

AGENDA ITEM 7

Guideline for Revision

Second Task Force Agreements

In harmonization of AMCs standard industrial classification, it was agreed during the second task force meeting that there should be a guideline for the revision so that the harmonized classification system of the countries will be consistent. Several suggestions were given during the meeting. The task force will agree on the guideline to be followed by the AMCs.

The following were some of the points raised during the second meeting:

1. The classification will be based on the supply-side framework where units engaged in similar productive activities are grouped together. It shall continue to use the criteria of input, process and output for the definition of classes.
2. Revision will be focused on production function as a conceptual underpinning within the constraints of relevance, comparability and continuity.
3. Value added will be the criterion used to identify the primary activity of a unit that carries out multiple activities.
4. If the producer makes use of outsourcing, without further processing of the product, then the activity of the producer will be classified as trading. If further processing is done, the activity of the producer will be under manufacturing category with highest value added.
5. In recycling, if the process leads to the production of new product, then it will be classified under manufacturing. If the activity is purchasing or classifying of waste product for sale to manufacturing, then the activity can be classified under trading.

General Consideration in the Revision of Classification Structure

After the Task Force decide on the common industrial classification structure, countries will either adopt the subsequent classification of the industries based on ISIC rev 4 or might wish to revise this to suit the economic structure of the country. The kind of elaboration will depend upon the requirement of the various uses of industrial statistics. The task force could consider the following criteria used in developing international standard industrial classification.

1. ISIC is a classification according to kind of economic activity. The activity carried out by a statistical unit is the type of production in which it engages.

2. ISIC does not draw distinction according the kind of ownership, type of legal organization, or mode of operation as such criteria do not relate to the activity itself. It does not make distinction between formal and informal, market and non-market or public and private companies.
3. Activity is to be understood as a process, a combination of actions that results in a certain set of products. This is characterized by input of resources, a production process and an output of homogenous set of products (class). Such activity might entail one process or a set of sub-activities that produces a product.
4. A unit may engage in more than one activity of different production processes with the product are eventually for third party. The activity that accounts for the highest value added is referred to as principal activity and the others are referred to as secondary activity. If an activity is different from the principal activity or secondary activity and the output of this activity is used as intermediate input of the principal or secondary activity, this activity is referred to as ancillary activity.
5. The classes (4-digit) is the classification used for kind of economic activity or establishment. The condition that needs to be considered in classifying an activity to a class are:
 - a. The production of the category of goods and services which characterizes a given class accounts for the bulk of the output of the units classified to that class;
 - b. The class contains the units, which produce most of the categories of the goods and services that characterizes it.

Organization of production differs from country to country and therefore the classes of ISIC might not reflect the structure in each individual country. The categories will reflect the particular importance to the country and therefore might not be consistent with the ISIC.

6. The criteria for delineating division (2-digit) and groups (3-digit) groupings concerns the characteristics of the activities of producing units which are strategic in determining the degree of similarity in the structure of the units and certain relationships in the economy. The major aspect of the activities considered are:
 - a. Character of the goods and services produced
 - b. The uses to which the goods and services are put
7. The ISIC may be expanded or contracted depending upon the economic situation of the country. Some of the criteria to be considered in classifying units are:
 - a. Data could be collected
 - b. Homogeneity of processes; homogeneity is measured using

- i. specialization ratio (ratio of the product of the industry to total industry)
- ii. coverage ratio (ratio of value of the product of goods and services to the total value of goods and services in the economy)

The members of the task force are invited to consider questions:

1. What particular guideline will be helpful for the countries in the revision of ISIC rev 4 taking into account the ASEAN Common Industrial Classification Structure?
 - a. Expansion or contracting of classification category
 - b. Classification of boundary activities
 - c. Classification of activities of vertically integrated units
 - d. Criteria for classification of expanded categories
2. How should the members contribute to the guideline for revision?
 - a. Individual countries give separate guideline for revision
 - b. Group of similar countries give group guideline for revision
 - c. Consultant provide unilaterally guideline for revision
3. Should country undertake special studies first before finalizing the guidelines?