

GOODS FOR PROCESSING IN THE 2008 SNA

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Overview

- The 1993 SNA
 - Rationale
 - Problems
- The 2008 SNA
 - Rationale
 - Criticisms
 - Implementation
 - Summary



The 1993 SNA - rationale

- Largely assumed a change in ownership when goods for further processing crossed borders, with a further imputation back to company paying for the services
- Reflecting:
 - (a) a desire to try and reflect physical production technologies
 - (b) pragmatism – Customs, merchandise trade statistics, supposed, in principle, to attribute an arms length valuation



1993 SNA – problems (i)

- Customs valuations may not always be reliable: meaning no guarantee that the difference between goods on entry and exit = processing fee.
 - Especially when one considers intellectual property additions such as R&D, trademarks etc.



1993 SNA – problems (ii)

- Production accounts – business surveys will not typically record the flows of processed goods out and in (after processing) to a company.
 - Adjustments needed based on observation of a processing fee especially difficult when products change classification.



1993 SNA – problems (iii)

- Accumulation accounts – if the processing spans more than one accounting period, changes in the capital accounts/balance sheets needed.
- But this implies that any holding gains/losses accrue to the processor and not the actual owner – who bears the risks and rewards.



1993 SNA – problems (iv)

- Not all flows of processing services treated in the same way.
 - No imputations for a change in ownership were made when the processor was non-affiliated and resident.
 - Practical differences with BPM5 (SNA: a change of ownership, when the processing was substantial; BPM: always)



1993 SNA – better estimates of physical production technologies?

- Estimation problems aside.
- IO tables reflect in practice aggregations of establishments with heterogeneous production technologies.
- Moreover, for a processing firm, IO coefficients would change if the processing was conducted for a non-affiliated resident but not if conducted for a non-resident.



2008 SNA

- Clearly asymmetries in 1993 SNA required resolving.
 - Change in ownership imputed for **all** or **none**.
- **Why the latter?**



2008 SNA - rationale

- **Practical** –
 - clear that in practice the difference between value of the goods before and after processing was unlikely to = the processing fee.
 - Imputations for trade statistics have a domino affect throughout the accounts – requiring consistent imputations elsewhere.
- **Besides:** the alternative was to include imputations for domestic-domestic transactions!



2008 SNA - rationale

- General move away from philosophy that the accounts should reflect the technologies used in the production process but rather the organisation, including a more accurate description of who incurs the risks and gains the rewards.



2008 SNA - Criticisms

- IO coefficients and Validation.
 - Stability in coefficients assists in balancing process. But, true as this may be, such stability may not reflect the economic reality. Even with imputations the coefficients should change – *unless that is additional imputations for payments for Intellectual Property were also included.*



2008 SNA - Criticisms

- Interpreting IO tables - *Forward and backward linkages are broken.*
 - Generally this is an overstretched criticism. Analyses of Forward/Backward linkages typically concern impacts on other domestic industries – value-added, employment etc – and the 2008 SNA and 1993 SNA capture these flows equally well.
 - Analyses that want to look at impacts elsewhere require international IO tables, and these capture the relationship (flows) between customer and supplier.
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2008 SNA - Criticisms

- Interpreting IO tables - *Forward and backward linkages are broken*
 - And arguably they should be. A conventional industry that decides to increase output will require an increase in inputs, including any imports. But for a processing industry the relationship with the companies for which they perform services differs to the relationships they have with companies from whom they purchase goods and services. The 1993 SNA implicitly assumed no difference



2008 SNA - Criticisms

- International Trade
 - Significant difference to recorded trade in goods and services.
 - But arguably the 2008 SNA corrects for 1993 SNA overestimates and more accurately reflects the nature of the products provided.



2008 SNA - Criticisms

- More on changes in IO coefficients.
 - Problems with embodied flows – VA, employment, etc
 - With the 2008 SNA a processor will have a higher VA to output ratio for goods that it processes than goods it produces on its own account. But an IO table will typically aggregate these functions implying that one unit of processing output generates as much value-added as one unit of output for a good produced on its own account. If the company exports only (and all) its processing services, embodied analysis will underestimate the importance of exports to domestic value-added.

2008 SNA – Implementation

- Difficulties and challenges
 - Estimates of ‘customs’ trade will need to be adjusted to remove imputations for changes in ownership. But Important to reiterate that the data already exist. The 1993 SNA merely carries the imputations through the rest of the accounts.
- But improvements can still be made.
 - Tagging goods for processing as they cross borders for example.
 - And improvements to classification systems.
 - And for IO 2008 SNA recognises benefits of dual recording.



2008 SNA – Summary

- Easier to implement than 1993 SNA.
- Contains no asymmetries
- Better reflects risks and rewards
- ‘Better’ estimates of role and importance of international trade