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Recent Activities of the OECD Working Group on International Investment Statistics (WGIIS)

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RECENT ACTIVITIES OF THE OECD WORKING GROUP ON INTERNATIONAL INVESTMENT STATISTICS[1]

This document summarizes selected statistical activities of the Working Group on International Investment Statistics (WGIIS)[2] over the past year. The WGIIS has been focused on three main activities: the implementation of the OECD's Benchmark Definition of Foreign Direct Investment, 4th edition (BMD4), advancing the research agenda laid out in BMD4, and hosting a workshop on the use of FDI statistics in measuring globalisation. This report begins with a discussion of the status of BMD4 implementation and plans for communicating on the revised statistics. It then discusses work that the WGIIS has been doing on a key part of the BMD4 research agenda: harmonizing and integrating FDI statistics with statistics on the activities of multinational enterprises (AMNE statistics). It finishes with a brief summary of the globalization workshop.

BMD4 Implementation and Communication Policy

This section begins with a brief description of the major changes in measurement and methodology introduced in BPM6 and BMD4. It is followed by a discussion of plans for implementation by OECD member countries and of plans for communicating about the revised statistics.

Major changes in BPM6 and BMD4

There were three major changes introduced in BPM6 and BMD4 that will have the most significant impact on the presentation and interpretation of FDI statistics.[3] The first of these recommendations is to present the aggregate statistics on an asset/liability basis instead of the directional basis as had been the recommendation in previous editions of these international guidelines. On an asset/liability basis, direct investment statistics are organized according to whether the investment relates to an asset or a liability for the reporting country. For example, a country's assets include equity investments by parent companies resident in that country in their foreign affiliates but also loans made by resident affiliates to their foreign parents. The asset/liability presentation does not show the direction of influence as the directional presentation does. 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

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[1] Report prepared by Maria Borga, principle administrator, WGIIS Secretariat (Investment Division of the Directorate for Financial and Enterprise Affairs, OECD).

[2] The OECD Working Group on International Investment Statistics (WGIIS) is a subsidiary body of the Investment Committee, one of the major policy committees of the OECD. The work on investment statistics is the responsibility of the Investment Division which is located in the Directorate for Financial and Enterprise Affairs. WGIIS meets twice yearly, in March and October at the same time as the Investment Committee and its other subsidiary bodies.

[3] BMD4 made several other recommendations and clarifications for compiling FDI statistics that would not have as significant an impact as the recommendations discussed here.

and positions for direct investment enterprises resident in that economy are shown under inward investment.

The two presentations differ in their treatment 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. Similarly, if a resident affiliate lends money to its foreign parent, this is subtracted when calculating inward investment because it reduces the amount of money that the foreign parent has invested in that country. Aggregate FDI statistics on an asset/liability basis will usually be higher than those under the directional principle because reverse investment is not subtracted as it is in the statistics on a directional basis. The size of the difference between the two sets of statistics will depend on the amount of reverse investment.

While the presentation on an asset/liability basis is appropriate for macroeconomic analyses, the directional principle is most appropriate for studying the motivations for direct investment. Thus, both BPM6 and BMD4 recommend that statistics by industry or by partner country or region be shown on a directional basis rather than an asset/liability basis. BMD4 make two major recommendations to improve the statistics on a directional basis to more accurately measure the degree and direction of influence. The first recommendation is to compile the FDI statistics for direct investment passing through Special Purpose Entities (SPEs) resident in the economy separately from the FDI statistics passing through operating affiliates in the economy. The second recommendation is to extend the directional principle to loans between fellow enterprises.

Separately Compiling FDI Statistics for Resident SPEs. SPEs are entities that have little or no employment, physical presence, or operations in a country but do provide 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.

BMD4 recommends that countries compile their FDI statistics including and excluding resident SPEs. This recommendation provides 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. Such funds—also called pass-through capital or capital in transit—distort the country patterns of FDI statistics and cause double-counting in the statistics. 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.

Flows and Positions between Fellow Enterprises. Fellow enterprises are entities that do not have a direct investment relationship themselves but that have a direct investor in common. Even though there is no direct investment relationship, transactions and positions between fellows are relevant to FDI statistics because such transactions likely resulted from the influence of their common direct investor. BMD4 recommends extending the directional principle to flows and positions between fellow enterprises. BMD3 called for recording lending by a resident fellow enterprise to a foreign fellow under outward investment and borrowing by a resident fellow enterprise from a foreign fellow under inward investment. However, this treatment did not accurately reflect the direction and degree of influence exerted by resident and non-resident direct investors in the reporting economy. For example, a resident fellow did not achieve any influence over a foreign fellow if it made a loan to that foreign fellow—the influence remained with the direct investor common to both fellows. So, such loans should not be recorded as outward investment.

In practice, some countries did not follow the recommended treatment in BMD3 but instead recorded flows and positions between fellow enterprises according to the residence of the immediate investor in the fellow enterprise. So, if the direct investor was resident in the reporting economy, lending and borrowing by resident fellows was treated as outward investment, and, if the direct investor common to both fellows was a non-resident, lending and borrowing by the resident fellow was treated as inward investment. Other countries did not cover fellow enterprises in their direct investment statistics at all.

Under BMD4, the recording of flows and positions between fellow enterprises in a reporting economy depends on the residence of the ultimate controlling parent (UCP) of the fellow enterprise because it is the UCP that ultimately controls the transactions of the fellow. The UCP is the entity at the top of the ownership chain that is not controlled by any other entity. If the UCP of the fellow enterprise is resident in the economy, then loans by and to the fellow enterprise are treated as outward investment. Any loan from a fellow enterprise to a fellow enterprise resident in another economy is treated as an increase in outward investment by the reporting economy because it represents an increase in the influence that a resident direct investor (the UCP) has on the direct investment enterprise in another economy. Similarly, if the fellow enterprise receives a loan, it reduces outward direct investment just as it would if the UCP had received a loan.

If the UCP is not resident in the economy, then flows and positions are treated as inward investment. If the fellow enterprise makes a loan to a fellow in another country, that is treated as a reduction in inward investment to the reporting economy as funds that flowed into the reporting economy from the foreign UCP have now flowed to another country, reducing the UCP's influence in the reporting economy. It should not be treated as outward investment as making a loan to a fellow enterprise in another country does not give the resident fellow any influence over the operations of the fellow in the other country; instead, it is the UCP that still has the influence. If the fellow resident in the reporting economy receives a loan from a fellow in another country, it increases inward investment as the non-resident UCP's influence in the reporting economy has increased.

BMD4 Implementation

The OECD has collected FDI statistics since the early 1990's. In September 2014, many OECD members will change how they report these statistics as they implement BMD4. To help assess the likely impact on the OECD's FDI statistics, a survey was conducted in November 2013 to gather information on country's reporting plans. Thirty of thirty-four countries responded to this survey. The discussion below about expected reporting is based on this survey, but this discussion will likely be updated with information from the actual reporting at the BOPCOM meeting.

Overall, 25 countries reported that they would be in a position to report FDI statistics according to the BMD4 methodology for reference year 2013, while 5 countries will still report under BMD3. Out of the 25 countries reporting according to BMD4, 11 countries indicate that they will report according to only the BMD4 methodology, but 14 countries will report a mixture of both methodologies. This mixture of methodologies will raise challenges for interpreting FDI statistics. Only about ten countries expect to disseminate statistics according to BMD4 covering reference year 2012, and the number of countries reporting according to BMD4 falls further for earlier years. This will result in breaks in series.

Seventeen countries said that they would compile the statistics excluding resident SPEs, but not all will be able to disseminate these statistics due to concerns about confidentiality. The 13 remaining countries indicated that SPEs were either not present or not significant in their economies. It is not yet clear how many countries will report extending the directional principle to fellow enterprises. This change in recording will generally reduce outward and inward FDI statistics for countries that followed the guidance in BMD3. For countries that have significant numbers of fellow enterprises that loan money and are implementing a change in their treatment, the impact can be quite significant. It is not possible to assess the impact on the statistics for countries that move from recording flows and positions between fellow enterprises according to the residence of the immediate investor to recording them according to the residence of the UCP. However, for most countries, the impact would not be expected to be large because the residence of the direct investor and UCP are often the same. For countries that begin to cover the transactions between fellow enterprises, the impact would depend on the size and direction of loans between fellows.

BMD4 Communication Policy

The implementation of BPM6 and BMD4 will lead to significant changes in the FDI statistics that may make it difficult for users, especially less technical users, to use and interpret the revised statistics. These difficulties include the dual presentations of FDI statistics on an asset/liability basis and on a directional basis, the presentation including and excluding resident SPEs, and the extension of the directional principle to flows and positions between fellow enterprises. In addition, the implementation of BMD4 will lead to breaks in series for many countries. Finally, the statistics will represent a mix of methodologies as countries move to implementing BMD4. To help data users understand and interpret the new statistics, the WGIIS is engaging in an extensive communication effort.

OECD proposes to redesign the existing web page dedicated to FDI statistics, here, to host the information related to the communication effort. The web page will maintain its current content and include additional information on BMD4. There will be a link to a document to communicate on the revised recommendations in BMD4 in particular and FDI statistics in general to a less-technical audience, called *Measuring International Investment by Multinational Enterprises.* This document will present specific examples of the impact of the new recommendations on the FDI statistics and will discuss the main things learned from the revised statistics. It will also be the basis for other communication documents, such as brochures. The webpage will also include a link to reports supporting the BMD4 research agenda, such as the report on harmonizing FDI and AMNE statistics discussed later in this document. Finally, the current FAQs will be revised and expanded to include questions on the differences between the asset/liability and directional presentations and how mergers and acquisitions are reflected in the statistics.

The web page will also have a link to the new OECD FDI statistics database, to be named the 4th Benchmark database. This database will include statistics for 2013 and forward for all countries and historical statistics on a BMD4 basis as they are reported. Eventually, the historical time series will be filled in with data from the existing database to provide time series data with the needed breaks-in-series noted. The new database will include public queries to create standard tables. Finally, it will provide metadata information on how countries compile their statistics so that users can identify differences in methodologies across countries when comparing statistics.

The next issue of the OECD's semi-annual publication, *FDI in Figures,* is to be released in early November 2014 and will include a discussion of the impact on the statistics of the more comprehensive implementation of BMD4. This will feature a non-technical discussion of the major changes, why they were recommended, and the most important things learned from the statistics using the new methodology. Possible things learned include: the role of SPEs in channeling investments and the impact of presenting inward positions by ultimate investing country rather than immediate partner country.[4]

Harmonizing and Integrating FDI and AMNE Statistics

BMD4 included a research agenda and one of the key items on this agenda is to explore ways to reconcile the financial transactions and positions included in FDI statistics with the economic measures of multinational enterprises included in the Activities of Multinational Enterprises (AMNE) statistics. This work was undertaken in recognition of the fact that while FDI statistics are the key element in measuring cross-border investments, information on third party financing and total assets of a "group" would provide a more complete picture of

[4] In addition to providing guidance on the compilation of standard FDI statistics, BMD4 recommended the compilation of certain supplemental series. One of these supplemental series is the presentation of inward investment positions by the ultimate investing country rather than by the immediate investing country. It is expected that 10 OECD countries will report this supplemental series.

the economic involvement of the group as well as its cross-border and local exposures. The WGIIS has been conducting research into this issue and published a report in 2013 on harmonizing and integrating financial and economic measures for multinational enterprises (MNE).[5]

The MNE Framework

The WGIIS report developed an analytical framework, called the MNE framework, which achieved several objectives. First, one of the major differences in the statistical concepts and definitions used in compiling FDI and AMNE statistics is that AMNE statistics are limited to control relationships (that is, those with greater than 50% of the voting power), but FDI statistics cover both control and influence relationships, where the investor owns more than 10% but 50% or less of the voting power. To reconcile the two sets of statistics, the MNE framework recommended that harmonized statistics be limited to control relationships.

Second, it recommended expanding the coverage of financial variables to total assets and liabilities. These statistics would include FDI but would go beyond it to include purely domestic sources of financing and cross-border sources other than FDI. This expansion recognizes that all of the funding received by the enterprise, not just FDI, affects its operations.

Third, the MNE framework made use of the UCP concept to classify investment and to define the entities to be covered. The UCP is the entity on top of the ownership chain, which is not controlled by another entity. For inward investment, the MNE framework recommended allocating all variables to the country of the UCP. This aligns with the recommendations for compiling AMNE statistics; it also aligns with a recommendation in BMD4 to compile supplemental FDI statistics on the basis of the ultimate investing country. For outward investment, it recommends that the entities covered include only non-resident subsidiaries that are controlled by UCPs resident in the reporting economy. That is, it removes from the outward investment of a country investments made by entities that are resident in the economy and that are in turn themselves foreign-controlled. This prevents overestimation of the amount of overseas assets under control.

Finally, the MNE framework recommended that the financial measures be consolidated for the group to eliminate the double-counting of funds in transit or round-tripping. The consolidation is done by netting investments between the affiliates of the group from the group's total assets. This consolidation not only removes funds that go into and out of subsidiaries simultaneously (capital-in-transit) but also removes funds that have been invested by subsidiaries in other affiliated enterprises on behalf of the UCP.

The MNE framework provided a statistical framework that provided for links between FDI and AMNE statistics and by which reliable measures of both financial and economic variables of MNEs could be compiled. The WGIIS recognized that the MNE framework

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[5] OECD, March 2013, "Harmonising Financial and Economic Measures of Multinational Enterprises", Working Group on International Investment Statistics, DAF/INV/STAT(2011)10/Final, March 2013. This document was included in the report discussing recent activities of the WGIIS at the 25th Meeting of the IMF Committee on Balance of Payments Statistics.

could be used as the grounds for a new data reporting framework under consideration for the G-20 Data Gaps Exercise on Recommendation 13 on cross-border risk exposure of financial and non-financial corporations. The report also included a number of indicators that could be constructed from the harmonised data, including those related to the financial structure and financing of the MNE.

Current Work

The WGIIS has continued research on harmonizing these statistics by focusing on the availability of the needed data by countries and by examining the experience of the United States in constructing a dataset according to the MNE framework and the indicators included in the report.
To assess the availability of the data, the WGIIS conducted a stock-taking survey on "Data availability for Multinational Enterprises" on 30 May 2013. The questionnaires were sent to 34 OECD Member countries, 5 OECD Key partner countries (Brazil, China, India, Indonesia, and South Africa) and Russia. The OECD received 20 replies, all from OECD Members.

The questionnaire focused on the availability of 16 financial and 13 economic variables on MNEs, for the following type of enterprises: Resident foreign controlled affiliates; Resident parent companies with affiliates abroad (investors); and Non-resident affiliates of resident investors (affiliates abroad).

The Main results of the survey were:

- In most countries (17 out of 20), the pooling of information on MNEs is possible either from the one single agency compiling data on MNEs; or through data exchange possibilities between several agencies involved in the compilation of MNEs; or using public data-bases with balance-sheet information on resident enterprises.

- Availability of 16 financial variables from balance sheets:

    - **Balance sheet of resident affiliates**: 11 countries have information on 10 or more financial variables. Most frequently available variables are equity, balance sheet total, loans, interest paid/received, fixed assets, and FDI equity income.

    - **Balance sheet of investors**: 10 countries have information on 10 or more financial variables. Most frequently available variables are equity and balance sheet total.

    - **Balance sheet of affiliates abroad**: less than 10 variables are available for each country. Most frequently available variables are equity, FDI (by UCP), and FDI equity income.

    - The relative availability of specific items is more or less the same for resident affiliates and investors in most countries.

- Availability of 13 economic variables:
  - **Economic variables of resident affiliates**: 17 countries have information on 6 or more economic variables. Most commonly available variables are the ones included in the European FATS regulation, including the number of enterprises, turnover (sales), production value, employment, personnel costs, value added, gross investment in tangible goods, material inputs, R&D personnel, and R&D expenditures.
  - **Economic variables of investors**: 8 countries have the same information as for resident affiliates, 6 countries have less information and 2 countries have more information. Most frequently available variables are the number of enterprises, number of employees, and turnover.
  - **Economic variables of affiliates abroad**: in most cases there is less information for non-residents than for residents, but surprisingly the difference in information available is not that big. Most frequently available variables are the number of enterprises, number of persons employed, and sales (in accordance with the European FATS regulation).

Given the availability of the needed financial and economic variables, WGIIS Members were invited to express interest for sharing their experience in combining their FDI and AMNE statistics as country pilot studies. At the October 2014 WGIIS meeting, the United States Bureau of Economic Analysis presented its experience combining its FDI and AMNE statistics according to the MNE framework and constructing the recommended indicators. This experience will be valuable in providing compilation guidance and prioritizing the indicators as next steps in this research. Canada is developing a new methodology for inward FATS, and may be able to report to WGIIS in the future. The WGIIS agreed to continue the work, focusing, in particular, on the feasibility and costs of compiling the suggested statistics.

FDI Statistics Workshop on Measuring Globalisation

On March 20, 2014, the WGIIS hosted an FDI Statistics Workshop entitled “Measuring globalisation: Better Data for better policy”. Multinational enterprises (MNEs) are the backbones of global value chains and are important to channelling capital, goods, services, and knowledge to countries around the world. The purpose of the workshop was to assess whether the data currently used to measure and analyse globalization are adequate. The workshop consisted of three panel sessions.

The first panel session was entitled “Measuring investment globalisation: Are FDI statistics still a useful metric?” The panel agreed that BMD4 was a great step forward by providing clearer definitions of FDI concepts; segregating resident Special Purpose Entities (SPEs); addressing the round-tripping of funds; and identifying the ultimate controlling parent. The supplemental series that identify inward investment positions by ultimate investing country and identify equity capital flows related to M&A transactions shed light on important aspects of globalisation. Nevertheless, some things are missing for analysing globalisation. These include mapping the MNE—that is, linking the ultimate parent to the ultimate destination; data on the control and use of knowledge and intangible assets within the MNE; non-equity forms of control; capital passing through operating units rather than SPEs; and links between FDI statistics and the statistics on the Activities of Multinational Enterprises (AMNE).

The second panel was entitled “Measuring globalisation: Other data sources”. The panel discussed two datasets. The first was AMNE statistics, which are very useful for studying globalisation because they includes statistics on the activities of the parent company and because they includes operating variables, such as turnover (sales), employment, and value added. AMNE statistics are becoming more useful as the number of countries compiling those increases. There are things that could make these statistics even more useful, including developing links between FDI and AMNE statistics and linking the AMNE microdata to other data sources, such as to data on patents and trademarks, on employment, and on trade. One drawback of using AMNE data is that they are not timely.

The second dataset discussed was international M&A statistics, which have several advantages. They are the timeliest data available, and are not subject to confidentiality restrictions because M&A’s are corporate events, which means more detail on the transactions is often available. International M&A statistics are not consistent with FDI concepts because they include the full financing of the merger or acquisition and not just the portion attributable to the direct investor and do not capture financial flows not due to M&As, such as reinvested earnings, capital contributions, and most intercompany loans. Nevertheless, the two data series tend to track closely at the aggregate level. The second panel concluded by emphasizing the importance of having firm-level data available for analysis to study globalisation and the need to better understand the behaviour of firms, including their financing decisions.

The third panel was entitled “The role of international investment and MNEs in global value chains.” This panel focused on the questions that statistics must be able to answer to inform investment, competition, responsible business conduct, taxation, and development policy. These questions include:

- Where is the value added created?
- Who receives the benefits from the investment?
- Is the investment a source of exports, income, government revenues, and employment?
- Where are decisions made in the MNE?
- How lasting is FDI to/from a particular country (role of SPEs and transfer pricing)?
- What are benefits to developing countries of GVCs?
- How can developing countries be integrated into GVCs?
- How sticky is FDI (operating surplus vs. employee compensation)?

To answer these questions requires new tools. It is important to classify firms by ownership along with the usual classifications by industry or firm size. An integrated framework for economic statistics that is consistent both conceptually and in practice needs to be developed.

Finally, statistics need to better capture the creation and use of intangible assets and spillover effects.

Conclusion

In the coming year the WGIIS will continue work on the practical aspects of BMD4 implementation and communicating on the interpretation of and uses for the revised statistics. It will also continue work on the research agenda, including developing priorities and compilation guidance for the harmonised FDI and AMNE statistics. Finally, it will explore the use of FDI statistics in understanding the role of investment in creating and managing global value chains.