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Implications for Business Registers of Globalization TT recommendations

Group of Experts on Business Registers
UNECE

Michael Connolly – CSO Ireland
Co-chair of Globalization TT

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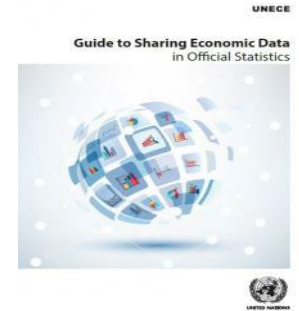
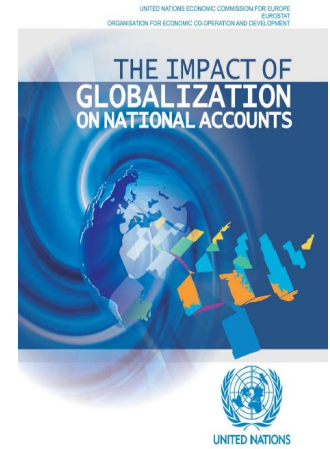
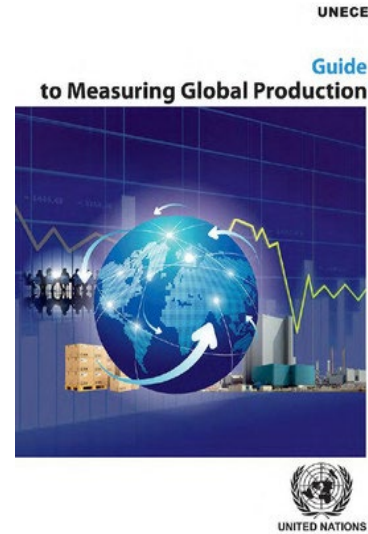
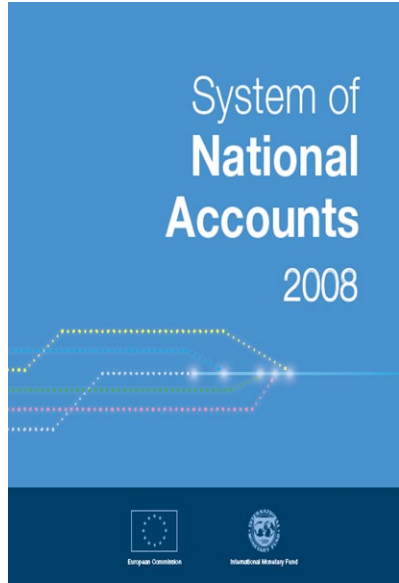
Ms. Yang Can (SAFE, China)

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Mr. Dirk van den Bergen (Statistics Netherlands)

Are we making any progress ?



Outline for today

- Introduction - what are the updates to SNA?
- Co-ordination with ISIC Rev 5
- Implications for Business Registers
- Next Steps





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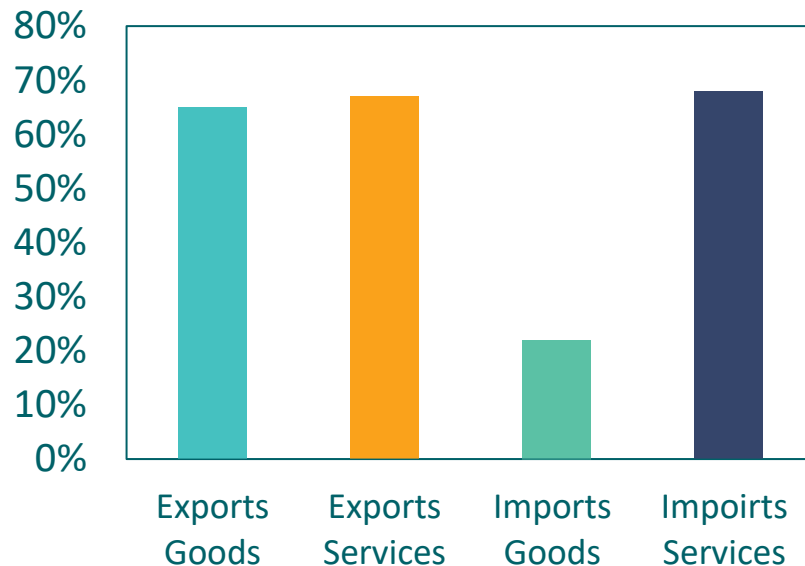
What are the challenges for
Business Registers from
Globalization TT
recommendations?

MNEs, roughly account for one-third of global output and between 50-60% of global exports



What about Ireland - one of the most globalised countries in the World?

- MNEs account for
- 65% of Goods exports and 67% of services exports
- For imports : 22% of goods and 68% of services



it is important that the SNA provides the granularity users will need to analyse, understand, and develop effective policy to address Globalization in the economy

Cannot identify MNE activity separately in the National Accounts data





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How we approach incorporating Globalisation in the new SNA



Globalization Task Team (GZTT)

- Intersecretariat Working Group on National Accounts (ISWGNA)
Globalization Task Team set up to develop guidance notes on MNEs and SPEs leading to the update of *2008 SNA* and *BPM6* in 2025,
 - In consultation with the Advisory Expert Group (AEG) on National Accounts and related task teams created under the aegis of IMF Balance of Payments Committee (BOPCOM).

Building on much work and discussion that has occurred post *2008 SNA* and *BPM6*, these options were put forward:

(I) Emphasize existing macroeconomic indicators

(II) Develop granular or supplemental data

(III) Come up with alternative presentations or extensions

(IV) Change standards



GZ.1

Valuation of Exports and
imports

GZ.2

Multinational Corporations

GZ.3

Transfer Pricing

GZ.4

SPEs

GZ.5

Economic Ownership of
Intellectual Property

GZ.6

Factoryless Goods Producers

GZ.7

Global Value Chains
TiVa, GVS and eSUTs

GZ.8

Typology of Global Production

GZ.9

Marketing Assets



Corporate Structures

- MNEs
- SPEs



Trading Arrangements

- GVCs , TiVa, eSUTs
- FGPs and Contract Manufacturers



Specific Transactions

- Intellectual Property Products
- Marketing Assets



Exports and Imports

- Valuation



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MNE Company structures- MNEs and SPEs GN.2 & GN.4



Excerpt: Institutional Sectoral Accounts Template

- ✓ It is supported by the existing SNA framework to **identify foreign-controlled nonfinancial/financial corporations.**
- ✓ **But requires additional subsectors**, national private nonfinancial /financial corporations which are part of domestic MNEs
- ✓ **Corporate inversions** can be separately identified as an “of which” category of domestic nonfinancial corporations sector.

Financial Corporations						
Total	Domestically controlled financial corporations					Foreign-controlled financial corporations
	Total	Public financial corporations	Of which: Public financial corporations, which are part of domestic multinationals	National private financial corporations	Of which: National private financial corporations, which are part of domestic multinationals	
S11	S11DO	S11001	S110011	S11002	S110021	S11003

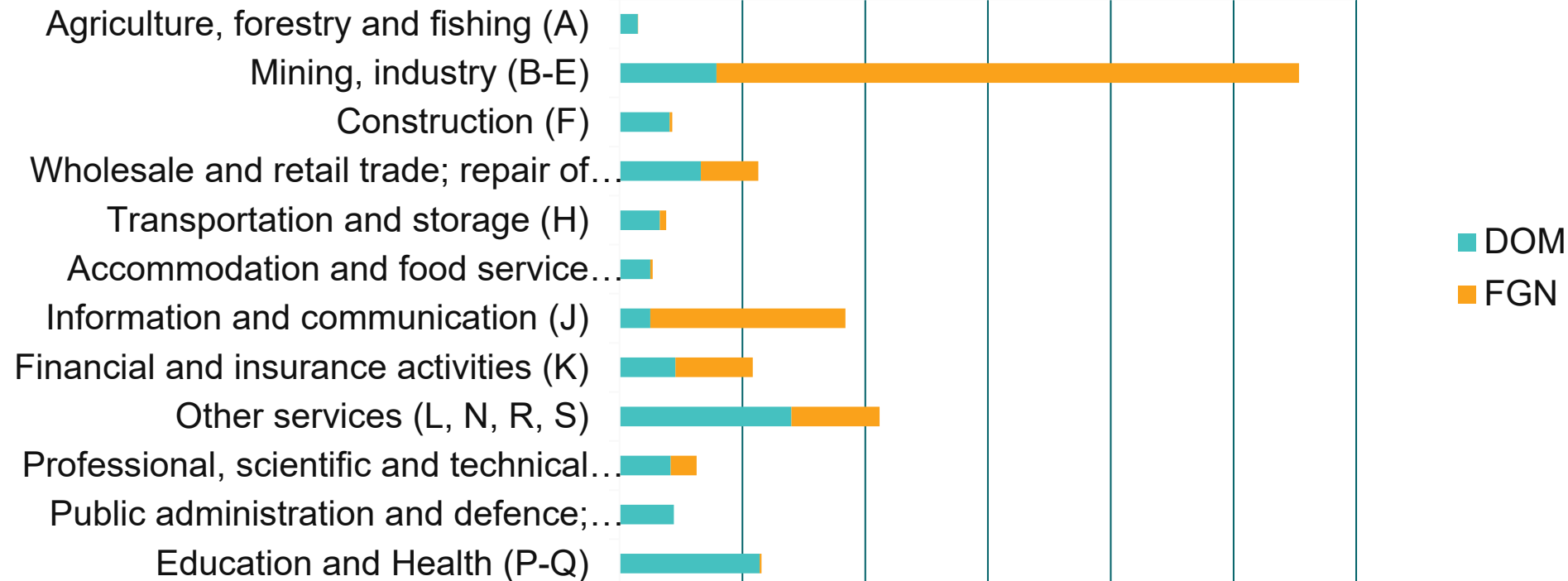
Nonfinancial Corporations						
Total	Domestically controlled nonfinancial corporations					Foreign-controlled nonfinancial corporations
	Total	Public nonfinancial corporations	Of which: Public nonfinancial corporations, which are part of domestic multinationals	National private nonfinancial corporations	Of which: National private nonfinancial corporations, which are part of domestic multinationals	
S11	S11DO	S11001	S110011	S11002	S110021	S11003

Foreign-owned MNE						Domestic-owned MNE						Non-MNE					
Exporter			Non-Exporter			Exporter			Non-Exporter			Exporter			Non-Exporter		
Imp	Non-Imp		Imp	Non-Imp		Imp	Non-Imp		Imp	Non-Imp		Imp	Non-Imp		Imp	Non-Imp	
S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L

- Dimensions: Ownership, Export orientation, Import orientation, Firm size class
- OECD “possible” breakdown of columns and rows for each industry in extended supply use table (SUT)
- Experimental approach
 - Focus on MNE breakout
- Microdata linking
 - Expanded to export orientation and firm size class in current work
 - Will consider import orientation and other possible criteria in long-run research

GVA Domestic and Foreign - €bn

0 20 40 60 80 100 120



RECOMMENDATION : A refined definition for MNE, emphasizing “control”

MNE is a legal entity that:

- has at least one nonresident affiliate or branch, and;
- exercises control over its affiliate(s) or branch(es) either directly—by owning over **50 percent** of the voting power in the entity—or by *indirect transmission* of control.
- The MNE is the ultimate controlling parent (UCP)— the direct investor at the top of the control chain. **The MNE group** consists of the MNE and the set of legal entities—regardless of their economies of residence—that are under the control of the same UCP.



Summary : G.2 Treatment of MNE and Intra-MNE Flows

- **GN proposes highlighting MNEs**—recommend a breakdown (e.g., **foreign-controlled corporations and national private/public corporations which are part of domestic MNEs**) in the national accounts through the institutional sector accounts (ISAs), eSUTs (extended supply-use tables), and/or gross value-added (GVA) should be determined by :
 - *national agencies dependent on their statistical production process,*
 - *users' analytical and policy needs.*
- **GN incorporates:** A refined definition for MNE, emphasizing “**control**” as defined by *BD4* and
- **Include** emphasis on Net indicators and supplemental granular information.

SPEs simply corporate letterboxes?

- Accounting statements
- Balance Sheets
- Transactions
- Employees ?



Growing Importance and Complexity of SPEs

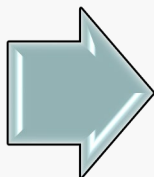
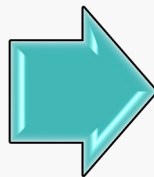
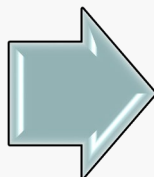
Traditional typology (*BPM6* and *2008 SNA*)

Mostly set up by financial institutions for financial activities

Arrange worldwide borrowing and lending activities for MNEs

Narrow, specific financial activities, such as securitization

Mostly engaged in pass-through and round-tripping direct investment



Currently

Also nonfinancial entities involved in R&D, trade, and other activities for group-wide profit maximization

Reallocate the collection and distribution of royalties, license and other fees, profits, intellectual property products, etc.

Broad range of financial and non-financial activities, even some not "SPE-like"

Direct, portfolio and other investment, as well as current and capital account transactions

Treatment of SPEs: Options considered

3

Option 3: Proposal to extend the existing framework, adopting the nationality-based presentation as alternative concept, without departing from the current statistical *SNA/BPM* framework.

- Changes suggested by Borga and Caliendo (2018) and Rassier (2017), if implemented as supplemental presentations, could yield meaningful enough departures from current practice.
- **Views** that this be considered on a **supplemental basis** to **complement residence-based statistics**. **A viable option only for countries for which SPEs were deemed important**
 - Would give rise to country specific practicality issue of implementation – too ambitious and resource intensive.
 - To undertake this approach, data sharing agreements will become a priority.
 - Nonetheless, both approaches as complements will meet the practicalities and policy needs of countries for which these presentations would bring value addition to analysts or policymakers.
 - Nationality-based framework would complement the existing residence-based framework, which identifies where financial claims and liabilities are held.

GZTT
options
considered

G20 (DGI-2) Institutional Sector Accounts (Financial and Nonfinancial Corporations)

Non-Financial Corporations							
Total	Domestically controlled non-financial corporations					Foreign-controlled non-financial corporations ¹	
	Total	Public non-financial corporations	Of which:	National private non-financial corporations	Of which:		SPEs
			Public non-financial corporations, which are part of domestic multinationals		National private non-financial corporations, which are part of domestic multinationals		
S11	S11DO	S11001	S110011	S11002	S110021	S11003	

Financial Corporations							
Total	Domestically controlled financial corporations					Foreign-controlled financial corporations ²	
	Total	Public financial corporations	Of which:	National private financial corporations	Of which:		SPEs
			Public financial corporations, which are part of domestic multinationals		National private financial corporations, which are part of domestic multinationals		
S12	S12DO	S12001	S120011	S12002	S120021	S12003	
			= Target				
			= Encouraged				

- ✓ ESS are already moving towards collecting data on resident SPEs that have foreign parents.
- ✓ Consideration could be given to take those units identified for ESS and identify same within the ISAs.
- ✓ This presentation provides the sequence of accounts from production through to saving and net lending and borrowing.
- ✓ They include both financial and non-financial flows and balance sheet data.
- ✓ Informative in terms of pass through investment, capital investment activities - particularly intellectual property and other aspects of SPE activities.



Summary: G.4 Treatment of Special Purpose Entities and Residency

GN recommends no change made to the residency principle in the SNA and BOP frameworks, SPEs with non-resident parents should **continue to be classified as institutional units** in the economic territory in which they are located.

A **definition** of SPEs that is **consistent** between national accounts and external sector statistics.

Distinguishing **separate “of which” category** (within the non-financial and financial corporations' sectors) for foreign-controlled SPEs.

- ✓ **Unanimously supported the proposals** on (i) adopting the SPEs definition, in both *BPM7* and *2025 SNA*; and (ii) integrating the proposed breakdown of foreign controlled SPEs within the ISAs for countries for which SPEs are significant, leaving the core BPM and SNA framework unchanged.
- ✓ Agreed to drop the term “foreign controlled” before SPEs given that the definition already contains foreign control as one of its elements.



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Global Value Chains and Trade in Value Added - GZ.7 Multi-National Trading Arrangements – GZ.6/GZ.8

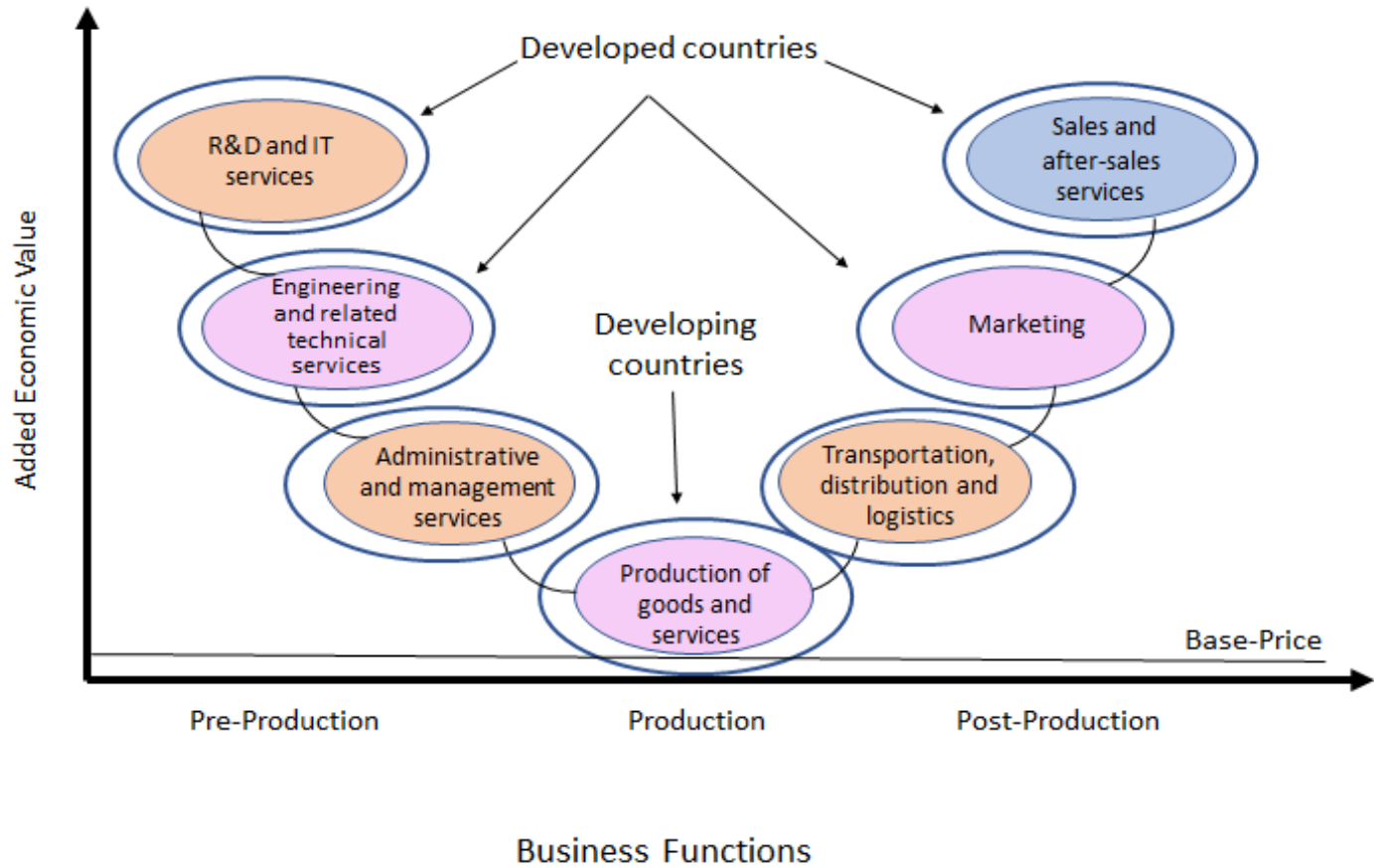
Before - all the activity at one site

Now:

- Fragmentation
- Specialisation
- Cost optimization
- Tax optimization



How business functions are generally located about generation of value added in a GVC



Classifications used

Business Functions

- A business line represents a sequence of business functions controlled by the lead firm
- Can be mapped to the reference classification of products and economic activities

GVG participating firms

- Firms are classified according to their role in the GVC (whether lead firm, affiliated or non-affiliated supplier)

GVG products by GVC industry

- A standardized list of product codes and descriptions for industry specific GVCs
- Can be mapped to HS for traded products and CPC for the SUT framework

GVG institutional sectors

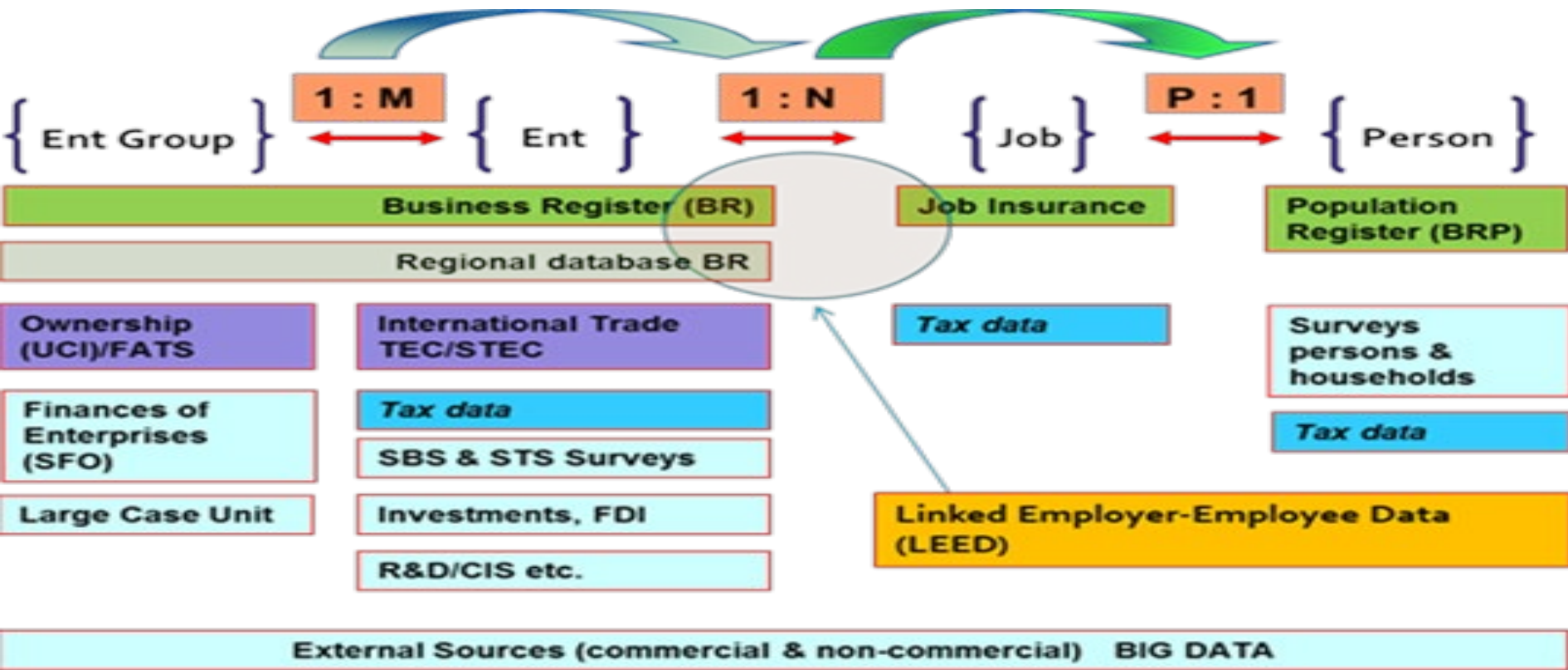
- An extension to the institutional sector framework is largely made to accommodate concepts from FDI

GVG functional breakdown

- Enhances the standard BOP/IIP functional classification to include a separate category distinct from foreign direct investment – namely *other inter-company financing*



General MDL Model used at Statistics Netherlands



CATEGORIES BY EXTENSION



Export Focus

ToR OCDE:

- Exporter
- Non Exporter

ESUT Mexico:

- Exporter
- Non Exporter
- **Formal**
- Non Exporter
- **Informal**

Ownership Focus

ToR OCDE:

- Foreign Owned
- Domestically owned MNE
- Domestic Owned

ESUT Mexico:

- Domestic Owned
- **Affiliate** Domestic Owned
- Foreign Owned
- **Affiliate** Foreign Owned

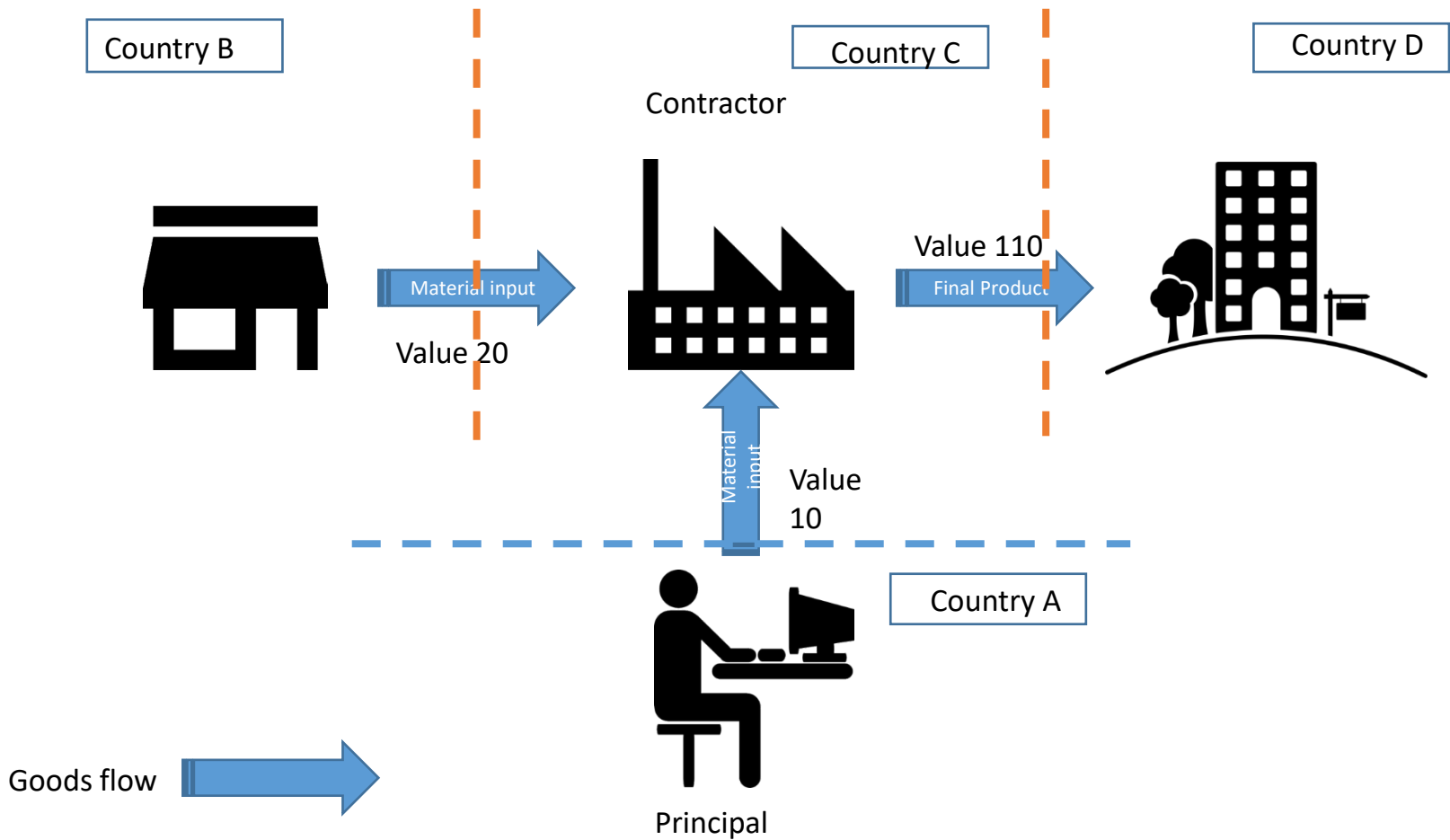
Hybrid/ Integrated Focus

ToR OCDE:

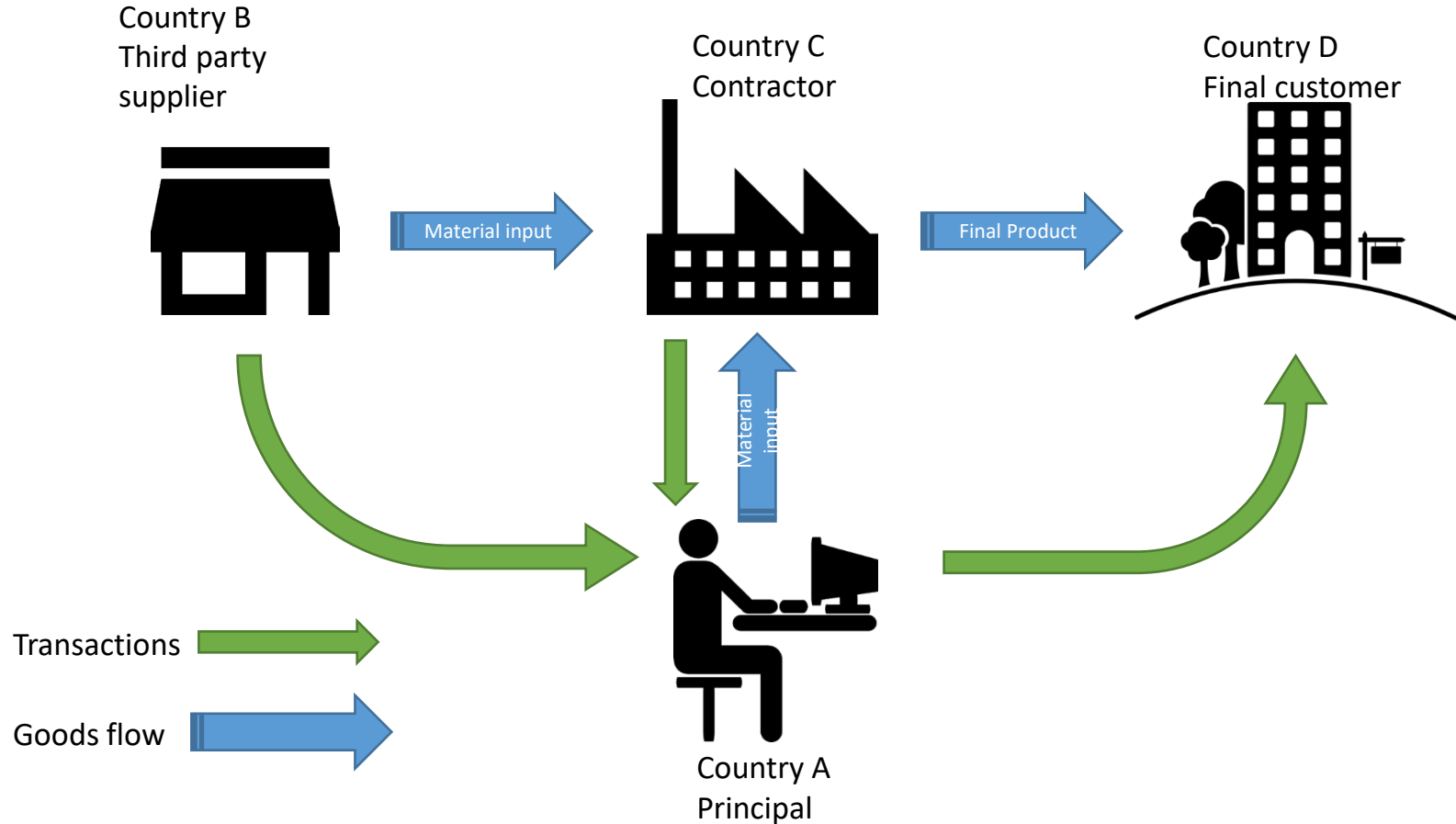
- Foreign Owned
- Domestically owned MNE
- Domestic Owned (Small)
- Domestic Owned (Medium)
- Domestic Owned (Large)

ESUT Mexico:

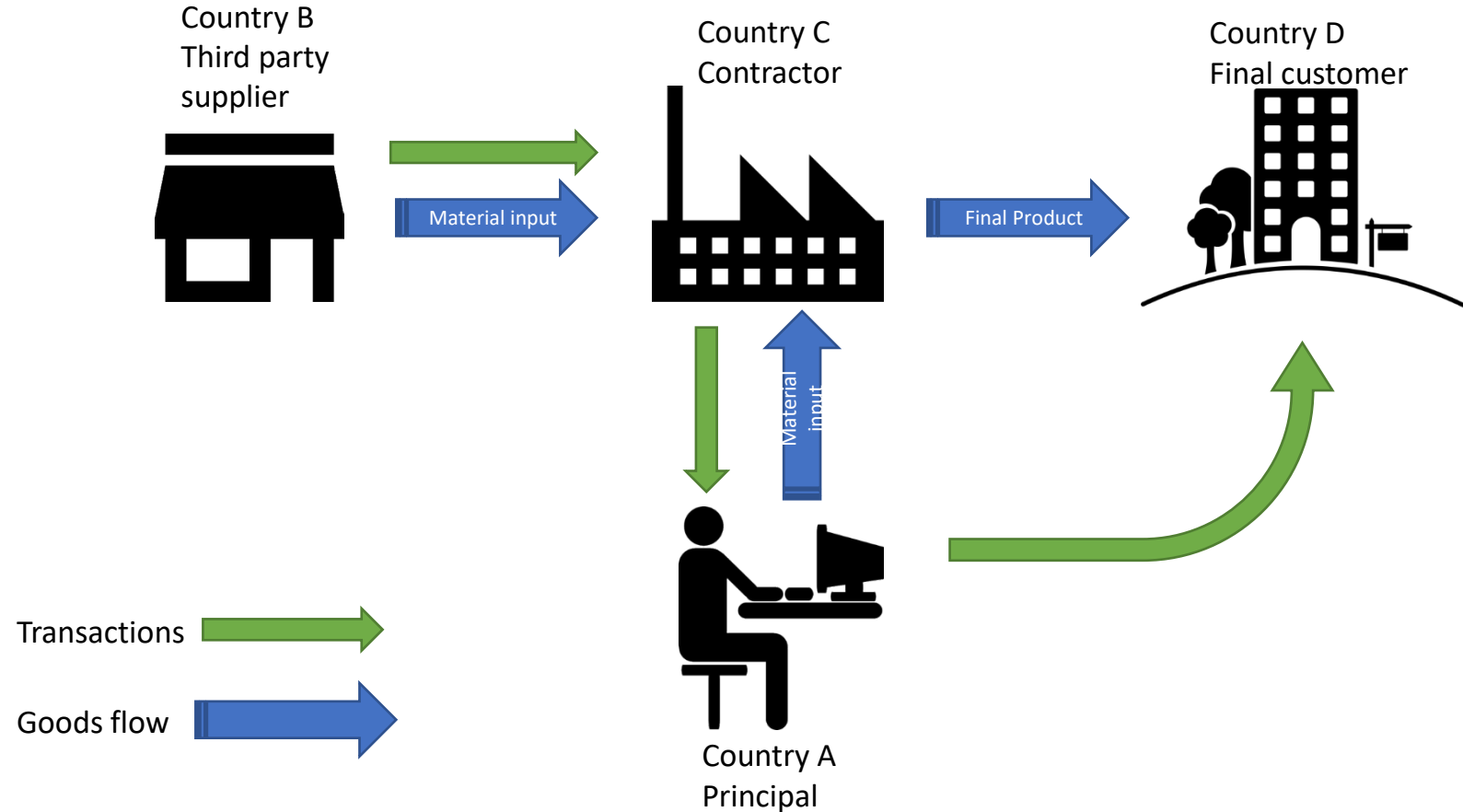
- Export Focus
 - Domestic Owned
 - ✓ Small
 - ✓ Medium
 - ✓ Large
 - Affiliate Domestic Owned
 - ✓ Small
 - ✓ Medium
 - ✓ Large
 - Foreign Owned
 - ✓ Small
 - ✓ Medium
 - ✓ Large
 - Affiliate Foreign Owned
 - ✓ Small
 - ✓ Medium
 - ✓ Large
- Non Export Focus
 - **Formal**
 - **Informal**



The flows of goods and transactions in a processing arrangement



The flows of goods and transactions in a FGP type arrangement



G.7 Global Value Chains and Trade in Value-Added

- GN recommends no conceptual changes are required.
- Discusses TiVA estimates, eSUTs, and GVC satellite account.

Decision:

- ✓ **Unanimously supported the proposals**, namely **including descriptions of GVCs and TiVA** in the **next set of manuals** and supporting the development of supplementary information for GVC analysis.
- ✓ Some members underscored that the supplementary information should **remain voluntary and not be embedded into official statistics**, considering countries' varying degrees of statistical capacity and scarce resources.
- ✓ A few members REQUESTED **International Organizations to commit to maintaining the statistical infrastructure to produce Inter-Country Input-Output tables (ICIOs)** to create indicators on GVCs or other indicators relevant for users and policy analyses

•

G.6/C.4 “Merchanting and Factoryless Goods Producers and Recording of their Transactions”

- GN recommends treating **factoryless goods producers (FGP)** as **manufacturers**, regardless of any affiliation with the contractor responsible for transforming the goods.
 - Consistent with the task team on ISIC (2021) recommendation
- The **output of the contractor recorded as a good** when the contractor takes ownership of the material inputs (*where IPP and the management of the production process are provided by the principal—FGP type arrangement*), and **as a service** when the material inputs are owned by the principal (*—typical processing arrangement*).
- Balance of payments standard component of goods adjusted to cover the transactions related to goods traded as part of a global manufacturing arrangement as a distinct item.

Decision:

- ✓ Agreed with proposed treatment of FGPs.



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SUMMARY





Corporate Structures

- MNEs
- SPEs



Trading Arrangements

- GVCs , TiVa, eSUTs
- FGPs and Contract Manufacturers



Specific Transactions

- Intellectual Property Products
- Marketing Assets



Exports and Imports

- Valuation

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Questions ?

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