Economics focus

# Exports to Mars

**Official statistics probably exaggerate global current-account imbalances**

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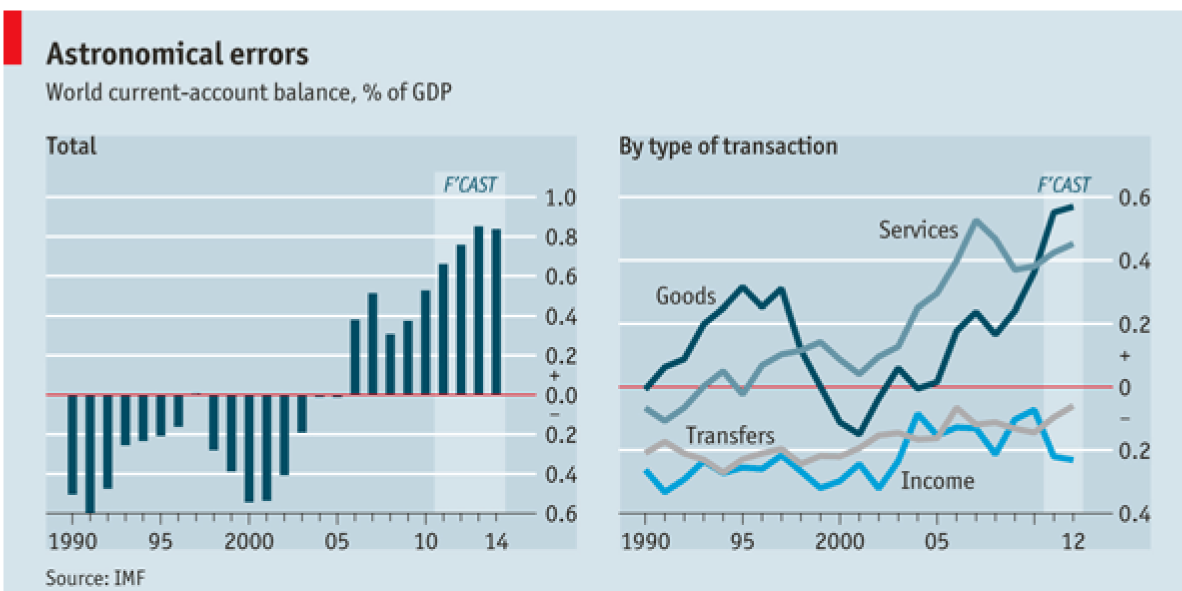
ECONOMISTS are constantly urging governments to adopt policies that would reduce global imbalances—which, in crude terms, means that China should slash its current-account surplus and America its deficit. Yet they ignore the biggest imbalance of all: the current-account surplus that planet Earth appears to run with extraterrestrials. In theory, countries' current-account balances should all sum to zero because one country's export is another's import. However, if you add up all countries' reported current-account transactions (exports minus imports of goods and services, net investment income, workers' remittances and other transfers), the world exported $331 billion more than it imported in 2010, according to the IMF's World Economic Outlook. The fund forecasts that the global current-account surplus will rise to almost $700 billion by 2014.

Are aliens buying Louis Vuitton handbags? Are little green men bagging the best sunbeds by the hotel pool? The more down-to-earth explanation is that the global surplus reflects statistical errors. Either the current-account deficits of countries such as America are being understated or the surpluses of countries like China are being overstated, and by a rising amount.




The puzzle is compounded by the fact that the world ran a persistent current-account deficit for at least three decades until 2005. In 2001 the deficit was equivalent to 0.5% of global GDP, but by next year the IMF's forecasts imply that the surplus could hit a record 0.8% of GDP (see left-hand chart).

That turnaround exceeds the increase in China's current-account surplus over the same period. Indeed, the global “surplus” now exceeds China's.

A statistical black hole of this scale raises questions about the IMF's forecast that global external imbalances will rise over the coming years. It expects China's current-account surplus to double in dollar terms between 2010 and 2014. A forecast increase in China's surplus ought to mean a bigger deficit elsewhere. Yet the fund also expects the rest of the world combined to run a rising surplus (this includes a big drop in America's deficit).

What is going on? Past studies by the IMF concluded that the global deficit in the 1980s and 1990s was largely due to the underreporting of foreign-investment income by rich countries and the under-recording of freight receipts. But over the past decade, the “deficit” on investment income has diminished, partly because governments have cracked down on tax evasion and partly because interest rates have fallen. An IMF study in 2009, by Marco Terrones and Thomas Helbling, concluded that the biggest cause of the switch from a global current-account deficit to a surplus was mismeasurement of services. International trade in financial and legal services, insurance and consultancy is tricky to measure, and exporters are easier to identify than importers. For instance, law firms involved in cross-border deals are usually quite large, whereas most clients' spending on their services is relatively small (though it may not seem that way to the clients). Exporters are thus more likely than importers to exceed the threshold for inclusion in the surveys used to track trade in services.

Since that report, however, measurement errors in merchandise trade have jumped and now match those in services (see right-hand chart). Transport lags can cause annual global exports to exceed imports when trade is growing rapidly because goods in transit in December are counted as exports by China, say, but are not counted as imports by America until January. But this cannot account for the scale of the recent rise in the statistical discrepancy because growth in trade has slowed since 2007.

Another possible explanation posits that the surge in the global discrepancy broadly coincides with both the explosion in vertically integrated businesses, where firms locate different stages of production in different countries, and the increase in China's trade. A rising share of trade consists of parts, semi-finished goods and final products moving across borders between parent companies and their foreign subsidiaries. In 2009 intra-firm trade accounted for half of America's imports. Transfer pricing used by multinationals to shift profits around the globe may distort trade figures. Much of this mispricing of exports and imports should cancel out, but probably not all.

## More science, less fiction

Overinvoicing of imports and underinvoicing of exports by American multinationals trying to reduce their tax bills would mean that America's true current-account deficit is smaller than officially reported. That would increase, not reduce, the global discrepancy. But under- or overinvoicing of trade within international firms is also used to dodge capital controls. A decade ago firms in emerging economies often reported exports at less than their value or imports at more, to shift money out of a country like China. In recent years, however, China's booming economy and the expected appreciation of the yuan mean that exporters now have more incentive to overinvoice exports in order to bring money into the country. If so, official figures may overstate the surplus of China and other emerging economies.

To understand whether global imbalances really are widening or not, you need to know where the errors lie. Rich countries' trade statistics tend to be more reliable than those of emerging economies, where data collection is less developed. If more of the mismeasurement is in the emerging world, the total current-account surplus of emerging markets is probably much smaller than that officially recorded. Zhiwei Zhang, an economist at Nomura, estimates that measurement errors caused by underrecorded profits of foreign firms and capital flows disguised as trade flows may have inflated China's current-account surplus by 3-4 percentage points (last year's surplus was 5% of GDP).

The good news is that international concerns about global imbalances may be much less pressing than many think. The bad news is that conventional balance-of-payments measures are clearly less reliable in a world of rising intra-firm trade and complex supply chains. That matters because dodgy statistics lead to policy mistakes. Governments should clean the figures up.