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**Thailand's Balance of Payments
Foreign Direct Investment Statistics**

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Thailand's Balance of Payments – Foreign Direct Investment Statistics

1. Introduction

Foreign Direct Investment (FDI) is a type of fund which developing countries desire due to its nature of being a rather long-term and stable flow of fund, and a factor which stimulates employment and economic growth. Moreover, FDI tends to induce technological know-how, enhances competitiveness of corporate and promotes country's exports.

Prior to financial liberalization in 1991, netflow of FDI in Thailand has been rather low, less than 1 percent of GDP. The flow started to rise towards the end of 1980s when Japanese Yen started to appreciate, and wage rate started to rise. These two factors together have driven relocation of manufacturing base of multinational corporations (MNCs), particularly Japanese firms to newly industrialized countries in Asia and later to South East Asian countries including Thailand, where cost of production is lower. This, together with Thailand's financial liberalization and deregulation which facilitates and enhances investors' confidence, has resulted in a noticeably large amount of FDI flow during the period 1988-1992. The influx has continued its high level throughout the decade, following the onset of International Banking Facilities (IBFs) in the later half of 1993. After the emergence of economic crisis in 1997, FDI flow increased noticeably with the average of approximately 4.1 percent of GDP. This has been driven mainly by the need of affected businesses in the country to seek their way out by selling off their firms or attracting joint ventures, including foreign investors. Current trend in FDI somewhat declined to the level prior to liberalization, amounting less than 1 percent of GDP, mainly due to the fragility of the world economy, the decline in the level of mergers and acquisition and high money market liquidity.

The Data Management Department Bank of Thailand is responsible for the compilation and dissemination of foreign direct investment statistics. Concepts, definition and scope broadly follow the IMF's Balance of Payments Manual Fifth Edition (BPM5), details of which are illustrated below.

2. Definition and Concepts

Direct investment reflects the lasting interest of a non-resident of an economy in a resident entity. According to the BPM5, direct investment can be classified into investment in forms of equity capital, other capital and reinvested earnings.

1. **Investment in equity** where the direct investors owns 10 percent or more of the ordinary shares or voting power for an incorporated enterprise or the equivalent for an unincorporated enterprise.

2. **Other capital (eg. loans from affiliates)** refers to borrowing and lending of funds between direct investors and subsidiaries, branches and associates. Excluded are inter-office loans to/from financial institutions which are treated as “other loan”.

3. **Reinvested earnings** is defined as investment earnings not distributed as dividends nor remitted to direct investors. However, the BOT’s data currently exclude this portion.

Direct investment may also be classified in accordance with the direction of investment into 2 categories :

a. Foreign Direct Investment (FDI) reflects the lasting interest of a nonresident in a resident entity. The item shows non-resident’s claims on resident entities and thus is recorded as the country’s external liabilities.

b. Thai Direct Investment Abroad (TDI) shows resident’s claims on nonresident entities and thus is recorded as the country’s assets.

In contrast to the terms FDI and TDI used here, several academic papers used the term “Foreign Direct Investment : FDI” to refer to the direct investment of both directions. When speaking of the investment from abroad alone, the term “Inward FDI” is used while resident’s investment abroad is referred to as “Outward FDI”. The terms “inward” and “outward” merely reflect the direction of investment, not the flows of fund. That is, there are inflow, outflow, and netflow (= inflow - outflow) of inward FDI, as well as outward FDI.

3. Coverage and Data Sources

3.1 Prerequisite for data collection

Main data source for compilation of FDI is the International Transaction Reporting System (ITRS). The Legal basis for Thailand ITRS is derived from the Commercial Banking Act (B.E. 2505), Exchange Control Act (B.E. 2485) and Ministerial Regulation No. 13 (B.E. 2497) issued under the Exchange Control Act (B.E. 2485). These laws set out the principles of controls under which Notifications and Notices were issued. The Bank of Thailand has been entrusted by the Ministry of Finance with the responsibility of administering foreign exchange. All foreign exchange transactions are to be conducted through authorized agents and reported to the BOT. Threshold of reporting foreign currency transactions is 50,000 US

dollars or equivalent, transactions under threshold is to be grouped by purpose, currency, business, country and reported electronically. Data obtained from the ITRS include both transactional flows (for banking and non-bank sectors) and position data (for banking sector).

Data from the ITRS are supplemented with data obtained from surveys, details of which will be elaborated in 3.3.

3.2 Source data

3.2.1 *Stock Data*

Public Sector : Data are obtained, on quarterly basis, from direct reports from Ministry of Finance, State Enterprises.

Banking Sector : Data are obtained mainly from the international transaction reporting system (ITRS) supplemented by data from annual IIP survey.

Non-bank Sector : Data are obtained from the annual IIP (for non-debt items) and quarterly External Debt (for debt items) surveys.

Overall, FDI stock data are compiled as part of IIP on an annual basis, both in US dollars and Baht equivalent. Conversion is based on end-of month mid-rate.

3.2.2 *Flow Data*

Public Sector : Data are obtained from direct reports from Ministry of Finance and State Enterprises.

Banking Sector : Data are obtained mainly from the International Reporting System (ITRS) supplemented by data from annual IIP survey. Flows are derived from the difference between stock of assets and liabilities of commercial banks and International Banking Facilities (IBFs) for the current month and that of the previous month. Stocks are subtracted category by category and are operated in original currency prior to US dollar conversion. Data on recapitalization flows from Supervision Group are then added to the total flows. Flows of financial institutions are adjusted using data from annual IIP survey with time lag of 9 months.

Non-bank Sector : Data are obtained from ITRS. Flows on direct loan and debt reclassified to equity are adjusted using data from quarterly external debt survey. Flows on equity investment are adjusted using data from annual IIP survey. Reinvested earnings are currently excluded.

Flow data are compiled on monthly basis, both in US dollars and Baht equivalent. Conversion is based on monthly average mid-rate.

3.3 Survey design and methodology

FDI-related surveys conducted by the BOT comprise of annual IIP survey (form 40) and quarterly external debt survey (form 42).

3.3.1 Form 40: Survey on International Investment Position

The Form 40 was designed to capture all financial account items as suggested by the BPM5, the template of which encompasses beginning / ending balance, transaction changes, valuation changes, price changes, and other changes.

For non-bank sector, list of survey population is obtained from the Department of Business Development (only companies with non-resident shareholders of more than one percent). Such list serves as the basis for the IIP survey population encompassing approximately 15,000 businesses with international investment activities in Thailand and/or some investment in subsidiaries abroad. The list of population database is updated from other available sources such as the ITRS, news, the Board of Investment and the Stock Exchange of Thailand. The population database encompasses all economic sectors and classified in accordance with the International Standard Industrial Code (ISIC). From the population pool, survey samples (around 1,700) are drawn. The sample is estimated to cover approximately 90 percent of total value of cross-border transactions.

On average, the BOT achieved around 85-90 percent response rate for Form 40. As for any data inconsistency or misreport, a direct phone call would be promptly made to the providers to clarify and reconcile the discrepancies.

3.3.2 Form 42 : Survey on Private Non-bank External Debt and Offshore Lending/ Deposit

Form 42: Survey on Private non-bank External debt and Offshore lending/ Deposit was introduced in 1997. The survey captures the information on external debt outstanding, offshore lending, offshore deposit or trade credit liabilities / claims on quarterly basis. The results of this survey are used in the compilation of Thailand's External debt and external claims statistics while certain components such as permanent debts as well as loans from foreign affiliates are used to accommodate compilation of IIP statistics.

The survey population, encompasses all private non-bank companies registering external borrowings and/or foreign lending with non-resident counter parties comprising of

approximately 3,200 companies. Response rate for Form 42 is around 90 percent. Data inconsistency or misreport would be promptly clarified and reconciled.

3.4 Reconciliation between stock and flow

Reconciliation between FDI flow data as part of the BOP and FDI stock data as part of IIP is implemented, except for non-bank non-debt items : equity investment (paid in cash or in-kind such as provision of machinery by foreign investment partners) and reinvested earnings. For non-bank sector's loans from affiliates, reconciliation is made quarterly when External Debt survey results become available. FDI data for the previous year are revised accordingly.

In reconciling BOP data with IIP survey, consideration should be placed on distributing annual net flows obtained from IIP survey to fit in with monthly BOP series. The BOT is in the process of studying an appropriate monthly distribution pattern for items not yet reconciled (i.e. equity investment and reinvested earnings), taking into account information such as period of dividend distribution, news, information from major companies, ITRS, information obtained from Thailand's Board of Investment as well as plausibility and consistency with other BOP items and macro economic indicators. In association with reconciliation issues, consideration should also be placed on the estimation of FDI items in the period where survey results are not yet available.

4. Data Quality

Data obtained from the ITRS are closely monitored. Automated and manual checks are employed and data are verified with the reporting banks as necessary. Datasets from financial institutions need to pass through a set of validation rules inherited in the Data Management System (DMS). Data processing, compilation, and tabulation of FDI statistics involve both automated and manual procedures.

Data obtained from survey are verified using validation rules inherited in the in-house data processing and compilation system. Validation are carried out at both unit level (where stocks are validated against financial reports, balance sheet, income statement, retained earnings, statement notes to financial statement and ITRS) and aggregated levels (detecting major contributors and confirm large / doubtful transaction, if any).

5. Deviation from BPM5

Concepts, definition and scope broadly follow the BPM5, with the only exception of non-bank reinvested earnings. There has been an ongoing attempt to reconcile IIP and BOP,

with emphasis placed on reinvested earnings. A “jump” in the FDI time series caused by introducing reinvested earnings could distort the meaningfulness of the statistics, thus complicating the analytical tasks. Upon this notion, discussion of this matter with internal and external users resulted in a mutual agreement to postpone the official inclusion of reinvested earnings portion into the BOP-FDI figures until a longer series of this component can be obtained. Meanwhile, reinvested earnings are disseminated as part of IIP table.

The principle of market valuation specified in the BPM5 is used to value transactions. In an absence of market price, price of similar transaction is used as a proxy. Priority is set on actual market price, then by latest market price available, then by net asset value or book value.

6. Problems and Challenges

Apart from concerns about reconciliation and market valuation discussed earlier, other challenges currently faced include :

- Close relation with data providers must be maintained to ensure high survey response rate
- Special efforts are needed to follow up on survey’s non-response
- Surveys is on voluntary basis, there is no law or legal provision to ensure reporting
- Limitation on data providers’ end (eg. Accounting period differs from IIP survey period, high turnover rate of employment which may affect respondents understanding of IIP concept)
- Difficulties in reconciling with partner countries’ data
- Transfer pricing for transactions among affiliated companies

7. Dissemination

Dissemination of FDI statistics follows IMF’s SDDS requirement. In a broader level, direct investment is published as part of the BOP table, broken down in accordance with directional basis : direct investment in host country versus direct investment abroad. Detailed breakdown of non-bank direct investment is also available in the following tables :

- Netflow of FDI classified by country
- Netflow of FDI classified by business
- Netflow of Foreign Equity Investment classified by country
- Netflow of Foreign Equity Investment classified by business

- Thai Equity Investment Abroad classified by country
- Thai Equity Investment Abroad classified by business

Other detailed formats may be provided upon request.

Data are disseminated in the BOT's quarterly Economic and Financial Statistics bulletin and posted on the website www.bot.or.th. Time series data may be downloaded from the website by clicking on the red arrow to the right of the table's name. Statistics are set out clearly in tables with accompanying footnotes and charts. Metadata and summary methodology are also available in the BOT's quarterly Economic and Financial Statistics bulletin, the BOT's website, as well as the IMF's SDDS webpage.