

MALAYSIA'S OUTWARD FOREIGN AFFILIATES STATISTICS

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ABSTRAK

Pelaburan Malaysia di luar negeri berkembang dengan pesat seperti digambarkan oleh statistik pelaburan langsung di luar negeri. Untuk memahami dengan lebih lanjut berkaitan senario pelaburan ini, terdapat keperluan untuk membangunkan statistik yang lebih komprehensif tentang pelbagai indikator ekonomi affiliates di luar negeri. Jabatan Perangkaan Malaysia (DOSM) telah mengambil inisiatif untuk menjalankan Penyiasatan Affiliates di Luar Negeri (SOFA) bermula tahun rujukan 2008. Hasil penyiasatan tersebut disusun untuk menghasilkan Outward Foreign Affiliates Statistics (FATS). Statistik ini merujuk kepada indikator ekonomi yang berkaitan dengan operasi affiliates Malaysia di luar negeri. Justeru, artikel ini mengolah prestasi pelaburan Malaysia di luar negeri seperti yang ditunjukkan pada Outward FATS. Penyiasatan ini ditumpukan kepada pembolehubah ekonomi seperti bilangan affiliates, output, nilai ditambah, bilangan pekerja, pampasan pekerja (COEs), pembelian barangan & perkhidmatan, aset dan liabiliti. Artikel ini juga menganalisis lebih lanjut berkaitan karakter mengikut sektor dan negara.

Kata kunci: Penyiasatan Affiliates di Luar Negeri, Statistik Affiliates di Luar Negeri, Pembolehubah Ekonomi

ABSTRACT

Malaysia investment abroad is expanding progressively as portrayed in direct investment abroad statistics. In order to understand further on this investment scenario, there is a need to develop more comprehensive statistics on various economic indicators of affiliates abroad. The Department of Statistics Malaysia (DOSM) has taken initiative to conduct the Survey of Outward Foreign Affiliates (SOFA) starting reference year 2008. The result of the survey is being compiled to produce Outward Foreign Affiliates Statistics (FATS). This statistics refers to economic indicators relating to the operation of Malaysia's affiliates abroad. Therefore, this paper addresses the performance of Malaysia's investment abroad as shown in Outward FATS. The investigation is concentrated to economic variables namely number of affiliates, output, value added, number of employees, compensation of employees (COEs), purchases of goods & services, assets and liabilities. This paper also analyse further on the characteristics according to sectors and countries.

Keywords: Survey of Outward Foreign Affiliates, Outward Foreign Affiliates Statistics, Economic Variables

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1. INTRODUCTION

The Manual on Statistics of International Trade in Services (MSITS) 2010 identifies four Modes of Supply (MOS) for determining a country's delivery of services to the rest of the world. These modes of supply, including delivered by foreign affiliates have been adopted by the United Nations (UN) and other international organisations for frameworks of international services and globalisation statistics.

In the case of Malaysia, the statistics of Mode 3 for commercial presence abroad is portrayed in Malaysia's Outward FATS, which is compiled from SOFA. The survey is designed to obtain the data of affiliates abroad through Malaysia ultimate parent companies.

The objective of this article is to present on the information of affiliates abroad based on SOFA (2008 - 2011) relating to economic activities namely, manufacturing financial & insurance, utilities, information & communication and mining, including the analysis for top 5 countries with highest output in 2011, namely Indonesia, Singapore, South Africa, China and Thailand.

2. LITERATURE REVIEW

Outward FATS is important in providing information about the location and activities of locally owned capital in rest of the world. Cited in the paper of Attewell, J. and Lijf, W. (2005), "FATS can also support trade negotiations by providing an understanding of international economic integration, and assist in prioritising resources. This statistics portray what is done with the capital once it reaches another country."

FDI and foreign affiliate activity data show different aspects of the role of multinationals in the economy. FDI statistics indicates the capital movement in term of monetary value between investors and affiliates and they are reported in the financial account of a country's balance of payments. Meanwhile, foreign affiliate statistics cover information regarding overall operations of foreign affiliates including sales, production, and employment. Fukui, T. and Lakatos, C. (2012) stated that, "Foreign direct investment (FDI) statistics are collected by numerous countries, but these do not provide a complete picture of the activities of multinational enterprises. In particular, FDI examines only the international transfer of funds rather than their operations. Without data on operations of multinationals, it is difficult to assess the effect of policy."

Cited in the annual report on Business in Ireland 2010, Central Statistics Office of Ireland (2010), "FATS statistics are an important source of information in tracking the rate of globalisation in Ireland and across the European Union (EU). As can be seen, this area of statistics is still evolving and a number of paths to improve the quality of data have been identified, such as the use of the Central Statistics Office Business Register for Inward FATS and the Euro Groups Register for Outward FATS."

Meanwhile, Gelubcke, J (2011) has presented the first investigation into the performance of foreign-controlled enterprises in German manufacturing based on

new micro-data from official statistics. The study revealed persistently superior performance for foreign-controlled affiliates when compared to German-owned affiliates. Gelubcke, J (2011) stated that “Foreign-controlled enterprises comprise approximately one percent of the entire German non-financial economy, but have a remarkable economic impact, especially within the manufacturing sector.” In other point of view, it implies that, affiliates abroad accomplish significant performance in the foreign economy.

Later, in 2013, Gelubcke, J stated “Foreign-owned multinational enterprises are generally found to enjoy performance advantages over their domestic counterparts. For example, they are larger, more productive, pay higher average wages, and are more engaged in R&D and exporting”. This statement showed the usefulness of FATS statistics towards understanding the structure of economic according to nationality ownership and the impact of competitive advantages.

3. DATA DESCRIPTION AND METHODOLOGY

3.1 Concept and Definition

Affiliates Abroad

Affiliates abroad refer to the companies operating outside Malaysia that are controlled by Malaysia's ultimate parent companies (the holding of equity interest is more than 50 per cent). They could be branches, subsidiaries or joint ventures companies.

The Four Modes of Services Supply

- *Mode 1 - Cross border supply* – occurs when a service is delivered from a supplier to a consumer in other country, without physical movement of both supplier and consumer.
- *Mode 2 - Consumption abroad* – occurs when consumers move outside their country to consume services in another country, such as tourist activities.
- *Mode 3 - Commercial presence* (establishment of foreign affiliates) – occurs when services supplied through any type of business or professional establishment of one country in the territory to another.
- *Mode 4 - Presence of natural persons* – occurs when an individual has moved into another country to provide services without becoming a resident of that country.

Ultimate Controlling Institutional Unit (UCI)

The affiliates operating abroad could be owned by immediate foreign investor or/and the UCI. The immediate foreign investor is the immediate parent company of affiliate while the UCI is the ultimate (top) parent company in the company's group structure. The UCI is not majority owned by any other company. A company considered to be the UCI to an affiliate if the equity ownership in each company under it until the said

affiliate is consistently more than 50 per cent. In the case of Malaysia's Outward FATS, the UCI to affiliate abroad must dominantly operate in Malaysia. Table 1 is the examples identify the link between UCI and affiliates in particular cases. Detail explanation for the table is on Appendix 1.

Table 1: Link between UCI and Affiliates in Particular Cases

CASE I	CASE II	CASE III	CASE IV	CASE V	CASE VI
COMPANY A ↓ 100% COMPANY B	COMPANY C ↓ 80% COMPANY D ↓ 80% COMPANY E	COMPANY F ↓ 70% COMPANY G ↓ 60% COMPANY H	COMPANY I ↓ 40% COMPANY J ↓ 90% COMPANY K	COMPANY L ↓ 100% COMPANY M ↓ 40% COMPANY N	COMPANY O ↓ 50% COMPANY P

International Investment Position (IIP)

A country's International Investment Position (IIP) is a financial statement setting out the value and composition of that country's external financial assets and liabilities. A positive NIIP value indicates a nation is a creditor nation, while a negative value indicates it is a debtor nation.

3.2 Scope and Coverage

The scope and coverage of outward FATS statistics refer to all Malaysia's affiliates that operating abroad in all economic sectors. The classifications of economic sectors for each affiliates are determined by their principal activities abroad. Then, the Malaysia Standard Industrial Classification (MSIC) 2008 is used as the reference to classify the related economics sectors. The term of country of affiliates abroad refers to the country where predominant centre of economic activities is undertaken.

3.3 Data Collection

The data source for outward FATS is derived from the SOFA which conducted biennially. This survey collects data on economic statistics of affiliates operating abroad from their parent/ultimate parent companies in Malaysia. In the data collection processes, this survey canvasses affiliate abroad which the equity interest is held more than 50 per cent by each upper linked company in the group until the ultimate parent company level. The variables collected through this survey consist of the affiliate's economic activities, countries, income, expenditures, number of employees, compensation of employees, purchases, assets and liabilities.

4. ANALYSIS AND FINDINGS

Overall Performance

International Investment Position (IIP) statistics reveals the value of direct investment abroad (DIA) recorded in 2012 was RM368.2 billion, expanded almost ten times as compared ten years ago. This implied that Malaysia's group of companies aggressively exploring opportunities overseas. Despite impressive value of investment, it is important to identify the contribution of these player abroad. Besides, Malaysia should contemplate the effectiveness of this business strategy to the economy and the companies as well, either earned more or cost more to them. Hence, we need a concrete and comprehensive source of data in order to explain these crucial matters.

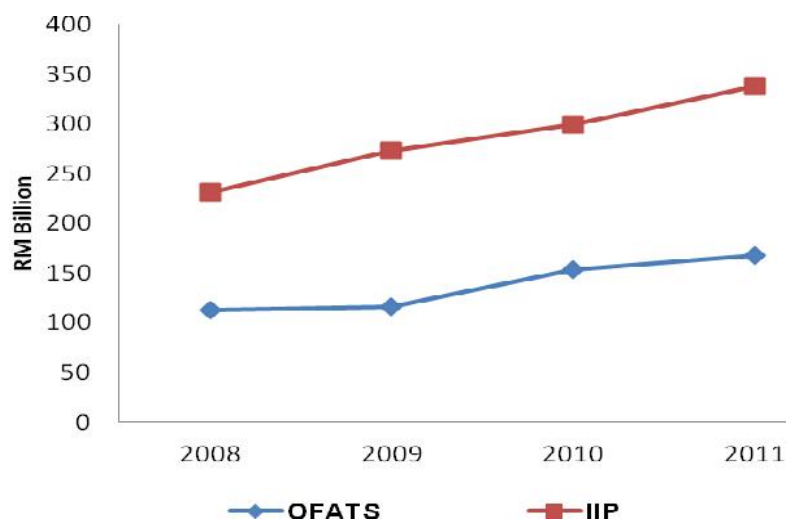
Table 2: Outward FATS Variables

Variables	2008	2011
Number of Parent Companies	384	427
Number of Affiliates	1,489	1,757
Output (RM Billion)	112.4	167.6
Value Added (RM Billion)	33.6	48.5
Number of Employees	217,232	290,912
COEs (RM Billion)	9.4	13.8

Basically the data from outward FATS could explain most of the matters arising as regard to the performance of affiliates abroad. One of the main signals to support the expansion of the investment is by referring to the number of Malaysia's parent companies investing abroad. As depicted in Table 2, there were 427 companies involving in investment abroad during 2011, an increase of 11.2 per cent from 2008. On average, the numbers grew by 10 parent companies per year. The expansion can be seen not only during normal economic situation, but also during world economic slowdown, particularly in 2008 and 2009 phase.

The same pattern of growth also been portrayed in number of affiliates operating abroad. It recorded 1,757 affiliates abroad in 2011, up by 18.0 per cent from 1,489 affiliates abroad in 2008. It means every parent company has on average 3.9 affiliates in 2008 and reached up to 4.1 after three years. The faster acceleration of number of affiliates as compared to their parent companies implied that not only new players contributed to this growth, but also the existing players keep on eager to invest more.

Chart 1: Output OFATS versus IIP



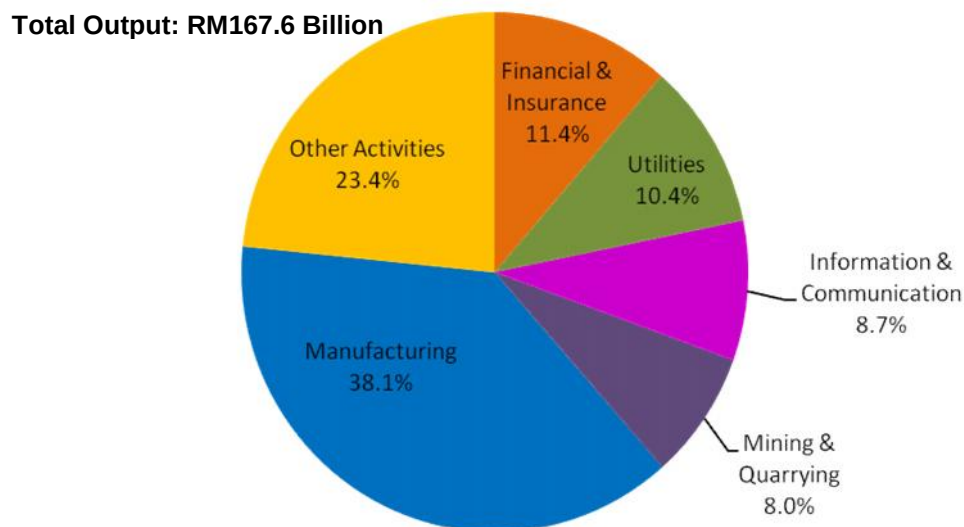
Besides the number of players, analysing the performance can also be focused to the output generated by affiliates. In 2011, they had produced output of RM167.6 billion, up by 49.1 per cent from RM112.4 billion in 2008. This output derived value added of RM48.5 billion in 2011, an increase of 44.3 per cent as compared RM33.6 billion three years ago. This increment was higher as compared to IIP (as shown in Chart 1) and Malaysia's Gross Domestic Product² (GDP) at current prices which expanded by 14.9 per cent in the same period.

Furthermore, number of employees and compensation of employees provide comprehensive and consistent economic measurement for a company performance. Therefore in terms of workforce, the affiliates abroad employed 290,912 employees and paid compensation of employees (COEs) amounting to RM13.8 billion in 2011. The number of employees rose by 33.9 per cent from 217,232 employees while COEs up by 46.7 per cent from RM9.4 billion in 2008. On average, the COEs per month increased to RM3,939 from RM3,597 within the same period.

Outward Foreign Affiliates by Economic Activity

Based on 2011, the largest output produced by Malaysian outward affiliates was in manufacturing, followed by financial & insurance, utilities, information & communication and mining as shown in Chart 2.

² GDP is the total value of all goods and services produced in a certain period after deducting the cost of goods and services used up in the process of production. This value is before deducting allowances for consumption of fixed capital i.e. the sum of value added of resident producers in producers' value plus import duties.

Chart 2: Percentage Share of Output of OFATS by Activity, 2011

Further information on the top five economic activities (based on output value) of affiliates abroad are as follows:

i. Manufacturing

In 2011, the number of affiliates abroad for this sector accumulated to 280 affiliates, an increase of 6.5 per cent from 263 affiliates in 2008. This represented 15.9 per cent share of the total number of affiliates abroad. On average, there are four new affiliates per year established during period 2008 until 2011.

Manufacturing sector contributed 38.1 per cent share of the total outward FATS output value of RM63.9 billion. The output on this sector was increased by 30.5 per cent from RM49.0 billion in 2008 mainly due to an increase in Indonesia by RM4.6 billion. It resulted from the existence of new oil palm factories operating in this country. However, it was noted a slight decreased in the total output by 8.1 per cent in 2009. Foreign affiliates domiciled in South Africa, China and Indonesia contributed the highest output for manufacturing sector.

In terms of value added, outward foreign affiliates from manufacturing sector recorded RM6.5 billion, an increase of 48.4 per cent compared to RM4.4 billion in 2008. The number of persons employed accounted for 74,829 persons, an increase of 15.7 per cent from 64,666 persons in 2008 mainly due to an increase of employment in China by 3,373 employees. While the average COEs per month was RM3, 579 as compared to RM3,273 three years ago.

ii. Financial and Insurance

In 2011, financial & insurance sector accounted for 408 affiliates abroad, an increase of 33.3 per cent from 306 affiliates in 2008, mainly due to an increase in Singapore by 38 affiliates. As a whole, the number of players in this sector contributed 23.2 per cent share of the total.

This sector registered the output of RM19.2 billion, an increase of 62.0 per cent compared to RM11.8 billion in 2008 mainly due to an increase in Singapore by RM3.7 billion. The output of this sector represented 11.4 per cent share of the total output value while in terms of value added, they produced RM9.6 billion in 2011 (2008: RM6.7 billion).

The number of persons employed accounted for 27,112 persons, up by 23.9 per cent from 21,876 persons in 2008 mainly due to an increase in Indonesia by 3,041 employees. Meanwhile, the COEs recorded RM2.6 billion compared to RM1.7 billion in 2008. This had resulted to average of COEs per month of RM7,964 in 2011, up from RM6,304 three years ago.

iii. Utilities

The number of affiliates abroad for utilities sector accumulated to 55 affiliates, an increase of 61.8 per cent from 34 affiliates in 2008, mainly due to an increase in China by 12 affiliates. Overall, 3.1 per cent share of the total number of affiliates abroad represented by this sector.

This sector registered the output of RM17.5 billion, an increase of RM12.3 billion compared to RM5.2 billion in 2008, mainly because of higher increase in Singapore by RM11.4 billion. Thus, 92.7 per cent out of the percentage increase is due to Malaysian companies' involvement in the sector of electricity beginning 2010. In total, this represented 10.4 per cent share of the total output of affiliates abroad. For value added, the share of this sector was 8.3 per cent or RM4.0 billion, increased from RM2.9 billion in 2008.

The number of persons employed accounted for 4,929 persons, an increase of 38.0 per cent from 3,572 persons in 2008, due to an increase in Singapore by 466 employees. Consequently, the additional number of employees employed in Singapore had resulted to increment in compensation by 35.9 per cent.

iv. Information and Communication

In 2011, information & communication sector recorded a number of 74 affiliates. This represented 4.2 per cent share of total number of affiliates abroad. This sector registered the output of RM14.5 billion, an increase of 60.8 per cent from RM9.0 billion in 2008, mainly due to an additional output generated in India and Indonesia by RM4.9 billion within three years time. As a whole, this sector represented 8.7 per cent share of the total output. The upward trend of output of this sector also been portrayed in value added which recorded RM4.6 billion, an increase of 91.4 per cent compared to 2008.

The number of persons employed in 2011 accounted for 13,887 persons, an increase of 9.2 per cent from 2008, mainly contributed by the increase of employment in India by 1,657 persons. Meanwhile, the COEs recorded RM1.1 billion compared to RM0.6 billion in 2008 which resulted to the increment in average compensation of RM6,415 per month as compared to RM4,012.

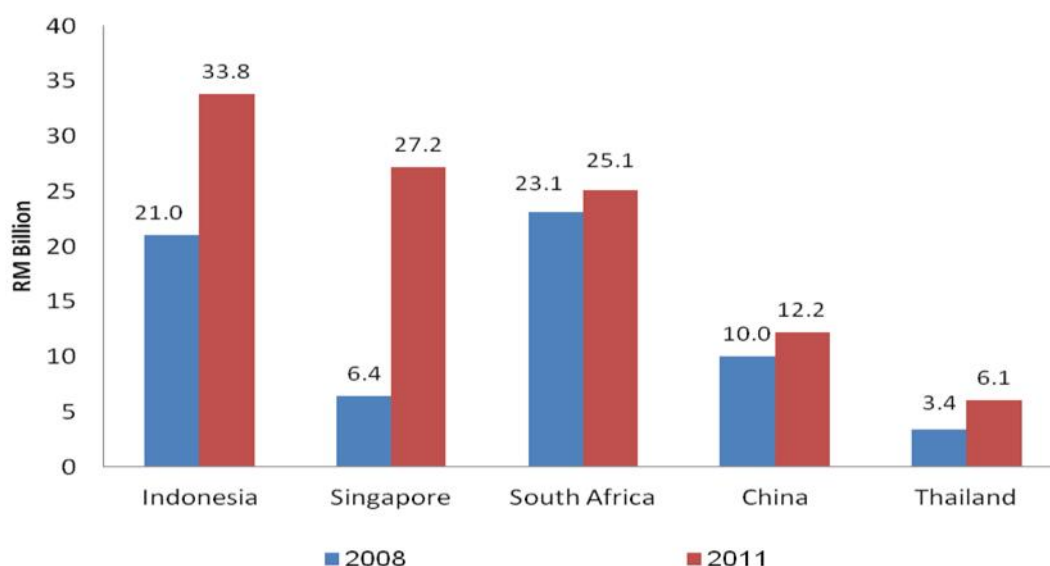
v. Mining

In 2011, mining sector registered output of RM13.5 billion, down by 28.1 per cent from RM18.8 billion in 2010. Likewise, value added also down by 30.2 per cent in the same period to register RM6.7 billion from RM9.6 billion. The slowdown of this sector was mainly due to downward performance in Sudan, Australia and Thailand. Consequently, the number of persons employed also down to 2,819 persons from 2,995 a year ago. On the other hand, the average COEs per month increased by 13.9 per cent to RM14,042 as compared to RM12,326 previous year.

Outward Foreign Affiliates by Country

The five countries of affiliates abroad with highest output in 2011 as presented in chart 3 were Indonesia, Singapore, South Africa, China and Thailand, which totally contributed 62.3 per cent share of output of affiliates abroad.

Chart 3: Output of OFATS by Five Major Countries



Further information on performance of top five countries of affiliates abroad (based on output value from SOFA) is as follows:

i. Indonesia

In 2011, the number of affiliates operates in Indonesia was 215 affiliates, up by 16.2 per cent from 185 affiliates in 2008 mainly due to an increase in agriculture sector by 18.3 per cent. Output value recorded RM33.8 billion (2008: RM21.0 billion), increased by 61.0 per cent. This represented 20.2 per cent share of the total output of outward FATS. In terms of value added, the predominant sectors that contributed the most were agriculture of RM3.6 billion, information & communication of RM3.5 billion and financial & insurance sector of RM2.9 billion.

Agriculture sector is the most significant in Indonesia due to its plenty of economic resources such land and labour. Cited from Indraku (2008), "Agriculture sector in

Indonesia has a role in: (a) providing job opportunity for the majority of labour force, (b) producing foods for the nation, (c) raw material producer for industrial sector, and (d) strengthening food security and rural development.” The value added of agriculture up by 42.9 per cent in three years time. Most of the activities in this sector are concentrated to oil palm plantations. In 2011, the number of employees in agriculture was 82,478 employees (2008: 57,794 employees). This represented 73.3 per cent from the total employment by Malaysian affiliates in Indonesia.

ii. Singapore

In 2011, the number of affiliates operates in Singapore was 377 affiliates, up by 33.7 per cent from 282 affiliates in 2008. Output value of affiliates recorded RM27.2 billion (2008: RM6.4 billion) which represented 16.2 per cent share of the total output. The major sectors that contributed the most output for Singapore were utilities sector of RM11.4 billion (41.9 percentage share), financial & insurance sector of RM5.3 billion and other services sector of RM3.8 billion.

Since 2010, Malaysian affiliates have become the major player in providing utilities services particularly on generating and retailing of electricity in Singapore. As a result, it created tremendous improvement by 322.8 per cent in total output value in 2011 from 2008. Moreover the output of other services also showed a significant increment within the same period mainly due to Malaysia's involvement in entertainment industry.

The total employment was 22,248 employees in 2011, up by 70.8 per cent from 2008 mainly due to drastically up in other services by 560.5 per cent. Likewise, the estimation of monthly compensation also up to RM10,499 from RM7,573 mainly due to the increase in compensation of other services, particularly entertainment industry.

iii. South Africa

During 2011, output value of affiliates recorded RM25.1 billion (2008: RM23.1 billion), rose by 8.4 per cent which represented 15.0 per cent share of the total output. The main sectors that contributed the most output for South Africa were manufacturing sector of RM25.0 billion and distributive trade sector of RM12.0 million. The manufacturing activities that related to oil & gas contributed the most output in this country following the ownership of subsidiaries in various countries in whole Africa continent by Malaysia affiliates in South Africa.

iv. China

In 2011, the number of affiliates operates in China was 206 affiliates, up by 24.1 per cent from 166 affiliates in 2008. Output value recorded RM12.2 billion (2008: RM10.0 billion), rose by 22.0 per cent. This represented 7.3 per cent share of the total output. The leading sectors that contributed to output for China were manufacturing of RM10.0 billion, utilities of RM1.3 billion and transportation & storage sector of RM0.2 billion. On the other hand, the number of employees showed an opposite trend. It slightly dropped to 36,327 employees (2008: 37,389 employees).

v. Thailand

In 2011, the number of affiliates operates in Thailand was 70 affiliates, rose by 22.8 per cent from 57 affiliates in 2008. Output value of affiliates recorded RM6.1 billion (2008: RM3.4 billion), up by 77.7 per cent which represented 3.6 per cent share of the total output. The upward trend was mainly contributed by manufacturing and financial & insurance sector. The predominant sectors that contributed the most output for Thailand were manufacturing sector of RM2.0 billion, financial & insurance sector of RM1.3 billion and distributive trade sector of RM0.2 billion. In line with the development of output, the number of employees also showed the same trend. It recorded 10,235 employees, up from 7,712 employees in 2008.

This paper has discussed the finding of SOFA from 2008 until 2011 according to economic variables, sectors and countries related. Generally, outward FATS are much more difficult to evaluate. Among the challenges is to get the information about companies in overseas for outward FATS, provided that they are not subject to Malaysia's Economics Census or any other specific survey conducted by DOSM. Therefore, the data collected is limited to information reported by their parents company in Malaysia through SOFA.

Furthermore, the parents company in Malaysia usually preferred to report their affiliates performance on a consolidated basis. For instance, several affiliates in Thailand might be consolidated into one section on the form and reported as a single affiliate. In actual, the reported data represents more than one affiliate. This leads to the outcome of underestimated the number of foreign affiliates abroad. However the problem of consolidation does not affect data on other variables.

Confidentiality is one of the most essential aspects of producing any set of statistics. In the case of SOFA, some of the data had to be dim in order to uphold the confidentiality rules. It was due to very small number of affiliates involved (less than 3 affiliates) in particular sector or country.

5. CONCLUSION

The implementation of SOFA had essentially spearheaded the development of Malaysia outward FATS. This statistics has facilitates more understanding and comprehensive economics scenario of affiliates abroad at large. The performance of Malaysia's investment abroad as shown in Outward FATS was been analysed particularly by looking at the attribution according to economic sectors and destination countries of investment. The exploration of data is focused to economic variables including number of affiliates, output, value added, number of employees and COEs.

The development of this statistics signifies the establishment of MOS: Mode 3 for commercial presence abroad. By looking deeply into the detailed statistics, the affirmation of knowledge related to business strategies, linkages and factors that influenced the economic performances comprehensively established. Moving forward, DOSM will analysing the outward foreign affiliates statistics based on SOFA 2012 and 2013 which will be publicly published on December 2015 with bigger coverage of the affiliates and comprehensive analysis.

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Appendix 1**Explanation of Link between UCI and affiliates in particular cases.****Table 1: Link between UCI and affiliates in particular cases**

CASE I	CASE II	CASE III	CASE IV	CASE V	CASE VI
COMPANY A ↓ 100% COMPANY B	COMPANY C ↓ 80% COMPANY D ↓ 80% COMPANY E	COMPANY F ↓ 70% COMPANY G ↓ 60% COMPANY H	COMPANY I ↓ 40% COMPANY J ↓ 90% COMPANY K	COMPANY L ↓ 100% COMPANY M ↓ 40% COMPANY N	COMPANY O ↓ 50% COMPANY P

Case I

Company A is both the foreign parent and UCI of company B.

Case II

Company D is the foreign parent of company E. Because company D is, in turn, majority owned by company C, company C is the UCI of company E; its country would be considered the country of ownership of company E in FATS.

Case III

Following the same reasoning as in Case II, company G is the foreign parent of company H, while company F is its UCI. Company F is the UCI of Company H and is deemed to control Company H even though its indirectly held ownership in company H is only 42 per cent - the product of its 70 per cent share of company G and company G's 60 per cent share in company H. However, it can be presumed to control company H because each entity in a chain of majority ownerships can control the entity below it, including that entity's actions with respect to the entities that are, in turn, below it.

Case IV

Company J is the foreign parent of company K. Company I is not UCI of company K because it is not the majority owner of company J. At this stage, it is not possible to define who the UCI of company K is, as it is not specified who owns the remaining 60% of company J. Also, company J is not included in the core FATS data for the economy of company I, because company I does not control company J.

Case V

Company M is the foreign parent company N. Because company M is, in turn, majority owned by company L, company L is definitely the UCI of company M, but it cannot be stated that company L is also the UCI of company N, not knowing who owns the remaining 60% of company N. However, company N is not covered by FATS because it is not controlled by its foreign parent.

Case VI

Company O is the foreign parent and could be the UCI of company P if no other foreign investor also owns 50% of company P, in that case other criteria to identify the UCI would have to be taken into account. Usually, company P is not covered by FATS because it is not majority owned by its foreign parent, but it nonetheless represents a case that may be deemed relevant for the purposes of GATS or globalisation analysis. Thus, the compiling country may wish to show data for company P (and other cases of interest) on a supplemental basis.