



Foreign affiliates trade in services statistics (FATS)

at

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by

Masataka Fujita

Officer-in-charge, Investment Trends Section

Division on Investment, Technology and Enterprise Development

Phone: (41-22) 907 6217, Fax: (41-22) 907 0194

E-mail: Masataka.Fujita@unctad.org



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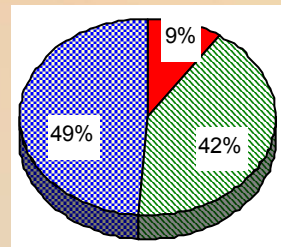
I. The importance of FDI (activities of TNCs) in services



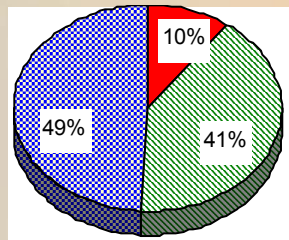
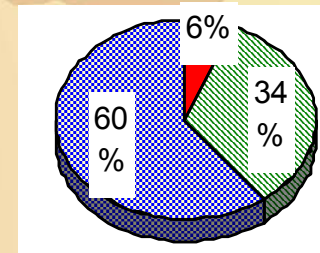
Sectoral distribution of FDI inward stock

1990

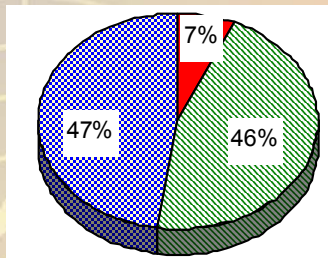
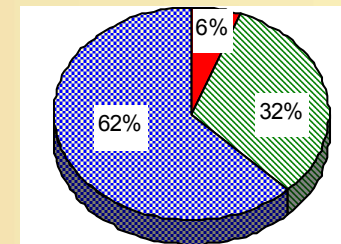
2002



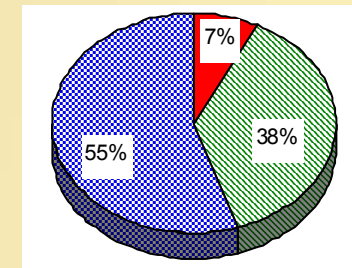
World



Developed Countries



Developing Countries



■ Primary ■ Manufacturing ■ Services

Source: UNCTAD, *World Investment Report 2004: The Shift Towards Services*.

Additional features of the shift of FDI towards services

- Shift towards services in all country groups
- Shift is fastest in developed countries
- Wide variations among individual economies
 - Inward stock:
 - More than 80%: Denmark, Hong Kong (China), Luxembourg, Switzerland
 - 30% or less: Bangladesh, Sweden, Venezuela
 - Outward stock:
 - More than 70%: Austria, Colombia, Denmark
 - Less than 40%: Australia, Croatia, Sweden.

Cross-border M&A sales of firms in the services sector in West Asia, 1987-2003

(Millions of dollars)

Region/economy	1987-1990	1991-1995	1996-2000	2001-2003	Total
TOTAL WORLD	178 068	257 233	1873 014	747 690	3056 004
West Asia	29	183	1 328	2 368	3 908
Abu Dhabi	-	58	-	-	58
Bahrain	-	-	197	-	197
Cyprus	-	-	-	61	61
Jordan	-	26	567	837	1 429
Kuwait	-	-	-	163	163
Lebanon	-	-	223	98	321
Oman	-	15	19	-	34
Qatar	-	-	-	-	-
Saudi Arabia	2	-	2	-	4
Turkey	27	85	61	1 101	1 273
United Arab Emirates	-	-	260	108	369

Source: UNCTAD, cross-border M&A database.

Note: The data cover the deals involving the acquisition of an equity stake of more than 10% only.

Top 10 cross border M&A sales in services by countries in West Asia, 1987-2003

Value (\$ million)	Year	Acquired company	Host country	Industry of the acquired company	Acquiring company	Home economy	Industry of the acquiring company
508	2000	Telecommun Corp of Jordan	Jordan	Communications services, nec	Investor Group	France	Investors, nec
424	2003	Jordan Mobile Telephone Svcs	Jordan	Radiotelephone communications	Mobile Telecommun Co KSC	Kuwait	Telephone communications, except radiotelephone
375	2003	Arab Bank Ltd	Jordan	Banks	Saudi Oger Ltd	Saudi Arabia	Residential construction, nec
350	2001	DemirBank TAS	Turkey	Banks	HSBC Bank PLC	United Kingdom	Banks
240	2002	Koc Finansal Hizmetler	Turkey	Investment advice	Unicredito Italiano	Italy	Banks
181	2001	Finansbank AS	Turkey	Banks	BNP Paribas SA	France	Banks
163	1997	Credit Libanais(Lebanon)	Lebanon	Banks	Investor	Saudi Arabia	Investors, nec
161	2000	Al-Ahli Commercial Bank	Bahrain	Banks	United Bank of Kuwait PLC	United Kingdom	Banks
133	2001	Bank of Kuwait & the Middle E	Kuwait	Banks	Al-Ahli United Bank	Bahrain	Banks
118	2003	Kipa Kitle Pazarlama Ticaret	Turkey	Grocery stores	Tesco PLC	United Kingdom	Grocery stores

Source : UNCTAD, cross-border M&A database.

Cross-border M&A purchases in services by firms based in West Asia, 1987-2003

(Millions of dollars)

Region/economy	1987-1990	1991-1995	1996-2000	2001-2003	Total
TOTAL WORLD	172 684	251 321	1869 157	811 199	3104 360
West Asia	2 604	3 559	7 826	2 783	16 772
Abu Dhabi	528	-	-	201	729
Bahrain	1 705	1 111	2 159	1 352	6 327
Cyprus	-	-	1 993	53	2 046
Jordan	-	-	22	-	22
Kuwait	200	116	151	555	1 022
Lebanon	-	24	58	-	82
Oman	-	-	63	9	72
Qatar	-	-	-	15	15
Saudi Arabia	-	2 051	2 104	516	4 671
Turkey	-	-	393	7	399
United Arab Emirates	172	257	848	76	1 353
Yemen	-	-	37	-	37

Source: UNCTAD, cross-border M&A database.

Note: The data cover the deals involving the acquisition of an equity stake of more than 10% only.

Top 10 cross border M&A purchases in services by countries in West Asia, 1987-2003

Value (\$ million)	Year	Acquiring company	Home economy	Industry of the acquiring company	Acquired company	Host economy	Industry of the acquired company
1 875	1997	Mustcom Ltd	Cyprus	Investors, nec Security brokers, dealers, and flotation companies	Svyazinvest(Russia)	Russian Federation	Investors, nec
1 500	1990	Investcorp Bank EC Saudi Telecommunications	Bahrain	Telephone communications, except radiotelephone	BATUS Inc-Saks Fifth Avenue	United States	Department stores Telegraph and other message communications
1 500	2000	Co	Saudi Arabia		FLAG Telecom Holdings Ltd	Bermuda	Television broadcasting stations
1 135	1995	Investor Group	Saudi Arabia	Investors, nec	Mediaset SpA(Fininvest)	Italy	
765	1997	Investcorp	Bahrain	Investors, nec	Granada Group-Welcome Break	United Kingdom	Eating places Vitreous plumbing fixtures & bathroom accessories
585	1997	Investcorp	Bahrain	Investors, nec	Falcon Building Products Inc	United States	
530	1999	Investcorp	Bahrain	Investors, nec	Synthetic Industries Inc	United States	Broadwoven fabric mills, manmade fiber and silk
528	1990	Investor Group	Abu Dhabi United Arab Emirates	Investors, nec	BCCI Holdings(Luxembourg) SA	Luxembourg	Investment offices, nec Crude petroleum and natural gas
500	1999	IPIC		Investors, nec Telephone communications, except radiotelephone	Hyundai Oil Refinery Co Ltd	Republic of Korea	
424	2003	Mobile Telecommun Co KSC	Kuwait		Jordan Mobile Telephone Svcs	Jordan	Radiotelephone communications

Source UNCTAD, cross-border M&A database.

What services attract the most FDI?

- **Traditional Industries:**
 - Financial services (40% in 1990, 29% in 2002)
 - Trading (25% in 1990, 18% in 2002)
- **Emerging Industries:**
 - Telecommunications
 - Electricity
 - Business services

The forces behind the growth of FDI in services

- Increased role of services in the economic activity
- Non-tradability of many services
- Service firms have built up firm-specific advantages
- Competitive pressure
- Deregulation, liberalization and the role of privatization
- Role of IT developments

Growth rates of services exports and sales of services foreign affiliates, various periods

Country	Services exports	Sales of services foreign affiliates of home-based TNCs
Germany (1990-2001)	5.1	11.2
Japan (1990-1999)	5.3	3.4
United States (1990-2000)	7.3	10.1

Source: Data on sales of foreign affiliates from UNCTAD FDI/TNC database; data on exports from WTO.

Comparison of services delivered by foreign affiliates and those by trade in selected countries, various years (Billions of dollars)

Country	Year	Services delivered by foreign affiliates of home-based TNCs ^a (S)	Exports of services(X)	S/X (%)	Country	Year	Services delivered by affiliates of foreign-based TNCs ^b (S)	Imports of services(M)	S/M (%)
Austria	2000	2.0 ^c	31.0	6.5	Austria	2001	38.3 ^c	31.5	121.6
Canada	1999	77.1 ^c	34.8	221.5	China	2002	12.8	44.2	29.0
Finland	2002	13.9 ^c	6.0	231.7	Czech Republic	1999	10.8	5.8	186.0
Japan	1999	110.6	60.3	183.4	Finland	2001	9.0	8.0	112.5
Germany	2001	227.2	83.2	273.1	Japan	1999	10.1	114.2	8.8
Portugal	2001	5.6 ^c	8.7	64.4	Germany	2001	122.3	137.2	89.1
United States	2001	456.1	259.4	175.8	Hungary	2000	0.01	4.4	0.2
					Portugal	2001	6.8 ^c	6.0	113.3
					Sweden	2001	42.3	22.9	184.7
					United States	2001	474.0	192.7	246.1

Source : Data on sales of affiliates from UNCTAD FDI/TNC database (www.unctad.org/fdistatistics), data on services trade from WTO.

^a Except for the United States, the data refer to sales by service foreign affiliates of home-based TNCs less those by trading foreign affiliates as sales of the latter are mainly of goods. For the United States the data refer to sales of services by all foreign affiliates of United States TNCs.

^b Except for China and the United States, the data refer to sales by service affiliates of foreign-based TNCs less those by trade affiliates as sales of the latter are mainly of goods. For China the data refer to sales by all service affiliates. For the United States the data refer to sales of services by all affiliates of foreign-based TNCs in the United States.

^c Majority-owned foreign affiliates only.

Going beyond FDI: non-equity forms are common in services

- **Examples:**

- management contracts (e.g. tourism)
- partnerships (e.g. accounting)
- franchising (e.g. car rentals)
- concessions (e.g. electricity)
- build-operate-transfer (e.g. roads)

- **Reasons:**

- The role of intangible assets
- Limitations on foreign ownership (e.g. air transportation)
- Other restrictions (e.g. healthcare)

World Investment Report 2004

The Shift Towards Services

**Visit the website of the World Investment Report at:
www.unctad.org/wir
and
FDI statistics at:
www.unctad.org/fdistatistics**

II. What is FATS?

- **Statistics on operations of TNCs (the need for comparable data)**
- **International recommendations**
- **Main concepts and definitions**
 - **TNCs**
 - **FDI**

TNCs operations data

Indicators on the activities of

- TNCs
- Foreign affiliates in the reporting economy (inward)
- Affiliates of TNCs abroad (outward)

Why TNCs operations statistics? (1)

TNCs and their foreign affiliates - important role in international production:

**61,000 TNCs and their 900,000 foreign affiliates
=> about two-thirds of world trade!**

Foreign affiliates, in 2003:

- **Number of employees: 54 mio (1982: 19 mio)**
- **Total sales: \$ 17.6 trillion (1982: \$ 2.7 trillion)**
- **Exports: \$3.1 trillion (1982: \$0.7 trillion)**
- **Total assets: \$30 trillion (1982: \$2 trillion)**

Why TNCs operations statistics? (2)

Statistics on the operations of TNCs are of importance,

- **to analyse the process of globalisation in all its dimensions**
- **WTO General Agreement on Trade in Services (GATS)**

WTO General Agreement on Trade in Services (GATS)

- Signed in April 1994
- First ever set of multilateral legally enforceable rules covering international trade in services
- 4 modes of supply describe how services are provided;
- **Mode 3: commercial presence**
“ a foreign company setting up subsidiaries or branches to provide services in another country” (WTO, 1995).

Availability of FATS data, as of November 2004

Variables	Foreign affiliates of home-based TNCs, by industry	Affiliates of foreign-based TNCs in the host economy, by industry
Assets	Austria (1994-2000), Finland (1994-2002), Germany (1979-2001), Japan (1980-1998), United States (1983-2001)	Austria (1990-2000), Finland (1994-2001), Germany (1976-2001), Japan (1988-1999), Norway (1998), United States (1977-2001) China (1996-2002), Hong Kong, China (1983-1997), India (1981-1995), Malaysia (1970-1997), Poland (1999-2000), Singapore (1980&1994-2001), Slovenia (1996-2000), Taiwan Province of China (1984-1994), Viet Nam (1994-1996)
Employment	Austria (1985-2001), Belgium (1995-1999), Canada (1999), (France (1994-1996), Germany (1979-2001), Italy (1985-1999), Japan (1978-1999), Portugal (1997-2002), Sweden (1990-2000), Switzerland (1986-2001), United States (1983-2001) Czech Republic (1999), Macao (2001)	Austria (1980-2000), Belgium (1995-1999), Denmark (1996), Finland (1994-2001), France (1996-98), Germany (1976-2001), Ireland (1985-2001), Italy (1985-1999), Japan (1988-1999), The Netherlands (1995-1996), Norway (1992-1996), Portugal (1996-2002), Sweden (1990-2001), United Kingdom (1993-1999), United States (1977-2001) Czech Republic (1999), Hong Kong, China (1983-1997), Hungary (1998-2000), Indonesia (1992-1996), Macao (2001), Madagascar (1998), Malaysia (1970-1989), Nepal (1998-1999), Poland (1999-2000), Singapore (1980&1994-2001), Slovenia (1996-2000), Solomon Islands (1994-1996), Sri Lanka (1978-2002), Taiwan Province of China (1984-1994), United Republic of Tanzania (2000), Vanuatu (1999-2001), Viet Nam (1995-1996)

Availability of FATS data, as of November 2004

(cont'd)

Variables	Foreign affiliates of home-based TNCs, by industry	Affiliates of foreign-based TNCs in the host economy, by industry
Wages and salaries	France (1994-96), Japan (1989-1998), United States (1983-2001)	Denmark (1996), Finland (1994-2001), France (1996-98), Ireland (1985-2001), Japan (1994-1999), Norway (1992-1998), United Kingdom (1993-1999), United States (1977-2001) Poland (1999-2000)
Sales	Austria (1996-2000), Belgium (1995-1999), Canada (1999), Finland (1995-2002), France (1994-1996), Germany (1979-2001), Italy (1985-1999), Japan (1988-1999), Portugal (1997-2002), United States (1983-2001) Czech Republic (1999)	Austria (1995-2000), Belgium (1995-1999), Denmark (1996), Finland (1994-2001), France (1996-1998), Germany (1976-2001), Ireland (1985-2001), Italy (1985-1999), Japan (1988-1999), Norway (1996), Portugal (1996-2002), Sweden (1998-2000), United Kingdom (1993-1999), United States (1977-2001) China (1995-1998), Czech Republic (1999), Hong Kong, China (1983-1997), Hungary (1998-2000), India (1981-1995), Madagascar (1998), Malaysia (1970-1995), Poland (1999-2000), Singapore (1980&1994-2001), Slovenia (1996-2000), Taiwan Province of China (1984-1994), Viet Nam (1994-1996)
Value added	France (1994-1996), Portugal (1997-2002), United States (1994-2001)	Denmark (1996), Finland (1994-2001), France (1996-1998), Ireland (1985-2001), Italy (1997), Japan (1994-1999), The Netherlands (1995-1996), Norway (1992-1998), Portugal (1996-2002), United Kingdom (1993-1999), United States (1992-2001) China (1995-2002), Hungary (1998-2000), India (1981-1995), Madagascar (1998), Malaysia (1970-1995), Singapore (1980&1994-2001), Taiwan Province of China (1984-1994), Viet Nam (1995-1997)

Availability of FATS data, as of November 2004

(cont'd)

Variables	Foreign affiliates of home-based TNCs, by industry	Affiliates of foreign-based TNCs in the host economy, by industry
Profits	France (1994-1996), Japan (1981-1999), United States (1983-2001) Macao (2001)	Finland (1994-2001), France (1996-1998), Japan (1988-1999), The Netherlands (1995-1996), Norway (1992-1996), United States (1982-2001) China (1995-2002), India (1981-1995), Macao (2001), Malaysia (1970-1995), Paraguay (1996-2001), Poland (1999-2000), Singapore (1980&1994-2001), Slovenia (1996-2000), Taiwan Province of China (1984-1994), TFYR of Macedonia (1998-1999), Viet Nam (1994-1996)
Exports	Austria (1996-2000), France (1994-1996), Japan (1988-1999), Portugal (1997-2002), United States (1983-2001) Czech Republic (1999)	Austria (93-2001), Finland (1995-1999), France (1996-1998), Ireland (1991-2000), Japan (1988-1999), The Netherlands (1996), Portugal (1996-2002), United States (1977-2001) China (1991-2002), Czech Republic (1999), Hong Kong, China (1983-1997), India (1981-1991), Malaysia (1970-1995), Poland (1999-2000), Singapore (1980&1994-2001), Slovenia (1996-2000), Taiwan Province of China (1984-1994)
Imports	Austria 1996-1999), Japan (1988-1999), Portugal (1997-2002), Sweden (1999-2000), United States (1999) Czech Republic (1999)	Austria (1993-2001), Finland (1995-98), Ireland (1991-2000), Japan (1988-1999), The Netherlands (1996), Portugal (1996-2002), United States (1997-1999) China (1991-1999), Czech Republic (1999), India (1981-1991), Malaysia (1970-1995), Poland (1999-2000), Taiwan Province of China (1984-1994)

Availability of FATS data, as of November 2004

(cont'd)

Variables	Foreign affiliates of home-based TNCs, by industry	Affiliates of foreign-based TNCs in the host economy, by industry
R&D expenditures	France (1994-1996), Japan (1988-1999), United States, (1983-2001)	Finland (1997-2001), Japan (1988-1999), The Netherlands (1996), Sweden (1996-2000), United Kingdom (1994-1997), United States, (1977-2001) India (1985-1995), Poland (1999-2000), Singapore (1980&1994-2001), Taiwan Province of China (1984-1994)
R&D employment	Japan (1986-1998), United States, (1989&1999)	Finland (1997-2001), Sweden (1997-2000), United States, (1992-2000)
Royalty receipts	Germany (1989-2002), United States, (1989&1994)	Germany (1989-2002), Japan (1988-1999), United States, (1987-1999)
Royalty payments	Germany (1989-2002), United States (1989&1994)	Austria (1980-2001), Germany (1989-2002), United States (1987-1999) India (1981-1995), Republic of Korea (1981-1998),

Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).

International guidelines and recommendations

UN/EC/OECD/IMF/UNCTAD/WTO, *Manual on Statistics of International Trade in Services (MSITS)*

Concepts and definitions

- **Transnational corporations (TNCs)**
- **Foreign direct investment (FDI)**
- **Foreign direct investor**
- **Direct investment enterprise**

Concepts and definitions (continued)

Statistical unit

- **Establishment**: SNA93, para 5.21

“..defined as an enterprise, ..situated in a single location and in which only a single productive activity is carried out or in which the principal productive activity accounts for most of its value-added”

- **Enterprise**: BPM5, para 74 and 76

“..legal entity created for the purpose of producing goods or services for the market..”

- **Enterprise group**: SNA93

“..family of legal entities is the operations of a set of legal entities that are resident in one country and connected in a parent-subsidiary relationship..”

Concepts and definitions (continued)

Foreign direct investment

- Balance of payments concept
- Lasting interest/long term relationship
- Significant degree of influence on management

Concepts and definitions (continued)

Principal rule of FDI data: 10 per cent rule

- 10 % of the ordinary shares or voting power
- International comparability
- Subjective judgement (not 10% qualifications)
 - Representation on the board of directors
 - Provision of low long-term loans
 - Long-term contract of supply of natural resources

Concepts and definitions (continued)

References on FDI

- IMF, Balance of Payments Manual, Fifth Edition, 1993.
- OECD, Benchmark Definition of Foreign Direct Investment, Third Edition, 1996.
- IMF, Balance of Payments Compilation Guide, 1995.
- IMF, Balance of Payments Textbook, 1996.



III. What does MSITS say?

- 
- Variables
 - Issues

Variables to be considered

Sales

Royalties and Licence fees

Output

Assets

Imports

Taxes on Income

Employment

GFCF

Value added

Net worth

Wages&salaries

Exports

R&D expenditure

Number of enterprises

R&D employment

Approach

Phased approach: setting priorities

Data needs ↔ available resources

Prioritized variables

Sales (or turnover)

Imports

Employment

Number of enterprises

Output

Exports

Value added

Assets

Taxes on Income

Royalties and Licence fees

R&D expenditure

Employment in R&D

Wages&salaries

Net worth

GFCF

Issues

- 10 per cent rule vs majority-owned foreign affiliates
- Attribution of variables
- Classification by region and by country
UBO \Leftrightarrow immediate foreign owner
- Classification by sector and by industry
- Ownership thresholds

Country classification of activities of foreign affiliates

- Immediate host/home country
- Ultimate host/home country

Industry classification of activities of foreign affiliates

United Nations International Standard Industrial Classification of All Economic Activity (ISIC, Rev. 3)

- A. Agriculture, hunting and forestry
- B. Fishing
- C. Mining and quarrying
- D. Manufacturing
- E. Electricity, gas and water supply
- F. Construction
- G. Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods
- H. Hotels and restaurants
- I. Transport, storage and communication
- J. Financial intermediation
- K. Real Estate, renting and business activities
- L. Education
- M. Health and social work
- N. Other community, social and personal services

IV. Implementation and compilation

- Data sources for TNCs operations data
- Model questionnaire
 - Survey of affiliates of foreign-based TNCs in the host country (inward FATS)
 - Operations of TNCs (outward FATS)
 - Survey of parent firms
 - Survey of foreign affiliates of home-based TNCs

Compilation of FATS data

If FATS data cannot be compiled from existing surveys on enterprises...

- (New) Enterprise surveys
- Administrative sources (as part of investment approval process, approval data/registered projects)
- Adding FATS variables to existing FDI surveys

Advantages and disadvantages of various sources

Sources	Advantages	Disadvantages
(New) Enterprise surveys	<ul style="list-style-type: none"> • Provide for complete recording of activities and operations by each enterprise surveyed; • Information on other economic activity relating to activities of foreign affiliates and FDI can be easily collected for analytical purposes and quality control; • Best opportunity to explain to data providers the concept of FATS and FDI, and the treatment of particular transactions. 	<ul style="list-style-type: none"> • It may be difficult to maintain comprehensive lists of enterprises with direct investment transactions and majority-owned foreign shares; • Surveys will incur costs in developing and implementing.

Advantages and disadvantages of various sources – cont'd

Sources	Advantages	Disadvantages
Administrative Sources (at the time of investment approvals)	<ul style="list-style-type: none"> • Information is often readily available as a by-product of the approval process; • Level of details may not be satisfactory. 	<ul style="list-style-type: none"> • Approval processes are rarely set up with BOP or requirements in mind; • Time lags between approval and actual investment (or, approved investment may never actually take place); • Information on income (including reinvested earnings) and on withdrawals of investment may not be available; • Information on non-equity transactions (e.g. lending by the direct investor and inter-company accounts) is limited; • The approval process may relate only to investment in particular industries or to investment greater than thresholds; • Approvals generally relate only to direct investment in the reporting economy and not to direct investment abroad.



For more details, see

**UNCTAD Manual on Statistics of Foreign
Direct Investment and
Operations of Transnational Corporations**

*Volume II: Statistics on the
Operations of Transnational
Corporations*

Available in 2005