Technical Note for Ownership-Based Framework of the Current Account of the U.S. International Transactions Accounts

The ownership-based framework was developed in the early 1990s in response to interest in examining international transactions to reflect the increasing importance of multinational enterprises in world economies and, particularly, the growing tendency of these enterprises to use locally established affiliates to deliver goods and services to international markets.[1]

In the conventionally constructed current account, the trade balance reflects only the 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 the transactions in goods and services between U.S. residents (including companies) and foreign residents. In the international accounts, affiliates are treated as residents in their countries of location rather than as residents in the countries of their owners. As a result, sales of goods and services by foreign affiliates of U.S. enterprises to other foreign residents and sales by U.S. affiliates of foreign enterprises to other U.S. residents are not regarded as exports and imports and are therefore excluded from the conventional trade balance.

In the ownership-based framework, a balance is considered in which net income receipts from sales by affiliates are combined with exports and imports of goods and services. Specifically, the net income receipts that accrue to U.S. parents from the sales by their foreign affiliates are

[1] Among the calls 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).

combined with sales to foreign residents by U.S. residents (U.S. exports of goods and services), and the net payments that accrue to foreign parents from the sales by their U.S. affiliates are combined with sales to U.S. residents by foreign residents (U.S. imports of goods and services). The presentation reflects the perspective that trade and sales through affiliates both represent methods of active participation in the international markets for goods and services and that the difference between these receipts and payments is an indicator of the net effect of United States-foreign commerce on the U.S. economy.

Only the net receipts that accrue to the U.S. parents (table 2, line 20)[2], not the gross value of sales by their foreign affiliates (line 21), are included in the ownership-based balance because only those receipts represent value originating in the United States. The remainder of the gross value of sales by foreign affiliates represents foreign contributions—such as labor, capital, purchased inputs, and profits accruing to foreign persons—for which the resulting income accrues to the benefit of the foreign economy. Similarly, only the net payments that accrue to foreign parents (line 54), not the gross value of sales by their U.S. affiliates (line 55), are included because only those payments represent value originating abroad. The remainder of the gross value of sales by U.S. affiliates represents U.S. contributions for which the resulting income accrues to the benefit of the U.S. economy. This methodology also eliminates the double-counting that would occur if both the total value of the sales by parents to their affiliates and the subsequent sales by the affiliates to others were included.

[2] The table referred to in this paragraph is available at http://www.bea.gov/international/supplemental_statistics.htm under the heading "Ownership-based current account."

Conceptually, the ownership-based framework is fully consistent with the current account in the conventional international transactions accounts, except that an adjustment is made to convert direct investment income from an asset/liability basis to a directional basis. The directional basis is more appropriate than the asset/liability basis for the supplemental ownership-based framework because the directional basis groups (nets) income receipts from and income payments to foreign affiliates together into a single aggregate and, similarly, it groups income payments to and income receipts from foreign parents into a single aggregate[3]. Nevertheless, in the ownership-based framework, the current-account balance is the same as in the conventional international transactions accounts, and the ownership-based framework can be viewed as a "satellite" of the conventional accounts.[4]

Grouping the income from affiliates with trade in goods and services acknowledges the active role that parent enterprises typically take in managing and coordinating their affiliates' operations. This direct investment income from affiliates differs fundamentally from income on other types of investments. For example, for U.S. direct investment abroad, direct investment income represents U.S. parents' returns on sales that for reasons such as efficiency,

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[3] In contrast, on an asset/liability basis, direct investment income receipts sum all returns on direct investment assets, whether the asset is held (or equivalently, the income is received) by a U.S. parent or by a U.S. affiliate of a foreign parent. Similarly, direct investment income payments sum all payments on direct investment liabilities, whether the liability is owed to a foreign parent or to a foreign affiliate of a U.S. parent.

[4] According to the sixth edition of the International Monetary Fund's *Balance of Payments and International Investment Position Manual*, paragraph 2.43, "[satellite] presentations use the basic framework as a starting point but differ by adding detail or other information, or by rearranging information, to meet particular needs. Use of the basic framework as a starting point increases the ability to relate the topic to other aspects of the economy while maintaining international comparability."

transportation costs, or the avoidance of trade barriers are made by foreign affiliates rather than by the U.S. parent themselves.[5] In contrast, other types of investment income represent returns on passive investments, such as foreign stocks and bonds. In many cases, a portion of the income from affiliates may be regarded as a kind of implicit management fee that compensates parents for undertaking active roles in the operations of their affiliates.

In addition, the framework provides information on ownership relationships by disaggregating trade in goods and services into trade between affiliated parties (that is, trade within multinational enterprises) 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 direct investment income and the activities that produce it, this income is designated as "resulting from sales by affiliates." In the addenda to table 2, the framework also provides information on both the U.S. and foreign content of affiliates' sales and the extent to which such content results from the affiliates' own value added.

[5] Direct investment income, on the directional basis used in the ownership-based framework, consists of net receipts of earnings and of interest by parents from their affiliates.