

Chapter 6

Para 6.226 Research and development is treated as capital formation except in any cases where it is clear that the activity does not entail any economic benefit for its producer (and hence owner) in which case it is treated as intermediate consumption.

First of all, we would like a further clarification or elaboration on the statement of '*benefit for its producer (and hence owner)*'. Since the *R&D by a market producer is an activity undertaken for the purpose of discovering or developing new products, including improved versions or qualities of existing products, or discovering or developing new or more efficient processes of production.* (para 6.203) Thus, it is confusing whether there is any R&D which is not beneficial to the producer.

Moreover, in some countries, government will offer tax allowances and incentives to those who carry out the R&D activity. These will incur the genuineness problem. With all these benefits, the query would be whether the R&D task which was undertaken by the companies were for the purpose of gaining the tax allowances/incentives or a genuine research had been done to discover new products/upgrade the current products. This is important because in GDP, GFCF does imply something which is *designed to raise productivity or increase the range of production possibilities in the future.* (para 1.51) Thus we have to be sure that the R&D which was undertaken by the companies will benefit the respective companies and the economy as well.

By removing R&D from intermediate consumption, it will interrupt the IO structure and the consistencies of the time series data.

Therefore, our comment on this issue is to remain the treatment of R&D as in the original 1993 SNA.

Para 6.228 Expenditures on military equipment, including large military weapons systems are treated as fixed capital formation, expenditure on durable military goods such as bombs, torpedoes and spare parts are recorded as inventories until used when they are recorded as intermediate consumption and a withdrawal from inventories.

We prefer the treatment in 1993 SNA in which the military weapons systems (as defined in para 10.86 1993 SNA Rev.1) are treated as intermediate input since they are used to destroy and not to produce. If we follow the new treatment, the value of GFCF for those countries that spend

more on military weapons would be much higher compared to the countries that spend less on military equipments but more on the welfare of their people.

The title of the updated System of National Accounts

We opt for the first proposal; System of National Accounts 1993, Revision 1 (1993 SNA Rev.1), for the main frame and the flow of the updated System of National Accounts still remain as the 1993 SNA.