



PAKISTAN-CHINA TRADE: STEPS TO TACKLE UNDER-INVOICING

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Bilateral trade between China and Pakistan is highly skewed in favour of China. Most of the difference is due to greater demand of Chinese goods in Pakistan relative to the demand of Pakistani goods in China. However, the government of Pakistan has identified that under-invoicing on imports from China is also contributing in swelling this difference. During the several rounds of negotiations on the Free Trade Agreement phase II in the past few months between the two sides, the Pakistani officials raised the issue of under-invoicing as well.¹

Chinese authorities have agreed in principle to launch electronic data exchange after a meeting between with officials of Pakistan's commerce ministry.² In this regard, the federal Board of Revenue (FBR) has launched electronic data exchange system to verify Certificates of Origin of Chinese goods being imported into the country. Commenting on the functionality of the system, an official from FBR said that when Goods of Declaration (GDs) would be filed in China, it would be instantly available with Customs authorities at clearing stations so it would help customs officials to ascertain its exact value on the basis of which they could charge tax collection.³

Recently, the Pakistan Business Council said that, "there are great discrepancies between Pakistan's and China's reported data (particularly for Pakistan's imports from China, where the discrepancy is

¹ <https://nation.com.pk/20-Mar-2018/pakistan-hopes-to-sign-fta-ii-with-china-in-april>

² <https://profit.pakistantoday.com.pk/2018/04/03/pak-holds-10th-round-of-phase-ii-china-pakistan-free-trade-agreement/>

³ <https://www.thenews.com.pk/print/317663-data-information-exchange-between-pakistan-china-begins>

\$5.5 billion), due to possible under-invoicing, which would mean that severe revenue losses and tax evasion are taking place.”⁴The issue of under-invoicing of imports has come under scrutiny in the past as well. A study published in 2016 by the Lahore Journal of Economics estimated more than \$92.7 billion in losses from 1972 to 2013 for 52 major traded commodities for trade with 21 partners due to mis-invoicing. The gross revenue loss to the national exchequer was placed at \$21.1 billion while loss of revenue in the form of custom duties evasion and export withholding tax was at \$11 billion.⁵ Trade mis-invoicing has been rising over the years, with China being the leading export under-invoicer.⁶

Imports are normally reported on a cost of insurance and freight (CIF) basis, while exports are reported on a free-on-board (FOB) basis. Therefore, import values are expected to be greater than the corresponding export values by an amount equal to shipping and insurance costs.⁷ In Pakistan’s trade with China, this does not hold true. During his visit to the headquarters of Federation of Pakistan Chambers of Commerce and Industry (FPCCI), Finance Minister, Miftah Ismail disclosed that, “China’s records state we import \$16 billion worth of goods, while according to the invoices we receive, we import \$12 billion worth of material from China.”⁸

According to a study by the Reserve Bank of Australia, imports from China reported by Indonesia and the Philippines have also been consistently lower than the corresponding Chinese export statistics. The study suggests that this reflects under-reporting by importers in Indonesia and the Philippines in order to avoid import duties.⁹

While China and its trading partners follow many of the recommendations in the United Nations (UN) guidelines for compiling trade statistics, there are a number of reasons to expect that the export data of one country will not align precisely with the corresponding import data of a trading partner.¹⁰ Some discrepancies reflect methodological differences, for which adjustments can be made, while others may reflect accidental or intentional misreporting of trade flows. In the developing countries where import duty rates are usually high, importers tend to undervalue

⁴ <https://www.thenews.com.pk/print/287689-pakistan-china-to-exchange-data-from-april-30-to-check-trade-mispricing>

⁵ <http://www.lahoreschoolofeconomics.edu.pk/EconomicsJournal/Journals/Volume%2021/Issue%202/01%20Qureshi%20and%20Mahmood.pdf>

⁶ <http://www.gfintegrity.org/wp-content/uploads/2014/12/Illicit-Financial-Flows-from-Developing-Countries-2003-2012.pdf>

⁷ https://wits.worldbank.org/wits/wits/witshelp/content/data_retrieval/T/Intro/B2.Imports_Exports_and_Mirror.htm

⁸ <https://tribune.com.pk/story/1708788/2-ismail-says-invoicing-exists-raises-questions-trade-data/>

⁹ <https://www.rba.gov.au/publications/bulletin/2015/dec/pdf/bu-1215-3.pdf>

¹⁰ [https://unstats.un.org/unsd/trade/eg-imts/IMTS%202010%20\(English\).pdf](https://unstats.un.org/unsd/trade/eg-imts/IMTS%202010%20(English).pdf)

consignments to reduce duty liability. In the case of export goods, over-valuation is usually executed in order to obtain higher amounts of export incentives.

There could be multiple factors behind the difference in figures reported by authorities of two trading partners. In any case, these discrepancies are unfair and harmful for the economy. Thus, in order to improve the external position of Pakistan's economy and make it more competitive globally, it is important to enhance scrutiny of goods coming in to the country through modern mechanisms. The launch of electronic data exchange system will improve the verification process and help in overcoming discrepancies that take place during the reporting process.