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The compilation of goods for processing and merchanting under BPM6 in Korea¹

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¹ This presentation was prepared for the meeting. The views expressed are those of the author and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.

The Compilation of Goods for Processing and Merchanting under BPM6 in Korea

July 2015

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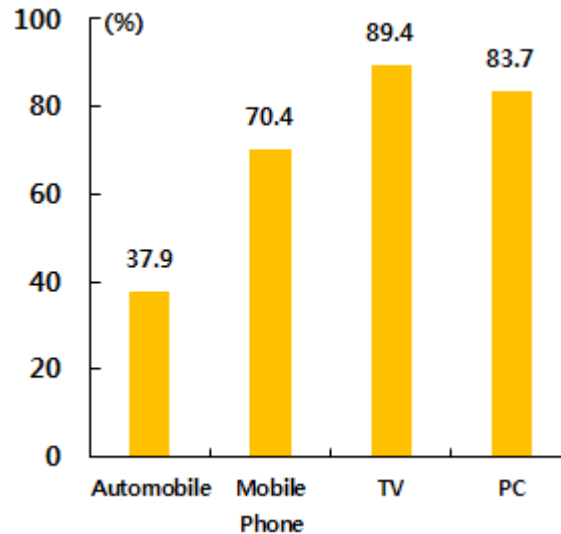
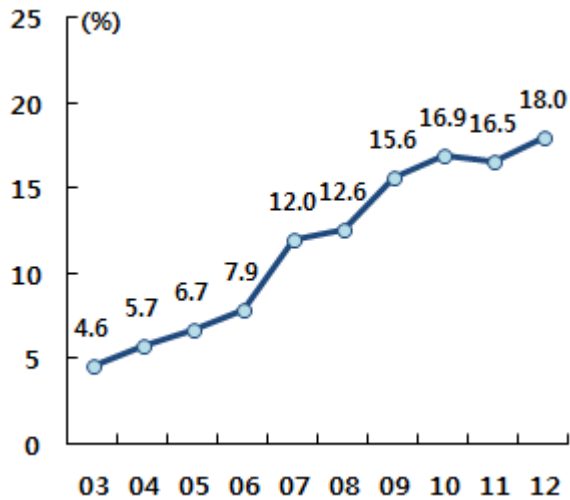
THE BANK OF KOREA

Outline

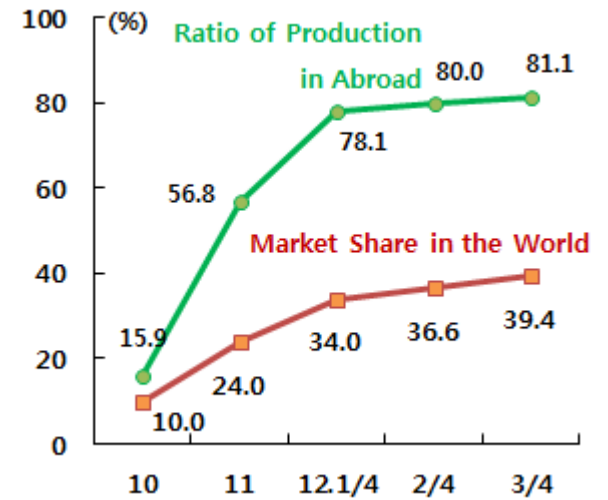
- 1. Korea's Global Production**
- 2. Source Data**
- 3. Compilation Method**
- 4. Compilation Results**
- 5. Future Plans**

1. Korea's Global Production

Share of Offshoring Production



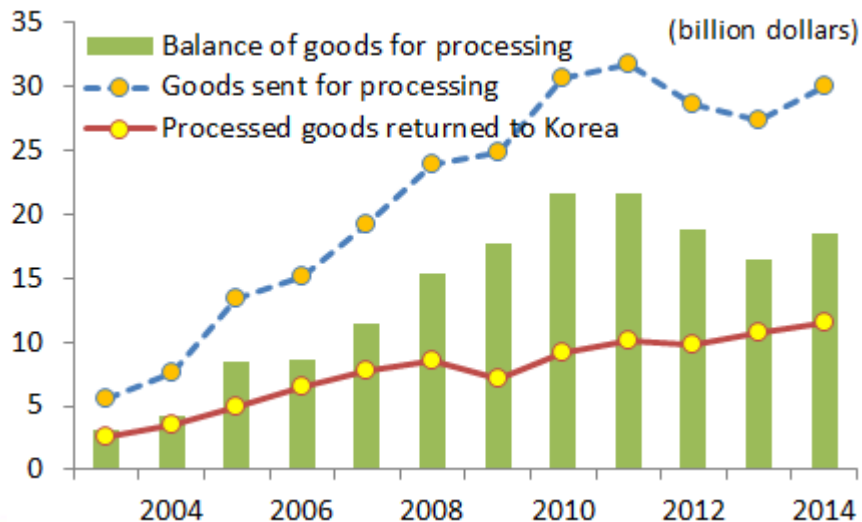
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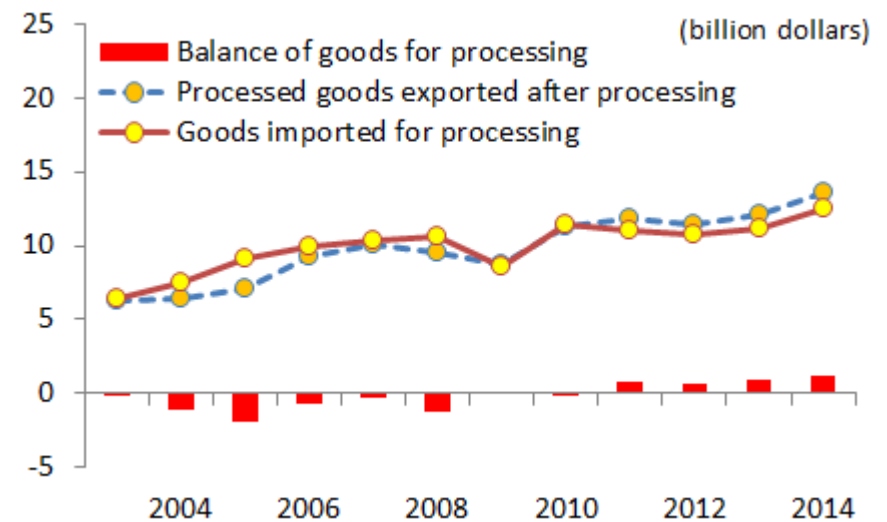
Goods for Processing in Korea

- Outward processing has been growing.
 - Since the mid-2000s, **goods sent for outward processing** have been much larger than **processed goods returned**.
- By contrast, inward processing is stable.
 - After inward processing, **most of the processed goods are re-exported abroad**.

Outward Processing



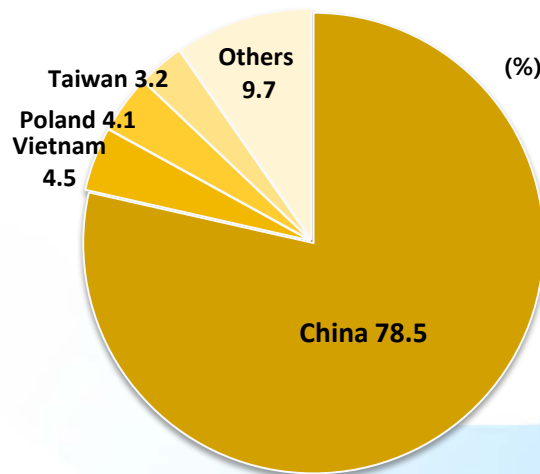
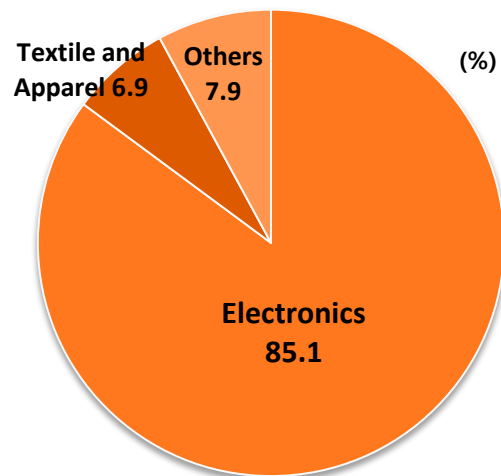
Inward Processing



Goods for Processing in Korea

□ Composition of Goods sent for Outward Processing(2010)

- **85% is for electronics** (Especially semiconductor, display panel, etc.)
- **78% sent to china** (Asia's Factory)



2. Source Data

(1) Customs Data

- The BOK obtains Customs Data **from the Korea Customs Service every month.**
 - They include
 - ① goods sent abroad **for outward processing,**
 - ② processed goods returned to Korea,
 - ③ goods received abroad **for inward processing,** and
 - ④ processed goods returned abroad, etc.
 - They also include information on the **actual delivery terms, actual transaction values, and settlement currencies, etc.**



2. Source Data

(2) Foreign Exchange Information System(FEIS) : ITRS

□ **Financial institutions have the obligation of reporting** all foreign exchange businesses going through them to the FEIS*.

* In Korea, **the Foreign Exchange Transaction Act** requires financial institutions to report all foreign exchange transactions to the FEIS.

– FEIS includes the EX/IM **codes and values**, counterpart countries, HS code, delivery terms, remittees(exporters), and remitters(importers).

– **Processing fees** are also reported through the FEIS.

– The FEIS was set up in April 1999 in order to swiftly **collect and analyze foreign exchange transactions** and market information.

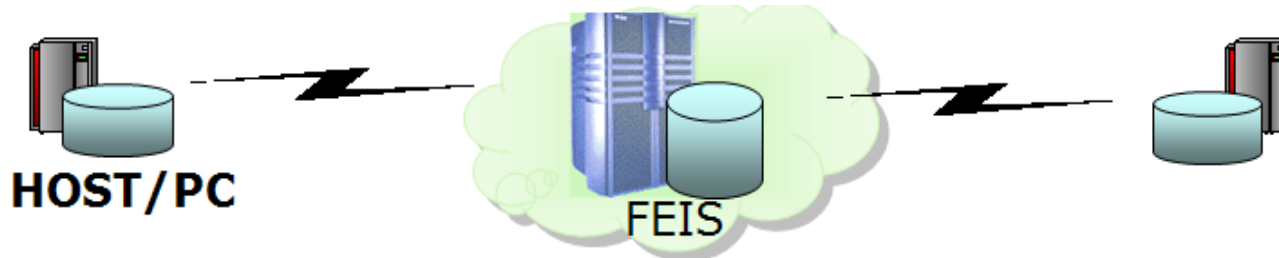


(Ref) Foreign Exchange Information System(FEIS)

Reporting Institutions

FX Information
Concentration Agency

Information Users



Institutions to deal with foreign exchange affairs

- Domestic banks
- Foreign bank branches
- Investment traders, Investment brokers
(futures companies, securities companies)
- Insurance companies
- Collective investment companies
(asset management companies)
- Mutual credits, etc.

**Bank
of
Korea**

- Bank of Korea
- Ministry of Strategy and Finance
- National Tax Service
- Korea Customs Service
- Financial Supervisory Service
- Korea Financial Intelligence Unit
- Korea Deposit Insurance Corporation
- Korea Center for International Finance
- Financial Services Commission

3. Compilation Method

A. Estimation of aggregate amount of goods for processing and merchanting

(1) In order to **calculate aggregate amount of BPM6-based EX/IM** based on FEIS data, we **subtract of non-customs EX/IM** other than customs EX/IM or processing/merchanting trades **among FEIS EX/IM**.

- ① (-) payments made at each stage of shipbuilding
- ② (-) bunkering
- ③ (-) goods procured in ports by carriers, etc.

3. Compilation Method

(2) **Subtraction of no-draft transaction** among customs EX/IM

- ① (-) no-draft EX/IM
- ② (-) transfer EX/IM
- ③ (-) EX/IM of goods for processing
- ④ (-) ship exports, etc.

(3) **Adjustment of freight charges and insurance fees** of customs EX/IM based on real delivery terms, so as to make the delivery terms of the FEIS coincide with the customs data

3. Compilation Method

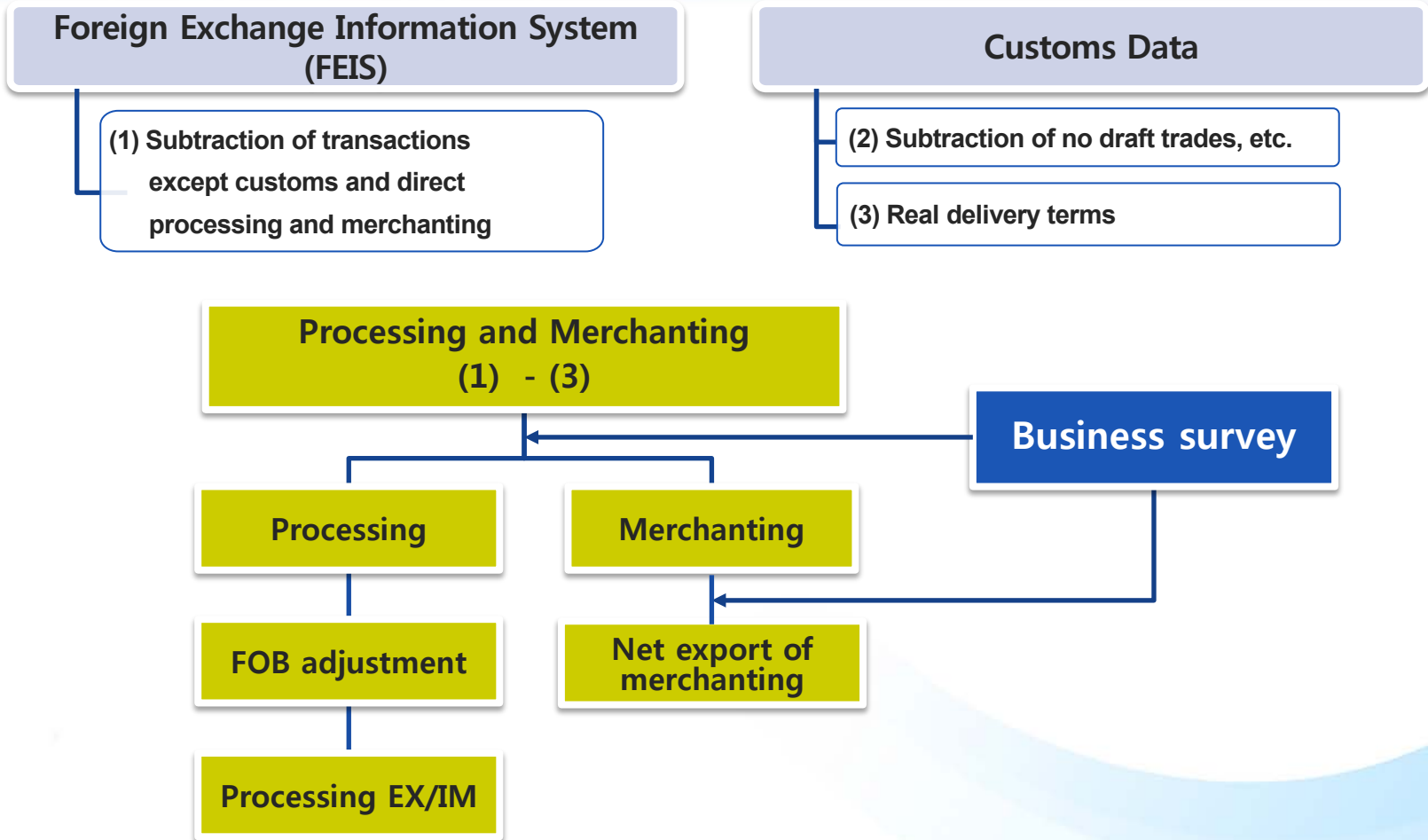
(4) Deduction of customs data adjusted in (3) from the FEIS data adjusted in (1).

= The aggregate amount of processing and merchanting trades

B. The aggregate amount of the processing and merchanting is **divided into processing and merchanting.**

With use of the EX/IM ratios by type, calculated based on business survey results.

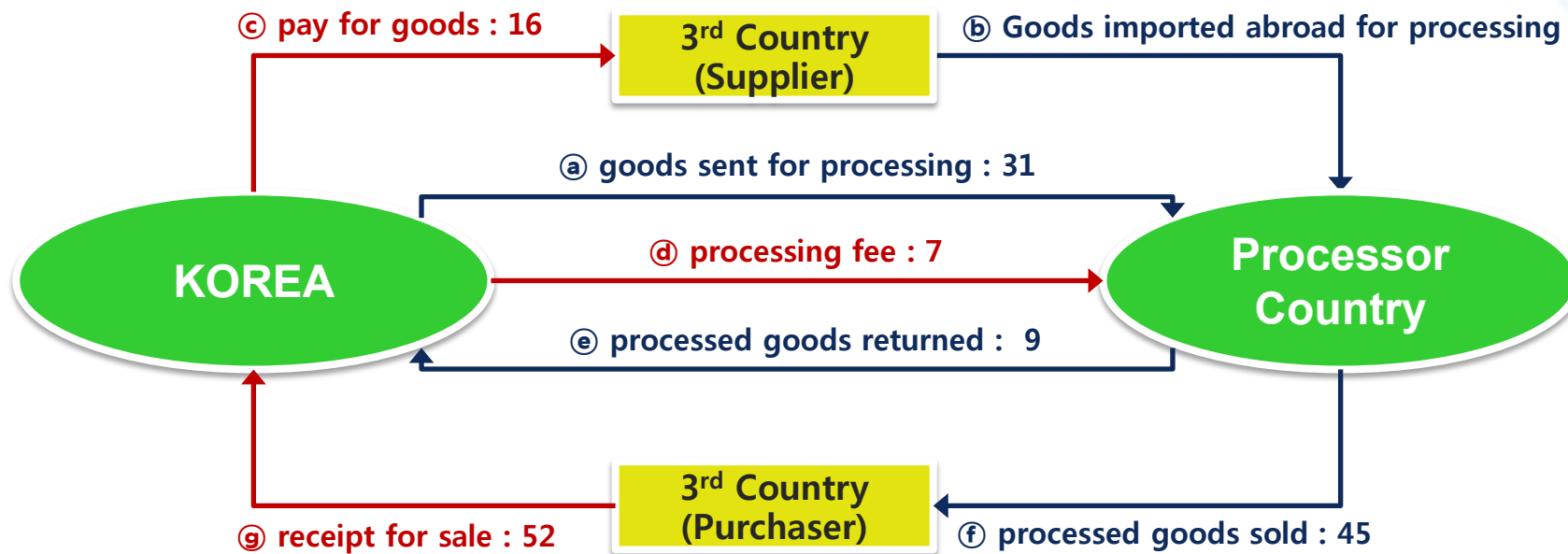
Estimating Method of Merchenting and Goods for Processing



4. Compilation Results(2010)

Outward Processing

(billion dollars)

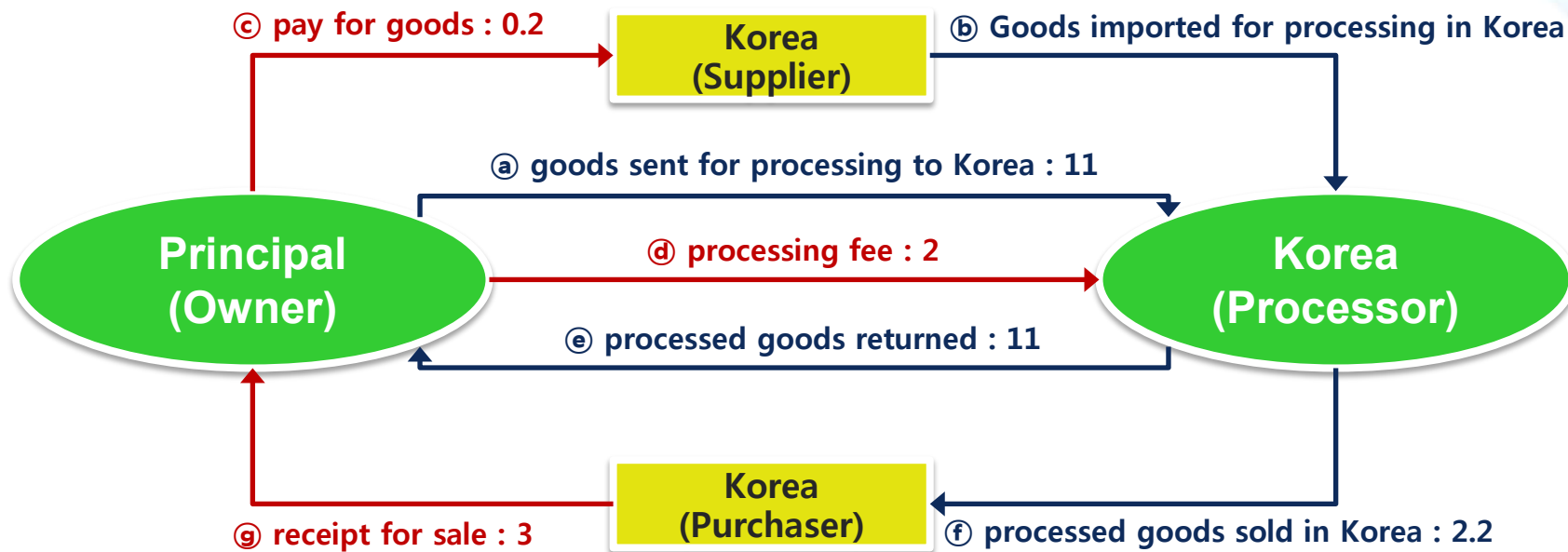


Goods account			Services account			Current
EX	IM	Balance	EX	IM	Balance	Balance
52.0	16.0	36.0	0.0	7.0	-7.0	29.0

4. Compilation Results(2010)

Inward Processing

(billion dollars)



Goods account			Services account			Current
EX	IM	Balance	EX	IM	Balance	Balance
0.2	3.0	-2.8	2.0	0.0	2.0	-0.8

4. Compilation Results

(billion dollars)

	2010	2011	2012	2013	2014
Processing Trade					
- Export	51.6	89.4	94.6	85.4	81.5
- Import	20.0	63.9	65.3	52.4	42.2
Net Exports of Goods Under Merchanting	5.2	5.1	10.1	14.6	13.7
- Export(Negative)	30.6	31.3	38.9	59.2	54.4
- Export	35.8	36.5	49.0	73.8	68.0
Manufacturing Services on Physical Inputs Owned by Others					
- Credit	2.3	2.2	2.6	2.9	3.1
- Debit	7.0	9.4	9.2	8.6	8.6



5. Future Plan(To Change Compilation Method)

- **BOK will compile** goods for processing and merchanting using **the FEIS data in the future**, rather than estimation based on the FEIS and customs data.
 - The BOK broke down the EX/IM codes, April 1, 2012, to make the coverage of FEIS and that of the BOP agree
 - o The BOK has **twice provided financial institutions with presentations** explaining these changes.
 - o The BOK has **twice sent official document** requesting cooperation to **more than 2,000 EX/IM corporations** which operate the processing and merchanting trades.
 - o The BOK **continues to monitor the processing and merchanting** trades reported by financial institutions through the FEIS.



Thank you for your attention!