2014 Trade Data Will Reveal Surging U.S. Trade Deficits Under Korea FTA and NAFTA, and a Dramatic Failure to Meet Obama’s Export-Doubling Goal, Dealing Further Blows to the Administration’s Push for Fast Track

USTR May Use Distorted Data to Try to Hide the Record of Lagging U.S. Exports and Burgeoning U.S. Trade Deficits Under the FTA Model That the TPP Would Expand

Thursday’s release of 2014 annual trade data will reveal that President Barack Obama’s goal of doubling exports has failed dramatically, with a growing trade deficit with Korea under the U.S.-Korea Free Trade Agreement (FTA) and a burgeoning non-fossil fuel trade deficit with North American Free Trade Agreement (NAFTA) partners. Even as overall export rates will be boosted by growing U.S. fuel exports, manufacturing exports are projected to stagnate. The data will show that continuing with more-of-the-same trade policies would kill more middle-class jobs, dampen wages and increase income inequality – outcomes contrary to Obama’s “middle-class economics” agenda. The abysmal trade data are likely to reinforce congressional opposition to Obama’s bid to expand the status quo trade model by Fast Tracking the Trans-Pacific Partnership (TPP).

- Obama’s Five-Year Export-Doubling Plan Failed, in Part Thanks to his 2011 Korea FTA: The context for Obama’s 2015 State of the Union ask for Fast Track for the TPP is the abysmal failure of his 2010 State of the Union trade initiative – a plan to double U.S. exports in five years. Projections based on 11 months of the 2014 data show U.S. goods exports over those five years will have increased by less than 40 percent, falling more than $650 billion short. U.S. goods exports are projected to have grown by just 1 percent in 2014 – the same average rate of the prior two years. (The first two years of stronger export growth represented recovery from the worldwide crash in trade flows after the global financial crisis.) At the paltry 2012-2014 annual export growth rate, Obama’s export-doubling goal would not be reached until 2055 – 41 years behind schedule.

- U.S. Exports Declined Under the Korea FTA, While Imports and the U.S. Trade Deficit with Korea Soared: Thursday’s data release also is projected to reveal a 10 percent increase in the U.S. goods trade deficit with Korea, marking the third consecutive year of substantial growth in the U.S. trade deficit with Korea since the 2011 passage of the Korea FTA, which U.S. negotiators used as the template for the TPP. The 2014 U.S. goods trade deficit with Korea is expected to top $25 billion, a 65 percent increase over the trade deficit in 2011 before the FTA took effect. U.S. exports
remain lower than the level before the FTA went into effect, as imports are projected to have increased 16 percent. The resulting trade deficit increase represents more than 60,000 lost American jobs, according to the ratio the Obama administration used to project gains from the deal.

- **Non-Fuel NAFTA Trade Deficit Grows:** The 2014 trade data are also projected to show a more than 12 percent, or $10 billion, increase in the non-fossil fuel U.S. goods trade deficit with NAFTA partners Canada and Mexico. The overall U.S. goods trade deficit with NAFTA partners is projected to have ballooned more than $150 billion, or 550 percent, under 21 years of the pact, reaching an estimated $180 billion in 2014.

- **Contrary to the Administration’s TPP Sales Pitch That More FTAs Would Boost U.S. Exports, U.S. Exports to FTA Partners Have Grown More Slowly Than U.S. Exports to the Rest of the World Over the Past Decade.** Taking into account the projected data for 2014, average annual U.S. export growth to all non-FTA partners in the past 10 years outpaced that to FTA partners by 24 percent.

- **The United States Has a Trade Deficit with FTA Partners:** Overall, the aggregate U.S. trade deficit with all U.S. FTA partners is likely to top $173 billion in 2014, marking a more than $130 billion, or 400 percent, increase in the aggregate U.S. FTA trade deficit since the pacts were implemented. In contrast, the aggregate deficit with all non-FTA countries has decreased by more than $100 billion, or 10 percent, since 2006 (the median entry date of existing FTAs). Despite this, U.S. Trade Representative (USTR) Michael Froman testified to Congress last week that we have a trade surplus with the group of FTA nations.

*Heads Up for Distorted Data…*

Given that the record of lagging U.S. exports and surging trade deficits under U.S. FTAs jeopardizes Obama’s prospects for obtaining Fast Track, the administration may try to obscure the results with distorted data. The USTR has taken to lumping foreign-made products in with U.S.-produced exports, which artificially inflates U.S. export figures and deflates U.S. trade deficits with FTA partners.

“Foreign exports,” also known as “re-exports,” are goods made abroad, imported into the United States, and then re-exported without undergoing any alteration in the United States. Foreign exports support zero U.S. production jobs. Each month, the U.S. International Trade Commission (USITC) reports trade data with foreign exports removed, providing the official government data on made-in-America exports. **USITC will release the corrected 2014 annual trade data either this Friday or the following Monday, February 9. But the USTR likely will choose to use the uncorrected raw data, as it has in the past, that the U.S. Census Bureau will release Thursday, which counts foreign-made goods as U.S. exports. Our projections are based on the corrected data.** We will publish final figures as soon as the USITC releases the official U.S. trade data, typically 24-48 hours after the raw data collected by the U.S. Census Bureau is released. The official government data will be made available at [http://citizen.org/2014-trade-data](http://citizen.org/2014-trade-data).
By using the distorted data, the USTR may errantly claim an aggregate trade surplus with all U.S. FTA partners, though the actual 2014 U.S. goods trade balance with FTA partners is projected to be a $173 billion trade deficit. By counting foreign exports as “U.S. exports,” the USTR can artificially eliminate two-thirds of this FTA deficit, shrinking it to a projected $58 billion. The USTR may misleadingly claim an FTA trade surplus by then adding services trade surpluses with FTA partners, which pale in comparison to the massive FTA trade deficit in goods when properly counting only American-made exports.

The USTR also may repeat its bogus claim that the United States has a trade surplus with its NAFTA partners by errantly including foreign exports as “U.S. exports,” removing fossil fuels and adding services trade data. But even after removing fossil fuels (coal, oil and natural gas) and adding services trade surpluses, the United States still had a projected NAFTA trade deficit of $50 billion in 2014. Indeed, the fossil fuels share of the NAFTA trade deficit declined in 2014, and U.S. exports of services to NAFTA partners fell, according to projections. The USTR can make its errant claim of a “NAFTA surplus” only by including foreign exports, which artificially reduces the NAFTA goods trade deficit to less than half of its actual size.

The USTR also may boast about an increase in U.S. exports to Korea in 2014, while ignoring the much larger increase in imports from Korea. While U.S. goods exports to Korea in 2014 are projected to have increased by $2.8 billion, imports from Korea have risen by a projected $5.1 billion, spelling a $2.3 billion increase in the U.S. goods trade deficit with Korea in the third calendar year of the Korea FTA.

Moreover, U.S. exports to Korea have declined since the FTA went into effect and are not expected to have returned to the pre-FTA level in 2014. Monthly imports from Korea repeatedly broke records in 2014, such as in October when imports from Korea topped $6.3 billion – the highest level on record.

Expect the administration to repeat the same data trick it employed last year with respect to U.S. auto sector exports to Korea. Exports to Korea of U.S.-produced Fords, Chryslers and General Motors vehicles increased by fewer than 3,100 vehicles per year in the first two years of the Korea FTA. But given that exports of “Detroit 3” vehicles before the FTA were also tiny – fewer than 8,200 vehicles per year – the USTR expressed the small increase as a significant percentage gain in a press release. The USTR did not mention that more than 184,000 additional Korean-produced Hyundais and Kias were imported and sold in the United States in each of the Korea FTA’s first two years, in comparison to the two years before the FTA, when Hyundai and Kia imports already topped 1 million vehicles per year.

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