

**U.S.
DIRECT
INVESTMENT ABROAD:
BALANCE OF PAYMENTS AND
DIRECT INVESTMENT POSITION
ESTIMATES,
1977-81**



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Introduction

This publication presents estimates of the U.S. direct investment position abroad and balance of payments transactions between U.S. parent companies and their foreign affiliates for calendar years 1977-81. It carries forward comparable estimates for 1950-76, which were published in Selected Data on U.S. Direct Investment Abroad, 1950-76.^{/1/} The balance of payments items shown separately in the tables in this publication are capital outflows and its components, equity and intercompany account outflows and reinvested earnings of incorporated affiliates; income; and fees and royalties and one of its components, royalties and license fees.

This publication represents the final historical record of these data items for 1977-81. Several of the items are being published for the first time: Estimates of all items for 1978 disaggregated by country and crossclassified by summary industry; estimates of equity and intercompany account outflows for 1977, which have been revised since they were last published; and estimates of total fees and royalties, royalties and license fees, and total capital flows for all years by country by summary industry.

For 1977, a benchmark survey, or census, of U.S. direct investment abroad was conducted.^{/2/} For that year, data in this publication, with one exception, are reported universe values from the 1977 benchmark survey. The exception is equity and intercompany account outflows, which include only data of affiliates reported in both the benchmark survey and in BEA's quarterly sample surveys covering 1977. This exception is made in order to make the estimates for the benchmark year more consistent with those for nonbenchmark years, which are calculated as the sum of reported sample data.

1. Copies are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402; price \$7.00, stock number 003-010-001038.

2. Detailed results and a methodology of the 1977 benchmark survey were published in U.S. Department of Commerce, Bureau of Economic Analysis, U.S. Direct Investment Abroad, 1977 (Washington, DC: U.S. Government Printing Office, 1981). Copies can be obtained from Economic and Statistical Analysis/BEA, U.S. Department of Commerce, Citizens and Southern National Bank, 222 Mitchell Street, P.O. Box 100606, Atlanta, Georgia 30384; price \$10.00. When ordering, specify title and enclose a check or money order made payable to "Economic and Statistical Analysis/BEA."

Beginning with 1978, universe estimates for all series, except equity and intercompany account outflows, are the sum of reported sample data plus an estimate of data for unreported affiliates. The latter is derived by extrapolating forward the 1977 benchmark survey data for unreported affiliates, based on the movement of sample data collected in BEA's quarterly surveys. Equity and intercompany account outflows are as reported in the sample surveys; estimates of unreported flows are not made because the volatility and frequent sign reversals of equity and intercompany account flows make the reported sample data an unreliable basis for estimating unreported data.

The tables in this publication are available on diskette.^{/3/} In addition, data are stored on magnetic tape. BEA can make special tabulations or perform regressions or other statistical analyses of the data at cost, within the limits of available resources and subject to the legal requirement to avoid disclosure of data of individual companies. Requests should be directed to Office of the Chief, International Investment Division (BE-50), Bureau of Economic Analysis, U.S. Department of Commerce, Washington, DC 20230.

3. Copies can be obtained for \$75.00 (3 diskettes) from the address given in footnote 2. Specify that you are ordering diskettes containing the tables in this publication.

Definitions of Terms

The U.S. direct investment position abroad is equal to U.S. parents' equity in, and net outstanding loans to, their foreign affiliates. Thus, the position measures the net claims of U.S. parents on their affiliates; it is not a measure of the assets of the affiliates, which are the sum of owners' equity held by, and liabilities owed to, not only U.S. parents but all other persons as well.

Income is the return on the U.S. direct investment position abroad--that is, it is the U.S. parents' return on their debt and equity investment in their foreign affiliates. It consists of earnings (the U.S. parents' shares in the net income of their foreign affiliates), less foreign withholding taxes on dividends received by U.S. parents from their foreign affiliates, plus interest on intercompany accounts.

Capital outflows are the sum of equity and intercompany account outflows to all affiliates plus reinvested earnings of incorporated affiliates. The former consists of net increases in U.S. parents' holdings of capital stock in, other capital contributions to, and intercompany accounts with, their incorporated foreign affiliates plus net capital outflows by U.S. parents to their unincorporated foreign affiliates. Reinvested earnings of incorporated affiliates are earnings of incorporated affiliates less gross dividends (that is, dividends before deduction of foreign withholding taxes) on common and preferred stock held by U.S. parents.

Fees and royalties are receipts by U.S. parents from their foreign affiliates of royalties and license fees, service charges (such as for management, professional, and technical services), rentals for the use of tangible property, and film and television tape rentals.

For more detailed definitions and explanations of terms, see U.S. Direct Investment Abroad, 1977, as cited in footnote 2.

Changes in the Direct Investment Series

Major changes in direct investment concepts and definitions, and in data presentation, that were introduced with the 1977 benchmark survey are summarized below.^{/4/}

Definition of direct investment.--A private U.S. investment abroad is considered a direct, rather than portfolio, investment if a single U.S. person owns at least 10 percent of the voting securities (or the equivalent) of a foreign business enterprise. Prior to 1977, an interest of a U.S. person of less than 10 percent was also included in direct investment in two cases: (1) When another U.S. person held an interest of at least 10 percent in the same foreign business enterprise, and (2) when the combined interest of all U.S. persons was at least 50 percent even though no one person had an interest of at least 10 percent. In the series for 1977 forward, direct investment is defined strictly from the viewpoint of a single owner, and all interests of less than 10 percent are included in portfolio investment.

International category.--For 1977 forward, the "international" category consists of affiliates that have operations spanning more than one country and that are engaged in petroleum shipping, other water transportation, petroleum trading, and oil and gas drilling. (Affiliates in these industries that have operations entirely in one country are classified in that country.) Prior to 1977, the "international" category was defined more broadly; it included, for example, Netherlands Antilles finance affiliates (see below) and some affiliates engaged in nonpetroleum trading, finance and insurance, and construction.

Petroleum trading companies.--Most U.S. petroleum parent companies have trading subsidiaries, mainly incorporated in the United States, that purchase foreign-produced petroleum and resell it to customers in both the United States and third countries. Prior to 1977, these subsidiaries were classified as foreign or domestic, depending largely upon the reporting and consolidation practices of the U.S. parent companies. In processing the 1977 benchmark survey, BEA attempted to use more consistent criteria in classifying these subsidiaries; the same criteria were also applied in deriving the extrapolated series for 1978 forward. In most cases, the application of these criteria resulted in the reclassification of the trading subsidiaries from foreign to domestic.

4. A detailed discussion of the changes introduced with the 1977 benchmark survey and a comparison of estimates of selected data items for 1977 based on the 1966 and 1977 benchmark surveys can be found in "U.S. Direct Investment Abroad in 1980," in the August 1981 Survey of Current Business.

Netherlands Antilles finance affiliates.--From 1968 to 1976, intercompany accounts excluded funds that Netherlands Antilles finance affiliates borrowed from unaffiliated foreigners and then transferred to their U.S. parents. Such borrowing was treated as direct borrowing abroad by the U.S. parents and was included in the portfolio, rather than in the direct investment accounts.

The distinction between Netherlands Antilles and other finance affiliates was dropped in 1977. Thus, borrowing by Netherlands Antilles finance affiliates that is transferred to U.S. parents is treated as direct investment intercompany account inflows from affiliates in the Netherlands Antilles, rather than as inflows on portfolio investment from unaffiliated foreigners. Symmetrical treatment is accorded to repayments of the borrowing and to associated interest payments.

Airline and ship operators.--Prior to 1977, foreign stations, ticket offices, and terminal and port facilities of a U.S. airline or ship operator were considered foreign affiliates and were included in U.S. direct investment abroad. For 1977 forward, such facilities are not considered affiliates if they provide services only to the airline or ship operator that owns them. However, if the facilities provide services primarily to unaffiliated persons, they are considered affiliates and are included in direct investment.

Format of published tables.--The detail by industry has changed slightly from the previous publication containing comparable estimates for 1950-76. Nonelectrical machinery and electrical machinery, which previously were combined, and banking, which previously was included in another category, are now shown separately. "Transportation, communication, and public utilities," which was previously shown separately, is now included in "other industries." A detailed listing of industries, in which each individual industry is listed under the summary industry to which it belongs, may be found in table 10 of this publication.

The detail by country has been expanded from that in the previous publication. In addition, the method of grouping countries within Latin America has changed. Latin American countries are now grouped strictly along geographical lines, according to whether they are located in South America, Central America, or "other Western Hemisphere." In the previous publication, they were grouped according to whether or not they were one of the 20 countries designated as "Latin American Republics." A detailed listing of countries, which shows the individual countries contained in the subtotals and in residual ("other") categories, may be found in table 8 of this publication.

Table Organization

Tables 1-7 present estimates for seven data items disaggregated by country and crossclassified by summary industry. Each table is repeated for each of the 5 years:

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General Notes to Tables

- o Estimates are for calendar years.
- o Industry classification is by industry of foreign affiliate.
- o OPEC is the Organization of Petroleum Exporting Countries. The members of OPEC are: Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, Venezuela, and the United Arab Emirates.
- o Detail may not add to totals because of rounding.
- o An amount between -\$500 thousand and +\$500 thousand is indicated by an asterisk (*).
- o A "(D)" indicates that the data in the cell have been suppressed to avoid disclosure of data in that cell, or another cell, for a specific person.