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SESSION IIB: ASYMMETRIES IN PARTNER COUNTRY DATA

FDI STATISTICS, THE PROBLEM OR THE SOLUTION IN MEASURING GLOBALISATION?

Note by the Netherlands Central Bank[1]

"Given the defects of balance of payments data, and the lack of a clear connection with Foreign Direct Investment (FDI) production, my conclusion is that, for large groups of countries, they are a dead end for research on the effects of FDI and are not worth pursuit or efforts at refinement"

Robert E. Lipsey

[1] This paper has been prepared at the invitation of the secretariat.

I. INTRODUCTION

1. Globalisation has long been high on the agenda of politicians and researchers, but is also posing ever-greater challenges for statisticians. Owing to the ongoing expansion of multinationals, the extension of multi-country business chains, financial innovations and the liberalisation of capital movements, the internationalisation of the business community has become an increasingly complex process – which raises the question: can this process still be adequately measured by statistics on foreign direct investment (FDI), i.e. cross-border shareholdings between companies and, for instance, intra-group loans? During a symposium in 2006 on the impact of FDI on economic growth, Emeritus Professor Lipsey described balance-of-payments data as “a thick fog” and even “a dead end for research”. This was his conclusion as an expert, after years of painful efforts to use these data as a basis for research. He was not alone in voicing such concerns: international institutions such as UNCTAD and the OECD, which devote special publications and statistics to direct investments, have long been aware of the proliferating interpretation problems and the ensuing new challenges to statisticians.

2. This paper takes a closer look at the problems as well as the (initial) solutions that OECD countries have developed over the past three years in connection with an update of the Benchmark Definition of Foreign Direct Investment, the “bible” for FDI statisticians, which is periodically revised by the OECD in collaboration with other international institutions. The new version contains refinements and improvements as will e.g. the new IMF Balance of Payments Manual and an imminent IMF worldwide survey into international investment positions, the Coordinated Direct Investment Survey aimed at, inter alia, improving bilateral comparability of FDI figures.

3. The compilers of FDI statistics, national central banks and/or statistical agencies, not only face the challenge of continuing to produce meaningful FDI data, but are simultaneously under mounting pressure to work more efficiently and reduce the corporate reporting burden. Various European initiatives have recently been launched to make progress in these fields as well. These are the subject of the second part of this paper.

4. The conclusion is that, notwithstanding all the recent efforts to make improvements, there is every reason to continue interpreting FDI data with a critical eye. For the fog has not yet fully lifted. However, more intensive international cooperation, the exchange of data, including micro data, can help to improve the quality of FDI statistics and make these a still more useful tool.

II. FOUR CHALLENGES IN MEASURING DIRECT INVESTMENT DATA

A. Inflation of the FDI figures

5. Direct investments are measured to provide policymakers and researchers with insight into e.g. the correlation between inward investments and economic growth, and thus also into the opportunities for influencing growth and the investment climate. Extensive research into this subject has so far failed to yield hard-and-fast results in the academic literature. In the past decades researchers were confronted with data suggesting that direct investments were growing much more strongly than production. Within the OECD, the upward FDI trend was particularly noticeable in several smaller countries such as the Netherlands, Luxembourg and Ireland,

countries with a long-standing appeal to foreign investors. According to the US Bureau of Economic Analysis, the Netherlands attracted over USD 50 billion in 2006, making it the most important European destination for investment capital from US companies in that year.

6. One important cause for the strong increase in the FDI data of many countries is that certain countries are increasingly acting as an intermediate station for international capital flows. As such, their FDI data do not accurately reflect “genuine” direct investments but present an inflated picture. FDI “inflation” stems from various sources. The host country may be an important financial centre and have a sophisticated financial infrastructure. Tax advantages, often based on tax treaties between the host and other countries, is usually also a key factor. Sometimes the various factors all reinforce each other. This applies to the Netherlands, for instance, which explains the presence of more than 12,000 “special purpose entities” (hereinafter SPEs) in the Netherlands.

7. SPEs – viewed from the country of the compiler – are companies with a foreign parent that produce virtually nothing and often do not even have a physical establishment. In such a case they are only registered with the Chamber of Commerce, at the address of a trust office (a corporate services enterprise) that takes care of their administrative obligations. SPEs act chiefly as a financial turntable, e.g. as a holding company, through which a parent company channels investments to third countries, or as a financing company (also called a conduit), which obtains or places money in the international capital market for the benefit of other group members.

8. The assets and liabilities of SPEs are therefore predominantly foreign and can greatly inflate the direct investment data. Due to the activities of SPEs, the inflow of FDI capital measured by a country is no longer a reliable yardstick of its attractiveness for foreign investment in companies that actively engage in the production of goods and services. The fixed assets of SPEs are negligible and the value of their intragroup services is minute compared to the size of the inward amounts they receive. Similarly, outward capital flows, if not adjusted for those reported by SPEs, fail to give a fair picture of the extent to which investments by productive companies from the investing country create or influence production and employment in other (host) countries.

9. The fact that figures can be inflated has long been recognised, but mainly in the context of e.g. amounts transferred between companies belonging to the same group and which, as it were, cross each other en route. For instance, a parent company in country 1 can invest in a company in country 2 which, in turn, takes a small interest in the parent. In compiling the balance of payments, it is usual in such cases to deduct the “reverse” investment by the company in country 2 (at least if it is not too large; there are rules to determine this) from the investment by the parent in country 1. Offsetting the two investments considerably reduces the inflation of data both in country 1 and in country 2. Similar, less strict rules exist for loans (between entities that are in a direct investment relationship).

10. Until recently it was widely assumed that netting was a sufficient antidote for the inflation caused by capital moving to and fro between group members. But with the advent of specialised companies dedicated to redistributing ever-larger amounts within multinational groups, this assumption looks increasingly doubtful. These specialised treasury centres not only lend funds to e.g. parents or subsidiaries – which fall within the FDI netting rules – but also to fellow

enterprises that do *not* yet fall within the netting rules. If such treasury centres purely acted as pass-through entities, then they could still be treated separately, just like SPEs; if so, however, “genuine” investments too would be eliminated from the outward investment data.

11. Ideally, investments on the company’s balance sheet should be viewed on a case-by-case basis to see whether they relate to genuine economic activities or to funds that are merely being channelled through. Unfortunately, however, it is not immediately clear from a company’s balance sheet whether an *outward* direct investment was ever financed with an *inward* direct investment, which was specifically intended for that purpose, or with other funds. The stated amounts, after all, do not carry date labels. This “fungibility problem” poses great difficulties in identifying pass-through capital, which is why the term “pass-through” can only be accurately defined for companies with predominantly foreign assets *and* liabilities.

B. Distortion of geographical breakdowns

12. Because capital flows through ever-longer investment chains or ever more complicated investment “trees”, there is a second problem, namely that in the case of a direct investment the country of the direct foreign counterparty is often no longer the country where the investor – *the first non-SPE* in a possibly longer chain – is resident. Likewise it may not be the country in which the resident reporting company ultimately invests. The aforementioned large investments by the US in the Netherlands already illustrated that the phenomenon of pass-through investments not only distorts the data for the Netherlands, but also the geographic breakdown of the outward flows from the US. A similar problem confronts countries that want to identify the countries that are behind high inward investments from the Netherlands via Dutch SPEs. In addition, FDI data on inward investments give no indication of the head office country where the investment *decision* was made. This could be a different country from the country of the company that has been instructed by the head office to make the investment.

13. In practice it can also happen that an investment chain starts and ends in one and the same country after circulating through several foreign SPEs. In this case, that country’s data for both outward and inward direct investments are not inflated by a *domestic* SPE but by the *round tripping* of capital via *foreign* SPEs. Note incidentally that a non-resident SPE can also inflate the inflow of FDI on its own, for instance if that foreign SPE transfers money to a domestic parent which uses that foreign subsidiary-SPE to obtain money through bond issues. If the domestic parent had issued the bonds itself, no FDI would have been recorded in the first place. [2]

14. So the phenomenon of pass-through funds not only distorts the figures of the countries through which the funds are passed, but also, and in various ways, the data of non-SPE countries, particularly the geographical allocation of direct investments in or through these countries. So there seem to be justified concerns that FDI data have become a less reliable indicator of, for instance, the attractiveness of countries to foreign investors and of the countries in which a country plays a role through investments made in the context of economic globalisation.

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[2] The OECD Benchmark Definition of FDI prescribes that the transfer by the foreign subsidiary to the domestic parent in the latter’s country be recorded as a negative outward investment. This also does not make the figures any easier to interpret, as it may lead to some understatement of the genuine outward investments.

C. Lack of clarity about the nature of FDI: merger, acquisition, greenfield, restructuring?

15. When it comes to analysing direct investment figures, it is not only important to have undistorted levels and geographical allocations; users are naturally also interested in data that indicate the economic impact of direct investments. So far, however, direct investment data gave no explicit information on whether e.g. the investment involved an acquisition of a company or a merger between existing companies to form a new combined company. In both cases, new management may bring a wind of change to the company with consequences for the existing production activities and jobs. Another wish is to obtain data on investments in new buildings and machinery, known as *greenfield* investments. With investments in developing countries, it is precisely this type of investments that is considered to contribute most towards the country's development and economic growth. A third possibility is that the direct investments are made as part of a financial restructuring. In this case a company will receive capital to repay debts, without this necessarily leading to an increase in its balance sheet total, the purchase of new production assets or the creation of employment. Though this distinction between various types of direct investments is extremely important, only a few countries like Japan currently already produce figures that contain this breakdown.

D. The relationship between FDI and economic activity may be weaker than assumed

16. Even if the FDI data were free of all the above distortions, the question remains: what do the data say about the relationship between FDI and economic growth? After all, a company can start up activities with a modest initial capital from the foreign parent (i.e. inward FDI) but then greatly expand these with domestic bank loans (no FDI) or bond issues in the international capital market (not FDI either). Though the balance sheet of that company will show only a small amount of equity and inward direct investments, the foreign parent can still control substantial economic activities in the local economy. In this case, low direct investments can coincide with substantial foreign-driven job creation. Vice versa, a domestic company may receive a large amount from a foreign parent, but use this to purchase a foreign factory. A substantial amount of FDI will then lead to relatively low job creation.

17. So there is no one-to-one relationship between FDI and economic activity. Added to this, high inward direct investments from a country do not necessarily mean that the country also has a lot of influence on the economic environment in local business and industry. Inward FDI data, for instance, do not show whether these represent majority or minority interests in domestic companies.

18. It can be concluded that current FDI data do constitute an indicator for globalisation but one that needs to be treated with caution for two reasons: 1) overstatement, geographical distortions and lack of clarity about the nature of the investment (greenfield versus acquisition), and 2) the frequently weak relationship between FDI and economic activity.

III. METHODOLOGICAL IMPROVEMENTS TO MEET THE CHALLENGES

19. Over the past three years, an OECD working group has devoted extensive attention to revising the Benchmark Definition of Direct Investment (BD), an OECD manual that sets the

standard and is used around the world for the compilation of FDI data. Other international institutions were also involved in this process, namely the IMF, Eurostat, ECB and also UNCTAD in its capacity as an important user and producer of FDI statistics (for an even wider range of countries). The recently completed new version of the BD contains a number of improvements which are to be incorporated for the first time in the data compiled for 2009.

A. The separation of pass-through capital by distinguishing SPEs from non-SPEs

20. The OECD countries have agreed first of all to report direct investments of SPEs and non-SPEs separately in the future. These will be published in the FDI Yearbook of the OECD. Restricting "genuine" direct investments to those of non-SPEs will considerably reduce the inflation of the direct investment data, particularly in the case of countries where many SPEs are based. These figures are expected to be some 75 per cent lower for the Netherlands[3], and even 90 per cent lower for Luxembourg.[4]

21. The new BD contains a number of guidelines to facilitate the identification of SPEs (as described in section II.A). For the time being, the SPEs that are to be separately identified, will be limited to institutions with a foreign parent and predominantly foreign assets and liabilities. The guidelines make it easier to identify pass-through funds, though this also depends on the size of the country where the status of the entity (i.e. SPE or non-SPE) has to be determined. For instance, an intermediate entity in a small country like Luxembourg has a big foreign area and will therefore more quickly qualify as an SPE than an entity based in a large area like Europe. The intermediate entity could be an SPE in Luxembourg if it passes funds between the US and Japan, but if it also passes considerable funds between Germany and France, i.e. within Europe, it would also have substantial European, i.e. "domestic" assets and liabilities and, consequently, not be an SPE at European level. The disadvantage is that in this case the pass-through transactions between the US and Japan would not be separated from the European figures; however, these transactions would also constitute a much smaller percentage of the European figures.

B. Less overstatement through netting positions/transactions between fellow enterprises

22. In the new BD, overstatement of direct investment data is also tackled through extending the rule for the netting of reverse flows and positions (the so-called directional principle). This option is currently still restricted to parents and subsidiaries, but will also become applicable to "fellow enterprises". In the new BD two companies are treated as "fellow enterprises" if a third company has a direct or indirect interest (of at least ten per cent) in both companies, i.e. if the two companies have a common direct investor above them.[5] The offsetting of loans between fellow enterprises is expected in particular to reduce the inflation of data relating to the treasury function of certain members of multinational groups.

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[3] DNB, which compiles the FDI data for the Netherlands, already introduced the distinction between SPEs and non-SPEs in its own publications in 2006.
[4] Website of the Banque Centrale du Luxembourg
[5] Fellows need not both be controlled (directly or indirectly) by that investor. Two companies are already called fellows if a third company has a (direct or indirect) interest of 10 per cent in each one.

23. To ensure that the new – and more extensively netted– data are mutually comparable, it is of course vital that the countries compile their data according to the same definitions. To ensure this, the new OECD manual also describes in greater detail when a direct investment relationship exists between two companies and when they are "fellow enterprises".

C. Better geographical allocations by looking through foreign SPEs

24. To achieve a better country allocation (in supplemental presentations) the new BD recommends that compilers should look through foreign "empty shells" to the country (and the industry) of the real investor or of the operating company in which the investment is actually made. This implies new demands for both the compiler and the reporter: for each position with a foreign SPE each company would have to indicate the origin or destination of the capital beyond the SPE. Because of the aforementioned "fungibility problem" it is not directly clear how this should be done, because an SPE can receive funds from several countries simultaneously and then pass these on to several other countries. In addition, different kinds of capital can be mixed (FDI capital, portfolio capital and so on) and transformed within an SPE. Finally, it may be difficult, if not impossible, for reporters to trace the requested information and to determine whether the foreign counterparty is a SPE.

25. To resolve this problem the BD also suggests that compilers in countries with numerous SPEs could assist compilers in other countries by collecting micro-information that they have received from these SPEs in matrices. By way of a pilot for the Netherlands, DNB has already made such an "Origin and Destination" matrix indicating, for instance, what amounts have been invested from France in Dutch SPEs and the countries in which these SPEs subsequently invested that capital. In this example of French outward direct investments via the Netherlands it could be helpful to the French compiler and users if from the matrix at least the first "station" after the Netherlands could be derived on the route that the capital is following to its final destination(s). Linking up such matrices for several countries can make it easier to look through chains of SPEs, even though this will not always be possible (or make sense) for longer chains. However, the matrix has already produced some interesting findings about e.g. the degree of round-tripping via the Netherlands. [6]

D. Information on the ultimate decision-makers behind inward investments

26. Many users of FDI data are particularly interested to know the resident countries of the investors who ultimately control the inward positions in a country. The new BD therefore recommends compilers to collect information indicating who is the ultimate foreign investor, even where a company has several investors (with minority interests). These investors, in turn, each will mostly have their own "ultimate controlling parent" (UCP), in which case the BD recommends that the inward amounts be attributed to the countries of these individual UCPs.[7]

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[6] The presentation is provisionally based on a (simple) proportional attribution to each other of inward and outward amounts. This is to say that if, for instance, 80% of all liabilities of an SPE come from the UK, then it is assumed that 80% of all assets is financed with funds from the UK.

[7] In the new BD it is also relevant whether a company has a foreign or a domestic UCP. In the first case, for instance, loans from foreign "fellows" are recognised as inward capital, in the latter case as negative outward

E. Information on the nature of FDI

27. A final recommendation concerns compiling extra presentations in which a distinction is made between mergers and acquisitions, on the one hand, and other types of direct investments on the other. Apart from the OECD itself, particularly users such as UNCTAD can benefit from such information when analysing developments in developing countries.

IV. REMAINING CHALLENGES

28. Thanks to methodological improvements in the new BD users can look forward to less inflated FDI data in the coming years, with a better geographical allocation and, insofar as inward positions are concerned, a supplemental presentation that also indicates the countries where the ultimate decision is made regarding these positions. FDI data will however remain difficult to interpret in some cases, for which reason the OECD has started up an extensive follow-up study of a number of issues this year.

A. Companies that channel capital from their resident country to a foreign country

29. After adjustment for foreign pass-through capital, outward investments still include the domestically raised capital that is transferred out of a country by small enterprises that were exclusively set up in that country for this purpose by their parents. Like SPEs such companies exclusively serve as a pass-through entity, but have too many domestic liabilities to be called SPEs. Their transfers from their resident country to the foreign parent thus continue to be included in the FDI data. Even so, these are not genuine investments by a domestic company, nor are they “reverse investments” abroad, which can be offset with previous inward investments from the parent company.[8] The challenge therefore remains to think up better alternatives for these implications.

B. The absence of points of gravity in multinationals

30. Even with improved geographical allocations of direct investments, the actual significance of this remains open to question if, for instance, the multinational has its top management in a specific country while its companies are spread over a large number of countries. The centre of economic gravity of such a multinational need not coincide with the country where the top management resides: the top management of a group which is known worldwide to be, for instance, American may even be based in a tax paradise. Furthermore, recent research of the OECD underlines that the distribution of the production of goods and services over an ever-larger number of countries also makes it necessary to see geographical breakdowns of foreign trade and direct investment data in a new light.[9]

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capital. This rule contributes to the netting of funds that move to and fro between fellows and thus inflate the FDI data. For the sake of simplicity, this netting is not explicitly restricted to fellows with the same UCP but can also be applied between fellows with different UCPs.

[8] Added to this, the offsetting rules entail that the outward amount must be deducted from the inward investments in the country of the quasi-SPE and the outward investments in the country of the parent. This shows that the current rules can also lead to deflation of “genuine” direct investments.

[9] The measurement of globalisation using international input-output tabels, OECD, April 2008

C. FDI and the activities of multinational companies

31. One important outstanding issue is that direct investments describe financial relationships in the first place and that there need not be an actual relationship between an entity's financial position and its economic activities, which can be either much greater or much smaller than indicated by the FDI positions. It would nevertheless be desirable if a link could be established with existing statistics where information on turnover, employment and (foreign) control is combined, such as in the Foreign Affiliates Statistics, which are already produced by many countries. A link-up with these Foreign Affiliates Trade in Services (FATS), which incidentally concerns majority interests, could be made easier if majority interests could also be segregated from direct investment figures in the future.

V. ROOM FOR QUALITY IMPROVEMENT BY A MORE EFFICIENT COMPILATION OF FDI DATA

32. For statisticians it is a permanent challenge to continue hitting a moving target and making meaningful statistics in a rapidly changing world. As we saw above in relation to direct investments, this sometimes means that they need to collect additional information. This presents statisticians with a second, equally important challenge: to create more efficient ways of obtaining and processing information, taking account of the reporting burden on companies. This development has also accelerated over the past years. In addition, there is a growing awareness among central banks and national statistical institutes that more international cooperation can help in this context and that in this respect too the statistical process is undergoing globalisation.

33. In Europe, for instance, cooperation in the field of statistics has been stimulated by the formation of a European Union and later a monetary union, leading to a steadily growing need for statistics that enable policymakers to retain an overall view of the steadily expanding group of countries. The importance of good national data to achieve reliable overall data for groups of countries has provided an impulse for the extensive exchange of information, not only in terms of numerical data but also on national statistical processes. The ECB and Eurostat used to play an initiating role in this context. Recently, further new initiatives were taken to produce better statistics through more cooperation and sharing of information.

A. The EuroGroups Register

34. Eurostat, in conjunction with several European countries, has recently started the process of setting up a EuroGroups Register (EGR). As a first step, the EGR could become a register containing all European companies belonging to the world's largest multinationals. The EGR is to be filled with information on group structures from commercial companies that have made it their business to describe those structures. This information could then be enriched by national statistical authorities. Among other things, the EGR should provide insight into group structures, particularly the location of the group's headquarters (in Europe or elsewhere). European companies are already reporting these data for FATS, but not all companies included in FATS do this with equal consistency. Take, for instance, an investment chain that starts in the US and ends via Germany and a Luxembourg-based SPE in Italy. The German link could correctly report that its parent is American, while the Italian subsidiary, due to lack of information, might designate the German company as its parent. Such inconsistencies can be reduced if compilers and/or

companies are all able to consult the same information on worldwide organisational structures. In the future the EGR will also allow national compilers to rapidly find out what place an individual reporter occupies within a multinational group.

35. The EGR combines the possibilities of both improving the quality of the data and simplifying the data collection process. For instance, looking through (national) SPEs in European countries would become simpler if SPEs were recognisable as such in the EGR.

36. In the future, the EGR can also form the frame of reference for countries that want to exchange micro-information on companies. Data on direct investments of country A in country B are currently still compiled in both country A and country B. In the current situation, the reported figures are more often different than identical. Such asymmetries could only be dealt with effectively by getting compilers to exchange and compare data on the important companies, i.e. companies in the EGR, so that their causes can be traced. The abovementioned Coordinated Direct Investment Survey (CDIS) by the IMF is yet another illustration of the importance compilers and international organisations attach to consistency as an indicator of quality.

37. Clearly, the confidentiality of data must be protected by European regulations and strict rules govern the exchange of data between compilers. However, exchanging data for *compilation* should not be a problem; this, after all, is a completely different matter from *publication.* The great value that European politicians attach to reliable and practical statistics justifies serious efforts to lay down more effective regulations for the exchange of micro-information. The current adjustments to the regulations in the European System of Central Banks (ESCB) and the European Statistical System (ESS) -- Eurostat and the national statistical institutes -- provide an excellent opportunity for this. Now it is not only the time to take away any remaining barriers within the two systems but also between the systems. A clear case is the compilation of the highly interrelated FDI statistics and FATS-statistics, which is done, usually for good reasons, by different national institutions (central banks and/or national statistical institutes). For high quality FDI and FATS statistics, also at an European level, an exchange of micro-data would seem to be indispensable. Of course, strict arrangements should be made that prevent micro-data to be used outside the ESCB and the ESS for purposes for which they are not intended.

38. Once procedures for minimising asymmetries have been developed, it is worth exploring whether cross-border transactions between two European companies from the EGR still need to be recorded in both countries. Unilateral observation of e.g. the outward investment flows would greatly reduce the reporting burden. Clearly, this vision of a rosy future can only turn into bright reality after the currently still existing practical obstacles have been removed and countries start to synchronise their processes for compiling statistics.

39. In the future, the EGR could also serve as a peg on which to hang numerous other statistical improvements. Once the EGR is sufficiently filled with companies, random samples could be drawn for focused surveys into specific subjects such as transfer pricing (price-setting within groups in a manner that may hide, for instance, direct investments). More particularly, the EGR could also provide a basis for the aforementioned study into the relationship between FDI and growth, i.e. between e.g. inward direct investments and the influence of foreign companies on economic activity in Europe. Given all these possibilities, it is clear that Eurostat and the ESCB should work together in developing the EGR.

B. Globalisation indicators

40. Any efforts of statisticians to bring together statistics on all sorts of globalisation aspects, for the benefit of interested parties, are to be welcomed. The OECD Handbook of Globalisation Indicators is a great help in this connection. Investigating the correlation between these indicators – which is obviously at least as important as the indicators themselves – is also one of the subjects high on the agenda of the OECD. Statistics Netherlands (CBS) recently made a start with this exercise, which is supposed to result into the publication of a Globalisation Monitor, which will combine data on all kinds of globalisation aspects, including the direct investment figures of De Nederlandsche Bank.

41. Now more than ever it is important for compilers to be aware of the many uses to which a wealth of statistics can still be put and, in addition, to consider exploring new paths alongside the well-trodden highways, also when it comes to publishing and promoting the transparency of data. This was recently succinctly expressed by Enrico Giovannini, chief statistician of the OECD, when he said: "…communication is not just an appendix of the core business focused on data, but a key function that can determine the success or failure of a data provider." If there is one set of statistics where this certainly holds true it is the FDI statistics of the OECD itself.

C. National specialization within a European network of compilers

42. A new idea currently being considered within Europe, also within the ESCB, is to simultaneously improve the quality and efficiency within the system by exploiting existing (e.g. national) comparative advantages in the compilation process and promoting the development of new ones. One suggestion deserving more consideration is the idea of pooling micro-information on direct investments, which could eventually also open up possibilities for a more centralised compilation of direct investment data for shared use by the ECB and national compilers.

43. If statisticians in Europe would start to share certain tasks for the compilation of European data, depending on their comparative advantage, the statistical system could gain efficiency. For instance, a country with lots of know-how in the field of a specific balance of payments component or experience with the efficient gathering of data for it, could use that expertise for the benefit of the euro area as a whole. One could even imagine that the task of compiling FDI figures for the euro area, currently produced by the ECB, could be shared with one or more national compilers. This could give rise to an efficient bottom-up structure of compilers and competence centres that jointly form the "European statistical function".

44. The role of a "competence centre", involving the participation of e.g. several national compilers, could extend beyond the function of receiving and collating national macro data into European aggregates. If micro data were also brought together in central databases, it would be possible to improve the quality of the data by bilateral comparisons. These comparisons could then be carried out in a more systematic manner instead of on an ad-hoc basis, as currently still happens between countries in the case of large transactions (usually direct investments).

D. Sharing knowledge, experience and tools

45. More intensive international cooperation has also increased the interest of compilers in each other's best practices in making statistics. Over the years, for instance, this has prompted a growing number of balance-of-payments compilers to opt for a system of surveys on transactions with foreign countries, so that data are reported directly by the companies themselves instead of by the banks who settle the transactions. This has led to an enormous quality improvement in the field of e.g. direct investments because it also makes it much easier to ask companies for other information that is useful for checks on e.g. the reconciliation of transactions and positions.

46. Other ongoing developments concern the increasing mobilisation of everything that modern technology has to offer for improving the efficiency of the entire compilation process and for enhancing the quality of (FDI) data as well as intensifying the cooperation between national central banks and statistical institutes. [10]

VI. CONCLUSION

47. Figures on direct investments are important sources for analysing globalisation. In recent years, however, these no longer always meet the need of researchers and politicians for a meaningful geographic analysis of data that also give an indication of the economic impact of FDI. Thanks to recent methodological improvements made in the OECD context, together with the IMF and other international institutions, that situation is now set to improve. Among other things, SPEs and non-SPEs will be distinguished, additional information on mergers and acquisitions can be expected and there will also be more insight into the country where the ultimate decision on inward investments is taken.

48. Meanwhile, the link between FDI statistics and all sorts of other globalisation indicators is further studied. This may well be the biggest challenge for statisticians: due to the ever-growing complexity of investment patterns and financial structures, the relationship between FDI and economic activity is increasingly weakening.

49. Refinements are necessary to obtain easy-to-interpret FDI data, which will inevitably require statisticians to collect additional information. Perhaps more than before, statisticians will first have to look for data that are readily available, possibly also from commercial dataproviders, before introducing new reporting requirements. To the extent the latter are unavoidable, it is not the compilers who are to blame for this: it is the process of globalisation itself that demands extra efforts to continue making meaningful statistics. Meanwhile, compilers can strive for greater efficiency by seeking more intensive cooperation. Exchange of micro-information should no longer be a problem once everyone realises that national central banks and national statistical institutes do this as independent bodies for compilation purposes, and not for publication.

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[10] Examples of this abound. For the Netherlands we can mention the introduction of electronic reporting (e-Line), a new set of validation tools (SIRIUS) and the joint aspiration of DNB and Statistics Netherlands to reduce the corporate reporting burden.

50. Perhaps these joint efforts will, in the coming years, allow the sun to break through the fog that Professor Lipsey saw, so that we can all start making faster progress. FDI statistics will undoubtedly continue to cause compilers many headaches, and therefore be called a *problem* but they also provide the *solution* for policy and research on globalisation. In short, FDI data may well be both the problem *and* the solution in measuring globalisation!

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