

Analysis Report

In 2022, the US inward foreign direct investment balance increased by 4.3%, which was the slowest annual growth in 13 years.

Japan has ranked first in terms of direct investment balance for the fourth consecutive year, with continued investment in EVs and semiconductors.

August 23, 2023

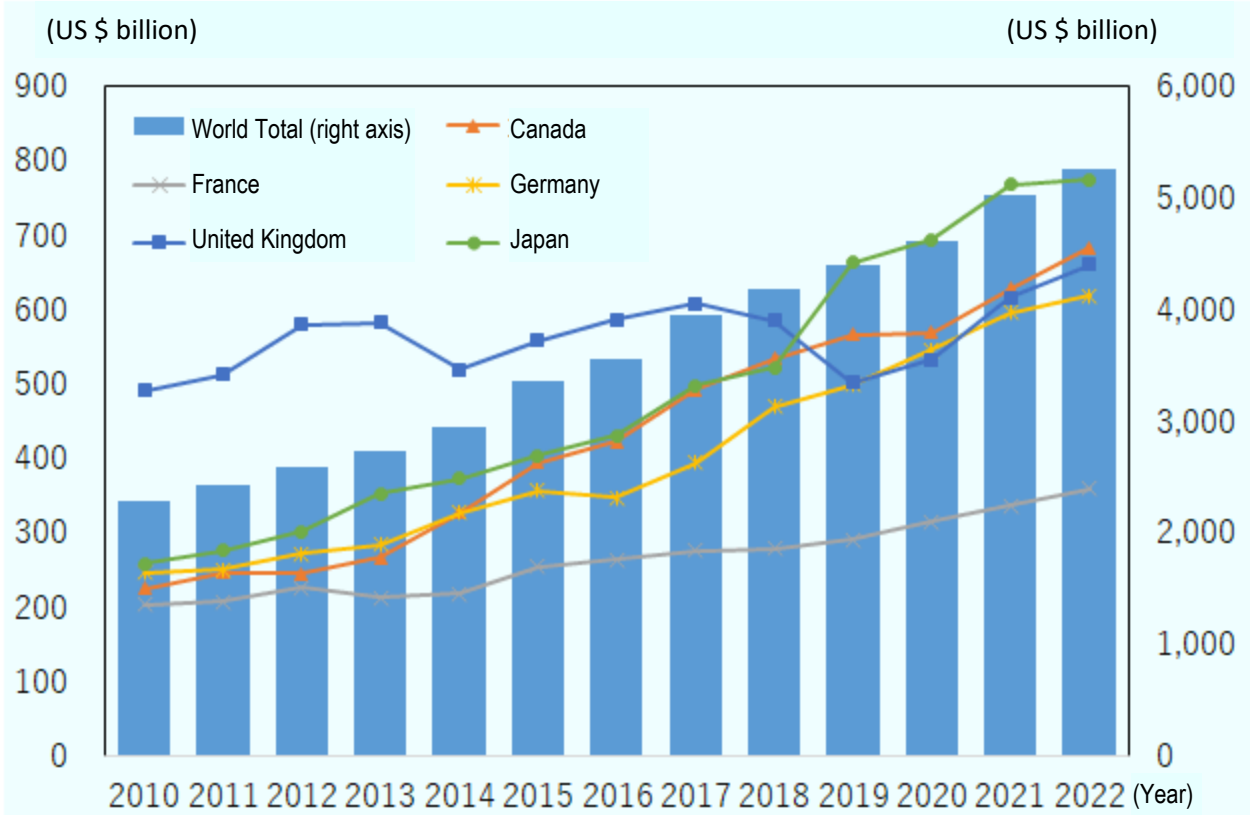
The U.S. inward foreign direct investment balance as of the end of 2022, which was announced by U.S. Department of Commerce in July 2023 was \$5,254.8 billion, showing an increase of 4.3% from the previous year (See [U.S. Department of Commerce News Release dated July 20, 2023](#)). Though the balance of inward direct investment from foreign countries increased by \$216.8 billion compared to the previous year, the growth rate (4.3% increase) was lower than the previous year (9.2% increase) and was at the lowest level in 13 years since 2009. When seen by country, Japan recorded the largest amount of direct investment for the fourth consecutive year, and Japanese companies continued to announce investments related to electric vehicles (EVs) and semiconductors.

The balance of inward foreign direct investment in the United States has grown at an average annual rate of 7.2% from 2010 to 2022, and the growth rate in 2022 (4.3% increase) was even lower than that in 2020 (4.9% increase) during the COVID-19 pandemic. The substantial decrease in acquisitions of US companies by foreign companies (M&A in the US), which have contributed significantly to the increase in investment balances in every year, with the background of the deterioration of the financing environment due to high interest rates and the strengthening of the dollar, increased geopolitical uncertainty in Europe and other countries, and concerns about a global economic recession can be pointed out as one of the factors (Note 1). According to British research firm Refinitiv, M&A projects by foreign companies in the U.S. that were completed in 2022 totaled \$226.3 billion, which was down 55.3% from the previous year, and the number of large-scale projects (valued at \$1 billion or more per transaction) included in the total amount was 56, which was significantly lower than the previous year (85 projects). The acquisition of Switch Inc., which designs and operates data centers, for \$11 billion by an Australian investment company was the only M&A deal worth more than \$10 billion (there were 8 such projects last year).

Among the top five investment source countries, Japan has maintained the top spot for four consecutive years since 2019, with a 2022 increase of 0.8% from the previous year to \$775.2 billion. Following Japan in terms of investment amount were Canada (\$683.8 billion), the United Kingdom (\$660.6 billion), Germany (\$618.8 billion), and France (\$360.2 billion) (See Figure) (Note 2). The ranking of the top five countries remained unchanged from the previous year, but while Japan's increase was small at \$6.3 billion, Canada and the United Kingdom saw large increases of \$54.7 billion and \$43.5 billion, respectively. As a result, while Japan's share of inward direct investment balance in the US declined from 15.3% in the previous year to 14.8%, Canada's share increased to 13.0% (from 12.5% in the previous year) and the UK's share increased to 12.6% (from 12.2%). One of the reasons for the expansion of both countries' shares is M&A with the

United States. Regarding the number of large-scale M&A projects with the US of \$1 billion or more, Japan had only two such projects (see below), while Canada had eight, and the UK had nine such projects. Among Canadian companies, Brookfield Asset Management acquired CDK Global (an IT services provider for automotive retailers) for \$8.3 billion, and the lottery division of Scientific Games for \$6.1 billion. Among British companies, Rentokil Initial, a major sanitary services company, acquired Terminix in the same line of business for \$7.4 billion.

Figure: Changes in Inward Foreign Direct Investment Balance in the United States (UBO basis)



Note: Aggregated values based on the country where the entity that ultimately owns or controls the investment entity (Ultimate Beneficial Owner (UBO)) is located.

Source: Created by JETRO based on statistics from the U.S. Department of Commerce, Bureau of Economic Analysis (BEA)

By industry, the manufacturing industry continued to be the largest investment destination, accounting for 42.4% of the balance of inward direct investment. Although the inward direct investment balance in the manufacturing industry increased by \$107.1 billion from the previous year, the growth rate was 5.0%, lower than the previous year (10.3%) (See Table 1). In the manufacturing industry, chemical had the largest balance, which increased by \$22.5 billion to \$841.3 billion, followed by transportation equipment, which increased by \$10.1 billion to \$198.3 billion. Among non-manufacturing industries, the finance and insurance industry, which had the largest balance, decreased by \$66.4 billion to \$557.5 billion, while the second largest industry, wholesale trade, increased by \$53.9 billion to \$511.9 billion. Among major industries, general

machinery, other manufacturing industries, wholesale trade, and information industries recorded double-digit growth, exceeding the average for all industries (4.3% increase).

In the manufacturing industry, announcements continued on investments related to semiconductors and EVs. In the field related to semiconductors, Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC), the world's largest contract manufacturer, announced in December 2022 that it will begin construction of a second factory to manufacture wafers in Arizona. Including its first factory, which is currently under construction, the company's total investment will be \$40 billion. GlobalWafers, another Taiwanese company, also announced in June 2022 that it would build a wafer factory in Texas. This is the first new silicon wafer factory to be built in the United States in more than 20 years. In the EV-related field, South Korea's Hyundai Motor Group announced in May 2022 that it will establish a new EV and EV battery factory in Georgia. SK On announced in December 2022 that it will establish a new EV battery joint venture factory with Hyundai Motor Group in the state. This project is expected to involve a huge investment of 4 billion to 5 billion dollars. In addition, Vietnamese automaker VinFast also announced in March 2022 that it would invest up to \$2 billion to build a new EV factory in North Carolina.

Table 1: Inward Foreign Direct Investment Balance by Industry (in \$ million) (△ means a negative value)

Industry	2020	2021	2022	% of total	Year-on-year change (%)	Difference from previous year
Manufacturing	1,924,468	2,122,795	2,229,918	42.4	5.0	107,123
Food	112,432	112,593	101,627	1.9	△ 9.7	△ 10,966
Chemical	728,731	818,786	841,254	16.0	2.7	22,468
Metal	85,183	94,113	98,566	1.9	4.7	4,453
General machinery	95,507	103,901	117,780	2.2	13.4	13,879
Computer / Electronics	168,324	188,145	187,225	3.6	△ 0.5	△ 920
Electric machinery / Parts	64,614	72,119	74,664	1.4	3.5	2,545
Transportation equipment	166,527	188,162	198,279	3.8	5.4	10,117
Other manufacturing	503,150	544,977	610,523	11.6	12.0	65,546
Wholesale	447,756	457,913	511,857	9.7	11.8	53,944
Retail	141,680	174,543	188,912	3.6	8.2	14,369
Information industry	182,913	251,183	278,278	5.3	10.8	27,095
Depository institution	217,272	207,143	201,822	3.8	△ 2.6	△ 5,321
Finance (excluding depository institutions) / Insurance	585,749	623,962	557,516	10.6	△ 10.6	△ 66,446
Real estate / Leasing	168,392	206,772	221,771	4.2	7.3	14,999
Professional services	206,403	216,089	227,413	4.3	5.2	11,324

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Industry	2020	2021	2022	% of total	Year-on-year change (%)	Difference from previous year
Other industries	738,848	777,625	837,330	15.9	7.7	59,705
Total	4,613,481	5,038,025	5,254,816	100.0	4.3	216,791

Source: Created by JETRO from U.S. Department of Commerce Bureau of Economic Analysis (BEA) statistics

Japanese Companies Continue Making Investment Announcements related to EV / Semiconductors

The balance of direct investment from Japan increased by \$6.3 billion from the previous year to \$775.2 billion. Looking at the breakdown, the balance of direct investment in chemicals, which accounted for the largest share (21.6%), increased by \$1.3 billion to \$167.3 billion (See Table 2). The direct investment balance in chemical industry recorded an average annual growth rate of 23.5% between 2010 and 2022, and has been the driving force behind the increase of Japan's direct investment balance in the U.S. On the other hand, looking at the year 2022 alone, the growth rate was almost flat at 0.8%. The fact that unlike past years, there were fewer large-scale M&As in the United States can be considered as one of the reasons. In terms of major moves by Japanese companies, Fujifilm announced in November 2022 that it will invest \$190 million to establish a new production facility for cell culture media in North Carolina. The company also announced in March 2021 that it would invest \$2 billion to build a biopharmaceutical manufacturing facility in the state. In addition, it has been announced that Kao will establish a new production facility in Texas (February 2022), and that AGC Biologics, AGC's contract subsidiary for manufacturing and development, will expand its manufacturing facility capacity in Colorado (May 2022).

Table 2: Inward Direct Investment Balance from Japan by Industry (UBO basis) (in \$ million) (△ means a negative value)

Industry	2020	2021	2022	% of total	Year-on-year change (%)	Difference from previous year
Manufacturing	342,715	362,247	370,323	47.8	2.2	8,076
Food	5,680	5,818	6,898	0.9	18.6	1,080
Chemical	162,907	166,082	167,345	21.6	0.8	1,263
Metal	9,561	11,144	11,755	1.5	5.5	611
General machinery	19,212	20,482	21,836	2.8	6.6	1,354
Computer / Electronics	36,506	38,244	40,184	5.2	5.1	1,940
Electric machinery / Parts	2,388	2,699	3,662	0.5	35.7	963
Transportation equipment	61,444	66,919	64,325	8.3	△ 3.9	△ 2,594
Other manufacturing	45,017	50,858	54,318	7.0	6.8	3,460
Wholesale	117,714	125,257	132,717	17.1	6.0	7,460

Table 2: Inward Direct Investment Balance from Japan by Industry (UBO basis) (in \$ million)
(△ means a negative value)

Industry	2020	2021	2022	% of total	Year-on-year change (%)	Difference from previous year
Retail	11,336	—	—	—	—	—
Information industry	10,967	17,860	18,462	2.4	3.4	602
Depository institution	30,378	32,534	32,995	4.3	1.4	461
Finance (excluding depository institutions) / Insurance	115,326	121,958	103,961	13.4	△ 14.8	△ 17,997
Real estate / Leasing	28,041	33,965	31,641	4.1	△ 6.8	△ 2,324
Professional services	14,646	14,632	14,778	1.9	1.0	146
Other industries	23,101	—	—	—	—	—
Total	694,223	768,902	775,247	100.0	0.8	6,345

Note: "—" in the table is not published to protect the data of individual companies.

Source: Created from U.S. Department of Commerce Bureau of Economic Analysis Statistics (BEA)

In the manufacturing industry, transportation equipment, which had the second largest amount of direct investment from Japan (8.3%) after chemicals, decreased by \$2.6 billion to \$64.3 billion. Some companies found their U.S. operations in the red in 2022 as a result of a decline in vehicle production and sales due to shortages of semiconductors and other factors. The decrease is presumed to be due to the withdrawal of internal reserves from US operations and progress in borrowing funds from Japanese parent companies. In terms of movements by individual companies, there have been a number of investment announcements related to the spread of EVs promoted by the US government. In October 2022, Honda announced that it will establish an EV battery factory in Ohio with South Korea's LG Energy Solutions. The total investment is expected to reach \$4.4 billion. In the same month, the company also announced plans to invest \$700 million in three existing factories in Ohio to turn them into hubs for EV production in North America. Among other finished car manufacturers, Toyota announced that it will invest an additional \$2.5 billion in a battery factory scheduled to be built in North Carolina in August 2022, and Nissan Motor Co., Ltd. In February 2022, the company announced that it would invest \$500 million in an existing factory in Mississippi to produce two types of EVs. Outside of automakers, Panasonic Energy announced in October 2022 that it will invest approximately \$4 billion to build a new EV battery factory in Kansas. The company aims to start construction in November 2022 and start production by the end of March 2025. Furthermore, in the transportation equipment industry, announcements were made that Bridgestone will increase its production capacity for truck and bus tires (Tennessee, approximately 70 billion yen), and Toyota will expand its engine production capacity, including the engines for hybrid vehicles (in four states including Alabama, approximately \$400 million). Kubota will establish a new production facility for work equipment used in tractors (Georgia, approximately 18 billion yen), and Teijin will expand its plant for carbon fiber composite material (Indiana, approximately \$100 million).

Among other major industries, the balance of direct investment in computer and electronic products increased by \$1.9 billion to \$40.2 billion. In the industry, semiconductor-related

investments continue, and in March 2022, Fujifilm Electronics Materials announced that it would invest \$88 million for expansion in Arizona. In the same month, JX Nippon Mining & Metals also announced that it would invest in Arizona to strengthen its semiconductor sputtering target business and create new businesses. Sumitomo Chemical announced in September 2022 that it will establish a new company in Texas and build a semiconductor process chemical manufacturing plant. The new factory is scheduled to start its operation in fiscal 2024.

In the non-manufacturing industries, the direct investment balance of wholesale trade, which accounts for the largest share (17.1%), increased by \$7.5 billion to \$132.7 billion, followed by finance/insurance (13.4%), which has the next largest share of direct investment, decreased by \$18 billion to \$104 billion. Looking at the top M&A acquisition by Japanese companies in the US, projects in non-manufacturing fields account for a large portion of the deals. These included Sony Interactive Entertainment's acquisition of a game company Bungie (\$3.7 billion) and Mori Trust's acquisition of an office building in Washington, D.C. (approximately \$500 million) (See Table 3). The number of M&A projects by Japanese companies in the US in 2022 was 165, a decrease of only 10% from the previous year (185), but in terms of value, it was 9 billion dollars, less than 20% of the level in the previous year (47.2 billion dollars). Large-scale M&A projects such as Seven & i Holdings' acquisition of a convenience store business (\$21 billion) and Panasonic's acquisition of shares in a software company (\$7.1 billion), which were carried out in the previous year, were non-existent in 2022.

Table 3: Top 10 cross-border M&A projects in the US by Japanese companies (2022)

(— indicates no value available)

Year/month of closing (completion basis)	Acquiring company		Acquired company		Amount (\$ million)	Post-acquisition equity ratio (%)
	Company name	Industry	Company name	Industry		
July 2022	Sony Interactive Entertainment LLC	Electronic/ electrical equipment	Bungie Inc	Software	3,700	100.0
June 2022	Sony Corp of America	Electronic/ electrical equipment	Epic Games Inc	Software	1,000	—
September 2022	Mori Trust Co., Ltd.	Real estate lease, brokerage	Boston Properties Inc-Office Building	Real estate lease, brokerage	530	100.0
June 2022	Taiho Pharmaceutical Co., Ltd.	Pharmaceuticals	Cullinan Pearl Corp	Business services	405	100.0
January 2022	Nexon Co., Ltd.	Software	AGBO Films Studios LLC	Movies	400	38.0
March 2022	Murata Electronics	Electronic / electrical equipment	Resonant Inc	Electronic/ electrical equipment	302	100.0

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(— indicates no value available)

Year/month of closing (completion basis)	Acquiring company		Acquired company		Amount (\$ million)	Post-acquisition equity ratio (%)
	Company name	Industry	Company name	Industry		
	North America Inc					
April 2022	Softbank Vision Fund II	Investment, securities, trust	Remote Technology Inc	Business services	300	—
April 2022	Rakuten Symphony	Tele-communications	Robin Systems Inc	Software	257	100.0
August 2022	Pacific Woodtech Corp	Wood products, furniture, equipment	Louisiana-Pacific Corp-engineered wood products business	Wood products, furniture, equipment	210	100.0
January 2022	SoftBank Vision Fund LP	Investment, securities, trust	Alto Pharmacy Inc	Pharmaceuticals	200	—

Note 1: The nationality of the acquiring company is the nationality of the ultimate parent company.

Note 2: Ranking based on the amount of one transaction.

Source: Created from Refinitiv

Recovery in M&A activities is not expected in 2023, and expectations are high for execution of investments in manufacturing fields

U.S. inward direct investment balance remained at a low rate of growth in 2022, but the situation continues with no clear recovery in sight in 2023. The M&A projects in the United States closed by foreign companies during the first half of the year (January through June), were at the same level as the same period last year, both in number and amount. Increasing global uncertainty, both political and economic, has dampened investor sentiment, creating a headwind for M&A activities in the second half of the year. According to the U.K.'s Financial Times database "fDi Markets," greenfield investments in the U.S. by foreign companies, mainly made in the manufacturing industry, reached record highs in 2022, both in number and amount since 2003, the oldest year to which the data can be traced back. In the coming years, while it is expected that large-scale investments in semiconductors and EVs announced in 2022 will be implemented one after another, demand for semiconductors is expected to stagnate and consumption to slow down in the short term.

Investment incentives such as subsidies and tax credits established by Biden administration's Infrastructure Investment and Jobs Act (November 2021), the CHIPS and Science Act (CHIPS Plus Act, August 2022), and the Inflation Reduction Act (IRA, August 2022) aiming at strengthening domestic supply chains for critical products like semiconductors and batteries, are stimulating foreign companies' interest in investments in the United States. However, investors

remain deeply concerned about structural issues such as domestic labor shortages and high production costs. Though the Biden administration is working on developing industrial human resources and inflation control in order to dispel these investors' concerns, it remains to be seen whether investments by foreign companies that strengthens the manufacturing base will be steadily implemented.

Note 1: In addition to these factors, there are policy-related factors including the strengthened application of antitrust (anti-monopoly) laws, stricter M&A reviews by the U.S. Federal Trade Commission (FTC) and the Department of Justice, and the strengthened enforcement by the Committee on Foreign Investment in the United States (CFIUS), which examines whether foreign investments in the U.S. pose a threat to national security. According to CFIUS's 2022 report, the number of cases of examinations reached a record high in the same year due to tightened investigations into undeclared transactions.

Note 2: The top five countries account for 59.0% of the total inward direct investment balance in the United States. After these five countries, European countries such as Ireland, Switzerland, and the Netherlands are ranked as the next major sources of investment, followed by Asian countries such as Australia in 9th place, South Korea in 12th place, and China in 17th place.

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