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## MONITORING FDI AND MNEs; RESEARCH NEEDS AND LIMITATIONS

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### **Abstract**

Rising volume of FDI and MNEs' activity, the increasing importance and influence of MNEs which are playing a decisive and structuring role in the world economy, and the developments in the theory of international economics created renewed interest in measuring and analysing these phenomenon. Analysis include not only economic relationship between countries, but focus increasingly on inter and intra firm relationship. The paper arguments the increased need to explore TNI and MNEs discuss problems and liminations in the concepts and in the existing statistical monitoring of FDI and MNE, expose why monitoring FDI is not sufficient for analysing MNE, and present the needs in data collecting.

**Keywords:** FDI, MNEs, Monitoring, Data Limitations, Flows and Stocks.



## 1. INTRODUCTION

Foreign direct investment (FDI) and multinational enterprises (MNEs) have played a fundamental role in economic globalisation by furthering international integration and have been the most dynamic factor in industrial restructuring at world level. International production<sup>1</sup> is becoming the prevailing pattern of production and is significantly influencing the allocation of resources. It is particularly useful to observe this trend in order to understand various aspects of globalization.

The *increased volume of the phenomenon* is one of the first reasons that rise importance of monitoring of FDI and MNEs. World-wide FDI has grown rapidly since the 1970s (beginning after World War II), thereby expanding the role of international production in the world economy. A particularly strong surge has been seen in the last two decades (1980s and 1990s) when FDI grew faster than other economic aggregates like world production, capital formation and trade. UNCTAD data show that global expansion of investment flows is now driven by more than 61,000 MNEs with over 900,000 affiliates located abroad (WIR, 2004, p. 8). After reaching a record flow of USD 1.3 trillion in 2000 (exceeding USD 6 trillion in FDI stock), global FDI flows declined in 2001-2003 period. FDI flows are expected to recover after 2004, while global flows should rebound and return to an upward trend after 2005. Gross product by all foreign affiliates accounted for an estimated 10 percent of world GDP in 2003, while exports by these foreign affiliates represented an estimated 33 percent of total world trade (UNCTAD, WIR, 2004).

Next, MNEs are *increasingly influential actors in international economic relations*, which also increased the need to analyse them. Virtually all FDI in the world are channelled through them. The list of the top world MNEs shows that the largest MNEs exceed the power of many states in terms of assets and production. Next source of influence lies in the fact that MNEs are holders of majority of R&D and innovation capacities, talent, developed technologies and know how. They are not only the most important creator, but also buyer and disseminator of knowledge capital, (that has been recognised as one of the most catalytic production factors). Among them are the introducers of world wide standards. Several case studies could reveal that there are MNEs that de facto regulate markets. More and more transactions is realised within MNEs (internalized) and due to complex relationships FDI and MNEs impact many other (not only economic) categories. Beside, they are in principle organised more efficiently than states, which lead to faster decision making process and faster changes. MNEs are playing a decisive and structuring role in the world economy. Their behaviour and strategy can even alter the macroeconomic characteristics of the countries in which they are located.

In spite of growing influence of enterprises, world economy has traditionally been analysed through inter-country relationships. Classical international economics theory put emphasize on country level analysis and persistently analysed trade relationships among countries. Studies of competitiveness however frequently emphasised that concentration on trade relationships gives distorted picture. FDI increasingly determines trade, but even investment analysis on macrolevel frequently could not give explanation of current economic relations. Interrelationships between firms and also within firms (parent – foreign affiliate(s)) are increasingly complex (including non-equity relationships and strategic alliances) and frequently they are the only that really explain international exchange of

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<sup>1</sup> A business process performed at the international level (in more than one country), organized or controlled by one enterprise. It arises as a result of previous internationalization and FDI (Svetličič, 1996, pp.53, 167).

goods, services and knowledge. With international division of labour MNEs could considerably change the abilities of countries to produce various goods<sup>2</sup>. Recently developed *models of international economy* (models for analysing trade and investment) have made dramatic mental movement and often *put enterprise (MNE) as elementary unit of analysis* (see Markusen, 1984, 1995, Helpman, 1984). Monitoring MNEs has increased the relevance for understanding international economic relations. However the empirical testing of recent models is very limited particularly due to lack of adequate data, since the official statistics has not yet introduced MNE as a unit of monitoring.

All these reasons suggest why the past two decades have seen renewed research interest in internationalisation and globalization.<sup>3</sup> Researchers from different disciplines are pursuing their work on FDI and MNEs to better understand, explain and report the latest findings. Along the research they face several related to data deficiencies, presented below. In the next section we discuss the concept and definitions of FDI and MNEs, data sources, collection methods and dissemination praxis and problems and limitations of existing data, especially from the viewpoint of transition economies.

## 2. MONITORING FDI IS NOT SUFFICIENT FOR ANALYSING MNEs

The economic activity of MNEs is complex and it is therefore difficult to measure or capture all dimensions with a few measures. FDI is the best available, timely published and therefore commonly used indicator of economic activity in MNE, yet it is imperfect measure of the evolution of MNEs (Hennart, 2001, p 129). Trends in FDI often differ greatly from indicators of economic performance such as fixed investment flows or stocks, sales and employment in parent firms and/or their affiliates. Thus changes in flows or stocks of FDI are sometimes interpreted to signal changes in real economic activity of MNEs, even where there may be no major changes, or vice versa.<sup>4</sup> The major reason for differences in trends in FDI and trends in the indicators of economic activity is conceptual.<sup>5</sup>

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<sup>2</sup> Classical international trade theory according to Smith assigned the ability to produce goods to countries and country is the main unit of analysis.

<sup>3</sup> Along with the growing international orientation in praxis, an increasing body of literature has been exploring it, particularly FDI and MNEs. As Caves put it, 'the stock of literature relevant to MNE and FDI appearing since the 1980s is roughly as large as that published between the birth of Christ and the 1980s' (1996, p. ix).

<sup>4</sup> In spite of fall of global FDI flows since 2001, the surveys on activities of MNEs showed growth, measured by the rise in aggregate and foreign assets and sales. Estimations showed that the world number of MNEs decreased (also due to mergers and acquisitions) in the last five years, while the number of affiliations decreased (UNCTAD, WIR 2004).

<sup>5</sup> When examining trends, the net stock of fixed assets (cumulative fixed investment less depreciation) is used as one of the most common measures of capital. FDI flows are a source, not a use, of corporate finance which makes them different from fixed assets conceptually. An increase in FDI stock (positive net FDI flow) can be used to finance purchases of fixed assets, non-fixed assets (of which majority is usual financial assets), or a reduction in non-FDI liabilities (equity and/or loans). To the extent that FDI is used to purchase non-fixed assets or finance reductions in non-FDI liabilities, trends in FDI stock can easily diverge from trends in the accumulation of capital. Trends in fixed assets may also differ from trends in other measures of real activity, which makes it very important to use the indicator that best describes the activity of concern in a given case.

## 2.1 Defining FDI and MNEs<sup>6</sup>

The concepts and definitions of foreign direct investment (FDI) and multinational enterprises (MNEs) have changed over time and there is still no unique agreed definition. What is measured by the balance of payments is quite different from what is implied by the theories of direct investment (Lipsey, 2001, pp.1-3, Jaklič A. et al., 2001, pp. 1-4). Whereas the macro view concentrates on the value of flows and stocks with a 'lasting interest' for balance of payments (BoP) purposes, the micro view focuses on firms' behaviour and control. Difficulties arise precisely due to the discrepancy between the macro and micro views since the term 'lasting interest' does not completely match the term 'control'. The established measurement of FDI is based on the macro view (the variables of interest are the *flow* of financial capital, the value of *stock* accumulated by investing firms, the *investment position* and the *income flows* from an investment) and is therefore often criticised by international business theorists (interested in the motivations and consequences of FDI, i.e. relations with the affiliation, their trade, employment, production, flows and stocks of intellectual capital, which are unmeasured or poorly measured in the BoP and intrinsically related to the investing firm's control of the affiliates and the ability of MNEs to co-ordinate the activities of parents and affiliates).<sup>7</sup>

The technical definition (needed for measurement) avoids the term 'control' deliberately for the purpose of exactness and uses 'ownership share' instead. The ownership share is far from being the only lever of influence, control and governance. The dispersion of ownership<sup>8</sup> and other characteristics of owners also matter. Superior technological know-how, management and marketing knowledge, and access to financial resources enable control and influence governance. Influence is often also gained in kind, through a 'non-capital direct investment' including a management contract, strategic and technological partnerships, agreements etc.<sup>9</sup>

The most widely accepted is the definition prescribed for balance-of-payment compilations by the International Monetary Fund (Balance of Payments Manual 5<sup>th</sup> (BPM5), 1993) and endorsed by the OECD (OECD Detailed Benchmark Definition of Foreign Direct Investment (BDFDI3), 1996), the so-called ten-percent rule. '*FDI is a category of international investment that reflects the objective of a resident in one economy (investor) obtaining a lasting interest in an enterprise resident in another economy. Lasting interest implies the existence of a long-term<sup>10</sup> relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise.*' 'Lasting interest' and 'significant degree of influence' are agreed when a direct investor who is a resident in another economy *owns 10% or more of the ordinary share or voting power* (for incorporated enterprise) or the equivalent (for an unincorporated enterprise) of a foreign affiliate (IMF Manual, 1993, p. 86).<sup>11</sup> Such an investment involves both the

<sup>6</sup> For more on definitions, see WIR 2004, OECD Detailed Benchmark Definition of Foreign Direct Investment, 1996 and IMF Manual, 1993, p. 86.

<sup>7</sup> The issue of control therefore permanently gives ammunition to critics: 'Macroeconomists (ex. Graham, Krugman, 1989, p. 28) have only recently discovered that FDI is about control, while international business theorists have known it since Hymer's doctoral dissertation (1960)' (in Svetličič et al., 1999, p.3, also see Lipsey, 2001, pp. 1-3).

<sup>8</sup> In the case of large number of small shareholders an influence might be achieved through a relatively small share.

<sup>9</sup> The volume of such investment is increasing, although their evaluation is ever more difficult from balance of payments statistics.

<sup>10</sup> Longer than a year.

<sup>11</sup> The 'degree of influence' expressed by the share of ownership that is used to distinguish between portfolio and direct investment has always been a subject of discussion. The limit of ownership share diminished due to the rapid development of capital markets and dispersion of ownership shares (firstly from 100% to 50%, later to 25%, and lower, see Rubner, 1990, pp. 45-53). The recommendations of the IMF and OECD have not (yet) been accepted by every country.

initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates.

*Flows of FDI* comprise capital provided (directly or through related enterprises) by a foreign direct investor and foreign affiliate through selected period. FDI flows are made up of equity capital, reinvested earnings and other capital associated with various intercompany debt transactions (claims and liabilities) (IMF, 1993, p. 87). *FDI stock* is the value of the share of the capital and reserves (including retained profits) attributable to the parent enterprise plus the net indebtedness of the affiliates to the parent enterprise.

*Multinational or transnational*<sup>12</sup> enterprises (MNEs) are incorporated or unincorporated enterprises and comprise parent enterprises and their foreign affiliates. *The multinational enterprise (MNE)*<sup>13</sup> is defined as an enterprise that controls and manages (i.e. owns 10% or more in) establishments/plants located in at least two countries. A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, who is resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise. Subsidiary enterprises, associate enterprises and branches are all referred to as foreign affiliates or affiliates.<sup>14</sup>

The OECD Manual on Economic Globalization Indicators proposes different definition of MNE (yet many of the existing surveys use 10% ownership share): A firm is considered to be multinational if it has a subsidiary (i.e., an affiliate in which it holds an equity interest of more than 50%) in at least one other country, regardless of size.<sup>15</sup>

## 2.2 General notes on international investment statistics; sources and collection methods

In spite of the fact that national statistical systems are facing more and more difficulties with increasing economic globalization, they remain the major data source. National/central banks, which are the official and the most reliable source of FDI statistics, compile elementary data in accordance with the international standards of the IMF (BPM5) and the OECD, as well of national accounts. Using the balance of payment approach it is possible to analyse the transactions relating to each country's capital inflows and outflows. Standard measures available from national official sources cover FDI flows and stocks.

Balance of payment statistics was not established with regard to the need for MNEs analysis, therefore international investment encompass also another approach. Lack of comprehensive and uniform set of indicators has been identified as limitation for studying and analysing the effects of globalization on the activity and economic performance of MNEs. The OECD's Committee on Industry and Business Environment continues work with the Expert Group on Economic Globalization Indicators. The complementary approach is expected to be based on the concept of

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<sup>12</sup> Both terms 'transnational' and 'multinational' are frequently used in the literature as synonyms. More on terminology in Jaklič (2004, p. 5).

<sup>13</sup> The term »enterprise« is used rather than the »company« to direct attention to the top level of co-ordination in the hierarchy of business decisions; a company, itself multinational, may be the controlled subsidiary of another firm. When not in doubt, the terms enterprise, firm, company or corporation are used as synonyms.

<sup>14</sup> Subsidiaries: If a non-resident investor owns more than 50% of the capital. Associates: If a non-resident investor owns between 10 and 50% of the capital. Branches: Wholly- or jointly-owned unincorporated enterprises either directly or indirectly owned by the direct investor. (OECD Manual).

<sup>15</sup> According to available data the majority of FDI fall into this category. In the case of Slovenia more than 75% of inward FDI and over 70% of outward FDI.

“foreign controlled enterprise<sup>16</sup>” that is expounded in connection with the System of national accounts. The data is collected through surveys of the activity of MNEs and cover all the variables relating to MNEs’ industrial activities, production and turnover, employment, value added, R&D and exports and imports. While balance-of-payments approach places more emphasis on the notion of economic territory, the activity approach stresses the notion of control over direct investment firms. The differences relate not only to the extent of control, but also to method of financing and refer to ultimate (instead of immediate) beneficiary.

Since MNEs’ activities approach is relatively new, there are a few (mainly OECD) countries that have adopted consistent survey data gathering, yet their fruits are not very comparable.<sup>17</sup> Many concepts and definitions concerning the activity approach have not been established and harmonized at international level. Recommendations have been developed (OECD Manual on Economic Globalization Indicators - DSTI/EAS/IND/SWP(2002)), and selected indicators; reference indicators that mostly reflect the scale of international investment and the pattern of MNEs’ activities and are available in a larger number of countries, while other complementary indicators are only available in a small number of countries. The OECD Secretariat also defined a set of (currently non-existing) desirable indicators that are of policy making importance. The aim is to examine the role of foreign affiliates in terms of production, employment, productivity, R&D and innovation and trade as well as systematically comparing the role of foreign affiliates with those of national firms at the sectoral level. The surveys are currently conducted by National Statistical Offices and the OECD assembles the national data through four questionnaires, two for the manufacturing firms and two for services.<sup>18</sup> These data are available by sector, they involve 18 variables for manufacturing industries (including number of enterprises/establishments, number of employees, production, turnover, value added, wages and salaries, R&D expenditure, number of researchers, gross fixed capital formation, total exports, total imports, intra-firm exports, intra-firm imports, gross operating surplus, technological payments, technological receipts, stock of FDI, capital under foreign influence) and five variables for services (turnover (sales or production), value added, number of employees, exports and imports), and are also classed by country of origin and destination.

Majority of countries still use only balance-of-payment approach. Transition economies, where FDI is a relatively new phenomenon, are no exception in this regard. Since 1995, several improvements in statistical coverage in line with IMF and OECD standards have been introduced in transition economies, which also give higher priority to FDI statistics. Some of the countries have already introduced regular questionnaires on direct investment (eg. Hungary on a quarterly basis for outward FDI). Nevertheless, the FDI data remains limited and sometimes distorts the appropriate picture of FDI. The difficulties in data collection and dissemination in this field, along with incomplete coverage and differences in comprehensiveness and recording thus pose many difficulties for analysts.

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<sup>16</sup> The notion of “foreign controlled enterprise” in activity data give precedence to majority (over 50%) owned foreign firms whose investors exercise genuine control and shape corporate strategies. Firms having minority share (of over 10, but less than 50%) are also included, but they are listed separately.

<sup>17</sup> USA has the best available database on MNEs’ activities, followed by Sweden.

<sup>18</sup> Manufacturing industry (AFA database): a) (i) Activity of foreign affiliates in host country (inward investment annual survey) (ii) Activity of parent companies in investor countries (annual) b) Activity of affiliates of national firms abroad (outward investment- biennial survey). Services sector (FATS database, annual survey): a) Activity of foreign affiliates in the host country, b) (i) Activity of affiliates of national firms abroad (outward investment) (ii) Activity of parent companies in investor countries.

The analysts are thus mostly forced to use and compillate various sources, the balance-of-payments data, surveys, and case studies. Simmilar is also the approach of UNCTAD, when compiling World Investment Report, a very valuable source on FDI and MNE activities and performance. 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/MNE database. These data constitute main source for reported data on FDI flows and are further complemented by data obtained from (i) other international organizations such as IMF, the World Bank and the OECD; (ii) regional economic organizations such as the ASEAN and the EBRD and (iii) UNCTAD's own surveys and estimates. This provides time series on aggregate FDI flows (inflows and outflows), FDI stocks and more detailed data (assets, employees and sales) on the world's top 100 non-financial transnational corporations (TNCs), top 50 non-financial TNCs from developing economies and 25 non-financial TNCs from Central and Eastern Europe.

## 2.3 Main Data Limitations and Problems

FDI measures that are normally used to approximate MNEs' activity are based on macroeconomic view and collected through balance of payments statistics<sup>19</sup> and have several limitations. Difficulties also arise in the complementary survey approach.

### 2.3.1 Problems in macrostatistics (BoP Statistics)

Along with the above mentioned issues related to control<sup>20</sup> the definitions and concepts of FDI flows and FDI stocks have also some other limitations:

- FDI flows do not include investment via the host country's capital market or via other financial sources which do not pass through the investor country, although this may represent large share of actual investment total.<sup>21</sup> This is why the data on foreign affiliates give more complete information on the amount of foreign investment in each country.
- Capital flows via holding companies may artificially inflate investment flows when this capital simply enters and leaves a country. Parent companies often tunnel a significant share of their direct investment abroad through holding companies. Investment via holdings or affiliates located in other countries usually results in substantial imbalances, so it is useful to distinguish between the initial and ultimate beneficial owner.
- Intercompany debt transactions, which is one of components of FDI flows, could be problematic especially where affiliates are primarily financial intermediaries (Lipsey 2001, pp. 11-12) with the sole purpose of serving as financial intermediaries.
- There is also a problem of reinvested earnings of foreign subsidiaries. Reinvested earnings automatically mean current account outflow, although in fact there is no outflow. This may be a problem for countries with high reinvested earnings.

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<sup>19</sup> Collection and dissemination of data on FDI is probably the least detailed of all the items in the balance of payment.

<sup>20</sup> The 10 per cent rule does not necessarily assure control or the opposite, a number of foreign investors may hold a majority stake in some companies, although each may own less than 10 per cent of ordinary shares. Besides, the 10 per cent rule has not been adopted in all countries, which create distortions in international comparisons.

<sup>21</sup> Else the "fully consolidated system" provides that direct investment statistics should cover all enterprises directly or indirectly has a direct investment. This means that once the 10 per cent rule across the border is achieved with an enterprise, certain other enterprises related "down the line" to the first enterprise would also be regarded as direct investment. The procedures to determine the existence

- Further, FDI stocks do not measure the size of MNEs, their foreign affiliates, nor their activities in host countries. They only measure the value of the parent's financial stakes in their foreign affiliates.<sup>22</sup>
- Reported stocks normally take no account of changes in currency values and asset values since the original investments were made.<sup>23</sup> BPM5 and the BDFDI3 recommend that all external financial assets and liabilities should be measured at current market prices as of date involved. FDI stocks translated into a common currency and at constant prices and exchange rates and revealed that FDI stocks are globally underestimated (Bellak and Cantwell, 2004, pp. 1-18), which should be considered in more sophisticated analysis.
- Investment position data are based on the immediate sources and destinations of an investment, while the surveys<sup>24</sup> on MNEs' activity are based on the ultimate sources and destinations of an investment. This difference influence country and industry distributions (see the examples in Lipsey 2001, pp. 14-15).
- Breakdowns by industries are not harmonized. Industries are monitored on a voluntary basis (and are not available for all countries), which causes that some central banks provide breakdowns on a flow basis while others do it on stock basis. Difficulties arises in international comparisons.
- Industry beakdowns often lead to misunderstanding. Misinterpretations occur in spite of methodological notes, providing information that breakdown considers industry of investing firm in the case of outward investment and receipient firm in case of inward investment. Activity of investing firm may (normally) diffeer from the affiliate activity. The activities of foreign affiliations is more valuable information, yet is not commonly available in national statistics (unless in selected OECD countries performing surveys).
- Coverage is still incomplete. Residents are normally obliged to register direct investment (inward or outward). Investment undertaken through other than security operations or credit transactions are not reported and difficult to monitor. Comparison of surveys and official registers may reveal missing units.<sup>25</sup> Problem arises from legal basis of reporting, since there is no sanctions or restrictions, when enterprise does not fulfill the duty to report.
- In cross-border acquisitions and especially mergers considerable part of flows is superficies, i.e. it consists only of exchange of shares between the merged companies, while there is actually no flows. This is fully reflected in BoP statistics.
- Values of inward-outward do not match between countries and differences between different sources are common for the same item (eg. The value of outward investment from country A to country B does not allways match the value of inward investment in country B from A, either in stock or flow value).
- Transition economies additionally face the problem of short time series, since the consistent monitoring was implemented only in the 1990s.

Many of this deficiencies could be solved by complementary data from survey on activity of multinational firms. Activity data (i) involve not only transactions between parent companies and subsidiaries or other direct-investment affiliates but also transactions between subsidiaries and all other firms, irrespective of any direct-investment linkages between them, (ii) consider other financial possibilities (iii) give relevance to ultimate beneficiary. Yet surveys on activities are not without problems.

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<sup>22</sup> *Affiliates are often financed through a variety of sources (local borrowing, other affiliates, joint ventures etc.).*

<sup>23</sup> *An exception is the US, where FDI stock estimates come in three variants, historical costs, current costs, and market value (Lipsey, 2001, p. 15).*

<sup>24</sup> *Current surveys on stocks carried by the central bank differ from survey on MNEs' activity (not yet introduced).*

<sup>25</sup> *Comparing survey results and official statistic in Slovenia revealed incomplete coverage in 1998 and 2001.*

### 2.3.2 Survey problems

Whereas data on direct investment flows gathered in connection with the balance of payments are available for all of the OECD countries and a great many non-OECD countries, data on the economic activity of multinational firms, being more recent and less harmonised on an international level, are compiled by only about two-thirds of the OECD countries.<sup>26</sup> The organisation of these surveys requires co-operation between different agencies, in particular in countries in which statistical services are not centralized.

Moreover, unlike direct investment statistics (flows and stocks), where inward and outward perspective is of similar quality, data on the activity of multinationals are uneven in this regard. Within the survey on the activity of multinational firms the data for the activity of affiliates of national firms abroad (i.e. outward investment) are not covered as well as for that of foreign affiliates in host countries (inward investment). In other words, inward investments are covered much better than outward investment in term of variables and frequency of recording. In some countries, the law makes it difficult for the national authorities to get parent companies to divulge detailed information involving the activity of their affiliates abroad. Problems arise due to current rules on confidentiality of data and availability. Especially in the case of outward investment companies mostly treat this data as confidential (strategic issues) and are reluctant to report. Legal basis for this has less influence on non-residents, while the bilateral data exchange among countries is not common.

As regards data collection, the largest set is available for inward investment in manufacturing industries. This involves a great number of variables (18) including production, turnover, employment, value added, gross fixed capital formation, R&D expenditure, exports, imports and gross operating surplus. These data are officially being compiled in many countries, but there had never been an effort to harmonize their collection at the international level. The data collection on outward investment is much poorer and surveys have been gradually extended.<sup>27</sup> Transition economies especially lags behind in this area, since majority of them are unable even to estimate number of foreign affiliates of their national investing firms, let alone the categories such as production, turnover, employment, value added, gross fixed capital formation, R&D expenditure, exports, imports or intra firm trade.

The second major difficulty involves data comparability, where numerous problems subsist. An initial step towards international harmonisation of basic concepts and definitions was taken via the *Manual on Statistics of International Trade in Services*. These concepts have been accepted internationally, but they need to be supplemented and extended to all of the activities of multinational firms. Further progress is expected with the adoption of *OECD Manual on Economic Globalization Indicators*. The Manual is expected to cover most of the methodological problems with data on the activity of MNEs, and offers recommendations for ensuring greater international comparability for these data.

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<sup>26</sup> *Database on the activity of multinational firms in 2002 covered 19 OECD countries (DSTI/EAS/IND/SWP (2002)7/rev1).*

<sup>27</sup> *This data category is of great interest for the WTO, since it provides support for negotiations on the liberalization of services within Gats, in the form of qualitative information on the trade and activity of MNEs in services sector.*

## 2.4 Needs and Suggestions

All data limitations and deficiencies should be considered when analysing FDI and MNEs' operations. BoP statistics that covers FDI was not established with regard to the need for MNEs analysis, which should therefore lean on additional sources to improve reliability and explanatory power.

Though some countries improved the data availability of MNEs (parents and their affiliates), the current coverage in most countries is still insufficient. Official statistical sources (based on balance of payments statistics) still gather stocks and flows data only. Since more extensive data on MNEs and their affiliates could only be gained by surveys, greater effort should be put in *survey adoption*, that would *ensure better coverage and country participation* and *promote the use of common definitions and methodologies*. The implementation of the Manual will take longer period, and is expected to be introduced step by step with greater co-ordination of FDI and MNE statistics (consolidation of sources). Monitoring foreign affiliates would be one of the first priorities in statistics of globalization. This could enable to compile a group of related companies and use MNE as a unit of analysis. Data gathering should gradually be extended to selected categories and then compiled with existing sources. First it is important to identify limits of national data, as compared to standards adopted in the manual. Most probably the highest success is expected when the competence lies in the central bank, yet poor results are expected without adequate legal basis.

## 3. CONCLUSIONS

Rising volume of FDI and MNEs' activity, the increasing importance and influence of MNEs which are playing a decisive and structuring role in the world economy, and the developments in the theory of international economics created renewed interest in measuring and analysing these phenomenon. Improvement of existing monitoring is a precondition to better understanding.

Though imperfect, FDI is currently best available measure of evolution of MNEs. Trends in FDI often differ greatly from indicators of economic performance such as fixed investment flows or stocks, sales and employment in parent firms and/or their affiliates. Thus changes in flows or stocks of FDI are sometimes interpreted to signal changes in real economic activity of MNEs, even where there may be no major changes, or vice versa. Even if deficiencies of existing macrostatistics are improved, monitoring FDI is not sufficient to analyse MNEs and complementary approach with the surveys on multinational firms' activity is needed.

Aims should lie in better coverage and country participation, promoting the use of common definitions and methodologies and better coordination of FDI and MNEs statistics including the compilation of various sources. To monitor their development and operations and measure their impact, MNE should be introduced as a statistical unit (unit of analysis).

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