The major factors behind this rapid growth of direct investment in the late 1980s include the following:

- generally faster world economic growth after 1985 (3.1 percent annually for 1985-90) following slow economic growth or recession in the early 1980s (2.4 percent annually for 1980-85);

- anticipation of greater economic integration within and possible enlargement of the European Community (EC) beginning in 1992, which encouraged expansion and rationalization by foreign investors to increase market share, achieve economies of scale, and improve productivity in order to meet heightened competition;

- more active macroeconomic policy coordination among the G-7 industrial nations after 1985, which, among other things, fostered rapid dollar depreciation making U.S. assets and production costs less expensive compared with assets and production costs in other major industrial countries, thus attracting foreign investors to the United States;

- continued liberalization of FDI regulations in both developed and developing countries, especially in the services sectors, and the deregulation of financial capital markets;

- unprecedented growth of outward Japanese direct investment, reflecting a shift of productive capacity abroad in order to offset higher domestic production costs due to yen appreciation and higher labor costs, to circumvent perceived trade restrictions, and to exploit the relatively lower cost of capital in Japan which made financing overseas investments easier;

- faster growth of U.S. direct investment abroad after 1985, in part reflecting the effects of dollar depreciation which raised the value of foreign affiliate earnings and assets in terms of dollars, and, in part, due to an increase in new investment in the EC, Canada, Latin America and East Asia; and

- a greater emphasis on global planning, including cross-border mergers and acquisitions among many of the world's large and medium-sized corporations in their efforts to meet increased competition.[17]

During the 1980s, the stock of direct investment increased at an average annual rate of 12.2 percent, while world trade increased at an average annual rate of 5.4 percent and world

---

[17] *United States Department of Commerce, Recent Trends in International Direct Investment, August 1992, pp. 2-3.*