



215 Pennsylvania Avenue, SE • Washington, D.C. 20003 • 202/546-4996 • [www.citizen.org](http://www.citizen.org)

## 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.<sup>1</sup> 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 \$177.2 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 \$132.3 billion in 2013.<sup>2</sup> This NAFTA deficit increase of \$122.5 billion, or 1258 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 two years, average annual U.S. goods exports to Korea dropped 5 percent below the pre-FTA level, while imports rose, causing the U.S. trade deficit with Korea to swell 50 percent.<sup>3</sup>

USTR and other NAFTA defenders often try to dismiss the NAFTA deficit by claiming that it mainly represents trade in oil and other fossil fuels. First, the share of the U.S. NAFTA goods trade deficit that is comprised of fossil fuels (oil, gas and coal) has declined under NAFTA, from 82 percent in 1993 to 54 percent in 2013, as we have faced a surge of imported manufactured and agricultural goods.<sup>4</sup> Second, **even if one removes all of these fossil fuel categories from the balance, the remaining 2013 NAFTA goods trade deficit was \$80.9 billion. The combined NAFTA goods and services deficit in 2013 minus fossil fuels was \$36 billion.** *So, on what basis is USTR making such a peculiar claim of a NAFTA trade surplus?*

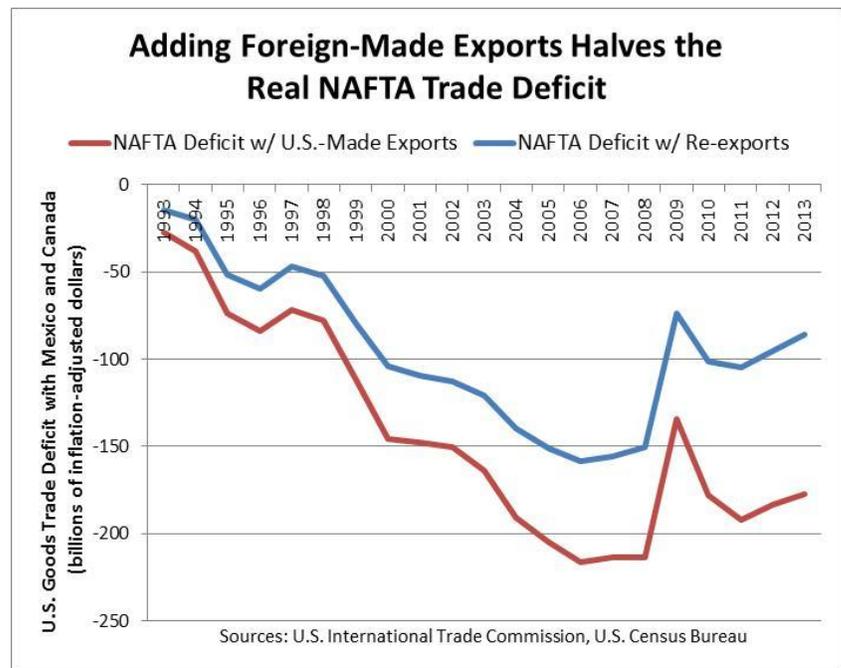
### **USTR's "Trick": Their Figures Count Foreign-made "Re-exported" Products as U.S. Exports**

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 simply pass through the United States with zero alteration before being "re-exported" again 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 later, without alteration, trucked to a 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 \$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 \$177.2 billion by 2013. That's a 556 percent, or \$150.2 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 62 percent below the pre-NAFTA rate.*<sup>5</sup>
- While the \$17.3 billion U.S. services surplus with Canada and Mexico in 1993 increased to become a \$44.9 billion surplus in 2013, the NAFTA goods deficit increase of \$150.2 billion swamped the \$27.6 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 more than 50 percent below the pre-NAFTA rate.*<sup>6</sup>
- As a result, the combined U.S. goods and services deficit with Mexico and Canada rose from \$9.7 billion in 1993 to \$132.3 billion in 2013, an increase of \$122.5 billion or 1258 percent.



## Point-by-point Correction of the Distorted Data USTR Is Distributing<sup>7</sup>

### ***U.S. Trade Balance in Goods and Services with Canada and Mexico minus Fossil Fuels***

*USTR Claim: Under NAFTA, the U.S. goods and services trade balance with Canada and Mexico after extracting fossil fuels increased from a \$16 billion surplus to a \$56 billion surplus.*<sup>8</sup>

After removing re-exports and adjusting for inflation, the actual U.S. goods and services trade balance with Canada and Mexico *with fossil fuels extracted* changed from a \$12.5 billion surplus in 1993 to a \$36 billion deficit in 2013. That's a \$48.4 billion decline in the trade balance.

### ***U.S. Trade Balance in Goods and Services with Canada and Mexico***

*USTR Claim: Under NAFTA, the U.S. goods and services trade balance with Canada and Mexico changed from a \$2 billion surplus to a \$40 billion deficit.*<sup>9</sup>

After removing re-exports and adjusting for inflation, the actual total U.S. goods and services trade deficit with Canada and Mexico increased from \$9.7 billion in 1993 to \$132.3 billion in 2013. That's a deficit increase of \$122.5 billion, or 1258 percent.

### ***U.S. Trade Balance in Goods with Canada and Mexico***

*USTR Claim: Under NAFTA, the U.S. goods trade balance with Canada and Mexico increased from a \$9 billion deficit to an \$85 billion deficit.*<sup>10</sup>

After removing re-exports and adjusting for inflation, the actual total U.S. goods trade deficit with Canada and Mexico increased from \$27 billion in 1993 to \$177.2 billion in 2013. That's a deficit increase of \$150.2 billion, or 556 percent.

### ***U.S. Trade Balance in Manufactured Goods with Canada and Mexico***

*USTR Claim: Under NAFTA, the U.S. manufactured goods trade balance with Canada and Mexico increased from a \$6 billion surplus to a \$27 billion surplus.*<sup>11</sup>

After removing re-exports and adjusting for inflation, the actual total U.S. manufactured goods trade balance with Canada and Mexico changed from a \$5 billion surplus in 1993 to a \$64.9 billion *deficit* in 2013. That's a \$69.9 billion decline in the trade balance.<sup>12</sup>

### ***U.S. Trade Balance in Agricultural Goods with Canada and Mexico***

*USTR Claim: Under NAFTA, the U.S. agricultural goods trade balance with Canada and Mexico increased from a \$3 billion surplus to a \$4 billion surplus.*<sup>13</sup>

After removing re-exports and adjusting for inflation, the actual total U.S. agricultural goods trade balance with Canada and Mexico fell from a \$2.5 billion surplus in 1993 to a trade balance of approximately zero in 2013. That's a \$2.5 billion decline in the trade balance.<sup>14</sup>

### **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.<sup>15</sup> 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.

### **ENDNOTES**

<sup>1</sup> In addition to the specific claims quoted under the Point-by-point Correction section, USTR began circulating this overall claim in early 2014: "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 fossil fuels, the combined U.S. goods and services trade balance with Mexico and Canada in 2013 was a \$36 billion *deficit*.

<sup>2</sup> Throughout this document, all goods trade data come from U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed June 29, 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 June 29, 2014. Available at: <http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1#reqid=6&step=1&isuri=1>.

<sup>3</sup> Figures concerning average annual export and import levels compare data from the two years before the FTA’s implementation (April 2010 through March 2012) and from the first two years under the FTA (April 2012 through March 2014). The assessment of the change in the U.S. goods trade deficit with Korea compares data from the year before the FTA’s implementation (April 2011 through March 2012) and data from the second (most recent) year of FTA implementation (April 2013 through March 2014). The deficit calculation uses a different timeframe since deficits and deficit-related job losses are typically assessed based on the most recent year of data rather than on an average over multiple years. U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>.

<sup>4</sup> Trade in fossil fuels is defined as HS 27.

<sup>5</sup> U.S. International Trade Commission, “Interactive Tariff and Trade Dataweb,” accessed February 11, 2014. Available at: <http://dataweb.usitc.gov>. Manufacturing exports are defined as NAIC 31, 32, and 33 from 1997-2013, and as SIC 2 and 3 from 1989-1996. (Pre-1989 data 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.

<sup>6</sup> 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 2013 – the latest year of data availability).

<sup>7</sup> The data below comes from a letter written by USTR in response to questions by Congressman Paul Tonko and other members of Congress concerning changes in the U.S. trade balance under NAFTA. Letter from Hun Quach of the Office of the U.S. Trade Representative to Congressman Paul Tonko, June 25, 2014. Available at: <http://www.citizen.org/documents/USTR-data-distortion-response.pdf>.

<sup>8</sup> “Not including fossil fuels, the United States exported \$571 billion in goods and services to Canada and Mexico [in 2013]. . . During that same period, the United States imported \$515 billion in goods and services, again, not including fossil fuels, from Canada and Mexico. . . Not including fossil fuels, the United States exported \$167 billion in goods and services to Canada and Mexico [in 1993]. . . During that same period, the United States imported \$151 billion in goods and services, again, not including fossil fuels, from Canada and Mexico.”

<sup>9</sup> “In 2013, the United States exported \$619 billion in goods and services to Canada and Mexico. . . During that same period, the United States imported \$659 billion in goods and services from Canada and Mexico. . . In 1993, the United States exported \$170 billion in goods and services to Canada and Mexico. . . During that same period, the United States imported \$168 billion in goods and services from Canada and Mexico.”

<sup>10</sup> “Looking at goods trade, including fossil fuels, the United States exported \$528 billion to Canada and Mexico in 2013. . . During the same period the United States imported \$613 billion goods (including fossil fuels) from Canada and Mexico. . . Looking at goods trade, including fossil fuels, the United States exported \$142 billion to Canada and Mexico in 1993. . . During the same period, the United States imported \$151 billion goods (including fossil fuels) from Canada and Mexico. . .”

<sup>11</sup> “In 2013, the United States exported \$473 billion in manufactured goods to Canada and Mexico. . . During the same time period, the United States imported \$446 billion from Canada and Mexico. . . In 1993, the United States exported \$128 billion in manufactured goods to Canada and Mexico. . . During the same time period, the United States imported \$122 billion from Canada and Mexico. . .”

<sup>12</sup> Manufactured goods are defined as NAICS 31, 32 and 33.

<sup>13</sup> “In 2013, the United States exported \$43 billion in agricultural goods to Canada and Mexico. . . During the same period the United States imported \$39 billion in agricultural goods from Canada and Mexico. . . In 1993 the United States exported \$10 billion in agricultural goods to Canada and Mexico. . . During the same time period, the United States imported \$7 billion in agricultural goods from Canada and Mexico. . .”

<sup>14</sup> Agricultural goods are defined as total agricultural products according to the FATUS classification. Foreign Agricultural Service, “Global Agricultural Trade System,” U.S. Department of Agriculture, accessed January 13, 2015. Available at: <http://apps.fas.usda.gov/gats/>.

<sup>15</sup> “Bilateral Trade,” National Association of Manufacturers, 2014. Available at: <http://www.nam.org/Issues/Trade/Manufacturing-And-Trade-Bilateral-Trade.aspx>.