Chapter 6

Economic Territory and Residence

6.1. Economic territory and residence are fundamental concepts for international economic accounts because, along with the concept of **institutional unit** described in chapter seven, they determine the scope of the economy for which the accounts are compiled. An economy consists of the institutional units that are resident in a specific economic territory. The degree to which institutional units are connected to a particular economic territory is largely determined by factors such as physical presence and the extent of control by the government. Most institutional units have strong connections with only one economy.

Economic territory

6.2. The most common concept of economic territory is the area controlled by a single government.

6.3. The economic territory includes the land area, airspace, territorial waters, islands belonging to the territory, and territorial enclaves in the rest of the world. Territorial enclaves are clearly identified land areas physically located in other territories and used by governments for diplomatic, military, scientific, or other purposes. Examples include embassies, consulates, military bases, and immigration offices. International organizations, such as the International Monetary Fund (IMF) and the United Nations, are economic territories in their own right and are not considered part of the economic territory in which they are physically located.

6.4. For purposes of the U.S. international economic accounts, the United States consists of the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and other territories and possessions, and U.S. foreign trade zones. The U.S. national economic accounts use a slightly different definition of the United States, which excludes the territories and possessions. The territories and possessions are included in the international economic accounts because they have a closer degree of economic association with the United States than with any other country. Alternatively, this could also be described by pointing out that the United States is the predominant **center of economic interest** for these territories and possessions.

6.5. U.S. government military, diplomatic, consular, and other nonmilitary installations abroad are considered to be part of the U.S. economy, and their operations are regarded as an extension of U.S. government domestic operations.

Residence

6.6. Residence is another fundamental concept for the international economic accounts because its application, in terms of the location of institutional units, determines whether transactions and related economic activities are within the scope of the international economic accounts. Each institutional unit's residence is the economic territory with which it has the strongest connection, expressed as its center of predominant economic interest. Each institutional unit is a **resident** of one and only one economic territory.

6.7. An institutional unit is resident in an economic territory when it engages—or intends to engage over a long period—in economic activities from some specific location in that territory. It is not necessary for the location to be fixed as long as it remains within the economic territory. In practice, actual or intended location for one year or more is used as the criterion for establishing residency in order to avoid uncertainty and to promote cross-country consistency.

6.8. For the U.S. international economic accounts, a U.S. resident is defined to include (1) individuals who reside or intend to reside in the United States for more than one year; (2) business enterprises and nonprofit organizations established under U.S. laws, including corporations, partnerships, and proprietorships; and (3) U.S. federal, state, and local governments, together with their subdivisions. Residency criteria for each of these three groups are described below. Also discussed below are the residency of international organizations and the determination of partner country classifications.

Individuals

6.9. Individuals who reside or intend to reside in the United States for one year or more are considered U.S. residents. The residence of individuals is determined by the economic territory in which their household members maintain or intend to maintain their principal dwelling. All members of the same household have the same residence as the household itself. Exceptions are made for students who study abroad and for persons who travel for medical treatment. Students retain the residency of their home country regardless of their length of stay. Medical patients, like students, retain the residency of their home country regardless of their length of stay for treatment.

6.10. U.S. government employees stationed abroad (and their families) such as diplomats, consular officials, and members of the armed forces are treated as U.S. residents, regardless of their length of stay abroad. Border workers, seasonal workers, and other short-term workers are considered residents of the country of their principal dwelling, rather than the country of their employment. Refugees are considered as residents of their country of refuge, rather than their home country, if they have stayed or intend to stay for one year or more. Crews of ships, aircraft, oil rigs, space stations, and other similar equipment that operate outside a territory or across several territories are treated as residents of their home country.

6.11. International organization staff, including those with diplomatic status, are treated as residents of the territory of their principal dwelling. The treatment of international organization staff differs from that for national diplomats and other government officials mentioned previously because the latter continue to be paid from and directed by their home government.

Business enterprises and nonprofit institutions

6.12. Business enterprises and nonprofit institutions serving households (NPISHs) are treated as residents of the country in which they are located, operated, organized, or incorporated. U.S. resident entities consist of all for-profit and nonprofit institutions established under U.S. laws; their foreign affiliates—subsidiaries, branches, partnerships, and sole proprietorships—are considered residents of the countries in which they are located. Similarly, all affiliates—subsidiaries, branches, partnerships, and sole proprietorships—of foreign for-profit and nonprofit institutions that operate in the United States are considered U.S. residents.

6.13. A branch is an unincorporated business affiliate established in a foreign country to conduct the business of the parent company in the parent's name; it is not a separate legal entity. A foreign subsidiary is a business affiliate established and incorporated in a foreign country under local laws; it is a separate legal entity from the parent company. Affiliates of multinational enterprises (MNEs) are treated as residents of the country in which they are located, not as residents of the country of the parent; thus, U.S. affiliates of foreign corporations are considered U.S. residents, and foreign affiliates of U.S. corporations are considered foreign residents.

General government

6.14. General government—including federal, state, and local governments—and their agencies and subdivisions, operating at home and abroad, are treated as residents of their home country. Thus, U.S. government installations abroad are considered residents of the United States, and foreign government installations located in the United States are considered residents of their home country. This treatment is adopted because such units usually have some degree of immunity from the host country's laws and, under international law, are deemed to be extensions of the home government's territory.

International organizations

6.15. International organizations, such as the IMF and the United Nations, are treated as residents of an international area of their own beyond national boundaries, rather than as residents of the country in which they are located or in which they operate. ITA transactions include, for example, the administrative expenses of these organizations in the United States and the compensation paid to U.S. resident employees by these organizations.

Partner country classifications

6.16. International economic accounts show transactions and positions with all nonresidents as a single total, but considerable interest exists for data on transactions and positions with nonresidents classified by individual **partner country** or country groups. Such breakdowns may be provided for the accounts as a whole, or for particular components, such as goods, services, direct investment, portfolio investment, or sales and employment of MNEs and affiliates. Partner country data allow bilateral comparisons and assist in identifying compilation problems. The U.S. international economic accounts provide extensive bilateral (partner country) statistics for the International Transactions Accounts (ITAs) and for the Activities of Multinational Enterprises (AMNE) statistics but only for the direct investment component of the International Investment Position (IIP) Accounts. (More detailed information on U.S. bilateral statistics is provided in chapter 15.)

6.17. The basic principle for attribution by partner country is the economy of residence of the counterparty to the transaction or position. The same principles for determining residence apply, but they are often more difficult for partner country attribution because the information is not always known to the resident counterparty. For ITA transactions, the partner attribution for the United States is based on the location of the parties to the transaction (transactor approach). For the IIP accounts, U.S. asset positions are attributed to the country of residence of the issuer, and U.S. liability positions are attributed to the country of residence of the holder (debtor/creditor approach). In practice, such attributions are sometimes made to the country of residence of the transactor, such as a financial institution located in an international financial center, because the residence of the holder is not known. Inward AMNE statistics for U.S. affiliates are attributed to the country of residence of the ultimate beneficial owner, and outward AMNE statistics for foreign affiliates of U.S. MNEs are attributed to the country where the affiliate is located.