

# Global Forum on Trade Statistics

**Keynote address by Mr. Jomo Kwame Sundaram**, Assistant Secretary-General for Economic Development of the United Nations Department of Economic and Social Affairs, Geneva, 2 February 2011

Ladies and Gentlemen,

Dear colleagues,

I am happy to be part of this opening session of the Global Forum on Trade Statistics, although I must apologize for not being able to join you personally in Geneva owing to matters beyond my control. This mode of delivering my speech, however, underscores how services are being provided across borders. Changes in the trade in goods and services are at the centre of discussions on trade and globalization. The focus of this Forum is on how to best measure trade in such a global context.

I would first like to thank Eurostat, the statistical office of the European Union, for initiating this event and for its financial and substantive support. I would also like to thank the World Trade Organization for being an excellent host and for all the efforts made to make this event a success. It is, of course, very fitting to discuss trade issues under the same roof where trade rules are negotiated. Progress and setbacks in trade negotiations often reflect the world economic situation as well as changing trade and business practices.

As you know, the United Nations is committed to supporting and strengthening the economic and social development of developing countries. In this respect, the global economic crisis of 2008-2009 has had tremendous effects on trade and employment. I will offer a view of data needs and what the statistical community could provide on trade information.

## Re-tooling Global Trade

The World Economic and Social Survey, a flagship publication of the UN Department of Economic and Social Affairs, devoted its 2010 edition to Re-tooling Global Development, including a full chapter on Re-tooling Global Trade.

Before the crisis, export-led growth has emerged as the favoured development strategy in recent decades. The progressive reduction of tariff and non-tariff barriers to trade among countries generated a five-fold expansion of exports in the three decades since 1980.

A significant portion of the increase in trade volumes is accounted for by the increasing trade in intermediate goods, with the worldwide trend towards delivering goods and services through global value chains. Within these chains, unfinished goods

increasingly cross borders several times during the production and assembly process. In line with the official rules of WTO Customs Valuation, each border crossing of a product (intermediate or final) is recorded as an international transaction at full market value. This way of measurement inflates the actual value of trade involved where it concerns trade between a multi-national and its foreign affiliates.

As stated in the new recommendations for international merchandise trade statistics (IMTS 2010), our position is that gross value recording should continue for a number of reasons, such as for full coverage of the trade in goods, estimation of insurance and freight costs, unit value calculations and estimation of transport statistics. However, in addition, trade information should be gathered on intra-firm trade and transfer pricing.

#### Trade in the recent crisis

The global recession of 2008-2009 has been the deepest and most disruptive since World War II. What started as a crisis in the US sub-prime mortgage market quickly spread to financial markets and through trade channels in the rest of the world. From the last quarter of 2008, world trade went into free fall until the second quarter of 2009, causing a collapse in world commodity prices.

Exporters in Asia were among those most affected by the drop in global aggregate demand, mainly due to the decline in imports by developed countries. With growing value chain multinational production, changes in orders and inventories spread rapidly from one market to another. As much export production depends on suppliers of intermediate inputs, many also located in Asia, the demand shock spread quickly.

Extensive research was undertaken by a number of international organizations to analyze the effects of the crisis on trade and employment in the developing countries. For instance, UNCTAD published *International Trade after the Economic Crisis: Challenges and New Opportunities*, while the ILO published *Trade and Employment in the Global Crisis*.

Under the Global Trade and Financial Architecture project the World Bank published in October 2010, *Global Value Chains in a Post-crisis World: A Development Perspective* which contains research papers that describe the crisis and trends in global trade, demand and production, providing some sectoral perspectives on global value chains in developing countries.

I am very glad that two prominent global value chain researchers -- Prof. Gary Gereffi of Duke University and Dr. Tim Sturgeon of MIT's Industrial Performance Centre -- are participating in this meeting and will present more on this topic later this morning and on Thursday afternoon.

## Multi-National Enterprises

This increase in developing country exports of manufactures can be explained, to a large extent, by the increased dominance of multi-national enterprises (or MNEs) and global value chains.

Today, there are some 82,000 MNEs worldwide, with 810,000 foreign affiliates. These companies play a major and growing role in the world economy. For example, exports by foreign affiliates are estimated to account for about a third of total world exports of goods and services, while the number of people employed by MNEs worldwide totaled about 77 million in 2008, according to UNCTAD's 2009 World Investment Report.

The internationalization of production goes beyond the expansion of MNEs. Over the past 40 years, the world has seen growing geographical fragmentation of components production processes -- within single firms or networks of firms connected by contractual or informal arrangements -- forming global value chains. Nowadays, specific industrial operations, from the conception stage to the assembly of final products, are no longer undertaken by a single establishment, but are increasingly outsourced (especially abroad), resulting in what is known as "trade in tasks". To clarify, obtaining inputs from outside a firm may be termed 'out-sourcing', whereas obtaining inputs from abroad, whether from within or outside a firm is increasingly termed 'off-shoring'.

In summary, trade patterns have moved from country specialization in types of goods (manufactures from the North; primary commodities from the South) to intra-firm/network specialization in tasks, with the South greatly expanding production of manufactures. The changing patterns of trade and production have important implications for trade and industrial policies in the broader context of development strategies.

## Implications for official statistics

You may ask yourself: What does all this mean for trade statisticians? What are the implications for official statistics? What is our role?

Well, the changing patterns of trade and production have important implications for the data needs of policy makers, economists and trade analysts. More comprehensive and integrated data on international trade and globalization are needed to better understand their impact on economic growth, economic and social development, employment and the economic interdependence of countries in terms of production, consumption and investment. Information on international trade provided by statisticians should meet these demands.

The new recommendations for international trade statistics of goods and services, adopted by the UN Statistical Commission in 2010, contain many important new elements that aim to provide more information on trade transactions. They include linking trade and business statistics, better utilization of customs procedure codes, separate recording of special transactions, and use of enterprise surveys. All these elements can improve understanding of globalization and international trade practices.

My colleagues of the UN Statistics Division have been driving the work on methodology and compilation guidance for international merchandise trade and have been supporting developments in trade in services. As you know, UNSD also maintains and disseminates trade data via the UN Comtrade and UN ServiceTrade databases. Of course, challenges remain.

Current statistical data are deficient for international trade in services from the point of view of both analysis of such trade and use by negotiators. Whereas much conceptual work was developed over the last decade in the Manual of statistics of international trade in services (MSITS 2010), the current data collection is still mostly based on the main categories of the Extended Balance of Payment Services Classification (EBOPS 2002) with some more detail by service category and partner country in the more developed statistical systems.

However, trade in services under the WTO GATS is defined as supply of services through four modes: (a) from the territory of a member country into the territory of another, (b) in the territory of a member country to the service consumer of any other member, (c) by a service supplier of a member country through commercial presence in the territory of any other member (most importantly through foreign affiliates of multinational enterprises), and (d) by a service supplier of a member country through the presence of natural persons of that member country in the territory of any other member. Internationally, data collection on the last two modes is underdeveloped. Perhaps, eventually (but not for the Doha Round), the data on services supply via commercial presence will be collected by many more countries benefiting from the establishment of the statistical framework for foreign affiliate statistics (FATS) in MSITS 2010 and from experiences of the more developed countries. The ongoing work on the FATS classification of sectors/activities should help to bridge the correspondence in some important – but not in all - cases between this classification and the classification of services activities of the GATS.

Such statistical deficiencies present considerable problems for policy makers and negotiators on several issues relating to trade in services, both for negotiating market access and judging their value, as well as in settling disputes on impairment and compensation. Without adequate and reliable data, policy-makers and negotiators will be loathe to take decisions on market-access concessions, and thus on expanding and liberalizing international trade for major service sectors.

### Global Trade Information System

The nature and relevance of international trade statistics in the coming years will depend on the speed at which countries will be able to further develop these statistics in line with the new recommendations and to what extent national statistical systems will be able to adjust across countries. The following goals can be envisaged for 2020.

A national council for Global Trade Information assembling all relevant national institutes will be responsible for a coordinated approach to international trade in goods

and services with links to enterprise statistics and to other international aspects of business statistics.

All customs records will contain an identification number of the importing or exporting enterprise linked to the national statistical business register or to a similar register.

Enterprise surveys will cover goods and services, and provide information for the purposes of trade, production and price statistics, which satisfies the data needs of policy makers and researchers and feeds necessary information into the System of National Accounts and Balance of Payments Statistics.

International trade statistics will be disseminated on a regular basis categorized by enterprise characteristics, such as enterprise size, number of employees, geographical location and foreign control, but also by other indicators such as business confidence, new orders or sourcing of business functions.

Some of the challenges in achieving a well-developed and integrated trade information system are the tendency by national institutes to preserve the status quo, inadequate resources to develop or upgrade the required business registers and enterprise surveys, and the confidentiality of sensitive business data.

### **Concluding remarks**

Trade issues are still very much on the international agenda and now receive greater attention from our policy makers. The media regularly devote attention to trade issues. All this implies a growing demand for reliable and timely trade statistics.

I am confident that this event will help produce better trade information for the future: trade information of good quality, highly relevant, timely and easily accessible.

Thank you and all the best.