



Multinational enterprises and international trade: different country profiles

The French economy is becoming globalized more through the development of foreign affiliates abroad than through exportations. This is also the case for the United Kingdom. On the other hand, Germany combines many foreign affiliates abroad with strong exportations. France is the leading European country in terms of persons employed in foreign affiliates (5.3 million in 2011), ahead of Germany and the United Kingdom. The foreign affiliates of French, British and US multinational enterprises are equally divided between industry and the tertiary sector (excluding wholesale trade and sales of cars). Conversely, foreign affiliates of German enterprises are mainly concentrated in industry, wholesale trade and sales of cars. Foreign controlled multinationals account for a lower share in the French economy than in Britain and Germany. Taken globally, the European Union has more persons employed abroad in its foreign affiliates than the USA.

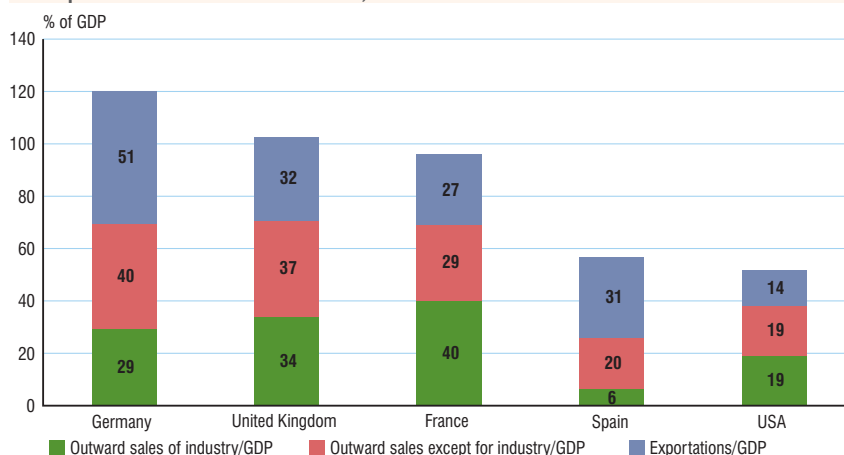
Frédéric Boccara, Tristan Picard, Department of Sectoral Economic Outlooks, Insee

Enterprises can internationalize through exportations or through the development of foreign affiliates. These affiliates have grown in size, supported by foreign direct investments (FDI, inward or outward; *box*).

Nowadays, multinational enterprises (MNE; *definitions*) play a determining role in economic globalization. Therefore, a study comparing countries' internationalization cannot be limited to exports and imports of goods and services.

Indeed, in 2011, MNEs under French control had half of their sales and total employment abroad (respectively 52% and 53%). Additionally, in the French economy, all MNEs, whether French or foreign controlled, represented roughly half of the employment (47%) and the value added (56%) of all enterprises located on French territory; of which MNEs under foreign control respectively weighed 12 and 15 percentage points.

1 Development abroad by MNE's country of control: Exportations and Outward Sales, in 2011*



* See Methodology in the definition section.

How to read it: in 2011, outward sales by industrial foreign affiliates of German controlled MNEs amount to 29% of German GDP.

Scope: companies in the market sector.

Sources: Eurostat-National account and Outward FATS survey (Insee and other European institutes), BEA (USA).

More development of foreign affiliates than exports

In 2011, exports of goods and services from France represented 27% of gross domestic product (GDP), the same proportion as Spain and the United Kingdom, but much less than Germany (51% of German GDP). However, for both France and Germany, outward sales (*definitions*) of the foreign affiliates of their MNEs amounted to a similar proportion of their GDP (69%, respectively 1,400 and 1,800 billion Euros; *figure 1*). Conversely, the proportion of outward sales for Spanish controlled

MNEs was much lower (26% of Spanish GDP); Spain does not have as many large MNEs as France or Germany.

As a comparison, in the USA exports represent a relatively small part of GDP (14%), mainly because of the size of the US economy. This size also moderates the weight of outward sales (38% of US GDP against 69% for France and Germany). On the other hand, these US outward sales are higher than US exports: they amount to 4,600 billion Euros, three times as much as outward sales by French controlled MNEs.

Outward Sales: wholesale trade for Germany, industry for France and the United Kingdom

Wholesale trade and sales of cars (*definitions*) represent 29% of the outward sales of German controlled MNEs. For French and British controlled MNEs, this rate is only 8% (*figure 2*). These sales amount to 528 billion Euros for German controlled MNEs (of which 200 billion for car sales) against respectively 116 billion and 96 billion Euros for French and British controlled MNEs. These differences can be partly explained by significant resales of German exports via their foreign affiliates abroad. Conversely, for French controlled MNEs, production abroad seems to be more developed than exports. Indeed, almost 60% of the outward sales of French controlled MNEs are realized by industrial foreign affiliates against 42 % for Germany). As a comparison, for the USA the proportion of industrial foreign affiliates (50%) in outward sales is between Germany and France, and the share of affiliates in wholesale trade and sales of cars is very high: 25% of outward sales, mainly focused on agricultural and food products, electrical products, then sales of cars.

The outward sales by retail trade affiliates (malls in particular) are substantially higher for France than for Germany: respectively 127 billion and 107 billion Euros. Finally, finance and insurance are proportionately strongly represented in British and Spanish outward sales.

However, the level of Spanish outward sales (270 billion euros) is much lower than that of the other countries in this study (for instance 1,400 billion Euros for France).

Employment abroad: more in market services and retail trade for the United Kingdom and France

A large level of outward sales in a specific country does not necessarily mean that production by the foreign affiliates in this country is high, especially in the wholesale trade and sales of cars sectors. Therefore, outward employment figures (*definitions*) help understand the development of the

activity in these countries and supplement the findings derived from outward sales figures.

In fact, half of outward employment in the foreign affiliates of German controlled MNEs is in an industrial affiliate and 14% in an affiliate in the wholesale trade and sales of cars sectors (*figure 2*). These proportions are respectively 43% and 5% for foreign affiliates of French controlled MNEs. Thus for both Germany and France, the proportion of these two activities taken together is smaller in outward employment than in outward sales (respectively 66% and 48% in employment

against 71% and 67% for sales). Conversely, the proportion of market services and the retail trade is higher in employment than in sales: 28% for Germany and 44% for France, against respectively 17% and 23%. These activities are relatively more labor intensive. In particular, the proportion of the retail trade and food services (*definitions*) and accommodation sectors in outward employment is higher for France (23%) than for Germany. This gap is not only due to retail (French malls companies) but also to food services and accommodation (9% for France

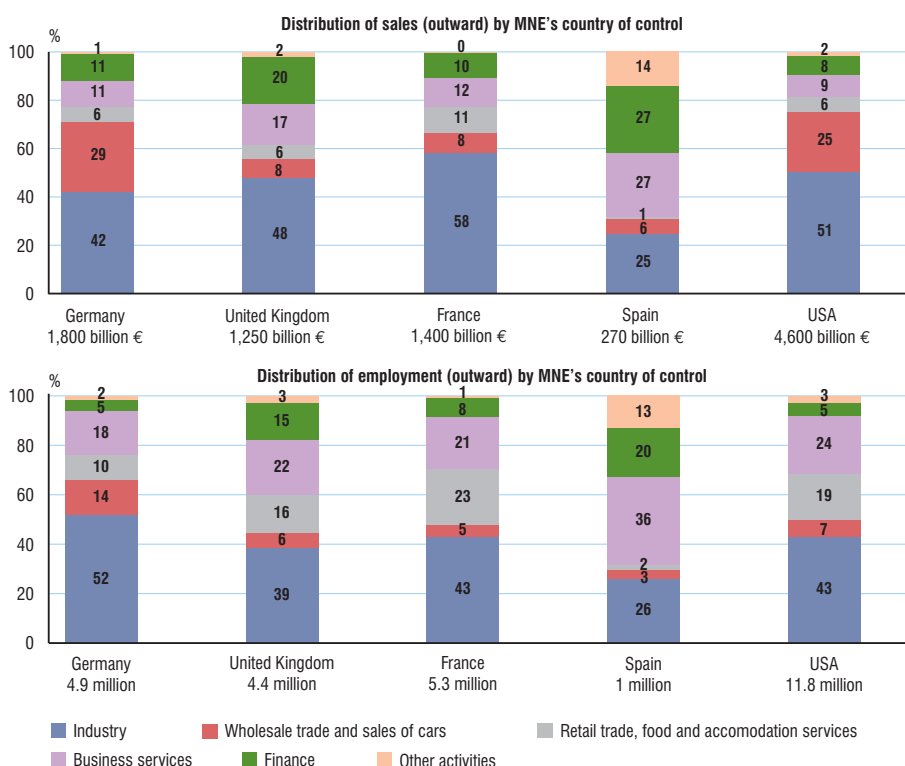
Box

Foreign direct investment supporting the expansion of multinational enterprises

The stocks of foreign direct investment (FDI) are an additional indicator of the international development of enterprises. This indicator has its own particularities. In fact, the international activity chains of MNEs largely result from the flows of FDI they have realized. These flows do not measure a material investment in capital but a financial expenditure (in cash or in equity), often to buy existing enterprises or to expand them. FDI is the link between productive activity and financial flows. But since an enterprise can control an affiliate without owning it entirely, and since FDI only measure the first rank of investment (regarding capital owned), FDI do not describe exactly the same situation as **Foreign Affiliates Statistics** (*outward-FATS and inward-FATS; sources*) and the analysis of all the affiliates. However, these two approaches are complementary.

In 2012, the stocks of foreign FDI in France and French FDI abroad represented respectively 41% and 64% of GDP, using the definitions corresponding to the 5th manual of the balance of payments. Over the long term, according to data published for the year 2012 by the French Central Bank, the stock of French FDI abroad (outward stock) has been multiplied by 3.6 since 2000, showing the development abroad of MNEs under French control but also the increase in the prices of financial assets. In parallel, the openness towards foreign FDI in France continued, and foreign FDI inward stocks were multiplied by 2.3. The comparison with other OECD countries confirms the significant weight of MNEs under French control relatively to the size of the French economy: among similar countries, only the United Kingdom has higher proportions.

2 Distribution of Outward sales and employment (foreign affiliates abroad) in 2011, by grouping of activities



Scope: companies in the market sector.

Sources: Eurostat-National account and Outward FATS survey (Insee and other European institutes), BEA (USA).

against 1% for Germany). Lastly, the proportion of outward employment in business services and transport (*definitions*) is similar between the different countries, with the exception of Spain, which has a higher proportion.

Looking at the geographical distribution of foreign affiliates, those of German controlled MNEs are proportionally twice as present in the new UE member states than the foreign affiliates of French controlled MNEs (18% of their foreign affiliate employment against 9% for the French).

The sectoral distribution of outward employment for French controlled MNEs is close to that of British and US controlled affiliates, with the exception of finance and insurance for British controlled affiliates, which have a high proportion (15%). Finally, foreign affiliates of Spanish controlled MNEs have a peculiar distribution: the proportion of their outward employment in industrial

activities is much smaller than for the other countries whereas business services and finance and insurance represent more than half of their outward employment.

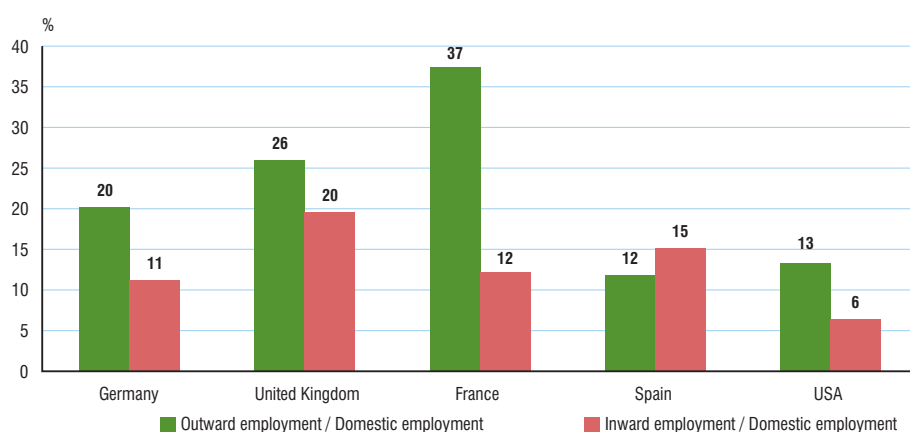
France the European country with the most outward employment

French controlled MNEs employ 5.3 million persons in their foreign affiliates. For German and British controlled MNEs, outward employment amounts respectively to 4.9 million and 4.4 million persons employed. For French controlled MNEs, outward employment is equal to 37% of the number of persons employed by all the enterprises located in the country (domestic employment; *figure 3*), almost twice as much as for Germany (20%) and three times as much as for the USA (13%, 11.8 million persons employed). Conversely, in France, foreign controlled affiliates of MNEs have 1.7 million persons

employed in 2011 (inward employment; *definitions*), representing almost 12% of French domestic employment. Foreign presence is similar in Germany but is much bigger in Spain (15%) and especially in the United Kingdom (20%, 3.3 million persons employed).

These ratios reveal different situations concerning the globalization of the economies: France and Germany are highly developed abroad and their inward employment is smaller than that of the United Kingdom, which is also very open abroad. These differences are mainly due to US controlled enterprises: in the United Kingdom they represent 31% of inward employment, against 23% in France and 21% in Germany. As a comparison, with almost 12 million persons employed abroad and 5.7 million domestic employment under foreign control, the USA is, relatively to the size of its economy, much less present abroad and much less penetrated (respectively 13% and 6% of domestic employment).

3 Outward Employment (abroad under domestic control) and Inward Employment (domestic under foreign control), in % of domestic employment, in 2011

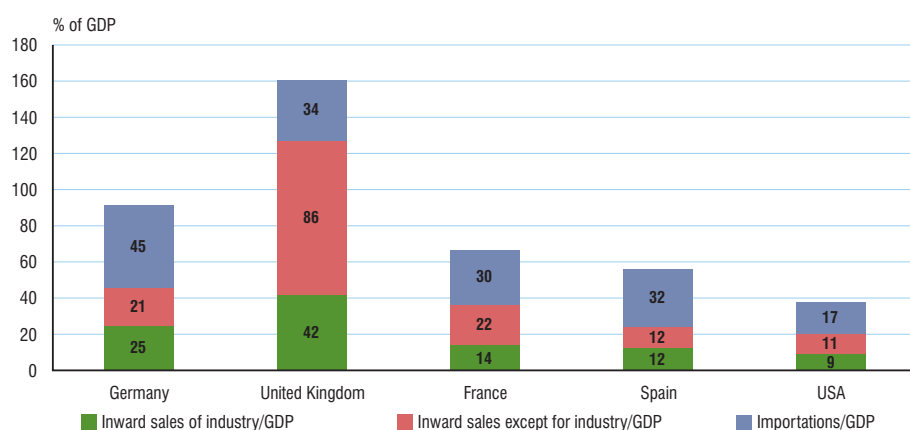


How to read it: in 2011, the outward employment of the German controlled MNEs represents 20% of German domestic employment. The inward employment in Germany represents 11% of German domestic employment.

Scope: companies in the market sector (for outward employment); companies in the market sector excluding finance and insurance (for inward and domestic employment).

Sources: Eurostat-Structural business statistics and Outward and Inward FATS (Insee and other European institutes), BEA (USA).

4 Foreign presence: Importations and Inward Sales (resident affiliates under foreign control), in % of GDP, in 2011*



* See Methodology in the definition section.

How to read it: in 2011, sales from industrial affiliates residing in Germany and controlled by another country amount to 25% of German GDP.

Scope: companies in the market sector excluding finance and insurance.

Sources: Eurostat-National account and Inward FATS survey (Insee and other European institutes), BEA (USA).

A lower weight of foreign controlled MNEs in France than in Germany or in the United Kingdom

Similarly to the view of exports and outward sales, the international penetration of economies is described by jointly taking into account imports and inward sales (sales by affiliates under foreign control; *definitions*), both compared to GDP (*figure 4*). In terms of sales, as seen with employment, the presence of foreign controlled affiliates is lower in France. In Germany, despite a similar proportion in employment, the proportion of inward sales is higher than in France, relatively to GDP. This gap is due to the higher proportion of foreign controlled affiliates in the industrial sector (*definitions*) compared to France (25% of GDP against 14%).

In the United Kingdom, the proportion of inward sales is much higher than in France, in the same way as that seen for employment. However, in value added, an indicator which better describes the production carried out in the country, the proportions are closer, reaching 16% of GDP against 10% in Germany and 7% in France.

The European Union has more persons employed outside of its territory than the USA

Taking the European Union (EU) as a single entity, the development of EU controlled MNEs outside of the EU can be compared to the development of US controlled MNEs outside of the USA.

Thus in 2011, the MNEs of EU countries had 13.6 million persons employed outside of the EU (representing 11.8% of EU domestic employment). The United Kingdom, France

and Germany contribute two-thirds of the extra-EU employment of EU controlled MNEs whereas these three countries account for half of EU GDP. The rest of the extra-EU employment comes mainly from the MNEs under Italian, Dutch, Spanish, Swedish and Danish control.

MNEs from EU countries seem to be more present abroad than US controlled MNEs, which have 11.8 million persons employed in their foreign affiliates (representing 13.2% of US domestic employment). However, focusing only on the foreign affiliates on the two respective territories, the situation is reversed: MNEs from EU countries employ 3.2 million persons in the USA whereas US controlled MNEs employ 3.8 million persons in the EU.

Therefore, one third of US MNEs' outward employment is located in the EU whereas for EU controlled MNEs the USA represents only one fourth of their outward employment. This difference can mainly be explained by the foreign affiliates located in Africa and under control of an EU country (1.6% of US outward employment against 9% of EU outward employment). ■

Sources

Data on foreign affiliates abroad of European MNEs come from the **Outward-FATS** survey. This annual survey, conducted for France by INSEE in collaboration with the Banque de France, provides data on sales and employment of the foreign affiliates of domestically controlled MNEs (but nothing on value added). The compulsory part of the survey only deals with extra-EU foreign affiliates. This study is limited to the comparison of comparable economies for which global data (EU and extra-EU) are available. Results for each country are available on the Eurostat website.

Data on affiliates under foreign control in European countries come from the **Inward-FATS** annual survey carried out for France by INSEE. Since these affiliates are located in the country which performs the survey, far more data are available than those provided by Outward-FATS, in particular value added. Finance and insurance are not in the European scope of the Inward-FATS survey.

Exportations and importations of goods and services are aggregates from national accounts.

All data from the USA come from the Bureau of Economic Analysis (BEA).

Definitions

A **multinational enterprise** (MNE) is, in this study, an enterprise group with legal units in at least two countries. The controlling country is the one where the unit which takes the MNE's global decisions is located.

An **enterprise group** is a set of companies (legal units) bound together by capital shareholdings and among which one exerts decision-making power on the other(s) through direct or indirect control of the voting rights.

The **outward sales** of a MNE are the sales made by all its foreign affiliates. **Inward sales** of a country are the sales of foreign controlled resident affiliates in the country.

The **outward employment** (or **employment abroad**) of a MNE is the employment of its foreign affiliates abroad. The **inward employment** (or **foreign controlled employment**) of a country is the employment of foreign controlled resident affiliates in the country.

In this study, the **industrial sector** groups together mining and quarrying activities, the manufacturing sector, the electricity, gas, steam and air conditioning supply

sector, the water supply, sewerage, waste management and remediation activities sector and the construction sector. These activities correspond to sections B, C, D, E and F of the European nomenclature of activities (NACE).

Wholesale trade and sales of cars correspond to divisions 45 and 46 of the NACE.

The **"retail trade, accommodation and food services"** grouping corresponds to division 47 and section I of the NACE.

The **"business services and transports"** grouping corresponds to sections H, J, M and N of the NACE.

Methodology

Figure 1 can present double counting between outward sales and exportations: a good exported from France by a French controlled MNE can be resold inside the country of destination by a resident foreign affiliate and thus participates in both exportations and outward sales. This remark also holds for *figure 4* between inward sales and importations for the domestic market.

Bibliography

- Boccara F., Hecquet V., D'Isanto A., Picard T., "Internationalisation of firms and the French economy", *Insee Références*, "Enterprises in France"- 2013 Edition, October 2013.
- "Enterprises in France", *Insee Références*, 2014 Edition, November 2014.
- Picard T., "International subcontracting, a common practice", *Insee Première* n° 1518, October 2014.
- Héricher C., Topiol A., "French multinational groups in 2011", *Insee Focus* n° 7, July 2014.
- "The French balance of payments and international investment position", 2014 Annual Report, Banque de France.

Direction Générale :
18, bd Adolphe-Pinard
75675 PARIS CEDEX 14
Directeur de la publication :
Jean-Luc Tavernier
Rédacteur en chef :
E. Nauze-Fichet
Rédacteurs :
J.-B. Champion, C. Collin,
C. Lesdos-Cauhapé, V. Quénechdu
Maquette : C. Kohler
Impression : Jouve
Code Sage IP151558
ISSN 0997 - 3192

- *Insee Première* figure dès sa parution sur le site internet de l'Insee :
www.insee.fr/collections-nationales
- Pour recevoir par courriel les avis de parution (50 numéros par an) :
<http://www.insee.fr/abonnements>

Pour vous abonner à *Insee Première* et le recevoir par courrier :
<http://www.webcommerce.insee.fr/liste.php?idFamille=16>

