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For discussion

***BPM7* Chapter 15/SNA Chapter 23. Globalization:
Annotated Outline**

BPM7 Chapter 15/SNA Chapter 23. Globalization: Annotated Outline¹

(New SNA/BPM chapter)

This annotated outline has been prepared jointly to cover the full range of topics to be included in a chapter on globalization. In the drafting stage, SNA and BPM editors will coordinate such that only those issues that are relevant from the external sector statistics perspective will be included in the BPM; likewise, SNA will include only those issues that are relevant to national accounts.

I. Introduction

- Globalization—the economic integration of countries around the world—adds complexities to the traditional interrelations between economies. Due to reductions in transportation costs, the information technological revolution, lower production costs, and more open economic policies, production processes became fragmented across national economies in a production chain between resident and non-resident firms. Capital is increasingly intangible, and capital and people moved more freely across borders.
- Globalization has thereby led to increasingly complex corporate structures that cross multiple economic borders. Multinational enterprises (MNEs) have developed in this way for many reasons, including the benefits of geographical diversification, responding to trade barriers, increasing proximity to markets, and reducing the cost of labor, transportation, and taxes.
- The concepts of residence and economic presence, which are central to macroeconomic statistics, are more difficult to interpret in the case of MNEs, for which activities extend across national boundaries.
- This proposed new thematic chapter on globalization elaborates on issues that are touched upon or presented throughout the manuals and refers to other sources, as appropriate,² to provide compilers with a consolidated overview.
- It will explain how globalization has given rise to measurement challenges for compilers and also made it more difficult for users to fully understand the national and international macroeconomic statistics. These measurement challenges motivate some of the proposed supplemental presentations³—which provide alternative views or additional detail that are important for

¹ Prepared by Kristy Howell (BPM lead) and Brent Moulton (SNA lead) and cleared by SNA/BPM Project Managers.

² Such as the 2011 UNECE *“The Impact of Globalization on National Accounts,”* which helps compilers understand how globalization affects the national accounts; the 2015 UNECE *“Guide to Measuring Global Production,”* which strengthens practical and conceptual guidance on global production activities and addresses emerging data needs to better explain the macroeconomic implications of globalization; the UN 2019 publication *“Accounting for Global Value Chains: GVC Satellite Accounts and Integrated Business Statistics,”* which provides a framework for the measurement of global value chains and outlines how economic statistics can be made more accurate in measuring the effects of globalization in the national accounts; the “Final Report of the Working Group on Balance of Payments Statistics Relevant for the Analysis of Global Value Chains,” and the IMF *Special Purpose Entities: Guidelines for a Data Template*, which operationalizes the agreed definition of Special Purpose Entities (SPEs).

³ Recommendations on supplementary data collections within the BPM framework discussed in this outline will be subject to the outcome of the Holistic Review of *BPM6* Update Priorities.

understanding the connections and linkages between economies. To address these challenges, it is increasingly important to agree internationally on the methodological guidelines needed to foster international comparability of comprehensive data.

- Even if headwinds develop to some of the factors driving globalization, the guidance in this chapter will still yield macroeconomic statistics that provide insights into the changing nature of globalization.
- Section II will define an MNE and discuss its role in globalization. Section III will describe global production arrangements, including complex production arrangements such as factoryless goods production. Section IV will present some of the measurement challenges related to MNEs and global production. Section V will describe existing macroeconomic indicators, alternative presentations, and supplemental detail that can help address these challenges and meet user needs. Finally, Section VI will describe analytical tools that have been developed to better understand the relationship between globalization and the domestic economy, including trade in value added (TiVA), global value chains (GVCs), and extended supply-use tables (eSUTs). See the Schematic Overview for details.

II. MNEs

- This section will begin with the definition of MNE (which will also be introduced earlier in the manuals, e.g., in *2025 SNA* Chapter 5/*BPM7* Chapter 4) and highlight the definition of control, as stated in the current *BPM6* paragraph 6.12–6.14 (which in the updated SNA will be aligned, per GN G.2).
- It will then turn to a discussion of what MNEs do:
 - Through their activities, MNEs manage production, trade, direct investment, and international transfer of knowledge and technology, with the aim of maximizing their global after-tax profits.
 - MNEs increasingly resort to setting up global structures to benefit from different legal and tax regimes. They employ tax planning strategies, known as base erosion and profit-shifting (BEPS), that exploit gaps and mismatches in tax rules to shift profits to low or no-tax locations where there is little to no economic activity.⁴
 - MNEs establish special purpose entities (SPEs) not only to channel financial investments globally, but increasingly, for other activities such as to manage intellectual property rights, research and development, and trade. This section will refer to a standardized and internationally agreed definition of SPEs (from GN G.4) and discuss a classification of SPEs, which will be introduced in *2025 SNA* Chapter 5/*BPM7* Chapter 4, on Residence, Institutional

⁴ In the context of this discussion, a link can be provided to the OECD and G20 BEPS initiative.

Units, and Sectors. A typology of SPEs (GN G.4, Annex V) will also be included in this chapter.^{5,6}

- Because intellectual property products (IPPs) are not physically contained, and use of IPPs by one part of an MNE group does not prevent the simultaneous use by another part, MNEs may register previously produced IPPs in an economy with a more favorable tax regime. In introducing this topic, this section will recommend the use of the decision tree from the UNECE *Guide to Measuring Global Production (GMGP)*, which shows how the underlying arrangement can be used to identify the economic owners (parent, producer, or production affiliate) of previously produced IPPs (GN G.5). It will also clarify that SPEs can be the economic owners of IPP assets.

III. Global Production

- This section will begin by describing how globalization has led to changes in production processes with production fragmented across economies in a production chain between resident and non-resident firms—the basis of GVCs.
- It will cover different production arrangements, including factoryless goods production, manufacturing services performed on inputs owned by others, and merchanting (GN C.4, which is expected to be finalized soon), referring to where these concepts are also discussed elsewhere in the manuals (e.g., in *BPM7* Chapter 10, Goods Account, Box 10.1, and in *BPM7* Chapter 11, Services Account, Box 11.1). The typology for global production arrangements (GN C.4, Annex III) will also be introduced in this section. This discussion will also include links to the International Standard Industrial Classification of all Economic Activities (ISIC), where the classification of these units is covered.

IV. Measurement Challenges⁷

- Next, the chapter will turn to the measurement challenges that MNEs and global production arrangements present for both national accounts and balance of payments, including:
 - With complex global corporate structures and production arrangements dividing activities across many jurisdictions, there arises the issue of the subsequent allocation of these activities to different economies.
 - Complex financing and ownership structures of MNEs can mask ultimate ownership links and “inflate” DI flows and positions as each flow into and out of each economy is counted even if the funds, or income, are just passing through.

⁵ Note that per GN G.2, the decision tree, “Illustrative Allocation of Units to Institutional Sectors for the National Accounts,” from GN G.2 Annex V, will replace Figure 4.1 in the 2025 SNA chapter on institutional units (Chapter 5 in the 2025 SNA).

⁶ The definition of SPEs will be aligned across all other macroeconomic statistics manuals, including the *MFSMCG* and the *GFSM*, where both discuss the different types of SPEs while acknowledging the absence of an international definition.

⁷ For the purpose of this high-level outline, the measurement challenges associated with globalization are presented separately in a section. At the drafting stage, they may be incorporated differently in the SNA and BPM text.

- Similarly, production fragmentation inflates gross trade flows. This effect will be illustrated in a figure, as shown in GN G.7, Annex II.
- Cross-border mobility of corporate assets—including intangible assets such as IPPs, the ability to easily change the legal domicile of a firm to another country, and other activities, such as transfer pricing and intra-group services—can make the true location of the generation of profits and value added ambiguous.
- Ensuring that all activity of an MNE is captured, not duplicated, and properly allocated by economic territory is a statistical challenge since current standards do not view the MNE as a single entity. If not properly recorded, the activities of MNEs can result in a misallocation of GDP and, as a result, can severely distort an economy's macroeconomic indicators.

V. Alternative Indicators and Supplementary Information to Monitor the Impact of Globalization and Meet Users Needs

- This section will focus on emphasizing existing macroeconomic indicators, developing more granular or supplemental data, and having alternative presentations or extensions that can help to address the measurement challenges.
- First, macroeconomic indicators within the current macroeconomic frameworks will be emphasized and used to understand the activities of MNEs. For example:
 - Key indicators within the SNA, such as gross/net national income (GNI/NNI), gross/net national disposable income (GNDI/NNDI), and household (adjusted) disposable income, which are generally less distorted by globalization and less sensitive to the impact of MNE activities than GDP should be highlighted, especially for countries with significant MNE presence (G.2). These indicators better reflect the underlying economic activities of MNEs.
 - Statistics on the Activities of Multinational Enterprises (AMNE) and the closely related Foreign Affiliates Statistics (FATS), which provide additional information on foreign-controlled enterprises beyond the traditional foreign direct investment (FDI) statistics covered in the balance of payments and international investment position accounts. The discussion of coverage, statistical units, time of recording and valuation, attribution of AMNE variables and compilation issues from the current *BPM6* Appendix 4 will be brought into this chapter, with a few updates. It will include references to other sources of information, such as the OECD *Benchmark Definition of Foreign Direct Investment* and the *Manual on Statistics of International Trade in Services*. It will also emphasize the importance of reconciling FDI and AMNE statistics to address some of the measurement challenges posed by MNEs and to support analyses and policymaking (as well as to act as a data integrity check) (GN D.9).
- More granular or supplemental data that provides more disaggregation but is consistent with the fundamentals of the core framework can provide further insights, such as:
 - Supplemental presentations of DI statistics, by ultimate investing economy, by ultimate host economy, etc., (to be covered in detail in the updated *BPM7* Annex 6, Selected Issues on Direct Investment) can help address these challenges (GN D.6).

- Additional granularity in the institutional sector accounts (ISAs), based on control and ownership of corporations, can also be implemented based on the economy’s statistical infrastructure, available resources, and policy needs (GN G.2). This section can include a figure showing additional granularity in ISAs based on GN G.2, Annex II.
- A supplemental presentation of trade and investment income by characteristics of the enterprise, including ownership (e.g., domestically controlled or foreign-controlled) and size can help to identify the role of MNEs in the current account (GN C.2, C.4, D.6, and G.7). Regarding the thresholds (on product, industry, and size), this section will provide some general criteria (as in paragraphs 12–15 of GN C.2) but leave it to compilers to decide on their own thresholds. The template (see Annex I of GN C.2) will be introduced as a table in the chapter.
- Separate identification of SPEs within the cross-border statistics:⁸ the SPE data collection within ESS and encouraged breakdowns of data for SPEs, including extensions (per GN G.4), are important for better understanding the contribution of SPEs from both the national and international accounts perspective (will link to *Special Purpose Entities: Guidelines for a Data Template*). For countries for which SPEs are significant, this section recommends that national accounts compilers identify SPEs within the ISAs as an “of which” supplementary category for both foreign controlled financial and non-financial corporations. Enhanced imputations for government sponsored SPEs (GN D.5, which is expected to be finalized soon) will be covered in the updated chapter on the Financial Account (*BPM6*, paragraphs 8.24–8.26).
- Supplemental statistics within the BPM framework, such as additional detail by geography or by product, can also be used to improve indicators on the analysis of GVCs (see GN G.7 Annex V).
- And finally, alternative presentations or extensions compiled outside the SNA and BPM conceptual framework based on alternative concepts can provide unique perspectives. For example:
 - This section will encourage a voluntary option of extending the core framework with a supplemental presentation of SPEs reclassified from their countries of legal incorporation to the countries of their parents for economies for which SPEs are deemed important.

V. Analytical Tools

- This final section will introduce several analytical tools that have been developed to better understand the relationship between globalization and the domestic economy. It will begin with an introduction to the concept of TiVA, which measures the value that is added by each country and industry in the production of goods and services that are traded and consumed worldwide. It will provide an overview of the resulting TiVA indicators, and refer to other material, such as information on the OECD-WTO TiVA initiative.
- Next, this section will introduce the concept of a GVC satellite account and explain how it can be used to better identify and articulate a GVC for a specific product or group of products produced within a GVC. The GVC satellite account is comprised of GVC-specific SUTs, either national or

⁸ This will go beyond the current *BPM6* guidance from paragraph 4.87, which limits supplementary separate identification for SPEs to within direct investment.

multi-country, based on an enterprise-centered approach consisting of integrated and more detailed business statistics and information on business lines/functions, and GVC-specific ISAs. It will explain how these can be compiled, referring also to materials such as the 2019 GVC Handbook for more information.

- Finally, this section will introduce eSUTs, which are designed to provide granularity on the role of MNEs in production processes and to aid GVC and TiVA analysis. It is important to note that compilers are expected to implement eSUTs flexibly in ways that are most relevant to their specific circumstances. This section will describe some possible extensions and refer to the UN guidelines on *Accounting for Global Value Chains: GVC Satellite Accounts and Integrated Business Statistics* as well as the forthcoming OECD *Handbook on Extended Supply and Use Tables*, for more details and the full set of extensions.

Schematic Overview

I	Introduction
III	Multinational Enterprises (MNEs) Definition of MNEs and Concept of Control Understanding the Role of MNEs Box: Typology of SPEs Figure: GMGP Decision Tree
III	Global Production Global Production Arrangements Box: Typology of Global Production Arrangements
IV	Measurement Challenges Figure: Effect of Production Fragmentation on Gross Trade Flows
V	Alternative Indicators and Supplementary Information to Monitor the Impact of Globalization and Meet Users Needs Existing Macroeconomic Indicators Granular or Supplemental Data Figure: ISAs: Financial and Non-financial Corporations Table: Template for Identifying the Role of Enterprise Characteristics in the Current Account (from GN C.2, Annex 1) Alternative Presentations or Extensions
VI	Analytical Tools TiVA Indicators GVC Satellite Account Extended SUTs

Question for the AEG/Committee

- 1) *Does the Committee and the AEG agree with the proposed outline and coverage of the globalization issues in the chapter presented in this outline?*
- 2) *Does the Committee and the AEG agree to include the typology of global production arrangements, the typology of SPEs, and the GMGP decision tree within this chapter?*

References

- *BPM6 Appendix 4*
- *GNs G.2, G.4, G.5, G.7, C.2, C.4, D.5, D.6, and D.9*
- *UNECE Guide to Measuring Global Production*
- *UNECE Impact of Globalization on National Accounts*
- *UN Accounting for Global Value Chains: GVC Satellite Accounts and Integrated Business Statistics*
- *IMF “Final Report of the Working Group on Balance of Payments Statistics Relevant for the Analysis of Global Value Chains”*
- *OECD Benchmark Definition of Foreign Direct Investment, fourth edition*
- *IMF “Final Report of the Task Force on Special Purpose Entities”*
- *IMF Special Purpose Entities: Guidelines for a Data Template*
- *Ahmad, Moulton, Richardson, and van de Ven, Challenges of Globalization in the Measurement of National Accounts. NBER publication, preliminary draft*

Key Stakeholders Consulted

- *SNA and BPM Editors*
- *IMF Statistics Department GO and FI*
- *GZTT Secretariat*