METHODOLOGY

Introduction

Data in this publication are from BEA's BE-10 Benchmark Survey of U.S. Direct Investment Abroad—1989. Reporting in the survey was mandatory under the International Investment and Trade in Services Survey Act (P.L. 94–472, 90 Stat. 2059, 22 U.S.C. 3101 through 3108, as amended by P.L. 98–573).

The publication presents 263 tables that contain nearly all of the data collected in the benchmark survey. Some tables present data for several related items disaggregated by country or by industry; others present data for a single item disaggregated by country (or industry) and cross-classified by industry (or country).

The amount and type of data collected in the survey differed depending on whether the U.S. parents or foreign affiliates were banks or nonbanks and, for nonbank affiliates, on whether they were majority or minority owned. In this publication, data for foreign affiliates and for their U.S. parents are presented separately for five affiliate groups: (1) All affiliates of all U.S. parents, (2) nonbank affiliates of nonbank U.S. parents, (3) majority-owned nonbank affiliates of nonbank U.S. parents, (4) nonbank affiliates of U.S. parents in banking, and (5) bank affiliates of all U.S. parents. Data for other groups are not presented, primarily because of space and resource constraints.

Three related types of data are presented: (1) Foreign affiliate financial and operating data, (2) U.S. parent financial and operating data, and (3) direct investment position and balance of payments data. Financial and operating data cover balance sheets and income statements; property, plant, and equipment; employment and employee compensation; U.S. merchandise trade; sales of goods and services; technology; taxes; and, for foreign affiliates, external financial position. The direct investment position and balance of payments data cover positions and transactions between foreign affiliates and their U.S. parents. Thus, they are the intersection of the financial and operating data of the foreign affiliates with those of their U.S. parents. They are used in deriving the official estimates of U.S. direct investment abroad that enter the U.S. balance of payments accounts (formally referred to as the U.S. international transactions accounts), the U.S. national income and product accounts (NIPA's), and the U.S. international investment position (IIP). Balance of payments data include data on capital flows between U.S. parents and their foreign affiliates, receipts of income by U.S. parents from their foreign affiliates, and U.S. parents' receipts and payments of royalties and license fees and fees for other services from and to their foreign affiliates.[1] The income and direct investment position data collected in the benchmark survey and shown in this publication are on a historical-cost basis; prior to their inclusion in the international accounts, the NIPA's, and the IIP, they are adjusted to reflect current-period prices.

The data in this publication revise data that appeared in *U.S. Direct Investment Abroad: 1989 Benchmark Survey, Preliminary Results* and that were summarized in "U.S. Direct Investment Abroad: 1989 Benchmark Survey Results" in the October 1991 issue of the SURVEY OF CURRENT BUSINESS.

The financial and operating data for 1989 in this publication update estimates for 1983–88 and 1990 contained in other BEA publications. (The estimates for all years are also available on computer diskette; ordering information for the publications and diskettes is at the back of this publication.) For similar items, the 1989 universe data in this publication are generally comparable with the universe estimates for the other years, which were derived from sample data reported in BEA's annual survey of U.S. direct investment abroad. Some data presented here, such as investment income, were collected for the first time in the 1989 benchmark survey. Other data—such as employment of U.S. parents by industry of sales, U.S. merchandise trade of parents and affiliates by product and by destination or origin, compensation of and hours worked by production workers of manufacturing affiliates, sales by affiliates by country of destination, and research and development expenditures of parents and affiliates—were collected in the last (1982) benchmark survey, but not in the annual surveys for nonbenchmark years.

To aid comparisons of the financial and operating data for the various years, table 1 provides cross-references between the table numbers used in this publication, the publications for 1983–88, and the publications for 1990 and future years. Many of the tables that appear in this publication do not have counterparts in the publications for 1983–88 and for 1990 forward, primarily because the 1989 benchmark survey collected data for several items not obtained in the annual surveys for the other years. If a comparable table for the other years is not available, no table numbers appear in table 1 in the columns for the other years' publications.

In some instances, data items collected separately in the benchmark survey may have been combined with other items in the annual survey. Thus, two or more items that were combined in a table in the annual survey publications may be shown separately in a table in this publication. In a few instances, the opposite is true; that is, some items that were collected separately in the annual survey were combined in the benchmark survey and are shown together in this publication.

1. Benchmark survey data on U.S. merchandise trade of parents and affiliates are grouped under financial and operating data, rather than balance of payments data, because they are not the source of the official merchandise trade statistics in the U.S. balance of payments accounts.

Table 1.—Comparison of Tables for Nonbank U.S. Parents and Their Nonbank Foreign Affiliates in This Publication With Those in the Publications for 1990 Forward and for 1983–88

Tables in this publication	Comparable table in publications for 1990 forward	Comparable table in 1983–88 publications
Nonbank Foreign Affiliates of Nonbank U.S. Parents		
Group A. Selected Data		
II.A 1	II.A 1	1
II.A 2	II.A 2	2
Group B. Balance Sheet		
II.B 1–II.B 4		
II.B 5	II.B 5	3
II.B 6	II.B 6	4
II.B 7–II.B 14		
II.B 15	II.B 15	5
Group D. Property, Plant and Equipment		
II.D 6–II.D 7		
Group E. Income Statement		
II.E 1–II.E 2		
II.E 3	II.E 3	6
II.E 4	II.E 4	7
II.E 5		
II.E 6	II.E 6	8
II.E 7	II.E 7	9
II.E 8		
II.E 9	II.E 9	10
II.E 10–II.E 11		
Group F. Sales		
II.F 24		
Group G. Employment and Employee Compensation		
II.G 3	II.G 3	11
II.G 4	II.G 4	12
II.G 6	II.G 6	13
II.G 7	II.G 7	14
II.G 11	II.G 11	15
II.G 12		
Group H. U.S. Merchandise Trade		
II.H 1–II.H 2		
II.H 5	II.H 5	16
II.H 6	II.H 6	17
II.H 9		
II.H 13		
II.H 22	II.H 22	18
II.H 23	II.H 23	19
II.H 26		
II.H 30		
Majority-Owned Nonbank Foreign Affiliates of Nonbank U.S. Parents		
Group A. Selected Data		
III.A 1	III.A 1	
III.A 2	III.A 2	
Group B. Balance Sheet		
III.B 1–III.B 2	III.B 1–2	20
III.B 3–III.B 4	III.B 3–4	21
III.B 5	III.B 5	22
III.B 6	III.B 6	23
III.B 7	III.B 7	24
III.B 8–III.B 12		
III.B 13–III.B 14	III.B 13–14	25
III.B 15	III.B 15	
Group C. External Financial Position		
III.C 1	III.C 1	26
III.C 2		
Group D. Property, Plant, and Equipment		
III.D 1–III.D 8		
Group E. Income Statement		
III.E 1	III.E 1	27
III.E 2	III.E 2	28
III.E 3	III.E 3	29
III.E 4	III.E 4	30
III.E 5	III.E 5	
III.E 6	III.E 6	31
III.E 7	III.E 7	32
III.E 8	III.E 8	33
III.E 9	III.E 9	
III.E10–III.E11		
Group F. Sales		
III.F 1	III.F 1	
III.F 2	III.F 2	34
III.F 3	III.F 3	35
III.F 4	III.F 4	37
III.F 5–III.F 6		
III.F 7	III.F 7	36
III.F 8	III.F 8	38
III.F 9	III.F 9	
III.F 10–III.F 12		
III.F 13	III.F 13	39
III.F 14	III.F 14	40
III.F 15		
III.F 16	III.F 16	43
III.F 17	III.F 17	41
III.F 18	III.F 18	42
III.F 19		
III.F 20	III.F 20	44
III.F 21		
III.F 22	III.F 22	
III.F 23		
III.F 24	III.F 24	45
Group G. Employment and Employee Compensation		
III.G 1–III.G 2		
III.G 3	III.G 3	46
III.G 4	III.G 4	47
III.G 5		
III.G 6	III.G 6	48
III.G 7	III.G 7	49
III.G 8–III.G 10		
III.G 11	III.G 11	
III.G 12–III.G 20		
Group H. U.S. Merchandise Trade		
III.H 1	III.H 1	50
III.H 2	III.H 2	51
III.H 3–III.H 4		
III.H 5	III.H 5	52
III.H 6–III.H 8		
III.H 9	III.H 9	
III.H 10–III.H 21		
III.H 22	III.H 22	53
III.H 23–III.H 25		
III.H 26	III.H 26	
Group I. Research and Development		
III.I 1		
III.I 2, III.I 5	III.I 2–5	
III.I 3	III.I 3	
III.I 4		
III.I 6–III.I 11		
Group J. Other Financial and Operating Data		
III.J 1–III.J 3		
Nonbank U.S. Parents of Nonbank Foreign Affiliates		
Group K. Selected Data		
II.K 1	II.K 1	54
Group L. Balance Sheet		
II.L 1–II.L 2		
Group M. Property, Plant, and Equipment		
II.M 1–II.M 2		
Group N. Income Statement		
II.N 1		
Group O. Sales		
II.O 1	II.O 1	55
II.O 2	II.O 2	56

Table 1.—Comparison of Tables for Nonbank U.S. Parents and Their Nonbank Foreign Affiliates in This Publication With Those in the Publications for 1990 Forward and for 1983–88—Continued

Tables in this publication	Comparable table in publications for 1990 forward	Comparable table in 1983–88 publications
Group P. Employment and Employee Compensation		
II.P 1–II.P 2		
Group Q. U.S. Merchandise Trade		
II.Q 1	II.Q 1	57
II.Q 2–II.Q 3		
II.Q 4	II.Q 4	58
II.Q 5–II.Q 6		
Group R. Technology		
II.R 1–II.R 2		
Group S. Other Financial and Operating Data		
II.S 1		
Nonbank U.S. Parents of Majority-Owned Nonbank Foreign Affiliates		
Group K. Selected Data		
III.K 1		

NOTE.—This publication contains tables (in general subject matter groups T, U, V, W, and X) that show direct investment position and balance of payments data, as well as tables that show financial and operating data. The tables that show direct investment position and balance of payments data are not listed here, because they are outside the scope of the publications for 1990 forward and for 1983–88, which cover only financial and operating data. Direct investment position and balance of payments data comparable with those in this publication, which are on a fiscal year basis, are not available (see text for discussion). However, direct investment position and balance of payments data are available on a calendar year basis for 1950–91 in other BEA publications.

Also not listed here are tables covering the financial and operating data of all affiliates of all U.S. parents, nonbank affiliates of parents in banking, and bank affiliates of all parents. These data are also outside the scope of the publications for 1990 forward and for 1983–88, which cover only financial and operating data of nonbank U.S. parents and their nonbank affiliates.

Coverage

A 1989 benchmark survey report was required from every U.S. person (as defined below) having a foreign affiliate—that is, having direct or indirect ownership or control of 10 percent or more of the voting securities of an incorporated foreign business enterprise or an equivalent interest in an unincorporated foreign business enterprise—at any time during its 1989 fiscal year. Reports were required even though the foreign business enterprise may have been established, acquired, liquidated, sold, or otherwise inactivated during the year.

Each BE-10 report consisted of (1) Form BE-10A, which obtained data for the U.S. parent company, and (2) one or more Forms BE-10B, which obtained data for each of the parent's foreign affiliates that had total assets, sales, or net income (or loss) of at least $3 million or that owned another foreign affiliate for which a form BE-10B had to be filed, regardless of the size of its own assets, sales, or net income (or loss). On a supplement to Form BE-10A, U.S. parents had to list all foreign affiliates that were exempt from being reported on Form BE-10B and give a few selected data items—percentage ownership, total assets, sales, net income, and direct investment position—for each. If all foreign affiliates of a U.S. parent were exempt from being reported on Form BE-10B, the U.S. parent was still required to file a Form BE-10A, but only Part I, items 1–4 (to identify itself) and the Form BE-10A Supplement (to identify its exempt foreign affiliates).

U.S. parents and foreign affiliates in banking—that is, parents and affiliates that had over 50 percent of their total revenues generated by activities classified in the banking industry—were permitted to report less detailed financial and operating data than nonbank parents and affiliates. Less detail was required because most of the information on bank parents and affiliates that was needed for policymaking purposes already had to be reported to other U.S. Government agencies. Shorter, specialized forms for bank parents (Form BE-10A BANK) and for bank affiliates (Form BE-10B BANK) were substituted for the standard forms. The reporting criteria for banks, however, were the same as those for nonbanks, except that foreign bank affiliates that were owned indirectly 50 percent or less by their U.S. parents and that did not own another foreign affiliate for which a Form BE-10B had to be filed were exempt from being reported, even if their total assets, sales, or net income (or loss) were $3 million or more.

Based on the above criteria, complete BE-10A forms were filed by 2,272 U.S. parents, of which 89 were banks; 723 U.S. parents filed only partial BE-10A forms because all their foreign affiliates were exempt. BE-10B forms were received for 18,899 foreign affiliates, of which 729 were banks; 8,187

Table 2.—Foreign Affiliates for Which BE-10B Forms Were Filed in 1989 Benchmark Survey, Compared With the Universe of Foreign Affiliates

	Number of affiliates	Millions of dollars			
		Total assets	Sales	Net income	U.S. direct investment position abroad on a historical-cost basis
Universe of foreign affiliates:					
Total	27,086	2,060,887	1,373,509	87,028	382,272
Nonbanks	26,285	1,380,371	1,297,030	85,759	362,946
Banks	801	680,515	76,478	1,269	19,326
Foreign affiliates for which BE-10B forms were filed:					
Total	18,899	2,055,299	1,368,097	86,925	380,068
Nonbanks	18,170	1,374,838	1,291,631	85,655	360,776
Banks	729	680,461	76,465	1,270	19,292
Foreign affiliates exempt from being reported on the BE-10B form:					
Total	8,187	5,588	5,412	103	2,204
Nonbanks	8,115	5,533	5,399	104	2,170
Banks	72	54	13	–1	34
Addendum—Affiliates for which BE-10B forms were filed as percentage of universe:					
Total	69.8	99.7	99.6	99.9	99.4
Nonbanks	69.1	99.6	99.6	99.9	99.4
Banks	91.0	100.0	100.0	100.1	99.8

foreign affiliates were listed by their U.S. parents as exempt from being reported on Form BE-10B.

In table 2, foreign affiliates for which BE-10B forms were filed are compared with all foreign affiliates in the 1989 direct investment universe. Affiliates for which BE-10B forms were filed accounted for 69.8 percent of the universe in terms of numbers. However, because of the relatively low exemption level on the form, they accounted for almost the entire universe in terms of value—99.7 percent of total assets, 99.6 percent of sales, 99.9 percent of net income, and 99.4 percent of the historical-cost U.S. direct investment position abroad. Thus, in value terms, coverage of the universe is virtually complete.

Nonbank affiliates for which BE-10B forms were filed accounted for 99.6 percent of total assets, 99.6 percent of sales, 99.9 percent of net income, and 99.4 percent of the historical-cost U.S. direct investment position of the nonbank affiliate universe. The corresponding percentages for bank affiliates were 100.0, 100.0, 100.1, and 99.8 percent, respectively. Bank affiliates for which BE-10B BANK forms were filed accounted for more than 100 percent of net income because exempt foreign affiliates had, in aggregate, a net loss for the year.

Except for table 2, all tables in this publication cover only foreign affiliates for which BE-10B forms were filed, and their U.S. parents. Thus, when the term "all foreign affiliates" is used, it refers to all foreign affiliates *for which BE-10B forms were filed*, not to the universe of affiliates shown in table 2.

Basic Concepts and Definitions

This section describes the basic concepts and definitions used in the 1989 benchmark survey. Major differences between these concepts and definitions and those used in BEA's last benchmark survey, which covered 1982, and in other BEA surveys of U.S. direct investment abroad since 1982 are noted.

Direct investment

Direct investment implies that a person in one country has a lasting interest in, and a degree of influence over the management of, a business enterprise in another country. For the United States, ownership or control by a single person of 10 percent or more of an enterprise's voting securities, or the equivalent, is considered evidence of such a lasting interest or degree of influence over management. Thus, U.S. direct investment abroad is the ownership or control, directly or indirectly, by one U.S. person of 10 percent or more of the voting securities of an incorporated foreign business enterprise or an equivalent interest in an unincorporated foreign business enterprise. Any U.S. investment abroad that is not direct investment by this definition was not covered by the 1989 benchmark survey.

Direct investment refers to ownership by a single person, not to the combined ownership of all persons in a country. "Person" is broadly defined to include any individual, branch, partnership, associated group, association, estate, trust, corporation or other organization (whether or not organized under the laws of any State), and any government (including a foreign government, the U.S. Government, a State or local government, and any agency, corporation or financial institution, or other entity or instrumentality thereof, including a government-sponsored agency). This definition treats an associated group as a single person. An associated group consists of two or more persons who—by the appearance of their actions, by agreement, or by an understanding—exercise their voting privileges in a concerted manner to influence the management of a business enterprise. The following are deemed to be associated groups: (1) Members of the same family, (2) a business enterprise and one or more of its officers and directors, (3) members of a syndicate or joint venture, and (4) a corporation and its domestic subsidiaries. Even if each member of such an associated group owns less than 10 percent of a business enterprise, as long as all members combined own at least 10 percent, direct investment is considered to exist. The members of the group are considered to influence or control management in a manner comparable to that of a single person with the same total ownership interest.

Because direct investment is defined from a single-owner viewpoint, investment by a U.S. person of less than 10 percent in a foreign business enterprise is not considered direct investment, even if another U.S. person has an interest of at least 10 percent, unless both U.S. persons are members of an associated group. Thus, if one U.S. person owns 11 percent and another owns 9 percent, the 11-percent interest is included, but the 9-percent interest is excluded. The person with the less-than-10-percent interest, by itself, is not considered to have sufficient ownership to influence management.

A U.S. person's direct investment ownership interest in a foreign business enterprise may be held directly or indirectly or both. It is held directly if the U.S. person itself holds the ownership interest in the foreign business enterprise. It is held indirectly if the U.S. person holds an ownership interest in another foreign business enterprise that, in turn, directly or indirectly owns the given foreign business enterprise. Any number of tiers of ownership may intervene between a direct investor and an indirectly owned enterprise. A U.S. person's percentage of indirect voting ownership in a given foreign business enterprise is equal to the direct voting ownership percentage of the U.S. person in the first foreign business enterprise in the ownership chain, times that first enterprise's direct ownership percentage in the second enterprise in the chain, times the corresponding percentages for all other intervening enterprises in the chain, times the last intervening enterprise's direct ownership percentage in the given foreign business enterprise. If more than one ownership chain between a U.S. person and a given foreign business enterprise exists, the percentages of direct and indirect ownership in all chains are summed to determine the U.S. person's direct investment ownership percentage.

Only ownership percentages in the portion of an ownership chain that extends from the U.S. border outward enter into the above calculation. Ownership percentages in any portion of the chain that either reenters or falls entirely within the United States do not enter into the calculation.

Determination of residency

The "United States" means the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, and all U.S. territories and possessions. "Foreign" means that which is situated outside the United States, or which belongs to or is characteristic of a country other than the United States. A U.S. person is any person resident in, or subject to the jurisdiction of, the United States, and a foreign person is any person resident outside the United States or subject to the jurisdiction of a country other than the United States. Thus, in determining whether a direct investor or the business enterprise owned by a direct investor is a U.S. or foreign person, country of residence, not country of citizenship, is used.

Individuals are considered residents of, or subject to the jurisdiction of, the country in which they are physically located, as long as they reside or expect to reside in the country for 1 year or more. Under this rule, individuals who reside or expect to reside outside their country of citizenship for less than 1 year are considered residents of their country of citizenship, whereas individuals who reside or expect to reside outside their country of citizenship for 1 year or more are, with two exceptions, considered residents of the country in which they are residing. One exception is an owner or employee of a business enterprise who is residing outside the enterprise's country of location in order to further its business and who is a citizen of the country in which the enterprise is located. In this case, the owner or employee is considered a resident of the country of citizenship, even if he or she is outside that country for 1 year or more, as long as he or she intends to return in a reasonable period of time. The other exception is that individuals and members of their immediate families who reside outside their country of citizenship as a result of employment by the government of that country—such as diplomats, consular officials, or members of the armed forces—are considered residents of their country of citizenship regardless of their length of stay elsewhere.

The U.S. parent

A U.S. parent is a U.S. person who has direct investment—that is, a 10-percent-or-more direct or indirect ownership interest—in a foreign business enterprise. If incorporated, the U.S. parent is the fully consolidated U.S. enterprise that consists of (1) the U.S. parent corporation whose voting securities are not owned more than 50 percent by another U.S. corporation, and (2) proceeding down each ownership chain from that U.S. corporation, any U.S. corporation (including Foreign Sales Corporations located within the United States) whose voting securities are more than 50 percent owned by the U.S. corporation above it. All other U.S. corporations and all foreign business enterprises owned by the U.S. parent are excluded from the full consolidation.

In the 1982 benchmark survey and the annual surveys through 1987, majority-owned (that is, more-than-50-percent-owned) domestic subsidiaries of a U.S. parent that were normally excluded from the parent's full consolidation in reports to stockholders—because, for example, the subsidiary was a finance company but the parent was a manufacturer or because the subsidiary's operations were otherwise unrelated to those of the parent—were treated as separate U.S. parent companies and were permitted to file separate reports. Beginning with the annual survey covering 1988, BEA required that U.S. parents file a single consolidated BE-10A form. This requirement was instituted following the adoption in October 1987 of Financial Accounting Standards Board Statement Number 94, which stipulated that all majority-owned subsidiaries should be consolidated in financial statements for fiscal years ending on or after December 15, 1988.

A U.S. parent is a "person" in the broad sense defined above. Thus, it may be a business enterprise; a religious, charitable, or other nonprofit organization; an individual; a government; an estate or trust; etc. Most U.S. parents, however, are business enterprises. A business enterprise is any organization, association, branch, venture, or the ownership of any real estate that exists to make a profit or to otherwise secure economic advantage.

Where a U.S. individual or other nonbusiness person (such as a nonprofit organization or a government) owns more than 50 percent of a U.S. business enterprise that, in turn, owns a foreign business enterprise, the U.S. business enterprise, not the individual or other nonbusiness person, is considered the parent. This treatment ensures that financial and operating data of the U.S. business enterprise are included in the U.S. parent data and that data on the transactions and positions of the U.S. business enterprise with the foreign business enterprise are included in the foreign affiliate data reported to BEA. Any direct transactions or positions of the individual or other nonbusiness person with the foreign business enterprise must be reported by the U.S. business enterprise and are, therefore, also included in the direct investment accounts.

Although the U.S. Government may have equity investment in a foreign business enterprise, such investment is not covered by BEA's direct investment surveys. Data on such investment are reported to other agencies and are included by BEA in the U.S. Government accounts, rather than in the direct investment accounts, of the U.S. balance of payments.

In the case of a U.S. estate, the estate itself, not its beneficiary, is considered the U.S. parent. For a U.S. trust, however, either the beneficiary or the creator of the trust may be considered the U.S. parent with respect to any investments of the trust, depending on the circumstances. The creator is considered the parent if there is a reversionary interest—that is, if the interest in the trust may be returned to the creator after a period of time—or if the creator is a corporation or other organization that designates its own shareholders or members as beneficiaries. In all other cases, the beneficiary is considered the parent.

The foreign affiliate

A foreign affiliate is a foreign business enterprise in which there is U.S. direct investment—that is, it is a foreign business enterprise that is directly or indirectly owned or controlled by one U.S. person to the extent of 10 percent or more of the voting securities for an incorporated business enterprise or an equivalent interest for an unincorporated business enterprise. The affiliate is called a *foreign* affiliate to denote that it is located outside the United States (although the direct investment interest in it is owned by a U.S. person).

A business enterprise, and therefore an affiliate, may be either incorporated or unincorporated. Unincorporated business enterprises include branches and partnerships.

A branch consists of operations or activities in one location that a person in a second location conducts in its own name, rather than through an entity incorporated in the first location. For example, if a person in country X carries out operations in country Y in its own name, rather than by incorporating the operations in country Y, the country-Y operations are considered a branch. By definition, a branch is wholly owned. A branch located abroad but owned by a U.S. person is a foreign affiliate of the U.S. person. If a company is incorporated in the United States but carries out substantially all of its operations abroad, its foreign operations are treated by BEA as a branch (and, therefore, as a foreign affiliate) even though the U.S. company itself may consider the operations to be an integral part of, and would normally consolidate them with, its own operations and accounts.

In general, a U.S. person's foreign operations or activities are considered a foreign affiliate if they are legally or functionally separable from the domestic operations or activities of the U.S. person. In most cases, it is clear whether the foreign operations or activities constitute an affiliate. For example, if the operation or activity is incorporated abroad—as is true in the majority of cases—it is *always* considered a foreign affiliate. Even if it is unincorporated, the foreign operation or activity is usually legally or functionally separable from the U.S. person's domestic operations or activities. In cases where it is not clearly separable, the determination of whether the operation or activity constitutes a foreign affiliate is made on a case-by-case basis, depending on the weight of the evidence.

The following factors indicate that the operation or activity is probably a foreign affiliate:

1. It pays foreign income taxes.
2. It has a substantial physical presence abroad, as evidenced by plant and equipment or by employees that are permanently located abroad.
3. Separate financial records are kept on the foreign activity or operation that would allow preparation of financial statements, including a balance sheet and income statement, for it. (A mere record of disbursements to, or receipts from, the foreign activity would not constitute a "financial statement" for this purpose.)
4. It takes title to the goods it sells and receives revenues therefrom, or it receives funds for its own account from customers for services it performs.

The following factors indicate that the operation or activity is probably *not* a foreign affiliate:

1. It engages only in sales promotion or public relations activities on behalf of the U.S. person.
2. It conducts business abroad for the U.S. person's account but not for its own account.
3. It has no separate financial statements.
4. All of its expenses are paid by the U.S. person.
5. It pays no foreign income taxes.
6. It has limited physical assets abroad or no employees permanently located abroad.

Foreign stations, ticket offices, and terminal or port facilities of a U.S. airline or ship operator that provide services only to the airline's or ship operator's own operations are not considered foreign affiliates and are excluded from U.S. direct investment abroad. The reason is that most of the revenues—such as passenger fares and freight charges—collected by these facilities are generated by the travel and transportation services rendered by the airline or ship operator of which they are a part, not by the activities of these facilities per se. However, if the facilities provide services primarily to unaffiliated persons, rather than to the U.S. airline or ship operator that owns them, they are considered foreign affiliates and are included in direct investment.

Ownership of real estate for profit-making purposes is defined to be a business enterprise, but ownership of real estate held exclusively for personal use is not. The latter is exempt from being reported in BEA direct investment surveys and is excluded from the data in this publication. A primary residence abroad that is leased to others while the owner is a U.S. resident but that the owner intends to reoccupy is considered real estate held for personal use.

In the benchmark survey, each foreign affiliate had to be reported separately unless the recordkeeping system of the affiliate made this impossible or extremely difficult. In that case, an affiliate could have been consolidated with other foreign affiliates in the same country if the affiliates were also in the same three-digit industry or were integral parts of the same business operation.[2] (As an example of the latter, if German affiliate A manufactured tires and a majority of its sales were to German affiliate B, which manufactured autos, then affiliates A and B could have been consolidated.) Under no circumstances could affiliates in different countries be consolidated; this rule permits affiliates and their data to be classified by individual country.

Accounting Principles

Use of generally accepted accounting principles

In the benchmark survey, data were required to be reported as they would have been for purposes of preparing stockholders' reports, rather than for tax or other purposes. Thus, U.S. generally accepted accounting principles (GAAP) were followed unless otherwise indicated by the survey instructions. The survey instructions departed from GAAP in cases where the departure would have resulted in data that were conceptually or analytically more useful or more appropriate for direct investment purposes. The major departure from GAAP was the use of the unique consolidation rules discussed earlier for affiliates and U.S. parents.

2. For a description of the industry codes used, see BEA's *Guide to Industry and Foreign Trade Classifications for International Surveys*, reproduced in the appendix.

Translation adjustments and other capital gains and losses

Monetary amounts were reported to BEA in U.S. dollars. The report forms specified that when a foreign affiliate's assets, liabilities, revenues, and expenses were denominated or measured on the affiliate's financial statements in a foreign currency, they must be translated into dollars in accordance with GAAP, specifically Financial Accounting Standards Board Statement No. 52 (FASB 52).

Under FASB 52, all assets, liabilities, revenues, and expenses are translated at current exchange rates. For assets and liabilities, the exchange rate as of the balance sheet date is used. For revenues and expenses, weighted-average exchange rates for the period are used. Under FASB 52, exchange gains and losses resulting from remeasuring the foreign affiliates' foreign-currency-denominated assets and liabilities into the affiliates' principal, or functional, currency at exchange rates that differ from those used in the prior period are included in net income. However, exchange gains and losses that result from translating opening balances for foreign affiliates' assets and liabilities from the functional currency into U.S. dollars at exchange rates different from those for closing balances are excluded from affiliates' net income; they are instead taken directly to a separate component of owners' equity, entitled "translation adjustments." The effects of translating foreign affiliates' revenues and expenses from their functional currency into U.S. dollars at exchange rates different from those in the prior period are reflected in net income, but they are not separately identified and, because they do not represent changes in the values of assets or liabilities, are not regarded as capital gains or losses. (For a more complete description of translation procedures, refer to FASB 52.)

Prior to 1990, direct investment income for balance of payments purposes included translation adjustments and all other capital gains and losses, whether or not they were included in net income for income statement purposes. In June 1990, translation adjustments were removed from direct investment income for balance of payments purposes, and in June 1992, all other capital gains and losses were removed. (Estimates of direct investment income excluding all capital gains and losses are available for years beginning with 1982; for more details, see the section on direct investment income.) Capital gains and losses have been excluded in order to make direct investment income for balance of payments purposes more closely reflect income from operations—the concept of income used in the U.S. national income and product accounts.

Fiscal Year Reporting

Data for foreign affiliates and U.S. parents were required to be reported on a fiscal year basis. The 1989 fiscal year was defined as the affiliate's or parent's financial reporting year that ended in calendar year 1989.

The fiscal year data from the benchmark survey are not comparable with the calendar year estimates of transactions between foreign affiliates and their U.S. parents that appear in the U.S. balance of payments accounts or with the calendar year estimates of the U.S. direct investment position abroad on a historical-cost basis. Thus, the 1989 benchmark survey data on transactions and positions between U.S. parents and their foreign affiliates will not be entered directly into the balance of payments accounts, the IIP, or the NIPA's; rather, they will first be adjusted to a calendar year basis. The adjusted data are scheduled to be published in the June and August 1993 issues of the SURVEY OF CURRENT BUSINESS. The fiscal year balance of payments and direct investment position data are, however, presented in this publication because they are comparable with the fiscal year financial and operating data from the benchmark survey.

The extent of noncomparability between the benchmark survey data presented here and the direct investment estimates that will appear in the balance of payments and IIP depends, in

Table 3.—Selected Data for All Foreign Affiliates and All U.S. Parents, by Fiscal-Year Ending Date

	Total	Fiscal-year ending date				
		January 1 to March 31	April 1 to June 30	July 1 to September 30	October 1 to December 31	Addendum: December 31
Affiliate data						
Number of affiliates	18,899	855	1,798	1,696	14,550	11,190
Total assets (millions of dollars)	2,055,299	41,232	53,664	86,054	1,874,349	1,633,398
Sales (millions of dollars)	1,368,097	58,457	86,635	91,797	1,131,207	950,886
Net income (millions of dollars)	86,925	1,718	3,815	6,658	74,733	61,328
Number of employees (thousands)	6,753.5	287.3	407.2	516.6	5,542.4	4,313.6
Employee compensation (millions of dollars)	170,601	6,009	8,204	12,687	143,701	115,708
U.S. direct investment position abroad on a historical-cost basis (millions of dollars)	380,068	7,789	18,247	22,898	331,134	275,700
Direct investment income (millions of dollars)	58,054	1,171	2,394	3,568	50,920	41,841
U.S. parent data						
Number of U.S. parents	2,272	190	275	217	1,590	1,390
Total assets (millions of dollars)	6,616,302	108,277	167,137	164,378	6,176,510	5,813,003
Sales (millions of dollars)	3,329,443	185,571	216,107	180,777	2,746,988	2,556,511
Net income (millions of dollars)	175,479	4,382	8,764	7,986	154,347	144,259
Number of employees (thousands)	19,616.9	1,053.2	1,354.8	1,605.0	15,604.0	13,919.9
Employee compensation (millions of dollars)	697,196	23,182	38,476	50,577	584,961	538,413

Table 4.—Number and Total Assets of All Foreign Affiliates, Industry and Country of Affiliate by Fiscal-Year Ending Date

	Total	Fiscal-year ending date				
		January 1 to March 31	April 1 to June 30	July 1 to September 30	October 1 to December 31	Addendum: December 31
	Number of affiliates					
Total	**18,899**	**855**	**1,798**	**1,696**	**14,550**	**11,190**
By industry						
Petroleum	1,443	15	64	63	1,301	1,279
Manufacturing	7,552	381	716	823	5,632	4,037
Food and kindred products	713	47	104	135	427	270
Chemicals and allied products	1,916	64	187	118	1,547	1,098
Primary and fabricated metals	690	20	47	83	540	425
Machinery, except electrical	1,040	60	93	162	725	458
Electric and electronic equipment	846	61	92	94	599	482
Transportation equipment	421	19	17	57	328	280
Other manufacturing	1,926	110	176	174	1,466	1,024
Wholesale trade	4,019	211	601	469	2,738	1,836
Banking	729	3	2	2	722	678
Finance (except banking), insurance, and real estate	2,564	67	165	149	2,183	1,753
Services	1,625	105	157	119	1,244	985
Other industries	967	73	93	71	730	622
By country						
Canada	2,015	111	181	197	1,526	1,300
Europe	8,963	364	969	857	6,773	5,067
Of which:						
France	1,040	43	115	94	788	588
Germany	1,191	60	123	122	886	640
Italy	714	24	67	72	551	403
Netherlands	845	27	144	78	596	437
Switzerland	526	26	58	53	389	292
United Kingdom	2,258	102	223	216	1,717	1,325
Latin America and Other Western Hemisphere	3,236	108	219	255	2,654	2,022
Africa	514	19	35	32	428	356
Middle East	294	7	13	18	256	227
Asia and Pacific	3,703	233	368	328	2,774	2,086
Of which:						
Australia	776	37	120	89	530	389
Japan	865	124	62	88	591	437
International	174	13	13	9	139	132
	Total assets (millions of dollars)					
Total	**2,055,299**	**41,232**	**53,664**	**86,054**	**1,874,349**	**1,633,398**
By industry						
Petroleum	196,721	831	3,523	1,305	191,062	190,508
Manufacturing	492,926	23,446	24,804	44,674	400,002	320,126
Food and kindred products	47,220	4,253	5,892	7,391	29,684	17,841
Chemicals and allied products	101,786	1,758	6,908	3,398	89,723	74,928
Primary and fabricated metals	23,620	523	708	2,008	20,382	16,714
Machinery, except electrical	78,799	1,245	2,814	12,790	61,950	49,065
Electric and electronic equipment	52,125	3,319	2,918	2,857	43,031	37,558
Transportation equipment	98,607	(D)	570	(D)	76,174	68,310
Other manufacturing	90,769	(D)	4,995	(D)	79,059	55,711
Wholesale trade	111,692	5,497	10,092	10,742	85,361	59,062
Banking	680,461	(D)	(D)	(D)	679,780	627,857
Finance (except banking), insurance, and real estate	462,818	4,069	9,313	20,964	428,472	361,392
Services	46,369	3,453	3,147	2,993	36,776	28,680
Other industries	64,312	(D)	(D)	(D)	52,896	45,772
By country						
Canada	209,533	4,837	6,214	8,162	190,320	171,860
Europe	1,036,798	11,538	29,973	41,869	953,417	826,844
Of which:						
France	90,421	2,140	4,014	3,245	81,022	71,674
Germany	132,299	1,278	3,327	4,956	122,738	110,632
Italy	53,032	900	1,809	1,938	48,384	41,037
Netherlands	72,418	301	6,342	4,906	60,869	53,278
Switzerland	75,385	449	2,335	5,446	67,154	62,394
United Kingdom	461,611	4,879	8,051	12,454	436,227	367,811
Latin America and Other Western Hemisphere	337,976	2,061	5,627	10,553	319,735	277,070
Africa	17,382	(D)	(D)	(D)	15,264	14,448
Middle East	45,644	251	349	275	44,768	44,168
Asia and Pacific	395,004	21,909	10,025	23,714	339,356	290,481
Of which:						
Australia	68,070	1,389	3,905	5,388	57,387	49,846
Japan	162,583	18,477	1,591	15,010	127,505	105,394
International	12,962	(D)	(D)	(D)	11,489	8,527

D Suppressed to avoid disclosure of data of individual companies.

part, on the number and size of foreign affiliates and U.S. parents whose fiscal years do not correspond to the calendar year. Table 3 shows the number of, and selected data items for, foreign affiliates and U.S. parents, classified by the affiliate's or parent's fiscal-year ending date. Table 4 shows the number and total assets of foreign affiliates further disaggregated by industry and by country of affiliate and cross-classified by the affiliate's fiscal-year ending date, and table 5 shows the number and total assets of U.S. parents further disaggregated by industry of U.S. parent and cross-classified by the parent's fiscal-year ending date.

In 1989, only 59.2 percent of foreign affiliates and 61.2 percent of U.S. parents had fiscal years that corresponded exactly to the calendar year. In most cases, however, these affiliates' and parents' shares of the reported data of all affiliates and parents were considerably higher. For example, their shares of assets were 79.5 and 87.9 percent, and their shares of sales 69.5 and 76.8 percent, respectively. Thus, affiliates and parents whose fiscal years did not correspond to the calendar year accounted for proportionately smaller shares of the reported data than their numbers might imply. However, the actual difference between the data they reported in the benchmark survey and the data they would have reported if they had been on a calendar year basis is unknown.

Confidentiality

Under the International Investment and Trade in Services Survey Act, the direct investment data collected by BEA are confidential; thus, they cannot be published "in such a manner that the person to whom the information relates can be specifically identified." Access to the data is limited to officials and employees (including consultants, contractors, and their employees) of the U.S. Government agencies that are specifically designated by the President to perform functions under the act. The act further specifies that the information collected under it must be used for statistical and analytical purposes only. For example, use of an individual company's data for tax, investigative, or regulatory purposes is prohibited.

Data in the tables in this publication were suppressed (that is, not shown) if showing them might disclose the data for individual companies. In addition to suppressing data cells that if published would constitute a disclosure of confidential data (primary suppressions), it is often necessary to suppress other cells (secondary suppressions) that, by subtraction from a common total or subtotal, could be used to derive the primary suppressed cell in the same or a related table. A "(D)" entered in a data cell indicates that the data were suppressed for confidentiality reasons.

Table 5.—Number and Total Assets of All U.S. Parents, Industry of U.S. Parent by Fiscal-Year Ending Date

	Total	Fiscal-year ending date: January 1 to March 31	April 1 to June 30	July 1 to September 30	October 1 to December 31	Addendum: December 31
	Number of affiliates					
All industries	**2,272**	**190**	**275**	**217**	**1,590**	**1,390**
Petroleum	85	1	5	7	72	72
Manufacturing	1,312	102	177	157	876	736
Food and kindred products	63	5	8	14	36	27
Chemicals and allied products	173	8	18	14	133	119
Primary and fabricated metals	163	12	14	19	118	107
Machinery, except electrical	253	26	39	38	150	115
Electric and electronic equipment	161	21	25	14	101	85
Transportation equipment	81	5	5	13	58	51
Other manufacturing	418	25	68	45	280	232
Wholesale trade	195	38	35	19	103	85
Banking	89	0	0	0	89	88
Finance (except banking), insurance, and real estate	205	3	5	3	194	188
Services	202	24	37	21	120	95
Other industries	184	22	16	10	136	126
	Total assets (millions of dollars)					
All industries	**6,616,302**	**108,277**	**167,137**	**164,378**	**6,176,510**	**5,813,003**
Petroleum	454,269	66	4,719	5,802	443,682	443,682
Manufacturing	1,876,167	45,244	93,242	119,056	1,618,625	1,504,220
Food and kindred products	178,249	12,207	18,995	31,181	115,866	96,480
Chemicals and allied products	297,291	1,113	24,318	10,386	261,473	254,559
Primary and fabricated metals	106,001	4,102	3,838	3,189	94,872	87,033
Machinery, except electrical	212,661	5,652	10,160	30,735	166,113	137,055
Electric and electronic equipment	216,626	5,594	8,397	14,193	188,441	182,328
Transportation equipment	451,142	986	4,329	12,219	433,607	414,619
Other manufacturing	414,198	15,589	23,204	17,153	358,252	332,146
Wholesale trade	98,162	27,989	18,360	4,786	47,027	37,767
Banking	1,763,751	0	0	0	1,763,751	1,702,241
Finance (except banking), insurance, and real estate	1,620,415	79	13,476	30	1,606,831	1,460,399
Services	135,127	6,503	17,467	22,374	88,783	68,233
Other industries	668,411	28,396	19,873	12,330	607,811	596,460

Classification of Data by Country and by Industry

Country classification

Each foreign affiliate is classified by its country of location—that is, the country in which the affiliate's physical assets are located or in which its primary activity is carried out. In most cases, the country of location of a business enterprise is the same as its country of organization or incorporation. However, in some cases, a business enterprise is incorporated in one country, but part or all of its physical assets are located, or its activities carried out, in a second country. If all its physical assets or operations are located in a single foreign country outside its country of incorporation, the enterprise is treated as an incorporated foreign affiliate in the country where its physical assets and operations are located. If, however, an enterprise has some physical assets or operations in each country, it is considered two separate affiliates—an incorporated affiliate located in the country of incorporation and an unincorporated affiliate (a branch) located in the other country.

There are two exceptions to these general rules. First, if a business enterprise incorporated in one foreign country has physical assets or operations in more than one other foreign country, an incorporated foreign affiliate is deemed to exist in the country of incorporation, even though the enterprise may have no physical assets or operations in that country. Unincorporated foreign affiliates (branches) are deemed to exist in the other foreign countries. In effect, the affiliate in the country of incorporation is considered a holding company whose assets are the equity it holds in the unincorporated affiliates in the other countries. Second, if a business enterprise incorporated abroad by a U.S. person conducts its operations from, and has all of its physical assets in, the United States, it is treated as an incorporated foreign affiliate in the country of incorporation, even though it has no operations or physical assets there. This treatment ensures that the foreign entity is reported to BEA.

Balance of payments transactions involving a given affiliate are classified in the affiliate's country of location, even when they are with a third-country transactor rather than with the affiliate itself. For example, when a U.S. parent purchases an affiliate's capital stock from a person in a country other than the affiliate's country of location, the resulting direct investment capital flows are classified in the country of the affiliate because such flows change the U.S. direct investment position in that country. (However, the associated settlement flows, which are included in other capital accounts of the U.S. balance of payments, are likely to be classified in the country of the foreign transactor.)

Unless otherwise specified, the designation "by country" in a table title in this publication indicates that the data in the table are disaggregated by country of foreign affiliate. If a different method of country disaggregation is used, it is so specified in the table title; for example, trade data could be disaggregated either by country of affiliate or by country of origin or destination.

Table II.A1 presents selected data for all nonbank foreign affiliates of nonbank U.S. parents, classified by country of affiliate; each individual country in which U.S. direct investment in 1989 was reported is shown separately and is grouped by geographic area. (Table III.A1 presents similar information for majority-owned affiliates.) Primarily because of confidentiality requirements, many countries could not be shown separately in the other tables in this publication. However, the individual countries included in a country group shown in the other tables may be determined, and their relative sizes assessed, by referring to table II.A1.

In this publication, the "International" category consists of affiliates that have operations spanning more than one country and that are engaged in petroleum shipping, other water transportation, or offshore oil and gas drilling. Affiliates in these industries that have operations entirely in one country are classified in that specific country. Thus, an affiliate engaged in shipping goods among countries is classified in "International," whereas one engaged in local coastal or inland shipping is classified in the country along whose coast or on whose waterways it is operating. Similarly, an oil rig that was moved from place to place during the year is classified in "International," but one that was stationary for the entire year is classified in the country where it was located.

In the 1989 benchmark survey, the treatment of sales by affiliates classified in "International" differed from that in past years. Prior to 1989, all sales by these affiliates, including those to U.S. persons, were classified as "local" sales (that is, as sales to persons in the affiliate's country of location, which, in this case, was deemed to be "International"). Beginning with the 1989 benchmark survey, sales to U.S. persons are instead classified as such, and all other sales by these affiliates are classified as "local." This change was made in order to reflect the true destination of the sales to the United States and to make their treatment consistent with that of U.S. balance of payments flows of these affiliates. The effect of this change is that $2,605 million in sales that previously were considered sales to foreign persons are now regarded as sales to U.S. persons. All of these sales were of services.

The country stubs and headings shown in this publication differ from those shown in the past. The country detail has been reorganized along geographic lines; economic or political groupings, such as the European Communities, are no longer shown in the body of the table but may be shown as addenda. Also, a few countries in which U.S. investment has declined significantly were dropped, and several countries in which investment has expanded significantly have been added.

Industry classification

Each U.S. parent or foreign affiliate is classified by industry using a three-stage procedure based on sales (or, for holding companies, on total income).

(1) A given U.S. parent or foreign affiliate was classified in the major industry group that accounted for the largest percentage of its sales. The major industry groups used for this purpose were (a) agriculture, forestry,

and fishing, (b) mining, (c) petroleum, (d) construction, (e) manufacturing, (f) transportation, communication, and public utilities, (g) wholesale trade, (h) retail trade, (i) finance, insurance, and real estate, and (j) services.

(2) Within the major industry group, the U.S. parent or foreign affiliate was then classified in the two-digit industry in which its sales were largest. A two-digit industry was defined for this purpose to consist of all three-digit subindustries that have the same digits in the first two places of their three-digit code.[3]

(3) Within its two-digit industry, the U.S. parent or foreign affiliate was then classified in the three-digit subindustry in which its sales were largest.

If, at any of these three stages, two or more categories accounted for the same percentage of sales, classification was based on subjective judgment.

This procedure ensured that the U.S. parent or foreign affiliate was not assigned to a three-digit subindustry that was outside its major industry, even if its sales in that subindustry exceeded its sales in the largest three-digit subindustry within its major industry. It also ensured that the U.S. parent or foreign affiliate was not assigned to a three-digit subindustry that was outside its two-digit industry, even if its sales in that subindustry exceeded its sales in the largest subindustry within its two-digit industry.[4]

Unless otherwise specified, the designation “by industry” in the title of a table in this publication indicates that the data in the table are disaggregated (1) by industry of foreign affiliate, if the table presents foreign affiliate financial and operating data or balance of payments and direct investment position data, or (2) by industry of U.S. parent, if the table presents U.S. parent financial and operating data. If a different basis of disaggregation is used, it is so specified in the table title—for example, when affiliate data are disaggregated by industry of U.S. parent.

A list and description of the industry codes used by BEA in the 1989 benchmark survey are found in the *Guide to Industry and Foreign Trade Classifications for International Surveys*, which is reproduced in the appendix. These classifications are adapted from, but are less detailed than, those in the *Standard Industrial Classification Manual, 1987*. The direct investment data are collected at the enterprise level, and each enterprise is classified in a single industry based on its major activity. In contrast, the Standard Industrial Classification (SIC) is designed for classifying individual establishments (or plants) within an enterprise. Because many direct investment enterprises are engaged in a variety of industries, it is not meaningful to classify their data in the maximum detail provided by the SIC.

To conform to the SIC system, petroleum is not listed as a major industry group in the *Guide*. Rather, the three-digit subindustries within petroleum are spread among the other major industries; for example, crude petroleum extraction is in mining, petroleum refining is in manufacturing, and gasoline service stations are in retail trade. For direct investment classification and publication purposes, however, these various petroleum subindustries are pulled together as a separate major industry group, petroleum.

U.S. parents that are individuals, estates, or trusts have been classified in a separate industry, “nonbusiness entities, except government,” which, in this publication, is treated as part of the major industry “finance, insurance, and real estate.” This industry is included in tables that disaggregate affiliate data from the BE-10B forms by industry of U.S. parent. It is not included in tables containing U.S. parent financial and operating data from the BE-10A forms, because U.S. parents that were individuals, estates, or trusts were not required to report financial and operating data.

The industry classifications used in the 1989 benchmark survey differ somewhat from those used in past BEA surveys. As stated above, the 1989 classifications were adapted from, and reflect revisions embodied in, the 1987 SIC manual, whereas the classifications for past surveys were adapted from earlier SIC manuals.

Table II.A2 presents selected data for all nonbank foreign affiliates and all nonbank U.S. parents, classified by industry; each three-digit subindustry (except for banking) is shown separately, grouped by the major industry to which it belongs. (Table III.A2 presents similar data for majority-owned nonbank affiliates.) Primarily because of confidentiality requirements, many of the three-digit industry categories are not shown separately in the other tables in this publication. However, the individual industries included in an industry group shown in the other tables may be determined, and their relative sizes assessed, by referring to table II.A2.

Although each U.S. parent and foreign affiliate is classified in a single industry based on its major activity, a given parent or affiliate may have had activities in more than one industry. Thus, the distribution of data by industry of U.S. parent or foreign affiliate may differ from the distribution that would have resulted if the data for each of a parent’s or an affiliate’s activities were separately classified and the resulting data were summed, by activity, across all parents or affiliates. Compared with distributions by industry of enterprise, distributions of the latter type are more indicative of the actual activities in which the parents or affiliates are engaged.

Such activity-based distributions were obtained in the 1989 benchmark survey for sales by, and employment of, U.S. parents; for foreign affiliates, they were obtained only for

3. The only exceptions to this rule were that codes 401, 449, 450, 462, 472, and 477 were treated as being in the same two-digit industry—transportation.

4. The following example illustrates the three-stage classification procedure. Suppose a parent’s or an affiliate’s sales were distributed as follows:

Industry code	Sales (Percentages of total)		
351	5		
352	10	30	
353	15		55
367	25		
508	45		

where industry codes 351, 352, 353, and 367 are in manufacturing and code 508 is in wholesale trade. Because 55 percent of the parent’s or affiliate’s sales were in manufacturing and only 45 percent were in wholesale trade, the parent’s or affiliate’s major industry is manufacturing. Because 30 percent of its sales within manufacturing were in two-digit industry 35 (nonelectrical machinery)—that is, the sum of the percentages in 351, 352, and 353 is 30 percent—and 25 percent were in two-digit industry 36 (electrical machinery), the parent’s or affiliate’s two-digit industry is 35. Finally, because its sales within industry 35 were largest in subindustry 353, the parent’s or affiliate’s three-digit subindustry is 353. Thus, the three-stage classification procedure results in the parent or affiliate being assigned to subindustry 353, even though its sales in that subindustry were smaller than its sales in either subindustries 508 or 367.

Table 6.—Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales

	Affiliate data		U.S. parent data			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales [1]
	(1)	(2)	(3)	(4)	(5)	(6)
All industries	**1,368,097**	**1,368,097**	**3,329,443**	**3,329,443**	**19,616.9**	**19,616.9**
Petroleum	**228,337**	**225,707**	**328,989**	**300,532**	**579.8**	**427.1**
Oil and gas extraction	40,447	40,498	3,300	12,370	17.3	68.3
Crude petroleum extraction (no refining) and natural gas	36,501	36,281	2,364	7,775	7.2	22.6
Oil and gas field services	3,946	4,216	936	4,595	10.1	45.7
Petroleum and coal products	95,212	93,808	289,091	212,100	508.2	274.3
Integrated petroleum refining and extraction	(D)	32,438	265,255	201,154	483.8	256.4
Petroleum refining without extraction	60,675	60,455	(D)	7,452	(D)	4.0
Petroleum and coal products, nec	(D)	915	(D)	9,116	(D)	18.7
Petroleum wholesale trade	76,341	75,704	36,051	58,709	50.7	28.8
Other	16,337	15,698	546	17,353	3.6	55.7
Petroleum tanker operations	3,392	4,051	(D)	642	3.4	4.3
Petroleum and natural gas pipelines	1,915	2,277	(D)	9,300	0.3	17.5
Petroleum storage for hire	387	424	0	2,585	0	1.4
Gasoline service stations	10,642	8,945	0	7,154	0	32.7
Manufacturing	**660,012**	**624,506**	**1,553,374**	**1,407,672**	**10,127.0**	**8,461.0**
Food and kindred products	70,203	69,318	190,617	172,580	1,135.8	710.5
Grain mill and bakery products	19,168	18,114	33,306	38,273	224.4	142.3
Grain mill products	14,917	14,469	33,306	29,811	224.4	64.3
Bakery products	4,251	3,645	0	8,462	0	78.0
Beverages	19,859	17,007	36,253	28,469	330.8	98.6
Other	31,176	34,197	121,059	105,839	580.6	469.6
Meat products	1,381	1,859	45,418	32,427	223.8	165.2
Dairy products	3,294	3,592	(D)	(D)	(D)	(D)
Preserved fruits and vegetables	5,223	5,332	10,577	19,187	96.1	93.8
Other food and kindred products	21,279	23,414	(D)	(D)	(D)	(D)
Chemicals and allied products	115,857	111,709	235,731	211,909	1,255.0	911.5
Industrial chemicals and synthetics	54,328	50,251	108,869	104,620	528.8	388.2
Drugs	24,108	22,744	58,257	39,577	371.1	230.8
Soap, cleaners, and toilet goods	20,131	18,742	42,678	33,731	216.9	141.4
Agricultural chemicals	2,690	4,205	5,864	12,430	22.9	36.9
Chemical products, nec	14,600	15,767	20,063	24,952	115.3	114.3
Primary and fabricated metals	26,411	27,072	104,727	89,537	684.6	551.7
Primary metal industries	9,457	9,828	58,921	44,703	344.9	212.1
Ferrous	1,600	1,502	22,039	22,168	124.4	102.0
Nonferrous	7,857	8,326	36,881	22,534	220.4	110.2
Fabricated metal products	16,954	17,244	45,807	44,834	339.7	339.5
Metal cans, forgings, and stampings	4,828	5,100	17,370	13,095	115.1	69.0
Cutlery, hand tools, and screw products	2,829	2,884	4,023	5,209	37.6	48.5
Heating and plumbing equipment and structural metal products	2,437	2,502	6,652	8,077	60.5	66.1
Fabricated metal products, nec, ordnance, and services	6,860	6,757	17,761	18,453	126.5	155.9
Machinery, except electrical	113,412	102,166	171,239	157,903	1,249.9	1,029.2
Farm and garden machinery	(D)	5,738	17,306	10,233	100.5	45.0
Construction, mining, and materials handling machinery	13,145	12,844	24,038	21,045	164.2	127.3
Office and computing machines	74,233	60,935	87,484	68,504	609.6	435.9
Other	(D)	22,649	42,411	58,927	375.7	421.0
Engines and turbines	2,615	4,722	5,195	16,360	49.7	74.4
Metalworking machinery	2,271	2,602	5,576	8,348	59.8	50.4
Special industry machinery	3,998	4,048	7,182	9,253	58.6	66.2
General industry machinery and equipment	4,792	4,240	15,660	13,001	134.7	113.3
Refrigeration and service industry machinery	4,777	4,912	7,147	13,136	56.5	89.5
Machinery, except electrical, nec	(D)	2,125	1,651	3,016	16.3	29.7
Electric and electronic equipment	64,091	62,415	146,277	134,654	1,093.3	1,095.0
Household appliances	8,870	8,397	12,063	18,929	84.8	144.1
Radio, television, and communication equipment	23,294	22,786	81,179	54,155	497.6	394.7
Electronic components and accessories	21,831	21,888	22,457	32,054	212.7	298.3
Electrical machinery, nec	10,096	9,344	30,578	31,036	298.3	257.9
Transportation equipment	165,422	145,443	361,979	304,272	2,104.4	1,664.4
Motor vehicles and equipment	161,619	138,242	238,419	194,034	1,046.9	809.3
Other	3,803	7,201	123,560	110,470	1,057.5	855.1
Other manufacturing	104,616	106,383	342,804	336,817	2,604.0	2,498.8
Tobacco products	11,434	12,022	27,527	25,230	150.3	58.9
Textile products and apparel	5,921	6,013	26,331	29,618	321.4	365.1
Textile mill products	2,673	2,712	14,109	18,752	152.2	155.1
Apparel and other textile products	3,248	3,301	12,222	17,588	169.2	211.3
Lumber, wood, furniture, and fixtures	3,326	3,866	33,741	29,106	220.3	228.5
Lumber and wood products	1,215	1,698	23,785	18,740	115.9	115.9
Furniture and fixtures	2,111	2,169	9,956	10,367	104.4	112.6
Paper and allied products	21,571	21,074	68,213	63,435	381.6	340.7
Pulp, paper, and board mills	7,041	7,101	32,857	25,629	162.2	124.6
Other paper and allied products	14,530	13,974	35,356	42,191	219.5	216.1
Printing and publishing	4,148	4,367	50,762	44,395	365.1	341.7
Newspapers	137	137	19,947	16,576	162.1	154.8
Miscellaneous publishing	3,034	3,230	25,535	20,457	152.4	127.1
Commercial printing and services	977	1,000	5,280	7,361	50.5	59.8
Rubber products	10,399	9,877	15,533	13,341	132.8	109.8
Miscellaneous plastics products	7,216	8,918	12,563	20,177	102.8	138.6
Glass products	5,161	4,779	9,513	8,516	102.3	78.8

Table 6.—Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Continued

	Affiliate data		U.S. parent data			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate (1)	By industry of sales (2)	By industry of U.S. parent (3)	By industry of sales (4)	By industry of U.S. parent (5)	By industry of sales[1] (6)
Stone, clay, and other nonmetallic mineral products	4,822	4,885	13,385	14,348	86.1	86.0
Instruments and related products	26,720	25,604	75,230	76,288	651.8	603.7
Measuring, scientific, and optical instruments	5,143	5,947	48,128	40,421	462.1	346.2
Medical instruments and supplies and ophthalmic goods	6,884	7,549	(D)	(D)	(D)	(D)
Photographic equipment and supplies	14,693	12,109	(D)	(D)	(D)	(D)
Other	3,897	4,976	10,006	15,583	89.5	147.1
Leather and leather products	242	237	761	2,915	9.8	49.6
Miscellaneous manufacturing industries	3,654	4,739	9,244	13,487	79.7	97.5
Wholesale trade	**222,237**	**227,001**	**228,569**	**239,777**	**434.4**	**531.1**
Durable goods	142,838	147,975	106,068	106,165	205.9	282.6
Motor vehicles and equipment	20,559	36,173	16,173	17,207	36.7	41.7
Lumber and construction materials	648	737	684	4,924	0.9	10.6
Professional and commercial equipment and supplies	67,282	54,333	9,055	13,808	30.2	63.8
Metals and minerals	13,837	14,452	13,139	30,385	13.3	19.2
Electrical goods	14,702	16,248	18,691	20,874	59.1	61.0
Hardware, plumbing, and heating equipment and supplies	3,561	2,861	1,868	2,489	10.2	11.5
Machinery, equipment and supplies, nec	16,648	17,339	41,227	16,316	28.7	57.3
Durable goods, nec	5,601	5,833	5,231	7,407	26.8	26.0
Nondurable goods	79,399	79,026	122,501	133,612	228.5	248.5
Paper and paper products	1,288	1,826	10,101	15,378	48.2	51.7
Drugs, proprietaries, and sundries	10,796	10,607	10,379	10,744	21.4	20.0
Apparel, piece goods, and notions	2,908	2,910	4,406	5,853	20.0	15.6
Groceries and related products	10,426	10,830	26,300	36,758	63.2	69.2
Farm-product raw materials	25,595	24,785	63,958	40,867	50.1	11.5
Nondurable goods, nec	28,387	28,069	7,357	33,631	25.6	104.7
Banking	**76,465**	**75,853**	**190,744**	**158,977**	**851.4**	**720.5**
Finance (except banking), insurance, and real estate	**65,899**	**66,797**	**394,461**	**489,436**	**1,107.6**	**1,514.0**
Finance, except banking	32,891	35,277	74,507	212,801	232.4	644.2
Savings institutions and credit unions	0	105	8,928	16,686	22.3	36.3
Business franchising	282	601	0	2,326	0	8.7
Other	32,609	34,571	65,579	193,789	210.0	599.2
Insurance	31,552	30,127	317,757	313,187	870.8	767.1
Life insurance	11,124	9,461	87,497	89,690	177.0	148.0
Accident and health insurance	2,583	3,388	19,197	40,753	51.2	96.7
Other	17,845	17,278	211,063	182,744	642.6	522.4
Real estate	1,237	1,394	2,198	20,910	4.4	102.7
Holding companies	220	0	0	0	0.1	0
Services	**39,443**	**67,387**	**106,517**	**157,446**	**1,700.0**	**2,254.1**
Hotels and other lodging places	2,420	2,471	10,972	8,014	288.3	265.3
Business services	16,968	42,089	31,571	62,695	645.9	942.3
Advertising	4,164	4,148	3,992	4,743	41.3	44.4
Equipment rental (ex. automotive and computers)	990	2,568	313	3,044	1.6	22.9
Computer and data processing services	7,183	29,688	11,481	37,002	99.6	363.8
Computer processing and data preparation services	1,708	2,067	2,150	10,168	28.5	111.6
Information retrieval services	328	327	0	4,481	0	14.5
Computer related services, nec	5,147	27,295	9,332	41,575	71.1	246.0
Business services, nec	4,631	5,684	15,785	17,906	503.4	511.2
Services to buildings	150	201	(D)	(D)	(D)	(D)
Personnel supply services	1,937	1,926	4,011	5,037	217.8	234.0
Other	2,544	3,558	(D)	(D)	(D)	(D)
Automotive rental and leasing	(D)	1,958	8,657	7,246	72.7	44.5
Motion pictures, including television tape and film	4,913	4,913	11,528	10,502	57.7	42.2
Health services	(D)	783	16,560	21,740	270.1	333.3
Engineering, architectural, and surveying services	4,652	5,129	5,891	17,392	62.9	146.1
Management and public relations services	(D)	3,624	1,902	7,727	15.1	55.7
Other	3,989	6,421	19,435	26,231	287.3	428.6
Automotive parking, repair, and other services	139	334	(D)	(D)	(D)	(D)
Miscellaneous repair services	397	1,897	0	3,765	0	30.8
Amusement and recreation services	384	453	(D)	(D)	(D)	(D)
Legal services	272	272	1,111	1,238	6.5	8.6
Educational services	282	409	645	1,833	6.7	9.7
Accounting, auditing, and bookkeeping services	319	338	10,044	6,968	159.7	126.0
Research, development, and testing services	1,404	1,579	551	9,194	6.6	66.8
Other services provided on a commercial basis	790	1,141	(D)	7,164	(D)	117.3
Other industries	**75,704**	**77,793**	**526,789**	**525,747**	**4,816.7**	**4,841.6**
Agriculture, forestry, and fishing	1,991	2,149	831	4,124	6.9	26.7
Agricultural production—crops	1,504	1,580	(D)	2,422	(D)	14.6
Agricultural production—livestock	193	265	(D)	(D)	(D)	(D)
Agricultural services	(D)	19	0	(D)	0	(D)
Forestry	(D)	137	0	(D)	0	(D)
Fishing, hunting, and trapping	(D)	148	0	(D)	0	(D)
Mining	9,654	9,793	5,991	13,620	30.5	65.2
Metal mining	8,094	7,676	4,172	4,668	19.3	22.0
Iron ores	1,013	968	(D)	(D)	(D)	(D)
Copper, lead, zinc, gold, and silver ores	5,258	4,917	3,516	3,482	16.8	17.7
Other metallic ores	1,742	1,721	(D)	(D)	(D)	(D)
Metal mining services	82	70	(*)	(D)	(*)	(D)
Nonmetallic minerals	1,560	2,117	1,819	8,953	11.2	43.2
Coal	829	1,303	(D)	(D)	(D)	(D)
Coal mining services	(D)	27	0	(D)	0	(D)
Nonmetallic minerals, except fuels	(D)	786	(D)	(D)	(D)	(D)
Nonmetallic minerals services, except fuels	0	0	(*)	8	(*)	0.1

sales. Sales by each parent and affiliate were required to be distributed among three-digit industries. Each U.S. parent was further required to distribute its employment among those industries in which it also had sales.[5] By summing the data for a given industry across parents and affiliates, one can derive the data disaggregated by industry of sales. The distribution by industry of sales is an activity-based distribution that roughly approximates the distribution that would have resulted if the data were reported and classified at the establishment (or plant), rather than the enterprise, level.

In table 6, U.S. parents' sales and employment disaggregated by industry of sales are compared with their sales and employment disaggregated by industry of parent, and foreign affiliates' sales disaggregated by industry of sales are compared with their sales disaggregated by industry of affiliate. (For nonbank parents of nonbank affiliates, data by industry of sales cross-classified by industry of parent are shown in table II.O2 for sales and table II.P2 for employment; for nonbank affiliates of nonbank parents and for majority-owned nonbank affiliates of nonbank parents, sales by industry of sales cross-classified by industry of affiliate are shown in tables II.F24 and III.F24, respectively.)

For sales, differences between the distribution by industry of enterprise and the distribution by industry of sales were much larger for U.S. parents than for foreign affiliates, primarily because U.S. parents are more diversified than their affiliates. Their greater diversity, in part, reflects the much greater degree of consolidation of U.S. parents. As noted earlier, parents were required to report on a fully consolidated domestic basis, regardless of the industry classification of the individual domestic subsidiaries included in the consolidation. Foreign affiliates, in contrast, could be consolidated only if they were in the same country and were classified in the same three-digit industry.

5. In actuality, each U.S. parent was required to distribute its sales and employment only among the eight three-digit industries in which its sales were largest, and each foreign affiliate was required to distribute its sales only among the five three-digit industries in which its sales were largest. Parents reported their sales and employment, and affiliates reported their sales, in all other industries as a single item, which is shown in the "not specified by industry" line in the tables in this publication. Because relatively few parents had sales and employment in more than eight three-digit industries and because few affiliates had sales in more than five three-digit industries, such unspecified amounts were small.

Estimation for Affiliates Filing the Short Form or Failing To Report

In the benchmark survey, U.S. parents were required to file either a long form or a short form for affiliates that had total assets, sales, or net income (loss) greater than $3 million. The long form (BE-10B(LF)), which collected highly detailed information, had to be filed by nonbank U.S. parents for each nonbank foreign affiliate with total assets, sales, or net income (loss) greater than $15 million. The most detail was collected for majority-owned nonbank affiliates. The short form (BE-10B(SF)), which collected information on most balance of payments items but on only selected financial and operating data items, had to be filed by nonbank parents for each nonbank affiliate with total assets, sales, or net income (loss) greater than $3 million but no more than $15 million and by U.S. bank parents for each of their nonbank affiliates regardless of size.

For nonbank affiliates of nonbank parents that reported on the short form, BEA estimated items that appeared only on the long form in order to present financial and operating data for all such affiliates in the same detail.[6] For a given short-form affiliate, long-form items were estimated based on data reported by a representative panel of long-form affiliates. The panel consisted of affiliates with total assets or sales greater than $15 million but less than $250 million that were in the

6. Because BEA's annual series of financial and operating data covers only nonbank affiliates of nonbank parents, long-form detail was estimated only for such affiliates. Reported short-form data for nonbank affiliates of bank parents are included in Group I tables for all affiliates of all parents.

Table 6.—Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Continued

	Affiliate data		U.S. parent data			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate (1)	By industry of sales (2)	By industry of U.S. parent (3)	By industry of sales (4)	By industry of U.S. parent (5)	By industry of sales[1] (6)
Construction	6,350	6,545	26,818	24,639	189.1	183.4
Transportation	(D)	6,645	111,995	114,268	1,039.1	1,055.3
Railroads	57	159	29,541	24,202	223.0	188.2
Water transportation	2,568	2,579	4,022	6,304	18.5	33.1
Transportation by air	432	424	45,739	47,545	340.9	332.7
Pipelines, except petroleum and natural gas	0	0	0	(D)	0	(D)
Passenger transportation arrangement	498	536	3,359	(D)	(D)	(D)
Transportation and related services, nec	(D)	2,947	29,335	(D)	(D)	(D)
Communication and public utilities	(D)	12,169	183,871	172,594	1,177.0	974.5
Telephone and telegraph communications	(D)	1,884	125,847	105,400	903.0	716.9
Other communications services	152	473	(D)	(D)	(D)	(D)
Electric, gas, and sanitary services	9,731	9,812	(D)	(D)	(D)	(D)
Retail trade	39,450	40,493	197,284	197,263	2,374.1	2,538.3
General merchandise stores	9,083	8,867	107,229	84,983	1,146.9	1,043.9
Food stores	6,712	6,745	37,366	41,781	300.2	331.3
Apparel and accessory stores	782	783	24,601	17,782	374.6	245.3
Eating and drinking places	5,429	5,316	14,759	22,281	443.8	622.0
Retail trade, nec	17,444	18,782	13,329	36,538	108.5	303.5
Unspecified	....	**3,053**	....	**50,521**	....	**867.5**

(*) Less than $500,000 (±) or 50 employees.
[D] Suppressed to avoid disclosure of data of individual companies.
1. Bank parents, unlike nonbank parents, were not required to dissaggregate their employment by industry of sales. The distribution of employment by industry of sales for bank parents was, therefore, estimated by multiplying each parent's total employment by the percentage of its sales that were in each industry.

same country and industry group as the affiliate being estimated. For these affiliates, ratios of items that appeared only on the long form to related items that appeared on both forms were computed. These ratios were then used to estimate the missing long-form items for short-form affiliates.

A total of 7,838 nonbank affiliates of nonbank parents filed short forms. Although these affiliates accounted for 44.0 percent of all nonbank affiliates of nonbank parents, they accounted for only a minor portion of the nonbank affiliate of nonbank parent universe in terms of value—3.6 percent of total assets, 4.2 percent of sales, and 9.4 percent of employment.

BEA also estimated data for some nonbank affiliates that did not file a benchmark survey report even though they met the criteria for filing. The 275 affiliates covered by these estimates were those for which BEA had a report in another direct investment survey that could serve as a basis for estimation. These affiliates also accounted for only a minor portion of the nonbank universe in terms of value—1.2 percent of total assets, 1.1 percent of sales, and 1.1 percent of employment. The estimation of data for these affiliates, which is a departure from the practice in previous benchmark surveys of U.S. direct investment abroad, ensured that the 1989 data were as complete as possible.

In addition to estimating long-form data for short-form affiliates and data for affiliates that did not file a report, BEA also estimated data for items that were not reported or were reported incorrectly on the forms that were filed. The degree of estimation varied from item to item. In some cases, reporters had difficulty supplying the required information because the data were not easily accessible or were unavailable from their financial accounting records. In particular, data on trade and employment were subject to a higher degree of estimation than other items.

Number of U.S. Parents and Foreign Affiliates

The results published here include reported or estimated data for 2,272 consolidated U.S. parent companies and 18,899 foreign affiliates. The number of U.S. parents and foreign affiliates whose data are included in this publication is larger than the number included in the estimates for the past few years.

Parents were added to the reporting universe either because they established or acquired foreign affiliates for the first time in 1989 or because they were first identified as parents in the 1989 benchmark survey even though they had foreign affiliates prior to 1989. The latter parents either were exempt from reporting in prior annual surveys or should have reported but for some reason did not. Partly offsetting these additions to the reporting universe were a significant number of parents and affiliates that left the universe since the last benchmark survey because they had been sold, liquidated, or merged or consolidated with another U.S. parent or foreign affiliate. Although incorporation of the new information on parents and affiliates that entered or left the universe since the last benchmark survey will improve BEA's data for 1989 forward, it has resulted in a break in series between 1988 and 1989. BEA plans to revise its U.S. direct investment abroad financial and operating and balance of payments data for 1983–88 to incorporate information from the 1989 benchmark survey, but until the revisions are completed, comparisons of the 1989 benchmark survey data with data for earlier years should be made with caution.

Financial and Operating Data for Foreign Affiliates and U.S. Parents

Financial and operating data focus on the overall operations of U.S. parents and their affiliates. They include, among other things, data on balance sheets and income statements; sales of goods and services; external financial position; property, plant, and equipment; employment and employee compensation; U.S. merchandise trade; and research and development expenditures.

For foreign affiliates, financial and operating data were collected in parts I, II, IV, and V of the BE-10B(LF) and (SF) forms (and in part II of the BE-10B BANK form). The most detail—covering all of the types of data listed above—was obtained for majority-owned nonbank affiliates reported on the BE-10B(LF). (A majority-owned affiliate is one in which the combined direct and indirect ownership interest of all U.S. parents exceeds 50 percent.) For other nonbank affiliates reported on the BE-10B(LF), complete balance sheets and income statements were obtained; however, among the other types of financial and operating data, only seven items were requested—U.S. merchandise exports shipped to affiliates by U.S. parents and by other U.S. persons; U.S. merchandise imports shipped by affiliates to U.S. parents and to other U.S. persons; property, plant, and equipment expenditures; total employment; and total employee compensation. For nonbank affiliates reported on the BE-10B(SF), condensed balance sheets and income statements and 12 other financial and operating data items were obtained. (As stated earlier, BEA estimated items that appeared only on the long form in order to present financial and operating data for all nonbank affiliates, whether reported on the BE-10B(LF) or (SF), in the same detail.) The least detail overall—a total of only 12 items—was obtained for bank affiliates.

For U.S. parents, financial and operating data were collected in part II of the BE-10A (or BE-10A BANK) form. As in the case of affiliates, much more detail was obtained for nonbank parents than for bank parents. Nonbank parents had to provide complete balance sheets and income statements and considerable detail for some of the other types of financial and operating data, such as sales of goods and services; technology; property, plant, and equipment; employment and employee compensation; and U.S. merchandise trade. Bank parents, in contrast, had to complete only five items.

The financial and operating data for foreign affiliates are not adjusted for percentages of U.S. ownership. Thus, for example, the employment data include all employees of each affiliate, even though the U.S. parent may own less than 100 percent of the affiliate.

Most of the concepts and definitions used in reporting the financial and operating data can be found on the BE-10 forms or in the *Instruction Booklet* to the forms, both of which are reproduced in the appendix to this publication. The following discussion focuses on conceptual, definitional, or statistical issues that require further explanation or that are not covered in the forms or the *Instruction Booklet*.

General validity of data

The financial and operating data reported for foreign affiliates and U.S. parents were required to pass a large number of computerized edit checks. The data were further reviewed by BEA for consistency with related data from other parts of the report form for the same affiliate or parent, with comparable data reported by other affiliates or parents, with data provided in related report forms for past years, and with data available from outside sources. As a result of this edit and review process, a number of changes to the reported data were made, usually after consultation with reporters. However, some data items on the forms were not integrated with, or related to, data from other parts of the forms and could not be checked thoroughly. Consequently, these data are more likely to be subject to both reporting errors and underreporting than the integrated data. Particularly subject to error and underreporting were the data for bank parents and affiliates, the seven selected items listed earlier for nonbank affiliates that were not majority-owned, and the data on employment, trade, technology, production royalty payments, taxes other than income and payroll taxes, and subsidies for nonbank parents and majority-owned nonbank affiliates.

In some cases, reporters had difficulty supplying the required information because the data were not easily accessible or were unavailable from their financial accounting records. Data on trade and employment were especially difficult for reporters to provide. For these data, reporters often made estimates, the quality of which is difficult to assess.

Sales of goods and services

Sales are defined as gross sales minus returns, allowances, and discounts or as gross operating revenues, both exclusive of sales and consumption taxes levied directly on consumers, net value-added taxes, and excise taxes levied on manufacturers, wholesalers, and retailers.

Total sales by U.S. parents and by majority-owned nonbank foreign affiliates had to be disaggregated to show sales of goods separately from sales of services (and, for parents and majority-owned affiliates in finance and insurance, separately from investment income). For this purpose, sales of goods were defined as those sales associated with industries coded in the 000, 100, 200, 300, or 500 series, except 070, 108, 124, 138, and 148; sales of services were defined as those sales associated with industries coded in the 400, 600, 700, or 800 series, or in codes 070, 108, 124, 138, and 148. (See the *Guide to Industry and Foreign Trade Classifications for International Surveys*, reproduced in the appendix, for a description of these codes.) When a sale consisted of both goods and services and the two components could not be unbundled because, for example, the goods and services were not separately billed, the total sale was classified as a good or service depending upon which component accounted for the most value.

To provide more accurate data on sales of services, information on investment income of U.S. parents and majority-owned foreign affiliates in finance and insurance was collected separately from sales of services for the first time in the 1989 benchmark survey. Finance and insurance companies include investment income in sales because it is generated by a primary activity of the company. In most other industries, investment income is considered an incidental revenue source and is included in the income statement in a separate “other income” category.

Total sales by majority-owned nonbank affiliates had to be disaggregated by destination to show local sales, sales to the United States, and sales to other countries. Local sales of a given affiliate are sales charged by the affiliate to persons in its country of location. As stated earlier, the treatment of sales of services by destination for affiliates classified in “International” differed in the 1989 benchmark survey from the treatment in past years. Prior to 1989, all sales by these affiliates, including those to U.S. persons, were classified as “local” sales, whereas beginning with the 1989 benchmark survey, sales to U.S. persons are instead classified as such and all other sales are classified as “local” sales.

Employment and employee compensation

In the benchmark survey, employment was defined as the number of full-time and part-time employees on the payroll at the end of fiscal year 1989. A count taken during, rather than at the end of, fiscal year 1989 was acceptable if it was a reasonable proxy for the end-of-year number. In either case, if employment was unusually high or low because of temporary factors (for example, a strike) or large seasonal variations, the number that reflected normal operations, or an average for fiscal year 1989, was required.

Employment of U.S. parents can be classified both by industry of parent and by industry of sales. As discussed in the industry classification section, the latter is based on information supplied by each U.S. parent on employment in the individual three-digit industries in which it also had sales.

Employment of foreign affiliates can be classified by industry of affiliate or by industry of U.S. parent but not by industry of sales. The information needed for the latter classification was not obtained in the 1989 benchmark survey, because earlier survey results had indicated that most affiliates, unlike most U.S. parents, had sales and, therefore, employment in only one three-digit industry. In the 1989 benchmark survey, the distribution of affiliate sales by industry of sales did not differ significantly from that by industry of affiliate. Thus, the distribution of affiliate employment by industry of sales also probably does not differ significantly from that by industry of affiliate.

The employment and employee compensation data from the benchmark survey can be used to compute compensation per employee or wages and salaries per employee for U.S.

parents and foreign affiliates. The resulting rates, however, may be misleading for two reasons. First, in the employment data, a part-time employee is counted the same as a full-time employee. Thus, compensation per employee and wages and salaries per employee may vary across parents or affiliates simply because of differences in the share of part-time workers in total employment. Second, compensation (or wages and salaries) per employee may be distorted by data for businesses or business segments acquired or sold during the year. For a newly acquired business, for example, although BEA preferred that its employee compensation data cover the full year, reported compensation data often covered only the portion of the year that the business was in the direct investment universe. Employment of the business, however, was reported as of yearend. When compensation data are only for a portion of the year but employment is as of yearend, compensation per employee and wages and salaries per employee are understated.

From the 1989 benchmark survey data, hourly compensation and wage rates are better measures of compensation for foreign affiliates than either compensation per employee or wages and salaries per employee. The information needed to derive hourly compensation and wage rates was collected in the survey for production workers of foreign affiliates that had manufacturing activities.[7] (In the 1982 benchmark survey, this information was also collected for U.S. parents. It was not collected in the 1989 benchmark survey in order to reduce the reporting burden on U.S. companies.) The data were collected only for production workers because data on hours worked by nonproduction workers are generally not maintained by reporters and because aggregate hourly compensation and wage rates for the United States and foreign countries, with which the benchmark survey data might be compared, are limited to production workers. Only a single number covering all manufacturing industries in which there were sales had to be reported for hours worked by, and compensation paid to, production workers in manufacturing. Consequently, no disaggregation of hourly compensation and wage rates by industry of sales is possible. However, as noted earlier, most affiliates had sales in only one industry, and the distribution of affiliate sales by industry of sales did not differ significantly from that by industry of affiliate as collected in the 1989 benchmark survey. Thus, the distribution of hourly rates by industry of sales also probably does not differ significantly from that by industry of affiliate.

U.S. merchandise trade

The concepts and definitions underlying the data on U.S. merchandise trade of U.S. parents and foreign affiliates are very close to those used for the all-U.S. merchandise trade data compiled by the Census Bureau. Although trade data were particularly difficult for reporters to provide, BEA's review of the reported data indicates that, except as noted below, they conform well to Census Bureau concepts and definitions.

In the benchmark survey, U.S. merchandise trade data had to be reported on a "shipped" basis—that is, on the basis of when and to (or by) whom the goods were physically shipped—in order for them to be comparable with the official Census Bureau data. However, most reporters keep their books on the "charged" basis—that is, on the basis of when, where, and to (or by) whom the goods were charged. Although the two bases are usually the same, differences between them can be substantial. Such differences may arise, for example, when a U.S. parent buys goods from an affiliate in country A and sells them to an affiliate in country B, but the goods are shipped directly from country A to country B. When it records the transactions on its books, the U.S. parent would show a purchase charged to it from country A and a sale charged by it to country B. If the parent's trade data were reported on the charged basis in the benchmark survey, the purchase and sale would have appeared as a U.S. import and U.S. export, respectively. However, the goods never physically entered or left the United States and, on a shipped basis, should have been recorded neither as a U.S. import nor as a U.S. export.

Based on its review, BEA believes most data were reported on a shipped basis, rather than on a charged basis. However, some reporters had difficulty obtaining data on a shipped basis, which usually required use of shipping department invoices rather than accounting records. If BEA determined that the data were reported on a charged basis and that these data were likely to differ materially from data reported on a shipped basis, it required revised reports to be filed. However, some cases of erroneous reporting were probably not identified.

Another difference between the trade data in this publication and the Census Bureau trade data is that the former are on a fiscal year basis while the latter are on a calendar year basis. This difference could be an important source of noncomparability between the two sets of data, but the extent of such noncomparability is unknown. Further differences may arise from the fact that the trade data come from two different sources: The BEA data are based on company records, whereas the Census Bureau data are compiled from export and import documents filed by shippers with the U.S. Customs Service on each individual transaction. In some cases, the timing, valuation, origin or destination, shipper, and product involved in a given export or import transaction may have been recorded differently on company records and on the customs export and import documents.

In this publication, exports and imports of U.S. parents and foreign affiliates are disaggregated into 12 product categories, based on the *Standard International Trade Classification, Revision 2* (United Nations Statistical Papers, Series M, No. 34/Rev. 2: United Nations, 1975), hereinafter referred to as the SITC. (See the *Guide to Industry and Foreign Trade Classifications for International Surveys*, pages 21–24, in the appendix for a description of the categories used.)

Several problems with the classification of trade by product in the benchmark survey were observed. One was in the classification of certain parts and accessories for transporta-

7. However, tables III.G13-III.G20 show only data for production workers of affiliates whose primary industry is manufacturing. The data were collected for all affiliates that had manufacturing activities, rather than for only those classified in manufacturing, because BEA, not the affiliate, determined the affiliate's industry classification and because the affiliate may not have known its classification at the time of reporting.

tion equipment. In the SITC, some transport equipment parts that are shipped separately are included in “road vehicles and parts” or in “other transport equipment,” based on the part’s end use; other parts are included in SITC categories appropriate to the type of part, based on the principal material from which it is made or on its general function. Some reporters had difficulty distinguishing in their records between parts that should have been included in “road vehicles and parts” or “other transport equipment” and parts that should have been included in other categories. BEA reviewed reports with large trade values and, after discussions with reporters, revised those with incorrect reporting. However, reports with low values were not reviewed, and in some cases, reporters may have erroneously included both types of parts in “road vehicles and parts” or “other transport equipment.” Thus, these two categories may be overstated, and other categories, particularly machinery, may be understated.

Total U.S. trade associated with U.S. parents and their foreign affiliates consists of (1) trade between U.S. parents and their foreign affiliates, (2) trade between other U.S. persons and foreign affiliates, and (3) trade between U.S. parents and unaffiliated foreigners. Data on trade between U.S. parents and their foreign affiliates were collected on the BE-10A and BE-10B(LF) and (SF) forms; on the BE-10A form, total trade of a given U.S. parent with all of its foreign affiliates combined was reported, while on the BE-10B(LF) and (SF) forms, trade of the U.S. parent with only the individual foreign affiliate covered by that form was reported. In principle, the sum of a U.S. parent’s trade with each of its individual foreign affiliates, as reported on the BE-10B forms for those affiliates, should equal the parent’s total trade with all of its affiliates combined, as reported on the parent’s BE-10A form. In fact, however, the sum of the data from the affiliates’ BE-10B forms may not equal the total reported on their parent’s BE-10A form, because of differences in timing and valuation and because the parent’s BE-10A form may include data for affiliates that are exempt from being reported on the BE-10B forms.

In this publication, the data on trade between parents and affiliates used in computing total U.S. trade associated with U.S. parents and their foreign affiliates are derived from the affiliates’ BE-10B forms rather than from the U.S. parents’ BE-10A forms. (However, the data derived from the parents’ BE-10A forms are shown as an addendum.) Data on trade between other U.S. persons and foreign affiliates are also derived from the affiliates’ BE-10B forms. However, data on trade between U.S. parents and unaffiliated foreigners are from the parents’ BE-10A forms.

In this publication, BEA is showing, for the first time, separate data on U.S. parent trade with foreign parent groups (FPG’s). A U.S. parent has an FPG if the U.S. parent is, in turn, owned 10 percent or more by a foreign person. For a given U.S. parent, the FPG consists of (1) the foreign parent of the U.S. parent, (2) any foreign person, proceeding up the ownership chain, that owns more than 50 percent of the person below it, and (3) any foreign person, proceeding down the ownership chain(s) of each of these members, that is owned more than 50 percent by the person above it.

Direct Investment Position and Balance of Payments Data

Direct investment position and balance of payments data cover U.S. parents’ positions in, and transactions with, their foreign affiliates; in contrast, the direct investment financial and operating data, discussed earlier, cover the overall activities of the parents and affiliates themselves. For foreign affiliates, the data include positions in, and transactions with, them by all persons, not just their U.S. parents. The U.S. direct investment position abroad is equal to U.S. parents’ equity in, and net outstanding loans to, their foreign affiliates; foreign affiliates’ total assets, in contrast, are equal to the sum of (1) total owners’ equity in affiliates held by both U.S. parents and all other persons and (2) total liabilities owed by affiliates to both U.S. parents and all other persons. For example, suppose that an affiliate is owned 80 percent by its U.S. parent and that the affiliate has total owners’ equity of $50 million and total liabilities of $100 million (including $20 million owed to the parent). In this case, the affiliate’s total assets would be $150 million (total owners’ equity of $50 million plus total liabilities of $100 million), and the parents’ position in the affiliate would be $60 million (80 percent of the $50 million of owners’ equity plus the $20 million of intercompany debt).

In the benchmark survey, data for the position and balance of payments items were reported in part III of the BE-10B(LF) or (SF) (or the BE-10B BANK) form. The balance of payments items consist of transactions between parents and their affiliates and of transactions between parents and other persons that change the parents’ equity in their affiliates. The major items that appear in the U.S. balance of payments accounts for U.S. direct investment abroad are these:

- Direct investment capital outflows,
- Direct investment income,
- Direct investment royalties and license fees, and
- Other direct investment services.

It should be noted that there are two types of adjustments made to the balance of payments data presented here before the data are entered into the U.S. international accounts. First, as noted earlier, two of these items—income and capital outflows—are not entered into the international accounts at the reported book values until they are adjusted to reflect current-period prices.

Second, as discussed in the section on fiscal year reporting, the direct investment position and balance of payments data collected in the 1989 benchmark survey and shown in this publication are on a fiscal year basis, whereas the data in the U.S. balance of payments accounts and in BEA’s annual series on the direct investment position are on a calendar year basis. Before being incorporated into the balance of payments accounts and the series on the position, the data from the 1989 benchmark survey will be adjusted to a calendar year basis. These adjusted data for 1989 will also be extrapolated forward to derive universe estimates for subsequent calendar years, based on sample data collected in BEA’s quarterly surveys for those years. The adjusted 1989 data and the extrapolated estimates for calendar years 1990–92 are scheduled for publication in the June and August 1993 issues of the Survey of Current Business. As noted earlier, BEA also plans to revise its balance of payments and direct investment position data for 1983–88 to incorporate information from the 1989 benchmark survey.

The balance of payments data included here differ from data from the 1982 benchmark survey because of methodological and definitional changes introduced in June 1992 to make BEA's data more consistent with the international standards recommended in the forthcoming fifth edition of the International Monetary Fund's (IMF) *Balance of Payments Manual* and in the United Nations System of National Accounts. These changes include (1) the presentation of receipts and payments of income, royalties and license fees, and other private services before deduction of withholding taxes and (2) the removal of capital gains and losses from direct investment income. These and other changes are explained in the sections that follow.

U.S. direct investment position abroad

As noted earlier, the U.S. direct investment position abroad is equal to U.S. parents' equity in, and net outstanding loans to, their foreign affiliates. The position may be viewed as the U.S. parents' contribution to the total assets of their foreign affiliates or as financing provided by U.S. parents to their affiliates in the form of either equity or debt. The data are derived from the foreign affiliates' books at yearend.

The direct investment position estimates published here are at book value and are not adjusted to current value. Thus, they largely reflect prices at the time of investment rather than prices of the current period. Because historical cost is the basis used for valuation in company accounting records in the United States, it is the only basis on which companies can report data in BEA's direct investment surveys. It is also the only basis on which detailed estimates of the position are available by country, by industry, and by account. (Elsewhere, however, BEA does provide aggregate estimates of the position valued in current-period prices.[8]) For simplicity, all subsequent references to the position are to the position on a historical-cost (book-value) basis, unless otherwise stated.

U.S. parents' equity in incorporated foreign affiliates consists of the U.S. parents' holdings of capital stock in, and other capital contributions to, their affiliates and U.S. parents' equity in the retained earnings of their affiliates. Capital stock comprises all stock of affiliates, whether common or preferred, voting or nonvoting. Other capital contributions by U.S. parents, also referred to as the "U.S. parents' equity in additional paid-in capital," consist of capital, invested or contributed, that is not included in capital stock, such as amounts paid for stock in excess of its par or stated value, capitalizations of intercompany accounts (conversions of debt to equity) that do not result in the issuance of capital stock, and donations. U.S. parents' equity in retained earnings is the U.S. parents' shares of the undistributed earnings of their incorporated foreign affiliates.

For most unincorporated affiliates, U.S. parents' were able to provide a breakdown of owners' equity by type. Thus, in tables showing U.S. parents' equity in affiliates by type, the parents' equity in both incorporated and unincorporated affiliates are shown together. For those unincorporated affiliates for which no breakdown of owners' equity by type was available, all of the parents' equity in the affiliates was included in capital stock (which includes additional paid-in capital and capital contributions) rather than in retained earnings, because these affiliates usually remit all of their earnings to the U.S. parent. The U.S. parents' share in total owners' equity (not broken down by type) is shown separately for incorporated and unincorporated affiliates in addenda to the direct investment position tables.

The U.S. parents' net outstanding loans to their foreign affiliates, shown in the tables as the affiliates' net intercompany debt to U.S. parents, consist of trade accounts and trade notes payable, other current liabilities, and long-term debt owed by the affiliates to their U.S. parents, net of similar items due to the affiliates from their U.S. parents.

Intercompany accounts include the value of all capital leases and of operating leases of more than 1 year between U.S. parents and their foreign affiliates. (Only long-term operating leases are included in intercompany accounts to conform to U.S. data on merchandise trade, which also exclude shipments under leases for periods of 1 year or less.) The value of property so leased to a foreign affiliate by its U.S. parent is included in affiliates' payables, and the net book value of property so leased by a foreign affiliate to its U.S. parent is included in affiliates' receivables. Capital leases recognize that title to the leased property will usually be transferred to the lessee at the termination of the lease—similar to an installment sale. Operating leases have a term significantly shorter than the expected useful life of the tangible property being leased, and there is usually an expectation that the leased property will be returned to the lessor at the termination of the lease. For capital leases, the net book value of the leased property is calculated according to GAAP. Under GAAP, the lessee records either the present value of the future lease payments or the fair market value, whichever is lower; the lessor records the sum of all future lease receipts. For operating leases of more than 1 year, the value is the original cost of the leased property less accumulated depreciation.

For bank affiliates, the direct investment position is defined to include only their parents' permanent debt and equity investment in them; similarly, the direct investment flows that enter the U.S. balance of payments accounts for these affiliates include only transactions related to such permanent investment. All other transactions and positions—mainly claims and liabilities arising from the parents' and affiliates' normal banking business—are excluded from the direct investment accounts because they are included with other banking claims and liabilities in the portfolio investment accounts. The definition of permanent investment may vary somewhat from

8. In May 1991, BEA published, for the first time, position estimates measured at current cost and at market value for U.S. direct investment abroad (and for foreign direct investment in the United States) for 1982–89. (These estimates are updated annually in the Survey of Current Business.) However, these estimates are not available by country or industry of affiliate. For a discussion of concepts and estimating procedures, see J. Steven Landefeld and Ann M. Lawson, "Valuation of the U.S. Net International Investment Position," Survey 71 (May 1991): 40–49.

bank to bank. Examples of such investment are funds from parents that are used to establish or acquire the affiliates or that finance the affiliates' purchases of property, plant, and equipment.

The relationship between a U.S. parent and its foreign affiliate may be a two-way one, in which each may have debt and equity investment in the other. Thus, a U.S. parent may have investment in a foreign affiliate that, in turn, has investment in it as a result of the affiliate's lending funds to, or acquiring voting securities or other equity interest in, the U.S. parent. As discussed earlier, in the intercompany accounts of the position, affiliate receivables from their U.S. parents (reverse debt investment) are netted against affiliate payables to their U.S. parents.[9] The question arises as to whether affiliates' equity investment in their U.S. parents (reverse equity investment) should also be netted against the U.S. parents' equity investment in them. Conceptually, one can argue that reverse equity, as well as debt, investment should be netted to obtain an accurate measure of the net investment by U.S. parents in affiliates. This was the treatment before 1977, but in some instances, it resulted in double-counting among the various accounts of the international investment position of the United States and in the capital accounts of the U.S. balance of payments. Therefore, since 1977, reverse equity investment of foreign affiliates in their U.S. parents has not been netted against analogous investment of U.S. parents in their affiliates. It is instead included either in the foreign *direct* investment position in the United States if the affiliate's ownership in its U.S. parent is 10 percent or more or in the foreign *portfolio* investment position in the United States if the affiliate's ownership is less than 10 percent.

The direct investment position at the end of a year is equal to the position at the beginning of the year plus the change in the position during the year. The change during the year is the sum of direct investment capital outflows and valuation adjustments. Direct investment capital outflows are defined below. Valuation adjustments are broadly defined to include all changes in the position other than capital outflows. There are three broad types of valuation adjustments. They are (1) currency translation adjustments, (2) other capital gains or losses, and (3) "other" valuation adjustments.

Currency translation adjustments to the position are made to reflect changes in the exchange rates that are used to translate foreign affiliates' foreign-currency-denominated assets and liabilities into U.S. dollars, following the guidelines contained in FASB 52 described earlier. Also, as mentioned earlier in the section on translation adjustments, in June 1990, BEA removed the capital gains and losses associated with currency translation from direct investment income—and hence from reinvested earnings, a component of both income and capital outflows—and reclassified them as valuation adjustments to the direct investment position. The reclassification from capital outflows to valuation adjustments did not affect the total direct investment position.

In June 1992, all other capital gains and losses, whether realized or unrealized, were removed from direct investment income (and reinvested earnings) for balance of payments purposes and reclassified as valuation adjustments to the position. This change also had no effect on the total position. The change in treatment recognizes that, from an economic accounting perspective, capital gains and losses are not considered income (or returns) on investments, but are rather adjustments to the value of investments (or capital). The change makes BEA's data consistent with the treatment of these gains and losses in the IMF's *Balance of Payments Manual*. It also makes direct investment income conform more closely to the "operating income" concept used in the NIPA's. Data were revised beginning with the year 1982.

"Other" valuation adjustments primarily reflect differences between transactions values on U.S. parents' books, which are used by BEA to record capital outflows, and book values on foreign affiliates' books, which are used to record the position and, hence, changes in the position. For example, they include differences between the proceeds from and the book values of affiliates that are sold or liquidated by U.S. parents, differences between the purchase price and the book values of affiliates that are acquired by U.S. parents, and writeoffs resulting from uncompensated expropriations of affiliates.

In principle, the direct investment position could be based either on the books of U.S. parents or on the books of foreign affiliates. Traditionally, it has been based on the foreign affiliates' books because the valuation method used on affiliates' books—that is, historical cost—is usually fairly consistent from affiliate to affiliate, while that used on U.S. parents' books may vary from parent to parent. For example, depending on their percentage of ownership, some parents may use the cost method of valuing investments, while others may use the equity method (if the cost method is used, the U.S. parents' equity in retained earnings since acquisition or establishment would be excluded). Still other parents may use market values, or they may write off the excess of market value over book value, either in whole or in part. In contrast to the position, most balance of payments flow items—equity capital and intercompany debt outflows, distributed earnings, interest, royalties and license fees, and charges for other services—are based on the books of the U.S. parents. This is mainly because, for balance of payments purposes, transactions values—which may be available only from the U.S. parents' books—are required. (For example, when a U.S. parent purchases or sells an affiliate's stock to or from an unaffiliated third party, the transaction is recorded only on the parent's books, not on the affiliate's books.)

Direct investment capital outflows

Direct investment capital outflows consist of equity capital outflows, reinvested earnings, and intercompany debt outflows. This section first defines these components and then discusses several topics concerning their coverage, measurement, and presentation.

9. The one exception to this rule for reverse debt investment is in the extremely rare case in which a foreign affiliate and its U.S. parent own 10 percent or more of each other. To avoid double-counting, the U.S. parent's debt and equity investment in the affiliate is included in the U.S. direct investment position abroad, while the affiliate's reverse investment—debt as well as equity—in the U.S. parent is included in the foreign direct investment position in the United States. In this one case, a foreign affiliate's debt investment in its U.S. parent is not netted against the parent's debt investment in it.

Equity capital outflows.—Equity capital outflows are net increases in U.S. parents' equity in their foreign affiliates, whether incorporated or unincorporated. They exclude changes in equity that result from the reinvestment of earnings, which are considered a separate component of direct investment capital outflows.

Increases in U.S. parents' equity in their foreign affiliates result from the U.S. parents' establishment of new foreign affiliates, from their initial acquisitions of 10-percent-or-more ownership interests in existing foreign business enterprises, from their acquisitions of additional ownership interests in existing foreign affiliates, and from capital contributions to affiliates. Such increases in equity are recorded as U.S. capital outflows. Decreases in equity result from liquidations of foreign affiliates, from partial or total sales of ownership interests in foreign affiliates, and from returns of capital contributions. They include liquidating dividends, which are a return of capital to U.S. parents upon the liquidation of affiliates or the sale of affiliates' assets. Decreases in equity are recorded as capital inflows to U.S. parents and are netted against increases in equity to derive the net increase in U.S. parents' equity in their foreign affiliates.

Equity capital outflows are recorded at transactions values, based on the books of U.S. parents. Such outflows may differ from those based on the books of foreign affiliates. For example, as noted earlier, when a U.S. parent purchases or sells capital stock from or to an unaffiliated third party, the transaction is recorded only on the parent's books, not on the affiliate's books. Also, transactions values on U.S. parents' books reflect the actual cost of ownership interests in affiliates that are acquired or sold by U.S. parents, including any premium or discount; such values may differ from the book values recorded on the affiliates' books.

Reinvested earnings.—Reinvested earnings of foreign affiliates are earnings less distributed earnings. Earnings are U.S. parents' shares in the net income of their foreign affiliates, after provision for foreign income taxes. Net income and, therefore, earnings are taken from the books of the foreign affiliate. A U.S. parent's share in net income is based on its directly held equity interest in the foreign affiliate.

Earnings are included in direct investment income (see definition in the next section) because they are income to the U.S. parent, whether they are reinvested or remitted to the parent. However, because earnings that are reinvested are not actually transferred to the U.S. parent, but rather increase the parent's investment in its affiliate, an entry of equal magnitude but of opposite sign to that made in the direct investment income account is made in the direct investment capital account.

For incorporated foreign affiliates, distributed earnings are dividends on common or preferred stock held by U.S. parents, before deduction of foreign withholding taxes and whether paid out of current or past earnings. Dividends exclude stock and liquidating dividends. Stock dividends are considered a capitalization of retained earnings—a substitution of one type of equity (capital stock) for another (retained earnings)—which reduces the amount of retained earnings available for distribution and leaves total owners' equity unchanged. Liquidating dividends are excluded because they are a return of capital rather than a remittance of earnings. (Liquidating dividends are recorded instead as inflows in the direct investment equity capital account.) For unincorporated affiliates, distributed earnings are earnings distributed to U.S. parents, whether out of current or past earnings.[10]

Distributed earnings are based on the books of U.S. parents. Because they are on an accrual basis, they are reported as of the date they are either received from foreign affiliates or entered into intercompany accounts with foreign affiliates, whichever occurred first. Thus, for example, dividends declared by a foreign affiliate, but not remitted because of exchange controls or for other reasons, are included in distributed earnings when they are entered into intercompany accounts with the affiliate; at the same time, an offsetting intercompany debt outflow is recorded in the direct investment capital account. Distributed earnings are included whether they are paid in cash, through debt creation, or in kind.

Intercompany debt outflows.—Intercompany debt outflows consist of the increase in U.S. parents' net intercompany account receivables from their foreign affiliates during the year. The increase is derived by subtracting the net outstanding intercompany account balance at the end of the previous year from the net outstanding balance at the end of the current year. The net balance at the end of a year is calculated as U.S. parents' receivables (amounts due) from affiliates less U.S. parents' payables (amounts owed) to affiliates. When a U.S. parent lends funds to its foreign affiliate, the U.S. parents' receivables increase; subsequently, when the affiliate repays the principal owed to its U.S. parent, the U.S. parent's receivables from the affiliate are reduced. In parallel fashion, when a U.S. parent borrows funds from its foreign affiliate, its payables increase; subsequently, when the U.S. parent repays the principal owed to its affiliate, the U.S. parent's payables to the affiliate are reduced. Increases in U.S. parents' receivables from their affiliates or reductions in U.S. parents' payables to their affiliates give rise to U.S. capital outflows on intercompany debt accounts. Likewise, reductions in U.S. parents' receivables from their affiliates or increases in U.S. parents' payables to their affiliates give rise to inflows on intercompany debt accounts.

Not all intercompany debt transactions reflect actual flows of funds. For example, when distributed earnings, interest, or royalties and license fees accrue to a U.S. parent from its foreign affiliate, the full amount is included as a receipt of income or of royalties and license fees on U.S. direct investment abroad. If all or part of that amount is not actually transferred to the U.S. parent, the amount not transferred is entered into the intercompany account as an increase (outflow) in the U.S. parent's receivables from its affiliate.

The net change in intercompany debt accounts includes changes in the net book value of capital leases and of operating leases of more than 1 year between U.S. parents and their foreign affiliates. (See discussion in the section on the direct investment position.) When property is so leased by a foreign affiliate from its U.S. parent, the net book value of the

10. Except in rare instances, distributed earnings of unincorporated foreign affiliates are not subject to foreign withholding taxes. For publication purposes, such taxes were assumed to be zero.

leased property is treated as an increase in the U.S. parent's receivables from its affiliate and is recorded as an intercompany debt outflow. The subsequent payment of principal on a capital lease, or of depreciation on an operating lease, is a return of capital and, for property leased by the foreign affiliate from its parent, is recorded as an intercompany debt inflow because it reduces the U.S. parent's receivables from its affiliate. (When property is leased to a U.S. parent by its foreign affiliate, the flows recorded are the reverse of the preceding.)

Intercompany debt outflows, like equity capital outflows, are based on the books of U.S. parents and may differ from those based on the books of foreign affiliates. For example, a U.S. parent's receivables from its affiliate as recorded on the parent's books may not necessarily be equal to the affiliate's payables to its parent as recorded on the affiliate's books, because of differences in accounting or valuation.

Coverage, measurement, and presentation.— All intercompany debt flows result from transactions between U.S. parents and their foreign affiliates, including direct debt transactions between U.S. parents and their indirectly owned foreign affiliates. Equity capital flows, however, may result from transactions between U.S. parents and unaffiliated foreigners that change U.S. parents' equity in their foreign affiliates. An example is a U.S. parent's purchase of an affiliate's capital stock from an unaffiliated foreigner, rather than from the affiliate itself.

Direct investment capital outflows exclude the transfer of a direct investment interest between two U.S. persons. Such a transfer is excluded because it does not change the nature of the investment interest; that is, it remains a direct investment interest, although ownership of the direct investment interest has shifted from one U.S. person to another. (Any change in the value of the U.S. direct investment position abroad, such as a revaluation of the investment by the new U.S. parent, is treated as a valuation adjustment.) If, however, either U.S. person has a portfolio (less-than-10-percent) investment interest before a transfer of equity that, in connection with the transfer, becomes a direct investment interest, a direct investment capital outflow and offsetting portfolio investment capital inflow are recorded for the extinguished portfolio interest. Similarly, if either U.S. person had a direct investment interest before a transfer of equity that, in connection with the transfer, becomes a portfolio investment interest, a direct investment capital inflow is recorded to extinguish the direct investment interest and an offsetting portfolio investment capital outflow is recorded for the new portfolio interest.

Direct investment capital outflows exclude transactions between a foreign affiliate and U.S. persons other than the affiliate's U.S. parent. For example, loans by a U.S. bank to a foreign affiliate in which the bank does not have a direct investment ownership interest and loans by one U.S. parent to another U.S. parent's foreign affiliate in which the first U.S. parent does not have a direct investment ownership interest are excluded. Such transactions are included instead in the portfolio investment accounts.

As noted earlier in the section on country classification, direct investment capital outflows are classified by country of foreign affiliate, even if the foreign affiliate is not itself a party to the transaction. Thus, for example, if a U.S. parent purchases an affiliate's capital stock from a third-country transactor, such transactions are nevertheless classified in the country of the affiliate because the resulting outflows change the U.S. direct investment position in that country.

In cases where reverse investment exists, the treatment of reverse direct investment capital flows is the same as that for the analogous accounts in the direct investment position. (See discussion in the section "U.S. direct investment position abroad.")

Equity capital and intercompany debt flows are disaggregated into several subaccounts in the tables in this publication (see tables I.V1 and 2, II.V1 and 2, and III.V1 and 2). Equity capital flows are disaggregated to show increases in equity separately from decreases, and intercompany debt flows are disaggregated to show flows resulting from changes in U.S. parents' payables separately from flows resulting from changes in U.S. parents' receivables. Certain transactions may affect two of the major components of direct investment capital outflows simultaneously and by exactly offsetting amounts. Such transactions are "grossed up"; that is, the outflows and the offsetting inflows resulting from the transaction are recorded in the accounts for each component rather than being netted to zero and not recorded in either account. However, because such gross flows are exactly offsetting, they have no net effect on direct investment outflows as a whole. An example of a transaction that results in gross, but not net, flows is the capitalization of intercompany debt (which gives rise to an intercompany debt inflow from, and an equity capital outflow to, the same affiliate).

Direct investment income

Direct investment income is the return on the U.S. direct investment position abroad; that is, it is the U.S. parents' return on their debt and equity investment in foreign affiliates. It consists of earnings (the U.S. parents' shares in the net income of their foreign affiliates) plus interest on intercompany debt. Interest is defined as interest received by U.S. parents from their foreign affiliates, net of interest paid by U.S. parents to their foreign affiliates. Direct investment income is defined to be before deduction, or gross, of (foreign or U.S.) withholding taxes.

Direct investment income is recorded as accrued. When funds are not actually transferred to U.S. parents, offsetting entries are made in the direct investment capital account.

Direct investment income differs from earnings (as defined in the previous section) because it is from the viewpoint of U.S. parents—that is, it is the return the U.S. parents receive on their investment. Earnings, in contrast, are from the viewpoint of affiliates—that is, they are (the U.S. parents' shares of) what the affiliates earn from their business. Thus, to derive direct investment income, interest on intercompany debt accounts is added to earnings because it increases the U.S. parents' return. Earnings are the U.S. parents' return on their equity investment, while interest is the U.S. parents' return on their debt investment in foreign affiliates.

Interest is that received by, or credited to, U.S. parents on debt owed to them by their foreign affiliates, less interest paid or credited by U.S. parents on debt owed by them to their foreign affiliates. Interest includes net interest on leases between U.S. parents and foreign affiliates that are capitalized (capital leases), because the outstanding capitalized value of such leases is included in the intercompany-debt component of the direct investment position. Interest is reported as accrued and is included in direct investment income whether paid in cash, through debt creation, or in kind.

In June 1992, BEA redefined direct investment income and earnings for balance of payments purposes to exclude all capital gains and losses not associated with currency translation adjustments, whether or not such gains and losses are included in net income for income statement purposes. (As mentioned earlier, BEA had, in June 1990, already excluded currency translation adjustments from direct investment income.)

Also in June 1992, BEA began to adjust its estimates of direct investment income (and the reinvested earnings component of capital outflows) to reflect current-period prices prior to entering them into the international accounts. However, these adjustments are made to direct investment income on a global basis only and do not appear in the direct investment income tables in this publication, which are disaggregated by country or by industry.

BEA also changed its treatment of withholding taxes in June 1992. (Withholding taxes are taxes withheld by governments on income or other funds that are distributed or remitted.) Previously, direct investment income had been measured after deduction (that is, net) of foreign withholding taxes on distributed earnings received by U.S. parents from their affiliates and after deduction of U.S. and foreign withholding taxes on interest. In June 1992, direct investment income was redefined to be before deduction (that is, gross) of all withholding taxes. The new treatment views taxes on direct investment distributed earnings and interest as falling on the recipient and thus as being paid across borders, even though, as an administrative convenience, the funds are actually disbursed locally by the entity making the distribution or payment that gave rise to the tax. Thus, withholding taxes on distributed earnings and on interest received by the U.S. parent are regarded as being paid by the parent, not by the foreign affiliate. Similarly, withholding taxes on interest payments by the U.S. parent are recorded as paid by the foreign affiliate, not by the U.S. parent. Counterentries for these taxes are made in the U.S. balance of payments accounts under unilateral transfers. This change in methodology responds to changing international guidelines for compiling balance of payments accounts, as reflected in the forthcoming fifth edition of the IMF's *Balance of Payments Manual*.

For years other than benchmark years, BEA has not collected data on withholding taxes on receipts and payments of interest, royalties and license fees, and other private services. (For some time, BEA has collected data on withholding taxes on distributed earnings on its quarterly surveys of U.S. direct investment abroad.) Until BEA begins collecting data on these taxes for nonbenchmark years, they must be estimated and will be shown in the U.S. balance of payments accounts only on a global basis, not disaggregated by country or industry.

Translation adjustments and other capital gains and losses are shown in tables I.V1 and 2, II.V1 and 2, and III.V1 and 2; withholding taxes are shown in addenda to tables I.W1 and 2, II.W1 and 2, and III.W1 and 2.

Direct investment royalties and license fees

Direct investment royalties and license fees are receipts by U.S. parents from, less payments by U.S. parents to, their foreign affiliates of fees for the use or sale of intangible property or rights—such as patents, industrial processes, trademarks, copyrights, franchises, designs, know-how, formulas, techniques, manufacturing rights, and other intangible assets or proprietary rights. Both receipts and payments are before deduction, or gross, of (foreign or U.S.) withholding taxes.

As with the components of income, and by the same reasoning, royalties and license fees had previously been presented after deduction, or net, of withholding taxes, but in June 1992, they were redefined to be gross of withholding taxes. Receipts and payments of royalty and license fees after deduction of withholding taxes and the taxes themselves are shown as addenda to tables I.X1 and 2, II.X1 and 2, and III.X1 and 2.

Also, in June 1992, BEA began recording U.S. parents' payments of royalties and license fees in the balance of payments accounts as U.S. imports of services. Previously, these payments were netted against U.S. parents' receipts of royalties and license fees, and the net amount was shown as U.S. services exports. In effect, the payments were deducted from exports rather than added to imports.

Receipts and payments of royalties and license fees are based on the books of the U.S. parents and are reported as accrued. When funds are not actually transferred, offsetting entries are made in the intercompany debt account with foreign affiliates.

Other direct investment services

Other direct investment services transactions consist of receipts by U.S. parents from, less payments by U.S. parents to, their foreign affiliates of service charges, charges for the use of tangible property, and film and television tape rentals. Both receipts and payments are gross of (foreign or U.S.) withholding taxes, are reported as accrued, and are based on the books of U.S. parents.

Receipts and payments of other direct investment services had previously been presented after deduction, or net, of withholding taxes, but in June 1992, they were redefined to be gross of withholding taxes. Receipts and payments of other direct investment services after deduction of withholding taxes and the taxes themselves are shown as addenda to tables I.X4 and 5, II.X4 and 5, and III.X4 and 5.

Also in June 1992, as with U.S. parent payments of royalties and license fees, BEA began recording U.S. parent payments for other private services in the balance of payments accounts as a U.S. import of services. Previously, these payments were recorded as deductions from U.S. services exports.

Service charges.—Service charges consist of fees for services—such as management, professional, or technical services—rendered between U.S. parents and their foreign affiliates, whether in the form of sales of services or reimbursements. Sales of services are receipts for services rendered that are normally included in sales or gross operating revenues in the income statement of the seller. Such receipts are included in sales if performance of the service is a primary activity of the enterprise. For example, if a U.S. management consulting firm provides management consulting services to its foreign affiliates, the revenues therefrom would normally be included in its sales.

Reimbursements are receipts for services rendered that are normally included in "other income," rather than in sales, in the income statement of the provider of the service. Such receipts are included in "other income," rather than in sales, if performance of the service is not among the primary activities of the enterprise; the service performed may, however, facilitate or support the conduct of the enterprise's primary activities. This would be the case, for example, if a U.S. manufacturing firm occasionally provides management, professional, technical, or other services to its foreign affiliates on a fee basis.

Reimbursements may take the form of allocated expenses or direct charges for the services rendered. Allocated expenses are types of overhead expenses that are apportioned among the various divisions or parts of an enterprise. An example would be research and development assessments on foreign affiliates by a U.S. parent for research and development the parent performs and shares with its affiliates.

Charges for the use of tangible property.—Charges for the use of tangible property include total lease payments under operating leases of less than 1 year and net rent on operating leases of 1 year or more that have not been capitalized. From the lessors' viewpoint, total lease payments for operating leases consist of two components: (1) Net rent, which covers interest, administrative expenses, and profit, and (2) depreciation, which is a return of capital. For operating leases of more than 1 year, net rent is included in "other direct investment services," and depreciation is included as an intercompany debt flow in the direct investment capital account. For operating leases of 1 year or less, total lease payments—both net rent and depreciation—are included in "other direct investment services" because the value of property leased to or from foreigners for 1 year or less is excluded from U.S. merchandise exports and imports in the U.S. balance of payments accounts. Because no export to or import by U.S. parents is recorded in the merchandise trade account, no subsequent return of capital to or by U.S. parents in the form of depreciation is recorded in the direct investment capital account. Such depreciation is instead considered part of rentals—a receipt for services rendered by, rather than a return of capital to, the lessor.

Film and television tape rentals.—Film and television tape rentals are rentals received by U.S. parents from, less rentals paid by U.S. parents to, their foreign affiliates for the use or sale of film and television tapes. When such film and television tapes are shipped by U.S. parents to foreign affiliates, receipts for the tapes are considered, for balance of payments purposes, receipts for services rather than receipts for merchandise because the value of the physical tapes themselves is usually incidental to the value of the services—entertainment, education, etc.—that they provide. Thus, the value of film and television tape rentals is excluded from U.S. merchandise trade and is included instead in "other direct investment services."