

Direct Investment for 2009–2011

Detailed Historical-Cost Positions and Related Financial and Income Flows

By Jeffrey H. Lowe

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—or “outward direct investment”—and for foreign direct investment in the United States—or “inward direct investment.” Summary statistics on services transactions with foreign affiliates and foreign parent companies are also presented.¹ (For definitions, see the box “Key Terms.”) These statistics complement the statistics presented in two articles in the July 2012 *SURVEY OF CURRENT BUSINESS* by providing more detail by country, industry, and account.² For 2009–11, the statistics 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 fi-

ancial and operating data of U.S. parent companies and their foreign affiliates and of U.S. affiliates of foreign companies.

The statistics in this article differ from some of the counterpart statistics in the international investment position and international transactions accounts.³

- These statistics are presented at historical cost, which is the only valuation method for which detailed statistics by country and industry are available. In contrast, the aggregate statistics on the direct investment position in the international investment position accounts are presented at current cost and at market value.
- These statistics are presented without a current-cost adjustment. In contrast, the statistics on direct investment income (in the current account) and direct investment financial flows (in the financial account) in the U.S. international transactions accounts are presented with a current-cost adjustment.

1. Global totals (all countries and all industries) for royalties and license fees and other private services are shown in table 2 (for U.S. direct investment abroad, see page 33 and for foreign direct investment in the United States, see page 68). 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 Kevin B. Barefoot and Marilyn Ibarra-Caton, “Direct Investment Positions for 2011: Country and Industry Detail,” *SURVEY 92* (July 2012): 19–34 and Jeffrey R. Bogen and Jessica M. Hanson, “Annual Revision of the U.S. International Transactions Accounts,” *SURVEY 92* (July 2012): 35–46.

3. See Elena L. Nguyen, “The International Investment Position of the United States at Yearend 2011,” *SURVEY 92* (July 2012): 9–18 and Sarah P. Scott, “U.S. International Transactions: First Quarter of 2012,” *SURVEY 92* (July 2012): 50–97.

Direct Investment Tables

Following this article, two sets of tables are presented—one set for outward direct investment (tables 1–16) and one set for inward direct investment (tables 1–17). In each set, tables 1–15 present similar data.

- Table 1 shows the direct investment positions and rates of return at historical cost, current cost, and market value.
- Table 2 presents the positions and related financial, income, and services flows for 2000–2011 at historical cost and as they are presented in the international investment position accounts and international transactions accounts.
- Tables 3–16 present direct investment positions and international transactions by country of foreign affili-

ate or foreign parent, by industry of affiliate, and by account. For outward direct investment, table 16 presents statistics that are classified not only by industry of affiliate but also by industry of U.S. parent. For inward direct investment, table 16 presents statistics 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 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.

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 information from annual surveys of financial and operating data of foreign affiliates.

As noted in the July 2012 SURVEY article on direct investment positions, the total outward direct investment position at historical cost for all areas was revised down \$28.4 billion for 2009 and \$117.3 billion for 2010 (table A). The downward revision for 2009 resulted from similar-size downward revisions to financial outflows without current-cost adjustment and to valuation adjustments.⁴ The downward revision for 2010 resulted from a sizable downward revision to

4. Financial flows without current-cost adjustment consist of reinvested earnings without current-cost adjustment and equity and intercompany debt investment. Financial outflows increase the U.S. direct investment position abroad and financial inflows reduce the position.

2010 valuation adjustments, the downward revision to the position for 2009, and a downward revision to 2010 financial outflows.

Financial outflows without current-cost adjustment were revised down \$15.7 billion for 2009 and \$24.5 billion for 2010, and they were revised up \$12.8 billion for 2011. For 2009, the revision resulted from downward revisions to reinvested earnings and to equity investment. For 2010, almost half of the downward revision was accounted for by a downward

Data Availability

Detailed statistics on the outward direct investment position and related financial and income flows for 1982–2011 and detailed statistics on the inward direct investment position and related financial and income flows for 1980–2011 are available on BEA's Web site at www.bea.gov under "International" and "Direct Investment and Multinational Companies."

Table A. U.S. Direct Investment Abroad: Comparison of Previously Published and Revised Estimates by Area, 2009–2011

[Millions of dollars]

By area	Direct investment position on a historical-cost basis			Financial outflows without current-cost adjustment (inflows (-))			Income without current-cost adjustment		
	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision
2009									
All areas	3,547,038	3,518,655	-28,383	282,686	266,955	-15,731	335,283	335,297	13
Canada.....	266,577	265,326	-1,251	12,038	10,170	-1,868	16,772	15,409	-1,363
Europe.....	2,005,931	1,987,278	-18,653	162,971	159,387	-3,584	178,380	175,828	-2,552
<i>Of which:</i>									
United Kingdom.....	458,536	487,604	29,068	23,930	27,638	3,708	26,605	29,329	2,725
Latin America and Other Western Hemisphere.....	676,183	695,754	19,572	69,899	60,596	-9,303	75,497	76,665	1,168
Africa.....	43,575	43,018	-557	8,652	9,447	795	5,183	5,409	226
Middle East.....	36,257	35,004	-1,253	4,742	4,870	128	4,933	4,988	54
Asia and Pacific.....	518,516	492,275	-26,241	24,384	22,484	-1,900	54,518	56,998	2,480
2010									
All areas	3,908,231	3,790,918	-117,313	328,905	304,399	-24,505	409,555	420,566	11,011
Canada.....	296,691	289,535	-7,155	27,085	28,398	1,313	29,586	30,326	741
Europe.....	2,185,898	2,102,834	-83,064	175,260	186,857	11,597	198,567	209,893	11,326
<i>Of which:</i>									
United Kingdom.....	508,369	514,887	6,518	49,989	47,087	-2,903	26,359	28,182	1,823
Latin America and Other Western Hemisphere.....	724,405	747,784	23,380	51,923	44,533	-7,390	89,883	91,843	1,959
Africa.....	53,522	53,412	-109	8,314	9,281	968	7,305	7,221	-84
Middle East.....	36,573	34,739	-1,834	-63	-276	-213	9,168	9,224	56
Asia and Pacific.....	611,143	562,613	-48,530	66,386	35,606	-30,780	75,046	72,059	-2,987
2011 ¹									
All areas				383,836	396,656	12,820	454,847	457,562	2,715
Canada.....				42,532	40,410	-2,122	39,333	40,729	1,396
Europe.....				202,233	224,295	22,062	208,811	212,760	3,950
<i>Of which:</i>									
United Kingdom.....				29,189	36,799	7,610	28,517	31,798	3,281
Latin America and Other Western Hemisphere.....				87,169	84,540	-2,629	100,880	99,603	-1,277
Africa.....				5,728	5,127	-601	8,525	8,520	-5
Middle East.....				3,328	846	-2,482	15,663	15,226	-437
Asia and Pacific.....				42,846	41,439	-1,407	81,635	80,723	-912

1. The only accounts for which 2011 statistics were previously available by country were financial outflows without current-cost adjustment and income without current-cost adjustment. The estimates of

the direct investment positions for 2011 are preliminary and were first published in the July 2012 SURVEY OF CURRENT BUSINESS.

revision to intercompany debt investment; the remainder was almost equally divided between equity investment and reinvested earnings. For 2011, the upward revision was more than accounted for by an upward revision to intercompany debt investment that was partly offset by a downward revision to equity investment.

Income without current-cost adjustment was revised up for all 3 years—albeit only slightly for 2009, up \$13 million. It was revised up \$11.0 billion for 2010 and \$2.7 billion for 2011. In all 3 years, the revisions resulted from upward revisions to earnings; interest receipts were revised down in 2009 and 2010 and revised up only slightly in 2011.

Inward direct investment

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

formation from annual surveys of financial and operating data of U.S. affiliates.

As noted in the July 2012 SURVEY article on direct investment positions, the total inward direct investment position at historical cost for all areas was revised down \$45.1 billion for 2009, and down \$78.4 billion for 2010 (table B). For 2009, the downward revision was mainly attributable to a downward revision to valuation adjustments and, to a lesser extent, a downward revision to financial inflows.⁵ For 2010, the downward revision was the result of the downward revision to the 2009 position, a downward revision to financial inflows for 2010, and a much smaller downward revision to valuation adjustments for 2010.

Financial inflows without current-cost adjustment were revised down \$9.3 billion for 2009 and \$30.3 billion for 2010, and they were revised up \$7.0 billion for 2011. For 2009, the downward revision resulted from

5. Financial inflows increase the foreign direct investment position in the United States and financial outflows reduce the position.

Table B. Foreign Direct Investment in the United States: Comparison of Previously Published and Revised Estimates by Area, 2009–2011

[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
2009									
All areas	2,114,501	2,069,438	-45,062	152,892	143,604	-9,287	88,336	97,990	9,654
Canada.....	202,303	188,943	-13,360	35,549	30,366	-5,183	6,848	4,755	-2,093
Europe.....	1,516,268	1,504,727	-11,541	92,154	99,073	6,919	74,073	83,184	9,111
Of which:									
United Kingdom.....	416,139	414,590	-1,549	20,419	18,373	-2,046	22,162	22,302	140
Latin America and Other Western Hemisphere.....	48,300	32,961	-15,339	14,344	7,990	-6,355	827	2,622	1,795
Africa.....	1,205	1,225	20	-780	-672	107	-30	91	121
Middle East.....	16,949	18,177	1,228	618	1,366	748	-228	-173	55
Asia and Pacific.....	329,475	323,404	-6,071	11,006	5,482	-5,524	6,846	7,512	666
2010									
All areas	2,342,829	2,264,385	-78,445	228,249	197,905	-30,344	143,384	138,223	-5,162
Canada.....	206,139	188,350	-17,789	10,488	5,522	-4,966	11,718	11,636	-82
Europe.....	1,697,196	1,652,599	-44,596	173,220	150,286	-22,934	104,699	101,751	-2,949
Of which:									
United Kingdom.....	432,488	387,163	-45,325	37,022	23,931	-13,091	28,983	24,978	-4,005
Latin America and Other Western Hemisphere.....	60,074	59,638	-437	8,637	14,545	5,908	2,514	2,983	469
Africa.....	2,010	2,265	256	846	1,081	235	44	117	74
Middle East.....	15,407	16,452	1,045	-234	-295	-61	422	-18	-440
Asia and Pacific.....	362,003	345,080	-16,923	35,292	26,766	-8,526	23,988	21,754	-2,234
2011 ¹									
All areas				219,957	226,937	6,980	152,642	151,508	-1,134
Canada.....				15,809	18,661	2,852	10,099	11,082	983
Europe.....				142,067	132,568	-9,499	113,531	112,027	-1,505
Of which:									
United Kingdom.....				-1,370	46,799	48,169	28,475	27,507	-968
Latin America and Other Western Hemisphere.....				16,305	18,373	2,068	4,086	4,518	432
Africa.....				2,244	2,060	-184	587	512	-75
Middle East.....				2,777	9,098	6,321	347	1	-346
Asia and Pacific.....				40,754	46,176	5,422	23,992	23,368	-624

1. The only accounts for which 2011 statistics were previously available by country were financial inflows without current-cost adjustment and income without current-cost adjustment. The estimates of

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downward revisions to both intercompany debt investment and equity investment that were partly offset by an upward revision to reinvested earnings. For 2010, the downward revision reflected downward revisions to reinvested earnings and intercompany debt investment that were partly offset by an upward revision to equity investment. For 2011, the upward revision was more than accounted for by an upward revision to equity investment; intercompany debt in-

vestment was also revised up, but to a much lesser extent.

Income without current-cost adjustment was revised up \$9.7 billion for 2009 and it was revised down \$5.2 billion for 2010 and \$1.1 billion for 2011. For 2009 and 2010, the revisions were almost entirely attributable to revisions to affiliates' earnings. For 2011, the downward revision mostly reflected a downward revision to interest payments.

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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, who was assisted by Pamela Aiken, Suhail Ally, Felix Anderson, Stacey Ansell, Damon C. Battaglia, Annette Boyd, Faith M. Branham, Jamela Des Vignes, Hope R. Jones, Eddie L. Key, Kiesha Middleton, Steven J. Muno, Mark Samuel, and Clifton Tillman. Computer programming for data estimation and tabulation was provided by Tracy Leigh. Jeffrey Bogen, Lori Chang, Anne Flatness, C. Omar Kebbeh, John Sondheimer, and Gregory Tenentes were also involved in the preparation of the estimates.

Key Terms—Continues

For a more detailed discussion of the terms in this box, see the methodologies in *Foreign Direct Investment in the United States: Final Results From the 2007 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. Under "International," click on the "Methodologies" tab, then click on the "Direct Investment and MNCs" tab.

Direct investment

This is investment in which a resident (in the broad legal sense, including a person or company) of one country obtains a lasting interest in, and a degree of influence over, the management of 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, the **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, the foreign parent, of at least 10 percent of a U.S. business enterprise, which is called a **U.S. affiliate**. Foreign direct investment includes net equity and net debt investments by the foreign parent, and 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, which 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.

Key Terms

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 reports statistics on the positions for outward direct investment and inward direct investment at historical cost, current cost, and market value. This article features the **historical-cost** measure, which 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 Barefoot and Ibarra-Caton, 20.

Direct investment financial flows result 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** result from transactions that increase U.S. assets or decrease U.S. liabilities. Financial **inflows** result 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 decreases. Equity increases result from parents' (1) establishments of new affiliates, (2) payments to unaffiliated parties for the purchase of capital stock or other equity interests when they acquire an existing business, (3) payments to acquire additional ownership interests in their existing affiliates, and (4) capital contributions to their existing affiliates. Equity decreases are the funds parents receive when they reduce their equity interests in their affiliates.

Intercompany debt investment results from changes in 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. In the international transactions accounts, reinvested earnings include a **current-cost adjustment** that reflects current-period prices. The current-cost 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. However, 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 used to translate affiliates' foreign-currency-denominated assets and liabilities into U.S. dollars. "Other" valuation adjustments 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 on transactions, excluding currency-translation adjustments, 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, if an affiliate's industry classification changes, offsetting valuation adjustments are made to move the position from the former to the current industry. Offsetting adjustments are also made when the political boundaries of a country change and results in the change in the country of the affiliate, and for inward direct investment, 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 foreign parent groups) from affiliates from outstanding loans and trade accounts. As in the case of reinvested earnings (see above), in the international transactions accounts, direct investment income includes a **current-cost adjustment** that reflects current-period prices.

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, distribution, or sale of intangible property or rights (including patents, trademarks, copyrights, and other intellectual property) and **other private services** (consisting of service charges, including management fees and allocated expenses, and rentals for tangible property).

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