

## U.S. Direct Investment Abroad

### Detail for Historical-Cost Position and Related Capital and Income Flows, 2004–2006

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.<sup>1</sup>

1. See Marilyn Ibarra and Jennifer Koncz, “Direct Investment Positions for 2006: Country and Industry Detail,” *SURVEY 87* (July 2007): 21–36 and Christopher L. Bach, “Annual Revision of the U.S. International Accounts, 1997–2006,” *SURVEY 87* (July 2007): 37–53.

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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

The key terms used in this statistical presentation are described in this box. For a more detailed discussion of these terms and the methodology used to prepare the estimates, see *U.S. Direct Investment Abroad: Final Results From the 1999 Benchmark Survey* on BEA’s Web site at [www.bea.gov/scb/pdf/internat/usinvest/meth/usdia99.pdf](http://www.bea.gov/scb/pdf/internat/usinvest/meth/usdia99.pdf).

**Direct investment.** Investment in which a resident of one country obtains a lasting interest in, and a degree of influence over the management of, a business enterprise in another country. In the United States (and in the international statistical guidelines), the criterion used to distinguish direct investment from other types of investment is ownership of at least 10 percent of the voting securities of an incorporated business enterprise or the equivalent interest in an unincorporated business enterprise.

**U.S. direct investment abroad** is the ownership or control, directly or indirectly, by one U.S. resident of at least 10 percent of the voting securities of an incorporated foreign business enterprise or the equivalent interest in an unincorporated foreign business enterprise.

**Foreign affiliate.** A foreign business enterprise in which a single U.S. investor (a **U.S. parent**) owns at least 10 percent of the voting securities, or the equivalent.

**Direct investment capital flows** arise from transactions in financial claims (assets) and liabilities between U.S. parents and their foreign affiliates. These flows also include the funds that U.S. direct investors pay to unaffiliated foreign parties when affiliates are acquired and the funds that U.S. investors receive from them when their affiliates are sold.

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 writedown 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.<sup>2</sup>

- 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

2. See Elena L. Nguyen, "The International Investment Position of the United States at Yearend 2006," SURVEY 87 (July 2007): 10–19 and Renee M. Sauer, "U.S. International Transactions: First Quarter of 2007," SURVEY 87 (July 2007): 57–109, which includes annual estimates for 1976–2006.

### Acknowledgments

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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.

### 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

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

(Millions of dollars)

By area	Direct investment position on a historical-cost basis			Capital outflows without current-cost adjustment (inflows (-))			Income without current-cost adjustment <sup>1</sup>			Royalties and license fees, net of withholding taxes, net receipts			Other private services, net receipts		
	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision
2004															
<b>All areas</b> .....	<b>2,051,204</b>	<b>2,124,775</b>	<b>73,570</b>	<b>222,437</b>	<b>257,967</b>	<b>35,530</b>	<b>203,484</b>	<b>216,773</b>	<b>13,289</b>	<b>31,063</b>	<b>32,811</b>	<b>1,748</b>	<b>6,007</b>	<b>5,904</b>	<b>-103</b>
Canada .....	212,829	213,012	183	23,255	23,865	609	21,979	22,771	792	2,885	3,012	126	1,831	1,856	25
Europe .....	1,104,886	1,169,620	64,735	99,284	120,382	21,098	97,996	108,494	10,499	17,505	19,258	1,753	2,344	2,454	110
Of which:															
United Kingdom .....	312,156	330,897	18,741	26,604	29,755	3,152	16,601	14,423	-2,178	3,088	3,161	73	-1,904	-1,762	142
Latin America and Other Western Hemisphere .....	330,468	341,480	11,012	18,812	22,915	4,103	31,850	34,423	2,573	(D)	(D)	(D)	795	699	-96
Africa .....	21,414	21,708	294	1,325	1,317	-7	4,540	4,517	-22	295	294	-1	446	405	-41
Middle East .....	18,775	19,088	313	1,352	1,610	259	3,717	4,268	550	80	80	1	-299	-337	-39
Asia and Pacific .....	362,833	359,866	-2,967	78,409	87,878	9,469	43,402	42,299	-1,103	(D)	(D)	(D)	888	827	-62
2005															
<b>All areas</b> .....	<b>2,069,983</b>	<b>2,135,492</b>	<b>65,509</b>	<b>-12,714</b>	<b>-27,736</b>	<b>-15,023</b>	<b>227,864</b>	<b>247,472</b>	<b>19,608</b>	<b>33,025</b>	<b>34,850</b>	<b>1,824</b>	<b>7,261</b>	<b>6,873</b>	<b>-388</b>
Canada .....	234,831	233,474	-1,357	16,789	11,023	-5,766	22,259	22,745	486	3,399	3,509	110	1,759	1,856	97
Europe .....	1,059,443	1,109,950	50,507	-37,488	-55,068	-17,579	105,990	122,538	16,548	18,111	19,911	1,800	3,312	3,054	-258
Of which:															
United Kingdom .....	323,796	333,497	9,701	10,873	3,114	-7,759	19,924	18,533	-1,391	3,153	3,175	22	-1,101	-1,516	-416
Latin America and Other Western Hemisphere .....	353,011	365,895	12,884	-10,545	-1,489	9,057	39,301	41,306	2,006	(D)	(D)	(D)	1,289	1,227	-61
Africa .....	24,257	23,018	-1,239	2,066	1,025	-1,040	5,284	4,748	-536	340	335	-6	446	519	34
Middle East .....	21,591	22,631	1,040	3,467	3,769	302	4,670	5,042	373	(D)	(D)	(D)	-334	-331	3
Asia and Pacific .....	376,849	380,523	3,674	12,999	13,003	4	50,361	51,092	731	(D)	9,152	(D)	750	548	-202
2006 <sup>2</sup>															
<b>All areas</b> .....	.....	.....	.....	<b>226,824</b>	<b>216,614</b>	<b>-10,210</b>	<b>272,948</b>	<b>291,480</b>	<b>18,532</b>	.....	.....	.....	.....	.....	.....
Canada .....	.....	.....	.....	20,663	14,793	-5,870	25,005	23,442	-1,564	.....	.....	.....	.....	.....	.....
Europe .....	.....	.....	.....	111,392	127,375	15,983	129,318	146,608	17,289	.....	.....	.....	.....	.....	.....
Of which:															
United Kingdom .....	.....	.....	.....	22,302	19,382	-2,920	26,462	25,080	-1,382	.....	.....	.....	.....	.....	.....
Latin America and Other Western Hemisphere .....	.....	.....	.....	33,184	22,273	-10,911	47,225	50,436	3,211	.....	.....	.....	.....	.....	.....
Africa .....	.....	.....	.....	2,848	2,176	-671	5,935	5,493	-442	.....	.....	.....	.....	.....	.....
Middle East .....	.....	.....	.....	6,971	4,956	-2,015	5,924	6,274	350	.....	.....	.....	.....	.....	.....
Asia and Pacific .....	.....	.....	.....	51,766	45,041	-6,725	59,540	59,227	-313	.....	.....	.....	.....	.....	.....

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 \$290,291 million.

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](http://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.*