

Factoryless goods production

Webinar series on the 2025 SNA Implementation
24 June 2025

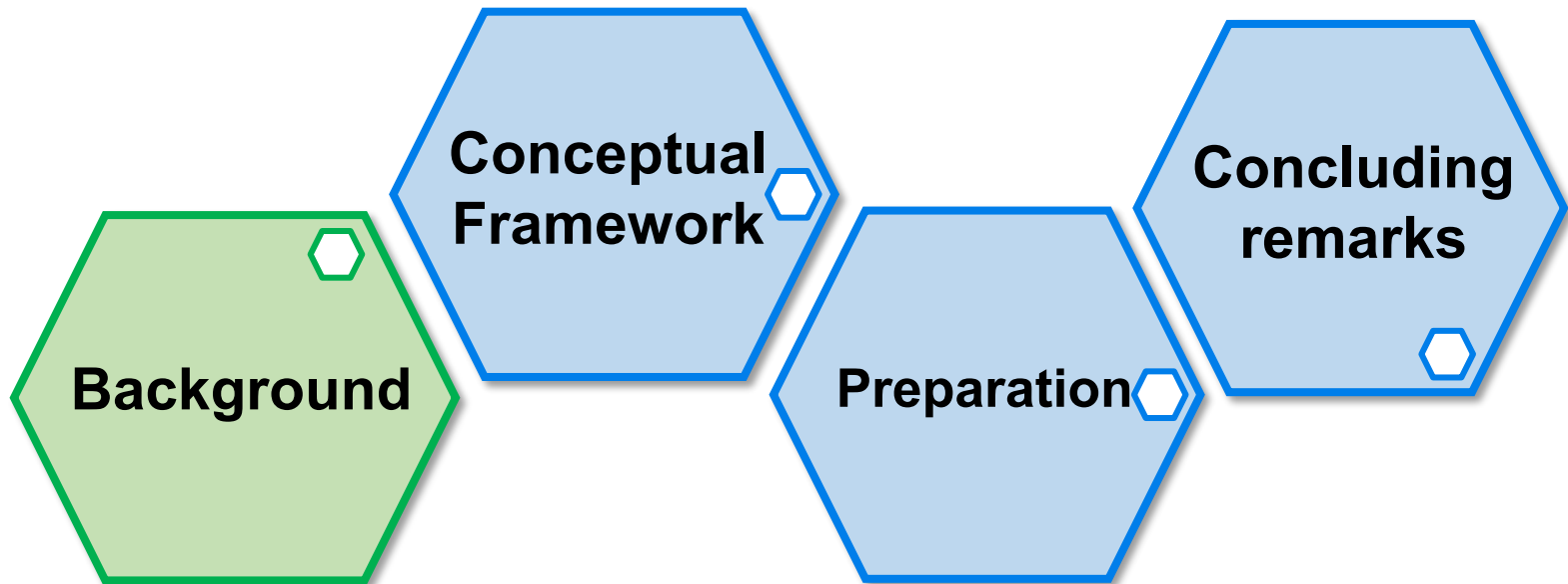
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Outline



Background

- The 2008 SNA and BPM6 provide limited guidance on global production arrangements, including factoryless goods production (FGP)
- *Guide to Measuring Global Production (GMGP)* provides definition and treatment guidance on FGP
- This presentation outlines the updated conceptual framework and data compilation methods aligned with the 2025 SNA implementation, addressing gaps in recording FGP activities.



Conceptual framework

Global manufacturing arrangement

Processing

- Principal contracts out manufacturing processes to non-resident processor/contractor
- The principal owns most or all material inputs and retains ownership of goods during manufacturing process
- The principal may also supply inputs of intellectual property product (IPP) and control the production process

FGP

- Principal contracts out manufacturing processes to non-resident processor/contractor
- The principal generally does not own the material inputs but outsources the acquisition to the contractor, who retains ownership of the goods during manufacturing process
- The principal must supply inputs of intellectual property product (IPP) and control the production process



Conceptual framework

Reasoning and outcomes of FGP treatments under the 2025 SNA

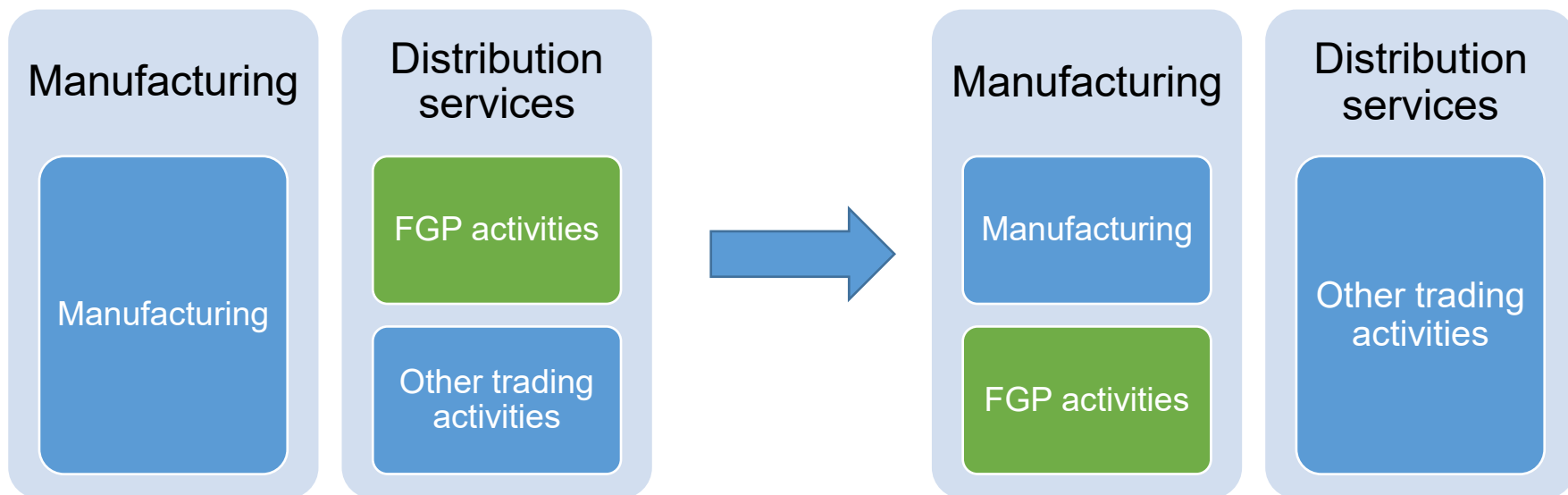
Reasoning

The inputs related to **IPP** that are crucial to the transformation process should be **considered as input** to production in line with material inputs



Outcomes

The activities related to FGP should be **classified as manufacturing** rather than distribution services, even if there is no ownership of material inputs

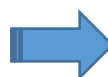


Conceptual framework

Reasoning and outcomes of FGP treatments under the 2025 SNA

Reasoning

The contractor takes ownership of material inputs and goods during manufacturing



Output of contractor: **Goods** instead of services

The principal of FGP is purchasing transformed goods under its control from the contractor for sale, instead of providing distribution services



For transaction involving finished goods, sales and cost of principal should be **recorded gross**, instead of net under current practice

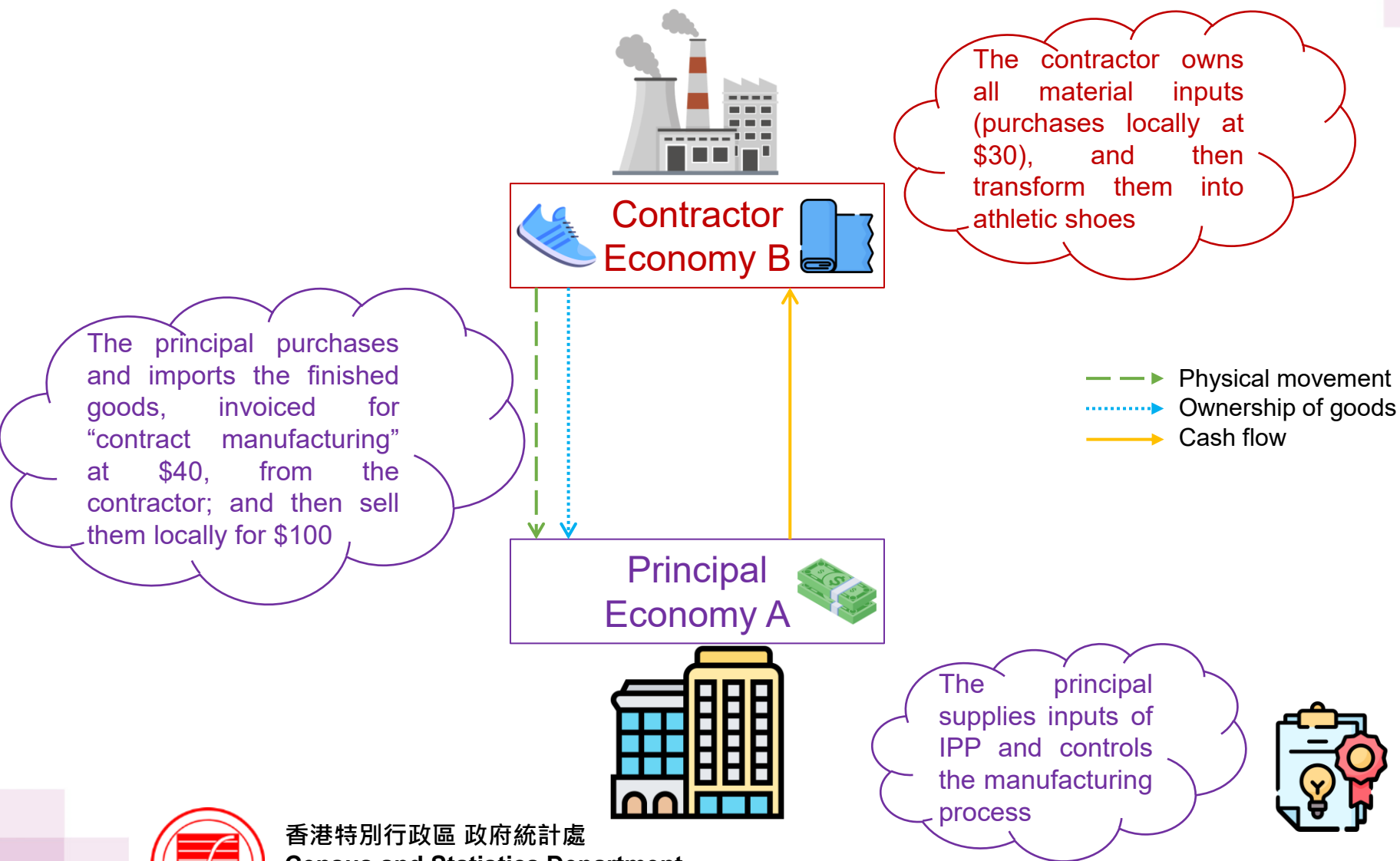


If selling **offshore**, related FGP transactions should be reclassified from merchanting (net) to **gross under exports of goods and imports of goods**



Conceptual framework

FGP case I: the principal imports finished goods from contractor for domestic sale



Conceptual framework

FGP case I: the principal imports finished goods from contractor for domestic sale

Production Account

ISIC	<u>Principal / Economy A</u>		<u>Contractor / Economy B</u>	
	2008 SNA	2025 SNA	2008 SNA	2025 SNA
	Distribution services	Manufacturing	Manufacturing	Manufacturing
Output	60	100	40	40
Goods (Athletic shoe)	0	100	40	0
Contract manufacturing	0	0	0	40
Gross margin (local sales)	60	0	0	0
Intermediate consumption	0	40	30	30
Material inputs	0	0	30	30
Contract manufacturing	0	40	0	0
Value added	60	60	10	10



Conceptual framework

FGP case I: the principal imports finished goods from contractor for domestic sale

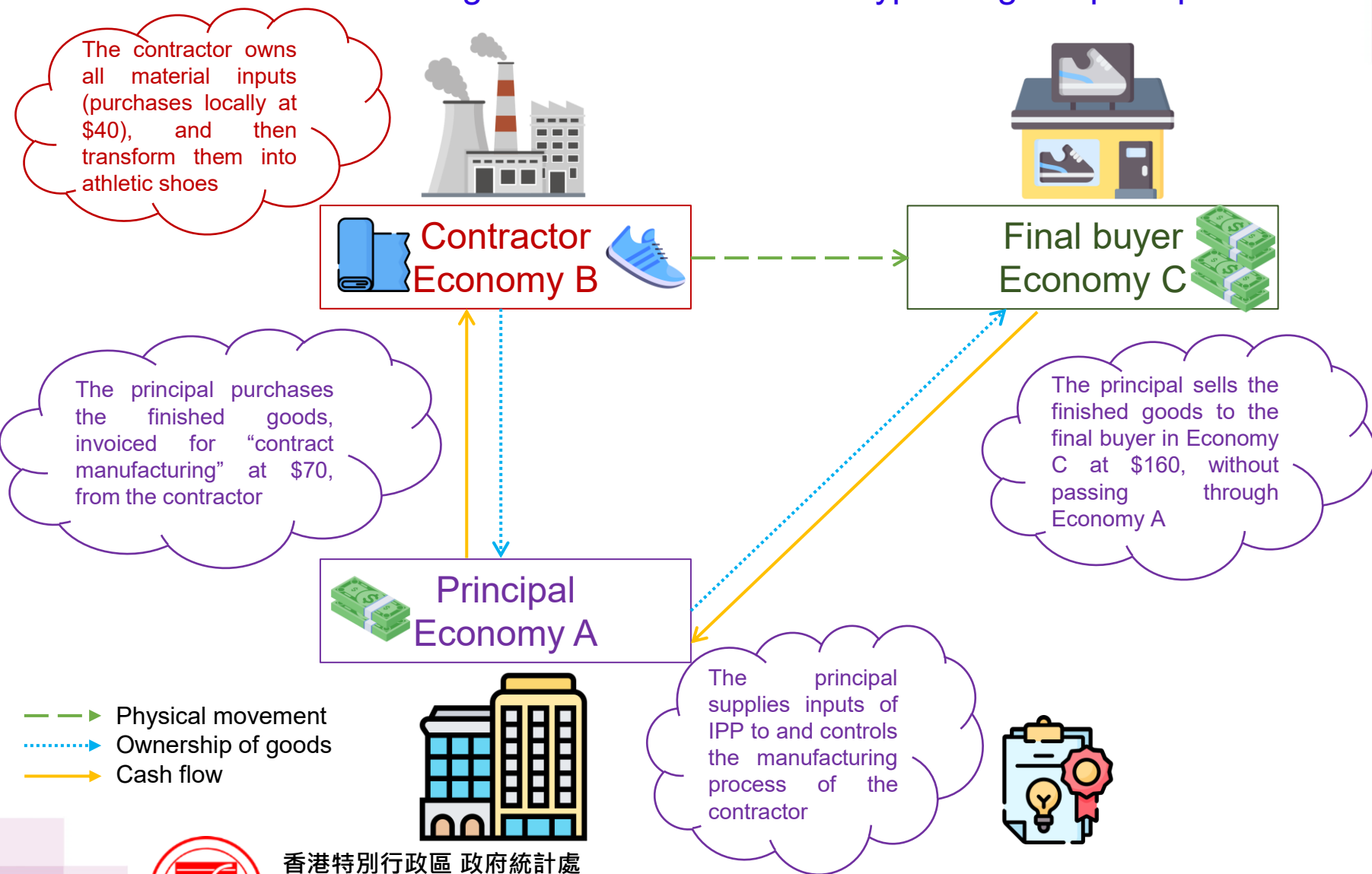
Trade in goods

	<u>Principal / Economy A</u>		<u>Contractor / Economy B</u>	
	2008 SNA	2025 SNA	2008 SNA	2025 SNA
Exports of goods	0	0	40	40
Merchandise	0	0	40	0
Contract manufacturing	0	0	0	40
Imports of goods	40	40	0	0
Merchandise	40	0	0	0
Contract manufacturing	0	40	0	0
Net exports of goods	-40	-40	40	40



Conceptual framework

FGP case II: the finished goods are sold offshore bypassing the principal's economy



Conceptual framework

FGP case II: the finished goods are sold offshore bypassing the principal's economy

Production Account

ISIC	<u>Principal / Economy A</u>		<u>Contractor / Economy B</u>	
	2008 SNA	2025 SNA	2008 SNA	2025 SNA
	Distribution services	Manufacturing	Manufacturing	Manufacturing
Output	90	160	70	70
Goods (Athletic shoe)	0	160	70	0
Contract manufacturing	0	0	0	70
Gross margin (merchanting)	90	0	0	0
Intermediate consumption	0	70	40	40
Material inputs	0	0	40	40
Contract manufacturing	0	70	0	0
Value added	90	90	30	30



Conceptual framework

FGP case II: the finished goods are sold offshore bypassing the principal's economy

Trade in goods

	<u>Principal / Economy A</u>		<u>Contractor / Economy B</u>	
	2008 SNA	2025 SNA	2008 SNA	2025 SNA
Exports of goods	90	160	70	70
Merchandise	0	0	70	0
Offshore sales (FGP)	0	160	0	0
Contract manufacturing	0	0	0	70
Merchanting	90	0	0	0
Imports of goods	0	70	0	0
Contract manufacturing	0	70	0	0
Net exports of goods	90	90	70	70



Conceptual framework

Overall impact of recording FGP arrangement under 2025 SNA (principal's economy)

Goods account and GDP

Component	Impact
Exports of goods	↑
Imports of goods	↑
Net exports of goods	No change
GDP	No change



Conceptual framework

Overall impact of recording FGP arrangement under 2025 SNA (principal's economy)

Production Account

	Manufacturing	Distribution services	Overall Economy
Output			↑
Intermediate consumption			↑
Value added	↑	↓	No change



Preparation

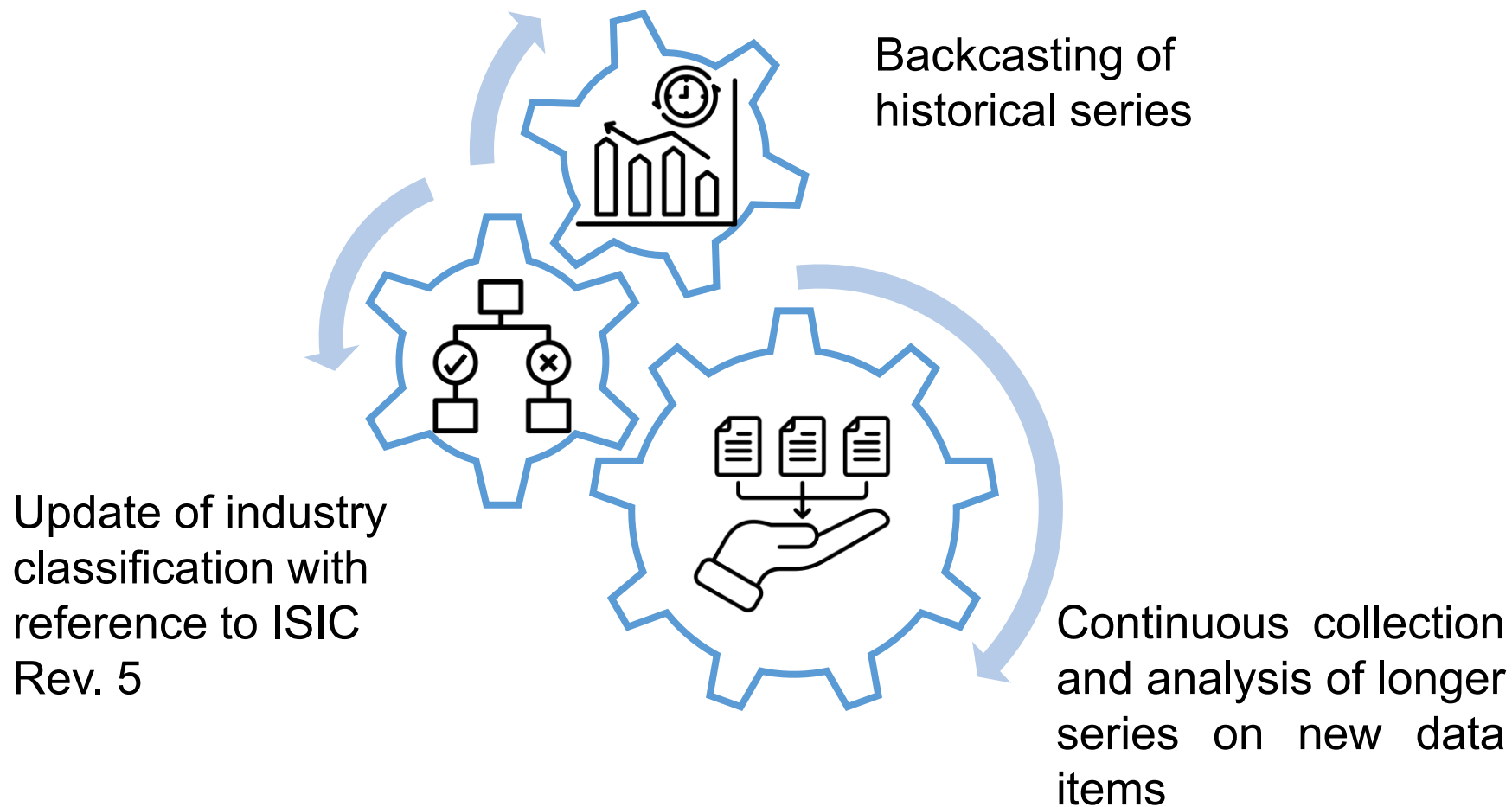
Data source for Hong Kong - New data items collected from existing establishment surveys

Annual Survey of Economic Activities Annual Survey of Imports and Exports of Services

- Questionnaires have been collecting data related to *merchandising* and breakdown for *processing arrangements* for compliance of change of ownership principle under 2008 SNA/BPM6
- Add new breakdown for collecting data related to *FGP transactions*.



Preparation



Concluding remarks

Updated guidance

- Global manufacturing arrangement not sufficiently addressed in 2008 SNA/BPM6
- Treatment of FGP is not covered explicitly in 2008 SNA/BPM6
- Refined framework and guidance for FGP are provided in 2025 SNA

Key changes

- FGP activities classified as manufacturing, instead of distribution services
- FGP transactions are recorded gross rather than net in production account and international trade in goods under current account

New data

- For Hong Kong, new data collected through existing establishment surveys

Ongoing steps

- Keep collecting and analyzing new survey data
- Update industry classification with reference to ISIC Rev.5
- Study method of backcasting historical series



Thank you!

Q&A



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