

Foreign Investors' Spending to Acquire or Establish U.S. Businesses
Increased Sharply to \$283 Billion in 1999

Foreign investors' spending to acquire or establish U.S. businesses increased 31 percent to a record \$282.9 billion in 1999 after tripling to \$215.3 billion in 1998, according to preliminary estimates by the Commerce Department's Bureau of Economic Analysis. Prior to 1998, foreign investors' spending for new U.S. investments, which includes both outlays made directly by foreign investors and outlays made through their existing U.S. affiliates, never exceeded \$80.0 billion.

The exceptionally high outlays in the last 2 years reflect a worldwide boom in merger and acquisition activity, the continuing strength of the U.S. economy, and the increasing number and size of large investments. In both years, investments involving outlays of \$2 billion or more accounted for over 65 percent of total outlays. In contrast, in the previous 6 years, investments of this size had never accounted for more than 30 percent of total outlays.

The increases in both 1998 and 1999 partly reflected sharp increases in investments by British investors, whose outlays in both years (as in most recent years) were larger than those of any other country.

Some of the largest investments in 1999 were the acquisitions of companies in communications-related industries, where deregulation and rapid technological change have spurred growth and provided incentives for business combinations. In 1999, foreign firms acquired several major U.S. companies that were involved in telecommunications services, Internet-based information services, and the manufacturing of fiber optic, Internet, and other communications equipment.

In 1999, as in 1998, several of the largest acquisitions involved exchanges of stock. In these exchanges, the shareholders in the acquired U.S. companies received stock in the foreign parent companies as partial or total payment for the acquisitions.

By type of investment and type of investor

Outlays to acquire existing U.S. companies, rather than to establish new U.S. companies, accounted for \$276.5 billion, or 98 percent of total outlays in 1999, well above the 82-percent average for the preceding 5 years. Over half of the outlays were

made by existing U.S. affiliates (\$154.3 billion) rather than by foreign direct investors themselves (\$128.6 billion); however some of the outlays by existing affiliates were financed with funds provided to them by their foreign parents.

By source of funding

Outlays financed by funds supplied by new or existing foreign parents, rather than by existing U.S. affiliates, increased to \$226.9 billion in 1999 from \$159.4 billion in 1998. These outlays are part of overall capital inflows for foreign direct investment in the United States (FDIUS) as recorded in the financial account of the U.S. international transactions accounts, and they contributed to an increase in FDIUS capital inflows to \$282.5 billion in 1999 from \$193.4 billion in 1998. (In addition to outlays from foreign parents to acquire or establish new U.S. affiliates, capital inflows for FDIUS include foreign parents' financing of their existing U.S. affiliates. The estimates of capital inflows for FDIUS are preliminary.)

By industry and by area and country

By industry, outlays increased sharply in information, particularly in telecommunications, in finance (except depository institutions) and insurance, and in depository institutions. Outlays decreased sharply in manufacturing, primarily because total outlays for 1998 included exceptionally large investments in petroleum and coal products manufacturing and in motor vehicle manufacturing. Within manufacturing, outlays in 1999 were substantial in computers and electronic products, particularly in semiconductors and other electronic components, and in communications equipment. (See note on new industry classifications.)

By country of ultimate beneficial owner (UBO), investors in Europe -- mainly the United Kingdom and France-- accounted for most of the increase in outlays in 1999; European investors accounted for more than 70 percent of total outlays in both years. Outlays by investors in "Latin America and Other Western Hemisphere" -- mainly Bermuda -- and in "Asia and Pacific" -- mainly Japan -- also increased in 1999, but the share of these areas in total outlays was comparatively small -- 12 percent and 4 percent, respectively.

Selected operating data

U.S. businesses that were newly acquired or established by foreign investors in 1999 had total assets of \$454.4 billion, compared with \$274.3 billion for those acquired or established in 1998. They employed 648,000 people, up from 625,000.

The 1998 estimate of total outlays has been revised up 7 percent from the preliminary estimate published last year.

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Estimates in this report are based upon a Bureau of Economic Analysis survey that covers (1) existing U.S. business enterprises in which foreign investors acquired, either directly or through their U.S. affiliates, at least a 10-percent ownership interest and (2) new U.S. business enterprises established by foreign investors or their U.S. affiliates, also using the 10-percent ownership interest threshold. The 1998 and 1999 estimates cover all newly acquired or established business enterprises. Estimates for years prior to 1998 cover newly acquired or established business enterprises with total assets of over \$1 million or ownership of at least 81 hectares (200 acres) of U.S. land. Values for the small investments that were not covered prior to 1998 were negligible and the estimates for 1998 and 1999 are therefore comparable with those for the earlier years.

Additional details on the new investments by foreign investors in 1999 will appear in the June issue of the Survey of Current Business, the monthly journal of the Bureau of Economic Analysis. The preliminary estimates for capital inflows for foreign direct investment in the United States were published in Christopher L. Bach, "U.S. International Transactions: Fourth Quarter and Year 1999," Survey 80 (April 2000): 146-192. Revised estimates will be released on June 20 and published in greater detail in the July issue of the Survey.

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Note on new industry classifications

The 1998 and 1999 estimates by industry reflect two changes in industry classification. First, the estimates are based on classifications derived from the new North American Industry Classification System (NAICS); the estimates for the preceding years are based on classifications derived from the Standard Industrial Classification (SIC) system. Second, petroleum is no longer treated as a separate major industry; instead, the various petroleum-related activities are distributed among the major NAICS industry groups to which they belong.

To help assess the impact of these changes, estimates for 1998 are presented on both the new (table 3A) and the old (table 3B) bases. The share of total outlays accounted for by manufacturing in 1998 is much larger in table 3A than in table 3B because petroleum and coal products manufacturing is classified in manufacturing in table 3A but in the special industry group "petroleum" in table 3B. Because investment in petroleum and coal product manufacturing was insignificant in 1999, the change in treatment of petroleum-related activities has virtually no effect on the total for manufacturing for that year.

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Table 1.--Investment Outlays by Type of Investment and Investor, 1992-99

[Millions of dollars]

	1992	1993	1994	1995	1996	1997	1998/r/	1999/p/
Total outlays	15,333	26,229	45,626	57,195	79,929	69,708	215,256	282,946
By type of investment:								
U.S. businesses acquired	10,616	21,761	38,753	47,179	68,733	60,733	182,357	276,489
U.S. businesses established	4,718	4,468	6,873	10,016	11,196	8,974	32,899	6,457
By type of investor:								
Foreign direct investors	4,058	6,720	13,628	11,927	32,230	13,899	120,828	128,569
U.S. affiliates	11,275	19,509	31,999	45,268	47,699	55,809	94,428	154,377

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Table 2.--Share of Total Outlays by Size of Investment, 1992-99

(Percent)

	1992	1993	1994	1995	1996	1997	1998/r/	1999/p/
Total outlays.....	100	100	100	100	100	100	100	100
\$5 billion or more	0	0	0	(D)	0	0	55	53
\$2 billion - \$4.9 billion	0	(D)	27	18	29	12	11	16
\$100 million - \$1.9 billion ..	42	51	51	48	55	67	27	26
Less than \$100 million	58	(D)	22	(D)	16	21	7	5

D Suppressed to avoid disclosure of data of individual companies.

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Table 3A.--Investment Outlays by NAICS-Based Industry of U.S. Business Enterprise, 1998-99

[Millions of dollars]

	1998/r/	1999/p/
All industries	215,256	282,946
Manufacturing	149,243	74,195
Food	1,286	869
Beverages and tobacco products.....	442	1,501
Petroleum and coal products.....	67,658	(D)
Chemicals	3,627	5,425
Plastics and rubber products.....	1,434	3,682
Nonmetallic mineral products.....	900	2,233
Primary metals.....	2,454	1,751
Fabricated metal products.....	532	1,196
Machinery	5,220	14,900
Computers and electronic products	17,861	32,376
Electrical equipment, appliances, and components	136	4,415
Transportation equipment	37,177	(D)
Other	10,516	2,959
Wholesale trade	3,321	1,030
Retail trade	1,153	4,564
Information	13,399	93,475
Publishing industries	9,856	(D)
Motion pictures and sound recording industries	36	3
Broadcasting and telecommunications	2,841	80,073
Information services and data processing services	667	(D)
Depository institutions	1,563	11,845
Finance (except depository institutions) and insurance	21,057	47,023
Real estate and rental and leasing	6,299	5,689
Professional, scientific, and technical services	4,289	11,355
Other industries	14,932	33,771

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NAICS North American Industry Classification System

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

Table 3B.--Investment Outlays by SIC-Based Industry of U.S. Business Enterprise, 1992-98

[Millions of dollars]

	1992	1993	1994	1995	1996	1997	1998/r/
All industries	15,333	26,229	45,626	57,195	79,929	69,708	215,256
Petroleum	463	882	469	1,520	1,059	762	(D)
Manufacturing	6,014	11,090	21,218	26,643	27,835	19,603	89,739
Food and kindred products	404	1,294	4,567	3,802	1,145	1,949	1,728
Chemicals and allied products	1,644	5,035	6,905	12,511	3,961	4,539	3,604
Primary and fabricated metals	1,187	1,297	1,485	547	3,222	1,327	2,978
Machinery	1,002	1,778	1,867	4,489	4,355	4,788	21,495
Other manufacturing	1,778	1,686	6,393	5,293	15,151	7,000	59,934
Wholesale trade	698	837	2,156	1,168	4,746	2,612	3,266
Retail trade	256	1,495	1,542	2,838	2,988	435	1,938
Depository institutions	529	958	2,026	2,301	1,944	3,547	1,563
Finance, except depository institutions	797	1,599	2,195	7,837	8,676	7,019	16,607
Insurance	291	1,105	450	654	4,688	8,526	4,709
Real estate	2,161	1,883	2,647	2,996	4,175	4,119	6,144
Services	2,023	4,162	7,163	5,881	15,292	12,187	10,099
Other industries	2,101	2,218	5,760	5,359	8,528	10,898	(D)

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SIC Standard Industrial Classification

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

Table 4.--Investment Outlays by Country of Ultimate Beneficial Owner, 1992-99 /1/

[Millions of dollars]

	1992	1993	1994	1995	1996	1997	1998 /r/	1999 /p/
All countries	15,333	26,229	45,626	57,195	79,929	69,708	215,256	282,946
Canada	1,351	3,797	4,128	8,029	9,700	11,755	22,635	11,388
Europe	8,344	16,845	31,920	38,195	49,427	44,014	170,173	205,150
France	406	1,249	1,404	1,129	6,021	2,578	14,493	24,579
Germany	1,964	2,841	3,328	13,117	12,858	6,464	39,873	24,393
Netherlands	1,331	2,074	1,537	1,061	6,476	10,244	19,009	26,896
Switzerland	1,259	804	5,044	7,533	4,910	6,745	4,525	7,119
United Kingdom	2,255	8,238	17,261	9,094	14,757	11,834	84,995	110,115
Other Europe	1,129	1,639	3,346	6,261	4,405	6,149	7,278	12,048
Latin America and Other Western Hemisphere ...	1,438	874	1,352	1,550	1,790	924	11,354	34,013
South and Central America	1,152	527	(D)	1,283	(D)	166	920	1,377
Other Western Hemisphere	286	347	(D)	267	(D)	758	10,433	32,636
Africa	(D)	(D)	(D)	(D)	(D)	(D)	212	(D)
Middle East	238	1,308	(D)	447	(D)	847	2,810	546
Asia and Pacific	3,716	3,004	5,263	8,688	12,751	11,786	7,329	11,502
Australia	164	129	1,522	2,270	2,222	7,600	(D)	(D)
Japan	2,921	2,065	2,715	3,602	8,813	2,326	4,862	8,048
Other Asia and Pacific	631	810	1,026	2,816	1,716	1,860	(D)	(D)
United States /2/	(D)	(D)	201	(D)	(D)	(D)	743	(D)

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1. For investments in which more than one investor participated, each investor and each investor's outlays are classified by country of each ultimate beneficial owner.

2. The ultimate beneficial owner (UBO) is the first person in the ownership chain of the acquired or established U.S. business, beginning with the foreign parent, that is not owned more than 50 percent by another person. The foreign parent is the first foreign person in the ownership chain. The country of UBO is often the same as that of the foreign parent, but it may be a different foreign country or the United States.

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

Table 5.--Selected Operating Data of U.S. Business Enterprises Acquired or Established,
by NAICS-Based Industry of U.S. Business Enterprise, 1998-99

	1998/r/					1999/p/				
	Millions of dollars			Thousands of employees	Number of hectares of land owned /1/	Millions of dollars			Thousands of employees	Number of hectares of land owned /1/
	Total assets	Sales	Net Income			Total assets	Sales	Net Income		
All industries	274,349	164,904	4,623	624.6	134,953	454,394	130,610	2,573	647.8	249,567
Manufacturing	133,693	120,184	3,605	288.0	78,013	70,342	41,718	299	211.1	84,889
Wholesale trade	4,445	7,731	180	12.2	172	1,660	4,039	-23	11.6	(D)
Retail trade	1,355	2,443	66	14.4	64	5,317	14,150	20	91.5	(D)
Information	15,599	6,398	-473	30.7	122	39,674	11,857	89	49.1	47
Depository institutions	11,382	1,035	69	H	43	119,832	10,877	20	12.6	(D)
Finance (except depository institutions) and insurance ..	72,579	8,005	971	14.1	263	166,239	15,480	1,975	30.2	1,044
Real estate and rental and leasing	14,289	1,596	375	H	7,789	7,056	1,411	124	6.0	3,456
Professional, scientific, and technical services	6,389	3,467	-385	31.3	317	5,360	5,078	-313	35.8	(D)
Other industries	14,618	14,044	215	225.7	48,166	38,915	26,000	381	199.9	158,030

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1. One hectare equals 2.471 acres. Thus, for all industries, the number of acres of land owned in 1998 and 1999 were 333,469 and 616,680, respectively.

NOTES.--For newly acquired businesses, data cover the most recently completed financial reporting year. For newly established businesses, data are projections for the first full year of operations.

Size ranges are given in employment cells that are suppressed. The size ranges are: A--1 to 499; F--500 to 999; G--1,000 to 2,499; H--2,500 to 4,999; I--5,000 to 9,999; J--10,000 to 24,999; K--25,000 to 49,999; L--50,000 to 99,999; M--100,000 or more.

NAICS North American Industry Classification System

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