E.3. Trade variables

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15.71.   International goods and services transactions of foreign affiliates constitute another basic indicator of activity. As previously described, on the exports side, that variable is related to the sales/turnover or output variables. Imports are a part of the purchase of goods and services. MSITS 2010 recommends that the trade variables reflect international trade in goods and services between residents and non-residents, i.e. that they be compiled on a balance of payments basis. It should be noted that, for the above definitions to be applicable to both inward and outward FATS, the concept of "residents" must be interpreted in different ways. While for inward FATS, the term "residents" refers to the compiling country in which the foreign affiliate is resident, for outward FATS, it is defined as the host country in which the foreign affiliate is located.

15.72.   Ideally, data would need to be compiled for exports and imports for each activity and economy of operation of the affiliate (for outward) or UCI (for inward) and by type of product for goods and services (with a particular focus on services, given the interest of that information for services trade negotiations/analysis). Data would also need to be compiled on the origin or destination of the international trade conducted by the affiliate, with a distinction made between trade with related enterprises and trade with unrelated parties.[1] It is a complex dataset to build,[2] but beyond the specific focus on services provided by MSITS 2010, there is a strong interest in such information for the analysis of globalization and, more particularly, on global value chains and trade in value added.

15.73.   As outlined in the section on sales/output for measuring mode 3, separating the estimation of total services (separated from total goods) sold by affiliates to entities in the economy of establishment from total services (and total goods) exported outside the country of establishment would provide useful and often for the measurement of the international supply of services. The compilation of such variables could be done if that distinction is possible in the data sources (most likely for the sales/turnover variable), both for inward and outward FATS.

15.74.   In the broader context of globalization analysis, more information could be considered for the compilation of these variables by breaking down total goods and total services follows:

  (a) Exports and imports of affiliates with parent enterprise;

  (b) Exports and imports of affiliates with other related enterprises (in third countries, without distinction);

  (c) Exports and imports of affiliates with unrelated parties in the country of the parent enterprise and third countries (without distinction between third countries).

The compilation of such variables could be done for exports in the same way as described above, that is, if the distinction is possible in the data sources for the sales/turnover variable, both for inward and outward FATS. However, for imports one would need to develop appropriate questions so that the information necessary for the compilation of those variables is available.

15.75.   The possibilities for the compilation of the more detailed product-origin/destination of trade breakdown will largely depend on the sources used to obtain the data. Data could be derived from information provided by reporting units in sources used for FATS (see section 15.C), whether business activity surveys (only for inward), FATS or FDI surveys. However, such approaches may require a significant increase in the level of detail requested from reporting units, which is something compilers must consider before pursuing one of those approaches. If relevant, separate questionnaires could be used to collect the details, in particular for larger companies for which affiliates are more likely to conduct international trade.

15.76.   However, linking information with balance of payments trade in goods (or merchandise) and services data could ensure that those additional detailed statistics can be compiled. This can be implemented for inward FATS.[3] When the data are obtained through linkages with primary data sources for BOP transactions, breakdowns by product and origin or destination will often be possible. If that is the case, exports and imports of services (or goods) may be disaggregated, not only by the primary activity of the affiliate according to ICFA rev.1 but also by product, on a basis compatible with EBOPS 2010.[4] However, to be able to do this, the compiler must be able to distinguish in the BOP data the transactions between related and unrelated parties. For services, this is in line with the text provided in MSITS 2010 paragraph 3.56.

15.77.   For inward FATS trade variables, relevant information could be obtained through the linking of trade and business statistics, such as the in the context of the services trade by enterprise characteristics (STEC) project that some European Union countries have been developing in recent years. STEC describes trade flows between countries broken down by the such characteristics of traders as type of trader, activity sector, size class or type of ownership.[5] The latter variable would be of particular interest for establishing such a link with the FATS trade variables and, thus, producing relevant breakdowns, as described above.[6]

15.78.   Compilers should be mindful of the high burden for reporting and compiling such information when considering the production of data for the trade variables. Consequently, it is advised to approach this in the following stages:

  (a) First, produce data to measure mode 3, by distinguishing for each activity (or services product, if it is available) between sales or output of services in the country of the affiliate from services exported;

  (b) Second, compile trade variables, breaking down the exports and imports data into (i) total goods and total services, (ii) trade with the parent enterprises, other affiliated enterprises and unaffiliated parties and (iii) trade with the country of the parent enterprise and with third countries;

  (c) Third, compile more detailed information by product group and country.

Synergies should be found for the production of detailed data for the trade variables, in particular for inward FATS, such as STEC.

15.79.   In the European Union, for outward FATS, two sets of trade variables are recommended for compilation, subject to pilot studies: "exports and imports of goods and services" and "intragroup exports and imports of goods and services", with intragroup referring to trade between enterprises controlled by the same unit, and the controlling unit itself. The recommendations and definitions provided are in line with those of MSITS 2010 and related guidelines (BD4, HEGI). The European Union *FATS Recommendations Manual* also provides additional clarifications on trade conducted by foreign affiliates: "Exports/imports of goods and services can be performed directly by the foreign affiliate or indirectly by means of other firms, such as wholesalers, that are resident in the same country and act on behalf of the foreign affiliate. In this latter case no property right transaction must occur between resident firms" (box I.3.1).

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[1] The distinction between related and unrelated parties is made according to the definitions used in FDI statistics.

[2] It is also important to note that exports and imports cannot normally be isolated in standard company accounts.

[3] If merchandise data are used as a source instead of goods, then compilers need to make necessary adjustments to comply with the recommendations regarding resident/non-resident transactions in goods. If that is not possible, then the differences in concept should be clearly documented (see MSITS 2010, box III.1, or the *FATS Recommendations Manual* for further information. Chapter 5 of HEGI also provides useful information with respect to the measurement of intrafirm trade.

[4] Naturally a similar consideration can also be made for goods/merchandise.

[5] Eurostat, *External Trade by Enterprise Characteristics: Results of the Standardization Exercise 2006*, Eurostat Methodologies and Working Papers (Luxembourg, Office for Official Publications of the European Communities, 2007).

[6] Preconditions for establishing services trade by enterprise characteristics (STEC) statistics are the availability of business and trade registers in a country. Through linking both, normally at the level of the statistical unit (legal unit) and a common identifier, trade flows can be associated with trader characteristics. For reliable statistics, a high matching rate between records in the linked data sets is required.