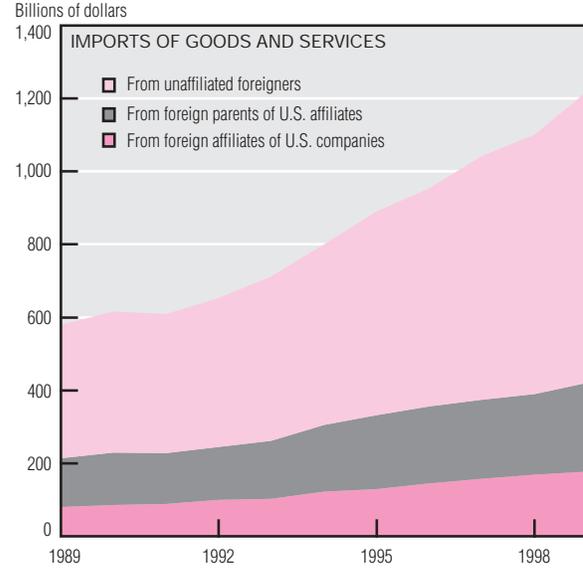
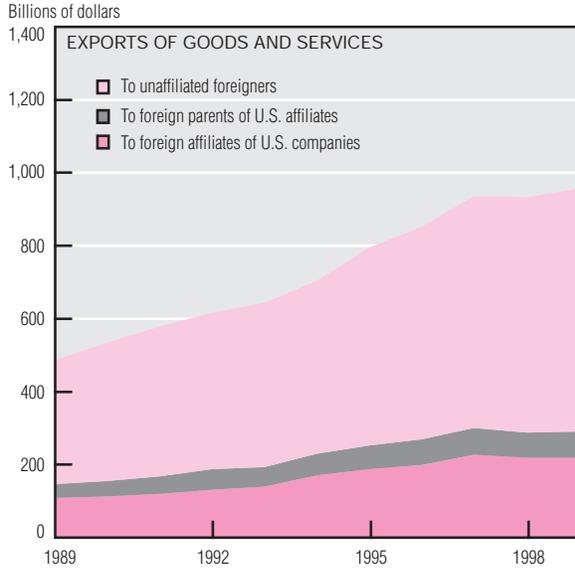


Ownership-Based International Trade



Computation of Net Receipts of U.S. Parent Companies from Sales by Their Nonbank Foreign Affiliates, 1999 (billions of dollars)^a

Sales by foreign affiliates	2,587.3
Less U.S. exports to affiliates	251.5
Less local costs	1,761.9
Less sales to affiliated firms	451.9
Net receipts of U.S. parent companies	122.0

Computation of Net Payments to Foreign Parent Companies from Sales by Their Nonbank U.S. Affiliates, 1999 (billions of dollars)^a

Sales by U.S. affiliates	2,035.4
Less imports	325.5
Less local costs	1,656.2
Less sales to affiliated firms	—
Net payments to foreign parent companies	53.7

NOTE: Latest available data are for 1999.

a. Similar data are not available for banks.

SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; and Jeffrey H. Lowe, "An Ownership-Based Framework of the U.S. Current Account, 1989-99," *Survey of Current Business*, April 2002, pp. 25-27.

The U.S. exchanges goods and services with the rest of the world through two distinct channels: cross-border trade and affiliate sales. In cross-border trade, U.S. residents sell to—or buy from—residents of another country. These traditional exports and imports include cross-border exchanges within the same multinational corporation and transactions among unaffiliated individuals.

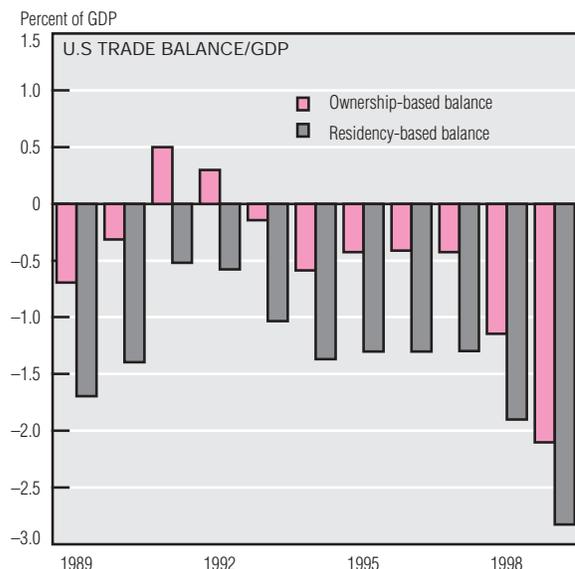
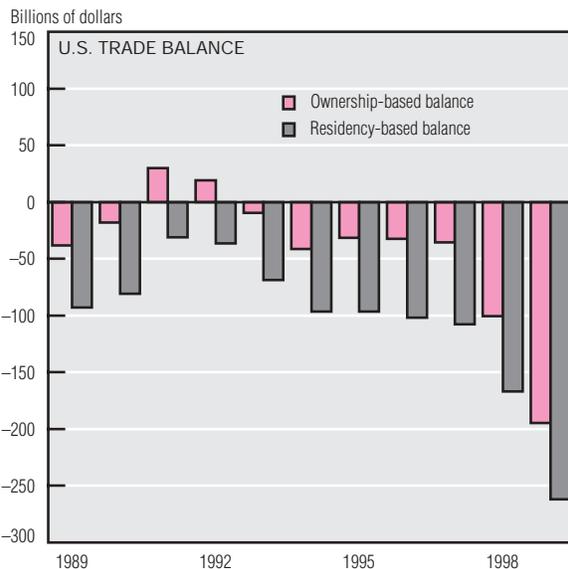
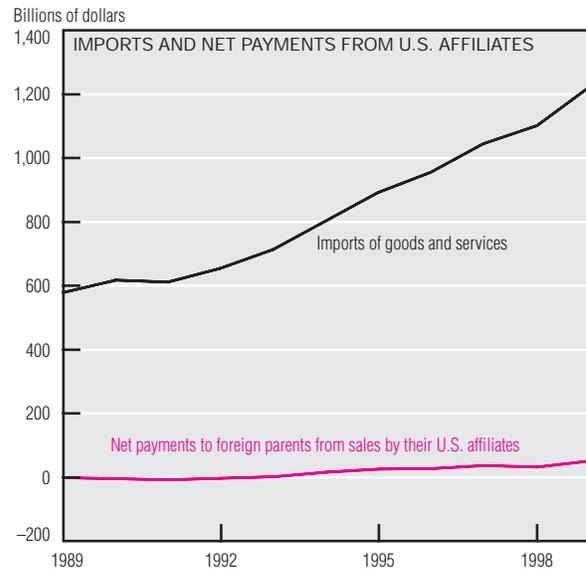
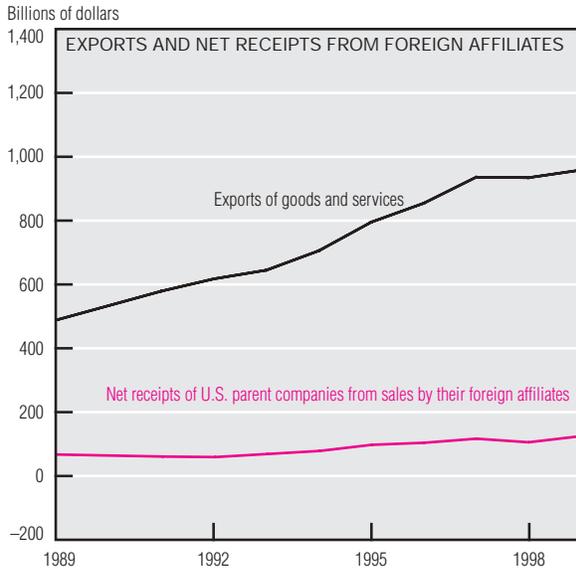
The second channel of international exchange is through foreign affiliates of multinational corporations.

U.S. multinational corporations often produce goods and services abroad and sell them to foreigners through their foreign affiliates; foreign multinational corporations do the same in the U.S. These transactions appear as neither exports nor imports, because traditional trade data are based on country of residency and not on country of ownership. The conventional accounts regard foreign affiliates of U.S. multinationals as foreign residents and count U.S. affiliates of foreign multinationals as U.S. residents.

These two channels of international exchange usually are not substitutes for each other. Sometimes locating abroad is the only way to remain competitive in world markets. U.S. firms frequently must tailor their products to the peculiarities of foreign markets and provide ancillary services; this requires a local affiliate, especially in the case of services trade. U.S. firms also locate abroad to secure access to low-cost labor and other resources vital to their ability either to compete or

(continued on next page)

Ownership-Based International Trade (cont.)



NOTE: Latest available data are for 1999.

SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; and Jeffrey H. Lowe, "An Ownership-Based Framework of the U.S. Current Account, 1989-99," *Survey of Current Business*, April 2002, pp. 25-27.

to avoid prohibitive transportation costs. Locating in a foreign country may be the only way around barriers against conventional trade.

Ownership-based trade data combine traditional cross-border trade with foreign affiliate sales to get a more comprehensive picture of the global flow of commerce and its relative importance to U.S. economic activity. For accuracy, the Department of Commerce includes net affiliate receipts from sales—total sales minus

traditional cross-border trade, sales to other foreign affiliates, and local production costs. Net receipts of U.S. parents from their foreign affiliate sales amount to less than 5% of total foreign affiliate sales. Net payments to foreign parents from their affiliate sales in the U.S. come to less than 3% of total affiliate sales.

Net receipts from foreign affiliates' activities are small relative to conventionally measured exports and imports. Nevertheless, U.S. net

receipts from sales through our foreign affiliates substantially exceed U.S. net payments for purchases through foreign affiliates. Consequently, ownership-based adjustments tend to lower the trade deficit slightly in relation to the traditional measure. In 1999, the last year for which data are available, the ownership-based trade deficit amounted to \$194.8 billion or 2.1% of GDP, while the traditional residency-based trade deficit equaled \$261.8 billion or 2.8% of GDP.