Globalisation Chapters 7 and 8 – implementation issues

UNECE

Simon Humphries

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

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)

THE GOODS FOR PROCESSING MANUAL

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?

CHAPTER 8 – GLOBAL PRODUCTION

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?