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Debunking USTR's Absurd Assertion that the U.S. Has a Trade Surplus with NAFTA Countries

The office of the U.S. Trade Representative (USTR) has begun claiming that the United States has a trade surplus with its [North American Free Trade Agreement \(NAFTA\)](#) partners Mexico and Canada.¹ The official U.S. government trade data provided by the [U.S. International Trade Commission \(USITC\)](#) show that, in fact, the 2013 U.S. goods trade balance with the NAFTA countries was a deficit of \$177 billion. The combined U.S. goods and services trade deficit with Mexico and Canada rose (in real, inflation-adjusted terms) from \$9.7 billion in 1993 to \$139.3 billion in 2012 (the most recent year for which services trade data is available).² This NAFTA deficit increase of \$129.5 billion, or 1330 percent, represents [hundreds of thousands of lost U.S. jobs](#).

This is the opposite of the outcome promised by NAFTA supporters, who claimed NAFTA would create U.S. jobs by improving what was a relatively small pre-NAFTA combined deficit with Mexico and Canada. Now many NAFTA boosters say that one cannot measure the outcomes of NAFTA according to the trade balance. However, the premise that NAFTA would improve our trade balance was the bedrock basis for NAFTA proponents' job-gain predictions. Many of the same government and industry sources made the same claims to sell the 2011 U.S.-Korea Free Trade Agreement (FTA). But in the pact's first 21 months, average monthly [U.S. goods exports to Korea have dropped 12 percent below the pre-FTA level](#), while imports have risen and the average monthly U.S. trade deficit with Korea has grown 49 percent.

USTR and other NAFTA defenders often try to dismiss the NAFTA deficit by claiming that it mainly represents trade in oil. First, the share of the U.S. NAFTA goods trade deficit that is comprised of petroleum, petroleum products and natural gas has declined under NAFTA, from 77 percent in 1993 to 53 percent in 2013, as we have faced a surge of imported manufactured and agricultural goods.³ Second, **even if one removes all of these "oil" categories from the balance, the remaining 2013 NAFTA goods trade deficit was \$82.9 billion. The combined NAFTA goods and services deficit in 2012 minus oil was \$38.3 billion.** *So, on what basis is USTR making such a peculiar claim of a NAFTA trade surplus?*

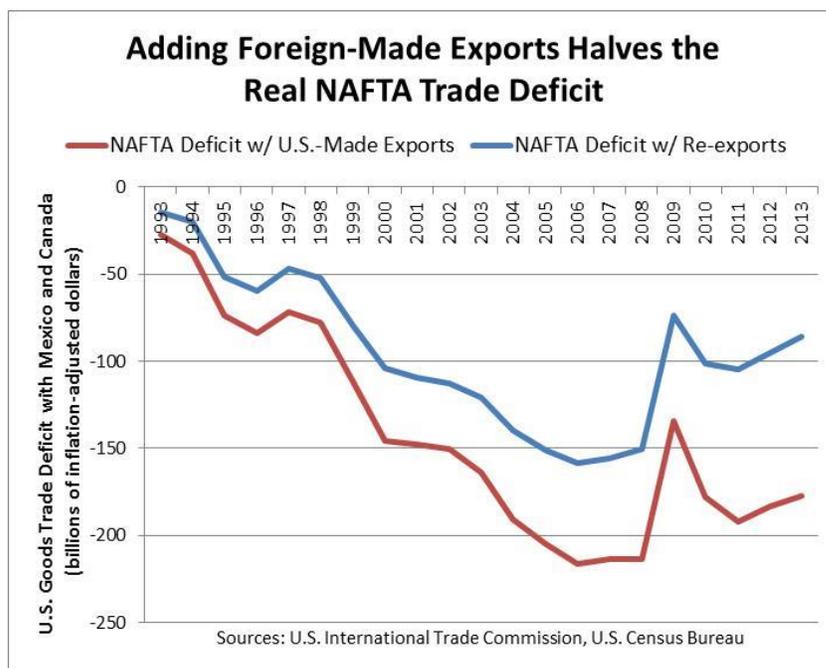
USTR's "Trick": Their Figures Count Foreign-made "Transshipped" Products as U.S. Exports

Instead of using the official USITC trade data, USTR's figures include what are called "re-exports." These are goods made abroad, such as in China, that are simply shipped through the United States en route to Canada or Mexico. (For instance, the USTR figures would include as U.S. exports the goods taken off a ship from China in California's Long Beach port and then trucked to their final destination in northern Mexico.) These foreign-made exports do not support U.S. production jobs. Adding re-exports to U.S.-made exports has had an increasingly distortionary effect on the true NAFTA trade deficit (e.g. the 2013 NAFTA goods deficit of \$177 billion can be made to look less than half as large by counting re-exports, as indicated in the graph below). Each month, the USITC removes re-exports from the raw data gathered by the [Census Bureau](#). But USTR uses the uncorrected data, inflating the actual U.S. export figures and deflating the true NAFTA trade deficit.

What Are NAFTA's Trade Flow Outcomes without the Distortions Used by USTR?

The following statistics on trade in goods come from [the official U.S. trade data of the USITC](#), without the distortion of re-exports. The statistics on trade in services come from the [U.S. Bureau of Economic Analysis](#). Unlike USTR's data, the figures are inflation-adjusted (expressed in 2013 dollars), based on the [CPI-U-RS index](#) of the U.S. Bureau of Labor Statistics. The statistics compare pre-NAFTA figures with data from 2012 rather than 2013 because USTR's latest claims of a NAFTA surplus do so, and because 2012 is the most recent year of data availability for U.S. trade in services.

- The \$2.5 billion U.S. goods trade surplus with Mexico and \$29.6 billion deficit with Canada in 1993 turned into a combined NAFTA goods trade deficit of \$183.6 billion by 2012. That's a 580 percent, or \$156.6 billion increase in the combined NAFTA deficit. *Not only did goods imports soar under NAFTA, but annual growth in U.S. manufacturing exports to NAFTA partners fell 61 percent below the pre-NAFTA rate.*⁴
- While the \$17.3 billion U.S. services surplus with Canada and Mexico in 1993 increased to become a \$44.4 billion surplus in 2012, the NAFTA goods deficit increase of \$156.6 billion swamped the \$27.1 billion services surplus gain. This is due in part to the fact that *under NAFTA, annual growth of U.S. services exports to NAFTA partners fell 49 percent below the pre-NAFTA rate.*⁵
- As a result, the combined U.S. goods and services deficit with Mexico and Canada rose from \$9.7 billion in 1993 to \$139.3 billion in 2012, an increase of \$129.5 billion or 1330 percent.



Point-by-point Correction of the Distorted Data USTR Is Distributing

U.S. Trade Balance with CANADA – By the Numbers

USTR Claim: “U.S. total goods and private services trade balance with Canada countries (sic) shifted from a deficit of \$2.9 billion in 1993 to roughly balance in 2012 (surplus of \$37 million).”

After removing re-exports and adjusting for inflation, the actual total U.S. goods and services trade deficit with Canada increased from \$16.9 billion in 1993 to \$49.1 billion in 2012. That's a deficit increase of \$32.2 billion, or 191 percent.

USTR Claim: “U.S. goods trade deficit with Canada increased from a deficit of \$10.8 billion in 1993 to \$31.4 billion in 2012.”

After removing re-exports and adjusting for inflation, the actual U.S. goods trade deficit with Canada increased from \$29.6 billion in 1993 to \$80.9 billion in 2012. That's a deficit increase of \$51.3 billion, or 174 percent.

USTR Claim: “U.S. private services trade surplus with Canada increased by \$23.5 billion from a surplus of \$7.9 billion in 1993 to \$31.4 billion in 2012.”

After adjusting for inflation, the actual U.S. services trade surplus with Canada increased from \$12.7 billion in 1993 to \$31.8 billion in 2012. That’s a surplus increase of \$19 billion, or 151 percent.

USTR Claim: “The mineral fuel/oil goods deficit with Canada was \$84.5 billion in 2012. Excluding this category, the United States would have a goods surplus with Canada at \$53.1 billion.”

The U.S. petroleum, petroleum product and natural gas trade deficit with Canada increased from \$14.8 billion in 1993 to \$84.6 billion in 2012. Excluding this category, and adjusting for re-exports and inflation, the United States would have a \$3.7 billion goods trade surplus with Canada in 2012 (which is still vastly outweighed by the \$86.4 billion goods trade deficit the United States would have with Mexico in 2012 after removing the same category – see below).

NAM Uses Distorted Data in Attempt to Turn a \$52 Billion Manufacturing Deficit with FTA Partners into a \$50 Billion Surplus

Like USTR, the National Association of Manufacturers (NAM) has been making [a bogus claim](#) that the United States has a \$50 billion trade surplus in manufactured goods with its 20 FTA partners. But the official data from the USITC shows that we actually have a \$52.4 billion manufacturing trade *deficit* with FTA partners. In contrast, the United States did have a \$30.1 billion manufacturing trade *surplus* with these 20 countries in 1993, the pre-NAFTA year in which 18 of the 20 nations had no FTA with the United States. As the United States implemented FTAs with all of these countries over the following 20 years, the U.S. manufacturing trade balance with these trade partners fell by \$82.6 billion. How can NAM now claim a surplus? Like USTR, NAM uses uncorrected data from the Census Bureau that includes billions of dollars’ worth of re-exports that do not support U.S. production jobs. The distorted data may be convenient for pushing more-of-the-same trade policies, but it cannot hide the actual FTA record of deepening manufacturing deficits.

U.S. Trade Balance with MEXICO – By the Numbers

USTR Claim: “U.S. total goods and private services trade balance with Mexico countries shifted from a surplus of \$4.6 billion in 1993 to a deficit of \$49.4 billion in 2012.”

After removing re-exports and adjusting for inflation, the actual total U.S. goods and services trade deficit with Mexico changed from a \$7.2 billion surplus in 1993 to a \$90.1 billion deficit in 2012. That’s a \$97.3 billion decline in the U.S. goods and services trade balance with Mexico.

USTR Claim: “U.S. goods trade deficit with Mexico shifted from a surplus of \$1.7 billion in 1993 to a deficit of \$61.6 billion in 2012.”

After removing re-exports and adjusting for inflation, the U.S. goods trade balance with Mexico changed from a \$2.5 billion surplus in 1993 to a \$102.7 billion deficit in 2012. That’s a \$105.3 billion decline in the U.S. goods trade balance with Mexico.

USTR Claim: “U.S. private services trade surplus with Mexico increased by \$9.3 billion from a surplus of \$3.0 billion in 1993 to \$12.2 billion in 2012.”

After adjusting for inflation, the U.S. services trade surplus with Mexico increased from \$4.6 billion in 1993 to \$12.6 billion in 2012. That’s a surplus increase of \$8 billion, or 172 percent.

USTR Claim: “The mineral fuel/oil goods deficit with Mexico was \$16.2 billion in 2012. Excluding this category, the United States would have a lower goods deficit with Mexico at \$45.5 billion.”

The U.S. petroleum, petroleum product and natural gas trade deficit with Mexico increased from \$6 billion in 1993 to \$16.3 billion in 2012. Excluding this category, and adjusting for re-exports and inflation, the United States would have an \$86.4 billion goods trade deficit with Mexico in 2012.

ENDNOTES

¹ In addition to the specific claims quoted under the Point-by-point Correction section, USTR has been circulating this overall claim: “The driver on our trade balance with Canada and Mexico, you find that the driver of our trade deficit is fossil fuels. When you take out energy, we’re actually running a trade surplus with NAFTA countries – where the United States exports more than it imports.” As we explain here, the official government trade data from the U.S. International Trade Commission (which eliminates the distortion of re-exports) show that after removing oil, gas, and petroleum products, the combined U.S. goods and services trade balance with Mexico and Canada in 2012 was a \$38.3 billion *deficit*.

² Throughout this document, all goods trade data come from U.S. International Trade Commission, “Interactive Tariff and Trade Dataweb,” accessed February 20, 2014. Available at: <http://dataweb.usitc.gov>. All services trade data come from U.S. Bureau of Economic Analysis, “International Data: Table 12: U.S. International Transactions, by Area,” accessed February 20, 2014. Available at: <http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1#reqid=6&step=1&isuri=1>. All data is inflation-adjusted and presented in 2013 dollars according to the CPI-U-RS index of the U.S. Bureau of Labor Statistics (which provides indices up through 2012) and the online inflation calculator of the U.S. Bureau of Labor of Statistics (which provides an approximate 2013 index). U.S. Bureau of Labor Statistics, “Consumer Price Index Research Series Using Current Methods (CPI-U-RS),” U.S. Department of Labor, updated March 29, 2013. Available at: http://www.bls.gov/cpi/cpiursai1978_2012.pdf. U.S. Bureau of Labor Statistics, “CPI Inflation Calculator,” U.S. Department of Labor, accessed February 20, 2014. Available at: http://www.bls.gov/data/inflation_calculator.htm.

³ Trade in petroleum, petroleum products and natural gas is defined as NAICS 2111 and 3241 for data since 1997 – when NAICS replaced the SIC classification system – and SIC 131, 291, 295, and 299 for data before 1997.

⁴ Manufacturing exports are defined as NAIC 31, 32, and 33 from 1997-2012, and as SIC 2 and 3 from 1989-1996. (Pre-1989 data from USITC is not available.) The statistic is a comparison of the pre- and post-NAFTA compound annual growth rates of inflation-adjusted manufacturing exports to Mexico and Canada.

⁵ The statistic is a comparison of the pre- and post-NAFTA compound annual growth rates of inflation-adjusted services exports to Mexico and Canada (from 1986 – the earliest year of data availability – through 1993, and from 1993 through 2012 – the latest year of data availability).