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George Georgescu

Abstract. The accuracy of indicators used both in economic research and for designing most appropriate policy tools by the decision makers is of crucial importance. As speeding up the globalization process, the relevance of various indicators has been affected because of the lowering connection to the changes in the world economy, reflecting increasingly less the new global realities, even unto losing any rational meaningful. This was the case of statistical distortions in international trade data arising from the double and sometimes multi-counted record of the value of cross-border goods and services (engaged on the so called „global value-added chains”) due to the worldwide magnitude of the international fragmentation of production. This comment cautions on the remained unsolved problems, that still distorts data, even more serious, hindering the policy makers to achieve an accurate perception of realities, despite the review of the BoP international methodology and the debates on the WTO „Made in the World” initiative.

Key words: Inward/Outward processing trade; Global value-added chain; BoP current account balance; statistical distortions; WTO

JEL Classification: C18, E01, F13, F33, F62

**The world trade data distortion and its contagious impact.
A brief comment on the WTO “Made in the World” initiative¹**

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Beyond the financial markets’ over-expanding farther and farther away from the real economy, the world has witnessed a crisis of international statistics that has preceded the global financial and economic turmoil triggered in 2008, which stood, maybe, at the origin of its less apparent sources.

During the last decades, the cognitive value of economic and financial indicators has been continuously damaged, mainly because of the lack of adjusting the international methodologies according to the new world environment developments, accelerated by the process of globalization.

Growing statistical distortions (mainly by double-counted values) imperceptibly spread on all indicators used to guide the decision-making, with contagious effects on derived policy tools, undergone to increasingly higher hazard and adverse effects.

¹ Based on the author’s comment posted on *WTO-GVC online forum*, March 19, 2013.
http://engagedforums.com/discussions/Online_forum//wtodebate/85.37?nav=messages

The international fragmentation of production and the related global supply chains development have led to significant dimensions of such issues as intermediate goods cross-border processing, intra-company transactions including investments, financing, transfer pricing etc. that have escaped from accurate measurements by the methodological standards, becoming more and more obsolete.

In my opinion, the accelerating inward/outward processing trade flows (goods & services) at worldwide level represented the main transmission channel of statistical distortions, having an adverse contagion impact on their consistency with the real economic and financial phenomena that should have been reflect.

Complying with the IMF methodologies (Balance of Payments and International Investment Position Manual - BPM5, first published in 1993) the data recorded in the BoP current account balance regarding the exports and imports of goods included (in gross value terms) the nominal values of goods for crossborder processing, non-related to financial flows (except for fees received for the processing operation in the host country), besides the actual (real) values corresponding to related financial transactions (receipts/payments for exports/imports respectively recorded in credit/debit of BoP current account balance).

Consequently, the inflated data regarding the international trade altered the volume, value and structure of the real world exports and imports flowsw, severely distorting the whole macroeconomic system of indicators that depict the global economy.

More than that, misrepresenting the economic and financial realities, the wrong data significance has led, among other, by misguiding the decision makers, to the inadequacy and ineffectiveness of the global crisis responses.

In fact, it should become obvious that, without addressing international statistics problems, one could not be able to understand what is really happening and what needs to be done in order to improve the government and monetary policies and to recover the global economy.

That's why the WTO initiative *Made in World* launched in 2012, which is promoting not only a large international debate, but also is leading to the setting-up the World Input-Output Database (WIOD) and OECD-WTO joint trade database (TIVA) is supposed to be of crucial importance.

The analytical value of WIOD and TIVA data, detailed at the country-industry levels over time, is expected to materialize in revealing the hidden effects of globalization on trade, the true position of various countries within the global chains, identifying and decomposing the global value-added by each country on specific products or industries.

These statistical new tools regarding the international trade data are - and have to be - complemented by the IMF work focusing on the revision of Balance of Payments and International Investment Position Manual (BPM6, published in 2009). One of the most significant

changes concerned the treatment of goods for processing flows (according to „change in economic ownership” criterion) and which are recorded from now in the BoP current account balance as services (only the related fees for processing) the value of exports and imports of goods being reduced accordingly. The year 2014 has been set as target date for the full conversion of external accounts to BMP6 format.

Considering the related impact of this conversion on other essential economic and financial indicators (foreign investments, external debt, GDP, including the assessment of net exports contribution to GDP growth etc.) definitely they also need to be addressed, implying the revision of all time series data.

In the end of my intervention thanks to the WTO Forum, I should mention that in the last ten years, based on the case of Romania, I published several studies regarding the impact of Inward Processing Trade on the foreign trade, on the BoP current account balance and on country risk assessment (Georgescu 2003, 2006, 2007, 2014).

Addendum²

The matter of global production sharing and networks (including issues as goods & services outsourcing, Inward/Outward processing trade, international fragmentation of production) has been the subject of many studies yet more than a decade ago (among these Pellegrin, 1997; Balcet and Vitali, 2000; Feenstra 2001 and 2003; Navaretti et al., 2002; Kirkegaard, 2004) that have highlighted, in a lesser or higher extent, the growing importance of crossborder intermediate inputs (estimated to more than 50% of the total trade) including some effects on the accuracy of international trade statistics.

Initiated in 2013, the WIOD and TIVA databases are currently far from covering the worldwide scale, including only 40 countries and 61 countries respectively (the latter on 34 sectors), for the period 1995-2011. Nevertheless, several authors have conducted studies based on these data (Timmer and al., 2013 and 2014; Johnson, 2014; Koopman et al., 2014), more or less elaborated, the main conclusion being that the I-O tables represent a first step in the investigation of international fragmentation of production, future statistical networks being needed for richer explanations, by expanding the current data coverage and further integration of micro- and macrostatistics.

The main problem of the inaccuracy of international trade data remain, in WTO Statistics (and also in UNCTAD, Eurostat as well

² Some updated comments on the current situation of the WTO „Made in the World” initiative and the outcomes of WIOD and TIVA databases setting up.

as in National statistics) the merchandise exports and imports being still recorded by including all types of inward and outward movement of goods through customs according to „cross-border” criterion (except for Hong Kong-China, because of, as explained by WTO, the magnitude of its re-exports, that would introduce a significant element of double counting).

The effects of correcting the financial flows in the BoP current account balance according to BPM6, although late but otherwise justified, have not been retrieved in the international trade data revision. From this point of view one can even say that this has led to an increase of the confusion extent, data on exports and imports being quite different between the BoP current account and the foreign trade statistics, recorded by central banks and National statistical offices respectively. These disparities have been heightened, besides those arising from differences between imports value (due to CIF/FOB conversion) by the ones resulting from reclassifying the item „manufacturing services on physical inputs owned by others” from goods to services in the BoP current account (according to BPM6).

A possible solution to this deadlock would be that National authorities (monetary and statistics) to agree on the same dataset regarding exports and imports (eg the breakdown of international trade data depending on custom regime by the statistics offices) followed by a worldwide agreement involving all relevant international institutions (UNCTAD, IMF, World Bank, WTO, EU, OECD and other).

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