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UKRAINE**

**Joint EFTA/UNECE/SSCU Seminar “Economic Globalisation: A Challenge For Official Statistics”**

Kiev, 3-6 July 2007

**ECONOMIC GLOBALISATION: A CHALLENGE FOR OFFICIAL STATISTICS**

**MAIN CONCLUSIONS**

**BACKGROUND INFORMATION**

1. The main purpose of the Seminar was to raise awareness of users and producers of official statistics about distortions and biases that economic globalisation could cause to traditional statistical information. The seminar addressed globalisation in the framework of economic statistics and in particular the link between primary economic statistics and macroeconomic statistics (e.g. System of National Accounts and Balance of payments). The aim of the seminar was also to review classification issues, data collection methods, price indices and methodological guidelines.
2. The seminar was more specifically designed to the requirements of Ukraine. However, issues presented and discussed were also of great relevance for the statistical authorities and users of official statistics in all countries.
3. The seminar was divided into two modules. The first module included a discussion with the main users of statistics with the purpose of raising awareness of the role of statistics for evidence-based decision-making and of the challenges that statisticians have to face when producing data in an open market economy. The second module was dedicated to the producers of official statistics.

4. About 60 producers and users of official statistics representing the State Statistical Committee of Ukraine (central and regional offices), National Bank, Ministry of Finance, Customs Service, Ministry of Economy and Cabinet of Ministers of Ukraine participated in the seminar. More than 25 statisticians from EFTA, Eurostat, OECD and UNECE as well as from national statistical institutes of Armenia, Bulgaria, Canada, Czech Republic, Ireland, Netherlands, Norway, Poland, Russian Federation, Slovenia, Switzerland and the United Kingdom also attended.

5. This document contains the main conclusions of the seminar as presented for each session by the respective chairs:

- Olexander Osaulenko and Natalya Vlasenko, SSCU, *The role of statistics in an open market economy*;
- Inna Steinbucka, Eurostat, *Economic globalisation, a challenge for official statistics*;
- Robin Lynch, ONS, *Impact of globalisation on the production of economic statistics*;
- Martin Luppés, Statistics Netherlands, *Country initiatives*;
- Lidia Bratanova, UNECE (for the session on SNA and international economic classifications) and Art Ridgeway, Statistics Canada (for the session on BOP, FDI and price indices), *Revised international statistical standards, classification and guidelines*.

6. The main conclusions have been rearranged in order to give more coherence to the overall document.

## **I. THE ROLE OF STATISTICS IN AN OPEN MARKET ECONOMY**

7. During the session with main users of statistics, the following main points were made:

- national statistical authorities have to implement pro-active policy in order to meet users' requirements in all fields and in particular for emerging social and economic phenomena. Official bodies such as a Statistical Council and other advisory statistical committees could be crucial for this purpose;
- statistical authorities have constantly to build up a capital of trust with users and avoid any behaviour that might undermine it. Trust takes time to obtain and is lost quickly;
- producers of official statistics have to be actively involved in the development of a national legal and normative basis;
- within the framework of the ESS, Member States are conducting peer review exercises of the implementation of the European Statistics Code of Practice (ESCP). The experience of National Statistical Institutes of EU and EFTA countries, and in

particular that of Slovenia, shows that such peer reviews allow to identify issues that require special attention and improvement. Reviews on the state of implementation of fundamental principles might be extended to national statistical systems of other UNECE countries;

- countries outside the EU wishing to adapt their statistical legislation to the European requirements and standards should launch the process as soon as possible in cooperation with Eurostat and countries members of the European Statistical System: EU27 + EFTA + pre-accession countries. Adaptation to the "Acquis Communautaire" (EU legislation) and compliance with EU statistical requirements is a long process and should also involve research institutes and other academic institutions;
- tackling the issue of economic globalisation requires active coordination among national statistical authorities and international organizations. The Seminar in Kiev is one of the first opportunities for the national and international community of producers and users of official statistics to discuss the impact of globalisation on statistics. The outcome of the seminar will be taken into account in the further work of the newly created Joint UNECE/OECD/Eurostat Working Group on the Impact of Globalisation on National Accounts. Ukraine is willing to join the Working Group;
- given the huge impact of globalisation on economic and social spheres and the need for relevant statistical information in this field, it is important that national statistical authorities regularly inform the user community on recent developments and keep an open dialogue with them. This would allow national statistical authorities to receive the necessary human and financial resources.

## II. GLOBALISATION AND ITS MEASUREMENT

8. During the session, the following main points were made:

- globalisation refers generally to the increasing global connectivity, integration and interdependence in the economic, social, technological and even cultural spheres. It is not restricted to only economic processes. However, the seminar in Kiev focused on the challenges that economic globalisation presents to official statistics;
- globalisation is progressively diluting the concept of national economy in favour of a single world market. It puts forward a number of new challenges for statistical offices, including the necessity of combining different data sources and ensuring better data transparency. The accurate depiction of the economic situation depends on the capacity of statistics to measure economic globalisation and the related socio-economic processes including non-observed/hidden economy and possible data distortions;
- a major issue is how to combine administrative data with available statistical information rather than increase the reporting burden with new data collection. In this context, it is important that statisticians understand the strategy and behaviour of economic agents and constantly interact with them. The design of rather simple

models retracing economic flows between all entities of a holding or a group of enterprises might help statisticians to better describe the process of globalisation and avoid distortion of the overall economic picture.

### **Handbook on Economic Globalisation Indicators**

9. The economic and social analysis of the effect of globalisation generates demand for indicators of economic globalisation. The *Handbook on Economic Globalisation Indicators* (OECD, 2005) constitutes a conceptual and methodological framework for constructing a comprehensive set of quantitative globalisation indicators. The Handbook:

- identifies a set of relevant indicators to enable policy makers and other users to assess how globalisation evolves over time;
- provides methodological and statistical guidance on how to construct the globalisation indicators in compliance with international standards.

10. The Handbook covers the following domains: foreign direct investment, economic activity of multinational enterprises, the internationalisation of technology, and international trade.

11. The Dutch experience of implementing the OECD Handbook for the “Internationalisation Monitor” provides an excellent example for the other national statistical offices. According to this experience, the implications for the statistical offices in gathering data and compiling statistics are three fold and require:

- not only a close look at existing data and questionnaires but also identification of linkages between various micro-data sets;
- cooperation with other data gatherers, including Central Banks and international organizations;
- a change in the traditional role of statistics from purely technical (basic data production) to more explanatory (“meta data” production).

### **III. IMPACT OF GLOBALISATION ON THE PRODUCTION OF ECONOMIC STATISTICS**

12. Accounting and other financial statements of multi-national companies are based on economic principle (ownership principle) and not on the concept of residence as defined in the national accounts. Financial statements reflect global business and therefore cross-border transactions between two units of the same company located in different countries are not necessarily recorded in an appropriate way for the compilation of economic statistics.

13. Producers of official statistics have to face the challenge of globalisation for the production of primary economic statistics (micro) as well as for the compilation of macroeconomic statistics (e.g. national accounts and balance of payments). It is therefore important that all national statistical authorities (National Statistical Institute, Central Bank, tax authorities and others)

work together in order to capture the actual economic activity of multinational companies within and outside national borders.

14. In collecting information from multi-national companies, the following are important issues where statistical offices can benefit from adopting the process described below, depending on local conditions.

- Know how the multinationals account for their business – a statistical office can benefit from the setting up of “large business” teams with skills in business accounting, national accounts, and balance of payments and business surveys. These teams will establish ongoing meaningful working relationships with key personnel within the company, to establish how best to collect and access then process information on multi-national companies in order to produce macro economic statistics. Well-prepared company visits should be used to the greatest extent possible.”
- Data collection will benefit from the involvement of senior staff in the company – this is particularly true for multi-nationals where the relevant information may only be held at group level, and sometimes not in the country where the data is being collected.
- Be prepared to use many sources such as direct collection, publicly available business accounts, and administrative records (including tax records). If necessary, address inconsistencies in those data to individual multinational company reporters.
- Be aware of the relationship between the money flows and the physical flows: try to tie them up where possible.
- Draw up a list of the biggest companies in the economy, which may well cover up to 70% of value added in the national economy, and concentrate data collection efforts on these companies. This should cover in particular ongoing awareness of the quite frequent changes in multinational structures, accounting and reporting practices, and the impact of these changes on the data reporting.
- Work with the companies to persuade them to use tailor made collection tools, for example a spreadsheet where they can enter company style data and balance of payments/national accounts compatible data can be derived.

15. The presentations and discussion in the session also posed questions for which there were no immediate wholly satisfactory answers:

- Do we have satisfactory definitions of “goods for processing”? Do we really mean goods, which do not change ownership? If the latter, significant problems of industrial classification and country of origin for trade in goods arise.
- Does it make sense to call the company headquarters a manufacturer if what it does is arrange processing of raw materials into finished goods over a variety of countries?

- Is each company in the chain simply a provider of manufacturing services? We seem in danger of removing the industry classification of manufacturing from practical use for multinational companies.
- How should the treatment of the booking of receipts and expenditure with foreign affiliates in the accounts of resident enterprises be tackled?

16. The suggestion was made that perhaps there is a need for two quite separate systems – a physical flow system where the movements of goods are traced by quantity, and an economic value measurement system which more reflects the financial and structural arrangements of the multinationals.

17. The questions raised in this session should be fielded to the ISWGNA, AEG on the revision of 1993 SNA and BoP Committee as issues arising from globalisation which will require careful description and guidance in order to avoid different countries adopting different estimation methods for the activities of multi-national companies, with particular reference to goods for processing.

#### IV. COUNTRY INITIATIVES

18. From the pragmatic approaches which were presented in the cases of Canada, Ireland, the Netherlands, Norway and the Ukraine, some issues emerge which should be addressed in the national statistical systems in order to establish a consistent and probably a coherent view on globalisation and its effects on national economies. These issues are:

- be sure that the multifaceted aspects of globalisation *are properly identified* within the statistical programs, and that they are formulated in testable questions and given appropriate attention from a general management point of view (this mostly means sufficient budget and qualified staff to work on it);
- a statistical program should also entail a ‘guided tour’ in *discovering and disclosing new sources* for research on globalisation issues. Using privately owned or commercially exploited microdata could give research on globalisation issues an extra boost (it could also leave you with a terrible hangover). Microdata on foreign ownership, mergers & acquisitions, hedge funds and private equity are in particular demand and are probably at least partially available on the market;
- defining basic globalisation indicators for policy relevant populations of enterprises looks easy. Most of the conceptual work is done by OECD, there is a lot of knowledge within the SNA and BoP departments, the funding is likely to be guaranteed by the government and the *challenge is to construct the appropriate microdata sets* (like the Canadian Importers/Exporters database);
- netting out may remove possible statistical distortions at national level of the effects of incoming and outgoing flows, but analytical information may be lost in answering the question of why flows are as they are;

- legitimate national statistical policy reasons are not necessarily in line with legitimate international policy reasons;
- an account management approach could improve the quality of microdata of large MNE's. Implementing this management tool in addition to the horizontal integration of different sources such as microdata on finances of non-financial enterprises (at enterprise group level) and microdata from production statistics (at KAU level) may lead to consistent data about the same MNE and its KAU's;
- the most prosperous way to tackle the present problem of mirror statistics is to identify the measures cooperating countries can undertake within their own legal and fiscal framework. The second step is to adjust the underlying methodologies. Bilateral and multilateral cooperation is the key for successful minimising of mirror statistics differences.

## **V. REVISED INTERNATIONAL STATISTICAL STANDARDS, CLASSIFICATIONS AND GUIDELINES**

### **A. Revision of the System of National Accounts (SNA Rev.1)**

19. Participants were informed of the process of updating the SNA and the work that is underway for drafting the SNA Rev.1 and the development of implementation strategies. Attention was drawn to those issues under review that are likely to have the greatest impact on the GDP estimates or were among the most debated, such as: research and development, military expenditures, capital services, goods for processing, merchanting, and pension schemes.

20. The implications for new data collections and the potential difficulties in implementing the new recommendations were also mentioned. In conclusion of the discussion on the update of 1993 SNA, the following points were made:

- the recommendations towards 1993 SNA Rev.1 do not change the fundamental framework, so countries are encouraged to continue development in line with 1993 SNA;
- harmonisation of work on BOP is crucial: the IMF BOP Manual is being updated on a parallel track and this should be taken into account in plans for implementation;
- in view of the big challenges with the implementation of the 1993 SNA Rev.1, countries are encouraged to start developing national implementation plans. In this context, it is important that priorities for implementing the various recommendations be set up;
- any future technical assistance on the implementation of 1993 SNA Rev.1 should have a regional focus.

## **B. Revision of economic classification (ISIC and NACE)**

21. Participants also discussed the revised economic classifications - ISIC and NACE, the consequences for the data time series and the challenges with their implementation. The experience of the Swiss Statistical Office in developing a national version of the NACE Rev/2 and its implementation in Business registers were presented.

22. In the discussion that followed, the following main points were made:

- the revision of the economic classifications was necessary in order to reflect economic developments and needs of users;
- the implementation of the new classifications will pose many challenges for the national statistical offices and may affect the international comparability across countries during the transition period;
- national plans for the implementation of the new economic classifications should be developed;
- an important aspect of revising the national economic classification is the communication and coordination with the relevant national partners before and in the course of the revision and the implementation of the new classifications;
- it is important that the impact of implementing a new classification on the statistical data series be analysed. The results of the analyses should be disseminated and explained to users.

## **C. Foreign direct investments**

23. The OECD *Benchmark Definition of Foreign Direct Investment, 4<sup>th</sup> edition* provides a single point of reference for all issues related to foreign direct investment statistics. It addresses both national compilers and data users. This work is conducted by the Workshop on International Investment Statistics under the auspices of the OECD Investment Committee (served by the OECD Financial and Enterprise Affairs Directorate).

24. The compilation and interpretation of FDI data has been challenged by the effects of globalisation. The *Benchmark Definition* promotes the use of detailed FDI statistics (by partner country and by industry) for policy making. The revision of the *Benchmark Definition*, to be disseminated to the public in the first half of 2008, addresses a number of these concerns. To ensure a timely completion of this manual, work on other unresolved aspects will continue to be studied/discussed as part of the research agenda.

25. Key challenges of the revision of the 4<sup>th</sup> edition of the *Benchmark Definition* were associated with:

- clarification of existing methodologies (*inter alia*: 10% threshold; use of market valuation; principles for industry classification, etc.);



- replacement or removal of existing methodologies (*inter alia* the Framework for Direct Investment Relationship (FDIR) for indirect FDI relationship replacing the Fully Consolidated System (FCS); abolition of permanent debt, etc.);
- introducing new methodologies in response to user needs:
  - special purpose entities (SPEs) (i.e. looking through funds passing through SPEs);
  - FDI by type (Mergers and acquisitions, greenfields, extension of capital and financial restructuring);
  - FDI according to ultimate investing and ultimate host countries (as opposed to recording investments for the immediate counterparty);
  - Developing an FDI glossary.

26. The financing of foreign investment is increasingly based on very complex legal structures that organise the financial operations of multinational enterprises both within and across different countries, to take advantage of different types of legal entities and the characteristics of specific financial markets.

On the other hand, users of FDI statistics show substantial interest in distinguishing different types of FDI in measuring the impact both on source and destination countries and industries.

27. In this increasingly global world, it may be important to pay more attention to macro indicators beyond GDP, such as GNI. To assure the quality of GNI estimates, it is important to understand and properly measure the income that accrues to owners of productive assets no matter where the assets are resident. As FDI is based on ownership and FDI statisticians have a lot of experience in dealing with these complex international legal structures, they need to be part of the team that is organised to address the effects of globalisation. In many countries, this means the cooperation across multiple institutions if this expertise is to benefit the efforts to better inform users on the globalisation phenomenon.

28. To support the integration of this expertise, it will be important to find ways to integrate business registers information so that the data from various sources can be brought to bear on the complex issues associated with globalisation.

#### **D. Compilation of Consumer Price Indexes and Producer Price Indexes**

29. During the session the following main points were made:

- imports and exports make up an increasing proportion of the inputs and outputs of all economies. Therefore, it is important that price sampling take this into account. This is complicated by the importance of transfer pricing in selected cases;
- price variations for exports markets can differ in the short run from those in national markets and will in part depend on the exchange rate regime in effect. This is also the case for imports competing with national products;
- globalisation has also contributed to the evolution of products so that the need to explicitly estimate quality change is an increasing challenge. This is particularly true for services;

- given the potential for price level differences, care should be taken in the selection of index formulation for the component indexes. In addition, the potential for rapid changes in the source of inputs or even the share of output going to export markets means that additional attention is needed to ensure that index weights remain appropriate;
- weight adjustments for known deficiencies in the sources for expenditures should also be estimated when possible to maintain the representivity of the indexes.

## **VI. PANEL OF CHAIRS DISCUSSION AND CONCLUSIONS FROM THE SEMINAR**

30. The last session of the seminar was dedicated to the main conclusions reached during the respective sessions. It was agreed that all main conclusions be put together in one document. Furthermore, it was decided that the proceedings of the seminar be published as a joint EFTA/UNECE/SSCU publication.

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