Economic Globalization and Global Production

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CSO National Accounts Integration and LCU
1. Globalisation in the Standards

2. Impact of R&D

3. ESRG

4. Alternative approach & Conclusions
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
Irish Case

• Published NIE 2015 – July 12, 2016
• GDP Constant Prices – growth 26.3%
• GNP Constant Prices – growth 18.7%
• Represented a level shift in our figures
Some details

• National Accounts data related to relocations were based on hard data from respondents
• Important role of CSO’s Large Cases Unit (LCU) – quality and consistency across macro and business statistics
• Changes driven by globalisation activities
• Ongoing trend – but scale was different
• Significantly - a small number of entities involved
• Figures compiled in compliance with ESA 2010
• Figures were verified by Eurostat
Year-on-Year Growth Rates

GDP  + 26.3% (+7.8%)
GNP  + 18.7% (+5.7%)

Previous provisional estimate in brackets
MNE vs Domestic

GVA at Constant Basic Prices

- Foreign-owned MNE dominated
- Other

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The graph illustrates the flow of GDI (Gross Domestic Income), PCE (Personal Consumption Expenditure), Saving Ratio, and EU Saving Ratio from 2005 to 2015. The y-axis represents billions of euros, while the x-axis indicates the years from 2005 to 2015. The ratio values are shown on the right-hand side of the graph, ranging from 0 to 0.16.
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Impact of relocations on GDP – GNI transition

• BOP Entrepreneurial income is calculated after depreciation
• Impact of additional depreciation

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Depreciation</th>
<th>Net Factor Flows</th>
<th>GNI</th>
<th>NNI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>193,160</td>
<td>30,891</td>
<td>-29,715</td>
<td>161,759</td>
<td>130,868</td>
</tr>
<tr>
<td>2015</td>
<td>255,815</td>
<td>61,558</td>
<td>-53,173</td>
<td>200,762</td>
<td>139,204</td>
</tr>
<tr>
<td>Diff</td>
<td>62,655</td>
<td>30,667</td>
<td>-23,458</td>
<td>39,003</td>
<td>8,336</td>
</tr>
<tr>
<td>Change</td>
<td>32.4%</td>
<td></td>
<td></td>
<td>24.1%</td>
<td>6.4%</td>
</tr>
</tbody>
</table>
Total Gross Profit from Admin and Survey Sources, €65m

Net Profit and PIM CFC, €65m

Profits and Depreciation -
Operating Surplus and Net Factor Income from Abroad
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Managing the balance between:
European Statistics Code of Practice
• Principle 11: Relevance
• Principle 15: Accessibility and Clarity
and
• Principle 5: Confidentiality
ESRG – Summary of Terms of Reference

• Provide direction to the CSO on how best to meet user needs for greater insight into Irish economic activity
• A focus on measures additional to the CSO’s legal requirement to produce national accounts and balance of payments statistics
• New presentations of existing information to improve understanding
• Recommendations to be feasible, consistent over time, cover short- and long-term initiatives
Expert Group

• Increasingly difficult to represent the complexities of Irish economic activity using single headline indicators such as GDP or GNP
• Expert group focus on recommendations for the improvement and development of indicators and analyses giving additional insight to the domestic economy
• First meeting of the group September 19th and the group met six times between mid-September and November 2016
• Group reported to the Director General of CSO on 23 December 2016
Update – Expert Group Membership

- High-level cross-sector consultative group
  - Philip Lane (Chair) - Central Bank Of Ireland
  - Alan Barrett - ESRI
  - Seamus Coffey - UCC
  - Thomas Conefrey - IFAC
  - John Fitzgerald - TCD and Irish Times
  - John McCarthy - Department of Finance
  - Dan O'Brien – IIEA, Irish Independent
  - Fergal O'Brien - IBEC
  - Frances Ruane - TCD, ESAC
  - Marie Sherlock - SIPTU
  - Rossa White - NTMA
  - Jennifer Banim and Michael Connolly - CSO
  - Eurostat and IMF - International observers
ESRG – Main findings

• 13 recommendations across 5 main themes
  – Level Indicators: modified measure of the size or level of economy to support additional analysis – “denominator issue”
  – Structural Indicators: understand the MNE vs Domestic structure of the economy
  – Cyclical Indicators: to provide additional detail on what is happening domestically (focus on expanded component analysis of Expenditure side of National Accounts)
  – Communications
  – Co-operation

• Focus on insight into domestic activity
Level Indicator

• Gross National Income* (GNI*)
  – GNI adjusted for retained earnings of re-domiciled firms and depreciation on foreign-owned domestic capital assets
• Modified measure of the size or level of economy

• Additional and useful input to economic modelling and analysis, including use “under the line” for ratio analysis
• Top-down approach to developing GNI*
  – Annual series initially in mid-2017, with focus on re-domiciled firms and depreciation related to intellectual property products
Structural Indicators

MNE vs Domestic

• Foreign-owned vs domestic view of economic structure
• Initially use LCU firms as basis for split
• Ultimately build up from the micro (company) data for all foreign-owned firms

Estimated split of foreign/domestic value added (2014) based on sources of foreign marker

<table>
<thead>
<tr>
<th>Total Gross Value Added (€bn)</th>
<th>Foreign-owned firms (€bn)</th>
<th>Domestic firms (€bn)</th>
<th>% Foreign-owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>177</td>
<td>42 (LCU firms)</td>
<td>135</td>
<td>24.0%</td>
</tr>
<tr>
<td>177</td>
<td>58 (LCU + all other firms with foreign marker)</td>
<td>119</td>
<td>32.9%</td>
</tr>
</tbody>
</table>
Example: Extended Sector Accounts

S11 Non-Financial Corporations
  S11 Foreign-owned MNEs incl. Large Case firms
  S11 Domestic incl. Irish MNEs

S12 Financial Corporations

S13 Government

S1M Households and NPISH

S2 Rest of World

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Cyclical Indicators

• Expanded component analysis of Expenditure side of National Accounts
  – Additional detail on globalisation-related activities
• To support development of additional measures of underlying investment, additional detail in mid-2017 on
  – Intellectual property product relocations
  – Aircraft leasing
  – Re-domiciled firms
  – Contract manufacturing in Exports and Imports data
• With the Structural Indicators, will give good information of effect of globalisation on Irish economy
• Longer-term work: annual and quarterly Net National Product (NNP) at current and constant and prices
Introduce new classifications

• Aircraft leasing
• Re-domiciled firms
• Foreign owned multi national corporations - non financial
• Financial Corporations
• Irish Corporations
Extend existing classifications

- Help develop a more developed understanding of Nat Acc and BOP
- Extend presentation on Sector Accounts of Non-Financial Corporations to show domestic and foreign owned sectors
- Extend from Gross aggregates to Net - NDP, NNP and NNI
Extend existing classifications

- Publication of supplementary monthly industrial production and turnover (IPT) data adjusted for the impact of foreign MNE-related activity
- Alternatively-weighted IPT indices, using sectoral manufacturing wages rather than gross value added as fixed base weights.
MNE & LCU Dominance
2015 Data
Net National Product

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Key Messages

• Focus of the ESRG - analyses or indicators that would provide a better understanding of the domestic components of highly globalised Irish economy
• GDP and GNP continue to be the international standard indicators
• GNI* proposed to address the specific nature of the Irish economy
• Additional structural and cyclical measures recommended to give users more broad-based information on the Irish economy

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Implementation

• Multi-year programme to deliver recommendations
  – Short-term (during 2017) and longer-term deliverables
• CSO will take incremental approach – initial development, focusing on annual analyses and then review
• Focus in 2017 will be on:
  – Modified Gross National Income indicator GNI*
  – Large Case vs Other firms view in Sector Accounts
  – Additional detail on intellectual property products (IPP), aircraft leasing & contract manufacturing
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Alternative Approach

• Record cross border inter affiliate IP transactions as financial assets
• Could be thought of as securitized assets
• Impact on Capital Balance sheet and capital account removed
• Financial Account and Balance Sheet (IIP) would be balanced
• All income would be attributed to Foreign Direct Investor
Summary

• R&D in context of SNA 2008 (ESA 2010)
• Changed regulatory environment – BEPS etc.
• Unanticipated consequences of interaffiliate cross border IP transactions andrelocations – depreciation
• GNI* and cyclical and structural indicators
• Alternative approach - financial asset