IMF Publication

Foreign Direct Investment Trends and Statistics - A Summary

INTERNATIONAL MONETARY FUND

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In consultation with other departments

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October 28, 2003

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I. Introduction

1. This paper summarizes the key aspects of the paper—Foreign Direct Investment Trends and Statistics (SM/03/363, 10/28/03). During the 1990s foreign direct investment (FDI),[1] i.e., investment in which the objective of a resident in one economy is to obtain a lasting interest in an enterprise in another economy, has grown at rates well above those of global economic growth or trade. The measurement of FDI has become increasingly important with the greater integration of international capital markets, presenting new challenges for statistical recording, balance of payments projections, surveillance, and vulnerability analysis.

2. The IMF and other organizations have been working with countries to improve FDI statistics by developing statistical methodologies and providing guidance in data compilation, and through technical assistance and training. At the national level, countries are compiling and disseminating more information on FDI transactions and stocks and they are better aligning these statistics with the recommendations set out in international statistical manuals.

3. However, there are deficiencies in the data on direct investment and other cross-border capital flows. These are evident from the discrepancies in the global balance of payments statistics.

4. This summary paper is structured as follows: Section II discusses recent trends in global FDI. Section III outlines some of the statistical concepts and definitions related to the recording of FDI statistics, discusses data availability, highlights potential areas for future IMF involvement, and addresses the resource implications for the IMF if an internationally coordinated direct investment survey were to be conducted. The final section sets out some issues for discussion.

[1] The IMF's *Balance of Payments Manual*, fifth edition (*BPM5*) defines FDI as a category of international investment that reflects the objective of a resident in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise, and a significant degree of influence by the investor on the management of the enterprise. A direct investment relationship is established when the direct investor has acquired 10 percent or more of the ordinary shares or voting power of an enterprise abroad.

II. Recent Trends

5. **With the integration of international capital markets, global inflows of FDI grew strongly during the 1990s,** at rates well above those of global economic growth or trade.[2] Driven by large cross-border mergers and acquisitions (M&A), global inflows of FDI surged by an average of nearly 50 percent a year during 1998–2000, reaching a record US$1.5 trillion in 2000. (See Table 1.) Inflows declined to US$0.7 trillion in 2001 as a result of the sharp contraction in cross-border M&A.

Table 1. Regional Allocation of FDI Inflows, 1990–2001
(Billions of U.S. dollars)

	1990–94 (Average)	1995	1996	1997	1998	1999	2000	2001
Total	197.7	327.9	372.9	461.4	690.4	1076.6	1489.8	729.2
Industrial countries	137.7	205.5	226.4	272.3	486.5	844.8	1241.5	513.8
Developing countries [1/]	59.9	122.4	146.5	189.1	203.9	231.8	248.3	215.4
Africa	2.7	5.0	5.3	9.8	7.5	9.7	7.5	17.7
Asia	33.5	66.3	74.4	82.8	87.0	99.9	128.2	91.4
o/w China P.R.	*16.1*	*35.8*	*40.2*	*44.2*	*43.8*	*38.8*	*38.4*	*44.2*
Hong Kong SAR	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*14.8*	*24.6*	*61.9**	*22.8*
Europe	4.4	17.4	16.7	22.3	26.6	29.3	30.1	31.2
Middle East	3.6	3.2	5.8	8.0	9.3	4.9	6.5	5.7
Western Hemisphere	15.7	30.5	44.4	66.2	73.5	88.0	76.0	69.5
o/w Argentina	*3.0*	*5.6*	*6.9*	*9.2*	*7.3*	*24.0*	*11.7*	*3.2*
Brazil	*1.7*	*4.9*	*11.2*	*19.7*	*31.9*	*28.6*	*32.8*	*22.6*
Mexico	*5.4*	*9.5*	*9.2*	*12.8*	*11.9*	*12.5*	*14.2*	*24.7*

[1/] The FDI data for industrial and developing countries used in this section relate to the balance of payments statistics published in the *Balance of Payments Statistics Yearbook* (*BOPSY)*. The coverage of "developing countries" is broader than the *WEO* classification of the group of developing countries as it includes Cyprus, Hong Kong SAR, Israel, Korea, Singapore, and the countries in transition.

* Reflects mergers and acquisitions transactions in the telecommunications sector. Source: *External Direct Investment Statistics of Hong Kong 2001.*

6. **The industrial countries have long dominated the FDI inflows and outflows and accounted for 94 percent of outflows and over 70 percent of inflows in 2001. (See Figure 1.) Inflows of FDI to developing countries grew by an average of 23 percent a**

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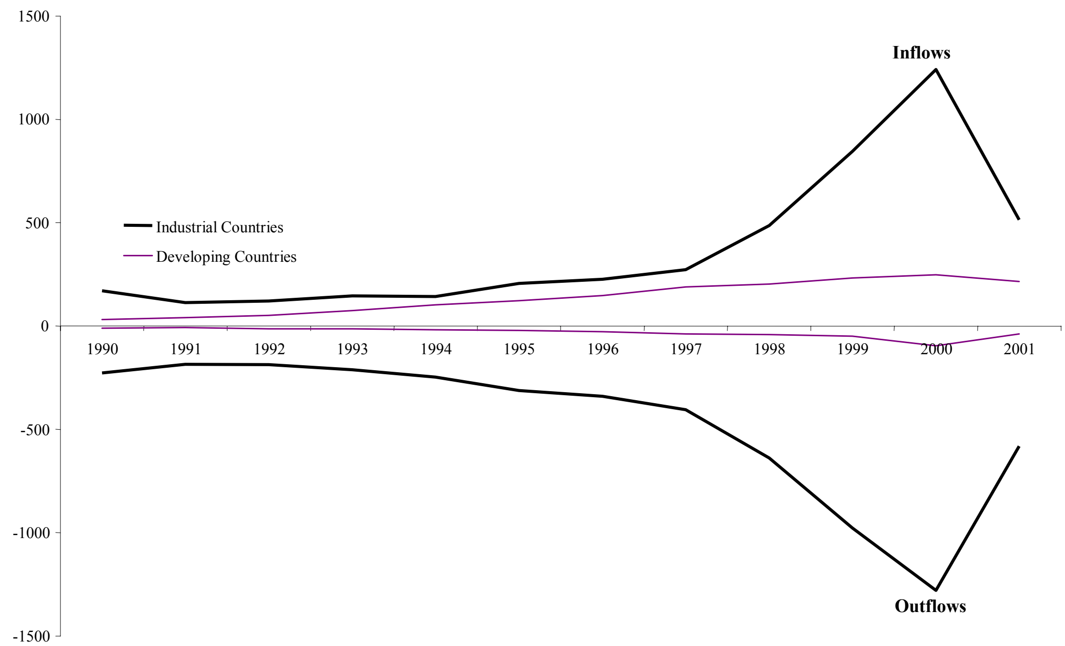
[2] In this paper, inflows mean net inward FDI transactions, i.e., inward investments less disinvestments (FDI in the reporting economy); outflows mean net outward FDI transactions, i.e., outward investments less disinvestments (FDI abroad).

year during 1990-2000. In 2001, these inflows declined by 13 percent to US$215 billion, largely reflecting reduced inflows into Hong Kong Special Administrative Region (SAR), Brazil, and Argentina. Excluding these three economies, FDI inflows into developing countries increased by about 18 percent in 2001. During 1998–2001, FDI inflows to developing countries averaged US$225 billion a year. In the same period, portfolio investment and other investment inflows to developing countries were much lower and in aggregate averaged US$22 billion a year.[3]

7. **While FDI flows predominantly comprise equity capital, US$1 trillion of cumulative FDI inflows in the form of intercompany debt (e.g., trade credits, loans, advances) were recorded during 1998–2001**, most of which went to industrial countries. During the same period, cumulative FDI equity inflows—comprising equity capital and reinvested earnings—were close to US$3 trillion.

Figure 1. Direct Investment Capital Flows, 1990–2001
(Billions of U.S. dollars)



Source: *Balance of Payments Statistics Yearbook*, various issues.

[3] During 1998–2001, portfolio investment inflows averaged US$72 billion a year, while other investment inflows averaged a negative US$50 billion a year, representing an excess of disinvestments over investments.

8. **The book value of the estimated global stock of inward FDI totaled US$6.8 trillion at end 2001. Four countries—the United States, the United Kingdom, France, and Germany—were the largest recipients of inward FDI capital.** About one third of the world stock of inward FDI represented investment in developing economies, with five economies—China P.R., Argentina, Brazil, Hong Kong SAR, and Mexico—accounting for more than half of the inward FDI stock of developing economies.

9. **The estimated global stock of outward FDI valued at book value totaled US$6.6 trillion at end 2001.[4] The largest investing countries were the United States, the United Kingdom, France, and Germany, which accounted for half of the world stock of FDI assets.** Only 12 percent (US$800 billion) of the world stock of outward FDI represented FDI investment from developing economies.

III. Foreign Direct Investment Statistics

A. Concepts and Definitions

10. **In addition to the guidance provided in the fifth edition of the IMF's *Balance of Payments Manual* (*BPM5*), the OECD's *Benchmark Definition of Foreign Direct Investment* provides operational guidance on how FDI statistics should be compiled to meet the internationally agreed recommendations.** The two manuals are consistent.

11. **A number of aspects of FDI recording pose challenges to national compilers in both industrialized and developing countries**. Complexities in the recording of FDI transactions and stocks contribute to the lack of full comparability in the data compiled by countries. Some of the more difficult areas include achieving full coverage of the activities of indirectly-owned direct investment enterprises, recording reverse investment (e.g., instances when a direct investment enterprise makes a loan to the direct investor), applying the Current Operating Performance Concept to measure direct investment earnings, and valuing FDI stocks at market prices. These difficult areas are described in Box 1.

B. Data Availability

12. **For the most part, the FDI statistics discussed in Section II are those that countries compile and disseminate and also report to the IMF and other organizations for their publication programs.** The IMF disseminates information on FDI as a component of the balance of payments and IIP statistics, while the OECD, Eurostat, and UNCTAD have separate publications devoted to FDI statistics. Both the IMF and UNCTAD cover global statistics on FDI, while the focus of the OECD and Eurostat publications is on a narrower group of countries. UNCTAD's *World Investment Report* provides a comprehensive analysis

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[4] The global stock of FDI assets and liabilities should, in principle, be the same.

of selected issues related to FDI, including, in recent years, on cross-border M&A (2000 edition) and on the operations of transnational corporations (2002 edition). [5]

Box 1. Some Key Concepts and Definitions for the Recording of FDI

Treatment of indirectly-owned direct investment enterprises: FDI transactions and positions should include the equity and other capital (e.g., trade credits, loans) transactions/positions between resident enterprises and nonresident enterprises (i.e., subsidiaries, associates, and branches) either directly or indirectly-owned by the direct investor. Direct investment earnings data should include the relevant share of indirectly-owned direct investment enterprises, as well as the relevant share of directly-owned direct investment enterprises.

Recording of reverse investment: Reverse investment occurs when a direct investment enterprise acquires a financial claim on its direct investor. Because direct investment is recorded on a directional basis (i.e., resident direct investment abroad and nonresident direct investment in the reporting economy), capital invested by a direct investment enterprise in its direct investor is regarded as an offset to capital invested in a direct investment enterprise by its direct investor or its related enterprises, except in instances when the equity participations are at least 10 percent in both directions.

Measurement of direct investment earnings: Earnings should be measured net of host country income and corporation taxes and depreciation, and exclude realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses, viz., the “Current Operating Performance Concept” of recording direct investment earnings. Reported data may not conform with the concepts because of countries’ accounting and taxation regulations.

Valuation of transactions and stocks of direct investment: In principle, all transactions and stocks should be valued at market prices. In practice, national compilers frequently have difficulties in valuing the stock of FDI at market prices because of difficulties in valuing wholly-owned subsidiaries and branches, which are not listed on stock exchanges. Many national compilers thus record FDI positions at book values from the balance sheets of direct investment enterprises (or investors).

13. **The data disseminated by the IMF and OECD show significant differences.** A recent OECD study of the reasons for the differences between the data reported to the IMF and those reported to the OECD, which in theory should be identical, indicated that differences in the time of reporting and reporting of revisions to the two organizations accounted for the discrepancies in many instances. There were also differences in the methodology and coverage, data sources, and reporting periods used by some countries to compile the two sets of data. The data disseminated by the IMF and UNCTAD are broadly comparable, although different concepts may sometimes be applied—for instance, in reporting to the IMF it is recommended that FDI positions be valued at market prices although in practice countries frequently report using book values, while UNCTAD disseminates stock data on a book value basis to the extent possible. Efforts are underway to harmonize reporting of FDI statistics.

[5] Other regional organizations, including ASEAN and ECLAC, also disseminate FDI statistics relating to their members and conduct various work activities such as workshops and training in support of the development and harmonization of FDI statistics in the regions.

14. **There has been a marked improvement in the reporting of component detail on FDI to STA in the second half of the 1990s**, reflecting the availability of new balance of payments data as well as improvements in classification. For example, between 1994 and 2000/2001 the number of countries reporting data to STA on reinvested earnings on outward FDI nearly doubled to 45, while reporting on reinvested earnings on inward FDI increased by more than a quarter to 84.[6] There has been an even more significant improvement in the reporting of data on FDI positions, where the number of reporting countries more than doubled from 30 to 70.[7]

15. **A greater amount of metadata (i.e., information on data) on FDI has become available at the international level to assist users of these statistics in understanding the statistical methodologies that countries employ in compiling the statistics.** In the recent past, there have been two joint IMF-OECD surveys of direct investment compilation and dissemination practices. The Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI) was first conducted in 1997 and updated for selected countries in 2001. The report on the 2001 update, which covered 61 of the 114 economies that replied to the 1997 SIMSDI, is expected to be published in late October 2003.[8] Summary metadata prepared in consultation with the countries and cross-country comparison tables organized by statistical issue have also been posted on the IMF's website.[9]

16. **The results of the 2001 SIMSDI update provide a wealth of information on FDI recording practices.** They indicate that progress is being made in moving towards accordance with the international statistical recommendations for FDI statistics developed by the IMF and the OECD. Some of the areas where more than 75 percent of the countries now follow the international recommendations include the use of the 10 percent ownership rule for defining FDI relationships, inclusion of data on real estate owned by nonresidents, and inclusion of data on activities of special purpose entities (SPEs) and offshore enterprises. However, there remain a number of areas where the majority of compilers do not yet follow the international recommendations. These include the recording of activities of indirectly-

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[6] The number of countries reporting inward data on equity capital also increased significantly from 92 in 1994 to 123 in 2001 and from 55 to 66 for the outward data. The increases for the data on other capital were from 76 to 91 for the inward data and from 31 to 54 for the outward data.

[7] Many countries reported additional component detail on FDI positions in recent years, About three times more countries reported data on other capital in 2001 than in 1994 (increases from 16 to 54 for the inward data and from 16 to 46 for the outward data). There were similarly significant increases in the numbers that reported data on equity capital and reinvested earnings (from 24 to 66 for the inward data and from 23 to 60 for the outward data).

[8] The 2001 SIMSDI update covered the 30 OECD countries and 31 other IMF member countries that responded to the 1997 survey. All of the subscribers to the IMF's Special Data Dissemination Standard (SDDS) at that time were covered.

[9] See http://www.imf.org/external/np/sta/di/mdb97.htm

owned direct investment enterprises, the use of the Current Operating Performance Concept to measure FDI earnings, the valuation of direct investment positions at market values, and aspects of reverse investment. As might be expected, these are the difficult areas of FDI compilation that are discussed in paragraph 11. These and other direct investment recording practices are discussed in detail in the trends and statistics paper.

17. **Deficiencies in the FDI data are evidenced by the statistical discrepancies in global aggregations of data on FDI outflows and inflows. As shown in Table 2, these discrepancies have increased in recent years.**[10] Discrepancies in capital flow statistics were analyzed in the IMF's 1992 *Report on the Measurement of International Capital Flows* and are monitored each year in connection with the work program of the IMF Committee on Balance of Payments Statistics.

Table 2. Discrepancies in Global FDI Capital Flows, 1990–2001
(Billions of U.S. dollars)

	1990–94 (Average)	1995	1996	1997	1998	1999	2000	2001
Total								
Abroad	-224.3	-333.8	-368.8	-442.5	-681.8	-1027.0	-1375.5	-620.9
In reporting economy	197.7	327.9	372.9	461.4	690.4	1076.6	1489.8	729.2
Discrepancy	*-26.6*	*-5.9*	*4.1*	*18.9*	*8.6*	*49.6*	*114.3*	*108.3*
Equity capital[1/]								
Abroad	n.a.	-183.1	-176.1	-237.5	-402.2	-670.7	-993.6	-349.7
In reporting economy	n.a.	230.0	246.5	274.9	439.9	750.6	975.7	442.5
Discrepancy	n.a.	*46.9*	*70.4*	*37.4*	*37.7*	*79.9*	*-17.9*	*92.8*
Reinvested earnings								
Abroad	-46.7	-97.2	-111.4	-123.1	-98.8	-166.4	-185.7	-145.1
In reporting economy	1.2	38.4	43.5	65.1	61.2	83.8	119.7	62.3
Discrepancy	*-45.5*	*-58.8*	*-67.9*	*-58.0*	*-37.6*	*-82.6*	*-66.0*	*-82.8*
Other capital[1/]								
Abroad	n.a.	-53.5	-81.3	-81.9	-180.8	-189.9	-196.2	-126.1
In reporting economy	n.a.	59.5	82.9	121.4	189.3	242.2	394.4	224.4
Discrepancy	n.a.	*6.0*	*1.6*	*39.5*	*8.5*	*52.3*	*198.2*	*98.3*

Source: *BOPSY*, various issues.
[1/] For 1995–2001, a split into equity capital and other capital was derived using data from *BOPSY* 2002 plus a methodology developed to allocate the estimates; these data could not be derived for 1990–94.

[10] Like other components of the balance of payments, the discrepancies do not provide a complete indication of the underlying data problems, as there are offsetting errors, e.g., when both parties to a transaction fail to report.

18. **The widening of the discrepancies in the FDI capital flows in recent years relates to the recording of transactions in equity capital and other capital (intercompany debt) transactions**. The discrepancy for intercompany debt was especially large in 2000—recorded FDI inflows of US$394 billion were double the level of recorded FDI outflows. Discrepancies also exist in the global data on FDI investment income transactions (not shown in the table), which consist of reinvested earnings, dividends, distributed profits, and interest on intercompany debt. Discrepancies in global FDI statistics are discussed in more detail in the trends and statistics paper, as are discrepancies in the bilateral FDI stock data.

C. Plans to Develop FDI Statistics

19. **In light of the growing importance of FDI and the deficiencies in coverage and comparability, improved statistics on FDI capital flows, stocks, and income (including reinvested earnings) are needed for balance of payments projections, surveillance, and vulnerability analysis.** More and improved data on FDI stocks are essential also for further developing IIP statistics, which are becoming increasingly important for surveillance and also for their potential use in the revision of quota formulas.

20. **STA's forward work program includes a number of initiatives that will assist compilers and users of FDI statistics**, both in the availability of more information—data and metadata—and in improvements in statistical methodologies and coverage.

- **Continuation of the SIMSDI project**. The IMF Committee on Balance of Payments Statistics and the OECD strongly support continuing the SIMSDI on an ongoing basis. The IMF and the OECD plan to launch in late 2003 another survey of FDI methodological and dissemination practices, which will take into account recent changes or clarifications of the methodology and be sent to a larger number of the IMF's membership than the 2001 SIMSDI update. As with the 2001 update, a report will be prepared and summary metadata drafted in consultation with national compilers and posted on the IMF's website.

- **Revision of the *BPM5***. In connection with the work program of the IMF Committee on Balance of Payments Statistics, STA has initiated a project to update the recommendations contained in the *BPM5*. This will entail an extensive program of research and consultation with international agencies, regional groups, country compilers, and users of statistics, with the objective of producing a new balance of payments and IIP manual in 2008. The new manual will include, inter alia, a wider discussion of recording issues relating to FDI statistics. The OECD will be revising the *Benchmark Definition* in alignment with the revisions to the *BPM5*. With regard to direct investment, STA and other involved international organizations are already examining a number of issues that will potentially have an impact on the recording of FDI statistics, including some of the more complex areas identified in Box 1, with a view to simplifying the international recommendations.

- **Further development of IIP statistics**. At its meeting on June 3, 2002 in the context of further considerations of alternative quota formulas, the Executive Board discussed possible revisions to the formulas used to calculate members' quotas, including broadening the openness measure by including a variable such as the IIP. Many Directors encouraged additional work to improve the collection and reporting of IIP data. In the recent past, STA has undertaken a number of steps to encourage reporting of IIP statistics, including strengthening of the SDDS, requests to countries to report partial IIP data that may be readily available, and the preparation in 2002 of a guide to help countries compile first-time IIP statistics.[11] In 2004, STA intends to conduct a course at the IMF-Singapore Regional Training Institute to guide countries in compiling/improving IIP statistics.

- **Changes in the orientation and delivery of technical assistance in statistics, including FDI statistics**. STA is participating fully in the capacity-building technical assistance centers that are being set up in Africa—African Regional Technical Assistance Centers—to help countries strengthen their domestic institutional framework; each center has one full time statistics advisor, who has access to a budget for short-term experts to assist him in delivering technical assistance in statistics. Also, STA's technical assistance in Africa is increasingly being conducted in the context of implementation of the IMF's General Data Dissemination System to develop capacity in statistics, including in the area of IIP statistics. These programs are expected, inter alia, to improve data reporting to the IMF. STA's considerable training program in external sector statistics has been extended to include separate courses on external debt statistics, which also provide inputs into the recording of FDI (i.e., intercompany debt).[12]

21. **The question arises whether these activities are sufficient to address emerging needs or whether a major internationally coordinated effort would be required along the lines of the IMF-sponsored Coordinated Portfolio Investment Survey (CPIS).** The CPIS, together with the IMF's work on international reserves, the work of the Inter-Agency Task Force on Finance Statistics on external debt, and the Bank for International Settlements's International Banking Statistics, has helped countries address data deficiencies in other areas of the external accounts.

22. **Following the success of the CPIS, STA proposes to investigate the feasibility of conducting a similar survey in respect of FDI positions, classified by partner country, that would draw on the lessons learned from the CPIS.** A coordinated direct investment survey would be a major undertaking and would likely involve a larger number of participating economies than was the case for the portfolio survey. It would also involve

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[11] *International Investment Position—A Guide to Data Sources* (2002). Also available on the IMF website. See http://www.imf.org/external/np/sta/iip/guide/index.htm

[12] STA conducted 32 technical assistance missions and 13 training courses and seminars in external sector statistics in 2002.

coordination with a wider range of involved international organizations, require many participating countries to modify their existing collection systems or develop new systems, and require more resources to implement than did the CPIS. If it were deemed feasible, it could take at least five years to implement.

23. **With the right level of participation, such an undertaking could be expected to create a comprehensive database for use by compilers and users of FDI statistics.** There would be improvements in the (i) coverage of FDI (and IIP) statistics; (ii) comparability of FDI statistics across all countries; and (iii) data on the geographic distribution of FDI capital. (These issues are discussed further in the text and Box 7 of the trends and statistics paper.)

D. Resource Implications for the IMF of a Coordinated Direct Investment Survey

24. **Preliminary investigations by STA into a coordinated direct investment survey, as proposed above, would cost US$30,000 and require 0.2 full time equivalents (FTEs) in regular staff positions this year.** This cost could be absorbed within the STA budget for FY 2004. **A feasibility study in FY2005 would require 1½ FTEs and US$100,000 travel costs.** OBP confirms that this cost also could be absorbed within the IMF's medium-term expenditure framework. The feasibility study would consider, among other matters, whether the IMF could absorb the considerable additional costs of the survey within its medium-term expenditure framework; if not, the survey would not proceed. Consideration would be given to whether some of the resource requirements could be met by other international organizations.

25. **The survey would represent an addition to the existing policy base.** In the medium-term horizon, and depending upon the survey model chosen, the preparatory work by STA leading up to the survey and the implementation of the survey could require as much as 2½ FTEs per year during FY2006-08 and US$1 million of other costs (travel, accommodation, and per diem for workshop participants). **The IMF's overall cost of undertaking a single benchmark survey of FDI positions could amount to around US$3 million.** The earliest that the survey could be conducted would be for year-end 2007.

IV. Issues for Discussion

1. Notwithstanding the important improvements in the compilation of FDI statistics reported by countries in the joint IMF-OECD survey, do Directors consider that countries should be encouraged to make greater efforts to implement the international recommendations for recording direct investment set out in the international statistical manuals, such as the *BPM5*?

2. In light of the deficiencies in the coverage and comparability of FDI statistics, do Directors see a need for stronger IMF involvement in assisting countries to further improve data in this area?