IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS AND OECD WORKSHOP ON INTERNATIONAL INVESTMENT STATISTICS

DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)

ISSUES PAPER (DITEG) # 24

FDI STOCKS - FINANCIAL VERSUS ECONOMIC MEASUREMENT

Prepared by
National Bank of Belgium

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Issues paper (DITEG) # 24 - FDI Stocks - Financial versus Economic Measurement

Data related to foreign direct investment can be considered on one hand as part of the balance of payments or of the international investment position, on the other hand as feeding an autonomous statistic on both flows and stocks.

The two sets of statistics need to be consistent which each other and therefore must rest on the same conceptual basis.

Nevertheless, FDI statistics due to their aim to provide information useful for analytical purposes and political purposes must also be considered from another point of view. This process requires an enlargement of the outputs such as break-downs by economic activity, break-down by type of investment i.e. M&A, greenfield ...

Also the interest for the phenomenon of globalisation of the economy and recent developments in the field of measuring this evolution influence on the way FDI statistics are used and analysed. This new field of analysis focus on the economic impact of affiliated enterprises located in another economy than the one of the parent enterprises and by priority on the impact of subsidiaries and branches. Therefore, it aims to treat data directly related to these affiliates. FDI statisticians may not ignore the approach followed in the elaboration of some statistics on globalisation, because those statistics mostly refer to a "presence abroad" of a domestic entity that is controlled by the latter. That means that FDI relationships are the building-blocks on which these statistics are made. Considering the relation between the 2 areas, FDI statistics must in one way or another be comparable to the statistics on globalisation allowing to confront the activity indicators regarding the subsidiaries and branches with the financial related indicators.

In this prospect it may be wondered if, for stocks measurement, supplementary practices cannot be developed in order to favour not only a cohesion with BoP and IIP statistics, but also with the new field of statistics regarding the globalisation.

1. CURRENT INTERNATIONAL STANDARDS FOR HE STATISTICAL TREATMENT OF THE ISSUE.

In the 5th edition of the Balance of Payments Manual (BPM5), FDI stocks statistics are part of the International Investment Position (IIP). The IIP is defined in chapter XXIII of BPM5.

The conceptual framework of the IIP is similar to the one of the balance of payments, as stated in chapter II of BPM5. This similarity makes that for FDI stocks, the methodology, the concepts and the definitions are the same as for FDI flows in the balance of payments and are defined in chapter XVIII of BPM5.

Moreover, BPM5 emphasises the cohesion between the balance of payments and the IIP in its chapter II and its chapter XXIII.

The OECD Benchmark definition of FDI aims to provide the framework and standards for the production of FDI statistics considered as a tool for economic analysis and policy making. In that prospect it distinguishes clearly flows from stocks, although the major concepts are identical and described in chapter II of the Benchmark.

In chapter III, dedicated to the valuation of FDI stocks and flows, the Benchmark gives an inventory of the components for both the stocks statistics and the flows statistics.

The OECD Benchmark states in its paragraph 22 that FDI stocks data of subsidiaries, associates or branches should be measured using the fraction attributable to the direct investor of "... market value or the written-down book value of the company's fixed assets and the market value or book value of its security holdings and other assets, less its liabilities and provisions ..." or " ...market value... of the concern's fixed assets, and the market value... of its investments and current assets, excluding amounts due from the direct investor".

Further, in its paragraph 27, the OECD Benchmark recommends even to require the information on all assets of the affiliated enterprises or at least the total value of a selection of their assets.

The frequent reference made to the availability and use of consolidated accounts (in a bookkeeping meaning) in paragraph 18 and paragraphs 72 to 74 of the OECD Benchmark nevertheless can lead to the conclusion that the accountancy approach of consolidation fulfils the statistical needs for stocks statistics. Such a conclusion appears to be fully correct in the framework of the BoP and IIP and allows a perfect reconciliation between flows statistics and stocks statistics in that framework.

2. CONCERNS/SHORTCOMINGS OF THE CURRENT TREATMENT

The major concern is that there is a lack of clarity on the way stocks of FDI should be compiled in the framework of autonomous FDI statistics.

As a component of the IIP, FDI data as already mentioned must be consistent with the BoP, meaning that the variation of the FDI stocks components in the IIP must reflect, besides the currency exchange rates changes and the prices changes, the changes due to the transactions as registered in the balance of payments.

This approach, if used in FDI statistics considered as autonomous statistics, would provide what one may call a "financial" measurement of the FDI stocks.

This measurement does not provide immediate information on the "penetration" of domestic enterprises in foreign economies and does not allow to identify neither the country of investment nor the activity sector in which the investment is made.

Furthermore, it does not allow to compare the investment income in a proper way with the overall volume of direct investment abroad.

Finally, such a measurement does not give the detailed information by affiliated enterprise and as a result cannot be reconciled with statistics on globalisation or on FATS.

3. POSSIBLE ALTERNATIVE TREATMENT

The proposal made in the present issue paper is not an alternative to an existent methodology but much more a supplementary approach of FDI stocks statistics that should be considered for the future.

This measurement of FDI, one may call the "economic measurement" of FDI, would aim to get a picture of the global "presence" abroad under the form of affiliated enterprises and of the "financial" weight of each direct investment enterprise. Also the investment income, including "reinvested earnings", would then be identifiable by individual affiliated enterprise.

To allow such a reconciliation, and as a consequence, to reinforce the analytical interest of FDI stocks statistics, FDI statistics need to reflect the necessary financial data, defined as significant for direct investment statistics, of each entity being a direct investment enterprise. This process would also aim to produce such statistics, including the FDI income, for each country where direct investment enterprises would be located.

The set of "financial" data obtained in this way could then be confronted and even reconciled with other statistics on globalisation and with FATS, as well as with other statistics on enterprises activities.

As a result, the supplementary statistics would consist into compiling the elements of information identified to measure FDI stocks as defined in paragraph 22 of the present Benchmark definition, or applying an adjusted definition, by individual affiliated enterprise.

The total "economic" FDI stocks should be by consequence equal to the sum of all the concerned data compiled individually.
The data would be allocated for the fraction that can be attributed to the direct investor regarding his percentage of ownership.

The allocation of the FDI data by country of investment would also be possible as well as an allocation of reinvested earnings by country where they are originating from, unlike the recommendation of paragraph 45 (for stocks statistics) of the OECD Benchmark Definition.

Keeping in mind that those FDI stocks statistics would be coherent with globalisation statistics and FATS, their coverage could be limited to the affiliated enterprises controlled by the investor(s). It would mean that only affiliated enterprises where the investor(s) own(s) more than 50 % of the ordinary shares or voting power, or the equivalent, such as subsidiaries and branches, would be concerned.

4. POINTS FOR DISCUSSIONS

- Do the Diteg members agree there is a need to consider FDI statistics as autonomous statistics besides the approach as a component of BOP and IIP ?

- If this need is accepted, do the Diteg members agree that the basic concepts and definition remain similar in both fields of statistics ?

- Considering the autonomous FDI statistics, do the Diteg members agree with the proposed procedure :

    - FDI stocks statistics should also be produced by adding up the individual FDI data by affiliated enterprise,

    - the geographical allocation of FDI stocks statistics should refer to the country of localisation of the affiliated enterprise; the same rule should prevail for the related reinvested earnings.

- Which of the two coverages do the Diteg members favour :

  - restricting the FDI stocks statistics to the affiliated enterprises under control,

  - expanding the FDI statistics to the whole population of affiliated enterprises.

References

- IMF, Balance of Payments Manual 5th edition 1993, chapters II, XVIII and XXIII
- OECD, Benchmark for FDI 3d edition 1996, chapters III and VII
- Revision of the Balance of Payments Manual, 5th edition - Annotated outline (April 2004)
- OECD Handbook on Economic Globalisation Indicators 2004 preliminary version chapters 1 to 3
- Eurostat-ECB Foreign Direct Investment Task Force Report (march 2004)