



EUROPEAN CENTRAL BANK

# Adapting FDI statistics to today's world

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# Structure of this presentation

- **Variety of uses of FDI statistics;**
- **Developments in financial markets and in the behaviour of multinational companies;**
- **Steps taken to adapt to these developments, and possible prospects for the longer term;**
- **Concluding remarks on the challenges for FDI statisticians**

# Variety of uses of FDI statistics

- **Use of inward FDI as an indicator of attractiveness of a country for setting up (or investing in) local companies**

**Many of these studies focus on the link between direct investment and policies run in a given country.**

# Variety of uses of FDI statistics

- **Use of FDI as a catalyst to sustainable economic growth**  
**Distinction greenfield/M&A**
- **FDI as an indicator of globalisation**
- **Number of studies on FDI for Small and Medium sized Enterprises, or by sector**
- **Further uses on internationalisation and outsourcing**

# Developments in the markets

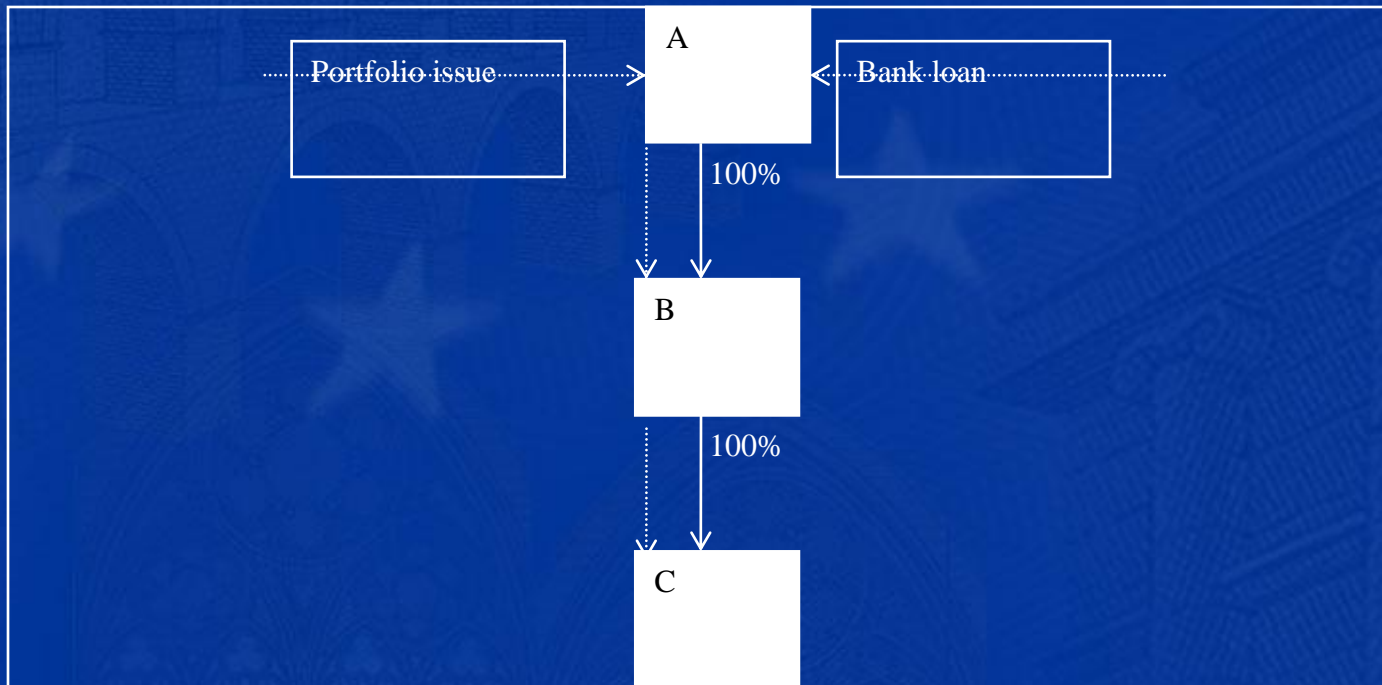
- *Increasingly complex group structures and difficulty to identify unambiguous boundaries of multinational groups;*
  - Approach in FDI statistics: owning more than 10% of voting power;
  - Approach in AMNE statistics: owning more than 50% of voting power.

# Developments in the markets

- *Increasing disconnection between the origin of funds and the residence/nationality of decision makers, related with the recourse to specialised entities devoted to group financing;*

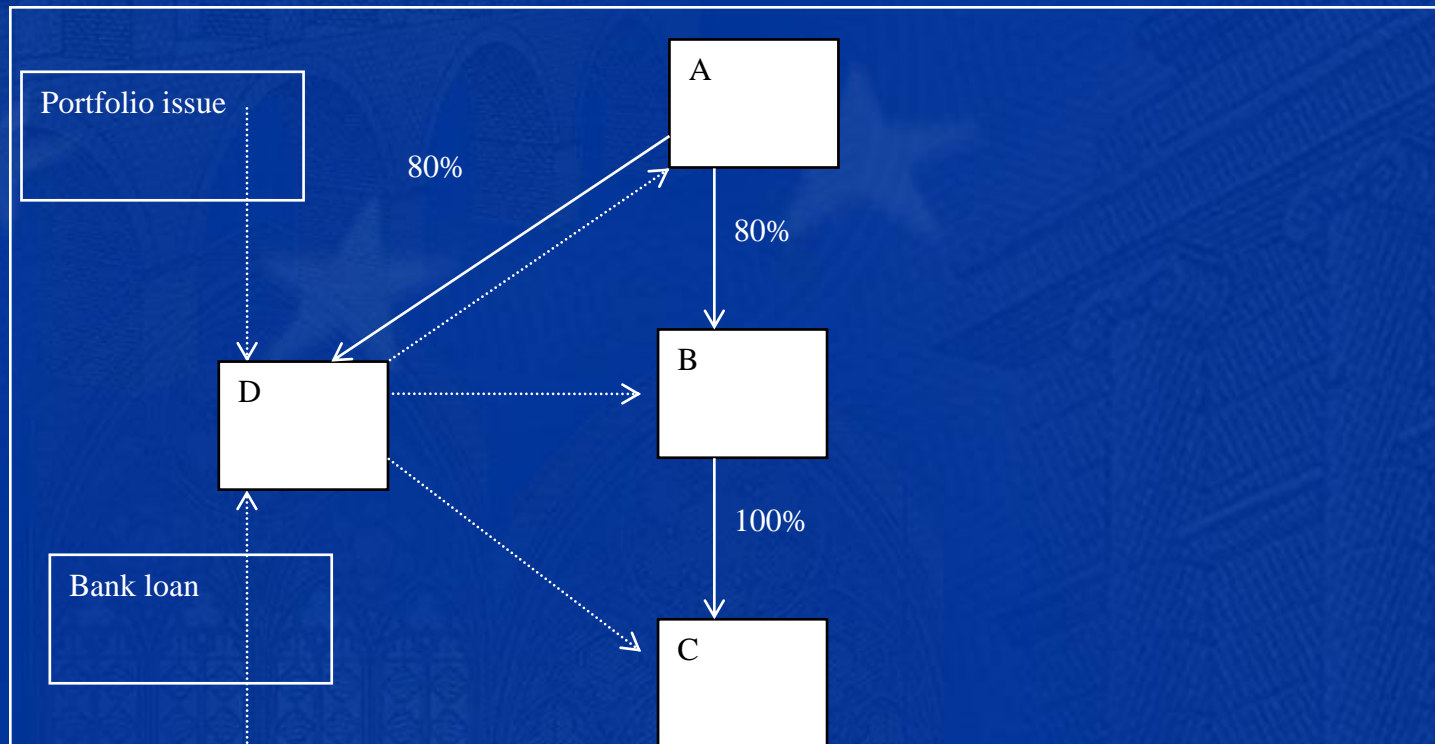
# Developments in the markets

## Example 1: “classical group structure”



# Developments in the markets

## Example 2: use of treasury centre



# Developments in the markets

- *Widespread development of “capital in transit”, largely for tax reasons;*

**Example: a company located in the US, investing 1 million euros in China via an entity based in Netherlands Antilla:**

**US =====> NA =====> CN**

- *Conceptual limitations to the country identifications in FDI statistics*

# Steps taken in revised Benchmark

- The “Framework for Direct Investment Relationship”, defining which entities are in direct investment relationship, has been much clarified. Two proxies of this demanding approach have been described, in order to provide more practical guidance to compilers.
- Capital in transit is aimed to be identified by (i) the separate identification of resident “Special Purpose Entities” (to be defined at national level) and (ii) supplemental data “looking through” non-resident SPEs.

# Steps taken in revised Benchmark

- **Data on positions vis-à-vis ultimate owners are recommended to be compiled.**
- **Transactions between “fellow enterprises” will be netted out in order to avoid double counting of funds simply circulating within a group, e.g. via cash pooling or treasury centres**

# Possible avenues for the way forward

- *Dilemma on the threshold for FDI*
  - Complexity in the reporting
  - Difficulty to collect data
  - Difference with AMNEs

Conversely:

- Wider scope;
- Long time series

# Possible avenues for the way forward

- *Further steps in identification of capital in transit*
  - National definition of SPEs may affect comparability across countries
  - Distinguishing “empty” holding companies from treasury centres?

# Possible avenues for the way forward

- *Further steps in identification of ultimate investors*
  - In principle very useful indicator;
  - However, complexity to determine (i) how much the ultimate investor has invested in each host country; and (ii) how to allocate transactions to ultimate investors and host countries.

# Possible avenues for the way forward

- *Refinements to the construction of net aggregates*
  - FDI statistics net out funds circulating within groups: so-called directional principle
  - Should “inward” be defined according to the entity involved (e.g. net investment abroad of a subsidiary of a foreign group is negative inward) or according to the direction of the net transaction/ position?
  - Does this issue matter in practice?

# Challenges for statisticians

- **Much progress made in new Benchmark; but still several points for the research agenda;**
- **FDI statistics increasingly need to be interconnected with AMNE statistics, given the frequent connections between the expansion of groups and the corresponding financing transactions;**
- **The variety of user needs has been increasingly answered by the publication of firm level data;**

# Challenges for statisticians

- **In terms of data collection, national collection systems intend to identify the national components of multinational groups, often without benefiting from the overview of the parent of the group;**
- **Significant number of “supplemental” data sets illustrates the growing discrepancy between extensive user needs and the need to reduce the statistical burden.**