

D.9. Direct investment dividends

■ This indicator usually contributes to the assessment of the profitability of direct investment enterprises, along with the analysis of reinvestment of earnings. It is calculated: *a*) as a ratio of dividends paid by resident enterprises to their non-resident direct investors (debits) over inward FDI positions; and *b*) as a ratio of dividends received by resident investors from foreign affiliates (credits) over outward FDI positions. Increases in the ratios generally imply improvements in the profitability of enterprises. However, a complete assessment of the profitability of enterprises cannot be based solely on statistical observations but have to be complemented by other factors.

■ Trends in distribution of dividends can be extremely volatile and do not generally follow trends in FDI positions. The amount of dividends to be distributed results from the decision of the management taking also into account factors which may not be directly linked to FDI trends.

■ Inward FDI stocks of OECD countries reached USD 14 trillion at end-2007 (around 15% increase from 2006) while dividends distributed to shareholders decreased by around 8%. This development contrasts with 2005 when both stock of inward investments and dividends distributed to foreign investors both increased by more than 50%. Likewise, outward investment stocks of OECD countries increased by 22% in 2006 when dividends received by OECD investors from their foreign affiliates decreased by 21%. This difference was less significant in 2007 when outward FDI grew by 24% and dividends increased only by 8%.

■ The dividends distributed to direct investors in OECD countries as a whole are higher for outward investments as compared to inward investments. However, the difference is generally not very significant.

For instance, in the recent years, the ratio is within the range of 3% to 3.5%.

■ The rate of return on dividends is strikingly different depending on whether a country attracts FDI rather than being an investor itself. As demonstrated in Figures D.9.3 and D.9.4 the rate of return on dividends for direct investment enterprises resident in Ireland was 15% for the period 2004-07 while the return from foreign affiliates of Irish investors was only 0.2%.

■ Amongst large OECD economies, the rate of return on dividends of direct investment enterprises resident in the United States was 2.5% for the same period while for affiliates abroad recorded 5.1%, boosted by the high rate of return in 2005 (11%). Likewise, foreign affiliates of United Kingdom investors recorded higher rates of return (4.6%) as opposed to resident direct investment enterprises (3.4%). Both France and Germany exhibit similar rates of return but with smaller differences between dividends distributed to foreign affiliates and those received by resident direct investment enterprises. In contrast, enterprises resident in Canada recorded 3.9% while the rate of return of foreign affiliates was 2.2%.

Source

- OECD International Direct Investment Database.

For further reading

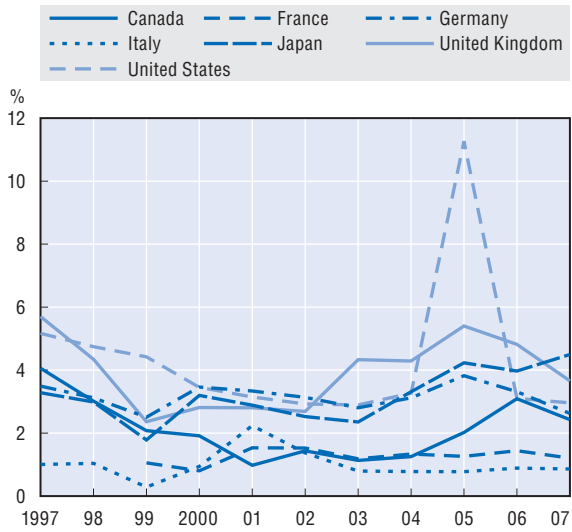
- OECD, *OECD Benchmark Definition of Foreign Direct Investment: 3rd Edition* (1995).
- IMF, *Balance of Payments Manual: 5th edition* (1995).
- OECD (2005), *Measuring Globalisation – OECD Handbook on Economic Globalisation Indicators*, OECD, Paris. Available at: www.oecd.org/sti/measuring-globalisation.

Dividends distributed to direct investors

Dividends are the distribution of earnings allocated to shares and other forms of participation in the equity of incorporated private enterprises, co-operatives, and public corporations. They are paid according to the discretionary decision of the incorporated enterprise. Dividends comprise all dividends that are declared payable to the direct investor within an accounting period less dividends declared payable by the direct investor to the direct investment enterprise. They can be recorded on the date they are payable, on the date they are paid, or at some other point in time and should be recorded gross of withholding taxes. When dividends and profits remitted by the direct investor are denominated in foreign currency, the amounts should be converted at the closing midmarket spot exchange rate on the day they are received.

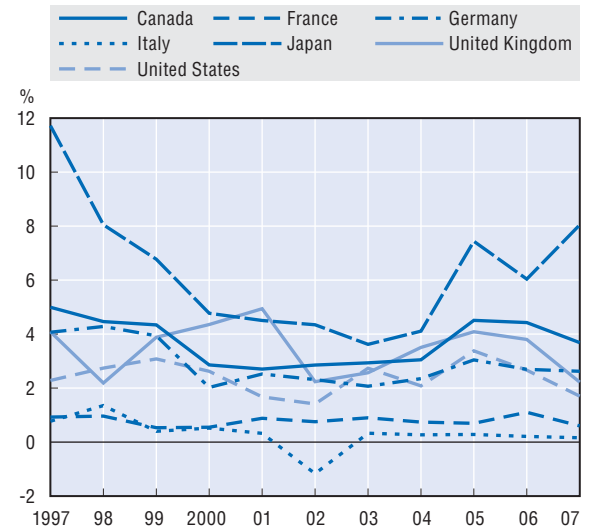
D.9. Direct investment dividends

Figure D.9.1. Dividends received from foreign affiliates as a percentage of outward FDI position, 1997-2007, G7 countries



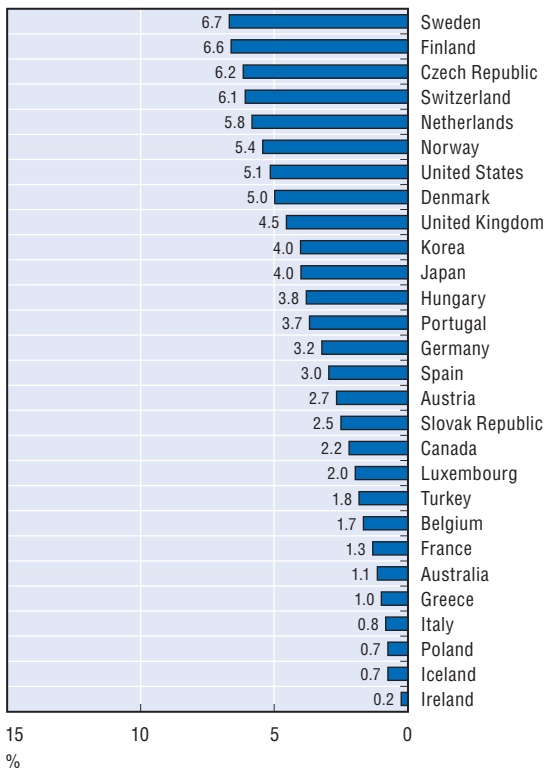
StatLink <http://dx.doi.org/10.1787/842370840061>

Figure D.9.2. Dividends paid to foreign investors as a percentage of inward FDI position, 1997-2007, G7 countries



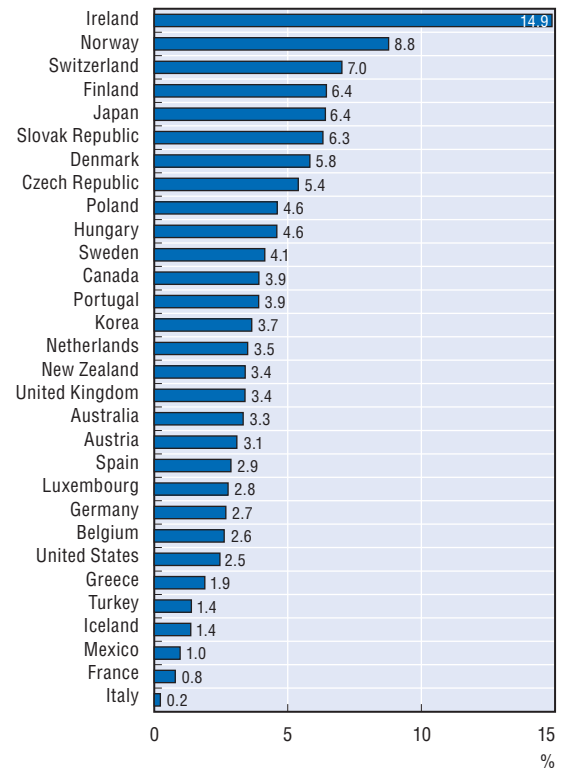
StatLink <http://dx.doi.org/10.1787/842372863737>

Figure D.9.3. Dividends received from foreign affiliates as a percentage of outward FDI position, average 2004-07

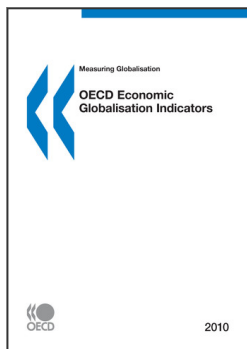


StatLink <http://dx.doi.org/10.1787/842432516711>

Figure D.9.4. Dividends paid to foreign investors as a percentage of inward FDI position, average 2004-07



StatLink <http://dx.doi.org/10.1787/842433812554>



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