

Introduction to Case study 6: Inward and outward Foreign affiliate trade in services statistics – “FATS”

- Overview FATS statistics -

Workshop on Statistics of International Trade in Services

Panama City, 13-16 September 2005

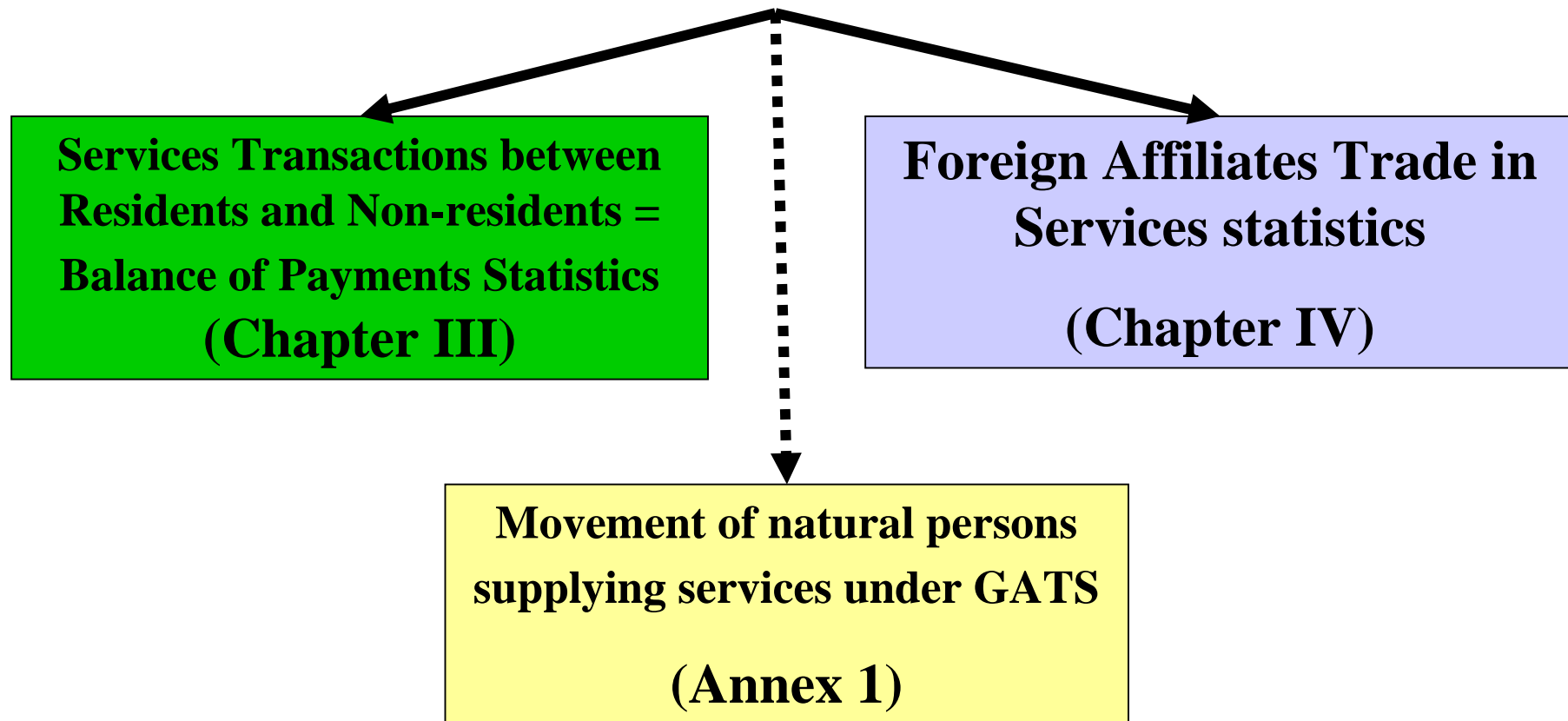
By Matthias Reister (UNSD)

Outline of presentation

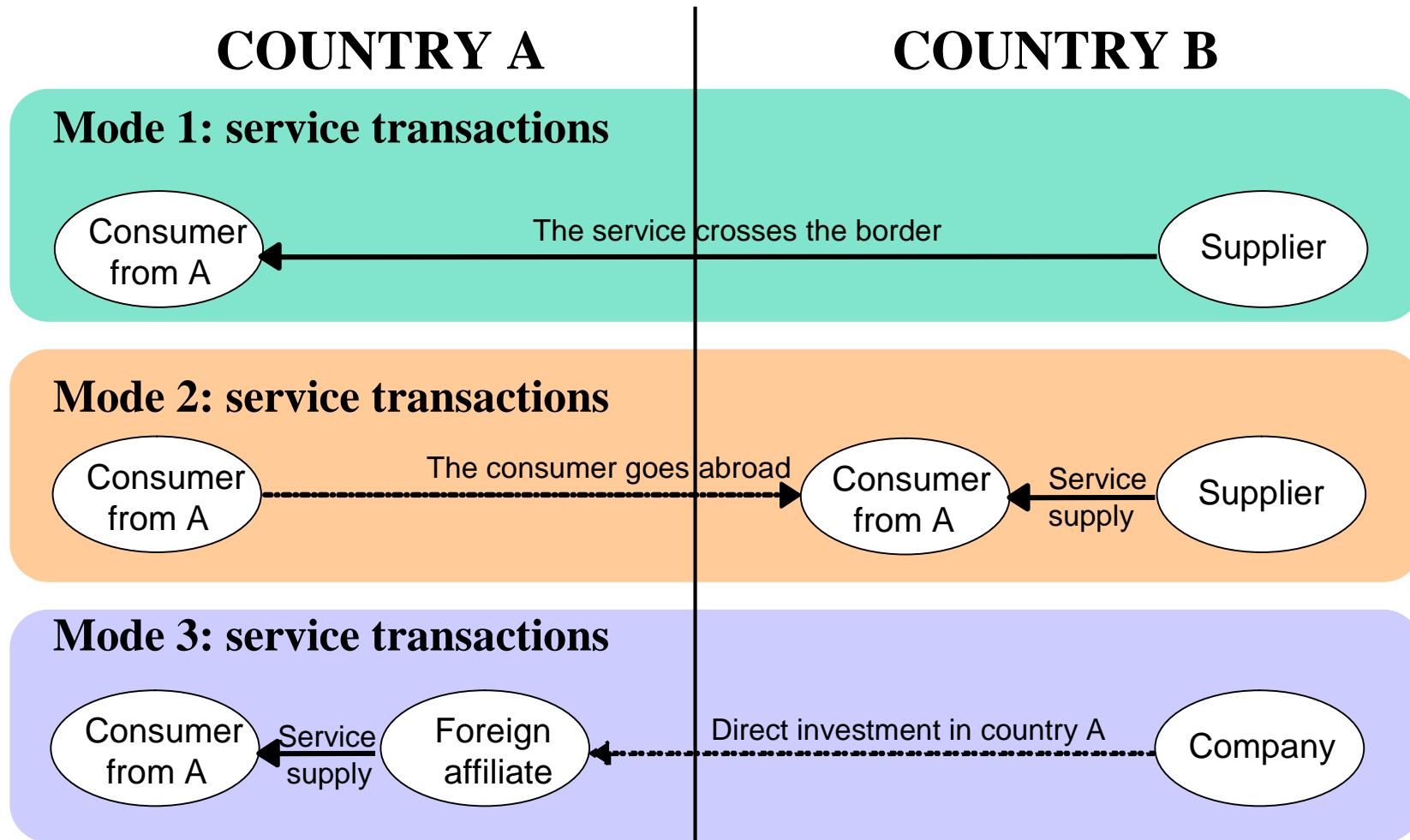
- 1. FATS as part of international trade in services**
- 2. Guidelines and recommendations for FATS**
- 3. Data sources and compilation issues**
- 4. International data collection**
- 5. Implementation recommendations**
- 6. Progress and areas of improvement**

The Manual on Statistics of International Trade in Services

Guidelines and recommendations on the measurement of trade in services



The 4 Modes of Supply Under GATS (1/2)



Modes of Supply and Statistical Domains

Mode of Supply	Relevant Statistical Domains
<i>Mode 1: Cross border supply</i>	BOP: commercial service (excluding <i>travel</i> and <i>construction services</i>)
<i>Mode 2: Consumption abroad</i>	BOP: <i>Travel</i>
<i>Mode 3: Commercial presence</i>	FATS statistics BOP: FDI data, <i>construction services</i>
<i>Mode 4: Presence of natural persons</i>	Insufficiently covered BOP: commercial service (excluding <i>travel</i>) BOP Statistics: Compensation of employees and workers' remittances



Usefulness of FATS Statistics

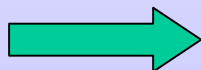
- **What are FATS statistics useful for?**
 - Focus on services → measuring Mode 3 (commercial presence),
 - Help understand the phenomenon of globalisation.
- **What do FATS statistics measure?**
 - A range of indicators on the activity of foreign affiliates
 - Inward and outward FATS
 - With a particular focus on services

Principles Underpinning FATS Statistics

The *Manual* provided the first internationally accepted guidelines for compilation of FATS

In line with international standards

- *SNA 1993* (National Accounts)
- *BPM5* (BOP)
- *OECD Benchmark Definition of FDI*



FDI statistics may be used as an interim indicator where FATS are not compiled

Foreign Affiliates Trade in Services Statistics (Chapter IV of the *Manual*)

■ Principles for recording FATS statistics

- **The FDI universe** (Coverage)
- **Firms covered** (particular focus on services)
- **Statistical units**
- **Time of recording**

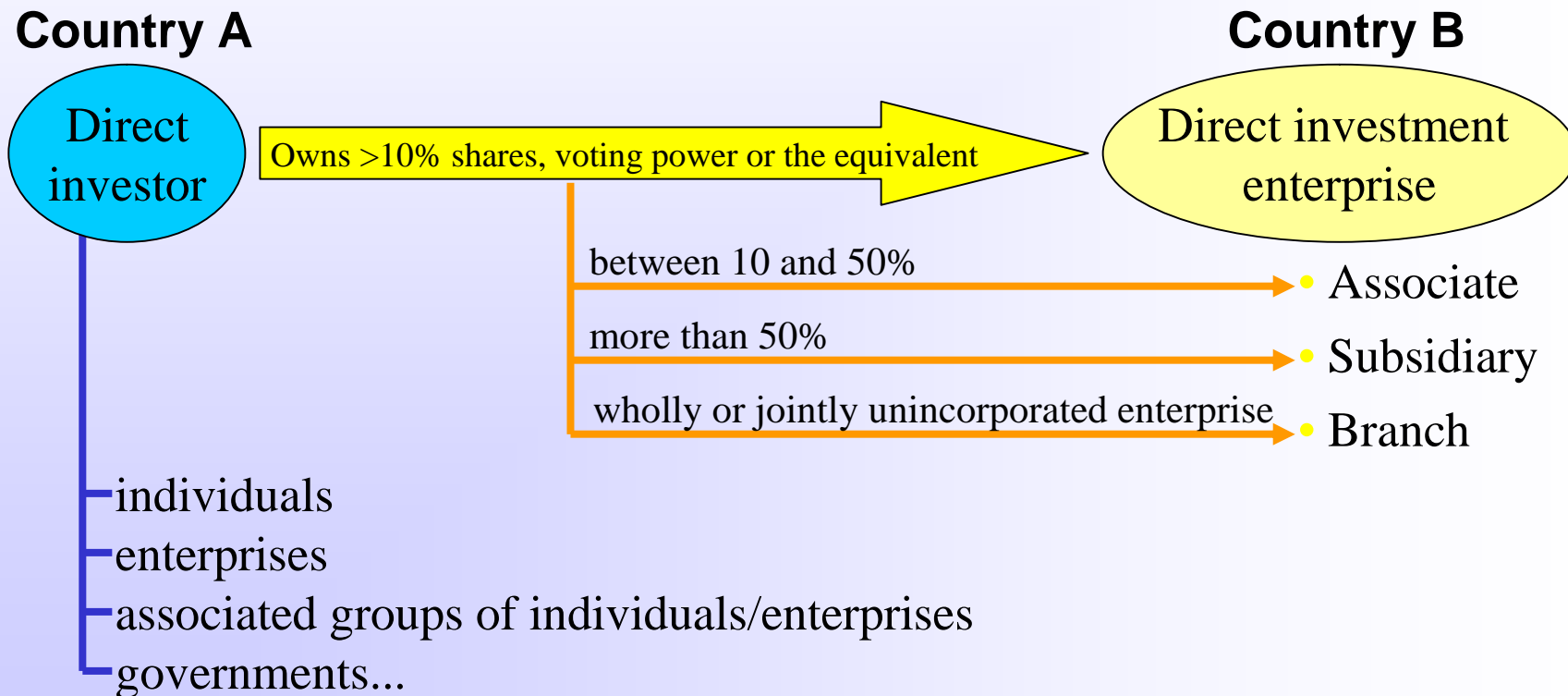
■ Economic variables / Indicators

■ Attribution (classification) of FATS variables

- **By country**
- **By activity and by services products**

The FDI Universe

FDI: the direct investor makes an international investment to obtain a lasting interest in an enterprise abroad



Firms Covered in FATS

- **Ownership criteria**

Majority-owned foreign affiliates (*a single foreign investor owns more than 50% of their ordinary shares or voting power*):

Includes subsidiaries and branches

Excludes associates

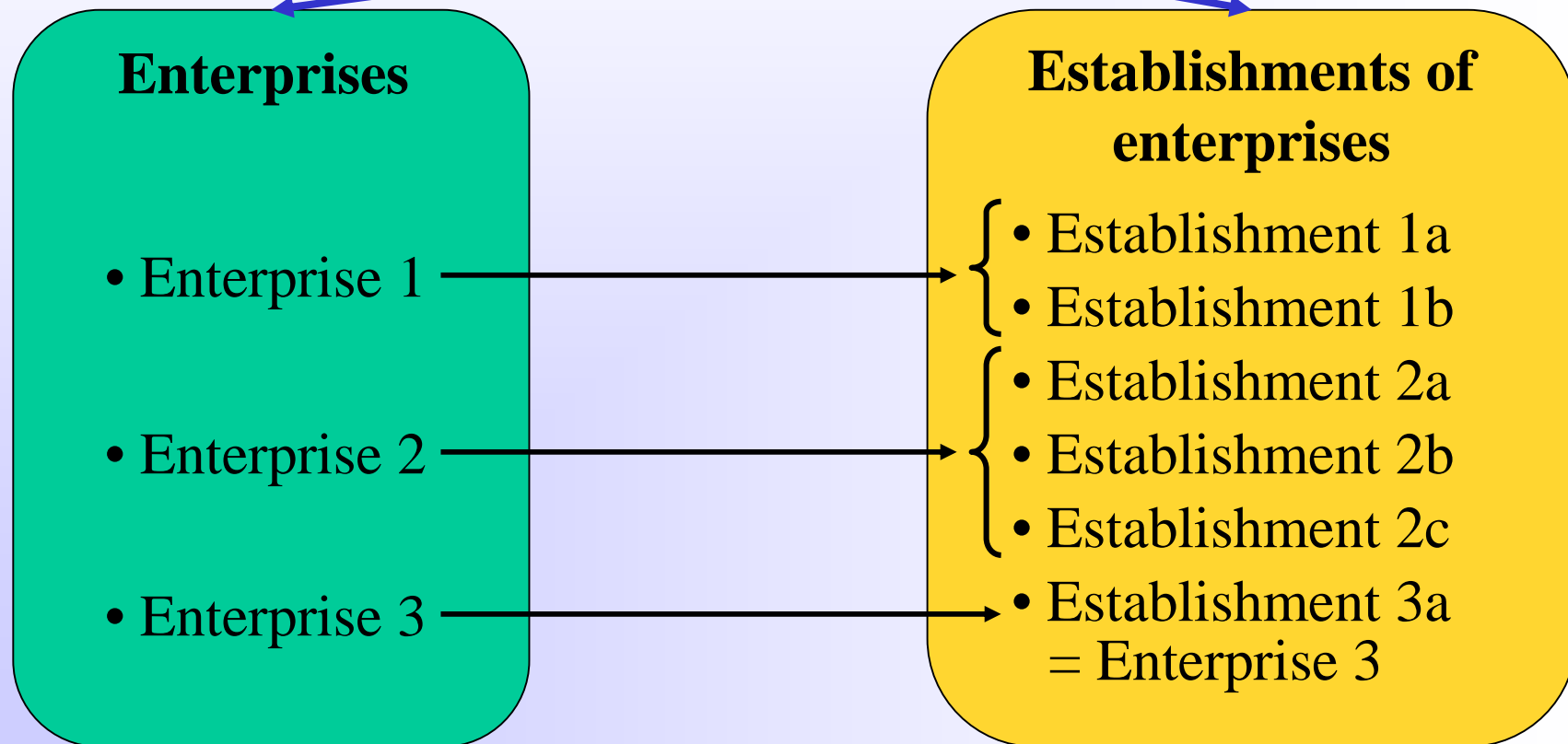
- **Types of producers**

Affiliates producing goods, services

- **Inward and outward affiliates**

Statistical Units

**Units considered in FATS
statistics may be**



Time of Recording FATS Variables

Accrual
basis

Recording when the transaction occurs rather than when the related payment is made

Period of
recording

Flow variables → reference year
Stock variables → end of reference year

Reference
year

Calendar year in principle
If only fiscal or accounting year is available

Explanatory note ←

Economic Variables for FATS

Most are drawn from SNA 93

Basic FATS variables
(minimum recommended by MSITS)

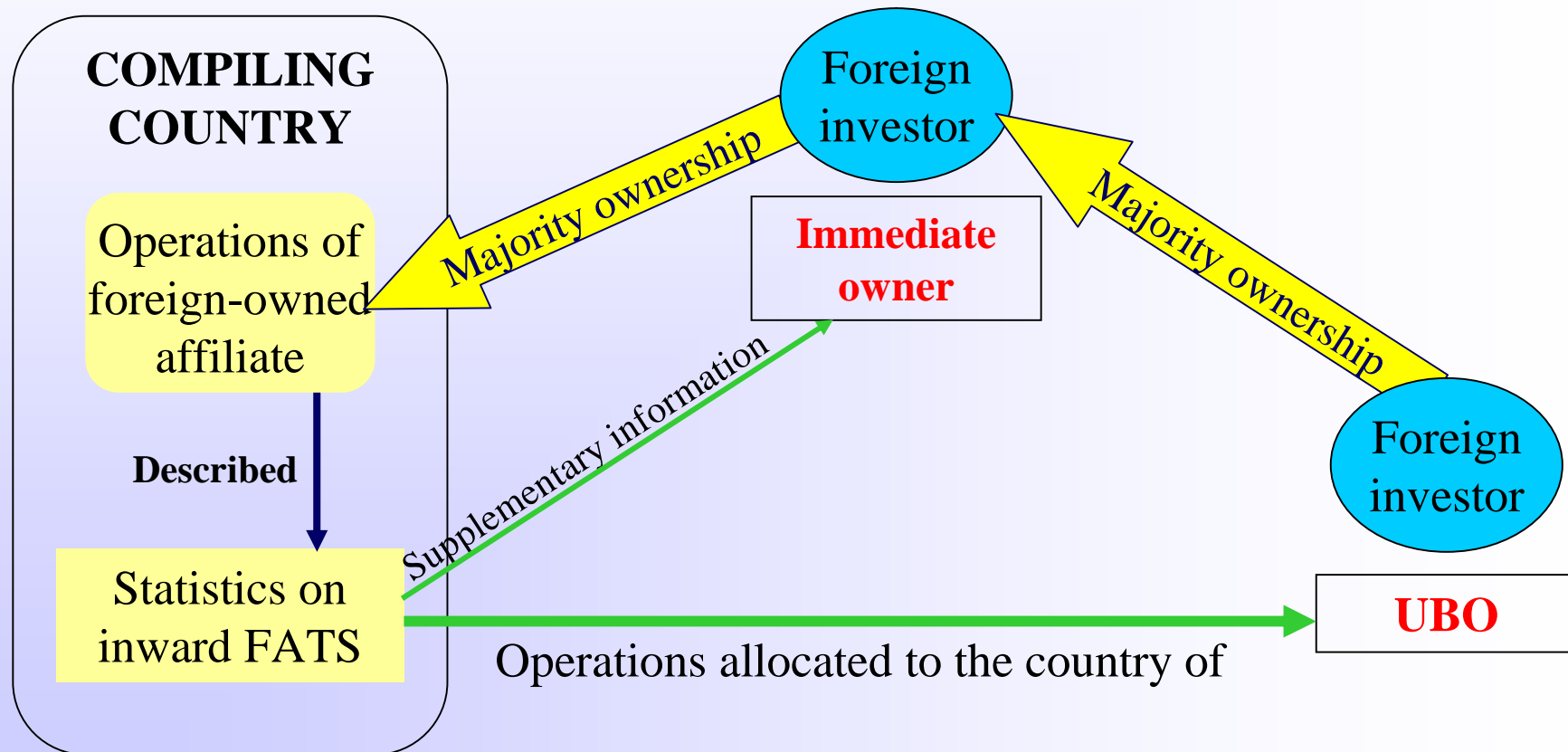
- Sales (turnover) and/or output
- Employment
- Value added
- Exports and imports of goods and services
- Number of enterprises

- Assets
- Compensation of employees
- Net worth
- Net operating surplus
- Gross fixed capital formation
- Taxes on income
- Research and development expenditures

**Additional
FATS variables**

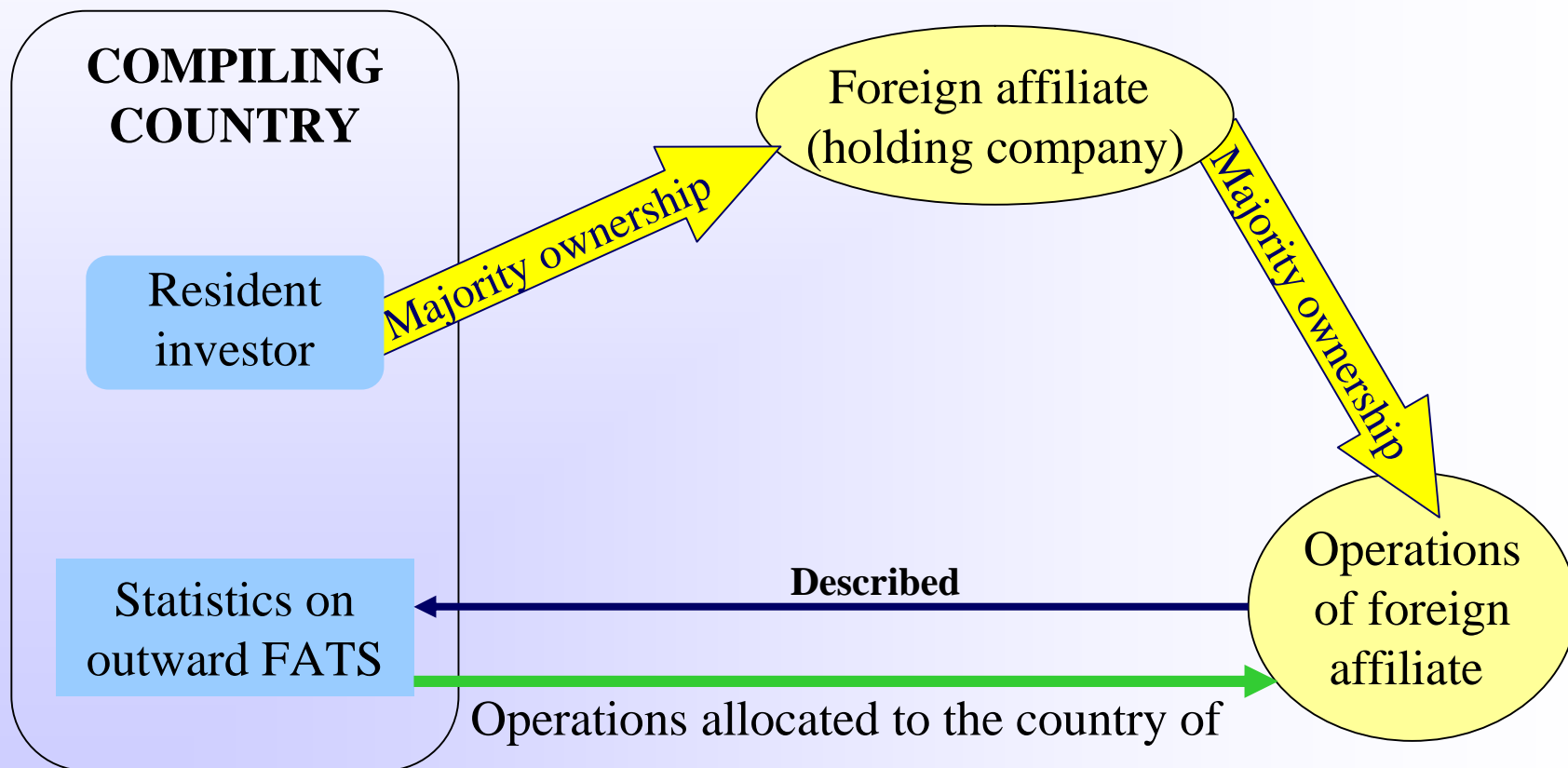
Geographical Attribution Inward investment

Foreign-owned affiliates in the compiling country (inward FATS)



Geographical Attribution Outward investment

Foreign affiliates of investors of the compiling country (outward FATS)



Classification by Activity and by Product

- **FATS variables classified as a first priority on an activity basis**
 - Foreign affiliates classified by their **primary activity**
 - According to ISIC Categories for Foreign Affiliates (**ICFA**)
 - ICFA can be **linked** with EBOPS (to a limited extent)
- **Long-term priority...**
 - FATS variables such as sales, imports and exports should also be broken-down by product

Data Sources for FATS statistics

- **Two principal methods of data collection:**
 1. **Identifying the foreign-owned subset of domestic firms for which data are already collected** ← **only for inward FATS**
 2. **Separate surveys - Two possibilities**
 1. **Specific surveys for FATS**
 2. **Add FATS variables to FDI surveys**

Information to be collected: key FATS variables at the greatest detailed level of ICFA

Surveys Collecting FATS

Two possibilities

Specific surveys for
FATS

Add FATS variables to
FDI surveys

but...

Commonly considered
preferable because

- Burden on FDI-non-FATS enterprises
- FDI surveys: conducted frequently and require quick turnaround

Information to be collected: **key FATS variables** at the greatest detailed level of **ICFA**

Inward FATS are considered easier to collect

- ❖ use existing statistics on resident enterprises (employment, turnover...)
- ❖ identify inward FATS population within resident enterprises, and
- ❖ aggregate data collected across the foreign-owned population of resident enterprises

Examples of Country Practices for Collecting FATS

- ❖ **Inward and outward collected on the basis of FDI surveys**
e.g. United States
- ❖ **Outward based on FDI surveys, inward on resident enterprise statistics**
e.g. Belgium
- ❖ **Only inward collected, based on resident enterprise statistics**
e.g. Denmark, Spain
- ❖ **Inward and outward collected through a separate survey**
e.g. Sweden

United States Experience

- ❖ **Data collection started 1950 covering outward investment, since late 1970's / early 1980's more detailed**

- ❖ **Survey based system**
 - **Benchmark surveys every 5 years**
 - **Annual surveys in interim years with higher exemption levels and fewer items**
 - **Link to Census Bureau establishment-level data every 5 years to get increased industry detail**

Source: M. Mann, U.S. Bureau of Economic Analysis, Presentation at Technical Subgroup Meeting on Mode 4, Paris, September 16, 2004

Collection of FATS Statistics

Collected by Eurostat and OECD

- **Common questionnaire to member countries:**
 - Inward and outward FATS:
 - by activity (37 categories of ISIC)
 - by country of origin/destination of investment
- **Dissemination:**
 - OECD: *Measuring globalisation: the role of Multinationals in OECD economies*
 - Eurostat: publication in the *Statistics in focus series*, and in the New Cronos reference database
 - UNCTAD: *World Investment Report*

Availability of FATS Statistics

	Inward			Outward		
	Number of employees	Turnover	Value added	Number of employees	Turnover	Value added
Austria	X	X		X	X	
Belgium	X	X		X	X	
Czech Republic	X	X	X			
Denmark	X	X	X			
Finland	X	X	X			
France	X	X	X		X	
Germany	X	X		X	X	
Hungary	X	X	X			
Ireland	X		X			
Italy	X	X		X	X	
Japan	X	X	X			
Luxembourg	X	X		X	X	
Netherlands	X	X	X			
Norway	X	X	X			
Poland	X	X				
Portugal	X	X	X	X	X	X
Sweden	X	X	X	X		
Turkey	X	X	X			
United Kingdom	X	X	X			
United States	X	X	X	X	X	X

FDI Statistics as an Alternative

State of implementation

- **Many countries collect FDI flows**, with geographical and activity breakdown (more data for inward than outward)
- **Fewer countries collect FDI income flows**

Collection and dissemination

- **Eurostat and OECD:** FDI inward and outward stock, flows and income (by industry and country)
- **IMF:** FDI positions, flows and income, no industry and partner breakdown
- **UNCTAD**

Availability of FDI and TNCs statistics

Selected countries

	Inward			Outward			Activity breakdown	Geographical breakdown
	FDI		TNCs	FDI		TNCs		
	Flows	Stocks			Flows		Stocks	
Albania	X			X				X
Brazil	X	X						
Bulgaria	X	X		X	X		X	X
China	X	X	X	X	X		X	X
Chinese Taipei	X	X	X	X	X	X	X	X
Colombia	X	X		X	X		X	X
Croatia	X	X		X			X	X
Czech Republic	X	X	X	X	X	X	X	X
FYR Macedonia	X			X			X	X
Hong Kong China	X	X	X	X	X		X	X
India	X	X	X		X		X	X
Kazakstan	X	X		X	X		X	X
Papua New Guinea	X	X		X			X	X
Russian Federation	X	X			X		X	X
Singapore	X	X	X		X		X	X
South Africa	X	X			X		X	X
Tunisia	X	X		X	X		X	X

MSITS' Phased Approach to Implementation

5 core elements



- ➔ Implement BPM5 recommendations for trade in services
- ➔ Compile BOP services according to EBOPS, starting with items of major economic importance to the country
- ➔ Compile FDI by ISIC categories of activity
- ➔ Compile basic FATS variables broken down by ICFA categories of activity
- ➔ Compile statistics by partner country

MSITS' Phased Approach to Implementation

5 other elements

- ➔ Full implementation of EBOPS
- ➔ Compile FATS additional detail
- ➔ Compile statistics on the presence of natural persons
- ➔ Split BOP trade in services among trade between related parties / trade with unrelated parties
- ➔ Allocate BOP trade in services by mode of supply

Recent Progress and Areas Where Improvements are Needed

- FATS statistics are increasingly compiled
 -  • FATS will become binding in EU member states
- **Improvements needed**
 - Lack of reliability and comparability
 - No FATS collected outside OECD 
 - Confidentiality severely limits data availability