
THE GEORGE WASHINGTON UNIVERSITY

WASHINGTON, DC

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Ms. Patricia Abaroa
Ms. Barbara K. Hubbard
Office of the Chief, Direct Investment Division
U.S. Department of Commerce, Bureau of Economic Analysis
Washington, DC 20230.

Mr. Paul Bugg
Office of Management and Budget, OIRA
Paperwork Reduction Project 0608–0049
Washington, DC

Dear Ms. Abaroa, Ms. Hubbard, and Mr. Bugg,

I appreciate the opportunity to respond to the request for comments regarding the design of the Benchmark Survey of U.S. Direct Investment Abroad (BE-10) of the U.S. Bureau of Economic Analysis, as published in the *Federal Register* on August 14 and September 9, 2014. As a research professor at the George Washington Institute of Public Policy, George Washington University, I focus on federal policies that support U.S. economic competitiveness. From that perspective, I believe that the BE-10 survey is a necessary and important data collection effort. The survey gathers data essential for full understanding of the U.S. position in the global economy and fulfills the President's data collection responsibilities under 22 U.S. Code § 3103.

That said, I believe that 2014 BE-10 survey design and utilization could be revised to increase its value and reduce survey respondent burden—particularly with regard to sales, revenue, and employment information.

Context: Efforts to Map Global Value Chains and Measure Trade in Value-Added

I'm particularly interested in seeing the BE-10 survey facilitate the mapping of global value chains (GVCs) and the measurement of trade in value-added (TiVA). As noted in last year's Economic Report of the President:

[R]ecent advances in information technology along with improving industrial capabilities in emerging markets have made it profitable to segment production processes and relocate them throughout the world, creating global value chains. This shift has made it increasingly difficult to interpret international trade statistics. In the past, it was safe to assume that most if not all of the value of a traded product was created in the country that exported it. Thus, a country's industrial capabilities could be judged by the content of exports, trade rules could be tied to gross levels of

trade in specific products, and exports could be directly related to domestic job creation. With the rise of global value chains, however, one can no longer be sure how much of the value of a product or service is added in the country that declares it as an export. . . .

Official trade statistics are measured in gross terms—the amount the importer pays the exporter for the good. That approach is appropriate for adding up a country’s balance of payments made to, and received from, the rest of the world. To determine how much value an exporter adds to a good or service traded internationally, however, one must subtract the value of intermediate inputs supplied by other countries, including the country importing it. Removing these intermediate flows from exports gives a measure of “value-added” trade.¹

In the absence of official trade in value-added (TiVA) measures, Congress, Administration policymakers, and federal policy stakeholders cannot clearly ascertain the competitive role, advantages, and disadvantages of individual U.S. industry sectors. As a result, they are hampered in the development of legislation, regulations, policies, programs, and trade agreements that can effectively support the nation’s economic competitiveness.

In response to this problem, economists in several U.S. universities and the U.S. International Trade Commission recently pioneered “top-down” methods for creating multi-national input-output tables that estimated TiVA through integrating individual national input-output tables with bilateral trade data. Since 2011, these methods have been enhanced and implemented internationally through the efforts of the European Commission, the Organisation for Economic Cooperation and Development (OECD), the World Trade Organization (WTO), and the UN Conference on Trade and Development (UNCTAD).

At the same time, the global community recognizes that modeling of TiVA and mapping of GVCs can be made significantly more reliable through the incorporation of firm- and establishment-specific international transaction data collected by:

- linking of Business Register records with trade transactions and
- firm surveys that capture the breadth and nature of relations cross-country, by business functions.

Again, U.S. researchers have been leaders in the development of these “bottom-up” methods. In the first category, the Census Bureau created a Longitudinal Foreign Trade Transactions Database. In the second category, researchers such as Tim Sturgeon, Gary Gereffi, and Clair

¹ Council of Economic Advisers, [Economic Report of the President: 2013](#), Chapter 7: International Trade and Competitiveness, March 2013, p. 218.

Brown have developed approaches to capturing economic activity by business function.² Sturgeon recently served at the primary consultant to the European Commission on a trade and globalization data collection plan.³

Further, the United Nations Statistical Commission has convened a Friends of the Chair (FoC) Group on International Trade and Economic Globalization to develop an accounting framework for trade and globalization that reflects GVCs and TiVA. In addition, the Conference of European Statisticians of the UN Economic Commission of Europe (UNECE-CES) created a Task Force on Global Production (TFGP) to address issues in measuring global production, including factoryless good producers (FGPs), intellectual property ownership, and trade in services.⁴

Two weeks ago, all the major parties met in Mexico to review activities and coordinate efforts.⁵

BEA has been a participant in these multi-national efforts. However, it has not served a primary leadership role. Further, it has not actively identified and implemented approaches for organizing the U.S. system of national accounts to map GVCs or measure TiVA. BEA's priority focus on traditional trade measures was affirmed by Robert Yuskavage at a 2011 World Bank Trade workshop in 2011. Mr. Yuskavage then emphasized BEA's "top-down" role in the TiVA measurement effort: "BEA will support the development of value added measures by continuing to improve the accuracy and timeliness of its input-output accounts for the United States."⁶

To enable sound trade analysis and competitiveness policies, I encourage OMB to convene the primary federal users of trade data (e.g., Council of Economic Advisers, Office of the U.S. Trade Representative, National Economic Council, International Trade Commission, International Trade Administration) and the primary federal producers of trade data (including BEA, Census, the Bureau of Labor Statistics, and Customs and Border Protection) to coordinate development of the statistical means for mapping GVCs and measuring TiVA through a combination of "top-

² Timothy J. Sturgeon and Gary Gereffi, ["The Challenge of Global Value Chains: Why Integrative Trade Requires New Thinking and New Data,"](#) prepared for Industry Canada, November 20, 2008. Clair Brown, Timothy Sturgeon, and Connor Cole, ["The 2010 National Organizations Survey: Examining the Relationships Between Job Quality and the Domestic and International Sourcing of Business Functions by United States Organizations,"](#) Institute for Research on Labor and Employment, IRL Working Paper #156-13, December 2013.

³ Timothy Sturgeon, ["Global Value Chains and Economic Globalisation: Towards a New Measurement Framework,"](#) Report to Eurostat, May 2013.

⁴ A summary of state-of-the-field efforts through mid-2014 are in my presentation, ["Efforts to Measure Trade in Value-Added and Map Global Value Chains: A Guide,"](#) Industry Studies Association annual conference, Portland, Oregon, May 29, 2014.

⁵ See ["International Conference on Measurement of Trade and Economic Globalization,"](#) and ["Expert Meeting -- Friends of the Chair Group on International Trade and Economic Globalization."](#)

⁶ Robert E. Yuskavage, ["Integrating Value Added Trade Statistics Into the System of National Accounts: Perspectives from the U.S. Bureau of Economic Analysis,"](#) Background Paper Prepared for Panel Discussion at World Bank Workshop, "The Fragmentation of Global Production and Trade in Value-Added - Developing New Measures of Cross Border Trade," Washington, DC, June 10, 2011, p. 5.

down” and “bottom-up” means. Such an effort would seek parallel improvements in a number of data collection instruments, including the BE-10.

Observations on the Proposed BE-10 Survey

I suggest that the BE-10 survey would benefit from substantial revision of the forms, both to increase the value of data collected and to decrease the burden on respondents.

In particular, I suggest that the BE-10 instrument be designed in a way that allows data collection, publication, and analysis to be consistent with the emerging international accounting protocols noted above. In light of the recent OMB decision to postpone measurement of the FGP phenomenon, I believe such a redesign would allow federal statistical agencies to measure the FGP phenomenon reliably and without political misinterpretation.

Such an approach would seek to systematically capture data on firm sales and revenue by:

- Business functions,⁷
- ISI code,
- Imports and exports by country, and
- Distribution of sales and purchases by type of customer (in-country affiliated, in-country unaffiliated, out-of-country affiliated, out-of-country unaffiliated),

with equal emphasis on goods and services, consistent with BEA’s congressionally mandate to collect trade in services statistics.

As currently drafted, the BE-10 forms are not systematic in the collection of these data. Some data are not collected (e.g., secondary business functions other than R&D and contract manufacturing) or collected in less detail (e.g., trade in services). Other data (e.g., sales or revenues) are requested in different places from different perspectives (e.g., industry, nature of customer). The instruments seem to proceed in a complex, disparate, and idiosyncratic fashion. The nature and flow of questions in BE-10A and BE-10B differs significantly in places.⁸ The result, I perceive, is a burden on the respondent to have to repeatedly interpret complex instructions to calculate seemingly ad hoc slices of data.

I believe data collection could be expanded and improved, and the burden on the respondent could be reduced, by a reorganization of the instrument so that the respondent carries out one

⁷ I suggest BEA look at the presentation by Nielsen and Sturgeon, [“Using Business Functions to Measure International Trade and Economic Globalization”](#) at the International Conference on Trade and Economic Globalization, 29 September – 1 October 2014, Aguascalientes, Mexico. See Slide 7 for a comprehensive set of business functions.

⁸ While BE-10B asks for information on sales destinations, BE-10A does not. I wouldn’t perceive this as a problem if BEA has U.S. reporter sales destination data from other sources.

large, integrated set of calculations, primarily in a matrix format, rather than a long series of smaller ones.

As part of an effort to improve the design of the 2014 BE-10 survey instrument, I encourage BEA to engage the services of the Census Bureau's Usability Laboratory, if it has not already done so.

Moving beyond survey design, I believe that the BE-10 data are underutilized for research purposes. Despite the allowance made in 22 USC 3014(d), the Census Bureau has not received the authority to incorporate previous Direct Investment Abroad surveys into its Longitudinal Business Database. The combination would be a powerful research resource. Consequently, I encourage OMB to assist BEA in making BE-10 data available to the Census Bureau's Center for Economic Studies.

I appreciate the opportunity to provide comments and hope you find them helpful.

Sincerely,

A handwritten signature in black ink that reads "Andrew Reamer". The signature is written in a cursive, flowing style.

Andrew Reamer
Research Professor