Trade and Direct Investment Statistics: The Twain Have Met

As the international economy has become more integrated, rendering national boundaries less important in delineating markets, the adequacy of standard cross-border trade statistics has been brought into question. At the risk of oversimplifying, it is no longer the case that firms centralize production facilities in their domestic market to service both domestic and foreign customers. Now, the production facilities of large corporations are often located in various countries and often form part of a single, integrated manufacturing process with considerable intra-firm trade and trade in intermediate products (inputs).

In the collection and dissemination of any statistics there are two potential problems: items are included that should not be, and items that should be included are not. The international economic developments mentioned above have prompted several investigations into the latter problem with respect to trade statistics.[1]

In December 1993, the *Survey of Current Business,* a U.S. Department of Commerce publication, contained an article entitled "Alternative Frameworks for U.S. International Transactions". Its authors -- J.S. Landefeld, O.G. Whichard, and J.H. Lowe -- compared the trade statistics currently reported by the Department of Commerce with three sets of adjusted trade statistics that attempt to better reflect the international activities of multinational enterprises.

The three sets of adjusted data are derived from statistical reform proposals by the National Academy of Science (NAS), DeAnne Julius and the authors of the aforementioned Department of Commerce publication. In all cases, cross-border trade data are combined with information on sales and purchases abroad by U.S.-owned foreign companies, and sales and purchases in the U.S. by foreign-owned U.S.-based companies. The intention is to broaden the traditional definition of international trade to include sales by foreign affiliates. <u>The practical result, in each case, is that a U.S. trade deficit turns into a trade surplus</u>.

[1] The Industry Committee of the OECD has a working party studying ownership-based trade data, as does the Statistical Office of the European Community.