

## Feature Section

### The Impact of Transshipments on Canada's International Trade Statistics

In principle, the value of what one trading partner purchases should equal what the other sells; the bilateral trade balance between any two countries thus should be of the same order of magnitude and of the opposite sign. In practice, however, this equality can seldom be found in published trade data. Indeed, the trade picture portrayed by available statistics can be very misleading. A case in point is the trade officially reported between Canada and Japan, where both countries published merchandise trade statistics that showed that they each had a trade deficit with the other country in 1993 and 1994!

As a major economic indicator, trade statistics provide an important source of information for commercial, economic and political purposes. In view of the need for reliable data and the shortcoming of existing data, the Government of Canada (via Statistics Canada) has been undertaking a number of data-reconciliation projects with Canada's major trading partners in recent years to determine the sources of, the reasons for, and the sizes of discrepancies between trade statistics published by Canada and those by its major trading partners. The exercise typically adjusts the two national sets of data on the same conceptual footing and arrives at one single set of reconciled data for merchandise exports, imports and the trade balance for the year or years reviewed.

There are various reasons for data discrepancies. Among them are treatment of freight and insurance, timing, conceptual differences, and transshipment (or indirect trade) via a third country.<sup>1</sup> In the latter case,

transshipment distorts bilateral trade statistics, when goods from the initial export destination are shipped to a third country without substantial transformation.

The process of reconciling trade data for any two countries (for example, Canada's exports to Mexico and Mexico's imports from Canada) makes use of the information that is available from the import data but is not captured by the export data. Because imports often involve the collection of tariffs or duties, or regulatory inspection, they tend to be more accurately recorded and better documented than exports. Hence, import data from each country are used as benchmarks.

The transshipment issue is the focus of this review in Canada's bilateral trade data-reconciliation with Mexico, Japan, the European Union (EU) and the United States. Currently, Canada is embarking on similar exercises with China, Korea and Japan (again) in reconciling trade data for recent years.

**Mexico.** The results of the most recent Canada-Mexico merchandise trade reconciliation indicated that transshipment through the United States was the main source of discrepancy between Canada's and Mexico's statistical data. The reconciled data suggest that, of the total \$1.4 billion difference between Mexico's recorded imports from Canada and Canada's recorded exports to Mexico in 1997, 78.1% was due to transshipment. Of this 78.1% share, trade via the United States constituted 92.7%, and indirect trade via other countries accounted for the remainder.

Northbound, Canada's published imports were higher by \$3.1 billion in 1996 and by \$4.0 billion in 1997 than Mexico's published exports — a discrepancy representing 104% and 135% of the level of exports published by Mexico for the two years, respectively. Of the \$4.0 billion difference in 1997, 76.2% can be attributed to trade via third countries (with the United States accounting for 99.6% of this difference). Because of data complexity, trade officials in the two countries to date have been unable to arrive at a set of reconciled data that is satisfactory to both parties.

**Japan.** The reconciliation exercises to date between Canada and Japan for the years 1989-1994 also provide information on the extent of distortion in trade statistics. Eastbound trade data indicated that, in 1994, Canada's published imports were higher by \$3.3 billion (or by 40%) than the level of Japan's exports. Of the \$3.3 billion discrepancy, 97.6% was due to indirect trade via the United States. Westbound, Japan's imports were 26.9% higher than Canada's exports with indirect trade (or import of Canadian goods via the United States) explaining only 17.9% of the total discrepancy in 1994. As shown in Table 2 on page 4, the reconciliation exercise achieved its purpose of arriving at a set of exports and import data that is officially recognized by both countries for 1993 and 1994. Because of the need to keep a consistent time series, the reconciled data (which are available only for specific years) have not been used to replace Canada's existing trade statistics.

<sup>1</sup> Statistics Canada Daily, *Canada-Mexico-United States Merchandise Trade Reconciliation, 1996-1997*, August 3, 2000.