DEFINITIONS AND SOURCES

A. General definitions

1. Transnational corporations

Transnational corporations (TNCs) are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake. An equity capital stake of 10% or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered the threshold for the control of assets.[1] A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, that is a resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10% for an incorporated enterprise, or its equivalent for an unincorporated enterprise). In *WIR*, subsidiary enterprises, associate enterprises and branches – defined below – are all referred to as foreign affiliates or affiliates.

- A *subsidiary* is an incorporated enterprise in the host country in which another entity directly owns more than a half of the shareholder's voting power, and has the right to appoint or remove a majority of the members of the administrative, management or supervisory body.
- An *associate* is an incorporated enterprise in the host country in which an investor owns a total of at least 10%, but not more than half, of the shareholders' voting power.
- A *branch* is a wholly or jointly owned unincorporated enterprise in the host country which is one of the following: (i) a permanent establishment or office of the foreign investor; (ii) an unincorporated partnership or joint venture between the foreign direct investor and one or more third parties; (iii) land, structures (except structures owned by government entities), and /or immovable equipment and objects directly owned by a foreign resident; or (iv) mobile equipment (such as ships, aircraft, gas- or oil-drilling rigs) operating within a country, other than that of the foreign investor, for at least one year.

2. Foreign direct investment

Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate).[2] FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities.

Flows of FDI comprise capital provided by a foreign direct investor to an FDI enterprise (either directly or through other related enterprises), or capital received from an FDI enterprise by a foreign direct investor. FDI has three components: equity capital, reinvested earnings and intra-company loans.

- *Equity capital* is the foreign direct investor's purchase of shares of an enterprise in a country other than its own.
- *Reinvested earnings* comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested.
- *Intra-company loans or intra-company debt transactions* refer to short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

FDI stock is the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprise. FDI flow and stock data used in *WIR* are not always defined as above, because these definitions are often not applicable to disaggregated FDI data. For example, in analysing geographical and industrial trends and patterns of FDI, data based on approvals of FDI may also be used because they allow a disaggregation at the country or industry level. Such cases are denoted accordingly.

3. Non-equity forms of investment

Foreign direct investors may also obtain an effective voice in the management of another business entity through means other than acquiring an equity stake. These are also non-equity forms of investment, which include, *inter alia*, subcontracting, management contracts, turnkey arrangements, franchising, licensing and product-sharing. Data on these forms of transnational corporate activity are usually not separately identified in balance-of-payments statistics. These statistics, however, usually present data on royalties and licensing fees, defined as "receipts and payments of residents and non-residents for: (i) the authorized use of intangible non-produced, non-financial assets and proprietary rights such as trademarks, copyrights, patents, processes, techniques, designs, manufacturing rights, franchises, etc., and (ii) the use, through licensing agreements, of produced originals or prototypes, such as manuscripts, films, etc."[3]

B. Availability, limitations and estimates of FDI data presented in *WIR*

FDI data have a number of limitations. This section therefore spells out how UNCTAD collects and reports such data. These limitations need to be kept in mind also when analyzing the size of TNC activities and their impact.

1. FDI flows

Data in **annex table B.1**, as well as in most of the tables in the text, are on a net basis (capital transactions' credits less debits between direct investors and their foreign affiliates). Net decreases in assets (outward FDI) or net increases in liabilities (inward FDI) are recorded as credits (recorded with a positive sign in the balance of payments), while net increases in assets or net decreases in liabilities are recorded as debits (recorded with an opposite sign in the balance of payments). In the annex tables, as well as in the tables in the text, the opposite signs are reversed for practical purposes in the case of FDI *outflows*. Hence, FDI flows with a negative sign in *WIR* indicate that at least one of the three components of FDI (equity capital, reinvested earnings or intra-company loans) is negative and is not offset by positive amounts of the other components. These are instances of reverse investment or disinvestment.

UNCTAD regularly collects published and unpublished national official FDI data flows directly from central banks, statistical offices and other national authorities on an aggregated and disaggregated basis for its FDI/TNC database (www.unctad.org/fdistatistics). These data constitute the main source for the reported data on FDI. The data are further complemented by data obtained from: (i) other international organizations such as the International Monetary Fund (IMF), the World Bank and the Organisation for Economic Co-operation and Development (OECD); (ii) regional organizations such as the ASEAN Secretariat, European Bank for Reconstruction and Development (EBRD), Banque Centrale des Etats de l'Afrique de l'Ouest, Banque des Etats de l'Afrique Centrale and the Eastern Caribbean Central Bank; and (iii) UNCTAD's own estimates.

For those economies for which data were not obtained from national official sources, or for those for which data were not available for the entire period of 1980-2007 covered in the *World Investment Report 2008 (WIR08)*, data from the IMF were obtained using the IMF's *International Financial Statistics* and *Balance of Payments Statistics Online*, July 2008. If the data were not available from the above IMF data source, data from the IMF's *Country Report*, under Article IV of the IMF's Articles of Agreements, were also used.

For those economies for which data were not obtained from national official sources and the IMF, or for those for which data were not available for the entire period of 1980-2007, data from the World Bank's *World Development Indicators Online* were used. This report covers data up to 2006.

Data from the EBRD's *Transition Report 2007* were utilized for those economies in the Commonwealth of Independent States for which data were not available from one of the above-mentioned sources.

Furthermore, data on the FDI outflows of the OECD, as presented in its publication, *Geographical Distribution of Financial Flows to Developing Countries*, and as obtained from its online databank, were used as a proxy for FDI inflows. As these OECD data are based on FDI outflows to developing economies from the member countries of the Development Assistance Committee (DAC), OECD,[4] inflows of FDI to developing economies may be underestimated.

Finally, in those economies for which data were not available from either of the above-mentioned sources, or only partial data (quarterly or monthly) were available, estimates were made by:

a. annualizing the data, if they are only partially available (monthly or quarterly) from either national official sources or the IMF;
b. using the mirror data of FDI of major economies as proxy;
c. using national and secondary information sources;
d. using data on cross-border mergers and acquisitions (M&As) and their growth rates; and
e. using specific factors.

A more detailed methodology for each economy on data collection, reporting and estimates for *WIR08* is provided in the WIR home page: www.unctad.org/wir. Longer time-series data are also available on its site or FDI statistics home page, www.unctad.org/fdistatistics.

2. FDI stocks

Annex table B.2, as well as some tables in the text, presents data on FDI stocks at book value or historical cost, reflecting prices at the time when the investment was made.

As in the case of flow data, UNCTAD regularly collects published and unpublished national official FDI stock data as well directly from central banks, statistical offices or national authorities on an aggregated and disaggregated basis for its FDI/TNC database (www.unctad.org/fdistatistics). These data constitute the main source for the reported data on FDI. The data are further complemented by data obtained from (i) other international organizations such as the IMF; (ii) regional organizations such as the ASEAN Secretariat; and (iii) UNCTAD's own estimates.

For those economies for which data were not available from national official sources, or for those for which data were not available for the entire period of

1980-2007 covered in the *WIR08*, data from the IMF were obtained using the IMF's *Balance of Payments Statistics Online*, July 2008. Finally, in those economies for which data were not available from either of the above-mentioned sources, estimates were made by either adding up FDI flows over a period of time, or adding or subtracting flows to an FDI stock that had been obtained for a particular year from national official sources, or the IMF data series on assets and liabilities of direct investment, or by using the mirror data of FDI stock of major economies as proxy.

A more detailed methodology for each economy on data collection, reporting and estimates for *WIR08* is provided in the WIR home page: www.unctad.org/wir. Longer time-series data are also available on its site or FDI statistics home page: www.unctad.org/fdistatistics.

C. Data revisions and updates

All FDI data and estimates in *WIR* are continuously revised. Because of ongoing revisions, FDI data reported in *WIR* may differ from those reported in earlier Reports or other publications of UNCTAD or any other international or regional organizations. In particular, recent FDI data are being revised in many economies according to the fifth edition of the *Balance of Payments Manual of the IMF*. Because of this, the data reported in last year's Report may be completely or partly changed in this Report.

D. Data verification

In compiling data for this year's Report, requests were made to national official sources of all economies for verification and confirmation of the latest data revisions and accuracy. In addition, websites of national official sources were consulted. This verification process continued until 4 July 2008. Any revisions made after this process may not be reflected in the *WIR*. Below is a list of economies for which data were checked using either of these methods. For the economies which are not mentioned below, the UNCTAD secretariat could not have the data verified or confirmed by their respective governments.

E. Definitions and sources of the data in annex tables B.3

Annex table B.3 shows the ratio of inward and outward FDI flows to gross fixed capital formation and inward and outward FDI stock to GDP. All of these data are in current prices.

The data on GDP were obtained from the UNCTAD *GlobStat* database, the IMF's CD-ROM on *International Financial Statistics*, June 2008 and the IMF's *World Economic Outlook*, April 2008. For some economies, such as Taiwan Province of China, data were complemented by official sources.

The data on gross fixed capital formation were obtained from the UNCTAD *GlobStat* database and IMF's CD-ROM on *International Financial Statistics*, June 2008. For some economies, for which data were not available for the period 1980-2007, or only part of the period, data were complemented by data on gross capital formation. These data were further complemented by data obtained from: (i) national official sources; and (ii) World Bank data on gross fixed capital formation or gross capital formation, obtained from *World Development Indicators Online*.

Figures exceeding 100% may result from the fact that, for some economies, the reported data on gross fixed capital formation do not necessarily reflect the value of capital formation accurately, and that FDI flows do not necessarily translate into capital formation.

Data on FDI are from annex tables B.1–B.2. Longer time-series data are available on WIR home page: www.unctad.org/wir or FDI statistics home page: www.unctad.org/fdistatistics.

F. Definitions and sources of the data on cross-border M&As in annex tables B.4–B.7

FDI is a balance-of-payments concept involving the cross-border transfer of funds. Cross-border M&A statistics shown in the Report are based on information reported by Thomson Financial. Such M&As conform to the FDI definition as far as the equity share is concerned. However, the data also include purchases via domestic and international capital markets, which should not be considered as FDI flows. Although it is possible to distinguish types of financing used for M&As (e.g. syndicated loans, corporate bonds, venture capital), it is not possible to trace the origin or country-sources of the funds used. Therefore, the data used in the Report include the funds not categorized as FDI. The UNCTAD database on cross-border M&As contains information on both ultimate and immediate host (target) and acquiring (home) country. From *WIR08*, all tables relating to cross-border M&As are tabulated based on the ultimate country principle unless otherwise specified. Thus, for example, a deal in which an Argentine domestic company acquired a foreign company operating in Argentina, this deal is recorded in such a manner that Argentina is the acquiring country and the foreign country is the target country.

FDI flows are recorded on a net basis (capital account credits less debits between direct investors and their foreign affiliates) in a particular year. On the other hand, M&A data are expressed as the total transaction amount of particular deals, and not as differences between gross acquisitions and divestment abroad by firms from a particular country. Transaction amounts recorded in the UNCTAD M&A statistics are those at the time of closure of the deals, and not at the time of announcement. The M&A values are not necessarily paid out in a single year.

Cross-border M&As are recorded in both directions of transactions. That is, when a cross-border M&A takes place, it registers as both a sale in the country of the target firm and as a purchase in the home country of the acquiring firm (annex tables B.4 and

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Number of countries: 142
Afghanistan, Albania, Algeria, Angola, Argentina, Armenia, Aruba, Austria, Bahamas, Bahrain, Bangladesh, Banque des Etats de l'Afrique Centrale (Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon), Banque Centrale de l'Afrique de l'Ouest (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo), Belarus, Belgium, Belize, Bermuda, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Brunei Darussalam, Bulgaria, Cambodia, Canada, Cape Verde, Chile, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Djibouti, Dominican Republic, Eastern Caribbean Central Bank (Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines), Egypt, El Salvador, Estonia, Fiji, Finland, Germany, Ghana, Greece, Guatemala, Guyana, Haiti, Honduras, Hong Kong (China), Hungary, India, Indonesia, Islamic Republic of Iran, Iraq, Ireland, Israel, Italy, Japan, Jordan, Kazakhstan, Kenya, Republic of Korea, Kuwait, Kyrgyzstan, Latvia, Lebanon, Lesotho, Libyan Arab Jamahiriya, Lithuania, Luxembourg, Macao (China), Malawi, Malaysia, Maldives, Malta, Mauritius, Mexico, Republic of Moldova, Montenegro, Morocco, Mozambique, Namibia, Netherlands, Netherlands Antilles, Nicaragua, Norway, Oman, Pakistan, Palestinian territory, Paraguay, Peru, Philippines, Poland, Portugal, Romania, Russian Federation, Rwanda, Saudi Arabia, Serbia, Seychelles, Sierra Leone, Singapore, Slovenia, South Africa, Spain, Suriname, Swaziland, Sweden, Switzerland, Syrian Arab Republic, Taiwan Province of China, The former Yugoslav Republic of Macedonia, Thailand, Trinidad and Tobago, Tunisia, Turkey, Uganda, Ukraine, United Republic of Tanzania, Vanuatu, the Bolivarian Republic of Venezuela, Zambia and Zimbabwe
Web-sites consulted in the preparation of *WIR08*
Number of countries: 170
Afghanistan, Albania, Angola, Argentina, Armenia, Aruba, Australia, Austria, Azerbaijan, Bahamas, Bahrain, Bangladesh, Banque des Etats de l'Afrique Centrale (Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon), Banque Centrale des Etats de l'Afrique de l'Ouest (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo), Banque des Etats de l'Afrique Centrale (Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon), Barbados, Belarus, Belgium, Belize, Bermuda, Bhutan, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, Burundi, Canada, Cape Verde, Chile, China, Colombia, Comoros, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Djibouti, Dominican Republic, Eastern Caribbean Central Bank (Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines), Ecuador, Egypt, El Salvador, Estonia, Ethiopia, Fiji, Finland, France, Gambia, Georgia, Germany, Ghana, Guinea, Greece, Haiti, Honduras, Hong Kong (China), Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kazakhstan, Kenya, Kuwait, Republic of Korea, Kyrgyzstan, Latvia, Lao People's Democratic Republic, Lebanon, Lesotho, Libyan Arab Jamahiriya, Lithuania, Luxembourg, Macao (China), Madagascar, Malaysia, Maldives, Malta, Mauritania, Mauritius, Mexico, Republic of Moldova, Mongolia, Montenegro, Morocco, Mozambique, Namibia, Nepal, Netherlands, Netherlands Antilles, New Zealand, Nigeria, Norway, Oman, Pakistan, Palestinian territory, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Romania, Russian Federation, Rwanda, Samoa, Serbia, Seychelles, Singapore, Slovakia, Slovenia, Solomon Islands, South Africa, Spain, Sri Lanka, Sudan, Sweden, Switzerland, Syrian Arab Republic, Taiwan Province of China, Tajikistan, The former Yugoslav Republic of Macedonia, Thailand, Tonga, Tunisia, Turkey, Uganda, Ukraine, United Arab Emirates, the United Kingdom, the United States, United Republic of Tanzania, Uruguay, Vanuatu, the Bolivarian Republic of Venezuela, Yemen and Zambia

B.5). Data showing cross-border M&A activities on an industry basis are also recorded as sales and purchases. Thus, if a food company acquires a chemical company, this transaction is recorded in the chemical industry in the columns on M&As by industry of seller, it is also recorded in the food industry in the columns on M&As by industry of purchaser (annex tables B.6 and B.7).

Longer time-series data are available on WIR home page: www.unctad.org/wir or FDI statistics home page: www.unctad.org/fdistatistics.

G. Definitions and sources of the data on operations of foreign affiliates in annex tables B.8-B.18

These annexes present selected data (number of firms, assets, number of employees, wages and salaries, sales, value added (or gross product), profits, export, import, R&D expenditure, employment in R&D and royalty receipts and payments) on the inward and outward operations of foreign affiliates as follows:

- Inward operations refer to the activities of foreign affiliates in the host economy (business enterprises in which there is an FDI relationship in the host country).
- Outward operations refer to the activities of foreign affiliates of a home-based TNCs abroad (business enterprises located abroad in which the home-based TNC has an FDI relationship).

UNCTAD regularly collects published and unpublished national official data on the operations of foreign affiliates and TNCs directly from central banks, statistical offices or national authorities on an disaggregated basis for its FDI/TNC database (www.unctad.org/fdistatistics) and for its publication, *World Investment Directory*.

Longer time-series data are available on WIR home page: www.unctad.org/wir, or FDI statistics home page: www.unctad.org/fdistatistics.

Notes

1 In some countries, an equity stake of other than 10% is still used. In the United Kingdom, for example, a stake of 20% or more was the threshold used until 1997.

2 This general definition of FDI is based on OECD, *Detailed Benchmark Definition of Foreign Direct Investment*, third edition (OECD, 1996) and fourth edition (OECD, 2008), and International Monetary Fund, *Balance of Payments Manual*, fifth edition (IMF, 1993).

3 International Monetary Fund, op. cit., p. 40.

4 Includes Australia, Austria, Belgium, Canada, Commission of the European Communities, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.