

THE IMPACT OF GLOBALISATION ON NATIONAL ACCOUNTS

JOINT UNECE/OECD/EUROSTAT WORKING GROUP

Note by the UNECE secretariat

Over the last decade we have witnessed an unprecedented increase in the cross-border movement of goods, services, income and financial flows, as well as people. It has become increasingly easy for companies to operate across several countries and for consumers to access international suppliers. With the growth of the internet, doing business abroad has never been easier. The activities of Multinational Enterprises (MNEs) have resulted in the production function being spread across national borders, with a significant increase of goods traded between affiliated companies. More and more services – such as computer software services, “call centres”, financial services, and marketing and sales – are being provided transnationally and are frequently being outsourced. Globalization, of course, represents much more than the activities of MNEs; it also affects households, persons and employment. For instance, household spending abroad has significantly increased as a result of cheap travel and the use of internet.

The increased level of globalization has posed additional challenges to the compilation of national accounts. Information on transactions and other flows between branches located in different countries cannot be easily obtained in individual countries. In addition, little is known about the flows of intellectual property and related income. Many questions arise with regard to the treatment of special purpose entities, and guidelines are needed on the new treatment of goods for processing and merchanting (as recommended by the 2008 SNA). With the increase in international labour mobility, the measurement of labour input and productivity is becoming more problematic, while the recording of remittance flows is being hampered by many measurement issues. Other areas that present challenges to the statisticians include foreign direct investment and related income, transit trade, and common trading and currency block issues.

Following an in-depth review of globalization statistics by the Conference of European Statisticians (CES), a Joint UNECE/Eurostat/OECD Working Group on the Impact of Globalisation on National Accounts (WGGNA) was created in April 2007. According to the terms of reference, the objective of the WGGNA is “to review the main distortions in the compilation of national accounts and related source statistics, as caused by globalization”. In doing so, the Working Group should “put forward proposals on how to deal with these distortions in order to improve the quality of national accounts”. A Leadership Group composed of Canada, Czech Republic, Finland, Netherlands, United Kingdom, United States, UNECE, OECD, Eurostat and IMF steers the work of the WGGNA under the chairmanship of Statistics Netherlands. The secretariat is provided by the UNECE. The Working Group is open to all member states of UNECE, OECD and Eurostat. UNCTAD and WTO also participate in the work of the WGGNA.

The result of the work of the WGGNA will be a report providing recommendations and best practices, to be presented to the Conference of European Statisticians (CES) in June 2010. The report will identify the areas most affected by globalization and will make proposals on how to improve surveying, processing and integration of data and on how to arrive at international consistency. The report will also make

proposals on improving international guidelines and on the creation of a medium for exchange of best practices. In addition, the WGGNA has accepted the request of the ISWGNA to develop some operational guidelines on the treatment of goods for processing and merchanting in national accounts, as recommended by the 2008 SNA.

A research agenda has been developed at the outset and agreed by the WGGNA during its first meeting in April 2008 in Geneva. The research agenda could be broadly presented in four groups of topics linked to the effects of globalisation on the compilation of national accounts:

- problems linked to allocation of value added and income to national economies: issues to be addressed under this heading include transfer pricing and the development of an improved understanding of the typical behaviour of MNEs;
- specialisation of supply chains: transactions in intellectual property (e.g. R&D), special purpose entities (SPEs), goods for processing, toll manufacturing, merchanting, consignment goods, commissionaire trading, re-exports and centralization of logistics, other centralized services;
- issues in relation to households, persons and employment: e-commerce, labour mobility and trade in services through the movement of persons, remittances, tourism and second homes; and
- other issues linked to globalization: foreign direct investment and related income, transit trade, common trading and currency block issues.

The problems included on the research agenda are just an indication of the challenges posed by increasing globalisation to the compilation of national accounts. The list presents well-recognised areas where measurement problems exist, but is very much a living document that could be updated as work progresses.

Furthermore, in order to avoid duplication of work, an inventory of all task forces, working groups and other bodies undertaking work on issues related to the impact of globalisation on statistics in general and on national accounts in particular has been developed. The list includes the relevant working groups, including their mandate, area of work, reference websites and contact persons. Some of the existing working groups have already been contacted either to report to the WGGNA or to provide substantial input to the development of the final report – examples include the Inter-Agency Task Force on International Merchandise Trade Statistics, the OECD Task Force on Intellectual Property products, and the Eurostat Task Force on MNEs. Other working groups will be contacted on specific topics.

During the first meeting of the WGGNA which was held back-to-back with the Joint UNECE/OECD/Eurostat Meeting on National Accounts in April this year, three issues were discussed in detail: (i) the treatment of goods for processing, (ii) the treatment of merchanting, and (iii) multinational enterprises and the allocation of income in national accounts. The main conclusions related to each of these three topics as summarised by the Chair of the WGGNA are presented in an Annex to this note. More detailed minutes of the discussion are available on the dedicated website of the first meeting. A follow-up discussion will take place at the second meeting of the WGGNA.

The WGGNA will meet again on 11-13 May 2009 in Geneva. The following substantive topics will be included on the agenda: (i) follow-up discussion on MNEs and allocation of income, goods for processing and merchanting, (ii) transactions in intellectual property, (iii) transit trade and re-export, (iv) remittances and labour mobility, (v) special purpose entities, and (vi) foreign direct investment.

A dedicated website for the work of the WGGNA has been created by the UNECE secretariat (<http://www.unece.org/stats/groups/wggna.e.htm>). This website serves as a repository for the exchange of knowledge, experience and best practices in relation to the main distortions affecting the compilation of national accounts and related source statistics as a result of globalisation.

ANNEX

MAIN CONCLUSIONS OF THE FIRST WGGNA MEETING

On the basis of the presentations and discussions in each of the three topic sessions, the following conclusions were summarised by the chairman during the closing session:

I. GOODS SENT ABROAD FOR PROCESSING

- Under the new treatment of the 2008 SNA and the Balance of Payments Manual, 6th edition (BPM6), no change of ownership will be imputed to goods being processed abroad. In line with this proposal, the Balance of Payments (BoP) and the National accounts (NA) will no longer show the flow of goods but instead will show flows of processing services. On the basis of the discussions, there is a general agreement that goods for processing should be recorded on a “change of ownership” basis, in line with the new treatment;
- The new proposal, which relates to the recording of the goods sent abroad for processing in the BoP and the NA, should be done in a consistent manner;
- Under the new treatment, data information that can be extracted from the supply and use tables will be affected. This especially relates to structural measures (e.g. productivity, environmental indicators) that are widely used for analytical purposes;
- In line with what was proposed in the issue paper, it would be useful for analysts (users) that statistical agencies preserve additional supply-use tables that record the gross flows of the processing industries.

II. MERCHANTING

- There is a general agreement on the 2008 SNA and the BPM6 proposals for recording merchanting transactions;
- The new SNA-proposals relate to merchanting of goods only. As a consequence, the issue of reporting “merchanting of services” should be further addressed. Important questions are what merchanting of services exactly entails; and how we can deal with it in line with the proposed treatment;
- There is a need for more narrow definitions for “global manufacturing” and “merchanting” activities. There is an agreement that these should be treated as two separate activities;
- Measuring merchanting activities is challenging: what and how do we collect data of such activities? These measurement issues need to be addressed in more detail.

III. MULTINATIONAL ENTERPRISES AND ALLOCATION OF INCOME IN NATIONAL ACCOUNTS

- Large multinational enterprises often take advantage of transferring goods, services and assets to foreign affiliates residing in countries with lower tax rates, and therefore, the issue of (incorrect) transfer prices is important;
- There is reluctance to adjust for transfer prices, unless the prices recorded in the company's books are clearly wrong, and additional information on true market prices is available;
- Gross National Income (GNI) may become more important in future, because GNI is invariant to the use of misleading transfer prices while GDP will be affected by (adjustments of) transfer price;
- Data availability on transfer prices through surveys and interviews with multinational enterprises may give new insights.