



Globalization Task Team (GZTT)

Treatment of Multinational Enterprises in Macroeconomic Statistics

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Outline

- **MNEs and impact on statistics**
- **Options under consideration and GZTT recommendations**
- **Questions for the AEG**



Key Vehicle: Multinational Enterprises (MNEs)



- MNEs are key vehicles in the growth of non-financial and financial international integration
- Economic, financial, tax, and regulatory drivers

Challenges for national accounts and external sector statistics:

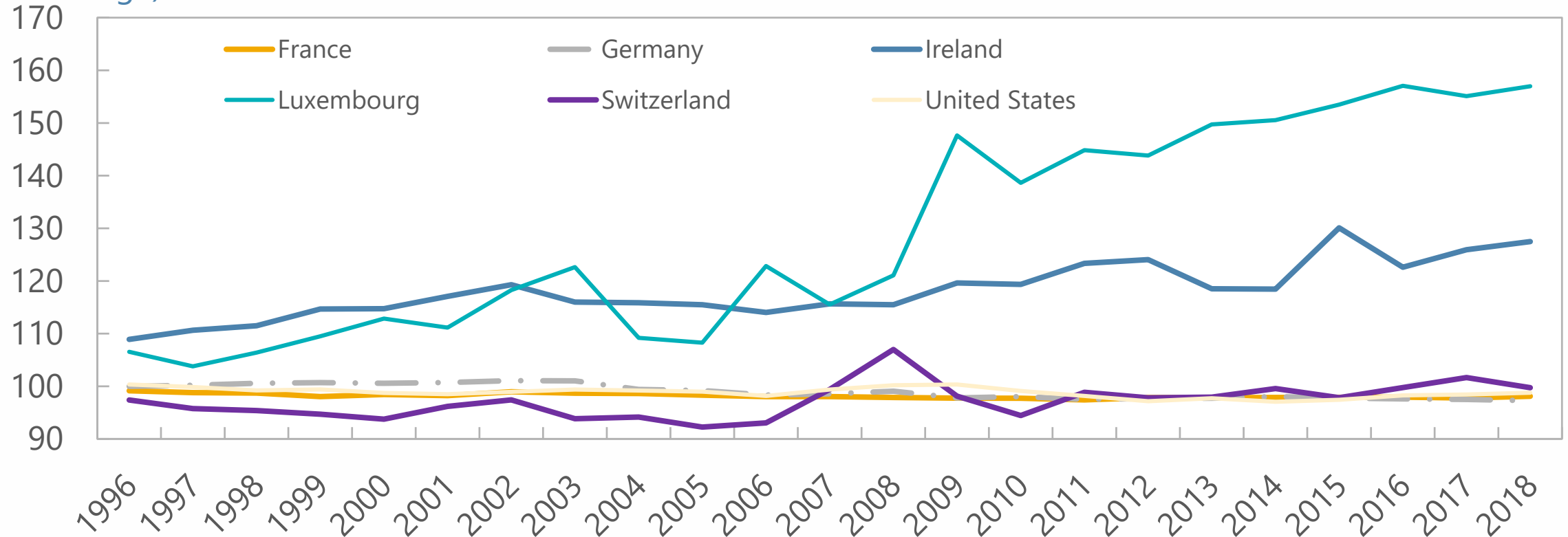
- Treatment of **intra-MNE flows**:
 - Transfer pricing
 - Increasing role of **intangible assets** – ease of relocation
 - Complex accounting and financial structures including use of **Special Purpose Entities (SPEs)**
 - Ease of changing legal domicile (**corporate inversions**)
- **Global Value Chains (GVCs)** – fragmentation of production across borders (international integration)



GNI is a better indicator than GDP for income available to residents in a country...

GDP as a percentage of GNI

(percentage)



Source: OECD, data.oecd.org

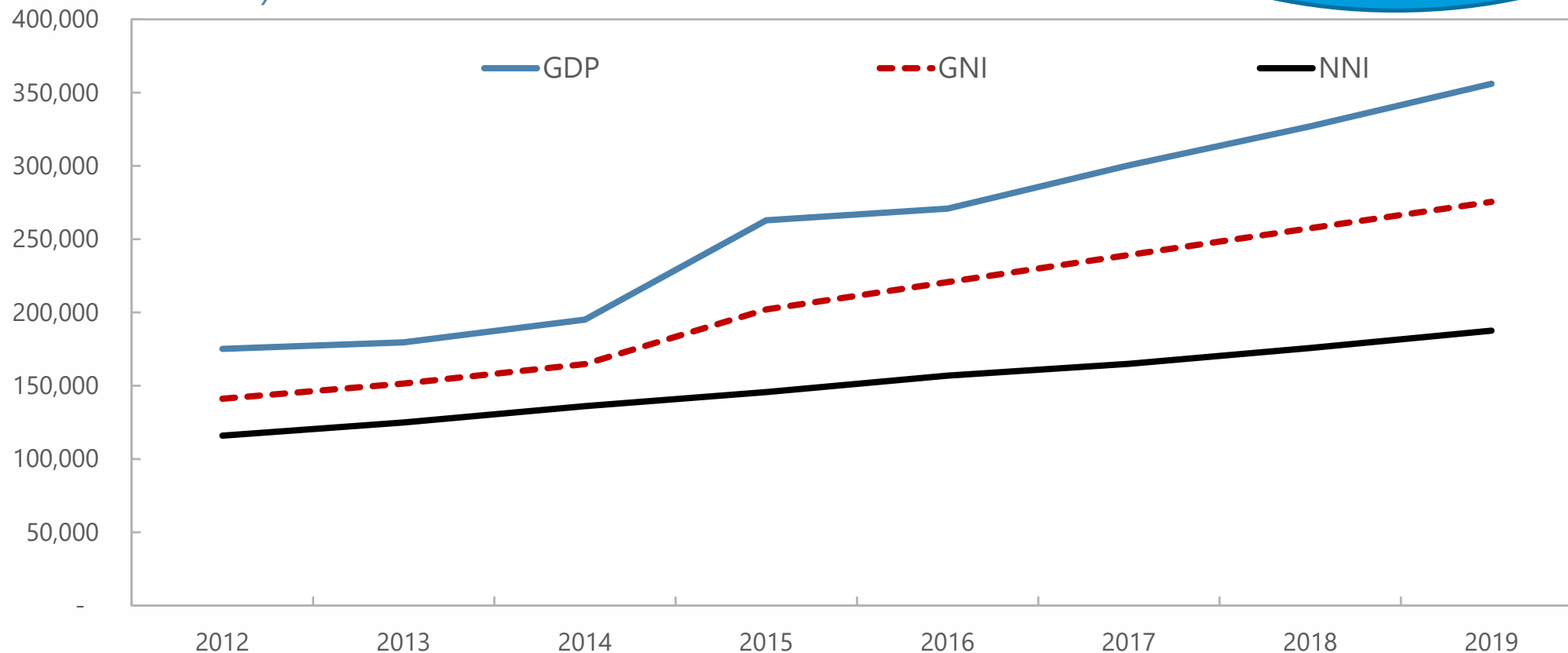


... But GNI can also be impacted

MNE restructuring to Ireland caused GDP and GNI to increase significantly in 2015, yet NNI was hardly impacted.

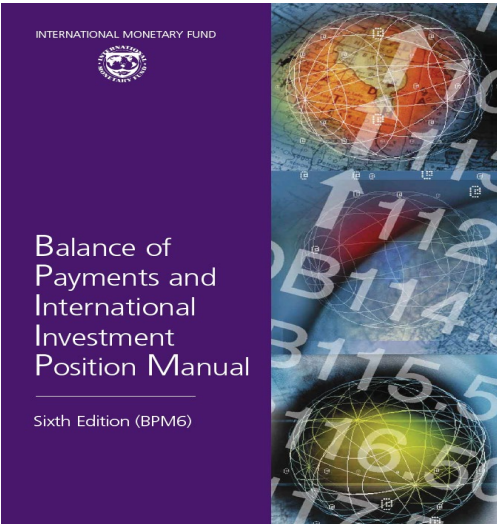
Ireland's GDP, GNI and NNI

(Millions of Euros)

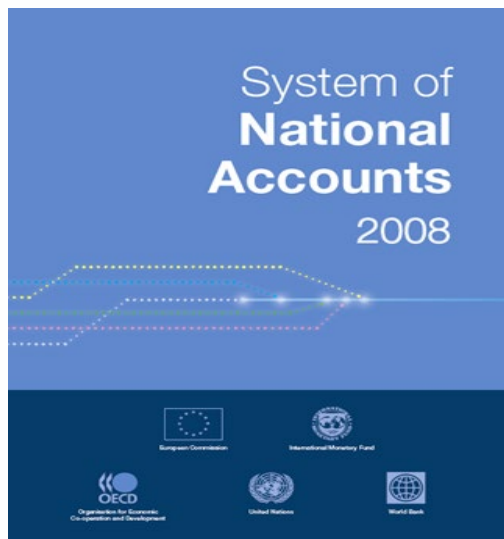


Source: Ireland Central Statistics Office

Statistical Measurement Challenges



- A decade since 2008 SNA and *BPM6* were released
- **Globalization** a major part of the last update but issues are evolving...
- ... and often related to **Activities of MNEs**.
- Minor organizational rearrangements of MNEs can have a significant impact
- Statistical complications have long been recognized and discussed
- Clear friction between statistics based on residence and global behavior of MNEs



Complexity of compiling macroeconomic statistics has increased!

Treatment of MNEs: Options Considered

1

Option 1: Emphasize existing indicators within the SNA, such as gross national income (GNI), gross national disposable income (GNDI), net national income (NNI), and net national disposable income (NNDI) which are less sensitive to the impact of MNE activities.

- **Preference on the GZTT for this option.**

- Promotes cross country comparability.
 - Not all countries produce net measures.
 - Sometimes net measures only available annually.
- Does not require significant adjustments to the operations of NSOs but rather a refocus of user's attention to these indicators.
- Communication efforts are required to increase the familiarity for usage.
- A strategy of developing clear narratives about the indicators produced and released, their uses, and their limitations should be emphasized.

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options
considered

Treatment of MNEs: Options Considered

2

Option 2: Increase the granularity and supplementary data provided within the SNA framework using the institutional sector accounts.

- Builds on the proposals of Harisson (2014) and Jellema (2018) and considers breaking down at the subsector level the financial and nonfinancial corporations sectors to show foreign-controlled corporations and domestic corporations that are a part of MNEs.
- **Preference** on the GZTT for this option. **While it does not modify core concepts, slight changes are needed to the institutional sector breakdowns shown in 2008 SNA Annex 1.**
 - Proposed breakdown leverages the G20 DGI-2 sectoral accounts template (next slide).
 - Foreign-controlled corporations currently acknowledged in 2008 SNA. Proposal adds further granularity, such as separately identifying domestic MNEs and an aggregate domestically controlled nonfinancial/financial corporations subsector.
 - Corporate inversions could be separately identified as a subsector of the domestic nonfinancial corporations subsector.
 - GZTT indicated a need for a definition of MNEs.

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DGI-2 Recommendation 8: Sectoral Accounts

Institutional sector breakdown

Non-financial corporations						
Total	Domestically controlled non-financial corporations					Foreign-controlled non-financial corporations
	Public non-financial corporations	National private non-financial corporations		National private non-financial corporations, which are part of domestic multinationals		
		Of which: Public non-financial corporations, which are part of domestic multinationals	Of which: National private non-financial corporations, which are part of domestic multinationals			
S11	S11DO	S11001	S110011	S11002	S110021	S11003

Total	Domestically controlled financial corporations				Foreign-controlled financial corporations
	Public financial corporations	National private financial corporations			
		Of which: Public financial corporations, which are part of domestic multinationals	Of which: National private financial corporations, which are part of domestic multinationals		
S12DO	S12001	S120011	S12002	S120021	S12003

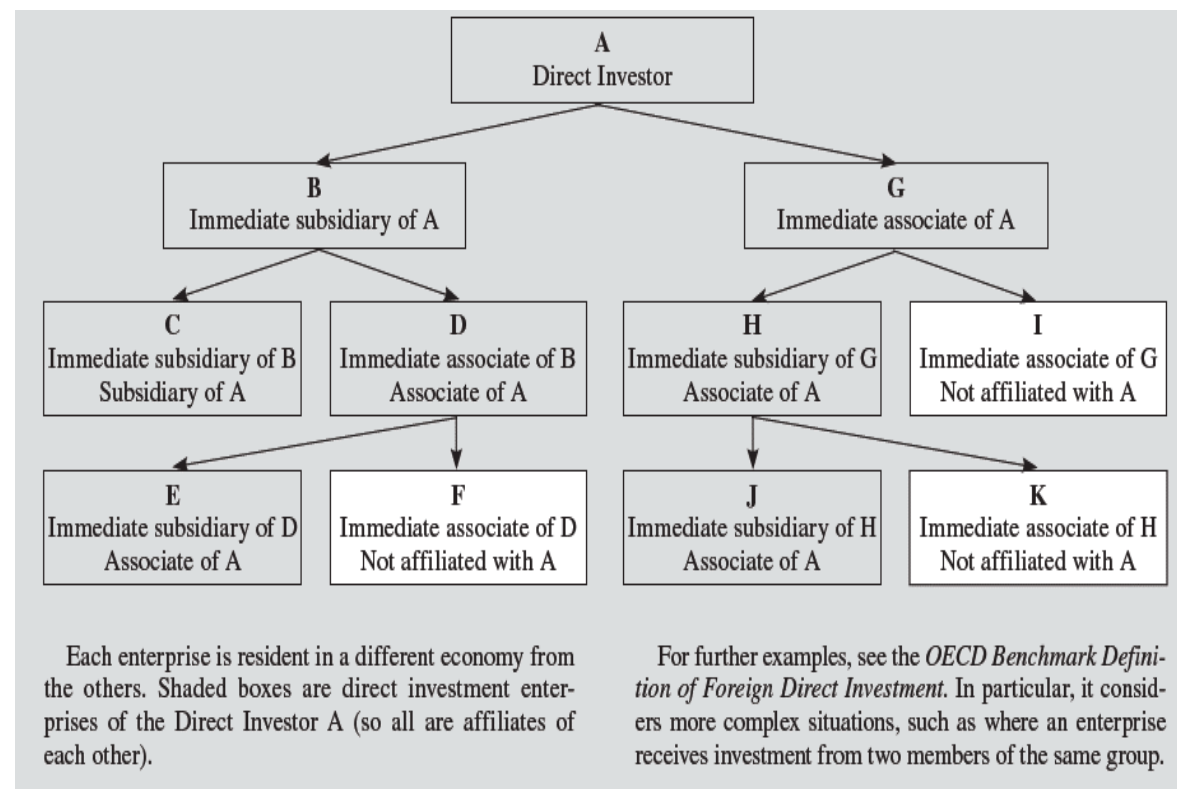
	= Target
	= Encouraged

Proposed Definition of MNEs

MNEs refer to enterprises that establish subsidiaries and affiliates abroad through direct investment relationships, **based on the concept of control** - as elaborated in *BPM6* and *BD4*.

The relationships among entities within an MNE is defined by direct investment (DI) relationships, where **ownership of 50 percent or more of ordinary shares or voting power** reflects the direct investor's control over the management of the enterprise.

Figure 1: Examples of Identification of Direct Investment Relationship



Source: *BPM6* Box 6.1

Treatment of MNEs: Options Considered

3

Option 3: Increase the granularity through extended SUTs.

- Draws on proposal of Ahmad (2018)

▪ **Viewed as viable** option but very demanding and resource intensive.

- A more feasible compromise could be to breakdown gross value added (GVA) by relevant industries according to domestic MNEs versus foreign controlled affiliates of MNEs.
- Note that 'foreign-owned' term is used. Recommend use 'foreign-controlled' for consistency and clarity.

GZTT options considered

Table 2: 'Ideal' breakdown of columns and rows in SU tables

Foreign Owned						Domestically owned MNE						Domestic Owned																	
With high Export orientation			With low Export orientation			With high Export orientation			With low Export orientation			With high Export orientation			With low Export orientation														
'Exporters'			'Non-Exporters'			'Exporters'			'Non-Exporters'			'Exporters'			'Non-Exporters'														
Low import orientation	High import orientation		Low import orientation	High import orientation		Low import orientation	High import orientation		Low import orientation	High import orientation		Low import orientation	High import orientation		Low import orientation	High import orientation													
S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L



Treatment of MNEs: Options Considered

4

Option 4: Redefining existing indicators within SNA framework such as Ireland's GNI* (adjusted GNI) or Norway's mainland GDP.

▪ **No Preference** for this option.

- Consultation highlighted that while these indicators are useful to examine the impact of globalization on individual economies, they **should be left up to the compiling institutions to define based on their specific country circumstances and policy needs.**
- Emphasis should be placed on the use of **internationally comparable indicators** – already existing within the SNA (i.e. option 1).

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Changes Required to SNA 2008

- Globalization and the treatment of MNEs and intra-MNE flows supports the addition of a **new chapter in the SNA to address the definition of MNEs and the agreed approach(es)**.
 - Currently, several paragraphs in SNA 2008 address these issues, however a chapter in which all the discussions are consolidated would be beneficial to users.
- Additional institutional subsectors will need to be identified.
 - Specifically, an **aggregate domestically controlled** nonfinancial and financial corporations and **national private corporations that are part of domestic multinationals**.
 - **Potentially an additional breakdown for corporate inversions if desired.**

Questions for AEG (1)

1. Does the AEG agree with the recommendations (options 1 and 2) – (1) emphasize existing “national and net” indicators within the existing SNA framework and (2) additional breakdowns (e.g. foreign controlled) in institutional sector accounts which highlight the activities of MNEs?
2. Does the AEG agree that additional indicators that extend the current SNA concepts such as GNI* or mainland GDP should not be included in this update?
3. Is there any preference on which existing indicator(s) should be highlighted (e.g. GNI or NNI)? Real net national income?
4. Currently the GZTT highlights gross income measures in order to promote cross country comparability. What is the AEG’s opinion on this?

Questions for AEG (2)

5. What is the AEG opinion on the proposal to define MNEs by emphasizing the control aspect shown in the Framework for Direct Investment Relationships (FDIR) as in BPM6 and BD4?
6. Please rank (1-3) which additional breakdowns would be considered the highest priority by your data users:
 - a. Institutional sector accounts (following the breakdown into foreign-controlled and domestically controlled corporations as designed in recommendation 8 of G20 DGI-2): _____
 - b. Gross value added by industry broken down into foreign-controlled and domestically controlled units: _____
 - c. Extended supply-use tables: _____

Thank you!