CHAPTER 2. TRADE SYSTEM

A. An overview of basic terms

1. *Statistical territory*. The statistical territory of a country is the territory with respect to which data are being compiled. This is the key concept for an unambiguous identification of the flows of goods recorded in country's trade statistics. **It is recommended that** countries provide a detailed description of their statistical territory and make that description publicly available as a part of their metadata (see para. for details []).

2. *Customs territory*. In the majority of countries, trade data collection is based on customs procedures, and many of those countries adopt the boundary of their customs territory as the boundary of their statistical territory. The customs territory is "the territory in which the customs law of a state applies in full"1. However, there is a growing number of cross-country flows of goods which are not captured by customs or are captured inadequately (e.g., flows between member states of customs unions, and shipments of goods into and out of customs free zones). Therefore, in many cases, the statistical territory is broader then the customs territory and compilers of trade statistics have to use non-customs sources (e.g., sample surveys and tax-based collections) to approximate the trade transactions related to an economic territory.

3. *Elements of statistical territory*. The statistical authorities of a country may define its statistical territory by listing various elements of its economic territory which belong to it. These elements are usually described with reference to the country customs legislation and may vary from country to country. However, **it is recommended** that countries use, to the extent possible, definitions of the customs terms as contained in the annexes to the Kyoto Convention. For the purposes of international comparison **it is recommended** that countries make clear whether or not the following territorial elements exist in the country, and on whether or not they are included in its statistical territory:

a. Islands;
b. Territorial waters;
c. Continental shelf;
d. Offshore and outer space installations and apparatus;
e. Commercial free zones;
f. Industrial free zones;
g. Premises for customs warehousing;
h. Premises for inward processing;
i. Territorial enclaves of the compiling country in other countries;
j. Territorial exclaves that is enclaves of other countries in the compiling country.

1 Kyoto Convention, annex A.1, p. 6.

4. *The commercial and industrial free zones*. "The term 'free zone' means a part of the territory of a State where any goods introduced are generally regarded, insofar as import duty and taxes are concerned, as being outside the customs territory and are not subject to the usual customs control"2. A distinction may be made between commercial and industrial free zones. According to the Kyoto convention "in commercial free zones the permitted operations are generally limited to those necessary for the preservation of the goods and the usual forms of handling to improve their packaging or marketable quality or to prepare them for shipment. In industrial free zones processing operations are authorized"3. Customs free zones exist, *inter alia*, in such forms as investment promotion zones, export processing zones, foreign trade zones, commercial free zones or industrial free zones. In some cases, these zones are not delineated geographically but may involve only different tax, subsidy or customs treatment. A large and growing number of customs free zones are onshore manufacturing enclaves which have been created to attract foreign direct investment, stimulate local industry and provide employment to the local labor force. The legal status of these zones ranges from extra-territorial, whereby they are exempt from all customs laws, to varying degrees of customs control.

5. *Premises for inward processing*. These can be any premises where goods can be placed conditionally relieved from payment of import duties and taxes (under the customs procedure known as a temporary admission for inward processing). Such goods must be intended for re-exportation within a specific period after having undergone manufacturing, processing or repair. Depending on the customs regulations premises for inward processing might be specially designated areas or any premises, provided that other conditions for inward processing are complied with.

1. *Premises for customs warehousing*. These are the premises where imported goods are stored under customs control (a customs warehouse) without payment of import duties and taxes. Warehoused goods can undergo usual forms of handling to improve their packaging or marketable quality or to prepare them for shipment, such as breaking bulk, grouping of packages, sorting and grading and repacking. However, operations that may change the essential character of the goods are not normally allowed.

6. *Territorial waters and continental shelf* include the areas over which jurisdiction is exercised and over which fishing rights and rights to fuels or minerals exist.

7. *Offshore and outer space installations and apparatus*. These include any installation or apparatus, mobile or not, located outside of the geographical territory of a country, owned by the country resident(s) and remaining under the country's jurisdiction.

8. *Territorial enclaves and exclaves.* These are clearly demarcated land areas (such as embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, central bank representative offices with diplomatic immunity, etc.) physically located in other territories and used by governments that own or rent them for diplomatic, military, scientific, or other purposes with the formal agreement of governments of the territories where the land areas

2 Kyoto Convention, annex F.1, p. 6
3 Kyoto Convention, annex F.1, p. 5

are physically located. Also included are parts of the territory of a given country which are located within the geographic boundaries of other countries. An enclave of a given country is an exclave from the perspective of the country where that enclave is located.

9. *Domestic and foreign goods*. In their foreign trade statistics countries usually distinguish between flows of domestic and foreign goods. However, country practices differ with respect to the definition of those two concepts. To increase international comparability of country trade data **it is recommended** that *domestic goods* be defined as goods originating in the economic territory of a country. In general, goods are considered as originating in the country if they have been wholly obtained in it or were substantially transformed (criteria for determination of origin of goods are discussed in more detail in Chapter 6). Goods normally originate in such parts of an economic territory as the free circulation area, industrial free zones or premises for inward processing. It is assumed that goods do not originate in customs warehouses or commercial free zones, which are also parts of an economic territory, since operations normally permitted in these zones do not constitute production or substantial transformation of goods. *Foreign goods* are goods which originate from the rest of the world (this includes foreign goods which are in transit through the compiling country) or are obtained under the outward processing procedure, when such processing confers foreign origin (compensating products which changed origin).

10. *Trade systems.* Depending on the statistical territory and the lists of goods included in and excluded from their imports and exports statistics the trade system may be referred to as general or special. It should be noted that countries may use different systems of trade for recording of imports and exports. The detailed description of the systems of trade is provided in sections B and C below. Recommendations on data the compilation strategies are provided in Chapter 8.

B. General trade system

11. *Statistical territory under general trade system.* Under the general trade system the statistical territory coincides with the economic territory. Hence, **it is recommended that** the statistical territory of a country applying the general trade system includes all applicable territorial elements (a) to (i) as listed in para [] above. However, countries applying the general trade system may chose not to include in the statistical territory their enclaves in other countries if there is no economically significant flow of goods between those enclaves and other countries (including the host country), especially if no goods are produced in those enclaves for exports. Exclaves should always be excluded from the statistical territory.

12. *General imports and exports* are flows of goods entering/leaving the statistical territory of a country applying the general trade system and recorded in compliance with the general and specific guidelines on coverage.

13. *General imports* consist of:

a. *Imports of foreign goods* (including compensating products after outward processing which changed domestic origin to foreign) entering the free circulation area, premises for inward processing, industrial free zones, premises for customs warehousing or commercial free zones;

b. *Reimports* of domestic goods into the free circulation area, premises for inward processing or industrial free zones, premises for customs warehousing or commercial free zones.

14. *Reimports* are imports of domestic goods which were previously recorded as exports. **It is recommended that** reimports are not only included in total imports, but also be separately identified (coded) for analytical purposes. This may require the use of supplementary sources of information in order to determine that the goods in question are indeed reimports rather than (i) goods withdrawn after being temporarily dispatched without being previously recorded as exports, or (ii) domestic goods that have acquired foreign origin through processing and which, therefore, should be recorded as imports of foreign goods under para [], but not identified as reimports.

15. *General exports*. General exports consist of:

a. *Exports of domestic goods* (including compensating products after inward processing which changed foreign origin to domestic) from any part of the statistical territory including customs free zones and customs warehouses;

b. *Re-exports* of foreign goods from any part of the statistical territory including customs free zones and customs warehouses.

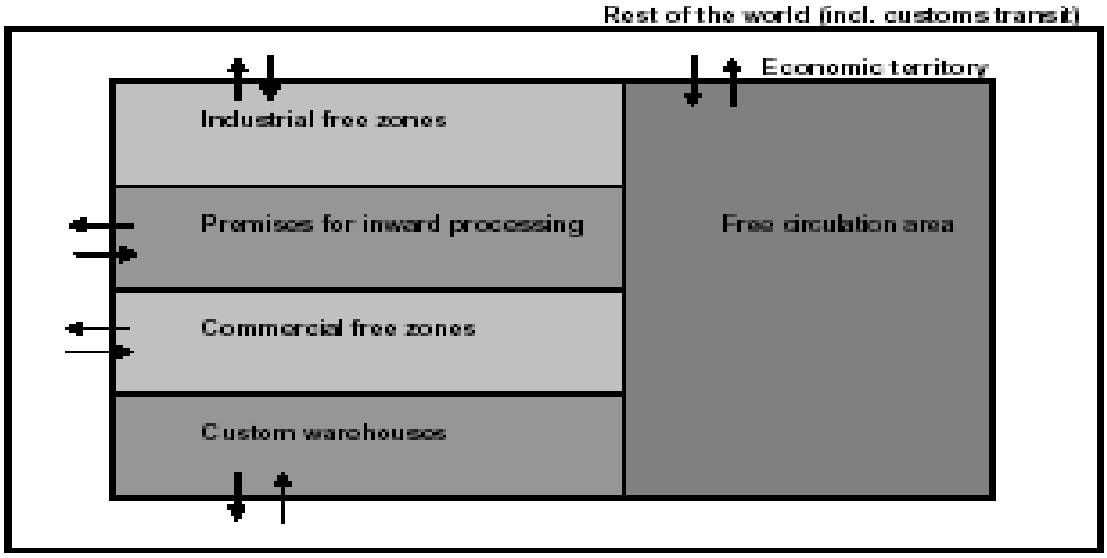
16. *Re-exports* are exports of foreign goods which were previously recorded as imports. **It is recommended that** re-exports are not only included in total exports, but also be separately identified (coded) for analytical purposes. This may require the use of supplementary sources of information in order to determine that the goods in question are indeed re-exports rather than (i) goods temporarily admitted without being previously recorded as imports or (ii) the export of foreign goods that have acquired domestic origin through processing and which, therefore, should be recorded as exports of foreign goods under para [], but not identified as re-exports.

17. **It is recommended that** information about the customs procedure applied to individual transactions (or the nature of transaction) is part of the dataset for international merchandise trade statistics in order to facilitate the identification of re-exports and re-imports but also of other types of trade to the possible extend. Further **it is recommended that** in case customs is not the agency compiling the statistics that this information is regularly included in the dataset provided to the agency responsible for the compilation of merchandise trade statistics

18. The general imports provides the most comprehensive record of the goods entering the economic territory of a compiling country and increasing the stock of its material resources while general exports provides the most comprehensive record of the goods leaving its territory and thus decreasing that stock. Also, the general imports and exports provide a good approximation of the change of ownership criterion used in the 2008SNA and BPM6. **It is recommended**, therefore, that countries use the general system for compilation of both their import and export statistics.

19. Time of recording. Under the general trade system the time of recording should be either the time when goods enter or leave the statistical territory of the compiling country as approximated by the dates associated with the lodgement of the customs declaration (e.g., the date when goods are unloaded, presented at the customs office, or released). If no customs records exist or available dates differ considerably from the date when goods cross the border of the economic territory more appropriate dates should be identified and used (e.g., the date of arrival/departure of the goods carrier as indicated in the transportation document submitted to customs). It is the responsibility of the countries statistical authorities to identify (or estimate) the best proxy date of the general guideline on time of recording by taking into account the peculiarity of national rules on administrative procedures and consistency in the application of the selected method.

Graph 1: Territorial elements and imports and exports
under the general trade system



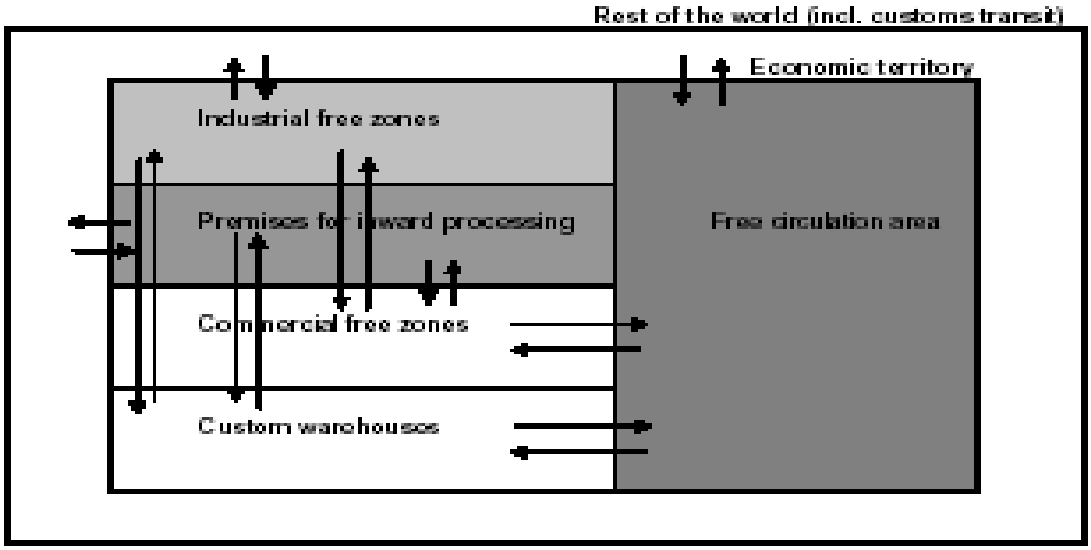
C. Special trade system and its limitations

20. *The special trade system* is in use when the statistical territory comprises only a particular part of the economic territory, so that certain flows of goods recommended for recording in IMTS are not included in either import or export statistics of the compiling country. Countries may apply various definitions of special trade. Traditionally the *strict* and the *relaxed definitions* of the special trade are differentiated.

21. *The strict definition of the special trade system* is in use when the statistical territory comprises only the free circulation area, that is, the part within which goods "may be disposed of without customs restriction" (see Annex B). Consequently, in such a case, imports include only goods entering the free circulation area of a compiling country and exports include only goods leaving the free circulation area of a compiling country. Under the strict definition, goods imported for inward processing, goods which enter or leave an industrial or commercial free zone or customs warehouses would not be recorded since they would not have been cleared through customs for home use. The compensating products after inward processing also would not be included in exports.

22. *The relaxed definition of the special trade system* is in use when (a) goods that enter a country for or leave it after inward processing and (b) goods that enter or leave an industrial free zone are also recorded and included in international merchandise trade statistics.

Graph 3: Territorial elements and potential imports and exports
under the special trade system in its relaxed definition



23. The use of the special trade system narrows the coverage of the statistics as not all goods which are in scope on international merchandise trade statistics are covered. Moreover, this narrowing is not uniform across countries and creates serious incomparability. For instance, some countries base their recording on the concept of the strict special trade system while many other

countries adopt the different variants of the relaxed definition including adding to their statistical territories certain (but not all) customs free zones.

24. The lack of uniformity in the application of the special trade system has a negative impact on the usefulness of trade data for policy analysis purposes as well as for the compilation of national accounts and balance of payments statistics. Therefore, countries using this system **are encouraged** to develop plans to introduce the general trade system. However, it is recognized that a change from special to general trade system would require important administrative restructuring, which might prove impractical for some countries. Hence, **it is recommended that** countries which continue to use the special system should compile or estimate, on at least an annual and a quarterly basis, with full geographical and commodity breakdowns, statistics on (a) goods imported into and exported from premises for customs warehousing, premises for inward processing, industrial free zones or commercial free zones, when the strict definition is used and (b) goods imported into and exported from premises for customs warehousing or commercial free zones, when the relaxed definition is used. This will facilitate the necessary adjustments for the estimation of data on a general trade system basis for use in the balance of payments statistics and national accounts. A number of issues relevant to data compilation strategies in the cases when the special trade system is used are elaborated in Chapter 6.