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ABSTRACT

The participation of U.S. service industry firms in Latin American markets for services consists mainly of the activities of U.S.-owned affiliates operating in Latin America and very little of direct exports of services from the U.S. The important policy issues thus involve barriers to the establishment and operation of affiliates in host countries rather than trade barriers. Since direct investment rather than trade is at issue, the comparative advantages that are important are those of U.S. multinational firms rather than those of the U.S. as a country.

The characteristics we observe in U.S. multinationals in these industries, particularly their low R & D intensity, are not those usually associated with the comparative advantages of U.S. multinationals. However, their skill intensity is relatively high. A more detailed breakdown of the sector does show at least some industries, particularly in finance, in which skill levels are very high, and these are the most likely candidates for major gains for U.S. multinationals. Nevertheless, U.S. shares in the Latin American service sector are very small overall and not likely to reach the levels in manufacturing or petroleum in the foreseeable future.

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1. Introduction

What is referred to as trade in services has recently been given a prominent place on the international policy agenda. To a large extent this is a result of the current efforts of the U.S. government to reduce barriers to such trade. Many developing countries have opposed such liberalization, arguing that it would benefit mainly the developed countries. The reason for this, they claim, is that the international comparative advantage of the developed countries has shifted from goods to services (see Bhagwati, 1986, for a discussion).

Given the characteristics of most service industries, discussed below, and particularly the fact that much of their output is nontradable, we suggest here that what is at issue is not so much the liberalization of trade in services as liberalization of entry into developing-country service industry markets by multinational firms from developed countries. If that is the case, the comparative advantage that is relevant is that of multinational firms from developed countries rather than that of the developed countries themselves.

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In this paper we examine the characteristics of U.S. multinational firms in service industries. We ask whether these characteristics are likely to imply strong competitiveness and comparative advantage for these multinationals relative to developing host countries, using Latin America, including the Caribbean, as a point of reference. We also estimate the importance of U.S. foreign direct investment in the Latin American service sector by relating output and employment of U.S. owned affiliates to total host country output and employment in a few individual service industries in various Latin American countries. The study is based on data for 1982, since these are the most comprehensive and detailed service industry data available for U.S. firms.

2. The Tradability of Services

The whole issue of trade in services has been muddled by the failure to distinguish among several versions of what constitutes this trade: 1) service transactions that cross national borders (e.g. architectural work by an architect in New York for a builder in Saudi Arabia); 2) service transactions that do not cross borders, but involve buyers and sellers who are residents of different countries (tourism) and are therefore defined as service items in the balance of payments; and 3) service industry activities in a country by firms owned by foreigners.

Of these three types of activity, the first is very minor, outside of the transactions that take place within multinational firms. Those within multinational firms mostly involve goods industries rather than service industries and, in any case, are ancillary to the sale of goods. The second type, consisting mainly of tourism and transportation, is a major

item in the balance of payments, but is not the focus of demands for liberalization. It is the third group that is most important, at least to the United States. It involves a set of industries in which the U.S. considers itself to have some comparative advantage, and it accounts for almost all the service industry sales to foreigners by U.S. firms. It is therefore likely to be the center of any set of negotiations.

To understand the U.S. interest in negotiations on service trade, we thus have to examine the service-industry activities of U.S. firms operating overseas. The total sales of U.S.-owned overseas affiliates in trade and service industries, broadly defined, amounted to over \$450 billion in 1982 as compared with \$359 billion in manufacturing, less than \$200 billion in petroleum and coal production, and \$23 billion in other goods-producing industries. That figure undoubtedly exaggerates the amount of U.S. firms' activity in foreign service industries for several reasons. One is that it includes wholesale and retail trade, the sales of which consist to a large extent of commodities with relatively little service value added. Excluding these industries, although they do involve a substantial amount of service output, still leaves over \$180 billion in service industry sales. This is far larger than direct U.S. service export transactions (\$28 billion for travel and transportation and about \$9 billion for other nonfactor services aside from royalties and fees). Thus, outside the travel and transportation area, the sale of services by U.S. firms to buyers outside the U.S. is performed almost entirely by U.S. controlled firms operating in foreign countries, that is, by direct investment rather than by international trade (for more details on this point, see Kravis, 1985, and Lee and Naya, 1986).

3. Characteristics of U.S. Multinationals in Service Industries

Services have become much more important in U.S. direct investment over the last 30 years or so, and account for approximately a third of total U.S. direct investment today (Lipsey, 1987).¹ The finance part of the service sector, in particular, grew very rapidly, as did wholesale trade to a lesser extent. Other service industries involved only a small part of investment.

Service industries are often thought of as being labor-intensive and as employing relatively unskilled and poorly educated workers. These industries are also expected to invest little in research and development and to participate hardly at all in international trade. They are sometimes, in fact, referred to as the nontradables sector of an economy. If the service industries were, in fact, characterized by low physical capital, human capital, and R & D intensity, it would be surprising to find that these industries would be the ones in which firms from advanced countries would have any comparative advantage. Developing countries would have little to fear, and also little to gain, from giving them free access to their markets.

3.1 Service Industry Parent Companies

The characteristics of parent companies are of interest, because they describe the attributes of the firms that are carrying out the investment in service industries in other countries. Presumably, these parent characteristics reflect at least some of the firm-specific advantages that the

¹The definition of the service sector varies among authors who write about it (see Stigler, 1956, Fuchs, 1968, and Kuznets, 1966). A very broad definition of the service sector would be that it encompasses all the industries not covered in the goods-producing sectors. That could include

affiliates bring with them. Ideally, we would describe the characteristics of parents of service-industry affiliates, but the data we have refer instead to service industry parents of affiliates in all industries. These parents own mainly service industry affiliates, but do not include, for example, those parents that are in manufacturing or mining, but own affiliates in service industries.

The information available for parents is much more limited than that for affiliates. We can, however, say something about factor intensities, average size, foreign trade, and technological inputs and income.

With respect to physical capital intensity,² the comparison between parents in service industries and parents in manufacturing or extractive industries is very sensitive to the definition of service industries. The reason is that the physical capital intensities in services vary over a tremendous range, far larger than that in manufacturing, and the inclusion or exclusion of an industry can easily reverse the results of a comparison.

construction, government, transportation, communication, and public utilities, as well as trade, finance, and personal and business services. We will concentrate our attention on narrower versions of the service sector. We exclude government entirely, since it is not a field for direct investment, and we exclude public utilities and transportation, because these are not usually counted in the service sector, and because they are government-owned in many countries. We are inclined to exclude wholesale trade, or at least segregate it, in studying investment, because U.S.-owned wholesale trade affiliates are mainly sales affiliates of U.S. manufacturing companies, and their sales are largely commodities. We exclude holding companies, where possible, because they are basically a conduit for U.S. investment rather than a part of host-country service industries. They might hold portfolio investments or, if they control foreign companies, those would appear under their appropriate industry categories. Finance operations in the Netherlands Antilles are excluded because they are also largely conduits, in this case for their parents' borrowing.

²The measure of physical capital intensity we use here is the value of net property, plant, and equipment divided by the number of employees. (For a fuller discussion, see Kravis and Lipsey, 1986). A drawback of the number employed as the labor input measure is that it ignores differences

Parent firms in trade and services including transportation, communication, and public utilities (T.C. and P) are more physical capital intensive than those in manufacturing or all industries combined (see Table 1). However, once the T.C. and P. group is removed, the remaining service industry parents seem to be relatively labor intensive on average, even if the capital-intensive real estate industry is included.

Table 1

Net Property, Plant and Equipment per Employee
in U.S. Parent Companies, 1982

	<u>(\$000)</u>
All Industries	<u>46.0</u>
Manufacturing	29.4
Trade and Services incl. transportation, communication, and public utilities	<u>51.9</u>
Transp., commun., & public util.	123.1
Trade and Services, excl. transp., commun., & public util.	<u>22.3</u>
Oil and gas. field services	57.2
Petroleum wholesale trade	162.3
Wholesale trade, exc. petrol.	20.4
Retail trade	11.2
Finance (exc. banking), insurance, & real estate	23.3
of which real estate	492.7
Other services	20.2

Source: Appendix Table 8.

Our measure of human capital intensity has far less variance than that of physical capital intensity. As can be seen in Table 2, parents in trade

among industries in the quality of the labor force. We chose to treat these differences in quality as representing differences in human capital or skill intensity, rather than differences in labor input.

and services are below average in human capital intensity and below those in manufacturing, but again, they straddle the other groups. Parents in some of the service industries, such as the ones related to petroleum, nonbanking finance, advertising, and management consulting are above manufacturing parents and all parents in human capital intensity.

Table 2

Compensation per Employee in U.S. Parent Companies, 1982

	<u>(\$000)</u>
All Industries	<u>27.8</u>
Manufacturing	29.7
Trade and Services incl. transportation, communication, and public utilities	<u>23.4</u>
Transp., commun., & public util.	33.6
Trade and Services, excl. transp., commun., & public util.	<u>19.2</u>
Oil and gas. field services	35.1
Petroleum wholesale trade	33.4
Wholesale trade, exc. petrol.	21.7
Finance (exc. banking), Insurance, & Real Estate	26.3
Retail trade	14.4
Other services	18.2

Source: Appendix Table 8.

Service industry companies are often pictured as being relatively small-scale operations. In fact, as measured by assets, service industry parents are, on the average, large in comparison with manufacturing parents or with parent companies in general (see Table 3). The high average asset size of service industry parents reflects mainly the inclusion of banking parents (average assets over \$7.5 billion), other finance (almost \$3

billion), retail trade, and petroleum wholesale trade, all larger on the average than manufacturing parents. However, parents in non-petroleum wholesale trade and in other services were smaller than those in manufacturing, on average.

Table 3

Number, Total Assets, and Average Assets of U.S. Parent Companies, 1982

	Number	Total Assets (\$ mill.)	Average Assets (\$ mill.)
All Industries	2,245	3,754,218	1,672
Manufacturing	1,215	1,017,654	838
Trade & Services, incl. transp., comm., & publ. util.	883	2,348,517	2,660
Transp., comm. & public util.	85	342,401	4,028
Trade & Services, excl. transp., comm., & public util.	798	2,006,116	2,514
Oil & gas field services	26	19,048	733
Petroleum wholesale trade	29	99,969	3,447
Wholesale trade, exc. petrol.	168	43,418	258
Banking	133	1,012,319	7,611
Finance (exc. banking), Insurance, & Real Estate	234	677,469	2,895
Retail trade	48	101,176	2,108
Other service	160	52,717	329

Source: U.S. Dept. of Commerce (1985a), Table 6.

3.2 Characteristics of U.S. Affiliates in Latin American Service Industries

A distinctive characteristic of U.S. investment in services in developing Western Hemisphere countries is that the number of U.S. parents is small, except in a few financial centers. In those few, however, the number of parent firms is very large. For example, of 151 U.S. parents that had any banking affiliates abroad in 1982, almost all (135) had one or more in developing Western Hemisphere countries (mainly in the Bahamas or

in British Caribbean islands), but only 71 had banking affiliates in Europe. Of 710 U.S. parents that had any affiliates in finance other than banking, including insurance and real estate, almost 500 had affiliates in Latin America or other Western Hemisphere developing countries. Principally these were located in Bermuda and the Netherlands Antilles, but also in Panama, the Bahamas, and the British Caribbean Islands. Outside of these cases the numbers of parent companies in most countries were very small.

Table 4
Number of U.S. Parent Firms with Affiliates in
Four Service Industries, 1982

	<u>Wholesale Trade</u>	<u>Banking</u>	<u>Other Finance</u>	<u>Services</u>
All Countries	792	151	710	361
Canada	318	18	171	109
Europe	558	71	322	245
Developing Western Hem.	171	135	484	96
Argentina	28	11	9	10
Brazil	46	7	56	31
Chile	15	8	8	5
Colombia	21	3	10	9
Ecuador	11	3	4	3
Peru	15	2	1	2
Venezuela	45	4	19	26
Mexico	60	3	36	30
Panama	33	14	69	7
Bahamas	12	76	35	7
Bermuda	13	2	215	15
Jamaica	3	4	6	4
Neth. Antilles	3	3	234	7
Trinidad and Tobago	4	1	4	3
UK Islands, Caribbean	5	76	42	7

Source: U.S. Dept. of Commerce (1985a), Table I.R2

While the characteristics of parent companies may be passed on to host countries through their affiliates, a much more direct source of effects on

host countries must be the extent and characteristics of affiliate activity. That activity has many facets such as its distribution among industries, its factor intensities, the technological characteristics and trading patterns of affiliates, the taxes they pay to host-country governments, and the incomes they provide to host-country residents.

3.2.1 Industry distribution

The shares of service industries in the total activity of U.S. affiliates in Latin America in 1982, by various definitions of the service sector and by various measures of activity, all imperfect, are shown in Table 5.

Table 5

Shares of Service Industries in
U.S. Firms' Latin American Operations^a, 1982

	<u>Assets</u>	<u>Sales</u>	<u>Employment</u>	<u>U.S. Direct Investment</u>
<u>LATIN AMERICA EXCL. CARIBBEAN BANKING</u>				
All other than goods producers	59.2	46.6	18.2	47.1
Trade, finance, and other services ^b	50.0	45.8	17.4	46.4
Retail trade, finance, and other serv. ^c	39.5	14.5	12.2	31.4
Retail trade & other serv., excl. Finance	4.1	4.4	9.3	4.1
<u>LATIN AMERICA INCL. CARIBBEAN BANKING</u>				
All other than goods producers	79.2	53.7	18.3	49.7
Trade, finance, and other services ^b	74.5	53.1	17.5	49.0
Retail trade, finance, and other serv. ^c	69.2	25.9	12.3	34.8
Retail trade & other serv., excl. Finance	2.1	3.8	9.2	3.9

^aExcluding all holding companies and finance companies in the Netherlands Antilles.

^bExcluding public utilities and transportation.

^cExcluding wholesale trade.

Source: Appendix Table 7

The measures of the size of service industry operations available directly from the data are assets, sales, employee compensation, employment and the amount of direct investment. Assets are usually presumed to reflect capital input in the affiliate's host country, but they may not. The assets may not be located in the affiliate's host country. They may not be inputs into production in the affiliate's host country. They may, in fact, even be in the U.S. in some cases.

Sales in many cases, particularly in wholesale trade, include large amounts of goods imported by the foreign affiliate, and therefore exaggerate the amount of production that takes place in the affiliate's country. Employment and employee compensation both reflect labor input, and employee compensation has the advantage of combining crude labor input with a measure of the average quality of labor. It is omitted from the table only because the shares are very similar in these aggregates to employment shares. Direct investment reflects the parents' investment in the foreign operations, but not the output of foreign labor or of capital financed by borrowing in the market or from other non-U.S. sources.

From these data we find that service industries including finance and retail trade, but excluding banking in the Caribbean, accounted for 40 per cent of the total assets employed in Latin American affiliates. These were mainly in banking and a large part of the assets was not provided by U.S. investors. This group of industries accounted for only 30 per cent of U.S. investment, however, and less than 15 per cent of labor input and sales. If we include bank services in the Caribbean, the shares measured in assets and sales are significantly higher. Service industries outside of finance

accounted for less than 5 per cent of assets, sales and U.S. investment, and less than 10 per cent of employment.

Within the service sector, banking was a large part (see Table 6). Even when we exclude banking in the Caribbean, banking was almost half of assets (85 per cent when we include the Caribbean), over a third of sales, and about 17 per cent of employment. Retail trade and hotels and lodging places, two relatively low-wage and low-skill industries, were relatively unimportant measured by assets, under 6 per cent, but accounted for about half of service industry employment in Latin America.

Table 6

Shares (%) of Individual Service Industries in
U.S. Multinationals' Latin American Service Sector Operations,^a 1982

	<u>Assets</u>		<u>Sales</u>		<u>Employment</u>		<u>U.S. Direct Investment</u>	
	A	B	A	B	A	B	A	B
Retail trade	1.9	.6	13.1	6.4	38.3	37.8	2.2	1.9
Banking	47.1	84.6	36.0	69.4	17.1	18.2	10.7	23.3
Other finance	24.5	7.1	12.2	5.9	3.0	3.0	51.9	44.6
Insurance	17.5	5.1	21.1	10.2	3.4	3.4	22.6	19.4
Business services	3.8	1.1	5.1	2.5	13.5	13.3	2.0	1.7
Oil and gas field serv.	2.5	.7	6.8	3.3	6.7	6.6	5.9	5.1
Hotels	1.1	.3	2.6	1.3	11.7	11.5	1.3	1.1
Engineering, architect.	.5	.1	.7	.3	.6	.6	.5	.4
Health services and other	<u>1.1</u>	<u>.4</u>	<u>2.4</u>	<u>1.1</u>	<u>5.7</u>	<u>5.6</u>	<u>2.9</u>	<u>2.5</u>
Total	100	100	100	100	100	100	100	100

^aExcluding transportation, public utilities, finance affiliates in the Netherlands Antilles, holding companies, and wholesale trade

A: Excluding Banking in the Caribbean
B: Including Banking in the Caribbean

Source: Appendix Table 7

3.2.2. Factor intensities

The capital intensity of parents does not necessarily carry over to their foreign affiliates if the firm can split its activities into different types and carry them on at different locations. In fact, the physical capital intensities of parents do not carry over to affiliates very precisely, although the 5 industries in which parents' physical capital intensities were highest were also the ones in which affiliate capital intensities were highest (Appendix Tables 8 and 9). The correlation was much stronger for skill or human capital intensities. Over the whole range of industries, higher skill intensity in parents was associated with high skill intensity in affiliates. There are two ways in which this could come about. One is that skill intensity is an industry or firm characteristic that is present wherever the firm operates. The other is that high skill intensity firms concentrate their operations in high wage countries. Within Latin America, the former explanation seems to be the predominant one. There, the skill intensive U.S. industries by and large have affiliates with high compensation per worker. However, the latter factor does operate to some extent. That is, within the service sector, the industries with lower skill levels, such as hotels and lodging, real estate, and miscellaneous business services, are somewhat more heavily represented among affiliates in Latin America than among all U.S. affiliates around the world. Furthermore, some of the high-skill industries, such as management consulting, finance other than banking, and advertising, are relatively little represented in Latin American affiliates of U.S. firms (see Appendix Table 9).

As might be expected, affiliates in the trade and service sector were

not particularly physical-capital intensive (see Table 7). However, service industries, broadly defined, were heavier users of physical capital than manufacturing industries. A disaggregation, as in the case of service industry parents, identifies the source of the high capital intensity: the transportation, communication, and public utility industries, with over \$100,000 in physical assets per worker and, not far behind, petroleum wholesalers. Aside from those, the trade and service sector was a little less capital-intensive than manufacturing, but the margin was not large for most service industries. Low physical capital intensity has not been a particular feature of service industry affiliates.

Table 7

Net Property, Plant, and Equipment per Employee
in U.S. Affiliates, 1982

	<u>(\$ 000)</u>
All Industries	32.8
Manufacturing	21.7
Trade & Services incl. transp., comm., & publ. util.	25.0
Transp., comm., & public util.	101.3
Trade & Serv., excl. transp., comm., & publ. util.	20.5
Oil and gas field services	67.1
Petroleum wholesale trade	95.3
Wholesale trade, exc. petrol.	17.1
Finance (excl. banking), Insurance, Real Estate	25.2
Retail Trade	10.0
Other Services	17.3

Source: Appendix Table 9

The stereotype of service industries mentioned earlier is similarly not supported by data on average compensation in affiliates, our measure of

human capital intensity. Table 8 shows that average compensation (average human capital per employee) was a little higher in trade and services than in all industries and manufacturing. The same was true for most individual service industries. The only really low-wage industry in the group was retail trade, and several of the industries paid quite high wages.

Table 8
Compensation per Employee in U.S. Affiliates, 1982

	(\$ 000)	
	<u>All Countries</u>	<u>Latin America</u>
All Industries	16.8	10.3
Manufacturing	16.2	9.9
Trade & Services incl. transp., comm., & publ. util.	17.0	11.8
Transp., comm., & public util.	17.9	10.6
Trade & Serv., excl. transp., comm., & publ. util.	17.0	11.9
Oil and gas field services	27.1	20.3
Petroleum wholesale trade	24.7	23.5
Wholesale trade, exc. petrol.	21.1	15.1
Finance (excl. banking), Insurance, Real Estate	18.8	15.0
Retail Trade	9.0	5.4
Other Services	18.4	10.8

Source: Appendix Table 9

Within Latin America, the skill intensity of service industries was again above the average for all industries and that for manufacturing. And here too, the only outstandingly low-skill industry was retail trade. By and large, the lower-skill industries in Latin America were the same ones as in affiliates as a whole (see Appendix Table 9).

3.2.3. R & D and export intensities

A characteristic of firms that is sometimes referred to as a factor intensity, or as something close to it, is the R&D intensity, measured in various ways. A typical one, on which we have data for majority-owned affiliates, is the ratio of R&D expenditures to sales. Service industries are not usually considered leaders in this respect and the data for affiliates support this impression.

U.S. affiliates in all industries invest relatively little in R&D, as compared to parents, and affiliates in services, by any definition, invest less than those in manufacturing. Affiliates in Latin America, in every service industry shown, and in petroleum and manufacturing also, spend much less on R&D than those in other countries relative to their sales, typically about a third as much or even less (see Table 9). Thus, the picture of service industries as being little involved with R&D is confirmed, especially for affiliates, and even more for affiliates in Latin America.

Table 9

R&D Expenditure as Per Cent of Sales of U.S. Affiliates, 1982

	<u>All Countries</u>	<u>Latin America</u>
All Industries	.50	.17
Manufacturing	1.15	.42
Trade & Services incl. transp., comm., & publ. util.	.10	.01
Transp., comm., & public util.	<.01	0
Trade & Serv., excl. transp., comm., & publ. util.	.08	.01
Oil and gas field services	.11	<.04
Petroleum wholesale trade	.01	0
Trade & Serv., excl. transp., comm., publ. util. and petrol. trade serv.	.13	.03
Wholesale trade, exc. petrol.	.21	.05
Retail Trade	.01	<.05
Finance (excl. banking), Insurance, Real Estate	<.01	0
Other Services	.26	.06

Source: Appendix Table 10

On a less detailed industry classification we can also examine the export propensities of service industry affiliates. Overall, as Table 10 shows, the trade and service sector does not appear to be less oriented to exporting than the manufacturing or petroleum sectors. As with respect to other characteristics, the service sector is extremely heterogeneous. Affiliates in wholesale trade are more export oriented than those in manufacturing, even though they are mainly distributors of manufactured products. And finance affiliates in the Caribbean countries are almost entirely involved in the sale of services outside their host countries. In these cases, not only the sale, but also much of the production of services appears to take place outside the host countries, to the extent that one can

even attribute production to a location in some of these industries. That is suggested by the small amount of employment relative to the sales or assets of affiliates located in these countries. Affiliates in other service industries, including finance affiliates outside the Caribbean, other services, and retail trade, do export relatively little, although the proportion is not insignificant--20 per cent for affiliates in services other than finance.

Table 10

Exports as Per Cent of Sales of U.S. Affiliates, 1982

	<u>All Countries</u>	<u>Latin America</u>
All Industries	34.5	40.4
Petroleum, total	35.4	59.3
Manufacturing	33.9	11.9
Trade & Services, excl. transp., comm., public utilities, & petrol. trade serv.	35.2	40.0
Wholesale trade, exc. petrol.	41.7	44.1
Finance (excl. banking), Insurance, & Real Estate	37.8	83.4
of which Caribbean	87.9	87.9
Other	10.5	8.0
Other Services	19.8	13.7

Source: Appendix Table 10

Latin American affiliates in petroleum are much more export-oriented than others, and those in wholesale trade a little more than average. The distinctive feature of affiliates in Latin America is the very low export orientation of manufacturing affiliates. Those in nonfinancial service industries are also relatively uninvolved in exporting.

In sum, we find little support in the data on U.S. multinationals for

the usual picture of the service sector as being composed of low-skill, labor-intensive industries serving only host-country markets. The service sector is extremely heterogeneous, but the general impression from our investigation is that multinationals producing services are not, on the average, very different from other multinationals in physical capital intensity and their export orientation, but they are somewhat more skill-intensive than others. Affiliates in finance and wholesale trade are heavily involved in exporting, while those in other services and retail trade are not. The picture of service industries as being little involved in R & D is, however, confirmed, especially for affiliates, and even more so for affiliates in Latin America. Otherwise, U.S. service industry affiliates in Latin America (excluding Caribbean banking) were found to be rather similar in their characteristics to those in other areas.

4. U.S. Affiliates' Share of Latin American Service Sectors

Despite the recent concern in many Third World countries about foreign direct investment in service sectors, very little is known about the extent to which foreign firms participate in the production of services in these developing countries. The available data do not permit any detailed examination of this issue for Latin America as a whole, but the meager published data, relatively aggregated and far from perfect, give a rough idea of the share of value added in Latin American service sectors that is accounted for by U.S. affiliates (see Table 13). These shares are somewhat underestimated since the "value added" for U.S. affiliates that can be calculated from the published U.S. direct investment surveys does not include interest payments and depreciation, although these were collected. However, the inclusion of these missing items could not change the overall picture.

Table 13

U.S. Affiliates' Share of Value Added in Different
Latin American Service Sectors, 1982

	<u>Percentage Share</u>
Financial Services	9.7
Financial Services (excl. banking in the Caribbean)	2.5
Wholesale and Retail Trade	1.5
Transportation	.3

Source: Appendix Tables 3 and 6.

These calculations suggest that U.S. affiliates accounted for over 9½ per cent of the production of financial services in Latin America in 1982. However, that figure is dominated by U.S. banking activities in the Caribbean. Aside from these, the percentage share is only 2½ per cent. Their share of wholesale and retail trade was a bit over one per cent, while that in transportation and communication, which we do not generally include in services, was only a third of a per cent. Thus, U.S. multinationals' share of service production in Latin America seems to be very low, and much lower than their share of manufacturing production.

The impression that U.S. affiliates play a relatively unimportant role in Latin American financial services carries over to figures for individual countries. As Table 14 shows, their share of both value added and employment was less than 2.7 per cent in all the reporting countries for which data are available.

Table 14

Shares of U.S. Affiliates in Latin American Financial Services, 1982
(Percentage)

	<u>Value Added</u>	<u>Employment</u>
Argentina	2.7	NA
Brazil	2.4	.5
Chile	.5	1.3
Colombia	NA	2.2
Ecuador	2.1	NA
Venezuela	NA	1.4
Latin America	2.5 ^a	.8 ^b

^aExcluding the Caribbean.

^bIncludes only Brazil, Chile, Colombia, and Venezuela, since no other countries provide the necessary data.

Source: Appendix Tables 1, 2, 3, and 6

However, one should not forget that the Latin American service sector is highly heterogeneous, and our data on the size of aggregate service production include not only a wide variety of services, but presumably also a high degree of informal sector activities. Therefore, despite their low share of aggregated services, U.S. affiliates may play an important role in some "modern" parts of these service industries. Furthermore, the role of foreign firms in Latin American banking and finance may be much more important than is indicated by production or employment because the U.S. branches may function as a bridge between the international capital markets and the host countries.

5. Concluding Remarks

The participation of U.S. service industry firms in Latin American markets for services consists mainly of the activities of U.S.-owned affi-

liates operating in Latin America and very little of direct exports of services from the U.S. The important policy issues thus involve barriers to the establishment and operation of affiliates in host countries rather than trade barriers. Since direct investment rather than trade is at issue, the comparative advantages that are important are those of U.S. multinational firms rather than those of the U.S. as a country.

The characteristics we observe for U.S. service-industry multinationals as a group are not those usually associated with multinational firms' comparative advantages. In particular, those firms are much less R & D-intensive than those in goods production. The characteristic that does suggest the possibility of multinationals' comparative advantage is the somewhat higher skill level in service-industry multinationals than in goods industry firms. Of course, a more detailed breakdown of the service industry sector would reveal some much more skill-intensive subgroups, and in some of these there may be large multinational company advantages.

Some rough calculations of the U.S. participation in Latin American service production also suggested that the role of multinationals may have been exaggerated in the public debate. U.S. affiliates accounted for only an extremely small proportion (less than 3 per cent) of the production of financial services in Latin America, and their share in wholesale and retail trade was only a bit over one per cent. But again, a more detailed breakdown of the data would probably show that multinationals play an important role in certain service industries.

As far as we can see, the importance of liberalization of "trade in services" to both developed and developing countries has probably been

exaggerated. (For a similar view, see McCulloch, 1987.) For one thing, the term "trade in services" is a misnomer; there is very little such trade. Almost all the issues involve market access through direct investment. While these issues may be important to a few industries, particularly financial services, it seems unlikely that any great gains to the balance of payments of the U.S. or great gains or losses for developing countries are at stake.

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Appendix Table 1

Employment of U.S. Affiliates in Latin American Banking
and Other Finance Sectors, 1982
(Number of Employees)

	Banking	Other Finance	Sum
Argentina	4,200	1,400	5,600
Brazil	10,800	3,000	13,800
Chile	1,300	100	1,400
Colombia	4,700	600	5,300
Ecuador	700	200	900
Mexico	500	1,000	1,500
Panama	2,000	400	2,400
Peru	200	(*)	200-250
Venezuela	1,800	1,100	2,900
Bermuda	(*)	1,800	1,800-1,850
Netherlands Antilles	200	(D)	(D)
Trinidad and Tobago	100	(D)	(D)
Latin America	31,100	12,300	43,400

(*) Less than 50 employees.

(D) Suppressed by source to avoid disclosure.

Source: U.S. Department of Commerce (1985a).

Appendix Table 2

Employment in Latin American Finance, Insurance, Real Estate and
Business Services
(Thousands of Employees)

	1982
Argentina	NA
Brazil	2,555
Chile	110
Colombia	242 ^a
Ecuador	NA
Mexico	NA
Panama	24
Peru	NA
Venezuela	208
Bermuda	4
Netherlands Antiles	5
Trinidad and Tobago	NA

^a1981

Source: ILO (1984)

Appendix Table 3

Value Added by Different Latin American Service Sectors, 1982
(\$ Million)

Country	Financial Services	Manufacturing	Wholesale and Retail Trade	Transportation and Communication
Argentina	4,731	12,433	7,079	6,253
Bahamas	199	178	407	173
Barbados	--	85	136	50
Bolivia	308	487	446	400
Brazil	20,013	59,354	35,094	16,001
Chile	3,085	3,613	3,377	1,054
Colombia	2,246	5,948	3,622	2,823
Costa Rica	475	754	555	269
Dominican Republic	620	1,298	1,180	583
Ecuador	923	2,118	1,705	737
El Salvador	277	564	549	189
Guatemala	802	1,494	2,507	633
Guyana	36	78	43	40
Haiti	86	258	267	30
Honduras	314	415	339	187
Jamaica	519	596	614	251
Mexico	13,673	39,521	41,730	12,170
Nicaragua	181	653	526	160
Panama	418	408	569	569
Paraguay	179 ^a	960	1,557 ^b	247
Peru	1,954	4,716	2,777	1,399
Suriname	140	126	129	56
Trinidad and Tobago	423	341	549	605
Uruguay	442 ^a	1,314	993	430
Venezuela	5,435	7,740	3,851	5,867
Latin America	57,477	145,462	110,601	51,177

^aReal estate only

^bIncludes financial services

Source: Inter-American Development Bank (1985)

Appendix Table 4

Net Income of U.S. Affiliates in Latin American Banking and
Other Finance Sectors, 1982
(\$ Million)

	Banking	Other Finance	Sum
Argentina	49	16	65
Brazil	157	125	282
Chile	-18	3	-15
Colombia	(D)	(D)	(D)
Ecuador	1	3	4
Mexico	(D)	(D)	(D)
Panama	142	437	579
Peru	(D)	(*)	(D)
Venezuela	(D)	(D)	(D)
Latin America	345	535	880
Caribbean	1,958	3,359	5,317
Latin America and the Caribbean	2,303	3,894	6,197

(D) Suppressed by source to avoid disclosure

(*) Less than \$500,000

Source: U.S. Department of Commerce (1985a)

Appendix Table 5

Employee Compensation of U.S. Affiliates
in Latin American Banking and Other Finance Sectors, 1982
(\$ Million)

	Banking	Other Finance	Sum
Argentina	48	12	60
Brazil	146	42	188
Chile	27	2	29
Colombia	40	8	48
Ecuador	14	1	15
Mexico	10	17	27
Panama	33	18	51
Peru	3	(*)	3
Venezuela	47	13	60
Latin America	404	122	526
Caribbean	36	62	98
Latin America and the Caribbean	440	184	624

(*) Less than \$500,000

Source: U.S. Department of Commerce (1985a)

Appendix Table 6

"Value Added"¹ of U.S. Affiliates in Latin American Manufacturing
and Service Sectors, 1982
(\$ Million)

	Banking and Finance	Manufacturing	Wholesale and Retail Trade	Transportation and Communications
Argentina	128			
Brazil	481			
Chile	15			
Ecuador	19			
Panama	639			
Latin America	1,444			
The Caribbean	5,601			
Latin America and the Caribbean	7,045	11,788	1,634	167

¹Employee Compensation plus Net Income plus, for affiliates, taxes.

Source: U.S. Department of Commerce (1985a)

Appendix Table 7

Measures of U.S. Affiliate Activity in Latin America, by Industry
1982

	Total Assets (\$mill.)	Sales (\$mill.)	Employ- ment (thous.)	U.S. Direct Invest. (\$mill.)
<u>AGRICULTURE, MINING, & PETROLEUM</u>				
Agriculture, forestry, fishing	755	984	57.6	321
Mining, exc. petroleum	4,694	1,767	38.6	1,480
Petroleum refining, coal products, transport,) storage and retailing, incl. integrated)	6,907	12,035	23.5	3,532
refining and extraction)				
Total Agric., Mining, & Petrol.	12,356	14,786	119.7	5,333
<u>INDUSTRY</u>				
Manufacturing, exc. petroleum & coal	45,776	53,068	977.6	15,780
Construction	1,010	1,761	34.6	229
Total Industry	46,786	54,829	1,012.2	16,009
TOTAL GOODS PRODUCTION	59,142	69,615	1,131.9	21,342
<u>PUBLIC UTILITIES, INCL. TRANSPORTATION</u>				
Transp., commun., & public util., exc. petrol.	935	652	8.9	183
<u>TRADE</u>				
Wholesale Trade				
Wholesale trade, exc. petrol.	7,176	9,540	62.0	2,759
Petroleum wholesale trade	7,976	30,443	9.9	3,245
Total Wholesale Trade	15,152	39,983	71.9	6,004
Retail Trade, excl. petroleum	1,084	2,424	64.5	275
Total Trade, excl. petrol. retail trade	16,236	42,407	136.4	6,279
<u>FINANCE AND OTHER SERVICES</u>				
Banking, Finance, Insurance, Real Estate				
Banking	166,483	26,305 ^a	31.1	3,421
of which the Caribbean ^b	(139,540)	(19,673)	(2.3)	(2,072)
Other	26,943	6,632	28.8	1,349
Finance exc. banking	58,004	6,596	5.1	-13,616
of which Netherlands Antilles ^b	(43,959)	(4,343)	(D)	(-20,172)
Other	14,045	2,253	5.1	6,556
Insurance	9,992	3,898	5.8	2,854
Real estate	280	40	.7	207
Holding companies ^b	(9,335)	(5)	(.7)	(5,699)
Total Banking, Finance, Real Estate	51,260	12,823	40.4	10,966

(continued on next page)

Appendix Table 7 (continued)

Measures of U.S. Affiliate Activity in Latin America, by Industry
1982

	Total Assets (\$mill.)	Sales (\$mill.)	Employ- ment (thous.)	U.S. Direct Invest. (\$mill.)
<u>FINANCE AND OTHER SERVICES (continued)</u>				
Other Services				
Hotels & other lodging places	637	477	19.6	166
Business services				
Advertising	111	110	2.8	37
Management, consulting, public rel. serv.	247	95	.3	116
Equipment rental, exc. autos & comp.	825	386	3.4	-6
Computer & data processing serv.	108	83	1.2	63
Other business services	<u>251</u>	<u>260</u>	<u>15.0</u>	<u>46</u>
Total Business Services	2,179	934	22.7	256
Motion pict., incl. television tape & film	81	135	1.0	17
Engineering, archit., & surveying serv.	268	126	1.0	65
Other services exc. oil & gas	298	260	7.8	132
Oil & gas field services	<u>1,404</u>	<u>1,258</u>	<u>11.2</u>	<u>747</u>
Total Other Services	4,867	3,190	63.3	1,383
<u>LATIN AMERICA, EXCL. BANKS IN THE CARIBBEAN</u>				
TOTAL TRADE, FINANCE, SERVICES	72,363	58,420	240.1	18,628
TOTAL FINANCE AND OTHER SERVICES	56,127	16,013	103.7	12,349
TOTAL RETAIL TRADE, FINANCE, & OTHER SERVICES	57,211	18,437	168.2	12,624
TOTAL, EXCLUDING GOODS PRODUCTION	73,298	59,072	249.0	18,811
ALL INDUSTRIES	132,440	128,687	1,380.9	40,153
<u>LATIN AMERICA INCL. BANKS IN THE CARIBBEAN</u>				
TOTAL TRADE, FINANCE, SERVICES	211,903	78,093	242.4	20,700
TOTAL FINANCE AND OTHER SERVICES	195,667	35,686	106.0	14,421
TOTAL RETAIL TRADE, FINANCE, & OTHER SERVICES	196,751	38,310	170.5	14,696
TOTAL, EXCLUDING GOODS PRODUCTION	212,838	78,745	251.3	20,883
ALL INDUSTRIES	271,980	148,360	1,383.2	42,225

^aTotal income

^bNot included in totals or subtotals

Source: U.S. Department of Commerce (1985a), Tables I.A6, I.D4, I.F4, I.S4

Appendix Table 8

Characteristics of Nonbank U.S. Parents of Affiliates in All Industries, 1982

	Net Property, Plant, and Equipment End 1981 (\$ mill.)	No. of Employees (1982) (000)	Employee Compensa- tion (1982) (\$ mill.)	Net Prop., Plant & Equip. per Employee	Compen- sation per Employee
ALL INDUSTRIES	860,439	18,704.6	520,383	46,001	27,821
MANUFACTURING	309,923	10,532.8	313,068	29,424	29,723
TRADE AND SERVICE SECTORS					
Oil & gas field services	7,229	126.3	4,437	57,237	35,131
Petroleum wholesale trade	25,842	159.2	5,321	162,324	33,423
Wholesale trade, excl. petrol.	8,109	396.7	8,591	20,441	21,656
Finance, excl. bank., ins., real est.	23,417	1,004.0	26,409	23,324	26,304
Finance, except banking	993	95.8	4,574	10,365	47,745
Insurance	21,339	906.0	21,793	23,553	24,054
Real Estate	1,084	2.2	42	492,727	19,091
Nonfinancial services	20,070	993.8	18,054	20,195	18,167
Hotels & other lodging places	3,015	162.9	1,886	18,508	11,578
Business services	5,318	312.3	6,575	17,028	21,053
Advertising	514	48.2	1,541	10,664	31,971
Manage., consult. & publ. rel.	273	15.9	565	17,170	35,535
Equip. rental, excl. autos & comp.	2,683	5.4	151	496,852	27,963
Comp. & data proc. serv.	924	65.4	1,480	14,128	22,630
Other	925	177.3	2,838	5,217	16,007
Motion pict., incl. tel. tape & film	308	44.0	631	7,000	14,341
Engineering, Arch., & Surv. services	1,802	73.3	1,787	24,584	24,379
Health services	4,964	228.1	3,595	21,762	15,761
Other services	4,663	173.1	3,580	26,938	20,682
Public utilities, incl. transport	251,260	2,040.4	68,498	123,143	33,571
Retail trade (excl. petroleum)	24,982	2,228.8	31,515	11,209	14,140
TOTAL TRADE AND SERVICES	360,909	6,949.2	162,825	51,935	23,431
TRADE AND SERVICES excl. public util.	109,649	4,908.8	94,327	22,337	19,216

Source: U.S. Dept. of Commerce (1985a), Tables II.L1 and II.01

Appendix Table 9

Nonbank Affiliates of Nonbank U.S. Parents, 1982

	Parents				
	Net Property, Plant, and Equipment End 1981 (\$ mill.)	No. of Employees (1982) (000)	Employee Compensa- tion (1982) (\$ mill.)	Net Prop., Plant & Equip. per Employee	Compen- sation per Employee
ALL INDUSTRIES	217,546	6,638.1	111,643	32,772	16,816
MANUFACTURING	96,291	4,428.6	71,782	21,743	16,209
TRADE AND SERVICE SECTORS					
Oil & gas field services	4,651	69.3	1,878	67,114	27,100
Petroleum wholesale trade	4,707	49.4	1,219	95,283	24,676
Wholesale trade, exc. petrol.	8,162	477.3	10,091	17,100	21,142
Finance, excl. bank., ins., real est.	2,924	116.1	2,184	25,185	18,811
Finance, except banking	465	32.2	722	14,441	22,422
Insurance	1,619	82.0	1,439	19,744	17,549
Real Estate	839	2.0	23	419,500	11,500
Nonfinancial services	5,503	318.5	5,876	17,278	18,449
Hotels & other lodging places	1,142	55.3	575	20,651	10,398
Business services	3,043	158.2	3,318	19,235	20,973
Advertising	149	29.5	692	50,508	23,458
Manage., consult. & publ. rel.	204	13.7	591	14,891	43,139
Equip. rental, excl. autos					
& comp.	1,849	32.6	700	56,718	21,472
Comp. & data proc. serv.	369	12.1	312	30,496	25,785
Other	472	70.2	1,022	6,724	14,558
Motion pict., incl. tel. tape					
& film	42	6.5	75	6,462	11,538
Engineering, Arch., &					
Surv. services	182	31.7	959	5,741	30,252
Health services	181	18.1	257	10,000	14,199
Other services	912	48.8	693	18,689	14,201
Public utilities, incl. transport	9,065	89.5	1,598	101,285	17,855
Retail trade (excl. petroleum)	4,667	466.0	4,172	10,015	8,953
TOTAL TRADE AND SERVICES	39,679	1,586.1	27,018	25,017	17,034
TRADE AND SERVICES excl. public util.	30,614	1,496.6	25,420	20,456	16,985

Source: U.S. Dept. of Commerce (1985a), Tables II.A18, II.E4, and II.F7

Appendix Table 9 (concluded)

	Affiliates in Latin America			Distribution of Employment		
	No. of Employees (1982) (000)	Employee Compensation (1982) (\$ mill.)	Compensation per Employee	All Countries	Latin American	Latin American Countries
ALL INDUSTRIES	1,350.1	13,853	10,261	100.0	100.0	1.00
MANUFACTURING	977.6	9,651	9,872	66.7	72.4	1.09
TRADE AND SERVICE SECTORS						
Oil & gas field services	11.2	263	23,482	1.04	.83	.80
Petroleum wholesale trade	9.9	231	23,333	.74	.73	.99
Wholesale trade, exc. petrol.	62.0	939	15,145	7.2	4.6	.64
Finance, excl. bank., ins., real est.	9.7	146	15,052	1.75	.72	.41
Finance, except banking	3.0	61	20,333	.49	.22	.45
Insurance	5.8	77	13,276	1.24	.43	.35
Real Estate	.9	8	8,889	.03	.07	2.33
Nonfinancial services	52.1	562	10,787	4.8	3.8	.79
Hotels & other lodging places	19.6	160	8,163	.83	1.45	1.75
Business services	22.7	264	11,630	23.8	1.68	.71
Advertising	2.8	58	20,714	.44	.21	.48
Manage., consult. & publ. rel. Equip. rental, exc. autos & comp.	.3	9	30,000	.21	.02	.10
Comp. & data proc. serv.	3.4	70	20,588	.49	.25	.51
Other	1.2	18	15,000	.18	.09	.50
Motion pict., incl. tel. tape & film	15.0	109	7,267	1.06	1.11	1.05
Engineering, Arch., & Surv. services	1.0	6	6,000	.10	.07	.70
Health services	1.0	42	42,000	.48	.07	.15
Other services	7.8	90	8,974	.27	.58	.57
Public utilities, incl. transport	8.9	94	10,562	.74	.66	.49
Retail trade (excl. petroleum)	64.5	348	5,395	1.35	.66	.68
TOTAL TRADE AND SERVICES	218.3	2,583	11,832	23.9	16.2	.68
TRADE AND SERVICES excl. public util.	209.4	2,489	11,886	22.5	15.5	.69

Appendix Table 10

Sales, Exports and R & D Expenditures
by U.S. Majority-Owned Foreign Affiliates, 1982
(\$ million)

	Total Sales	Total Exports	R & D Expenditures
<u>All Countries</u>			
All industries	730,235	252,274	3,647
Petroleum, total	266,304	94,205	226
Petroleum, excl. serv. & whol.	151,312	44,101	214
Manufacturing	271,099	91,382	3,123
Trade & Serv., incl. transp., comm., & publ. util.	289,995	110,682	296
Transp., comm., & publ. util.	4,233	388	*
Trade & serv., excl. tr., comm., & publ. util.	285,762	110,294	239
Oil & gas field services	7,378	412	5
Petroleum wholesale trade	107,614	49,692	7
Trade & serv., excl. tr., comm., publ. util. and petroleum trade & serv.	170,770	60,190	227
Wholesale trade except petrol.	113,622	47,410	235
Retail	15,711	344	1
Finance (except banking), Insur. and Real Estate	23,526	8,897	1
of which Caribbean	8,298	7,293	0
Other	15,228	1,604	1
Other services	17,911	3,539	46
Other industries	22,062	6,497	15
<u>Latin America</u>			
All industries	103,857	41,939	179
Petroleum, total	41,842	24,810	4
Petroleum, exc. serv. & whol.	11,383	NA	4
Manufacturing	39,506	4,692	167
Trade & Serv., incl. transp., comm., & publ. util.	58,601	NA	8
Transp., comm., & publ. util.	354	NA	0
Trade & serv., excl. transp., comm., & publ. util.	58,247	NA	8
Oil & gas field services	1,211	NA	*
Petroleum wholesale trade	29,248	NA	0
Trade & serv., excl. transp., comm., publ. util. and petrol., trade & services	27,788	11,124	8
Wholesale	8,105	3,577	4
Retail	1,025	NA	(*)
Finance (except banking), Insur. and Real Estate	8,796	7,333	0
of which Caribbean	8,298	7,293	0
Other	498	40	0
Other services	1,564	214	1
Other industries	3,019	1,312 ^a	3

(*) Less than \$500,000

^aIncludes retail trade

Source: U.S. Department of Commerce (1985a), Tables III.D3, III.D4, III.E3, III.H3 and III.H4

Appendix Table 11

Sales, Net Income, and Income Taxes of
Nonbank Foreign Affiliates, of Nonbank U.S. Parents, 1982
(\$ million)

	Total Sales	Net Income	Income Taxes
<u>All Countries</u>			
All industries	935,780	31,309	34,537
Petroleum, incl. extraction, refining, trade and services	328,999	10,650	21,215
Manufacturing	359,269	8,920	8,458
Trade, excl. petroleum	149,925	2,807	NA
Wholesale	122,664	2,406	1,866
Retail	27,261	411	NA
Finance (except banking), Insur. and real estate	28,651	6,244	1,004
of which Neth. Antilles	3,592	1,015	128-164
Other	25,059	5,229	1,004
Services, excl. petroleum	20,290	1,312	613
Other industries	48,647	1,365	1,380
<u>Latin America</u>			
All industries	125,111	5,712	3,218
Petroleum, incl. extraction, refining, trade and services	43,735	910	1,110
Manufacturing	53,049	687	1,451
Trade, excl. petroleum	11,964	175	NA
Wholesale	9,540	171	172
Retail	2,424	4	NA
Finance (except banking), Insur. and Real Estate	9,285	3,726	224
of which Caribbean	8,456	3,170	186
Other	829	556	38
Services, excl. petroleum	1,915	126	71
Other industries	5,163	86	190 ^a

^aIncluding retail trade

Source: U.S. Department of Commerce (1985a), Tables II.D3, II.D4, II.D5, II.D6, II.D7.