

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS
BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

ISSUES PAPER (BOPTTEG) # 16

MERCHANTING

Prepared by the Bank of Japan

May 2004

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP

ISSUES PAPER (BOPTTEG) # 16

MERCHANTING

I. Current international standards for the statistical treatment of merchanting

- A. The IMF Balance of Payments Manual Fifth Edition (hereafter, BPM5) defines merchanting as follows. “Merchanting is defined as the purchase of a good by a resident (of the compiling economy) from a nonresident and the subsequent resale of the good to another nonresident; during the process, the good does not enter or leave the compiling economy.” Hence, it is recommended that the difference between the value of goods when acquired and the value when sold be recorded under ‘Other Service,’ a sub-component of ‘Services.’ (See BPM5, paragraphs 207 and 262).¹
- B. It should be noted that merchanting services that straddle different accounting periods due to time lags in the acquisition and resale of the goods are treated as follows under BPM5: “The goods should be recorded in the balance of payments of the temporary owner’s economy as imports in the period in which the goods are acquired and deducted from imports in the period in which the goods are relinquished” (See BPM5, paragraph 213 or 262). Thus, it is recommended that the pertinent goods be treated as merchandise.

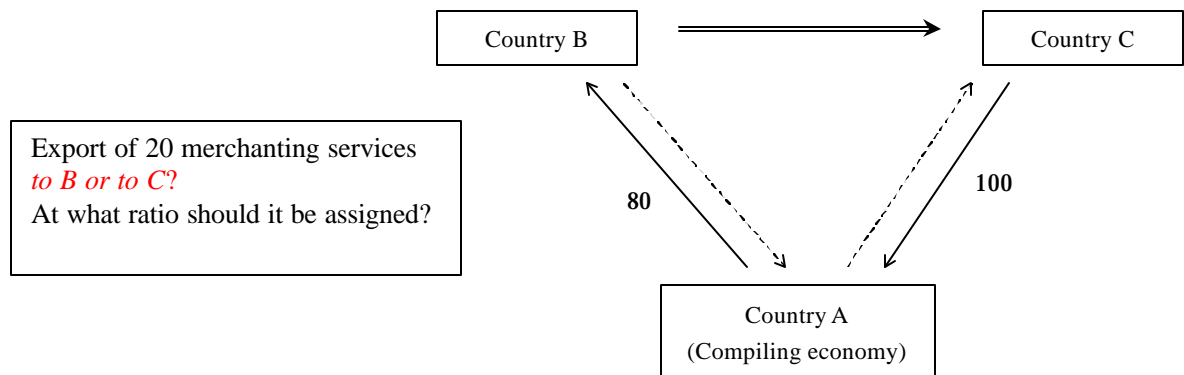
II. Concerns and shortcomings regarding the current treatment

The shortcomings of the current treatment are as follows: (1) is practical, (2) to (4) are methodological.

- (1) It is difficult to separate merchanting transactions that straddle different recording periods.
- *Because of the difficulty in identifying relevant goods whose acquisition and resale are recorded in different recording periods, not all countries have adopted the BPM5 approach, described in I (B).*
 - *Those countries that have not adopted the approach include major countries such as France, Germany, Italy and Japan.*

¹ Note that merchanting was treated under BPM4 as a sub-component of “Other goods, services, and income” and was accounted for on a net basis.

- (2) Difficulty in regional breakdowns of merchanting services will generate discrepancies in bilateral statistics.
- *Take the case in which a resident of country A acquires goods from a resident of country B and subsequently resells them to a resident of country C. In this case, it is difficult to determine at what ratio the services provided by the resident of country A should be assigned to countries B and C.*



- (3) It requires exceptions to the change of ownership principle of recording goods.
- *The principles concerning change of ownership constitute one of the fundamental principles of BPM5 regarding the treatment of goods. BPM5 states: “Goods not crossing frontiers should be included in exports and imports if changes of ownership occur.” (BPM5, paragraph 208)*
 - *Regarding merchanting, BPM5 accepts an exceptional treatment as follows: “This Manual recommends that the country of the temporary owner exclude such goods from the goods item....” (BPM, paragraph 207). However, the demarcation between “temporary” transactions and other transactions is not clear.*
 - *If the line of demarcation is unclear, given that it is clear that ownership of the pertinent goods has been transferred to a resident, the rationale for changing the treatment to that of the normal import and re-export of goods is somewhat weak.*
- (4) Losses incurred at resale will generate negative service output, which may conflict with the concept of service as output
- *In merchanting transactions, it is not unusual for losses to be incurred at resale. Therefore, the problem of negative output cannot be eliminated.*

III. Possible alternative treatments

The current situation should be reviewed, with serious consideration given to the treatment of merchanting, not as a service, but as a component in the trade of goods. In this case, the balance of payments statistics should account imports (acquisitions) and exports (resale) on a gross basis, rather than only recording the difference between acquisition and resale values. The disadvantages noted above could be avoided under gross basis accounting. Moreover, such treatment would be in line with the treatment of goods sent abroad for processing and subsequently sold to a resident of the processing economy or another economy (See BPM5, paragraph 199).

Note: Among goods subject to merchanting, non-monetary gold should be accorded different treatment for reasons which are outlined separately in another issue paper.

IV. Questions/Points for Discussion

- 1. Do BOPTEG members consider it appropriate to continue the current treatment of merchanting as described in (A) and (B) above, in spite of the difficulties most countries have in following (B)?*
- 2. If the answer to question 1 is Yes, do BOPTEG members have any ideas for suitable regional breakdowns of merchanting services?*
- 3. Do BOPTEG members have any views on links between merchanting and on-site processing involving export not followed by import (and vice versa), the latter is treated as goods under BPM5 (paragraph 199)?*

References

International Monetary Fund (1993) "Balance of Payments Manual, Fifth Edition"
International Monetary Fund (1977) "Balance of Payments Manual, Fourth Edition"
United Nations, European Commission, International Monetary Fund, Organization for Economic Co-operation and Development, United Nations Conference on Trade and Development, World Trade Organization (2002) "Manual on Statistics of International Trade in Services"
Organization for Economic Co-operation and Development, Eurostat (2003) "OECD Statistics on International Trade in Services 1992-2001"