Ultimate Controlling parent versus immediate investor: the Italian experience[1]

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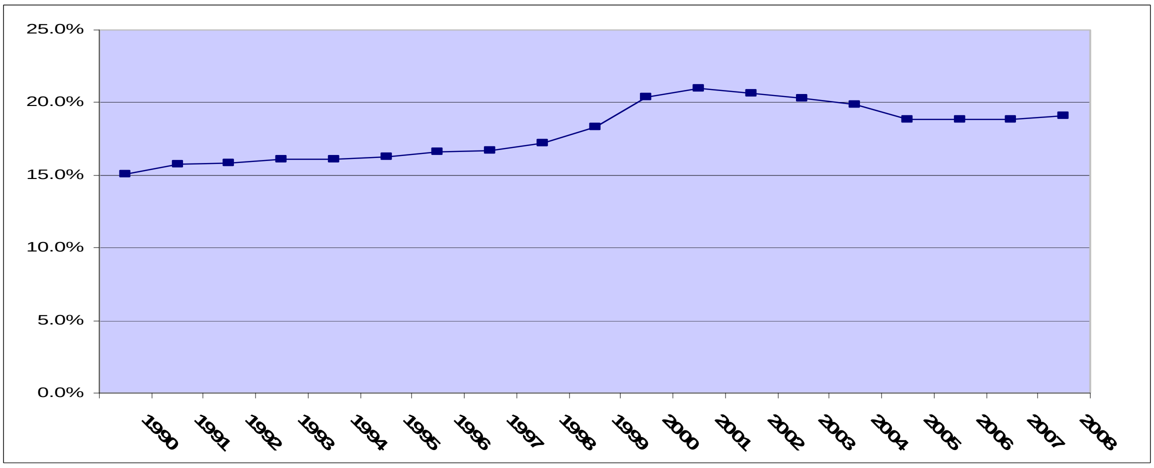
During recent years international financial integration has increased significantly, as showed in the widening of bilateral net debtor and creditor positions. Accordingly, an accurate description of financial linkages between countries becomes essential to analyse the international transmission of economic shocks. The interest in learning more about benefits as well as risks of cross-border investments increased the demand of International Investment Position (IIP) and Balance of payments (BOP) bilateral statistics. Foreign direct investment (FDI) global gross position (global FDI assets plus global FDI liabilities) amounts to around 20% (see chart 1) of the global gross external position (global international total assets plus global international total liabilities).

Chart 1: *Incidence of FDI global gross position on global gross external position*



Source: Database Extended wealth of Nations II[2]

FDI is commonly considered a stable source of financing and a key element for international economic integration. Furthermore, statistics on FDI also include information on income from direct investment which has an impact on bilateral current account imbalances. The importance of statistics on foreign direct investment by ultimate investor and ultimate host country, as opposed to currently disseminated statistics

[1] The views expressed in this paper are those of the authors and should not be attributed to the Banca d'Italia. The authors would like to thank the Oesterreichische Nationalbank (OENB) the Banque de France and the US Bureau of Economic Analysis (BEA) for providing inward FDI stock data broken down according to different geographical allocation criteria. The analysis on the Italian inward FDI is based on the information collected trough the new BOP and IIP data collection system. At the beginning of May 2011 when this paper has been drafted these new FDI stock data had not been disseminated yet; consequently, the Italian FDI data presented in this paper were different from the published official figures.
[2] See Lane and Milesi-Ferretti (2007)

based on immediate counterpart country, is increasing worldwide. As a matter of fact funds are frequently channelled by multinational companies through special purpose entities[3] (SPEs) and financial centres before reaching the ultimate destination of the investment.

This paper uses existing data sources to investigate how FDI relationships between countries change when different geographical allocation criteria are applied. Section 1 analyses the evolution of FDI in the last decades, section 2 illustrates alternative FDI geographical allocation criteria and the recent revisions in the FDI international statistical standards. Section 3 describes the present pictures of FDI net external position of countries and their bilateral relationships. Section 4 provides a comparison between inward FDI stock data broken down by immediate and ultimate investor for countries compiling these statistics according to both allocation criteria. In section 5 the biases of the distribution based on immediate investor are analysed for Italian inward FDI stock data before drawing conclusions.

1. FDI evolution

In the past, financial transactions took place directly between a resident and a related non-resident enterprise and FDI were mainly “one-to-one investments” which meant that a relationship was established between only two economies. Initially, these transactions were mainly restricted to equity investments (acquisitions of existing equity or greenfield investments corresponding to 10% or more of the voting power) but, gradually, these types of operations were extended in order to include inter-company provisions of capital (loans, subscription of securities issued by related companies, trade credits etc.). In recent years, multinational enterprises have become a widespread and global phenomenon and the nature of FDI has progressively changed from “one-to-one investments” to “network investments”. Many indirect and complex links between related enterprises have been established with the purpose of reducing production costs, optimizing liquidity management (netting, pooling, zero balances, financing through securitization), lowering tax burden, and, in some cases, concealing equity ownership. Regional sub-holdings, cash pooling centres and SPEs are frequently created in multinational groups in order to achieve these objectives. As a result, traditional FDI statistics broken down by immediate investor country are hardly applicable to sound economic analysis. Furthermore, the need to compare and reconcile the statistics on multinational enterprises (FATS and MNE statistics) with FDI statistics has highlighted the limits of the traditional geographical breakdown based on immediate creditor or debtor country. The breakdown by Ultimate Investing Country (UIC) can conversely explain where the company investing capital, taking decisions and transferring know-how and technology is really located.

2. The new statistical standards and the geographical allocation criteria of FDI

The recent revisions of the BOP and IIP statistical manuals take into account the evolution of the structure of the FDI in order to substantially improve the usefulness of the geographical breakdown. The international standards – Benchmark Definition of Foreign Direct Investment (BD4) and the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) – recommend positions to be allocated to an economy on an ‘immediate’ basis. This is based on the residence of the entity a resident has a claim on or a liability to. Nevertheless the geographical allocation of inward FDI according to the UIC is strongly encouraged in order to supplement the statistics based on the immediate partner country. The ultimate investor is the enterprise that has control over the direct investment enterprise. It is identified by proceeding up the immediate direct investor’s ownership chain through the controlling links (ownership of more than 50% of the voting power) until an enterprise is identified that is not controlled by another enterprise. If there is no enterprise that controls the immediate direct investor, then the direct investor is effectively the ultimate investor in the direct investment enterprise. The country in which the ultimate investor is resident is the UIC

[3] Special Purpose Entities are legal entities that have little or no employment, operations and physical presence in the jurisdiction in which they are created by their parent enterprises, usually located in other jurisdictions (economies). They are often used as devices to raise capital or hold assets and liabilities.

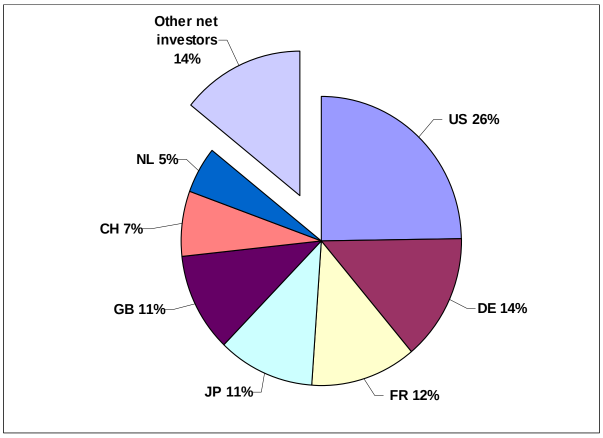
for the investment in the direct investment enterprise. It is possible that the ultimate investor is a resident of the same economy as the direct investment enterprise: this phenomenon is called round-tripping. In order to convert the standard presentation by immediate country to the supplemental UIC presentation, the entire FDI position that is attributed to the country of residence of the immediate direct investor is reallocated to the UIC. These allocation methods ensure that the amounts of direct investment into a country according to the standard presentation and to the supplemental UIC presentation are the same. A number of other issues related to the geographical allocation require further investigation and research for FDI statisticians and, currently, a standard methodology has not been defined yet in the international FDI compilation manuals. These open problems regard segregating capital transiting through affiliates located in tax heavens and looking through them, isolating round-tripping transactions and positions and allocating FDI positions to Ultimate Host Country (UHC). The country of final destination clearly identifies the economy in which the financial resources are really invested in the economic activity of the affiliates. It is reasonable to consider ultimate investing economy/ultimate host economy as the two dimensions of the same problem.

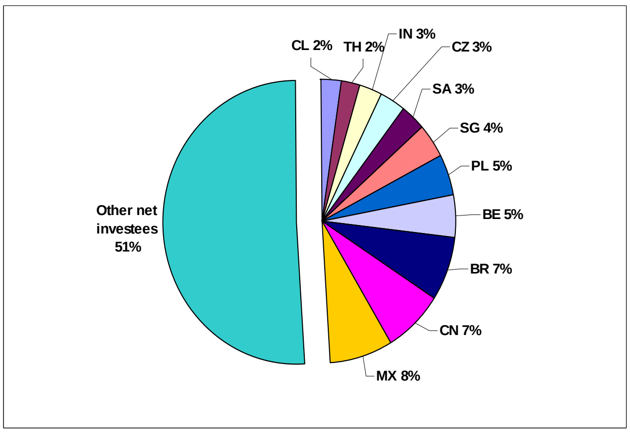
Even though theoretically the allocations on "ultimate" basis may significantly improve FDI analysis of the international bilateral relationships, the data collection and compilation according to these standards may be particularly burdensome. Furthermore the increasing complexity of these alternative allocation criteria might increase statistical asymmetries. At present, only few countries are able to collect and disseminate FDI data according to UIC. Following investments up to the ownership chains requires further information which can be collected through FDI survey, making the reporting burden increase; alternatively these additional data can be derived from enterprise group registers (maintained by commercial data provider or national statistical authorities) but, in these cases, problems due to coverage and timeliness of information may frequently occur. In perspective, the use of the data contained in the European group register (EGR), an ongoing project launched by Eurostat aimed at creating a unique survey frame for globalization statistics, would facilitate FDI compilers in allocating positions to ultimate investor. The application of UHC implies, besides practical problems, also a variety of conceptual issues that have not been resolved yet. Consequently at present a reliable picture of "bilateral" linkages on ultimate basis is not available.

3. The FDI geographical distribution

The amounts of inward and outward FDI position of a country according to the standard and the supplemental presentation are the same. Consequently the FDI net external position of a country (total outward FDI minus total inward FDI) does not change when geographical allocation on ultimate basis is applied. Chart 2 illustrate the distribution by country of FDI net investors (outward FDI > inward FDI) and net investees (inward FDI > outward FDI).

Chart 2: *Distribution by country of main FDI net investors and net investees*





Source: Unctad database

At end-2009 major developed countries are net FDI investors; the cumulated FDI net asset positions of the seven most relevant investor countries (United States, Germany, France, Japan, United Kingdom, Switzerland, Netherlands) account for the 86 % of the total FDI net assets. The distribution of net FDI debtor countries is significantly less concentrated.

Eurostat and OECD publish bilateral FDI stock and flow statistics on the basis of data collected from, respectively, European and OECD members. In December 2010, bilateral FDI stock data for a larger group of countries have been published in the context of the Coordinated Direct Investment Survey (CDIS), a worldwide statistical undertaking led by the IMF and designed to improve the availability and quality of data on FDI. The CDIS is conducted on an annual basis, beginning with information for end-2009. The CDIS collects data on inward and outward direct investment positions by immediate counterpart country. In the preliminary release of the results, 72 jurisdictions participated. All of them provided inward direct investment data and 52 provided outward data as well. Participants globally reported \$16.2 trillion for inward and \$17.5 trillion for outward[4].

Table 1: *Top Ten Total 2009 Inward Direct Investment Positions, by Largest Investing Jurisdiction (as reported by Host Jurisdiction in columns, USD millions)*

	Investment In:											
Investment from:	**US**	**LU**	**GB**	**FR**	**DE**	**BE**	**HK**	**NL**	**ES**	**CA**	**Other**	**Total Investment**
NL	237.959	**N/Av**	210.112	169.471	237.960	154.847	47.308	N/A	143.216	44.457	799.955	**2.045.286**
US	**N/A**	252.390	357.830	111.109	101.011	29.987	37.393	111.928	60.181	275.451	695.962	**2.033.241**
GB	453.875	623.512	**N/A**	146.774	75.783	35.980	14.441	81.117	61.050	60.643	425.551	**1.978.727**
LU	127.768	**N/A**	43.450	136.333	131.323	229.181		68.188	69.134	9.417	372.153	**1.186.947**
FR	189.285	**N/Av**	37.349	**N/A**	99.149	182.267	2.617	63.113	65.212	17.406	277.131	**933.530**
DE	218.153	**N/Av**	129.121	105.822	**N/A**	38.966	3.791	47.943	33.225	13.274	305.798	**896.093**
CH	189.371	23.387	44.573	78.527	77.610	27.818	6.060	23.786	15.320	20.248	163.368	**670.069**
JP	264.208	1.386	32.226	12.882	20.742	31.936	20.940	15.375	2.629	12.537	190.559	**605.421**
CA	225.836	43.072	29.183	6.932	4.240	1.798	5.686	4.012	4.784	**N/A**	107.368	**432.912**
CN	791	2.970	1.521	540	774	145	299.723	92		8.460	38.040	**353.056**
Other	412.339	895.570	202.559	317.490	193.791	129.580	392.960	235.896	145.543	63.044	2.074.258	**5.063.029**
Total Investment	**2.319.585**	**1.842.287**	**1.087.925**	**1.085.880**	**942.384**	**862.503**	**830.920**	**651.451**	**600.294**	**524.938**	**5.450.143**	**16.198.310**

Table 2: *Top Ten Total 2009 Outward Direct Investment Positions, by Largest Investment Receiving Jurisdiction (as reported by Investing Jurisdiction in columns, USD millions)*

	Investment From:											
Investment In:	**US**	**LU**	**GB**	**FR**	**DE**	**NL**	**CH**	**BE**	**JP**	**HK**	**Other**	**Total Investment**
US	**N/A**	160.324	373.304	227.585	208.258	116.029	147.755	41.655	231.123	2.334	561.306	**2.069.674**
GB	471.384	262.278	**N/A**	198.683	120.782	133.284	78.045	38.047	31.306	9.438	316.660	**1.659.907**
NL	471.567	**N/Av**	169.380	190.168	192.297	**N/A**	57.747	142.918	77.529		322.582	**1.624.188**
LU	174.092	**N/A**	172.213	83.200	75.188	65.520	66.865	136.358	7.241		227.850	**1.008.526**
DE	116.832	**N/Av**	42.005	122.592	**N/A**	86.367	49.985	44.541	15.108	1.741	142.389	**621.560**
CH	148.239	129.674	31.951	62.189	33.759	76.493	**N/A**	10.469	1.556		123.912	**618.241**
CN	49.403	1.821	6.442	11.584	25.929	9.301	6.934	1.988	55.087	292.399	69.170	**530.057**
FR	85.801	**N/Av**	63.476	**N/A**	63.650	47.031	29.275	125.057	16.824		97.391	**528.507**
BE	69.773	**N/Av**	12.264	216.967	44.545	86.084	12.065	**N/A**	14.514		63.959	**520.173**
CA	259.792	32.061	48.080	15.788	12.239	31.971	36.635	3.659	9.305		15.179	**464.710**
Other	1.661.259	1.234.757	739.948	481.391	449.103	299.086	304.210	220.059	281.335	415.550	1.744.586	**7.831.284**
Total Investment	**3.508.142**	**1.820.916**	**1.659.064**	**1.610.147**	**1.225.750**	**951.167**	**789.517**	**764.751**	**740.927**	**721.462**	**3.684.983**	**17.476.827**

NOTES. Some cells in these tables are blank because data were suppressed or were not reported by the investing jurisdictions. In these cases, the data are included in the row labeled “Other”.
Data in the total investment column reflect the sum of data reported by all CDIS participating jurisdictions combined; these amounts are not equivalent to the amounts reported for the listed countries, partly because not all jurisdictions participated in the CDIS. Data in the total investment row reflect data as reported by the CDIS participant.

N/A = Not Applicable **N/Av** = Not Available

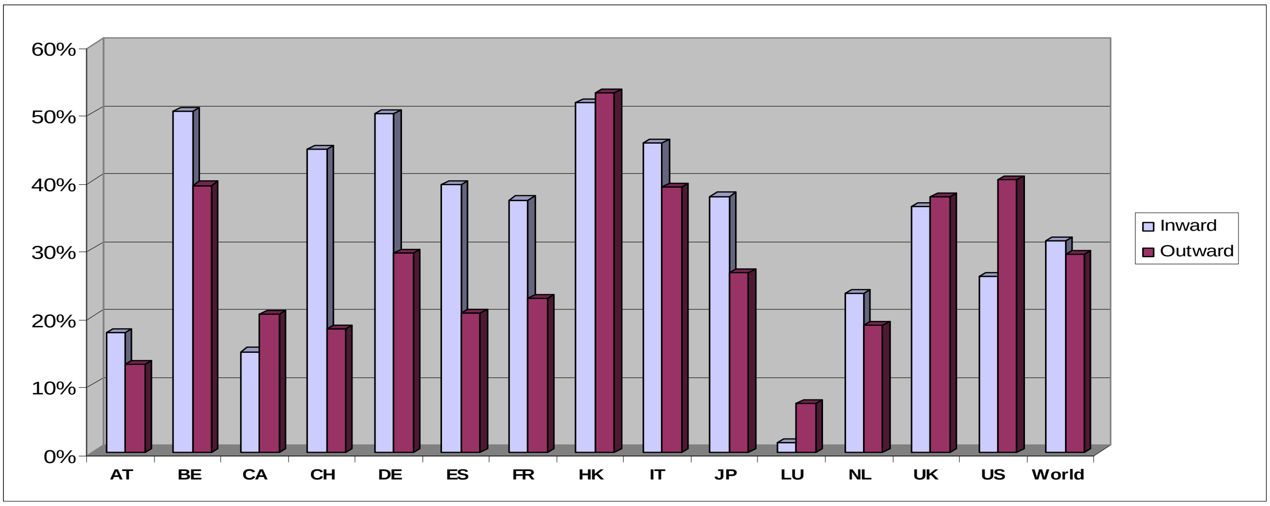
Source: IMF CDIS database

[4] Theoretically global FDI inward position should be equal to FDI global outward position. The incomplete coverage of the information (some countries did not participate in CDIS or provided only partial data) and methodological inconsistencies may explain the observed discrepancy between global inward and outward reported in the survey.

The bilateral FDI linkages of the ten major FDI investors and recipients are shown respectively in Table 1 (presenting FDI as reported by host jurisdiction) and Table 2 (presenting FDI as reported by investing jurisdiction). The United States are strongly related to the United Kingdom, the Netherlands and Canada. The United Kingdom declares significant investments in Luxembourg[5]. According to the data reported by the main European countries, the Netherlands and Luxembourg are among their major partners. Hong Kong records relevant cross assets and liabilities vis-à-vis China. Data on immediate basis show a large exposure vis-à-vis countries which play an important role as international financial intermediation centers.

The net bilateral position of a country A vis-à-vis a country B (outward position of A vis-à-vis B minus inward position of A vis-à-vis B) as well as the level of FDI financial integration of this couple of countries (outward position of A vis-à-vis B plus inward position of A vis-à-vis B) are biased by the relationships with tax heavens and financial centers which hide the effective linkages between the countries of origin and destination[6]. Chart 3[7] shows the share of the total inward and outward positions vis-à-vis offshore and tax friendly countries[8], as declared in the CDIS by the major investors and investees. These positions are likely to be reallocated to different countries when a geographical distribution on ultimate basis is applied. As a matter of fact, in many cases the direct investments pass through these offshore countries producing a limited impact (or, in the case of SPEs, no impact at all) on the host economy. Nevertheless, the share of positions held vis-à-vis offshore countries can only provide a very rough quantification of the amounts which are expected to be reallocated on ultimate basis, since many positions may also include a significant component of genuine and permanent FDI (for example positions vis-à-vis the Netherlands)[9].

Chart 3: *Share of Inward and Outward FDI stock data vis-à-vis offshore countries*



Source: IMF CDIS database

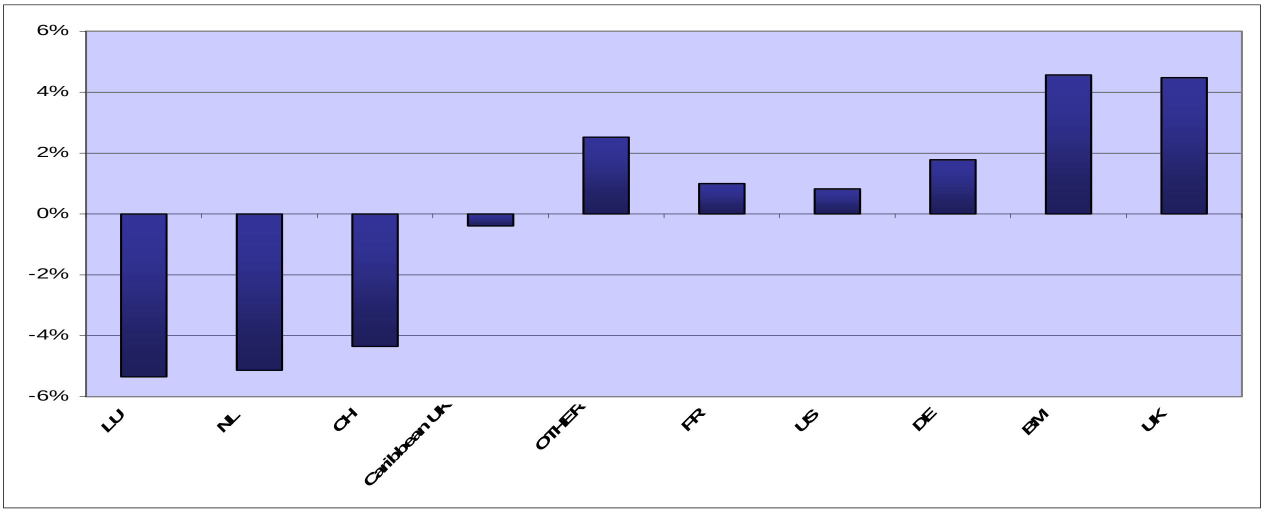
[5] On the other hand, for a relevant share of inward position reported by Luxembourg, the information on the immediate investor country is not available.
[6] Bilateral positions are also biased by the large asymmetries observed in 2009 CDIS for some offshore countries.
[7] For Luxembourg the low shares vis-à-vis other offshore countries shown in the chart may be influenced by the high amount of unallocated position reported by this country in the geographical breakdown. Data referring to Austria and Italy have been added since inward FDI stock data of these countries are analysed further on in this paper. The data shown for Austria refer to FDI excluding national SPEs.
[8] The calculated share is based on the IMF list of offshore countries defined by IMF (http://www.imf.org/external/np/mae/oshore/2000/eng/back.htm) with the exclusion of Thailand, United Kingdom, Ireland, United States, Malaysia and Japan.
[9] Geographical reallocation may also regards other types of countries since, in some cases, FDI go through non-offshore economies before reaching their final destination for reasons related to the group structure or to the presence of cash pooling financial centers. However, the changes in the geographical distribution due to these cases are expected to have a secondary impact in terms of amounts.

For the United States reallocation on ultimate basis is expected to be more relevant on outward side (40% of the total, for a half due to the Netherlands and Luxembourg). For the majority of European countries the exposure vis-à-vis offshore countries is, in percentage terms, higher for inward than for outward stock data. Hong Kong records a high exposure for both inward and outward (mainly vis-à-vis Virgin Islands). In terms of global amount reported by countries, both inward and outward position vis-à-vis tax friendly countries are close to 30% of the total.

4. A comparison between different geographical allocation criteria: immediate investor versus ultimate investing country

FDI statistics data on ultimate basis, even though strongly encouraged by statistical manuals, are generally not available. As explained in the previous sections, an agreed methodology to allocate outward FDI to the UHC has not been defined yet, whereas few countries are currently collecting and compiling supplemental inward data broken down by UIC. The comparison between different allocation criteria described in this section is based on data provided by the United States[10], France and Austria; data collected by Italy will be analysed further on. Even though the number of countries compiling and disseminating these data is extremely limited, the common elements as well as country peculiarities highlighted by the analysis are worthy to be highlighted. The data refer, for all countries, to the most recent available period, but the reallocation patterns emerging from the comparisons are quite similar to those observed in the previous periods. Chart 4 summarizes the most relevant geographical reallocation observed for the inward FDI stock data of the United States. Allocation on ultimate basis significantly deflates liabilities to Luxembourg, the Netherlands and Switzerland increasing the exposure vis-à-vis the United Kingdom, the major direct investor in the United States. Similarly, liabilities to the most relevant investors from the Euro area (France and Germany) increase. A less significant share (approximately 1% of the total amount) of inward FDI results to be controlled by domestic investors. It is interesting to notice that also liabilities to Bermuda significantly grow. These positions may be related to the existence of controlling entities (holding companies, trustees or a physical persons) actually resident in this country as well as to difficulties for the FDI compiler in looking through the ownership structure of certain multinational groups. The global reallocated amount accounts for 20% of the end-2009 total FDI inward stock.

Chart 4: *Geographic reallocation by investor country of 2009 US inward FDI stock when ultimate investor country criterion is applied (percentage share of the total)*

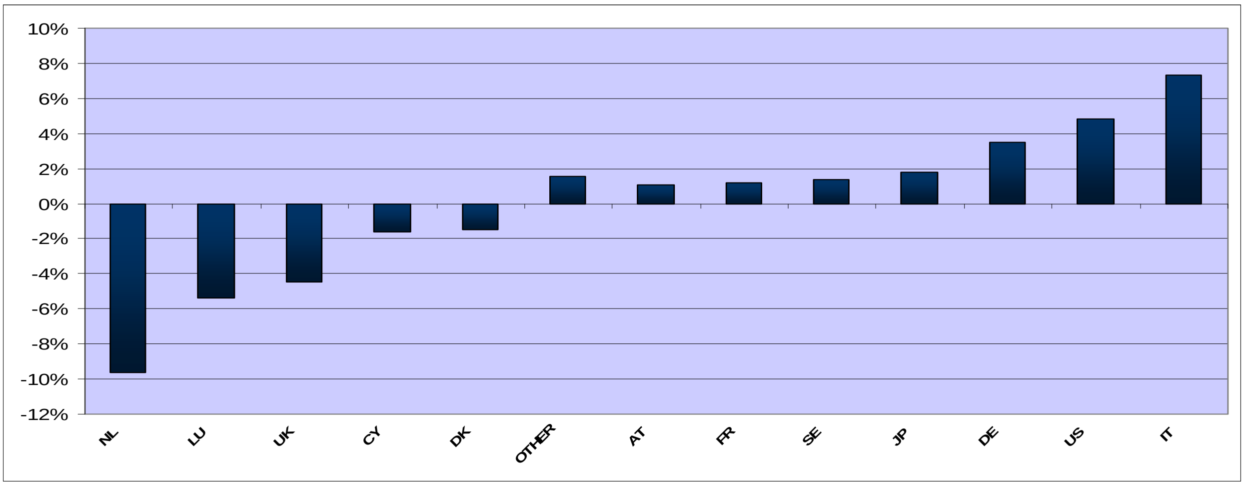


Source: US BEA website

[10] The United States have been compiling this additional geographical breakdown for several years (data starting from end-2002 are available).

The adoption of a different allocation criterion changes the geographical distribution of Austrian end-2008[11] inward FDI stock (see Chart 5). Also in this case a significant deflation of the liabilities to tax friendly countries (the Netherlands, Luxembourg and Cyprus) is observed. Liabilities to the United Kingdom, where sub-holdings of multinational groups controlling Austrian affiliates are probably located, also decrease. The exposure to the top Euro area investors in Austria (Italy and Germany) increases, liabilities to major overseas investors grow as well. Round-tripping emerging after reallocation accounts for less than 1% of total inward FDI. The global reallocated amounts account for 24% of the total FDI inward stock.

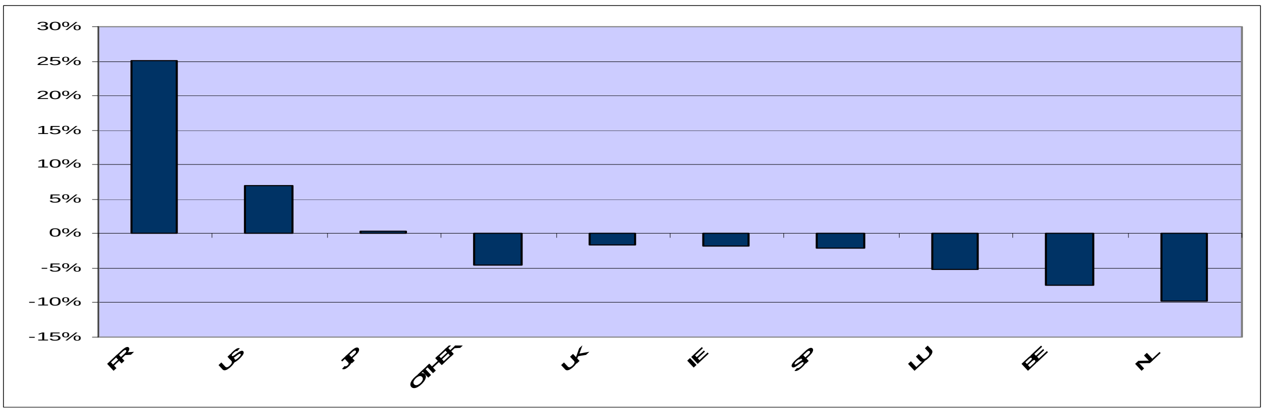
Chart 5: *Geographic reallocation by investor country of 2008 AT inward FDI stock when ultimate investor country criterion is applied (percentage share of the total)*



Source: Oesterreichische Nationalbank

With reference to France, the differences due to the application of the UIC allocation are shown in Chart 6. The deflation of FDI liabilities regards in this case Belgium, besides the Netherlands and Luxembourg, where financial centres of European groups are frequently located. Significant inward FDI positions related to French UIC emerge after the redistribution: these cases account for the 25% of the total and for roughly 75% of the total amount reallocated. The liabilities to the United States grow and positions vis-à-vis other overseas investors (mainly Japan and Canada) slightly increase. Differently from the other cases, liabilities to the other European main investors do not grow. The global amount reallocated is significant and accounts for 34% of the end-2009 total FDI inward stock.

Chart 6: *Geographic reallocation by investor country of 2009 FR inward FDI stock when ultimate investor country criterion is applied (percentage share of the total)*



[11] The chart refers to the most recent data. Inward FDI stock data at end- 2009 broken down by immediate and ultimate counterpart are not available.

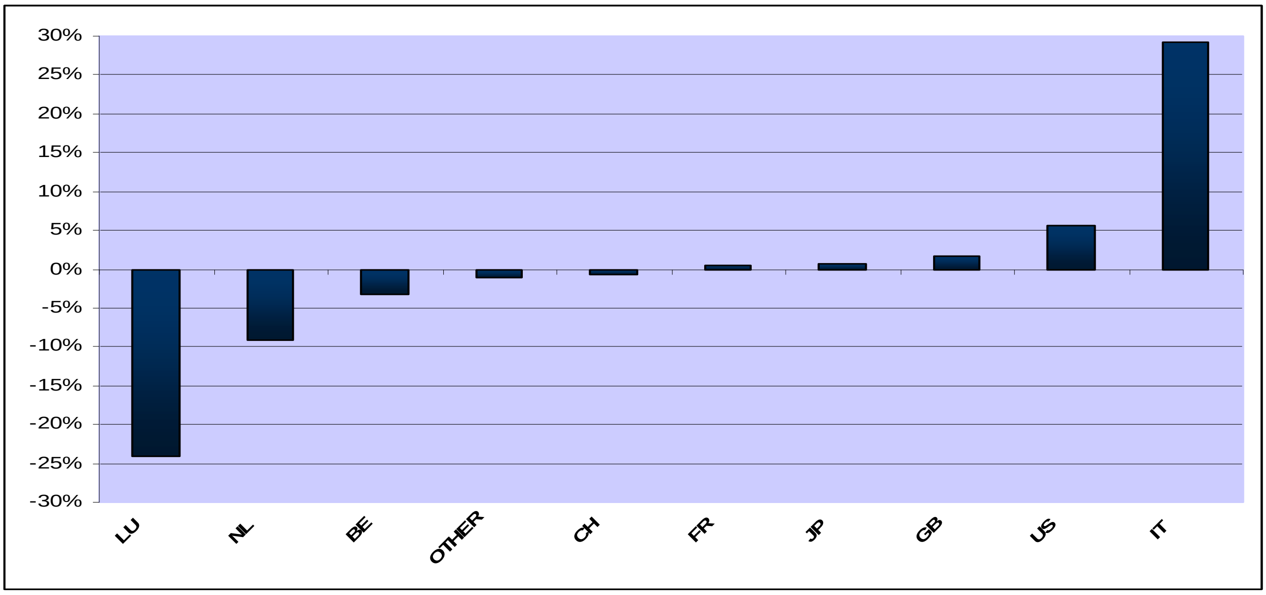
Source: Banque de France

5. The Italian inward FDI on ultimate investor country basis

The Italian data collection system underwent major changes since the growing complexity of international financial transactions reduced the reliability of the methods of collecting BOP and FDI data based on bank settlements. A new approach, mainly based on sample surveys, was adopted for FDI data collection, both for flows and stock data (previously calculated by cumulating flows to stock data adjusted for market prices and exchange rates fluctuations). The direct relationship with the reporting companies and the availability of firm level data improve the reliability of the information concerning the structure of their intra-group relationships. Consequently, the adoption of the new statistical standards (BD4 and BPM6), requiring a deeper knowledge of the linkages with foreign counterparts and ultimate controlling countries, has become feasible. The Italian data based on UIC[12] derive from the new data collection system[13]. The reporting companies are required to provide the information on the residency and the denomination of the controlling entity at the top of the chain. The country of residency of the majority shareholder (physical person or a group of physical persons acting in concert) should be indicated when it differs from the country of the company at the top of the chain. The reliability of the information on ultimate controlling parent is accurately validated on the basis of data derived from commercial databases on financial events, website of multinational groups and press releases.

Chart 7 shows the differences due to the application of the UIC allocation to the 2009 Italian inward FDI stock data. The percentage share of the reallocated amounts exceeds 40%. Liabilities to Luxembourg, which is the favourite location for the holding companies at the top of the chain for many Italian multinational groups, significantly decrease; liabilities to the Netherlands (and Belgium) drop as well. The liabilities to the United States grow and debtor positions vis-à-vis other major extra-European countries slightly increase. For Italy, similarly to France, the geographical reallocation is mainly due to positions with a domestic controlling entity.

Chart 7: *Geographic reallocation by investor country of 2009 IT inward FDI stock when ultimate investor country criterion is applied (percentage share of the total)*



Source: Banca d'Italia

[12] Inward FDI position for Italy broken down on ultimate basis are calculated as a proxy of the UIC concept because all FDI positions, including minority shares have been allocated to the ultimate controlling parent.
[13] At the beginning of May 2011 when this paper was drafted the analysis was based on preliminary FDI stock data. Consequently the data presented in this paper might differ from the figures finally published based on the new data collection system. This comparison exercise is based on non banks data collected through the new Direct Reporting data collection system since for the other sectors the information on UIC is not available at present.

A share of the 29% of inward FDI stock is controlled by a domestic entity. For Italy the divergent patterns due to the adoption of different allocation criteria mainly regards multinational groups controlled by Italian “heads” which hold assets and equity capital of Italian companies through foreign holding companies, frequently located in Luxembourg. Tax advantages are likely to be the prevailing motivation for the creation of these types of ownership structures. Inward FDI positions controlled by Italian entities reflect corresponding outward FDI positions on foreign holding companies. In case the Italian controlling entity is a company, its outward positions are collected through FDI surveys (directly in the position reported by the selected sample or indirectly in the grossed up positions). When the controlling entity is an Italian physical person which directly owns the equity capital of the foreign holding, this outward FDI position is not covered by the surveys; then these FDI assets and the corresponding FDI incomes are estimated and imputed on the basis of data collected for the related inward positions. These adjustments are aimed at correcting the distortions which occur when one of the two “legs” of round-tripping phenomena has not been covered by the data collection system.

Even though round-tripping should not affect significantly the net FDI position, for Italy its impacts on gross positions are worthy to be analysed. These round-tripping funds overstate the magnitude of both inward and outward Italian FDI stock data. Similarly this overstatement regards inward and outward FDI flow data and their economic interpretation. An increase in inward investments by foreign direct investors is generally interpreted as additional capital injected into the domestic economy, which is likely to have an impact on its economic performance. Furthermore, inward investments are generally used to measure the attractiveness of a country for foreign investors. On the other hand, the size of outward investment transactions should indicate the extent of penetration and projection of the resident direct investor in other markets. The international FDI statistical manuals recommend therefore separate supplementary breakdowns when this phenomenon affects significantly FDI data of a country. Italian inward FDI broken down by ultimate investor highlighted the existence of relevant round-tripping phenomena and consequently stressed the need of isolating these components in order to improve FDI analysis.

Conclusions

This paper uses the available data sources in order to investigate how FDI links between countries change when the geographical allocation criterion on “ultimate owner basis” is applied. The analysis tries to look through the existing relationships with tax heavens and financial centers which hide the actual creditor and debtor positions between the origin and the destination countries. The share of positions held vis-à-vis offshore and tax friendly countries globally reported in the CDIS (end-2009) accounts approximately for 30% of the total for both inward and outward. These positions, reflecting the geographical distribution on immediate basis, are likely to be allocated to different countries on ultimate basis, hence their amount may proxy the relevance of the expected reallocations. Allocation on ultimate basis regards both inward (identification of UIC) and outward FDI (identification of UHC). The analysis proposed in this paper only refers to inward FDI stock data broken down by UIC and it is based on available data collected by the United States, Austria, France and on new unpublished data for Italy. The share of geographical reallocation is significant in all cases (from a minimum of the 18% to a maximum of the 43% of the total inward FDI stock data). All the analysed cases, as expected, show a sharp deflation of the liabilities to tax friendly countries and typical financial centre locations. For the European countries, the liabilities to overseas investors (the United States firstly) grow. The United States on their turn result to have higher liabilities to their European main FDI investors (United Kingdom and Germany primarily). Financial linkages between the United States and the major European countries are then stronger when the allocation on ultimate basis is adopted. According to the evidences observed for this small sample of cases, the relevance of reallocations due to round-tripping cases may markedly vary across countries. For Italy the presence of round-tripping cases overstates the level of genuine inward and outward FDI. The analysis of FDI on ultimate basis can eliminate significant biases in geographical distribution improving the analytical value of these statistics.

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