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STANDING COMMITTEE OF

CARIBBEAN STATISTICIANS   **SCCS/2005/30/10**

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<u>**STATISTICS ON PRODUCTION AND INTERNATIONAL TRADE IN SERVICES: OVERVIEW OF DEVELOPMENTAL WORK**</u>

1.   <u>Background</u>

In continuation of its thrust to develop a system of statistics in the area of International Trade in Services the Caribbean Community (CARICOM) Secretariat executed a Project jointly with the United States Agency for International Development, USAID-funded Caribbean Trade and Competitiveness Development Programme (CTRADECOM). This Project commenced in August 2004 and came to an end in May 2005. This initiative followed the Canadian International Development (CIDA) funded project in 2001/2002 which set the basis through the conduct of a situational assessment for further developmental work aimed at strengthening capacity in Member States.

Based on the work put in place at the Secretariat in the CIDA - funded Project as well as in the preparation of a Report on Statistics on International Trade in Services, major gaps were identified in the statistics in this area.

The main activities of the Project as designed by the Secretariat were:

(i)   Preparation of Common Guidelines for the Collection, Compilation and Dissemination of Statistics on International Trade in Services;

(ii)   Reviewing and Compilation of Existing Data on Worksheets to compile statistics on Trade in Services and on Investment Flows;

(iii)   Reviewing of Survey Instruments, Questionnaires, Data Collection procedures, Sampling Methodology including Methods of Estimation and Imputation for Non-response;

(iv)   Conducting of National/Regional Workshops to sensitise and inform users, Producers and Suppliers of Statistics on International Trade in Services.

2.   Main Outputs of the Project

2.1   Preparation of the Common Guidelines

With respect to the document on the Common Guidelines, this has been prepared and is about to be disseminated to all Member States. The Secretariat would like to encourage Member States to use the common guidelines in the compilation of statistics on International Trade in Services and to provide feedback to the Secretariat after which it would be revised as appropriate.

According to the Guidelines for the Implementation of the Project prepared by the Secretariat, the major expectation with regard to the preparation of the Common Guidelines was to enable the realisation of a harmonised approach for the production of statistics on Trade in Services

Essentially, the resulting document, *Common Guidelines for the Development of Statistics on International Trade in Services in the CARICOM Region*, presents operational guidance for the collection and compilation of statistics of

international trade in services in the CARICOM Region. It represents a companion guide, in a regional context, to the Manual on Statistics of International Trade in Services (MSITS) produced by the United Nations, the European Commission, the International Monetary Fund (IMF), the Organization for Economic Co-operation (OECD), the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organisation
(WTO).

The Common Guidelines focuses on the following:

- Compilation of Services in the Current Account of the Balance of Payments for the core services industries identified by the stakeholders of the Region during the CIDA-funded Project in 2001/2;
- A Common Approach for Classifying Services in CARICOM;
- Guidelines for the Compilation of Foreign Direct Investment Statistics and specifically to Foreign Affiliate Trade in Services Statistics;
- Survey, Sampling and Estimation Procedures;
- A profile of the Financial Services Sector;
- Use of Information technology in the compilation of a common framework for Trade in Services in the Region.

2.2 Review and Compilation of Existing Data on Trade in Services

This activity was to result in the production of actual tables as detailed as possible on trade in services as available from the worksheets of selected Member States. The compilation activity was executed in six Member States, which were: Barbados, Belize, Jamaica, Saint Lucia, St. Vincent and the Grenadines and Trinidad and Tobago. There was also a visit to the ECCB in St Kitts and Nevis. Recommendations and findings of the country compilations visits have been shared with the producing agencies and the country reports have

been submitted to the respective countries. Among the findings and recommendations were:

- Availability of adequate details sufficient to enable the compilation of Statistics according to the Extended Balance of Payments in Services (EBOPS) Classification are present to varying degrees across Member States in the survey data that are collected. However there is too early an aggregation of the reported data resulting in difficulty in accessing the required details;

- Belize through its Central Bank perhaps represents the best case scenario relative to the availability and ease of access to this level of disaggregation despite existing gaps;

- The insertion of an intermediate step between the collection of the data and the compilation of the BPM5 format will allow other Member States to produce the data in the required format;

- Attention should be placed to some of the "Other" categories for allocation to the relevant services component;

- The availability of detailed information is affected by low response rates and confidentiality provisions;

- There are also implications for the revision of the survey forms across Member States with less work required in some countries as compared to substantiated revisions in others, in order to capture receipts and payments of services at the level of the EBOPS;

- There are commendable efforts with respect to the structure and maintenance of the Business Establishment Register, the best case scenario being Trinidad and Tobago that seemed to have an established tradition with respect to the content and the sources of data to maintain the same. The need for dedicated staff on this activity was recommended for some Member States as well as for avenues of collaboration relative to the register of Foreign Direct Investment Enterprises in so far that this can

assist the compilation of Foreign Affiliate Trade in Services Statistics (FATS);

- Generally in all of the above collaboration between relevant agencies existed and areas for further collaboration were identified.

2.3 Approach to establishing a Common Classification System in Member States

A Classification System plays a critical role in enabling the organisation, dissemination, analysis of raw data collected in the course of statistical work. The need for a Common Classification System was included in the Terms of Reference of the CIDA-funded Project in 2001-2002 relative to the situational assessment to enable the availability of consistent and relevant figures at specific degrees of disaggregation and formats to fulfil the needs of different users for policy formulation, negotiations, analysis and private sector decision-making.

In the follow-up Project that was funded by USAID, the Secretariat, based on the identification of core services industries articulated by stakeholders in Member States, included as an expected output the further advancement of the common classification system to be devised and documented for use in the Region.

More specifically, the common approach was to take fully into account the international classifications such as the Extended Balance of Payments Services Classification (EBOPS), the International Standard Industrial Classification (ISIC), the General Agreement on Trade in Services – GATS (GNS/W/120) and the Central Product Classification (CPC)

In addressing the requirements of this activity, the classification expert identified two general goals, coherency and flexibility, in developing the relevant specifications. With respect to coherence, the expert highlighted as a perennial shortcoming for users the limited ability with which classifications often have to

relate or 'talk' to one another largely due to the differences in the conceptual foundation or structure. For example, exports are product-based, while output/sales/revenues of the producer are organised by industry. Industry members often have secondary products that would be ascribed to a different code if they were the main output. Further, some trade is considered as domestic production of a host country (known as Mode 3 or FATS) when the legal classification of the WTO is used. Such transactions are out of scope for compilers of the National Accounts and Balance of Payments who are limited essentially to cross-border trade.

The specific approach was therefore to build three reference classifications from the three international standards most central to services trade, namely EBOPS, GATS and ISIC, starting with the EBOPS.

2.4   Review of Survey Sampling and Estimation Procedures

The Consultant in this area visited Barbados, Belize, St. Kitts and Nevis, Saint Lucia and Trinidad and Tobago, in undertaking his mission and also participated in the regional workshop in Barbados and the two national workshops in Belize and St. Vincent and the Grenadines;

The following are some of the survey methods used by Member States:

(i)   Surveys of enterprises and establishments;

(ii)   Household Surveys, such as the Labour Force Survey and The
         Income and Expenditure Survey;

(iii)   Surveys of individuals, such as Survey of Foreign Students and Exit
         Surveys of Foreign Visitors.

Most of the surveys are designed and conducted by the National Statistical Offices or in collaboration with other agencies like the Labour Departments, national tourism offices and the Central Bank.

In formulating guidelines for the CARICOM Member States for the compilation of trade in services statistics, as a priority, the work under this activity focused on the following:

(i)   developing an approach to sampling the services industries;

(ii)   developing questionnaires and other survey instruments;

(iii)   reviewing existing procedures, and making recommendations for improvement.

Some of the recommendations were implemented during the country missions and documentation of guidelines provided.

Among the findings and recommendations were:

(i)   The need to improve the databases by legal ownership to treat with own-account establishments and to either conduct a sample survey across industries on these establishments or treat them as a complete group and to select a direct sample of own-account establishments;

(ii)   The Coverage of informal service activities can be addressed through the incorporation in existing household surveys of a one-time questionnaire, perhaps once every year to identify and obtaining a clearer picture on the operations of these suppliers in order to correct for them in the estimation procedure;

(iii)   The Consultant was of the view that in the main, some countries possessed a list of "the largest establishments" as well as collecting information on some of the "small" establishments but not a sample according to the required statistical standards and this issue should be rectified to avoid bias in the estimation process. This led to an inclusion in the report of the scientific approach that is required in the course of sampling, probabilistic or non-probabilistic in order to make inference of the population and in the case of probability sampling to be able to:

(a)   avoid bias in the survey results;

(b)   improve quality;

(c)   make definitive statements with regard to the   standard errors of the estimates as a means of gauging the quality of the data;

It was noted that establishments are often selected based on their convenient geographical location or because they are known as "friendly" and to be good respondents which is not a good practice. It is clear, that without probability selection methods, estimates of statistical accuracy are unknown. At the same time, there is a high correlation between voluntary respondents and more organized establishments, and this will affect the results.

2.5   Application of Information Technology in the Compilation of Trade in Services- Creation of a Central Information Technology System For CARICOM Services Statistics

The Information Technology (IT) characteristics of CARICOM business establishment registers were assessed, as were the survey and sampling methods, the reporting forms and the software computing systems being used in

the CARICOM countries and the ECCB. In many respects, the current procedures of the Member States visited were found to require improvement.

The upgrading of the registers and forms, a high degree of harmonisation should be aimed for, including the classifications, so that one central computing system can be installed at the CARICOM Secretariat. The Trinidad and Tobago establishment register could be the model, if improved in specific ways. The ECCB Computerised Enhanced Balance of Payments System (CEBOPS) survey questionnaire forms could be developed as the model for standardisation for the BOP.

The data handling system was recommended to be developed using available standard and cost-effective Microsoft applications which would enable users, both officials and private sector firms, to access the system using normal web browsers. There would be strong security features to protect confidential data. Data could be entered manually, electronically or by scanning forms. Users and operators would not need new software or hardware. The central system would have dedicated processing software and hardware, and the web-hosting aspects could be outsourced.

The data output could be modelled based on an improved version of the ECCB reporting format, and would cater for the proposed CARICOM balance of payments classifications and for compiling FDI and FATS statistics.

2.6   Other Areas Incorporated in the Project

2.6.1 Profile of the Financial Services Sector (including Offshore Financial Services)

In the opinion of the Financial Services Expert, the services provided by CARICOM residents to offshore firms should be reclassified as business services under the category of 'Miscellaneous business, professional and technical

services', because they consist of legal, accounting and management consulting services.The Financial Services Expert also expressed the view that existing classifications contain insufficient detail for tracking modern financial services, which have developed and diversified greatly over the past decade or more. He outlined some of the further disaggregation that CARICOM may wish to focus more closely on this sector in future.

2.6.2 Minimum Needs for Labour Statistics in relation to GATS Mode 4

Work is ongoing on recommendations with respect to a statistical framework for compiling statistics on GATS Mode 4. However the following could provide useful sources of data on this mode of supply:

(i)   Records from the labour department on work permits granted for up to 3 years to executives, specialised personnel, and highly qualified persons brought in by foreign affiliates and national companies;

(ii)   Extracting data from immigration records on business visitors months;

(iii)   Records from the labour department on compensation to residents travelling overseas to provide services on a contractual basis to non-residents ;

(iv)   Data from household surveys, population censuses and data on compensation of employees in the BOP.

First Steps towards the Tourism Satellite Account (TSA)

Establishment of a framework for generating the TSA, though not an activity undertaken under this project, is critical to the completeness of its overall output.

The following recommendations are intended to assist countries get started or moving the process forward with respect to a TSA framework:

(i)   Collaboration among all stakeholders coordinated by national statistical offices and the national tourism offices;

(ii)   Establish the data base;

(iii)   Review existing survey instruments and methods;

(iv)   Decide on the technology and software for generating the data.

The inclusion of tourism therefore is its treatment as *an internationally trade service*.

3.   Immediate Next Steps

Evidently a significant body of work was attained through this Project and there is need for a review of the outputs to determine what was achievable relative to the Terms of Reference and to map a strategic approach to further develop this area. At the same time, this Project represents the second major development initiative in a five-year period and undoubtedly the in-country technical assistance has enabled the strengthening of capacity and the greater understanding of the issues surrounding the compilation of Statistics on International Trade in Services.

While being mindful of the fact that there are resource constraints at both the regional and national levels, Member States are urged to take advantage of the knowledge base and techniques gained and continue the work put in place in this area to realise its production, dissemination and use across the Region.

ACTION REQUIRED:

The **Meeting** is **invited** to:

(i)   **consider** the developmental work put in place through the implementation of the project on statistics on International Trade in services;

(ii)   **commend** those Member States that cooperated in enabling successful outcomes to the Project activities;

(iii)   **note** the intention of the Secretariat to disseminate the outputs to all Member States;

(iv)   **also** note the need to review the Project outputs and to map a strategic approach further developmental work;

(v)   **urge** Member States to continue with the developmental work put in place during the lifetime of this Project;

(vi)   **express** appreciation to the USAID for its funding of the Project through its USAID funded Project - Caribbean Trade and Competitiveness Development Programme (CTRADECOM);

(vii)   **also express** appreciation to the Consultants that worked with the Secretariat in the Implementation of the Project.

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