

## GLOSSARY OF FDI TERMS USED IN REPORTING DATA

(Primarily sourced from the glossary of investment promotion terms available at SelectUSA.gov; augmented and clarified by information from the Bureau of Economic Analysis (BEA) – website and direct emails.)

### ❑ Foreign Direct Investment (FDI) in the United States

- *Direct investment describes when a person in one country has a lasting interest and influence over the management of a business in another country.*<sup>SUSA</sup>
- According to the BEA, FDI in the United States is defined as the ownership or control, directly or indirectly, by one foreign person, or entity, of 10 percent or more of the voting securities of an incorporated U.S. business enterprise or an equivalent interest in an unincorporated U.S. business enterprise. Majority foreign-owned direct investment statistics require a foreign ownership threshold of 50 percent or more.

## FDI in the US is measured in two ways: 1) Position/stock and 2) Flow

### ❑ Inward FDI Position / Stock

- *This measure captures the cumulative value of FDI from a market to the United States at a single point in time (typically year-end).*
- BEA describes this as a “measure [of] the total outstanding level of FDI in the US at year end.”
- *FDI stock (sometimes called FDI position) are relatively stable and may be a better measure to compare investment between and across countries than FDI flow data. Although rare, FDI stock or positions can be negative.*<sup>SUSA</sup>

### ❑ Inward FDI Flow (aka “transactions”, “expenditures”, “new investment”)

- *This measure captures FDI from one market to the United States within a given time period.*<sup>SUSA</sup>
- *FDI flows are more volatile and may be best suited for examining the reaction to economic shocks or changes in policy. Note that FDI flows can be negative in certain cases, for example when there is divestment of a prior investment or when intercompany debt outflows exceed intercompany debt inflows.*<sup>SUSA</sup>

## FDI is commonly thought about in the following categories:

### ❑ Greenfield Investment

- Often, “greenfield” is considered to be a new operation. Expansions (see below) is often seen as separate from “greenfield.”
- However, in BEA data, “greenfield” is a combination of “Establishments” and “Expansions.”

- *Greenfield FDI occurs when a foreign parent or a domestic affiliate of a foreign parent builds or expands operations (i.e. a new plant) in another country from the ground up.*<sup>SUSA</sup>

#### **Expansions**

- Expansions are commonly considered separate from greenfield investments (see above).
- However, in BEA data, “greenfield” is a combination of “Establishments” and “Expansions.”

#### **Mergers and Acquisitions (M&A)**

- *M&A describe FDI transactions that involve companies joining operations or ownership to achieve financial or strategic objectives. More specifically, the Organization for Economic Cooperation and Development (OECD) defines a merger as “two (or more) companies [that] agree to merge into a new single company rather than remain separated for creating business synergies.” An acquisition, on the other hand, is the “purchase of existing shares issued by another company for increasing ownership or control level by the acquiring company.” Often these two terms are used interchangeably, and related merger/acquisition statistics may not be differentiated in aggregate FDI data.*<sup>SUSA</sup>
- BEA calls this category “Acquisitions.”

### **BEA expenditure (or flow) data are the sum of acquisitions, establishments and expansions:**

#### **Acquisitions**

- This is the M&A category described above.
- BEA definition: “foreign entity acquires at least 10% of a US business”

#### **Establishments**

- This is part of BEA’s Greenfield (see above). This is the establishment of a new foreign-owned business.
- BEA definition: “foreign entity establishes a new legal entity in the US, which it owns 10% or more of”

#### **Expansions**

- This is part of BEA’s Greenfield (see above). This is the expansion of an existing foreign-owned facility.
- BEA definition: “expansion of operations to include a new facility where business is conducted whose cost is greater than \$3 million. An expansion of an existing facility is included in these data if the expansion involves construction of new buildings or structures. The data do not include the simple replacement of equipment or other upgrades to existing facilities.”\*

\*Source: BEA email 3/15/2018

## BEA also reports data by the country that has made the investment (UBO)

### ❑ **Ultimate Beneficial Owner (UBO)**

- *The ultimate beneficial owner (UBO) is the entity at the top of an affiliate's ownership chain. It is the entity that ultimately owns or controls the affiliate and thus ultimately derives the benefits and assumes the risks from ownership or control. The UBO is often but not always the same as the foreign parent. UBO data provide information about which country ultimately benefits from the investment.*<sup>SUSA</sup>

### ❑ **Foreign Parent (FP) vs UBO**

- *As defined by BEA, an FP is the first entity outside the host country in the affiliate's ownership chain with at least 10 percent ownership in the affiliate. Investment data that are classified by country of foreign parent provide information about the relationship between transacting countries.*<sup>SUSA</sup>