MEASUREMENT AND CONCEPTUAL ISSUES IN INTERNATIONAL TRADE IN SERVICES DATA

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ABSTRACT

Developments initiated by the World Trade Organization (WTO) that have implications toward the global economy and international trade environment require major adjustments to the way economic data is collected, recorded and measured. A prime issue in international services data arises as a result of the agreements on services trade that include completely new concepts of which even fundamental comprehension can be of great challenge to many.

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Not withstanding these issues, it is essential that these new concepts and definitions are fully understood in order to be able to produce reliable statistics on services industries that realistically account for transactions. A number of countries especially those with developing economies, however, are still grappling with the immense task of filling knowledge and data gaps for policies and decision making. A reason for this is due to the infancy state of services statistics in these economies. In view of the implementation of the ASEAN Framework Agreement on Services (AFAS), there is an urgent need to investigate and understand how services trade data is compiled and measured by data compilers to ensure that meaningful services statistics are produced. This paper conceptualizes some of the pertinent issues faced by those involved in generating relevant services statistics that measure and account for international trade in services (ITS), and explores an approach in dealing with those issues.

**KEYWORDS:** International trade in services, services measurement, national treatment, WTO
I. INTRODUCTION

Services have become a significant driver of economic activity and since the mid-1990s has contributed to more than two-thirds of worldwide gross domestic product [hereinafter GDP].¹ The role of services in global economic development is increasing, and the value of services activities exceeding those of manufacturing and agriculture as economies grew is to be expected. Services not only contribute towards boosting GDP, but also play an important role in providing employment and in international trade as economies plug into global systems. As defined in the 2010 Manual on Statistics of International Trade in Services [hereinafter MSITS], “services are the result of a production activity that changes the conditions of the consuming units, or facilitate the exchange of products or financial assets.”² Since the formation of the WTO in 1995, there has been an increasing awareness of the importance of improving national economic data and trade statistics for policy planning purposes, especially those for services. The analytical treatment of several aspects of economic growth and international trade has moved beyond conventional theories of development and of trade. Some statistics customarily compiled for crucial decisions have been challenged when applied to the new needs that have emerged. The areas of concern for services sector data include, among others, measuring services outputs, valuation of services transacted, accounting and recording international trade in services. Such data is of great importance for trade negotiators, economic planners and business strategists.

A number of new concepts and terms have crept in particularly since the start of the Uruguay Round³ trade talks in the mid-eighties. Many have been used and extensively so, in a host of trade agreements among countries. However, it remains a challenge especially to developing countries when these new concepts are put into real situation, not only in understanding and interpretation, but more so when economies need to get them working in practice. Translating these concepts into actionable steps continues to be activities that are fraught with difficulties, for those who try to place a numerical value to intangible services transactions, for those

accounting for performance, measuring and compiling statistics on international services trade. Among the key concepts that are relatively new is “national treatment.”

“National treatment” is undoubtedly a significant cornerstone of the General Agreement on Trade in Services [hereinafter GATS] of the WTO, the ASEAN Framework Agreement on Services [hereinafter AFAS] and other regional trade agreements, and bilateral agreements. It has spawned many issues when attempting to measure international trade in services [hereinafter ITS] which were not before encountered for merchandise goods trade. By discussing processes that have to be undertaken by a national statistics office when compiling data related to the concept of “national treatment,” it is hoped that the troublesome aspects of measuring such new concepts will be shown. In particular, the complexities of operationalizing such concepts when accounting for ITS in reality may require innovative solutions to improving some of the conventional ways of accounting, measuring and recording statistics.

This paper explores the transition from concept to data; that is, from the new concepts that have emerged from the international agreements for trade in services, to tangible services data, by focusing on one specific concept, namely, the concept of “national treatment.” By considering the challenges for measuring, accounting and compiling trade data related to “national treatment,” which is a major concept for international trade, this paper attempts to illustrate the range and depth of issues in practice, when collecting and producing statistical data on international trade in services. The paper also attempts to propose an approach to understanding the 2010 MSITS which is adopted for members of the WTO, possibly through an exploratory study.

Following the introduction, the second section briefly discusses definitions and key concepts of ITS which are relatively new compared to goods trade. The meaning of services trade and the way they are supplied, that is the “object” of measurement, is refreshed. Section III dwells on the concept of “national treatment” selected for demonstrating the complexities of the issues involved while Section IV addresses compiling information on national treatment in ITS in practice, within the context of a developing country.

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4 WTO describes “national treatment” as a concept in which “imported and locally-produced goods . . . be treated equally – at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents.” For further details, see WTO, Principles of the Trading System, http://www.wto.org/eng/whatis_e/tif_e/fact2_e.htm (last visited Aug. 1, 2012).


economy, namely Malaysia. Section V proposes an approach to understanding and improving on the method suggested by the 2010 MSITS, where a pilot study based on what Malaysia has planned for accounting for ITS is suggested. The purpose of the pilot study is to draw lessons for future improvements in developing statistical measures of services trade. In developing economies where knowledge, experience, skills and resources for accounting, measuring and compiling statistics are limited, any work that helps to avoid expensive mistakes will benefit trade negotiators and users of statistical data such as policy makers and businesses. Section VI concludes the paper.

II. SERVICES TRADE: DEFINITIONS, CONCEPTS AND PRINCIPLES

Prior to discussing the issues faced in compilation of services trade data, it is important to first understand what the term services mean. Conventionally, services have often been linked together with merchandise goods, as in the commonly used phrase “goods and services” without much consideration given to the similarities or differences between the two. Public authorities and economists cognitively treated them much alike and have typically made decisions for them together. Perceived differences between them were probably too insignificant to justify separate analysis as two broad categories of economic output, or because there was little need to distinguish between them for purposes of their work and decision making, or simply because the conceptual barriers were too problematic to consider them apart. It was not till the last two decades of the twentieth century that economists started to give serious attention to the need to examine services by defining what the concept really means. With the growing recognition that as economies expand from manufacturing and modern agriculture through industrialization effort, services activities are also monetized into industries through business organizations. Developed economies have demonstrated the significance of services as economic activities growing alongside manufacturing, to the extent of surpassing the importance of the latter in terms of contribution toward economic productivity. The economic structure of many developing economies likewise follows a similar growth trajectory as far as services are concerned.

A. Definition of Services

Initially, services were thought to be different from products simply by nature of being intangible outputs that arise from the process of satisfying

certain needs or objectives. However, although economists have generally agreed that services are intangible, the concurrence on a specific definition was difficult due to the inherent characteristics of services as opposed to goods. Traditional methods of defining services relegated services to a residual role that were associated with some indistinct set of output, such as by describing what services were not, for example, services were not manufacturing, agriculture, or mining. Others had defined services in terms of their intangibility, perishability and resultant output that cannot be inventoried.\(^8\)

The variations in defining services comprise narrow and broad definitions. Narrow definitions of services describe them according to unique features of service sector inputs or distinctive production process involved.\(^9\) On the other hand, broad definitions of services also exist; for example,

services are economic activities that provide time, place and form utility while bringing about a change in or for the recipient of the service. Services are produced by (1) the producer acting for the recipient; (2) the recipient providing part of the labour; and/or (3) the recipient and the producer creating the service in interaction.\(^10\)

Not surprisingly, the seemingly subjective disposition of service arises not only in its definition, but also in its measurement. Problems in measuring services occur due to intangibility of services output, posing ambiguities in accurately quantifying its precise value and often times its quantum as well. These complexities are accentuated when services are traded across borders, which increased the difficulties of accurately measuring and accounting for imports and exports of services trade.

The debates on determining a precise definition of service were hastened by the urgency of need to extend the concept and definition to international transactions or trade in services products and outputs amongst nations. Discussions in the Uruguay Round that began in 1986 compelled trading nations to agree on a common understanding and to adopt a nomenclature to refer to the numerous service outputs that were already being traded amongst these countries.

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\(^9\) Sieh Lee Mei Ling, supra note 8, 33-37.

Since the formation of the WTO in 1995, it is generally accepted that services refer to value-creating economic outputs that provide utilities of time, place, convenience and form to the recipient of the service or to the assets owned by the recipient. Following, what constitutes trade in services has also been agreed among trading countries and further codified by the Central Product Classification [hereinafter CPC].\(^\text{11}\) Towards the later stage of the trade negotiations and certainly since 1991, it has been accepted that international trade in services refer to service transactions between residents and non-residents of a country. Such transactions include but are not limited to: trade in transportation services, financial services, communication services, insurance services, tourism, computer and information services and other professional and business services.

### B. Modes of International Trade in Services

As mutually established in the GATS, four modes of supply for services trade have been defined: (i) cross-border, (ii) consumption abroad, (iii) commercial presence, and (iv) personnel movement.\(^\text{12}\) **Cross border supply** or Mode 1 refers to services that are delivered to the territory of a member country, from the territory of another member. The services may be contained or embodied in a medium, which may be similar to tangible merchandise such as entertainment services in a CD or film or in a printed book; or some professional services such as architectural design services supplied and delivered in the form of a paper plan. Cross border services may also be provided through “virtual” transactions made possible through advancement of technology, hence enabling online purchases of service, such as electronic trading of financial services.

**Consumption abroad** or Mode 2 refers to services delivered to a consumer who acquires the service by travelling to another member’s territory. Examples are tourists going for vacation, or students obtaining education in another member’s country. For both Mode 1 and Mode 2, the supplier of services need not be present within the territory of the member economy or country.

GATS also specifies that the third mode or Mode 3 of services trade is through the **commercial presence of services providers in the buyer’s country**, that is, services delivered to consumers outside the territory of the member supplying the service, by the supplier establishing a commercial presence in the boundaries of another member. An example would be a telecommunication services provider who sets up operations and delivers

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\(^{12}\) For more details on the four modes of service supply, see GATS, *supra* note 5.
its services to foreign buyers in another country. Similarly, when a
construction firm establishes a subsidiary in another country for the
purpose of providing building services to nationals of the foreign country
also fall under Mode 3.

Services trade through personnel movement or Mode 4 refers to
services delivered through the presence of natural persons of one country in
the territory of the member nation. Examples of personnel movement are
when a doctor provides medical treatment to foreign patients in their own
country, or when a performer holds a concert in another country providing
entertainment services to foreigners outside his own country. The third and
fourth modes of services trade take place when the supplier of the service is
present within the boundaries of the member nation providing service
outputs to importers from those foreign nations.

C. Key Principles of GATS in WTO

The WTO is the single most important body for regulating trade across
countries at the global level. In promoting international trade, the WTO
works on several principles contained in the set of WTO agreements.
Members have specific obligations to provide Market Access to supply of
services from one economy to another, according to the four modes of
services supply with negotiated conditions agreed upon by respective
members, as contained in their own schedule of commitments annexed to
the GATS. The commitments in the schedules are to be liberalized
progressively over time through successive rounds of negotiations within
the framework of established trade agreements. The Doha Development
Agenda launched in 2001, commonly referred to as the Doha Round\footnote{WTO describes the Doha Round as “the latest round of trade negotiations among the WTO
membership. Its aim is to achieve major reform of the international trading system through the
introduction of lower trade barriers and revised trade rules. The work programme covers about 20
areas of trade.” For further details, see The Doha Round, WTO, http://www.wto.org/english/tratop_e/dda_e/dda_e.htm (last visited Sept. 12, 2012).} is
yet to be completed. Market access is a major agenda of the WTO as it
promotes an unrestricted flow of trade across nations.

Another fundamental specific obligation stems from the “national
treatment” principle, which specifies that policies and guidelines that apply
to domestically produced goods and/or services also apply to imported
goods and/or services. For merchandise goods, the treatment of equality on
imported goods would apply once the goods have crossed national
boundaries. For services, members are obliged to grant to other member
countries in the agreement, conditions that are no less favourable than those
to domestic service suppliers. This paper draws substantial attention to this
principle when applied to accounting and measuring international trade in
services. The principle of reciprocity is often used when negotiating detailed conditions for market access and national treatment.

There are a number of important general principles that member parties are obliged to follow. The Most Favoured Nation [hereinafter MFN] principle is key in upholding equal treatment between WTO trading partners by curtailing trade discrimination between member nations. MFN stipulates that WTO member countries cannot impose any form of disparate treatment, favourable or unfavourable, on any particular trading nation and the policy should apply equally to all other WTO members.

Progressive liberalization of trade services is another GATS principle that has been of great concern to the world trading community. Once a country becomes a member of WTO, it is obliged to further open up markets in the future for ITS. It is observed that besides listing new service subsectors and activities at successive trade talk rounds, some countries have done so unilaterally on their own accord.

Transparency is the obligation of members to disclose regulatory guidelines clearly, including incentives, to all members upon request. The intention is to provide information more accurately with regards to barriers to services trade, particularly when they are non-tariff in nature, often linked to domestic regulations and laws that may not be readily known to trading partners. In line with progressive liberalization, changes in such regulations and laws are expected to be changed accordingly. Transparency and regulatory changes may be regarded as principles that concern administration and processes, with future participation in future trade negotiations in mind. Others that are not as controversial include discipline of monopolies, adopting consultative processes, recognizing criteria for licensing of service providers and so on.

Special interests of developing economies has assumed a place among other general principles for ITS because by protecting the interest of developing countries services trade agreements can be seen as contributing to raising living standards and economic advancement amongst poorer nations.

### III. OPERATIONALIZING THE “NATIONAL TREATMENT” CONCEPT

Unlike trade in merchandise goods, which involves a clear movement of tangible goods across borders, hence straightforward easy to understand, the inflow and outflow of intangible services output as trade are more difficult to follow. Such transactions appear arbitrary as often times, one cannot be certain of their execution without clear or readily visible physical transfers taking place. As noted in the examples above, services could be

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14 The MFN is explained in GATT 1994, *supra* note 3, art.1.
traded across border either via online-transfers\textsuperscript{15} or embodied in goods such as entertainment services recorded in some medium that moves like merchandise goods when traded; through the movement of service consumers across boundaries such as when tourists travels; or when service providers establish a commercial presence in the economy of the service purchasers; or through the movement of service providing personnel to the country of the consumer of the service. Unlike the case of tangible goods where clear cut transference of merchandise takes place across borders, the absence of physical movement of services across borders except for some mode 1 trade, increases the risk of resulting in inconsistent and inaccurate measurement of international services trade.

One of the main considerations that can be made from the four modes of services supply is that the measurement of services trade is reliant on the location of the service delivery and performance. That is, whether the service takes place in the service supplier’s own country or in a foreign land, the mobility of the person rendering the service, and most importantly, the nationality of the service supplier. To aid in the measurement of services trade, nationality of traders is gauged by his residency status. This means that the services supplier’s residence position vis-à-vis that of the services buyers is used as a proxy for his nationality. However, the concept of residency is problematic in practice because of the various perspectives and meanings of residence.

\textit{A. Residence as Proxy for National Treatment}

Residency can be viewed from the perspective of tax treatment, for the purpose of foreign direct investment, for work permit or permanent residence status and applications, for producing statistics, and of late, for the measurement of services trade. For each of these measurements, determining residency status rests on the number of days a person resides in the country of which exact computation is complicated. For example, does the duration a person resides in a country include holidays or simply accounted for by the number of working days? Is the application of this duration reasonable and relevant across all industries? For trade, different countries in WTO have their own guidelines on how residency is ascertained, resulting in inconsistent measurement methods with regards to the import and export of services trade reflected in their balance of payments.

Until only recently, it appears that there is no clear and/or uniform guide on how services trade should be computed throughout countries.

worldwide. The difficulties in measuring services before the first version of the guidelines adopted for WTO in March 2001 were, and even till now in most developing countries after the launch of the 2010 MSITS, are evident in a number of ways. First, services data tend to appear as highly aggregated figures in statistical reports such as the Balance of Payment [hereinafter BOP]\(^{16}\) of many countries, including Malaysia. Various types of services such as within subsectors under transportation, financial, business or others are typically grouped together in broad categories in the balance of payment and other reports. Nonetheless, it is worthy to note a recent development that is the extended Balance of Payments [hereinafter EBOPS]\(^{17}\) which expands the BOP into more disaggregated categories. Second, much of the services data are obtained with processes and instruments almost similar to those developed for and more appropriate to manufacturing or agricultural industries and products. Thirdly, with the often mistaken notion that services are less important hence their information less used than those for goods, services data are collected and published in disjointed series by many agencies. Fourthly, due to the complexities that arise in computation, often derived from more than one source of raw records, statistics for trade in services are partial and incomplete. With the four mode classification for ITS and the obvious gaps posed by modes 3 and 4 data which are by enlarge missing, the relevance and urgency of compiling data for trade negotiators and policy planners cannot be overemphasized.

B. Residence Based on Territory of Economic Interest

The call for some more systematic measure of services trade has led to the preparation of a revised manual by the WTO, which is adopted from OECD and Eurostat. The MSITS was revised in February 2010 and provides detail guidelines and explanations on how data on services trade is to be collected by national statistics compiling agencies. Besides providing specific guidelines related to the changes in the conceptual framework and classifications for the measurement of the four modes of supply for services trade in GATS, MSITS recommends the adoption of the sixth Balance of Payments Manual [hereinafter BPM6]\(^{18}\) changes, including the definition, valuation, classification and recording of services transactions between residents and non-residents. The concept of residence as outlined in the

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MSITS is identical to that specified in the fifth Balance of Payment Manual [hereinafter BPM5] in that it depends not on the nationality of the supplier or consumer of the service, but on the transactor’s center of economic interest. The economic territory of the country refers to the geographical area that the concept of residence applies.

MSITS also recommends that balance of payments data be compiled according to the EBOPS subcomponents, that is, disaggregating the twelve (12) main BPM6 standard components for services into EBOPS subcomponents, starting from those subcomponents of major economic importance to respective economies and gradually including other subcomponents. The extended balance of payment has revolutionized the presentation of services trade in a more detailed and disaggregated form, although the classification of services remains the same as outlined in the BMP5 and MSITS.

For services transactions between residents and non-residents to be fully recorded, MSITS further recommends that two sets of data be properly incorporated. First, the inclusion of statistics on foreign direct investments [hereinafter FDI] including the flows, income and positions at the end of each period, because mode 3 trade which involves establishing commercial presence in the importer’s territory amounts to de facto FDI, preferably classified by the International Standard Industrial Classification of All Economic Activities [hereinafter ISIC]\(^\text{19}\) activities. Secondly, the accounting of services transactions with foreign entities located either in one own’s territory or in the foreign territory, referred to as Foreign Affiliates Trade Statistics [hereinafter FATS]\(^\text{20}\) in stages progressing from services trade with partner economies as a whole, then for each main category of services in BPM6, and further along to detailed EBOPS items.

It is recommended that basics variables such as sales turnover and/or output, employment, value added, exports and imports of goods and services, and number of enterprises be recorded according to ISIC, Rev 4 classifications (which is ISIC Categories for Foreign Affiliates in services or ICFA, Rev.1), in aggregate and in major industry categories of ICFA starting with the most important trading partners.

\textbf{C. Types of Residence and Accounting Principles}

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The resident status of an organization is determined by looking at the economic territory of which it has the strongest presence, referred to as its center of predominant economic interest. This implies that the organization should have only one economic territory as determined by distinct economic concentration. As long as the institutional unit is based in a location with proper dwelling where the business takes place, the institution is generally considered a resident in that particular economic territory. The following definitions of the concept of “residence” are based on the 2010 MSITS.

1. Residence of Households. — Although most individuals are usually rooted in one particular economy, there are instances where they may have interest in, or are connected to, more than one economic territory. In such cases, the economy of residence is determined by looking at several factors such as location of dwellings, employment, asset holdings, citizenship, income tax status, and others. A household is considered resident in the economic territory in which its members retain a dwelling. Where more than one dwelling exists, the principal dwelling is determined by the length of time spent in each premise.

2. Residence of Enterprises. — Enterprises are generally regarded as resident of an economic region where it has substantial involvement in the production of goods and services. Unlike individuals and households who may be linked to multiple economies, enterprises are usually associated to one particular economy. There are instances where enterprises may be separated into specific entities according to legal jurisdiction for separate treatment. In regards to statistical matters, a separate organizational unit is identified where a single legal entity has substantial operations in two or more territories (for example, branches, land ownership, and multi-territory enterprises).

If there is minimal or no physical existence in an economic territory (as is often the case in banking, insurance and investment funds transactions), the residency status of the corporation is determined by the economic territory under whose laws the entity is incorporated or registered.

3. Residence of General Government. — General government comprises embassies, consulates, military bases and other enclaves of foreign governments (including those providing training). The residence status of these entities is usually treated as separate from the host territory where they are based in, and they continue to be part of their home economy.

4. Residence of International Organizations. — Regardless of having operations in only one or multiple territories, international organizations set up in a host economy remain as residence in their own economic territory, and are not considered residence of the host economy.
5. Residence of Non-profit Institutions Serving Households. — The centre of economic interest for non-profit institutions serving households [hereinafter NPISH] is in the economy where the institution is lawfully set up and recognized as a social or legal entity. In instances where the institution is involved in international charity work which require setting up branches and the need of capital financing from abroad, NPSIH are not treated as international organizations.

D. Valuation of Transactions

In assessing the transactions of international trade in services, market price is employed. Market prices refer to the mutually agreed upon sum that willing consumers pay to willing suppliers. However, there are instances where valuation based on market price fail to be exercised. For example, complexities arise when different institutions are associated with the same management but are located in separate economies. As a result of the lack of independence between the enterprises, transactions may not be based on market price. In such instances, the BMP6 recommends that these book values (transfer prices) be replaced by market values, particularly when the difference between the two is large, provided that such conversion is deemed feasible.

When different currencies are involved, compilers of data need to change and standardize all transaction values to a common unit of account. Usually, the national currency of the service provider (supplier) is used, to allow the production of reliable statistics. Nonetheless, this common currency may be subject to rapid fluctuations and instability in comparison to other currencies used in international transactions of the economy. In such cases, transactions may be better expressed in another currency that is more stable.

The exchange rate to be used in the conversion of currencies is the prevailing market rate when the transaction occurs. When transactions are conducted daily, the average daily exchange rate will be estimated and used. Transactions in services should be recorded at the time when they are delivered or received.

E. Other Issues

1. Related or Affiliated Party Transactions. — The MSITS 2010 proposes that clear distinction of transactions between affiliated and non-affiliated enterprises be made, so as to help identify the extent of true globalization of services trade. Undoubtedly, such distinction could cause additional hassle to compilers and suppliers of data, and plausibly raise
issues of confidentiality. Thus, the manual gives leeway and suggests that this separation be made at the aggregate level for total services transactions.

2. Distinction Between Service Provision and Provision of Labour. — There is also a difference between the provision of labour – which involves a clear employer-employee relationship – and services provided by a contractor, consultant or employment agency. Payment transfers in the former constitutes compensation of employees, whereas in the latter, payments are considered a service transaction (since the individual performing the task is a separate entity from the firm rendering the service).

3. Outsourcing. — Should a company outsource a particular service which was previously handled internally to another company, the service should be classified according to the type of service provided. For example, call-centre services providing support for computers are classified as computing services, while call-centre services selling products are included in trade-related services.

4. Servicing Merchanting. — Service merchanting refers to purchase and sale of services that do not undergo substantial transformation in its process. The extent of variation involved in service merchanting is considerably difficult to identify, as compared to goods merchanting. The transaction value of the service will be recorded on gross basis of the service arranger, since the arranger purchases and then sells the service. If the arranger acts as an agent, the commission will be considered as a service transaction.

5. Electronic Commerce. — E-commerce is a method of transactions conducted electronically, particularly through the Internet. In regards to statistical recording, the charges for electronically delivered products are part of services, while goods ordered in the same manner are categorized as goods (except for software).21

Despite aiming to provide clearer guidelines and recommendations on how trade in services should be measured, the 2010 MSITS may not necessarily be easy for compilers of economic data to understand and execute. Although thorough, the manual is complex with a high probability of being misinterpreted, resulting in problems during collection of data. Inability to grasp and translate concepts, such as that of residency, may lead to inaccurate development of survey instruments, because questions contained in survey forms or questions posed by interviewers may thus result in inaccurate responses hence compromising eventual data quality. Execution of the recommended guidelines may also be impractical and differ across countries. An obvious point is that developed countries will have more resources to develop, test and operationalize data collection,21

For a more in-depth discussion on issues related to classification of electronic services, see generally ROLF H. WEBER & MIRA BURRI, CLASSIFICATION OF SERVICES IN THE DIGITAL ECONOMY (2012).
possibly resulting in more effective and efficient production of ITS measurements, as opposed to developing countries.

There is hence a need to study the issues and understand the difficulties that any national statistics compiling agency would face in operationalizing the measurement of services trade as proposed by WTO. The biggest stumbling block expected will probably be in determining the actual length of residence of service transactors, apart from extracting accurate information on parties involved in the transaction for the purpose of ascertaining the category for recording international trade that has taken place.

IV. NATIONAL TREATMENT ISSUES FOR COMPILING SERVICES TRADE DATA

In order to achieve the objectives of this paper, that is to uncover the challenges faced in compiling services trade data, Malaysia is chosen as a case of reference for developing countries. One will expect a number of obstacles faced by many developing countries when attempting to measure services trade with regards to dealing with national treatment. First, the challenge of gathering and compiling statistical data on trade in services is not only novelty new, but fraught with risks of representation, reliability, realistic portrayal of activities on the ground, understanding and acceptance of the information reported. While the main compiler of national economic data is the national statistics office, which is the Department of Statistics [hereinafter DOS] in the case of Malaysia, there are a number of other government agencies that have interest and are involved in services trade data. They include the Malaysian Industrial Development Authority [hereinafter MIDA], the Malaysia External Trade Development Corporation [hereinafter MATRADE], both of which are under the umbrella of the Ministry of International Trade and Industry [hereinafter MITI]; the Royal Malaysian Customs Department [hereinafter RMCD], the central bank or Bank Negara Malaysia [hereinafter BNM] and ministries that regulate particular services subsector, such as the Ministry

of Health, Ministry of Higher Education, Ministry of Public Works and others. Each of these agencies employs different methods of data collection, depending on their respective needs and objectives. There will be variations in services trade data reported by different agencies because service firms and suppliers that provide raw data to them will respond according to different requests in the manner they best can or may do so based on what they have. It will be difficult to expect consistent data outputs of these agencies and those by DOS where compilation of services trade would be according to the MSITS. For example, data that are collected via surveys may be different from those obtained through extraction from documents or personal interviews for the same phenomenon. Different versions of data for services trade will cast doubts even on final results that may be compiled based on the MSITS guidelines.

On national treatment approximated by residence, one would probably find educational services preferring to gauge similarity of language, culture and starting position of students from different countries as compared to home or Malaysian students to categorize them as resident or non-resident, such as for influencing fees, whereas construction services producers would find geographical location, distance and logistical facilities where construction work has to be performed for differentiating between markets of residents and various non-residents.

Secondly, it is fundamental that conceptual ambiguities will pose problems that constitute another category of challenges that will require attention. While the concept of international trade in services and definitions such as the four modes are by now accepted by trading nations, the manner they will be translated into actionable processes for systematic compilation of statistical series over time remains unclear in many aspects of the recommended processes. Furthermore, due to the elusive conceptualization of services trade, and the use of estimates such as residence as proxy for national treatment, it will not be surprising that the relatively low level of comprehension by both compilers and providers of data for services trade may further contribute to confusions that will affect data quality. Hence reliability and believability of the statistics produced as being reasonable or reflecting reality will pose difficulties. In Malaysia, although DOS started the learning of these changes for more than three years through training and help of expert consultants, the acquisition of deeper understanding of these conceptual issues and their application in practice remains a continuous process. The mental conversion of “nationals” to “residents” to possibly variations in their application in practice will cause debates that require experiments over rounds of the same survey to settle.

Thirdly, besides the usual hindrances expected of any data collection process, the ability of data compilers in obtaining cooperation and
commitment from compilees, that is services firms and suppliers, is crucial. Data providers will probably encounter problems sorting out their own internal data records in order to provide whatever information requested of them; and this will be a source of issues that may contribute to the difficulties in data collection itself. For example, the idea of tracking credit card issuance source as a way to sort out income from residents and non-residents appear theoretically possible. But a range of questions are raised, such as, on residents obtaining credit cards from banks abroad and vice versa. It will take a number of survey cycles to see the way data keeping is adjusted to suit repeated requests expected from DOS. Patience on the part of both DOS and services firms will be a real test. Even finding mutually suitable times to visit respondents for interviews, if needed, and their willingness and ability in providing data will be real challenges that DOS will face. Problems of getting respondents to comply with the intentions of the compiler’s requests will not be an easy task.

Data compilers may find it a challenge communicating to data providers how they should provide accurate data for the survey that are consistent with guidelines of the MSITS. This is because services-suppliers are not aware of the requirements of the MSITS. Once the firms are aware and able to supply data that are in line with what data compilers want, continuity of the practices are important as surveys are usually conducted in series. It would be beneficial to know what requirements and standards statistic compilers are enforcing to ensure continuous compliance of the MSITS guidelines.

For international comparability, it is crucial for nations worldwide to report data on international trade in services in a synchronized manner to allow realistic international comparison. While WTO and other international organizations that collect economic data, such as World Bank are continuously attempting to achieve congruent results, they are dependent on national level consistency as a base.

Cost is also another factor that needs to be considered in implementing the MSITS guidelines. The extent to which data compilers can effectively apply the new guidelines will depend the cost of planning and implementing changes, which include training interviewers, educating data providers and services firms, developing and testing new surveys, software and hardware cost, and other related costs. Data compilers will undoubtedly need to consider these initial costs as necessary for the sake of future benefits to be gained by the nation.

Notwithstanding the constraints and other demands of most national statistics offices, DOS of Malaysia decided to embark on the journey recommended by MSITS, even with preliminary planning before the guidelines were officially launched. However, implementing the guidelines proposed in the MSITS can only be successful if proper execution of plans
continues smoothly over time. Continuity of proper implementation will ensure sustainability in providing meaningful statistics for policy decisions.

V. STEPS IN DEVELOPING COUNTRIES: PROPOSAL FOR A PILOT STUDY IN MALAYSIA

In considering the developments that are taking place among developing countries with regards to accounting for services trade and in measuring the outputs of those activities, the case of Malaysia is discussed in order to track the process of collecting data and measuring services trade in practice. Prior to the Uruguay Round that resulted in the WTO agreements, data compiled by DOS on the services sector catered more for social needs and societal development rather than for economic planning goals or for assisting business investments. Detailed statistics for economic development were focused more on “productive activities” such as those in agriculture, mining and manufacturing industries where aspirations for economic growth were placed. Services were considered only as supportive activities for industrialization, as in other relatively young, developing economies. The idea that intangible services activities are important value-added industries that can contribute to significant economic growth in their own right is relatively recent.28

The Third Industrial Master Plan of Malaysia 2006-2020,29 the New Economic Model introduced in 200930 and the Tenth Malaysia Plan, 2011-201531 recognize that services sector development is an important engine of economic growth. The reality that services are increasingly traded between and among nations is established and accepted only with the General Agreement on Trade in Services, GATS within WTO, where four modes of services trade are established. The fundamental shift in the way services are thought of, that is the concept of services itself, from mere activities for social consumption and auxiliaries for economic production, to economically value-add possibilities that may be marketised, transacted and even traded between nations, calls for changes as to how services are

measured and how services statistics are produced. As with national statistics offices of most developing economies, Malaysia continues to grapple with many issues 16 years after the formation of WTO.

As of 2011, Malaysia’s services sector represented close to 60% of GDP.\(^{32}\) In advanced economies, services share exceeds 70% or even 75% of their GDP. The state of services statistics in Malaysia and the difficulties faced in providing much needed services data for policy decisions both in the public sector and private sector businesses cannot be pushed back further. Based on early systematic analysis of the position of services statistics in the economy during the Third Industrial Master Plan implementation period, the Task Force on Services Statistics that evolved into the more permanent Working Group on Services Statistics, drew up plans together with services regulating agencies and DOS. Among the array of new work needed to be carried out, trade in services data is on the priority list. DOS has begun on a few experimental surveys in accordance to MSITS recommendations, although not complying fully in the early stages. The need for accurate and realistic data on services within the economy, for services development policies, for trade negotiations, for socio-economic planners and for business strategies is real and cannot be delayed further.

Services sector development, investment in capacity for services performance and trade in services among businesses are all recognized not only for economic growth, but also for remedial policy measures during recessions as demonstrated in the 2008-2009 global economic crisis.\(^{33}\) It is therefore imperative that many of the issues raised above be earnestly examined, and it is proposed that the host of new conceptual issues be the starting point for research.

The concept of national treatment and innovative applications around it is certainly one such worthy base points. It is probably more manageable to begin with a pilot study on one service subsector for in-depth analysis against the new requirements of their services transactions that constitute trade. The ultimate goal will be to examine issues faced by data compilers when operationalizing the new concepts, and to make recommendations for improvements. The areas indicated in this paper such as compilation challenges, conceptual understanding, comprehension of the overall procedures, communications and costs issues, will require indepth discussions with DOS and a number of exporting firms of the selected

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services, to elucidate aspects of actual problems encountered where DOS has forayed into. The results and recommendations of the pilot research can then be incorporated into future cycles of DOS’s surveys where the lessons are relevant. It is expected that the pilot study will open up new windows that have not been envisaged before.

VI. CONCLUSION

The urgency of realistic accounting of services transactions among nations is acknowledged so that practicable measurements of statistical data can be recorded for important economic and business decisions. The manner and speed of global transformation in the past two decades have been phenomenal in terms of production processes evolving into world wide networks that require not only trade among countries but increasing trade within corporate groups themselves across national borders.

The inadequacies of existing data systems are being addressed through years of planning and testing within regional and intergovernmental agencies, such as Eurostat and WTO. There are numerous new needs that have arisen out of completely innovative concepts especially around invisible services transactions among nationals who are no longer confined to their countries of origin. Apart from technological advancements in travel among consumers and service providers or traders, those that foster high speed information flows irrespective of borders have enabled ever increasing expansion of ITS. The introduction of EBOPS and FATS are attempts to improving modes 2 and 4 services trade data that were only partially recorded in conventional BOP and to cater to some of the new requirements especially for capturing mode 3 trade in services. Given that advanced economies are still adjusting their own information systems after many years, the situation in developing countries is just beginning. This paper proposes that one principle adopted by GATS, namely, national treatment be explored in a pilot study in the developing context of Malaysia as far as issues of statistical treatment is concerned. The purpose is to delve into challenges on the ground to seek avenues for improvements when handling such a new concept for services trade. Similar studies may be conducted on other concepts based on principles already accepted in trade agreements, as well as in other developing countries. Hopefully, guidelines and ideas provided in the MSITS may be successfully implemented within cost limitations of developing trading nations for future economic returns through better informed trade negotiations and greater volume of freer trade.
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