

UNITED STATES DEPARTMENT OF  
**COMMERCE**  
**NEWS**  
WASHINGTON, D.C. 20230

Social and Economic  
Statistics Administration

BUREAU OF  
ECONOMIC ANALYSIS

FOR RELEASE MONDAY, SEPTEMBER 17, 1973

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BEA 73-62

U.S. DIRECT INVESTMENTS ABROAD IN 1972

The value of U.S. direct investments abroad increased \$7.8 billion in 1972 to \$94.0 billion at yearend, according to the Bureau of Economic Analysis, an agency of the Social and Economic Statistics Administration of the U.S. Department of Commerce.

The 1972 increase was almost as large as the 1971 increase, but differed markedly in financing. Reinvested earnings in 1972 accounted for \$4.5 billion and net capital outflows for \$3.4 billion of the increase. In 1971, reinvested earnings had contributed \$3.2 billion and net capital outflows \$4.9 billion to the increase. Valuation and related adjustments were relatively small in both years.

The net inflow of funds to the United States resulting from the U.S. corporate transactions with foreigners, including additions to the direct investment position, total ownership benefits, and borrowings abroad, was a record \$8.9 billion in 1972, compared with a \$4.9 billion inflow in 1971. With additions to the direct investment position about the same in both years, the improvement largely reflected a \$1.1 billion increase in corporate borrowing from unaffiliated foreigners and a \$2.3 billion increase in direct investment earnings and related receipts from foreign affiliates. Statistical adjustments--including changes in valuation, changes in coverage and statistical discrepancies--accounted for \$0.3 billion, and the smaller growth in direct investment and other claims accounted for another \$0.3 billion of the 1971-72 improvement.

These corporate transactions are not an exact measure of the balance of payments impact of U.S. direct investments. Data for some major transactions of direct investors, such as their exports and imports, are not available while some transactions shown in table 1 cover U.S. corporate dealings with foreigners that are not related to direct investment abroad but cannot be separately identified.

The 1971-1972 increase in net corporate borrowing from unaffiliated foreigners largely took the form of dollar-denominated bonds convertible into the stock of the U.S. parent. Sales of these bonds on attractive terms, concentrated in the first half of 1972, were facilitated by improved conditions in U.S. equity markets, and by increased confidence in the U.S. dollar. In the last half of 1972, there was an increase in medium-term foreign bank borrowings, particularly from Japan, which for the first time became a major source of foreign funds for U.S. corporate borrowers.

The higher earnings by foreign affiliates in 1972 reflected both faster growth and rising prices in foreign countries, as well as the December 1971 dollar devaluation which increased the dollar value of the affiliates' earnings. The total return on direct investments, comprising earnings, interest, and fees and royalties, was \$15.0 billion in 1972, an increase of \$2.3 billion over 1971. Of the total, \$10.4 billion was paid to owners in the form of interest, dividends, branch earnings, and royalties and fees, and \$4.5 billion was reinvested abroad.

The big 1972 earnings increase gave a larger role to reinvested earnings in financing the addition to the U.S. direct investment position abroad. The dollar devaluation reduced the amount of foreign currency affiliates needed to maintain dollar remittances to the United States. In addition, U.S. Government policy limited the growth in dividend payments by U.S. parent corporations in 1972, reducing the incentive to remit the increase in foreign affiliates' earnings to the U.S. parent. The sterling crises of 1972 contributed to the decrease in U.S. net capital outflows. Capital reflows to the United States from affiliates in the United Kingdom, where expectations were that sterling would depreciate, accounted for nearly half of the total 1971-1972 decrease in U.S. net capital outflows.

Additions to the value of U.S. direct investments in developed countries were \$5.5 billion in 1972, about the same as in 1971. U.S. direct investment capital outflows to these countries were \$1.1 billion less than in 1971, while reinvested earnings rose \$1.2 billion. Additions to the value of U.S. direct investment in other areas were \$2.3 billion in 1972, somewhat lower than the \$2.6 billion increase in 1971, reflecting a reduction in reinvested earnings in petroleum affiliates, and lower U.S. capital outflows to other non-manufacturing affiliates.

Additional details will be given in "U.S. Direct Investments Abroad in 1972," an article that will appear in the September issue of the Survey of Current Business, the monthly publication of the Bureau of Economic Analysis. The Survey is available from District Offices of the Department of Commerce, or from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, at an annual subscription price of \$20, including weekly supplements, single copy, \$2.25.

Table 1.-U.S. Balance of Payments Flows Related to Direct Investments Abroad and Other Transactions by Non-financial U.S. Corporations

(Millions of dollars)

Line	Item and balance of payments sign; debits (-), credits (+)	All areas		Developed countries		Other areas <sup>1/</sup>		Change 1971-72P		
		1971r	1972p	1971r	1972p	1971r	1972p	All areas	Developed countries	Other areas
1	Net flow .....	4,897	8,937	2,268	5,317	2,628	3,621	4,041	3,047	993
2	Change in corporate claims on foreigners .....	-9,029	-8,762	-6,019	-6,092	-3,010	-2,670	267	-74	340
3	Additions to direct investment position.....	-8,020	-7,834	-5,427	-5,541	-2,593	-2,293	186	-115	300
4	Balance of payments capital flows.....	-4,943	-3,404	-2,988	-1,897	-1,955	-1,508	1,539	1,092	447
5	Reinvested earnings.....	-3,157	-4,521	-2,437	-3,668	-720	-853	-1,365	-1,231	-134
6	Adjustments <sup>2/</sup> .....	80	92	-1	23	81	69	12	25	-13
7	Change in other corporate claims .....	-1,009	-928	-592	-551	-417	-377	81	41	40
8	Long-term .....	-168	-202	-93	-119	-75	-83	-34	-26	-8
	Short-term:									
9	Liquid .....	-531	-492	-404	-263	-127	-229	39	141	-102
10	Nonliquid <sup>3/</sup> .....	-496	-233	-262	-168	-234	-65	263	94	169
11	Adjustments <sup>2/</sup> .....	186	-1	167	-1	19	---	-187	-168	-19
12	Change in corporate liabilities to foreigners .....	1,854	2,997	1,575	2,794	279	203	1,143	1,219	-76
13	New issues of securities sold abroad by U.S. corporations <sup>4/</sup> .....	1,173	2,023	1,173	2,023	---	---	850	850	---
14	Change in corporate liabilities other than new issues:									
15	Long-term .....	681	974	402	771	279	203	293	369	-76
16	Short-term <sup>3/</sup> .....	384	694	289	624	95	70	310	335	-25
17	Adjustments <sup>2/</sup> .....	22	119	-162	-14	184	133	97	148	-51
18	Direct investors' ownership benefits, broad earnings basis .....	275	161	275	161	---	---	-114	-114	---
18	Direct investors' ownership benefits, broad earnings basis .....	12,613	14,954	7,153	8,798	5,459	6,157	2,342	1,645	697
19	Receipts of income on U.S. direct investments ...	9,456	10,433	4,716	5,130	4,740	5,303	977	414	563
20	Royalties and fees .....	2,160	2,429	1,594	1,838	566	590	268	244	24
21	Dividends and interest .....	4,174	4,533	2,648	2,894	1,526	1,639	359	245	113
22	Branch earnings .....	3,121	3,471	473	397	2,648	3,074	350	-76	426
23	Reinvested earnings .....	3,157	4,521	2,437	3,668	720	853	1,365	1,231	134
24	Offset to adjustments <sup>2/</sup> .....	-541	-252	-441	-183	-100	-69	289	257	32

p Preliminary. r Revised. Note.-Detail may not add to totals because of rounding.

1. Other areas includes developing areas and international unallocated.
2. These adjustments to the international investment position of the United States do not enter the balance of payments flow figures.

3. Excludes brokerage claims and liabilities.
4. Excludes funds obtained abroad by U.S. corporations through bank loans and other credits and also excludes securities issued by subsidiaries incorporated abroad. However, securities issued by finance subsidiaries incorporated in the Netherlands Antilles are treated as if they had been issued by U.S. corporations to the extent that the proceeds of such issues are transferred to U.S. parent companies.

Table 2.-U.S. Direct Investments Abroad, Selected Data Items, Countries, and Industries  
(Millions of dollars)

By Area and Industry	Book value at yearend		Net capital outflows		Reinvested earnings		Earnings <sup>1/</sup>		Interest, dividends and branch earnings <sup>1/</sup>		Royalties and fees	
	1971r	1972p	1971r	1972p	1971r	1972p	1971r	1972p	1971r	1972p	1971r	1972p
Total.....	86,198	94,031	4,943	3,404	3,157	4,521	10,299	12,386	7,295	8,004	2,160	2,429
By area												
Developed countries.....	58,571	64,114	2,988	1,897	2,437	3,668	5,414	6,805	3,122	3,291	1,594	1,838
Canada.....	24,105	25,784	273	380	1,074	1,367	1,955	2,236	1,015	984	389	434
Europe.....	27,740	30,714	2,169	1,074	1,041	1,885	2,696	3,685	1,648	1,821	936	1,094
Japan.....	1,821	2,222	212	200	127	171	285	345	149	163	103	123
Australia, New Zealand and South Africa.....	4,904	5,393	333	244	195	245	479	538	310	323	165	187
Developing countries.....	23,358	25,186	1,411	1,117	575	749	4,324	5,106	3,739	4,318	537	563
Latin American Republics and other Western Hemisphere.....	15,789	16,644	691	279	399	600	1,500	1,532	1,130	962	335	326
Other developing countries.....	7,568	8,541	720	838	176	149	2,824	3,574	2,609	3,357	202	238
International, unallocated.....	4,270	4,733	545	391	145	104	561	476	434	395	29	27
By industry												
Mining and smelting.....	6,685	7,131	510	411	23	34	499	418	482	399	n.s.s.	n.s.s.
Petroleum.....	24,152	26,399	1,950	1,635	500	668	3,856	4,552	3,442	3,950	258	276
Manufacturing.....	35,632	39,478	1,556	1,028	1,854	2,824	3,834	5,007	1,950	2,145	1,108	1,283
Other industries.....	19,728	21,024	927	331	780	995	2,111	2,409	1,422	1,511	794	870

p Preliminary. r Revised. Note.-Detail may not add to totals because of rounding.

n.s.s. Not shown separately; combined with the "Other industries" category.

1. "Earnings" represents the U.S. share in corporate and branch earnings; "interest, dividends, and branch earnings", is the amount of earnings distributed after withholding taxes.

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