



# Overview of the Balance of Payments and International Investment Position Manual (BPM6)

**Statistics of International Trade in Service: Challenges and Good Practices**

**Regional Workshop for South-East Asian Countries**

*Hanoi, Vietnam, 30 November – 3 December 2010*



**United Nations Statistics Division**

Statistics of International Trade in Services Section



## Outline

- Background
- Major guiding principles in the revision
- General overview of BPM6
- Major theme for revision: Globalization
- Recording principles in BOP (focus on services)
- Major challenges



## Background

- Revision initiated beginning of 2000 by the BOPCOM
- Project involved extensive consultation national experts, expert groups, etc.
- An annotated outline was released in 2004



1. Basic framework for the BOP data in BPM5 retained.
  - change less significant than move from BPM4 to BPM5
  - but increased elaboration and some changes in concepts, presentation and emphasis
  - more conceptual explanation *i.e.* BPM6 twice as long as BPM5.



2. Revision of BPM6 in line with revision of SNA
  - Work programmes of the Committee and of relevant groups revising the SNA were closely related (R&D output become produced assets)
  - Renaming categories: example “income” and “current transfers” into “primary income” and “secondary income” ; Monetary authorities sector is replaced with central bank sector etc.



3. BPM6 incorporates changes done to other manuals (for instance)
  - *OECD Benchmark Definition of Foreign Direct Investment (fourth edition), Chapter 8 FDI and Globalisation*
  - *OECD Handbook on Economic Globalisation Indicators*
  - *The Government Finance Statistics Manual (2001) etc.*

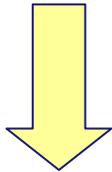
- 14 chapters and a series of appendices.
- Starts with key concepts like “BOP statistics limited to transactions between residents and non-residents” (Chapters 2 to 4)
- Structure then significantly reorganized to take into accounts increasing importance of financial flows and stocks in analysing external stability. (Chapter 5 to 9 + Title reflect that emphasis)

- Current account is covered in Chapters 10 to 12 (10 to 15 in BPM5). **Services in Chapter 10.**
- On services, close cooperation with the Interagency Task Force on Statistics of International trade in Services (TFSITS)
- Capital account covered in Chapter 13 (chapter 17 in BPM5)
- Chapter 14 focuses on selected issues in the analysis of international accounts (Appendix V in BPM5)

- Summary appendices bring together in one place issues relating to direct investment, insurance and financial leases that are discussed across different chapters of BPM6.
- Appendices on “multinational enterprises” and remittances explain datasets that are related to those set out in BPM6.
- Appendix 8 sets out differences between BPM5 and BPM6

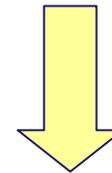


## Outsourcing



Relevant service  
category

## Electronic commerce



Goods ordered into “goods”

Charges only in services



## **Globalization : Stricter application of the change of ownership principle**

- Revised treatment of outsourced processing (goods for processing) to be treated in Manufacturing services on physical inputs owned by others.
- Merchanting to be classified as goods-not services as in BPM5.

## Globalisation: increasingly mobile individuals

- Predominant center of economic interest
- Cross border movements of personal effects recorded as reclassifications not transactions
- High value goods acquired by travellers to be resold (shuttle trade) to be recorded as merchandise goods not as travel services.

# Globalization

Globalisation: Increasingly complex company structures

- The Framework for Direct Investment Relationships (FDIR) as elaborated by BD4 is adopted for indentifying direct investment relationships.
- Ownership of ordinary shares is removed from the operational definition of direct investment and replaced by ownership of equity that gives rise to voting power.
- SPEs to be classified as separate institutional units
- The definition of economic territory is modified to a territory under the effective control of the single governments

## Globalisation: increased financial flows

- Financial intermediation services indirectly measured (FISIM) to be recorded as a service
  - ✓ Margin between interest payable or receivable and the reference rate on loans and deposits
  - ✓ Pure interest included in primary income
- Insurance services to be calculated taking account of the volatility of claims.
  - ✓ Also, premium supplements taken account in estimating services

## Globalization: growing importance of R&D

- The sales of research and development such as patents and copyrights, are treated as produced assets and included in services; previously in the capital account as non-produced assets.

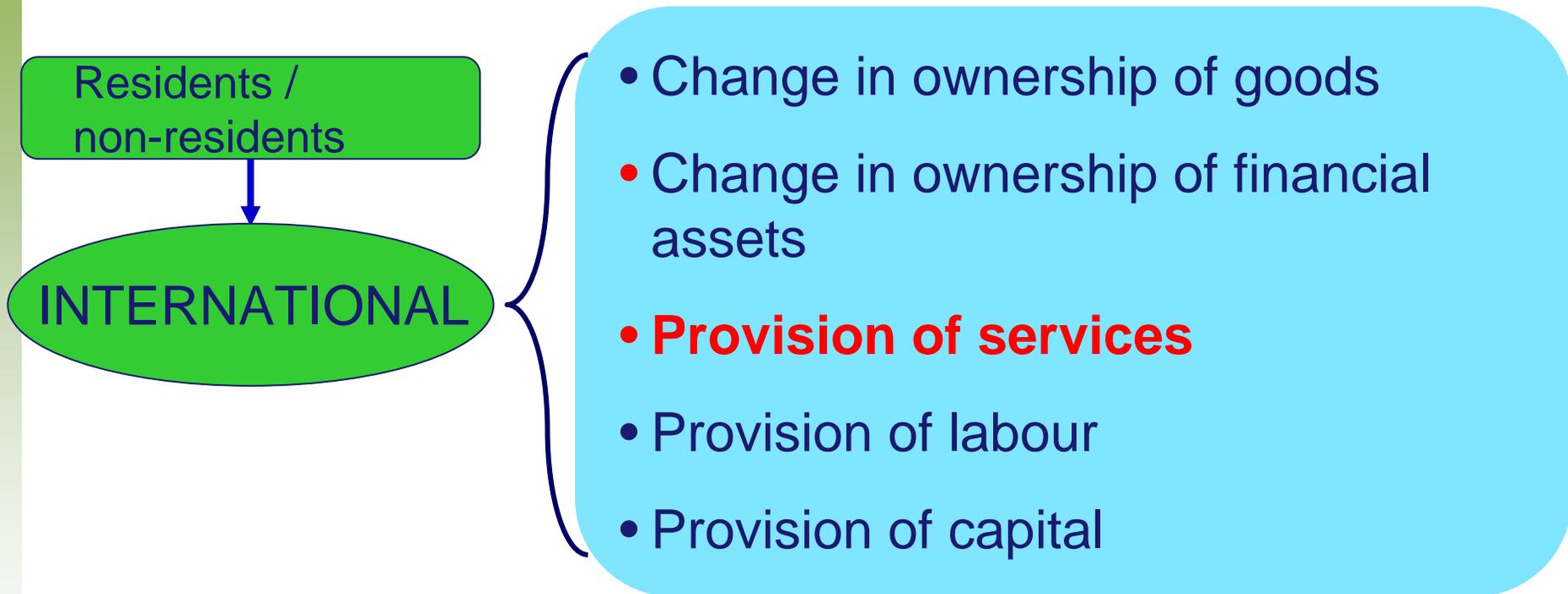
## **BOP Key Concepts**

**Transactions between a country's residents and rest of the World**

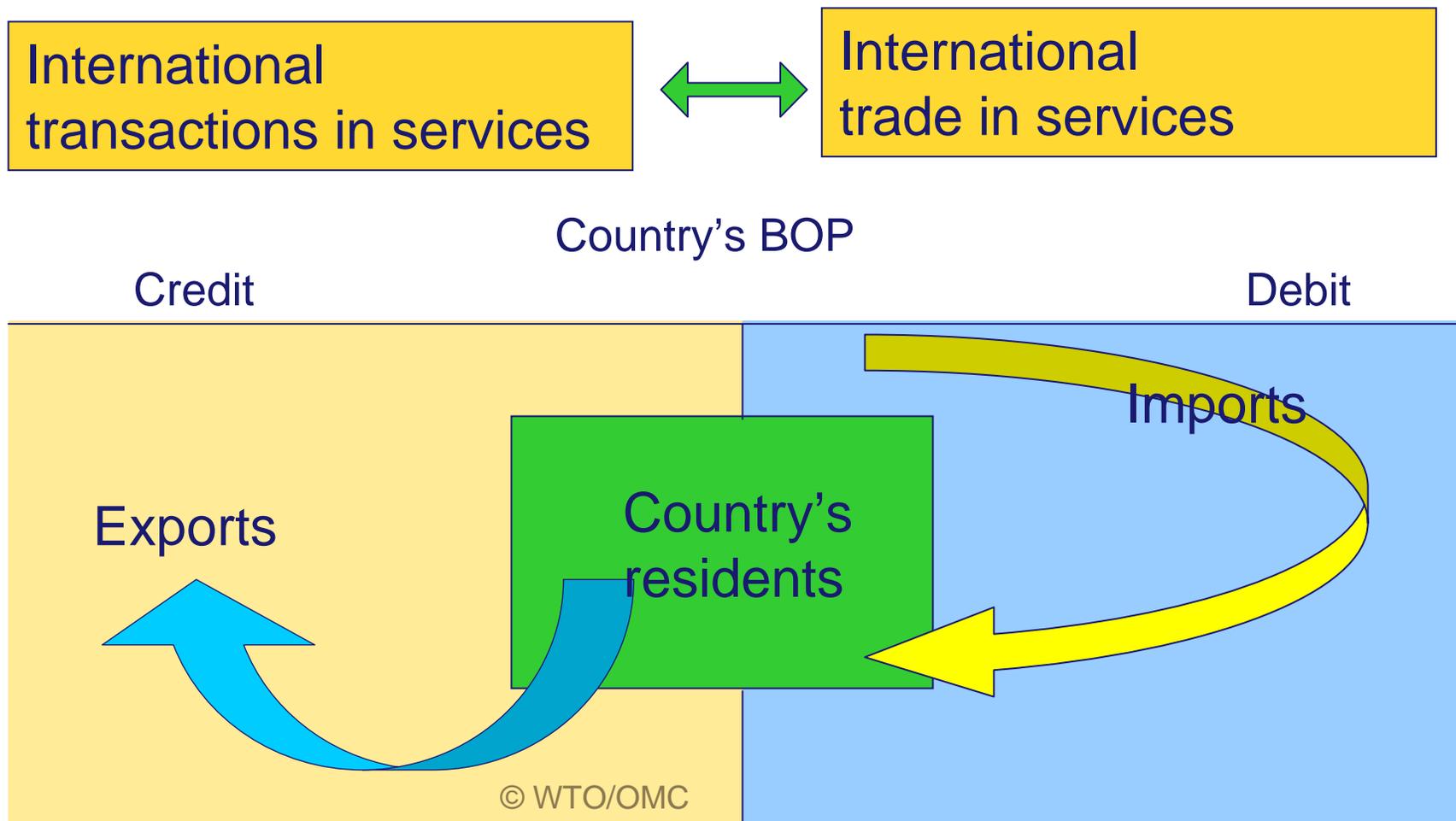
**What is a transaction?**

**What is a resident of a country?**

## What is an International Transaction?



## What is a Services Transaction?



## Concept of Residence

### Transactors

- Households / individuals
- Enterprises
- Others

Principal residence

Significant and lasting economic activity

**predominant** centre of economic interest

*flexible one-year rule*

### Country's economic territory

- Geographic territory
- Territorial enclaves (e.g. embassies...)
- Effective control of a single government

## Valuation and Other Principles of Recording

Valuation

Market prices (price agreed between seller and buyer)

Time of recording

Time at which services are rendered (accrual accounting)

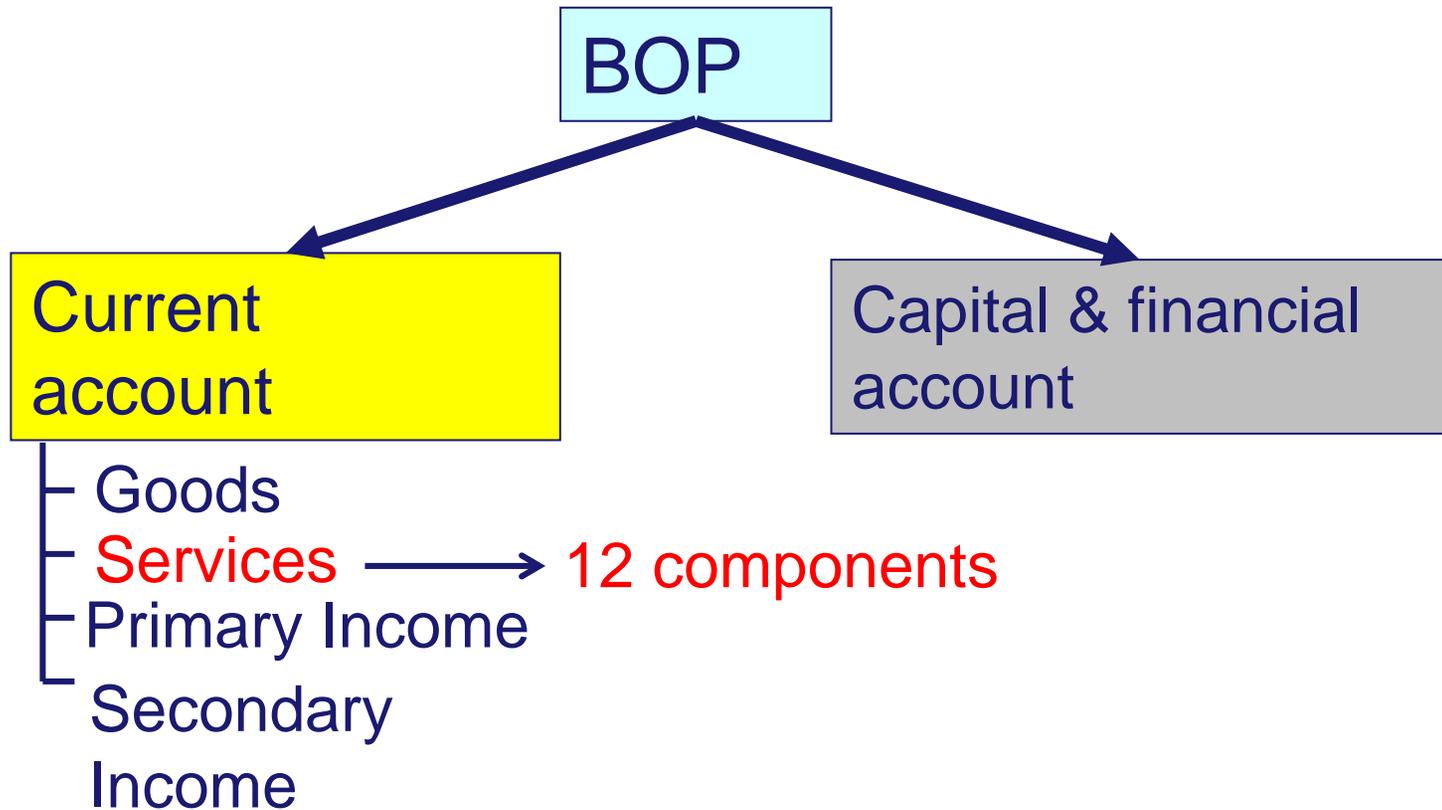
Unit of account

Transactions converted to a common unit of account (national currency, US\$)

Gross

Transactions must be recorded on a gross basis

## Where are the services transactions in the BOP?



## **BPM6 Main Services Components**

1. Manufacturing services on physical inputs owned by others
2. Maintenance and repair services n.i.e.
3. Transport
4. Travel
5. Construction
6. Insurance and pension services
7. Financial services
8. Charges for the use of intellectual property n.i.e.
9. Telecommunications, computer and information services
10. Other business services
11. Personal, cultural and recreational services
12. Government goods and services n.i.e.

- New treatment of goods for processing mean that statisticians have a major communication challenge ahead as this recording could have as a consequence important changes in trade balances as in the case of Mexico, China etc.
- Also treatment of FISIM and Insurance services (and merchanting) are difficult issues.

- Broad brush estimates of the series following the BPM6 definition
- Assumption : China is a net exporter of processing of goods services i.e. (the difference between BPM5 Goods for processing credit less debit is entirely allocated to services credit.)

## **Calculation of Chinese total Goods and services credit and debit following BPM6**

- Goods credit BPM6= Goods credits BPM5-goods for processing BPM5 credits
- Goods debit BPM6= Goods debit BPM5-goods for processing BPM5 debit
- Services credits BPM6= services credit BPM5+net goods for processing.
- Services debits BPM6= services debits BPM5

# Broad estimates for Chinese trade

## % Change on Total goods and services

| BPM6                              |                             | 2001 | 2002 | 2003      | 2004      | 2005      | 2006      | 2007      |
|-----------------------------------|-----------------------------|------|------|-----------|-----------|-----------|-----------|-----------|
|                                   | GFP net services            |      |      |           |           |           |           |           |
| Goods credits (BPM6 definition)   | exports                     |      |      | 196401    | 265378    | 345975    | 459283    | 602300    |
| Goods debit (BPM6 definition)     | imports                     |      |      | 236945    | 321261    | 365217    | 443807    | 552609    |
|                                   | net                         |      |      | -40544    | -55883    | -19242    | 15476     | 49691     |
| BPM5 versus BPM6                  | percentage change (credits) |      |      | -55.2     | -55.3     | -54.6     | -52.6     | -50.6     |
| BPM5 versus BPM6                  | percentage change (debits)  |      |      | -39.8     | -39.9     | -41.9     | -41.0     | -38.9     |
| Services credit (BPM6 definition) | exports                     |      |      | 131930    | 177299.1  | 227836.1  | 294269.2  | 387897    |
| Services debit (BPM6 definition)  | imports                     |      |      | 55306.3   | 72132.7   | 83795.5   | 100833    | 130111    |
|                                   | net                         |      |      | 76623.7   | 105166.4  | 144040.6  | 193436.2  | 257786    |
| BPM5 versus BPM6                  | percentage change (credits) |      |      | 182.3     | 184.0     | 206.2     | 219.9     | 217.4     |
| BPM5 versus BPM6                  | percentage change (debits)  |      |      | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| Goods and services credit (BPM6)  |                             |      |      | 328331    | 442677.1  | 573811.1  | 753552.2  | 990197    |
| Goods and services debit (BPM6)   |                             |      |      | 292251.3  | 393393.7  | 449012.5  | 544640    | 682720    |
| Goods and services net (BPM6)     |                             |      |      | 36079.7   | 49283.4   | 124798.6  | 208912.2  | 307477    |
| BPM5 versus BPM6                  | percentage change (credits) |      |      | -32.30331 | -32.50093 | -31.43514 | -29.02266 | -26.22637 |
| BPM5 versus BPM6                  | percentage change (debits)  |      |      | -34.8996  | -35.14166 | -36.94442 | -36.13276 | -34.0195  |
| net (BPM5-BPM6)                   |                             |      |      | -0.7      | 0.2       | -0.6      | -0.2      | 0         |

Source of raw data IMF BoP database

## A transformed picture of trade

### **Under current assumption:**

- Goods debit and credit : less approx. 50 and 40%
- Services credit : plus approx. 200%
- Chinese balance of goods negative and balance of services positive in BPM6 (reverse situation to BPM5)

### More to be taken into account to get a better estimate of impact of change

- The value of “manufacturing services on physical inputs owned by others” is not necessarily the same as the difference between the value of goods sent for processing and the value of goods after processing.
- Cost of overheads ( intermediate goods, financing, know how should be measured.)
- Supplementary survey on intermediate consumption for processing goods is planned in Hong Kong.