Globalization

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IMF Statistics Department – United Nations Economic and Social Commission for Asia and the Pacific

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.
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

- **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 and 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.
Measurement Challenges

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

- **Cross-border mobility of corporate assets**
  - IIPs and other intangible assets can easily be moved.
  - 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

- 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

- **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)
THANK YOU FOR YOUR ATTENTION!
Additional Slide
Global Production: Decision Tree

1. Were the goods produced outside the economy of the principal?
   - Yes: Merchandise trade
   - No: 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, Factoryless goods production
     - No: Did the principal supply significant intellectual property to the production of the good, without charging for the right of use?
       - Yes: Did the goods cross the border of the principal?
         - Yes: Merchandise trade, Re-exports
         - No: Merchanting
       - No: Global manufacturing, Processing

2. Merchandise trade, Re-exports
3. Merchanting