D.8. Rate of return on direct investment

■ The rate of return on direct investment is calculated as a ratio of direct investment income to direct investment positions at a given point in time. This indicator contributes to the analysis of the profitability of enterprises even though other information is necessary for a complete assessment.

■ Over the past decade the rate of return on OECD outward direct investment was on average 7.6% while it was 6.4% for inward investments. The highest rate was recorded in 2005 for both inward and outward investments (9.6% and 7.9%, respectively) implying the highest profitability rate of direct investment enterprises at home and host countries. Even though these rates were lower in 2008 (9% for outward investment and 8% for inward investment), they remained above average rates.

■ Foreign affiliates of Swedish and United States investors had significantly higher returns (12.5% and 11.8%, respectively) as compared to resident direct investment enterprises in these countries 8.2% and 6.2% respectively). German and French investments abroad were also more profitable than inward investments but differentials were not more than 1.5%.

■ On the other hand, direct investment enterprises resident in Japan recorder higher rates of return in 2007 (11.1%) as opposed to those of affiliates abroad, at 8.3%. This was also the case in some other countries such as Finland, Slovak Republic and Poland.

Source

- *OECD International Direct Investment database*.

For further reading

- OECD, *OECD Benchmark Definition of Foreign Direct Investment: 3rd Edition* (1995).
- IMF, *Balance of Payments Manual: 5th edition* (1995).
- OECD (2005), *Measuring Globalisation – OECD Handbook on Economic Globalisation Indicators*, OECD, Paris. Available at: *www.oecd.org/sti/measuring-globalisation*.

Rate of return on direct investment

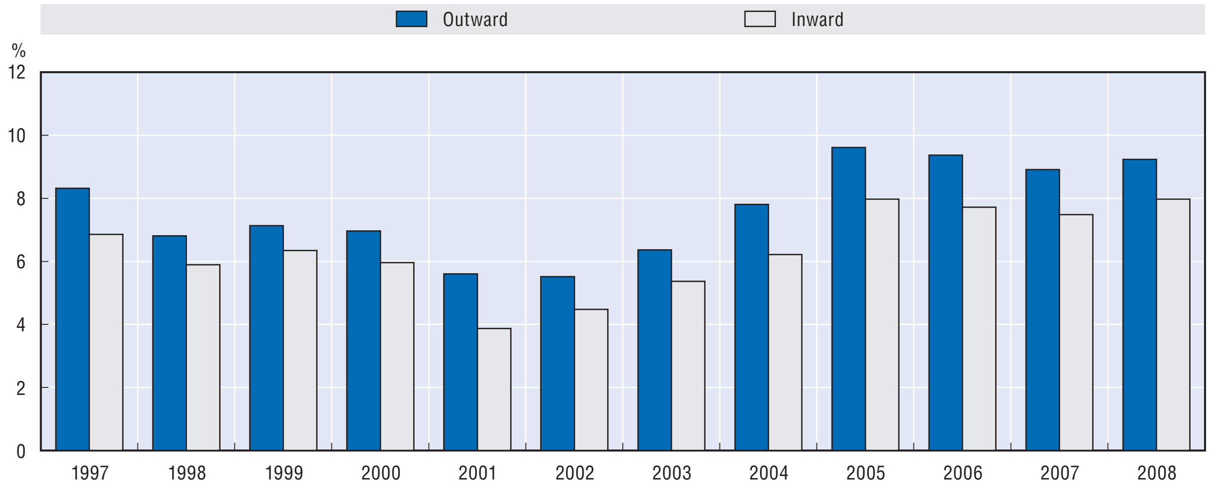
Rate of return on direct investment is an indicator which is based on FDI income and provides information on the profitability of direct investment enterprises. It is calculated as the ratio of direct investment income to direct investment position (stocks) in respect of both inward and outward investment (see also notes in the previous section).

For example, when the rate of return of inward FDI [FDI equity income debits – *i.e.* debits for *a)* dividends and distributed branch profits, plus *b)* reinvested earnings and undistributed branch profits – as a per cent of total inward FDI positions] increases, it implies that the resident direct investment enterprises are more profitable and are more and more competitive for investors. However, observations based purely on the results of the statistical ratios are not sufficient to draw conclusions on the competitiveness of enterprises (or an economy). Many other factors should also be taken into account such as cyclical or structural factors, developments in that sector of economic activity as well as other factors related to the global strategy of the investing enterprise(s).

D.8. Rate of return on direct investment

Figure D.8.1. **Rate of return on direct investment[1] in OECD countries**

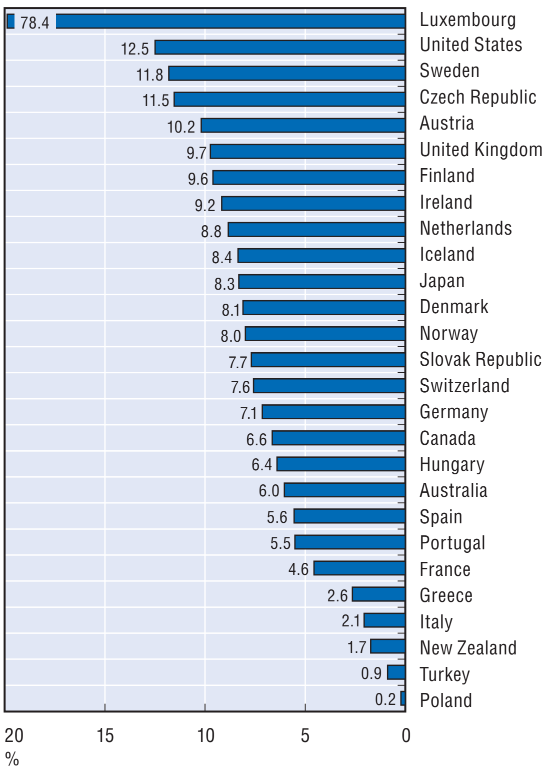
Per cent



StatLink http://dx.doi.org/10.1787/842334423141

Figure D.8.2. **Rate of return on outward direct investment[1] in OECD countries, 2007[2]**

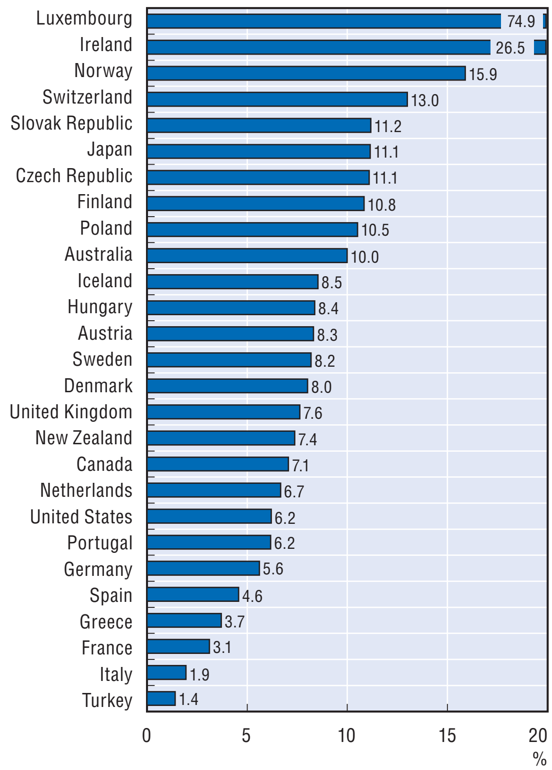
Per cent



StatLink http://dx.doi.org/10.1787/842347720172

Figure D.8.3. **Rate of return on inward direct investment[1] in OECD countries, 2007[2]**

Per cent



StatLink http://dx.doi.org/10.1787/842356670402

1. Excluding Belgium, Korea and Mexico.
2. 2006 for Austria, Germany, New Zealand and Norway.

From:

Measuring Globalisation: OECD Economic Globalisation Indicators 2010

Access the complete publication at:

https://doi.org/10.1787/9789264084360-en

Please cite this chapter as:

OECD (2010), “Rate of return on direct investment”, in *Measuring Globalisation: OECD Economic Globalisation Indicators 2010*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264084360-40-en