

Title: *Measuring Foreign Direct Investment*

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This paper is a comparison of the portrayal of the universe of direct investment presented by data on flows and stocks of FDI with the picture provided by measures of the real economic activity associated with FDI. The paper will compare country, industry, and country by industry distributions from the two types of measures and distributions of changes over time. It will also ask whether conclusions about the determinants of location and the impact of FDI have been distorted by data that bear little resemblance to economic activity.

This paper will examine how well or badly these widely used measures of FDI flows and stocks match the measures of real FDI activity, across countries, over time, and by the industry in which the activity takes place. Despite their widespread use, these data have been subjected to very little examination of their relation to the real economic activity involved in FDI. The only such study I am aware of, UNCTAD (2001), was based only on U.S. data, both inward and outward, and covered stocks as of around 1990 and changes mainly over the 1970s and 1980s. This study will include the 1990s for the United States, and add comparisons for other countries. On the outward investment side, it would make use of data on Japanese, Swedish, and German outward direct investment. On the inward side, there are more countries for which comparisons can be made, although for some countries, the data are confined to manufacturing.

The measurement difficulty goes beyond tax-avoiding strategies to the underlying problem that as production comes to depend more and more on intangible, particularly intellectual, assets, the location of production loses much of its meaning, because these assets have no clear geographical location. They may be located within a firm, by ownership, but if the firm is multinational, that ownership has no definite geographical 24 implication. The tangible inputs to production can be associated with geographical locations, but not the intangible inputs. One could suggest that intangible assets should be attributed to the home or main location of a multinational firm (itself not always a clear concept), but that would upset long traditions of both corporate and national accounting. In the meantime, tax planning is eating away at the meaning of our standard measurements.