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Beware of FDI statistics!*

by

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FDI data are widely used to measure the importance of MNEs. However, data limitations make their usefulness increasingly difficult, especially for assessing the impact of FDI, formulating policies and undertaking econometric analyses.¹

Some FDI-data limitations are well known:

- FDI data do not capture non-equity relationships (management contracts, franchising, sub-contracting, etc.) that establish control over enterprises abroad. These are estimated to have accounted for US\$2 trillion sales in 2010.²
- Some countries report FDI stock data at book value.³ US inward FDI in 2016 was US\$3.7 trillion on a historical-cost basis, US\$6.6 trillion on a market-value basis.⁴
- Outward FDI (OFDI) data measure only transfers of parent-firm funds; they do not include capital raised from non-affiliated firms. Thus, US foreign affiliates' assets amounted to US\$15.7 trillion, compared with US\$4.4 trillion in OFDI (2012).⁵
- Some OFDI of many countries consists of outflows from foreign affiliates in these countries. This should be subtracted from the OFDI of these countries and possibly be added to the OFDI of the ultimate investing countries, to obtain a true picture of who controls international production.

These limitations understate, probably considerably, the share of international production under the common governance of the headquarters of MNEs and who controls it.

Conversely, several factors overstate this share:

- Round-tripping (including inversions) remains an issue. A country's own firms were among the top ten "foreign" investors (in 2010) in several developed countries (for Spain, Spain itself is the second largest FDI source), and more than half of Russia's OFDI position (2010) involved round-tripping.⁶

- Tax havens and offshore financial centers attract large amounts of FDI. Thus, between 50% and 80% of the outward FDI of the BRIC countries is channeled through them,⁷ making it virtually impossible to have a meaningful discussion of the geographic and sectoral distribution of their outward FDI.
- Countries that are *not* tax havens (e.g., Switzerland, Netherlands, Luxembourg) but that are convenient for merely channeling FDI to other countries, especially using special purpose entities (SPEs) and holding companies, have become important FDI conduits: “FDI positions in SPEs hosted by 17 [OECD] countries represent 57% of their total inward FDI position at end 2016.”⁸ The share of US OFDI stock held (2015) by holding companies abroad (including SPEs) had risen from 9% in 1982 to 52% in 2016.⁹ The real economic activity of SPEs and holding companies is very limited.
- Regional headquarters also may serve as mere conduits of FDI funds.

While some FDI may stay in tax havens, financial centers and countries of convenience (and more in regional-headquarters countries), most is trans-shipped to other jurisdictions and hence double-counted.

FDI involves more than finance. Operational data (employment, skill upgrading, technology transfer, value-added, exports) are key to measure the MNE impact on host countries.

Finally, differences in FDI definitions and the recording of flows caused a 20% discrepancy in 2016 world inflows/outflows.

Given these shortcomings, it is virtually impossible to measure, with a reasonable degree of accuracy, the part of international production under the common governance of MNEs and obtain an accurate picture of the geographic and sectoral distribution of a good part of the world’s OFDI, that is, to determine in which countries and industries the genuine OFDI of many firms is ultimately made.

What to do?

All shortcomings need to be addressed. Five have priority:

- Tax-haven, SPE and holding-company data (and data concerning financial centers) should be separately reported by more countries so that they can be excluded from FDI statistics.
- Capital raised from non-affiliated firms should be reported.
- Home countries should track the ultimate host countries of their MNEs.
- More host countries need to obtain information on the ultimate controlling parent firms and hence ultimate investing countries.
- Data on operational MNE activities are needed.

The OECD and EU are addressing these shortcomings, but too few countries have implemented their recommendations.

Better data on the real size of international production and its geographic and sectoral distribution are needed, for example, to determine the size and impact of FDI, identify the most important investment partners, allow screening for national security reasons, or understand the relationship with bilateral investment treaties. International organizations should push for improvements, including by providing technical assistance to emerging markets. Meanwhile, however, FDI data must be used with great care.

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¹ For a comprehensive analysis, see Masataka Fujita, “A critical assessment of FDI data and policy implications,” *Transnational Corporations*, vol. 17 (August 2008), pp. 107-123.

² UNCTAD, *World Investment Report 2011* (Geneva: UNCTAD, 2011), p. 123.

³ For a discussion of stock data, see *Columbia FDI Perspectives* nos. 45 (http://ccsi.columbia.edu/files/2014/01/FDI_45.pdf) and 55 (http://ccsi.columbia.edu/files/2014/01/FDI_55.pdf).

⁴ Derrick T. Jenniges and Sarah A. Stutzman, “Direct investment positions for 2016,” *Survey of Current Business*, vol. 97 (July 2017), p. 2.

⁵ Based on OECD, “Harmonization and integration of financial and economic measures of multinational enterprises” (Paris: OECD, 2013), p. 43.

⁶ Maria Borga, “New FDI statistics: Looking through complex ownership structures to the ultimate source of FDI,” in Austrian Central Bank, *Focus on External Trade* (Vienna: ACB, 2017), p. 165.

⁷ Karl P. Sauvant, “The challenges of measuring outward FDI from emerging markets,” https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3006769, chart 4.

⁸ OECD, *FDI in Figures*, April 2017, p. 6.

⁹ Jenniges and Stutzman, op. cit., p. 6.

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