Working Group on Data for Services Trade and Development Policies

Background Note

Prepared by the UNCTAD Secretariat

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Contents

1. Introduction

1.1 Background and Mandate

The Bridgetown Covenant requests UNCTAD to "support and promote activities and initiatives in developing countries through the improvement in trade in services.[1]" The services sector represents an increasing share of jobs, trade, and growth. Through their linkages to other economic sectors, services play a critical role in enabling all economic activities and thus are a dynamic factor for achieving sustainable diversification.

A better understanding of the critical role of services in economic diversification provides an important basis for policymaking. Developing countries face various challenges in collecting and utilizing data on services and trade-in services for various reasons. In addition to the fundamental difficulties in quantifying services, developing countries face additional challenges, such as a lack of statistical or IT infrastructure. Therefore, there are deficits in disaggregated services data to meaningfully inform services policymaking.

The Multi-year expert meeting (MYEM) on trade, services and development, the ninth session, which examined the role of services trade in economic diversification, took note that developing countries faced these data challenges and supported UNCTAD secretariat's proposal to establish an informal working group on services trade data.[2] Through this working group, UNCTAD aims to address the lack of data confronting policymakers in developing countries.

1.2 Aims and Outputs of the Informal Working Group

The Working Group aims to understand the lack of data on services and services trade that policymakers in developing countries face; and exchange views on data collecting methodologies that can work in developing countries.

The Working Group will therefore discuss data needs, gaps and potential support for developing countries to address these issues.[3]

The guiding questions to be addressed by the Working Group are:

- What are the most pressing services-trade data gaps that country policy makers are facing? What data is available? What is missing?
- Why is data availability so limited? How are trade in services statistics generally compiled?
- What challenges are developing countries facing in services-trade data collection? What are the barriers to compile these data?
- What are existing initiatives by international organisations or networks to support countries in filling these gaps? Which data sources could be used as proxies for the information that is missing?
- What are some of the innovative ways to use existing data to enhance policy?

The Working Group's findings will feed into the UNCTAD MYEM series on Trade Services and Development, which examines the role of services trade in economic diversification. The output of the working group will include a report to the MYEM scheduled in 2024.

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[1] See TD/541/Add.2
[2] See TD/B/C.1/MEM.4/27
[3] See TD/B/C.1/MEM.4/27

The Working Group will seek to align its work with other existing inter-agency work on data needs and relevant statistics. The Working Group will invite staff involved in such initiatives to join the discussions and seek guidance from their experiences when required.

Section 2 of this note provides a brief overview of the data gaps, and Section 3 considers why data availability is limited. Section 4 articulates what approaches have been made to deal with this lacuna. Section 5 suggests the potential areas of work for the Working Group to explore. Section 6 proposes a general timeline of the meetings leading up to the 2024 MYEM.

2. What are the most pressing services trade data gaps that country policy makers are facing?

Who exactly are the policymakers? Who uses services trade data? What data do they need? It is crucial to identify the end users of the trade in services data and articulate what type of data trade policymakers and trade negotiators would ideally like to have. While some international organisations and inter-organisational taskforces have raised similar questions, the intention of this Working Group is to build upon previous efforts.

Statistics for trade in services form a part of the balance of payments data reported by central banks and surveys of businesses that national statistical offices may also carry out. While the International Monetary Fund (IMF) requires its members to report services trade for the 12 high-level BPM6 categories, some developing countries need help to compile the data required to fulfil even the basic IMF reporting obligations.

The data users are often policymakers and trade negotiators in government institutions such as the trade or industry ministries. Trade negotiators have used trade data for trade agreement negotiation purposes, and domestic policymakers also require tools that they can use to promote reforms and discuss strategies and policies to advance economic diversification or become integrated into global value chains.

The paper has identified three major gaps in services trade data faced by policymakers in developing countries:

1. Lack of bilateral data with partner countries: Data on services trade flows is not generally publicly available on a bilateral basis, even for the most aggregated reporting categories of BPM6. Most countries report total services trade or services trade by category, without identifying partner economies. Countries in many cases do have partner data to a certain extent, but do not consolidate and publish them.

2. Lack of category details: Very few countries routinely report trade data at the lowest level of disaggregation in Extended Balance of Payments Services Classification (EBOPS) 2010. The lack of disaggregated data hinders the ability of viewers to analyse the trends in the data in depth.

3. Services categories reported to IMF are partially de-linked from negotiating categories: Another difficulty for policymakers is that the list of categories used by negotiators at the WTO does not correspond particularly well to the categories for which data is collected or for which collection is attempted. While the Central Product Classification (CPC) has evolved to take account of new products, WTO negotiators and the GATS schedules continue to use the W120 list of services. As the CPC has been revised four times, there is no longer a direct correspondence between the W120 categories and the list of categories in CPC 2.1. In an ideal

world, policymakers would have data on domestic activities and trade flows for the service categories that they negotiate.

3. Why is data availability so limited?

3.1 How are trade in services statistics generally compiled?

The ideal data on trade in services would be rich, similar to trade in goods, containing information on the value of bilateral service flows for each of the detailed EBOPS categories. However, services statistics are typically less developed than goods or industrial production statistics. Therefore, there is less data on services output and trade at a disaggregated level. Services output indicators remain rare because of conceptual and practical difficulties in identifying relevant deflators of services value added. Ideally, for each category of service activity, we would have a clear idea of quantities and values that are produced, consumed, and traded. Such data would be useful to shed light on what role services play in the linkages within the economy and what is the impact of policies on services and services trade.

Why is the data on trade in services so limited? The main reason is the challenges in collecting data on services compared to goods. Trade in goods is observable when international trade takes place due to its physical nature: something that can be weighted, dropped, or split crosses an international border. National customs authorities collect data on trade in goods at the time of importation. Data can also be collected at the point of exportation when goods are loaded in preparation for crossing a border. However, data on informal trade needs to be collected by direct surveying at border crossings and estimation, and services are intangible and "invisible" to observers and, as such, more challenging to record.

Customs data is collected at the level of HS codes with over 5,300 products. These customs declarations and their observation by customs officers at the point of import or export give rise to rich and detailed bilateral trade data disaggregated by partner and product. Data, as reported by countries, are made available in the UN Comtrade database, maintained by UN Statistics Division. UNCTAD provides a trade matrix for up to 700 product categories based on these data. The matrix helps to address missing data as information on bilateral flows is available.

3.2 What challenges are developing countries facing in services trade data collection? What are the barriers to compiling these data?

Currently, many developing countries have challenges in collecting and compiling services trade data. The UNCTAD - WTO Services trade dataset covers 201 economies, of which 156 are developing. Within the group of developing economies, fourteen economies have no data under the EBOPS 2010 classification. Another 43 had very limited reported items at the third and fourth levels. Only eight economies were found to have at least one record of level 5 items, and only four had trading partner data publicly available.

In addition to the gaps referred to in Section 2, developing economies face challenges in collecting and compiling detailed services trade statistics, including, but not limited to; weaknesses in statistical infrastructure; gaps in business registers; the availability of trained experts to process the data; the IT infrastructure required to handle large data volumes; and issues of trust among respondents. There may also be challenges related to publishing; the data may exist but may not be processed and formatted in ways that can be accessed.

Additionally, it is often the central banks that collect the balance of payment data, but reporting detailed data by service category is a low priority for them as they are not the actual users of the data.

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Analysing the BOP data within central banks is resource intensive. Even well-resourced central banks may opt not to report detailed data because they are not confident of their accuracy. Policymakers' lack of good knowledge of trade in services is another reason for these challenges. Even if there is data, some policymakers don't rely on the data when making decisions.

4. Existing initiatives to address the issues

The paper has identified a number of broad approaches that have been taken to address the dearth of data.

4.1 Capacity Building

The United Nations Economic Commission for Latin America and the Caribbean (UNECLAC) assists countries in collecting data and showcasing good examples in the region. ECLAC works with countries such as Chile, Colombia, Costa Rica, and Peru. In Latin America, Inter-American Development Bank (IADB) has been focusing on certain countries' operational agencies that support trade in services and analyzing their synergy and collaboration. In the case of Chile, the IADB works with tax agencies that own data for all formal sectors.

UNCTAD is working on implementing a statistics system called Trade in Services Statistics Information System (TiSSTAT) in West African Economic and Monetary Union (WAEMU) countries. Any country can use the system itself and therefore has the potential to be replicated elsewhere. UNCTAD, WTO, and United Nations Statistics Division (UNSD) have jointly established an e-learning course on statistics for member states.

UNCTAD will launch a UN capacity development project to support the Caribbean Community (CARICOM) countries. The project will support six countries in CARICOM in building up the statistical, analytical, and regulatory capacities to implement the Regional Strategic and Implementation Plan for Services. This will include (i) strengthening capacities to produce harmonized disaggregated statistics on international trade in services; (ii) increasing the knowledge and skills towards strengthening the priority services sectors exports and intra-regional cooperation; and (iii) strengthening the regional multi-stakeholder coordination mechanism.

4.2 Interpolating data

Some international organizations and researchers have created experimental datasets based on the available data reported on trade in services and the activities of foreign affiliates.

- **UNCTAD - WTO Services trade data set**: This joint effort by UNCTAD and WTO covers 201 economies including many estimates based on official data. The data set fills many data gaps, providing the most complete coverage possible, including bilateral statistics, and without experimental modelling. It serves as basis for BaTIS and TISMOS.
- **BaTIS**: A joint OECD-WTO team developed a data set named Balanced Trade in Services (BaTIS) which aims to cover bilateral trade flow by main services categories. BaTIS uses all available national-level statistics and supplements missing data with estimations and adjustments to create a complete matrix of exports and imports of all economies in the world.
- **TISMOS**: A team at the WTO developed an experimental data set named Trade in Services by Mode of Supply (TISMOS) to analyse the trade flow of services by modes of supply. The team combined the balance of payment data based on EBOPS 2010 and added Foreign Affiliates Statistics (FATS) data.

These initiatives rely on national statistical data and would benefit from bilateral work with countries to improve trade in services statistics and the recording of destinations of these flows. The more countries report bilateral trade data, the easier it will be to correct for missing trade in services flows, and all countries would benefit from improved information available to all.

4.3 In-depth study and analysis of the domestic regulations

Another avenue pursued by those working on trade in services is to understand the regulations that contribute to the barriers to trade. This is analogous to investigating non-tariff measures for trade in goods. The OECD has studied these regulations in detail for its members and a dozen other countries. There are different regulations for each sector, hence regulations are reviewed at the sector level. This approach has led to the OECD's Services Trade Restrictiveness Index (STRI) and other similar datasets and indices.

4.4 A deep dive into microdata

Microdata, such as the value-added tax (VAT) or the goods and services tax (GST) data, can be used to understand domestic goods and services, including flows between firms as inputs to production. The data content varies across countries reflecting national tax legislation and reporting requirements. When different VAT levels apply to services and goods, it could be possible to identify domestic service flows. In some cases, tax authority records foreign sales even though they are not subject to VAT, and these data may be reported as part of VAT declarations at a 0% rate. However, this item may include domestic sales at a 0% tax rate, such as sales related to public transportation in some countries. But in the absence of other zero-tax products or services, this could provide a proxy of international trade flows but would often not differentiate between goods and services. Tax data are reported monthly, quarterly, or annually, depending on the enterprise size. In this sense, they can provide a timely and highly comprehensive data source. Therefore, tax authorities tend to limit the number of variables collected from the entire business population to those that are most relevant for fiscal purposes. For instance, national statistical offices in many countries can access and use these data to compile short-term economic statistics by sector.

For research, accessing this data is challenging. Firstly, obtaining permission to access data collected for other purposes is generally difficult. Secondly, as the microdata contains commercially confidential information, the data needs to be anonymized, which may be challenging considering the vast detail and volume and would take resources. Furthermore, complex techniques are required to be able to make sense of the data, e.g., to account for non-reporting and late accumulation of data; biases related to the grey economy or reporting errors; variation in the quality of data between areas of tax inspection and data on activities that are less interesting for tax collection; changes in data coverage and concepts due to legislative changes; and in many countries there is difficulty to match firms' identifiers across datasets.

4.5 On-going work to revise classifications

New products and activities will be under-measured because they are not identified clearly within the classifications. The main motivation for revising classifications is that innovation has brought new products or activities to market. Advances in the services industries have been rapid since the categories were determined. Gaps due to new technologies and services that have come about after the classifications were set may be partially in the process of being filled by work that is ongoing at the various agencies, both within and outside the United Nations. For instance, the IMF is revising its Balance of Payments and Investment Positions Manual. The revision will include five additional first-level categories for trade in services, although some are former sub-items being lifted up. Another initiative is the Forthcoming OECD-WTO-IMF-UNCTAD Handbook on Measuring Digital Trade.

5. Potential scope of work by the Working Group

This section outlines some approaches that the Working Group could consider. The Working Group is not intended to analyse or pursue classification issues. Doing so would duplicate existing efforts elsewhere. Instead, it could focus on implementation by assisting developing countries in facilitating data collection, processing, and publication. The initial suggestions from the experts during the Inception Meeting fall broadly into two groups. The specific work plan and deliverables of the Working Group and the Workstreams are to be discussed and agreed upon during the Working Group meeting.

5.1 Workstream 1: Identify data needs & good practices in data supply

1. Mapping exercise

The Working Group could **analyse the key data needs** by looking deeper into the question of who exactly are the policymakers that need services trade data and what they need to make effective policies. Countries in Latin America or Africa where there are existing projects by institutions such as the Asian Development Bank (ADB), IADB, United Nations Economic Commission for Africa (UNECA), UNECLAC, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), or UNCTAD could potentially be a starting point to understand and compare the existing situation and the practices.

Conduct a review of trade-in services data gaps. This mapping exercise would identify at the country level the available data and context-specific and common challenges developing countries face in collecting services and services trade data.

Map current technical assistance activities to address developing countries' institutional and technical challenges with services trade statistics. An appreciation of the work that is ongoing will also ensure that the Working Group avoids duplicating any efforts already being made in other international fora and aims to identify synergies.

2. Identify and share tools, resources, and good practices

Based on the analysis done, the Working Group could **identify good practice examples in data collection and compilation**, drawing on the knowledge and experiences of existing initiatives. To avoid duplication of existing initiatives, the Working Group could build on existing and ongoing work and focus on providing market and business intelligence rather than looking deeply into statistics and their methodologies.

Develop a repository for countries to see the tools, resources, and best practices that could be subject to interest and resources, which will be later developed into a portal that focuses on services-related research for all developing countries.

Organise opportunities for developing and developed countries to share and learn from these examples and be able to replicate and implement such practices, for instance, as part of the MYEM.

5.2 Workstream 2: Showcase innovative approaches for data use

Identify use cases to highlight how services trade data are used to make a difference, for instance, to plan and target policy efforts or reveal new avenues for economic diversification. Innovative approaches to using existing datasets could yield new insights into services trade.

Review cases using multiple data sources to provide more elaborated information on services trade and going beyond services' role in the domestic economy. The Working Group can help identify

country or firm-level data that is collected within countries for other purposes but not used for trade policy analysis. For example, a VAT system typically requires a large amount of data that could be useful.

Look for initiatives and data of private organizations that may be relevant for policy uses. The Working Group could create a menu of options where policymakers could review the available options and alternatives in enhancing trade in services data.

6. Proposed Timeline

The UNCTAD secretariat proposes to hold the first Working Group meeting on 6 June 2023, where experts will discuss the workplan of the Working Group and look for leads and contributors to advance the workstreams. The Working Group will then aim to hold its second meeting during the MYEM in July 2023, where it will provide an update on the planned activities.

After that, the Working Group will bring the proposed actions to address data gaps for discussion and invite sharing of good practices in data compilation and use at the MYEM 2024. The final report will inform discussions of the expert meeting on the need for better services and trade in services data and on the necessary investment in developing countries' statistical capacity, including seeking common approaches with stakeholders to fill data gaps.

The following table is a proposed timeline on the meetings, although the exact dates are to be discussed and subject to change depending on participant availability and progress.

Activity	Date	Comment
Inception Meeting	4 Apr 23	Done
First WG Meeting	6 Jun 23	Discuss Workplan
Second WG Meeting	10-12 Jul 23	Report progress & workplan as part of MYEM 2023
Third WG Meeting	[Oct 23]	Updates on initiatives, preparation of final report
Fourth WG Meeting	[Apr 24]	Updates on initiatives, preparation of final report
Present Final Report	Jul 24	As part of MYEM 2024

Annex: Overview of classification systems for services and trade in services

1. Classifying services

The economy can be classified into three sectors, namely agriculture, manufacturing, and services. The term "services" refers to a vast array of economic activities, including education, transport services and computer services. To understand the range of activities covered by services and the data needed to understand the impact of policies on these activities, we consider two detailed classifications of the economy.

International Standard Industry Classification (ISIC)

There are two broad types of economic classification, namely classification by activity and classification by product. The International Standard Industry Classification (ISIC) classifies all productive activities into 21 broad categories. Fourteen of these categories are exclusively services activities, and include education, healthcare, retail, repair, and hospitality. Annex I provide details of the broad categorizations. At the most disaggregated level, approximately half of all activities are services.

Central Product Classification (CPC)

The other broad economic classification is the Central Product Classification (CPC), which classifies everything into products. Products include both goods and services. Annex II provides details of the broad categorizations: half of the broad categories are exclusively services. At the most detailed level of subclass, there are almost 3,000 items. The most recent revision of the CPC is Version 2.1. An earlier version of the CPC was used as a basis to help draw up the services that were negotiated to be included within the General Agreement on Trade in Services (GATS).

2. Classifications of Trade in Services

This section describes the current classifications related to trade in services.

Services Sectoral Classification List (MTN.GNS/W/120, or W120)[4]

The General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO) includes a list of services for which market access commitments were discussed as part of the Uruguay Round of trade negotiations. This list was established by the GATT Secretariat in 1991 using categories from the then-current Provisional Central Product Classification (P-CPC).

Formally titled the Services Sectoral Classification List (MTN.GNS/W/120) and frequently referred to as "W120", this WTO list includes 160 service sectors. Annex III presents the list of main 12 categories of services withing W/120, together with some of the more detailed categories where these are varied. This list is still the basis on which most WTO members schedules of commitments are drawn up.[5]

Aside from the WTO's list of services for which liberalization commitments are negotiated, the main classification for international trade in services comes from the International Monetary Fund (IMF).

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[4] See **MTN.GNS/W/120**

[5] Whilst the P-CPC was finalized, revised, and revised again, no change to the categories "W120" has been agreed at the WTO. Whilst correspondence tables for adjacent versions (eg. P-CPC to CPC1.0 and CPC1.1 to CPC2.1) are available, there is no direct correspondence table between P-CPC and CPC 2.1.

BPM6

Published by the International Monetary Fund (IMF), the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) is a set of guidelines on how to compile and present data on international transactions and positions between countries. It is used by central banks to report macroeconomic indicators, such as GDP and expenditure, to the IMF. Reporting these items to the IMF is a condition of membership. Items that members have an obligation to report include trade in services, which is part of the current account of the balance of payments. The BPM6 categorizes services into twelve broad categories, presented as Annex IV.

MSITS 2010

Produced thirteen years ago, the Manual on Statistics of International Trade in Services 2010 (MSITS 2010) was intended primarily to guide statistical compilers, providing practical advice, good country examples and pitfalls (to be avoided) in the implementation of MSITS 2010 to produce high quality trade in services statistics. It was also intended as. a useful tool for governments, international organizations and businesses that use statistical information in connection with international negotiations on trade in services.

The MSITS also helped to create the Extended Balance of Payments Services (EBOPS 2010) classification, a more detailed classification of services delivered through conventional trade between residents and non-residents than is contained in BPM6.

EBOPS 2010

The Extended Balance of Payments Services Classification (EBOPS 2010) builds on the BPM6 by further disaggregating the BPM6 categories by types of service. It provides a detailed and comprehensive classification for international trade in services and is presented as Annex V. There is an established concordance between the EPOBS 2010 categories and CPC items.[6]

However, the IMF notes that in practice, many countries are "unable to compile the full BPM6 classification". Most countries report only the first level breakdown of the twelve services categories of the BPM6[7]. Australia and the UK are some of the IMF members that seek to compile and report data for the full EPOPS classification. The techniques used by these countries are presented in Box 2 and Box 3.

3. Ongoing revisions to classification systems

Several of the classification systems mentioned above are currently being revised. For example, the following updates are planned:

- ISIC – A major revision has been undertaken. Several new items are being considered, including:
  - New activities related to the digital economy (3D printing, social media and search engines, online education, robotics and AI, cloud technologies, cybersecurity activities
  - Intermediaries (including digital intermediaries)

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[6] See https://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/ebops2cpc.htm#ebops1

[7] For example, in the BPM5 high-level breakdown, "telecommunications" and "computer and information services" were separate. In PPM6, they were amalgamated into a single category, and the split between the two services is a second-tier breakdown. For instance, with the changeover from BPM5 to BPM6, many countries have stopped publishing telecommunication services separately from computer and information services, even though the breakdown was compiled and published within the BPM5 framework.

- New activities in the financial sector (e.g., Fintech, peer-to-peer lending, crypto assets)
- CPC – An updated version of the CPC will be adopted shortly.
- BPM – The BPM6 will be superseded by BPM7 in 2025.[8]

In addition to the above, the following are being developed:

- Forthcoming OECD-WTO-IMF-UNCTAD Handbook on Measuring Digital Trade. – This is currently at draft stage; publication can be expected sometime during 2023/4[9].
- Measuring the creative economy. There is currently an UNCTAD working group on this. The data identified will contribute to knowledge on trade in services, for example, in relation to digital delivery of services based on the creation of intellectual property, including new media, performing arts and music.
- Measuring the informal economy. There is currently a study into the informal economy, which will feed into the BPM7.
- Manual on Principal Indicators for Business and Trade Statistics, Volume 2 (currently in final drafting).

The Working Group will take into account ongoing efforts by other agencies, including work the Task Team on International Trade Statistics of the UN Committee of Experts on Business and Trade Statistics and others in revising nomenclatures and guidance manuals such as the MSTIS. An appreciation of the work that is ongoing will also ensure that the WG avoids duplicating any efforts already being made in other international fora.

A very useful reference has been developed by UNSD: "United Nations Guidelines on Statistical Business Registers" (UN, 2020). Since many developing countries struggle to maintain SBRs, this manual brings valuable advice.

4. Other ways to classify services

Aside from the lists classifying services by activity, product and potential for trade liberalization, we can classify services in three different ways: by purchaser; by factor intensity; and by broad function. Box 1 shows three ways to think about classifying services.

Box 1: Various ways to classify services	
By purchaser	**By functional grouping:**

• Final services (all services if purchased by final consumers, e.g. retail banking)
• Intermediate services (all services if the buyer is a firm, e.g. commercial banking)
	• Distribution services
	  o Transport, storage, retail, wholesale trade
	• Producer services
	  o Banking, finance, insurance, real estate, engineering, architectural, accounting, legal
	• Social services
	  o Education, health, welfare, governmental services
	• Personal services
	  o Domestic, repair, barber, beauty, hotels, restaurants, entertainment

By factor intensity	

• Capital-intensive
  o electricity, telecoms, transport
• Human-capital-intensive
  o E.g. call centres
• Knowledge-intensive
  o Insurance, professional and business service	

Source: Author's elaboration based on WIR 2004

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[8] See https://www.imf.org/en/Data/Statistics/BPM/BPM7-chapters
[9] Forthcoming OECD-WTO-IMF-UNCTAD Handbook on Measuring Digital Trade

The Working Group may like to consider focusing on particular sub-sets of services, based on one or more of the groupings above. We return to this idea below.

The final way to classify international services trade is by mode of supply. The four GATS modes of supply. The GATS identifies four ways that a service can be supplied from one economy to another. In these examples, Country A is the importer.

1. Mode 1: Cross border supply. A service supplied across the border, either by traditional or by electronic platform.
2. Mode 2: Consumption abroad. A citizen of country A travels to Country B to consume services – education, tourism or medical – during the trip abroad.
3. Mode 3: Commercial presence. An enterprise from County B sets up a subsidiary in Country A
4. Mode 4: Movement of natural persons. A citizen from County B travels to Country A to perform a service.

The mode of supply is important in considering how the international trade is observed and hence how data can be collected. Annex VI provides some further details on data sources for each mode of supply.