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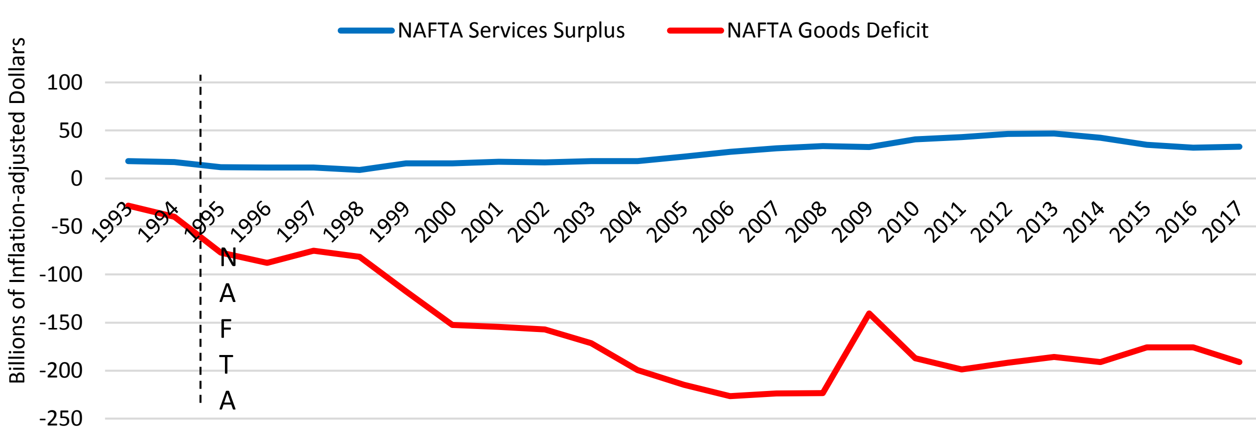
NAFTA Proponents Use Flawed Methods to Try to Hide Large NAFTA Trade Deficit

During the fierce 1993 debate over the North American Free Trade Agreement (NAFTA), proponents made rosy promises of job creation – 200,000 new U.S. jobs per year in its first five years alone, according to President Clinton.[1] That projection was based on a study by the Peterson Institute for International Economics (PIIE) that modeled how NAFTA's elimination of Mexican and Canadian tariffs would result in growth of U.S. exports that would outpace growth in imports from the other NAFTA countries.[1] Two decades later, the reality has been the opposite. Starting soon after NAFTA's passage, the small pre-NAFTA U.S. trade surplus with Mexico turned into a massive new trade deficit, and the pre-NAFTA U.S. trade deficit with Canada expanded greatly.[2] The new NAFTA trade deficit had already equated to an estimated net loss of one million U.S. jobs by 2004.[3] **The 2017 U.S. NAFTA deficit in goods reached $191.2 billion.[4] Including goods and services trade, the combined U.S. trade deficit with Mexico and Canada rose (in inflation-adjusted terms) from $10.5 billion before NAFTA in 1993 to $158.3 billion in 2017.[5]**

Canada NAFTA deficit: The U.S. goods and services trade balance with Canada in 1993 before NAFTA went into effect was a $17.7 billion deficit. That consisted of a $31 billion goods trade deficit and a $13.3 billion services surplus. In 2017, the U.S. goods and services trade balance with Canada was a $39 billion deficit. That consisted of a $64.8 billion goods trade deficit and a $25.9 billion services surplus.

Mexico NAFTA deficit: In 1993, the U.S. goods and services trade balance with Mexico was a $7.5 billion surplus. That consisted of a $2.7 billion goods trade surplus and a $4.8 billion services surplus. In 2017, the U.S. goods and services trade balance with Mexico was a $119.4 billion deficit. That consisted of a $126.3 billion goods trade deficit and a $7 billion services surplus.

NAFTA Goods Trade Deficit Soars More Than Four Times Higher Than Services Trade Surplus



Sources: U.S. International Trade Commission; U.S. Bureau of Economic Analysis

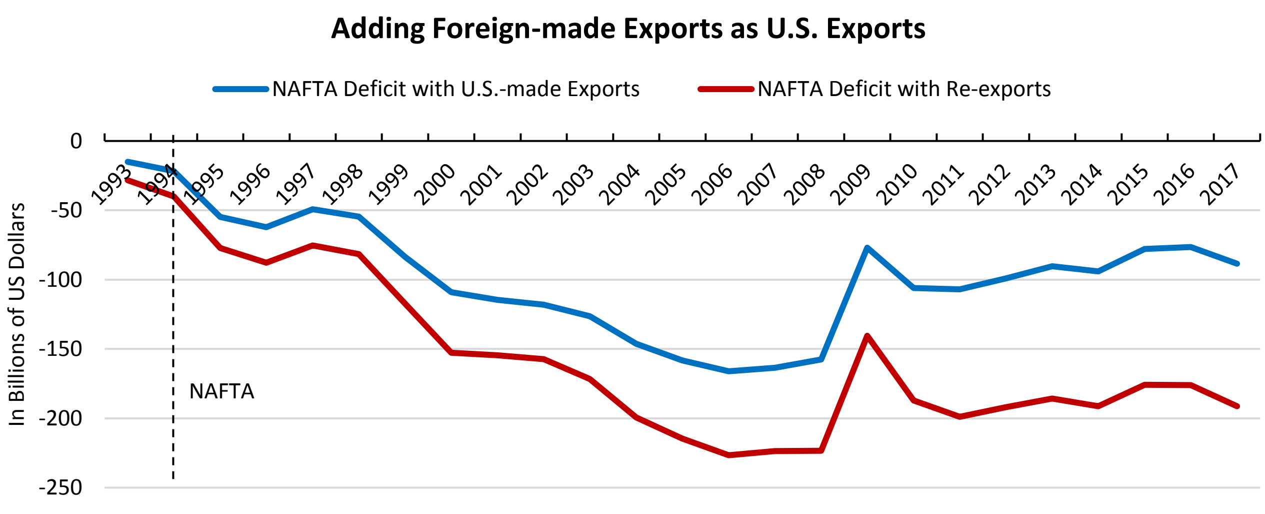
The goods and services deficit increase with Mexico and Canada during the years NAFTA has been in effect – a jump of $134 billion or 1,276 percent – represents hundreds of thousands of lost U.S. jobs. More than 930,000 specific U.S. jobs have been certified as lost to NAFTA trade and outsourcing under just one narrow government program, called Trade Adjustment Assistance (TAA). TAA only covers certain types of jobs and must be applied for and approved, so it undercounts total NAFTA job loss. But the TAA data show that NAFTA trade, not automation, cost hundreds of thousands of U.S. jobs. See www.citizen.org/TAAdatabase to find local certified NAFTA job losses.

NAFTA Proponents Use Data Manipulations to Try to Make Deficit Appear Smaller

Instead of facing the reality that NAFTA led to a large trade deficit and trying to fix that, NAFTA proponents have resorted to manipulating the data to try to obscure the depth of the NAFTA deficit.

Counting Foreign-Made Exports as U.S. Exports

The primary data trick used to vastly understate the NAFTA deficit is to count as "U.S. exports" to Mexico and Canada products that are actually just "re-exports" – goods made abroad, such as in China, that are simply shipped through the United States *en route* to Mexico or Canada.[6] These foreign-made exports do not support U.S. production jobs.[7] The actual $191.2 billion U.S. goods deficit with Mexico and Canada in 2017 can be made to look less than half as large ($88.6 billion) by counting as U.S. exports the foreign-made products that simply pass through U.S. ports.[8] The misleading numbers are frequently repeated in the press because NAFTA supporters consistently use this data trick. But in reality, the U.S. has a goods trade deficit of $126.3 billion and $64.8 billion with Mexico and Canada, respectively, and despite certain press reports, the U.S. has a bilateral goods and services trade deficit with both countries.



Source: U.S. International Trade Commission

The difference has to do with which data set is used. The U.S. Census Bureau releases monthly raw data on total exports leaving the U.S. and total imports coming in. But this data lumps together U.S.-made goods and foreign-made goods that are also known as "re-exports." These goods are made abroad, imported into the United States, and then re-exported having "not undergone any substantial change in form or condition, or any enhancement in value by further manufacturing" here. [9] For instance, the raw Census data counts as U.S. exports goods made in China and shipped to and stored in a warehouse in Long Beach port and then later, without alteration, trucked to another country. Government data shows that a large portion of re-exports are end up in Mexico or Canada after being initially imported from Asia.

Growing Share of NAFTA Re-Export

Country	Year	Total U.S. Goods Exports	Domestic U.S. Goods Exports	Share of Re-exports Relative to Total Exports
Canada	1993	$166.6 billion	$152.8 billion	8%
	2005	$264.1 billion	$228.9 billion	13%
	2017	$282.5 billion	$234.2 billion	17%
Mexico	1993	$69.2 billion	$67.0 billion	3%
	2005	$150.0 billion	$127.0 billion	15%
	2017	$243.0 billion	$186.7 billion	23%

Source: U.S. International Trade Commission

Adding re-exports to U.S.-made exports has had an increasingly distortionary effect on the true NAFTA trade deficit. The portion of re-exported goods versus domestically-produced goods in 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 goods trade data (2017), as can be seen in the table above.

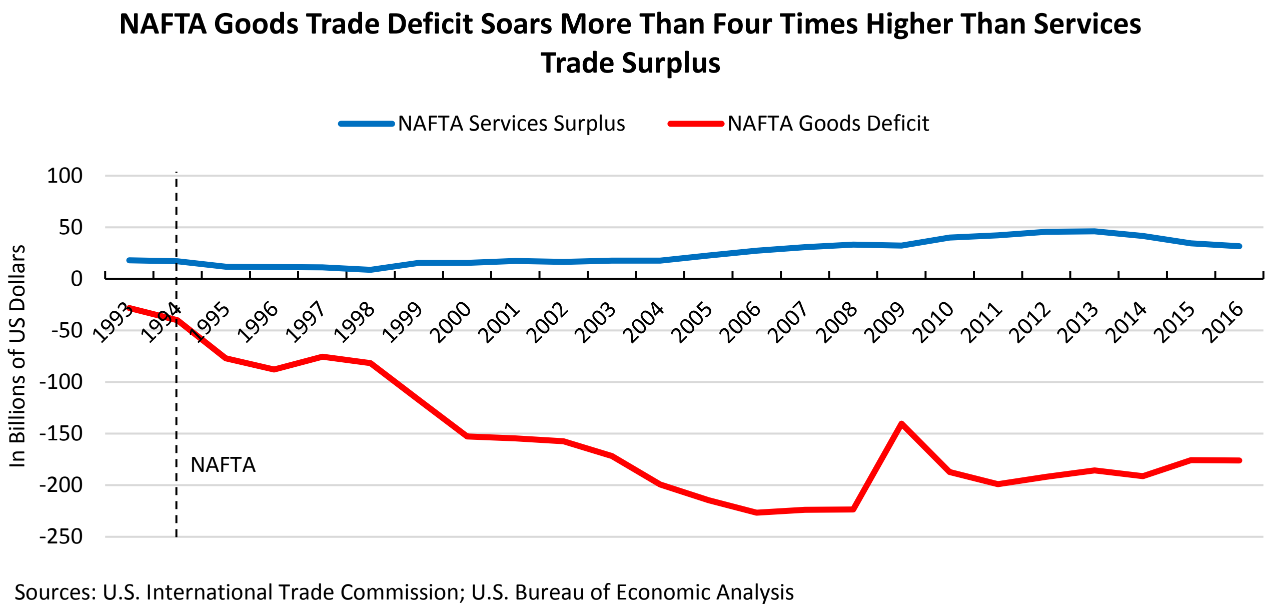
The NAFTA Trade Deficit Is Not Mainly Oil and Fossil Fuels: It's Manufactured and Agricultural Goods

Defenders of NAFTA argue that the NAFTA deficit is really only due to fossil fuel (oil, gas and coal) imports. For instance, in 2016 the U.S. Trade Representative website noted: "The largest factor affecting the trade balance with NAFTA countries is the importation of fossil fuels and their byproducts. If those products are excluded, there is no deficit. In fact, the United States has a large and growing trade surplus in goods…" That is wrong: Even if one removes all of the fossil fuel categories from the NAFTA trade balance, the remaining 2017 NAFTA goods trade deficit was $152.2 billion. Moreover, the share of the U.S. NAFTA goods trade deficit that is comprised of fossil fuels has declined under NAFTA, from 82 percent in 1993 to 20.4 percent in 2017, as we have faced a surge of imported manufactured and agricultural goods.[10] As a result, minus fossil fuels our NAFTA goods *and services* deficit in 2017 was $119.3 billion, which represents a deficit in manufactured and agricultural goods.

Ignoring the Huge NAFTA Goods Deficit to Cherry-Pick Small Services Surplus

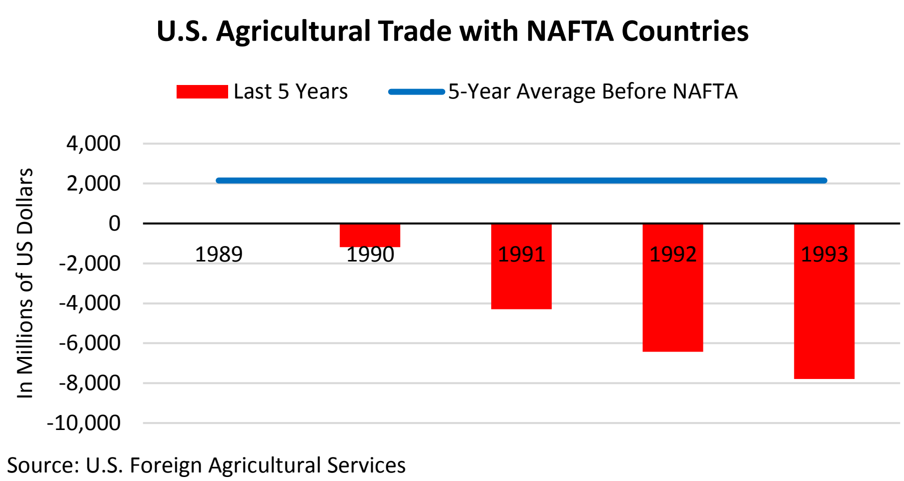
Pro-NAFTA corporate groups, such as the U.S. Chamber of Commerce,[11] emphasize the growth of U.S. services exports to Mexico and Canada since NAFTA to downplay the deal's overall impact on the U.S. trade deficit. But the annual growth of U.S. services exports to Mexico and Canada since NAFTA has actually fallen more than half below the pre-NAFTA rate.[12] And growth in the NAFTA services surplus has been dwarfed by the huge increase in the NAFTA goods deficit.

In the year before NAFTA took effect, the U.S. goods trade deficit with Canada and Mexico was $28.3 billion while the services trade surplus with those countries was $17.8 billion. By 2017 the burgeoning NAFTA goods deficit had soared 576 percent, spelling a large net loss for U.S. jobs.[13] Even those NAFTA-displaced U.S. manufacturing workers who have been able to find new service-sector jobs have typically suffered declining income. According to the U.S. Bureau of Labor Statistics, two out of every five displaced manufacturing workers who were rehired in 2016 experienced a wage reduction, many of them taking a pay cut of greater than 20 percent.[14]



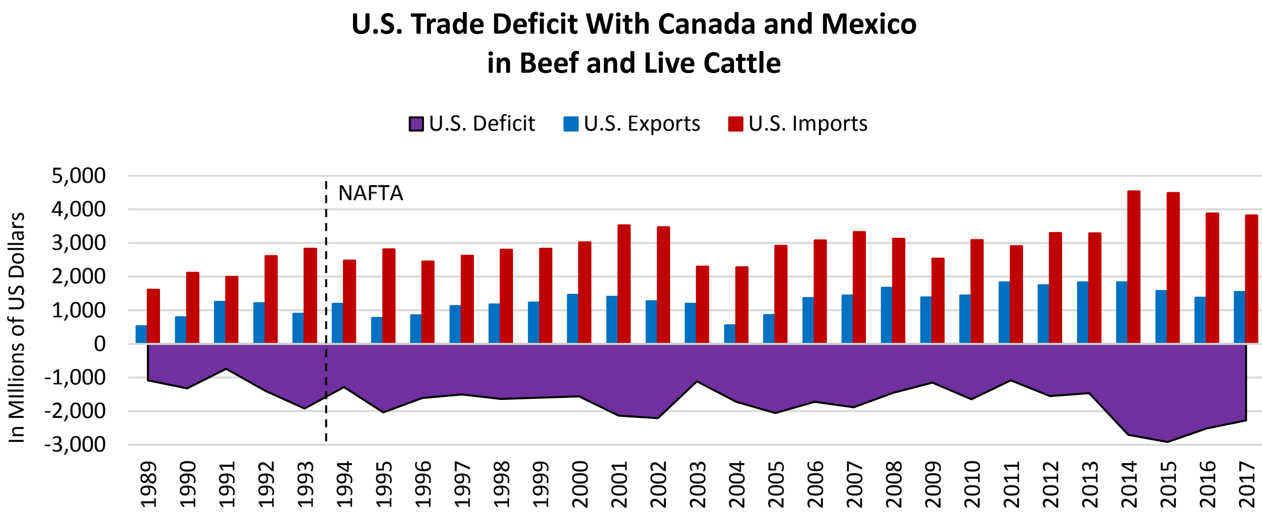
Trade Deficits Have Become the Norm for U.S. Agriculture Under NAFTA

The U.S. trade balance in agricultural goods with Canada and Mexico in the five years before NAFTA averaged a surplus of $2.2 billion. Over the past five years however, the U.S. trade surplus in agricultural goods with Canada and Mexico turned into a massive record-breaking trade deficit of $7.8 billion in 2017.[15]



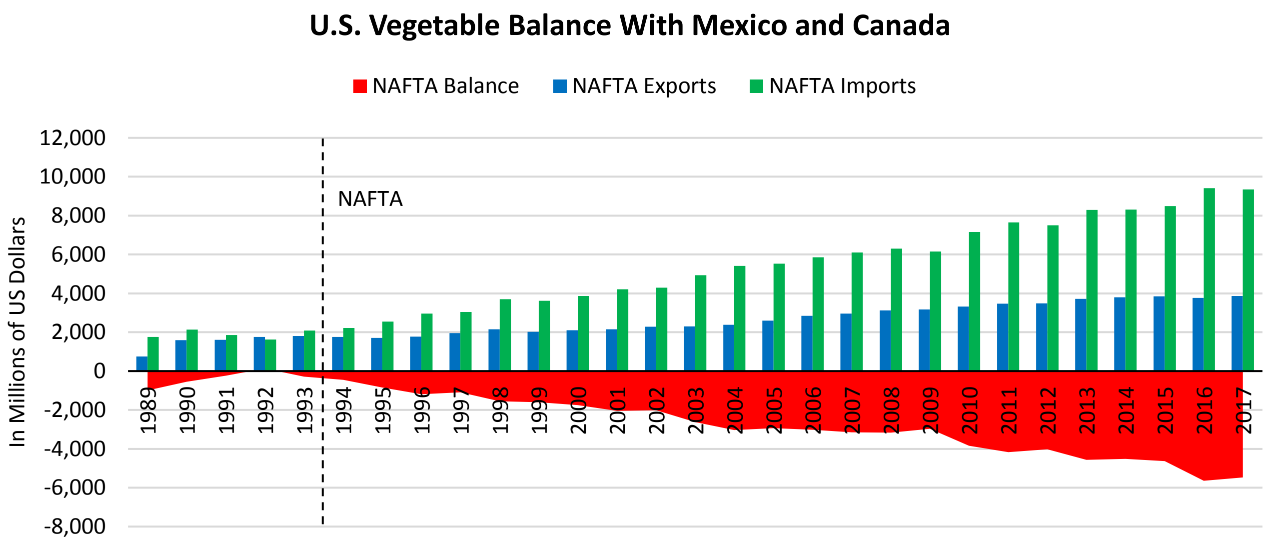
Key Agriculture Exports Remain Stagnant Under NAFTA While Imports Soar

Some U.S. farming sectors have suffered not only a flood of NAFTA imports, but have also seen very little gains on the export side, even with the post-2006 spikes in international prices, despite promises to the contrary. **Small gains in U.S. beef and live cattle exports have been swamped by high imports throughout the NAFTA era.**[16]



Source: U.S. International Trade Commission

And while total U.S. vegetable imports from Canada and Mexico have more than quadrupled (a 347 percent increase) under NAFTA, U.S. vegetable exports to NAFTA partners have only doubled. As a result, the U.S. vegetable deficit with Canada and Mexico has soared to $5.5 billion, more than 19 times the pre-NAFTA level, as the graph below indicates.[17]



Source: U.S. Foreign Agricultural Service

U.S. corn is, however, an exception. In 2017, the United States exported 44 times as much corn to Mexico as before NAFTA.[18] But when the flood of U.S. corn caused prices to plummet 66 percent for Mexican farmers, 2.5 million farmers and agricultural workers in Mexico lost their livelihoods, many of whom resorted to migration.[19] In NAFTA's first seven years, the annual number of people emigrating from Mexico to the United States more than doubled.[20]

ENDNOTES

[1] Gary Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment,* (Washington, D.C.: Institute for International Economics, 1993), at 14.
[2] U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed March 1, 2018. Available at: http://dataweb.usitc.gov. Exports are domestic exports, and imports are imports for consumption. All trade figures have been adjusted to 2018 dollars using the CPI-U-RS from the Congressional Budget Office.
[3] Robert E. Scott, Carlos Salas, and Bruce Campbell, "Revisiting NAFTA: Still Not Working for North America's Workers," Economic Policy Institute, Briefing Paper 173, Sept. 28, 2006. Available at: http://s2.epi.org/files/page/-/old/briefingpapers/173/bp173.pdf.
[4] U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed March 1, 2018. Available at: http://dataweb.usitc.gov.
[5] Goods trade data: U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed March 1, 2018. 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 Dec. 4, 2017. 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 2018 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 April 2017. Available at: http://www.bls.gov/cpi/cpirsai1978-2013.pdf.
[6] See the Chamber of Commerce claim that the U.S. had a trade surplus in manufactured goods with FTA nations. 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. The calculations are based on trade flow data from the U.S. Census Bureau that includes re-exports, rather than the data provided by the U.S. International Trade Commission that isolates U.S.-made exports.
[7] Call between U.S. Census Bureau staff and Public Citizen staff, Sept. 25, 2014.
[8] U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed March 9, 2018. Available at: http://dataweb.usitc.gov.
[9] The U.S. ITC definition is: "Re-exports (foreign exports) are exports of goods of foreign origin that (1) have previously entered the U.S. customs territory, a Customs bonded warehouse, or a U.S. FTZ, and (2) at the time of exportation, have not undergone any substantial change in form or condition or any enhancement in value by further manufacturing in the U.S. customs territory or U.S. FTZs," accessed May 5, 2017. Available at: https://www.usitc.gov/research_and_analysis/trade_shifts_2014/trade_shifts_trade_measure_definition.htm. The U.S. Census Bureau definition is: "Exports (Foreign) - Exports of foreign goods (re-exports) consist of commodities of foreign origin that have previously been admitted to a U.S. Foreign Trade Zones or entered the United States for consumption, including entry into a CBP bonded warehouse, and which, at the time of exportation, are in substantially the same condition as when imported," accessed May 5, 2017. Available at: https://www.census.gov/foreign-trade/reference/definitions/index.html#exports_foreign.
[10] Trade in fossil fuels is defined as HS 27. Data from U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed March 6, 2018. Available at: http://dataweb.usitc.gov.
[11] U.S. Chamber of Commerce, "NAFTA Triumphant: Assessing Two Decades of Gains in Trade, Growth, and Jobs," 2013, at 1. Available at: http://www.uschamber.com/sites/default/files/reports/1112_INTL_NAFTA_20Years.pdf.
[12] U.S. Bureau of Economic Analysis, "International Data: Table 12: U.S. International Transactions, by Area," accessed March 9, 2018. Available at: http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1#reqid=6&step=1&isuri=1. The statistic is a comparison of the pre- and post-NAFTA compound annual growth rates of inflation-adjusted services exports to Mexico and Canada (from 1986 – the earliest year of data availability – through 1993 and from 1993 through 2017 – the latest year of data availability).
[13] Data on U.S. goods trade gathered from U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed March 9, 2018. Available at: http://dataweb.usitc.gov. Data on U.S. services trade gathered from U.S. Bureau of Economic Analysis, "International Data: Table 12: U.S. International Transactions by Area," accessed March 9, 2018. Available at: http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1#reqid=6&step=1&isuri=1.
[14] U.S. Bureau of Labor Statistics, "Displaced Workers Summary," Table 7, U.S. Department of Labor, Aug. 25, 2016. Available at: http://www.bls.gov/news.release/disp.nr0.htm.
[15] U.S. Foreign Agricultural Service, "Global Agricultural Trade System," accessed March 9, 2018. https://apps.fas.usda.gov/Gats/.
[16] In the graph, beef is defined as SITC 011 and live cattle is SITC 00111 and 00119. All data adjusted for inflation. U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed March 9, 2018. http://dataweb.usitc.gov.
[17] Vegetables are defined as all "vegetables and preparations" under the FATUS product group. U.S. Foreign Agricultural Service, "Global Agricultural Trade System," accessed March 9, 2018. https://apps.fas.usda.gov/Gats/.
[18] Corn falls under the BICO product group. U.S. Foreign Agricultural Service, "Global Agricultural Trade System," accessed March 9, 2018. https://apps.fas.usda.gov/Gats/.
[19] John B. Judis, "Trade Secrets," *The New Republic,* Apr. 9, 2008.
[20] Jeffrey Passel, D'Vera Cohn, and Ana Gonzalez-Barrera, "Net Migration from Mexico Falls to Zero—and Perhaps Less," Pew Hispanic Center, Apr. 23, 2012, at 45. Available at: http://www.pewhispanic.org/files/2012/04/Mexican-migrants-report_final.pdf.