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Global trade imbalances

Fiddling the data

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A CHARTICLE (http://www.economist.com/news/finance-and-economics/21586838-less-skewed) in this week's finance section looks at global imbalances, which have narrowed dramatically in the past few years.

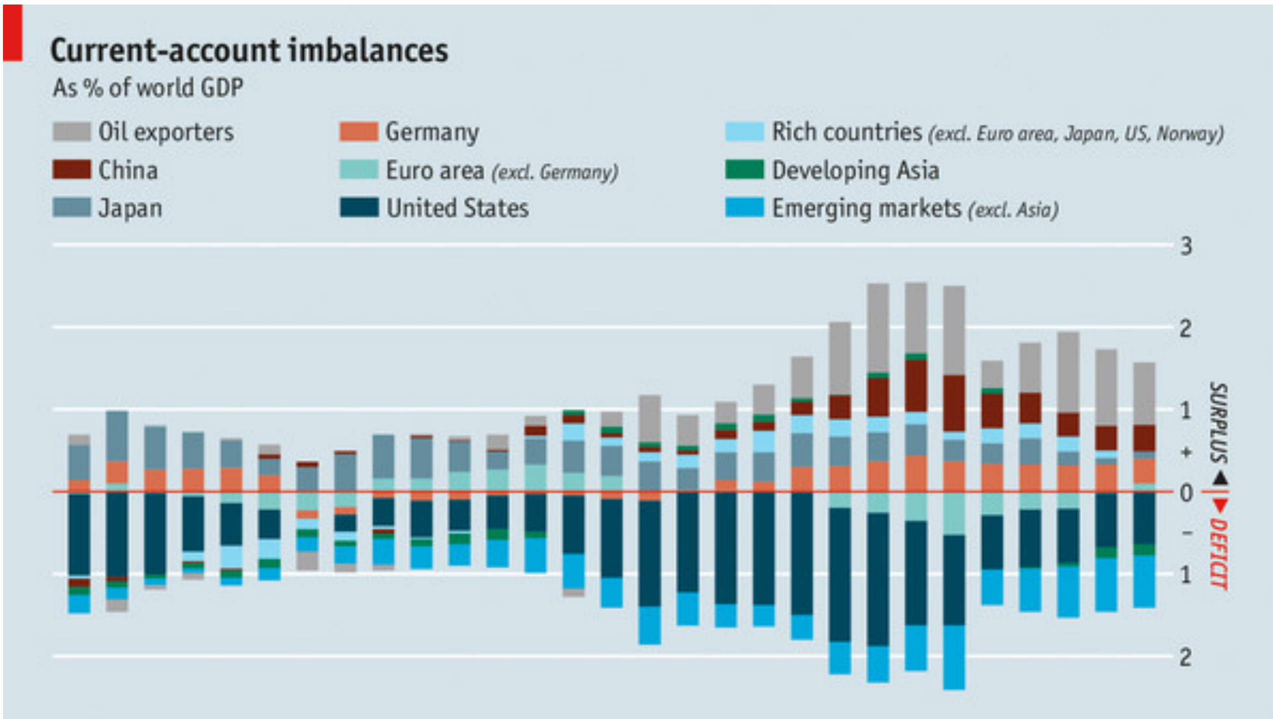
But for some eagle-eyed readers, that will not be the most interesting part about the graph. The difference between total imports and total exports does not equal zero for most of the years. This contravenes basic economic theory: what is exported must be imported.

Up until around 2004, the net global trade balance was negative. Some people put this down to underreporting of investment income. But since then, the global trade balance has been positive. And while research is at an early stage, there may be a few explanations for this strange trend.

Some people will argue that the discrepancy is purely statistical. Measuring global trade is not terribly easy. But the discrepancy is 0.4% of world GDP—roughly the size of China's trade surplus. And so something else might be going on.

According to Gabriel Zucman, "transfer pricing" may be to blame. A multinational company, with operations in many countries, may transfer assets to a country (usually a tax haven) for very little money. This is relatively easy to do with intellectual capital—for example, trademarks or algorithms—for which there is no clear market price. As a result, the tax haven's figure for imports is relatively low. But then that company will register its sales through that tax haven—consequently, the tax haven's exports are rather high. This ruse might help to explain why low-tax economies like Ireland and Luxembourg have big trade surpluses relative to GDP—higher even than China's.

Finally, China's enormous current-account surplus could be lower than reported. Some people



suspect that Chinese businesses exaggerate exports to Hong Kong—which lets them get higher tax rebates. Again, this pushes up the global trade surplus.

The world's current account balance is not the only problem. At the global level, liabilities tend to exceed assets; the world as a whole is a net debtor. Mr Zucman's research suggests that this is to do with tax havens—where assets are underreported.