

Direct Investment Positions in 2001

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Slower economic growth in the United States and abroad slowed down U.S. direct investment abroad (USDIA) and foreign direct investment in the United States (FDIUS) in 2001, according to recent data released by the United States Department of Commerce. The slower economic growth contributed to a drop in mergers and acquisitions in 2001 and a slowdown in cross-border economic activity, reflecting uncertainty about prospects of world growth, and difficulties of buyers and sellers to project earnings and agree on valuations for companies. Also slower economic growth depressed profits and reinvested earnings of both U.S. and foreign affiliates.

In 2001, USDIA on an historical cost basis grew by 6.8 percent, compared with 10.3 percent growth in 2000; and FDIUS grew by 8.8 percent compared with 27.1 percent growth in 2000. Historical cost is one of the three methods used by the Department of Commerce to estimate USDIA and FDIUS positions. The other two estimates are made on the basis of current cost, and market value. The three estimates differ in their valuation process. The historical cost estimates reflect price levels of earlier periods. The current cost estimates reflect valuing the U.S. and foreign parent's shares of their affiliates' investment in plant and equipment using the current cost of capital equipment; in land, using general price indexes; and in inventories, using estimates of their replacement cost. The market value estimates reflect using indexes of stock market prices to value the equity portion of direct investment. Table 1 reflects the estimated values of USDIA and FDIUS using the three alternative methods of valuation, in millions of dollars.

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U.S. Direct Investment Abroad

USDIA position valued at historical cost was \$1,381.7 billion by the end of 2001, and was \$1,293.4 billion at the end of 2000. These estimates represent the book value of U.S. direct investor's equity in, and net outstanding loans to, their foreign affiliates. In 2001, USDIA increased by \$88.2 billion compared with an increase of \$120.3 billion in 2000. This total increase comprised increases in some transactions and decreases in others. Capital outflows increased \$114.0 billion in 2001, but was 31.0 percent smaller than the \$165.0 billion increase in 2000, and the smallest since 1997. Reinvested earnings accounted for 58 percent, and was the largest portion, of capital outflows. Capital outflows increased \$65.8 billion in 2001 down from \$87.9 billion in 2000. Equity capital accounted for 44.0 percent of capital outflows, increasing by \$49.8 billion in 2001, down from \$66.1 billion, a decline of about 25.0 percent. About 60.0 percent of the increases were for the direct acquisition or establishment of new affiliates. The remaining 40.0 percent were capital contributions to existing affiliates. Valuation adjustments decreased in 2001, by \$25.7 billion, down from a decrease of \$44.7 billion; this comprised a decrease of \$12.1 billion due to currency translation, down from a \$17.8 billion decrease in 2000, and "other transaction" decreases of \$13.7 billion, down from a \$26.9 billion decrease in 2000.

Equity capital increases were largest in Europe, and in Latin America and other Western Hemisphere. In Europe, the increases were highest in chemicals and allied products; and in finance, insurance, and real estate. In the category of "Latin America and Other Western Hemisphere," the increases were partly due to the acquisitions of depository institutions.

Changes by Area and by Country

In 2001, the USDIA position grew by 8.0 percent in Canada, 7.0 percent each in Europe and in Latin America and Other Western Hemisphere, and 5.0 percent in Asia and the Pacific. In Africa and the Middle East, the USDIA position exceeded 10.0

Table 1
Direct investment positions under alternative valuation methods, 2000-2001

Valuation method	Position at year end 2000	Total	Capital flows	Valuation adjustment	Position at year end 2001
<i>Dollar changes from 2000 to 2001</i>					
USDIA					
Historical cost	1,293,431	88,243	113,977	-25,734	1,381,674
Current cost	1,515,279	107,843	127,840	-19,997	1,623,122
Market value	2,674,207	-384,281	127,840	-512,127	2,289,926
FDIUS					
Historical cost	1,214,254	106,808	124,435	-17,627	1,321,063
Current cost	1,374,752	124,172	130,796	-6,624	1,498,924
Market value	2,766,042	-239,331	130,796	-370,127	2,526,711

Source: Official statistics of the U.S. Department of Commerce.

percent, but remained relatively small. Position increases were largest in the Netherlands and Germany. The next largest increases were in the United Kingdom, Switzerland, and Luxembourg. In Latin America and Other Western Hemisphere, the increase in the USDIA position was largest in Mexico and in Bermuda. In the Asia and Pacific, Japan showed the largest increase in the USDIA position. Table 2 shows a summary of USDIA positions by major area and major activity.

Foreign Direct Investment in the United States

The FDIUS position valued at historical cost—the book value of foreign direct investor's equity in, and net outstanding loans to, their affiliates—was \$1,321.1 billion at the end of 2001. The largest positions remained those of the United Kingdom at \$217.7 billion (16.0 percent of total FDIUS); Japan, \$159.0 billion (12.0 percent); and the Netherlands, \$158.0 billion (12.0 percent).

By type of capital flow and by valuation adjustment, the FDIUS total increase was \$106.8 billion in 2001, or 9.0 percent, following an increase of \$258.5 billion or 27.0 percent. Capital inflows were \$124.4 billion in 2001, less than half the \$300.9 billion recorded in 2000. The largest contributor to total capital inflows was equity capital inflows, followed by inter-company debt.

Equity capital inflows were \$107.7 billion in 2001, down sharply from \$245.9 billion in 2000. Equity capital increases reflected acquisitions of U.S. businesses by foreigners and contributions of equity to existing U.S. affiliates. The firms acquired were mostly

in finance, petroleum, depository institutions, publishing, and broadcasting and telecommunications. Equity capital decreases of \$17.8 billion reflected sell-offs of affiliates by foreign direct investors.

Inter-company debt inflows were \$42.8 billion, down from \$55.3 billion in 2000. A substantial portion of inter-company debt represents borrowing by U.S. affiliates from their foreign parents to finance acquisitions. Borrowing by existing U.S. affiliates decreased to \$42.8 billion from \$55.3 billion in 2000, as the pace of acquisitions slowed in 2001. Reinvested earnings decreased by \$26.1 billion in 2001, compared with a decline of \$0.3 billion in 2000 due to either incurring losses or excessive distribution of shares to their foreign parents. U.S. affiliates earnings shifted from profits of \$32.4 billion to losses of \$6.7 billion, primarily reflecting the economic slowdown in the United States. The industries with the largest losses were machinery and finance.

By area and country, Europe accounted for the major increase in FDIUS position in 2001.

Switzerland accounted for about half of the increase in the total position of Europe. The next largest dollar increases were for parents in Germany, France, and the Netherlands. The position of parents in the United Kingdom increased slightly, but the position of parents in Luxembourg decreased. The position of parents in Latin America and Other Western Hemisphere increased slightly while the positions of parents in Canada and in Asia and Pacific decreased. The table shows a summary of FDIUS positions by major area and major activity in 2001 and 2000 (table 3).

Table 2
U.S. direct investment position abroad, historical cost basis, billion dollars, 2000 and 2001

Reigon/country	All industries	Petroleum	Manufacturing	Wholesale trade	Depository institutions	Financial institutions (except banks)	Services	Other industries
2000								
All countries	1293.4	95.8	353.6	83.7	38.1	542.6	80.1	99.5
Canada	128.8	18.5	50.8	9.6	2.1	32.8	6.3	8.8
Europe	679.5	30.9	185.7	46.1	24.4	299.4	46.7	46.3
Latin America and other								
Western Hemisphere	251.9	10.0	48.0	8.9	D	150.1	9.7	25.4
Africa	14.4	9.0	1.8	0.3	0.4	1.2	0.6	1.1
Middle East	11.1	2.4	2.3	0.4	0.9	1.7	1.4	2.0
Asia and Pacific	205.3	22.3	65.0	18.5	10.5	57.5	15.5	16.1
International ¹	2.5	2.7	D	D	D	D	D	D
Addenda								
Eastern Europe	11.2	2.0	2.9	0.5	1.2	3.3	0.3	1.0
European Union (EU-15)	604.5	24.5	176.7	33.2	20.2	261.6	44.4	43.9
OPEC	28.7	13.5	2.1	0.6	D	2.5	1.7	D
2001								
All countries	1381.7	102.1	376.3	92.8	49.3	572.6	86.5	102.2
Canada	139.0	23.8	53.7	10.2	2.1	33.6	6.5	9.3
Europe	725.8	28.2	204.3	51.3	25.2	320.6	50.6	45.6
Latin America and other								
Western Hemisphere	269.6	10.6	46.6	9.8	10.0	153.8	10.8	29.0
Africa	15.9	11.7	1.4	0.3	0.4	0.6	0.4	1.1
Middle East	12.6	2.9	3.0	0.5	0.8	1.9	1.4	2.1
Asia and Pacific	216.5	22.4	68.1	20.9	10.8	62.0	16.8	15.5
International ¹	2.3	2.6	D	D	D	D	D	-0.3
Addenda								
Eastern Europe	13.1	2.7	3.0	0.5	1.4	4.3	0.3	0.9
European Union (EU-15)	640.8	22.7	195.6	35.1	20.9	274.6	48.0	43.8
OPEC	31.4	15.0	2.3	0.7	D	1.9	1.9	D

¹ International consists of affiliates that have operations in more than one country and that are engaged in petroleum shipping, other water transportation, or offshore oil and gas drilling.

Note.—D=less than \$500,000; or suppressed to avoid disclosure of data of individual countries.

Source: Official statistics of the U.S. Department of Commerce.

Table 3
Foreign direct investment in the United States, historical cost basis, billion dollars, 2000 and 2001

Region/country	All industries	Petroleum	Manufacturing	Wholesale trade	Retail trade	Depository institutions	Financial institutions (except banks)	Insurance	Real estate	Services	Other industries
2000											
All countries	1214.3	87.1	479.9	110.3	29.7	68.1	84.4	112.5	42.7	109.5	90.2
Canada	114.6	3.4	56.6	7.5	1.0	3.1	12.6	8.8	6.4	5.8	9.3
Europe	835.1	78.7	358.5	46.4	24.5	50.5	44.0	91.1	16.0	77.8	47.8
Latin America and other											
Western Hemisphere	54.5	2.4	5.7	3.4	1.7	2.6	6.0	11.2	5.1	1.6	14.8
Africa	2.8	0.2	0.2	0.4	D	D	D	D	0.2	0.4	0.3
Middle East	6.2	0.9	0.9	0.2	D	D	D	D	0.9	0.2	0.2
Asia and Pacific	201.1	0.1	57.9	52.4	2.5	10.7	20.2	1.4	14.1	23.7	18.1
Addenda											
European Union (EU-15)	760.0	76.3	321.7	43.3	23.9	45.8	33.8	78.1	15.2	74.8	47.2
OPEC	4.4	D	D	D	D	0.8	0.2	0.5	0.9	0.8	0.6
2001											
All countries	1321.1	95.9	508.5	113.0	35.8	78.1	86.0	120.4	44.2	125.7	113.5
Canada	108.6	3.7	39.9	7.5	0.7	6.0	17.4	8.9	6.3	5.9	12.3
Europe	946.8	80.0	396.6	49.0	30.5	56.6	43.1	96.4	16.1	91.5	87.0
Latin America and other											
Western Hemisphere	58.9	9.4	4.9	4.0	1.9	2.9	5.4	14.1	6.8	1.4	8.2
Africa	3.3	D	0.2	0.3	D	D	D	D	0.2	D	0.3
Middle East	6.0	D	0.9	0.2	D	D	D	D	1.0	D	D
Asia and Pacific	197.5	0.8	66.0	52.0	2.6	11.1	18.5	1.0	13.9	25.7	5.7
Addenda											
European Union (EU-15)	808.3	72.9	304.3	45.3	29.8	51.7	34.8	81.0	14.8	87.8	85.9
OPEC	8.0	D	D	0.9	D	0.8	0.2	0.5	0.9	0.1	0.1

Note.—D=less than \$500,000; or suppressed to avoid disclosure of data of individual countries.

Source: Official statistics of the U.S. Department of Commerce.

Key Terms and Definitions

Direct investment is an investment in which a resident of one country has an interest in, and a degree of influence over the management of, a business in another country.

U.S. direct investment abroad (USDIA) is an ownership or control, directly or indirectly, by one U.S. resident of 10 percent or more of a foreign business enterprise.

Foreign direct investment in the United States (FDIUS) is an ownership or control, directly or indirectly, by a foreign resident of 10 percent or more of an incorporated U.S. business enterprise.

Foreign affiliate is a foreign business enterprise in which a single U.S. investor or U.S. parent owns at least 10 percent of the voting securities.

U.S. affiliate is a U.S. business in which a single foreign investor or a foreign parent owns at least 10 percent of the voting securities.

Capital flows are funds that parent companies provide to their affiliates.

Valuation adjustments to the historical cost position are adjustments made to account for the differences between changes in the historical cost position, which are measured at book value, and direct investment capital flows, which are measured at transaction value.

Currency translation adjustments are made to account for changes in exchange rates that are used to translate affiliates' foreign currency-denominated assets and liabilities into U.S. dollars. A depreciation of a foreign currency usually results in a negative translation adjustment because it tends to lower the dollar value of foreign currency-denominated assets. Likewise, an appreciation of a foreign currency usually results in positive adjustments because it tends to raise the dollar value of foreign currency-denominated assets.