Experimental Ultimate Host Economy Statistics for U.S. Direct Investment Abroad

Advisory Committee Meeting, October 13, 2023
Discussion questions

• Are there other questions related to Ultimate Host Economy (UHE) that we should explore?
  o Additional methods to attempt?

• Of the six methods for calculating UHE that we explored, do you think that we selected the correct three to further pursue?

• Which method do you prefer? Which method meets your needs?
U.S. direct investment position abroad — Where does it go?

* Includes British Virgin Islands, Cayman Islands, Montserrat, and Turks and Caicos Islands
Holding Companies as a share of USDIA position
U.S. MNE outward position and value added by country, 2019

Aggregate Totals
USDIA Position: $5,837 billion
Value added: $1,416 billion

* Includes British Virgin Islands, Cayman Islands, Montserrat, and Turks and Caicos Islands
How do you do it?
Ultimate host economy (UHE): position reallocation methods

<table>
<thead>
<tr>
<th>Method:</th>
<th>Push Down</th>
<th>Financial Structure</th>
<th>Apportionment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-type</td>
<td>First Operating Affiliate</td>
<td>Passthrough with Ownership Chains</td>
<td>Employment / Fixed Capital / Sales</td>
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<td>Last Affiliate</td>
<td>Parent's Equity Share of Affiliate's Assets (PESAA)</td>
<td>Hybrid: Passthrough-Apportionment</td>
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UHE: push down methods

• First operating affiliate
  o Position reallocated from directly-owned holding companies to first non-holding company affiliate in ownership chain
    ▪ Regardless of the number or size of affiliates further down the chain
  o If the first entity is not a holding company, the position is not reallocated
  o Method recommended by Balance of Payments Manual update

• Last affiliate
  o Position reallocated from directly-owned companies to last affiliate in the ownership chain
    ▪ Regardless of size or industry of intermediate affiliates
UHE: push down methods

First-operating method

- U.S. Parent
  - USA
- A
  - Holding company
    - Luxembourg
- B
  - Assembly plant
    - Germany
- C
  - Sheet metal mfg
    - Poland

Last affiliate method
UHE: financial structure methods

• **Passthrough with Ownership Chains**
  - Builds on Borga and Caliandro (2018) passthrough approach
  - Data intensive
  - Position remaining in affiliate equals equity received from parent less equity that passes through to other affiliates down the ownership chain

• **Parent's Equity Share of Affiliate's Assets (PESAA)**
  - Data intensive
  - Challenged by negative equity and unusual ownership structures
    - Creates larger than necessary country and industry changes
UHE: financial structure methods

- **U.S. Parent**
  - USA

- **A**
  - Holding company
  - Luxembourg

- **B**
  - Assembly plant
  - Germany

- **C**
  - Sheet metal mfg
  - Poland
Apportionment and hybrid methods

• Apportionment: Employment / Fixed capital / Sales
  o Least data-intensive method
  o Can be calculated using BEA’s published position and activities statistics
  o Results may be biased depending on the metric used

• Hybrid: Passthrough-apportionment
  o Less data-intensive than financial structure methods
  o Uses Borga and Caliandro (2018) passthrough approach without ownership chain information
  o Position reallocated using aggregated country and industry results from passthrough calculations
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UHE results: largest reallocations by country, by method

- Malaysia
- Kazakhstan
- Japan
- Switzerland
- UK
- Ireland
- Spain
- Belgium
- Australia
- Italy
- Mexico
- India
- Brazil
- Germany
- France
- China
- Singapore
- UK Islands, Caribbean*
- Bermuda
- Luxembourg
- Netherlands

**Passthrough with ownership chains**

* Includes British Virgin Islands, Cayman Islands, Montserrat, and Turks and Caicos Islands
UHE results: largest reallocations by country, by method

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UHE results: largest reallocations by country, by method

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UHE results: reallocations by sector, by method

-2,500 -2,000 -1,500 -1,000 -500 0 500 1,000
Billions of Dollars

- Holding companies
- Banking
- Information
- Mining
- PST services
- Other industries
- Wholesale trade
- Finance (except banking) and insurance
- Manufacturing
- Passthrough with ownership chains
- First operating affiliate
- Last affiliate
UHE: in summary

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UHE: next steps

Feedback
- Solicit feedback from data users
- Present research at conferences and international working groups

Decide
- Based on feedback, select method(s)
- Resolve minor outstanding methodological questions

Advance
- Incorporate into production systems
- Include in annual Direct Investment by Country and Industry release
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