

## Direct Investment, 2004–2007

### Detailed Historical-Cost Positions and Related Capital and Income Flows

This report presents detailed statistics on direct investment positions at historical cost (book value) and related capital and income flows for U.S. direct investment abroad and foreign direct investment in the United States. Summary estimates of services transactions with foreign affiliates and foreign parent companies are also presented.<sup>1</sup> (For definitions, see the box “Key Terms.”) The statistics for U.S. direct investment abroad cover 2004–2007, and those for foreign direct investment in the United States cover 2005–2007. These statistics complement the statistics presented in two articles in the July 2008 *SURVEY OF CURRENT BUSINESS* by providing more detail by country, industry, and account.<sup>2</sup>

The summary estimates for U.S. direct investment abroad presented in the July *SURVEY* incorporated the results of BEA’s most recent benchmark survey of U.S. direct investment abroad, which provided data for 2004; the previous benchmark survey provided data for 1999. In addition, the detailed annual estimates for 2004 forward presented here and the quarterly estimates of capital flows, income, and services transactions that underlie these annual estimates are now based on the 2002 North American Industry Classification System (NAICS). Estimates for 1999–2003 are based on the 1997 NAICS. (For a description of the benchmarking process, see the “Technical Note.”)

For both U.S. direct investment abroad—or “outward direct investment”—and foreign direct investment in the United States—or “inward direct investment”—the estimates for 2005 forward also reflect the incorporation of

new or revised data from BEA’s quarterly surveys of transactions between parents and their affiliates and annual surveys of financial and operating data of U.S. parent companies, their foreign affiliates and U.S. affiliates of foreign companies.

#### Tables

Following the text, two sets of tables are presented—one for outward direct investment and one for inward direct investment. In each set, tables 1–16 present similar data.

- Table 1 shows the direct investment positions and rates of return at historical cost, 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 1996–2007 at historical cost and as they are presented in the international investment position accounts and international transactions accounts.
- Tables 4–17 for outward direct investment and 4–18 for inward direct investment present the direct investment positions and international transactions by country of foreign parent or foreign affiliate, by industry of affiliate, and by account. For outward direct investment, table 17 presents estimates that are also classified by industry of U.S. parent. For inward direct investment, table 17 presents estimates that are classified not only by country of foreign parent but also by country of ultimate beneficial owner (UBO).
- Table 18 for inward direct investment is included for the first time. It provides a breakdown of the foreign direct investment position in the United States by the industry of the UBO of the U.S. affiliate. It shows the value of investments owned by private entities (businesses and individuals, estates, and trusts) as well as the value owned by foreign governments and government enterprises.

The statistics in this report differ in two ways from some of the counterpart statistics in the international investment position and international transactions

1. Global totals (for all countries and all industries) for royalties and license fees and other private services are shown in tables 2 and 3. Breakdowns by country and by industry are no longer included in this presentation. Country detail and new detail by type of service or intangible asset will be available in the October *SURVEY OF CURRENT BUSINESS* article on U.S. international services. These changes were made to reflect the recent integration of data collection for affiliated and unaffiliated services transactions on the same survey forms in order to provide a more complete and accurate depiction of U.S. trade in services.

2. See Marilyn Ibarra and Jennifer Koncz, “Direct Investment Positions for 2007: Country and Industry Detail,” *SURVEY* 88 (July 2008): 20–35 and Christopher L. Bach, “Annual Revision of the U.S. International Accounts, 1974–2007,” *SURVEY* 88 (July 2008): 36–52.

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accounts.<sup>3</sup>

- The statistics are at historical cost, the only way detailed estimates by country and industry are available. In contrast, the estimates of the direct investment position in the international investment position accounts are presented at current cost and market value. Also, 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.
- The statistics on direct investment income and services transactions presented in this report for years before 2006 are net of withholding taxes, unlike those

in the international transactions accounts. For these years, estimates without this deduction are not available at the detailed country-by-industry level. (For 2006 forward, the statistics in this report follow the international transactions accounts convention of showing income and services transactions before deduction of withholding taxes.)

## Revisions

### Outward direct investment

As noted in the July 2008 SURVEY article on direct investment positions, for all areas, the outward direct investment position at historical cost was revised up \$36.1 billion for 2004, \$106.2 billion for 2005, and \$70.7 billion for 2006 (table A). The upward revision for 2004 resulted from an upward revision to capital outflows without current-cost adjustment. (Capital outflows without

3. See Elena L. Nguyen, "The International Investment Position of the United States at Yearend 2007," SURVEY 88 (July 2008): 9–19 and Renee M. Sauer and Kristy L. Howell, "U.S. International Transactions: First Quarter of 2008," SURVEY 88 (July 2008): 56–107.

**Table A. U.S. Direct Investment Abroad: Comparison of Previously Published and Revised Estimates by Area, 2004–2007**

[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 receipts <sup>1,2</sup>			Other private services, net receipts <sup>2</sup>		
	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>2,124,775</b>	<b>2,160,844</b>	<b>36,070</b>	<b>257,967</b>	<b>294,905</b>	<b>36,937</b>	<b>216,773</b>	<b>228,165</b>	<b>11,392</b>	<b>32,811</b>	<b>34,932</b>	<b>2,121</b>	<b>5,904</b>	<b>8,461</b>	<b>2,557</b>
Canada.....	213,012	214,931	1,919	23,865	24,005	140	22,771	22,835	63	3,012	(D)	2,160	1,856	1,768	-88
Europe.....	1,169,620	1,180,130	10,510	120,382	137,319	16,937	108,494	114,349	5,854	19,258	21,418		2,454	4,746	2,292
<i>Of which:</i>															
United Kingdom.....	330,897	330,416	-481	29,755	42,359	12,603	14,423	16,258	1,835	3,161	3,772	610	-1,762	-1,777	-15
Latin America and Other Western Hemisphere.....	341,480	351,709	10,229	22,915	32,418	9,503	34,423	38,419	3,996	(D)	(D)	(D)	699	927	229
Africa.....	21,708	20,356	-1,351	1,317	1,611	294	4,517	4,256	-261	294	320	26	405	(D)	(D)
Middle East.....	19,088	18,963	-126	1,610	2,538	928	4,268	4,253	-14	80	96	15	-337	(D)	(D)
Asia and Pacific.....	359,866	374,754	14,888	87,878	97,013	9,136	42,299	44,053	1,753	(D)	(D)	(D)	827	884	57
2005															
<b>All areas</b> .....	<b>2,135,492</b>	<b>2,241,656</b>	<b>106,165</b>	<b>-27,736</b>	<b>15,369</b>	<b>43,106</b>	<b>247,472</b>	<b>271,877</b>	<b>24,405</b>	<b>34,850</b>	<b>39,146</b>	<b>4,297</b>	<b>6,873</b>	<b>8,952</b>	<b>2,079</b>
Canada.....	233,474	231,836	-1,638	11,023	13,556	2,533	22,745	20,712	-2,033	3,509	3,627	118	1,856	1,485	-371
Europe.....	1,109,950	1,210,679	100,729	-55,068	-29,035	26,033	122,538	136,038	13,500	19,911	24,172	4,262	3,054	4,927	1,873
<i>Of which:</i>															
United Kingdom.....	333,497	351,513	18,016	3,114	6,269	3,155	18,533	22,836	4,303	3,175	4,036	861	-1,516	-1,672	-156
Latin America and Other Western Hemisphere.....	365,895	379,582	13,687	-1,489	74	1,563	41,306	48,049	6,742	(D)	(D)	(D)	1,227	1,705	478
Africa.....	23,018	22,756	-263	1,025	2,564	1,538	4,748	5,282	533	335	362	27	519	(D)	(D)
Middle East.....	22,631	21,115	-1,516	3,769	3,785	16	5,042	5,110	67	(D)	(D)	(D)	-331	-321	10
Asia and Pacific.....	380,523	375,689	-4,834	13,003	24,426	11,423	51,092	56,688	5,596	9,152	9,059	-93	548	(D)	(D)
2006															
<b>All areas</b> .....	<b>2,384,004</b>	<b>2,454,674</b>	<b>70,670</b>	<b>216,614</b>	<b>221,664</b>	<b>5,051</b>	<b>291,480</b>	<b>308,963</b>	<b>17,483</b>	<b>37,079</b>	<b>46,803</b>	<b>9,724</b>	<b>6,524</b>	<b>5,050</b>	<b>-1,474</b>
Canada.....	246,451	230,045	-16,406	14,793	8,135	-6,658	23,442	23,226	-215						
Europe.....	1,250,508	1,341,116	90,608	127,375	131,430	4,055	146,608	156,299	9,691						
<i>Of which:</i>															
United Kingdom.....	364,084	375,348	11,264	19,382	15,252	-4,130	25,080	27,176	2,095						
Latin America and Other Western Hemisphere.....	403,284	427,397	24,113	22,273	40,638	18,365	50,436	57,752	7,316						
Africa.....	25,556	25,074	-482	2,176	2,873	697	5,493	6,040	546						
Middle East.....	26,487	25,540	-947	4,956	6,184	1,228	6,274	6,213	-62						
Asia and Pacific.....	431,718	405,502	-26,216	45,041	32,405	-12,635	59,227	59,433	206						
2007 <sup>3</sup>															
<b>All areas</b> .....				<b>316,746</b>	<b>313,787</b>	<b>-2,960</b>	<b>333,967</b>	<b>348,791</b>	<b>14,825</b>	<b>38,855</b>	<b>52,494</b>	<b>13,639</b>	<b>7,269</b>	<b>12,693</b>	<b>5,424</b>
Canada.....				24,016	22,772	-1,244	23,078	21,685	-1,394						
Europe.....				194,867	197,254	2,386	169,133	176,881	7,748						
<i>Of which:</i>															
United Kingdom.....				21,658	31,181	9,523	26,035	29,635	3,600						
Latin America and Other Western Hemisphere.....				35,635	33,718	-1,916	60,031	66,689	6,658						
Africa.....				1,886	2,003	117	5,607	6,030	423						
Middle East.....				3,460	3,683	223	7,178	7,437	259						
Asia and Pacific.....				56,882	54,357	-2,526	68,940	70,071	1,131						

1. Prior to 2006, income without current-cost adjustment and royalties and license fees are presented net, or after deduction, of U.S. and foreign withholding taxes. For 2006 forward, they are presented gross, or before deduction, of U.S. and foreign withholding taxes.

2. Beginning with 2006, country and industry detail for royalties and license fees and other private services is dropped. Global totals for all countries and all industries for these accounts will continue to be shown in tables 2 and 3 and additional detail, including new detail by type of service or intangible asset, will be available in the

October 2008 SURVEY OF CURRENT BUSINESS article on U.S. international services. This change reflects the recent integration of data collection for affiliated and unaffiliated services transactions on the same survey forms.

3. The 2007 estimates were only previously available by country for capital outflows without current-cost adjustment and income without current-cost adjustment. The estimates of the direct investment position for 2007 are preliminary and were first published in the July 2008 SURVEY.

NOTE: The data in the "revised" columns were presented in the July 2008 SURVEY.

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. Capital inflows reduce the position.) The upward revision for 2005 was the net result of the upward revision to the position for 2004, an upward revision to 2005 net capital outflows, and an upward revision to 2005 valuation adjustments. The upward revision for 2006 resulted from an upward revision to the 2005 position and a small upward revision to 2006 capital flows. These upward revisions were partly offset by a downward revision to 2006 valuation adjustments.

Capital outflows without current-cost adjustment were revised up \$36.9 billion for 2004 and \$43.1 billion for 2005. For both years, the revisions mainly resulted from upward revisions to equity capital investment and intercompany debt investment; for 2005, an upward revision to reinvested earnings also contributed. For 2006, capital outflows were revised up \$5.1 billion. An upward revision to reinvested earnings and a smaller upward revision to equity capital investment were partly offset by a downward revision to intercompany debt investment. For 2007, capital outflows were revised down \$3.0 billion. Downward revisions to equity capital and intercompany

debt investment were partly offset by an upward revision to reinvested earnings.

Income without current-cost adjustment was revised up for all 4 years—\$11.4 billion for 2004, \$24.4 billion for 2005, \$17.5 billion for 2006, and \$14.8 billion for 2007. Net receipts of royalties and license fees were revised up for all 4 years—\$2.1 billion for 2004, \$4.3 billion for 2005, \$9.7 billion for 2006, and \$13.6 billion for 2007. Net receipts for other private services were revised up \$2.6 billion for 2004, were revised up \$2.1 billion for 2005, were revised down \$1.5 billion for 2006, and were revised up \$5.4 billion for 2007.

### Inward direct investment

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

As noted in the July 2008 SURVEY article on direct investment positions, for all areas, the historical-cost inward direct investment position was revised up \$39.6 billion for 2005 and \$54.8 billion for 2006 (table B). The upward revision for 2005 was attributable to a revision to

**Table B. Foreign Direct Investment in the United States: Comparison of Previously Published and Revised Estimates by Area for 2005–2007**

[Millions of dollars]

By area	Direct investment position on a historical-cost basis			Capital inflows without current-cost adjustment (outflows(-))			Income without current-cost adjustment <sup>1</sup>			Royalties and license fees, net payments <sup>1,2</sup>			Other private services, net payments <sup>2</sup>		
	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision
2005															
<b>All areas</b> .....	<b>1,594,488</b>	<b>1,634,121</b>	<b>39,633</b>	<b>101,025</b>	<b>104,773</b>	<b>3,748</b>	<b>106,340</b>	<b>110,324</b>	<b>3,984</b>	<b>12,644</b>	<b>12,517</b>	<b>-127</b>	<b>-3,389</b>	<b>-1,223</b>	<b>2,166</b>
Canada.....	154,180	165,667	11,487	13,762	14,868	1,106	5,891	6,075	184	401	400	-1	(D)	1150	(D)
Europe.....	1,128,161	1,154,048	25,887	76,656	77,896	1,240	78,338	80,684	2,346	6,281	6,251	-30	-3,595	-3,435	160
Of which:															
United Kingdom.....	296,277	371,350	75,073	34,323	36,132	1,809	30,473	33,274	2,801	-203	-199	4	-415	-283	132
Latin America and Other Western Hemisphere	70,789	57,175	-13,614	-2,908	-3,169	-261	3,937	4,359	422	(D)	-370	(D)	-422	175	597
Africa.....	2,734	2,341	-393	524	323	-201	204	204	0	-6	-6	0	(D)	87	(D)
Middle East.....	8,396	8,306	-90	1,508	1,799	291	597	592	-5	-17	-17	0	(D)	-195	(D)
Asia and Pacific.....	230,228	246,585	16,357	11,482	13,056	1,574	17,373	18,410	1,037	(D)	6,259	(D)	(D)	995	(D)
2006															
<b>All areas</b> .....	<b>1,789,087</b>	<b>1,843,885</b>	<b>54,798</b>	<b>175,394</b>	<b>236,701</b>	<b>61,307</b>	<b>130,824</b>	<b>139,137</b>	<b>8,313</b>	<b>13,566</b>	<b>12,495</b>	<b>-1,071</b>	<b>-2,913</b>	<b>-2,984</b>	<b>-71</b>
Canada.....	158,979	175,198	16,219	6,570	18,079	11,509	12,425	15,211	2,786						
Europe.....	1,270,570	1,324,355	53,785	122,183	181,384	59,201	88,922	91,278	2,356						
Of which:															
United Kingdom.....	303,232	406,337	103,105	11,468	33,194	21,726	27,812	27,764	-48						
Latin America and Other Western Hemisphere	79,845	62,685	-17,160	9,302	9,844	542	6,262	6,470	208						
Africa.....	2,244	1,814	-430	287	250	-37	248	207	-41						
Middle East.....	17,639	9,342	-8,297	10,271	2,308	-7,963	1,376	1,232	-144						
Asia and Pacific.....	259,810	270,490	10,680	26,781	24,837	-1,944	21,591	24,739	3,148						
2007 <sup>3</sup>															
<b>All areas</b> .....				<b>199,298</b>	<b>232,839</b>	<b>33,541</b>	<b>123,918</b>	<b>129,711</b>	<b>5,793</b>	<b>15,017</b>	<b>13,265</b>	<b>-1,752</b>	<b>-3,214</b>	<b>-3,534</b>	<b>-320</b>
Canada.....				39,487	36,927	-2,560	13,162	13,506	344						
Europe.....				111,798	144,853	33,055	81,011	82,019	1,008						
Of which:															
United Kingdom.....				27,248	13,034	-14,214	15,636	18,848	3,212						
Latin America and Other Western Hemisphere				6,884	-575	-7,459	7,978	6,672	-1,306						
Africa.....				-673	-675	-2	32	25	-7						
Middle East.....				2,033	3,149	1,116	612	563	-49						
Asia and Pacific.....				39,768	49,161	9,393	21,122	26,926	5,804						

1. Prior to 2006, income without current-cost adjustment and royalties and license fees are presented net, or after deduction, of U.S. and foreign withholding taxes. For 2006 forward, they are presented gross, or before deduction, of U.S. and foreign withholding taxes.

2. Beginning with 2006, country and industry detail for royalties and license fees and other private services is dropped. Global totals for all countries and all industries for these accounts will continue to be shown in tables 2 and 3 and additional detail, including new detail by type of service or intangible asset, will be available in the

October 2008 SURVEY OF CURRENT BUSINESS article on U.S. international services. This change reflects the recent integration of data collection for affiliated and unaffiliated services transactions on the same survey forms.

3. The 2007 estimates were only previously available by country for capital inflows without current-cost adjustment and income without current-cost adjustment. The estimates of the direct investment positions for 2007 are preliminary and were first published in the July 2008 SURVEY.

NOTE: The data in the "revised" columns were presented in the July 2008 SURVEY.

valuation adjustments from negative to positive and a small upward revision to capital inflows without current-cost adjustment. (Capital inflows without current-cost adjustment, which increase the foreign direct investment position in the United States, consist of reinvested earnings without current-cost adjustment and equity capital and intercompany debt transactions. Capital outflows reduce the position.) The upward revision for 2006 was the net result of the upward revision to the 2005 position and a upward revision to capital inflows, which were partly offset by a downward revision to valuation adjustments from positive to negative.

Capital inflows without current-cost adjustment were revised up for all 3 years—\$3.7 billion for 2005, \$61.3 billion for 2006, and \$33.5 billion for 2007. The upward revision for 2005 was accounted for by an upward revision to equity capital investment that was partly offset by downward revisions to reinvested earnings and intercompany debt investment. The upward revisions for 2006 and 2007 mostly resulted from upward revisions to intercompany debt investment and to a lesser extent, upward revisions to equity capital investment; for 2007, an upward revision to reinvested earnings also contributed.

Income without current-cost adjustment was revised

### Key Terms—Continues

For a more detailed discussion of the terms in this box, see *Foreign Direct Investment in the United States: Final Results From the 2002 Benchmark Survey* and *U.S. Direct Investment Abroad: Final Results From the 1999 Benchmark Survey*. These methodologies are available at <[www.bea.gov](http://www.bea.gov)>.

#### Direct investment

This is investment in which a resident (in the broad legal sense, including a company) 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 define direct 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** represents the ownership or control, directly or indirectly, by one U.S. resident (**U.S. parent**) of at least 10 percent of a foreign business enterprise, which is called a **foreign affiliate**.

**Foreign direct investment in the United States** represents the ownership or control, directly or indirectly, by one foreign resident (**foreign parent**) of at least 10 percent of a U.S. business enterprise, which is called a **U.S. affiliate**. Foreign direct investment includes equity and net debt investments by the foreign parent, as well as net debt investments by any other members of the **foreign parent group**. The foreign parent group consists of (1) the foreign parent, (2) any foreign person (including a company), proceeding up the foreign parent's ownership chain, that owns more than 50 percent of the person below it, up to and including the **ultimate beneficial owner (UBO)**, and (3) any foreign person, proceeding down the ownership chain(s) of each of these members, that is owned more than 50 percent by the person above it.

The ultimate beneficial owner (UBO) of a U.S. affiliate is the first person that is not more than 50 percent-owned by another person in the affiliate's ownership chain beginning with the foreign parent. The UBO ultimately

owns or controls the affiliate and derives the benefits and assumes the risks associated with ownership or control. Unlike the foreign parent, the UBO of a U.S. affiliate may be located in the United States.

#### Direct investment position

This is the value of direct investors' equity in, and net outstanding loans to, their affiliates. The direct investment position may be viewed as the direct investors' net financial claims on their affiliates. BEA prepares estimates of the positions for U.S. direct investment abroad and foreign direct investment in the United States at historical cost, current cost, and market value. In this report, the **historical-cost measure** is featured. This valuation is principally derived from the books of affiliates and generally reflect the acquisition cost of the investments, cumulative reinvested earnings, and cumulative depreciation of fixed assets. Historical cost estimates are consistent with U.S. generally accepted accounting principles (GAAP) in most areas. GAAP, however, values the holdings of most financial instruments at current-period prices rather than at historical cost. See the box "Alternative Measures of the Direct Investment Positions" in Ibarra and Koncz, 23.

**Direct investment capital flows** arise from transactions that change financial claims (assets) and liabilities between U.S. parents and their foreign affiliates or between U.S. affiliates and their foreign parents. 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 investment, intercompany debt investment, and reinvested earnings. **Equity capital investment** is the difference between equity capital increases and decreases. Equity capital increases arise from (1) parents' establishments of new affiliates, (2) payments by parents to unaffiliated parties for the purchase of capital stock or other equity interests when they acquire an existing business, (3) payments made to acquire additional ownership interests in their affiliates, and (4) capital contributions

up for all 3 years—\$4.0 billion for 2005, \$8.3 billion for 2006, and \$5.8 billion for 2007. The revisions for 2005 and 2006 were almost entirely attributable to upward revisions to affiliates' earnings. For 2007, the upward revision was mainly due to an upward revision to affiliates' earnings, but an upward revision to interest payments also contributed. Net payments for royalties and license fees were revised down for all 3 years—\$0.1 billion for 2005, \$1.1 billion for 2006, and \$1.8 billion for 2007. Net payments for other private services were revised up \$2.2 billion for 2005, were revised down \$0.1

billion for 2006, and were revised down \$0.3 billion for 2007.

### Technical Note

The estimates of the U.S. direct investment position abroad at yearend 2004–2007 and the estimates of capital flows, income, and services transactions presented here incorporate the results of the Bureau of Economic Analysis 2004 benchmark survey of U.S. direct investment abroad; the previous benchmark survey provided data for 1999. The revisions to the estimates for 2005 forward also

### Key Terms

to their affiliates. Equity capital decreases are the funds parents receive when they reduce their equity interest in their affiliates.

**Intercompany debt investment** results from changes in net outstanding loans between parents (or other foreign parent group members) and their affiliates, including loans by parents to affiliates and loans by affiliates to parents.

**Reinvested earnings (without current-cost adjustment)** are the parents' share of the current-period operating earnings of their affiliates, less distributions of earnings that affiliates make to their parents. A related measure of reinvested earnings is featured in the international transactions accounts; this measure includes a **current-cost adjustment** 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.

Various **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 parent companies' equity in affiliates.)

Valuation adjustments to the historical-cost position consist of **currency-translation adjustments** and **"other" adjustments**. Currency-translation adjustments account for changes in the exchange rates that are used to translate affiliates' foreign-currency-denominated assets and liabilities into U.S. dollars. "Other" valuation adjustments are made to account for (1) differences between the proceeds from the sale or liqui-

dation of foreign affiliates and their book values, (2) differences between the purchase prices of affiliates and their book values, (3) writeoffs resulting from uncompensated expropriations of affiliates, (4) the reclassification of investment positions between direct investment and other investment, and (5) capital gains and losses (excluding currency-translation adjustments) on transactions, such as the sale of assets (excluding inventories) 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 write-down of assets. In addition, for individual industries, offsetting valuation adjustments may be made to effect changes in the industry classification of an affiliate. For individual countries, offsetting adjustments are made when the political boundaries of countries change. In addition, for foreign direct investment in the United States, offsetting adjustments are made when transactions between foreign residents result in a change in the country of foreign parent.

### Direct investment income (without current-cost adjustment)

This is the return on the direct investment position. It consists of (1) earnings, that is, the parents' shares in the net income from the operations of their affiliates and (2) interest received by parents (or parent group) from affiliates from outstanding loans and trade accounts. As in the case of reinvested earnings (see above), a related measure including a current-cost adjustment is featured in the international transactions accounts.

### Services transactions

Receipts and payments between parents and their 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).

reflect (1) the incorporation of new or revised data from quarterly and annual surveys of U.S. direct investment abroad and (2) for services, the results of the 2006 benchmark survey of transactions in selected services and intangible assets with foreign persons and followup quarterly surveys.

Benchmark surveys are conducted every 5 years and cover virtually the entire universe of foreign affiliates of U.S. direct investors in terms of value.<sup>4</sup> In the 2004 survey, reports were required from all affiliates that had total assets, sales, or net income (or loss) greater than \$10 million in their 2004 fiscal year. Affiliates that did not meet these criteria were reported on a schedule that obtained identification information and information on their total assets, total liabilities, sales, net income, and number of employees. These affiliates accounted for less than 1 percent of these items. The results from this survey, as well as the estimates linked to it, include estimates of all the items for the affiliates that were reported on this schedule.

In nonbenchmark years, the estimates of the direct investment position and balance of payments flows are derived from data reported quarterly for all affiliates above a size-exemption level and from estimates for the smaller affiliates. The estimates for affiliates that are not reported in the quarterly surveys are derived by extrapolating data from the benchmark survey or from the previous quarterly survey, using movements in the data for a matched sample of affiliates that reported in both the previous and the current quarterly surveys.

### Benchmarking the 2004 quarterly survey data

The benchmarking procedure for 2004 consisted of four steps that primarily compared the data reported in the quarterly sample survey of U.S. direct investment abroad with the data reported in the 2004 benchmark survey:

1. For affiliates that were reported in both surveys, the data from the quarterly surveys were reconciled with the data from the benchmark survey. Significant discrepancies were investigated and resolved, usually in favor of the benchmark survey data, which are generally considered more accurate because they are reported later than the quarterly survey data. Additionally, because the benchmark survey data are more comprehensive, they can be more thoroughly edited. As part of this reconciliation

4. For a detailed description of the methodology, 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)>. The revised results from the 2004 benchmark survey are available at <[www.bea.gov/scb/account\\_articles/international/iidguide.htm](http://www.bea.gov/scb/account_articles/international/iidguide.htm)>. Under "U.S. direct investment abroad," click on "Operations of U.S. parent companies and their foreign affiliates," and scroll down to "Comprehensive financial and operating data." An updated methodology is scheduled to be published soon.

process, the benchmark survey data were adjusted from a fiscal year basis to a calendar year basis—that is, from the basis on which the data were reported to the basis on which the U.S. international transactions accounts and the international investment position of the United States are compiled. Affiliates whose fiscal year coincided with the calendar year accounted for over 70 percent of the direct investment position; thus, for most affiliates, no adjustment was necessary.<sup>5</sup> For affiliates whose fiscal year did not coincide with the calendar year, the sum of the quarterly survey data for the four quarters of the affiliate's 2004 fiscal year was reconciled with the fiscal year total reported in the benchmark survey. The calendar year estimates for these affiliates were derived as the sum of the reconciled quarterly data for the quarters that were included in both fiscal year and calendar year 2004 and the data from the quarterly survey for the calendar quarters that were not covered by the benchmark survey.

2. For affiliates that were not reported in the benchmark survey but were reported in the quarterly survey (or were estimated based on previously filed reports), the data were included in the quarterly estimates.

3. For affiliates that were reported in the benchmark survey but were not reported in the quarterly and annual surveys, the data were added to the quarterly estimates. The data from the benchmark survey for fiscal year 2004 were used as the estimates for calendar year 2004 and in

5. The fiscal year data for the direct investment position, capital flows, income, royalties and license fees, and other private services will be available when the final results from the 2004 benchmark survey are published.

### Acknowledgments

The survey from which the statistics related to outward direct investment were derived was conducted under the supervision of Mark W. New, who was assisted by Iris Branscome, Laura A. Downey, David L. Grayton, Marie K. Laddomada, Sherry Lee, Louis C. Luu, Leila C. Morrison, and Dwayne Torney. Computer programming for data estimation and tabulation was provided by Marie Colosimo.

The survey from which the statistics related to inward direct investment were derived was conducted under the supervision of Gregory G. Fouch, who was assisted by George M. Bogachevsky, Peter J. Fox, Barbara C. Huang, Susan M. LaPorte, and Helen P. Yiu. Computer programming for data estimation and tabulation was provided by Karen E. Poffel and Paula D. Brown.

general were distributed evenly among the four calendar quarters of the year.

4. Data were removed from the quarterly estimates for any affiliates that the benchmark survey indicated either had left the direct investment universe or had been consolidated into other affiliates since the 1999 benchmark survey (and whose exit or consolidation had not already been captured by BEA's quarterly and annual surveys).

### Estimates for 2005 forward

Universe estimates of the direct investment position and balance of payments flows were generally derived from (1) the data reported in the quarterly surveys for the year being estimated by the affiliates that also reported in the 2004 benchmark survey, (2) the data reported in the quarterly surveys for the year being estimated by affiliates that entered the direct investment universe since the 2004 benchmark survey and that met the reporting criteria for

the quarterly survey, and (3) estimates for affiliates that did not report in the quarterly surveys for the year being estimated.

Conceptually, the estimates of the direct investment position and the balance of payments flows cover the affiliate universe. To ensure coverage that is as complete as that in the 2004 benchmark survey, estimates were prepared for affiliates that were reported in the benchmark survey (or whose 2004 data were estimated on the basis of quarterly reports or other information filed on the benchmark survey) but were not reported in the quarterly surveys for 2005 or later, either because they were exempt or because they should have been reported but were not. The estimates for these affiliates were derived by extrapolating the data that were previously reported or estimated for them—such as in the benchmark survey—based on movements in the data reported in the subsequent quarters for a matched sample of affiliates. (Information from other sources may also be used in preparing the estimates.) The universe estimates are derived by adding the estimates for these affiliates to the data for the affiliates that were reported in the quarterly survey.

This procedure is used for all data items except intercompany debt flows and equity capital increases and decreases. The estimates of intercompany debt flows were derived as the change in the sample data for the intercompany debt positions reported in the quarterly surveys which were supplemented in some cases with data from the annual survey of U.S. direct investment abroad. Equity capital increases and decreases were expanded at the aggregate level by using a ratio of current-quarter reported flows to the preceding-quarter equity position of all affiliates that were reported in the current quarter. This ratio was multiplied by the equity position in the preceding quarter for affiliates that were not reported in the current quarter. The result was added to the current quarter's reported flows to derive total equity increases and decreases. The estimated flows are then allocated to the largest country and industry cells.

### Data Availability

Detailed estimates of the direct investment positions and of transactions between parents and their 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 either "U.S. direct investment abroad" or "Foreign direct investment in the United States," click on the link to either "Selected Tables" or "Interactive Tables," which appears next to the "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.

*U.S. Direct Investment Abroad tables 1–17 and Foreign Direct Investment in the United States tables 1–18 follow.*