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PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP  
OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND  
REPORTING: FURTHER STEPS TO BE TAKEN IN RELATION TO THE  
DEVELOPMENT OF THE COMPREHENSIVE INFORMATION SYSTEM

Further steps to be taken in relation to the development of  
the comprehensive information system

Report of the Secretary-General

SUMMARY

Statistics on foreign direct investment are one of the principal indicators of the activities of transnational corporations. Unfortunately, those statistics are among the most deficient macro-statistics since countries do not comply with the commonly accepted definition of foreign direct investment. At the same time, the recent emphasis on globalization and liberalization of economic activity has increased the role and importance of foreign direct investment. Developing countries and centrally planned economies are being urged to adopt appropriate investment policies and laws. However, there must be some reliable way of measuring new trends and the impact of such increased liberalization measures. To meet this need, the United Nations Centre on Transnational Corporations has launched a major project to collect, publish and improve statistics related to foreign direct investment.

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CONTENTS

	<u>Paragraphs</u>	<u>Page</u>
I. DEVELOPMENT OF THE COMPREHENSIVE INFORMATION SYSTEM .....	1 - 4	3
II. DATA COLLECTION .....	5 - 6	5
III. PUBLICATION OF THE <u>DIRECTORY OF TRANSNATIONAL CORPORATIONS</u> .....	7 - 8	6
IV. IMPROVEMENT OF STATISTICS ON FOREIGN DIRECT INVESTMENT ....	9 - 10	6
V. CONVERSION OF DATA ON FOREIGN DIRECT INVESTMENT TO ONE UNIT OF ACCOUNT .....	11 - 16	7

## I. DEVELOPMENT OF THE COMPREHENSIVE INFORMATION SYSTEM

1. Statistics on foreign direct investment are one of the principal indicators of the activities of transnational corporations. During the 1980s, world foreign direct investment grew at an average rate of 10.2 per cent compared to only 3 per cent for world trade and 2.6 per cent for world output. Consequently, the world stock of foreign direct investment surpassed \$1 trillion by the end of 1987, nearly doubling in size since 1980. <sup>1/</sup> Foreign direct investment may be measured either in terms of annual flows (inward and outward) or in terms of cumulative stocks. Flows and stocks can then be classified by recipient countries and countries of origin, as well as by sector of economic activity. The components of the flows of foreign direct investment are equity investments, intercompany loans and reinvested earnings. Unfortunately, practically no country in the world respects this definition and statistics on foreign direct investment are usually incomplete. More often than not, intercompany loans and reinvested earnings are missing. The incompleteness of the data makes it difficult to rank countries in terms of being the largest source or recipient countries.

2. Consequently, extreme caution is needed when analysing data on foreign direct investment. For example, table 1 shows the Japanese share of outflows on foreign direct investment in 1988 as 15 per cent compared to the United States share of 19 per cent. Since the Japanese statistics do not contain reinvested earnings, its share is based downward. It should be noted that, in recent years, United States foreign direct investment statistics have been severely distorted by the inclusion of large currency transaction gains or losses related to the depreciation or appreciation of the dollar.

3. With the recent emphasis on globalization and liberalization of economic activity, increased importance is being attached to the role of foreign direct investment in developing countries. Developing countries are being urged to adopt more liberal investment policies and laws. However, there must be some reliable way of measuring the impact of such increased liberalization measures. Foreign direct investment is becoming a "hot" topic for yet another reason. <sup>2/</sup> With most of the flows of foreign direct investment being directed towards the United States, there is a real concern on the part of the United States public that control of their economy is falling into foreign hands. During 1988, the inward foreign direct investment position of the United States exceeded the outward position for the first time. Experts are worried that this will stimulate more restrictive legislative measures of the Exxon-Florio type where foreign direct investments are subject to review and possible presidential veto. However, it is more than likely that the alarm has again been set off prematurely owing to inadequate statistics. If the United States investment position abroad were measured at replacement cost rather than at historical cost, it would, in all likelihood, still exceed the inward position. <sup>3/</sup> There is also a growing interest in increasing foreign direct investment in centrally planned economies. Statistics on foreign direct investment, as known in the West, are currently not collected by centrally planned economies. At present, only the initial level of capitalization of East-West joint ventures is available.

Table 1. Outflows of foreign direct investment from five major home countries, 1983-1988

(Millions of US dollars and percentages)

Country	1983	1984	1985	1986	1987	1988
<b>A. Absolute values</b>						
France	1 699	2 134	2 226	5 339	9 082	14 484
Germany, Federal Republic of	3 185	4 346	4 914	10 089	9 219	10 361
Japan	3 602	5 945	6 427	14 336	19 396	34 256
United Kingdom	8 181	7 956	11 173	16 232	30 771	26 971
United States	3 574	4 867	13 482	21 444	41 202	14 805
Total above	20 243	25 248	38 224	67 440	109 671	100 879
Developed countries	35 770	41 392	57 220	90 719	141 349	144 036
Developing countries	893	572	1 190	1 289	2 312	5 827
All countries	36 664	41 977	58 411	92 031	143 669	149 885
<b>B. Shares</b>						
			<u>1981-1983</u>	<u>1984-1988</u>		
France			7.3	6.1		
Germany, Federal Republic of			7.8	8.6		
Japan			11.0	15.4		
United Kingdom			22.2	19.0		
United States			17.5	19.3		
Total above			65.8	68.5		
Developed countries			97.9	97.9		
Developing countries			2.1	2.1		

Source: International Monetary Fund, balance-of-payments tape, retrieved on 10 November 1989.

Note: The data on Japan exclude reinvested earnings. Shares were calculated based on average annual flows.

4. Thus, there are a number of reasons for renewed concern among international organizations to collect better statistics on foreign direct investment. Unfortunately, this concern is not matched at the national level where many Governments have reduced resources devoted to collecting and improving statistics. Besides budgetary constraints, statistics on foreign direct investment have suffered from the fact that some Governments are not convinced of the benefits of having accurate and complete foreign direct investment data. Nevertheless, the Centre has launched a major project to collect, publish and improve statistics related to foreign direct investment. This project was discussed during the seventh session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (see report of the Secretary-General on data on foreign direct investment (E/C.10/AC.3/1989/9)). The report of the Secretary-General describes the progress achieved at the end of 1989 and what is to be accomplished during 1990.

## II. DATA COLLECTION

5. During 1989, the Centre has undertaken a project to collect statistics on foreign direct investment (stocks and flows), as well as relevant corporate data, legal information (laws, agreements, treaties) and bibliographic sources for each country in the world. This has been done with the active co-operation of the Centre's Joint Units at Addis Ababa, Bangkok and Santiago. The Joint Units have, in many cases, collected original, unpublished national data, with the assistance of national experts both within and outside the Government. Such information has been collected through the use of "country profiles". In some cases, national central banks or other government institutions undertook special surveys to obtain the information. Nevertheless, information available to developing countries on the foreign direct investments of transnational corporations is deficient for a number of reasons. In most cases, developing countries in the process of liberalization are not likely to increase their reporting requirements, and information available in the financial statements of parent transnational corporations is not adequately segmented to provide much insight about the flows of foreign direct investment into particular developing countries.

6. The Centre and the Joint Units have processed the data that were available but have not made adjustments for the widespread deficiencies. However, at the international level, the Centre is co-operating with the Organisation for Economic Co-operation and Development (OECD) to improve compliance with the OECD benchmark definitions for foreign direct investment. In this connection, the Centre has circulated a questionnaire to all country experts concerning definitions and national data collection methods so that the Centre will have a clearer understanding of the deficiencies in the data.

### III. PUBLICATION OF THE DIRECTORY OF TRANSNATIONAL CORPORATIONS

7. During 1990, the Centre will begin to publish the data as follows:

Volume 1. South-East Asia and the Pacific;

Volume 2. OECD;

Volume 3. Middle East and Africa;

Volume 4. Latin America and the Caribbean;

Volume 5. Centrally planned economies of Europe;

Volume 6. Global aggregates.

In most cases, the data will be published as collected, with the appropriate notes warning users of gaps and other problems. The Directory will contain the position on foreign direct investment of as many countries as possible, the activities of transnational corporations in and from those countries and the regulatory (legal) framework within which they operate. 4/ The purpose of the Directory is to assemble, in one place, comprehensive, comparable data on the most important aspects of the world-wide activities of transnational corporations. As such, the Directory will be an indispensable source for policy makers, especially in developing countries, who wish to understand the character, pattern and trends of foreign direct investment and need reliable information as a basis for the formulation and monitoring of policies related to transnational corporations. The Directory will also provide basic data for researchers in Governments, intergovernmental and non-governmental organizations, academia, the private sector and the trade-union movement who wish to analyse the activities of transnational corporations.

8. Eventually, the Directory and its underlying data base will be made available electronically to external users. Much of the effort in producing the Directory has been to design an integrated computer system to enter, update, manipulate and process data, as well as to facilitate computer-aided publishing. In this regard, the Centre received valuable technical assistance from the Electronic Data Processing Unit of the Economic Commission for Europe (ECE), at Geneva, which has a large programme for the publication of various statistical bulletins.

### IV. IMPROVEMENT OF STATISTICS ON FOREIGN DIRECT INVESTMENT

9. The third phase of this project will consist of the dissemination of the Directory and data base and the improvement of the systems of developing countries and centrally planned economies for the collection and use of data on foreign direct investment. In conjunction with OECD, the Centre plans to analyse current data problems and gaps and will make recommendations to Governments for improved compliance with the OECD benchmark definitions. The following problems in compliance are being analysed:

(a) Compliance with a single threshold value. A foreign direct investment enterprise is defined as one in which a single foreign investor controls 10 per cent or more of the ordinary shares or voting power or has an effective voice in the management which would include non-equity forms of investment such as joint ventures; in actual practice, threshold values range from less than 10 per cent to 50 per cent; much needs to be done to tighten the definition so that all investments will be recorded where the foreign investor has significant control;

(b) Composition of foreign direct investment earnings. Such earnings should consist of dividends, reinvested earnings and interest due;

(c) Elimination of capital gains/losses. The earnings should not contain any realized or unrealized capital gains or losses since these items are not directly associated with the enterprise's operational earnings;

(d) Collection of inter-firm flows. Data should include transactions in shares, long-term and short-term loans and indebtedness;

(e) Conversion procedures. Interest, dividends, profits remitted and retained in foreign currency should be converted at the closing mid-market spot exchange rate on the day received;

(f) Measurement of foreign direct investment stock. Stock should be measured as the book value of share capital and reserves attributable to the direct investors, plus long-term and short-term loans, trade credit and other indebtedness, including unpaid dividends due the direct investor;

(g) Re-estimation of foreign direct investment stock. Stock could be re-estimated at replacement cost rather than book value. This would enhance the comparability of data on foreign direct investment across countries.

10. The Centre is also considering a technical assistance programme for those developing countries and centrally planned economies interested in having better statistics on foreign direct investment and the activities of transnational corporations operating within their borders.

#### V. CONVERSION OF DATA ON FOREIGN DIRECT INVESTMENT TO ONE UNIT OF ACCOUNT

11. The Centre is concerned that its method of converting foreign direct investment data reported in different local currencies into one unit of account for aggregation purposes is far from satisfactory. Currently, the Centre converts national data expressed in national currencies into United States dollars. It uses average exchange rates for flows and year-end exchange rates for stocks. This method is far from ideal owing to the distortions introduced into the data because of exchange rate fluctuations. For example, if the base currency (US dollar) tends to appreciate (e.g., the US dollar in 1980-1984), the rate of increase in foreign direct investment is likely to be undervalued, whereas the opposite is true when it tends to depreciate.

12. One alternative would be to convert all the data into a basket currency rather than into the currency of one particular country. This would reduce the effects of fluctuations over time associated with the value of one particular currency because the distortions induced by strong currencies would be counter-balanced by the opposite effects induced by weak currencies in determining the basket-currency value.
13. Another alternative, which has been developed through an international research effort, is the use of purchasing power parities (PPP) to convert national currencies into one unit of account. A purchasing power parity is defined as the rate at which a unit of a currency should be converted into another in order to purchase an equivalent set of goods and services in both countries. The concern here is to properly measure global flows and stocks of investment or capital goods. The International Comparison Programme, initiated by the Statistical Commission, developed a methodology that constructs indices of vis-à-vis conversion rates between each local currency and a chosen numeraire which are consistent with the PPP concept. The estimates of PPPs can be used to express data on foreign direct investment in the same unit of measure. The method, while quite satisfactory from a theoretical standpoint, has high costs in terms of the statistical information required. Consequently, empirical estimates are found, as a rule, for only a limited number of countries and years, and the results are then extended to non-benchmark years using extrapolative procedures.
14. Unfortunately, this work of calculating purchasing power parities is being discontinued by the Statistical Office of the United Nations Secretariat because funding has been cut. PPPs will continue to be estimated, however, by the Statistical Office of the European Communities (EUROSTAT) for their member countries. But this leaves the rest of the world without PPPs and makes meaningful aggregation of foreign direct investment by the Centre or any other researcher difficult.
15. Table 2 illustrates the difference in the size of inflows of foreign direct investment using either United States dollar exchange rates or PPPs. As far as the Latin American countries were concerned, their inflows were systematically undervalued by 20 per cent by using the United States dollar, whereas the African inflows were overvalued by 44 per cent. Consequently, there is a strong argument for using PPPs.
16. Since the International Comparison Programme is being discontinued and it is important to have adequate and reliable data on foreign direct investments, the Group might consider requesting the Commission on Transnational Corporations to invite the Statistical Commission to set up a joint ad hoc intergovernmental expert group to make recommendations for the improvement of statistics on foreign direct investment, including their conversion to a meaningful unit of account and including the regular reporting of those statistics in the United Nations Statistical Yearbook.

Table 2. Inflows of foreign direct investment in 1980

	In millions of US dollars	In millions of international dollars (PPP converted)
<u>OECD countries</u>		
Austria	238.10	262.13
Belgium	2 572.1	2 151.6
Canada	684.20	798.36
Denmark	105.40	83.450
Finland	27.900	24.030
France	3 294.2	2 798.5
Germany, Federal Republic of	416.50	327.72
Greece	672.90	878.54
Ireland	286.90	313.93
Italy	540.60	567.22
Japan	274.00	254.45
Netherlands	2 349.0	1 741.4
Norway	59.900	49.510
Portugal	157.60	139.46
Spain	926.10	1 070.5
United Kingdom	5 910.9	4 204.9
United States	16 918.00	18 625.00
<u>Africa</u>		
Botswana	124.80	114.90
Cameroon	129.80	79.830
Côte d'Ivoire	344.10	219.11
Kenya	79.400	53.800
Malawi	6.5000	5.2400
Morocco	129.80	83.060
Senegal	1.9000	1.27000
United Republic of Tanzania	4.6000	5.0600
Zambia	57.300	40.910
Zimbabwe	23.500	16.110
<u>Latin America</u>		
Argentina	681.00	431.66
Brazil	1 913.0	2 585.2
Chile	213.40	345.77
Colombia	157.50	245.86
Dominican Republic	92.600	98.420
Ecuador	70.400	98.020
Panama	46.900	83.470
Paraguay	31.200	23.960

Table 2 (continued)

	In millions of US dollars	In millions of international dollars (PPP converted)
Peru	27.000	39.380
Uruguay	283.70	328.51
Venezuela	54.700	63.210
<b>Asia</b>		
Indonesia	183.50	274.98
Pakistan	58.600	98.130
Philippines	-106.70	-124.08
Republic of Korea	7.8000	11.690
Sri Lanka	42.900	147.96

Source: M. Ricottilli and F. Zilibotti, Distortions Induced by Exchange Rate Conversion in Evaluating Foreign Direct Investments (Bologna, University of Bologna, 1989).

Note: The comparison was performed for 1980 data because of the availability of PPPs for that year. PPPs have not been calculated more recently, for these countries owing to resource constraints.

Notes

1/ John M. Rutter, Direct Investment Update: Trends in International Direct Investment (Washington, D.C., United States Department of Commerce, Office of Trade and Investment Analysis, International Trade Administration, September 1989).

2/ See report of the Secretary-General on recent developments related to transnational corporations and international economic relations (E/C.10/1990/2), which contains an analysis of the latest trends in foreign direct investment.

3/ Lois Stekler and Grey Stevens, The Adequacy of US Direct Investment Data, prepared for the Conference on International Economic Transactions: Issues in Measurement and Empirical Research, 3-4 November 1989, United States Federal Reserve Board, Division of International Finance. According to Stekler and Stevens, the current market value of the United States direct investment position abroad was about \$750 billion at the end of 1988, while the foreign direct investment position in the United States was about \$450 billion. The book values (historical cost) were \$327 billion and \$329 billion, respectively. Note that these are stock figures.

4/ The Directory will be an expanded and updated version of the Directory of Statistics on International Investment and Production, edited by John Dunning and John Cantwell.

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