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Foreign Direct Investment in the United States: Update to 2013 Report

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Executive Summary

The United States remains an attractive destination for foreign direct investment (FDI) for a variety of reasons, including a large consumer base, a productive workforce, a highly innovative environment, and 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, which updates a report released in 2013, examines recent trends in FDI and highlights newly released "greenfield" FDI data from the Bureau of Economic Analysis (BEA).[1] Foreign direct investment trends identified in the earlier report have continued to 2015.

- The United States is the largest recipient of global FDI with an inward FDI stock of $2.9 trillion on a historical-cost basis in 2014. On a current-cost basis, the United States' FDI stock was more than three times larger than that of the next largest destination country in 2014.[2]

- Investment in the United States remains strong; total stock of FDI in the United States grew at an average annualized rate of 6 percent per year from 2009-2014.

- FDI inflows in 2015 alone totaled a record $348 billion, rebounding from 2014 ($172 billion), and well above 2013

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[1] The earlier report, "Foreign Direct Investment in the United States.," was a joint release of the White House Council of Economic Advisors (CEA) and the Economic and Statistics Administration. This update is solely an Office of the Chief Economist, Economics and Statistics Administration publication.

[2] $5.4 trillion on a current-cost basis, based on latest available 2014 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 6/9/2016.

inflows ($201 billion).

- Advanced economies, led by the United Kingdom, Japan and Germany, hold the largest FDI positions in the United States.[3]

- Majority-owned U.S. affiliates of foreign entities affiliates produced $360.0 billion in goods exports in 2013, and are a catalyst for research and development in America, spending $53.0 billion in R&D and accounting for a record high 16.4 percent of the U.S. total expenditure on R&D by businesses.[4]

- Majority-owned U.S. affiliates of foreign entities employed 6.1 million U.S. workers in 2013, up from 5.8 million in 2011, and generally provide compensation at higher levels than the U.S. average, at nearly $80,000 per U.S. employee in 2013 as compared to average earnings of $60,000 for workers in the economy as a whole.

- The U.S. manufacturing sector continues to benefit greatly from inbound FDI flows, as nearly 70 percent of FDI flows in 2015 and over *one-third of jobs* at U.S. majority-owned affiliates of foreign entities were in manufacturing in 2013.

- Newly collected data shows that "greenfield" investment expenditures by foreign entities totaled $16.6 billion in 2014,[5] with expenditures on establishing new businesses totaling $13.8 billion and expenditures on expanding existing businesses totaling $2.8 billion.[6]

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[3] Based on latest available 2014 inward FDI position by Ultimate Beneficial Owner (UBO). 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 June 9, 2016. http://www.bea.gov/international/di1fdibal.htm

[4] The latest available data on compensation, employment, goods exports, and R&D activities by U.S. affiliates of foreign entities is from 2013. Activities of U.S. Affiliates of Foreign Multinational Enterprises, U.S. Bureau of Economic Analysis. Accessed June 9, 2016. http://www.bea.gov/international/di1fdiop.htm Business R&D Performance in the United States Increases Over 6% to $323 Billion in 2013 Infobrief. National Science Foundation (NSF). August 20, 2015. http://www.nsf.gov/statistics/2015/nsf15329/

[5] FDI can be characterized by the way a company choses to invest in the United States, either via a "greenfield" or "M&A" investment. Greenfield investments are when a company newly establishes an affiliate "from scratch" or expands an existing affiliate. 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 after ending the series in 2008 because of budget cuts. The reinstated survey now also includes data on expansions of existing entities. As of June 17, 2016, data on greenfield investments is only available for 2014

[6] Expenditures by Foreign Direct Investors for New Investment in the United States, 2014. Bureau of Economic Analysis. http://www.bea.gov/newsreleases/international/fdi/fdinewsrelease.htm

- In 2014, foreign investors spent $224.7 billion on new acquisitions of U.S. companies; therefore, total first-year expenditures by foreign entities (acquisitions plus expansions plus establishment of new businesses) were $241.3 billion.[7]

Introduction

This report details trends in FDI from Bureau of Economic Analysis (BEA) data. BEA collects three broad sets of data on foreign direct investment in the United States: (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. Each of these data sets focuses on a distinct aspect of FDI. The international transactions and direct investment position data cover foreign investors' transactions with, and position in, both new and existing U.S. affiliates, the financial and operating data provide a picture of the overall activities of U.S. affiliates, and statistics on new foreign direct investment include spending to acquire, establish, or expand U.S. businesses.

U.S. Inbound Foreign Direct Investment

Overall Trends and Country Level Data

In 2014[8], the foreign direct investment position, or the stock of foreign investment, in the United States was $2.9 trillion on a historical-cost basis.[9] As shown in Figure 1, manufacturing (36 percent) and banking, finance, and insurance (20 percent) comprised the majority of the stock of FDI, followed by "other industries" (18 percent), and wholesale trade (12 percent).

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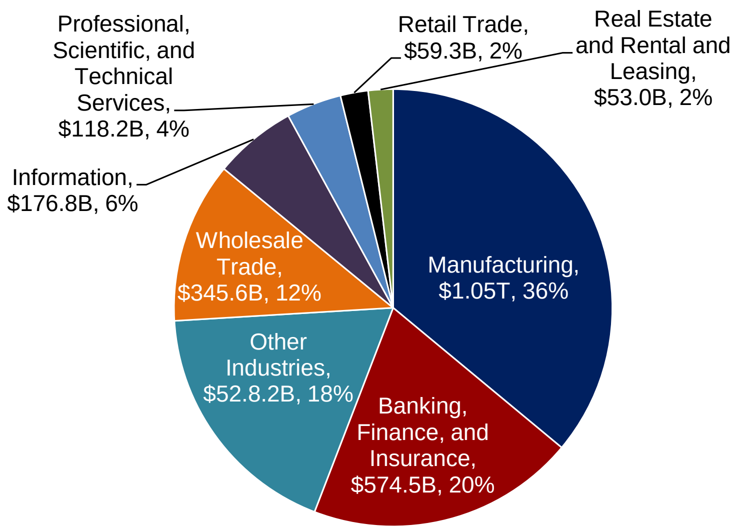
[7] In 2014, financial transactions associated with all types (that is, new investments and changes in positions of existing investments) of foreign direct investment in the United States (FDIUS) were $172 billion. The value of these transactions were less than the $241.3 billion in expenditures for new investment largely because of a single deal in April 2014 where U.S. based Verizon Wireless bought back its stake in U.K. based Vodaphone for a reported $130 billion. Source: United Nations World Investment Report 2015. Pg 2. http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf

[8] Latest available data.

[9] This total is $5.4 trillion on a current-cost basis. The BEA estimates the U.S. international investment position in three ways, reflecting three different accounting methods for estimating the value of direct investments: 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. Country and industry detail can be reported for direct investment only at historical cost. For more information, see Elena L. Nguyen "The International Investment Position of the United States at Yearend 2011." July 2012, *Bureau of Economic Analysis,* Retrieved from: https://www.bea.gov/scb/pdf/2012/07%20July/0712_iip.pdf

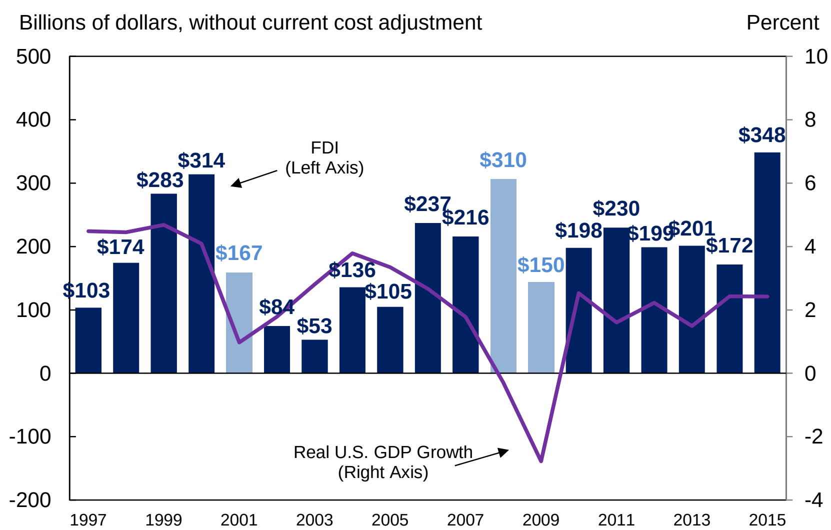
Figure 1: FDI Stock by Industry, Historical-Cost Basis, 2014



Source: Bureau of Economic Analysis

Year-to-year FDI flow data, which are on a current-cost basis and available for 2015, are relatively volatile, as seen in Figure2. They tend to fluctuate with real U.S. GDP growth, slowing in the early 2000s and during the Great Recession. FDI flows were relatively stable from 2010 to 2013. FDI net inflows dropped to $172 billion in 2014, but bounced back to a record level of $348 billion in 2015.

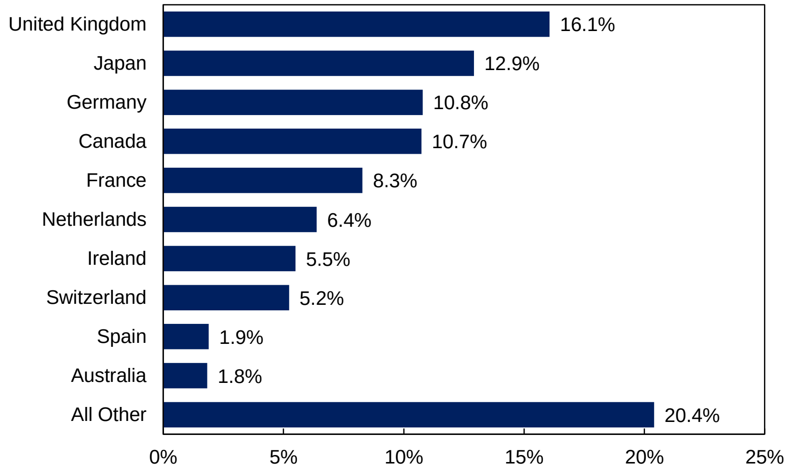
Figure 2: Foreign Direct Investment in the U.S., 1997-2015



Source: Department of Commerce, Bureau of Economic Analysis; International Monetary Fund
Note: Light blue shading denotes a year in which the U.S. was in recession for a majority of that year.

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 2014.

Figure 3: FDI in the U.S., Top 10 Investor Countries by Ultimate Beneficial Owner (UBO), 2014



Source: Department of Commerce, Bureau of Economic Analysis

Note:Ultimate Beneficial Owner (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 data distortions that may arise from FDI into the United States that passes through intermediary countries.

The geographic distribution of the most recent FDI flows data, which is only measured based on the country from which the investment came (that is, it may measure investment from intermediary nations rather than the ultimate owner) and is subject to large year-to-year fluctuations, suggest that total FDI flows since 2010 have mostly come from a small number of advanced economies. The top 10 investors during the years 2013-2015 all accounted for at least 92 percent of FDI inflows, up from a 2010-2012 top 10 that accounted for an average of just over 85 percent of total FDI.[10] Further:

- Affiliates from Luxembourg have been the biggest recent investors, accounting for more than a quarter of FDI inflows from 2013-2015, though more than 74 percent of that investment occurred in 2015 alone. Whether Luxembourg is the ultimate beneficiary of these investments or an intermediary will not be known until 2015 UBO data is released.

- Japan was the second biggest source of FDI flows from 2013-2015, with 17.0 percent of FDI inflows.

- The United Kingdom was among the largest yearly investors of new inflows until 2014, when they divested a net amount of more than $95 million.

Although investments from many emerging countries have increased substantially on a percentage basis from the early 2000's, investment inflows from these markets remain relatively small. For example, FDI inflows from China averaged slightly more than $2 billion per year between 2010 and 2015, or 0.5 percent of total FDI into the U.S, with inflows of $5.1 billion in 2015. Brazil, on the other hand, divested a total of nearly $1.2 billion from 2014-2015 after investing more than $4.1 billion from 2011- 2013.

[10] Because of data availability, these estimates do not include a current cost adjustment.

Industry Level Data

The U.S. manufacturing sector continues to draw a considerable share of FDI inflows[11]. From 2010-2012, manufacturing's share of FDI inflows averaged 44.9 percent, and has increased to 66.4 percent during the 2013-2015 period. Outside manufacturing, sectors that received significant FDI inflows from 2013-2015 were wholesale trade (11.3 percent of total FDI), finance (except banking) and insurance (10.0 percent), and information (8.3 percent).

The latest available data for the total stock of FDI within the manufacturing sector provides a snapshot of total FDI in 2014:

- At the end of 2014, manufacturing accounted for 36 percent of overall FDI stock in the United States.[12] This stock of manufacturing investment increased from $757 billion in 2010 to a value of over $1 trillion.

- Pharmaceuticals had the largest stock of FDI among the manufacturing sectors, accounting for nearly 16.0 percent of manufacturing FDI stock in 2014, and FDI in this industry has increased considerably over the latest available five year period, from $89 billion in 2010 to $137 billion in 2012, to $167 billion in 2014.

- Petroleum and coal products were responsible for 10.1 percent of manufacturing FDI stock in 2014, down from 14.7 percent of manufacturing stock in 2012. Total petroleum and coal FDI stock fell from $118 to $108 million from 2012 to 2014.

- Transportation equipment investments, at 10.6 percent of the total stock of manufacturing FDI in 2014, were mostly in the motor vehicle industry.

    - Since at least 2010, Japanese investors have consistently funded over one-third of transportation FDI, and German investors roughly one-fifth.

FDI stock in non-manufacturing industry stock has grown at a slightly slower pace than that of FDI in manufacturing from $1.5 trillion in 2010 to $1.7 trillion in 2012, to $1.9 trillion in 2014.

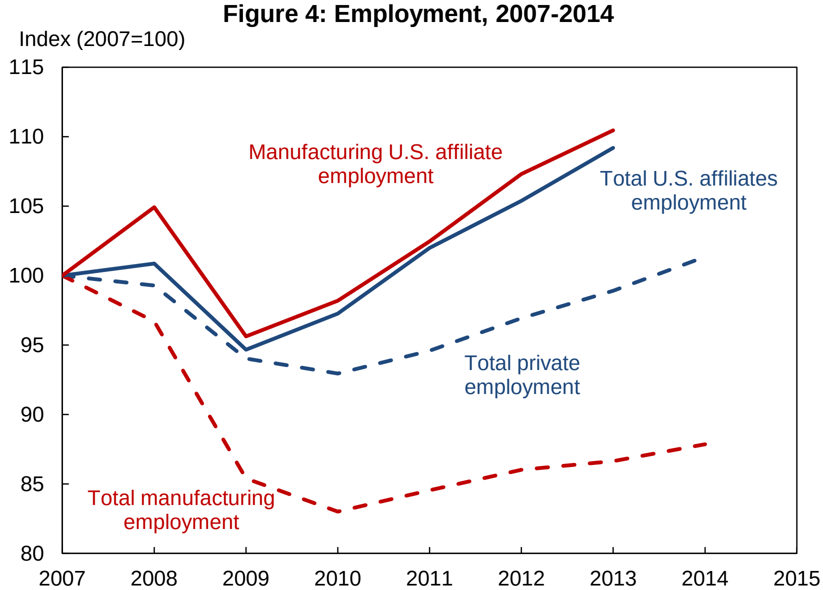
Majority-Owned U.S. Affiliates of Foreign Firms Continue to Produce Output, and Provide R&D, Jobs, and Above-Average Compensation

The value-added production of majority-owned U.S. affiliates of foreign entities rose 12.0 percent to $836 billion between 2011 and 2013.[13] This value added accounted for 6.4 percent of the U.S. private

[11] As discussed previously, FDI flows are calculated on a current-cost basis.
[12] This is measured on a historical cost basis.
[13] Data on majority-owned affiliates of foreign firms is only available through 2013.

sector total in 2013. These firms employed 6.1 million people in the United States in 2013, up more than 400,000 between 2011 and 2013.[14] In 2013, 5.2 percent of private sector employment was comprised of employees from majority-owned U.S affiliates of foreign firms.[15] More than one-third of jobs at U.S. affiliates are in the manufacturing sector. Manufacturing employment at U.S. affiliates was 2.3 million in 2013, or 18.8 percent of all U.S. manufacturing employment, and the number increased by more than 163,000 employees, or 8 percent, 2011 and 2013 (see Figure 4). Next to manufacturing, the largest industry sectors for employment by U.S. affiliates are wholesale trade, which employed 583,400 workers in 2013; retail trade with 544,400; and finance and insurance, with 415,700.

Figure 4: Employment, 2007-2014

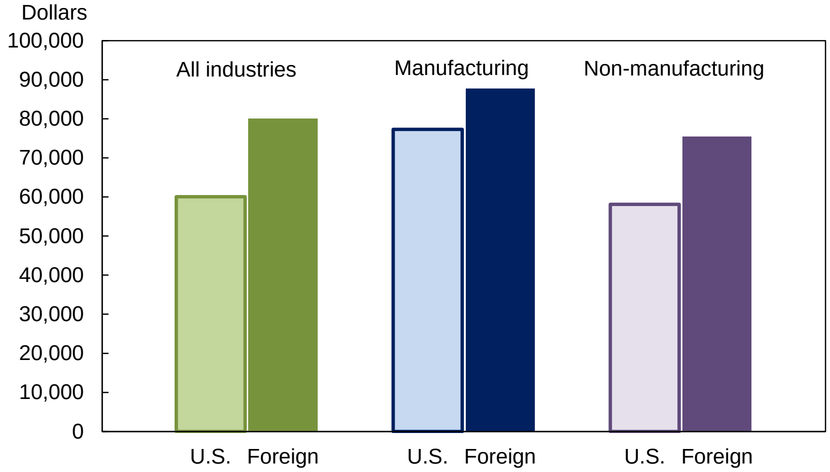


Source: Department of Commerce, Bureau of Economic Analysis

U.S. affiliate firms make substantial investments in capital equipment and R&D, and provide excellent compensation. These firms paid wages and other forms of compensation that averaged nearly $80,000 per U.S. employee in 2013 as compared to average compensation of $60,000 for workers in the economy as a whole (see Figure 5). Compensation at U.S. affiliates has been consistently higher than the U.S. average over time, and the differential holds for both manufacturing and non-manufacturing jobs, although with a slightly higher differential in manufacturing.

[14] A recent International Trade Administration (ITA) report estimates that FDI is responsible for 12 million job; 6.1 million direct jobs and 5.9 million indirect jobs.
[15] As of May 31, 2016, data on the affiliate share of total employment is unavailable.

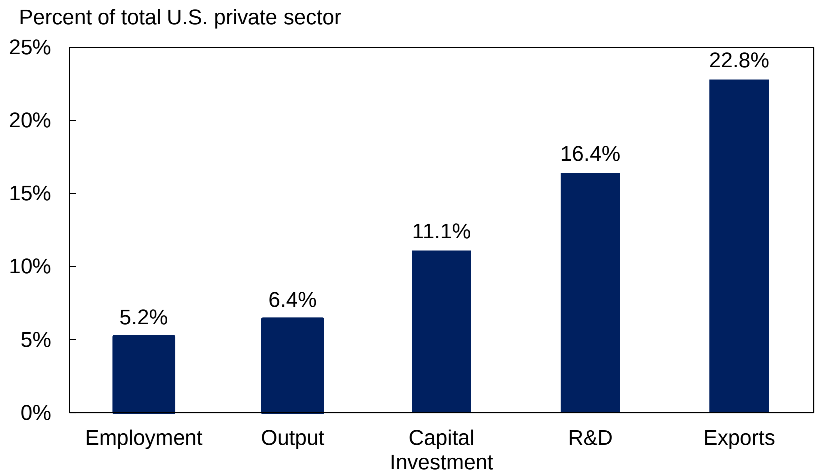
Figure 5: Average Annual Compensation per Employee, U.S. Private Sector and Foreign-owned Affiliates, 2013



Source: Department of Commerce, Bureau of Economic Analysis
Note: "U.S." denotes average annual compensation in all U.S. private industries, while "Foreign" denotes averge annual compensation for employees of majority-owned U.S. affiliates of foreign entities.

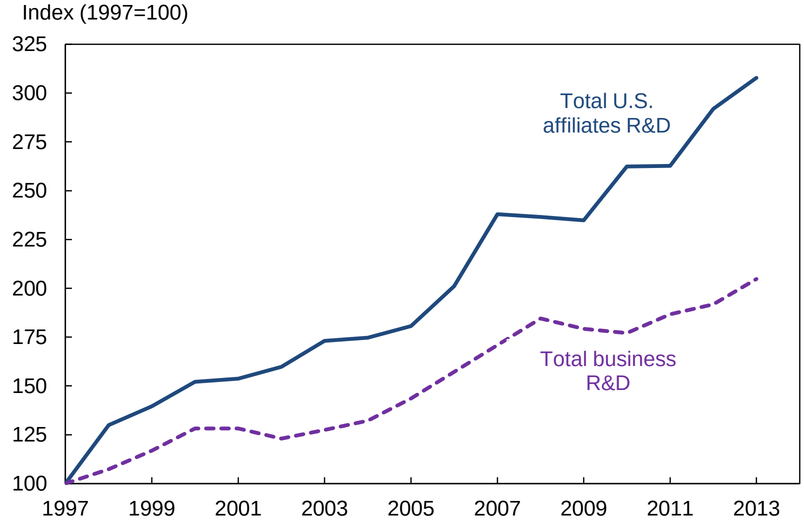
In addition, U.S. majority-owned foreign affiliates contributed 11.1 percent of total U.S. private capital investment and spent $53.0 billion on R&D in 2013, accounting for a record high 16.4 percent of the U.S. private business total (see Figure 6). As displayed in Figure 7, since 1997, when the data were first published, R&D expenditures of U.S. majority-owned foreign affiliates have climbed 208 percent, close to double the 105-percent growth among overall business spending on R&D.

Figure 6: Economic Activities of Majority-Owned U.S. Affiliates of Foreign Companies, 2013



Source: Department of Commerce, Bureau of Economic Analysis; National Science Foundation
Note: For improved comparability with U.S.-affiliate value added, U.S. private industry value added (output) was adjusted to exclude value added in private households, imputed rental income from owner-occupied housing, and business transfer payments.

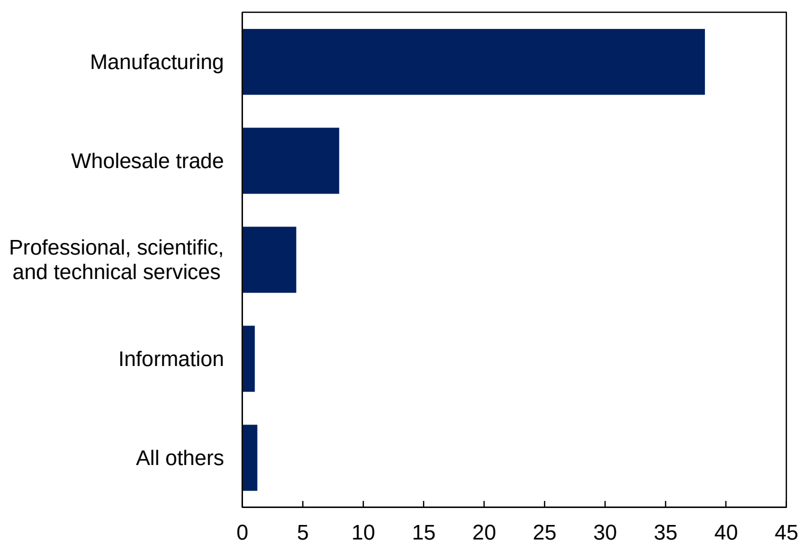
Figure 7: R&D Expenditures, 1997-2013



Source: Department of Commerce, Bureau of Economic, Analysis; National Science Foundation
Note: 2013 total business R&D data is not available. Prior to 2007, FDI data do not include U.S. affiliates of foreign banks.

The bulk of the R&D investments were in the manufacturing sector, which accounted for $38.3 billion, or 72.2 percent, of total R&D expenditures by U.S. affiliates (see Figure 8). Affiliates in the wholesale trade sector spent $8.0 billion on R&D in 2013,[16] followed by the professional, scientific, and technical services sector ($4.5 billion), and the information sector ($1.0 billion).

Figure 8: R&D Expenditures by U.S. Majority-Owned Affiliates Billions of Dollars, 2013

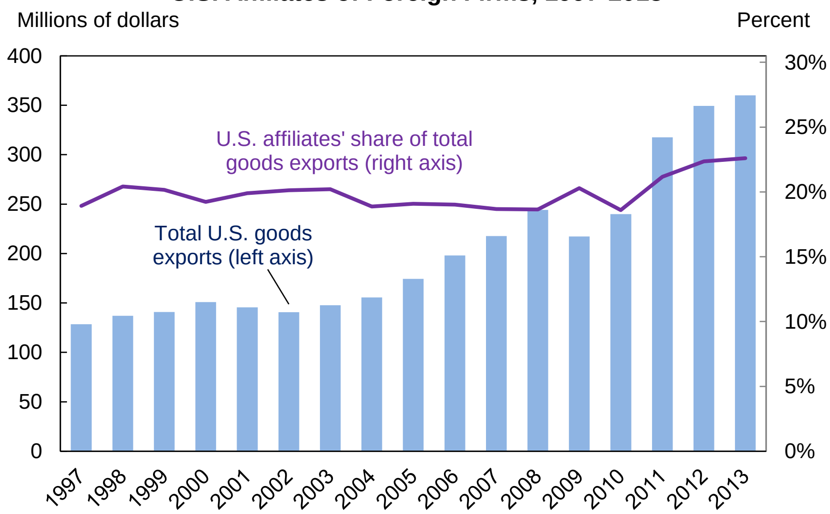


Source: Department of Commerce, Bureau of Economic Analysis

[16] 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.

Finally, U.S. majority-owned affiliates of foreign firms account for a disproportionate share of total U.S. exports (relative to their employment size), and this trend has been consistent for decades, even as overall U.S. exports have increased. In 2013, U.S. majority-owned foreign affiliates exported $360.0 billion of goods, accounting for 22.6 percent of total U.S. goods exports, the second highest share since 1995 (see Figure 12). As our 2013 report highlighted, goods exported by U.S. affiliates follow the broad trends of overall goods exports, but tend to do relatively better during economic downturns, likely because U.S. majority-owned foreign affiliates tend to trade heavily with their parent group and related parties, such as subsidiaries and other foreign affiliates. These firms are heavy importers of goods as well, accounting for 29.8 percent of total U.S. goods imports in 2013—contributing to our negative trade balance but also further illustrating how these firms link the United States to the global economy.

Figure 9: Exports of Goods by Majority-owned U.S. Affiliates of Foreign Firms, 1997-2013



Source: Department of Commerce, Bureau of Economic Analysis
Note: Data prior to 2007 do not include U.S. affiliates of foreign banks.

Greenfield investment in the U.S. Economy

For the first time since 2008, the Bureau of Economic Analysis (BEA) recently released statistics on greenfield foreign direct investment in the United States.[17] In this context, greenfield investment is defined as a foreign investment to either establish a new U.S. business or to expand an existing foreign-owned U.S. business.[18] The greenfield suite of statistics also offer details such as the countries from

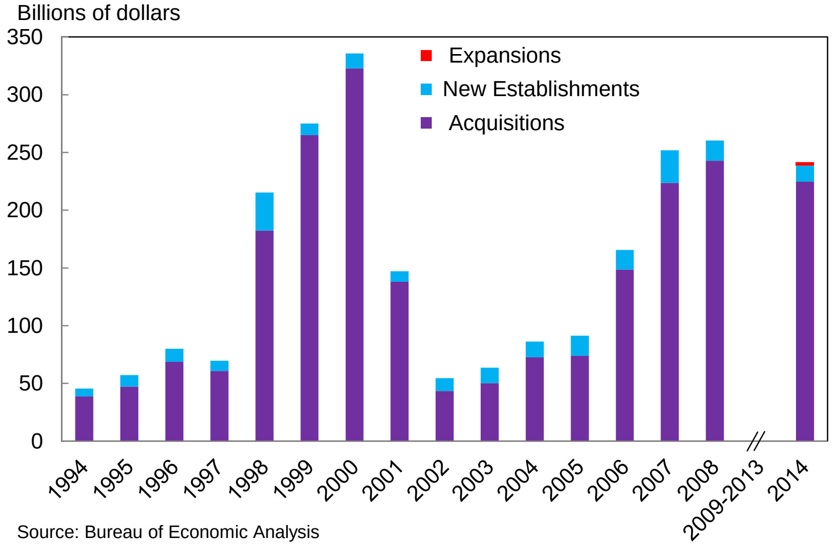
[17] For a detailed overview of the reinstated survey on new foreign direct investment, see Thomas W. Anderson, "Expenditures for New Foreign Direct Investment in the United States in 2014."

[18] As defined by the BEA report: "Combining expenditures on expansions with expenditures to establish new U.S. businesses provides a measure of greenfield investments." The statistics released in November 2015 are based on information collected by a survey of new foreign direct investment in the United States (BE–13), which not only reinstates the previous BE–13 survey, which was discontinued after 2008 but expands on it by covering business expansions.

which the new investment originates, the U.S. industries that are attracting new investments, and U.S. states where new investments are located.[19]

In 2014,[20] greenfield investment expenditures by foreigners totaled $16.6 billion, with expenditures on establishing new businesses totaling $13.8 billion while spending on expansions of existing U.S. affiliates neared $2.8 billion. It should be noted that foreign investors spent $224.7 billion in acquiring U.S. companies in the same year, far exceeding expenditures on both the establishment of new businesses and expansions of existing U.S. affiliates (see Figure 10).

Figure 10: New Investment by Foreign Direct Investors by Type, 1994-2014



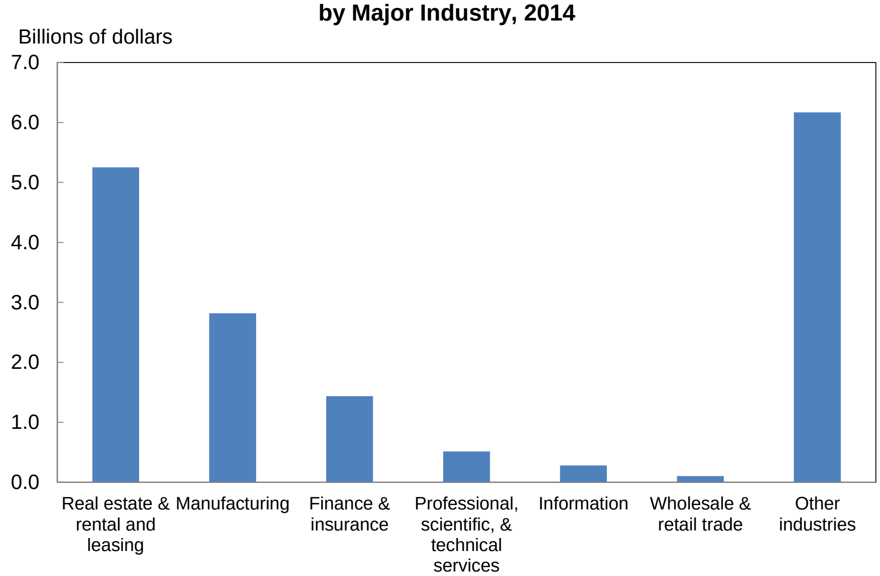
Source: Bureau of Economic Analysis
Note: Data on expansions are included in 2014 only.

As displayed in Figure 11 the real estate, rental and leasing industry received the largest share – 31.7 percent, or $5.3 billion -- of total greenfield FDI expenditures in 2014. The manufacturing sector was the second largest recipient at $2.8 billion, or 17.0 percent of the total, followed by finance and insurance with $1.4 billion, or 8.7 percent.

[19] According to the BEA, "[S]tate and national policymakers, as well as analysts, can draw on the statistics to assess the effects of foreign direct investment on the U.S. economy and to gauge the relative attractiveness of states to foreign direct investors. Foreign entrepreneurs and others seeking to invest in the United States can use the new statistics to make more informed decisions. "

[20] New investment data for 2015 and 2014 revisions will be available in the summer of 2016.

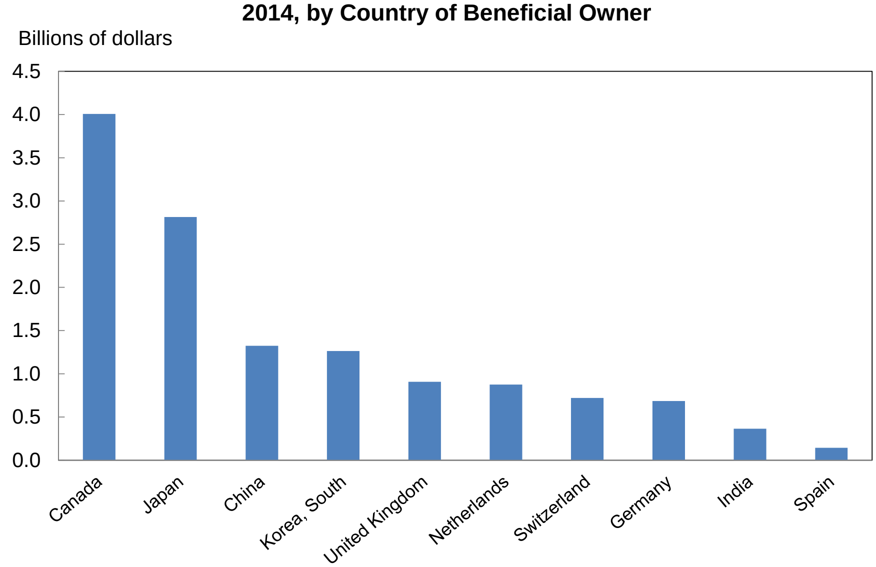
Figure 11: Expenditures on Greenfield Foreign Direct Investment, by Major Industry, 2014



Source: Bureau of Economic Analysis

Greenfield FDI in the U.S. comes mostly from other developed economies, though China and India were responsible for relatively large amounts of greenfield investment in 2014. As shown in Figure 6 where investment is measured by the country of the ultimate beneficial owner, the largest source of greenfield FDI in 2014 was Canada at $4.0 billion. In 2014, expenditures from Japan were $2.8 billion and those from China were $1.3 billion. The combined greenfield FDI from Europe was $4.7 billion in 2014.

Figure 12: Expenditures on Greenfield Foreign Direct Investment, 2014, by Country of Beneficial Owner



Source: Bureau of Economic Analysis

Data on new investment by foreign direct investors also includes a breakdown of investment at the State-level. Among U.S. states, California was the largest recipient of greenfield FDI with $3.2 billion in 2014, followed by Texas with $2.7 billion and Massachusetts with $1.9 billion.

Conclusions

FDI continues to support a host of benefits in the United States, such as good jobs and innovation resulting from research and development. FDI stocks continue to rise, growing an average of 6 percent from 2009-2014, and inflows in 2015 alone totaled a record $348 billion. The United States also remains the largest recipient of FDI in the world, and 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 newly released "greenfield" FDI data from the Bureau of Economic Analysis (BEA), with greenfield investment expenditures by foreigners totaling $16.6 billion in 2014.

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