



Foreign Direct Investment: Background and Issues

Both inward and outward foreign direct investment (FDI) are significant to the U.S. economy, international trade, and global supply chains, and form a key component of U.S. trade policy. Traditionally, the United States has supported a rules-based and open investment environment domestically and internationally to promote U.S. economic growth and other policy objectives, such as ensuring that the United States remains a premier destination for FDI and ensuring the competitiveness of U.S. companies overseas. U.S. investment policy includes negotiating rules and market access commitments concerning FDI in free trade agreements (FTAs) and bilateral investment treaties (BITs), and administering investment promotion programs. At the same time, the United States maintains a foreign investment review regime to review a small share of inbound transactions that may pose a risk to U.S. national security; many other countries have such policies in place.

What is Foreign Direct Investment (FDI)?

FDI occurs when a resident of one country obtains a lasting interest in, and a degree of influence over the management, of a business enterprise in another country (commonly defined as 10% or more of the voting securities or equivalent interest). FDI can take the form of the establishment of new operations (“greenfield investments”), the purchase of existing operations (mergers and acquisitions, M&As), or the addition of capital to existing operations. It is distinct from portfolio investment, i.e., ownership of stocks, bonds, or other financial assets.

In June 2021, President Biden reiterated the United States’ commitment to an open investment posture to “treat all investors fairly and equitably under the law” and “maintain a level playing field,” while prioritizing review of certain foreign investments to “protect national security.” Congress also has enacted laws and considered legislation affecting U.S. investment policy, driven by the potential security and competitiveness risks posed by China’s investments in the United States and overseas, and other policy concerns. These issues remain actively debated in the 118th Congress.

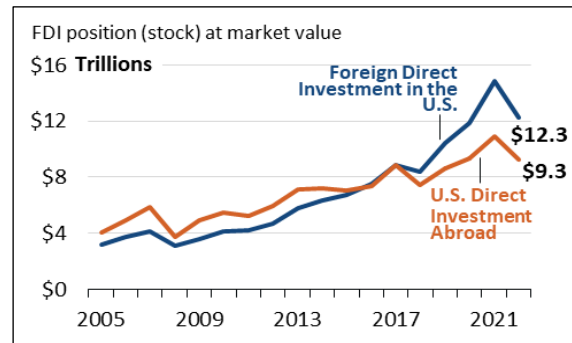
FDI Trends and Recent Investments

Following a strong recovery from the COVID-19 pandemic, global FDI flows fell by 12% in 2022 compared to 2021. The slowdown was driven primarily by overlapping global crises (e.g., Russia’s war in Ukraine, high food and energy prices, and debt pressures) and lower multinational enterprise (MNE) financial flows and transactions in developed economies. FDI fell by 37% in developed economies and increased by 4% in developing economies.

The United States is the world’s largest source and recipient of direct investment. In 2022, on a market value basis, U.S. direct investment abroad (USDIA) stock stood at \$9.3 trillion, while FDI stock in the United States totaled \$12.3 trillion (Figure 1). From 2005 to 2022, FDI into the United States nearly quadrupled while USDIA more than doubled (not adjusting for inflation). As a share of U.S. MNE global activity, in 2021, U.S. parent companies accounted for 68%

of employment, 76% of value-added, 79% of capital expenditures, and 85% of research and development.

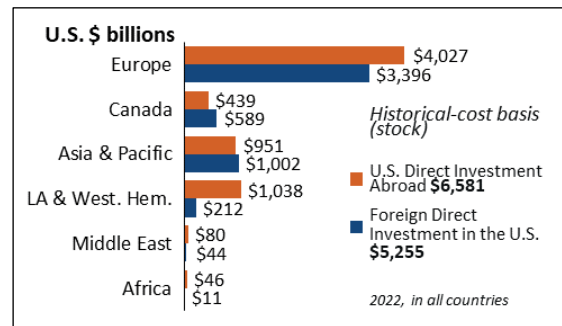
Figure 1. U.S. Direct Investment Position: Market Value (Stock), 2005-2022



Source: CRS with data from the U.S. Bureau of Economic Analysis.

On a historical-cost basis, most USDIA (stock) was in high-income countries. By region, Europe is the top U.S. investment partner, accounting for 61% of U.S. outbound investment and 65% of U.S. inbound FDI (Figure 2). By sector, in 2022, USDIA was mainly in holding companies (47%); financial services (14%); and manufacturing (15%), particularly chemicals. The largest share of U.S. inbound FDI (42%) was in manufacturing, again mainly chemicals.

Figure 2. U.S. Direct Investment Position: Historical-Cost Basis (Stock), 2022



Source: CRS with data from the U.S. Bureau of Economic Analysis.

Key Debates and Issues for Congress

At the intersection of many competing interests, U.S. investment policy has been the subject of long-standing debate. FDI can allow U.S. firms to expand in global markets, and attract capital and businesses to the United States that may support jobs. Some policymakers assert that FDI can also advance U.S. foreign policy and other strategic objectives. At the same time, some policymakers argue that U.S. outbound investment may offshore U.S. production and jobs. Some contend that certain outbound investment and related technology transfer may not be market-driven and may undermine U.S. competitiveness. There are also concerns that China’s FDI in the United States challenges U.S. economic and national security

interests. Possible FDI policy issues facing Congress include the effects of FDI on the U.S. economy, firms, workers, and U.S. supply chains; further reforms to foreign investment review and whether to require greater transparency and oversight of certain U.S. outbound investments; U.S. investment policy aims and commitments in trade deals and new initiatives; trading partners' FDI policies; and the effectiveness of U.S. investment financing.

Foreign Investment and Outsourcing. Some observers are concerned that U.S. investment abroad contributes to slow growth in domestic jobs and wages, viewing firms as outsourcing jobs, particularly in manufacturing, to lower wage countries. There are examples of U.S. firms closing a U.S. plant and opening one abroad, but there are no official sources that track such activities. Most USDIA, however, is in developed economies, and most production by foreign affiliates is consumed where it is produced and is part of a strategy to access markets abroad. Foreign affiliates on average sell most of their output in the country in which they are located or to neighboring countries; about 12% of foreign affiliate sales was to their U.S. parent companies in 2021 (latest data). Economists generally attribute the decline of manufacturing jobs to broader factors, including economic recessions and improvements in productivity that have allowed the sector to produce more with less labor.

Foreign Investment and National Security. A key issue for some policymakers is that certain foreign investments by firms directed, controlled, or funded by a foreign government may raise national security concerns. Some argue that the rise of China's state-directed investments requires a more proactive, strategic approach to screening investments. The interagency Committee on Foreign Investment in the United States (CFIUS) reviews such risks, and the President has authority to block or suspend transactions that threaten U.S. national security. In 2018, Congress updated laws governing CFIUS in the Foreign Investment Risk Review Modernization Act (FIRRMA, P.L. 115-232), as well as export controls laws. FIRRMA expanded CFIUS's jurisdiction to review non-controlling investments that involve critical technologies, critical infrastructure, and sensitive personal data, and some real estate transactions. Some are concerned that despite reforms, certain transactions such as in greenfield and in emerging technologies, may evade or fall outside current U.S. authorities and review. See CRS In Focus IF10177, *The Committee on Foreign Investment in the United States*. Congress is considering legislation to expand U.S. foreign investment review and to address outbound investments of concern. In August 2023, President Biden issued Executive Order (E.O.) 14105 to establish a new program that would: (1) prohibit certain U.S. investments in "countries of concern" involving sensitive technologies that pose acute national security risks, and (2) require notification for other investments. Proposed approaches to an outbound regime differ on the countries, sectors, and investments covered, and debate over the scope of restrictions remains ongoing.

Investment Agreements and Other Initiatives. As World Trade Organization (WTO) agreements address investment in a limited manner, BITs and FTAs provide the key tools for establishing investment rules globally.

The United States has BITs or FTAs with investment

chapters with over 50 countries. These agreements aim to reduce FDI restrictions and ensure nondiscriminatory treatment of investors and investment, subject to national security and other exceptions, balancing other policy interests—typically enforced through investor-state dispute settlement (ISDS). BITs require two-thirds Senate approval; FTAs require approval by both Chambers to enter into force. The U.S.-Mexico-Canada Agreement (USMCA) contains the most recent set of U.S. investor protections and notably limits recourse to ISDS. See CRS In Focus IF10052, *U.S. International Investment Agreements (IIAs)*. The United States also has cooperative dialogues on investment policy through Trade and Investment Framework Agreements (TIFAs) and other executive initiatives (see below).

Congress set U.S. negotiating objectives for foreign investment most recently in the 2015 Trade Promotion Authority (TPA) (P.L. 114-26), which expired in 2021. Congress may seek to set new objectives as part of potential consideration of TPA renewal, or separate authorities. Congress may also monitor investment components of Biden Administration initiatives, such as the U.S.-EU Trade and Technology Council (TTC), which aims to promote cooperation on investment screening, and Indo-Pacific Economic Framework for Prosperity (IPEF), which aims to facilitate clean energy and infrastructure investments.

Investment Financing and Promotion. Federal programs seek to facilitate FDI. The U.S. International Development Finance Corporation (DFC) aims to promote private investment generally in less-developed countries, to support economic development and advance U.S. economic interests and foreign policy. Created in 2018 (P.L. 115-254) in part to respond to China's "One Belt, One Road" initiative, DFC provides financing, political risk insurance, equity, and technical assistance for investment projects. SelectUSA, a Commerce Department program established by E.O. 13577 in 2011, aims to coordinate federal efforts to attract and retain foreign investment, on top of state and local-level efforts. It provides information and counseling, business connection and promotion platforms, and advocacy services.

DFC's authorities are to expire in October 2025. Whether in a potential DFC reauthorization debate or separately, Congress may examine DFC's: effectiveness in countering China; impact on U.S. firms' competitiveness globally; and international standard-setting role (e.g., for infrastructure). Congress also may examine SelectUSA's: potential codification, role in U.S. competition for FDI, and relationship to existing sub-federal FDI attraction efforts. Other issues include DFC and SelectUSA's roles in facilitating FDI for critical U.S. supply chains. For more, see CRS In Focus IF11436, *U.S. International Development Finance Corporation (DFC)* and CRS In Focus IF10674, *SelectUSA: U.S. Inbound Investment Promotion*.

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