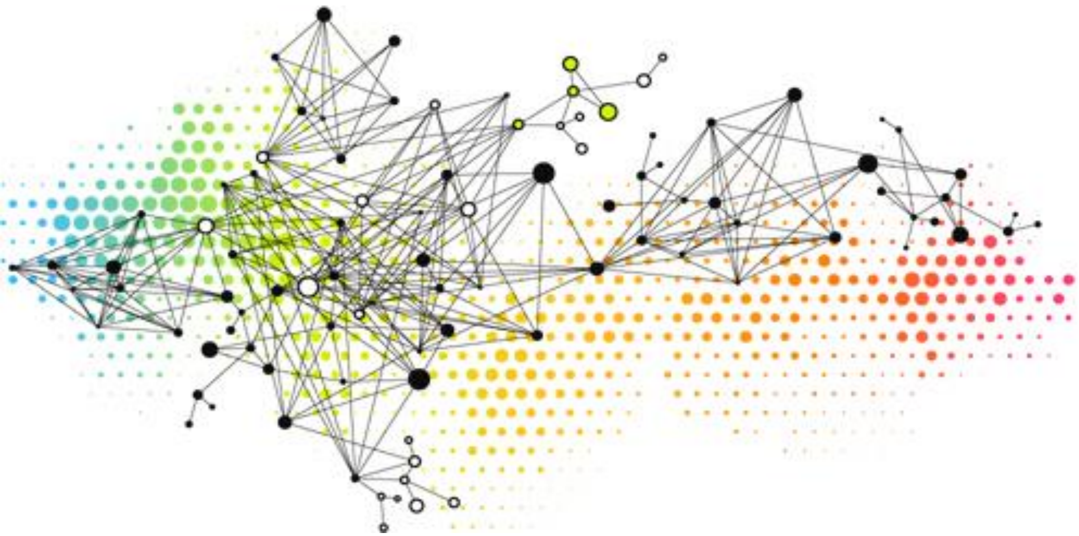
Real Sector Division
IMF Statistics Department



Handbook Chapter 6: *The Financial Side of GVCs*

UN Expert Group on International Trade and Economic Globalization Statistics

November 29 – December 1, 2016, NYC / Armonk

Cornelia Hammer, IMF STA Real Sector Division

Background

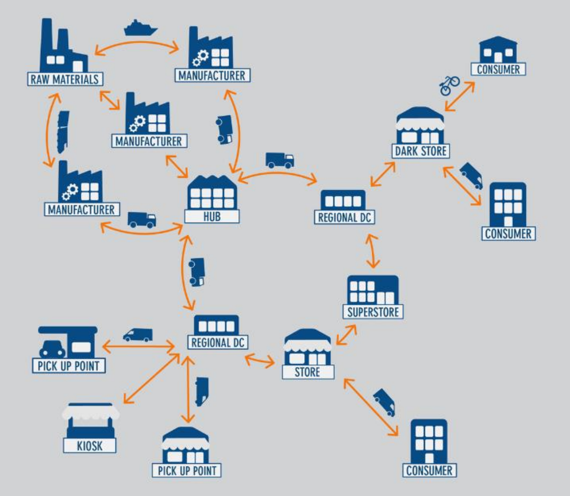
- Trade and investment, *or the integration of goods/services and financial relations along GVCs* have largely been kept separate in economic literature as well as in macroeconomic statistics
- In practice, these two dimensions are largely intertwined
- In chapter 6, we aim to:
  - Describe the type of enterprise that engages in GVC and the different approaches of enterprises to integrate into GVCs (with focus on FDI)
  - Take the perspective of a developed economy and a low-middle income country (LMIC)
  - suggest the linking and enhancing of existing data sets to build statistical tools for globalization data needs (new macro dataset)

The GVC framework

GVCs take place in complex networks of production

- Through networks of foreign affiliates (FDI) (incl. outward and inward FDI)
- Through non-equity modes of investment (e.g., licensing agreements and joint ventures)
- Through arm's length trade (incl. outsourcing)

The focus of chapter 6 is primarily on **FDI**



What kind of *enterprise* is trading and involved in GVCs?

- MNEs
  - Location of different stages in value chain: where to conduct R&D, produce parts, assemble finished goods where to launch international sales (costs, time, legal environment)
    - New technologies, more efficient factors, and/or contact with end user?
  - Internalization: outsourcing (arm's length sourcing) or offshoring/integrating (via intrafirm trade – production of intermediate input/service within firm boundary), networking, or mix
  - Type of FDI:
    - horizontal; – vertical; – export-platform FDI; or mix (efficiency-, resource-, or market- seeking)
    - Greenfield entry or cross-border acquisitions
  - Sources of funding affiliated/non-affiliated companies; cost structures: cash in advance/open accounts/supplier credits
  - Not only large MNE,
    - "micro – multinationals" are increasingly expanding their operations in new markets: they typically focus their value proposition around a product/ competency in which they have particular specialist expertise; face constraints

Two different perspectives

- Multinational activities are mostly two-ways in advanced countries, but LMICs are more and more becoming full-fledged participants in global production networks
  - developing countries participate in international trade through specialization, i.e., through manufacturing stages with differing comparative advantages
  - ILO: there are 3,500 economic processing zones (EPZs) in LMICs with 60 million people. EPZs “have evolved from initial assembly and simple processing activities to economic centers that include high tech and science parks, finance zones, logistics centers and tourist resorts.”
  - LMICs are trying to attract FDI (low barriers, protection of assets); potential to foster participation of domestic firms (through arm’s length contracts)

Key challenge: Connecting merchandise trade with international accounts data

- The general idea is to use, enhance, and combine existing free-standing data sets (trade statistics, BOP, IIP, FDI-CDIS, FATS, business/tax registers)
- Linking of goods trade – FDI / goods trade – non-FDI
  - Identify from trade statistics, business/tax register: companies engaged in exports/imports, (i) of which are active in outward FDI (trade with affiliates); (ii) of which are not active in outward FDI
  - Identifier codes for companies needed, especially larger MNEs to globally link financial flows/trade between affiliates (see EuroGroups Register)
- MNE data with details on ownership (acquisition, greenfield, merger), characteristics (globalization mode – horizontal, vertical, export-platform; etc.), sourcing (intra-group, arm’s length), and funding channels

Key challenge: connecting services trade with international accounts data

- FDI is said to be main engine of growth in services trade (mode 3 – through affiliates) mainly due to eased regulatory measures
- Also, developing countries, despite the difficulties and barriers to trade, are increasingly exporting services
- Linking between services trade – FDI / services trade – non-FDI
  - In BOP statistics, transactions with affiliates could be separately identified, particularly for the following items:
    - Manufacturing services on physical inputs owned by others (goods for processing)
    - Charges for the use of intellectual property
    - Other business services (e.g., R&D, management services)

Key challenge: financing sources of businesses linked to GVCs

- Which financing makes production possible:
  - FDI
  - Foreign borrowing
  - Local borrowing (from banks, local funds, equity, tax breaks from the government, venture capital)
- Look at balance sheets

Interesting to look at (time-permitting)

- The role of SPEs in intracompany GVCs
- insurance market of international trade
- Financial stability issues