

**Sixteenth Meeting of the
IMF Committee on Balance of Payments Statistics
Washington D.C., December 1–5, 2003**

Recent Work by the IMF's Statistics Department in the Area of FDI Statistics

**Prepared by the Statistics Department
International Monetary Fund**

RECENT WORK BY THE IMF'S STATISTICS DEPARTMENT IN THE AREA OF FDI STATISTICS

1. With the integration of international capital markets, global inflows of foreign direct investment (FDI) grew strongly during the 1990s, at rates well above those of global economic growth or trade. Although industrial countries have long been the dominant providers and recipients of FDI capital, FDI inflows into developing and emerging market countries recorded a steady expansion from the early 1990s, reaching a peak of US\$250 billion in 2000, declining to US\$215 billion in 2001.¹ The growing importance of FDI has placed the activities of direct investors and direct investment enterprises under increasing scrutiny by international organizations, and presented new challenges for statistical recording, balance of payments projections, surveillance, and vulnerability assessment. These developments have raised demands for new statistical work in industrial and developing countries and in the IMF and other involved international/regional organizations.
2. Countries are compiling and disseminating more data on FDI transactions and stocks and increasingly adopting the recommendations of the international statistical manuals. However, despite these improvements, and reflecting the complexities of compiling these data, there remain important deficiencies in the coverage and comparability of data in both industrialized and developing countries. One symptom of these deficiencies is the sizeable discrepancies in global aggregations of FDI outflows and inflows published by the IMF's Statistics Department (STA).
3. At the request of the IMF's Executive Board for a seminar on the topic of foreign direct investment, STA prepared a paper—*Foreign Direct Investment Trends and Statistics* (SM/03/363, October 28, 2003)—and a summary paper (SM/03/363, Supplement 1, October 28, 2003). The seminar was held on November 19, 2003 and this note provides for the information of the IMF Committee on Balance Payments Statistics (Committee) a brief overview of three recent initiatives to improve the availability of information on FDI statistics, both metadata and statistics, which were described in the seminar papers.
Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI)
4. At the end of October 2003, the IMF published *Foreign Direct Investment Statistics—How Countries Measure FDI, 2001*, which contained the results of the joint IMF/OECD update of the 1997 Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI).² The 2001 SIMSDI update was restricted to 61 countries—a subset of

¹ FDI inflows into industrial countries reached a record US\$1.5 trillion in 2000, driven by large cross-border mergers and acquisitions. They declined to US\$729 billion in 2001.

² Copies of this publication were distributed to members of the Committee in early November 2003.

the 114 countries that participated in the 1997 SIMSDI—and covered the 30 OECD countries and 31 other countries, including all of the SDDS subscribers.

5. The report on the results of the 2001 update showed that there have been marked improvements since 1997 in both the availability of FDI statistics, particularly in position data, and in the application of a number of the recommendations set out in the *Balance of Payments Manual*, fifth edition (*BPM5*) and the third edition of the OECD's *Benchmark Definition of Foreign Direct Investment (Benchmark Definition)*.³ However, it also showed that there are gaps in the available data and there remain a number of important areas where the majority of countries surveyed have not yet implemented the international recommendations. The report provided a wealth of information on country compilation and dissemination practices and how these practices compared across countries and against the recommendations set out in the international statistical manuals.

6. The IMF and OECD are launching another joint SIMSDI survey in late 2003. The questionnaire for the 2003 SIMSDI has been modified to take into account the changes in the methodology introduced since 1997, and will be sent to significantly more countries than the 61 covered by the 2001 SIMSDI update. As with the 2001 update, summary metadata drafted in consultation with national compilers and cross-country comparison tables will be prepared and are expected to be posted on the IMF's website in late 2004. A joint IMF/OECD report will also be prepared and is expected to be published in 2005. At the November 19 seminar on foreign direct investment, the IMF's Executive Board supported continuing the SIMSDI exercise and extending it to cover a larger segment of the IMF's membership.

Feasibility Study of a Coordinated Direct Investment Survey

7. Despite many improvements that are evident from the SIMSDI, the global balance of payments statistics and the SIMSDI findings reveal important deficiencies in the coverage and comparability of data in both industrial and developing countries. Countries have been working to make these improvements and the IMF and other international organizations have helped them through the provision of methodological materials, technical assistance, training courses, and workshops. The question arises whether these activities are sufficient to address emerging data requirements or whether a major internationally coordinated effort would be required, along the lines of the Coordinated Portfolio Investment Survey (CPIS). In this regard, the paper for the seminar contained a proposal to conduct a feasibility study on undertaking an internationally coordinated direct investment survey to improve data compilation and data availability. As for the CPIS, participation in this survey would be voluntary.

8. A coordinated survey of direct investment positions could address data deficiencies in this area of statistics, moving on from the IMF's work on the CPIS, the work of the Inter-

³ Summary metadata prepared in consultation with the countries and cross-country comparison tables organized by statistical issue have also been posted on the IMF's website, see <http://www.imf.org/external/np/sta/di/mdb97.htm>

Agency Task Force on Finance Statistics on external debt, and the BIS's International Banking Statistics. The IMF's Executive Board supported the need for improved FDI statistics and agreed with the proposal to proceed with a feasibility study in 2004 to gauge the level of international interest and to assess the costs and merits of conducting a coordinated survey of direct investment positions. The Board asked that the staff take account of policy needs that are presently being explored in the IMF and to consider carefully the costs that such an exercise would impose on countries, taking into account the resource constraints that many developing countries face. In addition, the Board strongly urged coordination with other involved international and regional organizations, such as the OECD, UNCTAD, ECB, Eurostat, and ASEAN. The Board also suggested the possibility of obtaining, for countries, funding from other agencies and donors could be investigated. Upon completion of the feasibility study, STA would report back to the Board.

9. With the right level of participation, a coordinated direct investment survey could be expected to create a comprehensive database for use by compilers and users of FDI statistics. There would be improvements in the coverage of FDI and international investment position statistics; comparability of FDI statistics across countries; and data on the geographic distribution of FDI capital. Regarding the latter, creditor/investor data could be used to generate inward FDI data for nonparticipating countries. More generally, the compiled and partner country data could be used to evaluate and/or identify potential gaps in the coverage of national data on FDI capital and related investment income flows. Such an FDI database would also provide additional information on bilateral links/exposures, complementing the data on portfolio and banking exposures available in the CPIS and the BIS International Banking Statistics. However, in order for the survey to be successful, complex measurement issues (such as, obtaining across countries consistent valuation of stock positions and consistent treatment of indirectly-held enterprises) would need to be confronted.

10. Box 1 at the end of this note, taken from the Board seminar paper, provides an outline of the tasks for the conduct of a coordinated direct investment survey. In item 4 of the box, it is noted that the feasibility study would start by obtaining advice from the Committee and would be conducted under the auspices of the Committee. The paper notes that a coordinated direct investment survey would be a major undertaking and would likely involve a larger number of participating economies than was the case for the CPIS. It would also involve coordination with a wider range of involved international organizations, require more resources to implement than did the CPIS, and, very importantly, require many participating countries to modify their existing collection and compilation systems or develop new systems.

11. It would be useful to highlight, at this early stage, the significance of the requirement, if the survey were to be undertaken, to develop and/or modify compilation systems. From the standpoint of many developing economies, additional resources are very likely to be required to introduce new collections to participate in the direct investment survey. On the other hand, industrial countries that have well-established collection systems may be reluctant to introduce changes in line with the recommendations set out in the *BPM5* and *Benchmark Definition*. The report on the 2001 SIMSDI update showed that only one country—

Australia—of the 61 that participated in the 2001 SIMSDI update implemented all of the *BPM5* guidelines reviewed in the survey.

Methodological work in the area of FDI statistics

12. Lastly, *Plans for Preparation and Finalization of New Manual* (BOPCOM-3/40) discusses a proposed timetable for the preparation and finalization of work on the new balance of payments manual. In addition to the role of the IMF and the Committee in this process, one or more expert groups are proposed to assist in the resolution of more detailed issues and to undertake a general review of the draft of the manual.

13. In view of the range, complexity, and specialization of issues on direct investment, it is also proposed that a separate Direct Investment Technical Experts Group (DITEG) be established. The OECD plans to revise its *Benchmark Definition* in parallel with the update of *BPM5* and has proposed a Benchmark Definition Advisory Group (BAG) to assist in the process. The IMF and OECD have developed a proposal for a joint IMF/OECD DITEG involving the BAG members as well as a number of other OECD and non-OECD member countries. Members would have a range of experience and background, while having a familiarity with the concepts and detailed practical understanding of the issues. The proposal recognizes that the methodological issues for review by the two organizations are almost identical, and is intended to address potential coordination difficulties, as well as the heavy burden placed on FDI experts involved in the review work. DITEG members, the IMF staff, the OECD staff, and others would provide discussion papers to the DITEG to assist in the deliberations, with options or recommendations to be tabled for consideration by the Committee and the OECD Experts Group on International Investment. Once the methodological review work has been completed, the BAG will reconstitute itself as an independent group to advise the OECD on the drafting of the fourth edition of the *Benchmark Definition*. The joint DITEG could also be a forerunner for the feasibility study for the possible coordinated survey of direct investment positions, if that project were to be undertaken. A decision on the proposal to form the joint DITEG is being made to the OECD's Workshop on International Investment and the same proposal is being presented to the Committee.

Issues for Discussion

1. Does the Committee have initial views on whether the feasibility study is likely to conclude that the merits of a coordinated survey of direct investment positions exceed the costs to countries and international organizations of the undertaking?
2. What suggestions does the Committee have for issues to be considered in the study?
3. What are some of the more difficult problems that are likely to be identified in the feasibility study?
4. Does the Committee agree with the proposal for a joint IMF/OECD DITEG to assist in the *BPM5* updating process?

Box 1. Outline of Tasks for the Conduct of a Coordinated Direct Investment Survey

The implementation of an internationally coordinated survey of FDI positions would entail considerable organization and staff and financial resources in countries and international organizations. In several important respects such an undertaking would be larger in scope than the 1997 and 2001 Coordinated Portfolio Investment Surveys (CPIS), which were conducted under the auspices of the IMF. The following sets out the objectives of the undertaking and highlights some of the key tasks likely to be involved in the conduct of a coordinated direct investment survey (CDIS):

Objectives: (i) Simultaneous collection using standard methodologies of comprehensive information, with geographic breakdowns (on an immediate country basis) of the stock of FDI; the survey would involve the collection of stock data on inward direct investment by all participating countries, and possibly stock data on outward direct investment as well for the large investing countries; (ii) the exchange of the bilateral data among countries; (iii) spreading best practice in the compilation of stock data in order to develop IIP statistics; and (iv) provision of an assessment of the global information on the stock of FDI capital, including the geographic distribution of this capital.

Key tasks

1. *Coverage:* Likely to involve the participation of significantly more than the 67 economies that participated in the 2001 CPIS, given the wider distribution of FDI capital compared with portfolio investment capital.
2. *Inter-agency coordination:* In addition to the IMF, a CDIS would likely also involve the OECD, UNCTAD, and the World Bank given the roles these agencies play in direct investment data collection and technical assistance, as well as regional organizations such as Eurostat. By comparison, the CPIS was principally overseen by the IMF.
3. *Country acceptance of guidelines:* Some major industrial countries with long-established collection systems may be reluctant to modify their systems to collect the data agreed for the CDIS. Also, to effect a successful exchange of bilateral data it would be important to cover all of the large investing countries.
4. *Outreach and feasibility study:* The first tasks would be to (i) obtain the advice of the IMF Committee on Balance of Payments Statistics (the Committee); and (ii) conduct a feasibility study, under the auspices of the Committee, that would include gauging international agency and country interest in the project and determining whether the IMF could absorb the costs within its medium-term expenditure framework.
5. *Preparatory work:* If the CDIS is deemed feasible by the Committee and the staff, (i) report to the Executive Board; (ii) organize a task force comprising national compilers and the involved international agencies to establish the timetable and scope of the survey, agreed definitions, valuation principles, and modalities for data collection (and exchange of data); (iii) prepare a survey guide; and (iv) conduct a series of regional seminars and workshops to explain reporting requirements and resolve technical difficulties.
6. *Country data processing and dissemination:* Tasks would include (i) design and develop the survey and the collection and processing system; (ii) conduct the survey; (iii) review/check enterprise reports and compile statistics; (iv) prepare metadata on how the survey was conducted; and (v) analyze and disseminate data, and report to the IMF.
7. *IMF data processing and dissemination:* Tasks would include (i) design and develop the data processing system, including the mechanism for exchange of bilateral data; (ii) review/check country data submissions and related metadata, including assessments of data quality; and (iii) analyze data and produce publication.