Seminar on Accounting for Global Value Chains

Chapter 8 Special Accounting Topics

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Key Issues from SNA 2008 BPM6

• Research and development
• Change of economic ownership
• Predominant centre of economic interest
• Global Production
  • Goods sent abroad for processing
  • Merchanting
Guide to Globalization in National Accounts

- MNEs and allocation of value added
- MNEs and FDI
- SPEs
- Goods for Processing
- Merchanting
- IPP Transactions
- Global Manufacturing
Guide to Measuring Global Production

- Typology of Global Production
- Economic Ownership in general and IP
- Measuring Global Production
Globalisation Measurement Challenges

• **Centre of economic interest** (resident units)
  – Corporate Relocations - of assets, particularly intellectual property (IP)
  – Headquartering: re-domiciled firms & corporate inversions

• **Change of economic ownership**
  – Contract Manufacturing, significant MNE activity, but also carried out by domestic firms
  – Aircraft leasing
GVC Framework

Production stage
Value added
Assembling Manufacturing Logistics Marketing Branding Design R&D Innovation Standardization
Goods directly delivered to customers in the country of processor

Country B
Processor

Country X
Customers

Country A
Principal

- estimate exports
Goods directly delivered to customers in the country of processor - estimate exports

Inventories held abroad - estimate changes

Country B
Processor

Goods purchased abroad for processing - estimate imports

Goods sent back after processing - remove imports recorded in IMTS - estimate imports of services (as processing fee)

Country A
Principal

Goods delivered to resident customers - as domestic production

Country X
Customers

Goods delivered to customers in another country through country of the processor - as recorded in IMTS
Country B
Supplier

Country A
Merchant

Country X
Customers

Goods directly delivered to customers in another country - estimate exports

Merchant purchases goods from supplier to be sold abroad - estimate imports (as negative exports)

Trade service
Inventories held abroad

Country B

Supplier

t

t+1

- estimate changes

Country A

Principal
R&D

- Expenditure incurred in the development of R&D assets
- R&D related services such as royalties and licenses which related to the use of assets created by R&D activities
- The R&D assets themselves i.e. intellectual property products (IPPs).
IP Assets - R&D

• in the domestic economy,
  or
• through the use of contract manufacturing arrangements abroad
  or
• through the export of royalties to other non-resident affiliates.
Tangible Capital Assets

- Aircraft - highly mobile tangible assets
- Can be operating anywhere in the globe
- Substantial depreciation charges
- Domestic impact?
Income and Expenditure GDP

\[ C + I + G + (X - M) = GDP + NFI + NT = GNI \]

\[ NOS + COE + \text{Deprec} + (T - S) = GDP \]
Impact of Depreciation - IP Assets R&D

Accounting Deprec. €15bn

NNI Discrepancy

Net Operating Surplus €55m

PIM CFC €10m

Total Gross Profit from Admin and Survey Sources, €65m

Net Profit and PIM CFC, €65m

Impact of Depreciation - IP Assets R&D

Accounting Net Profit €50m

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Impact of Depreciation - IP Assets R&D

Accounting Net Profit €50m
Data Sharing

• Cross institutional
• Within institutions
• Whole of Government
• Whole of Statistical System
• Cross Border
Corporate Inversions

- Re headquartered listed companies
- Centre of economic interest has changed
- Economic owner has changed
- Where is the value added being attributed
- Become Financial transactions in reinvested earnings
Other Issues

• Price and Volume measures
  – Industrial processing services
  – Trade in services - merchanting
  – Intra company services
  – IPP related services

• Economic classification - FGP