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 as the threshold for the control of assets.[1] A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, who 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 (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, 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 non-equity forms of investment, and they 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 the 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 dealing with the size of TNC activities and their impact.

A more detailed methodology for each economy on data collection, reporting and estimates for *WIR09* 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/fdistatistic.

1. FDI flows

Annex table B.1, as well as in most of the tables in the text, is 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 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. These 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, the European Bank for Reconstruction and Development (EBRD), the 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 available from national official sources, or for those for which data were not available for the entire period of 1980–2008 covered in the *World Investment Report 2009 (WIR09)*, data from the IMF were obtained using the IMF's *International Financial Statistics* and *Balance of Payments Statistics Online*, July 2009. 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 available from national official sources and the IMF, or for those for which data were not available for the entire period of 1980–2008, data from the World Bank's *World Development Indicators Online* were used. This report covers data up to 2007.

Data from the EBRD's *Transition Report 2008* 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) of 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.

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. These 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 1980–2008 covered in the *WIR09*, data from the IMF were obtained using the IMF's *Balance of Payments Statistics Online*, July 2009. 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.

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 **3 July 2009**. Any revisions made after this process may not be reflected in the Report. 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 2009 and the IMF's *World Economic Outlook*, April 2009. For some economies, such as Taiwan Province of China, data are 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 2009. For some economies, for which data are not available for the period 1980–2008, or part of it, data are complemented by data on gross capital formation. These data are 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.6

FDI is a balance-of-payments concept involving the cross-border transfer of funds. Cross-border M&As statistics shown in the Report are based on information reported by Thomson Reuters. Such M&As conform to the FDI definition as far as the equity share is concerned.

Communiqué

Number of economies: 139

Afghanistan, Albania, Algeria, Angola, Armenia, Aruba, Australia, Austria, Azerbaijan, Bahamas, Bangladesh, the Banque des Etats de l'Afrique Centrale (Central African Republic only), the 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, Bulgaria, Cambodia, Canada, Cape Verde, Chile, China, Colombia, Costa Rica, Croatia, Cyprus, the Czech Republic, Denmark, Djibouti, the Dominican Republic, the 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, Finland, Georgia, Germany, Ghana, Greece, Guatemala, Guyana, Haiti, Honduras, Hong Kong (China), Hungary, Iceland, India, Indonesia, the Islamic Republic of Iran, Ireland, Israel, Italy, Japan, Jordan, Kazakhstan, Kenya, the Republic of Korea, Kuwait, Latvia, Lebanon, Lesotho, the Libyan Arab Jamahiriya, Lithuania, Luxembourg, Macao (China), Malaysia, Maldives, Malta, Mauritius, the Republic of Moldova, Montenegro, Morocco, Mozambique, Namibia, the Netherlands, the Netherlands Antilles, New Caledonia, New Zealand, Nicaragua, Norway, Oman, Pakistan, the Palestinian territory, Papua New Guinea, Paraguay, Peru, the Philippines, Poland, Portugal, Romania, the Russian Federation, Rwanda, Saudi Arabia, Serbia, Seychelles, Singapore, Slovakia, Slovenia, Solomon Islands, South Africa, Spain, Swaziland, Sweden, Switzerland, the Syrian Arab Republic, Taiwan Province of China, Tajikistan, Thailand, The FYR of Macedonia, Tonga, Trinidad and Tobago, Tunisia, Turkey, Uganda, Ukraine, the United Kingdom, Uruguay, Vanuatu, the Bolivarian Republic of Venezuela, Zambia and Zimbabwe.

Web sites consulted in the preparation of *WIR09*

Number of economies: 174

Afghanistan, Albania, Angola, Argentina, Armenia, Aruba, Australia, Austria, Azerbaijan, Bahamas, Bahrain, Bangladesh, the Banque des Etats de l'Afrique Centrale (Cameroon, the Central African Republic, Chad, Congo, Equatorial Guinea and Gabon), the Banque Centrale des Etats de l'Afrique de l'Ouest (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo), Barbados, Belarus, Belgium, Belize, Bermuda, Bhutan, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, Burundi, Canada, Cape Verde, Chile, China, Colombia, Comoros, Costa Rica, Croatia, Cuba, Cyprus, the Czech Republic, Denmark, Djibouti, the Dominican Republic, the 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, Indonesia, Iraq, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kazakhstan, Kenya, Kuwait, the Republic of Korea, Kyrgyzstan, Latvia, the Lao People's Democratic Republic, Lebanon, Lesotho, the Libyan Arab Jamahiriya, Lithuania, Luxembourg, Macao (China), Madagascar, Malaysia, Maldives, Malta, Mauritania, Mauritius, Mexico, the Republic of Moldova, Mongolia, Montenegro, Morocco, Mozambique, Namibia, Nepal, the Netherlands, the Netherlands Antilles, New Caledonia, New Zealand, Nigeria, Norway, Oman, Pakistan, the Palestinian territory, Panama, Papua New Guinea, Paraguay, Peru, the Philippines, Poland, Portugal, Romania, the Russian Federation, Rwanda, Samoa, São Tomé and Principe, Serbia, Seychelles, Sierra Leone, Singapore, Slovakia, Slovenia, Solomon Islands, South Africa, Spain, Sri Lanka, Sudan, Sweden, Switzerland, Taiwan Province of China, Tajikistan, the FYR of Macedonia, Thailand, Tonga, Tunisia, Turkey, Uganda, Ukraine, the United Arab Emirates, the United Kingdom, the United States, the United Republic of Tanzania, Uruguay, Vanuatu, the Bolivarian Republic of Venezuela, Yemen and Zambia.

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 ultimate and immediate target and acquiring countries. To approximate further FDI flows, in *WIR09*, tables relating to cross-border M&As by region/country are tabulated based on: 1) the immediate target country principle for the sales of equity shares in a resident enterprise; 2) the ultimate acquiring country principle for the purchases of equity shares in a non-resident enterprise; and 3) the ultimate target country principle for the sales of equity shares in a non-resident enterprise, unless otherwise specified. Round tripping cases are also considered on the basis of the immediate acquiring and immediate target country principles.

FDI flows are recorded on a net basis (capital account credits less debits between direct investors and their foreign affiliates) in a particular year. In WIR09, M&As data are also recorded on a net basis, i.e. expressed as differences between gross cross-border acquisitions and divestment by firms in/from a particular country or in/from a particular industry. Transaction amounts recorded in the UNCTAD M&As statistics are those at the time of closure of the deals, and not at the time of announcement. The M&As values are not necessarily paid out in a single year.

There are three main types of cross-border M&As deals: 1) those that involve the sale of a domestic company to a foreign company; 2) those that involve the sale of a foreign affiliate to a domestic company; and 3) those that involve the purchase by a foreign company of another foreign company operating in a host country. Three examples are given to illustrate differences in the three main types of deal, and the way they are recorded:

1) An Argentine domestic company in Argentina is sold to a foreign company. Argentina is the immediate target country, and the foreign country is the ultimate acquiring country. The deal is recorded as the creation of a foreign investment in Argentina (inward investment / positive sale) and the creation of an investment abroad in the foreign country (outward investment / positive purchase).

2) An Argentine domestic company acquires the affiliate of a foreign company operating in Argentina. Argentina is the immediate target country, and the foreign country is the ultimate target country. The deal is recorded as the dissolution of a foreign investment (inward divestment / negative sale) in Argentina and the dissolution of an investment abroad (outward divestment / negative purchase) in the foreign country.

3) A foreign company A acquires an affiliate of foreign company B operating in Argentina. Argentina is the immediate target country, foreign country B is the ultimate target country, and foreign country A is the ultimate acquiring country. The deal is recorded as an inward investment (positive sale) by foreign country A in Argentina and an inward divestment (negative sale) by foreign country B in Argentina, with the net-change being zero in Argentina. It is also recorded as an outward investment (positive purchase) in foreign country A, and as an outward divestment (negative purchase) in foreign country B.

Data showing cross-border M&As activities by industry are also recorded on a net basis as sales and purchases. The UNCTAD database contains information on immediate target and immediate acquiring industries. In *WIR09*, tables relating to cross-border M&As by sector/industry are tabulated based on the immediate target industry and the immediate acquiring industry. Following are three illustrative examples:

1) A foreign food TNC acquires, in a given country, a domestic chemical company. This transaction is recorded in the columns on M&As by industry of seller in the chemical industry with positive sign. It is also recorded in the columns on M&As by industry of purchaser in the food industry (with positive sign).

2) A domestic food company acquires, in its own country, the affiliate of a foreign-owned company operating in the chemical industry. This transaction is recorded in the columns on M&As by industry of seller in the chemical industry with a negative sign. It is also recorded in the columns on M&As by industry of purchaser in the chemical industry with a negative sign. (As this database has no information about the industry of the parent company that is divesting its chemical foreign affiliate, the same industry as that of its foreign affiliate is used).

3) A foreign food TNC acquires, in a given country, an affiliate operating in the chemical industry owned by another foreign TNC. This transaction is recorded in the columns on M&As by industry of seller in the chemical industry with both negative and positive signs, with the net-change being zero. It is also recorded in the columns on M&As by industry of purchaser in the food industry (with positive sign) and the chemical industry (with negative sign). (As this database has no information about the industry of the parent company that is divesting its chemical foreign affiliate, the same industry as that of its foreign affiliate is used).

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

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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 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, the 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.