

# Direct Investment, 2007–2009

## Detailed Historical-Cost Positions and Related Financial and Income Flows

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THIS ARTICLE presents detailed statistics on direct investment positions at historical cost (book value) and related financial and income flows for U.S. direct investment abroad and foreign direct investment in the United States. Summary estimates of services transactions with foreign affiliates and foreign parent companies are also presented.<sup>1</sup> (For definitions, see the box “Key Terms.”) The statistics for both U.S. direct investment abroad and for foreign direct investment in the United States cover 2007–2009. These statistics complement the statistics presented in two articles in the July 2010 SURVEY OF CURRENT BUSINESS by providing more detail by country, industry, and account.<sup>2</sup>

For both U.S. direct investment abroad—or “outward direct investment”—and foreign direct investment in the United States—or “inward direct investment”—the statistics for 2007 forward reflect the incorporation of new or revised data from BEA’s quarterly surveys of transactions between parents (both U.S. and foreign) and their affiliates and annual surveys of financial and operating data of U.S. parent companies, their foreign affiliates and U.S. affiliates of foreign companies.

Two changes to the statistics in this report reflect BEA’s efforts to align its statistics with recently updated guidelines for international economic accounts.<sup>3</sup> The

first is a change in the classification of permanent bank debt. Beginning with the statistics for 2007, permanent debt between affiliated domestic and foreign banks is reclassified from direct investment to other investment accounts. This change reduces the outward direct investment position for 2008 by \$5.3 billion, and it reduces the inward direct investment position for 2008 by \$6.5 billion. This change also affects financial flows through its impact on intercompany debt flows and direct investment income through its impact on net interest. (For additional details, see the box “Change in the Treatment of Permanent Bank Debt” in Ibarra-Caton, 28.) The second is a change in terminology: “financial flows” replaces “capital flows,” and “equity” or “equity investment” replaces “equity capital.”

### Tables

After this article, two sets of tables are presented—one for outward direct investment and one for inward direct investment. In each set, tables 1–15 present similar data.

#### Data Availability

Detailed statistics on the direct investment positions and on transactions between parents and their affiliates that enter the U.S. international transactions (balance of payments) accounts are available on BEA’s Web site. To access the series featured in this report, go to [www.bea.gov](http://www.bea.gov), and under “International,” click on “Operations of Multinational Companies.” Under either “U.S. direct investment abroad” or “Foreign direct investment in the United States,” click on the link to either “Selected Tables” or “Interactive Tables” that appears next to “Balance of payments and direct investment position data.” The interactive tables allow users to access detailed balance of payments and direct investment position data, including statistics for years earlier than those presented in this report.

1. Global totals (all countries and all industries) for royalties and license fees and other private services are shown in table 2 (for outward investment, see page 60 and for inward investment, see page 95). Breakdowns by country and by industry are not included in this presentation. Country detail and detail by type of service or intangible asset will be available in the October SURVEY OF CURRENT BUSINESS article on U.S. international services.

2. See Marilyn Ibarra-Caton, “Direct Investment Positions for 2009: Country and Industry Detail,” SURVEY 90 (July 2010): 20–35 and Helen Y. Bai and Mai-Chi Hoang, “Annual Revision of the U.S. International Transactions Accounts,” SURVEY 90 (July 2010): 36–50.

3. *Balance of Payments and International Investment Position Manual*, 6<sup>th</sup> ed. (Washington, DC: International Monetary Fund, 2009) and *Benchmark Definition of Foreign Direct Investment*, 4<sup>th</sup> ed. (Paris: Organisation for Economic Co-operation and Development, 2008). See Kristy L. Howell and Robert E. Yuskavage, “Modernizing and Enhancing BEA’s International Economic Accounts,” SURVEY 90 (May 2010): 6–20 for a discussion of BEA’s plans to introduce other changes recommended in the new international statistical standards in its international economic accounts.

- Table 1 shows the direct investment positions and rates of return at historical cost, current cost, and market value.
- Table 2 presents the position and related flows for 1998-2009 at historical cost and as they are presented in the international investment position accounts and international transactions accounts.
- Tables 3–16 for outward direct investment and 3-17 for inward direct investment present the direct investment positions and international transactions by country of foreign affiliate or foreign parent, by industry of affiliate, and by account. For outward direct investment, table 16 presents estimates that are also classified by industry of U.S. parent. For inward direct investment, table 16 presents estimates that are classified not only by country of foreign parent but also by country of ultimate beneficial owner (UBO).
- Table 17 for inward direct investment provides a breakdown of the foreign direct investment position in the United States by the industry of the UBO of the U.S. affiliate. It shows the value of investments owned by private entities (businesses and individuals, estates, and trusts) and the value owned by foreign governments and government-related entities. The statistics in this report differ from some of the counterpart statistics in the international investment position and international transactions accounts.<sup>4</sup>
- The statistics in this report are at historical cost, the only way detailed statistics by country and industry are available. In contrast, the statistics on the direct investment position in the international investment position accounts are presented at current cost and market value.
- The statistics in this report are presented without a current-cost adjustment. In contrast, the statistics on direct investment income (in the current account) and financial flows (in the financial account) in the U.S. international transactions accounts are presented with a current-cost adjustment.

4. See Elena L. Nguyen, “The International Investment Position of the United States at Yearend 2009,” SURVEY 90 (July 2010): 9–19 and Sarah Scott Thomas, Erin M. Whitaker, and Daniel R. Yorgason, “U.S. International Transactions: First Quarter of 2010,” SURVEY 90 (July 2010): 56–101.

## Revisions

### Outward direct investment

The revised statistics on the U.S. direct investment position abroad at yearend, financial flows, and income reflect the incorporation of revised data from quarterly surveys of transactions between U.S. parents and their foreign affiliates and annual surveys of financial and operating data of foreign affiliates.

As noted in the [July 2010 SURVEY article on direct investment positions](#) for all areas, the outward direct investment position at historical cost was revised up \$77.1 billion for 2007 and \$57.7 billion for 2008

### Acknowledgments

The statistics on the U.S. direct investment position abroad and related financial and income flows are based largely on data from BEA’s quarterly surveys of transactions between U.S. parent companies and their foreign affiliates. The surveys were conducted under the supervision of Mark W. New, who was assisted by Iris Branscome, Laura A. Downey, David L. Grayton, Anthony A. Ippoliti, Marie K. Laddomada, Sherry Lee, Louis C. Luu, Leila C. Morrison, and Dwayne Torney. Computer programming for data estimation and tabulation was provided by Marie Colosimo and Kevin R. Smith.

The statistics on the foreign direct investment position in the United States and related financial and income flows are based largely on data from BEA’s quarterly surveys of transactions between U.S. affiliates of foreign companies and their foreign parents. The surveys were conducted under the supervision of Gregory G. Fouch, who was assisted by Peter J. Fox, Barbara C. Huang, Susan M. LaPorte, Robert L. Rosholt, and Helen P. Yiu. Computer programming for data estimation and tabulation was provided by Karen E. Poffel and Paula D. Brown.

The statistics on royalties and license fees and other private services (shown in table 2) are based largely on data from BEA’s quarterly surveys of transactions in selected services and intangible assets with foreign persons. The surveys were conducted under the supervision of Christopher J. Emond.

(table A). The upward revision for 2007 mostly resulted from a large upward revision to valuation adjustments and a smaller upward revision to financial outflows without current-cost adjustment. (Financial outflows without current-cost adjustment, which increase the U.S. direct investment position abroad, consist of reinvested earnings without current-cost adjustment and equity and intercompany debt transactions. Financial inflows reduce the position.) The upward revision for 2008 was the net result of the upward revision to the position for 2007, a smaller upward revision to 2008 financial outflows, and a downward revision to 2008 valuation adjustments.

Financial outflows without current-cost adjustment were revised up \$15.2 billion for 2007, \$18.7 billion for 2008, and \$46.8 billion for 2009. For 2007 and 2008, the revisions were more than accounted for by upward revisions to equity investment; in both years, the upward revisions to equity investment were partly

offset by downward revisions to intercompany debt investment and reinvested earnings. For 2009, the revision mainly resulted from a large upward revision to reinvested earnings; an upward revision to intercompany debt investment also contributed.

Income without current-cost adjustment was revised up for all 3 years—\$7.2 billion for 2007, \$32.0 billion for 2008, and \$43.3 billion for 2009. In all 3 years, the revisions resulted from upward revisions to earnings.

### Inward direct investment

The revised statistics on the foreign direct investment position at yearend, financial flows, and income reflect the incorporation of revised data from quarterly surveys of transactions between U.S. affiliates and their foreign parents and annual surveys of financial and operating data of U.S. affiliates.

As noted in the [July 2010 SURVEY article on direct](#)

**Table A. U.S. Direct Investment Abroad: Comparison of Previously Published and Revised Estimates by Area, 2007–2009**

[Millions of dollars]

By area	Direct investment position on a historical-cost basis			Financial outflows without current-cost adjustment			Income without current-cost adjustment		
	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision
2007									
<b>All areas</b> .....	<b>2,916,930</b>	<b>2,993,980</b>	<b>77,051</b>	<b>378,362</b>	<b>393,518</b>	<b>15,156</b>	<b>343,012</b>	<b>350,237</b>	<b>7,225</b>
Canada.....	233,971	250,642	16,671	22,659	22,331	-328	19,936	21,170	1,234
Europe.....	1,659,499	1,682,023	22,524	234,577	239,803	5,225	176,794	175,702	-1,092
<i>Of which:</i>									
United Kingdom.....	424,612	426,357	1,746	24,239	21,978	-2,261	26,308	21,412	-4,896
Latin America and Other Western Hemisphere....	508,711	556,160	47,450	48,099	55,324	7,225	65,063	72,600	7,537
Africa.....	32,496	32,607	111	4,421	4,490	69	6,716	6,726	10
Middle East.....	28,256	28,448	192	3,857	4,070	213	7,699	7,692	-7
Asia and Pacific.....	453,997	444,101	-9,896	64,748	67,500	2,752	66,804	66,347	-457
2008									
<b>All areas</b> .....	<b>3,162,021</b>	<b>3,219,725</b>	<b>57,704</b>	<b>311,796</b>	<b>330,491</b>	<b>18,695</b>	<b>350,531</b>	<b>382,575</b>	<b>32,044</b>
Canada.....	227,298	239,170	11,872	13,034	5,986	-7,047	25,433	32,410	6,977
Europe.....	1,809,876	1,831,246	21,370	180,172	192,691	12,519	172,490	191,650	19,160
<i>Of which:</i>									
United Kingdom.....	420,873	449,521	28,648	21,791	37,138	15,348	23,872	27,214	3,342
Latin America and Other Western Hemisphere....	563,809	591,363	27,554	64,492	77,018	12,526	71,508	78,558	7,050
Africa.....	36,640	37,221	581	3,348	3,764	416	6,895	6,801	-94
Middle East.....	32,488	31,886	-602	4,058	3,907	-150	9,041	9,064	23
Asia and Pacific.....	491,910	488,839	-3,071	46,693	47,125	432	65,163	64,092	-1,071
2009 <sup>1</sup>									
<b>All areas</b> .....				<b>201,322</b>	<b>248,074</b>	<b>46,752</b>	<b>282,192</b>	<b>325,467</b>	<b>43,275</b>
Canada.....				13,214	18,085	4,871	17,053	19,865	2,811
Europe.....				109,852	129,014	19,161	146,257	173,623	27,366
<i>Of which:</i>									
United Kingdom.....				16,786	20,119	3,333	19,682	22,561	2,879
Latin America and Other Western Hemisphere....				45,701	66,149	20,448	59,379	69,598	10,220
Africa.....				6,161	5,733	-427	4,893	5,067	174
Middle East.....				5,946	4,925	-1,021	4,771	5,100	329
Asia and Pacific.....				20,448	24,168	3,720	49,839	52,214	2,374

1. The only accounts for which 2009 statistics were previously available by country were financial outflows without current-cost adjustment and income without current-cost adjustment. The estimates of the direct invest-

ment position for 2009 are preliminary and were first published in the July 2010 SURVEY OF CURRENT BUSINESS. NOTE: The statistics in the "revised" columns were presented in the July 2010 SURVEY.

investment positions, for all areas, the inward direct investment position at historical-cost was revised down \$54.7 billion for 2007 and down \$113.1 billion for 2008 (table B). The revision for 2007 was mainly attributable to a downward revision to valuation adjustments; a small downward revision to financial inflows also contributed. The revision for 2008 was the net result of the downward revision to the 2007 position and a downward revision to valuation adjustments that were partly offset by an upward revision to financial inflows. (Financial inflows without current-cost adjustment, which increase the foreign direct investment position in the United States, consist of rein-

vested earnings without current-cost adjustment and equity and intercompany debt transactions. Financial outflows reduce the position.)

Financial inflows without current-cost adjustment were revised down \$5.2 billion for 2007, up \$8.4 billion for 2008, and down \$18.6 billion for 2009. The downward revision for 2007 was accounted for by downward revisions to intercompany debt investment and equity investment that were partly offset by an upward revision to reinvested earnings. The upward revision for 2008 resulted from upward revisions to equity investment and to intercompany debt investment that were partly offset by a downward revision to reinvested

**Table B. Foreign Direct Investment in the United States: Comparison of Previously Published and Revised Estimates by Area for 2007–2009**  
[Million of dollars]

By area	Direct investment position on a historical-cost basis			Financial inflows without current-cost adjustment (outflows (-))			Income without current-cost adjustment		
	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision
2007									
<b>All areas</b> .....	<b>2,109,876</b>	<b>2,055,176</b>	<b>-54,700</b>	<b>271,176</b>	<b>265,957</b>	<b>-5,219</b>	<b>121,950</b>	<b>123,881</b>	<b>1,931</b>
Canada .....	207,925	205,381	-2,544	43,962	47,425	3,463	11,691	10,342	-1,349
Europe .....	1,507,594	1,478,383	-29,212	172,361	161,704	-10,657	74,530	79,343	4,813
<i>Of which:</i>									
United Kingdom .....	426,545	424,046	-2,499	18,388	37,183	18,795	22,021	26,292	4,271
Latin America and Other Western Hemisphere .....	55,816	49,828	-5,988	-5,577	-4,658	919	6,276	7,678	1,401
Africa .....	1,396	1,535	139	-358	-207	152	180	175	-5
Middle East .....	15,058	14,896	-162	4,809	5,196	387	581	470	-110
Asia and Pacific .....	322,087	305,154	-16,933	55,979	56,497	518	28,691	25,873	-2,818
2008									
<b>All areas</b> .....	<b>2,278,892</b>	<b>2,165,748</b>	<b>-113,144</b>	<b>316,112</b>	<b>324,560</b>	<b>8,449</b>	<b>117,237</b>	<b>111,764</b>	<b>-5,472</b>
Canada .....	221,870	194,140	-27,729	23,684	21,998	-1,686	11,578	8,064	-3,513
Europe .....	1,622,911	1,555,208	-67,703	206,453	202,924	-3,528	88,606	86,662	-1,944
<i>Of which:</i>									
United Kingdom .....	454,123	454,328	204	54,711	41,314	-13,397	22,752	23,890	1,138
Latin America and Other Western Hemisphere .....	49,233	46,130	-3,103	27,445	29,509	2,064	2,936	6,772	3,836
Africa .....	2,002	2,309	307	780	948	168	72	75	3
Middle East .....	14,676	17,242	2,566	1,355	3,652	2,297	-714	-467	247
Asia and Pacific .....	368,200	350,718	-17,482	56,395	65,529	9,134	14,759	10,658	-4,101
2009 <sup>1</sup>									
<b>All areas</b> .....				<b>148,522</b>	<b>129,883</b>	<b>-18,639</b>	<b>91,481</b>	<b>89,186</b>	<b>-2,296</b>
Canada .....				29,143	25,813	-3,330	5,789	6,715	927
Europe .....				98,492	83,725	-14,767	80,381	76,981	-3,400
<i>Of which:</i>									
United Kingdom .....				14,233	12,632	-1,601	18,433	23,344	4,911
Latin America and Other Western Hemisphere .....				11,508	8,372	-3,135	-861	48	909
Africa .....				-165	-787	-622	16	(D)	(D)
Middle East .....				1,880	600	-1,280	184	(D)	(D)
Asia and Pacific .....				7,664	12,160	4,496	5,973	5,656	-317

1. The only accounts for which 2009 statistics were previously available by country were financial inflows without current-cost adjustment and income without current-cost adjustment. The estimates of the direct invest-

ment positions for 2009 are preliminary and were first published in the July 2010 SURVEY OF CURRENT BUSINESS. NOTE: The statistics in the "revised" columns were presented in the July 2010 SURVEY.

earnings. The downward revision for 2009 was more than accounted for by a sizable downward revision to intercompany debt investment that was partly offset by small upward revisions to equity investment and to re-invested earnings.

Income without current-cost adjustment was

revised up \$1.9 billion for 2007, down \$5.5 billion for 2008, and down \$2.3 billion for 2009. The revisions for all years were entirely attributable to revisions to earnings. For 2008, the downward revision to affiliates' earnings was partly offset by an upward revision to interest payments.

#### Key Terms—Continues

For a more detailed discussion of the terms in this box, see *Foreign Direct Investment in the United States: Final Results From the 2002 Benchmark Survey* and *U.S. Direct Investment Abroad: Final Results From the 2004 Benchmark Survey*. These methodologies are available on BEA's Web site at [www.bea.gov](http://www.bea.gov).

#### Direct investment

This is investment in which a resident (in the broad legal sense, including a company) of one country obtains a lasting interest in, and a degree of influence over a business enterprise in another country. In the United States (and in the international statistical guidelines), the criterion used to define direct investment is ownership of at least 10 percent of the voting securities of an incorporated business enterprise or the equivalent interest in an unincorporated business enterprise.

**U.S. direct investment abroad (outward direct investment)** represents the ownership or control, directly or indirectly, by one U.S. resident (**U.S. parent**) of at least 10 percent of a foreign business enterprise, which is called a **foreign affiliate**.

**Foreign direct investment in the United States (inward direct investment)** represents the ownership or control, directly or indirectly, by one foreign resident (**foreign parent**) of at least 10 percent of a U.S. business enterprise, which is called a **U.S. affiliate**. Foreign direct investment includes equity and net debt investments by the foreign parent as well as net debt investment by any other members of the **foreign parent group**. The foreign parent group consists of (1) the foreign parent, (2) any foreign person (including a company), proceeding up the foreign parent's ownership chain, that owns more than 50 percent of the person below it, up to and including the **ultimate beneficial owner (UBO)**, and (3) any foreign person, proceeding down the ownership chain(s) of each of these members, that is owned more than 50 percent by the person above it.

The UBO of a U.S. affiliate is the first person, proceeding up the affiliate's ownership chain beginning with the foreign parent, that is not more than 50 percent-owned

by another person. The UBO ultimately owns or controls the affiliate and derives the benefits and assumes the risks associated with ownership or control. Unlike the foreign parent, the UBO of a U.S. affiliate may be located in the United States.

#### Direct investment position

This is the value of direct investors' equity in, and net outstanding loans to, their affiliates. The direct investment position may be viewed as the direct investors' net financial claims on their affiliates. BEA prepares statistics of the positions for U.S. direct investment abroad and foreign direct investment in the United States at historical cost, current cost, and market value. In this report, the **historical-cost measure** is featured. This valuation is principally derived from the financial accounting records of affiliates and generally reflects the acquisition cost of the investments, cumulative reinvested earnings, and cumulative depreciation of fixed assets. For additional information, see the box "Alternative Measures of the Direct Investment Positions" in Ibarra-Caton, 23.

**Direct investment financial flows** arise from transactions that change financial claims (assets) and liabilities between U.S. parents and their foreign affiliates or between U.S. affiliates and their foreign parents. Financial **outflows** arise from transactions that increase U.S. assets or decrease U.S. liabilities. Financial **inflows** arise from transactions that decrease U.S. assets or increase U.S. liabilities. Direct investment financial flows consist of equity investment, intercompany debt investment, and reinvested earnings.

**Equity investment** is the difference between equity increases and equity decreases. Equity increases arise from (1) parents' establishments of new affiliates, (2) payments by parents to unaffiliated parties for the purchase of capital stock or other equity interests when they acquire an existing business, (3) payments made to acquire additional ownership interests in their affiliates, and (4) capital contributions to their affiliates. Equity decreases are the funds parents receive when they reduce their equity interest in their affiliates.

### Key Terms

**Intercompany debt investment** results from changes in net outstanding loans between parents (or, for inward investment, other foreign parent group members) and their affiliates, including loans by parents to affiliates and loans by affiliates to parents.

**Reinvested earnings (without current-cost adjustment)** are the parents' share of the current-period operating earnings of their affiliates, less distributions of earnings that affiliates make to their parents. A related measure of reinvested earnings is featured in the international transactions accounts; this measure includes a **current-cost adjustment** that reflects current-period prices. This adjustment converts depreciation charges to a current-cost, or replacement-cost, basis; it adds charges for depletion of natural resources back to income and reinvested earnings because these charges are not treated as production costs in the national income and product accounts; and it reallocates expenses for mineral exploration and development across periods, so that they are written off over their economic lives rather than all at once.

Various **valuation adjustments** to the historical-cost position are made to account for the differences between changes in the historical-cost positions, which are measured at book value, and direct investment financial flows, which are measured at transaction value. (Unlike the positions on current-cost and market-value bases, the historical-cost position is not usually adjusted to account for changes in the replacement cost of the tangible assets of affiliates or in the market value of parent companies' equity in affiliates.)

Valuation adjustments to the historical-cost position consist of **currency-translation adjustments** and **"other" adjustments**. Currency-translation adjustments account for changes in the exchange rates that are used to translate affiliates' foreign-currency-denominated assets and liabilities into U.S. dollars. "Other" valuation adjustments are made to account for (1) differences between the proceeds from the sale or liquidation of affiliates and their book values, (2) differences between the purchase

prices of affiliates and their book values, (3) writeoffs resulting from uncompensated expropriations of affiliates, (4) the reclassification of investment positions between direct investment and other investment, and (5) capital gains and losses (excluding currency-translation adjustments) on transactions, such as the sale of assets (excluding inventories) or capital gains and losses that represent the revaluation of the assets of ongoing affiliates for reasons other than exchange-rate changes, such as the write-down of assets. In addition, for individual industries, offsetting valuation adjustments may be made to effect changes in the industry classification of an affiliate. For individual countries, offsetting adjustments may be made when the political boundaries of countries change. In addition, for inward direct investment, offsetting adjustments are made when transactions between foreign residents result in a change in the country of the foreign parent.

### Direct investment income (without current-cost adjustment)

This is the return on the direct investment position. It consists of (1) earnings, that is, the parents' shares in the net income from the operations of their affiliates and (2) net interest received by parents (or parent groups) from affiliates from outstanding loans and trade accounts. As in the case of reinvested earnings (see above), a related measure including a current-cost adjustment is featured in the international transactions accounts.

### Services transactions

These are receipts and payments between parents and their affiliates for services provided by one to the other. They consist of **royalties and license fees** for the use or sale of intangible property or rights (including patents, trademarks, and copyrights) and **other private services** (consisting of service charges, including management fees and allocated expenses, rentals for tangible property, and film and television tape rentals).

*U.S. direct investment abroad tables 1–16 and foreign direct investment in the United States tables 1–17 follow.*