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**Work of the  
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## **WORK OF THE OECD WORKING GROUP ON INTERNATIONAL INVESTMENT STATISTICS: REPORT BY THE OECD<sup>1</sup>**

1. The OECD Working Group on International Investment Statistics (WGIIS) held several meetings in 2009, covering a range of activities. In addition to WGIIS meetings which are solely devoted to investment issues, other meetings were organised as joint sessions with the Working Group on Globalisation of Industry (WPGI). Substantial attention was devoted to the joint work in response to the OECD Council recommendation on harmonisation and integration of FDI statistics and the statistics on the activities of multinational enterprises (AMNE)<sup>2</sup>.

2. The present document provides a summary of these discussions<sup>3</sup> which could be of interest to the IMF Committee on Balance of Payments Statistics. The paper is divided into two parts which are supplemented by several annexes:

- (i) Selected issues relating to BMD4 implementation
- (ii) Harmonisation and integration of OECD's FDI/AMNE statistics

### **1. SELECTED ISSUES RELATING TO BMD4 IMPLEMENTATION**

#### ***1.1 Issues related to FDI methodology***

3. WGIIS discussed issues related to BMD4 implementation under its regular Tour d'Horizon item. Issues selected for the attention of BOPCOM relate to valuation, supplemental series, directional principle, recording intangible assets and BMD4 communication policy.

##### *1.1.1 Valuation of DI equity stocks in France*

4. France presented its revised methodology to value FDI equity stocks based on market capitalisation ratio. Hereafter, market capitalisation ratio will be applied to both inward and outward investment in unlisted companies (as opposed to different methods used previously). The new method has a more representative industrial approach to calculate capitalisation ratio by branch and uses shareholder's equity from consolidated financial statements. Data are collected separately for inward/outward "peer groups".

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<sup>1</sup> By Ayse Bertrand: Secretariat of WGIIS, Investment Division, DAF

<sup>2</sup> Also referred to as the Foreign AffiaTes Statistics – FATS which, however, excludes statistics on head-quarters.

<sup>3</sup> 2009 meetings: 25 March: Confidential meetings on OECD accession open to OECD members only; 26-27 March : Joint WGIIS/WPGI meeting; 6-7 (a.m.) October: WGIIS meeting; 7(p.m)-8 October 2009 WGIIS/WPGI meeting.

5. The outcome of the exercise indicated for 2007 that the market value for FDI stocks in listed companies was more than 30% lower than the market value based on the old method (-35% for outward investment and -32% for inward investment).

*1.1.2 Supplemental series and directional principle in Italian FDI statistics*

6. Current FDI statistics of Italy are primarily based on settlement data reported by banks resident in Italy on behalf of their clients. FDI stocks are derived by cumulating net FDI flows. With this method, non-resident counterparts cannot be identified separately and it is not possible to distinguish enterprises by type, e.g. Special Purpose Entities. Some reclassification of transactions is necessary to apply the directional principle recommended previously in BMD3 (limited to reverse investments). Directional principle recommended by BMD4 cannot be implemented with the current system. Italy will implement a new direct reporting system which was launched in 2008 and will abandon the settlement system. Preliminary results obtained from the new data collection system were presented to WGIIS.

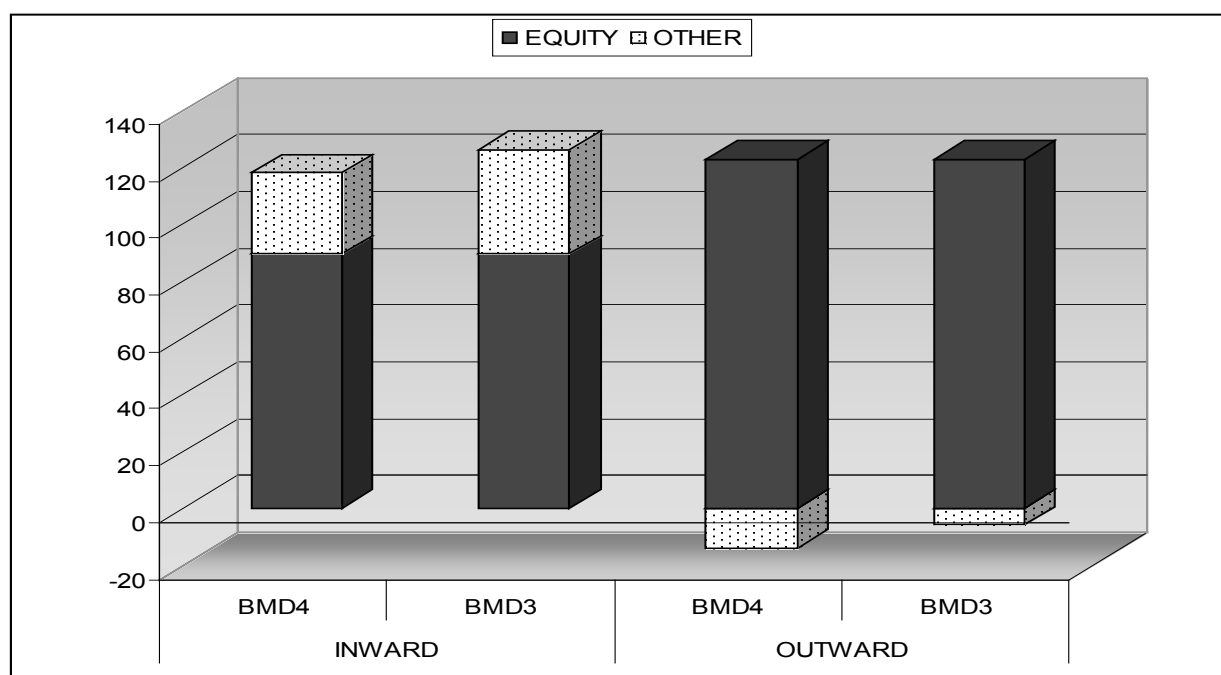
7. BMD4 recommends that supplemental series be compiled for FDI equity flows identifying the purchase/sale of existing shares in the form of mergers and acquisitions (M&A). Recognising the analytical significance of such breakdowns, new questionnaires give the possibility of distinguishing M&As, greenfield investments, extension of capital and financial restructuring. Preliminary results indicate reliable quality information and respondents had a good comprehension of the concepts proposed.

8. Looking through SPEs is also recommended on a supplemental basis by BMD4 in order to obtain a meaningful country allocation for FDI. Italy is not traditionally a SPE country. Such entities resident in Italy do not have a significant impact on FDI statistics. In contrast, non-resident SPEs are quite relevant and may distort the geographical distribution of Italian FDI. The new survey, will allow distinguishing SPEs among the other counterparts when a direct participation link exists. The instructions of the questionnaires are based on the criteria for the identification of SPEs proposed in chapter 6 of BMD4. However, Italy adopted a stepwise to “look through” SPEs which requires testing the reliability of information at each step.

9. BMD4 recommends the use of directional principle according to which the direction of transactions/positions between fellow enterprises is determined on the basis of the residence of the ultimate controlling parent (UCP). The new FDI data collection system of Italy allows the implementation of the directional principle while it provides information by type of entity and on the UCP.

10. Preliminary results of the test exercise on the application of the directional principle are convincing. In other words, these results do not comfort the assumption that BMD4 recommendation to extend the directional principle will result in negative figures or, at least, very significant decreases.

**Chart 1. Comparison between BMD3 and BMD4 for Inward and Outward FDI: reported Italian stock data**  
[source COM/DAF/DSTI/WD(2009)4]



11. Outcomes presented by Italy correspond to preliminary raw results before any grossing up. Total amounts of inward and outward FDI stocks calculated according to BMD4 directional principle are around 6-7% lower than total according to BMD3 methodology. Differences are mainly in debt instruments. The negative value observed in outward debt instruments is due to assets concentrated in a few big companies which should disappear after grossing up the data. For more information, see Annex 1 of the present document which includes other extracts from the original document [COM/DAF/DSTI/WD(2009)4].

**Comparison between BMD3 and BMD4 for inward/outward FDI: reported Italian stock data, 2007**  
(Mill. €)

|        | Inward  |         |               | Outward |         |               |
|--------|---------|---------|---------------|---------|---------|---------------|
|        | BMD4    | BMD3    | BMD4/BMD3*100 | BMD4    | BMD3    | BMD4/BMD3*100 |
| EQUITY | 89,378  | 89,378  | 100%          | 122,644 | 122,644 | 100.0%        |
| OTHER  | 28,581  | 36,694  | 78%           | -13,969 | -5,856  | 239%          |
| TOTAL  | 117,958 | 126,072 | 94%           | 108,674 | 116,788 | 93%           |

Source: COM/DAF/DSTI/WD(2009)4

*1.1.3 FDI income*

12. Canada drew the attention of WGIIS to growing importance of FDI income and to its volatility as a result of cyclical variations in corporate earnings and distributions and ongoing reorganisation of MNEs reflected by M&A operations. Canada reminded the group that “income” has been identified as a key element of the SNA research agenda. There are issues of contention between national accountants regarding the treatment of dividends, re-invested earning and holding gains/losses related to equity. WGIIS was asked to follow closely the discussions and take part in them, as it constitutes a forum of FDI experts.

13. Spain raised practical issues related to reinvested earnings particularly in relation to the need for more work and experience sharing to improve methods of reinvested earnings forecasts.

*1.1.4 Special cases*

Statistical treatment of intangible assets in FDI transactions

14. In April 2009, there was a press announcement regarding a strategic alliance of Fiat and Chrysler. This information was subject to a press release at end-April which can be accessed at the website of Fiat Group, i.e. disseminated to the public. According to this press release, the creation of a new automotive company aims at bringing together Fiat's technology, platforms and distribution network in Latin America and Europe with Chrysler's heritage and strong North American presence. Through this alliance, the two companies aim at solving the problems that Chrysler had in recent years.

15. This particular operation has special features: (i) Fiat's contribution to Chrysler rights in various platforms, technologies, models, management services and co-operation and assistance in key areas of Chrysler's business, such as procurement and international distribution; and (ii) Fiat's acquisition of a shareholding in Chrysler.

**Box 1. Abstract of the press releases concerning relevant aspects for Italian FDI and BOP statistics**

The transaction has been implemented through an expedited sale of substantially all Chrysler's business (without certain debts and liabilities) to a "Newco" pursuant to certain provision of the US Bankruptcy Code. The "NewCo" is a US company which assumes the corporate name of Chrysler.

Fiat acquires an equity interest equal to 20% (by vote and value) and Fiat enters into certain industrial agreement with Chrysler. Fiat will have right to first increase of the 15% its share in the equity capital and later on to purchase an additional 16% of the equity capital of "Newco". The 35 % (20%+15%) of the participation in the equity capital is exchanged with licences, know-how, consultancy and commercial services to be provided by Fiat to "Newco".

**At a first stage** the relevant equity shareholding of "Newco" is the following:

- VEBA (Voluntary Employee Benefit Association) hold the 55% of the equity capital of Newco, This shares are administrated by U.S Treasury
- Fiat holds the 20% of "NewCo" equity capital
- The Canadian Government and the US Treasury hold jointly the 10% of the equity capital of "Newco"

**At a second stage** Fiat will have the right to receive up to an additional 15% equity interest (by vote and value). This stake can be obtained in three tranches of 5% each, subject to the achievement of predetermined targets (a commitment for Chrysler to transfer these share of equity in case predetermined conditions are satisfied).

**At a third stage** Fiat will be able to exert an option to purchase an additional 16 % shareholding (exercisable from January 2013 to June 2016). The price of such incremental equity will be determined in accordance to certain market standards but in any event will not exceed the then Fiat market multiple. This option is subject to some conditions linked to the repayment of the loan granted by the US treasury.

Source: DAF/INV/STAT/WD(2009)1



16. Based on this public information (see also Text Box 1), and without indicating any confidential elements of the operation, Italy presented its balance of payments and FDI treatment of the operation. The following table, an extract from this document [DAF/INV/STAT/WD(2009)1] provides a summary of Italy's statistical treatment based on publicly available information. WGIIS had interest in following up this operation as much as publicly available information permits.

**Summary of the information available from the press release.**

|              |           | Acquisition by FIAT         |           |  |                     |           | Acquisition by Chrysler                     |   |                                   |  |
|--------------|-----------|-----------------------------|-----------|--|---------------------|-----------|---|---|-----------------------------------|--|
|              |           | Financial acquisition       | Condition | BOP Item for Italy                                   | Other Acquisitions  | condition | BOP Item for Italy                          | Other Acquisitions  | Condition                         | BOP item for Italy   |
| First stage  |           | 20% of Newco equity capital | no        | Direct investment abroad equity capital=<br><b>X</b> | Commercial services | no        | Import of commercial services=<br><b>X4</b> | Intangible assets<br>Management services<br>Commercial services | no                                | Transfer of technology=<br><b>X1</b><br>Export of management services = <b>X2</b><br>Export of Commercial services=<br><b>X3</b> |
| Second stage | tranche 1 | 5% of Newco equity capital  | yes       |  |                     |           |   |   |                                   |  |
|              | tranche 2 | 5% of Newco equity capital  | yes       |  |                     |           |   |   |                                   |  |
|              | tranche 3 | 5% of Newco equity capital  | yes       |  |                     |           |   |   |                                   |  |
| Third stage  |           | 16% of Newco equity capital | yes       | Direct investment abroad equity capital              |                     |           | Settlement                                  | yes   | Depends on the type of settlement |  |

Government investment in private sector

17. Canada raised the issue of government investment in a non-resident enterprise as a consequence of financial crises. Even though government intervention usually takes place within the domestic economy, global crises has led the governments to go abroad to provide assistance to non-resident private entities which have resident affiliates facing financial difficulties. This issue bring forth measurement issues related to FDI threshold (e.g. when there is a combination of central and state and local government); to lasting interest and to valuation. (see examples of Government investment in Annex 3). Moreover, it raises other issues related to cross-border government involvement in multinationals in distress.

*1..1.5 Research agenda*

18. WGIIS finalised three reports within the framework of its research agenda:

- Directional principle: an empirical study based on examples
- Issues concerning access to voting power
- The treatment of multi-territory enterprises

19. These reports were initially drafted by electronic discussion groups composed of a few members only and later discussed and approved by WGIIS. Upon recommendation by BOPCOM in 2008, the Secretariat also submitted draft reports to the Committee for their comments. Outcomes of the reports will be disseminated on OECD web site.

20. Regarding the research agenda on capital in transit, WGIIS postponed the work to a later time without indicating a specific time-frame. WGIIS welcomes participation by IMF to this important work and would like to assess the issues in the light of the financial crises, if and when relevant.

## **1.2 Other issues**

### **1.2.1 BMD4 Communication policy**

21. BMD4 introduced a number of changes bringing the measurement of FDI into line with economic and financial developments since the last revision in 1995. WGIIS agreed to establish a well designed communication tool to present BMD4 to the public at large.

22. For a coherent and effective communication policy the quality of organisation is important. The following issues were underlined for consideration:

- (i) Identify the audience: *policy makers (official authorities), private/public investors, academics and researchers, international organisations, statistical compilers and other analysts.*
- (ii) Identify user needs: *coverage (types of FDI), extent of analytical details, timeliness, frequency, accessibility, reliability, comparability.*
- (iii) Identify communication platforms: *traditional paper publications/pamphlets or electronic tools, mostly internet.*
- (iv) Identify substantive issues: *take a top/down approach to address substantive issues for all types of users*
- (v) Identify proper timing: *Start in 2010 when data on BMD4 are available. Without any data, the presentation is likely to be considered as theoretical by a large number of users and, therefore, not attract much attention.*

### **1.2.2 Data quality**

23. WGIIS discussed possible improvements of OECD's FDI statistics, including issues related to data confidentiality.

## **2. HARMONISATION AND INTEGRATION OF FDI AND ANME STATISTICS**

### **2.1 Organisation of OECD's FDI/AMNE statistics as a horizontal activity**

24. Recognising the need for co-ordinated action, the Working Group on International Investment Statistics and the Working Party on Globalisation of Industry held their first joint session on 28 March 2007. The following observations highlight the main issues for close co-operation between statistical experts of FDI and AMNEs:

- (i) There are *recognised divergences between the methodologies* for FDI statistics and the statistics on AMNEs.<sup>4</sup> These differences make it very difficult to establish sound linkages between the two data sets and may lead to misleading analytical results;
- (ii) There is *a recognised need to improve the dialogue between compilers* of FDI statistics and the statistics of AMNEs which fall under the responsibility of different national agencies in a large number of OECD and non-OECD countries. In countries where they are compiled in the same agency, the work is not necessarily conducted in the same department or the same division;
- (iii) There is no *guidance addressing the users as to how these data sets should be used in tandem and how they should be interpreted*, both basic data series as well as the indicators to be derived from them to measure globalisation and its effects;
- (iv) The revision of the Benchmark Definition of FDI was completed in 2008 bringing it into line with other international statistical standards, namely the *System of National Accounts, 2008* and the *Balance of Payments and International Investment Position Manual, 6<sup>th</sup> edition*. The *Handbook on Economic Globalisation Indicators (2005)* will have to be revised to bring the basic concepts into line with other macro-economic and financial statistics;
- (v) *Possible reduction of the reporting burden and the related costs of statistical systems* as a result of close co-operation between FDI and AMNE compilers.

25. Considering the Council recommendation and the support received from Delegations, the Chair of the joint session consulted formally WGIIS and WPGI regarding issues related to future governance of the joint work. This consultation was addressed in a letter. Delegations unanimously supported a proposal to provide an adequate institutional framework for good governance of the joint work, including an institutional structure in the form of a joint working group, an official mandate and accountability in accordance with the Organisation's rules. Parent committees of WGIIS and WPGI, the Investment Committee and the Committee on Industry, Innovation and Entrepreneurship, have endorsed officially the mandate of a joint group. Hereafter, all statistical work related to AMNEs will be carried out under the auspices of the joint group while WPGI, in its standalone format, will deal with policy issues.

## 2.2 User Needs

26. Analysts monitoring the effects of globalisation wish to assess in tandem financial and economic activities of multinational enterprises. While FDI statistics provide financial measures of cross-border investments, AMNE statistics will inform on the impact of foreign-controlled enterprises on economic activities in home and host country.

27. Historically, FDI data, first compiled as part of "balance of payments statistics", developed into more detailed statistics since early 1980s. Methodological guidance is provided in BMD4.<sup>5</sup> Underlying concepts are consistent with those of balance of payments. Additional breakdowns were introduced in FDI statistics as building blocks to accommodate user needs which require a variety of analytical data series. OECD database on FDI statistics includes, for most countries, data as early as the first half of 1980s.

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<sup>4</sup> Methodologies relate to OECD Benchmark Definition of Foreign Direct Investment, 4<sup>th</sup> edition and the OECD Handbook on Economic Globalisation Indicators.

<sup>5</sup> First edition of BMD was in 1983.

28. AMNE statistics were developed from what is generally referred to as “business statistics” in national statistical systems. A presentation of these data according to common definitions and a consistent framework emerged much later. The OECD Handbook on Economic Globalisation Indicators (2005) (Handbook) is the first manual including recommendation on how these data should be compiled<sup>6</sup> and presented. OECD’s database includes AMNE statistics for manufacturing and services sectors. Most OECD countries provided these statistics since 1983. However, a number of improvements are still to be expected in terms of the availability of individual economic variables.

29. FDI and AMNE data sets are not consistent and the task to “reconcile” them could be complex. The measures of financial and economic variables are different as well as the guiding principles and underlying concepts. It is, therefore, necessary to define what “reconciliation” of FDI and AMNE statistics entails. In other words, does it imply full harmonisation of concepts or is it rather to improve them in order to allow analysts to use these two sets of data after having achieved a certain degree of consistency between them? OECD Council recommendation of 22 May 2008 BMD4 which instructs the Investment Committee on the “harmonisation and integration” of FDI and AMNE statistics “to respond to the needs of the analysis of the global economy” leaves the modalities up to the experts define.

30. It is also necessary to explore further user needs to identify specific questions which are implied by the Council recommendation keeping in mind that user needs usually evolve more rapidly than the responses. Putting in place new statistics require time and, in particular, additional resources. Hence, it is common sense to explore the use of existing information by seeking improvements and possible cost reductions, where feasible, to facilitate the implementation of these improvements. Annex 3 of the present document includes extracts from the Secretariat document on user needs.

31. The joint group:

- Supported the exercise and considered that the document covered most user needs but have made suggestions to improve the content (i) by putting further emphasis on the extent of internationalisation on items such as employment, wages, value added etc and extending host country analysis to home country as well; (ii) measuring complementarity between parent companies and their affiliates; (iii) distinguishing between purely statistical and analytical indicators; (iii) including investments other than FDI where relevant;
- Agreed to further examine of FDI and AMNE frameworks to bring into line the statistical concepts where possible and to improve the knowledge on how these two set of statistics can and should be analysed without changing the statistical frameworks they currently use. They also requested to include in the document reference to the importance of co-operation between compilers in national agencies with a view to limiting reporting burden of respondents;
- Agreed to take steps for improving the metadata for AMNE statistics by taking as example the Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI) but in a more simple configuration.

### 2.3 *A comparative checklist of concepts and methods*

32. The revision of major international standards were finalised in 2008, namely the SNA, BPM6, and BMD4. The OECD Handbook on Economic Globalisation Indicators was published in 2005. Eurostat revised in 2009 its FATS recommendations manual (first issued in 2007).

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<sup>6</sup> Eurostat FATS Recommendations Manual.

33. The Handbook not only provides the methodology of how data should be compiled but it also describes a number of standard and experimental economic indicators to analyse the extent of globalisation. The Handbook, in addition to some basic methodological descriptions, focuses mostly on indicators and how they measure globalisation. Therefore, the Handbook is not a typical methodological manual on how statistics should be compiled.

34. Revision of relevant chapters the Handbook and its co-ordination is part of the mandate of the joint group. However, this is a vast task requiring a stepwise approach. The joint group agreed to deal with the methodological issue in a pragmatic way. The Secretariat will present a draft “best practices” document at the next meeting, collecting information from existing material and paying special attention to valuable work conducted by Eurostat’s FATs experts.

35. The comparative checklist included the following items: type of investment relationship; statistical units; economic territory; institutional units; FDI relationship; resident versus non-resident affiliates; geographical allocation of inward/outward investments; basis industry classification; coverage of assets; type of assets. (see also Annex 4)

#### **2.4 FDI versus total financing**

36. The joint group agreed to explore an alternate presentation of MNE financing based on the measurement of total assets/and liabilities. However, it is to note that this is not an alternate presentation to BOP/IIP but another approach to analyse the financing of MNEs. Based on a proposal by Belgium, this new presentation is temporarily referred as the "economic measurement" which aims at evaluating the global "presence" abroad under the form of affiliated enterprises and of the "financial" weight of each direct investment enterprise.

37. MNEs have recourse to a variety of financing mechanisms, some of which are local financing facilities. A set of "financial" data obtained by analysing sources of finances of MNEs could provide a more complete tool to reconcile economic and financial variables of MNEs. Limiting the analysis to only FDI may be misleading even if direct investment is at the center of MNEs. The joint group will discuss a follow-up document on this issue at its next meeting.

#### **2.5 Using CPIS data for globalisation indicators**

38. The Handbook on Economic Globalisation Indicators noted that “*Some important issues that it was not possible to incorporate in this edition include: the role of financial markets, and particularly portfolio investment...*” (see page 27). Currently, the Handbook limits the coverage of cross-border investments to foreign direct investment which is derived from BMD3. In October 2008, the joint group agreed to develop a chapter on globalization indicators based on portfolio investment.

39. Two questions need to be answered: (i) Which indicators are meaningful to analyse globalization of portfolio investment? (ii) Which data series are required to compute these indicators?

40. There are two closely related data sources of cross-border portfolio investment statistics. They are both disseminated by the IMF based on the data compiled by national authorities:

- BOP/IIP statistics which represent aggregate data on portfolio assets/liabilities by instrument for broad categories of institutional sectors.

- Co-ordinated Portfolio Investment Survey (CPIS) data which is primarily an asset survey with several different breakdowns, some of which are subject to voluntary (encouraged) reporting.

41. The first step is to draw a list of questions on what portfolio investment based globalization indicators are expected to answer. Some of the questions are: What is the extent of diversification of cross-border portfolio holdings of a country and in which foreign currencies? What is the share of different instruments? Which institutional sectors are holders /issuers of securities? Which compartments of the market are more globalised than others? Is it sufficient to look at institutional sectors as opposed to industry sectors? Is it possible to relate portfolio investment, FDI and AMNE statistics? Etc. The joint group agreed with these questions but recommended that they should be further refined.

42. CPIS data and metadata are disseminated at the IMF Web site in the form of matrix tables in several formats (Excel, CVS and PDF).<sup>7</sup> The results of the CPIS are presented in four categories of statistical tables:

- (i) Tables showing data for individual reporting economies (which exclude securities held as reserve assets);
- (ii) Tables showing data for securities held as part of reserve assets and data for security holdings of international organizations (aggregated information only);
- (iii) Tables showing a geographic breakdown of data in matrix form for individual economies;
- (iv) Tables showing the global results of the CPIS.

43. All OECD countries participated in the CPIS and data for mandatory items are available. These are portfolio assets by non-resident issuers. Data encouraged but not mandatory are reported only by a limited number of countries (see table below). For example, assets broken down by currency of denomination are available only for 13 OECD countries which may be prohibitive for certain types of analysis. Moreover, data reporting on portfolio liabilities are also “encouraged”. Therefore, liabilities are derived from the assets reported by creditor countries. These derived amounts outstanding may be quite different than portfolio liabilities reported in the international investment position statistics.

44. Regarding sector classification, CPIS data relate to institutional sectors which are different than industry classifications used by FDI and AMNE statistics.

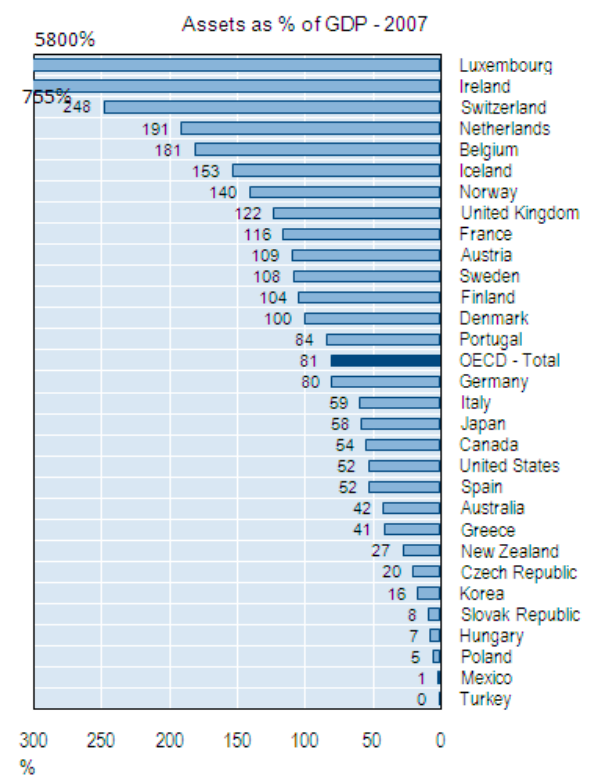
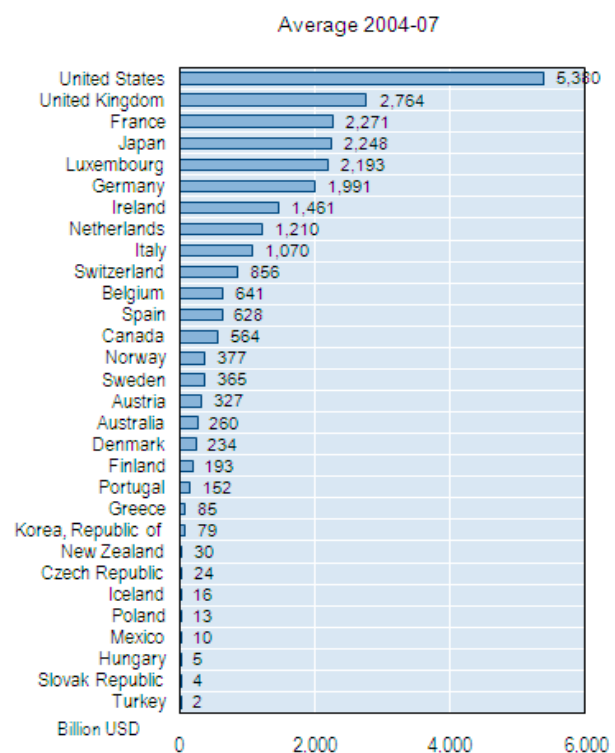
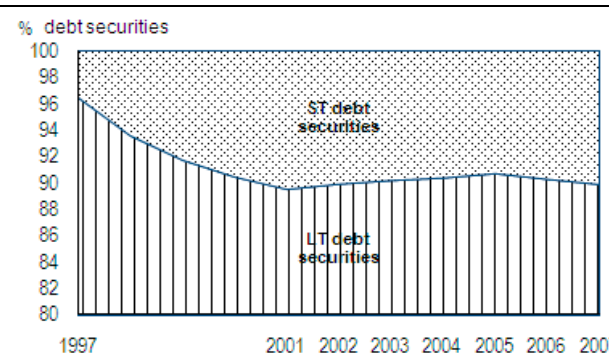
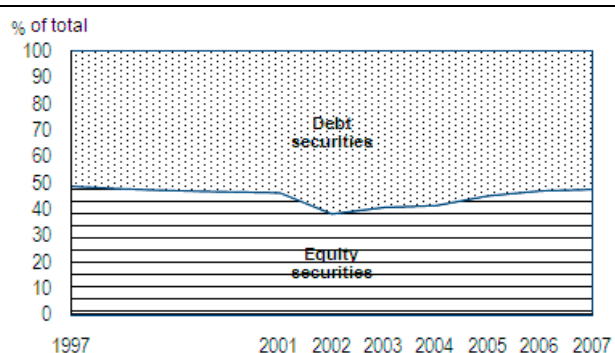
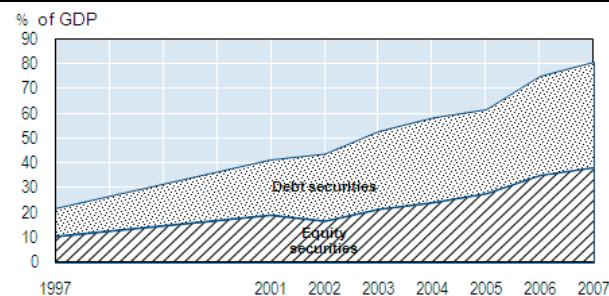
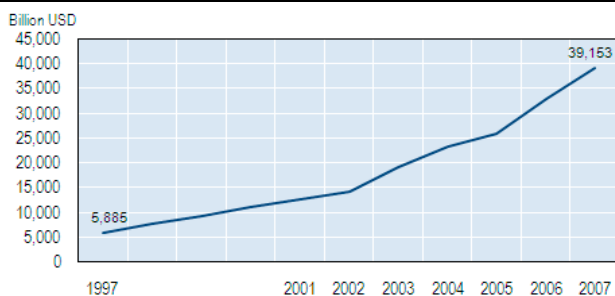
45. In spite of the fact that CPIS is mainly an asset survey and that liabilities are derived from the holdings of reporting countries, the joint group agreed to develop globalization indicators using CPIS and to examine portfolio assets as a first step.

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<sup>7</sup> CPIS web site: <http://imf.org/external/np/sta/pi/cpis.htm>

### Cross-border portfolio holdings of OECD Countries

Source: IMF-CPIS



| <b>CPIS instrument coverage</b> |                        |   |                             |   |                        |
|---------------------------------|------------------------|---|-----------------------------|---|------------------------|
|                                 |                        | <i><b>Assets</b></i><br><i>(holdings of residents of securities issued by non-residents – outward investment)</i>   |                             | <i><b>Liabilities</b></i><br><i>(issues by residents of securities held by non-residents – inward investment)</i> |                        |
| Mandatory items                 | by residence of issuer | Equity securities<br>[Ordinary share, Preference shares (participating and non-participating); Preferred stocks, Investment funds<br>Debt securities (bonds and notes, money market instruments)<br>Long-term debt securities<br>Short-term debt securities |                             |   |                        |
| Encouraged items                |                        | Equity securities<br>Long-term debt securities<br>Short-term debt securities  | by currency of denomination | Equity securities<br>Long-term debt securities<br>Short-term debt securities                                      | by residence of issuer |



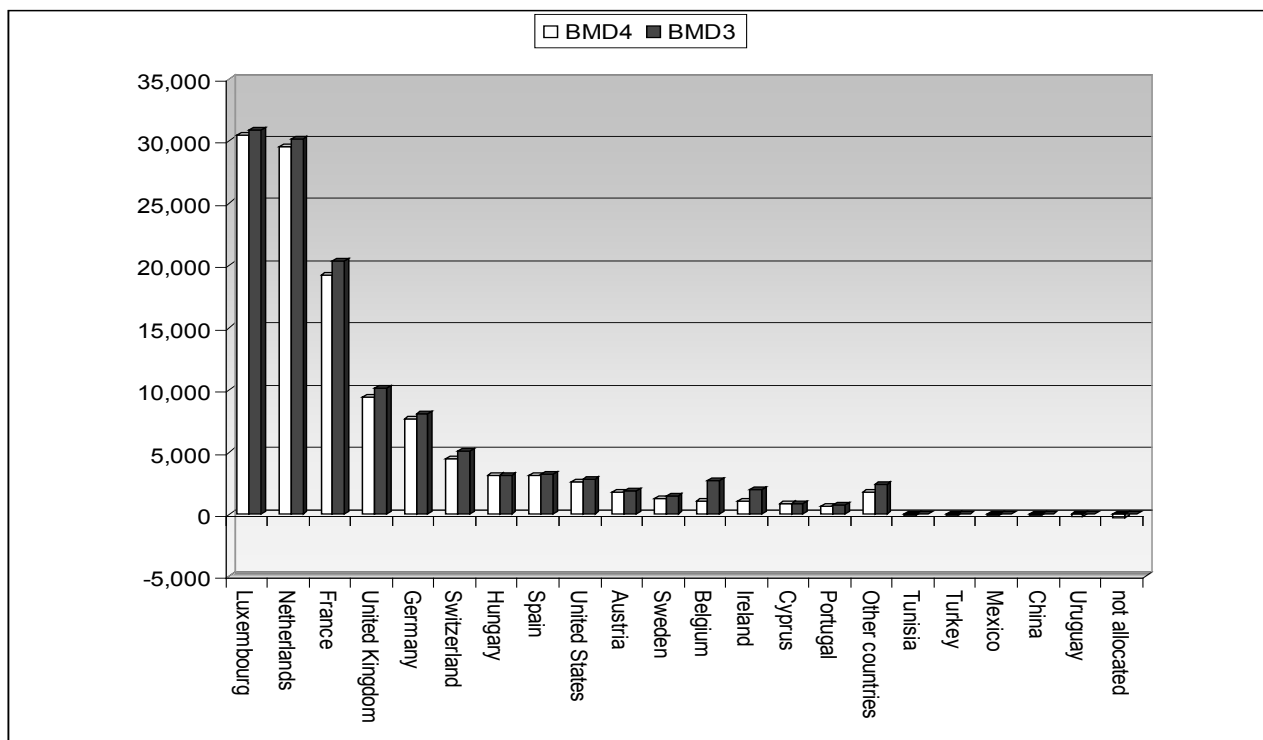
### ANNEX 1: IMPLEMENTATION OF BMD4 IN ITALY

[Extracts from OECD Document COM/DAF/DSTI/WD(2009)4 representing very preliminary raw results, as observed in March 2009.]

40. Table 6 presents inward Italian FDI reported position broken down by first counterpart country. The most relevant inward positions by country are reported in the “white area” of the table. The most relevant negative positions are reported in the “grey area” of the table. The remaining countries (positive and negative positions) have been aggregated in the item “other countries”. For main foreign investors no negative position has been observed. The EXDP has a limited impact, with the exception of two countries (Belgium -59% and Ireland -48%). Small negative positions have been observed for several countries but they are scarcely relevant in terms of amounts (approximately -0.5% of the total amount of inward reported FDI). For countries with scarcely relevant FDI assets in Italy or no assets at all, the component A6.2 (especially trade credits versus fellows) can create negative positions. Negative positions are observed especially for small countries, for which a very limited number of observations are reported in the FDI survey.

**Table 6. Inward FDI: reported Italian stock data: breakdown by first counterpart country**

| <b>Inward FDI reported stock data, 2007</b><br>(MLN Euros) |             |             |                      |
|--|-------------|-------------|----------------------|
| <b>Country</b>   | <b>BMD4</b> | <b>BMD3</b> | <b>BMD4/BMD3*100</b> |
| <b>Luxembourg</b>  | 30,438      | 30,863      | 99%                  |
| <b>Netherlands</b>   | 29,514      | 30,188      | 98%                  |
| <b>France</b>  | 19,249      | 20,354      | 95%                  |
| <b>United Kingdom</b>                                      | 9,481       | 10,116      | 94%                  |
| <b>Germany</b>   | 7,712       | 8,062       | 96%                  |
| <b>Switzerland</b>   | 4,531       | 5,133       | 88%                  |
| <b>Hungary</b>   | 3,136       | 3,157       | 99%                  |
| <b>Spain</b>   | 3,119       | 3,200       | 97%                  |
| <b>United States</b>                                       | 2,599       | 2,821       | 92%                  |
| <b>Austria</b>   | 1,762       | 1,859       | 95%                  |
| <b>Sweden</b>  | 1,329       | 1,534       | 87%                  |
| <b>Belgium</b>   | 1,117       | 2,707       | 41%                  |
| <b>Ireland</b>   | 1,040       | 1,997       | 52%                  |
| <b>Cyprus</b>  | 886         | 887         | 100%                 |
| <b>Portugal</b>  | 711         | 735         | 97%                  |
| <b>Other countries</b>                                     | 1,813       | 2,371       | 76%                  |
| <b>Tunisia</b>   | -26         | 13          | -205%                |
| <b>Turkey</b>  | -27         | 10          | -265%                |
| <b>Mexico</b>  | -33         | 5           | -642%                |
| <b>China</b>   | -34         | 32          | -106%                |
| <b>Uruguay</b>   | -165        | 31          | -527%                |
| <b>not allocated</b>                                       | -219        | 7           | -2939%               |
| <b>Total</b>   | 117,958     | 126,072     | 94%                  |

**Chart 2. Inward FDI: reported Italian stock data: breakdown by first counterpart country**

41. Table 7 presents outward Italian FDI reported position broken down by first counterpart country. The most relevant outward positions by country are reported in the “white area” of the table. The most significant negative positions are reported in the “grey area” of the table. The remaining countries (positive and negative positions) have been aggregated in the item “other countries”. For main direct investment countries no negative positions have been observed. The EXDP has a limited impact, with the exception of two countries (Belgium -56% and Ireland -25%). Other negative positions are scarcely relevant and are not frequently observed. The aggregate position of countries with negative position is negligible in terms of percentage.

Table 7. Outward FDI reported stock data: breakdown by first counterpart country

| Outward FDI: reported Italian stock data<br>2007<br>(MLN Euros) |                |                |               |
|---|----------------|----------------|---------------|
| Country   | BMD4           | BMD3           | BMD4/BMD3*100 |
| <b>Netherlands</b>  | 44,747         | 45,421         | 99%           |
| <b>Germany</b>  | 13,261         | 13,611         | 97%           |
| <b>France</b>   | 8,209          | 9,314          | 88%           |
| <b>United States</b>  | 6,999          | 7,221          | 97%           |
| <b>United Kingdom</b>   | 6,487          | 7,123          | 91%           |
| <b>Spain</b>  | 5,941          | 6,023          | 99%           |
| <b>Ireland</b>  | 2,927          | 3,884          | 75%           |
| <b>Portugal</b>   | 2,173          | 2,198          | 99%           |
| <b>Brazil</b>   | 2,121          | 2,174          | 98%           |
| <b>Belgium</b>  | 1,247          | 2,838          | 44%           |
| <b>Austria</b>  | 1,149          | 1,246          | 92%           |
| <b>Hungary</b>  | 1,099          | 1,120          | 98%           |
| <b>Poland</b>   | 1,042          | 1,109          | 94%           |
| <b>China</b>  | 942            | 1,008          | 93%           |
| <b>Argentina</b>  | 808            | 814            | 99%           |
| <b>Czech Republic</b>   | 726            | 746            | 97%           |
| <b>Russian Federation</b>                                       | 723            | 746            | 97%           |
| <b>Romania</b>  | 536            | 551            | 97%           |
| <b>Greece</b>   | 440            | 453            | 97%           |
| <b>Sweden</b>   | 436            | 640            | 68%           |
| <b>Other countries</b>  | 6,733          | 8,378          | 80%           |
| <b>Not allocated</b>  | -13            | 214            | -6%           |
| <b>Liechtenstein</b>  | -15            | 1              | -1241%        |
| <b>Netherlands Antilles</b>                                     | -44            | -44            | 100%          |
| <b>Total</b>  | <b>108,674</b> | <b>116,788</b> | <b>93%</b>    |

Chart 3. Outward FDI reported stock data: breakdown by first counterpart country

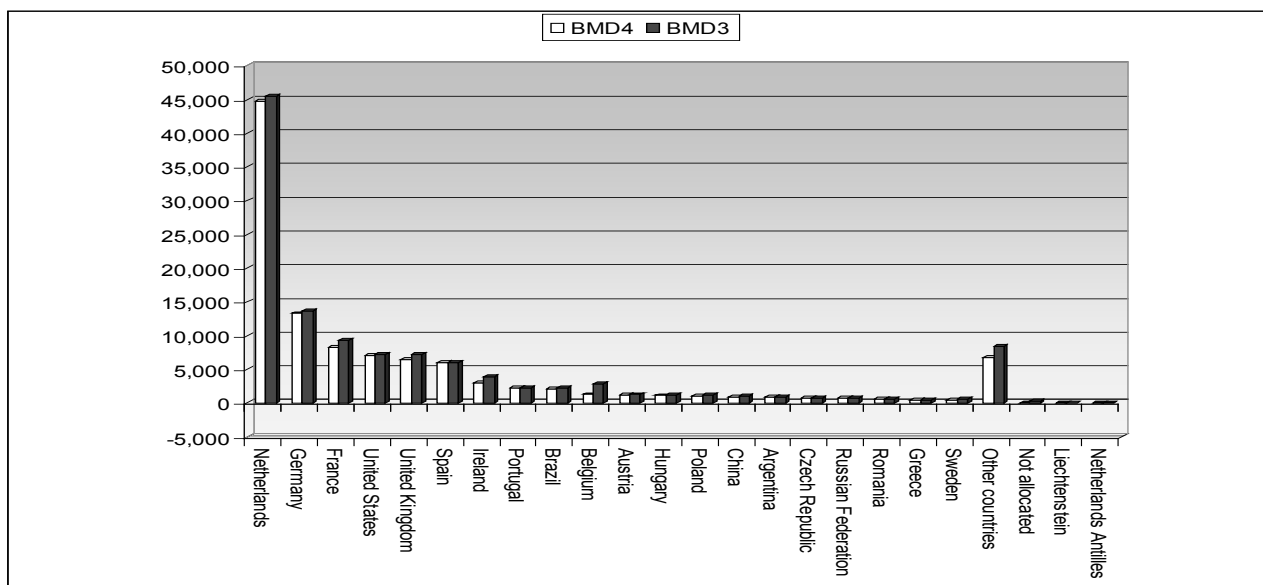


Table 8. Inward FDI: reported Italian stock data: breakdown by UCP

| Inward FDI reported stock data<br>2007<br>(MLN Euros) |         |         |         |               |
|---|---------|---------|---------|---------------|
| UCP   | country | BMD4    | BMD3    | BMD4/BMD3*100 |
| <b>Italy</b>  |         | 32,977  | 35,088  | 94%           |
| <b>France</b>   |         | 18,318  | 19,400  | 94%           |
| <b>Netherlands</b>                                    |         | 13,255  | 13,966  | 95%           |
| <b>Luxembourg</b>                                     |         | 12,240  | 12,963  | 94%           |
| <b>United States</b>                                  |         | 11,536  | 13,118  | 88%           |
| <b>Germany</b>  |         | 9,772   | 10,132  | 96%           |
| <b>United Kingdom</b>                                 |         | 9,336   | 9,676   | 96%           |
| <b>Switzerland</b>                                    |         | 2,511   | 2,604   | 96%           |
| <b>Spain</b>  |         | 1,552   | 1,596   | 97%           |
| <b>Austria</b>  |         | 1,373   | 1,439   | 95%           |
| <b>Japan</b>  |         | 1,200   | 1,515   | 79%           |
| <b>Sweden</b>   |         | 888     | 1,488   | 60%           |
| <b>Russian Federation</b>                             |         | 715     | 716     | 100%          |
| <b>Kuwait</b>   |         | 465     | 465     | 100%          |
| <b>Belgium</b>  |         | 318     | 323     | 99%           |
| <b>Other countries</b>                                |         | 1,502   | 1,584   | 95%           |
| <b>Total</b>  |         | 117,958 | 126,072 | 94%           |

42. Table 8 presents inward Italian FDI reported position broken down by UCP country. The presence of negative positions is negligible. The distribution by countries is significantly different from the case of the first counterpart country. For a significant part of Italian inward FDI the UCP is Italy itself.<sup>8</sup>

<sup>8</sup> In final data the relevance of Inward FDI with Italian UCP could slightly decrease after further checks on UCP information. In fact specific checks performed on UCP, for positions between fellows, highlighted

Many European countries (especially Luxembourg and Netherlands) play the role of intermediate investors. The impact of EXDP is not very significant with the exception of two countries (Japan -21% and Sweden -40%).

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occasional mistakes. In some cases the name and the country of the domestic controlling parent have been wrongly reported instead of the requested information on UCP.

**ANNEX 2  
GOVERNMENTS' INVESTMENT IN A FOREIGN ENTERPRISE**

[Extracts from OECD:  
DAF/INV/STAT/WD(2009)4]  
Diagram #1:

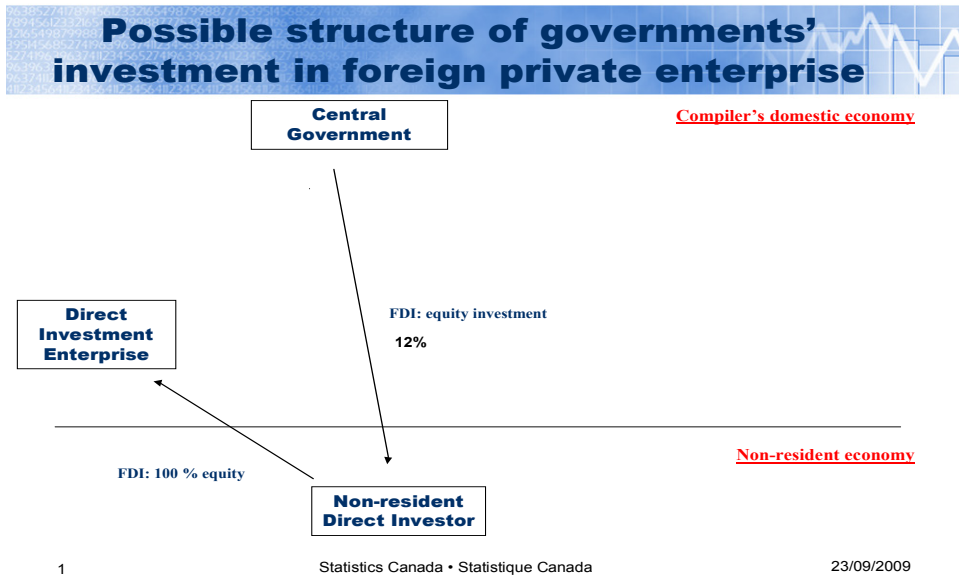


Diagram #2:

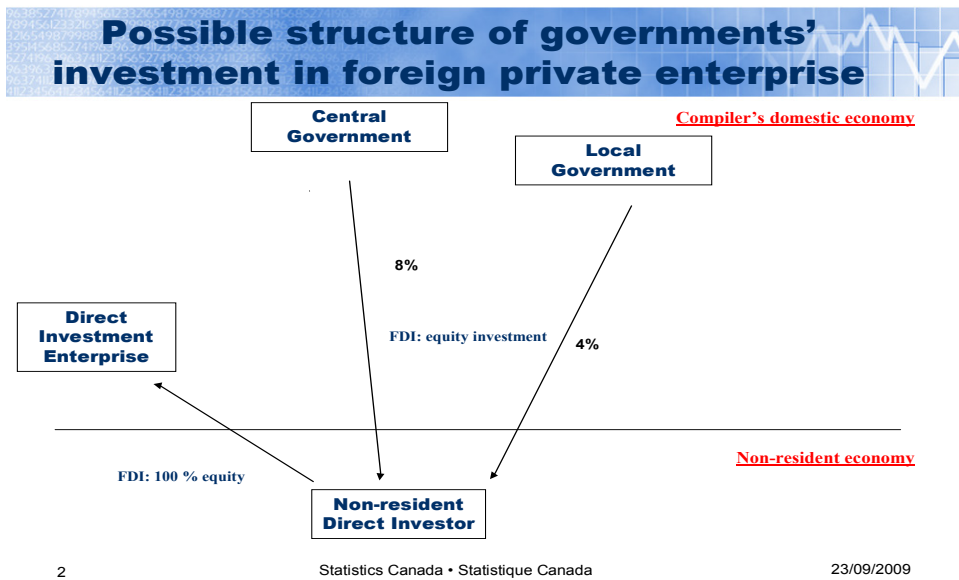


Diagram #3:

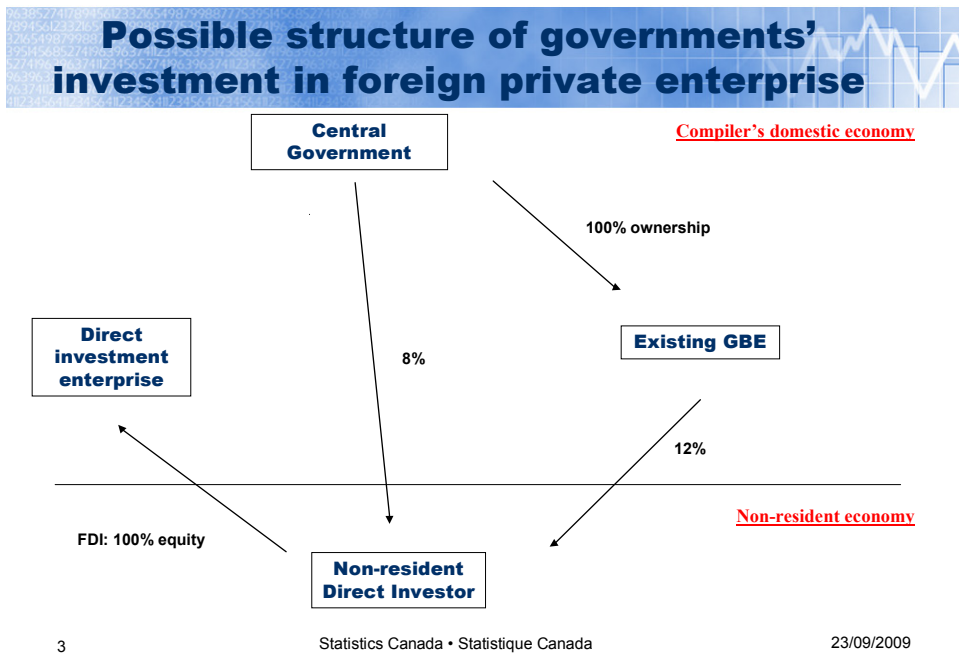


Diagram #4:

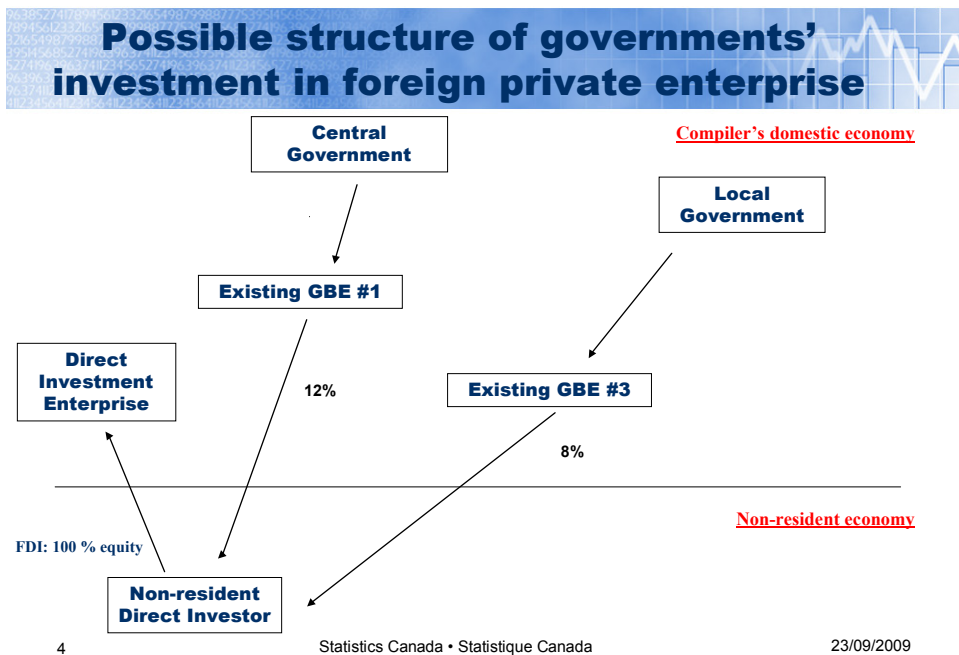
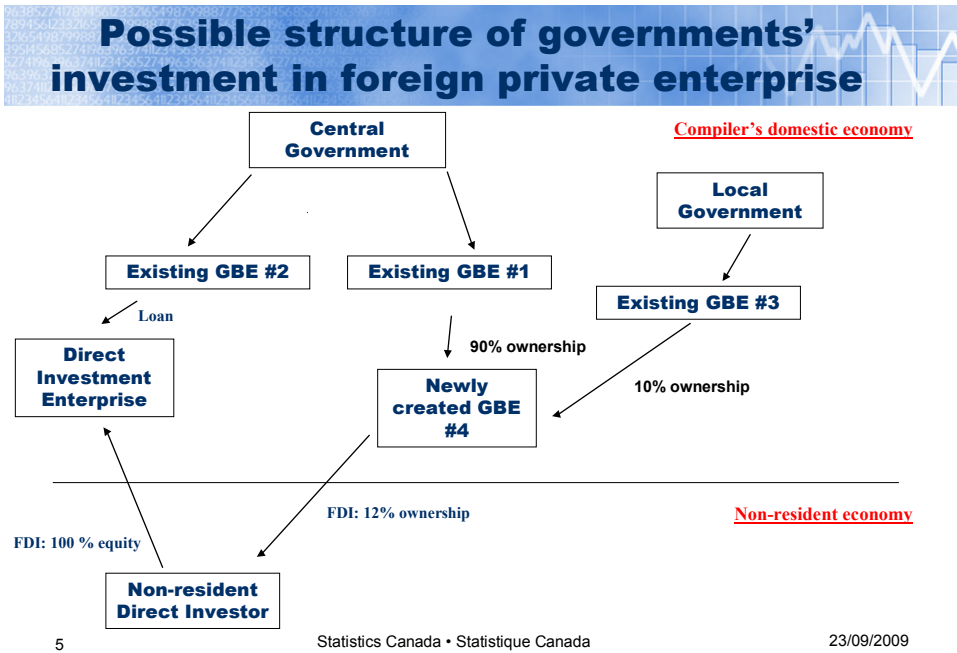


Diagram #5:





**ANNEX 3:  
FDI AND AMNE STATISTICS - WHICH QUESTIONS USERS WANT TO ANSWER**

[Extracts from document COM/DAF/DSTIWD(2009)1]

7. This section includes a number of questions which analysts are interested in. It also describes their needs for analytical information to support the analysis. However, it is important to underline that statistics are only part of a policy analysis and should not be considered as the unique element for policy making. In the vast majority of cases, statistics have to be complemented by qualitative information.

**2.1 *Host country analysis***

**2.1.1 *Attractiveness of an economy***

8. Traditionally, one of the main interests of policy makers is to assess the ability of their country to attract foreign direct investment. FDI provides a stable source of financing. It also allows technology transfers and know-how. The attractiveness of regions within the boundaries of a country, particularly in countries with provincial governmental structures, is more and more part of policy analysis. The extent of the attractiveness of an economy and its relative importance as compared to other countries is something that analysts are interested to measure. Analytical indicators can provide very useful and meaningful elements depending on their quality, consistency and comparability.

9. Main questions raised by analysts are:

- 1) How could a country be more attractive than others taking into account its relative size?
- 2) Which sectors or functions are concerned by attractiveness?
- 3) How attractiveness is linked to technology transfer?
- 4) What factors in a host country play a determinant role in order to attract foreign investment?
- 5) What are the performance of specific sectors and the impact of foreign investment?

10. FDI could be in different forms: Mergers and acquisitions (M&A), greenfield investments, extension of capital, or financial restructuring. M&As constitute an important share of foreign direct investment. The impact of FDI in the host economy will vary depending on the type of investment.

**2.1.2 *Contribution to development***

11. Under a proper policy environment, FDI can contribute to the development of a country. Apart from providing a source of capital in addition to domestic financing and technology transfers mentioned above, FDI can bring other benefits in the form of spill-over which may be more or less important for the development of the host economy. FDI is an important complement to official development aid.

12. Analysts are interested to provide answers to questions such as:

- 1) Which economic sector?
- 2) What is the size of the investment?

- 3) What is the contribution of FDI and MNE statistics to GDP?
- 4) How many jobs are created by FDI?
- 5) What is the contribution of FDI to productivity and industrial competitiveness?
- 6) How does FDI improve infrastructures?
- 7) How does FDI reinforce technological capacity?

### 2.1.3 *Impact of restrictions*

13. Countries are also sometimes concerned with foreign investment in certain companies and in “strategic industries” of their economy. In consequence, some countries have restrictive arrangements for approving cross-border M&As and other types of investments (by size, etc.). FDI statistics by sector of industry and by type will help to measure the extent of the problem. It will also contribute to understanding how different types of investments impact economic activities.

14. Some of the related policy questions are:

- 1) What type of FDI (M&A, greenfields, etc) and which sectors of the economy?
- 2) What is the impact of different types of investment on economic variables (e.g. productivity)?
- 3) Are there any industries owned by foreign states? Which countries/industries are they?

## 2.2 *Home country analysis: Benefits of FDI abroad*

15. For the investor (and its home country) FDI enables access to new competitive markets and, hence, may allow optimal profitability of investment. Recognised consequences of globalisation are offshoring<sup>9</sup> and/or outsourcing<sup>10</sup> of industries particularly from industrialised countries towards emerging economies.

16. In contrast, in response to economic downturn or balance of payments difficulties, some countries may take measures which have the intent or the effect of restricting outward direct investment. The question arises whether it is possible to measure such restrictions with objective indicators.

17. Some of the main questions are the following:

- 1) What is the comparative profitability of investments abroad (dividends and other income from abroad as compared to profits of domestic entities)?
- 2) What is the impact of FDI on trade?

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<sup>9</sup> *Offshoring*: Opening of affiliates abroad which produce the same goods and services. These goods and services could also be produced by existing affiliates abroad.

<sup>10</sup> *Outsourcing*: In the context of this document the term refers to outsourcing abroad only and excludes outsourcing in the domestic economy.

*Outsourcing abroad*: an enterprise subcontracts goods and services abroad on a regular basis with another non-affiliated enterprises or another institution abroad.

- 3) Does FDI improve access to new technologies?
- 4) Does FDI facilitate access to raw material and to energy?
- 5) Does FDI allow access to commercially regulated or protected products (Ex. Pharmaceuticals)?
- 6) Does FDI improve the competitiveness of the ultimate parent?
- 7) What is the scale of offshoring?
- 8) Has the pace of offshoring accelerated in recent years?
- 9) How many jobs are affected by offshoring?
- 10) What is the relative importance of offshoring of services compared with offshoring of goods?
- 11) Which sectors (goods and services) offshore the most?
- 12) Could offshoring constitute a threat of de-industrialisation?
- 13) Is there a difference as regards resort to offshoring between firms controlled by residents of a country and affiliates under foreign control?
- 14) How are the benefits of offshoring shared between the different economic actors?

### **2.3 Other analysis**

#### **2.3.1 Intangible assets**

18. Measures provided by FDI and AMNE statistics do not cover intangible which are, in principle, integral part of investment. Broadly speaking, such assets related to “knowledge” transfers. The work done so far in terms of statistical coverage is limited to the measurement of tangible assets. Integrating valuation of intangible assets as a dimension of cross-border investments would be an invaluable analytical supplement. These measures would relate to the valuation of patent, intellectual property, copyright, licences, trademark, brands, etc.

19. In Chapter 4, the Handbook deals with the “Internationalisation of Technology” where concepts are defined, indicators to measure the extent of their globalisation are proposed. Moreover, the Working Party on Globalisation of Industry has undertaken work on qualitative analysis on the emergence of global technology market. The outcome of that study could be a useful foundation to future work.

**ANNEX 4:**  
**. COMPARATIVE CHECKLIST OF BASIC CONCEPTS FOR FDI AND AMNE STATISTICS<sup>11</sup>**

|   | <b>FDI (BMD4)</b>   | <b>AMNE (Handbook 2005)</b>  |
|---|---|--|
| Type of investment relationship                         | 10%-100%  | 50%-100%   |
|   | <ul style="list-style-type: none"> <li>• Subsidiaries</li> </ul>  | <ul style="list-style-type: none"> <li>• Subsidiaries (affiliates)</li> </ul>                    |
|   | <ul style="list-style-type: none"> <li>• Associates</li> </ul>  |  |
|   | <ul style="list-style-type: none"> <li>• Fellow enterprises</li> </ul>  |  |
| Statistical units                                       |   | <ul style="list-style-type: none"> <li>• Establishment</li> </ul>                                |
|   |   | <ul style="list-style-type: none"> <li>• <b>Enterprise<sup>12</sup></b></li> </ul>               |
|   |   | <ul style="list-style-type: none"> <li>• Enterprise group</li> </ul>                             |
| Economic territory                                      | <ul style="list-style-type: none"> <li>• Residence</li> </ul>   |  |
|   | <ul style="list-style-type: none"> <li>• Center of predominant economic interest</li> </ul>   |  |
| Institutional units                                     | <ul style="list-style-type: none"> <li>• Enterprise (incorporated and unincorporated)</li> </ul>  | <ul style="list-style-type: none"> <li>• Enterprise (incorporated and unincorporated)</li> </ul> |
|   | <ul style="list-style-type: none"> <li>• Quasi-corporation (including branches)</li> </ul>  | ?  |
|   | <ul style="list-style-type: none"> <li>• Notional unit</li> </ul>   | ?  |
|   | <ul style="list-style-type: none"> <li>• Special corporate structures (with little or no physical presence , holding companies, nominees, etc.) - SPEs</li> </ul> | ?  |
|   | <ul style="list-style-type: none"> <li>• Estate, trust and other societal organisations (e.g. partnership)</li> </ul>   | ?  |
|   | <ul style="list-style-type: none"> <li>• Collective investment institutions</li> </ul>  | ?  |
|   | <ul style="list-style-type: none"> <li>• Individuals or group of individuals</li> </ul>   | ?  |
|   | <ul style="list-style-type: none"> <li>• Governments (only outward)</li> </ul>  | ?  |
| Identifying the group of enterprises (FDI relationship) | <ul style="list-style-type: none"> <li>• Framework of Direct Investment Relationship</li> </ul>   | <ul style="list-style-type: none"> <li>• Fully Consolidated System (based on BMD3)</li> </ul>    |

<sup>11</sup> DIE: Direct Investment Enterprise , UIC: Ultimate investing country, UCP: Ultimate controlling parent.

<sup>12</sup> Enterprise is recommended as statistical unit for OECD AAMNE statistics.

|   | <b>FDI (BMD4)</b>  | <b>AMNE (Handbook 2005)</b>  |
|---|--|--|
| Resident versus non-resident affiliates   | <ul style="list-style-type: none"> <li>Investments in by non-residents in resident affiliates are included (inward). Investments by residents in resident affiliates are excluded</li> </ul> | <ul style="list-style-type: none"> <li>Activities of all affiliates controlled by non-resident and residents are included (inward)</li> </ul>                            |
|   | <ul style="list-style-type: none"> <li>Investments by residents in non-resident affiliates are included (outward)</li> </ul>   | <ul style="list-style-type: none"> <li>Activities of controlled non-resident affiliates included (outward)</li> </ul>  |
| Geographical allocation   |  |  |
| Inward  | <ul style="list-style-type: none"> <li>Allocation to Immediate investor (flows and positions)</li> </ul>   | <ul style="list-style-type: none"> <li>Ultimate controlling parent (controlling all assets)</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>Allocation to UIC (ultimate controlling parent of the investor) - positions</li> </ul>  |  |
| Outward   | <ul style="list-style-type: none"> <li>Allocation to Immediate DIE (flows and positions)</li> </ul>  | <ul style="list-style-type: none"> <li>Allocation to ultimate host when the reporting country is the ultimate or intermediary controller</li> </ul>                      |
|   |  | <ul style="list-style-type: none"> <li>Allocation to ultimate host when the reporting country is the direct and indirect controller</li> </ul>                           |
|   |  | <ul style="list-style-type: none"> <li>Allocation to ultimate host when the reporting country is ultimate controller</li> </ul>  |
| Industry classification<br>(See also Annex 3 for complete comparative lists of sectors) | ISIC 4   | ISIC3  |
|   | Activity of DIE  | Activity of DIE  |
| Coverage of assets  | Only cross-border investment   | All assets   |
| Type of assets  | Equity   | Equity   |
|   | Reinvested earnings  | Reinvested earnings  |
|   | Debt instruments (intercompany loans)  | Debt instruments (intercompany loans)  |
|   |  | Other sources of financing (resident and non-resident): <ul style="list-style-type: none"> <li>Portfolio investment</li> <li>Bank loans</li> <li>Other assets</li> </ul> |