

The non-resident sector

The non-resident sector consists of all non-resident institutional units that enter into transactions with resident units, or have other economic links with resident units. It is not a sector for which complete sets of accounts have to be compiled, although it is often convenient to describe the rest of the world as if it were a sector. The accounts, or tables, for the non-resident sector are confined to those which record transactions between residents and non-residents or other economic relationships, such as claims by residents on non-residents, and vice versa. The non-resident sector includes certain institutional units that may be physically located within the geographic boundary of a country; for example, foreign enclaves such as embassies, consulates or military bases, and also international organizations.

Canadian resident transactors and non-resident transactors

International exchanges or transfers of economic values are performed by institutional units (transactors) that may be persons or legal entities. Legal entities cover a wide range of arrangements, from unincorporated enterprises to legal and social entities such as enterprises, non-profit institutions and all levels of government. However, only those transactions conducted between resident and non-resident entities are recorded in the balance of payments; hence, the importance of residency to the balance of payments accounts and the need to clearly distinguish between resident and non-resident transactors.

Canadian residents are defined as the institutional units whose main centre of economic interest is Canada. The main centre of economic interest means that institutional units live, produce, consume, invest and/or earn revenue in Canada. In the Canadian System of National Accounts (CSNA), resident institutional units are regrouped into three broad sectors: persons and unincorporated business; corporations and government enterprises; and governments. For Canadian balance of payments purposes, individual persons are treated separately from their unincorporated businesses; the latter are regrouped with corporations and government enterprises, because of commonality of economic behaviour among these three sets of units in an international context.

Persons as Canadian residents

Persons are Canadian residents if their centre of economic interest is Canada, as evidenced by having their principal residence in Canada. As a general guide, persons **who reside internal to** Canada for more than one year are treated as residents, including the staff of international organizations operating in Canada. However, there are some exceptions.

Persons who move outside of Canada for more than one year but who do so only for educational or medical reasons, or who are diplomatic, military or representative staff of the various levels of Canadian government are considered resident. Hence, Canadian residents include travellers and workers from Canada going abroad for less than one year; persons who go abroad for education or health purposes; and the Canadian government's employees recruited in Canada to work in its foreign embassies, consulates or military bases.

The residency criterion is based on the centre of economic interest and not the citizenship of persons. As such, foreign citizens whose main centre of economic interest is Canada are Canadian residents for balance of payments purposes. In the same way, Canadian citizens whose main centre of economic interests is outside Canada are not considered to be Canadian residents for balance of payments purposes.

Unincorporated businesses, corporations and government enterprises as Canadian residents¹

Unincorporated businesses, corporations and government enterprises are Canadian residents if they carry out production in Canada through resident Canadian entities, such as a Canadian corporation or a Canadian branch of a foreign corporation or organization. Businesses are non-residents if they carry out production abroad through foreign concerns, such as foreign corporations or foreign branches.

This means that businesses that carry out production through both Canadian and foreign entities are Canadian residents (for their Canadian production) and non-residents (for their foreign production). For example, a corporation operating in Canada and having a subsidiary in the United States is treated as a Canadian resident for its operations in Canada and as a foreign resident for the operations of its subsidiary. Because of their dual character, special care needs to be taken in measuring the activities of businesses that operate both domestically and abroad, especially in regard to their trade in services and their direct investment activities. The domestically based activities of businesses, including their transactions with non-residents, can be measured from their booked-in-Canada financial statements, whereas their activities as non-residents can be found in their booked-abroad activities and are transactions of their host economies.² For financial statements reporting, businesses generally consolidate both their booked-in-Canada activities (resident) with their booked-abroad activities (non-resident), which means that such consolidated statements cannot readily be used as source data for balance of payments purposes.

For businesses, the residency criterion is based on the location of their activities, not their ownership. The Canadian-based operations of foreign businesses are Canadian residents, even if these businesses are owned by non-residents. Conversely, the foreign based operations of Canadian-owned businesses are non-residents of Canada. This convention applies even if no legal structure exists in Canada; a Canadian branch of a foreign corporation is a Canadian resident although it is not a Canadian legal entity. In the same way, foreign branches of Canadian corporations are not Canadian residents.

Various levels of Canadian government as Canadian residents

Canadian government includes the federal, provincial and local levels of government, as well as non-profit organizations funded by government and for which Canada is the centre of economic interest³. These entities are always deemed to be Canadian residents because their centre of economic interest remains Canada whatever the location of their operations. As such, the Canadian residency encompasses the territorial enclaves of Canada in foreign countries for diplomatic, military, scientific or other purposes.

1. Includes Canadian non-profit organizations.

2. The distinction to be made between resident activities and non-resident activities for the same enterprise is illustrated in Colleen Cardillo, *Foreign Sales of Canadian Enterprises*. (Unpublished research paper, Statistics Canada, Ottawa, 1997). An adaptation of this argument is presented here, in Chapter 23, "Looking Ahead."

3. International organizations form part of foreign general government and, as such, are non-residents. However, if they operate in Canada, their staff is considered resident.

The economic territory of a country includes (a) the airspace, territorial waters, and continental shelf lying in international waters over which the country enjoys exclusive rights or over which it has, or claims to have jurisdiction in respect of the right to fish or to exploit fuels or minerals below the sea bed; (b) territorial enclaves in the rest of the world (clearly demarcated areas of land which are located in other countries and which are used by the government which owns or rents them for diplomatic, military, scientific or other purposes— embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, etc.—with the formal political agreement of the government of the country in which they are physically located).⁴

Conversely, foreign embassies and international organizations located in Canada are considered non-residents. It should be noted that the foreign-recruited staff of foreign embassies in Canada are deemed to be non-resident, whereas the staff of international organizations located in Canada are deemed to be Canadian residents.

Summary on Canadian residents

Canadian residents are those institutional units whose main centre of economic interest is Canada. Conventions which establish that the centre of economic interest is Canada vary among the three broad sectors of institutional units. Persons are deemed to be Canadian residents if their principal residence is Canada (including the staff of international organizations) even if they live abroad for more than one year, as long as it is for medical, educational or government staffing reasons. For business, any unincorporated businesses in Canada or Canadian corporations, including government enterprises, which have production in Canada are deemed to be residents for their Canadian activities; all the various levels of Canadian government (including their Canadian staff working abroad) are always residents of Canada.

4. Eurostat, International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations and World Bank, *System of National Accounts 1993*. (Prepared under the auspices of the Inter-Secretariat Working Group on National Accounts, Brussels/ Luxembourg, New York, Paris, Washington, D.C., 1993), paragraph 14.9, 319.