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BETTER DATA NEEDED TO ASSESS FDI IMPACT

A major challenge for IPAs and governments is to measure the effectiveness of investment promotion and assess the impact of foreign direct investment (FDI) entering their countries. The current lack of data on FDI and the activities of transnational corporations (TNCs) was identified as a major obstacle at a recent UNCTAD Expert Meeting. Addressing this issue requires a concerted effort not only by the individual countries, but also by the international community and multilateral organizations.

Wrong data - wrong policies

Without accurate and reliable FDI data, policy makers in developing countries are hindered in the formulation of appropriate investment policies. This is particularly true in the least developed countries, where data collection is a major challenge.

For investment promotion agencies (IPAs), a lack of good data can also be a problem. Without adequate information, it is difficult to assess whether an IPA is doing an efficient job in promoting its country or region. It is similarly difficult to evaluate the impact of inward FDI on an economy.

Current situation highly unsatisfactory

An UNCTAD Expert Meeting on FDI Compilation and Policy held in December 2005 concluded that the data situation is still far from adequate. Despite major achievements in terms of gathering FDI data for countries around the world, major gaps remain. Moreover, among those countries that do publish data on FDI, the methodologies and definitions applied vary considerably.

Take the data on FDI flows and stocks. Out of 195 countries, a breakdown of FDI inflows by industry or by country is reported by only 60 and 66 countries, respectively (Table 1). Only a few countries, mainly developed countries, report a complete and detailed breakdown of FDI. Moreover, the scarcity of data on outflows as well as inward and outward stocks is even more glaring.

Unsurprisingly, data are in particularly short supply in the poorest nations. In Africa, for example, only 5 countries publish inward FDI statistics broken down by home country, and only 3 countries offers such data by industry. This makes international comparisons difficult.

Bilateral distortions

Another data problem relates to differences in the way data are collected, defined and reported. These discrepancies help to explain some of the oddities in global data compilations. For example, while inward and outward FDI should in principle balance, they rarely do. In 2004, global FDI outflows stood at $730 billion, whereas the inflows were $648 billion.

Bilateral comparisons provide another example. As illustrated in table 2 by the case of China, outflows reported by the investing economies seldom resemble the data provided by the recipient country.

'Activities data' most desirable

Whereas FDI data are the most commonly used to describe the international expansion of TNCs, they offer only a partial picture. FDI data relate to capital flows as reported in the balance of payments. In order to assess the actual *impact* of the investments by TNCs, it is important to look at so-called activities data. They provide information on factors such as production (sales, value-added), labour (employment, wages), trade (exports, imports), innovation activities (R&D) and taxes. Unfortunately, even fewer countries provide this kind of data.

What can be done?

Various proposals were discussed at the Expert Meeting to help developing countries improve their statistics on FDI and TNC activities and make them more useful for policymaking. An enhanced role of UNCTAD was also identified, in terms of training human resources, and by establishing a proper institutional or organizational framework. Collaboration with other international organizations like the IMF and the OECD are also important in the area of technical assistance.

More regional cooperation among relevant institutions in developing countries could also promote a harmonized system for measuring, collecting and reporting statistics on FDI and activities of TNCs.

As in other cases, any significant improvement in this area will require investments in time and resources. For most developing countries, donor support will thus be needed.

Source: UNCTAD.

Table 1. The availability of FDI data from countries providing breakdown by countries and industries, 2003 or latest year available
(Number of countries)

FDI category	Developed countries	Developing countries: Total	Developing countries: Africa	Developing countries: Asia and Oceania	Developing countries: Latin America and the Caribbean	Central and Eastern Europe [a]	World
Inflows by countries	19	42	5	13	24	5	66
Inflows by industries	18	38	3	13	22	4	60
Outflows by countries	19	9	1	0	8	2	30
Outflows by industries	19	7	1	1	5	2	28
Inward stocks by countries	20	18	1	4	13	5	43
Inward stocks by industries	17	16	0	5	11	6	39
Outward stocks by countries	19	9	0	1	8	4	32
Outward stocks by industries	15	7	0	1	6	4	26
Number of countries covered	26	150	53	57	40	19	195

Source: UNCTAD, based on national sources.
[a] Includes new member states of the EU.

Table 2. FDI inflows to China as reported by China and by investing economy
(Millions of dollars)

Economy	2000: As reported by China	2000: As reported by investing economy	2001: As reported by China	2001: As reported by investing economy	2002: As reported by China	2002: As reported by investing economy
France	853	324	532	152	576	353
Germany	1 041	819	1 213	976	928	887
Hong Kong, China	15 500	46 361	16 717	8 496	17 861	15 938
Japan	2 916	937	4 348	2 161	4 190	2 608
Malaysia	203	40	263	82	368	81
Netherlands	789	56	776	387	572	- 24
Thailand	204	9	194	11	188	16
United Kingdom	1 164	620	1 052	953	896	1 135
United States	4 384	1 817	4 433	1 912	5 424	924

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

For more on the recent Expert Meeting, see
H**http://www.unctad.org/Templates/Meeting.asp?intItemID=3416&lang=1**H
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