

Foreign Direct Investment in the United States

Detail for Historical-Cost Position and Related Capital and Income Flows, 2004–2006

Detailed estimates of the foreign direct investment position in the United States at historical cost (book value) and related capital and income flows for 2004–2006 are presented in this report. Summary estimates of services transactions are also presented. (For definitions, see the box “Key Terms.”) These statistics complement the statistics presented in two articles in the July 2007 *SURVEY OF CURRENT BUSINESS* by providing more detail by country, industry, and account.¹

1. See Marilyn Ibarra and Jennifer Koncz, “Direct Investment Positions for 2006: Country and Industry Detail,” *SURVEY 87* (July 2007): 21–36 and Christopher L. Bach, “Annual Revision of the U.S. International Accounts, 1997–2006,” *SURVEY 87* (July 2007): 37–53.

Jeffrey H. Lowe prepared this report.

Tables

Table 1 shows the foreign direct investment position in the United States and rates of return at historical cost as well as at current cost and market value. Table 2 reconciles the historical-cost estimates of the capital, income, and services flows with the estimates in the international transactions accounts. Table 3 presents the position and related flows for 1995–2006 at historical cost and as they are presented in the international investment position accounts and international transactions accounts. Tables 4–18 present the direct investment position and international transactions by country, industry, and account.

The estimates in tables 4–18 differ in two ways from

Key Terms—Continues

The key terms used in this statistical presentation are described in this box. For a more detailed description of these terms and the methodologies used to prepare the estimates, see *Foreign Direct Investment in the United States: Final Results From the 2002 Benchmark Survey* on BEA’s Web site at <www.bea.gov/scb/pdf/internat/fdinvest/meth/FDIUS2002Benchmark.pdf>.

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 (and in the international statistical guidelines), 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.

Foreign direct investment in the United States is defined as 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.

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

Ultimate beneficial owner (UBO). The UBO of a U.S. affiliate is 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. This 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 arise from transactions in financial claims (assets) and liabilities between U.S. affiliates and their foreign parents. These flows also 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 their affiliates are sold.

As presented in the international transactions accounts (ITAs), these capital flows include a **current-cost adjustment** to direct investment reinvested earnings (a component of both direct investment income and direct investment capital flows) 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; 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.

Direct investment capital flows without current-cost adjustment does not include the adjustment to reinvested earnings.

Key Terms

Capital **inflows** arise from transactions that increase U.S. liabilities or that decrease U.S. assets. Capital **outflows** arise from transactions that decrease U.S. liabilities or that increase U.S. assets.

Direct investment capital flows consist of equity capital transactions, intercompany debt transactions, and reinvested earnings. **Equity capital investment** is the net of equity capital increases and decreases. Equity capital increases arise from foreign parents' establishments of new U.S. affiliates, payments by foreign parents to unaffiliated third parties in the United States for the purchase of capital stock when they acquire an existing U.S. business, payments made to acquire additional ownership interests in their U.S. affiliates, and capital contributions to their U.S. affiliates. Equity capital decreases are the funds foreign parents receive from U.S. persons when they reduce their equity interest in their U.S. affiliates. **Intercompany debt investment** results from changes in net outstanding loans between foreign parents (or other members of the foreign parent groups) and their U.S. affiliates, including loans by parents to affiliates and loans by affiliates to parents. **Reinvested earnings without current-cost adjustment** are the foreign parents' claim on the current-period operating earnings of the U.S. affiliates less distributions of earnings that U.S. affiliates make to their foreign parents; unlike the measure of **reinvested earnings** used in the ITAs, these earnings do not include a current-cost adjustment at the aggregate level.

Foreign direct investment position in the United States. The value of foreign direct investors' equity in, and net outstanding loans to, their U.S. affiliates. The position may be viewed as the foreign direct investors' net financial claims on their U.S. affiliates in the form of equity (including reinvested earnings) or debt.

BEA prepares estimates of the positions for foreign direct investment in the United States that are valued on three bases—historical cost, current cost, and market value. See tables 1 and 3 in this report and the box “Alternative Measures of the Direct Investment Positions” in Ibarra and Koncz, 22.

Historical-cost (book value) position estimates are consistent with U.S. generally accepted accounting principles (GAAP). These estimates are principally derived from the books of the U.S. affiliate and generally reflect the acquisition cost of the investment, cumulative reinvested earnings, and cumulative depreciation of fixed assets. However, under U.S. GAAP, the holdings of most financial instruments are valued at current-period prices rather than at cost. The position also includes cumulative capital gains and losses of the U.S. affiliate.

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 capital 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 foreign parent companies' equity in U.S. affiliates.)

Valuation adjustments to the historical-cost position consist of currency-translation adjustments and “other” valuation adjustments. **Currency-translation adjustments** are made to account for changes in the exchange rates that are used to translate U.S. affiliates' foreign-currency-denominated assets and liabilities into U.S. dollars. The effects of currency fluctuations on these adjustments depend on the value and currency composition of U.S. 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 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 U.S. affiliates and their book values, for differences between the purchase prices of affiliates and their book values, for the reclassification of investment positions as between direct investment and other investment, and for capital gains and losses (excluding currency-translation adjustments) on transactions, such as the sale of assets (excluding inventories) for an amount that differs from their book value, or capital gains and losses that represent the revaluation of the assets of ongoing U.S. affiliates for reasons other than exchange-rate changes, such as the writedown of assets whose value has been impaired. In addition, for individual industries and countries, adjustments may be made to change the industry classification of an affiliate or the country of foreign parent.

Direct investment income without current-cost adjustment is the return on the foreign direct investment position in the United States. It consists of earnings (the foreign parents' shares in the net income from the operations of their U.S. affiliates) and the net interest paid by the U.S. affiliates on outstanding loans and trade accounts between the U.S. affiliates and their foreign parent groups. Unlike the measure of **direct investment income** used in the ITAs, it does not include a current-cost adjustment to earnings at the aggregate level.

Services transactions represent payments and receipts between U.S. affiliates and their foreign parents 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).

comparable estimates in the international investment position and international transactions accounts.²

- The estimates are at historical cost, the only way detailed estimates by country and industry are available. In contrast, the estimates of the direct investment position in the international investment position accounts are presented at current cost and market value. In addition, the estimates of direct investment

2. See Elena L. Nguyen, "The International Investment Position of the United States at Yearend 2006," SURVEY 87 (July 2007): 10–19 and Renee M. Sauer, "U.S. International Transactions: First Quarter of 2007," SURVEY 87 (July 2007): 57–109, which includes annual estimates for 1976–2006.

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income (in the current account) and capital flows (in the financial account) in the U.S. international transactions accounts are presented with a current-cost adjustment.

- For the 2006 estimates, withholding taxes were not deducted from direct investment income and services, a treatment consistent with the international transactions accounts. However, for years before 2006, withholding taxes were deducted. For these years, estimates without this deduction are not available at the detailed country-by-industry level shown in tables 4–18.

Revisions

The revised estimates of the foreign direct investment position at yearend, capital flows, income, and services transactions reflect the incorporation of revised data from BEA's 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 2007 SURVEY article on direct investment positions, for all areas, the direct investment position at historical cost was revised down \$0.4 billion for 2004 and was revised down \$40.8 billion for 2005 (table A). The revision for 2004 reflected a revision to valuation adjustments from positive to negative that was mostly offset by an upward revision to capital inflows

Table A. Foreign Direct Investment in the United States: Comparison of Previously Published and Revised Estimates by Area for 2004–2006

(Millions of dollars)

By area	Direct investment position on a historical-cost basis			Capital inflows without current-cost adjustment (outflows (-))			Income without current-cost adjustment ¹			Royalties and license fees, net of withholding taxes, net payments			Other private services, net payments		
	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision
2004															
All areas	1,520,729	1,520,316	-413	122,377	135,826	13,449	90,105	87,890	-2,215	11,102	11,103	1	-5,252	-5,178	74
Canada	125,503	125,276	-227	30,713	33,164	2,451	6,715	6,607	-109	344	341	-3	537	532	-5
Europe	1,066,908	1,078,782	11,873	68,896	80,730	11,833	62,517	61,377	-1,139	5,618	5,624	7	-3,990	-3,905	85
Of which:															
United Kingdom	251,422	267,209	15,787	22,888	28,137	5,249	19,848	18,641	-1,207	861	856	-6	-800	-779	21
Latin America and Other Western Hemisphere	87,259	76,268	-10,990	766	-2,945	-3,711	3,413	2,988	-425	(D)	(D)	0	398	398	(*)
Africa	1,671	1,859	188	-530	-605	-74	175	177	2	(*)	(*)	0	(D)	(D)	(*)
Middle East	7,888	7,899	12	665	713	48	491	488	-3	-10	-10	0	(D)	(D)	0
Asia and Pacific	231,500	230,231	-1,269	21,867	24,769	2,902	16,793	16,253	-541	(D)	(D)	-3	-1,961	-1,967	-6
2005															
All areas	1,635,291	1,594,488	-40,803	99,443	101,025	1,582	104,742	106,340	1,598	12,496	12,644	149	-3,139	-3,389	-249
Canada	144,033	154,180	10,147	17,079	13,762	-3,317	7,195	5,891	-1,304	314	401	87	(D)	(D)	79
Europe	1,143,614	1,128,161	-15,453	66,064	76,656	10,592	76,962	78,338	1,376	6,126	6,281	155	-3,142	-3,595	-452
Of which:															
United Kingdom	282,457	296,277	13,820	28,878	34,323	5,445	29,844	30,473	629	-188	-203	-15	-432	-415	18
Latin America and Other Western Hemisphere	82,530	70,789	-11,741	-7,605	-2,908	4,697	2,085	3,937	1,853	(D)	(D)	2	-491	-422	69
Africa	2,564	2,734	170	652	524	-128	180	204	24	-8	-6	1	(D)	(D)	-3
Middle East	9,965	8,396	-1,569	1,572	1,508	-64	615	597	-19	-15	-17	-3	(D)	(D)	1
Asia and Pacific	252,584	230,228	-22,356	21,681	11,482	-10,199	17,705	17,373	-333	(D)	(D)	-94	(D)	(D)	56
2006 ²															
All areas				173,489	175,394	1,905	135,479	130,824	-4,654						
Canada				5,086	6,570	1,484	12,507	12,425	-81						
Europe				124,620	122,183	-2,437	94,195	88,922	-5,273						
Of which:															
United Kingdom				29,697	11,468	-18,230	34,499	27,812	-6,687						
Latin America and Other Western Hemisphere				11,115	9,302	-1,813	5,496	6,262	766						
Africa				199	287	88	209	248	39						
Middle East				8,921	10,271	1,350	1,265	1,376	110						
Asia and Pacific				23,549	26,781	3,232	21,806	21,591	-216						

1. Prior to 2006, income without current-cost adjustment is presented net, or after deduction, of U.S. and foreign withholding taxes. For 2006, it is presented gross, or before deduction, of U.S. and foreign withholding taxes. In 2006, income net of withholding taxes was \$128,405 million.

2. The only accounts for which 2006 estimates were previously available by country were capital inflows without current-

cost adjustment and income without current-cost adjustment. No data are shown for royalties and license fees and other private services for 2006 because estimates are presented in this report for the first time. The estimates of the direct investment position for 2006 are preliminary and were first published in the July 2007 SURVEY OF CURRENT BUSINESS.

NOTE: The data in the "revised" columns were presented in the July 2007 SURVEY.

without current-cost adjustment. The revision for 2005 was attributable to a large revision to valuation adjustments from positive to negative and to the much smaller downward revision to the 2004 position; a small upward revision to capital inflows was partly offsetting. (Capital inflows without current-cost adjustment, which increase the foreign direct investment position in the United States, consist of reinvested earnings without current-cost adjustment and equity capital and intercompany debt transactions. Capital outflows reduce the position.)

Capital inflows without current-cost adjustment were revised up for all 3 years—\$13.4 billion for 2004, \$1.6 billion for 2005, and \$1.9 billion for 2006. The upward revision for 2004 was more than accounted for by an upward revision to equity capital inflows. The upward revision for 2005 resulted from an upward revision to net intercompany debt investment, which was partly offset by downward revisions to reinvested earnings and equity capital investment. The upward revision for 2006 reflected an upward revision to equity capital investment that was partly offset by downward revisions to intercompany debt investment and reinvested earnings.

Income without current-cost adjustment was revised down \$2.2 billion for 2004, up \$1.6 billion for 2005, and down \$4.7 billion for 2006. The revision for 2004 was almost entirely attributable to a downward revision to affiliates' earnings. For 2005, the upward revision was mainly due to an upward revision to affiliates' earnings, but an upward revision to interest payments also contrib-

uted. For 2006, the revision was more than accounted for by a downward revision to earnings that was partly offset by an upward revision to affiliates' interest payments. Net payments for royalties and license fees were virtually unrevised for 2004 and were revised up \$0.1 billion for 2005. Net payments for other private services were revised up \$0.1 billion for 2004 and were revised down \$0.2 billion for 2005.

Data Availability

Detailed estimates of the foreign direct investment position in the United States and of transactions between foreign parents and their U.S. 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>, and under "International," click on "Operations of Multinational Companies." Under "Foreign direct investment in the United States," click on the link to either "Selected Tables" or "Interactive Tables," which appears next to the "Balance of payments and direct investment position data." The interactive tables allow users to access detailed balance of payments and direct investment position data as well as data on the operations of multinational companies.

General Notes to the Tables and tables 1–18 follow.