U.S. International Services

Cross-Border Trade in 2007 and Services Supplied Through Affiliates in 2006

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THE BUREAU of Economic Analysis (BEA) takes a broad perspective in this presentation of U.S. international sales and purchases of services by including information on (1) services that cross borders and are thus included in the international transactions accounts as exports and imports and (2) services supplied by multinationals' affiliates through the channel of direct investment. This approach acknowledges the extent to which multinational companies (MNCs) provide services using affiliates located in—but owned outside of—the markets they serve and highlights the importance of proximity to customers in the delivery of services, which leads many companies to serve foreign markets, partly or wholly, through their affiliates. In 2006 (the latest year for which data on services supplied through affiliates are available), as in previous years, the majority of both services supplied and services obtained internationally was through affiliates (table A and chart 1).[1]

This year's presentation introduces several improvements. Broadly, these improvements include more detailed data on cross-border trade in services and new measures of services provided through affiliates in the insurance, wholesale trade, and retail trade industries. (See the section "Revisions and Improvements.")

More detailed trade data

For cross-border trade, more detailed data by type of service were collected, beginning with 2006. As a result, new statistics on total trade for several types of services are available for the first time; previously, only statistics for unaffiliated trade were available for these services. Most of these services are components of "other private services." New statistics on total trade in royalties and license fees by type of intangible asset are also now available; previously, detail by type of asset

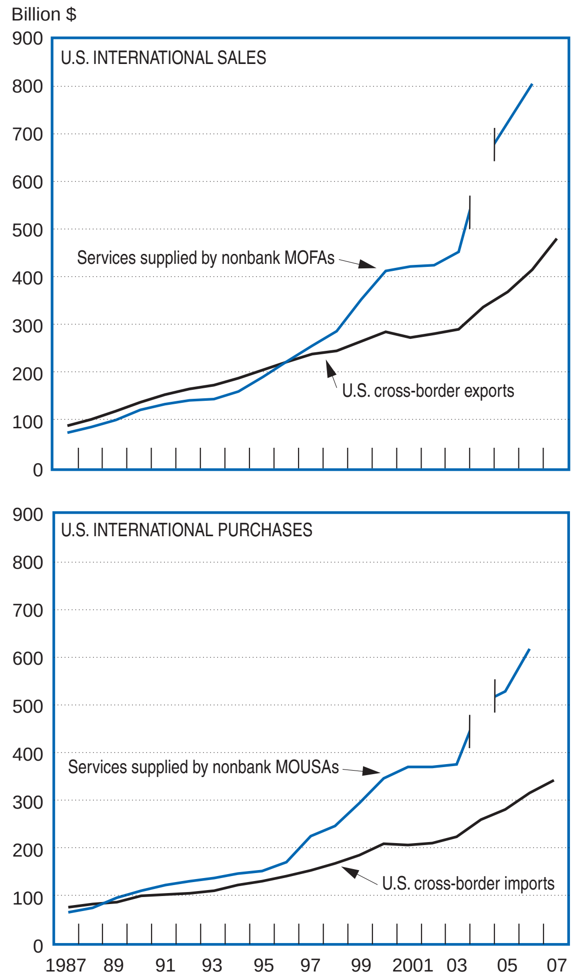
1. The statistics on services supplied through affiliates cover nonbank majority-owned affiliates, irrespective of the percentage of ownership. They are limited to nonbank affiliates because annual data on sales of services by bank affiliates currently are not available.

Table A. Sales of Services to Foreign and U.S. Markets
[Billions of dollars]

	U.S. sales to foreign markets		Foreign sales to the U.S. market	
	Across border	Through foreign affiliates	Across border	Through U.S. affiliates
2005	368	725	279	527
2006	415	806	314	616
2007	480	n.a.	341	n.a.

n.a. Not available

Chart 1. U.S. International Sales and Purchases of Private Services, 1987–2007[1]



MOFAs Majority-owned foreign affiliates
MOUSAs Majority-owned U.S. affiliates
1. The data for services supplied through majority-owned affiliates are shown through 2006, the latest year for which these data are available.
NOTE. There is a discontinuity between 2003 and 2004 for services through affiliates. See footnote 2 to table B.
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was only available for unaffiliated transactions.

Highlights of the new detail by type of service for the cross-border trade statistics include the following:

- Within "business, professional, and technical (BPT) services," the importance of "management and consulting services" has increased. "Management and consulting services" is now the second largest type of service within both BPT receipts and payments. Detail on total trade by country and area further highlights the importance of Europe, which now accounts for half of total BPT receipts and payments; in prior years, Europe accounted for approximately 40 percent of trade.
- Within royalties and license fees, trade in rights related to industrial processes is the largest component of both total trade and affiliated trade. Detail on total trade by country reveals that rights related to industrial processes also dominate trade with the major U.S. trading partners. In prior years, for receipts, "general use computer software" was an equally large component of trade for many countries.

Improved measure of services through affiliates

For services provided through affiliates, a new measure, called "services supplied through affiliates," was introduced. The new measure is more akin to output than the old measure, which was entirely based on sales. This new measure better captures the services provided by three important industries: insurance, wholesale trade, and retail trade. In all other industries, services supplied continue to be measured in terms of sales.

Highlights of the new measure of services supplied through affiliates include the following:

- The new measure reveals the important role of wholesale trade affiliates as service providers. Among both U.S. multinationals' foreign affiliates and foreign multinationals' U.S. affiliates, services supplied by wholesalers, which now include the distributive services that they provide, were the largest, by far, of any industry sector. In 2006, affiliates in wholesale trade accounted for 23 percent of all services supplied to foreign persons by foreign affiliates; wholesale trade accounted for one-quarter of services supplied to the U.S. market by U.S. affiliates. This is a markedly different picture of services supplied through affiliates by industry sector; in the old series, wholesale trade affiliates were small suppliers of services because their sales in trade were recorded as sales of goods, leaving only their secondary activities in other service industries to be recorded as sales of services. Recognition of the distributive services provided by affiliates also boosted the importance of affiliates in retail trade and in manufacturing—the latter as a result of secondary activities in wholesale trade—as service suppliers.
- In contrast to the larger role of wholesalers as service providers, the new measure of services supplied reveals a smaller role for affiliates classified in insurance. U.S. affiliates in insurance have historically accounted for the largest share of services sold to U.S. persons; insurance has also been among the top industries for foreign affiliates providing services abroad. Although they are still important, affiliates

Data Sources

The estimates in this article are primarily based on data from surveys conducted by the Bureau of Economic Analysis (BEA), but the estimates of some services are based on data from a variety of other sources, including U.S. Customs and Border Protection, surveys conducted by other Federal Government agencies, private sources, and partner countries.

BEA conducts several mandatory surveys of trade in services; some surveys are targeted to specific services industries. For cross-border trade, data on the majority of types of private services are collected on the Quarterly Survey of Transactions in Selected Services and Intangible Assets with Foreign Persons and the Quarterly Survey of Transactions Between U.S. Financial Services Providers and Foreign Persons. These surveys as well as all the other surveys of international services are available on BEA's Web site at <www.bea.gov/international/index.htm#surveys>.

The data on services supplied through majority-owned affiliates are collected in BEA's surveys of U.S. direct investment abroad and of foreign direct investment in the United States. For the methodologies for these surveys, see *Foreign Direct Investment in the United States: Final Results from the 2002 Benchmark Survey* and *U.S. Direct Investment Abroad: Final Results from the 1999 Benchmark Survey.*

For a summary of the changes in survey methodology used for cross-border services for 1990–2003, see "Improvements to BEA's Estimates of U.S. International Services, 1990–2003" in Borga and Mann, SURVEY OF CURRENT BUSINESS 83 (October 2003): 74–76. For a summary of the changes in 2002–2006, see the appendixes on improvements in the October SURVEY articles in 2003–2006. The SURVEY articles for 1994–2007 are available at <www.bea.gov/scb/index.htm>.

classified in insurance now appear to be smaller service providers because the new measure recognizes that a portion of premiums are used to pay claims.

Cross-border trade

In 2007, U.S. cross-border exports of private services of $480.0 billion exceeded cross-border imports of $341.1 billion, resulting in a surplus in cross-border private services trade of $138.9 billion, which was up strongly from a $101.4 billion surplus in 2006. In contrast to the persistent deficit on international trade in goods, which was $819.4 billion in 2007, the United States has historically run a surplus on international trade in services.

U.S. exports of cross-border services rose 16 percent in 2007, up from a 13 percent increase in 2006; U.S. imports of cross-border services increased 9 percent, down from a 12 percent increase (table B). In both 2006 and 2007, all major categories of services increased for both exports and imports; however, most categories of U.S. exports accelerated in 2007, while most categories of U.S. imports decelerated (table C).

Table C. Cross-Border Services

[Percent change from the preceding year]

	Exports		Imports	
	2006	2007	2006	2007
Private services	13	16	12	9
Travel	5	13	5	6
Passenger fares	5	16	5	4
Other transportation	12	11	5	3
Royalties and license fees	12	14	–3	5
Other private services [1]	18	18	28	15

1. "Other private services" consists of education, financial services, insurance services, telecommunications, "business, professional, and technical services," and "other services."

For cross-border exports, "other private services" had the largest increase in both dollar and percentage terms, accounting for over half of the increase in total exports in 2007. Within "other private services," "business, professional, and technical services" and financial services had the largest increases. "Other private services" also had the largest dollar and percentage increases in cross-border imports, accounting for more than two-thirds of the total increase in 2007. "Business, professional, and technical services" and insurance services were both significant contributors to the increase.

Services supplied through affiliates

In 2006, U.S. companies' foreign affiliates supplied foreign markets with services of $806.3 billion, and foreign companies' U.S. affiliates supplied the United States with services of $615.9 billion. The difference between services supplied abroad by foreign affiliates and those supplied in the United States by U.S. affiliates was $190.5 billion in 2006, down from $197.9 billion in 2005.

Services supplied to foreign persons through U.S. companies' foreign affiliates increased 11 percent in 2006 after increasing 13 percent in 2005. Services supplied grew in all major areas and in all major industry sectors. A pickup in economic growth in many major

Table B. Sales of Services to Foreign and U.S. Markets Through Cross-Border Trade and Through Affiliates

	Through cross-border trade [1]		Through nonbank majority-owned affiliates [2]	
	U.S. exports (receipts)	U.S. imports (payments)	Sales to foreign persons by foreign affiliates of U.S. companies [3]	Sales to U.S. persons by U.S. affiliates of foreign companies
	Billions of dollars			
1986	77.5	64.7	60.5	n.a.
1987	87.0	73.9	72.3	62.6
1988	101.0	81.0	83.8	73.2
1989	117.9	85.3	99.2	94.2
1990	137.2	98.2	121.3	109.2
1991	152.4	99.9	131.6	119.5
1992	164.0	103.5	140.6	128.0
1993	171.6	109.4	142.6	134.7
1994	186.7	120.3	159.1	145.4
1995	203.7	128.7	190.1	149.7
1996	222.1	138.8	223.2	168.4
1997	238.5	151.5	255.3	(4) 223.1
1998	244.4	165.6	286.1	245.5
1999	265.1	183.0	(5) 353.2	293.5
2000	284.0	207.4	413.5	344.4
2001	272.8	204.1	421.7	367.6
2002	279.6	209.0	423.5	367.6
2003	290.2	221.9	452.5	374.1
2004	336.3	258.1	(2), (6) 642.8	(2) 501.5
2005	368.5	279.5	725.0	527.1
2006	415.3	313.9	806.3	615.9
2007	480.0	341.1	n.a.	n.a.
	Percent change from preceding year			
1987	12.2	14.2	19.5	....
1988	16.0	9.5	15.9	17.0
1989	16.8	5.3	18.4	28.7
1990	16.4	15.1	22.2	15.9
1991	11.1	1.8	8.5	9.5
1992	7.6	3.5	6.8	7.1
1993	4.6	5.8	1.5	5.3
1994	8.8	9.9	11.6	8.0
1995	9.1	7.0	19.4	2.9
1996	9.0	7.8	17.4	12.5
1997	7.4	9.1	14.4	(4)
1998	2.5	9.4	12.0	10.1
1999	8.5	10.5	(5)	19.6
2000	7.1	13.3	17.1	17.3
2001	–3.9	–1.6	2.0	6.7
2002	2.5	2.4	0.4	(*)
2003	3.8	6.2	6.8	1.8
2004	15.9	16.3	(2), (6)	(2)
2005	9.6	8.3	12.8	5.1
2006	12.7	12.3	11.2	16.8
2007	15.6	8.7	n.a.	n.a.

n.a. Not available

* A non-zero value between –0.05 and 0.05 percent.

1. The estimates for 2004–2006 are revised from those published in last year's article in this series. See Christopher L. Bach, "Annual Revision of the U.S. International Accounts, 1974–2007," Survey of Current Business 88 (July 2008): 36–52.

2. The estimates for 2004–2006 are presented for the first time as "services supplied" rather than "sales of services." Services supplied adds a measure of wholesalers' and retailers' distributive services and insurers' premium supplements and subtracts a proxy measure of insurers' expectations of losses to sales of services, resulting in a net increase in services provided. See the section "Revisions and Improvements" in this article.

3. For 1986–88, the estimates have been adjusted for the purposes of this article to be consistent with those for 1989 forward, which reflect definitional and methodological improvements made in the 1989 Benchmark Survey of U.S. Direct Investment Abroad, primarily the exclusion of investment income from sales of services by affiliates in finance and insurance.

4. Beginning in 1997, sales by U.S. affiliates were classified as goods or services based on industry codes derived from the North American Industry Classification System (NAICS); the estimates for prior years were based on codes derived from the 1987 Standard Industrial Classification (SIC) system. This change resulted in a redefinition of sales of services by affiliates and a net shift of sales from goods to services. See the box "Changes in the Definition and Classification of Sales of Services by U.S. Affiliates" in Survey 79 (October 1999): 61.

5. Beginning in 1999, sales by foreign affiliates were classified as goods or services based on industry codes derived from NAICS; the estimates for prior years were based on codes derived from the 1987 SIC. This change resulted in a redefinition of sales of services by affiliates and a net shift of sales from goods to services. See the box "Changes in the Definition and Classification of Sales of Services by Foreign Affiliates" in Survey 81 (November 2001): 58.

6. Beginning in 2004, the nonbank units of U.S. banks (including bank and financial holding companies), which previously filed separately, were required to be consolidated on the reports of the banks that owned them. Because the sales of services estimates cover only affiliates of nonbank U.S. parents, the change in reporting requirements caused the affiliates of the affected parents to drop out of the data. As a result, the measured change in sales between 2003 and 2004 was reduced by about 2 percent. (A parallel change was introduced in the series on sales by U.S. affiliates of foreign companies in 2002, but it did not result in a material discontinuity in the estimates.)