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Ownership-Based Trade

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International trade data provide information about the importance of commerce among nations. Traditionally, trade statistics measure the movement of goods and services across international borders. From this geographic perspective, exports comprise the goods and services that are produced domestically and sold overseas, while imports measure the goods and services that are purchased from other nations for domestic consumption. In the modern world of multinational corporations and international economic integration, however, simple movements of the flow of goods across borders are not the only way to measure international trade.

An additional dimension of cross-border commerce follows from the establishment of foreign subsidiaries that produce and distribute goods outside a firm's home country. For example, when a U.S. corporation establishes a production facility in another country, goods produced and sold by the corporation in that foreign market are not included in traditional trade statistics, even though, in a sense, international transactions have taken place.

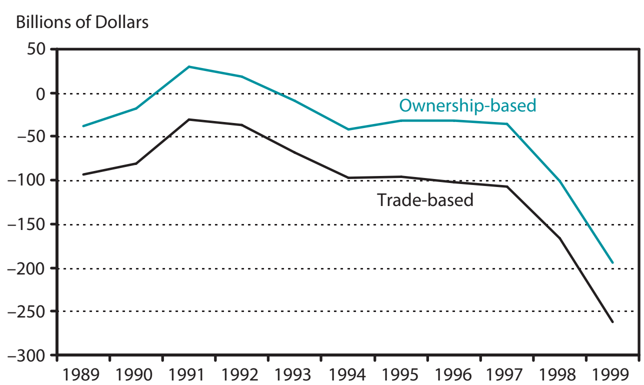
The U.S. Department of Commerce has recently compiled statistics that measure international trade by ownership, rather than location of production.[1] This alternative measure of cross-country commerce adjusts imports and exports to account for the sales of domestic affiliates abroad and foreign affiliates in the United States. In making this adjustment, only the *net* receipts accruing to the parent companies are included. To the extent that a U.S. company hires foreign labor and capital at its overseas subsidiaries, payments to these factors of production are properly measured as accruing to the foreign country rather than the U.S. corporation. So, for instance, in 1999 (the last year for which data are available), sales by foreign affiliates of U.S. companies totaled nearly $2.6 trillion; after subtracting local costs and intra-firm transactions, however, net receipts of U.S. parent companies were only $122 billion. In the same year, sales by U.S. affiliates of foreign companies were $2.0 trillion, but, after adjusting for imports from the parent company and local costs of production, net payments to foreign parent companies were only $54 billion.

Because the United States is home to many multinational corporations that do business around the world, trade statistics based on location of the parent company provide a different picture of this country's trade position. In particular, because net receipts of U.S. parent companies from their foreign affiliates are larger than the net receipts of foreign firms doing business in the United States, ownership-based measures of trade show a smaller U.S. trade deficit. The accompanying figure illustrates the difference for goods and services trade. Note that, in 1991 and 1992, the ownership-based measure showed a surplus, whereas the trade-based measure registered a deficit. In 1999, the traditional trade-based measure of the balance on goods and services showed a deficit of $261.8 billion, while the comparable ownership-based statistic measured the deficit at only $194.8 billion.

In today's complex globalized economy, no measure of international transactions is perfect. Nevertheless, by comparing differing concepts of international transactions, we can gain a broader perspective on the importance of cross-border commerce. ■

[1] See Lowe, Jeffery H. "An Ownership-Based Framework of the U.S Current Account, 1989-99." *Survey of Current Business*, April 2002, pp. 25-27.

Balance on Goods and Services



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