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NEWSLETTER

Modern Trade:

Why tracking global trade today is less about where the box goes, and more about who owns the box?

The Golden Rule of BPM6:
If the 'Crown' (economic ownership) doesn't change hands, a physical border crossing is NOT recorded as a general merchandise trade.

Definition of Goods for Processing (GFP)

In the context of the Balance of Payments and International Investment Position Manual sixth edition (BPM6), GFP refers to goods that are sent abroad for processing, or received from abroad for processing, without a change of ownership occurring between the resident and the non-resident.

Key Characteristics according to BPM6

No Change of Ownership

The most critical aspect is that the owner of the goods (the principal) does not sell the goods to the processor. The principal retains ownership throughout the entire process.

Recording as a Service

Since there is no sale of goods has occurred, the transaction is not recorded under the Goods account in the Balance of Payments. Instead, the fees paid for the processing is recorded under Manufacturing services on physical inputs owned by others in Services account.

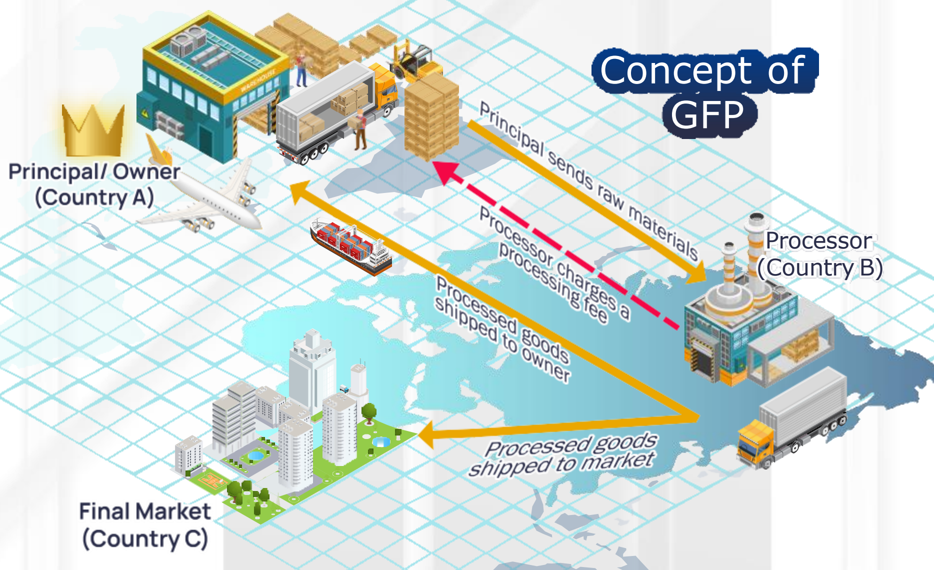
The GFP Treatment

Physical Movement: While the goods physically cross customs borders, they are excluded from general merchandise trade statistics in the Balance of Payments because there is no change in ownership. Only the processing fees is recorded as a services export (by the processor) or services import (by the owner).

Why is this matters?

This distinction is vital for modern supply chains. For example, if a company in Country A sends raw materials to Country B to be assembled into processed goods, and then Country B sends it back to Country A or to final market (Country C).

- Customs Data: Will show an export of raw materials and an import of finished goods
- Balance of Payments (BOP): Will only show an import of a manufacturing services by Country A, as Country A owned the raw materials and the processed goods the entire time.



Note: This treatment aligns the Balance of Payments with the System of National Accounts (SNA 2008), ensuring that global economic data reflects who actually owns and controls the assets rather than just where the items are physically located

Definition of Goods for Storage (GFS)

In the context of BPM6, GFS refers to physical goods that cross the customs frontier of an economy solely for the purpose of being kept in a facility or warehouse, without any change of economic ownership taking place between resident and non-resident.

Key Accounting Principles under BPM6

Excluded from Trade in Goods (General Merchandises)

The core framework of BPM6 is strictly based on the change of economic ownership. Goods sent abroad for storage are excluded from the gross exports and imports of general merchandise in the Balance of Payments.

Treatment of the Storage Fees

The fees paid by the owner of the goods to the foreign warehousing and storage facility is recorded in the Balance of Payments as a Services import under Transport services.

The fees received by the warehousing and storage facility from the owner of the goods is recorded as a Services export under the Transport services.

What Happens Upon Sale or Return?

If the goods are returned: When the goods leave the warehousing and storage facility and are shipped back to the original owner's country, no goods transaction is recorded because ownership never changed hands.

If the goods are sold while in storage: When the owner eventually sells the stored goods to a resident of the country where the warehousing and storage facility is located or to a buyer in a third country, a change of economic ownership occurs at that exact moment.

The transaction recorded as an export of general merchandise by the original owner and an import by the new buyer.

Concept of GFS

> "Economic ownership reflects the underlying reality... taking account of where the risks and rewards of ownership lie."
> - BPM6 manual, IMF.