SECTION 3

TRADE IN SERVICES: A CONCEPTUAL APPROACH

3.1 TRADE IN SERVICES

Understanding what "trade in services" means is not straightforward. A criterion to determine if trade has occurred is whether or not the majority of value added is exchanged between residents and nonresidents or, "if there is a possibility that domestic providers of services are being exposed to foreign competition".[68] Using the definition of services provided in Section 1 as defined by the WTO, there are basically four ways to trade services: a consumer (client), the service (product), or the supplier (provider) may cross the border, or through the presence of foreign affiliates.[69]

To assist in understanding trade in services, it is useful to think in terms of who is being billed for the supply of a service. For example, a Canadian may export (yielding a receipt) educational services by sending a teacher directly to the EU, or it could also take the form of a training provided to employees of its EU affiliate at a site in Canada. Services have different characteristics and this influences how they are traded. It also makes the concept of trade in services somewhat more complex than trade when thought of in relation to goods.

Traditionally, economic theory recognized two basic characteristics of services which supported the belief that services were less tradable than goods: non-storability and intangibility.[70] The former implies that some services have to be consumed and produced at the same location and at the same point in time. The latter implies that because services are intangible, a closer interaction between the producer and the consumer is most of the time necessary.

Both the intangibility and non-storability factors have been influenced by technological changes. Producers and consumers can now exchange services products at a distance through advanced telecommunication networks. [71]

[68] Richardson J., "A Sub-sectoral Approach to Services' Trade Theory" in Giarini (1987), p.61

[69] Services transactions are often presented in four categories: travel, transportation, government services and other services (business services). The breakdowns are based upon the IMF Fifth Manual of Balance-of-Payments which serves as a reference for classifying services transactions by national statistical agencies such as Statistics Canada. The four modes of delivery for services of the WTO that are embodied in the IMF definitions. The OECD and the WTO use the IMF methodology to produce their annual statistical reports. In this section, we will use mainly statistics derived from the WTO Annual Report which are based on the IMF classification for the period of 1986-1996.

[70] Sapir A., Comments in Giarini (1987)

[71] The number of data transmissions reflect the growing number of services transactions.