

POLICY AREA:

**Trade and Investment**

## Measuring cross-border trade in services by trading partner country and company

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### Abstract

Cross-border trade in services is increasingly the pre-eminent driver of growth for developed and developing countries alike. Service-related commitments are included in most of the new trade agreements.

Effective policy-design however, is dependent on collection and presentation of accurate data. Inter-agency task forces of multilateral organizations such as UN, WTO, IMF and OECD have designed a framework to capture cross-border trade in services but data classification by partner trading company, partner trading country and by modes-of-supply, remains a challenge. The G20 can plug this gap through comprehensive information-collection and sharing.

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### Challenge

Lack of data on Trade in Services by partner country or by company, makes it difficult for countries to design bilateral, plurilateral or multilateral agreements. Even where data by partner country is available, it does not accurately reflect the “ultimate” source or destination country or company.

Trade in services is an integral part of the new globalisation. Services accounts for 68% of global GDP in 2014 and 25% of total global exports. Yet, granular data on trade in services remains deficient, limiting the study of the globalization of services, and making it difficult to design the next generation of trade agreements that will include service-related commitments. Lacking in particular, is data on trade in services by partner trading country and partner trading company, as also the actual “ultimate” source or destination of the service. No global database effectively captures this. Although the Manual of Statistics on International Trade in Services (MSITS) recommends detailed data collection, it still does not capture the required complexity.

- Only aggregate data on trade in services for each country (country profile) is available for all countries.

- On WTO Mode 1 (cross-border supply) and WTO Mode 2 (consumption abroad) data should be reflected from the Balance-of-Payments 6<sup>th</sup> Edition (BPM6) of the current account statistics section, monitored by central banks. However, not all countries accurately collect and share the data on partner trading country as it is difficult to collect and disseminate, and data by “ultimate” partner trading country is virtually non-existent. South-south trade is particularly difficult to get.
- On WTO Mode 3 (commercial presence) – which accounts for up to 60% of the total trade in services<sup>1</sup> - data is to be collected through the Foreign Affiliate Trade Statistics (FATS), a survey of all the foreign enterprises registered in an economy. However, commercial presence data by partner trading company or country is not available, and in select cases where it is, statistics identify only the “most immediate” country where the transaction emanated or culminated. This hides the “ultimate” trading partner country and company, and distorts the data analysis. For instance, the major financial centres such as New York, London etc. usually inaccurately emerge as a country’s trading partner. Here too, south-south trade is particularly difficult to get. As a substitute, the statistics for FDI are used as an indicator of “commercial presence” – an inadequate proxy as not all foreign investments are leveraged for service exports. Additionally, the ultimate foreign direct investor or company is still difficult to determine.

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Here is a comparison of all the databases currently gathering data on trade in services.

<b>Publication</b>	<b>Country coverage</b>	<b>By type of service</b>	<b>By partner country</b>
IMF Balance of Payments Statistics Database	197 countries	BPM6	Only aggregate data available for each country (national economic profile) but Partner country data not available
Eurostat Database	EU members, Euro area, ENP countries	BPM6 and FATS	Comprehensive Partner country data available for EU Members. Some Partner country data also available for non-EU Members to show North-South trade. Ultimate Partner country data not available.
OECD Statistics on International Trade in Services	OECD	EBOPS 2010	Trade in services by partner country for 31 OECD countries plus the European Union, the Euro area and the Russian Federation  This data is also available for the above countries with some non-OECD countries (e.g. India) to show North-South trade.
UNCTAD Handbook of Statistics	Over 200 economies	BPM6	Only aggregate data available for each country (national economic profile) but Partner country data not available
UN CommTrade	Around 200 economies	EBOPS	Database set up for data by Partner country but data collection remains incomplete.
WTO-UNCTAD-ITC annual trade in services dataset	All economies, regions, world	BPM6	Database set up for data by Partner country but data collection remains incomplete.

*\*Collated and analysed by Gateway House experts, from the official websites of the mentioned databases*

## Proposal

### **Part 1. The G20 must seek commitments from all central banks to identify the trading partner country and company for all trade-in-services transactions.**

- Mandate all central banks to collect data on partner trading country and company for all the 12 service categories mentioned in BPM6 and all sub-categories in BPM6 Extension.
  - “Mirror statistics” and gravity models can be used where data by partner trading country is still difficult to find[2].
- Mandate all central banks to collect FATS data on partner trading country and company and conduct FATS surveys with the same frequency as the Balance-of-Payments data.

### **Part 2. Direct the inter-agency task force (UN, UNCTAD, EU, OECD, IMF, UNWTO, WTO) to create a universal framework for identifying “ultimate” trading partner country or company.**

- Mandate the taskforce with developing a framework for identifying the “ultimate” partner trading country or company for all service modes. This is key for the design and negotiation of effective bilateral, plurilateral or multilateral trade agreements.
  - There is no precedence or existing initiative underway for Mode 1 and Mode 2 to build on; a new framework needs to be created.
  - For Mode 3, the background work done by the OECD Benchmark for Defining Foreign Direct Investment can be used as a starting point. The framework suggests that “ultimate” trading partner be identified either by cross-referencing BPM6 data either with national company registries or by seeking supplemental data during the data collection process from the financial institutions (e.g. banks) that submit the FATS data.
- Update the 2010 Manual on Statistics on Trade in Services (MSITS) and specifically include information on trading partner country and company.
- Mandate the taskforce to merge disparate global databases — IMF BOP database, Eurostat, OECD International Trade in Services database, UNCTAD Handbook, UN CommTrade, World Bank WDI etc. — into one for global use.

### **Case study of India**

- India’s export prowess in software and business services necessitates a global framework for Trade in Services.
- India’s concept note on establishing a Trade Facilitation Agreement in Services, submitted to the WTO in October 2016 is an attempt to focus the WTO on services. It builds on India’s FTA in services with ASEAN and on the service commitments in bilateral economic agreements with Singapore and Japan.
- India’s central bank – the Reserve Bank of India – publishes an annual survey on computer software and information technology-enabled services exports, compiled using the guidelines provided in MSITS 2010. This provides information on the value of India’s IT and ITES-related trade by mode (but not by partner trading country or company, or “ultimate” partner trading country or company”).[3] According to the latest survey (2015-16), export of computer services and ITES/BPO

services conducted through Mode 1, Mode 2, Mode 3 and Mode 4 was estimated at \$108 billion. The United States and Canada accounted for 60% and 25% of total exports respectively; Mode 1 accounted for 65% of exports; the U.S. was 65% of Mode 3 exports gathered through the FATS[4].

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<sup>i</sup> WTO OMC, "Report on G20 Trade Measures", 10 December 2016, [https://www.wto.org/english/news\\_e/news16\\_e/g20\\_wto\\_report\\_november16\\_e.pdf](https://www.wto.org/english/news_e/news16_e/g20_wto_report_november16_e.pdf)