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

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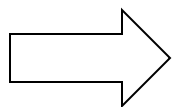
Increased complexity of compiling economic statistics

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

ferrero

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.
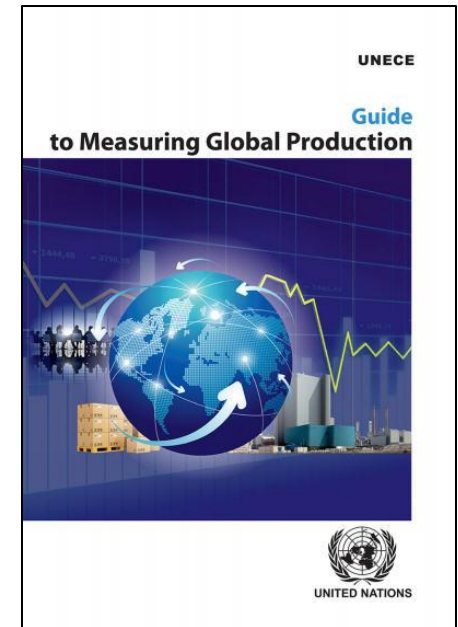
- The UN Expert Group on International Trade and Economic Globalization Statistics to address measurement challenges of globalization.

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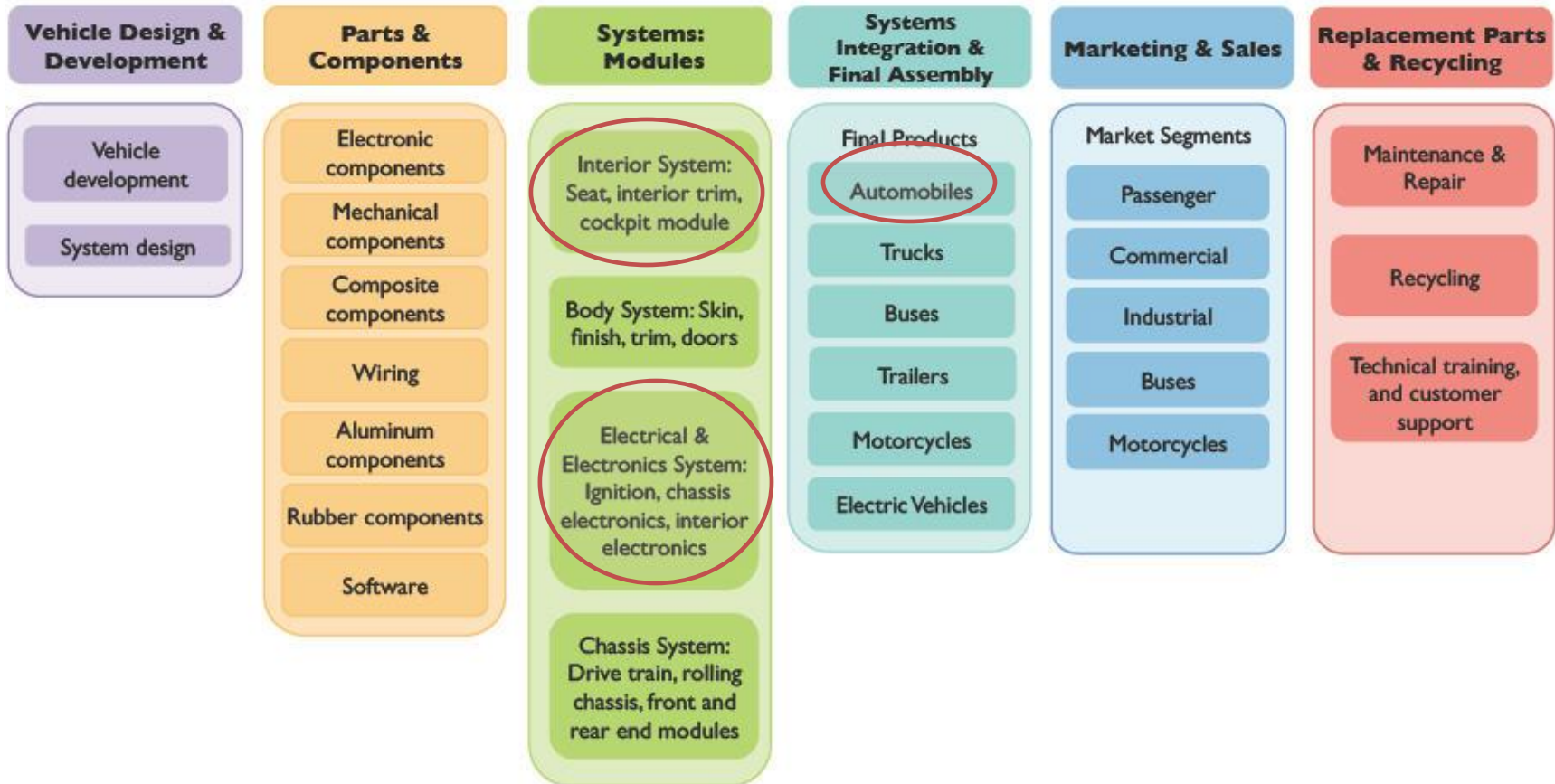
Source: Timothy Sturgeon, Jack Daly, Stacey Frederick, Penny Bamber and Gary Gereffi (2016) *The Philippines in the Automotive Global Value Chain*

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.
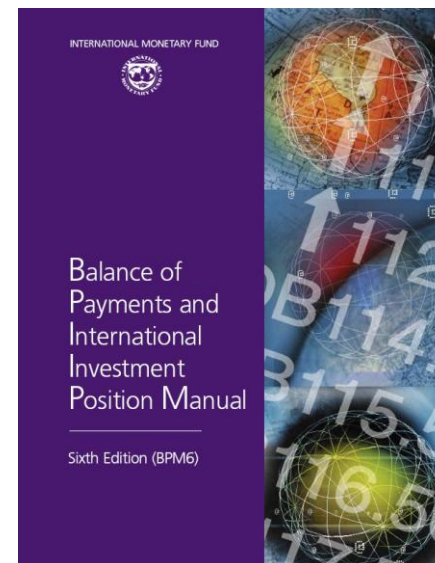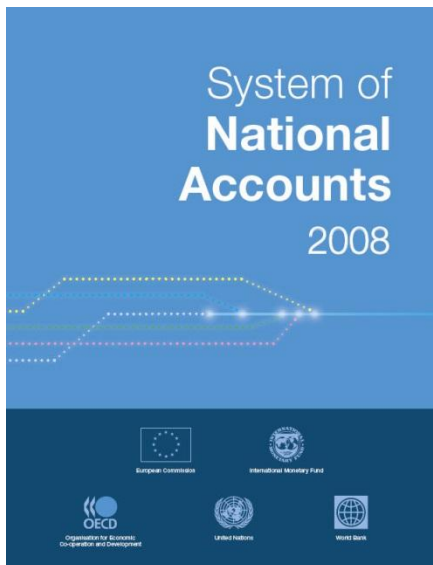
Gross vs. Value-Added Trade Flows
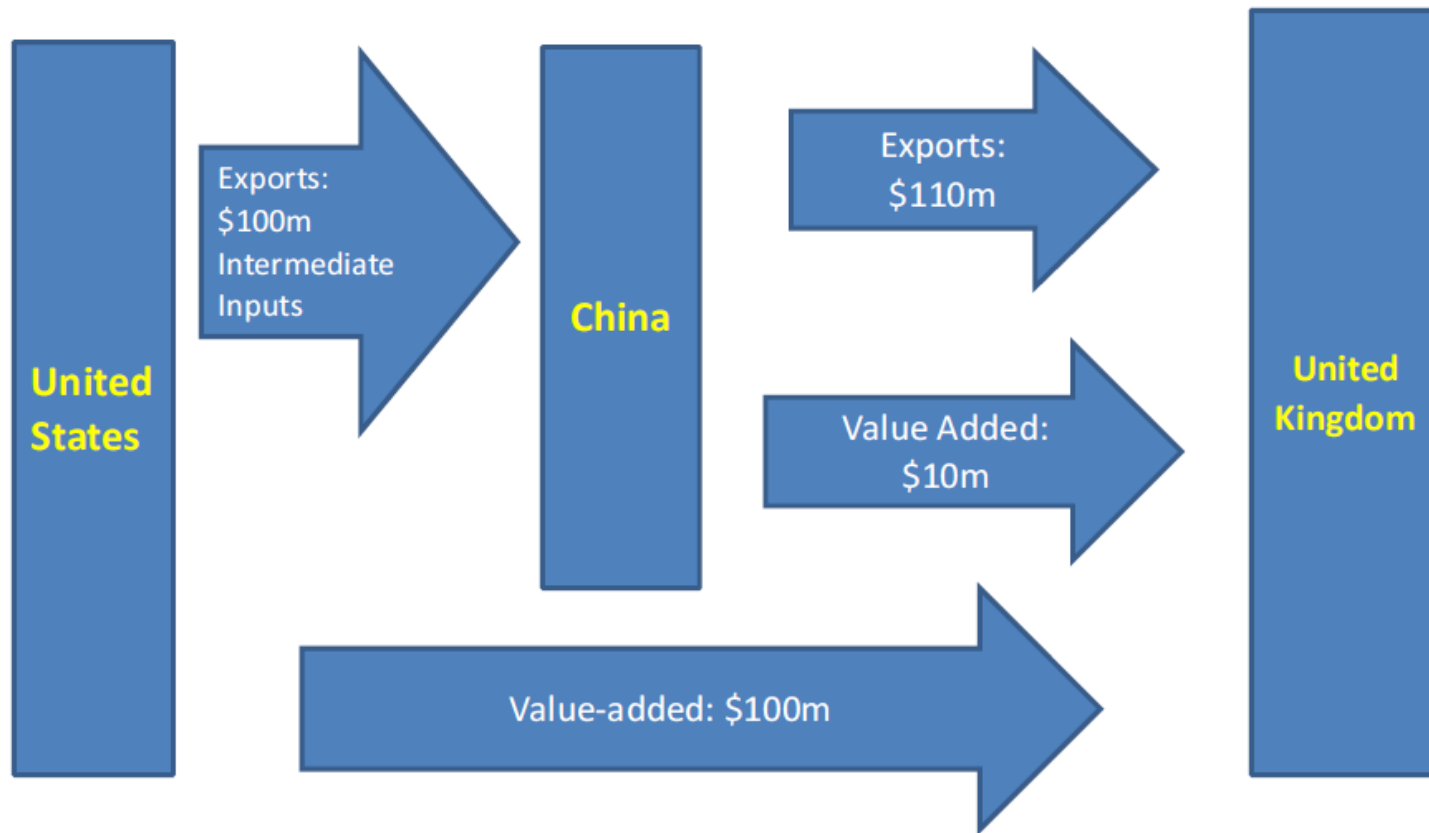
3. Statistical frameworks for economic statistics

- 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

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- a solid understanding of the new global production arrangements needs a solid base of consistent, integrated and harmonized economic statistics

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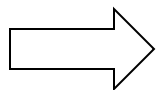
- It is fundamental that BoP and SNA data are consistent and harmonized

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
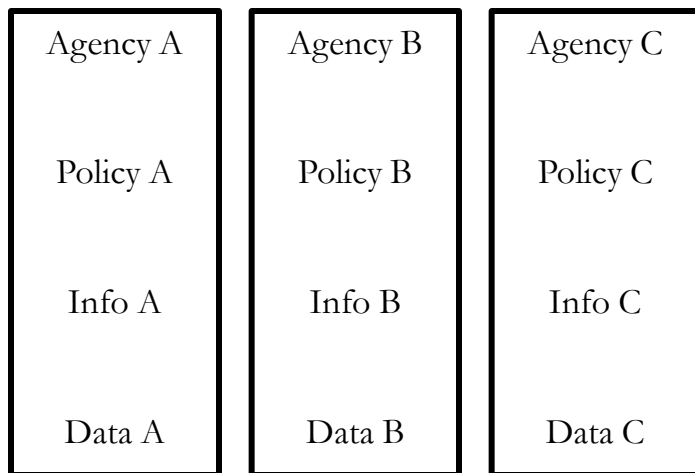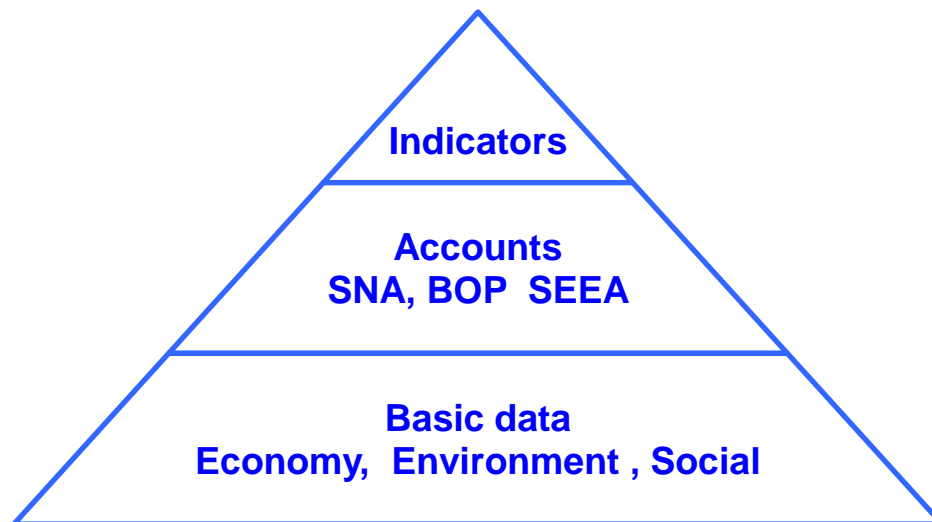
Building blocks

- **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

Integrated statistics approach

Silo approach

Agency A	Agency B	Agency C
Policy A	Policy B	Policy C
Info A	Info B	Info C
Data A	Data B	Data C

Integrated statistics

Indicators

Accounts
SNA, BOP SEEA

Basic data
Economy, Environment , Social

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

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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 an can provide a more accurate, and relevant picture of the underlying pattern of economic activity across countries.
  - A fuller picture of the critical <u>dependencies</u> and <u>benefits</u> 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