



STATISTICS DIRECTORATE

National Accounts and Economic Statistics - Services

**FOREIGN AFFILIATES TRADE STATISTICS
ABS EXPERIENCE AND PLANS**

**6th OECD INTERNATIONAL TRADE STATISTICS EXPERT MEETING (ITS) & OECD-EUROSTAT
MEETING OF EXPERTS IN TRADE-IN-SERVICES STATISTICS (TIS)
Tour Europe, Salle des Nations, 12-15 September 2005**

This document has been prepared by ABS, for information and discussion under point a. of item 13 of the draft agenda : Foreign Affiliates Trade in Services Statistics - National Developments

For further information, please contact :
bernard.williams@abs.gov.au

JT00189061

Foreign Affiliates Trade Statistics ABS Experience and Plans

Background

1. With increasing globalisation of the world economy, there is a need for data on the economic activities of Australian controlled companies in other countries and foreign-controlled companies in Australia beyond that compiled within the Balance of Payments framework. The data are required to inform policy making in a wide range of areas relating to the promotion of trade and investment, the reduction of trade barriers, the role of Australian-controlled companies overseas in the provision of goods and services (as opposed to exporting from Australia) and vice-versa.

Known Client Needs

2. Major policy departments and analysts have indicated that improving the availability and quality of ABS foreign affiliates trade data is a high priority area of unmet demand for government.

3. Trade analysts have expressed interest in the way Australian companies choose to supply services to non-residents, so are interested in the extent to which production of services by Australian-controlled companies overseas replaces exports from Australia.

4. These statistics are needed by key stakeholders in monitoring the effectiveness of multilateral trade agreements through the World Trade Organisation, regional trade agreements (e.g. Asia Pacific Economic Cooperation), and bilateral free trade agreements, such as with Singapore, Thailand and the United States. In addition, the statistics are needed to conduct feasibility studies in relation to further bilateral agreements.

5. The ABS has compiled conventional economic indicators for foreign trade and foreign direct investment within the framework defined in the *Balance of Payments Manual*, (5th edition) for many years. While these statistics provide some relevant information, the ABS has not compiled regularly statistics on the economic activity not included in this framework. In recent years, the ABS has conducted a series of case studies to synthesise such data from related data sources. A list of publications reporting this work is provided at Appendix 1.

6. The latest compilation by the ABS in this field is of outwards foreign affiliates trade statistics (FATS). The data were collected via the Survey of Outward Foreign Affiliates Trade (SOFAT), conducted in 2003. A summary of the survey and its outputs is given here to illustrate the type of work done and the problems encountered.

SOFAT Overview

7. Reporting units were asked to report for the 2002-03 financial year. The survey collected information on the industry, sales of goods and services and employment of foreign affiliates of Australian resident enterprises and was designed to identify all Australian resident enterprise groups with affiliates abroad, regardless of ownership.

8. The conceptual framework within which SOFAT was collected and compiled aligned as closely as possible to that articulated in the *Manual on Statistics of International Trade in Services (MSITS)*.

SOFAT Results

9. This section summarises key results from the 2002-2003 SOFAT. More in depth analysis of results is in Appendix 2.

10. Key measures of Australian outward foreign affiliate's trade are:

- Number of foreign affiliates.
- Employment by foreign affiliates.
- Wages and salaries of foreign affiliates.
- Sales of goods and services by foreign affiliates.
- Purchases of goods and services by foreign affiliates.

11. Main findings for 2002-03 included:

- 641 Australia resident enterprise groups had 4,012 foreign affiliates, which employed 321,924 people and generated sales revenue of \$142.3b. Of those Australian enterprise groups, 63% were Australian owned and 37% were foreign owned.
- Foreign-owned Australian resident enterprise groups with foreign affiliates had a much greater focus in the Asia-Pacific region compared to Europe or the Americas where they had little commercial presence. This suggests that a proportion of foreign-owned Australian resident enterprise groups were established as regional headquarters for the Asia-Pacific region and were the conduit for activity in Asia-Pacific.
- Sales revenue by foreign affiliates of Australian-owned enterprise groups was more evenly spread across the regions, with 42% of their sales revenue generated in the Americas, 34% in Asia-Pacific and 24% in Europe.
- Foreign affiliates domiciled in New Zealand, the United Kingdom and the United States of America predominated in all key measures. Together they accounted for more than 50% of all key measures. Foreign affiliates were established primarily to service the markets where they were domiciled, with around 90% of sales of goods and services in the host country of the foreign affiliate.
- Manufacturing was the dominant industry in terms of total number of Australian resident enterprise groups with foreign affiliates, accounting for 28%, followed by property and business services with 20% and wholesale trade with 20%.
- The predominance of manufacturing was also reflected in the number of foreign affiliates and employment by foreign affiliates, representing 52% and 40% respectively. It was the dominant sector for both Australian and foreign-owned Australian resident enterprises with foreign affiliates trade activity.

Issues Encountered

12. The collection and compilation of outward FATS encountered a number of practical problems. These are typical of the problems encountered in collecting and compiling globalisation statistics, so are outlined here.

13. The ABS has limited information on ownership of foreign affiliates and this made accurately identifying the outward FATS population very difficult. The SOFAT survey frame was obtained by combining survey frames from the Survey of International Trade in Services (SITS) and Survey of International Investment (SII), supplemented by additional units that were considered to be in scope. A census of all units on the frame was conducted, resulting in 4,856 dispatches of survey forms. Only 565 reporting units were in scope.

14. The SOFAT was designed to collect the full range of economic variables for outward FATS as defined in *Manual on Statistics of International Trade in Services (MSITS)*. This requirement translated to a long and complicated questionnaire that imposed a high burden on respondents. This appears to have contributed to a mediocre response rate.

15. There was a small number of non-responding or partially responding in-scope reporting units that were deemed to be significant in terms of their overall contribution to the estimates that required clerical imputation. The primary reason for non-response or partial response for these key reporting units was that their established internal statutory and management reporting systems did not include some of the detail requested in the SOFAT survey.

16. To complete the form, reporting units were required to obtain detail from their foreign affiliates. In many cases, the reporting units had extensive networks of foreign affiliates, making the logistics of requesting and consolidating the data, at best onerous, and at worst nearly impossible (many foreign affiliates operate autonomously and only report very high level key data). Consequently, these reporting units were researched on a case by case basis and estimates were modeled based on information in their annual reports, financial statements and on their own or related websites. This was very time-consuming and costly.

17. ABS confidentiality policy does not permit the ABS to publish any data that allow the identification of any reporting unit. This restricted the level of information that was available for release.

18. In summary, the collection of outward FATS via a stand alone survey, using units drawn from existing surveys and intensive manual follow-up, proved to be an expensive and resource intensive exercise which produced interesting data, but of limited quality.

Future Directions

19. A strategy, drawing on lessons learnt so far in compiling globalisation statistics, is being developed within the limited resources allocated to these statistics in the current period. Consultation with external users is proposed within a demand/ supply/ gaps framework as well as a search of literature, mainly from overseas statistical offices, relating to this quickly developing topic.

20. The draft strategy includes the establishment of inward and outward foreign affiliate trade and ownership estimates as the core components of FATS statistics. This would be done via the development of a simplified combined inward and outward foreign affiliate trade survey. A prerequisite would be the building up of information on the foreign ownership characteristics of units to minimise collection costs, respondent burden and follow up costs. This could be achieved by the inclusion of foreign ownership questions on a number of economic survey forms and the development of infrastructure to store foreign characteristic information.

21. Some work is being done on the conceptual underpinnings of FATS/ globalisation statistics. The work focuses on treating the established BPM/ SNA framework as the core reference point for the recording of economic activity for an economic territory. The units defined in this framework for two economic territories (the residents of each economic territory), could be regrouped from a residence-based grouping (used for BOP) into ownership-based groups, using the same units, concepts and rules. This is broadly consistent with the approach outlined in MSITS.

22. Data by mode of supply include flows from both the residence-based grouping and the ownership-based grouping and can be derived once the two views are compiled. Appendix 3 provides a discussion of this approach.

References

Australian Outward Foreign Affiliates Trade, 2002-2003; ABS Cat no 5495.0

Balance of Payments and International Investment Position, Australia: Concepts, Sources and Methods, 1998; ABS Cat no 5331.0

Balance of Payments Manual, Fifth Edition, 1993; Eurostat, IMF, OECD, UN, World Bank; paragraph 111.

Manual on Statistics of International Trade in Services, 2001; EC, IMF, OECD, UN, UNCTAD, WTO

Appendix 1: List of ABS Globalisation Publications

A1.1. The following publications are available from ABS Bookshops and on the ABS website:

- *Globalisation and Foreign Investment* special article in *Australian Mining Industry, 1998-99* (cat. no. 8414.0)
- *Economic Activity of Foreign-Owned Businesses in Australia, 2000-01* (cat. no.5494.0)
- *Ownership Characteristics of Businesses Undertaking Capital Expenditure in Australia, 1998-99*, published in *Australian Economic Indicators, July 2001* (cat. no. 1350.0)
- *Foreign Ownership Characteristics of Information Technology Businesses*, published in *Australian Economic Indicators, March 2002* and *March 2003* (cat.no. 1350.0)
- *Foreign Ownership Characteristics of Businesses Undertaking Research and Development Activity in Australia*, published in *Australian Economic Indicators, August 2002* (cat. no. 1350.0)
- *Foreign Ownership Characteristics of Importers and Exporters, Australia, 2002-03* (cat. no. 5496.0.55.001)
- *Australian Outward Foreign Affiliates Trade, 2002-03, Experimental Results*, published in *International Trade in Goods and Services, Australia, May 2004* (cat. no. 5368.0)
- *Balance of Payments and International Investment Position, Australia* (cat. No. 5302.0) – issued quarterly
- *International Trade in Goods and Services, Australia*, (cat. no. 5368.0) – issued monthly

Appendix 2: SOFAT Detailed Results

Summary data

A2.1. For the 2002-2003 financial year, 641 Australian resident enterprise groups had foreign affiliates. Of these Australian enterprise groups, 63% were Australian owned and 37% were foreign owned, with the proportion of total employees in Australia at 83% and 17% respectively. These 641 Australian resident enterprise groups had 4,012 foreign affiliates, which employed 321,924 people and generated sales revenue of \$142.3b.

Table A2-1: Australian Outward Foreign Affiliates Trade, 2002 - 03

	Number of Australian enterprise groups	Employment by Australian enterprise groups	Number of foreign affiliates that trade in goods and/or services	Employment by foreign affiliates	Revenue from sales of goods and services by foreign affiliates \$m
	no.	no.	no.	no.	
Australian owned	401	939,481	3450	260,104	126,073
Foreign owned	240	193,836	562	61,820	16,247
Total	641	1,133,317	4,012	321,924	142,321

Source: *Australian Outward Foreign Affiliates Trade*

A2.2. Foreign affiliates of Australian owned businesses employed 260,104 people (81% of total employees of foreign affiliates) and generated sales revenue of \$126.1b (89% of total sales revenue generated by foreign affiliates), compared to 61,820 employees (19%) and sales revenue of \$16.2b (11%) for foreign affiliates of foreign owned Australian resident enterprise groups.

Summary Regional data by Key Measures

A2.3. Australian-owned enterprise groups' foreign affiliates that operated in Europe and the Americas contributed more than 90% to all key indicators for that group, while for Asia-Pacific, foreign affiliates of Australian-owned enterprise groups contributed significantly less for these key measures (about 70%).

A2.4 Foreign affiliates of foreign owned Australian resident enterprise groups generated 81% of their sales revenue in Asia-Pacific (\$13.1b), 14% in the Americas (\$2.2b) and only 6% in Europe (\$0.9b). On the other hand, sales revenue by foreign affiliates of Australian owned enterprise groups were more evenly spread across the regions, with 42% of their sales revenue generated in the Americas (\$52.9b), 34% in Asia-Pacific (\$42.8b) and 24% in Europe (\$30.3b). This suggests that a proportion of foreign owned Australian resident enterprise groups were established as regional headquarters for the Asia-Pacific region and were the conduit for trade activity in Asia-Pacific.

Table A2-2: Australian outward Foreign Affiliates (FA) Trade 2002-03, by region

	EUROPE(a)			ASIA-PACIFIC			AMERICAS		
	No of FA that trade in goods and/or services	Employment by FA	Revenue from sales of goods and services by FA	No of FA that trade in goods and/or services	Employment by FA	Revenue from sales of goods and services by FA	No of FA that trade in goods and/or services	Employment by FA	Revenue from sales of goods and services by FA
	no.	no.	\$m	no.	no.	\$m	no.	no.	\$m
Australian owned	940	63,182	30,316	1,234	131,391	42,844	1,276	65,531	52,913
Foreign owned	36	1,746	919	474	54,848	13,112	52	5,226	2,218
Total	976	64,928	31,235	1,708	186,239	55,955	1,328	70,757	55,131

(a) Includes Africa

Source: Australian Outward Foreign Affiliates Trade**Summary Industry data by Key Measures**

A2.5. An industry dissection of Australian resident enterprise groups with foreign affiliates indicates that manufacturing was the dominant industry. It accounted for with 28% of the total number of Australian resident enterprise groups with foreign affiliates, followed by property and business services with 20% and wholesale trade with 20%. These three industries also predominated when viewed from an ownership perspective, accounting for 65% of Australian owned enterprise groups and 74% of foreign owned enterprise groups with foreign affiliates.

A2.6. While manufacturing was the dominant industry in terms of the number of enterprise groups in Australia, retail trade had the most employees in Australia with 330,183, followed by manufacturing (207,840) and finance and insurance (151, 083). These three industries accounted for 61% of total employment by Australian resident enterprise groups.

A2.7. The predominance of manufacturing was also reflected in the number of foreign affiliates and employment by foreign affiliates, with manufacturing enterprise groups in Australia having 2,097 foreign affiliates (52% of the total number of foreign affiliates) employing 130,176 people (40% of total foreign affiliate employment).

A2.8. It made little difference if the Australian resident enterprise was Australian or foreign owned, as manufacturing was the dominant sector for both. This suggests the establishment of manufacturing facilities in developing countries to take advantage of lower wages and manufacturing costs relative to Australia (and other developed nations).

Table A1.3: Characteristics of foreign affiliates, by industry and ownership of parent Australian Enterprise group, 2002 - 03

	Number of Australian Enterprise Groups	Employment by Australian Enterprise Groups	Number of Foreign Affiliates	Employment by Foreign Affiliates	Revenue from Sales of Goods and Services by foreign affiliates
TOTAL					
Total	641	1132317	4012	321924	142321
Agriculture, forestry and fishing	8	7916	19	1415	411
Mining	40	47286	163	14461	15440
Manufacturing	183	207840	2097	130176	58790
Electricity, Gas and Water supply	6	8476	20	983	630
Construction	18	32748	157	23599	11260
Wholesale trade	126	57231	359	42049	14510
Retail trade	19	330183	36	5407	5228
Transport and storage	26	66675	180	15903	3073
Finance and insurance	47	151083	461	48987	25758
Property and business services	128	79816	307	21462	3687
Education	10	20788	9	188	17
Health and community services	5	38656	80	5229	575
Cultural and recreational Services	18	23505	51	1224	318
Other (b) (c)	8	60124	73	10841	2624
AUSTRALIAN OWNED					
Total	401	938481	3450	260104	126073
Manufacturing	109	145955	1851	105035	54983
Wholesale trade	52	23734	277	33784	8959
Retail trade	13	322859	26	4461	np
Transport and storage	14	60374	166	14123	2796
Finance and insurance	24	132197	388	47380	23610
Property and business services	99	43575	257	11381	3014
Other (a) (b)	92	209787	485	43940	32711
FOREIGN OWNED					
Total	240	193836	562	61820	16247
Manufacturing	74	61885	246	25141	3807
Wholesale trade	74	33497	82	8265	5551
Retail trade	6	7324	10	946	np
Transport and storage	12	6301	14	1780	277
Finance and insurance	23	18886	73	1607	2148
Property and business services	29	36241	50	10081	673
Other (a) (b)	22	29702	87	14000	3792

— nil or rounded to zero (including null cells)

np not available for publication but included in totals where applicable, unless otherwise indicated

(a) Includes: Agriculture, forestry and fishing; Mining; Electricity, gas and water supply; Construction; Accommodation, cafes and restaurants; Communication services; Education; Cultural and recreational services; and Personal and other services.

(b) Includes confidential data

(c) Includes: Accommodation, cafes and restaurants; Communication services; and Personal and other services.

Source: *Australian Outward Foreign Affiliates Trade*

Appendix 3: FATS Conceptual Framework

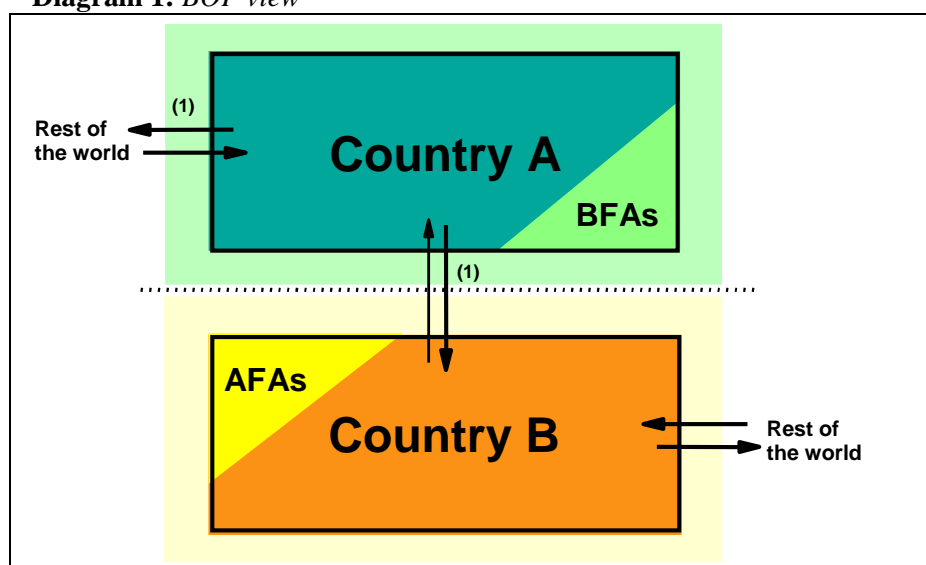
A3.1. Work being done on the conceptual underpinnings of FATS/ globalisation statistics focuses on treating the established BPM/ SNA framework as the core reference point for the recording of economic activity for an economic territory. The units defined in this framework for two economic territories (the residents), can theoretically be regrouped from a residence-based grouping (used for BOP) into ownership-based groups, using the same units, concepts and rules. This is broadly consistent with the approach outlined in MSITS and draws on the ideas of the US National Academy of Sciences (NAS).

Residence Based Trade (BOP framework)

A3.2. Balance of payments (BOP) statistics measure transactions between residents and non-residents of an economic territory. Residence is a key concept based on the transactor's centre of economic interest being within an economic territory.

A3.3. Diagram 1 below is a simplified model of the transactions measured in BOP between two economic territories, country A and country B. Economic transactions measured between country A and Country B include those between affiliates of Country A (resident in Country B) and Country A and vice versa.

Diagram 1: *BOP view*

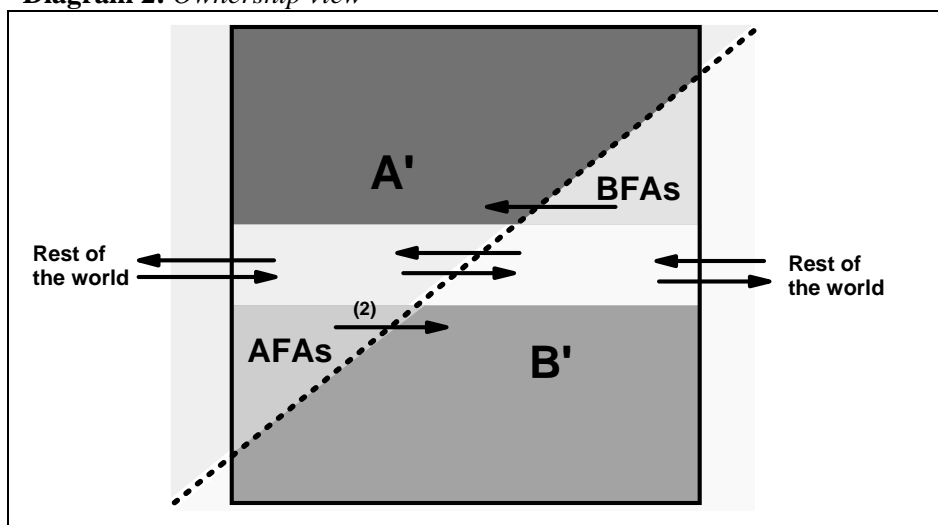


Note: AFAs refers to foreign affiliates of Country A, BFAs refers to foreign affiliates of Country B.

Ownership Based Trade (FATS Framework)

A3.4. The residents of the economic territories defined for BOP purposes can be regrouped from a residence-based grouping into an ownership-based grouping using the same units, concepts and rules. This is broadly consistent with the approach outlined in MSITS. As illustrated in Diagram 2, this groups together units under common ownership (control). The new group A' does not include foreign affiliates in Country A and includes foreign affiliates of Country A in Country B.

Diagram 2: Ownership view



Note: AFAs refers to foreign affiliates of Country A, BFAs refers to foreign affiliates of Country B as illustrated in Diagram 1.

A3.5. The foreign affiliates of Country A (AFAs) are part of A' and trade between them and the residents of A' is excluded from the ownership based flows. Trade between these affiliates and residents of B' is included.

A3.6. Grouping units in this way to create a group of units based on ownership allows complete and symmetrical data to be compiled for all transactions.

Mode of Supply

A3.7. Data by mode of supply include flows from both the residence-based grouping and the ownership-based grouping. Referring to diagram 1, from country A's perspective, flow 1 represents mode 1 exports, mode 2 exports and part of mode 4 exports. Supply via mode 3, commercial presence, is derived from the ownership view shown in diagram 2. Flow 2 represents mode 3 supply by Country A.

A3.8. While mode of supply data are useful for regulatory purposes, they can be misleading if they are seen as an alternative view of the balance of payments. Including the sales by foreign affiliates as exports without including imports from resident foreign affiliates is asymmetrical and leads to an illusory improvement in trade balances. The ABS believes that the presentation of a full set of symmetrical ownership based data is needed to present a balanced picture. This set can include both goods and services data.