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Measuring Network Effects on Trade: Are Japanese Affiliates Distinctive?

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March 5, 2004

Abstract

This paper uses survey data on the activities of foreign affiliates in the US to address the following research questions: Do foreign affiliates behave differently from US firms in their trade patterns? Among affiliates, do network effects have a significant impact on trade? Has the strength of network effects changed over time? Do Japanese affiliates behave differently than the affiliates of other countries in terms of their trade pattern/participation? Do Japanese affiliates appear to have particularly strong networks? What are the implications for trade and trade policy?

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1. Introduction

In recent years, economists have begun to describe and quantify the impacts of business and social networks on international trade. In an international environment where contracts are not always enforceable and product information is imperfect, relationships between buyers and sellers matter. In some countries and cultures, they seem to matter more than in others. While examples of such relationships or networks can be found throughout history (e.g., the 11th century Maghribi traders studied by Greif, 1993), most economists have focused on networks that impact trade today. Japanese *keiretsu* and overseas Chinese networks are often cited as contemporary examples of networks that may affect international trade, but empirical work measuring network effects is still limited.

Gould (1994), Head and Ries (1998), and Rauch and Trindade (2002) demonstrate the importance of network effects by examining the influence of immigrants on international trade. They find that immigrants have a statistically significant positive effect on bilateral trade between their countries of emigration and immigration. Rauch and Trindade (2002) specifically examine the trade effects of ethnic Chinese networks, as proxied by the product of ethnic Chinese population shares. They find that these networks increased bilateral trade both within Southeast Asia and for other country pairs. Although many observers assert the importance of Japanese *keiretsu* for trade, no comparable empirical work has measured these effects. Fung (1991) and Lawrence (1991) both find that *keiretsu* matter for Japanese importing,[2] but do they matter for trade more generally?

This paper contributes to our understanding of how networks, particularly Japanese networks, affect trade by examining the trade patterns of foreign affiliates in the US. Survey data from the Bureau of Economic Analysis is used to address the following research questions:

Do foreign affiliates behave differently from US firms in their trade patterns? Among affiliates, do network effects have a significant impact on trade? Has the strength of network effects changed over time? Do Japanese affiliates behave differently than the affiliates of other countries in terms of their trade pattern/participation? Do Japanese affiliates appear to have particularly strong networks? What are the implications for trade and trade policy?

Theoretical work that links network effects to international trade includes Greif (1993), Rauch (1996), McLaren (1999), Kranton and Minehard (2001), Casella and Rauch (2002) and Greaney (2002). In Greaney (2002), network effects are modeled as a cost advantage in selling to buyers from the producer's own country. Asymmetry across countries in the strength of this network effect results in lower inward FDI, lower total imports but larger volumes of reverse imports[3] into the country with strong network effects (e.g., Japan). The model's predictions match observed asymmetric trade and investment flows that sometimes lead to US-Japan trade friction.

This paper is an empirical complement to Greaney (2002) but does not limit its focus to Japanese networks alone. Here I measure the strength of network effects on the trade of eight industrialized countries' foreign affiliates operating in the US. Network effects are estimated by examining the extent of affiliates' home bias in their exporting and importing activities. In comparing the trade pattern of the Japanese affiliates to that of the other seven countries' affiliates, I find empirical support for the assumption that network effects are particularly strong for Japanese firms.

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[2] They find that the extent of *keiretsu* presence in an industry is negatively correlated with import penetration.
[3] Reverse imports are imports from overseas affiliates of that country's own firms.

2. Data Details

Other papers on network effects on trade have developed proxy measures of cross-border networks using immigration flows (Gould (1994), Head and Ries (1998)), population shares (Rauch and Trindade (2002)) or colonial ties and distance (Rauch (1999)). I use a more direct measure of network effects by disaggregating US trade with eight trade partners into trade by American-owned firms versus trade by foreign affiliates located in the US.[4] Networks between affiliates and suppliers or buyers in their home countries would tend to create a home bias in their trade patterns.

For affiliates' trade data, I use the Bureau of Economic Analysis' survey Foreign Direct Investment in the US, which is conducted every five years. The most recent survey results that are available are for years 1987, 1992 and 1997. The published survey results identify bilateral trade by affiliates' country of ultimate beneficial owner (UBO) for only eight countries— Canada, France, Germany, the Netherlands, Switzerland, the UK, Australia and Japan. This allows for comparison of the trade pattern of Japanese affiliates to that of seven other industrialized countries' affiliates in the US. For US bilateral trade data, I use Statistics Canada's World Trade Analyzer. For the gravity model estimations, the IMF's International Financial Statistics provided GDP data and the "empirical investigations in international trade" website (formerly maintained by Jon Haveman, PhD) provided kilometer distances between capitol cities.

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[4] The distinction between American-owned and foreign affiliate follows the Bureau of Economic Analysis definition, where a foreign affiliate (or "U.S. affiliate of foreign direct investors") involves foreign direct investment (FDI). FDI occurs when "a single foreign person owns or controls, directly or indirectly, 10% or more of the voting securities or an equivalent interest". (Bureau of Economic Analysis, 1997)

3. Activities of Foreign Affiliates

Tables 1 and 2 show summary statistics on the activities of foreign affiliates by country of ultimate beneficial owner (UBO) in 1987 and 1997.[5] Since bilateral trade data for subsequent tables is available for only eight specific countries' affiliates, I focus on these countries along with presenting some regional totals in these tables. Japan stands out even as early as 1987 for having the highest number of affiliates and these affiliates had the largest total assets, expenditures for property, plant and equipment, sales, and by far the highest level of participation in exporting and importing of any of the countries' affiliates. By 1997, Japanese affiliates maintained their lead in all of these categories and had surpassed Canadian and British affiliates in the number of companies consolidated and in gross property, plant and equipment. Again, the strongest difference between the Japanese affiliates and their other foreign counterparts is the much larger volume of exports and imports generated by the Japanese affiliates—$52.5 billion in exports and $120.7 billion in imports versus the next highest trade figures of $14.5 billion in exports for UK affiliates and $15.3 billion in imports for Canadian affiliates. This large gap might be explained by a preponderance of Japanese affiliates involved explicitly in trade activities (i.e., trading companies). To investigate this possibility, I next examine evidence on the importing and exporting patterns of the affiliates by industry.

Tables 3-6 help to clarify the reasons for the high level of trade conducted by Japanese affiliates. Tables 3 and 4 show US imports of goods shipped to affiliates by industry in 1987 and 1997. In 1987, $68.2 billion or 93.9% of the imports of Japanese affiliates were shipped to affiliates involved in wholesale trade, particularly those engaged in motor vehicles and equipment trade (45.5%). Only German affiliates appeared similar in having a large share of

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[5] For the sake of brevity, results for the intermediate year—1992—are reported only for the gravity model estimations later in the paper.

their imports (71.5% or $12.3 billion) going to affiliates in wholesale trade, particularly to those in autos and auto parts trade (53.9%). In contrast, only 5.8% ($4.2 billion) of Japanese affiliates' imports went to manufacturing affiliates, while 25.0% (German) to 60.3% (Australian) of the other eight countries' affiliates went to manufacturing affiliates in 1987. By 1997, the dominant importing role of Japanese wholesale trade affiliates had lessened somewhat, to 68.2% ($82.3 billion) of imports, with only 24.7% for autos and auto parts affiliates, while importing by manufacturing affiliates rose to 31.1% of the total.

Tables 5 and 6 show the pattern of exporting across industries by different countries' affiliates in 1987 and 1997. The trend seen in the importing activites of Japanese affiliates is repeated in their exporting activities. In 1987, Japanese affiliates in wholesale trade accounted for almost all exporting by Japanese affiliates ($19.2 billion of $20.4 billion, or 94.1%), while manufacturing affiliates accounted for only 5.5%. Wholesale trade affiliates in metals and minerals accounted for $10.2 billion or 50.0% of all exports, while farm-product raw materials affiliates added another 20.3%. In 1997, the export activites of Japanese wholesale trade affiliates were up to $35.1 billion but this represented only 66.7% of total exports. Japanese manufacturing affiliates exported $16.5 billion or 31.4% of the total.

To examine how important foreign affiliates' trade activities are relative to America's total trade, I disaggregate bilateral trade into affiliates' trade and US firms' trade in Table 7. By far, foreign affiliates play the largest role in US trade with Japan. In 1987, affiliates accounted for 61.6% of US exports to Japan and 78.2% of US imports from Japan, while the comparable figures for affiliates' share of total US trade were 17.4% and 34.4%, respectively. In 1997, affiliates' share of US exports to Japan was a much lower 47.1% while their import share from Japan was slightly higher at 83.5%. The shares for affiliates' in US total trade were 19.5% and

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29.5%, respectively. Next to Japan, foreign affiliates played the largest role in US exports to Germany (52.3%) and Switzerland (62.7%) in 1997.

The dominant role foreign affiliates played in US trade with Japan remains the largest outlier in Table 7. To connect these figures to the potential role of Japanese trading companies and/or intra-firm trade by Japanese multinationals, I need to identify what portion of US trade with Japan is generated by Japanese affiliates in the US, rather than by all foreign affiliates, as in Table 7. The first two columns of Table 8 answer this question. Japanese affiliates exported 51.2% of total US exports to Japan in 1987 and 38.5% in 1997, much higher percentages than the 0.5% to 13.7% range for the selected other countries' affiliates. In importing, foreign affiliates accounted for even larger shares of bilateral trade with their individual home countries and Japanese affiliates again accounted for the largest shares. Japanese affiliates were responsible for 76.3% and 80.7% of US imports from Japan in 1987 and 1997, while the next highest levels of affiliate control of importing from their home countries were the 51.5% and 47.0% figures attributed to German affiliates in 1987 and 1997.

By changing the denominator, the next two columns of Table 8 show the degree of home bias in the exporting and importing activities of the foreign affiliates. In 1987, Japanese affiliates had by far the highest degree of home bias in their exporting, at 77.3%. The next highest degree of home bias in exporting was only 30.7% for Canadian affiliates. In 1997, Japanese affiliates' home bias in exporting fell to 51.8%, just below the 52.3% posted by Canadian affiliates. Japanese affiliates' had an extremely high degree of home bias in importing in 1987, 93.1%, although this was not too much higher than the home bias shown by West German affiliates (82.5%) and Canadian affiliates (73.4%). The home bias of Japanese affiliates

in importing fell to 81.1% in 1997, below that of Canadian affiliates (85.6%) but the Canadian affiliates face much lower transportation costs in importing from home.

The next two columns of Table 8 compare the home bias of affiliates with the trade pattern of US firms. Any degree of network effects would tend to raise these ratios to levels above one, indicating that on average foreign affiliates have a greater tendency to trade with their particular home country than does an American firm. Higher ratios indicate even larger divergences between the trading behavior of the foreign affiliates and the US firms. In terms of exporting in 1987, Japanese and Swiss affiliates had the highest home bias divergence from US firms' export pattern, with ratios of 14.9 and 15.2, respectively. The decline in Japanese affiliates' export home bias in 1997 is reflected in a lower ratio of 8.3, meaning Japanese affiliates on average favor Japan over other export destinations 8 times more than do US firms on average. That year, Australian and Swiss affiliates posted higher ratios of 9.95 and 19.4, respectively. In importing, although Japanese affiliates displayed very high levels of home bias in importing in 1987 and 1997, their tendency to buy from Japan did not diverge as much from US firms' importing patterns as did the home bias displayed by several other countries' affiliates. Five of the other seven countries' affiliates had higher ratios than Japan's 13.2 in 1987, and three had higher ratios than Japan's 24.3 in 1997.

The final two columns of Table 8 focus specifically on intra-group trade tendencies of affiliates, without regard to whether the other group firms are located in the home country or elsewhere. Japanese affiliates appear to have a somewhat higher intra-group export bias of 53.2% and 60.6% in 1987 and 1997 than do Canadian or European affiliates, which averaged between 17% and 50%. Japanese affiliates showed an even stronger preference for purchasing imports from within their corporate groups, 79.0% in 1987 and 79.7% in 1997. However,

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several of the other countries' affiliates showed even stronger intra-group biases in importing—West German (86.9%) affiliates in 1987, and Canadian (85.4%), German (80.7%) and Swiss (80.9) affiliates in 1997.

Japanese affiliates do seem to behave differently in their trade activities. They have a much higher home bias in their exporting and importing activities than most European affiliates. Japanese affiliates purchased 79.6% of their imports from Japan and exported 53.6% of their exports to Japan in 1997. Only Canadian affiliates show a similarly high level of home bias in their importing in 1997 (84.1%) and this home bias is supported by low transportation costs. Japanese affiliates accounted for 39.8% of US exports to Japan and 79.8% of US imports from Japan in 1997. These levels were more than double the levels for most other affiliates. One unresolved issue is the role of trading companies in these trade flows.

4. Gravity Model Estimates of Network Effects

Since foreign affiliates accounted for almost 20% of US exports and almost 30% of US imports in 1997, they are likely to have a significant effect on the US trade pattern. Do foreign affiliates behave differently from US firms in their trade patterns? Among affiliates, do network effects have a significant impact on trade? Do Japanese affiliates appear to have particularly strong networks? To answer these questions, I examine the trade patterns of affiliates in the US from eight developed countries—Australia, Canada, France, Germany, Japan, the Netherlands, Switzerland, and the UK—for which trade data is available by the affiliates' country of UBO.

Economists often use a gravity equation to examine the determinants of bilateral trade. The trading partners' incomes and distance from one another are primary determinants, and other variables sometimes are added to determine their significance for bilateral trade relationships.

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Here, I am interested in determining the significance and strength of network effects on bilateral trade relationships.

The basic gravity equation estimated for the results shown in the first four columns of Tables 9 and 10 is as follows:

$$\ln(X_{ij}) = B_o + B_1 \ln(GDP_i) + B_2 \ln(GDP_j) + B_3 \ln(dist_{ij}) + \varepsilon_{ij}$$

where X_{ij} represents exports from country i to country j, GDP_i and GDP_j represent the GDP's of the source and destination countries, and $dist_{ij}$ is the distance between the two trading countries.[6] As shown in the tables, total bilateral exports is the dependent variable in some of the regressions. In others, exports are divided by firm type: US firms, foreign affiliates, and foreign affiliates by country of UBO (for 8 countries). The last three columns in the tables include two different variables designed to capture network effects and a Japan dummy variable. "HomeLink" is a dummy variable that takes on the value of 1 if the affiliates' country of UBO matches the trade partner. The coefficient then reflects the tendency for the affiliate to trade with, either import from or export to, its home country. The "dist2" variable measures the kilometer distance between the affiliates' trade partner and country of UBO. If the trade partner matches the country of UBO, dist2 takes on the value of 1 to avoid taking the natural log of zero. The HomeLink variable measures network effects in a discrete manner, while the dist2 variable measures it as a continuous variable.

As Table 9 shows, with just 16 bilateral trade relationships (exports and imports between the US and eight trade partners) to explain, the gravity equation does a fairly good job of predicting the variation in total US exports and imports in 1997. All of the variables of interest have the expected signs and almost all are significant at the 99% level. Comparing the first and

second columns in Table 9, the gravity equation explains even more of the variation in bilateral

trade (increasing the adjusted R^2 from 0.814 to 0.840) when affiliates' trade is removed from

total US trade with these eight trade partners. In shifting from US total trade to US firm trade,

distance becomes a stronger trade deterrent while the GDP of the source and destination

countries become somewhat less important determinants of the trade patterns. The gravity

equation does somewhat less well at explaining the variation in the affiliates' aggregate trade

pattern, with an adjusted R^2 of 0.638. The GDP's of the source and destination countries become

stronger determinants of affiliates trade and distance a less strong (and less significant) deterrent

than for US firm trade. [check validity of observed differences with pooled data regression]

The results when estimating the gravity equation for affiliates' trade by country of UBO

confirms the importance of network effects. With eight countries of UBO and export and import

data with eight trade partners, I have 128 potential observations for these regressions. Some of

these observations were dropped because the trade data were suppressed to avoid disclosing the

information of individual companies. In a few cases, observations where bilateral trade was

reported as zero were dropped to avoid taking the natural log of zero.[7] In examining the trade

patterns of the foreign affiliates, the basic gravity equation does not explain much of the

variation in 1997 (adjusted R^2 of 0.199). Adding a dummy variable for affiliates' trade with their

home countries increases the adjusted R^2 to 0.497. In fact, the strongest determinant of affiliate

trade is the strongly positive coefficient on the HomeLink dummy variable. The coefficient of

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[6] This basic equation should be changed to incorporate country fixed effects, as in Feenstra (2002), or a measure of "multilateral resistance", as in Anderson and van Wincoop (2001). Work in progress…

[7] Alternatively, I could substitute in a "1" for the observations of "0". The results of the gravity model estimations do not change much in adopting this alternative approach.

3.0 on the HomeLink variable means that after controlling for distance and GDP's, affiliates

trade 19% more with their home countries than with other countries.[8]

Another way to examine the influence of reverse imports is to use a continuous variable

to measure the distance between the non-US source or destination country and the affiliate's

country of UBO. As with the discrete variable for reverse imports, adding this "dist2" variable

improves the explanatory power of the equation and the coefficient on dist2 is negative and

significant. The more distant are the affiliates' home country and the trade partner, the less trade

occurs between the two. A 10% increase in distance between the affiliates' home country and

the trade partner implies 3.32% less trade. This seemingly small figure actually translates into

very large changes when actual kilometer distances are used. The smallest distance between

different trade partners is 235 kilometers separating Germany and the Netherlands. German

affiliates trade 77.7% more with their home country than with Germany's closest neighbor.

The last column in Table 9 adds to the basic gravity equation the home dummy variable

described above along with a Japan dummy variable. This variable takes the value of "1" when

trade involves Japanese affiliates exporting to Japan or importing from Japan. The large,

positive and significant coefficient on the Japan variable suggests that Japanese affiliates tend to

trade with their home country much more than do the affiliates from other countries. The

positive, significant coefficient on the HomeLink variable can be interpreted as the average

tendency among all affiliates to trade with their home countries. None of the other countries'

affiliates had a significant positive coefficient when a country dummy was added to this

specification in 1997.[9] This result supports the hypothesis that Japanese affiliates tend to have

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[8] With a semi-log equation, the percentage change in the left-hand-side variable is given by $e^{B} - 1$. In this case $B = 3.0$.
[9] The only other significant country coefficient was for Australia in 1987, but the coefficient was negative and significant only at the 5% level.

particularly strong networks links with their home country. Controlling for distance and GDPs, affiliates on average tended to trade 13.5% more with their home countries, while Japanese affiliates traded an extra 14.3% with Japan in 1997.

Tables 10 and 11 show similar gravity model results using bilateral trade data for 1992 and 1987. All of the results noted above for the 1997 equations hold true for the 1987 equations and most hold for the 1992 equations as well. The coefficients on the networks variables are significant and of very similar values in all three years. [consider pooling data to look for changes in coefficients over time…have network or Japan effects become stronger or weaker?]

5. Conclusions

With the data I have analyzed thus far, these are my answers to my research questions. Do foreign affiliates behave differently from US firms in their trade patterns? Comparing foreign affiliates as a group to US firms, the gravity equations indicate some differences in trade patterns. [need to test for significance of these differences] The GDP's of the source and destination countries are stronger determinants and distance a less strong (and less significant) determinant of affiliates' trade than for trade by US firms. The "fit" of the gravity equation is better for US firms' trade than for affiliates' trade. These results hold for all three years. [check with pooled data]

Among affiliates, do network effects have a significant impact on trade? Yes, descriptive statistics show affiliates from all eight countries had much higher tendencies to trade with their home countries than did US firms trade with those same countries. The home country bias was particularly strong for importing by many of the countries' affiliates. Using gravity equations with both discrete and continuous variables to measure network linkages between affiliates and their home countries, I obtain coefficients that are highly significant and of the expected sign.

Affiliates have a much higher tendency to engage in trade with their home countries than with other countries. The fit of the gravity equation improves dramatically when this HomeLink variable is added as an explanatory variable. Controlling for distance, GDPs and Japan effects, affiliates on average tended to trade 13.5% more with their home countries than with other countries in 1997. Very similar results were found for 1987 and 1992.

Do Japanese affiliates appear to have particularly strong networks? Do Japanese affiliates behave differently than the affiliates of other countries in terms of their trade pattern/participation? Both descriptive measures and gravity model estimates indicate that Japanese affiliates have an even higher tendency to trade with their home country than do the affiliates of the other seven countries. In fact, the Japan coefficient is stronger than the home coefficient in all three years tested, though the gap has declined over time. Even with this decline, the results suggest that network effects are approximately twice as strong among Japanese affiliates in 1997. In that year, Japanese affiliates traded with Japan 14.3% above the average home trade bias of all affiliates. Combined with the 13.5% average, Japanese affiliates traded 27.8% more with Japan than would be predicted by distance and GDP parameters.

Has the strength of network effects changed over time? The descriptive statistics provide mixed evidence of changes in network effects between 1987 and 1997. The various measures of home bias in affiliates' trade behavior do not clearly support or reject a hypothesis of networks strengthening in influence over this decade. [results from pooled sample gravity model may help with this question]

What are the implications for trade and trade policy? The empirical results described above suggest that Japanese networks have stronger impacts on US trade than do the networks of other industrialized countries' multinational firms. Strong trade networks may enhance trade

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opportunities for network "insiders" but hinder them for "outsiders". This may lead to greater

trade friction with countries that have stronger trade networks. This hypothesis linking trade

networks to trade policy is supported by Noland's (1997) finding that Japan is targeted

disproportionately (after controlling for country size) in US unilateral trade actions.

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Table 1
Selected Financial and Operating Data of Affiliates, by Country of UBO, 1987

	Number of affiliates	Number of companies consoli-dated	Thousands of employees	$millions							
				Total assets	Gross property, plant, and equipment	Expendi-tures for property, plant and equipment	Sales	Net income	Compen-sation of employees	U.S. exports of goods shipped by affiliates	U.S. imports of goods shipped to affiliates
All countries	8,110	22,937	3,224.30	943,654	353,278	45,657	744,617	7,820	96,009	48,091	143,537
Canada	1,047	3,609	592.9	142,506	74,118	9,324	89,433	2,052	16,356	4,963	8,033
Europe	4,235	12,764	1,940.40	475,413	196,200	20,538	393,132	5,189	58,046	18,357	51,065
France	413	1,123	187.8	34,675	19,849	1,613	44,113	-11	6,141	5,422	4,330
W. Germany	1,039	1,946	366.6	61,168	27,126	3,731	74,259	-87	11,169	3,636	17,264
Netherlands	274	1,474	270.1	68,929	47,993	4,472	52,373	1,218	6,991	1,485	4,268
Switzerland	587	1,318	191.6	75,036	14,297	1,469	38,704	507	6,437	1,937	4,269
UK	1,015	5,024	647.4	159,525	67,088	7,140	131,233	2,610	18,862	3,735	10,622
L. America+	702	1,485	148.5	33,206	10,440	1,291	28,185	-388	3,841	1,761	5,461
Africa	60	184	22.6	8,847	8,086	526	6,244	286	883	497	811
Middle East	336	973	35.8	18,722	12,602	1,147	6,293	-828	987	253	342
Asia/Pacific	1,669	3,596	456	241,369	49,735	12,565	211,625	362	15,040	22,124	77,723
Australia	130	547	91.7	23,707	9,750	1,656	11,138	-46	2,368	210	504
Japan	1,159	2,355	303.2	200,386	32,950	9,587	186,812	401	11,098	20,413	72,564

Source: BEA (1987), Table A-2
Notes: "L. America+" refers to Latin America & Other Western Hemisphere

Table 2
Selected Financial and Operating Data of Affiliates, by Country of UBO, 1997

	Number of affiliates	Number of companies consolidated	Thousands of employees	$millions								
				Total assets	Gross property, plant, and equipment	Expenditures for property, plant and equipment	Sales	Net income	Gross product	Compensation of employees	U.S. exports of goods shipped by affiliates	U.S. imports of goods shipped to affiliates
All countries	9,652	34,082	5,202	3,071,483	877,568	113,262	1,726,344	40,924	389,432	233,482	141,305	264,924
Canada	964	4,644	616	311,915	83,410	8,450	138,974	3,381	34,732	22,026	8,155	15,333
Europe	4,159	17,214	3,234	1,836,666	476,228	56,823	943,893	31,058	248,970	150,630	63,043	96,483
France	534	2,239	415	327,615	77,003	7,629	136,134	2,852	36,182	22,006	14,112	12,847
Germany	1,020	3,191	665	305,672	91,512	15,303	195,726	5,020	46,330	30,677	14,114	32,206
Netherlands	314	1,829	394	271,109	80,296	8,203	129,425	6,070	34,740	17,391	4,713	11,435
Switzerland	412	1,648	352	337,767	29,776	3,691	103,200	3,434	26,331	20,785	5,857	6,633
UK	946	5,890	981	462,654	148,864	16,015	256,693	11,536	78,289	43,024	14,461	15,309
L. America+	631	1,693	169	60,506	28,470	2,616	54,260	2,420	13,682	6,603	5,297	9,910
Africa	40	164	22.6	11,931	9,504	(D)	11,192	348	2,870	1,342	(D)	545
Middle East	316	989	95.2	29,543	20,436	1,585	25,280	1,175	7,481	2,556	757	5,552
Asia/Pacific	3,438	8,739	1,013.9	692,399	236,107	38,501	529,294	-429	74,541	47,395	62,201	136,151
Australia	135	835	81.2	54,923	18,289	2,004	26,932	-1,214	5,488	3,676	1,235	1,137
Japan	2,628	6,241	812.3	587,197	187,559	31,571	450,976	2,561	63,017	39,090	52,524	120,693

Source: BEA (1997), Table A-2

Notes: "L. America+" refers to Latin America & Other Western Hemisphere

Table 3
US Imports of Goods Shipped to Affiliates, Industry of Affiliate by Country of UBO, 1987
$millions

	All countries	Canada	France	Germany	Nether-lands	Switzer-land	UK	Australia	Japan
All industries	143,537	8,033	4,330	17,264	4,268	4,269	10,622	504	72,564
Petroleum	8,971	321	(D)	(D)	(D)	(D)	(D)	0	(D)
Petroleum and coal products manufacturing	5,964	0	(D)	0	(D)	0	(D)	0	0
Other	3,006	321	(D)	(D)	(D)	(D)	0	0	(D)
Manufacturing	24,546	4,274	1,773	4,312	1,443	1,632	3,339	304	4,195
Chemicals and allied products	5,200	(D)	300	1,505	(D)	756	1,080	1	74
Industrial chemicals and synthetics	3,468	(D)	31	1,432	86	(D)	662	0	56
Primary and fabricated metals	3,680	1,243	85	551	7	168	355	(D)	334
Machinery	7,634	556	331	1,356	(D)	355	356	2	2,253
Machinery, except electrical	2,876	(D)	(D)	526	34	(D)	197	2	711
Electric and electronic equipment	4,758	(D)	(D)	829	(D)	(D)	159	(*)	1,542
Other manufacturing	6,391	(D)	979	(D)	26	237	1,010	(D)	1,503
Wholesale trade	107,278	2,907	2,394	12,346	343	1,646	4,650	(D)	68,166
Motor vehicles and equipment	50,040	(D)	(D)	9,312	3	(D)	395	0	33,018
Professional & commercial equip. & supplies	6,581	126	3	649	(D)	120	23	0	5,481
Metals and minerals, except petroleum	15,382	685	418	936	(D)	(D)	242	(D)	10,782
Electrical goods	15,140	(D)	25	76	(D)	60	93	0	13,388
Machinery, equipment, and supplies	4,770	(D)	45	774	18	564	212	0	2,136
Other durable goods	3,024	105	117	95	24	310	247	(*)	1,511
Groceries and related products	3,637	(D)	(D)	25	0	(D)	1,004	0	246
Other nondurable goods	6,170	1,484	459	(D)	41	(D)	1,531	(D)	(D)

Source: BEA (1987), Table G-6

Note: Industries that contributed less than 2% to total exports shipped by all countries' affiliates (i.e., less than $2,871 million) were dropped from the table for the sake of brevity. An asterick "(*)" indicates a value between 0 and $500,000; a "(D)" indicates that the data have been suppressed to avoid the disclosure of data of individual companies.

Table 4
US Imports of Goods Shipped to Affiliates, Industry of Affiliate by Country of UBO, 1997
$millions

	All countries	Canada	France	Germany	Nether-lands	Switzer-land	UK	Australia	Japan
All industries	264,924	15,333	12,847	32,206	11,435	6,633	15,309	1,137	120,693
Manufacturing	105,242	7,027	8,646	12,572	7,628	3,309	11,169	582	37,528
Petroleum and coal products	10,882	(D)	3	2	(D)	0	(D)	0	(*)
Chemicals	16,257	588	1,308	4,777	842	2,112	4,707	(D)	783
Pharmaceuticals and medicines	7,710	(D)	417	(D)	7	(D)	(D)	(D)	129
Primary and fabricated metals	9,189	1,951	578	562	89	84	423	(D)	1,517
Primary metals	6,393	(D)	425	328	(D)	73	155	(D)	980
Machinery	6,974	70	24	2,104	103	367	261	77	2,464
Computers and electronic products	27,750	(D)	(D)	280	(D)	154	885	9	15,038
Communications equipment	6,751	(D)	(D)	(D)	0	(D)	(D)	8	3,460
Semiconductors & other electronic components	6,057	(D)	(D)	190	(D)	9	662	(*)	1,236
Transportation equipment	18,430	190	563	2,293	(D)	2	466	2	14,438
Motor vehicles, bodies and trailers, and parts	17,730	190	(D)	(D)	(D)	0	304	2	14,399
Wholesale trade	151,005	6,024	3,446	18,167	2,980	3,283	3,812	(D)	82,349
Motor vehicles & motor vehicle parts & supplies	49,781	(D)	3	13,484	(D)	(*)	24	(D)	29,871
Professional & commercial equipment and supplie	15,324	(D)	(D)	357	(D)	178	88	3	10,921
Electrical goods	25,580	(D)	257	223	204	66	187	5	18,875
Other durable goods	28,652	2,731	1,307	2,095	552	1,453	834	28	12,696
Petroleum and petroleum products	7,196	1	1	1	(D)	(D)	(D)	1	(D)
Other nondurable goods	24,472	1,362	(D)	2,007	845	(D)	(D)	(D)	(D)

Source: BEA (1997), Table H-6

Note: Industries that contributed less than 2% to total exports shipped by all countries' affiliates (i.e., less than $5298 million) were dropped from the table
for the sake of brevity. An asterick "(*)" indicates a value between 0 and $500,000; a "(D)" indicates that the data have been suppressed to avoid the disclosure
of data of individual companies.

Table 5
US Exports of Goods Shipped by Affiliates, Industry of Affiliate by Country of UBO, 1987
$millions

	All countries	Canada	France	Germany	Nether-lands	Switzer-land	UK	Australia	Japan
All industries	48,091	4,963	5,422	3,636	1,485	1,937	3,735	210	20,413
Petroleum	1,186	3	(D)	(D)	(D)	(D)	(D)	2	(D)
Manufacturing	15,487	4,042	937	2,798	707	770	2,631	107	1,126
Chemicals and allied products	6,849	(D)	181	1,376	149	450	750	(*)	235
Industrial chemicals and synthetics	5,654	(D)	(D)	1,280	(D)	(D)	675	0	93
Primary and fabricated metals	1,509	282	42	178	3	34	233	(D)	28
Primary metal industries	1,085	(D)	(D)	(D)	1	(D)	210	(D)	26
Nonferrous	980	(D)	(D)	18	0	(D)	205	(D)	18
Machinery	3,439	169	251	890	(D)	100	582	7	313
Machinery, except electrical	1,391	19	231	(D)	30	(D)	284	(D)	211
Electric and electronic equipment	2,048	151	19	(D)	(D)	(D)	299	(D)	102
Other manufacturing	3,173	(D)	455	352	(D)	117	973	(D)	393
Wholesale trade	29,165	459	4,249	536	332	1,068	659	47	19,203
Motor vehicles and equipment	3,111	(D)	(D)	189	1	0	2	0	(D)
Metals and minerals, except petroleum	11,007	72	(D)	192	(D)	(D)	(D)	(*)	10,213
Machinery, equipment, and supplies	1,058	64	15	43	(*)	32	60	(D)	379
Groceries and related products	1,418	(D)	(*)	9	1	(D)	309	0	656
Farm-product raw materials	9,753	(D)	(D)	(D)	(D)	(D)	0	0	4,150
Other nondurable goods	1,200	(D)	25	(D)	32	1	204	(D)	(D)
Other industries	1,075	448	(D)	(D)	(D)	19	(D)	53	(D)

Source: BEA (1987), Table G-3

Note: Industries that contributed less than 2% to total exports shipped by all countries' affiliates (i.e., less than $962 million) were dropped from the table for the sake of brevity. An asterick "(*)" indicates a value between 0 and $500,000; a "(D)" indicates that the data have been suppressed to avoid the disclosure of data of individual companies.

Table 6
US Exports of Goods Shipped by Affiliates, Industry of Affiliate by Country of UBO, 1997
$millions

	All countries	Canada	France	Germany	Nether-lands	Switzer-land	UK	Australia	Japan
All industries	141,305	8,155	14,112	14,114	4,713	5,857	14,461	1,235	52,524
Manufacturing	71,251	4,585	7,210	10,633	4,278	4,815	11,999	749	16,513
Food	2,846	95	68	19	43	(D)	696	15	965
Chemicals	15,443	435	1,375	4,585	1,309	1,479	2,589	(D)	1,879
Basic chemicals	4,911	(D)	848	1,306	(D)	198	626	(D)	678
Pharmaceuticals and medicines	4,002	(D)	273	(D)	6	1,149	494	0	214
Primary and fabricated metals	5,236	924	408	355	21	167	488	(D)	838
Primary metals	3,183	(D)	(D)	186	(D)	154	66	(D)	602
Machinery	8,698	120	51	1,702	104	1,747	1,222	123	1,612
Computers and electronic products	14,238	(D)	(D)	211	(D)	533	960	4	4,834
Communications equipment	4,570	(D)	(D)	(D)	0	(D)	(D)	1	1,150
Semiconductors and other electronic components	2,848	24	86	70	(D)	5	460	(*)	909
Electrical equipment, appliances, and components	4,664	8	(D)	(D)	(D)	17	(D)	(D)	271
Transportation equipment	7,930	212	766	1,148	(D)	2	1,054	(*)	4,317
Motor vehicles, bodies and trailers, and parts	6,881	211	(D)	(D)	(D)	0	431	(*)	4,292
Wholesale trade	62,222	1,822	5,902	2,517	418	925	1,011	234	35,052
Motor vehicles and motor vehicle parts and supplies	4,816	(D)	1	(D)	1	(*)	39	2	3,336
Electrical goods	4,924	(D)	40	51	23	4	76	2	2,713
Other durable goods	14,684	422	309	929	158	162	450	(D)	6,856
Petroleum and petroleum products	5,902	(D)	(D)	(*)	(D)	(D)	3	(*)	(D)
Other nondurable goods	29,843	597	(D)	(D)	87	(D)	429	(D)	(D)
Other industries	4,623	(D)	(D)	(D)	0	(D)	(D)	(D)	92
Mining	3,859	1,541	(D)	(D)	0	(D)	901	(D)	(D)

Source: BEA (1997), Table H-3
Note: Industries that contributed less than 2% to total exports shipped by all countries' affiliates (i.e., less than $2,826 million) were dropped from the table for the sake of brevity. An asterick "(*)" indicates a value between 0 and $500,000; a "(D)" indicates that the data have been suppressed to avoid the disclosure of data of individual companies.

Table 7
Foreign Affiliates' Role in US Bilateral Trade, 1987 and 1997
($millions)

Source	Destination	1987				1997			
		Total trade	Affiliate trade	US firm trade	Affiliate share	Total trade	Affiliate trade	US firm trade	Affiliate share
US	Canada	69,890	4,169	65,721	0.0597	146,853	22,519	124,334	0.1533
US	France	10,008	826	9,182	0.0825	20,527	3,082	17,445	0.1501
US	Germany	13,247	2,164	11,083	0.1634	28,421	6,384	22,037	0.2246
US	Netherlands	7,206	1,181	6,025	0.1639	16,211	3,269	12,942	0.2017
US	Switzerland	2,887	617	2,270	0.2137	8,793	2,529	6,264	0.2876
US	UK	15,338	2,568	319	0.1674	39,508	6,181	2,612	0.1564
US	Australia	4,844	472	4,372	0.0974	12,924	1,709	11,215	0.1322
US	Japan	30,820	18,983	11,837	0.6159	70,749	33,549	37,200	0.4742
US	8-country sum	154,241	30,980	123,261	0.2009	343,986	79,222	264,764	0.2303
US	All	275,656	48,091	227,565	0.1745	735,357	141,305	594,052	0.1922
Canada	US	77,020	7,952	69,068	0.1032	185,676	25,475	160,201	0.1372
France	US	10,828	3,189	7,639	0.2945	19,529	6,921	12,608	0.3544
Germany	US	27,648	16,372	11,276	0.5922	45,379	23,868	21,511	0.5260
Netherlands	US	4,480	1,173	3,307	0.2619	7,430	2,783	4,647	0.3746
Switzerland	US	4,133	2,421	1,712	0.5857	8,278	5,181	3,097	0.6259
UK	US	18,060	4,754	13,306	0.2632	35,792	11,018	24,774	0.3078
Australia	US	3,200	849	2,351	0.2653	4,665	738	3,927	0.1582
Japan	US	88,573	69,266	19,307	0.7820	121,274	100,236	21,038	0.8265
8-country sum	US	233,942	105,976	127,966	0.4530	428,023	176,220	251,803	0.4117
All	US	416,975	143,537	273,438	0.3442	894,063	264,924	629,139	0.2963

Sources: BEA (1987) Tables G-24, G-30 and BEA (1997) Tables H-24, H-30 for affiliate trade data; World Trade Analyzer, Statistics Canada (1997) for bilateral trade data.

Table 8
Trade Activities of Foreign Affiliates in the US

Country of UBO	Share of US exports to home** (%) 1987	1997	Share of US imports from home** (%) 1987	1997	Home** bias in exporting (%) 1987	1997	Home** bias in importing (%) 1987	1997	Export home bias rel. to US firms' export 1987	1997	Import home bias rel. to US firms' import 1987	1997	Intra-group export bias (%) 1987	1997	Intra-group import bias (%) 1987	1997
All countries													39.74	44.60	75.38	76.38
Canada	2.18	2.91	7.66	7.07	30.67	52.34	73.42	85.59	1.06	2.50	2.91	3.36	17.69	36.70	71.17	85.38
Europe	9.58	13.11	36.07	35.28	39.25	34.89	69.73	65.45	1.39	1.51	3.15	3.69	30.16	32.24	71.90	70.98
France	3.48	7.37	22.27	25.68	6.42	10.72	55.70	39.04	1.59	3.65	19.94	19.48	17.23	20.97	75.38	54.39
Germany*	8.30	11.01	51.50	46.97	30.23	22.18	82.48	66.18	6.21	5.98	20.00	19.36	37.98	37.29	86.88	80.71
Netherlands	4.07	3.26	15.78	29.49	19.73	11.20	16.57	19.16	7.45	5.14	13.70	25.94	50.24	48.86	39.53	56.95
Switzerland	10.19	13.65	44.15	44.18	15.18	20.49	42.75	55.13	15.22	19.43	68.27	112.00	30.46	40.07	76.32	80.93
UK	4.80	5.94	19.41	17.84	19.73	16.22	33.01	41.71	3.52	2.89	6.78	10.59	30.12	23.57	46.88	60.83
Latin America	0.75	1.39	8.93	5.18	13.52	40.46	64.42	74.59	1.07	1.75	5.67	3.94	23.57	34.25	60.45	69.82
Africa	0.70	(D)	3.27	1.15	8.45	(D)	46.12	37.25	3.65	(D)	15.45	15.57	8.25	(D)	40.44	43.12
Middle East	1.56	1.15	1.97	20.71	59.68	40.03	71.35	82.26	15.16	9.56	16.80	30.22	54.15	46.76	78.36	81.83
Asia/Pacific	25.04	18.14	42.41	35.84	85.45	65.05	96.85	89.98	3.91	2.35	2.75	2.74	54.67	59.87	79.52	79.52
Australia	0.52	1.80	4.53	7.07	11.90	18.79	28.77	29.02	6.20	9.95	33.46	46.50	13.33	19.68	39.68	48.28
Japan	51.18	38.48	76.30	80.73	77.27	51.83	93.13	81.11	14.85	8.28	13.19	24.26	53.23	60.62	79.04	79.72

Source: Author's calculations based on BEA (1987), Tables G24, G26, G30, & G32; BEA (1997), Tables H24, H26, H30 & H32;
and World Trade Analyzer data.
*West Germany in 1987
**"Home" refers to the affiliates' country of UBO or a regional total.

Table 9
Gravity model results using US bilateral trade with 8 major trade partners, 1997

dependent variable->	ln(US trade)	ln(US firm trade	ln(affiliate trade, aggregate)	ln(affiliate trade by country of UBO	ln(affiliate trade by country of UBO	ln(affiliate trade by country of UBO	ln(affiliate trade by country of UBO
intercept	-6.585	-0.971	-15.509*	-5.606	-6.748	-4.498	-4.018
	(3.984)	(3.673)	(6.389)	(5.246)	(4.160)	(4.169)	(4.185)
ln(Dist1)	-0.886**	-1.000**	-0.695*	-0.874**	-0.872**	-0.844**	-0.900**
	(0.143)	(0.132)	(0.229)	(0.185)	(0.147)	(0.147)	(0.143)
ln(GDPsource)	0.874**	0.761**	0.976**	0.699**	0.724**	0.736**	0.639**
	(0.143)	(0.131)	(0.229)	(0.189)	(0.150)	(0.151)	(0.150)
ln(GDPdestination)	0.779**	0.550**	1.080**	0.566**	0.589**	0.592**	0.505**
	(0.143)	(0.131)	(0.229)	(0.187)	(0.149)	(0.149)	(0.148)
HomeLink					3.022**		2.676**
					(0.365)		(0.379)
ln(Dist2)						-0.332**	
						(0.040)	
Japan							2.727**
							(1.033)
Adj. R sq.	0.814	0.840	0.638	0.199	0.497	0.495	0.522
observations	16	16	16	118	118	118	118

Notes: Dist1 = distance between source and destination countries of trade;

Dist2 = distance between non-US source or destination country and affiliates' country of UBO;

HomeLink = a binary variable that takes on a value of 1 if the trade is between foreign affiliates and their home country;

Japan = a binary variable that takes on a value of 1 if trade is between Japanese affiliates and Japan;

* indicates significance at the 5% level;

** indicates significance at the 1% level;

standard errors shown in parentheses.

Table 10
Gravity model results using US bilateral trade with 8 major trade partners, 1992

dependent variable->	ln(US trade)	ln(US firm trade	ln(affiliate trade, aggregate)	ln(affiliate trade by country of UBO	ln(affiliate trade by country of UBO	ln(affiliate trade by country of UBO	ln(affiliate trade by country of UBO
intercept	-7.622	-2.950	-16.629*	-6.985	-8.783*	-7.044	-5.777
	(3.842)	(4.617)	(5.963)	(4.924)	(3.719)	(4.012)	(3.687)
ln(Dist1)	-0.751**	-0.911**	-0.469	-0.598**	-0.648**	-0.671**	-0.673**
	(0.141)	(0.169)	(0.219)	(0.174)	(0.131)	(0.142)	(0.126)
ln(GDPsource)	0.857**	0.820**	0.892**	0.690**	0.773**	0.811**	0.676**
	(0.139)	(0.167)	(0.215)	(0.189)	(0.143)	(0.155)	(0.140)
ln(GDPdestination)	0.786**	0.562**	1.113**	0.508**	0.547**	0.567**	0.455**
	(0.139)	(0.167)	(0.215)	(0.177)	(0.133)	(0.144)	(0.131)
HomeLink					2.903**		2.537**
					(0.323)		(0.330)
ln(Dist2)						-0.291**	
						(0.040)	
Japan							2.850**
							(0.893)
Adj. R sq.	0.803	0.755	0.643	0.169	0.514	0.432	0.553
observations	16	16	16	109	109	109	109

Notes: Dist1 = distance between source and destination countries of trade;

Dist2 = distance between non-US source or destination country and affiliates' country of UBO;

HomeLink = a binary variable that takes on a value of 1 if the trade is between foreign affiliates and their home country;

Japan = a binary variable that takes on a value of 1 if trade is between a Japanese affiliate and Japan;

* indicates significance at the 5% level;

** indicates significance at the 1% level;

standard errors shown in parentheses.

Table 11
Gravity model results using US bilateral trade with 8 major trade partners, 1987

dependent variable->	ln(US trade)	ln(US firm trade	ln(affiliate trade, aggregate)	ln(affiliate trade by country of UBO	ln(affiliate trade by country of UBO	ln(affiliate trade by country of UBO	ln(affiliate trade by country of UBO
intercept	-9.532	-2.131	-22.654**	-6.899	-7.322*	-5.224	-4.622
	(4.340)	(3.669)	(6.830)	(4.570)	(3.510)	(3.886)	(3.434)
ln(Dist1)	-0.779**	-0.937**	-0.342	-0.512**	-0.537**	-0.539**	-0.579**
	(0.154)	(0.130)	(0.242)	(0.184)	(0.141)	(0.156)	(0.135)
ln(GDPsource)	0.894**	0.727**	1.011**	0.468**	0.473**	0.489**	0.398**
	(0.158)	(0.133)	(0.248)	(0.156)	(0.120)	(0.132)	(0.116)
ln(GDPdestination)	0.913**	0.628**	1.347**	0.658**	0.667**	0.665**	0.577**
	(0.158)	(0.133)	(0.248)	(0.181)	(0.139)	(0.153)	(0.135)
HomeLink					2.937**		2.538**
					(0.346)		(0.350)
ln(Dist2)						-0.277**	
						(0.043)	
Japan							3.200**
							(0.944)
Adj. R sq.	0.789	0.832	0.648	0.139	0.492	0.380	0.540
observations	16	16	16	106	106	106	106

Notes: Dist1 = distance between source and destination countries of trade;

Dist2 = distance between non-US source or destination country and affiliates' country of UBO;

HomeLink = a binary variable that takes on a value of 1 if the trade is between foreign affiliates and their home country;

Japan = a binary variable that takes on a value of 1 if trade is between a Japanese affiliate and Japan;

* indicates significance at the 5% level;

** indicates significance at the 1% level;

standard errors shown in parentheses.