

FOREIGN DIRECT INVESTMENT: FREQUENTLY ASKED QUESTIONS

1. What is Foreign Direct Investment (FDI)?

The FDI has been compiled in accordance with the IMF'S Balance of Payments Manual, Fifth Edition (BPM5) and OECD, Fourth Edition 2008.

FDI implies that a resident equity is one economy exercises a significant degree of influence over the management of a business enterprise resident in another economy. Ownership of 10 percent or more of the ordinary shares or rating power (for incorporated enterprise) or the equivalent (for unincorporated enterprises) is taken as evidence of a significant degree of influence over management.

FDI includes equity capital, reinvested earnings, and intercompany debt transactions. Reinvested earnings consist of the direct investor's share (in proportion to equity participation) of earnings not distributed as dividends.

- Equity capital comprises
 - i) equity in branches
 - ii) all shares in subsidiaries and associates (except non-participating preferred shares that are treated as debt securities and included under direct investment, debt instruments); and
 - iii) other contributions of an equity nature.
- Reinvested earnings represent the direct investors' proportion, in terms of equity held, of earnings that foreign subsidiaries and associates do not distribute as dividends. Reinvested earnings are the direct investor's share of the retained earnings of the direct investment enterprise.
- Direct investor is an entity or a group of entities that is able to exercise control or a significance degree of influence over another entity that is resident in a different entity. Direct investment enterprise is an entity subject to control or a significance degree of influence by a direct investor.
- Fellow enterprise is an enterprise in one economy may be related through the Framework of Direct Investment Relationship – FDIR to another enterprise in the same economy, or in a different economy, without either being directly or indirectly influenced by the same enterprise in the ownership hierarchy. It is also an enterprise that is under the control or influence of the same immediate or indirect investor, but neither fellow enterprise controls or influences the other fellow enterprise (10% equity threshold not met).

- Debt instruments are those instruments that require the payment of principal and/or interest. Direct investment debt positions can be between affiliated enterprises.

2. How are FDI statistics measured?

In Brunei's context any investor that is non-resident (less than 1 year) and has at least 10 % of the shares in direct investment enterprises in Brunei is considered as foreign investment. Any foreign investment that is less than 10 % is considered as portfolio investment recorded in Balance of Payment Statistics.

Presentation of the FDI statistics is on a directional basis which is designed to provide users with information reflecting the direction of influence underlying the direct investment. This requires a compiling to determine whether the investment was inward (labelled as foreign direct investment inflows). FDI statistics are also presented by FDI inflows by industrial sector and geographical distribution. This is explained as follows:

- **Industrial Sector**

This refers to the business activity that is reported by the companies through census or otherwise we can get this information from the Registrar of Companies Ministry of Finance. These activities then coded based on International Standard Industrial Classification of all economic activities (ISIC Rev.4)

- **Geographical Distribution**

The geographical origins of the investors are established based on their residential or registered addresses outside Brunei that are considered as foreign (non-resident) investors. They are recorded according to the immediate source economy, rather than the ultimate source economy, e.g. if country X invests in Brunei through country Y, the source of investment would be recorded as country Y (immediate).

As for currency valuation, Brunei's FDI statistics are expressed in BND. For financial data, assets and liabilities data if the survey submitted in foreign currency it will be converted at the end of each period as at balance sheet and for income and expenses data is calculated at average period using exchange rate based from AMBD. FDI and other positions of financial assets and liabilities should, in general, be valued according to market value.

In addition, FDI can be presented as negative where negative FDI could mean the following:

- Continuous losses by FDI enterprise that can cause by dividends distributed by direct investment enterprise are higher than earnings recorded.

- The value of advances by FDI to direct investment enterprise or fellow enterprise exceeding the value of loans/trade credits made by FDI enterprise to direct investment enterprise or fellow enterprise (e.g. change in assets is higher than change in liabilities between intercompany debts and fellow enterprise)

3. How do you obtained FDI statistics in Brunei Darussalam?

The data sources of FDI statistics is from the Survey of International Investment and International Services, it covered a sample based on the census returns and administrative data. Using administrative and other sources of information to improve coverage of new FDI enterprises in the quarterly survey; and closing other gaps in coverage (through annual survey), including the financial sector and capital inflows in connection with Production Sharing Agreements involving non-resident partners. The focus has been to cover all of the large direct investment enterprises. As for the timely update of survey frame, Department of Statistics and The Registrar of Companies, Ministry of Finance is collaborating in updating the newly registered companies.

4. How are FDI statistics collected in Brunei Darussalam?

Data FDI were collected from extracted financial accounts of companies covered in the Survey of International Investment and International Services. This was primarily conducted by mail using a standard questionnaire. For non-respondents companies, follow up were conducted via telephone and email. After a call was made with reasonable reason, an extension time will be given to complete the questionnaire and any queries regarding the surveys it will be tackled immediately.

Data of FDI on debts instruments (e.g. Debts with foreign related companies and intercompany debts) were gathered from the survey as well. These are presented in the question as at the end of the quarter period. The year of reference used in collecting this data was the calendar year , however for companies whose accounting year differed from the calendar year , they were requested to report according to the accounting or financial year that covers most part of the calendar year.

5. What is the relation between FDI transactions, positions (stocks) and income?

FDI financial transactions refer to those cross-border transactions which qualify as direct investments recorded during the reference period (year, quarter, or month). FDI positions represent the value of the stock of direct investments held at the end of the reference period (year, quarter, or month). Direct investment positions are affected not only by financial transactions recorded prior to and during the period but also by other changes in price, exchange rates, and volume. FDI income data, closely linked to the stocks of investments, are used for analysis of the productivity of the investment, and are also used as part of the calculation of the rate of return on the total funds invested.

6. Why are there such large revisions in the FDI data?

In order to serve users requiring timely data, the compilers of FDI statistics make initial estimates for some components on preliminary information available at that time. It is especially difficult to have timely and at the same time complete data on the accrued income when the results are first published, as these values are only known once the direct investment enterprise has closed its books and the current operating income and earnings distributions have been determined for the reference period.

Consequently, when more complete data are provided for the reference period, data compilers revise the estimates for the previous periods. However, compilers are recommended to provide to the public at large a description of the revisions.

7. What are the criteria for the classification of FDI by economic activity: according to the activity of the resident parent company or that of the non-resident enterprise?

The recommendation is to provide inward and outward FDI data on the basis of the economic activity of both the direct investment enterprise and that of the direct investor. However, if this is not feasible, it is recommended that the priority is to compile the data according to the activity of the direct investment enterprise, for both inward and outward investments (i.e. economic activity of the resident direct investment enterprise for inward investment and that of the non-resident direct investment enterprise for outward investment).