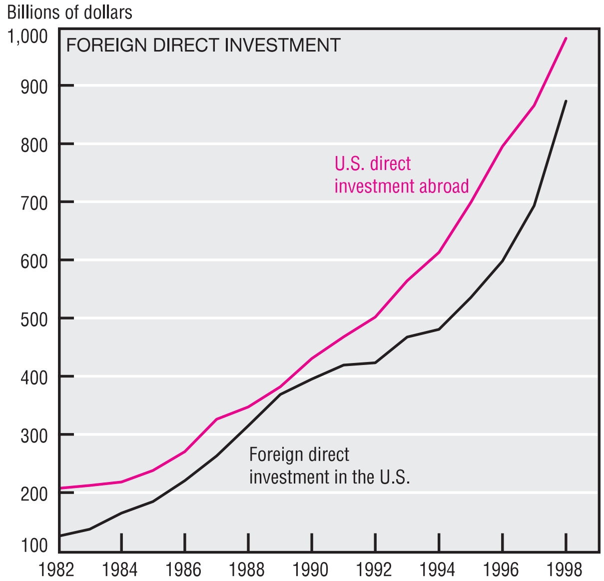
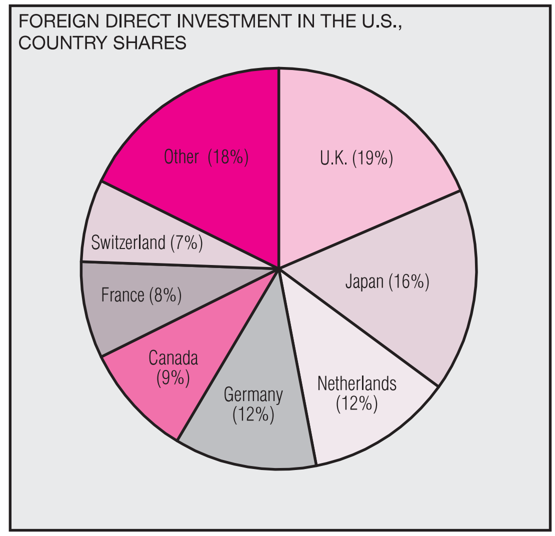
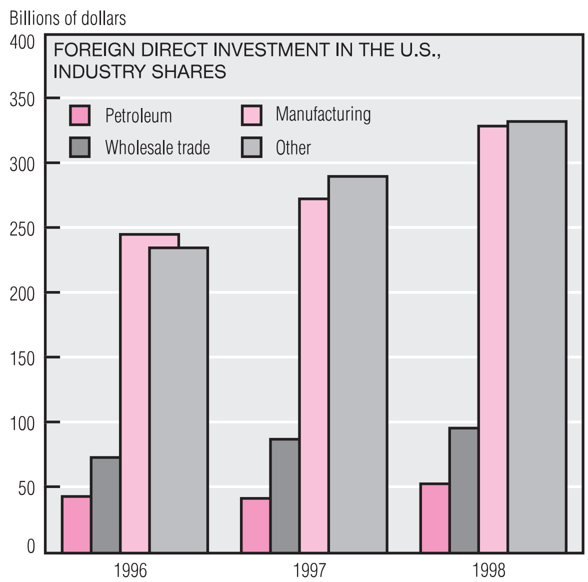
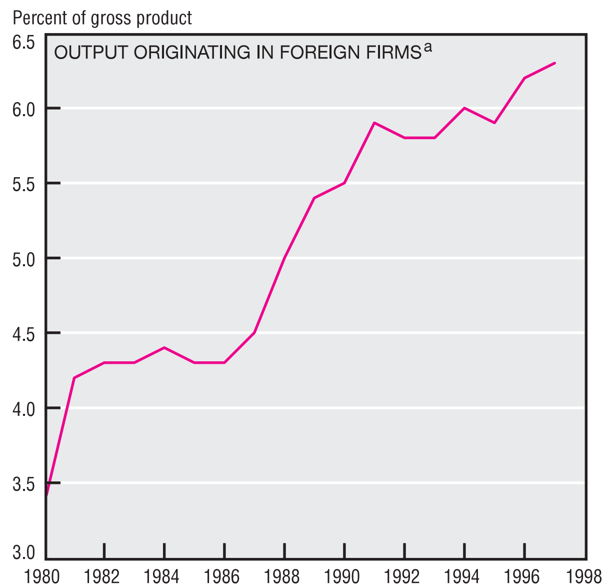
Foreign Direct Investment









a. Share of gross product attributable to U.S. affiliates of private foreign nonbank companies.
SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business,* various issues.

Foreign direct investment (FDI) is the cross-border holding of assets that represent a controlling ownership of shares in a foreign business entity. Multinational firms are the most common conduits for FDI, both into and out of the U.S. Like exporting, FDI enables multinationals to expand in global markets; unlike exporting, however, FDI may help them avoid trade barriers, reduce exchange risk, secure low-cost inputs, or tailor products more closely to local markets.

Attracted by the relatively strong pace of U.S. economic growth, the total value of FDI in the U.S. has risen at a rapid (16%) average annual rate since 1994, reaching $873 billion in 1998. Over the same period, nominal GDP rose at a 6.0% rate. Clearly, FDI contributed to the investment boom that fueled this GDP growth.

The U.K. and Japan account for 35% of FDI in the U.S. The Netherlands, Germany, and Canada account for another third. Much of this investment is concentrated in capital-intensive sectors such as manufacturing, which accounts for 40.5% of FDI in the U.S. Petroleum and wholesale trade together account for 18.4%, and the remainder is scattered through a wide range of industries. The share of gross product that is attributable to U.S. affiliates of foreign nonbank companies rose to 6.3% in 1998. These affiliates account for approximately 5% of total U.S. employment.