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Foreign Direct Investment in the United States: An Economic Analysis

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Summary

Foreign direct investment in the United States in 2015 increased by 83% over that recorded in 2014. (Note: The United States defines foreign direct investment as the ownership or control, directly or indirectly, by one foreign person [individual, branch, partnership, association, government, etc.] of 10% or more of the voting securities of an incorporated U.S. business enterprise or an equivalent interest in an unincorporated U.S. business enterprise [15 CFR §806.15 (a)(1)]). In 2015, according to U.S. Department of Commerce data, foreigners invested $379 billion in U.S. businesses and real estate, compared with the $207 billion invested in 2014. Foreign direct investments are highly sought after by many state and local governments that are struggling to create additional jobs in their localities. While some in Congress encourage such investment to offset the perceived negative economic effects of U.S. firms investing abroad, others are concerned about foreign acquisitions of U.S. firms that are considered essential to U.S. national and economic security.

On October 31, 2013, the Obama Administration launched a new initiative, known as Select USA, to attract more foreign direct investment to the United States. According to the Administration, the aim of the program is to make attracting foreign investment as important a component of U.S. foreign policy as promoting exports. As a result, the President reportedly instructed Commerce and State Department officials to make attracting foreign investment one of their "core priorities." In addition, the program has designated global teams led by U.S. ambassadors in 32 key countries to encourage foreign investment into the United States, and has established a "coordinated process" to connect prospective investors with senior U.S. officials. The initiative (selectusa.commerce.gov) offers a number of tools for foreign investors looking to invest in the United States, including a list of various state and federal programs that may be available to foreign investors.

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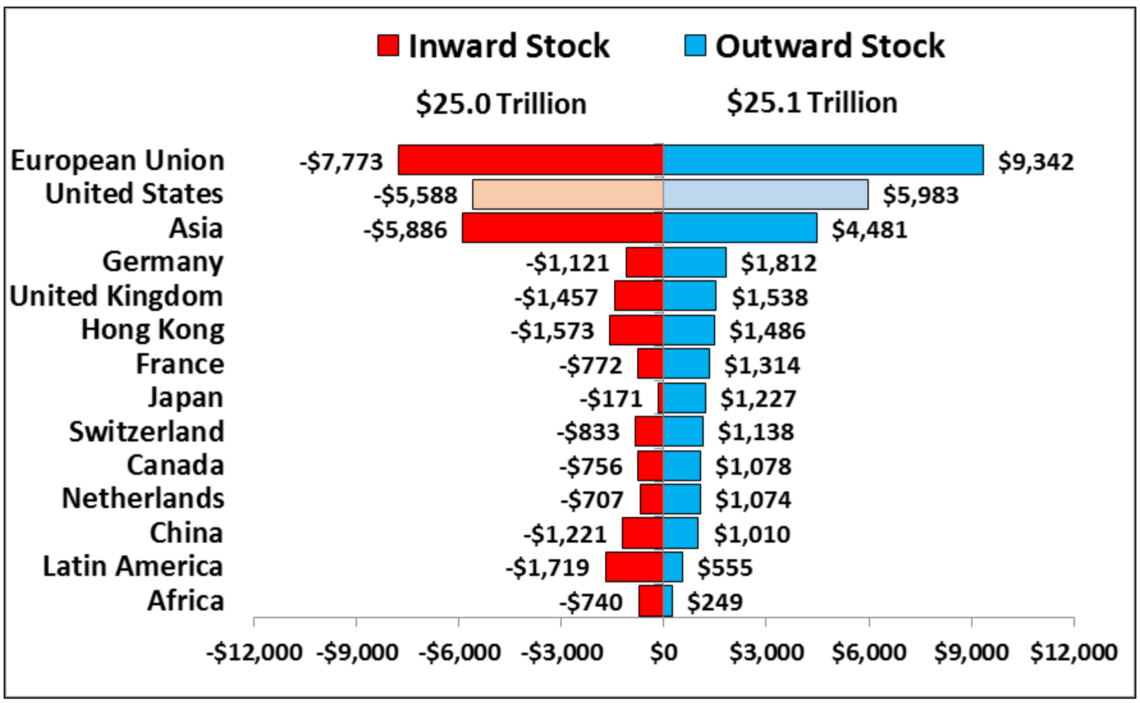
Recent Investments

The United States occupies a unique position in the global economy as the largest foreign direct investor and as the largest recipient of foreign direct investment, as indicated in **Figure 1**. According to the United Nations,[1] the global foreign direct investment position in the United States, or the cumulative amount, was recorded at around $5.6 trillion in 2015, with the total global direct investment position abroad recorded at around $25 trillion. In contrast to the United States, the next closest country in investment position is Germany with inward and outward investment positions of about one-fifth that of the United States. For the United States, the Commerce Department publishes data on the U.S. direct investment position using three different measures: historical cost, current cost, and market value, which is closest to the values calculated by the United Nations.[2] The Commerce Department estimates indicate that in 2015 the total amount of foreign direct investment in the United States, or the foreign direct investment position, measured at market value reached $6.5 trillion and $3.6 trillion at current cost when measured at market value, as indicated in **Figure 2**. On a historical cost basis, foreign direct investment was valued at $3.1 trillion.

Figure 1. Inward and Outward Stock of Foreign Direct Investment by Major Country or Region, 2015



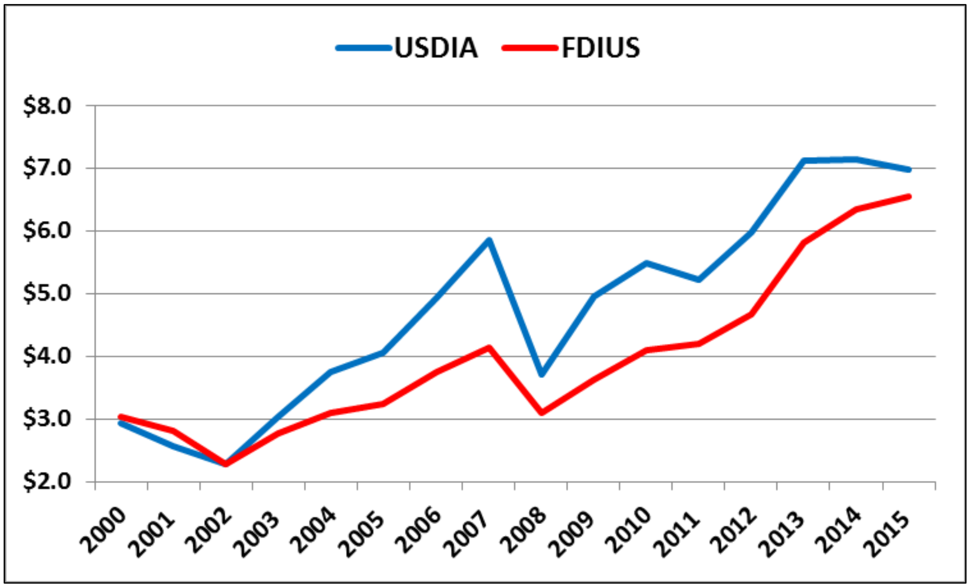
Source: *World Investment Report 2016*, United Nations, 2016.

1 *World Investment Report 2016*, United Nations, 2016.

2 U.S. Net International Investment Position, Third Quarter 2016, Bureau of Economic Analysis, BEA16-73, December 29, 2016; and CRS Report RL32964, *The United States as a Net Debtor Nation: Overview of the International Investment Position*, by (name redacted) .

Figure 2. U.S. Direct Investment Position Abroad and Foreign Direct Investment Position in the United States at Market Value (Cumulative Amount)

($ in trillions)



Source: Department of Commerce.

In 2015, foreigners invested $379 billion in nominal terms in U.S. businesses and real estate, up 83% from the $207 billion foreigners invested in 2014, according to balance of payments data published by the Department of Commerce.[3] Estimates based on third quarter 2016 data indicate that foreign direct investment in the United States may have dropped slightly in 2016 to $378 trillion, but likely outpaced U.S. direct investment abroad for a second year. The drop in foreign direct investment in the United States in 2014 reflects a $130 billion stock buyback between Verizon and France's Vodafone that occurred in the first quarter of 2014. The cumulative amount, or stock, of foreign direct investment in the United States on a historical cost basis[4] rose from $2.9 trillion in 2014 to $3.1 trillion in 2015, or an annual increase of over 7%.[5] The Department of Commerce does not attempt to deflate the annual nominal amounts for direct investment with a specific price deflator. Instead, the department publishes alternative estimates based on current cost and market value to provide other measures of the value of direct investment.

As **Figure 3** shows, the amount foreigners invest in the United States and U.S. firms invest abroad can vary substantially from year to year, reflecting changes in broad economic conditions.

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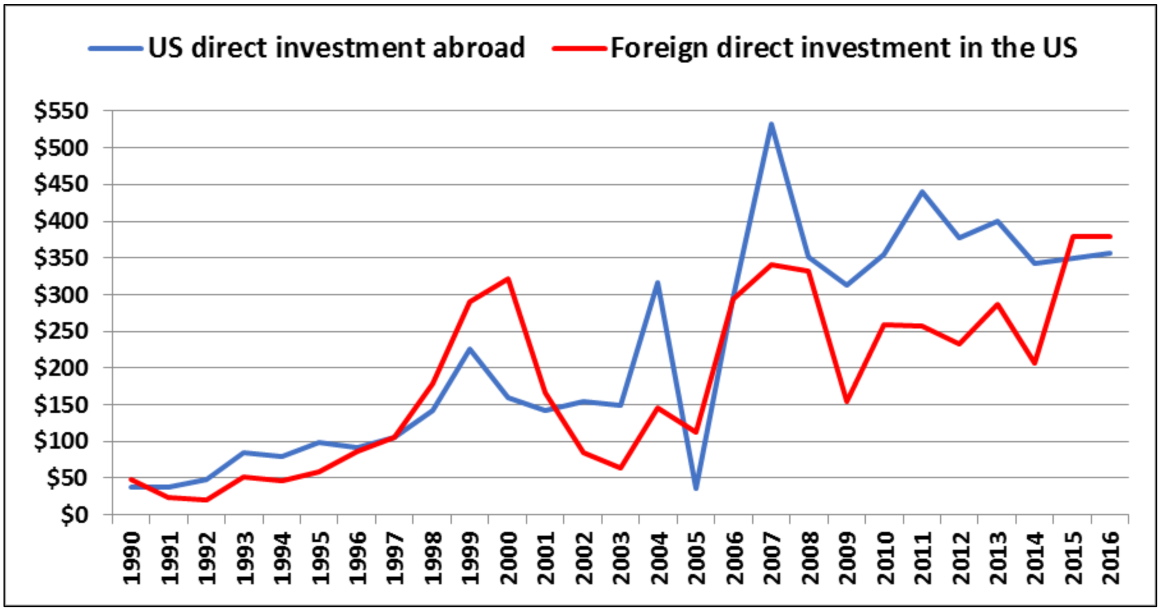
[3] Steiner, Christopher P. Jeannine Aversa, *U.S. International Transactions: Third Quarter 2016*, BEA 16-69, December 15, 2016. Direct investment data reported in the balance of payments differ from capital flow data reported elsewhere, because the balance of payments data have not been adjusted for current cost adjustments to earnings.

[4] The position, or stock, is the net book value of foreign direct investors' equity in, and outstanding loans to, their affiliates in the United States. A change in the position in a given year consists of three components: equity and intercompany inflows, reinvested earnings of incorporated affiliates, and valuation adjustments to account for changes in the value of financial assets. The Department of Commerce also publishes data on the foreign direct investment position valued on a current-cost and market value bases. These estimates indicate that in 2015 foreign direct investment increased by $230 billion measured at current cost to a cumulative value of $3.6 trillion, while the market value measure rose by $194 billion in to reach a cumulative value of $6.0 trillion.

[5] Westmoreland, Kyle L., The International Investment Position of the United States at the End of the Fourth Quarter of 2014 and Year 2014, *Survey of Current Business,* April 2015, p. 1.

The shifts in foreign direct investment inflows mirror similar changes in global flows in 2015, which grew by 38% over those in 2014 to reach $1.76 trillion, but were below the peak amount of $1.9 trillion reached in 2007 prior to the global financial crisis and economic recession in 2008-2009, according to the United Nations' *World Investment Report*.[6] In addition, the U.N. report indicates that foreign direct investment in developed economies increased by 85% in 2015, while such investment in developing countries increased by 9.5%.

Figure 3. Foreign Direct Investment in the United States and U.S. Direct Investment Abroad, Annual Flows, 1990-2016



Source: U.S. Department of Commerce.

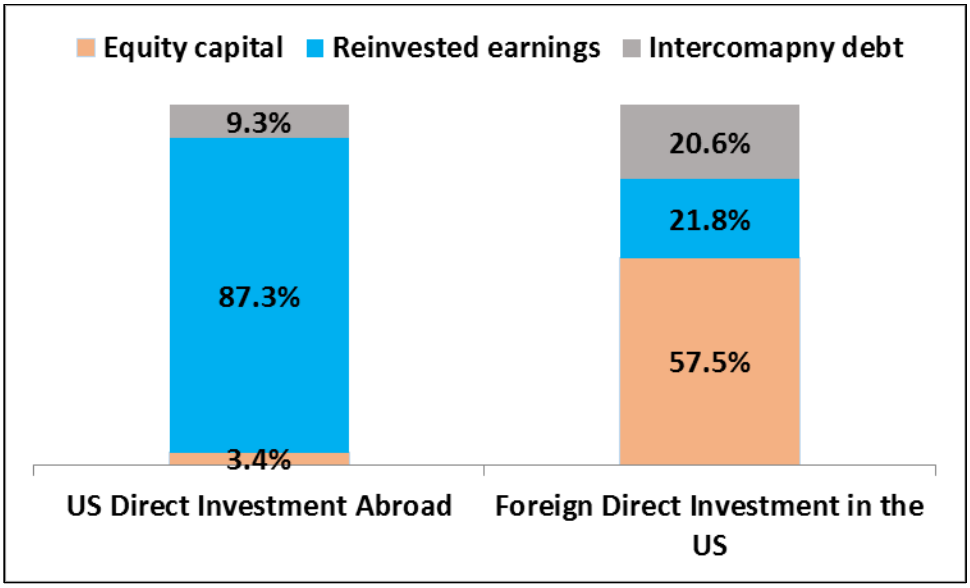
According to Commerce Department data, the increase in foreign direct investment in the United States in 2015, compared to 2014, reflects a sharp increase in net equity investments by foreign-owned firms from $14 billion in 2014 to $218 billion in 2015. Equity capital, which accounts for 3.4% of U.S. direct investment abroad, accounted for 57.5% of foreign direct investment in the United States, as indicated in **Figure 4**. In part, this shift in net equity investments may reflect rising equity values and efforts by foreign firms to boost the value of their stock by buying back shares, as many U.S. firms have done since early 2014. Estimates for 2016 based on three quarters of data indicate that foreign firms relied even more heavily on equity investment as a source of their direct investments in 2016 than they did in 2015, rising to account for nearly 67% of investment funds. In addition, intercompany debt, or loans between the foreign parent and the U.S. affiliate, shifted from a net outflow in the fourth quarter of 2015 to positive inflows in 2016; total intercompany debt fell by about 18% in 2015 compared with 2014. Also, between 2014 and 2015 foreign reinvested earnings fell by 15% and estimates indicate that such values could fall slightly in 2016 from the values in 2015.[7]

[6] *World Investment Report 2016*, United Nations Conference on Trade and Development, 2016.

[7] *U.S. International Transactions: Third Quarter 2016*. Direct investment data reported in the balance of payments differ from capital flow data reported elsewhere, because the balance of payments data have not been adjusted for current cost adjustments to earnings.

Figure 4. Composition of Financial Sources of U.S. Direct Investment Abroad and Foreign Direct Investment in the United States

(% shares of direct investment by financial source)



Source: Department of Commerce.

In contrast, U.S. direct investment abroad rose by 1.5% in 2015 to reach $349 billion, compared with a decline of nearly 14% in investment spending in 2014, according to balance of payments data.[8] An estimate based on the first three quarters of data for 2016 indicates that U.S. direct investment abroad could rise by 2.4% over that invested in 2015, or reach $357 billion. According to balance of payments data, U.S. direct investment abroad in 2015 was comprised 87% of reinvested earnings, 9.7% of intercompany debt, or transactions between the parent firm and foreign affiliates, and 3.4% of equity capital.

As a share of the total amount of nonresidential investment spending in the U.S. economy, investment spending by foreign firms was equivalent to 8.2% in 2013, a decrease from the 10.4% recorded in 2012. Better credit conditions and a slight rise in the rate of growth in the U.S. economy tended to push up such mainstays of foreign direct investment activity as mergers and acquisitions.

As of the end of 2014, foreign firms owned 33,000 individual companies spread across all 50 states and employed 6.6 million U.S. workers. These foreign-owned U.S.-based businesses had assets of $14.7 trillion, sales of $4.4 trillion, and paid employee compensation of $547 billion.

Intrafirm Trade

U.S. trade also is characterized by the extensive amount of intrafirm trade, or the sum of (1) trade between U.S. parent companies and their foreign affiliates, and (2) the U.S. affiliates of foreign firms and their foreign parent companies. As indicated in **Table 1**, U.S. total trade in 2014 was $1.6 trillion in exports and $2.3 trillion in imports. Of this amount, trade between U.S. parent companies and their foreign affiliates, identified as multinational companies (MNCs), accounted

[8] Ibid.

for $315 billion in both exports and imports, while the affiliates of foreign firms operating in the United States accounted for $189 billion in exports and $521 billion in imports. In total, intrafirm trade accounted for 31% of exports and 35% of imports.

Table 1. U.S. Intrafirm Trade 2014

($ in billions)

Exports		Imports	
Total U.S. Exports	$1,632.6	Total U.S. Imports	$2,294.6
By U.S. Parents	802.4	To U.S. Parents	929.8
To Foreign Affiliates	314.3	From Foreign Affiliates	315.4
To Others	488.0	From Others	614,348
By Foreign Affiliates	425.2	To Foreign Affiliates	723,858
To Foreign Parent	188.7	From Foreign Parent	521,106
To Others	236.5	From Others	202,752
By Others	405,081	From Others	687,328
Intra MNC Exports:	$502,981 (30.8%)	Intra MNC Imports:	$836,520 (35%)

Source: Department of Commerce.

Foreign Investments by Industry and Country

As indicated in **Table 2**, foreign investors from a broad range of countries spanning the developed and developing economies have invested in an array of industries throughout the U.S. economy. Investment spending by developed economies accounts for over 90% of all foreign direct investment in the United States. These investments, predominately in the manufacturing sector, valued at $1.2 trillion in 2015, or about one-third of all foreign direct investment, represent the largest share of foreign direct investment by industrial sector, as indicated in **Figure 5.** Foreign direct investment in the finance and insurance, wholesale trade, information, and banking sectors represented about another one-third of all foreign direct investment. Within the manufacturing sector, foreign direct investment is most heavily concentrated in the chemicals and transport sectors, which accounts for half of all foreign direct investment in the U.S. manufacturing sector; foreign direct investment in the U.S. food sector accounts for about 6%, while other major manufacturing industries account for less, as indicated in **Figure 6**.

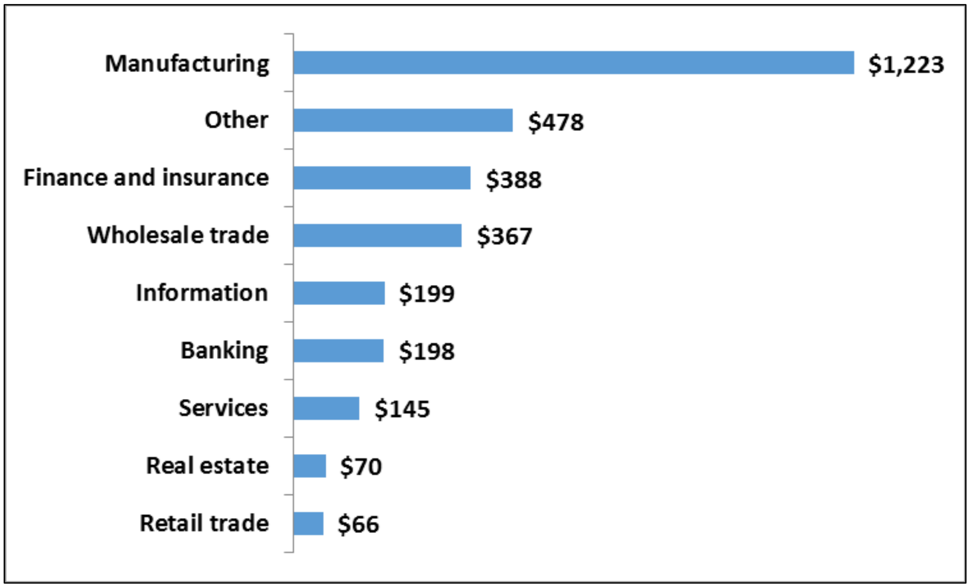
Estimates indicate that labor productivity, particularly in some parts of the U.S. manufacturing sector, has been robust compared not only with other sectors in the U.S. economy, but also relative to other advanced economies. From 1993 to 2010, the latest year for which such data are available, labor productivity in the U.S. manufacturing sector doubled, while U.S. nonfarm business labor productivity increased by about 50%.[9] In addition, from 2002 to 2011, U.S. unit labor costs expressed in U.S. dollars, or the average cost of one unit of labor inputs required to produce one unit of output, fell by 15%, while unit labor costs rose in 18 other countries.[10]

[9] *Jobs Supported by Exports 2013: An Update*, p. 7.

[10] *International Comparisons of Manufacturing Productivity and Unit Labor Cost Trends, 2011 Tables*, Bureau of Labor Statistics, December 6, 2012.

Figure 5. Foreign Direct Investment Position in the United States by Major Sector, 2015

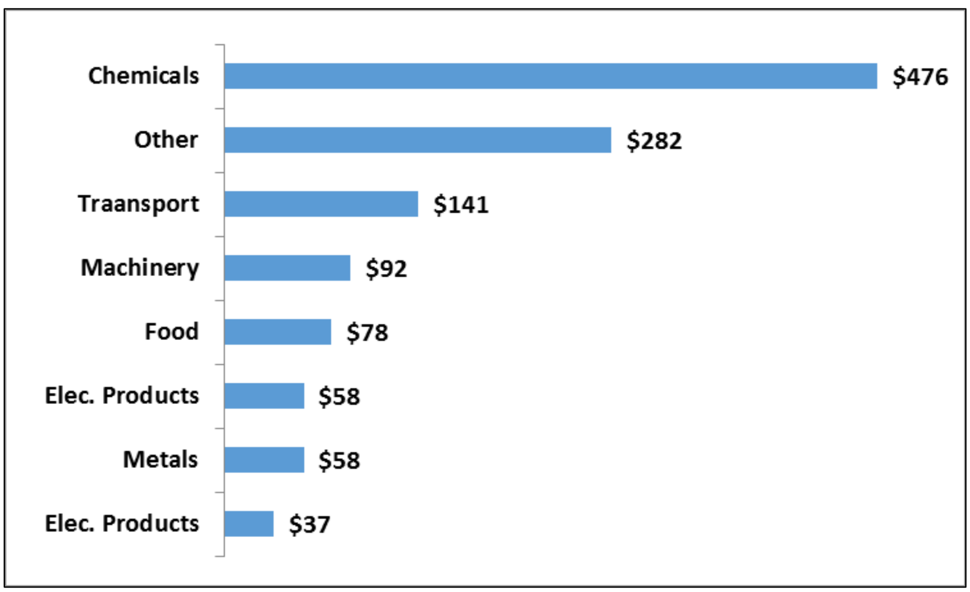
($ in billions)



Source: Department of Commerce.

Figure 6. Foreign Direct Investment Position in the U.S. Manufacturing Sector, 2015

($ in billions)

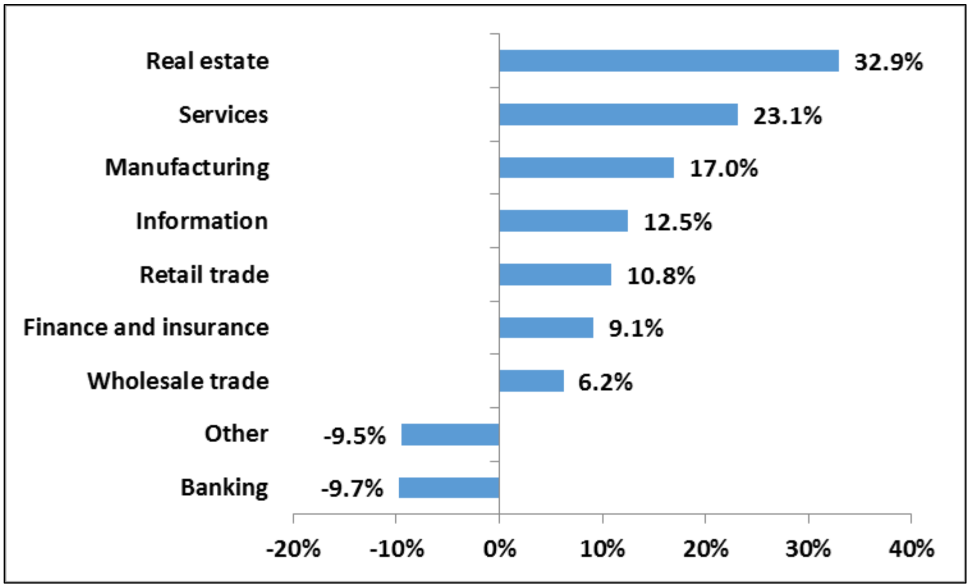


Source: Department of Commerce.

As **Figure 7** shows, the largest increases in foreign direct investment by industry were represented by a nearly one-third increase in investments in the real estate sector in 2015 compared with investments in 2014. Foreign direct investment in the U.S. manufacturing sector rose by nearly one-fourth in 2015 over similar investment spending the previous year. In contrast, foreign direct investment spending in the banking sector was down nearly 10% in 2015 from that invested in 2014.

Figure 7. Change in Foreign Direct Investment in the United States by Major Sector, 2014 to 2015

(% change, year over year)

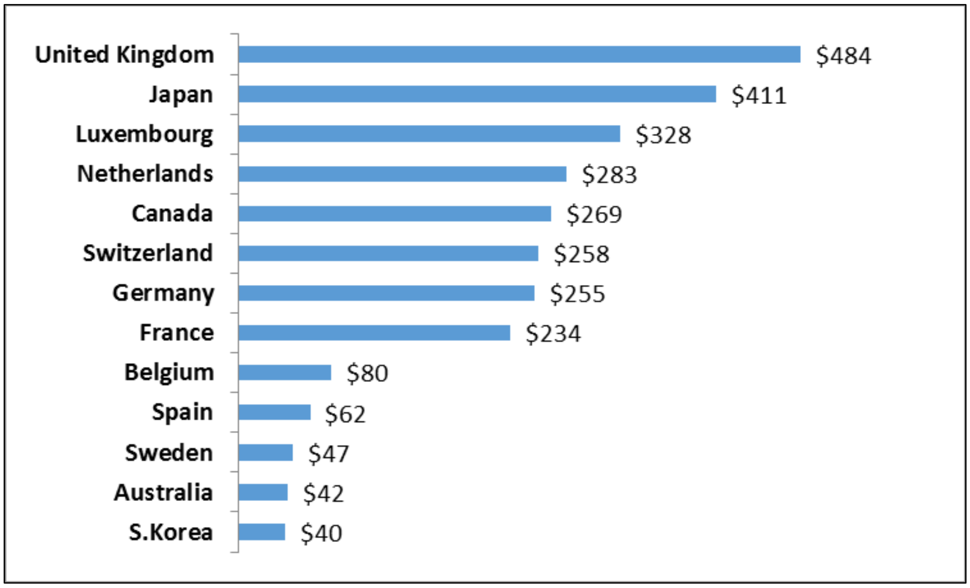


Source: Department of Commerce.

By country of origin of the foreign investor, the United Kingdom, with investments of $484 billion, is the largest foreign direct investor in the United States, while Japan ($411 billion) is the second-largest foreign direct investor in the U.S. economy, as indicated in **Figure 8**. Following Japan are Luxembourg ($398), the Netherlands ($287 billion), the Canadians ($269 billion), the Swiss ($2589 billion), the Germans ($255 billion), and the French ($234 billion).

Figure 8. Foreign Direct Investment Position in the United States by Country, 2015

($ in billions)



Source: Department of Commerce.

In some cases, investments by one or two countries dominate certain industrial sectors, suggesting that there is a rough form of international specialization present in the investment patterns of foreign multinational firms. At year-end 2015, the cumulative amount of investment, or the investment position measured at historical cost, indicates that the Netherlands and the United Kingdom accounted for the bulk of foreign investments in the U.S. petroleum sector, reflecting investments by two giant companies: Royal Dutch Shell and British Petroleum. Japanese investments in the U.S. wholesale trade sector are also substantial, followed by British investments, and European investors account for the bulk of foreign investments in the retail trade sector. German investors are the largest investors in the information sector as a result of a number of large media company acquisitions. French, German, and British investments dominate other foreign investments in the banking sector, while Dutch, Canadian, British, and French investments account for over half of the investments in the finance sector.

Foreign direct investment in the U.S. manufacturing sector is dominated by a number of countries, each with substantial investments: investments by Luxembourg ($202 billion), the United Kingdom ($188 billion), the Netherlands ($144 billion), Japan ($128 billion), Switzerland ($117 billion), France ($84 billion), and Germany ($76 billion) account for nearly 80% of the total amount of foreign direct investment in this sector. Canada's $62 billion investment in the U.S. finance and insurance sectors edges out Japan's $61 billion and the $60 billion invested by the Swiss.

Table 2. Foreign Direct Investment Position in the United States on a Historical-Cost Basis at Year-End 2015

(in billions of U.S. dollars)

All	All industries	Manu-facturing	Wholesale trade	Retail trade	Infor-mation	Banking	Finance	Real estate	Services	Other industries
All countries	**$3,134.2**	**$1,222.9**	**$367.1**	**$65.7**	**$198.9**	**$197.9**	**$387.5**	**$70.5**	**$145.5**	**$478.3**
Canada	269.0	52.5	19.5	7.7	6.3	49.9	61.9	8.7	6.9	55.7
Europe	**2,162.8**	**964.7**	**180.8**	**48.3**	**157.7**	**105.6**	**240.6**	**35.6**	**120.5**	**308.9**
E.U.	1,866.5	835.7	144.2	38.8	141.9	102.9	180.4	31.4	119.4	271.7
Belgium	80.1	45.5	18.8	(D)	(D)	(D)	(D)	(D)	0.3	7.4
France	233.8	96.7	15.3	5.1	(D)	20.3	36.3	0.9	10.2	(D)
Germany	255.5	96.7	25.6	(D)	(D)	19.3	19.8	9.9	(D)	18.5
Ireland	13.5	-8.2	-2.8	(D)	(D)	0.0	4.2	(D)	(D)	3.0
Italy	28.6	7.3	2.2	5.4	0.1	(D)	(D)	0.1	(D)	2.8
Luxembourg	328.4	202.3	14.3	1.9	23.1	0.0	18.6	1.5	27.8	38.8
Netherlands	282.5	143.3	25.4	4.8	13.2	(D)	29.9	6.8	7.3	(D)
Spain	61.9	9.7	0.1	(D)	0.1	16.4	(D)	0.6	0.5	16.9
Sweden	46.9	32.7	(D)	(D)	(D)	(D)	0.1	(D)	(D)	4.2
Switzerland	257.9	117.4	20.5	(D)	15.8	(D)	60.1	1.9	0.8	33.5
UK	483.8	187.9	27.8	5.0	29.7	(D)	51.4	3.9	34.6	(D)
L. Am.	**118.8**	**37.0**	**1.8**	**(D)**	**1.4**	**7.0**	**7.3**	**9.7**	**4.6**	**(D)**
Mexico	16.6	3.8	1.3	0.1	(D)	1.0	0.3	(D)	0.1	9.6
UK Car.	93.0	20.5	9.5	1.6	1.2	(D)	19.4	6.6	0.5	(D)
Africa	**0.7**	**0.0**	**(D)**	**(D)**	**0.0**	**(D)**	**0.0**	**0.5**	**(D)**	**(D)**
Mid. East	**18.5**	**3.9**	**(D)**	**(D)**	**0.8**	**(D)**	**2.7**	**1.7**	**(D)**	**1.8**
Asia	**564.4**	**164.7**	**159.2**	**7.7**	**32.6**	**33.4**	**75.0**	**14.3**	**14.3**	**63.1**
Australia	42.3	12.2	3.7	(D)	0.0	1.5	4.7	1.1	1.1	(D)
China	14.8	3.2	1.1	0.0	0.2	2.9	0.5	2.7	-0.2	4.5
Japan	411.2	128.3	121.8	7.3	30.8	23.0	61.1	9.5	9.4	20.0
Korea	40.1	5.9	26.5	0.0	(D)	1.1	0.6	(D)	0.1	5.8
Singapore	19.4	8.7	1.3	(D)	-0.3	0.5	(D)	0.0	0.4	(D)
OPEC	15.7	2.8	(D)	(D)	(D)	1.5	2.6	1.1	0.0	(D)

Source: Jenniges, Derrick T. and James J. Fetzer. Direct Investment Positions for 2015: Country and Industry Detail, Survey of C*urrent Business*, July 2016. p. 16.

Notes: The position is the stock, or cumulative, book value of foreign direct investors' equity in, and net outstanding loans to, their U.S. affiliates. A negative position may result as U.S. affiliates repay debts to their foreign parents, and as foreign parents borrow funds from their U.S. affiliates. "D" indicates that data have been suppressed by the Department of Commerce to avoid the disclosure of data of individual companies.

Acquisitions and Establishments

Another way of looking at foreign direct investment is by distinguishing between transactions in which foreigners acquire existing U.S. firms and those in which foreigners establish new firms—termed "greenfield" investments. New investments are often preferred at the local level because they are thought to add to local employment, whereas a foreign acquisition itself may add little, if any, new employment. In 2008 (the last year such data were collected and published by the Bureau of Economic Analysis), outlays for new investments, which include investments made directly by foreign investors and those made by existing U.S. affiliates, were $260 billion, a 3.0% increase over the $252 billion invested in 2007.

Acquisitions of existing U.S. firms generally account for more than 90% of the new investments by value. Investments by the existing U.S. affiliates of foreign firms have accounted for more than 80% of the total transactions by investor, while other foreign direct investors accounted for the remaining 20% of transactions. Investment outlays by foreign firms decreased from 2011 to 2012. The Department of Commerce halted publication of the annual report on foreign acquisitions after the June 2008 edition. Instead, it reportedly is developing a separate survey that it expects will better capture the construction of new plants by foreign-owned firms that are operating in the United States.

Foreign Investment and National Security

With a few exceptions for national security, U.S. foreign investment policy since the end of WWII has supported and promoted foreign direct investment, both U.S. direct investment abroad and foreign direct investment in the United States. According to the United Nations, over the past decade national security-related concerns have become more prominent in the investment policies of numerous countries. As a result, countries have adopted new measures to restrict foreign investment or have amended existing laws concerning investment-related national security reviews.[11] International organizations have long recognized the legitimate concerns of nations in restricting foreign investment in certain sectors of their economies, but the recent increase in such restrictions has raised a number of policy issues.

The United States addresses national security concerns related to foreign acquisitions, mergers, or takeovers of existing U.S. firms through a multiagency process known as the Committee on Foreign Investment in the United States (CFIUS). The interagency committee serves the President in overseeing the national security implications of foreign investment by reviewing foreign investment transactions to determine if (1) they threaten to impair the national security; (2) the foreign investor is controlled by a foreign government; or (3) the transaction could affect homeland security or would result in control of any critical infrastructure that could impair the national security. The President has the authority to block proposed or pending foreign investment transactions that threaten to impair the national security. The CFIUS process is not a formal approval process, but is a voluntary process that, nevertheless, leaves firms vulnerable to any future review and possible divestiture if they do not notify CFIUS of an impending investment transaction.[12]

In an annual report required by Congress, CFIUS indicated in February 2016 that 42% of the foreign investment transactions that were notified to CFIUS from 2008 to 2014 were in the

[11] *World Investment Report 2016*, United Nations Conference on Trade and Development, 2016, p. 95.

[12] CRS Report RL33388, *The Committee on Foreign Investment in the United States (CFIUS)*, by (name redacted) .

manufacturing sector.[13] Investments in finance, information, and services sectors accounted for another 31% of the total notified transactions, as indicated in **Table 3**. Within the manufacturing sector, more than 40% of all the investment transactions notified to CFIUS were in the computer and electronic products sectors. The next two sectors with the highest number of transactions were the transportation equipment sector and the machinery sector. Investment transactions in the services sector accounted for about half of the total number of investment transactions in the finance, information, and services category.

Table 3. Industry Composition of Foreign Investment Transactions Reviewed by CFIUS, 2008-2014

Year	Manufacturing	Finance, Information, and Services	Mining, Utilities, and Construction	Wholesale and Retail Trade	Total
2008	72	42	25	16	155
2009	21	22	19	3	65
2010	36	35	13	9	93
2011	49	38	16	8	111
2012	47	36	23	8	114
2013	35	32	20	10	97
2014	69	38	25	15	147
Total	**329**	**243**	**141**	**69**	**782**

Source: *Annual Report to Congress*, Committee on Foreign Investment in the United States, February 2016.

In addition, the growing international presence and investment activity of firms that are owned by or controlled by foreign governments, sometimes referred to as state-owned enterprises (SOEs), are raising concerns over the economic and security implications of these firms. According to the Organization for Economic Cooperation and Development (OECD) "an estimated 22% of the world's largest 100 firms are now effectively under state control, the highest percentage in decades."[14] In particular, policymakers are concerned that some governments give preferential treatment to SOEs in ways that may convey a competitive edge in their overseas activities and may create anticompetitive effects in the global marketplace.[15] Such an association, for instance, may offer firms greater market protection at home from which they arguably can develop a strong competitive position, or offer access to below-market financing terms through other government-controlled entities, providing firms with a competitive advantage over firms that are subject to market conditions. Arguably, these types of close associations between firms and governments may blur the distinction between firms that engage in economic activities purely for commercial reasons and those that operate at the behest of a foreign government to achieve a public policy goal. As a result, some policymakers are concerned that SOEs may engage in foreign investment activities that could compromise national security objectives.

Conversely, others argue that firms that are not subjected to the crucible of market competition due to protection by their governments may lack the incentives that are necessary to become

[13] *Committee on Foreign Investment in the United States Annual Report to Congress*, February 2016, p. 4.

[14] *State-Owned Enterprises as Global Competitors: A Challenge or an Opportunity?*, Organization for Economic Cooperation and Development, 2016, p. 13.

[15] Ibid, p. 27.

competitive over the long run. To date, the OECD has found little evidence that the potential advantages accorded to SOEs affect their international economic performance. The OECD concluded that, "Ownership is neither necessary for governments to influence an enterprises' operations, nor does it inevitably entail such influence."[16]

Economic Performance

By year-end 2012, the latest year for which detailed data are available, foreign firms employed 6.3 million Americans, less than 4% of the U.S. civilian labor force, and owned over 33,000 individual business establishments.[17] Foreign firms have a direct investment presence in every state. Employment of these firms ranges from over 660,000 in California, to about 7,200 in Montana. Following California, Texas (515,100), New York (490,000), Pennsylvania (306,000), Illinois (288,000), Florida (262,000), and New Jersey (259,000) have the largest numbers of residents employed by foreign firms.

In 2012, about 37% of the foreign firms' employment was in the manufacturing sector, more than twice the share of manufacturing employment in the U.S. economy as a whole, with average annual compensation (wages and benefits) per worker of about $80,000. Retail and wholesale trade each accounted for another 10% of total affiliate employment. Dutch-affiliated firms are the largest single employers in the retail trade sector and account for nearly one-third of total affiliate employment in this sector, while Japanese and German firms account for 80% of the employment in the wholesale trade sector. British and Japanese firms account for the largest share of affiliate employment in the professional services sector, which accounted for about 5% of total affiliate employment. Employment in the information, finance, and real estate services sectors accounts for about another 12% of total affiliate employment. In a number of cases, the Department of Commerce has suppressed data on employment by industry. Average employee compensation is highest in the finance sector—$181,000—where British, Canadian, Swiss, French, and Dutch firms account for three-fourths of the employment. The rest of the affiliate employment is spread among a large number of other industries.

The affiliates of foreign firms spent $221 billion in the United States in 2012 on new plants and equipment, imported $777 billion in goods, and exported $343 billion in goods. Since 1980, the total amount of foreign direct investment in the economy has increased eight-fold and nearly doubled as a share of U.S. gross domestic product (GDP) from 3.4% to 6.4%. It is important to note, however, that these data do not imply anything in particular about the role foreign direct investment has played in the rate of growth of U.S. GDP.

The performance of foreign-owned establishments, on average, compared with their U.S.-owned counterparts presents a mixed picture. Historically, foreign-owned firms operating in the United States have had lower rates of return, as measured by return on assets, than U.S.-owned firms, although the gap between the two groups appears to have narrowed over time. According to the Bureau of Economic Analysis, this narrowing of the gap in the rate of return appears to be related to age effects, or the costs associated with acquiring or establishing a new business that can entail startup costs that disappear over time and market share.[18] By other measures, foreign-owned

[16] Ibid, p. 84.

[17] *Foreign Direct Investment in the United States: Operations of U.S. Affiliates of Foreign Companies, Preliminary 2011 Estimates*. Bureau of Economic Analysis, September 2013, Table 1A-1.

[18] Mataloni, Raymond J. Jr., An Examination of the Low Rates of Return of Foreign-Owned U.S. Companies, *Survey of Current Business*, March 2000, p. 55.

manufacturing firms appear to be outperforming their U.S. counterparts.[19] Although foreign-owned firms account for less than 3% of all U.S. manufacturing establishments, they have had six times more value added on average and seven times higher value of shipments than other manufacturing establishments. The average plant size for foreign-owned firms is much larger—six times—than for other U.S. firms, on average, in similar industries. This difference in plant size apparently rises from an absence of small plants among those that are foreign-owned. As a result of the larger plant scale and newer plant age, foreign-owned firms paid wages on average that were 60% higher than other U.S. manufacturing firms, had 40% higher productivity per worker, and had 58% greater output per worker than the average of comparable U.S.-owned manufacturing plants. Foreign-owned firms also display higher capital intensity in a larger number of industries than all U.S. establishments.

These differences between foreign-owned firms and all U.S. firms should be viewed with some caution. First, the two groups of firms are not strictly comparable: the group of foreign-owned firms comprises a subset of all foreign firms, which includes primarily very large firms; the group of U.S. firms includes all firms, spanning a broader range of sizes. Secondly, the differences reflect a range of additional factors, including the prospect that foreign firms that invest in the United States likely are large firms with proven technologies or techniques they have successfully transferred to the United States. Small foreign ventures, experimenting with unproven technologies, are unlikely to want the added risk of investing overseas. Foreign investors also tend to opt for larger-scale and higher-capital-intensity plants than the average U.S. firm to offset the risks inherent in investing abroad and to generate higher profits to make it economical to manage an operation far removed from the parent firm.

Conclusions

Foreign direct investment in the United States in 2015 rose sharply above the amount invested in 2013, reflecting a number of events, particularly a growing U.S. economy and rising equity values. Globally, foreign direct investment inflows increased by 38% in 2015 to reach $1.7 trillion. While this is a positive sign, global foreign direct investment flows have not recovered from their pre-financial-crisis levels: global direct investment inflows in 2007 were recorded at $2.0 trillion. Many regions in Africa and parts of Latin America experienced a slowdown in foreign direct investment inflows in 2015, with economies in transition experiencing a decrease in direct investment inflows of about 38%. As the rate of growth of the U.S. economy improves relative to other advanced economies, interest rates stay low, and the rate of price inflation stays in check, foreign direct investment in the United States likely will increase. Estimates based on the first three quarters of 2016 indicate that foreign direct investment in the U.S. economy may increase slightly over that recorded in 2015.

Of particular importance will be public concerns over foreign direct investment in the economy as a whole and on the overall phenomenon referred to as "globalization," with its impact on jobs in the economy. Concerns over foreign direct investment, where they exist, stem not so much from the perceived potential losses of international competitiveness that characterized similar concerns in the 1980s, but from potential job losses that could result from mergers and acquisitions, although such losses could occur whether the acquiring company is foreign- or U.S.-owned. Such concerns are offset, at least in part, by the benefits that are perceived to be derived from the inflow of capital and the potential for new jobs being created in local areas.

[19] *Foreign Direct Investment in the United States, Establishment Data for 2002*, Bureau of Economic Analysis, June 2007.

Although job security is an important public issue, opposition to some types of foreign direct investment stems from concerns about the impact of such investment on U.S. economic and national security interests, particularly in light of the terrorist attacks of September 11, 2001. Particular foreign investments have raised national security concerns, but likely have not been a major factor in deterring foreign investors. Despite the national security complications, the U.S. economy remains a prime destination for foreign direct investment. As the pace of economic growth in the nation increases relative to that of foreign economies, foreign direct investment likely will increase as new investments are attracted to the United States and existing firms are encouraged to reinvest profits in their U.S. operations.

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