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Abstract
The United States is the largest investor abroad and the largest recipient of direct investment in the world. For some Americans, the national gains attributed to investing overseas are offset by such perceived losses as displaced U.S. workers and lower wages. Some observers believe U.S. firms invest abroad to avoid U.S. labor unions or high U.S. wages, however, 74% of the accumulated U.S. foreign direct investment is concentrated in high income developed countries, who are members of the Organization for Economic Cooperation and Development (OECD). Even more striking is the fact that the share of investment going to developing countries has fallen in recent years. Most economists conclude that direct investment abroad does not lead to fewer jobs or lower incomes overall for Americans and that the majority of jobs lost among U.S. manufacturing firms over the past decade reflect a broad restructuring of U.S. manufacturing industries responding primarily to domestic economic forces.

Keywords
direct investment, United States, labor market, worker displacement, manufacturing

Comments

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Summary

The United States is the largest investor abroad and the largest recipient of direct investment in the world. For some Americans, the national gains attributed to investing overseas are offset by such perceived losses as displaced U.S. workers and lower wages. Some observers believe U.S. firms invest abroad to avoid U.S. labor unions or high U.S. wages, however, 74% of the accumulated U.S. foreign direct investment is concentrated in high income developed countries, who are members of the Organization for Economic Cooperation and Development (OECD). Even more striking is the fact that the share of investment going to developing countries has fallen in recent years. Most economists conclude that direct investment abroad does not lead to fewer jobs or lower incomes overall for Americans and that the majority of jobs lost among U.S. manufacturing firms over the past decade reflect a broad restructuring of U.S. manufacturing industries responding primarily to domestic economic forces.

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Recent Investments

New spending by U.S. firms on businesses and real estate abroad, or U.S. direct investment abroad,[1] fell by 5% in nominal terms in 2012 from the amount invested in 2011, reflecting a slow rate of economic growth in Europe and elsewhere. Net investments fell from $409 billion in 2011 to $388 billion in 2012, including adjustments for changes in the value of some components, according to the Department of Commerce.[2] According to preliminary data, U.S. direct investment abroad in 2013 is estimated to be about $368 billion, a drop of 5% from the amount invested in 2012. A sharp drop in U.S. direct investment abroad that occurred in 2005 reflects actions by U.S. parent firms to reduce the amount of reinvested earnings going to their foreign affiliates for distribution to the U.S. parent firms in order to take advantage of one-time tax provisions in the American Jobs Creation Act of 2004 (P.L. 108-357). U.S. direct investment abroad also dropped between 2008 and 2010 below the amount recorded in 2007, reflecting the financial crisis that sharply reduced the availability of investment funds. Similarly, despite increases in income and earnings in 2012 compared with 2011, foreign direct investment in the United States fell by $66 billion to $166 billion in 2012, a drop of 28% compared with the $230 billion invested in 2011, due to a sharp reduction in net equity investment and intercompany debt.

Generally, relative rates of growth between U.S. and foreign economies largely determine the direction and magnitude of direct investment flows. These flows also are affected by relative rates of inflation, interest rates, and expectations about the performance of national economies, which means the flows can be quite erratic at times.

According to balance of payments data, U.S. direct investment abroad dropped in 2012 compared with 2011 as a result of a sharp reduction in net equity investment that overshadowed increases in reinvested earnings and intercompany debt investment. Equity capital fell from $65 billion in 2011 to $35 billion in 2012, or by half. Reinvested earnings, which comprised about 86% of total U.S. direct investment abroad in 2012, increased slightly over that recorded in 2011. Intercompany debt also increased slightly as the foreign affiliates reduced the amount of funds they borrowed from their parent companies. An increase in stock market valuations around the world in 2012 increased the overall value of U.S. direct investment abroad, measured at market value, by $736 billion. During the same period, the market value of foreign firms operating in the United States experienced an increase of over $1.0 trillion in 2012. In 2012, changes in the values of stocks owned by U.S. firms abroad increased by $900 billion, while the value of stocks owned in the United States by foreign firms increased by about $585 billion.[3]

Since the mid-1990s, the combination of strong growth and low inflation in the U.S. economy has attracted foreign investors, as indicated in **Figure 1**. From 2006 to 2010, U.S. direct investment

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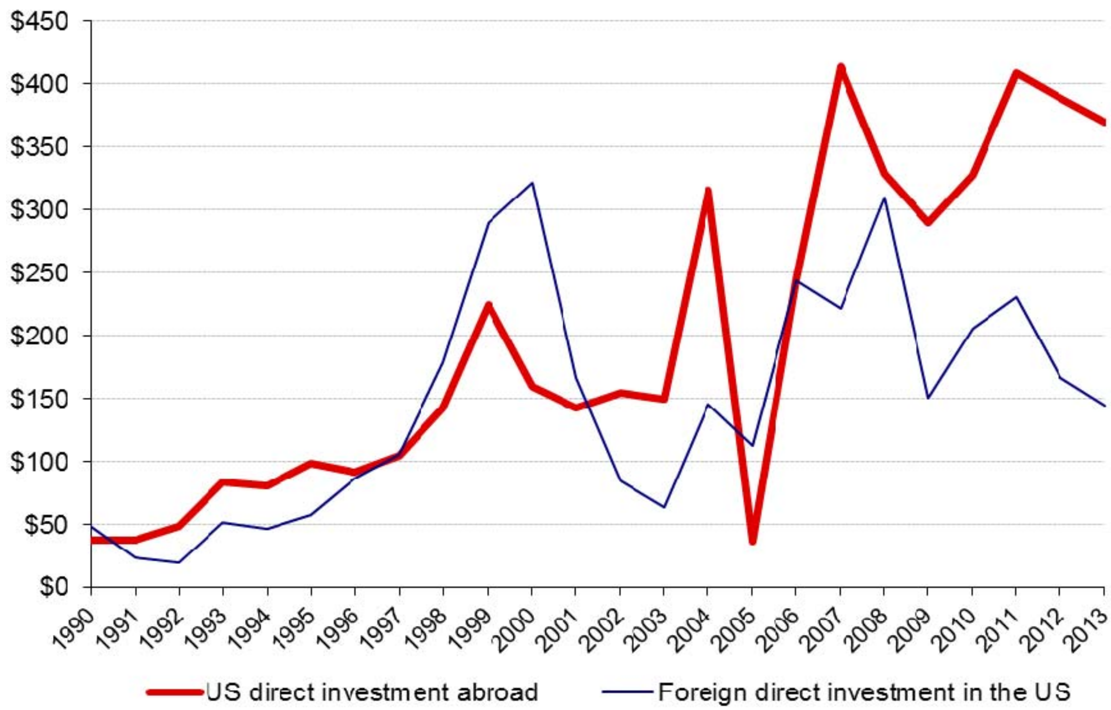
[1] The United States defines direct investment abroad as the ownership or control, directly or indirectly, by one person (individual, branch, partnership, association, government, etc.) of 10% or more of the voting securities of an incorporated business enterprise or an equivalent interest in an unincorporated business enterprise. 15 CFR §806.15 (a)(1).

[2] Scott, Sarah P., U.S. International Transactions: Second Quarter of 2013. *Survey of Current Business*, October 2013, p. 74. 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.

[3] Nguyen, Elena L., the International Investment Position of the United States at the End of the First Quarter of 2013 and Year 2012, *Survey of Current Business,* July 2013, p. 14.

abroad was about a third more than the amount foreigners invested in the U.S. economy. In 2010, both U.S. and foreign direct investment rose over the values of the previous year, but U.S. direct investment abroad was greater than the amount foreigners invested in U.S. businesses and real estate, reflecting the low rate of growth in the U.S. economy. Such investments picked up again in 2011, reaching more than $400 billion, but fell to $388 billion in 2012. On the whole, U.S. firms are the most prolific overseas investors: a recent study by the United Nations indicates that U.S. firms are the largest foreign direct investors in the world and own as much abroad as the British and Germans combined, the next largest foreign direct investors.

Figure 1. Foreign Direct Investment in the United States and U.S. Direct Investment Abroad, Annual Flows, 1990-2012 (in billions of dollars)



Source: U.S. Department of Commerce.

Note: The drop in U.S. direct investment abroad in 2005 reflects actions by U.S. parent firms to reduce the amount of reinvested earnings going to their foreign affiliates for distribution to the U.S. parent firms in order to take advantage of one-time tax provisions in the American Jobs Creation Act of 2004 (P.L. 108-357).

Table 1 indicates that the overseas direct investment position of U.S. firms on a historical-cost basis,[4] or the cumulative amount at book value, reached $4.4 trillion in 2012, the latest year for

[4] The position, or stock, is the net book value of U.S. parent company's equity in, and outstanding loans to, their affiliates abroad. 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 Commerce Department also publishes data on the U.S. direct investment position valued on a current-cost and market value bases. These estimates indicate that in 2012 U.S. direct investment abroad measured at current cost increased by $414 billion and by $736 billion when measured by market value, to reach $5.1 trillion and $5.2 trillion, respectively.

such investment position data.[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. About 74% of the accumulated U.S. foreign direct investment is concentrated in high income developed countries, who are members of the Organization for Economic Cooperation and Development (OECD): Europe alone accounts for over half of all U.S. direct investment abroad, or $2.5 trillion. Europe has been a prime target of U.S. investment since U.S. firms first invested abroad in the 1860s. American firms began investing heavily in Europe following World War II as European countries rebuilt their economies and later when they formed an intra-European economic union.

Table 1. U.S. Direct Investment Position Abroad on a Historical-Cost Basis at Year-End 2012

(in billions of dollars)

	All industries	Manu-facturing	Whole-sale trade	Infor-mation	Banking	Finance	Services	Holding companies	Other
All	**$4,453.3**	**$637.1**	**$205.1**	**$146.6**	**$119.7**	**$775.6**	**$94.1**	**$1,949.0**	**$303.8**
Canada	351.5	75.4	21.5	8.0	6.4	55.0	8.4	109.0	38.8
Europe	**2,477.0**	**311.4**	**83.7**	**98.1**	**73.3**	**380.3**	**53.5**	**1,288.8**	**174.0**
Belgium	53.8	27.5	6.0	1.0	0.8	12.7	1.1	1.5	3.1
France	82.6	25.2	6.3	2.3	1.5	7.5	3.7	15.3	20.7
Germany	121.2	35.1	12.0	7.0	1.3	19.5	5.1	30.5	10.4
Ireland	203.8	27.4	-1.0	24.8	(D)	-3.0	9.2	102.5	(D)
Italy	26.8	8.0	2.4	3.4	2.5	3.0	0.4	0.7	6.1
Luxemb.	383.6	10.2	(D)	6.7	(D)	47.1	0.4	302.1	(D)
Netherl.	645.1	50.4	17.0	8.0	(D)	38.4	7.4	499.2	(D)
Spain	31.4	13.4	2.6	1.0	1.4	5.3	0.3	4.5	2.6
Sweden	24.5	3.7	1.7	1.3	(D)	12.8	0.7	1.1	(D)
Switzer.	130.3	23.0	14.3	7.5	2.9	14.0	2.3	46.4	19.7
Turkey	6.0	1.7	1.7	0.1	(D)	0.4	0.0	0.9	(D)
UK	597.8	54.0	14.9	30.1	21.7	194.9	21.2	209.3	44.8
LAmerica	**869.3**	**93.6**	**43.0**	**13.3**	**5.9**	**215.0**	**4.3**	**386.0**	**42.3**
Brazil	79.4	29.6	4.2	5.6	(D)	14.7	1.3	11.3	(D)
Chile	39.9	4.6	1.6	0.3	(D)	5.7	0.5	(D)	(D)
Venez'	15.0	8.2	0.9	(D)	(D)	1.8	0.9	(D)	0.6
Mexico	101.0	35.6	3.3	1.8	1.2	15.6	0.0	25.0	10.2
Bermuda	304.5	2.2	3.3	1.3	0.2	61.0	0.2	217.7	18.4

[5] Barefoot, Kevin B., Marilyn Ibarra-Caton, Direct Investment Positions for 2012: Country and Industry Detail, *Survey of Current Business*, July, 2013. p. 26.

	All industries	Manu-facturing	Whole-sale trade	Infor-mation	Banking	Finance	Services	Holding companies	Other
Dom. Republic	1.7	1.1	0.0	0.0	(D)	(D)	0.0	0.0	(D)
UK Car.	219.9	0.2	20.8	0.9	-2.3	92.4	0.6	98.5	2.7
Africa	**61.4**	**4.0**	**1.4**	**0.2**	**2.5**	**6.7**	**0.8**	**9.0**	**1.8**
Middle East	**42.9**	**15.2**	**2.1**	**1.2**	**0.3**	**0.7**	**1.2**	**7.5**	**1.4**
Asia	**651.3**	**137.5**	**53.3**	**25.7**	**31.3**	**137.9**	**26.0**	**148.6**	**45.6**
Austral.	132.8	15.7	6.3	13.7	-0.1	17.7	7.3	39.2	6.4
China	51.4	31.5	4.9	-4.3	3.3	3.2	1.4	2.4	6.2
HK	47.8	4.5	13.9	1.2	1.9	5.3	2.3	15.7	2.9
Japan	134.0	18.8	9.7	5.9	4.2	78.7	3.0	3.6	10.0
Korea	35.1	13.1	2.0	0.2	(D)	8.1	0.7	0.7	(D)
Singapore	138.6	23.2	9.6	4.1	0.3	13.7	0.8	79.2	6.5
Taiwan	16.5	6.1	3.1	0.2	(D)	2.0	0.2	-0.1	(D)
OPEC	63.4	15.9	3.1	1.2	(D)	2.3	1.6	14.7	(D)

Source: Lowe, Jeffrey H., Direct Investment for 2009-2011: Detailed Historical-Cost Positions and Related Financial and Income Flows. *Survey of Current Business*, September 2012. p. 45.

Note: A (D) indicates that the data have been suppressed by the Department of Commerce to avoid disclosing the data of individual companies. A negative position may result as foreign affiliates repay debts to their U.S. parents, and as U.S. parents borrow funds from their foreign affiliates.

Typically, U.S. firms have placed the largest share of their annual investments in developed countries, primarily in Western Europe, but this tendency increased after the mid-1990s. In the last half of the 1990s, U.S. direct investment abroad experienced a dramatic shift from developing countries to the richest developed economies: the share of U.S. direct investment going to developing countries fell from 37% in 1996 to 21% in 2000. By location, in 2012, U.S. firms focused 51% of their investments in the highly developed economies of Europe, down from a share of about 60% of total overseas direct investment recorded in 2011. The share of investments directed to all developed economies, as defined by membership in the Organization for Economic Development and Cooperation (OECD) was 71% of total U.S. direct investment abroad. Another 24% of U.S. direct investment abroad was sent to Latin America (less Mexico and Chile) and 14% of investment was located in Asia (less Australia, Japan, New Zealand, and South Korea). New investments in Africa accounted for about 1.0% of total U.S. direct investment abroad in 2012, with investments in the Middle East accounting for about 2% of the total.

Patterns in U.S. direct investment abroad generally reflect fundamental changes that occur in the U.S. economy during the same period. As investment funds in the U.S. economy shifted from extractive, processing, and manufacturing industries toward high technology services and financial industries, U.S. investment abroad mirrored these changes. As a result, U.S. direct investment abroad focused less on the extractive, processing, and basic manufacturing industries in developing countries and more on high technology, finance, and services industries located in highly developed countries with advanced infrastructure and communications systems. The total amount of U.S. direct investment abroad, or the position, during the 2000-2012 period more than quadrupled, rising from $920 billion to $4.4 trillion. Annual investments in most sectors increased in 2012 over the amount invested in 2011, except for investment in the banking sector. Generally, service-oriented sectors continued to grow through 2012. Within the manufacturing sector, direct investments increased in 2012 relative to 2011 in all sectors except electrical appliances, reflecting the slow economic recovery as a result of the impact of the widespread impact economic recession.

U.S. Multinationals

Nations once hostile to American direct investment now compete aggressively by offering incentives to U.S. firms. A debate continues within the United States, however, over the relative merits of U.S. direct investment abroad. Some Americans believe that U.S. direct investment abroad, directly or indirectly, shifts some jobs to low wage countries. They argue that such shifts reduce employment in the United States and increase imports, thereby affecting negatively both U.S. employment and economic growth. Economists generally believe that firms invest abroad because those firms possess some special process or product knowledge or because they possess special managerial abilities which give them an advantage over other firms. On the whole, U.S. firms invest abroad to serve the foreign local market, rather than to produce goods to export back to the United States, although some firms do establish overseas operations to replace U.S. exports or production, or to gain access to raw materials, cheap labor, or other markets. In 2011, the latest year for which U.S. direct investment abroad data are available, 7.6% of affiliate sales were sold to the U.S. parent companies.[6]

U.S. multinational corporations (MNCs) rank among the largest U.S. firms. According to data collected by the Commerce Department's Bureau of Economic Analysis (BEA), when American parent companies and their foreign affiliates are compared by the size structure of employment classes, 40% of the more than 2,000 U.S. parent companies employ more than 2,499 persons. These large parent firms account for 95% of the total number of people employed by U.S. MNCs. Employment abroad is even more concentrated among the largest foreign affiliates of U.S. parent firms: the largest 2% of the affiliates account for 90% of affiliate employment.[7]

While U.S. MNCs used their economic strengths to expand abroad between the 1980s and early 2000s, the U.S.-based parent firms lost market positions at home, in large part due to corporate downsizing efforts to improve profits. In addition, U.S. multinational companies were disproportionately negatively affected in 2008 and 2009 by the global economic recession as a result of the geographic distribution of the multinational firms' activities and the industrial composition of their operations. U.S. MNC parent companies' share of all U.S. business gross domestic product (GDP)—the broadest measure of economic activity—declined from 32% to 25% from 1977 to 1989.[8] In 2007 (the latest year for which estimates are available), U.S. parent companies accounted for about 21% of total U.S. business activity. These MNC parent companies accounted for about 41% of total U.S. manufacturing activity, down from 46% in 2000.

[6] *U.S. Direct Investment Abroad: Operations of U.S. Parent Companies and Their Foreign Affiliates, Preliminary 2011 Estimates*, October 2013. Table II. E. 1.

[7] Mataloni, Raymond J. Jr. U.S. Multinational Companies: Operations in 1998. *Survey of Current Business*, July 2000. pp. 24-45.

[8] Mataloni, Raymond J. Jr. U.S. Multinational Companies: Operations in 2003. *Survey of Current Business*, July 2005. p. 15.

As U.S. MNC parent companies were losing their relative market positions at home, their cumulative amount of direct investment abroad doubled. This increase did spur a shift in some economic activity among the U.S. MNCs from the U.S. parent companies to the foreign affiliates. During the period from 2000 to 2007, the foreign affiliates increased their share of the total economic activity within U.S. MNCs—the combined economic output of the U.S. parent and the foreign affiliates—from 22% to 30%.[9]

Employment

One of the most commonly expressed concerns about U.S. direct investment abroad is that U.S. parent companies invest abroad in order to send low-wage jobs overseas. Such effects are difficult to measure because they are small compared with much larger changes occurring within the U.S. economy. In addition, no U.S. government agency collects data on U.S. firms in such a way that it is possible to track a plant closing in the United States with a comparable plant opening in a foreign country. As a result, most data on the activity of U.S. firms shifting plants or jobs abroad are anecdotal. A cursory examination of the data seems to indicate that employment losses among parent firms occurred simultaneously with gains in foreign subsidiaries, thereby giving the impression that jobs are being shifted abroad. Employment patterns, however, are determined by a broad range of factors, and shifts in plant locations by U.S. multinational firms likely represent a small part, at best, of the overall pattern of employment in the United States.

Employment among U.S. parent companies fell during the early 1980s, but increased in the 1992-2000 period, from 17.5 million to 23.9 million. From 2000 to 2003, however, employment among U.S. parent companies fell by 12% to 21.1 million, before rising after 2003 to reach 22 million in 2007. Employment fell again in 2008 to 21 million as the rate of U.S. economic growth slowed. By 2011, however, employment among U.S. parent companies rose slightly over the 22.8 million employed in 2010 to reach 22.9 million. Employment among foreign affiliates also rose by 4.2% in 2011 over 2010 to reach 11.8 million.

After employment losses in the early 1980s, employment at both the parent firms and the foreign affiliates increased after 1992, although at different rates and in different industries. Both the U.S. parent companies and the foreign affiliates lost employment during the first part of the 2000s as the U.S. economy recovered from a period of slow growth. During such downturns, U.S. parent firms and their foreign affiliates often lose or gain employment in many of the same industries. Both the parent firms and the affiliates lost employment in the petroleum and finance sectors, although both gained employment in the services and wholesale trade sectors. Furthermore, employment gains and losses among MNCs more likely reflect fundamental shifts within the U.S. economy than any formal or informal efforts to shift employment abroad.

Some observers also contend that U.S. direct investment abroad supplants U.S. exports, thereby worsening the U.S. trade deficit and eliminating some U.S. jobs. Most analyses indicate that intra-company trade, or trade between the U.S. parent company and its foreign subsidiaries, represents a large share of U.S. trade and that foreign investment typically boosts U.S. exports more than it contributes to a rise in imports or to a loss of exports. For instance, American multinational corporations account for over 60% of U.S. exports and 40% of U.S. imports,

[9] Ibid., p. 31.

indicating that U.S. parent firms tend to be a more important source of supply to their affiliates than the affiliates are to their parent companies.

Conclusions

American direct investment abroad has grown sharply since the mid-1990s, raising questions for many observers about the effects of such investment on the U.S. economy. These questions seem pertinent since American multinational corporations lost shares of U.S. GDP over the last decade and their domestic employment had declined until the mid-1990s. Increased economic activity abroad relative to that in the United States increased overseas affiliate employment in some industries, including manufacturing. Most of this affiliate activity, however, is geared toward supplying the local markets in which they are located. In 2009, 8% of the sales of the foreign affiliates of U.S. firms was accounted for by exports back to the United States,[10] although this share is nonetheless substantial.

Some observers believe U.S. direct investment abroad is harmful to U.S. workers because it shifts jobs abroad. There is no conclusive evidence in the data collected to date to indicate that current investment trends are substantially different from those of previous periods or that jobs are moving offshore at a rate that is significantly different from previous periods.[11] There are instances when firms shift activities abroad to take advantage of lower labor costs. However, it is clear from the data that the majority of U.S. direct investment abroad is in developed countries where wages, markets, industries, and consumers' tastes are similar to those in the United States. U.S. direct investment in these developed countries is oriented toward serving the markets where the affiliates are located and they tend, in the aggregate, to boost exports from the United States. In addition, foreign firms have been pouring record amounts of money into the United States to acquire existing U.S. firms, to expand existing subsidiaries, or to establish "greenfield" or new investments.

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[10] *U.S. Direct Investment Abroad*, Table IIF1.

[11] CRS Report RL32461, *Outsourcing and Insourcing Jobs in the U.S. Economy: Evidence Based on Foreign Investment Data*, by James K. Jackson.