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Job-Killing Trade Deficits Soar under FTAs: U.S. Trade Deficits Grow More Than 440% with FTA Countries, but Decline 16% with Non-FTA Countries

The aggregate U.S. goods trade deficit with Free Trade Agreement (FTA) partners is more than five times as high as before the deals went into effect, while the aggregate deficit with non-FTA countries has actually fallen. 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. Incredibly, the U.S. Chamber of Commerce website states, “For those worried about the U.S. trade deficit, trade agreements are clearly the solution – not the problem.”¹ Their pitch ignores the import surges contributing to growing deficits and job loss, while their export “data” is inflated, using tricks described below.

The aggregate U.S. trade deficit with FTA partners has increased by more than \$147 billion (inflation-adjusted) since the FTAs were implemented. In contrast, the aggregate deficit with all non-FTA countries has decreased by more than \$130 billion since 2006 (the median entry date of existing FTAs). Two reasons: a sharp increase in imports from FTA partners and significantly lower export growth to FTA partners than to non-FTA nations over the last decade. Using the Obama administration’s net exports-to-jobs ratio,² **the FTA trade deficit surge implies the loss of about 800,000 U.S. jobs.** Trade with Canada and Mexico (our first and third largest trade partners, respectively) contributed the most to the widening FTA deficit. Under the North American Free Trade Agreement (NAFTA), the U.S. deficit with Canada ballooned and the small U.S. surplus with Mexico turned into a nearly \$100 billion deficit. The trend persists under new FTAs – two years into the Korea FTA, the U.S. trade deficit with Korea has jumped more than 51 percent. Reducing the massive trade deficit requires a new trade agreement model, not more of the same.

FTA Partner	Entry Date	Pre-FTA Trade Balance	2013 Balance	Change in Balance Since FTA
Israel*	1985	(\$1.0)	(\$14.8)	(\$13.8)
Canada	1989	(\$23.6)	(\$81.2)	(\$57.6)
Mexico	1994	\$2.5	(\$96.0)	(\$98.5)
Jordan	2001	\$0.3	\$0.8	\$0.5
Chile	2004	(\$1.9)	\$5.8	\$7.7
Singapore	2004	\$0.8	\$9.0	\$8.2
Australia	2005	\$7.3	\$14.5	\$7.2
Bahrain	2006	(\$0.1)	\$0.3	\$0.4
El Salvador	2006	(\$0.2)	\$0.3	\$0.5
Guatemala	2006	(\$0.5)	\$0.9	\$1.4
Honduras	2006	(\$0.7)	\$0.6	\$1.3
Morocco	2006	\$0.1	\$1.3	\$1.2
Nicaragua	2006	(\$0.7)	(\$1.8)	(\$1.1)
Dominican Republic	2007	\$0.6	\$2.5	\$1.9
Costa Rica	2009	\$1.2	(\$5.4)	(\$6.6)
Oman	2009	\$0.6	\$0.4	(\$0.2)
Peru	2009	(\$0.2)	\$0.7	\$0.9
Korea	2012	(\$15.2)	(\$23.0)	(\$7.8)
Colombia	2012	(\$9.9)	(\$4.9)	\$5.0
Panama	2012	\$7.7	\$9.7	\$2.0
FTA TOTAL:		(\$33.2)	(\$180.3)	(\$147.1)
Non-FTA TOTAL:	[2006]	(\$818.2)	(\$687.6)	\$130.6

FTA Deficit INCREASE: 443%

Non-FTA Deficit DECREASE: 16%

Source: U.S. International Trade Commission. Units: billions of 2013 dollars. (*Measured since 1989 due to data availability.)

U.S. Export Growth Falters under FTAs

Growth of U.S. exports to countries that are not FTA partners has exceeded U.S. export growth to countries that are FTA partners by 30 percent over the last decade.³ Between 2003 and 2013, U.S. goods exports to FTA partner countries grew by an annual average rate of only 4.9 percent. Goods exports to non-FTA partner countries, by contrast, grew by 6.3 percent per year on average. Since 2006, when the number of FTA partner countries nearly doubled with the implementation of the Central America Free Trade Agreement (CAFTA), the FTA export growth “penalty” has only increased. Since then, average U.S. export growth to non-FTA partner countries has topped average export growth to FTA partners by 47 percent.

Corporate FTA Boosters Use Errant Methods to Claim Higher Exports under FTAs

Members of Congress will invariably be shown data by defenders of our status quo trade policy that appear to indicate that FTAs have generated an export boom. Indeed, to promote congressional support for new NAFTA-style FTAs, the U.S. Chamber of Commerce and the National Association of Manufacturers (NAM) have funded an entire body of research designed to create the appearance that the existing pacts have both boosted exports and reversed trade deficits with FTA partner countries. This work relies on several methodological tricks that fail basic standards of accuracy:

- **Ignoring imports:** U.S. Chamber of Commerce studies regularly omit mention of soaring imports under FTAs, instead focusing only on exports.⁴ But any study claiming to evaluate the net impact of trade deals must deal with both sides of the trade equation. In the same way that exports are associated with job opportunities, imports are associated with lost job opportunities when they outstrip exports, as dramatically seen under FTAs.
- **Counting “re-exports:”** NAM has misleadingly claimed that the United States has a manufacturing surplus with FTA nations by counting as U.S. exports goods that actually are made overseas – not by U.S. workers. NAM’s data include “re-exports” – goods made elsewhere that are shipped through the United States en route to a final destination. Determining FTAs’ impact on U.S. jobs requires counting only U.S.-made exports.⁵
- **Omitting major FTAs:** The U.S. Chamber of Commerce has repeatedly claimed that U.S. export growth is higher to FTA nations than to non-FTA nations by simply omitting FTAs that do not support their claim. One U.S. Chamber of Commerce study omitted all FTAs implemented before 2003 to estimate export growth.⁶ This excluded major FTAs like NAFTA that comprised more than 83 percent of all U.S. FTA exports. Given NAFTA’s leading role in the 443 percent aggregate FTA deficit surge, its omission vastly skews the findings.
- **Failing to correct for inflation:** U.S. Chamber of Commerce studies that have claimed high FTA export growth have not adjusted the data for inflation, thus errantly counting price increases as export gains.⁷
- **Comparing apples and oranges:** The U.S. Chamber of Commerce has claimed higher U.S. exports under FTAs by using two completely different methods to calculate the growth of U.S. exports to FTA partners (an unweighted average) versus non-FTA partners (a weighted average).⁷ This inconsistency creates the false impression of higher export growth to FTA partners by giving equal weight to FTA countries that are vastly different in importance to U.S. exports (e.g. Canada, where U.S. exports exceed \$251 billion, and Bahrain, where they do not reach \$1 billion), despite accounting for such critical differences for non-FTA countries.

ENDNOTES

¹ U.S. Chamber of Commerce, “Level the Playing Field for Trade,” February 6, 2014. Available at: <https://www.uschamber.com/issue-brief/level-playing-field-trade>.

² The Obama administration estimates that each \$1 billion in U.S. goods exports supports 5,400 U.S. jobs. Ambassador Michael Froman, “2014 Trade Policy Agenda and 2013 Annual Report of the President of the United States on the Trade Agreements Program,” Office of the U.S. Trade Representative, March 2014, at 2. Available at: <http://www.ustr.gov/sites/default/files/2014%20Trade%20Policy%20Agenda%20and%202013%20Annual%20Report.pdf>.

³ All figures in this section use an inflation-adjusted weighted average to find average annual growth rates of domestic exports for both FTA partner countries and non-FTA partner countries. All data comes from U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed February 11, 2014. Available at: <http://dataweb.usitc.gov/>.

⁴ See U.S. Chamber of Commerce, “NAFTA Triumphant: Assessing Two Decades of Gains in Trade, Growth, and Jobs,” 2014. Available at: https://www.uschamber.com/sites/default/files/documents/files/1112_INTL_NAFTA_20Years.pdf.

⁵ See National Association of Manufacturers, “Manufacturing and Trade – Bilateral Trade,” 2014. Available at: <http://www.nam.org/Issues/Trade/Manufacturing-And-Trade-Bilateral-Trade.aspx>.

⁶ U.S. Chamber of Commerce, “Estimated Impact of the U.S. Trade Agreements with Colombia, Panama and South Korea for U.S. Merchandise Exports,” September 2008. Available at: http://www.uschamber.com/sites/default/files/reports/0809_latin_tpas.pdf.

⁷ See Laura M. Baughman and Joseph F. Francois, “Opening Markets, Creating Jobs,” U.S. Chamber of Commerce, May 14, 2010. Available at: http://www.uschamber.com/sites/default/files/reports/100514_ftajobs_full_0.pdf.