



FDI STATISTICS AND GLOBALISATION

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Outline

- FDI statistics
- Transactions in capital goods in FDI
- SPEs
- Redomiciled companies/corporate inversions
- FDI and other statistics
 - FDI and TiVA
 - FDI and FATS (or AMNE statistics)



FDI Basics

- 10% or more of the voting power—influence and control
- FDI statistics consist of:
 - Financial flows
 - Equity
 - Reinvested earnings
 - Intercompany debt
 - Income flows
 - Earnings
 - Interest
 - Positions
 - Equity
 - Debt



Transfers of Capital Goods in FDI

- If a parent provides capital goods, such as machinery to an affiliate
 - Economic ownership is transferred
 - If the affiliate does not pay
 - Then, host economy records an import of capital goods and an increase in FDI liabilities
- Same procedure for intangible capital



Issues Arising in Recording in FDI

- Usually must be picked up on surveys
 - Both trade in services and FDI surveys
 - May only be recognised after annual financial statements are prepared
 - Can be a source of revisions
- Valuation
 - Particularly difficult for intangibles



FDI Income: Adjustment from Financial Accounting to Economic Accounting

- Recorded according to the Current Operating Performance Concept (COPC)
 - Aligns with national economic accounting
- Requires adjustments from financial accounting collected from companies
 - Realised and unrealised gains and losses
 - Write-downs, write-offs, or write-ups
 - Depreciation: adjusted to current replacement cost



FDI Income: R&D as Investment

- Since many companies treat R&D as an expense, FDI income needs to be adjusted to treat it as an investment
- Important for FDI because
 - MNEs conduct most of the R&D
 - Increasingly globalised



FDI Income: R&D as Investment (continued)

- Difficult for practical & conceptual reasons
 - Requires data on R&D activities of FDI firms
 - Entry and exit from FDI universe
- Could be significant
 - U.S. BEA produced experimental estimates
 - Outward FDI income increased by 4%
 - Inward FDI income increased by 9%
 - Net impact: 1% increase in surplus on FDI income

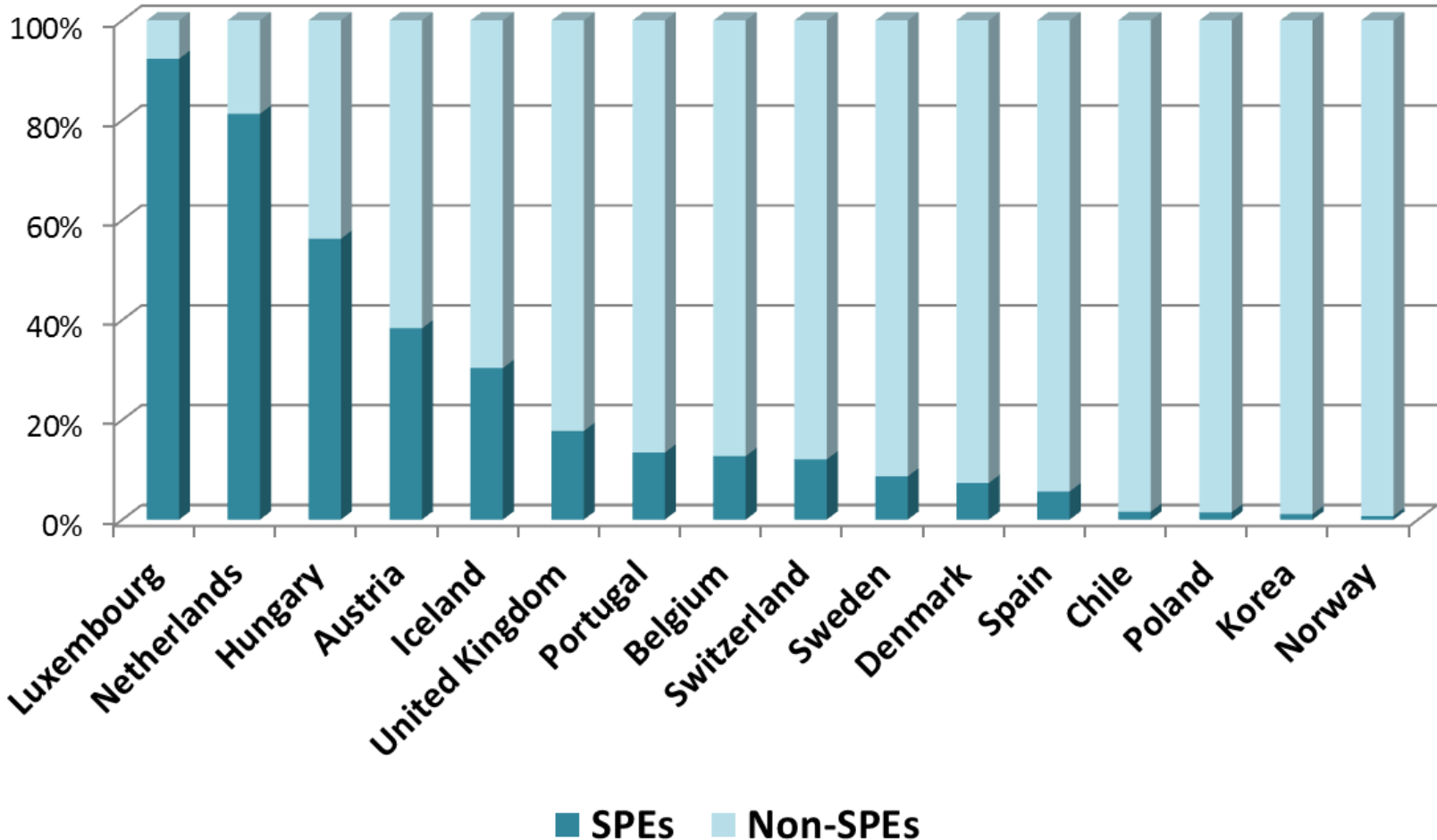


Special Purpose Entities (SPEs)

- BD4 standard FDI series: all units and excluding resident SPEs
- SPEs are not strictly defined but have the following characteristics
 - Legal entity registered with a national authority
 - Foreign-owned
 - Few or no employees, little or no production, and little physical presence in the host economy
 - Almost all assets and liabilities are investments to/from other countries
 - Does not manage or direct



Importance of SPEs in Selected OECD Countries: Inward Positions





Special Purpose Entities (SPEs)

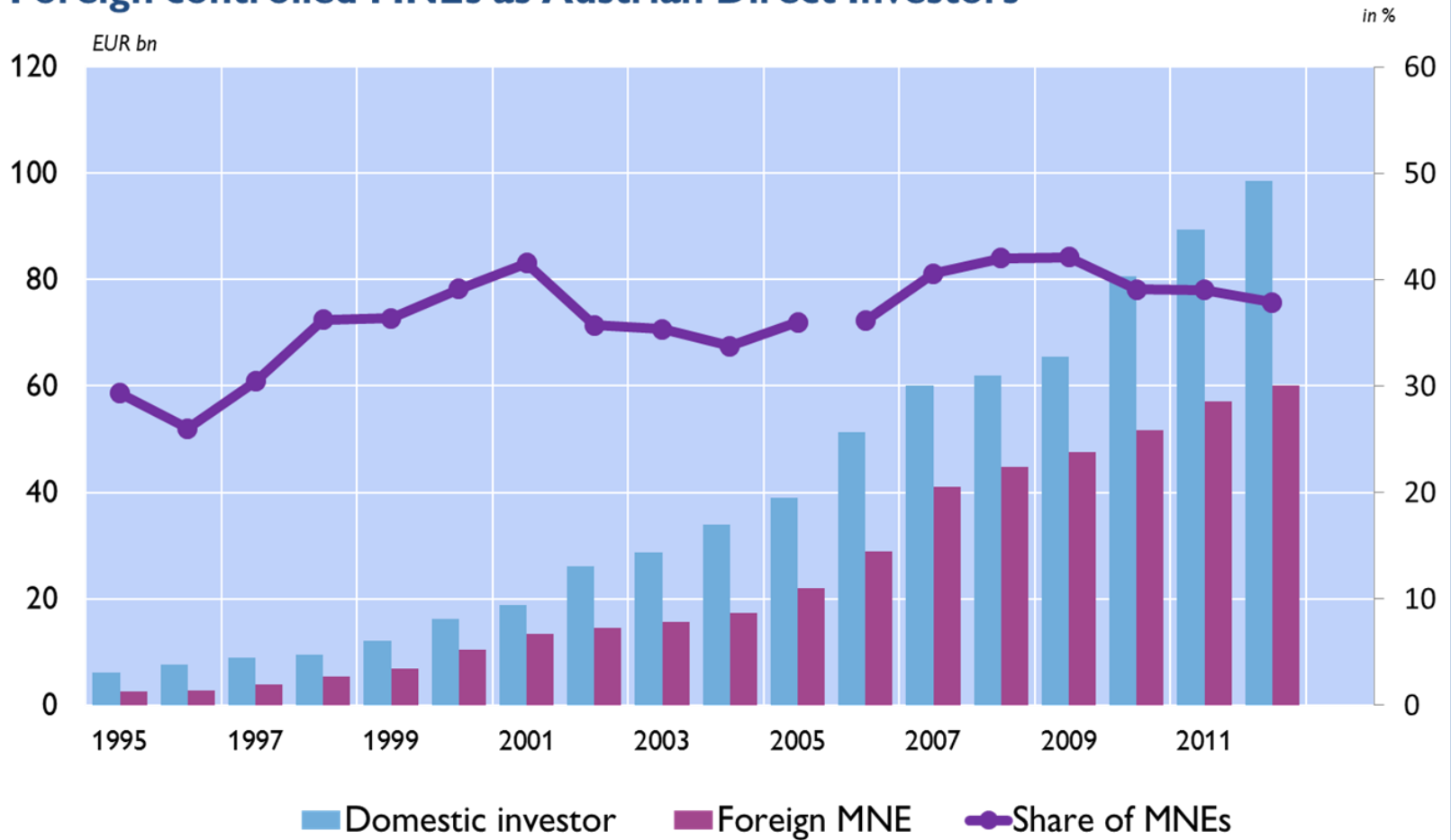
- Goal was to identify capital-in-transit
 - No agreement on a definition of capital-in-transit, so identified enterprises that are involved in it
- Does not include holders of IP
- Does not address capital-in-transit through operating affiliates
 - Hungary publishes separate estimates of capital-in-transit
 - Switzerland and Austria publish separate data for foreign-owned parents



Example from Austria

Diagr 1

Foreign controlled MNEs as Austrian Direct Investors



Source: OeNB.



Impacts of Redomiciled Companies/Corporate Inversions

- Excellent note identifying these companies in DI, portfolio, and income accounts
- Often results in companies with extensive overseas assets in DI and many foreign shareholders--liabilities in portfolio
- Different recording of income flows and different valuations of the positions for the same company can impact the balance on income and net International Investment Position (IIP)

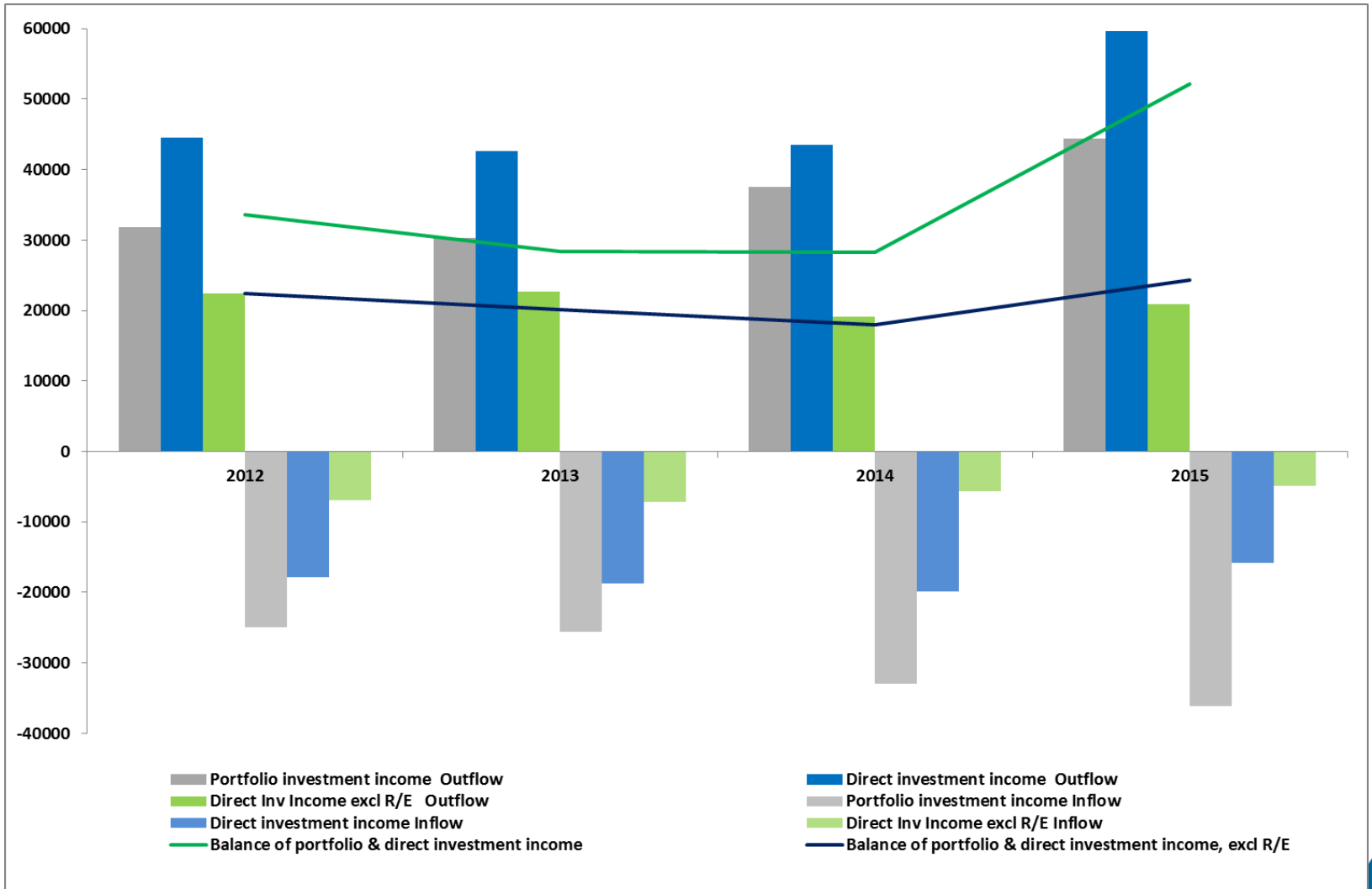


Redomiciled Companies/Corporate Inversions: Income Account

- Income account
- Direct investment receipts include parent's claim on the earnings and interest
 - Assume all of the income received by the parent who then decides how much to reinvest
- Portfolio investment payments include only distributions
- Possible additional indicator would be to remove DI reinvested earnings



Ireland: Portfolio and Direct Investment Income, including & excluding R/E





Redomiciled Companies/Corporate Inversions: Net IIP

- For portfolio, valued at prices in stock exchange
- For DI, often must estimate market value because equity is not listed
 - Common method is own funds at book value
 - Based on accounting records under IFRS
 - Usually market value > than own funds at book value
- Net IIP lower than if the same company was valued equivalently in portfolio and FDI
- Indicator could be a valuation of DI positions that more closely aligned with the valuation in portfolio investment



TiVA & FDI: Motivation for the Project

- FDI: main driver of globalisation & formation of global value chains (GVCs)
- Information on FDI has not systematically been included in the statistical frameworks developed to analyse GVCs
- Introducing FDI income into the Trade in Value Added (TiVA) framework is a first step
- Ownership information in the ICIO would provide a framework for analysing the role of FDI in GVCs
 - Expert Group on Extended Supply/Use Tables



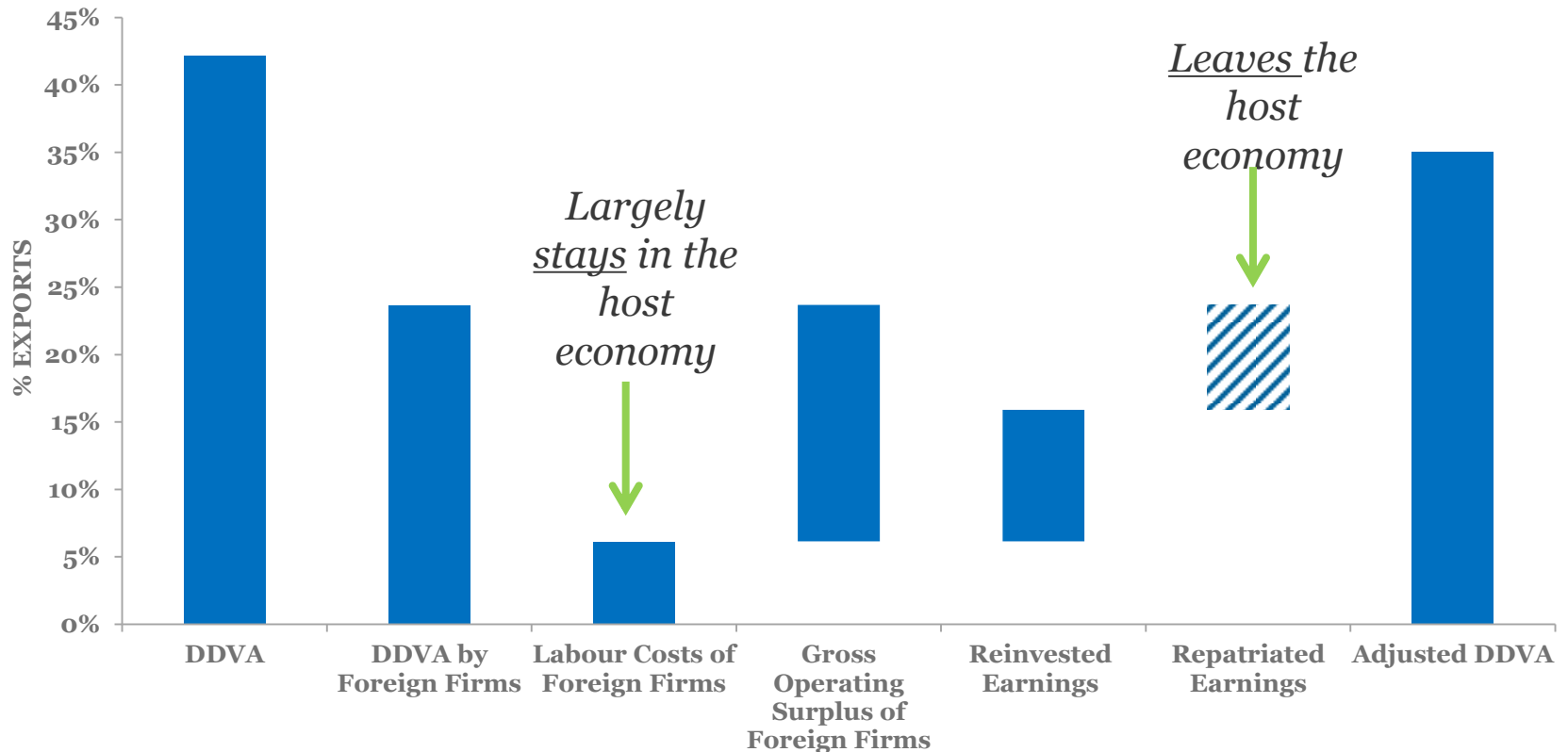
TiVA & FDI: Motivation for the Project (continued)

- Towards analysing TiVA from a GNI perspective
- Sheds light on an important issue: where is income generated along a GVC and where does it accrue?
- Line between FDI income & services trade is increasingly blurred
- Identify the part of value added by foreign-owned firms that can be repatriated
 - Wages and taxes are more ‘sticky’
 - Operating surplus is less ‘sticky’



Trade in Value Added and FDI Income Ireland 2011

The DDVA of exports contains VA by foreign firms who repatriate the profits home, this breakdown illustrates the VA created by foreign enterprises that stays and that leaves the economy





Ideal FDI Statistics for Integration

- FDI statistics that identify the income that is generated in the country and not income that is passing through
- Identify the ultimate investing country so income can be traced if it is repatriated
- Consistent ownership definition across TiVA and FDI statistics
 - Control versus influence and control



Limits of FDI Statistics for TiVA Integration

- 1) Income in transit
- 2) FDI income statistics reflect the immediate destination of income payments
- 3) Foreign ownership: FDI statistics include both control and influence relationships



Techniques to Address Issues

- 1) Exclude income payments by resident SPES
- 2) Identify and net the income receipts and payments of operating affiliates
- 3) Identify the ultimate investing country, i.e., destination of the income payments
- 4) Consider only control relationships



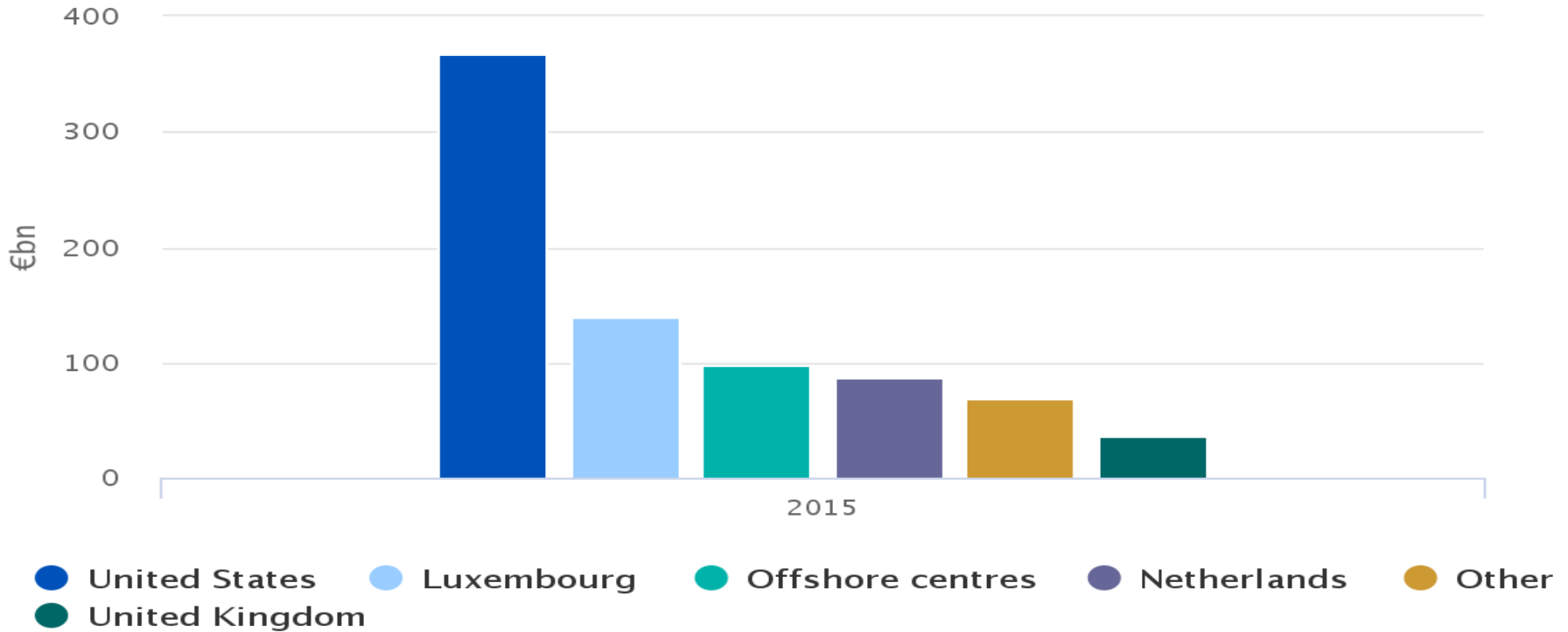
Ultimate Investing Country

- UIC is the country of the direct investor who ultimately controls the investment, bears the risks and reaps the rewards
- Ultimate investor identified by proceeding up the immediate direct investor's ownership chain until an enterprise is reached that is not controlled by another entity
 - If no enterprise controls the immediate direct investor, then the immediate direct investor is the ultimate investor
- Entire FDI position attributed to the immediate direct investor is moved from its country to the UIC
- Presentation by UIC can show inward investment controlled by investors in the reporting economy—**round-tripping**
- Can result in substantial changes in the distribution by country



Example from Ireland

Figure 2 Stock of Inward Direct Investment by Immediate Investor 2015

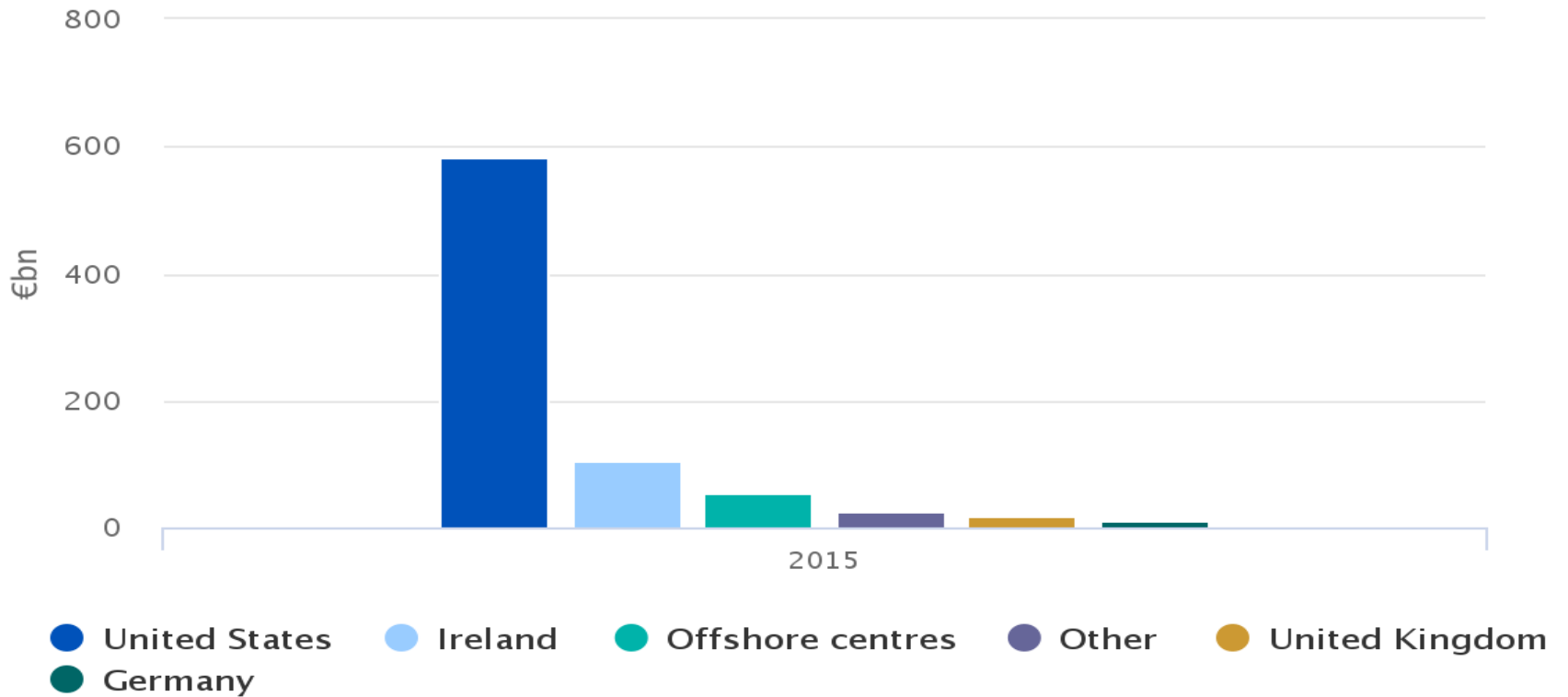


Source: CSO Ireland



Example from Ireland

Figure 3 Stock of Inward Direct Investment by Ultimate Investor 2015





Harmonizing FDI and FATS or AMNE Statistics

- AMNE statistics limited to control relationships, but FDI statistics cover both control and influence relationships
 - Limit harmonized statistics to control relationships
- Expand coverage of financial variables to total assets & liabilities
 - Includes FDI, purely domestic sources of financing, and cross-border sources other than FDI
 - All funding received by the MNE, not just FDI, affects its operations
- Use the Ultimate Controlling Parent (UCP) concept to classify investment and to define the entities to be covered
 - UCP is the entity at the top of the ownership chain
 - Inward investment: allocate all variables to the country of the UCP
 - Outward investment: cover only non-resident subsidiaries that are controlled by UCPs resident in the reporting economy



Consolidation

- Consolidate financial measures 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
- Removes fund that go into and out of subsidiaries simultaneously (funds-in-transit)
- Removes funds that have been invested by subsidiaries in other affiliated enterprises on behalf of the UCP
- Called MNE framework



Conclusion

- FDI statistics can provide important information on globalisation
- FDI Statistics excluding SPEs and by UIC
- But countries publish additional information as relevant for their economies
 - Irish note on redomiciled companies
 - Data on capital-in-transit—Hungary
 - Foreign-owned parents—Switzerland & Austria
- Would be happy to see any additional indicators presented at the WGIIS



Conclusion

- Need to develop a view of MNEs' activities throughout the accounts
- Requires:
 - Data linking
 - Data sharing
 - Reconciliation of different concepts & definitions
 - What is foreign? Control or control & influence
 - Proportional versus total attribution