



# Inbound and Outbound U.S. Direct Investment With Leading Partner Countries

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## Introduction

This article surveys trends in U.S. inbound and outbound foreign direct investment (FDI) during the years 2000-2005. The article examines the major country and regional destinations for U.S. direct investment abroad (USDIA),<sup>1</sup> and foreign direct investment in the United States (FDIUS).<sup>2</sup>

After a brief survey of total inbound and outbound FDI, the article looks at trends by region, discussing the major sources and destinations of FDI in Europe, Asia-Pacific, the NAFTA countries, Latin America and the Caribbean, and Africa and the Middle East. The article next examines trends related to the five largest U.S. FDI partners—the United Kingdom, Canada, the Netherlands, Germany, and Japan—as defined by the sum of total inbound and outbound FDI position, or stock, a cumulative measure of FDI over time. The article concludes with a brief look at USDIA and FDIUS with developing countries, particularly Mexico, Brazil, India, and China. Throughout the paper, the analysis pays particular attention to the multinational corporations (MNCs) that are the source of most FDI, and to specific mergers, acquisitions, and greenfield investments that have contributed to the trends.

The position (stock) of USDIA has exceeded that of FDIUS in every year since 1982. Preliminary data for 2005 show the total USDIA position at \$2.1 trillion, compared with an FDIUS position of \$1.6 trillion. Both USDIA and FDIUS have grown steadily since 1982, averaging annually 11 percent for USDIA

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<sup>1</sup> USDIA is the value of U.S. investors' equity in, and net outstanding loans to, their foreign affiliates. Direct investment is considered to be "investment in which a resident of one country obtains a lasting interest in, and a degree of influence over the management of, a business enterprise in another country." The U.S. statistical definition, and the global standard adopted by the IMF, define such an interest as the ownership or control by one foreign resident of 10 percent or more of the equity shares in a foreign company. Ownership interest of less than 10 percent is defined as portfolio investment, and not included in the statistics presented herein. U.S. Department of Commerce (USDOC), Bureau of Economic Analysis (BEA), "Foreign Direct Investment in the United States," *Survey of Current Business*, October 2006, 36.

<sup>2</sup> FDIUS is the value of foreign investors' equity in, and net outstanding loans to, their U.S. affiliates.

and 12 percent for FDIUS. For the years 2000-2005, average annual growth has been 9 percent for USDIA and 5 percent for FDIUS.<sup>3</sup>

### **Foreign Direct Investment – Key Terms and Definitions**

**Direct investment** - Investment in which a resident of one country obtains a lasting interest in, and a degree of influence over the the management of, a business enterprise in another country. For statistical purposes, USDIA is defined as a single U.S. resident owning or controlling more than 10 percent of the voting securities or equivalent of a foreign company. FDIUS is defined as a single foreign resident owning or controlling more than 10 percent of the voting securities or equivalent of a U.S. company.

**Direct investment capital flows** - Flows of capital across borders, either arising from transactions between affiliates in one country and parent firms in another country (reinvested earnings or intracompany loans), or funds that foreign direct investors pay to unaffiliated residents when affiliates are acquired or sold (equity capital flows). In this article, capital flows are presented on an annual basis.

**Foreign affiliate** - A business enterprise in which a single investor owns at least 10 percent of the voting securities or the equivalent in a business enterprise in another country.

**Foreign direct investment position (stock) in the United States** - The cumulative value of foreign direct investors' equity in, and net outstanding loans to, their U.S. affiliates. The position may be viewed as the foreign direct investors' net financial claims on their U.S. affiliates in the form of equity (including retained earnings) or debt.

**U.S. direct investment position abroad** - The cumulative value of U.S. direct investors' equity in, and net outstanding loans to, their foreign affiliates. The position may be viewed as the U.S. direct investors' net financial claims on their foreign affiliates, whether in the form of equity (including reinvested earnings) or debt.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The majority of USDIA is invested in other developed economies, with the EU-25 accounting for 46 percent of the USDIA position in 2005, and Canada accounting for 11 percent. The North Atlantic British overseas territory of Bermuda and the British overseas territory islands in the Caribbean together accounted for 8 percent of USDIA. The Caribbean countries are a significant domicile for holding companies set up by U.S.-based corporations. The majority of the funds invested there are later reinvested in operating affiliates

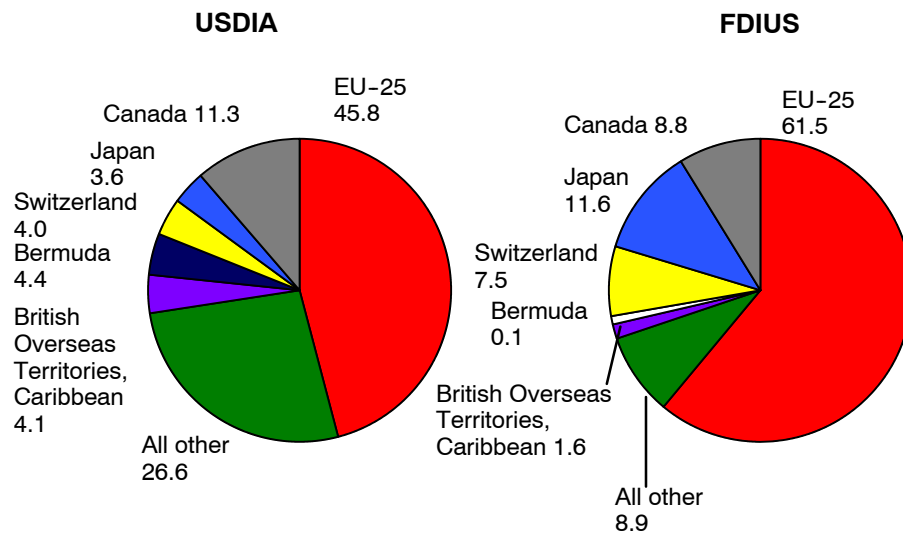
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<sup>3</sup> USDOC, BEA, *Survey of Current Business*, July 2006, 20.

in third countries, largely for tax purposes. In addition, Bermuda has become an important destination for insurance industry investment in the reinsurance segment of the industry.

Likewise, most FDIUS comes from developed economies, with the EU-25 accounting for about 62 percent of FDIUS position in 2005, followed by Japan, Canada and Switzerland (figure 1). This article will closely examine the U.S. direct investment relationship by region, and with its top five foreign direct investment (FDI) partners: the United Kingdom, Canada, the Netherlands, Germany, and Japan (table 1).<sup>4</sup> Developing countries accounted for approximately 12 percent of USDIA and 2.5 percent of FDIUS. The article will also briefly discuss the U.S. investment relationship with several developing country investment partners: Mexico, Brazil, China, and India.

**Figure 1.** Inbound (FDIUS) and outbound direct investment (USDIA) position, by major investor, 2005 (percentage)



Source: USDOC, BEA

<sup>4</sup> Leading FDI partners are defined by the level of outbound plus inbound FDI position.

**TABLE 1.** Direct investment position at historical cost, leading countries, USDIA and FDIUS, 2005

Country	USDIA	FDIUS	Combined USDIA and FDIUS
All countries . . . .	2,069,983	1,635,291	3,705,274
United Kingdom .	323,796	282,457	606,253
Canada . . . . .	234,831	144,033	378,864
Netherlands . . . .	181,384	170,770	352,154
Germany . . . . .	86,319	184,213	270,532
Japan . . . . .	75,491	190,279	265,770
Switzerland . . . .	83,424	122,399	205,823
France . . . . .	60,860	143,378	204,238
Luxembourg . . . .	61,615	116,736	178,351
Australia . . . . .	113,385	44,061	157,446
Bermuda . . . . .	90,358	1,517	91,875
Ireland . . . . .	61,596	21,898	83,494
Mexico . . . . .	71,423	8,653	80,076
Sweden . . . . .	33,398	24,774	58,172
Singapore . . . . .	48,051	2,404	50,455
Spain . . . . .	43,280	7,114	50,394
Belgium . . . . .	36,733	9,712	46,445
Hong Kong . . . . .	37,884	2,600	40,484
Brazil . . . . .	32,420	2,551	34,971
Italy . . . . .	25,931	7,716	33,647
Hungary . . . . .	3,402	20,329	23,731
China . . . . .	16,877	481	17,358
Taiwan . . . . .	13,374	3,565	16,939
Panama . . . . .	5,162	11,470	16,632
Chile . . . . .	9,811	129	9,940
India . . . . .	8,456	1,355	9,811
Philippines . . . . .	6,649	-1	6,648
Poland . . . . .	5,736	-1	5,735
Russia . . . . .	5,545	418	5,963
South Africa . . . .	3,594	361	3,955

Source: USDOC, BEA.

Note: Direct investment position is the sum of foreign parents' equity holdings in their U.S. affiliates (including retained earnings), plus the net outstanding loans that foreign parents have made to these affiliates. Direct investment position is negative when the value of loans made by U.S. affiliates to their foreign parent companies exceeds the value of the parents' equity holdings plus the value of loans made by the parent to its affiliate companies.

MNCs may establish a commercial presence overseas for a variety of reasons, including better access to foreign markets, lower labor costs, access to natural resources, and the ability to more closely monitor proprietary information and manufacturing processes. Individual FDI decisions by U.S.-based companies may reflect these or other factors or all factors at the same time. Potential benefits of direct investment for host countries include greater access to technology, job creation, additional tax revenue, and access to capital with which to fuel economic growth, pursue social objectives, and offset temporary trade imbalances. Inbound FDI in particular reflects the natural advantages of doing business in the United States, including access to a large, sophisticated market; an educated, highly productive labor force; and the sophisticated, well-financed U.S. capital markets. MNCs can invest abroad through two modes of entry: mergers and acquisitions (M&A) or greenfield investments.<sup>5</sup> Acquisitions tend to compose the largest share of new FDI in developed countries. Greenfield investments are more prevalent in developing countries, where there are fewer established firms that make attractive takeover targets.<sup>6</sup> In the United States, for example, an average of 86 percent of all new inbound FDI outlays during 1992-2005 were in the form of acquisitions, with the level reaching 96 percent during the years 1999 and 2000.<sup>7</sup>

## Direct Investment Data

This article relies primarily on the balance of payments and associated direct investment position data provided by the U.S. Department of Commerce (USDOC), Bureau of Economic Analysis (BEA). Direct investment position (stock) data reflect the cumulative value of parent companies' investments in their affiliates, while capital flows data reflect cross-border transfers of capital during a given time period.<sup>8</sup> The analysis presented in this article concentrates on the data years 2000-2005, which reflect the most recent available data for direct investment position and capital flows. The BEA data are supplemented with data from UNCTAD, the World Bank, individual country statistical agencies, private databases, individual company information, and press reports, as appropriate.

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<sup>5</sup> In an acquisition, an MNC acquires an equity stake in an existing firm outside its home country. In a greenfield investment, an MNC establishes a new company as a branch or a subsidiary by transferring assets from its home country.

<sup>6</sup> UNCTAD, *WIR 2005*, p. 10.

<sup>7</sup> The exceptionally high share of M&A in new investment outlays in 1999 and 2000 was due to the large number and high value of M&A in high-technology industries during the stock market boom of the late 1990s. USDOC, BEA, *Survey of Current Business*, June 2006, 32.

<sup>8</sup> The data are presented on an historical-cost basis, which reflects the value of investments at the time of investment, with no adjustment for inflation, current cost, or change in market value. Adjusted data are not available for the country and industry breakdowns presented in this article. For a discussion of issues regarding the deflation of direct investment data, see USDOC, BEA, "Valuation of the U.S. Net International Investment Position," *International Direct Investment: Studies by the Bureau of Economic Analysis* (Washington, DC: USDOC, 1999), pp. 3-15.

## U.S. Inbound vs. Outbound Investment

As noted above, the overall USDIA position was \$2.1 trillion in 2005, compared with \$1.6 trillion for FDIUS. By comparison, BEA also estimates the direct investment position for both inbound and outbound FDI on a current-cost and a market-value basis, which are presented in table 2. The current cost estimate reflects the estimated current cost values of “U.S. and foreign parents’ share of their affiliates’ investment in plant, and equipment, land, and inventories.”<sup>9</sup> The estimate of market value is an estimate of the “value of the equity portion of direct investment, using indexes of stock market prices.”<sup>10</sup>

**TABLE 2.** Alternative estimates of U.S. direct investment position, 2005

	USDIA	FDIUS
Historical cost .....	2,069,983	1,635,291
Current cost .....	2,453,933	1,874,263
Market value .....	3,524,459	2,797,165

Source: USDOC, BEA.

Table 3 presents overall inbound and outbound FDI stock and flows from 2000 through 2005. The USDIA position has consistently been higher than the FDIUS position (figure 2). By contrast, annual capital inflows (FDIUS) were higher than capital outflows (USDIA) for much of the same period (figure 3).

**TABLE 3.** Direct investment position and capital flows, 2000-2005  
(million dollars)

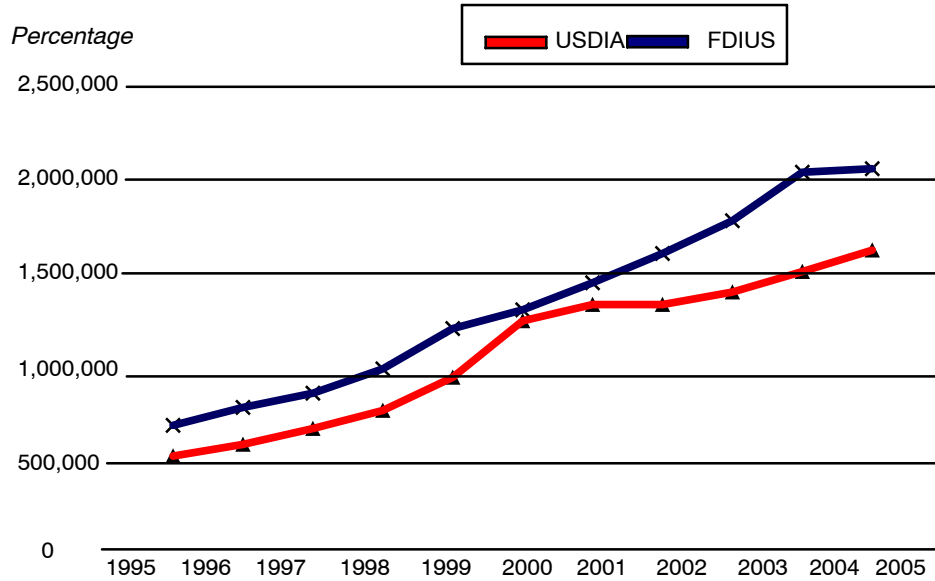
	2000	2001	2002	2003	2004	2005
USDIA						
Outflows	142,627	124,873	134,946	119,406	222,400	-12,700
Position	1,316,247	1,460,352	1,616,548	1,791,891	2,051,204	2,069,983
FDIUS						
Inflows	314,007	159,461	71,331	56,834	122,400	99,400
Position	1,256,867	1,343,987	1,344,697	1,410,672	1,520,729	1,635,291

Source: USDOC, BEA.

<sup>9</sup> USDOC, BEA, *Survey of Current Business*, July 2006, 21.

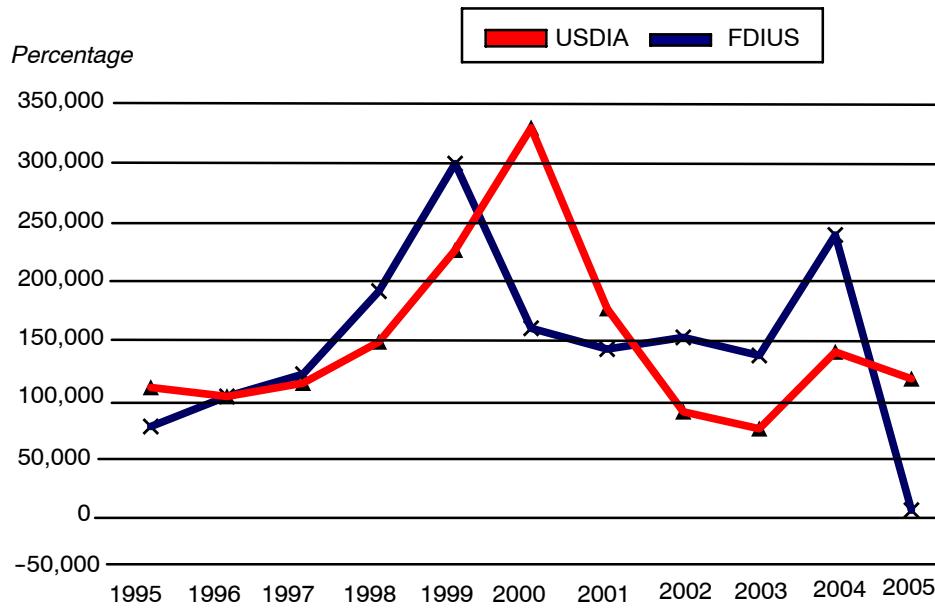
<sup>10</sup> *Ibid.*

**Figure 2.** U.S. direct investment position, 1995-2005



Source: USDOC, BEA.

**Figure 3.** U.S. capital outflows (USDIA) and inflows (FDIUS), 1995-2005



Source: USDOC, BEA.

Annual capital flows data tend to reflect large individual transactions such as mergers, acquisitions, greenfield investments in new facilities such as factories, or reinvestment decisions by firms. These vary widely from year to year, so the trend is much more volatile than the trend in FDI position, which reflects cumulative investment over time. The high level of U.S. capital inflows between 1999 and 2001 reflects the strong foreign interest in U.S. technology and telecommunications firms during the stock market boom years, prior to the market downturn in 2001.

## Foreign Direct Investment by Region

### *Europe<sup>11</sup>*

Europe accounted for 51 percent of the USDIA position (\$1.06 trillion) and 70 percent of the FDIUS position (\$1.14 trillion) in 2005 (figure 4). Within Europe, the largest industry destination for USDIA in 2005 was holding companies, with 33 percent of the total (table 4). Holding companies are designed primarily for tax purposes, to channel funds to operating companies in a wide variety of industries. Holding companies, as a share of the total USDIA position, increased from just under 10 percent in 1982, to 35 percent in 2004, before falling back to 30 percent in 2005. In 2004, the USDIA position in holding companies was valued at \$724.2 billion on an historical-cost basis, with USDIA in holding companies in the Netherlands valued at \$125.3 billion. In 2005, the overall global USDIA position in holding companies declined to \$623.1 billion, with a decline in Europe alone of \$92.3 billion. The decline was largely due to the American Jobs Creation Act of 2004, which offered a one-time tax incentive to U.S. firms to repatriate profits from overseas operations back to the United States.<sup>12</sup> The largest European destinations for investment in holding companies were the Netherlands, the United Kingdom, Luxembourg, and Switzerland. Outside Europe, Bermuda and the British overseas territory islands of the Caribbean are also significant destinations for USDIA in holding companies (table 4).<sup>13</sup>

The high level of investment in holding companies makes it difficult to determine the final industry destination of U.S. outbound investment. Official U.S. Government statistics track capital outflows from U.S. parent firms only to

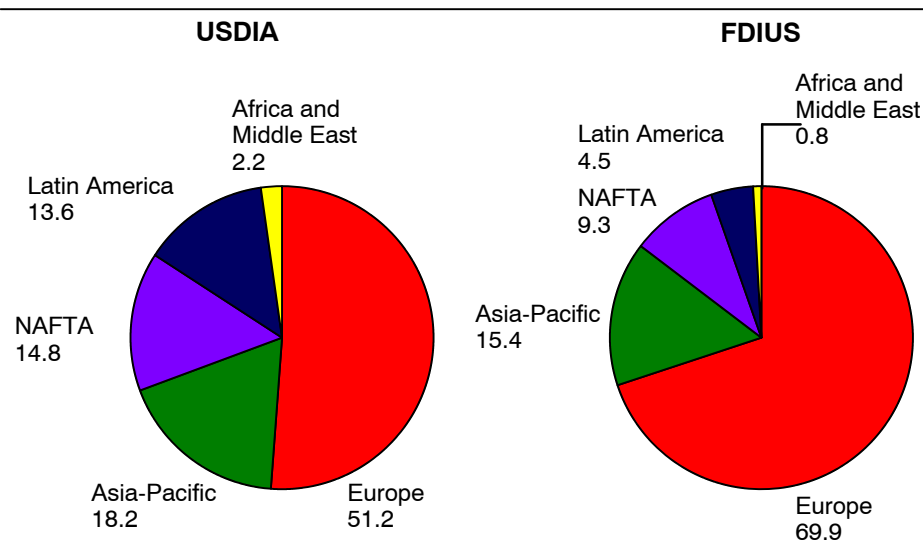
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<sup>11</sup> Europe includes the EU-25, Norway, Switzerland, Iceland, Russia, the former Soviet republics, and the countries of Eastern Europe that are not EU members.

<sup>12</sup> For further detail on the effects of the American Jobs Creation Act, see USDOC, BEA, *Survey of Current Business*, July 2006, 24.

<sup>13</sup> USDOC, BEA, *Survey of Current Business*, July 2006, p. 24.

**Figure 4. USDIA and FDIUS position by region, 2005 (percentage)**



Source: Commission calculations based on data from USDOC, BEA.

Note: Latin America includes the Caribbean countries but does not include Mexico, NAFTA includes Canada and Mexico. Europe includes the EU-member countries and countries that are not EU members.

**TABLE 4. USDIA position in holding companies, selected countries, 2004 and 2005**

Country/ Region	2004			2005		
	USDIA position in holding companies (million dollars)	Holding company share of total USDIA position (%)	Capital outflows to holding companies (million dollars)	USDIA position in holding companies (million dollars)	Holding company share of total USDIA position (%)	Capital outflows to holding companies (million dollars)
Europe	437,973	39.6	34,226	345,629	32.6	-86,945
Luxembourg	72,589	89.5	5,314	51,418	83.5	-16,195
Netherlands	125,272	61.3	9,100	95,071	52.4	-33,461
Switzerland	62,148	58.2	3,974	37,702	45.2	-12,699
United Kingdom	84,465	27.1	9,901	78,467	24.2	-4,726
Bermuda	37,534	43.4	1,174	36,015	39.9	-14,861
British Oversea Territory	56,456	69.9	5,716	53,497	62.7	-8,897
All countries	724,229	35.3	101,353	623,076	30.1	-118,634

Source: USDOC, BEA.

the first foreign affiliate recipient. When a U.S. parent firm invests in a foreign affiliate holding company, which then sends the capital onward to an operating company in another industry and/or another country, U.S. FDI data reflect only the first step of investment in the holding company, not the final industry and/or country destination of these capital outflows. However, it is possible to gain some insight into the final industry destination of FDI by comparing the USDIA position as measured by industry of the U.S. parent to the USDIA position measured by the industry of the foreign affiliate (table 5).

**TABLE 5.** USDIA position by industry of affiliate compared to industry of parent, all countries, 2005

Industry	USDIA position by industry of affiliate	USDIA position by industry of US parent	Difference
All industries . . . . .	2,069,983	2,069,983	0
Holding companies . . .	623,076	16,355	606,721
Finance . . . . .	393,723	318,467	75,256
Wholesale . . . . .	142,960	71,075	71,885
Mining . . . . .	114,386	67,647	46,739
Other industries . . . . .	169,424	180,358	(10,934)
Information . . . . .	55,479	77,859	(22,380)
Dep inst . . . . .	70,331	98,264	(27,933)
Prof, sci, tech . . . . .	49,202	83,619	(34,417)
Manufacturing . . . . .	451,402	1,156,340	(704,938)
Elec equip . . . . .	13,079	11,868	1,211
Metals . . . . .	21,671	36,983	(15,312)
Machinery . . . . .	29,224	49,364	(20,140)
Food . . . . .	31,524	60,886	(29,362)
Comp/elec products . .	58,785	150,257	(91,472)
Chemicals . . . . .	109,354	246,844	(137,490)
Transport equip . . . . .	48930	248596	(199,666)
Other mfg . . . . .	138836	351543	(212,707)

Source: USDOC, BEA, *Survey of Current Business, September 2006, 129.*

Cases in which the USDIA position, as measured by the industry of the parent, differs from the position as measured by the industry of the affiliate, are most likely to be situations in which FDI is directed first to a holding company, then subsequently reinvested in an operating company. For example, a U.S. manufacturer may invest in a holding company in Bermuda, which then invests in an operating company affiliate such as a factory in India. U.S. FDI data show only the first investment in Bermuda, reported by the industry of the affiliate. When the data are compared by the industry of the parent (manufacturing) vs. the industry of the affiliate (holding companies, included in the service sector), a discrepancy appears. An examination of the data shows that for four industries (holding companies, finance, wholesale trade,

and mining), the USDIA position is significantly larger when categorized by the industry of the affiliate, compared to data presented by the industry of the parent. This signifies that many U.S. parent firms have invested in foreign affiliates in an industry different from their own primary industry.<sup>14</sup> The largest such discrepancy appears in the category of holding companies. The majority of such funds directed toward holding companies are presumably reinvested in operating companies, probably in third countries.

For 2005, the USDIA position in foreign holding companies was \$16.4 billion when measured by the industry of the foreign parent, compared with \$623.1 billion when measured by industry of the affiliate. The reverse is true for manufacturing firms, implying that U.S.-based MNCs engaged primarily in manufacturing industries have invested in foreign affiliates that act as holding companies, and also in affiliates in the wholesale trade, finance, and mining industries. This is particularly true for parent firms that are manufacturers of chemicals, machinery, transportation equipment; and computers and electronic equipment. These U.S.-based manufacturing firms have invested in holding companies aimed at onward investment, and also in wholesale trade affiliates used to distribute their products in overseas markets, finance companies likely used to finance the purchase of those finished products, and mining companies, presumably as a source of raw materials for manufacturing operations. In 2005, the USDIA position in manufacturing was \$451.4 billion when classified by the industry of the affiliate, but \$1,156.3 billion by industry of the parent.

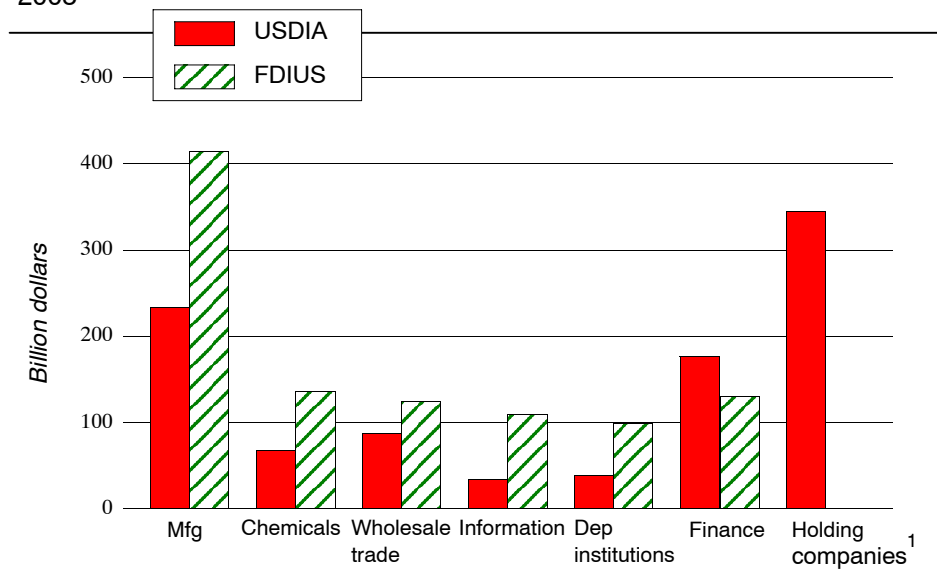
The manufacturing sector, led by the chemicals industry, accounted for the second-largest share of USDIA in Europe and the largest share of FDIUS. The chemicals industry includes pharmaceuticals manufacturing, which accounts for a large share of both USDIA and FDIUS (figure 5). The USDIA position in the European chemicals industry was \$68.0 billion in 2005, half the \$136.0 billion value of the European FDIUS position in the chemicals industry. The United Kingdom, the Netherlands, and the Republic of Ireland held the largest shares of USDIA in the chemicals industry. European leaders in FDIUS in chemicals were the United Kingdom, Switzerland, the Netherlands, and Germany. Financial services was the other leading industry for USDIA in Europe, with FDI stock in depository institutions of \$39.0 billion, and FDI in other financial services of \$176.8 billion, particularly in the United Kingdom. For FDIUS from Europe, the financial services, wholesale trade, information,<sup>15</sup> and depository institutions were leading industries in 2005 (table 6).

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<sup>14</sup> To understand the examples of finance and wholesale trade, consider the case of an automobile manufacturer investing abroad in an auto distribution company, or a finance firm aimed at providing financing for auto loans. An aluminum manufacturer or other raw materials processor might also invest abroad in a mining affiliate.

<sup>15</sup> Includes publishing, motion picture and sound recording, broadcasting, telecommunications, information services, and data processing services.

**Figure 5.** Europe, USDIA position vs. FDIUS position, by selected industry, 2005



Source: USDOC, BEA.

<sup>1</sup> The Bureau of Economic Analysis does not report regional statistics for FDIUS in holding companies. However, the FDIUS position in holding companies from all countries was \$93.9 billion in 2005.

## Asia Pacific

The Asia-Pacific region holds the second-largest investment relationship with the United States, accounting for 18 percent of USDIA stock and 15 percent of FDIUS stock. U.S. outbound investment stock in the region totaled \$376.8 billion in 2005, with inbound FDI of \$252.6 billion. As in Europe, the largest share of USDIA position was holding companies, valued at \$122.7 billion (table 7), primarily representing FDI in Australia. Overall USDIA stock in Australia increased dramatically in 2004, vaulting Australia into fourth place in 2005, from 11<sup>th</sup> in 1999.<sup>16</sup> The change is largely due to the decision by Australia-based News Corp. to shift its headquarters site to the United States during 2004. As a result of this shift, all of News Corp.'s assets in Australia were reclassified as U.S. equity in Australian affiliates, the primary factor in a shift in USDIA stock in Australia from \$48.9 billion in 2003 to \$113.4 billion in 2005.<sup>17</sup>

<sup>16</sup> Data for USDIA in Australia are not available for 2004. BEA suppressed the data to avoid disclosure of individual company information.

<sup>17</sup> News Corp. completed its reincorporation in the United States in November 2004. Because BEA does not disclose the activities of individual companies, the explanation for the change in the scale of USDIA in Australia between 2003 and 2005 is compiled from company press releases and other reports. For example, see News Corp., "News Corporation Completes Reincorporation to United States," press release, November 12, 2004, found at [http://www.newscorp.com/news/news\\_231.html](http://www.newscorp.com/news/news_231.html), accessed January 26, 2007.

**TABLE 6.** Europe, USDIA position and FDIUS position, Europe, by selected industry and country, 2005

Industry		Europe	France	Germany	Ireland	Netherlands	Switzerland	United Kingdom
Manufacturing	USDIA	233,608	22,214	22,200	22,949	29,508	13,059	60,355
	FDIUS	414,852	45,480	70,943	5,268	72,459	76,385	76,792
Chemicals	USDIA	67,987	6,955	4,078	10,696	10,583	4,835	13,136
	FDIUS	135,975	16,163	26,755	616	25,024	26,972	29,714
Wholesale trade	USDIA	86,795	5,909	18,964	4,109	14,152	11,306	13,963
	FDIUS	124,349	13,316	14,972	402	9,691	7,055	62,392
Information	USDIA	33,514	1,559	2,818	13,260	4,385	(2,651)	6,937
	FDIUS	109,677	26,202	29,971		12,283		17,918
Depository institutions	USDIA	39,021	1,901	1,385		49	8,610	17,018
	FDIUS	98,544	16,194	16,445				
Finance & insurance	USDIA	176,838	4,342	13,560	7,002	28,695	11,555	85,474
	FDIUS	130,356	28,215	18,353	1,072	40,847	19,637	

Source: USDOC, BEA.

Note: Empty cells imply no data are available.

Manufacturing is the other large industry component of the U.S. inbound and outbound FDI relationship with the Asia-Pacific region. U.S. investors held USDIA stock of \$81.0 billion in Asian-Pacific manufacturing firms in 2005, including \$23.9 billion in affiliates involved in the manufacture of computers and electronic products. Figure 6 shows the regional breakdown of USDIA in the industry. U.S. investors also held a \$15.1 billion position in the Asia-Pacific chemicals industry, split among a large number of Asian countries. New USDIA capital outflows to the region were \$13.0 billion during 2005, primarily to the finance and insurance and manufacturing industries in Japan.

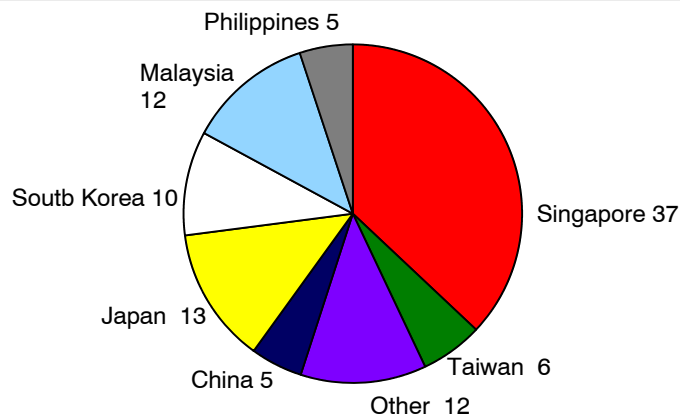
**TABLE 7.** USDIA position and FDIUS position, Asia-Pacific region, selected industries, 2005

Industry		Asia-Pacific	Australia	Hong Kong	Japan	South Korea	Singapore
Manufacturing	USDIA	80,951	13,174	2,369	15,264	8,251	14,307
	FDIUS	69,112	4,986	448	62,934	577	(991)
Computers and electronic products	USDIA	23,864	616	998	3,026	2,328	9,016
	FDIUS	13,807	(9)	580	13,821		(816)
Transport equipment	USDIA	7,565	1,840	31	758	696	7,822
	FDIUS		(31)		26,363		8
Wholesale trade	USDIA	26,369	2,532	6,643	8,024	1,144	1,886
	FDIUS	86,473	1,722	1,009	76,732	4,539	425
Finance and insurance	USDIA	65,651	6,455	10,134	34,032	1,949	
	FDIUS	18,177	2,447		14,119	144	
Holding companies	USDIA	122,683	77,339	11,634	1,253	312	
	FDIUS						

Source: USDOC, BEA.

Note: Empty cells imply no data are available.

**Figure 6.** Asia-Pacific region, USDIA position in computers and electronics manufacturing, 2005 (percentage)



Source: USDOC, BEA.

The stock of FDIUS in manufacturing from the Asia-Pacific region was \$69.1 billion in 2005, with the largest amounts in transportation equipment and computers and electronic products.<sup>18</sup> FDIUS in wholesale trade from the Asia-Pacific region was valued at \$86.5 billion in 2005, 89 percent of which came from Japan, and 5 percent from South Korea. USDIA in Asia-Pacific financial services was \$80.7 billion in 2005, of which \$15.0 billion was depository institutions.

### ***NAFTA***

Canada and Mexico rank second and 12th, respectively, as FDI partners with the United States (see table 2). As a region, the two countries combined rank just behind the Asia-Pacific region, with 15 percent of USDIA (\$306.3 billion) and 9 percent of FDIUS overall. For outbound U.S. investment, the largest share goes to manufacturing with a total of \$105.4 billion, with the chemicals and transport equipment segments each accounting for just under \$18 billion (figure 7). USDIA in finance and insurance was \$51.2 billion, followed by mining investment, at \$35.8 billion. For FDIUS, the largest share was again represented by financial services (\$60.2 billion), most of which came from Canada, followed by manufacturing, at \$31.8 billion.<sup>19</sup>

### ***Latin America and the Caribbean<sup>20</sup>***

Latin America and the Caribbean accounted for 14 percent of USDIA in 2005 (\$281.6 billion), compared with 5 percent of FDIUS (\$73.9 billion). The largest industries for USDIA were holding companies and finance and insurance (excluding depository institutions) with \$117.7 billion and \$98.6 billion, respectively, with most investment in the British Islands in the Caribbean and Bermuda. Both countries are centers for holding companies, with a large share of the capital likely destined for operating companies in a variety of industries. USDIA capital flows to Latin America and the Caribbean were largest in finance and insurance in 2005, with \$9.2 billion. Other leading industries were wholesale trade and mining. By industry, the largest recipients of FDIUS from the region are manufacturing (\$20.7 billion), followed by finance and insurance (\$15.2 billion), and wholesale trade (\$9.5 billion). Panama and Venezuela are the largest sources of FDIUS, with stock of \$11.5 billion and \$6.7 billion, respectively.<sup>21</sup>

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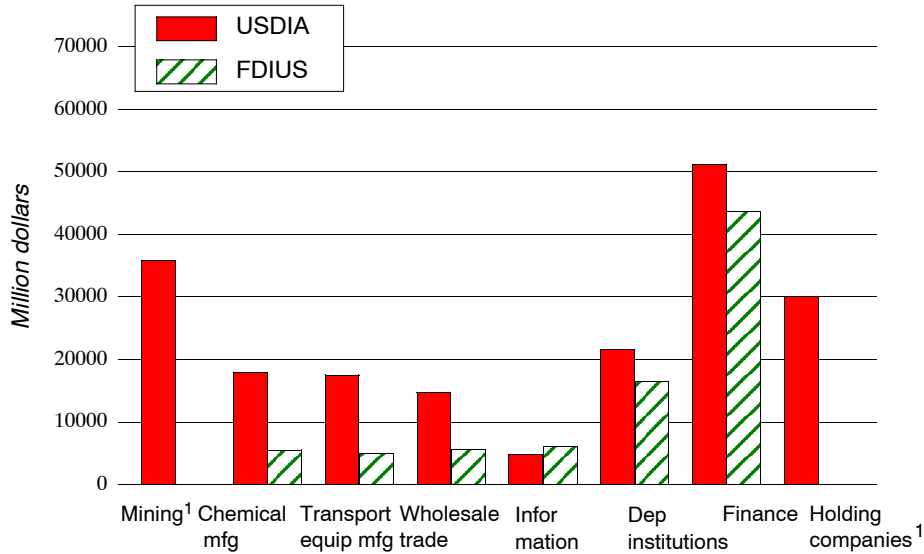
<sup>18</sup> Data for 2005 for FDIUS in transportation equipment from the Asia-Pacific region were suppressed by BEA to avoid disclosure of individual company information, along with individual country data for China and South Korea. FDIUS from Japan in transportation equipment was \$26.4 billion in 2005. In 2004, however, the Asia-Pacific FDIUS position in transportation equipment was \$26.5 billion, almost all of which consisted of investment by Japanese firms.

<sup>19</sup> Data for FDIUS position are not available for the mining industry.

<sup>20</sup> Excludes Mexico.

<sup>21</sup> Details regarding the industry distribution of FDIUS from Panama and Venezuela are not available.

**Figure 7. USDIA and FDIUS position, NAFTA, 2005**



Source: USDOC, BEA.

<sup>1</sup> FDIUS data for mining and holding companies specific to the NAFTA countries are not available.

### ***Africa and the Middle East***

Africa and the Middle East account for the smallest shares of both USDIA and FDIUS stock, with 2 percent and 1 percent, respectively. For USDIA, the largest industry is mining, which includes the petroleum industry (table 8). In 2005, U.S. investors held stock in mining companies valued at \$5.6 billion in the Middle East and \$15.3 billion in Africa. U.S. investors also held \$7.9 billion in manufacturing FDI in the region, over one-half of which was invested in Israel, primarily in the computers and electronics industry.

Total stock of FDIUS from the region was \$12.5 billion in 2005. Of that total, \$4.4 billion of this originated in Israel, with the largest shares in the depository institutions and information industries. Much of the remainder is most likely from Saudi Arabia and the United Arab Emirates, but precise data are not available.<sup>22</sup> Prince al-Waleed bin Talal, through his company, Kingdom Holdings Co., reportedly controls a \$10 billion-equity share of Citibank, making him the largest shareholder in the U.S. financial services company. Kingdom Holdings also acquired a \$450 million equity stake in Time Warner in 2002 and controls an equity stake of more than 5 percent in Priceline.<sup>23</sup>

<sup>22</sup> BEA suppressed the data to avoid disclosing information pertaining to individual company transactions.

<sup>23</sup> Zephyr M&A database.

**TABLE 8.** Africa and the Middle East, USDIA position and FDIUS position, selected industries, 2005

Country/ Region		Manufacturing	Wholesale trade	Information	Finance and insurance	Professional, scientific, and technical services	Mining	Holding companies
Africa and Middle East . . . .	USDIA	7,863	1,724	1,976	1,491	1,155	20,922	7,015
	FDIUS	1,603	0	809	0	0	0	0
Egypt . . .	USDIA	218	55		13	3	4,085	0
	FDIUS							
South Africa . . .	USDIA	1,610	437	147	61	114	(5)	
	FDIUS	(3)						
Israel . . .	USDIA	4,259	795	1,766	291	455		
	FDIUS	847	427	803	(2)			
Saudi Arabia . .	USDIA	419	276	15	(49)	333		2,425
	FDIUS			6	2			
UAE . . . .	USDIA	1,064	(346)	12	666	34	1,064	487
	FDIUS	(15)						

Source: USDOC, BEA.

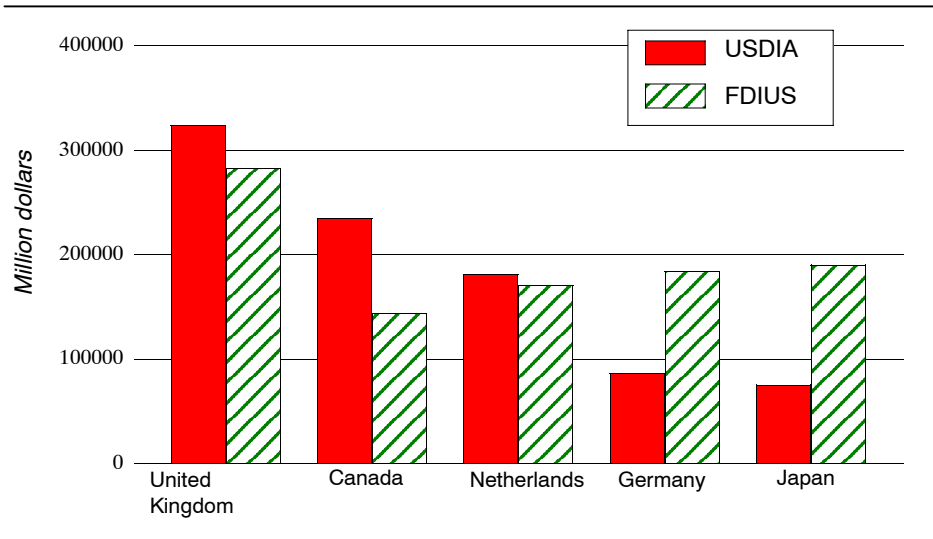
Note: Empty cells imply no data are available.

## Largest Country Investment Partners

### *United Kingdom*

The United Kingdom is the both largest source of FDIUS and the largest destination for USDIA (figure 8). British investors accounted for 16 percent of total USDIA stock in 2005 and 17 percent of FDIUS stock, illustrating the close economic relationship between the two countries. Inbound and outbound FDI are concentrated in different industries, as illustrated in table 9. Financial services accounts for the largest share of USDIA in the United Kingdom, consistent with the central role of London's financial markets in the global financial system. By contrast, a greater share of FDIUS from the United Kingdom is invested in the manufacturing and wholesale trade industries. Combined capital inflows during the years 2000-2005 generally reflect the same industry breakdown as FDIUS stock from the United Kingdom, implying that recent British investment in the United States remains focused on the same industries as it has been historically.

**Figure 8.** USDIA and FDIUS position, leading countries, 2005



Source: USDOC, BEA.

**TABLE 9.** USDIA and FDIUS position and capital flows in the United Kingdom, by industry, 2005 (million dollars)

Industry	FDI position at historical cost, 2005		Combined capital flows, 2000-2005	
	USDIA	FDIUS	USDIA	FDIUS
All industries . . . . .	323,796	282,457	145,601	234,333
Manufacturing . . . . .	60,355	76,792	23,383	34,205
Chemicals . . . . .	13,136	29,714	(1,727)	(711)
Computer . . . . .	5,815	12,378	2,007	12,507
Transport equipment . . . . .	6,063	6,558	1,001	6,596
Wholesale trade . . . . .	13,963	62,392	6,373	35,027
Information . . . . .	6,937	17,918	6,959	71,044
Depository institutions . . . . .	17,018	a	563	7,789
Finance and insurance . . . . .	85,474	a	36,397	26,266
Professional, scientific, and technical service . . . . .	9,863	18,052	4,270	20,526
Holding companies . . . . .	78,467			
Other . . . . .	51,719	107,303 <sup>b</sup>	66,375	21,084

Source: USDOC, BEA.

Note: Empty cells imply no data are available.

<sup>a</sup> Data suppressed to avoid disclosure of individual company information.

<sup>b</sup> Includes finance and insurance, depository institutions, holding companies, and all other industries. Detailed information on the financial service industries was suppressed by BEA for 2004 and 2005 to avoid the disclosure of individual company information. BEA does not provide separate data on holding companies for inbound U.S. investment, but such FDI is believed to be significantly smaller than for outbound U.S. investment.

Finance, insurance, and depository institutions together accounted for almost one-third of the total USDIA position in the United Kingdom in 2005. The share of depository institutions stayed stable during the period, at 6 to 7 percent. By contrast, USDIA in the British finance and insurance industries has steadily increased from 17 percent in 2000 to 26 percent in 2005, an increase of \$45.3 billion during the period. Table 10 presents the leading U.S.-owned companies in the U.S. financial service sector, by annual operating revenue.

**TABLE 10.** Selected British financial services affiliates of U.S. parent firms, by operating revenue, 2006

Company name	Business description	Number of employees	Operating revenue (million dollars)	Parent firm
Threadneedle Investment Services	Depository Credit Intermediation	44	10,609	American Express Co.
Merrill Lynch Fund Managers	Depository Credit Intermediation		8,950	Merrill Lynch & Co., Inc.
Goldman Sachs International	Depository Credit Intermediation	3,578	4,880	Goldman Sachs Group, Inc
Morgan Stanley & Co. International	Securities and Commodity Contracts Intermediation and Brokerage	193	3,991	Morgan Stanley
Merrill Lynch International	Non-Depository Credit Intermediation	1,950	3,232	Merrill Lynch & Co., Inc.
Citigroup Global Markets	Securities and Commodity Contracts Intermediation and Brokerage	3,756	2,787	Citigroup Inc
Citigroup Global Markets Europe	Depository Credit Intermediation	3,163	2,532	Citigroup Inc
Marsh & McLennan Companies UK	Agencies, Brokerages and Other Insurance Related Activities	10,372	2,141	Marsh & McLennan Companies Inc.
Lehman Brothers International (Europe)	Securities and Commodity Contracts Intermediation and Brokerage		1,454	Lehman Brothers Holdings Inc.
GE Keynes Holdings	Insurance Carriers		1,401	General Electric Company

*Source:* Orbis companies database.

*Note:* Operating revenue and number of employees reflect latest reported year for each company.

*Note:* Empty cells imply no data are available.

Data for the FDIUS position in financial services from the United Kingdom were suppressed for 2004 and 2005, but in 2003, the industries together accounted for 13 percent of British FDIUS. There were at least 39 U.S. acquisitions by British -based financial services firms between 2000 and 2005. The 29 transactions with reported deal values were together valued at \$20.1 billion, with the acquisition of credit card services firm Household International by global banking giant HSBC Holdings valued at \$14.2 billion.<sup>24</sup>

Manufacturing accounted for 19 percent of the total USDIA position in the United Kingdom in 2005, a share which remained fairly stable between 2000 and 2005. U.S. investment in the British manufacturing sector is largest in the chemicals industry, with the USDIA position reaching \$13.1 billion in chemicals manufacturing in 2005. As of September 2006, at least 277 British chemicals affiliates of U.S. parents produced pharmaceuticals, petrochemicals, and other chemicals.

British investment in the United States is largest in the manufacturing sector, (27 percent), 40 percent of which (\$29.7 billion) is chemicals. As of September 2006, at least 49 U.S. chemicals firms were British owned. British FDIUS stock in computer manufacturing was valued at \$12.4 billion in 2005. Professional, scientific and technical services (\$18.1 billion) and information services (\$17.9 billion) are also important destinations for FDIUS from the United Kingdom (table 11).

Cross-border M&A is an important source of FDI between the United States and the United Kingdom. Between 2000 and 2005, there were at least 856 acquisitions of British firms by U.S. parents, and 477 acquisitions of U.S. companies by British parents.<sup>25</sup> The largest acquisitions, by reported deal value, are listed in table 12.

For inbound British M&A, the largest industry category by deal value was food and tobacco manufacturing, which accounted for the top four British acquisitions,<sup>26</sup> followed by financial services, and chemicals, petroleum, and plastics manufacturing. The most active industry was personal and business services, with 142 deals during the period valued at \$8.9 billion.<sup>27</sup>

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<sup>24</sup> Zephyr M&A database.

<sup>25</sup> Data compiled by Bureau van Dijk, Zephyr M&A database.

<sup>26</sup> Unilever's \$24.4 billion acquisition of Bestfoods and \$2.3 billion acquisition of Slim-Fast Foods, both in 2000, South African Breweries' acquisition of Miller Breweries for \$5.6 billion in 2002, and Cadbury Schweppes' acquisition of Snapple Beverages for \$1.5 billion, also in 2000. Zephyr M&A database.

<sup>27</sup> Only 89 of the deals had values reported, but it is likely that most large acquisitions involving public companies had reported deal values.

**TABLE 11.** U.S. manufacturing affiliates of British parent firms, 2006

Company name	Business description	Number of employees	Annual operating revenue (Million dollars)	Parent company
Shell Petroleum	Petroleum and Coal Products	26,880	16,295	Royal Dutch Shell Plc
Chevron Phillips Chemical Co.	Rubber and plastics manufacturing	5,500	11,038	Ineos Group Limited
Equilon Enterprises	Petroleum and Coal Products	8,600	5,206	Royal Dutch Shell Plc
Glaxosmithkline	Pharmaceutical and Medicine	24,036	3,095	Glaxosmithkline Plc
BAE Systems	Aerospace Product and Parts	32,328	2,736	Bae Systems Plc
Diageo North America	Beverages	8,000	2,667	Diageo Plc
United Defense Industries	Other Transportation Equipment	7,700	2,292	BAE Systems Plc
ICI American Holdings	Paint, Coating, Adhesive, and Sealant	14,800	2,279	Imperial Chemical Industries Plc
Rexam	Boiler, Tank, and Shipping Containers	3,483	1,902	Rexam Plc
Invensys	Navigational, Measuring, Medical, and Control Instruments	8,000	1,700	Invensys Plc

Source: Orbis companies database.

Note: Operating revenue and number of employees reflect latest reported year for each company.

**TABLE 12.** Selected cross-border acquisitions by U.S. and British firms, by reported deal value, 2000-2005 (billion dollars)

Acquiring company name	Target name	Deal value (million dollars)	Date completed	Industry/details
<b>U.S. acquisitions of British firms</b>				
NTL, Inc.	Cable & Wireless Communications, Ltd.	11,512.3	May 2000	Cable television and telecommunications services
General Electric Company	Amersham plc	10,449.1	April 2004	Pharmaceuticals

Table 12 Continued on next page

**TABLE 12.** Selected cross-border acquisitions by U.S. and British firms, by reported deal value, 2000-2005 (billion dollars)

Carnival Corp.	P&O Princess Cruises	7,877.9	May 2003	Cruise lines
Chase Manhattan Bank	Robert Fleming Holdings Ltd.	7,667.4	August 2000	Banking services
United Global Communications, Inc.	Telewest Communications plc	5,300.0	June 2000	Cable television and telecommunication services
<b>British acquisitions of U.S. firms</b>				
BP Amoco	Atlantic Richfield Co.	27,407.3	April 2000	Oil exploration and production
Unilever Group	Bestfoods	24,400.0	June 2000	Food manufacturer
HSBC Holdings plc	Household International, Inc.	14,200.0	March 2003	Banking services
Ineos	Innovene Inc.	9,000.0	December 2005	Petrochemical services
National Grid Group plc	Niagara Mohawk Holdings, Inc.	8,900.0	January 2002	Utility

Source: Zephyr M&A database.

## ***Canada***

Canada was the second-largest U.S. investment partner during 2005. In 2004, USDIA stock in Canada accounted for 11 percent of the U.S. total, with Canada holding 9 percent of FDIUS stock. Canada is also the largest U.S. trading partner. Trade and investment across the border and elsewhere are closely linked, as MNCs around the world expand their supply chains and assembly operations across borders. The manufacturing, finance and insurance, and mining sectors account for the greatest shares of U.S. outbound stock in Canada (table 13).<sup>28</sup>

<sup>28</sup> For more information on U.S. investment in the mining sector, see USITC, *Trends in U.S. Inbound and Outbound Direct Investment*, chap. 5, publication no. 3870, July 2006.

**TABLE 13.** USDIA: Direct investment position in Canada, selected industries, 2000 and 2005

Industry	2,000		2005	
	Million dollars	Percent of total	Million dollars	Percent of total
Mining .....	13,629	10.3	33,718	14.4
Manufacturing .....	53,380	40.3	86,013	36.6
Chemicals .....	8,070	6.1	14,164	6.0
Transportation equipment .	13,282	10.0	17,555	7.5
Wholesale trade .....	9,100	6.9	12,663	5.4
Depository institutions .....	2,059	1.6	3,923	1.7
Finance and insurance .....	26,262	19.8	37,860	16.1
Information services .....			3,809	1.6
Holding companies .....			23,705	10.1
All industries .....	132,472		234,831	

Source: USDOC, BEA.

Note: Empty cells imply no data are available.

In manufacturing, the largest shares were in the transport, equipment, and chemicals industries. More than 100 U.S.-owned firms operate in the Canadian transport equipment industry, including General Motors, Flex-N-Gate, Dana Corp., Boeing and Navistar. These U.S. subsidiaries manufacture automobile, aircraft, or truck parts, which primarily are shipped back to the United States for final assembly into vehicles. Both proximity and the NAFTA encourage such investment.

Cross-border FDI in the chemicals industry also benefits from the infrastructure established between the United States and Canada (and also Mexico). Initial processing of many chemicals is performed in either Canada or Mexico, and then transferred across the borders to U.S. manufacturing facilities for final processing into end products.<sup>29</sup> Canada has historically been a primary destination for U.S. investment in part due to the highly developed infrastructure (i.e., pipelines, highways, and ports) between the two countries and in part to Canada's abundant supplies of raw materials, particularly natural gas and crude petroleum. In one particularly large transaction in July 2003, U.S.-based Dupont paid \$1.1 billion to acquire the 26 percent equity share in Dupont Canada that it did not already control. In smaller acquisitions of Canadian companies by U.S. chemicals firms, in March and April 2004, Bayer Crop Science acquired the remaining 50 percent stake in Gustafson to become the sole owner, at a price of \$124 million,<sup>30</sup> and United Industries Corporation acquired Nu-Gro Corp. for \$140 million. In all, U.S. firms acquired 52 Canadian chemical companies during 1999-2004.<sup>31</sup> Large, recent acquisitions of U.S. chemicals firms by Canadian parents include the acquisition of Atrix Labs by QLT, Inc., for \$855 million in November 2004, Superior Propane's acquisition

of Sterling Chemicals' pulp business for \$375 million in December 2002, and Agrium Inc.'s acquisition of Unocal Corp. agricultural products unit for \$321 million in September 2000.<sup>32</sup>

The rise in U.S. outbound stock in Canada's mining sector reflects several new equity transactions during 1999-2001, and the reinvestment of earnings resulting from higher metal prices in 2003-04.<sup>33</sup> Notable transactions include the Newmont Mining Co. acquisition of several Canadian gold interests,<sup>34</sup> Aber Diamond Corp. 40 percent joint venture development of the Diavik

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<sup>29</sup> USITC, *Trends in U.S. Inbound and Outbound Direct Investment*, chap. 7, publication no. 3870, July 2006.

<sup>30</sup> Bayer Crop Science acquired its original 50 percent stake in Gustafson in 1998. Zephyr M&A database.

<sup>31</sup> Zephyr M&A database.

<sup>32</sup> Zephyr M&A database.

<sup>33</sup> U.S. Government official, telephone interview with USITC staff, January 19, 2006.

<sup>34</sup> For more information, see the Newmont Mining Corp. Internet site at [www.newmont.com/en/about/history/index.asp](http://www.newmont.com/en/about/history/index.asp).

Diamond Mine, which started producing in 2002,<sup>35</sup> Inco's development of the Voisey's Bay nickel properties, and several other companies' iron ore mining ownership and development transactions.<sup>36</sup> Canadian investors are also interested in the U.S. mining sector. In August 2006, Canada's Goldcorp announced plans to acquire Glamis Gold of Nevada for \$8.6 billion through an exchange of shares, in a move that would create one of the largest gold mining companies in the world. The acquisition is expected to be completed in November 2006.<sup>37</sup>

The main industry destinations for Canadian investment in the United States are financial services and manufacturing. Within financial services, the largest recent transaction was Manulife Financial Corp.'s acquisition of U.S.-based John Hancock Financial Services, both of which are insurance and financial service advisory firms. The acquisition was valued at \$10.4 billion, and closed in April of 2004. In terms of value, the next largest acquisition was Toronto Dominion Bank's acquisition of a 51 percent stake in U.S.-based Banknorth, valued at \$3.8 billion in March 2005. Royal Bank of Canada acquired five separate U.S. financial services firms during 1999-2005, for a combined value of \$3.9 billion. The larger Canadian banks and insurance companies have become more interested in accessing the U.S. market in recent years, as several of them have outgrown their home market. Canadian banks in particular have not been permitted to merge domestically, due to Canadian regulators' antitrust concerns, so some have responded by pursuing cross-border acquisitions.<sup>38</sup>

Canadian parents also acquired 285 U.S. manufacturing firms between 2000-2005.<sup>39</sup> Within the manufacturing sector, the largest share in terms of both numbers of transactions and total value was industrial and electric machinery, with 108 deals, and a combined recorded value of \$28.2 billion for the 59 deals with values recorded. Other U.S. manufacturing industries with significant Canadian FDI in recent years were chemicals (36 acquisitions), biotech and pharmaceuticals (25 acquisitions), food and tobacco (26 acquisitions), and wood and furniture manufacturing (25 acquisitions).<sup>40</sup>

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<sup>35</sup> Diavik Diamond Mines Inc., *Diavik Annual Social and Environmental Report - 2000*; U.S. Geological Survey, "Diamond (Industrial)," Mineral Resources Program, *Minerals Yearbook 2004*, found at [minerals.usgs.gov/minerals/pubs/commodity/diamond/diamomyb04.pdf](http://minerals.usgs.gov/minerals/pubs/commodity/diamond/diamomyb04.pdf); and Marketwatch profile, found at [www.answers.com/topic/aber-diamond-corporation-usa](http://www.answers.com/topic/aber-diamond-corporation-usa), retrieved January 19, 2006.

<sup>36</sup> Numerous transactions occurred in both directions across the Great Lakes and into Quebec and Labrador. For more information, see U.S. Geological Survey, "Iron Ore," *Mineral Commodity Summaries* and *Minerals Yearbook*, various issues, [minerals.usgs.gov/minerals/pubs/commodity/iron\\_ore/](http://minerals.usgs.gov/minerals/pubs/commodity/iron_ore/).

<sup>37</sup> Glamis Gold Ltd., press release, August 31, 2006, <http://www.glamis.com/files/goldcorpmergerannouncement.pdf>; Glamis Gold Ltd. Investor presentation, <http://www.glamis.com/files/goldcorp-investor%20presentation-final.pdf>, (accessed September 11, 2006; *The Economist*, "Business this week: 26th August - 1st September 2006," e-mail newsletter, received August 31, 2006.

<sup>38</sup> "Canadian Financial Services Companies Search for Growth," *KPMG Insurance Insider*, August 2, 2006, found at [http://www.kpmginsiders.com/display\\_analysis.asp?cs\\_id=165811](http://www.kpmginsiders.com/display_analysis.asp?cs_id=165811), accessed August 3, 2006.

<sup>39</sup> Deal values were recorded for 138 deals (49 percent), for a total recorded value of \$36.1 billion.

<sup>40</sup> Zephyr mergers and acquisitions database.

## *Netherlands*

The Netherlands ranks third in terms of combined USDIA and FDIUS position. Holding companies, manufacturing, and financial services are the largest destinations for USDIA position, compared with finance and chemicals manufacturing for FDIUS position. Finance and insurance was the largest industry destination for new U.S. capital inflows from the Netherlands between 2000 and 2005, followed by manufacturing (machinery in particular), and wholesale trade (table 14).

**TABLE 14.** USDIA and FDIUS position and capital flows in the Netherlands, by selected industry

Industry	FDI position at historical cost, 2005		Combined Capital Flows, 2000-2005	
	USDIA	FDIUS	USDIA	FDIUS
All industries .....	181,384	170,770	28,585	86,173
Mfg .....	29,508	72,459	13,173	38,318
Food .....	9,011	NA	3,137	(287)
Chemicals .....	10,583	25,024	6,025	14,633
Machinery .....				
Computer .....	1,242	8,322	485	1,524
Transport equipment ....	1,900	6,147	1,956	217
Wholesale trade .....	14,152	9,691	4,239	201
Information .....	4,385	12,283	350	(1,088)
Finance .....	28,695	40,847	8,213	27,743
Prof, sci, tech .....	2,388	8,611	1,232	6,971
Holding companies .....	95,071		(24,361)	

Source: USDOC, BEA.

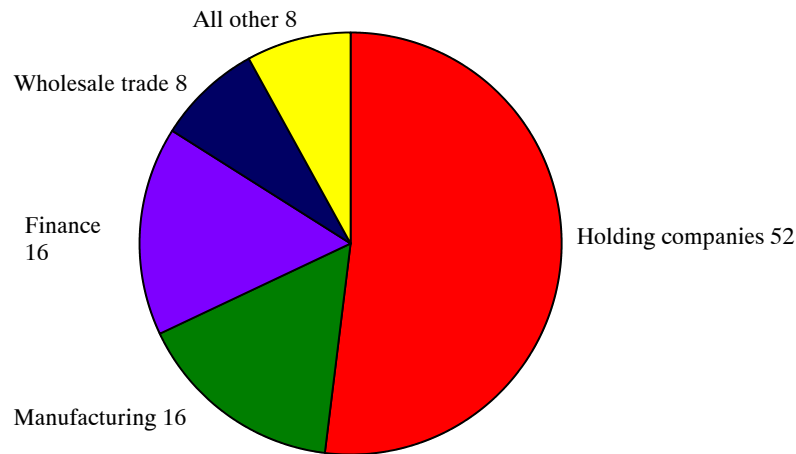
Note: Empty cells imply no data are available.

In the Netherlands, holding companies accounted for \$95.1 billion, or 52 percent of the USDIA position in 2005. Manufacturing ranked second, followed by finance and insurance (figure 9). Chemicals and food manufacturing accounted for two-thirds of total USDIA in Dutch manufacturing. U.S. parents with chemicals subsidiaries in the Netherlands included Merck & Co., Wyeth, Dow Chemical, and Exxon Mobil, with reported annual operating revenues of \$4.1 billion, \$3.6 billion, \$2.7 billion, and \$2.7 billion, respectively.<sup>41</sup> Food and beverage manufacturing, which includes tobacco, is a big area for U.S. companies. Altria Group's Philip Morris Holland

<sup>41</sup> Operating revenues reflect latest available year: 2005 for Merck, 2004 for Wyeth, Dow Chemical, and Exxon Mobil. Orbis companies database.

subsidiary employed over 12,000 people and reported operating revenue of \$7.0 billion in 2004. Sara Lee lists five Dutch subsidiaries with close to 50,000 employees and almost \$7 billion in combined revenue. Mars, Inc., Cargill, Coca-Cola, Heinz, and Pepsico all have subsidiaries in the Netherlands.<sup>42</sup>

**Figure 9.** USDIA in the Netherlands, 2005 (percentage)



Source: USDOC, BEA.

Reflecting the fact that the Netherlands is a fairly small market for banks and insurance companies, the largest U.S. financial services firms, as measured by operating revenue, are the finance arms of the manufacturing firms that have invested in the Netherlands. Holding companies also tend to be listed within the finance industry, even when their purpose is not credit intermediation. Many U.S.-owned manufacturing firms have established affiliates in the Netherlands to take advantage of the port of Rotterdam, and Rotterdam's extensive facilities for merchandise distribution throughout Europe. Presented by operating revenue, the largest U.S. finance subsidiaries in the Netherlands are IBM International Finance NV, Google Netherlands Holdings BV, MWH Holding BV (architectural and engineering services), Avery Dennison Holding and Finance (maker of office products, including labels), and GE Plastics ABS Europe BV.

<sup>42</sup> Orbis companies database.

Dutch investors have a significant presence in the U.S. market (table 15). As of 2006, there were at least 40 Netherlands-owned companies in the United States engaged in such services, many of which were controlled by Koninklijke Philips Electronics NV, the parent company of Philips Electronics, which is primarily engaged in the manufacturing and distribution of electronic goods. Philips' affiliates Medquist, Navteq, Stentor, and A-Life Medical are all involved in professional services, primarily computer-related services. Arcadis NV and Exact Holding NV are Dutch-owned companies involved in architectural, engineering, and computer-related services. Combined capital inflows to U.S. professional, scientific, and technical services industries were \$7.0 billion between 2000 and 2005.

**TABLE 15.** Selected Netherlands-based parent firms with U.S. affiliates, 2006

Parent company	Number of US affiliates	U.S. operating revenue (million dollars)	US employees	Primary business
Koninklijke Ahold NV	36	56,241	400,231	Grocery stores
Aegon NV	67	42,077	50,443	Insurance
ING Groep NV	37	28,513	20,532	Financial services
Koninklijke Philips NV	30	15,873	47,492	Machinery and equipment manufacturing
Akzo Nobel NV	19	4,534	17,682	Chemicals and pharmaceuticals manufacturing
Buhrmann NV	8	3,898	28,100	Office products and business support services
Hagemeyer NV	8	1,923	7,800	Wholesale distribution services
OCE NV	8	1,211	12,477	Manufacturing and distribution of professional equipment
Chicago Bridge and Iron Co. NV	6	829	8,713	Construction and engineering services
Koninklijke Wessanen NV	5	773	3,951	Grocery wholesalers
Vedior NV	6	613	10,005	Employment services
Core Laboratories NV	7	588	5,199	Mining services
Exact Holding NV	4	541	413	Computer systems design services
Arcadis NV	7	320	4,000	Architectural and engineering services

*Source:* Orbis companies database.

*Note:* Operating revenue and employees not reported for all affiliates. The table reflects all reported data.

Netherlands-based investment in the U.S. chemicals industry is dominated by Akzo Nobel NV, which ranked 418 on the Fortune magazine Global 500 list in 2006. The company reported global revenues of \$16.2 billion in 2005, and was ranked ninth out of the top 10 global chemical companies.<sup>43</sup> Of the 24 U.S. chemical companies identified as having Dutch parents, 13 are affiliates of Akzo Nobel, including eight of the top 10 by operating revenue. Together, the Akzo Nobel affiliates in the United States employed more than 17,000 people, and reported operating revenues of \$4.5 billion.<sup>44</sup>

Dutch banks and insurance firms also have a strong presence in the U.S. market. As is the case for many Canadian financial firms, they have outgrown their domestic market, and seek additional opportunities in the United States. Two leading Dutch-owned financial firms, ING Groep NV and Aegon NV, have established extensive affiliate holdings in the United States. The two are ranked 13 and 149 by the Fortune Global 100 List, with global operating revenues of \$138.4 billion and \$37.7 billion, respectively, in 2005.<sup>45</sup> Aegon's entry into the U.S. market was facilitated by its 1999 acquisition of Transamerica Finance Corp.,<sup>46</sup> but has grown to include 67 affiliates in the United States, primarily involved in the insurance industry. ING holds 37 separate U.S. affiliates, predominantly insurance and securities firms.<sup>47</sup>

## ***Germany***

In contrast with the United Kingdom, Canada, and the Netherlands, German FDI in the United States is substantially larger than USDIA in Germany (figure 10). The USDIA position in Germany was valued at \$86.3 billion in 2005 (4 percent of total USDIA) compared with German direct investment in the United States of \$184.2 billion (11 percent of total FDIUS). The manufacturing sector represents the largest share of German FDIUS, with \$70.9 billion, primarily in chemicals and transportation equipment. Well-known, German-based companies in the United States include chemical companies Bayer and BASF, and automobile companies including Daimler-Chrysler, Volkswagen, and BMW. Finance and insurance (\$18.4 billion) and banks (\$16.4 billion) also represent large share of total German investment in this country, with substantial investment from German-based Allianz, an insurance firm, and Deutsche Bank, both world leaders in their industries. Substantial

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<sup>43</sup> Fortune Global 500 List, <http://www.fortune.com>, accessed September 15, 2006.

<sup>44</sup> Orbis companies database. Latest available year for reporting was 2005 for four affiliates, including the top three, 2004 for six affiliates, and 2003 for three affiliates. Two affiliates did not report operating revenues.

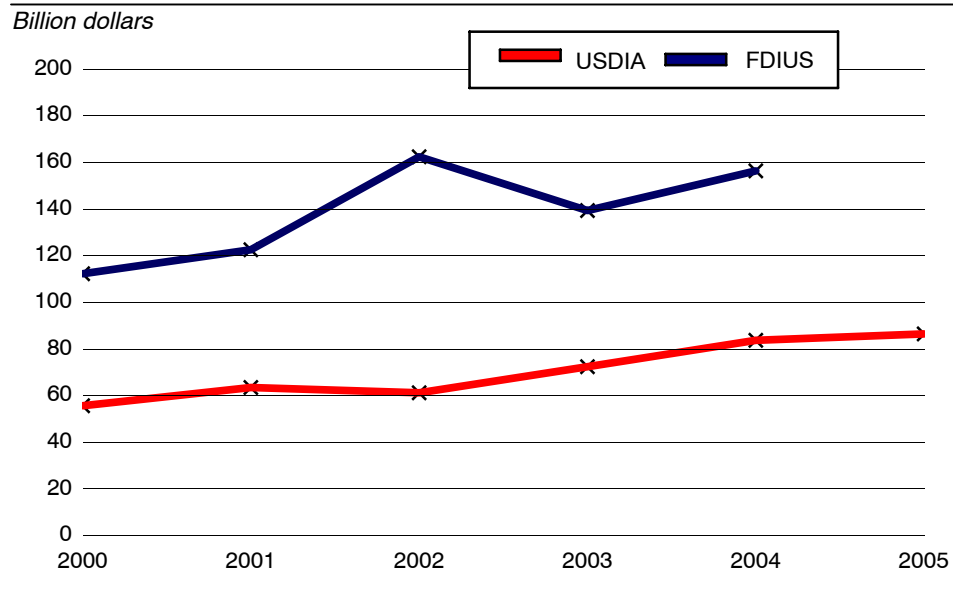
<sup>45</sup> Fortune Global 500 List, <http://www.fortune.com>, accessed Sept. 15, 2006.

<sup>46</sup> The acquisition, valued at \$9.8 billion, was completed in July 1999. Zephyr M&A database.

<sup>47</sup> As of August 2006. Orbis companies database.

German investment in the U.S. information industries is dominated by Deutsche Telekom, which primarily operates through its T-Mobile and T-Systems affiliates in the United States.<sup>48</sup>

**Figure 10.** Inbound and outbound FDI position in Germany, 2000-2005



Source: USDOC, BEA.

German firms completed at least 239 acquisitions of U.S. companies between 2000 and 2005.<sup>49</sup> The largest shares, classified by the number of transactions, were in industrial and electric machinery, computer and internet services, and personal and business services.<sup>50</sup> Even though the communications industry accounted for less than 3 percent of all German acquisitions, the single largest

<sup>48</sup> Deutsche Telekom corporate website, <http://www.telekom3.de/en-p/comp/1-co/home/corporate-profile-ar.html>, accessed October 20, 2006, and Orbis companies database.

<sup>49</sup> Zephyr mergers and acquisitions database.

<sup>50</sup> Reflects the industry of the target firm, which is consistent with official U.S. direct investment statistics from the Bureau of Economic Analysis. These industry shares may not reflect the industry breakdowns of FDIUS position data cited above, because those data are cumulative, and may reflect older investments supplemented over time by reinvested earnings or other income sources. For instance, new German acquisitions of U.S. transportation equipment firms accounted for only 3 percent of total German acquisitions in the United States, even though transportation equipment accounted for 13 percent of total FDIUS stock from Germany. The M&A data for the most recent period, combined with the recent annual capital flows data, reflects the most recent investment trends.

acquisition by a German company during the period was Deutsche Telekom's acquisition of VoiceStream Wireless Corp., concluded in June 2001 for \$29.6 billion. More recently, large acquisitions included the RWE takeover of American Water Works in January 2003, for \$8.6 billion, one of 18 acquisitions by the giant utility firm during the period, but the only one in the United States. Bayer acquired Roche Consumer Health in January 2005 for \$3.1 billion. Roche is a Swiss firm, but the transaction included Bayer's substantial U.S. holdings. Bayer acquired an additional three U.S. companies during the period: yet2com.inc, an online marketer of intellectual property; Cytex Industries, a maker of chemicals used in the manufacture of paper; and the Lyondell Chemical Co. polyols business. Together, the three deals, all completed during 2000 and 2001, were valued at approximately \$2.6 billion. As of 2006, Bayer controlled eight U.S. affiliates, with combined operating revenue of \$5.8 million and 30,250 employees.<sup>51</sup> Another German chemicals firm, Henkel KGaA, acquired U.S.-based Dial Corp. for \$2.9 billion in March 2004. Henkel controls 29 U.S. affiliates, including Clorox Co. and Glad Products Co., in addition to Dial.<sup>52</sup>

German firms also have a strong presence in the U.S. financial services market. Deutsche Bank has acquired three U.S. firms since 2000: Zurich Scudder Investments for \$2.5 billion April 2002, National Discount Brokers Group, and RoPro US Holding. As of 2006, Deutsche Bank held an equity stake of at least 10 percent in 50 U.S. subsidiaries, operating primarily but not exclusively in the financial service industries.<sup>53</sup> Similarly, German insurance giant Allianz AG acquired Pimco Advisors and Nicholas-Applegate Capital Management during the 2000-2005 period, two new additions to its list of 37 U.S. subsidiaries, including its self-named Allianz Life Insurance Co. of North America, Fireman's Fund Insurance, and Oppenheimer Capital, a mutual fund company.<sup>54</sup>

USDIA in Germany is largest in manufacturing (\$22.2 billion), particularly transportation equipment (\$4.6 billion), computers and electronic products (\$4.1 billion), and chemicals (\$4.1 billion). Wholesale trade and financial services, with USDIA stock of \$19.0 billion and \$13.6 billion, respectively, are also important destinations for USDIA in Germany. The largest number of acquisitions by U.S. firms in Germany since 2000 has been in computer and internet services; personal and business services; and industrial and electric machinery. By deal value, however, the largest industry was chemicals, petroleum, and plastics manufacturing, driven particularly by Proctor &

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<sup>51</sup> Reflects 2004 data for two smaller affiliates: H.C. Starck Inc. and Nunhems USA Inc.; 2005 data for all other affiliates.

<sup>52</sup> Zephyr M&A database and Orbis companies database.

<sup>53</sup> Other industries include wholesale trade, travel and tourism, business services, and pharmaceuticals manufacturing. Zephyr M&A database and Orbis companies database.

<sup>54</sup> Orbis companies database and Zephyr M&A database.

Gamble's two-part acquisition of Wella AG, valued at approximately \$9 billion for P&G's final stake of 79 percent of the company. Total reported deal value in the chemicals manufacturing industry was \$21.4 billion, compared with \$6.1 billion and \$4.0 billion, respectively, for personal and business services, and computer and internet services.<sup>55</sup>

## *Japan*

Like Germany, the largest share of the U.S. FDI relationship with Japan is inbound to the United States, with FDIUS valued at \$190.3 billion in 2005, and USDIA valued at a comparatively smaller \$75.5 billion. This reflects in part the historic difficulty that U.S. firms have faced in penetrating the Japanese market in a variety of industries, and in part the strong Japanese interest in the U.S. market. Japanese FDIUS is particularly strong in the wholesale trade and manufacturing industries, with the largest manufacturing subsectors being transportation equipment and computers and electronic products. Japanese wholesale trade companies are involved in a variety of industries, including automobiles, metals, apparel, auto parts, agricultural goods, and office equipment (table 16).

**TABLE 16.** Leading Japanese-owned wholesale trade companies, by U.S. operating revenue, 2006

US company	Parent company	US employees	Annual operating revenue (Thousand dollars)	Industry
American Honda Motor Co.	Honda Motor Co.	26,000	7,680,900	Automobiles
Mitsubishi International Corp.	Mitsubishi Corp.	752	6,345,738	Metals and metal ores
Mitsui & Co. (USA)	Mitsui & Co.	1,800	5,680,758	Metals and coal
Itochu International	Itochu Corp.	4,521	3,434,087	Textiles and apparel
TAP Pharmaceutical Products	Takeda Pharmaceutical Co.	3,118	3,361,634	Pharmaceutical drugs and sundries
Toyota Motor Sales USA	Toyota Motor Corp.	8,900	2,627,600	Automobiles

*Source:* Orbis companies database.

*Note:* Operating revenue and number of employees reflect latest reported year for each company.

<sup>55</sup> Deal values are not reported for many acquisitions, particularly those that do not involve publicly listed companies, so the data on deal value are incomplete. However, it is likely that deal values are reported for the largest deals involving public companies. For *btis* discussion of U.S. acquisitions in Germany during the years 2000-2005, values were reported for 49 percent of chemicals, 48 percent of personal and business services, and 42 percent of computer and internet services transactions. Zephyr M&A database.

By far the largest share of USDIA in Japan (45 percent) was invested in finance and insurance services, valued at \$34.0 billion in 2005.<sup>56</sup> Many U.S.-based securities and insurance firms have operations in Japan, with substantial operating revenues (table 17).<sup>57</sup> By comparison, USDIA stock in the Japanese manufacturing sector was valued at \$15.3 billion in 2005, with the chemicals and computers and electronic products industries, each with over \$3 billion. Wholesale trade and professional, scientific, and technical services were also significant destinations for U.S. direct investment in Japan, with \$8.0 billion and \$7.6 billion in USDIA stock, respectively. In the latter category, there were at least 33 acquisitions of Japanese companies by U.S. investors, involving industries such as financial services, management consulting, software development, and medical research.<sup>58</sup>

**TABLE 17.** Leading U.S. financial services affiliates in Japan, by annual operating revenue, 2006

Company name	Primary Activity	Annual operating revenue (million dollars)	U.S. parent company
Hartford Life Insurance	Insurance Carriers	11,758	Hartford Financial Services Group Inc
Gibraltar Life Insurance Co Ltd	Insurance Carriers	3,529	Prudential Financial
Prudential Life Insurance Co	Insurance Carriers	3,373	Prudential Financial
AIG Star Life Insurance Co	Insurance Carriers	2,767	American International Group
Nikko Citigroup	Non-Depository Credit Intermediation	1,080	Citigroup
Merrill Lynch Japan Securities Co.	Securities and Commodity Contracts	782	Merrill Lynch & Co.
JP Morgan Securities Asia	Securities and Commodity Contracts	581	JP Morgan Chase & Co.

*Source:* Orbis companies database.

*Note:* Operating revenue and number of employees reflect latest reported year for each company.

Between 2000 and 2005, industrial and electric machinery accounted for the greatest number of Japanese acquisitions in the United States, with 28 transactions, followed by personal & business services and computer & internet services, with 13 and 15, respectively. By value, the largest industry for inbound Japanese M&A was communications, with \$13.4 billion. This represents only three deals,<sup>59</sup> including NTT DoCoMo's January 2001 acquisition of a 16 percent equity stake in AT&T Wireless Group in, valued at

<sup>56</sup> This does not include depository institutions, which accounted for only \$156 million in USDIA position.

<sup>57</sup> Orbis companies database.

<sup>58</sup> Zephyr M&A database.

<sup>59</sup> There were four Japanese M&A transactions in the United States since 2000, but the value was reported for only three of them.

\$9.8 billion, and NTT Communications Corp.'s acquisition of Verio, an internet services provider, for \$5.5 billion in September 2000. Both transactions took place at the height of the internet and telecommunications stock market boom, and the high transaction prices were undoubtedly influenced by prevailing conditions. The third-largest Japanese acquisition of the period, in the computer industry, was Hitachi's acquisition of 70 percent of the IBM Corp. hard disk drive business for \$2.1 billion in January 2003.<sup>60</sup>

Of the 93 companies in Japan classified as U.S.-owned (compared to 685 companies in the United States classified as Japanese-owned), two-thirds involved the wholesale trade, machinery and equipment manufacturing, and financial services industries. Five of the top 10 U.S.-owned companies in Japan, in terms of operating revenue, were life insurance companies.

### **Developing Countries**

Middle- and low-income countries as a group accounted for 13 percent of the total USDIA position in 2005, valued at \$278.0 billion, compared with 5 percent of FDIUS position, valued at \$75.5 billion. Mexico and Brazil were the leading developing countries for both USDIA and FDIUS, as discussed in more detail below, followed by Hungary, Barbados, and China. Figure 11 illustrates the levels of USDIA and FDIUS position in low and middle income countries, by region.<sup>61</sup>

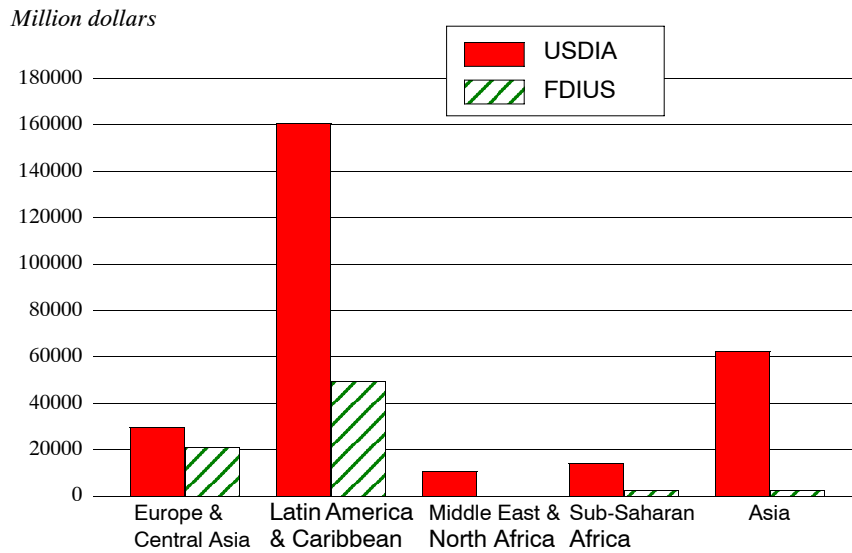
USDIA in the four developing countries examined here has expanded rapidly since 2000. For all of the recent attention paid to USDIA and other FDI in China, the data clearly show that USDIA in Mexico continues to outpace U.S. investment in all other developing countries, as measured by annual capital outflows (figure 12) and by combined FDI outflows for 2000-2005 (figure 13). Combined outflows to China during 2000-2005 totaled 26 percent of U.S. capital outflows to Mexico during that period. USDIA stock in China grew at an average annual rate of 9 percent, compared with 13 percent for Mexico. By comparison, USDIA stock in India recorded average annual growth of 29 percent, more than double the rate of either China or Mexico, although FDI in India built on a much smaller base, with total USDIA position in India valued at \$8.5 billion in 2005.

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<sup>60</sup> Zephyr M&A database.

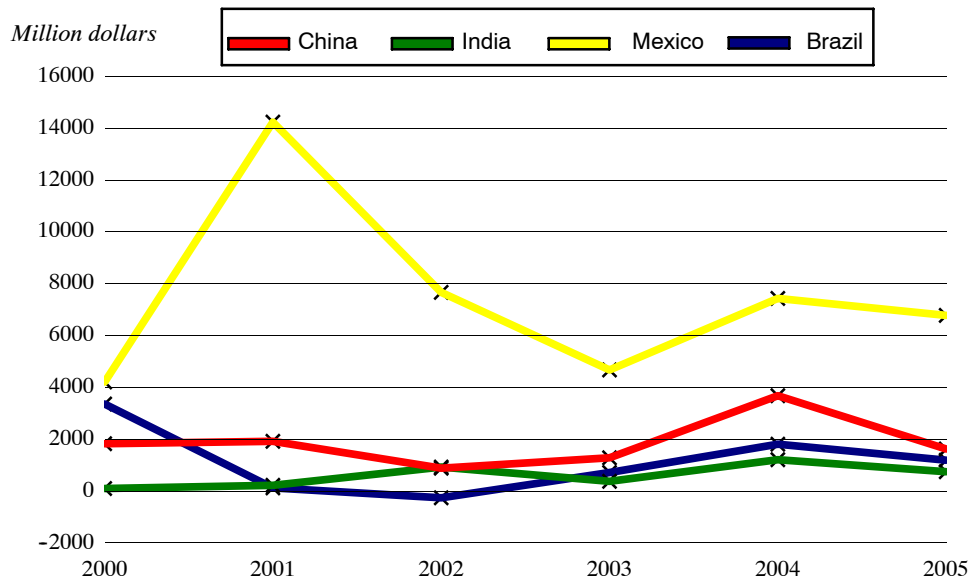
<sup>61</sup> This article uses the definitions of low-3P and middle-income economies provided by the World Bank. As of July 2006, countries in which 2005 GNI per capita fell between \$876 and \$10,725 were considered middle-income economies, and countries in which 2005 GNI per capita was less than or equal to \$875 were considered low-income economies. In 2006, 54 countries were classified as low-income economies, 98 countries were classified as middle-income economies, and 56 were classified as high-income economies. The World Bank Group, "Data & Statistics - Country Classification," <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20421402~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html>, accessed November 7, 2006.

**Figure 11.** USDIA vs. FDIUS position, for middle-income and low-income countries, by region, 2005



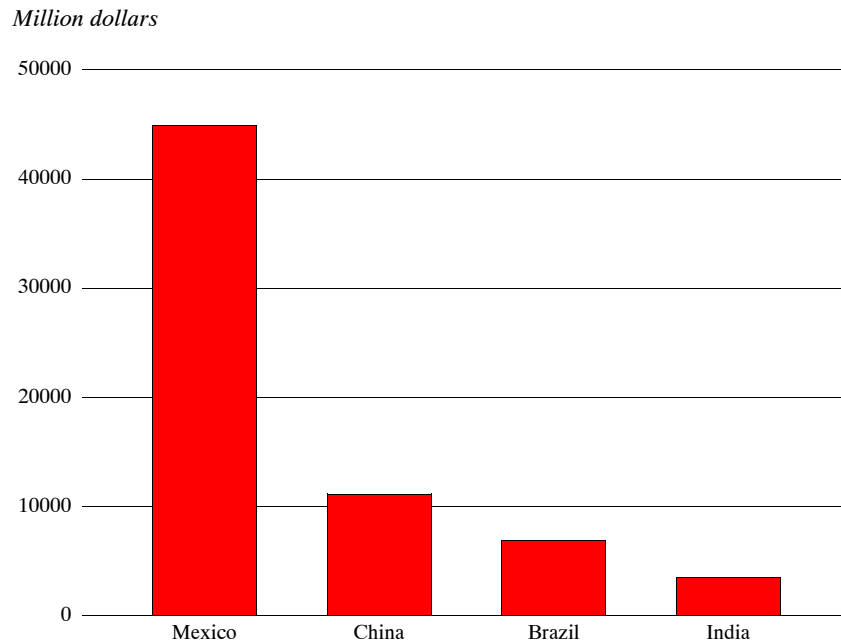
Source: USDOC, BEA.

**Figure 12.** USDIA, annual capital outflows to China, India, Mexico and Brazil, 2000-2005



Source: USDOC, BEA.

**Figure 13.** USDIA, combined capital outflows, 2000–2005



Source: USDOC, BEA

In general, developing countries tend to be recipients of FDI from the United States, not investors in this country, although there are exceptions to this principle. However, even though the amounts are smaller, the ongoing process of globalization has affected inbound FDI from developing countries as well. For all of the developing countries discussed below, FDIUS has increased substantially since 2000, with FDIUS from Mexico recording a particularly large increase.

### ***Mexico***

USDIA stock in Mexico was valued at \$71.4 billion in 2005, far more than in any other developing country, and is growing rapidly, as noted above. Overall growth in the USDIA position in Mexico was 92 percent between 1999 and 2005. The close economic relationship between the two countries is a result of the long common border, shared history, and the NAFTA agreement. In Mexico, U.S. outbound direct investment is most concentrated in manufacturing, depository institutions, and finance and insurance. Overall, Mexico accounted for about 50 percent of all USDIA stock in Latin American finance and insurance services from 2000 to 2005, and 75 percent of USDIA in

depository institutions from 2003 through 2005.<sup>62</sup> A number of U.S. banks have important investments in Mexico, including Citigroup, which acquired 100 percent of Grupo Financiero Banamex in 2001 for \$12.5 billion. Bank of America acquired a 25 percent equity stake in Grupo Financiero Santander-Serfin in 2003 for \$1.6 billion. Principal Financial acquired 100 percent of Afore Tepeyac, a Mexico insurance and pension fund provider, for \$57.7 million in 2003.<sup>63</sup>

U.S. firms also have wide-ranging investments in Mexico's manufacturing sector. Well over 1000 U.S. companies control affiliates in Mexico, with more than 600 involved primarily in manufacturing. As measured by reported operating revenue, the leading U.S.-owned manufacturing firms are Elektrisola, a maker of fabricated wire products, Anheuser-Bush, a brewery, and Dawn International, a wholesaler of commercial equipment.<sup>64</sup> Leading U.S.-owned firms in terms of employment are Pepsico, the beverage manufacturer, auto parts manufacturer Delphi, and Lear Corp., which is primarily a manufacturer of plastics and electrical systems. All of these U.S. companies control several or more separate Mexican subsidiaries (table 18).

Mexico held the largest share of FDIUS among low- and middle-income countries in 2005, accounting for \$7.9 billion of inbound investment and ranking 16<sup>th</sup> among all countries. Direct investment stock from Mexico accounted for 16 percent of all FDIUS from low- and middle-income countries, and increased at an average annual rate of 32 percent between 1999 and 2004. FDIUS stock from Mexico was valued at \$8.7 billion in 2005. FDIUS from Mexico was largest in the wholesale trade and "other industries" category.

## ***India***

Among low-income economies,<sup>65</sup> India hosted the largest share of total U.S. outbound stock, with \$8.5 billion, or 0.4 percent, of total U.S. outbound stock in 2005, up from \$7.7 billion in 2004, an increase of 10 percent in a single year, and from \$2.4 billion in 1999. The FDIUS position from India was valued at \$1.4 billion in 2005, a thirteenfold increase over the 1999 amount but, as is typical for developing countries, much less than outbound USDIA to India. For

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<sup>62</sup> A consequence of the 1990s boom in such investment was the significant shift in the structure of financial systems in emerging market economies such as Mexico. Most notably, the share of assets held by foreign banks increased considerably. In Mexico, foreign ownership of the banking sector is as high as 80 percent. Bank for International Settlements, Committee on the Global Financial System, *Foreign Direct Investment in the Financial Sector of Emerging Market Economies*.

<sup>63</sup> Zephyr database.

<sup>64</sup> Operating revenue for latest available year, as reported by Orbis companies database. Not all companies report operating revenue for all subsidiaries.

<sup>65</sup> China and Brazil are classified as lower-middle income economies by the World Bank; Mexico is classified as an upper-middle income economy.

**TABLE 18.** Selected U.S. manufacturing companies in Mexico, 2006

U.S. parent company	Employment by Mexican affiliates	Annual operating revenue of Mexican affiliates	Number of Mexican affiliates	Primary business
Pepsico Inc.	58,424	3,818,714.8	17	Beverages
Delphi Corp.	57,745	119,040.1	21	Automobile parts
Lear Corp.	27,776	486,457.6	6	Plastics and electrical systems
Anheuser-Busch Companies, Inc.	13,255	8,489,813.3	13	Beverages
Emerson Electric Co.	12,380	220,866.1	21	Industrial instruments
Whirlpool Corp.	12,050	0.0	3	Domestic appliances
Jabil Circuit Inc.	11,400	63,146.2	4	Electronic equipment
General Motors Corp.	10,000		1	Automobiles
Sanmina-Sci Corp.	9,501		3	Electronic equipment
E. I. du Pont De Nemours and Co.	8,375	478,459.5	5	Chemicals
Sara Lee Corp.	8,373	244,991.5	8	Food and consumer goods
Mattel Inc.	8,000		2	Toys
Kimberly Clark Corp	5,700	2,203,989.9	4	Paper and consumer products
Dana Corp. (FL)	4,541	981,565.8	12	Auto parts
Praxair Inc.	1,415	3,590,294.4	2	Industrial gases
Dawn International Holdings, Inc.	253	4,394,738.3	1	Grain mill products manufacturing and wholesale distribution
Elektrisola, Inc.	210	13,340,013.0	1	Fabricated wire products
Solutia Inc	110	2,245,470.8	1	Chemicals

Source: Orbis companies database.

Note: Empty cells imply no data are available.

both inbound and outbound U.S. investment, FDI between the United States and India has grown particularly rapidly. USDIA stock in India increased by a total of 247 percent between 1999 and 2005, with average annual growth of 23.4 percent, as India has begun to remove barriers to trade and investment, and U.S. investor interest in the country has increased.

Information was the leading industry for USDIA in India in 2005, followed by depository institutions and professional, scientific, and technical services. U.S. firms were involved in 115 mergers with or acquisitions of Indian companies between 2000 and 2005. Almost one-half of these was classified in the computer and internet services industry, followed by strong interest in the areas of personal and business services and industries and electric machinery.

Professional services was the lead industry for FDIUS from India, accounting for 82 percent of the total in 2005. Tata America International Corp., a subsidiary of Tata Sons Ltd., the Indian business services company, is the largest Indian-owned firm in the United States, measured in terms of operating revenue. Tata America, which provides computer programming and data processing services, reported 2004 revenue of \$810 million, almost 10 times the value reported by the next Indian-owned company, Caraco Pharmaceutical Laboratories.<sup>66</sup> Tata is a world leader in business process outsourcing, with operations in 34 countries during 2006. Indian firms have successfully taken advantage of trends toward business process outsourcing, performing a variety of business services for U.S. corporations, as well as corporations based in a variety of other countries, including call center operations, back office accounting operations, etc. When companies in the United States employed companies located in India for these processes, these transactions appear in official statistics as part of cross-border trade in services. However, when Indian firms such as Tata establish offices directly in the United States, the transactions are included in the FDI statistics.

## ***Brazil***

After several years of decline, the USDIA position in Brazil posted an increase of more than \$2 billion in 2005, bringing the total to \$32.4 billion, although still 13 percent below the 1999 level of \$37.2 billion. USDIA in Brazil is strongest in manufacturing, with \$13.5 billion, of which the largest share is in the chemicals industry (\$3.9 billion). U.S. investors also have an investment position of \$7.7 billion in Brazilian financial services firms, including banks. Recent capital flows to Brazil were most prominent in the holding companies and mining industries. Within manufacturing, the largest shares of recent capital flows have been invested in the food and chemicals manufacturing areas. Recent capital flows to Brazilian depository institutions have been quite small (combined \$216 million during 1999-2005), and negative to the other financial services industries. Table 19 shows the leading U.S.-owned companies in Brazil, in order of operating revenue, illustrating the diversity of USDIA in that country.

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<sup>66</sup> Orbis companies database.

**TABLE 19.** U.S.-owned companies in Brazil, 2006

Brazilian company	U.S. parent company	Employment by Brazilian affiliate	Annual operating revenue of Brazilian affiliate	Industry
Cargill Agricola SA	Cargill	6,200	4,504,814	Soybean oil mills
Eletropaulo Metropolitana Eletricidade de Sao Paulo SA	AES Corp.	NA	3,556,183	Electric utility
Chevron Brasil	Chevron Corp.	939	3,196,775	Petroleum wholesaler
Brasmotor SA	Whirlpool Corp.		2,164,613	Household appliance manufacturer
Whirlpool SA	Whirlpool Corp.		2,121,918	Household appliance manufacturer
Xerox Comercio E Endustria Ltda	Xerox Corp.	1,500	1,257,520	Machinery manufacturer
Dow Brasil SA	Dow Chemical Co.	900	1,201,812	Chemical manufacturer
Alcoa Aluminio SA	Alcoa Inc.	6,579	922,470	Aluminum production
Seara Alimentos SA	Cargill	NA	848,309	Poultry farms
Agco do Brasil Comercio Industria	Agco Corp.	2,296	700,613	Transportation equipment manufacturer (industrial trucks and trailers)
Hewlett-Packard Brasil	Hewlett-Packard Co.	1,328	654,568	Wholesaler of computers and peripheral equipment

*Source:* Orbis companies database.

*Note:* Blank cells imply no data available.

Brazilian investment in the United States is comparatively quite small, valued at \$2.6 billion in 2005, with the largest share in depository institutions. There are four active Brazilian-owned banks in the United States,<sup>67</sup> of which the largest by far is Banco do Brasil, with reported assets of \$4.0 billion in the United States at the end of 2005.<sup>68</sup> In recent years, however, by far the largest share of Brazilian capital outflows to the United States (81 percent) have been directed to the wholesale trade industry.

<sup>67</sup> Two Brazilian banks, Unibanco-Uniao De Bancos Bras and Banco Itau-BBA SA, have representative offices in the United States that do not transact business here.

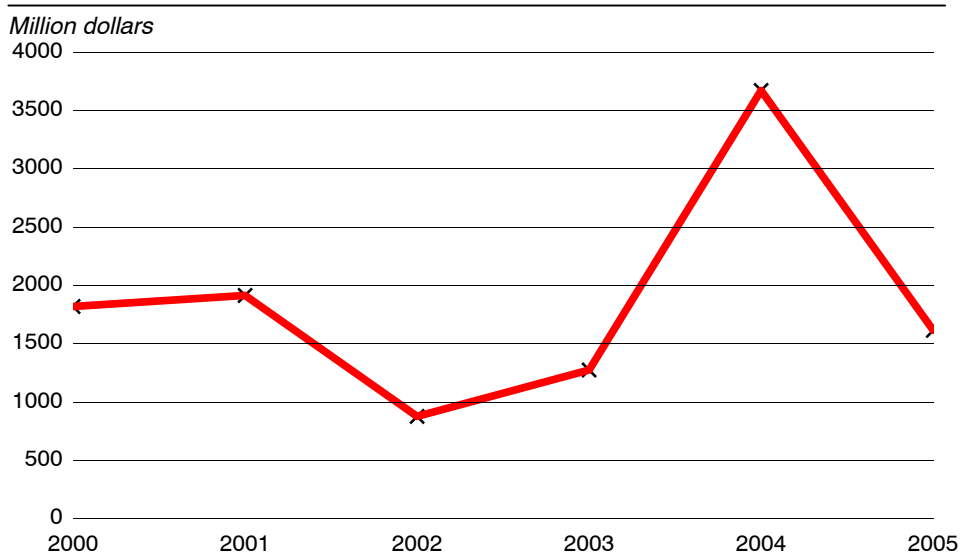
<sup>68</sup> U.S. Federal Reserve Board, "Structure and Share Data for U.S. Offices of Foreign Banks," <http://www.federalreserve.gov/releases/iba/current/struca.pdf>, accessed Aug. 31, 2006.

There are at least 459 U.S.-owned firms with affiliates in Brazil, of which 55 percent is manufacturing firms. Within the service sector, the primary areas for U.S.-owned companies are wholesale trade, finance and insurance, professional, scientific, and technical services, and administrative services. Manufacturing firms frequently establish wholesale trade affiliates in foreign markets, and there is a wide variety of U.S.-owned manufacturing firms in Brazil. Among the top 40 U.S.-owned firms by annual operating revenue are the Brazilian affiliates of Whirlpool, Xerox, Dow, Hewlett Packard, 3M, Johnson & Johnson, Caterpillar, and Navistar. U.S. financial services firms in Brazil include Bank of America and two insurance companies, Chubb Corp., and Principal Financial Group.

### ***China***

U.S. direct investment stock in China reached \$16.9 billion in 2005, equal to less than 1 percent of total USDIA stock, but recording average annual growth of over more than 10 percent during 1999-2005.<sup>69</sup> Annual flows of new U.S. investment into China remained under \$2 billion during 1999-2003, then increased to \$3.7 billion in 2004, before dropping back to \$1.6 billion in 2005 (figure 14). Slightly more than half of USDIA stock in China was invested in manufacturing, with the remainder spread between wholesale trade, mining, and holding companies.

**Figure 14.** USDIA capital outflows to China, 2000-2005



Source: USDOC, BEA.

<sup>69</sup> USDOC, BEA, "U.S. Direct Investment Abroad, 2004."

Sales by U.S.-owned foreign affiliates grew rapidly during 2000-2003 in China, increasing at an average of 25 percent per year.<sup>70</sup> This likely reflects the liberalization of many Chinese foreign investment regulations following China's WTO accession in 2001, with U.S. and other foreign firms permitted to operate in many cities formerly closed to foreign investors. In addition, the rapid growth of affiliate sales in China points out that USDIA in China is aimed at sales to Chinese consumers as well as production for export.

## **Conclusion**

The FDI relationship between the United States and its primary investment partners is a close and complicated one. The article illustrates the particularly close economic relationship between the United States and Europe, particularly the United Kingdom. Within Europe, the most prominent industry destination for USDIA is holding companies, particularly in the Netherlands, the United Kingdom, and Luxembourg. As noted, it is likely that most of this capital is reinvested in operating companies in the manufacturing sector within Europe. U.S. FDI in the North American Free Trade Agreement (NAFTA) countries is primarily destined for Canada, although there is a strong FDI relationship with Mexico as well. The largest shares of USDIA in the NAFTA region are invested in manufacturing, particularly chemicals and transportation equipment, and finance and insurance. In the Asia-Pacific region, the largest FDI destinations are Japan and Australia. Japan dominates FDIUS from the region. Manufacturing FDI in the Asia-Pacific are focused on computers and electronic equipment. In Latin America and the Caribbean, excluding Mexico, holding companies are the most significant destination for USDIA, although Bermuda also attracts significant USDIA to the reinsurance industry. There is little FDIUS from the region. Africa and the Middle East have attracted only a very small share of overall USDIA, primarily concentrated in the mining sector, which includes the petroleum industry.

Multinational corporations based in Europe, North America, and the developed countries of the Asia-Pacific region have extensive operations and assets in the United States, as U.S.-based companies do throughout the world. These MNCs are the primary means through which FDI is transferred between countries, reinforcing the extensive global economic linkages between countries today.

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<sup>70</sup> Data for foreign affiliate sales in China in 1999 were suppressed to avoid disclosure of data of individual companies.

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