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Statistics on Services: User Needs Emerging  
from the Uruguay Round Negotiations on Services\*

by

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## I. Introduction

As is well known to members of this group, interest in services on the part of both policy-makers and analysts has increased substantially in the last decade. The reasons for this include the following: (1) in many countries services now account for most of employment (around 70 per cent in some industrialized countries) and GDP (often 60 per cent or higher); (2) most employment growth in recent years has been generated by services; (3) technological innovations are creating numerous new services and are making many types of services increasingly tradable across frontiers; and (4) the production of goods and services are becoming increasingly interlinked. One result of the greater attention given to services is the fact that services were included for the first time in a multilateral trade negotiation, the ongoing Uruguay Round. Since February 1987, services have been the subject of discussion in the Uruguay Round's Group of Negotiations on Services (GNS).

The goal of the Uruguay Round negotiations on services is to agree on a multilateral framework embodying a set of rules and principles that will serve as the basis for the progressive liberalization of international transactions in services, the economic growth of all countries and the development of developing economies. During the first two years of negotiations, discussions followed a five point agenda: (1) defining trade in services for purposes of a multilateral agreement; (2) possible concepts, principles, and rules applicable to international service transactions; (3) sectoral coverage of an agreement; (4) identification and discussion of existing arrangements and disciplines; and (5) measures and practices contributing to or limiting the expansion of trade in services. Statistics on international transactions in services have been a recurring subject for discussion in the GNS, and are usually discussed in the context of the first agenda item. While all participants in the GNS are now aware that data similar to that existing for merchandise trade does not exist -- and are unlikely to become available in the foreseeable future -- there is intense interest in improving the statistical database.

During a Ministerial "mid-term" review of the Uruguay Round held in Montreal in December 1988, a text was agreed upon that set out guidelines for the future work of the GNS. The following conclusion emerged as far as statistical needs were concerned: "Improved availability of statistics relating to trade in services will assist in assessing the implications of rules and principles and the interests of participants in specific sectors. Further work on available statistical data, in particular their disaggregation, is essential. The GATT Secretariat [should attempt] to obtain the most disaggregated and complete information possible on classification, trade flows and features of trade in services."

The purpose of this paper is to discuss service statistics from a user (GNS) perspective. In what follows, the focus will be on a number of the data needs that have come up in the context of either GNS discussions or attempts by the GATT Secretariat to respond to concerns raised in the GNS. Some of these are to some extent related, while others stand alone. As balance-of-payments (BOP) data are the primary source of trade statistics on services, most of the following remarks pertain to that source. However, interest is not limited to trade per sé -- i.e. transactions between a resident of one country with nonresidents -- but also focuses on sales of specific services on both a country and a global basis. Consequently, the following discussion of data needs is organized into two parts. The first (Section II) focuses on trade, while the second (Section III) focuses on sales. Concluding remarks are in Section IV.

## II. Data Needs: Trade in Services

The various data needs and gaps are discussed in order of decreasing importance, the ranking being an informal one determined by discussions with colleagues and a knowledge of the GNS discussions. The first four of these points are arguably of roughly equal importance.

1. Classification - A first priority for negotiators is to have at their disposal a nomenclature that allows them to identify the possible activities or products which could be considered to constitute a specific service industry and which might be included in a multilateral agreement on services. Fortunately, in large part thanks to the efforts of the Voorburg Group, such a nomenclature is presently available in the form of the provisional CPC. The CPC has been used by the GATT Secretariat as the basis for a list of the "universe" of service products requested by negotiators.

2. Consistency and Coverage - Negotiators want information on the relative importance of countries in world transactions of services, as well as the relative importance -- by country and for the world as a whole -- of specific services. One problem that emerges when drawing upon IMF BOP data and constructing tables providing such information is that definitions employed by countries appear to vary. That is, the user of BOP statistics cannot be certain that what is reported, for example, for exports of port services by country A consists of the same items as reported exports of port services by country B. Of course, often an impression can be obtained from the technical notes, but this does not help much if the goal is to do cross-country and cross-regional comparisons. This is the case especially for the category "other goods, services, and income."

A related issue is that at virtually any level of aggregation, some nations may not report information on a certain item. For example, shipment exports are not reported by certain major shipowning countries (e.g., Greece) while passenger services are not reported by many countries. This results in biased figures when data are added across countries to arrive at regional totals, or the total for developing countries, and so forth. Discrepancies also arise when comparing world imports for a category with world exports, which is another indicator of the problem. Another coverage problem is that for certain countries,

publicly available statistics on trade in services does not appear to exist. A major example is the USSR. While Eastern European countries and the USSR report merchandise trade statistics, with the exception of Poland, Hungary, and Romania for certain non-merchandise items, there is no readily available source for their non-merchandise trade with each other and with the rest of the world. This biases downward world trade in services and further distorts cross-regional comparisons.

Telecommunication and postal services are often the carrier (transportation technology) used to move services from the point of production to the point of consumption. Data on both the volume and value of services transported by these media are virtually non-existent, implying that recorded figures for trade in services are likely to be subject to a significant downward bias. Also, to the extent that trade data is reported, often the numbers reported are a function of accounting conventions and do not reflect actual payment flows. Often services will be traded within a firm that has establishments, affiliates, or joint ventures around the globe. Such transactions constitute trade, but little is known about their magnitude. Essentially the same kind of problems arise as were just discussed, but difficulties are augmented due to the fact that there may not be any payments for services rendered, or that prices are arbitrary. For example, intrafirm transborder data flows constitute trade in services. However, apart from payments associated with the leasing of communication lines, it is unlikely that much of the service flows that are transmitted will be recorded.

3. Trade by Origin and Destination - This information is not available on a comparable and detailed basis. Some countries report information on the direction of trade by geographic region or by major trading partner, but most countries do not do this. The result is that it is often very difficult for many negotiators to determine who their major trading partners are, and how trade flows have been evolving over time.

4. Disaggregation - It sometimes comes as a surprise to those who are unfamiliar with service statistics that the amount of detail or disaggregation for data on trade in services is very limited. Among the tasks facing negotiators are to examine the implications of the application of various concepts, rules, and principles such as national treatment, non-discrimination, or market access to various sub-sectors of trade in services. Ultimately, an additional and very important task is to decide on whether or not a sector/product should be covered by a multilateral framework agreement. To do this it would help to have an idea of the magnitude of trade in specific services at a detailed level. However, BOP data are highly aggregated for most countries. Lack of disaggregated data is perhaps the most frequently lamented item when discussions turn to statistics.

The four issues that have just been touched upon are important in terms of the negotiations because lack of comparable and comprehensive information makes it more difficult for participants to exchange "concessions." For example, identification of principal suppliers and demanders of specific services may be a pre-condition for negotiators to agree on whether a service sector should be included in an agreement. In general, comprehensive and consistent data will be required to monitor the effects of commitments undertaken by participants in the context of a multilateral agreement on services. To give another example, without more reliable and detailed statistics, requests addressed to the GATT Secretariat to analyse the effects of barriers to trade will be difficult to meet.

The following data needs, while certainly relevant to discussions in the GNS, can be considered to be of lesser priority than the first four. In large part they constitute problems that emerged in the context of the preparation of background documentation by the GATT Secretariat.

5. Transparency - Even if one could abstract from problems of coverage and consistency, it is generally unclear to the user how "good" trade data is on either a sector or a country basis. Obviously, some service figures

will be reasonably accurate insofar as statisticians will have a fair amount of confidence that the reported figure is within x% of the "real" number. However, for other items the confidence in the number reported in the BOP will be much lower. Currently, there is no way for a user to determine which statistics can be used with some confidence and which are more in the nature of guesstimates.

In general, it is often not clear how numbers reported in the BOP were derived, what they are based on, what methodologies were used, etc. Furthermore, often wide discrepancies exist between different sources. For example, travel exports for some countries as reported by the World Tourism Organization differ significantly from those reported by the IMF. In such cases, which figure should be considered to be more reliable?

6. Trade data on a volume basis - BOP data on non-merchandise trade is only available on a value basis. As is well known to this group, the lack of volume and quality adjusted data makes it very difficult to determine what proportion of growth in a given year is due to inflation, what the role of changes in quality was, etc.

7. Comparability across time - When comparing developments in trade in services over time at both the country and the global level, one problem that arises is that methodologies and definitions employed by countries may vary between different years. For example, at some point the methodology for estimating travel statistics may be changed. Often, countries may have improved the sectoral coverage of their data collection efforts. An example pertains to current U.S. collection of trade statistics for many service activities that had never been reported before (such as exports of health services). The implication is that it will be very difficult to determine to what extent an increase in recorded trade in services for a specific time period is "real," as to some extent it may simply be an artifact of improvements in data collection techniques.

8. Concordances - It is quite difficult, and for some non-merchandise components of the current account virtually impossible, to relate service trade statistics to domestic production data. To some extent this is a function of the fact that different countries include different items in various components of the current account. More important is that trade data are simply too aggregated, so that concordances have little meaning. However, even if disaggregated trade data existed that was consistent across countries, an additional difficulty would be that trade statistics include items that do not appear in the national accounts. Examples are official flows and expenditures by travellers.

9. Separating goods from services - The question of what could be a definition of a service, as well as the definition of trade in services has been discussed in previous meetings of the Voorburg Group. While most negotiators realize that service sector statisticians are unlikely to come up with a comprehensive definition and unambiguous criteria for distinguishing goods from services and merchandise trade from the various components of non-merchandise trade, it is troubling that both goods and services are included in certain non-merchandise components of the current account. For example, travel includes expenditures by nonresidents when visiting a country for business or for holidays. Whether the "travel sector" is to be considered a service sector for purposes of an agreement is still subject to discussion. Statistically, however, negotiators have no choice but to focus on all expenditures by travellers. For both negotiators and analysts, it would be very helpful if these expenditures could be broken down into a service and a goods component. Similar observations pertain to port services, which tend to include goods such as fuel for ships and airplanes.

### **III. Data Needs: Sales**

For the provision/sale of a service to be feasible it is often necessary for the producer and the consumer to interact. This implies that cross-border trade analogous to merchandise trade is frequently



impossible. Instead, either the provider needs to move to the location of the consumer, or vice versa. In practice such movement may be short or long term. BOP conventions imply that if such movement is for a period longer than one year a change in residency status is considered to have occurred. The result is that sales by entities that have changed their residency will no longer be registered as trade. In the Montreal text, it was agreed that work on the definition of trade in services for purposes of a multilateral agreement should proceed on the basis that, in addition to cross-border trade in services, the provision of services involving the cross-border movement of consumers and production factors could be included as long as such movement is deemed to be essential for delivering the service.

Opinions vary as the relative priority and importance that should be given to improving data on sales of services as opposed to trade in services. Of the four data needs/gaps noted below, the first one is probably of equal importance as the first four trade-related data needs discussed above.

1. Sales via Factor Movement - Sales to nonresidents that are made via movement of consumers in principle should be captured in the travel account of the balance of payments, even though a number of transactions may not be registered. Thus, the main implication of a broader definition of "trade" for purposes of an agreement on services is that separate information will have to be collected on sales of services by affiliates. To our knowledge, currently such information is reported only by the United States.

2. Mode of Delivery - As indicated in the foregoing discussion, often producers may have a choice between a variety of ways of providing (selling) services abroad. A problem for negotiators is that very little quantitative information is available regarding the modes of delivery that are currently employed for various services. To a large extent this is

because such information is simply not collected. For example, even if a sale of legal advisory services by a French firm to a nonresident is registered in the BOP, it will not be known whether the service was performed via telecommunication links, via the movement of the demander, or via the movement of the provider.

3. Global market size - Negotiators would like to have statistics on the size of the existing and potential global market for specific services. This would help them to determine the relative importance of various services in the world economy and the benefits of liberalization of market access. Currently such data does not exist on a disaggregated basis. All that can be done presently is to use national accounts statistics to obtain an estimate of either value added or gross output on a 1-digit ISIC basis. Obviously, this is not very helpful if the question is to determine the global market for advertising or accounting services. Also, while many countries report data on a 1-digit ISIC basis for value added and gross output, many others only report value added data. As gross output is one indicator of "market size," it would be useful if this was available for at least all of the major economies in the world.

4. Concentration Ratios - Some negotiators are concerned about the global dominance (market power) of large firms in certain service sectors. Thus, they would like to know what proportion of the global market is captured by the five or ten largest companies worldwide. While information may exist for certain service activities concerning the largest companies, and perhaps their worldwide sales, the lack of data on global market size makes it very difficult to calculate the desired ratios.

#### IV. Concluding Remarks

To a large extent the foregoing constitutes a rather lengthy -- and for some no doubt familiar -- litany of problems. Of the various data needs, the first four issues pertaining to trade statistics and the need

for data on sales by affiliates are those to which most priority is accorded. Given the constraints of a budgetary nature facing statistical offices worldwide, as well as the time constraints confronting negotiators in the GNS, an obvious question is whether and how fast one may expect the situation to improve. As far as the current negotiations are concerned, it appears clear that major improvements cannot realistically be expected. However, as noted above, one major need from a negotiating perspective has already been met: the availability of a classification of a universe of service products. Also, the work that is proceeding in the context of the EC and the OECD on improving the consistency, comparability, and disaggregation of trade statistics is of great relevance. The same can be said of improvements made on the national level by certain countries.