

Introduction

1. The term “globalisation” has been widely used to describe the increasing internationalisation of financial markets and of markets for goods and services. Globalisation refers above all to a dynamic and multidimensional process of economic integration whereby national resources become more and more internationally mobile while national economies become increasingly interdependent.

Why a Handbook?

2. In a globalising economy, distances and national boundaries have substantially diminished as most of the obstacles to market access have been removed. In this global market, multinational enterprises (MNEs) are perceived to be a key vector through which globalisation has occurred and continues to evolve. Thanks to information and communication technologies, firms continue to organise themselves into transnational networks in response to intense international competition and the need for strategic interactions. Despite the fact that economic integration is a dominant feature of globalisation, other dimensions are also of significance, including the social, cultural, political and institutional realms.

3. The globalisation process has accelerated in the second half of the 20th century and has gone through significant developments over the past 20 years. Understanding globalisation based on facts and findings is indispensable for policy making, strategic decisions, as well as many other economic, social and other types of analysis.

4. In this context, the crucial question is whether or not adequate tools are available to measure and assess the globalisation process, and to analyse its economic impact. This leads to the following considerations:

- i) Traditional statistics no longer suffice to analyse fully the magnitude and consequences of globalisation, and they need to be supplemented by, and combined with, other indicators.
- ii) New concepts resulting from a global economy have to be identified, defined and explained, and they have to be integrated with existing tools into a common analytical framework.
- iii) Comparable statistics, based on international standards, must be developed. These standards must be adjusted to take new developments into account.

5. These considerations have led the OECD to reflect on the ways and means of developing a framework in order to analyse the process of globalisation in economic, technological, commercial and financial dimensions, and to construct internationally comparable indicators. This task does not necessarily entail the organisation of new surveys. Most of the existing national data could be adjusted to accommodate the new concepts and definitions needed to analyse economic globalisation and ensure that

indicators are comparable from one country to another. To this end, the development of this *Handbook* has been undertaken with two primary objectives:

- Identify a set of relevant globalisation indicators to gauge the magnitude and intensity of the globalisation process, and to enable policymakers and other analysts to track how it evolves over time.
- Provide national data compilers with the methodological and statistical guidelines needed to construct the chosen indicators and make them compatible with international standards.

6. These objectives entailed that the scope of this *Manual* be built, whenever possible, on the methodological work already established in other manuals. Thus, the recommended definitions and concepts concerning the collection of data on foreign direct investment were taken from the *IMF Manual of Balance of Payments* (MBP5) and its accompanying documents, as well as the *OECD Benchmark Definition of FDI* (3rd edition, 1996). The basic definitions concerning research and development and technology balance of payments are based on those described in the *Frascati Manual* (OECD, 2002) and in the *Technological Balance of Payments Manual* (OECD, 1990), respectively. In addition, some of the concepts and recommendations linked to the activity of foreign affiliates in the service sector which are also presented in this *Manual* come from the *Manual on Statistics of International Trade in Services* (2002).

7. The present *Handbook* recalls the main concepts and definitions already adopted by the aforementioned manuals, putting them within the framework of globalisation and showing the existing links between these manuals. Beyond these reminders and appropriate references, however, the *Handbook* goes further by developing in more detail the concepts linked to the activity of multinational firms and proposing recommendations that can be used to develop harmonised statistics. Given the practices observed in the majority of OECD countries, it is in this area that most of the new recommendations are made. The proposed priorities take these practices into account, along with the need for better analysis of the process of economic globalisation.

Areas covered by the *Handbook*

8. Improving the understanding of the impacts of globalisation requires quantitative work in at least three areas: measurement of its magnitude and intensity, its economic impact, and lastly its links with structural adjustment policies. The *Handbook* covers only the first area, for which a set of indicators is proposed, essentially in the form of ratios derived from basic statistics measuring the magnitude and intensity of the process of globalisation in its different dimensions. The last two areas are not dealt with as they are too complex and cannot therefore be described using simple indicators. Consequently, they most often require models and extensive analytical work inappropriate for a manual. However, they do require data relating to the first area.

9. However, even though the scope of the *Handbook* is limited to measuring the magnitude of the globalisation process, the task encompasses a potentially large number of areas. Priority is given to those that are considered the mainsprings of globalisation: *international trade, foreign direct investment, the activity of multinational firms and the production and international diffusion of technology*. Most of these areas are dealt with in other, more specialised manuals as indicated above, but the intention with this *Handbook* is not to present all the relevant indicators but to select those which are linked directly to

globalisation and for which the OECD countries are directly involved in data collection. Other driving forces of globalisation, including financial portfolio movements, international migration of persons, and government action, are not addressed in the current version of the *Handbook*. The five chapters contained in this *Handbook* are followed by a brief description of the sources of data for the proposed indicators, a list of acronyms and a glossary which recalls the definitions of the principal terms used.

10. Chapter 1 sets out to define the concept of globalisation and identify its main driving forces. It will also propose a limited list of reference indicators based on the current availability of the underlying data and some of the policy issues confronting policymakers and analysts of globalisation.

11. Chapter 2 covers foreign direct investment. It reviews the basic concepts and definitions that apply to the FDI statistics in the IMF Balance of Payments Manual (5th edition) and the OECD Benchmark Definition of Foreign Direct Investment (3rd edition). In respect of application of the standards recommended by the member countries, the chapter refers to the joint OECD/IMF Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI). The survey also provides a brief description of future methodological work that could lay the groundwork for an extension of FDI statistics.

12. Chapter 3 deals with the economic activity of multinational firms. It develops the main concepts and definitions regarding activity data for multinational firms, notably the concept of control of an enterprise and the identification of the country of the investor which has the ultimate control over its activities. Building on national statistical agencies' best practices, pragmatic and operational recommendations are made in order to enhance international comparability of indicators and basic data. The definitions proposed are consistent with those contained in the fourth chapter of the Manual on Statistics of International Trade in Services.

13. Chapter 4 is devoted to the internationalisation of technology. Several forms of internationalisation are analysed: the internationalisation of R&D, technology balance of payments and trade in high-technology products. The chapter benefits from the guidelines set out for the measurement of research and development developed in the *Frascati Manual* and the *Technology Balance of Payments Manual*.

14. Chapter 5 deals with certain aspects of the globalisation of trade. The purpose is not to repeat what readers can easily find in other manuals, books and articles on the subject, but to focus on several aspects of the role played by multinational firms in international trade, and on certain structural effects of globalisation on international trade. Consequently, much of the chapter is devoted to indicators on intra-firm trade and some complementary and experimental methods for evaluating the trade balances of countries on the basis of the ownership of their firms rather than their geographical borders. Other indicators are provided on shifts in the structure of international trade, such as intra-industry trade, trade in intermediate goods, the import content of exports, and intra-regional trade.

Target audience of the *Handbook*

15. The *Handbook* is intended first and foremost for those who collect basic data and are responsible for constructing and disseminating indicators. It also aims indirectly at other categories of statistics users, who will be able to find useful information concerning basic concept definitions, data availability, and construction of indicators. As for the countries concerned, the *Handbook* is designed in the first instance solely to cover data originating

from OECD-based data compilers. However, given the economic importance in world markets of countries outside the OECD area and the nature of the subject, the country coverage of the *Handbook* will possibly have to be enlarged in a future version in order to take into account the specificities and priorities of non-OECD economies.

Limitations of the existing *Handbook* and future work

16. This is only an initial foray into a vast area and does not pretend to provide answers to all questions. The *Handbook* rather seeks to provide an initial foundation which can serve as a basis for further work. Notwithstanding these shortcomings, notably certain problems relating to data comparability which largely reflect the need to harmonise the definitions of the concepts used in this field, it was the belief of the contributors to the *Handbook* that progress on these issues would benefit from experience gained through the use of this initial version. Given this, and the changing nature of what constitutes “globalisation”, this *Handbook* is intended to be dynamic rather than static. It will have to be revised at regular intervals and enriched with the most recent experience and trends by incorporating the suggestions of the users and producers of basic data.