

Lies, Damn Lies and Export Statistics

How Corporate Lobbyists Distort Record of
Flawed Trade Deals



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“We need to export more of our goods. Because the more products we make and sell to other countries, the more jobs we support right here in America. So tonight, we set a new goal: We will double our exports over the next five years, an increase that will support two million jobs in America.” – President Barack Obama, State of the Union Speech, Jan. 27, 2010

I. SUMMARY AND FINDINGS

President Obama’s goal to double U.S. exports over the next five years to create two million new American jobs is widely supported. *How* to accomplish it is a subject of considerable contention.

Proponents of President Bush’s “Free Trade Agreements” (FTAs) with Korea, Colombia and Panama claim that passing these pacts is the best way to expand U.S. exports and create jobs. Obama administration officials have similarly argued that passing FTAs is a key component of the effort to double exports, especially in the context of the president’s recent announcement that he wants Congress to pass Bush’s FTA with Korea early next year.¹

Yet, analysis of the actual outcomes of past U.S. FTAs show that the growth of U.S. exports to countries that are not FTA partners is as much as double the growth of exports to U.S. FTA partners. Moreover, with respect to Obama’s job creation goal, the United States has suffered trade deficits with most of its major FTA partners and with the group of FTA nations as a whole. Even as trade flows declined because of the economic crisis, as of 2009, the United States had a \$54 billion trade deficit in goods with its 17 FTA partners, even when oil is excluded. And, contrary to the frequent claims made by proponents of the North American Free Trade Agreement (NAFTA) that U.S. farmers have benefitted from this model, the United States’ agricultural trade deficit with the bloc of 17 FTA partners increased.

This highlights why, especially now, an honest, data-based discussion about the economic impact of FTAs based on the NAFTA model is critical. People are entitled to their own opinions about NAFTA-style FTAs, but they’re not entitled to their own facts.

Among public concerns about job loss, the decimation of the U.S. manufacturing base, and the ballooning U.S. trade deficit, corporate lobbyists have unveiled a series of misleading and erroneous studies and talking points, alleging all sorts of benefits from NAFTA-style pacts. It is impossible to know whether these are deliberate attempts to distort the truth, or simply sloppy economics.

This report reviews these studies and claims, and presents an empirical record of the U.S. experience under NAFTA and other FTAs – especially as it relates to exports. We address the questions: *Are corporate claims about the FTA export record accurate?* and, *If U.S. FTAs have been associated with some absolute gains on the export side of the ledger, have exports to FTA partners been growing at a faster rate compared to exports to countries with no FTA in force?*

In this section (Section I), we summarize our key findings and relate them to current policy debates. In Section II, we examine data that shows how U.S. trade deficits have increased under NAFTA-style trade deals, and U.S. export growth rates have been “penalized” relative to non-FTA countries. In Sections III and IV, we examine the questionable techniques employed by pro-FTA corporate groups like the U.S. Chamber of Commerce and National Association of Manufacturers (NAM) in several recent claims. Section V briefly concludes, and a technical appendix details our methodologies.

A New Spotlight on FTA Export Claims

In his 2010 State of the Union speech, President Obama declared export expansion to be a new national priority, with the goal of creating 2 million new U.S. jobs by doubling exports by 2015. This new focus on export expansion makes sense. As basic macroeconomics teaches us, the number of jobs that any country can support is limited by domestic consumer, business and government demand plus exports minus imports. For the United States, which has suffered massive trade deficits, a major challenge is to pursue policies that boost exports while also encouraging more balanced trade flows. Improving both sides of the ledger is key to creating opportunities for more American jobs and greater national income.

At the June 2010 G-20 summit in Toronto, President Obama and Korean President Lee announced that they had agreed to prioritize addressing outstanding issues with the U.S.-Korea FTA signed in 2007 by President Bush.² President Obama instructed U.S. Trade Representative (USTR) Ron Kirk to work with his Korean counterpart to “set a path” so that the Korea FTA could be submitted to a vote in Congress.

This is a “critical step towards the goal of doubling U.S. exports over the next five years,” said the Business Roundtable.³ Other longstanding proponents of the Bush FTAs repeated this mantra. Similar claims are being made to promote negotiation of a Trans-Pacific Partnership (TPP) based on the NAFTA model.¹ The main premise underlying these arguments is an endlessly repeated claim that the past U.S. NAFTA-style FTAs with 17 countries⁴ have resulted in tremendous export growth.⁵

The Data Do Not Support the Spin

However, examination of the actual data shows that **the United States has generally had substantial trade deficits with most of its major FTA partners and with the group of FTA nations as a whole. Even as trade flows declined because of the economic crisis, as of 2009, the United States had a \$54 billion trade deficit in goods, excluding oil, with the bloc of 17 U.S. FTA partners.** This contradicts recent claims made by the NAM that “over the past two years FTAs have resulted in a U.S. manufactured goods surplus of nearly \$50 billion.” As we show, NAM’s “surplus” looks at “total exports,” a measure that includes billions of mere “re-exports” of foreign products that are passing through U.S. ports and were not made by American workers. In contrast, the U.S. International Trade Commission (USITC), the independent, non-political agency responsible for producing independent studies on the effect of FTAs on the U.S. economy, uses data on domestic exports, removing the transshipments [i.e. re-exports] that NAM’s calculation included. **When the correct export measure is used, the opposite result is produced: the trade balance in non-oil manufactured goods with U.S. FTA partners over 2008-2009 comes to a deficit of \$97 billion.** We examine this and other claims made by NAM in Section IV of our report, and claims made by the Chamber of Commerce in Section III.

Moreover, a close look at trade data over the past ten years reveals that **the growth of U.S. exports to countries that are not FTA partners has far outpaced the growth of exports to FTA**

¹ The improbability of the TPP claims is magnified by the reality that the U.S. *already* has tariff-eliminating FTAs with the four prospective TPP countries – Australia, Peru, Singapore, and Chile – that represent 86 percent of the combined GDP of the Trans-Pacific region.)

partners.⁶ We examine trade data since 1998, consistent with the latest Chamber of Commerce report on FTA export growth that uses data from the period 1998-2008. We found that:

- **Between 1998 and 2008, U.S. goods exports to FTA partner countries grew by an annual average rate of only 3.0 percent. Goods exports to non-FTA partner countries, by contrast, grew by 4.2 percent per year on average.** (The 2008 end date is used to show the trend before the overall falloff in trade flows related to the global economic crisis.) For convenience, we call this phenomenon the FTA export growth “penalty.” We do not claim that there is a causal link between export growth and FTA implementation, unlike proponents of FTAs. Rather, we simply report the actual outcomes with respect to exports of the past U.S. FTAs, given misrepresentations about them now figure prominently in arguments in favor of passing more pacts based on the same model.
- The picture looks especially grim if one looks at the 1998-2009 period. Throughout this longer period, which includes the year in which the global economic crisis peaked, **goods exports to FTA countries grew by an average of only 0.8 percent per year. This compares with a growth rate of 2.2 percent year for U.S. exports to non-FTA countries – double that rate.**
- Defenders of the past U.S. FTAs regularly claim that these pacts’ existence helped avoid a worse falloff in trade related to the global economic crisis. **In fact, in 2009, exports to FTA countries shrank 21.1 percent, while exports to non-FTA countries shrank only 18.4 percent.**
- **The FTA export growth “penalty” significantly impacts several sectors of the economy, with the rate of export growth in services and manufacturing with U.S. FTA partners taking a hit over 1998-2009.**
 - Manufactured exports to non-FTA partners grew by an annual average of 1.7 percent over 1998-2009, while manufactured exports to FTA countries grew by an annual average of only 0.1 percent.
 - While the U.S. government does not release detailed country-by-country services data, it does release numbers for 34 countries, including the most important U.S. services trade partners. When we compare the FTA countries to the non-FTA countries in this subset, we find that the FTA services export growth rate is 5.5 percent and the non-FTA export growth rate is 5.7 percent over 1998-2008. This considers data up to 2008 – the most recent available.
- If the difference between the FTA and non-FTA export growth rates for goods for each year were put in dollar terms, the FTA “penalty” would be as high as \$33 billion in 2007, while the FTA “benefit” (i.e. where the FTA export growth rate was higher than the non-FTA export growth rate) occurred only in four of eleven years and would only reach as high as \$24 billion in 1999. Summing these dollar differences in each year over 1999-2009 totals to a “penalty” of \$72 billion.⁷ For manufacturing, agriculture and services, the comparable “dollar penalties” are \$59 billion, \$2.7 billion, and \$6.9 billion, respectively.
- The U.S. Chamber of Commerce has released various studies purporting to show a major positive export benefit from the U.S. FTAs. But their studies are plagued by an internally inconsistent methodology. For instance, their calculation of FTA export growth uses a *non-weighted average* of averages, which greatly overvalues large percentage gains of small trade

flows. This is then compared to a *weighted average* of non-FTA countries' export growth. And, the non-FTA export growth rate is based on trade flows over 1998-2008, yet the FTA growth rate is based on an average of growth rate of exports to each FTA country over the life of each FTA, which ranges from 1985-2008 for Israel to 2007-2008 for the Dominican Republic. **Once these errors are corrected, and the proper weighted average is applied consistently, we find that the Chamber's own methodology shows the average growth of exports to FTA partners to be 3.0 percent, but the average growth of exports to non-FTA partners to be 4.2 percent over 1998-2008.** This mirrors our findings.

Misleading Claims on U.S. Export Growth to FTA Partners

"U.S. exports to partners with FTAs in effect in 2008 grew at an average annual rate of 17.4 percent since each individual FTA went into effect, compared to an average annual growth rate of 6.0 percent for U.S. exports to non-FTA partners." -U.S. Chamber of Commerce, May 2010.⁸

"So from a trade perspective, this is a matter of leveling the playing field and, as we've seen with our other free trade agreements, U.S. exports to our FTA partner countries have grown 40 percent faster than our exports to the rest of the world." - U.S. Trade Representative Susan Schwab, April 2008.⁹

"U.S. goods and services exports to the 11 trading partners with FTAs that entered into force between 2001 and 2007 grew nearly 80 percent faster on average than did U.S. exports to the rest of the world. Taken together, U.S. exports to all FTA partners have grown 40 percent faster than U.S exports to the rest of the world." - Office of the USTR, December 2008.¹⁰

"Our FTA partners are also among the most rapidly growing markets for our exports. In fact, U.S. exports to the 11 FTA countries implemented since NAFTA have grown nearly 80 percent faster than U.S. exports to the rest of the world." - U.S. Trade Representative Susan Schwab, March 2008.¹¹

"U.S. exports to the 11 trade partners with which the U.S. implemented FTAs between 2001 and 2007 grew over 70 percent faster on average than did U.S. exports to the rest of the world. Moreover, although our FTA-partner countries accounted for only 7 percent of the global economy in 2007 (excluding the United States), they were the destination for 41 percent of total U.S. exports." - Office of the USTR, March 2008.¹²

"Since January 2000, the U.S. has implemented seven Free Trade Agreements (FTAs) with eleven countries. Between 1999 and 2007, U.S. merchandise exports to these eleven countries have increased 75.1 percent, while U.S. merchandise exports to the rest of the world have increased only 66.7 percent." - U.S. Department of Commerce, February 2008.¹³

"Where we have an FTA, our exports are growing a healthy 20 percent per year on average, more than twice the rate of growth for our exports where we do not have an FTA." - Office of the USTR, March 2006.¹⁴

- Finally, the overall trade balance with FTA partners also highlights the need for a different approach. As of 2009, the United States had a \$54 billion trade deficit in goods, excluding oil, with the 17 FTA partners. Taking just the case of NAFTA alone, the United States went from a \$6 billion deficit in non-oil goods in 1993, the year before NAFTA's implementation, to a \$54 billion deficit in 2009 amidst the global drop-off in trade related to the crisis. The U.S. NAFTA deficit peaked at \$199 billion in today's dollars. Trade officials have occasionally admitted this unfortunate trend with U.S. FTAs: **In an October 2006 speech to a Korean audience, Bush**

administration official Karan Bhatia said that it was a myth that “The U.S. will get the bulk of the benefits of the FTA. If history is any judge, it may well not turn out to be true that the U.S. will get the bulk of the benefits, if measured by increased exports.” He added that, in the instance of Mexico and other countries, “the history of our FTAs is that bilateral trade surpluses of our trading partners go up.”¹⁵ Exports are only part of the competitiveness picture. In the same way that exports are associated with job opportunities, trade deficits (where imports outstrip exports) are associated with lost job opportunities.

- There are real people behind these numbers: since the United States began implementing NAFTA-style FTAs in 1994, we have lost 4.9 million manufacturing jobs, as 43,000 American manufacturing facilities closed.¹⁶ Since 2000 alone, well before the current unemployment crisis, the proportion of private nonfarm jobs that were in the U.S. manufacturing sector declined by 30 percent, from 15.5 percent to 10.9 percent.¹⁷ There are various explanations for this decline, but significant flaws in U.S. trade policy are certainly a key factor. Economic simulations have found that the U.S. economy could have supported an estimated 5 million *more* jobs if not for the massive trade deficit that has accrued under current U.S. trade policy.¹⁸ Estimates for the NAFTA trade deficit alone point in the same direction: over one million lost job opportunities over 1993 to 2004.¹⁹

Economists of all stripes agree that the status quo trade policy has contributed significantly to rising inequality. Over a decade ago, the Peterson Institute for International Economics sought to quantify the effect of trade policy on U.S. income inequality, and found that nearly 40 percent of the increase in inequality was attributable to U.S. trade policy.²⁰ When the Economic Policy Institute (EPI) updated the Peterson figures, it found that the average American family lost a net \$2,000 a year from the burden of rising inequality due to trade. EPI’s calculations take into account the consumer savings from cheaper imports. Thus, net wage losses from trade now exceed the median American household’s income tax burden by hundreds of dollars. EPI projects that, if current trade policies and trends continue, all wage gains made since 1979 by workers without a four-year college degree (70 percent of Americans) could be erased.²¹

What Could Be the Basis for the Association between FTAs and Lower Export Growth?

It is beyond the scope of this paper to explore in detail *why* the United States has had lower export growth with FTA partner countries: the central point is that the claim that export growth to FTA partners has been higher than export growth to non-FTA partners is not supported by the actual U.S. government trade flow data. And, the U.S. Chamber of Commerce studies relied upon to make this claim are deeply flawed. Importantly, studies produced by corporate, government, and academic studies also do not establish causation, and are greatly affected by the assumptions of their model. Our study should be seen as an attempt to understand whether the data fit the predictions of FTA proponents, and to discover the flaws in their research models.

The explanations for the FTA export-growth penalty include the possibility that the current FTA model promotes *too much* integration, meaning that economic growth in our FTA partners becomes *too reliant* on the U.S. market. In other words, when the U.S. economy suffers a downturn our FTA partners’ overall economic growth suffers disproportionately, and with it, their demand for U.S. exports. For example, the International Monetary Fund found that the economies of countries in the Central America Free Trade Agreement (CAFTA) suffered massively from the U.S. Great Recession, with each percent drop in U.S. GDP causing a 0.7 to 1.0 percent drop in GDP among the CAFTA countries, largely due to trade and financial

links with the U.S. economy.²² Thus, a sounder strategy for both the United States and these countries, then, might be to have more diversified trading relations than the FTA program creates.

Alternatively, it may be that the foreign investor protections included in the FTAs promoted U.S. firms to relocate production to FTA partner countries. This could mean that, instead of exporting goods produced here to these nations, U.S. firms produced for these nations' domestic markets (and for the U.S. market) from their new offshore facilities. It is also the case that FTAs forbid many of the investment, procurement and financial regulations used by countries that have successfully developed. So, governments of countries *willing* to sign a U.S. FTA may already have a proclivity for abandoning such pro-development policies. As a result, they may have slower growth rates than developing countries should have, and thus less demand for U.S. exports.

Finally, it also could be that China's accession to the WTO is "crowding out" U.S. exports in FTA markets.²³ It is worth noting that this paper makes no attempt to resolve the "China question." U.S. exports to China have been quite high. Ironically, annual U.S. export growth over 1998-2009 to China (with whom the U.S. does not have an FTA) has been 12.9 percent in comparison to 0.8 percent with U.S. FTA partners, although exports to China in 1998 amounted to only \$18 billion. However, U.S. imports from China have been much greater than exports, negating the positive effects of increased exports. Thus, U.S. deficits with FTA countries are now much lower than U.S. deficits with China. This – along with the finding in our report that U.S. FTAs have not been associated with relatively higher export growth – provides support for the notion that better trade agreements, *combined* with strong action on China trade and currency matters, are more likely to resolve U.S. trade problems.ⁱⁱ

Translating the Obama Export Initiative into Action: The TRADE Act is the Best Way Forward

Many corporate spokespeople have suggested that passage of the pending FTAs is a necessary component of Obama's export and job creation goals.²⁴ This report demonstrates that this claim is not supported by the data on the FTA record.

Several further points should be made. First, it is highly unlikely that exports – as measured in real terms – can double in five years, as President Obama pledged. A doubling of exports would imply a 15 percent annual export growth rate, sustained every year over the next five years. That is almost double the annual average from 2004-2008, and compares with a 19 percent *contraction* in exports in 2009. Exports of U.S. goods in inflation-adjusted terms have only doubled in one five-year period in the last half century – the years from 1969 to 1974.²⁵ (It is worth noting, however, that imports also more than doubled (they grew by 120 percent) during that time period, and the United States registered its first post-war trade deficit.)

Second, even if U.S. exports doubled over the next five years, and imports grew at their historic rate over 2004-2008, the United States would still be left with a sizeable trade deficit. In other words, even if the export doubling goal succeeded, (and the United States attained \$2.1 trillion in goods exports) unless import growth rates slowed, we would have \$2.4 trillion in imports and a \$320 billion U.S. trade deficit. This outcome would undermine President Obama's goal of creating two million new jobs from trade.

ⁱⁱ In addition, the finding of this report of a lower export growth rate to FTA partners does not hinge on the fact that China is a non-FTA country. If China were to be excluded from the analysis entirely and the results re-calculated, the average annual export growth of exports to non-FTA countries over 1998-2009 would be 1.5 percent, compared to the FTA growth rate of 0.8 percent.

Third, President Obama made many specific fair-trade campaign commitments, including to make significant changes relative to the trade pact model used during the Bush-Clinton-Bush era.²⁶

Adopting President Obama's trade reform commitments would be far more likely to produce agreements that can assist in his export goals rather than simply adopting the Bush leftover agreements as Obama's own. In Congress, a majority of Democrats in the House of Representatives have sponsored legislation that translates Obama's commitments into a new model for U.S. trade expansion. Called the Trade Reform Accountability Development and Employment Act (H.R. 3012), the bipartisan bill has explicit provisions requiring a close examination of past agreements to help understand how their specific terms produced the current outcomes. The legislation also sets out a new trade agreement model for future pacts that is specifically designed to deliver on the goals of U.S. export expansion and job creation.²⁷

While trade votes usually cause ferocious splits in Congress, the TRADE Act has become the basis of rebuilding consensus for trade expansion – under different rules designed to meet different goals. Typically few members of Congress cosponsor lengthy technical bills laying out specific details of any policy as controversial as trade has been. In contrast, the TRADE Act (introduced in the House by Rep. Mike Michaud (D-Maine)) is cosponsored by a majority of House Democrats, and nearly two-thirds of committee chairs (13) and subcommittee chairs (57). Its sponsors include 25 Blue Dogs, 22 New Democrats, and wide representation from other caucuses. A companion measure was introduced by Sen. Sherrod Brown (D-Ohio) in the Senate, where it is also gaining cosponsorship and attention.

In short, after 15 years of the American public living with the results of the NAFTA model, and a close examination of that model's outcomes, many in Congress and the U.S. President have been elected promising a new American trade policy. This study shows why this commitment is not only responsive to the American public's demands, but also why it is a key part of delivering on President Obama's key export and job goals.

II. ANALYSIS OF FTA TRADE DATA

Table 1a shows the average trade deficit with the 17 U.S. FTA partner countries over the three years before and after FTA implementation. **Because imports have outstripped U.S. exports to many of these countries, the United States has large and growing trade deficits with its major FTA partners and with the group of FTA nations as a whole.** In the cases of Mexico, Jordan, and Costa Rica, the United States went from small surpluses to trade deficits. After implementing FTAs, the United States also maintained pre-existing trade deficits with Israel, Canada, Honduras, and Nicaragua. Numbers in parentheses (red type) represent deficits. These numbers are from the USITC, the non-partisan body responsible for conducting analysis on U.S. trade policy for the U.S. government.

	Entry Date of FTA	Balance year before FTA implementation*	2009 Balance	Change
Israel	1985	(929)	(12,880)	(11,951)
Canada	1989	(12,139)	(223)	11,916
Mexico	1994	7,883	(53,907)	(61,790)
Jordan	2001	133	239	106
Chile	2004	(1,735)	928	2,663
Singapore	2004	274	1,983	1,709
Australia	2005	6,986	10,239	3,253
Morocco	2006	81	905	824
El Salvador	2006	(282)	(163)	118
Guatemala	2006	(742)	(63)	680
Honduras	2006	(990)	(571)	419
Nicaragua	2006	(663)	(945)	(282)
Bahrain	2006	(128)	190	319
Dominican Republic	2007	(42)	1,143	1,185
Costa Rica	2009	672	(2,010)	(2,682)
Oman	2009	1,191	922	(269)
Peru	2009	(174)	256	430
Total			(53,959)	

*For Israel and Canada, this column is the trade balance in 1989 due to data availability.

Source: U.S. International Trade Commission

Table 1b illustrates the three-year average in the period three years before implementation, and the most recent available three-year period. Taking these three-year averages smoothes the year-to-year volatility in trade flows caused by the 2008-2009 global financial crisis and yields a better picture of the U.S. trade balance with these FTA partners. Using this methodology, we find that our trade balance with Israel, Canada, Mexico, Jordan, Nicaragua and Costa Rica worsened after FTA implementation.^{iv}

ⁱⁱⁱ Note that all numbers in this table are adjusted for inflation. See Appendix I for more detail on our general methodology. Also, note that these tables reflect trends in “domestic exports minus imports for consumption,” the measure used by the USITC. Utilizing the “total exports minus total imports” measure preferred by some corporate groups and non-independent U.S. governmental agencies such as the International Trade Administration does not substantially affect our findings on export growth.

^{iv} For more recent FTAs that do not provide the longer window of implementation, we use shorter time periods.

Defenders of NAFTA-style trade agreements often argue that these pacts will create new opportunities for U.S. manufacturers and farmers, but tend to cite the combined services and goods trade figures to improve the appearance of their case. **When the non-oil manufactured and agricultural goods trade balance is separated from the services balance (as shown in Tables 1c and 1d), however, it becomes clear that rising deficits with FTA partners have harmed both farmers and domestic U.S. manufacturers.**

Table 1b: Change in Trade Balance of Non-oil Goods with FTA Partners Based on Multi-Year Averages (in Millions of Real 2009 Dollars)				
	Entry Date	Average three years before implementation*	Average 2007- 2009**	Change Pre- FTA to Post- FTA
Israel	1985	(929)	(12,243)	(11,314)
Canada	1989	(12,139)	(17,849)	(5,710)
Mexico	1994	10,020	(57,585)	(67,605)
Jordan	2001	344	(172)	(515)
Chile	2004	(1,218)	(776)	442
Singapore	2004	398	4,306	3,909
Australia	2005	7,178	10,279	3,102
Morocco	2006	87	(137)	(224)
El Salvador	2006	(339)	(137)	202
Guatemala	2006	(908)	218	1,126
Honduras	2006	(945)	(363)	582
Nicaragua	2006	(502)	(852)	(350)
Bahrain	2006	(18)	134	151
Dominican Republic	2007	(507)	1,404	1,911
Costa Rica	2009	253	(2,010)	(2,263)
Oman	2009	939	922	(17)
Peru	2009	(1,395)	256	1,650
Total			(74,605)	
*For Israel and Canada, this column is the trade balance in 1989 due to data availability.				
** For Costa Rica, Oman, and Peru, this column is the 2009 trade balance only.				
<i>Source: U.S. International Trade Commission</i>				

Table 1c: Change in Trade Balance of Non-oil Manufactured Goods with FTA Partners (in Millions of Real 2009 Dollars)				
	Entry Date	Balance year before FTA implementation*	2009 Balance	Change
Israel	1985	(1,235)	(12,904)	(11,669)
Canada	1989	(28,909)	5,658	34,567
Mexico	1994	10,562	(50,709)	(61,270)
Jordan	2001	10	143	133
Chile	2004	(71)	2,697	2,768
Singapore	2004	774	2,474	1,700
Australia	2005	7,010	10,141	3,131
Morocco	2006	13	784	770
El Salvador	2006	(487)	(345)	142
Guatemala	2006	(407)	284	691
Honduras	2006	(820)	(442)	377
Nicaragua	2006	(705)	(922)	(217)
Bahrain	2006	(112)	180	292
Dominican Republic	2007	(247)	945	1,191
Costa Rica	2009	1,252	(1,387)	(2,639)
Oman	2009	1,129	882	(247)
Peru	2009	59	498	439
Total			(42,022)	

*For Israel and Canada, this column is the trade balance in 1989 due to data availability.

Source: U.S. International Trade Commission

Separating out the agricultural trade balance with U.S. FTA partners is especially revealing. **The increase in the farm trade deficit with FTA partners poses a stark contrast to the promised gains for U.S. farmers touted by proponents of the NAFTA model.**

Table 1d: Change in Trade Balance of Agricultural Goods with FTA Partners (in Millions of Real 2009 Dollars)				
	Entry Date	Balance year before FTA implementation*	2009 Balance	Change
Israel	1985	390	163	(227)
Canada	1989	(442)	(1,303)	(862)
Mexico	1994	(443)	(505)	(62)
Jordan	2001	118	75	(43)
Chile	2004	(1,687)	(2,018)	(331)
Singapore	2004	13	80	66
Australia	2005	(94)	56	149
Morocco	2006	151	196	46
El Salvador	2006	78	134	56
Guatemala	2006	(569)	(760)	(191)
Honduras	2006	(303)	(229)	73
Nicaragua	2006	(74)	(119)	(45)
Bahrain	2006	3	5	1
Dominican Republic	2007	247	239	(7)
Costa Rica	2009	(645)	(674)	(29)
Oman	2009	19	8	(11)
Peru	2009	(266)	(276)	(10)
Total			(4,930)	

*For Israel and Canada, this column is the trade balance in 1989 due to data availability.

Source: U.S. International Trade Commission

The picture is equally depressing if one ignores the sizeable import growth from U.S. FTA partners and looks only at exports – as USTR and many corporate lobbyists tend to do. Table 2 shows U.S. exports to each FTA partner over 1998-2009 since the implementation of each FTA. **The average rate of growth of exports to the countries with which the United States has FTAs was 0.8 percent. In contrast, U.S. exports to non-FTA countries grew twice as fast (2.2 percent), as shown in Figure 1. In seven out of eleven years, exports to non-FTA partners grew faster than exports to the bloc of U.S. FTA partners.** It is also noteworthy that exports to non-FTA countries appeared to recover more quickly following the 2001 recession. As Figure 1 shows, the slower export growth rate the United States had with its FTA partners was associated with a dragging *down* of the total U.S. export growth rates to the world.

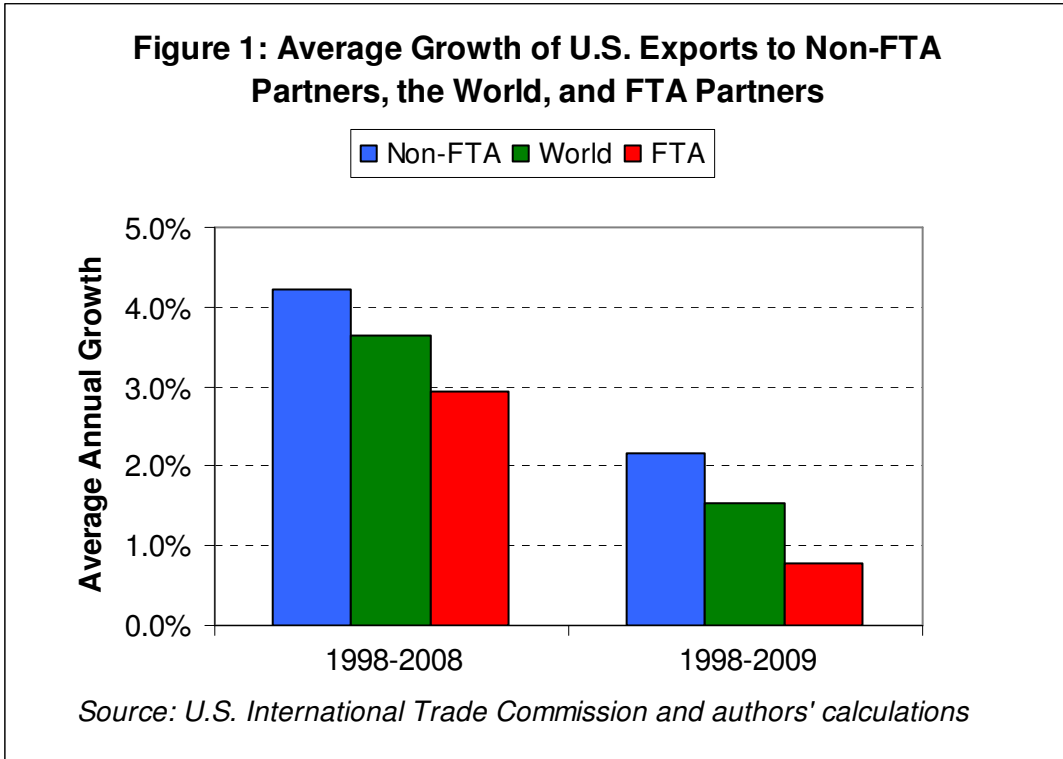


Figure 1 displays two sets of figures: one for the growth rates over 1998-2008 and another for the growth rates over 1998-2009. In 2009, global trade flows contracted dramatically due to the global recession, so the average levels for exports to both FTA and non-FTA partners was lower, but the *relative* difference between the growth rates of exports to FTA and non-FTA partners remained similar.

Table 2: Growth of Exports to FTA and Non-FTA Partners (in Billions of Real 2009 Dollars)

		1998-99 Growth		1999-00 Growth		2000-01 Growth		2001-02 Growth		2002-03 Growth		2003-04 Growth		2004-05 Growth		2005-06 Growth		2006-07 Growth		2007-08 Growth		2008-09 Growth		
	Entry Date	1998	1999	1999	2000	2000	2001	2001	2002	2002	2003	2003	2004	2004	2005	2005	2006	2006	2007	2007	2008	2008	2009	
Israel	1985	7.4	8.1	8.1	7.7	7.7	7.4	7.4	6.3	6.3	5.3	5.3	6.8	6.8	7.1	7.1	8.6	8.6	10.3	10.3	10.2	10.2	6.2	
Canada	1989	180.7	187.2	187.2	193.4	193.4	174.8	174.8	169.6	169.6	173.1	173.1	184.9	184.9	200.9	200.9	210.5	210.5	220.0	220.0	221.1	221.1	171.7	
Mexico	1994	98.8	104.5	104.5	124.8	124.8	109.5	109.5	102.4	102.4	96.7	96.7	105.4	105.4	111.4	111.4	121.6	121.6	123.2	123.2	130.7	130.7	105.7	
Jordan	2001					0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.9	0.9	0.9	0.9	1.2	
Chile	2004											2.8	3.7	3.7	5.1	5.1	6.6	6.6	7.9	7.9	11.3	11.3	8.7	
Singapore	2004											17.3	20.2	20.2	20.5	20.5	23.3	23.3	24.3	24.3	25.5	25.5	19.9	
Australia	2005													15.3	16.0	16.0	17.9	17.9	18.5	18.5	20.8	20.8	18.3	
Morocco	2006															0.6	0.9	0.9	1.4	1.4	1.5	1.5	1.6	
El Salvador	2006															1.9	2.2	2.2	2.3	2.3	2.3	2.3	1.9	
Guatemala	2006															2.9	3.5	3.5	4.0	4.0	4.5	4.5	3.7	
Honduras	2006															3.5	3.8	3.8	4.5	4.5	4.7	4.7	3.2	
Nicaragua	2006															0.6	0.7	0.7	0.9	0.9	1.0	1.0	0.7	
Bahrain	2006															0.3	0.5	0.5	0.6	0.6	0.8	0.8	0.6	
Dominican Republic	2007																	5.3	6.0	6.0	6.3	6.3	5.0	
Costa Rica	2009																						5.0	4.3
Oman	2009																						1.4	1.1
Peru	2009																						5.7	4.4
Total FTA Partners		287.0	299.8	299.8	325.9	326.3	292.1	292.1	278.8	278.8	275.6	295.8	321.6	336.8	361.7	371.6	400.8	406.1	424.6	424.6	441.6	453.7	358.2	
Non-FTA Partners		544.9	524.5	524.5	559.0	558.6	512.7	512.7	470.0	470.0	482.1	461.9	502.2	486.9	519.3	509.5	585.9	580.6	655.1	655.1	721.2	709.1	578.3	
FTA Export Growth Rate		4.47%			8.71%	-10.47%		-4.55%		-1.14%		8.70%		7.39%		7.84%		4.56%		4.00%		-21.05%		
Non-FTA Export Growth Rate		-3.76%			6.58%	-8.22%		-8.33%		2.56%		8.72%		6.66%		15.01%		12.84%		10.09%		-18.44%		
FTA Growth Rate Minus Non-FTA Growth Rate		8.23%			2.13%	-2.25%		3.78%		-3.70%		-0.02%		0.73%		-7.17%		-8.28%		-6.09%		-2.61%		
1998-2009 Average FTA Export Growth				0.8%																				
1998-2009 Average Non-FTA Export Growth				2.2%																				
1998-2009 Average FTA Growth Rate Minus Non-FTA Growth Rate				-1.4%																				

Source: U.S. International Trade Commission and authors' calculations

The situation is dismal across most sectors of the economy. Manufactured exports to non-FTA countries grew by an annual average of 3.7 percent between 1998 and 2008 (and 1.7 percent between 1998 and 2009). On the other hand, manufactured exports to FTA countries grew by an annual average of 2.2 percent over 1998-2008 (and 0.1 percent over 1998-2009). While the U.S. government does not release detailed country-by-country services data, it does release numbers for 34 countries, including the most important U.S. services trade partners.²⁸ When we compare the FTA countries to the non-FTA countries in this subset, we find that the FTA services export growth rate is 5.5 percent and the non-FTA export growth rate is 5.7 percent over 1998-2008. This is data up to 2008 – the most recent available.

Table 3 depicts the “FTA penalty” in dollar terms. To compute this “FTA penalty” for 2003 for total goods exports, for instance, the rate of growth of exports to non-FTA countries (2.6 percent) is applied to the value of goods exported to FTA partners in 2002 (\$279 billion), which yields exports of \$286 billion. This value is then subtracted from the actual exports to FTA countries (\$276 billion) in 2003 to yield a penalty of \$10 billion. The same process is applied to exports to FTA countries in all years. Summing over 1998-2009, the total FTA export penalty is \$72 billion. For manufacturing, agriculture and services, the comparable “dollar penalties” are \$59 billion, \$2.7 billion, and \$6.9 billion, respectively. Summing over 1994 (when NAFTA was implemented) to 2009, the FTA export penalty still remains, totaling to \$34 billion.^v

**Table 3: Annual Difference Between Actual U.S. Exports to All FTA Partners and Exports to FTA Partners with the Non-FTA Growth Rate Applied
(in Millions of Real 2009 Dollars; Negative Numbers Indicate Loss of Exports)**

Year	Total goods	Manufactured goods	Agricultural goods	Services*
1999	23,608	22,292	136	3,701
2000	6,374	4,618	382	1,402
2001	(7,372)	(9,763)	601	2,916
2002	11,012	11,491	136	859
2003	(10,326)	(8,370)	(1,461)	1,526
2004	(44)	449	(922)	(5,951)
2005	2,471	1,045	310	(1,014)
2006	(26,642)	(24,382)	452	(4,038)
2007	(33,607)	(28,067)	(1,213)	(1,035)
2008	(25,838)	(20,090)	(1,033)	(5,062)
2009	(11,814)	(8,416)	(115)	N/A
Total	(72,179)	(59,193)	(2,728)	(6,697)

The manufactured and agricultural goods columns do not add up to the total goods column since total goods includes other categories of goods such as minerals, gas, and publications.

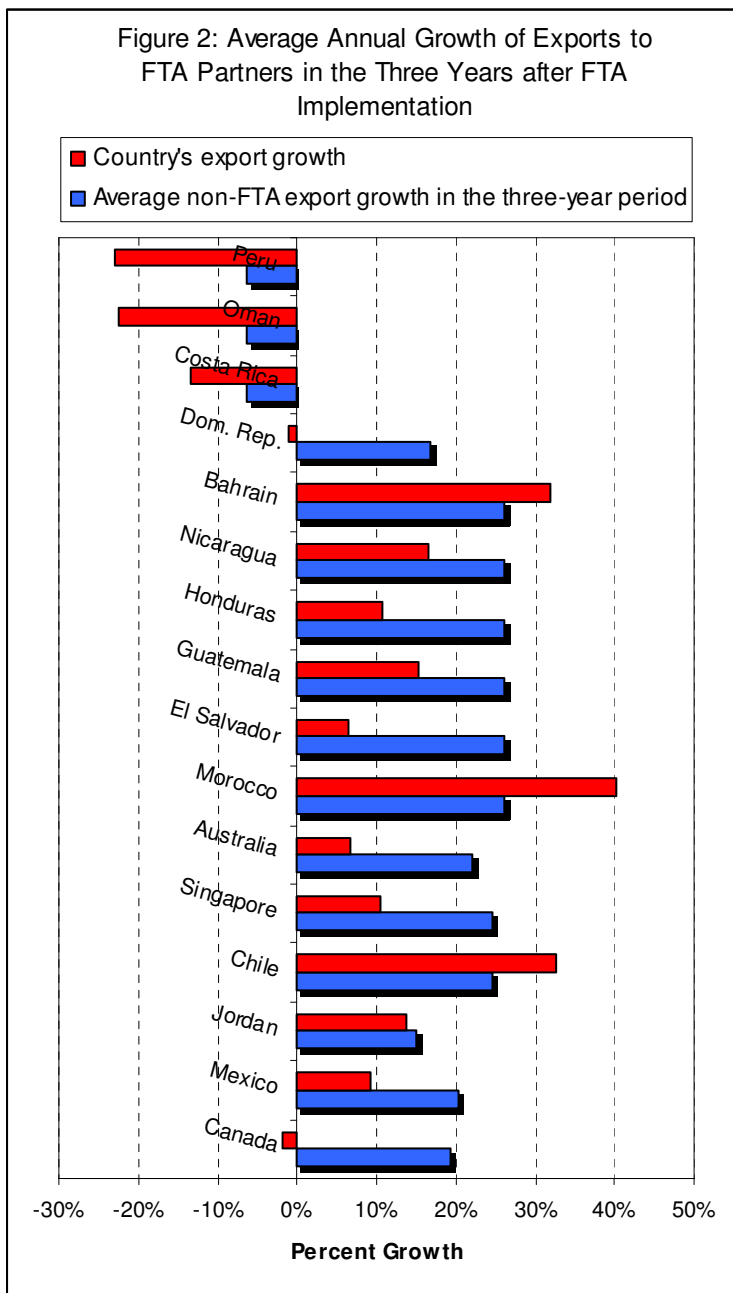
* Services data is not available for 2009. Services data was available for only the 34 countries listed in endnote 28.

Source: USITC, Bureau of Economic Analysis, and authors' calculations

^v One way to think about this exercise is the following: imagine that you have a balance sheet for trade for each year. In 2010, an all-powerful accountant trade god decided she was going to “reward” you or “penalize” you retroactively for each year depending on (and in proportion to) whether your FTA export growth rate exceeded or fell below the non-FTA rate. These lump sum credits and debits to your accounts don’t change the path of your past life, as in some sort of “Back to the Future” scenario, but they could benefit or penalize you in the present. Of course, this scenario is unrealistic (accountant trade god, anyone?!), but it is one way of illustrating the “penalty” that we describe without creating odd new export “path dependencies” that are merely a function of an economic model.

Sometimes it is claimed that the highest export growth rate comes in the first few years of FTA implementation. We assessed this claim by examining the export growth over the three years after FTA implementation for each country to the average of the export growth rates to non-FTA countries during that same period. Our method is inspired by a particular aspect of the Chamber of Commerce methodology that we describe in Section III, and our results are depicted in Figure 2.^{vi}

Exports to only three out of the 17 FTA partners grew faster than the average of the growth rates of exports to non-FTA countries in the three years after each FTA implementation. **Put differently, 80 percent of FTA countries (namely Canada, Mexico, Jordan, Singapore, Australia, El Salvador, Guatemala, Honduras, Nicaragua, the Dominican Republic, Costa Rica, Oman, and Peru) did not beat the non-FTA rate even in their first three years after implementation – when we might expect the greatest gains.**



^{vi} Note that export growth to Canada is measured over 1990-1991 due to data availability, and the export growth to Peru, Oman, and Costa Rica (and the corresponding non-FTA growth rate) is measured in 2009 because they became FTA partners only in 2009. Israel is excluded due to lack of accessible data in 1985-1987.

III. PROBLEMS WITH RECENT U.S. CHAMBER OF COMMERCE CLAIMS ON FTAS AND U.S. EXPORTS

The Chamber of Commerce has released several pro-FTA studies that are cited widely in the media, by foreign officials, and even members of Congress.²⁹ Yet, careful analysis reveals fatal flaws in their methodology that completely undermine the validity of their results.

May 2010 Report on the Effects of U.S. FTAs

In May 2010, the U.S. Chamber of Commerce released a report that claimed exports to FTA partners grew nearly three times faster than exports to non-FTA partners. The report asserted that “U.S. exports to partners with FTAs in effect in 2008 grew at an average annual rate of 17.4 percent since each individual FTA went into effect, compared to an average annual growth rate of 6.0 percent for U.S. exports to non-FTA partners.”³⁰ This “finding” by the Chamber is based upon an array of flaws and questionable methodological decisions.^{vii} **If the inconsistency in the Chamber’s methodology is corrected, as we show below, the group would have found that exports to FTA partners grew slower than exports to non-FTA partners.**

CHAMBER USES DIFFERENT METHODS TO CALCULATE FTA AND NON-FTA EXPORT GROWTH: **The Chamber study employed one method to calculate the rate of growth of exports to FTA partners and a completely different method to calculate the rate of growth of exports to non-FTA partners.** By comparing apples and oranges, the Chamber produces a result that at first glance seems to support its political arguments about the benefits of U.S. trade agreements. In reality, the faulty analysis generates misleading results. As the findings presented in Sections I and II in this report demonstrate, comparisons of FTA and non-FTA export growth conducted using a consistent methodology show the opposite of the Chamber’s claims.

First, the Chamber calculates the growth rate of exports to FTA partner countries separately from divergent dates of entry into force. For example, Mexico’s FTA annual average growth rate is calculated by computing the average annual growth rate over 1993-2008, while El Salvador’s FTA export growth rate is calculated by computing the average annual growth rate over 2005-2008.^{viii} To reach the “FTA partner export growth rate,” the Chamber then calculates the *average of the annual average* export growth rate for all FTA partners. We call this the “unweighted average” method. In sum, this methodology inflates the FTA country export growth rate by giving the same weight to countries that are *vastly* different in importance to U.S. exports. By calculating averages of averages, the study treats the percentage gains for Canada (2009 U.S. exports \$172 billion) the same as it treats the percentage gains for Morocco (2009 U.S. exports \$1.6 billion).

Then, instead of using the same method to calculate the average annual growth rate of exports to non-FTA partners, the Chamber sums *total* U.S. exports to all non-FTA partners for each year over 1998-2008, and then computes the *average annual growth rate of that sum*. This depresses the non-FTA country export growth rate (compared to the Chamber’s FTA country export growth rate) by giving little weight to insignificant trade relationships with small markets where the levels of U.S. exports are volatile (and which thus sometimes have sky-high export growth rates). This method

^{vii} See box “Misleading Claims on Export Growth to FTA Partners” in Section I for more of these types of claims made by proponents of NAFTA-style trade pacts.

^{viii} In this subsection, we only use data from 1998-2008 – the period under examination in the Chamber study.

can be termed the “weighted average” method.³¹ Crucially, the Chamber does not calculate the growth rate of exports to each non-FTA partner country separately. As a result, the volatile trade volumes with small markets that boost the Chamber’s FTA export growth rate are suppressed for the non-FTA export growth rate. Thus, their non-FTA export growth rate is lower than their FTA export growth rate just by virtue of giving a lot of weight to volatile trade relations with small FTA partners only. In other words, the Chamber treats FTA countries as “individuals” in their FTA export computations, but treats non-FTA countries as an undifferentiated “aggregate.” Thus, the Chamber’s analysis compares apples and oranges in a way that severely biases their estimate in a manner that supports their lobbying claims.

The Chamber’s results showing an “FTA premium” with this internally inconsistent method are not surprising in the least. Randomly choosing countries and applying this method usually yields these same results – with export rates using the “unweighted average” beating those using the “weighted average.” That is to say that a randomly selected country (possibly an FTA partner or not an actual FTA partner) can be placed in each FTA country’s “slot” and then the Chamber’s calculations can be redone to determine if their results are unique to FTA partners, or if the results are simply a product of their chosen internally inconsistent methodology.

For example, the data for a randomly chosen country can be designated as an “FTA country” in 1994 to fill Mexico’s place, another randomly chosen country can be designated as an “FTA country” in 2001 to fill Jordan’s place, and so on.³² Then, to mirror the Chamber’s methodology, exports to the remaining non-FTA countries can be summed each year over 1998-2008, and the growth rates of this aggregation can be found for each year. The Chamber’s internally inconsistent methodology (unweighted versus weighted averages) can then be applied to the growth rates of exports to FTA and non-FTA partners.

When this random choosing of countries is done by computer calculations 10,000 times and the Chamber’s internally inconsistent method is applied, the unweighted average growth rate of exports to these randomly chosen “FTA-designated” countries is higher than the weighted average growth rate of exports to the “non-FTA-designated” countries in 9,999 cases, i.e. nearly 100 percent of the time. Furthermore, in 9,893 cases (i.e. 99 percent of the time), the unweighted average “FTA export growth rate” is at least three times greater than the weighted average “non-FTA export growth rate” with this random designation of countries as “FTA countries.”

The Chamber claims that “U.S. merchandise exports to our FTA partners grew nearly three times as rapidly as did our exports to the rest of the world from 1998 to 2008,” but it is clear from this simulation that, 99 percent of the time, the same result is achieved by designating random countries as “FTA countries” and performing the same calculations.³³ This exercise conclusively shows that the Chamber’s internally inconsistent methodology that purports an export boost from FTA implementation is deeply flawed and produces a systematically inaccurate and biased result.

If the Chamber applied the weighted average method consistently to both the FTA and non-FTA partners instead of just to the non-FTA partners over 1998-2008, they would have found that exports to FTA partners grew slower than exports to non-FTA partners. In fact, exports to FTA partners as a whole grew by an annual average of only 3.0 percent over 1998-2008, while exports to non-FTA partners as a whole grew by an annual average of 4.2 percent over 1998-2008, when the data is adjusted for inflation.

CHAMBER’S “UNWEIGHTED AVERAGE” METHOD FLAWED BUT ALSO CONTADICTS CHAMBER’S OWN CONCLUSIONS: **If one applied the Chamber’s “unweighted average” method consistently for both FTA and non-FTA partners, the “export penalty” would actually increase!** Table 4 displays the growth rate of exports to each individual FTA partner. It also shows the average growth rate of exports to FTA partners and the non-FTA partners for each year. Notice that the FTA and non-FTA export growth rates are very different from those displayed in Table 2. In contrast to Table 2, where exports to FTA and non-FTA countries are aggregated before calculating the growth rate, Table 4 shows the results of computing the annual growth rate for FTA (and non-FTA countries) by averaging the growth rates for all individual countries that had an FTA in a given year, giving each country equal weight in the averaging regardless of the value of exports to that economy. **With this method of calculating the FTA and non-FTA growth rates, exports to non-FTA partners grew by an annual average of 19.6 percent between 1998 and 2008, while exports to FTA partners grew by only 7.8 percent.**

**Table 4: Growth Rates of Exports to FTA and Non-FTA Countries
(1999 = Export Growth Between 1998 and 1999; Figures Adjusted for Inflation)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average 1999- 2008
Israel	9.3%	-5.5%	-3.4%	-15.1%	-15.8%	27.3%	5.2%	20.7%	19.4%	-0.8%	4.1%
Canada	3.6%	3.3%	-9.6%	-3.0%	2.0%	6.8%	8.6%	4.8%	4.5%	0.5%	2.2%
Mexico	5.7%	19.4%	-12.3%	-6.4%	-5.6%	9.0%	5.7%	9.1%	1.3%	6.1%	3.2%
Jordan			7.9%	15.1%	18.2%	8.0%	10.6%	-0.6%	29.7%	4.7%	11.7%
Chile						29.0%	39.6%	29.1%	18.9%	43.8%	32.1%
Singapore						16.8%	1.2%	13.6%	4.6%	4.8%	8.2%
Australia							5.1%	11.4%	3.5%	12.6%	8.1%
Morocco								62.2%	49.2%	8.8%	40.1%
El Salvador								13.4%	3.2%	2.7%	6.4%
Guatemala								19.8%	14.1%	11.8%	15.2%
Honduras								9.6%	17.8%	4.6%	10.7%
Nicaragua								15.9%	16.7%	17.2%	16.6%
Bahrain								46.2%	16.8%	32.7%	31.9%
Dominican Republic									11.9%	4.6%	8.3%
Average of FTA partners	6.2%	5.8%	-4.3%	-2.3%	-0.3%	16.1%	10.9%	19.6%	15.1%	11.0%	7.8%
Average of non-FTA partners	1.7%	18.2%	17.5%	6.3%	21.4%	38.5%	14.1%	21.2%	30.7%	26.1%	19.6%
FTA growth rate minus non-FTA growth rate	4.5%	-12.5%	-21.8%	-8.7%	-21.7%	-22.4%	-3.3%	-1.5%	-15.6%	-15.1%	-11.8%

Source: U.S. International Trade Commission and authors’ calculations

THE CHAMBER STUDY DOES NOT CORRECT EXPORT DATA FOR INFLATION: The Chamber does not correct the historical export data for inflation.³⁴ This failure to convert nominal dollars into real dollars artificially magnifies their claimed FTA export boost.

THE CHAMBER CALCULATES THE FTA AND NON-FTA GROWTH RATES OVER DIFFERENT TIME PERIODS: The non-FTA export growth rate that the Chamber calculates is based on trade flows over 1998-2008, yet the FTA growth rate is based on an average of growth rate of exports to each FTA country over the life of each FTA, which ranges from 1985-2008 for Israel to 2007-2008 for the Dominican Republic. So, once again the Chamber is comparing apples and

oranges, since the global economic conditions (and global demand for U.S. goods) have varied considerably over time. There was a general contraction of U.S. exports over 2000-2003, but most FTAs were implemented after 2004 when U.S. exports generally began to boom. Thus, the calculation for FTA export growth benefits from this post-2004 boom, but the non-FTA export average suffers from the general contraction in 2000-2003.

Besides claiming that the growth of exports to FTA partners has been greater than the growth of exports to non-FTA partners, the Chamber also claims that exports to FTA partners grew much faster in the years after implementation of each FTA than in the three years prior to implementation. This technique for judging the impact of the implementation of FTAs does not account for how global and U.S. economic conditions vary widely over time, pulling up or pushing down U.S. exports to the world generally.

For most FTAs, U.S. exports generally were in a slump in the three years prior to the implementation of most of the FTAs, while U.S. exports to all countries in the years after implementation boomed. Thus, the apparent “FTA premium” that the Chamber seeks to demonstrate could be merely the impact of the global economic conditions in the years surrounding implementation.

For example, it is true that U.S. exports to Chile and Singapore increased at a greater rate after the implementation of their FTAs in 2004 than in the three years before implementation. Coincidentally, the U.S. exports to the world grew at an average annual rate of -4.9 percent in the same three-year period before implementation of the Singapore and Chile FTAs.^{ix} The average annual growth rate of total U.S. exports over 2004-2008, which is the time period that the Chamber used to calculate the growth of exports to Chile and Singapore, was 9.0 percent. The total export growth rates surrounding 2006 exhibited a similar pattern. Nearly one half of the FTA partners that the Chamber studied became FTA partners in 2006: Bahrain, Morocco, El Salvador, Nicaragua, Honduras, and Guatemala. Total U.S. exports grew at an average rate of 5.6 percent in the three years before 2006, but total U.S. exports grew at an average rate of 9.7 percent in 2006-2008. So, again, the “FTA boost” that the Chamber claims for these countries is more likely due to the improving fortune of U.S. global exports generally rather than an effect of the FTA.

When we examine FTAs that entered into force in a completely different time period, such as NAFTA, it is apparent that this FTA boost is spurious. The growth of U.S. exports to Canada and Mexico, by far the most substantial U.S. FTA partners, actually was lower after implementation of the Canada-U.S. FTA and NAFTA than before implementation (as a consistent application of the Chamber’s own calculations show). According to even the Chamber, the average annual growth of exports to Canada and Mexico was 6.7 percent and 9.5 percent in the three years before their FTA implementation, respectively; since implementation, the average annual growth rate has slowed to 5.0 and 6.1 percent,^x respectively.³⁵ Given that U.S. exports to Canada and Mexico accounted for 81 percent of all U.S. exports to its FTA partners in 2008, this decline in the growth of exports to Canada and Mexico after FTA implementation is quite consequential. As discussed in Section II of this report, a comparison of the performance of exports to FTA partners in the three years after implementation reveals that the exports to 80 percent of

^{ix} The inflation-adjusted growth rates of exports to Singapore and Chile during this period were -4.4 percent and -10.0 percent, respectively.

^x Since the Chamber does not adjust for inflation, these growth rates are not adjusted for inflation.

FTA partners grew slower than the average of the growth rates of exports to non-FTA countries in the three years after each FTA implementation.

PROBLEMS WITH “BLACK BOX” METHODS: Another section of the Chamber of Commerce’s May 2010 report claims to estimate the effects of FTAs on U.S. GDP and employment through a computable general equilibrium (CGE) model. CGE models employ an array of complicated mathematical techniques to make predictions. The results from CGE models are highly dependent on the assumptions put into their “black box.” The Chamber chooses to freeze wages, which allows the number of workers in the economy to vary. Other models freeze the number of workers, but allow wages to vary. Arguably, if one is committed to CGE modeling, the second assumption is more realistic, since under a full employment scenario the results would essentially require that fully grown adult workers be created from out of thin air!

Moreover, past attempts to predict the effect of trade agreements on trade flows have been wildly inaccurate. For example, a 1993 CGE predicted that the U.S. trade surplus with Mexico would expand after NAFTA.³⁶ Instead, NAFTA led to a huge U.S. trade deficit with Canada and Mexico that continues to inhibit job growth in the United States to this day.

As noted, a separate CGE study conducted by the USITC estimated that China’s tariff offer for WTO ascension would only increase the U.S. trade deficit with China by one billion dollars.³⁷ In reality, the trade deficit with China skyrocketed by \$167 billion between 2001 and 2008. The repeated failure of CGE models to predict the effects of changes in trade policy calls into question the validity of the Chamber’s CGE analysis of FTAs.

PROBLEMS WITH SERVICE SECTOR METHODS: In addition to the general problems with CGE models, the Chamber of Commerce’s CGE model is deficient in the way that it deals with the service sector. The study finds that the vast majority of employment gains from FTAs is in the services sector. Of the 5.4 million jobs gained from FTAs, according to the Chamber, 4.8 million, or 88 percent, are in the service sector.³⁸ This is despite the fact that reliable quantification of the impacts of FTA service provisions (since there are no services tariffs) and of services trade are widely recognized as inadequate.³⁹ The model shows only 379,000 manufacturing jobs gained from FTAs, so it claims that FTAs support 12 times as many services jobs as manufacturing jobs.⁴⁰ Yet, the Chamber finds that FTAs boost U.S. services exports by only \$20 billion.⁴¹ Although there are some cross-linkages between the production of goods and the provision of services, only \$4,200 in annual services exports was created by the implementation of the FTAs for every services job created by FTAs, according to the Chamber.

The U.S. Department of Commerce, by contrast, has found that only 2.8 million jobs are supported by total U.S. services exports to all countries, and that each of those jobs are supported by \$203,000 in annual services exports.⁴² **In other words, the Chamber’s estimate of the number of jobs created by the implementation of FTAs alone is 73 percent greater than the Department of Commerce’s estimate of total services jobs supported by all U.S. services exports.** These huge discrepancies between the Chamber’s estimate of the employment effects of services trade and the Department of Commerce’s estimate raises serious questions about the validity of the Chamber’s analysis.

The Chamber’s large estimate of the impact of FTAs on services employment is partially based on the notion that FTAs substantially reduce the cost of providing services internationally, thereby

promoting greater trade in services and creating U.S. jobs.⁴³ However, an analysis of services exports to FTA and non-FTA partners casts doubt on this thesis. The U.S. government only releases data for U.S. services trade with 34 countries (generally the most important U.S. services trade partners), but the available data can be used to infer broad trends in the growth of exports to FTA and non-FTA partners.⁴⁴

Over 1998-2008, U.S. services exports to the FTA partners for which there are data (Canada, Australia, Chile, Israel, Mexico, and Singapore) grew at an average annual rate of only 5.5 percent, while U.S. services exports to non-FTA partners as a whole grew at an average annual rate of 5.7 percent. The “FTA export growth penalty” for services holds true starting in the NAFTA era as well: between 1993 and 2008, U.S. services exports to FTA partners as a whole grew at an average annual rate of only 3.2 percent, while U.S. services exports to non-FTA partners as a whole grew at an average annual rate of 4.0 percent. Given that U.S. services exports to non-FTA partners are growing faster than U.S. services exports to FTA partners, it is hard to understand how the Chamber found such a large positive effect of FTA implementation on U.S. services trade and employment.^{xi}

POOR PROOFREADING LEADS TO 300 PERCENT OVERSTATING OF EXPORT EFFECTS OF FTAS: The text of the Chamber’s report quotes the exact same figure for exports in two different places when discussing two very different estimates, indicating that they mistakenly copied from the wrong table in their report. This error is repeated throughout the report. The Chamber claims that the tariff reduction prescribed by implementation of 14 FTAs alone “expanded total U.S. exports of goods and services to the world by \$462.7 billion.”⁴⁵ However, this \$462.7 billion figure is simply an exact copy of the figure that they report for the scenario where *all* trade with all FTA partners ceases: “Furthermore, total U.S. exports of goods and services to the world are \$462.7 billion higher than they otherwise would be because we trade with these countries.”⁴⁶ In fact, all the goods and services exports in Table 5 of the Chamber’s report, titled “U.S. Output, Exports and Employment Related to U.S. FTAs, 2008,” add up to only \$108.2 billion, though the “total” reported in that table is \$462.7 billion.⁴⁷ The erroneous total seems to have been copied from Table 4, which is supposed to estimate the effects of ceasing all trade with FTA partners. This \$462.7 billion figure, which is 327 percent higher than the actual figure, is quoted throughout the report as the effect of FTA implementation alone upon exports, including in the executive summary. This is a severe error even if the Chamber’s analysis were to be considered otherwise accurate.

CHAMBER CLAIMS LARGE EMPLOYMENT GAINS FROM NAFTA DESPITE SKYROCKETING DEFICIT: The Chamber rightfully acknowledges that the most important FTA is NAFTA by far, but it claims large positive employment gains from NAFTA rather than the losses that other sophisticated studies have found. The Chamber claims that “NAFTA trade represents 92 percent of the net employment gains associated with the 14 FTAs in 2008.”⁴⁸ In other words, the Chamber claims that the implementation of NAFTA alone has created 5 million jobs in the United States. This claim appears to be inconsistent with the reality of the skyrocketing trade deficit with the NAFTA partners since NAFTA was implemented in 1994. The inflation-adjusted non-oil U.S. trade deficit with Canada and Mexico in 1993 amounted to only \$5.7 billion. By 2008, the non-oil trade deficit had skyrocketed to \$72 billion, an increase of 1,160 percent. This rising deficit correlated with the destruction of U.S. jobs, not the creation of jobs, as the Chamber claims. The

^{xi} That is unless the Chamber’s claim is that the bulk of the 4.8 million new service jobs are resulting from services exports to tiny FTA countries for which the U.S. government doesn’t release data, like Guatemala – which is unbelievable on its face.

Chamber's findings on NAFTA's employment effects are the complete opposite of the findings of a study on the employment effects of NAFTA conducted by the Economic Policy Institute (EPI). EPI found that the rising deficit with Canada and Mexico since NAFTA was implemented has displaced more than one million U.S. jobs.⁴⁹

September 2008 Chamber Study on Projection of Export Gains with Colombia, Panama, and South Korea FTAs

A Chamber of Commerce report released in September 2008 made some of the same claims found in the May 2010 Chamber report and repeated many of the same methodological mistakes.⁵⁰ It also conveniently excluded from its calculations the U.S. FTAs that comprise 85 percent of all two-way U.S. FTA trade (NAFTA, the Israel FTA, and the Jordan FTA) and the FTA countries with whom the United States has large deficits. And, it repeated the previously noted errors of using different methods to calculate the rate of export growth to FTA partners and non-FTA partners and not adjusting the trade data for inflation.

This report claimed that "U.S. merchandise exports under these new trade agreements have been rising by an annual average of 32% since their entry into force. This compares with an annual average increase in U.S. merchandise exports globally of 16.5% in the 2003-2008 period. In short, U.S. merchandise exports to these 10 countries have been rising roughly twice as rapidly as such exports globally." The Chamber then used this inaccurate misleading calculation to claim that that "The trade agreements with Colombia, Panama and South Korea are projected to boost U.S. merchandise exports to those markets by \$42.6 billion per year within five years of entry into force." This study contained the following additional methodological faults on top of the flaws of the May 2010 report:

CHAMBER EXCLUDES NAFTA, ISRAEL AND JORDAN FTA: While calling its findings a study of U.S. FTAs, the Chamber chose to exclude every trade agreement implemented before 2003 from its analysis. This decision allowed the Chamber to exclude NAFTA, which is by far the most economically significant trade agreement of all the U.S. FTAs in force, and which comprises a significant share of the U.S. FTA trade deficit. Canada and Mexico are the first and second greatest importers of U.S. goods, respectively, and accounted for about 30 percent of total U.S. exports in 2009. Excluding such an important piece of the FTA group is not a sound methodology. This methodology biases their findings in favor of their claim of FTA benefits because export growth to the NAFTA countries has been very low. The Chamber also excludes the U.S.-Israel trade agreement, implemented in 1985, and the U.S.-Jordan trade agreement, implemented in 2001. Mexico, Canada and Israel represented 84 percent of all two-way trade under U.S. FTAs in 2009. Mexico and Canada are the two largest U.S. FTA partners.

CHAMBER USES NONSTANDARD METHOD TO CALCULATE AVERAGE ANNUAL EXPORT GROWTH RATES FOR ITS PROJECTIONS OF FUTURE GAINS: Compounding its other errors, the Chamber's study calculates average annual percent growth of exports over 2003-2008 in a completely nonstandard way, and then switches to a different calculation method (the correct method for annual growth calculations) when they calculate the projections over 2008-2012. This 2008-2012 projection estimate is then the basis for the Chamber claim about export gains from the Bush-era FTAs with Colombia, Korea and Panama.

To calculate the average annual export growth rate for FTA partners that implemented FTAs in 2003, the Chamber simply computed the percent difference between exports in 2003 and exports in 2008, and then divided that difference by five. They used a similar method to calculate the average annual percent growth of exports to FTA partners that implemented FTAs after 2003. This incorrect method greatly overstates the actual year-to-year percent growth. The Chamber should have computed the growth rate for each year, added them together and then divided by the number of years that the FTA has been in force to obtain the average annual growth rate.⁵¹

The report claims, for example, that the average annual growth of exports to Singapore over 2003-2008 was 18.1 percent, but the actual average annual growth rate, when calculated correctly using the data in the Chamber’s report, was 13.9 percent. Thus the Chamber overstates the annual growth of exports to Singapore by 4.2 percentage points. When the Chamber then applies this inflated growth rate to Colombia, Panama, and South Korea to make projections, it uses the (correct) compounding growth calculation method. Using the compounding growth calculation method would have been the right method to use if the Chamber had used it both for calculating historical export growth and for calculating the projections, but this is not what the Chamber did. Since the Chamber used a nonstandard method to calculate historical export growth rates, their projections based on those rates are simply bad math. This bad math is yet another way in which the Chamber’s “FTA export growth rate” is artificially and incorrectly inflated.

In Table 5, we utilize a corrected version of the Chamber of Commerce’s own methodology to show the estimates of possible growth of U.S. exports to Colombia, Panama, and South Korea if the Bush-era NAFTA-style FTAs with those countries are implemented. Under the corrected Chamber’s methodology, the United States would lose out on \$30 billion in exports to Panama, Korea and Colombia over the next five years. We also add in Vietnam, Brunei and New Zealand, if those countries enter the U.S. FTA club via a TPP. The United States would lose out on \$34 billion in exports to these six countries over the next five years under these scenarios.^{xii}

^{xii} To get these figures, we take the actual U.S. exports to these countries in 2009, and have them grow over the next five years at both the average 2005-2009 FTA-country rate of 0.55 percent and the average 2005-2009 non-FTA country rate of 5.23 percent. See Section III for more detail on the Chamber’s method as described in their September 2008 report.

Table 5: Projections of Exports to Proposed FTA partners under FTA and Non-FTA Growth Scenarios (in Millions of Real 2009 Dollars)

	2010	2011	2012	2013	2014	Total
Projection based on FTA growth rate (0.55%)						
Colombia	8,800	8,849	8,897	8,946	8,995	44,487
Panama	4,086	4,108	4,131	4,153	4,176	20,653
South Korea	27,223	27,372	27,523	27,674	27,826	137,617
Vietnam	2,983	2,999	3,016	3,032	3,049	15,079
New Zealand	2,075	2,087	2,098	2,110	2,121	10,492
Brunei	97	98	98	99	99	492
Total	45,264	45,513	45,763	46,014	46,267	228,820
Projection based on non-FTA growth rate (5.23%)						
Colombia	9,210	9,691	10,198	10,731	11,293	51,123
Panama	4,276	4,499	4,735	4,982	5,243	23,734
South Korea	28,490	29,980	31,547	33,197	34,933	158,146
Vietnam	3,122	3,285	3,457	3,637	3,828	17,329
New Zealand	2,172	2,286	2,405	2,531	2,663	12,057
Brunei	102	107	113	119	125	565
Total	47,371	49,848	52,455	55,198	58,084	262,955
FTA rate projection minus non-FTA rate projection						
Colombia	(410)	(843)	(1,301)	(1,785)	(2,298)	(6,636)
Panama	(190)	(391)	(604)	(829)	(1,067)	(3,081)
South Korea	(1,267)	(2,607)	(4,025)	(5,523)	(7,107)	(20,529)
Vietnam	(139)	(286)	(441)	(605)	(779)	(2,249)
New Zealand	(97)	(199)	(307)	(421)	(542)	(1,565)
Brunei	(5)	(9)	(14)	(20)	(25)	(73)
Total	(2,107)	(4,335)	(6,692)	(9,184)	(11,817)	(34,135)

Source: U.S. International Trade Commission and authors' calculations

September 2009 Estimates of Effects of Colombia and South Korea FTAs

In September 2009, the Chamber of Commerce released a study that claimed to predict the effects of implementing the Colombia and South Korea FTAs.⁵² It estimated that implementation of the Colombia and South Korea FTAs would create 383,400 jobs in the United States. The Chamber used a computable general equilibrium (CGE) model to predict the effect of these FTAs, but as discussed above in this report, CGE studies have a very poor track record in predicting the effects of changes in trade policy upon trade flows. In addition to the problems inherent in CGE models, the Chamber's CGE study on the Panama and Colombia FTAs nowhere gives an estimate of the increase in U.S. imports due to the FTAs. At a minimum, any study that claims to predict the effects of a trade agreement upon the U.S. economy should deal with both sides of trade – exports *and* imports. Given that the study does not even report any estimates of an effect on imports, it is not clear whether the study accounted for the effects of rising imports at all. Indeed, failing to account for the effects of increased imports would go a long way toward explaining how the study came up

with its unreasonably large increase in the total number of jobs under the Korea and Colombia FTAs.

Moreover, the study does not take into account the likely effect of currency manipulation and the changes in foreign direct investment and the offshoring of jobs that trade agreements typically induce.⁵³ In contrast to the Chamber's claims of job creation from these FTAs, a study conducted by the Economic Policy Institute estimated that 214,000 workers would lose their jobs if the Colombia and Korea FTAs were implemented in their current form.⁵⁴

IV. PROBLEMS WITH RECENT NAM CLAIMS

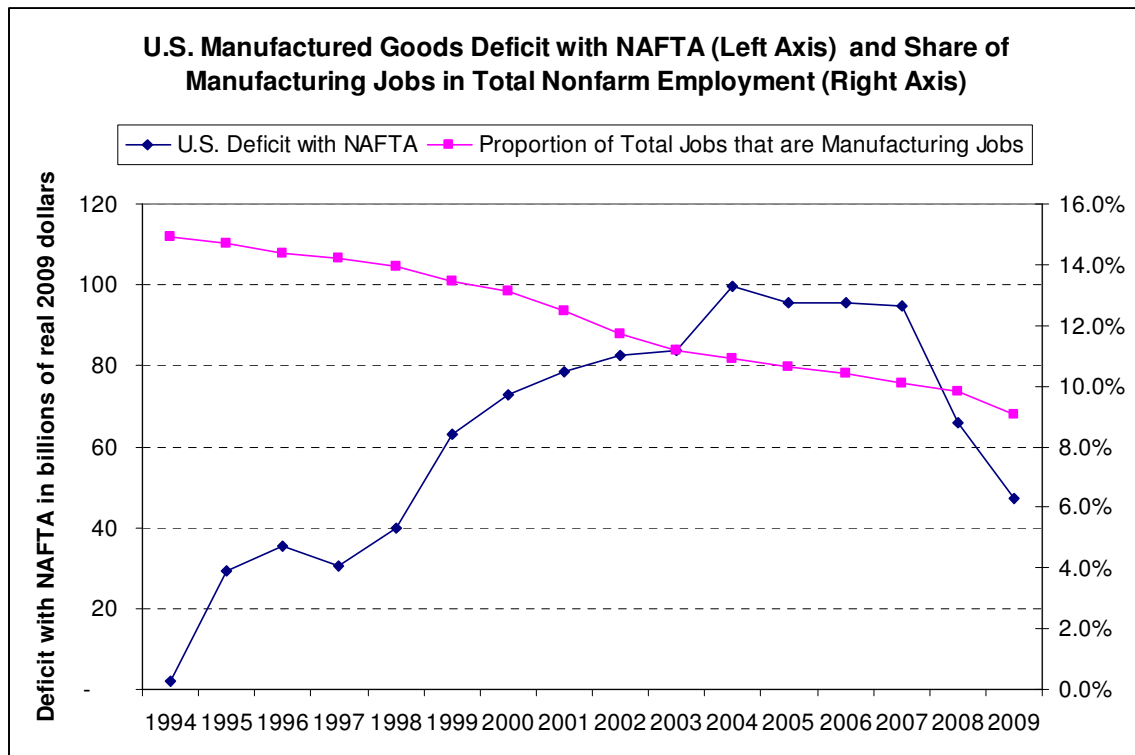
On March 17, 2010, Public Citizen's Lori Wallach published an op-ed in *The Hill* newspaper, which argued that President Obama has a key opportunity to craft a new trade policy that could break with the failures of the NAFTA-WTO model, fulfill his campaign promises, and deliver prosperity, balanced trade and usher in a new green economy. A month later, *The Hill* published an op-ed response to Wallach from lobbyist Frank Vargo of the National Association of Manufacturers (NAM).⁵⁵ Vargo's piece features numerous statistical errors and misleading comments, which we debunk below. Just the most glaring one: Vargo misleadingly claims that we have a manufacturing goods surplus with FTA countries... by counting goods that are made overseas – not by U.S. workers – that are “re-exported” through the United States.

- In his op-ed, Frank Vargo claimed that, “The fact is that U.S. free trade agreements (FTAs) have never been a significant factor in the U.S. trade deficit, and over the past two years FTAs have resulted in a U.S. manufactured goods surplus of nearly \$50 billion.” However, his “surplus” of \$50 billion includes billions of dollars in “exports” that are merely “re-exports” of foreign products. These products pass through U.S. ports and were not made by American workers. The proper way to measure the effect of the trade balance on U.S. jobs is to find the difference between domestic exports (i.e. exports of goods made in the U.S.) and imports for consumption. With this correct measure, the trade balance in non-oil manufactured goods with U.S. FTA partners over 2008-2009 comes to a deficit of \$97 billion.
- Vargo asserted that, “There is no question the United States has a trade problem, but it is not caused by FTAs. Our challenge is with oil imports and with countries where we do not have trade agreements.” China accounted for 67% of that manufactured goods deficit over 2008-2009 and 75% of the manufactured deficit in 2009 alone. In fact, Wallach's op-ed discussed the “NAFTA-WTO model,” and U.S. trade problems with China have taken off since the country joined the WTO in 2001. Moreover, since 2001, export growth to our FTA partners has been 3 percentage points lower than that of non-FTA partners – showing that FTAs are not the silver bullet to greater-than-average export growth.
- Vargo claimed that, “Consider NAFTA and the assertion that it cost millions of manufacturing jobs. In reality, Labor Department data show that for almost a decade after NAFTA, the United States gained nearly a half-million manufacturing jobs.” The fact that the total number of manufacturing jobs experienced tepid growth in the mid 1990s is not a vindication of NAFTA. As the population grows, we would expect that the number manufacturing jobs would grow with it, all else equal. That is what is truly stunning about the NAFTA-WTO period. Even in the

early years of these pacts, the share of manufacturing jobs as a share of total nonfarm jobs steadily shrank, as the trade deficit with Mexico and Canada grew, as Figure 2 shows. Then, starting in the late 1990s, even the total (not just relative) number of manufacturing jobs started to precipitously decline, for the first time in U.S. history.⁵⁶

- Vargo claimed that, “What Wallach failed to mention in her opinion was that the manufactured goods deficit with NAFTA barely budged after 2001 while nearly doubling with the rest of the world....Growing oil imports do not cost manufacturing jobs, and aside from energy imports, the deficit is virtually unchanged.” In reality, the *non-oil* manufactured goods deficit with the NAFTA countries grew by 16% between 2001 and 2007, before the global collapse of trade during the 2008-2009 global recession.^{xiii} This is not a “virtually unchanged” non-oil trade deficit.
- Vargo further claimed that, “Jobs displaced by imports from NAFTA were offset by the jobs gained from exports.” The United States has negative net exports (i.e. a trade deficit) both with NAFTA countries and the world as a whole. The Economic Policy Institute – utilizing methodology that NAFTA-WTO proponents also use – have found that the NAFTA trade deficit accounts for over a million lost jobs, and the overall trade deficit accounts for over 5 million jobs.

FIGURE 2



Source: Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/suppl/empsit.ceseeb1.txt>) and U.S. International Trade Commission DataWeb (<http://dataweb.usitc.gov/>)

^{xiii} This is derived from inflation-adjusted numbers of the deficit in terms of domestic exports and imports for consumption.

- Vargo claimed, “FTAs are also tarred by alleging large agribusinesses and ‘job offshoring multinationals’ are ‘the few beneficiaries’ of those agreements - implying that trade agreements don’t work for most of America. Again, the facts tell a different story. Census Bureau data show 95 percent of U.S. exporters to NAFTA are small and medium-sized firms.” Government estimates do not show relative benefits from NAFTA for small businesses. According to the USITC: “Although Canada and Mexico were the leading markets for both SME [small and medium-sized enterprises] and large-firm exports between 2002 and 2007, export growth to these markets during this period was below average. Whereas total exports grew by 96.7 percent for SMEs and 63.0 percent for large firms, export growth to Canada and Mexico combined was 70.8 percent for SMEs and 48.0 percent for large firms... As a result of the differing growth rates between the leading markets (Canada and Mexico) and emerging markets (China and India), the former’s share of total SME exports decreased from 29.8 percent in 2002 to 25.9 percent in 2007, and the latter’s share of total SME exports increased from 5.0 percent to 8.4 percent over the same period.”⁵⁷
- Vargo claimed that, “U.S. manufactured goods went from consistent deficits before CAFTA to a surplus that has totaled over \$12 billion since the agreement.” The manufactured goods balance with CAFTA countries did shift from a deficit to a surplus, although the surplus is less than NAM claims. With domestic exports and imports for consumption, the combined manufactured goods surplus over 2006-2009 was \$4.4 billion, not \$12 billion.^{xiv}
- Vargo further claims that, “The U.S. has moved into a surplus with Peru.” The U.S. non-oil manufactured goods deficit with Peru in 2006 was \$2.4 billion; in 2007, there was a deficit of \$0.9 billion; in 2008, there was a surplus of \$0.1 billion; and in 2009, there was a surplus of \$0.5 billion. The Peru FTA went into effect in 2009, so the U.S. actually had a surplus with Peru before the FTA was implemented. At the rate of the Peru FTA, we could sign FTAs with all 192 members of the United Nations, and still only be a tenth of the way to Obama’s goal of doubling exports in five years.
- Vargo wrote that the U.S. could not achieve the goal of doubling exports in five years “with the policies in the ‘TRADE’ Act Wallach supports, which would wipe out existing FTA surpluses, give away America’s environmental technologies and the jobs associated with them, and cost countless billions in lost exports as its onerous provisions prevent other countries from negotiating with us.” In reality, unlike the current failed trade policy favored by NAM, the TRADE Act actually establishes benchmarks to ensure that FTAs create and maintain balanced trade and new jobs. In this and other areas, the TRADE Act would lay out what rules need to be in trade agreements to gain swift congressional approval. It is the current trade model that creates uncertainties for other counties, since the Bush administration negotiated deals with Colombia, Korea and Panama that *could not* get support. Thus, these deals are languishing. Nothing in the TRADE Act requires that we “give away America’s environmental technologies and the jobs associated with them,” although the TRADE Act would ensure that trade rules do not hinder the fight against climate change.

^{xiv} This is not counting the Dominican Republic before 2007 or Costa Rica before 2009, since those countries had not implemented CAFTA before then. The 2005 deficit with all CAFTA countries was \$1.5 billion.

On May 7, *The Hill* published Public Citizen's response to Vargo's op-ed, pointing out that his calculation of the deficit with FTA partners included re-exports, among other deficiencies. On May 27, Vargo responded again with a lengthy letter to the editor⁵⁸:

- In his letter, Frank Vargo quotes a Commerce Department factsheet stating, "With exports exceeding imports, the U.S. has a trade surplus in manufactured goods with its FTA partners. In just the first two months of 2010, the trade surplus in manufactured goods with our trade partners totaled \$3.0 billion." However, the Commerce Department's factsheet does not consider that many of the goods that the Census Bureau counts as "exports" to these countries are actually goods temporarily imported from third countries that are then re-exported as substantially the same product. In other words, U.S. workers do not produce these goods. If the Commerce Department had accounted for this issue, it would have found that the U.S. actually had a trade *deficit* of \$12.4 billion with our FTA partners in the first three months of 2010.
- Vargo continues to quote the same fact sheet, which says, "The U.S. trade surplus in manufactured goods with Peru has grown 173 percent in the first two months of 2010 [as compared with the first two months of 2009]." It is misleading to cherry pick Peru as an FTA "success story" without mentioning the other two FTAs that entered into force in 2009: Costa Rica and Oman. Our trade relationship with Costa Rica went from a \$264 million surplus in non-oil manufactured goods in the first three months of 2009 to a \$704 million deficit in non-oil manufactured goods in the first three months of 2010 (this is even including re-exports, which, as discussed below, Vargo insists on including). As for Oman, our non-oil manufacturing surplus with Oman declined by 13 percent in the first three months of 2010 as compared with the first three months of 2009.
- Vargo claims that, "GTW makes a severe miscalculation in their trade deficit calculation by subtracting re-exports from the export side of the trade balance and neglecting to subtract them from the import side. This miscalculation drastically overstates the U.S. manufactured goods trade deficit by \$114 billion in 2009. According to the Census Bureau's Foreign Trade Division and the International Trade Administration's trade analysis office this method used by GTW is not a legitimate way to calculate the trade deficit." This is a misreading of the different types of data collected by the government, and it leads to an incorrect conclusion.
 - A major part of the Census Bureau's role in collecting and disseminating trade data involves calculating the U.S. current account, which is important for properly accounting for the international balance of payments⁵⁹ More generally, the Census Bureau concerns itself with this "broadest measure of trade" of interest to government accounting rather than the measure of trade most relevant for U.S. businesses and workers.⁶⁰ For these reasons, the Census includes re-exports in its trade balance calculations.
 - Vargo is correct when he chooses to exclude oil from discussions of the jobs impact of the trade balance – although the oil deficit is important for balance of payments calculations, it does not significantly inhibit job growth like the manufacturing deficit does. Similarly, when we are concerned with job growth, we should exclude re-exports since they are primarily important for balance of payments calculations. In fact, the USITC notes that "Analysis of international trade data, whether for tabular,

econometric, or modeling purposes, almost always excludes transshipments [i.e. re-exports] and relies on data on domestic exports...”⁶¹ In its annual 300-page analysis of shifts in U.S. trade patterns, each time the USITC calculates the trade deficit, it uses domestic exports and imports for consumption, rather than including re-exports, as Vargo suggests.⁶² The USITC excludes re-exports because, “For economic analyses, such as for understanding the position of a particular U.S. industry, or for labor or environmental questions, domestic exports and imports for consumption are more likely to be relevant concepts than total exports and general imports, because they are more closely tied to the U.S. market.”⁶³ Even the Chamber of Commerce in its May 2010 report on the effects of FTAs on the U.S. economy uses domestic exports as the proper measure of trade flows.⁶⁴

VI. CONCLUSION

This report has been concerned with two key questions: are corporate claims that U.S. exports to FTA partners grow at a greater rate than exports to non-FTA partners consistent with the data, and have FTAs been associated with relative (not only absolute) export benefits? The answer to both questions is no. Rather, the data show an export growth penalty with U.S. FTA countries relative to non-FTA countries. And, the data show a U.S. trade deficit with the bloc of U.S. FTA partners. Further, as we explain, the methodology of various Chamber of Commerce studies projecting export gains is severely flawed with predictably biased results.

Our findings provide support for the notion that a more detailed review and renegotiation of existing FTAs – along the lines envisioned in the TRADE Act and by President Obama on the campaign trail – could help answer why the data show such unfortunate outcomes under the current U.S. FTA model. These initiatives also rightly ask the question of what changes to the WTO may be necessary, since mounting U.S. job losses and deficits have not only occurred under various FTAs, but also under the flawed global WTO regime. In short, there are many ways to increase U.S. exports, but the data show that more of the same NAFTA-style FTAs are not the answer.

APPENDIX: THE METHODOLOGY USED FOR THIS REPORT

All data in this document was inflation-adjusted to 2009 dollars using the consumer price index research series for all urban consumers (CPI-U-RS) as estimated by the Congressional Budget Office in Table C-1 of *The Budget and Economic Outlook: An Update*, released in August 2009.⁶⁵ While other deflators could be used, the CPI-U-RS provides numbers that most readily comparable to the numbers that readers encounter in their everyday lives.

The data on trade flows in this report was gathered from the Interactive Tariff and Trade DataWeb of the USITC in March and September 2010. For analysis of exports, the report used data on “domestic exports,” which, according to the USITC, “represents goods that are grown, mined, produced, or manufactured in the United States and sent to foreign countries. Domestic exports include goods from U.S. Foreign Trade Zones that have been enhanced in value.” In this report, data on imports are “imports for consumption,” which “represents foreign goods that immediately enter U.S. consumption channels. Goods being held in bonded warehouses or U.S. Foreign Trade Zones are not included until they are withdrawn for consumption.”⁶⁶

Domestic exports and imports for consumption are the best measures for determining the economic effects of trade flows. According to the USITC, which is responsible for producing independent studies on the effect of FTAs on the U.S. economy for Congress, “Analysis of international trade data, whether for tabular, econometric, or modeling purposes, almost always excludes transshipments [i.e. re-exports] and relies on data on domestic exports...”⁶⁷ An economist at the USITC has further noted that, “For economic analyses, such as for understanding the position of a particular U.S. industry, or for labor or environmental questions, domestic exports and imports for consumption are more likely to be relevant concepts than total exports and general imports, because they are more closely tied to the U.S. market.”⁶⁸

However, to check the robustness of the results, it is useful to include re-exports and examine if there are significant differences. To do this, we simply use total exports (which include re-exports of foreign goods) and general imports. Including re-exports does not substantially affect the main results of this report. Instead of an average annual growth rate over 1998-2009 of 0.8 percent for FTA partners, including re-exports yields an average annual growth rate over 1998-2009 of 1.7 percent for FTA partners. And instead of an average annual growth rate over 1998-2009 of 2.2 percent for non-FTA partners, including re-exports yields an average annual growth rate over 1998-2009 of 2.4 percent for non-FTA partners. Thus, there is still an “FTA export penalty” of 0.9 percentage points.

The main difference in using total exports and general imports is the finding of a trade *surplus* with FTA countries in 2009. However, as even FTA advocates have noted, “Let’s remember: we’re coming out of a steep recession. Our trade deficit is half what it was two years ago. Do we all feel better? I don’t think so.”⁶⁹ This shows why it is important to raise exports and balance trade, not only to do one or the other.

In the sectoral analysis of exports, we split export data into sectors by the North American Industry Classification System (NAICS) goods classification numbers. NAICS 31, 32, and 33 were grouped into manufacturing exports and NAICS 11 was taken as agricultural exports. Due to data availability, it was necessary to use data categorized by the Standard Industrial Classification (SIC) system for data before 1997. SIC number 01 was used for agriculture and SIC numbers 20-39 were

used for manufacturing. In Table 1, non-oil goods are defined as all goods except those in the NAICS 2111 and 3241 categories and the SIC 131, 291, 295, and 299 categories. Data for trade in services was obtained from the Bureau of Economic Analysis in Table 2 of Detailed Statistics for Cross-border Trade, available at http://www.bea.gov/international/international_services.htm.

Oil goods are excluded from the deficit calculations in Tables 1a, 1b, and 1c because volatile oil prices can severely distort the deficit across time and because oil imports do not compete with domestically produced goods to the extent that imports of manufacturing goods do, for example. Except in Table 1a and 1b, however, exports and imports figures discussed in this report do not exclude goods in these oil classifications. For example, the \$97 billion 2008-2009 non-oil manufactured goods deficit mentioned earlier in the text of the report would be \$94 billion if this more expansive definition of oil goods were to be used. In the trade data made available by the USITC, U.S. trade with dependent territories is separated from U.S. trade with their respective parent countries. Trade flow data of dependent territories was added to the trade flow data of their respective parent countries before the analysis was performed.

To calculate the rate of export growth to FTA countries for each year, we do the following:

1. Determine which countries had FTAs with the United States in that year and include them in the calculation.
2. Sum all the exports to all of those countries in that year and then, separately, sum all the exports to all those countries in the previous year.
3. Find the percent difference between the two sums, which will give us the growth rate of exports in the desired year.

To calculate the 2003 FTA growth rate, for instance, we first include Israel, Canada, Mexico, and Jordan since all of them had FTAs with the United States in effect in 2003. We find the sum of the exports to these countries in 2003 and then we find the sum of the exports to these countries in 2002. We then find the percent change of these sums from 2002 to 2003. Now, to find the 2004 FTA growth rate, we include Israel, Canada, Mexico, Jordan, *Chile*, and *Singapore* since the Chile and Singapore FTAs entered into force in 2004. We find the sum of the exports to these countries in 2004 and the sum of the exports to these countries in 2003 to obtain the 2004 growth rate.

Note that both the 2003 and the 2004 FTA growth calculations involve summing exports to FTA partner countries in the year 2003. Importantly, though, the 2003 FTA export aggregation for the 2003 growth calculation does *not* include Chile and Singapore, whereas the 2003 FTA export aggregation for the 2004 growth calculation does include Chile and Singapore. Because we carefully construct a growth rate separately for each year with the appropriate group of countries, our methodology does not produce a situation in which the export growth rate is artificially inflated by the addition of new countries between one year and the next. Moreover, it has the advantage of looking at the same group of countries under the same global economic conditions prevailing in the given year.

In mathematical notation, the growth rate of the non-FTA aggregation for year t is obtained through the following expression:

$$r_t = \frac{\sum_{i \notin FTA_t} X_t^i - X_{t-1}^i}{\sum_{i \notin FTA_t} X_{t-1}^i} \quad (1)$$

Where X_t^i is the value of U.S. exports to country i at year t and X_{t-1}^i is the value of U.S. exports to country i at year $t-1$, given that country i does not have an FTA in force with the United States in year t , i.e. given that at time t country i is not in FTA_t , the set of FTA partners in year t . The aggregation for FTA partner countries is obtained in the same way except that each country i does have an FTA in force in year t .

The method described above can be termed the “weighted average” method since first summing exports to FTA partners and non-FTA partners each year and then computing the annual growth rates of the two aggregates is equivalent to computing the weighted average of the growth rates of exports to each country in the two groups separately, weighting each growth rate by U.S. exports to each country in the base period. This fact is proven below.

Recall that the weighted mean, \bar{x} , of a set $[x_1, x_2, \dots, x_n]$ with weights $[w_1, w_2, \dots, w_n]$ is defined by

$$\bar{x} = \frac{\sum_{i=1}^n x_i w_i}{\sum_{i=1}^n w_i} \quad (2)$$

Define the rate of growth of exports to country i for year t as

$$r_t^i = \frac{X_t^i - X_{t-1}^i}{X_{t-1}^i}$$

where X_t^i is the value of U.S. exports to country i at year t and X_{t-1}^i is the value of U.S. exports to country i at year $t-1$. Now, replace x_i with r_t^i and w_i with X_{t-1}^i in Equation (2) thusly:

$$\bar{x} = \frac{\sum_{i=1}^n \left(\frac{X_t^i - X_{t-1}^i}{X_{t-1}^i} \cdot X_{t-1}^i \right)}{\sum_{i=1}^n X_{t-1}^i}$$

$$= \frac{\sum_{i=1}^n X_t^i - X_{t-1}^i}{\sum_{i=1}^n X_{t-1}^i} \quad (3)$$

Equation (3) is identical to Equation (1) when restricting i to the set of countries that are not FTA partners in year t , so using Equation (1) is equivalent to computing the weighted average of export growth rates.

Another way to estimate export growth rates to FTA partners and non-FTA partners is to first compute the growth rate for exports to each country individually, then to separate the countries into FTA and non-FTA partners, and finally to average the growth rates across countries. For example, instead of aggregating exports to Chile, Mexico, etc. each year, this method would compute the annual growth rate for Chile, then compute the annual growth rate for Mexico, and so forth. To get the final FTA growth rate, the method would then compute the average of the Chile, Mexico, etc. growth rates. This can be termed the “unweighted average” method. In mathematical notation, the growth rate for non-FTA countries for year t would be obtained through the following expression:

$$r_t = \frac{1}{n} \sum_{i \notin FTA_t} \frac{X_t^i - X_{t-1}^i}{X_{t-1}^i}$$

Where X_t^i is the value of U.S. exports to country i at year t and X_{t-1}^i is the value of U.S. exports to country i at year $t-1$, given that country i does not have an FTA in force with the U.S. in year t (i.e. given that at time t country i is not in FTA_t , the set of FTA partners in year t), and n is the number of countries that do not have an FTA in year t . The growth rates for FTA partner countries is obtained in the same way except that each country i does have an FTA in effect in year t .

To test the robustness of our results under different methodologies, we computed the FTA and non-FTA export growth rates using this “unweighted average” method. Rather than weakening or reversing our results, this method (which is partially utilized by the Chamber of Commerce in its studies) yielded a difference between the growth rates of exports to FTA partners and non-FTA partners that was actually greater than the difference that we found with the “weighted average” method, as shown in Table 5.

ENDNOTES

¹ “Obama Says Action On FTAs Long Term Is Part Of Larger Trade Policy,” *Inside U.S. Trade*, Feb. 5, 2010.

² The White House, “Remarks by President Obama and President Lee Myung-Bak of the Republic of Korea After Bilateral Meeting,” June 26, 2010, Available at: <http://www.whitehouse.gov/the-press-office/remarks-president-obama-and-president-lee-myung-bak-republic-korea-after-bilateral->

³ Business Roundtable and the Business Council, “Policy Burdens Inhibiting Economic Growth,” June 21, 2010, at 19, Available at: <http://www.scribd.com/doc/35010690/Business-Roundtable>

⁴ The United States has existing FTAs with the following 17 countries, which entered into force on the indicated dates: Israel [1985], Canada [1989], Mexico [1994], Jordan [2001], Chile [2004], Singapore [2004], Australia [2005], Morocco [2006], El Salvador [2006], Guatemala [2006], Honduras [2006], Nicaragua [2006], Bahrain [2006], the Dominican Republic [2007], Costa Rica [2009], Oman [2009], and Peru [2009].

⁵ See, for example U.S. Trade Representative, “The President’s 2008 Trade Policy Agenda,” March 2008, at 2, available at <http://www.ustr.gov/sites/default/files/The-Presidents-Trade-Policy-Agenda.pdf>. The USTR report claims “U.S. exports to the 11 trade partners with which the U.S. implemented FTAs between 2001 and 2007 grew over 70 percent faster on average than did U.S. exports to the rest of the world.” Pro-FTA interest groups and agencies have asserted a host of similar misleading claims. See: 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; U.S. Department of Commerce, “U.S. Export Fact Sheet,” February 2008, Available at:

http://www.commerce.gov/NewsRoom/PressReleases_FactSheets/PROD01_005203;

USTR, “The 2006 Trade Policy Agenda and 2005 Annual Report of the President of the United States on the Trade Agreements Program,” March 2006, at 3, Available at:

http://ustraderep.gov/Document_Library/Reports_Publications/2006/2006_Trade_Policy_Agenda/Section_Index.html;

USTR, “Highlights of Bush Administration Trade Accomplishments,” Dec. 2008. Available at:

http://www.ustr.gov/sites/default/files/uploads/factsheets/2008/asset_upload_file570_15256.pdf.

Susan Schwab; “Testimony before the Senate Finance Committee,” March 6, 2008 Available at:

http://www.ustr.gov/sites/default/files/uploads/speeches/2008/asset_upload_file357_14581.pdf;

Susan Schwab, Press Briefing, April 7, 2008. Available at

http://www.ustr.gov/sites/default/files/uploads/pdfs/press_release/2008/asset_upload_file109_14727.pdf

⁶ This time period (1998-2009) reflects the time period examined by the U.S. Chamber of Commerce in its recent study. We add the year 2009 in some of our calculations (as indicated) just to provide the most up-to-date data that will likely provide the “base year” for evaluating whether the administration meets its export doubling goals. The time period also reflects modern commercial realities: Congress cleared the way for China to join the WTO in 2000, and there is a greater number of FTAs in place, as compared with the 1990s. While the early years of NAFTA did show an FTA export benefit relative to non-FTA countries (7.77 percent average annual export growth for FTA partners as compared with 4.51 percent for non-FTA partners), this was of course the time (1994-1998) when non-oil imports from FTA partners surged an average annual rate of 10.91 percent and reports of U.S. job losses to Mexico filled the evening news.

⁷ The growth rate is put into dollar terms for a given year by applying the non-FTA growth rate in that year to the value of exports to FTA countries in the previous year, and then taking the difference between that export value and the actual value of exports to FTA countries in the given year. Trade data since 1998 is examined since the latest Chamber of Commerce report on FTA export growth examined data since 1998.

⁸ Laura M. Baughman and Joseph F. Francois, “Opening Markets, Creating Jobs: Estimated U.S. Employment Effects of Trade with FTA partners,” U.S. Chamber of Commerce, May 14, 2010, at 1, Available at:

http://www.uschamber.com/assets/international/100514_ftajobs_full.pdf

⁹ Susan Schwab, Press Briefing, April 7, 2008. Available at:

http://www.ustr.gov/sites/default/files/uploads/pdfs/press_release/2008/asset_upload_file109_14727.pdf

¹⁰ Office of the U.S. Trade Representative, “Highlights of Bush Administration Trade Accomplishments,” Dec. 2008, Available at:

http://www.ustr.gov/sites/default/files/uploads/factsheets/2008/asset_upload_file570_15256.pdf

¹¹ Susan Schwab; “Testimony before the Senate Finance Committee,” March 6, 2008 Available at:

http://www.ustr.gov/sites/default/files/uploads/speeches/2008/asset_upload_file357_14581.pdf

¹² Office of the U.S. Trade Representative, “The President’s 2008 Trade Policy Agenda,” March 2008, at 2, available at <http://www.ustr.gov/sites/default/files/The-Presidents-Trade-Policy-Agenda.pdf>

¹³ U.S. Department of Commerce, “U.S. Export Fact Sheet,” February 2008, Available at:

http://www.commerce.gov/NewsRoom/PressReleases_FactSheets/PROD01_005203

¹⁴ Office of the U.S. Trade Representative, "The 2006 Trade Policy Agenda and 2005 Annual Report of the President of the United States on the Trade Agreements Program," March 2006, at 3, Available at:

http://ustraderep.gov/Document_Library/Reports_Publications/2006/2006_Trade_Policy_Agenda/Section_Index.html

¹⁵ Remarks by Ambassador Karan Bhatia Deputy U.S. Trade Representative at Yonsei University, October 24, 2006, Available at: http://ustraderep.gov/assets/Document_Library/Transcripts/2006/October/asset_upload_file496_9901.pdf

¹⁶ U.S. Bureau of Labor Statistics, "Quarterly Census of Employment and Wages," Series ID ENUUS0000051013.

Average levels in 1993 to average levels in 2009. Accessed on August 13, 2010, Available at <ftp://ftp.bls.gov/pub/special.requests/cew>

¹⁷ U.S. Bureau of Labor Statistics, "Current Employment Statistics Databases," Accessed on Mar. 2, 2010, Available at: <http://www.bls.gov/ces/data.htm>

¹⁸ Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *State of Working America 2008-2009*, (Washington, D.C.: EPI, 2008), Table 3.27 at 191. This is a static measure for the year 2005.

¹⁹ Jeff Faux, Carlos Salas, and Robert E. Scott, "Revisiting NAFTA: Still not working for North America's workers." Sept. 2006, Available at: <http://www.epi.org/publications/entry/bp173/>. This is a static measure for the year 2004.

²⁰ William Cline, *Trade and Income Distribution*, (Washington, D.C.: Peterson Institute for International Economics, 1997), at 264; Dean Baker and Mark Weisbrot, "Will New Trade Gains Make Us Rich?" Center for Economic and Policy Research (CEPR) Paper, October 2001.

²¹ Josh Bivens, "Globalization and American Wages," Economic Policy Institute (EPI) Report, October 2007.

²² Andrew Swiston, "Spillovers to Central America in Light of the Crisis: What a Difference a Year Makes." IMF Working Paper, February 2010.

²³ This paper does not delve into *why* past U.S. FTAs have resulted in an export-growth penalty. However, several theories are worth further exploration. First, it could be that inclusion in these FTAs of expansive foreign investor protections has promoted U.S. firms to relocate production from the United States to FTA partner countries – meaning that goods once produced here and exported to the FTA nations are now produced in the FTA countries (both for domestic sale and export back to the U.S. market) by U.S. firms. The FTAs' investor protections eliminate many of the risks and costs normally associated with relocating production to a low-wage developing country: a "minimum standard treatment" is guaranteed to foreign investors; compensation is available for what are labeled as measures tantamount or equivalent to indirect expropriation – regulatory measures that undermine foreign investors' expected profits; and foreign investors are relieved of the risks of having to use domestic court systems to pursue claims, because the pacts provide for privatized "investor-state" enforcement of the new FTA investor rights.

Second, it could be that countries that are part of the "coalition of the willing" – countries willing to adopt U.S. FTAs – are more likely to have adopted domestically the economic growth-retarding policies that comprise the so-called Washington Consensus. Studies of countries that had most faithfully adopted this policy package have shown that such countries have lower growth rates than countries, such as China and Vietnam, that have largely avoided this policy formula. (See Jonathan D. Ostry, et. al., "Capital Inflows: The Role of Controls," IMF Staff Position Note SPN/10/04, Feb. 19, 2010. Available at: <http://www.imf.org/external/pubs/ft/spn/2010/spn1004.pdf> . Accessed Feb. 26, 2010. See also Ha-Joon Chang, *Bad Samaritans*, (New York: Bloomsbury, 2007; Mark Weisbrot, Robert Naiman and Joyce Kim, "The Emperor Has No Growth: Declining Economic Growth Rates in the Era of Globalization," CEPR Paper, November 2000; Mark Weisbrot, Dean Baker and David Rosnick, "Scorecard on Development: 25 Years of Diminished Progress," CEPR Paper, September 2006; Kevin Gallagher and Lyuba Zarsky, *The Enclave Economy*, (Boston: MIT Press, 2007).

Lower growth in our FTA partner countries would mean less demand for the products U.S. workers and companies can ship to those countries. Economists have shown how all now-developed countries used extensive government intervention in markets to raise incomes and create jobs. Yet U.S. FTAs forbid many of these policies, such as regulation of foreign investors, for instance via use of domestic content and other performance requirements designed to benefit host countries, domestic-preferences in procurement, strict regulation of finance and banking, and more. Given the antipathy to the inclusion of such terms in trade agreements – which led large developing countries to reject U.S. initiatives such as the Free Trade Areas of the Americas (FTAA) and the Asian Pacific Economic Forum (APEC) FTA – only countries with a predisposition to the policy model imbedded in the U.S. FTAs self-selected to sign up for such terms. While the popularity of this model has further declined, the policymakers in countries signed up to U.S. FTAs Such measures put an extensive chill on government regulators. It is possible that any government willing to shackle itself in such a manner through a U.S. FTA also did not embrace welfare-enhancing government interventions in the domestic context, which could be associated with lower growth and thus lower demand for U.S. exports.

Third, it is possible that China's accession to the WTO has helped Chinese exports crowd out U.S. exports in FTA markets. This is consistent with a story that NAFTA led to an export benefit in the first few years of implementation, but to a strong export penalty after 2000.

²⁴ As Frank Vargo wrote, "To achieve his goal, the president must call for immediate passage of the three pending FTAs and open more foreign markets through rapid negotiation of additional fair and reciprocal trade agreements." See Frank Vargo, "Free trade pacts have been good for U.S.," *The Hill*, April 19, 2010.

²⁵ According to calculations based on the Census Bureau's figures on total goods exports on a balance of payments basis and inflation adjustment based on the research series of the CPI (CPI-U-RS). The trade flow data is available at: <http://www.census.gov/foreign-trade/statistics/historical/gands.txt>

²⁶ Public Citizen's Global Trade Watch, "Selected Campaign Statements By President Barack Obama on U.S. Trade and Globalization Policy," 2008, Available at:

<http://www.citizen.org/documents/ObamaTradeCampaignStatementsFINAL.pdf>

See also: Citizens Trade Campaign, "President Barack Obama on Trade Issues," Available at:

<http://www.citizenstrade.org/hope.php>

²⁷ Sec. 3(b)(1) of the TRADE Act requires:

"An analysis of indicators of the economic impact of each trade agreement, including the following:

"(A) The employment effects of the trade agreement on job gains and losses in the United States delineated by industry, year, and State, taking note of specific firm, industry, or regional cases of substantial trade agreement-related employment losses or gains, including a list of the top ten industries that experienced employment gains and losses in the United States. In addition to utilizing existing government data, the Comptroller General shall develop and utilize a labor requirements model derived from detailed input-output tables to estimate the number of jobs supported or displaced by shifts in the level and rate of change of United States net exports and investment flows.

"(B) The effects of the trade agreement on changes in relative and absolute wage levels, income distribution by decile, and hours worked by sector and State, on a year-to-year basis, in the United States. In addition to utilizing existing government data, the Comptroller General shall develop and utilize factor content analyses, product price regressions, computable general equilibrium models, and other applicable methods to isolate the impact of the trade agreement (and its associated investment flows) on changes in relative and absolute wages and income distribution by education, skill level, and trade-sensitivity of various sectors, controlling for appropriate indicators such as region, race, and gender.

"(C) The dollar value of domestic exports of the United States and imports for consumption into the United States delineated, to the extent such information is available, by--

- (i) Standard International Trade Classification (SITC)-5,
- (ii) Standard Industrial Classification (SIC)-4,
- (iii) North American Industry Classification (NAIC)-6,
- (iv) the 10-digit classification number under the Harmonized Tariff Schedule of the United States,
- (v) year, and
- (vi) trade-partner country,

including listing those goods for which there has been a change in 10 percent or more in bilateral trade flows.

"(D) The share of global production, productive capacity, investment, exports and employment, and other indicators of the competitive position (such as productivity gains and patents registered) of industries in the United States significantly affected by the trade agreement, taking note of major production and employment offshoring trends and changes in sourcing patterns before and after entry into force of the trade agreement with respect to the United States."

²⁸ This includes Canada, Belgium-Luxembourg, France, Argentina, Australia, Bermuda, Brazil, Chile, China, Germany, Hong Kong, India, Indonesia, Ireland, Israel, Italy, Japan, South Korea, Malaysia, Mexico, Netherlands, New Zealand, Norway, Philippines, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, United Kingdom, and Venezuela.

²⁹ See, for example:

Kate Andersen Brower, "U.S. exports booming, top trade officials say," *Houston Chronicle*, July 6, 2010, Available at: <http://www.chron.com/disp/story.mpl/business/7096711.html>

"The U.S. Chamber of Commerce released a study in May showing that free-trade agreements boost economic growth by more than \$300 billion a year, led by sales of U.S. products to Canada and Mexico, the leading U.S. trading partners."

Mark Drajem, "Free-Trade Deals Add \$300 Billion to U.S. Growth, Chamber Says," Bloomberg, May 14, 2010, Available at: <http://www.businessweek.com/news/2010-05-14/free-trade-deals-add-300-billion-to-u-s-growth-chamber-says.html>

"Free-trade agreements boost U.S. economic growth by more than \$300 billion a year, led by increased commercial business with Canada and Mexico, the U.S. Chamber of Commerce said in a study being released today."

Hwang Doo-hyong, "US business lobby supports Obama's plans for South Korean trade deal," Yonhap, June 26, 2010, Available at: <http://english.yonhapnews.co.kr/national/2010/06/27/86/0301000000AEN20100627002200315F.HTML>

"[Tami Overby, the Chamber of Commerce's vice president for Asia] cited a recent study, which says nearly 400,000 jobs in the United States are at risk if Congress fails to act on the pending agreement."

Everdeen Mason, "S. Korean envoy urges approval of free-trade pact to save U.S. jobs," *Cleveland Plain Dealer*, June 23, 2010, Available at: http://blog.cleveland.com/metro/2010/06/south_korea_ambassador_han_duk.html

"South Korea's ambassador to the United States said it is in America's best interest to ratify the Korea-U.S. Free Trade Agreement. A big reason: Almost 350,000 American jobs are on the line....The projected job loss was cited in a November study by the U.S. Chamber of Commerce, which said it would result from an estimated \$35 billion loss in U.S. exports."

Promoting Agricultural Exports: Hearing Before the U.S. Senate Committee on Agriculture, Nutrition & Forestry. 111th Congress, 2nd Session, August 4, 2010.

"Senator John Thune: I wanted to -- I just want to read a quote to you from a U.S. Chamber of Commerce study....Specifically, failure to implement the U.S. free trade agreements while our trading partners go forward with their agreements would lead to a decline of \$40.2 billion in U.S. exports of goods and services and U.S. national output failing to grow by \$44.8 billion. The study estimates that the total net negative impact on U.S. employment from these and output losses could total 383,400 jobs."

³⁰ Laura M. Baughman and Joseph F. Francois, "Opening Markets, Creating Jobs: Estimated U.S. Employment Effects of Trade with FTA partners," U.S. Chamber of Commerce, May 14, 2010, at 4, Available at: http://www.uschamber.com/assets/international/100514_ftajobs_full.pdf

³¹ See Appendix I for a proof of the fact that this method of aggregating exports to FTA and non-FTA countries and computing growth rates of exports to each group separately is equivalent to computing the weighted average of growth rates, weighted by U.S. exports to each country.

³² Due to data availability, calculations for Israel and Canada start in 1989. "FTA-designated" countries chosen to fill a "slot" for an actual FTA partner are chosen from the group of countries that exist in the year before implementation. For example, Kazakhstan, which formed in 1991, would not be eligible to fill Canada's slot since Canada became an FTA partner in 1989, but it would be eligible to fill the slot of Mexico, Jordan, Chile, etc.

³³ Laura M. Baughman and Joseph F. Francois, "Summary of Opening Markets, Creating Jobs: Estimated U.S. Employment Effects of Trade with FTA partners," U.S. Chamber of Commerce, May 14, 2010, Available at: http://www.uschamber.com/assets/international/100514_ftajobs_summ.pdf

³⁴ The Chamber of Commerce lists "Bureau of the Census" as the source of the data it uses to calculate the FTA and non-FTA export growth rates in Table 2 of their report. The data that the Chamber used appears to be the domestic exports data from the U.S. International Trade Commission's DataWeb, which is the same data that this report uses, although we adjust the data for inflation. Calculating export growth rates from the unadjusted nominal domestic exports data produces a perfect match for every FTA growth rate calculation in Table 2 of the Chamber report except for Jordan, Bahrain, and Mexico (due to data availability, directly testing the Canada and Israel export growth rates for inflation adjustment was not possible.) The average annual growth rate of the non-FTA aggregate was found to be 5.9 over 1998-2008 with unadjusted domestic exports data, very close to the 6.0 average annual percent growth that the

Chamber reports. From these calculations based on data that was not adjusted for inflation, one can infer that the Chamber did not adjust for inflation when they calculated the export growth rates.

³⁵ Laura M. Baughman and Joseph F. Francois, "Opening Markets, Creating Jobs: Estimated U.S. Employment Effects of Trade with FTA partners," U.S. Chamber of Commerce, May 14, 2010, Table 2, at 4, Available at: http://www.uschamber.com/assets/international/100514_ftajobs_full.pdf

³⁶ Robert E. Scott, "Trade Policy and Job Loss," Economic Policy Institute, Working Paper #289, Feb. 25, 2010, at 1. Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment*, Institute for International Economics, Washington, D.C., 1993.

³⁷ U.S. International Trade Commission, "Assessment of the Economic Effects on the United States of China's Accession to the WTO," August 1999, at xi.

³⁸ Laura M. Baughman and Joseph F. Francois, "Opening Markets, Creating Jobs: Estimated U.S. Employment Effects of Trade with FTA partners," U.S. Chamber of Commerce, May 14, 2010, Table 5, at 11.

³⁹ For example, in its report to Congress about the anticipated effects of the Central America Free Trade Agreement, the U.S. International Trade Commission stated that "It is not possible to establish an overall quantitative measure of the effect that the U.S.-CA/DR FTA has on U.S. services trade with CA/DR."

U.S. International Trade Commission, "U.S.-Central America-Dominican Republic Free Trade Agreement: Potential Economywide and Selected Sectoral Effects," Publication 3717, August 2004, at 55, Available at:

<http://www.usitc.gov/publications/332/pub3717.pdf>

See also:

Josh Bivens, "Marketing the Gains from Trade," Economic Policy Institute, Issue Brief #233, June 19, 2007, Available at: <http://www.epi.org/publications/entry/ib233/>

Catherine L. Mann, *Accelerating the Globalization of America: The Role for Information Technology*, Institute for International Economics: Washington, DC, June 2006, at Appendix 4A: Challenges of International Trade Data for IT Products

⁴⁰ Ibid.

⁴¹ Ibid.

⁴² John Tschetter, "Exports Support American Jobs," U.S. Department of Commerce, International Trade Administration, International Trade Research Report No. 1, March 2010, Table 1, at 2, Available at:

<http://www.trade.gov/publications/pdfs/exports-support-american-jobs.pdf>

⁴³ Laura M. Baughman and Joseph F. Francois, "Opening Markets, Creating Jobs: Estimated U.S. Employment Effects of Trade with FTA partners," U.S. Chamber of Commerce, May 14, 2010, at 7-8.

⁴⁴ Data for trade in services was obtained from the Bureau of Economic Analysis in Table 2 of Detailed Statistics for Cross-border Trade, available at http://www.bea.gov/international/international_services.htm. Data was available for the following countries: Canada, Belgium-Luxembourg, France, Argentina, Australia, Bermuda, Brazil, Chile, China, Germany, Hong Kong, India, Indonesia, Ireland, Israel, Italy, Japan, South Korea, Malaysia, Mexico, Netherlands, New Zealand, Norway, Philippines, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, United Kingdom, and Venezuela.

⁴⁵ Laura M. Baughman and Joseph F. Francois, "Opening Markets, Creating Jobs: Estimated U.S. Employment Effects of Trade with FTA partners," U.S. Chamber of Commerce, May 14, 2010, at 11.

⁴⁶ Ibid, at 10.

⁴⁷ Ibid, at 11

⁴⁸ Ibid, at 1.

⁴⁹ Jeff Faux, Carlos Salas, and Robert E. Scott, "Revisiting NAFTA: Still not working for North America's workers," The Economic Policy Institute, Briefing Paper #173, September 28, 2006, at 3, Available at:

<http://www.epi.org/publications/entry/bp173/#pt1>

⁵⁰ 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.chamberpost.com/files/Latin_TPAs_and_Export_Growth_Sept_2008.pdf

The export data in the Chamber's September 2008 report is identical to the data in the December 2004, 2005, 2007, and 2008 releases of the Census Bureau's U.S. merchandise export data, which is not inflation-adjusted. This data is available as "Exhibit 2" at:

<http://www.census.gov/foreign-trade/Press-Release/2004pr/12/ft920/> ;

<http://www.census.gov/foreign-trade/Press-Release/2005pr/12/ft920/> ;

<http://www.census.gov/foreign-trade/Press-Release/2006pr/12/ft920/> ; and

<http://www.census.gov/foreign-trade/Press-Release/2007pr/12/ft920/>

⁵¹ In this report, we do not use the geometric growth formula (i.e. $r = (X_t/X_0)^{(1/n)} - 1$ where 0 is the base year (e.g. 2000) and t is the number of years between the base year and the final desired year (e.g. 2009)) to compute average annual growth over more than one year. We compute year-to-year growth rates and then average them across years because there is no clear way to use the geometric growth formula when FTAs enter into force in the years between the base year and the final year, particularly when using the “weighted average method” of calculating overall export growth to FTA countries. Furthermore, the temporal order of year-to-year growth rates affects the difference between exports under the actual and counterfactual export scenarios, and the geometric growth formula is blind to the temporal order. Finally, 2009 is a highly anomalous year for exports, so taking into account only exports in 2000 and 2009 for the calculation would not give a full picture of export growth behavior over 2000-2009. Where we do report growth rates

averaged over years, we instead use: $\frac{1}{n} \sum_{t=1}^n \frac{X_t - X_{t-1}}{X_{t-1}}$ where X_t are exports in year t , n is the number of years

of growth, and $t = 0$ is the base year.

⁵² Laura M. Baughman and Joseph F. Francois, “Trade Action – or Inaction: The Cost for American Workers and Companies,” U.S. Chamber of Commerce, September 15, 2009, Available at: http://www.uschamber.com/assets/international/uscc_trade_action_inaction_study.pdf

⁵³ Robert E. Scott, “Trade Policy and Job Loss,” Economic Policy Institute, Working Paper #289, Feb. 25, 2010, at 4 and 7.

⁵⁴ Ibid.

⁵⁵ Frank Vargo, “Free trade pacts have been good for U.S.,” *The Hill*, April 19, 2010, Available at: <http://thehill.com/opinion/op-ed/93115-free-trade-pacts-have-been-good-for-us>. According to the U.S. House of Representatives’ Office of the Clerk, Vargo is a registered lobbyist for NAM on several trade issues. For Second Quarter 2010 filings, see: <http://disclosures.house.gov/ld/pdfform.aspx?id=300288877>

⁵⁶ Between 1998 and 2003, U.S. manufacturing employment declined by 3.1 million jobs. The largest 5-year decline in manufacturing employment prior to 1998-2003 was over 1978-1983 when 1.9 million jobs were lost. Bureau of Labor Statistics, Table B-1, Available at: <ftp://ftp.bls.gov/pub/suppl/empsit.ceseeb1.txt>

⁵⁷ U.S. International Trade Commission, “Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports,” January 2010. (<http://www.usitc.gov/publications/332/pub4125.pdf>).

⁵⁸ Frank Vargo, “GTW needs to recognize FTAs are part of solution,” *The Hill*, May 27, 2010, Available at: <http://thehill.com/opinion/letters/100357-gtw-needs-to-recognize-ftas-are-part-of-solution>

⁵⁹ The first sentence under “Uses” of export and import data on the “About Foreign Trade” section of the Census Bureau’s Foreign Trade Division website is “The BEA [Bureau of Economic Analysis] uses the data to update U.S. balance of payments, gross domestic product, and national accounts,” indicating that the way that the Census uses the data is to calculate the U.S. current account (it lists other uses below this use) (<http://www.census.gov/foreign-trade/about/index.html>).

The trade balance that Vargo refers to is defined in the following way by the Census: “The merchandise trade balance represents the difference between U.S. total exports based on F.A.S. values and U.S. general imports based on Customs values. This balance corresponds to a measurement of the international payments or credit flows resulting from the physical movement of goods between the U.S. and foreign countries [emphasis added].” (<http://www.census.gov/foreign-trade/reference/definitions/index.html>). Thus, the primary utility of this measure of the deficit is in measuring the U.S. current account balance.

The primary role of the International Trade Administration (ITA) is not to analyze the economic effects of trade flows, so it is not the best source to consult on which measures should be used to assess the domestic economic effects of trade flows. According to the ITA itself, it “strengthens the competitiveness of U.S. industry, promotes trade and investment, and ensures fair trade through the rigorous enforcement of our trade laws and agreements. ITA works to improve the global business environment and helps U.S. organization compete at home and abroad. ITA supports President Obama’s recovery agenda and the National Export Initiative to sustain economic growth and support American jobs,” (<http://trade.gov/about.asp>).

The role of the U.S. International Trade Commission (USITC), by contrast, is to analyze the domestic economic effects of trade flows. According to the USITC, “The mission of the Commission is to (1) administer U.S. trade remedy laws within its mandate in a fair and objective manner; (2) provide the President, USTR, and Congress with independent analysis, information, and support on matters of tariffs, international trade, and U.S. competitiveness; and (3) maintain

the Harmonized Tariff Schedule of the United States (HTS)” (http://www.usitc.gov/press_room/about_usitc.htm). The USITC further states that it “serves as a Federal resource where trade data and other trade policy-related information are gathered and analyzed. The information and analysis are provided to the President, the Office of the United States Trade Representative (USTR), and Congress to facilitate the development of sound and informed U.S. trade policy,” (http://www.usitc.gov/press_room/about_usitc.htm).

⁶⁰ Public Citizen interview with senior spokesperson of the Foreign Trade Division of US Census Bureau on June 24, 2010: “My understanding, and I have not actually seen this written anywhere, is that ITC uses imports of consumption [sic] since they are dealing more with trade agreements. Census is more concerned with the broadest measure of trade.”

⁶¹ Soamiely Andriamananjara, Hugh Arce, and Michael J. Ferrantino, “Transshipment in the United States,” U.S. International Trade Commission, Working Paper No. 2004-04-B, April 30, 2004, at 1, Available at: www.usitc.gov/publications/332/working_papers/ec200404b.pdf

⁶² U.S. International Trade Commission, “Shifts in U.S. Merchandise Trade 2008,” Publication No. 4089, July 2009, Available at: <http://www.usitc.gov/publications/332/pub4089.pdf>

⁶³ Public Citizen interview with USITC senior economist on July 7, 2010 regarding the motive of the USITC for using domestic exports and imports for consumption to compute the trade deficit.

⁶⁴ Soamiely Andriamananjara, Hugh Arce, and Michael J. Ferrantino, “Transshipment in the United States,” U.S. International Trade Commission, Working Paper No. 2004-04-B, April 30, 2004, at footnote 2, page 1.

⁶⁵ Available at: <http://www.cbo.gov/spreadsheets.shtml> Inflation-adjusted exports for any year t is given by $X_t * (CPI_{2009}/CPI_t)$ where X_t is the value of exports in year t , CPI_{2009} is the CPI in 2009 and CPI_t is the CPI in year t .

⁶⁶ The definitions for domestic exports and imports for consumption are available here:

http://dataweb.usitc.gov/scripts/dw_help.asp?hname=Trade%20Type

⁶⁷ Soamiely Andriamananjara, Hugh Arce, and Michael J. Ferrantino, “Transshipment in the United States,” U.S. International Trade Commission, Working Paper No. 2004-04-B, April 30, 2004, at 1, Available at: www.usitc.gov/publications/332/working_papers/ec200404b.pdf

⁶⁸ Public Citizen interview with USITC senior economist on July 7, 2010 regarding the motive of the USITC for using domestic exports and imports for consumption to compute the trade deficit.

⁶⁹ Comment by Dan Griswold of the Cato Institute on C-SPAN debate, June 1, 2010, at 36:30. Available at: <http://www.c-spanvideo.org/program/293812-5>