EBOPS: Construction, transport

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United Nations Statistics Division
Karoly Kovacs, Chief, Statistics of International Trade in Services Section
• Overview of MSITS 2010
  ○ Concept of residence
  ○ International transaction
  ○ Service Transaction
  ○ MSITS 2010 valuation

• Definition of construction
  ○ Definition
  ○ BPM6 and MSITS 2010
  ○ FDI vs construction

• Transport
  ○ Definition
  ○ Treatment in BPM6
  ○ Groupings
International Trade in Services in MSITS 2010
• Conventional statistical meaning same as described in BPM6: between residents and non-residents.

But…..
– Not always clear separation with trade in goods
– Often need for proximity between producer and consumer for services to be supplied
– Extension generally referred to “supply of services”
Concept of Resident

Transactors
- Households / individuals
- Enterprises
- Others

Country’s Economic Territory
- Geographic territory
- Territorial enclaves (e.g. embassies...)

Principal residence
Significant and lasting economic activity
Centre of predominant economic interest
Balance of Payments

Where are the services transactions in the BOP

- Current Account
  - Goods
  - Services --> 12 main components
  - Primary Income
  - Secondary Income

- Capital & financial account
What is an International Transaction?

- Change in ownership of goods
- Provision of services
- Provision of labour
- Provision of capital
- Change in ownership of financial assets
What is a Services Transaction?

- International transactions in services
- International trade in services
- Credit
- Exports
- Economy’s Residents
- BOP
- Debit
- Imports
- Economy’s Residents
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
Construction definition (BPM6 10.101 or MSITS 2010 – 3.130)

Construction covers the creation, renovation, repair, or extension of fixed assets in the form of buildings, land improvements of an engineering nature, and other such engineering constructions as roads, bridges, dams, and so forth.

Construction is valued on a gross basis, i.e. inclusive of all goods and services used as inputs to the work.

Construction is also gross in the sense that it can be disaggregated into construction abroad and construction in the compiling economy.
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Acquisition of goods and services by the enterprises undertaking that construction work from the economy of location of the construction work is also recorded under construction.

Goods and services provided from the home economy are resident-to-resident transactions, and so should be excluded.

Goods and services acquired from third economies are recorded under the appropriate general merchandise or service item for the economy of the enterprise.
Constructions in Balance of Payments: what is new with BPM6

Show separately construction abroad and construction in the compiling economy on a supplementary basis

Goods and services acquired locally are included under “construction”, previously under “other business services”

Inclusion of buildings under construction is clarified

New name for the item: CONSTRUCTION (instead of Construction services)
Construction in Balance of Payments: a “matrix” to split the item

<table>
<thead>
<tr>
<th>Credits Export</th>
<th>Construction abroad</th>
<th>Construction in the compiling economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction work for non-residents by enterprises resident in the compiling economy</td>
<td>goods and services acquired in the compiling economy from resident entities by these non-resident enterprises</td>
<td></td>
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<tr>
<td>Goods and services acquired from residents in the host economy by these enterprises</td>
<td>construction work for residents of the compiling economy by non-resident construction enterprises</td>
<td></td>
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</tbody>
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Constructions in Balance of Payments: DSD shows the new breakdown

<table>
<thead>
<tr>
<th>CODE LIST ACCOUNT ITEMS</th>
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<tbody>
<tr>
<td>SE</td>
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<td>SE1</td>
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<td>SE2</td>
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<table>
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<tr>
<th>CODE LIST ACCOUNT ENTRY</th>
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<tr>
<td>B</td>
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<tr>
<td>C</td>
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<tr>
<td>D</td>
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</table>
10.103 If the external operations of a construction enterprise are substantial enough, they constitute a branch resident in the economy of operations.

Criteria to identify a branch (BPM6):

- The project extends over a period of at least one year;
- The maintenance of a complete and separate set of accounts for the activity;
- (i.e., income statement, balance sheet, transactions with the parent company, etc.);
- The activity being subject to tax in the host country;
- The existence of a substantial physical presence;
- The receipt of funds for its work for its own account, etc.
An Example (from MSITS 2010)

Box 3.6. A Numerical Example of the Measurement of Construction

Enterprise A, resident in country A, undertakes construction in country B valued at 10,260. To undertake the construction, enterprise A purchases inputs of materials and labour consisting of:

| Materials (goods and services) and labour purchased in country A | 1,200 units |
| Of which: |
| Goods | 645 |
| Services | 120 |
| Labour | 435 |

| Materials and labour purchased from residents of country B | 6,655 units |
| Of which: |
| Imported from country A | 525 |
| Imported from country C | 1,730 |
| Sourced in country B | 2,290 |
| Labour | 2,110 |

Total cost of purchased inputs: 7,885

In addition, a gross operating surplus accrues to enterprise A of: 2,405

Giving a gross value of construction of: 10,260

The total value of construction is the sum of the inputs into the production process and the gross operating surplus accruing to the producing enterprise. Thus, the value of construction is 10,260 units.

What would be measured under construction between residents and non-residents?

| In country A | In country B |
| Construction abroad | Construction in the compiling economy |
| Credit | 10,260 |
| Lab | 4,545 |

Debit 4,545
Debit 10,260
Construction

DECISION RULE (FDI vs SERVICES)

1 YEAR RULE:
According to the estimated duration of the activity, the construction activity is either regarded as an FDI-related operation, if the construction work extends over a period of at least one year, or as a service transaction in the opposite case.

OTHER ASSUMPTIONS

NO THIRD COUNTRY
LABOUR COSTS ARE INCLUDED IN CONSTRUCTION ABROAD DEBITS
Definition

- Transport covers the carriage of persons and objects from one location to another (i.e. international freight and passenger transport services) as well as related supporting and auxiliary services.

- Includes port services and commissions arising from services provided to foreign shipping lines/airlines.

- Excludes freight insurance on imports (classified under insurance services) and charters of carriers without crew (under other business services).
Transport

Treatment of transport under BPM6

- Transportation services renamed to transport services in the BOP with the implementation of BPM6.
- Transport services now includes postal and courier services, which were previously in communications services, formerly a major services category under BPM5.
Treatment of transport under BPM6

- Several data sources (survey and administrative sources) can only capture the diversity of trade in services usually in combination, like:
  - Survey for international trade in services statistics
  - International transportation survey
  - ITRS
  - Other data sources
Transport covers the process of carriage of people and objects from one location to another as well as related supporting and auxiliary services and rentals (charters) of carriers with crew.

- Includes Postal and courier services
- Distinction of different modes of transport
  - Sea
  - Air
  - Space
  - Rail
  - Road
  - Inland waterways
  - Pipeline
  - Electricity transmission
Or alternatively can be classified as

- Passenger
- Freight
- Other
  - Post and courier
  - Other