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USTR Ignores Congressional Request to Stop Using Distorted Data, Resorts to Baseless Defenses

In response to congressional requests to stop reporting foreign-made goods as “U.S. exports,”¹ the Office of the U.S. Trade Representative (USTR) has started issuing counterfactual defenses for the distortionary practice.² By lumping foreign-made products in with U.S.-produced exports, USTR can artificially inflate U.S. export figures and deflate U.S. trade deficits with Free Trade Agreement (FTA) partners as the administration pushes for [Fast Track](#) authority to expand the status quo FTA model.

“Foreign exports,” also known as “re-exports” are goods made abroad, imported into the United States, and then re-exported again without undergoing any alteration in the United States.³ Foreign exports support zero U.S. production jobs.⁴ Each month, the [U.S. International Trade Commission](#) reports trade data with foreign exports removed, providing the official government data on made-in-America exports.⁵ But USTR chooses to use the uncorrected raw data collected by the U.S. Census Bureau that counts foreign-made goods as U.S. exports.

Public Citizen has repeatedly explained how this distortionary practice allows USTR to deceptively diminish burgeoning U.S. trade deficits under [past FTAs](#),⁶ such as the [Korea FTA](#)⁷ and the [North American Free Trade Agreement](#) (NAFTA).⁸

On July 10, [14 members of Congress sent a letter to USTR](#) Michael Froman, asking that his office stop using the distorted data and provide Congress with the accurate numbers.⁹ They have yet to receive a reply.

Instead, USTR has decided to defend its practice with baseless claims, such as this one reported by *Inside U.S. Trade*:

*The [USTR] economist also argued that some re-exports do actually have value added to them in the United States, and therefore they should be included in the export data. He noted that by definition re-exports are goods that have not undergone a "significant change" in the U.S., which he claimed refers to a value change of about 50 percent or more. This means that even goods classified as re-exports could have some value added in the U.S., albeit less than 50 percent.*¹⁰

This statement is pure fabrication. The [official definition](#) of “foreign exports” or “re-exports” from the U.S. Census Bureau, which USTR describes as “the official source for U.S. government goods trade data,”¹¹ states explicitly that re-exports have *zero* value added in the United States:

Foreign Exports (Re-exports)

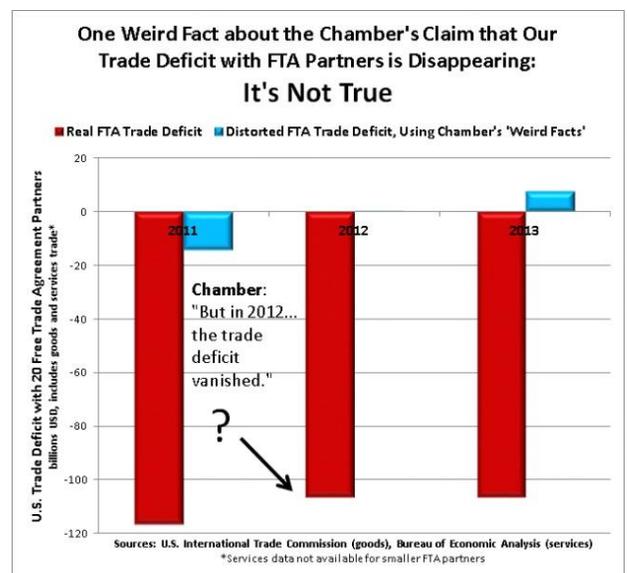
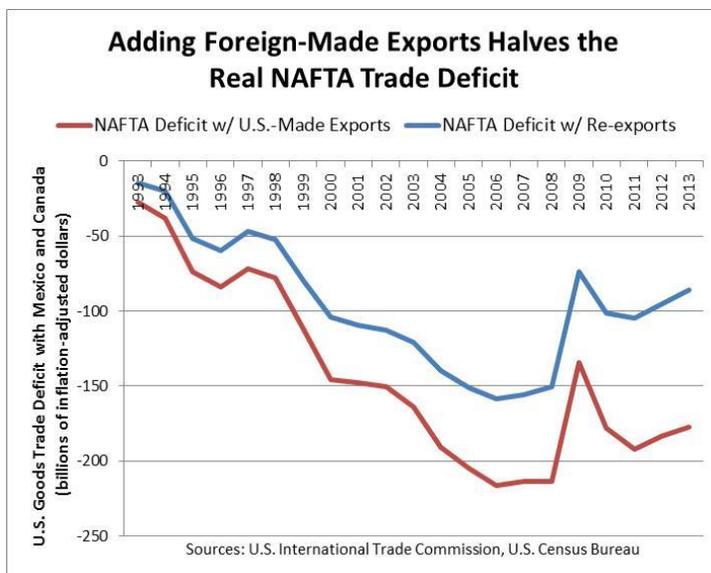
*For statistical purposes: These are exports of foreign-origin goods that have previously entered the United States, Puerto Rico, or the U.S. Virgin Islands for consumption, entry into a CBP bonded warehouse, or a U.S. FTZ, and at the time of exportation, **have undergone no change in form or condition or enhancement in value by further manufacturing in the United States,***

*Puerto Rico, the U.S. Virgin Islands, or U.S. FTZs. For the purpose of goods subject to export controls (e.g., U.S. Munitions List (USML) articles) these are shipments of U.S.-origin products from one foreign destination to another.*¹²

By definition, re-exports are goods that have undergone “no change,” not, as USTR asserts, no “significant change.” Indeed, the U.S. Census Bureau recently confirmed that a good with just 1 percent value added in the United States would not qualify as a “foreign export” or “re-export.” That classification is reserved for goods that are purely foreign in production.¹³

By counting foreign-made goods as U.S. exports on the errant basis that they contain value added in the United States, USTR is able to dramatically and deceptively reduce U.S. trade deficits with FTA partners:

- **NAFTA:** 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.¹⁴ This distortion, among others, allowed USTR to make the bogus claim in early 2014 that after 20 years of NAFTA, the United States had a goods and services trade surplus with NAFTA partners.¹⁵ In reality, the combined U.S. goods and services trade deficit with Mexico and Canada rose (in inflation-adjusted terms) from \$10 billion in 1993 to \$132 billion in 2013.¹⁶
- **Korea FTA:** Foreign-made goods that merely pass through the United States before being re-exported to Korea have increased under the first two years of the Korea FTA, rising 14 percent on an annual average basis. That amounts to \$315 million more in re-exports to Korea on average under each year of the FTA, relative to the two years before the deal.¹⁷ In its press release on the second anniversary of the FTA, USTR treated the rise in foreign-made re-exports as if it were a rise in U.S. exports,¹⁸ allowing the agency to artificially diminish the 5 percent drop in actual U.S. exports to Korea under the deal, and to errantly claim gains in some sectors.¹⁹
- **All U.S. FTAs:** By counting foreign exports as U.S. exports, the U.S. Chamber of Commerce recently claimed that the combined U.S. trade deficit with our 20 FTA partners had vanished. In reality, the FTA deficit has topped \$106 billion in each of the last two years, as indicated in the graph below.²⁰ In fact, the aggregate U.S. goods trade deficit with FTA partners has increased by more than \$147 billion since the FTAs were implemented, while the aggregate deficit with all non-FTA countries has *decreased* by more than \$130 billion since 2006 (the median entry date of existing FTAs).²¹



ENDNOTES

- ¹ Letter from 14 members of Congress to U.S. Trade Representative Michael Froman, July 10, 2014. Available at: <http://www.citizen.org/documents/Tonko-USTR-letter-July-10.pdf>.
- ² “Democrats Blast USTR For Using Trade Data They Say Minimizes Deficit,” *Inside U.S. Trade*, July 17, 2014. Available at: <http://insidetrade.com/Inside-US-Trade/Inside-U.S.-Trade-07/18/2014/democrats-blast-ustr-for-using-trade-data-they-say-minimizes-deficit/menu-id-710.html>.
- ³ U.S. Census Bureau, “Foreign Trade: Trade Definitions,” U.S. Department of Commerce, accessed September 25, 2014. Available at: <http://www.census.gov/foreign-trade/reference/definitions/#F>.
- ⁴ Call between U.S. Census Bureau staff and Public Citizen staff, September 25, 2014.
- ⁵ USITC data can be found at U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb.” Available at: <http://dataweb.usitc.gov/>. Census Bureau data can be found at U.S. Census Bureau, “U.S. International Trade Data,” U.S. Department of Commerce. Available at: <http://www.census.gov/foreign-trade/data/>.
- ⁶ See Ben Beachy, “Chamber of Commerce Uses ‘Weird Facts’ to Claim a \$106 Billion Trade Deficit Isn’t There,” *Eyes on Trade*, September 18, 2014. Available at: <http://citizen.typepad.com/eyesontrade/2014/09/chamber-of-commerce-uses-weird-facts-claims-a-106-billion-trade-deficit-isnt-there.html>.
- ⁷ See Public Citizen, “USTR’s Omissions and Data Distortions Aimed at Hiding the Dismal Realities of the Korea Free Trade Agreement,” PC memo, May 2014. Available at: <http://www.citizen.org/documents/Korea-FTA-USTR-data-debunk.pdf>.
- ⁸ See Public Citizen, “Debunking USTR’s Absurd Assertion that the U.S. Has a Trade Surplus with NAFTA Countries,” PC memo, March 2014. Available at: <http://www.citizen.org/documents/NAFTA-USTR-data-debunk.pdf>.
- ⁹ Letter from 14 members of Congress to U.S. Trade Representative Michael Froman, July 10, 2014. Available at: <http://www.citizen.org/documents/Tonko-USTR-letter-July-10.pdf>.
- ¹⁰ “Democrats Blast USTR For Using Trade Data They Say Minimizes Deficit,” *Inside U.S. Trade*, July 17, 2014. Available at: <http://insidetrade.com/Inside-US-Trade/Inside-U.S.-Trade-07/18/2014/democrats-blast-ustr-for-using-trade-data-they-say-minimizes-deficit/menu-id-710.html>.
- ¹¹ 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>.
- ¹² U.S. Census Bureau, “Foreign Trade: Trade Definitions,” U.S. Department of Commerce, accessed September 25, 2014. Available at: <http://www.census.gov/foreign-trade/reference/definitions/#F>. Emphasis added.
- ¹³ Call between U.S. Census Bureau staff and Public Citizen staff, September 25, 2014.
- ¹⁴ U.S. International Trade Commission, “Interactive Tariff and Trade Dataweb,” accessed February 20, 2014. Available at: <http://dataweb.usitc.gov>.
- ¹⁵ USTR was circulating this overall claim: “When you take out energy, we’re actually running a trade surplus with NAFTA countries – where the United States exports more than it imports.”
- ¹⁶ Goods trade data: U.S. International Trade Commission, “Interactive Tariff and Trade Dataweb,” accessed June 26, 2014. Available at: <http://dataweb.usitc.gov>. Services trade data: U.S. Bureau of Economic Analysis, “International Data: Table 12: U.S. International Transactions, by Area,” accessed June 26, 2014. Available at: <http://www.bea.gov/iTable/iTable.cfm?ReqID=62&step=1#reqid=62&step=1&isuri=1&6210=1&6200=94>. Data are inflation-adjusted and presented in 2013 dollars according to the CPI-U-RS index of the U.S. Bureau of Labor Statistics. U.S. Bureau of Labor Statistics, “Consumer Price Index Research Series Using Current Methods (CPI-U-RS),” U.S. Department of Labor, updated Ma2014. Available at: <http://www.bls.gov/cpi/cpirsai1978-2013.pdf>.
- ¹⁷ Figures in this paragraph are a comparison of 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). U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>. Data are inflation-adjusted according to the CPI-U-RS index of the U.S. Bureau of Labor Statistics (which provides indices up through 2013) and the online inflation calculator of the U.S. Bureau of Labor of Statistics (which provides an approximate index for 2014). U.S. Bureau of Labor Statistics, “Consumer Price Index Research Series Using Current Methods (CPI-U-RS),” U.S. Department of Labor, updated March 27, 2014. Available at: <http://www.bls.gov/cpi/cpirsai1978-2013.pdf>. U.S. Bureau of Labor Statistics, “CPI Inflation Calculator,” U.S. Department of Labor, accessed May 8, 2014. Available at: http://www.bls.gov/data/inflation_calculator.htm.
- ¹⁸ See Office of the U.S. Trade Representative, “U.S.-Korea Free Trade Agreement Shows Strong Results on Second Anniversary,” USTR press release, March 12, 2014. Available at: <http://www.ustr.gov/about-us/press-office/press-releases/2014/March/US-Korea-Free-Trade-Agreement-Shows-Strong-Results-on-Second-Anniversary>.
- ¹⁹ U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>.
- ²⁰ U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed September 17, 2014. Available at: <http://dataweb.usitc.gov/>.
- ²¹ U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed March 11, 2014. Available at: <http://dataweb.usitc.gov/>.