An Ownership-Based Framework of the U.S. Current Account, 1989–99

In this report, the Bureau of Economic Analysis (BEA) updates its supplemental, ownership-based framework of the current-account portion of the U.S. international transactions (balance of payments) accounts. This update incorporates new estimates for 1999—the most recent year for which the data needed to complete the framework are available—and revised estimates for 1989–98.[1] The ownership-based framework was developed in the early 1990s in response to interest in looking at international transactions in a way that would reflect the increasing role and importance of multinational companies (MNC's) in world economies and, in particular, the growing tendency of these companies to use locally established affiliates to deliver goods and services to international markets.[2]

In the current account as conventionally constructed, the trade balance reflects only those goods and services that are delivered to international markets through cross-border exports and imports. This balance is an important indicator of U.S. performance in foreign markets; it reflects the net value of goods and services transactions between persons (in the broad legal sense, including companies) resident in the United States and persons resident abroad. Because the international accounts treat affiliates as resident in their countries of location, rather than in the countries of their owners, sales of goods and services by foreign affiliates of U.S. companies to other foreign persons, and by U.S. affiliates of foreign companies to other U.S. persons, are not regarded as exports and imports and are therefore excluded from the trade balance.

In the ownership-based framework, in contrast, a balance is introduced in which sales by affiliates are combined with cross-border exports and imports. More specifically, the net receipts that accrue to U.S. parent companies from sales by their foreign affiliates are combined with cross-border sales to foreigners by U.S. companies (U.S. exports), and the net payments that accrue to foreign parent companies from sales by their U.S. affiliates are combined with cross-border sales to the United States by foreign companies (U.S. imports). The difference between these two sums is taken as an indicator of the net effect on the U.S. economy of U.S.-foreign commerce.

Only the net receipts that accrue to the parents, and not the gross value of sales by their affiliates, are included in these calculations, because only in the case of sales originating in the United States are most of the costs—such as for labor and capital—incurred domestically and accrue to the benefit of the U.S. economy. This methodology also eliminates the double counting that would occur if both the full value of sales by parents to affiliates, and the subsequent sales by the affiliates to others, were included.

The ownership-based framework is fully consistent conceptually with the current account of the conventional international transactions accounts and can be viewed as a "satellite" of those accounts.[3] (The current-account balance is the same in both sets of accounts.) The grouping of the income from affiliates and cross-border trade in goods and services recognizes the active role of parent companies in managing and coordinating their affiliates' operations. This direct investment income from affiliates differs fundamentally from income on portfolio investments: Direct investment income represents U.S. companies' returns on sales to foreigners that–for reasons such as efficiency, transport costs, or avoidance of trade barriers–are made from foreign instead of U.S. locations, whereas portfolio investment income merely represents returns to passive investments in foreign stocks and

1. For a review of the sources and methods used to prepare the supplemental estimates, see Obie G. Whichard and Jeffrey H. Lowe, "An Ownership-Based Disaggregation of the U.S. Current Account,1982–93," Survey of Current Business 75 (October 1995): 52–61. For a general review of the issues relating to ownership relationships in international transactions, see J. Steven Landefeld, Obie G. Whichard, and Jeffrey H. Lowe, "Alternative Frameworks for U.S. International Transactions," Survey 73 (December 1993): 50–61.

2. Among those calling for more information on ownership was a National Academy of Sciences study panel. See Anne Y. Kester, ed., *Behind the Numbers: U.S. Trade in the World Economy*, National Research Council, Panel on Foreign Trade Statistics (Washington, DC: National Academy Press, 1992).

3. According to the international *System of National Accounts*, satellite accounts augment the central national accounts by "expanding the analytical capacity of national accounting for selected areas...in a flexible manner, without overburdening or disrupting the central system"; they may introduce additional information, alternative accounting frameworks, or "complementary or alternative concepts," while maintaining linkages to the central accounts. See Commission of the European Communities, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations, and World Bank, *System of National Accounts, 1993* (Brussels/Luxembourg, New York, Paris, and Washington, DC, 1993): 489.

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bonds.[4] Indeed, in many cases a portion of the income from affiliates might be regarded as a kind of implicit management fee, compensating the parent company for undertaking this active role in operations.

In addition, the framework provides information on ownership relationships by disaggregating trade in goods and in services into trade between affiliated parties (that is, trade within MNC's) and trade between unaffiliated parties. It also shows how receipts and payments of direct investment income are derived from the production and sales by affiliates. To highlight the links between the income and the activities that produce it, the income is designated "net receipts" or "net payments" of direct investment income resulting from sales by affiliates.[5] Finally, the framework provides information (in the addenda) on the U.S. content and the foreign content of affiliates' output and the extent that such content results from the affiliates' own value added.

Highlights of the updated presentation for 1999 follow:

- Net receipts by U.S. companies of direct investment income from the sales by their foreign affiliates were $123.7 billion (sales by foreign affiliates of $2,587.3 billion less deductions of $2,463.6 billion, such as for labor, capital, and purchased inputs). Net payments to foreign parents of direct investment income from the sales by their U.S. affiliates were $56.7 billion (sales by U.S. affiliates of $2,035.4 billion less deductions of $1,978.7 billion, such as for labor, capital, and purchased inputs).
- The total value of foreign sales accruing to the U.S. economy was $1,081.1 billion (calculated as net income receipts of U.S. companies from the sales by their foreign affiliates of $123.7 billion plus U.S. exports of goods and services of $957.4 billion). The total value of U.S. sales accruing to foreign economies was $1,275.9 billion (calculated as net income payments to foreign companies from the sales by their U.S. affiliates of $56.7 billion plus U.S. imports of goods and services of $1,219.2 billion).
- The resulting deficit on goods, services, and net receipts from sales by affiliates was $194.8 billion ($1,081.1 billion less $1,275.9 billion). This deficit was $67.0 billion less than the $261.8 billion deficit on trade of goods and services in the conventional international accounts framework based solely on location of production. The ownership-based deficit was smaller because U.S. parents' receipts of income from sales by their foreign affiliates exceeded payments of income to foreign parents from sales by their U.S. affiliates.

For 1999, the new ownership-based estimates incorporate the financial and operating data from the 1999 benchmark survey of U.S. direct investment abroad and from the 1999 annual survey of foreign direct investment in the United States, as well as the results of the June 2001 annual revision of the U.S. international transactions accounts. For 1989–98, the ownership-based estimates have been revised to incorporate the results of the annual revision of the U.S. international transactions accounts, and the estimates for 1998 have also been revised to incorporate the latest financial and operating data of foreign-owned affiliates in the United States and of U.S.-owned affiliates abroad.[6]

Among the improvements incorporated in the 2001 annual revision were the following: Revised estimates of direct investment income receipts and payments for 1997 forward that reflect revised estimates of the current-cost adjustment, revised estimates of foreign direct investment in the United States income payments that incorporate the results of BEA's benchmark survey for 1997, and revised quarterly survey results for subsequent years. In addition, benchmark and revised quarterly results were incorporated in the affiliated components of royalties and license fees and "other" private services. "Other" private income receipts and payments for banks were revised for 1996 forward to more accurately reflect the current practices in banking markets, and goods exports and imports were revised for 1989 forward to incorporate improved estimates of military shipments.[7]

4. Direct investment income consists of net receipts of earnings and interest by parents from their affiliates.

5. These detailed estimates can only be provided for nonbank affiliates.

6. The estimates for 1982–88, which are not revised, were published in "An Ownership-Based Framework of the U.S. Current Account, 1982–98," Survey 81 (January 2001): 44–46.

7. See Christopher L. Bach, "U.S. International Transactions, Revised Estimates for 1989–2000," Survey 81 (July 2001): 30–36.

Table 1. Ownership-Based Framework of the U.S. Current Account, 1989–99

[Billions of dollars]

Line		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1	**Exports of goods and services and income receipts (IT table 1, line 1)**	**648.3**	**707.0**	**727.6**	**748.6**	**777.0**	**869.3**	**1,005.9**	**1,078.0**	**1,195.5**	**1,191.9**	**1,242.7**
2	**Receipts resulting from exports of goods and services or sales by foreign affiliates**	**549.0**	**601.2**	**637.1**	**674.1**	**710.1**	**781.2**	**889.7**	**954.6**	**1,050.3**	**1,036.5**	**1,081.1**
3	**Exports of goods and services, total**	**487.0**	**535.2**	**578.3**	**616.5**	**642.9**	**703.9**	**794.4**	**852.1**	**935.0**	**932.7**	**957.4**
3a	Goods, balance of payments basis (IT table 1, line 3)	359.9	387.4	414.1	439.6	456.9	502.9	575.2	612.1	678.4	670.4	684.6
3b	Services (IT table 1, line 4)	127.1	147.8	164.3	176.9	185.9	201.0	219.2	240.0	256.6	262.3	272.8
4	To unaffiliated foreigners	340.0	380.5	410.4	429.3	449.3	474.4	541.2	582.1	633.9	644.3	666.9
4a	Goods	236.2	259.6	274.7	284.9	295.8	313.4	365.3	389.5	428.8	436.5	449.0
4b	Services	103.8	121.0	135.6	144.4	153.4	160.9	175.9	192.5	205.0	207.8	217.9
5	To affiliated foreigners	147.0	154.7	168.0	187.2	193.6	229.5	253.2	270.1	301.1	288.4	290.4
5a	Goods	123.7	127.8	139.3	154.8	161.1	189.4	209.9	222.6	249.6	233.9	235.6
5b	Services	23.3	26.9	28.6	32.5	32.5	40.1	43.3	47.5	51.6	54.5	54.9
6	To foreign affiliates of U.S. companies	109.2	112.5	120.6	131.4	139.6	170.8	187.1	198.6	226.9	218.8	218.6
6a	Goods	89.4	90.1	97.1	106.0	113.8	138.3	152.7	161.8	186.5	176.3	176.0
6b	Services	19.7	22.4	23.5	25.4	25.8	32.6	34.4	36.8	40.4	42.5	42.6
7	To foreign parent groups of U.S. affiliates	37.8	42.2	47.4	55.8	54.0	58.7	66.2	71.5	74.2	69.6	71.8
7a	Goods	34.3	37.8	42.2	48.8	47.4	51.1	57.2	60.8	63.0	57.6	59.5
7b	Services	3.5	4.5	5.1	7.1	6.7	7.5	8.9	10.7	11.2	12.0	12.3
8	**Net receipts by U.S. companies of direct investment income resulting from sales by their foreign affiliates (IT table 1, line 14)**	**62.0**	**66.0**	**58.7**	**57.5**	**67.2**	**77.3**	**95.3**	**102.5**	**115.3**	**103.8**	**123.7**
9	Nonbank affiliates	61.8	65.6	58.5	55.3	63.5	73.4	92.0	99.2	112.0	103.1	122.1
10	Sales by foreign affiliates	1,284.9	1,493.4	1,541.6	1,574.1	1,570.6	1,757.4	2,040.7	2,233.7	2,350.9	2,370.0	2,587.3
11	Less: Foreign affiliates' purchases of goods and services from the United States	122.3	128.8	138.8	147.4	157.6	192.0	212.3	230.9	260.9	248.9	251.5
12	Less: Costs and profits accruing to foreign persons	907.9	1,065.1	1,098.9	1,106.9	1,089.1	1,200.0	1,379.3	1,509.5	1,556.0	1,601.4	1,761.9
13	Compensation of employees of foreign affiliates	165.8	184.8	196.1	201.5	201.1	224.3	240.8	252.6	261.4	263.6	288.5
14	Other	742.1	880.3	902.8	905.3	887.9	975.7	1,138.5	1,256.9	1,294.6	1,337.8	1,473.5
15	Less: Sales by foreign affiliates to other foreign affiliates of the same parent	193.0	233.9	245.4	264.5	260.4	292.0	357.1	394.1	422.0	416.6	451.9
16	Bank affiliates	0.2	0.4	0.3	2.2	3.7	3.9	3.2	3.3	3.3	0.7	1.7
17	**Other income receipts**	**99.3**	**105.8**	**90.5**	**74.5**	**66.9**	**88.1**	**116.2**	**123.3**	**145.2**	**155.4**	**161.6**
18	Other private receipts on U.S.-owned assets abroad (IT table 1, line 15)	92.6	94.1	81.2	66.0	60.4	82.4	109.8	117.0	139.9	149.9	156.2
19	U.S. Government receipts (IT table 1, line 16)	5.7	10.5	8.0	7.1	5.1	4.1	4.7	4.6	3.6	3.6	3.2
20	Compensation of employees (IT table 1, line 17)	1.0	1.2	1.3	1.4	1.4	1.5	1.8	1.8	1.8	1.9	2.2
21	**Imports of goods and services and income payments (IT table 1, line 18)**	**721.6**	**759.3**	**734.6**	**762.1**	**821.9**	**949.3**	**1,081.8**	**1,158.8**	**1,294.6**	**1,365.0**	**1,518.1**
22	**Payments resulting from imports of goods and services or sales by U.S. affiliates**	**587.2**	**619.5**	**607.2**	**655.2**	**719.6**	**822.7**	**921.1**	**987.1**	**1,085.7**	**1,137.1**	**1,275.9**
23	**Imports of goods and services, total**	**580.1**	**616.1**	**609.5**	**653.0**	**711.7**	**800.6**	**890.8**	**954.0**	**1,042.7**	**1,099.5**	**1,219.2**
23a	Goods, balance of payments basis (IT table 1, line 20)	477.7	498.4	491.0	536.5	589.4	668.7	749.4	803.1	876.5	917.1	1,030.0
23b	Services (IT table 1, line 21)	102.5	117.7	118.5	116.5	122.3	131.9	141.4	150.9	166.3	182.4	189.2
24	From unaffiliated foreigners	365.9	387.0	381.1	408.3	449.7	494.7	558.4	598.2	668.6	710.0	797.8
24a	Goods	273.0	280.7	275.4	304.8	341.5	379.2	435.9	468.3	526.7	555.6	640.9
24b	Services	92.9	106.3	105.8	103.4	108.2	115.5	122.6	129.9	141.9	154.4	156.8
25	From affiliated foreigners	214.3	229.1	228.3	244.7	262.0	305.9	332.4	355.8	374.2	389.5	421.4
25a	Goods	204.7	217.8	215.6	231.7	247.9	289.5	313.5	334.8	349.8	361.5	389.0
25b	Services	9.6	11.3	12.7	13.0	14.1	16.4	18.9	21.0	24.4	28.0	32.4
26	From foreign affiliates of U.S. companies	79.6	85.9	88.9	99.4	103.1	121.8	129.7	145.0	157.8	168.6	177.2
26a	Goods	74.7	80.3	83.5	93.9	97.1	114.9	122.3	137.2	147.5	156.4	163.2
26b	Services	4.9	5.6	5.4	5.5	6.0	7.0	7.4	7.8	10.4	12.2	14.0
27	From foreign parent groups of U.S. affiliates	134.7	143.2	139.4	145.3	158.9	184.1	202.7	210.8	216.3	221.0	244.2
27a	Goods	129.9	137.5	132.2	137.8	150.8	174.6	191.2	197.7	202.4	205.2	225.8
27b	Services	4.8	5.8	7.3	7.5	8.1	9.4	11.4	13.1	14.0	15.8	18.3
28	**Net payments to foreign parents of direct investment income resulting from sales by their U.S. affiliates (IT table 1, line 31)**	**7.0**	**3.5**	**–2.3**	**2.2**	**7.9**	**22.2**	**30.3**	**33.1**	**43.0**	**37.6**	**56.7**
29	Nonbank affiliates	6.6	4.9	–1.8	2.4	7.5	19.3	25.7	30.2	39.3	35.0	53.7
30	Sales by U.S. affiliates	1,056.6	1,175.9	1,185.9	1,232.0	1,329.4	1,443.5	1,544.6	1,667.6	1,726.3	1,875.5	2,035.4
31	Less: U.S. affiliates' purchases of goods and services from abroad	176.6	188.7	186.0	192.0	208.7	241.8	262.3	281.8	278.9	307.8	325.5
32	Less: Costs and profits accruing to U.S. persons	873.5	982.3	1,001.7	1,037.6	1,113.3	1,182.4	1,256.6	1,355.6	1,408.2	1,532.7	1,656.2
33	Compensation of employees of U.S. affiliates	144.2	163.6	176.0	182.1	193.0	200.6	206.4	220.6	233.5	262.1	290.0
34	Other	729.3	818.7	825.7	855.5	920.3	981.8	1,050.2	1,135.0	1,174.7	1,270.5	1,366.3
35	Less: Sales by U.S. affiliates to other U.S. affiliates of the same parent [1]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
36	Bank affiliates	0.5	–1.4	–0.5	–0.2	0.5	2.8	4.6	2.9	3.7	2.6	3.0
37	**Other income payments**	**134.4**	**139.7**	**127.4**	**106.9**	**102.3**	**126.6**	**160.6**	**171.8**	**208.9**	**227.9**	**242.2**
38	Other private payments on foreign-owned assets in the United States (IT table 1, line 32)	93.8	95.5	82.5	63.1	57.8	76.5	97.0	97.8	114.1	129.8	139.8
39	U.S. Government payments (IT table 1, line 33)	38.4	40.8	40.9	39.1	39.4	44.2	57.4	67.6	88.1	91.1	95.1
40	Compensation of employees (IT table 1, line 34)	2.3	3.5	4.0	4.8	5.1	6.0	6.3	6.3	6.7	6.9	7.3
41	**Unilateral current transfers, net (IT table 1, line 35)**	**–26.2**	**–26.7**	**10.8**	**–35.0**	**–37.6**	**–38.3**	**–34.1**	**–40.1**	**–40.8**	**–44.4**	**–48.9**
	Memoranda:											
42	Balance on goods and services (IT table 1, line 73)	–93.1	–80.9	–31.1	–36.5	–68.8	–96.7	–96.4	–101.8	–107.8	–166.8	–261.8
43	Balance on goods, services, and net receipts from sales by affiliates (line 2 minus line 22)	–38.2	–18.3	29.8	18.9	–9.5	–41.5	–31.4	–32.4	–35.4	–100.6	–194.8
44	Balance on current account (IT table 1, line 76)	–99.5	–79.0	3.7	–48.5	–82.5	–118.2	–109.9	–120.9	–139.8	–217.5	–324.4
	Addenda:											
	Source of the content of foreign nonbank affiliates' sales: [2]											
45	Output sold to nonaffiliates or added to inventory, total (line 10 minus line 15 plus the change in inventories)	1,094.2	1,277.0	1,294.8	1,304.1	1,301.7	1,484.5	1,700.0	1,844.4	1,933.4	1,959.2	2,168.0
46	Foreign content	971.9	1,148.2	1,156.0	1,156.6	1,144.1	1,292.5	1,487.7	1,613.6	1,672.5	1,710.3	1,916.6
47	Value added by foreign affiliates of U.S. companies	403.1	440.0	441.6	440.6	442.2	494.1	560.9	595.7	620.8	608.5	661.4
48	Other foreign content	568.8	708.2	714.4	716.1	701.9	798.4	926.8	1,017.9	1,051.7	1,101.8	1,255.2
49	U.S. content	122.3	128.8	138.8	147.4	157.6	192.0	212.3	230.9	260.9	248.9	251.5
	Source of the content of U.S. nonbank affiliates' sales: [2]											
50	Output sold to nonaffiliates or added to inventory, total (line 30 minus line 35 plus the change in inventories)	1,070.5	1,186.6	1,190.5	1,235.5	1,336.6	1,449.7	1,551.4	1,671.7	1,730.8	1,887.2	2,046.3
51	U.S. content	893.8	998.0	1,004.6	1,043.5	1,127.9	1,207.9	1,289.2	1,390.0	1,451.9	1,579.4	1,720.9
52	Value added by U.S. affiliates of foreign companies	223.4	239.3	257.6	266.3	285.7	313.0	322.6	358.1	389.4	419.8	451.7
53	Other U.S. content	670.4	758.7	746.9	777.2	842.1	894.9	966.5	1,031.9	1,062.4	1,159.6	1,269.2
54	Foreign content	176.6	188.7	186.0	192.0	208.7	241.8	262.3	281.8	278.9	307.8	325.5

n.a. Not available.

1. Conceptually, sales by U.S. affiliates to other U.S. affiliates of the same foreign parent should be subtracted, but information on these sales is unavailable. However, because U.S. affiliates are generally required to report to BEA on a fully consolidated basis, most of these sales are eliminated through consolidation, and the remaining amount is thought to be immaterial.

2. The sales exclude the affiliates' sales to other affiliates of their parent. For U.S. affiliates, data on sales to other affiliates are unavailable.

NOTE. Data in IT table 1 are from "U.S. International Transactions, First Quarter 2001" in the July 2001 SURVEY OF CURRENT BUSINESS.

IT International transactions