Meeting of the UN Expert Group on International Trade and Globalization Statistics

Following Decision 46/107 taken by the Statistical Commission at its 46th session in 2015, a handbook on a system of extended international and global accounts will be prepared, which will serve as the measurement framework for international trade and economic globalization. This handbook will build on existing work in this area, in particular by the UNECE, the OECD and Eurostat, and address issues of micro-data linking of business and trade statistics, as well as address the integration of economic, environmental and social dimensions of trade and globalization as an extension of the System of National Accounts 2008 (2008 SNA) and the System of Environmental-Economic Accounting 2012 (SEEA 2012).

The first meeting of the expert group is scheduled to take place on 26-28 January 2016 at the UN headquarters in New York. The Handbook is of course the main topic of discussion at this meeting.

The Handbook will refer to and build upon the work of the Friend of the Chair group, which concluded that improved statistics are necessary and should bring a better understanding of the role of the external sector in an economy, the openness of its domestic and foreign markets and the impact of openness on social, economic and environmental upgrading, including the level and quality of employment. More and better data is needed in developed, emerging and developing economies alike: interconnected economies require interconnected statistics and all economies can benefit from a better understanding of these relationships.

As stated in the 2015 FOC report, policymakers and trade negotiators need to understand the cross-country benefits and risks by being able to "look through" the global value chains and see the specific contributions other countries are making to production networks involving their domestic firms. The GVC approach was suggested by the international statistical community as the preferred way of measuring the interconnectedness of economies with respect to jobs, skills, international competitiveness and the creation of value added, income and jobs. The activities involved in GVCs can be grouped into broad stages of production from upstream research and design, through manufacturing, to downstream logistics, marketing and sales. In a GVC, many of the tasks are "offshored", either through an enterprise's own affiliates located in foreign countries or through independent contractors. It is this newly emerged international economic integration of production and trade and their governance that has to be better measured and analyzed, including in respect of the benefits, costs and risks associated with engaging in GVCs.

The Handbook can build upon the recommendations and guidelines provided in UNECE's *Guide to Measuring Global Production*. This Guide was released at the end of 2015 and provides valuable insights in the functioning and measurement of global value chains. The Guide provides a typology of global production arrangements and describes the principles of ownership inside a multi-national enterprise, as well as ownership of intellectual property products inside global production. In addition, data source and compilation challenges are addressed with special attention to large and complex enterprises.

The Handbook can also build on work presented at the International Conference on Measurement of Trade and Economic Globalization in Mexico in 2014. For example, it could use the value chain reference model to establish alternative aggregations of basic ISIC categories. Those aggregations can be based on enterprise activities in the offshoring of business functions, the use

of intermediate inputs, the kinds of basic classes of goods produced and the variety of end markets. The reason for making those distinctions is that it is not possible, in the current ISIC, to distinguish the significant differences between enterprises that operate domestically and those that operate globally. Harmonization of enterprises into groups of similar make-up could significantly improve the accounting structure of the supply and use tables for the analysis of global value chains; harmonization could be achieved in terms of industry, supply chain position, end markets and the extent of the use of business functions being outsourced.

The OECD expert group on extended Supply-Use Tables addresses the estimation methods of trade in value added. The terms of reference of the group states among others that globalization is rapidly changing long-standing assumptions about the relative homogeneity of the production functions (Input-Output technical coefficients) of units classified to a given industrial activity, which is, implicitly, an underlying assumption used in creating input-output based indicators. The increasing prevalence of new types of firms such as factoryless producers and contract processing firms, and the increasing tendency for horizontal, as opposed to vertical, specialization, particularly for multinational affiliates, has fundamentally challenged these assumptions. Therefore, the OECD expert group is looking for the best ways to breakdown firms by specific characteristics (such as involvement in GVCs) which will make the sub-groups more homogeneous.

A GVC approach seems appropriate for the Handbook on a system of extended international and global accounts, since GVCs cut across geographic borders and bring together those global economic activities, goods and services, which belong together. Measurement of economic interdependencies (involving investment, job creation, income and intellectual property) within and across countries -- between upstream design and downstream assembly -- requires measurement of GVCs. Similarly, if we want to understand the interdependencies within and across countries for global retailers, financial and nonfinancial service providers, as well as horizontally-integrated enterprises, the GVC is the appropriate organizing framework.

This focus on GVCs has important implications for the unit of measurement and related data collection and estimation procedures. Most of the key decisions made by global manufacturers and global service providers are made at the enterprise rather than the establishment, or plant, level. This implies that for multi-national enterprises data on profits, research and development, transfer pricing, final product pricing, design, financing, advertising, and the rest of the links in GVCs are only available at the global enterprise level.