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FOR INFORMATION

GLOBALIZATION: A PROGRESS REPORT

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Globalization: A Progress Report—For Information

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Background

1. At its December 2004 meeting, as part of the discussion of issue 25c on the treatment of multiterritory enterprises, the AEG agreed that the broader question of the statistical challenges presented by multinational enterprises would be carried forward by a task force. Subsequently a group (task force seemed too grand) was formed, with the Project Manager acting as secretariat. This Group on Globalization, along with the Editor, met on the fringes of the AEG meeting in July 2005.
2. The purpose of the Group was to work toward a modest amount of new text to be included in the *1993 SNA, Rev. 1*. The text was seen as building on existing literature, to which several members of the Group had contributed. It was seen as introducing the idea of globalization and the issues it raises for national accounts, rather than being definitive, and as being illustrative, rather than exhaustive.

Draft Outline of a discussion of globalization in *Rev. 1*

3. A draft annotated outline was circulated to the Group in November. The attached draft outline, which reflects comments received, is presented for the reaction of the AEG. In the outline, globalization is first defined and characterized, focusing on the role of multinational enterprises. To illustrate the increasing complexity of recording a variety of stocks and flows and the difficulty of relating them to appropriate units, the new text would describe a few of the issues dealt with in the SNA Update. Although it is not intended that *Rev. 1* would enter into an extensive discussion of source data problems, the outline provides for brief descriptions of several. The illustrative issues just mentioned could be chosen to illustrate source data problems. Finally, the outline provides for discussion of conceptual challenges that are being surfaced by globalization. The two identified in the outline are the role of ownership- or control-based statistics in supplementing traditional statistics on cross-border flows and positions and the accounting for knowledge-based assets in an international context.
4. The outline is expected to evolve. For example, globalization will be the subject of a one-day session at the Joint ECE/OECD/Eurostat National Accounts meeting April 25-28, 2006, and this discussion can provide additional thought to shape the outline. Also, as described in the information paper on Direct Investment (C 28), an update of the *Benchmark Definition of Foreign Direct Investment* is underway on a fast track, and the new SNA text could usefully make cross-references to it.

AEG views

5. Comments from the AEG would help guide the outline's further development. All comments are welcome, but the AEG may wish to focus on the following:

1. Does the draft outline capture the main topics for a modest amount of new text in *Rev. 1* about globalization in general and multinational enterprises in particular? What is missing? What should be added?

2. If two, perhaps three, issues dealt with in the SNA Update were to be described briefly to illustrate the accounting challenges stemming from globalization (see section II.A), which should they be?

3. Is it appropriate to mention ownership- or control-based statistics as complements of traditional statistics on cross-border flows and positions such as balance of payments and the external sector of national accounts?

Globalization: A Draft Annotated Outline of New Text for *1993 SNA Rev. 1*

- I. Definition and characterization
 - A. The term “globalization” is widely used to describe the increasing internationalization of financial markets and of markets for goods and services. Globalization refers above all to a dynamic and multidimensional process whereby national resources become more and more internationally mobile while national economies become increasingly interdependent. (From the OECD’s *Handbook on Economic Globalization Indicators*, page 11.)
 - B. Characteristic features: The feature of globalization that probably figures most prominently in the minds of national accountants is the role played by multinational enterprises (MNEs)—enterprises that, as a result of investment, operate in more than one country. They are seen both as one of the main vectors of the internationalization of economic activity and as a challenge to national statistical systems. Other features of globalization include the following (taking off from the *Handbook on Economic Globalization Indicators*):
 - Compression of time and distance in international transactions and reduction of transaction costs.
 - Foreign direct investment as a crucial factor in world-wide industrial restructuring and the development of global industries
 - Internationalization of production: multinational origin of product components, services, and capital
 - Flows of property income that mirror the complexities of MNEs’ structures and incentives
 - Increased movement of workers across national boundaries
 - Transfers of technology and other intellectual property internationally
 - Substantial interdependence of the various dimensions of globalization (trade, direct investment, technology transfers, capital movements, migration, etc.)
- II. Globalization impacts on national accountants in several ways. First, it presents challenges about accounting and source data.
 - A. Globalization is increasing the complexity of the recording of a variety of flows and stocks at the same time as their growth has made it more critical to estimate them well. Further, the difficulty of relating these flows and stocks to appropriate institutional units has increased. Several issues of this kind were dealt with in the Update, including the issues related to goods for processing, merchanting, SPEs, multiterritory enterprises, and nonpermanent workers. For example, ... [Choose two, perhaps three, of these issues to elaborate.]

- B. Globalization is raising important challenges for source data. Among them are the following:
- transfer pricing and other problems of valuation
 - business register design: how to obtain needed information about MNEs
 - existence of free zones
 - given the above and other issues, there is increasing concern about the consistency of the several sets of data used in the national accounts
- III. Globalization is also surfacing conceptual issues.
- A. Globalization is pointing to the analytical usefulness of ownership- or control-based statistics to supplement the traditional statistics—the SNA external sector, the balance of payments and international investment position, foreign direct investment statistics—on cross-border transactions and positions. Probably the best known of these is the set of data referred to as statistics on activities of MNEs (also known as statistics on the activities of transnational corporations, foreign affiliates trade statistics, and foreign affiliates trade in services statistics). These statistics, which often use majority ownership as the criteria for coverage (rather than the SNA concept of foreign controlled), are about the foreign affiliates owned by residents of the compiling economy and the foreign-owned affiliates in the compiling economy. They often cover sales and/or output, employment, value added, and exports and imports of goods and services. To give an example of analytical use: one country has used its well-developed set of supplementary statistics, along side cross-border trade statistics, to obtain a comprehensive picture of its international sales and purchases of services.¹
- B. R&D is among the least internationalized segments of the MNE value chain, but the pace of its internationalization has picked up recently.² R&D can be linked across countries in several ways, including through direct investment, MNEs contracting R&D to service providers in host countries without acquiring an ownership stake, contracts between MNEs, and alliances to conduct R&D jointly. Accounting for knowledge assets such as R & D presents conceptual issues even within a closed economy, but their complexity is multiplied in an international context.

¹ “U.S. International Services: Cross-Border Trade in 2004 and Sales Through Affiliates in 2003,” *Survey of Current Business*, October 2005, pages 25-77.

² *World Investment Report 2005: Transnational Corporations and the Internationalization of R & D*. UN UNCTAD, 2005.

Note: As the text on globalization is being drafted, it would be useful to check for links with other new text, at least that on foreign direct investment with particular reference to the revision of the *Benchmark Definition of Foreign Direct Investment*, on R&D, and on the informal sector. For the informal sector, globalization is seen as leading to an increasing amount of informal employment.

References

- OECD, *Handbook on Economic Globalization Indicators*
- OECD, *Benchmark Definition of Foreign Direct Investment*
- UNCTAD, *World Investment Report* (annual)