

*U.S. Direct Investment Abroad:  
A Historical Perspective*



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Douglas Irwin  
Dartmouth College

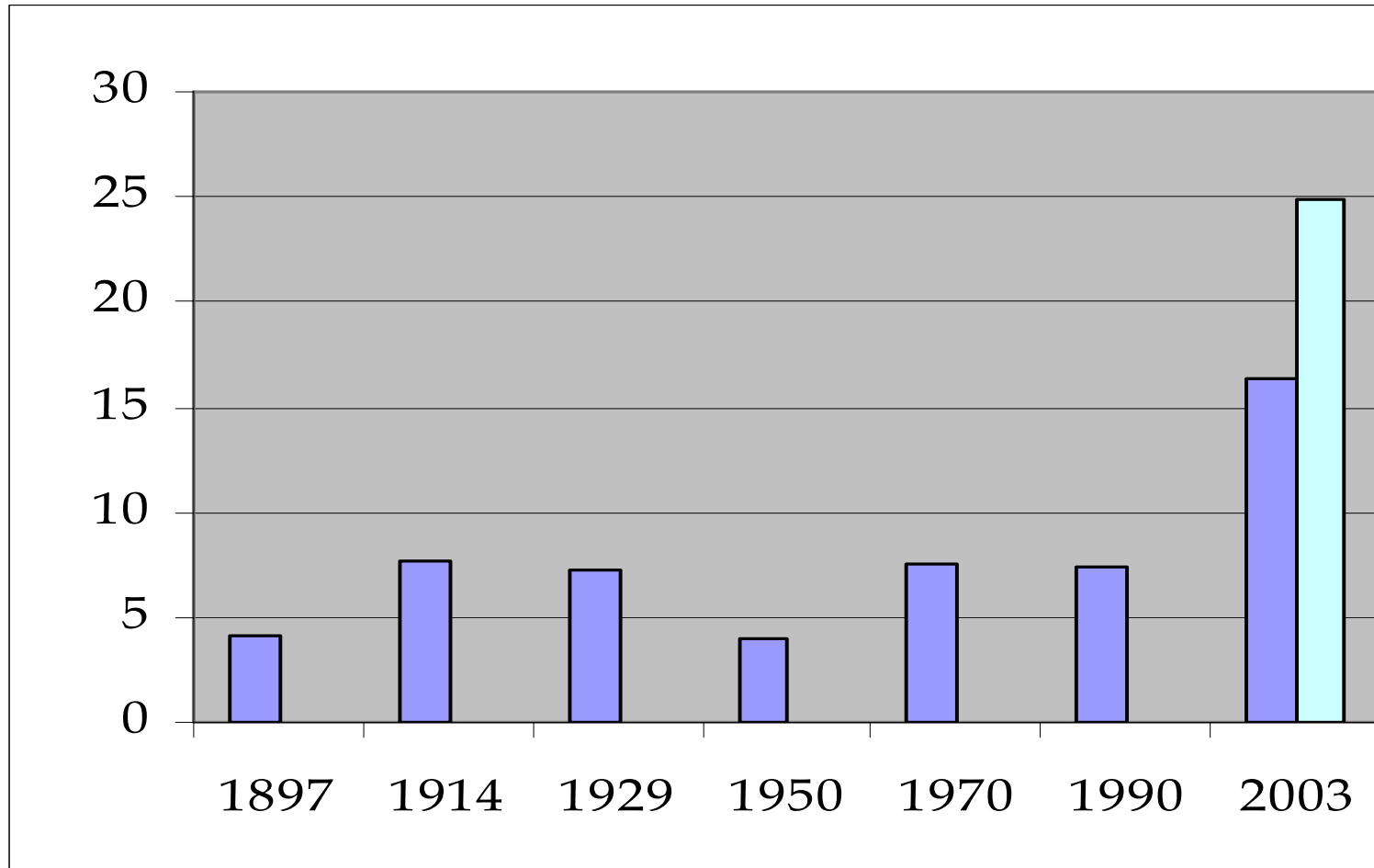
# Three Questions



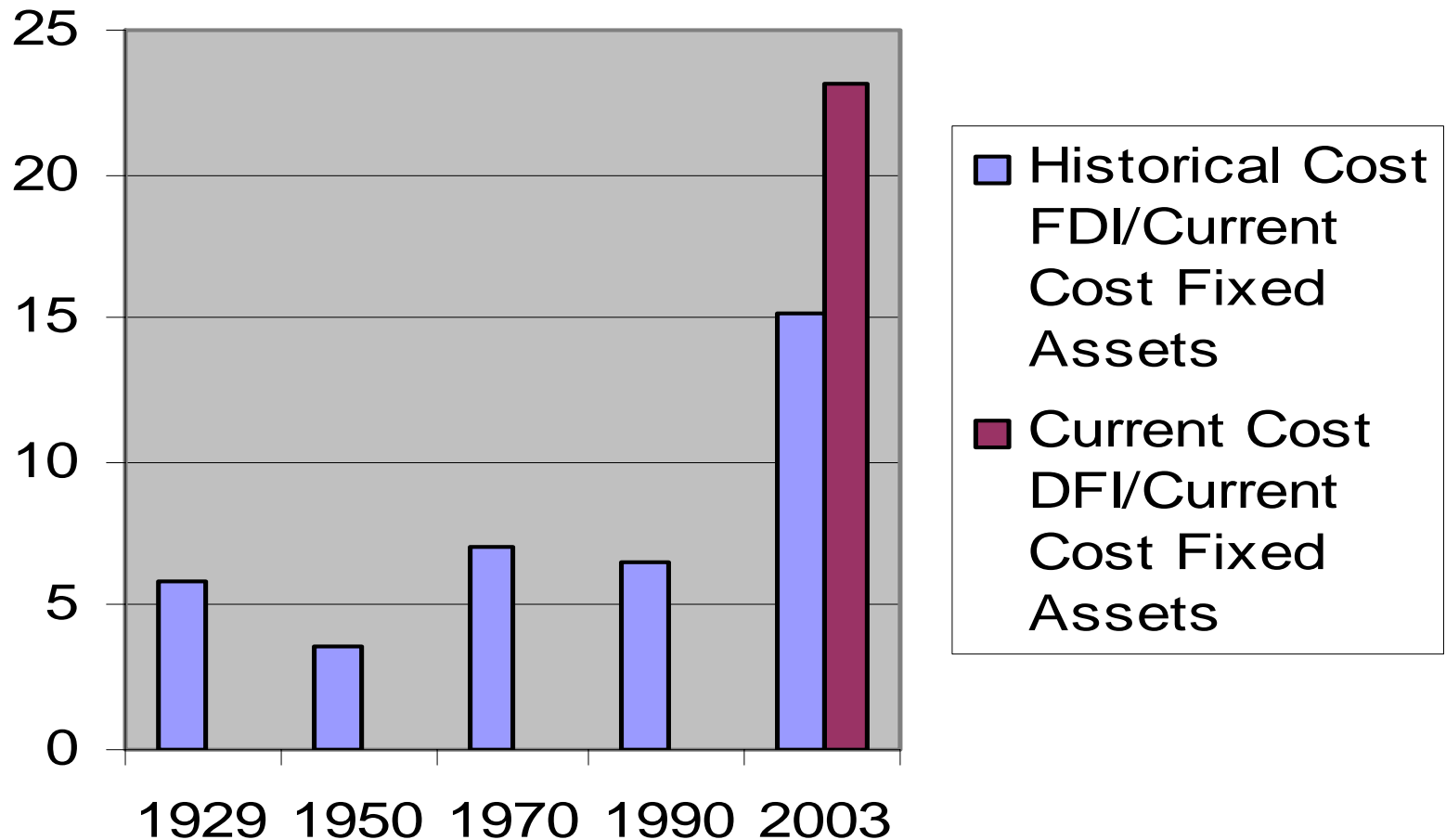
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- How has amount of USDIA changed?
- How has nature of USDIA change?
- What do these trends tell us?

# USDIA as percent of US GDP



# USDIA as percent of US capital stock





# Early Motives for USDIA

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- New sources of supply
- New markets for sales



# Foreign Investment in 1914

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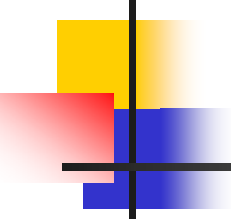
- Mining (27%)
- Agriculture (13%)
- Oil (13%)
- Manufacturing (18%)



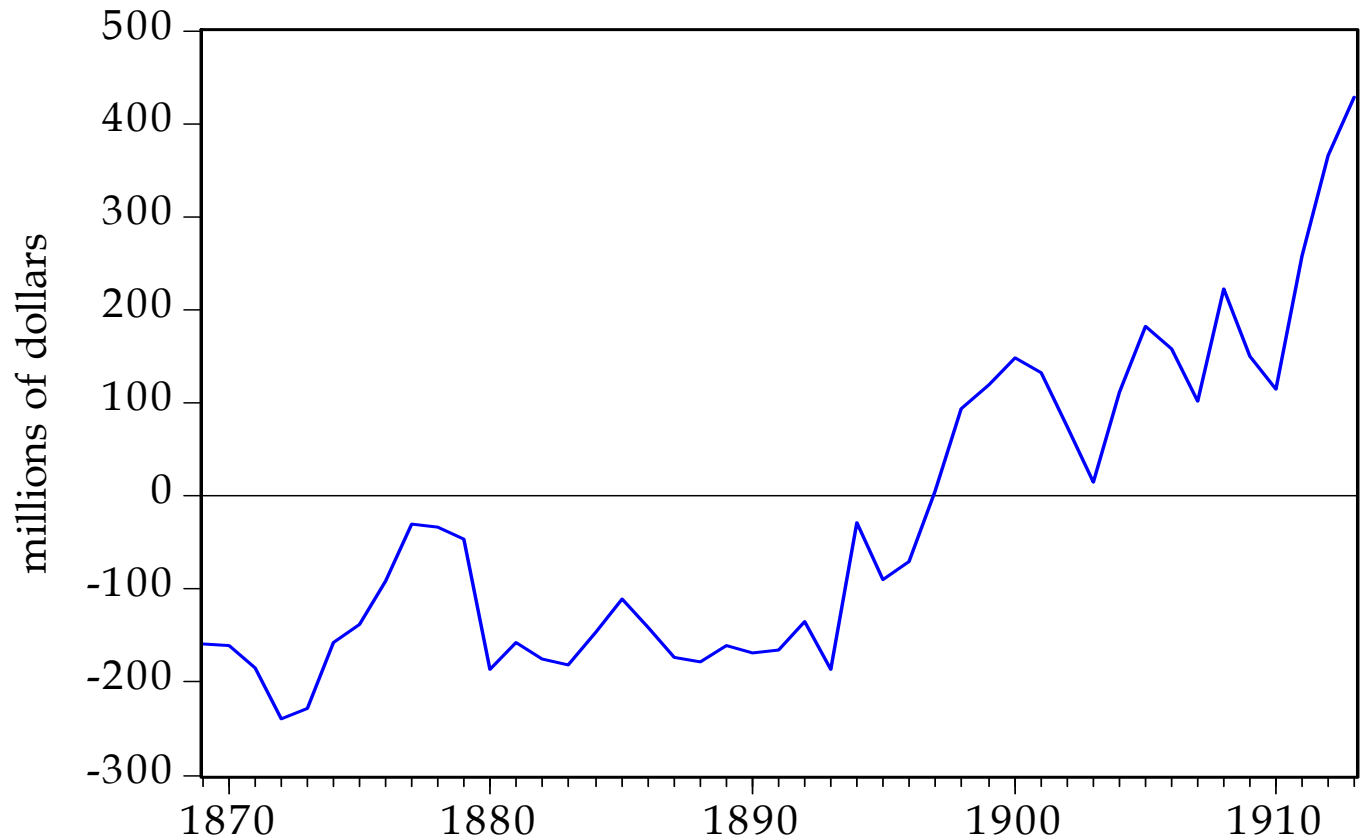
# Pre-1914 Sources of Supply

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

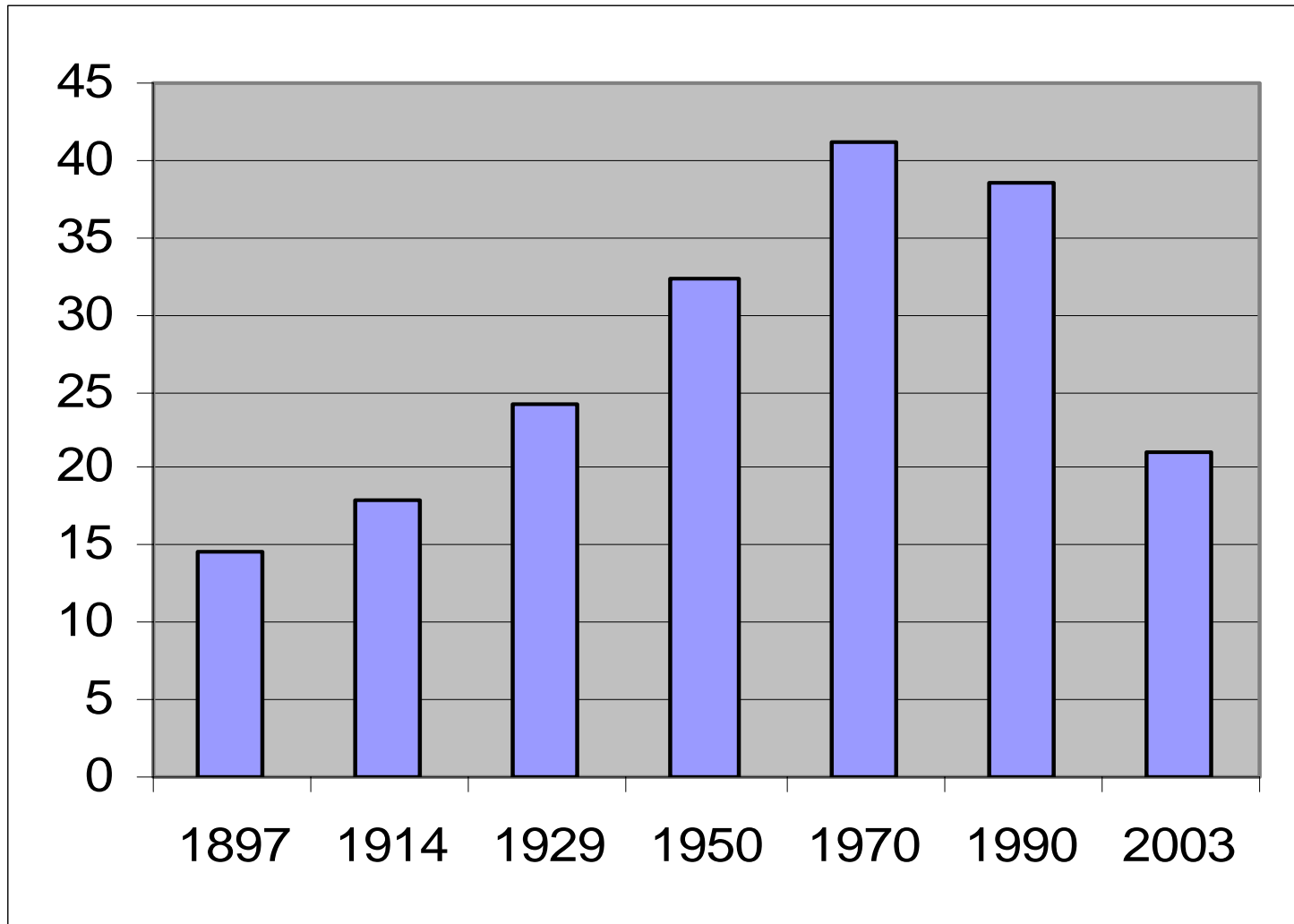
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- “The skeptic’s claim that for major U.S. enterprises of the pre-World War I years foreign business was simply peripheral . . . seems to be supported by the evidence. . . . In 1914, the vast majority of American corporations were not multinational.”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

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



Trade Balance in Manufactured Goods

# Share of USDIA in Manufacturing





# Motives for USDIA in manufacturing

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- Foreign trade barriers
- Produce near local markets



# Problems hindering foreign investment, circa 1948

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



# Multilateral Investment Code?

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- International Trade Organization (d.1950)
  - Little protection to foreign investment
  - Provides for future action
  - Code and court for investment?
- GATT (1947) – nothing on investment

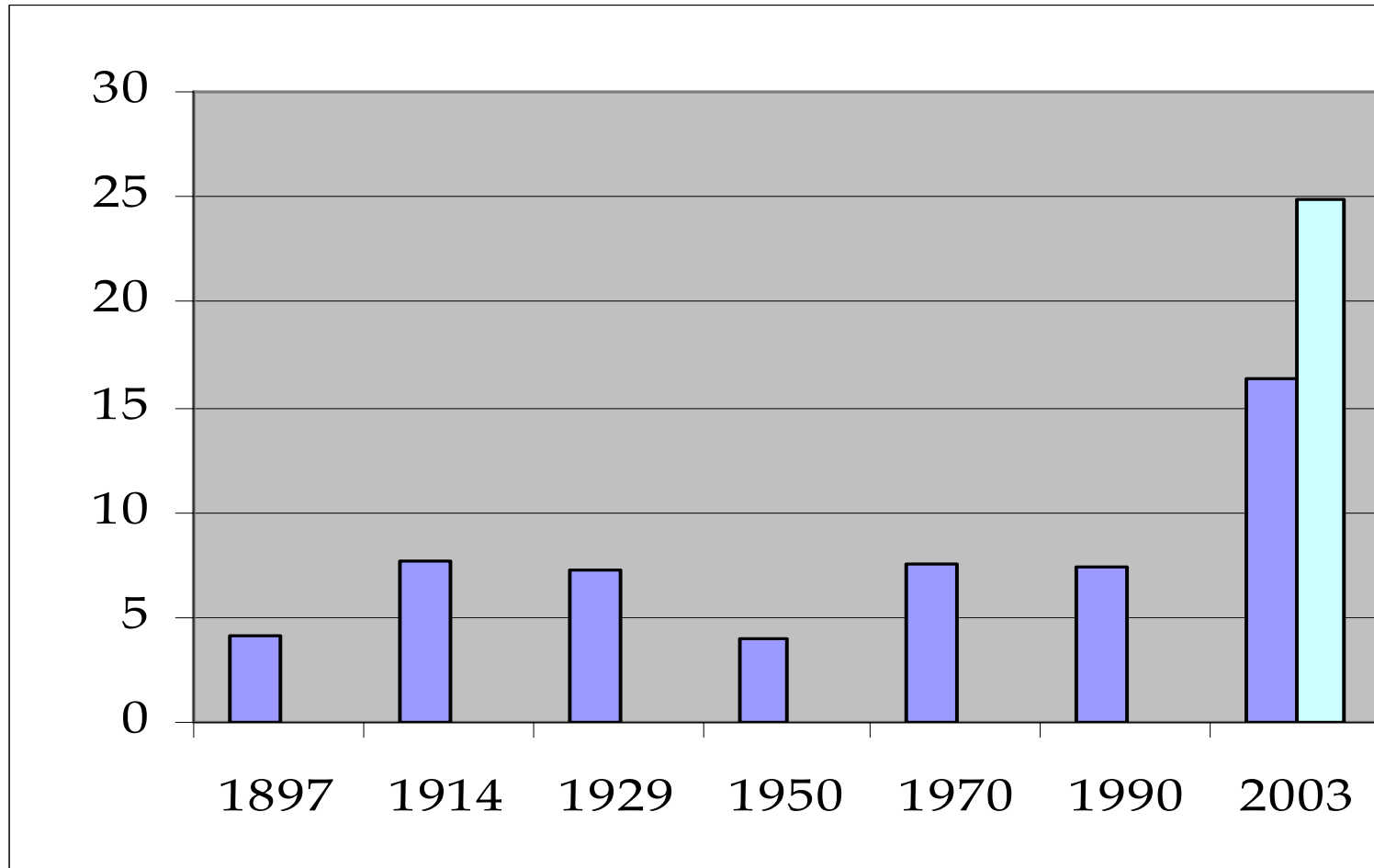


# Recent Developments

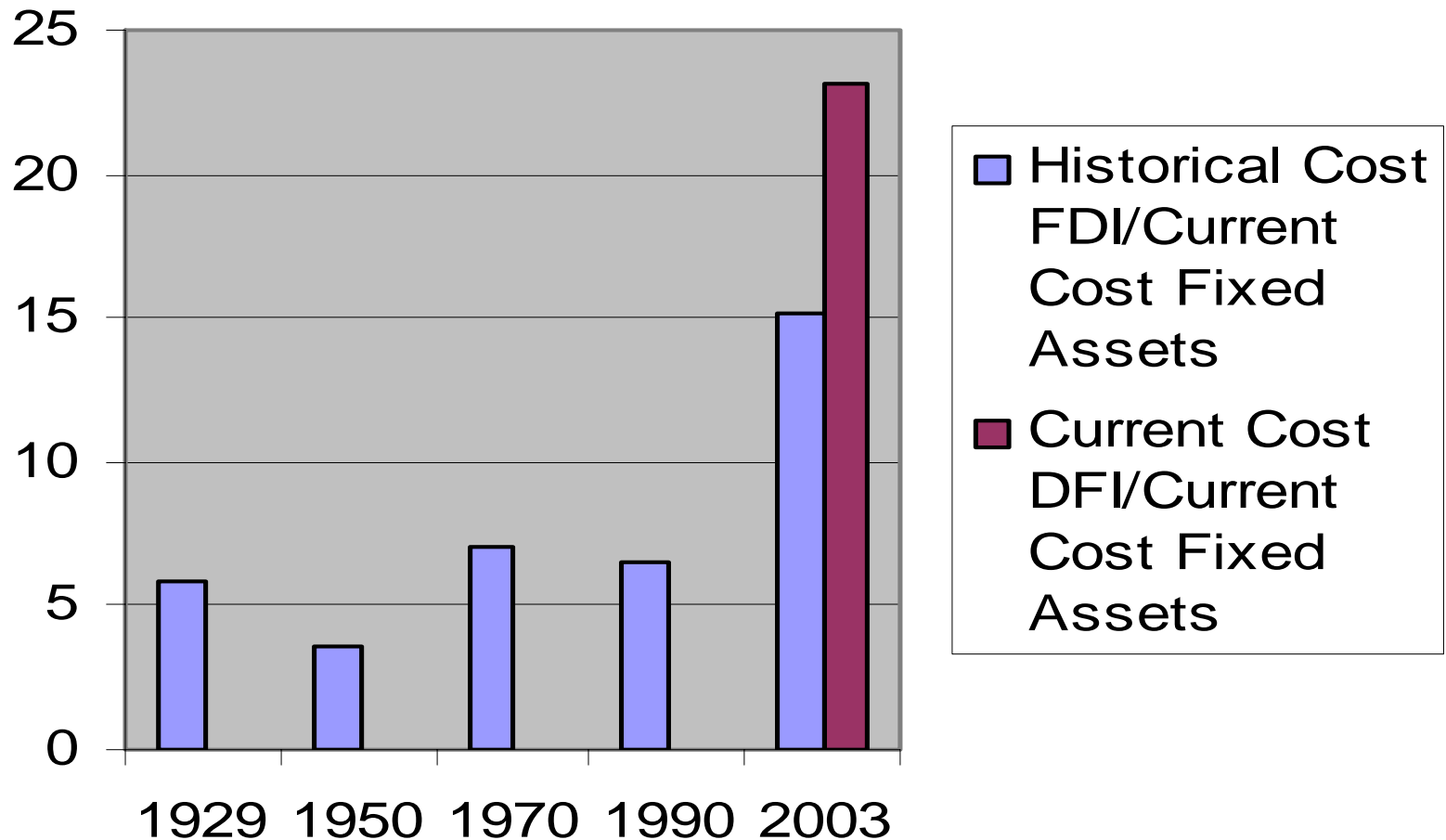
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- Explosion of USDIA in 1990s
- Shift toward Europe
- Shift away from manufacturing

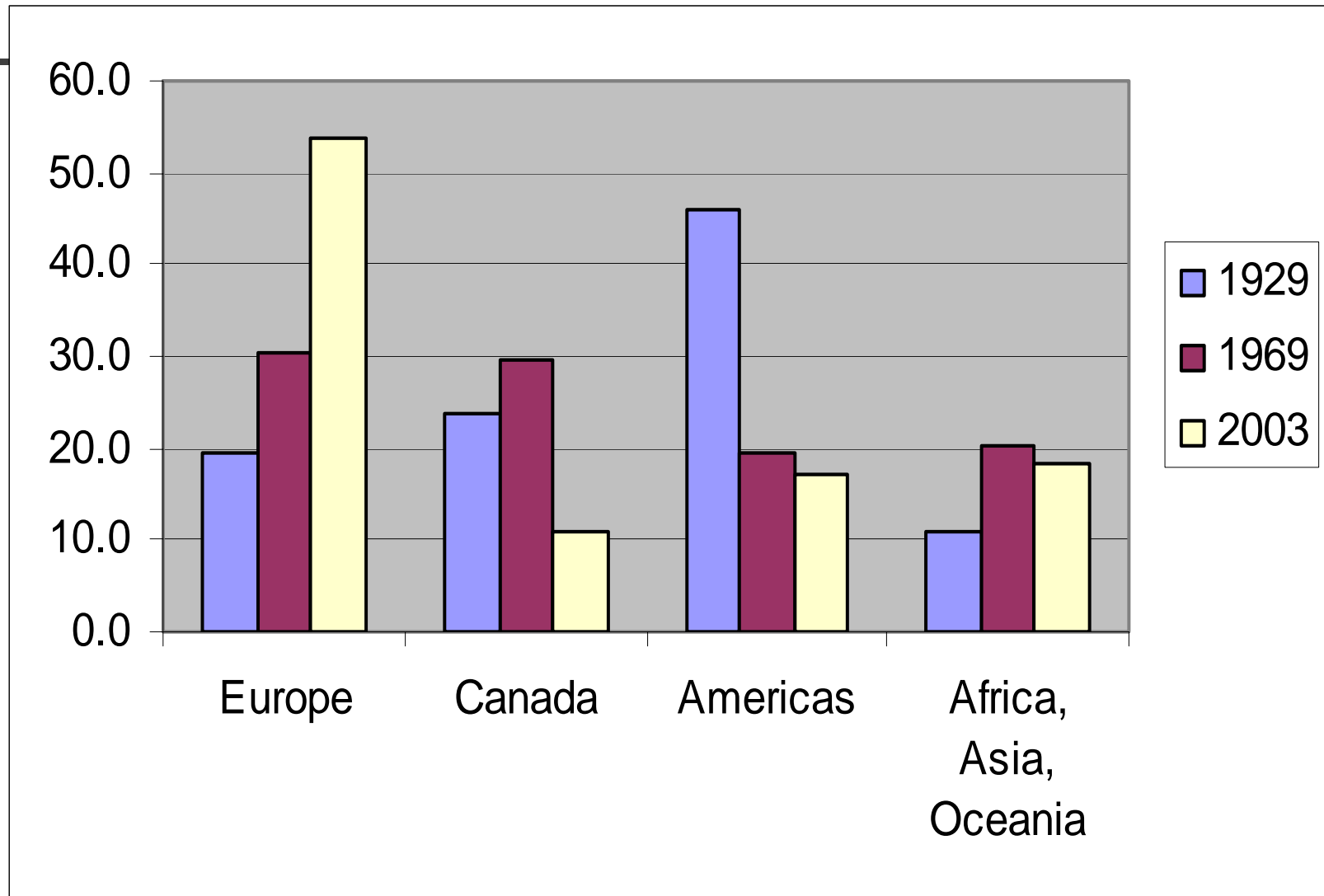
# USDIA as percent of U.S. GDP



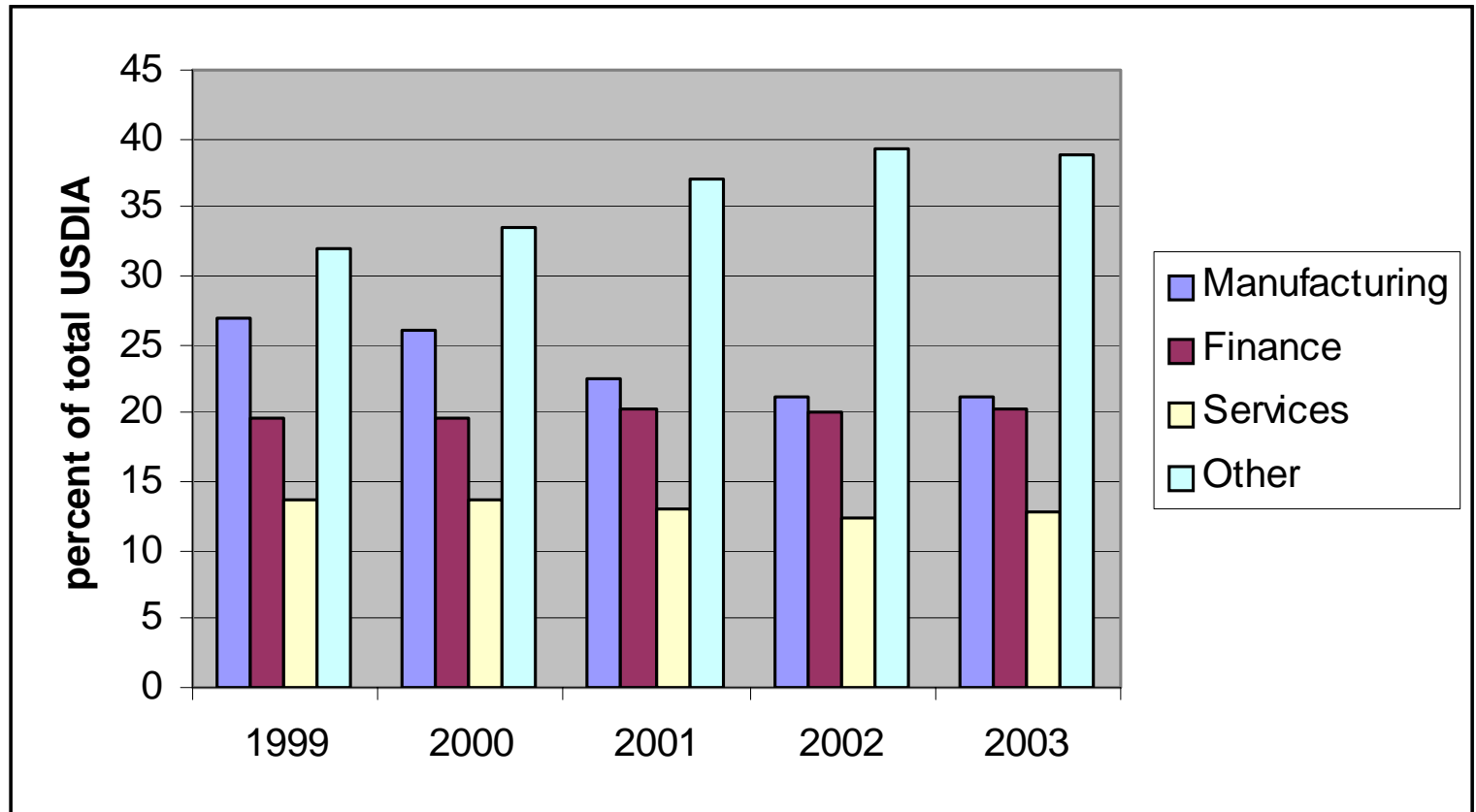
# USDIA as percent of US capital stock



# Regional Shares of USDIA



# Relative Decline of Manufacturing



# Growth in USDIA, 1999-2003



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



# What is “Other”?

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- Retail trade
- Construction
- Holding companies



# Conclusions

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- 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)