

**DEFINING, CLASSIFYING AND MEASURING TRADE TRANSACTIONS IN
PROFESSIONAL BUSINESS SERVICES**

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Introduction

This paper describes some of the features of international trade in professional and business services (PBS) which have an impact on defining, classifying and measuring trade transactions in such services. It discusses a number of practical problems which arise in collecting the relevant data.

There are large and substantive differences between individual types of services which affect the possibilities and the practical ways of identifying trade in them. These differences are to some extent intrinsic, others are man-made i.e. related to the regulatory environment. There are services that require advanced technology or training and others that require mainly a warm, sandy beach.¹ Under given economic conditions most services can in practice only be delivered through one or two modes of delivery. And there are many services which, for all practical purposes, cannot be traded at all, the only way for them to be provided to foreign consumers being through long-term movement of the service providers. That calls for physical establishment abroad near the service consumer and such type of delivery is no longer trade.

This short paper first briefly describes some of the widely varying characteristics of the main categories of services and the several modes through which they can be delivered. After a short overview of the impact this has on recording trade data, the paper focuses on professional and business services to examine their delivery patterns and the obstacles that have to overcome to ensure proper statistical recording.

The characteristics of services and their impact on identifying trade

Most service transactions are intangible and invisible. Some offer at least an element of tangibility and visibility when traded, while others move without hardly any such visibility. Transport services for merchandise and movement of people can be seen and noted at the border. Other services such as rental of equipment, installation and assembly work also offer some visibility. For such services, delivery across border provides national statistical offices with a basis, however slender, for identification and registration which is not available for many other services.

In the last two decades technological progress has accelerated innovation in services, multiplied the available modes of delivery and considerably enhanced tradability across distances. Much of the trade in services has become ever more invisible mainly on account of quantum improvements in communications, information processing facilities and in transport. Long distance moving of "disembodied" services from the point of production to the point of consumption, often through electronic transborder data flows has become both practicable and cheap. Deregulation in general and abolition of controls in particular have reinforced the trend towards tradability.

In the area of telecommunications, for instance, as long as telephone and wireless systems were relatively primitive, expensive and operated only by national monopolies, there was a practical possibility to trace communications, even if not their service

¹This is an example given by Samuel Pizer, consultant at the IMF.

contents, and the public authorities could still compile records about outgoing and incoming calls and at least precisely register telephone and telegraph expenditure. Advances in communications and computer technologies (e.g. cellular telephony, electronic impulses, tapes, diskettes), the privatisation and deregulation of the telecommunications industry with the accompanying multiplication of telecom providers and the arrival of proprietary in-house on-line systems for service industries² have made it practically impossible to track the vast flows of services of all kinds which cross borders electronically or otherwise in the form of information. A striking example of the rapid development of hardly visible service trade is the development at foreign remote locations, mostly in developing countries, of "back office" clerical routine activities such as the processing of air-tickets for airlines, of claims for insurance companies and of data entry for credit card companies. Measuring trade in services of this kind provided via courier services and computer to computer links, raise difficult conceptual and technical problems.

In another major sector that of **financial services**, the intrinsic characteristics again offer little practical opportunity of obtaining adequate information on a range of service products supplied to foreigners across borders, often simply because the service cost is not explicitly charged but somehow included in the transaction (e.g. in the interest rate or the foreign exchange rate). As confirmed once more by the recent monetary upheavals, finance is an exceptionally dynamic and vast sector, constantly developing new money instruments and internationally driven by communications technology which brings the world's capital markets ever closer together. Little precise information emerges on fees or commissions earned transborder from massive foreign exchange trading, portfolio management, merger and acquisition advise, trading in futures, swaps and options. Indeed a major difficulty is determining conceptually which of the transactions are cross-border sales and which merely e.g. domestic resales of foreign products.

Cheaper, faster and more comfortable **travelling** has boosted cross-border movement of service providers and above all service consumers. With less and less control and registration at many borders, with the abolition of exchange controls and the greatest flexibility in currency transactions, precise measurement of service flows so delivered is becoming ever more difficult. Plenty of service providers temporarily delivering services (e.g. professional services) abroad travel as tourists without going through work permit procedures. It so happens that many of the services which have a substantive element of visibility in their delivery such as certain operational business services (cleaning services, manned guard services, catering, building maintenance) are not normally traded at a distance.

The following overall picture emerges: the range and variety of traded services has broadened, the tradability of most services has increased while their trading visibility has declined. And in parallel the volume of international service transactions has risen as part of the overall increase of the share of services in the world's economic activity. Statistical measurement of the production and trade of services is now more complex and at the same time much more important than ever. More timely, precise and comparable data

²Such as SWIFT, SITA and computer reservation systems for travel, hotel, car rental and other reservations.

concerning services would produce a more informative picture of the whole economy and thus allow decision makers in the private and public sector to make better informed decisions. The technical and legal/administrative methods to track and record most of these service flows can be devised, but the added reporting burdens which the actual use of the most effective methods would inflict are unlikely to be politically³ and economically acceptable nor indeed altogether desirable. The issue then is to find a proper balance between minimum needed information and acceptable cost burdens. This is the background against which the following sections devoted to professional and business services should be read.

Defining and classifying professional and business services for trade statistics purposes

No attempt is made in this paper to define professional and business services (PBS). The reference is the draft joint OECD-Eurostat classification of service transactions for balance of payments purposes according to which PBS are in the main "computer and information services" (B.7) and "other business services" (B.9), the latter including most professional services. The classification describes the individual services, gives examples of what is to be included and excluded in the different classes and adds explanatory comments.

Most business services and most professional services are knowledge- and skill-intensive rather than capital-intensive. Human capital, technology, practitioner- or firm-specific experience and goodwill are the main assets of PBS providers. What is on offer is a very mobile commodity, the personal expertise of individuals who specialise in particular fields. Permanent or at least temporary presence close to the service demander is almost the rule. In many instances the client himself is in fact expected to participate to some extent in the production of the service.

Professional services cater to the needs of both producers and consumers depending on the activity in question. Thus lawyers and accountants serve both types of clients but doctors serve mainly private persons. Professions have a significant presence in international markets, both as providers of their own services and as facilitators of trade in goods and other services. Business services, on the other hand, are mainly intermediate inputs --i.e. they are primarily sold to producers of goods and services rather than to households-- and they include professional and other activities. Most available statistics lump together business and professional services sold to final consumers and those used by producers.

Description of international transactions in PBS

International transactions (as distinct from trade) in PBS take place through the following modes of delivery:

-in the form of trade:

- pure cross-border delivery analogous to trade in goods. This takes place through a business letter or report sent through the post, a telephone conversation, facsimile,

³The inevitable link with data privacy would also raise political issues.

computer to computer information, a diskette and similar forms. A whole range of PBS activities can technically be rendered "over the wire" and very little if anything can physically be checked;

- delivery through the temporary movement of the service provider to the location of the demander is a quite common mode of supply for professional services and some business services. Only the actual movement of providers could possibly be traced and picked up in passenger and travel service statistics⁴ but not the value of the delivered service;

- delivery through the temporary movement of the consumer to the location of the provider, a way of supply which is rather the exception in the PBS sector. It applies notably to medical services and to a lesser extent to legal and some management consulting services. Physical tracing is as difficult as with provider movement. A variant of this mode is the temporary movement of an object e.g. equipment that delivers a service.

- in the form of establishment, be it an incorporated affiliate or a branch, through foreign direct investment or otherwise

- delivery through some kind of permanent commercial presence, also called "establishment trade". It is this mode of delivery, which is not actually trade, which best meets the practical proximity needs of human provider-receiver interaction for most PBS. Some services such as operational business services like manned guarding, contract cleaning, temporary work business can, because of intrinsic reasons, only be supplied through establishment in the consuming country. Others like those of auditors, public notaries and law court activities are, on account of regulatory reasons also sold or delivered only through a permanent presence⁵. Suppliers of most PBS such as advertising, accounting, management consultancy, legal and computer services, although they can be delivered abroad through the other modes do in practice elect to establish there to supply most of their services. The gathering of statistics on service delivery through foreign establishment raises the formidable problems of precise identification of foreign direct investment;

- through a mixture of various modes above

- permanent presence will very often be used in conjunction with a degree of trade type delivery, part of the services supplied, or at least of their input, being "imported" either "over the wire" or by provider movement. For example, in strategic management consultancy or in technical advice, or in complex legal cases with international implications, an affiliate abroad may draw on the expertise of the parent company or indeed on the resources of the whole network in the case of multinationals to supply local clients with the desired advice. For other types of services, such as accounting which benefits from a good deal of common norms throughout the world, the assistance of the parent may be limited to specific interventions such as central management support, advertising, dissemination of technical information, training and highly specialised expertise. Large legal firms established in several countries are organised to the point of having a ready pool of lawyers who can float from one office to another in the event of a large contract. All intra-group supporting services can be supplied cross-border or through provider movement. In this kind of exchange of services, their invisible character becomes

⁴Inside the EC even checking of crossing of borders is becoming impossible.

⁵Special rules apply within the EC

even more pronounced and consequently also the problems in tracking and identifying them.

The standard pattern of international delivery of the main services other than PBS is different from the one described above. Cross-border trade is all important, namely in *passenger services* and *freight transport*. For *travel*⁶, trade in the form of movement of consumer is the rule. These three services are, at least according to statistics on recorded flows, the main traded ones in the world.

As a result of the ongoing globalisation process affecting many economic activities including most PBS, the part of PBS trade taking place between parties which are somehow related is probably rising. Within such business relationships, in addition to locally produced and delivered services there is cross-border transmission of services and temporary movement of personnel, mostly supervisors, experts and training staff, to provide intra-group/intra-network support. Between totally unrelated partners PBS supply occurs through cross-border trade, but often also through a combination of both the cross-border variety and the temporary movement of service provider (or less often, the consumer). In view of the globalisation trend of the last decade, "establishment trade" through affiliates and various forms of "networking" may well have become the single most important modality of PBS supply abroad particularly as between advanced countries.

But evidently, the description in the above paragraph is not valid neither (i) for all PBS nor (ii) for all trade relations:

- (i) highly sophisticated PBS, at the frontier of progress, may often be rendered cross-border notably by movement of provider, by one or another teletransmission means or both. Permanent settlement abroad will normally come once the foreign demand expands. Some PBS such as translation (not interpretation) lend themselves "par excellence" to fax or computer-to-computer transmission without much need of physical closeness. Also some software production taking place in low-wage countries such as India can to a large extent be processed "over the wire". The same is true as already indicated with the distant out-contracting of clerical repetitive processing of insurance claims, credit card accounting operations etc.
- (ii) delivery modalities often also depend on the degree of economic development of the client's country. For example, whereas establishment tends to be the norm for selling engineering consultancy and other construction related technical services to advanced countries, either movement of the provider or a mixture of movement of provider and temporary teaming up with local firms seems to be the rule for the supply of the same services to export markets outside the industrially advanced world.

There are many reasons for the above described overall PBS trading pattern. Cross-border delivery and temporary movement of the provider often do not fully and adequately meet all the needs of the seller/buyer relationships in PBS transactions. Neither do they allow the exploitation of all the potentialities of foreign markets. Most PBS, because of their nature, require a more or less constant human interaction between

⁶Travel covers purchase of services by tourists and business people once the foreign destination reached. Passenger services covers the fares paid, mainly air fares but also cruise ship fares.

the provider/client and are therefore preferably located close to the customer. Language, customs and mores are important factors. Permanent presence means timeliness and familiarity with the local market. Regulatory obstacles often stand in the way of cross-border delivery of professional services many of which are highly regulated across the world. The need for some local presence abroad leads to the creation of affiliates, the purchase of foreign companies or the setting up of joint exclusive working arrangements such as retainer contracts with local firms.

US statistics which have a broader and more detailed coverage and are of better quality in the area of PBS than those available in Europe⁷ throw some light on trading modalities. Both the statistics on the current account and those concerning the size of US investment in services abroad, show the relative importance of establishment. In some types of PBS, trade looks like being almost a kind of residual commerce or perhaps an interim stage before establishment. There are grounds to believe that this is also the case of PBS trading modes inside the EC.

Advertising and computer/data processing services, are two categories of services for which detailed estimates have been published by the US Bureau of Economic Analysis for the year 1990⁸. Reliable estimates, are available both for trade receipts and for "establishment trade".

In 1990 US receipts (exports) from the sale to Europe of advertising and computer/data processing services amounted to respectively \$ 130 mn and 1.000 mn. Payments (imports) were 245 mn and 44 mn. The same figures but including only receipts by US companies from unaffiliated companies in Europe were respectively 23 and 292 mn and payments to unaffiliated companies in Europe 68 mn and 9 mn.

During the same year, majority owned US affiliates established abroad⁹ sold for \$ 2.982 mn advertising services to Europe and for 5.814 mn computer/data processing services. This represents sales delivered to Europe by US companies through the channel of direct investment.

Majority owned EC affiliates (country of ultimate beneficial owner) established in the US sold advertising services for an amount of \$ 2.599 mn to US persons. The corresponding amount for computer and data processing services was 1.797 mn.

Services being generally invisible and not easily detectable, available statistics on PBS trade, even the best ones, most probably under-report both cross-border trade and trade through movement of the provider/consumer. It is likely that the deficient recording affects much of the trade within integrated groups and networks established in different countries. It would appear that the higher the degree of integration, the more there can be creative accounting including internal offsetting of reciprocal exchange of services and other transactions. Offsetting may be linked to avoidance of costs such as banking commissions, to fiscal reasons, foreign exchange restrictions or investment performance requirements, work authorisation problems or to a variety of other factors. Part of the PBS trade may end up being recorded as service transactions concerning royalties and licence fees, items for which the balance of payments of advanced countries report very

⁷The collection of statistics is made easier by the fact that US data cover one single, very large and relatively homogeneous territory.

⁸Source: Survey of Current Business, September 1992

⁹Affiliate in which the combined ownership of all US parents exceeds 50%.

high figures¹⁰. Evidently the classification used by companies for accounting purposes need not necessarily be identical to that for statistical reporting but there is probably a tendency towards a degree of convergence.

The proper significance of "establishment trade"¹¹

In view of the constraints imposed on the export of services by their peculiar mode of delivery, one might be tempted to lump all services sold abroad together, whatever the way they are supplied, whether through trade or through production abroad by affiliates. While all such activities might perhaps be labelled "international service transactions", it is not warranted to call all of it trade. Also in the goods sector considerable overseas production through direct investment takes place and such production is never assimilated to actual export of goods. Indeed services produced abroad will generally be produced by host country nationals who have taken the place of earlier home country expatriates, buying mostly local intermediate inputs, obtaining salaries spent domestically, all of which except for the profits earned, hardly concern the economy of the foreign owner. Even if produced by expatriates, the local expenditure and taxes will drain away an overwhelming part of the sales revenue. Applied in reverse, the "establishment trade" logic would lead to consider services produced by domestic affiliates of foreign enterprises as purchases abroad whereas in fact such foreign-owned affiliates generate more advantages for the domestic economy than the nationally-owned located abroad.

Measurement problems of trade in professional and business services

This section discusses a number of problem areas and borderline cases in collecting trade statistics on PBS services but many of the issues raised also apply to trade transactions in other services.

Ownership and legal structure of PBS firms

Many PBS providing companies are privately held and do not disclose financial data. Partnerships and private or closed companies do not publish or reveal data on turnover and profitability. This is true both for Europe and for the US and is almost the rule in certain professional services.

Publicly incorporated PBS firms sometimes have complex organisational structures ranging all the way from highly integrated firms with fully owned affiliates abroad to all kinds of loose groups and networks and non-equity forms of affiliation. Conglomerates composed of many separate companies often centralise certain functions such as finance for the benefit of the whole group without the constituent entities being fully informed of the transactions affecting them.

¹⁰For 1991, the US bop reports receipts of royalties and licence fees of more than \$17bn and payments \$4bn (including both affiliates and non-affiliates).

¹¹Sales of services by the foreign units are not classified as exports and fall outside the balance of payments because the producers are considered to be residents of the host country.

The degree of integration of ownership and management within both privately and publicly held networks varies, with some being relatively loose groupings and other having profit sharing and common management arrangements. This wide variety of structural set-ups complicates statistical identification of the respondents expected to declare trade transactions.

The assessment of the value of PBS

A pervasive problem area in the statistical measurement of trade in PBS concerns the assessment of the value of traded services. If the value of most merchandise can be assessed with a degree of precision and even that of some services (road transport e.g.), the valuation of most PBS is much more difficult, particularly when sophisticated services are involved. Goods can be physically checked and measured, transfer prices can be investigated and challenged by the public authorities. For PBS there is greater room for discretionary declaration of values. Transactions within transnational companies are governed by the rules of so-called management practice which settle mutual intra-group charging arrangements. The basic mutual invoicing techniques which are often only a starting basis for final calculations are : cost plus (cost price and an added margin), sales minus (sales prices minus a margin), or arm's length (the price charged to a business outside the group). The value of services traded can be part of transfer pricing strategies to concentrate profits in the least taxed country and may thus bias reported service trade figures.

Definition of type of PBS and classification

As the types of PBS are multiplying fast with more and more overlap, it is increasingly difficult to delineate boundaries between them and to keep track. For example, electronic information services (e.g. use of data banks) are not easily distinguished from plain voice communication or data processing services. Management consultancy is spreading to ever more diversified fields including trans-national personnel search services, specialised economic forecasting, public relations programmes etc. IT-related consultancy has become a major field for management consultants but the boundary between the management of IT and the actual supply of hardware and software services is unclear. The latter services are supplied by hardware producers, by systems and software houses, accountancy firms, telecommunications companies, management consultants and sometimes even by user firms themselves. Identical transactions are not reported consistently by different companies. The latter difficulty concerns foremost the gathering of data on domestic activities but it applies equally to traded services.

The designation of PBS for statistical reporting

Another feature of trade in PBS is that because of their invisible and intangible nature, transactions --and as a consequence also payments for them-- can easily be christened in ways considered most advantageous by the parties involved. Thus services exported cross-border can be called advertising, training, management services, sale of intangible property or rent for the use of it or whatever suits tax and other regulatory provisions of sellers and buyers. A master franchisee in a foreign country can remit to his foreign franchiser profits --which tend to be treated fiscally in a less advantageous way-- or alternatively he can choose to pay franchise fees or some other types of royalty taxed

more lightly. Like transfer pricing strategies aiming at concentrating profits in a little taxed country, such arrangements which while perfectly legal affect statistical recording.

Trade involving bundling of goods with PBS

Another problem area is that all types of goods always incorporate an added value of service components. This is increasingly so in modern economies where many manufactured goods are bundled with services into complex systems designed to solve customers needs. Professional services (engineering and technical consultancy) are in part be subsumed under the value of the goods to which they relate. As a consequence, a considerable amount of cross-border trade in services takes place embodied in goods to the point that trade in services may either complement or substitute for trade in goods. Many service transactions which traditionally occur at the point of sale, are left out of the service trade data altogether. The best example is the sale of integrated hardware/software computer systems which may go with installation, training, maintenance and repair. But there are many other goods exported with service contracts and extended warranties. All this can be invoiced separately or not, depending for example on whether a customs tariffs applies on hardware in the importing country or on the fiscal consequences for the parties of such bundling. Here again, the more closely related the parties to such trade transactions, the broader their choice to adapt the presentation of their transactions.

Trade involving bundling of different types of services and transactions

Discretely defined services are often bundled into complex service packages without separate invoicing of the components. In the merger/acquisition business for example, specialised practices offer commingled advice, covering all aspects of envisaged transactions: legal, accounting, fiscal, financing, market research etc. The contributions to a project often involve a team of professionals from different countries. For statistical recording purposes, such cross-border transactions should ideally be dissociated into components and classified in the relevant PBS sectors and on an origin and destination basis. But intertwined transactions of this kind cannot be disaggregated and costed without full insight of what are usually confidential accounting data of the companies involved.

Problems of recording trade in services between related parties

As already indicated, a substantial part of international PBS transactions tend to be effected via foreign establishment with equity or non-equity form of affiliation or via networking relationships. But the standard pattern in PBS is for the foreign units of such groupings to be assisted by the parent company and indeed by the whole network. All help each other by exchanging services through trans-border data and software flows, referrals of clients, detachment of staff, participation in joint project teams, central management services, finance for the benefit of the whole group etc. Global firms operate less and less on the "hub and spoke" model and increasingly as networks in which human, financial and intellectual resources are transferred from one location to another world-wide, wherever necessary to serve client needs.

Legal services, marketing, accounting and taxation assistance, management consultancy, engineering and technical advice, results of laboratory tests, translated texts, all sorts of

PBS cross borders many leaving little material traces. All this allows large discretion for any kind of reporting.

Services that are traded within multinational companies and networks lend themselves to "net recording" in which debit and credit entries associated with individual transactions of various services are netted against one another and recorded as a single amount which can then be designated in the most advantageous way for the parties. Only gross recording (separate recording) of individual debit and credit entries provides correct information on the value of exports and imports. Trade in visible goods does not give the same offsetting opportunities. Transactions in all types of services --not only those in PBS-- within multinational groups and networks lend themselves to such balancing operations.

Where service exporter and importer are unrelated no such netting is likely but judged by available estimates, arm's length relationships do not seem to be the norm for many companies intensively engaged in international transactions. Small and medium firms and individual practitioners do not typically export as much of their service production as do large multinational groupings.

It may in this context be relevant to note that with respect to trade in goods, <<according to the most conservative estimates, multinationals account for more than a third of international trade, a growing proportion of which takes place within their "internalised" area but remains "off market" in the sense that the prices of the goods and services which make up these trade flows (intra-firm flows) are "transfer prices">>¹². There is no reason to believe that a somewhat similar pattern does not apply to trade in the PBS sector where multinational firms dominate the trade. Hence the relative importance laid in this paper on the statistical issues raised by intra-group and intra-network PBS trade.

Problems linked with the diversification of individual providers of PBS

Data based on the industry classifies many service transactions which are the secondary activity of companies (such as marketing) under manufacturing business. And the reverse also happens. Furthermore, as long as service enterprises tended to offer one major service, data collection and classification based on industry of enterprise were a satisfactory proxy for data classified by type of service. Now that more and more PBS firms offer a broader range of diversified services, classification on the basis of industry may lead to less accurate statistical results¹³. Shifting patterns of production such as the marriage between software, computer, information services and telecommunications have modified the profile of many PBS sectors. And in the meantime newcomers are constantly discovering "niches" thereby giving the process of differentiation and specialisation new impetus.

In professional services in particular, practitioners such as accountants, management consultants, lawyers, tax experts have steadily invaded each other's territory. They have expanded the range of services to their clients to obtain economies of scope¹⁴ or simply

¹²Quotation from OECD wp 9 in "The impact of foreign investment on domestic economies of OECD countries". 21.6.93

¹³This problem has also relevance with respect to statistics on "establishment trade" since these are likely also to be classified by industry on the basis of the primary activity of enterprises.

¹⁴For professional services economies of scope can be important since providers invest a great deal of resources in informing themselves on customers and their needs.

moved into other more rapidly growing and therefore more rewarding services abandoning others to providers with lower skills. Plenty of business services are now sold by companies outside their primary sector of activity. In addition, the pattern of "exported services" may not always coincide with the pattern of "produced services". However, against these developments must be set a trend towards de-conglomeration in a number of service sectors such as advertising and maintenance services where several important operators have reduced diversification. More importantly, companies that do diversify into particular areas often end up creating separate legal entities for the purpose. Such "conglomerates" may however keep their international financing centralised so that the constituent units may not possess all the information necessary for accurate statistical reporting. In general, rapid shifts in the structure of the PBS industry complicate the maintenance of up-to-date registers of the universe of service exporters (and importers). Whatever data are available on trade in PBS, they are probably weakest in precisely those areas where change is the most dynamic.

Problems linked with the concentration of the PBS industry

The concentration of exporters and importers in individual service sectors determines the number of respondents required to ensure a proper coverage of PBS trade. Hence the importance of assessing correctly the structural trading patterns of the different sectors of the PBS industry. These show considerable variations with some important PBS sectors hardly in any trade activity (contract cleaning, manned guarding, temporary work business) while others such as legal services and management consultancy, with a vast universe of firms, some of which actively engaged in trade transactions.

Supply aspects

There is at present little homogeneity between the respective structural profiles of the PBS industries of the member states. Little generalisation for the entire PBS sector in the EC is possible as the level of concentration varies considerably between individual PBS sub-sectors and across individual member states which each tend to have their own modes of international expansion. In most member states many PBS sectors are characterised by a fairly fragmented market supply structure most of the providers belonging to the category of small or even one-person enterprises which do not deal with foreign customers. In a few member states with long established specialisation in some professions and businesses there are big, growing global companies but generally also a large and still increasing number of small to medium size practices which operate almost exclusively on the domestic market. Several of the major companies have turned into conglomerates comprising separate firms on the basis of providing a package of services to clients with whom they have built up long-term relationships. The internationalisation of some firms is in part a strategy of following clients which have established abroad, in part also the result of their own determination to expand internationally in order to broaden their basis of operations or react to foreign invasion of their domestic market.

What is clear is that the level of concentration has been rising in certain PBS subsectors as mergers and acquisitions have been the daily routine during the 80's and until 1990, but less so since. In the case of accountancy for example, large transnational companies have a dominant presence across the EC market and they have expanded strongly in management and IT consultancy and legal services. The same trend is to be found in

advertising and to a much lesser but growing degree in legal services. In this subsector, the continental European law firms are relatively small compared with British (and American) practices and do not generally have the financial resources to set up affiliates abroad. Therefore they rely more on cooperative formulas. In management consultancy again the majority of the firms are small but there is a fairly high level of concentration with the top 20 or 30 companies in the EC accounting for a very large part of whatever international contracts are offered on the market. In all the above service activities, the units composing the large groups as a rule supply standardised services at the local level, mostly with home-grown professionals, and call upon cross-border assistance of the group for general support and whenever highly specialised expertise is needed.

At the other end of the spectrum, the part of the domestic market served by small and by specialised companies, sometimes offshoots from larger firms, selling abroad is the exception. For these firms with no foreign partners, to export services --at least on more than an exceptional basis-- an offshore presence is needed; as this tends to be expensive, foreign establishment remains the preserve of large firms. But this broad brush description of PBS export patterns does not mean that there are not numerous exceptions. One can find small laboratories whose activities serve clients all over the world, small architectural practices and designers which work mostly for foreign clients. Their total sales however probably do not amount to major PBS trade flows.

Demand aspects

Although individual private consumers are important purchasers of professional services and of some business services, the overwhelming part of the demand for business services, and virtually all that for cross-border PBS, comes from businesses and the public sector. Import demand originates mainly from producers whether in agriculture, manufacturing or services. In fact, purchasers tend to turn to foreign supply only when the desired type of service is not available domestically, when it is not perceived to be of adequate quality at a given price or, importantly, when the importer is related to a foreign supplier. Only few sophisticated consumers appear actively to seek in particular specialised PBS suppliers outside their own country (such as for legal or technical services e.g. traffic and environment problems) and they are usually large firms or public institutions since costs of search and selection quickly mount. As such clients tend to shop around and make deals for separate products and transactions they mostly do not depend on only one supplier and on country for their PBS.

The above description of both the supply and the demand leads to the conclusion that there may be more importers of PBS services that need to be taken into account to obtain a proper coverage of PBS imports, than is the case on the export side. Again, multinationals but also public organisations are likely to be relatively important importers, particularly of professional services such as management and technical consultancy. One way to simplify data collection, at least for the time being, would be to rely on export statistics of trading partners to estimate imports of PBS. This could be a valid initial approach, at least as between a great number of OECD countries.

[It may be interesting to note that in 1988 the number of responses on which the US Bureau of Economic Analysis based its estimates for foreign purchases and sales of construction, engineering, architecture and mining services was 130.]

Impact of the PBS structure on data confidentiality

When only few traders are involved, which is the case with the export of many professional and business services, problems of confidentiality arise, and these are aggravated when the data to be published include destination of exports. The ways to alleviate such problems lie in the aggregation of PBS or in forgoing publication of information about destinations. Aggregation of data on all member states in reporting PBS trade of the EC with the outside world may help.

Impact of the shifting PBS structure on data recording

As has been indicated before, the production structure of PBS is in a state of constant flux. The rather recent trend towards externalisation i.e. the buying in (or hiring off) of services as a better way to manage resources is steadily spreading throughout business and industry and into the public sector. It comes in many forms: outsourcing, contracting out, facilities management etc. In the area of business services in particular, a host of new and established companies are finding interesting opportunities for growth in selling services to both the private and public sectors. A major example is to be found in the area of IT which has increasingly become the preserve of specialists, with many non-IT companies finding it no longer sensible to try and provide most of their needs in-house. A company can staff its IT function by an outside facilities management contractor, or it can buy in all its IT needs from a company which offers up to date technology and flexible capacity. Management consultancy practices which derive business from IT advice may suffer from this trend and enter the facilities management field. Outsourcing has been spreading beyond IT into areas such as the recruitment of personnel, training, accountancy, office services, the holding of stocks and ensuring distribution *inter alia* by courier companies. Although all this affects primarily the patterns of business service industries at the domestic level, it is bound to complicate also the tracking of services subcontracted to suppliers in other countries such as low wage economies (e.g. software development and clerical administrative jobs). Confronted with a rapidly shifting universe, statisticians will have difficulty in constantly updating the lists of respondents and thus a continuing dialogue between the statistical compiling personnel and individual respondents and spokesmen of the various PBS sectors will be crucial.

Payment settlement as a source of statistical data of PBS transactions

The description of earlier sections will have made clear that the PBS markets which involve extremely diversified invisible transactions between multiple operators entertaining all kinds of relationships, offer considerable room for creative invoicing and reporting. The abolition in most countries of controls on foreign exchange transactions has put an end to a unique source of detailed information while allowing the greatest flexibility in settling payments.

Because of their intangibility, data for trade in services in general, and PBS in particular, are in many balance of payments statistical systems at least partly derived from central bank information on flows of foreign exchange. There can be serious shortcomings to such systems. Banking data pertain to payments, not transactions, so that this source only gives an incomplete picture of trade in services. The registration is not on the basis of the service receiver but on that of the non-resident status of the payment source for

the service. For example, the same service might be provided to a number of overseas clients: when paid for through an overseas company it is recorded as an export but if paid for through a local subsidiary of an overseas company, it will be considered a domestic transaction. Income received (or profits remitted) by overseas branches or by subsidiary offices of domestic firms are not domestic export income and thus not reflected in service trade data.

The invisibility of most PBS makes it easy to use offshore financial centres as locations from which to book transactions. The booking may differ from the location where the services are performed, thus making it simple for example for services actually carried out by an affiliate to be attributed to the parent company and vice-versa. As only payments made via resident banks are registered, all that goes through a foreign account may easily escape recording. In actual practice, much depends on the degree of integration of the groups involved i.e. the more integrated the more room for optimisation of invoicing and settlement. Only in the case of simple bilateral contracts between unrelated provider and client or within loose relationships will payments tend to reflect underlying transactions.

Other recording problems stem from the pricing methods for services supplied within groups. Apart from services that may be performed free of charge within groups, invoicing can be based on arm's length charging rates, cost plus rates, discounted fees, or offsetting of reciprocal services resulting in smaller net payments. Charges for intra-group services may be subsumed into royalty or licence fee payments, transfer of profits, or repatriation of investments. Many of these problems also affect data collection about transactions in goods but to a much lesser degree. It is thus unlikely that any reporting system can fully capture the array of services traded within such groups.

Concluding remarks

The foregoing list of problem areas and borderline cases looks formidable. As shown by the experience of the United States these difficulties while not trivial can be largely overcome provided the necessary data collection programmes can be put into place and the required resources obtained. The US legislation on statistical reporting of the last few years confirms in particular that in order to obtain a satisfactory degree of response, replying to statistical questionnaires must be legally enforceable. Companies are not invariably keen to contribute to greater transparency, particularly in their trade transactions. The improvements over the last five or six years in the US collection system have led to quite considerable corrections, mostly large increases, of previously under-estimated import and export service flows.