

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 along the value chain, generate knowledge spillovers for domestic firms, and invest a higher share of their revenue in research and development (R&D).

In 2006, the share of firms under foreign control in total turnover of the manufacturing sector varied from about 80% in Ireland to 3% in Japan. It exceeded 50% in the Slovak Republic, Hungary, Belgium, the Czech Republic and Canada.

Manufacturing employment under foreign control in OECD countries generally follows the same pattern as turnover although the share in total employment is lower because foreign direct investment is more capital-than labour-intensive. Countries differ, however: for example, the share of turnover under foreign control is greater in the Netherlands than in France while employment under foreign control is about the same.

In services, the share of turnover under foreign control is over 30% in Ireland, the Czech Republic, Belgium, the Slovak Republic, Sweden, Poland and Hungary. For employment, it ranges from over 20% in Ireland, the Slovak Republic and Sweden to less than 5% in the United States.

In all countries except Finland, the share of turnover of foreign affiliates is greater for manufacturing than for services. In terms of employment, penetration of foreign affiliates seems more evenly distributed between services and manufacturing in Finland, Switzerland, Norway, Italy and Portugal. The largest differences are in Hungary, Belgium, the Slovak Republic, Ireland and the Czech Republic.

#### **Turnover and employment in foreign affiliates**

##### **The share of foreign affiliates in turnover**

Output differs from turnover because it includes changes in stocks of finished goods and work in progress and because of differences in the measurement of activities involving trade or financial intermediation. Turnover covers gross operating revenues less rebates, discounts and returns. It should be measured exclusive of consumption and turnover (sales) taxes on consumers and value-added taxes. Turnover generally presents fewer collection difficulties and thus is likely to be more widely available than value added. Also unlike value added, turnover indicates the extent to which affiliates under foreign control are used to deliver outputs originating in the affiliates themselves or in other firms.

##### **The share of foreign affiliates in employment**

Employment should normally be measured as the number of persons on the payrolls of affiliates under foreign control. Employment data are sometimes converted to full-time equivalent (FTE), part-time workers being counted according to time worked. Employment data can be used to determine the share of affiliates under foreign control in host country employment or to help determine the extent to which employment by affiliates under foreign control complements or substitutes for domestic (home country) employment by parent companies or other domestic firms. The share of affiliates under foreign control in host country employment may reflect the importance of foreign direct investment in maintaining 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 countries.

##### **Source**

OECD, AFA Database, May 2009

OECD, FATS Database, May 2009.

##### **Going further**

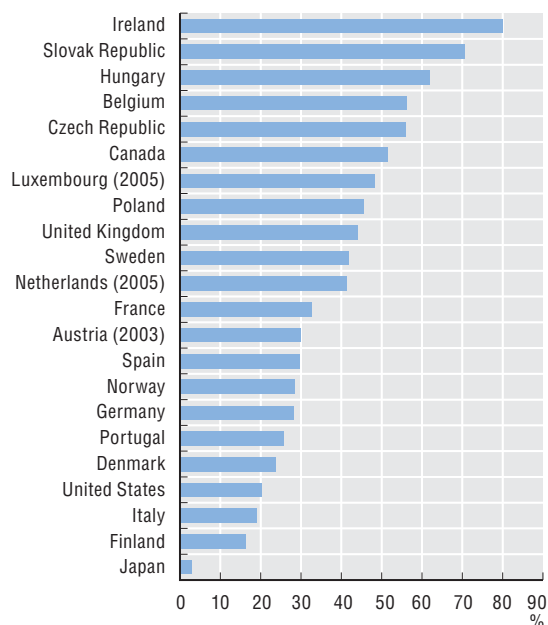
OECD (2005), *Measuring Globalisation: OECD Handbook on Economic Globalisation Indicators*, OECD, Paris.

##### **Figure notes**

Turnover of foreign affiliates in services does not include: Financial intermediation (ISIC 65 to 67) in all countries except the Czech Republic, France, Poland and the Slovak Republic; Community, social and personal services (ISIC 80 to 93) in Austria, Finland, France, Germany, the Netherlands, Norway, Portugal, Spain and the United Kingdom.

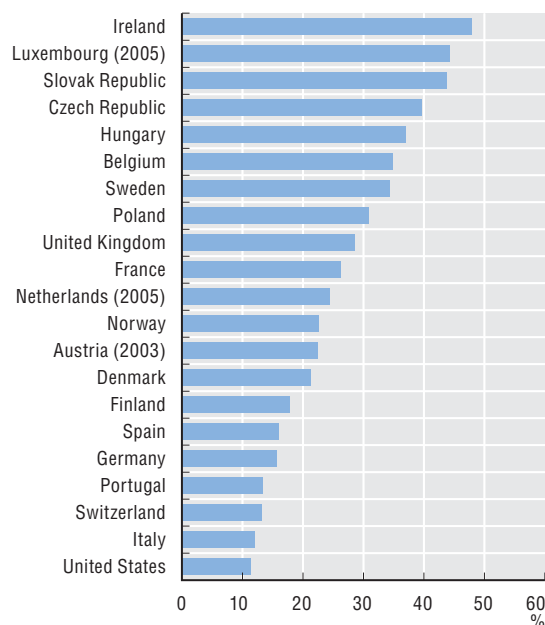
Employment of foreign affiliates in services does not include: Financial intermediation (ISIC 65 to 67) in all countries except Belgium, the Czech Republic, France, Italy, Poland, the Slovak Republic and Switzerland; Community, social and personal services (ISIC 80 to 93) in Austria, France, Germany, Hungary, the Netherlands, Norway, Portugal, Spain and Switzerland.

**Share of affiliates under foreign control in national manufacturing turnover, 2006**



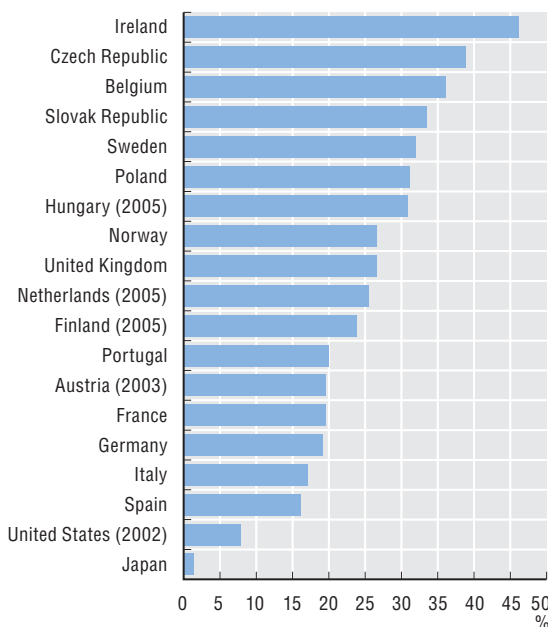
StatLink <http://dx.doi.org/10.1787/744815206331>

**Share of affiliates under foreign control in national manufacturing employment, 2006**



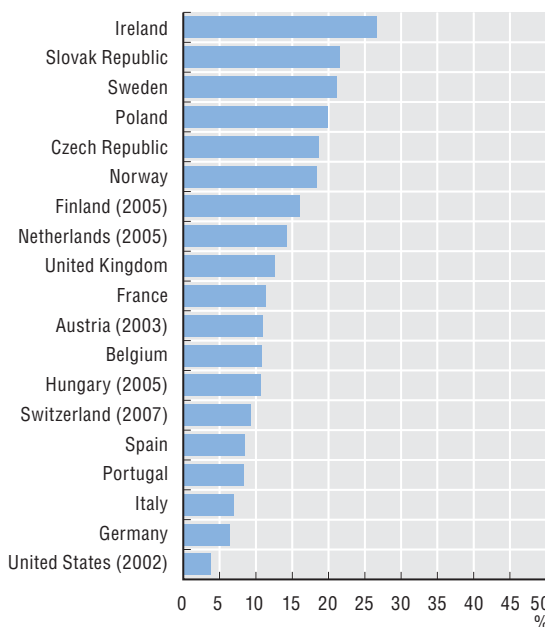
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**Share of affiliates under foreign control in national services turnover, 2006**

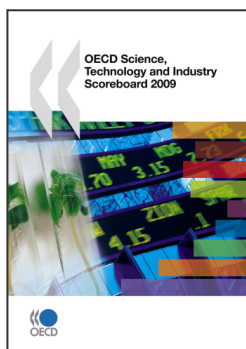


StatLink <http://dx.doi.org/10.1787/744833585705>

**Share of affiliates under foreign control in national services employment, 2006**



StatLink <http://dx.doi.org/10.1787/745013282212>



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