



#8 MISINVOICING – TRADE ASYMMETRY

What is mis-invoicing?

Analyzing and reducing trade asymmetry





TRADE MISINVOICING IS QUALITY ISSUE

IMTS 2010 on Valuation

“WTO Agreement on Customs Valuation adopts the transaction value (the price actually paid or payable for goods, including some adjustments) as the customs value of imported goods, provided that certain conditions for a fair, uniform and neutral valuation are met.”

Trade Misinvoicing Defined

“Trade misinvoicing is the practice of knowingly submitting an invoice that misrepresents the value of goods being imported or exported.”



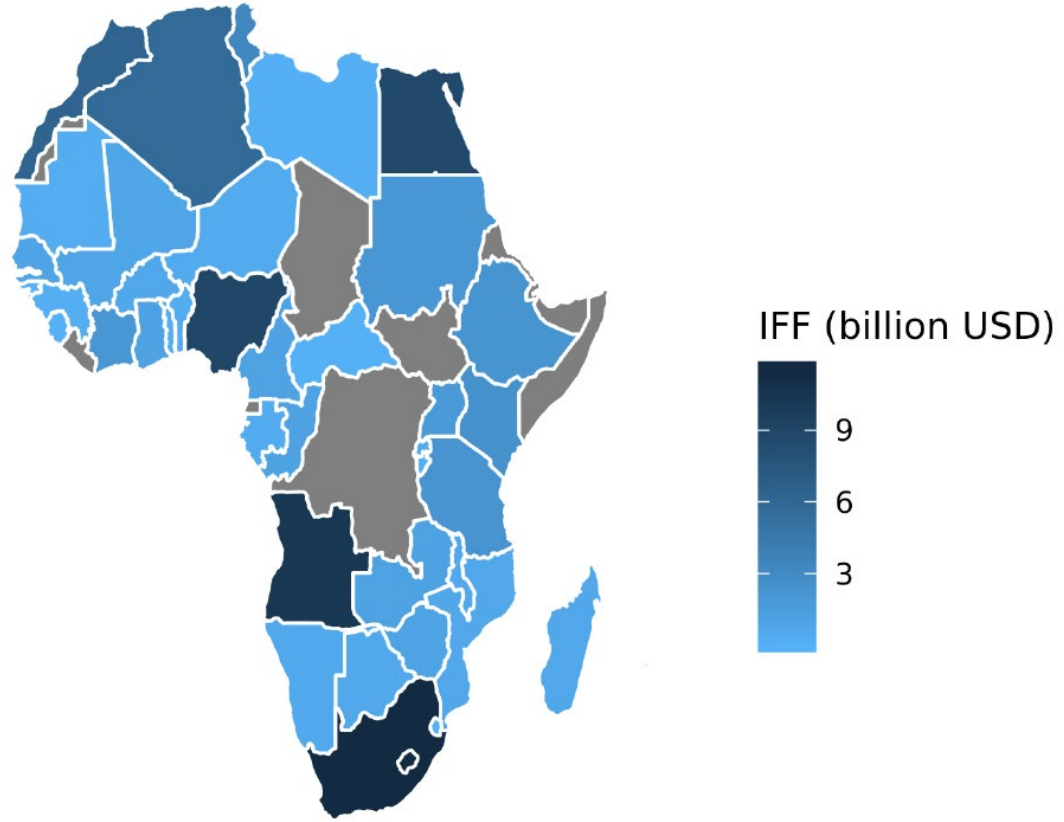
FOUR TYPES OF TRADE MISINVOICING

Financial Inflows	Import Under-Invoicing	--to evade Customs duties or VAT taxes; --to avoid regulatory requirements for imports over a certain value
	Export Over-Invoicing	--to exploit subsidies for exports; --to exploit drawbacks (rebates) on exports
Financial Outflows	Import Over-Invoicing	--to shift money abroad (evade capital controls, shift wealth into a hard currency, etc); --overstating the cost of imported inputs to reduce income tax liability; --to avoid anti-dumping duties
	Export Under-Invoicing	--to shift money abroad (evade capital controls, shift wealth into a hard currency, etc); income tax evasion



SCALE OF MISINVOICING IN AFRICA

Total outflows average in 2010-2016

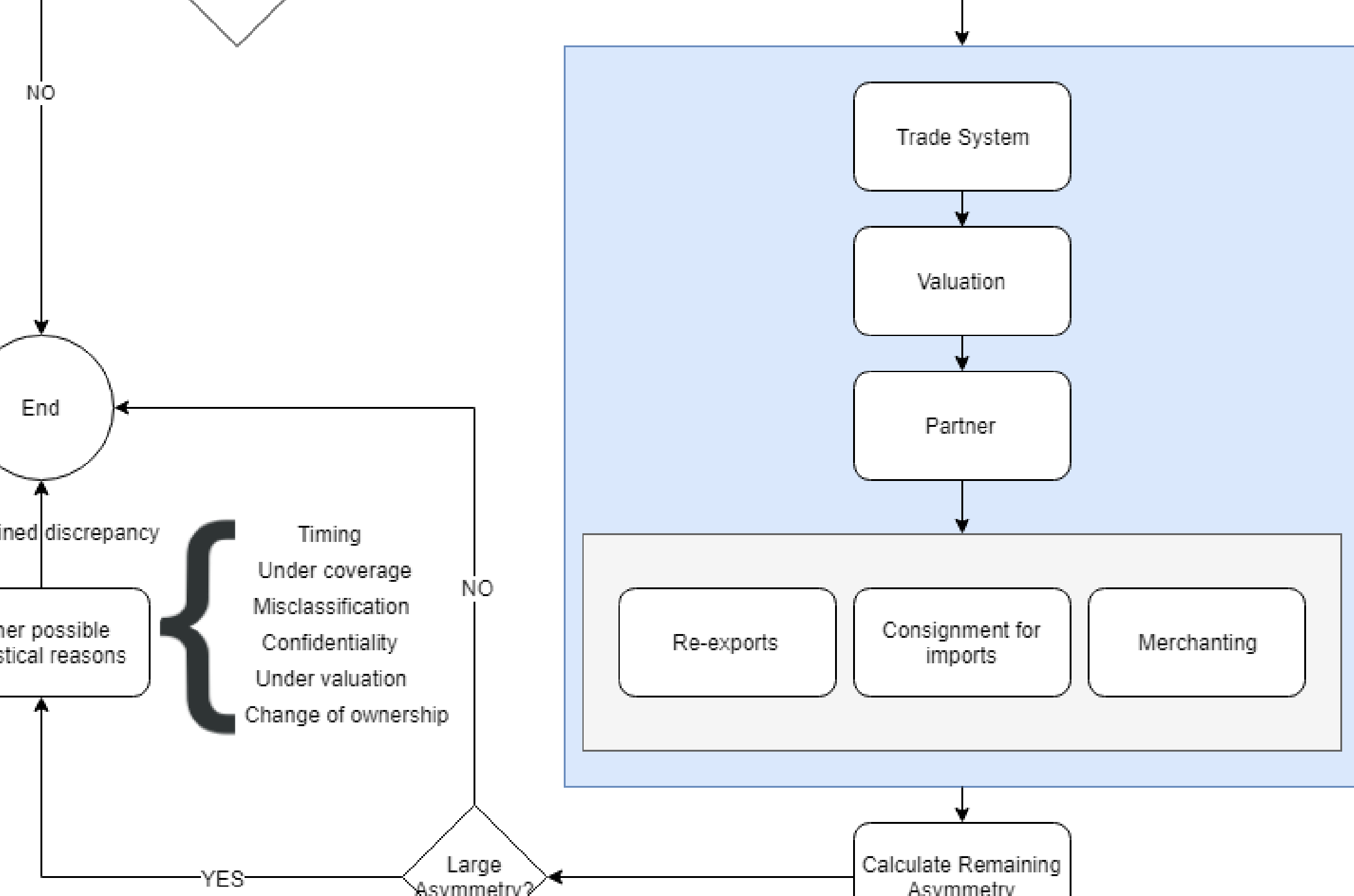


Source: UNECA estimates (2019)



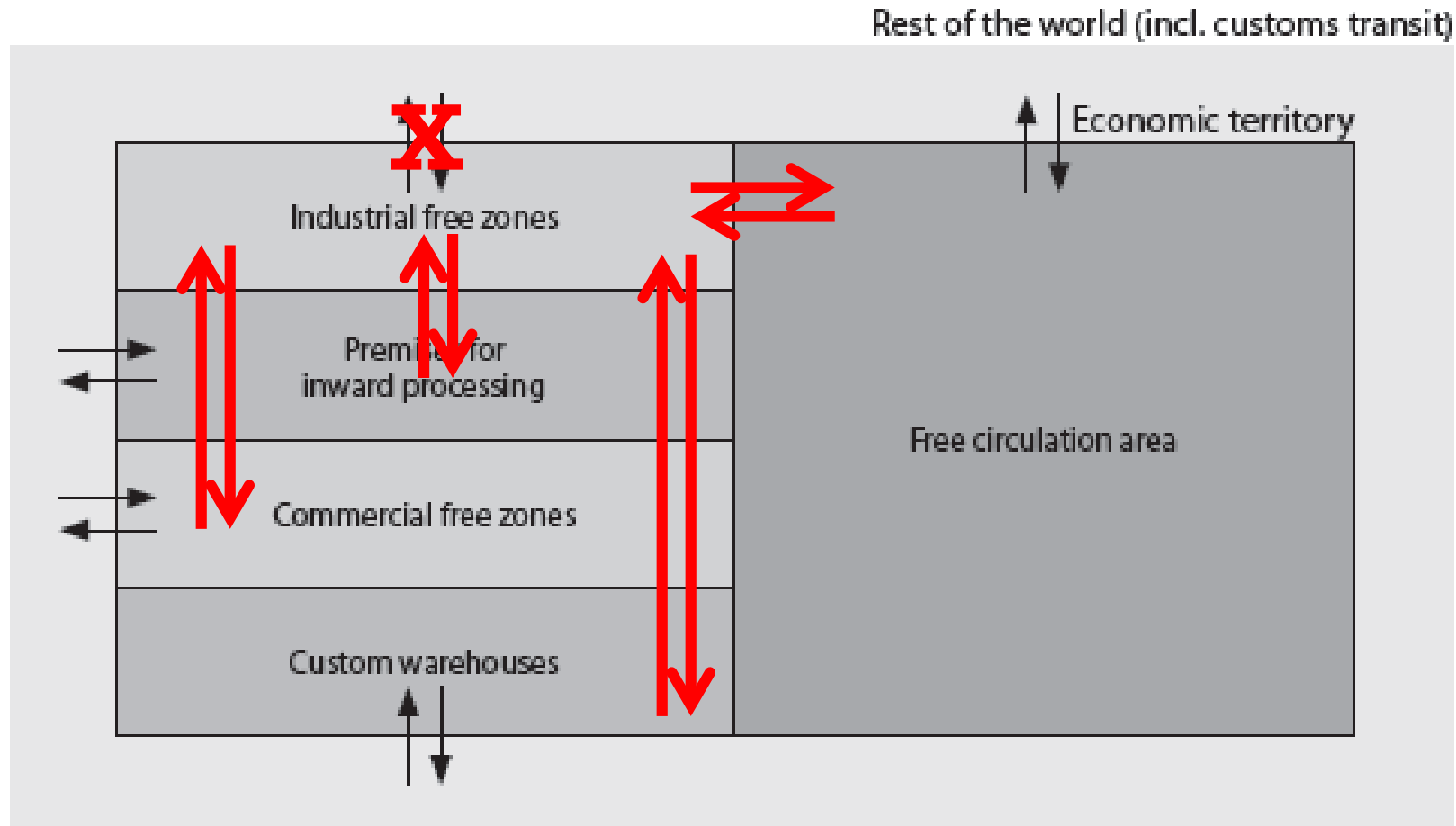
NOW, WHAT IS RELATIONSHIP WITH BILATERAL ASYMMETRY?

- Trade misinvoicing normally calculated (or estimated) based on value and/or quantity **differences** between country reported and mirror data from its trading partners
- Conceptually there would be discrepancies even though both countries comply with international recommendations
- Therefore, adjustment to both reported and mirror data are necessary taking into account methodological aspects
- Users and compilers should understand limitation of trade data before computing indicators





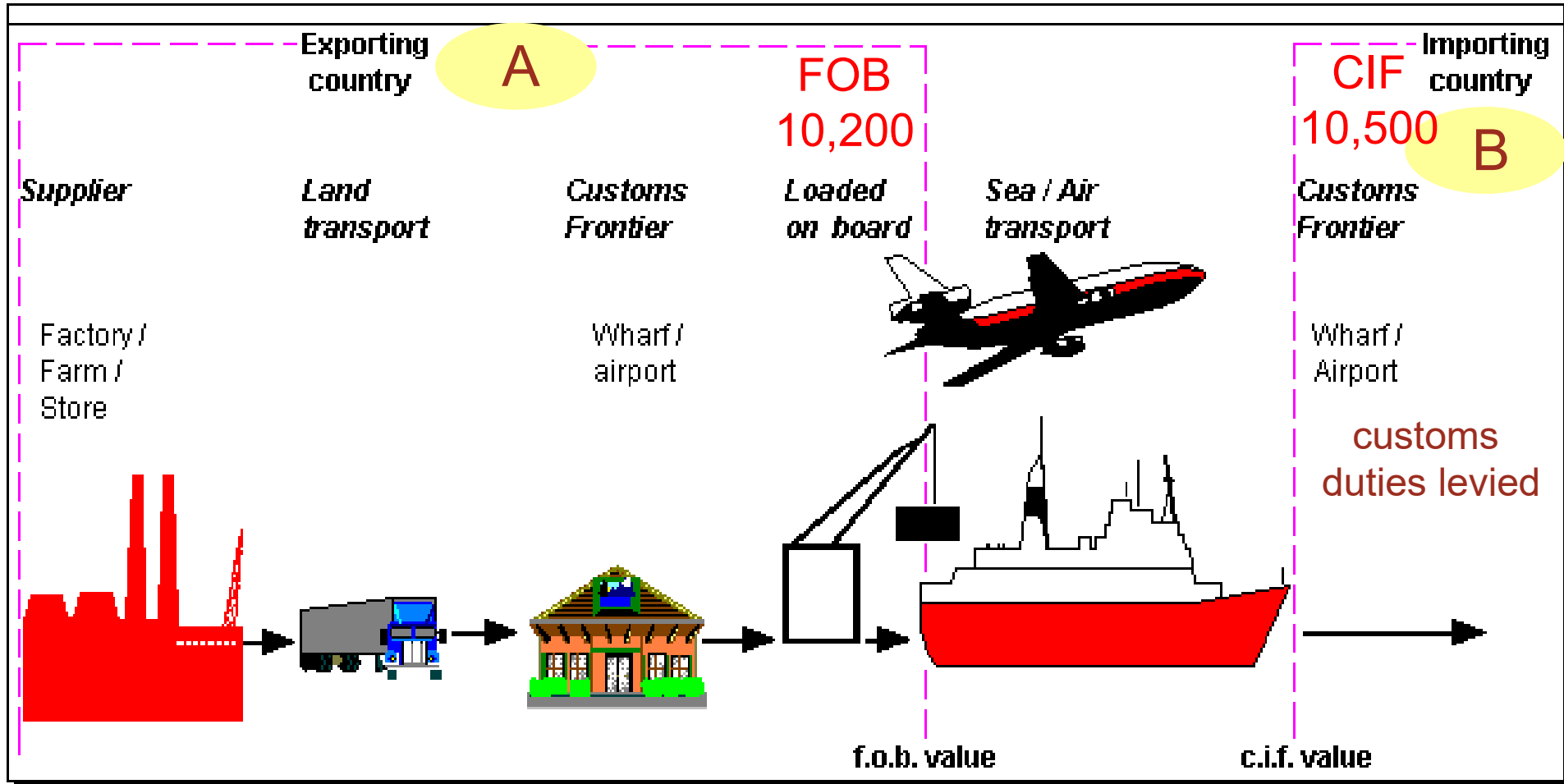
RECAP: TRADE SYSTEM



→ Representing imports and exports under the respective trade system.



VALUATION: CIF VS. FOB



10,000
Production
cost

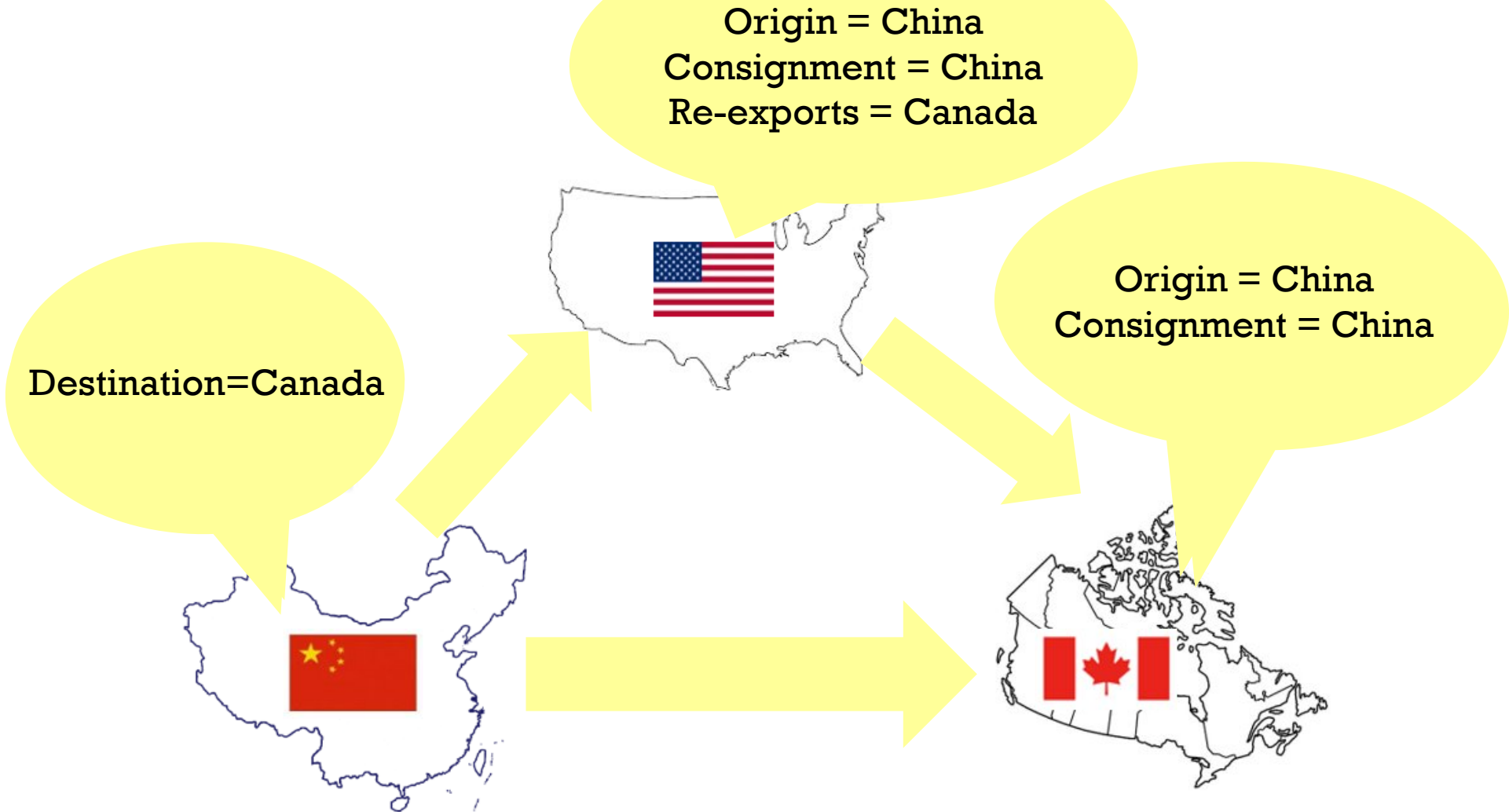
200
Transport cost within the
country to the customs frontier

300
Transport to
customs frontier B

100
to deliver to
customer



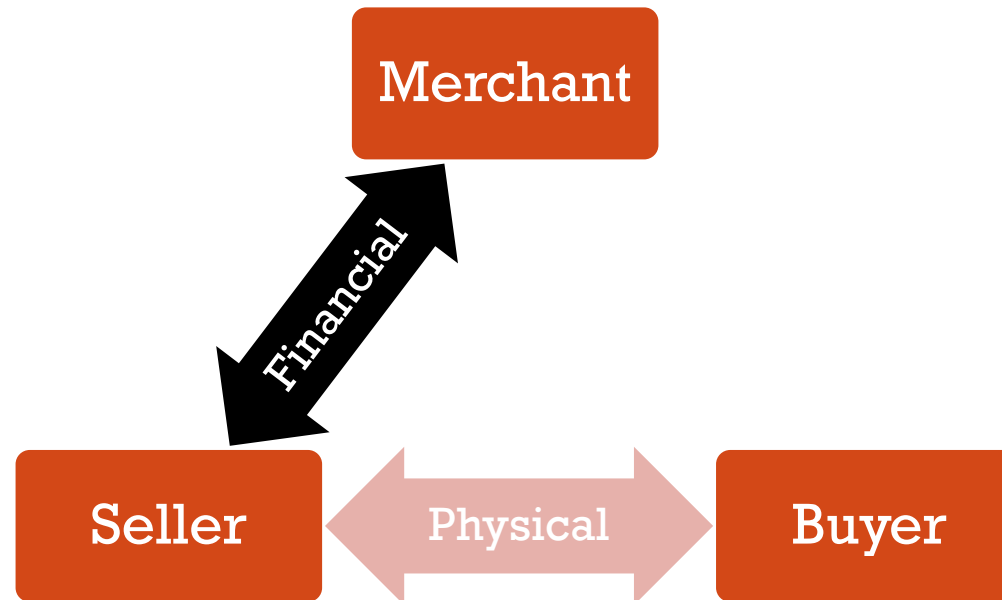
CONSIGNMENT AND RE-EXPORTS





MERCHANTING

“Merchanting is defined in BPM6 (paragraphs 10.41 to 10.49) as the purchase of goods by a resident, of the compiling economy, from a non-resident followed by the subsequent resale of the goods to another non-resident without the ever goods entering the residents’ compiling economy.”





OTHER (STATISTICAL) REASONS

- Add here
- Add one more
- Continue
- Depend on each country compilation practices





TEMPLATE TO ANALYZE AND REDUCE BILATERAL ASYMMETRY

		R imports	P exports
Original Data	Official data	a	b
	Published asymmetry		a-b
Adjustment	Indirect Trade	a1	
	Valuation	a2	
	Trade System	a3	b3
	Timing	a4	
	Re-exports	a5	b5
	Merchanting	a6	b6
Adjusted Data	Adjusted official data	$c = a - a1 - a2 - a3 - a4 - a5$	$d = b - b1 - b5 - b2$
	Remaining asymmetry		c-d



SAMPLE: CANADA-CHINA TRADE IN 2016

Commodity Group	Inbound trade				Outbound trade			
	Imports CAN	Exports CHN	Difference	%	Exports CAN	Imports CHN	Difference	%
Total	48.6	27.3	21.3	43.8	15.8	18.3	2.5	15.8
	3.3	1.3	2.0	60.6				
					0.1	0.8	0.7	95.0



Inbound Trade	CAN imports	CHN exports
Official data	48.6	27.3
Published asymmetry		21.3
Adjustment: *CAN imports of CHN goods from countries of export (consignment) other than CHN	20.7	
Adjustment: *CHN re-exports		0.2
Adjustment: *Timing	0.2	
Adjusted official data	27.7	27.2
Remaining asymmetry		0.5



Inbound Trade	CAN imports	CHN exports
Official data	3,329	1,362
Published asymmetry		1,967
Adjustment: *CAN imports of CHN goods from countries of export (consignment) other than CHN	1,280	
Adjusted official data	2,049	1,362
Remaining asymmetry		687



Outbound Trade	CAN exports	CHN imports
Official data	0	213
Published asymmetry		-213
Adjustment:		
*CAN re-exports	0	
*CAN imports of CHN goods from countries of export (consignment) other than CAN		0
*CIF/FOB estimate		9
Adjusted official data	0	204
Remaining asymmetry		-204

Illicit activities? Statistical deficiencies?



WHAT NEXT?

Look for other
statistical reasons

Consult traders –
both sides

Research non-
statistical reasons



KEY POINTS

- Trade misinvoicing is real
 - There are ways to prevent it (i.e., stringent unit value checks at Customs, cooperation among customs administrations)
 - It is part of “Illicit Financial Flows” which is in SDG 16.4 (to measure and reduce)
- Trade misinvoicing can be measured
 - Direct: analyzing customs transactions (see prevention above)
 - Indirect with mirror statistics: however, be caution on statistical reasons

THANK YOU

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