



STATISTICS DIRECTORATE

National Accounts and Economic Statistics - Services

Item 15 b) ii: Foreign Affiliates Statistics - Australia's Experience and Plans

**7TH OECD INTERNATIONAL TRADE STATISTICS EXPERT MEETING ITS
and OECD-EUROSTAT MEETING OF EXPERTS IN TRADE-IN-SERVICES STATISTICS (TIS)**

Tour Europe - Paris La Défense, Salle des Nations, 11 - 14 September 2006

This document has been prepared by Paul Mahoney, ABS, for information and comment under item 15 b) ii of the draft agenda.

For further information, please contact:
paul.mahoney@abs.gov.au

JT03212921

FOREIGN AFFILIATES STATISTICS

ABS Experience and Plans

Background

1. There has been demand expressed for data on economic activities of Australian controlled companies in other countries, foreign-controlled companies in Australia and Australian resident parents of foreign affiliates beyond that compiled within the balance of payments framework.
2. Policy agencies indicate that 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, and the role of Australian-controlled companies overseas in the provision of goods and services (as opposed to exporting from Australia) and vice-versa.
3. The ABS has compiled conventional economic indicators for foreign trade and foreign direct investment within the framework defined in the *Balance of Payments Manual (BOP)*, (5th edition) for many years. While these statistics provide some relevant information, the ABS has not regularly compiled statistics on the economic activities of Australian or foreign controlled companies that are not included in the BOP 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.
4. From the 1960s to the 1980s, the ABS conducted a number of foreign participation studies measuring foreign ownership and control of Australian economic activity. These studies examined new capital expenditure by foreign-owned multinational enterprises (MNEs), the economic activity of foreign-owned MNEs in the mining, manufacturing and information technology industries, and research and development activities of foreign-owned MNEs in Australia.
5. In recent years, the ABS has embarked on a series of case studies to synthesise activity data for MNEs from other related data sources. One such study covered the economic activities of identified majority foreign-owned businesses in the Australian economy, covering employing private sector businesses in all industries except agriculture, forestry and fishing. The study provided a range of globalisation indicators identified in *Manual on Economic Globalisation Indicators (MEGI)* and some indicators for inward Foreign Affiliates Trade Statistics, namely: number of businesses; employment; value added; gross fixed capital formation; gross operating surplus; and total assets. 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 Statistics (FAS). The data were collected via the Survey of Outward Foreign Affiliates Trade (SOFAT), conducted in 2003. 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)*. 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 control. The scope of this survey is limited and the results did not fully meet the needs of potential users

ABS Proposal

7. 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.

8. Some work is being done on the conceptual underpinnings of FAS/ 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 control-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).

9. Data by mode of supply include flows from both the residence-based grouping and the control-based grouping and can be derived once the two views are compiled. Appendix 2 provides a discussion of this approach.

10. The draft strategy includes the establishment of the control-based framework as the core components of FAS. In practice, the production of control-based statistics may be achieved by means of a simplified survey of foreign affiliates or resident parent companies and the derivation of data on Australian resident affiliates from existing ABS sources.

11. A prerequisite would be the building up of information on the foreign control characteristics of units to minimise collection costs, respondent burden and follow up costs. This could be achieved by the inclusion of foreign control questions on a number of economic survey forms and the development of infrastructure to store foreign characteristic information.

APPENDIX 1: LIST OF ABS GLOBALISATION PUBLICATIONS

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: CONTROL-BASED CONCEPTUAL FRAMEWORK

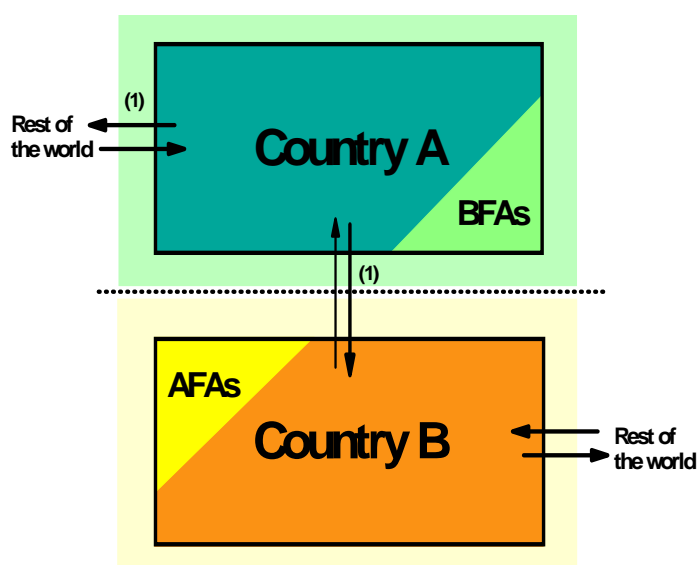
1. Some work is being done on the conceptual underpinnings of FAS/ globalisation statistics. The work focuses on treating the established BPM/ SNA framework as the core reference point for the recording of economic activity for an economic territory. The units defined in this framework for two economic territories (the residents of each economic territory), could be regrouped from a residence-based grouping (used for BOP) into control-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)

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.

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

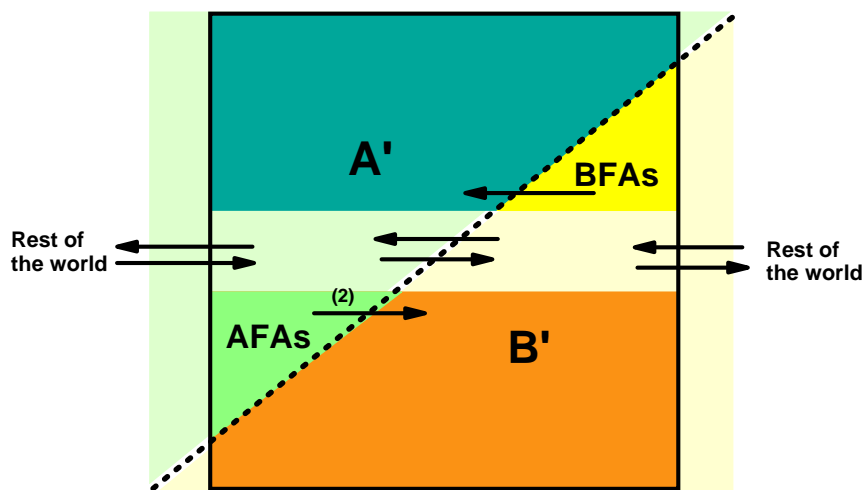


Note: AFAs refers to foreign affiliates of Country A, BFAs refers to foreign affiliates of Country B.

Control-Based Trade (FAS Framework)

4. The residents of the economic territories defined for BOP purposes can be regrouped from a residence-based grouping into a control-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 control. The new group A' does not include foreign affiliates of Country B in Country A and includes foreign affiliates of Country A in Country B.

Diagram 2: Control view



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

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 control-based flows. Trade between these affiliates and residents of B' is included.

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

Mode of Supply

7. Data by mode of supply can be approximated¹ by flows from both the residence-based grouping and the control-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 control view shown in diagram 2. Flow 2 represents mode 3 supply by Country A.

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

¹ The transactors in the GATS mode of supply framework are defined in terms similar to those defined as residents in the BPM. However, the transactors in the GATS framework are defined in terms of nationality rather than residence. The different conceptual basis means that the flows from the residence-based grouping could differ from nationality-based estimates.

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 control-based data is needed to present a balanced picture. This set can include both goods and services data.