Globalisation Chapters 7 and 8 – implementation issues

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April 2013
Content

• Chapter 7 – Recording imports and exports of goods on the basis of transfer of ownership

• 3 case studies
  – China
  – Mexico
  – Korea

• Chapter 8 – Measuring production abroad (Global Production)

• GfP Manual recommendations
Role of discussant

• Review papers and stimulate discussion
• Concepts are clear...
• But how do we implement this change??
• EU Implementation Manual on Goods for Processing - get feedback on implementation recommendations from TF
Chapter 7 – Eurostat TF conclusions

• TF established to identify data sources and practical solutions to SNA change
• Sets out conceptual basis of new standard and reviews potential data sources
• Sets out difficulties of implementing change
  – inconsistency with IMTS
  – Changes to IO ratios
• Practical solutions deferred to Manual.
New GfP standards

• Change of ownership is key
• Previously a change of ownership was always imputed (gross method).
• Now only processing fee is recorded (manufacturing services ....), where no change in ownership.
• But, more complicated...
• Goods sold within country of processor, or onto a third country are exports.
Implementation of new standards

• Currently no agreed EU approach.
• Manual will make recommendations on data sources and methods.
Sources 1 - Customs

• Intrastat/Extrastat.
• On a physical movement, rather than change of ownership basis.
• But, identify GfP via nature of transaction codes (NTRA).
• Not implemented consistently. 1 digit only required for INTRASTAT, no requirement on EXTRASTAT
• 2-digit required to be of use.
• Quality of MS reported data, suggests NTRA can’t be only source.
Sources 2. Surveys (or ITRS)

Processing fees (and goods flows) can be collected via surveys (or ITRS)

• **BoP/Trade in services surveys**
• SBS
• Prodcom
• Understand nature of MNEs (eg profiling units)
Issues for discussion

• Do we need a single recommended approach to improve comparability between countries?
• Can legal constraints be overcome to allow more data sharing?
• Is it practical to add NTRA codes, when countries have been reducing them over time?
• How do we capture non-resident VAT registered companies trade data?
3 EXCELLENT CASE STUDIES – MAYBE NOT ALL IS LOST...
China case study

- GfP is big and growing
- China can distinguish between Processing with Imported Materials (PWIM) and Processing with Supplied Materials (PWSM).
- PWSM has no change of ownership and is excluded from goods account.
- ITRS codes allow cross-checks of reported goods under PWIM and PWSM with Customs data.
- Solution – ITRS with surveys of inward and outward processors.
Korea case study

Sets out adjustments needed and approach to be used:

• Customs codes to identify GfP transactions
• Link goods for processing with returned goods (micro level)
• Surveys on inward and outward processing
• Imports transaction (reconciliation) table for outward processing:
  Inputs (materials + processing fee) = outputs (processed goods)
Manual - general

• Currently in draft. Time to influence still.
• Implementation recommendations need to be discussed and agreed by MS (this year)
• Expect that a single source and method will not be possible. Aim will be to provide guidance on best sources and methods + validation needed.
• Need to balance costs of extra data collection against burdens on business ie better to adapt existing sources
• Understand nature of GfP in your country before deciding best approach.
Manual recommendations

• MNEs – develop consistent approach to data collection and data sharing. Remove obstacles to data sharing
• IMTS data is not sufficient (on its own)
• Surveys will be needed – preferably by adapting BoP or Trade in Services surveys
• Domestic business surveys (eg SBS) also useful to understand nature of GfP, including populations.
• Reconcile alternative sources to derive best results (if possible at micro-level by linking IMTS traders with business survey results)
• Task Force views?
Discussant summary

• Excellent discussion of global production definitions
  – Offshoring
  – Affiliate and unaffiliated enterprises
  – Usually MNEs
  – Factoryless goods production (FGP)
• + some challenges to new standards
Challenge to standards

• FGP example where principal owns know-how and technology (IPPs), but provides no inputs to the producer.
  “ownership of IPPs .... Are more important than ownership of intermediate inputs”
• Ownership of inputs is not the only factor to determine sector of an entity.
• Implication, is that the FGP be classified as a manufacturer rather than to the distributive trades sector.
• What does this mean for GfP definitions?
• Discuss...
Processing arrangements – some rules

• Processing arrangements between non-affiliates
  – Classify principal as a manufacturer if it owns inputs, or if it controls production process and owns final product

• Processing arrangements between affiliates
  – Ownership of inputs has no economic significance. Principal will always be classified as a manufacturer

• Question – is a domestic unit always a manufacturer if it outsources all production?
Implementation

- Develop parallel estimates on both bases to assess reliability and impact on trade + production data (YES)
- Develop list of companies involved in offshoring to establish how best to collect data (YES)
- Use and amend existing surveys rather than launch new expensive surveys (YES)
- Data sharing between partners useful (YES – but how??)
Sources 1

• Business register – add international flag
• FGP – add questions to domestic surveys on inward and outward processing income and expenditure
• Wholesale/retail surveys – add questions on goods purchased from abroad (for resale abroad or resale domestically)
• Trade in services surveys. Easier for inward than outward.
Sources 2

- Merchandise trade stats – use of NTRA codes
- Importer/exporter registers – link to business registers
- FDI surveys.
- FATS may include sales back to parent or other affiliates abroad
- etc
Data confrontation

• 2 forms – national and international
• National
  – link trade and business survey results
  – SUT balancing
• International
  – Bilateral comparisons
Common themes

- Understand what you are dealing with before launching data collection
- Sources – no single solution
- Data confrontation essential
Manual recommendations

- MNEs – develop consistent approach to data collection and data sharing.
- IMTS data is not sufficient (on its own)
- Surveys will be needed – either BoP or domestic business surveys (eg SBS).
- Reconcile alternative sources to derive best results (if possible at micro-level by linking IMTS traders with business survey results)
- Task Force views?