

## ANNEX 1

### I. DEFINING FOREIGN DIRECT INVESTMENT (FDI) & RELATED TERMS

Explanation of the terms, as related to Foreign Direct Investment, is provided in this section.

*FDI* : FDI is an asset that an investor from one country acquires and manages in another country. It is the "*management with control*" of the asset that is significant in FDI and distinguishes the latter from portfolio investments in stocks and bonds etc., in another country (WTO, 1996). Normally, the investors are business firms and the assets they acquire are also firms.

*Types of FDI* : Three main types of FDI are equity capital (with ownership and control), reinvested earnings and intra-company transactions in the form of borrowing and lending.

*Equity Capital* : Equity capital is the value of an Multinational Enterprise's (MNE) investment in shares of an enterprise in a foreign country. This category includes mergers and acquisitions and creation of new facilities, often termed "greenfield investments". Equity capital is an important source of FDI for OECD countries.

*Reinvested Earnings* : Reinvested earning is the MNEs share of earning by the affiliate that is not remitted to the parent MNE. The affiliate would normally retain such profit and reinvest it.

*Intra-Company Borrowing and Lending* : This constitutes long and short term borrowing and lending of funds between the MNE and the affiliate.

The three main types of FDIs, as described above, are collected by national statistical agencies and are reflected in the balance of payments statistics by IMF (WTO, 1996). However, comprehensive and comparable data on FDI is yet to be recorded consistently in all countries, which makes conclusions to be drawn from any study on FDI flows difficult.

*Flow of FDI* : Flows of FDI refer to the movement of investment funds across international borders. This includes outgoing and incoming investment. Investments that do not involve cross-border flows are not counted. Flows of FDI are reported both in *gross and net terms*.

*Gross Inflow of FDI* : It includes equity and long term debt investments by foreign investors.

*Gross Outflow of FDI* : It includes the repayment of a long term loan and sale of equity to domestic residents.