International Conference on CPIS
Bank of Spain, 1-2 March 2006

Possible use of CPIS for globalisation indicators and investment protection analysis

Ayse Bertrand
Investment Division/DAF
OECD

Proposals for the use of CPIS

- Two possible uses of CPIS data

1) To develop coprehensive globalisation indicators related to portfolio investment

2) To measure the extent of investment protection by international agreements

Globalisation indicators

- Concept of globalisation
- OECD Handbook on Economic Globalisation Indicators
- OECD's Globalisation indicators related to FDI
- Possible use of CPIS to develop globalisation indicators

Concept of Globalisation

1) Major forces

a) liberalisation of capital movements and deregulation, of financial services in particular;

a) further opening of markets to trade and investment, the growth of international competition; and

a) central role played by information and communication technologies

Concept of Globalisation

2) Understanding globalisation based on facts and findings

   a) *To what extent can the intensity of globalisation be measured?*
   b) *How can the impact of globalisation on economic performance be evaluated?*
   c) *How can we measure the impact of structural policy reforms designed to get national economies to benefit more from globalisation?*

Globalisation indicators

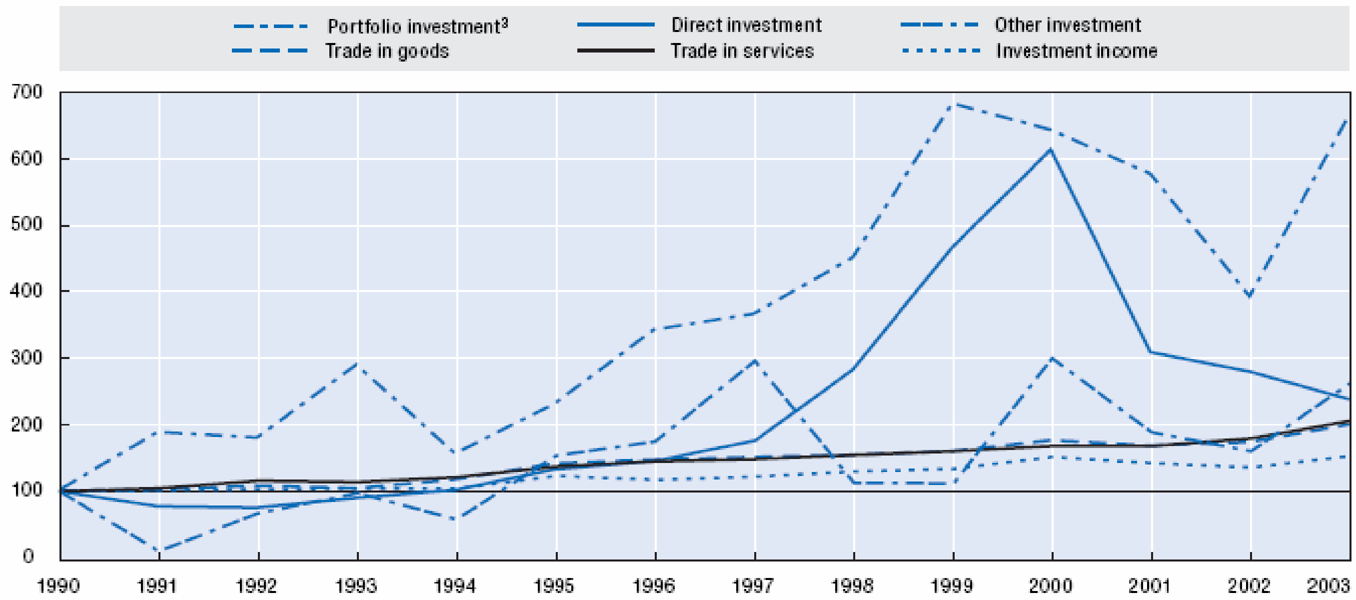
Recent OECD Work on Globalisation indicators: two new publications in 2005

- *OECD Handbook on Economic Globalisation Indicators*
- *Measuring Globalisation: OECD Economic Globalisation Indicators*
- *Collaborative work:*
    - *Science, Technology and Industry*
    - *Financial and Enterprise Affairs*

Globalisation indicators

Figure A.1.1. **Trends in international trade and investment components**[1]

OECD,[2] 1990 = 100, current prices



Source: IMF, *Balance of Payments Statistics* and OECD, National Accounts of OECD Countries database, April 2005.

Globalisation indicators

Figure A.1.2. **Main components of the current account as a percentage of GDP,[4] OECD[5]**

Gross basis, average 1999-2003

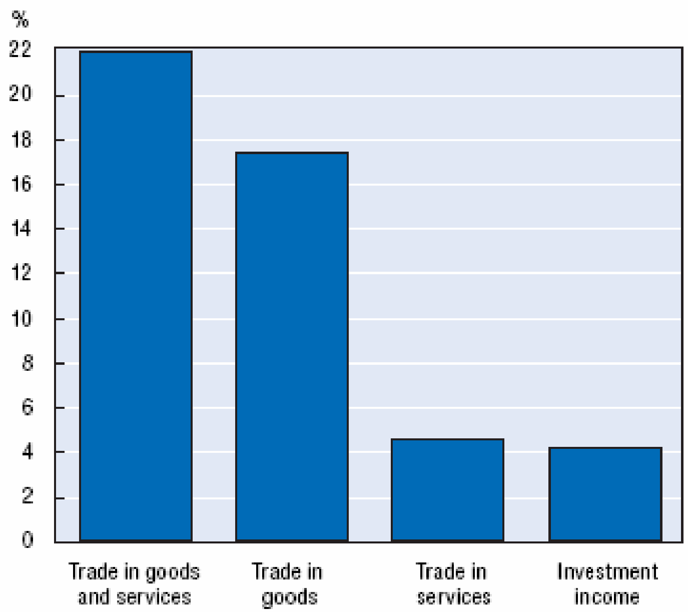
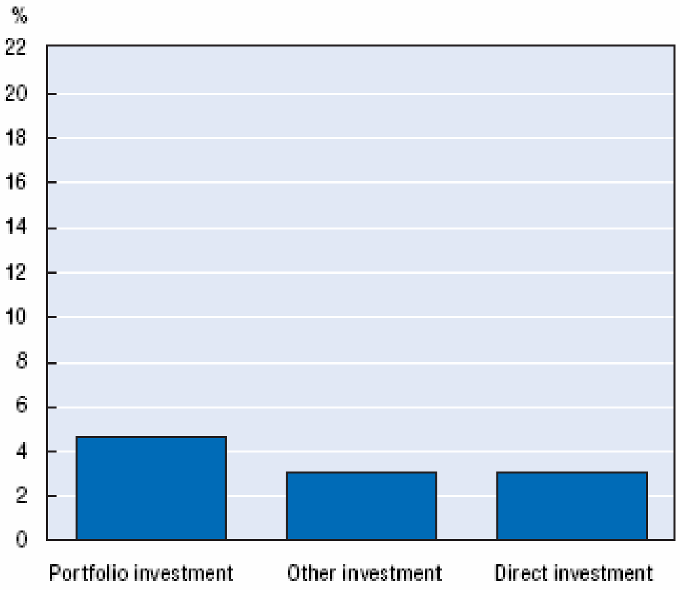


Figure A.1.3. **Main components of the financial account as a percentage of GDP,[6] OECD[5]**

Net basis, average 1999-2003



Source: IMF, *Balance of Payments Statistics* and OECD, National Accounts of OECD Countries database, April 2005.

OECD Handbook on Economic Globalisation Indicators

1) Objectives
    a) To identify relevant indicators to gauge the magnitude and the intensity of globalisation
    b) To provide methodological and statistical guidelines
2) Conceptual framework
    a) <u>Capital movements – foreign direct investment</u>
    b) Economic activity of MNEs
    c) Internationalisation of technology
    d) International trade

OECD Handbook

3) Relevance of statistics to analyse globalisation- Main questions:

a) Are traditional statistics sufficient to analyse fully the magnitude and consequences of globalisation, or do they need to be supplemented by, and combined with, other indicators?

b) Are new concepts and factors resulting from a global economy well identified, defined and explained? Should they be integrated with existing tools into a common analytical framework?

c) Are international standards to produce comparable statistics adequate to take new developments into account?

Globalisation indicators- FDI

1) Reference and Supplemental indicators [OECD Handbook]
   a) Extent of globalisation through FDI
   b) Contribution of host and investing economies or of industries to globalisation through FDI
   c) Return on FDI
   d) Degree of concentration of FDI
   e) Dynamics of FDI in reporting economy
   f) Share of FDI by category: cross-country and industrial analysis
2) Methodology
   a) *OECD Benchmark Definition of Foreign Direct Investment*
   b) *IMF Balance of Payments Manual*

Globalisation indicators –Portfolio investment

1) Does CPIS respond to main statistical quality parameters?

   a) Avoiding statistical cross-country inconsistencies
   b) Achieving consistent statistical series over time
   c) Allowing a meaningful exchange of data between partner countries
   d) Reducing global discrepancies
   e) Providing timely and reliable data

2) Does CPIS provide methodological guidance for data collection?

Globalisation indicators –Portfolio investment

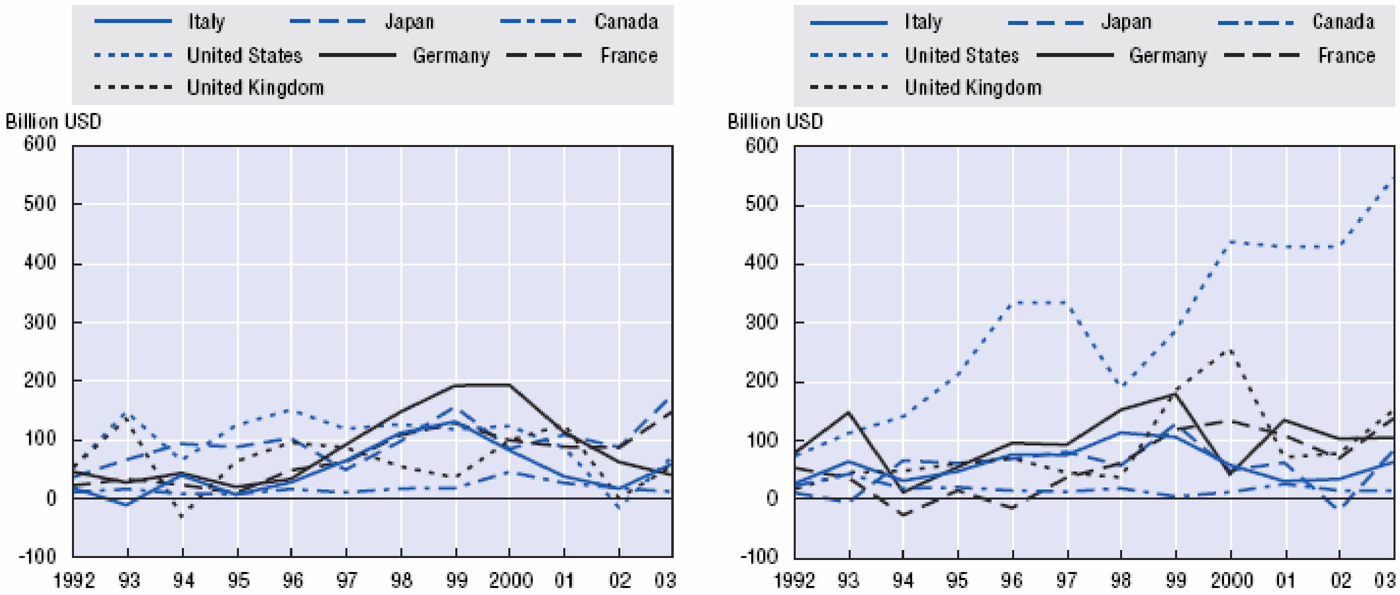
4) Does CPIS address main analytical needs? (i.e. include breakdowns relevant to global market analysis)
   a) Assets/liabilities by instrument
   b) Assets/liabilities by main institutional sectors (economic agents)
   c) Assets/liabilities by currency composition

OECD Globalisation Indicators
Portfolio investment

A.3. Trends in portfolio investment flows

Figure A.3.1. **Assets 1992-2003, G7 countries**

Figure A.3.2. **Liabilities 1992-2003, G7 countries**



Source: IMF, *Balance of Payments Statistics*, April 2005.

OECD Globalisation Indicators
Portfolio investment

Figure A.3.3. **Assets, average 2000-03**

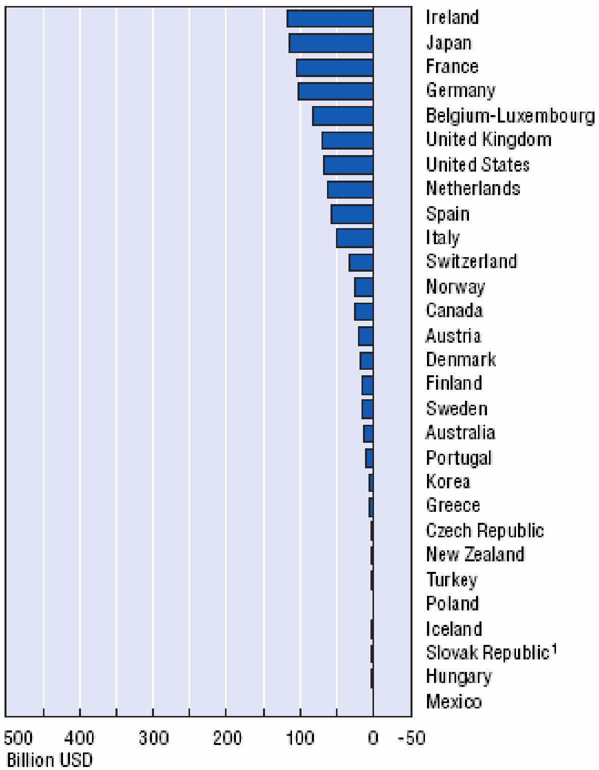
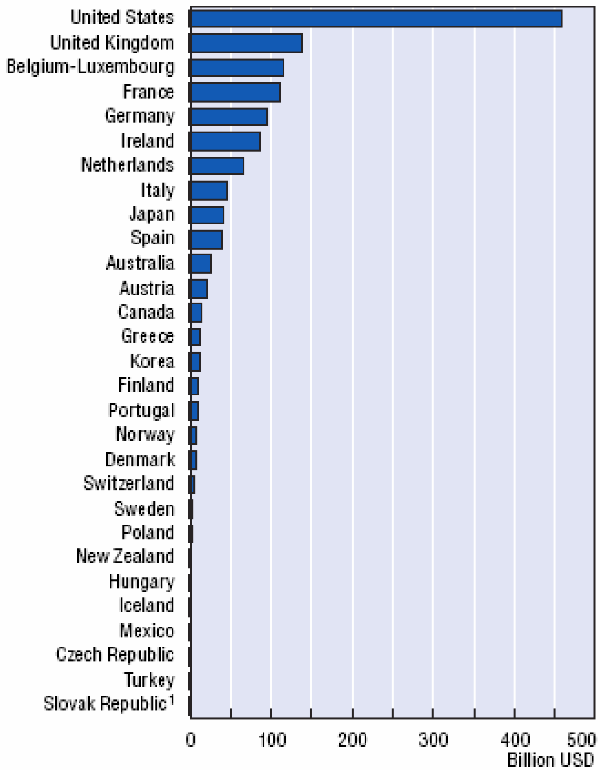


Figure A.3.4. **Liabilities, average 2000-03**



Source: IMF, *Balance of Payments Statistics*, April 2005.

International Investment Agreements

1) Types of IIAs covered by the OECD study
2) Why IIAs are important
3) Recent IIA trends
4) OECD estimates on investment protection by IIA (work in progress)
5) <u>Possible use of CPIS to expand estimates for investment protection by IIAs</u>

International Investment Agreements

1) Types of IIAs covered by the OECD study
   a) Bilateral Investment Agreements (BIT)
   b) Trade Agreements with investment chapters (TAs)
2) The importance of IIAs
   a) Make international markets more secure for investors and protect investment
   b) Enhance attractivity for investment
   c) Contribute to stable investment flows
   d) Provide transparent rules for investment
   e) Positive impact for development… etc..

International Investment Agreements

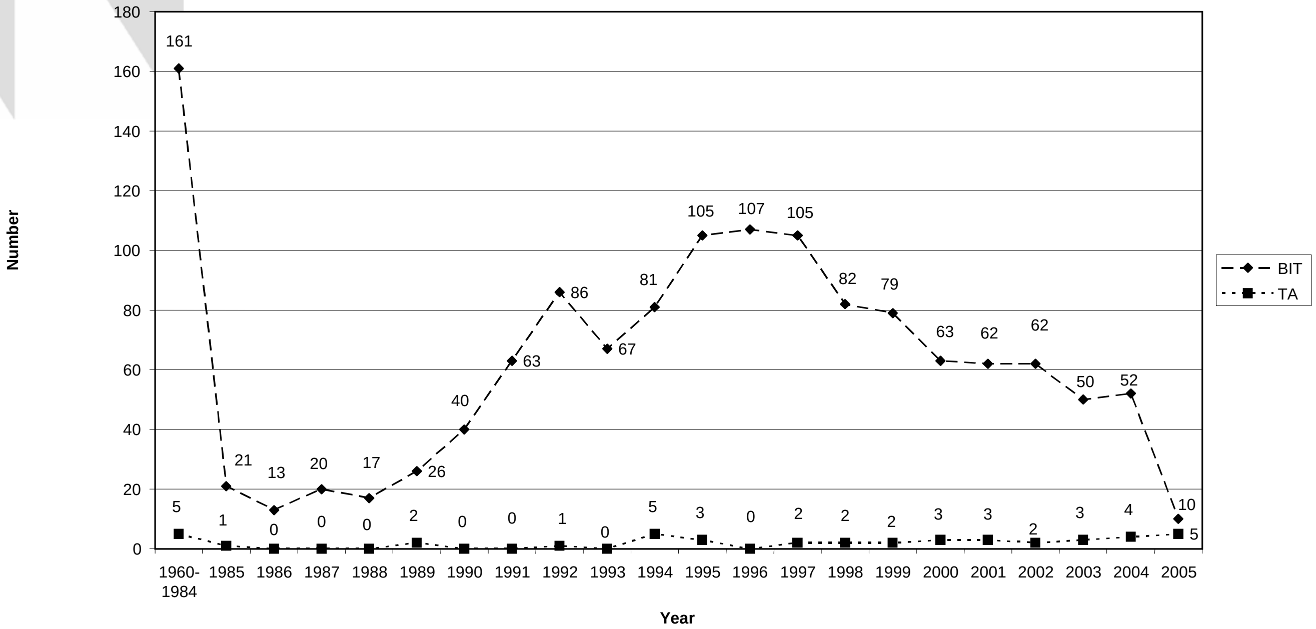
3) Recent trends in IIAs

- Overall there are currently
  - 2400 BITs
  - 170 TAs with investment chapters

- by OECD with 140 non-OECD (as of end-July 2005)
  - 1240 BITs
  - 36 TAs

International Investment Agreements

Figure 1. BITs and TAs newly contracted by OECD countries
(as of July 2005)



International Investment Agreements

4) OECD estimates for investment protection for FDI
   a) Methodology
      - Estimates of ratified and forthcoming IIAs
      - Listing of individual BITs and TAs
        - Based on the new OECD databank on IIAs
        - Information used for estimates: type of IIA, partner and reporting country, year of ratification
      - Bilateral FDI positions data
        - Based on Inward and outward FDI positions of OECD International Direct Investment Statistics
        - Partner country coverage: OECD and non-OECD countries and regions
      - Problem of double counting Between two reporting OECD countries – eliminated

Table 1. Coverage of OECD Outward and Inward Investment by IIAs 1)

Country	Number of agreements						Outward FDI positions covered by BITs and TAs 2) (as % of total outward FDI positions)						Inward FDI positions covered by BITs and TAs 2) (as % of total inward FDI positions)					
	existing agreements			future agreements 3)			existing agreements			future agreements 3)			existing agreements			future agreements 3)		
	BITs	TAs	Total	BITs	TAs	Total	BITs	TAs	Total	BITs	TAs	Total	BITs	TAs	Total	BITs	TAs	Total
Australia	19	4	23	6	4	10	2.6	60.1	62.7	-	1.1	1.1	1.3	32.3	33.6	-	8.8	8.8
Austria	55	-	55	2	-	2	37.2	-	37.2	-	-	-	3.8	-	3.8	-	-	-
BELU	57	-	57	63	-	63	4.2	-	4.2	0.3	-	0.3	2.0	-	2.0	0.1	-	0.1
Canada	22	4	26	5	9	14	4.1	43.5	47.6	0.2	7.5	7.7	-	63.9	63.9	0.2	3.1	3.3
Czech Republic	72	-	72	12	-	12	5.6	-	5.6	-	-	-	8.9	-	8.9	-	-	-
Denmark	43	-	43	7	-	7	10.6	-	10.6	1.1	-	1.1	1.1	-	1.1	-	-	-
Finland	50	-	50	5	-	5	5.6	-	5.6	0.3	-	0.3	1.1	-	1.1	-	-	-
France	84	-	84	12	-	12	6.1	-	6.1	1.1	-	1.1	0.9	-	0.9	0.03	-	0.03
Germany	115	-	115	21	-	21	12.4	-	12.4	0.9	-	0.9	1.0	-	1.0	0.1	-	0.1
Greece	33	-	33	14	-	14	49.3	-	49.3	0.1	-	0.1	10.4	-	10.4	0.03	-	0.03
Hungary	52	-	52	6	-	6	64.2	-	64.2	0.04	-	0.04	60.2	-	60.2	0.01	-	0.01
Iceland	2	2	4	0	1	1	0.6	79.4	80.0	-	-	-	0.8	70.7	71.5	-	-	-
Ireland	1	-	1	0	-	0	-	-	-	-	-	-	-	-	-	-	-	-
Italy	70	-	70	21	-	21	5.5	-	5.5	1.3	-	1.3	0.9	-	0.9	0.1	-	0.1
Japan	11	2	13	0	14	14	7.8	3.8	11.6	-	12.3	12.3	2.4	1.2	3.6	-	3.8	3.8
Korea	55	1	56	9	7	16	53.5	0.1	53.6	0.9	2.4	3.3	64.4	-	64.4	0.02	4.9	4.9
Mexico	17	12	29	1	1	2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	18.6	67.7	86.3	0.03	3.5	3.6
Netherlands	79	-	79	12	-	12	8.9	-	8.9	1.7	-	1.7	0.6	-	0.6	0.1	-	0.1
New Zealand	2	1	3	1	7	8	0.3	1.5	1.8	-	60.6	60.6	1.2	2.1	3.3	-	45.6	45.6
Norway	16	2	18	0	-	0	2.0	70.4	72.4	-	-	-	-	78.5	78.5	-	-	-
Poland	56	-	56	5	-	5	87.7	-	87.7	1.5	-	1.5	94.4	-	94.4	2.5	-	2.5
Portugal	35	-	35	8	-	8	3.9	-	3.9	27.1	-	27.1	7.3	-	7.3	1.7	-	1.7
Slovak	37	-	37	3	-	3	48.4	-	48.4	-	-	-	91.5	-	91.5	-	-	-
Spain	47	-	47	23	-	23	24.8	-	24.8	1.4	-	1.4	1.5	-	1.5	0.1	-	0.1
Sweden	54	-	54	2	-	2	6.2	-	6.2	-	-	-	0.04	-	0.04	-	-	-
Switzerland	102	2	104	5	1	6	8.3	43.6	51.9	0.9	1.9	2.8	-	56.5	56.5	-	0.6	0.6
Turkey	54	7	61	17	12	29	66.2	3.7	69.9	0.2	-	0.2	82.3	3.6	85.9	0.01	-	0.01
United Kingdom	93	-	93	7	-	7	6.9	-	6.9	0.7	-	0.7	1.6	-	1.6	0.01	-	0.01
United States	39	6	45	8	8	16	1.3	20.6	21.9	0.1	3.1	3.2	-	10.2	10.2	-	0.4	0.4
Gross Total (4)	1372	43	1415	275	64	339												
Net Total (5)	1240	36	1276	273	40	313												

1) The number of BITs and TAs are based on available information as of July 2005

International Investment Agreements

b) Main results (based on 2003/2002 data)

i. The amount of FDI covered by OECD's IIAs is significant
ii. New dynamic in favour of TAs
iii. European countries (largely defined) account for the largest number of BITs
iv. Non-European OECD countries are turning more to TAs
v. OECD provides protection to a growing share of investment

International Investment Agreements

i. The amount of FDI covered by OECD's IIAs is significant taking into account that the large part of FDI takes place between OECD countries in the absence of IIAs

   - 18% of outward FDI
   - 14 % of inward FDI
   - More than 50% of OECD investments in non-OECD

ii. New dynamic in favour of TAs
   - TAs are rising in terms of
     - Numbers
     - volume
   - In 2005
     - 10 new BITs (107 in 1996)
     - 36 TAs in place and 40 under consideration

International Investment Agreements

iii. European countries (largely defined)
   - Account for the largest number of BITs
   - But cover less than 10 % of outward investment
     - Exceptions: Poland, Turkey, Hungary, Greece
     - 10 new BITs (107 in 1996)

iv. Non-European OECD countries are turning more to TAs
   - OECD TAs
     - 90 % of the increase account for Mexico, United States, Australia and Canada
     - Main source of investment protection for outward FDI: 60% Australia, 44% Canada, 20 % United States

International Investment Agreements

v. OECD countries are providing protection to a growing share of inward investments
   - Current treaties
     - Some countries maintain high levels: Mexico 86 %, Norway 79 %, Iceland 71 %, Korea 65 %, Canada 64 %, Hungary 60 %
   - Forthcoming TAs are likely to provide incremental coverage, e.g.
     - New Zealand by 46%, Australia by 9 %, Korea by 5%, Japan by 4 %

International Investment Agreements

vi. Possible use of CPIS data to expand the estimates for investment protection by IIAs

1) Coverage of IIAs:
   - All types of international investments

2) Main data requirements
   - Portfolio investment positions (assets/lliabilities)
   - Bilateral data (possibly including regional aggregates)
   - Timely data

Thank you for your attention.