



## Foreign direct investment statistics

### Explanatory notes

The OECD sets the world standards for compiling FDI statistics through its Benchmark Definition of Foreign Direct Investment. This document provides information on many aspects of FDI statistics, including: the definition of FDI, the statistical series and variables included in FDI statistics, the relationship between these series, classification principles, the role of Special Purpose Entities in FDI statistics, and related datasets.

The *OECD Benchmark Definition of Foreign Direct Investment* sets the world standard for direct investment statistics. The fourth edition was completed in 2008 and has now been implemented by most reporting countries. This note provides explanatory information on aspects of FDI statistics, including coverage, measurement, and classification.

#### Definition of FDI

Direct investment is a category of cross-border investment made by a resident in one economy (the *direct investor* or *parent*) with the objective of establishing a lasting interest in an enterprise (the *direct investment enterprise* or *affiliate*) that is resident in an economy other than that of the direct investor.

The motivation of the *direct investor* is a strategic long-term relationship with the *direct investment enterprise* to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise. The “lasting interest” is evidenced when the direct investor owns at *least 10% of the voting power* of the direct investment enterprise. Direct investment may also allow the direct investor to gain access to the economy of the direct investment enterprise which it might otherwise be unable to do. The objectives of direct investment are different from those of portfolio investment whereby investors do not generally expect to influence the management of the enterprise.

Direct investment enterprises are corporations, which may either be *subsidiaries*, in which *over 50% of the voting power* is held, or *associates*, in which *between 10% and 50% of the voting power* is held, or they may be *quasi-corporations*, such as branches which are effectively 100% owned by their parents. They may also be fellow enterprises, i.e. enterprises that do not have a direct investment relationship themselves but that have a direct investor in common. Transactions between fellow enterprises are included in FDI statistics because they likely result from the influence of the common direct investor.

The relationship between the direct investor and its direct investment enterprises may be complex and bear little or no relationship to management structures. Direct investment relationships are identified according to the criteria of the *Framework for Direct Investment Relationships (FDIR)*.

## FDI statistical series

Direct investment statistics cover all *cross-border transactions and positions between enterprises which are in a foreign direct investment relationship* as defined in the FDIR. FDI statistics include:

- 1) direct investment positions (stocks)
  - a. equity
  - b. debt (intercompany loans)
- 2) direct investment income flows
  - a. dividends and distributed branch profits
  - b. reinvested earnings
  - c. income on debt (interest)
- 3) direct investment financial flows
  - a. equity
  - b. reinvestment of earnings
  - c. debt

*Equity* includes *common and preferred shares* (exclusive of non-participating preference shares which should be included under debt), *reserves*, capital contributions and *reinvestment of earnings*. *Dividends*, distributed branch earnings, *reinvested earnings* and *undistributed branch earnings* are components of FDI income on equity.

*Debt instruments* include marketable securities such as bonds, debentures, commercial paper, promissory notes, non-participating preference shares and other tradable non-equity securities as well as loans, deposits, trade credit and other accounts payable/receivable. The interest returns on these instruments are included in FDI income on debt.

FDI financial transactions may be negative for three reasons. First, if there is disinvestment in assets—that is, the direct investor sells its interest in a direct investment enterprise to a third party or back to the direct investment enterprise. Second, if the parent borrowed money from its affiliate or if the affiliate paid off a loan from its direct investor. Third, if reinvested earnings are negative. Reinvested earnings are negative if the affiliate loses money or if the dividends paid out to the direct investor are greater than the income recorded in that period.

Negative FDI positions largely result when the loans from the affiliate to its parent exceed the loans and equity capital given by the parent to the affiliate. This is most likely to occur when FDI statistics are presented by partner country.

## Relationship between FDI Series

FDI financial transactions are cross-border transactions between affiliated parties recorded during the reference period (typically year or quarter). FDI positions represent the value of the stock of direct investments held at the end of the reference period (typically year or quarter). The change in direct investment positions from one period to the next is equal to the value of financial transactions recorded during the period plus other changes in prices, exchange rates, and volume. FDI income data are closely linked to the stocks of investments and are used for analysis of the productivity of the investment and calculation of the rate of return on the total funds invested.

## Measurement principles

BMD4 recommends that aggregate FDI statistics, which are included in Balance of Payments and International Investment Position accounts, be presented according to the asset/liability principle. On an asset/liability basis, direct investment statistics are organized according to whether the investment relates to an asset or a liability for the country compiling the statistics. For example, a country's assets include equity investments by parent companies resident in that country in their foreign affiliates because those investments are claims that they have on assets in foreign countries. Similarly, a country's liabilities include foreign parents' equity investments in affiliates resident in that country because those investments represent claims that foreigners have on assets in the reporting country. It is recommended that aggregate FDI statistics be recorded on the asset/liability basis to make FDI statistics consistent with other macroeconomic statistics.

BMD4 recommend that detailed statistics by partner country and by industry be presented according to the directional principle. Under the directional presentation, the direct investment flows and positions are organized according to the direction of the investment for the reporting economy—either outward or inward. So, for a particular country, all flows and positions of direct investors resident in that economy are shown under outward investment and all flows and positions for direct investment enterprises resident in that economy are shown under inward investment. The directional principle is most appropriate for studying the nature and motivations of foreign direct investment.

Differences between directional and asset/liability measures of FDI can be quite large in specific countries or in specific time periods. While the same flows are covered by the measures, the different ways they are classified and combined explain the differences. Specifically, the differences between the two measures depend on the size and direction of reverse investment. Reverse investment is when an affiliate invests in its parent. Under the directional presentation, reverse investment is subtracted to derive the amount of total outward or inward investment of the reporting country. So, if a resident parent borrows money from one of its foreign affiliates, this is subtracted in calculating the reporting country's outward investment because it reduces the amount of money that that country's parents have invested in their foreign affiliates. Under the asset/liability presentation, it is recorded as a liability of the reporting country.

*Market value* is the preferred conceptual basis to measure both direct investment positions and transactions (flows).

## Classification principles

### By economic activity

The recommendation is to provide inward and outward FDI data on the basis of the economic activity of both the affiliate and that of the parent. However, if this is not feasible, it is recommended that the priority is to compile the data according to the activity of the affiliate, for both inward and outward investments (i.e. economic activity of the resident affiliate for inward investment and that of the non-resident affiliate for outward investment).

### By partner country

Standard FDI statistics are classified by the country of the immediate partner country, which shows the immediate source of funding but may not show the country of the investor who controls the investment. To show the latter, countries can compile a supplemental series of the inward investment position by ultimate investing country. These statistics show the country of the direct investor who ultimately controls the investment and, thus, bears the risks and reaps the rewards of the investment. This presentation can result in substantial changes in the distribution of inward positions by country.

The ultimate investor is identified by proceeding up the immediate direct investor's ownership chain until an enterprise is reached that is not controlled by another entity (that is, more than 50 percent of the voting power is not owned by another entity). If there is no enterprise that controls the immediate direct investor, then the immediate direct investor is the ultimate investor. To convert from the standard presentation by immediate investing country, the entire FDI position attributed to the immediate direct investor is moved from its country to the country of the ultimate investor.

Unlike the presentation by immediate direct investor, the presentation by UIC can show inward investment controlled by investors in the reporting economy; this is inward FDI resulting from round-tripping. Round-tripping is when funds that have been channelled abroad by resident investors are returned to the domestic economy in the form of direct investment. It is of interest to know how important round-tripping is to the total inward FDI in a country because it can be that round-tripping is not genuine FDI into an economy.

## Composition of geographical aggregates:

European Union- EU (28)	Austria, Belgium, Bulgaria, Croatia, Cyprus <sup>1</sup> , Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Romania, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom
Organisation for Economic Co-operation and Development – OECD countries (34)	Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel <sup>2</sup> , Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.
G20 countries	Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States.
Total World	Estimates derived from IMF statistics based on data reported by its members.

### Role of special purpose entities

The financing structures of multinational enterprises (MNEs) have grown more complex over time in response to several factors, including the need to manage global production networks and the desire to reduce tax and regulatory burdens. These complex structures often involve the use of special purpose entities (SPEs) to channel investments through several countries before reaching their final destinations. The existence of SPEs is one important factor that can distort FDI statistics. First, transactions by SPEs inflate the FDI flows into and out of the country where they are located as investment passes through via SPEs to its ultimate destination. Second, SPEs can distort the geographic distribution of FDI statistics for countries that host a significant number of them because it can appear they are receiving investment

<sup>1</sup> Footnote by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the “Cyprus issue”.

Footnote by all European Union member States of the OECD and the European Commission: The Republic of Cyprus is recognized by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

<sup>2</sup> The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

from countries whose investors are just passing capital through SPEs. Likewise, it can appear that investors from this country are investing abroad when that investment really reflects the funds that have been passed through.

BMD4 recommends that countries compile FDI statistics separately for SPEs so that data for SPEs can be excluded, resulting in more meaningful measures of FDI. SPEs are entities that have little or no employment, physical presence, or operations in a country but that do provide important services to the MNE, such as holding assets and liabilities or raising capital. Examples of SPEs include brass plate companies, financing subsidiaries, conduits, holding companies, shelf companies, and shell companies.

FDI statistics excluding resident SPEs provide a more meaningful measure of direct investment into and out of an economy by removing FDI that involves funds simply passing through the economy via SPEs on their way to other destinations. For the country hosting the SPEs, this recommendation improves the measurement of FDI by excluding inward FDI that has little or no real impact on their economies and by excluding outward FDI that did not originate from their economies.

## Related datasets

### FDI statistics provided by other international organisations

Several international organisations compile and disseminate FDI data. These include the OECD, Eurostat, the European Central Bank (ECB), IMF, and UNCTAD. FDI statistics of the OECD and Eurostat are essentially based on a common framework for reporting detailed FDI statistics. IMF and ECB compile and disseminate FDI as a functional category of balance of payments. The data released by the OECD and Eurostat are generally very consistent, as the same data framework is used. Data regarding the Euro-zone is consistent between Eurostat and the ECB. OECD and IMF research demonstrated that the main differences between their aggregate FDI statistics are largely due to the timing of revisions. UNCTAD data are in a number of cases different due to adjustments.

### Activities of multinational enterprises (AMNE) statistics

FDI statistics cover the financing of MNEs while the AMNE statistics cover their operations, including employment, trade, R&D expenditures, and value added. In theory, FDI and AMNE statistics are very closely related and, therefore, complementary. However, methodologies and definitions applied to current FDI and AMNE statistics are not consistent and make it difficult to use the two sets of statistics together. For example, FDI statistics cover both control (>50% ownership) and influence (between 10% and 50% ownership) relationships while AMNE statistics cover only control relationships. Another difference is in classification by country. FDI statistics are classified according to the immediate investing country while AMNE statistics are classified according to the ultimate investing country. Inward FDI positions by ultimate investing country should reduce the discrepancies between the two series due to differences in geographical classification.

This explanatory paper has been prepared by the OECD Investment Division. For queries, please contact: [investment@oecd.org](mailto:investment@oecd.org). Find data and more detailed FDI statistics at [www.oecd.org/investment/statistics.htm](http://www.oecd.org/investment/statistics.htm).