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## Definitions of Foreign Direct Investment (FDI): a methodological note

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### Executive Summary

*The main purpose of this note is to deal with methodological aspects related to Foreign Direct Investment (FDI) from the viewpoint of the Balance of Payments and the International Investment Position (IIP). Special attention is paid to the financial system both as a sector investing directly abroad (home perspective) and receiving investment (host perspective). The note clarifies concepts such as direct investor, direct investment enterprise (subsidiary, associate and branch) and describes the different sector breakdowns available and what they imply for financial sector FDI.*

*The main statistical sources for FDI are reviewed and the discrepancies are shown for total inward FDI flows and stocks both for emerging and industrial countries. Discrepancies appear much larger for stocks particularly for emerging countries. Some very general trends can be found from this data: First, even if FDI flows to emerging countries have grown, the bulk of them continue to be directed to industrial countries. Second, the large reduction in FDI flows to emerging countries in 2001 in the UNCTAD statistics is much milder in the IMF statistics and is not perceived in the stock data. Total stocks, as well as the stock of FDI received by industrial countries, seem to have reached a plateau in IMF statistics but not in the UNCTAD ones.*

*As for the sector breakdown, and in particular financial sector FDI, no readably comparable – and reliable enough - data is available on an international basis. Even in national statistics the sector breakdown might not correctly reflect the total amount of foreign direct investment outflows from the financial system, particularly if the investment is carried out by holding companies. In the case of Spain, the re-estimation of outward FDI flows of the financial sector including the transactions carried out by resident holding companies, implies an increase of over 50% for the period 1997-2001.*

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<sup>2</sup> This note has been prepared as background material for the BIS Meeting of the CGFS Working Group on FDI in the financial sector, to be held on March 11.

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## 1. Introduction

Foreign Direct Investment (FDI) from the viewpoint of the Balance of Payments and the International Investment Position (IIP) share a same conceptual framework given by the International Monetary Fund (IMF). The Balance of Payments is a statistical statement that systematically summarises, for a specific time span, the economic transactions of an economy with the rest of the world (transactions between residents and non-residents) and the IIP compiles for a specific date, such as the end of a year, the value of the stock of each financial asset and liability as defined in the standard components of the Balance of Payments.

We will not deal in this note with other relevant statistical concepts for operations overseas, particularly for financial institutions, such as exposure (foreign claims, international claims, etc.), which belong to the realm of the BIS statistics.<sup>3</sup>

Sections 2, 3 and 4 give an overview of FDI definitions, concepts and recommendations adopted by the IMF's *Balance of Payments Manual* (5th Edition, 1993) and by the OECD's *Benchmark Definition of Foreign Direct Investment* (3rd Edition, 1996). Both provide operational guidance and detailed international standards for recording flows and stocks related to FDI. Section 5 gives a quick overview of trends in FDI inward flows and stocks for the period 1980-2001. Section 6 reports on onward FDI flows for Spain, with particular attention to the financial sector. Finally a brief description of the main available sources of FDI is found in an annex.

## 2. What is Foreign Direct Investment (FDI)

According to the IMF and OECD definitions, **direct investment** reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise). The "lasting interest" implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the latter. Direct investment involves both the initial transaction establishing the relationship between the investor and the enterprise and all subsequent capital transactions between them and among affiliated enterprises<sup>4</sup>, both incorporated and unincorporated. It should be noted that capital transactions which do not give rise to any settlement, e.g. an interchange of shares

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<sup>3</sup> See Banco de España's report "Investing in the financial sector abroad: potential risks and how to mitigate them" for some information on the statistics available to measure exposure.

<sup>4</sup> Affiliated enterprises: enterprises that are in a direct investment relationship.

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among affiliated companies, must also be recorded in the Balance of Payments and in the IIP.

The fifth Edition of the IMF's Balance of Payment Manual defines **the owner of 10% or more** of a company's capital as **a direct investor**. This guideline is not a fast rule, as it acknowledges that smaller percentage may entail a controlling interest in the company (and, conversely, that a share of more than 10% may not signify control). But the IMF recommends using this percentage as the basic dividing line between direct investment and portfolio investment in the form of shareholdings. Thus, when a non-resident who previously had no equity in a resident enterprise purchases 10% or more of the shares of that enterprise from a resident, the price of equity holdings acquired should be recorded as direct investment. From this moment, any further capital transactions between these two companies should be recorded as a direct investment. When a non-resident holds less than 10% of the shares of an enterprise as portfolio investment, and subsequently acquires additional shares resulting in a direct investment (10% or more), only the purchase of additional shares is recorded as direct investment in the Balance of Payments. The holdings that were acquired previously should not be reclassified from portfolio to direct investment in the Balance of Payments but the total holdings should be reclassified in the IIP.

Concerning the terms direct investor and direct investment enterprise, the IMF and the OECD define them as follows. A **direct investor** may be an individual, an incorporated or unincorporated private or public enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which have a direct investment enterprise, operating in a country other than the country of residence of the direct investor. A **direct investment enterprise** is an incorporated or unincorporated enterprise in which a foreign investor owns 10% or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise. Direct investment enterprises may be subsidiaries, associates or branches. A **subsidiary** is an incorporated enterprise in which the foreign investor controls directly or indirectly (through another subsidiary) more than 50% of the shareholders' voting power. An **associate** is an enterprise where the direct investor and its subsidiaries control between 10% and 50% of the voting shares. A **branch** is a wholly or jointly owned unincorporated enterprise.

It should be noted that the **choice between setting up either a subsidiary/associate or a branch** in a foreign country is dependent, among other factors, upon the existing **regulations** in the host country (and sometimes in its own country, too). National regulations are often more restrictive for subsidiaries than for branches but this is not always the case.

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It should be mentioned that in the case of **affiliated banks** (depository institutions) and affiliated financial intermediaries such as securities dealers, transactions recorded under direct investment are those associated with **permanent debt** (loan capital representing a permanent interest) and equity (share capital) investment or, in the case of branches, fixed assets. **Deposits, loans and other claims and liabilities** related to usual banking transactions of depository institutions and of other financial intermediaries are classified, as appropriate, under portfolio investment or “other investment”, but never as direct investment. The stock of foreign assets and liabilities of banks and other financial intermediaries should be treated in a parallel manner.

The OECD recommends in its *Benchmark definition* that for the existence of a direct investment relationship the “full consolidated system” should be followed. In other words, it means that when there is a cascade of participations, the percentage of the parent company in any affiliated companies should be calculate assuming the 100% of the subsidiaries and the corresponding percentage of the associates. This criterion does not correspond with the consolidation concept in the accounting statement.

From an accounting standpoint, bank branches are wholly considered as being an integral part of their parent company and, therefore, do not have separate accounts. However, the requirement for affiliated companies to be included in **banks’ consolidated financial statements** is twofold: (i) they themselves must carry out a financial activity; and (ii) at least 20% of their capital must be owned by their parent bank, together with the latter’s exerting an effective control over them. Non-compliance with any of these requisites entails that the affiliated company is not consolidated, although it should be valued according to the “equity method” in its parent bank’s financial statements<sup>5</sup>. In accordance with these consolidation rules, a bank will not include in its consolidated statements the assets and liabilities of all its associates, despite the fact that such associates may obviously be direct investment enterprises from a BOP/IIP viewpoint (cf. 10% cutoff point explained above).

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<sup>5</sup> Affiliates that are thus not consolidated are usually referred to as “associates”. The difference between such “associates” and “associates” as defined for BOP/IIP purposes in the preceding paragraphs should be noted.

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### 3. Direct investment classification, components and sectorial breakdown

The classification of direct investment is based firstly on the **direction** of investment both for assets or liabilities; secondly, on the investment **instrument** used (shares, loans, etc.); and thirdly on the **sector** breakdown.

As for the direction, it can be looked at it from the **home and the host perspectives**. From the home one, financing of any type extended by the resident parent company to its non-resident affiliated would be included as *direct investment abroad*. By contrast, financing of any type extended by non-resident subsidiaries, associates or branches to their resident parent company are classified as a decrease in *direct investment abroad*, rather than as a *foreign direct investment*. From the host one, the financing extended by non-resident parent companies to their resident subsidiaries, associates or branches would be recorded, in the country of residence of the affiliated companies, under *foreign direct investment*, and the financing extended by resident subsidiaries, associates and branches to their non-resident parent company would be classified as a decrease in *foreign direct investment* rather than as a *direct investment abroad*. This directional principle does not apply if the parent company and its subsidiaries, associates or branches have cross-holdings in each other's share capital of more than 10%.

As for the instruments, **direct investment capital** comprises the capital provided (either directly or through other related enterprises) by a direct investor to a direct investment enterprise and the capital received by a direct investor from a direct investment enterprise. Direct investment capital transactions are made up of three basic components: (i) **Equity capital**: comprising equity in branches, all shares in subsidiaries and associates (except non-participating, preferred shares that are treated as debt securities and are included under other direct investment capital) and other capital contributions such as provisions of machinery, etc. (ii) **Reinvested earnings**: consisting of the direct investor's share (in proportion to direct equity participation) of earnings not distributed, as dividends by subsidiaries or associates and earnings of branches not remitted to the direct investor. If such earnings are not identified, all branches' earnings are considered, by convention, to be distributed. (iii) **Other direct investment capital** (or inter company debt transactions): covering the borrowing and lending of funds, including debt securities and trade credits, between direct investors and direct investment enterprises and between two direct investment enterprises that share the same direct investor. As it has been mentioned before, deposits and loans between affiliated deposit institutions are recorded as *other investment* rather than as *direct investment*.

Finally, there are several sector breakdowns of FDI flows and of IIP. The IMF has chosen a breakdown by four **institutional sectors** (see table 1 below), defined according to the sector to which the resident party belongs. However, reporting on this sector breakdown is

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not compulsory in the Fifth IMF Manual. In national statistics, some countries (among which Spain) publish their FDI data providing this breakdown. Nevertheless, in practice the only relevant breakdown is *Banks* and *Other sectors* and it is blurred by the fact that national banks often invest in foreign enterprises via resident non-banking holding companies. Such transactions would be recorded as being carried out by *other sectors* rather than by *Banks*, thus distorting both categories.

By contrast to the classification according to the institutional sector, the OECD *Benchmark definition* favours an “**industrial**” **breakdown** (see table 1 below), which includes nine economic sectors. The OECD specifically recommends, for the purpose of this classification, that FDI carried out via a resident holding company be classified according to the industrial sector to which the parent company belongs. Under this criterion, when the parent company is a bank, FDI transactions carried out by a non-banking holding company would be attributed to the *Banks*.<sup>6</sup>

**Table 1**

<b>Institutional sector (IMF)</b>	<b>Economic or industry sector (OECD)</b>
1. Monetary Authority	1. Agriculture, hunting, forestry and fishing
2. Banks	2. Mining and quarrying
3. General Government	3. Manufacturing
4. Other resident sector	4. Electricity, gas and water
	5. Construction
	6. Wholesale and retail trade and restaurants and hotels
	7. Transport, storage and communications
	8. Financing, real state and business services
	9. Community, social and personal services

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<sup>6</sup> In data provided to the OECD on FDI classified by industrial sector, some countries (e.g. Spain) have reclassified the economic sector for a number of resident holding companies that are owned by resident companies.

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#### 4. Valuation of FDI flows and stocks and relations between both of them

The Balance of Payments and the International Investment Position are compiled under the same framework of methodological rules laid down in the Fifth edition of the IMF Balance of Payments Manual. According to this, FDI transactions should be recorded in the Balance of Payments at the **accrued value**, i.e. “*transactions are recorded when economic value is created, transformed, exchanged, transferred, or extinguished*”. Thus, the flows recorded do not necessarily coincide with the liquid proceeds and payments generated. In practice, it is very difficult to apply the accrued principle to all transactions and many of them are therefore recorded at the time when the proceeds or payments are generated.

Moreover, the IMF recommends the using of **market price** as the basis for valuation of flows and stocks, although this means different approaches for both types of data: (i) For flows, market price refers to the actual price agreed upon by transactors on the date of the transaction and should not reflect changes induced by fluctuations in exchange rates or in the market price of the financial assets or liabilities in question. (ii) For stocks, the market price at the time of the compilation of the stocks is recommended. Nevertheless, it is recognized that in practice, book values from the balance sheets of direct investment enterprises (or investors) often are used as a proxy of the market value of the stock of direct investments, when the company has no a market price. These balance sheets values, if recorded on the basis of current market value, would be in general accordance with the principle. If based on historical cost or on an interim but not current revaluation, such balance sheet values would not conform to the principle. But this practice reflects the fact that enterprise balance sheet values represent the only source of valuation of assets and liabilities readily available in most countries.

The difference between the stock at the beginning of the year and its value at year-end must be equal to the flow recorded in the Balance of Payments, which reflects the transactions on these assets or liabilities that actually took place; plus the change in the value of the stock induced by swings in the exchange rate; plus the change caused by alterations in the price of the related assets or liabilities; and plus other changes in the volume of financial assets and liabilities (as summarized below):

$\text{Position at the end of the period} = \text{Position at the beginning of the period} + \text{FDI flows} + \text{price changes} + \text{exchange rate changes} + \text{other adjustments.}$
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With regard to the “other adjustments” although some of them may be explained by the use of different sources to compile both statistics, main conceptual ones are reclassifications in the IIP (but not in the Balance of Payments) e.g. portfolio to direct investment as previously explained in the second section.

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As for the **international comparison of data**, despite a common international methodological framework, **discrepancies** between countries do occur. In fact, the worldwide discrepancy between outward and inward direct investment flows should be zero, if all flows were recorded fully and consistently by both sides. Nevertheless, according to *Lipsey (2001)* “*the asymmetries have been no higher than 8% in any year from 1993 to 1999, as contrasted with 40 or 50% for portfolio investment*”.

Discrepancies are mainly due to the use of different criteria for valuation or for geographical allocation of transactions. The increasing complexity of enterprise groups poses a further challenge to the correct application of the directional principle for accurately assessing FDI. Similarly, it is rather difficult to consistently capture loans granted to or received from related enterprises and they are often incorrectly considered as “other investment”, rather than as “direct investment”. This problem does not arise, however, in the case of loans between banks since they are not considered as “direct investment”. Additional circumstances resulting in discrepancies between countries are, among others: the lack of information on reinvested earnings, the use of a percentage-ownership threshold different from the recommended 10% level for identifying an investment as direct, and the use of different reporting systems and exemption threshold by countries for collecting and aggregating data on international transactions. Most countries use a combination of sources to compile their balance of payments and international investment position statistics. Data collection may be based on the compulsory reporting of individual transactions or on aggregates, or alternatively data may be collected by the statistical agency from an intermediary (such as a dealer that handles security transactions for clients) or directly from the transactor by means of mandatory surveys.

## 5. FDI data

Data on FDI flows and stocks are offered by several sources, the most important of which are explained in the Annex. Within them, however, **only the OECD and EUROSTAT provide a sector breakdown of FDI flows and stocks** (they use the 9 group industrial or economic classification shown in table 1 above). Since both institutions do only cover a very limited number of world countries, the total direct investment received by the financial sector of any given country cannot be wholly assessed.

Due to this significant restriction, we focus on showing **the trend of total FDI flows and stocks**. We use both data published by the UNCTAD with those published by the IMF, to assess the extent of the discrepancies. Note that the former provides a break down into two different categories (FDI figures for developed and for developing countries) so the IMF FDI data has been harmonised with this breakdown (by adding up individual countries' figures according to the geographical classification of the World Economic Outlook, WEO).



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Therefore, a preliminary reason for discrepancies may be the criterion for classifying some countries as “developed” or “developing” that differs between the UNCTAD and the WEO.

The charts on the next page give a picture of FDI flows and stocks from 1980 until 2001, by comparing IMF and UNCTAD data.

In rough terms, both sets of data reveal a similar pattern for all countries, albeit significant differences in magnitude, especially with regard to stocks and with regard to developing countries. More specifically, the following statistical issues can be observed:

- (i) Concerning **flows**, the differences between both sources are more relevant in the case of **developing countries**, especially for the year 2000 but they are relatively limited (UNCTAD data reach a peak of USD 264 billion, while IMF data initiate a downward trend).
- (ii) Concerning **stocks**, differences are larger, especially for developing countries. The main reason is the lack of information for many developing countries in the IMF data. For developed countries the differences between IMF and UNCTAD data are more significant from 1994 onwards, IMF data henceforth always being higher than UNCTAD data.

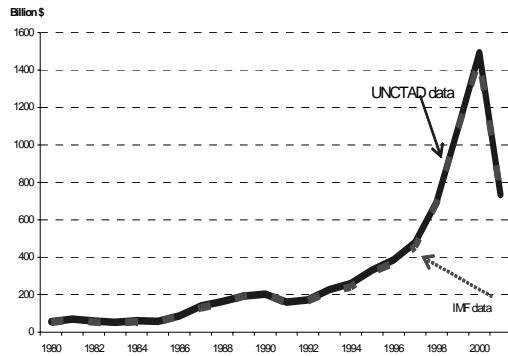
As for the **general trends**, it is interesting to note a couple of things:

- (i) Even if flows to emerging countries have grown, the bulk of them continue to go to industrial countries.
- (ii) The large reduction in FDI flows to emerging countries in 2001 in the UNCTAD statistics is much milder in the IMF ones and is not perceived in the stock data.
- (iii) Total stock, as well as the stock received by industrial countries, seems to have reached a plateau in IMF statistics but not in the UNCTAD ones.

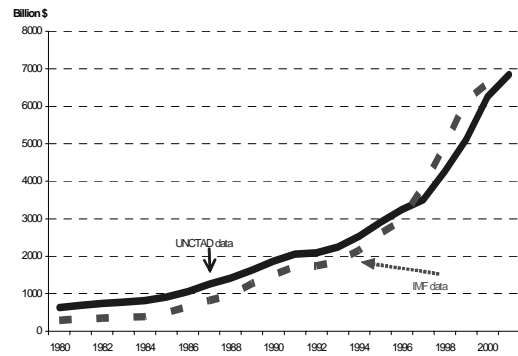
## Inward Foreign Direct Investment: flows and stocks data (1980-2001)

Comparison between IMF and UNCTAD data

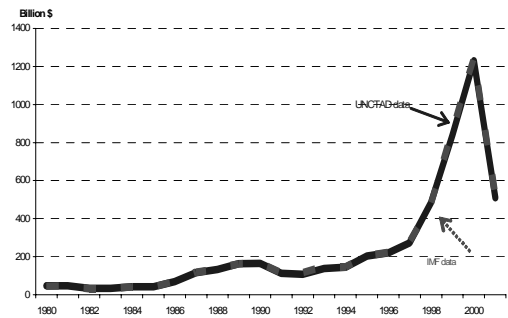
**Flows. All countries**



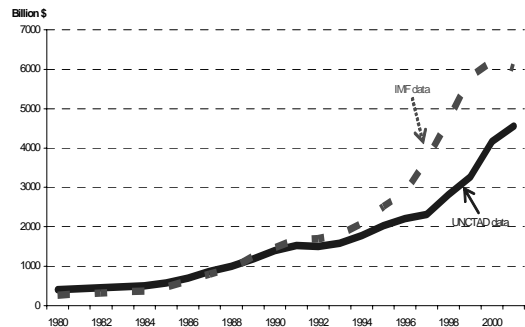
**Stocks. All countries**



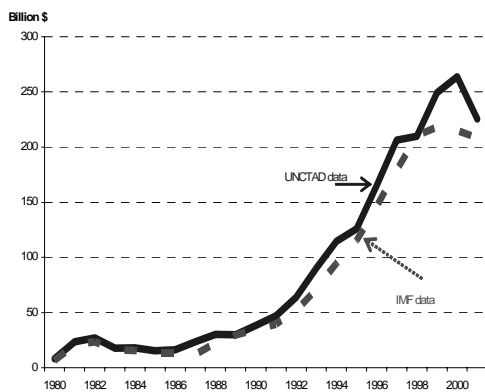
**Flows. Developed countries**



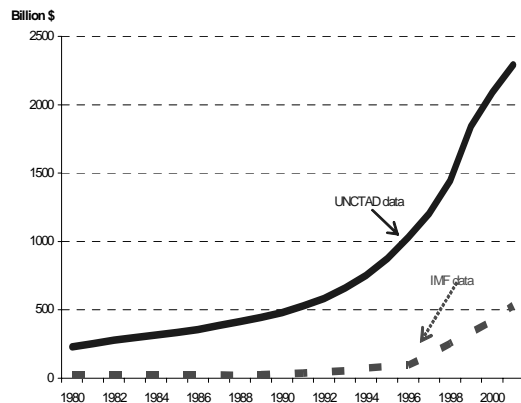
**Stocks. Developed countries**



**Flows. Developing countries**



**Stocks. Developing countries**



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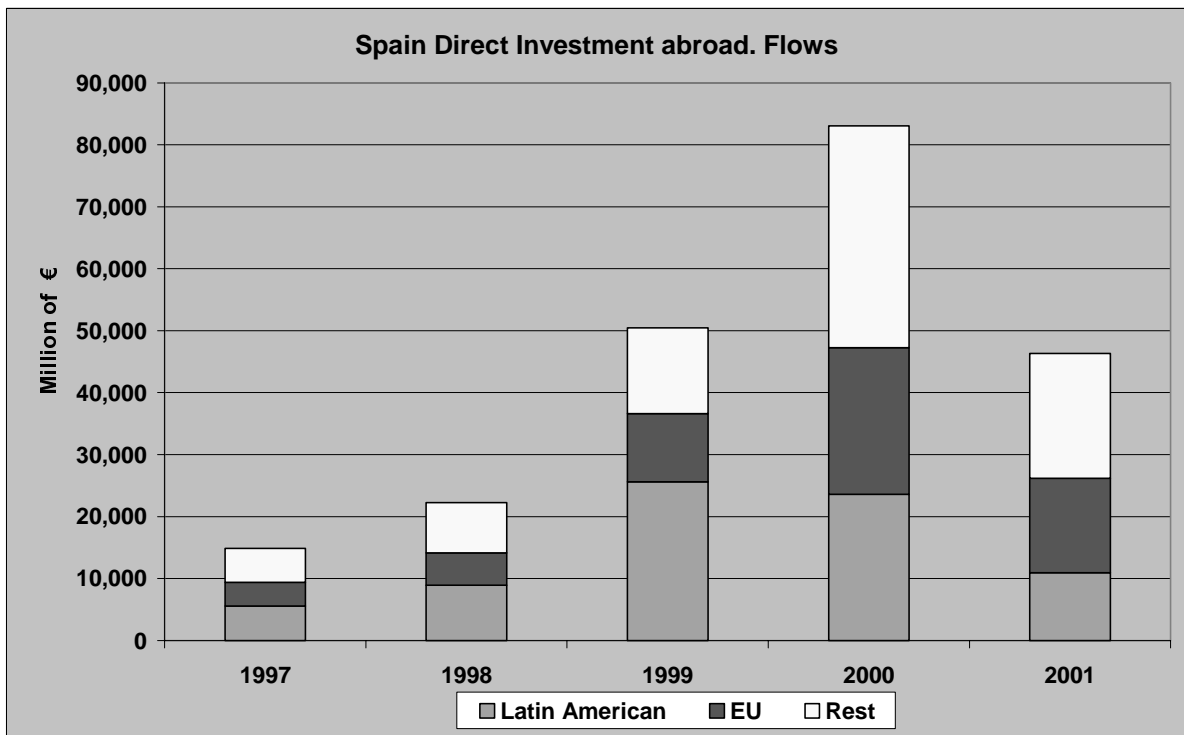
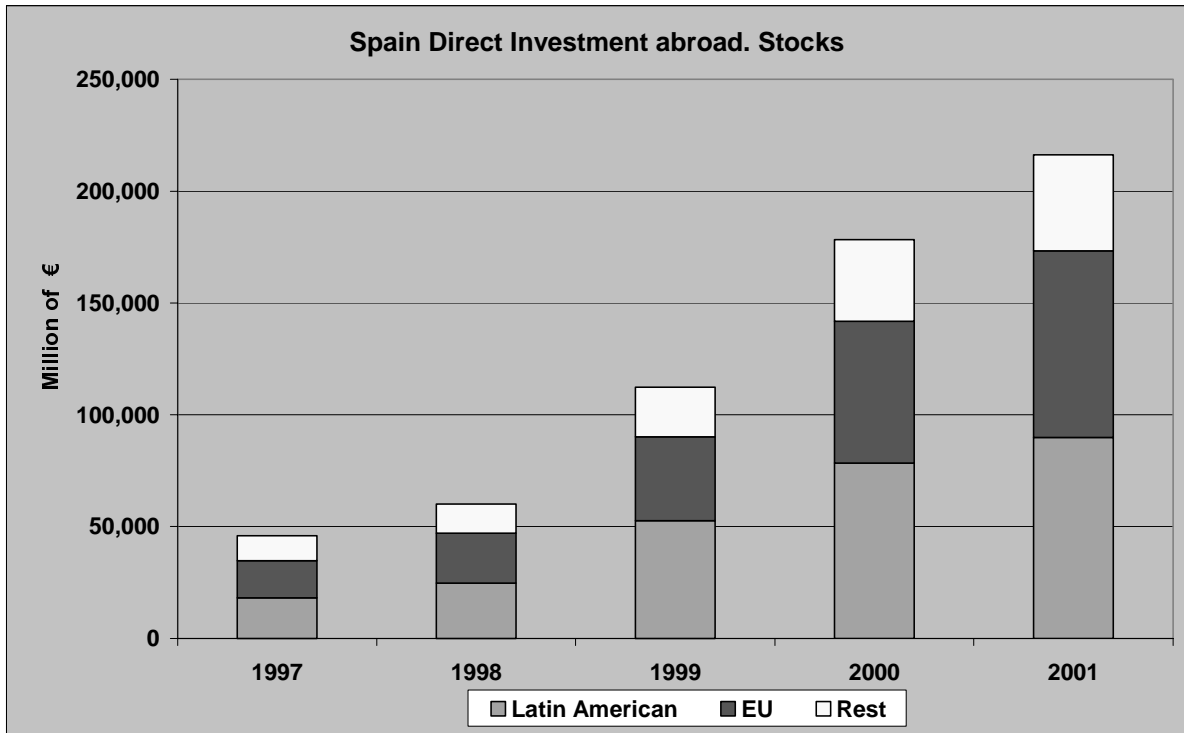
## 6. Financial system FDI: an estimation for Spain

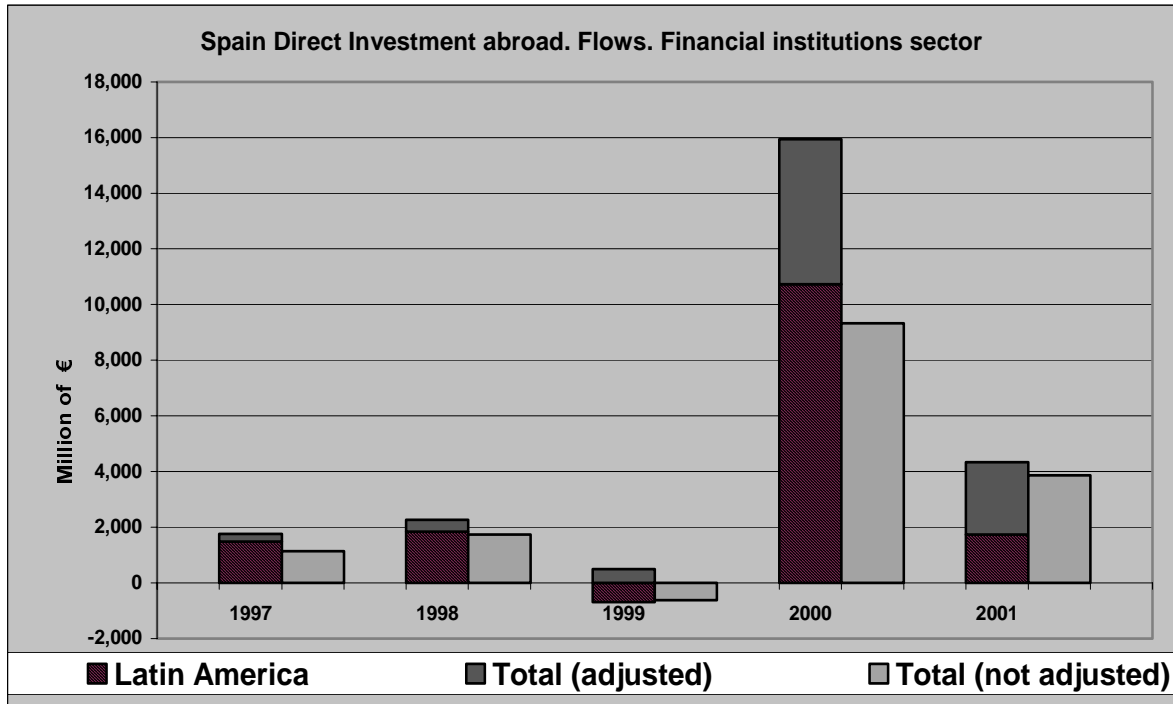
According to the OECD recommendations, Spain has reclassified, in the data provided to this International Organization, the economic sector of resident holding companies that are owned by resident companies, in the Balance of Payments data for the period 1999 to 2001. Moreover, main transactions for the years 1997 and 1998 have also been reclassified in the charts included below. The resident holding companies has been classified according to the economic sector to which the parent company belongs.

The preliminary results of this reclassification is that Spain direct investment abroad of the *Financial Institutions* was undervalued by about 56% for the period studied (see the comparison between the two columns of the last graph below). Likewise, the direct investment abroad of *other sectors* was overvalued in the same percentage. It shows that it is very common that Spain banks invest in foreign enterprises via resident non-banking holding companies, instead of operating themselves. Thus, it is very important to reclassify the economic sector in order to obtain more accurate figures.

The following charts give an overview of Spain's direct investment abroad both for stocks and flows, distinguishing between three geographical areas: Latin America, European Union and the rest of the world. The first two show that stocks have continued to grow although flows have decelerated in 2001. This is a similar trend to the one depicted in the previous graphs for total FDI inflows and stock.

The last graph shows that the Spanish financial system direct investment flows abroad, are quite large, particularly in 2000 but also in 2001, especially after having included the transactions carried out by resident holding companies, which were not in the original series as previously explained.





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## 7. References

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## Annex: Sources of Foreign Direct Investment data

This annex offers a brief overview of the main available statistical sources on FDI flows and stocks.

**(i) *Balance of Payments Statistics Yearbook and international Finance Statistics by IMF.*** The Balance of Payments Yearbooks call for the reporting of inward and outward flows and stocks of direct investment with no sectorial breakdown. This source comprises virtually all countries, although many developing countries do not report their inward and outward stocks. Equity capital, reinvested earnings and other direct investment flows are covered separately, and the sources of data for each country are explained. The IMF data, in summary form, are also available in International Financial Statistics. Reference Web site: <http://www.imf.org/>.

**(ii) *European Union Direct Investment Yearbook by EUROSTAT.*** This publication summarises the trend in FDI flows and positions for the European Union Countries (EUR15 and EUR12), the United States and Japan. Data are presented with a geographical and sectorial breakdown. The publication is divided in two parts: Part A presents a descriptive overview of EU investment positions and flows, while Part B presents direct investment figures for the EU as a whole and for each single Member State. Outward and inward flows and stocks are broken down by country and by economic region. In addition, flows broken down by economic activity are set against flows broken down by region.

EUROSTAT collects FDI data via common EUROSTAT/OECD questionnaires from Member States, national Balance of Payments publications and additional information provided by national compilers. There is a lack of coherence in some of the statistics produced by Member States, mainly due to the different collection methods, concepts and classifications employed. Trying to overcome such statistical problems, EUROSTAT harmonises national data according to IMF/OECD recommendations and estimates missing or unavailable data for each Member State to achieve complete EU FDI flows and positions. Reference Web site: <http://europa.eu.int/en/comm/eurostat-> Theme: Economy and Finance.

**(iii) *World Investment Report by UNCTAD.*** These reports, which were initiated by the United Nations (1973), (1978), (1983), and (1988), have been published annually since 1991. They provide annual data from 1990 onwards and at five-year intervals up to 1990. They include inward and outward FDI flows and stocks data with no sectorial breakdown but cover almost all countries and provide a breakdown of regional FDI trends. Annex B includes, for each country covered, listings that indicate which items are omitted, data sources and major revisions. There are also tables of ratios of FDI flows to Gross Capital Formation and of FDI stocks to GDP. Data on FDI flows have been obtained from IMF's Balance of Payments statistics and International Financial Statistics. For developing countries, these data were supplemented with OECD data, which are based on FDI

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outflows to developing countries from the Member Countries of the Development Assistance Committee. As a consequence, inflows of FDI to developing countries for which OECD data were used are underestimated. The definitions adopted are in line with BPM5 and OECD Benchmark definition. Reference Web site: <http://www.unctad.org/en/enhome.htm>.

**(iv) *International Direct Investment Statistics Yearbook by OECD***. This annual publication gathers statistics on international direct investment for OECD countries, although not with complete data for all of them. The publication is organised in three parts: Part I includes summary tables on flows and stocks data, Part II focuses on country data and Part III contains a series of technical notes with detailed information on statistical sources, FDI definitions and data collection methods for each country. A major advantage over the IMF and UNCTAD compilations is that there are data for most countries broken down into broad industrial sectors and also by partner country, in a uniform layout. Data are mainly based on Balance of Payments statistics published by Central Banks and by the Statistical Bureau of Member Countries, but also on other sources such as notifications or approvals. Data on FDI flows and positions are taken directly from Central Bank statistics and national authorities publications, and are presented without any further elaboration. Although FDI statistics are presented according to a standardised format for all Member Countries, there are limitations in data comparability due to differences in FDI definitions, in industrial classifications and in geographical breakdowns. OECD does not undertake data harmonisations. Reference Web site: <http://www.oecd.org/>.



A foreign direct investment (FDI) is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. It is thus distinguished from a foreign portfolio investment by a notion of direct control. The origin of the investment does not impact the definition, as an FDI: the investment may be made either "inorganically" by buying a company in the target country or "organically" by expanding the operations of an existing business in that country. Â, Foreign direct investment (FDI) is a category of cross-border investment associated with a resident in one economy (direct investor) having control or a significant degree of influence on the management of an enterprise that is resident in another economy (direct investment enterprise). Â, The direct investor has the intention to obtain a lasting interest in the direct investment enterprise.Â FDI statistics presentation. 3. Methodological framework. Â¾ Existing methodology based on the OECD Benchmark Definition of FDI, 3rd edition (BD3). Â¾ Detailed instructions on the data requests outlined in the Eurostat Balance of Payments Vademecum (last version updated in November 2010). METHODOLOGICAL NOTE. 3. A. General definitions. 1. Transnational corporations. Transnational corporations (TNCs) are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates.Â 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. Foreign direct investment (FDI) is an investment from a party in one country into a business or corporation in another country with the intention of establishing a lasting interest. Lasting interest differentiates FDI from foreign portfolio investments, where investors passively hold securities from a foreign country.Â Lasting Interest and the Element of Control. An investment into a foreign firm is considered an FDI if it establishes a lasting interest. A lasting interest is established when an investor obtains at least 10% of the voting power in a firm. The key to foreign direct investment is the element of control. Control represents the intent to actively manage and influence a foreign firm's operations. Platform FDI Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country. Vertical FDI takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.[6]. Methods. The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods: by incorporating a wholly owned subsidiary or company anywhere. by acquiring shares in an associated enterprise.