Chapter 14

Modes of Supply for International Services

14.1. A key initiative of the international community in response to the rapid expansion of international trade and investment was the creation in 1995 of the World Trade Organization (WTO) following the Uruguay Round of multilateral trade negotiations. The WTO provides a common framework for the conduct of trade relations among its members. Its main functions are facilitating the implementation, administration, and operation of the multilateral trade agreements; providing a forum for further negotiations; reviewing national trade policies; and securing solutions to trade disputes.

14.2. The three principal WTO agreements are the General Agreement on Tariffs and Trade of 1994, the General Agreement on Trade in Services (GATS), and the Agreement on Trade-related Aspects of Intellectual Property Rights. GATS constitutes the first set of legally enforceable disciplines and rules at the multilateral level established to cover international trade in services. GATS defines the “supply of a service” to include the production, distribution, marketing, sale, and delivery of that service.

14.3. While international trade in services primarily occurs through the channel of cross-border transactions, often facilitated by electronic communications networks, the supply of many services is possible only through the simultaneous physical presence of both producer and consumer. As a result, in order for transactions to be commercially meaningful, trade commitments must frequently extend to cross-border movements of the consumer, the establishment of a commercial presence within a market, or the temporary movement of the individual service provider.

14.4. GATS defines trade in services in terms of four modes of supply. The definition of services trade under GATS depends on the territorial presence and residence of the supplier and the consumer at the time of the transaction. The four modes include (1) cross-border supply, (2) consumption abroad, (3) commercial presence, and (4) presence of natural persons. This definition is broader than the balance of payments (BOP) concept of services trade, which is concerned only with transactions between residents of a given country and nonresidents encompassing modes 1, 2, and 4. While the BOP focuses on residence rather than nationality, certain transactions falling under the GATS, in particular in the case of mode 3, typically involve only residents of the country concerned.

14.5. The four GATS modes of supply are defined as follows:

14.6. **Cross-border supply** (mode 1) covers services flows from the territory of one country into the territory of another country (e.g., banking or architectural services transmitted via telecommunications or mail).
14.7. **Consumption abroad** (mode 2) refers to situations where a service consumer (e.g., tourist or patient) moves into another country’s territory to obtain a service.

14.8. **Commercial presence** (mode 3) implies that a service supplier of one country establishes a territorial presence, including through ownership or lease of premises, in another country’s territory to provide a service (e.g., domestic subsidiaries of foreign insurance companies or hotel chains).

14.9. **Presence of natural persons** (mode 4) consists of persons of one country entering the territory of another country to supply a service (e.g., accountants, doctors or teachers). This mode includes self-employed persons and employees on temporary assignment (intra-corporate transferees). The terminology “natural persons” is used to differentiate between individuals and the generic use of “persons,” which covers individuals, branches, partnerships, associated groups, associations, estates, trusts, government agencies, and others.

14.10. International statistical guidelines for services recommend publishing services trade by mode of supply and by partner country. While BEA, like most national statistical agencies, does not provide services trade statistics classified by mode of supply, this objective can be approximated using BEA's published statistics from the International Transactions Accounts (ITAs) and from the Activities of Multinational Enterprises (AMNE). Most of the published ITA services categories correspond in whole or in part to the cross-border supply mode. Travel and a portion of government services n.i.e. correspond to consumption abroad. BEA's AMNE statistics on services supplied by affiliates correspond to commercial presence. Statistics for services provided by the presence of natural persons are mingled with statistics for cross-border supply and compensation of employees in various published categories.

14.11. Chapter 5 of the *Manual on Statistics of International Trade in Services (MSITS) 2010* provides a framework for compiling services statistics by mode of supply based on published ITA and AMNE services statistics. *MSITS 2010* acknowledges that not each of the services categories from the ITAs can be mapped to a specific mode of supply. Rather, the intent of the framework is to provide options for identifying the dominant mode of supply when multiple modes apply and to refine the assignments over time based on compiler knowledge about the delivery of specific services.

14.12. Following the *MSITS 2010* framework, services supplied by majority-owned affiliates obtained from BEA's AMNE statistics are always assigned to mode 3 due to the commercial presence of the affiliates. The specific service activity within mode 3 is determined from BEA's International Surveys Industry code for affiliates. Modes 1, 2, and 4 can be approximated from the published ITA services categories, but some services cannot be assigned to a single mode. Assignments are as follows:

14.13. **Mode 1**: Transport (excluding port component), insurance, financial services, telecommunication services, information services, and charges for the use of intellectual property n.i.e.

14.14. **Mode 2**: Travel, port component of transport, and maintenance and repair services n.i.e due to the movement of equipment.
14.15. **Mode 4:** Construction.

14.16. **Modes 1 and 4:** Computer services, research and development services, professional and management consulting services, and technical, trade-related, and other business services.

14.17. **Modes 1, 2, and 4:** Government goods and services n.i.e.

14.18. The delivery of computer-related services to foreign markets by U.S. residents and foreign affiliates provides an example of how the different modes of supply might apply to a specific set of services. Sales of computer-related services to foreign residents through the foreign affiliates of U.S. MNEs, which is the most prominent delivery channel based on the value of sales, would be classified as mode 3, reflecting the commercial presence of the affiliate abroad. BEA's AMNE statistics for services supplied by affiliates are classified by the primary industry of the affiliate rather than by type of service. The industries most closely associated with sales of computer-related services are software publishing, computer systems design and related services, and the industry group Internet service providers, web search portals, data processing services, Internet publishing and broadcasting, and other information services.

14.19. Sales of computer services through electronic networks, such as telecommunications or the Internet, to a nonresident who remains in their home country would be classified as mode 1, cross-border supply. In the ITAs, these exports would primarily be found in computer services, information services, and the computer software component of charges for the use of intellectual property n.i.e. Purchases of packaged software by foreign residents visiting the United States would be recorded in the ITAs as an export of travel services and classified as mode 2, consumption abroad. Finally, employees of U.S. business enterprises and certain self-employed persons can provide computer services by traveling to their nonresident customer’s location, which would be classified as mode 4, presence of natural persons.