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**Agenda item No. 8:** Goods for processing

**Presentation**

**Language:** English

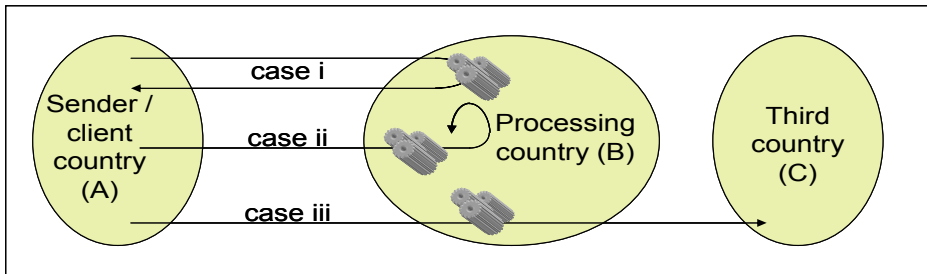
## GOODS FOR PROCESSING ABROAD

Presentation by

***United Nations Statistics Division (UNSD)***



## Goods for Processing abroad



### Conceptual Frameworks

- System of National Accounts
- Balance of Payments
- International Merchandise Trade Statistics
  
- Trade negotiations
- Foreign affiliate statistics
- Certificate of Origin

International Merchandise Trade Statistics

- (1) trade is the physical movement of goods across the borders,
- (2) the statistical value is the transaction value of the goods at their market rate (including insurance and freight cost for imports), and
- (3) the trading partner country is determined by the origin of the goods or the final destination of the transaction

Case	International Merchandise Trade Statistics	
	Marginal Processing	Substantial Processing
(i)	<p><b>A:</b> exports of Good X to <b>B</b>, then re-import of Good X from <b>B</b></p> <p><b>B:</b> import of X from <b>A</b>, then re-export of X to <b>A</b></p>	<p><b>A:</b> export of Good X to B, then import of Good Y from B</p> <p><b>B:</b> import of X from A, then export of Y to A</p>
(ii)	<p><b>A:</b> export of X to B</p> <p><b>B:</b> import of X from A</p>	<p><b>A:</b> export of X to B</p> <p><b>B:</b> import of X (or Y?) from A</p>
(iii)	<p><b>A:</b> export of X to C</p> <p><b>B:</b> import of X from A, re-export of X to C</p> <p><b>C:</b> import of X from A</p>	<p><b>A:</b> export of X to B</p> <p><b>B:</b> import of X from A, export of Y to C</p> <p><b>C:</b> import of Y from B</p>

### System of National Accounts/ BOP

- (1) trade in goods is a transaction between a resident and a non-resident where the economic ownership of the goods changes from one to the other.
- (2) If residency is identical there is no international trade.
- (3) If there is a resident/non-resident transaction but no change of economic ownership, then the transaction [+ processing of goods] is seen as delivery of service and not as a trade in goods.

Case	System of National Accounts/ Balance of Payments	
	<u>Goods being processed</u>	<u>Processing services</u>
(i)	<b>A and B:</b> no flow as goods remain the property of sending country (A)	
(ii)	<b>A:</b> export of X to B <b>B:</b> import of Y from A (including processing fee)	<b>A:</b> import from B <b>B:</b> export to A
(iii)	<b>A:</b> export of Y to C (including processing fee) <b>C:</b> import of Y from A (including processing fee)	

## Scenarios

Case 1. General Motors exports automotive parts for assembly by an affiliate in Mexico. Finished vehicles are shipped back from Mexico to USA. Ownership of goods remains with GM-USA for the entire process.

Data Source (A) – Customs declaration at the US border.

Part A.1 (Before processing) US Customs records exports of automotive parts under the outward processing customs procedure. There should be an indication on the form for the approximate date of return. The declaration form should also have GM-USA as the company liable for customs obligations.

Part A.2 (After processing) US Customs records imports of vehicles as a regular import (because of substantial transformation). GM-USA will request duty exemption on the basis of the previously declared outward processing form.

## Scenarios

Case 1. General Motors exports automotive parts for assembly by an affiliate in Mexico. Finished vehicles are shipped back from Mexico to USA. Ownership of goods remains with GM-USA for the entire process.

Data Source (A) – Customs declaration at the Mexican border

Part A.3 (Before processing) Mexican Customs registers imports of automotive parts under the inward processing customs procedure. Again GM-USA would be recorded as the liable party.

Part A.4 (After processing) Mexican Customs registers exports of vehicles after inward processing. Officially, GM-USA should be the company on record.

## Scenarios

Case 1. General Motors exports automotive parts for assembly by an affiliate in Mexico. Finished vehicles are shipped back from Mexico to USA. Ownership of goods remains with GM-USA for the entire process.

Data Source (B) – Enterprise Surveys by US Statistical Authority

Enterprises involved in outward processing need to be identified. If companies can be identified on customs declarations, companies requesting outward processing procedure could be selected for survey. Similar to Outward FATS, companies would need to be able to provide information about economic activities of its affiliates.

## Scenarios

Case 1. General Motors exports automotive parts for assembly by an affiliate in Mexico. Finished vehicles are shipped back from Mexico to USA. Ownership of goods remains with GM-USA for the entire process.

Data Source (B) – Enterprise Surveys by Mexican Statistical Authority

Enterprises involved in inward processing need to be identified. If companies can be identified on customs declarations, companies requesting inward processing procedure could be selected for survey. Similar to Inward FATS, detailed information on economic activity could be derived on the processing company. However, little to no information could be requested on the mother company.

## Scenarios

Case 2. General Motors exports automotive parts for assembly by an affiliate in Mexico. Finished vehicles enter the Mexican economy. Ownership of goods only changes after the finished goods are sold.

Data Source (A) – Customs declaration at the US border.

Part A.1 (Before processing) Similar to Case 1, US Customs records exports of automotive parts under the outward processing customs procedure with indication for the approximate date of return. The declaration form should also have GM-USA as the company liable for customs obligations.

Part A.2 (After processing) At best, GM-USA will be requested to file a customs form to terminate the outward processing.

## Scenarios

Case 2. General Motors exports automotive parts for assembly by an affiliate in Mexico. Finished vehicles enter the Mexican economy. Ownership of goods only changes after the finished goods are sold

Data Source (A) – Customs declaration at the Mexican border

Part A.3 (Before processing) Mexican Customs records imports of automotive parts under the inward processing customs procedure. GM-USA would be recorded as the responsible company.

Part A.4 (After processing) Mexican Customs records entry record for goods coming into the domestic economy. This declaration terminates the inward processing procedure and the buyer would need to pay import duty, if applicable. GM-USA would still be the exporting company and a domestic company or individual would be the importer.



## Scenarios

Case 2. General Motors exports automotive parts for assembly by an affiliate in Mexico. Finished vehicles enter the Mexican economy. Ownership of goods only changes after the finished goods are sold.

In which way can the customs information be supplemented with enterprise surveys? As in the first case, it will be mostly the Mexican Statistical Authority that would be able to get some detailed information on the activities of the inward processing companies. The Mexicans could also survey the enterprises which would buy from inward processing zones, even though such survey would already be much more complicated to conduct.

For the US Statistical Authority it is virtually impossible to retrieve any survey information, besides some scarce information via multi-nationals in the USA of their foreign affiliates in Mexico.

## Scenarios

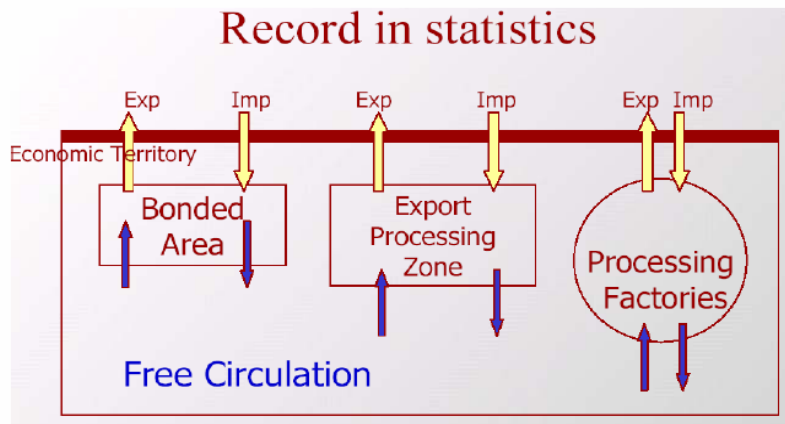
In Case 3, the goods are not shipped back to the mother company but are instead shipped to a third country.

The problems for collecting information via customs declarations or enterprise surveys are almost identical to those of case 2.

Mexican Customs will have export declarations which may be linked to the inward processing declaration. Further, the Mexican Statistical Authority could obtain some information via the manufacturing and trading companies on its economic territory.

On the US side no extra information would be available at Customs and only scarce information from enterprise surveys of the multi-nationals.

## China Example



## Conclusions

### Preliminary Conclusion

This paper shows the problems associated with gathering additional information on the issue of “Goods for processing”.

The inward and outward processing procedures described in the Revised Kyoto Convention seem most helpful. In addition, it may be necessary for the compiling economy to conduct enterprise surveys. Finally, country practices – such as the example of China – may show additional possibilities for obtaining information.

## Data Sources

### Customs

### Imports

Inward processing

### Exports

Outward processing

### Survey > Change of Ownership

Thank you for your  
attention