U.S. Direct Investment Abroad


Detailed estimates of the U.S. direct investment position abroad at historical cost (book value) and related capital and income flows for 2004–2006 are presented in this report. Summary estimates of services transactions are also presented. (For definitions, see the box “Key Terms.”) These statistics complement the statistics presented in two articles in the July 2007 Survey of Current Business by providing more detail by country, industry, and account.1

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Tables
Table 1 shows the U.S. direct investment position abroad and rates of return at historical cost as well as at current cost and market value. Table 2 reconciles the historical-cost estimates of the capital, income, and services flows with the estimates in the international transactions accounts. Table 3 presents the position and related flows for 1995–2006 at historical cost and as they are presented in the international investment position accounts and international transactions accounts. Tables 4–18 present the direct investment position and international transactions by country, industry, and account.

The estimates in tables 4–18 differ in two ways from


Key Terms—Continues

As presented in the international transactions accounts (ITAs), these capital flows include a current-cost adjustment to direct investment reinvested earnings (a component of both direct investment income and direct investment capital flows) that reflects current-period prices. This adjustment converts depreciation charges to a current-cost, or replacement-cost, basis; it adds charges for depletion of natural resources back to income and reinvested earnings, because these charges are not treated as production costs in the national income and product accounts; it reallocates expenses for mineral exploration and development across periods, so that they are written off over their economic lives rather than all at once.

Direct investment capital flows without current-cost adjustment does not include the adjustment to reinvested earnings.

Capital outflows arise from transactions that increase U.S. assets or decrease U.S. liabilities. Capital inflows arise from transactions that decrease U.S. assets or increase U.S. liabilities.

Direct investment capital flows consist of equity capital transactions, intercompany debt transactions, and reinvested earnings. Equity capital investment is the net of equity capital increases and decreases. Equity capital increases arise from U.S. parents’ establishments of new foreign affiliates, payments by U.S. parents to unaffiliated foreign parties for the purchase of capital stock or other equity interests when they acquire an existing foreign business, payments made to acquire additional ownership interests in their foreign affiliates, and capital contributions to their foreign affiliates. Equity capital decreases are the funds U.S. parents receive when they reduce their
Key Terms

equity interest in their foreign affiliates. Intercompany debt investment results from changes in net outstanding loans between U.S. parents and their foreign affiliates, including loans by parents to affiliates and loans by affiliates to parents. Reinvested earnings without current-cost adjustment are the U.S. parents’ claim on the current-period operating earnings of their foreign affiliates, less distributions of earnings that parents receive from their foreign affiliates; unlike the measure of reinvested earnings used in the ITAs, these earnings do not include a current-cost adjustment at the aggregate level.

U.S. direct investment position abroad. The value of U.S. direct investors’ equity in, and net outstanding loans to, their foreign affiliates. The position may be viewed as the U.S. direct investors’ net financial claims on their foreign affiliates in the form of equity (including reinvested earnings) or debt.

BEA prepares estimates of the positions for U.S. direct investment abroad that are valued on three bases—historical cost, current cost, and market value. See tables 1 and 3 in this report and the box, “Alternative Measures of the Direct Investment Positions” in Ibarra and Koncz, 22.

Historical-cost (book value) position estimates are consistent with U.S. generally accepted accounting principles (GAAP). These estimates are principally derived from the books of the foreign affiliate and generally reflect the acquisition cost of the investment, cumulative reinvested earnings, and cumulative depreciation of fixed assets. However, under U.S. GAAP, the holdings of most financial instruments are valued at current-period prices rather than at cost. The position also includes cumulative capital gains and losses of the foreign affiliate.

Valuation adjustments to the historical-cost position are made to account for the differences between changes in the historical-cost positions, which are measured at book value, and direct investment capital flows, which are measured at transaction value. (Unlike the positions on current-cost and market-value bases, the historical-cost position is not usually adjusted to account for changes in the replacement cost of the tangible assets of affiliates or in the market value of U.S. parent companies’ equity in foreign affiliates.)

Valuation adjustments to the historical-cost position consist of currency-translation adjustments and “other” adjustments. Currency-translation adjustments are made to account for changes in the exchange rates that are used to translate foreign affiliates’ foreign-currency-denominated assets and liabilities into U.S. dollars. The effects of currency fluctuations on these adjustments depend on the value and currency composition of affiliates’ assets and liabilities. If an affiliate’s assets exceed its liabilities denominated in a particular foreign currency, depreciation (appreciation) of the currency against the dollar will result in negative (positive) translation adjustments. In the case of a net liability position in a foreign currency, depreciation (appreciation) of the currency will result in positive (negative) translation adjustments.

“Other” valuation adjustments are made to account for differences between the proceeds from the sale or liquidation of foreign affiliates and their book values, for differences between the purchase prices of affiliates and their book values, for writeoffs resulting from uncompensated expropriations of affiliates, for the reclassification of investment positions as between direct investment and other investment, and for capital gains and losses (excluding currency-translation adjustments) on transactions, such as the sale of assets (excluding inventories) for an amount that differs from their book value, or capital gains and losses that represent the revaluation of the assets of ongoing foreign affiliates for reasons other than exchange-rate changes, such as the writeoff of assets whose value has been impaired. In addition, for individual industries and countries, adjustments may be made to change the industry classification or country of a foreign affiliate. For individual countries, offsetting adjustments are made when the political boundaries of countries change, such as when countries merge or are newly formed.

Direct investment income without current-cost adjustment is the return on the U.S. direct investment position abroad. It consists of earnings (the U.S. parents’ shares in the net income from the operations of their foreign affiliates) and the net interest received by the U.S. parents on outstanding loans and trade accounts between the U.S. parents and their foreign affiliates. Unlike the measure of direct investment income used in the ITAs, it does not include a current-cost adjustment to earnings at the aggregate level.

Services transactions represent receipts and payments between U.S. parents and their foreign affiliates for services provided by one to the other. They consist of royalties and license fees for the use or sale of intangible property or rights (including patents, trademarks, and copyrights) and other private services (consisting of service charges, including management fees and allocated expenses, rentals for tangible property, and film and television tape rentals).
comparable estimates in the international investment position and international transactions accounts.\(^2\)

- The estimates are at historical cost, the only way detailed estimates by country and industry are available. In contrast, the estimates of the direct investment position in the international investment position accounts are presented at current cost and market value. In addition, the estimates of direct investment income (in the current account) and capital flows (in the financial account) in the U.S. international transactions accounts are presented with a current-cost adjustment.

- For the 2006 estimates, withholding taxes were not deducted from direct investment income and services, a treatment consistent with the international transactions accounts. However, for years before 2006, withholding taxes were deducted. For these years, estimates without this deduction are not available at the detailed country-by-industry level shown in tables 4–18.

### Acknowledgments

The survey from which the data for the U.S. direct investment position abroad and the related capital, income, and services flows were drawn was conducted under the supervision of Mark W. New, who was assisted by Iris Branscombe, Laura A. Downey, David L. Grayton, Marie K. Laddomada, Sherry Lee, Louis C. Lue, Leila C. Morrison, and Dwayne Torney. Computer programming for data estimation and tabulation was provided by Marie Colosimo, who was assisted by Xia Ouyang.

### Table A. U.S. Direct Investment Abroad: Comparison of Previously Published and Revised Estimates by Area, 2004–2006

**[Millions of dollars]**

<table>
<thead>
<tr>
<th>By area</th>
<th>Direct investment position on a historical-cost basis</th>
<th>Capital outflows without current-cost adjustment (inflows (–))</th>
<th>Income without current-cost adjustment</th>
<th>Royalties and license fees, net of withholding taxes, net receipts</th>
<th>Other private services, net receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Previously published</td>
<td>Revised</td>
<td>Previously published</td>
<td>Revised</td>
<td>Previously published</td>
</tr>
<tr>
<td>All areas</td>
<td>2,051,206</td>
<td>1,234,775</td>
<td>73,570</td>
<td>222,437</td>
<td>257,967</td>
</tr>
<tr>
<td>Canada</td>
<td>212,829</td>
<td>213,012</td>
<td>193</td>
<td>23,255</td>
<td>23,885</td>
</tr>
<tr>
<td>Europe</td>
<td>1,074,886</td>
<td>1,069,620</td>
<td>64,735</td>
<td>99,284</td>
<td>120,382</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>312,158</td>
<td>330,897</td>
<td>18,741</td>
<td>26,604</td>
<td>29,755</td>
</tr>
<tr>
<td>Latin America and Other Western Hemisphere</td>
<td>330,468</td>
<td>314,963</td>
<td>11,012</td>
<td>18,812</td>
<td>22,915</td>
</tr>
<tr>
<td>Africa</td>
<td>21,414</td>
<td>21,768</td>
<td>294</td>
<td>1,325</td>
<td>1,317</td>
</tr>
<tr>
<td>Middle East</td>
<td>18,775</td>
<td>16,088</td>
<td>313</td>
<td>1,362</td>
<td>1,610</td>
</tr>
<tr>
<td>Middle East:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia and Pacific</td>
<td>382,833</td>
<td>335,866</td>
<td>5,967</td>
<td>76,469</td>
<td>87,878</td>
</tr>
</tbody>
</table>

#### Revisions

The revised estimates of the direct investment position abroad at yearend, capital flows, income, and services transactions reflect the incorporation of revised data from BEA’s quarterly surveys of transactions between U.S. parents and their foreign affiliates and annual surveys of financial and operating data of foreign affiliates.

As noted in the July 2007 Survey article on direct investment positions, for all areas, the direct investment position at historical cost was revised up $73.6 billion for 2004 and $65.5 billion for 2005 (table A). The upward revision for 2004 resulted from upward revisions to both valuation adjustments and capital outflows without this deduction.

### Notes

1. Prior to 2006, income without current-cost adjustment is presented net, or after deduction, of U.S. and foreign withholding taxes. For 2006, it is presented gross, or before deduction, of U.S. and foreign withholding taxes. In 2006, income without current-cost adjustment, net of withholding taxes was $296.2 billion.

2. The only accounts for which 2006 estimates were previously available by country were capital outflows without current-cost adjustment and income without current-cost adjustment. No data are shown for royalties and license fees and other private services for 2006 because estimates are presented in this report for the first time. The estimates of the direct investment position for 2006 are preliminary and were first published in the July 2007 Survey of Current Business.

Note. The data in the “revised” columns were presented in the July 2007 Survey.
current-cost adjustment. (Capital outflows without current-cost adjustment, which increase the U.S. direct investment position abroad, consist of reinvested earnings without current-cost adjustment and equity capital and intercompany debt transactions.) The upward revision for 2005 was the net result of the upward revision to the position for 2004, an upward revision to 2005 valuation adjustments, and a partly offsetting upward revision to 2005 net capital inflows. (Capital inflows reduce the position.)

Capital outflows without current-cost adjustment were revised up $35.5 billion for 2004 because of an upward revision to equity capital outflows and, to a lesser extent, an upward revision to reinvested earnings. For 2005, unusual net capital inflows were recorded, as repatriations under the American Jobs Creation Act resulted in negative reinvested earnings; the inflows were revised up $15.0 billion because of upward revisions to inflows (disinvestment) on intercompany debt and reinvested earnings. For 2006, capital outflows were revised down $10.2 billion, as a downward revision to equity capital outflows and an upward revision to intercompany debt inflows were only partly offset by an upward revision to reinvested earnings.

Income without current-cost adjustment was revised up for all 3 years—$13.3 billion for 2004, $19.6 billion for 2005, and $18.5 billion for 2006. Net receipts of royalties and license fees were revised up $1.7 billion for 2004 and were revised up $1.8 billion for 2005. Net receipts for other private services were revised down $0.1 billion for 2004 and were revised down $0.4 billion for 2005.

Data Availability

Detailed estimates of the U.S. direct investment position abroad and of transactions between U.S. parents and their foreign affiliates that enter the U.S. international transactions (balance of payments) accounts are available on BEA’s Web site. To access the series featured in this report, go to <www.bea.gov>, and under “International,” click on “Operations of Multinational Companies.” Under “U.S. direct investment abroad,” click on the link to either “Selected Tables” or “Interactive Tables,” which appears next to “Balance of payments and direct investment position data.” The interactive tables allow users to access detailed balance of payments and direct investment position data as well as data on the operations of multinational companies.

General Notes to the Tables and tables 1–18 follow.