

## BOX C: MISALLOCATION AND UNDERCOVERAGE IN MERCHANDISE TRADE STATISTICS

In theory, the merchandise trade statistics produced by one country should be the mirror image of the statistics published by its trading partners. After all, at the most fundamental level of any trade there is only one transaction: goods leave one country and they arrive in another.

However, this is rarely the case. If the goods are crossing international borders, this trade also generates many other documents—transportation, warehousing, and customs documents to name a few. For the most part, customs documents are used to generate trade statistics.

Partner country trade balance discrepancies are a world-wide problem. They reflect the various data collection and recording practices of countries as well as legitimate conceptual differences. Other factors which contribute to partner country trade data differences include time of recording, valuation, coverage and possible recording errors.

Thus, for example, Canada's recorded exports to Mexico should be close to Mexico's recorded imports from Canada. However, they are not. Figure C-1 below compares published statistics for Canada's exports to Mexico with Mexican statistics for imports from Canada. The difference between the two has been growing since the early nineties. In 2002, Canada's published exports to Mexico were only one third of Mexico's published imports from Canada.

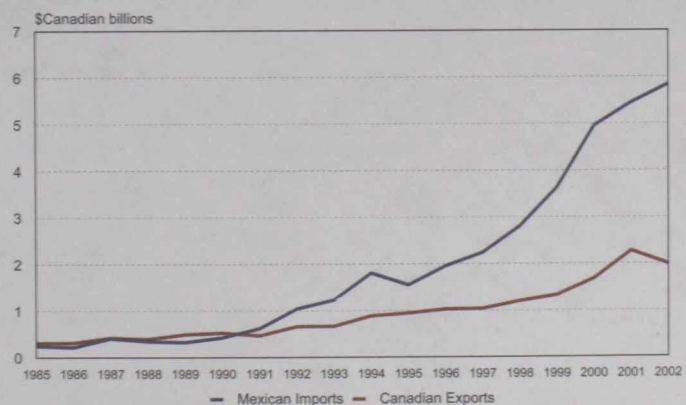
Statistics Canada depends on the administrative records of the Canada Border Services Agency (CBSA), formerly the Canada Customs and Revenue Agency, for most of its import statistics and non-U.S. export statistics. Statistics on Canada's exports to the United States are derived from the administrative records of the United States Bureau of Customs and Border Protection as part of the Canada-U.S. Data Exchange Agreement<sup>1</sup>.

Data derived from import documents tend to be more accurate and complete than those based on export documents because they are used for the management of tariffs and compliance with trade agreements. Export documents are usually not subject to the same rigorous control. Consequently, the published export statistics for all countries that use customs based data, is likely to be understated.

To come to a better understanding as to the causes and degree of differences in Canada's merchandise trade statistics with that of a partner country's, Statistics Canada has undertaken reconciliation studies with a number of Canada's major trading partners. These studies are a bilateral comparison of the trading partner countries' published trade statistics with the objectives of providing an explanation for the differences and a number of 'estimates' that better reflect the actual trade occurring between the two countries. These exercises have been useful in quantifying two major probable causes for discrepancies between the published figures: country misallocation and export undercoverage.

Figure C-1

Canadian exports to Mexico: Canadian statistics vs. Mexican statistics



Source: OECD