Direct Investment Positions for 2002

Country and Industry Detail

By Maria Borga

IN 2002, the historical-cost position of foreign direct investment in the United States (FDIUS) decreased for the first time since at least 1946, when the data were first compiled on an annual basis. The 1-percent decrease followed an 8-percent increase in 2001. In contrast, the historical-cost position of U.S. direct investment abroad (USDIA) grew 10 percent in 2002, up from a 5-percent increase in 2001 (table A and chart 1).

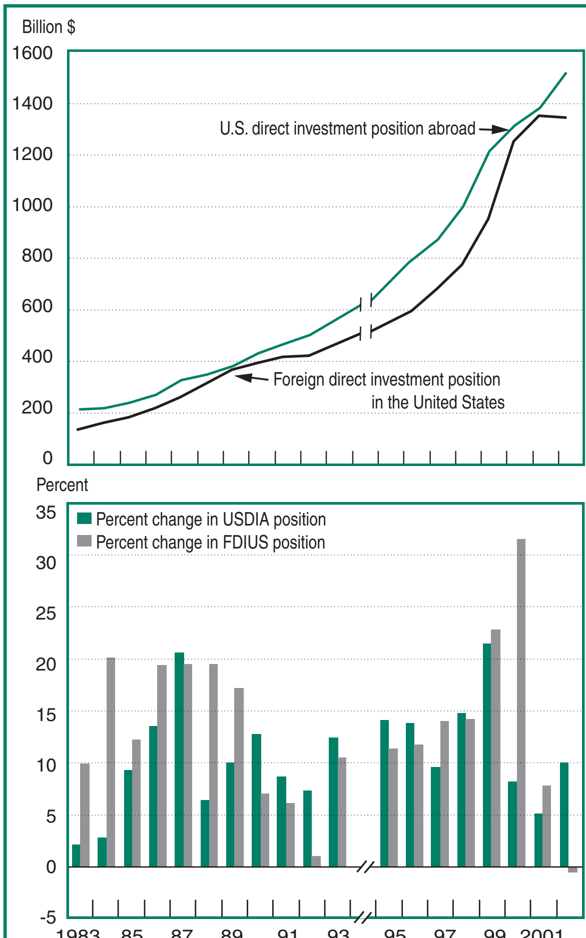
The decrease in the FDIUS position in 2002 reflected financial restructuring and write-downs of investments in the wake of the boom in foreign investors' acquisitions of U.S. companies between 1998 and 2000, reduced requirements by existing U.S. affiliates for financing from their foreign parents, and a sharp slowdown in new investment by foreign parents. A primary cause of the decrease in the position was that some affiliates repaid substantial loans to their foreign parents that had been used to finance major acquisitions during the 1998–2000 boom. In addition, several affiliates wrote down the value of acquisitions made during the boom. Finally, despite a return to positive earnings by U.S. affiliates in 2002, reinvested earnings were negative because foreign parents chose not to reinvest their share of those earnings in their affiliates. The reduced intercompany debt financing from parents and lack of reinvestment in 2002 may indicate that parents are not expanding, and may even be cutting back, the operations of their U.S. affiliates. Spending on new investments in 2002 was not large enough to

Table A. U.S. Direct Investment Position Abroad and Foreign Direct Investment Position in the United States on a Historical-Cost Basis, 1982–2002

Yearend	Billions of dollars		Percent change from preceding year	
	USDIA	FDIUS	USDIA	FDIUS
1982	207.8	124.7	.....	.....
1983	212.2	137.1	2.1	9.9
1984	218.1	164.6	2.8	20.1
1985	238.4	184.6	9.3	12.2
1986	270.5	220.4	13.5	19.4
1987	326.3	263.4	20.6	19.5
1988	347.2	314.8	6.4	19.5
1989	381.8	368.9	10.0	17.2
1990	430.5	394.9	12.8	7.0
1991	467.8	419.1	8.7	6.1
1992	502.1	423.1	7.3	1.0
1993	564.3	467.4	12.4	10.5
1994	612.9	480.7	(1)	(1)
1995	699.0	535.6	14.1	11.4
1996	795.2	598.0	13.8	11.7
1997	871.3	681.8	9.6	14.0
1998	1,000.7	778.4	14.8	14.2
1999	1,216.0 r	955.7	21.5	22.8
2000	1,316.2 r	1,256.9 r	8.2	31.5
2001	1,383.2 r	1,355.1 r	5.1	7.8
2002	1,521.0 p	1,348.0 p	10.0	–0.5

p Preliminary.
r Revised.
1. The USDIA and FDIUS positions reflect a discontinuity between 1993 and 1994 because of the reclassification from direct investment to other investment accounts of intercompany debt between parent companies and affiliates that are nondepository financial intermediaries.
USDIA U.S. direct investment abroad
FDIUS Foreign direct investment in the United States

Chart 1. Direct Investment Positions on a Historical-Cost Basis, 1983–2002



Note. There is a discontinuity between 1993 and 1994. See footnote 1 in table 1.
USDIA U.S. direct investment abroad
FDIUS Foreign direct investment in the United States

U.S. Bureau of Economic Analysis

Key Terms

The key terms used in this article are described in this box. For a more detailed discussion of these terms and the methodologies used to prepare the estimates, see *Foreign Direct Investment in the United States: Final Results from the 1997 Benchmark Survey* (Washington, DC: U.S. Government Printing Office, June 2001) and *U.S. Direct Investment Abroad: 1994 Benchmark Survey, Final Results* (Washington, DC: U.S. Government Printing Office, May 1998). (Publication of the final results of the 1999 benchmark survey of U.S. direct investment abroad, including an updated methodology, is scheduled for later this year.) The methodologies are also available at BEA's Web site at <www.bea.gov>.

Direct investment. Investment in which a resident 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, the criterion used to distinguish direct investment from other types of 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 (USDIA). The ownership or control, directly or indirectly, by one U.S. resident of 10 percent or more of the voting securities of an incorporated foreign business enterprise or the equivalent interest in an unincorporated foreign business enterprise.

Foreign direct investment in the United States (FDIUS). The ownership or control, directly or indirectly, by one foreign resident of 10 percent or more of the voting securities of an incorporated U.S. business enterprise or the equivalent interest in an unincorporated U.S. business enterprise.

Foreign affiliate. A foreign business enterprise in which a single U.S. investor (that is, a **U.S. parent**) owns at least 10 percent of the voting securities, or the equivalent.

U.S. affiliate. A U.S. business enterprise in which a single foreign investor (that is, a **foreign parent**) owns at least 10 percent of the voting securities, or the equivalent.

Ultimate beneficial owner (UBO). That person (in the broad legal sense, including a company), proceeding up the affiliate's ownership chain beginning with the foreign parent, that is not owned more than 50 percent by another person. The UBO ultimately owns or controls the affiliate and derives the benefits associated with ownership or control. Unlike the foreign parent, the UBO of a U.S. affiliate may be located in the United States.

Foreign parent group. Consists of (1) the foreign parent, (2) any foreign person, proceeding up the foreign parent's ownership chain, that owns more than 50 percent of the person below it, up to and including the 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.

Direct investment capital flows. Funds that parent companies provide to their affiliates net of funds that affiliates provide to their parents. For USDIA, capital flows also include the funds that U.S. direct investors pay to unaffiliated foreign parties when affiliates are acquired and the funds that U.S. investors receive from them when affiliates are sold. Similarly, FDIUS capital flows include the funds that foreign direct investors pay to unaffiliated U.S. residents when affiliates are acquired and the funds that foreign investors receive from them when affiliates are sold. FDIUS capital flows also include debt and equity transactions between U.S. affiliates and members of their foreign parent groups other than their foreign parents, described as follows.

Direct investment capital flows consist of equity capital, intercompany debt, and reinvested earnings. **Equity capital flows** are the net of equity capital increases and decreases. Equity capital increases consist of payments by parents to third parties for the purchase of capital stock when they acquire an existing business, payments made to acquire additional ownership interests in their affiliates, and capital contributions to their affiliates. Equity capital decreases are the funds parents receive when they reduce their equity interest in their affiliates. **Intercompany debt flows** result from changes in net outstanding loans and trade accounts between parents (and for FDIUS, other members of the foreign parent groups) and their affiliates, including loans by parents to affiliates and loans by affiliates to parents. **Reinvested earnings** are the parents' claim on the current-period undistributed after-tax earnings of the affiliates.

Direct investment position. The value of direct investors' equity in, and net outstanding loans to, their affiliates. The position may be viewed as the direct investors' net financial claims on their affiliates, whether in the form of equity (including retained earnings) or debt.

BEA prepares estimates of the positions for USDIA and for FDIUS that are valued on three bases—historical cost, current cost, and market value. See the box "Alternative Measures of the Direct Investment Positions."

Valuation adjustments to the historical-cost position. Adjustments that are made to account for the differences between changes in the historical-cost position, which are measured at book value, and direct investment capital flows, which are measured at transaction value. (Unlike the positions on a current-cost and market-value basis, the historical-cost position is not 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 and "other" adjustments. **Currency-translation adjustments** are made to account for changes in the exchange rates that are used to translate affiliates' foreign-currency-denominated assets and liabilities into U.S. dollars. The precise effects of currency fluctuations on these adjustments depend on the value and currency composition of affiliates' assets and liabilities. If an affiliate's assets exceed its liabilities denominated in a particular foreign currency, depreciation (appreciation) of the currency against the dollar will result in negative (positive) translation adjustments. In the less common, but not unusual, case of a net liability position in a foreign currency, depreciation (appreciation) of the currency will result in positive (negative) translation adjustments.

"Other" valuation adjustments are made to account for differences between the proceeds from the sale or liquidation of affiliates and their book values, for differences between the purchase prices of affiliates and their book values, for writeoffs resulting from uncompensated expropriations of affiliates, for changes in industry of affiliate or country of foreign parent, and for capital gains and losses (other than currencies-translation adjustments). These capital gains and losses represent the revaluation of the assets of ongoing affiliates for reasons other than exchange-rate changes, such as the sale of assets (other than inventory) for an amount different from their book value. For individual industries, adjustments may be made to reflect changes in the industry of an affiliate. For USDIA, adjustments may be made for individual countries to reflect changes in the country of a foreign affiliate. Similarly, for FDIUS, adjustments may be made for individual countries to reflect changes in the country of the foreign parent.

offset the decrease in the intercompany debt position, negative reinvested earnings, and write-downs of assets. The sharp slowdown in new investment reflected continuing modest economic growth in the United States and many foreign countries and uncertainty about the value and future prospects of targets for acquisition.

The 10-percent increase in the USDIA position in 2002 was due to strong reinvested earnings and to a shift from inflows to outflows on intercompany debt transactions between parents and affiliates.[1] European affiliates accounted for about half of the total reinvested earnings. Within Europe, chemical manufacturers, wholesale traders, and holding companies of U.S. chemical and integrated petroleum companies accounted for most of the reinvested earnings. Earnings, and also reinvested earnings, of European affiliates increased, partly due to the depreciation of the dollar against the euro. Reinvested earnings have historically played a much greater role in the growth of the USDIA position than in that of the FDIUS position; the greater importance of reinvested earnings in the growth of the USDIA position partly reflects the higher earnings of foreign affiliates of U.S. companies relative to those of U.S. affiliates of foreign companies.[2] The USDIA position also increased because intercompany debt shifted to outflows in 2002, as net lending by U.S. parents to their foreign affiliates increased.

The remainder of this article is presented in two sections. The first section discusses changes in the USDIA position by type of capital flow and by host country. The second section discusses the changes in the FDIUS position by type of capital flow and by country of the foreign parent.

Tables presenting country and industry estimates of the USDIA and FDIUS positions for 1999 through 2002 are at the end of the article. Because of the incorporation of the North American Industry Classification System (see the box "New Industry Classifications" on page 26) and of many other statistical and methodological improvements (see "Annual Revision of the U.S. International Accounts, 1992–2002" in this issue), detailed country-by-industry estimates are not yet available. These estimates will be available on BEA's Web site, <www.bea.gov>, by late summer.

1. From 1994 to 2001, the USDIA position grew at an average rate of 12 percent annually, a little higher than the growth in the position in 2002.

2. For a discussion of the profitability of U.S. affiliates, see Raymond J. Mataloni, Jr., "An Examination of the Low Rates of Return of Foreign-Owned U.S. Companies," Survey of Current Business 80 (March 2000): 55–73.

U.S. Direct Investment Abroad

The USDIA position valued at historical cost—the book value of U.S. direct investors' equity in, and net outstanding loans to, their foreign affiliates—was $1,521.0 billion at the end of 2002 (table A and chart 1). In 2002, as in 2001, the largest positions were those in the United Kingdom ($255.4 billion, or 17 percent of the total position), in Canada ($152.5 billion, or 10 percent), and in the Netherlands ($145.5 billion, or 10

Alternative Measures of the Direct Investment Positions

This article presents country and industry detail on the positions of U.S. direct investment abroad and of foreign direct investment in the United States. These detailed estimates are prepared only on a historical-cost basis and, thus, largely reflect price levels of earlier periods. Current-cost and market-value estimates of the positions are also prepared, but only at an aggregate level. The current-cost estimates value the U.S. and foreign parents' shares of their affiliates' investment in plant and equipment, using the current cost of capital equipment; in land, using general price indexes; and in inventories, using estimates of their replacement cost. The market-value estimates value the equity portion of direct investment, using indexes of stock market prices. Because the historical-cost estimates are not ordinarily adjusted to reflect changes in the current costs of tangible assets or in the stock market prices of firms, the estimates on this valuation basis are less than BEA's current-cost and market-value estimates of the positions. The revised estimates of the position for 2001 and the preliminary estimates for 2002 are shown on all three valuation bases below. The current-cost and market-value estimates of the position are discussed in "The International Investment Position of the United States at Yearend 2002" in this issue.

Alternative Direct Investment Position Estimates, 2001 and 2002

[Millions of dollars]

Valuation method	Position at yearend 2001 r	Changes in 2002 (decrease (–))			Position at yearend 2002 p
		Total	Capital flows	Valuation adjustments	
U.S. direct investment abroad:					
Historical cost	1,383,225	137,740	119,742	17,998	1,520,965
Current cost	1,598,072	153,780	137,836	15,944	1,751,852
Market value	2,301,913	–265,690	137,836	–403,526	2,036,223
Foreign direct investment in the United States:					
Historical cost	1,355,114	–7,120	30,032	–37,152	1,347,994
Current cost	1,514,374	–9,946	39,633	–49,579	1,504,428
Market value	2,552,580	–545,837	39,633	–585,470	2,006,743

p Preliminary.
r Revised.

percent) (table 1 and chart 2).

The USDIA position increased $137.7 billion in 2002, more than double the increase in 2001 (table B). Capital outflows were $119.7 billion in 2002, 15 percent larger than in 2001. By account, reinvested earnings accounted for the largest portion of capital outflows, at 64 percent. Intercompany debt accounted for 21 percent, and equity capital accounted for 15 percent.

Table B. Change in the U.S. Direct Investment Position Abroad by Account

[Billions of dollars]

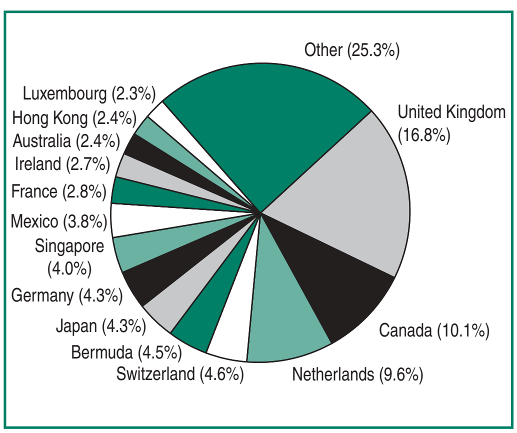
	2001	2002
Total	67.0	137.7
Capital outflows	103.8	119.7
Equity capital	50.4	18.1
Increases	76.2	48.3
Decreases	25.8	30.2
Intercompany debt	–2.5	25.6
Reinvested earnings	55.8	76.1
Valuation adjustments	–36.8	18.0
Currency translation	–13.8	10.5
Other	–23.0	7.5

Reinvested earnings, at $76.1 billion, increased 36 percent in 2002, reflecting both higher earnings and an increase in the share of earnings that was reinvested. Earnings increased 16 percent, to $119.5 billion. Much of the increase in earnings was by affiliates in Europe and partly reflected the depreciation of the dollar against the euro, which raised the value of affiliates' earnings in dollar terms. The share of total earnings reinvested by foreign affiliates increased from 54 percent in 2001 to 64 percent in 2002. Holding companies (classified in "other industries" under NAICS; see the box "New Industry Classifications" on page 26), chemical manufacturers, and wholesale traders had the largest reinvested earnings.

Equity capital outflows fell 64 percent in 2002, to $18.1 billion. Equity capital increases were $48.3 billion, and equity capital decreases were $30.2 billion. Equity capital increases were divided almost evenly between capital contributions to existing affiliates, accounting for 52 percent of the total, and equity flows for the direct acquisition or establishment of foreign businesses, accounting for the remaining 48 percent. Equity capital increases were largest in Europe, in Latin America and Other Western Hemisphere, and in Canada. In Europe and in Latin America and Other Western Hemisphere, the increases were largely due to capital contributions to existing affiliates in finance (except depository institutions) and insurance. In Canada, the increases were largely due to the acquisition or establishment of affiliates in computers and electronic products manufacturing and in mining. In 2002, liquidations and sales of affiliates accounted for 64 percent of equity capital decreases, and returns of equity capital accounted for the remaining 36 percent. The largest equity capital decreases were in Europe, primarily from selloffs of affiliates.

Intercompany debt flows shifted $28.1 billion, from inflows of $2.5 billion in 2001 to outflows of $25.6 billion in 2002. This shift was primarily the result of increased net lending by U.S. parents to their European chemical manufacturing affiliates, finance and insurance affiliates, and holding companies.

Chart 2. U.S. Direct Investment Position Abroad, 2002: Host-Country Shares



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Acknowledgments

The data for U.S. direct investment abroad were drawn from BEA's quarterly survey of transactions between U.S. parent companies and their foreign affiliates. The survey was conducted under the supervision of Mark W. New, assisted by Laura A. Downey, Javier J. Hodge, Marie K. Laddomada, Sherry Lee, Leila C. Morrison, Chad M. Poist, John E. Terpening, and Dwayne Torney. Computer programming for data estimation and tabulation was provided by Marie Colosimo.

The data for foreign direct investment in the United States were drawn from BEA's quarterly survey of transactions between U.S. affiliates of foreign companies and their foreign parents. The survey was conducted under the supervision of Gregory G. Fouch, assisted by Peter J. Fox, Michelle L. Granson, Barbara C. Huang, Y. Louise Ku-Graf, Susan M. LaPorte, and Beverly E. Palmer. Computer programming for data estimation and tabulation was provided by Karen E. Poffel, assisted by Paula D. Brown and Tracy K. Leigh.

A positive valuation adjustment of $18.0 billion also contributed to the increase in the position (see the box “Key Terms”). The positive currency-translation adjustment reflects the rise in the dollar value of investments in foreign affiliates caused by the depreciation of the U.S. dollar in 2002, particularly against the euro.

Changes by area and by country

In 2002, the USDIA position grew 25 percent in Asia and Pacific, 11 percent in Europe, and 8 percent in Canada. The USDIA position in Latin America and Other Western Hemisphere declined 4 percent. Growth in the USDIA positions in both Africa and the

New Industry Classifications

This article introduces two changes in industry classifications. First, the position data are classified by International Survey Industry (ISI) classifications derived from the 1997 North American Industry Classification System (NAICS).[1] Previously, the position data had been classified on ISI classifications derived from the 1987 Standard Industrial Classification (SIC) system.[2] Second, petroleum is no longer shown as a separate major industry in the tables; instead, the various petroleum-related activities are distributed among the major NAICS industry groups or sectors to which they belong.

NAICS is the current industry classification system of the United States, Canada, and Mexico. For the United States, the 1997 NAICS supplanted the 1987 Standard Industrial Classification system.[3] Many of the NAICS industries correspond to SIC industries. However, many of these industries have been rearranged among the higher level groups in which they appear. In addition, NAICS introduces several new higher level groups. At the highest level of aggregation, the 20 industry groups—termed “sectors”—in the NAICS replace the 10 industry divisions in the SIC. Several of the NAICS sectors do not correspond directly to these SIC industry divisions. For example, the “information” sector consists of industry groups from several SIC industry divisions.[4]

Under NAICS, the finance and insurance sector includes data for depository institutions. However, in the tables in this article (and for other BEA data on direct investment) that show data for depository institutions, these firms are not grouped with other finance and insurance firms but are instead shown in a separate category titled “depository credit intermediation (banking).” All the other data for the finance and insurance sector are shown in the category “finance (except depository institutions) and insurance.” For USDIA, the coverage of this category differs from that of the SIC-based category “finance (except depository institutions), insurance, and real estate” in that the new NAICS-based category excludes real estate firms and nonbank holding companies.[5] For FDIUS, this category also excludes nonbank holding companies and includes firms that were shown in the SIC-based categories “finance (except depository institutions)” and “insurance.” Under the NAICS-based classifications, the data for nonbank holding companies are in the “management of nonbank companies and enterprises” industry (included in “other industries” in the tables).

The second major change in industry presentation is that the various petroleum-related activities are no longer grouped in the major industry group “petroleum” but are, instead, spread among the major NAICS industry groups or sectors to which they belong. For example, oil and gas extraction is now included in mining, petroleum refining is in manufacturing, and gasoline stations are in retail trade. This change was made so that industry presentation of the direct investment data would conform with that used for most other data on the U.S. economy.

To facilitate assessment of the effects of these two changes and to provide a bridge between the data classified on the new basis and the data classified on the old basis, the data on the direct investment positions and related items on both bases will be available in September 2003 on BEA’s Web site, at <www.bea.gov>. The USDIA position on both bases will be available for 1999, and the FDIUS position on both bases will be available for 1997 through 1999.

1. Office of Management and Budget, *North American Industry Classification System: United States, 1997* (Lanham, MD: Bernan Press, 1998). Beginning with the 2002 benchmark survey of foreign direct investment in the United States, the ISI classifications will be derived from the 2002 NAICS manual, Office of Management and Budget, *North American Industry Classification System: United States, 2002* (Lanham, MD: Bernan Press, 2002). Information on NAICS is available online at <www.census.gov/epcd/www/naics.html>.

2. For a description of the NAICS-based ISI classifications that are used for the position data, see Bureau of Economic Analysis, *Guide to Industry and Foreign Trade Classifications for International Surveys* at <www.bea.gov.bea.surveys.htm>. A concordance between the new NAICS-based ISI codes and the old SIC-based ISI codes is available at the same Web address.

3. See Office of Management and Budget, *Standard Industrial Classification Manual, 1987* (Washington DC: U.S. Government Printing Office, 1987).

4. Specifically, the NAICS information sector includes publishing, which is included in the SIC manufacturing industry division; “motion picture and sound recording industries” and “information and data processing services,” which are included in the SIC services division; and broadcasting and communications, which are included in the SIC transportation, communications, electric, gas, and sanitary services division.

For additional information on the differences between the NAICS and the SIC classifications, see *NAICS: United States, 1997* and U.S. Bureau of the Census, *1997 Economic Census: Bridge Between NAICS and SIC* (Washington, DC: U.S. Government Printing Office, 2000), or <www.census.gov/epcd/ec97brdg/>.

5. Bank holding companies are grouped with depository institutions in both the NAICS-based and SIC-based classifications.

Middle East exceeded 10 percent, but the levels of these positions remained very small. Position changes that exceeded $3 billion in absolute value by area and by country are shown in table C.

Table C. Change in the U.S. Direct Investment Position Abroad by Country of Foreign Affiliate, 2002

[Billions of dollars]

All countries	137.7
Canada	10.7
Europe	80.0
Of which:	
Netherlands	19.4
United Kingdom	16.6
Switzerland	9.4
Ireland	5.9
Luxembourg	5.8
Belgium	4.7
Italy	3.5
Spain	3.4
France	3.1
Denmark	3.1
Latin America and Other Western Hemisphere	–10.0
Of which:	
Panama	–5.2
Argentina	–4.5
Brazil	–3.8
Asia and Pacific	53.5
Of which:	
Singapore	34.6
Japan	7.4
Australia	3.8
Hong Kong	3.7

Within Asia and Pacific, the largest increase in position was in Singapore, followed by Japan. The increase in Singapore was primarily the result of a corporate restructuring in which existing affiliates in other countries were consolidated under a holding company in Singapore; this increase was largely offset by decreases in the positions in the host countries of the affiliates that were consolidated. The increase in Singapore was also attributable to reinvested earnings and to increased lending from U.S. parents to their holding companies. The increase in the position in Japan was primarily due to reinvested earnings in finance (except depository institutions) and insurance.

Within Europe, position increases were largest in the Netherlands, the United Kingdom, and Switzerland. The increases in all three countries were partly due to strong reinvested earnings of holding companies, especially those owned by U.S. parents in petroleum and chemicals. The holding companies derive virtually all of their earnings from affiliates that operate in other industries and that, in many cases, are located in other foreign countries.[3] Reinvested earnings in Dutch chemical affiliates and Swiss wholesale trade affiliates also lifted the positions in these countries. An increase in net lending to affiliates in finance (except depository institutions) and insurance boosted the positions in the Netherlands and the United Kingdom. Acquisitions of beverage makers also boosted the position in the United Kingdom.

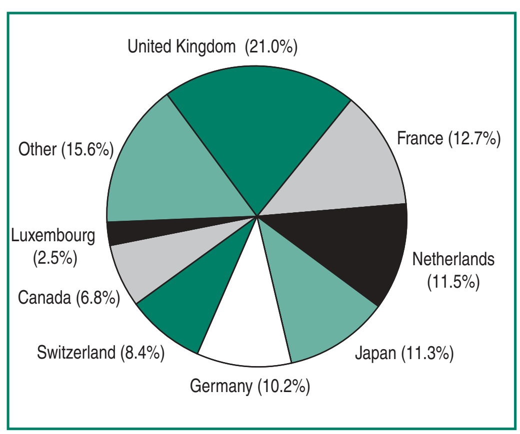
The increase in the position in Canada was boosted by acquisitions of computer and electronic products manufacturers and of mining companies and by increased lending to transportation equipment manufacturers.

The decreases in the position in Latin America and Other Western Hemisphere were largest in Panama, Argentina, and Brazil. A negative valuation adjustment in finance (except depository institutions) and insurance more than accounted for the decrease in Panama. In Argentina and Brazil, the decreases in the positions were more than accounted for by negative currency-translation adjustments resulting from the strengthening of the U.S. dollar against these countries' currencies.

Foreign Direct Investment in the United States

The FDIUS position valued at historical cost—the book value of foreign direct investors' equity in, and net outstanding loans to, their U.S. affiliates—was $1,348.0 billion at the end of 2002 (table A and chart 1). The largest position remained that of the United Kingdom ($283.3 billion, or 21 percent of the total position), but the positions of both France ($170.6 billion, or 13 percent) and the Netherlands ($154.8 billion, or 11 percent) surpassed that of Japan ($152.0 billion, or 11 percent), which fell to fourth largest (table 2 and chart 3).

Chart 3. Foreign Direct Investment Position in the United States, 2002: Parent-Country Shares



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3. In recent years, U.S. parent companies have been funneling an increasing share of their direct investments abroad through holding companies. For more information, see the "Technical Note" in Maria Borga and Raymond J. Mataloni, Jr., "Direct Investment Positions for 2000: Country and Industry Detail," SURVEY 81 (July 2001): 23–25.

In 2002, the FDIUS position decreased for the first time since at least 1946 when the data were first compiled on an annual basis—falling $7.1 billion, or 1 percent (table D). Capital inflows decreased substantially in 2002, falling to $30.0 billion from $144.0 billion in 2001. In 2002, equity capital inflows were partly offset by outflows on intercompany debt and by negative reinvested earnings.

Equity capital inflows were $70.3 billion, about half as much as in 2001. Equity capital increases of $84.1 billion were partly offset by equity capital decreases of $13.8 billion. Equity capital increases were half those in 2001, reflecting the slowdown in cross-border merger and acquisition activity.[4] Equity capital increases result from acquisitions of U.S. businesses by foreigners and contributions of equity to existing U.S. affiliates. The largest acquisitions in 2002 were in beverage manufacturing, advertising (classified in professional, scientific, and technical services), utilities (classified in "other industries"), and motion picture and video industries (classified in information).[5] In 2002, several of the contributions of equity capital to existing affiliates were transactions in which debt owed to foreign parents by U.S. affiliates was converted into equity capital. Because the equity capital inflows associated with these transactions were largely offset by intercompany debt outflows, they had little impact on the overall capital flows. Equity capital decreases reflected selloffs of affiliates by, and returns of capital to, foreign direct investors (transactions that are reported as U.S. capital *out*flows).

Intercompany debt shifted $80.8 billion, to outflows of $37.4 billion in 2002. This shift reflected a drop in foreign parents' debt financing of new and existing affiliates in the United States and the reduction in the

Table D. Change in the Foreign Direct Investment Position in the United States by Account

[Billions of dollars]

	2001	2002
Total	98.2	–7.1
Capital inflows	144.0	30.0
Equity capital	137.3	70.3
Increases	168.6	84.1
Decreases	31.3	13.8
Intercompany debt	43.4	–37.4
Reinvested earnings	–36.7	–2.8
Valuation adjustments	–45.7	–37.2
Currency translation	–1.9	0.6
Other	–43.9	–37.7

Revisions

The revised estimates of the U.S. Direct Investment Abroad (USDIA) position for 1999–2001 incorporate the results of BEA's 1999 USDIA benchmark survey. Previously, these estimates had been linked to the 1994 benchmark survey. Benchmark surveys are conducted once every 5 years and cover virtually the entire universe of direct investment (in terms of value). In nonbenchmark years, a quarterly survey with higher exemption levels is used. BEA derives estimates for the affiliates that are not required to be reported in the quarterly surveys by extrapolating forward from the benchmark survey using sample data from the quarterly surveys. Because of the more comprehensive coverage of the benchmark surveys, a number of previously unreported affiliates were identified in the 1999 survey and were added to the affiliate universe. In addition, a number of other affiliates that had been carried forward from the 1994 benchmark survey were discovered to have been subsequently sold or liquidated and were removed from the universe. Overall, a net addition of affiliates to the universe is reflected in the change in the USDIA position from 1998 to 1999. Additional information on the incorporation of the 1999 benchmark survey results into the USDIA estimates will be provided in "U.S. Direct Investment Abroad: Detail for Historical-Cost Position and Related Capital and Income Flows, 2002" in the September 2003 issue of the SURVEY OF CURRENT BUSINESS. The revised estimates also incorporate new or adjusted data from BEA's quarterly sample surveys of USDIA.

The revisions to the estimates of the foreign direct investment in the United States (FDIUS) position for 2000–2001 incorporate new and adjusted data from the quarterly surveys of FDIUS.

For details, see table 3 in "Annual Revision of the U.S. International Accounts, 1992–2002" in this issue.

4. According to preliminary data from BEA's survey of new foreign direct investment, total outlays to acquire or establish U.S. businesses, including those financed by capital inflows from foreign parents, decreased 64 percent to $52.6 billion in 2002 from $147.1 billion in 2001. See Thomas W. Anderson, "Foreign Direct Investment in the United States: New Investment in 2002," SURVEY 83 (June 2003): 55–62. These data cover only transactions involving U.S. businesses newly acquired or established by foreign direct investors, and they include financing other than that from the foreign parent, such as local borrowing by existing U.S. affiliates. In contrast, the changes in the FDIUS position reflect transactions of both new and existing U.S. affiliates with their foreign parents or other members of their foreign parent groups and valuation adjustments, and they exclude financing not provided by the foreign parent group.

Notwithstanding these differences, the two types of data are related. Any outlays to acquire or establish U.S. businesses that are funded by foreign parent groups are part of capital inflows for FDIUS, a component of the change in the position. Data from the new investments survey indicate that foreign parent groups funded 71 percent of outlays to acquire or establish new U.S. affiliates in 2002, compared with 54 percent in 2001.

5. A few of the larger acquisitions were accomplished by U.S. shareholders exchanging their stock in the acquired firms for shares in the foreign firms. These transactions resulted in large, but offsetting, financial flows in the U.S. international transactions accounts: The large inflows on direct investment that resulted from the foreign investors' acquisitions of U.S. companies were offset by the outflows on foreign securities that resulted from the U.S. shareholders receiving the stock of the foreign firms. The outflows were recorded as foreign securities transactions rather than as U.S. direct investment abroad because the exchanges of stock did not result in any single U.S. investor owning as much as 10 percent of the shares of a foreign firm.

debt position with affiliates that acquired new businesses in earlier years. To the extent that U.S. affiliates' borrowing from their foreign parents is used to fund acquisitions in the United States, the sharp reduction in acquisitions in 2002 slowed borrowing for this purpose. The shift to outflows was also the result of existing affiliates reducing the debt owed to their foreign parents. Much of this debt was incurred in the past few years to fund acquisitions of new businesses. The debt reduction was accomplished either through repaying loans or through the debt-to-equity capital conversions discussed above.

Reinvested earnings were –$2.8 billion in 2002, compared with –$36.7 billion in 2001. Reinvested earnings remained negative despite improved earnings of U.S. affiliates, which shifted to profits of $16.7 billion in 2002 from losses of $11.4 billion in 2001, because U.S. affiliates distributed an even larger amount—$19.6 billion—to their foreign parents.

The capital inflows were more than offset by negative valuation adjustments of $37.2 billion. Capital losses contributed to the negative "other" valuation adjustment (see the box "Key Terms"). A new accounting rule, Financial Accounting Standard 142, may have contributed to an increase in capital losses in 2002. Under the new rule, companies are no longer required to amortize acquired goodwill (the amount paid for a company in excess of the fair market values of the recognized assets acquired and the liabilities assumed) and certain other intangible assets, but they are required to periodically test for impairment in the value of these assets. If the assets are deemed to have permanently declined in value, the reduction in value must be written off at once and not spread over many years. BEA treats these writeoffs as capital losses. This accounting rule will likely result in increased volatility in "other" valuation adjustments. In 2002, U.S. affiliates that had purchased technology and communications companies in the late 1990s were particularly affected by this new rule because they were required to take charges for the reduction in the value of goodwill from these acquisitions.

Changes by area and by country

In 2002, affiliates with parents in Canada and in Latin America and Other Western Hemisphere more than accounted for the decrease in the FDIUS position. These decreases were partly offset by small increases for parents in Asia and Pacific and in Europe. By country, the largest dollar decreases in position were for parents in Germany, Canada, Belgium, and Switzerland. The largest dollar increases were for parents in France and the United Kingdom.

Table E presents major changes in position from 2001 to 2002 by area and by country. The largest decreases were in the positions of Germany, Canada, Belgium, Switzerland, and Bermuda. The German position fell largely as a result of negative valuation adjustments in the information sector, and the Canadian position fell largely as a result of selloffs of affiliates in the information sector. The positions of Belgium and Switzerland fell because of a shift to intercompany debt outflows for affiliates in manufacturing. For Bermuda, the position fell as a result of negative reinvested earnings.

Table E. Change in the Foreign Direct Investment Position in the United States by Country of Foreign Parent, 2002

[Billions of dollars]

All countries	–7.1
Canada	–10.1
Europe	0.9
Of which:	
Germany	–27.0
Belgium	–7.2
Switzerland	–5.2
Netherlands	–2.8
Hungary	3.5
United Kingdom	14.0
France	22.3
Latin America and Other Western Hemisphere	–1.8
Of which:	
Bermuda	–3.6
Asia and Pacific	3.3
Of which:	
Australia	2.2
Japan	2.0

In contrast, the positions of France, the United Kingdom, Hungary, and Australia increased. Equity capital inflows related to acquisitions boosted the positions of France, the United Kingdom, and Australia. For France, the acquisitions were in information and in professional, technical, and scientific services; for the United Kingdom, they were in manufacturing; and for Australia, they were in real estate and rental and leasing. Some of the acquisitions by French investors were of existing U.S. affiliates owned by investors in other countries, so this portion of the increase in the position of France was offset by decreases in the positions of the countries of the former foreign parents. The intercompany debt position of Hungary increased; in many cases, the U.S. affiliates were owned by foreign parents in other countries, but the intercompany debt increases involved Hungarian members of the affiliates' foreign parent groups (see the box "Key Terms").

Tables 1 and 2 follow.

Table 1. U.S. Direct Investment Position Abroad on a Historical-Cost Basis, 1999–2002

[Millions of dollars]

	1999 [r]	2000 [r]	2001 [r]	2002 [p]
All countries, all industries	**1,215,960**	**1,316,247**	**1,383,225**	**1,520,965**
By country of foreign affiliate				
Canada	**119,590**	**132,472**	**141,789**	**152,522**
Europe	**627,754**	**687,320**	**716,901**	**796,913**
Austria	3,848	2,872	3,629	3,988
Belgium	21,756	17,973	19,395	24,122
Czech Republic	1,038	1,228	1,058	1,345
Denmark	3,846	5,270	4,615	7,688
Finland	1,379	1,342	1,421	1,397
France	43,120	42,628	40,839	43,978
Germany	53,399	55,508	65,800	64,739
Greece	760	795	842	1,056
Hungary	2,409	1,920	1,989	2,460
Ireland	25,157	35,903	35,712	41,636
Italy	17,889	23,484	25,015	28,499
Luxembourg	22,148	27,849	29,940	35,727
Netherlands	121,315	115,429	126,076	145,474
Norway	5,944	4,379	5,659	7,348
Poland	3,281	3,884	4,272	4,750
Portugal	2,188	2,664	2,852	3,394
Russia	1,678	1,147	709	617
Spain	19,970	21,236	20,514	23,884
Sweden	10,624	25,959	17,356	18,999
Switzerland	40,532	55,377	60,675	70,051
Turkey	1,792	1,826	1,698	1,888
United Kingdom	216,638	230,762	238,773	255,391
Other	7,042	7,885	8,060	8,482
Latin America and Other Western Hemisphere	**253,928**	**266,576**	**282,328**	**272,363**
South America	83,477	84,220	82,799	74,694
Argentina	18,865	17,488	15,799	11,303
Brazil	37,184	36,717	35,523	31,715
Chile	10,177	10,052	12,026	11,625
Colombia	3,775	3,693	3,603	3,735
Ecuador	1,116	832	480	1,082
Peru	3,148	3,130	3,127	3,237
Venezuela	7,385	10,531	10,632	10,819
Other	1,828	1,778	1,608	1,177
Central America	73,761	73,841	84,659	81,199
Costa Rica	1,493	1,716	1,677	1,602
Honduras	347	399	242	184
Mexico	37,151	39,352	56,554	58,074
Panama	33,493	30,758	25,170	20,003
Other	1,277	1,618	1,015	1,336
Other Western Hemisphere	96,690	108,515	114,870	116,470
Barbados	3,030	2,141	1,435	1,487
Bermuda	50,847	60,114	66,144	68,856
Dominican Republic	968	1,143	1,233	1,123
United Kingdom Islands, Caribbean	29,762	33,451	30,242	29,252
Other	12,083	11,665	15,815	15,751
Africa	**13,118**	**11,891**	**13,411**	**15,066**
Egypt	2,210	1,998	2,537	2,959
Nigeria	233	470	788	1,761
South Africa	3,474	3,562	3,088	3,428
Other	7,202	5,861	6,998	6,919
Middle East	**10,950**	**10,863**	**12,351**	**14,154**
Israel	4,777	3,735	4,864	5,207
Saudi Arabia	3,336	3,661	3,527	3,687
United Arab Emirates	540	683	847	1,398
Other	2,298	2,784	3,113	3,862
Asia and Pacific	**190,621**	**207,125**	**216,445**	**269,947**
Australia	35,386	34,838	32,574	36,337
China	9,401	11,140	11,387	10,294
Hong Kong	22,759	27,447	32,089	35,764
India	2,390	2,379	2,775	3,678
Indonesia	8,402	8,904	8,227	7,546
Japan	55,120	57,091	58,233	65,676
Korea, Republic of	7,474	8,968	10,524	12,192
Malaysia	6,222	7,910	7,748	8,576
New Zealand	4,852	4,271	4,395	4,383
Philippines	3,517	3,638	3,279	4,097
Singapore	20,665	24,133	26,749	61,361
Taiwan	6,744	7,836	9,109	10,091
Thailand	5,500	5,824	6,444	6,883
Other	2,190	2,746	2,911	3,068
Addenda:				
Eastern Europe [1]	14,441	14,989	15,118	16,572
European Union (15) [2]	564,037	609,674	632,781	699,970
OPEC [3]	23,479	28,545	28,745	30,831
By industry of affiliate				
Mining	72,526	72,111	78,319	80,976
Utilities	22,472	21,964	23,214	20,932
Manufacturing	327,282	343,899	365,924	392,553
Of which:				
Food	23,268	23,497	24,681	28,240
Chemicals	81,727	75,807	93,779	99,371
Primary and fabricated metals	21,569	21,644	22,699	24,359
Machinery	21,501	22,229	21,292	22,025
Computers and electronic products	46,783	59,909	65,559	69,208
Electrical equipment, appliances, and components	8,212	10,005	10,118	10,166
Transportation equipment	43,322	49,887	44,210	48,378
Wholesale trade	86,313	93,936	102,322	114,895
Information	50,062	52,345	50,492	53,841
Depository credit intermediation (banking)	40,879	40,152	52,681	52,935
Finance (except depository institutions) and insurance	198,749	217,086	225,556	244,480
Professional, scientific, and technical services	29,968	32,868	34,704	38,307
Other industries	387,709	441,886	450,013	522,047

[p] Preliminary.
[r] Revised.
1. "Eastern Europe" comprises Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovakia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.
2. The European Union (15) comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.
3. OPEC is the Organization of Petroleum Exporting Countries. Its members are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

Table 2. Foreign Direct Investment Position in the United States on a Historical-Cost Basis, 1999–2002

[Millions of dollars]

	1999	2000 ^{r}	2001 ^{r}	2002 ^{p}
All countries, all industries	**955,726**	**1,256,867**	**1,355,114**	**1,347,994**
By country of foreign parent				
Canada	**90,559**	**114,309**	**102,127**	**92,041**
Europe	**639,923**	**887,014**	**1,005,606**	**1,006,530**
Austria	3,216	3,007	2,878	3,439
Belgium	11,011	14,787	16,796	9,608
Denmark	5,215	4,025	1,736	1,924
Finland	4,816	8,875	7,615	7,212
France	89,945	125,740	148,282	170,619
Germany	112,126	122,412	164,017	137,036
Ireland	14,958	25,523	24,958	26,179
Italy	4,444	6,576	6,629	6,695
Liechtenstein	287	319	248	259
Luxembourg	35,644	58,930	34,111	34,349
Netherlands	125,010	138,894	157,596	154,753
Norway	2,854	2,665	2,570	3,416
Spain	2,749	5,068	4,640	4,739
Sweden	18,954	21,991	22,011	21,989
Switzerland	52,973	64,719	118,447	113,232
United Kingdom	153,797	277,613	269,321	283,317
Other	1,927	5,869	23,751	27,763
Latin America and Other Western Hemisphere	**40,771**	**53,691**	**54,082**	**52,291**
South and Central America	8,340	13,384	16,338	16,917
Brazil	735	882	598	971
Mexico	1,999	7,462	7,336	7,857
Panama	5,275	3,819	4,391	5,668
Venezuela	–65	792	3,954	4,447
Other	396	429	59	–2,027
Other Western Hemisphere	32,431	40,307	37,744	35,374
Bahamas	1,581	1,254	1,153	1,332
Bermuda	14,798	18,336	4,611	977
Netherlands Antilles	3,153	3,807	4,255	4,680
United Kingdom Islands, Caribbean	11,573	15,191	26,200	25,502
Other	1,327	1,719	1,526	2,884
Africa	**1,361**	**2,700**	**2,397**	**2,344**
South Africa	236	704	555	540
Other	1,125	1,996	1,843	1,804

	1999	2000 ^{r}	2001 ^{r}	2002 ^{p}
Middle East	**4,362**	**6,506**	**6,145**	**6,766**
Israel	2,485	3,012	2,945	3,205
Kuwait	850	908	964	989
Lebanon	–1	1	1	1
Saudi Arabia	945	(D)	(D)	(D)
United Arab Emirates	13	64	45	68
Other	71	(D)	(D)	(D)
Asia and Pacific	**178,749**	**192,647**	**184,757**	**188,023**
Australia	15,616	18,775	22,289	24,470
Hong Kong	885	1,493	1,542	2,189
Japan	153,815	159,690	150,008	152,032
Korea, Republic of	2,691	3,110	3,218	2,439
Malaysia	71	310	327	358
New Zealand	425	395	426	546
Philippines	101	47	28	31
Singapore	1,365	5,087	3,490	2,902
Taiwan	3,021	3,174	2,537	2,311
Other	761	566	893	744
Addenda:				
European Union (15) [1]	582,006	814,033	861,314	862,630
OPEC [2]	1,896	4,330	7,211	7,923
By industry of affiliate				
Manufacturing	406,415	480,561	484,042	470,893
Of which:				
Food	15,015	18,073	15,240	15,113
Chemicals	96,614	120,413	123,748	112,602
Primary and fabricated metals	18,831	24,184	19,217	18,482
Machinery	30,462	32,283	32,924	35,502
Computers and electronic products	62,566	92,782	58,053	54,040
Electrical equipment, appliances, and components	13,413	43,109	61,103	53,834
Transportation equipment	52,809	55,750	60,881	61,570
Wholesale trade	106,745	173,991	177,396	188,819
Retail trade	22,387	26,703	28,323	28,341
Information	78,035	146,856	199,809	185,408
Depository credit intermediation (banking)	61,972	64,236	71,628	80,726
Finance (except depository institutions) and insurance	132,203	167,007	174,109	162,853
Real estate and rental and leasing	47,816	49,985	49,828	50,769
Professional, scientific, and technical services	11,682	30,492	41,659	40,245
Other industries	88,473	117,037	128,320	139,939

^{p} Preliminary.
^{r} Revised.
^{D} Suppressed to avoid disclosure of data of individual companies.
1. The European Union (15) comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.
2. OPEC is the Organization of Petroleum Exporting Countries. Its members are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.