Challenges in Measuring FDI: Addressing Them in the Update of BPM6

Maria Borga, Deputy Division Chief, IMF Balance of Payments Division

Challenges Measuring Foreign Direct Investment and Main Trends in Latin America and the Caribbean

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The views expressed are those of the presenter and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.
Outline

- Update of the international standards
- Issues in current FDI statistics
- Addressing the measurement challenges
- Proposals for better data on MNEs
- Other new recommendations for FDI statistics
Update of International Standards

- Rare opportunity
- Work underway for *System of National Accounts* and *Balance of Payments Manual*
  - Complete consistency
  - Particular focus on globalization and activities of MNEs
  - To be published in 2025
- International statistical community has come together to work through Task Teams to make recommendations for the next set of standards
  - Direct investment task team (DITT):
    - BPM only task team
    - Defining FDI, measurement and classification, MNEs and Special Purpose Entities (SPEs), and FDI by type (e.g., M&A, greenfield, etc.)
  - Globalization Task Team
    - Joint task team
    - Many topics, including MNEs and SPEs
- OECD’s *Benchmark Definition of Foreign Direct Investment*
  - Focused solely on direct investment (specialist manual)
  - Consistent with the BPM but additional detail
Different Uses for FDI statistics

Direct investment in the BOP and IIP

- Focus on financial stability and financial interdependencies between economies
  - Focus on financing and income

- Distinguish from portfolio investment:
  - Long term and stable vs. shorter term and volatile
  - Influence or control vs. passive investors

- Many countries report FDI statistics as part of the BOP and IIP
  - More than 170 economies report BOP and more than 160 report IIP to IMF
  - More than 110 report to the Coordinated Direct Investment Survey

FDI statistics as a proxy for MNE production

- Direct investors supply more than financing
  - Technology and knowledge transfer
  - Integration in regional and global value chains

- Real impacts and not just financial and income
  - Employment, wages, production, trade

- How good a proxy are they?
Issues with FDI statistics: Pass-through investments

- MNEs channel their investments through multiple locations, often financial centres, before their final destination
- Inflates FDI flows and positions and obscures ultimate sources and destination of investment

Source: IMF Coordinated Direct Investment Survey (CDIS)
Who Are the Most Important Investors in your Economy? Identifying the Ultimate Investing Economy

By ultimate investor:

By immediate investor:

Source: OECD, *FDI in Figures*, October 2019
Where is the Investment Going? Identifying the Ultimate Host Economy

- Luxembourg, BVI, Austria and the Netherlands become less important destinations
- US, Canada, Singapore, Uruguay, and Germany become more important
- Measure of round-tripping: outward FDI that is ultimate hosted in Brazil

Source: Banco Central do Brasil
### Austria: Detailed Analysis by Ownership

<table>
<thead>
<tr>
<th>Country</th>
<th>Regional distribution by host country</th>
<th>ODI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>of UIE</td>
<td>Germany</td>
</tr>
<tr>
<td>Austria (&quot;genuine&quot;)</td>
<td>21%</td>
<td>26%</td>
</tr>
<tr>
<td>Germany</td>
<td>4%</td>
<td>28%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>3%</td>
<td>25%</td>
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<tr>
<td>Central and Eastern Europe</td>
<td>5%</td>
<td>28%</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>7%</td>
<td>37%</td>
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<tr>
<td>Total ODI</td>
<td>15%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Source: Austrian Central Bank
The Purpose of FDI: Mergers & Acquisitions and Greenfield Investment

Canada: Equity capital inflows by type

 Millions of dollars

-15,000 -10,000 -5,000 0 5,000 10,000 15,000 20,000 25,000 30,000


- Mergers and acquisitions - Other equity - Equity capital flows

Ireland: Share of Greenfield Investment in FDI

2012 2013 2014 2015 2016 2017

0.0 1.0 2.0 3.0 4.0 5.0 6.0

Source: Statistics Canada

Source: Central Statistical Office of Ireland
Direct investment finances new capital investment in its host economies that results in carbon emissions.

Combining data on FDI inflows by industry with data on CO2 emissions of gross fixed capital formation in those industries, we can estimate the CO2 emissions of new capital investments financed by FDI.

Estimates would be improved by better data on FDI for greenfield investment and expansions of capacity.

Source: IMF Climate Indicators Dashboard
Proposals for additional data on MNEs: Trade

- The Globalization Task Team and the Current Account Task Team (C.2 and C.4)

- To better understand the role of MNEs in trade, proposes a voluntary breakdown of trade by ownership: foreign-controlled corporations, domestic MNEs, and other domestic entities

- Also includes a breakdown of direct investment income according to the residence of the ultimate direct investor

- To capture the income effects of global production arrangements as well as the trade effects

<table>
<thead>
<tr>
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<th>Total</th>
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<tr>
<td><strong>Exports of goods and services, total</strong></td>
<td></td>
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<tr>
<td>Goods, BOP basis</td>
<td></td>
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<tr>
<td>By enterprise ownership</td>
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<tr>
<td>Domestically controlled</td>
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<td>MNE</td>
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<td>Other</td>
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<td>Controlled from abroad</td>
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<td><strong>Services, BOP basis</strong></td>
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<td><strong>Receipts of investment income</strong></td>
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<td>By enterprise ownership</td>
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</table>

**Total Exports of goods and services, total**

**Goods, BOP basis**

**By enterprise ownership**

**Domestically controlled**

**MNE**

**Other**

**Controlled from abroad**

**Services, BOP basis**

**By enterprise ownership**

**Domestically controlled**

**MNE**

**Other**

**Controlled from abroad**

**Receipts of investment income**

**By enterprise ownership**

**Domestically controlled**

**MNE**

**Of which Direct Investment**

**Other**

**Controlled from abroad**

**Of which Direct Investment**
These Data Can Provide Additional Insights to GVC Analysis

- Information on FDI has not been included in the statistical frameworks developed to analyse GVCs (i.e., Trade in Value Added (TiVA))
- 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 by Ownership

Exports by ownership and their contribution to income as a share of GDP, 2014

Source: OECD Trade and Investment Country Notes

Benefits to the US from NAFTA Integration

Source: Authors’ calculations from OECD Data
Globalization Task Team is exploring the feasibility of recommending a break down of gross value added by industry between foreign-controlled and domestically controlled units. Combined with data on CO2 emissions could enable the analysis of CO2 emissions from the ongoing operations from FDI firms.

Source: IMF authors’ calculations using OECD data
Adding in Data on TEC Enables the Analysis of Trade and Investment in CO2 Emissions

Source: IMF authors’ calculations using OECD data
Other Changes to FDI Statistics Considered for the Update

- No major changes to the definition of direct investment
  - Some clarification of the treatment of collective investment institutions
- Some other important changes:
  - Sectoral breakdown of Direct Investment will be included in the core framework
    - This breakdown will enable links with balance sheet and other sectoral data compiled in the SNA, in monetary and financial statistics, and in government finance statistics
    - Will also enable the analysis of net lending and borrowing by each domestic sector
  - Reconciliation of flows and positions
  - Valuation of unlisted equity
  - DI income, retained earnings, and dividends

More information on the Update can be found at: Update of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) (imf.org)
Thank you for your attention!