

Israel's Experience

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14.157. In recent years Israel has seen continued growth in both merchanting and goods for processing (mostly due to globalisation and Israel participating in the "global village") which has influenced its balance of payments compilation. The Central Bureau of Statistics of Israel (the compiler of BOP statistics in Israel) soon discovered that IMTS data were insufficient to assess these flows.

14.158. In investigating, the CBS discovered three distinct activities being undertaken:

- Production abroad - goods being sent abroad or purchased abroad for production abroad, with the Israeli principal maintaining ownership. The goods are then either sold abroad or returned to Israel.
- Merchanting.
- Factoryless goods producers - with the FGP owning the inputs.

14.159. The CBS found that respondents were not indicating these activities in the Survey of International Trade in Services questionnaire as they didn't understand where these activities should be indicated in the questionnaire. The CBS noticed that at first only some industries were involved *e.g.* textile, but over time this has spread to more industries *e.g.* semiconductors.

14.160. The CBS had difficulty identifying the population and establishing a representative sample to start with. It found that while most enterprises involved were in the industrial sector, some involved R&D services. Given that all enterprises in Israel have a common and unique identification number it was possible for the CBS to cross-reference using not only CBS data, but administrative data (*e.g.* VAT records), and registers from societies/associations and company records.

14.161. An example of the type of enterprise identified by the CBS is as follows: a reputed apparel company outsources some of its production process. The sewing and finishing stage is transferred abroad while the design and modelling is done in Israel (around 35% of the value of the product). Fabrics are purchased abroad and sent directly to the subcontractor without passing through Israel. The company has 100 employees in Israel. There is a question of measuring 'know-how' here for the CBS.

14.162. An annex to the annual services questionnaire was established specifically for these activities, and VAT data was used to confront the values provided by enterprises. In 2014 'Net exports of goods under merchanting' was 2% of total exports in the balance of payments.

14.163. The new annex to the services questionnaire collects the following data:

- International trade (merchanting)
 - Value of goods purchased abroad
 - Value of goods sold abroad
- International services (goods for processing)
 - Value of manufacturing services abroad
 - Value of goods sent from Israel to the foreign subcontractor for manufacturing
 - Value of goods purchased abroad and transferred to the subcontractor for the manufacturing process (without crossing the borders of Israel)
 - Value of goods produced and sold abroad
 - Value of goods produced and returned to Israel

[Back to B.1.5.Detailed Country Cases](#)