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

Seung Hwan Park, Bank of Korea

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

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Seunghwan Park
Director, Monetary & Financial Statistics Division
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 (Smartphone)
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.*

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**Outward Processing**

- Balance of goods for processing
- Goods sent for processing
- Processed goods returned to Korea

**Inward Processing**

- Balance of goods for processing
- Processed goods exported after processing
- Goods imported for 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)
(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.
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
- 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 Merchanting and Goods for Processing

**Foreign Exchange Information System (FEIS)**
(1) Subtraction of transactions except customs and direct processing and merchanting

**Customs Data**
(2) Subtraction of no draft trades, etc.
(3) Real delivery terms

**Processing and Merchanting**
(1) - (3)

**Processing**
- FOB adjustment
- Processing EX/IM

**Merchanting**
- Net export of merchanting

**Business survey**

Outward Processing

- 🡅 pay for goods: 16
- 🡆 Goods imported abroad for processing
- 🡇 goods sent for processing: 31
- 🡈 processing fee: 7
- 🡉 processed goods returned: 9
- 🡊 goods for sale: 52
- 🡋 processed goods sold: 45

<table>
<thead>
<tr>
<th>Goods account</th>
<th>Services account</th>
<th>Current</th>
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</thead>
<tbody>
<tr>
<td>EX</td>
<td>IM</td>
<td>Balance</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
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</tr>
<tr>
<td>52.0</td>
<td>16.0</td>
<td>36.0</td>
</tr>
</tbody>
</table>

(billion dollars)

**Inward Processing**

- Korea (Supplier)
  - Goods imported for processing in Korea
- Korea (Processor)
  - Goods sent for processing to Korea: 11
  - Processing fee: 2
  - Processed goods returned: 11
  - Processed goods sold in Korea: 2.2
- Korea (Purchaser)
  - Receipt for sale: 3

### Goods account

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<thead>
<tr>
<th>EX</th>
<th>IM</th>
<th>Balance</th>
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<tbody>
<tr>
<td>0.2</td>
<td>3.0</td>
<td>-2.8</td>
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### Services account

<table>
<thead>
<tr>
<th>EX</th>
<th>IM</th>
<th>Balance</th>
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</thead>
<tbody>
<tr>
<td>2.0</td>
<td>0.0</td>
<td>2.0</td>
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### Current Balance

- -0.8
## 4. Compilation Results

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<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td><strong>Processing Trade</strong></td>
<td></td>
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<td></td>
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<tr>
<td>- Export</td>
<td>51.6</td>
<td>89.4</td>
<td>94.6</td>
<td>85.4</td>
<td>81.5</td>
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<tr>
<td>- Import</td>
<td>20.0</td>
<td>63.9</td>
<td>65.3</td>
<td>52.4</td>
<td>42.2</td>
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<td><strong>Net Exports of Goods Under Merchanting</strong></td>
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<tr>
<td>- Export(Negative)</td>
<td>30.6</td>
<td>31.3</td>
<td>38.9</td>
<td>59.2</td>
<td>54.4</td>
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<tr>
<td>- Export</td>
<td>35.8</td>
<td>36.5</td>
<td>49.0</td>
<td>73.8</td>
<td>68.0</td>
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<td><strong>Manufacturing Services on Physical Inputs Owned by Others</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Credit</td>
<td>2.3</td>
<td>2.2</td>
<td>2.6</td>
<td>2.9</td>
<td>3.1</td>
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<tr>
<td>- Debit</td>
<td>7.0</td>
<td>9.4</td>
<td>9.2</td>
<td>8.6</td>
<td>8.6</td>
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</table>
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!