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U.S. Direct Investment Abroad: Trends and Current Issues

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Summary

The United States is the largest direct investor abroad and the largest recipient of foreign direct investment in the world. For some Americans, the national gains attributed to investing overseas are offset by such perceived losses as offshoring facilities, displacing U.S. workers, and lowering wages. Some observers believe U.S. firms invest abroad to avoid U.S. labor unions or high U.S. wages, but 74% of the accumulated U.S. foreign direct investment is concentrated in high-income developed countries. In recent years, the share of investment going to developing countries has fallen. Most economists argue that there is no conclusive evidence that direct investment abroad as a whole leads to fewer jobs or lower incomes overall for Americans. Instead, they argue that the majority of jobs lost among U.S. manufacturing firms over the past decade reflect a broad restructuring of U.S. manufacturing industries responding primarily to domestic economic forces.

In recent Congresses, Members have introduced a number of measures that would affect U.S. multinational companies in their foreign investment activities. In the 115th Congress, H.R. 685 and S. 247 (Bring Jobs Home Act) would provide certain tax exemptions to U.S. multinational firms to induce them to redirect economic activity from a foreign subsidiary to a domestic U.S. operation. In the 114th Congress, Members also introduced similar measures, including H.R. 297, the Stop Tax Haven Abuse Act of 2015, introduced by Representative Lloyd Doggett on January 13, 2015, and companion measure S. 174, introduced by Senator Sheldon Whitehouse; and H.R. 415, the Stop Corporate Inversions Act of 2015, introduced by Representative Sander Levin on January 20, 2015, and companion measure S. 198, introduced by Senator Richard Durbin. While H.R. 415 and S. 198 are directed at tax inversions, H.R. 297 and S. 174 address a number of tax and financial issues relative to U.S. multinational firms, including the use of foreign tax havens to evade U.S. taxes; money laundering; corporate offshore tax avoidance; and corporate tax inversions.

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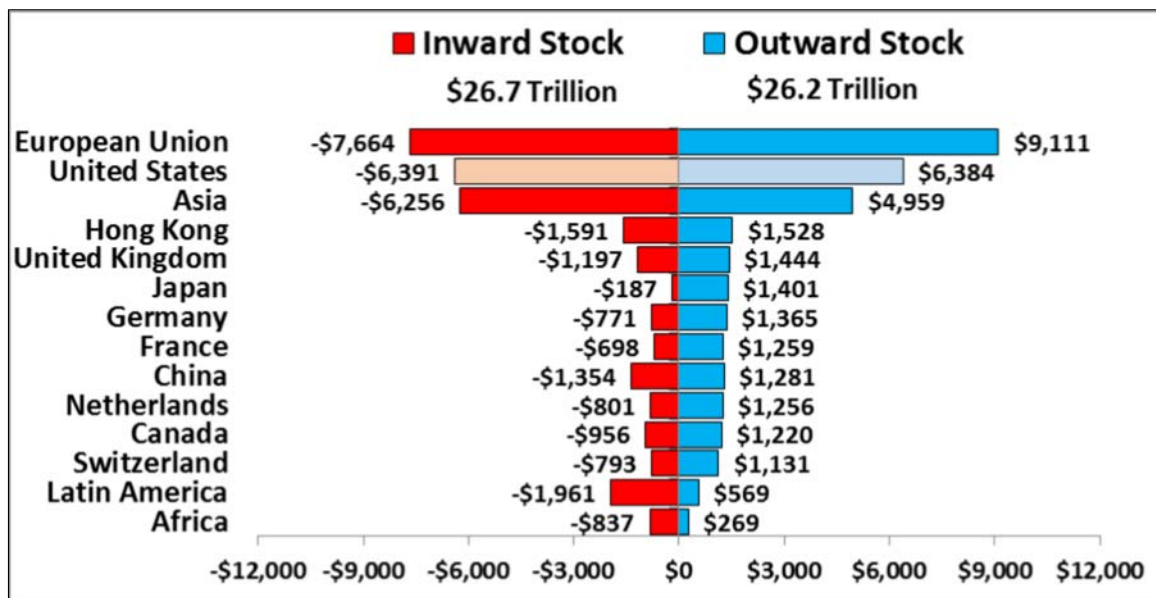
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Recent Investments

The United States occupies a unique position in the global economy as the largest investor and the largest recipient of foreign direct investment (FDI). As a basic premise, the U.S. historical approach to international investment has aimed to establish an open and rules-based system that is consistent across countries and in line with U.S. economic and national security interests. This policy also has fundamentally maintained that FDI has positive net benefits for the United States and foreign investors, except in certain cases in which national security concerns outweigh other considerations. The Trump Administration has not yet offered a formal statement on its foreign investment policy relative to the Administration's "America First" policy. Commerce Secretary Wilbur Ross stated at a June 2017 SelectUSA investment summit that the Administration welcomes foreign investment into the U.S. economy.

According to the United Nations,¹ the global outward direct investment position in 2016 was recorded at around \$26 trillion. The U.S. direct investment position, or the cumulative amount, was recorded at around \$6.4 trillion in 2016, as indicated in Figure 1. Hong Kong, the United Kingdom, Japan, and Germany rank as the next largest overseas direct investors, with individual outward investment positions about one-fourth or less than that of the United States.

Figure 1. Inward and Outward Stock of Foreign Direct Investment by Major Country or Region, 2016



Source: World Investment Report 2017, United Nations, 2017.

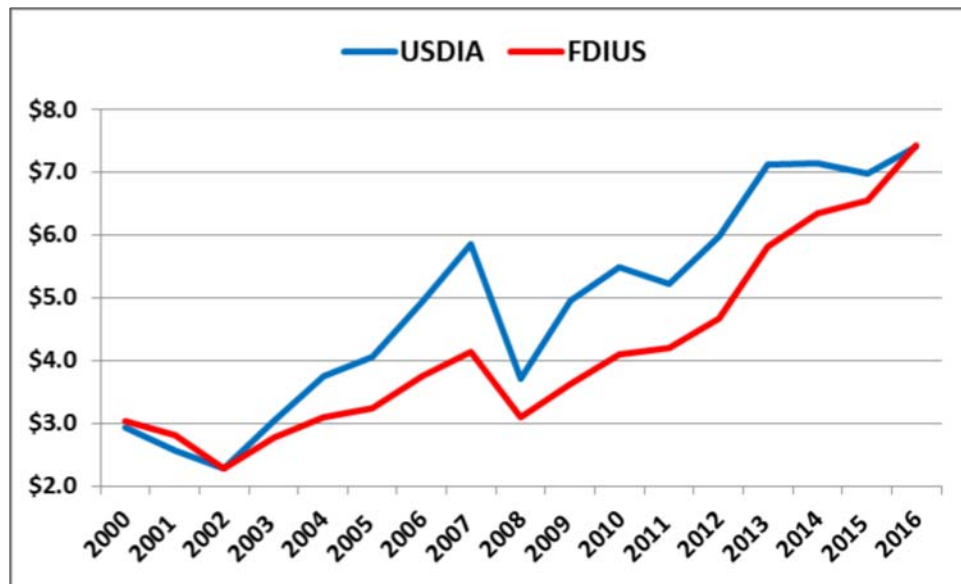
For the United States, the Commerce Department publishes data on the U.S. direct investment position (both inward and outward) using three different measures: historical cost, current cost, and market value, which is closest to the values calculated by the United Nations.² These

¹ *World Investment Report 2017*, United Nations, 2017.

² U.S. Net International Investment Position, Fourth Quarter and Year 2016, Bureau of Economic Analysis, Survey of Current Business, April, 2017; and CRS Report RL32964, *The United States as a Net Debtor Nation: Overview of the International Investment Position*, by James K. Jackson.

measures act in lieu of a price deflator to represent the value of an investment at the time of the investment (historical cost), the current replacement cost of an investment (current cost), and the stock market valuation of an investment (market value). Current estimates indicate that U.S. direct investment abroad (USDIA) in 2016 measured at historical cost, at current cost, and at market value increased by \$304 billion, \$304 billion, and \$433 billion, respectively, to reach cumulative amounts of \$5.4 trillion, \$5.9 trillion, and \$7.4 trillion.³ The increase in the value of USDIA measured at market value from 2015 to 2016 reflects price increases on equity assets that were partly offset by decreases from foreign exchange changes. As indicated, Figure 2 shows the cumulative position for USDIA and foreign direct investment in the United States (FDIUS) in market value terms. Elsewhere in this report, detailed data on foreign investment are presented on a historical cost basis.

Figure 2. U.S. Direct Investment Position Abroad and Foreign Direct Investment Position in the United States at Market Value (Cumulative Amount)
(trillions of dollars)



Source: Department of Commerce.

On an annual basis, U.S. direct investment abroad,⁴ or new spending by U.S. firms on businesses and real estate abroad, rose slightly in 2016 above that invested in 2015 to reach \$312 billion, compared with a decline in investment spending in 2013 and 2014, according to balance of payments data by the Department of Commerce.⁵ At the same time, foreign direct investment in

³ The position, or stock, is the net book value of foreign direct investors' equity in, and outstanding loans to, their affiliates in the United States. A change in the position in a given year consists of three components: equity and intercompany inflows, reinvested earnings of incorporated affiliates, and valuation adjustments to account for changes in the value of financial assets. The Department of Commerce also publishes data on the foreign direct investment position valued on a current-cost and market value bases.

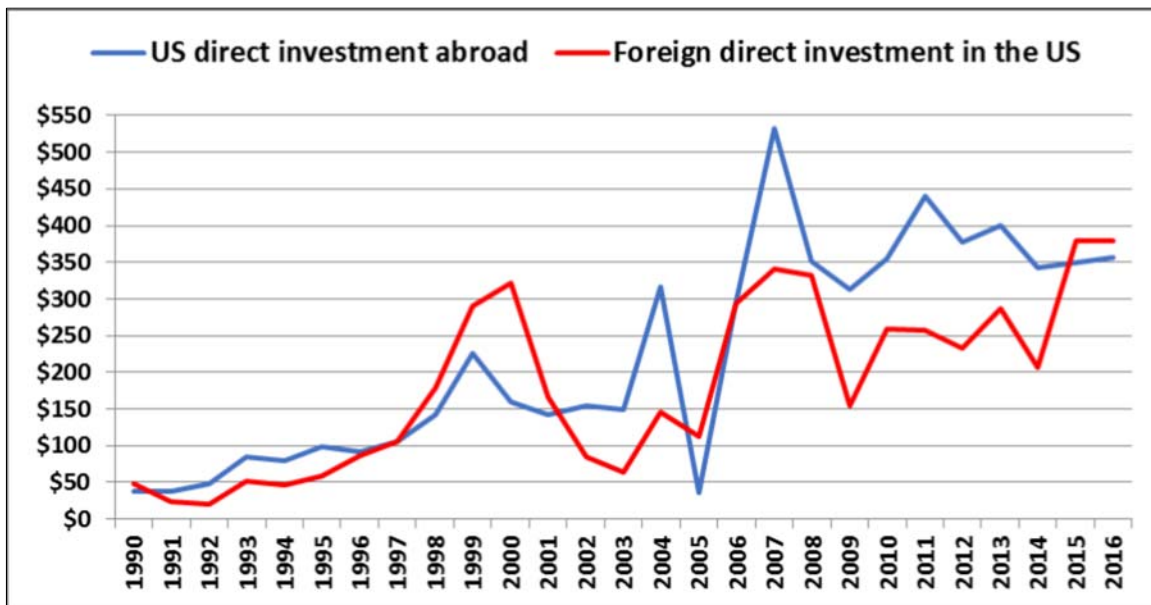
⁴ The United States defines direct investment abroad as the ownership or control, directly or indirectly, by one person (individual, branch, partnership, association, government, etc.) of 10% or more of the voting securities of an incorporated business enterprise or an equivalent interest in an unincorporated business enterprise. 15 C.F.R. §806.15 (a)(1).

⁵ *U.S. Net International Investment Position, Fourth Quarter and Year 2016*, Bureau of Economic Analysis, Survey of Current Business, April, 2017; *Annual Revision of the U.S. International Transactions Accounts*, Bureau of Economic (continued...)

the United States in 2016 fell by 5.0% to \$479 billion from the values recorded in the previous year. From 2006 to 2010, U.S. direct investment abroad was about a third more than the amount foreigners invested in the U.S. economy, based on balance of payments data. In 2016, foreign direct investment in the United States was greater than U.S. direct investment abroad for a second year in a row, something that has not happened since the early 2000s. A sharp drop in USDIA that occurred in 2005 reflects actions by U.S. parent firms to reduce the amount of reinvested earnings going to their foreign affiliates for distribution to the U.S. parent firms in order to take advantage of one-time tax provisions in the American Jobs Creation Act of 2004 (P.L. 108-357).

In general, U.S. and global foreign direct investment annual flows have not regained the amounts recorded in 2007, prior to the global financial crisis, but foreign direct investment in the United States in 2015 and 2016 surpassed in nominal terms the amount invested in 2007. Foreign direct investment in the United States fell by a fourth from \$287 billion in 2013 to \$207 billion in 2014, as indicated in Figure 3. In part, the drop in FDIUS reflected a \$130 billion stock buyback between Verizon and France's Vodafone. Generally, relative rates of growth between U.S. and foreign economies largely determine the direction and magnitude of direct investment flows. These flows also are affected by relative rates of inflation, interest rates, tax rates, and expectations about the performance of national economies, which means the investment flows can be quite erratic at times in response to various economic forces.

Figure 3. U.S. Direct Investment Abroad and Foreign Direct Investment in the United States, Annual Flows, 1990-2016



Source: U.S. Department of Commerce.

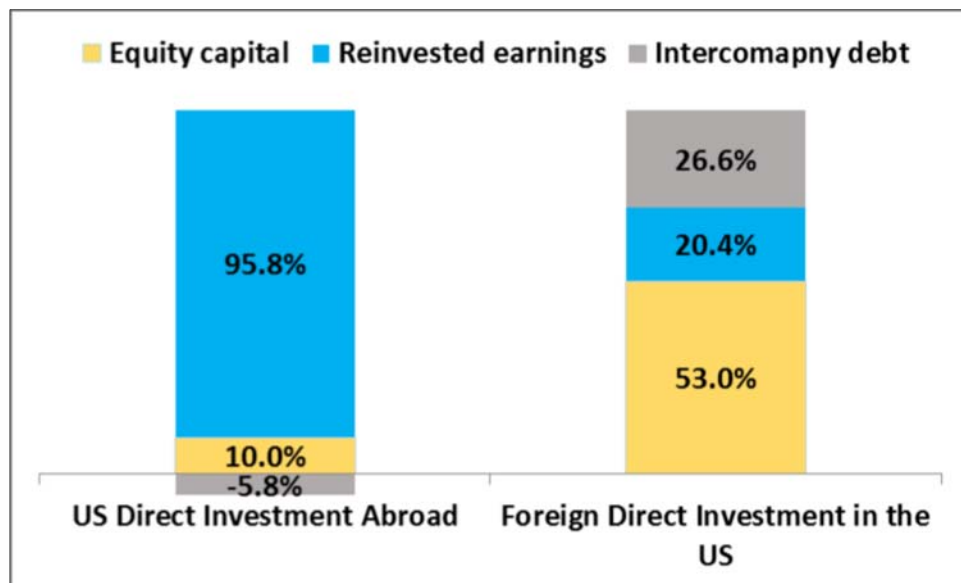
According to balance of payments data, USDIA in 2016 was comprised 96% of reinvested earnings, 10.0% of equity capital, and -5.8% of intercompany debt, or a net flow of funds from foreign affiliates back to the U.S. parent firms, as indicated in Figure 4. In comparison, equity

(...continued)

Analysis, July, 2016. Direct investment data reported in the balance of payments differ from capital flow data reported elsewhere, because the balance of payments data have not been adjusted for current cost adjustments to earnings.

capital accounted for 53.0% of foreign direct investment in the United States, with reinvested earnings and intercompany debt accounting for around 20% and 26.6%, respectively. Despite concerns that USDIA occurs at the expense of investment in the United States by firms shifting capital from the U.S. parent company to foreign affiliates, the reliance on reinvested earnings suggests that much of USDIA is financed by the foreign affiliates. This reliance on reinvested earnings may reflect the prominence of U.S. direct investment in the highly developed economies of Europe in which equity-financed investment is not as widely used as it is in the United States. An increase in stock market valuations around the world from 2012 to 2014 increased the overall value of U.S. direct investment abroad by nearly \$2 trillion, measured at market value, but then declined in value in both 2014 and 2015. During the same period, the market value of foreign firms operating in the United States experienced a valuation increase of \$1.6 trillion from 2012 to 2014, but then experienced annual increases of \$500 billion in 2014 and \$200 billion in 2015.⁶

Figure 4. Composition of Financial Sources of U.S. Direct Investment Abroad and Foreign Direct Investment in the United States, 2016
(Percent shares of direct investment by financial source)



Source: Department of Commerce.

Intrafirm Trade

Some observers argue that U.S. direct investment abroad shifts jobs overseas by reducing U.S. exports, but U.S. data indicate that foreign investment apparently stimulates intrafirm trade. This type of trade is characterized by the sum of (1) trade between U.S. parent companies and their foreign affiliates, and (2) the U.S. affiliates of foreign firms and their foreign parent companies. As indicated in Table 1, total U.S. trade in 2014 was \$1.6 trillion in exports and \$2.3 trillion in imports. Of this amount, trade between U.S. parent companies and their foreign affiliates, identified as multinational companies (MNCs), accounted for \$315 billion in both exports and imports, while the affiliates of foreign firms operating in the United States accounted for \$189

⁶ Westmoreland, Kyle L., The International Investment Position of the United States at the End of the Fourth Quarter of 2014 and Year 2014, *Survey of Current Business*, April 2015, p. 1.

billion in exports and \$521 billion in imports. In total, intrafirm trade accounted for 31% of exports and 35% of imports.

Table 1. U.S. Intrafirm Trade 2014
(\$ in billions)

Exports		Imports	
Total U.S. Exports	\$1,632.6	Total U.S. Imports	\$2,294.6
By U.S. Parents	802.4	To U.S. Parents	929.8
To Foreign Affiliates	314.3	From Foreign Affiliates	315.4
To Others	488.0	From Others	614,348
By Foreign Affiliates	425.2	To Foreign Affiliates	723,858
To Foreign Parent	188.7	From Foreign Parent	521,106
To Others	236.5	From Others	202,752
By Others	405,081	From Others	687,328
Intra MNC Exports:	\$502,981 (30.8%)	Intra MNC Imports:	\$836,520 (35%)

Source: Department of Commerce.

Foreign Investments by Country and Industry

As indicated in Table 2, the overseas direct investment position of U.S. firms on a historical-cost basis, or the cumulative amount at book value, reached \$5.0 trillion in 2015, the latest year for which such detailed investment position data are available.⁷ About 71% of the accumulated U.S. foreign direct investment is concentrated in high-income developed countries that are members of the OECD: investments in Europe alone account for over half of all U.S. direct investment abroad, or \$2.9 trillion. Europe has been a prime target of U.S. investment since U.S. firms first invested abroad in the 1860s. American firms began investing heavily in Europe following World War II as European countries rebuilt their economies and later when they formed an intra-European economic union.

Table 2. U.S. Direct Investment Position Abroad on a Historical-Cost Basis at Year-end, 2015
(in billions of U.S. dollars)

	All industries	Manu- facturing	W hole- sale trade	Infor- mation	Banking	Finance	Services	Holding companies	Other
All	\$5,040.6	\$660.8	\$229.3	\$180.3	\$112.8	\$613.9	\$116.0	\$2,582.2	\$332.6
Canada	352.9	109.9	23.9	7.9	3.3	45.9	8.1	86.5	44.9
Europe	2,949.2	309.7	79.8	117.9	66.3	254.9	70.8	1,824.5	194.6
EU.	2,677.1	268.7	66.3	106.5	60.9	233.5	65.8	1,689.5	166.8
Belgium	45.1	28.6	6.0	0.5	(D)	4.6	1.6	0.8	(D)

⁷ Jenniges, Derrick T. and James J. Fetzer, Direct Investment Positions for 2015: Country and Industry Detail, *Survey of Current Business*, July, 2016.

	All industries	Manu- facturing	W hole- sale trade	Infor- mation	Banking	Finance	Services	Holding companies	Other
France	78.3	21.0	5.2	2.9	2.4	17.0	4.2	17.0	(D)
Germany	108.1	30.1	12.0	6.0	2.5	14.7	4.5	37.6	0.4
Ireland	343.4	23.9	1.4	40.0	(D)	8.5	12.2	174.7	(D)
Italy	22.5	7.6	3.8	2.3	1.2	2.6	0.5	0.4	3.9
Luxemb.	503.0	17.6	0.2	2.2	(D)	13.3	0.9	447.1	9.0
Netherl.	858.1	55.3	14.9	15.5	(D)	40.9	6.6	693.9	(D)
Spain	35.8	13.0	3.0	1.6	(D)	3.3	0.4	11.0	2.1
Sweden	25.0	3.4	2.2	1.2	(D)	2.3	0.7	12.9	(D)
Switzer.	155.2	34.0	12.0	8.6	2.2	18.3	4.4	49.1	(D)
UK	593.0	49.9	10.5	30.3	16.8	122.7	32.0	274.8	47.8
LAmerica	847.6	64.0	29.5	20.7	8.7	188.5	3.2	431.8	44.6
Brazil	65.3	19.6	3.0	6.1	(D)	9.9	0.8	12.3	(D)
Chile	27.3	5.3	1.1	0.4	(D)	5.7	0.4	0.4	(D)
Venez.	9,068	2,948	330	(D)	0	1,106	912	1,354	(D)
Mexico	92.8	31.8	3.3	2.8	0.8	9.3	0.3	22.7	11.8
Bermuda	269.3	-6.7	(D)	3.6	0.2	30.9	0.3	206.3	23.1
UK Car.	257.3	0.2	0.9	3.3	-1.3	81.0	0.2	159.8	3.4
Africa	64.0	4.4	2.4	0.8	(D)	3.1	1.4	8.4	(D)
Mid. East	48.5	10.5	2.4	2.0	(D)	2.2	2.0	13.0	(D)
Asia	778.3	162.2	91.3	31.0	30.9	119.3	30.5	218.0	45.1
Australia	167.4	15.3	7.3	5.6	0.4	19.7	8.7	72.9	7.8
China	74.6	42.4	6.0	2.2	4.3	3.0	1.7	3.5	8.1
HK	64.0	4.5	18.1	8.0	2.1	6.2	2.4	18.7	4.2
Japan	108.5	22.6	8.5	7.4	(D)	53.7	2.7	3.4	(D)
Korea	34.6	14.2	1.6	0.2	(D)	6.9	0.4	(D)	1.9
Singapore	228.7	36.0	40.1	7.9	0.7	19.7	0.9	114.8	7.3
Taiwan	15.0	5.4	3.4	0.3	3.4	1.4	0.2	0.1	0.8
OPEC	58.2	7.4	2.7	2.6	(D)	3.0	1.3	18.2	(D)

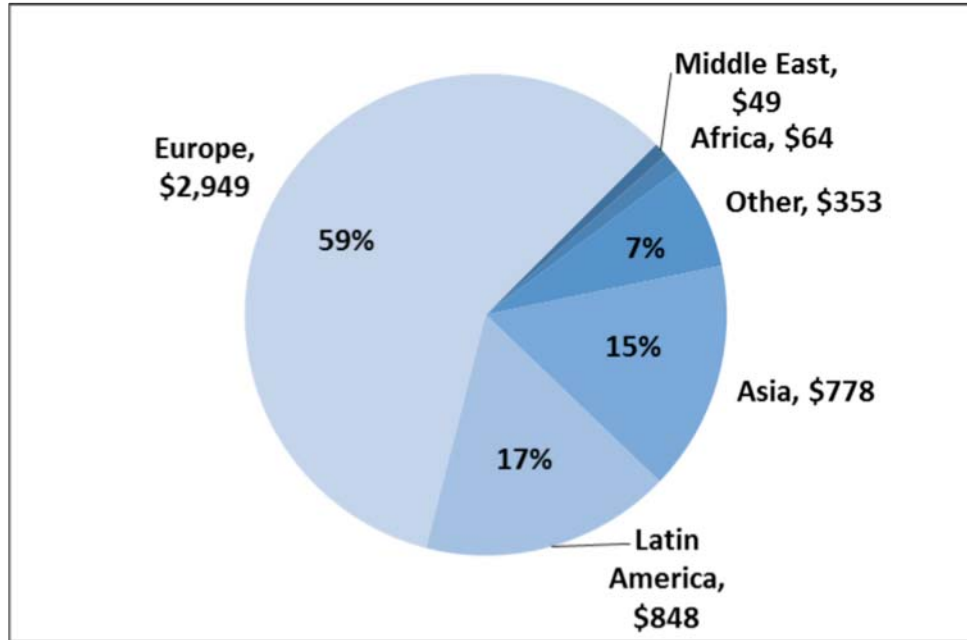
Source: Janniges, Derrick T. and James J Fetzer. Direct Investment Positions for 2015: Country and Industry Detail, Survey of Current Business, July 2016. p. 14.

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

The tendency for U.S. firms to have placed the largest share of their annual investments in developed countries where consumer tastes are similar to those in the United States increased after the mid-1990s. In the last half of the 1990s, USDIA experienced a dramatic shift from developing countries to the richest developed economies: the share of U.S. direct investment going to developing countries fell from 37% in 1996 to 21% in 2000. By location, in 2015, U.S. firms focused 71% of their direct investments, or their total accumulative position, in developed

economies, including 59% of their investments in the highly developed economies of Europe, as indicated in Figure 5. Another 17% of the U.S. direct investment position abroad is located in Latin America and 15% of investment is located in Asia, including Australia, Japan, New Zealand, and South Korea. Direct investment in Africa accounts for about 1.3% of total U.S. direct investment abroad in 2015, with investments in the Middle East accounting for about 1% of the total.

Figure 5. U.S. Direct Investment Abroad by Major Area, 2015
(in Billions of dollars, percent of total; Total = \$5.0 trillion)



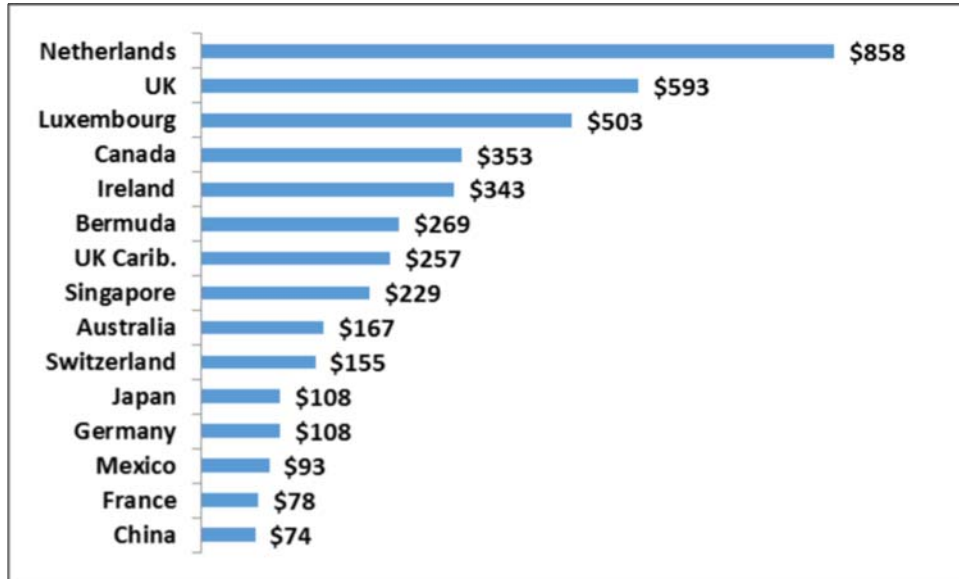
Source: Department of Commerce.

Note: Data are valued at historical cost.

By country, the Netherlands is the largest recipient of USDIA, reflecting a range of factors that make it a favorable place for U.S. firms to invest, as indicated in Figure 6. Following the Netherlands, the United Kingdom, Luxembourg, Canada, and Ireland are top locations for U.S. overseas investors. Investments in European countries and Canada likely reflect long-standing economic relationships, or close physical proximity to the United States.

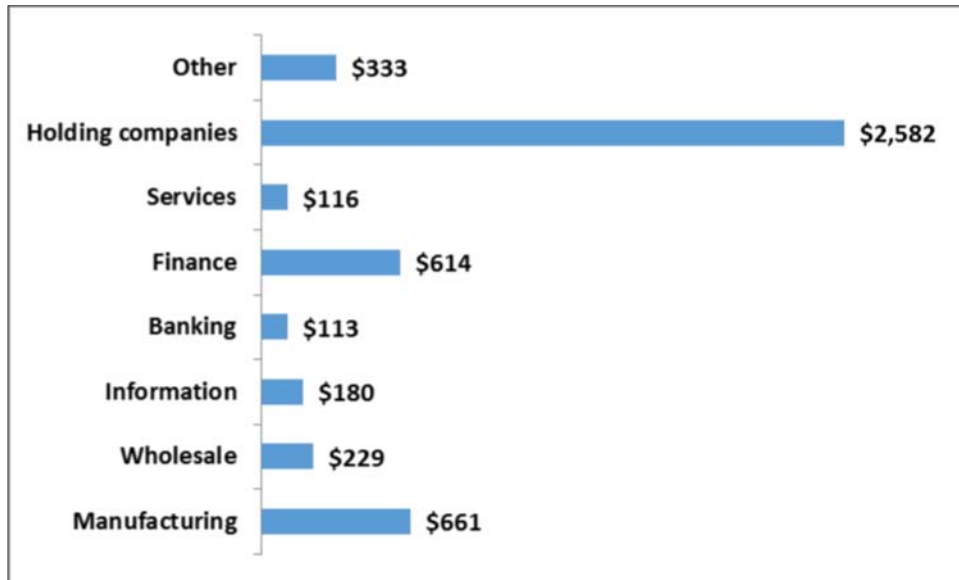
Patterns in U.S. direct investment abroad often reflect fundamental changes that occur in the U.S. economy during the same period. As investment funds in the U.S. economy shifted from extractive, processing, and manufacturing industries toward high technology services and financial industries, U.S. investment abroad mirrored these changes. As a result, U.S. direct investment abroad focused less on the extractive, processing, and basic manufacturing industries in developing countries and more on high technology, finance, and services industries located in highly developed countries with advanced infrastructure and communications systems. Annual investments in most sectors increased in 2015 over the amount invested in 2014, except for investment in the banking, finance, and insurance sectors, as indicated in Figure 7. Investments by holding companies generally reflect foreign investment through existing foreign subsidiaries of U.S. parent firms, rather than through the U.S. parent firms. Generally, service-oriented sectors, particularly computer systems design and technical consulting, continued to grow through 2015.

Figure 6. U.S. Direct Investment Abroad by Major Country, 2015
(in billions of dollars)



Source: Department of Commerce.
Notes: Data are valued at historical cost.

Figure 7. U.S. Direct Investment Abroad by Major Sector, 2015
(in billions of dollars)



Source: Department of Commerce.
Notes: Data are valued at historical cost.

U.S. Multinationals

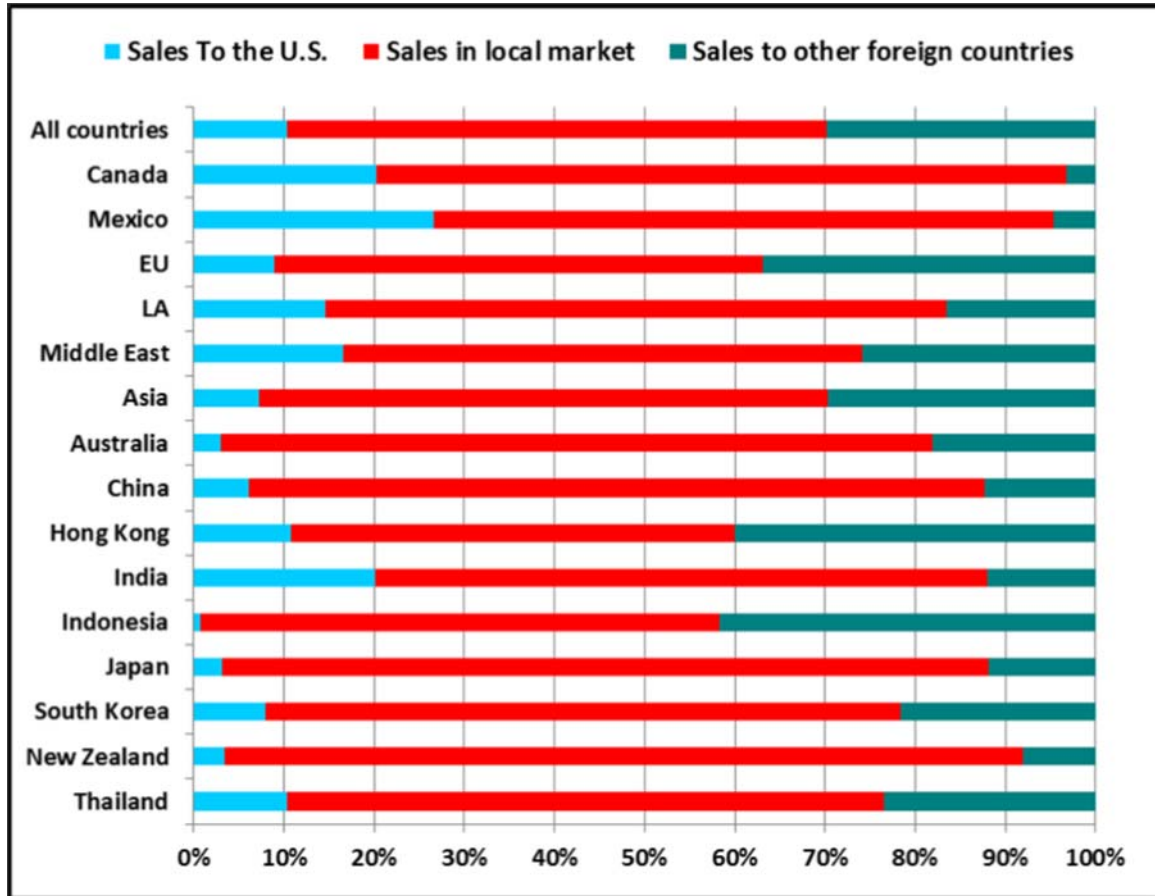
Nations once hostile to American direct investment now compete aggressively for U.S. direct investment by offering incentives to U.S. firms. A debate continues within the United States,

however, over the relative merits of USDIA. Some Americans believe that USDIA, directly or indirectly, shifts some jobs to low-wage countries. They argue that such shifts reduce employment in the United States and increase imports, thereby negatively affecting U.S. employment, the trade deficit, and economic growth. Economists generally believe that firms invest abroad because those firms possess some special process or product knowledge or because they possess special managerial abilities which give them an advantage over foreign firms.

On the whole, data indicate that U.S. firms invest abroad to serve the foreign local market, rather than to produce goods to export back to the United States, although some firms do establish overseas operations to replace U.S. exports or production, or to gain access to raw materials, cheap labor, or other markets. In 2014, the latest year for which detailed USDIA data are available, 10.0% of foreign affiliate sales were to U.S. parent companies, as indicated in Figure 8.⁸ The intrafirm share of U.S. trade is higher than the average for Mexico and Canada (20.0% and 27%, respectively) in part due to formal trade agreements and the close physical proximity of the trading partners. U.S. firms operating in China had 82% of their sales in China and 6% of their sales back to the United States. USDIA is dominated by very large firms (more than 10,000 employees) that accounted for over three-fourths of employment. Investments by holding companies reflect USFDI through a foreign affiliate, rather than through the parent company itself. This ownership by holding companies blurs somewhat the data on investment flows and investment positions by industry and country.

⁸ *U.S. Direct Investment Abroad: Operations of U.S. Parent Companies and Their Foreign Affiliates, Preliminary 2014 Estimates*, October 2016. Table II. E. 1.

Figure 8. Sales by Destination of the Foreign Affiliates of U.S. Parent Firms, 2014
(shares in percent)



Source: Department of Commerce.

U.S. multinational corporations (MNCs) rank among the largest U.S. firms. According to data collected by the Commerce Department's Bureau of Economic Analysis (BEA), when American parent companies and their foreign affiliates are compared by the size structure of employment classes, 40% of the more than 2,000 U.S. parent companies employ more than 2,499 persons. These large U.S. parent companies account for 95% of the total number of people employed by U.S. MNCs. Employment abroad is even more concentrated among the largest foreign affiliates of U.S. parent firms: the largest 2% of the affiliates account for 90% of affiliate employment.⁹

While U.S. MNCs used their economic strengths to expand abroad between the 1980s and early 2000s, the U.S.-based parent firms lost market positions at home, in large part due to corporate downsizing efforts to improve profits. In addition, U.S. multinational companies were disproportionately negatively affected in 2008 and 2009 by the global economic recession as a result of the geographic distribution of the multinational firms' activities and the industrial composition of their operations. U.S. MNC parent companies' share of all U.S. business gross domestic product (GDP)—the broadest measure of economic activity—declined from 32% to

⁹ Mataloni, Raymond J. Jr. U.S. Multinational Companies: Operations in 1998. *Survey of Current Business*, July 2000. pp. 24-45.

25% from 1977 to 1989.¹⁰ In 2007 (the latest year for which estimates are available), U.S. parent companies accounted for about 21% of total U.S. business activity. These MNC parent companies accounted for about 41% of total U.S. manufacturing activity, down from 46% in 2000.

As U.S. MNC parent companies were losing their relative market positions at home, their cumulative amount of direct investment abroad doubled. This increase did spur a shift in some economic activity among the U.S. MNCs from the U.S. parent companies to the foreign affiliates. During the period from 2000 to 2007, the foreign affiliates increased their share of the total economic activity within U.S. MNCs—the combined economic output of the U.S. parent and the foreign affiliates—from 22% to 30%.¹¹

By the end of 2014, there were more than 3,790 U.S. parent companies with more than 32,000 foreign affiliates, as indicated in Table 3. In comparison, foreign firms had over 6,600 affiliates operating in the United States. U.S. parent companies employed over 26 million workers in the United States, compared with the 13.8 million workers employed abroad by U.S. firms and more than 6.6 million persons employed in the United States by foreign firms. Although the U.S.-based affiliates of foreign firms employ fewer workers than do the foreign affiliates of U.S. firms, they paid nearly 80% more in aggregate employee compensation in the United States than did the foreign affiliates of U.S. parent companies.

The data also suggest that U.S. parent companies are more efficient than either the U.S. affiliates of U.S. firms or foreign firms operating in the United States, with higher output per employee. Foreign firms operating in the United States are more capital intensive relative to employment than U.S. parent firms or U.S. affiliates, likely reflecting the newer age of the capital stock of the foreign firms. The U.S. affiliates of foreign companies, however, had one-quarter higher average value of gross output than did the foreign affiliates of U.S. firms operating abroad. The foreign affiliates of U.S. firms, however, had total sales that were about 70% higher than those of the U.S. affiliates of foreign firms. The foreign affiliates of U.S. firms, however, paid about twice as much in taxes to foreign governments than did the affiliates of foreign firms operating in the United States. The overseas affiliates of U.S. parent companies also paid more than twice as much in taxes in relative terms than did U.S. parent companies and foreign-owned affiliates operating in the United States.

Table 3. Select Data on U.S. Multinational Companies and on Foreign Firms Operating in the United States, 2014
(amounts in millions of dollars)

	U.S. Multinational Companies		U.S. Affiliates of Foreign Firms
	Parent Companies	Foreign Affiliates	
Number of firms	3,790	32,763	5,837
Employment (thousands)	26,560	13,802	6,649
Employee compensation	\$2,047,871	\$621,681	\$547,370
Gross product	\$3,810,265	\$1,487,038	\$869,069
Total assets	\$37,901,568	\$25,002,281	\$14,699,556

¹⁰ Mataloni, Raymond J. Jr. U.S. Multinational Companies: Operations in 2003. *Survey of Current Business*, July 2005. p. 15.

¹¹ *Ibid.*, p. 31.

	U.S. Multinational Companies		U.S. Affiliates of Foreign Firms
	Parent Companies	Foreign Affiliates	
Sales	\$12,606,892	\$6,421,653	\$4,377,248
Taxes	\$330,161	\$137,818	\$61,626
R&D Expenditures	\$268,787	\$52,174	\$56,904

Source: U.S. Direct Investment Abroad: Operations of U.S. Parent Companies and Their Foreign Affiliates, Preliminary 2014 Estimates; and Foreign Direct Investment in the United States: Operations of U.S. Affiliates of Foreign Companies, Preliminary 2014 Estimates, Bureau of Economic Analysis, 2016.

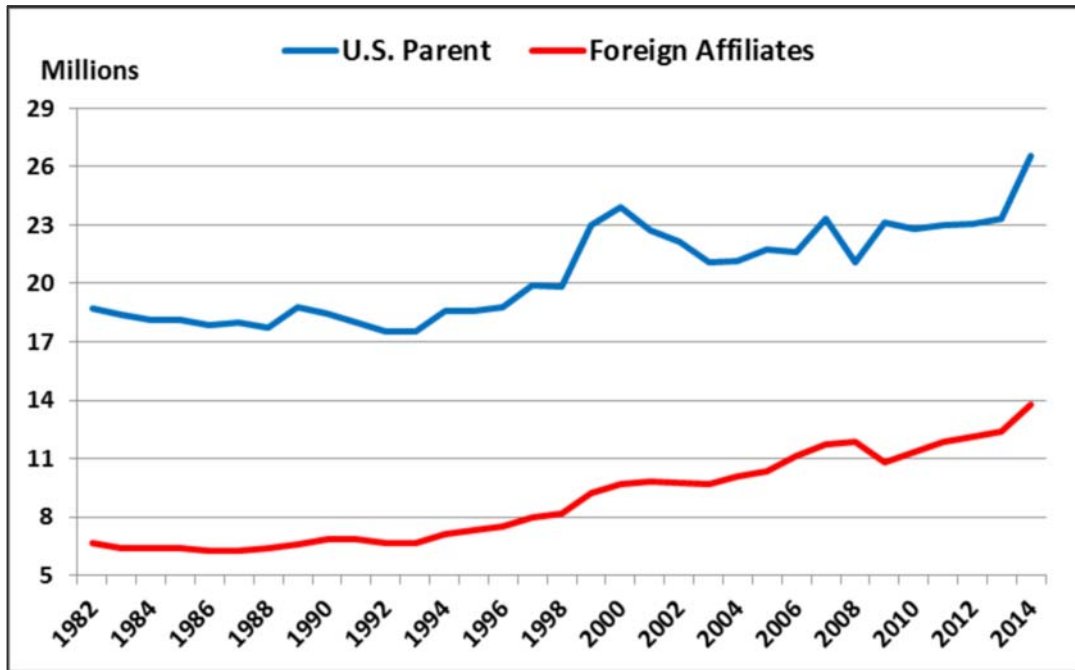
Employment

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

Employment among U.S. parent companies fell during the early 1980s, but increased in the 1992-2000 period, from 17.5 million to 23.9 million. From 2000 to 2003, however, employment among U.S. parent companies fell by 12% to 21.1 million, reflecting the economic downturn at the time, but then rose after 2003 to reach 22 million in 2007. Employment fell again in 2008 to 21 million as the rate of U.S. economic growth slowed. In 2014, employment among U.S. parent companies expanded by nearly 14% over that in 2013 to reach 26.6 million, as indicated in Figure 9. During this period, employment among the foreign affiliates of U.S. firms rose to 13.8 million in 2014, accounting for 34.4% of total U.S. multinational company employment, up from 29% in 2000.

During economic downturns, U.S. parent firms and their foreign affiliates have gained or lost employment in many of the same industries, reflecting the growing interconnected nature of the global and U.S. economies. Such interconnections also complicate efforts to establish major trends in outsourcing. During recent economic downturns, both U.S. parent firms and their foreign affiliates lost employment in the petroleum and finance sectors, although both gained employment in the services and wholesale trade sectors. Furthermore, employment gains and losses among MNCs more likely reflect fundamental shifts within the U.S. economy than any formal or informal efforts to shift employment abroad.

Figure 9. Employment of U.S. Parent Firms and Their Foreign Affiliates, 1982-2014
(in millions of employees)

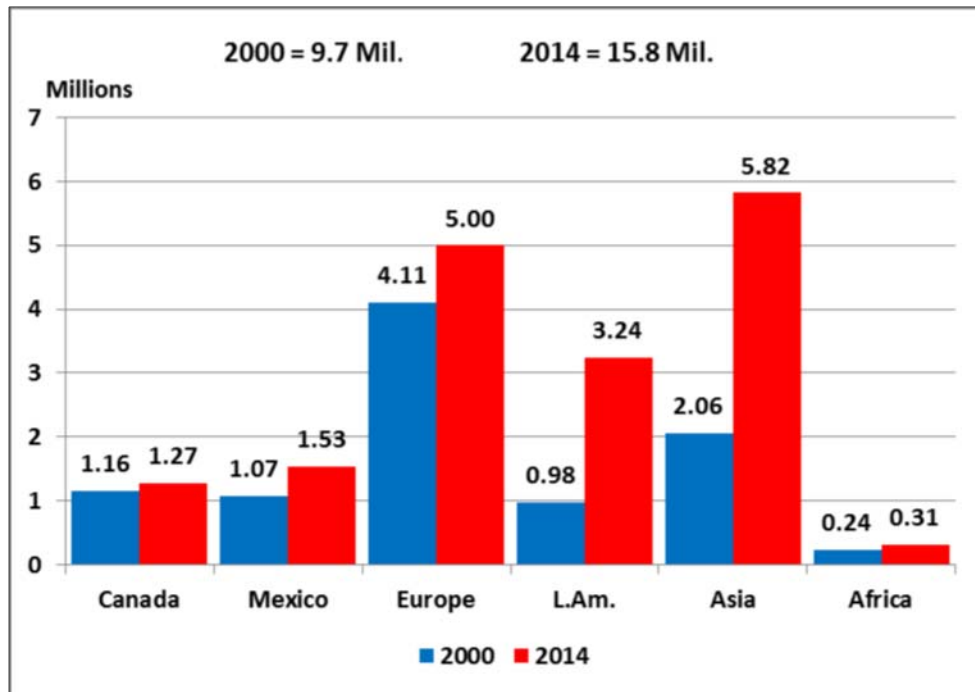


Source: Department of Commerce.

Employment trends among foreign affiliates also reflect growing trade links between the United States and other areas, particularly Asia, as indicated in Figure 10. Between 2000 and 2014, employment among the foreign affiliates of U.S. parent firms tripled in Latin America, and nearly tripled among affiliates located in Asia, particularly in China. In other geographical regions, employment gains were less robust. Affiliates in Europe, for instance, which had been the largest employer, fell to second place behind affiliates in Asia. In addition, affiliates in Canada and Mexico experienced relatively modest increases in employment.

Figure 10. Employment of Foreign Affiliates by Major Region or Country, 2000 and 2014

(in millions of employees)



Source: Department of Commerce.

Conclusions

American direct investment abroad has grown sharply since the mid-1990s, raising questions for many observers about the effects of such investment on the U.S. economy. These questions seem pertinent since American multinational corporations lost shares of U.S. GDP over the last decade and their domestic employment had declined until the mid-1990s. Increased economic activity abroad relative to that in the United States increased overseas affiliate employment in some industries, including manufacturing. Most of this affiliate activity, however, is geared toward supplying the local markets.

Some observers believe U.S. direct investment abroad is harmful to U.S. workers because it shifts jobs abroad. There is no conclusive evidence in the data collected to date to indicate that current investment trends are substantially different from those of previous periods or that jobs are moving offshore at a rate that is significantly different from previous periods.¹² There are instances when firms shift activities abroad to take advantage of lower labor costs. However, it is clear from the data that the majority of U.S. direct investment abroad is in developed countries where wages, markets, industries, and consumers' tastes are similar to those in the United States. U.S. direct investment in these developed countries is oriented toward serving the markets where the affiliates are located and they tend, in the aggregate, to boost exports from the United States. In addition, foreign firms have been pouring record amounts of money into the United States to

¹² CRS Report RL32461, *Outsourcing and Insourcing Jobs in the U.S. Economy: Evidence Based on Foreign Investment Data*, by James K. Jackson.

acquire existing U.S. firms, to expand existing subsidiaries, or to establish “greenfield” or new investments. In the 114th and 115th Congresses, Members of Congress expressed concerns about U.S. direct investment abroad through measures that would offer certain tax advantages to U.S. firms that shifted parts of their operations back to the United States and through measures that are directed at curbing tax havens and tax inversions and other practices that shift taxes from the United States to foreign locations.¹³

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¹³ See CRS Report RL34115, *Reform of U.S. International Taxation: Alternatives*, by Jane G. Gravelle, and CRS Report R40623, *Tax Havens: International Tax Avoidance and Evasion*, by Jane G. Gravelle.