

Chapter 10

Goods Account

A. Overview of the Goods Account

References:

[2025 SNA, Chapter 7], Production Account.

United Nations, *International Merchandise Trade Statistics: Concepts and Definitions*

United Nations, *International Merchandise Trade Statistics: Compilers Manual*

10.1 The goods account shows international transactions in goods. *Goods are physical, produced objects, over which ownership rights can be established and whose ownership can be transferred from one institutional unit to another by engaging in transactions on markets.* In addition, electricity which is not a physical object is shown in the goods account. Goods may be used to satisfy the needs or wants of households or the community or used to produce other goods or services. The production of a good can be separated from its subsequent sale or resale. Goods are shown separately from services. Services are defined in paragraph [11.x].

10.2 Table 10.1 shows the broad structure of the goods account. The italics show supplementary items that relate to distribution (merchanting and re-exports) and global manufacturing (processing and factoryless goods production) arrangements.

Table 10.1. Overview of the Goods Account

	Exports (Credits/ Revenues)	Imports (Debits/ Expenditures)
General merchandise on a balance of payments basis		
<i>Of which: Re-exports</i>		<i>n.a.</i>

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Of which: Goods traded within a global manufacturing arrangement

Net exports of goods under merchanting	<i>n.a.</i>
Goods acquired under merchanting (negative exports)	<i>n.a.</i>
<i>Of which: Material inputs acquired abroad from third parties by the principal within a global manufacturing arrangement</i>	<i>n.a.</i>
Goods sold under merchanting (exports)	<i>n.a.</i>
<i>Of which: Material inputs sold by the principal to a contractor abroad within a global manufacturing arrangement</i>	<i>n.a.</i>
Nonmonetary gold	
Total goods	
Balance on international trade in goods	

Note: This Table is expository; for Standard Components, see Annex 14.
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Goods and services

10.3 The goods account and the services account show transactions in items that are outcomes of production activities. The focus of these accounts is the point at which goods and services are exchanged between a resident and a nonresident. The national accounts also focus on other points, such as their production, consumption, or use in capital formation.

10.4 *Production is an activity carried out under the responsibility, control and management of an institutional unit, that uses inputs of labor, capital and goods and services to produce outputs of goods and services.* The term “product” refers to both goods and services.

10.5 The corresponding entries to goods and services flows may be in the financial, current, or capital accounts. If payment is made at the same time as the provision of the good or service, the corresponding entry is in the financial account, such as in currency and deposits. When payment is made after the time of change of ownership, a trade credit or another form of financial instrument (such as a bill of exchange) is established. If payment is made before change of ownership, there is an advance from the importer to the exporter (see also paragraphs [3.35] and [3.47]). In some cases, goods and services are exchanged for something other than

financial assets; for example, in the case of barter, there is a corresponding entry in goods or in services or in the capital account.¹ In the case of aid or gifts, the corresponding entries are under current or capital transfers.

10.6 The distinction between goods and services and other entries is determined by the nature of economic value supplied. Goods and services represent outcomes of the production process. In contrast, when other resources, such as labor, land, or other natural resources, or financial resources, are supplied, they are shown in other accounts. Both the goods account and the services account can include transactions in products that were generated in previous periods (e.g., second-hand goods, goods sold from inventories, and knowledge-capturing products such as software and research embodied in patents) and goods and services that embody a large proportion of output of other economic territories (e.g., re-exports and goods under merchanting).

10.7 In the balance of payments, the valuation of goods usually includes transport within the exporting economy as well as wholesale and retail services indistinguishably in the price of the goods. Furthermore, the value of some service items includes the values of some goods in the cases of travel, construction, and government goods and services n.i.e. Some services, particularly manufacturing services, repairs, and freight transport, also relate to goods. In practice, the distinction made between goods and services sometimes takes into account other considerations, such as data sources (see, for example, paragraph 10.12(c)).

10.8 International trade in goods and services includes digital trade. Digital trade comprises all international trade that is digitally ordered and/or digitally delivered.² Digitally ordered trade is aligned with the 2009 OECD definition of e-commerce but focuses only on international transactions in goods and services. Both goods and services can be digitally ordered whereas only services can be digitally delivered. Digital trade is discussed further in Annex 5 and digitalization is discussed in Chapter 16. Shipping charges associated with digital trade are allocated in line with the FOB valuation principle (see paragraph [10.24]). Digital trade is often

¹ For example, a merchandise import that is paid for using crypto assets without a corresponding liability would give rise to a debit/expenditure entry in the goods account and a credit/revenue entry in the capital account.

² See IMF/OECD/UN/WTO, *Handbook on Measuring Digital Trade*, 2nd Edition, 2023

facilitated by digital intermediation platforms (online marketplaces) that charge a fee for the intermediation service (see paragraph [10.158]).

B. General Merchandise

a. Introduction

10.9 *General merchandise on a balance of payments basis covers goods whose economic ownership is changed between a resident and a nonresident and that are not included in the following specific categories: goods under merchanting (see paragraphs 10.41–10.51, nonmonetary gold (paragraphs 10.52–10.546), and parts of travel (paragraph [10.94]), construction ([10.101]), and government goods and services n.i.e. (paragraph [10.173]).*

10.10 International merchandise trade statistics (IMTS) are usually the main data source for general merchandise in the goods account. The international standards for merchandise trade data are set out in United Nations *IMTS: Concepts and Definitions*. IMTS cover goods “which add to or subtract from the stock of material resources of a country by entering (imports) or leaving (exports) its economic territory” (United Nations *IMTS: Concepts and Definitions 2010*, paragraph 1.2). This basis differs from the change of ownership between residents and nonresidents required for balance of payments, so adjustments need to be made. In other respects, the IMTS standards are closely linked to those in this *Manual*.

10.11 The data used as sources for general merchandise include customs data, international transactions reporting systems, other administrative data (including value-added tax systems), surveys of traders, and direct reporting by enterprises, or combinations. Adjustments to the IMTS source data may be needed to account for coverage, timing, valuation, and classification that do not meet balance of payments guidelines. It should be noted that United Nations *IMTS: Concepts and Definitions 2010* recommends items for inclusion and for exclusion that are closely aligned with some, but not all, of the items to be included and items to be excluded in general

merchandise outlined below (see United Nations *IMTS: Concepts and Definitions 2010*, paragraphs 1.10 to 1.55). Balance of payments compilers are therefore required to be aware of national practices for coverage of IMTS.

b. Items to be included in general merchandise

10.12 Because there is a change of ownership of goods between a resident and a nonresident, the following cases are included in the balance of payments definition of general merchandise:

- (a) Banknotes and coins not in current circulation and unissued securities (see also paragraph [5.37]). They are valued as commodities, rather than at face value.³ Banknotes and coins may be not in circulation because they have not yet been issued, or they have been withdrawn from circulation and demonetized. Sales of coins to or between collectors at a premium are valued at the transaction price, rather than the face value. (Banknotes and coins in circulation and issued securities are financial instruments and are excluded from goods.);
- (b) Electricity, gas, oil, and water. However, charges invoiced separately for the transmission, transport, or distribution of these products are included in services under transport and other business services—see paragraphs [10.74] and [10.159]. Allowing water to flow when that flow is required by international law on river flows is not an international transaction;
- (c) Noncustomized packaged software (systems and applications), information services and video and audio recordings, on physical media, such as disks and other devices, with a license for perpetual use are included in general merchandise. These products are included at their full transaction value (i.e., not at the value of the empty disks or other storage device). Software provided in this manner is included in goods; other software is included in services—see paragraphs [10.18(e) and 10.143–10.144].⁴ (Noncustomized software is

³ Unissued securities do not meet the definition of financial assets.

⁴ To assist in analyzing software as a whole, it may be useful to identify separately software included in goods so as to compare or combine it with software included in services.

for general use, rather than being made to order. For classification of customized software and other cases, see Table [10.4].);

- (d) Goods procured in ports by carriers. Goods such as fuels (bunkering), provisions, stores, ballast, and dunnage procured by nonresident transport operators in ports from resident providers are included in exports of general merchandise. Similarly, goods procured by resident transport operators from nonresident providers are included in imports. Ports are defined widely to include sea and ocean terminals, airports, inland waterways, and providers of goods and services used in a territory by road and rail transport service providers that are residents of another economy. Goods procured by ship's crew, drivers, etc. for their own use are included in travel. Fuel costs of small-scale transport operators are goods procured in port by carriers rather than travel (see paragraph [10.81]);
- (e) Goods supplied or acquired by carriers away from the territory of residence of the operator. For example, fish and other marine products caught by ships operated by residents of the compiling economy and sold abroad directly should be included. Similarly, oil and minerals retrieved from the ocean floor by resident operators and sold abroad directly should be included. The goods could be acquired or sold in foreign ports or at sea to foreign vessels;
- (f) Goods acquired by a lessee under a financial lease. Financial leases are defined in paragraph [5.56]. Because the lessee is the economic owner, a change of ownership between the seller of the goods and the lessee is recorded at the start of the lease. The lessor has legal title but does not have economic ownership. In contrast, goods under operating leases do not change ownership to the lessee, and thus are not included in general merchandise when delivered to the lessee. (Operating leases are discussed in paragraphs [10.153–10.156].);
- (g) Goods sent abroad without a change of ownership, but later sold. Goods sent abroad on consignment or for storage, repair, exhibition, processing, and so forth without a change of ownership are not recorded at the time they are sent abroad, but if they are later sold to a resident of an economy different from that of the owner, they should be recorded in general merchandise. (See paragraph 10.23 for further information on goods on consignment.);

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- (h) Export sales to merchants and import purchases from merchants (the corresponding entries of the merchant are recorded in goods under merchanting, see paragraph 10.41);
- (i) Goods sold to or purchased from nonresidents without the goods leaving the reporting economy. Examples include export sales to merchants and import purchases from merchants under an inverse merchanting arrangement (see paragraph 10.47); and, within global manufacturing arrangements (from the perspective of the economy where the contractor or processor is resident) purchases and sales of goods, by the principal, from or to, residents of the same economy as the contractor or processor, and where the goods do not leave the reporting economy (see paragraphs 10.62(b), 10.63(b) and 10.69(b));
- (j) Goods acquired from, or sold to, nonresidents in a global manufacturing arrangement (from the viewpoint of the economy where their principal is resident) without the goods passing through the reporting economy (see paragraphs 10.62(b), 10.63(b) and 10.69(b));
- (k) Equipment that is sold or given away while outside the territory of residence of its original owner. For example, equipment originally taken out of the territory for temporary purposes, such as construction, exhibition, or fishing, may be subsequently sold or given away;
- (l) Illegal goods;
- (m) Smuggled goods that are otherwise legal;
- (n) Gifts in kind;
- (o) Parcel post where there is a change of ownership;
- (p) Goods lost or destroyed after ownership has been acquired by an importer but before the goods have crossed a frontier. (However, goods lost or destroyed before ownership has been acquired by an importer are excluded from merchandise trade.);
- (q) Livestock that changes ownership;

- (r) Government sales of goods to and purchases of goods from nonresidents. Acquisitions of military equipment from nonresidents should be included in general merchandise. Goods supplied by governments to their own embassies, military bases, and so forth involve resident-to-resident transactions and so are not covered in the external accounts. Expenditure by embassies, military bases, and so forth is included under government goods and services n.i.e. (see paragraph [10.175]);
- (s) Goods where there is no associated payment, such as those financed by grants or loans;
- (t) Humanitarian aid in the form of goods;
- (u) Goods transferred to or from a buffer stock organization;
- and
- (v) Any other goods not identified in the data sources (IMTS) where there is a change of ownership.

10.13 When a customs system is used as a source of data on goods, there is a need to make adjustments to include any goods not recorded in customs data where there is a change of ownership (except for goods that should be included elsewhere, such as in parts of travel, construction, or government goods and services n.i.e.). Cases that sometimes arise include shuttle trade (see paragraph 10.14); acquisition of ships, aircraft, and satellites; trade between customs free zones and other special zones of an economy and residents of other economies, or goods that enter customs warehouses, in economies that use the special trade system (see paragraph [10.25]); and amounts below customs thresholds.

10.14 Goods for resale acquired by travelers while on visits (sometimes called shuttle trade) are included in general merchandise. *Shuttle trade covers transactions involving the purchase of goods in an economy by travelers (nonresidents) who then transport these goods back to their economy of residence where they are to be sold; goods purchased by travelers in their home country for resale abroad; and goods purchased by travelers abroad in one economy and sold abroad in a second economy.* Because the intent is not to acquire goods for personal use—recorded under travel—but to engage in a business and to make a profit, the goods acquired and sold are recorded under general merchandise. (Other expenses

incurred by these traders are dealt with in paragraphs [10.17(d), 10.72, and 10.81.]) Shuttle trade, conducted by a person or economic unit not covered by formal arrangements, is usually considered part of the informal economy. This is discussed further in Chapter 18.

10.15 Goods for own use or to give away acquired by travelers in excess of customs thresholds and included in customs statistics are also included in general merchandise. For example, durable goods (such as cars and electrical goods) and valuables (such as jewelry) may be acquired in this way and be brought back to the territory of residence of the owner. This treatment is consistent with international merchandise trade statistics, but care is needed to avoid double counting such goods by including them also under travel. (See paragraphs [10.86–10.90] for goods included in travel.)

10.16 When an international transactions reporting system is used as a source of data on goods, there is a need to make adjustments to include any goods where there is a change of ownership but no associated payment. Examples include humanitarian goods as aid, goods as gifts, goods provided to affiliated enterprises, goods under barter transactions, goods under trade credit, and goods where payment involves residents' bank accounts held in other economies.

c. Items to be excluded from general merchandise because there is no international transaction

10.17 Because there is no change of ownership of goods between a resident and a nonresident, or because the goods have no value, the following cases are excluded from general merchandise:

- (a) Transit trade. These goods are admitted under special customs procedures that allow the goods to pass through the territory. They are excluded from the general merchandise of the territory of transit;
- (b) Migrants' personal effects. The personal property that accompanies people changing residence is not classified as a transaction because there is no change in ownership;
- (c) Goods consigned to embassies, military bases, and so forth from their home authorities and vice versa;

- (d) Goods sent to an enterprise's external operations where those operations are not sufficiently substantial to constitute a branch. A common example is goods sent abroad from the home base for use in a construction project not undertaken by a separate entity; these goods are not included in exports of general merchandise of the territory of the home base;
- (e) Goods temporarily exported or imported without a change of ownership. Examples include goods for repair, as part of an operating lease, and for storage, and animals or artifacts for participation in exhibitions or competitions. (Such movements of goods should be tracked, so as to identify cases where the goods are subsequently sold, rather than returned; see paragraph 10.10.12(g). Identification of these movements may help identify associated items, such as repair, operating leases, storage services, exhibition charges, and competition winnings.);
- (f) Inward and outward flows of goods for processing, assembly, labeling or packing by an entity that does not own the goods concerned. (Movements of such goods should be tracked to reconcile IMTS with general merchandise on a balance of payments basis and to assist in identifying associated services charges to be recorded in manufacturing services on physical inputs owned by others, as discussed in paragraphs [10.62–10.71]. These values also help identify cases where the goods are subsequently sold, rather than returned, in which case they are identified as an export from the owner's economy at the time of sale, see paragraph 10.12(g).);
- (g) Goods with no positive value (e.g., dangerous goods exported for disposal or storage). These goods are not general merchandise, but could give rise to associated disposal or storage services; see paragraph [10.152]. However, waste and scrap with positive values are included in general merchandise;
- (h) Returned goods. In these cases, the goods were not accepted, or a change of ownership occurred but the parties later agreed to annul the change of ownership. It is recommended that revised entries should be made to exports and imports for the period when the goods were initially recorded, so as to remove the voided transaction especially for returns of occasional, high-value goods. However, for statistical

convenience, deductions from exports and imports may be made in the periods when the goods are returned for minor cases;

- (i) Samples of no commercial value;
- (j) Trade in goods between customs free zones and residents of the same economy; and
- (k) Any other goods that have been included in the data source although there was no change of ownership.

d. Items to be excluded from general merchandise because they are included elsewhere

10.18 The following items are excluded from general merchandise because they are included in other components of the goods account or the services account:

- (a) Goods acquired and subsequently resold by residents but that do not enter the economic territory are shown separately as goods under merchanting, as discussed in paragraphs 10.41–10.51;
- (b) Nonmonetary gold, as bullion and other forms, is shown as a separate item within goods, as discussed in paragraphs 10.52–10.56;
- (c) Goods that are included in travel, as discussed in paragraphs [10.89–10.96];
- (d) Goods locally acquired for construction undertaken by enterprises that are nonresident in the territory of the location of the work. These goods are included under construction, as discussed in paragraph [10.104];
- (e) Devices, such as disks, with stored computer software, information services or video and audio recordings, that have been customized to order are included under the relevant service item, as discussed in paragraph [10.143];
- (f) Products such as packaged software (systems and applications), video and audio recordings, and so forth that are delivered on disks, magnetic media, or storage devices, but are obtained with a fixed-period license to use (so that they require ongoing periodic payments) rather than with change of economic ownership.

(These products are included in computer or audiovisual and related services; see paragraphs [10.143(d)] and [10.163], respectively. For related products included in goods, see paragraph 10.12(c).);

(g)Licenses to reproduce or distribute (or both) audio and video that are conveyed on physical media are included under charges for the use of intellectual property n.i.e., as discussed in paragraph [10.137]; and

(h)Customized blueprints and nonbulk newspapers and periodicals sent on the basis of direct subscription are included in information services. (However, the bulk provision of newspapers and periodicals is included in general merchandise.)

d1. General and special trade

10.19 IMTS may be prepared on either a general or special trade basis:

- The general trade basis covers goods registered to enter the economic territory, including customs free zones (such as commercial free zones, industrial free zones, and premises for inward processing) and bonded customs warehouses. The general trade system is preferred in the United Nations *IMTS: Concepts and Definitions*. It is also preferable for external accounts statistics because it captures transactions involving goods for the whole economy and is more consistent with the coverage of the corresponding financing entries.
- The special trade basis in the strict sense covers goods cleared to enter the free circulation area only. If only special trade system data are available, adjustments are needed for goods movements into and out of customs free zones and customs warehouses.

g. Time of recording

10.20 Transactions involving general merchandise should be recorded at the time of the change of ownership of the goods. If corresponding financial account entries are made (such as currency and deposits or trade credit), goods would be considered to change ownership when parties record the sale or purchase of the goods in their books and make a corresponding change in their financial assets and liabilities.

10.21 *IMTS: Concepts and Definitions* recommends that the time of recording be based on when the goods enter or leave the territory, with the date of lodgment of the customs declaration a suitable approximation. In practice, some data sources may be based on the time of processing the declarations, which is unsatisfactory if there are either long or variable lags in the time taken to process records. There will be lags between the time of export of a good and the time of its corresponding import arising from the period in which the goods are at sea or in transit through other countries. Ideally for balance of payments statistics purposes, source data would be adjusted by:

- (a) removing recorded merchandise movements that did not involve a change of ownership in the period, and
- (b) adding merchandise that changed ownership during the period but was recorded in the source data in earlier or later periods.

In practice, the timing of the change of ownership is usually assumed to be approximately the same as the time of customs recording.

High-value capital goods

10.22 The production of high-value capital goods such as ships, heavy machinery, and other equipment may take several months or years to complete. As with other goods, the transaction should be recorded at the time that economic ownership is conveyed from the seller to the buyer. The timing in data sources may or may not coincide with the change of ownership; for example, payments data are on the basis of stage payments, whereas customs data are on the basis of the time that the completed item crosses the customs frontier. A progressive transfer of ownership of the high-value capital goods would be evidenced if the buyer were to own the partially completed assets in case of, for example, bankruptcy of the producer. In this case, the output produced each period is recorded as a transaction between seller and the buyer. In the absence of information, the existence of stage payments could be used as an indication of a progressive transfer of ownership. (If change of ownership differs from time of payment, accounts receivable/payable arise, as discussed in paragraph [5.71].)

Goods on consignment

10.23 *Goods on consignment are goods intended for sale, which are dispatched before they are sold..*

Similarly, for goods sent for auction or for temporary storage before sale, the change of ownership may not occur until later. Such goods should not be included in the balance of payments until ownership changes, to avoid a source of discrepancies between the goods flow and the corresponding financial entries. However, if it is impractical to record the transactions in this way, they can be approximated by the time of recording in international merchandise trade statistics. If there is a substantial delay in the sale of the goods, it is good practice in major cases to make adjustments to the actual time of change of ownership.

h. Valuation

10.24 The principle for valuation of general merchandise in this *Manual* is the market value or market price of goods at the point of uniform valuation. *The point of uniform valuation is where goods are valued at the exporter's border—that is, including the cost of insurance and freight incurred up to the point of the goods leaving the economy of the exporter.* This is a free-on-board type or FOB-type valuation. Market prices are discussed in paragraphs 3.141-3.142.

10.25 There may be cases where the application of FOB-type values is problematic, such as nonmonetary gold changing ownership without delivery, so a transaction value is used. Goods under merchanting and goods traded within a global manufacturing arrangement where the change of ownership differs from the country of dispatch or arrival of the goods, are problematic because, for instance, the goods may not enter the economy of the merchant or the principal. For this reason, the goods should be valued at transaction prices as agreed by the parties. It is acknowledged that this may lead to some bilateral asymmetries in the valuation of the goods. These asymmetries are further elaborated in Annex 11.

10.26 The terms of delivery of goods are the responsibility of the buyer and seller of goods under each contract. The arrangements made between exporters and importers vary. As a result, transaction prices agreed between exporters and importers include varying amounts of distribution costs, including none, some, or all of

wholesaling, transport, insurance, and taxes. Data from international transactions reporting systems and business surveys use transaction prices, and so have a variable mix of valuation bases.

10.27 IMTS use FOB-type valuation as the statistical value of exports and CIF-type for imports. FOB-type valuations include:

- (a) FOB—at port on the frontier of the exporting country (for goods dispatched by sea or inland waterway);
- (b) “free carrier” (FCA)—at terminal on the frontier of the exporting country (for goods dispatched by means of transport to which FOB is not applicable); and
- (c) “delivered at frontier” of the exporting country (for goods dispatched by means of transport to which FOB and FCA are not applicable; e.g., when goods are exported by railroad or pipeline).

(Where the customs frontier is not applicable, such as where there is a single market, the territorial frontier is used in its place.)

10.28 CIF-type valuations include:

- (a) “cost, insurance, and freight” (CIF) at the border of the importing country; and
- (b) “carriage and insurance paid” to the border of the importing country.

10.29 To convert imports from CIF to FOB valuation for balance of payments purposes, the value of freight services and insurance premiums incurred from the frontier of the exporting country to the border of the importing country should be deducted. Ideally, CIF to FOB adjustment for imports should be obtained for each goods transaction, or at a detailed level. The relationship of FOB to CIF prices varies according to factors such as the type of good, weight, scale (bulk or not), special needs (such as refrigeration or careful handling), mode of transport, and the distance traveled. CIF to FOB ratios change over time, due to factors such as fuel prices, competition and technology in the transport industry, change in the proportion of different types of goods, and changes in source economies. For goods when the customs points of the exporting

and importing territory are contiguous, the CIF and FOB values would be the same.⁵ The FOB valuation point means that export taxes are treated as payable by the exporter and that import duties and other taxes of the importing economy are payable by the importer. To the extent that this is not the case, adjustments like those for freight and insurance are necessary.

10.30 In some cases an estimate of a market equivalent price may need to be made. (See paragraphs [3.71–3.79] for more details.) For example, barter trade, aid goods, provision of goods between affiliated enterprises, under- or overinvoicing, goods on consignment or for auction, or where goods change ownership but a final price is determined later may all require adjustment to the goods value. Such adjustments may also require corresponding financial account items, such as trade credit; in the case of goods supplied by direct investors to their direct investment enterprise below cost or without charge, the corresponding entry is direct investment equity.

10.31 Compilers should verify that realistic valuations have been used in customs declarations, rather than notional figures, such as zero, or a price that is small or highly rounded. In the cases when the price is determined later, subsequent adjustments should be made to take into account the final price when it becomes available. The recording of possible adjustments is discussed further in paragraph [3.73].

10.32 Although the FOB-type valuation is recommended in this *Manual*, the valuation of imports and exports at the observed transaction value, which is closely aligned to the invoice value, is conceptually preferred and, subject to further testing and agreement of the parties involved, will be introduced as the standard in the next version of this *Manual*. Compilers are strongly encouraged to take steps towards the collection of invoice values (in addition to FOB values) as part of the collection of IMTS.

e. Deliveries between affiliated enterprises

⁵However, for some merchandise trade between neighboring territories, insurance and freight costs may be incurred between the customs frontiers, such as for air shipments, or in other cases when either customs frontier is away from the border, such as where goods are cleared for customs in sealed containers from the point of dispatch.

10.33 Many cross-border movements in goods are between affiliated enterprises. The goods may be moved for processing, resale, and other purposes. The question may arise as to whether there has been a change of economic ownership. (For example, paragraph 10.17(f) covers the treatment of goods delivered for processing without a change of ownership; another example is where a direct investor temporarily provides equipment to its direct investment enterprise, possibly under an operating lease.) Whether there has been a change in economic ownership is determined according to the usual principle that the economic owner is the party that bears the risks and rewards of ownership. In cases where there has been a cross-border movement of goods between affiliated enterprises, but it is not known whether there has been a change in ownership, the following factors should be considered:

- When affiliated enterprises are separate legal entities, their transactions should be treated according to the parties' own arrangements as to whether there is a change of ownership or not.
- Between a quasi-corporation and its owner, legal title is not usually available as evidence of the nature of the movement of goods. The preferred treatment in this case is to identify which part of the legal entity assumes the risks and rewards of ownership, based on evidence such as which location has the goods recorded in its accounts and is responsible for the sale of the goods. The treatment should be consistent with reporting by the branch in business accounts and enterprise or establishment surveys.

10.34 Transactions between affiliated enterprises may give rise to issues of valuation, as discussed in paragraphs [3.77–3.78] and 10.30. Consequential effects on income are discussed in paragraphs [11.101–11.102].

i. Re-exports

10.35 *Re-exports are foreign goods (goods produced in other economies and previously imported) that are exported with no substantial transformation from the state in which they were previously imported.*⁶ The price of the re-exported good may differ from its price at the time it was originally imported, due to factors such as

⁶[For treatment of re-exports in IMTS, see United Nations, *IMTS: Concepts and Definitions 2010*, <https://www.un.org/en/development/desa/publications/international-merchandise-trade-statistics-concepts-and-definitions-2010-imts-2010.html>, paragraphs 2.17 and 2.18.]

transport costs, dealer's margins, and holding gains or losses. For goods to be included in re-exports for balance of payments statistics, a resident must acquire and subsequently resell the goods with the goods passing through the territory. Goods that are bought and resold but do not pass through the territory of the unit initially purchasing the goods are included in goods under merchanting—see paragraph 10.41. The distinction between re-exports and goods traded within global manufacturing arrangements is discussed in paragraphs [10.80-81].

10.36 Goods in transit are not recorded in imports or in re-exports—see also paragraph [10.22(a)]. As well, goods cleared by customs, but re-exported without coming into ownership by a resident of that economy, should not be included in re-exports for balance of payments statistics purposes. In contrast to re-exports, in the case of returned goods, there is no change of ownership or the parties later agree to annul the change of ownership (see paragraph 10.17(h)).

10.37 In cases where the state of the imported goods is substantially transformed, which could be indicated by a change in Harmonized System (HS) code,⁷ goods are recorded as domestically produced exports rather than re-exports (e.g., goods that have been assembled or processed, or goods that have become rags, waste, scrap, antiques). Used goods that were previously imported and retain the same HS code, but have suffered wear and tear, could in most cases be included in re-exports depending on the rules of origin that the economy applies. Whereas international recommendations⁸ on rules of origin exist, the origin of the goods will be determined at a national level. The case of imported goods processed without change of ownership is discussed in paragraphs 10.58 – 10.60 [and in chapter 11]. Goods temporarily imported or exported without a change of ownership, such as for repair or operating lease, are not included in either re-exports or re-imports, as discussed in paragraph 10.17(e).

10.38 Where possible, re-exports should be shown separately as a supplementary item, particularly in economies where re-exports are a significant proportion of exports. Because re-exported goods are not produced in the economy concerned, they have less connection to the economy than other exports. Economies that are major

⁷ World Customs Organization, Harmonized Commodity Description and Coding System

⁸ World Customs Organization, *International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention)* https://www.wcoomd.org/-/media/wco/public/global/pdf/topics/facilitation/instruments-and-tools/conventions/kyoto-convention/revised-kyoto-convention/body_gen-annex-and-specific-annexes.pdf?la=en.

transshipment points and locations of wholesalers often have large values of re-exports. It may be of interest to derive the value of imports destined for re-export, calculated from re-exports with any timing adjustment. (Box 10.1 provides a numerical example of the entries for re-exports).

10.40 *Re-imports are domestic goods imported in the same state as previously exported, without any substantial transformation occurring on the goods while they were outside the territory.* Where significant, re-imports may be shown separately. Re-imports tend to arise in order to reverse a previous export, while re-exports generally arise because of transport, storage, or distribution through a territory other than that of the buyer or seller. For the goods to be included in re-imports, a nonresident must have acquired the goods, then resell them to a resident with the goods leaving and re-entering the territory. (In cases where there was no change of ownership, they are omitted from imports; e.g., goods for repair or goods sent for processing.)

C. Other Goods

a. Goods under merchanting

10.41 *Merchanting is defined as the purchase of goods by a resident (of the compiling economy) from a nonresident combined with the subsequent resale of the same goods to another nonresident without the goods being present in the compiling economy.* Merchanting occurs for transactions involving goods where physical possession of the goods by the owner is unnecessary for the process to occur. (If guidance is needed about the meaning of same goods, the criteria in paragraphs 10.37 and 10.57 can be used.) The distinction between merchanting and global manufacturing arrangements is discussed in paragraphs [10.80-81].

10.42 Goods under merchanting are recorded in the accounts of the owner in the same way as any other goods it owns. However, the goods are shown separately in the external accounts of the economy of the merchant because they are of interest in their own right and because they are not covered by the customs system of that economy.

10.43 The treatment of merchanting is as follows:

- (a) The acquisition of goods by merchants is shown under goods acquired under merchanting as a negative export of the economy of the merchant;
- (b) The sale of goods by merchants is shown under goods sold under merchanting as a positive export of the economy of the merchant;
- (c) The difference between sales over purchases of goods for merchanting is shown as the item “net exports of goods under merchanting.” This item includes merchants’ margins, holding gains and losses, and changes in inventories of goods under merchanting. As a result of losses or increases in inventories, net exports of goods under merchanting may be negative in some cases; and
- (d) Because the change of ownership differs from the physical flow of goods, merchanting entries are valued at transaction prices as agreed by the parties, not FOB (see paragraph 10.25).

(Box [10.1] provides a numerical example of the entries for goods under merchanting with minor processing.)

10.44 The partner allocation of net exports of goods under merchanting should be done by summing the positive and negative entries of goods under merchanting for each partner economy.⁹

10.45 The rationale for recording goods for merchanting in the goods account and for treating purchases of goods for merchanting as a negative export rather than an import is as follows: firstly, the merchant acts similar to a wholesaler or a retailer whose output is measured by the trade margin realized on the goods they purchase for resale; next, the treatment of the net exports as goods rather than services maintains a global trade in goods balance; and finally, if the amounts of the purchase and resale of goods were recorded as gross imports and exports of the merchant, this would artificially inflate the merchandise trade in the economy of the merchant.

⁹ When compiling country allocation of goods for merchanting, it is common to see negative net exports for economies from which the merchant acquires the goods.

10.46 The merchanting label is only used in the accounts of the economy in which the merchant is resident. In the counterpart exporting and importing economies, export sales to merchants and import purchases from merchants are included under general merchandise.

10.47 Inverse merchanting is a special case of merchanting, occurring when the entity that is selling to the nonresident merchant and the entity that is subsequently purchasing from the nonresident merchant are both resident in the same economy (the compiling economy) and where the goods do not leave and re-enter the compiling economy. For the economy of the merchant, this is recorded in the usual way as net exports of goods under merchanting. For the non-merchant economy, it may be challenging to identify inverse merchanting, because there are no physical cross-border flows. However, the goods account of the non-merchant economy should reflect that a change of economic ownership happens twice, first, when the goods are sold to the nonresident merchant and, second, when the goods are subsequently purchased from the nonresident merchant, and appropriate adjustments should be made if IMTS flows are used as a source.

10.48 Wholesaling, retailing, commodity dealing, and management of manufacturing may also be carried out under arrangements where the goods are present in the economy of the owner, in which case they are recorded as general merchandise, rather than as merchanting.

10.49 Sometimes a purchaser may be uncertain whether the goods will be resold to residents of the same economy or others. In this case, intentions can be used as an indicator, with subsequent adjustment if intentions are not realized.

10.50 When a merchant resells goods to a resident of the same economy as the merchant, this does not meet the definition of merchanting. Accordingly, the purchase of goods is shown as imports of general merchandise to the economy in that case. If the entity that purchased from a merchant in the same economy subsequently resells the goods to a resident of another economy, whether or not the goods enter the economy of the merchant, the sales of goods are recorded in exports of general merchandise from the economy where both the merchant and the entity that purchased the good from the merchant are resident. (Although such a case is very

similar to merchanting, it does not meet the definition given above. In addition, it is impractical for the first merchant to record the purchases as merchanting because that merchant may not know whether or not the second merchant will bring the goods into the economy.)

10.51 Merchanting of nonmonetary gold is included under the nonmonetary gold item, discussed in paragraphs 10.52–10.56. This treatment means that the nonmonetary gold item is comprehensive and conceptually symmetric.

Box 10.1. Examples of Goods under Merchanting and Re-exports

Example 1—Merchanting with manufacturing services that do not change the condition of the goods

A resident of Economy A acquires books from a resident of Economy C for 10. The resident of Economy A has them sent to Economy B, without the books passing through Economy A, for a resident of Economy B to put in boxes, for a charge of 3 payable by the resident of Economy A. The books are then sold by the resident of Economy A to a resident of Economy D for 20.

Since the goods are in the same condition, the merchanting treatment applies. The goods and services account entries for Economy A would be:

Goods acquired under merchanting (from Economy C)	–10 Credit/Revenue (negative exports)
Goods sold under merchanting (to Economy D)	20 Credit/Revenue
Net exports of goods under merchanting	10 Credit/Revenue
Manufacturing services on physical inputs owned by others (with Economy B)	3 Debit/Expenditure

Economy C records goods exports of 10 to Economy A under general merchandise; Economy B records services exports of 3 with Economy A; and Economy D records goods imports of 20 under general merchandise with Economy A (goods under merchanting is only used for the economy of the merchant).

Example 2—Re-exports

A seaport in Economy A serves as a gateway hub for international trade for economies in the region. One practice is for car dealerships to set up near the port. Individuals can travel to the seaport and buy new and secondhand cars directly from the dealer in Economy A.

A car dealer of Economy A imports a car from Economy C for 1000. A resident of Economy B travels to the seaport and buys the car for 1200 driving home through Economy A to Economy B.

Since the goods are imported and subsequently exported, with a change of ownership happening twice in Economy A, and the goods pass through Economy A, the goods are recorded gross in the imports and exports of economy A as follows:

General merchandise imports (from Economy C)	1000 Debit/Expenditure
General merchandise exports (to Economy B)	1200 Credit/Revenue
*Of which Re-exports	1200 Credit/Revenue

(As the goods are in excess of customs thresholds in this example, they are included in general merchandise rather than in travel (see paragraphs 10.15 and [10.86]).

* Re-exports are recommended to be shown separately as a supplementary item (see paragraph [10.38]).

b. Nonmonetary gold

10.52 Nonmonetary gold covers all gold other than monetary gold. Monetary gold, as defined in paragraphs [5.74–5.75], is owned by monetary authorities and held as a reserve asset. Nonmonetary gold can be in the form of bullion (i.e., gold bullion takes the form of coins, ingots, or bars with a purity of at least 995 parts per 1,000 including such gold held in allocated gold accounts), gold powder, and gold in other unwrought or semi-manufactured forms. Jewelry, watches, and so forth that contain gold are included under general merchandise, not nonmonetary gold. Nonmonetary gold sales and purchases that are not shipped are valued at transaction prices, not FOB. The price should include any dealer's margins or commissions not billed separately.

10.53 Allocated gold accounts are treated as being arrangements for the storage of gold bullion. A change in ownership of an allocated gold account holdings is, therefore, treated in the same way as gold bullion (see paragraph [9.18]). For the same reason, allocated gold accounts are not treated as deposits. If an entity puts gold it already owns into an allocated account, or withdraws gold from an allocated account without selling it, no change of ownership occurs so no transaction is recorded. In contrast, unallocated gold accounts are financial assets (included under monetary gold or deposits, depending on the holder). As a result, a deposit of bullion to an unallocated gold account is shown as an exchange of nonmonetary gold for a financial asset; and a withdrawal is the reverse unless both parties are monetary authorities or international organizations. (See also paragraphs [5.76–5.77] on gold accounts and [9.18] on transactions in gold bullion.)

10.54 When both parties to a gold transaction are either monetary authorities that hold the gold as reserve assets or international financial organizations, gold sales are recorded as monetary gold in the financial account, as discussed in paragraph [8.55]. Otherwise, gold sales are recorded under nonmonetary gold.

10.55 Nonmonetary gold is shown separately from other goods because of the special role of gold in financial markets, because gold sales and purchases largely relate to existing stocks, and because the values of sales and purchases may be particularly large in some cases, such as gold dealing centers. In many cases, there is no physical delivery to the new owner, because the gold is held at specialized bullion storage centers. However, change in ownership is the criterion for the recording of nonmonetary gold, so gold sales and purchases should be recorded even when there is no physical movement.

10.56 Nonmonetary gold may be held either as a store of value or for other (industrial) purposes, such as manufacturing of jewelry or for use in dental work. When feasible, nonmonetary gold can be subdivided into gold held as a store of value and other (industrial) gold as supplementary data.

D. Global Manufacturing Arrangements

10.57 A significant proportion of international transactions in goods are within global manufacturing arrangements whereby a principal manufacturer outsources the transformation of goods to a nonresident, possibly affiliated, manufacturing entity. Such arrangements can result in changes of ownership that differ from the physical flow of goods. Two distinct arrangements have emerged: processing arrangements and factoryless goods production. In both cases, the lead enterprise (the principal) has control over the design, selling price and other aspects of the global production process but outsources some or all of the manufacturing activities to a nonresident processor or contractor. The principal also retains ownership of critical inputs such as materials and/or intellectual property rights during the production process but material inputs and finished goods may never pass through the economy of the principal. In a processing arrangement the principal is considered a producer of goods while the processor provides a service (manufacturing services on physical inputs owned by others). Both the principal and the contractor in a factoryless goods production arrangement are considered producers of goods. Under these global manufacturing arrangements, material inputs are substantially transformed by the processor or contractor, which may be indicated by a change in HS code, or may have come about through the supply of intellectual property. Figures 10.1, 10.2 and 10.3 present illustrations and a decision tree and Box 10.2 provides some numerical examples.

Processing arrangement

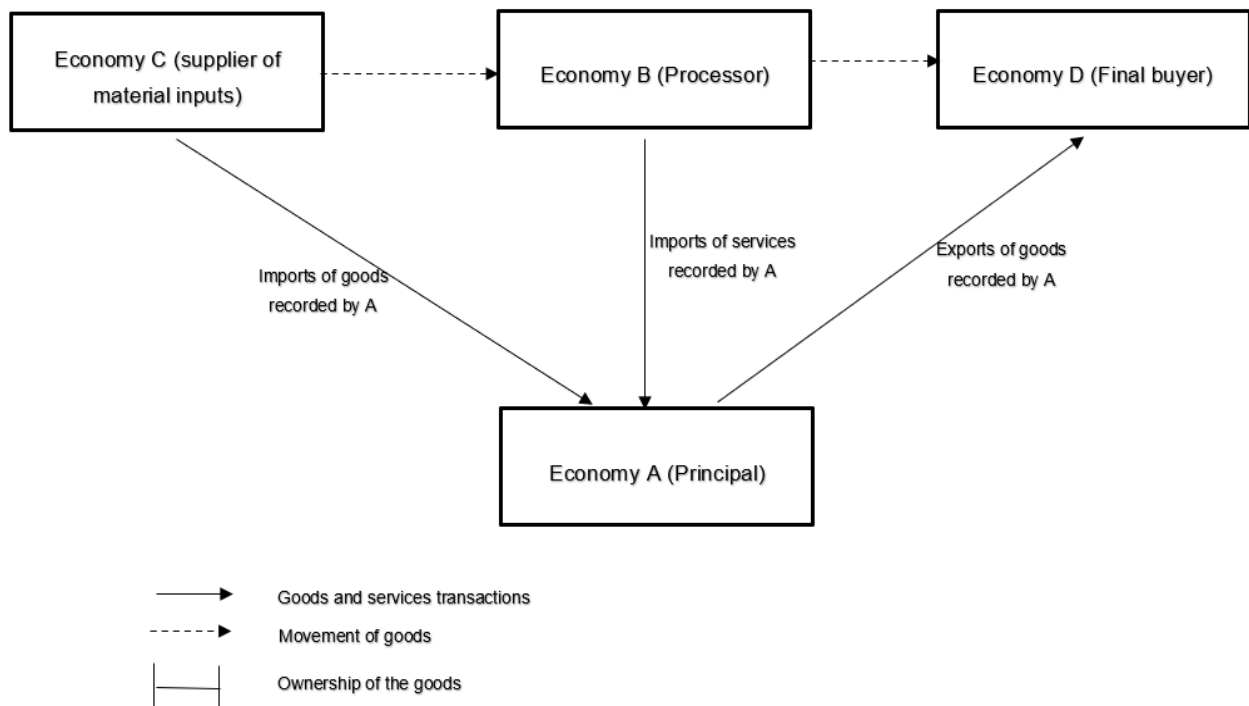
10.58 Under a processing arrangement, the principal owns or acquires material inputs and purchases manufacturing services (see paragraphs [10.62 to 10.64]), from a nonresident processor (who may provide some

material inputs), to substantially change the goods. The ownership of the goods does not change during the manufacturing process. The finished goods are then returned to the principal, sent elsewhere for further processing or dispatched to final customers. In the simplest scenario, goods are sent physically abroad from the economy of the principal to the economy of the processor and returned after processing. In this case, the movement of the goods are recorded in the IMTS of both economies, but no general merchandise transactions would be recorded in the goods account. Figure 10.1 illustrates a more complex example of a processing arrangement.

10.59 Goods transactions between the principal in a processing arrangement and other parties may be shown as a supplementary sub-item of general merchandise (see paragraph 10.77).

10.60 In some cases the processor provides other materials that are used in the manufacturing process alongside the material inputs owned by the principal. In many cases the principal supplies inputs of intellectual property such as product design without charging the processor for the right of use.

Figure 10.1 Goods for processing arrangement



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The principal in Economy A purchases material inputs from Economy C. The goods are shipped to Economy B for further processing. The final goods are sold to Economy D. The principal has ownership of the goods during the processing, but the goods may not pass through Economy A during the production process.

There are variations of processing arrangements. Material inputs may also be sourced from Economy A, Economy B or Economy D. Similarly finished goods may be sold in Economy A, or to Economy B or Economy C. The key aspect in all variations is that the processor in Economy B does not take ownership of the goods during the processing. In all variations, the physical flow of goods differs from the change of ownership to some extent.

10.61 As there is no change of ownership of goods between the processor and the economy from which the goods have arrived or between the processor and the economy to which the goods are dispatched, no general merchandise transactions are recorded by the processor.

10.62 Purchases of material inputs (i.e., goods to be processed) by the principal in a processing arrangement may be obtained from residents of the same economy as the principal, the same economy as the processor, or a third economy. The treatment is as follows:

- (a) when the goods are acquired from residents of the same economy as the principal, there is no international transaction; and
- (b) when the goods are acquired from residents of the same economy as the processor or a third economy, the principal records imports of general merchandise.

10.63 Sales of finished goods (i.e., goods after processing) are treated as follows:

- (a) when the goods are sold to residents of the same economy as the principal, there is no international transaction; and
- (b) when the goods are sold to residents of the same economy as the processor or a third economy, the principal records the sale as exports of general merchandise.

10.64 The principal could report merchanting in the case of minor processing (see paragraph 10.42 and the decision tree in Figure 10.3).

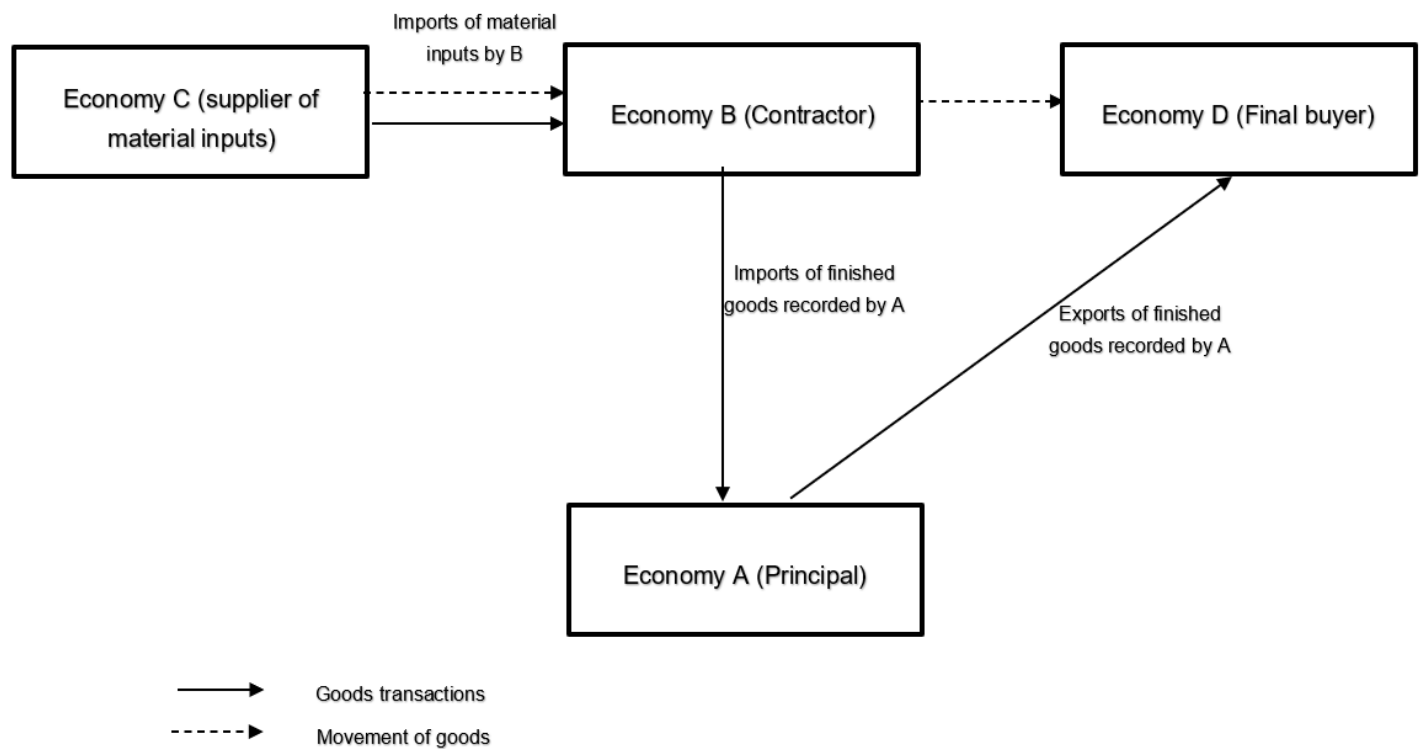
10.64a The manufacturing services fee that the processor charges the principal is shown in the services account (see paragraph 11.XX).

Factoryless goods production

10.65 *A factoryless goods producer is a principal that controls the production of a good by undertaking the entrepreneurial steps and providing the technical specifications required to produce the good, but that outsources **all or most of** the material transformation process required to produce the output.* The factoryless goods producer supplies inputs of intellectual property such as product design, without charging for the right to use the intellectual property, but outsources both the acquisition of **all or most** of the material inputs and the manufacturing process to a nonresident contractor. The factoryless goods producer buys the finished goods from the contractor at a price that includes the value of material inputs and processing but does not include the value of intellectual property used in the transformation process. The finished goods may be used by the principal as inputs into further production, sent elsewhere for further processing or dispatched to final customers. Figure 10.2 illustrates one example of a factoryless goods production arrangement.

10.66 Transactions between the factoryless goods producer and other parties may be shown as a supplementary sub-item of general merchandise (see paragraph **10.77**).

10.67 Under factoryless goods production, the material inputs are substantially transformed by the contractor. The role of intellectual property products (such as of research and development, design and innovation) provided by the principal to the contractor, without receiving a payment for right to use, should be significant. As a general guideline, the input values of intellectual property products as well as marketing assets (such as trademarks, brand names and logos) supplied by the factoryless goods producer will be at least as large as the amount paid to the contractor less the cost to the contractor of the material inputs.

Figure 10.2 Factoryless goods production

The principal in Economy A supplies the design specifications but outsources the acquisition of the material inputs and the manufacturing to a contractor in Economy B. The contractor acquires the material inputs from Economy C. The contractor sells the finished goods to the principal at a price that includes the cost of the material inputs plus the manufacturing costs. The goods are then sold to the final buyer in Economy D at a price that will further reflect the input of the design specification or other intellectual property by the principal. The final goods may be shipped directly from Economy B to Economy D without passing through Economy A.

There are variations of factoryless goods production. Material inputs may also be sourced from Economy A, Economy B, or Economy D. Furthermore, the principal may source the material inputs and sell them via merchandising to the contractor. Finished goods may also be sold in Economy A, or to Economy B, or Economy C. In all variations, the contractor has ownership of **all or most of** the material inputs and the principal supplies inputs of the intellectual property without charging for the right to use.

10.68 The goods that the factoryless goods producer buys from the contractor are recorded as general merchandise imports at the value agreed between the principal and the contractor. These goods are considered inputs to production of the factoryless goods producer.

10.69 Sales of finished goods are treated as follows:

- (a) when the goods are sold to residents of the same economy as the factoryless goods producer, there is no international transaction; and
- (b) when the goods are sold to residents of the same economy as the contractor or a third economy, the factoryless goods producer records the sale as exports of general merchandise.

10.70 There are no manufacturing services to record between the contractor and the principal in a factoryless goods production arrangement.

Sales of material inputs by the principal

10.71 Material inputs that the processor or contractor contribute to the manufacturing process may be acquired from the principal, in which case there is a change of ownership of goods between the principal and the processor or contractor. Materials may also be procured by the principal from abroad and sold to the processor or contractor in which case the principal may act also as a merchant. Where the principal sells goods directly or is engaged in merchanting to provide materials into the global manufacturing arrangement to the processor compilers may include these transactions in a supplementary item of general merchandise or supplementary items of goods under merchanting (see paragraphs 10.77 and 10.78).

Adjustments to the source data

10.72 In each of the economies where the change of ownership differs from the physical flow of goods, compilers may need to make adjustments to the source IMTS data. Adjustments that impact the total imports and exports should be shown in the table reconciling between merchandise trade data and total trade on a balance of payments basis (Table 10.2).

10.73 In a goods for processing arrangement, adjustments to the source data of each of the economies are needed to record changes of ownership between residents and nonresidents, and to remove flows where a change of ownership has not occurred.

10.74 In a factoryless goods production arrangement, if the contractor dispatches the goods directly to the final buyer, then compilers in the economy of the principal need to record the purchase and resale of finished goods that would not be included in the IMTS data. Also, in this scenario, the export value recorded by IMTS compilers in the contractor economy may be different from the price agreed between the principal and the contractor which should be recorded in the balance of payments, so adjustments to the value of exports may be needed in the contractor economy.

10.75 Under both processing and factoryless goods production arrangements, whenever the physical movement of goods differs from the change of ownership, adjustments to source data may further be needed to show the correct allocation of partner economy of goods on a balance of payments basis (see also Annex 11, Section [2]).

Differences between processing and factoryless goods production arrangements

10.75a A principal in a global manufacturing arrangement may be engaged in both processing arrangements and factoryless goods arrangements and may switch from one manufacturing arrangement to another. The difference between the two arrangements is based on the level of ownership of material inputs and intellectual property by the principal. In a processing arrangement the principal has ownership of all or most of the material inputs. In a factoryless goods arrangement the principal may provide some material inputs but must supply the intellectual property or knowhow (without receiving payment for the right to use the intellectual property) that goes into the manufacturing process.

Box 10.2. Examples of Processing Arrangements and Factoryless Goods Production

Example 1 – Processing arrangement: Manufacturing services that change the condition of the goods

A resident of Economy A (the principal) acquires oil from a resident of Economy C for 10. The oil is sent to Economy B, without passing physically through Economy A, for refining by a resident of Economy B, for a charge of 15; the oil continues to be owned by the resident of Economy A. The refined product, for instance fuel, is then sold to a resident of Economy D for 30.

Since the goods are not in the same condition, the merchanting concept does not apply. The goods account and services account entries for Economy A would be:

*General merchandise import (from Economy C)	10 Debit/Expenditure
*General merchandise export (to Economy D)	30 Credit/Revenue
Import of manufacturing services on physical inputs owned by others (from Economy B)	15 Debit/Expenditure

(See also paragraphs [10.62–10.71] on manufacturing services and related issues associated with processing.)

Economy C records goods exports of 10 to Economy A, Economy B records only manufacturing services exports of 15 to Economy A (not exports or imports of goods), and Economy D records goods imports of 30 from Economy A under general merchandise (not goods imports from Economy B).

Economy B may wish to identify the values of material inputs received and goods sent abroad after processing as supplementary items.

Example 2 - Factoryless goods production

A resident of Economy A (the principal, or factoryless goods producer) contracts the production of sportswear to a manufacturer in Economy B. The contractor in Economy B purchases the material inputs from Economy C for 3. The transformation of the material inputs by the contractor in Economy B is done under specifications provided by the principal. The principal purchases the finished sportswear from the contractor for 7 (which was agreed as part of the contracting arrangement), and resells these goods directly to the final buyer in Economy D for 28 without the goods passing through Economy A.

The goods account entries for Economy A would be:

*General merchandise imports (from Economy B)	7 Debit/Expenditure
*General merchandise exports (to Economy D)	28 Credit/Revenue

The goods account entries for Economy B would be:

General merchandise imports (from Economy C)	3 Debit/Expenditure
General merchandise exports (to Economy A)	7 Credit/Revenue

Economy D and Economy C should record the counterpart transactions with Economy A and Economy B, respectively. No trade is recorded between Economy B and Economy D.

Example 3 - Factoryless goods production with material inputs acquired and resold under merchanting by the principal to the contractor

A resident of Economy A (the principal, or factoryless goods producer) contracts the production of sportswear to a manufacturer in Economy B. The principal sources the material inputs from Economy C for 3 and resells the material inputs to the contractor in Economy B for 4, without the goods passing through Economy A. As in Example 2, the transformation of the material inputs by the contractor in Economy B is done under specifications provided by the principal. The principal purchases the finished goods from the contractor for 8, and resells these goods to the final buyer in Economy D for 28 without the goods passing through Economy A.

The goods account entries for Economy A would be:

*Goods acquired under merchanting (from Economy C)	–3 Credit/Revenue (negative exports)
*Goods sold under merchanting (to Economy B)	4 Credit/Revenue
Net exports of goods under merchanting	1 Credit/Revenue
*General merchandise imports (from Economy B)	8 Debit/Expenditure
*General merchandise exports (to Economy D)	28 Credit/Revenue

Economy C records goods exports of 3 to Economy A; Economy B records goods imports of 4 and goods exports of 8 with Economy A; and Economy D records goods imports of 28 from Economy A.

* Items marked with an asterisk are recommended to be shown separately as supplementary items for recording global manufacturing arrangements of Economy A (see paragraphs 10.77 and 10.78).

Providing information on global manufacturing to users

10.76 In order to make visible trading activities within a global manufacturing arrangement and to give insight into deviations from the IMTS source data, supplementary sub-items in the balance of payments presentation may be recorded in the economy of the principal, where these activities are important (see Table 10.1).

10.77 A sub-item of general merchandise, “Goods traded within a global manufacturing arrangement” may be introduced to record transactions between the principal and other parties irrespective of whether the goods pass through the economy of the principal. Goods traded under a global manufacturing arrangement include the following general merchandise trade transactions:

- material inputs purchased by the principal from nonresidents in a processing arrangement (see paragraph 10.62);
- sales of finished goods to nonresidents in a processing arrangement (see paragraph 10.63);
- purchases of finished goods by a factoryless goods producer from the contractor (see paragraph 10.68);
- sales by the factoryless goods producer of finished goods to nonresidents (see paragraph 10.69);
and
- material inputs sold to a processor or contractor by the principal in a processing or factoryless goods production arrangement, except when sold via merchanting (see paragraph 10.71 and 10.78).

10.78 When, as a part of a global manufacturing arrangement, the principal acquires material inputs and sells them via merchanting to the processor or contractor (see paragraph 10.71), supplementary sub-items of goods under merchanting are recorded as follows:

- (a) Goods acquired by the principal are recorded as negative exports under “Material inputs acquired abroad from third parties by the principal within a global manufacturing arrangement”; and
- (b) Goods sold by the principal to the contractor are recorded as exports under “Material inputs sold by the principal to the contractor abroad within a global manufacturing arrangement.”

Valuation of transactions in a global manufacturing arrangement

10.79 For goods traded within a global manufacturing arrangement (for instance transactions discussed in paragraph 10.77 and where the change of ownership differs from the physical movement of the goods, the application of FOB-type values does not apply. Instead, transport and insurance costs are shown as payable according to the arrangements of the parties; that is, the amount is payable by the party invoiced to pay the expense (see also paragraph 10.25). For the movement of goods not included in general merchandise, such as goods that the processor receives or dispatches with no change of ownership in a processing arrangement, a similar treatment applies, that is, the transport and insurance costs are shown as payable according to the arrangements of the parties.

Distinction between global manufacturing and global distribution arrangements

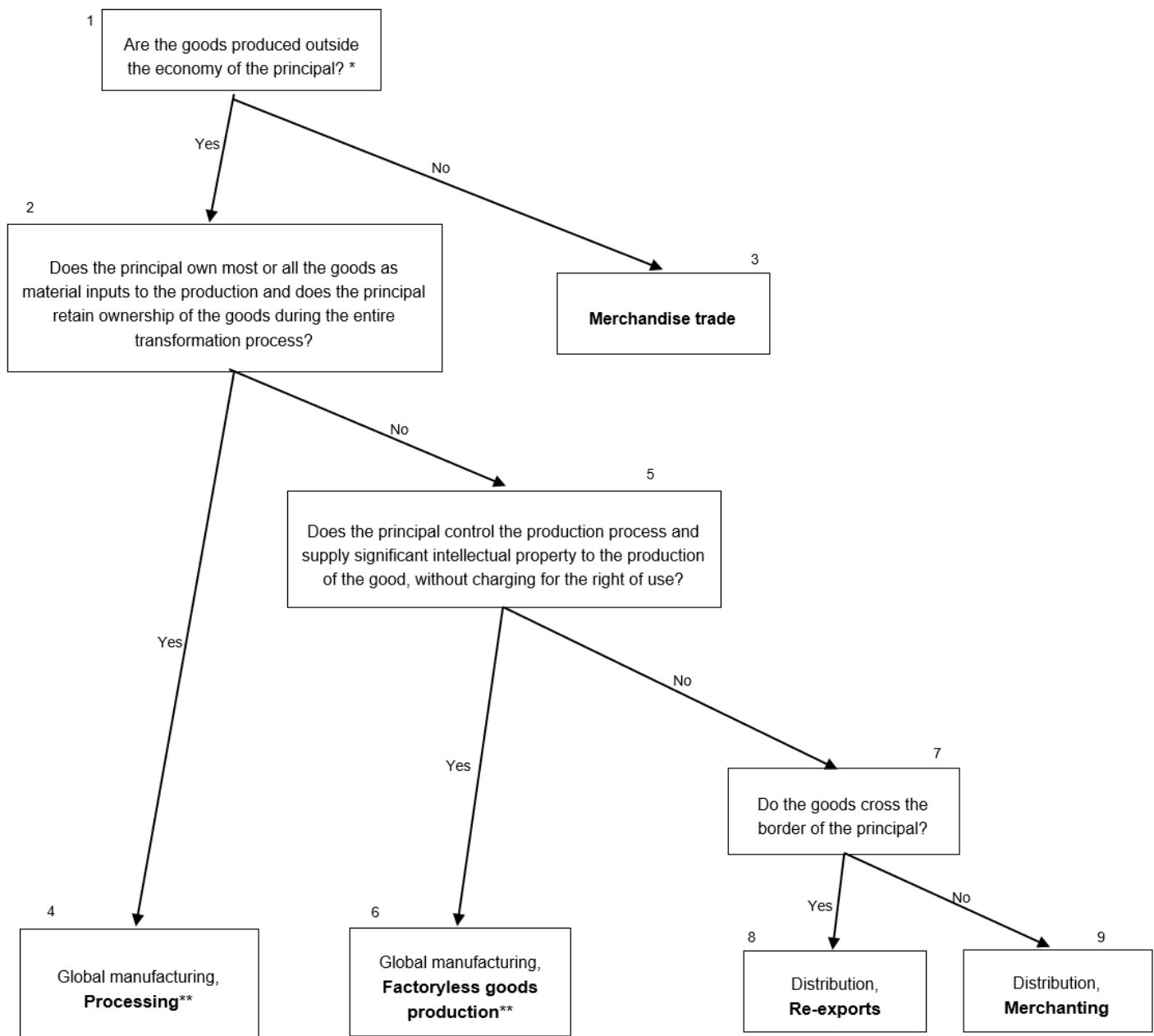
10.80 Merchanting and re-exports are used for wholesaling and retailing. They may also be used in commodity dealing and for the management of global manufacturing arrangements (see, for instance, 10.78). If the goods are substantially changed during the period the goods are owned, as a result of manufacturing services performed by other entities, or if the goods are the results of factoryless goods production, then the goods transactions are recorded under general merchandise and may be recorded as goods traded under a global

manufacturing arrangement. In other cases where there is no substantial change to the goods, then the goods may be recorded as re-exports if they pass through the economy of the owner, and are included under merchanting if they do not pass through the economy of the owner, with the selling price reflecting minor processing costs as well as wholesale margins.

10.81 Factoryless goods producers, merchants and re-exporters may all purchase goods from nonresidents and sell the same goods to other nonresidents. The factoryless goods producer however controls the production process and supplies the intellectual property or the 'knowhow' for the production of the good. For this reason, a factoryless goods producer is considered a manufacturer and is different from a merchant or re-exporter, and the purchase of the finished goods from the contractor and subsequent sale to the final buyer are recorded gross under general merchandise in the economy of the factoryless goods producer (not as net exports under merchanting or re-exports).

10.82 Figure 10.3 presents a decision tree to identify whether an international transaction is traditional merchandise trade, or part of a processing arrangement, a factoryless goods production arrangement, re-exports or merchanting.

Figure 10.3 Global manufacturing and distribution arrangements decision tree



Notes.

* The decision tree is from the point of view of the principal enterprise that organizes or arranges the manufacture and/or movement of goods between different economies and has ownership of the goods at some stage.

**** Supplementary items are recorded in global manufacturing arrangements (see paragraph 10.77).**

E. Additional Breakdowns and Supplementary Presentations of the Goods Account

10.83 General merchandise is shown as a single item in the standard components. This Manual encourages additional presentations according to the priorities of the compiling economy.

10.84 More detailed breakdowns could include major products (or commodities), major product groups, industry of origin, and broad economic categories. The international standard product (or commodity) classifications include the Harmonized System (HS), the Standard International Trade Classification, the Central Product Classification (CPC) and the Broad Economic Categories (BEC).¹⁰ Trade in goods classification systems are discussed further in Annex 5. In addition, or alternatively, cross-references could be made to additional details available in other trade in goods publications, while noting coverage, timing, valuation, and classification differences.

10.85 For comprehensive and integrated data on international trade and globalization, insights into the types of enterprises that are engaged in cross-border trade is important. Disaggregation of total exports and imports of goods by characteristics of the trading enterprise (known as Trade by Enterprise Characteristics) is recommended as a supplementary presentation to highlight the role of enterprises with different characteristics in the current account. Characteristics such as ownership, size of enterprise, and geographical diversification are themes that can be developed in these statistics. This is discussed further in Chapter 15 within the context of multinational enterprises.

¹⁰World Customs Organization, *Harmonized Commodity Description and Coding System*. United Nations, *Standard International Trade Classification*. United Nations, *Central Product Classification*, *Broad Economic Categories*.

10.86 A supplementary presentation of the goods account classified by currency to be published at least annually is recommended. Currency composition of international trade is discussed further in Annex 5.

F. Reconciliation between Merchandise Trade Data and Total Goods on a Balance of Payments Basis

10.87 It is a good practice for compilers to produce and publish a reconciliation table of the differences between merchandise trade statistics and goods on a balance of payments basis. A sample reconciliation table is shown in Table 10.2. Such a table ensures transparency and avoids confusion and doubts as a result of different sources, coverage, classification, valuation, timing, and so forth. It illustrates for users the conceptual differences between merchandise trade data and total goods on a balance of payments basis and is a useful tool for analysis of global value chains. It is recommended that the reconciliation table is published by compilers of balance of payments statistics at least on an annual basis.

10.88 The table summarizes the steps taken in compilation. Some of the items are discussed in more detail in this chapter above (and paragraph references are given). [Chapter XXIV] of *IMTS: Compilers Manual, Revision 1* and [Annex F] of *IMTS 2010* list differences between IMTS and *BPM6* standards. In addition to changes from *BPM6* in this *Manual*, other adjustments may arise if there are differences between IMTS and the national practices for coverage of international merchandise trade statistics.

Table 10.2. Reconciliation between Merchandise Source Data and Total Goods on a Balance of Payments Basis

	Exports	Imports
Merchandise trade statistics as provided in source data		
Adjustments, as relevant¹		
Valuation adjustments		
– CIF/FOB adjustment (10.29)	<i>n.a.</i>	

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<i>± High-value capital goods, if delivery differs from change of ownership (10.22)</i>		
Adjustments arising from the change of economic ownership principle		
<i>± Goods lost or destroyed in transit (10.12(p))</i>		
<i>± Goods changing ownership in customs warehouses or other special zones (10.19)</i>		
<i>- Migrants' personal effects (10.17(b))</i>		
<i>- Returned goods (10.17(h))</i>		
<i>- Goods for repair or storage without change of ownership (10.17(e))</i>		
Adjustments relating to merchanting and global manufacturing arrangements		
<i>+ Net exports of goods under merchanting (10.44(c))</i>		<i>n.a.</i>
<i>+ Exports to and imports from a merchant in an economy of inverse merchanting (10.47)</i>		
<i>+ Goods sold to or purchased from a nonresident principal within a processing or factoryless goods production arrangement, without the goods leaving the reporting economy (see 10.12(i))</i>		
<i>- Dispatches of goods from, or arrivals of goods to, either the economy of the principal or the economy of the processor without change of ownership in a processing arrangement (10.61)</i>		
<i>+ Goods acquired from other economies for processing abroad, and goods sold abroad after processing, without the goods passing through the economy of the resident principal (10.12j, 10.62, 10.63)</i>		
<i>+ Acquisition from and sale to other economies of finished goods by a factoryless goods producer without the goods passing through the economy of the factoryless goods producer (10.58, 10.68, 10.69)</i>		
<i>± Adjustment to the contractor's valuation of exports of finished goods to a factoryless goods producer if different from IMTS valuation of dispatches to final buyer (10.74)</i>		<i>n.a.</i>
Other conceptual adjustments		
<i>- Goods imported for construction projects by nonresident enterprises (10.22(d))</i>		
<i>+ Goods changing ownership entering / leaving territory illegally (10.17(i) / (j))</i>		
<i>+ Nonmonetary gold sales and purchases that are not shipped (10.50-54)</i>		
= Total goods on a balance of payments basis		

¹This list is not comprehensive, but indicative of commonly made adjustments. The table should be read in parallel with the list of inclusions and exclusions recommended in Chapter 1 of *IMTS 2010*. Some of the adjustments listed may be unnecessary because international merchandise trade statistics data for the economy may treat the item in the same way. For example, an adjustment for goods entering or leaving customs warehouses is not necessary if data are sourced from international merchandise trade on a general trade basis. Furthermore, other adjustments not shown in Table 10.2 may be needed to account for gaps in the compiling economy's IMTS data. For example, if the compiling economy does not include fish catch or minerals from the seabed and salvage, then compilers would need to make adjustments to include these transactions if they are significant for the economy.