
Foreign
Direct
Investment in
the United
States,
Preliminary
2nd Quarter
2018

Organization for
International
Investment

September 24, 2018

FOREIGN DIRECT INVESTMENT IN THE UNITED STATES

Foreign Direct Investment in the United States, 2015-2018¹

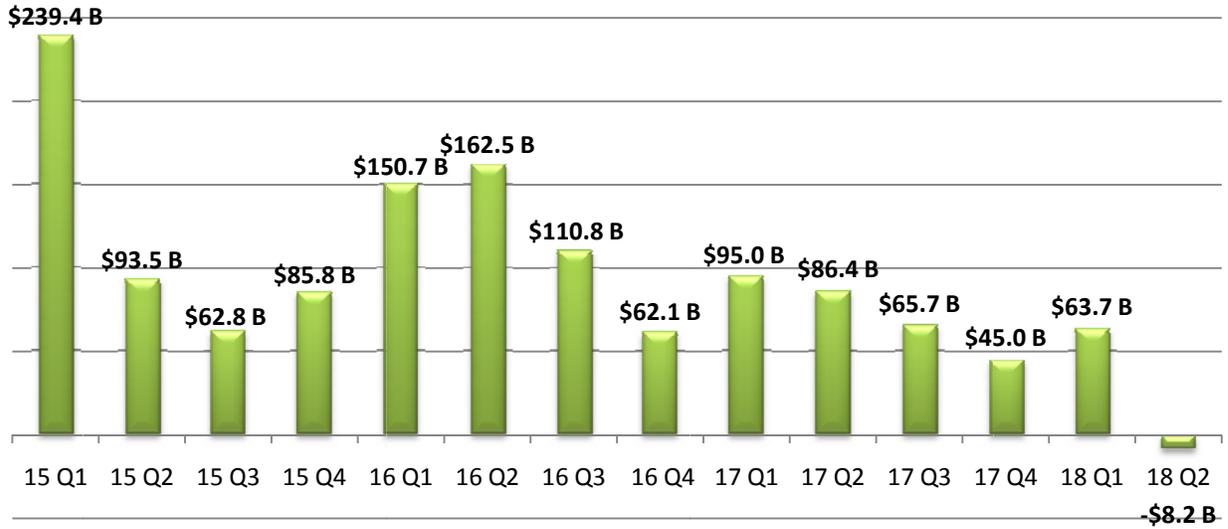
- Foreign direct investment in the United States (FDIUS)² registered -\$8.2 billion, or a divestment³, in the second-quarter 2018. This compares to FDIUS flows of \$63.7 billion in the previous quarter.
- Net equity flows made up just \$4.7 billion in the second-quarter 2018 inward investment. However, there was a great deal of activity within this component of FDIUS, as \$105 billion in equity increases were largely offset by \$100 billion in equity decreases, suggesting an unusually high quarter of mergers and acquisitions, where foreign-based multinational enterprises with U.S. affiliates changed ownership.
- Reinvestment of earnings totaled \$28.7 billion in the second-quarter 2018, which was down 18 percent from the first quarter, yet relatively strong compared to recent quarters.
- Foreign direct investment in the United States amounted to \$292 billion for 2017. That was the fourth-strongest year for FDIUS over the past decade. However, it followed two record-breaking years of FDIUS recorded in 2015 and 2016, at \$482 billion and \$486 billion, respectively.
- Quarterly FDIUS flows are subject to large revisions and can fluctuate greatly from quarter to quarter. While the United States remains an attractive investment location, global competition for foreign investment dollars is increasing as more developing countries position themselves as investment destinations.

¹ The U.S. Bureau of Economic Analysis released preliminary 2nd quarter 2018 foreign direct investment statistics on September 19, 2018.

² Foreign direct investment in the United States measures equity capital flows, reinvestment of earnings, and debt instruments between U.S. affiliates and their parents abroad.

³ Disinvestment, or net negative financial inflows, occurs when flows from U.S. affiliates to their parent companies are greater than flows from parents to affiliates. Net negative flows may be due to reductions of equity (selloffs) in their affiliates by parents, distributions of earnings by affiliates to their parents, or net loan payments from affiliates to parents.

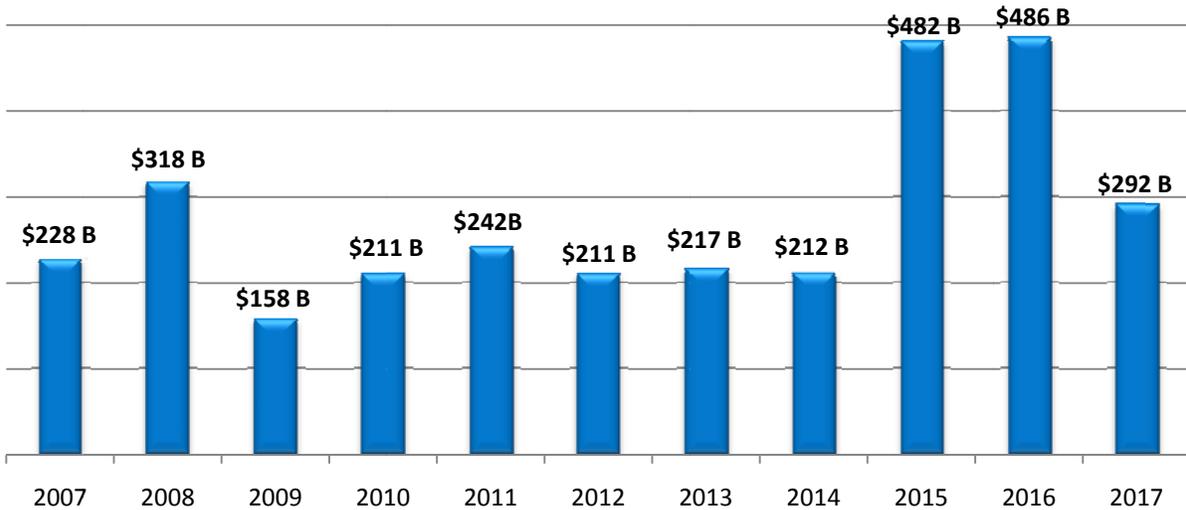
Quarterly Foreign Direct Investment in the United States 2015 - 2018 Q2p



Source: U.S. Bureau of Economic Analysis, International Transactions Account data; seasonally adjusted; p-preliminary

Annual Foreign Direct Investment in the United States 2007 - 2017

September 19, 2018



Source: U.S. Bureau of Economic Analysis, International Transactions Account data

Analysis & Context

Second-quarter 2018 foreign direct investment flows in the United States were in negative territory, resulting in a divestment of \$8.2 billion, following a relatively strong first quarter. The second quarter was marked by unusually high selloff and purchase activity, which suggests that some \$100 billion invested in the United States has transferred ownership abroad. In that quarter, U.S. affiliates paid off \$32 billion in loans to related parties. Clearly, much of this unprecedented FDIUS activity is due to changes in ownership. Yet, it can partially be viewed as a response to import tariffs and other trade actions from the Trump Administration as international companies hit the pause button on potential investments.

Foreign direct investment in the United States in 2017 was the fourth-strongest for the past decade, but was down 40 percent from 2016. This followed record-breaking years in 2015 and 2016; FDIUS for each year reached nearly half a trillion dollars.

These investments benefit the American economy as international firms build new factories across the United States, buoy their well established U.S. operations, fund American research and development activities, and employ more than 6.8 million Americans in well-paying jobs.

Globally, inward FDI fell 23 percent to \$1.43 trillion in 2017 from the previous year, according to the United Nations Conference on Trade and Development (UNCTAD). The United States maintained its number one position in the world as a destination for FDI. UNCTAD projects that global FDI flows in 2018 will increase by just 10 percent, remaining well below the average over the past several years.

Looking at foreign direct investment more broadly, foreign companies invest in the United States for many reasons. A list of positive factors include the large U.S. market, world-class research universities, a stable regulatory regime, and a solid infrastructure that allows businesses to easily access the U.S. market. For certain foreign investors, the United States has become an important global export platform. Good domestic energy resources and low energy prices also draw foreign investors to the United States.

Whether the United States will retain its status as the world's most attractive investment location hinges mainly on future macroeconomic developments and changing financial conditions. For the sixth year in a row, in 2018, A.T. Kearney's *FDI Confidence Index* ranked the United States as the world's top market.