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Seminar on Globalisation

Session II:

Impact of Globalisation on Traditional Statistical Systems

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The issue

❖ The growing tendency by economic actors to ignore barriers once imposed by national boundaries

❖ The necessary interdependence of monetary, fiscal and regulatory policy across borders

❖ As statisticians we are mostly concerned with aspects such as increasing internationalisation of firms and their markets, financial systems and technologies; consumers' ability to access international suppliers and the decreasing importance of geography.

Objectives of this session

❖ To identify important issues due to globalisation of the economy that requires action from the statistical community

❖ To discuss future joint actions by NSIs and international statistical organisations

The contributions to this session are:

❖ ONS, UK (Robin Lynch)
  ➢ *Globalisation – new needs for statistical measurement*

❖ INSEE, France (Raoul Depoutot)
  ➢ *The analysis of firms' profitability: Why statisticians have to tackle globalisation issues*

❖ BEA, U.S. (Steven Landefeld, Ralph Kozlow)
  ➢ *Globalisation and Multinational Companies: What are the questions and how well are we doing in answering them?*

Comparing the emphasises of the papers

❖ The paper submitted by INSEE discusses why statisticians have to consider and measure financial results, assets and liabilities of subsidiaries abroad in order to assess profitabilities on the national territory, i.e. 'national concerns'

❖ Paper by the BEA concentrates on the role and influence of MNCs and the types of statistics that are required to answer those questions, i.e. 'totality of the whole picture of multinationals'

❖ Paper by the ONS – attempts to approach the subject matter both at the national and at the international level, i.e. "looking at the elephant and understanding its various parts"

ONS: New needs for statistical measurement

❖ Why do we need to measure globalisation?

➢ International level:
  ◆ identify the competition impact of multinational activity with implications for welfare
  ◆ taking into account that large firms no longer think national,

➢ National level:
  ◆ globalisation impacts on the effectiveness of national policies

❖ Does globalisation change what we need to measure? Four main measurement areas are identified:

➢ The vertical disintegration of value chains

➢ National units in multinational enterprises

➢ Electronic trade in intangibles

➢ BoP and international investment

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The vertical disintegration of value chains

❖ **Statistical evidence that change is under way**
  ➢ value chains become "wider" at the international level as they acquire strong competition position in specific processes across international markets but..
  ➢ "shorter" nationally as they carry out fewer processes themselves (outsourcing of production across boarders)

❖ **Implications for measurement**
  ➢ greater outsourcing change the value structure
  ➢ measurement are more difficult if changes take place across international boundaries
  ➢ 'toll processing' gives problems in statistical recording
  ➢ accurate output, import and export statistics can be problematic.

National units in multinational enterprises

❖ Problem of units. KAU (Kind of activity unit) - necessary for statistics for the national economy, but ...
  - ➢ can hide the real relationships which exist between units in multinationals (competition regulation, intra-firm transactions, transfer pricing, structural market effects)
  - ➢ economic data on activities outside the country are rarely captured
  - ➢ inputs of intellectual capital are not captured in the data collection systems for National accounts, or other statistical sources

❖ US model for data collection - permits a view of the whole enterprise because it include the capture of economic data on activities outside the country in which the enterprise is registered

National units in multinational enterprises - cont.

❖ **Problem of shared use of intellectual capital across multinationals**

  ➢ gives a clear productivity advantage. Scale dependent?
  ➢ creates severe problems for statisticians

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Electronic trade in intangibles in a borderless world

- ❖ **Questions regarding cross-border e-commerce**
  - ➢ How should one present the transactions in the statistics?
  - ➢ How should the data be collected?

- ❖ **Classification issues:**
  - ➢ as goods   > GATT
  - ➢ as services > GATS

- ❖ **Current international position: such trade will be regarded as trade in services. But what if they have a physical counterpart?**

- ❖ **Coverage issue:**
  - ➢ trade by small firms and individuals may not be significant enough to be identified/ recorded

BoP and international investment

❖ European Steering Group on multinationals (ECB and Eurostat)

❖ Towards a harmonised Balance of Payments (BoP)/International Investment Position (IIP) reporting model for European multinationals?

❖ A future reporting model will focus on a close link-up with any enterprises' accounting system. (Either GAAP or IAS)

❖ However, reluctance to devote resources within the multinational firms

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Conclusions

❖ There is a need to understand and improve data collection on:

  ➢ the effects of the 'disintegration' of business activities

  ➢ national production units as part of multinationals

  ➢ international movements of intangibles

  ➢ international investments by households and firms

❖ Further there is a need to clarify the relationship between national and business accounting

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Some reflections and comments

❖ **Coordinated use of standards**
  ➢ BoP Reporting vs. other national reporting. An example: recording production of services according to CPA is not compatible with export and import recording of services according to EBOPS.

❖ **Transfer prices**
  ➢ Transfer pricing has a crucial impact on income and cost statements of the MNEs. How should we address this very important quality issue?
  ➢ National statistical laws in most countries do not let NSIs gather data from the MNEs as such

❖ **Data collection**
  ➢ Too much emphasis on the NSIs ? Isn't there a role to be played for the international or supra-national organisations?
  ➢ Reduced reporting burdens for the firms?

INSEE: The analysis of firms' profitability

❖ Why do statisticians have to measure financial results, assets and liabilities of subsidiaries abroad to assess profitability on the national territory ?

  ➢ The fast development of enterprise groups (MNEs) whose intra flows and stocks of liabilities and assets considerably blur usual statistics

  ➢ The policy issue: The growing role of own capital (equity) in the financing of companies

INSEE: The analysis of firms' profitability - cont.

❖ **Three types of statistics were available:**

➢ Statistics on the stock market – high profitability rates

➢ Statistics drawn from national accounts – low profitability rates

➢ Statistics drawn from business statistics – a level that differs from the two above

Profitability of listed companies -stock markets

❖ **Problems with the interpretation of the statistics on listed companies:**
  ➢ Ambiguities in the definitions of the economic unit – no official recommendation
  ➢ Listed groups (multinationals) are traded on several stock exchanges – geographical classification is difficult.
  ➢ No simple correspondence between the concept of 'listed company' and the concept of size
  ➢ Data provided for the enterprise groups are consolidated, however this has several limitations (ex. historical cost, goodwill, comparability over time, etc.)

Statistics on profitability drawn from the National Accounts

❖ In the sector of non-financial corporations profitability is defines as the: "ratio of gross disposable income to the estimate of own capital in the accumulation accounts"

❖ Are these estimates suitable?

  ➢ Valorisation of the stocks in the equity item

    ◆ current prices [market value] vs. historical cost

  ➢ Valorisation of shares in the financial assets

    ◆ two categories of shares: resident and non-resident corporations

  ➢ Is the gross disposable income estimated with sufficient accuracy?

  ➢ Can SNA statistics be compared with those on listed companies?

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Business statistics on profitability

❖ An integration system for business statistics that provides a census of financial reports for all businesses (non-consolidated accounts) has been developed in France

❖ The average financial return of each category (main activity code, size) is defined as the ratio of the total net profit by the total of own capital
  ➢ Statistical unit: corporation
  ➢ Own capital: measured as the book value, not as the marked value

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Business statistics on profitability - cont.

❖ However, this method has also shortcomings
 ➢ related to valuing of characteristics in the accounts
 ➢ due to the structure of enterprise groups that allow a disintegration of the company into several corporations

Business statistics on profitability- cont.

❖ **How to tackle these problems?**
- ➤ Best solution: to use consolidated accounts produced directly by businesses. However, these are not broken down by geographical area.
- ➤ Another solution: to design statistics that would approximately consolidate individual data provided by the non-consolidated corporate accounts. This requires additional information and some testing.

❖ **Discrepancy of the three indicators**

Plans for future data collection

❖ More information is needed. Having in mind the statistical burden on businesses INSEE plans to:
  ➢ Extend of the current use of non-consolidated accounts with the annual survey of financial links by using:
    • consolidated accounts
    • an existing light survey on French subsidiaries abroad

❖ The new EU regulation implementing FATS is an opportunity to give a legal framework, since it will avoid duplication of work. First step should be to build a common statistical register of corporations in the EU

❖ Cross-border intra-group flows of goods – the challenge is to reduce the cost of data reporting

Questions to the INSEE paper

❖ Doubts about the meaningfulness of delimiting equity to national territory
  ➢ Perhaps the focus ought to be on assessing the market value of the (tangible and intangible) inputs that are used in the production process instead of how it is financed?

❖ Varying measures of return obtained from business accounts and national accounts
  ➢ Are the discrepancies between business accounts and national accounts mainly due to differences in data sources and measurement errors or are there fundamental conceptual discrepancies between the two accounting standards ?

BEA : Globalisation and Multinational Companies – What are the questions and how well are we doing in answering them?

❖ A brief summary of the efforts of the U.S. data collection since 1950's.

  ➢ In the1950s: focus was on the data needed to compile the U.S. BoP accounts
  ➢ Until about mid-1970's greater emphasis on the data for U.S. direct investment abroad (outward investment)
  ➢ 1970-80's BEA expanded its data on the overall operations of U.S. parent companies and their foreign affiliates.
  ➢ late 1980's- efforts to link BEAs enterprise-level data on direct investment to establishment-level data
  ➢ Recently : methodological work, improvement of the concepts

Some of the current questions about MNCs

Questions on wages and employment

> ➢ How do MNCs affect output, incomes and employment in home and host economies? How do they affect wages? How do foreign owned companies differ from domestically owned companies in terms of wages?

Questions on trade, flows and balances

> ➢ How do MNCs respond to barriers to trade and investment; to tax and investment incentives? How do multinationals affect trade flows and trade balances? How do MNCs contribute to cross border transfers of technology?

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Questions asked about MNCs - cont.

Questions on financial flows, investment and prices

❖ What is the role of multinationals in international financial flows? How much of a particular domestic industry is owned by foreign companies? Do multinationals contribute to or help mitigate international financial crises, such as currency crises? Is intra-firm trade conducted at arm's length prices, or are prices set to shift profits and avoid taxes?

Questions asked about MNCs - cont.

Questions on market/production strategy and output

❖ What determines the location of production by multinationals?

➢ Most important determinant seems to be access to large and prosperous market and not low wages. ¾ of the U.S. FDI is in the developed countries.

❖ How do multinationals affect major domestic aggregates, such as GDP, productivity and corporate profits?

A remark:
Same question, different answers?

❖ Do MNCs invest abroad to achieve efficiency in vertical integration? Or does their international expansion tend to be more horisontal?
  ➢ The U.S. paper: several studies concluded that the bulk of MNCs' investment is horizontal.
  ➢ The U.K. paper: a vertical disintegration is under way. Outsourcing

❖ A possible explanation to this discrepancy: U.K. paper has a more general approach covering all businesses, whereas the U.S. paper concentrates mainly on the multinational corporations.

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Substantial additional work is necessary

❖ Uncertain if the U.S. experience in the way data is collected is applicable to other countries due to tax rules, laws, labour force attributes, stage of development etc.

❖ Large bilateral asymmetries in data that intend to measure the same or similar positions or transactions.
  ➢ Some estimation errors. Here the IMF work on the statistical data quality is referred to
  ➢ Other asymmetries are due to differences in the definitions and concepts

❖ New and emerging issues may complicate the compilation techniques
  ➢ new types of business arrangements, growth of high technology industries, increasing importance of the services, new ways of financing operations or hedging exposures.

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Role of the statistical organisations

❖ Improve accuracy, consistency and quality of data by

➤ updating and expanding international data standards

➤ updating manuals such as BoP manual, SNA manual

➤ undertaking additional collaborative projects, e.g. comparing bilateral data

➤ making fuller use of data they already collect

➤ working towards closing gaps in coverage (of cross border transactions and of affiliate financial and operating data)

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Conclusion

❖ The obligation of the statistical organisations is to keep pace with changes in the world economy

❖ To cover MNCs effectively, direct surveys are needed

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Some questions and comments

❖ The article concludes that MNCs are good for consumers, since goods are accessible to consumers at a lower cost than would otherwise be the case. What about monopoly pricing and purely tax motivated transactions ?

❖ In order to overcome the problems with transfer pricing that may distort the financial report of the individual enterprises, direct surveys are suggested. Such surveys are costly and the data will refer to some kind of internal pricing for shifting profits. What value will such prices have for statisticians?

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Some questions and comments – cont.

❖ It is claimed that the FDI is more profitable/-productive than domestic investment. Wouldn't data problems due to transfer pricing within MNC make it difficult to evaluate the reliability of the data?

❖ It proposes to re-evaluate FDI from historical cost values to market values. Which market prices should be used here? Prices at home or in the foreign country?

Common issues addressed by the three papers

❖ Demand for harmonisation and comparability of existing statistics has increased

❖ Standards and classifications have to be revised to address these demands

❖ In order to evaluate the role and the impacts of the MNEs, additional data is needed.

Further questions for discussion:
Data collection in a globalised world

❖ Is there a need to develop new formal and legal structures in order to capture the required information and to avoid duplication of work? Exchange of individual data between national statistical compilers? A common statistical register of MNEs?

❖ How to balance the requirements against increased response burden?

❖ Should it be left to international or supranational organisation to do part of the data collection?

Proposals for future action

❖ The upcoming revisions of SNA and ISIC should take the issues of globalisation into account

❖ The development of satellite accounts for the MNEs

❖ A common methodology for the treatment of transfer pricing will have to be established. Imputed prices or prices as recorded in the accounts of the MNEs?

❖ Harmonisation of the accounting standards (GAAP and IAS)

❖ Mirror exercises should be promoted, although these have proved to be costly

Some final reflections

❖ All the three papers discuss the subject from the viewpoint of economic statistics

❖ Other aspects of globalisation in terms of statistics?
  ➢ Environment
  ➢ Energy
  ➢ Crime
  ➢ Health
  ➢ Education
  ➢ Migration

❖ The supporting paper by the Hungarian Central Office points out some of these aspects; *'cultural life, human relations, lifestyles and everyday life'* A possible theme for a future CES seminar?