Direct Investment Positions for 1996

Country and Industry Detail

By Sylvia E. Bargas

THE DETAILED estimates by country and industry of the direct investment positions of the United States, which are presented in this article, are prepared only on the basis of historical cost; thus, these estimates reflect prices at the time of investment rather than prices of the current period.[1] In contrast, the estimates of the direct investment positions presented elsewhere in this issue are on a current-cost and a market-value basis; those estimates are conceptually and analytically superior to the historical-cost estimates, but they are available only at an aggregate level.[2] For perspective, table 1 shows the aggregate direct investment positions on all three valuation bases.

On a historical-cost basis, the position for U.S. direct investment abroad (USDIA) grew 11 percent in 1996, and the position for foreign direct investment in the United States (FDIUS) grew 12 percent. The strong growth in both measures was largely attributable to favorable economic conditions in the United States and in a number of foreign countries. Robust earnings by affiliates generated readily available financing in the form of reinvested earnings, and strong earnings by parents reduced the need to draw funds from affiliates and—particularly for FDIUS—provided a source of funds for mergers and acquisitions. In addition, USDIA was spurred by new investment opportunities abroad resulting from privatizations of government-owned enterprises.

As in previous years, the largest component of capital outflows for USDIA was reinvested earnings, which tend to be used mainly to finance the ongoing operations of foreign affiliates.[3] The largest component of capital inflows for FDIUS continued to be equity capital, which includes capital contributions to existing U.S. affiliates and funds used to acquire and establish new U.S. affiliates.[4] To some extent, this difference in composition reflects the greater average maturity of foreign affiliates relative to U.S. affiliates and the relatively greater role of acquisitions in recent growth in FDIUS. Many foreign affiliates of U.S. companies were acquired or established decades ago and can now be sustained largely through

1. Historical cost is the basis used for valuation in company accounting records in the United States, and it is the only basis on which companies can report data in the direct investment surveys conducted by BEA. For consistency, the estimates of earnings and reinvested earnings used in analyzing changes in the historical-cost positions are also on this basis and are not adjusted to current cost; country and industry detail for these items, like the positions, is not available with such an adjustment.

2. See "The International Investment Position of the United States in 1996" in this issue.

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

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

Table 1.—Alternative Direct Investment Position Estimates, 1995 and 1996

[Millions of dollars]

Valuation method	Position at yearend 1995 r	Changes in 1996: Total	Changes in 1996: Capital flows	Changes in 1996: Valuation adjustments	Position at yearend 1996 p
U.S. direct investment abroad:					
Historical cost	717,554	78,940	85,561	–6,620	796,494
Current cost	884,290	86,508	87,812	–1,304	970,798
Market value	1,311,991	222,617	87,812	134,805	1,534,609
Foreign direct investment in the United States:					
Historical cost	560,850	69,195	78,828	–9,633	630,045
Current cost	654,502	74,550	76,955	–2,405	729,052
Market value	1,031,981	221,661	76,955	144,706	1,253,642

p Preliminary.
r Revised.

Acknowledgments

The survey from which the data for the U.S. direct investment position abroad were drawn 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, Gary M. Solamon, Dwayne Torney, and Wendy P. Warcholik. Smith W. Allnutt III programmed the tables.

The survey from which the data for the foreign direct investment position in the United States were drawn was conducted under the supervision of Gregory G. Fouch, assisted by Peter J. Fox, Nancy F. Halvorson, Tracy K. Leigh, Beverly E. Palmer, and Linden L. Webber. Karen E. Poffel programmed the tables.

the retention of their own earnings. In contrast, U.S. affiliates of foreign companies tend to be of more recent vintage and to rely more heavily on contributions of equity capital from their foreign parents to build their operations.

Benchmark revision of FDIUS estimates.—The estimates of the FDIUS position for 1992 have been revised to incorporate data collected in BEA's 1992 benchmark survey of foreign direct investment in the United States, which covered the universe of FDIUS. For years after 1992, the estimates have been revised by extrapolating the 1992 universe data on the basis of data collected in BEA's quarterly sample survey and by incorporating new or adjusted data from that survey. The revisions for all of these years were small—1 percent or less for all countries and industries combined. Previously, the estimates for 1992 forward were extrapolated from the 1987 benchmark survey of FDIUS.[5]

U.S. Direct Investment Abroad

The U.S. direct investment position abroad valued at historical cost—the book value of U.S. direct investors' equity in, and net outstanding loans to, their foreign affiliates—was $796.5 billion at yearend 1996 (table 2 and chart 1). The largest positions by far remained those in the United Kingdom ($142.6 billion, or 18 percent of the total) and in Canada ($91.6 billion, or 11 percent of the total) (table 3 and chart 2).

5. For additional information, see "U.S. International Transactions, Revised Estimates for 1974–96" in this issue. A more complete explanation of these revisions will accompany the presentation of the detailed estimates of the FDIUS position scheduled to be published in the September 1997 SURVEY OF CURRENT BUSINESS.

Table 2.—U.S. Direct Investment Position Abroad and Foreign Direct Investment Position in the United States on a Historical-Cost Basis, 1982–96

Yearend	Millions of dollars		Percent change from preceding year	
	U.S. direct investment position abroad	Foreign direct investment position in the United States	U.S. direct investment position abroad	Foreign direct investment position in the United States
1982	207,752	124,677	....	....
1983	212,150	137,061	2.1	9.9
1984	218,093	164,583	2.8	20.1
1985	238,369	184,615	9.3	12.2
1986	270,472	220,414	13.5	19.4
1987	326,253	263,394	20.6	19.5
1988	347,179	314,754	6.4	19.5
1989	381,781	368,924	10.0	17.2
1990	430,521	394,911	12.8	7.0
1991	467,844	419,108	8.7	6.1
1992	502,063	r 423,130	7.3	1.0
1993	564,283	r 467,412	12.4	10.5
1994	r 640,320	r 496,539	13.5	6.2
1995	r 717,554	r 560,850	12.1	13.0
1996	p 796,494	p 630,045	11.0	12.3

p Preliminary.
r Revised.

In 1996, the USDIA position increased $78.9 billion, or 11 percent, compared with an increase of 12 percent in 1995 and an average increase of 10 percent in 1982–94. The following table shows the change in position in 1996 by the type of capital flow and valuation adjustment:[6]

[Billions of dollars]

Total	78.9
Capital outflows	85.6
Equity capital	21.6
Intercompany debt	8.3
Reinvested earnings	55.6
Valuation adjustments	−6.6
Currency translation	−4.9
Other	−1.7
of which:	
Capital gains and losses	4.1

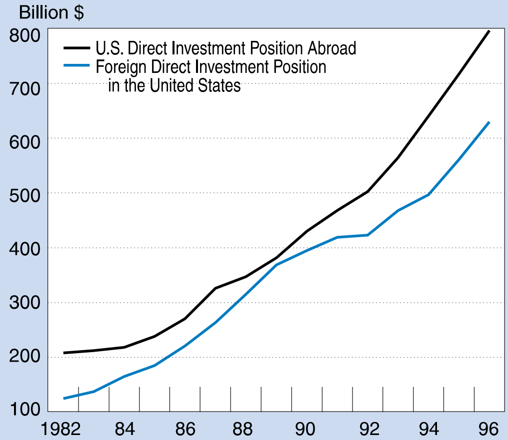
6. Valuation adjustments to the historical-cost position are made to reflect differences between changes in the position, measured at book value, and capital flows, measured at transactions value. Unlike the positions on a current-cost and market-value basis, no adjustment is made to reflect changes in the replacement cost of the tangible assets of affiliates or in the market value of parent companies' equity in affiliates. (However, as explained below, adjustments are made for realized capital gains and losses of affiliates, such as gains or losses on partial sales of affiliate assets.)

Currency-translation adjustments to the position are made to reflect 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 translation adjustments depend on the value and currency composition of affiliates' assets and liabilities. Depreciation of foreign currencies against the dollar usually results in negative translation adjustments, because it tends to lower the dollar value of foreign-currency-denominated net assets. Similarly, appreciation of foreign currencies usually results in positive adjustments, because it tends to raise the dollar value of foreign-currency-denominated net assets.

"Other" valuation adjustments includes adjustments for differences between the proceeds from the sale or liquidation of affiliates by U.S. parents and the book values of the affiliates that are sold or liquidated, for differences between the purchase prices and the book values of affiliates that are acquired by U.S. parents, for writeoffs resulting from uncompensated expropriations of affiliates, and for capital gains and losses. Capital gains and losses represent the revaluation of the assets of ongoing affiliates for reasons other than exchange-rate changes, such as the partial sale of those assets for an amount different from their historical cost.

CHART 1

Direct Investment Positions on a Historical-Cost Basis, 1982–96



U.S. Department of Commerce, Bureau of Economic Analysis

Table 3.—U.S. Direct Investment Position Abroad on a Historical-Cost Basis at Yearend

[Millions of dollars]

	1995								1996							
	All industries	Petroleum	Manufacturing	Wholesale trade	Banking	Finance (except banking), insurance, and real estate	Services	Other industries	All industries	Petroleum	Manufacturing	Wholesale trade	Banking	Finance (except banking), insurance, and real estate	Services	Other industries
All countries	**717,554**	**70,229**	**250,253**	**67,222**	**28,123**	**228,744**	**32,769**	**40,213**	**796,494**	**75,479**	**272,564**	**72,462**	**32,504**	**257,213**	**36,673**	**49,600**
Canada	**85,441**	**10,397**	**42,215**	**7,177**	**927**	**14,304**	**4,055**	**6,366**	**91,587**	**10,997**	**43,817**	**7,764**	**974**	**15,816**	**4,729**	**7,490**
Europe	**360,994**	**25,877**	**123,216**	**34,361**	**13,261**	**130,809**	**22,136**	**11,335**	**399,632**	**28,907**	**134,733**	**37,602**	**14,005**	**146,379**	**23,832**	**14,174**
Austria	2,777	192	(D)	343	(D)	925	302	–14	2,902	(D)	1,021	384	(D)	1,007	300	–23
Belgium	17,969	325	8,522	2,237	(D)	3,450	3,126	(D)	18,604	370	8,425	2,225	282	4,130	2,274	897
Denmark	2,123	(D)	502	213	(D)	626	(D)	19	2,171	349	(D)	249	(D)	668	480	8
Finland	825	(D)	321	360	(D)	5	46	(*)	1,033	(D)	461	358	(D)	3	91	(D)
France	32,950	1,156	15,187	4,173	882	7,302	3,019	1,232	34,000	1,103	16,600	4,141	739	7,392	2,939	1,086
Germany	44,226	2,308	22,899	2,871	1,296	11,710	1,124	2,019	44,259	(D)	22,741	2,886	1,395	11,597	(D)	2,261
Greece	424	(D)	137	81	(D)	52	(D)	(D)	506	(D)	145	83	89	66	61	(D)
Ireland	8,400	(D)	5,396	290	(D)	1,965	618	50	11,749	(D)	7,457	470	(D)	2,780	863	74
Italy	17,587	530	10,471	2,667	299	2,128	1,342	149	18,687	549	11,549	2,537	320	1,900	1,474	358
Luxembourg	5,857	34	(D)	0	221	3,750	(D)	(D)	6,377	39	(D)	0	(D)	4,179	(D)	42
Netherlands	39,344	2,227	9,734	3,059	139	20,052	2,645	1,487	44,667	2,564	10,472	3,910	134	23,592	2,424	1,571
Norway	5,133	3,370	591	312	126	514	114	107	6,103	3,898	705	353	(D)	763	(D)	73
Portugal	1,755	(D)	538	391	(D)	137	281	6	1,854	(D)	689	451	(D)	148	331	(D)
Spain	10,770	186	6,801	912	1,537	707	443	184	11,393	191	7,109	1,023	1,572	733	517	248
Sweden	7,339	(D)	5,452	373	(D)	893	539	–13	7,629	(D)	5,554	378	(D)	961	635	–19
Switzerland	33,532	825	3,850	9,322	2,093	15,975	1,313	154	35,751	703	4,426	10,341	2,083	16,826	1,241	131
Turkey	948	(D)	603	43	109	–1	(D)	3	1,025	87	594	75	(D)	–1	(D)	2
United Kingdom	122,767	13,222	27,638	6,429	4,649	59,631	6,534	4,665	142,560	14,889	32,341	7,365	5,260	68,339	8,521	5,846
Other	6,269	777	1,772	285	1,136	989	98	1,213	8,361	1,465	2,175	373	1,422	1,292	80	1,554
Latin America and Other Western Hemisphere	**128,252**	**5,990**	**36,883**	**7,439**	**5,802**	**60,612**	**2,696**	**8,830**	**144,209**	**6,488**	**40,611**	**7,686**	**5,632**	**69,181**	**3,512**	**11,100**
South America	46,914	4,065	25,321	2,773	2,648	5,762	570	5,775	52,153	4,489	26,919	2,263	3,191	6,847	688	7,756
Argentina	7,496	745	3,233	1,061	837	959	180	482	8,060	851	3,703	733	957	1,097	206	512
Brazil	23,706	679	18,362	687	888	2,604	176	309	26,166	698	19,346	530	1,164	3,019	264	1,146
Chile	5,878	(D)	547	326	523	1,762	(D)	2,355	6,745	(D)	591	367	565	2,046	(D)	2,777
Colombia	3,352	1,225	1,119	141	(D)	315	16	(D)	3,468	1,122	1,325	131	(D)	323	(D)	397
Ecuador	833	652	125	47	(D)	(*)	0	(D)	855	697	98	56	(D)	(D)	0	–5
Peru	1,279	95	74	60	(D)	1	(D)	1,014	2,075	194	94	60	(D)	(D)	27	1,475
Venezuela	3,220	(D)	1,713	390	(D)	88	28	744	3,592	489	1,597	325	(D)	139	(D)	952
Other	1,150	245	148	61	195	35	(D)	(D)	1,193	(D)	166	62	229	(D)	(D)	502
Central America	33,688	1,176	10,642	1,735	368	16,968	501	2,298	38,905	1,275	12,290	2,176	541	19,488	635	2,500
Costa Rica	870	(D)	277	(D)	0	52	(D)	9	1,205	(D)	353	(D)	0	(D)	(D)	–30
Guatemala	152	53	91	(D)	3	9	(*)	(D)	217	93	114	(D)	(D)	11	(*)	7
Honduras	191	(D)	219	15	(D)	24	0	–92	145	(D)	237	(D)	5	25	0	–145
Mexico	15,980	134	9,843	783	299	2,263	368	2,289	18,747	169	11,408	764	443	2,864	515	2,585
Panama	16,216	818	193	387	(D)	14,615	121	(D)	18,256	839	150	559	80	16,527	108	–7
Other	278	180	18	(D)	(D)	4	(D)	56	336	193	27	6	(D)	(D)	(D)	90
Other Western Hemisphere	47,650	749	920	2,930	2,787	37,882	1,625	757	53,151	724	1,401	3,246	1,900	42,847	2,189	844
Bahamas	1,806	45	(D)	145	662	781	43	(D)	2,021	70	(D)	170	390	1,188	56	(D)
Barbados	755	171	2	281	(D)	(D)	134	0	865	165	9	370	(D)	(D)	138	(*)
Bermuda	29,980	(D)	6	1,155	0	27,492	1,388	(D)	33,783	(D)	17	1,455	0	30,600	1,826	(D)
Dominican Republic	394	(D)	224	(*)	(D)	1	(D)	(D)	465	(D)	284	–3	(D)	1	(D)	13
Jamaica	1,402	(D)	172	(D)	(D)	6	(D)	10	1,675	(D)	187	(D)	(D)	6	(D)	(D)
Netherlands Antilles	2,877	(D)	(D)	(D)	(D)	2,923	(D)	(D)	3,594	7	(D)	(D)	(D)	3,534	1	(D)
Trinidad and Tobago	845	445	(D)	0	(D)	15	2	(D)	1,057	479	(D)	0	(D)	13	2	(D)
United Kingdom Islands, Caribbean	8,941	115	39	(D)	2,067	6,141	49	(D)	9,008	130	228	–82	1,365	6,954	82	331
Other	649	259	86	4	–9	(D)	2	(D)	683	212	90	(D)	(D)	(D)	3	(D)
Africa	**6,383**	**3,248**	**1,365**	**301**	**239**	**712**	**57**	**461**	**7,568**	**3,913**	**1,822**	**175**	**308**	**740**	**127**	**483**
Egypt	1,388	1,063	98	86	135	(D)	(D)	0	1,647	1,189	215	29	151	(D)	51	(D)
Nigeria	706	(D)	58	(*)	(D)	(D)	0	0	978	(D)	61	(*)	(D)	0	0	0
South Africa	1,275	(D)	657	149	(D)	(D)	(D)	140	1,437	(D)	778	119	(D)	(D)	19	(D)
Other	3,014	1,314	552	66	71	644	48	320	3,506	1,559	768	27	85	673	57	337
Middle East	**7,669**	**2,412**	**2,181**	**270**	**516**	**1,212**	**447**	**631**	**8,743**	**3,267**	**2,199**	**329**	**652**	**1,360**	**468**	**468**
Israel	1,662	(D)	1,208	7	0	(D)	185	59	1,886	(D)	1,329	(D)	0	167	216	109
Saudi Arabia	3,245	155	976	(D)	(D)	(D)	63	(D)	3,098	(D)	906	69	(D)	(D)	(D)	212
United Arab Emirates	660	(D)	5	175	(D)	–41	42	86	789	348	7	192	(D)	(D)	47	106
Other	2,103	1,925	–9	(D)	–68	30	157	(D)	2,971	2,702	–43	(D)	–22	75	(D)	42
Asia and Pacific	**125,834**	**21,320**	**44,393**	**17,674**	**7,377**	**21,096**	**3,379**	**10,595**	**140,402**	**19,943**	**49,382**	**18,907**	**10,932**	**23,738**	**4,005**	**13,495**
Australia	25,003	3,132	8,616	2,266	1,069	3,968	1,217	4,734	28,769	1,609	9,360	2,511	3,742	3,395	1,437	6,715
China	2,127	794	997	106	(D)	(D)	(D)	144	2,883	904	1,504	108	74	(D)	(D)	187
Hong Kong	14,206	598	2,349	4,602	1,386	3,949	710	612	16,022	599	2,601	5,022	1,506	4,656	815	823
India	838	(D)	326	27	465	(D)	27	(*)	1,139	51	348	(D)	516	67	51	(D)
Indonesia	6,607	4,415	204	64	(D)	419	(D)	1,295	7,571	4,742	353	93	(D)	431	(D)	1,687
Japan	38,406	6,461	16,006	6,888	386	7,258	806	601	39,593	4,816	16,534	7,344	379	9,150	816	555
Korea, Republic of	5,169	(D)	1,575	592	1,665	394	61	(D)	5,510	(D)	2,107	452	1,671	228	96	(D)
Malaysia	4,200	621	2,896	157	282	176	–1	68	5,277	733	3,711	172	(D)	233	7	(D)
New Zealand	4,845	389	730	105	(D)	1,777	(D)	1,691	5,519	470	830	86	(D)	1,799	(D)	2,142
Philippines	2,531	(D)	1,210	205	259	(D)	(D)	291	3,349	(D)	1,530	259	371	(D)	(D)	395
Singapore	12,689	2,338	5,264	1,808	424	2,207	381	268	14,150	2,799	5,870	1,777	507	2,521	487	189
Taiwan	4,210	(D)	2,654	462	489	223	156	(D)	4,509	(D)	2,778	540	575	243	158	(D)
Thailand	4,315	1,413	1,492	363	342	165	42	499	5,254	1,830	1,782	449	549	222	40	382
Other	689	179	74	28	267	(D)	–1	(D)	857	278	74	(D)	299	148	(D)	8
International	**2,981**	**985**	....	....	....	....	....	**1,996**	**4,352**	**1,964**	....	....	....	....	....	**2,389**
Addenda:																
Eastern Europe	4,739	737	1,601	156	260	764	44	1,176	6,480	1,424	1,926	192	340	1,051	27	1,520
European Union (15) [1]	315,112	20,793	116,399	24,399	9,798	113,332	20,532	9,858	348,391	22,754	126,834	26,460	10,212	127,498	22,218	12,415
OPEC [2]	16,036	6,930	2,960	678	840	1,562	324	2,742	18,288	8,554	2,894	678	1,006	1,687	319	3,150

* Less than $500,000 (±).

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, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

Most—nearly two-thirds—of capital outflows in 1996 were accounted for by reinvested earnings, which were up $3.2 billion from 1995. The remainder were accounted for by net equity capital outflows, which were down $15.0 billion from 1995, and intercompany debt flows, which shifted $12.2 billion, to outflows.

Reinvested earnings reflected record affiliate profits and a continued high rate of reinvestment. Affiliate profits in many countries were boosted by the large capital flows that have expanded the earnings base in recent years. In 1996, 60 percent of total earnings were reinvested, slightly below the 61-percent share of 1995 but well above the 36-percent average of 1982–94. If past relationships between growth in capital spending by affiliates and growth in earnings held in 1996, it seems likely that much of the reinvested earnings were used to finance capacity expansion by existing foreign affiliates.

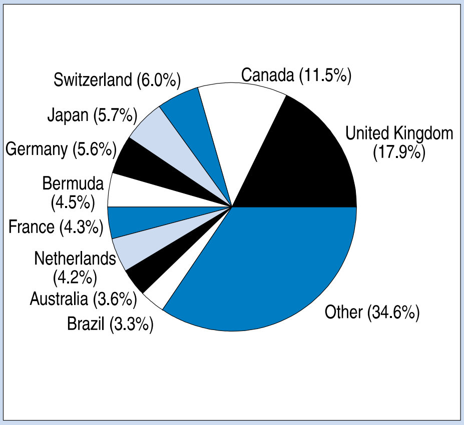
The decrease in equity capital outflows was primarily due to a sharp drop in equity capital increases, as a number of multibillion-dollar mergers and acquisitions in 1995—mainly in pharmaceuticals, but also in utilities and telecommunications—were not matched by similar-sized transactions in 1996. Also contributing to the decrease in outflows was a rise in equity capital decreases (which are recorded as U.S. capital *in*flows); these decreases, which were concentrated in finance (except banking), insurance, and real estate ("FIRE") and in petroleum, largely resulted from sales of affiliates by U.S. direct investors.

Merger and acquisition activity by U.S. direct investors, though lower than in 1995, occurred in a number of industries, particularly "other industries," metals, and FIRE. As in 1995, several of the transactions in "other industries" and in FIRE involved acquisitions of energy providers and telephone companies. These acquisitions—in the United Kingdom, Australia, Belgium, and Brazil—were made in response to opportunities created by recent privatizations.

The shift to outflows in intercompany debt primarily reflected reduced borrowing by parents from their affiliates in FIRE, particularly from affiliates in the United Kingdom, Bermuda, and Japan.

CHART 2

U.S. Direct Investment Position Abroad, 1996: Host-Country Shares



U.S. Department of Commerce, Bureau of Economic Analysis

Changes by country

The $78.9 billion increase in the U.S. direct investment position abroad was spread among all major geographic areas. The largest increase by far was in Europe.

The following table shows major changes in the positions in 1996 by area and by country:

[Billions of dollars]

All countries	78.9
Europe	36.6
of which:	
United Kingdom	19.8
Netherlands	5.3
Ireland	3.3
Latin America and Other Western Hemisphere	16.0
of which:	
Bermuda	3.8
Mexico	2.8
Brazil	2.5
Panama	2.0
Asia and Pacific	14.6
of which:	
Australia	3.8
Hong Kong	1.8
Singapore	1.5
Canada	6.1

The position in Europe increased 11 percent and accounted for nearly one-half of the overall increase in the position worldwide. The increase resulted from capital outflows of $45.3 billion that were partly offset by negative valuation adjustments of $6.6 billion. Within Europe, more than one-half of the increase in the position was in the United Kingdom. Outside the United Kingdom, increases were largest in the Netherlands and Ireland.

In the United Kingdom, nearly one-half of the increase was in FIRE, where the increase was about evenly split among reinvested earnings, intercompany debt outflows, and equity capital outflows. Equity capital outflows in FIRE funded the establishment of holding companies for the purpose of acquiring electric utility companies. Also contributing to the increase in position were reinvested earnings of manufacturing affiliates (particularly in industrial machinery and chemicals), loans to affiliates in petroleum and chemicals, and positive currency-translation adjustments (due to the dollar's depreciation against the British pound).

In the Netherlands, most of the increase was in FIRE and mainly reflected the reinvested earnings of holding companies (generated largely by operating affiliates located in other countries) that were partly offset by negative currency-translation adjustments.

The position in Ireland increased 40 percent—by far the fastest pace among the European countries. The increase reflected very strong earnings—85 percent of which were reinvested—by affiliates that mainly serve markets in other foreign countries. Reinvested earnings were largest in manufacturing—particularly in chemicals and electronic equipment—and in FIRE.

The position in Latin America and Other Western Hemisphere increased 12 percent as a result of capital outflows of $14.3 billion and positive valuation adjustments of $1.7 billion. Within the area, the largest increases were in Bermuda, Mexico, Brazil, and Panama. In Bermuda, the increase was mainly due to reinvested earnings and capital gains by affiliates in FIRE. Most of the increase in Mexico was in manufacturing; it reflected lending to affiliates in food and reinvested earnings by affiliates in chemicals. In Brazil, the increase reflected reinvested earnings of manufacturing affiliates and acquisitions of electric utilities in "other industries." In Panama, the increase reflected capital gains and reinvested earnings among affiliates in FIRE.

The position in Asia and Pacific increased 12 percent as a result of capital outflows of $14.8 billion. Within Asia and Pacific, the largest increase was in Australia and reflected valuation adjustments in banking and acquisitions of electric utility companies in "other industries." Increases were also large in Hong Kong and Singapore. In Hong Kong, the increase was mainly due to reinvested earnings by affiliates in FIRE, wholesale trade, and electronic equipment. In Singapore, almost all of the increase resulted from reinvested earnings—particularly in electronic equipment, FIRE, industrial machinery, and petroleum.

The increase in the position in Canada was the second-largest dollar increase of any country, despite a relatively low growth rate of 7 percent. The increase was more than accounted for by reinvested earnings, which were largest in transportation equipment, FIRE, petroleum, and "other manufacturing." Also contributing to the increase were large acquisitions of mining and waste management businesses in "other industries."

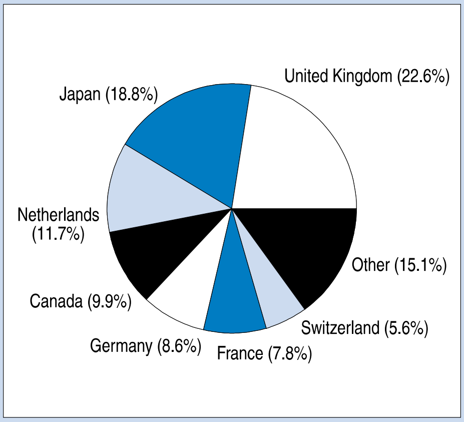
Foreign Direct Investment in the United States

The foreign direct investment position in the United States valued at historical cost—the book value of foreign direct investors' equity in, and net outstanding loans to, their U.S. affiliates—was $630.0 billion at the end of 1996 (table 2 and chart 1). More than one-half of the position was accounted for by three countries—the United Kingdom, Japan, and the Netherlands. The United Kingdom's position remained the largest ($142.6 billion, or 23 percent of the total). Japan's position was the second largest ($118.1 billion, or 19 percent), and the Netherlands position was the third largest ($73.8 billion, or 12 percent) (table 4 and chart 3).

In 1996, the FDIUS position increased $69.2 billion, or 12 percent, following an increase of 13 percent in 1995 and an average increase of 12 percent in 1982–94. The increase in the position in 1996 was mainly due to the continued strength

CHART 3

Foreign Direct Investment Position in the United States, 1996: Parent-Country Shares



U.S. Department of Commerce, Bureau of Economic Analysis of the U.S. economy, which attracted new investments from abroad and which expanded the earnings existing U.S. affiliates could draw on to finance growth. In addition, continued economic expansion in certain major investor countries, such as the United Kingdom and Japan, may have increased the ability of parent companies in those countries to make new acquisitions and contribute additional capital to their existing U.S. affiliates and may have reduced their need to draw funds from their affiliates.

Factors specific to particular industries and to corporate restructuring in the United States also contributed to the increase in the position. Rapid market growth in high technology and information-related industries encouraged acquisitions in these industries. Corporate restructuring has led many companies to shed units that were either unprofitable or unrelated to their main lines of business, thereby creating new investment opportunities for foreign investors. These last two factors had an even more

Table 4.—Foreign Direct Investment Position in the United States on a Historical-Cost Basis at Yearend

[Millions of dollars]

	1995									1996								
	All industries	Petroleum	Manufacturing	Trade	Depository institutions	Finance, except depository institutions	Insurance	Real estate	Other industries	All industries	Petroleum	Manufacturing	Trade	Depository institutions	Finance, except depository institutions	Insurance	Real estate	Other industries
All countries	**560,850**	**33,888**	**213,025**	**79,136**	**34,076**	**62,369**	**50,975**	**29,704**	**57,675**	**630,045**	**42,343**	**234,323**	**92,945**	**31,903**	**70,185**	**59,566**	**30,118**	**68,661**
Canada	**48,258**	**3,220**	**19,568**	**3,821**	**1,695**	**6,864**	**5,241**	**2,276**	**5,571**	**53,845**	**3,577**	**22,031**	**4,004**	**2,296**	**5,451**	**7,056**	**2,487**	**6,941**
Europe	**357,193**	**24,527**	**156,258**	**32,842**	**19,035**	**33,656**	**40,613**	**11,690**	**38,573**	**410,425**	**30,560**	**172,501**	**43,761**	**16,909**	**43,046**	**46,776**	**11,456**	**45,416**
Austria	1,555	(D)	252	(D)	(D)	(D)	(D)	3	4	1,791	(D)	245	(D)	(D)	(D)	(D)	3	11
Belgium	3,676	(D)	2,230	1,086	(D)	(D)	(D)	59	338	3,979	(D)	2,067	1,278	(D)	(D)	(D)	58	561
Denmark	2,990	5	1,035	(D)	206	(D)	–2	(D)	(D)	2,118	5	772	1,469	117	(D)	–2	(D)	446
Finland	2,752	(D)	1,756	(D)	(D)	–6	(D)	2	(D)	2,818	(D)	2,259	373	2	–8	(D)	4	(D)
France	38,480	(D)	21,629	1,740	2,072	3,875	2,742	231	(D)	49,307	385	26,360	2,709	2,173	7,348	3,121	237	6,974
Germany	49,269	(D)	25,335	9,696	1,625	4,798	5,352	1,094	(D)	62,242	(D)	25,471	11,402	2,103	5,195	9,015	1,399	(D)
Ireland	7,418	(D)	1,427	(D)	1,373	2,475	(D)	183	776	9,776	442	1,934	(D)	1,530	2,762	573	(D)	854
Italy	2,750	(D)	876	840	652	–198	(D)	73	47	2,699	(D)	763	916	746	(D)	(D)	72	127
Liechtenstein	135	–2	19	73	0	(D)	0	87	(D)	161	–2	36	51	0	(D)	0	79	(D)
Luxembourg	5,957	(*)	4,151	(D)	0	186	(D)	209	(D)	10,284	0	8,423	(D)	0	849	(D)	213	(D)
Netherlands	65,806	11,666	19,783	5,600	4,698	2,367	9,288	5,877	6,529	73,803	13,191	21,635	6,671	5,506	5,815	9,898	5,492	5,595
Norway	2,089	296	1,257	70	26	–6	(D)	(D)	(D)	2,421	412	1,385	108	(D)	–2	(D)	23	310
Spain	2,452	7	360	179	1,951	(D)	153	32	(D)	1,128	–2	424	192	1,102	(D)	161	9	(D)
Sweden	9,581	(D)	7,085	1,520	57	21	(D)	300	238	9,470	(D)	6,549	(D)	84	–192	–237	469	247
Switzerland	35,593	485	12,973	1,564	952	11,806	5,156	801	1,857	35,101	463	14,668	3,341	981	6,437	5,959	834	2,419
United Kingdom	126,177	9,696	56,022	5,849	5,464	9,542	16,689	2,689	20,227	142,607	11,610	59,434	9,577	2,661	17,140	17,237	2,359	22,588
Other	514	(D)	67	(D)	188	–1	0	18	8	718	(D)	77	(D)	232	–15	0	6	16
Latin America and Other Western Hemisphere	**25,240**	**1,965**	**5,997**	**2,827**	**3,589**	**971**	**4,114**	**3,270**	**2,506**	**24,627**	**2,241**	**4,551**	**3,949**	**3,715**	**428**	**4,697**	**3,342**	**1,704**
South and Central America	7,878	–310	776	–175	2,929	612	(D)	359	(D)	7,810	–353	175	158	3,084	482	(D)	326	(D)
Brazil	751	(D)	–139	19	855	2	(D)	5	(D)	591	(D)	–233	81	869	(D)	2	5	–46
Mexico	1,980	–11	922	–92	252	261	–1	105	545	1,078	–17	410	147	195	94	(D)	104	(D)
Panama	4,721	(D)	133	12	(D)	382	(D)	228	–96	5,561	(D)	163	11	(D)	427	(D)	196	(D)
Venezuela	–259	–513	–18	–6	270	(D)	–1	8	(D)	–12	–331	–20	–2	303	(D)	(*)	4	(D)
Other	685	(D)	–122	–106	(D)	(D)	(D)	14	–9	591	126	–145	–79	(D)	(D)	(D)	18	–6
Other Western Hemisphere	17,362	2,275	5,220	3,001	660	359	(D)	2,912	(D)	16,817	2,594	4,376	3,791	631	–53	(D)	3,016	(D)
Bahamas	–1,780	(D)	114	163	0	–2,558	0	(D)	245	–1,859	(D)	152	(D)	(D)	–3,151	0	278	507
Bermuda	1,592	132	842	399	6	–951	526	260	378	921	137	–181	375	(D)	–428	534	171	(D)
Netherlands Antilles	8,481	(D)	2,904	(D)	204	617	(D)	769	294	9,124	(D)	2,670	(D)	174	90	(D)	579	334
U. K. Islands, Caribbean	8,417	(D)	1,332	674	451	3,255	(D)	1,575	832	8,368	(D)	1,684	523	473	3,409	(D)	1,806	190
Other	651	–1	27	(D)	0	–4	(D)	(D)	(D)	262	(D)	51	(D)	0	27	(D)	182	71
Africa	**1,164**	(D)	**275**	(D)	(D)	(D)	**0**	**219**	**287**	**717**	(D)	**258**	**–48**	(D)	(D)	**0**	**206**	**–153**
South Africa	–3	(*)	–1	0	0	0	0	(*)	–2	–44	1	–1	(D)	0	(D)	0	(*)	–3
Other	1,167	(D)	276	(D)	(D)	(D)	0	220	288	761	(D)	259	(D)	(D)	(D)	0	206	–150
Middle East	**6,008**	(D)	**730**	(D)	(D)	(D)	**2**	**2,124**	**86**	**6,177**	(D)	**400**	**736**	(D)	(D)	**3**	**2,583**	**68**
Israel	1,995	0	307	(D)	533	239	0	(D)	(D)	1,960	0	372	(D)	585	222	0	(D)	(D)
Kuwait	2,527	(D)	(D)	2	(D)	(D)	3	2,039	(D)	2,572	4	(D)	2	(D)	(D)	4	2,492	(D)
Lebanon	–9	0	(D)	(D)	0	0	0	–18	0	–11	0	(D)	(D)	0	0	0	–21	0
Saudi Arabia	1,310	(D)	(D)	(D)	4	0	–1	(D)	1	1,484	(D)	–1	(D)	4	0	(*)	(D)	(D)
United Arab Emirates	98	–4	–1	1	(D)	(D)	0	16	(D)	87	–5	–1	0	(D)	(D)	0	15	(D)
Other	88	(*)	1	(D)	66	–1	0	30	(D)	84	0	(D)	3	43	4	0	33	(D)
Asia and Pacific	**122,986**	**2,896**	**30,198**	**38,770**	**9,060**	**20,282**	**1,004**	**10,124**	**10,652**	**134,255**	**4,528**	**34,581**	**40,544**	**8,249**	**20,590**	**1,034**	**10,044**	**14,686**
Australia	7,833	3,333	3,074	12	97	–389	(D)	(D)	1,141	9,747	(D)	2,958	269	86	–736	(D)	458	1,208
Hong Kong	1,557	2	238	651	151	45	–3	247	227	947	–2	238	675	128	–632	2	236	301
Japan	107,933	83	25,010	36,485	7,706	20,497	705	8,602	8,844	118,116	128	29,454	38,021	6,816	21,322	771	8,823	12,781
Korea, Republic of	626	(D)	80	(D)	151	(D)	(D)	14	71	394	(D)	–2	(D)	120	(D)	(D)	23	96
Malaysia	402	(D)	239	(D)	(D)	–1	0	2	(D)	445	(D)	282	8	(D)	(D)	0	3	87
New Zealand	149	0	9	(D)	(D)	0	(D)	–21	(D)	136	1	–17	(D)	(D)	0	(D)	–24	16
Philippines	75	0	4	7	65	0	–3	1	1	81	0	3	21	58	0	–4	(*)	4
Singapore	1,548	–19	316	170	83	40	(*)	(D)	(D)	1,468	–8	350	24	97	523	(*)	428	55
Taiwan	2,139	–1	1,137	(D)	456	(D)	6	41	135	2,298	–1	1,225	(D)	514	(D)	7	42	105
Other	724	–7	90	218	340	4	4	42	34	623	–6	90	31	415	2	3	54	32
Addenda:																		
European Union (15) [1]	318,995	23,746	141,939	30,936	17,968	21,898	35,304	10,771	36,433	372,161	29,685	156,348	39,857	15,782	36,632	40,660	10,520	42,677
OPEC [2]	3,740	720	348	10	456	–4	1	2,111	98	4,237	1,062	–68	10	563	–7	3	2,564	111

* Less than $500,000 (±).

(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, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

pronounced effect on foreign investors' total outlays to acquire or establish U.S. businesses than on the position: In 1996, these outlays, including those financed by capital inflows from foreign parents, rose 41 percent, following a 25-percent increase in 1995.[7]

The following table shows the change in position in 1996 by type of capital flow and valuation adjustment:

[Billions of dollars]

Total	69.2
Capital inflows	78.8
Equity capital	53.0
Intercompany debt	11.7
Reinvested earnings	14.1
Valuation adjustments	−9.6
Currency translation	−.4
Other	−9.2
of which:	
Capital gains and losses	−2.0

Capital inflows for foreign direct investment in the United States were at a record $78.8 billion in 1996, up from $69.4 billion in 1995. More than two-thirds of the 1996 total was accounted for by equity capital inflows, which were $8.0 billion higher than in 1995. These inflows were at their highest level since the peak year of 1990. The high level of equity capital inflows reflected both capital contributions to existing U.S. affiliates and continued growth in acquisitions of U.S. businesses by foreigners.

For the third consecutive year, the position was boosted by reinvested earnings; in contrast, in 1989–93, growth in the position was reduced by negative reinvested earnings (negative reinvested earnings occur when affiliates incur losses or distribute earnings to their foreign parents in excess of their current earnings). Reinvested earnings were at a record $14.1 billion in 1996, $2.3 billion higher than the previous record in 1995. All industries except real estate, services, and banking had positive reinvested earnings. The high level of reinvested earnings reflected a $2.1 billion increase in earnings and a reinvestment rate of 54 percent, up from 49 percent in 1995. By industry, the increase in earnings was more than accounted for by "other manufacturing," petroleum, and insurance; however, it was partly offset by a large decrease in the earnings of banking affiliates. The two industries that continued to show losses—albeit small ones—were real estate and services.

Intercompany debt inflows were $11.7 billion, down from $12.6 billion.

Changes by country

The $69.2 billion increase in the foreign direct investment position in the United States in 1996 was concentrated among parents located in Europe. Outside Europe, the largest increases were by parents in Japan and Canada.

The following table shows the major changes in the positions in 1996 by area and by country:

[Billions of dollars]

All countries	69.2
Europe	53.2
of which:	
United Kingdom	16.4
Germany	13.0
France	10.8
Netherlands	8.0
Japan	10.2
Canada	5.6

The position of European investors increased 15 percent—a faster pace than that for any other major area—and accounted for more than three-quarters of the overall increase in 1996. The increase resulted from capital inflows of $59.8 billion that were partly offset by negative valuation adjustments of $6.6 billion. Within Europe, parents in the United Kingdom had by far the largest dollar increase, followed by parents in Germany, France, the Netherlands, Luxembourg, and Ireland.

The largest increase in the position of British parents was in "finance, except depository institutions" ("finance") and resulted from lending by foreign parents. Acquisitions in other manufacturing, services, and wholesale trade also contributed to the increase.

The increase in the position of German parents was more than accounted for by equity capital inflows, which were the largest from any country. The largest equity capital inflows were in services, insurance, petroleum, and "other industries." In insurance and services, the equity capital inflows reflected acquisitions; in petroleum and "other

7. See "Foreign Direct Investment in the United States: New Investment in 1996 and Affiliate Operations in 1995," SURVEY 77 (June 1997): 42–69. Preliminary data from BEA's survey of new foreign direct investments, summarized in that article, indicate that total outlays to acquire or establish U.S. businesses were $80.5 billion in 1996, up from $57.2 billion in 1995. Unlike the changes in the foreign direct investment position presented in this article, these figures cover only transactions involving U.S. businesses newly acquired or established by foreign direct investors and include financing other than that from the foreign parent, such as local borrowing by existing U.S. affiliates. In contrast, changes in the position reflect transactions of both new and existing U.S. affiliates—but only transactions with the foreign parent or other members of the foreign parent group—and valuation adjustments.

Notwithstanding these differences, the two types of data are related. Any outlays to acquire or establish U.S. businesses that are funded by foreign parents (or other members of the foreign parent group) are part of capital inflows, a component of the change in the position. Data from the new investments survey indicate that foreign parent groups funded $58.4 billion, or 73 percent, of outlays to acquire or establish new U.S. affiliates in 1996, compared with $30.8 billion, or 54 percent, in 1995.

industries," they reflected capital contributions to existing affiliates.

The largest increases in the position of French parents were in finance, metals, and "other industries." In finance, the increase reflected loans to affiliates; in metals, it reflected acquisitions and loans to affiliates; and in "other industries," it reflected capital contributions to existing affiliates.

The largest increases in the position of Netherlands parents were in finance, manufacturing—particularly in chemicals and "other manufacturing"—and petroleum. The increase in finance reflected parents' loans to their affiliates and valuation adjustments. The increases in chemicals and in petroleum mostly resulted from reinvested earnings. The increase in "other manufacturing" reflected lending by parents.

The increase in the position of Japanese parents was more than accounted for by equity capital inflows, almost all of which were capital contributions to existing affiliates. By industry, the largest increases in the position were in services and "other manufacturing."

The largest increases in the position of Canadian parents were in manufacturing—particularly chemicals and "other manufacturing"—and insurance. In chemicals, the increase reflected borrowing from parents; in "other manufacturing," it reflected equity capital inflows and reinvested earnings. The increase in insurance reflected repayment by parents of loans from affiliates.