

B.5. Foreign direct investment flows

■ Since the latter half of the 1980s, foreign direct investment has played a fundamental role in international economic integration. Worldwide it has been the most dynamic factor in industrial restructuring.

■ However, the bulk of direct investment over the past 15 years corresponds to acquisitions, i.e. to transfers of ownership, rather than creation of new businesses or expansion of the capacities of existing firms.

■ The scope of inward direct investment depends on a host of factors: size of the domestic market, skills of the workforce and quality of infrastructure, labour costs, taxation, the level of technology, and the development of the banking and financial system.

■ The United States is not only the leading investor but also the leading host country. Between 2005 and 2008, Luxembourg continuously ranked second, in absolute value, as both host and investor. This is due to the presence in Luxembourg of foreign financial holding companies that channel their investment through that country. In Europe, over the period, Luxembourg was the leading host country for foreign direct investment, followed by the United Kingdom and France.

■ Between 2005 and 2008, the OECD area continued to be a net exporter of direct investment capital. Strong contributors were the United States, Luxembourg, France, the United Kingdom and Germany. Among the major countries, Japan continued to record a wide gap between assets and liabilities, a pattern that has been present since 2000.

■ Non-OECD countries such as China and India have become noteworthy host countries for foreign direct investment, with significant amounts of inward flows. In recent years, some non-OECD countries have become active investors as well.

Source

- International Monetary Fund, *Balance of Payments Statistics*.

For further reading

- OECD (2005), *Measuring Globalisation: OECD Handbook on Economic Globalisation Indicators*, OECD, Paris.
- OECD (1996), *OECD Benchmark Definition of Foreign Direct Investment: 4th edition*, OECD, Paris.
- International Monetary Fund (1995), *Balance of Payments Manual, 5th edition (BPM5)*.

Foreign direct investment flows

Foreign investment is said to be “direct” if the investor resident in another economy holds at least 10% of the ordinary shares or voting rights of the firm in which it has made the investment. The 10% threshold means that the direct investor is in a position to influence the management of the firm and to play a role in its affairs, without necessarily wielding control over the firm.

Direct investment is measured in terms of flows and stocks. Direct investment flows in the reporting economy or abroad comprise: equity capital (assets, liabilities), reinvested earnings (net) and other capital (assets, liabilities). Direct investment enterprises are entities that are either directly or indirectly owned by the direct investor. A direct investment enterprise may be: a) a subsidiary: an enterprise of which more than 50% is owned by a non-resident investor; b) an associate: an enterprise of which 10% to 50% is owned by a non-resident investor; or c) a branch or an unincorporated enterprise wholly or jointly owned by a non-resident.

B.5. Foreign direct investment flows

Figure B.5.1. G7 countries' assets,¹ 1997-2008

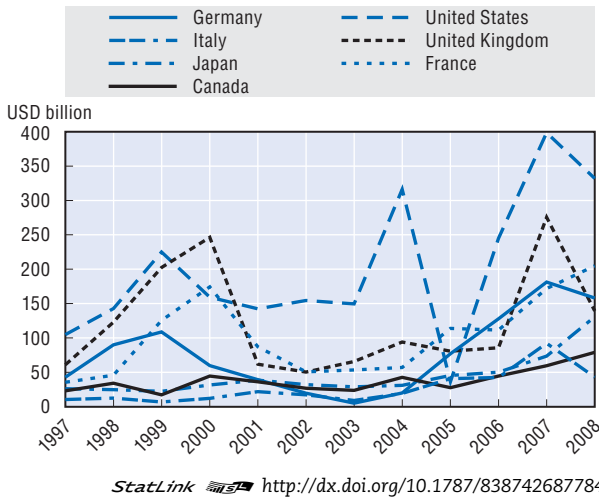


Figure B.5.2. G7 countries' liabilities,² 1997-2008

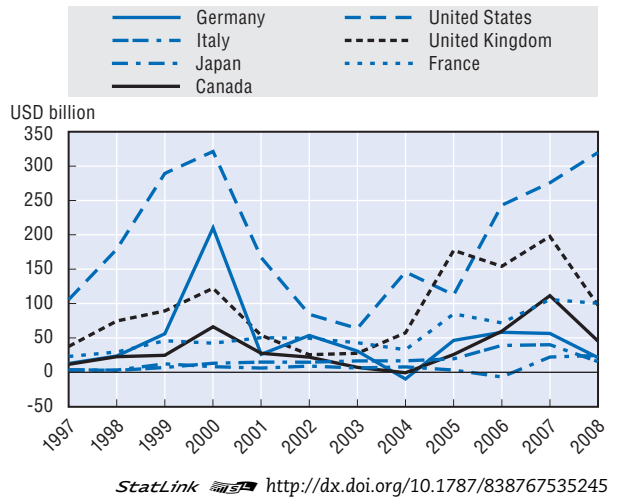


Figure B.5.3. Average assets,¹ 2005-08

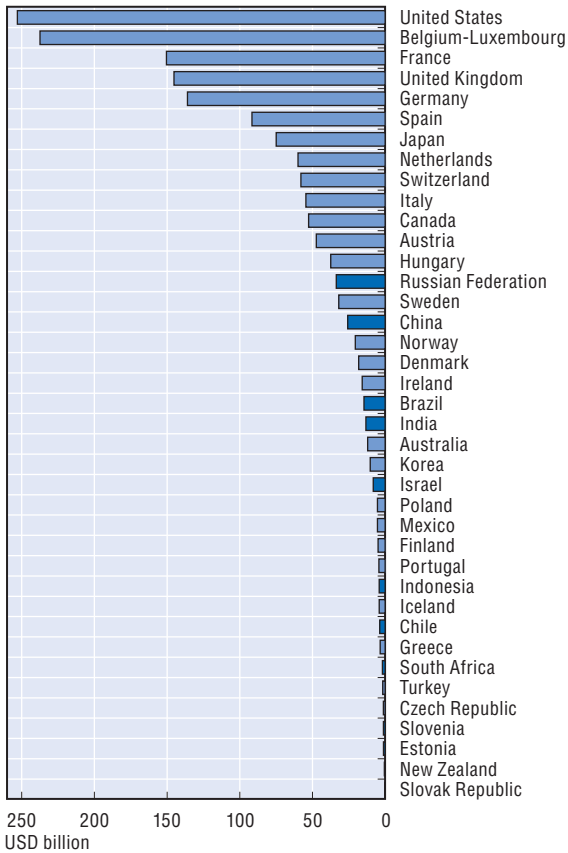
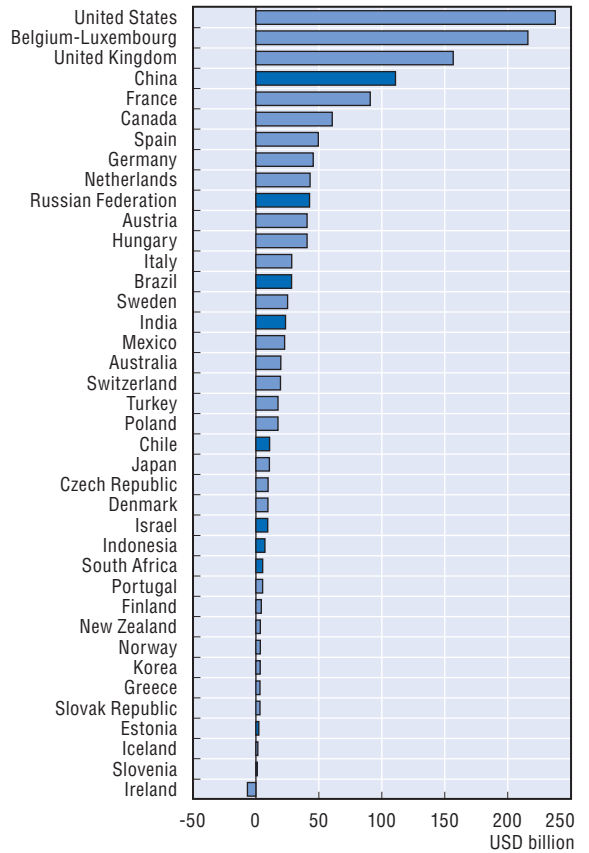
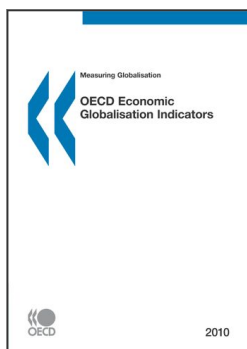


Figure B.5.4. Average liabilities,² 2005-08



1. Assets = outward investment flows.
2. Liabilities = inward investment flows.

Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.



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