5. Intra-Firm Trade

Intra-firm trade, defined as the exchange of goods and services between affiliated international firms within a multinational enterprise, can be directly related to foreign direct investment flows. Intra-firm trade is a significant and integral component of the globalization of economic activities and the foreign direct investment boom in the 1980s was seen as a strong indication of the increasing globalization process.

Intra-firm trade data, a subset of international trade statistics, are not captured by traditional customs documentation and, generally, can only be tabulated through surveys at the firm level. However, this information is still difficult to obtain given the natural reluctance of firms to reveal this type of off-market internal transactions, especially the release of transfer price data. Detailed data then is understandably scarce and limited to a few countries including the U.S., Japan and the United Kingdom.[19]

The available intra-firm data for the U.S. indicates that over one-third of U.S. exports and 40 percent of U.S. imports is accounted for by intra-firm trade. Between 1977 and 1989, the share of U.S. exports and imports accounted for by intra-firm trade has remained relatively unchanged. On an industry basis, intra-firm trade is concentrated in the machinery, electric/electronic equipment and transportation equipment sectors.[20]

For Japan and the United Kingdom, the intra-firm export share of total exports is comparable to U.S. shares.[21] Japanese intra-firm exports are concentrated in the electrical machinery and transportation equipment sectors. In the transportation equipment sector, intra-firm trade is characterized by exports of motor vehicle parts and components to foreign affiliate assembly operations, a direct result of foreign direct investment by Japanese automakers.[22]

An examination into Canadian intra-firm trade reveals the impact of the significant bilateral trade flows with the United States. As shown in Table 7, U.S. exports to Canadian affiliates accounted for 37.4 percent of total U.S. intra-firm exports in 1989, up from 34.9 percent in 1982 but down from 42.9 percent in 1977. In 1989, U.S. intra-firm exports to Canada of 37.4 percent constituted the largest intra-firm export share. Europe was second with 31.5 percent of U.S. intra-firm exports while Japan and Mexico accounted for 7 percent each. The fall in Canada's intra-firm export share since 1977 has been reflected in increased shares for both Japan and Mexico, up from 2.4 and 2.5 percent, respectively, in 1977. A product breakdown of U.S. intra-firm exports to Canada reveals that of the overall 37.4 percent Canadian share, a 22.4 percent share is attributable to motor vehicle intra-firm exports and a further 7.6 percent share to machinery and equipment intra-firm exports.

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[19] *For a more detailed discussion on the problems and limitations of intra-firm trade data, the reader is directed to OECD, Intra-Firm Trade Study, TC/TC/WP(92)68/REV1, December 1992, pp. 9-10.*
[20] *OECD, Intra-Firm Study, op. cit., pp. 10-11.*
[21] *OECD, The Activities of Multinational Enterprises and Their Effects on International Trade, TD/TC/WP(91)43, July 1991, p. 19.*
[22] *OECD, Intra-Firm Study, op. cit., p. 16.*