

### **Balance of Payments Data**

Balance of payments data record transactions between national residents and non-residents. As such, they include the cross-border trade of direct investment enterprises, but not their sales or purchases in the country of location. The exclusion of local sales and purchases from trade data is consistent with the view that foreign affiliates are residents of their country of location, not their country of ownership. The three alternative frameworks reverse the traditional view and treat foreign affiliates according to their country of ownership, not their country of location.

Since balance of payments data are integrated with the national accounts, they are consistent with Gross Domestic Product (GDP) and Gross National Product (GNP) definitions. None of the activity of foreign affiliates is recorded as part of the investor country's GDP. Its production is part of the GDP of the host country. As for GNP, the direct investor's share of profits is included, since it is income derived from domestically supplied factors of production. Exports are included in (and imports excluded from) both the GDP and GNP of the exporting (or importing) country -- the country of location -- regardless of the exporting (or importing) firm's country of ownership.

### **National Academy of Science Proposal**

The NAS proposal calculates the net U.S. sales to foreigners as the sum of the net U.S. cross-border sales to foreigners by domestically owned companies, the net sales to foreigners by foreign-based affiliates of U.S. companies, and the net U.S. sales to U.S.-based affiliates of foreign companies.<sup>2</sup>

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<sup>2</sup> Net U.S. cross-border sales to foreigners by domestically owned U.S. companies is calculated as follows:

Subtract U.S. exports to foreign affiliates of U.S. companies and exports by U.S. affiliates of foreign companies from total U.S. exports to obtain an estimate of cross-border exports by domestically owned U.S. companies to foreigners. Subtract imports from foreign affiliates of U.S. companies and imports by U.S. affiliates of foreign companies from total U.S. imports to obtain an estimate of cross-border imports by domestically owned U.S. companies from foreigners. Subtract the import estimate from the export estimate to produce net cross-border sales to foreigners by domestically owned U.S. companies.

Net sales to foreigners by foreign-based affiliates of U.S. companies is calculated as follows:

Subtract sales by foreign affiliates to the U.S. and to other foreign affiliates of U.S. companies from total sales. Subtract local (non-U.S.) purchases of goods and non-factor services by