An example illustrates what is and is not included in the Julius calculation of net foreign sales. Consider a U.S. company that is engaged in cross-border exporting and has foreign affiliates engaged in local sales. Net foreign sales of the firm are calculated by adding cross-border exports to local sales (net of payments to non-U.S. factors) of the foreign-based affiliates. To ensure no double counting, U.S. cross-border exports that are imports of foreign-based U.S. affiliates are subtracted out of local sales.

While the Julius method also transforms the 1991 U.S. trade deficit into a surplus, it is considerably smaller than the NAS surplus, at $24 billion (see Table 1).

**Residency-Based Approach**

Landefeld, Whichard and Lowe (LWL) present an alternative approach to determining the contribution of multinational firms to international trade by reworking standard balance of payments data. It is an attempt to combine the additional information available from company ownership (available in the NAS and Julius proposals) with standard balance of payments residency concepts. The proposal keeps the standard measure of cross-border trade, but breaks down the total figures to reflect the portions accounted for by affiliated trade.

The advantage of the residency-based approach is that it maintains the balance of payments relationships, particularly those between output and the location or ownership of factors of production. It simply adds the net receipts of foreign affiliates to standard trade data to estimate a new measure, termed net exports. Like the Julius proposal, the residency-based approach excludes the returns to foreign supplied factors of production in net U.S. sales to foreigners and excludes the returns to U.S.-supplied factors of production in net foreign sales to the United States.

The residency-based approach also results in a 1991 trade surplus of $24 billion (see Table 1).

We conclude that the Julius and LWL approaches are better than the NAS proposal in determining the effects on the domestic economy of foreign sales since they explicitly exclude foreign factor payments from net foreign sales calculations. From an exporting firm's point of view, the NAS proposal indicates the global extent of its activities, including production and sales.