External trade in the national approach

Changes to methodology and data for 2009 - 2010

Workshop for professionals at the CZSO

7 March 2011

What is external trade?

1. **What is external trade?**
2. **Reasons for the revision**
3. **Calculation method of the national concept of ET**
4. **Model examples**
5. **Data for 2009 and 2010**
6. **Schedule and the form of data publishing**
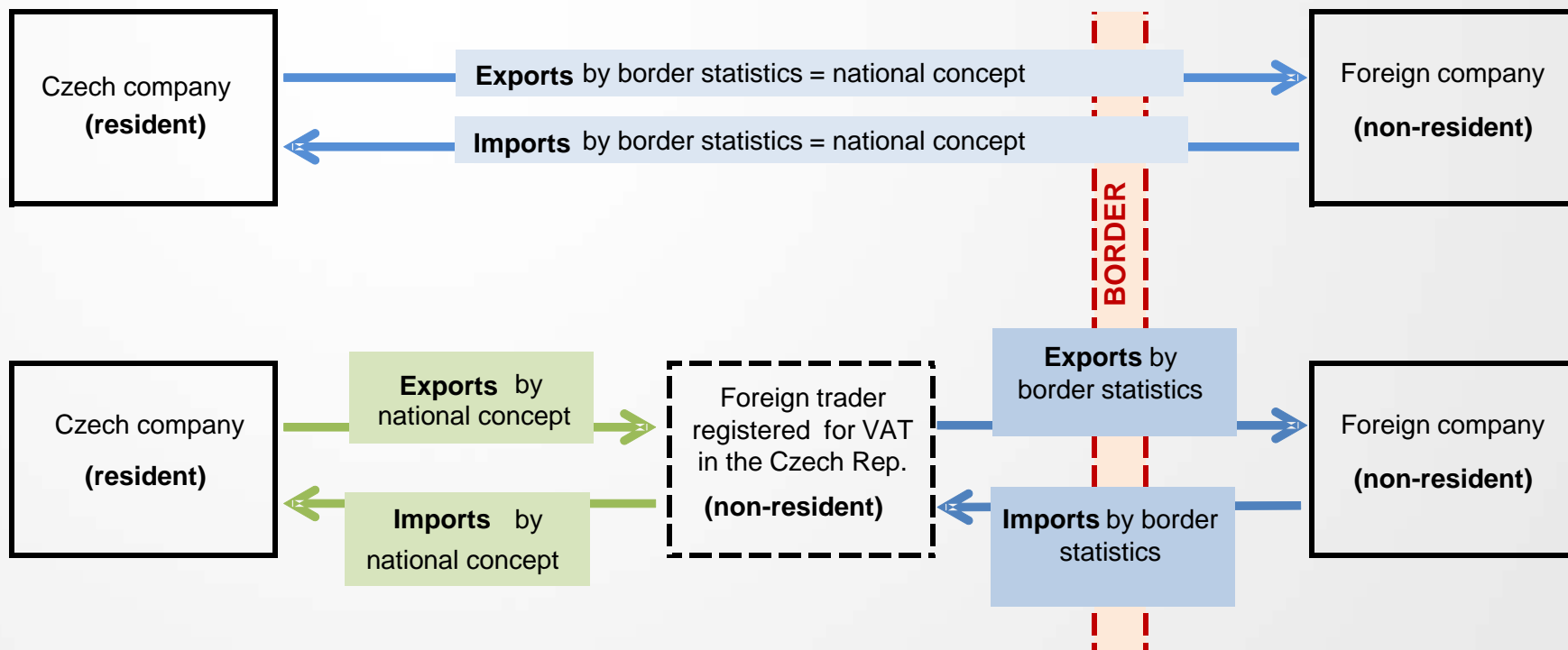
What is external trade? (I)

- external trade statistics (ETS) **published so far** has been capturing flows, at which a **crossing of state borders** occurs (simplified formulation).

- The value of goods crossing the CR borders is, in ETS, understood as imports and exports of the Czech economy.

- National accounts (NA) and Balance of Payments (BoP) consider mere **change in ownership** in between residents and non-residents as external trade, which also captures adequately the flow of finances.

- National accounts and payment balance have been traditionally based on ETS because philosophy of both the statistics does not differ:

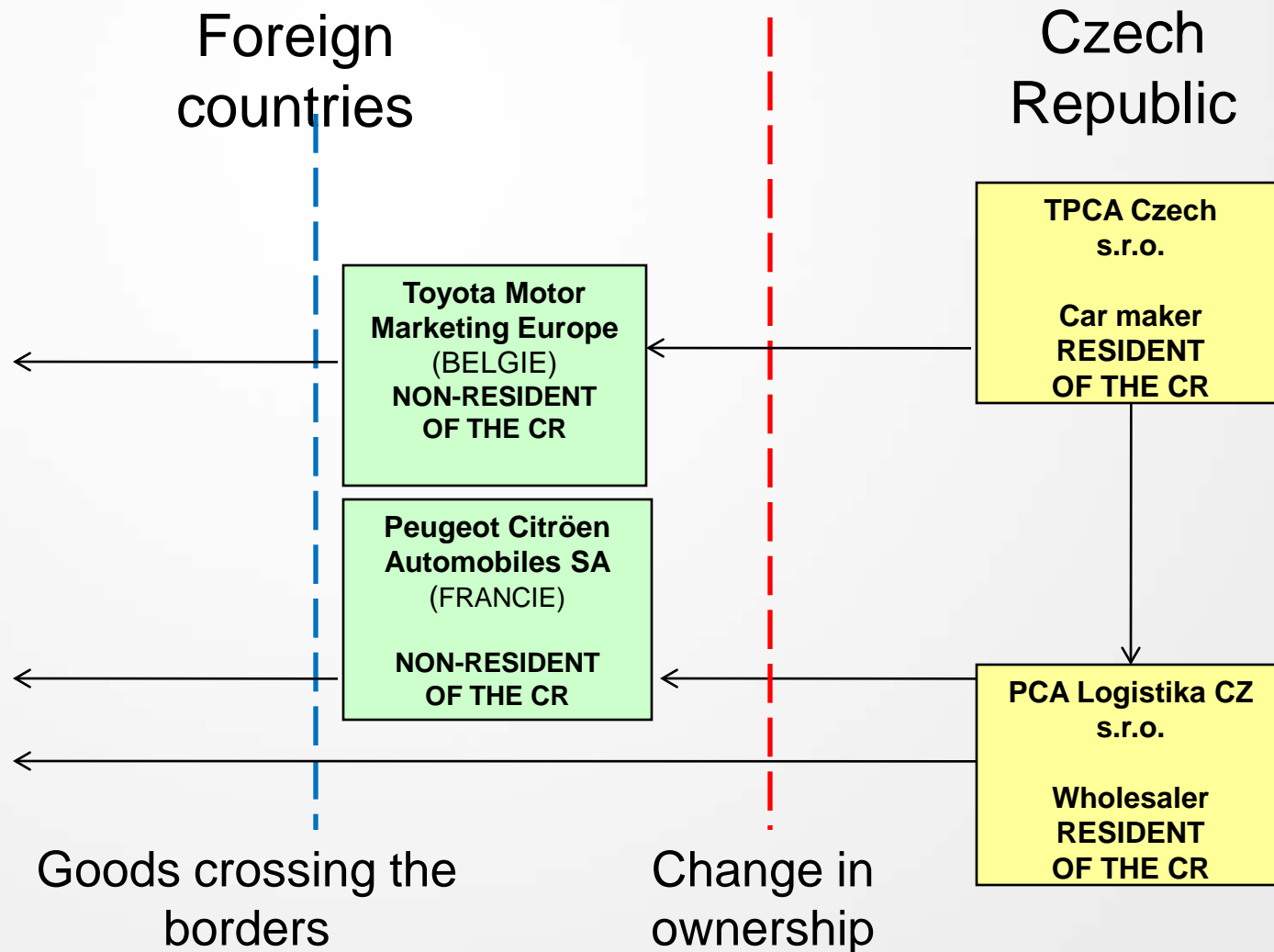 **crossing of the borders should be an approximation of the change in ownership.**

What is external trade? (II)

- **Approximation of the change in ownership** (NA, BoP) by the **crossing of the state borders** (ETS) **ceases to work** when capital flows are liberalized, there are supranational groups of companies, and goods moves across borders without any change in ownership.

- **transborder statistics** remains a specific type of statistics – obeying the standards according to the IMTS (International Merchandise Trade Statistics) manual and EU regulations on statistics of Intrastat and Extrastat.

- Besides, there is an acute need to have data at disposal, which would reflect the actual changes in ownership in between residents and non-residents (the **national concept** of ET).

Differences in between transborder statistics and the national concept of ET

Czech company (resident)

Exports by border statistics = national concept →

Imports by border statistics = national concept ←

Foreign company (non-resident)

BORDER

Czech company (resident)

Exports by national concept →

Imports by national concept ←

Foreign trader registered for VAT in the Czech Rep. **(non-resident)**

Exports by border statistics →

Imports by border statistics ←

Foreign company **(non-resident)**

Example of trade through non-residents

Foreign countries | Czech Republic

TPCA Czech s.r.o.

Car maker RESIDENT OF THE CR

Toyota Motor Marketing Europe (BELGIE) **NON-RESIDENT OF THE CR**

Peugeot Citröen Automobiles SA (FRANCIE) **NON-RESIDENT OF THE CR**

PCA Logistika CZ s.r.o.

Wholesaler RESIDENT OF THE CR

Goods crossing the borders

Change in ownership

Foreign entities

It is important to distinguish:

1. Foreign entities in terms of companies ‚under foreign control' (i.e. having registered office in the CR, organisation ID No., paying income tax from their activities on the territory of the CR = **CR RESIDENTS** (Foxconn CZ, s.r.o. – PC producer);

    and

2. Foreign entities, which make trade in the Czech Republic and for this reason are VAT payers in the CR (yet they do not have even a branch on the territory of the CR and do not pay income tax from their activities on the territory) = **NON-RESIDENTS OF THE CR** (Hon Hai Precision Industry Co.).

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# Reasons leading to the creation of the national concept of external trade in goods

1. Imbalance in between **the side of sources and use of GDP** – it follows from that value added of domestic companies is on the side of sources, yet the side of use **(containing exports)** in fact also partially includes value added of foreign entities.

2. Imbalance in between the **real economy and financial flows** in payment balance – the state of receivables of domestic companies from foreign entities does not correspond to a high excess in ET.

Revision of the trade in services

- **Direct trade costs** (DTC) relate to exports and imports of goods (the difference in between CIF and FOB)
  - ➢ They include mainly transport and insurance.
  - ➢ They are calculated as models by means of coefficients applied to produced data on imports and exports of goods.
- The revision encompasses their new calculation, in which their value was substantially increased and also made their capture more accurate.
- The model calculation is based on transborder statistics.
- The revision of DTC affected both **balance of goods and services**.
- A **new procedure for grossing-up** for non-response in exports and imports of services was applied (small impact).

Illustration of DTC
– trade in between the CR and France

CZ exports (FOB)

FR exports (CIF)

CZ imports (CIF)

FR exports (FOB) = CZ imports (FOB)

DTC
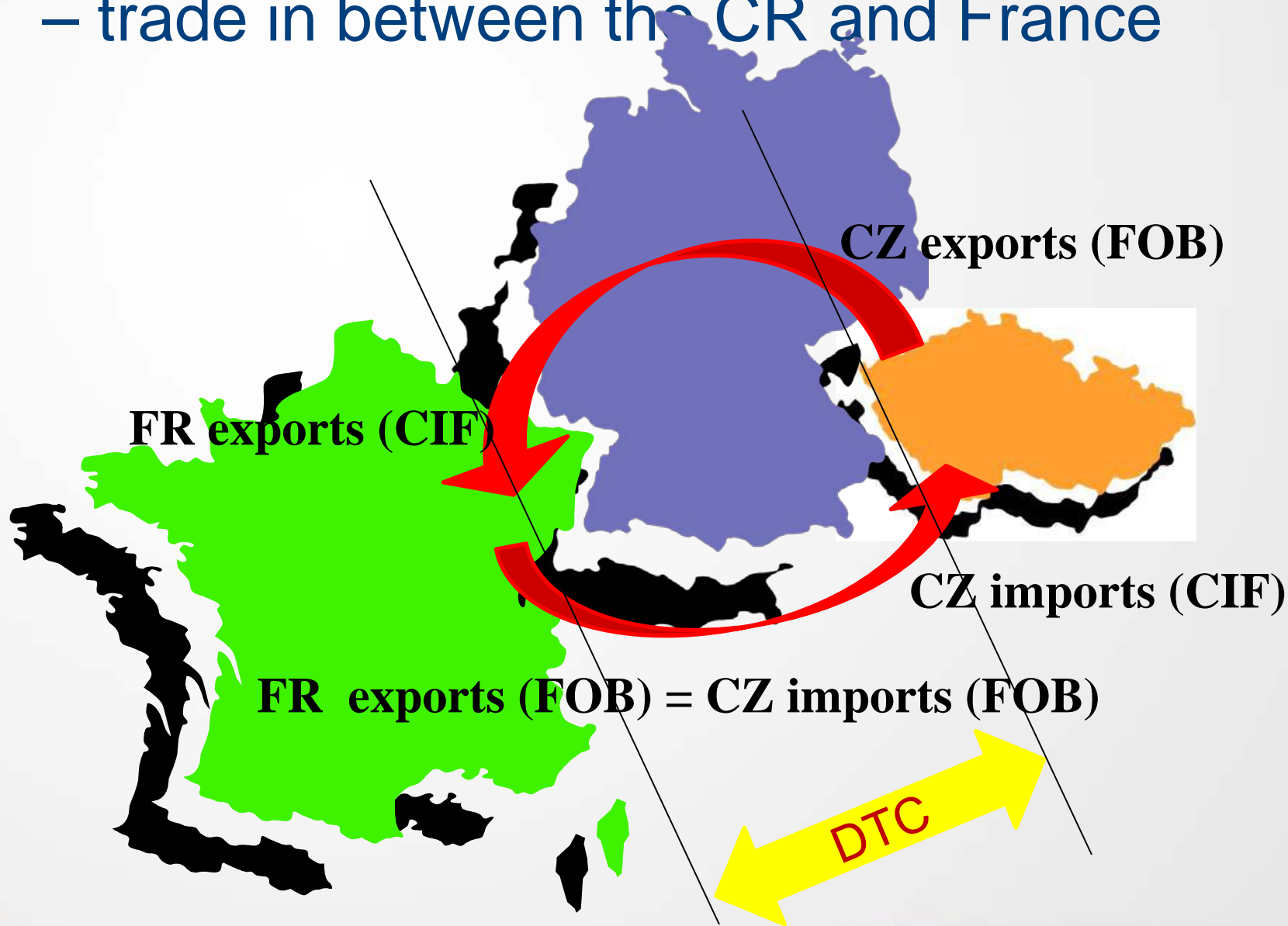
Calculation method

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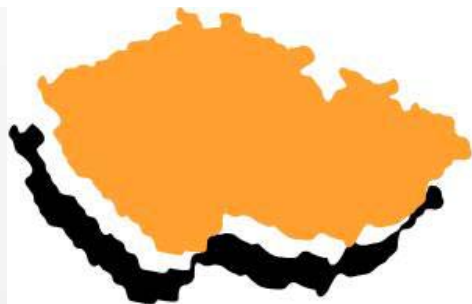6. *Schedule and the form of data publishing*

Method of assessment of the trade implemented by non-residents

D O M E S T I C E C O N O M Y	**FOREIGN COUNTRIES**

VAT tax forms of NON-RESIDENTS

Exports of the Czech economy according to the national concept = received taxable payments from non-residents from the CR

Purchase of goods in the CR

Sales of goods in the CR

Imports of the Czech economy according to the national concept = received payments of non-residents in the CR

Model examples

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   Co je zahraniční obchod?

Example No. 1 – imports of computers

• The German company of „Q-COMP" produced computers for CZK 10 million and imported them to the CR where it intends to sell them to Czech customers. Because the company shall sell in the CR the computers directly then it must be registered as a VAT payer in the CR according to law. This imposes duty on the company to report to the external trade statistics imports of these computers for CZK 10 million although the company has no registered office (seat) in the CR , no physical representation in the CR, and no employees as well.

• It will sell the computers to Czech companies for CZK 13 million in the CR.
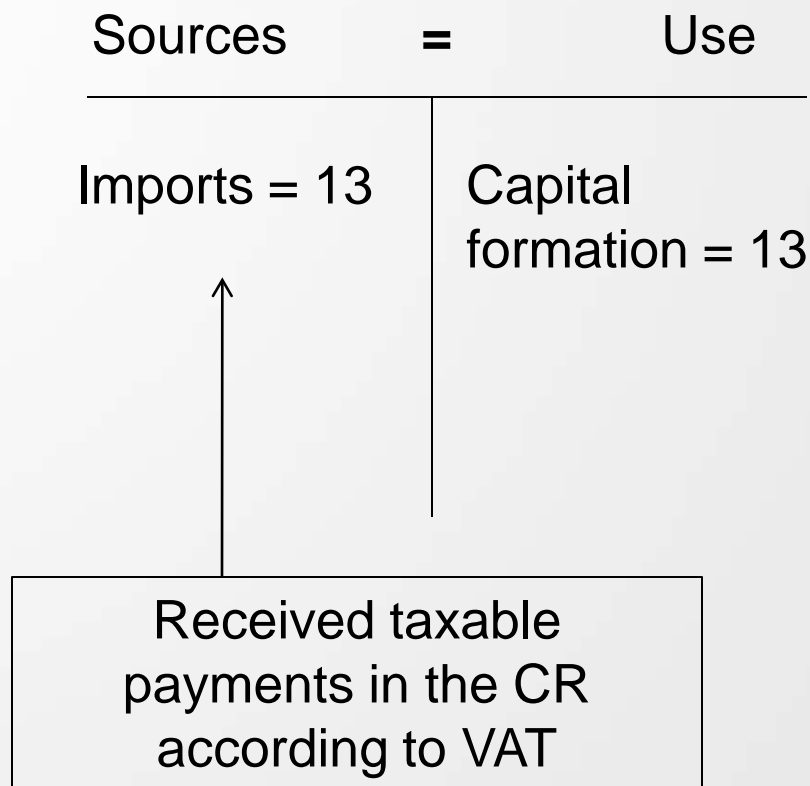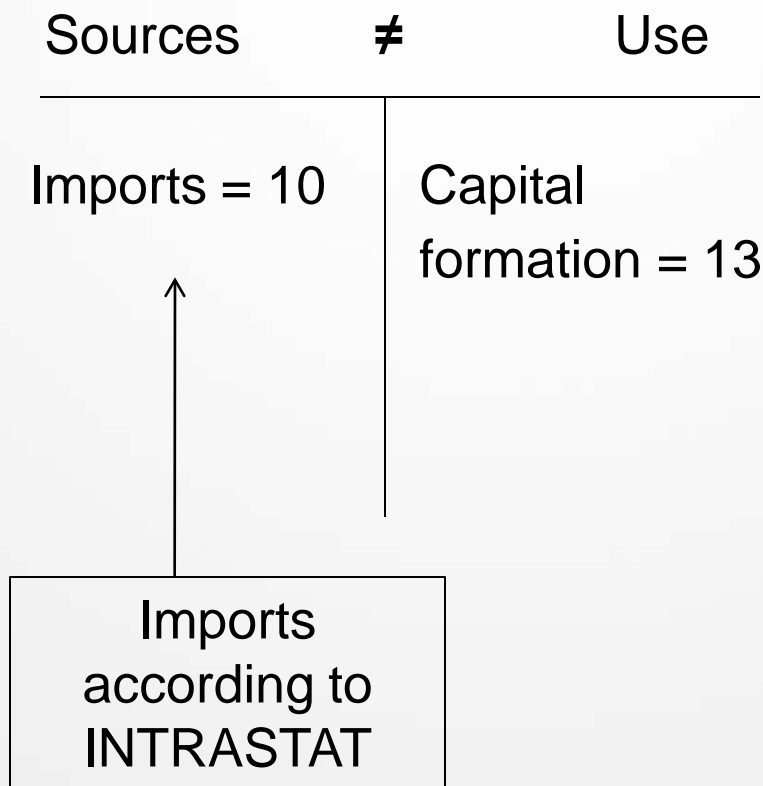
Example No. 1 - transaction

• The company of „Q-COMP" declares „receiving of goods" at the value of CZK 10 million (= transborder import of CZK 10 million) in Intrastat.

• The company of „Q-COMP" invoices Czech customers for the sale of computers. „Received taxable payments in the CR" of CZK 13 million appear in the VAT tax form.

• It seems, according to transborder statistics that a Czech company imported computers for CZK 10 million, yet it actually paid CZK 13 million (that means also value added-margin of the non-resident at the amount of CZK 3 million). Imports according to the national concept take this difference into account.

Example No. 1 – capturing in NA

transborder data on ETS
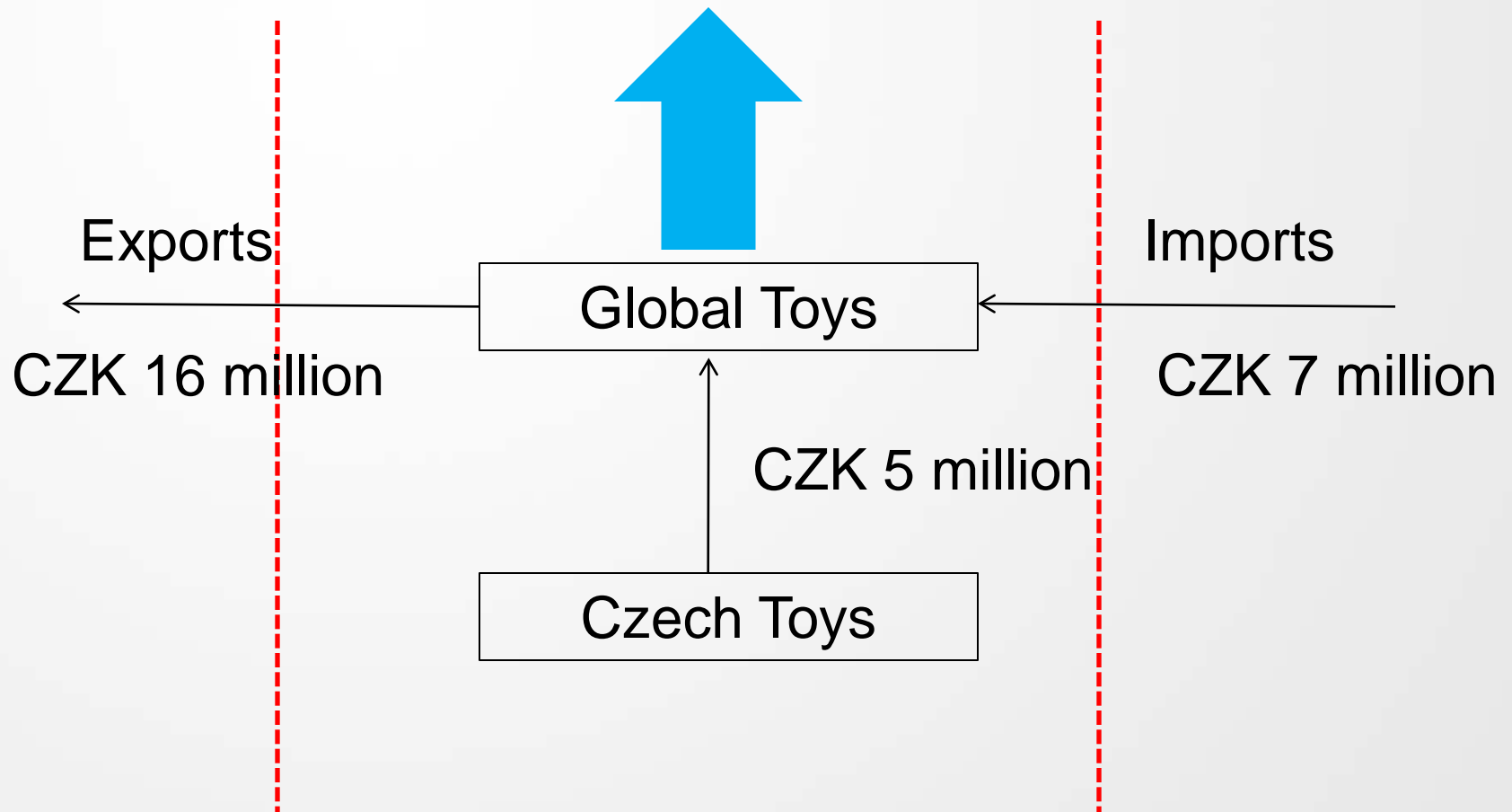
National concept of ET using data from VAT

Sources	≠	Use
Imports = 10		Capital formation = 13

Sources	=	Use
Imports = 13		Capital formation = 13

Imports according to INTRASTAT

Received taxable payments in the CR according to VAT

Example No. 2 – toy exports

• The company of „Global Toys", registered in Great Britain, is the owner of the Czech toy producer „Czech Toys, s.r.o.". This producer produces toys for CZK 5 million and exports them (to the EU countries) through its parent company, which had to get registered in the CR as a VAT payer for this reason.

• Simultaneously, this parent company imports toys from China (at the value of CZK 7 million), which are only packed in the CR and are forwarded to markets in the EU. The overall sales value of the toys exported from the CR is CZK 16 million.

Example No. 2 – transaction

• Company „Global Toys", registered as a VAT payer in the CR, declares imports of toy of the value of CZK 7 million in the custom declaration form. At the same time, it declares „sending of goods to other Member State" (export) at the amount of CZK 16 million in Intrastat.

• In its VAT tax form the company states „commissioning of goods in the CR" at the amount of CZK 5 million (purchase from the company of „Czech Toys").

• Therefore value added of this non-resident is equal to 16 – 7 – 5 = 4 million CZK (export minus import minus purchase in the CR).

Example No. 2 – illustration

Value added of a non-resident = CZK 4 million

Exports

Imports

Global Toys

CZK 16 million

CZK 7 million

CZK 5 million

Czech Toys

Example No. 2 – capture in NA

Transborder data of ETS

National concept of ET using data from VAT

Sources	≠	Usage
Imports = 7		Exports = 16
Output = 5		

| Sources	=	Usage
Imports = 0		Exports = 5
Output = 5		

Exports/Output = 320%!

Commissioning of goods in the CR according to VAT

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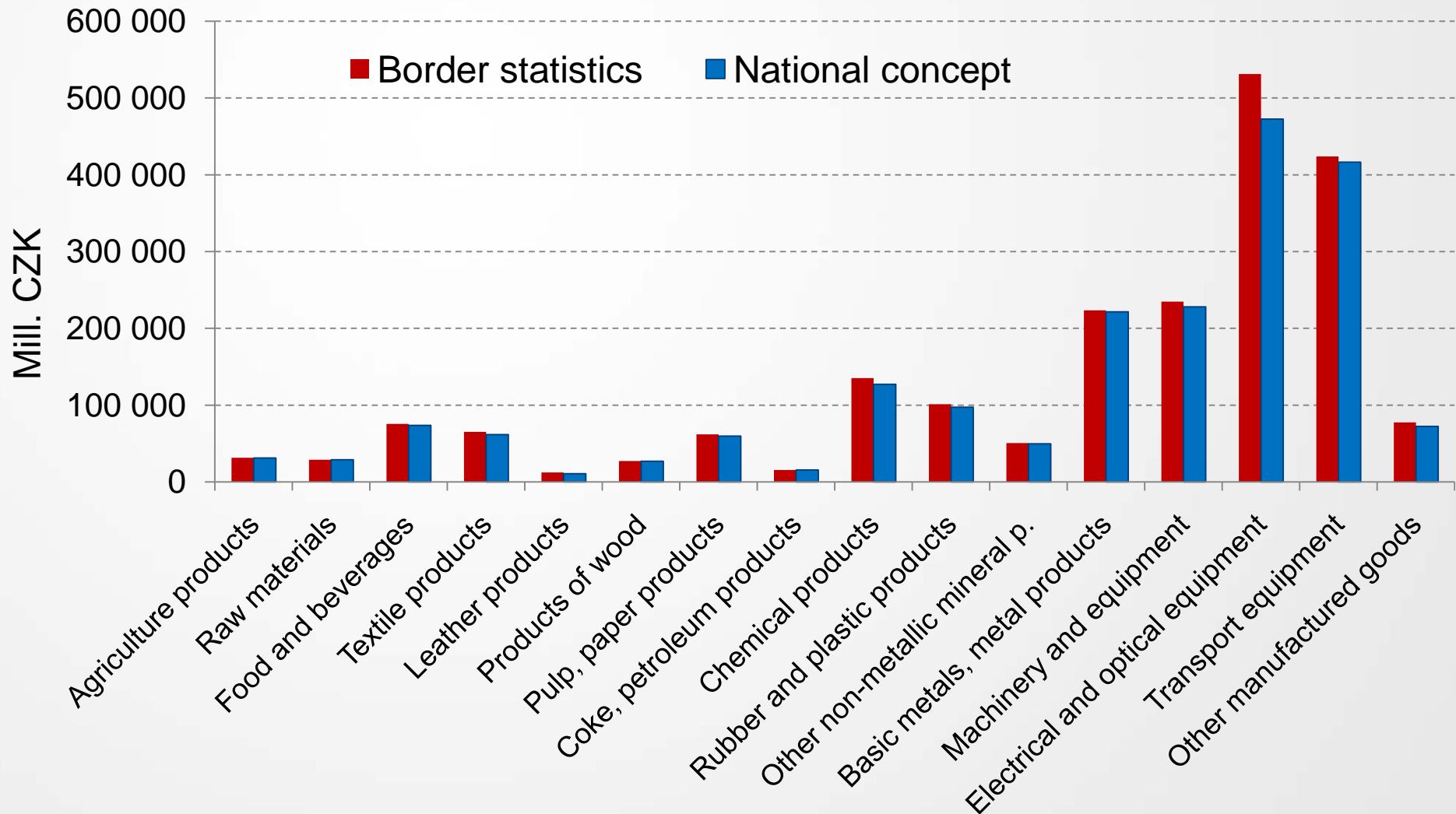6. *Schedule and the form of data publishing*

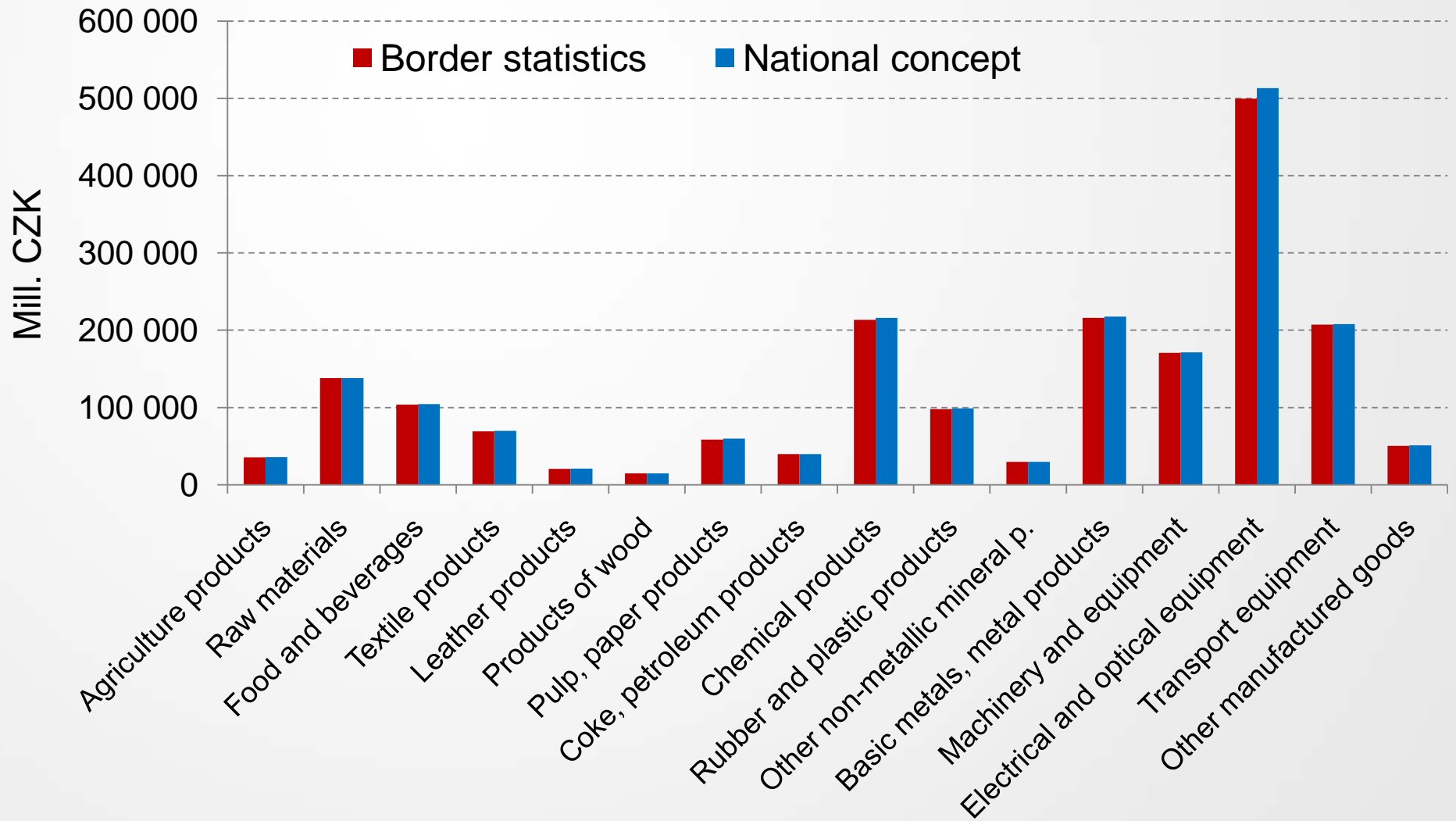# Comparison of transborder external trade and national external trade
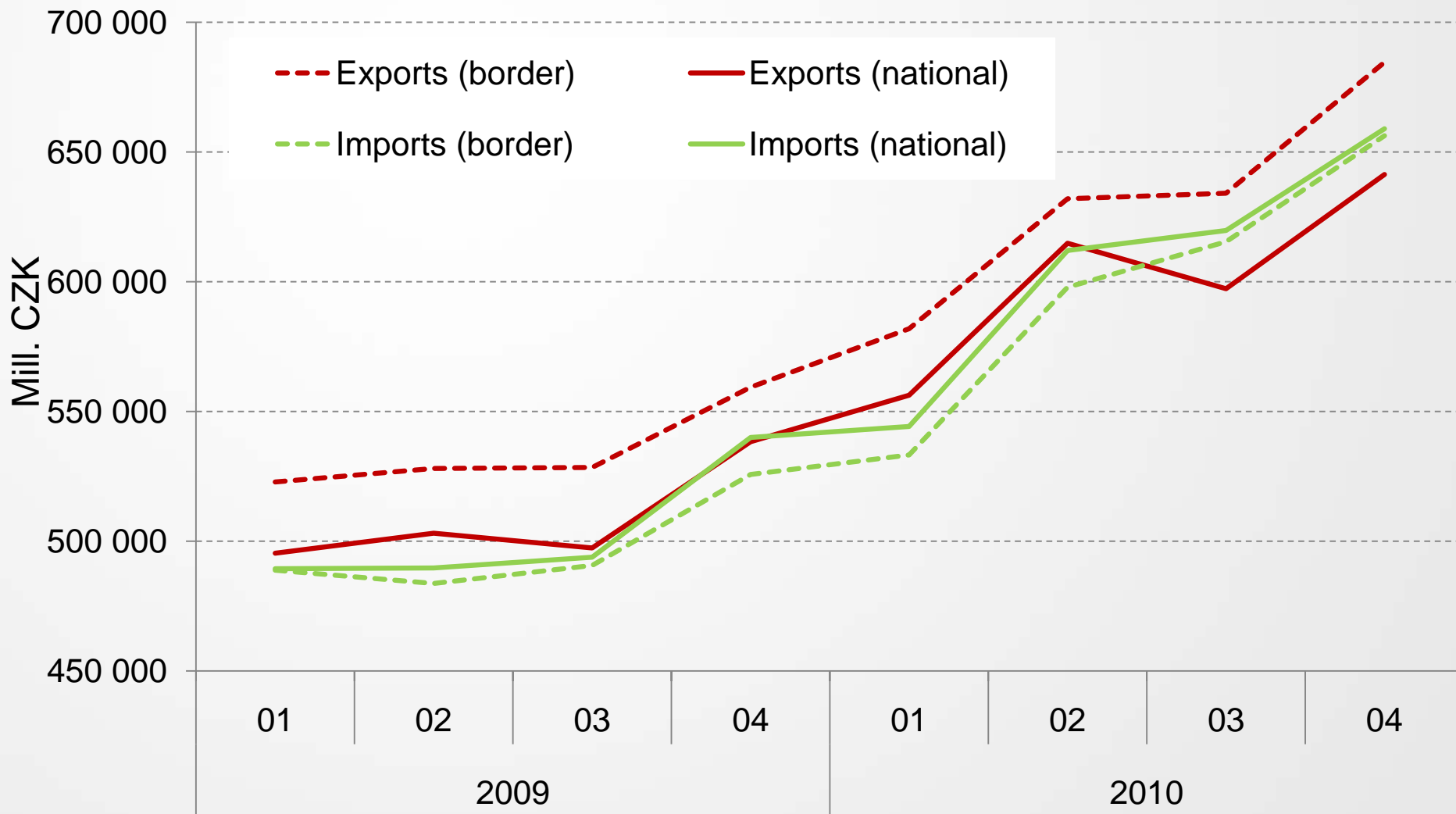
Differences in exports, imports, and trade balance
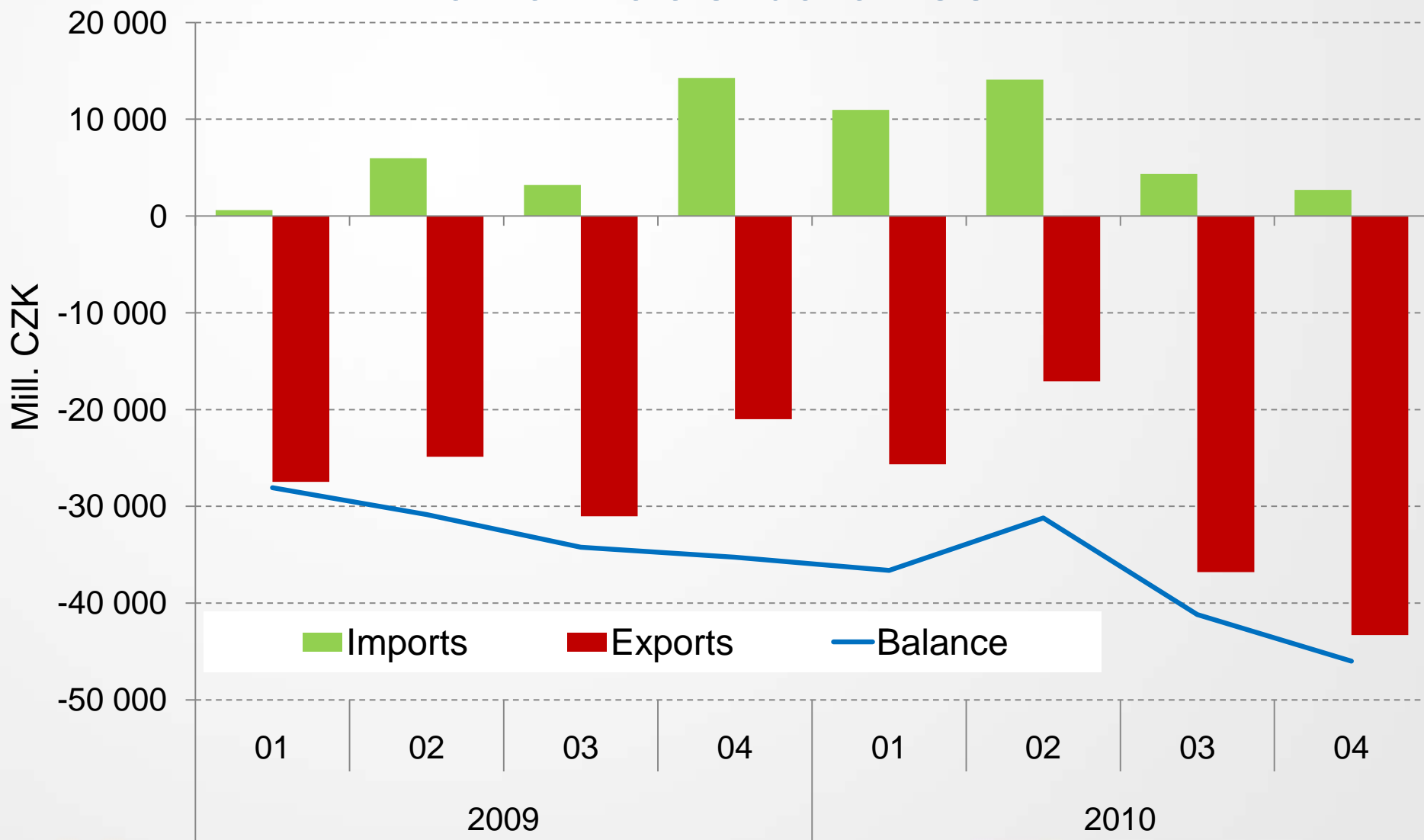
Exports structure by commodity in 2009

Imports structure by commodity in 2009

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Differences in 2009

- In **exports** the total difference in between the national approach of external trade and transborder statistics is CZK -104 billion, which is **4.9%** of transborder trade.

- In **imports** the total difference is CZK +24 billion, i.e. **1.2%**.

- The difference in balance is CZK -128 billion, but FOB appraisal adjusted difference is CZK - 97 billion (transport costs included into the goods price were revised to be substantially higher and therefore imports to the boundary of the exporting country is lower).

- Impact on the overall balance of goods and services in 2009 is approx. **CZK -55 billion** (balance of transport services has improved and „branding" was removed from trade in services).

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Publishing of ET data in the national approach

- **Since March 2011** – as a part of News Release on External trade development in January 2011 (as a supplement to the transborder statistics).

- **In the middle of 2011** – the time series of quarterly data on ET by the new methodology shall be published for 2005–2008.

- **30 September 2011** – the time series of revised annual national accounts for 1995–2010.

- **9 December 2011** – the time series of quarterly national accounts following to the revised annual data.

- From March to December 2011 there will be a **temporary discrepancy** in between payment balance and national accounts (the revision cannot be implemented into all outcomes at the same time).

Monthly estimates of ET in the national approach

- **9 March 2011** – the first monthly News Release with a double set of figures (transborder ET and the national concept of ET) shall be published.

- Monthly data in the national approach shall be calculated as an assessment based on VAT tax forms for the previous quarter and the pace of exports and imports from transborder statistics.

- Data shall be made more accurate for the past periods as quarterly data of VAT tax forms for the previous time is available.

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