Working Party on Financial Statistics

MANUAL ON ECONOMIC GLOBALISATION INDICATORS:
GENERAL PRESENTATION

Note by the Secretariat

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All questions concerning this document should be addressed to Mr. Thomas Hatzichronoglou, Tel: + 33 1 45 24 93 97, Fax: + 33 1 44 30 62 58, E-mail: thomas.hatzichronoglou@oecd.o
MANUAL ON ECONOMIC GLOBALISATION INDICATORS

GENERAL PRESENTATION

Introduction

1. Analysis of the process of globalisation in all its economic, technological, commercial and financial dimensions has highlighted the need for internationally comparable indicators. Work on globalisation has also shown the limitations of certain existing indicators, along with the need to formulate new ones based on new concepts integrating all aspects of the phenomenon.

2. This involves revisiting the scope and interpretation of the indicators already available, and developing new ones to rectify and supplement more traditional indicators. This twofold task does not necessarily entail organising new surveys, but in most cases it will require harmonisation of definitions and methodologies from existing data sources.

3. Preparing a manual is a prerequisite to any such harmonisation. The wealth of information on compiling statistics and constructing indicators that has been acquired through OECD surveys in a variety of areas will no doubt be extremely useful in developing a manual on globalisation indicators at the Organisation.

4. The purpose of this document is to explain to the OECD Working Party on Financial Statisticians why such a manual was necessary, and to outline its goals and contents, along with certain aspects of Chapter 2 that are more directly related to the activities this working party.

1. The need to compile a manual

5. The work carried out at the OECD in recent years has clearly shown that globalisation is a phenomenon which affects most areas of economic activity and that the indicators of globalisation needed to take account of and reflect that influence.

6. The main difficulty in developing such indicators stems from the fact that globalisation is a multi-dimensional concept embracing a large number of relatively disparate phenomena which cannot readily be ranked or classified.

7. In addition, many economic and social problems are attributed to globalisation, and empirical verification is made difficult by the lack of appropriate indicators. Most of the indicators currently available were conceived on a strictly national basis, with little regard for the various forms of globalisation or its consequences.
1.1 The limitations of the indicators available

8. All experts concur that traditional indicators are proving a less effective guide to policymaking than they used to be. This is not because the underlying data have become less precise, but because the context in which they must be interpreted has changed.

9. Here we shall limit ourselves to just two examples. Most analyses of competitiveness assume that international trade is the only form of globalisation and market conquest. Other forms (direct investment, technology transfers, etc.) are not integrated as complementary or substitute strategies, and their influence is not taken into account. As a result, traditional indicators involving export market shares may prove misleading if, say, national producers voluntarily cut back on exports of certain products, preferring to sell locally for strategic reasons and not because of any loss of competitiveness. Yet export market share indicators would suggest that the competitiveness of such firms had weakened at a time when their market power was in fact enhanced.

10. Another example can be found in the realm of technology. Some multinational firms may move R&D laboratories offshore to take advantage of various benefits and externalities that another country’s labour force or scientific environment may offer, or a move may stem from a group’s global restructuring, following a merger for example. For the company involved, the place where R&D is carried out is of little importance, provided the firm can keep track of how it is done and ensure that the results remain confidential. Nevertheless, moving R&D laboratories abroad can in some cases trigger unwarranted political concern if the R&D expenditures of domestic firms do not progress at the desired pace, and even more so if those expenditures decline. Moreover, if firm acquires an offshore R&D laboratory, it may cause R&D outlays in the parent company’s home country to rise at a more modest pace, with no impact on the firm’s overall technological capability.

11. These two examples show that it is necessary for traditional indicators to incorporate certain aspects of the activity of multinational firms if erroneous interpretations are to be avoided.

1.2 The work of the Industry Committee’s Statistical Working Party

12. In the early 1990s, the Industry Committee mandated its Statistical Working Party to devise new indicators of globalisation. An initial exploratory workshop was held in the autumn of 1992. Each year since then, the Working Party’s ordinary meeting has been followed by a special session attended by some sixty experts from different backgrounds to those of the regular delegates.

13. In the initial phase of its work, the group delineated areas tied in with globalisation and industrial activity. Given the large number of areas in question, it was necessary to make choices, which the Industry Committee endorsed, giving priority to the analysis of international investment, and primarily to the activity of foreign affiliates in a variety of areas, including employment, technology, trade and, more generally, competitiveness.

14. To complete this work, the group devoted its first meetings to clarifying concepts and organising the collection of data on the activity of foreign affiliates in OECD countries (inward investment). More recently, data collection was extended to the activity of offshore affiliates of national firms (outward investment), and to the service sector in respect of both categories of investment. Data collected on the activity of multinational firms in services (FATS surveys) constitute an input of vital importance to the General Agreement on Trade in Services (GATS) and to the new round of negotiations on the liberalisation of services under the auspices of the WTO.
15. By assigning appropriate indicators to the concepts, and by ascertaining the basic data needed to
develop each indicator, the group was able to consolidate its experience in this area, enhancing it through
work of a more analytical nature, such as computing current balances not in terms of geographical
boundaries but in terms of firm ownership, and establishing quantitative links between trade and direct
investment. Annex 2 lists the group’s most recent publications.

2. Objectives of the Manual

16. The group of experts’ work revealed major gaps with regard to basic concepts concerning the
economic activity of multinational firms and thus the difficulty of carrying out quantitative analysis of
these firms’ role in the world economy.

17. Moreover, the need for indicators to translate policymakers’ main concerns over economic
globalisation, and to specify the basic data that would be needed to do so, prompted the experts to try to fill
in these gaps. They deemed that the moment had come for their experience to take concrete form through
the development of a document that could be called a “manual”, and in which they would seek to:

- map out the realm of globalisation indicators of relevance to policymakers and propose a
  selection of them that would warrant systematic effort to track how the process evolves over
time;

- provide the methodological and statistical guidelines needed to construct the chosen
  indicators, incorporating as much international harmonisation as possible.

18. The Manual would also identify areas that are relatively well explored by most countries, those
that are explored by some countries and require additional investigation by the others, and those that would
warrant exploration on a theoretical level if the necessary resources were available.

19. More generally, the Manual will be aimed at all those who wish to analyse the problems raised by
globalisation, on a quantitative level, and particularly policymakers, researchers and especially the people
who collect basic data. For these data collectors, a large number of recommendations will be provided so
that they can obtain internationally comparable data.

3. Areas the Manual should cover

20. The chapters of the Manual proposed by the experts cover the main areas of economic activity
that have had a direct impact on the process of globalisation.

21. The four chapters in question are:

1. Introduction to the concept of economic globalisation and the measurement thereof;

2. Foreign direct investment and the economic activity of multinational firms;

3. The internationalisation of technology;

4. Aspects of the globalisation of trade.

22. Foreign direct investment, technology and trade constitute the driving forces of globalisation, and
as such they each fully warrant a separate chapter.
23. Capital movements and financial markets, while playing a key role in the process of globalisation, will not be covered in this Manual insofar as they fall outside the purview of the Group of Globalisation Experts.

24. Regarding the impact of globalisation on economic activity, it is planned, in a second phase, to insert an annex incorporating a number of methodological sections that emphasise globalisation’s effects on various aspects of the economy, including employment.

25. Annex 1 describes the contents of these four chapters, which are currently in progress, in greater detail.

4. Aspects involving the chapter on “International Investment and the Economic Activity of Multinational Firms”

26. International investment can be analysed through two categories of indicators: flows of foreign direct investment capital and indicators involving the economic activity of multinational firms. The two categories of indicators correspond to two complementary approaches—that of balance of payments statistics and that of the economic activity of multinational firms (e.g. turnover, employment, value added, exports, intra-firm trade, research and development, technology transfers, etc.).

27. The balance of payments approach is essentially a macroeconomic one and is directly related to national accounting, whereas the approach focusing on the economic activity of multinational firms is more microeconomic and industrial.

28. The aim of Chapter 2, which deals with issues concerning international investment, is to highlight what the two approaches have in common and where they differ, and to present the basic concepts and corresponding indicators.

29. Without being exhaustive, in the context of this document, it would be possible to cite two important differences concerning the two approaches in question. First, transactions corresponding to foreign direct investment flows (the balance of payments approach) are limited to firms having financial ties between them (parent companies, subsidiaries and affiliates), i.e. firms joined by equity interests of more than 10%. In contrast, transactions reflecting the economic activity of multinational firms, such as sales or turnover for example, can take place between all categories of firms, whether or not there are financial ties between them.

30. A second difference involves degrees of ownership. While direct investment flows involve firms that possess equity interests of more than 10% in other firms located in a foreign country, the economic activity approach looks at firms that possess equity interests of over 50% in the other firms, allowing them to exercise genuine control and shape the strategy of the firms they control.

31. This makes it possible to draw a distinction between the economic activities of a country that are merely under foreign influence (minority interest) and activities that are truly controlled (majority interest). However, there are many more specific cases that require clear rules and special treatment, and it is for that reason that this chapter makes numerous recommendations to ensure enhanced international comparability.

32. The section on direct investment flows is presented relatively briefly insofar as most of the definitions have already been covered in other manuals. In contrast, the bulk of the chapter is reserved for problems involving the economic activity of multinational firms and for the related indicators—aspects that until now have not been covered in other manuals.
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   *Manual on Statistics of International Trade in Services (forthcoming).*

2. Examples include: the employment effects of moving offshore, opportunities for multinationals to avoid taxes through transfer pricing, the impact of international competition on prices, globalisation’s effects on social exclusion, taxation’s role in attracting foreign capital, the impact of mergers on competitiveness and employment, and the impact of foreign direct investment on international trade.

ANNEX 1

MANUAL ON ECONOMIC GLOBALISATION INDICATORS
CONTENTS OF THE MAIN CHAPTERS

PROVISIONAL OUTLINE

Chapter 1: Introduction to the concept of economic globalisation and the measurement thereof

Introduction

1. Defining economic globalisation
   1.1 Main causes
   1.2 Main features
      1.2.1 Macroeconomic aspects
      1.2.2 Microeconomic aspects

2. Problems of measurement
   2.1 Shortcoming of the tools of analysis
   2.2 Main categories of indicators
   2.3 Limited list of reference indicators
      2.3.1 Trade
      2.3.2 Foreign direct investment and the activity of multinational firms
      2.3.3 Globalisation of technology

Bibliography
Chapter 2: International investment and the economic activity of multinational firms

Introduction

1. The main categories of international investment

2. Portfolio investments

3. International investment according to the balance of payments approach
   3.1 Categories of direct investment firms
   3.2 Main forms of direct investment
   3.3 Data on direct investment
   3.4 Main limitations of data on direct investment flows and stocks
   3.5 Indicators involving direct investment

4. The economic activity of multinational firms approach
   4.1 The notions of “ownership” and “control”
   4.2 Problems involved in identifying a firm’s nationality for data collection purposes
   4.3 Variables related to economic activity
   4.4 Data by groups of enterprises
   4.5 Criteria for determining whether a firm belongs to a direct investment enterprise group
      4.5.1 US experience
      4.5.2 French experience
   4.6 Unique features of data on service activities
   4.7 Problems involving international comparability of data
      4.7.1 Data availability and main sources
      4.7.2 Problems of confidentiality
   4.8 Indicators involving the economic activity of multinational firms

Bibliography
Chapter 3: The internationalisation of technology

1. The internationalisation of industrial R&D
   1.1 Policy-related indicators
   1.2 R&D data to be collected
   1.3 Main distortions in international comparisons
2. Patent-based indicators of internationalisation
   2.1 International flows of knowledge
   2.2 Location of multinational firms’ offshore research laboratories
   2.3 International technology arrangements
   2.4 Geographic specialisation
3. International trade in disembodied technology
   3.1 Difficulties in interpreting the indicators
   3.2 Policy-related indicators
   3.3 Data to be collected
   3.4 Measurement problems and distortions in international comparisons
4. Inter-firm co-operation agreements and technology alliances
   4.1 Reasons for and objectives of co-operation agreements and technology alliances between multinational firms
   4.2 Forms of co-operation
   4.3 Policy-related indicators
   4.4 Data to be collected
   4.5 Available sources
5. Trade in high technology
   5.1 Defining high technology
   5.2 Main features
   5.3 Identifying high-tech sectors and products
   5.4 Main limitations of the proposed lists
   5.5 Policy-related indicators

Bibliography
Chapter 4: Aspects of the globalisation of trade

1. International trade involving multinational firms
   1.1 Intra-firm trade
   1.2 International subcontracting
   1.3 Transfer prices
   1.4 Current balances based on capital ownership

2. Specialisation and competitiveness
   2.1 Measurements of exposure to international competition (market access)
   2.2 Intra-industry trade
   2.3 Trade in intermediate goods
   2.4 Trade in services
   2.5 Intra-regional trade

3. Other aspects of globalisation
   3.1 Electronic commerce
   3.2 Trade and direct investment
   3.3 Trade and international competition

4. Main sources of basic data
   4.1 Categories of data
   4.2 Problems involving data comparability

Bibliography
ANNEX 2. DOCUMENTATION OF THE GROUP OF GLOBALISATION EXPERTS

Documents released in 1998/99:

Summary record of the session on globalisation [DSTI/EAS/IND/SWP/M(99)2].


“Foreign Direct Investment and International Trade: Complements or Substitutes?” [STI Working Papers, 1999/3].

“Links between direct investment and trade: short and long-term effects” [DSTI/EAS/IND/SWP(99)15].


“Internationalisation of services: Results of the survey of the activity of foreign affiliates in the services sector: an initial assessment” [DSTI/EAS/IND/SWP(99)14].