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**COMMENTS CONCERNING THE PROPOSED RECLASSIFICATION
OF “FACTORYLESS GOODS PRODUCERS” IN MANUFACTURING**

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Comments Concerning the Proposed Reclassification of “Factoryless Goods Producers” in Manufacturing

Public Citizen

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Public Citizen welcomes the opportunity to comment on the proposal of the Economic Classification Policy Committee (ECPC) to reclassify “factoryless goods producers” in manufacturing in the 2017 revisions to the North American Industry Classification System (NAICS).¹ We also take this opportunity to comment on closely related proposals under consideration by ECPC agencies, such as the recommendations of the sixth edition of the International Monetary Fund’s Balance of Payments and International Investment Position Manual (BPM6).²

Public Citizen is a national, nonprofit public interest organization with more than 300,000 members and supporters that champions citizen interests before Congress, the executive branch agencies and the courts. We have conducted extensive analysis on the economic impacts and implications of existing U.S. trade and investment agreements, including the impacts on U.S. manufacturing employment, wages, output and trade.

As both the ECPC proposal for NAICS and the BPM6 recommendations would dramatically distort U.S. manufacturing statistics, plans to implement either proposal must be abandoned.

While some details of these proposals remain open-ended, one thing is clear: the proposals would deceptively shrink the size of the reported, but not actual, headline U.S. manufacturing trade deficit (at least on a balance of payments basis), while artificially inflating the number of U.S. manufacturing jobs overnight. Such maneuvers would obscure the erosion of U.S. manufacturing, undermining efforts to change the unfair trade and other policies that have incentivized offshoring and led to such decline. Informed policymaking requires accurate data, not politically convenient distortions.

The ECPC proposal for NAICS comes as part of wider governmental economic reclassification initiatives that, if implemented, would further undermine efforts to bolster U.S. manufacturing by producing a fabricated reduction of the U.S. manufacturing trade deficit. For example, the U.S. Bureau of Economic Analysis (BEA) has stated in its recently-announced “Comprehensive Restructuring of the International Economic Accounts” that BEA intends to implement, pending data availability, the BPM6 recommendations concerning international goods transactions.³

This move, according to BEA, would rebrand U.S. manufactured goods imports as “services” imports (on a balance of payments basis). Take, for example, a scenario in which Apple ships iPhone parts to China to be assembled in a Foxconn factory and then sent back to the United States to be sold here. The value of the imported iPhone minus the value of the exported parts currently counts as a net U.S. import of a *manufactured* good. This reflects the fact that Apple offshored its iPhone *manufacturing* to China. But under the BPM6 recommendations contemplated by BEA, Foxconn, now called a “manufacturing service provider,” would not be described as having *manufactured* the iPhones but as having provided *services* to Apple. As a result, the net U.S. import of manufactured goods resulting from Apple’s decision to offshore would be reduced. In its place would be an import of Foxconn’s factory “services.”

Equally incredible is the BPM6 recommendation, which BEA intends to implement,⁴ to treat some goods exported by *foreign* factories as U.S. manufactured exports. Take a scenario in which Apple ships iPhone parts to China that are assembled by Foxconn and then shipped for sale to a country in the European

Union (EU). Currently, Apple's export of parts to China counts as the only U.S. export in this scenario. But the BPM6 recommendation, according to BEA, would instead count China's export of the fully-assembled iPhones to the EU, less the cost of any imported parts, as a U.S. manufactured goods export.

The absurd logic of this rebranding is that while China manufactured and exported the iPhones, they count as U.S. manufactured exports because they were under the control of a U.S. brand. This Orwellian proposal would spell an artificial increase in U.S. manufactured exports (on a balance of payments basis), further belying the real U.S. manufacturing trade deficit.

In addition, the ECPC proposal for NAICS, if implemented, would spur a disingenuous, overnight increase in the number of U.S. "manufacturing" jobs as white-collar employees in firms like Apple – now rebranded as "factoryless goods producers" – would suddenly be counted as "manufacturing" workers. This change would also create a false increase in manufacturing wages, as many of the newly-counted "manufacturing" jobs would be designers, programmers and brand managers at "factoryless goods producers" like Apple. Reported manufacturing output would also abruptly and errantly jump, as revenues of firms like Apple would be lumped in with the output of actual manufacturers.⁵

These proposals defy common sense. They would dramatically distort U.S. trade, labor and gross domestic product statistics. Goods manufactured abroad and imported into the United States are not something other than manufactured goods imports. Goods exported from foreign factories do not become "U.S. exports" when they are produced for U.S. brands. And positions in which workers spend zero time actually manufacturing anything are not "manufacturing jobs." Such reclassifications would be dishonest and unacceptable.

The offshoring of U.S. manufacturing under years of unfair trade policies cannot be undone with a data trick. To boost U.S. manufacturing jobs and production, we need to switch our policies, not our numbers. We urge you to abandon the ECPC proposal for NAICS and any plans to implement BPM6 or related recommendations.

ENDNOTES

¹ Office of Management and Budget, "2012 North American Industry Classification System (NAICS)-Updates for 2017," Federal Register, May 22, 2014. Available at: <http://www.gpo.gov/fdsys/pkg/FR-2014-05-22/pdf/2014-11914.pdf>. The underlying ECPC proposal for the NAICS can be found at ECPC, "Economic Classification Policy Committee (ECPC) Recommendation for Classification of Outsourcing in North American Industry Classification System (NAICS) Revisions for 2012," 2010. Available at: http://www.census.gov/eos/www/naics/fr2010/ECPC_Recommendation_for_Classification_of_Outsourcing.pdf.

² International Monetary Fund, *Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)*, (Washington, D.C.: International Monetary Fund, 2009). Available at: <http://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf>. The BEA documents cited in footnote 3 show that BEA, an ECPC member agency, intends to implement BPM6 recommendations, pending data availability.

³ Maria Borgia and Kristy L. Howell, "The Comprehensive Restructuring of the International Economic Accounts: Changes in Definitions, Classifications, and Presentations," *Survey of Current Business*, U.S. Bureau of Economic Analysis, March 2014, at 9. Available at: http://www.bea.gov/scb/pdf/2014/03%20March/0314_restructuring_the_international_economic_accounts.pdf. For a more detailed description from the BEA of its plan to implement the BPM6 recommendations, see U.S. Bureau of Economic Analysis, "U.S. International Economic Accounts: Concepts and Methods," June 30, 2014, at 10-5. Available at: <http://www.bea.gov/international/pdf/concepts-methods/10%20Chapter%20ITA-Methods.pdf>.

⁴ Maria Borgia and Kristy L. Howell, "The Comprehensive Restructuring of the International Economic Accounts: Changes in Definitions, Classifications, and Presentations," *Survey of Current Business*, U.S. Bureau of Economic Analysis, March 2014, at 9. Available at: http://www.bea.gov/scb/pdf/2014/03%20March/0314_restructuring_the_international_economic_accounts.pdf.

⁵ The ECPC proposal acknowledges such "artificial" effects: "Classification of FGPs to manufacturing will arguably expand the traditional definition of manufacturing beyond establishments known as factories, plants or mills to include a broader range of establishments undertaking the production of goods. Arguments can be made that this expansion will artificially increase the importance of manufacturing." ECPC, "Economic Classification Policy Committee (ECPC) Recommendation for Classification of Outsourcing in North American Industry Classification System (NAICS) Revisions for 2012," 2010, at 8. Available at: http://www.census.gov/eos/www/naics/fr2010/ECPC_Recommendation_for_Classification_of_Outsourcing.pdf.