Measuring Globalisation and the IT Services Industry in Ireland

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Overview

Globalisation and the IT sector

• Key events
• Main elements of globalisation
• Traditional indicators
• Need for new measures
• New data on International Sourcing
• Challenges facing statisticians
Evolution of globalisation

• “international economic integration”

• Marco Polo returns to Venice -1295
• Dutch East India Company, 1602
• Recent events
  – Fall of the Berlin wall, 1989
  – Paypal launched – 1998
  – “Millenium bug” - Y2K problem
  – China joins WTO
Elements of globalisation

- International Trade
- Migration of labour
- Financial Integration
- International Sourcing
- Foreign Direct Investment
- Production in Ireland
Traditional indicators of globalisation

Migration of labour
Labour force surveys, population censuses & administrative data

Financial market integration
BoP and Central Bank/Financial regulators

International Trade
Merchandise: Intrastat, Customs data
Trade in Services: BOP enterprise survey conducted by Central Statistics Office

Foreign Direct Investment
CSO BOP and Annual Business Surveys

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International trade (total) to GDP ratio (%), 2007
## World's Leading Exporting Countries of Commercial Services, 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Value Billion $</th>
<th>Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>454</td>
<td>13.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>263</td>
<td>8.1</td>
</tr>
<tr>
<td>Germany</td>
<td>197</td>
<td>6.1</td>
</tr>
<tr>
<td>Japan</td>
<td>136</td>
<td>4.2</td>
</tr>
<tr>
<td>France</td>
<td>130</td>
<td>4</td>
</tr>
<tr>
<td>Spain</td>
<td>127</td>
<td>3.9</td>
</tr>
<tr>
<td>China</td>
<td>127</td>
<td>3.9</td>
</tr>
<tr>
<td>Italy</td>
<td>109</td>
<td>3.3</td>
</tr>
<tr>
<td>Netherlands</td>
<td>91</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Ireland</strong></td>
<td><strong>87</strong></td>
<td><strong>2.7</strong></td>
</tr>
</tbody>
</table>
International Trade in Services

Distribution of Service exports in Ireland, 2007

- Transport: 4%
- Tourism & Travel: 7%
- Insurance: 13%
- Financial services: 32%
- Computer services: 33%
- Other: 7%

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## International Trade in Services
### World's Leading Exporting Countries of Computer and Information Services, 2006

<table>
<thead>
<tr>
<th>Country</th>
<th>Value $bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union (27)</td>
<td>70,085</td>
</tr>
<tr>
<td></td>
<td>of which Ireland</td>
</tr>
<tr>
<td>India</td>
<td>21,461</td>
</tr>
<tr>
<td>United States</td>
<td>10,096</td>
</tr>
<tr>
<td>Israel</td>
<td>5,289</td>
</tr>
<tr>
<td>Canada</td>
<td>4,034</td>
</tr>
<tr>
<td>China</td>
<td>2,958</td>
</tr>
<tr>
<td>Norway</td>
<td>1,376</td>
</tr>
<tr>
<td>Australia</td>
<td>1,060</td>
</tr>
</tbody>
</table>

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International Trade in Services

Destination of IT Service exports, 2007

€m

UK, France, Germany, Italy, Netherlands, Spain, Other, Europe, US, Asia, Africa, Other

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### Balance of Payments

**International investment positions, 31/12/2007**

<table>
<thead>
<tr>
<th>Item</th>
<th>Ireland (€m)</th>
<th>UK (€m)</th>
<th>EU27 (€m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct Investment Abroad</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity capital and reinvested earnings</td>
<td>86,620</td>
<td>1,235,570</td>
<td>6,816,974</td>
</tr>
<tr>
<td><strong>Direct Investment in Ireland</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity capital and reinvested earnings</td>
<td>179,745</td>
<td>697,582</td>
<td>5,851,059</td>
</tr>
<tr>
<td><em>of which in IT Services</em></td>
<td>13,907</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: Eurostat

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### Foreign Direct Investment

**Annual Business Surveys**  
**Analysis by nationality of ownership**

<table>
<thead>
<tr>
<th>IT Services (20+ employees only)</th>
<th>Unit</th>
<th>Irish</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of enterprises</td>
<td>No.</td>
<td>115</td>
<td>99</td>
<td>214</td>
</tr>
<tr>
<td>Persons engaged</td>
<td>No.</td>
<td>6,923</td>
<td>15,994</td>
<td>22,917</td>
</tr>
<tr>
<td>Turnover</td>
<td>€m</td>
<td>1,393</td>
<td>12,211</td>
<td>13,604</td>
</tr>
<tr>
<td>Gross value added</td>
<td>€m</td>
<td>462</td>
<td>2,810</td>
<td>3,272</td>
</tr>
</tbody>
</table>
International Sourcing

• Increase in recent times
  – Liberalisation in services
  – Technological advances
• Need for data
• Ad hoc survey
• Enterprises with 100 or more employees
# International Sourcing survey

## Table 5 Definition of insourcing and outsourcing

<table>
<thead>
<tr>
<th>CONTROL</th>
<th>LOCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External production outside the enterprise or enterprise group</strong></td>
<td><strong>Domestic Sourcing (Outsourcing)</strong></td>
</tr>
<tr>
<td></td>
<td>Production outside the enterprise or group by non-affiliated enterprises but within the Ireland.</td>
</tr>
<tr>
<td><strong>Internal production within the enterprise group</strong></td>
<td><strong>Domestic Sourcing (Insourcing)</strong></td>
</tr>
<tr>
<td></td>
<td>Production within the enterprise group to which the enterprise belongs and within Ireland.</td>
</tr>
</tbody>
</table>
International Sourcing survey

Level of international sourcing 2001-2006 within the EU. Percentage of Enterprises Engaged in International Sourcing.
Figure 6: International sourcing of Irish business functions 2001 - 2006.

- Core Business Function
- Distribution
- Marketing and sales
- ICT services
- Administration
- Engineering
- R & D

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Figure 7  International sourcing of Irish IT Services business functions 2001-2006.
Irish enterprises having sourced internationally 2001-2006 broken down by group structure

- 77% Subsidiary of group
- 15% Group head of multinational
- 8% Group head of domestic group
- 8% Not a group

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International sourcing of Irish IT sector business functions broken down by destinations.

- Core Business Function
- Support Business Function

<table>
<thead>
<tr>
<th>Destination</th>
<th>Core Business Function</th>
<th>Support Business Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intra EU</td>
<td>60%</td>
<td>30%</td>
</tr>
<tr>
<td>China</td>
<td>15%</td>
<td>5%</td>
</tr>
<tr>
<td>India</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Other Asia</td>
<td>30%</td>
<td>10%</td>
</tr>
<tr>
<td>US &amp; Canada</td>
<td>10%</td>
<td>20%</td>
</tr>
</tbody>
</table>

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International Sourcing by Irish IT Service enterprises broken down by relationship with business partner

- Insourced
- Newly created foreign enterprise of the same group
- Existing foreign enterprise of the same group
- Acquisition
- Outsourced

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International Sourcing survey

Key motivating factors
• Strategic decision by group head
• Reduction of labour costs

Key barriers to international sourcing (all IT service units)
• Legal / administrative
• Taxation

Impact
• Improved in-house know how
• Improved competitiveness
• Higher levels of measured labour productivity

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Challenges facing NSIs

Measurement issues

• Coherence across different sources
• Transfer pricing
• Ancillary MNC activities
• Merchanting
• Commissionaire trading
• Relationship between MNC HQ and affiliate abroad

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Dealing with the challenges

• Established large cases unit
• Maximise use of all sources of existing data
  – Traditional sources
  – Microdata linking
• Consider new sources of information
• Communicate effects of globalisation to users
Thank You