Measurements of Globalization

Workshop on the Harmonization of the Balance of Payments and the National Accounts
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Outline

1. Globalization
2. Examples of international initiatives
3. Statistical frameworks for economic statistics
4. Importance of harmonized Balance of Payment and National Accounts data
5. Conclusions
1. Globalization

- Globalization is bringing increasing use of organizational "innovations" in the production of goods and services, such as
  - factory-less production
  - relocation of intellectual property products
  - complex international financial relationships

Increased complexity of compiling economic statistics
What Changed in the international economy and in economic measurement?

- Globalization of production, and income, and spending
- Globalization of finance
- Globalization of natural resources and the environment
Figure 6. The Nutella® global value chain

Source: Ferrero.
Existing international statistics have – in some respects – not kept up with Globalization

- These changes have reduced the relevance of existing statistics for policymakers, business, investors, and researchers
  - Remain invaluable, but need extension to improve understanding and public policy
  - Critical need to “look-through” complex global production and financial transactions
    - Protectionist pressures
    - Financial crisis
2. Examples of international initiatives

- The UN Economic Commission for Europe (UN ECE) published in 2015

- The UN Statistical Commission agreed with the development of a **global enterprise group register** to help national statisticians to better understand business strategies and the international trade and foreign direct investment relations between enterprises in compiling cross-border macroeconomic statistics.
The UN Expert Group on International Trade and Economic Globalization Statistics to address measurement challenges of globalization.

To develop a *Handbook on Accounting for Global Value Chains: extended national accounts and integrated business statistics*

A **Global Value Chain** is a set of interrelated activities that cross economic territories which are coordinated by lead firms for the production of a product (from conception to its end-use), its delivery to market(s), support activities to its uses, and recycling
Automotive GVC

Source: Timothy Sturgeon, Jack Daly, Stacey Frederick, Penny Bamber and Gary Gereffi (2016) *The Philippines in the Automotive Global Value Chain*
Accounting for GVCs

Accounting for GVC using a national perspective provides a macro approach to the measurement of GVC and national accounts and prices.

It promotes:

- Resolving trade asymmetries
- Data sharing
- Coordinating the statistical programmes
- Importance of integrated business statistics, large case unit, micro-macro data linkages
- EU Project (2016-2020): Full International and Global Accounts for Research in Input-Output analysis (FIGARO) to combine national Supply and Use Tables (SUTs) and Input-Output tables (IOTs) into a multi-country SUTs and IOTs
- WTO-OECD Trade in Value Added (TIVA) initiative to provide better insights into the commercial relations between nations.
Gross vs. Value-Added Trade Flows

United States

Exports: $100m
Intermediate Inputs

China

Exports: $110m

Value Added: $10m

Value-added: $100m

United Kingdom
3. Statistical frameworks for economic statistics

- The **System of National Accounts 2008** (2008 SNA) and the **Balance of Payment 6** (BPM 6) are the reference documents for the compilation of economic statistics.
- BoP focuses primarily on summarizing the economic relationship between residents of an economy and non-residents
- SNA aims at describing the economic relationship within the economy and between the economy and the rest of the world.
- With the latest revision, the BoP and SNA:
  - Are conceptually consistent
  - Improve the treatment of a number of transactions which are prominent in a globalized economy
    - Goods for processing
    - Merchanting
    - Intellectual Property products (IPPs)
    - Factoryless goods producers
a solid understanding of the new global production arrangements needs a solid base of consistent, integrated and harmonized economic statistics

It is fundamental that BoP and SNA data are consistent and harmonized
Integrated statistics

- Scope of the statistics programme goes beyond the production of national accounts to also cover the statistical production process of basic statistics and to aspects of the institutional environment.

- It is, thus, based on an integrated statistics approach which:
  - Produces statistics that present a consistent and coherent picture of economic activities for policy, business and other analytical uses.
  - Uses common concepts, definitions, estimation methods and data sources for statistical reconciliation.
  - Moves away from a narrow stove-pipe statistical production model to cross-functional holistic model.
Integrated statistics

Building blocks

- **Common conceptual framework** provided by the SNA and BoP

- **Institutional arrangements** (legislative, organizational, budgetary, managerial and customer relationship arrangements) further support the environment for integration

- **Statistical production process** as an integrated production chain from the collection of basic data to the dissemination of statistics
Accounts to integrate statistics:

- Linking policy needs and statistics
- Understanding the institutional arrangements
- Integrated statistical production process/chain and services
- Consistency between basic data, accounts and tables and indicators
4. Importance of harmonized Balance of Payment and National Accounts data

- Better targeting public policy and informing public perceptions:
  - Drilling down beneath gross/counterparty trade and investment flows can provide a more accurate, and relevant picture of the underlying pattern of economic activity across countries.
  - A fuller picture of the critical dependencies and benefits that arise from global production and trade can provide an improved basis for public understanding of the dynamics of global trade and investment and for public policy.
5. Conclusions

- To better understand globalization is important to have a solid base of statistics:
  - Change-over to the 2008 SNA and BoP 6
  - Integrate the statistical production process to make efficient use of data sources, compilation practices, and dissemination schedules in a coordinated set up with relevant institutions
  - Harmonize SNA and BoP data

A solid base of statistics is not the end goal, but a first necessary step in measuring globalization
Thank You