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Job-killing Trade Deficits Surge Under FTAs: U.S. Trade Deficits Grow 568% With FTA Countries, but Decline 15% With Non-FTA Countries

The aggregate U.S. goods trade deficit with Free Trade Agreement (FTA) partners is more than six times as high as before the deals went into effect, while the aggregate trade 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. **Growth of U.S. exports to FTA partners has been 34 percent *lower* than U.S. export growth to the rest of the world since 2005** (the year before the median entry date of existing FTAs).[1]

The aggregate U.S. trade deficit with FTA partners has *increased* by about $152.4 billion, or 568 percent, since the FTAs were implemented. In contrast, the aggregate trade deficit with all non-FTA nations has *decreased* by about $104.6 billion, or 15 percent, since 2005. Using the Commerce Department's exports-to-jobs ratio[2] and counting imports and exports, **the FTA trade deficit surge implies the loss of over 795,800 U.S. jobs net.** The North American Free Trade Agreement (NAFTA) contributed the most to the widening FTA deficit. The U.S. trade deficit with Canada ballooned, and our surplus with Mexico turned into a more than $126.3 billion NAFTA goods and services deficit. More recent deals have led to similar results. **Under the 2012 Korea FTA, the U.S. trade deficit with Korea has surged 30 percent.**

FTA Partner	Entry Date	Pre-FTA Trade Balance	2017 Balance	Change in Balance Since FTA
Israel*	1985	($1.1)	($9.4)	($8.3)
Canada	1989	($24.7)	($64.8)	($40.1)
Mexico	1994	$2.7	($126.3)	($129.0)
Jordan	2001	$0.3	$0.3	($0.1)
Chile	2004	($1.3)	$3.1	$4.4
Singapore	2004	$1.9	$10.4	$8.5
Australia	2005	$8.7	$14.6	$5.9
Bahrain	2006	($0.1)	($0.1)	$0.0
El Salvador	2006	($0.2)	$0.6	$0.8
Guatemala	2006	($0.4)	$3.0	$3.4
Honduras	2006	($0.6)	$0.5	$1.1
Morocco	2006	$0.1	$0.9	$0.8
Nicaragua	2006	($0.7)	($1.7)	($1.0)
Dominican Republic	2007	$1.0	$3.0	$2.1
Costa Rica	2009	$2.0	$1.7	($0.3)
Oman	2009	$0.6	$1.0	$0.4
Peru	2009	$0.4	$1.4	$1.0
Korea	2012	($14.3)	($22.9)	($8.6)
Colombia	2012	($9.5)	($0.3)	$9.2
Panama	2012	$8.5	$6.0	($2.5)
FTA TOTAL:		($26.8)	($179.2)	**($152.4)**
Non-FTA TOTAL:	[2006]	($721.6)	($617.0)	**$104.6**
FTA Deficit INCREASE: 568%		**Non-FTA Deficit DECREASE: 15%**		
Trade figures in this document use U.S. domestic exports and imports for consumption for U.S. trade with Mexico and Canada. For all other countries, this document uses total exports and general imports.				
*Source: U.S. International Trade Commission. Units: billions of 2016 dollars. (*Measured since 1989 due to data availability.)*				

"Higher Standards" Have Failed to Alter FTA Legacy of Ballooning Trade Deficits

Some proponents of the status quo trade agreement model have claimed that post-NAFTA FTAs included higher labor and environmental standards, and this has yielded trade balance improvements.[3] Yet, most post-NAFTA FTAs that have resulted in (small) trade balance improvements *did not* contain the "May 10" standards. But the Korea FTA included the higher labor and environmental standards of the May 10, 2007 deal, and the U.S. trade deficit with Korea has grown 30 percent in the five years since the deal's passage. The evidence shows no correlation between an FTA's inclusion of "May 10" standards and its trade balance impact. Reducing the massive U.S. trade deficit will require a more fundamental rethink of the current trade pact model extending from NAFTA through the Korea FTA, as well as tougher labor and environmental standards with swift and certain enforcement, not more of the same.

FTA Boosters Use Errant Methods to Claim Higher Exports and Better Trade Balances

Members of Congress will invariably be given data by defenders of our status quo trade policy that appear to show that FTAs have generated an export boom. Industry associations like the U.S. Chamber of Commerce and Business Roundtable have funded an entire body of research designed to create the appearance that the existing U.S. FTAs have both boosted exports and reversed or minimized trade deficits with FTA partner countries. This work relies on several methodological tricks that fail basic standards of accuracy:

- **Ignoring imports:** Corporate-sponsored studies, like those done by the Business Roundtable, 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 pacts 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 – which has been an outcome under many FTAs.
- **Counting foreign exports:** Groups like the U.S. Chamber of Commerce errantly claim that the United States has a trade surplus in manufactured goods with FTA nations, including NAFTA countries, by counting foreign-made goods as U.S. exports. These "re-exports" are goods made elsewhere that pass through the United States without alteration before being re-exported abroad. Government data suggest that re-exports are mostly coming from China and heading to Mexico and Canada. Thus, to get an accurate trade balance figure, re-exports should be removed when measuring the U.S. trade balance with Mexico and Canada.[5]
- **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.[6]
- **Cherry-picking years and products:** Many corporate groups cherry-pick years or products that bolster their claims that FTAs are beneficial to the United States. For instance, reports published by the U.S. Chamber of Commerce in 2017 claim that the U.S. "ran a cumulative trade surplus in manufactured goods with Canada and Mexico of more than $79 billion over the past seven years."[7] The years in question are 2008-2014, and the data come from a 2015 report. Why look only at those seven years? The answer may be because the United States has averaged a NAFTA deficit in manufactured goods between 1997 (earliest year of available manufacturing data) and 2017, even when failing to adjust for inflation and including foreign exports, as the Chamber of Commerce does. Why only mention manufacturing trade? The answer might be because the Chamber of Commerce does not want to acknowledge that the U.S. deficit in agriculture reached a record $7.8 billion in 2017, the largest agricultural deficit on record under NAFTA.
- **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.[8] 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 462 percent aggregate FTA deficit surge, its omission vastly skews the findings.
- **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).[9] 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 $220 billion, and Bahrain, where they do not reach $1 billion) despite accounting for such critical differences for non-FTA countries.

ENDNOTES

[1] Trade figures in this document use U.S. domestic exports and imports for consumption for U.S. trade with Mexico and Canada. For all other countries, this document uses total exports and general imports. Date derives from U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed Feb. 12, 2018. Available at: http://dataweb.usitc.gov/. All data are inflation-adjusted using the CPI-U-RS series of the Bureau of Labor Statistics. The statistic is comparing compound annual growth rates from 2005 to 2017.

[2] The administration estimates that $1 billion in U.S. goods exports supports 5,223 U.S. jobs. Chris Rasmussen, "Jobs Supported by Exports 2016: An Update," Office of Trade and Economic Analysis, Aug. 2, 2017. Available at: https://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_005543.pdf.

[3] *See* Jim Kessler and Gabe Horwitz, "Are Modern Trade Deals Working?" Third Way, February 12, 2015. Available at: http://www.thirdway.org/report/are-modern-trade-deals-working.

[4] *See* Business Roundtable, "The United States Has a Real Economic Stake in Negotiations to Modernize NAFTA," Aug. 2017. Available at: https://businessroundtable.org/sites/default/files/BRT.NAFTA_.USFactSheet.pdf.

[5] John G. Murphy, "Trade Deficit Truths," U.S. Chamber of Commerce, Feb. 6, 2018. Available at: https://www.uschamber.com/series/above-the-fold/trade-deficit-truths.

[6] John G. Murphy, "What Makes a Winning Trade Deal," U.S. Chamber of Commerce, March 2, 2017. Available at: https://www.uschamber.com/series/modernizing-nafta/what-makes-winning-trade-deal.

[7] U.S. Chamber of Commerce, "The Facts on NAFTA: Assessing Two Decades of Gains in Trade, Growth, and Jobs," March 8, 2017. Available at: https://www.uschamber.com/report/the-facts-nafta-assessing-two-decades-gains-trade-growth-and-jobs.

[8] 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.

[9] 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.