



Implementing the latest international standards for compiling foreign direct investment statistics

FDI STATISTICS BY THE ULTIMATE INVESTING COUNTRY

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In 2014, many countries implemented the latest international guidelines for compiling FDI statistics. In this note, we explain a key feature of the new standards and what it means for users of FDI statistics. The note begins by describing how the complicated ownership structures used by multinational enterprises can obscure the ultimate source of FDI into countries. The latest international guidelines provide a method to produce FDI statistics by ultimate investing country, providing analysts and policymakers with information on who ultimately controls the investment in a country. This approach also allows for the identification of round-tripping. Statistics for France, Poland, and the United States are presented.

The financing structures of multinational enterprises (MNEs) have grown more complex over time in response to several factors, including the need to manage global production networks and the desire to reduce tax and regulatory burdens. These complex structures can obscure the ultimate source of FDI into a country because standard FDI statistics are presented according to the location of the immediate investor. If an investor holds an affiliate indirectly, through a holding company for example, the inward FDI of the ultimate host country is attributed to the country of the holding company and not of the ultimate investor.

To provide more meaningful measures of FDI, the OECD developed the 4th edition of its *Benchmark Definition of Foreign Direct Investment (BMD4)*. BMD4 recommended that countries should compile statistics on the inward FDI stock by the ultimate investing country (UIC). This presentation allows countries to look through the complex ownership structure to see the country of the direct investor who ultimately controls the investment and, thus, bears the risks and reaps the rewards of the investment. In contrast, the standard presentation of FDI statistics is by the immediate source of the funding. There can be substantial differences in the distribution of inward positions by country when presented by UIC rather than by the immediate partner country.

The presentation by UIC can shed light on another important issue: round-tripping. Round-tripping is when funds that have been channelled abroad by resident investors are returned to the domestic economy in the form of direct investment. It is of interest to know how important round-tripping is to the total inward FDI in a country because it can be that round-tripping is not genuine FDI into an economy. The presentation by UIC identifies the amount of inward FDI controlled by investors in the reporting economy; this is inward FDI resulting from round-tripping.

Inward FDI stocks by Ultimate Investing Country for selected countries

Six countries are currently reporting data on the inward stock of FDI by the UIC: Austria, Estonia, Finland, France, Poland, and the United States. However, many more countries have the intention of producing this series in the future due to the valuable information it provides on who controls the foreign investments in their country. In the discussion that follows, the positions of the top 10 ultimate investing countries are compared to their positions when recorded by the immediate partner countries for France, Poland, the United States, and Estonia to see what can be learned about the ultimate source of FDI into these countries.¹

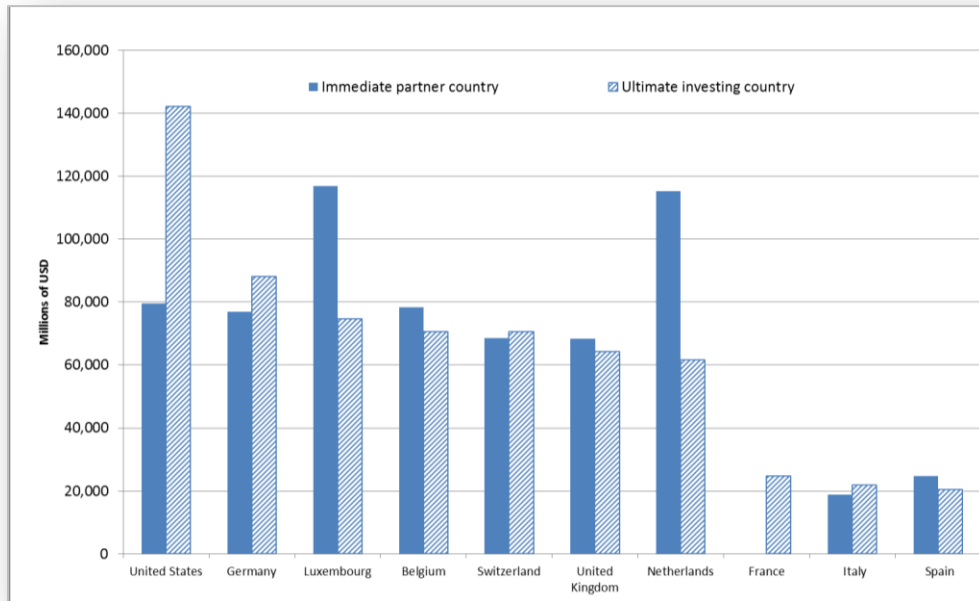
France

Figure 1 shows the inward positions of the top ten UICs in France compared to their positions when reported by immediate partner country. For France, the most recent statistics available are for 2012.

On the UIC basis, the United States is a much more important investor in France than it appears when presented by immediate partner country. Indeed, the inward stock of the United States increases from USD 79.6 billion to USD 142.1 billion. Much of this increase comes from Luxembourg and the Netherlands; the inward investment stocks from these countries drops considerably, indicating that investors from the United States hold many of their affiliates in France indirectly, through affiliates in Luxembourg and the Netherlands. Investors in other countries also likely hold operations in France indirectly through affiliates in these countries. According to the UIC presentation, French investors are the 8th largest source of FDI into France. As a matter of fact, they replace Japan in the top ten sources of FDI when the statistics are presented according to the UIC rather than by immediate partner country. While this indicates there is some round-tripping of FDI in France, the French position still accounts for less than 4% of the total inward investment position in France.

¹ At the time this note was printed, statistics by immediate partner country could not be published for Austria and Finland so such comparisons are not possible for their statistics.

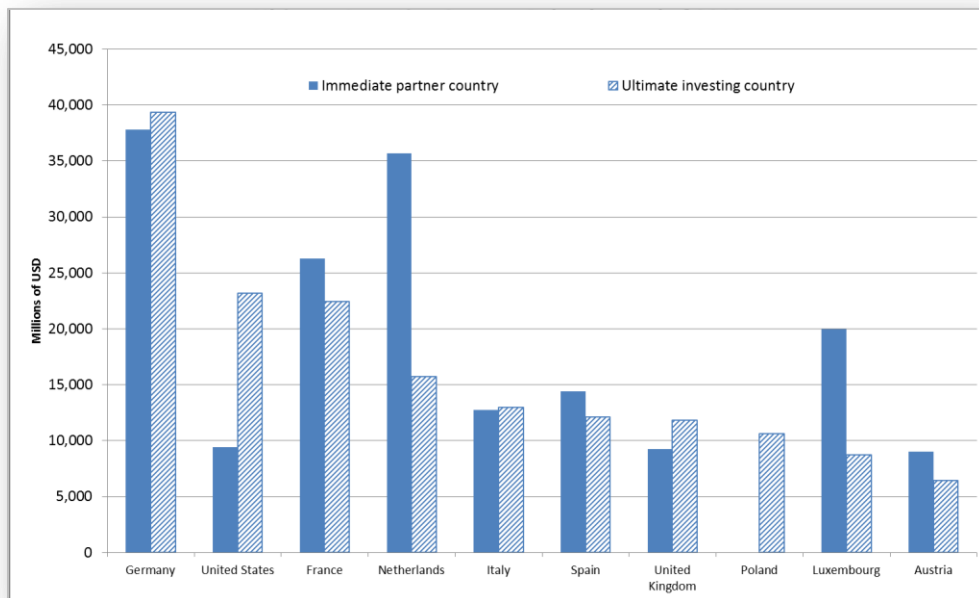
Figure 1: Inward FDI stocks of France by immediate and ultimate investing country, 2012



Source: OECD Foreign Direct Investment statistics (BMD4) database

Poland

Figure 2: Inward FDI stocks of Poland by immediate and ultimate investing country, 2013



Source: OECD Foreign Direct Investment statistics (BMD4) database

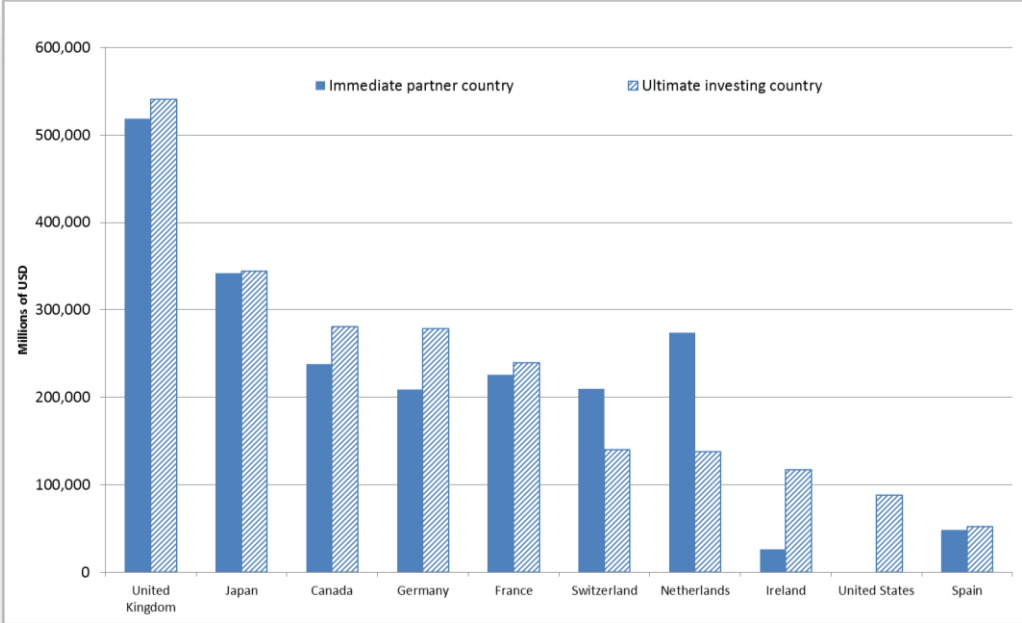
Figure 2 shows the inward positions of the top ten UICs in Poland compared to their positions when reported by immediate partner country.

On the UIC basis, Germany remains the most important inward investor in Poland. As for France, the United States is a much more important investor in Poland than it appears when presented by immediate partner country, and much of this increase comes from Luxembourg and the Netherlands. The inward investment stocks from these two countries drops considerably when measures according to the UIC, indicating that the United States and other countries channel investments to Poland through these countries. Cyprus²³, another country FDI often passes through, actually falls from the tenth largest source of FDI in Poland to the 27th when stocks are measured according to the UIC. Polish investors are the 8th largest source of FDI into Poland, and they account for almost 5% of inward investment in Poland.

United States

Figure 3 shows the inward positions of the top ten UICs in the United States compared to their positions when reported by immediate partner country.

Figure 3: Inward FDI stocks of the United States by immediate and ultimate investing country at the end of 2013



Source: OECD Foreign Direct Investment statistics (BMD4) database

² Note by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the “Cyprus issue”.

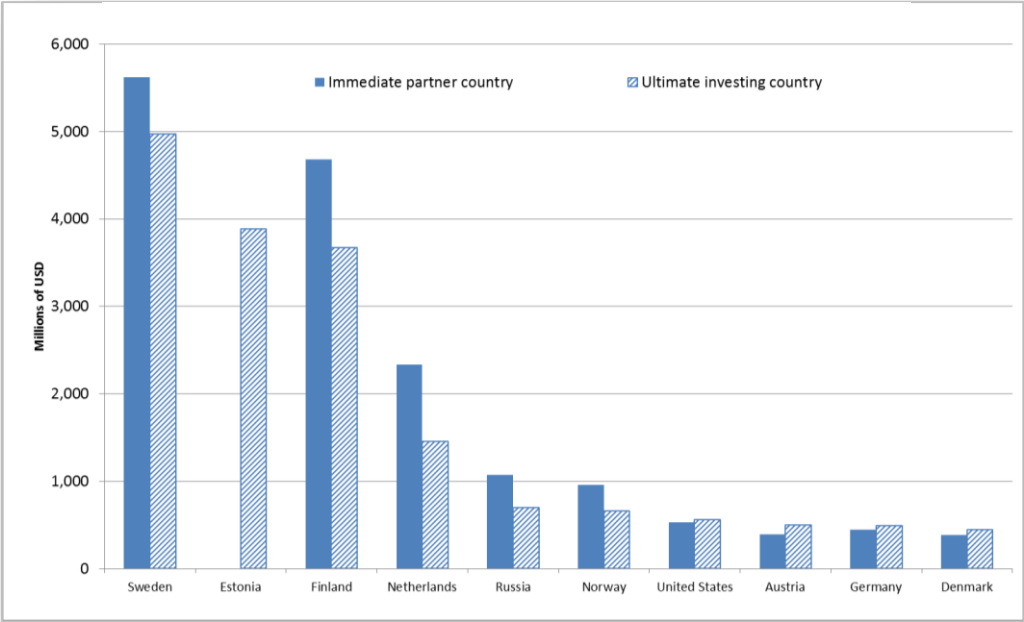
³ Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

On the UIC basis, several countries become more important investors in the United States than they appear when measured according to the immediate investor, including the United Kingdom, Japan, Canada, Germany, France, Ireland, and Spain. Some of the increase for Ireland probably represents the impact of corporate inversions in which a U.S. entity takes steps to become a wholly owned subsidiary of a foreign corporation; Ireland has become a popular location for the global headquarters of these inverted companies. Other countries become less important as sources of FDI when measured on the UIC basis, including Switzerland and the Netherlands. In addition, Luxembourg, the Cayman Islands, and Belgium, which are among the top ten sources of investment when measured by the immediate investing country, are not among the top ten investors when measured by the UIC. This indicates that investors from other countries use these countries to channel investments to the United States. According to the UIC presentation, American investors are the 9th largest source of FDI into the United States, accounting just over 3 percent of inward investment in the United States.

Estonia

Figure 4 shows the inward positions of the top ten UICs in Estonia compared to their positions when reported by immediate partner country. These data exclude resident SPEs.

Figure 4: Inward FDI stocks of Estonia by immediate and ultimate investing country at the end of 2013



Source: OECD Foreign Direct Investment statistics (BMD4) database

On the UIC basis, Estonia becomes the second largest source of investment in Estonia, indicating that round-tripping is more common in Estonia than in the countries examined above. Given that Sweden, Finland, the Netherlands, Russia, and Norway become less important as sources of investment when measured according to the ultimate investor, it appears that some of the round-tripping from Estonia is going through some or all of these countries. Other countries that become less important as sources of FDI when measured on the UIC basis include Cyprus and Luxembourg. In contrast, the United States, Austria, Germany and Denmark are all more important sources of direct investment in Estonia than the standard presentation would indicate.

Conclusion

Some MNEs use complex ownership structures to manage their global operations, their finances, and their intellectual property as well as to reduce their tax and regulatory burdens. The compilation of inward FDI statistics by the ultimate investing country allows countries to see through these complex structures to the ultimate source of investment in their country. This provides valuable information to analysts and policymakers on who ultimately controls the investment, reaping the rewards and bearing the risks of the investment.

Examination of statistics for four countries—France, Poland, the United States, and Estonia—reveals some common patterns. Countries, such as Luxembourg, Cyprus, and the Netherlands, that are known as countries MNEs pass investments through on the way to other destinations are much less important as sources of direct investment when measured according to the UIC than when measured according to the immediate investing country. Other countries, including the United States, are more important investors than shown by the standard presentation of FDI by immediate partner country. This indicates that MNEs from these countries are using complex ownership structures that pass investment through intermediate countries before reaching its final destination.

Round-tripping was present in each country examined and was large enough to make investors from the home country among the top ten sources of FDI in each of the countries. However, with the exception of Estonia, they accounted for 5% or less of the total inward investment position.

This explanatory paper has been prepared by the OECD Investment Division. For queries, please contact: investment@oecd.org. Find data and more detailed FDI statistics at www.oecd.org/investment/statistics.htm.