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AVAILABILITY OF STATISTICS ON FOREIGN DIRECT INVESTMENT AND ON THE ACTIVITIES OF FOREIGN AFFILIATES

Note by the Secretariat

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I. INTRODUCTION

1. At its meeting of 8 December 1997, the Working Group on the Relationship between Trade and Investment considered a Secretariat note examining various aspects of the interrelationship between trade and foreign direct investment (WT/WGTI/W/7 and Corr.1). One of the issues raised for further consideration in the Working Group was the inadequacy of certain statistical information. Specifically, attention was drawn to the lack of statistical information on sales, exports and imports of foreign affiliates and the lack of disaggregated data on foreign direct investment flows to developing countries.^{1[1]} Pursuant to the request by the Working Group, the Secretariat prepared this note which gives an overview of the available statistical data, discusses some of the related methodological issues, and describes ongoing work in various international fora.

^{1[1]}See WT/WGTI/M/3, paragraph 17.

2. Statisticians usually distinguish between statistics on foreign direct investment (FDI) and those on the activities of foreign affiliates (FAT).^{2[2]} Foreign direct investment is a capital flow that is a key element in the capital and financial account of the balance of payments (BOP). Related to it is the income on foreign direct investment recorded in the current account and the international investment position, i.e. FDI stocks. FAT statistics, on the other hand, are related to the activities of foreign companies and cover a wide variety of different indicators on the domestic and foreign operations of multinational companies. Enterprises covered by FAT statistics are usually a subset of foreign direct investment enterprises (see paragraph 34).

3. This note does not cover non-equity forms of investment such as licensing, franchising, or subcontracting as these are not always clearly identifiable in statistical terms. One would probably find a reflection of such arrangements in royalty payments and business services that appear in the current account of the BOP. However, these payments do not allow measurement of the actual extent of these non-equity forms of investment. The following discussion is therefore limited to equity-based FDI.

4. The conceptual basis for compiling FDI statistics has been defined in the 5th edition of the Balance of Payments Manual (IMF 1993) and in more detail in the 3rd edition of the OECD Benchmark Definition of Foreign Direct Investment (OECD 1996). According to these concepts, foreign direct investment constitutes a capital flow from a 'direct investor' resident entity in one country to a 'direct investment enterprise' resident in another country reflecting the objective of obtaining a lasting interest of the direct investor in the direct investment enterprise.^{3[3]} This implies a long-term relationship and a significant degree of influence on the management of the enterprise. As a cut-off rule, foreign ownership of 10 per cent or more of the ordinary shares or voting power has been defined in the above-mentioned guidelines. It needs to be distinguished from other financial flows such as portfolio investments. Although these concepts have been internationally accepted for many years, their application still varies across countries mainly because the implementation of new or revised guidelines sometimes requires significant institutional changes by national compiling agencies.^{4[4]} It should be noted that the internationally agreed concepts cover only total FDI stocks, flows and income (with a breakdown in equity, re-invested earnings and other capital for flows and income). Statistics on FDI are collected in the context of the compilation of balance-of-payments statistics, usually by the central banks of the reporting country. In some countries, other institutions with regulatory and/or supervisory functions may be involved in the monitoring of inward and outward FDI and may also compile relevant statistical information.

5. In contrast to FDI statistics, there exist up to now no internationally agreed guidelines for collecting FAT statistics. Statistics on business structure and activity are usually collected via enterprise surveys without any distinction regarding the ownership of the establishments concerned. In recent years, however, interest in compiling such statistics has increased considerably due to the introduction of 'commercial presence' as a possible mode of supplying services in the GATS and in the context of analysing globalization (see paragraphs 34-37). A comprehensive set of FAT statistics would include data on employment, sales, value added, profits, investments, R&D expenditure, export and imports, possibly with a geographical and product breakdown. It would also include information on particular relationships with parent companies or with other affiliates as concerns financial, trade and employment links. It would cover all directly and

^{2[2]}The name FAT is derived from foreign affiliates trade; despite its name, it also covers non-trade variables such as employment.

^{3[3]}It involves the initial capital transactions between the two entities and all the subsequent capital transactions between them and among affiliated enterprises.

^{4[4]}The adoption of a new concept usually marks the beginning of implementation by countries, a process that can take many years and may never be fully achieved by all countries. The success of implementation also depends very much on the influence and authority of the data collection agency, e.g., at the European level statistical guidelines issued by EUROSTAT, the statistical agency of the European Union (EU), are binding for its member countries whereas UN guidelines are only recommendations.

indirectly owned subsidiaries, associates and branches. The activities of foreign affiliates in the domestic economy are referred to as inward FAT and those of domestic enterprises abroad as outward FAT.

II. CURRENTLY AVAILABLE STATISTICS

II.1 Foreign direct investment

6. The most widely used source for statistics on FDI is the IMF, especially for the developing countries. The IMF requests regularly from all its member countries data on total FDI inflows and outflows, stocks (International Investment Position) and income as part of its BOP statistics. The flows are broken down into equity, reinvested earnings^{5[5]} and inter-company debt transactions. Because not all countries can comply with the IMF standards in providing all the detail, there are still many gaps in reported FDI data. Furthermore, the IMF does not request data on flows or stocks disaggregated by activity of direct investor or direct investing enterprise nor does it collect any bilateral data (i.e. by origin of inflows or destination of outflows). The IMF has currently no intention to extend its data-collecting activities to cover sectoral or bilateral data. The IMF BOP statistics are published annually in its BOP Yearbook (IMF 1997) and disseminated electronically on a monthly basis to major data users.^{6[6]}

7. To get an overview of FDI flows to and from developing countries, it is also important to look at data collected in the developed countries because their inflows and outflows to developing countries can be used as 'mirror' statistics.^{7[7]} The OECD and EUROSTAT collect data on FDI stocks and flows through a joint questionnaire with a sectoral and bilateral breakdown. The sectoral breakdown is linked to the International Standard Industry Classification (ISIC) and contains about 40 sectors, about half of which concern services. For total FDI, a bilateral breakdown is available separately only for major countries while others are included in regions and sub-regions. A further breakdown cross-classifies sectoral data with limited bilateral detail (the United States, Japan, the European Union, and the rest of the world). One has to keep in mind that, at this level of detail, i.e. direction and activity sector of flows, national statistical agencies often cannot publish the full detail because of confidentiality constraints.

8. OECD data on FDI stocks and flows, broken down by industry and country of origin and destination, are published on an annual basis (OECD 1997b). Not all of the 29 OECD member countries report data in the full detail of the questionnaire. The OECD does not adjust national data or estimate missing values. It is planned to extend this data collection in 1998 to cover also the countries of the Commonwealth of Independent States (CIS) through the "OECD Network of Experts on FDI Statistics". This would be based on the same questionnaire used for compiling statistics from OECD countries.

9. The Development Assistance Committee (DAC) of the OECD publishes data on FDI to developing countries and countries in transition (OECD-DAC 1997). These data received from DAC member countries

^{5[5]}Reinvested earnings are conceptually the most challenging indicator because unlike capital flows or distribution of dividends there is no accompanying foreign exchange transaction that would flow through the banking system. In fact, in the overall balance of the BOP a financial flow of reinvested FDI is offset by a counterpart item under FDI income in the current account.

^{6[6]}While the Yearbook contains only annual data, the magnetic tape includes also quarterly data.

^{7[7]}One should, however, be aware that these 'mirror' statistics often give quite different figures even when looking at flows between OECD countries. This is mainly due to differences in concepts and compilation methods being used.

reporting their inflows from and outflows to those countries are only shown as net figures.^{8[8]} They do not include flows originating in non-DAC countries or flows channelled via such countries.

10. EUROSTAT data are also published annually including a breakdown into sectors and partner country/region. The flows are further broken down into equity, reinvested earnings and other capital (EUROSTAT 1997). Since there is lack of coherence in some of the statistics coming from national sources, EUROSTAT harmonizes national data and estimates missing values to calculate figures for the EU as a whole. It is planned to publish also a geographical breakdown of FDI income for those countries that have such data.^{9[9]} The European Monetary Institute (EMI) does share data collection activities with EUROSTAT, whereby the EMI concentrates on short-term global FDI figures for the European Monetary Union (EMU) as a whole.

11. UNCTAD bases most of its empirical work concerning FDI on data supplied mainly by the IMF and the OECD and, in addition, makes significant use of national sources. More detailed and up-to-date information is taken from national sources (publications and direct contacts) and other official and unofficial material. Instead of questionnaires, UNCTAD sends out requests stating its requirements and asking government agencies to supply whatever information is available that would be of relevance. This usually yields more information than standard questionnaires but data are not harmonized across countries. It should be recognized that such harmonization is often a very difficult if not impossible task that is best undertaken at the national level according to international concepts and definitions. UNCTAD publishes its data in the World Investment Report (UNCTAD 1997) and in its series of regional World Investment Directories (UN 1992 - UN 1994, UNCTAD 1996a, UNCTAD 1996b).

12. The World Bank publishes data on net FDI in its annual World Debt Tables (World Bank 1997). Most of these data are taken from the IMF BOP statistics and from the OECD DAC publication.

13. The success of all these data collection activities at the international and regional level depends finally on the quality of the national data compilation methods. The amount of detailed data that can be collected at the national level depends very much on the legislative and institutional set-up of each country. For example, countries that must use banking statistics rather than surveys addressed to direct investors or their affiliates have more problems getting detailed FDI. In other cases, only data on FDI approvals are available.

14. A comprehensive overview of FDI statistics and methodologies will soon be available as a result of the joint IMF/OECD survey on the 'Implementation of Methodological Standards for Direct Investment'.^{10[10]} Some preliminary results referring to the geographical and industry breakdown of FDI are presented in Table 1. They show that some geographical or sectoral breakdown of FDI inflows is available for more than half of all respondents. A breakdown by geographical regions seems to be more easily available than one by sectors and FDI flows are better covered than income or stocks. The difficulty remains, however, that these data are often not standardized across countries and that at the international level no systematic and regular data collection of detailed FDI statistics takes place for countries outside the OECD.

^{8[8]}Net FDI is defined as FDI in the reporting country minus FDI abroad.

^{9[9]}Data for some countries have already been collected and a publication is planned for 1999. The OECD also intends to publish income data as they become available.

^{10[10]}The results of the survey will be summarized in a joint report that will be presented at the OECD Group of Financial Statisticians (see paragraph 24) in April 1998 and at the IMF Committee on Balance of Payments Statistics in October 1998 (see paragraph 23).

Table 1

Region	No. of countries that answered question	FDI income Inward	FDI income Outward	FDI flows Inward	FDI flows Outward	FDI stocks Inward	FDI stocks Outward
Countries collecting data with a geographical breakdown							
North America and Western Europe	21	14	14	15	14	12	12
Central and Eastern Europe, CIS and Baltic States	12	4	4	9	6	7	6
Latin America	15	6	4	7	3	5	3
Africa	18	7	5	8	8	3	3
Middle East	3	0	0	0	0	0	0
Asia	17	7	8	9	8	10	10
World	86	38	35	48	39	37	34
Countries collecting data with an industry breakdown							
North America and Western Europe	20	10	10	14	13	13	13
Central and Eastern Europe, CIS and Baltic States	12	4	3	7	5	6	5
Latin America	15	6	1	9	3	5	1
Africa	19	4	2	8	5	2	1
Middle East	3	0	0	0	0	0	0
Asia	17	6	6	8	6	8	6
World	86	30	22	46	32	34	26

Source: Preliminary survey data provided by the IMF

15. A survey conducted by the OECD in 1997 among its member countries revealed that 14 countries had also cross-classified data broken down by industrial sector and by country of origin and location for both inward and outward flows.^{11[11]} Efforts are under way to collect available cross-classified FDI data from OECD countries for an ongoing research project.

II.2 Activities of foreign affiliates

16. In the past much attention had been focused exclusively on FDI flows. However, statistics on FDI flows capture only very partially the behaviour of multinational companies and their impact on trade and economic development. UNCTAD estimates that FDI flows measure only one fourth of total investment of foreign affiliates.^{12[12]} Because of the lack of an international framework for collecting FAT statistics very few countries have so far done any systematic data collection.

^{11[11]}See Summary of country replies to the Secretariat's mini-survey on the data availability of foreign direct investment, paper presented at the Session on Globalisation of the Statistical Working Party of the Industrial Committee of the OECD, Paris, 23-24 October 1997.

^{12[12]}See UNCTAD 1997, page xvi.

17. The Bureau of Economic Analysis (BEA) of the US Department of Commerce maintains the most comprehensive set of FAT statistics.^{13[13]} Some other countries have collected more limited sets of statistics. For countries outside the OECD, it is very difficult to get a comprehensive picture because there is no agency that currently collects such data on a systematic basis.

18. The OECD has collected data on FAT for its member countries covering the manufacturing sector (OECD 1997a). In a joint effort with EUROSTAT, the data collection has now been extended to cover also the services sectors. In addition, EUROSTAT has recently started a pilot study to compile inward FAT statistics for a range of detailed service sectors. The work currently under way in the OECD and EUROSTAT will significantly increase the availability of FAT statistics for their member countries in the near future.

19. UNCTAD has collected and published in its World Investment Directories (UN 1992 - UN 1994, UNCTAD 1996a, UNCTAD 1996b) data on activities of foreign affiliates, both inward and outward. The data have been, however, sketchy and are often not comparable across countries. For the World Investment Report, estimates are sometimes used to fill gaps.^{14[14]} UNCTAD intends to increase the coverage of FAT statistics in the second round of publication of its directories and to include more variables, such as employment, sales, value added, profits, exports, imports, R&D and royalty payments. Special efforts are being undertaken to extract as much information as possible from national data sources. It remains to be seen how many developing countries will be able to supply such detailed FAT data. In addition to aggregated national data on foreign affiliates, UNCTAD also collects data on major multinational enterprises by sector of activity, home, host country and sales.

20. Up-to-date and comprehensive information on multinational enterprises has a certain market value. For that reason a couple of private companies have undertaken to screen systematically the activity of major multinational enterprises and their various financial interlinkages. The best known of these companies is Dun and Bradstreet.^{15[15]} In some cases, also national statistical offices make use of such commercial sources as a cost-effective way of getting certain information on multinational enterprises.

21. In the field of FAT statistics, methodological concepts are still being elaborated and refined (see section III.2) and many countries are still struggling to find the right approach to tackle this new statistical domain. Data coverage is still very poor and for countries outside the OECD it is difficult to get an overview of the availability of FAT statistics since at the global level there is currently no institution that undertakes a systematic collection of such statistics. The WTO does not undertake any primary data collection but bases its statistical work on data received from other international organizations and sometimes also from national sources.

III. ONGOING WORK AT THE INTERNATIONAL LEVEL FOR THE IMPROVEMENT OF STATISTICS

III.1 Foreign direct investment

22. As a result of an international effort coordinated by IMF and OECD towards the improvement and comparability of BOP and FDI statistics, international guidelines on FDI statistics have recently been substantially revised and improved. These guidelines are now embodied in the 5th edition of the Balance of

^{13[13]}See Mataloni 1995 and WT/WGTI/W/14.

^{14[14]}Thus, in order to calculate world sales of foreign affiliates, it has been assumed that relationship between foreign affiliates sales and FDI stocks observed for developed countries with detailed data can be applied to the rest of the world (UNCTAD 1997, page 17).

^{15[15]}See web site <http://www.dunandbrad.co.uk>.

Payments Manual (IMF 1993) and in more detail in the 3rd edition of the OECD Benchmark Definition of Foreign Direct Investment (OECD 1996). Both the IMF and OECD monitor the implementation of these standards in their respective member countries.

23. At the IMF, the Committee on Balance of Payments Statistics was established in 1992 to advise the Fund on methodological and compilation issues in the context of balance of payments and FDI statistics, and to foster coordination of data collection among countries. Significant discrepancies in bilateral FDI data have raised concerns about the quality of such data. The main question is whether methodological guidelines have been applied in a consistent manner in the compilation of such statistics. A joint IMF/OECD survey on FDI methodology, meant to clarify the situation, had a very positive response from national compilers and will help to better understand country practices.^{16[16]} The findings of the survey will be integrated in a methodological database that will be updated regularly.

24. At the OECD, the Group of Financial Statisticians deals with issues related to FDI. This Group has been involved in the preparation of the above-mentioned FDI survey.

25. In the European Union, FDI methodological issues are addressed by the European Monetary Institute, while statistical collection issues are tackled by the EUROSTAT's BOP Working Party.

26. FDI data collection activities may also result from regional cooperation agreements. One example is APEC, which established a Working Group on Trade and Investment Data Review.^{17[17]} The objective of this Working Group is to improve the comparability of statistics for merchandise trade, trade in services, and international investment among APEC member economies with a view to allowing a clearer understanding of the process of economic progress within the region. The Working Group has developed a database on merchandise, trade in services and international investment. So far, only merchandise trade data are maintained in the database.

III.2 Foreign affiliates trade

27. As was noted in Section II.2, a number of countries have already included FAT statistics in their regular statistical collection programmes. However, it is only as a result of the services negotiations during the Uruguay Round that international coverage and comparability across countries have become priority issues, and that work on FAT statistical concepts and definitions at the international level has really started.

28. Article I of the GATS defines trade in services as supplied through four modes. These modes of supply are generally referred to as *cross-border supply*, *consumption abroad*, *commercial presence* and *movement of natural persons*. Country schedules of specific commitments are also defined according to these modes of supply. However, there are virtually no relevant statistics according to these modes that would allow the monitoring of the GATS or would facilitate future negotiations.^{18[18]}

29. To remedy the situation, the GATT/WTO statisticians initiated a long-term strategy based on two major components: (i) the identification of GATS statistical requirements; and (ii) the promotion of international cooperation to fulfil those needs.

^{16[16]}For some preliminary results, see paragraph 14.

^{17[17]}See WT/WGTI/W/9, page 5.

^{18[18]}The need for comprehensive and comparable service statistics including information on "commercial presence" has been stressed on many occasions. See, for example Hoekman (1989), and S/C/W/5.

30. As part of the identification of GATS statistical needs, it was recognized that a new statistical domain^{19[19]} was needed to provide relevant and comparable information on *commercial presence*. Work began on the identification of the conceptual and methodological issues that needed to be addressed before such a statistical domain, i.e. FAT statistics, could be set up.^{20[20]} Among these issues are the relationship with other statistical domains such as BOP, FDI and production statistics, the identification of the statistical population (FAT enterprises), their country of origin and the statistical variables to collect. Some of these basic questions are listed in Annex I.

31. As part of its strategy towards the improvement of services statistics, the WTO Secretariat has engaged in cooperation activities with other international agencies, mainly through the *Inter-Agency Task Force on Statistics of International Trade in Services*.^{21[21]} The two main objectives of the Task Force are to strengthen cooperation between international organizations and to promote the development of international standards in the area of service statistics.

32. The Task Force is now focusing on the preparation of a manual on trade in services (Manual) that would embody a standardized conceptual framework for trade in services statistics based on the BOP and FAT building blocks. With regard to FAT, the Manual will draw heavily on the work being carried out in EUROSTAT and OECD (see below). It will also benefit from the knowledge gained in some countries, especially in the United States, which has a long experience in this area. The first complete draft of the Manual will be discussed at the next meeting of the Task Force that will take place at the WTO on 9-10 June 1998.

33. The Task Force has also influenced the work programmes of international agencies such as the EUROSTAT and OECD on FAT statistics. In this context, considering that FAT statistics may be derived from two different statistical domains, i.e. *BOP/FDI* and *enterprise statistics*, EUROSTAT has set up two task forces to look into the matter.

34. The EUROSTAT *Task Force Foreign Affiliates Trade Statistics*^{22[22]} carried out its work in the BOP/FDI context, where FAT statistics are viewed as an extension of FDI statistics. Following this approach, existing FDI surveys can be used, provided a number of supplementary questions are added to the questionnaires, such as turnover, employment, and the level of foreign control. The statistical population is a subset of the whole FDI population, as a minimum of 10 per cent of foreign ownership is the general practice

^{19[19]}The term Establishment Trade was already sometimes used, but no attempts had been made to define it in precise statistical terms.

^{20[20]}The paper WTO (1995a) was prepared for the Task Force on International Trade in Services. This paper identifies and discusses some of the basic questions and options related to concepts, definitions and classifications for FAT statistics.

^{21[21]}This Task Force was established by the United Nations Statistical Commission at its Special Session in April 1994, following the request of the GATT and UNCTAD representatives. The OECD agreed to act as Convenor of the Task Force. The following institutions are regular members of the Task Force: EUROSTAT, IMF, OECD, UNCTAD, United Nations Statistical Division, World Bank and WTO. It was agreed from the start that the Task Force would focus on the statistical requirements of the GATS, with reference to trade in services as defined in Article I, paragraph 2 of the Agreement.

^{22[22]}Seven countries participated in the Task Force: Belgium, Denmark, Germany, France, Ireland, Netherlands, and the United Kingdom.

for FDI, while a minimum of 50 per cent is used for FAT data collection.^{23[23]} This approach provides consistency with FDI statistics. Typically, central banks are responsible for data collection.

35. The Task Force concluded its work in January 1996 and the resulting "De Boeck's Report" makes recommendations on many issues and options that were discussed in WTO (1995a). In parallel, EUROSTAT and OECD prepared a joint questionnaire on the activity of foreign affiliates in the service sector.^{24[24]} EUROSTAT plans to publish the results for inward FAT by the end of 1998, and outward FAT later on. The major outcome of the above-mentioned work is that the *BOP/FDI approach* could provide information on both inward and outward FAT, although with limited detail as to the sectoral coverage and the statistical variables that could be collected.

36. The EUROSTAT *Task Force Pilot Study Inward FATS*^{25[25]} is investigating the *enterprise statistics approach*. Enterprises statistics (also called 'structural business statistics') use compilation tools such as enterprise surveys and business registers rather than FDI surveys. They cover all resident enterprises, without distinguishing between national and foreign-owned. The idea is to use existing compilation tools while covering only the subset of enterprises that are foreign-owned. The national statistical offices are typically responsible for such data collection. The successful completion of the first phase of the Pilot Study has shown the feasibility of inward FAT data collection through the *enterprise statistics approach*, and the need for a strict data collection framework in order to obtain harmonized statistics.

37. At the OECD, the Special Sessions on Globalisation of the Statistical Working Party of the Industry Committee address analytical and methodological issues related to the activities of foreign affiliates. The OECD has planned to prepare a manual on globalization indicators that would define the statistical indicators needed to assess the effects of globalization. In this context, the FAT statistics that have already been collected in the manufacturing sector (see paragraph 18) are being extended to cover the services sector.^{26[26]}

38. As may be seen from above, a number of initiatives have been taken for establishing FAT statistics. Although it may be difficult to draw definitive conclusions yet, several points can be made on the basis of the work being carried out. First, business confidentiality will be an issue.^{27[27]} Second, harmonization of concepts and collection methods is necessary to secure comparable FAT data across countries, and such harmonization might take a long time. Third, although there are prospects for a systematic data collection at the OECD level, there is no such initiative for other countries.

^{23[23]}There are many cases where foreigners effectively control an enterprise without majority-ownership. Thus, FAT statistics may not provide information on all foreign-controlled enterprises.

^{24[24]}The questionnaire includes all economic activities broken down between 17 service sectors and five non-service sectors.

^{25[25]}This Pilot study concerns only the service sectors. EUROSTAT has already published preliminary statistical results in the December issue of *Statistics in Focus*. Nine Member States are participating: Denmark, Finland, France, Ireland, Italy, Netherlands, Spain, Sweden and the United Kingdom.

^{26[26]}The *Joint OECD/EUROSTAT Questionnaire on the Activity of Foreign Affiliates in the Service Sector* covering both inward and outward FAT is being used for this exercise. The results are expected to be published by the end of 1998.

^{27[27]}The EUROSTAT Pilot Study has disseminated the preliminary statistical results only for four aggregated service sectors, i.e. "wholesale and retail trade", "hotels and restaurants", "transport, storage and communication", and "real estate, renting and business activities". The major reason is that too many data were confidential at a lower level of detail.

IV. CONCLUDING REMARKS

39. For FDI a fairly comprehensive set of statistics is available for total direct investment income and flows. Stock data and further cross-classification by sector and partner country are also available for some of the major economies but statistics are not always comparable across countries. Conceptual issues are mostly resolved but country implementation of all the detailed conceptual provisions remains a problem especially for many of the developing countries.

40. Although substantial efforts still have to be made before comprehensive, comparable and up-to-date FAT statistics are available, the initiatives taken so far at national and international level have had very positive outcomes. Expected results in the short/medium term include the publication of a manual on trade in services that would provide statistical guidelines and recommendations based on BOP and FAT building blocks, as well as the progressive availability of FAT statistics for OECD countries.

41. Among the major outstanding issues are the following: (i) no agency systematically collects detailed FDI and FAT statistics for developing economies; (ii) sectoral and geographical breakdown needs to be improved; and (iii) national statistics need to be harmonized to enable cross-country comparability. In addition, business confidentiality constraints may prevent the publication of detailed statistics.

42. The WTO Secretariat is deeply involved in the resolution of these issues through close cooperation with other international institutions, and participates in the overall effort towards the improvement of FDI and FAT statistics.

Annex 1

Selected Conceptual Questions on FAT statistics

What is a foreign company?

There is a need to distinguish between foreign and national companies in order to define the FAT statistical population. Some of the possible options are:

- (a) control by foreigners;
- (b) majority ownership (e.g. defined as more than 50 per cent of voting shares owned by foreigners);
- (c) partial ownership (e.g. a conventional value between 50 per cent and the 10 per cent used in FDI);
- (d) majority ownership or control.

Recommendations: The control concept may be difficult to apply in statistical collection. Both the *draft Manual of the Inter-Agency Task Force on Statistics of International Trade in Services* and the *De Boeck's Report* recommend the use of the majority ownership criterion (over 50 per cent) as a proxy for control. In cases where national regulations prevent foreign majority-ownership, other criteria should be used.

What is the country of origin of a foreign company?

Some of the possible options are:

- (a) the country of first foreign parent;
- (b) the country of the Ultimate Beneficial Owner (UBO), if first foreign parent is in turn owned by persons (or companies) in a third country, and so on.

Recommendations: The *draft Manual* encourages the use of the UBO but recognizes that the use of first foreign parent may be justified as a point of departure. The *De Boeck's Report* proposes that, initially, data based on the first non-resident immediate owner be submitted; it also recognizes that the UBO concept is more significant. EUROSTAT's *Pilot Study* recommends the use of the UBO concept.

How to assign statistical variables (e.g. turnover) to foreign countries?

The two major options are:

- (a) assign statistical variables to foreign countries according to percentage of voting stock held in these countries;
- (b) fully assign statistical variables to the country of origin.

Recommendations: Statistical variables are to be totally assigned to the country of origin even if not full ownership.

What are the basic variables to collect?

FAT being a new statistical domain, priorities need to be assigned at the international level to allow cross-country comparability.

Recommendations: In a *BOP/FDI approach*, the priority is generally given to turnover, employment, and value added by activity. In an *enterprise statistics approach*, such as *Pilot Study*, a comprehensive set of variables may be compiled, including turnover, value added, number of employees, personal cost, gross investment in tangible goods, and trade indicators.

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