

Direct Investment, 2006–2008

Detailed Historical-Cost Positions and Related Capital and Income Flows

By Jeffrey H. Lowe

THIS ARTICLE presents detailed statistics on direct investment positions at historical cost (book value) and related capital and income flows for U.S. direct investment abroad and foreign direct investment in the United States. Summary estimates of services transactions with foreign affiliates and foreign parent companies are also presented.¹ (For definitions, see the box “Key Terms.”) The statistics for both U.S. direct investment abroad and for foreign direct investment in the United States cover 2006–2008. These statistics complement the statistics presented in two articles in the July 2009 SURVEY OF CURRENT BUSINESS by providing more detail by country, industry, and account.²

For both U.S. direct investment abroad—or “outward direct investment”—and foreign direct investment in the United States—or “inward direct investment”—the statistics for 2006 forward reflect the incorporation of new or revised data from BEA’s quarterly surveys of transactions between parents (both U.S. and foreign) and their affiliates and annual surveys of financial and operating data of U.S. parent companies, their foreign affiliates and U.S. affiliates of foreign companies.

Tables

After this article, two sets of tables are presented—one for outward direct investment and one for inward direct investment.³ In each set, tables 1–15 present similar data.

1. Global totals (all countries and all industries) for royalties and license fees and other private services are shown in table 2 (page 216). Breakdowns by country and by industry are not included in this presentation. Country detail and detail by type of service or intangible asset will be available in the October SURVEY OF CURRENT BUSINESS article on U.S. international services.

2. See Marilyn Ibarra and Jennifer Koncz, “Direct Investment Positions for 2008: Country and Industry Detail,” SURVEY 89 (July 2009): 20–34 and Anne Flatness, Erin M. Whitaker, and Robert E. Yuskavage, “Annual Revision of the U.S. International Accounts,” SURVEY 89 (July 2009): 35–47.

3. Because of the deletion of a table from previous articles, table numbers have changed. For details, see the headnotes to “U.S. Direct Investment Abroad Tables” and “Foreign Direct Investment in the United States Tables” following this article.

- Table 1 shows the direct investment positions and rates of return at historical cost, current cost, and market value.
- Table 2 presents the position and related flows for 1997–2008 at historical cost and as they are presented in the international investment position accounts and international transactions accounts.
- Tables 3–16 for outward direct investment and 3–17 for inward direct investment present the direct investment positions and international transactions by country of foreign affiliate or foreign parent, by industry of affiliate, and by account. For outward direct investment, table 16 presents estimates that are also classified by industry of U.S. parent. For inward direct investment, table 16 presents estimates that are classified not only by country of foreign parent but also by country of ultimate beneficial owner (UBO).
- Table 17 for inward direct investment provides a breakdown of the foreign direct investment position in the United States by the industry of the UBO of

Data Availability

Detailed statistics of the direct investment positions and of transactions between parents and their affiliates that enter the U.S. international transactions (balance of payments) accounts are available on BEA’s Web site. To access the series featured in this report, go to www.bea.gov and under “International,” click on “Operations of Multinational Companies.” Under either “U.S. direct investment abroad” or “Foreign direct investment in the United States,” click on the link to either “Selected Tables” or “Interactive Tables,” 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.

the U.S. affiliate. It shows the value of investments owned by private entities (businesses and individuals, estates, and trusts) as well as the value owned by foreign governments and government enterprises.

The statistics in this report differ from some of the counterpart statistics in the international investment position and international transactions accounts.⁴

- The statistics in this report are at historical cost, the only way detailed statistics by country and industry are available. In contrast, the statistics on the direct investment position in the international investment position accounts are presented at current cost and market value.
- The statistics in this report are presented without a current-cost adjustment. In contrast, the statistics on direct investment income (in the current account) and capital flows (in the financial account) in the U.S. international transactions accounts are presented with a current-cost adjustment.

4. See Elena L. Nguyen, "The International Investment Position of the United States at Yearend 2008," SURVEY 89 (July 2009): 10–19 and Douglas B. Weinberg and Gregory A. Tenentes, "U.S. International Transactions: First Quarter of 2009," SURVEY 89 (July 2009): 56–105.

Revisions

Outward direct investment

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

As noted in the July 2009 SURVEY article on direct investment positions for all areas, the outward direct investment position at historical cost was revised up \$22.6 billion for 2006 and \$125.7 billion for 2007 (table A). The upward revision for 2006 mostly resulted from a large revision to valuation adjustments from negative to positive and a small upward revision to capital outflows without current-cost adjustment. (Capital outflows without current-cost adjustment, which increase the U.S. direct investment position abroad, consist of reinvested earnings without current-cost adjustment and equity capital and intercompany debt transactions. Capital inflows reduce the position.) The upward revision for 2007 was the result of the upward revision to the position for 2006, an upward

Table A. U.S. Direct Investment Abroad: Comparison of Previously Published and Revised Estimates by Area, 2006–2008

[Millions of dollars]

By area	Direct investment position on a historical-cost basis			Capital outflows without current-cost adjustment (inflows (-))			Income without current-cost adjustment		
	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision
2006									
All areas	2,454,674	2,477,268	22,594	221,664	224,220	2,556	308,963	304,114	-4,849
Canada	230,045	205,134	-24,911	8,135	-1,551	-9,686	23,226	23,542	316
Europe	1,341,116	1,397,704	56,587	131,430	147,687	16,257	156,299	153,702	-2,596
Of which:									
United Kingdom	375,348	406,358	31,010	15,252	30,535	15,283	26,176	26,772	-403
Latin America and Other Western Hemisphere	427,397	418,429	-8,968	40,638	35,672	-4,966	57,752	53,532	-4,221
Africa.....	25,074	28,158	3,084	2,873	5,157	2,284	6,040	7,208	1,169
Middle East	25,540	24,206	-1,334	6,184	5,699	-485	6,213	6,043	-170
Asia and Pacific	405,502	403,637	-1,864	32,405	31,556	-849	59,433	60,086	653
2007									
All areas	2,791,269	2,916,930	125,661	313,787	378,362	64,575	348,791	343,012	-5,779
Canada	257,058	233,971	-23,087	22,772	22,659	-113	21,685	19,936	-1,748
Europe	1,551,165	1,659,499	108,334	197,254	234,577	37,324	176,881	176,794	-86
Of which:									
United Kingdom	398,836	424,612	25,776	31,181	24,239	-6,941	29,635	26,308	-3,327
Latin America and Other Western Hemisphere	471,953	508,711	36,758	33,718	48,099	14,381	66,689	65,063	-1,626
Africa.....	27,764	32,496	4,732	2,003	4,421	2,417	6,030	6,716	686
Middle East	29,370	28,256	-1,115	3,683	3,857	175	7,437	7,699	262
Asia and Pacific	453,959	453,997	39	54,357	64,748	10,391	70,071	66,804	-3,267
2008 ¹									
All areas				298,597	311,796	13,199	352,030	350,531	-1,499
Canada				20,892	13,034	-7,859	25,117	25,433	317
Europe				174,798	180,172	5,374	171,983	172,490	507
Of which:									
United Kingdom				21,556	21,791	235	23,270	23,872	603
Latin America and Other Western Hemisphere				53,172	64,492	11,320	71,722	71,508	-214
Africa.....				2,837	3,348	511	6,585	6,895	310
Middle East				4,474	4,058	-416	8,985	9,041	57
Asia and Pacific				42,423	46,693	4,269	67,639	65,163	-2,475

1. The only accounts for which 2008 statistics were previously available by country were capital outflows without current-cost adjustment and income without current-cost adjustment. The estimates of the direct invest-

ment positions for 2008 are preliminary and were first published in the July 2009 SURVEY OF CURRENT BUSINESS. NOTE: The statistics in the "revised" columns were presented in the July 2009 SURVEY.

revision to 2007 capital outflows, and an upward revision to 2007 valuation adjustments.

Capital outflows without current-cost adjustment were revised up \$2.6 billion for 2006, \$64.6 billion for 2007, and \$13.2 billion for 2008. In all 3 years, the revisions mainly resulted from upward revisions to equity capital investment; for 2008, an upward revision to reinvested earnings also contributed. For 2006 and 2007, downward revisions to reinvested earnings were partly offsetting.

Income without current-cost adjustment was revised down for all 3 years—\$4.8 billion for 2006, \$5.8 billion for 2007, and \$1.5 billion for 2008. In all 3 years, the revisions resulted from downward revisions to earnings; for 2007 and 2008, upward revisions to net interest receipts were partly offsetting.

Inward direct investment

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

As noted in the July 2009 SURVEY article on direct investment positions, for all areas, the inward direct investment position at historical cost was revised down \$3.4 billion for 2006 and up \$16.8 billion for 2007 (table B). The downward revision for 2006 was

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Table B. Foreign Direct Investment in the United States: Comparison of Previously Published and Revised Estimates by Area for 2006–2008
[Million of dollars]

By area	Direct investment position on a historical-cost basis			Capital inflows without current-cost adjustment (outflows (-))			Income without current-cost adjustment		
	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision
2006									
All areas	1,843,885	1,840,463	-3,422	236,701	237,136	435	139,137	144,755	5,618
Canada.....	175,198	165,281	-9,917	18,079	14,770	-3,309	15,211	14,555	-656
Europe.....	1,324,355	1,326,738	2,383	181,384	182,575	1,191	91,278	98,286	7,009
<i>Of which:</i>									
United Kingdom.....	406,337	414,629	8,292	33,194	38,547	5,354	27,764	36,555	8,791
Latin America and Other Western Hemisphere	62,685	66,583	3,898	9,844	11,808	1,964	6,470	7,113	643
Africa.....	1,814	1,976	162	250	255	5	207	207	0
Middle East.....	9,342	10,112	770	2,308	2,504	196	1,232	1,243	10
Asia and Pacific.....	270,490	269,772	-717	24,837	25,225	388	24,739	23,350	-1,388
2007									
All areas	2,093,049	2,109,876	16,827	232,839	271,176	38,337	129,711	121,950	-7,761
Canada.....	213,224	207,925	-5,299	36,927	43,962	7,035	13,506	11,691	-1,815
Europe.....	1,482,978	1,507,594	24,616	144,853	172,361	27,508	82,019	74,530	-7,489
<i>Of which:</i>									
United Kingdom.....	410,787	426,545	15,759	13,034	18,388	5,353	18,848	22,021	3,173
Latin America and Other Western Hemisphere	62,955	55,816	-7,139	-575	-5,577	-5,002	6,672	6,276	-396
Africa.....	1,124	1,396	272	-675	-358	317	25	180	156
Middle East.....	12,937	15,058	2,121	3,149	4,809	1,661	563	581	18
Asia and Pacific.....	319,832	322,087	2,255	49,161	55,979	6,818	26,926	28,691	1,765
2008 ¹									
All areas				320,948	316,112	-4,836	99,075	117,237	18,161
Canada.....				23,455	23,684	230	8,822	11,578	2,756
Europe.....				223,587	206,453	-17,134	78,997	88,606	9,609
<i>Of which:</i>									
United Kingdom.....				57,420	54,711	-2,710	26,321	22,752	-3,570
Latin America and Other Western Hemisphere				27,210	27,445	235	1,923	2,936	1,013
Africa.....				886	780	-106	34	72	38
Middle East.....				757	1,355	598	-1,082	-714	367
Asia and Pacific.....				45,054	56,395	11,342	10,381	14,759	4,378

1. The only accounts for which 2008 statistics were previously available by country were capital inflows without current-cost adjustment and income without current-cost adjustment. The estimates of the direct invest-

ment positions for 2008 are preliminary and were first published in the July 2009 SURVEY OF CURRENT BUSINESS. NOTE: The statistics in the "revised" columns were presented in the July 2009 SURVEY.

attributable to a downward revision to valuation adjustments. The upward revision for 2007 was the result of the upward revision to capital inflows, which was partly offset by a downward revision to valuation adjustments and the downward revision to the 2006 position. (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 \$0.4 billion for 2006, up \$38.3 billion for 2007, and were revised down \$4.8 billion for 2008. The upward revision for 2006 was accounted for by an upward revision to intercompany debt investment that was partly offset by downward revisions to equity capital investment and reinvested earnings. The upward

Key Terms—Continues

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

Direct investment

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

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

Foreign direct investment in the United States (inward direct investment) represents the ownership or control, directly or indirectly, by one foreign resident (**foreign parent**) of at least 10 percent of a U.S. business enterprise, which is called a **U.S. affiliate**. Foreign direct investment includes equity and net debt investments by the foreign parent, as well as net debt investments 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 that is not more than 50 percent-owned by another person in the affiliate's ownership chain beginning with the foreign parent. The UBO ultimately owns or controls the affiliate

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

Direct investment position

This is the value of direct investors' equity in, and net outstanding loans to, their affiliates. The direct investment position may be viewed as the direct investors' net financial claims on their affiliates. BEA prepares estimates of the positions for U.S. direct investment abroad and foreign direct investment in the United States at historical cost, current cost, and market value. In this report, the **historical-cost measure** is featured. This valuation is principally derived from the books of affiliates and generally reflect the acquisition cost of the investments, cumulative reinvested earnings, and cumulative depreciation of fixed assets. Historical-cost statistics are consistent with U.S. generally accepted accounting principles (GAAP) in most areas. GAAP, however, values the holdings of most financial instruments at current-period prices rather than at historical cost. See the box "Alternative Measures of the Direct Investment Positions" in Ibarra and Koncz, 23.

Direct investment capital flows arise from transactions that change financial claims (assets) and liabilities between U.S. parents and their foreign affiliates or between U.S. affiliates and their foreign parents. Capital **outflows** arise from transactions that increase U.S. assets or decrease U.S. liabilities. Capital **inflows** arise from transactions that decrease U.S. assets or increase U.S. liabilities. Direct investment capital flows consist of equity capital investment, intercompany debt investment, and reinvested earnings. **Equity capital investment** is the difference between equity capital increases and decreases. Equity capital increases arise from (1) parents' establishments of new affiliates, (2) payments by parents to unaffiliated parties for the purchase of capital stock or other equity interests when they acquire an existing business, (3) payments made to acquire additional ownership interests in their affiliates, and (4) capital contributions to their affiliates. Equity capital

revision for 2007 resulted from an upward revision to intercompany debt investment; an upward revision to equity capital investment also contributed. A downward revision to reinvested earnings was partly offsetting. The downward revision for 2008 was the result of a sizable downward revision to intercompany debt investment that was partly offset by upward revisions to

equity capital investment and reinvested earnings.

Income without current-cost adjustment was revised up \$5.6 billion for 2006, down \$7.8 billion for 2007, and up \$18.2 billion for 2008. The revisions for all years were almost entirely attributable to revisions to affiliates' earnings. For 2008, a downward revision to interest payments was partly offsetting.

Key Terms

decreases are the funds parents receive when they reduce their equity interest in their affiliates.

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

Reinvested earnings (without current-cost adjustment) are the parents' share of the current-period operating earnings of their affiliates, less distributions of earnings that affiliates make to their parents. A related measure of reinvested earnings is featured in the international transactions accounts; this measure includes a **current-cost adjustment** that reflects current-period prices. This adjustment converts depreciation charges to a current-cost, or replacement-cost, basis; it adds charges for depletion of natural resources back to income and reinvested earnings because these charges are not treated as production costs in the national income and product accounts; 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 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 parent companies' equity in affiliates.)

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

ates and their book values, (2) differences between the purchase prices of affiliates and their book values, (3) writeoffs resulting from uncompensated expropriations of affiliates, (4) the reclassification of investment positions between direct investment and other investment, and (5) capital gains and losses (excluding currency-translation adjustments) on transactions, such as the sale of assets (excluding inventories) or capital gains and losses that represent the revaluation of the assets of ongoing foreign affiliates for reasons other than exchange-rate changes, such as the writedown of assets. In addition, for individual industries, offsetting valuation adjustments may be made to effect changes in the industry classification of an affiliate. For individual countries, offsetting adjustments are made when the political boundaries of countries change. In addition, for foreign direct investment in the United States, offsetting adjustments are made when transactions between foreign residents result in a change in the country of foreign parent.

Direct investment income (without current-cost adjustment)

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

Services transactions

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

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