criteria adopted by the United States that reads "when a sale or purchase consists of both goods and services, or of several services that cannot be unbundled (i.e., the goods and/or services are not separately valued), it should be classified based on whichever accounts for a majority of the value or on the basis of the reporter's customary practice." Austria also commented that "in view of their economic significance, tourism and flows connected therewith might be discussed more thoroughly."

IV. Obtaining Basic Data on Trade in Services

47. As to the main sources of data used in compiling statistics on trade in services, countries are divided as to whether their statistics are based on exchange records or on surveys of enterprises (establishments). In 16 reporting countries (Austria, Bangladesh, Belgium, Chile, the Dominican Republic, Greece, Malaysia, Mauritius, Nepal, Norway, Spain, Sri Lanka, Sweden, Tanzania, Thailand, and Trinidad and Tobago) the data are obtained entirely (or mainly) from exchange records. In 11 countries (Canada, Ecuador, Hong Kong, Luxembourg, Mexico, Panama, Poland, Singapore, South Africa, the United Kingdom, and the United States), the only (or main) sources of data are surveys of enterprises (establishments). Nineteen countries (Australia, Bulgaria, Cameroon, Colombia, Cyprus, France, Finland, the Federal Republic of Germany, India, Israel, Japan, the Netherlands, New Zealand, Nigeria, Peru, Senegal, Swaziland, Venezuela, and Zambia) base their statistics on a combination of the two main sources. More than one third of all the responding countries also mentioned administrative records as an important source of data.

48. Relatively little information has been obtained on the reliability and completeness of the data on trade in services. Almost half of the responding countries expressed general or particular dissatisfaction in connection with the quality of the data they have on trade in services. Especially major concern was expressed by Sri Lanka and Trinidad and Tobago.

49. As to the availability and quality of data on service transactions between foreign affiliates and parent companies, practices and views differ substantially. Either the nonavailability of the relevant data or very great difficulties in obtaining such information were encountered by eleven countries (Austria, Colombia, Greece, Italy, Jordan, Malaysia, Norway, Panama, the Philippines, Thailand, and Trinidad and Tobago). Partial information or substantial difficulties (and therefore limited reliability) were reported by fourteen countries (Australia, Bahrain, Canada, Chile, Ecuador, Hong Kong, Japan, Kuwait, Luxembourg, Mexico, Nepal, New Zealand, Peru, and Senegal). Eight countries (Belgium, Cameroon, India, Nigeria, South Africa, Sweden, the United Kingdom, and the United States) either mentioned no particular difficulty or expressed satisfaction with the quality of the data on foreign affiliates. The United States explicitly stated that these intracompany flows are of no concern in their case. These data are obtained by surveys and can be disaggregated by industry of company but not by type of service. The pricing of these transactions is "being monitored by tax authorities, auditors and regulatory bodies; these prices represent transactions prices and should be so recorded". In Swaziland the problem of recording transactions between foreign affiliates and parent companies is minor, since the flows in question are negligible in size.

50. The most detailed information on the problems of the intracompany transactions was given by Australia. "Data on resident-nonresident transactions in services between parent enterprises and affiliates are covered (indistinguishably) in the monthly collection from banks of foreign receipts and payments and, in future, will be covered (indistinguishably) in the proposed new survey of Australia's international trade in services. Some data on these services have also been collected for many years in our Foreign Investment Surveys. From contact with respondents we are aware of a number of difficulties in accurately measuring services transactions between affiliated companies. Examples of these difficulties are:

While netting of accounts payable and accounts receivable usually occurs in making settlements, the component transactions are generally recorded individually in company accounts. This indicates that a collection based on bank records cannot provide accurate measures of services imports and exports separately. It also suggests that a direct collection from enterprises may be able to provide such measures. These observations, of course, apply not only to transactions between parent enterprises and affiliates but to external transactions generally.

Cases have been identified of intracompany transactions for which explicit payments are not made or for which payments have a nominal value only.

A mix of services (advertising, management, research and development) and income items (technical know-how and trade mark rights) can be provided by a parent enterprise to its affiliate(s) and the only payment for these may be labelled a 'royalty' (and treated as such by the tax system). The 'royalty' payments in such cases are generally remitted regularly on a monthly or quarterly basis and are usually calculated as a percentage of the value of turnover. The payments cannot be related to the component services and income items nor can they be related to the timing of the provision of the services.

Fees for financial services can be charged by the imposition of a higher interest rate on a loan. In such cases it is impracticable to separately value the services transaction from the income item. Again, this practice applies not only to transactions between affiliated companies but also to transactions between unaffiliated companies."

V. Summary Conclusions

51. About one half of the countries surveyed responded to the joint questionnaire. Some of the answers were very detailed, indicating that improvements in statistics on international trade in services is a major concern for some countries. About one half of the replies came from central banks and the rest from national statistical offices. (It should be noted that in a number of countries the statistical offices are the balance of payments compilers). The greatest response rate was from the developed market economies. Out of the 24 OECD countries, 21 completed the questionnaire. The response ratio was relatively high in Asia (16 countries); in other developing regions the number of replies was low (11 from Latin America and the Caribbean and 10 from Africa). There were replies from 5 countries with centrally planned economies.

52. With regard to some of the conceptual issues raised in connection with international trade in services, there was a fair degree of convergence of views. Almost every country agreed that the concept of services used should be consistent with the SNA. Responses from the majority of countries indicated that the concept of services underlying external transactions should be consistent with that used for domestic transactions.

53. Moving, however, from general to particular methodological issues, the diversity of views is substantially greater. Not only do views differ greatly on the treatment of some particular items (e.g., processing, repairs, construction abroad) but to some extent the views on the details seemed to be in conflict with the general principles expressed by the same country, e.g., on the consistency requirement with the SNA, or on the relationship of services in domestic and external transactions. This

might be reflecting the fact that both the SNA and the BPM are being revised simultaneously and countries are somewhat reluctant at this stage to change current practices in some areas.

54. Even greater differences are discernible in current practices. On the whole, the international comparability of data on international trade in services is at present limited. Differences stem both from practical considerations (some countries are able to observe or separate some flows, others are not) as well as from reasons connected with methodological considerations or with traditions. Differences affect not only the borderline between goods and services (merchandise and nonmerchandise trade) but also between goods and services and other flows, e.g., income flows.

55. Only limited information was obtained on the coverage and reliability of data on international trade in services. About one half of the responding countries did not provide information on compilation practices, and it can be assumed that the statistical difficulties in the nonresponding countries are even greater. From what could be gleaned from the replies to these questions, coverage, reliability, and data sources are a major concern in a large number of countries and there are many problems still to be resolved in this field.

56. The collection and processing of the country views and practices is only the first step in the process of improving the data base on international trade in services. Work needs to be continued on the:

- (a) collection of additional information (mainly from developing countries);
- (b) discussion of outstanding methodological problems;
- (c) preparation of manuals and guidelines on the compilation of data on international trade in services, including the elaboration of an international classification standard; and
- (d) provision of technical assistance to developing countries in organizing or reorganizing their collection procedures relating to statistics on services.