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COORDINATION OF INTERNATIONAL STATISTICAL WORK IN THE UNECE REGION

Rapporteur Report on globalisation[1]

Submitted by Office for National Statistics (United Kingdom) and Statistics Canada

I. EXECUTIVE SUMMARY

1. Important strides forward have been made in the general area of globalization, but it is a new field and statisticians have a very long way to go before they grapple effectively with the phenomenon. The publication in 2005 by the OECD of two key volumes on the topic was a major accomplishment. In addition, the CES-sponsored experiment on coordinated data collection regarding the structure and activities of multinational enterprises (MNEs) was a useful learning exercise. However, it will likely be a great many years before all CES countries can produce all or even most of the recommended indicators. New concepts are emerging as economists address the issues of globalization and they need to be better defined and measured. In particular, there is a need for standard concepts and definitions in the area of 'enterprise groups'. Work currently under way internationally on SNA 93 rev 1 should help considerably in this regard. There is a pressing need for greater coordination and cooperation in this domain, not just within the CES but also with other countries around the world.

II. PROGRESS BEING MADE

[1] This paper has been prepared at the invitation of the secretariat.

2. This statistical area comprises measurement of the economic aspects of globalisation: production, employment, trade, investment and research and development activities of MNEs. Significant recent accomplishments include (i) the release of the "OECD Handbook on Economic Globalization Indicators" and the publication "Measuring Globalization: OECD Economic Globalization Indicators", (ii) the completion of the MNE measurement project involving five countries (Canada, France, Italy, Netherlands and the United Kingdom) that emerged from the meeting of the Conference of European Statisticians in June 2003, (iii) the commencement of work at the OECD on international outsourcing with a Workshop on Globalisation of Production being held in Paris in November 2005, (iv) the start of work in Eurostat on an enterprise group register and (v) a successful UNCTAD-led international expert meeting on capacity building in the area of foreign direct investment data compilation and policy formulation in developing countries. As a result of all this work, a conceptual framework has emerged suggesting a range of basic economic indicators measuring the extent and intensity of the globalization phenomenon.

3. The ongoing revision of SNA 93, BPM5 and the OECD Benchmark Definition of Foreign Direct Investment (FDI) has provided opportunities to clarify and adapt concepts and classifications in support of globalization indicators and Foreign Affiliate Trade in Services (FATS) in particular. SNA 93 rev-1 is expected to have an expanded treatment of globalization issues and an appendix on FATS will be added to the Balance of Payments Manual. The next edition of the OECD Benchmark Definition of FDI will have a chapter describing globalization indicators and the links to FDI data. The Manual on Statistics of International Trade in Services (MSITS), which has a chapter on FATS, will be revised in 2009 to incorporate the revisions in other manuals. Worldwide consultations on this revision will commence in 2006.

III. ISSUES AND PROBLEMS

4. Quite a good basis has been developed by the international organizations for measuring the extent and pace of globalisation. However, much work needs to be done in most developed countries to produce many of the proposed globalization indicators and the challenge is even greater in the developing countries. Moreover, although a conceptual framework is now in place, several key aspects of globalization still need to be carefully defined and made operational. Data remain inadequate on the activities of MNEs operating through offshore financial centres. Clear definitions and direct measures of the much-discussed 'offshoring' phenomenon are still lacking.

5. This is a fast developing statistical area that cuts across traditional organizational structures and thus requires considerable effort to maintain coordination. The efforts noted above to cross-reference globalization issues in a number of manuals under revision are important, but additional efforts to improve coordination within and across international organizations and the NSOs are necessary.

A. Updating the System of National Accounts

6. The international standard for the compilation of national accounts – the System of National Accounts 1993 (SNA 93) – is currently being updated. A vast effort by international organizations and the NSOs of individual countries is under way to ensure that new developments in the economy, and conceptual developments on emerging areas of importance,

are incorporated in the update. The main challenge for national accounts concepts and associated measuring systems lies in the contrast between the aim of national accounts, and the increasingly global nature of economic transactions and arrangements. Issues which have particularly engaged attention in the course of the update include:

a) Goods for processing. When goods are transported across national boundaries without changing ownership, and they are part of an often complex production chain, statisticians face the challenge of whether to measure the flows on a gross or a net basis. Should trade statistics show the face value of the goods, or should they only record the value of the service involved in transforming the goods? The answer to this query affects fundamentally the nature and size of imports and exports of trade in goods, and services, for an economy.

b) Government owned foreign subsidiaries. To enable statistical measurement of national economies, non-resident subsidiaries of companies are recognised as units in their own right in the country of their residence. The current revisions to statistical standards will make it clear this is also the case for financial companies with little productive activity such as Special Purpose Enterprises (SPEs). Recognising both the parent and the subsidiary as a separate unit is essential to fully reflect their respective balance sheets in the aggregate balance sheets for the respective countries. There is not yet full agreement on how statistical standards should be revised to ensure that in cases where the parent of the non-resident subsidiary is a government, the aggregate accounts of both countries will properly reflect the economic reality.

c) Services are increasingly being provided across national boundaries. In the United Kingdom and Canada, for example, telephone call centres for large companies providing services in the two countries are increasingly being situated in other countries with a large, qualified and lower paid workforce, such as India. Measuring the value of these cross-border service flows is sometimes very difficult.

7. The SNA update will include a section on globalization and its impact on the national statistical conceptual and measurement systems. But this section will not aim to provide solutions. More radical approaches are also necessary. These may include an increasingly multinational approach to the collection and assembly of national data. The CES may wish to pursue these issues jointly with the international organizations responsible for the national accounts update, and to encourage future research and conceptual development on how the national accounts model can be adapted to meet the need for a multinational model to meet the globalization challenge. Increasingly the world needs in addition to “national accounts”, “multinational accounts”, better reflecting ownership and market arrangements spanning national boundaries.

8. Increasingly international production processes necessitate a fresh look at international trading and contracting and, besides FATS and FDI, require more and better data on re- exports, goods crossing borders for further processing and merchanting. The distinction between goods and services becomes more complex and proposed treatments need to be closely coordinated across statistical subject matter areas. There are still relatively few countries producing FATS

statistics and it will be important to encourage more countries to develop these statistics and to monitor progress over the next few years.

B. Foreign affiliate trade statistics

9. The European Union is about to introduce a Regulation to collect annual Community statistics on the structure and activity of foreign affiliates. In this context FATS go wider than purely statistics on trade in services. The aim will be to compile inward FATS statistics comprising a range of structural business statistics (covering turnover, production, value added, employment, purchases, personnel costs, R&D, investment) and exports and imports of goods and services with an intra-group breakdown. Outward FATS, which are harder to collect, will cover a reduced list of structural statistics together with exports and imports of goods and services (again with an intra-group breakdown). The figures will show breakdowns by geography and activity. Some of the outward data will be piloted during the early years.

10. The data specified in the Regulation is the minimum required by the European Commission to assess the impact of foreign-owned enterprises on the EU economy and the effectiveness of the internal market. Generally it is expected that inward FATS statistics will be gleaned from business registers and business surveys: data for outward FATS might be collected via Foreign Direct Investment surveys. The quality of the statistics delivered by EU countries will be monitored by regular quality reports and an implementation report will be produced by the Commission after five years. The Regulation is planned to come into effect with respect to data for 2006.

11. Given that some of the key countries in the globalization phenomenon are not members of the OECD or the CES, such as China and India, it is increasingly important and challenging to find other means and venues to encourage these countries to join in international statistical efforts.

C. MNE data collection

12. The CES project involving a group of five NSOs working with multinational enterprises to develop a coordinated approach to data collection has delivered a report on its experiences to date. Its conclusions were as follows: (i) While recruiting MNEs and obtaining the required information was difficult, most agreed to data sharing among NSOs, establishing that a coordinated data collection approach is operationally feasible. (ii) The centrally coordinated approach to collection may increase the level of concern of MNEs regarding some sensitive variables. (iii) This approach yields very different results from the measurement made in the regular statistical program of the NSOs and it is not clear at this point which is the more accurate. It may be feasible to derive simple data elements at national level from corporate systems, but the more complex reporting requirements will require complementary work.

13. Much was learned about how to collect internationally consistent data on the structure and activities of MNEs as a result of the CES-sponsored experiment. However, while the project was initially expected to continue in successive phases over several years, the CES accepted in June 2005 the recommendation of the task force not to continue the project in its initial configuration.

14. The problems in collecting consistent national data from corporate MNE systems have also

been highlighted recently by a feasibility study into collecting national balance of payments data from MNEs across the European Union in the same format and detail for each country. The MNEs initiated the study by requesting the European Central Bank to promulgate this sort of consistent balance of payments data reporting. Companies operating in several different EU countries are reporting their balance of payments data to each compiler in very different formats and very different levels of detail. The assumption was that uniform reporting (format and detail) would be much more efficient for the MNEs and would mean better quality balance of payments data for compilers, resulting in lower intra-EU asymmetries.

15. The companies stayed enthusiastic to the concept throughout the feasibility study, but eventually came to the general view that the set-up costs were too high without access to appropriate proprietary software that would connect with company business and financial accounting systems. If and when such software is readily available on the market, and when company accounts are compiled in a standard way, then this sort of consistent balance of payments reporting by MNEs in each country where they operate would become a more practical proposition.

16. Key factors in improving the description of MNE structures on NSO registers include the development of a consistent definition of enterprise groups and improvements to the timeliness of updates to registers. The legal structures of the MNEs tend to be larger in their home countries and special attention needs to be paid to accurately profiling their domestic operations. Consolidation and deconsolidation of financial results of enterprise groups is a key difficulty, which must be resolved to accurately measure financial variables such as sales and operating surplus. Even though only a few, high-level variables were requested in the study, there were problems related to the sensitivity of the information, especially for operating profits or losses. While the requested information is generally made readily available to NSOs on a global basis, many MNEs considered it highly sensitive once broken out by country. For this reason, a centrally coordinated collection approach, such as used for this study, might in fact elicit a defensive reaction by MNEs that is not encountered when each national component is approached individually.

IV. IMPORTANT ISSUES THAT SHOULD BE BROUGHT TO THE ATTENTION OF THE CONFERENCE

17. The production of statistics shedding light on economic globalization issues has not kept pace with the phenomenon itself and with public concerns it has been causing. In part, this may be due to concerns about administrative burden on businesses, as there are strong pressures to reduce the burden attributed to economic surveys and government (including EU) regulations. Do member countries perceive the relevance of globalization indicators is on the rise along with the priority attached to their production?

18. The “OECD Handbook on Economic Globalization Indicators” was a first attempt to develop a wide range of indicators and it took several years to complete given its scope and ground-breaking character. It includes many practical suggestions and there are plans to expand it to address issues associated with the non-economic aspects of globalisation. Does the “Handbook” provide member countries with sufficient information on how to implement its recommended indicators? Should it be complemented with more practical guidelines? Given the

long lead time to revise such a manual, should the work on the next edition start in the next year or two?

19. The study of the impact of economic globalization on national economies relies more and more on the use of micro-economic data. These studies would greatly benefit from more international cooperation. Researchers do not have access to a micro-economic database covering several countries for several reasons. Confidentiality rules prevent countries from sending micro-economic files to international organizations. There are several differences in countries' definitions of the micro units. Quality of the micro records depends on edit and imputation methods that can differ from country to country. The OECD has begun a project on using microdata in research (with Len Cook as project coordinator) and the results are expected to be useful in the context of measuring globalisation. Is the demand for micro-economic studies on the rise in member countries? Would more international cooperation be beneficial?

20. Should some additional countries, such as India and China, be invited to participate in selected sessions of the Conference of European Statisticians?

21. There is a need for greater international consistency with respect to concepts and definitions of the statistical units associated with the MNE. In this regard, the CES may wish to emphasize the importance of the "enterprise group" as the unit of analysis that is relevant for the study of MNEs and possibly to recommend that this unit be recognized and defined in the revision of SNA 93. The CES may wish to promote common practices and approaches in the implementation of the enterprise group concept across member countries in terms of identification, profiling, data collection and compilation.

22. In terms of its future work on globalisation, the CES may wish to consider some of the following areas: (i) further coordinated surveys, in a similar way as the IMF coordinates the portfolio investment survey, dealing with FATS, R&D expenditures by foreign affiliates and/or FDI; (ii) defining and collecting data on head offices (where they are located, what activities they undertake, and so on); (iii) defining and measuring 'offshoring'; and (iv) interpretation of Customs data (dealing with trade that does not show up in Customs data but should, or does show up but should not because ownership has not changed).

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