An Ownership-Based Framework of the U.S. Current Account, 1989–2001

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 presents revised estimates for 1995–99 and new detailed estimates for 2000.[1] In addition, this report has been expanded to include new summary estimates of the major current-account aggregates in the ownership-based framework for a more recent year (2001) for which the detailed estimates are not available.

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 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, a balance is introduced in which net receipts resulting from 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 an indicator of the net effect on the U.S. economy of U.S.-foreign commerce, and it reflects the perspective that cross-border trade and sales through foreign affiliates both represent methods of active participation in international markets for goods and services.

Only the net receipts that accrue to the U.S. parent companies, not the gross value of sales by their foreign 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. Similarly, only the net payments that accrue to foreign parent companies, not the gross value of sales by their U.S. affiliates, are included, because only in the case of sales originating abroad are most of the costs incurred abroad and accrue to the benefit of foreign economies. 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.

Conceptually, the ownership-based framework is fully consistent with the current account of the conventional international transactions accounts and can be viewed as a "satellite" of those accounts.[3] (The current-account bal-

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 links 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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ance 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 other types of investments: For U.S. direct investment abroad, 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 locations instead of U.S. locations, whereas other investment income merely represents returns on passive investments, such as on foreign stocks and bonds.[4] Indeed, in many cases a portion of the income from affiliates might be regarded as a kind of implicit management fee that compensates the parent company for undertaking this active role in operations.

In addition, the detailed presentation of 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 producing 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 follow:

- Net receipts by U.S. companies of direct investment income from the sales by their foreign affiliates were $126.0 billion in 2001, down from $149.7 billion in 2000. Net payments to foreign parents of direct investment income from the sales by their U.S. affiliates were $23.4 billion in 2001, down from $60.8 billion in 2000 (table 1).
- In 2000 (the latest year for which the detailed estimates are available), the $149.7 billion of net receipts resulted from sales by foreign affiliates of $2,891.5 billion less deductions of $2,741.8 billion (such as for labor, capital, and purchased inputs). The $60.8 billion of net payments in 2000 resulted from sales by U.S. affiliates of $2,334.7 billion less deductions of $2,273.9 billion.
- In 2001, the total value of foreign sales accruing to the U.S. economy was $1,124.0 billion (calculated as net income receipts of U.S. companies from the sales by their foreign affiliates of $126.0 billion plus U.S. exports of goods and services of $998.0 billion). The total value of U.S. sales accruing to foreign economies was $1,379.7 billion (calculated as net income payments to foreign companies from the sales by their U.S. affiliates of $23.4 billion plus U.S. imports of goods and services of $1,356.3 billion).
- The resulting deficit on goods, services, and net receipts from sales by affiliates was $255.7 billion in 2001 ($1,124.0 billion less $1,379.7 billion). This deficit was $102.6 billion less than the $358.3 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 the receipts of income by U.S. parents from sales by their foreign affiliates exceeded the payments of income to foreign parents from sales by their U.S. affiliates.

The new ownership-based estimates incorporate the results of the June 2002 annual revision of the U.S. international transactions accounts. Among the major improvements were the revised estimates of "other" private income payments (such as dividends on portfolio investment) and U.S. Government income payments beginning with 1995 that reflect the results of the U.S. Treasury's benchmark survey of foreign portfolio investment in the United States and the revised estimates of receipts and payments for "other" private services (primarily business, professional, and technical services) from BEA's benchmark survey of selected services for 2001.[6] The new ownership-based estimates also incorporate the preliminary results from the 2000 annual surveys of U.S. direct investment abroad and of foreign direct investment in the United States and the final results of the 1999 benchmark survey of U.S. direct investment abroad and of the 1999 annual survey of foreign direct investment in the United States.[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. See Christopher L. Bach, "Annual Revision of the U.S. International Accounts, 1993–2001," Survey 82 (July 2002): 33–40.

7. The estimates for 1989–94 shown in the table are not revised. The estimates for 1982–88 were published in "An Ownership-Based Framework of the U.S. Current Account, 1982–98," Survey 81 (January 2001): 44–46.

Table 1. Ownership-Based Framework of the U.S. Current Account, 1989–2001

[Billions of dollars]

Line		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001[1]
1	**Exports of goods and services and income receipts (ITA 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**	**1,192.0**	**1,247.7**	**1,417.2**	**1,281.8**
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**	**1,036.6**	**1,085.6**	**1,213.9**	**1,124.0**
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**	**957.1**	**1,064.2**	**998.0**
3a	Goods, balance of payments basis (ITA table 1, line 3)	359.9	387.4	414.1	439.6	456.9	502.9	575.2	612.1	678.4	670.4	684.0	772.0	718.8
3b	Services (ITA table 1, line 4)	127.1	147.8	164.3	176.9	185.9	201.0	219.2	240.0	256.6	262.3	273.2	292.2	279.3
4	To unaffiliated foreigners	340.0	380.5	410.4	429.3	449.3	474.4	541.2	582.1	633.9	644.3	645.7	736.5	....
4a	Goods	236.2	259.6	274.7	284.9	295.8	313.4	365.3	389.5	428.8	436.5	427.6	503.6	....
4b	Services	103.8	121.0	135.6	144.4	153.4	160.9	175.9	192.5	205.0	207.8	218.1	232.8	....
5	To affiliated foreigners	147.0	154.7	168.0	187.2	193.6	229.5	253.2	270.1	301.1	288.4	311.5	327.7	....
5a	Goods	123.7	127.8	139.3	154.8	161.1	189.4	209.9	222.6	249.6	233.9	256.4	268.3	....
5b	Services	23.3	26.9	28.6	32.5	32.5	40.1	43.3	47.5	51.6	54.5	55.1	59.4	....
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	239.3	247.4	....
6a	Goods	89.4	90.1	97.1	106.0	113.8	138.3	152.7	161.8	186.5	176.3	196.5	203.0	....
6b	Services	19.7	22.4	23.5	25.4	25.8	32.6	34.4	36.8	40.4	42.5	42.8	44.4	....
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	72.2	80.3	....
7a	Goods	34.3	37.8	42.2	48.8	47.4	51.1	57.2	60.8	63.0	57.6	59.9	65.3	....
7b	Services	3.5	4.5	5.1	7.1	6.7	7.5	8.9	10.7	11.2	12.0	12.3	15.0	....
8	**Net receipts by U.S. companies of direct investment income resulting from sales by their foreign affiliates (ITA table 1, line 14)**	**62.0**	**66.0**	**58.7**	**57.5**	**67.2**	**77.3**	**95.3**	**102.5**	**115.3**	**104.0**	**128.5**	**149.7**	**126.0**
9	Nonbank affiliates	61.8	65.6	58.5	55.3	63.5	73.4	92.0	99.2	112.0	103.2	127.6	147.9	123.5
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	2,611.8	2,891.5	....
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	239.3	247.4	....
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	1,601.2	1,797.3	1,971.1	....
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	295.3	302.6	....
14	Other	742.1	880.3	902.8	905.3	887.9	975.7	1,138.5	1,256.9	1,294.6	1,337.6	1,502.0	1,668.5	....
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	447.5	525.1	....
16	Bank affiliates	0.2	0.4	0.3	2.2	3.7	3.9	3.2	3.3	3.3	0.7	0.9	1.8	2.5
17	**Other income receipts**	**99.3**	**105.8**	**90.5**	**74.5**	**66.9**	**88.1**	**116.2**	**123.3**	**145.2**	**155.4**	**162.1**	**203.3**	**157.8**
18	Other private receipts on U.S.-owned assets abroad (ITA table 1, line 15)	92.6	94.1	81.2	66.0	60.4	82.4	109.8	117.0	139.9	149.9	156.7	197.1	151.8
19	U.S. Government receipts (ITA 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	3.8	3.6
20	Compensation of employees (ITA 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	2.3	2.4
21	**Imports of goods and services and income payments (ITA table 1, line 18)**	**721.6**	**759.3**	**734.6**	**762.1**	**821.9**	**949.3**	**1,077.7**	**1,155.7**	**1,283.1**	**1,351.4**	**1,491.8**	**1,774.1**	**1,625.7**
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**	**1,138.0**	**1,272.8**	**1,503.7**	**1,379.7**
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**	**1,099.6**	**1,219.4**	**1,442.9**	**1,356.3**
23a	Goods, balance of payments basis (ITA 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	1,224.4	1,145.9
23b	Services (ITA table 1, line 21)	102.5	117.7	118.5	116.5	122.3	131.9	141.4	150.9	166.3	182.5	189.4	218.5	210.4
24	From unaffiliated foreigners	365.9	387.0	381.1	408.3	449.7	494.7	558.4	598.2	668.6	710.1	789.4	952.4	....
24a	Goods	273.0	280.7	275.4	304.8	341.5	379.2	435.9	468.3	526.7	555.6	633.1	772.1	....
24b	Services	92.9	106.3	105.8	103.4	108.2	115.5	122.6	129.9	141.9	154.5	156.3	180.4	....
25	From affiliated foreigners	214.3	229.1	228.3	244.7	262.0	305.9	332.4	355.8	374.2	389.5	430.0	490.5	....
25a	Goods	204.7	217.8	215.6	231.7	247.9	289.5	313.5	334.8	349.8	361.5	396.8	452.3	....
25b	Services	9.6	11.3	12.7	13.0	14.1	16.4	18.9	21.0	24.4	28.0	33.1	38.2	....
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	181.8	195.4	....
26a	Goods	74.7	80.3	83.5	93.9	97.1	114.9	122.3	137.2	147.5	156.4	167.0	180.0	....
26b	Services	4.9	5.6	5.4	5.5	6.0	7.0	7.4	7.8	10.4	12.2	14.8	15.4	....
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	248.2	295.1	....
27a	Goods	129.9	137.5	132.2	137.8	150.8	174.6	191.2	197.7	202.4	205.2	229.9	272.4	....
27b	Services	4.8	5.8	7.3	7.5	8.1	9.4	11.4	13.1	14.0	15.8	18.4	22.8	....
28	**Net payments to foreign parents of direct investment income resulting from sales by their U.S. affiliates (ITA table 1, line 31)**	**7.0**	**3.5**	**–2.3**	**2.2**	**7.9**	**22.2**	**30.3**	**33.1**	**43.0**	**38.4**	**53.4**	**60.8**	**23.4**
29	Nonbank affiliates	6.6	4.9	–1.8	2.4	7.5	19.3	25.7	30.2	39.3	35.8	50.5	56.9	20.0
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	2,044.4	2,334.7	....
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	343.4	389.4	....
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	1,531.8	1,650.5	1,888.4	....
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	292.7	329.7	....
34	Other	729.3	818.7	825.7	855.5	920.3	981.8	1,050.2	1,135.0	1,174.7	1,269.7	1,357.8	1,558.7	....
35	Less: Sales by U.S. affiliates to other U.S. affiliates of the same parent [2]	n.a.	n.a.	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	3.9	3.4
37	**Other income payments**	**134.4**	**139.7**	**127.4**	**106.9**	**102.3**	**126.6**	**156.6**	**168.6**	**197.4**	**213.3**	**219.0**	**270.4**	**246.0**
38	Other private payments on foreign-owned assets in the United States (ITA table 1, line 32)	93.8	95.5	82.5	63.1	57.8	76.5	96.5	97.1	112.1	127.1	136.5	179.2	156.8
39	U.S. Government payments (ITA table 1, line 33)	38.4	40.8	40.9	39.1	39.4	44.2	53.8	65.3	78.6	79.3	74.5	83.0	80.7
40	Compensation of employees (ITA table 1, line 34)	2.3	3.5	4.0	4.8	5.1	6.0	6.3	6.3	6.7	7.0	7.9	8.2	8.5
41	**Unilateral current transfers, net (ITA table 1, line 35)**	**–26.2**	**–26.7**	**10.8**	**–35.0**	**–37.6**	**–38.3**	**–34.1**	**–40.1**	**–40.8**	**–44.5**	**–48.8**	**–53.4**	**–49.5**
	Memoranda:													
42	Balance on goods and services (ITA table 1, line 73)	–93.1	–80.9	–31.1	–36.5	–68.8	–96.7	–96.4	–101.8	–107.8	–166.9	–262.2	–378.7	–358.3
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	–101.4	–187.2	–289.8	–255.7
44	Balance on current account (ITA table 1, line 76)	–99.5	–79.0	3.7	–48.5	–82.5	–118.2	–105.8	–117.8	–128.4	–203.8	–292.9	–410.3	–393.4
	Addenda:													
	Source of the content of foreign nonbank affiliates' sales: [3]													
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	2,160.6	2,372.6	....
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	1,921.3	2,125.2	....
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	666.7	704.5	....
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	1,254.7	1,420.7	....
49	U.S. content	122.3	128.8	138.8	147.4	157.6	192.0	212.3	230.9	260.9	248.9	239.3	247.4	....
	Source of the content of U.S. nonbank affiliates' sales: [3]													
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	2,056.1	2,350.2	....
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	1,712.7	1,960.8	....
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	457.7	522.2	....
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	1,255.0	1,438.6	....
54	Foreign content	176.6	188.7	186.0	192.0	208.7	241.8	262.3	281.8	278.9	307.8	343.4	389.4	....

1. The estimates shown in this column are from the international transactions accounts, which are published quarterly. Estimates are not yet available for the items from BEA's annual surveys of U.S. direct investment abroad and of foreign direct investment in the United States, which are processed in the 2 years following the year of coverage. The preliminary estimates for 2001 will be published in the second half of 2003.

2. 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.

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

ITA International transactions accounts.

n.a. Not available.