

**Update of the 1993 SNA**  
**Comments from Census and Statistics Department, Hong Kong, China**

**(A) Some comments on the issue of merchanting to be discussed in the coming AEG meeting in January 2006**

*Recommendations in an AEG paper*

- Three kinds of merchanting activities are identified in an AEG paper to be discussed in the January 2006 meeting, namely,
  - Global manufacturing: such activities aim to make profits from production of goods and the international transactions of goods take place as a process of such production activities.
  - Global wholesaling/retailing: such activities aim to provide their customers (original sellers and purchasers of the relevant goods) with wholesale/retail services and, as a result, obtain margin (or fee, commission); and
  - Commodity dealing: such activities aim to obtain profits from the difference between purchased price and resale price of the relevant goods.
- Based on the change of ownership principle, it is recommended that all the above three activities be recorded as goods.

*Our comments*

- On theoretical ground, we fully recognize the need to adopt the change of ownership principle in recording merchanting. However, considering that there are major practical problems and issues that may not be resolved satisfactorily at this stage, we are of the view that the current treatment of merchanting should be retained. It has to be reckoned that many economies would encounter problems in collecting data on merchanting under the goods account on a gross basis, given that international standards for merchandise trade statistics, as well as customs returns in most economies, are based on physical movements of goods across customs frontiers.
- Although some rough measure of merchanting activities may be obtained through special tailor-made surveys, there are limitations and constraints in such measurements. In view of concern of resource requirements and reporting burden of respondents, one would need to scale down the size of the survey or resort to deriving estimates using data models. Both methods would not provide sufficiently reliable results for application. In particular, the data models may be over-simplified, thus leading to a distortion of the true picture. Also, the parameters applied in such models may change and shift over time and the lack of up-to-date information would compound errors in estimation.
- At present, statistics on merchanting in Hong Kong's BoP account are compiled based on data collected from an annual survey. Data on the sales of goods and cost of goods sold for merchanting are collected in the survey to compile the gross margin, i.e. value of merchanting services. The annual survey currently undertaken could only provide merchanting statistics on a gross basis at a broad level. Substantial resources are required to enhance the existing statistical system to produce reliable quarterly estimates for BoP compilation if a change in treatment is introduced.
- In view of the above consideration, it is essential to strike a balance between the potential merits and potential drawbacks in deliberating on whether the proposed change

should be introduced. Since merchanting has an essential nature of intermediation performed by an agent, we consider that it can reasonably be viewed as a service and hence treated as an exception to the change of ownership principle.

- To facilitate comparison and analysis, we support the recommendation for supplementary information on merchanting as goods to be compiled.