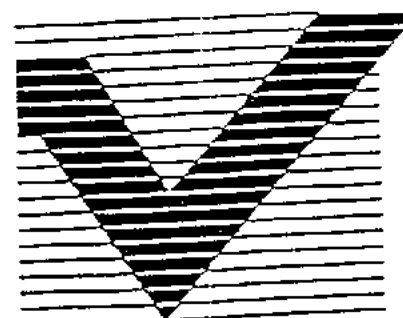


TRADE IN SERVICES AND DATA COLLECTION

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Introduction

The demand for reliable, exhaustive and detailed statistics on trade in services is growing. At the same time, there is a trend towards trade liberalisation and facilitation. Statistics on trade in services in Finland have been based on administrative registers of the Bank of Finland. Originally, data were collected for exchange regulation and control. It is not surprising that in this situation the interest of statisticians has turned to the complementary and alternative systems of data collection.

The aim of this paper is to describe the present reporting system of statistics on trade in business services. In addition to data collection of the Bank of Finland, also a pilot survey has been conducted by the CSO. Some remarks related to data collection will be reported.

Data sources of the Services Account in Finland

Traditionally, the compilation of statistics on trade in services and other international transactions of the Current Account of the Balance of Payments in Finland has relied on administrative records.

The compilation of the trade account is based on foreign trade statistics of the National Board of Customs. The foreign exchange statistics of the Bank of Finland form the basis for the services account and especially for information on trade in business services. In compilation of the transport account, the data collected and transmitted by the CSO are used. The main data source consists of statistics on maritime transport of the National Board of Navigation. These statistics are based on the direct business survey being addressed to the Finnish shipping companies. Data collected from the Finnish airline company - Finnair - and from the National Board of Civil Aviation as well as data collected from the National Board of Railways are, among others, also used.

Data on trade in business services are based mainly on the foreign exchange statistics and, to some extent, on other information collected by the Bank of Finland. Exceptionally, data on insurance services are based on annual business survey made by the CSO jointly with the Ministry of Social Affairs and

Health and addressed directly to the insurance companies.

The structure of the Current Account in selected years is presented in Annex 1. More detailed data on trade in services from year 1988 are presented in Annex 2.

Data collection of trade in business services for foreign exchange statistics

The existing obligation to give information about the exchange transactions is based on the Exchange Law from year 1985. According to this law, all resident operators are obliged to give the Bank of Finland all information, which is needed for controlling the observance of the law or for statistical purposes. Due to the liberalisation of exchange control, the major part of information collected on grounds of this law (e.g. reports of the service transactions) serves a purely statistical purpose at present.

The Finnish banking system implies that all the receipts from and payments to non-residents have to be dealt with the authorized foreign exchange banks. In practice, all the resident banks (incl. offices of foreign banks established in Finland) are regarded as authorized banks.

According to the directions of the Bank of Finland, the buyer or seller of foreign exchange has to fill in a form in connection with the transaction. The transactions should also be reported when practice of set-off is used or when payments go through foreign exchange accounts. The enterprises, which have opened an account with a bank abroad, are also obliged to report transactions from accounts with the non-resident banks to the Bank of Finland.

The declaration forms of payments include, among other things, following information:

- identification of the resident operator (name, address, Organisation Number or personal identification number)
- partner country
- dependence of resident operator on non-resident counterpart (non-affiliated, affiliated or parent company)
- date of the transaction
- reason for transaction
- transaction code (to be filled by the authorized bank)

- foreign currency and amount paid
- licence number (if payment is subjected to licence)
- registration number for filing.

The banking system in Finland is highly automated and based on the on-line connections. Magnetic tapes containing data from the largest authorized banks are delivered to the Bank of Finland daily.

However, the responsibility for reporting tends to shift more and more from the authorized banks to the enterprises, when netting and automated payment systems are becoming general.

At present, nearly all data on international transactions received by the Bank of Finland are transmitted in machine-readable form. The printed forms are needed only for error control and they have meaning in the juridical sense.

The main shortcomings of foreign exchange statistics related to data collection of trade in business services

The Finnish reporting system is based rather on payments than transactions. The quality control and reporting directions of the Bank of Finland, concerning e.g. netting of transactions, practice of set-off and use of accounts with the non-resident banks, improve the quality of these statistics to some extent.

The coverage of these statistics is decreasing due to growth of the Finnish enterprises' direct investments abroad. Only some part of service transactions between affiliated and parent companies gives rise to payments recorded in foreign exchange statistics.

When the enterprises are simultaneously reporting transactions of both goods and services, the receipts and payments of trade in services tend to be recorded as merchandise trade. According to some estimates as much as one third of annual service receipts has originally been wrongly recorded to merchandise trade. The Bank of Finland and the National Board of Customs try to develop the methods to separate the services transactions from merchandise trade.

The coding of transactions is problematic and has an effect on the accuracy of these statistics. The authorized banks are obliged to classify transactions according to the list of codes confirmed by the Bank of Finland. In some cases, the amounts representing several transactions have been "bundled up" to only one payment which has been coded as "miscellaneous services". At present, there are only eight codes in use for trade in business services. Earlier, number of codes was greater. Little by little, the authorized banks began to use only some codes and the use of code "miscellaneous services" became general. Three years ago, the Bank of Finland revised the list of codes. The number of codes was decreased, the code "miscellaneous services" was abandoned and a new code "overhead costs of affiliated companies" was introduced.

For the time being, no data by kind of economic activity have been produced. As a matter of fact, this is a problem due to data processing rather than data collection. In principle, it is possible to classify transactors (the reporting enterprises) according to the kind of activity classification with the help of the Organisation Number and by using the General Register of Enterprises and Establishments. In practice, more advanced methods of data processing of the Bank of Finland are required to produce such data.

Pilot survey

According to the statistics of Finland's Balance of Payments, the share of services in current account transactions in the 1980's has increased. At the same time the balance in the service account has weakened. In the beginning of 1980's, Finland had a marked surplus in the services account. First time in 1988, the services account showed deficit. The travel account has been negative since 1982. In 1988, also trade in business services showed a marked deficit for the first time.

The Bank of Finland and the Ministry of Trade and Industry became concerned not only about this development but also the quality of statistics on trade in services. These authorities suggested to launch a pilot survey relating to trade in business services of enterprises. The survey was carried out by the CSO in 1988.

The pilot survey was designed to capture detailed information on trade in business services directly from the enterprises. The main emphasis was given to exports of business services, which tend to be underestimated in foreign exchange statistics. Information on imports of business services was also collected.

The questionnaires were addressed to the largest and most important enterprises engaged in trade in services from the following industries: manufacture; wholesale trade; agencies; technical, data processing and other consulting services and advertising offices. Selection of the enterprises to be surveyed was based mainly on information from industrial organisations. Unfortunately, no information from the Bank of Finland concerning exporters or importers was available. Total number of surveyed enterprises was 562, of which 418 answered the questionnaire. The coverage of the survey measured by turnover varied from 25 to 80 according to the industries.

Some remarks

The results of the survey were interesting. New data on the detailed structure of trade in services as well as some data on transactions between affiliated and parent companies were published.

It has often been noticed that international trade in services is highly concentrated. So, it was expected that a relatively good coverage of data on exports of business services will be reached by addressing the questionnaires to the most important exporters of services. Due to the survey methods, it is not possible to measure properly the coverage of this survey by the share of service exports or imports. However, with great reservations, some indication can be obtained. Total income of business service exports of surveyed enterprises amounted to 40 per cent of the total receipts of trade in business services reported in foreign exchange statistics. The respective share of expenses/payments was 20 per cent.

The enterprises have much more difficulty in giving detailed data on imports than exports. Simultaneous collection of data on both exports and imports of services with a single questionnaire was not regarded as successful.

Enterprises engaged in trade in business services are not necessarily characteristic producers of traded services. According to the pilot survey, exports of advertising services of the 22 largest advertising offices amounted only to 5-6 per cent of the total receipts of advertising and marketing services in foreign exchange statistics. Producers of computers and other industrial enterprises are typical exporters of data processing services. In general, the industrial enterprises are very important exporters of business services. The same conclusion has also been made in other countries. In Finland, exports of technical consulting services are clearly concentrated in enterprises which are typical producers of these services, even if technical services are exported by industrial enterprises to some extent.

Comparison of data on enterprise level

Data of the pilot survey were compared with data of foreign exchange statistics also on enterprise level. The number of identical enterprises picked out to comparison was 51. According to the survey, exports of business services of these enterprises amounted to 39 per cent and imports to 9 per cent of the total exports and imports of surveyed enterprises.

TABLE 1: Trade in business services, 51 identical enterprises, 1987, million FIM

| | income/receipts | expences/payments | difference |
|-----------------------------|-----------------|-------------------|------------|
| pilot survey | 943,5 | 115,6 | 828,9 |
| foreign exchange statistics | 449,9 | 610,6 | -160,7 |
| difference | +493,6 | -495,0 | |

Concerning these 51 enterprises, the amount of exports according to the pilot survey was twice as much as the receipts of trade in business services recorded in foreign exchange statistics. Surveyed imports amounted only to one fifth of payments.

The difference of the figures describing exports is more surprising than the difference of import figures. The before mentioned shortcomings of foreign exchange statistics have surely an great effect on these results.

Differences can also be explained by the fact that the data of the pilot survey are on accrual basis (transactions) while the data of foreign exchange statistics are on cash basis (payments).

The reporting system of the management and operational accounting of the Finnish enterprises can also explain these differences. Usually, the development of exports is carefully followed and willingly reported also in public. The enterprises engaged in foreign trade have detailed data on income and invoicing, exported commodities, clients, markets etc. On the other hand, expenses of acquired services incl. imported services are usually carried to account without detailed specification of origin country.

Discussions with representatives of the surveyed enterprises may be the only possibility to get a fundamental explanation for these differences.

Concluding remarks

In spite of the shortcomings mentioned before, the basic data collection system of statistics on trade in business services in Finland have some indisputable advantages. The banking system works well in the technical sense. The enterprises are used to report their payments via banks and the data collection rests on a mandatory basis.

Concerning statistics on trade in services, it is important to be prepared to meet the future requirements. More reliable and detailed data on trade in services can be obtained by improving the quality of foreign exchange statistics. Also some additional data are undoubtedly needed. How these data will be collected, is an open question. As far as business surveys are concerned, the possibilities to complement the data on trade in business services of foreign exchange statistics are limited.

THE STRUCTURE OF FINLAND'S CURRENT ACCOUNT
(As per cent of total receipts/expenditure), Selected years

| | 1980 | | 1985 | | 1989 * | |
|--|----------|------------------|----------|------------------|----------|------------------|
| | Receipts | Expend- iture | Receipts | Expend- iture | Receipts | Expend- iture |
| Trade account | 79 | 81 | 77 | 72 | 75 | 68 |
| Transport | 7 | 3 | 6 | 2 | 6 | 2 |
| Travel | 4 | 3 | 3 | 5 | 3 | 6 |
| Other services | 5 | 4 | 6 | 6 | 5 | 6 |
| Services account | 16 | 10 | 15 | 13 | 14 | 14 |
| Compensation of employees | 1 | 0 | 0 | 0 | 0 | 0 |
| Property and entrepreneurial income | 2 | 7 | 5 | 11 | 8 | 14 |
| Current transfers | 2 | 2 | 3 | 4 | 3 | 4 |
| CURRENT ACCOUNT | 100 | 100 | 100 | 100 | 100 | 100 |

*Preliminary data

Finland's international transactions in services, by category, 1988, million FIM

| | Receipts | Expenditure | Net |
|--|----------|-------------|---------|
| Transport and telecommunications | 7 026 | 3 338 | 3 688 |
| Passenger traffic | 1 860 | 1 862 | - 2 |
| Goods traffic | 4 952 | 1 254 | 3 698 |
| * Telecommunications | 214 | 222 | - 8 |
| Travel | 4 280 | 7 907 | - 3 627 |
| Government transactions | 171 | 176 | - 5 |
| * Insurance services | - 575 | 94 | - 669 |
| * Design and engineering services (related to construction) | 1 497 | 280 | 1 217 |
| Other Services | 5 038 | 6 840 | - 1 802 |
| * -technical, data processing and management consulting services | (0,9) | (1,4) | (- 0,5) |
| * -advertising, marketing services, films and broadcasting | (0,4) | (0,9) | (- 0,5) |
| * -overhead costs of affiliated companies | (0,5) | (0,8) | (- 0,3) |
| * -industrial services | (0,5) | (0,4) | (0,1) |
| * -commissions | (1,7) | (2,7) | (- 1,0) |
| * -other services | (1,0) | (0,7) | (0,3) |
| TOTAL SERVICES | 17 437 | 18 634 | - 1 197 |
| * Business services | 5 228 | 6 763 | - 1 535 |

() - not usually published