Indirect FDI

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In today's world economy, a significant part of foreign direct investment (FDI) does not go directly to the final destination country, but flows through one (or more) third (or multiple) country subsidiaries of the multinational company. These latter are usually located in offshore financial centres or in developed countries with "favourable" tax regimes. The extent of this "additional" flow is not known; one estimation put it to one third of total global FDI (Damgaard, Elkjaer, 2017), thus it is very substantial.

Here there are various “types” of further FDI flows. From the intermediary country, FDI can go back to the sending country (roundtripping), to the (real) destination country, to another intermediary country (even longer investment chains can be formed - multiple intermediation) or invested in the same country, but already through a local subsidiary. These all have various impacts on the host and home economies (Jones and Temouri, 2016; Aykut et al., 2017). Furthermore, there is an impact of these double, triple or more counting of the same FDI flows on data: an "inflation" effect (same capital investment is (are) repeatedly included) and in many cases it is difficult to tell where the capital investment is actually coming from.

In the presentation, the problem and concepts will be articulated, followed by a review of the literature. In the literature, most often the various motivations of these “intermediated” FDI flows are analysed (see e.g. Jones and Temouri, 2016), thus roundtripping, intermediation and multiple intermediation are analysed together. In the research presented, we analyse these various types of intermediated FDI flows separately, based on the new BPM6-BMD4 FDI dataset available for certain OECD countries. First, it is shown, that these new data perform better in econometric models compared to the old data. Second, motivations for roundtripping FDI are shown based on a model analysis. Third, motivations for indirect (but not roundtripping) FDI are also demonstrated. The results are compared with those of the relevant literature, including econometric analyses and detailed country cases.

The importance of the research is highlighted at the end, in the era, where a global minimum tax is planned to be introduced.