Session 3

Processing, Merchanting and resale of goods

A theoretical introduction
Overview

The underlying concepts

Goods for processing and processing services

Goods under merchanting

Major challenges in a nutshell
Changing concepts

- Change of ownership
- Residency
2008 SNA (Preface)

The application of the principle of change in ownership of goods has been made universal, resulting in changes to the recording of merchanting and of goods sent for processing, both abroad and within the domestic economy, and then returned to the owner.

These changes have shifted the focus away from the physical movements of goods to the impact on the economies of the owner of the products and the processor. As a result, they are consistent with international financial transactions that are increasingly important in a globalized economy.
Goods sent abroad for processing (1)

- No change of ownership – no export/import of goods
- Physical border crossing – IMTS
- Service fee
- Preferred source: trade in services survey
Goods sent abroad for processing (2)

- In practice more complex
- Multi-country processing
- Processing with subsequent sale
- Factory-less production
Sources of potential BOP-NA discrepancies

- Different views on the underlying business transactions
- Different data sources (customs, surveys)
- Different sampling in surveys
- Information asymmetries on transactions in the ROW
- Different or no adjustments of IMTS source data
- ...

Effects

- Dramatic discrepancies in goods accounts
- Discrepancies in services accounts
- Impact on financial account and balancing items
Merchanting (1)

- Change of economic ownership with non-resident
- No cross-border flows
- No physical transformation
- Net accounting in goods
  - Acquisitions as negative export of goods
  - Sales as positive export of goods
- Preferred source: enterprise survey of merchants in compiling economy
Merchant in country A purchases goods from country B and sells to country C
(From the Handbook on Globalisation)

Country B Producer

Country C Purchaser

Country A Merchant
(compiling economy)

Physical movement of goods
Ownership of goods
Cash flow
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<th>ESA 95 / BPM5 treatment</th>
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<th>ESA 2010 / BPM6 treatment</th>
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Major challenges in a nutshell

- Determining economic ownership in global production chains
- Adjustments in IMTS
- Availability of nature of transaction codes
- Data sources: respondent burden, MNEs, reconciliation of NA and BOP
- Business registers
- Data exchange with partner NSIs
- Confidentiality