U.S. Direct Investment Abroad: A Historical Perspective

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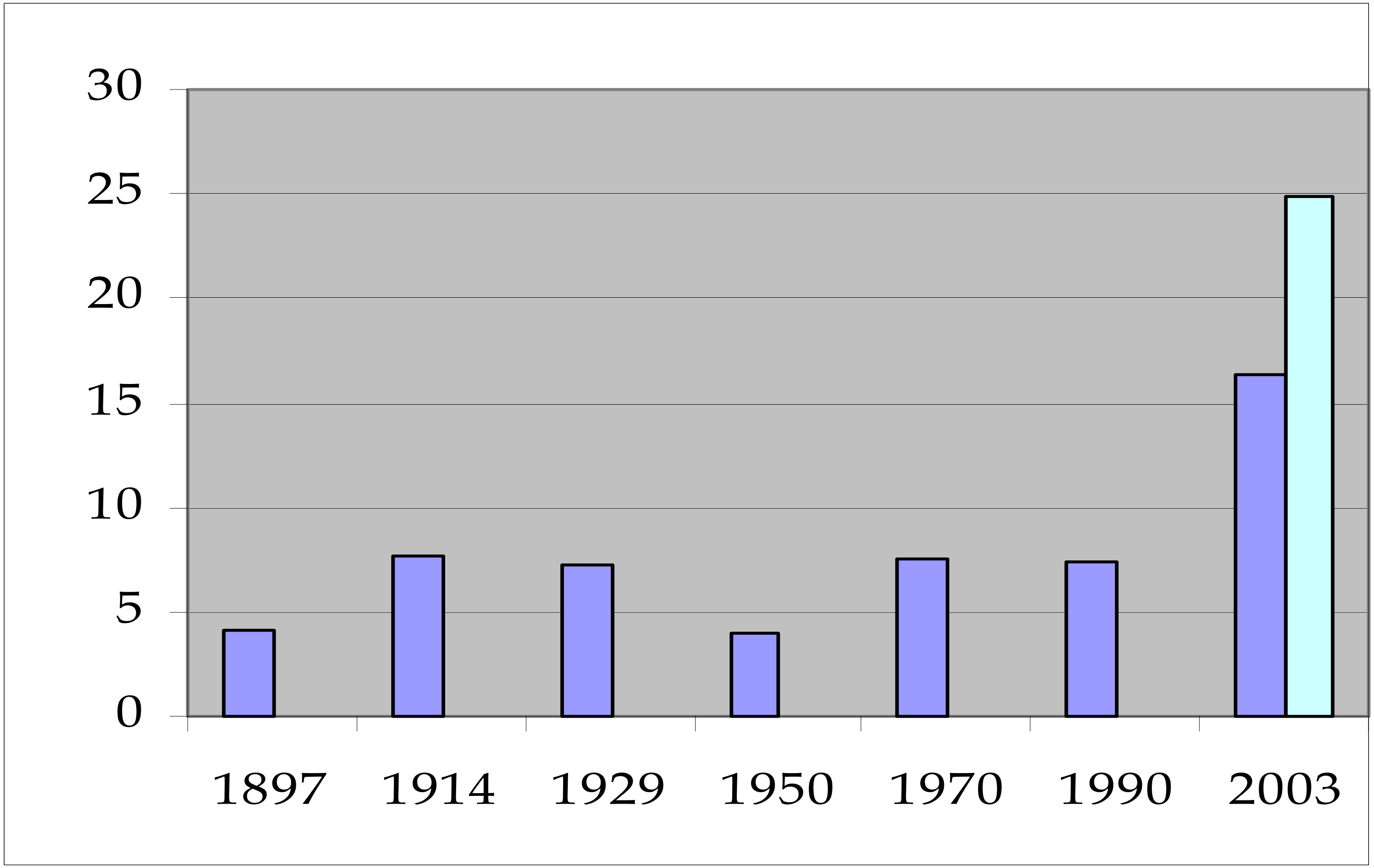
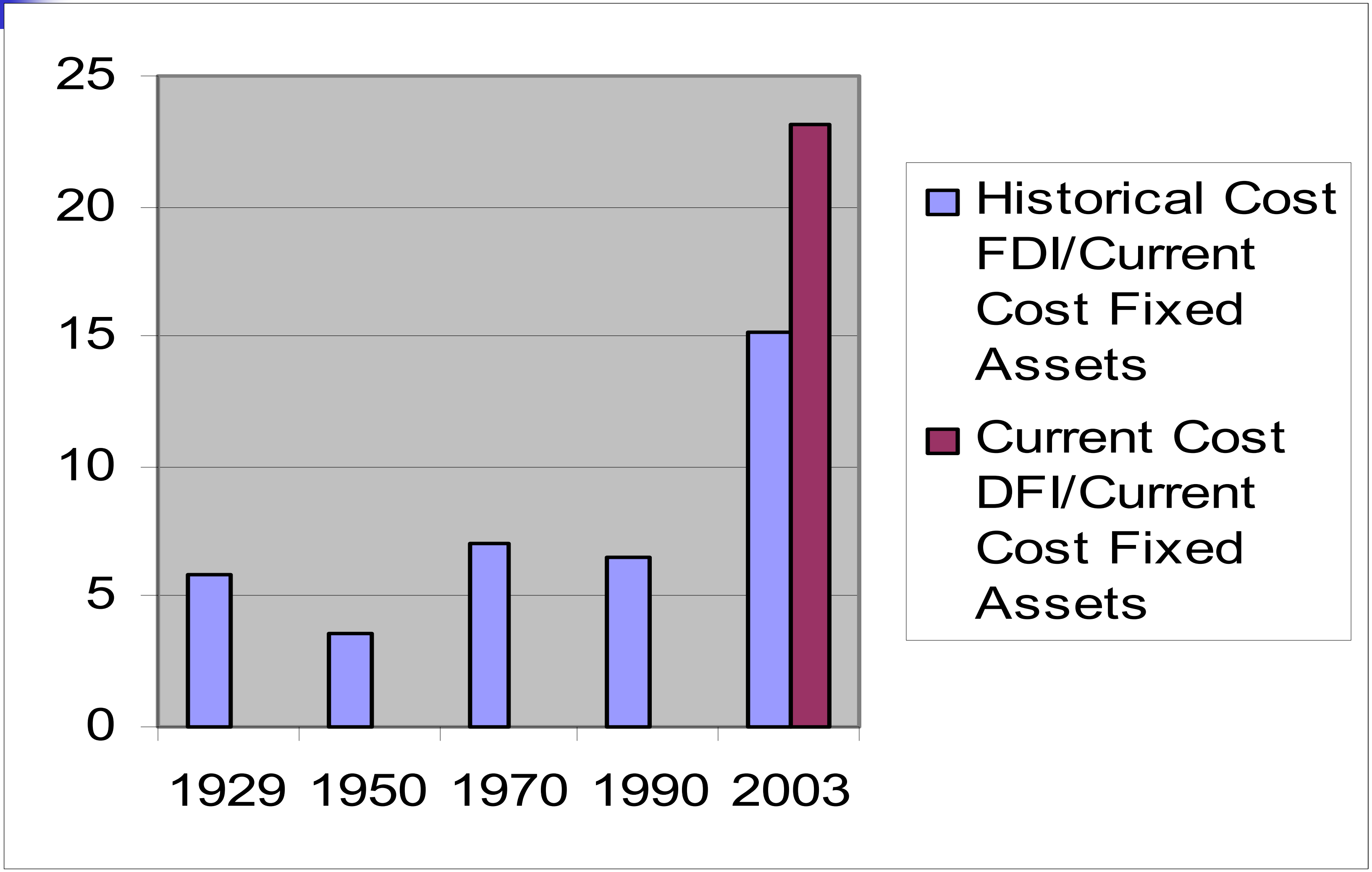
Three Questions

- How has amount of USDIA changed?
- How has nature of USDIA change?
- What do these trends tell us?

USDIA as percent of US GDP



USDIA as percent of US capital stock



Early Motives for USDIA

- New sources of supply
- New markets for sales

Foreign Investment in 1914

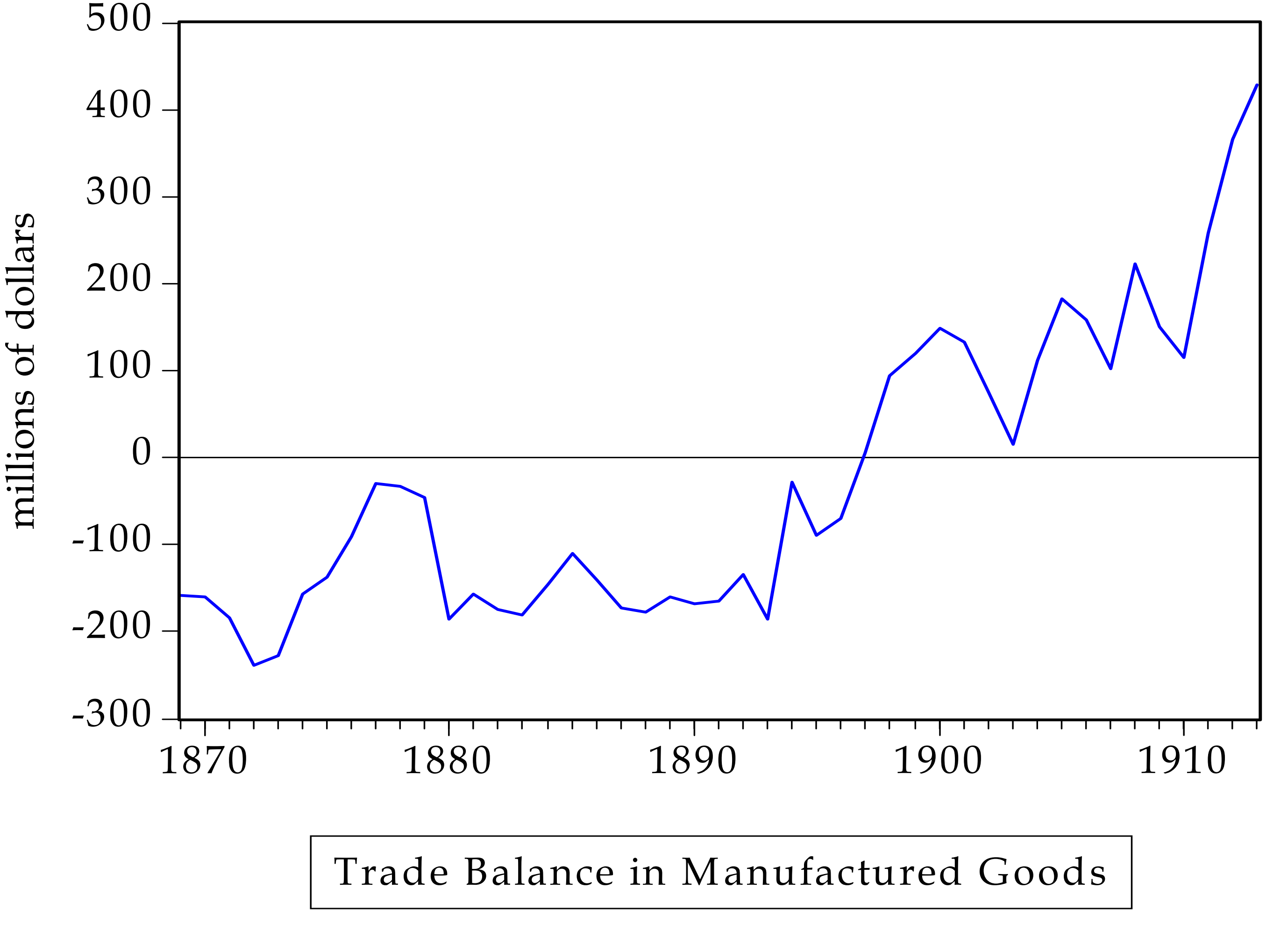
- Mining (27%)
- Agriculture (13%)
- Oil (13%)
- Manufacturing (18%)

Pre-1914 Sources of Supply

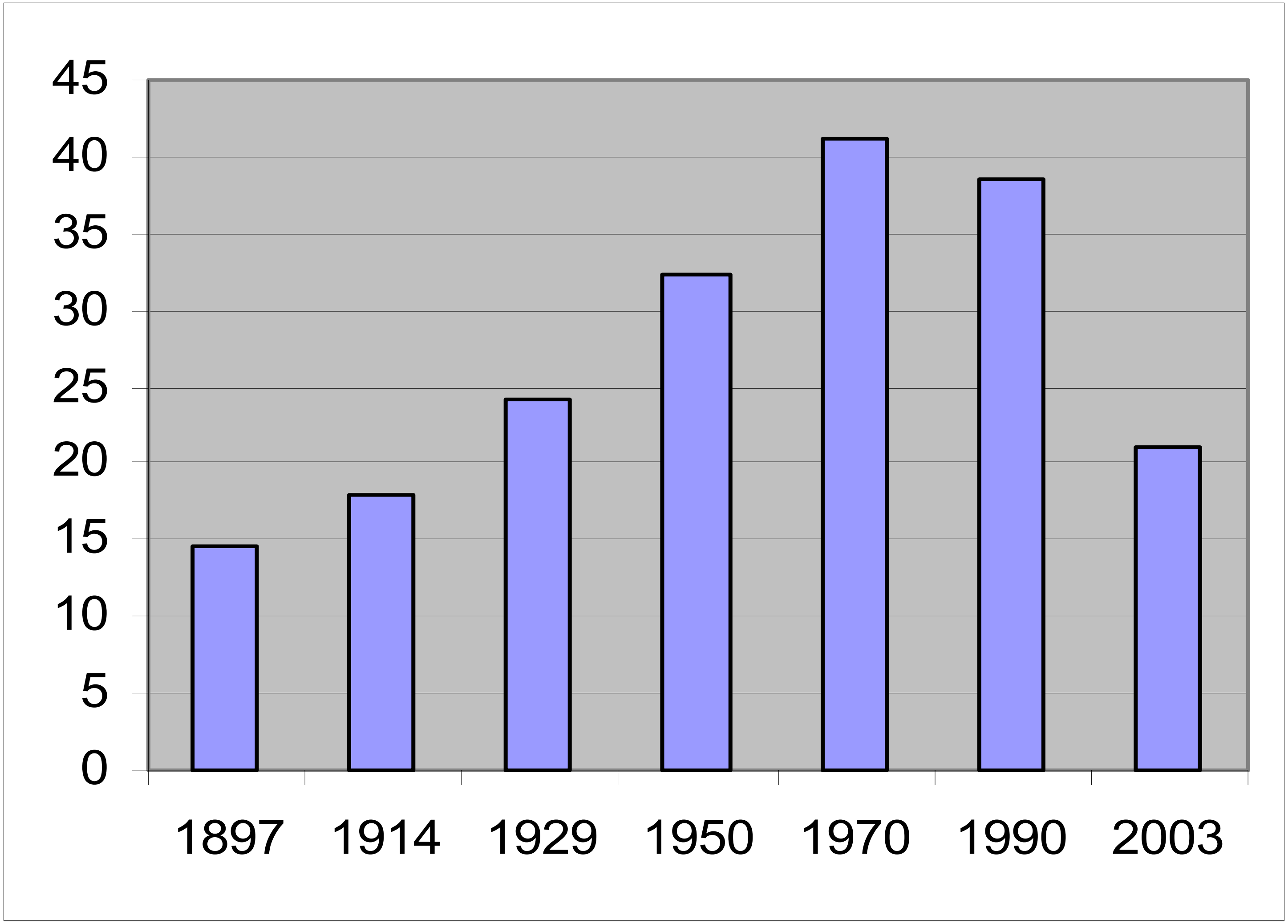
- Mining (27%)
  - Mexico and South America
- Agriculture (13%)
  - Sugar and fruit in Caribbean

- “The skeptic’s claim that for major U.S. enterprises of the pre-World War I years foreign business was simply peripheral . . . . seems to be supported by the evidence. . . . In 1914, the vast majority of American corporations were <u>not</u> multinational.”
    - Myra Wilkins (1970, p. 207)

U.S. Become a Net Exporter of Manufactured Goods c. 1895



Share of USDIA in Manufacturing



Motives for USDIA in manufacturing

- Foreign trade barriers
- Produce near local markets

Problems hindering foreign investment, circa 1948

- Poor credit standing abroad
- Currency instability and controls
- Expropriation risk
- Discriminatory treatment
  - Raw materials
  - Nationalized industries
- Inequitable taxation

Multilateral Investment Code?

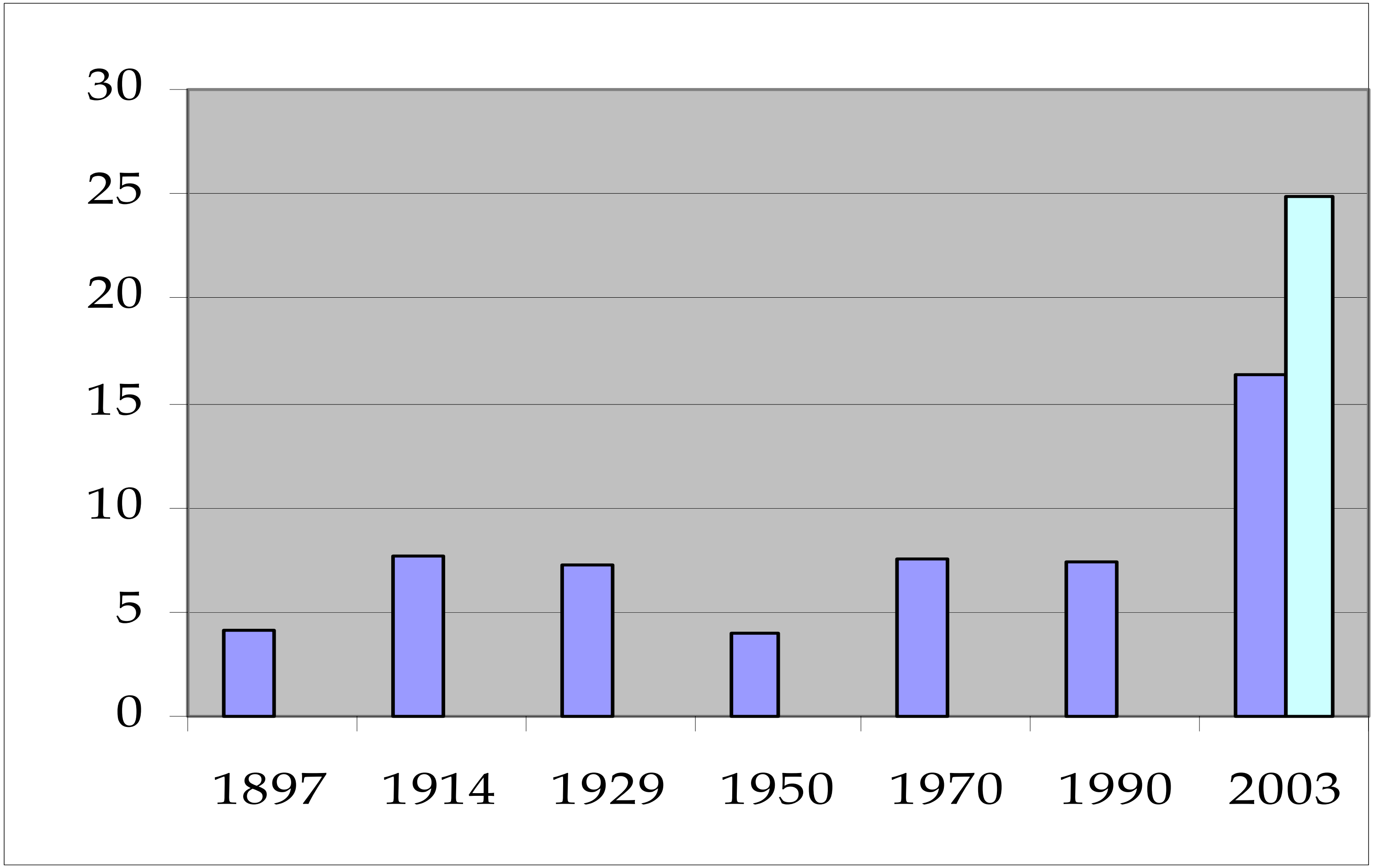
- International Trade Organization (d.1950)
  - Little protection to foreign investment
  - Provides for future action
  - Code and court for investment?

- GATT (1947) – nothing on investment

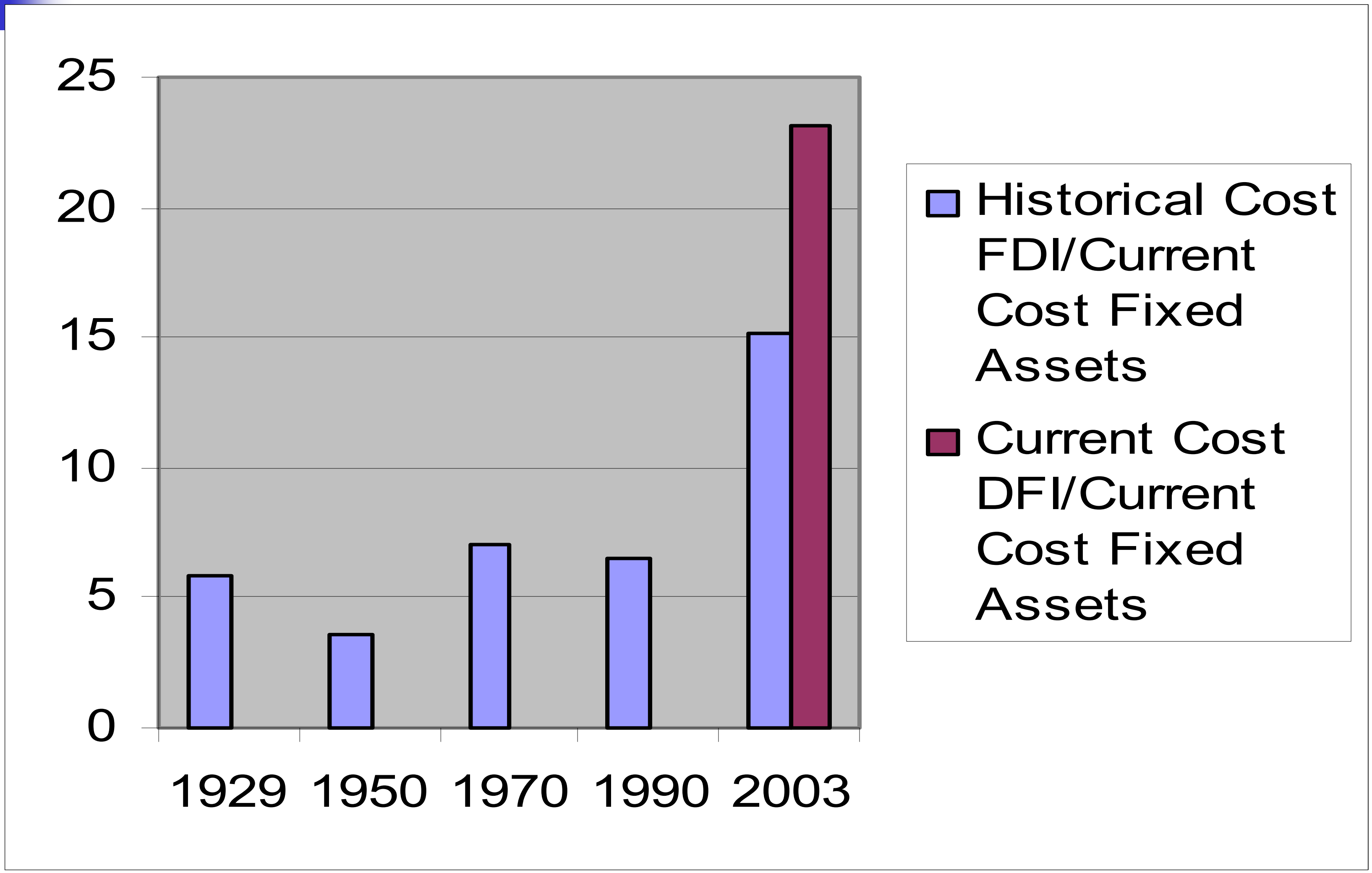
Recent Developments

- Explosion of USDIA in 1990s
- Shift toward Europe
- Shift away from manufacturing

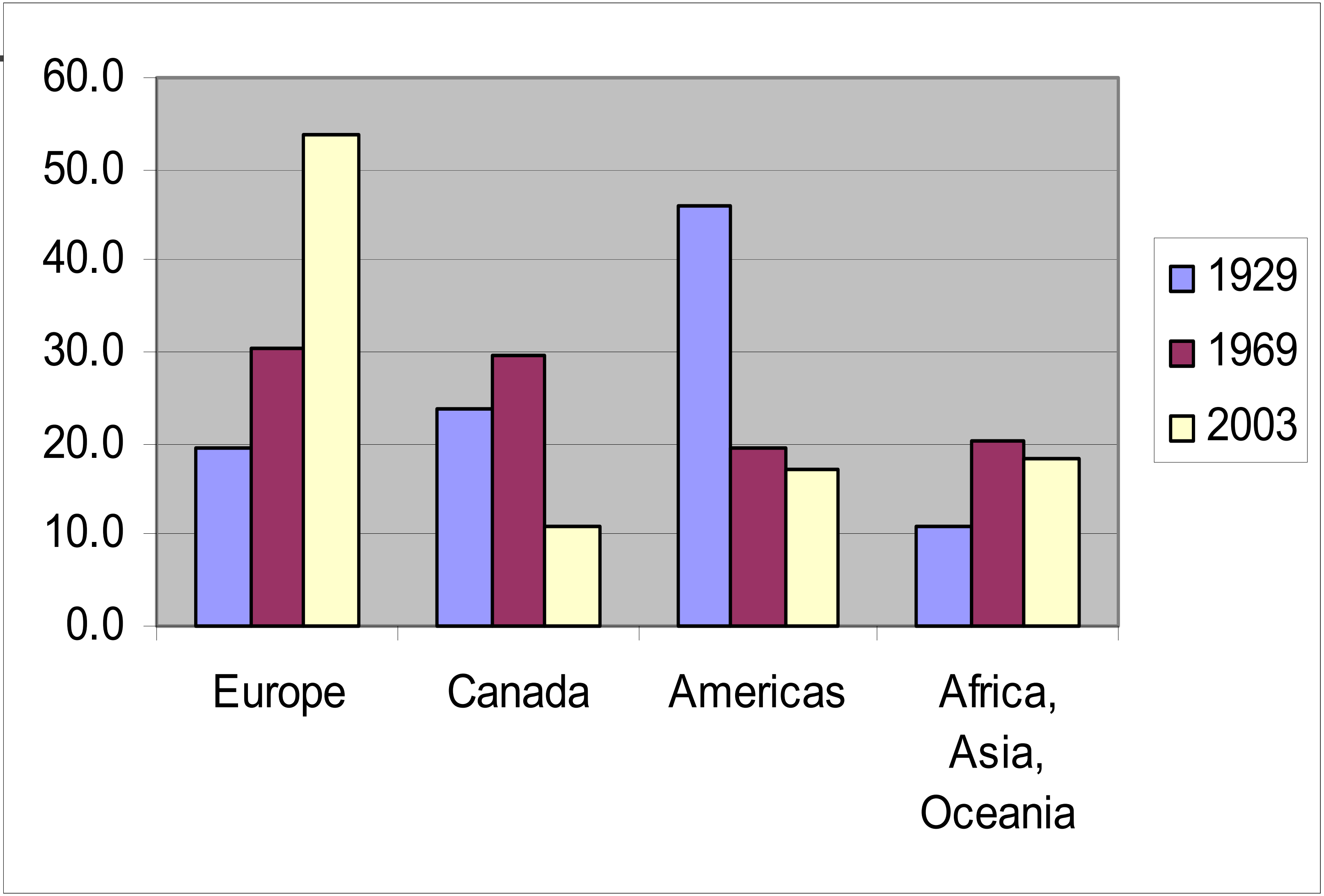
USDIA as percent of U.S. GDP



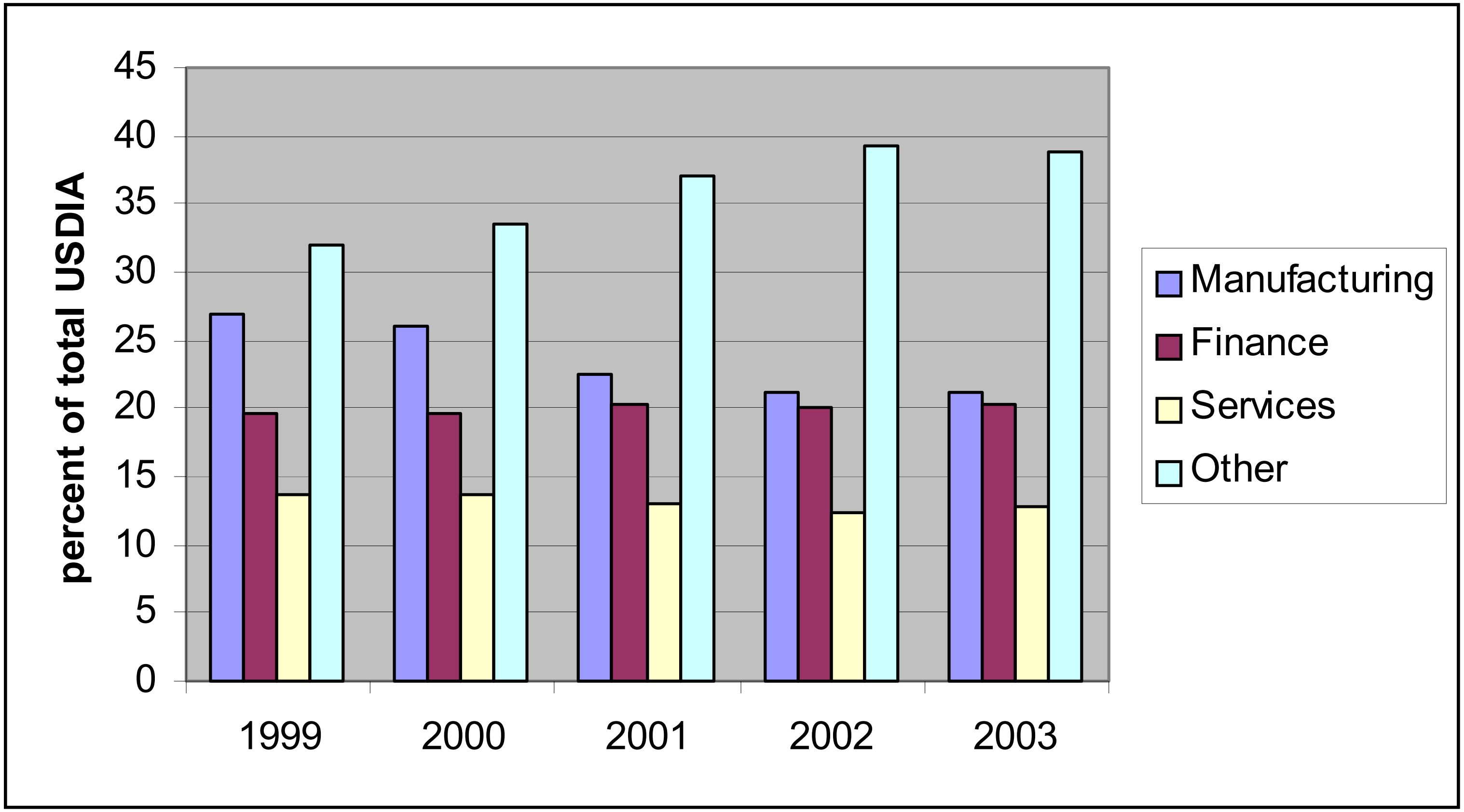
USDIA as percent of US capital stock



Regional Shares of USDIA



Relative Decline of Manufacturing



Growth in USDIA, 1999-2003

- All Industries + 47%
- Mining & Utilities + 32%
- Manufacturing + 16%
- Wholesale Trade + 63%
- Finance + 53%
- Professional Services + 35%
- Other + 97%

What is "Other"?

- Retail trade
- Construction
- Holding companies

Conclusions

- Spectacular growth in past decade
- USDIA understates U.S. business involvement in world (outsourcing)
- Enormous investments in Europe
- Shift away from manufacturing toward services (WTO implications)