

# Direct Investment for 2007–2010

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

By Jeffrey H. Lowe

**T**HIS article presents detailed statistics on direct investment positions at historical cost (book value) and related financial and income flows for U.S. direct investment abroad and for foreign direct investment in the United States. Summary statistics on services trans-

actions with foreign affiliates and foreign parent companies are also presented.<sup>1</sup> (For definitions, see the box “Key Terms.”) The statistics on foreign direct investment in the United States cover 2007–2010; those on U.S. direct investment abroad cover 2008–2010. These statistics complement the statistics presented in two articles in the July 2011 *SURVEY OF CURRENT BUSINESS* by providing more detail by country, industry, and account.<sup>2</sup>

The summary statistics on foreign direct investment in the United States presented in the July *SURVEY* incorporated the results of BEA’s most recent benchmark survey of foreign direct investment in the United States, which provided data for 2007; the previous benchmark survey provided data for 2002. For both U.S. direct investment abroad—or “outward direct investment”—and foreign direct investment in the United States—or “inward direct investment”—the statistics for 2008 forward reflect the incorporation of new or revised data from BEA’s quarterly surveys of transactions between parents (both U.S. and foreign) and their affiliates and from BEA’s annual surveys of financial and operating data for U.S. parent companies, their foreign affiliates, and U.S. affiliates of foreign companies.

The statistics in this article differ from some of the counterpart statistics in the international investment position and international transactions accounts.<sup>3</sup>

- These statistics are presented at historical cost, which is the only valuation method for which

### Tables

Following this article, two sets of tables are presented—one for outward direct investment (tables 1–16) and one for inward direct investment (tables 1–17). In each set, tables 1–15 present similar data.

- Table 1 shows the direct investment positions and rates of return at historical cost, current cost, and market value.
- Table 2 presents the position and related financial, income, and services flows for 1999–2010 at historical cost and as they are presented in the international investment position accounts and international transactions accounts.<sup>1</sup>
- Tables 3–16 present direct investment positions and international transactions by country of foreign affiliate or foreign parent, by industry of affiliate, and by account. For outward direct investment, table 16 presents statistics that are classified not only by industry of affiliate but also by industry of U.S. parent. For inward direct investment, table 16 presents statistics that are classified not only by country of foreign parent but also by country of ultimate beneficial owner (UBO).
- Table 17 (for inward direct investment) provides a breakdown of the foreign direct investment position in the United States by 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) and the value owned by foreign governments and government-related entities.

1. In June 2011, fees for the rights to distribute film and television recordings were reclassified from other private services to royalties and license fees beginning with the statistics for 1999. Below the aggregate level, this reclassification was implemented only for statistics on U.S. parents’ and U.S. affiliates’ receipts and payments for 2006 forward. As a result, statistics for 1999–2005 with country and industry detail (available on BEA’s Web site) continue to include fees for the rights to distribute film and television recordings in other private services.

1. Global totals (all countries and all industries) for royalties and license fees and other private services are shown in table 2 (for U.S. direct investment abroad, see page 58 and for foreign direct investment in the United States, see page 93). Breakdowns by country and by industry are not included in this presentation. Country detail and detail by type of service or intangible asset will be available in the October *SURVEY* article on U.S. international services.

2. See Kevin B. Barefoot and Marilyn Ibarra-Caton, “Direct Investment Positions for 2010: Country and Industry Detail,” *SURVEY* 91 (July 2011): 125–141 and Mai-Chi Hoang and Erin M. Whitaker, “Annual Revision of the U.S. International Transactions Accounts,” *SURVEY* 91 (July 2011): 47–61.

3. See Elena L. Nguyen, “The International Investment Position of the United States at Yearend 2010,” *SURVEY* 91 (July 2011): 113–123 and Sarah P. Scott, “U.S. International Transactions: First Quarter of 2011,” *SURVEY* 91 (July 2011): 62–109.

detailed statistics by country and industry are available. In contrast, the statistics on the direct investment position in the international investment position accounts are presented at current cost and market value.

- These statistics are presented without a current-cost adjustment. In contrast, the statistics on direct investment income (in the current account) and financial flows (in the financial account) in the U.S. international transactions accounts are presented with a current-cost adjustment.

The remainder of this article provides a discussion of the revisions to the statistics on the outward direct investment positions, financial flows, and income for 2008–2010, the revisions to the statistics on the inward direct investment positions, financial flows, and income for 2007–2010, and a technical note that describes how the results of the 2007 benchmark survey were incorporated into the statistics on positions, financial flows, and income.

## Revisions

### Outward direct investment

The revised statistics on the U.S. direct investment position abroad at yearend, financial flows, and income reflect the incorporation of revised data from quarterly

surveys of transactions between U.S. parents and their foreign affiliates and information from annual surveys of financial and operating data for foreign affiliates.

As noted in the July 2011 SURVEY article on direct investment positions, the total outward direct investment position at historical cost for all areas was revised up \$12.8 billion for 2008 and \$38.9 billion for 2009 (table A). The upward revision for 2008 resulted from a large upward revision to valuation adjustments that was partly offset by a downward revision to financial outflows without current-cost adjustment.<sup>4</sup> The upward revision for 2009 was the net result of the upward revision to the position for 2008, an upward revision to 2009 financial outflows, and a downward revision to 2009 valuation adjustments.

Financial outflows without current-cost adjustment were revised down \$22.2 billion for 2008, up \$34.6 billion for 2009, and up \$3.4 billion for 2010. For 2008, the revision was mostly accounted for by a downward revision to equity investment. For 2009, the revision was mostly accounted for by an upward revision to intercompany debt investment. And for 2010, the revision mainly resulted from an upward revision

4. Financial flows without current-cost adjustment consist of reinvested earnings without current-cost adjustment and equity and intercompany debt transactions. Financial outflows increase the U.S. direct investment position abroad and financial inflows reduce the position.

**Table A. U.S. Direct Investment Abroad: Comparison of Previously Published and Revised Estimates by Area, 2008–2010**  
[Millions of dollars]

By area	Direct investment position on a historical-cost basis			Financial outflows without current-cost adjustment (inflows (-))			Income without current-cost adjustment		
	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision
2008									
<b>All areas</b> .....	<b>3,219,725</b>	<b>3,232,493</b>	<b>12,768</b>	<b>330,491</b>	<b>308,296</b>	<b>-22,196</b>	<b>382,575</b>	<b>392,954</b>	<b>10,379</b>
Canada.....	239,170	246,483	7,314	5,986	12,293	6,307	32,410	31,419	-991
Europe.....	1,831,246	1,844,182	12,936	192,691	178,415	-14,275	191,650	196,977	5,327
Of which:									
United Kingdom.....	449,521	448,412	-1,109	37,138	29,615	-7,523	27,214	24,456	-2,758
Latin America and Other Western Hemisphere....	591,363	588,992	-2,371	77,018	63,213	-13,805	78,558	82,092	3,534
Africa.....	37,221	36,746	-475	3,764	3,837	73	6,801	8,133	1,332
Middle East.....	31,886	31,294	-593	3,907	3,716	-191	9,064	8,817	-247
Asia and Pacific.....	488,839	484,796	-4,044	47,125	46,821	-304	64,092	65,517	1,425
2009									
<b>All areas</b> .....	<b>3,508,142</b>	<b>3,547,038</b>	<b>38,896</b>	<b>248,074</b>	<b>282,686</b>	<b>34,612</b>	<b>325,467</b>	<b>335,283</b>	<b>9,816</b>
Canada.....	259,792	266,577	6,785	18,085	12,038	-6,048	19,865	16,772	-3,093
Europe.....	1,976,222	2,005,931	29,709	129,014	162,971	33,957	173,623	178,380	4,757
Of which:									
United Kingdom.....	471,384	458,536	-12,848	20,119	23,930	3,811	22,561	26,605	4,043
Latin America and Other Western Hemisphere....	678,956	676,183	-2,773	66,149	69,899	3,750	69,598	75,497	5,899
Africa.....	44,805	43,575	-1,230	5,733	8,652	2,919	5,067	5,183	116
Middle East.....	37,012	36,257	-756	4,925	4,742	-182	5,100	4,933	-167
Asia and Pacific.....	511,355	518,516	7,160	24,168	24,384	216	52,214	54,518	2,304
2010 <sup>1</sup>									
<b>All areas</b> .....				<b>325,489</b>	<b>328,905</b>	<b>3,416</b>	<b>405,906</b>	<b>409,555</b>	<b>3,649</b>
Canada.....				35,605	27,085	-8,521	31,654	29,586	-2,068
Europe.....				160,722	175,260	14,538	197,400	198,567	1,167
Of which:									
United Kingdom.....				45,270	49,989	4,719	27,486	26,359	-1,127
Latin America and Other Western Hemisphere....				59,114	51,923	-7,191	83,076	89,883	6,807
Africa.....				7,519	8,314	795	8,690	7,305	-1,385
Middle East.....				-703	-63	640	9,150	9,168	18
Asia and Pacific.....				63,232	66,386	3,155	75,936	75,046	-890

1. The only accounts for which 2010 statistics were previously available by country were financial outflows without current-cost adjustment and income without current-cost adjustment. The estimates of the direct invest-

ment position for 2010 are preliminary and were first published in the July 2011 SURVEY OF CURRENT BUSINESS.

to reinvested earnings; an upward revision to equity investment also contributed.

Income without current-cost adjustment was revised up for all 3 years—\$10.4 billion for 2008, \$9.8 billion for 2009, and \$3.6 billion for 2010. In all 3 years, the revisions resulted from upward revisions to earnings.

### Inward direct investment

The revised statistics on the foreign direct investment position in the United States at yearend, financial flows, and income reflect the incorporation of revised data from the 2007 Benchmark Survey of Foreign Direct Investment in the United States, quarterly surveys of transactions between U.S. affiliates and their foreign parents, and annual surveys of financial and operating data for U.S. affiliates. (For additional information, see the “Technical Note.”)

As noted in the July 2011 SURVEY article on direct investment positions, the total inward direct investment

position at historical cost for all areas was revised down \$62.0 billion for 2007, down \$119.1 billion for 2008, and down \$205.1 billion for 2009 (table B). The revision for 2007 was mainly attributable to a downward revision to financial inflows; a small downward revision to valuation adjustments also contributed.<sup>5</sup> The revision for 2008 was the result of the downward revision to the 2007 position, a downward revision to valuation adjustments, and a smaller downward revision to financial inflows. The revision for 2009 was the net result of the downward revision to the 2008 position, a downward revision to valuation adjustments, and an upward revision to financial inflows.

Financial inflows without current-cost adjustment were revised down \$50.0 billion for 2007, down \$18.2 billion for 2008, up \$23.0 billion for 2009, and up \$38.5 billion for 2010. The downward revision for

5. Financial inflows increase the foreign direct investment position in the United States and financial outflows reduce the position.

**Table B. Foreign Direct Investment in the United States: Comparison of Previously Published and Revised Estimates by Area for 2007–2010**  
(Million of dollars)

By area	Direct investment position on a historical-cost basis			Financial inflows without current-cost adjustment (outflows (-))			Income without current-cost adjustment		
	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision
2007									
<b>All areas</b> .....	<b>2,055,176</b>	<b>1,993,156</b>	<b>-62,020</b>	<b>265,957</b>	<b>215,952</b>	<b>-50,005</b>	<b>123,881</b>	<b>120,960</b>	<b>-2,921</b>
Canada.....	205,381	201,924	-3,457	47,425	43,867	-3,557	10,342	9,793	-549
Europe.....	1,478,383	1,421,325	-57,058	161,704	124,552	-37,151	79,343	80,219	876
Of which:									
United Kingdom.....	424,046	405,543	-18,503	37,183	25,434	-11,748	26,292	26,622	330
Latin America and Other Western Hemisphere ....	49,828	58,869	9,041	-4,658	2,484	7,142	7,678	8,058	381
Africa.....	1,535	1,034	-501	-207	-103	104	175	214	39
Middle East.....	14,896	15,028	132	5,196	5,430	234	470	392	-78
Asia and Pacific.....	305,154	294,976	-10,178	56,497	39,721	-16,777	25,873	22,284	-3,589
2008									
<b>All areas</b> .....	<b>2,165,748</b>	<b>2,046,662</b>	<b>-119,086</b>	<b>324,560</b>	<b>306,366</b>	<b>-18,195</b>	<b>111,764</b>	<b>125,721</b>	<b>13,957</b>
Canada.....	194,140	168,746	-25,394	21,998	16,794	-5,204	8,064	8,716	652
Europe.....	1,555,208	1,477,896	-77,312	202,924	234,331	31,407	86,662	105,670	19,008
Of which:									
United Kingdom.....	454,328	447,529	-6,798	41,314	52,609	11,295	23,890	24,013	124
Latin America and Other Western Hemisphere ....	46,130	56,538	10,408	29,509	8,822	-20,687	6,772	6,314	-458
Africa.....	2,309	1,817	-492	948	958	11	75	63	-12
Middle East.....	17,242	16,233	-1,009	3,652	3,455	-196	-467	-584	-117
Asia and Pacific.....	350,718	325,431	-25,288	65,529	42,005	-23,524	10,658	5,542	-5,116
2009									
<b>All areas</b> .....	<b>2,319,585</b>	<b>2,114,501</b>	<b>-205,085</b>	<b>129,883</b>	<b>152,892</b>	<b>23,009</b>	<b>89,186</b>	<b>88,336</b>	<b>-849</b>
Canada.....	225,836	202,303	-23,533	25,813	35,549	9,736	6,715	6,848	133
Europe.....	1,685,279	1,516,268	-169,011	83,725	92,154	8,428	76,981	74,073	-2,908
Of which:									
United Kingdom.....	453,875	416,139	-37,736	12,632	20,419	7,786	23,344	22,162	-1,182
Latin America and Other Western Hemisphere ....	27,864	48,300	20,436	8,372	14,344	5,972	48	827	779
Africa.....	1,689	1,205	-484	-787	-780	8	(D)	-30	(D)
Middle East.....	17,614	16,949	-665	600	618	18	(D)	-228	(D)
Asia and Pacific.....	361,303	329,475	-31,828	12,160	11,006	-1,153	5,656	6,846	1,190
2010 <sup>1</sup>									
<b>All areas</b> .....	.....	.....	.....	<b>189,720</b>	<b>228,249</b>	<b>38,529</b>	<b>146,358</b>	<b>143,384</b>	<b>-2,973</b>
Canada.....	.....	.....	.....	9,370	10,488	1,118	11,379	11,718	339
Europe.....	.....	.....	.....	141,674	173,220	31,546	111,139	104,699	-6,440
Of which:									
United Kingdom.....	.....	.....	.....	31,034	37,022	5,988	29,836	28,983	-853
Latin America and Other Western Hemisphere ....	.....	.....	.....	9,528	8,637	-891	2,047	2,514	467
Africa.....	.....	.....	.....	911	846	-65	105	44	-62
Middle East.....	.....	.....	.....	-437	-234	203	186	422	236
Asia and Pacific.....	.....	.....	.....	28,674	35,292	6,618	21,501	23,988	2,487

1. The only accounts for which 2010 estimates were previously available by country were financial inflows without current-cost adjustment and income without current-cost adjustment. The estimates of the direct invest-

ment positions for 2010 are preliminary and were first published in the July 2011 SURVEY OF CURRENT BUSINESS.

2007 was mostly accounted for by a large downward revision to intercompany debt investment; equity investment and reinvested earnings were also revised down. The downward revision for 2008 resulted from downward revisions to reinvested earnings, equity investment, and intercompany debt investment. The upward revision for 2009 was more than accounted for by a sizable upward revision to equity investment that was partly offset by a downward revision to reinvested earnings. The upward revision for 2010 was almost entirely accounted for by an upward revision to equity investment.

Income without current-cost adjustment was revised down \$2.9 billion for 2007, up \$14.0 billion for 2008, down \$0.8 billion for 2009, and down \$3.0 billion for 2010. The revisions for 2007 and 2008 were almost entirely attributable to revisions to affiliates' earnings. For 2009, the downward revision was more than accounted for by a downward revision to interest payments that was partly offset by an upward revision to earnings. For 2010, about two-thirds of the downward revision was attributable to a downward revision to earnings.

### Technical Note

The statistics on the inward direct investment position, financial flows, and income for 2007–2010 incorporate the results of the Bureau of Economic Analysis' 2007 Benchmark Survey of Foreign Direct Investment in the United States; the previous benchmark survey provided data for 2002. In addition, the detailed annual statistics for 2007 forward and the quarterly statistics on financial flows and income that underlie these annual statistics are now based on the 2007 North American Industry Classification System (NAICS); statistics for 2002–2006 are based on the 2002 NAICS. The revisions to the statistics for 2008–2010 also reflect the incorporation of new or revised data from quarterly and annual surveys of foreign direct investment in the United States.

Benchmark surveys are conducted every 5 years and cover virtually every U.S. business enterprise that was a U.S. affiliate of a foreign person.<sup>6</sup> In the 2007 survey, reports with information on affiliate direct investment positions and related financial and income flows were required for all U.S. affiliates with total assets, sales, or net income (or loss) greater than \$40 million for their 2007 fiscal year. To ensure that the statistics cover the universe of foreign direct investment in the United States, estimates for smaller affiliates for the direct in-

6. For a detailed description of the methodology, see *Foreign Direct Investment in the United States: Final Results From the 2002 Benchmark Survey* on BEA's Web site at [www.bea.gov](http://www.bea.gov). An updated methodology is scheduled to be published later this fall. The revised results from the 2007 benchmark survey are also available on BEA's Web site.

vestment position and related financial and income flows are based on information on operations that the smaller affiliates reported on a less detailed miniform.<sup>7</sup>

For nonbenchmark years, the statistics on the direct investment position and related financial and income flows are derived from data reported quarterly by all U.S. affiliates above a size-based exemption level and from estimates for the smaller affiliates. The estimates for affiliates that do not report in the quarterly surveys

7. In the 2007 benchmark survey, affiliates that filed on the miniform accounted for a very small share of the data for all U.S. affiliates in terms of value: They accounted for 0.3 percent of total assets, 0.9 percent of sales, and 2.1 percent of employment of all affiliates.

### Data Availability

Detailed statistics on the direct investment positions and on 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 article, go to [www.bea.gov](http://www.bea.gov).

### Acknowledgments

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The statistics on the foreign direct investment position in the United States and related financial and income flows are based largely on data from BEA's quarterly surveys of transactions between U.S. affiliates of foreign companies and their foreign parents. The surveys were conducted under the supervision of Gregory G. Fouch, who was assisted by Eric A. Bryda, Peter J. Fox, Barbara C. Huang, Edward J. Kozierka, Susan M. LaPorte, Robert L. Rosholt, and Helen P. Yiu. Computer programming for data estimation and tabulation was provided by Karen E. Poffel and Paula D. Brown.

The statistics on royalties and license fees and other private services (shown in table 2) are based largely on data from BEA's quarterly surveys of transactions in selected services and intangible assets with foreign persons. The surveys were conducted under the supervision of Christopher J. Emond.

are derived by extrapolating data from the most recent benchmark survey or from a previous quarterly survey using changes in the data for a matched sample of affiliates that reported in both the previous and the current quarterly surveys.

### **Benchmarking the 2007 quarterly survey data**

In general, the benchmarking procedures primarily compared the data reported in the quarterly surveys of foreign direct investment in the United States with the data reported in the 2007 benchmark survey with the objective of developing the most accurate statistics for 2007.

For affiliates that 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 cross-checked. As part of this reconciliation process, timing differences had to be resolved between the data from the benchmark survey that are reported on a fiscal year basis and the data from the quarterly surveys that are presented on a calendar year basis, which is the basis for compiling the U.S. international transactions accounts and the international investment position of the United States. Affiliates whose fiscal year coincided with the calendar year accounted for nearly 75 percent of the direct investment position; thus, for most affiliates, no reconciliation for timing differences was necessary.

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 2007 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 (1) the reconciled quarterly data for the quarters that were included in both fiscal year and calendar year 2007 and (2) the data from the quarterly survey for the calendar quarters that were not covered by the benchmark survey. The fiscal year data for the direct investment position, financial flows, and income will be available when the final results from the 2007 benchmark survey are published later this fall.

For affiliates that did not report in the benchmark survey but reported in the quarterly surveys, the data were not affected by the benchmarking process and continue to be included in the quarterly statistics.

For affiliates that reported in the benchmark survey but did not report in the quarterly surveys, the data

from the benchmark survey replaced the quarterly estimates. The data from the benchmark survey for fiscal year 2007 were used as the estimates for calendar year 2007 and in general were distributed evenly among the four calendar quarters of the year.

For affiliates that the benchmark survey indicated had either left the direct investment universe or been consolidated with other affiliates since the 2002 benchmark survey, and whose exit or consolidation had not already been captured by BEA's quarterly and annual surveys, the estimates were removed from the quarterly statistics. Also removed were data for affiliates that were estimated for 2007 based on prior year's reports but that did not file on either the benchmark survey or quarterly surveys for 2007.

### **Statistics for 2008–2010**

Universe statistics on the direct investment position and related financial and income flows were generally derived from (1) the data reported in the quarterly surveys for a given year by the affiliates that also reported in the 2007 benchmark survey, (2) the data reported in the quarterly surveys for a given year by affiliates that entered the direct investment universe since the 2007 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 a given year.

Conceptually, the statistics on the direct investment position and related financial and income flows cover the universe of U.S. affiliates. To ensure coverage that is as complete as that in the 2007 benchmark survey, estimates were prepared for affiliates that reported in the benchmark survey (or whose 2007 data were estimated on the basis of quarterly reports or other information reported on the benchmark survey) but that did not report in the quarterly surveys for 2008 or later, either because they were exempt or because they did not report but should have. The estimates for these affiliates were derived by extrapolating the data that were previously reported or estimated based on changes in the data reported in the subsequent quarters for a matched sample of affiliates. (Information from other sources may also have been used in preparing the estimates.) The universe statistics were derived by adding the estimates for these affiliates to the data for the affiliates that reported in the quarterly survey.

This procedure was used for all data items except for intercompany debt investment and equity investment increases and decreases. The estimates for intercompany debt investment were derived as the change in the sample data for the intercompany debt positions reported in the quarterly surveys. The equity increases and decreases of nonreporting affiliates were estimated

at the global level by using a ratio of current-quarter reported increases and decreases to the preceding-quarter equity position of all affiliates that reported in the current quarter. This ratio was multiplied by the equity position in the preceding quarter for affiliates

that did not report in the current quarter. The result was added to the current quarter's reported flows to derive total equity increases and decreases. The estimated equity increases and decreases were then allocated to the largest value countries and industries.

### 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 2004 Benchmark Survey*. These methodologies are available on BEA's Web site at [www.bea.gov](http://www.bea.gov). (An updated methodology for foreign direct investment in the United States will be available on BEA's Web site later this fall.)

#### 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 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 (outward direct investment)** 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 (inward direct investment)** 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, including reinvested earnings, and net debt investment by the foreign parent as well as net debt investment 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 UBO of a U.S. affiliate is the first person, proceeding up the affiliate's ownership chain beginning with the

foreign parent, that is not more than 50 percent owned by another person. 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 statistics 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 article, the **historical-cost measure** is featured. This valuation is principally derived from the financial accounting records of affiliates and generally reflects the acquisition cost of the investments, cumulative reinvested earnings, and cumulative depreciation of fixed assets. For additional information, see the box "Alternative Measures of the Direct Investment Positions" in Barefoot and Ibarra-Caton, 126.

**Direct investment financial 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. Financial **outflows** arise from transactions that increase U.S. assets or decrease U.S. liabilities. Financial **inflows** arise from transactions that decrease U.S. assets or increase U.S. liabilities. Direct investment financial flows consist of equity investment, intercompany debt investment, and reinvested earnings.

**Equity investment** is the difference between equity increases and equity decreases. Equity 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 to their affiliates. Equity decreases are the funds parents receive when they reduce their equity interest in their affiliates.

### Key Terms

**Intercompany debt investment** results from changes in net outstanding loans between parents (or for inward investment, 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; and 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 financial 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 liquidation of affiliates and their book values, (2) differences between the purchase

prices of affiliates and their book values, (3) write-offs 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 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 may be made when the political boundaries of countries change. In addition, for inward direct investment, offsetting adjustments are made when transactions between foreign residents result in a change in the country of the 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) net interest received by parents (or foreign parent groups) 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

These are 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, copyrights, and other intellectual property) and **other private services** (consisting of service charges, including management fees and allocated expenses, and rentals for tangible property).

*U.S. direct investment abroad tables 1–16 and foreign direct investment in the United States tables 1–17 follow.*