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New ITC Report Finds Disturbing Trends in U.S. Economy After Implementation of Free Trade Agreements

On June 29, the U.S. International Trade Commission (ITC) released a study on the economic impacts of trade agreements on the United States economy. This study was among those required by the 2015 Fast Track legislation. The report:

- Estimates that U.S. trade agreements have increased the wage gap in America between higher- and lower-skilled workers (page 122).

- Tried to cover up the reality that the United States has a large and growing trade deficit with its Free Trade Agreement (FTA) partners. The aggregate U.S. trade deficit with FTA partners has increased by about $141 billion, or 418 percent, since the FTAs were implemented while 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). To avoid discussing this reality, the study's representation of FTA trade flows focuses on percentage figures versus nominal figures, which would reveal the deficit. The report notes that U.S. exports to FTA countries represented 47 percent of total U.S. exports while imports from FTA countries only claimed 34 percent of total U.S. imports (page 29). A more honest portrayal of the relationship shows that U.S. exports to FTA partners were less than $593 billion in 2015, yet U.S. imports from FTA partners were more than $767 billion, a 2015 trade deficit of $175 billion.

- Estimates all the U.S. bilateral and regional FTAs ***combined*** have led to an increase in real GDP and aggregate U.S. employment by less than 1 percent (page 122). In other words, **the average U.S. monthly employment growth over the past year (i.e. 200,000 jobs) is larger than the ITC's estimates for the increase in total employment that all U.S. FTAs have delivered since 1985 (i.e. 159,300 jobs)** (page 17). But even this tiny estimated increase in employment is an odd conclusion given that the increase in the U.S. trade deficit under U.S. FTAs of $141.3 billion, if plugged into the Obama administration's trade-to-jobs ratio, implies the loss of more than 745,000 U.S. jobs counting both imports and exports.

- Fails to discuss or review the 2.9 million jobs certified by Trade Adjustment Assistance (TAA) as trade job losses since the passage of the North American Free Trade Agreement (NAFTA) – and it is known that TAA numbers significantly undercount trade-related job loss because until recently the program only covered a subset of manufacturing jobs lost to trade and only counts job losses that are voluntarily reported to the agency. Nor does the study explicitly discuss the nearly 5 million manufacturing jobs lost since NAFTA and the FTAs that followed, including many job losses resulting from multinational corporations moving their operations overseas to take advantage of cheap labor and undervalued currencies. Also missing from the report, is any coverage of the loss of nearly 200,000 U.S. small farms in America, which has devastated the traditional family farm in favor of large farm conglomerates. The ITC does admit that trade agreements have led to transitory unemployment and labor relocation – a reality it failed to account for in its study on the TPP's impact on the U.S. economy (page 122).

- Finds that certain trade agreements have lowered employment levels in many industries including autos as well as textiles and apparel. The report highlights that the tariff reductions the U.S. undertook as a result of the Uruguay Round and NAFTA led to U.S. steel imports increasing by 14.7 percent, or $1.2 billion in 2000 (page 149). The report also states that NAFTA and the Central American Free Trade Agreement (CAFTA) led to lower U.S. employment and production levels in the auto (page 173) and textile and apparel sectors (page 150).

- Finds that all the U.S. FTAs since 1985 have increased real GDP by a minuscule 0.21 percent (page 127).

The ITC has traditionally overstated the benefits that FTAs have had on the U.S. economy by incorporating deceptive and downright false assumptions in its models. The aggregate U.S. trade deficit with FTA partners has increased by $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). Using the Obama administration's trade-to-jobs ratio, counting both exports and imports, the FTA trade deficit surge implies the loss of over 745,000 U.S. jobs.

FTA Partner	Entry Date	Pre-FTA Trade Balance	2015 Balance	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.)*

While the ITC report implies that more recent FTAs include higher standards on labor and environmental provisions and thus may yield trade balance improvements (Page 94), there is no correlation between an FTA's inclusion of the higher standards of the May 10, 2007 deal and its trade balance. The Korea FTA included the "May 10" standards, and yet the U.S. trade deficit with Korea has grown over 80 percent in the four years since the deal's passage. Meanwhile, most post-NAFTA FTAs that have resulted in (small) trade balance improvements did not contain the "May 10" standards. Reducing the massive U.S. trade deficit will require a more fundamental rethink of the core status quo trade pact model extending from NAFTA through the Korea FTA, not more of the same.

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