STATISTICS

Globalization

MARCH 6 –7, 2024

United Nations Economic Commission for Europe – IMF Statistics Department

SNA / BPM Joint Virtual Outreach Seminar

AGENDA

| Introduction | Global Production | Multinational Enterprise (MNE) Groups | Measurement Challenges | Supplementary Data | Analytical Tools |

Introduction

- **New thematic chapter**
  - Bring together information that cuts across different chapters.
- **What is globalization?**
  - Refers to the economic integration of economies around the world.
  - Producers achieve efficiencies by outsourcing parts of the production process (fragmentation).
- **The challenge**
  - Traditional macroeconomic statistics are based on the concepts of residence and economic presence.
- **The solution**
  - Supplementary presentations to provide alternative views or additional details that complement traditional macroeconomic statistics.

Introduction

Global Production

- **Global value chains (GVCs)**
  - Fragmentation of production in production chains between resident and nonresident firms.
  - GVCs are a fundamental pillar of the modern global economy, enabling companies to take advantage of global specialization and cost efficiencies.

- **Manufacturing and distribution arrangements**
  - The chapter describes four main types of arrangements and their recording
    - Re-exports
    - Merchanting
    - Processing
    - Factoryless goods production

Global
Production

Global Production

- **Re-exports**
  - *Goods produced in other economies, and previously imported, that are exported with no substantial transformation from the state in which they were previously imported.*
  - Less connection to domestic economy compared to other exports

    → Show as supplementary item when significant

- **Merchanting**
  - *The purchase of goods by a resident (of the compiling economy) from a nonresident combined with the subsequent resale of the same goods to another nonresident without the goods being physically moved in and out of the compiling economy.*
  - Recording imports and exports of goods would inflate trade data

    → Record net export of goods under merchanting

Global Production

- **Processing**

  - *Under a processing arrangement, the principal owns or acquires material inputs and purchases manufacturing services on physical inputs owned by others from a nonresident processor (who may provide some material inputs), to substantially change the goods. The ownership of the goods does not change during the manufacturing process.*

  - **Key aspect**: Processor does not take ownership of the goods during the processing

  - Record transactions in goods <u>and</u> services

    - Merchandise transactions between the principal in a processing arrangement and other parties may be shown as a supplementary sub-item of general merchandise.

Global Production

- **Factoryless goods production**

  - *When a principal controls the production of a good by undertaking the entrepreneurial steps and providing the technical specifications required to produce the good, but fully outsources the material transformation process required to produce the output.*

  - **Key aspect**: Contractor takes ownership of the material inputs.

  - Record transactions in goods

    - Merchandise transactions between the principal in a processing arrangement and other parties may be shown as a supplementary sub-item of general merchandise.

Multinational Enterprise (MNE) Groups

- **MNE definition**

- **The Role of Special Purpose Entities (SPEs)**

  - Access to capital markets, isolate owners from financial risk, reduce regulatory and tax burden, and/or safeguard confidentiality.

  - Typology that can be used to identify SPEs and determine their appropriate institutional sector.

- **Intellectual Property Products (IPPs)**

  - Intangible nature makes the transfer and use of IPPs difficult to observe, particularly within MNE groups.

  - Decision tree to assist in determining economic ownership of IPPs and IPP-related transactions.

Multinational
Enterprise
(MNE) Groups

Measurement Challenges

- **Allocation of production to different economies**
  - MNEs often operate seamlessly across borders.
  - Distorted transfer pricing.

- **Cross-border mobility of corporate assets**
  - IPPs and other movable corporate assets can make the true location of the generation of profits and value added ambiguous.
  - IPPs can have huge impact on macroeconomic indicators such as GDP.

- **Consistency and coherence of MNE data**
  - Ensure that all activity of an MNE group is captured, not duplicated, and properly allocated by economic territory.
  - Pay special attention to large entities.

Measurement
Challenges

Measurement Challenges

- **Production fragmentation and gross trade flows**
  - Inflated gross trade flows can occur.
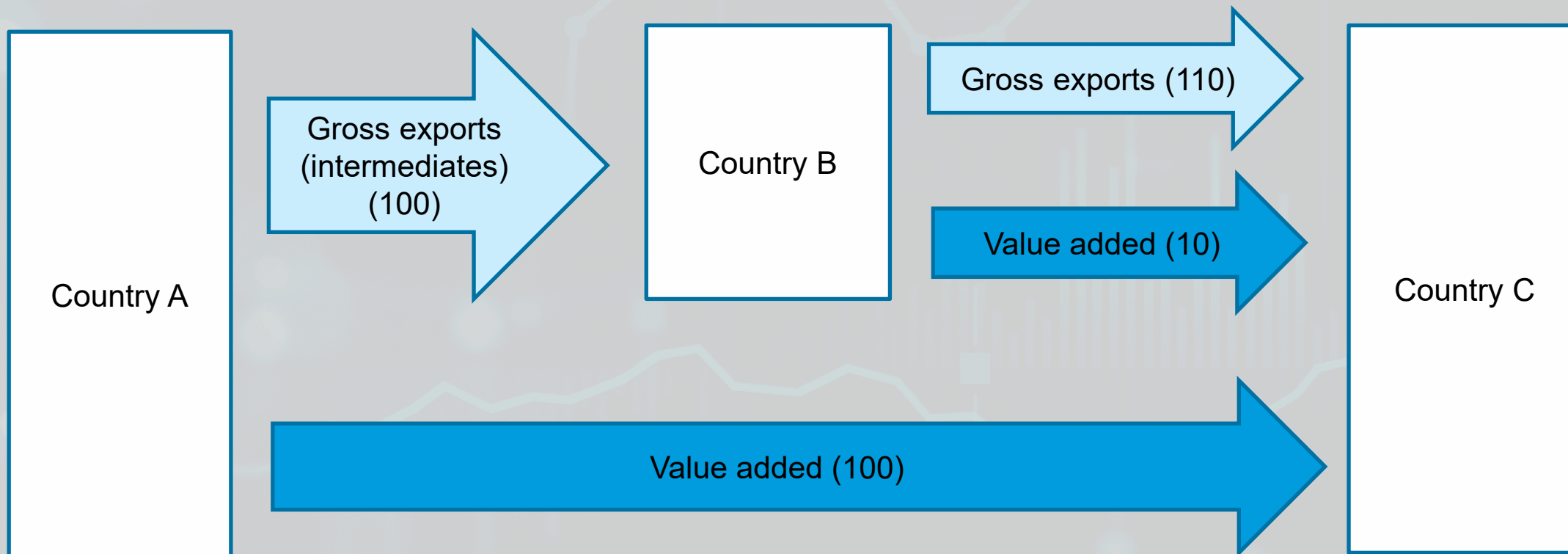
Supplementary Data

- **Key indicators other than GDP**
  - For instance, GNI or NNI

- **Statistics on the Activities of Multinational Enterprises (AMNE)**
  - For instance, sales, employment, value added, exports and imports of goods and services, and number of enterprises.

- **Supplementary direct investment statistics**
  - Ultimate investing economy
  - Ultimate host economy

Supplementary
Data

Supplementary Data

- **Additional granularity in the institutional sector accounts**
  - Breakdown of (non)financial corporations by domestic/foreign control
  - Foreign control: "Of which" SPEs category
  - Domestic control: Public vs private, with "of which" MNEs category

- **Trade and investment income by enterprise characteristics**
  - Disaggregate exports and imports of goods and services and external flows of investment income by:
    - Ownership
    - Size-class of enterprises
    - Partner economy
    - Product
    - Industry

Analytical Tools

- **Trade in Value Added Indicators (TiVA)**
  - Addresses the double counting implicit in gross flows of trade.
  - Measures the value that is added by each economy and industry.

- **Global value chain thematic account**
  - Uses a bottom-up approach that looks at a specific production chain within the framework of national accounts.
  - Consists of GVC-specific supply and use tables, either national or multi-country.

- **Extended supply and use tables (eSUTs)**
  - Designed to provide more granularity regarding transactions associated with globalized production processes, e.g., origin (imports) or destination (exports)

Analytical Tools

THANK YOU FOR YOUR ATTENTION!

Additional Slide

Global Production: Decision Tree

Were the goods produced outside the economy of the principal?

Yes → Did the principal supply most or all the goods as material inputs to the production and did the principal retain ownership of the goods during the entire transformation process?

No → Merchandise trade

Did the principal supply most or all the goods as material inputs to the production and did the principal retain ownership of the goods during the entire transformation process?

Yes → Global manufacturing, **Processing**

No → Did the principal supply significant intellectual property to the production of the good, without charging for the right of use?

Did the principal supply significant intellectual property to the production of the good, without charging for the right of use?

Yes → Global manufacturing, **Factoryless goods production**

No → Did the goods cross the border of the principal?

Did the goods cross the border of the principal?

Yes → Merchandise trade, **Re-exports**

No → **Merchanting**