Factoryless Goods Producers: International Guidelines on Economic Accounting
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Recent versions of the international guidelines on economic accounting introduce changes to capture trends in globally fragmented production arrangements. The changes were introduced to yield more accurate and more relevant economic statistics, and the changes would affect economic statistics on factoryless goods producers and manufacturing service providers. These questions and answers summarize the changes introduced in the international guidelines. The U.S. Bureau of Economic Analysis (BEA) currently has no plans to introduce changes to core U.S. economic accounts.

1. **What guidelines were changed?**

Changes were introduced in the *System of National Accounts 2008* (*SNA2008*) and the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*). The *SNA2008* is the leading source for recommendations on compiling production and income statistics such as gross domestic product (GDP); *BPM6* is the leading source for recommendations on compiling balance of payments statistics such as trade in goods and trade in services. In the U.S., production and income statistics are published by BEA in the National Income and Product Accounts (NIPAs), the GDP by Industry Accounts, and the Input-Output Accounts. Balance of payments statistics are published by BEA in the International Transactions Accounts (ITAs).

There were also changes introduced in the most recent international guidelines for merchandise trade statistics—i.e., the *International Merchandise Trade Statistics, Concepts and Definitions 2010* (*IMTS2010*). Merchandise trade statistics are compiled by the U.S. Census Bureau. BEA uses merchandise trade statistics as the foundation for compiling trade in goods on a balance of payments basis.

2. **What changes were made to *BPM6*?**

Two primary changes were introduced to *BPM6*: 1) recognition of transactions in goods based on changes in economic ownership rather than movements across borders and 2) characterization of some transactions as services that used to be characterized as goods and vice versa.

Recognition

Under the former international guidelines for balance of payments (*BPM5*), international transactions in goods are recognized when a good crosses a customs border. The same guiding principal is offered in the *IMTS2010* for merchandise trade statistics. Thus, balance of payments statistics and merchandise trade statistics are both recognized on a cross-border basis under *BPM5* and *IMTS2010*. Under *BPM6*, international transactions in goods are recognized on a change-in-economic-ownership basis. For practical purposes, *BPM6* suggests that a change in economic ownership may be determined when transacting parties record the transaction in their accounting records.

Characterization

There are two types of transactions for which *BPM6* changes the characterization from trade in services to trade in goods or vice versa: 1) merchanting and 2) manufacturing services on physical inputs owned by others.

Merchanting

Merchanting is a transaction in which a domestic entity purchases a finished good from a foreign entity and resells the same good outside the domestic economy. The good never enters the domestic entity's economy.

Under *BPM5*, the difference between the price paid by the domestic entity to purchase the finished good and the price received by the domestic entity for the subsequent resale is recorded under merchanting as trade in services. The difference between the purchase price and the resale price is the implied retail or wholesale margin received by the domestic entity. Trade in goods for the domestic economy is unaffected under *BPM5* because there is no cross-border movement of goods.

Under *BPM6*, goods acquired under merchanting are recorded at their gross amount as a negative export and goods subsequently sold under merchanting are recorded at their gross amount as a positive export. The gross recordings recognize the change in economic ownership of the merchanted goods. The difference between the gross amounts is recorded as trade in goods under "net exports of goods under merchanting". Thus, the characterization of merchanting has changed under *BPM6* from trade in services to trade in goods.

Manufacturing Services on Physical Inputs Owned by Others

Manufacturing services on physical inputs owned by others is a transaction in which a domestic entity owns and provides material inputs to a foreign entity for transformation into some other physical form. The resulting good may be returned to the domestic economy for sale or further processing or may be sold to a foreign purchaser.

Under *BPM5*, goods (i.e., material inputs) sent abroad for further processing and subsequently returned to the domestic economy are included in trade in goods as "goods for processing". The difference between the value of the material inputs sent abroad by the domestic entity and the transformed good returned to the domestic economy is the implied processing fee charged by the foreign entity and is recorded as trade in goods. If goods sent abroad for further processing are subsequently sold to a resident of the processing economy or to a third economy, the value of the final goods, including the processing fee, are included under general merchandise and the payment for the processing is recorded under services.

Under *BPM6*, the scope of goods sent abroad for further processing is broadened to include all manufacturing services on physical inputs owned by others. Under manufacturing services, a domestic entity purchases material inputs in either the domestic economy or in a foreign economy and sends the material inputs to a foreign entity for transformation into some other physical form. The transformed good is then sold by the domestic entity in the foreign economy, sold to another foreign economy, or returned to the domestic economy. The processing fee charged by the foreign entity is recorded by the domestic entity as trade in services. Thus, the characterization of goods for processing under *BPM5* has changed under *BPM6* from trade in goods to trade in services. Material inputs purchased by the domestic entity are recorded as trade in goods if purchased in a foreign economy because there is a change in economic ownership. Subsequent cross-border movements of the material inputs are not recorded as trade in goods because there is no change in economic ownership. Transformed goods sold by the domestic entity in a foreign economy are treated as trade in goods because there is a change in economic ownership. Transformed goods returned to the domestic economy are not treated as trade in goods because there is no change in economic ownership.

3. What changes were made to the *SNA2008*?

The concepts of *BPM6* are harmonized with the concepts of the *SNA2008*. Thus, the changes described above for recognition and characterization of international transactions were introduced to *BPM6* in accordance with the same changes introduced in the *SNA2008*.

4. What changes were made to *IMTS2010*?

In the *IMTS2010*, guidance was updated to encourage merchandise trade statistics compilers to flag goods for processing and goods resulting from processing where no change of ownership takes place, which would facilitate new data requirements for balance of payments compilers under *BPM6*. There were no changes introduced to the cross-border basis on which merchandise trade transactions are recognized.

5. Why were changes introduced to the guidelines?

Changes were introduced in response to trends in globally fragmented production arrangements. Global production arrangements increase cross-border movements but do not necessarily increase international trade or economic activity. International transactions based on cross-border movements may yield distorted pictures of international trade, especially on a bilateral basis. Likewise, the mix of trade in goods and trade in services may be distorted based simply on cross-border movements of goods. Thus, changes were introduced to the *SNA2008* and *BPM6* to yield more accurate and more relevant measures of international trade and economic activity.

6. When will U.S. economic accounting statistics reflect the revised guidelines?

Recognizing transactions in goods on a change-in-economic-ownership basis is more challenging than recognizing transactions on a cross-border basis. In the case of merchanting, information on margins is collected on current surveys of cross-border services transactions. However, information on gross flows of goods acquired under merchanting and goods sold under merchanting is not available from current surveys. In the case of goods sent abroad for further processing, information on cross-border movements is collected on U.S. customs documentation. However, in the case of manufacturing services on physical inputs owned by others, information on purchases of material inputs from foreign entities and information on sales of transformed goods to foreign purchasers is not collected on U.S. customs documentation because there are no cross-border movements.

Given the paucity of necessary data, BEA has no plans to introduce changes to core economic accounts based on changes in economic ownership. However, BEA will change the characterization of merchanting transactions from trade in services to trade in goods based on the survey data that BEA collects on merchanting margins. In addition, BEA may introduce future supplemental statistics as opportunities are created to collect more data on customs documentation as well as on existing and new surveys and in administrative records.

7. What are other countries doing in response to the changes?

Other countries face similar challenges for recognizing transactions on a change-in-economic-ownership basis. International forums have been established through the United Nations and other international organizations to share experiences and ideas for solutions to conceptual challenges and practical challenges. Countries generally agree that the changes introduced in the *SNA2008* and *BPM6* will eventually lead to more accurate and more relevant statistics, but progress implementing meaningful changes in economic accounts is likely to be slow for some changes and not practically feasible for some changes.