

**Strengthening the Capacity of
National Authorities and Regional Organisations
in respect of Services Statistics**

Situational Assessment

FINAL REPORT

Prepared for:

The Caribbean Community Secretariat

Prepared by:

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Consultants**

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LIST OF ACRONYMS

| | |
|-------------|---|
| ACS | Association of Caribbean States |
| BOP | Balance of Payments |
| BPM5 | Classification of International Transactions in Services in 5 th edition of BOP Manual |
| CARICOM | The Caribbean Community |
| CDB | Caribbean Development Bank |
| CPC(Prov) | Central Product Classification (Provisional) |
| CPC v. 1.0 | Central Product Classification version 1.0 |
| CTO | Caribbean Tourism Organisation |
| ECCB | Eastern Caribbean Central Bank |
| EBOPS | Extended Balance of Payments Classification of Services |
| FATS | Foreign Affiliate Trade Statistics |
| FDI | Foreign Direct Investment |
| FTAA | Free Trade Area of the Americas |
| GATS | General Agreement on Trade in Services |
| GDDS | General Data Dissemination Standards of the IMF |
| IMF | International Monetary Fund |
| GDP | Gross Domestic Product |
| GNS/W/120 | GATS Services Sectoral Classification |
| I O | Input Output Tables |
| ISIC (Rev3) | International Standard Industrial Classification, third revision |
| MSITS | Manual on Statistics of International Trade in Services |
| OECS | Organisation of Eastern Caribbean States |
| RNM | Regional Negotiating Machinery |
| SNA | System of National Accounts |
| TSA | Tourism Satellite Accounts |
| WTO | World Trade Organisation |

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PREFACE

This report presents the findings and recommendations of the *Situational Assessment* component of the project "*Strengthening Statistical Capabilities of Member States*" under the **CARICOM Protocol II Trade Policy and Facilitation Project** (a component of the *Regional Trade Policy Responsive Project*). The overall project originates in the Single Market and Economy Programme of which Ivor Caryl is the Programme Manager and Dr Philomen Harrison is the Deputy Programme Manager of the Statistics Sub-Programme.

The Situational Assessment was undertaken by the Team of Consultants Shailabala Nijhowne (Lead Consultant), Anna Ansmits and Noel Boissiere, for the CARICOM Secretariat under the general direction of the Component Manager, Dr. Philomen Harrison.

The findings and recommendations were presented to the Project Management Steering Committee on October 30, 2001.

EXECUTIVE SUMMARY

1. One of the primary goals of this Situational Assessment was to evaluate the adequacy of the existing statistical programmes in the CARICOM member countries for:
 - (i) meeting the needs of policy makers, trade policy analysts and trade negotiators engaged in fostering growth and structural transformation in the economies of the CARICOM member countries, through promoting the development of the production of services, both for domestic consumption and for the international market ; and
 - (ii) assessing the potential and monitoring the impact on the domestic economy of widening markets through liberalisation of trade in services, by removing restrictions under Protocol II for the CARICOM region, as well as through other trade agreements, such as FTAA and GATS.
2. The report brings together the two main aspects of the assessment process. First, the identification of the analytical purposes for which data on services are needed and the statistical framework within which they can be expressed. Second, the review and evaluation of the statistical programmes through which the data are collected and compiled for each of the main statistical areas of interest to the users. The recommendations presented at the end of each section propose the several initiatives that need to be launched within the next three years to enhance and expand the statistical programmes in order to meet user needs.
3. To satisfy analytical requirements, what is required are production statistics for the service industries, including the service products that they produce; labour statistics; statistics concerning international trade in services ; and, in the context of the removal of restrictions under Protocol II and the GATS trade negotiations, statistics about the modes of delivery of services known as “the four modes of supply”.
4. *International trade in services* data, needed to monitor the first mode of supply, or ‘cross border trade’, are assembled by Central Banks for the Balance of Payments. Significant for the Caribbean Region are *tourism statistics* that constitute the second mode of supply- ‘consumption abroad’. The production data programs of statistical offices collect data about the industries that produce the products that tourists buy. Based on international arrivals and expenditure surveys, estimates of tourist expenditure on some broad services categories are made by the statistical agencies for the ‘travel’ component of the Balance of Payments. What are required for the third mode of supply- ‘commercial presence’ are *foreign affiliate trade statistics*. In their absence *foreign direct investment statistics* compiled in the context of the Balance of Payments can be used. Finally, to monitor the fourth mode of supply- ‘*presence of natural persons*’, data on the value of services delivered by persons crossing the border to deliver the service are required as are the numbers and compensation of temporary employees of domestic businesses.
5. The main findings with respect to the current situation are that, although basic data exist, in order to meet the full range of user needs, services statistics programmes need to be enhanced and expanded. Detailed technical recommendations with respect to expanding and enhancing the programs in each of the areas mentioned above are presented in the Report, along with the associated resource requirements.

6. The recommendations are set out in the form of a three year work program to address the following main issues: low response rates that were identified to be a serious problem, updating and maintaining Business Registers, improving coverage of service industries, expanding and developing product detail, addressing the issue of estimating the output of particularly intractable service industries, such as Business and Professional Services and Entertainment, beginning the compilation of foreign affiliate trade statistics, and investigating the possibility of collecting statistics on the presence of natural persons.
7. While an infusion of additional resources is clearly required in order to implement the recommended initiatives, certain activities can be started without additional resources, for example, the compilation of available data on international trade in services and production for the Region and extraction and publication of available detail that is currently collected but not published.
8. The capability of the statistical office requires strengthening through an infusion of resources in two main areas. The first requirement is to enhance the analytical capabilities of the offices through the provision of dedicated staff in the form of research staff or a research unit and dedicated personnel, assigned exclusively to addressing the complex issues of collection, compilation, estimation and analysis of services statistics to meet the needs of increasingly sophisticated users. The second is to enhance the quality of survey data through improving the response rates and coverage.
9. The resource estimates take into account the practical problem that statistical agencies have experienced cut-backs at the same time as they are expected to take on increased data collection. Since the professional and technical staff of the statistical offices are already fully extended, any additional activities such as those required for services statistics, can only be undertaken if present level of staffing is increased. For example, the expanded services statistics programs to be found in the statistical offices of the other countries with well developed statistical programmes, such as the member states of the OECD, have only been achieved in the last ten years with a considerable infusion of resources.
10. As compared to the goods producing industries, it is much more difficult to collect data from service industries because a far larger proportion of the output of services than of goods is produced by small units that either do not have developed accounting systems or are reluctant respondents. Moreover, service products are much more difficult to define, identify and survey. Therefore, it is not surprising to find that the quality of available statistics on services is very negatively affected by an extremely low response rate.
11. In order to enhance and strengthen the services statistics programmes in the statistical offices of the Region, a concerted effort to address the issue of low response rates is recommended. Detailed recommendations are made in the report. Low response rates are not a new problem, nor is the problem confined to the Caribbean. Statistical agencies cannot solve the problem alone. Essentially the habit of reporting has to be actively promoted and marketed through continuing communications programmes. Moral and legal support from the Government is needed. At the very highest level it is necessary for Senior Ministers of Government and the Central Bank to stress the importance of statistics and urge businesses to provide them. This is an opportune time to advocate business cooperation, particularly in the context of trade negotiations in which the Government is interested both in protecting their interests within the domestic economy by assisting them to become more efficient and capable of competing in world markets and helping them to

enter international markets. In some countries in the past, ministers have made appeals to business operators for their cooperation with the statistical offices. These efforts need to be continued and intensified, with special focus on the services sectors.

12. It is recommended that Technical Assistance is sought to supplement analytical capability, in particular in the following areas.

- To develop services statistics in some of the more intractable areas of Professional Services and Entertainment to assemble data about production and exports both in the countries of the OECS and the Region.

- To assist the OECS region and Suriname to draw upon the experience of other countries within the region in order to up-date the tourist expenditure patterns that are being used to arrive at their Travel figure for the Balance of Payments.

13. It is recommended that Workshops be held and Training provided for the technical staff of the Statistical Agencies.

The Workshops should be focussed workshops, designed for the purpose of resolving issues and held for the technical staff working in area that is the subject of the workshop. The workshops should be used as an opportunity to draw on "best practices" within the region for implementation in their own countries, to improve questionnaires and methodology and develop statistical programmes in each of the areas that need to be enhanced. Suggested areas are:

- A workshop should be held to enable participants to understand the overall framework of the new International Manual on Statistics of International Trade and resolve technical problems (a) in successfully compiling statistics for particular service industry groups, such as Business and Professional Services and the Entertainment Sector, (b) in identifying the detail that should be collected in the product dimensions for both production and exports and facilitate the compilation of Inward FATS statistics.

- Another workshop should be held for staff in the region responsible for compiling Tourism statistics, to help compilers understand the Tourism Satellite account. and assist them to adapt the detail to the reality of their situations, adopt the "best practices" within the region, and to resolve problems related to the visitor expenditure statistics .

14. Finally it is recommended that CARICOM Secretariat play a leading role in:

- raising awareness in the Region of the need for sound services statistics, including statistics on international trade in services, and the need to enhance services statistics programmes in the Region to achieve this goal.
- providing opportunities for working level staff to share experience and best practices and receive technical assistance to enhance the statistical programmes for services.
- propagating knowledge of the Manual on Statistics on International Trade in Services and its recommendations, directly and through workshops .
- facilitating understanding of the Tourism Satellite Account, and arranging technical assistance and workshops to assist countries to implement it.
- creation of a database/compendium, that can be enhanced as data availability improves, of data relating to production and international trade in services, by bringing together and making available, existing data relating to production and international trade in services as well as the demand and supply sides of Tourism statistics to raise the awareness of existing data among analysts in the region.

STRENGTHENING THE CAPACITY OF NATIONAL AUTHORITIES AND REGIONAL ORGANISATIONS IN RESPECT OF SERVICES STATISTICS SITUATIONAL ASSESSMENT

1.0 PROJECT OBJECTIVE, STRATEGY AND ORGANISATION

1.1 Background

The contextual background to this Situational Assessment of the Capacity of National Authorities and Regional Organisations in respect of Services Statistics is provided by the Terms of Reference that states “ In the context of the international economic environment, the twin phenomenon of globalisation and liberalization necessitate the existence of a statistical framework that can incorporate the monitoring and analysis of the internationalization of the production of goods and services. The integration of the global economy has created certain imperatives including the need for enhancing the capacity to monitor and evaluate the performance of economic sectors, particularly in the relatively undeveloped services sector of the CARICOM countries. Arrangements to treat with development of the services sector and facilitating trade in services in CARICOM have recently been in the forefront of regional collaborative efforts”.

Special reference is made to Protocol II. “Implementation of Protocol II requires the notification and removal of restrictions by Member States to the right of establishment, provision of services and the movement of capital. It is anticipated that with the full implementation of the Protocol an environment would be created for trade in services in the Region. Critical to monitoring the implementation of the new activities envisaged is the ability to collect data and related information on all services activity-both on the production and trade aspects. The capability to monitor performance and provide information to decision makers for the preparation of policy positions and also inform international negotiations is considered to be an important imperative.”

“Additionally, Member States, the private sector and regional organizations must have the appropriate statistical data to make informed decisions. National Statistics Offices(NSOs)’ Central Banks and other organizations involved in services statistics do not have the capacity or capability to produce the range and breadth of statistics required. Government and private sector organizations need to have services statistics to monitor performance and determine the economic and investment climate, business opportunities and forecast economic direction. Member States with strengthened statistical capabilities to effectively collect, analyse and provide detailed reports on services data and information, can provide the necessary information and data support to the operation of the CARICOM Single Market Economy”.

1.2 Objective of Project

The objective of this project, as outlined in the Terms of Reference, was to undertake a situational assessment to enable the development and strengthening of statistical capacity with respect to the services sector, in order to monitor activity and develop policies and programmes for effective participation of CARICOM Member States in the production of and international trade in services.

To achieve this objective, the Project Team :

- (a) assessed the current situation in the light of user requirements and existing statistical capabilities and resources;
- (b) identified data gaps and inadequacies;
- (c) developed recommendations on the scope and range of service statistics and information required to support external negotiations and monitoring of the services sector, including trade in services;

and, based on the above,

- (d) made recommendations with respect to the steps to be undertaken and the methodologies to be used to strengthen and enhance statistical capacity; and
- (e) broad estimates of resource requirements phased over a three-year period.

1.3 Coverage of project

The study covers the following Member States of CARICOM, namely: Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St Kitts and Nevis, Saint Lucia, St Vincent and the Grenadines, Suriname and Trinidad and Tobago.

1.4 Project team

The Project was undertaken by a team of consultants:

Shailabala Nijhowne (Lead consultant)

Anna Ansmits

Noel Boissiere

1.5 Project Tasks

PHASE I

1. Design and submission of a questionnaire intended to elicit background information on the current situation from the member states.
Target date: July 15, 2001
Completion date: July 15, 2001
2. Preparation and submission of an Inception Report containing a general overview of the current situation based on the replies to the questionnaire.
Target date: August 11, 2001
Completion date: August 11, 2001
3. Briefing Session with CARICOM Secretariat.
Target date: August 15, 2001
Completion date: August 15, 2001

PHASE II

4. Field consultation - visits to member countries
Target date: September 13, 2001
Completion date: September 21, 2001
5. Preparation and submission of Draft Report to the CARICOM Secretariat, outlining the Conclusions and Recommendations
Target date: October 25, 2001
Completion date of Interim Report : October 10, 2001
Completion date of Draft Report: October 25, 2001
6. Submission of Final Report¹ to Secretary General of CARICOM
Target date: November 30, 2001
Completion date: November 30, 2001

¹ *Strengthening the Capacity of National Authorities and Regional Organisations in respect of Services Statistics.*

1.6 Project execution

1.6.1 Questionnaire Design

To carry out the project, the team began by designing and submitting a questionnaire to the CARICOM Secretariat, for distribution to the member states of CARICOM. (The questionnaire is reproduced in Appendix I of this report). The questionnaire was designed to allow the consultants to get an initial understanding of the current situation with respect to the availability of data. The responses received were analysed and the consultants prepared a project Inception Report for the CARICOM Secretariat, that described their initial findings and outlined the issues that would be further explored during the field visits. (the summary of the responses to the questionnaire is reproduced in Appendix I of this report)

1.6.2 Field visits

The consultants visited the member countries of CARICOM and conducted in depth interviews with the agencies responsible for the collection and /or compilation of services statistics in each country, such as the Central Bank, the Statistical Office, the Tourism Board and Ministry of Tourism, the Department of Immigration, and International Financial Authorities, as well as with major users, such as trade policy analysts, trade negotiators of the regional negotiating machinery, officials from departments of Trade and Industry, Foreign Affairs, and the institutions responsible for the promotion of Tourism. In addition, discussions were held with regional organisations engaged in the compilation or analysis of statistics or in regional co-ordination, such as ECCB, OECS, ACS, CTO, RNM, and the CARICOM Secretariat. (Annex II presents a list of officials who were interviewed or participated in the meetings held during the field visits)

The largest proportion of time was spent with the statistical offices, discussing all aspects of their statistical programmes.

The field visits made it possible for the consultants to gain first hand knowledge of the needs of users and the statistical programmes of each country. They were able to study closely all aspects of the programmes relevant to the concerns of this study and assess the capacity of the statistical agencies to enhance their services statistics programmes, in terms of resource availability, level of knowledge and technical skills. Discussions provided essential information on the legal, financial, operational and cultural constraints under which the programmes were being carried out. Ways in which the programmes could be improved and enhanced could be explored and the feasibility of proposals for improvement and enhancement could be discussed with the staff and resource requirements assessed. It would not have been possible to develop an informed assessment of the situation or present recommendations for data improvement without the field visits. Moreover, the field visits had the added benefit of raising the awareness of the data supplying agencies concerning the need for and importance of services statistics, as well as international developments in the field.

1.7 Project Output

The project output is a final Report presenting an assessment of the current situation in the light of user requirements, with recommendations, including broad estimates of resource requirements, for enhancing the statistical capabilities of the relevant agencies to effectively collect, analyse and disseminate statistical information concerning the production of and trade in services, in the first instance over a three year period.

2.0 STATISTICAL REQUIREMENTS

2.1 Goals of Assessment

Important among the goals of this Assessment of the Capacity of National Authorities and Regional Organisations in Respect of Services Statistics, is to evaluate the adequacy of existing statistical programmes

(i) for meeting the needs of policy makers, trade policy analysts and trade negotiators engaged in fostering and analysing growth and structural transformation in the economies of the CARICOM member countries, through promoting the development of services production both for domestic consumption and for international trade, and

(ii) for assessing and monitoring the impact on the domestic economy of widening markets through liberalisation of trade in services, by removing restrictions under Protocol II for the CARICOM region, as well as through other trade agreements in which the region and the member states will be involved, such as FTAA and GATS.

The assessment brings together two aspects. First, identification of the analytical purposes for which the data are needed and the statistical framework within which they can be expressed. Second, review and evaluation of the statistical programmes through which data are collected and compiled and recommendations on how they can be enhanced and expanded to meet user needs.

2.2 Statistical needs of users

2.2.1 Analytical Framework

The *System of National Accounts* (SNA 93) and its various component accounts provide a useful framework for analysing and monitoring the structure, importance and other characteristics of services in the economy. In order to measure the role of services in the economy and assess the impact of widening the market of each country by liberalizing trade in services within the Region (Protocol II) and beyond that to the continents of North and South America (FTAA) as well as to the rest of the world, ideally it is necessary to compile and bring together the production and financial accounts of the system at current and constant prices. This includes accounts related to international trade and payments, as prescribed for the Balance of Payments (BPM5), supplemented with data recommended for the Tourism Satellite Account (TSA). Important also are statistics related to capital and investment, foreign direct investment and foreign affiliate trade statistics. Finally labour market statistics relating to the labour force in terms of skills and occupation, gender, numbers employed, part- time and full- time employment and status in employment are needed.

Although all the above data sets are useful and necessary for providing a complete analytical framework, this assessment, in line with the Terms of Reference, has concentrated mainly on production statistics and statistics on international trade in services, including “the four modes of supply”.

2.2.2 Production Statistics

Analysis of the role and importance of the production of services in the economy requires assembly of statistics about services produced in the economy and the industries that primarily produce them. Industry detail needs to reflect all service industries of analytical interest and importance and new and emerging activities.

Production statistics needed by analysts, in the industry dimension can be presented within the production accounts of the *System of National Accounts (SNA93)* framework as total revenues from production and total associated costs of production in terms of the value of the goods and services purchased, and value added (wages and salaries, net income of unincorporated business, depreciation and corporation profits). Total revenues from production and total costs of production need to be broken down by type of product, good or service, for analytical purposes and for estimating constant price GDP and reconciling the production and expenditure sides of the accounts.

Industries produce products and the same product can be produced by more than one industry. It is therefore necessary *to collect product detail with respect to industry outputs and inputs*. To estimate the total output of any given service product, data have to be assembled from all industries engaged in the production of that service, with particular focus on the industries primarily engaged in the production of that service product.

2.2.3 International Trade in Services

In addition to production data, data on the value of exports and imports of services are required. Industries sell their product output domestically or export it. Total supply of a given good or service consists of domestic production plus imports. The interface between domestic production and trade is in the dimension of transactions.

Thus to compare production and trade, it is necessary to compile product data. However, very often data are only collected from the primary producing industries of a product and the total output of industries or their exports are treated as proxies for product output and exports.

2.2.4. The four modes of supply

The nature of services is such that they can be delivered across international borders in a variety of ways. Thus for Protocol II and the GATS Agreements, a further dimension has been introduced with respect to international trade in services, that of the four modes of supply. This concept is used to explain the four ways in which services can be traded internationally.

For purposes of the agreements, international trade in services is defined as the supply of a service:

- (a) from the territory of one Member into the territory of any other Member
mode 1 “cross border trade”]

- (b) in the territory of one Member to the service consumer of any other Member [mode 2 “consumption abroad”]
- (c) by a service supplier of one Member, through commercial presence in the territory of any other Member [mode 3 “commercial presence”]
- (d) by a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member [mode 4 “ presence of natural persons”].

To monitor mode 1 and 4, what is needed are data on the value of exports and imports of services by country of destination for exports and by country of origin for imports.

To be part of mode 1, these services must be directly exported from the territory of one country to the territory of the other.

When the owner or the employee of the service firm travels across the border to deliver the service, either on own account or as an employee of a firm, the transaction falls into mode 4, presence of natural persons.

To monitor mode 2, what is needed is tourist expenditure on services that occurs when visitors/tourists cross the border to consume services in an economy, other than the one in which the visitor/tourist resides.

To monitor mode 3, what is needed are foreign affiliate trade statistics (FATS), i.e., the whole range of production data, including number of employees, pertaining to foreign owned establishments or subsidiaries of foreign corporations, within the domestic economy (inward FATS) and about the foreign subsidiaries of domestically owned corporations (outward FATS). When a foreign subsidiary is set up in an economy, it may supply its output to the residents of the economy or it may export some or all of its output to its home country or to third countries. The activities of subsidiaries producing services for the economy in which they are located are described as delivery of a service through “commercial presence”. The benefit to the receiving country will depend upon the income that is spent in the country on domestically produced intermediate goods and services, or on wages and salaries, investment or paid in taxes. The proportion of the intermediate expenditure made on imports, constitutes a leakage that it is most important to measure.

To monitor mode 4, two sets of data are needed. One is the value of services delivered by persons, mentioned above and two, numbers and compensation and country of origin of persons, temporarily residing in the country to deliver a service.

Statistical allocation to the modes of supply

In principle, all services can be supplied across international borders by any or all modes of supply. MSITS suggests a simplified approach to the statistical treatment of the modes of supply.

It suggests that Balance of Payments service transactions correspond to modes 1,2, and 4 and that FATS refer to mode 3.

MSITS further suggests that

(1) If the major part of a given service category corresponds to services supplied under one mode, the whole service should be fully allocated to that category.

As a rule of thumb, it is suggested that the following be allocated to mode 1, transportation, telecommunication, financial and insurance services, and franchising.

(2) Where a service transaction involves several modes of supply, in principle, an allocation should be made among them for each transaction. However for many transactions it is difficult to make such an allocation, e.g. in the case of an architect who designs a construction project, makes visits to the country of the purchaser and delivers the final product through a telecommunication link, it is recommended that if estimates of subdivision of resources cannot be made, the transaction be allocated to the most important mode in terms of time and resources associated with it. Such a decision will have to be made for computer and information services, other business services and personal, cultural and recreational services. Knowledge of the location of the supplier at the time of delivering the service is important.

(3) The travel category is all to be assigned to mode 2.

(4) Construction services are always treated in the GATS as mode 3.

[For a fuller and more precise explanation of the principles to be used in making statistical allocation to the modes of supply reference should be made to the Manual on Statistics of International Trade in Services Section 4.2 pages 39-44]

2.3 Statistical Agencies

The services statistics required to meet the need of the various analytical purposes mentioned above have to be assembled from diverse sources, processed, integrated and assembled into a common framework. In most countries, a number of agencies are participants in the process, among which are the statistical offices, central banks, and tourism authorities as well as administrative agencies such as immigration departments and tax departments.

In the member countries of CARICOM, statistical collection of services data is presently the responsibility of different agencies most important of which are Central Statistical Agencies and Central Banks. Data related to international trade in services are usually collected by the Central Banks as part of the programmes of data collection for the Balance of Payments and data related to domestic production of services are collected by Central Statistical Agencies as part of their economic statistics survey programmes for the compilation of the National Accounts or economic statistics programmes.

To obtain the statistics needed for compiling the National Income Accounts, Statistical Agencies directly survey businesses including those primarily engaged in producing services. Businesses produce products that are either consumed domestically or exported. They purchase products for intermediate use that are either produced domestically or imported. In principle, Statistical Offices can and sometimes do collect the value of services exported as a breakout of the total value of production, as well as a breakdown of the total value of services purchased for intermediate consumption between domestically produced and imported services.

It is customary however, for the Central Banks to collect and compile data on international trade in services as part of their programmes of data collection/compilation for estimating the Balance of Payments. As long as there were exchange controls, the value of international trade in

services, exports and imports, were estimated by Central Banks, with the help of records of foreign exchange transactions maintained by the Banks. With the abolition of exchange controls, that source of information is not available to the Central Banks and they too have become more dependent on surveying businesses to gather the information that they need for the compilation of the Balance of Payments.

Though collected by immigration departments, tourist arrivals data are sometimes processed and compiled by statistical offices. Tourist expenditure data are collected through exit surveys at airports and, sometimes, other points of entry, as well as from cruise ship passengers. Tourist expenditure data are usually processed and compiled by statistical offices who supply them to Central Banks for the travel component of the Balance of Payments statistics. Statistical offices collect data on Tourism related industries as part of their economic statistics programmes.

2.4 Classification

Statistical and Legal Classifications

Classifications serve a dual purpose. They provide descriptions and definitions of classes and groups of classes that enable an entity to be classified within a hierarchical structure. Statistical Classifications are designed to collect, and classify statistics to facilitate analysis. The detail or some intermediate level of the same classifications can also be regrouped and used for a legal purpose such as for the GATS agreements or Protocol II of the Caribbean Community.

If the same classification is used for both legal and statistical purposes and data can be produced, those data can be used to monitor legal agreements. However, whatever may be the requirements of users, the ability of statistical agencies to compile statistics is constrained by current data collections, the resources available to them to assemble and process additional data and equally importantly, data sources and the willingness of their respondents to provide the data. The level of detail at which the data can be collected depends upon how respondents keep their records, or are willing to keep their records.

Industries and Products

Industries are groupings of production units of businesses described for statistical purposes as establishments and classified to an industry based on their principal activity. It is customary to collect statistics related to the value of production and sales and associated costs including the components of GDP, wages and salaries, depreciation and profits, as well as employment about establishments and to classify the data to the industry classification.

Establishments produce products, that is, goods and services. Establishments may produce many products, both goods and services, and the same product may be produced by many different industries, because though it might be the primary product of one industry it may also be the secondary output of another. To arrive at the total output of a product or total exports of a product, it is necessary to gather information from all industries. To get the full picture of domestic production and international trade, it is necessary to assemble data about the products produced and exported on the output side and products purchased as inputs whether domestically produced or imported.

Because it may be difficult to collect product data across all industries, they are sometimes collected only from the principal producing industry. This can be adequate depending upon the

product for which data are being collected, and the extent to which it is produced by that industry (the coverage ratio). It may be necessary to seek data about particular products from a group of industries or put particular questions on all or a number of industry questionnaires.

Major Statistical Classifications

The two major international classifications that are designed for collection and compilation of business statistics are an industry and a product classification. The current United Nations standard classifications relevant for services statistics are the International Standard Industrial Classification (ISIC Rev3) and the Central Product Classification (CPC v 1.0). The classification used for compiling international transactions in services is the Balance of Payments classification (BOP classification) presented in the fifth edition of the Balance of Payments Manual and most recently the extended BOP classification of services (EBOPS) in the Manual on Statistics of International Trade in Services (see Annexes II, III and V of this report).

An explanation of the various international statistical classifications and their relationship to one another is provided in Annex I.

Legal Classification: GATS Sectoral Classification (GNS W/120)

The World Trade Organisation (WTO) created a classification known as the GATS Sectoral Classification (GNS/W/120 list) for ***legal purposes*** to help define the boundaries of agreements for the Uruguay Round of the GATS (see Annex IV).

The GATS Sectoral Classification GNS W/120 is composed of Sectors, sub-sectors and detailed categories. The detailed categories correspond to the three, four and very occasionally five digit categories of the Provisional CPC. Though the Provisional CPC has now been superseded by CPC v 1 as the statistical product classification of the UN, and the use of CPC v 1.0 in the new round of negotiations has been debated within the Committee on Specific Commitments, the WTO has not officially recommended its use for the negotiations. However many countries are using it to help them define their commitments.

For analysis related to the legal aspects of liberalizing trade and formulating specific commitments for trade agreements for the GATS, it is necessary to use the GATS Sectoral Classification (GNS W/120). As the detailed categories of the GATS Sectoral Classification correspond to the lower levels of the Provisional CPC, that can be related to CPC v 1.0, the lower level detail of CPC v.1.0 can be used to do detailed analysis.

The GATS Sectoral Classification can also be used for Protocol II. Any analysis related to the legal aspects of liberalisation of trade for Protocol II, such as the analysis of restrictions recently undertaken for the CARICOM Secretariat, can usefully be undertaken at the lowest level of detail of the CPC v.1.0 and then rolled up to the CPC v.1.0 level equivalent to the GATS Sectoral Classification categories to make it relevant for analysis for the legal agreements of the GATS. Alternatively, the restrictions can be named in detail, and the analysis can be undertaken only for detailed GATS categories, compatible with the CPC v 1.0.

The advantage of using a statistical classification for legal purposes is the expectation that statistics would then be available to monitor agreements.

As CPC v.1.0 and the Provisional CPC can be related to one another, in ideal circumstances, if data were collected for CPC v 1.0 categories, at the level of detail corresponding to the lowest level of the GATS Sectoral Classification, the data could be used for purposes of monitoring GATS agreements.

In the case of output and trade in services the ideal position of being able to produce data at the detailed level of the CPC, compatible with the GATS Sectoral Classification (GNS/W/120) may not be possible in the short run . However, as explained below approximations can be made.

Statistical Classification for International Trade: Balance of Payments Classification.

International Trade in Services data are collected in the context of compiling the Balance of Payments. The statistical classification used for the collection of international trade in services data is the Balance of Payments classification. (BPM5). Though it too can be related to the CPC no country has, as yet, started collecting international trade in services data for the CPC. ***Thus in most countries of the world, the level of detail at which data on international trade in services are collected for their Balance of Payments programmes is still very much higher than that of the lowest level of the GATS Sectoral Classification (GNS W/120).***

More recently a new international standard known as the extended Balance of Payments Classification (EBOPS) has been created that is considerably more detailed than BPM 5 but it is still not as detailed as the most detailed level of the GATS Sectoral Classification (GNS/W/120), which was created for legal purposes.(see Annex V)

The BOP Classification, EBOPS and CPC v 1.0 are the main classifications to be considered for the collection of services statistics in the product dimension, each is progressively more detailed than the one before.

GATS Services Sectoral Classification (GNS W/120) and EBOPS

The GATS Services Sectoral Classification (GNS W/120) and Tables that relate EBOPS, CPC v 1.0 and the GATS Services Sectoral Classification are available as part of the Manual on Statistics of International Trade in Services (MSITS). (They are reproduced in Annexes IV and V of this report.)

The relationship of the two classifications EBOPS and GNS W/120 is such that though some of the categories of the two classifications can be directly related to one another, others can be related at different degrees of approximation and for yet others EBOPS classes need to be further detailed to reconstruct GATS subsectors and lower level detail.

The correspondence table shows how lower levels of CPC v 1.0 can serve as the bridge between the two (see Annex V).

Where countries are already compiling international trade in services data according to the BOP classification, the first step is to expand their programmes to the level of EBOPS. However to approximate categories of the GATS Sectoral Classification, EBOPS categories have to be further disaggregated. How far countries should try to go in disaggregating EBOPS depends upon the importance of the component item for the economy of the country or the region and the ability of the statistical agencies to collect or estimate the detail.

Simplified Relationship between GATS (GNS W/120) and EBOPS

As mentioned above MSITS provides a detailed correspondence between GATS, CPC v 1.0 and EBOPS. (see Annex V). Using that detailed correspondence table, a simplified relationship has been derived for this report , to show how, with minimum further expansion, EBOPS data can be used to very roughly approximate groupings of the detailed categories of the GATS Sectoral Classification (GNS W/120).

The Table is shown below. It shows that in many cases it is not possible to produce data for GATS Sectors and Sub-sectors in their entirety. Rather it is possible to draw parallels that bring together detail from each classification into roughly comparable categories.

The table also shows that certain EBOPS categories such as 9.3.6(284) Other business services, 10.1 (288) Audiovisual services and 10.2.3 (897) Other personal , cultural and recreational services, need to be broken down further.

It should be noted that because Tourism is of particular importance to the Region much greater detail than is recommended for EBOPS is already being collected in many countries of the Region. The EBOPS category of Travel can therefore be broken down much further and it is for that reason that further breakdown for Travel Agencies and Tour operators and tourist guide services is recommended. It might also be possible to break down certain categories of Transportation further. For all Tourism characteristic products it is the detail recommended by the Tourism Satellite Account that is of relevance (see Annex VII).

Classification of Domestic Production and International Trade

As explained above the relevant international classifications for industries and products are ISIC Rev 3 and the CPC . Currently most countries use the Balance of Payments Classification and EBOPS for international trade (see Annexes II and III).

Policy analysts are interested in information about the *industries* that produce and supply services as well as in analyzing what proportion of domestic production is exported and what proportion of total supply is imported. Industry output should ideally be broken down into product outputs. Both domestic production and exports and imports should be compiled and compared in the product dimension, in principle classified to the CPC.

However , in the absence of product information and until it is possible to collect and produce product detail, for comparing total output and exports, industry data will have to be treated as adequate proxy for broad groups of product data . In the first instance, therefore the output of services by industry in ISIC categories will have to be related to and lined up with, the broad categories of EBOPS to approximate, again very roughly, the relationship between output, exports and imports. The table in Annex VI that shows the correspondence between ICFA, ISIC and EBOPS, can be used as a guide for relating ISIC and EBOPS categories.

| SIMPLIFIED RELATIONSHIP GATS (GNS W/120) | EBOPS |
|---|---|
| <p>1. Business Services</p> <p>A Professional Services</p> <p> a. Legal Services</p> <p> b,c Accounting, auditing, bookkeeping and taxation services</p> <p> d,e,f,g Architectural, engineering, integrated engineering , urban planning and landscape architectural services</p> <p> h,j Medical and dental services, services of midwives etc.</p> <p> i,k Veterinary services and other</p> <p>B. Computer and related services a,b,c,d,e</p> <p>C. Research and Development</p> <p>D. Real Estate Services</p> <p>E. Rental/Leasing Services without operator a,b,c,d,e</p> <p>F. Other Business Services</p> <p> a,b Advertising, market research and public opinion polling</p> <p> c,d Management consulting and related services</p> <p> e,m Technical testing and analysis and related scientific services</p> <p> f,g,h,i,j,k,l,n,o,p,q,r,s,t Services incidental to agriculture, hunting, forestry, fishing, mining, manufacturing, energy distribution, maintenance and repair of equipment, building cleaning, etc.</p> | <p>275 Legal Services</p> <p>276 Accounting, auditing, bookkeeping and tax consulting services</p> <p>280 Architectural, engineering and other technical services</p> <p>included in 896 below</p> <p>n.a.</p> <p>263 Computer Services</p> <p>279 Research and Development</p> <p>part of 284 below [should be split out]</p> <p>272 Operational Leasing Services</p> <p>278 Advertising, market research and public opinion polling</p> <p>277 Business and Management consulting and public relations services</p> <p>included in 280 above</p> <p>284 Other business services</p> |

| GATS (GNS W/120) (cont'd) | EBOPS (cont'd) |
|--|--|
| <p>2 Communication Services</p> <p>A,B Postal and Courier Services</p> <p>C Telecommunication Services a,b,c.....m</p> <p>n on-line information</p> <p>D Audiovisual Services</p> <p>a,b,c,e Motion picture and video tape production and distribution</p> <p>d.radio and TV transmission services</p> | <p>246 Postal and courier services</p> <p>247 Telecommunication Services</p> <p>included in 263 above</p> <p>288 Audiovisual and related services</p> <p>included in 247 above</p> |
| <p>3.Construction and related engineering A.B.C.D.E.</p> | <p>249 Construction Services</p> |
| <p>4. Distribution Services</p> <p>A,B,C commission agents' services etc.</p> <p>D Franchising</p> | <p>271 Other trade related services</p> <p>part of 266 [should be split out because the remainder of 266 is not relevant for the GATS]</p> |
| <p>5. Educational services A,B,C,D,E</p> | <p>895 Education services</p> |
| <p>6. Environmental Services A,B,C,D</p> | <p>282 Water treatment and depollution</p> |
| <p>7. Financial Services</p> <p>A. Insurance</p> <p>B. Banking</p> <p>C. Other</p> | <p>254,255,256,257,258 Insurance services</p> <p>260. Financial Services</p> <p>n.a</p> |

| GATS (GNS W/120) cont'd | EBOPS cont'd |
|--|---|
| <p>8. Health related and social services</p> <p>A,B Hospital services and other human health services</p> <p>C Social services</p> <p>D Other</p> | <p>896 Health Services</p> <p>part of 897 Other personal, cultural and recreational services [should be split out]</p> <p>n.a.</p> |
| <p>9. Tourism and travel related services</p> <p>A Hotels and restaurants</p> <p>B. Travel agencies and tour operators</p> <p>C. Tourist guide services</p> <p>D Other</p> | <p>870 Expenditure on accommodation and food and beverage services [should be further split into accommodation and food services]</p> <p>part of 284 Other business services [Travel agencies, Tour Operators and tourist guide services should each be separately split out]</p> <p>n.a.</p> |
| <p>10. Recreational, Cultural and Sporting Services</p> <p>A Entertainment Services (incl theatre, live bands and circus services)</p> <p>C Libraries etc</p> <p>D Sporting and other recreational services</p> <p>B. News agency services</p> <p>E. Other</p> <p>All other services not presently included in GATS list</p> | <p>part of 288 Audiovisual and related services [should be split out]</p> <p>897 Other personal , cultural and recreational services and</p> <p>889 News agency services</p> <p>n.a.</p> <p>Included in 897 Other personal, cultural and recreational services, above</p> |

| GATS (GNS W 120 list) cont'd | EBOPS cont'd |
|--|--|
| <p>11 Transport Services</p> <p>A Maritime Transport Services</p> <ul style="list-style-type: none"> a. Passenger transportation b. Freight transportation c. Rental of vessels with crew d,e,f Maintenance and repair of vessels, Pushing and towing services, Support services for maritime <p>B. Internal Waterways Transport</p> <ul style="list-style-type: none"> a. Passenger b. Freight c. Rental of vessels with crew d,e,f Maintenance and repair of vessels,pushing and towing services, supporting services for waterway transport <p>C. Air Transport Services</p> <ul style="list-style-type: none"> a. Passenger transportation b. Freight transportation c. Rental of aircraft with crew d,e Maintenance and repair of aircraft,Supporting services for air transport <p>D. Space transport</p> <p>E. Rail Transport Services</p> <ul style="list-style-type: none"> a,b,c,d,e <p>F. Road Transport Services</p> <ul style="list-style-type: none"> a. Passenger transportation b.Freight transportation c.Rental of commercial vehicles with operator d, e Maintenance and repair of road transport equipment, Supporting services for road transport services <p>G. Pipeline Transport</p> <p>H. Services auxiliary to all modes of transport</p> <ul style="list-style-type: none"> I. Other transport services | <p>207 Sea transport, passenger</p> <p>208 Sea transport, freight included in 207 & 208 above</p> <p>209 Sea transport, other &</p> <p>232 Other supporting and auxiliary transport services ,below</p> <p>228 Inland waterway transport,passenger</p> <p>229 Inland waterway transport, freight included in 228 and 229 above</p> <p>230 Inland waterway transport,other &</p> <p>232 Other supporting and auxiliary transport services, below.</p> <p>211 Air transport, passenger</p> <p>212 Air transport, freight included in 211 and 212 above</p> <p>213 Air transport, other &</p> <p>232 Other supporting and auxiliary transport services , below</p> <p>218 Space transport</p> <p>220,221,222,.Rail transport..... & 232(below)</p> <p>224 Road transport ,passenger</p> <p>225 Road transport, freight included in 224 and 225, above</p> <p>226 Road transport, other</p> <p>231 Pipeline transport and electricity transmission</p> <p>232 Other supporting and auxiliary transport services</p> |