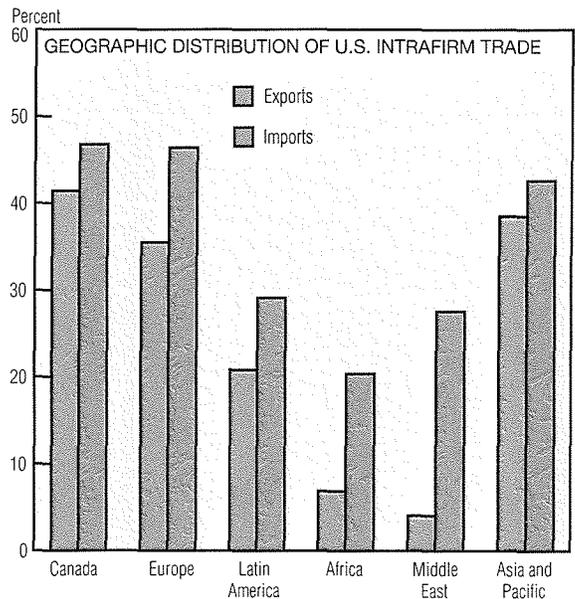
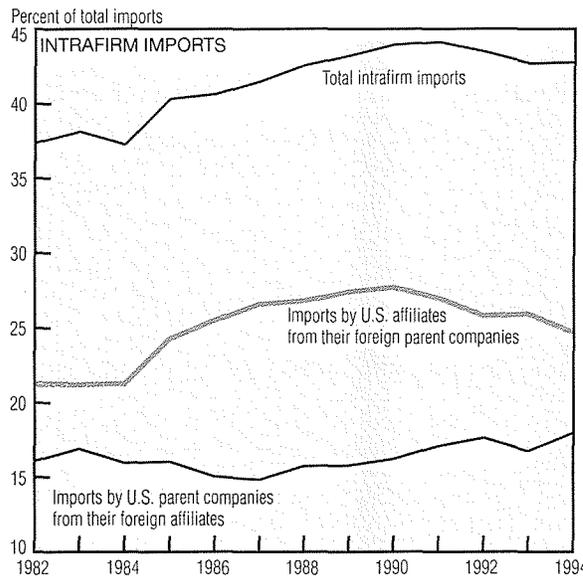
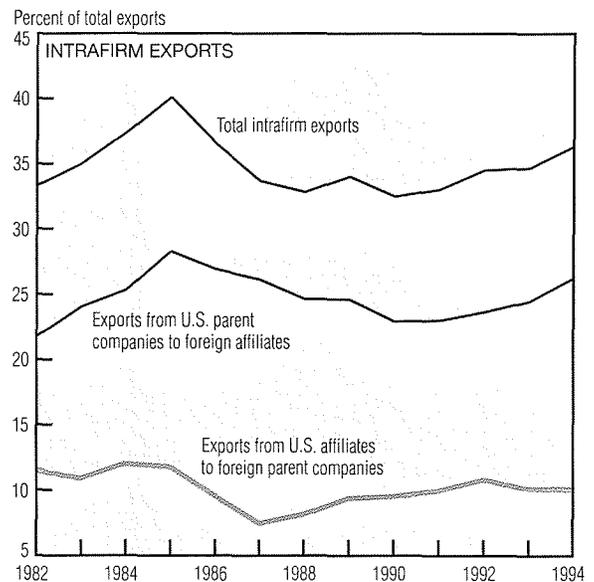
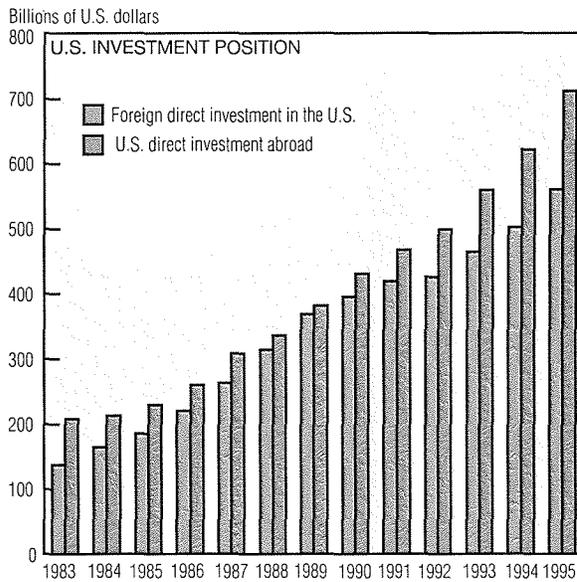


# Intrafirm Trade



SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and Survey of Current Business, February 1997, pp. 23-28.

International direct investment surged in the late 1980s. Both U.S. direct investments in foreign countries and foreign investments in the U.S. have been growing rapidly, with the former exceeding the latter by a widening margin. Multinational corporations undertake most of these worldwide investments in order to remain competitive in foreign markets, to lower their resource and labor costs, and to gain tax advantages.

Multinational firms also play a significant role in global trade flows. Intrafirm trade, for example, accounts for over 35% of U.S. exports and more than 40% of imports. This trade seems to originate at the parent firm. U.S. intrafirm exports consist mainly of shipments from parent firms to their foreign affiliates, as opposed to exports of foreign-owned firms in the U.S. Similarly, U.S. intrafirm imports flow from a foreign parent to its domestic affiliate.

U.S. intrafirm exports travel mainly to developed parts of the globe, whereas the nation's intrafirm imports are more widely dispersed. The U.S. has maintained a deficit in its intrafirm trade. In 1994 (the latest year for which data are available), that deficit amounted to \$97 billion, or 65% of the total trade deficit. The deficit is at its widest in our intrafirm trade with Africa and the Middle East.