

## **DEVELOPMENT OF STATISTICS ON INTERNATIONAL TRADE IN SERVICES, FOR INTERNATIONAL OR NATIONAL ANALYSIS ?**

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1. As a consequence of a world-wide liberalization process, international trade in services and foreign direct investment in the service sector are in the focus of interest in many countries. Although many governments regarded services as a non-tradeable activity that they wished to reserve for national firms, these attitudes have changed recently particularly in a number of developing and transition countries. These changes in the attitudes of countries concerning services are reflected in initiatives on promoting the liberalization of service trade and foreign investment in service activities which are discussed in the Uruguay Round of the Multilateral Trade Negotiations.
2. Accordingly, a need emerged for developing a general statistical framework serving analytical purposes in this field. In developing statistics on international trade in services, however, there should be clear criteria defined as to what purposes they serve.
3. Should they be for purposes of national policy making and analysis in which it is important to analyze production and income distribution as well as input-output analysis and in which goods and services are analyzed similarly and together? Or alternatively, should those statistics serve international analysis and policy making --such as the GATT negotiations-- in which it is important to compare data on international trade between countries, and unimportant how production is nationally organized, e.g., whether services are produced as non-factor services or as factor services.
4. In view of the above the present paper argues that analysis of international trade in services should focus on both factor and non-factor services, and that such analysis may also include the so-called establishment trade, i.e. the services provided by resident quasi-corporations that are foreign controlled.
5. The standards that are representative of national analysis are those related to SNA in a sense that the system focuses on the national economy as a whole. Statistical standards of BOP and foreign trade statistics are more representative of international analysis and policy making since they focus on international relationships. However, in the case of international trade in services, national policy making and analysis need

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<sup>1</sup> The views expressed in this paper are those of the authors and do not necessarily reflect those of the United Nations

information different from SNA data. Since it is important to analyze market structures, price movements or some other impacts of liberalization in the service sector as well as the country's participation in the international movements as an exporter a framework including both factor and non-factor services as well as establishment trade is important and relevant even for national analytical purposes.

6. It is clear that in view of the discussions on international trade in services and given the revision of the international guidelines of SNA, international standards on foreign trade need to be adapted. However, the question arises as to what extent they should be adapted to SNA, how far should they be modified to take into account the discussions on international trade in services and to what extent should they take into account the revised BOP guidelines insofar as the latter differ from those of SNA. An answer to these questions depends on whether foreign trade statistics serve analytical purposes of their own independent of SNA and BOP, and would determine whether foreign trade statistics would remain close to the customs records with their own special features or whether adjustments should be made that would make them more useful for international analysis.

7. Similar questions arise in the development of statistical standards for international trade in services: To what extent should they be brought in line with SNA and where SNA and BOP differ or have not been worked out in detail, should they follow BOP or SNA, or have standards of their own in keeping with their specific analytical and policy purposes. The present paper argues the latter.

8. While SNA and BOP have been harmonized in many respects as to concepts, a very important difference remains with regard to analysis. This is recognized in both systems in the way the accounting structure has been designed between the total economy and the rest of the world (ROW). All sectors of the total economy in the SNA have a breakdown of accounts between production, income generation, primary distribution of income, secondary distribution of income and use of income. In the external accounts this distinction has not been followed, and only two accounts and corresponding balancing items are distinguished, i.e., an account for external trade (goods and services), and an account for current external transactions (primary incomes and current transfers). The joint presentation below of accounts for the total economy and the ROW clarifies this.

9. The table shows that the SNA analysis of the total domestic economy distinguishes between the generation of net product resulting in Net Domestic Product and its subsequent distribution in the form of income represented by National Income, National Disposable Income and National Saving. In analyzing the transactions with the

# INSTITUTIONAL SECTOR ACCOUNTS

## Total economy

Production
Generation of income
Allocation of primary income
Secondary distribution of income
Use of income
Capital
Financial
Other changes in assets
Opening balance sheet
Closing balance sheet

## Rest of the world

External trade
Current external transactions
Capital
Financial
Other ch. in assets
Opening bal. sheet
Closing bal. sheet

Rest of the World in international analysis only two analytical measures are distinguished, i.e. the external balance of goods and services and the current external balance which is the counterpart of National Saving.

10. The reasons for the differences between the two analyses have not been much spelled out, neither in the SNA, nor in the BOP. There is a need to be more specific on this, and this is particularly important with regard to the analysis of international trade in services. Implicit in the two-way split of the external account in SNA and BOP is that non-factor services are treated in a manner similar to goods, while factor services including the payments of wages and salaries to non-resident workers and the payments of property income including interest, dividends and reinvested earning on foreign investment are analyzed together with current transfers to the rest of the world. The distinction between the two types of services and the treatment of non-factor services together with goods which is essential in national analysis of GDP which treats the production of goods and non-factor services in a similar manner and deals with factor services as a component of value added.

11. The question, however arises is whether this is also the most convenient treatment for international analysis and policy purposes such as the GATT negotiations. Or, alternatively, would it be better for these purposes, to treat together factor and non-factor services as one group, separate from goods recorded in foreign trade on the one hand and current transfers on the other hand? In other words, are there closer affiliations between factor and non-factor services than between non-factor services and goods and factor services and current transfers in analysis of international trade in services? A related question is whether a combined analysis of factor and non-factor services in international analysis of services should be even further extended to include establishment trade in services, i.e., services carried out by foreign companies in other countries through establishments that are treated in the SNA and BOP as resident units. In order to answer these questions it is necessary to evaluate the treatment of specific services that are internationally traded.

12. With regard to financial intermediation services, balance of payments compilers decided that it would not be convenient in BOP analysis to make imputations for these services and thus leave the service charges included with property income paid to and received from abroad. The argument here is that identification of such service charges are useful mainly in the context of analysis of total production in the country and would not be feasible when analyzing only internationally traded financial intermediation services. The consequence of this treatment adopted in the revised BOP is that factor and non-factor services are treated together. Similarly, banking services implicit in exchange rate differentials can only be identified as part of a national production analysis. In the case of insurance a similar argument could be made. However, in this

instance, the service charge should be identified separately because it is not separated from factor services such as interest in the case of banking services but rather from insurance premiums which are treated as current transfers in SNA and BOP. This implies that no matter, whether non-factor services are treated with goods or together with factor services, their separation from current transfers is essential.

13. There are many non-factor services that are internationally traded and are close to factor services. As there may be frequent shifts occurring between them, it would be more convenient to treat them as one group. Specifically, treated as non-factor services in SNA and BOP are repair services to goods, services involved in the processing of goods if minor changes to the goods are involved (otherwise the flows of goods are included in imports and exports), or installation services of consultancy firms supervising the construction roads, bridges and dams or installing other capital equipment. These services are very similar to factor services in the SNA such as temporary employment of non-residents abroad, employment of technical assistance personnel. Also, factor services provided by houseworkers to process goods that temporarily enter free trade zones are close to similar non-factor services. The services provided by foreign controlled units that are operating in the country such as foreign branches of consultancy firms, accounting and legal firms, airline offices, etc. (so-called establishment trade) are treated in SNA as foreign controlled quasi-corporations and their output is included in GDP of the host country. However, the services they provide are very similar to those provided directly from abroad by non-resident firms either in the form of non-factor or factor services. Also close to factor services are the trade and transport services that are traded internationally and cover only the margins, excluding the value of the goods traded.

14. For goods shipped abroad under financial leasing arrangements, SNA and BOP impute separate payments for the transfer of the goods (loan), a service charge and the payment of interest on the loan. The non-factor service embodied in the service charge and the imputed interest representing a factor service charge are very closely related and may therefore be analyzed together.

15. Based on the above analysis of factor and non-factor services that are internationally traded, it is proposed that analysis of international trade in services focus on factor as well as non-factor services, and that the analysis also includes the so-called establishment trade, i.e. the services provided by resident quasi-corporations that are foreign controlled. The reason for proposing this joint analysis is to avoid the disturbing effects on analysis of international trade in services resulting from frequent shifts between factor and non-factor services and between non-factor services provided by residents and non-residents.

16. Most services can only be delivered to a foreign market by establishing a presence therein. This may involve a permanent establishment, i.e., foreign direct investment e.g., in accounting, banking, retailing, or may require the temporary relocation of the producer of the service, i.e., labour movement. For example, houseworkers could be organized into small companies that would provide factor services to goods entering free trade zones. Or, technical assistance personnel could be organized in consultancy firms either operating from abroad or established as a foreign controlled quasi-corporation in the host country. To offer those services abroad, providers have to move some of their firms' factors of production -- capital or labour -- to where customers located. Since none of these shifts involve essential changes in the services provided and therefore international analysis of trade in services would be blurred if they would be separately treated.

17. The coverage of international trade in services suggested above justifies the development of a separate Handbook, with guidelines distinct from those of the SNA and BOP. It would also call for a separate classification dealing with international trade in services as a complement to the present classification of foreign trade. The classification of internationally traded services would be differently structured from for instance CPC, as it would cover not only non-factor services, but also factor services.