Draft Chapter 1: Typology of Global Production Arrangements

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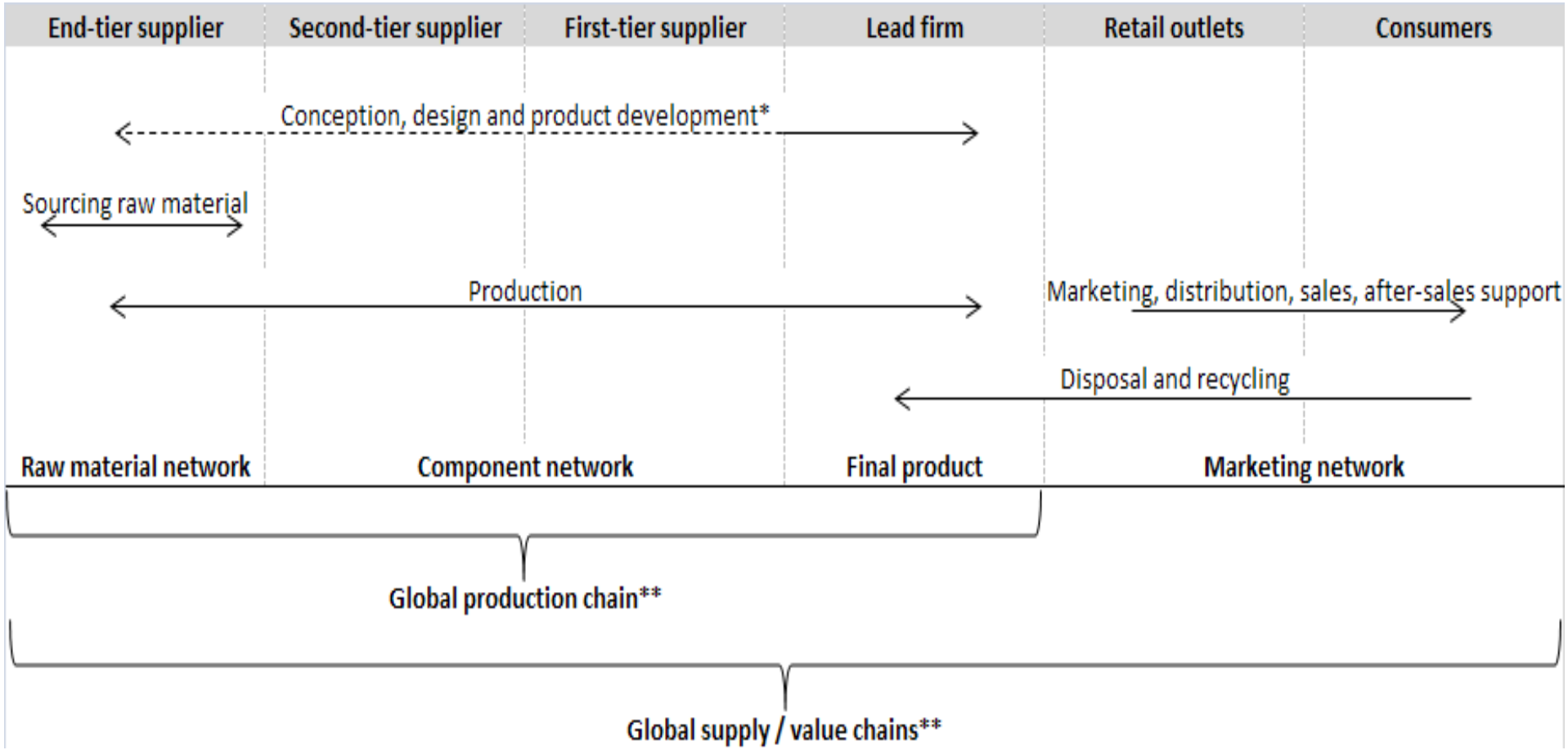
Chapter Outline

- Introduction
- Global Network Structures
  - Supply chains / Value chains / Production chains
- Organization of Global Activities
  - Outsourcing / Offshoring / Governance types
- Typology of Global Production Arrangements
  - Arrangements related to goods
  - Arrangements related to services
  - Arrangements unrelated to primary inputs
- Conclusions

Global Supply / Value / Production Chains



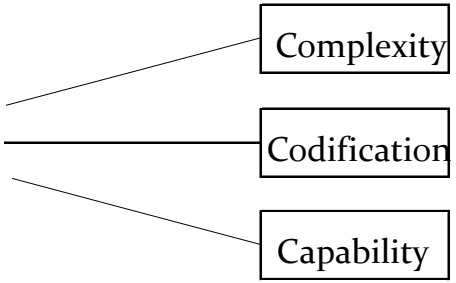
Source: Asia-Pacific Economic Cooperation Policy Support Unit, "Concepts and Trends in Global Supply, Global Value and Global Production Chains", Issues Paper No. 1, May 2012.

* Traditionally, conception, design and product development are controlled by the lead firm; these may be outsourced to other firms.

** Participants in global supply / value / production chains include domestic and foreign firms.

Organization of Global Activities

- Outsourcing
  - Activities contracted with unrelated parties
  - Domestic or foreign parties
- Offshoring
  - Activities contracted with foreign parties
  - Related or unrelated parties
- Governance Types (Gereffi, et al., 2005)
  - Market
  - Modular
  - Relational
  - Captive
  - Hierarchy

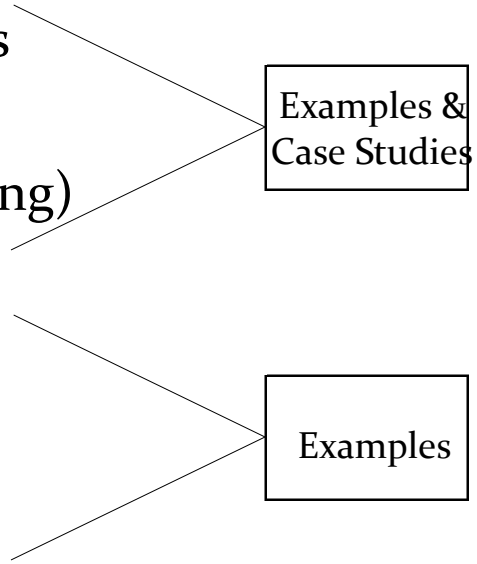


Typology of Global Production Arrangements

- Objective
  - Establish a framework to analyze complex global production arrangements and fit the arrangements into current interpretations of the international guidelines
- Analytic Framework
  - Two entities: 1) domestic and 2) supplier
  - Describe production arrangement from domestic perspective
  - Breakdown economic activities by country of entity
    - Identify economic ownership of inputs and output
    - Assign economic activities (ISIC, Rev. 4)
    - Distinguish type of output
    - Determine a treatment for international transactions
- Summary in Table 1 of Chapter 1

Typology of Global Production Arrangements

- Arrangements Related to Goods
  - Transformation of materials owned by others
  - Merchanting
  - Factoryless manufacturing (including branding)
- Arrangements Related to Services
  - Fragmenting, IPPs
  - Fragmenting, excluding IPPs
  - Subcontracting
- Arrangements Unrelated to Primary Inputs
  - Direct investment enterprises not directly engaged in goods production
  - Direct investment enterprises not directly engaged in services production



Arrangements Related to Goods

Production Arrangement Based on Domestic Entity Perspective	*Entities Involved*	*Economic Ownership of*			*Economic Activity*	*ISIC Industry*	*Type of Output*	*International Transactionsd Related to Production Process*
		Mate-rials	*IPP*	*Output*				
Transforma-tion of materials owned by domestic	Domestic (Principal)	X	X	X	Manufac-turing	Manufac-turing	Goods	- If good returned to domestic's territory, only record net value of manufacturing services as imports of service. Materials sent for processing are excluded from general merchandise exports; goods returned after processing are excluded from general merchandise imports. (‘Manufacturing service’ treatment) - If good remains in supplier's country or sent to third country, record as exports of general merchandise from domestic.
	Supplier				Manufac-turing service provider	Manufac-turing	Services	Exports of manufacturing services from supplier's country to domestic.
Merchanting	Domestic			X	Merchant	Trade	Services (margin on goods)	- If good enters domestic's territory, record as imports of general merchandise (=value of supplier's exports). - If good does not enter domestic's territory, record as gross value of exports from domestic less value of supplier's exports. (Goods under merchanting treatment).
	Supplier	X	X		Manufac-turing	Manufac-turing	Goods	Exports of general merchandise from supplier.

Arrangements Related to Goods

Production Arrangement Based on Domestic Entity Perspective	*Entities Involved*	*Economic Ownership of*			*Economic Activity*	*ISIC Industry*	*Type of Output*	*International Transactionsd Related to Production Process*
		Mate-rials	*IPP*	*Output*				
Factoryless manufac-turing	Domestic entity (Principal)		X	X	Factoryless production or acting as "converter"	Trade?	Services (margin on goods)	- If good enters domestic's territory, record as imports of general merchandise (=value of supplier's exports). - If good does not enter domestic's territory, record as gross value of exports from domestic less value of supplier's exports. (Goods under merchanting treatment).
	Supplier	X			Manufacturing	Manufac-turing	Goods	Exports of general merchandise from supplier.
Fragmenting part of production of services, IPPs	Domestic entity (Principal)		X	X	Production of services	Appropriate service Industry	Services	Imports of services (by type) from supplier. If domestic sells the service abroad, record gross value in exports of services (by type) from domestic.
	Supplier				Production of services	Appropriate service Industry	Services	Exports of services (by type) from supplier to domestic.
Fragmenting part of production of services, excluding IPPs	Domestic entity (Principal)			X	Production of services	Appropriate service Industry	Services	Imports of services (by type) from supplier. If domestic sells the service abroad, record gross value in exports of services (by type) from domestic.
	Supplier				Production of services	Appropriate service Industry	Services	Exports of services (by type) from supplier to domestic.

Arrangements Related to Goods

Production Arrangement Based on Domestic Entity Perspective	*Entities Involved*	*Economic Ownership of*			*Economic Activity*	*ISIC Industry*	*Type of Output*	*International Transactionsd Related to Production Process*
		Mate-rials	*IPP*	*Output*				
Subcontracting production of services	Domestic (Principal)			X	Purchase and sale of service without any significant transformation of the service between purchase and sale	Appropriate service Industry	Services	Imports of services (by type) from supplier. If domestic sells the service abroad, record gross value in exports of services (by type) from domestic.
	Supplier				Production of services	Appropriate service Industry	Services	Exports of services (by type) from supplier to domestic.
Direct Investment Enterprise not directly engaged in producing the good	Domestic				Financial and business services	Section M	Services	None
	Supplier	X	X	X	Manufacturing	Manufac-turing	Goods	Exports of general merchandise from supplier.
Direct Investment Enterprise not directly engaged in producing the service	Domestic				Financial and business services	Section M	Services	None
	Supplier	X	X	X	Production of services	Appropriate service Industry	Services	Exports of services from supplier.

Conclusions

- The typology reflects highly simplified versions of global production arrangements that can be complex.
- Case studies need to be developed further to assess the typology's usefulness and exhaustiveness.
- Subsequent chapters give further consideration to conceptual and measurement aspects.
- Questions:
  - Is chapter 1 useful to understand global production arrangements and to facilitate a proper breakdown of economic activities along a global production chain?
  - Are there any arrangements that should be added?
  - Is table 1 helpful to identify activities, output, and international transactions?