HOT TOPIC

High Foreign Investment in the U.S. —

Web Editor

According to data from the International Monetary Fund, the United States received almost one-third of all global foreign investment from 2021 to 2023. This compares with an average of just 18% before the pandemic. The dramatic increase is even more remarkable considering widespread concern about the dominance of the U.S. dollar as a global currency.[1]

By contrast, China received just 3% of foreign investment from 2021 to 2023, a significant drop from an average of 7% in the decade ending 2019. Investment in other emerging economies also declined as the United States dominated the global investment picture. While this imbalance contributed to an already strong U.S. economy, it weakened emerging economies that are more dependent on foreign investment.[2]

Foreign investment falls into two broad categories of capital inflows from a foreign individual, company, or government. Foreign portfolio investment involves buying securities, while foreign direct investment involves buying an ownership stake in a business enterprise or starting a new business.

Buying U.S. securities

In the year ending June 30, 2023 (most recent data), foreign portfolio holdings in U.S. securities totaled almost $26.9 trillion, an increase of about $2 trillion from the previous year.[3] Part of this increase was likely due to gains in the U.S. stock market, but foreign capital was also drawn by high interest rates offered by U.S. Treasury securities and other fixed-income investments.[4]

The largest foreign holders of U.S. securities are in the United Kingdom, Japan, the Cayman Islands, Luxembourg, and Canada. The heavy holdings in the Cayman Islands and Luxembourg are due to their popularity as jurisdictions for private equity funds.[5]

China, which ranks seventh in total U.S. portfolio investment, has low U.S. equity investments but is second to Japan in holding long-term Treasury securities — causing some concern that China might jolt U.S. markets by "dumping" U.S. debt. However, this is unlikely, because it would drive down the value of the dollar against the Chinese yuan, which would make Chinese export goods more expensive and therefore less competitive.[6–7]

Owning U.S. companies

While foreign ownership of U.S. securities brings capital flows that can help strengthen the [illegible]ions can change quickly as they are bought and sold [illegible]direct investment (FDI) is a more lasting commitment by a foreign entity to do business in the United States. FDI totaled $5.39 trillion at the end of 2023, an increase of $227 billion over the previous year.[8]

The U.S. Department of Commerce breaks FDI into three categories: acquisitions, new businesses, and business expansion. Establishing and expanding businesses are called *greenfield investments*, because they create new opportunities in the U.S. workforce and new capacity within the U.S. economic engine. For this reason, greenfield investments are the most important type of FDI. But they are also the smallest component, averaging about 5% of all foreign direct investment from 2015 to 2022.[9]

More than 40% of FDI in the United States is in the manufacturing sector.[10] Three government initiatives aimed at encouraging investment in key manufacturing industries — the 2022 Inflation Reduction Act, the Infrastructure Investment and Jobs Act, and the CHIPS and Science Act — have stimulated both domestic and foreign-funded projects.[11] A preliminary agreement by a Taiwan-based company to invest more than $65 billion in three semiconductor plants in the Phoenix, Arizona, area — aided by up to $6.6 billion in funding under the CHIPS and Science Act — would be the largest greenfield investment in U.S. history.[12]

Based on the location of the parent company, the top countries for FDI are the Netherlands, Japan, Canada, and the United Kingdom. The Netherlands ranks high only because it is the domicile for many large holding companies. Based on the country of the *ultimate beneficial owner* — the entity at the top of the global ownership chain — the top investing country is Japan, followed by Canada, Germany, and the United Kingdom. China is a minor player in FDI.[13]

While the U.S. Treasury Department does not place nationality restrictions on buying or selling securities (apart from certain sanctions), large transactions with foreign entities must be reported by the U.S. broker/dealer. Certain foreign direct investments and real estate transactions may be reviewed for national security concerns by the multiagency Committee on Foreign Investment in the United States.[14]

Risks to future investment

Now that the Federal Reserve has begun lowering interest rates, the U.S. edge on fixed income investments might become less significant, but the strength of the U.S. stock market may continue to draw foreign portfolio capital, while government incentives for new manufacturing projects could continue to drive foreign direct investment.

The biggest threats to future foreign investment are the untamed U.S. deficit and the potential for changing trade policies and political unrest. Any of these could make the U.S. business and investment climate less appealing.[15] For now, however, much of the world is putting their money to work in the United States.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of

Treasury securities fluctuates with market conditions. If not held to maturity, they could be worth more or less than the original amount paid.

1, 2, 4, 15) Bloomberg, June 16, 2024
3, 5–6) U.S. Treasury Department, April 30, 2024
7) Investopedia, October 18, 2024
8, 10, 13) U.S. Bureau of Economic Analysis, July 23, 2024
9) U.S. Commerce Department, September 2024
11) U.S. Treasury Department, June 27, 2023
12) U.S. Commerce Department, April 8, 2024

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