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
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

Diagram:
- Complexity
- Codification
- Capability
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

Examples & Case Studies

Examples
# Arrangements Related to Goods

<table>
<thead>
<tr>
<th>Production Arrangement Based on Domestic Entity Perspective</th>
<th>Entities Involved</th>
<th>Economic Ownership of Activity</th>
<th>ISIC Industry</th>
<th>Type of Output</th>
<th>International Transactions Related to Production Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformation of materials owned by domestic</td>
<td>Domestic (Principal)</td>
<td>Materials X, IPP X, Output X</td>
<td>Manufacturing</td>
<td>Manufacturing</td>
<td>Goods &lt;br&gt; - 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) &lt;br&gt; - If good remains in supplier's country or sent to third country, record as exports of general merchandise from domestic.</td>
</tr>
<tr>
<td>Supplier</td>
<td></td>
<td>Manufacturing service provider</td>
<td>Manufacturing</td>
<td>Services</td>
<td>Exports of manufacturing services from supplier's country to domestic.</td>
</tr>
<tr>
<td>Merchanting</td>
<td>Domestic</td>
<td>Merchant X</td>
<td>Trade</td>
<td>Services (margin on goods) &lt;br&gt; - If good enters domestic's territory, record as imports of general merchandise (=value of supplier's exports). &lt;br&gt; - 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).</td>
<td></td>
</tr>
<tr>
<td>Supplier</td>
<td></td>
<td>Manufacturing</td>
<td>Manufacturing</td>
<td>Goods</td>
<td>Exports of general merchandise from supplier.</td>
</tr>
</tbody>
</table>
### Arrangements Related to Goods / Services

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<tr>
<th>Production Arrangement Based on Domestic Entity Perspective</th>
<th>Entities Involved</th>
<th>Economic Ownership of Output</th>
<th>Economic Activity</th>
<th>ISIC Industry</th>
<th>Type of Output</th>
<th>International Transactions Related to Production Process</th>
</tr>
</thead>
</table>
| **Factoryless manufacturing**                                 | 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 | Manufacturing | 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                                                      | X | 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                                                      | X | Production of services | Appropriate service Industry | Services | Exports of services (by type) from supplier to domestic. |
## Arrangements Related to Services / Unrelated to Primary Inputs

<table>
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<tr>
<th>Production Arrangement Based on Domestic Entity Perspective</th>
<th>Entities Involved</th>
<th>Economic Ownership of Economic Activity</th>
<th>Economic Activity</th>
<th>ISIC Industry</th>
<th>Type of Output</th>
<th>International Transactions Related to Production Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subcontracting production of services</td>
<td>Domestic (Principal)</td>
<td>Materials</td>
<td>X</td>
<td>Purchase and sale of service without any significant transformation of the service between purchase and sale</td>
<td>Appropriate service Industry</td>
<td>Services</td>
</tr>
<tr>
<td>Supplier</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Direct Investment Enterprise not directly engaged in producing the good</td>
<td>Domestic</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Supplier</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Manufacturing</td>
<td>Manufacturing</td>
<td>Goods</td>
</tr>
<tr>
<td>Direct Investment Enterprise not directly engaged in producing the service</td>
<td>Domestic</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Production of services</td>
<td>Appropriate service Industry</td>
<td>Services</td>
</tr>
</tbody>
</table>
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?