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U.S. TRADE DATA

Limitations of U.S. Statistics
on Trade With Mexico

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General Government Division



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**U.S. TRADE DATA:
LIMITATIONS OF U.S. STATISTICS ON TRADE WITH MEXICO**

**SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, DIRECTOR
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U.S. trade statistics undercount U.S. exports, according to several assessments. For example, when the United States and Canada reconciled their trade data, they discovered that reported U.S. exports were much less than recorded Canadian imports from the United States. In 1987, the United States and Canada signed an agreement to exchange administrative records on imports and use this information to determine each country's exports to the other. The Bureau of the Census is attempting to reconcile data on U.S. trade with Japan, South Korea, Australia, the European Community, and Mexico.

Although considered to be more accurate than export data, import data also have problems. The U.S. Customs Service and the U.S. Bureau of the Census attempt to identify and correct errors in the data filed by importers and to ensure that information is not lost or altered inadvertently as it goes through the many collection and processing steps.

According to Census officials, U.S. trade data probably undercount U.S. exports to Mexico. Also, it is difficult to use the data to unravel linkages between exports to Mexico of parts and components and imports to the United States of related items. The exports may leave the United States under one tariff classification, and the item made from the parts or components may return under a different tariff classification.

Mexico's maquiladora program allows Mexican and foreign investors to establish manufacturing plants in selected areas of Mexico to produce products for export, and exempts their imports from certain customs duties. U.S. trade data do not distinguish U.S. trade with maquiladora companies from other trade with Mexico.

While U.S. trade with maquiladoras cannot be measured directly, such trade can be estimated using statistics for imports that enter the United States from Mexico under production-sharing arrangements. Imports from Mexico under these arrangements can be used to estimate U.S. imports from maquiladora firms because it is believed that most such imports are from maquiladoras. It is not known how accurate these estimates are. This inaccuracy limits analysts' ability to directly link trade with maquiladoras using U.S. trade data.

If NAFTA is implemented, it may be more difficult to collect accurate trade data because Customs may have fewer reasons to closely monitor the collection of this information.



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to testify on the quality of U.S. trade data. I will focus my comments on the limitations of trade data in general, and on the specific limitations we encountered in our work on U.S.-Mexican trade issues, particularly in the maquiladora program.

BACKGROUND

Merchandise trade data have many important uses. At the broadest level they are used to calculate the monthly U.S. trade balance, which has become one of the most closely watched of the nation's economic indicators. The U.S. Customs Service has relied on trade data to enforce quotas and other restrictions on imports. Commerce's International Trade Administration and the Office of the U.S. Trade Representative also use these data to develop and monitor the effects of trade policies. In addition to the federal government, major users of merchandise trade data include state and local governments, businesses, and the academic community.

The Treasury Department's U.S. Customs Service and the Commerce Department's Bureau of the Census share responsibility for compiling statistics on U.S. merchandise trade. One of Customs' primary missions is regulating the flow of merchandise into and out of the country. To perform this mission, Customs is supposed to collect information on the nature, value, quantity, and origin or destination of virtually every shipment imported to or exported from the United States. Customs' main reason for collecting this information is to determine if proper duties and fees have been paid on the shipments and to ensure that the shipments have complied with all Customs laws and regulations. However, this information, together with other data on trade in services, also forms the basis for the statistics on the U.S.' trade position with other countries.

Over 90 percent of import information is submitted by importers or their brokers through an electronic data interchange with Customs. According to Census officials, about 50 percent of all export information is also submitted to Census using an automated system. The remainder is submitted using a paper reporting process. Customs transmits data to Census on shipments it approves for entry or export. Census then summarizes the data and releases them to the public in a series of reports.

UNDERCOUNTING OF U.S. EXPORTS IS A LONG-STANDING PROBLEM

The federal government has long suspected that U.S. exports have been undercounted. However, it was not until 1971, when the United States and Canada agreed to conduct an annual reconciliation of their trade data, that the extent of this

problem was discovered. The reconciliation showed that reported U.S. exports were much less than recorded Canadian imports from the United States. By 1986, the discrepancy was up to \$11.5 billion, or 20 percent of the reported northbound trade between the United States and Canada.

Other studies have shown that this problem is not limited to exports to Canada. For example, in 1989 the Census Bureau found that \$6.7 billion of exports through airports were not included in U.S. trade statistics because exporters or their agents had failed to file export documents. This amount was equivalent to about 7 percent of the value of merchandise the United States was reported to have exported by air in 1988. Also, a 1992 study by the National Research Council estimated that in recent years the United States had exported from \$10 billion to \$20 billion more than reported.

According to Census and Customs, Customs does not strictly enforce requirements that exporters submit documents accurately describing the type, value, and destination of the goods to be exported. Consequently, exporters are less diligent in reporting their shipments accurately or at all. Import data are believed to be more accurate and complete than export data because Customs inspectors and import specialists need import documents to assess duties and enforce import restrictions. There is no comparable incentive to scrutinize export documents.

EFFORTS TO IMPROVE EXPORT DATA

In 1987, the United States and Canada signed an agreement to exchange administrative records on imports and use this information to determine each country's exports to the other. U.S. and Canadian import statistics are considered to be more accurate than their export statistics because each country's Customs agency requires that importers file documentation at the time of entry of merchandise. Canadian and U.S. officials agree that the exchange has improved U.S. and Canadian export data.

Census currently does not use import data from nations other than Canada to determine U.S. exports. However, Census has ongoing efforts to reconcile data on U.S. trade with Japan, South Korea, Australia, the European Community, and Mexico. The objective of these reconciliations is to give Census a better idea about the quality of its trade data. Census has published the results of reconciliations for 1989 trade with Japan, the European Community, and South Korea.

These reconciliation efforts cannot completely account for the differences in trade data nor do they permit the exact amount of U.S. undercounted exports to be determined. Census and the reconciliation partner nations can adjust for some of the differences, but not enough information is available to adjust

for other differences. For example, merchandise exported to the United States from a reconciliation partner sometimes involves manufactured goods transhipped through a third country. Census often does not have access to sufficient information to determine how these shipments were counted by the reconciliation partner.

Census believes that discrepancies not resolved in reconciliation efforts to date represent the upper bound of the export undercount. The reconciliations on 1989 data that have been completed indicate that unresolved discrepancies were 2.9 percent for Japan, 3.3 percent for the European Community, and 7 percent for Korea. Census is still working on reconciliations with Mexico and Australia.

OVERALL QUALITY OF IMPORT DATA UNCLEAR

Although import data are generally considered to be more accurate than export data, they too have problems. Customs and Census use computer edits to identify and correct errors in the data filed by importers. These edits are useful for maintaining data quality. Yet recent evaluations of compliance and quality control procedures by the National Research Council and GAO reveal that there are problems with these procedures that could affect the accuracy of import data as well as export data.¹ Census and Customs have attempted to improve their procedures, but more work is needed in this area. They may need to improve their procedures to guard against importers filing inaccurate information and to ensure that information is not lost or altered inadvertently as it goes through the many collection and processing steps.

Customs has been trying to expedite the flow of trade by automating the processing of cargo and declarations. These efforts will become more important as the movement of goods to and from Canada and Mexico increases. However, Census also is concerned that some aspects of Customs' automation plans may cause businesses to provide less detailed information on import and export transactions. For example, Customs would like to shift from a system in which importers file entries for each entry transaction to one in which they periodically report their entry activities. Census expressed the concern that these periodic reports, which might be filed monthly, could cover a variety of goods and may not provide the detailed information that could be obtained from single transaction entries.

¹See Committee on National Statistics, Commission on Behavioral and Social Sciences and Education, National Research Council, Behind the Numbers: U.S. Trade in the World Economy (Washington, D.C.: National Academy Press, 1992); and Customs Service: Trade Enforcement Activities Impaired by Management Problems (GAO/GGD-92-123, Sept. 24, 1992).

LIMITATIONS IN U.S.-MEXICAN TRADE DATA

According to Census officials, U.S. trade data probably undercount U.S. exports to Mexico. In addition, it is hard to get a complete picture of U.S.-Mexico trade from the data. For example, U.S. trade statistics do not distinguish U.S. trade with Mexico's maquiladora industry from other trade with Mexico. Also, it is difficult to use the data to unravel linkages between exports to Mexico of parts and components and imports to the United States of related items. The exports may leave the United States under one tariff classification, and the item made from the parts or components may return under a different tariff classification.

According to Census officials, the magnitude of export underreporting to Mexico is unknown. However, these officials told us that any undercount probably is less than the 20-percent undercount that was found for Canada because the Mexican border is relatively more controlled. A Census official told us exports to Mexico could be undercounted because, while Customs officials are able to collect export documents from large trucks crossing the border, they are less likely to collect these documents from the many small trucks that do so.

A significant proportion of U.S. trade with Mexico is done with Mexican firms in the maquiladora program. Mexico's maquiladora program, which began in 1965 as part of Mexico's Border Industrialization Program, allows Mexican and foreign investors to establish manufacturing plants in selected areas of Mexico to produce goods for export. The manufacturing plants, called "maquiladoras," produce finished or semifinished goods that are exported primarily to the United States. Foreign investors may own up to 100 percent of a maquiladora plant. As long as the maquiladora's products are exported, no Mexican duty is levied on imported machinery, raw materials, or components used to make the products.

Neither U.S. export nor import data directly measure U.S. trade with maquiladoras because U.S. import and export documents do not require traders to identify whether they participate in the maquiladora program. Further, the maquiladora program is a Mexican government program. The U.S. government's trade data system is not designed to collect information on U.S. companies that participate in foreign government programs.

While U.S. trade with maquiladoras cannot be measured directly, such trade can be estimated using statistics for imports that enter the United States from Mexico under production-sharing

arrangements.² Under these arrangements, certain products assembled in foreign countries from U.S.-made components are only subject to duties on the value added in the foreign country, that is, on the residual of the total value of the imported product minus the value of the U.S.-made components. Imports from Mexico under these arrangements can be used to estimate U.S. imports from maquiladora firms because there are indications that a large proportion of these imports are from maquiladoras. Further, because most U.S. exports to maquiladora companies are then returned from the maquiladoras as exports to the United States, the portion of the production-sharing imports from Mexico that does not have duties--that is, that which originated in the United States--can be used to estimate U.S. exports to the maquiladoras.

It is not known how accurate these estimates are. U.S. imports under production-sharing arrangements do not correspond exactly with U.S. imports from maquiladoras. Products entering the United States under these arrangements may include imports from some Mexican companies that are not in the maquiladora program.

Moreover, production-sharing imports exclude some imports from maquiladora firms. Maquiladoras may export using the U.S. tariff provision most advantageous to them. In some cases, maquiladoras export to the United States under other U.S. tariff provisions, such as under the Generalized System of Preferences.³

U.S. trade statistics also do not capture other aspects of maquiladora trade. In some cases, items the United States exports to maquiladoras under one HTS classification may, after being assembled, return to the United States under a different HTS classification. For example, electronic wire exported from the United States to maquiladoras can be returned to the United States as an automotive part. These factors limit analysts' ability to directly link trade with maquiladoras using U.S. trade data.

U.S. import and export documents could be modified to collect information on U.S. trade with maquiladoras. However, doing so would entail costs as well as provide benefits. According to

²Commodities enter the United States under these arrangements either under subheading 9802.00.60 or heading 9802.00.80 of the Harmonized Tariff Schedule (HTS) of the United States. Before January 1, 1989, entry occurred under items 806.30 and 807.00 of the former Tariff Schedules of the United States.

³The Generalized System of Preferences is a program under which the United States grants duty-free status on selected products to certain developing nations and territories. Mexico is the largest participant in this program.

Census officials, collecting this information would place additional burdens on exporters and importers, as well as on U.S. Customs and Census officials who must collect and compile the information. Further, if the North American Free Trade Agreement (NAFTA) is ratified, the Mexican government is expected to terminate the maquiladora program within 7 years since the tariff advantages of maquiladora operations will be sharply reduced.

U.S. MEXICAN TRADE DATA
UNDER NAFTA

If NAFTA is implemented, it may be more difficult to collect accurate trade data because Customs may have fewer reasons to closely monitor the collection of this information. The U.S.-Canada free trade agreement, which went into effect at the beginning of 1989, calls for the elimination of all tariffs by 1998. Likewise, NAFTA, if ratified by the United States, Canada and Mexico, will phase out tariffs over 15 years on trade between the three nations. Census officials and others in the statistical and trade communities believe that the elimination of duties by the free trade agreements would reduce the reasons for Customs to assure that import data are accurately filed by importers. This situation could then adversely affect the quality of trade data.

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Mr. Chairman, this concludes my prepared statement. I will be pleased to respond to any questions you or other Members may have.

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