

**United Nations Conference on
Trade and Development**



**Expert Meeting on Capacity Building in
the Area of FDI: Data Compilation and
Policy Formulation in Developing
Countries**

12-14 December 2005

Introduction to major FDI issues

by

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EXPERT MEETING ON CAPACITY BUILDING IN THE AREA OF FDI: DATA COMPILATION AND POLICY FORMULATION IN DEVELOPING COUNTRIES

Session III. Introduction to major FDI issues

Geneva, 12-14 December 2005

Palais des Nations



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Data issues and problems

General Issues

- Different data coverage of FDI (i.e. all three components of FDI may not be included in the case of flows and two major components in the case of stock)
- Different methodologies and methods of data collection by host and home countries
- Different time periods used for recording FDI transactions

Specific issues

- Greenfield investment and cross-border M&As
- Valuation of FDI
- FDI under the fully consolidated systems
- Round-tripped investments and transhipped investments
- FDI in special-purpose entities

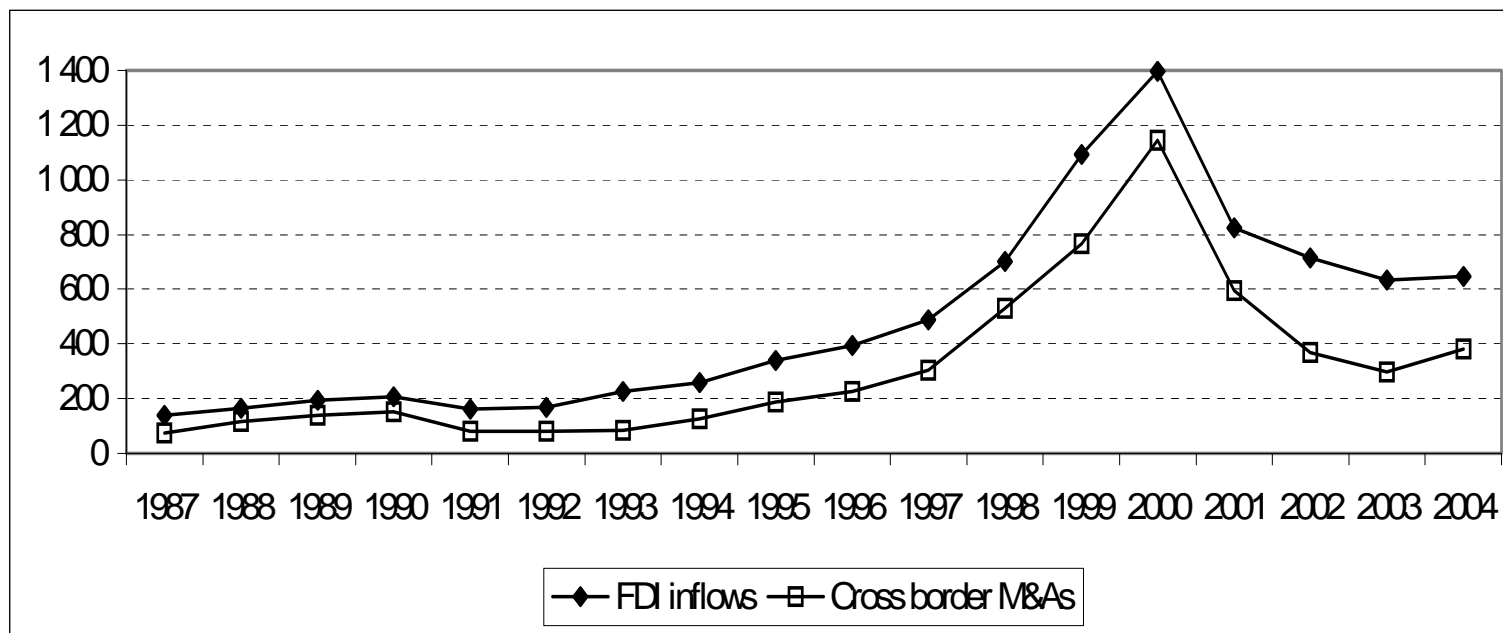


Greenfield investment and cross-border M&As

- *Greenfield FDI* establishes new entities and sets up offices, plants and factories from the beginning. They are a separate unit maintaining its own accounting book.
- *Cross-border M&As* entails the taking over or merging of capital, assets and liabilities of existing enterprises. The accounting book of the target company remains unchanged. There is a change of owners of the company.

Importance of cross-border M&As

FDI inflows and cross-border M&As, 1987-2004
(Billions of dollars)



Source: UNCTAD, FDI/TNC database and cross-border M&A database (www.unctad.org/fdistatistics).

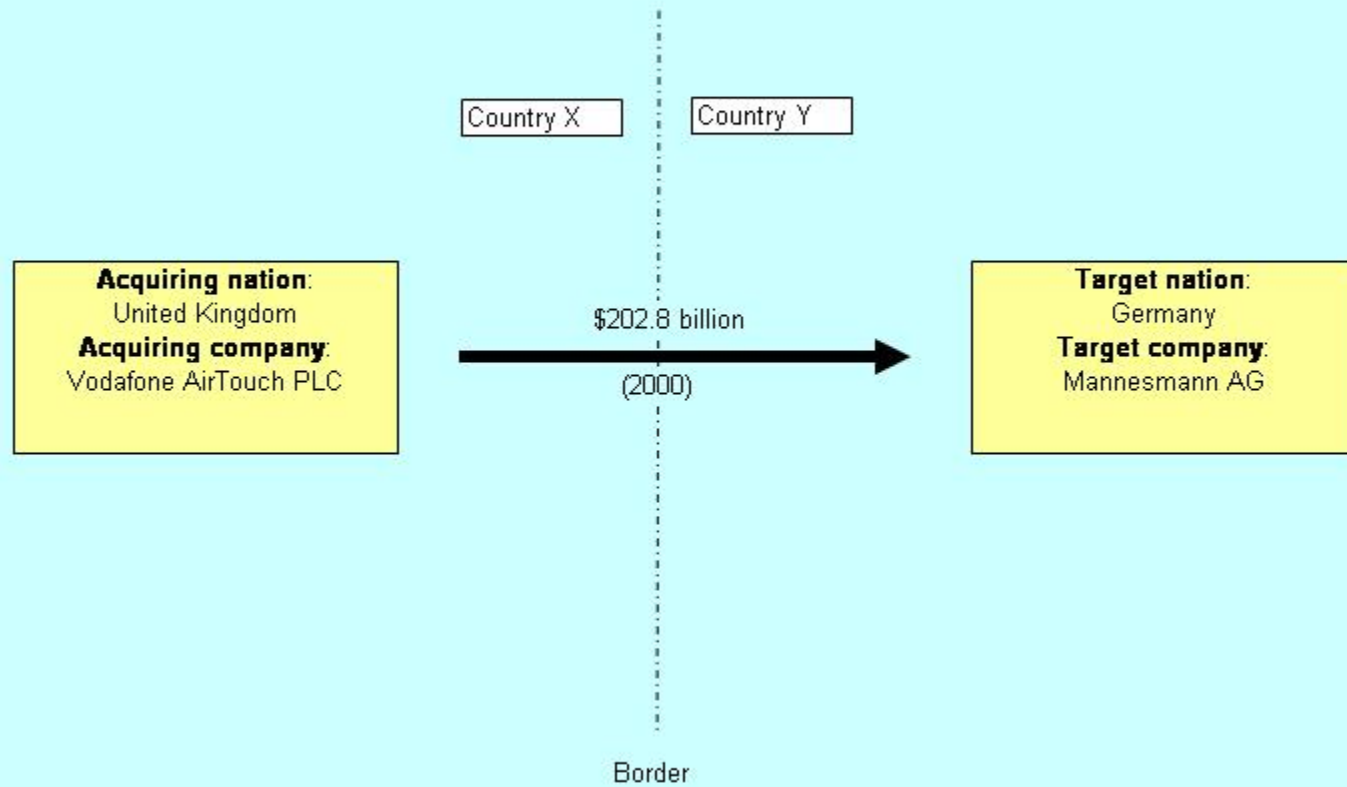
Different cases of cross-border M&A transactions

An acquiring company may not be an ultimate owner and a target company may not be an ultimate beneficiary target company. Data would be different whether FDI statistics is compiled on the basis of immediate company/country or ultimate company/country.

- Immediate or ultimate acquiring firm (and country)
- Immediate or ultimate target firm (and country)

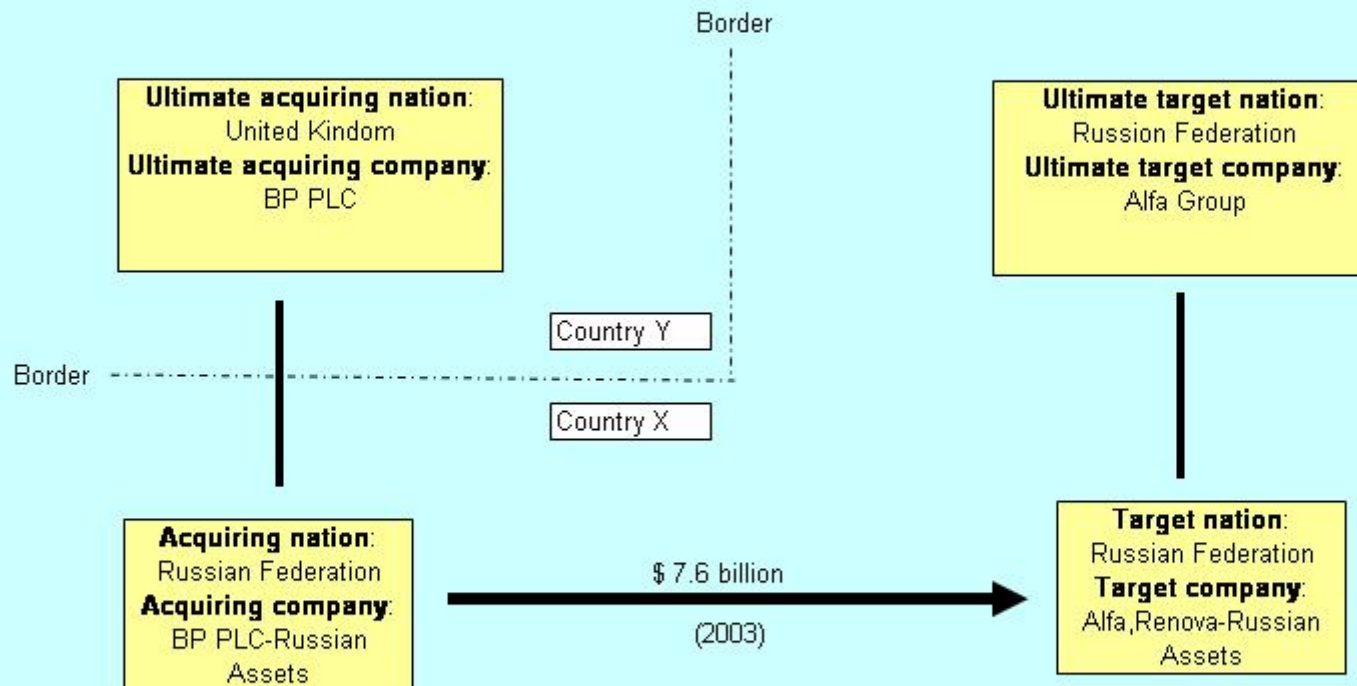
Case 1. A domestic firm in country X acquires (or merges with) a domestic firm in country Y

41,172 of 73,400 deals



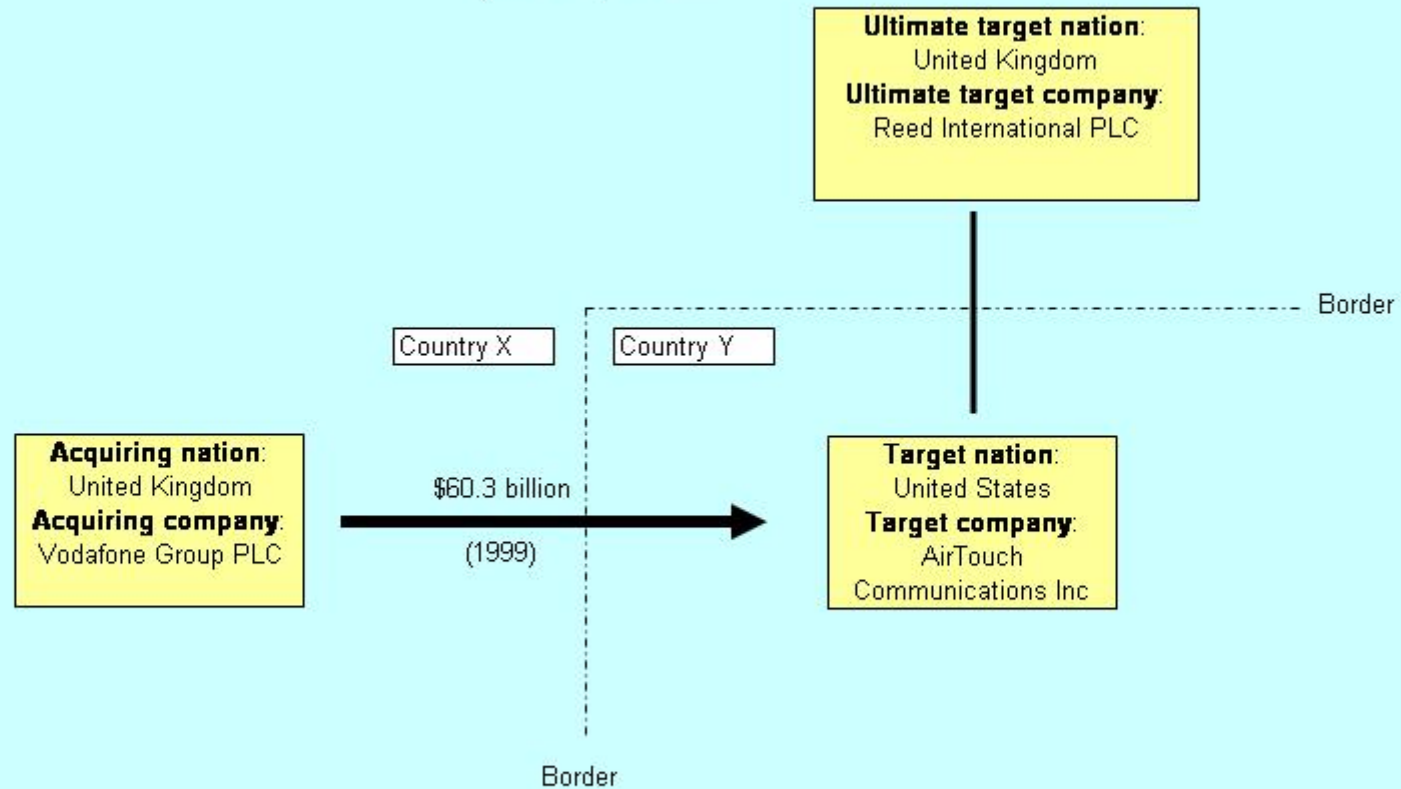
Case 2. A foreign firm in country X, whose parent company is in country Y acquires (or merges with) a domestic firm in country X

10,065 of 73,400 deals

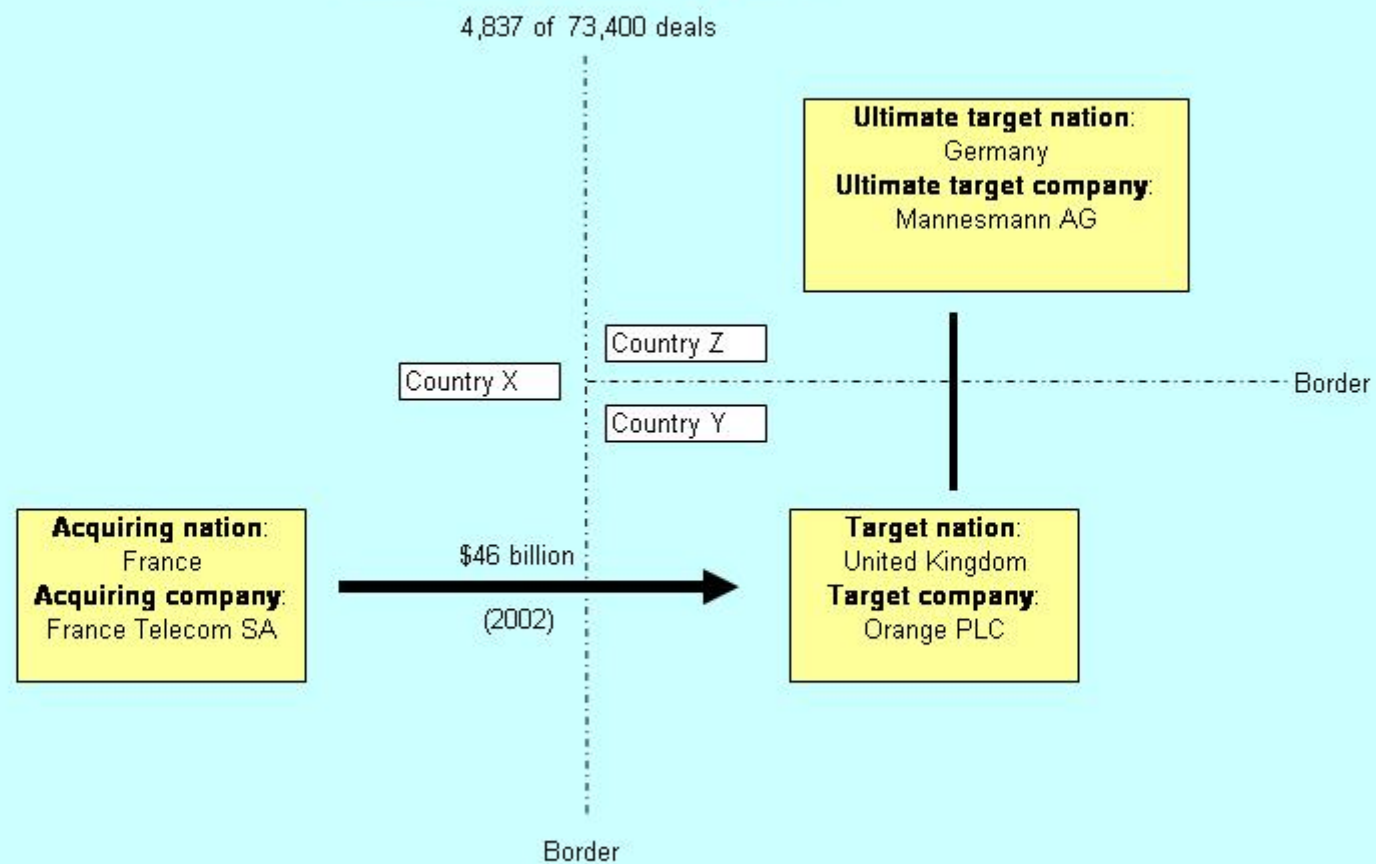


Case 3. A domestic firm in country X acquires (or merges with) a foreign firm in country Y, whose parent company is based in country X

5,542 of 73,400 deals

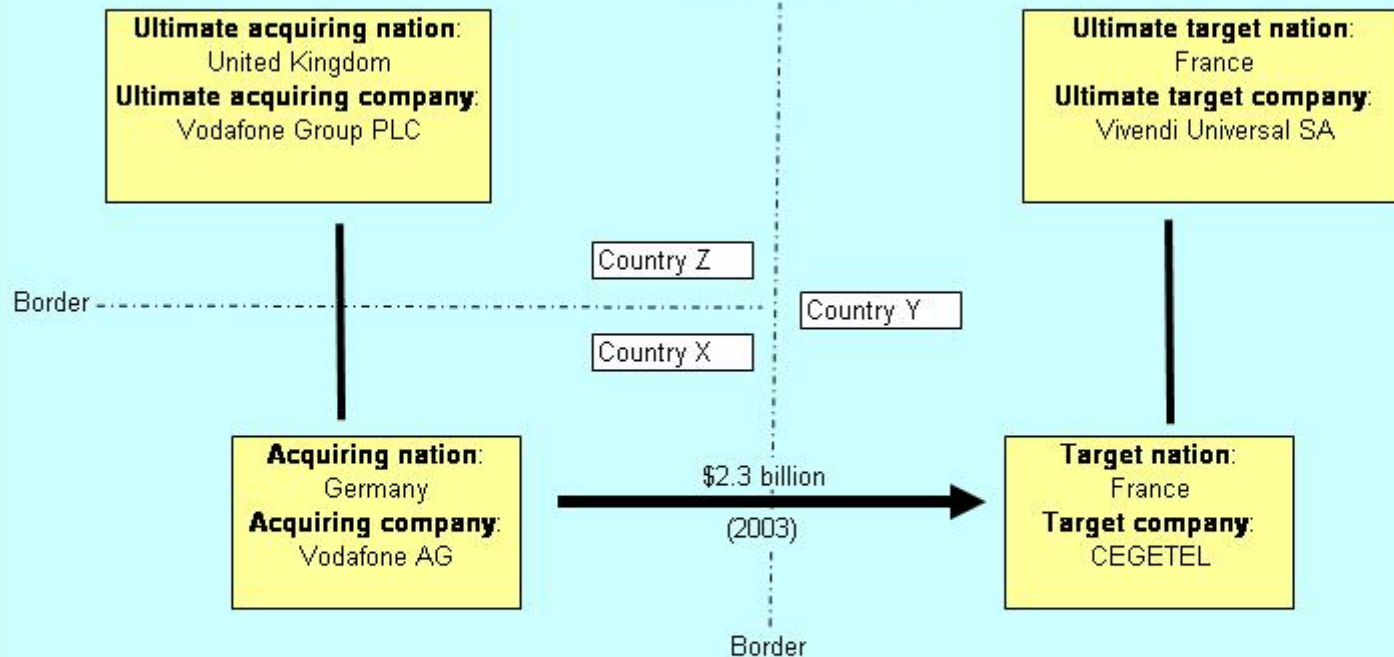


Case 4. A domestic firm in country X acquires (or merges with) a foreign firm in country Y, whose parent company is based in country Z



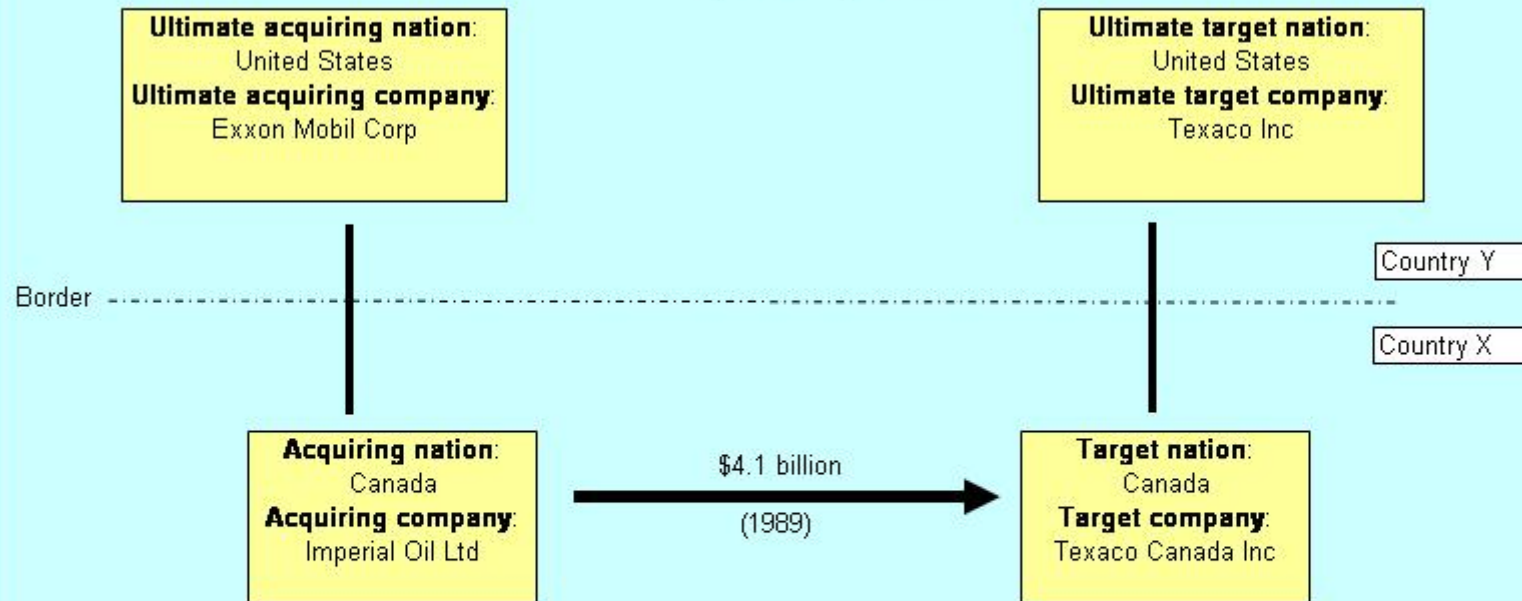
Case 5. A foreign firm in country X, whose parent company is based in country Z, acquires (or merges with) a domestic firm in country Y

2,886 of 73,400 deals



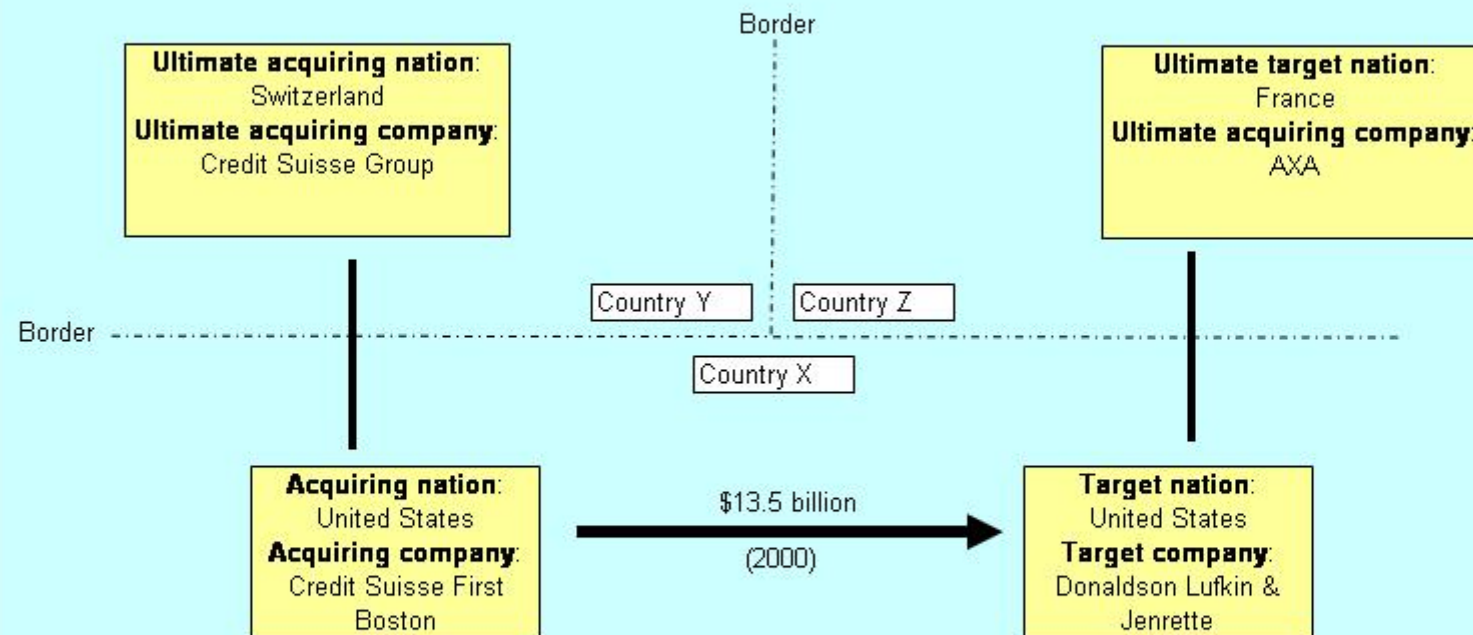
Case 6. A foreign firm in country X acquires (or merges with) a foreign firm in country X, whose parent firms are both based in country Y

1,330 of 73,400 deals



Case 7. A foreign firm in country X, whose parent firm is based in country Y, acquires (or merges with) a foreign firm in country X, whose parent firm is based in country Z

1,142 of 73,400 deals



Number of cross-border M&As whose immediate host and Immediate home countries are the same

Year	World	Developed countries			Developing economies			
		Total	European Union	United States	Total	Latin America and the Caribbean	South, East and South-East Asia	South-East Europe and CIS
1987	187	177	43	108	10	2	6	-
1990	497	473	178	222	24	7	16	-
1995	817	720	362	227	95	30	50	2
2000	1 273	1 057	549	310	196	80	93	20
2004	939	749	323	247	182	43	130	8
<i>Memorandum (value in \$ billion)</i>								
1987	27.6	27.4	3.5	21.8	0.2	-	0.2	-
1990	20.7	20.1	6.2	10.8	0.7	0.4	0.3	-
1995	24.9	23.2	5.4	13.4	1.2	0.3	0.7	0.5
2000	72.0	68.3	19.3	38.4	3.5	2.0	1.2	0.2
2004	45.6	41.4	15.3	21.4	4.1	1.3	2.8	-

Source: UNCTAD, cross-border M&A database.

Valuation problems

Accumulation of FDI flows: no account of changes in currency values,
nor changes in asset values

Different valuation:

Book value

Market value

FDI stock, 2004
(Billions of dollars)

	Accummulation of flows	Book value	Market value
<i>Outward FDI</i>			
Japan	566	371	..
United States	1 920	2 064	3 287
<i>Inward FDI</i>			
Brazil	229	151	..
China	561	..	245 ^a
Hong Kong, China	257	457	..
Russian Federation	47	98	..
South Africa	19	46	..

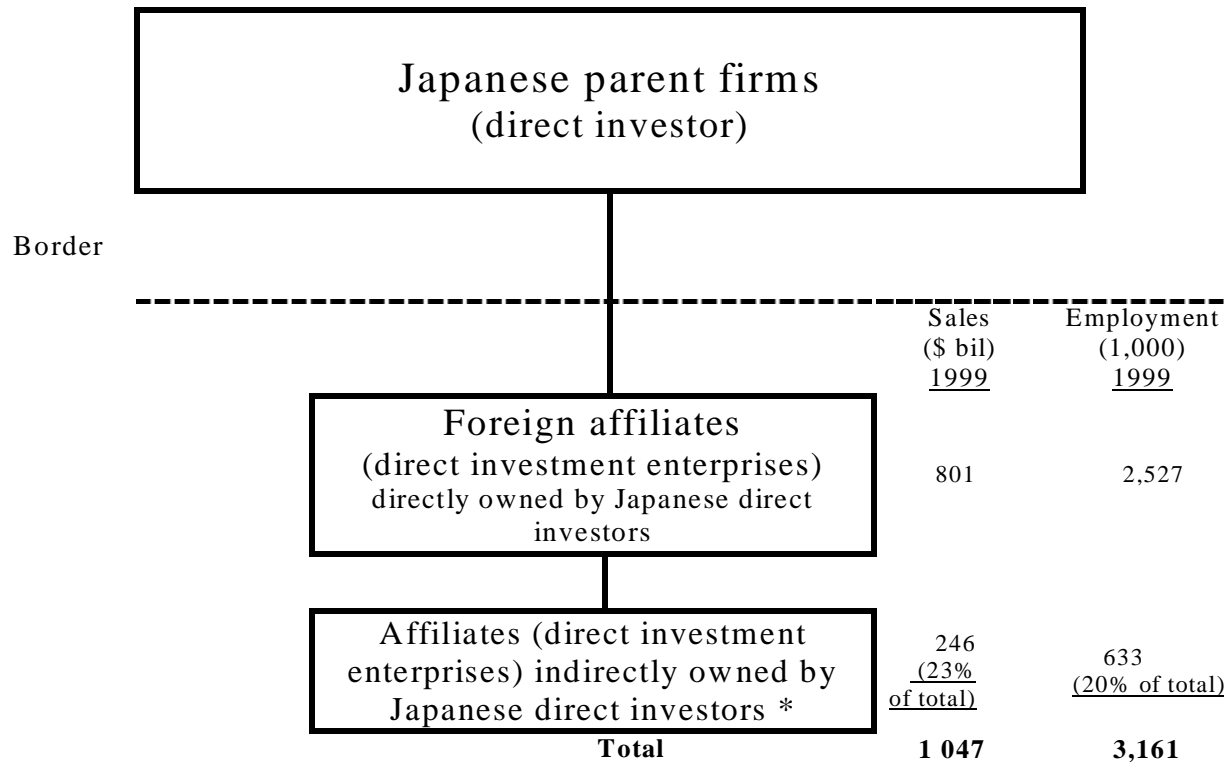
FDI under fully consolidated systems

Statistics on FDI as well as activities of TNCs should cover all enterprises in which the direct investor has *directly and indirectly* a direct investment interest. The question is to what extent?

- United States method (covers all enterprises whose voting securities are 10% or more directly and indirectly owned)
- EU method (covers all enterprises whose voting securities are 10% or more directly controlled and all enterprises that are majority owned by them)

FDI under fully consolidated systems: how important?

Example: Japanese TNCs



* Enterprises whose equity share is 10% or more owned by Japanese majority-owned foreign affiliates.

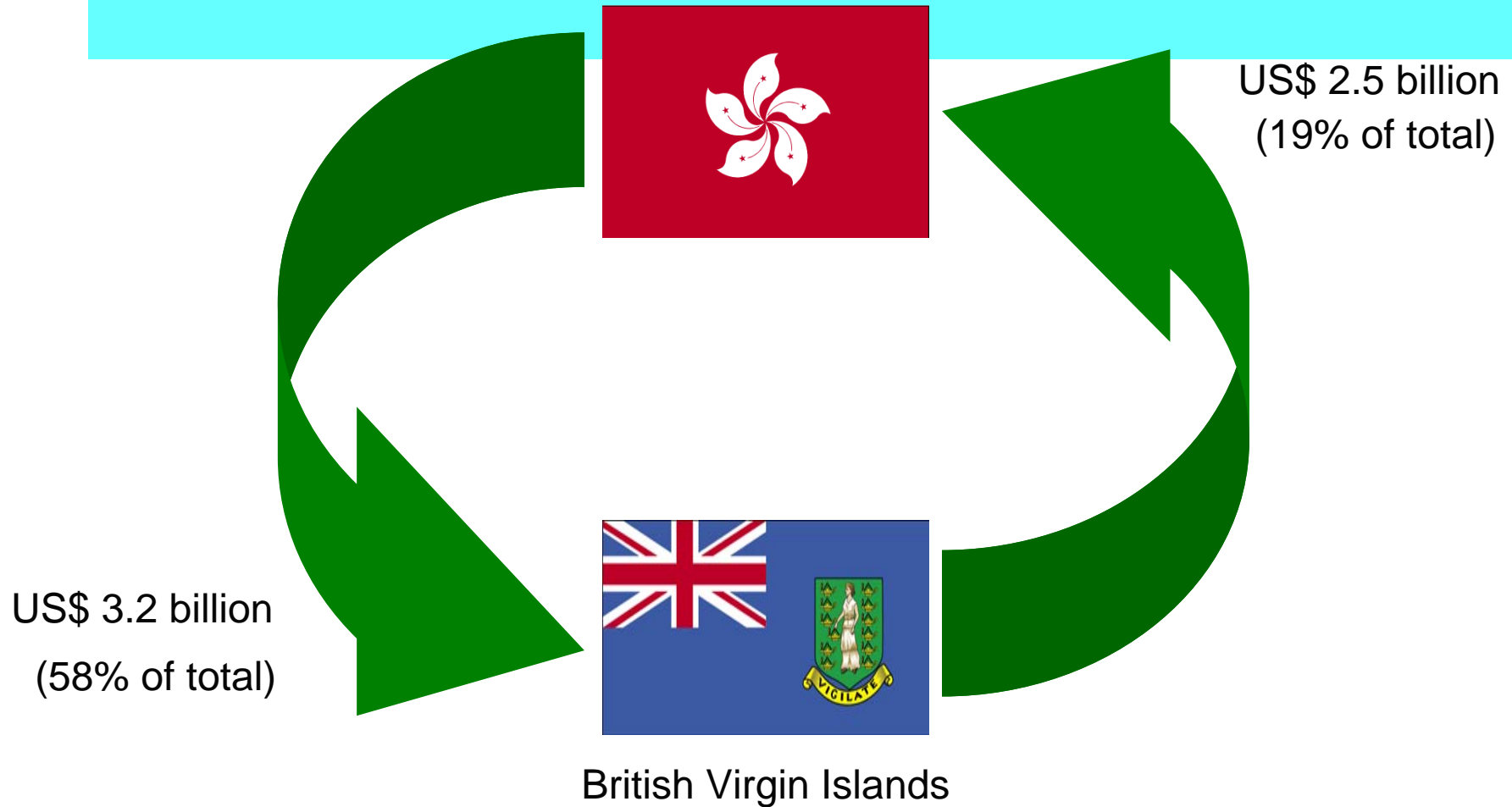


Round-tripped and transhipped FDI

- **Round-tripped FDI.** FDI that is channelled by direct investors to special purpose entities abroad and subsequently returned to the local economy in the form of FDI.
- **Transhipped FDI.** FDI that is channelled by direct investors to special purpose entities abroad and subsequently invested in other economy.



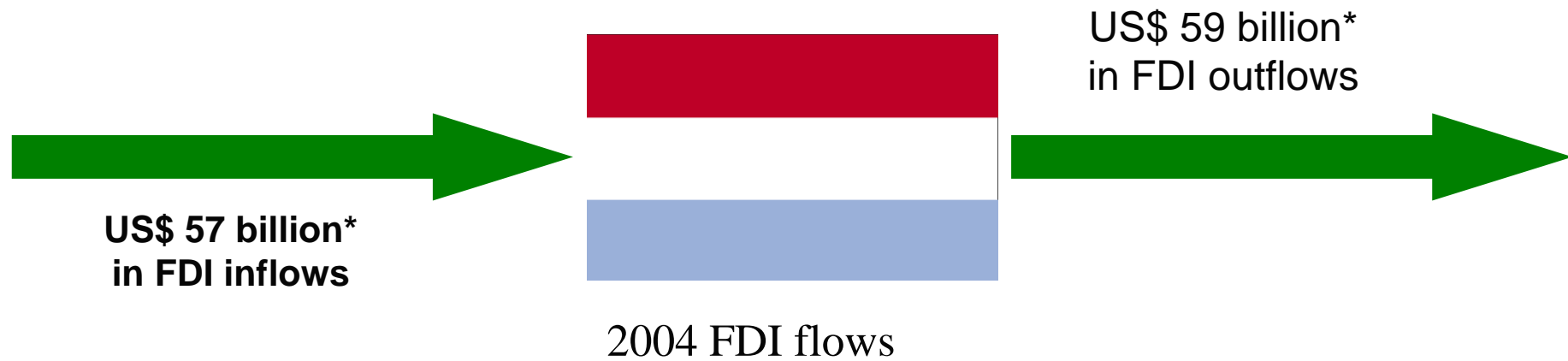
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Round-tripping: Hong Kong (China) case, 2003



Source: The Government of Hong Kong Special Administrative Region, Census and Statistics Department, *External Direct Investment Statistics of Hong Kong, 2003*.

Notes: Hong Kong (China) as reporting country. Includes non-roundtripped (genuine) FDI.

Transshipping: Luxembourg case (80% of total,
source: WIR2003)



* Including non-transshipped (real) FDI flows.

Special purpose entities (SPEs)

SPEs are foreign affiliates (direct investment enterprises) that are established with a specific purpose (e.g. administration, management of foreign exchange risk, facilitation of financing of investment) or a specific structure (e.g. holding companies, regional headquarters) and are an integral part of the TNC network. SPEs tend to be established in low tax countries and used to channel the funds to, and borrow funds from, third countries. They may not have any economic activity of their own. Thus there are few employees and few non-financial assets.

• • Holding companies (SPEs): How important?

Inward FDI stock in holding companies of selected countries, 2003

(Millions of dollars and per cent)

Country	Millions of dollars	Percentage share in total (%)
France	196 860	38
Germany	87 363	23
Portugal	11 762	20
United States	80 992	6

Source: UNCTAD, FDI/TNC database
(www.unctad.org/fdistatistics).