

**Workshop on
Trade in
Services and
Digital Economy
Statistics for
Mongolia**

**Ulaanbaatar
20-23 March 2023**

Session 2

**The importance of trade in services,
the characteristics of services and
their impact on the Statistics on
International Trade in Services**

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Introduction

- The measurement of international trade in services (ITS) in a globalized world and changing environment is a major challenge for statisticians.
- Contrary to trade in goods where international guidelines and appropriate classifications have existed for a while, it is only recently that a methodological framework has been developed for ITSS.
- The rapid growth in trade in services and the advent of trade negotiations and agreements covering services (GATS) have made SITS increasingly important.

Globalisation increases difficulties in measuring ITS

- The nature of services generally implies a physical proximity between the consumer and the provider.
- Development of FDI in the services sector has played a leading role with the services supply through commercial presence and affiliates.
- Movement of physical persons has been also a positive factor for ITS increase.
- New technologies favoured cross-border trade: digital trade in services
- Various and changing patterns of ITS have implied an enlargement of BOP concepts and new methodological guidance.

New methodological guidance

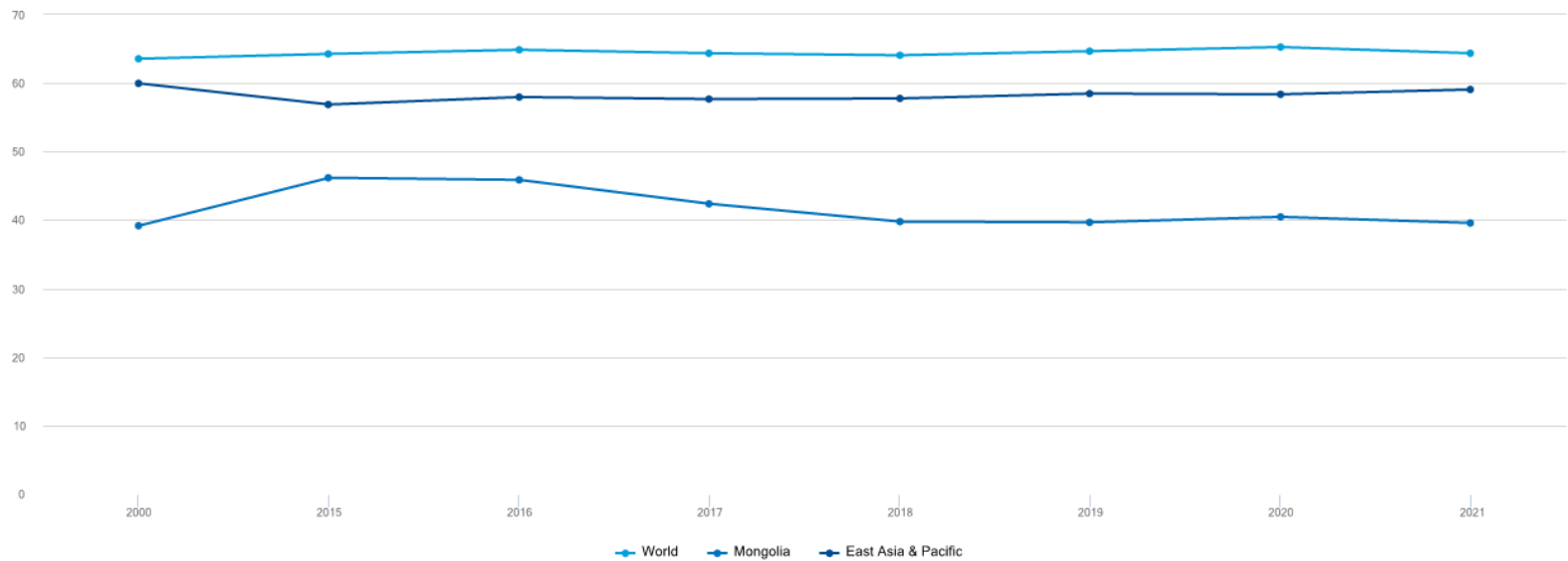
- **New methodological guidance** and classifications have been set up to improve the coverage of transactions and report services transactions in greater detail.
- The main reference is the **Manual on International Trade in Services** (MSITS) which was first published by the UN in 2002 and revised in 2010.
- The Manual builds upon common concepts with BPM6 and SNA 2008.

Summary

1. Introduction
2. Importance of services and trade in services in the economy
3. Presentation of MSITS 2010
4. Trade in goods versus trade in services
5. Trade in services modes of supply

2. Importance of services and trade in services in the economy

Services contribution to GDP

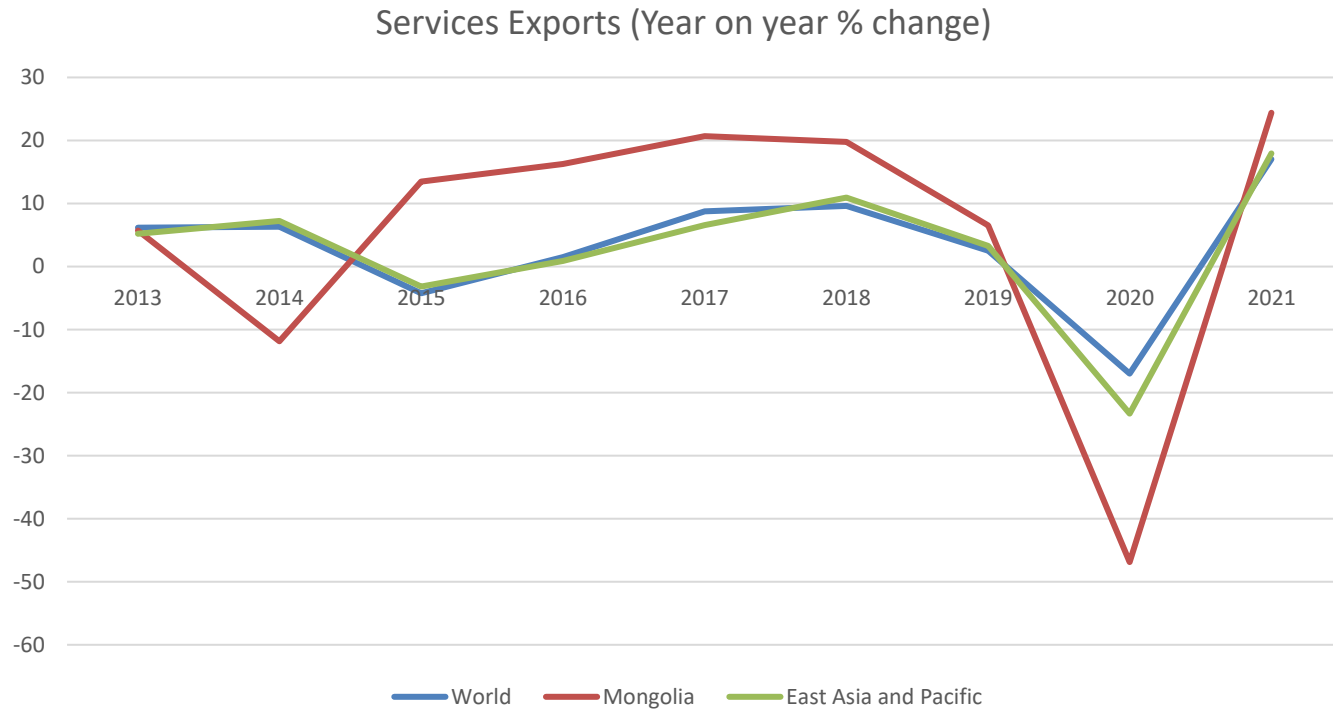


Series : Services, value added (% of GDP)

Source : World Development Indicators

Created on: 03/02/2023

Trend in commercial services exports



Source: World Bank – World Development Indicators

Mongolia

Trade in Commercial Services

Mongolia

TRADE IN COMMERCIAL SERVICES

Million US\$	Value		Annual percentage change	
	2020	2010-2020	2019	2020
Commercial services exports	651	3	6	-47
Commercial services imports	2 083	10	24	-35
	2020			2020
Share in world total exports (%)	0.01		Share in world total imports (%)	
				0.05

Breakdown in economy's total exports

By main services item, % (2020)



■ Transport: 59
■ Travel: 4.5
■ Other commercial services: 36
■ Goods-related services: 0.6

Breakdown in economy's total imports

By main services item, % (2020)



■ Transport: 28.6
■ Travel: 26.4
■ Other commercial services: 44.8
■ Goods-related services: 0.1

By main destination

NO DATA AVAILABLE

By main origin

NO DATA AVAILABLE

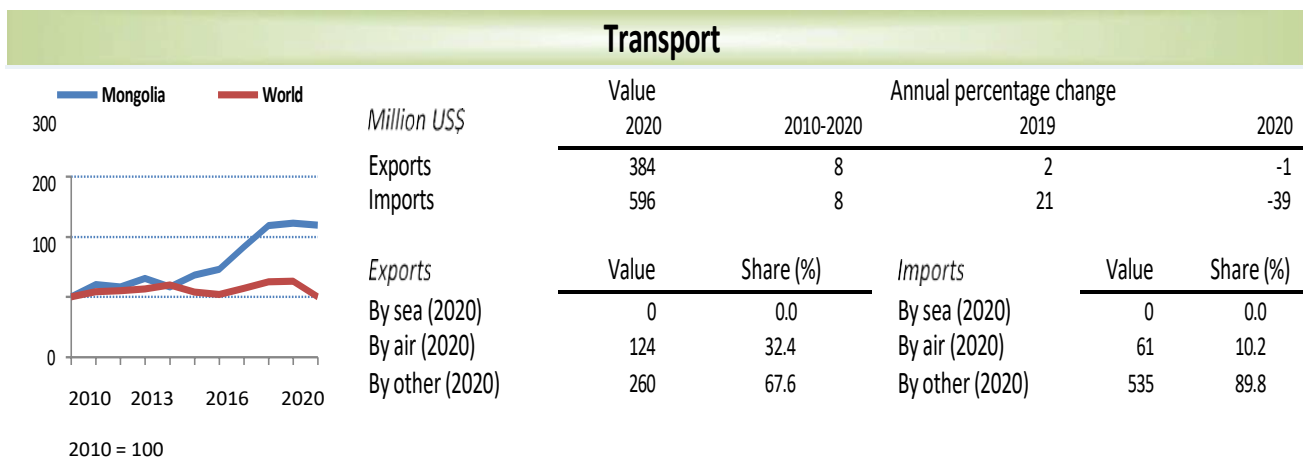
FATS sales

Inward (million US\$)
Outward (million US\$)

	Value		Annual percentage change	
	2020	2010-2020	2019	2020
Inward (million US\$)	na	na	na	na
Outward (million US\$)	na	na	na	na

Mongolia

Trade in Transport Services



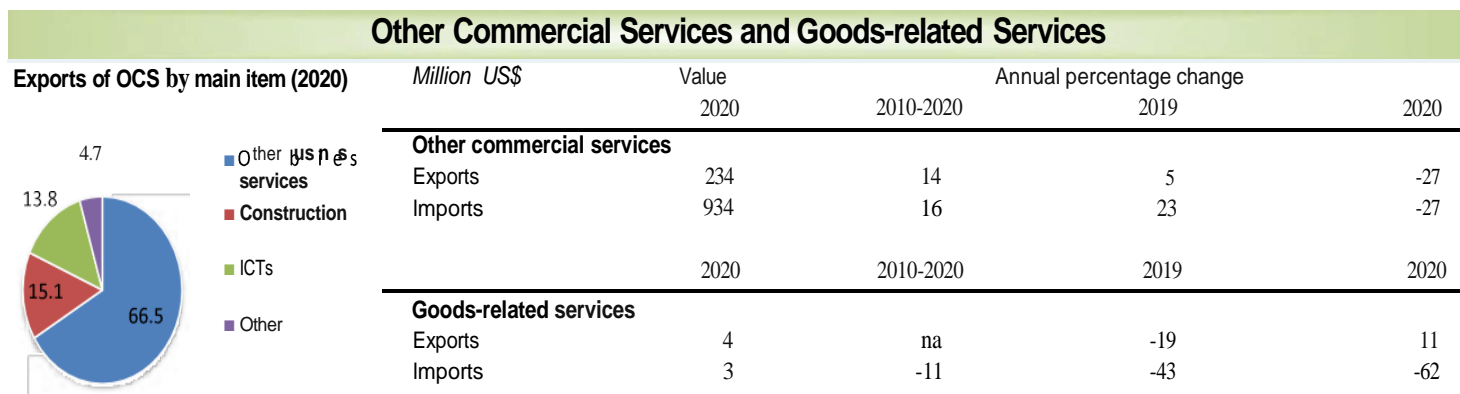
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Trade in Travel Services



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Trade in Other Commercial Services



3. The Manual on International Trade in Services

MSITS 2010

The Manual

- **First published in 2002 jointly by five international organisations:**
 - United Nations
 - European Commission
 - International Monetary Fund
 - UNCTAD
 - World Trade Organisation
- **The second edition has been published in 2010**

The Manual, a response to new data needs and a tool for improving data collection

- The Manual seeks to address the **data needs of trade negotiators**:
 - A detailed classification of trade in services
 - A breakdown by modes of supply
 - A breakdown by partner countries
- It covers 2 specific domains: trade in services as recorded in the **BOP and FATS**.
- It provides a breakdown of the 12 BOP main services components into **a detailed classification called EBOPS**.

A broad view of trade in services

- **The Manual gives a broad view of trade in services**
 - Covers ITS in the conventional view (a relation between a resident (R) and a non-resident (NR), but with a more detailed classification than in the BOP (EBOPS)).
 - Covers services delivered through locally established affiliates and through the movement of physical persons.
- **The Manual seeks consistency with international standards and conceptual pillars**
 - BPM6
 - 2008 SNA
 - OECD Benchmark Definition of FDI
 - OECD Handbook of globalization indicators

Recommended core elements

- To implement the **BPM6 recommendations**, including the definition, valuation, classification and recording of services transactions between R and NR.
- To implement **EBOPS 2010 classification** with a priority to those sub-components that are of major interest for the compiling economies.
- To report **partner country details**
- To collect **complete statistics on FDI** (flows, income and position), classified by ISIC, Rev.4.
- To record **basic FATS related variables**: (sales/turnover, employment, value added, exports and imports of goods and services, number of enterprises).

4. Goods and services

Goods

- Goods = physical objects for which a demand exists, over which ownership rights can be established and whose **ownership can be transferred from one institutional unit to another** by engaging transactions on markets.
- **The production and exchange of goods are quite separate activities.** Some goods may never be exchanged (supplied to the production unit itself) while others may be bought and sold numerous times.
- The **separation of the production of a good from its subsequent sale or resale** is an economically significant characteristic that is generally not shared by a service.

Services: UN definition

- Services are also the result of a production activity,
- But contrary to goods:
 - They are not generally separate entities over which ownership rights can be established
 - And they cannot be traded separately from their production (by the time their production is completed, they must have been provided to the consumers).
- Services are **heterogeneous outputs produced to order.**

Services: SNA definition

- “Services are the result of a production activity that **changes the condition of the consuming unit** or facilitates the exchange of products or financial assets”.
- These changes can take three **different forms**:
 - *Changes in the conditions of the consumers goods*: the producer works directly on goods owned by the consumers (freight transportation, cleaning, repair of ships or aircrafts, manufacturing services...).
 - *Changes in the physical conditions of persons* (transportation of passengers, accommodation provision to tourists, medical treatment...).
 - *Changes in the « mental » condition of persons* (education, information, entertainment...).

What is a service?

- **Intangibility:** services are generally not separate entities over which ownership rights can be established.
- **Simultaneity:** services are most often delivered in real time and produced face to face with the consumer.
- **Interaction:** The consumer plays an active role in the definition and the production of a service
- **Heterogeneity:** A service can hardly be exactly reproduced from one service provision to the next

- As a consequence, services cannot *in most cases* be traded separately from their production.
 - Many services require a physical proximity between the provider and the consumer (**Inseparability**).

5. Trade in services modes of supply

Sales of services by GATS modes of supply

- **Statistics by modes of supply were required by the GATS** as a guide to negotiate specific commitments and evaluate market access.
- GATS negotiations relate to bilateral services trade flows of individual services sectors split by modes of delivery.
Negotiators need statistics on the value of services trade flows:
 - **By type of service product (by activity for FATS),**
 - **By origin and destination,**
 - **By relation between the parties.**
- Even if the Manual gives some recommendations for doing this split, it is a difficult and burdensome task.

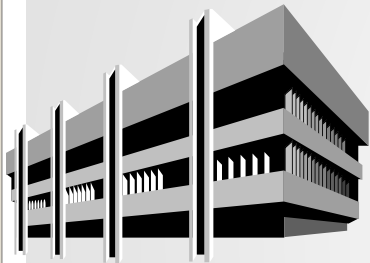
The four GATS modes of supply

- Modes of supply discriminants are based on the **territorial location of the transactors** (consumers and suppliers) at the time the service is supplied.
- **Four modes:**
 - *Mode 1*: cross-border supply
 - *Mode 2*: consumption abroad
 - *Mode 3*: commercial presence
 - *Mode 4*: movement of natural persons
- These modes of supply can apply to trade in goods and trade in services alike, even though the conceptual approach has been primarily developed for trade in services within the GATS agreement.

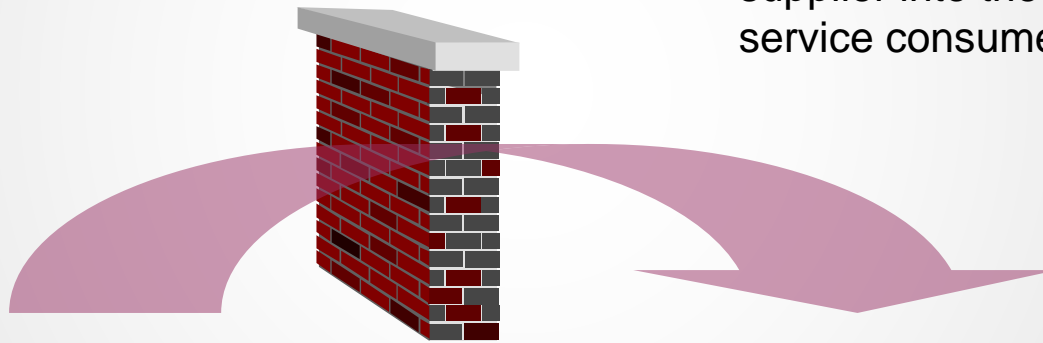
Mode 1: cross-border supply of services

Country A

Country B



**Service
supplier**



Cross-border supply takes place when a service is supplied from the territory of the service supplier into the territory of the service consumer

**Service
consumer**

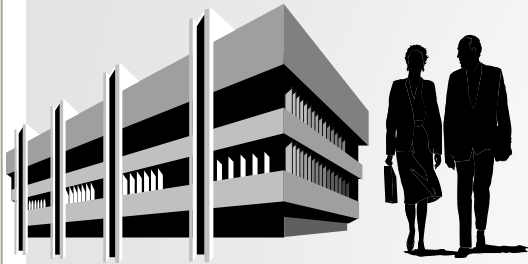
Mode 1: cross-border supply of services

- **It is only the services that cross the border:** very similar to trade in goods.
- Such a supply of services may be enabled by communication tools such as telephone, fax, internet...
- **Examples:** transport, distance education, telemedicine, electronic financial transfers, provision of architecture designs, consultancy and all kinds of Business Process Outsourcing (BPO).
- **Cross-border trade (mode 1) is covered in the BOP services account** (a transaction between a R and a NR).

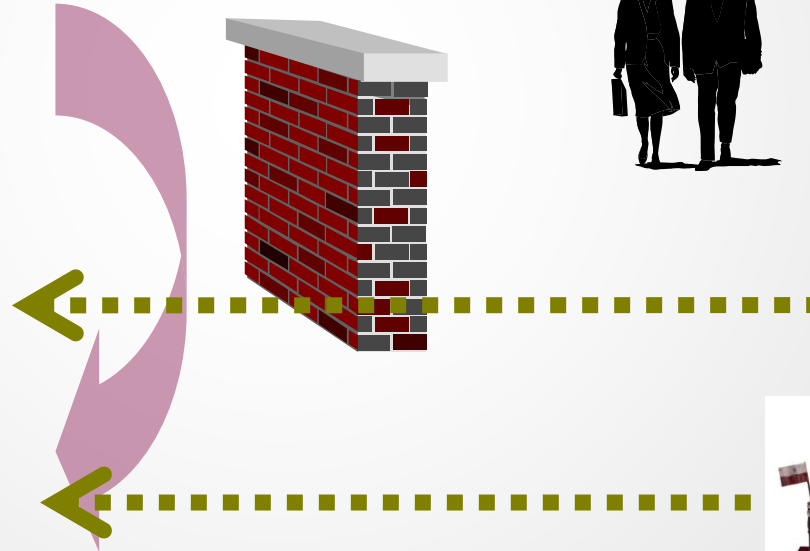
Mode 2: Consumption Abroad

Country A

Country B



Consumption abroad occurs when the service is supplied in the territory of the supplier to the consumer of any other country



**Service
supplier**

**Service
consumer**



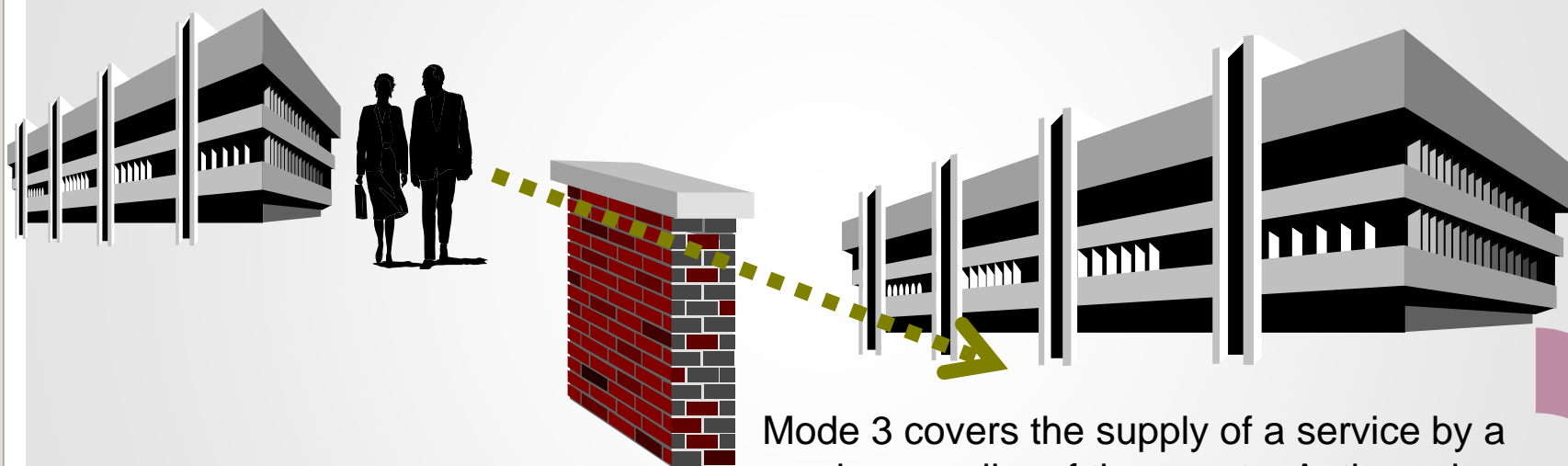
Mode 2: consumption abroad

- **The consumer moves outside his territory in order to consume the services.**
- **Examples:** tourists activities (local transportation, accommodation and restaurant...), medical treatment abroad, students pursuing education abroad, repairs and maintenance on movable goods made abroad (including ships, aircrafts and other transport equipment).
- **BOP statistics on services include consumption abroad** (mode 2) because it is a transaction between a R and a NR (a short stay abroad).

Mode 3: Commercial Presence

Country A

Country B



**Service
supplier**

Mode 3 covers the supply of a service by a service supplier of the country A, through a commercial presence in the country B of the service consumer

**Service
consumer**

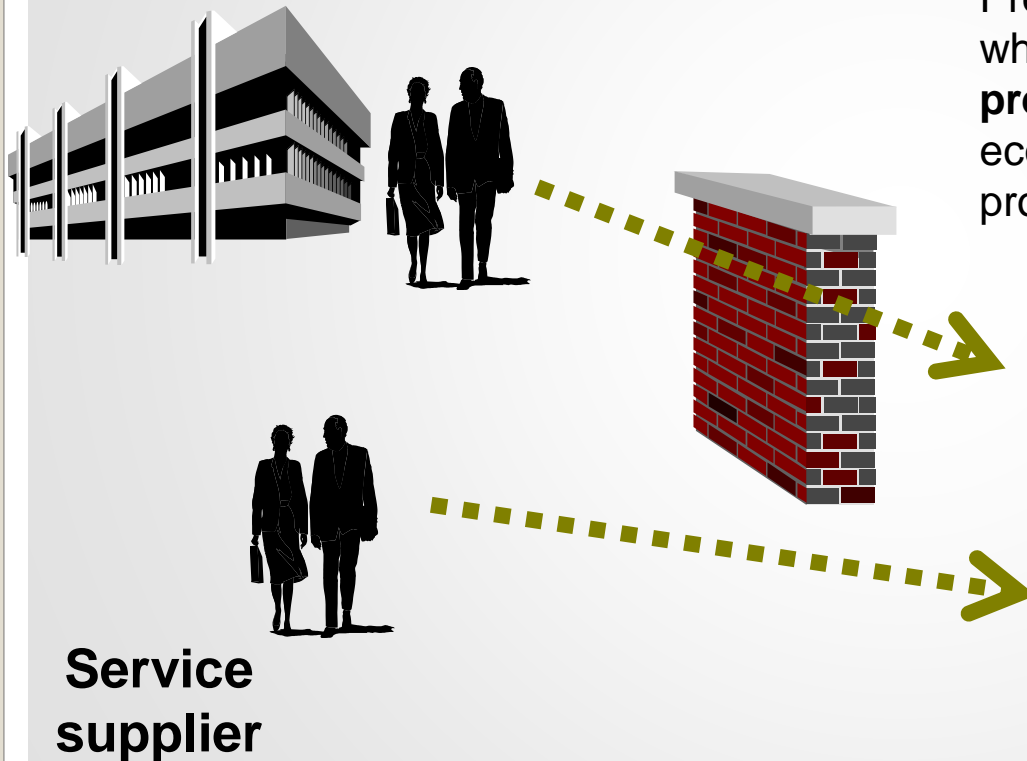
Mode 3: commercial presence

- **Commercial presence: the firm sets up an affiliate abroad**
 - Closely linked to the objective of foreign suppliers to obtain a lasting interest in another territory through FDI in order to supply services,
 - Ensures a close contact with the consumer.
- **FATS** (outside the scope of the BOP: a relation between two residents or two non-residents): FATS provide most information for services supplied through mode 3: sales, exports and imports of services...

Mode 4: presence of natural persons

Country A

Country B



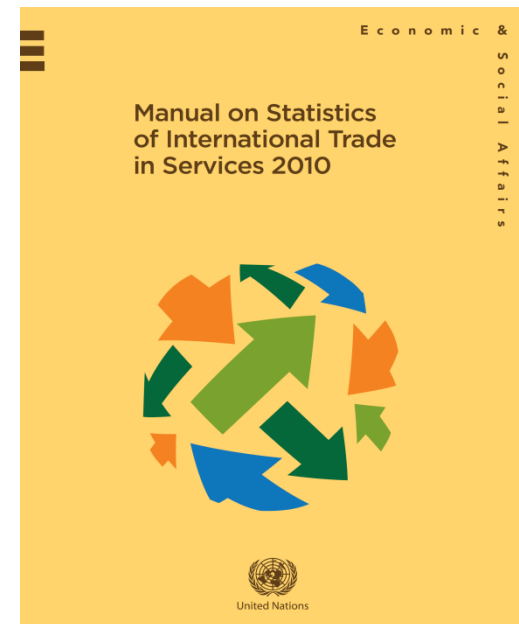
Mode 4: presence of natural persons

- The service supply is ensured through the presence of **an individual temporarily present in the economy of the consumer**, either as an employee of a foreign service supplier or as a self-employed worker.
- Mode 4 statistics cover not only **the services** which are supplied (e.g. provision of financial or auditing services...) but also **the employment** (the labour input in the production process, i.e. the number of people crossing the borders to provide the services)
- 2 criteria for defining mode 4 movements and transactions: the ***purpose of the stay*** (provision of commercial services), ***duration of the stay*** (temporary).

Conclusions

Conclusions

- It is necessary to develop statistics on international trade in services for GATS, economic policy and analytical purposes.
- The main reference is the **Manual on International Trade in Services (MSITS)** which was first published by the UN in 2002 and revised in 2010.



Conclusions

- The Manual gives a broad view of trade in services, as several approaches corresponding to different modes of supply are necessary.
- It covers ITS in the conventional view (a relation between a resident and a non-resident), but with a more detailed classification than in the BOP.
- It also covers services delivered through locally established affiliates and through the movement of physical persons.
- The Manual's recommendations need to be implemented as far as possible.

Thank You