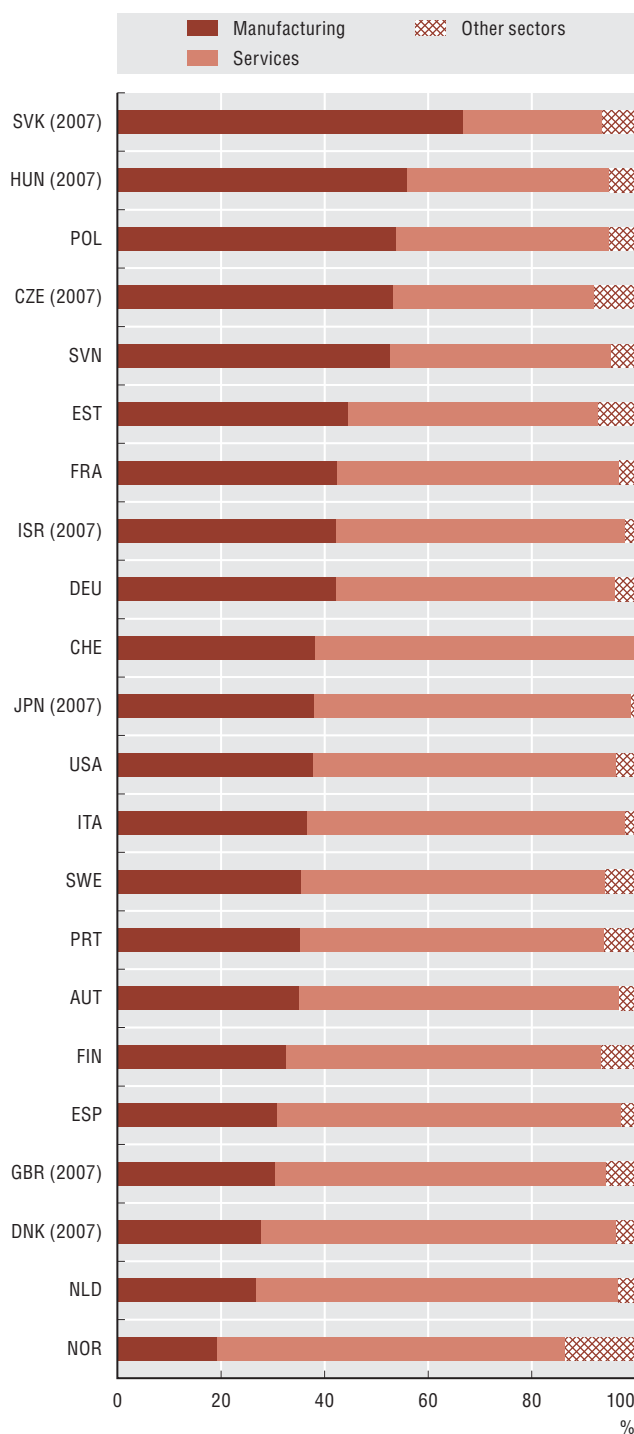


5. Foreign affiliates

Distribution of foreign-controlled employment by broad sectors, 2008



Source: OECD, AFA, FATS and AMNE Databases, May 2011; Eurostat, NewCronos Database, April 2011. See chapter notes.

StatLink <http://dx.doi.org/10.1787/888932487761>

Foreign affiliates contribute to a host country's international competitiveness through several channels. They provide access to new markets and new technologies for domestic suppliers and buyers, generate knowledge spill-overs for domestic firms and typically invest a higher share of their revenues in R&D. Foreign affiliates are responsible for a large part of host countries' employment, turnover and value added. The share of foreign-controlled employment in OECD countries ranged from close to 5% to 35% in 2008. In terms of value added, the foreign share is higher, partly because multinational enterprises are typically active in capital- and scale-intensive industries. Smaller countries such as the Czech Republic, the Slovak Republic and Hungary have a stronger presence of foreign-owned firms; in addition, the presence of foreign affiliates has increased significantly in these countries during the last decade. Foreign affiliates account for a significantly smaller share of total activity in the United States and Italy.

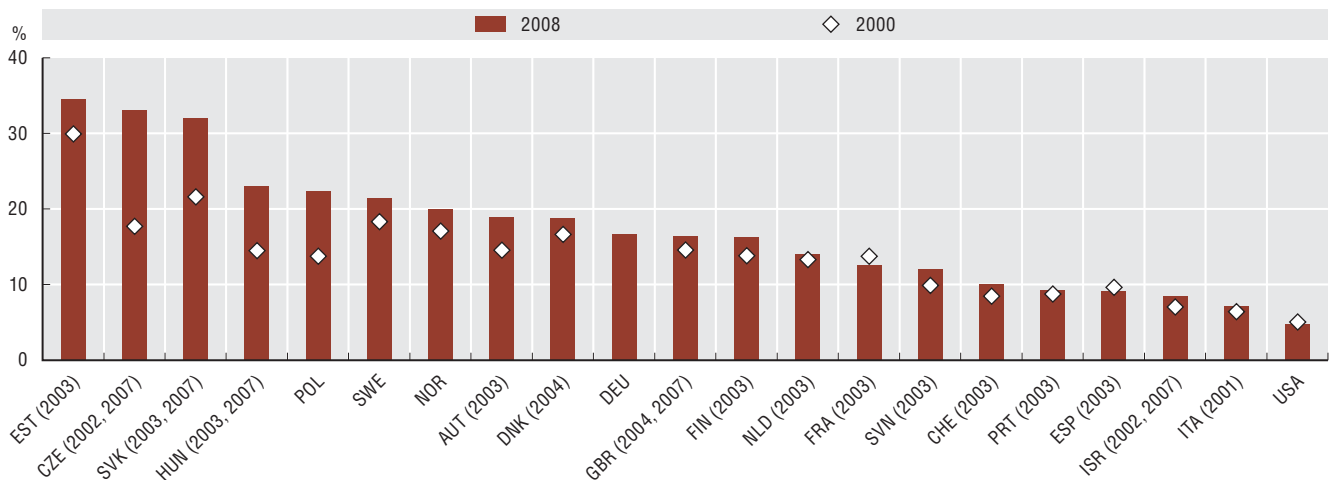
In most OECD countries, the largest number of jobs controlled by foreign affiliates in 2008 was in service industries. This was particularly true in Norway, the Netherlands, Denmark, Spain and the United Kingdom. The growing importance of foreign affiliates' activities in service industries is due to various factors: the shift from manufacturing to services in developed economies; the growing tradability of services following improvement in information and communication technologies; and more open policies for foreign investment in services.

Foreign affiliates' employment in manufacturing is significantly larger in central European countries. Many western European companies have relocated production facilities to the Slovak Republic, the Czech Republic, Hungary and Poland over the past decade, especially following these countries' accession to the European Union.

Definitions

The term *foreign affiliate* is restricted to affiliates under foreign control. The notion of *control* implies the ability to appoint a majority of administrators empowered to direct an enterprise and determine its strategic choices. In most cases, this ability can be exercised by a single investor holding more than 50% of the shares with voting rights. The notion of control allows all of a company's activities (turnover, staff, value added) to be attributed to the controlling investor. An investor (company or individual) is considered to be the investor of ultimate control if it is at the head of a chain of companies and controls directly or indirectly all the enterprises in the chain without itself being controlled by any other company or individual.

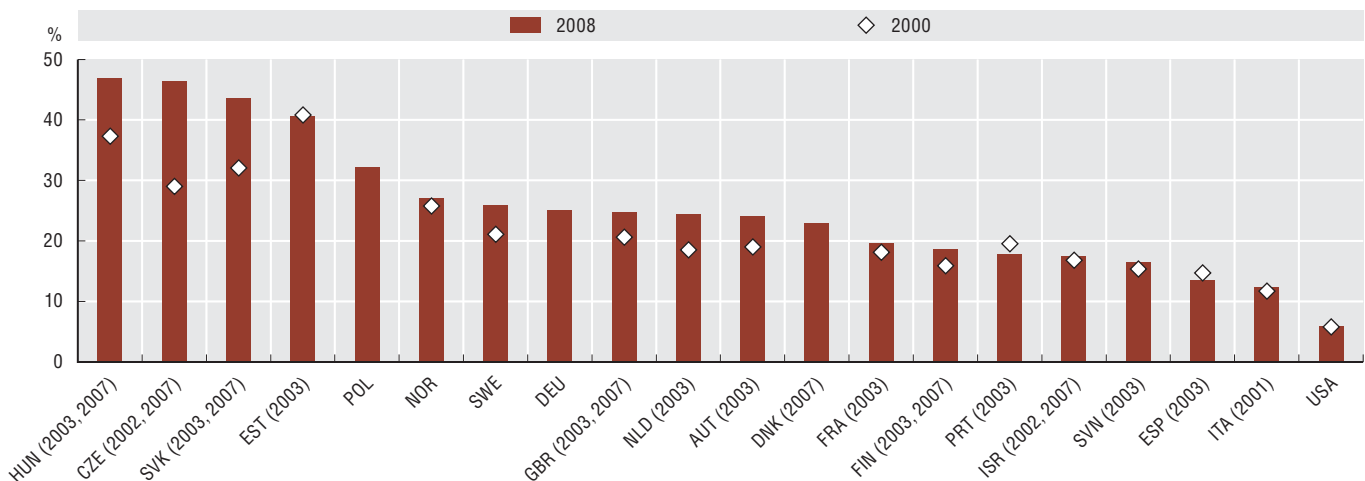
Share of national employment under control by foreign affiliates, 2000 and 2008



Source: OECD, AFA, FATS and AMNE Databases, May 2011; Eurostat, NewCronos Database, April 2011. See chapter notes.

StatLink <http://dx.doi.org/10.1787/888932487780>

Share of national value added under control by foreign affiliates, 2000 and 2008



Source: OECD, AFA, FATS and AMNE Databases, May 2011; Eurostat, NewCronos Database, April 2011. See chapter notes.

StatLink <http://dx.doi.org/10.1787/888932487799>

Measurability

The share of affiliates under foreign control in host country employment may reflect the importance of foreign direct investment in maintaining and/or creating employment in a compiling country. However, this information is not sufficient to evaluate the net job creation of foreign investment in the compiling country.

Value added is the portion of an enterprise's output that originates within the enterprise. It therefore provides a better measure than turnover since foreign affiliates largely source intermediates within their multinational network.

The data come from the Activity of Multinational Enterprises (AMNE) database, which provides comparable data on the performance of foreign affiliates and parent companies in the business sector. It contains 17 variables broken down by country of origin (inward investment) or location (outward investment) and by industrial sector (based on ISIC Rev. 4). These data provide a measure of the impact of foreign direct investment on the economies of OECD countries.



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