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Outcome of the in-depth review of global manufacturing

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Note by the secretariat

Summary

The present note provides information on the outcome of the in-depth review of global manufacturing carried out by the Bureau of the Conference of European Statisticians in November 2011.

The review was based on a paper by Statistics Netherlands, provided as document ECE/CES/2012/3.

I. Introduction

1. The Bureau of the Conference of European Statisticians (CES) reviews each year selected statistical areas in depth. The purpose of the reviews is to improve coordination of statistical activities in the region of the United Nations Economic Commission for Europe (UNECE), identify gaps or duplication of work, and address emerging issues. The review focuses on strategic issues and highlights concerns of statistical offices of both a conceptual and coordinating nature.

2. The topic of global manufacturing was identified as one of the issues for future work in the Guide *The Impact of Globalization on National Accounts* (hereafter referred to as the Globalization Guide), adopted by the CES in June 2011. The Globalization Guide was produced by an Expert Group established by the CES Bureau, chaired by Statistics Netherlands. It was published in February 2012.

3. The Globalization Guide discusses how economic globalization affects national accounts compilation and provides recommendations and good practices for improving national accounts statistics. Given the limited experience thus far in implementing the 2008 System of National Accounts (SNA), the Globalization Guide lists a number of priority issues for future work, including conceptual and measurement issues related to global manufacturing.

4. Therefore, the CES Bureau decided to make an in-depth review of global manufacturing. The review was carried out in November 2011 based on a paper by Statistics Netherlands (provided as document ECE/CES/2012/3). As the review covered a broader range of issues related to global production processes and was not restricted purely to manufacturing, the discussion below refers to global production.

II. Conclusions and recommendations of the in-depth review paper

5. Global production complicates the compilation of national accounts, balance of payments and other economic statistics. It combines different international activities of enterprises such as sending semi-manufactured goods abroad for processing, merchanting and the transfer of rights of intellectual property products. However, it is often difficult to obtain the required information from business reporting or other data sources.

6. As global production has notable economic and social implications, it should be carefully treated in official statistics. Sound and comprehensive international guidance is essential to ensure the quality and comparability of the statistics. The new accounting standards, the 2008 System of National Accounts (2008 SNA) and the Balance of Payments Manual (BPM6) are better aligned to the economic reality of globalized economies than their predecessors (1993 SNA and BPM5). However, further clarifications and practical guidelines on the treatment of global production are needed.

7. The in-depth review paper describes in more detail the complexity of the phenomenon of global production and provides an overview of existing international manuals, classifications and ongoing activities that address issues related to global production. It also highlights the main unresolved conceptual and measurement issues where additional work is needed. Many of these issues are also identified as major research priorities in the Globalization Guide.

8. The suggestions of issues for further work include development of a common typology of global production and clarification of concepts and definitions; identification of the economic ownership of material inputs and outputs and of intellectual property products; economic ownership within multinational enterprises; the distinction between industrial processing and merchanting; treatment of intellectual property products; multi-territory enterprises; and data and measurement issues.

9. The in-depth review concludes by proposing to the Bureau to consider establishing a Task Force to develop conceptual and practical guidance on the unresolved issues related to global production. The Task Force should study existing practices of countries in relation to the different types of global production arrangements, taking the work of other international initiatives into account.

III. Summary of the discussion by the Bureau of the Conference of European Statisticians

10. The discussion of the CES Bureau was based on the in-depth review paper by the Netherlands, a proposal for terms of reference for a Task Force on global production and comments by UNECE and the United Nations Statistics Division (UNSD) available at <http://www.unece.org/stats/documents/2011.11.bureau.html> The following points were raised in the discussion:

(a) The topic of globalization is a core work area of the CES. Related activities are undertaken both in economic statistics and social and population statistics, in particular on migration statistics;

(b) The Bureau supported the research items proposed in the in-depth review. The area of work relates closely to other initiatives such as the Eurostat Task Force on goods for processing, the European Statistical System's Center of Excellence on global value chains, and the work of the Organisation for Economic Co-operation and Development (OECD) on trade in value added. Coordination should be ensured and duplication of work avoided;

(c) The Bureau supported establishing a Task Force on global production and agreed on the terms of reference. The Task Force should address unresolved conceptual issues arising from the 2008 SNA and the BPM6 in relation to global production and develop further guidance on implementation aspects;

(d) Global consultation should be ensured through the Advisory Expert Group (AEG) and the Inter-secretariat Working Group on National Accounts (ISWGNA). UNSD offered its assistance for the global consultation. Broad consultation should also be sought through OECD, the International Monetary Fund (IMF) Committee on Balance of Payments Statistics (BOPCOM), the Statistics Committee of the Economic and Social Commission for Asia and the Pacific (ESCAP) and others. Drafts of the report of the Task Force should be sent for discussion to the meeting of the UNECE Group of Experts on National Accounts (organized jointly with OECD and Eurostat), the OECD National Accounts Working Party and other relevant forums.

IV. Conclusions of the Bureau discussion

11. The Bureau agreed to establish a Task Force on Global Production and agreed on the terms of reference for the Task Force. The Bureau requested the Task Force to establish a detailed work plan, including a priority list of issues to be discussed in the report. The Task Force should begin with the most urgent issues in 2012 and leave those that require more

time for the second stage of work. Subsequently, the detailed work plan of the Task Force and the list of priority issues were approved by the Bureau in February 2012.

V. The work of the Task Force on Global Production

12. The Task Force on Global Production comprises the Netherlands (Chair), Canada, Finland, Ireland, Israel, Italy, Norway, Sweden, United States, Eurostat, IMF, OECD, World Trade Organization (WTO) and UNECE. UNECE provides the secretariat to the Task Force. Additional countries and organizations are welcome to join the Task Force.

13. The Task Force held its first meeting on 19-20 January 2012 in Geneva and agreed on a detailed work plan with a list of priorities of research issues. The work plan was approved by the Bureau meeting in February 2012. The list of research issues is divided into the following six conceptual (a-f) and six measurement (g-l) issues:

- (a) Developing a typology of global production arrangements;
- (b) Clarifying the principles of economic ownership of products and assets inside global production arrangements, including recording of inventories abroad;
- (c) Recording transfers of intellectual property products (IPP) inside global production chains;
- (d) Treatment of multi-territory enterprises;
- (e) Merchanting of services;
- (f) Measurement issues associated with quasi-transit trade and similar phenomenon;
- (g) Recording international commodity trade on the basis of transfer of economic ownership;
- (h) Recording of production abroad;
- (i) Complex units;
- (j) Large and complex cases;
- (k) Trade in value-added;
- (l) Price and volume measurement (including transfer pricing).

14. For complex units and price and volume measures (issues 9 and 12), it is not yet decided whether they will be discussed separately or under the other research issues.

15. The Task Force will present its work plan to the meeting of the Group of Experts on National Accounts on 30 April-4 May 2012 in Geneva and seek feedback from the participants.

16. The report of the Task Force is planned to be finalised and submitted to the CES plenary session in June 2014.