



Foreign Direct Investment in the United States

Executive Summary

The United States remains an attractive foreign direct investment (FDI) destination for a variety of reasons, including its large consumer base, a productive workforce, a business environment that encourages innovation, and its legal protections. As a result, foreign firms make investments in the United States on a regular basis by establishing new operations, purchasing existing operations of another company, or providing additional capital to their existing U.S. operations. This report highlights the latest available Bureau of Economic Analysis data on FDI, building on previous reports by the Office of the Chief Economist.

FDI trends identified in our earlier reports continued in 2016. FDI inflows on a historic cost basis in 2015 were the largest on record at \$465.8 billion while 2016 inflows, though slightly lower at \$457.1 billion, were at the second highest level on record. FDI in these two years was more than double the average annual inflows of roughly \$200 billion for 2012-2014. Increased investment in manufacturing, specifically in chemical manufacturing, accounted for most of the investment gains for both 2015 and 2016.

- The United States had an inward FDI stock of \$3.3 trillion and \$3.7 trillion, on a historical-cost basis, for 2015 and 2016 respectively. The United States' FDI stock in 2015 (\$5.6 trillion on a current-cost basis) was more than three times larger than that of the next largest destination country.¹ Total inward stock in the United States grew at an average annual rate of 7.8 percent per year from 2009-2016.

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¹ Inward FDI stock data measured in U.S. dollars at current prices and current exchange rates. United Nations Conference on Trade and Development UNCTADstat Database. <http://unctadstat.unctad.org/> Accessed 6/7/2017.

- In 2016, as in the previous year, advanced economies, led by the United Kingdom, Japan, Canada and Germany, held the largest FDI positions in the United States.²
- Majority-owned U.S. affiliates of foreign entities exported \$352.8 billion in goods, accounting for over 23 percent of total U.S. goods exports in 2015 (the most recent year for which this data is available). They are also a catalyst for research and development, spending \$56.7 billion in 2015 on R&D and accounting for 15.8 percent of the U.S. total expenditure on R&D by businesses.³
- Majority-owned U.S. affiliates of foreign entities employed 6.8 million U.S. workers in 2015, up from 6.6 million in 2014, and provided compensation of nearly \$80,000 per U.S. employee in 2015. That is higher than the U.S. average of \$64,000 in the economy as a whole for the same year.
- The U.S. manufacturing sector continues to benefit from inbound FDI flows. More than 70 percent of FDI flows in 2015 and over 44 percent in 2016 were in the U.S. manufacturing sector.
- “Greenfield” investment expenditures by foreign entities totaled \$7.7 billion in 2016.⁴ This included expenditures on establishing new businesses (\$5.6 billion) and expenditures on expanding existing businesses (\$2.2 billion).⁵
- In 2016, foreign investors spent \$365.7 billion on new acquisitions of U.S. companies. Therefore, total first-year expenditures by foreign entities were \$373.4 billion (acquisitions plus expansions plus establishment of new businesses).

² Based on the latest available 2016 inward FDI position by Ultimate Beneficial Owner (UBO) data. The UBO measure of investment attributes FDI ownership to the country of the highest level decision maker in a company’s ownership chain. This measurement removes distortions in data that may arise from FDI into the United States that passes through intermediary countries. Foreign Direct Investment in the U.S.: Balance of Payments and Direct Investment Position Data. U.S. Bureau of Economic Analysis. Accessed July 31, 2017.

<http://www.bea.gov/international/di1fdibal.htm>

³ The latest available data on compensation, employment, goods exports, and R&D activities by U.S. affiliates of foreign entities is from 2015. Activities of U.S. Affiliates of Foreign Multinational Enterprises, U.S. Bureau of Economic Analysis. Accessed July 6, 2017. <http://www.bea.gov/international/di1fdiop.htm>

“Business R&D Performance in the United States Increases Over 5.6% to \$341 Billion in 2014,” Infobrief.

National Science Foundation (NSF). August 25, 2016. <https://www.nsf.gov/statistics/2016/nsf16315/>

⁴ FDI can be characterized as either a “greenfield” or “M&A” investment. Greenfield investments occur when a company newly establishes an affiliate “from scratch” or expands an existing affiliate by building a new plant or facility. Mergers and Acquisitions, or M&A investment occurs when a foreign entity acquires a 10 percent or more lasting voting interest in an incorporated U.S. business enterprise. BEA reinstated the survey of new foreign direct investment in the United States, which collects data on acquisitions and establishment of new entities, in 2014. The reinstated survey now also includes data on expansions of existing entities. Data on greenfield investments is only available for 2014 - 2016.

⁵ Expenditures by Foreign Direct Investors for New Investment in the United States, 2014-2016. Bureau of Economic Analysis. <http://www.bea.gov/newsreleases/international/fdi/fdinewsrelease.htm>

Introduction

This report details trends in FDI based on Bureau of Economic Analysis (BEA) data. BEA collects three broad sets of data on foreign direct investment in the United States, each of which focuses on a distinct aspect of FDI: (1) international transactions (balance of payments) and direct investment position data; (2) financial and operating data of U.S. affiliates of foreign entities, including “majority” and “minority” owned U.S. affiliates; and (3) new or “greenfield” foreign direct investment. Below we describe recent trends in each of these categories.

U.S. Inbound Foreign Direct Investment

Overall Trends and Country Level Data

In 2016, the foreign direct investment position, or the stock of foreign investment, in the United States was \$3.7 trillion on a historical-cost basis, \$6.6 trillion on a market value basis or \$4.4 trillion on a current-cost basis. Country and industry detail for the stock of direct investment are reported only at historical cost. The data collected on the direct investment surveys are reported at historical cost because that is how companies keep their financial records. As shown in Figure 1, manufacturing (41 percent) and banking, finance, and insurance (19 percent) comprised the majority of the stock of FDI, followed by “other industries” (16 percent), and wholesale trade (10 percent).

Historical Cost vs. Current Cost vs. Market Value

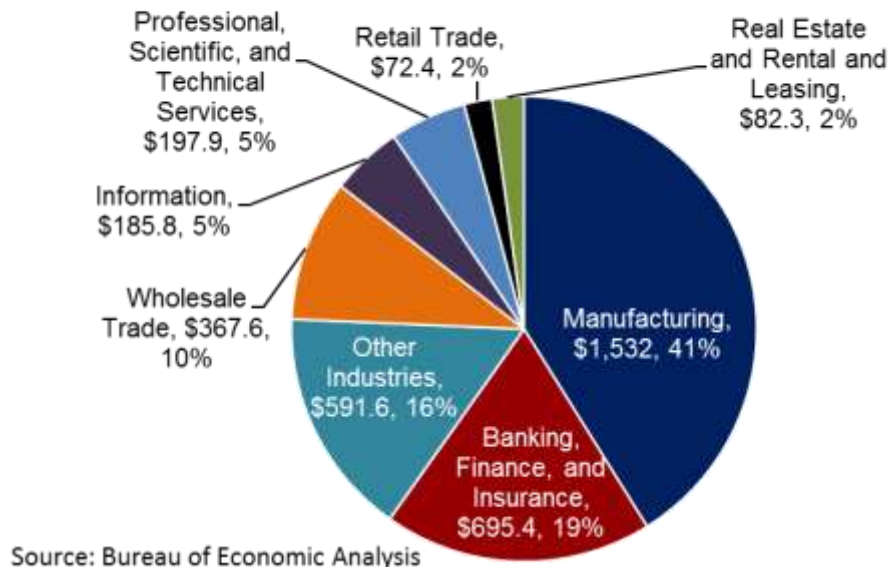
BEA estimates the U.S. international investment position in three ways, reflecting three different accounting methods for estimating value:

- historical cost, or the cost at the time of the investment;
- current cost, using estimates of replacement costs for capital equipment and land; and
- market value, using indexes of stock market prices to revalue the owners’ equity share of direct investment.

For a discussion of the IIP accounts’ estimation methods, see Chapter 11 of the U.S. International Economic Accounts: Concepts & Methods June 2014, *Bureau of Economic Analysis*, Retrieved from:

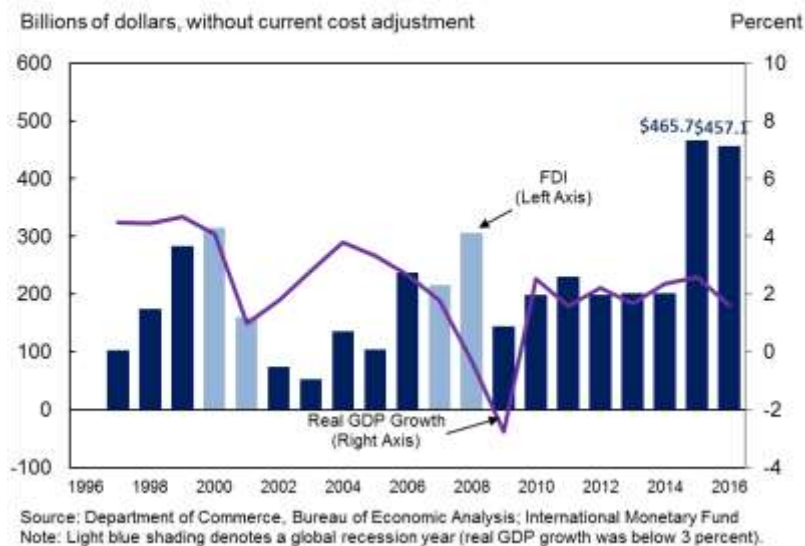
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Figure 1: FDI Stock by Industry, Historical-Cost Basis, 2016
(\$ in billions)

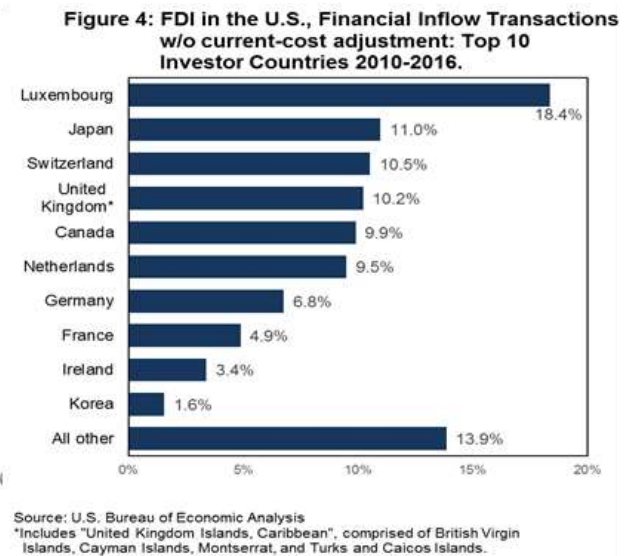


Year-to-year FDI flow data, which are reported without a current-cost adjustment, is relatively volatile, as seen in Figure 2. It tends to fluctuate with real U.S. GDP growth, slowing in the early 2000s and during the Great Recession. FDI flows were relatively stable from 2012 to 2014, before almost doubling in 2015 to \$465.8 billion. Newly available data for 2016 shows continued strength of FDI, though—at \$457.1 billion—it is slightly lower than in 2015.

Figure 2: Foreign Direct Investment in the U.S., 1997-2016



As shown in Figure 3, the stock of FDI in the United States has come mostly from a small number of advanced economies, with the top 10 investor nations by location of the ultimate beneficial owner (UBO) collectively accounting for nearly 80 percent of FDI stock in the United States in 2016.



FDI inflows also have come mostly from a small number of advanced economies, as shown in Figure 4 above.⁶ The top 10 investor countries during the years 2010-2016 combined accounted for nearly 85 percent of FDI inflows:

- Luxembourg and Switzerland also have been the 2 largest sources of FDI inflows in recent years, accounting for 29 percent of the total from 2010-2016.
- Japan has accounted for another 11 percent of FDI inflows over the 2010-2016 timeframe. However, FDI inflows from Japan have declined since 2014 and only accounted for 7.4 percent of FDI inflows for 2016.

Although investments from many emerging countries have increased substantially from the early 2000s, investment inflows from these markets remain relatively small. For example, FDI inflows from China have steadily increased, averaging slightly less than \$2 billion per year between 2010 and 2014, but exceeding \$5.9 billion in 2015 and \$10.3 billion in 2016.

Industry Level Data

The U.S. manufacturing sector continued to draw a considerable share of FDI inflows (reported on a current cost basis). From 2013-2016, manufacturing accounted for 59 percent of total FDI inflows. This is an increase from 2010-2013 when manufacturing's share averaged 44.0 percent. Outside

⁶ Measurement of the geographic distribution of FDI flows data is based on the country from which the investment came. That is, it may measure investment from intermediary nations rather than the ultimate owner. It is subject to large year-to-year fluctuations.

manufacturing, wholesale trade (6.7 percent of total FDI), finance (except banking) and insurance (11.3 percent), and information (5.4 percent) received significant FDI inflows from 2013-2016.

Manufacturing, at over \$1.5 trillion (on a historic cost basis), accounted for 41 percent of overall U.S. FDI stock in 2016. This represents a significant increase from 2010 when manufacturing FDI stock totaled \$757 billion.

- Pharmaceuticals had the largest stock of FDI among the manufacturing sectors, accounting for nearly 32.5 percent of manufacturing FDI stock in 2016. FDI in this industry has increased considerably over the latest available five-year period, from \$89 billion in 2010 to \$498 billion in 2016, an average increase of 33 percent a year.
- Petroleum-related industries' share of total FDI stock was 7.8 percent in 2016, down slightly from 8.2 percent of total stock in 2015 and 9.7 percent in 2014. These industries include oil and gas extraction, petroleum products manufacturing, refining, crude oil transportation, wholesale storage, and retail gas stations.
- Transportation equipment's share of manufacturing's FDI stock was 9.4 percent in 2016, mostly in the motor vehicle industry.
- Non-manufacturing industry stock of FDI has grown from \$1.5 trillion in 2010 to \$2.2 trillion in 2016, a slightly slower pace than in manufacturing.

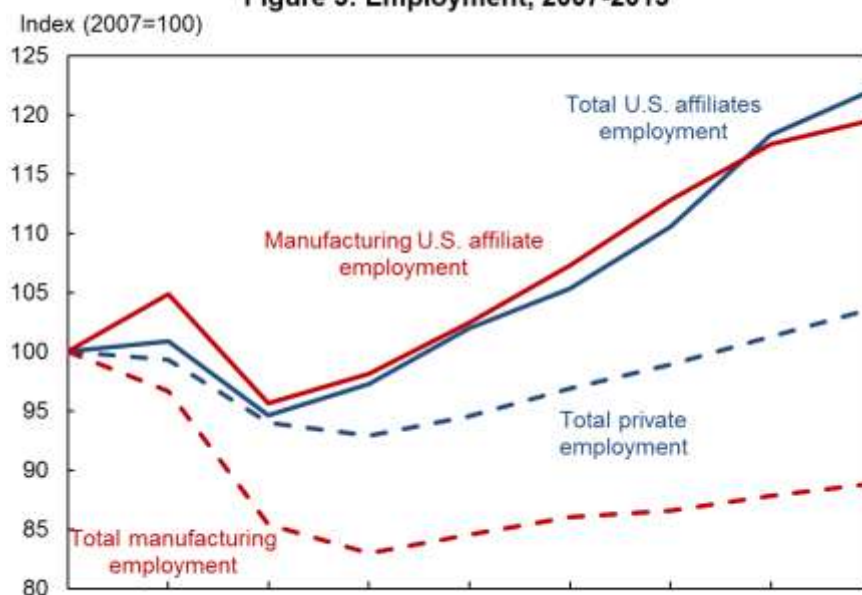
Majority-Owned U.S. Affiliates of Foreign Firms

The value-added production of majority-owned U.S. affiliates of foreign entities rose 6.2 percent to \$895 billion between 2013 and 2015.⁷ This value added accounted for 4.9 percent of the U.S. private sector total in 2015.

These affiliates employed 6.8 million people in the United States in 2015, an increase of more than 207,000 from 2014 and 5.7 percent of private sector employment. Manufacturing employment at U.S. affiliates was 2.5 million in 2015, nearly 36 percent of jobs at U.S. affiliates and 20 percent of all U.S. manufacturing employment. Total U.S. manufacturing employment was still well below pre-recession levels, but manufacturing employment at U.S. affiliates continued to grow at a strong pace (see Figure 5). Manufacturing employment at U.S. affiliates increased by 1.7 percent for 2015, due to strong gains in the chemical, transportation and food sectors.

Outside of manufacturing, the largest industry sectors for employment by U.S. affiliates were the administration, support and waste management sector which had the largest employment gains at U.S. affiliates. They added more than 47,000 jobs in 2015 for a total of 711,100 workers in that sector. Wholesale trade affiliates employed 631,600 workers in 2015, an increase of 3.6 percent for the year. Retail trade affiliates employed 614,400 workers in 2015, an increase of 5.5 percent for the year.

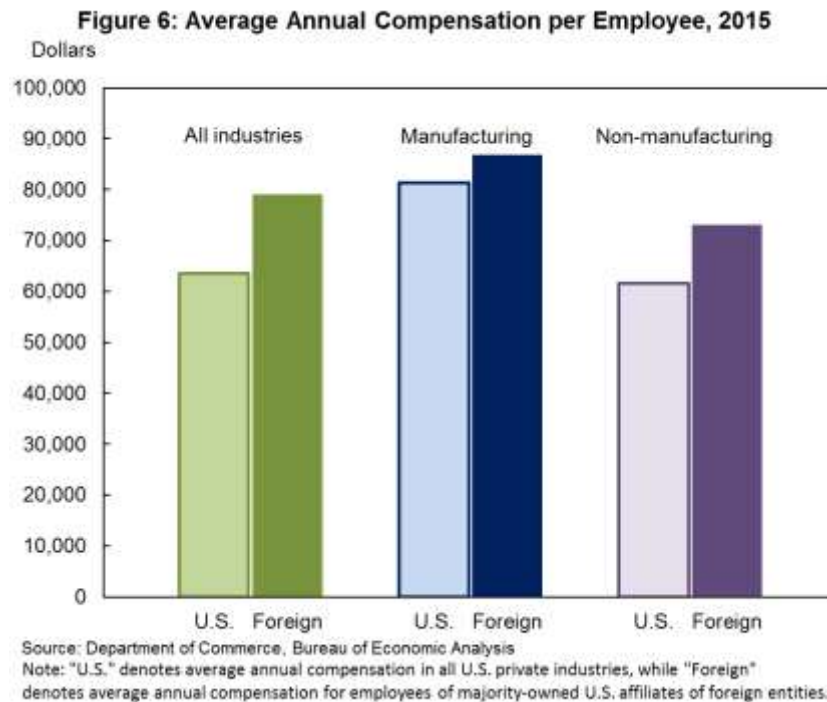
⁷ Data on majority-owned affiliates of foreign firms is only available through 2015.

Figure 5: Employment, 2007-2015

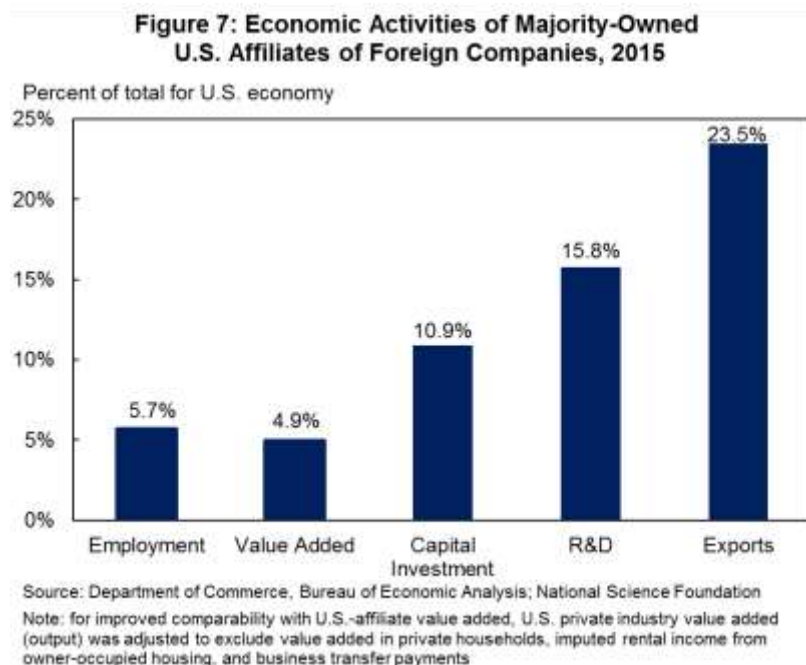
Source: Department of Commerce, Bureau of Economic Analysis

Wages and other forms of compensation paid by majority-owned U.S. affiliates of foreign entities averaged slightly more than \$79,000 per U.S. employee in 2015. As shown in Figure 6, this was greater than the \$64,000 per employee average for all U.S. private sector workers. Although there is a differential affiliate and non-affiliate pay for manufacturing, the differential for non-manufacturing is greater.

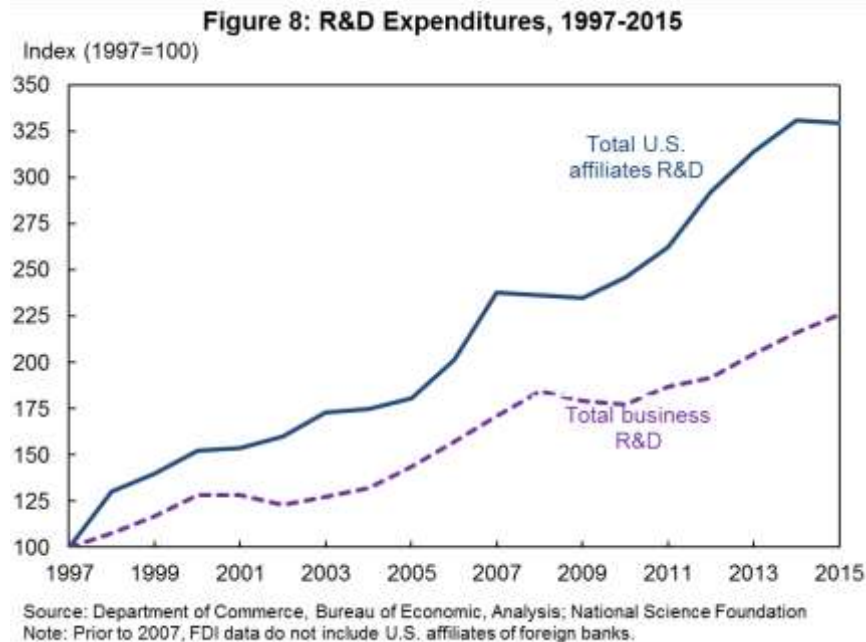
Manufacturing compensation is higher than non-manufacturing compensation for majority-owned U.S. affiliates of foreign entities, as it is for the economy as a whole. Average compensation for manufacturing workers was nearly \$90,000 per employee and non-manufacturing compensation was \$73,000 per employee at U.S. affiliates in 2015.



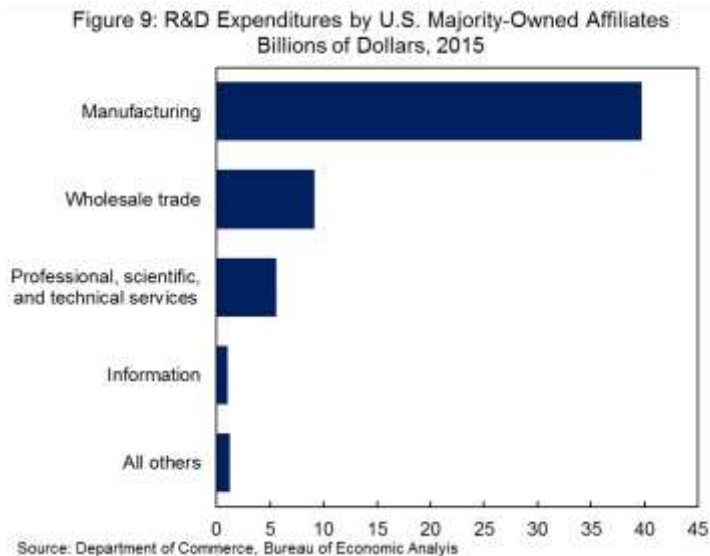
In addition, U.S. majority-owned foreign affiliates contributed 10.9 percent of total U.S. private capital investment and spent \$56.7 billion on R&D in 2015, accounting for 15.8 percent of the U.S. private business total (see Figure 7).



As displayed in Figure 8, since 1997, when the data were first published, R&D expenditures of U.S. majority-owned foreign affiliates have climbed 330 percent, compared to overall business spending on R&D which has increased by 226 percent over the same period.

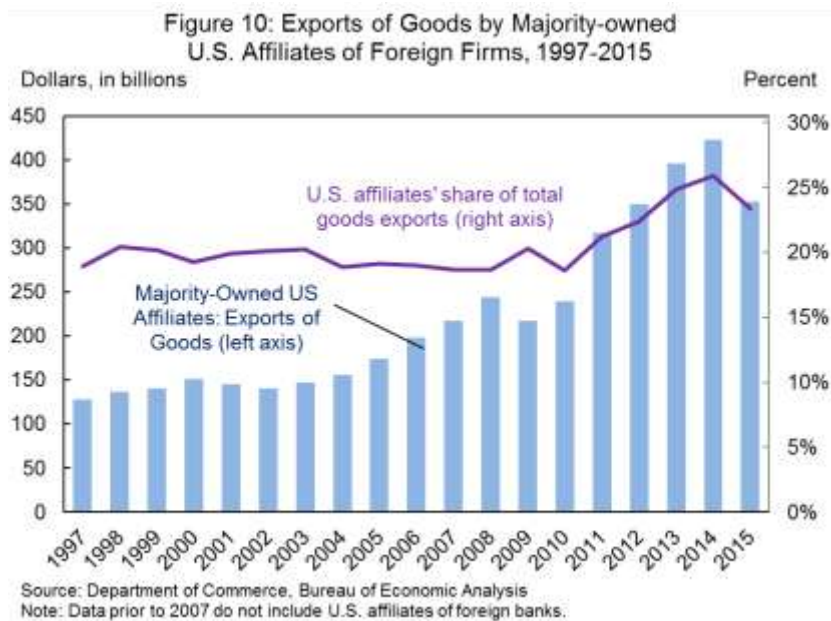


The bulk of the R&D investments were in the manufacturing sector, which accounted for \$39.7 billion, or 70.0 percent, of total R&D expenditures by U.S. affiliates (see Figure 9). Affiliates in the wholesale trade sector spent \$9.2 billion on R&D in 2015,⁸ followed by the professional, scientific, and technical services sector (\$5.6 billion), and the information sector (\$1.0 billion).



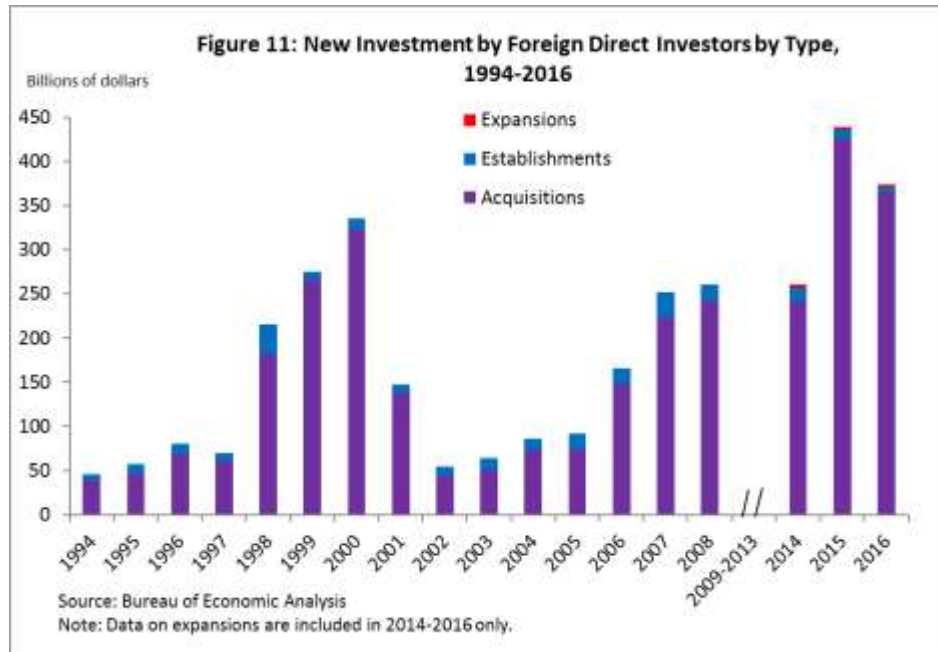
⁸ Wholesale trade is an industry not generally associated with R&D. The relatively high share of R&D expenditures may stem from the fact that each U.S. affiliate is classified in a single industry, even though a single affiliate may be involved in a wide range of business activities.

As shown in figure 10, level of exports by U.S. affiliates of foreign firms have trended upward in recent years. The share of goods exports by U.S. affiliates of foreign firms—which was relatively flat from 1997 to 2010—has steadily risen to around 25 percent of total goods exports and was \$423 billion in 2014, prior to a slight decline to \$352.8 billion in 2015. As noted earlier, these firms accounted for only 5.7 percent of total U.S. private industry employment in 2015. However, these firms accounted for 23.4 percent of exports of goods that same year.

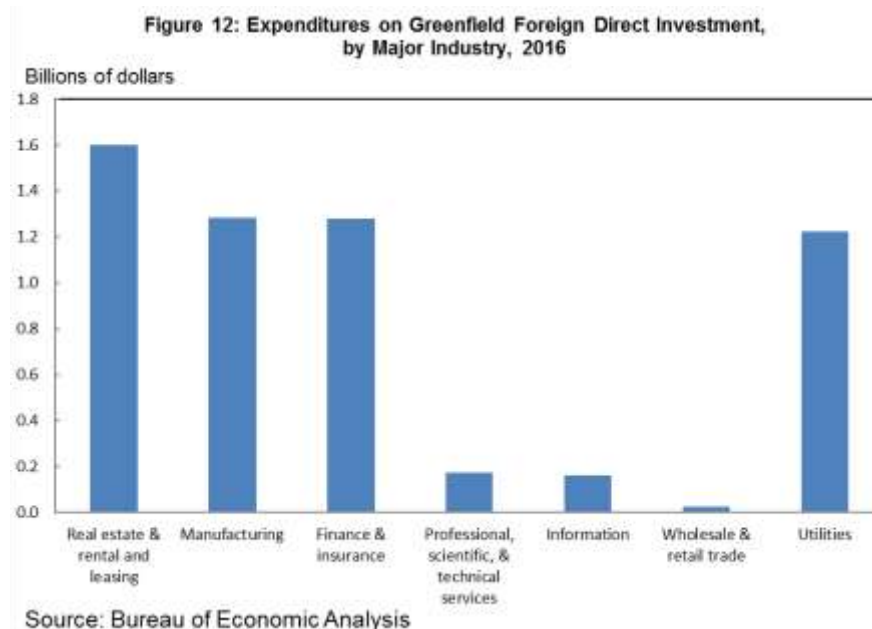


Greenfield Investment in the U.S. Economy

Greenfield investment by foreign entities—defined as a foreign investment either to establish a new U.S. business or to expand an existing foreign-owned U.S. business by adding a new facility—totaled \$7.7 billion. Expenditures on establishing new businesses totaled \$5.6 billion while spending on expansions of existing U.S. affiliates was almost \$2.2 billion. Foreign investors spent \$365.7 billion in acquiring U.S. companies in the same year (see Figure 11).



As displayed in Figure 12, the real estate, rental and leasing industry received the largest amount of greenfield investment, at \$1.6 billion (about 21 percent of the total). Manufacturing and finance & insurance both received \$1.3 billion in greenfield investment, or about 16.5 percent of the total.



Greenfield FDI in the U.S. comes mostly from other developed economies, with the exception of China which has made large amounts of greenfield investments. Canada provided largest amount of greenfield FDI in 2016 (\$1.6 billion). In 2016, greenfield FDI expenditures from Japan were \$1.1

billion and those from Italy were \$0.9 billion.⁹ China, Germany and France also made large greenfield investments in 2016

Conclusions

FDI supports a host of benefits in the United States, such as good jobs and innovation resulting from research and development. FDI stock have continued to rise, growing an average of 7.8 percent from 2009-2016, and inflows in 2016 alone totaled \$457.1 billion, slightly lower than the record level of \$465.8. The latest available data show that the United States also remains the largest recipient of FDI in the world. The U.S. manufacturing sector continues to benefit greatly from inbound FDI. Advanced economies remain the primary source of FDI to the United States, as emerging market nation investments have remained relatively small. This report also highlighted “greenfield” FDI data from BEA, with greenfield investment expenditures by foreigners totaling \$7.7 billion in 2016.

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⁹ It is important to note that many countries that that in the past have had large greenfield investments have had their data suppressed by the Bureau of Economic Analysis (BEA) in 2016. BEA will suppress (not publish) data to avoid disclosure data that may reveal individual company activity.

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