U.S. Foreign Direct Investment in the Global Processed Food Industries

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U.S. foreign direct investment (FDI) in global food processing industries reached $32 billion in 1995 (table 1). Over 75 percent is in the EU, NAFTA, and MERCOSUR, the world's major trading areas served by regional trade agreements (RTA's). This box describes the growth in FDI since 1980, the growth in FDI in the top EU countries, the product mix in FDI, and how U.S. FDI in the Western Hemisphere interacts with U.S. trade in processed foods.

U.S. foreign direct investment in the global processed food industry nearly quadrupled from 1980 to 1995 (table 1). U.S. FDI to the EU food industry surged in the late 1980's and early 1990's. U.S. FDI to the MERCOSUR and NAFTA food industries grew in the early 1990's, but from a lower base. Nearly 41 percent of the investment stock in 1995 was in the EU, a declining share from 1990. About 25 percent was in NAFTA and 11 percent was in MERCOSUR, significantly higher than in 1990.

Membership in an RTA does not necessarily bring FDI. FDI to RTA's is often concentrated in a few countries. More than half of the U.S. FDI in the EU (15) processed food industry is in the UK, France, and Germany (table 2). Canada received 63 percent of U.S. FDI in NAFTA, and Brazil received 62 percent of U.S. FDI in MERCOSUR.

The European Union is the largest free trade area, and has grown in membership since its inception in 1957. The UK, Ireland, and Denmark were the first additions to the original EC-6, followed by Greece. The next additions were Spain and Portugal. The most recent round brought a reunified Germany, Sweden, Finland, and Austria. Growth patterns of U.S. foreign direct investment show that only Spain and Ireland appear to have attracted FDI upon joining the EU. Reunification of Germany may have enhanced U.S. FDI to Germany's processed food industry, but EU charter member France had an influx of FDI in the same period as Germany.

The type of investment has also shifted. In earlier decades, most U.S. FDI was in export products from the host countries or in processing such as flour mills or vegetable oil refineries. Processing investment continues in the 1990's, but increased investment is geared to production of bakery products, beverages,

Table 1--U.S. foreign direct investment in the food processing industries, selected regions

Region	1980	1985	1990	1995	1980-85 change	1985-90 change	1990-95 change
	Billion dollars				*Percent*		
EU (15)	3.7	4.3	7.5	13.1	16	74	75
Mercosur	0.6	1.0	1.3	3.7	67	30	184
NAFTA	2.2	2.1	3.6	8.1	-5	71	125
Other	1.8	1.9	3.2	7.5	6	68	134
World	8.3	9.3	15.6	32.4	12	68	108
	Percent						
Share of total							
EU (15)	46	46	48	41			
Mercosur	7	11	8	11			
NAFTA	27	23	23	25			
Other	22	20	21	23			
World	100	100	100	100			

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, August 1982,1988,1994, and September 1997 issues.

For the sake of consistency, data for the EU have been adjusted to include the 15 countries in 1985 and 1990. The data series has been revised many times.

Table 2--U.S. FDI in the top EU countries

Country	1980	1985	1990	1995	1980-85	1985-90	1990-95
		Billion dollars				*Percent*	
U.K.	1.4	1.8	2.7	2.9	28	50	7
France	0.3	0.4	0.3	2.2	33	-25	633
Germany	0.8	0.6	1.1	2.2	-25	83	100
Spain	0.3	0.2	0.9	1.8	-33	350	100
Netherlands	0.4	0.6	0.8	1.3	50	33	63

and other more highly processed consumer products for use in the host country (table 3).

U.S. FDI and Trade in Processed Foods

Is U.S. FDI a substitute or complement for U.S. trade in processed food products? Both U.S. exports of processed foods and sales from U.S. affiliates have increased since the 1980's, with global sales exceeding U.S. processed food exports. The choice between trade and FDI is product-specific and depends on many factors (table 4). If trade and FDI are indeed substitutes, there would be polarity; products with large exports would have hardly any FDI and, products with considerable FDI would rarely be exported. The pairing of FDI and trade among Western Hemisphere countries (Canada, Mexico, Brazil, and Argentina) with known U.S. FDI shows that the pairing is not so clearcut.

For many large exports between the United States and Canada/Mexico, trade and FDI are complementary. U.S. exports to Canada indicate that many heavily traded products (U.S. exports greater than $100 million), such as chocolate and vegetable products, are used as intermediate products in the host country. U.S. poultry product, U.S. vegetable oil, corn milling, and dairy product exports are also used as intermediate products for further processing in Mexico. Meat and seafood products are unique. Multinational companies also decide that a specific product will be produced in a particular plant, leading to specialization in production lines between the United States and Canada.

U.S. affiliates are often the source of major ($100 million) import products, such as fruit juices and chocolate products from Brazil. On the other hand, many products from U.S. affiliates generate little or no trade ($50 million) because of high transportation costs, high tariffs, or import bans. Dairy and poultry products often have high trade barriers. Flour milling and other cereal products are most economically produced close to the consumer. These products lend themselves to FDI.

Table 3--Product mix of U.S. FDI in the global processed food industry

Industry	1985	1990	1995	1985-90 change	1990-95 change
		Billion dollars		*Percent*	
Grain milling products	2.0	3.2	4.5	60	41
Bakery products	0.6	1.0	2.5	67	155
Beverages	1.9	3.1	9.4	63	206
Meat products	0.3	0.5	0.4	66	-13
Dairy products	0.7	0.5	1.3	71	160
Preserved fruits and vegetables	0.5	2.3	3.0	360	30
Other processed foods	3.3	5.0	11.2	51	126
		Percent			
Share of total					
Grain milling products	22	21	14		
Bakery products	7	6	8		
Beverages	21	20	29		
Meat products	3	3	1		
Dairy products	8	3	4		
Preserved fruits and vegetables	5	15	9		
Other processed foods	36	32	35		

Source: Compiled from data from U.S. Department of Commerce, Bureau of Economic Analysis.

Table 4--A comparison of U.S. FDI and trade in the food industries in selected countries

Canada	Mexico	Brazil	Argentina
Industry	Industry	Industry	Industry
U.S. exports > $100 million			
Meat products	Poultry products		
Seafood	Dairy products		
Pet foods	Corn milling		
Chocolate products	Vegetable oils		
Vegetable products			
U.S. exports $50 - $100 million			
	Chocolate products		
U.S. imports >$100 million			
Meat products	Seafood	Fruit juices	
Seafood	Beer	Chocolate products	Meat products
Beer	Fruit juices		
U.S. imports $50 - $100 million			
Soft drinks			
U.S. trade<$50 million			
Poultry products	Flour mills	Meat products	Dairy products
Dairy products	Breakfast cereals	Poultry products	Flour mills
Flour mills	Livestock feeds	Dairy products	Corn milling
Pasta	Bakery products	Flour mills	Breakfast cereals
Malt	Cookies and crackers	Corn milling	Livestock feeds
Flavorings and spices	Pasta	Breakfast cereals	Pet foods
Chips	Candies	Livestock feeds	Cookies and biscuits
Jams and jellies	Soft drinks	Pet foods	Pasta
	Mayonnaise	Biscuits, cookies, and crackers	Beer
	Flavorings spices	Soft drinks	Soft drinks
	Chips	Powdered soft drinks	Vegetable oils
	Fruit products	Vegetable oils	Mayonnaise
	Vegetable seeds	Fruits and products	Popcorn
		Vegetable seeds	
		Mayonnaise	
Trade> $50 million and no FDI			
Rice milling			

Source: ERS calculations based on C. Bolling, S. Neff, and C. Handy, *U.S. Foreign Direct Investment in the Western Hemisphere Food Processing Industry,* AER-760, Econ. Res. Serv., U.S. Dept. Agr., March 1998.