MONITOR OF CHINA'S OFDI IN LATIN AMERICA AND THE CARIBBEAN. METHODOLOGICAL ASPECTS FOR ITS ANALYSIS (2000-2016)

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Content

Summary

The meaning, methods, forms of presentation, components and levels of disaggregation, all involved in the calculation of flows and assets (stocks) of foreign direct investment, in terms of inflows (FDI) and particularly of the outflows (OFDI) are analyzed. The issue is relevant, considering that it enables us to understand the causes of existing statistical discrepancies between data sources made by international institutions (e.g., UNCTAD, IMF, OECD), national institutions (e.g., Ministry of Economy in Mexico, MOFCOM in China) and private data providers (e.g., Thomson-Reuters, fDi Markets, Bloomberg, China Global Investment Tracker).

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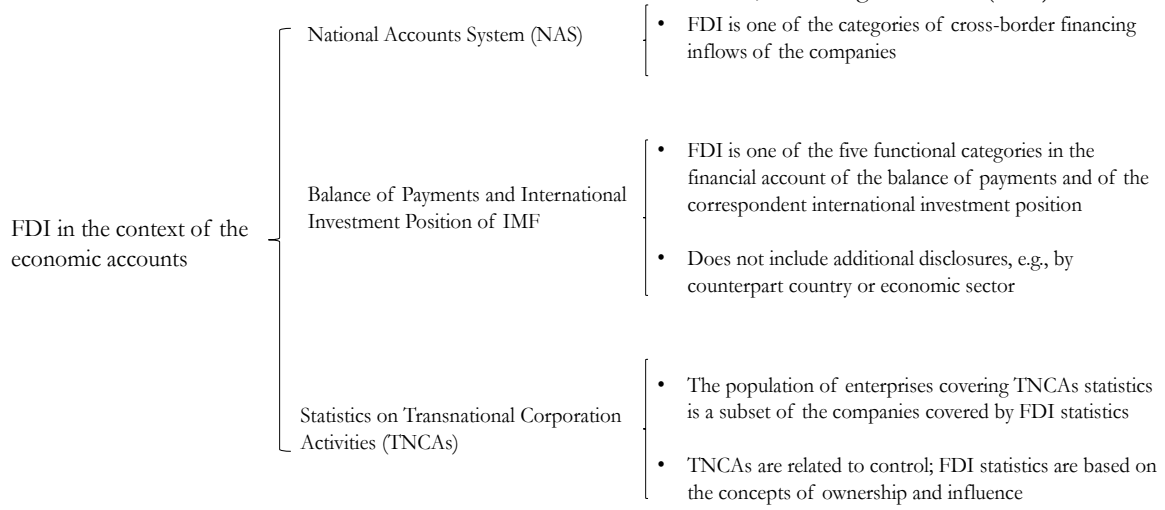
Every different conceptual aspect revised is accompanied in most cases by examples, particularly relating to the Mexican economy. The document is an invitation to participate in the issue and specifically to get involved into the efforts of the Monitor of Chinese OFDI in Latin America and the Caribbean.

1. FDI in the context of the economic accounts

Foreign direct investment (FDI) is a category of cross-border investment linked to the fact that a resident investor in one economy (direct investor) exercises control (or a significant degree of influence) on the management of a resident company (the direct investment enterprise) in another economy. Moreover, it also includes investments related to that relationship, including investment in companies under the control or indirect influence, investment in related companies, debt and reverse investment (IMF 2009, OECD 2008). Since there is a significant degree of control or influence, FDI tends to respond to different reasons and to behave differently from other forms of investment (think for example of public investment). Indeed, the direct investor may provide, in addition to capital (which is related to the voting power), other types of financing and expertise as well.

Diagram 1

FDI in the context of the economic accounts of the countries, according to OECD (2008)



Source: Author's calculations based on OECD (2008).

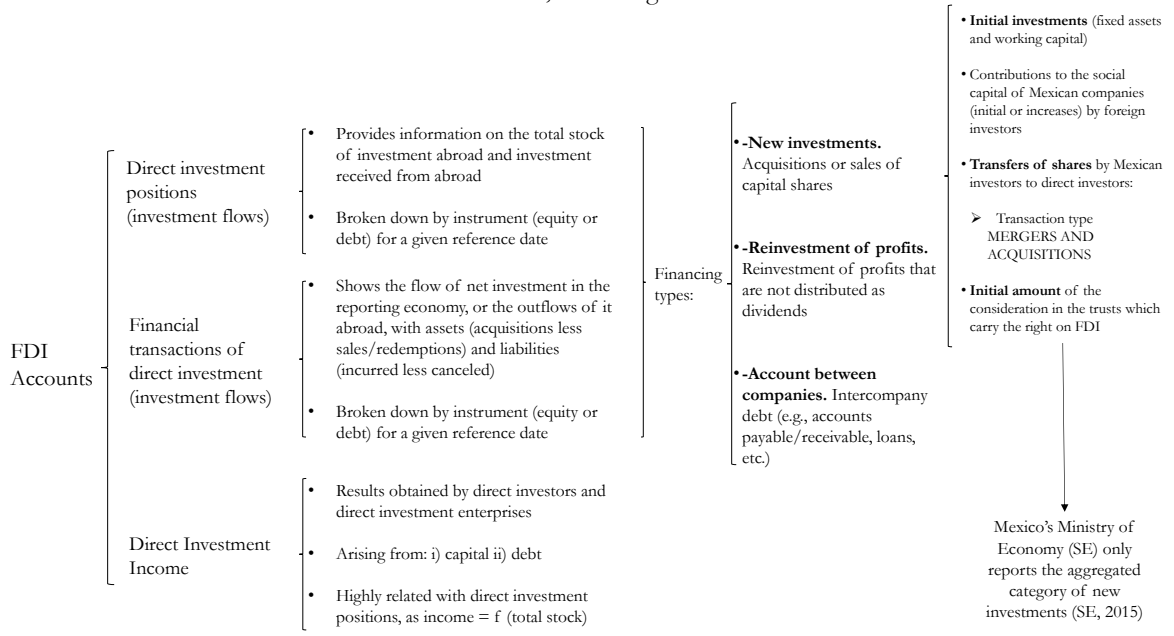
In the context of the economic accounts of the countries, FDI is present in three categories: the system of national accounts; the balance of payments and the international investment position (IIP); and statistics of the activities of transnational corporations (Diagram 1).

2. The accounts of FDI

FDI is recorded in three accounts: positions of foreign direct investment or investment stocks; financial direct investment transactions (flows) and; investment income. Investment income is related to the results obtained by investors, in fact, the ratio (investment income)/(FDI positions) is a first indicator of foreign direct investment profitability (see Chart 2)[1].

The first two accounts are sub-classified into three types of investments: new investments, reinvested earnings and intercompany accounts. It is important to note that by definition the category new investments cannot differentiate the two crucial types of FDI: the transactions type mergers and acquisitions (M&A) and new investments (Greenfield investment). This will be discussed in detail in subsequent sections.

Diagram 2
FDI accounts, according to OECD



Source: Authors' elaboration based on OECD (2008) and Mexico´s Ministry of Economy (2015).

Data on FDI stock is relevant, as it allows for structural analysis of foreign investment in the economy as a whole and at sectoral level from the point of view of the host country and from

[1] Direct investment income is part of the return on direct investment position, i.e., is the return on investments in equity holdings and debt securities (OECD 2008). Credits of income from direct investments consist of earnings from investments in equity holdings plus income of debt instruments between direct investors and direct investment companies and between sister companies. Debits (payments) for direct investment income are calculated similarly.

the point of view of the country of origin of FDI. In terms of balance sheet, position of direct investment at end of period (DIP_{t+1}) is defined as:

$$DIP_{t+1} = DIP_t + IED + CERA + CV + OS$$

Where: DIP_t = Direct Investment Positions in the initial period; FDI = Foreign direct investment flow; CERA = Change due to exchange rate adjustments; CV = Change in valuation; OA = Other settings.

That is, the stock of inflow FDI at the end of period is equal to the initial stock of FDI, which is increased by FDI inflows to the host economy plus different adjustments variations. Valuation changes reflect changes in the market value of a position. The exchange rate differences reflect the impact of changes in exchange rates on instruments denominated in a currency other than that in which the accounts are compiled. The other adjustments category reflects all changes in the market value of an instrument expressed in the currency of compilation that they are not due to changes in the exchange rate or that they cannot be attributed to transactions (OECD 2008).

Table 1

Mexico: total FDI position (initial and final) (inflows) (2001-2014) (millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Initial direct investment position (1)	0	157,305	156,562	162,855	192,654	234,149	267,603	298,341	250,163	305,808	363,769	338,975	366,564	391,879
Foreign direct investment flows (2)	0	24,027	18,888	25,127	24,694	20,901	32,213	28,574	17,644	25,962	23,560	18,998	44,199	22,568
Variation exchange adjustments (3)	0	-17,129	-10,518	1,289	9,291	-3,866	-2,666	-64,043	15,280	17,041	-40,987	25,864	-4,105	-45,167
Variation from variation (4)	0	5,544	1,135	1,967	13,884	15,352	-1,786	-12,261	26,820	9,524	2,928	12,454	10,360	-31,530
Other Adjustments (5)	0	-13,185	-3,212	1,417	-6,374	1,067	2,978	-447	-4,098	5,434	-10,294	-29,726	-25,139	0
Final direct investment positions (6) = (1) + (2) + (3) + (4) + (5)	157,305	156,562	162,855	192,654	234,149	267,603	298,341	250,163	305,808	363,769	338,975	366,564	391,879	337,750

Source: Autor´s calculations based on Mexico´s Central Bank (2015).

For example, in late 2014 the stock of FDI in Mexico stood at 337,750 million dollars (md), which was the result of a stock of 391,879 million dollars at the end of 2013, plus an FDI inflow to Mexico of 22,568 million dollars during 2014, plus an amount of -76,697 million dollars due to changes in exchange rate adjustments and valuation (see table 1). Interestingly, the stock of FDI at the end of 2014 was 14% lower than that prevailing at the end of 2013 and this is largely explained by the negative impact of exchange rate variations, which doubled in value the flows of inward FDI. This could mean that the process of real depreciation of the Mexican peso against the dollar between 2013 and 2014 (around 7.4% according to Mexico´s Central Bank), inflated

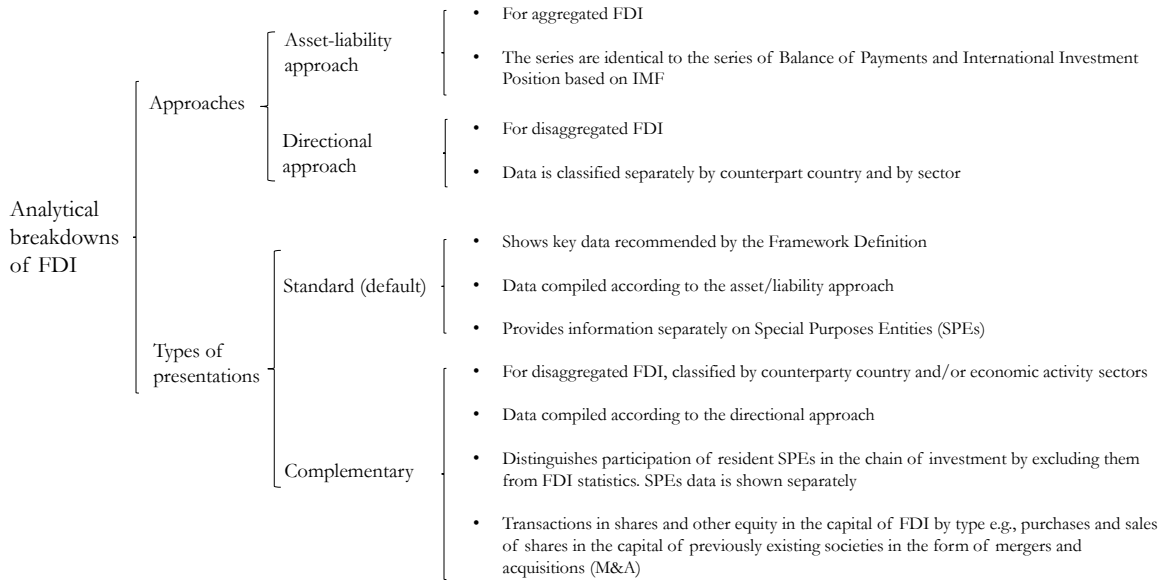
the value of FDI in terms of the currency of compilation (the Mexican peso in this case) and this increase had to be deducted from the stocks of FDI inflows, reflecting a negative variation amount in the account as exchange rate adjustments.

3. Methodological approaches for calculating and recording FDI

FDI flows and stocks of inputs and outputs is recorded under two methodological approaches: the asset-liability approach (for aggregate FDI) and the directional approach (for disaggregated FDI) (OECD 2008). In turn, FDI can occur in two ways: standard (for macro data compiled according to the asset-liability approach) and additional (for disaggregated data compiled according to the directional approach) (see diagram 3).

Diagram 3

Analytical breakdowns of FDI, based on the OECD Framework Definition



Source: Author's elaboration based on OECD (2008)

3.1. The Asset-Liability approach

According to the asset-liability approach (OECD 2008), among the main features of FDI data compiled include:

- As part of national statistics of countries, it is aggregated data on FDI.
- FDI data is consistent with statistics: Balance of Payments, International Investment Position (IIP) and National Accounts.
- It is presented by type of instrument: equity or debt.
- It is based on statements or reports from a sample or a census of the enterprises in an economy and the results are related to the entire population of these companies.
- Data is classified according to the first known counterparty regardless of the nature of the companies, nor the direction of influence or control between companies.
- Data includes all funds channeled through SPEs and capital distributed through operating subsidiaries of transnational corporations issued by parent companies.
- Including funds channeled by SPEs, the approach incurs some problems, particularly:
    - Artificial increase of FDI data of individual economies and of the global total by region or location, because countries hosting SPEs record FDI figures that are overvalued when they include funds step in and out of that economy.
    - If funds are channeled through non-resident SPEs or through other subsidiaries, the origin and destination of FDI is distorted.

3.2. The directional approach

Some transnational corporations (TNCs) use complex ownership structures to manage their global operations, finances and intellectual property as well as to reduce taxes and tax burdens. Compilation of statistics on FDI, apart from the activity of resident SPEs (i.e. following the directional approach), provides a more meaningful measure of FDI (inputs and outputs) by excluding FDI involving funds temporarily passing through an economy (OECD 2008). FDI data according to the directional approach shows:

- The investment abroad and in the reporting economy considering mutual investment (or cross-investments) and investment in sister companies.

- Statistics (equity and intercompany debt) are presented by counterpart country, instrument and sector of economic activity.

Allocation to the sector or country counterpart is done considering the immediate counterpart in the investment chain (in the reporting economy and abroad), but excluding the resident SPEs. This is a very significant change, as origin-destination data on investments channeled through SPEs in third countries may distort actual FDI flows.

3.3. The directional approach versus the asset-liability approach[2].

The asset-liability approach does not show the direction of influence of FDI. In the directional approach flows and direct investment positions are organized according to the direction of investment in the reporting economy. Table 2 shows how both approaches are based on the same components, the difference lies in the way how these components are combined. OECD (2014) lists the following differences:

Table 2

Calculating positions of FDI, according to the approaches: asset/liability and directional

Country's direct investment assets are equal to:	**Country's direct investment liabilities are equal to:**
Resident parents' equity in and lending to foreign affiliates	Foreign parents' equity in and lending to resident affiliates
Plus:	*Plus:*
Resident affiliates' equity in and lending to foreign parents	Foreign affiliates' equity in and lending to resident parents
Country's outward investment is equal to	**Country's inward investment is equal to**
Resident parents' equity in and lending to foreign affiliates	Foreign parents' equity in and lending to resident affiliates
Less:	*Less:*
Foreign affiliates' equity in and lending to resident parents	Resident affiliates' equity in and lending to foreign parents

Source: Taken from OECD (2014: p. 2).

[2] This sub-section is based on the following document: OECD. 2014. Asset/liability versus directional presentation. OECD December.

- In the asset-liability approach, the assets include both resident parent assets as assets of resident affiliates; liabilities include both, resident parent liabilities and liabilities of resident affiliates. In the directional approach, the outward investment positions only consider the positions of the resident parent, while inward investment only consider the position of resident affiliates.
- A substantial difference is found in the treatment given to mutual or cross investments (reverse investment). Mutual investments occur when a subsidiary invests in its parent company. Under the directional approach mutual investment is subtracted to obtain the amount of total investment in the reporting country. Two examples are provided:
  a. If a resident parent receives money from one of its foreign affiliates, this amount is subtracted in calculating outward investment the reporting country, since that amount reduces the amount of money that resident parents have invested in their foreign affiliates.
  b. If a resident subsidiary lends money to its foreign parent, this amount is subtracted in calculating inflows of inward investment since it reduces the amount of money that the foreign parent has invested in that country.
- Under the asset-liability approach, FDI is appropriate for macroeconomic analysis (as it is consistent with other macroeconomic statistics and with other functional categories of foreign investment, see section 1). But it is not useful to study the nature of FDI.
- Differences between the two measures of FDI can be very large in specific countries or specific periods of time. The magnitude of the discrepancy depends on the size and direction of the cross-investments.

OECD (2014) examined the existent relationship between foreign investment statistics for 18 countries, which was calculated by using the asset-liability approach and the directional approach as well. The examination showed that both measures pari passu moved by more than 80% between 2012 and 2013. This is because: the resident parent investment in its foreign affiliates is usually the most important component of OFDI and acquisition of assets, while investment by foreign parent in resident subsidiaries is generally more important for FDI inflows and the incurrence of liabilities. Under the directional approach, it is possible to discuss which countries are the main sources of foreign investment and which countries are the main recipients. However, this is not possible if we rely on statistics collected under the asset-liability approach.

Because both approaches are closely related, we can draw some conclusions regarding the most relevant countries in terms of FDI and OFDI. Considering that up to 2013, according to OECD statistics, only 27 countries have provided information on flows and stocks of foreign direct investment calculated under both approaches (unfortunately the list does not include China), it is possible to observe the behavior of the top five countries receiving and issuing foreign investment in 2013 (in terms of flows and stocks) and to observe any discrepancies, according to both methodologies (see table 3). The most interesting result is that the top five countries with the highest relative share in global OFDI in 2013 remain, regardless of the methodological approach used. On the other hand, Germany is listed as the third largest recipient country of FDI according to the asset-liability approach, but the country leaves the top 5 when FDI is calculated under the directional approach (going from third to ninth).

Table 3

Top five countries in terms of inflows and outflows of foreign investment in 2013, according to the directional approach and the asset/liability approach

Country	Position: Asset acquisition	Position: OFDI
United States	1	1
Japan	2	2
Russia	3	3
Germany	4	4
Netherlands	5	5

Country	Position: Issuing liabilities	Position: FDI
United States	1	1
Russia	2	3
Germany	3	9
Ireland	4	5
Australia	5	2

Source: Author's elaboration based on OECD (2015).

In the case of China, up today OECD reports foreign investment amounts calculated by using the directional approach. Considering that under the asset-liability approach FDI statistics are highly consistent with the investment statistics reported by UNCTAD (see paragraph 1), we can get a good approximation of the relative share of China's OFDI according to both methodological approaches. Table 4 shows that China ranked as the third largest exporter of capital regardless of the approach used, only behind the United States and Japan and above Russia.

Table 4
The top ten countries with the greatest flows of OFDI in 2013

UNCTAD			OECD (Directional approach)		
	Millions of dollars	% Share in the world total		Millions of dollars	% Share in the world total
World	**1,410,810**	**100**	**World**	**1,207,411**	**100**
United States	338,302	24	United States	349,530	28.9
Japan	135,749	9.6	Japan	135,745	11.2
China	101,000	7.2	China	72,971	6
Russia	94,907	6.7	Russia	70,685	5.9
Hong Kong SAR	91,530	6.5	Netherlands	56,916	4.7
Subtotal (Top 5)	**761,488**	**54**		**685,847**	**56.8**
The rest	**649,323**	**46**		**521,564**	**43.2**

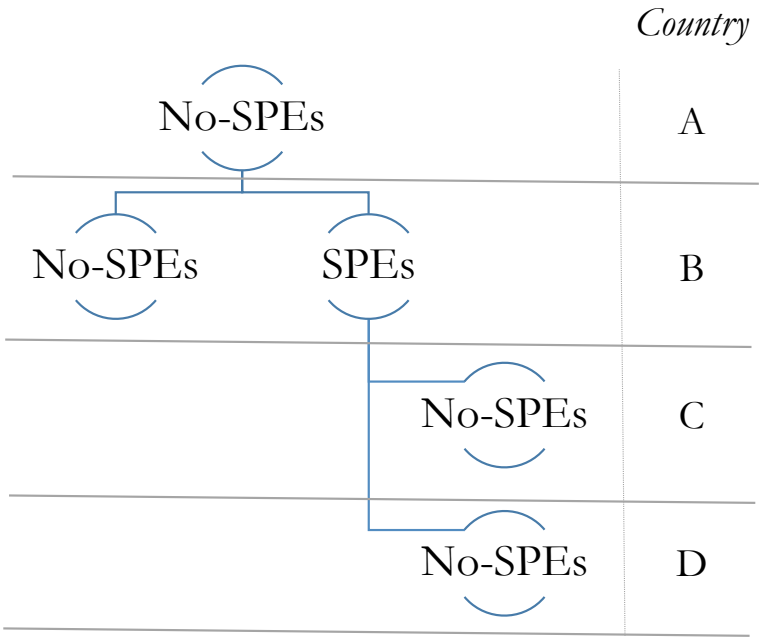
Source: Author's calculations based on UNCTAD (2015) and OECD (2015).

4. Relevance of Special Purposes Entities (SPEs)

Following OECD (2008), SPEs are legal entities that have few (or no employees) and little (if any) operation or physical presence in the jurisdiction in which they are established by its parent company, which is usually located in a different jurisdiction. They are often used as instruments to raise capital or hold assets or liabilities and do not normally run significant productive activities. As legal instruments, they can be relatively inexpensive to create and maintain. They can offer tax advantages, policy benefits and advantages of confidentiality. Their existence is often associated with offshore financial centers set up in tax havens (offshore) (e.g. in a Latin American context, the Cayman Islands), but they can also be found in other jurisdictions. Some types of SPEs are: financial subsidiaries; companies operating exclusively as conduits of funds (conduits); holdings; "empty" companies (shell, shelf and brass plate).

The relevance of the SPEs can be seen under an example taken from OECD (2008) (see diagram 4). Consider three economies: A, B and C. The SPE in country B is used by its parent company in country A to hold stakes indirectly in resident companies in country C and D. In order not to artificially inflate their amounts of FDI, country B should distinguish transactions and positions of FDI in SPEs and no-SPEs, excluding the first-ones of its calculations of FDI.

Diagram 4
An example: FDI transactions and positions through an SPE



Source: Taken from OECD (2018:114).

5. Recent statistics FDI, excluding the residents SPEs[3]

OECD has made a particularly relevant effort to calculate and provide FDI statistics under the directional approach. In this regard, only four countries (Austria, Hungary, Luxembourg and the Netherlands) have reported their statistics on FDI flows and positions (excluding resident SPEs) to OECD since 2005-2007. Nine countries (Chile, Denmark, Iceland, Norway, Poland, Portugal, Spain, Sweden and the United Kingdom) have joined the list since 2009 (OECD 2015). Furthermore:

- The series excluding resident SPEs are confidential or are currently no publishable in Estonia, Portugal and the UK.
- Norway reports data only for FDI stocks, excluding resident SPEs.
- FDI data excluding resident SPEs is not available yet for Belgium, Canada, Finland, Ireland, Slovakia and Switzerland.

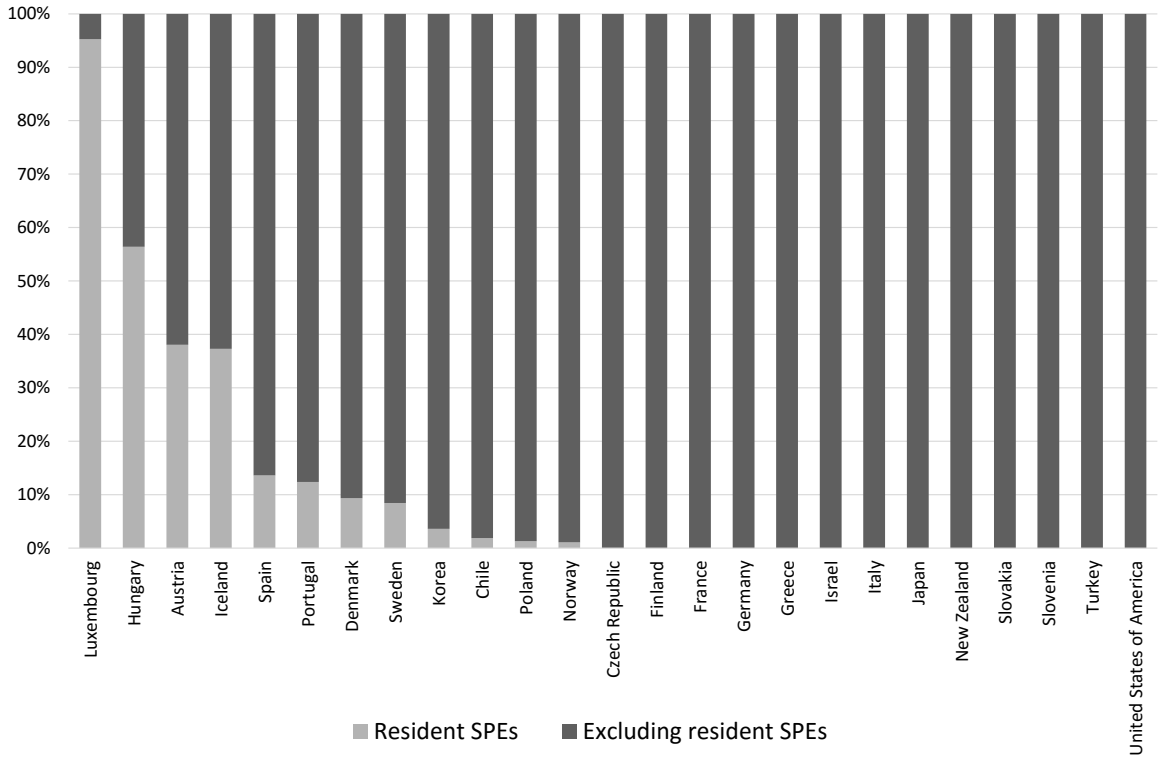
[3] This sub-paragraph is a summary of the document: OECD. 2015. Implementing the latest international standards for compiling foreign direct investment statistics. How multinational enterprises channel investments through multiple Countries. OECD (February).

- Resident SPEs are missing or are not significant in: Australia, Czech Republic, Finland, France, Germany, Greece, Israel, Italy, Japan, New Zealand, Slovenia, Turkey and The US.
- The stock of FDI inflows are provided for: Austria, Chile, Denmark, Hungary, Iceland, Netherlands, Norway, Poland, Spain and Sweden. Luxembourg and Portugal show a different measure of the value of FDI inflows: direct investment liabilities.
- Mexico has reported to OECD FDI data following the directional approach since 2005, but statistical information is incomplete (Table 3 addresses this issue).

At the end of 2013, the stocks of foreign direct investment for a group of OECD countries (and differentiating the participation of residents SPEs) (see Figure 1) show:

Figure 1

SPEs and non-SPEs, according to the directional approach (2013) (percentage share of total FDI)



Source: Taken from on OECD (2015).

- The four countries with the highest relative shares of residents SPEs are coincidentally the countries which have for longer reported their statistics according to the directional approach: Luxembourg, Netherlands, Hungary and Austria.

- With the exception of Korea, there are eight countries that in recent years have adopted the new recommendations of OECD, appearing with relative shares higher than 1%: Iceland, Spain, Portugal, Denmark, Sweden, Chile, Poland and Norway.
- SPEs are not significant in: Czech Republic, Finland, France, Germany, Greece, Israel, Italy, Japan, New Zealand, Slovenia, Turkey and The United States.

Moreover, a more detailed examination by OECD (2015) focused on the case of Hungary at the end of 2013, showed some relevant results in terms of geographical distribution of FDI stocks (see Table 5):[4]

Table 5

FDI positions in Hungary following the directional approach (By main countries of origin-destination) (Late 2013)

Inflows

Total (1) = (2) + (3)			Excluding resident SPEs (2)			Resident SPEs (3)		
	Millions of dollars	*Percentage*		*Millions of dollars*	*Percentage*		*Millions of dollars*	*Percentage*
Total	**250,305**	**100.0**	**Total**	**107,659**	**100.0**	**Total**	**142,616**	**100.0**
Luxembourg	39,606	15.8	Germany	25,958	24.1	Ireland	28,565	20.0
Ireland	30,158	12.0	Luxembourg	13,824	12.8	Luxembourg	25,782	18.1
Germany	25,918	10.4	Netherlands	12,400	11.5	United States	17,225	12.1
United States	19,527	7.8	Austria	11,765	10.9	Spain	15,358	10.8
Spain	16,296	6.5	Curacao	8,371	7.8	Cayman Islands	12,838	9.0
Cayman Islands	13,131	5.2	United Kingdom	4,265	4.0	Canada	11,849	8.3
Netherlands	12,973	5.2	France	3,115	2.9	Bermuda	11,673	8.2
Canada	12,380	4.9	Switzerland	2,918	2.7	Virgin Islands	3,216	2.3
Bermuda	11,973	4.8	Belgium	2,545	2.4	Jersey	2,858	2.0
Austria	11,963	4.8	United States	2,303	2.1	Brazil	2,406	1.7

Outflows

Total (1) = (2) + (3)			Excluding resident SPEs (2)			Resident SPEs (3)		
	Millions of dollars	*Percentage*		*Millions of dollars*	*Percentage*		*Millions of dollars*	*Percentage*
Total	**191,558**	**100.0**	**Total**	**38,561**	**100.0**	**Total**	**152,997**	**100.0**
Luxembourg	57,645	30.1	Curacao	10,417	27.0	Luxembourg	54,142	35.4
Switzerland	54,873	28.6	Belgium	4,276	11.1	Switzerland	54,103	35.4
United Kingdom	20,540	10.7	Croatia	3,552	9.2	United Kingdom	20,511	13.4
US	12,717	6.6	Luxembourg	3,503	9.1	US	12,297	8.0
Curacao	10,417	5.4	Cyprus	2,864	7.4	Korea	4,552	3.0
Korea	5,135	2.7	Israel	2,731	7.1	Canada	2,050	1.3
Belgium	4,276	2.2	Slovakia	1,917	5.0	Italia	1,167	0.8
Cyprus	3,762	2.0	Bulgaria	1,111	2.9	Cyprus	898	0.6
Croatia	3,552	1.9	Romania	876	2.3	Uruguay	775	0.5
Israel	2,937	1.5	Switzerland	770	2.0	Netherlands	575	0.4

Source: Taken from on OECD (2015).

[4] Hungary is a good example as this country has consistently reported its FDI according to the directional approach since 2005 (OECD 2015).

- The positions of FDI inflows of resident SPEs accounted for 57% of total FDI, outflows accounted for 80%.
- Seven countries accounted for 86% of the investment coming to Hungary through SPEs. That list included The United States, Spain and Canada. It also includes four countries where TNCs usually locate their subsidiaries to manage their finances, intellectual property and to reduce their taxes: Ireland, Luxembourg, Cayman Islands and Bermuda.
- In terms of outflows, over 90% of the investment of the Hungarian SPEs in other countries is concentrated in four countries: Luxembourg, Switzerland, The United Kingdom and The United States. Some of these countries are also frequently associated with SPEs.

Thus, the large size of the resident SPEs in Hungary and their concentration in a few countries have determined that their exclusion of FDI statistics have a significant impact on the top countries of origin and destination for Hungary's FDI:

- Including SPEs, Luxembourg is the main source of FDI, but excluding SPEs, Germany is the largest investor in Hungary. Including SPEs, Ireland, Spain and Canada are listed in the top ten, but excluding SPEs, these three countries disappear from the list. This suggests that much of the investment from these countries in Hungary is passing (temporary) investment.
- The four largest recipients of Hungary's FDI (including SPEs) are: Luxembourg, Switzerland, United Kingdom and United States, but excluding SPEs then The United States and Britain are no longer listed. This indicates that foreign investors use SPEs in Hungary to channel investment to other destinations.

Since 2005 Mexico has reported FDI data to OECD following the directional approach, in particular by classifying FDI in total resident units and operating subsidiaries (also called non-SPEs) (see Table 6).

- Focusing on the stocks of FDI inflows, it is noteworthy that the data of total FDI (i.e., without excluding resident SPEs) is reported as confidential; while FDI data that exclude resident SPEs have been exactly the same as the total FDI positions reported by Mexico´s Central Bank and the IMF.
- On the other hand, FDI inflows excluding SPEs reported by OECD, have been exactly the same as the total flows of FDI reported by the IMF.

Table 6

Mexico. Direct investment positions at the end of each year. (2005-2014) (millions of dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total inflows reported by Mexico at every year-end, according to:										
Mexico´s Central Bank	234,149	267,603	298,341	250,163	305,808	363,769	338,975	366,564	391,879	337,750
IMF					305,808	363,769	338,975	366,564	391,879	
OECD					305,808	363,769	286,611	361,234	389,083	
Total inflows following the directional principle, according to OECD										
Total FDI	…	…	…	…	…	…	…	…	…	…
FDI (excluding resident SPEs)	234,149	267,603	298,341	250,163	305,808	363,769	338,975	366,564	391,879	337,750

Source: Author's elaboration based on Mexico´s Central Bank (2015), IMF (2015) and OECD (2015).

6. Complementary FDI accounts

OECD (2008) suggests that countries compile and publish complementary FDI statistics made under the directional approach; notwithstanding their implementation, it is left to the discretion of each reporting economy. Complementary series features:

- Transactions, positions and income, reallocating data by country and counterparty sector to the first counterparty in the chain of investment as long as it is not a SPE.
- The breakdown of FDI by type of operation is a subset and a new dimension of standard FDI statistics according to the directional approach.
- Identifies purchases or sales of shares of such mergers and acquisitions (M&A). M&A refer to the total or partial absorption of pre-existing business structures.
- As a result, a distinction is established between the new investments (greenfield investments), which represent an injection of new capital and new jobs and investments in the form of M&A which involve a change of ownership of a company that was already established.
- FDI data related to transactions type M&A as described in the OECD Framework Definition (2008), is different from the M&A data collected by different private data providers (e.g. FDI Markets, Bloomberg, Thomson-Reuters China Global Investment Tracker, etc.) (See table 7).

Table 7

Comparison of transactions type M&A in the context of FDI statistics compiled by OECD (2008) with transactions type M&A reported by various commercial suppliers

	M&A transactions as part of FDI	**M&A statistics from data sources**
Objective	Analyze M&A transactions as a subcategory of FDI cross-border investment.	Analyze different types of business combinations whether domestic, cross-border or a mixture of both.
Methodology	Including: • Classification of the transactions according to their direction: outward FDI and in the reporting economy • Purchase/sale of existing shares • The reported amount corresponds to cross-border capital transactions between residents and non-residents classified as FDI (i.e., with ownership of at least 10% of the voting power) • International standards provide a unified methodology and compilers are asked to report deviations about the same. Excluding: • Debt instruments (intercompany loans) • Reinvestment of profits • No cross-border transactions • Funds channeled through SPEs.	Including: • Purchase of existing shares (acquisition or merger of existing companies). • The stated amount represents the total purchase of existing shares (including the purchase of less than 10% of the voting power). • There is no uniform methodology for the several sources. Excluding: • All types of channeling transactions or capital in transit and only genuine investments for the target company and the investor are recorded. • Divestments (when a resident company is sold by a nonresident owner to another resident company in a third country, the only transaction recorded by private sources is the acquisition by the third country)
Breakdown	The main breakdowns are based on the same criteria as those of FDI: • By Country (geographical allocation) • By sector of economic activity (ISIC)	• Shows a considerable number of details: Investor's name/target company, hiring date/ transaction, percentage of purchased and sold shares, types of purchased/sold shares, the transaction amount (total amount of shares bought or total value of company) and method of payment • Classifications by country and sector of economic activity are based on the final receiver/investment firm.
Data Sources	Surveys, registers in the International Transactions Reporting System (ITRS) and other published sources	Press releases, specialized financial press, research papers, reports and surveys from the stock markets or reports made for statistical purposes

Source: Taken from OECD (2008: 252-253).

A merger occurs when two (or more) companies agree to merge in one rather than keep separate in order to benefit from possible synergies (see chart 5). An acquisition refers to the purchase of existing shares of another company in order to increase ownership or control by the acquiring company. As a rule, at least in the short term, M&A's do not mean expansion of productive stocks, but only a change of ownership of a previously established company; thus, it has no positive effects on job creation, at least in the short term.

Diagram 5

Definitions of Mergers and Acquisitions, according to the OECD (2008)

- M&A
  - According to the Framework Definition, transactions type M&A are
    - As part of FDI statistics, transactions type M&A refer to the purchase/sale of existing shares by a direct investor or direct investment enterprise, involving ownership of 10% or more of the company's voting power (i.e., meeting the necessary condition to establish a direct investment relationship)
    - The component of shares and other direct holdings of the FDI transactions in the reporting economy or abroad (reinvested earnings or debt instruments are not included)
    - Analysis of M&A is not relevant for FDI position statistics
  - Other types of FDI are calculated as a residual:
    - *e.g., New investment = total FDI – transactions type M&A*
    - New investments include: Greenfiled investments capital increases and investment resulting from financial restructuring operations
      - **Greenfield investment and more capital increase the resident company assets and therefore they have a direct impact on production and employment**

Source: Author's elaboration based on OECD (2008).

UNCTAD, through the World Investment Report (WIR), is apparently the only international institution that has aggregated transaction data type M&A and Greenfield projects. Data on M&A is based on Thomson Reuters. Greenfield projects data is based on FDI Markets of the Financial Times (UNCTAD 2014b). In both cases, transactions that are not classified as FDI are included. However, this is a first effort at international level reporting data on FDI and its classification by countries and regions.

7. Data Sources

7.1. Aggregated statistics

At international level, institutions such as ECLAC, UNCTAD, OECD, IMF and IDB, report annual FDI data. In Mexico, Central Bank and the Ministry of Economy (SE) report aggregated and disaggregated statistics. China highlights the National Bureau of Statistics of China which takes up information published by MOFCOM (see Table 8).

Table 8

Registration of FDI at aggregate level, according to different statistics sources

Source	Period	Measurement Unit	Methodology	Information Type	information breakdown	Link
IMF	2006-2013	Millions of dollars	IMF and OECD	Flow and Stock	Direct Investment Positions (received and reported by the counterparty); by instrument (debt and equity); Country transmitter / receiver	http://elibrary-data.imf.org/DataReport.aspx?c=20303469&d=33120&e=169311. Retrieved April 22, 2015
UNCTAD	1970-2013	Millions of dollars	UNCTAD	Flow and Stock	In terms: per capita; as part of the total global; as part of GDP; as part of gross fixed investment; as part of the total merchandise trade	http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx. Retrieved April 22, 2015
UNCTAD	1990-2013	Millions of dollars	UNCTAD	M&A and Greenfield Projects	M&A include: value and number of M&A by region and country of the buyer/seller; value and number of sales and purchases of M&A by industry/sector only in terms of the global economy. Greenfield projects include: value and number of greenfield FDI projects by country of origin and country of destination; value and number of projects by sector and industry (for the world economy only).	http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx. Retrieved June 26, 2015
OCDE	1990-2013	Millions of dollars	OECD	Flow and Stock	Total, as part of GDP	http://www.OCDE.org/corporate/mne/statistics.htm. Retrieved April 22, 2015
OCDE	2005-2013	Millions of dollars	OECD	Flow and Stock	FDI aggregated information calculated by two approaches: directional and asset-liability	http://www.oecd.org/investment/statistics.htm. Retrieved June 26, 2015
National Bureau of Statistic of China	2003-2013	Millions of dollars	IMF and OECD	Flow and Stock	Total, by region of origin and destination, by sector	http://www.stats.gov.cn/tjsj/ndsj/2014/indexeh.htm. Retrieved April 23, 2015
ECLAC	1980-2013	Millions of dollars	Takes data from central banks	Flow	Total	http://interwp.cepal.org/sisgen/ConsultaIntegradaFlashProc_HTML.asp. Retrieved April 22, 2015
IBD	1990-2013	Millions of dollars	Takes data from national sources	Net Flow	Total	http://data.iadb.org/ViewIndicator/ViewIndicator?languageId=en&typeOfUrl=C&indicatorId=335. Retrieved April 24, 2015
Mexico´s Central Bank (Banxico)	1980-2014	Millions of dollars	IMF	Flow and Stock	Type of investment; since 2001 it shows the international investment positions and its components. Classifies outflow and inflow investment for each component classified by type (direct and portfolio investment).	http://www.banxico.org.mx/SieInternet/consultarDirectorioInternetAction.do?accion=consultarCuadro&idCuadro=CE97&sector=1&locale=es. Retrieved April 22, 2015
Ministry of Economy of Mexico (SE)	199/I-2014/IV	Millions of dollars	IMF and OECD	Flow	Investment type; by country of origin, by economic activity (sector, subsector, industry and class) and by Federal Entity of destination; number of financial companies. It shows historical series by country of origin for the period 1980-1993.	http://www.economia.gob.mx/comunidad-negocios/competitividad-normatividad/inversion-extranjera-directa/estadistica-oficial-de-ied-en-mexico. Retrieved April 23, 2015

Source: Author's elaboration.

7.2. Data at enterprise level

IED data at enterprise level can be found under different private data sources. For example, Thomson-Reuters, DealLogic and Bloomberg provide information on transactions type M&A. FDi Markets provides data on Greenfield projects and capital increases (see Table 9). China Global Investment Tracker does not distinguish between the two types of investments, but its biggest attraction is that it provides information on construction contracts and problems/failed

investments. Because so far no country has developed complementary FDI statistics based on the directional approach and following the latest recommendations from OECD (2008), several authors and institutions are turning to these alternative sources of data for analysis on FDI (e.g. Garrido 2001; Harms and Méon 2011; Dussel Peters 2013; ECLAC 2015; UNCTAD 2015, et.al.).

Table 9

FDI Registration at micro level, according to MOFCOM and some private data providers

Source	Period	Measurement Unit	Methodology	Information type	Information Breakdown
MOFCOM a/	2002/05-2015/03	Approved projects	Currently working to adopt the methodologies suggested by IMF and OECD	List of investment projects outward. It can be interpreted as a list of approved projects (Yue Lin 2013).	Certificate code; Destination country; Chinese direct investor's name; investment firm's name; economic activity and provincial origin of Chinese investor; approval date.
Thomson-Reuters	1985-2014/10	Millions of dollars	Includes purchase of less than 10% of the voting power (i.e., investments that are not necessarily classified as FDI). It is based on compilation from: press releases, specialized financial press, research papers, stock markets reports and surveys or reports made for statistical purposes.	Mergers and acquisitions at the company level.	Amounts; transaction status; economic subsector and buyer and seller's name; ownership; brief synopsis of the transaction.
Bloomberg	01.01.1980-17.02-2015	Millions of dollars		Mergers and acquisitions at the company level.	Date of announcement, announced value, country of origin and destination, status, name of buyer and seller, payment type, brief description; percentage acquired.
fDi Markets	2003/04-2012/10	Millions of dollars		Investment projects in new facilities (Greenfield investment projects) and capital increases (fDi, 2014). Mergers and acquisitions are not included	Project date (current status of the project is not identified); investment company; parent company; country, province and home town of origin; country, state, administrative region and city of destination, sector; subsector; cluster; industrial activity; amounts of capital investment, jobs created and type of project.
China Global Investment Tracker	2005/01-2015/o5	Millions of dollars		Investment announcements (does not distinguish between M&A and new investments); construction contracts; investment with problems (CGIT, 2015)	Date of project, investor's name, amount, stake size, destination partner, sector, subsector, country and region.

Source: Author's elaboration.

In China, MOFCOM publishes the "Catalogue of enterprises (institutions) investing abroad." According to Lin Yue (2013), the catalog can be interpreted as a list of approved projects. Although it has some limitations (e.g., it records only the year of projects approval, so no one knows which projects are effective and which ones are not; It could leave out small investments), it is the only database that allows cross-tabulation of Chinese FDI worldwide.

8. Causes of statistical discrepancies between different data sources at the macro level

For the development of this sub-paragraph we refer to the statistical information of OFDI to Mexico (total and from China). IMF, OECD, UNCTAD and MOFCOM calculate the positions of direct investment by country of origin (Table 10). Focusing attention on China stocks in Mexico, the three agencies reported similar amounts for the period 2009-2011; but in 2012, OECD and UNCTAD estimated an amount less than 43% from that of the IMF. Considering

the very low relative shares of the stocks of China's FDI in the total Mexico's FDI stock, it is noteworthy that this ratio has more than doubled, from 0.07% in 2010 to 0.15 in 2013.

Moreover, the Ministry of Commerce of China (MOFCOM) reports annual data on stocks of foreign direct investment to Mexico, which are equal to the data reported by UNCTAD, that is, UNCTAD only reproduces information from MOFCOM. On the other hand, data from MOFCOM could be interpreted as "mirror data" of the flows from China that Mexico reports to the IMF, OECD and UNCTAD (see Table 10). In general terms, the stocks reported by MOFCOM for the period 2009-2012 were lower than those reported by the IMF and OECD. This is not just a case of Mexico; OECD (2008b) found that the stock of OFDI from China reported by MOFCOM was on average 40% lower than the amounts reported by member countries of the OECD in their statistical (with some exceptions like with the US and Japan).

Table 10

Mexico. Direct investment positions at the end of each year. Total and China (2005-2014) (millions of dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Total inflows reported by Mexico at the end of each year, according to:									
Bank of Mexico	234,149	267,603	298,341	250,163	305,808	363,769	338,975	366,564	391,879	337,750
IMF					305,808	363,769	338,975	366,564	391,879	
OECD					305,808	363,769	284,611	361,234	389,083	
UNCTAD					305,808	363,769	284,611	361,234		
	Inflows from China reported by Mexico at the end of each year, according to:									
IMF					262.5	256.9	267.3	523.1	583.3	
OECD					262.5	256.9	267.3	300.4		
UNCTAD					262.5	256.9	267.3	300.4		
	Outflows from China to Mexico reported by China at the end of each year, according to:									
UNCTAD	141.9	128.6	151.4	173.1	173.9	152.9	263.9	368.5		
MOFCOM	141.9	128.6	151.4	173.1	173.9	152.9	263.9	368.5	409.9	

Totals may not be equal to the sum of the components due to rounding.
Source: Author's calculation based on Mexico´s Central Bank (2015), IMF (2015), OECD (2015), UNCTAD (2015) and MOFCOM (2015).

What are the causes of this statistical discrepancy? Despite the efforts of the Chinese government to adopt and implement international standards in collecting and publishing statistics on OFDI since 2003, the underestimation of the current volumes of OFDI apparently is still present in official statistics (OECD 2008b)[5]. Indeed, considering that MOFCOM compiles data based on

[5] According to OECD (2008b), even before 2003, the methodology used by MOFCOM to collect statistics on OFDI was incompatible with international standards, and it is believed that official statistics underestimate seriously the current volumes of Chinese OFDI. For example, statistics on OFDI of China did not include investments executed after the initial approval and, besides that, only capital investments were reported.

the approval and registration record of OFDI projects, investment projects undertaken by companies that have escaped from the approval/registration procedures through MOFCOM could be omitted.[6]

On the other hand, based on the publications of MOFCOM regarding FDI statistics of China, OECD (2008b) has presented a number of arguments to explain the apparent deviations (and its causes) of Chinese statistics regarding to international standards:

1. The formats used for the dissemination of FDI statistics are different. All OECD countries provide their statistics based on standardized presentations in line with the recommendations of international organizations. It is noteworthy that MOFCOM statistics show foreign investment per partner country excluding investments in the financial sector; but the institution does not publish similar information separately for this sector of the economy.

2. In 2003 MOFCOM established the "invest in China" website (www.fdi.gov.cn), which provides monthly statistics of accumulated flows. However, the annual figures are hard to follow since they contain differences in coverage between the Chinese and English versions.

3. With regard to foreign investment, China distinguishes between "contracted FDI" and "executed FDI." The distinction between these two concepts is not clearly described and there is some concern that the latter may correspond to cash flows that not in all cases necessarily meet the criteria to be considered as FDI.

4. The MOFCOM classification of direct investment by industrial sector (inflows and outflows) provides valuable data. However, this data is classified according to its national classification, which is not in line with the International Standard Industry Classification (ISIC) being a crucial aspect for the international comparability of data, e.g. with the OECD countries.

5. Sector time series are difficult to collect and evaluate, because industrial classification used for all years is not entirely uniform.

Through extensive consultation, in 2002 MOFCOM and the National Bureau of Statistics frame the Statistics System of Chinese Foreign Direct Investment, in order to incorporate the definitions, statistical principles and methodology based on the OECD Framework Definition (third edition) and on the Balance of Payments Manual of the IMF (fifth edition).

[6] According to OECD (2008b), a field interview conducted by FIAS/IFS/MIGA, found that most of the private companies surveyed did not apply as investment projects abroad.

6. China provides information on FDI stocks, for inflows and outflows. But what is published as stocks of FDI inflows consists only of the cumulative flows. Therefore, these figures should be used with caution (see section 2).

7. Chinese FDI statistics do not provide information on FDI income.

8. They do not show separately the major components of FDI, capital funding (capital and reinvested earnings) and inter-company loans. The separate analysis of each component by partner country and by industrial sector provides valuable analytical information.

It should be noted that MOFCOM jointly with the National Bureau of Statistics and the State Administration of Foreign Exchange, are currently working on adjustments to the statistics of Chinese OFDI, following the latest recommendations of the OECD Manual in its fourth edition, 2008 (MOFCOM 2015).

Moreover, for the world economy, the IMF (2014) has recognized that the quality of data for China direct investment has been improving since 2010 when the agency implemented the Coordinated Direct Investment Survey (CDIS), which collects data on direct investment positions since the end of 2009[7]. The improvement is largely explained by improved country coverage, accuracy and detailed data of direct investment from the standpoint of balance of payments and statistics on direct investment positions (DIP).

In October 2013, the CDIS team started an exercise to identify bilateral asymmetries and seek feedback with reporting countries. A total of 28 countries were contacted by email. Each country provided an Excel file that highlighted their bilateral asymmetries. The selected countries were those with bilateral asymmetries that exceeded $ 25 million dollars which represented at least 25% of the total DIP reported with a counterpart economy, for both inward investment and for outward investment[8]. Eighteen countries commented on the causes of the discrepancies in

[7] CDIS provided detailed data on DIP at inflow-level (i.e., direct investment in the reporting economy) and crossed-classification with the economy of the immediate investor, and data on DIP at outflow-level (ie, direct investment abroad by the reporting economy) crossed with the information of the economy of immediate investor economy. All participating countries provided data on FDI inflows and most participants provided data on OFDI (IMF 2015).

[8] The 28 countries were: Australia, Austria, Barbados, Belgium, Brazil, Canada, Hong Kong, Mainland China, Cyprus, France, Germany, Hungary, India, Ireland, Italy, Japan, Luxembourg, Mauritius, Mexico, Netherlands, Federation Russia, Singapore, South Africa, Spain, Sweden, Switzerland, The United Kingdom and The United States.

estimates and/or in the sense that they are in the process of reviewing their data. It is noted that most countries pointed to methodological differences and differences in coverage as main causes of asymmetries. In particular:

- Counterpart countries sometimes use different methods to estimate the value of shares.
- The application of the directional approach may lead to asymmetries in "mirror" estimates. That is, the OFDI of a country can be shown in the data of the counterparty economy, either as inflow direct investment or as negative OFDI.
- Different geographical allocation by economy of counterpart, based on the latest counterpart more than in the immediate counterpart.
- Differences in the definitions of country or geographical territory.
- The use of different versions of methodological norms.
- The lack of full or partial coverage of data, for member companies and/or SPEs, was mentioned as a factor contributing to the asymmetries in some countries.

9. Conclusions

1. In the context of the economic accounts of the countries, FDI comes in: the system of national accounts; balance of payments and international investment position; and statistics on the activities of transnational corporations.

2. FDI is recorded in three accounts: positions of foreign direct investment or stock investment; direct investment financial transactions (or FF) and; investment income.

3. The category new investments does not allow to differentiate between the two crucial types of FDI, transactions type mergers and acquisitions (M&A) and new investments or Greenfield investments.

4. FDI flows and stocks are recorded under two methodological approaches: the asset/liability approach (for aggregate FDI) and the directional approach (for disaggregated FDI). The asset/liability approach does not show the direction of influence of FDI. Under the directional approach, flows and direct investment positions are organized according to the direction of investment in the reporting economy. In turn, FDI can occur in two ways: standard (for macro

data collected according to the asset/liability approach) and complementary (for disaggregated data compiled according to the directional approach).

5. Compilation of FDI statistics by following the directional approach separates activity of the resident SPEs and thus provides a more meaningful measure of FDI since it excludes FDI related with funds temporarily passing through an economy.

6. SPEs are used as instruments to raise capital or to hold assets or liabilities and do not normally carry out productive activities on a significant scale. As legal instruments, they can be relatively inexpensive to create and maintain. They can offer tax advantages, policy benefits and advantages of confidentiality. Their existence is often associated with offshore financial centers based in tax havens (offshore), but they can also be found in other jurisdictions.

7. OECD (2008) suggests countries to collect and publish complementary FDI statistics elaborated under the directional approach; however their implementation, it is left to the discretion of each reporting economy. Complementary series identify, among other information, purchases or sales of shares type mergers and acquisitions (M&A). They also provide a distinction between the new investment (Greenfield investment) which imply an injection of new capital and job-creation, and M&A which involves the ownership change of a company that already existed.

8. According to the World Investments Report, UNCTAD is apparently the only international institution that provides aggregated data of transactions type M&A and of Greenfield projects.

9. Internationally, institutions such as ECLAC, UNCTAD, OECD, IMF and IDB, report annual FDI data. In Mexico, Central Bank and the Ministry of Economy (SE) report aggregated and disaggregated statistics. China highlights the National Bureau of Statistics of China which takes up the information published by MOFCOM.

10. Information on FDI at the enterprise level can be found under different private data sources. For example, Thomson-Reuters, DealLogic and Bloomberg provide information on transactions type M&A; fDi Markets provides information on Greenfield projects and capital increases. China Global Investment Tracker provides information on investment projects (although it does not distinguish between M&A and new investments), construction contracts and investment

with problems. In all cases, the methodology suggested by OECD (2008) in the classification of the types of investments is not used; therefore, data should be taken with caution.

11. In China, MOFCOM publishes the "Catalogue of enterprises (institutions) investing abroad". According to Lin Yue (2013), the catalog can be interpreted as a list of approved projects. With some limitations (e.g., it only registers the year of project approval, so no one knows which projects are active and which are not, and it can set aside small investments), it is the only database which allows cross-tabulation of Chinese FDI with the world. Considering that MOFCOM compiles data based on the approval and records of OFDI projects, investment projects undertaken by companies that have escaped the procedures for approval/registration through MOFCOM could be omitted from their stats and this represents a cause of statistical discrepancies. However, we must note that MOFCOM jointly with the National Bureau of Statistics and the State Administration of Foreign Exchange, are currently working on adjustments to the statistics of Chinese OFDI, following the latest recommendations of the Manual of the OECD in its fourth edition 2008.

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