

SESRIC-UNCTAD Webinar

FDI statistics in OIC countries

Material 6

Statistics of Multinational Enterprises (MNEs)

(Video-conference)
28 June 2021

Division on Investment and Enterprise
UNCTAD

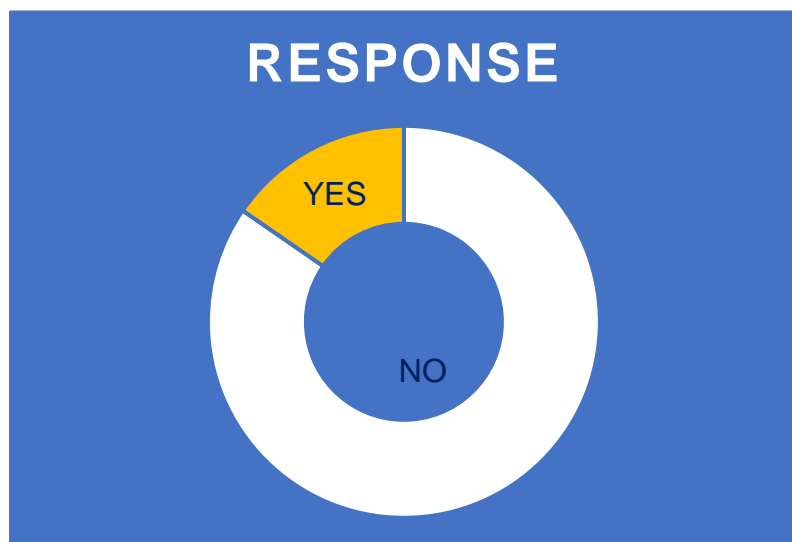
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❑ Your survey result

Q: Do you compile Foreign Affiliates Statistics (FATS) and statistics on activities of multinational enterprises (AMNEs)?
(2 out of 16 countries that responded to the question said “YES”)



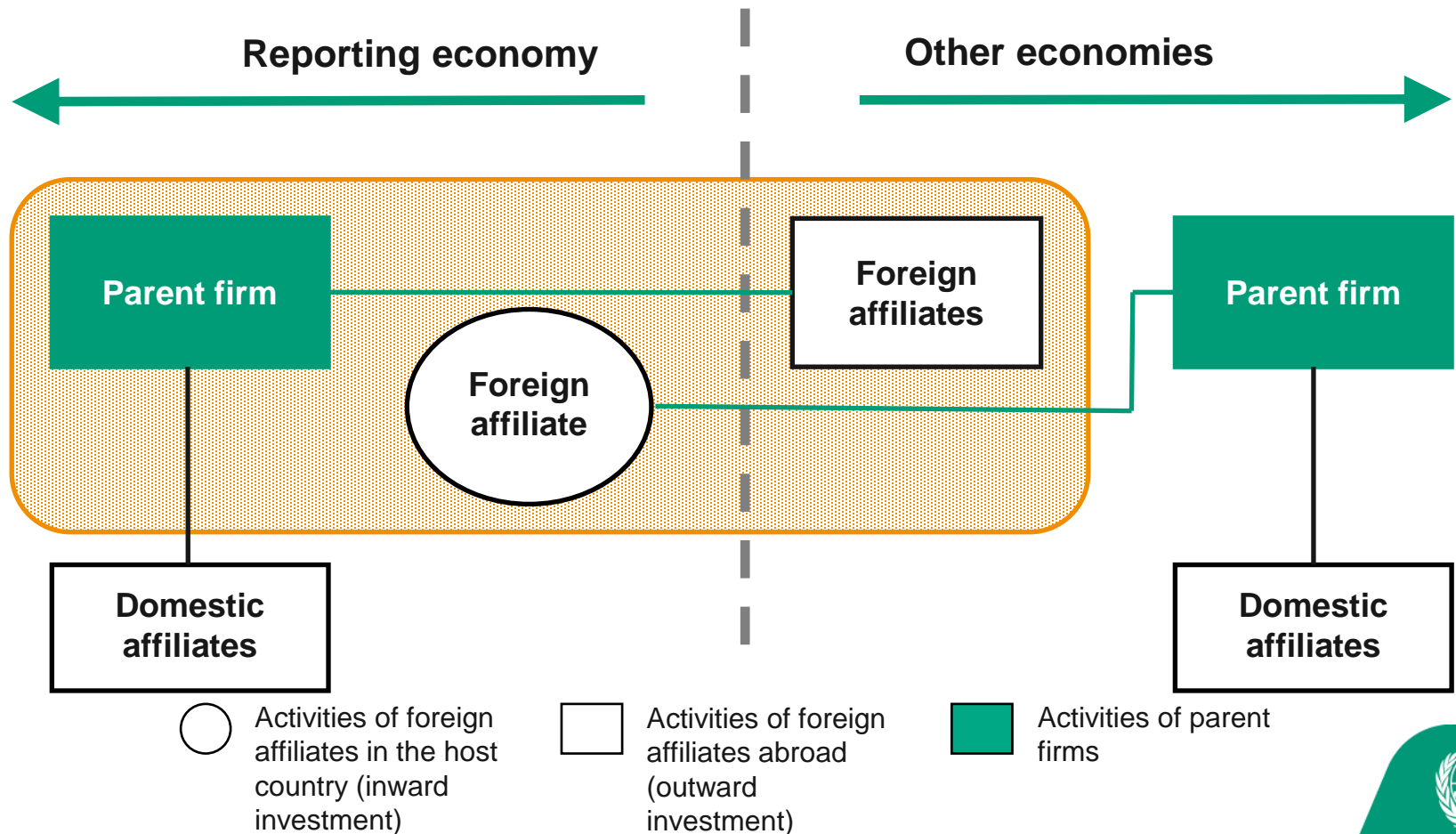
Objective

1. What is FATS and AMNE statistics?
2. Why have it?
3. Guiding principles for compilation – 5 issues, harmonization
4. Implementation – model questionnaires, other sources

“Statistics on foreign-controlled affiliates (FATS) and activities of the ultimate controlling parent and its resident affiliates (AMNE)”

(Working Group on International Investment Statistics)

I. What are data on activities of MNEs?



II. Purpose and use: international production

“80% of trade takes place in ‘value chains’ linked to transnational corporations”

(UNCTAD, World Investment Report 2013)

MNEs and their foreign affiliates play an important role in international production

Foreign affiliates operational numbers in 2018

- ✓ Number of employees: 85 mn (1990: \$31 mn)
- ✓ Total sales: \$33 trn (1990: \$8 trn)
- ✓ Value added: \$8 trn (1990: \$1.6 trn)
- ✓ Total assets: \$110 trn (1990: \$7 trn)

Source: UNCTAD, World Investment Report 2021

II. Purpose and use: economic impact

Q: How much financial resources does international investment bring? → FDI data

How substantial is that FDI in terms of actual operations? → FATS

□ ***data*** Statistics on activities of FATS and MNEs can help shed light on their impact on:

- ✓ the labor market
- ✓ technology transfer/ Innovation and research and development (R&D)
- ✓ International trade, GVC linkages
- ✓ Economic efficiency and competition

Not just economic impact at home (in the reporting country), but also:

- ✓ Risk exposure, financial linkages
- ✓ Development benefit abroad

III. International guidelines and recommendations

Issues:

1. 10 per cent rule vs majority-owned foreign affiliates
2. Classification by region and by country
3. Ultimate or immediate owner?
4. Classification by sector and by industry
5. Attribution of variables

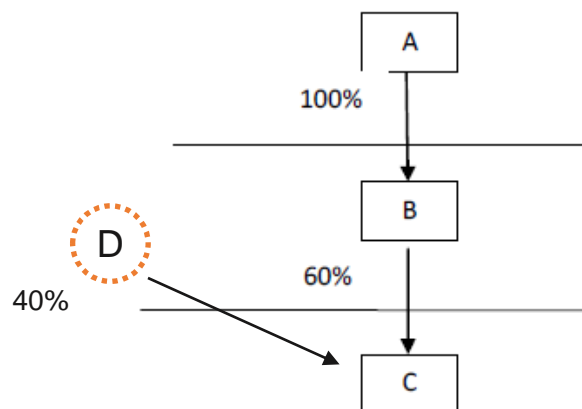
Different framework (FDI vs FATS), different country practice creates the need for harmonization

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

The latest edition (2010) separates more clearly than before, inward and outward FATS, and is aligned with updates provided in IMF *BPM6*, and the OECD *Benchmark Definition of Foreign Direct Investment 4th edition*.

Ownership vs control

MNE Group (simple structure)



Asset \$	Employee s	Total equity \$
500	1000	300
700	10,000	200
1200	5000	700

- A owns 100% of B and 60% of C.
- Applying the single majority ownership rule and ultimate owner recommendation, A is the ultimate owner of C. Therefore, C should attribute operational indicators to country A.
- As a whole, A controls \$2400 worth of asset, of which \$620 are FDI

What does MSITS say?

- ☐ What is the universe of firms to be covered?
- ☐ How are the data to be grouped?
- ☐ What variables should be covered?
- ☐ How might the statistics be developed?

Universe to be covered

❑ Ownership criteria

- ✓ FATS should be compiled, as a first priority, for the foreign-controlled subset of foreign affiliates, where “control” is defined in the Framework for Direct Investment Relationships (FDIR)

Control is deemed to exist if there is majority ownership (**i.e. more than 50%**) of the voting power at each stage of the chain of ownership.

Attribution of FATS variables

By country

- ❑ It is recommended that **ultimate beneficial owner (UBO)** to be used as the first priority for compilation of FATS Statistics:
 - ✓ Because this is the country that ultimately controls, and therefore derives most of the benefits from controlling, the direct investment enterprise. In light of the relevance of the ultimate-investor basis and the demonstration by a number of countries that compilation
 - ✓ The ultimate investor is of primary interest also as the partner for trade policy and negotiations on market access.
 - ✓ However, considering that information on immediate investors may be available as a by-product of linkages to FDI data, and to facilitate comparisons, with those data, countries are encouraged to make available some data classified to the country of the direct foreign parent

Attribution of FATS variables (cont')

By country

- ❑ FATS variables for a given foreign affiliates are attributed in **their entirety to a single country of owner** and they should not be factored down by ownership shares.
- ❑ In the case of equal ownership:
 - ✓ Owner with direct interest is preferred to the other owner interest with indirect
 - ✓ foreign owner as a government entity is preferred
 - ✓ if one of the foreign owners is a holding company or is located or incorporated in a tax haven country, then the other country would probably be considered the country of owner
 - ✓ In the absence of any such factor that could be used as a basis of attribution, the value of FATS variables may be allocated evenly among the foreign countries of ownership

Attribution of FATS variables (cont')

By activity and product

- ❑ Ideally, it would be possible to attribute all FATS variables on the basis of the industrial activities of producers and, in addition, particular variables, such as sales or output, exports and imports by the types of services products produced and sold.
- ❑ But to compare with domestic statistics and to be in conjunction with data on stock and flows of FDI it is **recommended** activity basis as a first priority for FATS
- ❑ When activities are many, choose “primary” activity — that, based on some key variable (such as employment or sales), is the largest.
- ❑ FATS variables be classified by activity according to ISIC (See ISIC, Rev. 4 Categories for Foreign Affiliates in Services)

Variables to be considered

Basic Variables

- ☐ Sales (or Turnover)
- ☐ Output
- ☐ Imports
- ☐ Employment
- ☐ Value added
- ☐ Exports
- ☐ Number of enterprises

Other operational variables

- ☐ Assets
- ☐ Taxes on Income
- ☐ Gross Fixed Capital formation
- ☐ Royalties and license fees
- ☐ Wages and salaries
- ☐ Net Worth
- ☐ Operating surplus
- ☐ R&D expenditures

Variables

❑ Sales or turnover

- ✓ Sales measures gross operating revenues, less rebates discounts and returns.
- ✓ A disaggregating of sales by industry and between sales of goods and services might be a first attempt.

❑ Employment

- ✓ It is recommended that FATS employment variable be the number of persons employed.

❑ Value added

- ✓ Since it covers only the portion of the firm's output that originates within the firm itself, value added is a particularly useful measure from the prospective of GATS and globalization analysis.

❑ Number of enterprises

- ✓ The number of enterprises is a basic indicator of the majority ownership by the foreigners in the host economy (as compared to total number of firms in the country).

Variables (cont')

Sales or turnover

- ❑ In addition to disaggregation by industry and by country (following the principles of attribution discussed earlier), other breakdowns of sales may be useful for particular purposes:
 - ✓ sales within the host country (local sales) (mode 3 GATS),
 - ✓ sales to the country of the parent enterprise (i.e., the immediate investor),
 - ✓ sales to third countries.
 - ✓ to disaggregate sales within each industry as between sales of goods and sales of services

Variables (cont')

Employment

- ❑ In a FATS context, employment would normally be measured as the number of persons on the payrolls of foreign affiliates.
- ❑ Employment data are sometimes converted to a full-time equivalent basis, in which part-time workers are counted according to the time worked
- ❑ the recommendation is that the FATS employment variable be the number of persons employed.

IV. Implementation and Compilation

❑ Data sources for MNEs operations data

❑ Model questionnaire

- ✓ Survey of affiliates of foreign-based MNEs in the host country (inward FATS)
- ✓ Operations of MNEs (outward FATS)
 - Survey of parent firms
 - Survey of foreign affiliates of home-based MNEs

Some examples:

- US BEA FATS and MNE database at https://apps.bea.gov/iTable/index_MNC.cfm
- Thailand inward FATS at https://www.bot.or.th/App/BTWS_STAT/statistics/DownloadFile.aspx?file=EC_XT_069_ENG.PDF
- Germany (the Bundesbank collects data on outward FATS, whereas the Federal Statistical Office provides data on domestic affiliates controlled by foreign investors (inward FATS) – at <https://www.bundesbank.de/en/statistics/external-sector/direct-investments/foreign-affiliates-statistics-fats-705210>

Compilation of FATS data

- ❑ **If FATS data cannot be compiled from existing surveys on enterprises...**
 - ✓ Administrative sources (as part of investment approval process, approval data/registered projects)
 - ✓ Adding FATS variables to existing FDI surveys

Thank you
