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Foreign Direct Investment in the United States:

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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.

	Billions of dollars	
	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 tax-exempt 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.

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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 Survey of Current Business, 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 Survey of Current Business 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]

	1984 ^r									1985								
	All industries	Petroleum	Manufacturing	Trade	Banking	Finance, except banking	Insurance	Real estate	Other industries	All industries	Petroleum	Manufacturing	Trade	Banking	Finance, except banking	Insurance	Real estate	Other industries
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).....	96,555	22,813	32,990	15,238	5,335	2,879	5,424	7,714	4,163	106,004	25,114	37,553	15,738	5,616	1,681	7,497	8,238	4,566
Belgium.....	2,548	(D)	471	296	(D)	(D)	(D)	10	(D)	2,288	(D)	477	340	(D)	(D)	(D)	9	(D)
France.....	6,591	(D)	5,368	728	420	-623	91	66	(D)	6,295	(D)	5,485	581	483	-917	92	26	(D)
Germany.....	12,330	71	4,369	4,256	272	335	1,295	966	745	14,417	(D)	6,198	4,726	222	(D)	1,656	1,049	697
Italy.....	1,438	(D)	333	(D)	298	(D)	(D)	(D)	387	1,401	(D)	273	(D)	300	25	(D)	(D)	(D)
Luxembourg.....	753	(D)	74	(D)	(D)	121	0	(D)	8	584	(D)	86	(D)	(D)	129	0	24	22
Netherlands.....	33,728	9,981	12,497	2,787	1,427	1,970	1,445	2,471	1,152	36,124	11,315	12,986	2,544	1,570	2,088	1,975	2,325	1,321
United Kingdom.....	38,387	10,991	9,719	6,732	2,194	743	2,548	4,135	1,325	43,766	12,246	11,884	6,847	2,539	262	3,727	4,623	1,638
Denmark, Greece, and Ireland...	779	(D)	139	216	214	2	(D)	42	50	1,129	(D)	165	404	199	3	(D)	(D)	52
Other Europe.....	11,655	329	6,093	1,696	405	579	1,325	541	688	14,902	323	8,961	1,873	347	705	1,424	563	685
Sweden.....	2,258	307	1,048	650	(D)	(D)	119	0	(D)	2,384	296	1,132	790	3	-46	(D)	0	(D)
Switzerland.....	8,146	19	4,774	794	(D)	536	1,152	393	(D)	11,040	(D)	7,431	778	88	627	1,232	444	(D)
Other.....	1,251	3	271	252	271	(D)	54	148	(D)	1,478	(D)	398	305	255	125	(D)	139	(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.....	2,859	50	981	44	(D)	115	(D)	372	186	3,385	112	803	190	1,041	132	(D)	307	(D)
Panama.....	1,924	45	959	14	(D)	108	(D)	256	6	2,137	104	842	113	(D)	123	(D)	199	1
Other.....	935	5	22	30	574	7	(+)	116	181	1,248	8	-39	78	(D)	8	4	108	(D)
Other Western Hemisphere.....	13,343	606	4,555	1,983	(D)	746	(D)	4,292	1,025	13,665	496	4,755	1,909	80	785	(D)	4,501	(D)
Bermuda.....	1,370	110	306	363	0	7	(D)	151	(D)	1,903	97	955	(D)	(+)	5	(D)	110	(D)
Netherlands Antilles.....	10,935	452	4,092	1,394	(D)	643	(D)	3,715	543	10,603	406	3,717	1,364	66	480	24	3,945	602
United Kingdom Islands, Caribbean.....	866	(D)	140	186	16	109	(D)	369	10	983	(D)	63	190	14	288	(D)	399	(D)
Other.....	172	(D)	18	40	0	-13	0	57	(D)	177	(D)	19	(D)	(+)	12	0	47	(D)
Middle East.....	5,336	15	116	(D)	481	(D)	0	709	(D)	4,961	(D)	58	(D)	521	186	0	746	(D)
Israel.....	525	6	97	(D)	319	(D)	0	0	-6	505	(D)	54	(D)	334	(D)	0	1	4
Other.....	4,811	9	20	(D)	162	9	0	709	(D)	4,455	(D)	3	(D)	188	(D)	0	745	(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)
Memorandum--OPEC 1/.....	4,892	12	-21	(D)	268	9	0	707	(D)	4,560	19	-36	(D)	309	2	0	737	(D)

r Revised.

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

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.

