

Research Spotlight

Experimental Statistics for U.S. Direct Investment Abroad

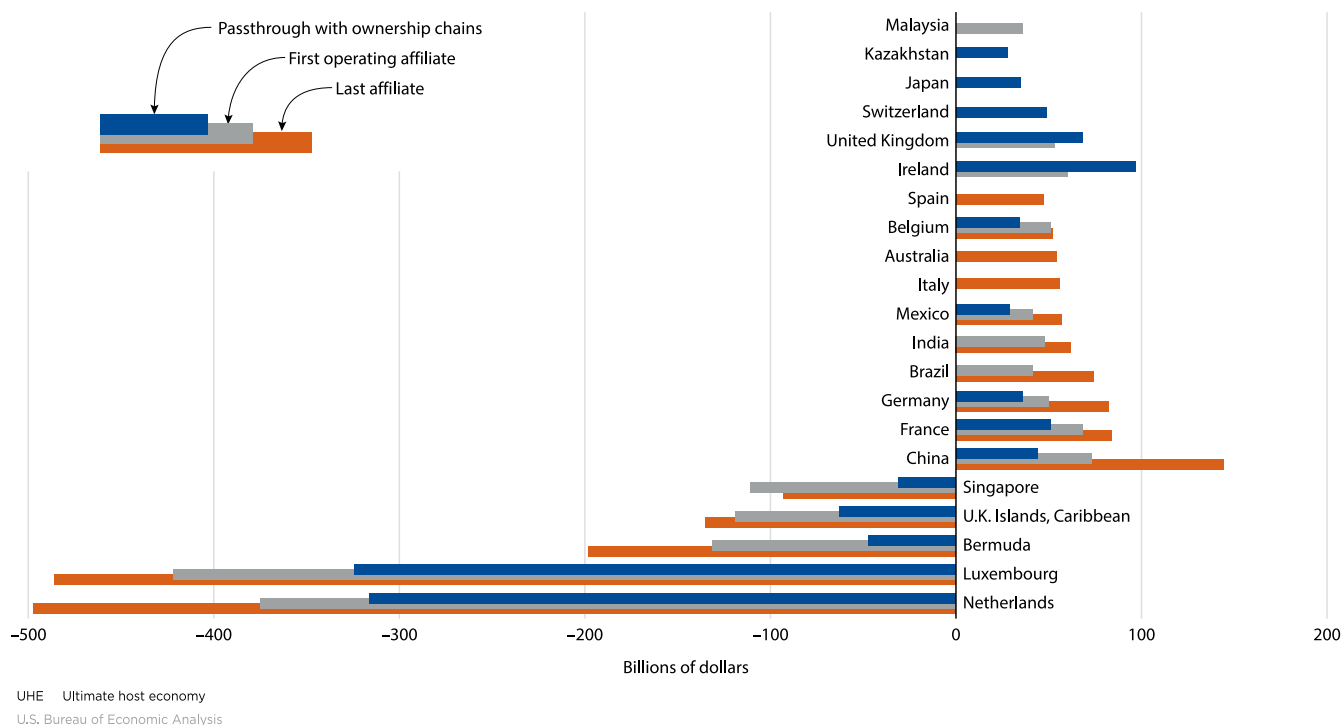
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The U.S. Bureau of Economic Analysis (BEA), in accordance with international guidelines, compiles and presents statistics on bilateral U.S. direct investment abroad on the basis of immediate partner economy, the economy where the first entity in the ownership chain outside of the United States is located. This approach is well suited for many purposes but can lead to difficulty in interpreting direct investment statistics, particularly in identifying the economies that are the ultimate destinations, or hosts, of direct investment. A [working paper](#) by BEA economists Kirsten Brew, Jessica Hanson, Ricardo Limes, Ryan Smith, and Larkin Terrie describes BEA's initial effort to produce U.S. direct investment abroad statistics on the basis of ultimate host economy (UHE).

On the immediate partner economy basis, U.S. direct investment abroad is highly concentrated. As of 2019, the top 14 host countries accounted for over 80 percent of the total investment position. The primary reason for this concentration is the complex organizational structures created by multinational enterprises (MNEs) to maximize worldwide profits. For example, MNEs often create holding companies and other special purpose entities to take advantage of different tax or regulatory regimes and channel investments to other countries.

One result of these complex ownership structures is that outward direct investment statistics may not reflect where foreign affiliates of U.S. MNEs produce and sell goods and services. Bilateral outward direct investment statistics reflect the industries and countries of the foreign affiliates with which the U.S. parent companies have direct transactions and positions, but these industries and countries do not represent the full range and distribution of the industries and countries of the affiliates whose operations the U.S. parents ultimately own or control.

UHE Results: Changes in Equity Position by Method for Selected Countries



The working paper describes the production of statistics on equity position by UHE. Six different methods are used to reallocate the equity position from an immediate to an ultimate host economy basis. The methods are implemented using direct investment data reported on BEA's Quarterly Survey of U.S. Direct Investment Abroad and activities of multinational enterprises data reported on BEA's Benchmark Survey of U.S. Direct Investment Abroad. The paper concludes that three of the six methods merit further exploration and presents summary country- and sector-level results for the selected methods. The country-level results presented in the working paper show, for all three selected methods, a shift in U.S. MNEs' equity position abroad away from countries with advantageous tax or regulatory regimes toward countries where the foreign affiliates of U.S. MNEs account for higher value added, or their contribution to the host economy gross domestic product is higher.

This *Research Spotlight* was prepared by *Survey of Current Business* staff. It uses language from the working paper "Experimental Ultimate Host Economy Statistics for U.S. Direct Investment Abroad" by Kirsten Brew, Jessica Hanson, Ricardo Limés, Ryan Smith, and Larkin Terrie, published in October 2023. [The working paper is available in full on the BEA website.](#)

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