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Foreign Direct Investment Statistics: How to Better Meet User Needs

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Organisation de Coopération et de Développement Economiques
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English - Or. English

DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
INVESTMENT COMMITTEE

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Workshop on International Investment Statistics

FOREIGN DIRECT INVESTMENT STATISTICS: HOW TO BETTER MEET USER NEEDS

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Box 1. Consultation with OECD policy experts

At its meeting on 13-14 September 2006, the Working Party[1] of the Investment Committee[2] provided further guidance to the Secretariat on user needs to be considered in the revision of the *OECD Benchmark Definition of Foreign Direct Investment.*

The Working Party confirmed the importance of maintaining consistency of FDI statistics published by the IMF and the OECD. On the other hand, participants agreed that it is as important to measure direct investment activity according to ultimate investing/host country ("genuine" FDI) and supported the view that a second FDI series based on such a concept would be most useful for analytical and policy making purposes.

The Secretariat was asked to report back to the Working Party on the development of the work of the Workshop on International Investment Statistics for the revision of the OECD *Benchmark Definition of Foreign Direct Investment*, including the feasibility of the proposal for the new FDI data series.

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1. The Working Party is one of the five subsidiary bodies of the Investment Committee

2. The Investment Committee(IC) is the parent committee of the Workshop on International Investment Statistics (WIIS). IC is the OECD committee responsible for the approval of the draft Benchmark Definition, 4th edition and its transmission to the OECD Council for final approval.

FOREIGN DIRECT INVESTMENT STATISTICS: HOW TO BETTER MEET USER NEEDS[1]

1. The purpose of the present note is to summarise a few recurrent user requirements regarding international direct investment statistics that have surfaced in the work of the Secretariat to the OECD Investment Committee. It aims to identify directions for immediate and future developments of data collection that would be supportive of the Committee's work and for the wider investment policy community. It is hoped that the note may serve as a timely input to the meeting of the OECD Workshop on International Investment Statistics on 24-26 April 2006.

2. On the whole, the use the investment policy community makes, or attempts to make, of data on foreign direct investment (FDI) derives from its monitoring of multinational enterprises and their cross-border transactions. Based on the Investment Committee's undertakings in the last few years, at least four priority areas for policy makers can be identified, which would benefit from adequate FDI statistics:

- *Attractiveness of the domestic economy as an investment location.* A persistent concern for members of the Investment Committee, faced with their domestic constituencies and press, is the "pull" that their jurisdiction exerts on multinational enterprises as evidenced by the latter's investment decisions. Analysts look to inward FDI flows, including sectoral breakdowns, as an indicator of shifts in investors' location preferences.

- *The opportunities and challenges when domestic enterprises move offshore.* The issue of "globalisation" has gained major importance in recent years, with many OECD governments fearing that off-shoring and outsourcing erodes their industrial base. Analysts look to outward FDI flows, including sectoral and partner country breakdowns, as an indicator of the trends in this process.

- *"Unwelcome" mergers and acquisitions, strategic sectors and national champions.* Concerns about foreign takeovers of enterprises of importance to national security or representing invaluable national competences have led many countries to tighten rules and administrative procedures bearing on cross-border mergers and acquisitions. They look to sectoral inward and outward FDI flows to gauge the magnitude of the problem.

- *Investment for development: FDI from the OECD area to poorer countries.* Following the Monterrey Consensus, which established FDI as a main source of development finance including in conjunction with official assistance, increasing attention has been given to the size and

1. This note was initially prepared for the April 2006 meeting of the OECD Workshop on International Investment Statistics.

directions of investment flows from industrialised countries to the developing world. Analysts use bilateral FDI data between OECD and partner countries for precise information on the magnitude of such flows.

3. It follows from the above that the range of questions that investment policy practitioners hope to address by means of statistics cannot be answered by aggregate data alone. For instance, a recurrent mistake by the press is to infer from a slump in inward FDI that foreign investors "shun" the domestic economy and that this indicates either structural problems or a policy failure. Not infrequently, such fluctuations a triggered by flows other than equity investment. One recent example was the public interest that the OECD Secretariat had to cope with when Germany's inward FDI in 2004 turned sharply negative. Among other things, the Secretariat had to decline three international television stations requesting interviews to discuss this "dramatic worsening of the investment climate in Core-Europe". The drop in the figures actually reflected a withdrawal of intra-company loans in response to changes in the German corporate tax code. Similar misunderstandings might spring from the 2005 US outward FDI flows, which fell to one of their lowest levels on record owing to the repatriation of previously reinvested earnings.

4. The challenge that presents itself would seem to be that on the one hand the direct investment statistics presently compiled by OECD reporting countries are internationally recognised as being of the highest quality (and consistent with similar data processed by IMF and Eurostat). On the other hand, they are insufficient to meet the needs of a highly motivated user community. The solution would seem to be to continue providing data within the present reporting definitions and reporting frameworks, but to provide users with a small number of "essential dimensions" along which overall data can be broken down when the analytical needs justify it. Based on recent experiences from the Secretariat's work for the Investment Committee, the essential dimensions include:

1. *In-depth information about partner countries.* Not all reporting countries presently provide detailed bilateral data except vis-à-vis other OECD countries and a few major players outside the reporting area. This is an area of major concern. Reflecting the Committee's outreach priorities, requests on the Secretariat to provide information about members' investment in individual countries in southern and eastern Asia, Africa and the Middle East are multiplying.

2. *Detailed equity investment data.* One of the most frequently heard demands is that the OECD should be able to tell how much of its member countries' inward FDI is in the form of "new productive investment" (in other words greenfield investment – which is universally welcomed by policy makers) and cross-border takeovers of existing companies (that is, mergers and acquisitions – of which many members take a more ambivalent view).

3. *"Real" investment as opposed to "paper transactions".* In the eyes of the investment policy community, when a multinational enterprise in country X acquires a subsidiary in country Y for a price Z then, for most intents and purposes, an investment flow of size Z has taken place from country X to country Y. For instance, inflows and outflows of third countries in which corporate holding companies may be located are mostly considered as irrelevant and an unwelcome distraction. In other words, analysts would ideally like to be able to identify the origin and ultimate beneficiaries in all FDI transactions.

4. *Special purpose entities.* Many FDI transactions of real economic significance are undertaken via holding companies and special purpose entities (SPEs), so simply disregarding transactions to and from SPEs would be counter productive. Conversely, the FDI figures for several OECD countries are entirely distorted by the presence of SPEs. (One example is the large concurrent jumps in inward and outward FDI in the BeNeLux countries.) There is a need to disregard at least

purely pass-trough investment, and ideally trace such flows back to their origin and forward to their destination.

5. A separate issue relates to the links between FDI statistics and datasets aimed at describing the post-entry actions of multinational enterprises. One such example is the information on foreign affiliates contained in the OECD Globalisation Indicators. It is a matter of concern to analysts that sectoral, geographic and other breakdowns are consistent across the different databases, and that an effort is made throughout to ensure the broadest possible coverage.

6. Finally, a point which goes somewhat beyond identifying essential dimensions relates to *new forms of corporate linkups.* Private data vendors increasingly collect data on strategic alliances, transfer of know-how, joint ventures, etc. on the same platform as mergers and acquisitions. This is consistent with the thinking behind the "new economy" paradigm, and also with international investment agreements which increasingly treat intellectual assents and contractual entitlements to a future stream of incomes as "international investment". It is not clear that such data could be accommodated in the present reporting and dissemination platforms for the OECD International Direct Investment Database, but the Workshop's consideration of the issues and ideas for future developments in this area would be welcome.