Congressional Research Service
Informing the legislative debate since 1914

IN FOCUS

Updated February 19, 2025

Foreign Direct Investment: Background and Issues

Both outward and inward foreign direct investment (FDI) are significant to the U.S. economy, international trade, and global supply chains. The United States is the world's largest source and recipient of FDI. The U.S. government has generally supported a rules-based and open trade and investment environment (domestically and internationally) to promote U.S. economic growth, attract FDI, and advance the competitiveness of U.S. firms. U.S. trade and investment policy has involved negotiating investment rules and market access commitments within free trade agreements (FTAs) and bilateral investment treaties (BITs), and administering investment financing and promotion programs. The executive branch also has reviewed a small share of inbound foreign investment transactions that may pose potential national security risks.

What Is Foreign Direct Investment (FDI)?

FDI is a type of cross-border investment that occurs when a resident of one country obtains a lasting interest in and degree of influence over the management of a business in another country (commonly 10% or more of voting securities or equivalent interest). FDI can include establishing new operations (greenfield investments), purchasing established operations (mergers and acquisitions), or providing capital for existing operations. It is distinct from portfolio investment (i.e., ownership of stocks, bonds, other financial assets), which does not involve obtaining a degree of control in the overseas business. The U.S. Bureau of Economic Analysis provides data on the U.S. direct investment position abroad (i.e., cumulative level) and FDI in the United States position at market value, and provides supplemental data by historical cost (or book value) and current cost (current cost of plant, equipment, land, inventories). Detailed data on FDI by country/industry are only available at historical cost.

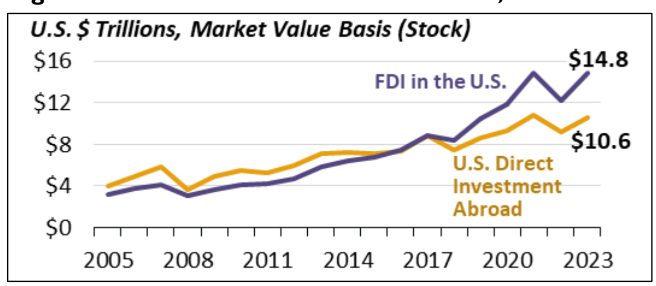
The Biden Administration sought to maintain an "Open Investment Policy," to treat investors "fairly and equitably under the law" and "maintain a level playing field." It also aimed to support investments (both domestic and foreign) in "critical" U.S. industries such as semiconductors and clean energy. The Trump Administration's "America First Trade Policy" states that it is establishing a "reinvigorated trade policy that promotes investment and productivity." Since January 2025, President Trump has touted commitments by foreign companies to invest in artificial intelligence, emerging technologies, and data centers in the United States. Congress has enacted laws and considered bills to regulate or restrict certain FDI and incentivize the "reshoring" or "nearshoring" of investments in strategic sectors. Congress may continue to debate these issues, particularly in the context of industrial policy interests and potential security and competitiveness risks posed by China's investments in the United States and overseas.

FDI Trends

Global FDI flows fell by 2% in 2023 compared to 2022, according to the United Nations Conference on Trade and Development (UNCTAD). Experts estimated a steeper decline (more than 10%) when excluding investment flows through European conduit economies (transfer points before final destination). Experts attribute the contraction to a slowing global economy, geopolitical and trade tensions, and tighter financing conditions for international projects in certain sectors, such as energy and infrastructure. FDI flows varied across sectors and regions. For example, FDI grew in "global value chain-intensive manufacturing" sectors, such as autos and electronics, and in critical minerals. At the same time, developing countries faced challenges in attracting FDI and entering global production networks.

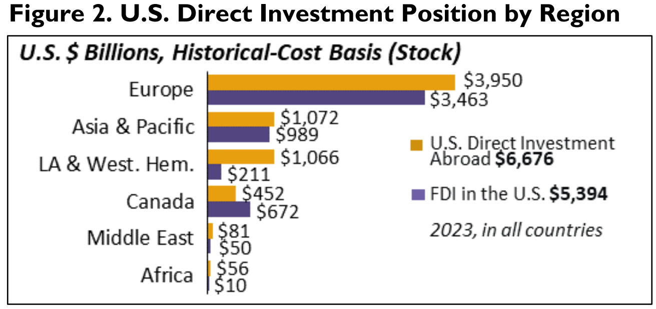
During 2005-2023, on a market value, stock basis, U.S. direct investment abroad nearly tripled, and FDI in the United States more than quadrupled (**Figure 1**). In 2023, on a historical-cost basis, most U.S. direct investment abroad was in high-income countries. By region, Europe remained the top U.S. FDI partner (**Figure 2**). By sector, the United States invested mainly in holding companies (nonbank); manufacturing (e.g., chemicals, computers and electronics); and finance (excluding depositary institutions) and insurance. The largest share of FDI into the United States was in the manufacturing sector, mainly chemicals.

Figure 1. U.S. Direct Investment Position, 2005-2023



Source: CRS with data from the U.S. Bureau of Economic Analysis.
Note: Not adjusted for inflation.

Figure 2. U.S. Direct Investment Position by Region



Source: CRS with data from the U.S. Bureau of Economic Analysis.

Key Debates and Issues for Congress

Motivating factors for FDI include enabling U.S. firms to expand globally and access markets abroad, for example through establishing foreign subsidiaries, and attracting foreign capital and businesses to the United States that support jobs, innovation, and production capacity in certain sectors. Some policymakers assert that FDI can advance

U.S. foreign policy interests and industrial competitiveness. Others contend that certain FDI may drive U.S. production and jobs offshore, and undermine U.S. competitiveness in critical areas. Other concerns are that certain FDI, particularly between the United States and China in strategic sectors may challenge U.S. economic and national security interests. Issues facing Congress include

FDI and Outsourcing. Firms invest abroad typically to expand access to markets, globalize production, and lower costs. Most U.S. FDI abroad is in high-income developed countries, and foreign affiliates sell most of their output in the country in which they are located or to neighboring countries. In some cases, foreign governments, such as China, enact measures that incentivize or pressure firms to make investments in order to operate in their markets. While definitions vary, offshoring generally occurs when a company relocates some industrial activity or part of its supply chain abroad, either in manufacturing or services; the offshored activity that had been intended for the domestic market is then imported. Some Members are concerned that FDI abroad may contribute to closures of U.S. facilities and layoffs, especially in cases where firms offshore to lower-wage developing countries. While there are examples of U.S. firms closing a domestic plant and opening one abroad, no official sources track the scale and impact of such activities. FDI flows may have mixed impacts on jobs in certain companies and sectors. Some studies find that offshoring has modest effects on overall employment and attribute the overall decline of U.S. manufacturing jobs to broader economic factors, e.g., productivity improvements. Congress might examine the positive and negative effects of outward FDI on the U.S. economy. Some Members have proposed bills to modify tax incentives in attempts to incentivize domestic over foreign investments.

Foreign Investment and National Security. The interagency Committee on Foreign Investment in the United States (CFIUS) reviews a small share of inward FDI for potential national security risks. CFIUS has authority to clear and/or mitigate risks arising from transactions. The President may prohibit transactions that CFIUS determines threaten U.S. national security and cannot be mitigated. In 2018, Congress updated CFIUS authorities through the Foreign Investment Risk Review Modernization Act (FIRRMA, Title XVII, P.L. 115-232). Among other changes, FIRRMA expanded CFIUS' ability to review certain noncontrolling investments in U.S. businesses and certain real estate deals near sensitive U.S. sites.

Some Members contend that certain foreign investments in the United States by firms directed, controlled, or funded by foreign governments, particularly China, continue to pose national security risks. They seek further reforms to address certain transactions (e.g., greenfield investments) that may evade or fall outside U.S. authorities. Some bills in the 118th Congress would have expanded CFIUS review (e.g., H.R. 9456/S. 5007) and restricted some U.S. outbound investments (e.g., H.R. 6349). In 2023, then-President Biden issued Executive Order 14105 to establish a program that (1) prohibits certain U.S. investments in "countries of concern" involving sensitive technologies that pose acute national security risks, and (2) requires notification to the U.S. government for lower risk investments. Some bills (e.g., H.R. 6349) would have codified aspects of the program. President Trump directed Treasury to review whether the program should be modified or rescinded.

Investment Agreements and Initiatives. Multilateral rules address FDI in a limited manner. The United States has used BITs and FTAs to establish investment rules and norms globally that generally obligate parties to reduce FDI restrictions and ensure non-discriminatory treatment of investors and investment, subject to national security and other exceptions. Obligations have typically been enforced through an investor-state dispute settlement (ISDS) mechanism. The 2020 U.S.-Mexico-Canada Agreement (USMCA) has the most recent set of U.S. investor protections and notably limits recourse to ISDS. Other dialogues that cover investment include Trade and Investment Framework Agreements and certain executive initiatives. The Biden Administration's U.S.-EU Trade and Technology Council aimed to promote cooperation on investment screening, and its Indo-Pacific Economic Framework for Prosperity aimed to facilitate clean energy and infrastructure investments. It is unclear whether the Trump Administration will continue these initiatives or seek new investment policy cooperation.

BITs require two-thirds Senate approval; FTAs require enactment of legislation to enter into force. Congress set U.S. negotiating objectives for foreign investment most recently in the 2015 Trade Promotion Authority (TPA, P.L. 114-26), which expired in 2021. TPA objectives included reducing barriers to FDI and ensuring investor protections "comparable" to those ensured under U.S. law. It is unclear whether Congress will seek to renew TPA or enact separate trade authorities covering FDI. Congress may also consider its priorities for the anticipated 2026 USMCA joint review, including those related to investment (e.g., ISDS).

Investment Financing and Promotion. Key federal tools to facilitate FDI are the U.S. International Development Finance Corporation (DFC) and SelectUSA. Congress established DFC in 2018 (P.L. 115-254), partially in response to China's "One Belt, One Road." DFC, whose authorization expires in October 2025, has used financial tools to promote U.S. private investment, generally in less-developed countries, to support economic development and advance U.S. economic and foreign policy interests. SelectUSA, a Commerce Department program established in 2011 (E.O. 13577), has coordinated federal efforts to attract and retain FDI in the United States. It has offered market information and counseling to firms, platforms to connect investors and partners, and other services.

Congress may examine whether or not DFC and SelectUSA are effective in advancing investment promotion, including for key sectors, and addressing competition concerns (e.g., China). Some Members have introduced bills to direct SelectUSA activity to support semiconductor supply chains (e.g., 119th Cong., S. 97; 118th Cong., H.R. 752). For DFC, such issues could come up in the context of possible reauthorization consideration (e.g., 118th Cong, H.R. 8926).

Shayerah I. Akhtar, Specialist in International Trade and Finance
Cathleen D. Cimino-Isaacs, Specialist in International Trade and Finance

Disclaimer