



# OECD GLOBAL FORUM ON INTERNATIONAL INVESTMENT VII

Best practices  
in promoting investment for development:  
Pursuing a common agenda

Session 2.5: The revised Benchmark Definition (BMD):  
Adapting FDI data to the new realities of the global economy

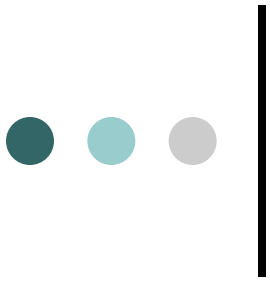
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**I. How important are FDI data for  
policy discussion?**

**II. UNCTAD work on FDI statistics**



# I. How important are FDI data for policy discussion?



### **BD4: State-of-the-art methodology and compilation of FDI data**

The revised Benchmark Definition (BMD4): a significant contribution to adapt FDI data to the new realities of the world economy. (The latest edition of the BD: 1995).

Still a few points to note:

- Statistical definition is different from economic definition (for instance departure from a long-term relationship and lasting interest).
- Can countries provide reliable, comparable, useful data in a timely manner? Issue of implementation.
- FDI data have limitations (impact on economic analysis).

# I. How important are FDI data for policy discussion?

## Comparability at the bilateral level: differences reported by host economy and home economy

**Imbalance of FDI inflows as reported by host and home, 2005**  
(Millions of dollars)

Economy	Inflows into Brazil		Inflows into China		Inflows into the United States	
	As reported by Brazil	As reported by the investing economy	As reported by China	As reported by the investing economy	As reported by the United States	As reported by the investing economy
Australia	926.0	- 3.1	..	55.0	- 6 022.0	- 29 580.7
Austria	6.1	73.4	76.3	139.3	- 1 033.0	195.2
Belgium	685.6	..	53.8	47.3	- 744.0	6 454.3
Denmark	239.9	227.6	100.4	287.8	1 020.0	312.2
France	1 458.4	1 111.8	615.1	864.3	5 291.0	12 337.7
Germany	1 269.3	1 150.3	1 530.0	3 452.2	14 622.0	- 5 391.0
Japan	779.1	970.1	6 529.8	6 589.0	13 889.0	12 338.6
Korea, Republic of	168.0	141.6	5 168.3	2 436.7	707.0	1 133.4
Netherlands	3 207.9	1 074.5	1 043.6	578.3	5 756.0	4 199.6
Spain	1 220.4	2 221.4	196.9	152.4	2 346.0	2 422.5
United Kingdom	153.3	- 267.3	964.8	998.2	34 323.0	32 576.5
United States	4 644.2	1 147.0	3 061.2	1 441.0	..	..

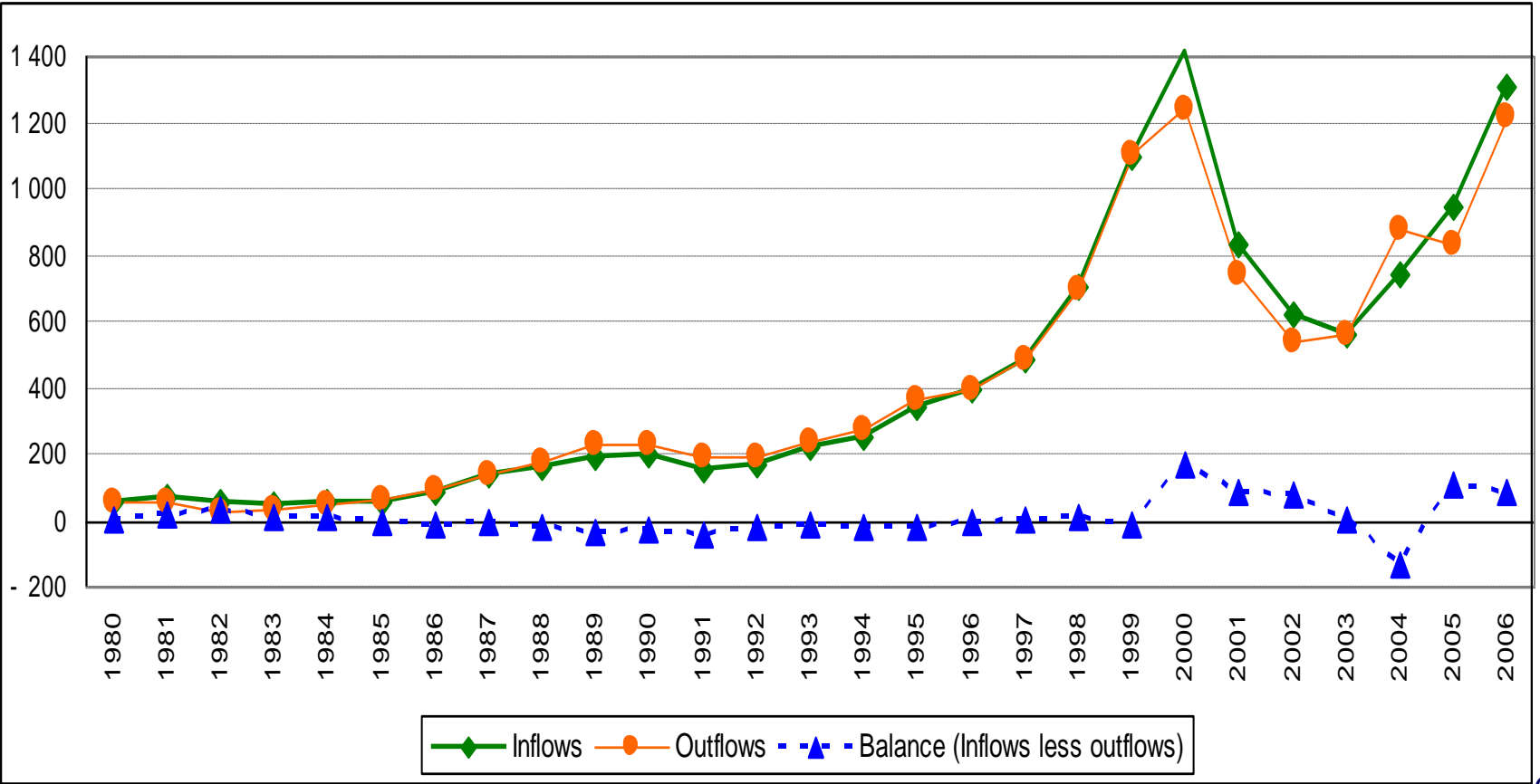
Source: UNCTAD FDI/TNC database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

# I. How important are FDI data for policy discussion?



## Comparability at the global level Imbalance between world FDI inflows and outflows 1980-2006

(Billions of dollars)



## I. How important are FDI data for policy discussion?

### Data limitations (1): Funds moved from parent firms to their foreign affiliates, not representing the use of funds

Capital expenditures of United States foreign affiliates<sup>a</sup> and outward FDI flows from the United States, 2004  
(Millions of dollars)

<b>Economy</b>	<b>Capital expenditures<sup>a</sup></b>	<b>Outward FDI flows</b>
<b>Total world</b>	<b>123 068</b>	<b>257 967</b>
<i>of which:</i>		
Argentina	1 694	1 091
Brazil	2 592	1 837
China	2 781	3 446
Hong Kong, China	741	-
Indonesia	..	-
Korea, Republic of	1 466	3 598
Malaysia	1 234	-
Mexico	3 675	7 712
Singapore	1 570	-
Venezuela	749	- 1 093

Source : United States, Bureau of Economic Analysis

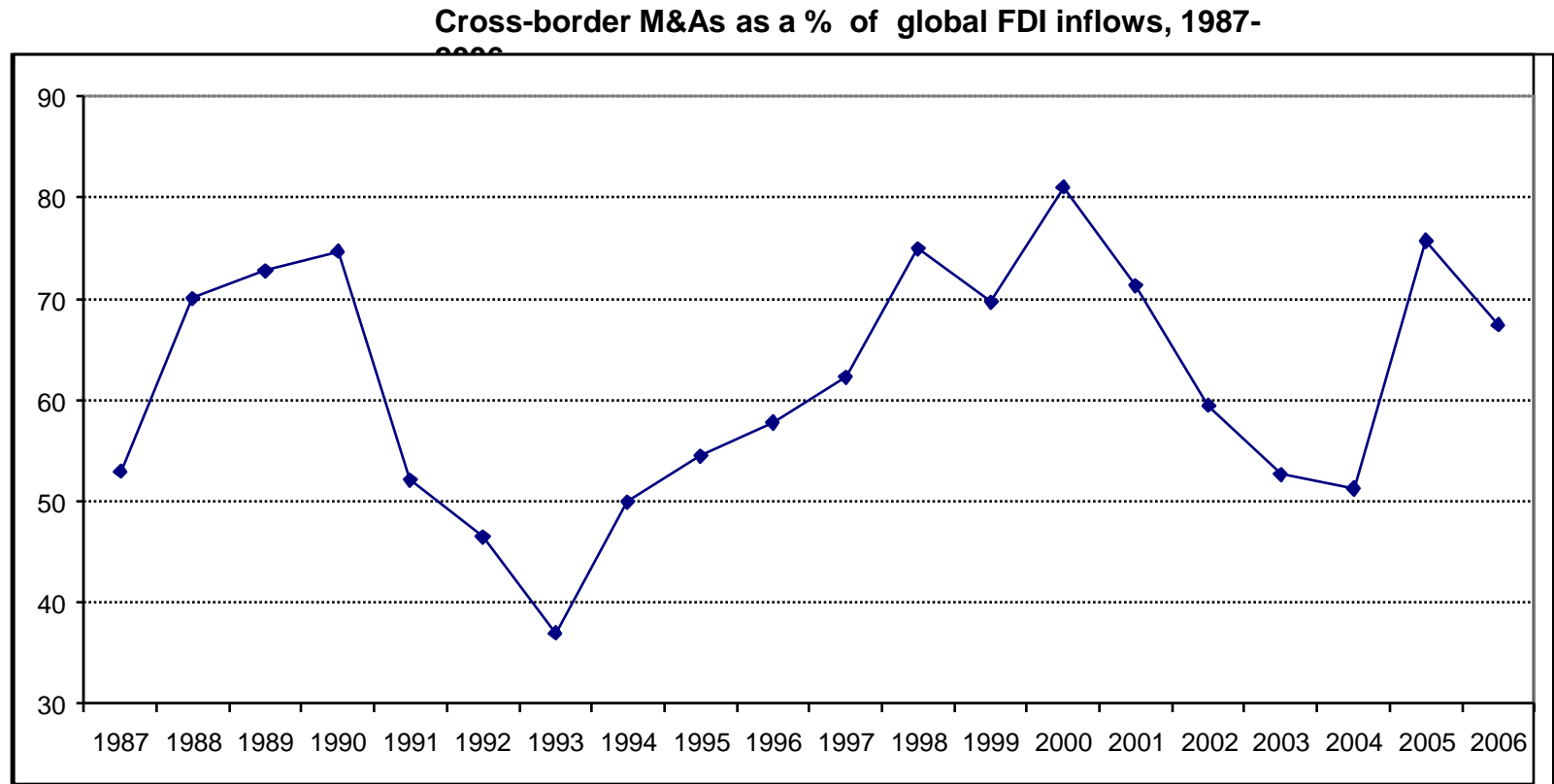
<sup>a</sup> Capital expenditures by majority-owned non-bank foreign affiliates.

# I. How important are FDI data for policy discussion?



## Data limitations (2): M&As and FDI

Most M&As do not add new production



Source: UNCTAD, FDI/TNC database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

Note: Data on BoP based FDI inflows and available cross-border M&As are compiled through a different methodology. Therefore, these two kinds of data are not comparable

# I. How important are FDI data for policy discussion?

## Data limitations (3): Net data hide real investment trends

### Gross FDI and net FDI flows : case of Japanese FDI outflows, 1997-2006

(Billions of dollars)

Year	TOTAL			Of which:								
	Net	Gross	Divestment <sup>ft</sup>	Equity			Reinvested earnings			Other capital		
				Net	Gross	Divestment <sup>ft</sup>	Net	Gross	Divestment <sup>ft</sup>	Net	Gross	Divestment <sup>ft</sup>
1997	24.2	46.8	22.6	20.1	30.4	10.3	4.9	4.9	-	-0.7	11.5	-12.3
1998	27.3	55.4	28.1	17.4	33.6	16.2	3.2	3.2	-	6.8	18.6	11.9
1999	25.3	88.4	63.1	22.2	62.7	40.5	0.8	0.8	-	2.4	24.9	22.6
2000	29.6	61.3	31.7	28.9	40.2	11.3	-1.7	-1.7	-	2.4	22.8	20.4
2001	35.3	67.3	31.9	25.2	37.7	12.6	6.4	6.4	-	3.8	23.1	19.4
2002	33.8	81.8	48.1	33.2	45.6	20.7	8.6	8.6	-	0.3	27.6	27.4
2003	31.2	108.5	77.3	22.5	37.9	15.3	4.9	4.9	-	3.7	65.7	62.0
2004	32.2	115.0	82.8	21.8	33.2	11.4	6.2	6.2	-	4.2	75.6	71.4
2005	42.8	100.3	57.5	27.1	38.9	11.7	12.4	12.4	-	3.2	49.0	45.8
2006	49.1	116.9	67.8	28.2	49.8	21.7	16.0	16.0	-	4.9	51.0	46.1

Source UNCTAD, based on the data from Bank of Japan

a Includes reverse investments, loans given to parent firms from foreign affiliates and repayments of intra-company loans to parent firms



### Data limitations (4): other examples

- **Round-tripped FDI.** FDI that is channelled by direct investors to entities abroad and subsequently returned to the local economy in the form of FDI.
- **Transhipped FDI.** FDI that is channelled by direct investors to special purpose entities abroad and subsequently invested in other economy.
- Increasing role of **offshore financial centres** (not final destinations)

### Data limitations (5): holding companies - Unknown activities

#### Inward FDI in holding companies of selected countries, 2005 (Millions of dollars and per cent)

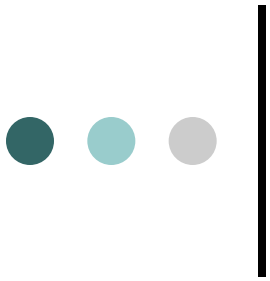
Country	Millions of dollars	Percentage share in total (%)
Austria	23 397	34
Denmark	33 380	29
France	86 602	13
Germany	91 630	20
United States	89 865	6

*Source:* UNCTAD FDI/TNC database.



### Policy implications: wrong data lead to wrong policies

- Need for harmonized and reliable FDI data for policy formulation at both national and regional levels
  - Establishment of a regional based inter-governmental group with the responsibility for systematically harmonizing FDI data collection and reporting in the member countries.
  - Regional cooperation, as well as cooperation between developing and developed countries, is required (common approach; exchange of information and experiences)..
  - A common survey (e.g. IMF's Coordinated Direct Investment Survey)
- But FDI data alone are not sufficient: operational data on TNCs (e.g. employment, sales, R&D expenditure and capital intensity) are necessary in order to assess the impact of TNC activities on host economies.



## II. UNCTAD work on FDI statistics



### 1. Analytical work

- Compilation of FDI and FDI-related statistics ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).
- Database on FDI/TNC (1.1 million pieces of data on detailed geographic and industry breakdown of FDI flows and stocks, and 1.9 million pieces of data on activities of TNCs– parent firms and foreign affiliates).
- Database on largest TNCs (100 worldwide largest TNCs, 50 largest TNCs from developing countries).
- Database on cross-border mergers and acquisitions (over 73,000 individual M&A transactions from 1987 onwards).
- Use and dissemination of the data (e.g. World Investment Reports, World Investment Directories).
- UNCTAD indicators on FDI/TNC (Transnationality Index of host countries; Transnationality Index of TNCs; Inward FDI Performance Index and Outward FDI Performance Index; Inward FDI Potential Index).



### 2. Technical cooperation in the area of FDI statistics

- Workshop, seminar, technical advice to developing countries  
Since 2004 regional/national workshops on methodology of FDI statistics compilation have been organized in Ethiopia (regional), Oman, Syrian Arab Republic, Kuwait, Qatar, UAE, Bahrain (regional), Maldives, Morocco and Zambia.
- Technical advice to inter-governmental FDI statistical groups  
Creation of COMESA Task Force on FDI/TNC Statistics in 2007