Status of Implementing *Manufacturing Services on Physical Inputs Owned by Others* in IMF Member Countries

International Conference on the Measurement of Trade and Economic Globalization

September 29 to October 1, 2014
IMF Statistics Department
With the expansion of the global market place...

...there has been growth in cross-border production arrangements, involving different aspects of production processes being partly or wholly undertaken by affiliates or outsourced to unrelated entities.

- **Significant steps have been taken to improve the** recording of transactions of enterprises participating in global production in BPM6 and 2008 SNA.

- Related to this is the emphasis on economic ownership and the broader application of the change of (economic) ownership principle.
The comprehensive application of the *change of ownership principle*...

...means that goods export and import flows are no longer imputed if there is no change of ownership.

- Manufacturing is recorded as being undertaken by an entity that **does not own the goods and is paid a fee** by the owner.
  - The fee received for processing is included in services, while gross reporting for goods is supplementary, if substantial.
Capturing the activities of global production...(1)

...is challenging:

- **Customs declarations**—currently used by most economies—do not provide sound measures of manufacturing services (although the information could be useful in identifying firms).

- **Why not?** The difference between the value of goods before and after processing will not be the same as the value of the manufacturing service fee, due to:
  - Timing of cross-period movements
  - holding gains and losses
  - inclusion of overheads (financing, marketing, know-how)
  - materials sourced by the owner from economy of processor/third country
  - problems in assessing values of goods sent and returned (since there is no sale)
Enterprise surveys generally represent the most accurate and efficient method to collect information on manufacturing services and related goods transactions.

- The fee charged covers the costs of materials purchased by the processor and refers to all work done on goods by the processor for the owner of the goods; consistent with what is recorded in business accounts.
- A survey of the owner can also capture related purchases of goods/materials and immediate sales of finished goods by the owner from/to the country of processor and/or third countries.
- Some economies use information from the ITRS.

See also *BPM6 Compilation Guide*, Chapter 12, Services.
The IMF Statistics Department (STA) started publishing data on a \textit{BPM6} basis with the August 2012 release of the \textit{International Financial Statistics (IFS)} and the online \textit{Balance of Payments Statistics (BOPS) Database and CD-ROM}.

For an interim period, STA converts the data for countries, which continue to report data to the IMF on a \textit{BPM5} basis, into a \textit{BPM6 presentational basis}. This conversion is undertaken in close consultation with member countries and BOPCOM.

- STA uses a “master conversion file” with defined formulas to produce \textit{BPM6}-based data using \textit{BPM5}-based data as input; this is referred to as “generic” \textit{BPM6} basis estimates.
- Countries can customize the generic conversion file in case additional information is available.
Manufacturing services as part of the generic conversion to *BPM6* in IMF Publications (2)—*main rules*:

- No changes were introduced in balances on CA, CAP, FA, RA, or E&O.
- Goods for processing (in *BPM5*) were reclassified from goods to services as follows:
  - **Processing in the compiling economy/manufacturing services,**
    credit = processing in the compiling economy credit (goods returned after processing) - processing in the compiling economy debit (goods received for processing).
  - **Processing abroad/manufacturing services,**
    debit = processing abroad credit (goods sent for processing) - processing abroad debit (goods returned after processing).
  - If *BPM5* data provided no detail on the breakdown of goods, the sign of net [credit-debit] determined the recording as credit or debit in *BPM6*. 
**BPM6 reporters as to date:**

- Total Reporters (October 2014 IFS): 187
  - **BPM6 reporters***: 56
    - Of which: report **manufacturing services** 28
  - **BPM5 reporters****: 131
    - Of which: Report **Goods for Processing** 40
      - Of which: use generic conversion 36

*All 28 EU countries are expected to convert to BPM6 by end-2014

**Includes about 15 first-time BPM6 submissions currently under process/review**
BPM6 implementation...

- ... is a gradual and continuous process
- Not all economies that are BPM6 reporters have implemented a survey to capture manufacturing services.
- For some economies, global production arrangements may not be substantial.
- Meanwhile, the IMF continues supporting countries in implementing BPM6 through technical assistance missions and training courses.
  - STA introduced a new two-week course on “Practical Aspects of Balance of Payments Compilation,” to bridge the gap between the conceptual framework, described and the actual problems that are encountered by compilers (course to start in 2016).