

Poster Session: Globalization

Globalization in Services – Some Perspectives from National Accounts and Producer Price Index for Services

Abstract

Introduction

Globalization is not a new phenomenon, but it has not yet affected a service sector with such a magnitude as with industrial sector. However, globalization means more than just making goods cheaper. Digitalization boosts globalization, which changes constantly and shapes the world's economic center of gravity. We illustrate this phenomenon with a business case from a Finnish game industry in our poster from national accounts (NA) and producer price index for services (SPPI) point of view.

The development of globalization can be seen in three different stages (Baldwin, 2016): firstly, it started with the ability to move goods, secondly it involved the ability to move ideas and thirdly face-to-face experiences. Since the early 19th century, the costs of moving goods, i.e. trade costs, fell dramatically which made it possible to disperse production from consumption internationally. As it is known, some part of labor-intensive work in manufacturing sector has moved to developing countries partly because of reducing costs. Later also the costs of moving ideas, i.e. communication costs, fell which in turn made the organizing of production and the sharing of technologies and knowledge more effective. Enterprises increased competitiveness by building global supply chains in which they produced different parts of their output in different countries based on labor costs, skilled labor and raw materials. Now and in the future, face-to-face costs will decline due to technology. Globalization will enter a people-centric service sector.

Finland is a great example of a small and open economy which benefits from global trade. At the moment, the share of service exports is small compared to the share of exports of goods, but that can also be seen as a classification issue of global phenomena and issue of product and industry choices. For example, the practices of the factoryless goods production affect the share of service vs. goods exports. Is the output classified as services (e.g. IPP) or as goods (end products)? Practices may vary between countries. Statistics Finland classifies the output according to the end product, which basically reduces the share of services. National accounts made the decision with help of PPI/SPPI experts and other statistics with cooperation of so called deflation group of Statistics Finland. Description of our practice will be written in the final report of the Eurostat National Account Task Force on Price and Volume Measures for Services.

The biggest individual service items of export in Finland are telecommunication, computer and information services, other business services and transportation. For example, game industry has received much publicity and it has grown fast in recent years. This industry is an example how to utilize digitalization in production and organizing the production line in a new more innovative way.

Business Case – Challenges and practical solutions in National Accounts and Producer Price Index for Services in Finland

We present a business case from a game industry. A Finnish game developer has a significant turnover. A large share of the turnover comes from abroad.

Players download games for free of charge from global application store and make in-game purchases while they are playing, e.g. upgrades, bonus game levels, expansion packs, special abilities or items, if they want. The turnover of the game developer consists those purchases. The price of the in-game purchases will be inquired in the SPPI. The destination of the services is BtoC and the services are mainly exported.

At the moment, NA handles output as export of computer programming, consultancy and related activities. The output is deflated with a corresponding SPPI. There is a discussion going on, whether the industry and

product is correctly defined in NA and Business Register in Statistics Finland. Should the industry and product be classified as e.g. software publishing?

Global application stores function as digital distribution channels. The payment from the distribution services is a proportion of in-game sales. The distribution services are recorded in NA as import of agency services. For deflation the specific SPPI is not available at the moment. Instead, price index based on domestic trade volume is in use.

Games are sold all over the world and the Finnish game developer buys advertising services to promote the sales from many countries. In NA the purchases of advertising services are handled as imports of services. Import price index is not available for deflation and for this reason SPPI, which consists domestic and export market's prices is in use.

Conclusion

The development of statistics for services is essential for many reasons and from different aspects. Soon we will face before unseen products of services produced both domestic and globally. The pricing methods develop also dramatically like we already found out in our example case. We need international guidelines, which are developed coherently in different statistical domains. Globalization requires also international data sharing. Big multinationals can be both price and production leaders. In many countries production systems are already quite integrated between different statistics. To make good choices for all the statistics in our information systems and to develop the best use of our source statistics in national and international level we need cooperation with open mind like in the deflation group and the Voorburg Group.

Sources

Baldwin, R. (2016). *The Great Convergence: Information Technology and the New Globalization*. The Belknap Press of Harvard University Press.

Comments and notes from poster session audience, 25 October 2017

Price information issues

- Presentation was a good example how to approach enterprises and collect prices, in the situation, where the enterprise itself is not in a position to make pricing decisions.
- Is international community ready to cooperate in price collecting to reduce burden cost of big multinational firms and make price collecting easier to national offices?
- Should we work more determined to collect and publish also import and export prices on SPPI?
- We need to clarify the relationship of CPI and export SPPI on BtoC.

Classification issues

- Digital era has brought a lot of new products. Both national accounts' supply and use tables and price statistics as well as other source statistics have to define the products same way.
- Product definitions effect also to industry classification. In both cases there is a need for international discussion how to work with new phenomenon.
- This poster raised a question about classification of big platforms and intermediation services.

Other comments

- Business case example illustrates well the complexity of statistical questions we face in the new digital and global world.
- Common and consistent guidelines in all statistical domains are essential.
- Cooperation is important internationally and in-house: e.g. what kind of information price statistics need from national accounts.