Chapter 12

Statistics on the Activities of Multinational Enterprises

Concepts and coverage

12.1. Statistics on the **activities of multinational enterprises (AMNE)** provide a comprehensive and integrated data set for empirical analysis of **multinational enterprises (MNEs)** and their effects on home and host country economies. These statistics provide an additional perspective on the impact of **direct investment** beyond that provided by the International Transactions Accounts (ITAs) and the International Investment Position (IIP) Accounts. AMNE statistics provide insights into the overall activities of U.S. MNEs, the foreign affiliates of U.S. MNEs, and the U.S. affiliates of foreign MNEs using a wide variety of indicators of their financial structure and operations. The statistics on foreign affiliates and U.S. affiliates cover the entire operations of the affiliate, regardless of the share of ownership by the parent companies.

12.2. BEA's AMNE statistics include the following:

- Balance sheets and income statements
- Sales by type (goods or services) and destination (local or nonlocal)
- Value added
- Employment and employee compensation
- U.S. trade in goods
- Research and development

12.3. Each of these categories includes additional related individual data items. For example, detailed balance sheet components (inventories, net property, plant and equipment, etc.) are available annually for majority-owned affiliates. The amount of additional detail available for some of the categories is greater in benchmark survey years (every five years) than in other years.

12.4. BEA's AMNE statistics are compiled for all **direct investment enterprises** and, separately, for a subset of direct investment enterprises in which the **direct investor** directly or indirectly holds or controls a majority of the voting power. In BEA's AMNE statistics, these controlled direct investment enterprises are referred to as **majority-owned affiliates**. BEA goes beyond *BPM6* guidance by not excluding from the scope of AMNE statistics the activities of **associates**, which are business entities that are owned between 10 and 50 percent by another business entity. However, fewer statistics are compiled for the broader set of all MNEs

than for the subset that excludes associates. BEA compiles AMNE statistics for both foreign enterprises resident in the U.S. economy ("inward AMNE") and foreign affiliates owned by U.S. residents ("outward AMNE"). In addition, selected AMNE statistics are compiled for the domestic activities of U.S. MNE parent companies, a component of outward AMNE according to *BPM6.*

12.5. Closely related to AMNE statistics are **foreign affiliate statistics (FATS)**. Whereas AMNE statistics provide information on the overall operations of MNEs in their home country and of their affiliates in host countries, FATS exclude the operations of the affiliate's ultimate parent enterprise. FATS provide data on goods produced and services provided by affiliates in foreign markets and provide information on other economic variables such as sales or output, employment, value added, exports and imports of goods and services, and number of enterprises. FATS represents a subset of AMNE statistics. The population of enterprises covered by FATS is a subset of the enterprises covered by direct investment statistics.

12.6. Understanding the behavior of MNEs requires a conceptual framework in which an economic actor controls the global activities of these businesses. As a result, BEA provides separate tabulations for foreign affiliates that are majority-owned by their U.S. parent(s) and for U.S. affiliates that are majority-owned by their foreign parent(s). Statistics on U.S. affiliates and foreign affiliates are published by country and by industry. More detailed tables by industry and state on U.S. affiliate operations at the establishment level are available for selected years as a result of a special project that links BEA's enterprise data for U.S. affiliates with establishment data for all U.S. companies from the Census Bureau.

12.7. AMNE statistics provide insight into the finances and operations of MNEs, the effects of increased globalization of economic activity, and the continued growth of services trade. The last item has led to the need for a more complete picture of the international supply of services that considers not only resident-nonresident transactions as recorded in the ITAs but also those services delivered via physical commercial presence by foreign affiliates that are not included in ITA statistics. Commercial presence is one of the four **modes of supply** for services (mode 3) identified in the General Agreement on Trade in Services. More information on modes of supply is available in chapter 14.

12.8. AMNE statistics are important for understanding the impact of direct investment on a broad set of activities in an economy rather than just the investment transactions and positions that are the focus of direct investment statistics. AMNE statistics are also important for the analysis of the performance of domestically and foreign controlled enterprises, both in absolute terms and relative to the larger domestic and foreign populations of enterprises. For example, direct investment enterprises may be involved in activities such as research and development that have important impacts in the domestic economy but that may not be recorded as international transactions.

Departures from BPM6

12.9. *BPM6* includes an appendix that endorses and provides guidance for the compilation of AMNE statistics as a supplement to the direct investment statistics compiled for the ITAs and the IIP accounts. Detailed discussion and guidance for both AMNE statistics and FATS is found in the *Manual on Statistics of International Trade in Services 2010*, specifically in Chapter IV. Additional guidance is found in the *Organisation for Economic Co-operation and Development (OECD) Handbook on Economic Globalization Indicators* and in the fourth edition of the *OECD Benchmark Definition of Foreign Direct Investment*. BEA's AMNE statistics exceed the standards recommended by these guidelines. BEA's statistics also cover a broader set of MNEs than recommended in *BPM6,* one that includes associates. However, BEA features statistics prepared on a majority-owned basis that can be directly compared to AMNE statistics from other countries.

Key data sources

12.10. *BEA Survey Data.* BEA's AMNE statistics are based entirely on data collected on BEA's mandatory annual and benchmark direct investment surveys. These surveys include the Annual Survey of U.S. Direct Investment Abroad (BE–11), the Annual Survey of Foreign Direct Investment in the United States (BE–15), the Benchmark Survey of U.S. Direct Investment Abroad (BE–10), and the Benchmark Survey of Foreign Direct Investment in the United States (BE–12).

Estimation methods

12.11. BEA's AMNE statistics represent the aggregation of financial and operating data items reported by U.S. MNEs for their U.S. operations and for their foreign affiliates, and by the U.S. affiliates of foreign MNEs operating in the United States. Published statistics represent the sum of (1) values reported by firms that exceed asset reporting thresholds selected with certainty and (2) values estimated for non-certainty firms based partly on benchmark-year levels.

12.12. Most of the concepts and definitions used for BEA's AMNE statistics can be found in the instructions for BEA surveys. The following sections highlight some concepts, definitions, and statistical issues that require further explanation or that are not covered on the forms or in the instructions. Further elaboration of these issues can be found in BEA's direct investment benchmark publications. These include *U.S. Direct Investment Abroad: Final Results from the 2009 Benchmark Survey* and *Foreign Direct Investment in the United States: Final Results from the 2007 Benchmark Survey.*

12.13. ***Balance sheets and income statements.*** Balance sheets and income statements are required to be reported as they would have been for stockholders' reports, preferably according to U.S. **generally accepted accounting principles (GAAP)**. Some exceptions, such as consolidation, are explained in the survey instructions. For most parents and affiliates, the income statement includes all types of income, both ordinary and extraordinary.

12.14. ***Sales by type and destination.*** BEA surveys collect data on sales or gross operating revenues disaggregated into goods, services, and investment income. Sales are further disaggregated according to whether they were to affiliated parties or unaffiliated parties and whether the customer was in the country of the affiliate or another country.

12.15. ***Value added.*** **Value added** is a useful summary measure of MNE operations derived from AMNE data. MNE value added measures the value of goods and services produced by MNEs, either in the United States (U.S. parent value added or majority-owned U.S. affiliate value added) or abroad (majority-owned foreign affiliate value added). Compared with sales, value added is a preferable measure of production because it indicates the extent to which a firm's output results from its own production rather than from production that originates elsewhere.

12.16. A firm's value added can be measured as gross output (revenue) less its intermediate inputs (purchased goods and services used in production). Alternatively, it can be measured as the sum of the costs incurred (except for intermediate inputs) and the profits earned in production. The costs fall into four major categories: compensation of employees, net interest paid, taxes on production and imports, and capital consumption allowances. BEA's value added estimates are calculated as the sum of costs incurred and profits earned in production.

12.17. ***Employment and employee compensation.*** Employment represents the number of full-time and part-time employees on the payroll at the end of the fiscal year. However, some respondents provide a count taken during the year if it is a reasonable proxy for the end-of-year number. In addition, if employment at the end of the year was unusually high or low because of temporary factors, such as seasonal variations or a strike, respondents may provide a number reflecting normal operations. Employee compensation includes wages and salaries and supplements, such as fringe benefits.

12.18. ***U.S. trade in goods.*** The concepts and definitions underlying the data collected in the BEA surveys on trade in goods are nearly identical to those used for the data on total U.S. trade in goods compiled by the Census Bureau. Although the trade data are particularly difficult for U.S. MNEs to report, BEA's review of the reported data indicates that most of the data conform well to Census Bureau concepts and definitions.

12.19. ***Research and development (R&D).*** R&D expenditures are collected for R&D funded by the parent or the affiliate whether performed internally or by others, and for R&D performed by the parent or the affiliate whether for its own use or for use by others. BEA provides statistics for R&D expenditures in the United States by U.S. parents and by foreign affiliates, and abroad by U.S. affiliates.

12.20. AMNE statistics may be classified in several ways. One key classification is geographical, which involves determining the country where production occurs and also the country that should be regarded as the location of the owner of the producing affiliate. Another key classification is based on the primary industrial activity or product of the producer.

Classification by country

12.21. ***Inward AMNE.*** For foreign affiliates in the United States, BEA attributes AMNE statistics to the country of the ultimate investor or **ultimate beneficial owner (UBO)**. Usually the immediate investor (first foreign parent) and the ultimate investor are the same, but in many cases they differ. Apart from practical considerations, attributing variables concerning production to the country of the ultimate investor is preferred because that country controls and derives most of the benefits from controlling the direct investment enterprise. While BEA follows international guidelines by attributing most inward AMNE statistics to the country of the UBO, it also provides selected tabulations by the country of the first foreign parent.

12.22. ***Outward AMNE.*** For foreign affiliates of U.S. residents, two options for the geographical attribution of AMNE statistics are possible. The statistics could be attributed to the country of location of the affiliate or, if the ownership is through a directly-held affiliate located in another country, to the country of that affiliate. Following international guidelines, BEA attributes outward AMNE statistics to the country of the affiliate whose operations are described by the statistics; that is, to the country in which the foreign direct investor's commercial presence exists and where the various activities covered by the statistics are conducted.

Classification by industry or product

12.23. International guidelines recommend classification of AMNE and FATS statistics by activity according to the International Standard Industrial Classification (ISIC), and grouped according to the ISIC Categories for Foreign Affiliates (ICFA), which are derived from ISIC. These categories cover all activities but provide more detail for services than for goods.

12.24. BEA has developed its own enterprise industry classification system for AMNE statistics that is comparable to but more detailed than the ICFA categories. U.S. parents and their foreign affiliates and foreign parents and their U.S. affiliates are classified according to International Surveys Industry (ISI) classifications. The classifications and their code numbers are adapted by BEA from the most recent North American Industry Classification System (NAICS). For the most part, the ISI classifications are equivalent to NAICS four-digit industries; at its most detailed level, NAICS classifies industries at a six-digit level. The ISI classification system is less detailed than NAICS because it is designed for classifying enterprises rather than establishments.

12.25. Because many direct investment enterprises are active in several industries, it is not meaningful to classify all of their data in a single industry if that industry is defined too narrowly. Each U.S. parent or foreign affiliate and each U.S. affiliate is classified by industry on the basis of its sales (or for holding companies, on the basis of its total income) in a three-step procedure. First, a given parent or affiliate is classified in the NAICS sector that accounts for the largest percentage of its sales. Second, within the sector, the parent or affiliate is classified in the three-digit sub-sector in which its sales are largest; a three-digit sub-sector consists of all four-digit industries that have the same first three digits in their four-

digit ISI code. Third, within its three-digit subsector, the parent or affiliate is classified in the four-digit industry in which its sales are largest. This procedure ensures that the U.S. parent or foreign affiliate is not assigned to a four-digit industry outside either its primary sector or its primary three-digit subsector.

12.26. BEA has also developed a supplementary classification system designed to approximate classification on an establishment basis rather than on an enterprises basis for sales and employment statistics. Establishment-level classification at detailed industry levels provide insights into the types of products produced and sold. Tabulations of AMNE statistics by "industry of sales" are developed by asking respondents to report their sales broken down by four-digit product codes. AMNE statistics classified on this basis can be compared to establishment-based statistics for the host economy.