Direct investment statistics by immediate and ultimate investing country

Globalization has meant more internationalization and more complex organizational structures of transnational corporations. Among others, global value chains, differences in taxation and incentives to create companies in several countries directly impact the investment flow from these corporations to their subsidiaries and branches. In cases where the relationship between mother companies and their associates are intermediated by other companies in the same group, financial holdings or special purpose entities (SPEs) located in third countries, which act as financial conduit or pass-through or capital in transit for these flows.

This reality has relevant impacts on the statistics of direct investments, on the identification of the direct nonresident investor and on the bilateral comparisons between the statistics of the different countries. This box shows the concepts of immediate investing country and ultimate investing country, used in a complementary way to reflect the origins of direct investments, and shows their application to the statistics of foreign direct investment (FDI) in Brazil.

The international standard for the compilation and dissemination of FDI statistics guides the use of the **immediate investing country**¹ criterion. It is a simple concept: an immediate investing country is the country of domicile of the nonresident company that invested directly in the subsidiary or branch in Brazil. This criterion facilitates the comparability of bilateral statistics, since, unlike Brazil, the data sources available in most countries only allow the identification of the immediate origin of the direct investment².

Considering the complex organizational structures of transnational corporations, economic reasons and

^{1/} Paragraph 4,156 of the 6th edition of the Balance of Payments and International Investment Position Manual (BPM6), of the International Monetary Fund (IMF), and paragraphs 49, 263 and 346 of the 4th edition of the Benchmark Definition of Foreign Direct Investment (BMD4), of the Organisation for Economic Co-operation and Development (OECD).

^{2/} If not for this alone, this is the criterion used in the IMF's Coordinated Direct Investment Survey (CDIS), which compiles active and passive positions with the participation of 105 countries in 2016. The results of the CDIS are available at http://data.imf. org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5.

the interests of the statistics users,, the statistical standard also contemplates the disclosure of the FDI by the **ultimate investing country**³ criterion, in a complementary way. The ultimate investing country is the country of a nonresident investor that holds the effective economic interest in the company invested in Brazil, chiefly determined by influence over management decisions. The ultimate investor is identified by using the following analysis: starting from the resident associate, one should move up the chain of direct investment relationships until the nonresident company that has no other company as a direct investor is found.

Finally, it is worth noting that the international standard for compiling macroeconomic statistics – including those of the external sector, like direct investment statistics – aims to record **economic transactions actually occurred**, as they are carried out, and assets and liabilities positions actually incurred in the reference period.

The growing interest in complementary direct investment statistics is confirmed by the number of countries, mainly from the OECD, which have recently compiled and disseminated inventories by country of the ultimate investor. Studies with methodology and comparison of the results considering the two criteria for Canada, United States⁴, United Kingdom, Italy and Japan, as well as for international bodies (IMF and OECD) are referenced in this box.

The comparison of bilateral direct investment statistics by country of the immediate and ultimate investor, based on the results of the studies cited, provides some conclusions. In all cases analyzed, the reduction of direct investment inventories by the ultimate investing country criterion allows the identification of in transit countries – not the ultimate destination – of these flows, whether or not tax havens, and the measurement of their impact. In this comparison, for example, Luxembourg stocks are reduced regarding Canada, France (approximately one-third), Italy (almost 25%) and Japan. In Netherlands, the stocks are reduced regarding Canada, France (just under 50%), Italy, England (65%) and Japan (75%).

There are also reductions regarding Switzerland (statistics reported by Canada), Belgium (France

^{3/} Paragraph 4,157 of BPM6 and paragraphs 54 and 55, 279 to 281, chapter 7 and annex 10 of the BMD4.

^{4/} The United States releases its bilateral direct investment statistics by the ultimate investing country standard, using the ultimate beneficial owner (UBO) concept.

and Italy), Jersey (United Kingdom) and Hong Kong and Singapore (Japan), which seems to indicate that there are transit countries with global performance and others with regional impact.

Conversely, the largest developed countries stand out among the countries that present a higher stock measured by the ultimate investing country criterion. The stock of direct investments of the United States rises in all analyzed countries, ranging from 5% for Italy to 75% for France. Germany's investments rise up 316% on the statistics reported by Japan. The United Kingdom, France, Japan, Italy and Canada are also often cited countries. In short, the use of intermediary companies in the completion of investment flows of investors located in developed countries to their branches and subsidiaries in the countries of destination is frequent.

In Brazil, FDI statistics compilation follows, strictly, the international methodological definitions⁵. Accordingly, FDI in the Brazilian balance of payments reflects the actual constitution of these external liabilities, verified by the Electronic Declaratory Registration, Foreign Direct Investment (RDE-FDI) module, and, usually, by the respective currency flow (chiefly through foreign exchange contracts)⁶. From these data sources, the individualized transactions microdata are used to compile the FDI.

Brazil's bilateral FDI statistics are disclosed for both flows (measured on monthly frequency) and inventories (on an annual basis), using the **immediate investing country criterion**. However, the additional compilation of direct investment statistics according to the **ultimate investing country criterion** is useful in dealing with transnational corporations operating in several countries and holding complex organizational structures with a large number of branches, subsidiaries or affiliated companies.

The source of the **FDI stock** statistics in Brazil is the Census of Foreign Capitals in the Country (Census)⁷, an annual survey that collects information about both the immediate and ultimate investing country. Methodologically, the stock of FDI measured by the Census varies from year to year as a function of net inflows of direct investments and of: i) accumulated profits or losses; ii) changes in the companies' market

6/ Regarding stock conveyance and relocation of transnational corporations there is no effective inflow of foreign exchange.

^{5/} For further details, refer to box "What is Direct Investment? How does it work in Brazil?", released with the Inflation Report of June/2017.

^{7/} For further information access: http://www.bcb.gov.br/rex/censoCE/port/censo.asp?idpai=cambio.

 Table 1 – Major increases in the positions of FDI – equity

 By country of the immediate and ultimate investor

 Positions as of December 31, 2015

			US\$ million
Country	Immediate	Ultimate	Change
United States	69 048	77 046	7 998
China	1 366	8 606	7 240
Italy	4 258	10 824	6 566
United Kingdom	15 549	21 894	6 345
Germany	8 323	12 472	4 149
Switzerland	11 063	14 761	3 698
France	18 437	21 309	2 872
Canada	7 574	9 791	2 217
Bermudas	2 626	4 714	2 089
Japan	17 110	18 914	1 804

 Table 2 – Major reductions in the positions of FDI – equity

 By country of the immediate and ultimate investor

Positions as of December 31, 2015

			US\$ million
Country	Immediate	Ultimate	Change
Netherlands	90 332	51 353	-38 979
Luxemburg	27 063	10 977	-16 086
Belgium	3 607	935	-2 672
Chile	7 200	5 363	-1 836
Spain	39 044	37 472	-1 572
Sweden	3 049	1 673	-1 375
Uruguay	2 436	1 432	-1 005
British Virgin Islands	2 304	1 501	-803
Cayman Islands	2 978	2 181	-797
Ireland	1 614	842	-772

value; and iii) changes in exchange rates, since companies in Brazil are valued in Brazilian reais but the statistics of the Brazilian external sector are expressed in United States dollars.

Tables 1 and 2 present the results of the comparison of the immediate and ultimate investing country criteria using the 2015 Census data. As expected, and according to international experience, countries whose stock of "FDI – equity participation" increases in the measurement by final investing country are the largest global economies and with greater commercial and financial relation with Brazil (with exception of Bermuda). Conversely, countries known as investment chanelers and tax havens figure in the list of countries whose stocks decreased the most.

This box introduced the immediate and ultimate investing country concepts, present in the international statistical standard, detailed the methodology and data sources for the compilation of bilateral inventories of FDI under these two criteria in Brazil. The results obtained for the Brazilian case are in line with the international standard, according to statistics and studies of selected countries. The conclusion is that both concepts are relevant and complementary for a more detailed analysis of the FDI.

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