1.11. Foreign direct investment flows

Foreign direct investment (FDI) provides the recipient country with access to new technologies and generates knowledge spillovers for domestic firms and additional investment in research and development (R&D). FDI flows as a percentage of gross domestic product (GDP) are also a measure of the degree of a country's integration in the global economy. Crises have a variable impact on global FDI flows. While some national crises have sometimes seen a rise in FDI inflows, more general crises such as in the 1930s or 1970s and many national ones have seen sharp drops in outflows or inflows. FDI inflows to G7 countries dropped by 25% in 2008. In the first quarter of 2009, the decrease accelerated in Canada (–97%), Germany (–67%), Italy (–41%), Japan (–59%) and the United States (–63%). FDI inflows to the United Kingdom more than doubled in the first quarter of 2009, back to the same level as the previous year.

In absolute terms, the United States is both the largest foreign investor and the largest recipient of FDI in the OECD area. However, it is only sixth among the G7 countries for the value of FDI relative to GDP. The United Kingdom and France are first and second, respectively.

Some OECD countries have relatively high ratios for both inward and outward flows of FDI. In the Benelux countries, some of these flows are largely due to the activities of special-purpose entities and holding companies established by multinationals to finance and manage their cross-border investment. Owing to the methodology currently used, a significant share of the transactions of such entities is included in FDI statistics.

Iceland, Hungary, Belgium and Switzerland invest on average more than 10% of GDP in non-resident enterprises. Hungary, Belgium and Iceland receive on average FDI corresponding to more than 10% of their GDP.

Foreign direct investment

Direct investment flows are transactions between a direct investor in one economy and a direct investment enterprise in another economy, and among affiliated direct investment enterprises that are in a direct investment relationship, other than those that are resident in the same economy. Direct investment flows are recorded on a directional basis: *i)* as resident direct investment abroad (outflows); or *ii)* non-resident direct investment in the reporting economy (inflows). Direct investment financial flows are composed of equity capital, reinvested earnings (and undistributed branch profits) and other capital.

Equity capital comprises: *i)* equity in branches; *ii)* all shares in subsidiaries and associates (except non-participating preference [preferred] shares, which are treated as debt securities and included under direct investment, other capital); and *iii)* other capital contributions, including non-cash acquisitions of equity (such as through the provision of capital equipment).

Reinvested earnings and undistributed branch profits comprise, in proportion to equity held, direct investors' shares of *i)* earnings that foreign subsidiaries and associated enterprises do not distribute as dividends (reinvested earnings), and *ii)* earnings that branches and other unincorporated enterprises do not remit to direct investors (undistributed branch profits).

Other capital: covers the borrowing or lending of funds between *i)* direct investors resident in one economy and their subsidiaries, branches, and associates resident in other economies; and *ii)* enterprises within a group of related direct investment enterprises that are resident in different economies. The instruments covered include loans, debt securities, suppliers' (trade) credits, financial leases, and non-participating preference [preferred] shares which are treated as debt securities.

Source

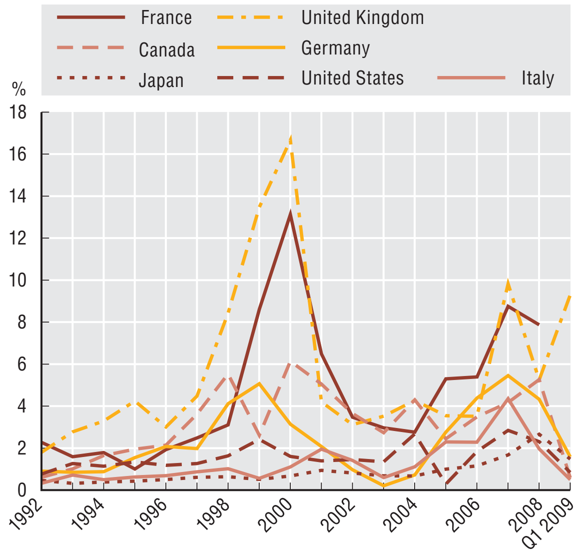
International Monetary Fund Balance of Payments Statistics, June 2009.

Going further

OECD (2005), *Measuring Globalisation: OECD Handbook on Economic Globalisation Indicators*, OECD, Paris.

FDI outflows from G7 countries, 1992-2008 and Q1 2009

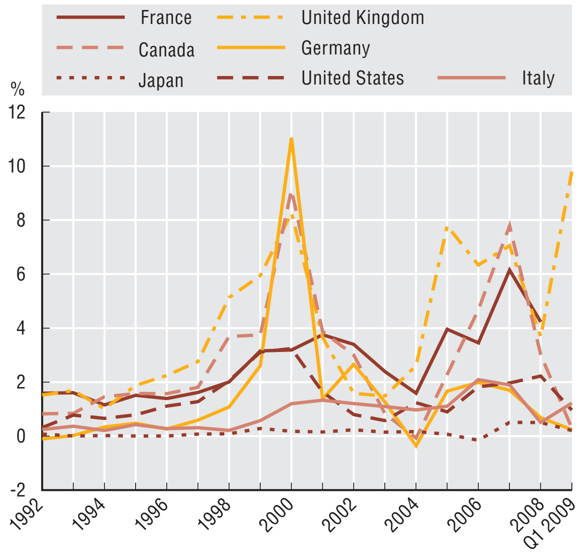
As a percentage of GDP



StatLink http://dx.doi.org/10.1787/742554345446

FDI inflows to G7 countries, 1992-2008 and Q1 2009

As a percentage of GDP



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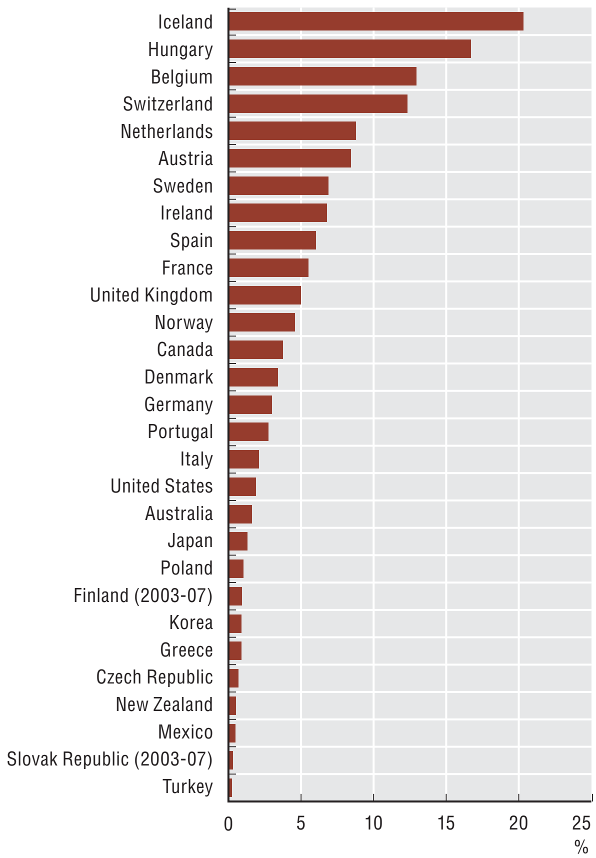
FDI outflows from OECD countries, average 2003-08

As a percentage of GDP



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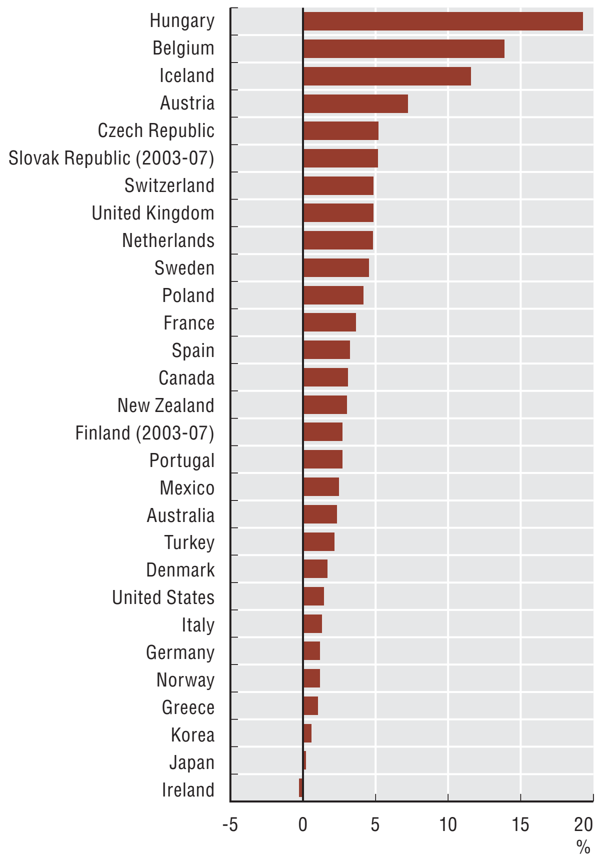
FDI inflows to OECD countries, average 2003-08

As a percentage of GDP



StatLink http://dx.doi.org/10.1787/742584558022

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