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How Defenders of Status Quo Trade Policies Use Distorted Data to Artificially Inflate U.S. Exports, Deflate NAFTA and KORUS Deficits

The Obama administration and corporate defenders of status-quo trade policies resorted to the use of distorted data to support absurd claims, such as that the United States does not have a trade deficit with its North American Free Trade Agreement (NAFTA) partners[1] and has a trade surplus with its 20 Free Trade Agreement (FTA) partner countries. Neither claim is true. And, one common data trick underlies the figures behind these claims: the use of artificially inflated export data that lumps foreign-made products in with U.S.-produced exports. **By counting "re-exports" of foreign goods as if they were U.S.-made exports, USTR and various corporate lobbies and think tanks have artificially inflated U.S. export figures and deflated our trade deficits with NAFTA and FTA nations.**

"Foreign exports," also known as "re-exports" are goods made abroad, imported into the United States, and then re-exported again *without undergoing any alteration* in the United States.[2] Foreign exports support zero U.S. production jobs.[3] Each month, the U.S. International Trade Commission reports trade data with foreign exports removed, providing the official government data on made-in-America exports.[4] But USTR and other defenders of status quo trade policies choose to use a set of raw data collected by the U.S. Census Bureau that lumps foreign-made goods in with U.S. exports. This data counts as U.S. exports goods produced in China, stored in a warehouse after being taken off a ship from China in California's Long Beach port and then later, without alteration, trucked to a destination in northern Mexico.

Public Citizen has repeatedly explained how this distortionary practice allows USTR to deceptively diminish burgeoning U.S. trade deficits under past FTAs,[5] such as the Korea FTA[6] and the North American Free Trade Agreement (NAFTA).[7] In July 2014 14 members of Congress sent a letter to then-USTR Michael Froman, asking that his office stop using the distorted data and provide Congress with the accurate numbers.[8] They never received a reply. Rather USTR staff sent them pages of Census data printouts. And then USTR doubled down, defending its practice with baseless claims, such that re-exports do have significant value added in the United States, but some, and thus should be counted.[9]

This is pure fabrication. The official definition of "foreign exports" or "re-exports" from the U.S. Census Bureau, which collects the data and that USTR describes as "the official source for U.S. government goods trade data,"[10] states explicitly that re-exports have *zero* value added in the United States:

> *Foreign Exports (Re-exports: For statistical purposes: These are exports of foreign-origin goods that have previously entered the United States, Puerto Rico, or the U.S. Virgin Islands for consumption, entry into a CBP bonded warehouse, or a U.S. FTZ, and at the time of exportation,* ***have undergone no change in form or condition or enhancement in value by further manufacturing in the United States****, Puerto Rico, the U.S. Virgin Islands, or U.S. FTZs. For the purpose of goods subject to export controls (e.g., U.S. Munitions List (USML) articles) these are shipments of U.S.-origin products from one foreign destination to another.*[11]

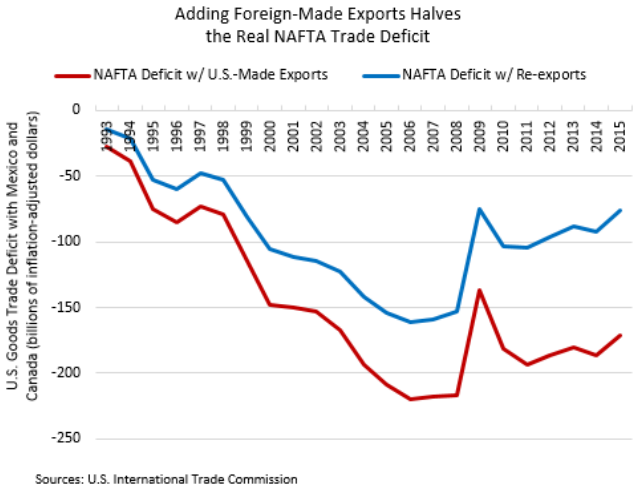
By definition, re-exports are goods that have undergone "no change," not, as USTR asserted, no "significant change." Indeed, the U.S. Census Bureau recently confirmed that a good with just 1 percent

value added in the United States would not qualify as a "foreign export" or "re-export." That classification is reserved for goods that are purely foreign in production.[12]

Counting foreign-made goods as U.S. exports dramatically and deceptively reduces U.S. trade deficits with FTA partners:

NAFTA

By counting re-exports, the 2015 U.S. goods trade deficit with NAFTA countries of $168.3 billion can be made to look less than half as large, as indicated in the graph below.[13] This distortion, among others, was the basis for the Obama USTR Office's claim that the United States did not have a trade deficit with the NAFTA nations. **In reality, the combined U.S. goods and services trade deficit with Mexico and Canada rose (in inflation-adjusted terms) from $9.9 billion in 1993 to $134.3 billion in 2015**.[14] This NAFTA deficit increase of $124.6 billion, or 1,285 percent, represents hundreds of thousands of lost U.S. jobs.



Breaking this data down by country, and counting only domestic exports, not the foreign re-exported goods, the picture of NAFTA's damage is clear:

CANADA: The U.S. goods and services trade balance with Canada in 1993 before NAFTA went into effect was a $17.2 billion deficit. That consisted of a $30 billion goods trade deficit and a $12.9 billion services surplus. In 2015, the last year for which full annual data is now available, the U.S. goods and services trade balance with Canada was a $34.6 billion deficit. That consisted of a $62 billion goods trade deficit and a $27.4 billion services surplus.

MEXICO: In 1993, the U.S. goods and services trade balance with Mexico was a $7.3 billion surplus. That consisted of a $2.6 billion goods trade surplus and a $4.7 services surplus. In 2015, the U.S. goods and services trade balance with Mexico was a $99.7 billion deficit. That consisted of a $109.3 billion goods trade deficit and a $9.6 billion services surplus.

It is worth noting that the portion of re-exported goods versus domestically-produced goods relative to total U.S. exports to NAFTA nations has increased over time from the year before NAFTA went into effect (1993) to the last full year of trade data (2015).

	Total U.S. goods exports	Domestic U.S. goods exports	Percentage of goods re-exports relative to total U.S. exports
Canada 93	$161.8 billion	$148.4 billion	8.3 percent
Canada 03	$218.4 billion	$191.7 billion	12.2 percent
Canada 15	$280.6 billion	$233.9 billion	16.7 percent
Mexico 93	$67.3 billion	$65.1 billion	3.3 percent
Mexico 03	$125.6 billion	$107.1 billion	14.7 percent
Mexico 15	$235.7 billion	$185.3 billion	21.4 percent

Source: U.S. International Trade Commission

When confronted with the accurate data, NAFTA defenders then typically shift to claims that the NAFTA deficit mainly represents trade in oil and other fossil fuels. First, the share of the U.S. NAFTA goods trade deficit that is comprised of fossil fuels (oil, gas and coal) has declined under NAFTA, from 82 percent in 1993 to 26 percent in 2015, as we have faced a surge of imported manufactured and agricultural goods.[15] Second, **even if one removes all of these fossil fuel categories from the balance, the remaining 2015 NAFTA goods trade deficit was $127.3 billion. The combined NAFTA goods and services deficit in 201-5 minus fossil fuels was $90 billion.**

Korea FTA

Foreign-made goods that merely pass through the United States before being re-exported to Korea have increased under the first four years of the Korea FTA, rising 22 percent. That amounts to $453 million more in re-exports to Korea on average under each year of the FTA, relative to the four years before the deal.[16] USTR treats the rise in foreign-made re-exports as if it were a rise in U.S. exports,[17] allowing the agency to artificially diminish the 10 percent drop in actual U.S. goods exports to Korea under the deal's first four years, and to errantly claim gains in some sectors.[18]

In reality, after four full years of the agreement being in effect, the U.S.-Korea bilateral goods trade deficit had almost doubled. This 99 percent deficit increase with Korea came in the context of the overall U.S. trade deficit with the world having decreased slightly. The increase in the U.S. goods trade deficit with Korea equates to the loss of more than 102,000 American jobs in the first four years of the Korea FTA, counting both exports and imports, according to the trade-jobs ratio that the Obama administration used to promise job gains from the deal. The the outcomes of the Korea pact are the opposite of the Obama administration's 2011 "more exports, more jobs" promises for the deal.

Despite the Korea FTA including more than 10,000 tariff cuts, 80 percent of which began on day one, by the end of the fourth year of the pact being in effect:

- **U.S. goods exports to Korea had dropped 10 percent, or $4.5 billion**, in the first four years of the FTA. The U.S. goods trade deficit with Korea increased 99 percent, or $15.4 billion, in the first four years of the FTA (comparing the year before it took effect to the fourth year data).
- In four years, U.S. **average monthly exports to Korea had fallen in 11 of the 15 U.S. sectors that export the most to Korea**, relative to the year before the FTA. Exports of machinery and computer/electronic products, collectively comprising 28.6 percent of U.S. exports to Korea, have fallen 22.6 and 6.6 percent respectively under the FTA.
- **The 99 percent surge in our Korea goods trade deficit in the FTA's first four years starkly contrasted with a 2 percent *decrease* in our global goods trade deficit during the period.**
- **While U.S. goods imports from the world had decreased by 6 percent, U.S. goods imports from Korea increased by 18 percent, or $10.8 billion, during the FTA's first four years.**
- **The auto sector was among the hardest hit: The U.S. trade deficit with Korea in passenger vehicles grew 66 percent.** U.S. imports of passenger vehicles from Korea had increased by 69 percent, or by an *additional* 597,607 vehicles by the fourth year of the Korea FTA on top of the 862,789 vehicles sold to the United States by Korea before the FTA. This import flood dwarfed the 36,580 increase in U.S. passenger vehicles that the United States exported to Korea by the fourth year

of the pact. Even so, the Obama administration touted that U.S. auto exports had grown faster than Korea auto exports and that U.S. auto exports to Korea have tripled - without mentioning that this figure just represented the addition of the 36,580 vehicle from the low pre-FTA sales number of 14,284 U.S. vehicles sold in Korea and also without mentioning that on balance the United States has suffered a 66 percent expansion of our auto trade deficit with Korea.

	Pre-FTA	4th Year	#s	%
Exports	*14,284*	*50,864*	*36,580*	*256%*
Imports	*862,789*	*1,460,396*	*597,607*	*69%*
Deficit	**-848,505**	**-1,409,532**	**-561,027**	**66%**

Source: U.S. International Trade Commission

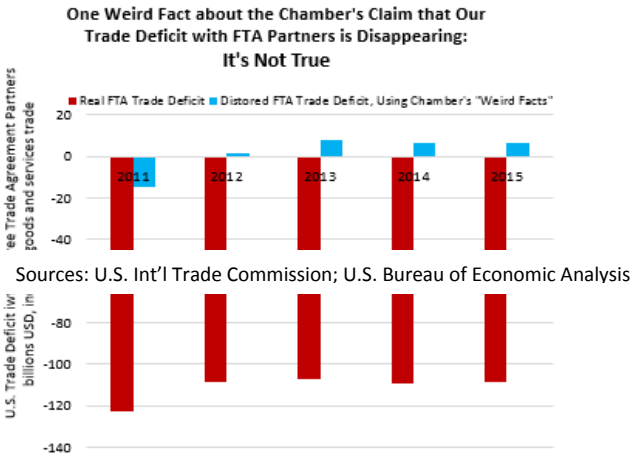
- **U.S. exports to Korea of agricultural goods had fallen 19 percent**, or $1.4 billion, in the first four years of the Korea FTA despite the administration's oft-touted point that almost two-thirds of U.S. agricultural exports (by value) would obtain immediate duty-free entry to Korea under the pact. Meanwhile, U.S. agricultural imports from Korea had grown 34 percent, or $123 million, under the FTA. As a result, by the end of the pact's fourth year, **the U.S. agricultural trade balance with Korea had declined 22 percent, or $1.5 billion, since the FTA's implementation.** The Obama administration promised that U.S. exports of meat would rise particularly swiftly, thanks to the deal's tariff reductions on beef, pork and poultry. However, U.S. exports to Korea in each of the three meat sectors have fallen below the long-term growth trend since the Korea FTA took effect**. Compared with the exports that would have been achieved at the pre-FTA average monthly level, U.S. meat producers have lost a combined $62.5 million in poultry, pork and beef exports to Korea in the first four years of the Korea deal – a loss of more than $5 million in exports every month**.
    - POULTRY, BEEF and PORK: Despite the promises made by U.S. officials that the pact would enhance cooperation between the U.S. and Korean governments to resolve food safety and animal health issues that affect trade, South Korean banned nearly all imports of American poultry at the beginning of 2015 due to several bird flu outbreaks in Minnesota and Iowa. Comparing the FTA's fourth year to the year before it went into effect, U.S. poultry producers had faced a 93 percent collapse of exports to Korea – a loss of nearly 100,000 metric tons of poultry exports to Korea. U.S. beef exports had finally neared pre-FTA levels after declining an average of 11 percent during the first three years of the agreement. U.S. pork exports also nearly recovered to pre-FTA levels after falling by an average of 16 percent in the first three years of the agreement.

KORUS proponents try to claim the decline in U.S. exports to Korea resulted from a weak economy in Korea. But Korea's economy had grown each year since the FTA passed, even as U.S. exports to Korea shrunk. Korea's gross domestic product in 2015 was 11 percent higher than in the year before the FTA took effect. U.S. exports to Korea should have expanded, with or without the FTA, as a simple product of Korea's growth. Instead, U.S. exports to Korea have fallen 10 percent in the FTA's first four years.

All U.S. FTAs

By counting foreign exports as U.S. exports, the U.S. Chamber of Commerce makes the claim that the combined U.S. goods and services trade deficit with our 20 FTA partners has vanished. In reality, job-killing trade deficits have surge under the U.S. FTAs. The aggregate U.S. goods trade deficit with FTA partners - the bloc of countries involved in NAFTA, the Central America Free Trade Agreement and 12 bilateral FTAs - is more than five times as high as before the deals went into effect. Indeed, even if you

include the services surplus for the larger trade partner countries for which services data is available, the overall U.S. trade deficit with all of its FTA partners combined has topped $106 billion in each of the last four years.[19] **The aggregate U.S. goods trade deficit with FTA partners has *increased* by about $141 billion, or 418 percent, since the FTAs were implemented. In contrast, the aggregate trade deficit with all non-FTA countries has *decreased* by about $46 billion, or 6 percent, since 2005** (the year before the median entry date of existing FTAs).



Sources: U.S. Int'l Trade Commission; U.S. Bureau of Economic Analysis

The key differences are soaring imports into the United States from FTA partners and *lower* growth in U.S. exports to those nations than to non-FTA nations. **Growth of U.S. exports to FTA partners has been 29 percent *lower* than U.S. export growth to the rest of the world over the last decade** (annual average growth of 3.8 percent to non-FTA nations vs. 2.7 percent to FTA nations from 2005 to 2015).[20]

FTA Partner	Entry Date	Pre-FTA Trade Balance (goods trade only)	2015 Balance (goods trade only)	Change in Balance Since FTA
Israel*	1985	($1.0)	($16.7)	($15.7)
Canada	1989	($24.0)	($61.4)	($37.4)
Mexico	1994	$2.6	($106.9)	($109.5)
Jordan	2001	$0.3	($0.2)	($0.5)
Chile	2004	($2.0)	$5.2	$7.2
Singapore	2004	$0.8	$6.2	$5.4
Australia	2005	$7.4	$11.8	$4.4
Bahrain	2006	($0.1)	$0.3	$0.5
El Salvador	2006	($0.2)	$0.4	$0.7
Guatemala	2006	($0.6)	$1.3	$1.8
Honduras	2006	($0.7)	$0.4	$1.1
Morocco	2006	$0.1	$0.5	$0.5
Nicaragua	2006	($0.7)	($2.1)	($1.3)
Dominican Republic	2007	$0.6	$2.0	$1.4
Costa Rica	2009	$1.2	$0.8	($0.4)
Oman	2009	$0.6	$1.3	$0.8
Peru	2009	($0.2)	$2.5	$2.7
Korea	2012	($15.5)	($28.4)	($12.9)
Colombia	2012	($10.0)	$1.1	$11.1
Panama	2012	$7.8	$6.7	($1.1)
FTA TOTAL:		($33.8)	($175.1)	($141.3)
Non-FTA TOTAL:	[2006]	($801.0)	($755.0)	**$46.0**
FTA Deficit INCREASE: 418%			**Non-FTA Deficit DECREASE: 6%**	

*Source: U.S. International Trade Commission. Units: billions of 2015 dollars. (*Measured since 1989 due to data availability.)*

ENDNOTES

[1] In addition to the specific claims quoted under the Point-by-point Correction section, USTR began circulating this overall claim in early 2014: "The driver on our trade balance with Canada and Mexico, you find that the driver of our trade deficit is fossil fuels. When you take out energy, we're actually running a trade surplus with NAFTA countries – where the United States exports more than it imports." As we explain here, the official government trade data from the U.S. International Trade Commission (which eliminates the distortion of re-exports) show that after removing fossil fuels, the combined U.S. goods and services trade balance with Mexico and Canada in 2013 was a $36 billion *deficit*.

[2] "*without undergoing any alteration in the United States"* is the U.S. Census Bureau definition of a re-export. U.S. Census Bureau, "Foreign Trade: Trade Definitions," U.S. Department of Commerce, accessed September 25, 2014. Available at: http://www.census.gov/foreign-trade/reference/definitions/#F.

[3] Call between U.S. Census Bureau staff and Public Citizen staff, September 25, 2014.

[4] USITC data can be found at U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb." Available at: http://dataweb.usitc.gov/. Census Bureau data can be found at U.S. Census Bureau, "U.S. International Trade Data," U.S. Department of Commerce. Available at: http://www.census.gov/foreign-trade/data/.

[5] *See* Ben Beachy, "Chamber of Commerce Uses 'Weird Facts' to Claim a $106 Billion Trade Deficit Isn't There," Eyes on Trade, September 18, 2014. Available at: http://citizen.typepad.com/eyesontrade/2014/09/chamber-of-commerce-uses-weird-facts-claims-a-106-billion-trade-deficit-isnt-there.html.

[6] *See* Public Citizen, "USTR's Omissions and Data Distortions Aimed at Hiding the Dismal Realities of the Korea Free Trade Agreement," PC memo, May 2014. Available at: http://www.citizen.org/documents/Korea-FTA-USTR-data-debunk.pdf.

[7] *See* Public Citizen, "Debunking USTR's Absurd Assertion that the U.S. Has a Trade Surplus with NAFTA Countries," PC memo, March 2014. Available at: http://www.citizen.org/documents/NAFTA-USTR-data-debunk.pdf.

[8] Letter from 14 members of Congress to U.S. Trade Representative Michael Froman, July 10, 2014. Available at: http://www.citizen.org/documents/Tonko-USTR-letter-July-10.pdf.

[9] For instance: *The [USTR] economist also argued that some re-exports do actually have value added to them in the United States, and therefore they should be included in the export data. He noted that by definition re-exports are goods that have not undergone a "significant change" in the U.S., which he claimed refers to a value change of about 50 percent or more. This means that even goods classified as re-exports could have some value added in the U.S., albeit less than 50 percent.*" (Democrats Blast USTR For Using Trade Data They Say Minimizes Deficit," *Inside U.S. Trade*, July 17, 2014. Available at: http://insidetrade.com/Inside-US-Trade/Inside-U.S.-Trade-07/18/2014/democrats-blast-ustr-for-using-trade-data-they-say-minimizes-deficit/menu-id-710.html.)

[10] Letter from Hun Quach of the Office of the U.S. Trade Representative to Congressman Paul Tonko, June 25, 2014. Available at: http://www.citizen.org/documents/USTR-data-distortion-response.pdf.

[11] U.S. Census Bureau, "Foreign Trade: Trade Definitions," U.S. Department of Commerce, accessed September 25, 2014. Available at: http://www.census.gov/foreign-trade/reference/definitions/#F. Emphasis added.

[12] Call between U.S. Census Bureau staff and Public Citizen staff, September 25, 2014.

[13] U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed December 15, 2016. Available at: http://dataweb.usitc.gov.

[14] Goods trade data: U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed December 15, 2016. Available at: http://dataweb.usitc.gov. Services trade data: U.S. Bureau of Economic Analysis, "International Data: Table 12: U.S. International Transactions, by Area," accessed December 15, 2016. Available at: http://www.bea.gov/iTable/iTable.cfm?ReqID=62&step=1#reqid=62&step=1&isuri=1&6210=1&6200=94. Data are inflation-adjusted and presented in 2015 dollars according to the CPI-U-RS index of the U.S. Bureau of Labor Statistics. U.S. Bureau of Labor Statistics, "Consumer Price Index Research Series Using Current Methods (CPI-U-RS)," U.S. Department of Labor, updated August 2016. Available at: http://www.bls.gov/cpi/cpirsai1978-2013.pdf.

[15] Trade in fossil fuels is defined as HS 27.

[16] Figures in this paragraph are a comparison of data from the four years before the FTA's implementation (April 2008 through March 2012) and from the first four years under the FTA (April 2012 through March 2016). U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed January 10, 2017. Available at: http://dataweb.usitc.gov/. Data are inflation-adjusted according to the CPI-U-RS index of the U.S. Bureau of Labor Statistics (which provides indices up through 2015) and the online inflation calculator of the U.S. Bureau of Labor of Statistics (which provides an approximate index for 2016). U.S. Bureau of Labor Statistics, "Consumer Price Index Research Series Using Current Methods (CPI-U-RS)," U.S. Department of Labor, updated August 20, 2016. Available at: http://www.bls.gov/cpi/cpirsai1978-2013.pdf. U.S. Bureau of Labor Statistics, "CPI Inflation Calculator," U.S. Department of Labor, accessed August 20, 2016. Available at: http://www.bls.gov/data/inflation_calculator.htm.

[17] *See* Office of the U.S. Trade Representative, "U.S.-Korea Free Trade Agreement Shows Strong Results on Second Anniversary," USTR press release, March 12, 2014. Available at: http://www.ustr.gov/about-us/press-office/press-releases/2014/March/US-Korea-Free-Trade-Agreement-Shows-Strong-Results-on-Second-Anniversary.

[18] U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed January 17, 2017. Available at: http://dataweb.usitc.gov/.
[19] U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed January 17, 2017. Available at: http://dataweb.usitc.gov/.
[20] Trade figures in this document use U.S. domestic exports and imports for consumption data from U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed March 4, 2016. Available at: http://dataweb.usitc.gov/. All data are inflation-adjusted using the CPI-U-RS series of the Bureau of Labor Statistics. The average annual export growth comparison accounts for the entry of new FTA nations.