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THE IMPACT OF GLOBALIZATION ON NATIONAL ACCOUNTS By Lidia Bratanova, Statistical Division, UNECE

Over the last decade we have witnessed an unprecedented increase in the cross-border movement of goods, services, income and financial flows, as well as people. It has become increasingly easy for companies to operate across several countries and for consumers to access international suppliers. With the growth of the internet, doing business abroad has never been easier. The activities of Multinational Enterprises (MNEs) have resulted in the production function being spread across national borders, with a significant increase of goods traded between affiliated companies. More and more services – such as computer software services, “call centres”, financial services, and marketing and sales – are being provided transnationally and are frequently being outsourced. Globalization, of course, represents much more than the activities of MNEs; it also affects households, persons and employment. For instance, household spending abroad has increased as a result of cheap travel and the use of internet.

The increased level of globalization has posed additional challenges to the compilation of national accounts. Information on transactions and other flows between branches located in different countries cannot be easily obtained in individual countries. In addition, little is known about the flows of intellectual property and related income. Many questions arise with regard to the treatment of special purpose entities, and guidelines are needed on the new treatment of goods for processing and merchanting (as recommended by the 2008

SNA). With the increase in international labour mobility, the measurement of labour input and productivity is becoming more problematic, while the recording of remittance flows is being hampered by many measurement issues. Other areas that present challenges to the statisticians include foreign direct investment and related income, transit trade, and common trading and currency block issues.

Following an in-depth review of globalization statistics by the Conference of European Statisticians (CES), a Joint UNECE/Eurostat/OECD Working Group on the Impact of Globalisation on National Accounts (WGGNA) was created in April 2007. According to the terms of reference, the objective of the WGGNA is “to review the main distortions in the compilation of national accounts and related source statistics, as caused by globalization”. In doing so, the Working Group should “put forward proposals on how to deal with these distortions in order to improve the quality of national accounts”. A Leadership Group composed of Canada, Czech Republic, Finland, Netherlands, United Kingdom, United States, UNECE, OECD, Eurostat and IMF steers the work of the WGGNA under the chairmanship of Statistics Netherlands. The secretariat is provided by the UNECE. The Working Group is open to all member states of UNECE, OECD and Eurostat. UNCTAD and WTO also participate in the work of the WGGNA.

The result of the work of the WGGNA will be a report providing recommendations and best practices, to be presented to the Conference of European Statisticians (CES) in June 2010. The report will identify the areas most affected by globalization and will make proposals on how to improve surveying, processing and integration of data and on how to arrive at international consistency. The report will also make proposals on improving international guidelines and on the creation of a medium for exchange of best practices. In addition, the WGGNA has accepted the request of the ISWGNA to develop some operational guidelines on the treatment of goods for processing and merchanting in national accounts, as recommended by the 2008 SNA.

A research agenda has been developed at the outset and agreed by the WGGNA during its first meeting in April 2008 in Geneva. The research agenda could be broadly presented in four groups of topics linked to the effects of globalization on the compilation of national accounts:

- problems linked to allocation of value added and income to national economies: issues to be addressed under this heading include transfer pricing and the development of an improved understanding of the typical behaviour of MNEs;
- specialization of supply chains: transactions in intellectual property (e.g. R&D), special purpose entities (SPEs), goods for processing, toll manufacturing, merchanting, consignment goods, commissionaire trading, re-exports and centralization of logistics, other centralized services;
- issues in relation to households, persons and employment: e-commerce, labour mobility and trade in services through the movement of persons, remittances, tourism and second homes; and
- other issues linked to globalization: foreign direct investment and related income, transit trade, common trading and currency block issues.

The problems included on the research agenda are just an indication of the challenges

posed by increasing globalization to the compilation of national accounts. The list presents well-recognized areas where measurement problems exist, but is very much a living document that could be updated as work progresses.

Furthermore, in order to avoid duplication of work, an inventory of all task forces, working groups and other bodies undertaking work on issues related to the impact of globalization on statistics in general and on national accounts in particular has been developed. The list includes the relevant working groups, including their mandate, area of work, reference websites and contact persons. Some of the existing working groups have already been contacted either to report to the WGGNA or to provide substantial input to the development of the final report – examples include the Inter-Agency Task Force on International Merchandise Trade Statistics, the OECD Task Force on Intellectual Property products, and the Eurostat Task Force on MNEs. Other working groups will be contacted on specific topics.

During the first meeting of the WGGNA which was held back-to-back with the Joint UNECE/OECD/Eurostat Meeting on National Accounts in April 2008, three issues were discussed in detail: (i) the treatment of goods for processing, (ii) the treatment of merchanting, and (iii) multinational enterprises and the allocation of income in national accounts. The conclusions related to each of these three topics are available on the dedicated website of the meeting indicated below. A follow-up discussion will take place at the second meeting of the WGGNA.

The WGGNA will meet again on 11-13 May 2009 in Geneva. The following substantive topics will be included on the agenda: (i) follow-up discussion on MNEs and allocation of income, goods for processing and merchanting, (ii) transactions in intellectual property, (iii) transit trade and re-export, (iv) remittances and labour mobility, (v) special purpose entities, and (vi) foreign direct investment.

A dedicated website for the work of the WGGNA has been created by the UNECE secretariat (<http://www.unece.org/stats/groups/wggna.e.htm>).

This website serves as a repository for the exchange of knowledge, experience and best practices in relation to the main distortions

affecting the compilation of national accounts and related source statistics as a result of globalization.

HIGH-LEVEL FORUM AND THE FUTURE DIRECTION OF DEVELOPMENT OF THE SYSTEM OF NATIONAL ACCOUNTS

By ISWGNA

The ISWGNA, following up on a request by the Statistical Commission, convened a High-Level Forum in Washington D.C. on 17-18 November 2008 to examine the future direction of the SNA. The purpose of meeting was to discuss possible future developments of the SNA and procedures for such developments taking into consideration the rapid changes in the global economy, changes in the economic theory and emerging policy needs. The High-Level Forum coincided with the meeting of the G20 in Washington D.C. which provided an opportunity to discuss at the Forum the implications of the current world financial crisis for the national accounts. The participants consisted of senior staff from national statistical offices and international organizations closely associated with the SNA.

The High-Level Forum was a constructive meeting and managed to meet its objectives successfully. In addition to its main purpose of discussing the future direction of development of the SNA, the Forum took into consideration the ability of countries to collect primary data and to maintain a national accounts system. Furthermore, it considered the choice between imputed versus observable transactions when considering the role of satellite accounts vis-à-vis the core accounts.

The High-Level Forum confirmed that the macroeconomic accounts are at the heart of the economic statistical information system and that they provide a sound basis for articulating economic developments of a globally interconnected nature. The SNA being fully harmonized with other macroeconomic standards supports the measurement of interrelationship, the transmission of risk, liquidity and other exposures, through flows and positions both between domestic sectors and with other countries.

The importance of a full articulation of the balance sheets was confirmed, irrespective of the stage of development of an economy, with a full integration of the real and financial flow accounts. The international agencies, therefore, should advance this understanding in their implementation programmes on the SNA by being in direct communication with the heads of the national statistical agencies to prioritize national accounts and related macroeconomic standards in their programmes.

The participants of the High-Level Forum acknowledged the need for a stable set of core accounts, but also emphasized the need for flexibility in producing national accounts statistics that incorporate important emerging features of the economy. Comments suggested that revisions and updates of a non-fundamental nature could occur more frequently, as required and feasible, while changes of a more fundamental nature would be gathered over time and introduced after longer intervals. Fundamental “core” changes could be defined as those affecting concepts and classifications, for example, of institutional units between sectors, or of expenditures between intermediate consumption and final expenditure. Non fundamental “non-core” changes could involve questions of scope, for example, the inclusion of household production of services for own final use within the production boundary.

Furthermore it was emphasized to set clear targets for a future update, with a single or a few target objectives to which a larger array of other objectives could be subordinated. Discussants noted the challenge of prioritizing improvements in the accounts in the face of international comparability requirements and national statistical priorities.

Further research has to be undertaken on the financial assets classification and sub-sectoring of the institutional sectors in light of the innovations in structured financial products and new risk and liquidity management practices, including the ultimate ownership links with off balance sheet entities. This research will allow for the use of commercial data bases in addition to regulatory or administrative data bases in the compilation of the national accounts

The requirement of meeting the emerging features of the economy was also reflected in the need expressed to obtain a full articulation of the drivers of growth, completing the production accounts and thereby strengthening the link between the real and financial accounts. It was suggested to extend research to incorporate a broader range of knowledge assets in the accounts to obtain this goal.

Apart from the fact that the SNA should be able to reflect the “real” economic situation during periods of rapid change, such as with the current financial crisis, further research should advance multiple measures of well being and poverty through the development of social accounts to articulate the link between the conventional measures of growth like GDP to the household sector.

Although some suggestions were presented for changing some of the imputations in the national accounts, by considering a pure monetary system versus an elaboration in non-monetary accounts, the High-Level Forum did not make specific proposals regarding changes to the current recommendations in the SNA. Apart from the above-mentioned directions of research and confirming the need to advance the research in environmental accounting, the High-Level Forum did not suggest significant changes to the directions already set by the ISWGNA for the research agenda. It expressed the view that an explicit communication strategy should be developed to advance research for official statistics by strengthening the collaborative arrangements with the academic community, the regulatory authorities, the business accounting community and the corporate sector.

The need for another meeting of a high-level group to examine the future direction of the SNA would be assessed in two to three years time and a detailed report of the meeting was submitted to the Statistical Commission’s fortieth session as a separate background document that is available at <http://unstats.un.org/unsd/statcom/sc2009.htm>.

LUXEMBOURG RECOMMENDATIONS ON GLOBAL IMPLEMENTATION AND OUTREACH FOR THE SNA

By ISWGNA

The main principles laid down in the Luxembourg Recommendations provide the framework and foundation for the implementation strategy of the 2008 SNA. The Recommendations reflect the consensus reached by a broad range of participants at the International Conference on International Outreach and Coordination in National Accounts for Sustainable Growth and Development, jointly organized by Eurostat and UNSD, held on 6-8 May 2008 in Luxembourg.

The overall objective of the Luxembourg Recommendations is to advance the national, regional and international statistical systems in compiling and reporting national accounts and related basic statistics on a sustainable basis. A solid foundation of national accounts and related basic statistics is indispensable to

support sound macroeconomic management, evidence-based policy making and monitoring. The *System of National Accounts, 2008* (2008 SNA) provides the national and international statistical community with an up-to-date international standard for strengthening the statistical capacity for producing basic economic statistics and macroeconomic statistics both at national and international levels, in terms of compliance, scope, and quality. In support of the 2008 SNA implementation, the overall case for the development of an efficient and sustainable global programme based on agreed principles and recommendations to facilitate the outreach and coordination of national accounts and related basic statistics is a compelling one.

The Luxembourg Recommendations recognized that for many years, the

international community of donors has supported statistical capacity building in developing countries in order to produce national accounts data and improve the availability and quality of basic data. However, the least developed countries are still unable to produce reliable data in a timely fashion while the scope of data compiled by other developing countries requires expansion. Therefore the availability of national accounts and related basic statistics is still less than optimal in many countries and regions. At the donors' level, there is a need to improve coordination of actions, and to support national statistical systems as a whole in order to improve the quality of statistical information compiled according to international standards.

Against this background, the Luxembourg Recommendations focus on the following main objectives of SNA implementation:

- facilitating the implementation of the international standards on national accounts and economic statistics in developing countries, while ensuring that national, regional and international actions are sustainable and efficient;
- improving the quality, production and dissemination of national accounts and related basic statistics at the country level in a sustainable manner.

In addition, the following specific objectives were formulated in the Luxembourg Recommendations:

- promoting international coordination among development partners;
- implementing regional programmes, guidelines and procedures for coordination, monitoring and reporting on performance;
- strengthening national statistical capacity for national accounts and related basic statistics;
- advocating the use of national accounts and statistics in general for policy purposes.

The implementation of the 2008 SNA is guided by three distinct principles (1) strategic planning, (2) coordination, monitoring and reporting; and (3) improving statistical systems.

Strategic planning is a key instrument to enhance political and financial support for investment in statistics to ensure that countries will be able to produce the data needed for monitoring their own development plans. In this context, a strategic planning framework can provide a common information set with national objectives and a programme of actions. It will help to determine current strengths and weaknesses of statistical capacity in economic statistics, in related human and financial resources, in basic source data, and in the effectiveness of advocacy for statistics within a given government and with users. This principle places great emphasis on the requirement that national, regional and international strategies on economic statistics should be synchronized. Furthermore, the Luxembourg Recommendations should be seen as intrinsic part of existing strategies, such as PARIS 21's guidelines on National Strategies for the Development of Statistics (NSDSs). The strategic planning principle includes the following elements:

1.1 Strategic planning framework to be formulated for national statistical capacity in national accounts and other economic statistics, and to be integrated with balance of payments, government finance statistics and environmental accounting and statistics, etc.

1.2 The above framework to be a component of the National Strategy for the Development of Statistics (NSDS) to be regularly updated and to be consistent with the General Data Dissemination System (GDSS) and other reference frameworks of the country.

1.3 National, regional and international strategies on economic statistics to be synchronized.

1.4 International, regional and country actions to be determined by information obtained from strategic planning frameworks and other mechanisms put in place.

1.5 Further alignments have to be pursued according to various frameworks (such as the RRSF in Africa and ECLAC's strategic plan 2005-2015).

Coordination, monitoring and reporting are tools that are expected to increase the likelihood of success in developing national capacity for the SNA implementation. These functions will ensure that the roles of national and regional implementation agencies, international organizations, donors, policy

planners and other stakeholders are clear and their actions are coordinated, monitored and reported against agreed benchmarks. They include the timing and sequencing of events, assessing the efficiency of technical assistance programmes, evaluating lessons learned, exercising due care and prudence in the effective use of resources, and various other approaches and activities. They will also encompass the coordination of regional indicators of achievement and agreed benchmarks for universally attainable key indicators of success. In addition, they will be geared to identify risks to the implementation process in a timely fashion, so that appropriate interventions can be made to keep plans on track. Within this frame of reference, a global governance structure will be created to develop coordination, monitoring and reporting procedures, avoiding duplication, to assess performance of the implementation programme itself as well as progress of countries/regions against set benchmarks.. The principle on coordination, monitoring and reporting includes the following elements:

2.1 Regional Commissions, in collaboration with other regional partners, to play a pivotal role in the coordination, monitoring, reporting and maintenance of existing coordination mechanisms, avoiding parallel systems.

2.2 The above with the aim of enhancing efficiency of technical cooperation programmes and alignment with national commitments for development of official statistics.

2.3 Current regional mechanisms for SNA implementation should be analyzed, aligned and mobilized.

2.4 National donor groups on statistics (to be created, if necessary) to play a role in improving coordination, monitoring and reporting in statistical capacity building.

2.5 National statistical institutes or other agreed coordinator to play a coordinating role for national statistical system to enhance effectiveness.

2.6 South-South cooperation to be further developed.

Statistical system improvement, as a guiding principle reflects the realization that better results can be expected through the

strengthening of the national, regional and international statistical systems to produce better official statistics. The statistical system will be enhanced by using a common international, regional and national programme for the implementation of the 2008 SNA and related economic statistics. The statistical system improvement principle includes the following elements:

3.1 National statistical capacity building in national accounts and related economic statistics to be achieved through a unified international, regional and national implementation programme including development of statistical infrastructure, sustainable donor activities, technical assistance, training capacity and application of common software tools e.g. SDMX, ERETES, etc. Provision of technical cooperation through advisory missions and working directly with the staff of national offices; organization of training seminars and workshops.

3.2 Common training modules in national accounts and related basic statistics to be developed for training and retraining of statisticians in collaboration with regional training and academic institutions applying advanced media such as those for distance learning.

3.3 Promotion and adaptation of national accounts data for evidence based policy making should underpin strategic planning frameworks and be integrated into statistical capacity building and training programmes.

3.4 Preparation of a series of new and revised manuals and handbooks comprising methodological guidance and best practices as well as common software tools.

3.5 Sponsoring of statistical research in support of the implementation of newly introduced concepts in the 2008 SNA.

3.6 An SNA Knowledge Platform to be established on statistical standards, training programmes and best practices, information technology tools and management for national statistical systems based on an agreed framework.

3.7 For supporting improvement of statistical systems, an international network for economic statistics to be established at recognized "Centres of Competence" that provide and maintain the quality content of the

building blocks of the framework and their specialized modules.

The Luxembourg Recommendations form the basis of a long-term programme on the global Implementation and outreach for the SNA for developing countries in Africa, Asia, Oceania, Latin America, the Caribbean, South-East Europe and the Commonwealth of Independent States. The actions flowing from these recommendations are directed at the

national governments, national statistical offices and other providers of official statistics, national and regional central banks, regional development banks, national and regional statistical training institutions, other regional agencies and institutions, United Nations Regional Commissions, international agencies, the international community of donors and users of national accounts data for policy purposes.

TITLE OF THE UPDATED SYSTEM OF NATIONAL ACCOUNTS Announcement by ISWGNA

The Statistical Commission, at its thirty-ninth session in 2008, requested the ISWGNA to consult the United Nations Member States about their preference for the title of the updated System of National Accounts. Countries were invited to choose between “System of National Accounts, 1993, Revision 1” and “System of National Accounts, 2008” (2008 SNA). Forty of the 58 countries that responded favoured the latter and, accordingly, the Bureau of the Commission approved this title. Accordingly the official title of the updated SNA is: *System of National Accounts, 2008* and in short form: **2008 SNA**. Among the various responses explaining why countries favoured one version of the title over

the other, a frequent argument was that the title *2008 SNA* reflected better that the updated SNA had taken into consideration the impact of new developments in the economy and conveyed better the message that it is an up-to-date standard that responds to user needs for clear guidance on relevant concepts and accounting rules. All replies received with regard to the Member States’ preferences for the title, are posted on the SNA Update Project website

<http://unstats.un.org/unsd/sna1993/draftingphase/reviewVolume1.asp> as part of their general comments on the review of Volume 1 of the publication.

AVAILABILITY OF 2008 SNA Announcement by UNSD

VOLUME 1, PRE-EDITED VERSION

The Statistical Commission, at its thirty-ninth session in 2008, in principle adopted Volume 1 of the updated System of National Accounts as the international standard for national accounts statistics subject to a two month review by the United Nations Member States. After an intensive review of all comments by the ISWGNA the pre-edited version of Volume 1 was submitted to the Bureau of the Statistical Commission and subsequently approved by

the Bureau on 4 August 2008. The pre-edited white-cover version the System of National Accounts, 2008 (2008 SNA) Volume 1 is now available in a pre-edited version in English online at <http://unstats.un.org/unsd/sna1993/draftingphase/WC-SNAvolume1.pdf> for downloading and printing. A limited distribution of printed copies of the pre-edited version was arranged by the member organizations of the ISWGNA in September 2008.

VOLUME 2

The draft text of Volume 2 of the 2008 SNA is available online at <http://unstats.un.org/unsd/sna1993/draftingPhase/volume2.pdf> and is submitted for adoption to

the fortieth session of the Statistical Commission to be held on 24-27 February 2009 in New York.

MANUALS AND HANDBOOKS

A list of manuals and handbooks planned by member organizations of the ISWGNA, is presented in Annex 2 of the background document entitled “*Implementation Strategy for the System of National Accounts, 2008*”, submitted to the fortieth session of the Statistical Commission. See <http://unstats.un.org/unsd/statcom/doc09/BG-SNA2008.pdf>

MEETINGS AND SEMINARS

20 February 2009: Interagency Group on Financial Statistics, New York, USA

22 February 2009: Official Statistics and the Impact of the Financial Crisis, New York, USA

23 February 2009: High Level Forum on Globalization and Global Crisis: the Role of Official Statistics, New York, USA

March 2009: Workshop on Basic Statistics, China

11-13 May 2009: ECE/Eurostat/OECD meeting on the Impact of Globalization on National Accounts, Geneva, Switzerland

Workshop on National Accounts for SAARC countries – Dates and venue to be determined

Workshop on National Accounts for SADC countries – Dates and venue to be determined

Editorial Note

SNA News and Notes is a bi-annual information service of the ISWGNA prepared by United Nations Statistics Division (UNSD). It does not necessarily express the official position of any of the members of the ISWGNA (European Union, IMF, OECD, United Nations and World Bank).

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The 1993 SNA with search capability, national accounts glossary, handbooks on national accounts and activities and reports of the ISWGNA can be accessed on the internet: <http://unstats.un.org/unsd/sna1993/introduction.asp>

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