



For Global Consultation

# Compilation Guidance Note on Factoryless Goods Production



## **Compilation Guidance Note on Factoryless Goods Production<sup>1</sup>**

*The treatment of processing arrangements introduced in BPM6, along with related cross-border goods flows, marked a significant advancement in capturing global manufacturing activities—especially for principals outsourcing material processing to nonresident units. However, factoryless goods production was only addressed more recently in the 2025 SNA and BPM7 frameworks.*

*This guidance comprehensively outlines the nature, classification, and statistical treatment of factoryless goods production (FGP) within international macroeconomic statistics. It highlights the critical role of Intellectual Property Products (IPP), the importance of clearly distinguishing FGP from processing and merchanting, and the need for employing multiple data sources and reconciliation techniques to ensure accurate measurement of FGP activities. The objective is to improve the visibility and consistency of FGP in national accounts and the balance of payments, thereby reflecting the continually evolving global production landscape.*

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## SECTION 1: INTRODUCTION

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1. One of the main characteristics of globalization in the modern era is the fragmentation of production processes. Companies can outsource various stages of manufacturing to specialized units, both domestically and internationally. A specific example of this fragmentation is known as factoryless goods production. In this scenario, a principal unit provides the technical specifications necessary to create a product but is minimally involved in actual manufacturing of the product. When the principal mainly contributes intellectual property products (IPP) and the contractor supplies most or all of the required materials, the principal is referred to as a factoryless goods producer. The term “factoryless goods producer” indicates that while the principal is considered a manufacturer, it does not need to perform any manufacturing activities at its own facilities. Nevertheless, it maintains control over the goods produced—what is produced, how they are produced, and what happens after they are produced.
2. This note discusses the treatment of factoryless goods production in the macroeconomic statistics standards. It reviews the development of the current treatment of factoryless goods production and producers. It further discusses the concepts involved and the relationship with other forms of global production; the rationale for its treatment; and the economic impact of the treatment. The note explains compilation challenges and provides guidance drawing on the practices of national accounts and balance of payments compilers. It recommends better visibility of these types of activities and where they can be shown in the accounts.<sup>2</sup>
3. The white cover editions of the *BPM7* and the *2025 SNA*, released in March 2025, featured sections that define FGPs and outline their treatment in detail. The 2024 release of *ISIC Rev. 5* also expanded the definition of manufacturing to cover FGPs. Unlike *ISIC Rev. 4*, which focuses on physical transformation, *ISIC Rev. 5* classifies as manufacturers those units that organize and control the production—even if the actual processing is outsourced to the contractor—provided that they assume production risk and supply key inputs, including IPPs. This change brings the *ISIC Rev. 5*, *BPM7*, and the *2025 SNA* into closer alignment on this issue, ensuring consistent treatment of FGPs across national accounts and balance of payments statistics.
4. Alongside the new macroeconomic statistics manuals, the updated trade manuals —*International Merchandise Trade Statistics: Concepts and Definitions* and the *Manual on Statistics of International Trade in Services* (MSITS) to be published in 2026 —include new sections outlining the interaction for global production, between balance of payments (BOP) on the one hand and International Merchandise Trade Statistics (IMTS) and Trade in Services on the other. The IMTS manual introduces an accessible section on global production arrangements (Chapter 2, Section C, Globalization and the cross-border principle) with examples and charts that highlight and illustrate the differences in recording under IMTS and BOP. The subchapter focuses on *Goods crossing the border of the compiling country without a change of ownership* and *Goods not crossing the border of the compiling country*. Chapter 10, Section A of the IMTS manual also introduces standardized nature of transaction codes designed to identify goods traded under global manufacturing arrangements with accompanying diagrams, as outlined in Section 3 below. The MSITS enhances the contextual understanding of the services item *Manufacturing services*

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<sup>2</sup> In this compilation note, the acronym FGP will be used to refer to factoryless goods production; “FGPs” is used to refer to factoryless goods producers; when referring to a single factoryless goods producer, the term is spelled out.

on physical inputs owned by others by highlighting the different treatments of a processing arrangement and FGP under trade in services.

## SECTION 2: DEFINITION AND CONTEXT

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5. FGP represent a distinctive organizational model within the broader landscape of global manufacturing arrangements. The combined 2025 SNA/BPM7 glossary defines a factoryless goods producer as *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*. This definition of FGPs reflects the shift in manufacturing paradigms, where the core value-adding activities—such as design, branding, and IPP ownership—are retained by the principal, while the physical production is outsourced to contractors. The factoryless goods producer is emblematic of the fragmented production processes enabled by globalization, allowing firms to operate without owning or managing physical factories.

6. Other types of global distribution and manufacturing arrangements include merchanting and processing arrangements—also called “toll manufacturing”.<sup>3</sup> However, the FGP arrangement is distinct from traditional processing: in FGP arrangements, the contractor typically owns the material inputs, while the principal provides the intellectual property or know-how without receiving payment for its use. Despite the contractor’s role in manufacturing, the principal in an FGP arrangement remains deeply involved. It owns the IPP (or has rights to use the IPP) that are embedded in the final goods, controls the production process, and manages marketing and sales. This differentiates FGP from merchanting also, where the merchant merely buys and resells goods without any involvement in production. The evolution of statistical standards reflects the complexity of these arrangements. While BPM6 emphasized the treatment of processing and merchanting, it did not fully address FGP. This gap might have resulted in inconsistent practices across countries.

7. The ISIC Rev. 5 recommends that FGP activities be classified in the manufacturing industry (Section C), within the same class that would apply if they undertook production themselves. This classification is contingent upon the factoryless goods producer owning, or having the right to use, the intellectual property input to the production process. Otherwise, the factoryless goods producer is simply buying the completed good from the contractor with the intention to re-sell it. This ensures that the manufacturing output of FGPs reflects the input of the design specification or other intellectual property by the principal, while their intermediate consumption includes imports of the goods from the contractor (at the cost of the material inputs plus the manufacturing costs).

8. Figure 1 (case 1) shows an illustrative example of an FGP arrangement. In this scenario, the principal located in Economy A has the know-how and engages the contractor in Economy B to manufacture a high-end jacket. The contractor in Economy B procures the required materials and produces the jacket according to the design provided by the principal, without paying for the design (IPP).

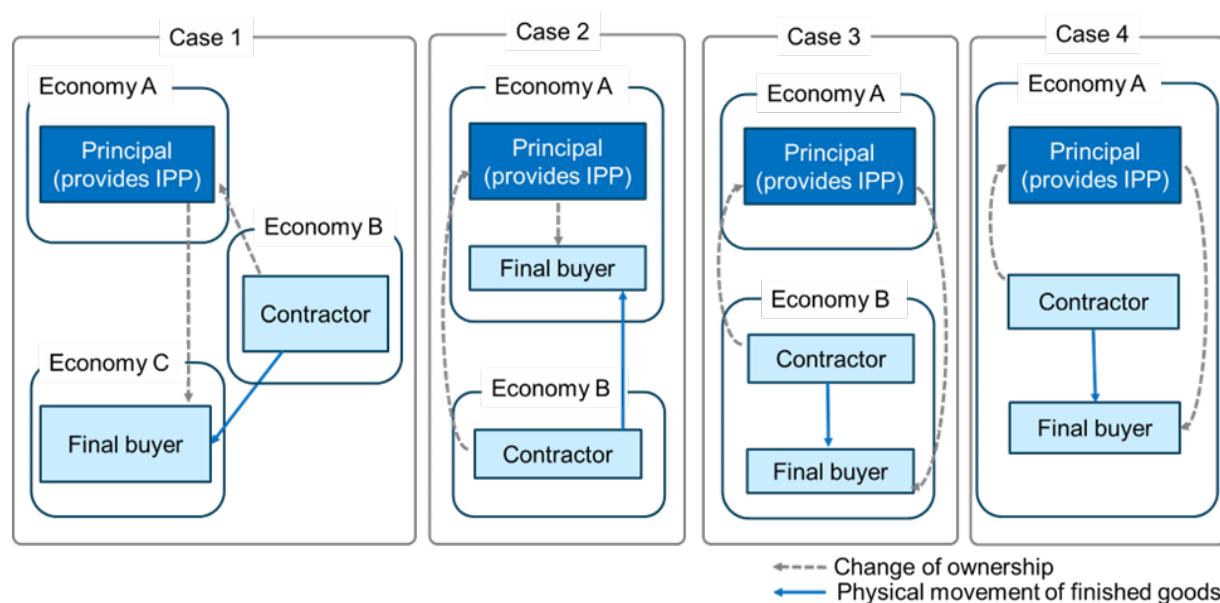
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<sup>3</sup> The term *maquila* is used especially among Spanish speakers for manufacturing services on physical inputs owned by others, but care may be needed as it may also be used to mean FGP. The term has an interesting etymology—probably deriving from the Arabic *makilah* (something measured) in medieval Spain and meaning the portion of grain that a miller retains as payment for processing someone else’s grain.

Upon completion of the manufacturing, the principal purchases the finished jacket from the contractor at a price that encompasses both the material inputs and the work by the contractor. Subsequently, the principal sells the finished goods to the final buyer in Economy C, with the sales price incorporating additional value attributable to the product design and the branding (IPP). Notably, the finished jacket is physically transported from Economy B to the final buyer in Economy C.

9. Under case 1, the physical flow of goods from Economy B to Economy C would be recorded in the IMTS for economies B and C, while the BOP should record an import by Economy A from Economy B and a subsequent export by Economy A to Economy C. The principal's purchase and resale are not classified as merchanting, because the principal controls production as a factoryless goods producer.

**Figure1. Factoryless goods production**



10. There are alternative scenarios in which two or more of the entities involved are located within the same economy. For example, as shown in case 2 of Figure 1, the principal may physically import goods from the contractor for sale within the principal's own economy. In such cases, both the BOP and the IMTS will identify the same partner country for the transaction. However, they may not report the same values for the trade flows because the valuation methods used in BOP and IMTS can differ. Case 3 describes a situation where finished goods are sold in the same economy as the contractor, which is common in larger economies (See Section 4, Example from China). In these cases, there are no entries in the IMTS upon completion of the manufacturing process and subsequent sales of the goods. However, the BOP of Economy A should record first imports from Economy B, followed by exports to Economy B. Similarly, Economy B should record exports to Economy A, followed by imports from Economy A. Case 4 illustrates a case in which the principal, contractor, and final buyer are all residents of the same economy (Economy A). In this scenario, there are no transactions between residents and nonresidents, and therefore no BOP (or IMTS) entries. All transactions are captured within the national accounts as production and intermediate/final consumption. The significance of this last case is that the principal and the contractor are classified in the manufacturing industry according to *ISIC Rev. 5*.

11. The four scenarios outlined above highlight how FGP arrangements can vary depending on the location/residence of the principal, contractor, and buyer. To ensure that these cases are recorded consistently across economies, it is important to distinguish FGP arrangements from other manufacturing arrangements, such as *goods for processing*. Although both involve outsourcing of material transformation, their underlying differences stem from ownership of goods, control and use of IPP, and the nature of the outputs. Clarifying these distinctions is essential to avoiding double counting and ensuring consistent treatment across the balance of payments and national accounts. Some key differences are highlighted below.

#### FGP VERSUS PROCESSING

12. There are key differences between a processing arrangement and FGP. These differences include the following:

##### ***Ownership of Material Inputs:***

- In a processing arrangement, the principal retains ownership of most or all of the material inputs throughout the production process.
- In contrast, under an FGP arrangement, the principal acquires the finished goods from the contractor, but is not responsible for acquiring the material inputs.

##### ***Role of IPP:***

- In a processing setup, the principal may own or pay for the use of IPP involved in production, but IPP input is not required for the arrangement to qualify as processing.
- In an FGP arrangement, the principal must provide IPP as an essential input (to be classified as a manufacturer).

##### ***Intermediate Consumption:***

- For processing arrangements, the material inputs and payments for manufacturing services are recorded as the principal's intermediate consumption.
- Under FGP, the finished goods purchased by the principal from the contractor represent intermediate consumption of the principal.

##### ***Classification of output (see Table 1):***

- In processing arrangements, the output of the principal is recorded as goods, while the output of the processor is considered a service (manufacturing services on physical inputs owned by others).
- In FGP arrangements, the output of both the principal and the contractor is classified as goods.

**Table 1. Output of the Principal and Contractor by Production Arrangement**

| Type of arrangement | Output services | Output Goods |
|---------------------|-----------------|--------------|
| <b>Processing</b>   |                 |              |
| Principal           |                 | X            |
| Contractor          | X               |              |
| <b>FGP</b>          |                 |              |
| Principal           |                 | X            |
| Contractor          |                 | X            |

- The contractor under FGP and the processor providing manufacturing services in a processing arrangement are both classified under the manufacturing industry, similar to units producing the same goods for their own account (see Introduction to ISIC Rev 5, para. 143).
- Principals under FGP and in processing arrangements are classified in the manufacturing industry in the same class where they would have been classified if they carried out the manufacturing process themselves.

13. There are variations to the provision of material inputs in global manufacturing arrangements. In a processing arrangement the principal owns and retains ownership of most or all of the goods as material inputs during the production process. This definition allows the processor to provide some of the material inputs, the cost of which would subsequently be included in the manufacturing service fee charged to the principal. Conversely if a principal that provides only some material inputs, as well as the IPP, it would be considered a factoryless goods producer.

14. The contractor may purchase material inputs from the principal. Under FGP the contractor provides most of the material inputs. However, it is possible that these are sourced directly from the principal with a change of ownership between the two parties. It is further possible that the factoryless goods producer sells the material inputs to the contractor via merchanting. This scenario is not unlikely as it illustrates how involved the principal is in the production process. In a processing arrangement it is also possible that some goods are sold by the principal to the processor (including via merchanting), as long as the principal provides most of the material inputs to the production without a change of ownership.

15. Although processing and FGP arrangements differ, their underlying motivation can be similar. In a processing arrangement, the principal may provide IPP to the production process. The choice between, on the one hand, a goods for processing arrangement where the principal purchases material inputs for further processing abroad and sells the finished goods to a third economy, or, on the other hand, FGP, where the principal arranges for a contractor to purchase the inputs, complete the manufacturing, and then to ship the finished goods to the third economy (with the principal buying them and reselling the goods to the third party), often depends primarily on market access. This decision is influenced by whether the principal or the contractor has better access to relevant markets for the material inputs, while in both cases the production process follows the principal's specifications. As illustrated in Box 1, while the BOP transactions under the two arrangements can differ significantly, the value added may remain unchanged when switching from processing to FGP arrangements.

*Box 1. Example Comparing a Goods-for-Processing Arrangement with an FGP Arrangement*

A principal in country A produces pharmaceutical products and holds the patent for the drug's production. The raw materials used in production come from Economy D. Apart from packaging—provided by the unit in Economy B (processor or contractor) at a cost of 1 unit of currency per 100 units of final product value—there are no other significant inputs. The finished goods are sold to consumers in Economy C. This example shows that while the BOP recordings differ, the value added for the contractor remains the same across arrangements, and likewise, the value added for the principal also remains the same.

**Case 1. Good Sent for Processing**

- The principal purchases the raw materials from country D for 20 units.
- The principal ships the raw materials to a processing plant in Economy B.
- The processor is paid a fee of 25 units to complete and package the product (the processor does **not** take ownership of the material inputs).
- The finished products are then sold by the principal to country C for 100 units.

*BOP transactions*

- Principal: imports of goods (20); imports of services (25); and exports of goods (100)
- Processor: Exports of services (25)

*Value added:*

- Principal:  $100 - 20 - 25 = 55$
- Processor:  $25 - 1 = 24$

**Case 2. Factoryless Goods Production**

- The principal in economy A contracts a manufacturer in Economy B to purchase the raw materials and produce and package the drug.
- The contractor purchases raw materials from Economy D for 20 units and manufactures the product.
- The contractor sells the goods to the principal for 45 units.
- The finished products are then sold by the principal to country C for 100 units.

*BOP transactions*

- Principal: imports of goods (45); and exports of goods (100)
- Processor: Imports of goods (20); exports of goods (45)

*Value added:*

- Principal:  $100 - 45 = 55$
- Contractor:  $45 - 20 - 1 = 24$

Note: In both cases the principal's markup is large compared to the cost of production. This represents the return to IPP, and branding for the principal.

## THE ROLE OF IPP

16. In FGP arrangements, IPP plays a central role in defining the principal's contribution to the manufacturing process. Unlike traditional manufacturers, FGPs outsource the physical transformation of goods to third-party contractors while retaining ownership of the product design, technical specifications, patents etc. The principal's control over IPP allows it to dictate how goods are made, even though it does not operate any physical manufacturing facilities.

17. IPP is the cornerstone of the FGP model enabling firms to maintain strategic control and economic ownership of goods without engaging in direct production activities. This justifies the higher resale price when the principal sells the goods to end consumers or distributors.

18. *BPM7* provides some guidance on how to assess whether the IPP input is sufficient to classify the arrangement as FGP. The assessment is based on comparing the value of IPP with the cost of production of the good. Paragraph 10.67 of *BPM7* states, “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.” In applying this guidance, compilers should assess whether the principal's role reflects a significant input of research and development, design, technical specifications, or other innovation-related IPP into the production process, together with control over key aspects of production. While indicators such as the increase in the value of goods between the purchase from the contractor and their subsequent sale may provide useful information, they may not be sufficient determinants. In particular, differences in value added between the principal and the contractor may reflect factors unrelated to intellectual property inputs, such as differences in wages, markups, or market structure across countries. Accordingly, the classification should not rely solely on whether the principal's value added exceeds that of the contractor, but should consider whether the principal's contribution reflects substantive intellectual inputs and control over production.

19. In practice, accurate information on the value of material inputs provided by the contractor may not be available to the principal, while information on the IPP input of the principal is generally not known to the contractor. In the case of the principal, incorrect classification could result in FGP being classified as merchanting or vice versa, but this should have no net impact on the current account. In the case of contractors, there may be an over- or underestimation of the value of contracting for FGP arrangements; however, this would not affect the accounts, as general merchandise is treated in the same way in the economy of the contractor regardless of whether the contractor sells goods to a factoryless goods producer or to a merchant.

20. Compilers in the principal economy should attempt to gather quantitative information on the IPP input of the principal, and cost to the principal of the goods purchased from the contractor. They may need to estimate the value of material inputs into the production process. The input of IPP may be observed from the cost of capital expensed in the income statement, or by measuring the increase in the value of goods from the point of purchase from the contractor to their final sale to the end buyer. If the principal pays another entity for the right to use the IPP (see paragraph 27 below) then the amounts paid would be used as the value of IPP input of the principal.

21. Compilers in both economies should gather qualitative information about whether there is a payment by the contractor for the right to use the IPP; they need to know which entity has ownership of

the material goods during the manufacturing process; and they would need to know the extent of the principal's control of the manufacturing process.

22. If, based on the information available to the compiler, the IPP input of the principal is considered significant; and there is no charge to the contractor for the use of IPP; and there is significant control of the manufacturing process; and that most of the input materials are acquired by the contractor; and the finished goods are sold to the principal by the contractor, then the activity would be classified as FGP.

23. The compiler's assessment of the level of IPP input should not be used as the sole basis for distinguishing between FGP and processing, since IPP can be involved in both types of arrangement (see Box 1 above). Furthermore, the identification of processing relies on the contractor providing manufacturing services on material inputs owned by the principal, that is, with no change in ownership of the goods.

24. The contractor may use the IPP in the production process, but it does not pay the factoryless goods producer for the right to use. Under the FGP arrangement the principal either owns or pays for the rights to use the IPP. The blueprint or technical specifications are utilized by the contractor to manufacture the good to specified requirements. For correct classification of FGP, it is crucial to establish that the contractor does not pay the principal for the rights to use the IPP.

25. The recognition of IPP (of the principal) and the product design as integral to the production process is why FGPs are classified as manufacturers. This classification provides a clearer allocation of innovation-driven value creation to the economy. It recognizes the value that IPP inputs embedded in the good contribute to the value of the good. This treatment also bears direct implications for the measurement of output or value added in the economy. The classification of FGPs as manufacturers ensures a more accurate recording of gross value added (GVA) for the manufacturing industry—and the economy, since the activities of principals who control production and own the associated IPP are recognized as part of domestic production. This is important since the value-added of the factoryless goods producer (as a manufacturer) would generally be larger than the margin associated with distribution activities (the recommended classification in *ISIC Rev. 4*).

26. The principal does not need have outright ownership of the IPP to be classified as a factoryless goods producer. In FGP, the principal provides the IPP input into the manufacturing process, but may, in fact, pay another unit for the right to use the IPP (this permission would need to be the right for a third party (the contractor) to incorporate the knowledge embedded in the IPP into the production process). Often, however, a licensed copy of the IPP, owned by another unit, may also be treated as a fixed asset on the accounts of the principal if it meets certain criteria (it is expected to be used in production for more than one year and the licensee assumes all the risks and rewards of ownership). If the principal owns the IPP, or holds a license that qualifies as a fixed asset, then the use of IPP in production is considered a return to capital. Conversely, if the principal pays for a license that does not meet the fixed asset criteria, the payment is treated as intermediate consumption.<sup>4</sup>

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<sup>4</sup> Para. 148 of *Introduction of the Standard Industrial Classification of All Economic Activities, Revision 5 (ISIC Rev.5)* states the following: "A principal ... should not only own the final output, but also satisfy one of the following conditions: a) it owns the input materials to the production process, or b) it owns the IPP." However, according to

27. The impact on trade in goods and industrial classification is largely the same whether the principal owns the IPP or not. If the principal pays another unit for the right to use the IPP and outsources the complete production to a contractor then the principal is considered a factoryless goods producer, classified in manufacturing industry similar to a principal who owns the IPP. The difference between the price that the principal pays the contractor for the finished goods, and the price that the principal receives from the final customer is the same, regardless of IPP ownership or licensing. However, the value added of the principal may differ in each case: owning the IPP typically results in higher value added compared to paying a license fee. On the other hand, all else being equal, a principal that owns the IPP will incur higher depreciation costs.

28. A decision tree to determine the economic ownership of an IPP involved in global production is presented in the joint 2025 SNA Chapter 23 / BPM7 Chapter 15, “Globalization”. A third scenario is the cost-sharing arrangement described in Guidance Note G.5, *Economic Ownership of Intellectual Property Products: Recording of Intra-MNE Transactions*, where research costs at one location are financed by multiple affiliates within the international group. These contractual agreements involve participants sharing certain costs and risks in exchange for a proportional interest in the expected outcomes. Regardless of the scenario, the treatment under FGP remains consistent.

#### IMPLICATIONS FOR THE NATIONAL ACCOUNTS AND BALANCE OF PAYMENTS STATISTICS

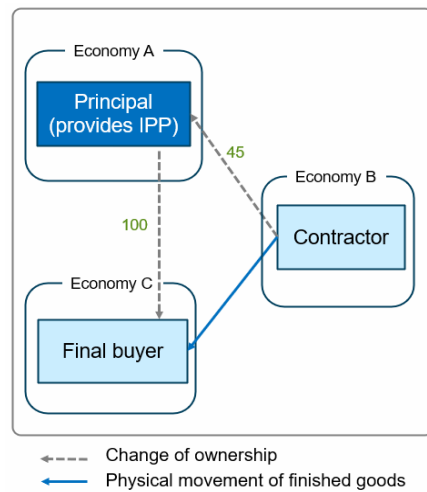
29. The classification of FGPs as manufacturers—rather than distributors or merchants—has important implications for macroeconomic statistics. It supports the gross recording of international goods transactions involving FGPs, ensuring that the economic contributions of principals who control production and own intellectual property are reflected in national accounts and balance of payments data. The updated treatment also emphasizes the need for adjustments to IMTS so as to reflect change-in-ownership principal as well as to ensure appropriate valuation of goods. These adjustments are shown in BPM7 Table 10.2. Overall, this classification requires compilers to reconcile ownership flows with supply and use tables and ensure that national accounts capture the economic reality of FGPs in line with global value chain arrangements.

30. Firstly, there are notable differences in partner economy attribution between the BOP and IMTS. The BOP is based on the change-in-ownership principle whereas IMTS is based on physical movement of the goods (the cross-border principle). Recall the scenario in which a principal in Economy A has the know-how and engages a contractor in Economy B (see Figure 2). The finished goods are physically sent from Economy B to Economy C; however, upon completion of the manufacturing, the ownership of the goods changes from the contractor in Economy B to the principal in Economy A, and subsequently, the principal in Economy A sells the goods to the final buyer in Economy C. According to the BOP’s change-in-ownership principle (indicated by the dashed arrows), Economy B should record an export to Economy A, even though the goods are shipped to Economy C. Likewise, Economy C should record an import from Economy A, even though the goods are shipped from Economy B.

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BPM7/SNA2025, it is sufficient that the principal supplies the IPP, while the contractor manufactures the good according to the specifications of the IPP design held by the principal.

**Figure 2. FGP arrangement as in Figure 1, Case 1**



31. In certain instances, change-in-ownership is not captured at all in IMTS. In the scenario described above, the BOP for Economy A should record an import from Economy B and subsequent exports to Economy C, based on change-in-ownership principle. However, these transactions are not captured in IMTS. Consequently, both imports and exports for Economy A are higher in the BOP than those indicated in IMTS.

32. The potential discrepancies in partner country allocation described in the previous two paragraphs are broadly similar to those observed in merchanting. Accordingly, the guidance on FGP introduced in the *2025 SNA* and *BPM7* does not alter fundamentally the risk of misallocation of country attribution in global production and distribution arrangements when compilations rely primarily on IMTS data.

33. Valuation is another key factor that may cause discrepancies between BOP and IMTS. It can also be a cause of asymmetry between countries' recordings if countries employ varying valuation methods. In the scenario above, in the BOP, the value of goods exported from Economy B to Economy A should include the value of raw materials and the contractor's margin ( $20+25=45$ ). On the other hand, the value of goods exported by Economy A to Economy C should be much higher than the value of the previous imports, as it additionally includes the principal's markup ( $45+55=100$ ), which reflects the value of IPP. In IMTS, the valuation of goods is typically recorded as the value declared. It is plausible that customs officials in Economy C would value the import of goods into Economy C at the wholesale value (100) in IMTS. However, it is less certain whether the value of the goods dispatched from Economy B at its frontier is close to the ex-factory value (45) or wholesale value (100).

34. Valuation can significantly affect the goods balance of the principal's economy. In the scenario above, although the imports and exports are not captured in IMTS for Economy A, the BOP should record the imports and subsequent exports. Importantly, the export values greatly exceed import values, because the export value embeds the value of IPP. Without applying the change-in-ownership principle and the appropriate valuation, Economy A's goods balance may be significantly understated. By extension, it would understate the economy's GDP under the expenditure approach.

35. If FGP goods sold in the domestic market of the contractor are not accounted for in the BOP of the contractor economy (see Figure 1, case 3)—by first recording an export to the country of the Principal, at ex-factory price, and then a subsequent import from the principal, at wholesale price—their current account balance would be overstated.

36. If compilers treat FGP arrangements as merchanting on the part of the factorless goods producer (as would be understood from the *BPM6*), then the gross goods transactions would be understated in the economy of the FGP, but the goods balance would be correct.<sup>5</sup>

**Table 2. Partner Attribution and Valuation—Comparison between BOP and IMTS**  
(Example based on Box 1, Case 2)

| Economy | Flow    | BOP partner | BOP value | IMTS partner | Possible IMTS value |
|---------|---------|-------------|-----------|--------------|---------------------|
| A       | imports | B           | 45        | n/a          | n/a                 |
| A       | exports | C           | 100       | n/a          | n/a                 |
| B       | exports | A           | 45        | C            | 45, 100             |
| C       | imports | A           | 100       | B            | 100, 45             |

n/a not applicable, i.e. there are no IMTS flows

37. Uneven application of FGP among partners can lead to asymmetries in the BOP goods account. If the compilers in one economy allocate the transaction to a partner according to the change-of-ownership approach, while the compilers in the partner economy use IMTS—perhaps because they are unaware of the FGP arrangement—this discrepancy will result in asymmetries in reporting. There are three types of possible asymmetries that may arise if the partners do not fully record according to FGP.

- Differences in partner country attribution (this is shown in table 2);
- Differences in valuation (this is covered in paragraphs 31-34 and in table 2); and
- Gaps that would arise if IMTS is used instead of change-of-ownership, for example, in the case where compilers in Economy A, in Figure 2 do not record imports from Economy B and exports to Economy C since the goods do not cross their border.

38. In all cases, the financial statements of the companies involved should provide information that may be used to identify the partner allocation and valuation required in the BOP. Company accounts and enterprise surveys provide information on sales and purchases. These accounts will show the actual amounts paid for the import or export of goods and would generally be in line with the recommended recording in the *2025 SNA /BPM7*. The partner allocation in the company accounts, where they exist, would similarly be in line with the recording of partner economy in *BPM7*. An International Transactions Reporting System (ITRS)—generally understood to be a system that obtains data from banks at the level of individual transactions—should also provide information in line with the *2025 SNA /BPM7* treatment. It should be noted, however, that company-accounting data should not be assumed to correspond

<sup>5</sup> In 2025, the IMF conducted a pilot survey of practices of measuring global production. Information from 19 countries was gathered of which three stated that the activities of FGP may currently be recorded as merchanting in their BOP.

automatically to national accounts concepts. Adjustments may be required for residence, timing, valuation, transfer pricing, inventories, transport and insurance costs, and other accounting differences.

39. There are also implications for business statistics. FGP measurement should be integrated with structural business statistics, business registers, enterprise group profiling, and survey frameworks so that information on turnover, cost of goods sold, employment, IPP ownership, and outsourced production arrangements is collected consistently across national accounts, BOP, and business statistics. This integration helps identify FGPs and contractors, supports coherent industry classification under ISIC Rev. 5, and reduces inconsistencies across statistical domains.

40. Because FGP and processing arrangements are recorded on the basis of change of ownership rather than physical movement, their recording may differ in many cases from IMTS flows. This has implications beyond the goods and services account of the BOP and the SNA's production account. Entries for imports and exports of goods and services generally have corresponding entries consistent with the double-entry principle, commonly in financial assets or liabilities. Under FGP, the principal's purchase of finished goods from the contractor and subsequent sale to the final buyer involve actual changes in economic ownership. The corresponding financial-account entries should reflect the timing and form of settlement. Immediate settlement may give rise to currency and deposits while deferred or advance settlement may give rise to trade credits and advances, or accounts receivables and payables.

41. Under a processing arrangement, by contrast, the principal retains ownership of the goods through the production process. The cross-border payment is for a manufacturing service, with the associated financial account entry reflecting payment of that service transaction rather than the value of the goods being processed. Correctly distinguishing between the two arrangements, and between those arrangements and flows of goods on a cross-border principle, promotes consistency among the current account, financial account, international investment position as well as the national accounts statistics. This is particularly important where trade credit and other short-term liabilities represent a significant component of a country's liabilities, since incorrect classification may distort the level, composition, and maturity structure of these (external) liabilities.

42. Reliance on IMTS data alone can introduce discrepancies between the goods and services or production accounts, on the one hand, and the financial accounts, on the other. Without appropriate adjustments, the recording of imports and exports may be inconsistent with output, intermediate consumption, inventories, and imports and exports in the production account, the supply and use tables, transactions in the rest-of-the-world account, and with the corresponding financial-account transactions and positions in the financial accounts and balance sheets.

#### BEST PRACTICES FOR REPORTING AND VISIBILITY OF FGP IN THE NATIONAL ACCOUNTS AND BALANCE OF PAYMENTS

43. Considering the challenges in understanding how production that takes place in a different economy can impact the BOP goods account and the value added in the domestic economy, several supplementary items in the balance of payments and approaches to bring visibility in the national accounts are recommended. In the economy of the principal in a global manufacturing arrangement, it is recommended that BOP compilers include a supplementary sub-item to General merchandise, *Goods traded within a global manufacturing arrangement*.

44. In order to make visible trading activities under FGP, supplementary sub-items in the BOP presentation may be recorded in the economy of the principal. A sub-item of general merchandise, “Goods traded within a global manufacturing arrangement” records goods transactions between the principal in global manufacturing arrangements (processing or FGP) and other parties irrespective of whether the goods pass through the economy of the principal. This would include:

- purchases of finished goods by a factoryless goods producer from the contractor;
- sales by the factoryless goods producer of finished goods to nonresidents; and
- material inputs sold to the contractor by the principal in a processing or factoryless goods production arrangement, except when sold via merchanting.

45. When, under FGP, the principal acquires material inputs and sells them via merchanting to the contractor (see paragraph [15]), supplementary sub-items of goods under merchanting can be recorded as follows:

- 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
- 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*”.

This type of information need not be limited to the principal economy. Such additional data would help provide a more complete understanding of FGP arrangements in contractor economies.

46. *BPM7* recommends compilers to produce and publish a reconciliation table of the differences between merchandise trade statistics and goods on a BOP basis. This table provides an opportunity for compilers to highlight adjustments to IMTS that arise from FGP. The adjustment that compilers in the economy of the principal would make are included under,

+ *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.*

If final goods are sold in the economy of the contractor, then the compiler in that economy would make the adjustment,

+ *Goods sold to or purchased from a nonresident principal within a processing or factoryless goods production arrangement, without the goods leaving the reporting economy.*

In addition, compilers may need to adjust the values of goods that are dispatched from the economy of the contractor so that these are valued at the price agreed between the contractor and the principal,

± *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.*

47. The national accounts require appropriate adjustments through the Supply and Use Tables (SUTs). The treatment must be consistent with the industrial classification under *ISIC Rev. 5* and the recording principles outlined in the *2025 SNA*. Unlike conventional manufacturers, FGPs generally do not import or physically handle the goods they sell; instead, they outsource production while retaining IPP control and responsibility for market risk.

48. Recognizing this, the *ISIC Rev. 5* classification ensures that the manufacturing output of FGPs is recorded in SUTs, even though the physical processing occurs abroad. On the supply side, FGPs contribute gross output in manufacturing. On the use side, exports are recorded to reflect the principal's sales abroad, with adjustments made to IMTS data to account for exports of goods that never cross the domestic border. *ISIC Rev. 5* also clarifies that units outsourcing transformation without supplying IPPs or controlling production should instead be classified under wholesale and retail trade (Section G). This distinction is critical for SUT compilation, as it separates FGPs—which are manufacturers under the 2025 SNA guidelines—from pure distributors or merchants, thereby improving the accuracy of industry-level GVA estimates.

49. Given the unique challenges associated with compiling information for FGPs, some economies have utilized extended Supply and Use Tables (eSUTs). The eSUT framework enhances the standard SUTs by linking types of enterprises—such as MNEs, small and medium-sized enterprises (SMEs), or enterprises engaged in contract manufacturing abroad—with macroeconomic aggregates. This allows compilers to explicitly identify the role of FGPs in global production chains, including their reliance on intangible assets, contractual processing arrangements, or export channels. Ultimately, the use of eSUTs ensures that the contributions of FGPs—often obscured in standard trade and national accounts statistics—are more transparently reflected in GVA and exports.

50. Nevertheless, several key adjustments are required. Standard SUTs often rely on customs-based IMTS, which track physical flows of goods at the product detail required for SUTs. However, FGPs typically do not take physical possession of the goods that they sell. To address this, it is recommended that these data be reconciled through bridge tables before constructing the eSUTs. These adjustments are the exact same adjustments made in the BOP and ensure that exports in the eSUT reflect the principal's sales abroad rather than the contractor's shipments. Similarly, imports of goods by FGPs are recorded as intermediate consumption, even though they may not appear in trade statistics without proper adjustments.

51. The residual value added—after deducting intermediate consumption of materials and services—represents the return to IPP, design, and branding for the FGPs. Thus, this is explicitly allocated to the manufacturing sector, not to wholesale and retail distribution (Section G), thereby reflecting the true economic role of FGPs in domestic value added and global value chains.

52. Incorporating new data sources and measurement approaches for company activities necessitates clear communication with users to ensure that revisions to economic statistics are understood. Transparent explanation of these updates—particularly regarding the measurement of FGP and processing arrangements—is essential to prevent confusion, especially as measurement depends on detailed structural information regarding the principal and its contractor(s). Communication of the reasons behind revisions also gives data providers the opportunity to share additional insights, such as the relevance of certain industries to the statistics. For national statistics offices (NSOs) and central banks to collect and validate these data requires significant resources and is often subject to timing constraints, as key source data may only become available with a lag or through iterative engagement with enterprises. The 2025 SNA and BPM7 Joint Chapter on Communication provides recommendations for NSOs and central banks to customize their messaging to suit different audiences, providing technical details for expert users and policymakers while providing clear, accessible explanations for the non-specialist audiences using appropriate dissemination channels. Effective communication fosters trust, supports informed decision-making, and underscores how enhanced measurement improves the accuracy and

coherence of economic data. Utilizing diverse channels such as press releases, webinars, and guides ensures broad and efficient outreach to all stakeholders.

53. Revisions to older data may therefore be expected as improved source data become available, including where globalization-related manufacturing arrangements have been in place for some time. Consistent with the 2025 SNA and BPM7 recommendations on data revisions, users should be informed – through the NSO's/Central Bank's revision policies – that revisions may occur, including the nature of the revisions and their timing. Another important aspect for users is whether the updated data (or methods) will be incorporated incrementally over successive vintages or at a single point in time. This is important as compilers balance the need to publish the most accurate data possible, while also maintaining credibility in their published statistics. Similar to all areas of the national accounts and balance of payments, the revisions policy applied to FGPs or other processing arrangements should be clearly communicated to users and applied consistently. Users should be informed that revisions reflect the progressive incorporation of more complete and higher-quality source data rather than changes in underlying economic developments.

### SECTION 3: COMPILATION GUIDANCE

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54. This section discusses key data sources important for compiling statistics on FGP and other global production arrangements. Recognizing the complexity and evolving nature of these arrangements, no single data source or compilation strategy may be sufficient on its own. Instead, compilers are encouraged to utilize a combination of approaches, including the integration of customs data, special enterprise surveys, international transactions reporting systems, and administrative records and collecting data via large case units (LCUs). In addition, existing sources can also be enhanced to provide more information on global production.

55. In 2025, the IMF surveyed compilers in countries that are likely locations of FGP to understand the current statistical treatment of FGP.<sup>6</sup> The survey found that more than half of those that responded captured international transactions of principals on a change-of-ownership basis although some captured these activities as merchanting. In some countries, this information is found using LCUs. However, no countries that host contractors reported that they can fully account for the FGP transactions (including correcting for partner country attribution as shown in table 2 above).

56. The activities of principals and contractors can be complex. A principal may be engaged in the production of goods under FGP arrangements and/or processing arrangements, and also on their own account (see, for example, the UK country in section 4). Contractors often have multiple clients and may engage in FGP arrangements with some, while engaging in processing arrangements with others. Although gathering all this information can appear daunting, some key principles can guide the process. First, the sales and purchases of goods and services under these arrangements should correspond to the turnover and costs recorded in the financial statements of both the principal and the contractor. Second, the compiler must determine whether the input materials used by the contractor are owned by the contractor or by the principal. Additionally, to differentiate FGP from merchanting activities by the

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<sup>6</sup> See [Interim Report: Task Team on Global Asymmetries](#), BOPCOM, Oct 2025

principal, it is essential to establish whether significant IPP is involved. [Some core questions are provided in the draft questionnaire in the annex.]

## TRANSACTIONS OF CONTRACTORS AND FINAL BUYERS

57. Although discussions of FGP typically focus on the principal's perspective, it is equally important to consider the contractor's and the final buyer's viewpoint. In an FGP arrangement, the contractor sells finished goods to the principal. The payment made by the principal to the contractor should cover the cost of material inputs plus the contractor's production costs, but it should exclude the value of intellectual property.

58. Although the goods are sold from the contractor to the principal, they may not be physically delivered to the principal. Instead, they may be shipped to a third country or sold within the contractor's own economy (see Figure 1, where solid lines represent IMTS flows and dashed lines represent BOP flows). From the perspective of the contractor's and the final buyer's economies, IMTS data may therefore produce misleading partner allocations for sales of finished goods by the contractor. Countries with significant contracting activities need to collect detailed information from these companies. For the economy of the final buyer, the valuation recorded by customs/IMTS may often be broadly appropriate if it reflects the invoice value declared by the importer. However, the partner country attribution in IMTS may still be incorrect for BOP purposes. For BOP compilation, the partner should be the economy of the principal from which economic ownership is acquired, rather than necessarily the country of origin, consignment, or dispatch. Addressing this may require ad hoc alignment to invoice values (consistent with broader moves from FOB towards transaction-value reporting).

59. Information collected from contracting companies should determine whether there is a change of ownership or if the contractor provides manufacturing services on material inputs owned by others (processing). In the case of a change of ownership of goods (FGP or merchanting), the data should also specify the counterpart country of the change of ownership. To avoid asymmetries, adjustments may be needed to the partner allocation that is given in the IMTS to arrive at partner allocation on a BOP basis.

## KEY DATA SOURCES

### ***International Merchandise Trade Statistics***

60. When compiling trade in goods on a BOP basis, compilers typically use the IMTS as a primary source. To reconcile IMTS data with BOP concepts, key adjustments are necessary. These include identifying and adding flows not captured by IMTS, such as ownership changes without physical goods movement, ensuring partner economy attributions reflect the economies involved in ownership changes rather than just consignment or origin countries in IMTS, and making valuation adjustments so that BOP values reflect the combined inputs of materials, contractor work, and IPP.

### ***Statistical Business Registers (SBR)***

61. SBRs provide structured business data but often lack full visibility on complex global manufacturing arrangements. Scoping surveys of enterprises should identify units in the SBR where production is taking place in another resident or nonresident unit, or where contractor activities take place on behalf of another unit.

## ***Large Case Units***

62. LCUs represent an important new approach to engagement with MNEs for statistical purposes and are recognized as one of the main tools for addressing the challenges posed by global manufacturing and mapping MNE structures.

63. The LCU manages a portfolio of economically significant companies to gather data on their domestic and global activities. The LCU's analysis can bridge gaps in current statistical measurements of global operations that affect national macroeconomic data. LCUs complement SBRs by profiling MNE groups, mapping their affiliates to statistical units and analyzing their global activities to ensure data accuracy and coherence. Typically, there is a single designated contact point for managing large and complex reporting units. The primary objective of the LCU is to gather comprehensive and consistent data spanning multiple statistical domains such as production, globalization, ownership, employment, and more. To enhance data quality and cooperation, the LCU maintains regular communication and strong relationships with responding companies.

64. By integrating and consolidating information from various sources—such as IMTS, business registers, enterprise surveys, ITRS, and company accounts—LCUs can aim to ensure that the data on the set of LCU companies is accurate and consistent across economic and business statistics. Since aspects of these statistics are often compiled by different institutions (the NSO and the central bank, for example), there is a strong case for cooperation and controlled data sharing among compilers to achieve consistent and coherent official statistics.

65. Recognizing the importance of reliable and consistent data on multinational enterprises (MNEs), Eurostat has developed the *European Guidelines for Large Cases Units* (2026, forthcoming).

## ***Administrative Data Sources***

66. Data from tax records, patent databases, and other administrative records can reveal where IPP-intensive activities occur, even without physical manufacturing. These sources may help to identify enterprises acting as principals while outsourcing production.

## ***Special Enterprise Surveys***

67. Modified surveys designed to collect direct evidence from enterprises controlling production processes and bearing economic risks can gather information on:

- Ownership/control of input materials;
- Role and value of IPP;
- Licensing arrangements for IPP; and
- Whether enterprises sell goods directly to foreign buyers.

68. This direct insight is crucial for distinguishing FGP from goods for processing and merchanting, and from traditional production models.

### ***International Transactions Reporting System (ITRS)***

69. The ITRS collects detailed data on individual cross-border transactions through banking systems, usually classifying transactions by BOP categories. It tends to better reflect changes in economic ownership than customs data but may suffer from misclassification and incomplete coverage of entities not using domestic banks.

70. Countries that use an ITRS to compile BOP and that have significant global production activities can extend the classification of transactions of the principal or contractor to identify merchandising, processing and FGP.

71. Classification codes should identify goods sold by the contractor under FGP; and goods purchased and sold by a principal under FGP.

### ***Exchange of information***

72. The complexities associated with FGP arrangements can be mitigated through enhanced interaction and information sharing between compilers in the partner economies of principals and contractors. The exchange of both qualitative information (e.g., arrangements, ownership structures, and production processes) and quantitative data (e.g., values of transactions, timing of ownership changes, and payment flows) can support a more consistent recording of goods, services, and financial account entries across economies. At the same time, such data sharing may be challenging in practice due to confidentiality constraints, legal restrictions, or institutional limitations in some economies. In these cases, closer dialogue, the use of indirect estimation methods, and the development of bilateral reconciliation exercises can still help reduce asymmetries and improve overall coherence in the external sector statistics and national accounts.

### **COMBINING DATA SOURCES FOR COMPREHENSIVE MEASUREMENT**

73. Due to the complexity and evolving nature of global production arrangements, no single source sufficiently captures all the relevant information. Instead, compilers are encouraged to integrate multiple data sources to achieve a complete and accurate picture. By triangulating and integrating these complementary sources, statistical agencies can better identify, measure, and classify the increasingly complex global manufacturing arrangements, ultimately improving the accuracy and coherence of trade, production, and macroeconomic statistics. An LCU is also a combined data source approach that uses and matches data from multiple administrative and survey sources to develop an understanding of the activities of a select number of large enterprises. Two further approaches are mentioned here that could also be combined with the use of an LCU.

### **Use of Customs Data Combined with Survey Data or ITRS**

74. Compilers with access to company-level trade data, combined with enterprise survey data or ITRS data, can identify discrepancies between reported purchases and sales to nonresidents, and IMTS imports and exports of goods. Matching IMTS data with company accounts is possibly the most effective way to identify the existence of global manufacturing arrangements.

75. For example, if a company reports purchases and sales of goods to nonresidents but no corresponding imports or exports in the IMTS, this may indicate that the company is a principal in a global production arrangement. Moreover, a large discrepancy between purchases and sales provides additional

evidence that factoryless goods production is taking place. Conversely if a manufacturing company reports IMTS imports and exports but does not record purchases and sales of goods in their accounts, then there is evidence that there is not a change of ownership, and the company may be providing manufacturing services in a goods for processing arrangement.

76. In many countries, the compilation of the BOP is entrusted to the central bank, whereas the responsibility for IMTS and national accounts lies with the NSO. This division of duties can pose significant challenges in ensuring the consistency and completeness of macroeconomic statistics, particularly in the context of complex global production arrangements.

77. In some jurisdictions, overarching legislation or established institutional arrangements enable very close collaboration, including the exchange of confidential statistical information between the central bank and the national statistical office (NSO) for statistical purposes. While the organizational responsibility for incorporating customs-based data into trade statistics usually lies with the NSO, an environment that allows sharing of certain data between the compilers of the respective statistics greatly facilitates the identification and implementation of necessary adjustments.

78. For countries lacking such enabling legislation, integrating data sources and reconciling differences remains possible, albeit typically within the NSO. Here, statisticians (for instance, in the LCU) can link traders identified in merchandise trade data with corresponding company accounts to pinpoint inconsistencies between imports and exports captured in IMTS and the amounts purchased and sold abroad (as reported in enterprise surveys or company accounts). The results of this exercise (perhaps at aggregate level) done by the NSO can still inform BOP data if compiled by the central bank.

79. Ultimately, effective cooperation between all institutions involved in the compilation of macroeconomic statistics—central banks, NSOs, and other relevant authorities—is strongly recommended to address the intricacies and challenges presented by modern global production arrangements.

### **Comprehensive Use of Survey Data**

80. A comprehensive approach to compiling data on FGP involves partial or full utilization of enterprise survey data, replacing traditional sources for trade in goods. Under this system, a survey of all traders, or a survey of all traders above some threshold, is conducted to compile trade in goods on a balance of payments basis. Data for traders who are not in the selection would be sourced from IMTS or the ITRS. This approach may be especially suitable in economies which are heavily engaged in FGP arrangements. Traditional data sources, such as IMTS often fall short in capturing the full scope of FGP activities, particularly when the change of ownership occurs without corresponding physical movement. Enterprise surveys, therefore, play a significant role in bridging these gaps and ensuring that the compilers can identify, classify, and measure FGP arrangements in line with the international standards. An illustrative case of this approach can be found in China's recent experience, as presented in the next section.

81. This approach has potential trade-offs if the survey data is not granular enough to meet other data needs. For example, compilers can accurately capture FGP transactions via this method but may lose some product-level detail that is demanded for other uses of IMTS data, and/or the partner country detail (although partner country could be collected on the survey).

## IMPROVING EXISTING DATA SOURCES FOR COMPREHENSIVE MEASUREMENT

82. Although the IMTS does not currently include detailed information on FGP, compilers are encouraged to explore opportunities to enhance the data collected. Similarly, information from an ITRS could also be improved to provide more comprehensive FGP content.

### **Customs Data and Nature of Transaction (NOT) Codes**

83. While customs information is limited for tracking global manufacturing arrangements, customs declarations can still capture some relevant data, especially for goods processed without a change of ownership. Standard customs procedures, often based on the revised Kyoto Convention, and country-specific practices enable authorities to collect key details and use standardized Nature of Transaction (NOT) codes for statistical purposes.

84. While the customs procedure codes under the *Revised Kyoto Convention* encourage the collection of information on *inward processing* and *outward processing*, compilers cannot be certain whether these procedures include a change in ownership of the processed goods.

85. Specifically designed NOT codes not specified in the convention can be introduced whereby the customs declaration would declare if the movement of goods related to global manufacturing.

86. The approach is explained in Chapter 10, Section A of *IMTS: Concepts and Definitions 2026*. The recommended standardized NOT codes relating to globalization activities are as set out as follows (italics for emphasis):

#### **1. Imports and exports with a change of ownership between residents and non-residents**

##### **1.1. Outright purchases/sales of goods**

1.1.1. Outright purchases/sales of goods, excluding goods to and from contract manufacturing

1.1.2. *Goods sold by or bought from a factoryless goods producer/principal with a view to contract manufacturing (material inputs)*

1.1.3. *Goods sold to or bought by a factoryless goods producer/principal after contract manufacturing (processed goods)*

#### **2. Imports and exports without a change of ownership between residents and non-residents**

2.1. *Goods for processing without a change of ownership (material inputs)*

2.2. *Goods resulting from processing without a change of ownership (processed goods)*

87. Such codes would be collected by the customs authorities at the request of the IMTS/BOP compilers of that country. These codes would support reconciliation and correct valuation from a BOP perspective of goods that cross the border. See *IMTS: Concepts and Definitions 2026* for further details and illustrations.

## Enhanced ITRS Codes

88. Countries that make extensive use of an ITRS, and where significant global production takes place, could explore enhancing this system to collect information on goods that are purchased and sold within global production arrangements. The information may indicate global manufacturing arrangements, but the true nature of the manufacturing may only be observed through further investigation. The suggested ITRS categories below have not been tested and compilers may need to explore how best to collect this information. Relevant classification codes could include:

### **Principal Involved in a Processing Arrangement**

*Material inputs purchased from a nonresident economy used in production outside the state (while remaining under your ownership).*

*Goods sold to nonresidents that have undergone production (while remaining under your ownership) outside the state.*

### **Principal/Contractor Under FGP**

*Goods sold by your enterprise to a nonresident principal enterprise, where the principal enterprise is responsible for the product design and related intellectual inputs used in the production of those goods, and no charge is made for the use of these intangible inputs.*

*Goods purchased by your enterprise from a nonresident contractor, where your enterprise is responsible for the product design and related intellectual inputs used in the production of those goods, and no charge is made for the provision of these intangible inputs.*

*Sales of finished goods produced abroad, where your enterprise is responsible for the product design and related intellectual inputs used in the production of those goods, and no charge is made for the provision of these intangible inputs.*

## SECTION 4: COUNTRY EXPERIENCES

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### UK EXPERIENCE

#### **Context**

89. The UK set up its Large Case Unit early in 2019 to provide fresh insights on the effects of globalization and multi-national enterprises. A complementary team working across national accounts and balance of payments was set up in 2021 to provide support on methodology and implementation. The combination of skills across the business register, surveys, and national accounting methods are essential for coherent measurement.

90. The UK is taking a staged approach through industries, addressing the challenges of MNEs and globalization in each industry. This has begun with a small number of MNEs based primarily in the pharmaceuticals industry and is now moving on to aerospace, and oil and gas. Each global production arrangement presents unique challenges. The UK has observed numerous FGPs and processing arrangements.

#### **Case Study: Mixed Manufacturing Model**

91. A large UK based MNE was flagged to us, and following early research of company accounts and other publicly available information it became clear that alongside their in-house manufacturing they operated global production arrangements.

- In-house manufacturing in the UK (82% of output in 2019)
- Manufacturing via an overseas affiliate in Country B (8%)
- Manufacturing via an independent contractor in Country C (10%)

92. Additionally, their output from survey returns was not coherent with their domestic sales and exports recorded in customs data and our trade in services survey. We sought clarification with them about the nature of the relationships with the subsidiary in Country B and the independent contractor in Country C. They made it clear that the subsidiary was acting as a processor in which the UK company provided material inputs, intellectual property, and maintained ownership of the goods throughout the production process in exchange for a manufacturing service fee. However, the relationship with the independent contractor was less clear. Detailed conversations revealed that the UK MNE provided the designs and technical specifications but the payment to the contractor comprised of many parts including an element to cover the costs of raw materials. Additionally, raw materials could only be purchased from listed sellers. Although this suggested that economic ownership of raw materials may lie with the principal, talking to them it was clear that the payment to the contractor was to take economic ownership of the finished goods, and it was factoryless goods production.

93. Delineating the flows from each production arrangement was challenging and required significant assistance from the MNE as they reported survey data through a single enterprise engaged in a range of production arrangements. The goal was coherency, and this was achieved by working closely with them to ensure survey responses were an accurate representation of their activities and gaining supplementary information to understand their trade in goods flows according to economic ownership principles. Continuing to track their activities over time will be essential as their model adapts and changes. In 2023 68% was in-house manufacturing, 29% was processing, and 3% was factoryless goods production, but in 2025, they discontinued their relationship with the independent contractor and only manufacture in-house and via their overseas affiliate.

94. This case highlights the need for close collaboration with MNEs and robust data integration to ensure accurate measurement of global production arrangements. The lessons learned from this informed our approach as we research further MNEs.

## EXPERIENCE OF CHINA

95. China's BOP goods trade surpluses in recent years show a widened divergence from those recorded by Customs—with the gap over one percent of GDP in 2024. Since 2019, the Customs-based trade surpluses have been persistently above the BOP-based surpluses, with the gap widening significantly in the last few years.

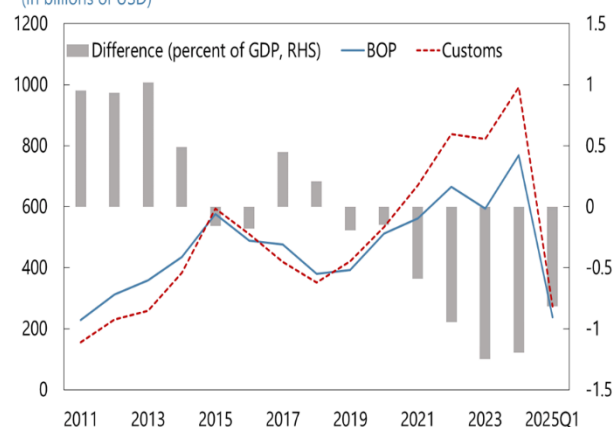
Exports and imports arising from factoryless manufacturing seem to have been reducing China's overall goods trade surplus in BOP. When a Chinese contractor sells produced goods to the nonresident enterprise that outsourced the production, exports of goods are recorded in BOP even if the goods remain in China (e.g., in warehouses). If the nonresident enterprise subsequently sells the goods in China, imports of goods are recorded in BOP. Given that the Chinese contractors' ex-factory price for the nonresident enterprise (China's exports) is normally lower than the nonresident enterprises' wholesale price for Chinese distributors (China's imports), these transactions result in a deficit in the goods trade

balance in BOP. Customs does not record exports or imports for these transactions because the goods never cross the border. So, these transactions do not reduce the trade surplus recorded by Customs while they do in BOP.

96. In order to comprehensively capture exports and imports of goods that do not physically cross the border, the Chinese BOP compilers switched the data sources from Customs data to direct reporting of financial information by large enterprises in 2022. More than 13,000 large enterprises directly report goods trade data, which account for about 70 percent of the total goods trade. The compilers use cross-border receipts and payments on goods trade obtained from the International Transactions Reporting System for the rest of the enterprises. The new data sources help Chinese BOP compilers produce BOP trade data in line with the change-of-ownership principle rather than physical movements of goods, as well as based on actual transaction prices rather than declared prices at Customs.

### Goods Trade Balance, Customs vs. BOP

(In billions of USD)



Sources: China General Administration Customs; SAFE; Haver Analytics; and IMF staff calculations.

| Illustrative Example of Recording Factoryless Goods Production in BOP and Customs |        |        |         |
|-----------------------------------------------------------------------------------|--------|--------|---------|
| Ex-Factory Price = 60<br>Wholesale Price = 100                                    | Export | Import | Balance |
| BOP                                                                               | 60     | 100    | -40     |
| Customs                                                                           | 0      | 0      | 0       |

## SINGAPORE'S APPROACH TO IDENTIFYING FACTORYLESS GOODS PRODUCERS

97. To identify FGPs, Singapore collects information from firms via targeted surveys and consultations as well as desktop research. It covers firms which outsourced manufacturing to both domestic and international contractors, given Singapore's position as an international and regional hub. The FGP criteria used is aligned with the principles set out under ISIC Rev. 5:

- (i) Predominantly engage in outsourcing production processes, with these outsourced arrangements contributing the most to the entity's value-added (i.e. principal activity) amongst all other business activities;
- (ii) Control the production process and supplies intellectual property products (IPP) without charging for the right to use; and
- (iii) Outsource most or all material transformation processes.

### Methodological Challenges and Solutions

98. On identification of FGPs, the primary challenge is in establishing which activity contributes most to the entity's value-added, specifically whether outsourced manufacturing generates higher value-added

than other business activities. Consultation with large firms reveals that they are often unable to disaggregate revenue between outsourced manufacturing and service activities, viewing outsourced manufacturing as a cost rather than revenue. This is particularly when firms operate multiple product lines with varying degrees of IPP supply and outsourcing arrangements. Current financial reporting standards do not require disclosure of revenue allocation from outsourced production. Another challenge pertains to the definition of the control over the production process, where the key difficulty is determining what constitutes sufficient control over the production process. The boundary between controlling the production process and merely coordinating outsourced manufacturing activities can be ambiguous, particularly for firms with complex global supply chains where control may be distributed across multiple entities and jurisdictions.

99. To address the challenges, questions are included in surveys to ask firms if they outsource most production while retaining control through technical specifications, quality oversight, and supply of intellectual property, and whether outsourced goods contribute the most to their sales. If firms are unable to provide the information, desktop research may be conducted, focusing on wholesale firms that engage in outsourced production that primarily sell own-brand products, while providing IPP and exercising control over the manufacturing process. Firms may also be contacted directly to ascertain information on their activities when necessary. This is to facilitate the right classification of these firms as manufacturing, given the higher value added from outsourced manufacturing compared to typical low wholesale margins. This approach allows reasonable inference to be made about which activity contributes most to value-added and whether the firm exercises control over the production process.

100. On the valuation and reconciliation of trade information, Singapore will be enhancing the data collection mechanisms to capture relevant cross-border transactions pertaining to the Balance of Payments (BOP) from firms with FGP activities with the adoption of the BPM7 recommendations in 2029-2030, including for FGPs.

#### COMPILATION OF FGP FOREIGN TRANSACTIONS IN DENMARK

101. Globalization has allowed enterprises to outsource various stages of manufacturing across international units, using a variety of business setups, including factoryless goods production (FGP). When compiling statistics on FGP activities, it is essential to identify enterprises that act as principals within global production arrangements. In Denmark, this identification process is driven by two combined methods: the data-driven method and the work done by the large cases unit (LCU).

102. Potential principals engaged in FGP setups can be identified and analyzed using the following information (data-driven method):

- a) Using BOP merchanting transactions with large margins. Large turnover reported as goods sold under merchanting by Danish manufacturing enterprises may indicate FGP activity, particularly where margins are high.
- b) Using data on purchase of processing services and intermediate inputs for processing abroad and goods sold after processing abroad (transactions from BOP).
- c) Turnover of goods sold under sub-contracted operations (data reported to Prodcom statistics).
- d) Large turnover of goods that are not produced by a reporting enterprise registered in the manufacturing industry (data reported to Prodcom and structural business statistics (SBS)).

103. Connected to the data method, the work of the LCU in Statistics Denmark is crucial for the identification of FGP. By manually scrutinizing annual reports and through dialogue with large multinational enterprises, the LCU identifies the large enterprises engaged in FGP.

104. These two methods were applied by a working group comprising experts from the LCU, BOP, Prodcum, SBS, and Statistical Business Register (SBR) to identify FGPs. The identified FGPs are now flagged in the SBR and classified as manufacturers in accordance with NACE Rev. 2.1, as implemented by Statistics Denmark in 2025. Overall, an enterprise can be engaged in FGP arrangements as either principal or contractor. In most of the identified FGP arrangements involving Danish resident-enterprises, the Danish enterprise act as the principal. Moreover, most of the FGP arrangements are intra-group as the principals often use contractors as well as wholesalers within the same enterprise group, thus controlling the majority (or most valuable part) of the global production chain. The goods are generally produced outside Denmark and sold in a third economy.

105. For the compilation of FGP-related transactions of the principals, both sales and purchases are collected directly from principal enterprises, using additional codes included in the Danish international trade in services survey (ITSS). Following BPM6, the transactions in this scenario are recorded as merchanting, where it is collected as sales and purchases (positive and negative exports) in the country of the merchanting sale. Since 2022, Statistics Denmark has been collecting the country of purchase for merchanting goods as a supplement to the regular merchanting items. This makes it possible to record the actual country of import, when transitioning to BPM7 and implementing the recording of FGP transactions.

106. A small number of global production arrangements involving Danish-resident contractors producing for non-Danish-resident principals have been identified. However, only one of these fall inside the FGP definition (with the others being “processing” set-ups). This single FGP-related contractor in Denmark involves a large Danish-controlled enterprise group, which relocated some of its IPPs to an affiliate abroad but maintained production of the related products in Denmark. The sale of the final goods related to the IPP are recorded as domestic sale at ex-factory price to a non-resident VAT registration, that subsequently reports the full value of the goods (including the IPP value) to the custom authorities (and the IMTS), when the goods are exported. BOP adjusts the exports accordingly by use of VAT data.

#### HOW THE LARGE CASES UNIT WORKS IN IRELAND

107. The Large Cases Unit (LCU) in the Central Statistics Office (CSO) is a standalone Division. Its key functions are:

- To act as a dedicated centralized point of contact for the largest foreign-owned multinational enterprises (MNEs) in Ireland.
- To provide a coordinated data collection and processing function for economic data from these MNEs for delivery to Balance of Payments, Short Term and Structural Business Statistics, and ultimately for use in the National Accounts.
- To manage communications around all CSO survey requirements.

108. Relationship management is key to all of the LCU functions, and each MNE is assigned an account manager, a primary and secondary statistician and an accountant. The LCU resources are recognition of the impact of the data on key macroeconomic aggregates.

109. The LCU monthly, quarterly, and annual survey forms collect business statistics for Short-Term and Structural Business Statistics and economic statistics for Balance of Payments. The LCU collects, processes, validates and ensures consistency to ensure the highest quality of this critical data to the BOP, Business Statistics and National Accounts domains in the CSO.

110. A key to the success of the LCU is the relationship with the MNE. Company meetings are an integral part of this to ensure that the LCU fully understands the enterprises' business models and operations. The LCU gains insight into enterprises' manufacturing processes, to help identify changes in economic ownership and value-added activities. Two globalization phenomena—merchanting and contract manufacturing—are common to many of the LCU MNEs. The LCU highlights the importance of correctly providing globalization data, and how it should be completed in the survey forms.

111. Consistency is one of the key functions of the LCU utilizing internal and external data sources. Consistency work on the monthly data monitors how data is reported vis-à-vis the LCU understanding of the company's operation. These checks include:

- levels of production abroad and merchanting;
- seasonal sales or production patterns; and
- Irish production value compared with trade export values.

112. More extensive consistency checks are done on the quarterly data based on the full P&L and balance sheet data, including,

- monthly / quarterly turnover versus trade export data;
- materials costs versus trade import data;
- stock changes versus production values, where valuation methodologies for each are similar;
- quarterly wages versus survey earnings data;
- balance sheet transactions versus treasury company data; and
- consistency in geography for processing fees where inventories are being held abroad.

113. Various administrative data sources are used in the quarterly consistency work, specifically:

- International trade data from the Customs arm of the Tax Authorities;
- Corporate taxation data from the Tax Authorities;
- Dividend Withholding Tax data from the Tax Authorities; and
- Statutory accounts from the Companies Registration Office (CRO).

114. Final consistency is checked utilizing the enterprises audited accounts (received around T+18 months).

**Table 4A LCU Sources Compared for Quarterly Consistency**

| <b>Data source 1</b>                       | <b>Data source 2</b>                      |
|--------------------------------------------|-------------------------------------------|
| <b>Monthly &amp; quarterly turnover</b>    | Monthly trade exports                     |
| <b>Quarterly Cost of Goods</b>             | Monthly trade imports                     |
| <b>Quarterly GVA</b>                       | Annual GVA                                |
| <b>BOP profits</b>                         | Revenue (tax authority) profits           |
| <b>EHECS/PMOD labour market statistics</b> | Quarterly payroll                         |
| <b>Balance sheet transactions</b>          | Treasury companies                        |
| <b>Foreign inventories</b>                 | Processing fees to foreign counterparties |

115. In terms of the change of economic ownership principle, the consistency work involves making both positive and negative adjustments to imports and exports for multiple companies based on contract manufacturing activities both in Ireland and abroad, and for goods exported in prior periods.

116. The quarterly data is also reviewed in terms of the derived value added in Ireland. This is done in light of the LCU understanding of the MNEs activities, referred to internally as the “BOP Gap” and the “Trade Gap”.

### **Questions for Global Consultation**

1. *Do you agree that all the features of factoryless goods production have been outlined in the Note?*
2. *Do paragraphs 16–28 accurately characterize the role of Intellectual Property Products (IPP) in factoryless goods production?*
3. *Do you agree with the approaches recommended for compilers as outlined in Section 3 (from paragraph 54 onwards)?*
4. *Do you have any further comments or country experiences you would be willing to share to enrich the note?*

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### Summary of source data requirements

The following table provides an overview of the updated recommendations on processing arrangements and FGP introduced in the BPM and SNA frameworks. They specify the types of data required for effective implementation, outline possible data collection methods, and present illustrative sample questions that can serve as a foundation for revising current collection instruments. It is important to emphasize that these sample questions are intended only as examples. When updating or designing new data collection tools, program managers should conduct a thorough questionnaire development process, carefully considering local circumstances, respondent burden, and the specific institutional environment. This approach ensures that data collection instruments are both relevant and effective, supporting the broader goal of aligning statistical outputs with international standards.

### Model questions:

*Source data requirements globalization, factoryless production, goods for processing*

| Section             | Content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Main Recommendation | <p><i>SNA 2025</i> and <i>BPM7</i> clarify how to record global manufacturing arrangements in which goods are processed, assembled, or manufactured in one economy but controlled by an enterprise in another. Ownership of inputs—not the physical location of production—determines whether output is recorded as manufacturing or as a manufacturing service. The updated guidance distinguishes between:</p> <ol style="list-style-type: none"> <li>1. Traditional manufacturers who own material inputs and produce goods,</li> <li>2. Enterprises who outsource the manufacture of goods but retain the ownership of the material inputs during the production process (goods for processing arrangements); and</li> <li>3. Factoryless goods producers (FGPs) who supply the product design/intellectual property and controls production but contract out all fabrication;</li> </ol> <p>Cross-border arrangements must be consistently reflected in both national accounts (production, trade, and income) and the balance of payments (goods vs services).</p> |
| Type of Data Needed | <ul style="list-style-type: none"> <li>✓ Identification of whether the enterprise outsources production but supplies the material inputs and/or the intellectual property input to the manufacturing process;</li> <li>✓ Identification of whether the enterprise owns the inputs it processes or produces for others.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

|                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                         | <ul style="list-style-type: none"> <li>✓ Value of materials supplied by clients vs materials purchased on own account.</li> <li>✓ Fees earned for processing or assembly services performed for others.</li> <li>✓ Goods sent abroad or received for processing without change of ownership (physical flows and partner countries).</li> <li>✓ Design, R&amp;D, and IP ownership related to outsourced production.</li> <li>✓ Contract terms—who bears inventory, quality control, and marketing risk.</li> <li>✓ Exports/imports of processed goods and corresponding service fees.</li> <li>✓ Employment, plant location, and physical production data for processors vs factoryless producers.</li> <li>✓ Intra-group relationships (affiliate vs independent contractor) to support <i>BPM7</i>'s functional classifications.</li> </ul> |
| Potential Collection Instruments                        | <p>Business register scoping survey to identify:</p> <ul style="list-style-type: none"> <li>(a) Companies that outsource production to nonresidents</li> <li>(b) Companies that manufacture on behalf of nonresidents</li> </ul> <p>Manufacturing or Industrial Production Surveys with added ownership and processing-fee modules.</p> <p>Trade in Services and Goods for Processing Surveys capturing cross-border processing arrangements (also called “toll manufacturing”).</p> <p>Customs records with ownership flags or processing codes (inward/outward processing).</p> <p>FDI and MNE surveys collecting information on contract manufacturing abroad. Administrative data from export-processing zones and customs warehouses.</p>                                                                                               |
| Sample Survey Questions:<br>Production Arrangement Type | <p>Does your enterprise own the materials used in production? (Y/N)</p> <p>Does your enterprise perform manufacturing or assembly on goods owned by another entity? (Y/N)</p> <p>Does your enterprise outsource all manufacturing to other firms while retaining design/intellectual property rights or ownership? (Y/N)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

|                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                  | <p>Indicate your main production model: <input type="checkbox"/> Traditional manufacturer <input type="checkbox"/> Processor (for others) <input type="checkbox"/> Principal who outsources processing while retaining ownership of materials <input type="checkbox"/> Factoryless producer</p>                                                                                                                                       |
| <p>International Trade in Services survey (ITS)</p>              | <p>ITS questionnaire: Include the following category of expenditures and revenues with nonresidents</p> <ol style="list-style-type: none"> <li>1. Manufacturing services on physical inputs owned by others (<i>all work done on goods by a resident of one economy for the owner of goods (principal) who is resident in another economy</i>)</li> </ol> <p>Please also supply the gross values of goods received and goods sent</p> |
|                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <p>Sample Survey Questions: Ownership and Risk</p>               | <p>Who owns the inputs during production? <input type="checkbox"/> Client (foreign/domestic) <input type="checkbox"/> Reporting enterprise.</p> <p>Who determines product specifications, quality, and branding? Who bears risk for defective production or unsold inventory?</p>                                                                                                                                                     |
| <p>Sample Survey Questions: Cross-Border Dimensions</p>          | <p>Did your enterprise engage contract manufacturers abroad during the year? (Y/N) If yes, identify partner countries and value of output produced abroad.</p> <p>Did your enterprise provide processing services to foreign clients? (Y/N) Report associated service-fee revenue and counterpart country.</p>                                                                                                                        |
| <p>SBS survey P&amp;L details to identify FGP and processing</p> | <p>Turnover</p> <ol style="list-style-type: none"> <li>1. Goods sold <ol style="list-style-type: none"> <li>1.1 Goods sold to nonresidents <ol style="list-style-type: none"> <li>1.1.1 <i>Of which</i> <ol style="list-style-type: none"> <li>a) Goods produced by your enterprise within the reporting jurisdiction</li> </ol> </li> </ol> </li> </ol> </li> </ol>                                                                  |

|                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                  | <p>b) Goods produced by your enterprise in another jurisdiction and shipped to the buyer from that other jurisdiction</p> <p>b.1) After contract manufacturing</p> <p>b.2) (under FGP) i.e., where the goods have been produced abroad under your enterprise design specification and are now sold to final buyers.</p> <p>2. Cost of goods sold</p> <p>2.1 Goods purchased from nonresidents</p> <p>2.1.1 <i>Of which:</i></p> <p>a) Goods physically entering the reporting jurisdiction</p> <p>b) Goods <b>not</b> entering the reporting jurisdiction</p> <p>b1. Goods purchased by your enterprise from nonresidents to be used in contract manufacturing abroad</p> <p>b.2 (goods under FGP) purchased by your enterprise after production abroad where your enterprise provided the manufacturing design specifications, and where this input of intellectual property is significant</p> |
| Sample Survey Questions: R&D and IP Ownership    | <p>Does your enterprise hold the design, trademark, or patent for the products manufactured by contractors? (Y/N)</p> <p>If not, identify the entity that owns the design or IP (domestic affiliate, foreign affiliate, client).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Sample Survey Questions: Employment and Location | <p>Number of employees engaged in manufacturing/processing activities.</p> <p>Number of employees engaged in design, R&amp;D, and coordination of outsourced production. Countries where main contractors or affiliates are located.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

