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FOREIGN DIRECT INVESTMENT IN THE UNITED STATES AND U.S. DIRECT INVESTMENT ABROAD GREW MODERATELY IN 1985

In 1985, the foreign direct investment position in the United States increased \$18.4 billion, or 11 percent, to \$183.0 billion, while the U.S. direct investment position abroad increased \$19.7 billion, or 9 percent, to \$232.7 billion.

Foreign Direct Investment in the United States

The 11-percent increase in the foreign direct investment position in the United States in 1985 follows a 20-percent increase in 1984. The smaller increase in 1985 partly reflected the decline in U.S. interest rates and slower U.S. economic growth. Also, an exceptionally large intercompany debt inflow in petroleum in 1984 was followed by a much smaller inflow in 1985, and valuation adjustments were smaller.

Lower U.S. interest rates caused borrowing in U.S. capital markets to become a more important, and funds from foreign parents a less important, source for financing new and existing investments. Reflecting this shift in financing, equity capital inflows in 1985 were \$3.1 billion less than in 1984.

Slower U.S. economic growth contributed to a sharp drop in affiliates' earnings, which lowered affiliates' reinvested earnings.

The large 1984 intercompany debt inflow in petroleum -- over \$4 billion -- financed an increase in a Netherlands parent's ownership stake in its U.S. petroleum affiliate. The inflow was in the form of a loan from a British affiliate of the Netherlands parent to the U.S. petroleum affiliate. The increase in ownership also involved an inflow in 1985, but it was less than one-fourth that in 1984.

Valuation adjustments dropped from \$2.2 billion in 1984 to \$0.5 billion in 1985.

By account. The \$18.4 billion increase in the position consisted of capital inflows of \$17.9 billion and net positive valuation adjustments of \$0.5 billion. Capital inflows consisted of equity capital inflows of \$11.9 billion, intercompany debt inflows of \$4.8 billion, and reinvested earnings of \$1.1 billion.

	Billions	of dollars
	1984	1985
Change in position	27.5	18.4
Capital inflows	25.4	17.9
Equity capital	15.0	11.9
Intercompany debt	7.4	4.8
Reinvested earnings	2.9	1.1
Valuation adjustments	2.2	. 5

A substantial portion of both the equity capital and intercompany debt inflows financed acquisitions of U.S. businesses by foreign direct investors or by their existing U.S. affiliates.

By country and industry. The largest increase in the position -- \$5.4 billion -- was from the United Kingdom. Increases were largest in manufacturing, petroleum, and insurance.

The positions of parents in Japan, Switzerland, the Netherlands, and Germany also increased substantially. Almost two-thirds of the increase in the position of Japanese parents was in wholesale trade. As in 1984, the increase was largely in the form of reinvested earnings of U.S. affiliates importing Japanese automobiles for sale in the United States.

Almost all of the increase in the position of Swiss parents was in food manufacturing. In what was by the far the largest single inflow in 1985, a Swiss parent made a sizable loan to its U.S. affiliate. The affiliate used these funds, together with funds borrowed from U.S. banks, to acquire a U.S. manufacturer of dairy and other food products for about \$3 billion.

The position of Netherlands parents increased \$2.4 billion. Over one-half of the increase was in petroleum and was mainly in the form of reinvested earnings. Most of the \$2.1 billion increase in the position of German parents was in manufacturing, mainly chemicals.

U.S. Direct Investment Abroad

The 9-percent increase in the U.S. direct investment position abroad followed a 4-year period of limited growth in the wake of the 1981 worldwide recession.

Two major factors contributing to the increase in 1985 were the depreciation of the dollar against most major currencies, which boosted the dollar value of affiliates' reinvested earnings, and a shift to intercompany debt outflows with Netherlands Antilles finance affiliates. The position increased despite unusually large net inflows of equity capital.

By account. The \$19.7 billion increase in the position in 1985 consisted of capital outflows of \$18.8 billion and net positive valuation adjustments of \$0.9 billion. Capital outflows consisted of reinvested earnings of \$20.7 billion, intercompany debt outflows of \$0.4 billion, and net equity inflows of \$2.3 billion.

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	1984	1985
Change in position	5.8	19.7
Capital outflows (inflows -)	3.9	18.8
Equity capital	1.7	-2.3
Intercompany debt	-6.9	0.4
Reinvested earnings	9.1	20.7
Valuation adjustments	1.9	. 9

The large net equity inflows were more than accounted for by petroleum and finance affiliates. Inflows from petroleum affiliates were \$2.6 billion, and inflows from finance affiliates were \$1.2 billion. In an effort to consolidate operations and retire debt incurred from recent large acquisitions in the United States, three U.S. petroleum companies sold off one large affiliate in Canada and partial interests in two other affiliates — one in Canada and one in Colombia. The inflows from finance affiliates mainly reflected reductions of equity in affiliates in the Netherlands Antilles.

Companies reported net intercompany debt outflows of \$0.4 billion, in contrast to large inflows in 1984. Most of the shift occurred with finance affiliates in the Netherlands Antilles, as U.S. parent companies repaid old debt and discontinued new borrowing from their affiliates. The removal of the U.S. withholding tax on interest payments to foreigners in the third quarter of 1984 encouraged U.S. parent companies to borrow directly from foreign sources rather than through their taxexempt Netherlands Antilles finance affiliates. As a result, intercompany debt with these affiliates shifted \$6.4 billion, to net outflows of \$2.8 billion.

Reinvested earnings were up \$11.6 billion from 1984, primarily due to a shift from capital losses of \$8.7 billion to capital gains of \$4.9 billion. The capital gains largely reflected the impact of dollar depreciation on the translation of affiliates' financial statements from foreign currencies into dollars. Earnings net of capital gains and losses were almost unchanged.

By country and industry. The position increased \$15.3 billion in developed countries, primarily in manufacturing. Increases of \$14.7 billion in Europe and \$1.2 billion in Japan, largely attributable to the depreciation of the dollar, were partly offset by small declines in Canada, Australia, and South Africa.

In Canada, the position fell \$0.4 billion, primarily due to sales of large equity interests in the two petroleum affiliates mentioned earlier; reinvested earnings were \$1.8 billion. In Australia and South Africa, declining earnings and stable distributed earnings resulted in negative reinvested earnings, which lowered the position.

In developing countries, the position increased \$4.3 billion. The increase mainly reflected the shift to intercompany debt outflows with Netherlands Antilles finance affiliates.

Among other Latin American countries, the position with Mexico increased \$0.5 billion, largely in manufacturing, while that with Colombia, Venezuela and Peru declined, largely in petroleum.

In "other Asia and Pacific," the position fell \$0.2 billion; small increases with most Asian countries were more than offset by declines in Hong Kong, Singapore, Thailand, and, particularly, the Philippines, where the position fell 22 percent.

* * * * *

The foreign direct investment position in the United States is the book value of foreign direct investors' equity in, and net outstanding loans to, their U.S. affiliates. 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.

The U.S. direct investment position abroad is the book value of U.S. direct investors' equity in, and net outstanding loans to, their foreign affiliates. 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.

Estimates for 1982-84 for the U.S. direct investment position abroad have been revised to incorporate the results of the 1982 benchmark survey of U.S. direct investment abroad, which was completed in 1985.

Additional details on both positions and a discussion of the revised estimates will appear in the June issue of the <u>Survey of Current Business</u>, a monthly journal of BEA. More detailed tables on the positions and on related capital and income flows will be published in the August issue. The <u>Survey of Current Business</u> is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. First class mail (domestic only): annual subscription \$50.00. Foreign airmail delivery rates available upon request. Second class mail: annual subscription \$30.00 domestic, \$37.00 foreign. Single copy: \$4.75 domestic, \$5.95 foreign.

Table 1.--Foreign Direct Investment Position in the United States at Yearend [Millions of dollars]

				1	984 ^r					1985								
	All indus- tries	Petro- leum	Manu- factur- ing	Trade	Banking	Finance, except banking	Insur- ance	Real estate	Other indus- tries	All indus- tries	Petro- leum	Manu- factur- ing	Trade	Banking	Finance, except banking	Insur- ance	Real estate	Other indus- tries
All countries	164,583	25,400	51,802	31,219	10,326	5,633	8,922	17,761	13,519	182,951	28,123	60,798	34,212	11,503	4,708	11,069	18,557	13,982
Canada	15,286	1,544	4,115	1,734	1,219	608	1,418	2,844	1,804	16,678	1,659	5,130	2,143	1,332	513	1,337	2,580	1,985
Europe	108,211	23,142	39,083	16,934	5,740	3,457	6,748	8,255	4,850	120,906	25,437	46,515	17,611	5,963	2,387	8,921	8,821	5,251
European Communities (10) Belgium	96,555 2,548 6,591 12,330 1,438 753 33,728 38,387 779	22,813 (D) (D) 71 (D) (D) 9,981 10,991 (D)	32,990 471 5,368 4,389 333 74 12,497 9,719 139	15,238 296 728 4,256 (D) (D) 2,787 6,732 216	5,335 (D) 420 272 298 (D) 1,427 2,194 214	2,879 (D) -623 335 (D) 121 1,970 743 2	5,424 (D) 91 1,295 (D) 0 1,445 2,548 (D)	7,714 10 66 966 (D) (D) 2,471 4,135 42	4,163 (D) (D) 745 387 8 1,152 1,325 50	106,004 2,288 6,295 14,417 1,401 584 36,124 43,766 1,129	25,114 (D) (D) (D) (D) (D) 11,315 12,246 (D)	37,553 477 5,485 6,198 273 86 12,986 11,884 165	15,738 340 581 4,726 (D) (D) 2,544 6,847 404	5,616 (D) 483 222 300 (D) 1,570 2,539 199	1,681 (D) -917 (D) 25 129 2,088 262 3	7,497 (D) 92 1,656 (D) 0 1,975 3,727 (D)	8,238 9 26 1,049 (D) 24 2,325 4,623 (D)	4,566 (D) (D) 697 (D) 22 1,321 1,638 52
Other EuropeSwedenSwitzerlandOther	11,655 2,258 8,146 1,251	329 307 19 3	6,093 1,048 4,774 271	1,696 650 794 252	405 (D) (D) 271	579 (D) 536 (D)	1,325 119 1,152 54	541 0 393 148	688 (D) (D) (D)	14,902 2,384 11,040 1,478	323 296 (D) (D)	8,961 1,132 7,431 398	1,873 790 778 305	347 3 88 255	705 -46 627 125	1,424 (D) 1,232 (D)	583 0 444 139	685 (D) (D) (D)
Japan	16,044	-88	2,460	9,941	1,853	513	138	744	482	19,116	31	2,621	11,822	2,176	710	122	1,054	582
Australia, New Zealand, and South Africa	2,152	57	362	(D)	51	(D)	(D)	120	(D)	2,702	101	747	(D)	63	-19	(D)	117	(D)
Latin America	16,201	656	5,537	2,027	665	861	580	4,664	1,212	17,050	608	5,558	2,099	1,122	917	662	4,808	1,276
South and Central America Panama Other	2,859 1,924 935	50 45 5	981 959 22	44 14 30	(D) (D) 574	115 108 7	(D) (b) (*)	372 256 116	186 6 181	3,385 2,137 1,248	112 104 8	803 842 -39	190 113 78	1,041 (D) (D)	132 123 8	(D) (D) 4	307 199 108	(D) 1 (D)
Other Western Hemisphere Bermuda Netherlands Antilles United Kingdom Islands, Carib-	13,343 1,370 10,935	606 110 452	4,555 306 4,092	1,983 363 1,394	(D) 0 (D)	746 7 643	(D) (D)	4,292 151 3,715	1,025 (D) 543	13,665 1,903 10,603	496 97 406	4,755 955 3,717	1,909 (D) 1,364	80 (*) 66	785 5 480	(D) (D) 24	4,501 110 3,945	(D) (D) 602
beanOther	866 172	(D)	140 18	186 40	16 0	109 -13	(D) 0	369 57	10 (D)	983 177	(D)	63 19	190 (D)	14 (*)	288 12	(D) 0	399 47	(D)
Middle East Israel Other	5,336 525 4,811	15 6 9	116 97 20	(D) (D) (D)	481 319 162	(D) (D) 9	0 0 0	709 0 709	(D) -6 (D)	4,961 505 4,455	(D) (D)	58 54 3	(D) (D)	521 334 188	186 (D) (D)	0 0	746 1 745	(D) 4 (D)
Other Africa, Asia, and Pacific	1,353	75	128	291	318	28	(D)	423	(D)	1,538	(D)	171	231	327	16	(D)	430	(D)
MemorandumOPEC 1/	4,892	12	-21	(D)	268	9	0	707	(D)	4,560	19	-36	(D)	309	2	0	737	(D)

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Less than \$500,000 (±).

D Suppressed to avoid disclosure of data of individual companies.

1. OPEC is the Organization of Petroleum Exporting Countries. Its members are Algeria, Ecuador, Gabon. Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, Venezuela, and the United Arab Emirates.

					1984 ^r			1985									
	All indus- tries	Petro- leum	Manufac- turing	Whole- sale trade	Bank- ing	Finance and Insurance	Ser- vices	Other indus- tries	All indus- tries	Petro- leum	Manufac- turing	Whole- sale trade	Bank- ing	Finance and Insurance	Ser- vices	Other indus- tries	
All countries	212,994	59,089	85,253	21,790	13,246	15,828	4,625	13,165	232,667	58,347	95,586	23,822	14,728	21,914	5,260	13,010	
Developed countries	157,461	36,026	66,403	16,303	6,076	21,362	3,388	7,903	172,750	36,627	75,853	17,844	7,466	23,389	3,785	7,786	
Canada	46,830 92,017	11,241	20,879	2,684	521	6,098	703	4,704 1,512	46,435 106,762	9,548	22,097 45,214	2,721	570 6,326	6,207	776 2,738	4,515 1,790	
F C	00 000						1 749			10 740	41 407	C 22E	A CEE	0 202	1 015	1,630	
European Communities (10) Belgium	69,688 4,602	15,543 708	34,040 2,606	5,261	3,709	8,039 43	1,742	1,353 157	82,071 5,105	16,746 711	41,497 2,913	6,235 808	4,655 300	9,393	1,915 155	174	
Denmark France	1,144	603 479	185 3,986	280 982	28 291	14 251	23 165	11 88	1,282 7,835	572 589	197 5,128	1,198	37 359	(D) 202	28 215	(D)	
Germany	14,794	2,892	8,830	613	1,125	901	61	373	16,746	2,601	10,659	639	1,337	1,035	46	431	
Greece	257	115 -13	2,179	61 29	(D)	(D)	8	13 -2	3,748	141 -42	2,705	55 33	(D)	(D) 1,036	8 7	13 (D)	
Italy	4,592	570	2,729	477	334	237	68	176	5,644	476	3,577	652	366	308	89	170	
Luxembourg	399 6,201	1 000	245	615	199 91	-55 82	0 544	0 214	7,064	2,111	290 3,415	692	215 121	-41 -51	0 554	22:	
Netherlands United Kingdom	28,635	1,806 8,375	2,848	1,512	1,420	5,925	695	325	33,963	9,593	12,560	1,730	1,972	6,832	814	46	
Other Europe	22,329	5,410	3,272	5,652	1,271	5,847	718	159	24,691	5,892	3,717	6,193	1,671	6,235	823	16	
Austria	521 191	(D)	134	125 125	12	(D)	30	(D)	477 265	(D)	(D)	167 197	21 (D)	(D)	15 2		
Norway	2,822	2,387	194	156	0		30	(D)	3,297	2,774	167	235	(D)	(D)	35		
Portugal Spain	205	(D) 192	79 1,469	(D) 203	202	22	(D) 48	6 49	216 2,598	38 176	1,729	(D) 271	(D) 270	1 26	(D) 75	5	
Sweden	851	(D)	330	179	0	142	8	(D)	929	(D)	443	191	0	135	8	(D	
Switzerland Turkey	14,865	(D) 105	921	4,710 (D)	994 41	5,328	573 (D)	(D)	16,230 224	(D) 95	1,102	4,962 (D)	1,286	5,696	635 (D)	(D	
Other	460	24	92	100	5	246	-10	3	455	27	(D)	100	7	262	(D)		
Japan	7,920	2,052	3,942	1,314	176	347	31	58	9,095	2,178	4,621	1,442	177	519	74	8	
Australia, New Zealand and	10.004	1 700	4 070	1 202	200		104	1 000	10.450	0.000	2 021	1 252	393	1 005	196	1 20	
South Africa	10,694	1,780	4,270 3,329	1,393	398 370	1,031	194 170	1,629	10,459 8,564	2,263	3,921	1,253	366	1,035	175	1,39	
New Zealand South Africa	510 1,510	(D)	151 790	82 139	(D)	59 53	3 20	7 161	549 1,346	(D)	161 646	109 99	(D)	37 45	4 18	16	
Developing countries	50,131	18,651	18,849	5,487	7,170	-5,534	1,237	4,271	54,474	17,314	19,733	5,978	7,262	-1,474	1,476	4,18	
Latin America	25,229	6,320	14,566	2,841	4,998	-6,560	468	2,595	29,479	5,299	15,323	3,095	5,416	-2,268	498	2,47	
South America	19,006	3,544	9,986	996	979	1,427	328	1,746	18,625	3,231	10,145	1,008	801	1,387	342	1,71	
Argentina Brazil	2,746 9,377	443 302	1,568 6,764	174 410	340 474	1,113	54 135	122 178	2,785 9,480	440 286	1,578 7,078	181 429	360 285	1,085	61 135	111	
Chile	46	44	-276	49	81	-11	24	136	71	31	-276	42	108	-16	28	15	
Colombia Ecuador	2,267	1,075	694 126	83 26	(D) 3	46 12	2	(D) 11	2,142	1,026 (D)	691 129	58 30	(D) -6	38 13	2	(D	
Peru	1,903	1,083	111	68	9	5	(D)	(D)	1,684	946	58	63	7	5	(0)	(0	
Venezuela Other	1,762 534	265 140	950 49	163 24	19 (D)	217	94 (D)	55 (0)	1,548	133 (D)	837 50	180 26	17 (D)	214	100 (D)	(D	
Central America	9,828	734	4,150	1,153	401	2,615	90	685	10,374	700	4,587	1,288	459	2,642	90	60	
Mexico Panama	4,568	75 548	3,632 (D)	410 701	-3 380	194 2,387	(±) 69	261 (D)	5,087 4,611	56 554	4,093	489 760	-1 451	190 2,430	(±) 66	26 14	
Other	792	112	(D)	42	24	35	21	(D)	676	90	284	39	9	22	25	20	
Other Western Hemisphere Bahamas	-3,605 3,412	2,042	431 38	692 (D)	3,618	-10,602 333	50 58	165 (D)	479 3,377	1,368 858	592 40	799 229	4,156 2,050	-6,657 96	66 79	15 2	
Bermuda	13,009	-87	(D)	412	(D)	12,704	-98	5	14,104	-188	(D)	426	(D)	13,660	-122	-	
Jamaica	257	(D) (D)	179	14 51	(D)	(D) -25,040	6 20	13 (D)	141 -21,645	(*) 84	94	18 44	5 (D)	-21,994	6 20	1 (D	
Netherlands Antilles Trinidad-Tobago	-24,626 871	771	54	18	2	3	(D)	(0)	480	400	38	16	(*)	3	(D)	(D	
United Kingdom Islands,	2 007	-	(0)	(0)	1 500	1 221	E0.	25	2 525	7	(0)	(0)	1 040	1 500	67	2	
Caribbean Other	3,007 465	5 201	(D) 134	(D) 15	1,530 22		59 (D)	35 48	3,525 497	206	148	(D)	1,849	1,508	67 (D)	3	
Other Africa	4,752	3,329	404	129	219		78	577	4,994	3,497	399	123	229	47	89	610	
Saharan Egypt	2,035	1,711	47 29	(D) 11	125 125		55 36	75 58	2,668	2,299	53 34	(D) 15	128 127	(0)	68 48	8	
Libya	348	319	0	4	0	0	(D)	(D)	589	557	0	4	0	0	(D)	(D	
Other	2,717	1,618	18 358	(D)	94	(D) (D)	(D) 23	(D) 502	2,327	125 1,198	19 346	(D)	101	(D)	(D) 21	(D 52	
Liberia	152	26	0	(D)	(+)	-10	(D)	116	197	31	0	(0)	-1	23	(0)	11	
Nigeria Other	301 2,264	193 1,399	85 273	39 (D)	56 37	(b)	(D) 15	(D)	2,097	-108 1,275	88 258	33 43	56 46	(+) (D)	(D) 12	(D	
Middle East	5,032 733	2,613 (D)	482 157	636 (D)	444 (D)	154 152	340 -2	363 (D)	5,127 855	2,326 (D)	471 174	724 (D)	361 (D)	235 152	505	50 (D	
Saudi Arabia	2,356	967	303	231	(D)	-23	380	(D)	2,622	914	261	253	(D)	-5	560	(D	
United Arab Emirates Other	971 971	826 (D)	26 -3	(D) 55	(D) 115	6	-5 -33	19 (D)	744 905	580 (D)	37 -1	(D) 51	(D) 20	(D)	-10 -49	2 (D	
Other Asia and Pacific	15,119	6,389		1,881	1,509		351	736	14,874	6,191	3,539	2,036	1,256	871	383	59	
Hong Kong	3,249	372 (D)	364 296	1,138	543 16		(D)	(D)	3,124	351 67	341 333	1,308	387 (D)	516	212	(D	
Indonesia	3,987	3,618	94	(D)	25	22	(D)	160	4,087	3,710	101	(D)	17	28	(D)	16	
Malaysia Philippines	1,175	630		79 79	23 253		(D)	(D)	1,217	604	453 389	79 75	27 177	15	(D) 51	(D	
Singapore	1,943	403	911	276	245	61	21	27	1,897	368	973	227	228	55	19	2	
South Korea	731 736	(D)	190 491	(D) 94	219		15 (*)	35 (D)	757 754	-8	212 552	(D) 124	269 58		19	(D	
Taiwan Thailand	1,088	794	163	57	42	(D)	10	(D)	1,022	768	125	48	46	2	12	2	
Other	542	245	65	24	25	(D)	(D)	141	567	281	60	24	(D)	6	100	13	
International	5,402	4,411						991	5,443	4,406		ļ				1,03	
MemorandumOPEC <u>1</u> /	10,345	6,579	1,585	603	335	258	471	515	10,391	6,301	1,455	623	330	342	638	702	
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r Revised.

* Less than \$500,000 (+).

D Suppressed to avoid disclosure of data of individual companies.

1. OPEC is the Organization of Petroleum Exporting Countries. Its members are Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, Venezuela, and the United Arab Emirates.