Frequently Asked Questions Concerning the Inclusion of Foreign Exports (Re-Exports) in the U.S. Merchandise (Goods) Trade Balance

Merchandise Trade Data & Collection:

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What is the official U.S. source for merchandise trade data?

The Census Bureau (Department of Commerce) is the official government source of U.S. Merchandise Trade Statistics by U.S. law (13 U.S.C. §301) and provides a portal to access these data. Other agencies, such as the International Trade Administration (ITA) and the International Trade Commission (USITC) provide alternative portals to access Census data, but Census remains the official source for the data.

What exactly are considered "exports"?

Under the U.N.'s International Merchandise Trade Statistics (IMTS) guidelines, exports measure the total physical movement of merchandise out of the United States to foreign countries. This includes goods that are entirely produced in the United States, goods that are produced in the U.S. using previously imported components, goods that entered the U.S. for minor processing such as packaging or labeling, and goods that entered the U.S. on consignment for possible sale or auction, among others. NOT included are goods that are transiting in bond through the U.S. (i.e. are offloaded at Long Beach but destined for Canada).

What are considered "imports"?

Imports include all goods that physically enter the United States from abroad. This includes goods that are entirely produced abroad, goods produced abroad using previously exported U.S. components, U.S.-produced goods that are returned to the United States following minor processing and/or assembly, and goods that entered the U.S. on consignment but were not sold. NOT included are goods that are transiting under bond through the U.S. (i.e., manufactured in China but shipped through the U.S. via Long Beach on their way to Canada). As with exports, this definition follows U.N. guidelines.

What types of export data are available?

The U.S. Census Bureau collects a variety of information on exports including the type of merchandise exported, the location of export, the month of export, and whether the export was produced or significantly changed in the United States. This last piece of information is how the Census Bureau distinguishes 'domestic exports' from 'foreign exports' (also called 're-exports').

What are "domestic" exports and "foreign exports"?

- *Domestic Exports* – Goods that are grown, produced or manufactured in the United States, and commodities of foreign origin that have been changed, enhanced in value or improved in condition by further processing or manufacturing in the United States.
- *Foreign Exports (Re-exports)* – Previously imported goods that were grown, produced or manufactured in a foreign country and which, at the time of export, have not undergone substantial transformation in form or condition (i.e., a fundamental change to a good which

adds a significant amount or percentage of value in comparison to its untransformed value) in the United States.

Consistent with the U.N. and IMF guidelines, both 'domestic' and 'foreign' exports are included in the total U.S. export value.

Why are 'foreign' exports (re-exports) included in U.S. export data?

Including 'foreign' exports presents a more comprehensive measure of trade. Despite their names, 'foreign' exports are not entirely foreign and 'domestic' exports are not entirely domestic. 'Foreign' exports can include U.S.-based production such as, packaging, assembly, testing, and other economic activities. 'Foreign' exports also include previously imported goods that are used in the U.S. and then re-sold abroad. Similarly, 'domestic' exports are not entirely domestic as they may include imported parts. Including both 'foreign' and 'domestic' exports in total exports gives us the broadest picture of goods leaving the United States.

This treatment conforms to the internationally accepted United Nations guidelines which recommend that:

- International trade statistics record all goods which add to or subtract from the stock of material resources of a country by entering (imports) or leaving (exports) its economic territory.
- Countries use the general trade system (measuring goods as they arrive or leave, regardless of whether entered for consumption or moved to a bonded warehouse or FTZ).
- Re-exports be included in total exports and be separately identified (coded) for analytical purposes.

The U.S. trade statistics are consistent with all three of these recommendations.

What types of import data are available?

Like exports, a variety of data are collected on imports including country of origin, port of entry, date of entry, and whether the item enters consumption channels in the U.S. This last piece of information is the basis for the distinction between 'general imports' and 'imports for consumption'.

What are "general imports" and "imports for consumption?

- *General Imports* - This number measures the total value of merchandise shipments that arrive in the U.S. from foreign countries, aside from goods transiting the country under bond.
- *Imports for Consumption* - This number measures the total value of merchandise that physically clears Customs and enters into U.S. consumption channels (i.e. is available for use by U.S. persons or businesses). Merchandise being held in bonded warehouses or U.S. Foreign Trade Zones is not included until it is withdrawn for consumption.

U.S. import statistics reflect general imports as this is the broadest measure of merchandise entering the U.S.

Do ‘imports for consumption’ include ‘foreign exports’?

Yes, in many cases ‘foreign exports’ enter U.S. consumption channels and therefore are included in both ‘imports for consumption’ and ‘general imports’. Often, it is not known when a good enters the United States whether it will be re-exported. For example, a wholesaler, or distributor may import goods for resale, and sell some to domestic companies while exporting others. Unless there are significant duties or fees, the importer will likely enter such goods for consumption rather than admit them into a bonded warehouse.

Artwork is another example. A painting that enters the U.S. on consignment for an art show might be sold, and is therefore considered an import for consumption. However, if the painting is not sold it is returned to the owner and is counted as a re-export.

Trade Balance

What is the most common method used by the U.S. and internationally to calculate a trade balance?

The U.S. merchandise trade balance is calculated as "Total Exports" (i.e. 'domestic exports' plus 'foreign exports') less "General Imports" (all imports that arrive in the U.S. aside from those transiting under bond) because these numbers reflect the most comprehensive measure of goods entering and leaving the United States. This calculation follows U.N. statistical guidelines and is used by the World Trade Organization and the majority of nations.

This methodology ensures that all goods entering and leaving the United States are accounted for. 'Foreign exports' are counted as an import when they enter the country and an export when they leave.

This is similar to how a company balances its books. If it purchases (imports) a good from another company and then resells (re-exports) the good, it will count both transactions when balancing its books.

Other methodologies, such as using 'domestic exports' and 'imports for consumption', exclude some traded goods and therefore do not accurately reflect the U.N. recommended and most widely accepted measure of the U.S. trade balance and often inflate the trade deficit.

Taking U.S. trade in 2014 as an example, the U.N. recommended calculation of the trade balance results in a $722 billion merchandise trade deficit:

Total Exports		**General Imports**		**Trade Balance**
(includes foreign exports)		(includes imported goods that are later re-exported)		
$1,623 billion	−	**$2,345 billion**	=	**-$722 billion**

A calculation that uses 'domestic exports' and 'imports for consumption' produces a larger deficit of $912 billion largely because 'foreign exports' (re-exports) are excluded on the export side of the equation but included on the import side:

Domestic Exports		**Imports for Consumption**		**Trade Balance**
(excludes foreign exports)		(**STILL** includes many imported goods that are later re-exported)		Re-exports are removed from the export side, but not the import side, inflating the trade deficit
$1,402 billion	−	**$2,314 billion**	=	**-$912 billion**

Using 'domestic exports' rather than total exports also excludes from the trade balance the value of U.S. inputs such as distribution, packaging, testing or assembly in 'foreign exports'.

What are some examples of how using domestic exports and imports for consumption can inflate the trade deficit?

- <u>Automobiles:</u> A U.S. company imports a truck into an FTZ in Washington State ($10,000 in General Imports, $0 Consumption Imports), the company adds mirrors to the truck and then re-exports it ($12,000 Total Export, $0 Domestic Export).

U.N. Recommended Calculation of Trade Balance:

Total Exports		**General Imports**		**Trade Balance**
$12,000	−	$10,000	=	$2,000

Calculation that Inflates the Trade Deficit:

Domestic Exports		**Imports for Consumption**		**Trade Balance**
$0	−	$0	=	$0

- <u>Semiconductors:</u> A U.S. company imports semiconductors into the U.S. ($1 million in General Imports, $1 million in Consumption Imports), the company tests the semiconductors and then re-exports them for further processing ($1.1 million Total Export, $0 Domestic Export).

U.N. Recommended Calculation of Trade Balance:

Total Exports		**General Imports**		**Trade Balance**
$1.1 million	−	$1 million	=	$100,000

Calculation that Inflates the Trade Deficit:

Domestic Exports		**Imports for Consumption**		**Trade Balance**
$0	−	$1 million	=	-$1 million

- <u>Jewelry:</u> A $2 million diamond necklace comes into the U.S. on consignment for a jewelry show in Las Vegas. Since the necklace could be sold, it is considered an import for consumption (as well as a general import). It does not sell, resulting in a $2 million re-export.

U.N. Recommended Calculation of Trade Balance:

Total Exports		**General Imports**		**Trade Balance**
$2 million	−	$2 million	=	$0

Calculation that Inflates the Trade Deficit:

Domestic Exports		**Imports for Consumption**		**Trade Balance**
$0	−	$2 million	=	-$2 million

- Art: A $10 million painting comes into the U.S. on consignment for an art show in New York, the artwork could be sold so it is considered an import for consumption (as well as a general import). The painting does not sell and is a $10 million re-export.

U.N. Recommended Calculation of Trade Balance:

Total Exports		General Imports		Trade Balance
$10 million	−	$10 million	=	$0

Calculation that Inflates the Trade Deficit:

Domestic Exports		Imports for Consumption		Trade Balance
$0	−	$10 million	=	-$10 million

- Apparel: A U.S. company imports $1 million of clothing to a U.S. distribution center, it then distributes $750,000 to U.S. stores and re-exports $250,000 to Canadian stores.

U.N. Recommended Calculation of Trade Balance:

Total Exports		General Imports		Trade Balance
$250,000	−	$1 million	=	-$750,000

Calculation that Inflates the Trade Deficit:

Domestic Exports		Imports for Consumption		Trade Balance
$0	−	$1 million	=	-$1 million