Issues related to Globalisation

Expert Group Meeting on Harmonization of National Accounts
23-25 November 2010
Mauritius
Globalization is making residence less clear.

Appears in SNA Chapter XIV Rest of World Account.
- Important, not just for BOP compilers
Residence

- Clarification of residence
- Economic territory with which it has the strongest connection
  (center of predominant economic interest)
Principles to determine for each institutional unit, to which economy is it most closely connected.

Applicable to households, enterprises, other Corporations.

- Guidelines for each.
Residence

“Center of economic interest.”
- some location, dwelling etc.
- from which a unit engages or intends to engage in economic activities and transactions.
- over an indefinite or long period.

* Guideline to be interpreted flexibly: one year or more.
* Not legal status (e.g., visa status, registration, nationality).
* Trying to show economic connection between entity and the particular economy.
Residence of Households

- Elaborations and exceptions for diplomats, soldiers and their families, students, ship’s crew, border workers.
- With globalization, increasing number of internationally mobile individuals – connections to more than one economy:
  - Guest workers, migrant workers, refugees, expatriate experts, “astronauts,” “NYLONs.”
1. Seek to harmonize with demographic, migration, tourism, and education statistics.  
   (AEG agreed, but noted that any changes should not interfere with the integrity of the SNA)

2. Change definition to “predominant center of economic interest”
   – Recognition that many people have connections to two or more economies.
     • When there are multiple links, the objective is to identify the strongest link.
   – Agreed by AEG.
3. Proposal to make one-year criterion a rule, rather than a guideline, for more clarity and cross-country consistency.

- The one-year rule should be adopted generally, instead of a being just a flexible guideline.

- It would not apply to foreign students.
4. Supplementary presentation for temporary workers.
   – Recognition that these have links to both home and host countries.
   – Recognition that a major economic factor for some countries.
   – Task force has worked on details – bring together compensation of employees, transfers, expenditure, saving.
   – Important economic issue beyond GDP:
     • For some countries, remittances from nationals abroad are more important than exports.
Have participants identified other problems with determining residence of households?

Do participants agree with the change in terminology to “predominant center of economic interest”?

Do participants agree with the proposal for supplementary items for non-permanent workers?
Next session will cover these issues associated with globalization and enterprises.
Ownership

- Some legal arrangements have emerged where one party has legal title to an asset, while another party has exposure to the risks and benefits of ownership.
  - E.g. - financial lease, legal title is with creditor, but risks and benefits with borrower.

In this case, 1993 SNA is clear that we regard the borrower as the real *economic* owner of the goods.

- Proposal to explain that the SNA means "economic ownership" rather than other concepts such as legal ownership or possession.
  - No longer an “exception”
Question on ownership

- Do participants agree that “economic ownership” will clarify what is meant by ownership?
Multiterritory Enterprises and Joint Sovereignty Zones
Residence of multi-territory enterprises clarified.

Multi-territory enterprises operate a seamless operation over more than one economic territory.

Such enterprises are typically involved in cross border activities and include shipping lines, airlines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels and undersea cables.
Some countries have joint sovereignty zones. Where no identifiable separate units, has been tendency to leave out or treat inconsistently.

Preferred treatment to prorate the total.

In case it is not possible to identify a parent or separate branches, it is recommended to prorate the total operations of a multi-territory enterprise by the individual economic territories in which it operates.

- BOP Committee suggested according to case-specific indicator of operations.
Questions

Basic principles for corporation operating in more than one country:

- Are operations substantial and long or indefinite period?
- Is it possible to identify a head office (in one country) and unincorporated branch (in the others)?
- Sometimes impossible.
Questions

Do you agree with the prorating of multiterritory enterprises and enterprises in joint sovereignty zones?

Yes, we agree with prorating

Do they arise in your country?

Yes,
Goods Sent Abroad
for Processing
Increasingly complex international processing arrangement

- Outsourcing:
  - some parts of process outside the enterprise.

- “Virtual manufacturing”
  - entire process is outsourced.

- Has always occurred, but becoming increasingly common to have multi-country production processes.
  - Difficult for statistical systems to record accurately on any basis.
  - More important for us to make sure they are being recorded accurately and meaningfully.
Current treatment

- **Gross/imputations:**
  - -A-B-A (i.e., returned to original country)
- **Net/no imputations:**
  - A-B1-B2 (i.e., sold in processing country)
  - A-B-C (i.e., sold to third country)
Example

- Enterprise A in Country A owns materials valued at €80 million.
  - *In period 1*, the materials are sent to Enterprise B in Country B for assembly/processing.
  - *In period 2*, Enterprise B undertakes the processing.
  - *In period 3*, finished goods are returned to Enterprise A, which pays a €20 million processing fee to Enterprise B.
  - Enterprise A retains ownership at all times.
  - Common arrangement for oil, clothing, computers,
  - Sometimes within multinational company, sometimes independent contractor.
Current treatment
(Gross approach / Imputed change of ownership)

Country A:
- **Period 1:**
  - Exports of goods €80 million.
  - Imputed reduction in inventories of €80 million.
  - Imputed increase in accounts receivable of €80 million.
- **Period 3:**
  - Imports of goods €100 million.
  - Imputed increase in inventories of €80 million.
  - Imputed reduction in accounts receivable of €80 million.

Country B:
- **Period 1:**
  - Imports of goods €80 million.
  - Imputed increase in inventories of €80 million.
  - Imputed increase in accounts payable of €80 million.
- **Period 3:**
  - Exports of goods €100 million.
  - Imputed reduction in inventories of €80 million.
  - Imputed reduction in accounts payable of €80 million.
Proposed alternative treatment
Also current treatment for A-B1-B2 and A-B-C
(Net approach / No imputations)

Country A:
- Period 2:
  - Imports of services €20 million.
  - Goods stay on Enterprise A balance sheet the whole time.

Country B:
- Period 2:
  - Exports of services €20 million.
How do trade statisticians record these arrangements?

- Gross basis.
  - Merchandise trade data are about physical movement of goods, not ownership.
  - “Goods for processing” – encouraged to identify separately
    - difficult in practice.

- Accuracy of valuation, particularly in Country B?
- Need to get additional information from surveys to complement trade data.
How do businesses record these arrangements?

How are they shown in enterprise statistics?

Do not make the imputations, so no imputed sale and repurchase or change of ownership (already on net basis).

Imputations can mean that measurement is less accurate.
Issues

*How do input-output/supply-and-use tables statisticians view these arrangements?*

- **Gross ensures consistency with equivalent production** where the processor takes ownership.
  - Case of two identical factories next to each other, one fee for processing, one owns materials.
  - I-O ratios more stable.

- **Consistency with domestic transactions:**
  - Some countries gross up domestic transactions in the I-O/SUT compilation process.
Issues

- How would data users prefer exports and imports data?
  - Current approach gives large values for both countries involved in the arrangement.
Issues

- How do the alternative treatments line up with SNA concepts?
  - The SNA shows transactions, not physical movement of goods.
  - Because timing of gross treatment is driven by goods flows, rather than accrual basis, some timing issues arise if two or more periods involved.
  - SNA is a comprehensive system, including balance sheets as well as flows.
  - The SNA concept of ownership and balance sheet is to show assets with the entity that has the risks and benefits of ownership, not physical possession.
Issues

- Different treatments according to end-destination:

- Wide agreement that should be **always** imputation or **never** imputation, not a mix as we have at present.

- Production process managed by processor (owns the goods, makes the design and marketing decisions) is different to Production where processor follows instructions and receives a fee.
**Case study:**

- Small Country C assembles personal computers on a fee for processing basis for owner in Large Country U.
- Large stock of computer chips, owned by business in Country U, held in storage in Country C for future assembly.
- Owners in Country U decided to scrap the entire stock of existing chips to make way for a new model.

**Result:**

- If followed SNA, Country C’s trade balance much worse (chips imported, but never exported).
- If followed SNA, huge holding loss experienced by Country C.
Case study:

- Virtual computer manufacturing company in Country A,
  - buys materials worth 200 from various places,
  - which are assembled by a contract processor in Country B for 300,
  - and then consigned to Country C for a consignment price of 900.
- The consignment price incorporates the computer company’s contribution to the final price worth 400, which covers patents, know-how, financing, management of the production process, etc.
Conclusion

- Net Approach is adopted by BP6 and 2008
- SNA in all cases.
- Challenges in implementation.
- Should be done in consistent manner
Thank You !