# Trends in Foreign Direct Investment 5

hrough foreign direct investment (FDI), individuals or corporations obtain partial or total ownership of firms located in another country. 'FDI can take many forms and can be directed at diverse sectors of the economy. At the level of the firm, it often means the establishment or acquisition of a foreign affiliated company. With foreign ownership comes the assumption of foreign interest and influence over the operations of the enterprise in question. Ul timately, FDI is what differentiates a multinational enterprise from a local or nationally oriented firm.

Since the 1980s, the global pattern of foreign direct investment has changed significantly. The following sections describe and analyze changes in the global distribution of FDI, in foreign direct investment in the United States (FDIUS), and in the composition and volume of FDI across the United States, Europe, and Japan.

<sup>&</sup>lt;sup>I</sup>Foreign direct investment, according to the International Monetary Fund, "refers to investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise." IMF definition cited in D. Julius, *Global Companies and Public Policy: The Growing Challenge of Foreign Direct Investment* (London, UK: Royal Institute of International Affairs, 1990), p. 15. Foreign direct investment in the United States has a specific legal meaning. It is defined by the International Investment and Trade in Services Act as [he ownership by a foreign person or corporation of 10 percent or more of the voting equity of a firm located in the United States. See U.S. Congress, Office of Technology Assessment, *Multinationals and the National Interest: Playing by Different Rules*, OTA-ITE-569 (Washington, DC: U.S. Government Printing Office, September 1993), p. 47. FDI is distinct from portfolio investment, which is passive in nature.



## GLOBAL TRENDS IN INWARD AND OUTWARD INVESTMENT

Since 1980 the world stock of inward direct investment has increased dramatically, from \$491 billion to nearly \$2.0 trillion by 1992.<sup>2</sup> With the exception of the United States, the distribution of inward direct investment across the major advanced industrial states has been relatively stable during this time: Europe accounted for about 37 percent in the early 1980s and early 1990s, and Japan for less than 1 percent in both periods, while the U.S. percentage grew from 16.4 to 22 percent.<sup>3</sup>

The rate of growth in inward direct investment in the United States, however, was not as large as foreign investment in East Asia, which more than doubled, rising from 6.2 to 13.6 percent. As a result, that region now attracts a larger share of world inward investment than traditionally large recipients of foreign investment such as the United Kingdom. OTA interviews with senior executives of numerous Japanese, European, and U.S. MNEs suggest that both the absolute and relative amounts of foreign investment in East Asia will grow significantly during the next decade. However, although many business leaders forecast major investment in the region, to date the U.S. investment position is relatively small: in 1993, the U.S. direct investment position in China

was \$877 million; in Thailand it was \$2.9 billion, \$3.0 billion in the Republic of Korea, \$3.1 billion in Taiwan, and \$10.5 billion in Hong Kong.<sup>4</sup>

Over the past decade, inward investment flows to the major industrialized economies have fluctuated less than outward flows, with the exception of the rapid decline in inward investment to the United States after 1989 (see figures 5-1 and 5-2). Outward U.S. investment increased steadily throughout most of the 1980s and early 1990s, although it declined substantially in 1988 and 1990.

Investment flows for Germany and Japan have been quite different than those for the United States. For both countries, outward investment increased rapidly throughout most of the period, but then declined substantially after 1988 for Germany and after 1990 for Japan. In terms of inward investment, both Japan and Germany consistently have remained comparatively low. The contrast between inward and outward investment was particularly strong for Japan in the late 1980s, when its outward flows were 4 to 5 times greater than its inward flows. Figure 5-3 charts Japan's inward and outward direct investment flows with the U.S. and Europe from 1986 to 1992.5

Japan and Germany are exceptions among the advanced industrial economies in that, during the 1980s, they became relatively more permeated by trade than by investment. OECD data indicate

<sup>&</sup>lt;sup>2</sup> U.S. Department of Commerce, International Trade Administration, International Direct Investment: Global Trends and the U.S. Role, 1988 edition (Washington, DC: U.S. Government Printing Office), table 2 p. 90; and United Nations, World Investment Report 1993: Transna - tional Corporations and Integrated International Production (NY: United Nations, 1993), table I. 1 p. 14. Inward investment refers to the flows of foreign direct investment into a given country. Outward investment refers to the flows of direct investment abroad from a given country. In principle, world inflows and outflows should balance. In practice, however, they often do not (as is the case with other balance-of-payments items). Reasons for the discrepancy between total inflows and outflows of investment include cross-national differences in accounting for unremitted branch profits, capital gains and losses, reinvested earnings, real estate and construction investment, and the transactions of offshore enterprises.

<sup>&</sup>lt;sup>3</sup> organisation for Economic Co-operation and Development(OECD), Directorate for Science, Technology, and Industry, *Globalization of Industrial Activities: Background Synthesis Report* (Paris, France: OECD, 1993), p. 54, table 9.

<sup>&</sup>lt;sup>4</sup>U.S. Department of Commerce, Economics and Statistics Administration, Bureau of Economic Analysis, *United States Department of Commerce News* (Washington, DC: June 28, 1994), table 2. All figures are on a historical cost basis at year end.

<sup>&</sup>lt;sup>5</sup>Ministry of Finance of Japan, Zaisei Kin'yu Tokei Geppo No. 452, December 1989, No. 476, December 1991, and No. 500, December 1993. Ministry of Finance data on inward investment is slightly higher than that provided by the OECD, which shows negative flows during some years in the 1980s; see figure 5- I above and OECD, International Direct Investment Policies and 'Trends in the 1980s (Paris, France: OECD, 1992), table 3.



NOTE Reinvested earnings are not included in some national data The source is one of a series with similar appendix data tables on OECD investment flows

SOURCE Organisation for Economic Co-operation and Development OECD Reviews of Foreign Direct Investment Ireland 1994 (Paris OECD 1994), p 68, table 1 (hereafter cited as OECD, Reviews of FDI)



## FIGURE 5-2: Outward Direct Investment Flows of Selected Countries, 1981-1992 (current dollars)

NOTE Reinvested earnings are not included in some national data The source is one of a series with similar appendix data tables on OECD investment flows

SOURCE OECD, Reviews of FDI, p 70 table 3



SOURCE: OTA, based on data from Ministry of Finance of Japan, Zaisei Kinyu Tokei Geppo vol. 452 (December 1989) 26-29, vol. 476 (December 1991) 30-35, and vol. 500 (December 1993) 28-30, 78-79

that, among the major industrialized countries, only Japan and Germany became more penetrated by imports than by FDI during the 1980s.<sup>6</sup> Both of these countries emphasized trade rather than FDI reform in the 1980s, and both began from a starting point where barriers to investment exceeded barriers to trade. For instance, Japan—starting from a highly protected base—liberalized its trade barriers and, to a lesser degree, its barriers to investment.<sup>7</sup>

Other indicators are consistent with this distinction between those OECD countries whose proportion of inward investment increased greatly or was already high, and those that remained low or declined further. Table 5-1, for example, shows changes in manufacturing employment by foreign affiliates in the major industrialized countries. Between 1980 and 1990, manufacturing employment by foreign affiliates expanded from 1.1 to 2.2 million in the United States and from 677 to 775 thousand in the United Kingdom; by contrast, it fell from 779 to 617 thousand in Germany and from 178 to 145 thousand in Japan.

<sup>6</sup> Austria and Canada are the only other countries with a similar trend during the 1980s, although both are already far more penetrated by FDI than are Germany or Japan. OECD, Economic Analysis and Statistics Division, Directorate for Science, Technology and Industry, *Performance of Foreign Affiliates in OECD Countries* (Paris, France: OECD, forthcoming), pp. 25,27, diagram 6. See figure 5-1 above for inward FDI flows of Japan and Germany.

<sup>7&</sup>lt;sub>In</sub> Japan, governmental efforts to improve the conditions for inward FDI often have been weakened by the bureaucracy. For example, a recent Keidanren report criticized the Office of Trade and investment Ombudsman (OTC), which handles foreign companies' and importers' complaints about impediments to inward FDI) because their filing claims take too long. In addition, bureaucratic barriers often provide needless constraints-for instance, tiling rules require the claimant to provide a comparison between Japanese and foreign regulations as well as a concrete improvement plan. See "Unsatisfied with the Capability of Handling Complaints: Keidanren Submits a Request for Improvements to OTO," *Nihon Keizai Shimbun*, Oct. 1 1, 1993, p. 3.

	TABLE 5-1: Manu	ifacturing Empl	oyment by F	oreign Subs	sidiaries in S	elected Cou	ntries, 1980	and 1990		
	Ċ	S.	Japa	E	Germ	lany	Fran	e	Ţ.	
Inductriae	1080	1990	1980	1990	1980	1990	1980	1990	1980	1990
Food, Beverages,	120 354	250 (JCC	020 m	3.455	48 000 000	35,000 35,000	n/a	م م	27,700	73,400
aria robacco Chemicals	307,079	21, 700 1, 700	5, 851	54,830	000 <i>G</i> <i>u</i>	. 19,000	1≣8,325	182,3(3	88,50 6	96,1~
Basic Metals	75,308	135,000	11,150	4,8,2	68,000	15,000	≡5,762	63,854	21:00	23.600
Electrical Machinery and Equipment	418,162	794,600	94,464	75,611	456,000	399, ∞	377,548	361,409	359,500	417,200
Other Manufacturing	184,057	405,800	13,577	6.013	52.000	49,000	n/a	n/a	149,800	64,800
Total Manufacturing	,104,960	2,197 · ∞	· 78,962	44,721	779,000	6.7,000	000 ±08	7*2,5:4	677,100	80L'G//
NOTE Total may be higher the	an sum of listed industr	ies because some	data could not t	je broken down	by industry; n/	a denotes not av	vailable.			
SOURCE: Adapted from Orga	nisation for Economic (	Co-operation and D	evelopment, Ec	onomic Analysi	s and Statistics	Division, Perforr	nance of	in Ol	ECD Countries	(Paris: OECD,
forthcoming), p. 82, table 3 of	pre-publication urait.									

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SOURCE: OTA, based on data from Ministry of Finance of Japan, Zaisei Kinyu Tokei Geppo vol. 452 26-29, vol. 476.30-35, and vol. 500 28-30

In absolute terms, U.S. affiliates in Japan employed fewer people in 1990 than their European counterparts. However, between 1980 and 1990 their portion of all manufacturing employment by foreign affiliates in Japan steadily increased, partly because U.S. affiliates shed jobs at a slower rate than did European affiliates.<sup>8</sup> Among all foreign affiliates in Japan, employment was reduced most dramatically in chemicals, the largest sector of employment for foreign investors, and in the auto industry, which experienced the greatest sectoral decline in employment by foreign investors in Japan.<sup>9</sup>Employment by U.S. affiliates in Japan fell in both of these sectors. The decrease in employment by foreign affiliates in Japan's automotive sector contrasts with the growth in employment by foreign affiliates in the U.S. automobile industry, which expanded from a nominal level to 53,000 in the same decade.

Although they started from a higher base, job losses among foreign investors in Germany were much larger than in Japan, with the loss of 162,000 manufacturing jobs. These losses were spread among a variety of sectors, with the heaviest in basic metals (53,000), chemicals (36,000) and electrical machinery and equipment (57,000)-all areas of traditional German industrial strength.

In terms of outward investment, the volume of FDI accelerated sharply after the 1985 Plaza Accord, which resulted in the appreciation of the yen. Japan's outward investment in the 1980s was almost the obverse of its inward investment. While Japan was the largest outward investor during this period, it received the smallest amount of inward investment. Japanese outward investment was distributed widely, with about half of the flow going to the United States, and smaller portions des-

<sup>&</sup>lt;sup>8</sup>See "Japan: Employment of Foreign Subsidiaries by Origin Country or Area," in OECD op. cit., footnote 6, Table 7, p. 38 <sup>9</sup>Employment fell to less than three thousand. Ibid., p.38.



NOTE: Reinvested earnings are not Included in some national data The source is one of a series with similar appendix data fables SOURCE Adapted from OECD, Reviews of *FDI*, p. 70 table 3

tined for Europe, Asia, and Oceana (see figure 5-4).

In 1992, the United States resumed its former position as the country with the largest flow of outward direct investment. Figure 5-5 shows the largest six direct investors' shares of total OECD outward investment from 1981 to 1992. Since the late 1980s, the share of OECD outward investment increased for the United States, France, Germany, and the Netherlands, while it decreased for Japan and the United Kingdom.

Figure 5-6 shows the share of OECD inward investment flows for the same six countries. For nearly the entire period, the United States, United Kingdom, and France received over 50 percent of the total OECD direct investment flows. However, the U.S. share has declined dramatically since its peak in 1984. The share of inward invest-

ment has increased for the United Kingdom, France, and the Netherlands, while it has fluctuated at a comparative] y low level for Germany and Japan.

While the recession slowed global foreign investment during the early 1990s, U.S. MNEs sustained their regional distribution of investment. As of 1993, Europe accounted for 49.1 percent of all U.S. direct investment abroad (USDIA), Latin America 18.6 percent, Canada 12.8 percent, and Japan 5.7 percent. The proportions for USDIA in manufacturing differed little, at 48.5 percent for Europe, 14.8 percent for Latin America, 17.1 percent for Canada, and 6.8 percent for Japan. <sup>11</sup> However, the destination of this investment is increasingly to Asia (excluding Japan). In 1993, Asia and the Pacific, minus Japan, accounted for

<sup>10</sup> U.S. Department of Commerce, Economics and Statistics Administration, Bureau of Economic Analysis, United States Department of Commerce News (Washington, DC: June 28, 1994), table 2. All figures are on a historical cost basis at year end.

<sup>&</sup>lt;sup>11</sup> Ibid.



FIGURE 5-6: Inward Direct Investment Flows as Percent Share of OECD Total, 1981-1992 (current dollars)

NOTE: Reinvested earnings are not Included in some national data The source is one of a series with similar appendix data tables SOURCE Adapted from OECD, Reviews of FDI, p. 68, table 1

**\$60.9** billion or 11.1 percent of all USDIA, and \$22.2 billion or 11.1 percent of all USDIA in manufacturing.

## EXPLAINING RECENT SHIFTS IN GLOBAL FDI

The majority of Japanese and EU outward investment between 1985 and 1989 went to the United States, which received more than 50 percent of all OECD investment. In the early 1990s, however, FDIUS slowed considerably due to the change in the value of the yen, the European need to finance Eastern European reconstruction, and a global recession. A number of European countries, especially Belgium, Portugal, Spain, Sweden, and the United Kingdom, had higher FDI growth rates than the United States in the early 1990s. East Asia also had a higher rate. '3 It could be that the United States is experiencing a cyclical decline in FDIUS. After a period of phenomenal growth, recessionary trends in the U.S. economy--combined with capital scarcity abroad--could have led foreign investors to limit or even reduce their investments in the United States. Different economies might operate on different recessionary and investment cycles. If this is the case, renewed economic growth should produce a return to vibrant growth rates in FDIUS.

Alternatively, the United States may be experiencing the effects of a structural change in the character of global FDI. The pressures of globalization may be forcing lasting shifts in the global distribution of FDI, since the imperatives of reducing labor costs and market customization require increased investment outside of the Triad. OTA interviews revealed a new emphasis on Asia

<sup>12</sup>Ibid. TotalUSDIA in the Asia and pacific region in 1993 was \$92.3 billion. Japan accounted for 34 percent, Australia for 20.0, HongKong for 11.3, and Singapore for 9.5 percent. Together, these four countries accounted for 74.9 percent of all USDIA to the region.

<sup>13</sup> OECD, op. cit., footnote 3, p. 19.

and Latin America as destinations for FDI by many of the world's leading corporations. This trend is corroborated by the figures on USDIA cited above, which continued to grow despite the U.S. recession of the early 1990s, as U.S. investors sought higher returns abroad. Investors based outside the United States are behaving in a similar fashion. For example, in 1988,67 percent of new Japanese direct investment went to the United States, but by 1992 that figure had fallen to 42 percent, as Japanese investors increasingly focused on Asian investments.<sup>14</sup>

A combination of economic and political pressures have encouraged MNEs from Germany, Japan, and the United States to pursue investment strategies that increasingly emphasize regions peripheral to the OECD. Investment is moving toward East Asia, Eastern Europe, and Latin America. There are several reasons for this shift:

- Changes in the rate of return on investment. The United States has become an increasingly mature market for foreign investors. When measured in terms of rate of return on investment, during the late 1980s the United States became less attractive for both existing and prospective foreign investors (see figure 5-7).
- 2. *Regional economic trends*. In Europe, the trade-expansion promise of the EU 1992 Initiative prompted increased direct investment in Europe during the late 1980s and early 1990s. In Asia, rapid national growth rates and increasing market liberalization also attracted FDI.
- 3 Wage costs at home. Growing labor costs have induced MNEs to move more production offshore, including the manufacture of high valueadded components. Doing so requires firms to seek locations with a relatively well-educated but lower-cost work force. This process is especially difficult for Japan and Germany, which now have the highest labor costs in the world. Japanese employers repeatedly told OTA that





NOTE: Rate of return on USDIA and FDIUS based on market value Rate of return for all U S businesses based on a weighted average of stock earnings and corporate bond yields

SOURCE U S Department of Commerce, Bureau of Economic Analysis, Survey of *Current Business* 72(8) 79, table 1, August 1992 (hereafter cited as BEA, SCB)

they were hesitant to reduce their labor force, despite the fact that only a small percentage of workers benefit from Japan's lifetime employment system. Although German employers are more willing to cut their labor force, they expressed both hesitancy to do so and an awareness that the comprehensive German welfare state system could not support higher unemployment at the present level of benefits. Executives in both countries expressed concern about the social effects of investing abroad, but noted that increased competition has heightened the pressure to reduce wages and benefits, which in turn has made regional investment more attractive. For example, Japanese manag-

<sup>14</sup>See article by Customs Bureau Staff, Japanese Ministry of Finance, "Changes in Japan's Trade Structure and Foreign Direct Investments," translated and reprinted in FBIS-EAS-94-021-A, Feb. 1, 1994, p. 6.

ers in the consumer electronics industry pointed to strong competitive pressures to move production facilities offshore, much as U.S. manufacturers did in the 1970s and early 1980s.

4. *The need for customization*. While mature OECD markets have experienced a sustained recession, there have been high growth rates and a strong demand for capital in East Asia and China, and to a much lesser extent in Eastern Europe and Latin America. The increased complexity of these markets, coupled with different standards and regulatory regimes in Asia, Europe, and North America, have created distinct regional markets.

Local rules, combined with increasingly diverse consumer demands in both intermediate and finished products, have promoted customization and local production. Executives across three continents repeatedly told OTA that "you have to be there, design there, and produce there to sell there." This is especially important for industries such as pharmaceuticals and information technology, where speed to market is a crucial aspect of competitiveness and proximity to consumers is often vital in order to meet their specific needs. <sup>15</sup>Indeed, most of the R&D conducted by foreign affiliates focuses on customizing products to meet local market conditions. <sup>16</sup>

At the same time, however, the regionalization of markets can lead to informal barriers. For example, representatives of one French electronics firm noted that varying regional standards required them to construct their products differently in some Asian markets. They felt that this problem created an informal market barrier and weakened their competiveness. They also expressed concern that the widespread adoption of Japanese standards throughout Asia could effectively exclude them from that regional market.

- 5. *The gradual diffusion of technological capa bilities.* Cutting-edge technological capabilities tend to remain concentrated in the major industrialized countries, while process technologies that serve the needs of most manufacturing industries have spread more widely. Nevertheless, there are now substantial software development facilities in Pakistan and India, and fabrication plants for sophisticated semiconductor components throughout Southeast Asia. Once the infrastructure for high technology development exists, it can become a magnet for additional investment.
- 6. Seeking political stability abroad. Many corporate officials suggested in interviews that they were encouraged to invest in order to promote political stability in neighboring areas. For instance, one executive stated that some German firms had come under ● 'moral and political pressure from their government" to invest in Eastern Europe and Russia. While official figures issued by the Ministry for Export and Investment show that the amount of German investment in Eastern Europe has been relatively small and contracting, several German executives suggested that these figures did not reveal the full extent of the commitment of German MNEs in Eastern Europe because so many investors were either asked to pay only a nominal price for existing facilities or those facilities were given to them.

This focus on political stability was much less evident in the case of Japanese and U.S. firms. However, some Japanese business leaders expressed concern that their foreign investments might lead to accusations of predatory behavior and, perhaps, generate a backlash against them. And some in the U.S. have argued that U.S. investment in Mexico should be encouraged partly because it could help reduce illegal immigration.

IS See OECD, op. cit., footnote 3, p. 28.

<sup>16</sup> See chapter 4 for a discussion of R&D within multinational firms.

In addition to directing new investment to non-OECD countries, MNEs based in the Triad have begun to emphasize strategic alliances and joint ventures rather than rely on traditional investments.

### MERGERS AND ACQUISITIONS, STRATEGIC ALLIANCES, AND JOINT VENTURES

After a sustained rise throughout the 1980s, the global trend toward increasing international mergers and acquisitions (M&As) fell in 1990 and 1991. In 1989, the global flow of M&A investment was \$130.6 billion; in 1990 the flow fell to \$117.8 billion before more than halving in 1991 to \$51.9 billion. The greatest percentage decline was in North America, where the dollar value of M&As for 1991 fell to just over one-third of the amount for 1990. For the first time in many years, the value of M&As in the European Union exceeded those in North America (by \$10 billion in 1990 and \$21 billion in 1991).<sup>17</sup> In 1990, both the United Kingdom and France spent more on crossborder acquisitions than did the United States as they sought to expand from being national players to being European or global players through a strategy of foreign investment.

In the early 1990s, strategic alliances and joint ventures became relatively more popular than M&As as an investment strategy among MNEs. There appear to be four primary reasons for this change:

- 1. Global recession. Much of the downturn in demand for M&As was prompted by a global recession that reduced the financial abilities of firms to invest directly. The recession instead encouraged participation in strategic alliances and joint ventures, which are less expensive in terms of immediate capital requirements and allow for greater flexibility, although perhaps at a cost to corporate autonomy. Thus while international M&As fell by 37 percent in 1991, the number of joint-ventures fell by only 20 percent.<sup>18</sup>As one report suggested, "acquisition is increasingly seen as only necessary when it relates to a core part of the business and it is essential to have outright control. Outright acquisition is very expensive and there are situations in which companies no longer see it as viable."<sup>19</sup>
- 2. Prohibitions against M&As. Financial pressures may not be the only reason to favor joint ventures. In interviews with OTA, U.S. and European investors repeatedly stressed that joint ventures were preferred because takeovers may be precluded through national laws and practices.<sup>20</sup> Investors associated this problem most closely with Japan and Germany, two countries where the dominant form of corporate governance differs from the United States and the United Kingdom. Other studies corroborate this view. For instance, one analysis of M&As in Europe states that "many contested takeovers do not take place for the simple rea-

<sup>17</sup> See Commission of the European communities, *Panorama of EC Industry /993* (Luxembourg: Office for Official Publications of the European Comunities, 1993) p. 49.

<sup>&</sup>lt;sup>18</sup> Ibid., p. 51.

<sup>&</sup>lt;sup>19</sup>KPMGreportcited in Ibid.,p.51. An example of how the lack of finance has influenced global strategy and encouraged strategic alliances is discussed in the case of alliances between Japanese semiconductor firms and European partners. See Y. Kimura, "Japanese Direct Investment in the European Semiconductor Industry," in M. Mason and D. Encarnation (eds.), *Does Ownership Matter? Japanese Multinationals in Europe*, (Oxford, UK: Clarendon Press, forthcoming 1994), pp. 314-3 15 (pre-publicationcopy).

<sup>&</sup>lt;sup>20</sup> Stephen Thomsen suggests, in relation to foreign direct investment regulations, that "non-EC firms face national restrictions within the Community even though the EC has no community-wide restrictions on the establishment of foreign companies through greenfield investment or acquisition. To suggest that the absence of restrictive Community policies makes the EC more open than the U.S.A. is clearly far-fetched. Each and every Member State in the Community has potentially more restrictive policies towardinvestors than does the U.S.A. under the Exon-Florio amendment." S. Thomsen, "Comment," in Mason and Encarnation (eds.), op. cit., footnote 19, p. 203.

son that nobody really believes that they can happen"; for example, the unsuccessful hostile bid by Italy's Pirelli for Germany's Continental tire company in 1991 may have "confirmed the view that German companies are impregnable for as long as they have the support of the big German banks."<sup>21</sup>

A 1990 report identifies two types of barriers to takeovers of public companies in the European Union. The first is "structural"--e.g. impediments that arise from the ownership structure and the cultural characteristics of individual markets. For example:

In Italy... only eight out of over 200 listed companies have issued more than 50 percent of their shares to the public. That means that they remain tightly controlled by small cabals of like-minded industrialists and financiers who are not minded to give up control .22

The study found structural barriers in the major European economies to be strongest in France, Germany, Italy, and Switzerland.

The second impediment to acquisitions identified by the report was a series of technical barriers that inhibit or prevent the transfer of control by contested takeover. For example, in Germany, Switzerland, and the Netherlands, companies often restrict the voting rights of ordinary shareholders and instead concentrate voting power in the hands of shareholder groups that are friendly to management. Among EU members, the United Kingdom has relatively weak structural and technical barriers. As a result, management in the United Kingdom is much more likely to be responsive to shareholders' short-term interests. In addition, the value and number of cross border acquisitions in the United Kingdom often exceed those found in the rest of the European Union.<sup>23</sup>

With respect to Japan, OTA was told repeatedly that unsolicited acquisitions of Japanese firms by foreign MNEs were virtually impossible due to numerous formal and informal barriers. These investment and market access restrictions discouraged foreign acquisitions even in sectors where domestic Japanese firms are weaker than their international competitors and where the rules of competition appear most liberalized, such as in pharmaceuticals.

3. Market access. The liberalization of European trade law and the lack of legal restrictions to investment have reduced the problem of market access in all but a few exceptional cases within the European Union. For example, the initial problems experienced by Japanese financial institutions in trying to gain access to the European market through joint ventures or direct investment seem to have been overcome in the 1990s, with two notable exceptions. The first is in Germany, where the universal banking system allows banks to take the initiative in adopting protective measures against foreign intrusion. The second is in France, where national regulation constrains market entry.<sup>24</sup> OTA interviews with banking officials in both countries corroborate this claim, as company officials suggested that formal and informal barriers have been effective in constraining market entry.

In the case of Japan, corporate officials in North America and Europe reported that establishing a joint venture is the preferred method of gaining access to Japanese markets. Most

#### 23 Ibid., pp. 5 I - 52.

<sup>21</sup>Commission of the European Communities, op. Cit., footnote17, p. 51.

<sup>22</sup> Study b, Coopers and Lybrand, as cited in ibid., p. 51. This image of Italy is consistent with broader data On inward FDI flows, which remain small and relatively volatile. while the stock of investment grew in the late 1980s and early 1990s, the flow was uneven, peaking in 1988 and 1990 and dropping substantially in subsequent years. For further discussion and data on FDI flows in and out of Italy, see ibid., p.61, table 14.

<sup>24</sup> See G. Hawawini and M. Schill, "The Japanese Financial Presence in the European Financial Services Sector," in Mason and Encarnation (eds.), op. cit., footnote 19, pp. 243-247. See also chapter 8 in this report.

companies interviewed by OTA considered other strategies, such as establishing whollyowned subsidiaries, to be too difficult. Company officials across the United States and Europe repeatedly stressed that public and private sector limitations effectively deterred investment in Japan. These managers cited problems with the distribution system, access to local suppliers, reduced probability for public procurement, and the exceptionally high initial costs of starting up a business in Japan. Several senior executives of European firms stated that they instituted joint-venture agreements with Japanese firms in Japan because they believed it was the only means of securing business from Japanese transplants in North America. Officials of a German auto supplier, for example, claimed that they swapped technology for market access to the Japanese market-which they defined as both firms in Japan and Japanese companies located in North America. A joint venture was necessary to enter a keiretsu, they suggested, wherever it was located. If these claims are true, and do not represent isolated cases, then some Japanese MNEs may be extending restrictive practices common in Japan to other countries.

Most joint ventures between Japanese and foreign firms in Japan result in the Japanese firm being the majority partner. This has major repercussions on trade patterns, because it can preclude foreign firms from using their Japanese-based subs i diaries as a conduit for trade .<sup>25</sup> Unlike Japanese affiliates in the United States, which often are either wholly-owned or majority-owned subsidiaries of the Japanese parents, U.S.-based subsidiaries in Japan often face regulatory and informal limits to market penetration. In addition, minority partners are often precluded from advantageous transfer pricing practices, which limits their ability to control foreign exchange risks and tax liabilities.<sup>26</sup>

4. *Increased cost of technology*. Many firms reported that the soaring costs of developing the next stage of technology in their particular field, coupled with enhanced competitive pressures to innovate, have forced them to pursue strategic alliances and joint ventures.

For example, even the wealthiest of companies are often unable or unwilling to invest alone in billion dollar fabrication plants for the production of next-generation DRAM chips. The profitability of commodity semiconductor products has declined, and as product and process technology advance many MNEs have turned to cooperative development and production strategies. The location of research and production facilities is increasingly determined by technological resources rather than market considerations or broader national interests. Even Japanese firms now tend to favor alliances with foreign enterprises in North America and Europe, rather than foreign direct investment .27

The results of these tendencies have significant implications for the U.S. technology base. For example, the next generation of computer technology will rely on flat panel displays. But IBM's decision to locate co-production of flat panel displays with Toshiba in Japan was determined, according to company officials, by the lack of suitable technological infrastructure to support such a plant in the United States, where

<sup>&</sup>lt;sup>25</sup> This issue is comprehensively addressed in D. Encarnation, *Rivals Beyond Trade: America Versus Japanin Global Competition* (Ithaca, NY. Cornell University Press, 1992).

<sup>&</sup>lt;sup>26</sup> P. Buckley, "Comment" in Mason and Encarnation (eds.), op. cit., footnote 19, pp. 229-230.

<sup>&</sup>lt;sup>27</sup> Article by Customs Bureau Staff, Japanese Ministry of Finance, op. cit., footnote 14, p. 6.

(percent of total FDIUS)						
	Total I	ndustry	Manuf	Manufacturing		ale Trade
Country	1985	_ 1993_	1985_	1993	1985	1993
Canada	9.3	8 9	7,7	10.0	5.3	2.6
Other Americas	9.1	4.6	8.7	3.1	5.7	3.4
Europe	65.8	60.8	76.9	73,5	47.4	40,2
France	36	5.7	9.6	10,2	1.5	2.7
Germany	8.0	6.6	10.1	10.7	152	10.5
Netherlands	20.1	14,7	22,4	13.7	7,4	11.1
UK	236	20,0	19,6	57.2	139	9.9
Japan	10.5	21,6	4.6	10,6	40,6	49,8
Other	5.4	4,2	2.1	2.6	1,0	3.1
Total (in billions)	\$1846	\$445.3	\$596	\$1667	\$291	\$69.7

TABLE 5-2: Breakdown of the	Stock of Foreign	Direct Investment in	h the United States
	(percent of total	FDIUS)	

NOTE: Totals are given in current dollars, 1993 datas preliminary, columns may not add to 100 percent due to rounding SOURCE: OTA, based on data in U S Department of Commerce, BEA, Foreign Direct Investment in the United States Preliminary 1992 Estimates, (Washington, DC forthcoming 1994), table 3, and BEA, SCB, August 1987, table 10, p 90

to date there is no high volume commercial producer of flat panel displays.<sup>28</sup> This pattern may be self-reinforcing: despite the appreciation of the yen against the dollar, the IBM-Toshiba joint venture is planning to increase production capacity only in Japan .29

Furthermore, Japanese-based MNEs frequently use joint ventures with U.S. firms to benefit from U.S. technological capabilities. Where Japanese-based MNEs are advanced technologically, they tend to maintain investments at home or establish majority-owned subsidiaries abroad. But they do invest in joint ventures and strategic alliances where their U.S. partner is more technologically advanced than they are.<sup>30</sup>

## THE DYNAMIC CHARACTER OF FDI IN THE UNITED STATES

Throughout the 1980s and into the early 1990s, the United States received more than half of all OECD FDI flows.<sup>31</sup> By 1993, the British were overtaken by the Japanese as the largest investors in the United States (see table 5-2). Japanese investment in the United States grew at an average

<sup>&</sup>lt;sup>28</sup> OTA interview at IBM-Japan, Sept. 30, 1993. Note, with regard to this issue, the Department of Defense's proposal to offer matching grants totalling \$1billion to U.S. firms that are prepared to develop and produce flat panel display computer screens in the United States. See "U.S. to Aid Industry in Computer Battle With the Japanese," New York Times, p. Al, Apr. 27, 1994.

<sup>&</sup>lt;sup>29</sup> See "IBM Japan, Toshiba Venture to Double its Display Capacity," The Wall Street Journal, p. B8, July 6, 1994.

<sup>30</sup> See B Kogut and S.J. Chang, "Technological Capabilities and Japanese Foreign Direct Investment in the United States," The Review of Economics and Statistics 73(3): 401-413, Aug. 1991.

<sup>31</sup>See figure 5.1. For a discussion of the factors that have stimulated foreign investment in the United States, see the first report of this assessment: U.S. Congress, Office of Technology Assessment, op. cit., footnote 1, pp. 57-62.



SOURCE: BEA, SCB 70(5) 23, table 1 May 1990, 71 (5) 30, table 1, May 1991, 71 (5) 133, table 1, May 1993, and 74(5) 50, table 1, May 1994

rate of 34 percent a year in the 1980s, which represents a seventeen-fold increase in Japan's stock of investment in the United States over the decade .32 By 1993, Japanese investors accounted for 23.6 percent of all industry investment, including nearly 50 percent of investment in wholesale trade.

Most FDIUS is comprised of acquisitions, not new establishment (or "greenfield") investment. During the 1980s, acquisitions accounted for 85 percent of all FDIUS, compared to 60 percent of FDI in the EU.<sup>33</sup> Figure 5-8 shows the difference in number and value of foreign acquisitions versus new establishment investment in the United States from 1983 to 1993.

Of all acquisitions in the United States between 1981 and 1987, those by foreign individuals accounted for 8 percent of the transactions and 14 percent of the total value. These acquisitions were facilitated by U.S. deregulation and the emergence of new financial instruments such as junk bonds, which often required the issuers to sell their assets rapidly in order to meet their financial obligations .34

Although lower than acquisitions, the value of new establishment investment also grew steadily during the mid to late 1980s, from \$3.2 billion in 1983 to a high of \$11.5 billion in 1989. Foreign firms established new facilities in the United States for a variety of reasons specific to individual sectors, as well as to develop a mechanism to hedge against exchange rate variations. In some cases, the particular location of greenfield investment within the United States may have been affected by state and local incentive packages, although it is unlikely that these incentives af-

<sup>32</sup> TheImpact of Foreign Investment on Domestic Economies of OECD Countries, op. cit., "votnote21 pp" 87 and "14

<sup>33</sup> OECD, op. cit., footnote 3, p. 20.

<sup>34</sup> OECD, op. cit., footnote 6, p. 88.

### BOX 5-1: The Role of the States in FDIUS

The lack of U.S. regulation of foreign investment has created both advantages and disadvantages. Perhaps the most contested issue has been the activities of individual U.S. states. They have created a race to attract foreign investors that critics claim has reached unprecedented proportions, repeatedly entering into competition with each other to secure investment by foreigners, particularly in the manufacturing sector. The states have effectively pursued their own industrial policies in this regard, offering lucrative tax, infrastructural, and loan incentives to foreign MNEs in order to secure plant location in their states.<sup>1</sup>

In several cases reported to OTA, a competitive bidding situation emerged in which units of state or local government bid against one another, raising the costs to the taxpayer and decreasing the overall benefit of the investment for the state. Some analysts contend that the same options are available to U.S. firms, but they concede that U.S. firms face more constraints (such as existing plant and equipment and labor contracts) than do foreign investors. Most economists argue that this kind of behavior distorts markets in ways that create advantages for particular firms.

The cost of attracting major investments has risen. The state of Ohio, for example, paid \$16 million in direct incentives to Honda to secure the Marysville plant in 1982. By 1988 Kentucky had spent at least \$125 million in incentives to convince Toyota to locate its plant there.<sup>2</sup> And in 1993 Alabama negotiated a \$300 million incentive package with Daimler-Benz. Critics question whether state competition for FDIUS is in the nation's interest, and indeed, whether this escalation has now reached a stage where its costs substantially mitigate the benefits at even a local level. As one analyst recently noted:

States and cities still spend significant amounts of money on industrial recruitment which does nothing to improve U.S. economic competitiveness. . . . In fact, some of [the incentive packages] actually hurt U.S. competitiveness, as was the case when states and cities gave large amounts of money to foreign firms that were already planning to locate in the U.S.

<sup>2</sup> T.D. Mason and F.M. Howell, "Japanese Investment in the United States: A Study of Trends and Site Selection Behavior," a paper presented at the Annual Meeting of the International Studies Association, Atlanta, Georgia, Mar. 30-Apr. 4, 1992, pp. 4-5.

fected foreign firms' strategic decisions to establish new facilities in the United States (see box 5-1). The net effect of greenfield and acquisition investment was to boost the share of foreign affiliates as a percentage of U.S. manufacturing output into the 10-20 percent range, a level comparable to Germany. 35

In 1990, about 25 percent of total U.S. domestic demand was met by foreign firms through a combination of imports and local production. By comparison, foreign firms account for 9 percent of total domestic demand in Japan-of which 6 percent is imports, mostly of low technology preducts, and 3 percent is concentrated in chemicals, pharmaceuticals, basic metals, and food products, most of which are manufactured locally. Comparable figures for Europe are much higher, largely

<sup>&</sup>lt;sup>1</sup> Indeed, Volkswagen's termination of its venture in Pennsylvania did nothing to dissuade state officials of the correctness of this approach, despite the cost of the incentives to the state's taxpayers. State officials subsequently offered an equally lucrative deal to Sony to use Volkswagen's plant for the production of televisions.

<sup>&</sup>lt;sup>35</sup>OECD op. cit footnote 3, p. 20. In the United Kingdom and France, foreign affiliates account for 20-30 percent of manufacturing output, while in Japan foreign affiliates account for less than 10 percent.

### BOX 5-1 continued: The Role of the States in FDIUS

States and cities have given over \$1 billion to foreign automobile firms between 1978 and 1992. These subsidies did little, other than to provide a windfall subsidy to our foreign competitors at the expense of U.S. firms and to erode the tax base of many local communities. The incentives did not induce the firms to invest in the United States since that decision had already been made. Nor did they benefit seriously economically depressed communities since, for the most part, Japanese auto plants located in generally prosperous areas.<sup>3</sup>

Analysts contend that even in the recent period of fiscal constraint by the states, Daimler-Benz's recent decision to locate a plant in Alabama illustrates the problems besetting state policies and how they adversely affect the U.S. economy, and often the states.<sup>4</sup> OTA was repeatedly told by foreign investors that their first decision was always whether they were going to invest in the United States, and that their plant location was influenced more by market and sourcing concerns than by state incentives. In at least one case, the foreign company chose the state location first, and then began negotiations with several states over incentives. State incentives were just extra benefits, having little effect on the final decision on where to invest. One MNE held that, were they to make the same choices again, they would not have pushed so hard on the issue of state incentives, in order to avoid resentment.

Proponents of state incentives to FDI contend that cases of inflated and seemingly unjustified spending by states are the exception rather than the norm. Unfortunately, there is no systematic and widely accepted evaluation of state and local incentive programs. Under these circumstances, proponents tend to advocate the status quo, while critics suggest that Congress should contemplate legislation to curtail the most excessive forms of state spending, which to them seems to be motivated more by political than economic goals.

<sup>3</sup> See R.D. Atkinson, "The Next Wave in Economic Development," Commentary, spring 1993, pp. 12-18

<sup>4</sup> "States' Bidding War over Mercedes Plant Made for Costly," Wall Street Journal, p. A1, Nov. 24, 1993

due to the integrating effects of the 1992 EU initiative.<sup>36</sup>

Among foreign investors in the United States, only the Japanese preferred establishing new firms to acquiring existing ones. <sup>37</sup> For example, table 5-3 shows that, of the 631 Japanese affiliates operating in the United States and Europe as of 1990, 78 percent were established by greenfield investment and 22 percent by acquisition and capital investment. Of acquisition and capital investment, 86 percent is accounted for by Japanese chemical, iron and steel, non-ferrous metals, and non-electrical machinery firms. These are primarily slow growth industries, and have attracted foreign firms that are seeking either to diversify or to enhance their sectoral competitiveness by purchasing U.S. firms (as is the case for Japanese chemical firms in the United States).<sup>38</sup>

The United States has also attracted Japanese investment in relatively high-growth, R&D-intensive industries such as electrical machinery. The United States is not the only location for this type of investment. Japanese FDI in Europe, for example, has included significant investment in high-wage, technologically sophisticated German

<sup>36</sup> OECD, op. cit., footnote 6, p. 7.

<sup>&</sup>lt;sup>37</sup> Ibid., p.88.

<sup>&</sup>lt;sup>38</sup>SeeH. Yamawaki, "Entry patterns of Japanese Multinationals in U.S. and European Manufacturing, " in Mason and Encarnation (d.), op. cit., footnote 19, pp. 98, I O I, I O8- II O and I 18.

	Japanese affiliates					
	in	the U.S.	ir	n Europe		
	number	percent	number	percent		
Total number of affiliates	631	10070	336	1 00%		
New Establishments	489	77.5% (loo%)	258	76 8% (100%)		
Horizontal firms	430	68.2% (87.9%)	234	69,6% (90.7%)		
Diversified firms	59	9.4% (12.1%)	24	7.1% (9.3%)		
Acquisition and capital participation	142	22.5% (100%)	78	23,2% (100%)		
Horizontal firms	105	16.6% (73.9%)	74	22,0% (94.9%)		
Diversified firms	37	5.9% (26.1 %)	4	1 .2% (5.1%)		

TABLE 5-3: Means of Establishment and Diversity of Japanese Manufacturing Affiliates in the United States and Europe

NOTE: Numbers may not sum to 100 percent due to rounding. Data describe Japanese manufacturing affiliates operating in Europe and the United Stales as of 1990

SOURCE: Hideki Yamawaki, "Entry Patterns of Japanese Multinationals in U S and European Manufacturing," Mark Mason and Dennis Encarnation, eds *Does Ownership Matter? Japanese Multinationals Europe* (forthcoming from Claredon Press), p 97, table33

industries.<sup>39</sup> Such manufacturing investments should not obscure, however, the tendency of Japanese FDIUS to focus on services and wholesale trade.<sup>40</sup>

## INVESTMENT BALANCES ACROSS THE TRIAD

The rapid growth of FDI over the last decade has expanded the ownership and control of large industrial enterprises across national borders. By 1992, the global stock of foreign direct investment reached approximately \$2.0 trillion.<sup>41</sup> This surge of investment, often identified with the globalization of business, has transformed the world economy and stimulated local and international commerce in many sectors. But it has not done so evenly. U.S. direct investment with Europe and Japan tripled over the past decade to reach more than \$665 billion by 1993. As shown in figure 5-9, the bulk of that investment, some \$540 billion, was split between U.S. FDI in Europe (\$269 billion) and European FDI in the United States (\$271 billion). The remainder, approximately \$128 billion, is divided unevenly between U.S. FDI in Japan (\$31 billion) and Japanese FDI in the United States (\$96 billion). Figure 5-9 shows the expansion and distribution of foreign direct investment between the United States and its major trading partners.

As figure 5-9 indicates, from a macro perspective U.S.-European FDI has been relatively well balanced over time, although during 1988-89 European investment in the United States exceeded

<sup>39</sup> H. Yamawaki, "Location Decisions of Japanese Multinational Firms in European Manufacturing Industries" in K. Hughes, (cd.), European Competitiveness (Cambridge, MA: Cambridge University Press, 1992).

<sup>40</sup> See H. Yamawaki, "Exports and Foreign Distributional Activities: Evidence on Japanese Firms in the United States," *Review of Economics and Statistics*, 73(2):294-300, May 1991. See also figure 5-14 and accompanying text in this chapter.

<sup>41</sup>United Nations, World Investment Report 1993 Op. cit. footnote 2, p. 1.



SOURCE: Adapted from BEA, SCB 73(7) 65-67, 97-100 July 1993, 71 (8) 51-54, 86-88, August 1991, 69(8) 52-53, 67-69, August 1989, and 67(8) 63-65,90, August 1987 "U S Department of Commerce News," press release June 28, 1994, tables 2 and 3 (hereafter cited as USDOC press release)

U.S. investment in Europe by approximately \$50 billion (or 12 percent of all FDI between the United States and Europe). The U.S. investment relationship with Japan, on the other hand, is far less balanced. Japanese investment in the United States now exceeds U.S. investment in Japan by a factor of 3.1, with the imbalance totalling \$65 billion in 1993 (or51 percent of all FDI between the United States and Japan). Moreover, the Japanese economy is roughly half the size of the U.S. or European economies, but, at \$128 billion, U.S.-Japanese investment is less than one-fourth the size of U.S.-European investment.

There are notable differences across the Triad in the composition of investment. About half of all FDIUS is in manufacturing and wholesale trade, the two components of FDI that are most closely associated with merchandise trade, while the other half of FDI is in a mixture of services, real estate, insurance, banking, finance, and other sectors. However, the proportion of FDI directed to each of these sectors varies across the Triad. As figures 5-10 and 5-11 indicate, the composition of FDI between the United States and Europe appears reasonably well matched. Approximate y \$100 billion is directed to manufacturing in each direction, while much smaller but comparable levels of FDI are directed to wholesale trade operations.

The similarity in the composition of U.S.-European FDI is reflected in U.S.-German direct investment, as demonstrated by figures 5-12 and 5-13. In each direction, manufacturing accounts for the largest percentage of direct investment. In wholesale trade, Germany directs a proportionately larger amount of investment to the United States than does the United States to Germany, while the reverse pattern holds for services.

No such similarity in composition or level exists in the U.S.-Japan investment relationship. As can be seen by comparing figures 5-14 and 5-15, Japanese FDI in U.S. manufacturing and wholesale trade reached \$50 billion in 1992, three times that of similar U.S. investments in Japan. In addi-



NOTE BEA statistics on FDI Include data on services only since 1987

SOURCE BEA, SCB 73(7) 65-67, July 1993,71 (8) 51-54, August 1991, 69(8) 52-53, August 1989, and 67(8):90, August 1987, USDOC press release, June 28, 1994, table 3



NOTE BEA statistics on FDI position Include figures for services only since 1987

SOURCE BEA, SCB 73(7) 97-100, July 1993, 71 (8) 86-88, August 1991, 69(8) 67-69, August 1989, and 67(8) 63-65, August 1987; USDOC press release, June 28, 1994, table 2



NOTE: BEA statistics on FDI include data on services only since 1987

SOURCE: BEA, SCB73(7) 65-67, July 1993,71 (8) 51-54, August 1991 69(8) 52-53, August 1989, and 67(8): 90 August 1987: USDOC press release June 28, 1994, table 3

tion, while U.S. investment in Japan was heavily weighted toward manufacturing, Japanese FDI in the United States was concentrated in wholesale and distribution operations.<sup>42</sup>

As one recent study noted, of the 3,282 Japanese-affiliated subsidiaries in the United States, less than 33 percent (1,054) are in manufacturing, the remainder being in non-manufacturing sectors.<sup>43</sup> According to a MITI survey, there are 2,399 Japanese affiliates in North America, of which 35.2 percent (845) are in manufacturing industries.<sup>44</sup> Similarly, of 1,785 Japanese affiliates in Europe, just under 30 percent (530) are in manufacturing.<sup>45</sup> In the United States, Europe, and elsewhere, the bulk of Japanese investment is in wholesaling and retailing, services, finance, and real estate.

These differences in the composition of FDI are important because, in effect, the largest portion of Japanese FDI has been in U.S. distribution facilities, which receive imports from Japan destined for retail sale in the United States. The impact of FDI devoted to wholesale operations, and the general significance of variations in both the composition and scale of FDI across the Triad, are analyzed in chapter 6.

44 See M] T], "Dai 22 kai - Wagakun i Kigyo no Kaigai Jigyo Katsudo," *The 22nd Survey—Overseas Business Activities of Japanese Enter*prises, July 30, 1993, p. I I, table 5.

45 OECD, op, cit., footnote 6, p. 21.

 <sup>&</sup>lt;sup>42</sup>For corroboration see L.A. Davis, "U.S. Foreign Trade in Merchandise and Services by Foreign-Owned U.S. Firms" in U.S. Department of Commerce, *Foreign Direct Investment in the United States: An Update* (Washington, DC: U.S. Government Printing Office, June 1993) p. 81.
<sup>43</sup>Yamawaki, op. cit., footnote 39, p. 93. These figures are taken from listings in the Toyo Keizai survey.



FIGURE 5-13: U.S. Direct Investment Position in Germany by Sector, 1984-1993 (historical cost)

NOTE BEA statistics on FDI position include figures for services only since 1987

SOURCE BEA. SCB 73(7) 97-100 July 1993, 71 (8) 86-88, August 1991, 69(8) 67-69, August 1989, and 67(8) 63-65, August 1987, USDOC press release, June 28, 1994, table 2



## FIGURE 5-14: Japan's Direct Investment Position in the United States by Sector, 1984-1993 (historical cost)

NOTE BEA statistics on FDI Include data on services only since 1987

SOURCE BEA, SCB 73(7) 65-67, July 1993, 71 (8) 51-54, August 1991, 69(8) 52-53, August 1989and 67(8) 90, August 1987, USDOC press release, June 28, 1994, table 3



FIGURE 5-15: U.S. Direct Investment Position in Japan by Sector, 1984-1993 (historical cost)

NOTE: BEA statistics on FDI position include figures for services only since 1987

SOURCE BEASCB 73(7) 97-100 July 1993 71 (8) 86-88 August 1991 69(8) 67-69 August 1989 and 67(8! 63-65 August 1987 USDOC press release June 28 1994 table 2