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Creative products[1] in international trade statistics

Abstract

The products generated by the "creative industries" consist of creative goods and creative services. The goal of this publication is to show that most creative products that are classified in international transactions as creative goods are, in fact, creative services embodied in goods. In practice it means that in international trade in creative products it is the service products that dominate and international trade in creative services is highly underestimated.

Changes in international statistics relating to the methods of classifying trade transactions in goods and services are analyzed in the further part of this paper. The author of the study makes also an attempt to evaluate if these changes are aimed at increasing the inclusion of embodied services and services delivered electronically into the value of international trade in services.

1. Introduction

In seeing the growing importance and potential of the creative industries, international organizations have taken action aimed at introducing relevant changes to international statistics so as to facilitate the collection of comparative

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[1] The system of National Accounts (SNA) uses the term *product* as inclusive of both merchandise and services. *Balance of Payments and International Investment Position Manual*, International Monetary Fund, December 2008, p. 218.

data allowing analysis of the significance of creative products in individual economies and in international trade. The outcome of these efforts is the first database relating to the share of creative products in international trade published in 2008 by UNCTAD. In line with the definition applied by UNCTAD (Creative Economy Report 2008, pp. 226–229), the whole of creative products were subdivided into creative goods and creative services. However, in the case of most creative goods, essentially one is dealing with services embodied in goods[2].

There is agreement in topical literature as to the fact that products defined as services embodied in goods are more service products than goods in spite of the fact that they posses qualities characteristic of goods. At the same time, certain works, including some cited in this publication, profess the view that the method of classifying international trade in services embodied in goods is of no real significance, or that any significance is primarily related to trade negotiations. However, such opinions cannot be agreed with because the presently used international trade classification system results in significant underestimation of the value of international trade in services, which is often noted in topical literature (Wyszkowska-Kuna 2005, p. 57). Moreover, it should be stressed that this is particularly noticeable in the case of trade in creative products, analyzed here, which have demonstrated a high growth dynamics over recent years, higher than the remainder of trade turnover.

2. Definition of Basic Concepts

There is no single definition of "creativity" that encompasses all dimensions of this phenomenon. "Creativity" may be characterized in various areas of human endeavor:

- Artistic creativity – encompassing imagination and the ability to generate original ideas as novel ways of interpreting the world expressed through writing, sound, and images;
- Scientific creativity – curiosity and a desire to experiment and make new connections in solving problems;
- Economic creativity – the dynamic process leading to innovation in the area of technology, business practices, marketing, etc., which is strictly tied with achieving comparative advantage in the economy.

[2] For more on services embodied in goods see J. Wyszkowska–Kuna, *Handel usługami w procesie integracji europejskiej*, Łódź University Press, Łódź, 2005, pp. 12–13.

To a greater or lesser extent, all these areas of creativity encompass technological creativity and are mutually interrelated (*Creative Economy Report 2008*, p. 9).

The concept of "creative industries" has a relatively brief history. It made its debut in 1994 in Australia with the publishing of the "Creative Nation" report. In 1997 the government of Great Britain established the Creative Industries Task Force, which presented its first report relating to the importance of the creative industries in the British economy in 1998 (*Creative Industries Mapping Document 1998*). In line with the definition it gave, creative industries consist of those branches that are derived from individual creativity, skill, and talent, and that have the potential to create employment and wealth through the generation and utilization of intellectual property. Such branches include advertising, the antique market (sales and auctions), architectural services, crafts, design services (not included elsewhere), fashion, film, leisure–related software (games, educational programs, personal computer software), music, the performing arts, publishing, software, and television and radio.

There is no agreement in topical literature as to whether "creative industries" is different from "cultural industries" or if the concepts may be used interchangeably with respect to the same sectors of the economy. Nonetheless, the concept of "creative industries," which over recent years expanded the seeing of "cultural industries" as only the arts, also turns towards directions of potentially commercial interest that, to date, have been considered as non–economic[3]. However, it seems justified to use an approach in line with which "cultural products and services" are treated as a part of the broader category of "creative products and services."

In line with the UNCTAD definition, "creative industries" *(Creative Economy Report 2008,* p. 13):

- Are a cycle of creation, production, and distribution of goods and services whose major input utilizes creativity and intellectual capital;
- Are a set of actions based on knowledge (concentrated on, but not limited to art), potentially generating revenues from trade and intellectual property rights;
- Encompass tangible products and intangible intellectual or artistic services, with creative content, economic value, and market goals;

[3] See the various models trying to characterize the concept of "creative industries" in *Creative Economy Report 2008, op. cit.*, pp. 12–13.

- Are at the intersection of art, services, and industrial sectors;
- Constitute a new, dynamic sector in international trade.

The UNCTAD approach to the concept of "creative industries" involves the expanding of the concept of "creativity," understood previously as activity with major artistic input, to include any economic activity generating symbolic products, with significant importance resting with intellectual property, for as broad a market as possible. UNCTAD identifies what are known as "upstream" (traditional artistic activity) and "downstream" (much closer to the market, including advertising, publishing, the media) activities. In line with such a subdivision, "cultural industries" form a sub–sector of the "creative industries."

The creative industries encompass a wide scope of mutually coupled activities. Some of them are derived from traditional knowledge and cultural heritage (art, crafts, cultural celebrations), while others are more service and technology oriented (audio–visual products and services, the new media). The UNCTAD (*Creative Economy Report 2008,* p. 14) classification divides all these activities into four broad groups, which in their turn are subdivided into nine subsectors:

1. Cultural Heritage. The source of all forms of art and the soul of the cultural and creative industries. Cultural heritage combines various aspects of culture (history, anthropology, ethnicity, aesthetics, and social), it influences creativity and is the source of various products and services as well as cultural activities. This group is subdivided into two sub–sectors:
   - Traditional cultural expression: arts and crafts, holidays and observances;
   - Culture sites: archeological sites, museums, libraries, exhibitions, etc.
2. Art. This group encompasses creative branches based on pure art and culture. It is often inspired by heritage and is of symbolic importance. It may be subdivided into two sub–groups:
   - The visual arts: painting, sculpture, photography, antique art;
   - The performing arts: musical concerts, theater, dance, opera, circus.
3. Media. This group includes two sub–groups of media that generate creative content for the broad public:
   - Publishing and the printed media: books, press, and other publications;
   - Audio–visual: film, television, radio, and other forms of broadcasting.
4. Functional Creativity. This group encompasses sectors that are under the influence of demand and are service–oriented to a greater extent, which produce goods and services serving functional purposes. It is subdivided into the following sub–groups:

- Design: interior design, graphic arts, fashion, jewelry, toys;
- New media: software, computer games, digital creative contents;
- Creative services: architectural services, advertising, culture and recreation, research and development (R&D) services, digital and other related creative services.

3. The Development of the Creative Economy

The creative industries are at the center of another, broader concept—the "creative economy." John Howkins used this term for the first time in 2002 in his book *The Creative Economy*. It is the view of Howkins that creativity is not a new concept, what is new is the nature and scope of ties between creativity and the economy as well as how they are combined in order to generate added value and wealth.

The primary production factor in the industrial economy was physical capital. In the creative economy, the main production factor has become knowledge and creativity (inventiveness)—the ability to use that knowledge creatively. A characteristic quality of these modern production factors is that they are not consumed during the production process, as is the case with physical capital and raw materials. Moreover, the creative economy is dominated by transactions with the participation of products in which intellectual value exceeds the physical value of the media on which the intellectual value is written[4]. In practice this means that the making of successive copies of the product—software, movies on DVDs, music on CDs—costs almost nothing, as is also the case with respect to distribution. It is for this reason that it is the idea that is of greatest importance (hence the growing importance of scientific research intended to produce innovation) and the ability to attract the consumer's attention (hence the growing importance of marketing and advertising), where profits derived from sales may be enormous, incomparably greater than in the case of the material economy (Bendyk 2005). What is more, companies operating in the creative economy can generate

[4] Each transaction may have two mutually complimentary values—invisible value (i.e. intellectual value) and the physical value of the media or platform on which the intellectual value is written.

significant profits building their activities on a small base of assets and workers[5]. At the same time, the demand for many creative products seems unlimited. In the case of industrial goods, usually only a single product is consumed at any one time and its utility value decreases in line with its consumption. On the other hand, the consumption of one creative product may increase the utility value of a successive product (if one likes a book by a given author, one wants to read a second one)[6].

In summary, it may be stated that the potential inherent in the creative economy may be enormous, much greater than the potential in the material economy, where the most highly–developed societies will be able to move to a leisure and entertainment society model. At the same time, saved free time may be used for creativity, which is becoming a factor of affluence (Mączyńska 2007, p. 3).

Richard Florida, the American sociologist, uses the term "creative economy" to describe today's economy[7]. He shares the view that advanced economies are presently transforming into economies based on knowledge and information. However, he thinks that the power plant behind these changes is creativity. Knowledge and information are the tools and material of creativity, while the creative economy not only accumulates and analyzes information, but processes it creatively into something new and valuable.

In its turn, *Business Week* argued in 2005 that the knowledge–based economy we currently have is being eclipsed by something new, which it termed the "creative economy." According to *Business Week*, American corporations are evolving towards the next level of economic activity. What had once been central for the corporation—price, quality, and the material of analytical effort linked to knowledge making up "left brain stuff"—is quickly being transferred to better educated, but more poorly paid, Chinese, Hindus, or even Hungarians, Czechs, and Russians. Knowledge is becoming something common in the world economy, while it is the growing importance of creativity—"right brain stuff"—that smart corporations are trying to tame so as to achieve the highest level of

[5] P. Coy, "The Creative Economy: Which Companies Will Thrive in the Coming Years? Those that Value Ideas above All Else," Business Week, August 28, 2000. Material accessible at http://www.businessweek.com/2000/00_35/b3696002.htm

[6] S. Venturelli, "From the Information Economy to the Creative Economy: Moving Culture to the Center of International Public Policy," *Cultural Comments Series*, The Center for Arts and Culture, Washington, pp. 7–8. More information available at www.culturalpolicy.org

[7] R. Florida, *The Rise of the Creative Class*, 2004. See also A. Kukliński, *Ku kreatywnej Europie XXI wieku* [Towards a creative Europe of the 21st century], WSB–NLU, Warsaw–Nowy Sącz, 2006, p. 5.

development. *Business Week* insists that it is no longer a question of mathematics and science, but creativity, imagination, and most importantly, innovation[8].

To date, no single definition of the creative economy has been drafted. The concept is still in its formative phase. However, a convergence is observable of industries that make up the creative economy as well as with respect to their mutual links, on both an individual country level and on the international level.

In line with the UNCTAD definition (*Creative Economy Report 2008,* p. 15), the creative economy is based on creative assets generating potential economic growth and development. UNCTAD characterizes the creative economy as an economy that:

- Can play a role in increasing income, creating new jobs, and export growth, while simultaneously promoting social inclusion, cultural diversity, and human development,
- Envelopes economic, social, and cultural aspects that work in unison with the objectives of technological development, intellectual property, and tourism,
- Is a combination of economic activities based on knowledge and the realm of development, which intersect with the whole of the economy on a macro and micro level,
- Is a development path that requires innovation and a multi–disciplinary approach in politics and intra–ministerial actions.

A single, important conclusion is emerging from the concept of the "creative economy:" Economic and cultural development are intertwined and are a part of a broader process referred to as sustainable development. Creative assets and cultural resources present in all developing countries can become an important source of economic development, the creation of employment, and an increased share in the world economy, while simultaneously promoting social inclusion, cultural diversity, and human development.

[8] B. Nussbaum, "Get Creative – How to Build Innovative Companies?," *Business Week*, August1,2005,
http://www.businessweek.com/print/magazine/content/05_31/b3945401.htm?chan=gl

4. How Can Goods Be Differentiated from Services in International Trade

In line with the definition assumed by UNCTAD, all creative products are subdivided into creative goods and creative services. However, in the case of most creative goods, one is really dealing with services embodied in goods[9]. This gives rise to the question of which creative goods should be treated as creative services embodied in goods.

Economists concerned with matters of international trade in services already noticed the complexity of the problem of differentiating goods from services as early as the start of the nineteen–eighties and undertook efforts to analyze this question multiple times. In 1983 Kravis[10] demonstrated that one of the criteria often used to identify services is that their production contains a relatively low value in the form of products contained within them as intermediate goods. Taking any reliable definition of services, it can be noted that the ratio of added value to total product value is high in services and that the share of intermediate products in the form of services is relatively high as compared with the share of goods. To a significantly greater extent, goods encompass the further physical processing of things, which is why the input of goods is dominant in the added value.

One year later, J. N. Bhagwati[11] argued that we are dealing with two parallel processes:

1) The process of splintering services from goods (services performed in–house to date are outsourced to a service company, and
2) The process of disembodying goods from services.

As an example Bhagwati provides the following: A real breakthrough occurred in a service activity known as "musical services" when the record player was invented. What happened with the goods and services classification? Record players and records are "goods." Technological change brought about the creation of a new industry considered a part of the goods sector. If technological progress in traditional service sectors such as music (usually an

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[9] For more on services embodied in goods see J. Wyszkowska–Kuna, *op. cit.*, pp. 12–13.

[10] Kravis, "Services in the Domestic Economy and in World Transactions," Working Paper" No. 1124, Cambridge Massachusetts: National Bureau of Economic Research, 1983. See also J. N. Bhagwati, "Splintering and Disembodiment of Services," *Journal of the World Economy*, vol. 7, no. 1/1984, p. 135.

[11] *Ibidem*, pp. 137–138. See also J. N. Bhagwati, "International Trade in Services and Its Relevance for Economic Development," in *The Emerging Service Economy,* edited by O. Giarini, Pergamon Press, Geneva, 1986, pp. 22–23.

end–user service) actually takes on a form whereby the service is separated from the physical presence of the service provider and is embodied in goods that can be purchased on the market, then this is a question of the splintering process where a technical change simply created new goods that have a tendency to replace the services from which they are derived.

In 1985 Sampson and Snape[12] presented an international service transaction classification based on the needed for physical proximity between the service providers and service end–users, where they identified four types of transactions:

1. Transactions that do not require the movement of factors of production (labor / service provider and capital) or service end–users,
2. Transactions that require the movement of service end–users, but not the movement of factors of production (e.g. foreign tourism),
3. Transactions that require the movement of factors of production, but not of the service end–users—foreign direct investment and temporary movement of the labor factor are the main ways of providing services making up this group (e.g. business services, transportation, certain forms of construction services),
4. Transactions requiring the movement of both factors of production and the service end–users (e.g. operations performed in clinics located outside the home country of both the patient and the operating surgeon, which necessitates their travel to a third party country).

Services considered a part of the first group are defined as services that are separated or disembodied from the service provider and service end–user, or that are separated from production factors and service end–users—non–factors. In practice, this means that they are the object of international trade without the need for movement of the factors of production among countries taking part in the exchange. Sampson and Snape included services produced in the country of the exporter that are then traded internationally as a part of this group (like goods, they cross the border of the exporter and importer countries). Such goods are inseparably tied with material goods because they use material goods as the medium for the produced services, thanks to which the products can take on material form. Examples encompass consultative services, life insurance, and architectural designs that can be produced in the exporter country and can be

[12] G. P. Sampson and R. H. Snape, "Identifying Issues in Trade in Services," *Journal of the World Economy*, vol. 8, no. 2/1985, pp. 172–173. See also R. M. Stern, B. M. Hoekman, "Issues and Data Needs for GATT Negotiations in Services," *The World Economy*, vol. 10, March 1987, pp. 39–60.

traded by correspondence, where consultative services have material form. Sampson and Snape also noted that due to the fact that the services are embodied in the goods (hence the term "services embodied in goods" or "embodied services") they can be identified as goods, not services. Sampson and Snape observed that the boundary between "goods" and "services" in the case of such products as books, data–filled soft discs, blueprints for bridges, and date transmitted by telegraph is far from clear. They themselves asked if they should be treated as goods or as services?

Another form of services splintered from factors of production and service end–users that Sampson and Snape mentioned are services sent in the form of an electronic signal (telecommunication services and services send by way of telecommunications, the Internet, and satellite communications). Starting with the nineteen–nineties, such services are characterized by very high growth and many products previously delivered on physical media are currently supplied in electronic form—e.g. books, music, films, and computer software and games.

A similar position was represented by H. G. Grubel in 1987. He argued that the criterion for division should be the share of the non–factor service component[13] as well as the share of the industrial component in the value of the final product. If it is the service component that is dominant, they such a product should be treated as a service embodied in the goods. If the industrial component is dominant, then the product should be considered goods. H. G. Grubel (Grubel 1987, pp. 325–326) demonstrates that goods containing splintered services do not differ from goods subject to trading that are recorded on the goods turnover account. They all embody a certain part of the non–factor service component. What differentiates trading in services from goods trading is the relative proportions of the price of the substance that is object being traded and that which can be assigned to the added value generated by the service sector or the industrial production sector. Trade in splintered services is characterized by a very high ratio of the added value of non–factor services to industrial added value. Examples of such goods with a large share of service added value are:

[13] In line with the broad understanding of the concept of "services," it is thought that both labor and capital provide services in the production process. Actually, services provided by labor and capital are used in the production of all goods and services. It is for this reason that in order to differentiate between services rendered as labor and capital in the production process they are referred to as factor services, while the remaining services activities are non–factor services. When referring to the non–factor service component, Grubel is thinking of the share in the production process of services other than those provided by labor and capital. H. G. Grubel, "All Traded Services Are Embodied in Materials or People," Journal of the World Economy," vol. 10, no. 3/1987, pp. 325–326.

1. Literature, books, and reports containing scientific, engineering, and other intelligent data adapted to customer needs,
2. Papers devoted to legal documents assigning patent and franchising rights,
3. Electronic discs with data or computer software,
4. Films and tape with film recordings.

H. G. Grubel went even farther in his thinking arguing that the sale of computer chips should not be considered export of industrial goods because the added value delivered by the traditional production process can be a very small fraction of the total added value, where the main part of that added value is delivered by engineering, scientific, and marketing services.

In that same year, R. M. Stern and B. M. Hoekman (Stern, Hoekman 1987, pp. 40–41). indicated the following problems related to differentiating goods from services:

1. The combination sale of goods and services (e.g. meals in a restaurant or the sale of durable goods inclusive of warranties),
2. The performance of in–house services (e.g. legal and accounting services),
3. A tangible product that serves as the medium to deliver intangible products—services (e.g. records),
4. Differences in the manner of delivery of the product (battery or direct delivery of electricity).

Among important questions in the area of collecting data relating to international trade in services, they included the fact that a part of the trade is recorded in the balance of payments as trade in goods when in fact it can be trade in services. However, they stressed that measuring the value of services derived from intangible products is not an easy matter (Stern, Hoekman 1987, pp. 54).

A similar approach, albeit concrete with respect to creative products, was represented by Howkins (Howkins 2002) who indicated that a quality characteristic of creative products is that in many cases the intellectual value exceeds the value of the physical medium on which the intellectual value is written. A certain lack of cohesiveness is seen here in the case of balance of payment statistics. This is because revenues and expenses by virtue of royalties and licenses are entered on the account for service turnover, while products with a dominant share of intellectual value are often classified as goods, not services.

5. Goods and Services in Balance of Payment Statistics

Statistics relating to international trade apply a different criterion separating international trade in goods from services. What is generally assumed is the possibility of physical movement (transportation) of the product and the possibility of the transfer of ownership rights. *SNA 1993* (*System of National Accounts* 1993) provides the following definition of services: Services are not separate objects (existences) with respect to which ownership rights can be established. They cannot be the subject of trade apart from their production. Services are diverse products made to order and usually encompass a change in the consumption terms of the entity realized by way of action by the producer as ordered by the customer. They must be delivered to consumers prior to the conclusion of production. However, it is also noted that there exists a group of industries, usually classified as service industries, creating products that have many qualities characteristic of goods—e.g. those tied with delivery, storage, communication and dissemination of information, advice, and entertainment in the broadest understanding of those terms—the generation of general or specialized information, news, advisory reports, computer programs, films, music, etc. Products made by these industries, with respect to which ownership rights may be established, are often stored on physical objects—paper, cassettes, records, etc.—and can therefore be the object of trade as common goods.

The classification of services and goods in line with the *BPM5* (*Balance of Payments Manual, 5th Edition* 1995, p. 39) is based on the same criteria of subdivision. However, in spite of the suggestion contained in the *SNA 1993*, trade in services does not include trade in service products with qualities characteristic of goods—trade in services embodied in goods. The *BPM5* clearly indicates that international trade in goods is conducted independently of production. This is in contrast to the production of services, which is tied to an agreement concluded between the producer in one economy and the consumer or group of consumers in another, prior to the performance of the service. It is also for this reason that international trade in services is strictly tied with the international production of services, as the same production process encompasses both residents and non–residents (*Balance of Payments Manual, 5th Edition*, p. 39). In line with such a definition, international trade in services does not encompass trade in splintered services (the first category according to the Sampson and Snape classification). This fact is of great importance in international turnover in creative products because, as was mentioned earlier, most products that are ranked in the creative goods category are, in fact, splintered services.

In spite of the above–cited research works where the error of such an approach is indicated, no relevant changes have been undertaken to the system of data collection so as to allow the inclusion of splintered services in international trade as services. Although the problem is seen by international organizations responsible for collecting national statistics, changes made to date seem to be decidedly insufficient.

Recent years have seen work on revising the *BPM5* that have resulted in approval in 2008 of the 6th edition of the *Balance of Payments Manual—BPM6*. The *BPM6* has the following definition of goods and services: Goods are physically produced items with respect to which it is possible to establish ownership rights and with respect to which it is possible to transfer economic ownership from one institutional entity to another through involvement in a transaction. Services are the result of production activity that changes terms for consumer entities or makes possible the exchange of products or financial assets. Services are not usually separate items with respect to which it is possible to establish ownership rights and they usually cannot be separated from their production. This definition is based on the same principles as the definition presented earlier. However, there is a positive change in that to a certain extent the suggestion found in the *SNA 1993* was taken into account. Further on it is noted that certain products saturated in knowledge (knowledge–capturing products) such as software or other intellectual property products may be subject to exchange independently of their production, just like goods (*Balance of Payments Manual, 6th Edition* 2008, p. 262).

In practice, this signifies certain changes in the manner of classifying certain computer and audio–visual services, inclusive of related services. These changes involve:

1. The defining of the borderline between goods and services in the case of computer software[14] in line with which computer services encompass (Balance of Payments Manual, 6th Edition 2008, p. 261):
   a) The sale of software adapted to meet customer needs (special order), regardless of method of delivery, as well as the sale of licenses linked with the software,
   b) The development, creation, delivery, and documentation of special order software, including operating systems made to order for concrete users,

[14] Computer software includes business software, computer games, and other applications. *Ibidem*, p. 262.

c) Software not adapted to customer needs (produced on a mass scale) downloaded from the web or delivered electronically in some other way, with a defined–period or one–time license fee,

d) Licenses for using software produced on a mass scale, delivered on media such as discs or CD–ROMs, with a defined–period license fee,

e) The sale and purchase of originals as well as ownership rights for systems and application software.

Nevertheless, software produced on a mass scale (systems and applications) and delivered on media such as CD–ROM, with a license for permanent use shall continue to be considered goods.

2. Audio–visual services have been separated from material items and the links among various types of licenses covering intellectual ownership are explained.

As in the case of computer software, recordings and manuscripts produced on a mass scale, completely sold or purchased or for perpetual use, downloaded from the web or delivered electronically in some other way, are considered audio–visual or related services. However, if physical media such as discs, CD–ROMs, paper, etc. are provided, then in the case of a license for perpetual use, these will be considered goods, while in the case of other licenses, as audio–visual services. Moreover, the purchase and sale of original manuscripts, soft recordings, films, etc, shall be considered audio–visual services *Balance of Payments Manual, 6th Edition* 2008, p. 266).

In summary, in may be stated that computer and audio–visual products, inclusive of related services, downloaded from the web or delivered electronically in some other way, will be considered as trade in services. However, if the products are delivered by way of physical media, then only special order products and licenses for temporary use shall be considered as being trade in services. In the case of licenses for perpetual use, these shall continue to be considered as trade in goods (*Balance of Payments and International Investment Position Manual* 2008, p. 222). This approach was justified by the fact that in the case of a permanent license allowing use, there is a change in the ownership of the product between a resident and non–resident *Balance of Payments and International Investment Position Manual*, 2008, p. 221-222). Thus, it is clear that the transfer of ownership rights continues to be the criterion for any subdivision into goods and services in the balance of payments. Although true that Section 10.144. adds that for analytical purposes it would be better if all computer software was classified into the same category, no clear indication is made as to whether this should mean goods or services (*Balance of Payments and International Investment Position Manual* 2008, p. 262). Another approach was assumed with respect to the sale or purchase of

ownership rights to intellectual property (the seller of the intellectual property transfers all rights and obligations coupled with that ownership to the buyer)[15]. Such a transaction is considered as trade in services and, depending on the type of intellectual property, either as computer services or audio–visual services, inclusive of related service. A similar situation occurs in the sale–purchase of ownership rights to a product that is the outcome of research and development efforts. Such a transaction will also be treated as trade in services and be classified as research and development services.

Content downloaded from the web that is not software (computer services) or audio or visual content (audio–visual services) shall be ranked as information services. Moreover, information services include:

- Information agency services, such as the delivery for the media of news, photographs, articles,
- Services involving databases, including the creation of databases (concept) and the storage and dissemination of data and databases, both online and using media (magnetic, optical, and printed),
- Web search portals,
- Direct, non–mass subscriptions to newspapers and periodicals through the mail, electronic transmission, or other means (mass newspaper and periodical sales are considered trade in goods),
- Other services delivering content online,
- Library and archival services (Balance of Payments and International Investment Position Manual 2008, p. 261-262).

The definition of services in the *BMP6* is in agreement with the definition found in the *SNA 2008*[16]. Moreover, the *SNA 2008* identifies two groups of services—transformation services and margin services. The first group of services has been defined as products generated on order, which typically encompass changes in conditions for the consumer entities undertaken by the producer as demanded by the consumer. The second group, for its part, is the case when one institutional entity makes possible change in the ownership of goods, products saturated in knowledge or financial assets, between two other institutional entities. Services of this type include trade (wholesale and retail) and services rendered by financial institutions. Both groups of services are not

[15] This refers to not only the first sale of the intellectual property, but also to each successive sale. *Ibidem*, p. 260.

[16] *Updated System of National Accounts 1993 (1993 SNA)*, Volume 1, pp. 6–5, in *Recent Developments and Current Initiatives*, IMF Statistics Department, November 2008. Available at http://unstats.un.org/unds/sna1993/sui.asp

separate existences for which ownership rights can be established, they cannot be the subject of trade independent of production, and must be delivered to the consumer up to the conclusion of their production. The *SNA 2008* introduces one more group of products—products saturated with knowledge (knowledge–capturing products). Knowledge–capturing products involve the delivery, storage, and dissemination of information, advice, and entertainment in a manner so that the consumer entity can have multiple access to the knowledge. Industries that generate these products are tied with the production, storage, communication, and dissemination of information, advice, and entertainment in the broadest understanding of the concepts, including the production of general and specialized information, news, consultant reports, computer software, films, music, etc. Products generated by these industries, for which ownership rights may be established, are often stored on physical objects (on paper or on electronic media) and can be subject to trade like regular goods. They have many qualities characteristic of goods, such as the capacity to establish ownership rights and the possibility of multiple use. Unfortunately, once again there is no indication of whether such products should be treated as goods or as services.

In summary, it may be said that some positive changes in approach to classifying trade in services are visible, but these changes continue to be insufficient. The Task Force on Statistics of International Trade in Services, established in 1995 by the United Nations Statistical Commission in order to strengthen collaboration among international organizations in the area of the development of statistics covering international trade in services, forwarded reservations regarding the classification of services embodied in goods during work on revising the *BMP5*. Members of the Task Force are Eurostat, IMF, OECD, UNSD (United Nations Statistical Division), UNCTAD, and WTO. The outcome of the work of the Task Force is the development of the *Manual on Statistics of International Trade in Services*[17], based on existing standards (specifically the *BMP5* and *SNA 1993*). In its *Report* (2007), the Task Force puts products procured with licenses for use that are physically embodied in goods (e.g. software) into trading in services. The *Report* considers this in line with the revised version of the *SNA*. Moreover, it is the view of the authors of the *Report* that further discussion should be held on the possibility of a secondary grouping of all contentious items combined with a re–classification by product type—

[17] *Manual on Statistics of International Trade in Services*, International Monetary Fund, Washington 2003. The *MSITS* is a source of additional information for entities collecting data relating to international trade in services. The *MSITS* applies the same conceptual structure as the *SNA* and *BMP6*.

software, cinematography, audio, entertainment, etc., where these changes should be taken into account by the *MSTIS*, not the *BMP6* (*Report of the Meeting of the Task Force on Statistics of International Trade in Services* 2007, p. 3).

In light of the fact that the above–presented changes are insufficient, a significant part of the trade in splintered services shall not be considered a part of international trade in services. However, as can be concluded from the *Report* of the Task Force on Statistics of International Trade in Services, more work on changes in the manner of classifying trade in splintered services may be expected over the upcoming years.

Over recent years changes have been introduced on the international forum on the way of classifying economic activity so that it better meets the needs of the modern economy. In 2006 the European Union approved a new classification for economic activity[18] that, to a greater extent, allows for the analysis of data relating to the creative services sector. Three modifications are particularly useful in this regard:

1) Identification of Section M – Professional, Scientific, and Technical Activities, which until now had been a part of Section K – Real Estate and Company Support Activities,
2) Identification of Section J – Information and Communications, where these services had, to date been considered a part of Section I – Transport, Warehousing, and Communications,
3) Identification of Section R – Arts, Entertainment, and Recreation, which were considered Section O – Other Service Activities, Municipal, Public, and Individual.

This classification has been in effect in Poland as of January 1, 2008 with respect to newly established entities. The old classification shall be applied up to the end of 2009[19]. The application of the new classification for economic activity will allow for better isolation of the creative sectors and make possible the more accurate analysis of their importance in the creation of GDP and employment.

[18] EC Directive No. 1893/2006 of the European Parliament and Council, Annex II, http://pl.enace.eu

[19] Directive of the Council of Ministers of December 24, 2007 on the Polish Activity Classification, www.klasyfikacje-statystyczne.pl

6. Classification of Creative Products in International Trade Statistics

As was noted at the beginning of this paper, there is no single, universally acknowledged set of creative industries. Individual countries apply various definitions for creative industries and have various ways of grouping them. Statistical data presented by UNCTAD (*Creative Economy Report 2008*, pp. 226–231) are based on the definition and classification development by UNCTAD together with the ICT Secretariat. The starting point for developing this classification was the *UNESCO Framework for Cultural Statistics* (*Statistics on Cultural Industries: Framework for Elaboration of National Data Capacity Building Projects* 2007).

The UNCTAD classification subdivides all creative products into two groups:

I. "Creative goods," and

II. "Creative services" and "royalties and license fees."

The first group includes the following items:

1) Design – fashion, interiors, toys, graphic arts, architecture, and jewelry,
2) Arts and crafts – rugs, textiles, woven products, special event articles (e.g. Christmas, holidays, festivals, etc.), paper products, and others,
3) Visual arts – photography, painting, sculpture, antiques, and others,
4) Publishing – newspapers, books, and others,
5) Music – recorded laser discs, recorded magnetic tape cassettes, sheet music, and music–related manuscripts,
6) New media – media with recorded sound or images, video games,
7) Audio–visual products (audiovisuals) – cinematographic films for sale.

The second group identifies the following items:

1) Advertising, market research, and opinion poll research,
2) Architectural, engineering, and other technical services,
3) Research and development services,
4) Personal, cultural, and recreational services, including audio–visual and related services, and other personal, cultural, and recreational services,

5) Royalties and license fees[20]– these data are not included in the value of trade in creative products because it is not possible to isolate license fees exclusively with respect to the creative industries, although in general, balance of payment statistics consider this item a part of trade turnover[21].

Statistics relating to the specified service categories encompass many more activities than just those related to the creative economy. An exception are audio–visual and related services that, to a great extent, are identified with the creative industries.

As to products classified as creative goods, the category includes publications, music, and new media, while audio–visual products encompass products for which the physical goods (e.g. paper or record) are the only medium making possible the registration of the effect of the service activity of the creator (services embodied in the goods). These products may also be delivered in electronic form, although to date there is a lack of data on the value of these products delivered in electronic form in international trade. As to the other categories identified in the creative product group—arts and crafts, design, and the visual arts—the case may be more open to discussion regarding which are separated services and which are goods. Whether a given product is considered service products or goods should be determined on the basis of whether the share of the service component is dominant in the value of the product or the material (see Kravis and Grubel). The value of the service component should be identified with the value of the creative work of the author of the product resulting from his or her inventiveness, originality, innovativeness, and high skills. In light of the above, it seems that all creative products should be identified as service products because the basic component they utilize is creativity and intellectual capital. However, this gives rise to the question of whether all products considered creative goods really have a dominant input in the form of creativity and intellectual capital. The answer seems rather unequivocal in the case of art, because it is not usually the value of intermediate material goods used in the production of the work (e.g. canvas, paint) that determine its value, but rather the value of the creative work of the

[20] In this case, a better source of information would be data concerning royalties, which have closer ties with the creative industries. However, in light of an absence of such data on a world level, data pertaining to license fees was presented, but only as supplementary information.

[21] In the *BPM6* this item changed its name to "Fees for utilizing intellectual property." See *Balance of Payments and International Investment Position Manual*, *op. cit.*, p. 445. The Polish balance of payments has a "patents, copyrights, and license fees" item that is also considered a part of the service turnover. See the balance of payment of the Republic of Poland for individual quarters, www.nbp.gov.pl

author. In the case of craft products, it is possible to have a situation in which the value of intermediate material goods may exceed or be similar to the value of the creative work. It is then that there is room for debate as to whether the product should be treated as the effect of service activity or even as a creative product. In practice it may prove impossible to indicate which craft products have dominant input in the form of creative work.

The situation is similar in the case of design. Design services are essentially used in the making of all physical goods and they play an exceptionally important role in the case of differentiated goods because they make it possible to differentiate the given product from other similar products. The best solution would be to isolate the value of design services from the value of individual goods and then sum them up in order to reach the total value of these services in international trade. In such cases there would be no doubt regarding dealing with services, not goods. However, in light of the lack of relevant data, the value of exports and imports in this category reflect the total value of the final goods, not only the value of the design service. In light of the above, this category only includes products of a relatively high share of design services—e.g. industrial design is not considered to be in this category, while architectural services are ranked among functional creative services. However, even with respect to products identified as being in the design category, it is not possible to univocally define which of them is really a creative product. In many cases it is possible to be faced with a situation in which the share of intermediate material goods is dominant, not the design service.

Another matter is the identification, in this case, of whether the given product is made on special order (or in small quantities) or if it is produced on a mass scale. In the first instance, this will be a product that is adapted to the individual needs of the customer or an exclusive product available only for a small number of customers. In such a case it is most probably the design service share that is dominant. Unfortunately, available data do not make possible the identification of products made to order or made in small quantities from those made on a mass scale. A similar approach found application in the case of computer software because in line with the *BMP6*, software written to a physical medium, but made to order, is considered trade in services, where a similar program produced on a mass scale is still considered to be trade in goods. This shows that products made to order have a greater share of the service component than products made on a mass scale, although in the case of computer software they should all be treated as service products, as was discussed earlier.

7. The Share of Creative Services in International Trade in Creative Products

The share of creative services in exports of all creative products in 1996 amounted to 16.8% and was lower by 2.9 percentage points than the share of services in world goods and services exports (19.7%)[22]. In the year 2000 the share of creative services in the export of creative products increased to a level of 18.6% and was 0.5 percentage points lower than the share of services in world exports. The continuation of this tendency over successive years resulted in the share of creative services in world exports of creative products reaching 21% in 2005, which is 1.5 percentage points higher than the share of services in world exports of goods and services. If the value of creative service exports had included the export of services embodied in goods (audio–visual products, music, new media, publications, and the visual arts), then the share of creative services in total exports of creative products would have grown to 40.9% in 1996, 41.6% in 200, and 54.5% in 2005. This would mean that in 2005 over one–half of the exchange in creative products would have been service exchange. Moreover, it should be noted that in the case of exports of creative products, products assigned to the "design" category were decidedly dominant. Their share in the export of creative goods in 1996 amounted to 63% and 65% in 2005, which is almost two–thirds of the exports of all creative products (*Creative Economy Report 2008*, pp. 244–246). Such a high share of products in this category is, to a great extent, the result of the fact that this category includes the value of final products, not merely the value of the design service. If it had been possible to separate out of the value of the final products the value of design services, then it would have been possible to sum up the values of design services and add them to turnover in creative services. In practice, this would have signified a further increase in the value of service turnover and a fall in the turnover of goods in the international exchange of creative products.

8. Conclusion

The problem of the way to classify goods and services in international trade statistics has been discussed in topical literature since the start of the

[22] *UNCTAD Handbook of Statistics 2008*, http://stats.unctad.org/Handbook/TableViewer/tableViewer.aspx?ReportID=1902, *Creative Economy Report 2008*, *op. cit.*, p. 295.

nineteen–eighties when the increasing importance of services in international exchange was noted and the first efforts were made to liberalize international trade in services. The author of this paper shares the view that the criterion differentiating goods from services should be the share of the non–factor service component as well as the share of the industrial (material) component in the value of the final product. If the share of the service component is dominant, they such a product should be treated as a service, even if it takes on material form. In connection with the above, most creative products are service products because the basic component they rely upon is creativity and intellectual capital, which means that their dominant value is the share of the service, not the material, component.

However, in international trade statistics most creative services embodied in goods or delivered in electronic form are entered as creative goods because the criterion for differentiation between goods and services in international trade is generally assumed to be the ability to move the product physically as well as the capacity to transfer ownership rights. Work has been underway for many years on the revision of the manner of classifying international turnover in goods and services, but to date the changes are insufficient. Changes introduced over the most recent period involve computer products as well as audio–visual and related products downloaded from the web or delivered electronically in some other way, which will be considered trade in services. However, if these products are delivered by way of physical media, then only products made to order or with a license for use for a defined period will be considered as trading in services. In the case of licenses for perpetual product use, they shall continue to be considered as trading in goods, which is justified by the fact that in the case of a permanent license for use, there is a change in the ownership of the goods between a resident and non–resident. Thus, it can be seen that the transfer of ownership rights continues to be the criterion differentiating services from goods in the balance of payments. Moreover, the group of products saturated with knowledge has been isolated, which is generally in agreement with the definition of creative products. Unfortunately, there is no indication of how these products, usually services, but with qualities characteristic of goods, should be classified in the balance of payments.

The error in the method of classifying goods and services in international trade statistics is responsible for the significant underestimating of the value of international trade in services, which is particularly visible in the case of the exchange of creative products, because most creative products are services embodied in goods. The scale of this underestimation is approximately shown in data recently made available (UNCTAD, 2008). These data demonstrate that trade in creative services includes the value of services embodied in goods, the

share of creative services in the export of all creative products increases from 21% to 54.5% (2005) and this is the value that continues to be underestimated as it is not taken into account in design services, a major item.

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Streszczenie

KREATYWNE PRODUKTY W STATYSTYKACH HANDLU MIĘDZYNARODOWEGO

Dostrzegając rosnące znaczenie i potencjał przemysłów kreatywnych organizacje międzynarodowe podjęły działania mające na celu wprowadzenie odpowiednich zmian w statystykach międzynarodowych, tak aby możliwe stało się zbieranie porównywalnych danych pozwalających analizować znaczenie produktów kreatywnych w poszczególnych gospodarkach oraz w wymianie międzynarodowej. Efektem tych działań jest pierwsza baza danych dotycząca udziału produktów kreatywnych w wymianie międzynarodowej opublikowana w 2008 roku przez UNCTAD. Zgodnie z definicją przyjętą przez UNCTAD

(Creative Economy Report 2008, s. 226-229) wszystkie produkty kreatywne podzielono na kreatywne towary i kreatywne usługi. Jednakże w przypadku większości towarów kreatywnych, tak naprawdę mamy do czynienia z usługami zawartymi w towarach[23].

W literaturze przedmiotu istnieje raczej zgoda co do tego, iż produkty określane jako usługi zawarte w towarach, są w większym stopniu produktami usługowymi, niż towarami, mimo iż posiadają cechy charakterystyczne dla towarów. Jednakże w niektórych pracach, również cytowanych w niniejszej publikacji, można spotkać opinie, iż sposób klasyfikacji międzynarodowego handlu usługami zawartymi w towarach nie ma istotnego znaczenia, lub ma znaczenie przede wszystkim dla negocjacji handlowych. Wydaje się jednak, iż nie do końca można zgodzić się z takimi opiniami, ponieważ stosowany obecnie sposób klasyfikacji międzynarodowej wymiany powoduje znaczne niedoszacowanie wartości międzynarodowego handlu usługami, co też często dostrzegane jest w literaturze przedmiotu (Wyszkowska-Kuna 2005, s. 57). Należy ponadto podkreślić, że jest to szczególnie widoczne, właśnie w przypadku analizowanej tu wymiany produktami kreatywnymi, która wykazuje się wysoką dynamiką wzrostu w ostatnich latach, wyższą niż reszta obrotów handlowych.

Celem publikacji jest wykazanie, iż większość produktów wytwarzanych przez „przemysły kreatywne", to w rzeczywistości kreatywne usługi zawarte w towarach, a w międzynarodowej wymianie produktami kreatywnymi dominują produkty usługowe. W dalszej części publikacji analizie poddano zmiany w statystykach międzynarodowych, dotyczące sposobu klasyfikacji transakcji w handlu towarami i usługami. Autor publikacji podejmuje również próbę oceny tych zmian, pod kątem tego czy zmierzają one w kierunku zwiększenia stopnia włączenia usług zawartych w towarach oraz usług przesyłanych w formie sygnału elektronicznego do wartości międzynarodowego handlu usługami.

[23] Więcej na temat usług zawartych w towarach zobacz: J.Wyszkowska-Kuna, *Handel usługami w procesie integracji europejskiej*, Wydawnictwo Uniwersytetu Łódzkiego, Łódź 2005, s.12-13.