



# **International Comparison Program**

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## **[04.02]**

### **Optimization of Inter-Regional Linking using Global Core Products**

**Global Office**

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## Optimization of Inter-Regional Linking using Global Core Products

1. The 2005 ICP Round saw an important methodological innovation: the introduction of the Ring countries for inter-regional linking. Prior to 2005 usually only one country [*bridge*] was used to link a pair of regions. As a result, quality of the linking depended heavily on the choice of bridge-countries. The Ring approach introduced several [two to six] link countries per region which in theory should diminish errors due to choice of a particular link country.
2. However, due to implementation problems, the Ring methodology was not used up to its potential. Namely, contrary to the original intention, the Ring was never managed as a region, and product specs were never synchronized among the countries-participants from different regions. As the Ring was managed by the respective regions, the product specs used in those regions varied substantially. An indirect indicator of that was basic heading CV of CPD residuals, which were normally higher in the Ring than in any of the regions. This problem also came from the fact that the regions were managing their Ring countries, as the quality of some of the Ring products gravitated to that of regional products, as the regional products served as an implicit anchor for national coordinators. At the same time, poor validation of the Ring prices resulted in extremely high inconsistencies between regional and Ring PPPs at the basic heading level. Those inconsistencies can serve as an indicator of the linking quality at the basic heading level. They routinely reached 40-50% [in CV terms], which made global demand analysis at the basic heading level unreliable.
3. The 2011 ICP Round will use an updated linking methodology: now every region will be pricing a large subset of the Global Core Product List, and, potentially, every country in the ICP will contribute to the inter-regional linking. Thus, the Global Core Product approach could be considered a modification of the Ring approach with two important changes: (1) Core Product list to be priced by any country will be significantly less than the Ring list, and (2) every country in the comparison becomes a Ring country. In theory, this has to (1) drastically reduce standard errors in the inter-regional linking, and at the same time (2) hold the quality of regional comparisons high, as the Global Core will become a part of regional lists and, thus, the overall number of products priced within the regions will be about the same as in 2005.
4. However, if the Global Core approach is not implemented carefully, the 2011 ICP may face even bigger problems in linking than did the 2005 Round: namely, to the problems with inter-regional linking, the regional comparisons themselves may be compromised, as the number of regional products would decrease substantially. To combat the problems in the Ring implementation in 2005 [see para 2], a set of procedures needs to be established that would allow synchronization of the Core products across regions. As it is obviously impossible to have data validation workshops at the global level with all the countries participation, instead a simpler approach needs to be devised.
5. It is proposed that inter-regional validation workshops to be conducted with a reduced representation [two to four countries per region]. Thus, around 15 countries [Core countries]

would be selected for these workshops. The workshops would concentrate on two things: (1) synchronization of the specs for the Global list, (2) price validation per se [using regular diagnostics].

6. Those selected countries would then participate in their respective regional meeting, being the catalysts for the Global core product spec validation in the regions. That would reduce the inter-regional disparities in actual products priced. It would also be advantageous if representatives of other regions [some Core countries] could visit those meetings from time to time to create more possibilities of spec validation.