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**FATS Statistics:
Producing Statistics for Broadly-Defined
Trade in Services**

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FATS Statistics: Producing Statistics for Broadly-Defined Trade in Services*

Eika Yamaguchi**

July 2005

Summary

- FATS (Foreign Affiliates Trade in Services) statistics illuminate the activities of the overseas affiliates of multinational corporations. FATS statistics are drawing attention as a supplement to balance of payments statistics, which reflect only resident-to-nonresident transactions. While many companies provide services in other economies through overseas branches or affiliates, such services are excluded from balance of payments statistics because branches and affiliates are considered to be the residents of the “economy in which they are located.” The United States has been compiling data similar to FATS statistics since the 1950s. Eurostat has been compiling FATS statistics for the EU since the second half of the 1990s using a uniform survey format.
- Japan has various micro-economic surveys that are extremely similar to FATS. However, by international comparison, Japan’s FATS statistics are not necessarily well developed.
- FATS statistics are useful in gauging the influence of foreign direct investment and the impact of entry barriers levied on foreign companies.
- For the development of FATS statistics, it is desirable to establish a consultation for discussion involving both compilers and users of these statistics.

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1. Outline of FATS Statistics

- Cross-border transactions of goods, services, and funds have increased in volume in recent years due to improvements in the means of transportation and communication, deregulation in various countries of the world, and globalization of economic activity led by multinational corporations. Of such cross-border transactions, services transactions have remained inadequately covered by statistics due to the conventional treatment of services as non-tradable goods and the difficulty¹ of separating services from the prices of goods. On the other hand, since the Uruguay Round,² trade negotiators and other users of statistics have reiterated the need for detailed data³ on trade in services.
- Responding to this need to improve trade in services statistics, the Inter-Agency Task Force on Statistics of International Trade in Services⁴ published the *Manual on Statistics of International Trade in Services* (hereinafter referred to as *Manual*⁵) at the end of 2002. The *Manual* contains the following perspectives that are not fully covered by the *IMF Balance of Payments Manual, 5th Edition* (BPM5): (1) “detailed presentation of trade in services data on balance of payments basis,” and (2) compilation of statistics covering the overall activities of overseas affiliates and others.” These two perspectives are expected to be adopted in the followings: (1) Extended Balance of Payments in Services (EBOPS) classifications⁶, and (2) FATS statistics. Of these two, the present paper deals with FATS statistics.
- The *Manual* defines FATS statistics as indicated below and recommends the compilation of the followings as basic variables: (1) sales or output, (2) employment, (3) value added, (4) exports and imports of goods and services, and (5) number of enterprises.

(Paragraph 4.2) “In the present *Manual*, statistics describing the overall operations of affiliates are termed “foreign affiliates trade in services statistics,” or “FATS statistics.” Consonant with the *Manual*’s theme and purpose, its recommendations for compiling these statistics have been designed and presented with services in mind. However, except for the particular activity and product breakdowns suggested, most of the recommendations are equally applicable to goods and services and may be considered in developing a generalized framework for statistics on affiliate operations.”

- Major European countries and the United States have strong interest in FATS statistics. The United States has been compiling statistics⁷ relative to FATS statistics dating back to 1950. In the European

1 For instance, all countries use a process of estimation to derive the value of services (freight and insurance) from CIF-based import prices.

2 The Uruguay Round (1986) significantly expanded the scope of trade negotiations to include services (tertiary industry). As a result, the General Agreement on Trade in Services (GATS) was established to parallel the General Agreement on Tariffs and Trade (GATT).

3 The WTO services sectoral classification list (GNS/W/120) divides services into 12 major sectors (1. Business services, 2. Communication services, 3. Construction and related engineering services, 4. Distribution services, 5. Education services, 6. Environmental services, 7. Financial services, 8. Health related and social services, 9. Tourism and travel related services, 10. Recreational, cultural and sporting services, 11. Transportation services, 12. Other services). Each sector is further broken down into 3-9 sub-sectors, some of which are further broken down into more detailed areas.

4 The Taskforce was established by the United Nations Statistics Division and is chaired by the OECD. Membership consists of six international organizations (OECD, IMF, UNSD, UNCTAD, WTO, Eurostat) and consultants from various countries.

5 Final published versions of GATS in English, Russian, Chinese, and Spanish, as well as draft versions in Arabic and French are available at <http://unstats.un.org/unsd/tradeserv/manual.asp>. A tentative Japanese translation of Chapters 1-3 of *Manual* was published by the Institute for International Trade and Investment (in June 2003).

6 EBOPS classifications are derived from further subcomponents of BPM5-based product classifications of services. Preparations are currently being made for the revision of the Balance of Payments Manual with the participation of related international organizations and national statistics authorities. In the area of trade in services, a new classification of services is scheduled to be adopted in line with the EBOPS classification. Work on the revision of the Balance of Payments Manual is progressing in parallel to the revision of 93SNA (System of National Accounts 1993). Revision of both systems is expected to be completed in 2008. For details, see *Revision of Balance of Payments Manual, Fifth Edition (Annotated Outline)* (IMF Statistics Department, April 2004).

7 Statistics on Multinational Companies

Union, the Statistical Office of the European Communities (Eurostat) is leading the discussion among the member states for gathering and compiling FATS statistics.⁸ OECD and other international organizations have also been engaged in collecting data for the purpose of FATS.⁹

2. Four Modes of Trade in Services

- First, I clarify the differences between trade in services as defined in balance of payments statistics, and the trade-in-services assumptions made in multilateral trade negotiations. The latter has had a major influence on the formulation of the *Manual*.
- In balance of payments statistics, trade in services is covered as a transaction between residents¹⁰ and nonresidents. On the other hand, GATS (see footnote 2) assumes a broader scope of trade in services than is present in the balance of payments concept. GATS goes on to classify broadly-defined trade in services into four “modes of supply” outlined in the chart below.

8 The Joint Working Group “FATS” engages in studying data collection methods and modes of publication.

9 For instance, the OECD Economic Globalisation Group publishes its Multinational Enterprise Statistics (MNE Statistics) in *Measuring Globalisation: The Role of Multinationals in OECD Economies*. UNCTAD publishes its Statistics of TNCs Operation in its *World Investment Report*. Eurostat publishes its statistics in *Publication in the Statistics in Focus Series, and in the New Cronos reference database*.

10 BPM5 states: “The concept of residence is based on a sectoral transactor’s *center of economic interest*. --- An institutional unit is a resident unit when it has a center of economic interest in the economic territory of a country. (paragraph 58)” It determines whether or not an institutional unit has a center of interest in a given country as follows: “An institutional unit has a center of economic interest within a country when there exists, within the economic territory of the country, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging , either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale. (paragraph 62)” and “In most cases, it is reasonable to assume that an institutional unit has a center of economic interest in a country if the unit has already engaged in economic activities and transactions on a significant scale in the county for one year or more, or if the unit intends to do so. (paragraph 63)”

Japan’s Balance of Payments Statistics are principally based on data derived from reports submitted in compliance with the provisions of the Foreign Exchange and Foreign Trade Law (hereinafter referred to as Foreign Exchange Law). For this reason, the definition of resident is based on the provisions of the Foreign Exchange Law. Foreign Exchange Law Article 6 Paragraph 1 Sub-paragraph 5 states: “A “resident” shall mean a natural person having his place of domicile or residence in Japan, or a juridical person having its main office in Japan. A branch, agency or other office in Japan of a non-resident, irrespective of whether it is legally authorized to represent its principal or not, shall be deemed to be a resident even if its main office is in a foreign country.” And Sub-paragraph 6 states: “A “non-resident” shall mean a natural or juridical person other than a resident.” In part because of administrative requirements, the Foreign Exchange Law provides for more detailed standards than the so-called “one-year standard” of BPM5 (for details, see Foreign Exchange Law Article 6 Paragraph 1 Sub-paragraphs 5 and 6, and Ministry of Finance Administrative Directive No. 4672 dated November 29, 1980: “Regarding the Interpretation and Application of the Foreign Exchange Law and Ordinances.”).

Chart 1. Four Modes of Trade in Services

Mode	Description	Statistical Coverage
Mode 1	<p>Cross-border supply (the service crosses the national borders while both the consumer and supplier remain in their respective territory.)</p> <p>Typical cases: Use of foreign consulting services by telephone; use of foreign mail-order services.</p>	<p><u>Balance of Payments Manual</u>: transportation services (most of), communication services, insurance services, financial services, royalties, and license fees part of: computer and information services, other business services, and personal, cultural, and recreational services)</p>
Mode 2	<p>Consumption abroad (A consumer moves outside his or her home territory and consumes services in another country.)</p> <p>Typical cases: Visits to museums and theatres abroad; medical treatment of non-resident persons; language courses taken abroad, conferencing using facilities across the sea; repair of ships and aircraft in foreign countries.</p>	<p><u>Balance of Payments Manual</u>: Travel (excluding goods purchased by travelers), repair to carriers in foreign ports (goods) part of transportation (supporting and auxiliary services¹¹ to carriers in foreign ports)</p>
Mode 3	<p>Commercial presence (A corporate supplier moves outside its home territory and delivers services in another country.)</p> <p>Typical cases: Provision of financial services through domestic branches of a foreign bank; courses in a foreign-owned school; medical services provided by a foreign-owned hospital, distribution services provided by foreign affiliates.</p>	<p>FATS: FATS statistics, ICFA¹² categories <u>Balance of Payments Manual</u>: part of construction services</p>
Mode 4	<p>Presence of natural persons (An individual supplier moves outside his or her home territory and delivers services in another country.)</p> <p>Typical cases: Entertainment services provided by foreign artists from abroad; maintenance and repair services provided by foreign engineers from abroad on short-term stay.</p>	<p><u>Balance of Payments Manual</u>: Part of: computer and information services; other business services; personal, cultural and recreational services; and construction services</p> <p>FATS (supplementary information): Foreign employment in foreign affiliates</p> <p><u>Balance of Payments Manual</u> (supplementary information): Labor related flows.</p> <p><u>Other sources</u>:</p>

11 Among such services are cargo handling (loading and unloading of containers); storage and warehousing; packing and repacking; other towing, pilotage, and navigational aid for carriers; maintenance and cleaning of transportation equipment; and salvage operations.

12 ISIC Categories for Foreign Affiliates (for details, see footnote 13).

- Of the above GATS modes of trade in services, the following are covered in balance of payments statistics: Mode 1 (Cross-border supply), Mode 2 (Consumption abroad), and Mode 4 (Presence of natural persons). On the other hand, trade in services of Mode 3 (Commercial presence having straddled borders to supply services for nonresidents) is not covered in balance of payments statistics, with the exception of part of construction services. This is because overseas affiliates and branches are treated as residents of the host country in balance of payments statistics. For instance, consider the case of a Japanese company producing goods and services in a foreign country and selling these to nonresidents. Because these are treated as “out-out” transactions, they are not included in Japan’s exports. Also, when a foreign affiliate produces goods and services in Japan and sells these to residents of Japan, these are treated as “in-in” transactions and are not included in Japan’s imports.
- To measure Mode 3 trade in services, FATS statistics are necessary and indispensable in gauging the activities of foreign affiliates and branches.

--- Although they belong to Mode 3, construction services are covered in balance of payments statistics for the following reason. Construction services provided by unincorporated local offices implementing short-term construction projects are not recognized as services provided by such types of offices. Instead, such services are attributed to the nonresident parent construction company. In this respect, one-year rule for residence is applied flexibly as described in paragraph 3.94 and 3.5 in the *Manual*.

3. Significance of FATS Statistics

- FATS statistics are capable of covering the overall activities of the foreign affiliates of multinational corporations. However, the *Manual* is solely focused on services.
- Services are characterized by nonstorability, intangibility, simultaneity of production and consumption, and proximity. As such, services strongly have the characteristics of non-tradable goods. Hence, when entering a foreign market, a service industry company will generally utilize affiliates and branches established in the host country. However, conventional statistical systems do not cover corporate activities and the import and export of services in the host country. Most probably, that has led to the development of FATS statistics that focus on service industry companies.

--- In its definition of FATS, the *Manual* proposes the detailed breakdowns of particular activities and products. For classification of activities, it is assumed that ICFA (ISIC¹³ Categories for Foreign Affiliates)¹⁴ are used. ICFA is derived from further subcomponents of the service industries in the ISIC. For classification of products, it is assumed that EBOPS classifications are used.

- It is also possible to view FATS as data related to foreign direct investment. Foreign direct investment statistics are the measures of the stock and flow of “investment that reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise resident in another economy. (The resident entity is the direct investor and the enterprise is the direct investment enterprise¹⁵).”

13 ISIC (International Standard Industrial Classification of All Economic Activities) is a classification of industries developed by the United Nations.

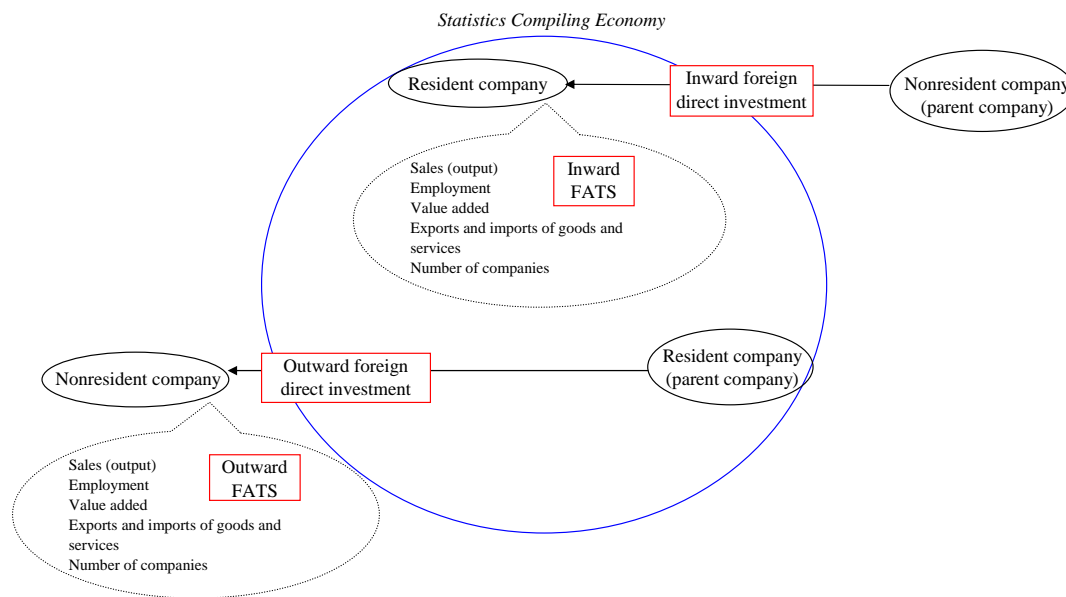
14 For many service industries, including transportation, financial, and legal and accounting services, the classifications of ISIC (intermediate classifications correspond to two-digit level) have been further broken down to three- or four-digit levels. All ISIC classifications are included, with the exception of code 75 (Public administration and defence; compulsory social security), code 95 (Private households with employed persons), and code 99 (Extra-territorial organizations and bodies) (for details, see *Manual*, pp. 64-66).

15 The OECD Benchmark Definition of Foreign Direct Investment, 3rd Edition and BPM5 adopt the so-called “10% standard” by defining direct investment enterprise as follows. “A direct investment enterprise is an incorporated or unincorporated enterprise in which a direct investor, who is resident in another economy, owns 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).”

FATS covers such economic variables as the sales, value added, and employment of the local affiliates and branches of foreign companies, which are the direct indicators of the economic impact of foreign direct investment on the host country. As such, FATS supplement¹⁶ direct investment data by enabling the verification of the economic impact and spill-over effects of direct investment. FATS also act to raise the value of direct investment data.

- As in the case of foreign direct investment, FATS is divided into outward FATS and inward FATS. By examining inward FATS in tandem with inward direct investment and outward FATS with outward direct investment, it is possible to gauge the economic impact of inward and outward direct investments on the host country (see chart below).

Chart 2. Conceptual Diagram



- In light of the significance of FATS statistics described above, compiling FATS statistics is expected to provide the following advantages.

(1) By examining FATS statistics (employment, revenues, value added, etc.) in tandem with direct investment statistics, it will be possible to quantify the impact of direct investment on the real economy.

--- For example, there is a growing interest in debating the pros and cons of equity participation, acquisition and post-rehabilitation liquidation of Japanese companies by foreign investment funds. FATS statistics will allow an assessment of the true impact of such investments on the real economy.

(2) By combining value added in FATS statistics with data on the stock of foreign direct investment, it will be easier to quantify the profitability and other variables of direct investment.

(3) By combining various data contained in FATS statistics, it will be possible to compare performances of foreign affiliates and domestic companies. This provides data for verifying the effectiveness of barriers to entry and domestic policies for protecting domestic industries.

¹⁶ Strictly speaking, the definition of direct investment and the scope of FATS statistics do not fully overlap. The former is subject to the above-mentioned 10 percent standard, while FATS is based on a majority standard (see footnote 38).

- In addition to the advantages above, the use of uniform industrial classifications in FATS statistics will facilitate international comparison of data. That is, international comparison of data will be possible because FATS is based on ISIC and ICFA international standards of industry classification. International comparisons by industry are particularly significant for service industries because service industries account for roughly two-thirds¹⁷ of global foreign direct investment and represent an area with numerous entry regulations and barriers to foreign companies.¹⁸
- However, the combination of FATS statistics and direct investment data requires consistency in the following aspects of their frameworks.

(1) Inclusion of manufacturing industries in FATS

- In particular, to determine the economic impact of foreign direct investment on the host country, it is appropriate to go beyond service industries and to also include manufacturing industries. In some European countries, FATS is being used to stand for “Foreign Affiliates Trade Statistics” and not “Foreign Affiliates Trade in Services.” As such, FATS is already being used as a concept that extends beyond service industries.¹⁹

(2) Determining the Ultimate Investor²⁰

- FATS statistics focus on the nationality of the ultimate investor (ultimate beneficial owner), while foreign direct investment²¹ focuses on the immediate investor. In the case of foreign direct investment, it is often difficult to identify the ultimate investor when investments are made through holding companies or special purpose companies. As such, discussion is being undertaken toward determining the nationality of ultimate investors by looking through holding companies and special purpose companies. If such information becomes available, the combined examination of FATS statistics and direct investment data will become even more useful and significant.

4. Status of Development of Parallel Statistics in Japan

- No institution in Japan currently compiles or disseminates FATS statistics. However, partial indicators of inward FATS can be obtained from the “Establishment and Enterprise Census” of the Ministry of Internal Affairs and Communications (MIC). In addition to this, Japan has various micro-economic surveys that are extremely similar to FATS. These are the followings: “Survey of Overseas Business Activities” and “Basic Survey of Trends in Business Activities of Foreign Affiliates” of the Ministry of Economy, Trade and Industry (METI); and, “Kaigai Shinshutsu Kigyo Soran” (List of Japanese Companies Abroad) and “Gaishikei Kigyo Soran” (List of Foreign Affiliated Companies in Japan) of the Toyo Keizai Inc. The respective strengths and weaknesses of these data are summarized in the chart below.

17 Ratio of direct investment in service industries to total flow of inward foreign direct investment during 2001-2002 (UNCTAD, 2004).

18 For instance, in the case of Japan, investments in transportation, telecommunications, broadcasting and insurance require licensing under the provisions of individual industry laws other than the Foreign Exchange Law.

19 The *Manual* contains the following statement. “Because FATS as used in the present *Manual* stands for foreign affiliates trade in services, it might be expected that FATS statistics should cover producers of services only. However, the *Manual* recommends that producers of goods be covered as well.” (Paragraph 4.25)

20 An ultimate investor is the first person in the chain of ownership that is not majority owned by any other person. Therefore, the ultimate investor may differ from the immediate investor (the closest foreign parent in the chain of ownership) (for details, see Box 8 of the *Manual*).

21 The classification of “assets” and “liabilities” as components of foreign direct investment is determined according to the residence of the direct investor. That is, an investment is recorded as “outward foreign direct investment (asset)” when the direct investor is a resident, and as “inward foreign direct investment (liability)” when the direct investor is a nonresident.

Chart 3. Japanese Surveys Paralleling FATS

	Advantages	Disadvantages
(1) Survey of Ministry of Internal Affairs and Communications (MIC)	<ul style="list-style-type: none"> • Designated statistical survey (obligation to respond) with high level of coverage²² (see Chart 4(e)). • Survey targets establishments and provides more accurate data on number of employees and number of establishments than surveys targeting enterprises. 	<ul style="list-style-type: none"> • Data on sales, value added, etc. are not covered. • Because of low frequency,²³ survey will not provide adequate time series data²⁴ to correspond to inward FATS. • Cannot be applied to outward FATS.
(2) Surveys of Ministry of Economy, Trade and Industry (METI) ²⁵	<ul style="list-style-type: none"> • Surveys implemented annually with more than 30 years of time series data available.²⁶ • Surveys cover overseas indirect investment enterprises.²⁷ • Surveys cover transactions between parent and affiliates.²⁸ • Surveys contain detailed items²⁹ and can provide data related to not only Mode 3 but Mode 4 also.³⁰ 	<ul style="list-style-type: none"> • Surveys do not cover financial, insurance and real estate industries.³¹ • Approved statistical survey³² (no obligation to respond) with relatively low response ratio. (See Chart 4(e).) • Inward survey does not take ultimate investor into consideration.

22 The “Establishment and Enterprise Census” covers all establishments throughout Japan, with the exception of (1) individual proprietorships which belonged to A-Agriculture, B-Forestry, and C-Fishery among the major groups based on Japan Standard Industrial Classification (hereinafter referred to as JSIC); (2) establishments which belonged to 741-“In-house Household Services” and 742-“Non-In-house Household Services” among L-Services based on JSIC; and (3) establishments which belonged to 96-Foreign Public Offices among the medium groups based on JSIC.

23 Surveys conducted every five years (with additional simplified survey conducted in the third year following full survey).

24 Survey has included foreign ownership ratio since 1996, and name and location of parent company (ownership ratio of 50% and more) since 2001.

25 “Report on the internal reserves of overseas direct investment enterprises” (Format Nos. 50, 51) and “Report on the internal reserves of direct investment enterprises in Japan” (Format No. 52) are used by the Bank of Japan to compile both flow (reinvested earnings) and stock of foreign direct investment statistics. Although part of data annually collected by using these two reports are similar to data contained in METI’s “Survey of Overseas Business Activities” and “Survey of Trends in Business Activities of Foreign Affiliates” respectively, the definitions of data collected by the Bank of Japan are based on those in BPM5.

26 METI has been annually conducting its “Survey of Trends in Business Activities of Foreign Affiliates” (hereinafter referred to as inward METI’s survey) since 1967, and its “Survey of Overseas Business Activities” (hereinafter referred to as outward METI’s survey) since FY1970. In addition to these, METI has been conducting a more detailed “Basic Survey of Overseas Business Activities” (hereinafter referred to as outward METI’s basic survey) since FY1980 at intervals of three year. Although the single name as “Basic Survey of Overseas Business Activities” has been also applied for outward METI’s survey since the 31st outward METI’s survey (FY2001), the strategy of annual survey with trieteric detailed one is still maintained.

27 Foreign corporations in which Japanese foreign affiliates (with Japanese equity position exceeding 50%) hold majority position. Surveys have covered such overseas sub-subsidiaries since 1987.

28 Inward METI’s survey covers sales to the owner, amount purchase from the owner, each payment of dividend, interest on borrowings and royalties to the owner and equipment investment made by the owner. Outward METI’s basic survey covers each payment of dividend, interest on borrowings, royalties and other expenditures paid to the Japanese owner, equipment investment (both performance and prospect) made by the Japanese owner and outstanding amount of long-term borrowing from the Japanese owner.

29 Both inward METI’s survey and outward basic METI’s survey inquire status of R&D expenditures, equipment investment, fund procurement, distribution of net profit (including earnings retained during current business year and stock of retained earnings at end of business year) and number of executives, managers and employees. In addition to these, status of

(3) Surveys of Toyo Keizai Inc.	<ul style="list-style-type: none"> • Actual parent companies are inquired (when different from immediate investor). • Surveys cover overseas indirect investment enterprises. • Time series data available.³³ 	<ul style="list-style-type: none"> • Inward survey does not cover data on sales, value added, etc. • Because survey results are published in the form of lists, aggregated data is not fully available (particularly for inward survey).
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- As shown in the above chart, the surveys conducted by the METI are the closest to FATS statistics in terms of frequency, components and level of aggregation. The METI surveys are also used in responding to joint OECD-Eurostat annual surveys of FATS statistics. Specifically, in preparing Japan’s response, the METI draws data from “Survey of Trends in Business Activities of Foreign Affiliates” for inward FATS and from “Basic Survey of Overseas Business Activities” for outward FATS and combines these with statistics from other government ministries and agencies.

--- The above-mentioned OECD surveys are used in compiling the OECD indices for measuring globalization. When using the OECD indices, due care must be taken in comparing Japanese data for “service industries” and data of other countries for “service industries.” This is because of differences in definition. The OECD definition of “service industries” covers all non-manufacturing industries³⁴, with the exception of primary industries and the construction industry as defined under ISIC (International Standard Industrial Classification of All Economic Activities). On the other hand, under Japan Standard Industrial Classification (JSIC, 1993 revision), the major category, “L. Service Industries,” is based on a narrow definition of services and excludes other major categories of services (transportation and communications, wholesale and retail, financial and insurance, real estate). However, JSIC was revised in 2002 and the current JSIC system allows for a much higher level of comparability to ISIC.³⁵ An example of improved comparability is as follows. Under the 2002 revision of JSIC, “information and communications industries”³⁶ was established as a new major category in JSIC, while in a partial revision of ISIC in 2002, “Information sector” was also established as a new supplementary category in ISIC.

introduction of stock-option systems, for instance, is surveyed by inward METI’s survey and the number of licensing for overseas (including those for overseas subsidiaries) is surveyed by outward METI’s basic survey.

30 Inward METI’s survey can provide information by industry on numbers and component ratios of full-time directors, managers and employees who are temporarily transferred or dispatched from the foreign parent company. Outward METI’s survey can provide information by industry and by size of business on numbers of employees and engineers who are dispatched from the Japanese side to a foreign affiliate for a period of one year and more.

31 In outward METI’s surveys, coverage of industries and units of industry classification are determined according to the identity of the parent company. Therefore, outward METI’s surveys include financial, insurance and real estate businesses of foreign affiliates owned by Japanese parent companies (see Chart 4: Outward FATS (c)).

32 Approved in accordance with the provisions of Article 4 Paragraph 1 of the Statistical Reports Coordination Law. Information obtained cannot be used for purposes of other than statistics, such as tax administration.

33 The 2003 “Survey of Foreign Affiliates” represents the 33rd survey.

34 Corresponds to top level codes “G - Q” (intermediate classifications 50-99).

35 Prior to JSIC revision, “L. Service Industries” covered a diverse range of economic activities and accounted for roughly one-fourth of total establishments and employees in all industries. To rectify this situation, the large-scale industries of “health and welfare industries” and “education and learning support industries” were separated from “L. Service Industries” to create new major categories.

36 Consisting of five intermediate classifications, including communications, information services, and Internet-related services.

- The resolution of the following problems in the METI surveys would heighten their usefulness as parallel statistics to FATS.

(1) Exclusion of financial, insurance, and real estate industries.

(2) Failure of inward surveys to identify ultimate investors.

--- On the other hand, it is notable that indirect investment enterprises are included in the scope of the outward surveys. This provides coverage of ultimate investors, as seen from the perspective of foreign affiliates, when the ultimate investor is a Japanese company.

(3) Inward data are based on ownership ratio exceeding one-third, while outward data are based on 10 percent standard (FATS standards recommend the majority standard³⁷ adopted by the *Manual* in conformity to U.S. practices).

--- A majority standard will excessively narrow the scope of FATS statistics. Therefore, some users of statistics have argued that the scope of coverage should be extended to include cases in which a single investor holds an equity ratio of 10 percent or more. Studies have also been presented arguing for a one-third ownership borderline.³⁸ On the other hand, adoption of a majority standard will be advantageous from the perspective of avoiding the double counting that occurs when two or more parent companies report the performance of the same affiliate.

- The usefulness of the MIC survey has its limitations. While the survey provides an accurate measure of total employment related to inward FATS, it does not cover such variables as sales, value added, and exports and imports, etc. Regarding the surveys of Toyo Keizai Inc., data aggregation is limited to certain components only, rendering them more suited to use as lists.

- The chart below compares the concepts of the (1) MIC survey, (2) METI surveys, (3) Toyo Keizai Inc. surveys, the FATS standard of the *Manual*, and U.S. statistics parallel to FATS.

³⁷ The *Manual* has adopted an objective majority-ownership standard for the following reasons: (1) to eliminate subjective judgments on control, (2) to reduce the burden of statistics compilers having to assess the nature of the investment on a case-by-case basis, and (3) to conform to the GATS definition of ownership. (Paragraph 4.20)

³⁸ Fukao and Amano (2004) cite the following two reasons in defining a foreign affiliate to be a Japanese company in which foreign individuals and companies hold an equity position in excess of one-third. (1) If the borderline were to be set at 10 percent foreign ownership, many Japanese companies with no foreign participation in management would be defined as foreign affiliates. (2) Passage of special resolutions pertaining to “important matters” provided for under the Commercial Code (revision of articles of incorporation, corporate merger and divestiture, transfer of business, issuance of new shares to third party under favorable terms, removal of directors and auditors, corporate re-organization, etc.) by the shareholders’ general meeting requires the presence of a shareholders representing a majority of the company’s outstanding shares and a two-thirds majority of the voting power present. As such, an ownership ratio in excess of one-third is significant in that it ensures veto power in “important matters.”

Chart 4. Comparison of FATS Standard, Japan’s Parallel Statistics [(1) – (3)], and U.S. Statistics³⁹

Inward FATS

Inward FATS	FATS standard recommended in the <i>Manual</i>	[1] Ministry of Internal Affairs and Communications (MIC)	[2] Ministry of Economy, Trade and Industry (METI)	[3] Toyo Keizai Inc.	Bureau of Economic Analysis (BEA), International Investment Division, U.S. Department of Commerce
	Inward FATS	Results of “Establishment and Enterprise Census”	“Survey of Trends in Business Activities of Foreign Affiliates”	“List of Foreign Affiliated Companies in Japan”	

³⁹ Entries for [1] - [3] in the chart are derived from published materials of each ministry and publisher and Fukao and Amano (2004).

<p>a) Scope of Survey</p>	<p>All enterprises* in which a foreign direct investor (or a syndicated group of investors) holds a majority of ordinary shares or voting power (majority standard)</p> <p>* However, no definite recommendation is made for the following reasons.⁴⁰</p> <ul style="list-style-type: none"> • No internationally agreed upon ownership concept exists. • No agreement exists on whether statistics should only cover producers of services. 	<p>Developed to provide information on populations of various types of statistical surveys.</p> <p>Relatively high coverage. Can be used to aggregate for foreign ownership ratios either exceeding 10%, exceeding 33.4%, or exceeding 50%.</p>	<p>Enterprises with foreign ownership ratio exceeding one-third of shares or interest.</p> <p>- Survey also covers date and reasons by which share or interest of foreign investors came to exceed one-third (establishment of new company, M&A, etc.).</p>	<p>As a rule, companies capitalized at ¥50 million or more with foreign ownership ratio of 49% or more. (“List of Major Companies”)</p> <ul style="list-style-type: none"> • Also includes publicly listed companies and major companies that do not meet above criteria. • Includes Japanese branches of foreign banks and securities companies. 	<p>Enterprises with foreign ownership ratio exceeding 50%.</p>
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40 The *Manual* states the following (Paragraph 4.16): “Methodological antecedents for FATS statistics are much less well developed than those for trade between residents and non-residents, where the transactions to be covered are clearly indicated by BPM5. The conventions with respect to residence found in BPM5 and the 1993 SNA can provide clear guidance on the residence of enterprises and the present *Manual* recommends that they be followed without exception, but no internationally agreed ownership concept exists that was designed specifically with FATS statistics in mind. Nor is there agreement on the types of firms to be covered and, specifically, on whether the statistics should cover all producers or only producers of services.”

		<i>Survey does not cover data on activities (sales, value added, etc).</i>	<i>Survey does not cover financial, insurance, and real estate industries.</i>	<i>Survey does not cover sales, value added, etc.</i>	<i>Banks excluded from survey in the past (insurance companies included).⁴²</i>
(b) Survey Level	Enterprise or establishment level. ⁴³	Establishment or enterprise level.	Enterprise level, excluding establishments.	Enterprise level, excluding establishments.	Enterprise level (Establishment level survey conducted every five years)
(c) Industry Classification	Classified by “primary activity” (<i>Manual</i> , 4.39) No reference to whether classification should be based on “primary activity” of parent company or of affiliate. ⁴⁴	Establishment or enterprise level.	Local corporation	Determined by editors based on survey and interviews. Even if the foreign parent company is a manufacturer, enterprises with no production facilities in	Local corporation (judged according to business of subsidiary)

42 Service revenues of U.S. affiliates of foreign banks were for the first time included in the 2002 benchmark survey of inward foreign direct investment. Results are scheduled to be published in October 2005 issue of Survey of Current Business.

43 Financial indicators, such as total assets, can be more easily obtained on the enterprise level. But industry classification can be more easily assigned on the establishment level. As such, the two approaches have their respective advantages and disadvantages. For this reason, the current *Manual* makes no recommendation (see Paragraph 4.27).

44 Note that in the case of foreign direct investment, the OECD Benchmark Definition of Foreign Direct Investment, 3rd Edition also adopts a neutral position. “OECD recommends that, where feasible, the direct investment enterprise be analyzed both by its industrial activity in the host country and by the industrial activity of its direct investor.”(Paragraph 49) Each approach has its advantages and the following analyses can be considered. When industrial activity is judged on the basis of the direct investor (lender of funds), analysis may focus on entities in investor countries with surplus funds and entities in investor countries with advantages of overseas production over exports. When industrial activity is judged on the basis of the direct investment enterprise (borrower of funds), analysis may focus on the impact of spill-over effects on regulated industries.

				Japan are, as a rule, classified as wholesalers.	
(d) Standard for Industrial Classification	International Standard Industrial Classification of All Economic Activities (ISIC)	Japan Standard Industrial Classification (JSIC)	Classification table based on Japan Standard Industrial Classification (JSIC)	Classification standard developed by Toyo Keizai	North American Industry Classification System (NAICS) ⁴⁵
(e) Response Ratio	-	Statutory statistical survey with obligation to respond.	No obligation to respond and relatively low response ratio. Response ratio of survey conducted October 2003: 53.8% (2,341/4,350 companies)	Unknown	Obligation to respond (response ratios for individual items not aggregated).
(f) Nationality of Parent Company	Ultimate investor	Immediate investor	Immediate investor	Nationality of virtual overseas parent company, which may differ from that of immediate investor.	Ultimate investor

⁴⁵ NAICS (North American Industry Classification System) was jointly developed by the three member countries of the North American Free Trade Agreement (U.S., Canada, Mexico). At the time of its introduction in 1997, efforts were made to improve comparability with the International Standard Industrial Classification of All Economic Activities (ISIC) at the two-digit level (intermediate classifications).

Outward FATS

	FATS standard in the <i>Manual</i>	[1] - ⁴⁶	[2] Ministry of Economy, Trade and Industry (METI)	[3] Toyo Keizai Inc.	Bureau of Economic Analysis, International Investment Division, U.S. Department of Commerce
	Outward FATS	-	“Basic Survey of Trends in Overseas Business Activities”	“List of Japanese Companies Abroad”	
(a) Scope of Survey	<p>All enterprises* in which a foreign direct investor (or a syndicated group of investors) holds a majority of ordinary shares or voting power (majority standard)</p> <p>* However, no definite recommendation is made for the following reasons.⁴²</p> <ul style="list-style-type: none"> • No internationally agreed upon ownership concept exists. 		<p>Japanese companies that have established local corporations in foreign countries. “Local corporation” is a general term covering both overseas subsidiaries (a foreign corporation in which Japanese side has an ownership ratio of 10% or more) and overseas sub-subsidiaries (a foreign corporation in which Japanese overseas subsidiaries [with Japanese equity position exceeding</p>	<p>Japanese-affiliated local corporations in which total ownership by Japanese companies is 10% or more (including indirect investments made through local corporations). Japanese companies that have established branches or representative offices in foreign countries.</p>	Enterprises with U.S. ownership ratio exceeding 50%.

⁴⁶ MIC survey is applicable only to inward FATS.

	• No agreement exists on whether statistics should only cover producers of services.		50%] hold a majority position.)		
			<i>Survey does not cover financial, insurance, and real estate industries.</i>		<i>Banks excluded from survey in the past⁴⁸ (insurance companies included).</i>
(b) Survey Level	Enterprise or establishment level. ⁴⁴	-	Enterprise level, excluding establishments.	Aggregation level differs by item.	Enterprise level
(c) Industry Classification	Classified by “primary activity” (<i>Manual</i> , 4.39) No reference to whether classification should be based on “primary activity” of parent company or of affiliate. ⁴⁵	-	Parent company (therefore, scope includes financial and real estate industries on the level of overseas local corporations).	Local corporation (judged according to business of subsidiary).	Local corporation (judged according to business of subsidiary).
(d) Standard for Industrial Classification	International Standard Industrial Classification of All Economic Activities (ISIC)	-	Classification table based on Japan Standard Industrial Classification (JSIC)	Classification standard developed by Toyo Keizai	North American Industry Classification System (NAICS)
(e) Response Ratio	-	-	No obligation to respond and relatively	Approx. 54% (November 2003).	Obligation to respond (response ratios for

⁴⁸ Service revenues of the overseas affiliates of U.S. banks were included for the first time in the 2004 Benchmark Survey on U.S. Direct Investment Abroad. Preliminary estimates are scheduled to be released in 2006.

			low response ratio. Response ratio of survey conducted July 2004: 64.9% (2,636/4,060 companies).		individual items not aggregated).
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5. Future Course of Action for FATS Statistics

- The Bank of Japan currently compiles balance of payments statistics that include data on foreign direct investment and trade in services. However, some questions remain concerning the compilation of FATS statistics. First, can data on activities that do not involve cross-border transactions be included in the framework of balance of payments statistics? Second, can basic data for FATS statistics be obtained from reports filed under the provisions of the Foreign Exchange and Foreign Trade Law? On the other hand, as discussed in this paper, various government ministries have compiled statistics that are parallel to FATS over a long period of years.
- The easiest way for Japan to create FATS statistics would probably be to expand and to develop the existing statistical series. The most promising statistics consist of METI's "Survey of Trends in Business Activities of Foreign Affiliates" and "Basic Survey of Overseas Business Activities." However, these series do not cover the financial, insurance, and real estate industries. The continuous expansion in cross-border corporate activities is underlying the importance of creating FATS statistics. Against this background, it is desirable to establish a consultation for discussion involving both compilers and users of FATS statistics.

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