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The Residents of an Economy 1/

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Abstract

Based on jurisdictional grounds, this paper suggests that for statistical, analytical, and policy purposes, the residents of a given economy can best be defined in terms of their presence in the territory of that economy. The paper recommends that this concept, which is underlying the definitions of general government, individuals, and enterprises in the 1968 version of the United Nations' A System of National Accounts and the 1977 version of the International Monetary Fund's Balance of Payments Manual, should continue to be used for measuring gross domestic and gross national product as well as international transactions.

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Summary

For the purpose of making policy decisions, the authorities of a given economy need data that reflect the transactions of the residents of that economy, that is, of the entities subject to the laws and regulations of that economy. This paper defines the residents of a given economy as the entities that may be expected to consume goods and services, participate in production, or engage in other economic activities in the territory of an economy on other than a temporary basis, including entities that leave the territory of that economy but do not establish residence elsewhere. The concept underlying this definition of residents is virtually the same as that underlying the definition of residents in the United Nations' A System of National Accounts.

The attraction of maintaining unchanged the concept underlying the definition of the residents of an economy did not, however, play a role in drafting the definition offered in this paper. The main focus of attention was at all times on the factors that determine an entity's residence. Nevertheless, throughout the course of defining the residents of an economy it was clear that the definition of the residents of an economy determines the size of GDP and GNP and that that definition should not be determined by considerations of how this definition might affect the size of GDP and GNP.



I. Introduction

In connection with the forthcoming revision of the System of National Accounts (SNA), a question has arisen as to whether the definition of the residents of an economy, ^{1/} given in the 1968 version of the SNA and in the 1977 edition of the Balance of Payments Manual (BPM) can continue to serve as the basis for compiling national accounts and balance of payments statistics that provide the users of these statistics, specifically the central authorities of the compiling economy and the international organizations, the information they need for policy purposes. That question is discussed in Section II. The concept underlying the definition given in that section is very much, if not completely, the same as that underlying the definition of residents in the 1968 version of the SNA and, therefore, measures of gross domestic product and gross national product based on the definition given in Section II should be similar, if not the same, as those based on the 1968 definition of the residents of an economy. Thus, the continuity of the existing time series would be maintained.

The residency status of the general government, individuals, private nonprofit bodies serving individuals, and enterprises of an economy is discussed in Sections III through VI, respectively; the residency status of international organizations, which are not considered to be residents of any national economy, including the economy in which they are located or conduct their affairs, is discussed in Section VII; and a brief summary is given in Section VIII.

II. The Policy Needs of the Authorities

The government of an economy sets the policy and makes the laws and regulations for a given economy. These laws and regulations affect, in principle, all entities - those physically or legally present in that economy ("residents") as well as those physically or legally

^{1/} In this paper, an economy refers to a sovereign state, a part of a sovereign state, a combination of two or more sovereign states, or an international organization. In this context an international organization is defined as an organization that derives its authority from the central authorities in its member countries, who have relinquished part of their authority. Except for economies comprising an international organization, the residents of an economy comprise the general government, individuals, private nonprofit bodies serving households, and enterprises. The residents of an economy comprising an international organization do not comprise individuals, private nonprofit bodies serving households, and enterprises. In such an economy, the role of the international organization is comparable to that of the general government in other economies.

present in the rest of the world ("nonresidents"). ^{1/} The enforcement of these laws and regulations vis-à-vis residents differs considerably, however, from their enforcement vis-à-vis nonresidents. Enforcement of the laws and regulations vis-à-vis residents of the given economy is relatively simple, as it derives from the government's authority in that economy. On the other hand, because the government of the given economy lacks the authority to enforce that economy's laws and regulations in the rest of the world, enforcement of those laws and regulations vis-à-vis nonresidents is not practicable. If at all, enforcement of those laws and regulations vis-a-vis nonresidents comes about only when the government of the given economy can exert pressure on entities in the rest of the world through affiliated entities in the given economy. Moreover, nonresidents are, more than anything else, subject to the possibly contradictory policies of the authorities in the rest of world and, therefore alone, may not be able to comply with the laws and regulations of the given economy. Thus, it appears that for statistical, analytical, and policy purposes the residents of a given economy can best be defined in terms of their presence in the territory of that economy - the home economy. In this context, the territory of an economy is defined to include its territorial seas and air space as well as those international waters beyond its territorial seas and the international air space beyond its territorial air space over which the economy has or claims to have exclusive jurisdiction.

The strict application of that concept of residence to a given entity that temporarily enters or leaves the territory of a given economy would affect the classification of the transactions of that entity during that time and would require the recording, both in the national accounts and in the balance of payments, of the two successive changes in the international investment position resulting from that entity's temporary change of residence. This would be particularly bothersome in extreme situations, for example, when an individual leaves the territory of the home economy for a one-day vacation or an enterprise installs equipment in the territory of an economy other than the home economy. Specifically, if a vacationing individual continued to be a resident of the home economy, that individual's expenditures on goods and services for use during his vacation should be classified under travel (direct purchases abroad); if, on the other hand, a vacationing individual temporarily became a

^{1/} For example, a potential exporter of a commodity in the rest of the world is affected by the laws and regulations of a given economy when the residents of that economy decide not to import that commodity in light of the laws and regulations of that economy. A transaction that takes place notwithstanding those laws and regulations is an illegal transaction for the importing economy but a legal transaction for the exporting economy, which should be recorded in the national accounts and balance of payments statistics of both economies, despite the fact that the transaction is illegal for the importing economy. Failure to record the transaction in the importing economy has caused imbalances in the global accounts.

resident of the host economy, these same expenditures should be classified under private unrequited transfers (other capital transfers by private sector, denoting a change in net worth). Similarly, the recording and the classification of the various transactions of an enterprise in connection with the installation of equipment in the territory of an economy other than the home economy would depend on the residency status of that enterprise. For example, any payment for wages to residents of the host economy would be recorded as labor income and the proceeds from the installation services should be recorded as services (miscellaneous commodities) if the enterprise continued to be a resident of the home economy, whereas the net proceeds from the installation services (gross proceeds from the installation services minus payments for wages) should be recorded as investment income (entrepreneurial income) if the enterprise temporarily became a resident of the host economy.

In addition, the strict application of that concept of residence would require the recording, both in the national accounts and in the balance of payments, of the two successive changes in the international investment position resulting from an entity's temporary absence from the home economy. Specifically, an entity's claims on/liabilities to other residents of the home economy would, for one day, become that economy's foreign liabilities/claims, while an entity's claims on/liabilities to residents of the rest of the world would become, again for one day, the rest of the world's domestic liabilities/assets. Thus, if an entity were defined in terms of its presence in the territory of an economy, a good deal of information would be required in order to implement the existing accounting rules.

In view of these considerations, it appears that there would seem to be justification for defining the residents of an economy as the entities that may be expected to consume goods and services, participate in production, or engage in other economic activities in the territory of an economy on other than a temporary basis. Under this approach, however, questions would arise as to the length of time an entity can remain outside the territory of the home economy and as to the activities it can engage in during that time without that entity undergoing a change in its residency status.

Obviously, the longer an entity stays outside the territory of the home economy and the more an entity is integrated in the economy where it is temporarily located—the host economy—, the more reason there is for treating that entity as a resident of the host economy. Entities whose stay in the territory of a host economy is very brief and that are barely integrated in the host economy, for example, individuals who travel for a one-day vacation in the territory of the host economy or enterprises engaging in the installation of equipment in the territory

of the host economy, should not be considered residents of that economy during that period. On the other hand, entities whose stay in the territory of the host economy is indefinite and that are fully integrated in the host economy should clearly be considered residents of that economy.

An approach to determining residency that is based on the length of stay and the degree of integration in the host economy, however, cannot be adopted. For one thing, ranking of entities according to these criteria is not a feasible undertaking. Furthermore, even if such a ranking were made, it would still be a matter of judgement to decide exactly how long and for what purpose an entity would have to be in the territory of the host economy before that entity was considered to have become a resident of that economy in accordance with the concept of residence, that is, where the border line between residents and nonresidents should be drawn. Therefore, a supplementary rule of thumb for determining the residency status of entities that temporarily remain outside the home economy would seem to be needed. And as, in general, little information on the activities of entities that temporarily remain outside the territory of the home economy is available, there would seem to be justification for expressing that rule in terms of a period of time an entity can remain outside the territory of its home economy without that entity undergoing a change in its residency status.

As the introduction of such a rule would affect both the compilation and the analytical usefulness of the data, it is important that that rule represents the best possible trade-off between these two aspects. Therefore, that rule might be that entities entering the territory of an economy for less than one year would not become resident of that economy and that entities leaving the territory of an economy for less than one year would continue to be resident of that economy.

It should be borne in mind that the one-year time span of an entity's presence in a given economy as the basis for identifying resident/nonresident entities is not in itself sacrosanct. One could conceivably argue for a period longer than one year; what is important, however, is that, from a statistical and analytical standpoint, an objective criterion rather than a vague reference to some concept of "center of economic interest" be adopted for demarcating resident/nonresident entities. While the length of the period to be used for identifying resident/nonresident entities could certainly be a point for discussion in any reappraisal of the existing guidelines on residence, consideration of maintaining continuity in the time series would favor the retention of the present one-year rule.

However, under that approach, a problem of principle would arise for entities that, after a point in time, remain permanently outside the territory of any national economy, i.e., in international waters or air space, or that move frequently between the territories of two or more economies, thus posing a problem very similar to that of entities permanently remaining in international waters or air space. As a matter of principle, such an entity should be attributed to a single economy based on that entity being subject to the laws, regulations, and protection of that economy. But as information for such an attribution is generally not available, still another supplementary rule of thumb to deal with both of these cases would have to be provided. That rule might suggest that until the time an entity that is physically or legally present in more than one national territory during the course of a year, or outside any national territory, has established residency elsewhere, it continues to be a resident of the economy of which it was a resident before it left its territory. In this connection, it should be recognized that failure to attribute an entity to any economy has caused asymmetries in the global accounts.

The analytical and statistical considerations discussed in this section point to the need for formulation of guidelines on residence as described in Sections III - VII.

III. General Government

The general government agencies that are residents of an economy include all departments, establishments, and bodies of its central, state, and local governments located in its territory and the embassies, consulates, military establishments, and other entities of its general government located elsewhere.

The general government of an economy covers all agencies of the public authorities not classified elsewhere: (a) government departments, offices, and other bodies, irrespective of whether they are covered in ordinary or extraordinary budgets, or in extrabudgetary funds, that engage in administration, defense, and regulation of the public order, promotion of economic growth and welfare and technological development, provision of education, health, cultural, recreational, and other social and community services free of charge or at sales prices that do not fully cover their costs of production; (b) other nonprofit organizations serving individuals or business enterprises that are wholly, or mainly, financed and controlled by the public authorities and nonprofit organizations serving individuals or business enterprises that are wholly, or mainly, financed and controlled by the public authorities

and nonprofit organizations primarily serving government bodies themselves; (c) social security arrangements for large sections of the community imposed, controlled, or financed by the government, including voluntary social security arrangements for certain sections of the community and pension funds that are considered to be part of the public social security schemes; (d) unincorporated government enterprises that mainly produce goods and services for the government itself or that primarily sell goods and services to the public, but that operate on a small scale; and (e) public saving and lending bodies that are financially integrated with a government or that lack the authority to acquire financial assets or incur liabilities in the capital market.

As embassies, consulates, military establishments, and other entities of a general government are subject mainly to the laws and regulations of the economy they represent, they are considered to be residents of that economy and not of the economy in which they are physically located.

IV. Individuals

1. General definition

The concept of residence adopted for individuals is designed to encompass all persons who may be expected to stay in the territory of a given economy on other than a temporary basis, including residents who leave the territory of that economy for whatever period of time, but do not establish residency elsewhere. For individuals other than government employees and employees of international organizations, a temporary basis is defined to be a period of less than one year. As they are mainly subject to the laws and regulations of that economy, government employees are always considered to be residents of the country employing them and, in a somewhat analogous manner, employees of international organizations are always considered to be residents of the economy in which either the headquarters or the regional offices of their employer are physically located.

For purposes of the application of this definition, the following types of individual are considered to be in a given economy on a temporary basis:

(a) visitors (tourists), i.e., persons in the given economy for less than one year, specifically for recreation or holiday, medical care, religious observances, family matters, participation in international sports events and conferences or other meetings, and study tours or other student programs;

(b) crew members of vessels, aircraft, or other types of mobile equipment who do not live in the given economy but who are stopping off or laying over there;

(c) commercial and business travelers who are to be in the given economy for less than one year and employees of nonresident enterprises who have come to the economy for less than one year to perform a given task, such as installing machinery or equipment purchased from their employer;

(d) seasonal workers, i.e., persons who are, and will be, in the given economy explicitly for the purpose of seasonal employment only, and other workers hired by resident entities for less than one year;

(e) official diplomatic and consular representatives, members of the armed forces, and other government personnel of a foreign economy (together with their dependents), regardless of the length of stay in the given economy;

(f) employees of international organizations (together with their dependents) who are outside the economy in which their employer is physically located, regardless of the length of stay in the given economy. Employees in the regional offices of such organizations would be considered residents of the economy in which the regional office is located;

(g) border workers, i.e., persons who cross the border between two economies daily, or slightly less frequently but regularly, because they work in the given economy but have their abode in another economy.

2. Special implications of the definition of an individual

Some clarification might be helpful with regard to the residence of government personnel. It is suggested that all government personnel (together with their dependents) who are outside the home economy should be treated uniformly. In particular, this means that technical assistance personnel should be treated as nonresidents of the host economy.

Technical assistance personnel are employees of the donor government who are either hired specifically for the technical assistance assignment or are reassigned existing employees. The salaries (and allowances) of this personnel are paid by the donor government, although some local costs may be borne by the recipient economy. Most assignments would

be, perhaps, for 18 months to two years, although some assignments could extend for many years. The donor economy considers these employees as its residents and considers that it has "stationed" these employees in the recipient economy. If, however, a donor country gave a cash grant to a recipient economy, which uses the funds to hire a foreign expert, the situation would be different. In that case, the foreign expert would be considered to be a resident of the recipient economy, according to the general rule of residency.

The determination of residency according to an individual's length of stay in an economy would mean that the following individuals would be deemed to be residents of the economy where they are staying - workers, including expatriate businessmen, who expect to be in the economy for one year or more, illegal aliens, and refugees.

(a) *Workers who expect to be in a given economy for one year or more.*

It is suggested that all individuals who enter the territory of a given economy with the intention of staying at least one year in that economy should be treated as residents of that economy, with the exception of employees of foreign governments and of international organizations that are physically located in another economy. Residents of the given economy would, therefore, include all long-term workers, no matter the circumstances in which they are accommodated, the ties they maintain with their countries of origin, or the level of salaries they earn.

It has been suggested by some analysts that nationals of an economy who work on contract in another economy for varying periods (so-called migrant or guest-workers) be regarded as residents of the home economy regardless of their length of stay abroad. It has been argued that these workers have employment contracts typically of one-to-two years in duration, which are sometimes renewable, and that they invariably return to their home country upon expiration of their contracts. Often, during their period of employment abroad, the 'guest-workers' leave their families behind in their home countries. The argument is made that these workers continue to have their economic association with their home countries and, for this reason, some of the analysts would suggest that they be considered residents of their home economies rather than of the host economies. The argument against this line of reasoning is that, with the exception of government employees and employees of international organizations, the same argument could be applied to all other categories of individuals, including students who are domiciled abroad for varying lengths of time, depending on the duration of their study programs. It would not seem appropriate to single out the category of 'migrant or guest-workers' as an exception to the general rules of residency. Furthermore, as pointed out on page 4, one needs for statistical purposes an objective yardstick, preferably with reference to some observable characteristic, such as length of stay, to set apart resident from nonresident entities.

b. Illegal aliens and refugees

As the length of stay of illegal aliens and refugees in a given economy is often indeterminate and there is no other economy to which their residency can be more meaningfully assigned, it is suggested that these individuals should be treated as residents of the economy where they are staying.

Individuals who are permanently moving from one economy to another, for example, some members of ships' crews and international travelers, also have to be assigned to an economy. The definition given above accommodates these individuals by assigning them to the economy where they had established residence before moving from one economy to another.

V. Private Nonprofit Bodies Serving Individuals

All private nonprofit bodies classed as serving individuals are resident economic entities of the economy in whose territory the bodies are located or conduct their affairs. Such bodies are not entirely, or mainly, financed and controlled by organs of general government, and they furnish educational, health, cultural, recreational, and other social and community services to individuals either free of charge or at sales prices that do not fully cover their costs of production.

VI. Enterprises

1. General definition

Resident enterprises of a given economy are the actual or notional units that engage in (i) production of goods and services on the territory of that economy, (ii) transactions in land located within the territory of that economy, or (iii) transactions in leases, rights, concessions, patents, copyrights, and similar nonfinancial intangible assets issued by the government of that economy.

2. Special Implications of Definition of an Enterprise

a. Transactions in land and nonfinancial intangible assets

Unlike other real assets used in the production of goods and services, land can be used in the production of goods and services only in the territory of the economy where it is located and nonfinancial intangible assets, such as leases, rights, concessions, patents, and copyrights, can be used in the production of goods and services in the territory of an economy other than the one where they are issued only through a licensing arrangement with the holder of the asset, a

resident enterprise of the economy in which the asset was issued. Furthermore, unlike the owners of real assets other than land and nonfinancial intangible assets, the owners of land and nonfinancial intangible assets are permanently subject to the laws and regulations of the economy in whose territory that land is located and whose authorities have issued those assets, respectively. In view of these unique and strong ties between these assets and the territory where these assets are located or issued, there is justification for raising a notional enterprise in the economy in whose territory the land is located and whose authorities have issued the nonfinancial intangible assets whenever ownership of these assets is acquired by a nonresident entity. At that time, the ownership of these assets is imputed to that notional enterprise and the ownership of that notional enterprise is imputed to the nonresident owner of these assets. Any income from the land and the nonfinancial intangible assets will accrue to the nonresident owners in the form of investment income (withdrawals of entrepreneurial income) from the notional enterprise.

b. Breakup of single entities

The general rule governing the determination of the residence of enterprises often makes it necessary to divide a single legal entity (e.g., a parent company operating in one economy and its unincorporated branch operating in another economy) or a single establishment (e.g., a pipeline or railway spanning the territory of two or more economies) into two or more separate enterprises. Each of these enterprises is to be regarded as a resident of the economy on whose territory its operations are carried out. The costs and proceeds of the separate units are to be calculated as if the units bought and sold at market prices, even though some, most, or all of what they receive from or transfer to the other units of the complex of which they form a part may be omitted from their records or entered only at a nominal value. The balance of payments/external sector presentations should reflect the allocation to each member of the complex of an appropriate share of any common operating costs, including head office expenses and charges in respect of mobile equipment. The net income of the units should be shown as accruing to the economy where the head office is located.

The practice described in the previous paragraph is to be followed also for the so-called offshore enterprises. These enterprises, which are typically owned by residents of an economy other than the economy in whose territory the enterprise is engaging in the production of goods and services, 1/ benefit from laws and regulations designed to attract export-oriented assembly and manufacturing companies, international trading companies, banks, and insurance companies. These enterprises are subject to the policies of the authorities of the economy where

1/ The residency status of the owner of an enterprise operating in the territory of an economy does not play a role in determining the residency status of that enterprise.

they are engaged in production of goods and services. For that reason, they should be considered to be residents of that economy, even though they may be located in specially-designated areas of the territory of that economy, may be exempt from that economy's customs and exchange regulations, may receive fiscal or other incentives from that economy, or may be subject to restrictions with respect to transactions with other entities residing in the territory of that economy.

Nonetheless, for analytical purposes, the international transactions (including the capital and income flows) of offshore or similar enterprises could be distinguished in balance of payments/external sector presentations from those of other residents of the reporting economy. It should be recognized, however, that the failure to include the international transactions of offshore enterprises in balance of payments/external sector presentations—either on a gross or on a net basis—has caused global asymmetries when those transactions are included in similar presentations for the rest of the world.

The registration of ships or other mobile equipment in a so-called open-registry country 1/ for the purpose of obtaining the right to fly the flag of that country refers to the acquisition of still another nonfinancial intangible asset. The acquisition of such an asset also requires the raising of a notional enterprise. Unlike the offshore enterprises referred to in the previous paragraphs, however, an enterprise that has acquired the right to fly the flag of the flag-of-convenience country generally does not have any assets other than the right to fly the flag of the flag-of-convenience country. The ship or the other mobile

1/ An open-registry country has been described by the Rochdale Committee as having the following features: 1. The country of registry allows ownership and/or control of its merchant vessels by noncitizens; 2. Access to the registry is easy. A ship may usually be registered at a Consul's office abroad. Equally important, transfer from the registry at the owner's option is not restricted; 3. Taxes on the income from the ships are not levied locally or are low. A registry fee and an annual fee, based on tonnage, are normally the only charges made. A guarantee or acceptable understanding regarding future freedom from taxation may also be given; 4. The country of registry is a small power with no national requirement under any foreseeable circumstances for all the shipping registered (but receipts from very small charges on a large tonnage may produce a substantial effect on its national income and balance of payments); 5. Manning of ships by nonnationals is freely permitted; and 6. The country of registry has neither the power nor the administrative machinery effectively to impose any government or international regulations, nor has the country the wish or the power to control the companies themselves. (Committee of Inquiry into Shipping, Report p. 51 London: HMSO Cmnd 4337, 1970.)

equipment that is flying the flag of that country typically is owned by an enterprise located in a country other than the flag-of-convenience country and, more importantly, the ship or other mobile equipment that is flying that flag typically is used in production outside the territory of any economy. Therefore, production of the notional enterprise owning the right to fly the flag of the flag-of-convenience country is represented by the service it renders to the owner of the ship or other mobile equipment. The value of that service presumably is equal to the registration fee the notional enterprise pays to the government of the flag-of-convenience country.

c. Mobile equipment

Situations involving mobile equipment—for instance, aircraft, ships, highway and railway rolling stock, fishing vessels, and gas and oil drilling rigs—often seem to present problems of residence. These problems, however, can be partly illusory; it must be kept in mind that it is the residence of the operator who employs the equipment in its productive activities that is to be decided. The resident status of all enterprises, is in fact to be governed by the same rule, whether the capital equipment that they use is immovable or mobile; an enterprise is a resident of the economy on whose territory it engages in production.

Mobile equipment thus presents a problem of principle—in the sense that the residence of the enterprise operating it cannot logically be inferred from the above rule—only when it is used in production outside the territory of any national economy, i.e., in international waters or air space. Mobile equipment that merely moves between the territories of two or more economies should, in accordance with the general rule, be regarded as being operated by a separate enterprise in each of the economies where it is used in production. As a practical matter, however, equipment that moves frequently between the territories of various economies also poses a problem very similar to that of equipment used in international waters or air space. Therefore, a supplementary rule of thumb to deal with both of these cases is needed. This rule is that mobile equipment that is operated on more than one national territory during the course of a year, or outside any national territory, is to be attributed to a single enterprise with a determinate residence. That enterprise is considered to be the operator of the aircraft, ships, highway and railway rolling stock, fishing vessels, gas and oil drilling rigs, or other mobile equipment that is not used for production primarily on the territory of any one economy for as much as a year or is used in international waters or air space.

In the decision on the residence of an enterprise conceived in accordance with the above rule, attention should be given to such attributes as the flag of registration of the equipment, the economy of incorporation of the company directing its operations, the residence of

the owners of that company, and for an unincorporated enterprise the residence of the entity responsible for its operations. In addition, such circumstances as the fact that the equipment is subject to the laws, regulations, and protection of a particular economy, or that it is linked more closely to one economy than to others, should be taken into account.

In rare instances, considerations such as those in the preceding paragraph could point to more than one economy as being the residence of the enterprise operating, say, a transportation system or fishing fleet. In the case of an enterprise of that sort which is jointly organized and owned by residents of more than one economy, its transactions should be attributed to enterprises in the economies of each of its owners in proportion to the owner's share in the financial capital of the joint enterprise.

d. Residence of enterprises engaged in installation

Problems of defining the residence of an enterprise are encountered where employees of a resident enterprise of an economy go abroad in order to install machinery or equipment that the enterprise has sold to nonresidents. In these instances, the installation services should be considered to be services that have been provided by the resident enterprise to a nonresident if the work of installation is carried out entirely, or primarily, by the employees in question and they complete the installation in less than one year. However, if a significant portion of the work of installation is performed by residents of the economy where the machinery or equipment is installed, the work of installation is likely to be substantial and will probably take a significant time to complete. Such services should then, in principle, be attributed to an enterprise resident in that economy.

e. Agents

Without exception, a transaction should be attributed to the economy of the principal on whose behalf a transaction is undertaken and not to the economy of the agent representing or acting on behalf of that principal. However, the services rendered by the agent to the enterprise he represents should be attributed to the economy of which the agent is a resident.

f. Leased goods

The general rule determining the residence of an enterprise applies whether it is using its own or leased capital equipment. If such goods have been obtained under a financial leasing arrangement that provides for the recovery of all, or substantially all, of the cost of the goods, together with the carrying charges, that arrangement is to be taken as presumptive evidence that a change of ownership is intended.

VII. International Organizations

An international organization is defined as an organization that is not legally subject to the control of any higher or external authority, i.e., an organization that derives its own authority directly from the authorities of its members or, in other words, from the authority of independent states. The supreme authority of sovereign states is the government. Governments may have delegated part of their responsibilities and authority to national agencies, such as central banks, and may have relinquished part of their authority to international organizations.

An international organization is usually composed of the central authorities of sovereign states that join in a common pursuit of certain goals. Sovereign states have joined in various types of international organizations in order to treat some matters on an international level. Several international organizations have been created to foster international cooperation in political, administrative, financial, technical 1/, health, labor, economic, and social fields.

An international organization is sovereign because it is not under the jurisdiction of any single government and it has definite functions, privileges, and powers that are usually set forth in the constitution or charter of the organization. The constitution is agreed to by the authority of the states that wish to pursue objectives within a formal institution. The concept of sovereignty is characterized by the unlimited authority of the international organization to exercise its powers without the invasion by any superior or external control. For example, the Articles of Agreement of the International Monetary Fund provide the purposes, functions, and limits under which the Fund operates. The Fund possesses full juridical personality, is immune from judicial process, is immune from any form of seizure by executive or legislative actions, is free from restrictions, regulations, controls, and moratoria of any nature, and is immune from all taxation and customs duties. In addition, officers and employees of the Fund are immune from legal process with respect to acts performed by them in their official capacity, which is similar to diplomatic immunity.

The treatment of an entity as an international organization is done on an ad hoc basis. The test to apply in order to determine if an entity is an international organization is twofold. First, it must have authority derived directly from the authorities of its members. Second, it must have a sovereign status, i.e., the laws and regulations of the economy where the international organization is located do not apply to the international organization. In this respect, enterprises and nonprofit institutions that are owned jointly by governments or other residents from more than one economy are not treated as international

1/ Such as postal, communications, and meteorological services.

organizations but are, like other enterprises, considered to be residents of the economies on whose territories they operate; their transactions are allocated to a resident enterprise of each country in proportion to the share of its owners in the financial capital of the entity or in relation to other formulas determined by the owners. For example, Air Afrique, which is engaged in the provision of international air transportation services, is owned by the government of ten states. It received its authority to provide such services directly from the government of the ten states, which is the supreme authority of independent states. However, Air Afrique is a nonfinancial enterprise and has to comply with the laws and regulations of the economies where it is located and where it operates. For that reason, it should not be treated as an international organization but as a resident enterprise of the ten countries.

International organizations, including supra-national organizations, are not considered residents of any national economy, including that in which they are located or from which they conduct their affairs. The employees of these organizations are, nevertheless, residents of a national economy, specifically, of the economy in which they are expected to have their abode for one year or more. That economy will be the one in which the given international unit is located. It follows that the wages and salaries paid by the international organizations to their own employees are payments to residents of the economy in which those organizations are physically located; the only resident entity in the economy that comprises an international organization is the international organization itself.

VIII. Summary and Conclusion

For the purpose of making policy decisions, the authorities of a given economy need data that reflect the transactions of the residents of that economy, i.e., of the entities that are subject to the laws and regulations of that economy. In order that these authorities might collect such data, this paper defines the residents of a given economy as the entities that may be expected to consume goods and services, participate in production, or engage in other economic activities in the territory of an economy on other than a temporary basis, including entities that leave the territory of that economy but do not establish residence elsewhere. The concept underlying this definition of residents is very much, if not completely, the same as that underlying the definition of residents in the United Nations' A System of National Accounts.

The attraction of maintaining unchanged the concept underlying the definition of the residents of an economy did not, however, play a role in drafting the definition offered in this paper. The main focus of attention was at all times on the factors that determine an entity's

residence. Nevertheless, throughout the course of defining the residents of an economy it was clear that the definition of the residents of an economy determines the size of GDP and GNP and that that definition should not be determined by considerations as to how this definition might affect the size of GDP and GNP. But, although the definition of the residents of an economy determines the size of GDP and GNP, it cannot be said to distort the size of these economic aggregates. Distortions in GDP and GNP can come about only as a result of the incorrect application of the definition of residents, whatever that definition may be.