FDI outflows from U.S. hit record USD 252 billion in 2004

Foreign direct investment (FDI) outflows from the United States reached USD 252 billion in 2004 – up from USD 141 billion in 2003 to hit an all-time record. While this to some extent reflected the weakness of the dollar, it also confirmed continuing strong interest among US companies in acquiring corporate assets abroad.

Of the largest 25 cross-border mergers and acquisitions in 2004, five had a US-based company as the acquirer. A recovery of M&A activity in 2004, meanwhile, has carried on into 2005. On present trends, both inward and outward FDI in OECD countries could increase by 10-15 per cent in 2005, OECD estimates suggest.

Inward FDI into Germany and France, the two largest economies of the European continent, fell sharply in 2004. In France inward investment almost halved, falling from USD 43 billion to USD 24 billion. In the case of Germany, foreign investors actually withdrew about USD 39 billion from the country, reversing the inflow of USD 27 billion recorded in 2003. (Inward FDI figures include transactions, which can involve both inflows and withdrawals, between foreign-invested enterprises and their foreign mother companies. The downturn in 2004 largely reflected repayments to recipients outside Europe of inter-company loans and other transaction between related enterprises.)

For the OECD area as a whole, according to figures newly published by the OECD in an article on “Trends and recent developments in Foreign Direct Investment” (http://www.oecd.org/dataoecd/13/62/35032229.pdf), FDI inflows continued on a downward trend, falling to USD 407 billion in 2004 from USD 459 billion in 2003. Outflows, on the other hand, rose from USD 593 billion in 2003 to USD 668 billion in 2004.

Against this background, net FDI outflows from OECD countries to the rest of the world reached record high levels in 2004: the OECD area was a net contributor of USD 261 billion worth of direct investment – most of which went to developing countries. In 2003, OECD countries invested a net USD 134 billion outside the OECD area.

China continued to receive a large share of the direct investment in developing countries, with inward FDI into mainland China rising to a record USD 55 billion in 2004 from USD 47 billion in 2003. Asian financial centres Hong Kong (China) and Singapore, with a total of USD 50 billion in inward investment in 2004, also remain important destinations for FDI inflows.

However, other economies have made progress as well:
• South America seems to be climbing out of the trough that followed the Argentine crisis, with inflows in 2004 into Argentina (USD 4 billion in 2004), Brazil (USD 18 billion) and Chile (USD 8 billion) all around twice the levels recorded in 2003.

• India is making steady progress in establishing itself as an attractive destination for FDI. Inward direct investment has trended upwards since the late 1990s to reach USD 4.3 billion in 2003 and USD 5.3 billion in 2004. As Indian FDI statistics are less inclusive than most, this figure is moreover a low-end estimate.

• Inflows into Russia were already stronger in 2003 and gained further in 2004. As in earlier years, much investment went to the hydrocarbons and retailing sectors, but there is also a growing tendency for foreign producers of consumer goods to establish production sites in Russia.

While developing countries continue to be major recipients of FDI, several are gaining importance as outward investors as well. In Latin America, large companies in Mexico and Brazil appear to be in a process of firstly engaging in regional integration through investment and then moving to develop truly international corporate networks. Chinese enterprises have increasingly undertaken “strategic” investment abroad, inter alia to gain access to raw materials. While these trends are interesting in qualitative terms, however, the sums involved are still small by international comparison.

For further comment, journalists are invited to contact Hans Christiansen, OECD’s Directorate for Financial and Enterprise Affairs (tel. +33 1 4524 8817 or hans.christiansen@oecd.org).