Testimony of

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before

U.S. International Trade Commission

on

"Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2021 Report"

October 2, 2020

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Mister Chairman and members of the Commission, thank you for the opportunity to testify today on the economic impact of trade agreements implemented since 1985 under trade authorities procedures so as to contribute to the Section 105(f)(2) report required by the Bipartisan Congressional Trade Priorities and Accountability Act of 2015. I am Lori Wallach, director of Public Citizen's Global Trade Watch. Public Citizen is a national public interest organization with more than 500,000 members and supporters. For more than 45 years, we have advocated with some considerable success for consumer protections and more generally for government and corporate accountability.

It is critical that the Commission's evaluation of the economic impacts of the Free Trade Agreements (FTAs) negotiated by the U.S. government under trade authorities procedures (Fast Track) provides accurate and trustworthy information to policymakers and the general public about the agreements' actual outcomes. In many communities nationwide, decades of trade agreements negotiated on a model established with the North American Free Trade Agreement (NAFTA) have caused economic damage to many and fueled anger and despair.

The dwindling ranks of defenders of that model argue that it was not trade, but other policies and trends that have caused the problems people "blame" on trade pacts. However, an underappreciated feature of Fast Track trade authority in general, and the version enacted from 1988-on in particular, is that it empowered "trade" negotiators to diplomatically legislate wide swaths of non-trade policy via closed-door negotiations. Thus, much of what is in "trade" agreements from NAFTA onwards is not mainly about trade. Rather, the agreements required governments to implement various protections and privileges for commercial interests, including expansive investor protections and often private enforcement of those rights against governments and classic rent-seeking monopoly licenses in the form of lengthy patent, copyright and data exclusivity terms. This new species of pact also constrained government action on numerous "behind the borders," non-trade policy issues, including many that were and are extremely controversial and subject to intense domestic political debate. This includes issues from food and product safety to the regulation of the size of service sector firms and building zoning standards to energy and financial regulation to government procurement, and most lately to the regulation of digital platforms and firms, consumer privacy and the processes by which domestic regulatory policy is made.

As this testimony shows, the actual trade elements of these agreements have not worked out as promised, but rather have led to slower export growth and often larger trade deficits. However, some of the most objectionable outcomes of agreements established under Fast Track are related to the non-trade terms. These include investor protections that actually incentivize offshoring of jobs and attacks on the most essential environmental and health laws and constraints on procurement policy that require the U.S. to waive Buy American trade preferences for the goods and firms of 60 countries with which the U.S. has trade deals established under Fast Track.[1]

Yet, the first report issued by the ITC in response to Section 105(f)(2) celebrates the way in which, under the brand of "trade liberalization," the trade agreements negotiated under Fast Track have drastically expanded their reach:

[1] Public Citizen's Global Trade Watch, "How Overreaching "Trade" Pact Rules Can Undermine Buy American and Other Domestic Preference Procurement Policies". Available at: https://www.citizen.org/article/how-overreaching-trade-pact-rules-can-undermine-buy-american-and-other-domestic-preference-procurement-policies/

> *U.S. trade agreements have evolved during the last 30 years, often expanding in depth and in breadth. The Uruguay Round Agreements (URAs) have been particularly important for many sectors, both because they represented the first or most significant multilateral trade agreement in many areas and because they have served as a foundation for further liberalization efforts that followed*.[2]

This celebratory remark disregards the evident mismatch between the vast scope of authority that Congress has delegated to the Executive branch under current trade authorities and the invasive nature of today's so-called "trade" deals. These pacts contain numerous provisions that not only invade Congress' exclusive legislative authority and impose a form of international preemption on Congress and state legislatures, but do so using instruments that, to date, have no end dates. Thus, in addition to shifting policymaking over non-trade policy to exclusive closed-door venues where those who will live with the results do not have a role, the current trade authorities and resulting pacts indefinitely lock in place policies that over time can become inappropriate, counterproductive and damaging even if they were wise at the time they were enacted.

As our 2015 comprehensive study[3] on the outcomes of the agreements negotiated under Fast Track documented in 303 footnotes of detail, these pacts not only failed to deliver on their boosters' promises of creation of numerous new well-paying jobs and a means for U.S. farmers to export their way to wealth, they have also brought considerable damage: from more than a million jobs losses certified by the Department of Labor just caused by NAFTA[4] to 91,000 U.S. factories closed during the NAFTA-WTO era[5] to a massive overall trade deficit with the bloc of FTA countries to declining agricultural trade balances[6] to more than $554 million paid out by all signatory governments to corporations in Investor-State Dispute Settlement (ISDS) cases under U.S. pacts and $34.6 billion in ISDS claims now pending[7] to the large price increases for medicines caused by the extension of U.S. monopoly patent protections for medicines from the domestic standard of 17 years to the 20 years required by the World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).[8]

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[2] U.S. International Trade Commission, Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2016 Report, June 2016, at 19.

[3] Public Citizen's Global Trade Watch, Prosperity Undermined: The Status Quo Trade Model's 21-Year Record of Massive U.S. Trade Deficits, Job Loss and Wage Suppression, August 2015, available at https://www.citizen.org/wp-content/uploads/prosperity-undermined.pdf

[4] Public Citizen's Global Trade Watch, Trade Adjustment Assistance Database, 2020, last accessed October 2, 2020. Available at: http://www.citizen.org/taadatabase.

[5] Robert E. Scott, "We can reshore manufacturing jobs, but Trump hasn't done it", Economic Policy Institute, August 10, 2020. Available at: https://www.epi.org/publication/reshoring-manufacturing-jobs/

[6] Public Citizen's Global Trade watch, "U.S. Agricultural Exports Lag and Imports Soar During NAFTA-WTO Era", 2019, available at https://www.citizen.org/wp-content/uploads/U.S.-Agricultural-Exports-Lag-and-Imports-Soar-During-NAFTA-WTO-Era-April-2019.pdf

[7] Public Citizen's Global Trade Watch, "Table of Foreign Investor-State Cases and Claims Under NAFTA and Other U.S. "Trade" Deals", 2020 [Pending publication]. The 2018 version is available at: https://www.citizen.org/article/table-of-foreign-investor-state-cases-and-claims-under-nafta-and-other-u-s-trade-deals/

[8] Stephen W. Schondelmeyer, Economic Impact of GATT Patent Extension on Currently Marketed Drugs, PRIME Institute, College of Pharmacy, University of Minnesota, March 1995, at Table 1

Given that the only additional trade agreement enacted since 2015 under Fast Track was the revised NAFTA that went into force on July 1, 2020, and for which no new outcome data is yet ripe, we have submitted our 2015 report as an annex to this testimony. The data we include in this testimony updates the record of FTA trade balances since 2015. It shows that actual outcomes are the opposite of the standard, Fast-Tracked FTA sales pitch: U.S. exports to FTA partner countries have grown at a slower rate compared to exports destined to other nations, while imports from FTA partner countries grew at a faster rate than with the rest of the world. And, the U.S. trade deficit has only grown more enormous with bilateral deficits with key FTA partners fueling that growth. It is worth noting that while the U.S. bilateral trade deficit with China has declined 18% in 2019 compared to 2018 and it is also down 19% in the first seven months of 2020 relative to 2019, the U.S. deficits with the NAFTA bloc are exploding: up 30% since 2015 when our previous report was completed. Maintaining a massive trade deficit year after year means we are dependent on imports to access many critical goods, a harsh lesson now being learned by many who were not previously threatened by the hyperglobalization model implemented by the trade pacts negotiated under Fast Track – until the COVID-19 pandemic made clear we can no longer make essential goods domestically.

The COVID-19 crisis and new concerns about the lack of supply chain resilience only intensify the need to rethink the current model. However, in order to do so thoughtfully, it is imperative to understand the outcomes of the trade agreements that uphold it. To contribute to this important task, this submission includes:

1. Updated data showing that the U.S. trade balance with the group of FTA-partner countries has rocketed and that imports from FTA partners grew faster than those from non-FTA countries, while U.S. exports to non-FTA nations grew at a faster pace than exports to FTA partners.

2. Recommendations to improve ITC's methodologies to conduct assessments of the economic impacts of trade deals.

1. The U.S. has a large trade deficit with its FTAs partners, as U.S. export growth lagged and import growth exploded.

The outcomes of the FTAs negotiated under Fast Track trade authority have been largely the opposite of what was promised by these pacts' proponents. FTAs were sold has as a means to expand U.S. exports. And, critics were told not to worry about growing imports, as the gains in exports would be yet greater and our trade balances with FTA partners would improve. Notably, the same interests that now say that one should not pay attention to trade balances in general and bilateral trade balances in specific were those selling the string of Fast-Tracked FTAs as a way to accelerate U.S. exports.

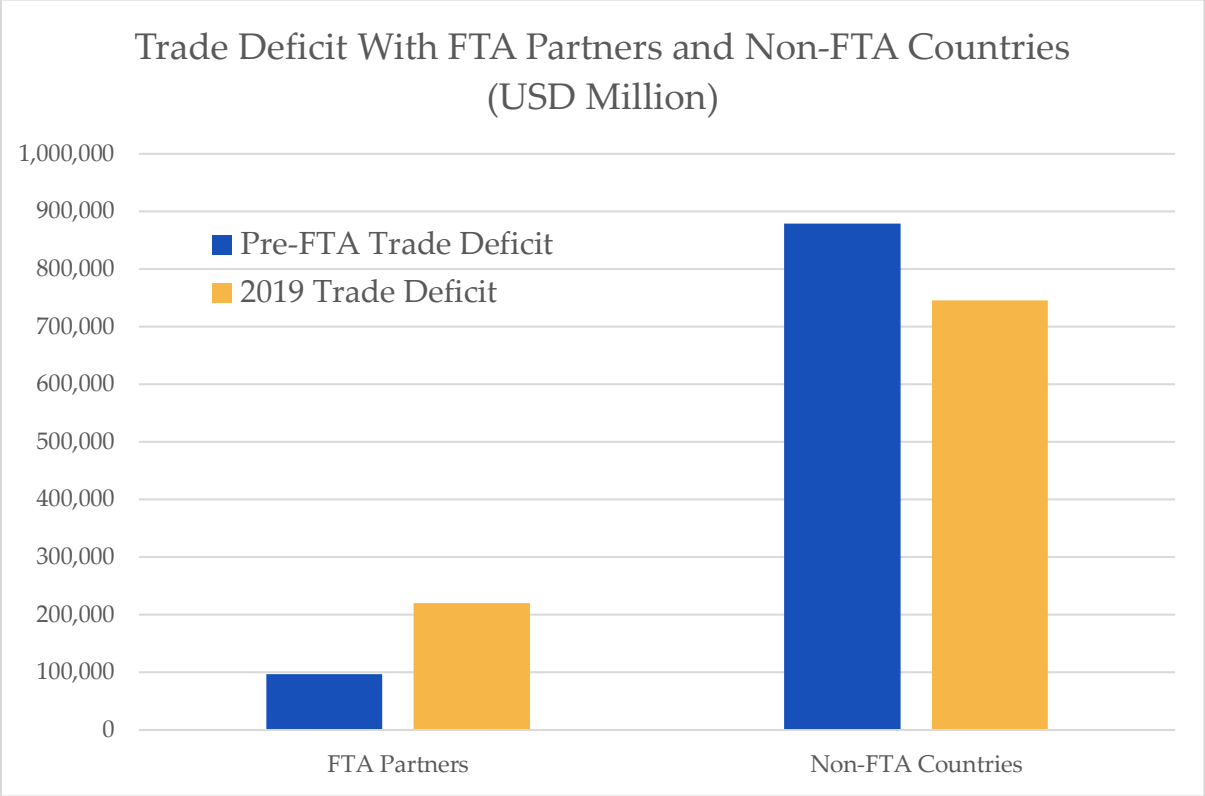
The reality: U.S. export growth to FTA-partner nations has been slightly lower than to non-FTA nations, while imports into the United States from FTA partners have exploded and the growth rate of imports from FTA partners is higher than from non-FTA partners. As a result, the aggregate U.S. goods trade deficit with FTA partners is more than twice as high as before the deals went into effect, while the aggregate trade deficit with non-FTA countries has actually fallen.

Table 1. U.S. Trade Balances in Goods[9] With FTA Partners

FTA Partner	Entry Date	Pre-FTA Trade Balance ($ Million)	2019 Trade Balance ($ Million)	Change in Trade Balance Since FTA ($ Million)	Trade Balance Variation Since FTA
Israel*	1985	-679	-5,103	-4,424	-652%
Canada*	1989	-60,513	-77,629	-17,116	-28%
Mexico*	1994	-31,730	-162,018	-130,287	-411%
Jordan	2001	357	-677	-1,034	-290%
Chile	2004	-1,371	5,335	6,706	489%
Singapore	2004	1,975	4,820	2,844	144%
Australia	2005	9,127	15,146	6,019	66%
Bahrain	2006	-106	357	463	436%
El Salvador	2006	-187	889	1,076	574%
Guatemala	2006	-422	2,823	3,245	770%
Honduras	2006	-664	616	1,281	193%
Morocco	2006	112	1,913	1,802	1615%
Nicaragua	2006	-737	-2,232	-1,495	-203%
Dominican Republic	2007	1,041	3,641	2,600	250%
Costa Rica	2009	2,076	1,072	-1,004	-48%
Oman	2009	671	777	106	16%
Peru	2009	390	3,524	3,134	803%
Korea	2012	-15,037	-20,931	-5,894	-39%
Colombia	2012	-10,000	580	10,581	106%
Panama	2012	8,957	7,083	-1,874	-21%
FTA TOTAL		-96,742	-220,014	-123,272	-127%
Non-FTA TOTAL	[2006]	-879,393	-745,807	133,585	15%
Non-FTA TOTAL (Excluding China, see methodological note)	[2006]	-574,219	-400,604	173,615	30%

Source: U.S. International Trade Commission Dataweb

[9] Due to lack of availability of trade in services data at the country level before 1999, this document focuses on trade in goods.



Source: U.S. International Trade Commission Dataweb

Indeed, the aggregate U.S. trade deficit with FTA partners has increased by about $123 billion, or 127%, since the FTAs were implemented. In contrast, the aggregate trade deficit with all non-FTA nations has decreased by $133 billion or 15%.[10] In the face of such outcomes, interests seeking for more of the same have used various distortions of the data to try to show alternative outcomes.[11] They only focus on nominal export numbers – not relative growth rates or the net of imports and exports, or they exclude certain FTAs, namely those that include the lion's share of U.S. trade that is covered by FTAs which show large deficits.[12]

One real methodological question is how to account for the unique role China trade plays in the world economy in generally and specifically in the U.S. overall trade deficit. As the table below shows, even with China included in the rest-of-the-world measure, the U.S. trade deficits with its FTA partners have grown relative to the rest of the world. However, given the enormous value of Chinese imports in the measure of rest-of-the-world imports, to try to measure how U.S. FTAs affect import and export *growth rates*, we remove China from the rest-of-the-world measure to try to control for the outlier

[10] Data derives from U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed Sept. 30, 2020. Available at: http://dataweb.usitc.gov/. All data are inflation-adjusted using the CPI-U-RS series of the Bureau of Labor Statistics.
* Israel, Canada and Mexico measured since 1996 due to data availability.
[11] Public Citizen's Global Trade Watch, "Lies, Damn Lies and Export Statistics How Corporate Lobbyists Distort Record of Flawed Trade Deals" 2010, available at https://www.citizen.org/wpcontent/uploads/migration/fta_penalty_paper_final1.pdf
[12]Public Citizen's Global Trade Watch, How Defenders of Status Quo Trade Policies Use Distorted Data to Artificially Inflate U.S. Exports, Deflate NAFTA and KORUS Deficits, 2015, available at https://www.citizen.org/wp-content/uploads/combined-factsheets-on-data-tricks-and-deficits.pdf

distortion that would be caused given the sheer proportion of the value Chinese imports play in overall U.S. imports.

That analysis shows that average annual growth of imports from the FTA partner countries is 1.5%, while average annual imports growth from the rest of the world is 1.1%. Yet, U.S. annual export growth to FTA partners has been, on average, 0.4 percentage points lower than U.S. export growth of 2.5% to the rest of the world since 2006 (the median entry into force year of existing FTAs).

Table 2. Annual Average Variation of U.S. Exports and Imports of Goods in 2006-2019 by FTA Partners and Non-FTA Countries

	Exports to	Imports from
FTA Partners	2.1%	1.5%
Non-FTA Countries (excluding China)	2.5%	1.1%

Source: U.S. International Trade Commission Dataweb

NAFTA clearly has contributed the most to the widening trade deficit that the United States has with the bloc of its FTA partners. The U.S. goods trade deficit with Canada of $19 billion and the $2.9 billion surplus with Mexico in 1993 (the year before NAFTA took effect) turned into a combined NAFTA goods trade deficit of $169 billion by 2019.[13] This represents a 1,150% increase in the U.S. goods trade deficit with NAFTA countries. These numbers are inflation-adjusted, meaning the difference is not due to inflation, but an increased deficit in real terms.

The growth in the U.S. service sector surplus with NAFTA countries has not offset the much larger growth in the goods trade deficit. While the U.S. services surplus with the other NAFTA parties grew $16 billion (inflation-adjusted terms) during the last two decades (1999 to 2019), within the same period the U.S. goods deficit with these countries increased by nearly $50 billion (inflation-adjusted terms). This means that the goods deficit grew more than 3 times more than the services surplus.[14]

More recent deals have led to similar results. Under the 2012 U.S.-Korea FTA (KORUS), the U.S. trade deficit with Korea has surged 39% since the pact went into force. The pattern is clear – while trade balances with some tiny economies improved, our deficit increased significantly with our major trade partners with whom we enacted FTAs.

The year over year figures are supported by the generalized trend of the past few years. Between 2006 and 2019, the trade deficit with FTA partners increased, on average, 2.15% annually, meanwhile the

[13] In this document, for U.S. trade with Mexico and Canada trade figures use U.S. "domestic exports" and "imports for consumption." Government data, including Canadian government data that documents the original sourced of goods re-exported into Canada suggests that U.S. "re-exports"—i.e., goods made elsewhere that pass through the United States without alteration before being re-exported abroad—are mostly coming from China and other Asian nations and then heading to Mexico and Canada as a re-export passing through the United States. Thus, to get an accurate trade balance figure, re-exports should be removed when measuring the U.S. trade balance with Mexico and Canada. This calculation does not provide perfect data but does yield data more representative of actual trade in U.S. goods than an analysis of [the formal name of all exports and all imports] For more information, see: Public Citizen's Global Trade Watch, "Will the Trump Administration Fix the Distortions in U.S. Trade Data?", Feb. 2017, available at https://www.citizen.org/wp-content/uploads/will-the-trump-administration-fix-the-distortions-in-us-trade-data.pdf.

[14] U.S. Bureau of Economic Analysis Data. Available at: https://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services

trade deficit with other countries grew 1.5% annually. To that extent, FTAs instead of contributing to correct the trade deficit have deepened the U.S. trade deficit even further.

2. The ITC analysis of the economic impact of trade agreements has been widely off the mark.

As the ITC prepares this report, we urge the commissioners and staff to consider several methodological issues. Previous ITC reports forecasting the potential gains of a new trade deal have proved to be widely off the mark. Often, the failure has not only been one of degree, but of direction.

Table 3. ITC Projections vs. Real Economic Impacts of Trade Agreements

NAFTA: U.S.-Mexico Trade		
1993 - Baseline	**ITC Projection**	**Actual**
$1.6 billion goods surplus	$2.3 billion goods deficit	$83.7 billion goods deficit
China-WTO: U.S.-China Trade		
1998 - Baseline	**ITC Projection**	**Actual**
$57 billion goods deficit	$60 billion goods deficit	$281 billion goods deficit
U.S.-Korea FTA: Trade		
2011 - Baseline	**ITC Projection**	**Actual**
$19 billion goods deficit	$16 billion goods deficit	$22 billion goods deficit

One of the main factors is how the ITC analyzes the effects of the "removal" of "non-tariff barriers." The ITC's projections on the NAFTA revision went from slightly negative to slightly positive solely on the basis of making up positive values labeled as reduction of "policy uncertainty" for removal of domestic policies that often are actually economically beneficial.[15] Our comments in this section focus on some methodological changes we urge the ITC to employ in this investigation to obtain the most accurate and useful data on the effects of the trade deals negotiated under Fast Track.

No Basis to Assume All Non-Tariff Measures That Could Affect Trade Are "Barriers," the Removal of Which Is Positive

To start with, we think that the framing of all domestic regulatory policies and standards as "non-tariff barriers" is wrong, and reflects the sorts of assumptions that the ITC has made with respect to trade pact provisions that eliminate such policies. A more accurate characterization would be non-tariff measures (NTMs). Traditionally, the ITC bases a large portion of its projections of gains of an FTA on the assumption that reductions of NTMs applying to goods and services would generate economic benefits.[16]

[15] Dean Baker, "The Trade Games Are Back," Counterpunch, May 1, 2019 available at https://www.counterpunch.org/2019/05/01/the-trade-games-are-back/; Public Citizen's Global Trade Watch, "Key Findings of the ITC Report on the Revised NAFTA: Modest Projections Do Not Alter Pact's Prospects in Congress", available at https://www.citizen.org/wp-content/uploads/itc_report_summary_of_findings_final.pdf

[16] United States "Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors," Investigation No. TPA-105-001, USITC Publication 4607, May 2016, at 799. Available at: https://www.usitc.gov/publications/332/pub4607.pdf. We assume all of the gains to services trade liberalization (34.2 percent of real income gains) and most of the gains to goods trade liberalization (totaling 55.4 percent of real income gains) arise from the removal of NTMs.

First, trade agreements will not and should not result in the removal of all NTMs, given that what trade agreements may seek to characterize as "barriers" are also consumer and environmental protections that bar dangerous goods from entry into the U.S. market, service sector regulations that require foreign firms to meet domestic laws that safeguard public health, prevent fraud and protect the environment, and so forth.

To provide a realistic assessment of the likely impact of any agreement, the ITC must base its analysis on the reality that neither Congress nor the U.S. public would permit the elimination of the vast majority of non-tariff measures that could be construed as "barriers." Consider a 2009 study conducted for the European Commission by ECORYS Nederland BV on the Transatlantic Trade and Investment Partnership that concluded that it would be "realistic" to expect only 25% of NTMs to be eliminated or "converged" over time under a potential U.S.-EU deal.[17]

Second, whatever the assumption about the extent of NTM elimination, in most trade studies that try to calculate a value for NTM elimination, individual NTMs are not evaluated rigorously for their impact on trade. This is a fundamental flaw the ITC must not replicate.

Typically, NTM analysis is premised on guesstimating some level of across-the-board cuts in NTMs based on rough evaluation of an agreement, and then on simply assuming that such cuts would facilitate trade. Yet, even this latter assumption is problematic. A 2014 study on this question by three U.S. and European trade economists called "Trade Restrictiveness Indices in Presence of Externalities: An Application to Non-Tariff Measures" found that NTMs actually *facilitate* trade in two in five product lines affected by NTMs.[18]

This study highlights why the ITC cannot presume to assign a positive value to the elimination of NTMs in trying to analyze the economic impact of FTAs. Further, the ITC must consider that elimination of some NTMs by our existing FTAs has likely imposed significant economic *costs* on U.S. consumers, workers and the environment in addition to the non-economic toll that would result from a degradation of health, safety, environmental and other public interest standards. Consider only one example: the elimination of food safety protections that could result in greater incidence of food-borne illness in the United States. This would not only increase the medical costs of affected consumers but would also reduce their productivity levels and number of days at work, resulting in a negative impact on aggregate economic output.

Thus, if the ITC intends to attempt some calculation of the economic impacts of NTM convergence or elimination under the existing trade agreements, the ITC must incorporate risk-adjusted estimates of such economic costs alongside any estimated economic gains based on the specific NTMs assumed to be eliminated so as to produce an estimation of the *net* impact of the deal. That means that the ITC should also incorporate into its analysis of trade agreements' net impact the large *social* costs associated with the degradation of NTMs created to ensure food safety, financial stability, climate security, internet freedom, access to medicines and other public interest goals. A 2008 study by economists at the United Nations Conference on Trade and Development (UNCTAD) noted:

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[17] Koen G. Berden, et al, "Non-Tariff Measures in EU-US Trade and Investment – An Economic Analysis," ECORYS Nederland BV, Dec. 11, 2009. Available at: http://trade.ec.europa.eu/doclib/docs/2009/december/tradoc_145613.pdf.

[18] John Christopher Beghin, Anne-Célia Disdier and Stéphan Marette, "Trade Restrictiveness Indices in Presence of Externalities: An Application to Non-Tariff Measures," CESifo Working Paper No. 4968, Sept. 2014. Available at: https://ideas.repec.org/p/ces/ceswps/_4968.html. The authors write: "Accounting for the trade-facilitating effect of NTMs significantly reduces previous measures of countries' trade policy restrictiveness obtained while constraining these NTMs to be trade reducing."

> *Focusing only on the protection effects of [NTMs] is likely to cause the social benefits they might provide to be disregarded. This is important from a policy point of view, since the optimal liberalization policy for [NTMs] will often not – unlike for tariffs – be their elimination but rather their rationalization to the social-utility maximizing level; in other words, the desirable policy prescription is to minimize their cost-benefit ratio.*[19]

The ITC should seek to quantify social costs that result from dismantling NTMs, whether through willingness-to-pay or other appropriate methods, adding the sums to the economic costs discussed above to tabulate its estimations of net impact of trade agreements.

Include Increased Consumer costs, Lack of Access to Medicines Caused by the Shift From a 17-year U.S. Patent Term on Medicines to the WTO and NAFTA-Required 20 Years

Past ITC analyses that consider the economic impact of intellectual property provisions have assigned only positive values to more expansive monopoly rights. Yet, it is entirely possible to calculate the additional years of monopoly prices that consumers were required to pay for medicines after the WTO went into effect and changed the U.S. patent system to a 20-year term. Indeed, the paper cited above on footnote 6 from a professor at the University of Minnesota School of Pharmacy includes a table that attempts to do just that, but only for medicines already under patent in 1995 that were granted a specific three-year extension opportunity.

Include the Expense of the United States Having to Defend Itself Against 17 ISDS Cases

The U.S. government has been or is the respondent in 17 ISDS cases under NAFTA and now also via the ISDS terms in the Korea FTA, the Dominican Republic-Central America FTA (CAFTA-DR) and the bilateral FTAs with Peru and Chile. Because ISDS tribunals are empowered to order countries that "win" ISDS cases to share in the large fees that the arbitrators charge by the hour, among other tribunal expenses, the U.S. government has accrued considerable expenses even when it avoided being ordered to pay an award to an investor. This knowable cost must be added to the legal costs that the U.S. government has had to expend on the teams of State Department lawyers that defend the U.S. in such cases and that write non-disputing-party briefs to try to limit U.S. ISDS liability. The calculation of the costs that have accrued to the United States as a result of the ISDS regime in the agreements enacted using Fast Track trade authority must be included in a calculation of the economic impacts of the agreements.

Improve Transparency

Finally, with whatever methodologies the ITC employs, it is essential that the ITC "show its work" by explicitly describing the assumptions that are being included in concluding the economic effects of specific pacts or provisions. We suggest that the ITC make available in its report both the data underlying the analysis and methodological notes so that others can examine the assumptions and perform additional analysis.

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[19] Marco Fugazza and Jean-Christophe Maur, "Non-Tariff Barriers in Computable General Equilibrium Modeling," U.N. Conference on Trade and Development, Policy Issues in International Trade and Commodities: Study Series No. 38, 2008. Available at: http://unctad.org/en/Docs/itcdtab39_en.pdf.

ANNEX 1

Prosperity Undermined

The Status Quo Trade Model's 21-Year Record of Massive U.S. Trade Deficits, Job Loss and Wage Suppression

www.tradewatch.org

August 2015

Public Citizen's Global Trade Watch

Published August 2015 by Public Citizen's Global Trade Watch

Public Citizen is a national, nonprofit consumer advocacy organization that serves as the people's voice in the nation's capital. Since our founding in 1971, we have delved into an array of areas, but our work on each issue shares an overarching goal: To ensure that all citizens are represented in the halls of power. For four decades, we have proudly championed citizen interests before Congress, the executive branch agencies and the courts. We have successfully challenged the abusive practices of the pharmaceutical, nuclear and automobile industries, and many others. We are leading the charge against undemocratic trade agreements that advance the interests of mega-corporations at the expense of citizens worldwide. As the federal government wrestles with critical issues – fallout from the global economic crisis, health care reform, climate change and so much more – Public Citizen is needed now more than ever. We are the countervailing force to corporate power. We fight on behalf of all Americans – to make sure your government works for you. We have five policy groups: our Congress Watch division, the Energy Program, Global Trade Watch, the Health Research Group and our Litigation Group. Public Citizen is a nonprofit organization that does not participate in partisan political activities or endorse any candidates for elected office. We accept no government or corporate money – we rely solely on foundation grants, publication sales and support from our 300,000 members. Visit our web page at www.citizen.org. For more information on Public Citizen's trade and globalization work, visit the homepage of Public Citizen's Global Trade Watch: www.tradewatch.org.

Acknowledgments: This report was written by Ben Beachy. Thanks to Lori Wallach for comments. Errors and omissions are the responsibility of the author.

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Contents

Introduction

Polling and congressional trade agreement voting records over the past two decades show a steady erosion of what had been bipartisan support for trade agreements.[i] Polls show the U.S. public supports the concept of trade expansion,[ii] but opposes the status quo trade model.[iii] The actual results of trade pacts since the controversial North American Free Trade Agreement (NAFTA) have fueled this trend.

Over 21 years, a series of trade agreements not only have failed to meet their corporate and political backers' glowing promises of job creation,[iv] but instead have contributed to unprecedented and unsustainable trade deficits,[v] the net loss of nearly 5 million U.S. manufacturing jobs[vi] and more than 55,000 factories,[vii] the offshoring of higher-wage service sector jobs,[viii] flat median wages despite significant productivity gains[ix] and the worst U.S. income inequality in the last century.[x] Even for U.S. agriculture, a sector that consistently has been promised gains from trade pacts, U.S. food exports have stagnated while U.S. food imports have surged under NAFTA-style deals.[xi] Given that the Trans-Pacific Partnership (TPP) pact now under negotiation replicates and expands on the same model, opposition in Congress and among the public is deep and broad.[xii]

"The United States has a $178 billion goods trade deficit with its 20 free trade agreement (FTA) partners. The job-displacing U.S. trade deficit with FTA partners has surged 427 percent since the

"Three of every five displaced manufacturing workers who were rehired in 2014 took home smaller paychecks, and one in three lost more than 20 percent, according to U.S. Department of Labor

The United States has a $178 billion goods trade deficit with its 20 free trade agreement (FTA) partners.[xiii] The job-displacing U.S. trade deficit with FTA partners has surged 427 percent since the pacts took effect, as imports have ballooned and exports to FTA partners actually have lagged behind exports to the rest of the world.[xiv] Even eliminating trade in fossil fuels, the United States has a more than $92 billion trade deficit with its NAFTA partners alone.[xv] In contrast, the United States had a small surplus with Mexico and a $30 billion deficit with Canada before NAFTA.[xvi] A 2011 study found that the ballooning trade deficit with Mexico alone under NAFTA resulted in the *net* loss of about 700,000 U.S. jobs,[xvii] and more than 850,000 specific U.S. jobs have been certified as NAFTA casualties under just one narrow U.S. Department of Labor program called Trade Adjustment Assistance (TAA).[xviii] The U.S. trade deficit with China has grown from $112 billion in 2001, when China joined the World Trade Organization (WTO) with U.S. congressional approval, to $350 billion today,[xix] spurring an estimated 3.2 million U.S. job losses.[xx] U.S. manufacturing workers who lose jobs to trade and find reemployment are typically forced to take pay cuts. Three of every five displaced manufacturing workers who were rehired in 2014 took home smaller paychecks, and one in three lost more than 20 percent, according to U.S. Department of Labor data.[xxi]

"Economists across the political spectrum agree that trade flows during the era of FTAs have contributed to rising U.S. income

Economists across the political spectrum agree that trade flows during the era of FTAs have contributed to rising U.S. income inequality, from Nobel laureate Paul Krugman[xxii] to International Monetary Fund economists.[xxiii] The only debate is the extent of the blame to be placed on trade. Even the pro-NAFTA Peterson Institute for International

Economics has estimated that 39 percent of observed growth in U.S. wage inequality is attributable to trade trends.[xxiv]

Under the most recent major FTA – a 2012 deal with Korea that literally served as the U.S. opening offer for the TPP negotiations – the U.S. trade deficit with Korea ballooned 90 percent in just the first three years.[xxv] That equates to the loss of another 90,000-plus U.S. jobs, counting both exports and imports, according to the ratio the Obama administration used to claim the pact would create jobs.[xxvi] The trade deficit surge in the FTA's first three years was driven by a 7 percent ($3 billion) *decline* in U.S. goods exports to Korea and an 18 percent ($10.6 billion) increase in goods imports from Korea.[xxvii] Despite promises that small businesses would be major winners under such deals, small U.S. firms have endured an even steeper drop in exports to Korea than large firms under the Korea FTA.[xxviii] The Obama administration has incited even more congressional opposition[xxix] by trying to dissemble these disastrous outcomes with cooked data.[xxx]

In the face of the relentless evidence that our status quo trade agreement model is not working, the Obama administration has doubled down on the old model with the TPP.[xxxi] But the push for more of the same trade policy has hit a wall of opposition from the largest, most diverse coalition to ever oppose a U.S. trade deal, fueled by the two-decade legacy of the TPP's predecessor pacts.[xxxii]

Executive Summary

Trade Deficits Surge, Good U.S. Jobs Destroyed

- **U.S. trade deficits have surged under the status quo trade policy model, costing U.S. jobs and diminishing U.S. economic growth.** Since establishment of NAFTA and the WTO, the U.S. goods trade deficit has more than quadrupled, from $218 billion (in today's dollars) to $917 billion – an increase from two percent to more than five percent of national income.[xxxiii] Standard macroeconomics shows that a burgeoning U.S. trade deficit costs U.S. jobs and puts a damper on U.S. economic growth when the U.S. economy is not at full employment (as it has not been since the 2007-2008 financial crisis).[xxxiv] In addition, economists – from Federal Reserve officials to Nobel laureates – widely agree that this huge trade deficit is unsustainable: unless the United States implements policies to shrink it, the U.S. and global economies are exposed to risk of crisis and instability.[xxxv] Status quo trade policy has only exacerbated these problems. The aggregate U.S. goods trade deficit with the 20 U.S. FTA partners is now $178 billion – more than five times as high as before the deals went into effect. Since China entered the WTO with Congress' approval in 2001, the U.S. goods trade deficit with China has surged from $112 billion to $350 billion.[xxxvi] And in the first three years of the 2012 FTA with Korea, the U.S. template for the TPP, the U.S. goods trade deficit with Korea swelled 90 percent as U.S. exports to Korea fell and imports ballooned.[xxxvii] The 90 percent trade deficit increase under the Korea FTA's first three years starkly contrasts with the 2 percent *decrease* in the global U.S. goods trade deficit during the same period.[xxxviii]

- **U.S. agricultural exports are lagging under U.S. trade deals while agricultural imports are surging, belying empty promises used to sell the deals to farmers and ranchers.** NAFTA and WTO supporters told U.S. farmers that the pacts would increase exports and thus provide a new path for struggling farmers to succeed economically.[xxxix] But data from the U.S. Department of

Agriculture show that the volume of U.S. food exports to all FTA partners has risen just 1 percent since 2008 while rising 24 percent to the rest of the world.[xl] In the first three years of the 2012 Korea FTA, total U.S. agricultural exports to Korea *have fallen* 5 percent, while rising 4 percent to the rest of the world.[xli] Meanwhile, agricultural imports from FTA countries have surged. In 2014, the 20 U.S. FTA partners were the source of 71 percent of all U.S. food imports, but were the destination of just 35 percent of all U.S. food exports (by volume).[xlii] Due to stagnant U.S. food exports to FTA countries and a surge in food imports from those countries, the U.S. food trade balance with FTA countries has fallen 13 percent since 2011, the year before the most recent FTAs took effect. In contrast, the U.S. food trade surplus with the rest of the world has *risen* 23 percent since 2011.[xliii] The disparity owes in part to the fact that the U.S. agricultural trade balance with NAFTA partners has fallen from a $2.5 billion trade *surplus* in the year before NAFTA to a $1.1 billion trade *deficit* in 2014 – the largest NAFTA agricultural trade deficit to date.[xliv] Smaller-scale U.S. family farms have been hardest hit by such unbalanced agricultural trade under deals like NAFTA and the WTO. Nearly 180,000 small U.S. family farms – one out of 10 – have gone under since NAFTA and the WTO took effect.[xlv] Status quo U.S. trade policy also poses serious risks to food safety, as our current trade agreements both increase imports *and* set limits on the safety standards and inspection rates for imported foods.[xlvi] WTO and NAFTA required the United States to replace its long-standing requirement that only meat and poultry meeting U.S. safety standards could be imported. Under this standard, only meat from plants specifically approved by U.S. Department of Agriculture inspectors could be imported. But WTO and NAFTA – and the FTAs that followed – required the United States to accept meat and poultry from all facilities in a trade partner country if that country's system was found to be "equivalent," even if core aspects of U.S. food safety requirements, such as continuous inspection or the use of government (not company-paid) inspectors, were not met.[xlvii]

- **Nearly 5 million U.S. manufacturing jobs – one out of four – have been lost in the era of NAFTA, the WTO and NAFTA expansion deals.**[xlviii] The U.S. manufacturing sector has long been a source of innovation, productivity, growth and good jobs.[xlix] By 2014, the United States had just 12 million manufacturing jobs left, with less than 9 percent of the U.S. workforce in manufacturing for the first time in modern history.[l] The U.S. Department of Labor lists millions of workers as losing jobs to trade since NAFTA and the WTO were established – and that is under just one narrow program that excludes many whose job loss is trade-related.[li] The Economic Policy Institute (EPI) estimates that the ballooning trade deficit with Mexico alone under NAFTA resulted in the *net* loss of about 700,000 U.S. jobs by 2010,[lii] and that the massive increase in the U.S.-China trade deficit since China's entry into the WTO has cost an estimated 3.2 million U.S. jobs, including 2.4 million manufacturing jobs.[liii] In addition, the 90 percent increase in the U.S. goods trade deficit with Korea in the first three years of the Korea FTA equates to the loss of more than 90,000 U.S. jobs, counting both exports and imports, according to the trade-jobs ratio that the Obama administration used to project job *gains* from the deal.[liv] Analysts and policymakers of diverse political stripes believe that the rebuilding of the manufacturing sector is important to U.S. security and economic well-being.[lv] Some argue that technology-related efficiency gains also spur U.S. manufacturing job loss in attempt to diminish the role of trade policy.[lvi] But an oft-cited 2013 National Bureau of Economic Research study on the job impacts of both technology and trade found "no net employment decline" from technological change from 1990 to 2007 while finding a strong correlation between increasing import competition from China and "significant falls in employment, particularly in manufacturing and among non-college workers."[lvii] In any case, Congress actually has a say over trade policy. Why would we not push for a new trade policy that fosters rather than erodes our manufacturing base?

- **Offshoring of U.S. jobs is moving rapidly up the income and skills ladder.** Alan S. Blinder, a former Federal Reserve vice chairman, Princeton economics professor, and NAFTA-WTO supporter, says that one out of every four U.S. jobs could be offshored in the foreseeable future.[lviii] In a study Blinder conducted with Alan Krueger, fellow Princeton economist and former Chairman of President Obama's Council of Economic Advisers, the economists found the most offshorable industry to be finance, not manufacturing (with information and professional services also showing high offshoring propensity).[lix] Indeed, according to their data, U.S. workers with a four-year college degree and with annual salaries above $75,000 are those most vulnerable to having their jobs offshored, meaning the United States could see its best remaining jobs moving abroad.[lx]

- **Devastation of U.S. manufacturing is eroding the tax base that supports U.S. schools, hospitals and the construction of such facilities, highways and other essential infrastructure.** The erosion of manufacturing employment means there are fewer firms and well-paid workers to contribute to local tax bases. Research shows that a broader manufacturing base contributes to a wider local tax base and offering of social services.[lxi] With the loss of manufacturing, tax revenue that could have expanded social services or funded local infrastructure projects has declined,[lxii] while displaced workers have turned to welfare programs that are ever-shrinking.[lxiii] This has resulted in the virtual collapse of some local governments.[lxiv] Building trade and construction workers have also been directly hit both by shrinking government funds for infrastructure projects and declining demand for maintenance of manufacturing firms. Meanwhile, more-of-the-same trade agreements could also undermine our access to essential services, given that they contain provisions that limit the policies federal and state governments can use to regulate service sectors.[lxv]

- **The WTO, NAFTA and NAFTA expansion agreements ban Buy American preferences and forbid federal and many state governments from requiring that U.S. workers perform the jobs created by the outsourcing of government work.** "Anti-offshoring" and Buy American requirements, which reinvest our tax dollars in our local communities to create jobs here, are prohibited under NAFTA-style trade agreements' procurement rules.[lxvi] These rules require that all firms operating in trade-pact partner countries be treated as if they were domestic firms when bidding on U.S. government contracts to supply goods or services.[lxvii] Complying with this requirement means gutting existing Buy American or Buy Local procurement preferences that require U.S. taxpayer-funded government purchases to prioritize U.S.-made goods, or rules that require outsourced government work to be performed by U.S workers. By expanding past trade deals' procurement restrictions, the TPP would promote further offshoring of our tax dollars.[lxviii] Trade pacts' limits on domestic procurement policies could also subject prevailing wage laws – ensuring fair wages for non-offshorable construction work – to challenge in foreign tribunals.[lxix]

U.S. Wages Stagnate, Despite Doubled Worker Productivity

- **U.S. middle-class wages have remained flat in real terms since the 1970s, even as U.S. worker productivity has doubled.** In 1979, the median weekly wage for U.S. workers in today's dollars was about $749. In 2014, it had increased just four dollars to $753 per week. Over the same period, U.S. workers' productivity doubled.[lxx] Economists now widely name "increased globalization and trade openness" as a key explanation for the unprecedented failure of wages to keep pace with productivity, as noted in recent Federal Reserve Bank research.[lxxi] Even economists who defend

status-quo trade policies attribute much of the wage-productivity disconnect to a form of "labor arbitrage" that allows multinational firms to continually offshore jobs to lower-wage countries.[lxxii]

- **Trade agreement foreign investor privileges promote offshoring of production from the United States to low-wage nations.** Trade competition has traditionally come from imports of products made by foreign companies operating in their home countries. But today's "trade" agreements also contain extraordinary foreign investor privileges that reduce many of the risks and costs associated with relocating production from developed countries to low-wage developing countries. Due in part to such offshoring incentives, many imports now entering the United States come from companies originally located in the United States and other wealthy countries that have moved production to low-wage countries. For instance, nearly half of China's exports are now produced by foreign enterprises, not Chinese firms.[lxxiii] Underlying this trend is what the Horizon Project called the "growing divergence between the national interests of the United States and the interests of many U.S. multinational corporations which, if given their druthers, seem tempted to offshore almost everything but consumption."[lxxiv] U.S. workers effectively are now competing in a globalized labor market where some poor nations' workers earn less than 10 cents per hour.[lxxv]

- **Manufacturing workers displaced by trade have taken significant pay cuts.** Trade affects the *composition* of jobs available in an economy. As mentioned, trade deficits also inhibit the overall *number* of jobs available when the economy is not at full employment. But even when unemployment is low and the overall *quantity* of jobs is largely stable, trade policy impacts the *quality* of jobs available. In the two decades of NAFTA-style deals, the United States has lost higher-paying manufacturing jobs even in years when unemployment has remained low, as new lower-paying service sector jobs have been created.[lxxvi] The result has been downward pressure on U.S. middle-class wages. A recent National Bureau of Economic Research study concludes, "offshoring to low wage countries and imports [are] both associated with wage declines for US workers. We present evidence that globalization has led to the reallocation of workers away from high wage manufacturing jobs into other sectors and other occupations, with large declines in wages among workers who switch…"[lxxvii] Indeed, according to the U.S. Bureau of Labor Statistics, about three out of every five displaced manufacturing workers who were rehired in 2014 experienced a wage reduction. About one out of every three displaced manufacturing workers took a pay cut of greater than 20 percent.[lxxviii] For the median manufacturing worker earning more than $38,000 per year, this meant an annual loss of at least $7,600.[lxxix]

- **Trade policy holds back wages even of jobs that can't be offshored.** Economists have known for more than 70 years that *all* middle-class workers – not just manufacturing workers – in developed countries like the United States could face downward wage pressure from free trade.[lxxx] NAFTA-style deals only exacerbate this inequality-spurring effect by creating a selective form of "free trade" in goods that non-professional workers produce while extending monopoly protections – the opposite of free trade – for certain multinational firms (e.g. patent protections for pharmaceutical corporations).[lxxxi] When manufacturing workers are displaced by offshoring or imports and seek new jobs, they add to the supply of U.S. workers available for non-offshorable, non-professional jobs in hospitality, retail, health care and more. But as increasing numbers of U.S. workers, displaced from better-paying jobs, have joined the glut of workers competing for these non-offshorable jobs, real wages have actually been declining in these growing sectors.[lxxxii] Thus, proposals to retool U.S. programs that retrain workers who lose their jobs to trade, while welcome, do not address much of the impact of status quo U.S. trade policies. The damage is not just to those workers who actually lose jobs, but to the majority of U.S. workers who see their wages stagnate.

- **The bargaining power of U.S. workers has been eroded by threats of offshoring.** In the past, U.S. workers represented by unions were able to bargain for their fair share of economic gains generated by productivity increases.[lxxxiii] But the foreign investor protections in today's "trade" agreements, by facilitating the offshoring of production, alter the power dynamic between workers and their employers. NAFTA-style deals boost firms' ability to suppress workers' requests for wage increases with credible threats to offshore their jobs. For instance, a study for the North American Commission on Labor Cooperation – the body established in the labor side agreement of NAFTA – showed that after passage of NAFTA, as many as 62 percent of U.S. union drives faced employer threats to relocate abroad. After NAFTA took effect, the factory shut-down rate following successful union certifications tripled.[lxxxiv]

- **The current trade model's downward pressure on wages outweighs the gains of access to cheaper imported goods, making most U.S. workers net losers.** Trade theory states that while workers may lose their jobs or endure downward wage pressure under trade "liberalization," they also gain from greater access to cheaper imported goods. When the non-partisan Center for Economic and Policy Research (CEPR) applied the actual data to the trade theory, they discovered that when you compare the lower prices of cheaper goods to the income lost from low-wage competition under status quo trade policies, the trade-related wage losses outweigh the gains in cheaper goods for the majority of U.S. workers.[lxxxv] The CEPR study found that U.S. workers without college degrees (61 percent of the workforce)[lxxxvi] have lost an amount equal to about 10 percent of their wages, even after accounting for the benefits of cheaper goods.[lxxxvii] That means a net loss of more than $3,500 per year for a worker earning the median annual wage of $35,540.[lxxxviii]

- **Powerful sectors obtained protection in NAFTA and WTO-style pacts, raising consumer prices.** While agreements like NAFTA and the WTO contribute to downward pressure on U.S. wages, they also include special industry protections that, beyond being antithetical to "free trade," directly increase the prices of key consumer products, further reducing workers' buying power. For instance, special protections for pharmaceutical companies included in the WTO required signatory governments, including the U.S. government, to change domestic laws so as to provide the corporations longer monopoly patent protections for medicines.[lxxxix] The University of Minnesota found that extending U.S. monopoly patent terms by three years as required by the WTO increased the prices that U.S. consumers paid for medicine by more than $8.7 billion in today's dollars.[xc] That figure only covers medicines that were under patent in 1994 (when WTO membership was approved by Congress), so the total cost to us today is much higher.

U.S. Income Inequality Increases

- **The inequality between the rich and the rest of us in the United States has jumped to levels not seen since the pre-depression 1920s.** The richest 10 percent in the United States are now taking half of the economic pie, while the top 1 percent is taking more than one fifth. Wealthy individuals' share of national income was stable for the first several decades after World War II, but started increasing in the early 1980s, and then shot up even faster in the era of NAFTA, the WTO and NAFTA expansion pacts. From 1981 until the establishment of NAFTA and the WTO, the income share of the richest 10 percent increased 1.3 percent each year. In the first six years of NAFTA and the WTO, this inequality increase rate doubled, with the top 10 percent gaining 2.6

percent more of the national income share each year (from 1994 through 2000). Since then, the income disparity has increased even further.[xci] Is there a connection to trade policy?

- **Longstanding economic theory states that trade will likely increase income inequality in developed countries like the United States**. As competition with low-wage labor abroad puts downward pressure on middle-class wages while boosting the profits of multinational firms, the gap between the rich and everyone else widens. In the 1990s a spate of economic studies put the theory to the test, resulting in an academic consensus that trade flows had indeed contributed to rising U.S. income inequality.[xcii] The pro-"free trade" Peterson Institute for International Economics, for example, found that 39 percent of the increase in U.S. wage inequality was attributable to U.S. trade flows.[xciii] In 2013, when EPI updated an oft-cited 1990s model estimate of trade's impact on U.S. income inequality, it found that using the model's own conservative assumptions, trade with low-wage countries played a much larger role in spurring U.S. income inequality in the last two decades. EPI found that trade flows, according to the well-known model, accounted for 93 percent of the increase in U.S. income inequality from 1995-2011 – an era marked by the establishment of NAFTA, the WTO and NAFTA expansion pacts.[xciv] Expressed in dollar terms, EPI estimated that trade's inequality-exacerbating impact spelled a $1,761 loss in wages in 2011 for the average full-time U.S. worker without a college degree.[xcv]

- **The TPP's expansion of status quo trade policy would result in pay cuts for all but the richest 10 percent of U.S. workers.** In 2013 economists at CEPR dug into the results of a study done by the pro-TPP Peterson Institute for International Economics that, despite using overoptimistic assumptions, projected the TPP would result in tiny economic gains in 2025. CEPR assessed whether those projected gains would counterbalance increased downward pressure on middle-class wages from the TPP, applying the empirical evidence on how recent trade flows have contributed to growing U.S. income inequality. Even with the most conservative estimate from the economic literature of trade's contribution to inequality (that trade is responsible for just 10 percent of the recent rise in income inequality), they found that the losses from projected TPP-produced inequality would wipe out the tiny projected gains for the median U.S. worker. With the still-conservative estimate that trade is responsible for just 15 percent of the recent rise in U.S. income inequality, the CEPR study found that the TPP would mean wage losses for all but the richest 10 percent of U.S. workers.[xcvi] That is, for any workers making less than $90,060 per year (the current 90th percentile wage), the TPP would mean a pay cut.[xcvii]

- **Technological changes or education levels do not fully account for U.S. wage pressures.** Some have argued that advances in computer technology explain why less technologically-literate U.S. workers have been left behind, asserting that more education – rather than a different trade policy – is how the United States will prosper in the future.[xcviii] While more education and skills are desirable for many reasons, these goals alone will not solve the problems of growing inequality. First, recent studies indicate that the role of technological progress has been overstated. For example, Federal Reserve economists found "limited support" in a 2013 study for the notion that technological change explained U.S. workers' declining share of national income, while identifying increasing import competition and offshoring as "a leading potential explanation."[xcix] Second, even college-educated workers have seen wage growth stagnate, such as in technologically sophisticated fields like engineering, as offshoring has moved up the income ladder.[c] Thus, addressing trade policy, not only better educating U.S. workers, is an essential part of tackling rising income inequality.

- **Is it even possible to compensate those losing under status quo trade policy, rather than change the policy?** To compensate the "losers" from our trade policy – the majority of U.S. workers facing downward wage pressures – CEPR finds that the government would have to annually tax the incomes of the limited number of "winners" more than $50 billion and redistribute this sum to middle-class families.[ci] In contrast, the main compensating program – TAA – was allocated less than $2 billion in FY2010, its highest funding year ever. Since then, its funding has been slashed 67 percent, falling below $0.7 billion in FY2015.[cii] The $50 billion needed to compensate wage losers would thus be more than 27 times the highest-ever level of funding for the program. Would the tax hike needed to cover such costs be politically feasible? Even if so, would its economic distortions outweigh supposed "efficiency gains" from existing trade deals?

Small Businesses' Exports and Export Shares Decline

- **U.S. small businesses have endured lagging exports under NAFTA and falling exports under the Korea FTA**. In effort to sell controversial FTAs to Congress and the U.S. public, corporate and government officials typically promise that small businesses would be major winners from the deals. But U.S. Census Bureau data reveal that small firms endured an even steeper decline in exports to Korea than large firms in the Korea FTA's first two years (the latest available data separated by firm size). Firms with fewer than 100 employees saw exports to Korea drop 19 percent while firms with more than 500 employees saw exports decline 3 percent.[ciii] Meanwhile, small businesses' exports have lagged under NAFTA. Growth of U.S. small businesses' exports to all *non-NAFTA* countries was *nearly twice as high* as the growth of their exports to NAFTA partners Canada and Mexico from 1996 to 2013 (the earliest and latest years of available data separated by firm size).[civ] During the same NAFTA timeframe, small firms' exports to Mexico and Canada grew less than half as much as large firms' exports (39 percent vs. 93 percent). As a result, U.S. small businesses' share of total U.S. exports to Mexico and Canada has fallen under NAFTA, from 14 to 10 percent. Had U.S. small firms not lost their share of exports to Canada and Mexico under NAFTA, they would be exporting $18.6 billion more to those nations today.[cv]

- **Most U.S. small and medium businesses do not benefit from NAFTA-style deals.** The Obama administration has claimed that the NAFTA-expanding TPP would be a boon to small and medium enterprises (SMEs) on the basis that small and medium firms comprise most U.S. exporters. First, government data show that FTAs have failed to increase export growth for U.S. firms overall – growth of U.S. exports to FTA partners actually has been 20 percent lower than U.S. export growth to the rest of the world over the last decade.[cvi] Second, SMEs comprise most U.S. exporting firms simply because they constitute 99.7 percent of U.S. firms overall.[cvii] The more relevant question is what share of SMEs actually depend on exports for their success. Only 3 percent of U.S. SMEs (firms with fewer than 500 employees) export any good to any country. In contrast, 38 percent of large U.S. firms (with more than 500 employees) are exporters.[cviii] Indeed, after two decades of NAFTA, just 0.6 percent and 1.1 percent of U.S. small businesses export to Mexico and Canada, respectively, compared to 19 percent and 26 percent of large firms.[cix] Even if FTAs actually succeeded in boosting exports, exporting is primarily the domain of large firms, not small ones.

Job-Displacing Trade Deficits Surge under FTAs: U.S. Trade Deficits Grow 427% with FTA Countries

The aggregate U.S. goods trade deficit with FTA partners is more than five times as high as before the deals went into effect, while the aggregate trade deficit with non-FTA countries has actually fallen. The key differences are soaring imports into the United States from FTA partners and *lower* growth in U.S. exports to those nations than to non-FTA nations. **Growth of U.S. exports to FTA partners has been 20 percent *lower* than U.S. export growth to the rest of the world over the last decade** (annual average growth of 5.3 percent to non-FTA nations vs. 4.3 percent to FTA nations).[cx]

The aggregate U.S. trade deficit with FTA partners has *increased* by about $144 billion, or 427 percent, since the FTAs were implemented. In contrast, the aggregate trade deficit with all non-FTA countries has *decreased* by about $95 billion, or 11 percent, since 2006 (the median entry date of existing FTAs). Using the Obama administration's trade-jobs ratio[cxi] and counting both exports and imports, **the FTA trade deficit surge implies the loss of about 780,000 U.S. jobs.** NAFTA contributed the most to the widening FTA deficit – under NAFTA, the U.S. trade deficit with Canada has ballooned and a U.S. trade surplus with Mexico has turned into a nearly $100 billion deficit. More recent deals, such as the Korea FTA, have produced similar results.

FTA Partner	Entry Date	Pre-FTA Trade Balance	2014 Balance	Change in Balance Since FTA
Israel*	1985	($1.0)	($15.2)	($14.2)
Canada	1989	($23.9)	($82.4)	($58.5)
Mexico	1994	$2.6	($99.8)	($102.3)
Jordan	2001	$0.3	$0.6	$0.3
Chile	2004	($2.0)	$5.8	$7.8
Singapore	2004	$0.8	$10.2	$9.4
Australia	2005	$7.4	$13.6	$6.2
Bahrain	2006	($0.1)	$0.1	$0.2
El Salvador	2006	($0.2)	$0.7	$0.9
Guatemala	2006	($0.6)	$1.5	$2.1
Honduras	2006	($0.7)	$1.2	$1.9
Morocco	2006	$0.1	$1.0	$1.0
Nicaragua	2006	($0.7)	($2.2)	($1.5)
Dominican Republic	2007	$0.6	$2.8	$2.2
Costa Rica	2009	$1.2	($3.2)	($4.4)
Oman	2009	$0.6	$0.9	$0.4
Peru	2009	($0.2)	$2.9	$3.0
Korea	2012	($15.4)	($26.6)	($11.2)
Colombia	2012	($10.0)	$1.2	$11.2
Panama	2012	$7.8	$9.4	$1.6
FTA TOTAL:		($33.7)	($177.5)	**($143.9)**
Non-FTA TOTAL:	[2006]	($829.3)	($734.2)	**$95.1**
FTA Deficit INCREASE: 427%			**Non-FTA Deficit DECREASE: 11%**	

*Billions of 2014 USD. Source: U.S. International Trade Commission. (*Measured since 1989 due to data availability.)*

"Higher Standards" Have Failed to Alter FTA Legacy of Ballooning Trade Deficits

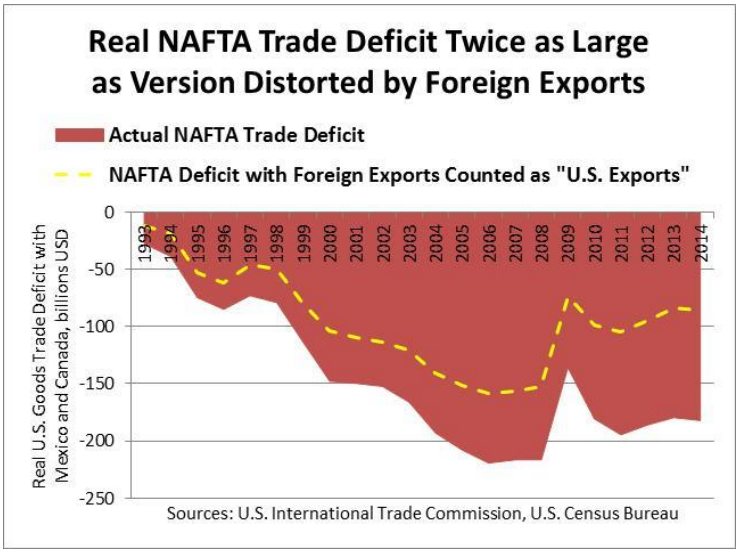
Some proponents of status quo trade have claimed that post-NAFTA FTAs have included higher standards and thus have yielded trade balance improvements.[cxii] But the Korea FTA included the higher labor and environmental standards of the May 10, 2007 deal between congressional leaders and the George W. Bush administration, and still the U.S. trade deficit with Korea has ballooned in the three years since the deal's passage. Meanwhile, most post-NAFTA FTAs that have resulted in (small) trade balance improvements *did not* contain the "May 10" standards. The evidence shows no correlation between an FTA's inclusion of "May 10" standards and its trade balance impact. Reducing the massive U.S. trade deficit will require a more fundamental rethink of the core status quo trade pact model extending from NAFTA through the Korea FTA, not more of the same.

Corporate FTA Boosters Use Errant Methods to Claim Higher Exports under FTAs

Members of Congress will invariably be shown data by defenders of our status quo trade policy that appear to indicate that FTAs have generated an export boom. Indeed, to promote congressional support for new NAFTA-style FTAs, industry associations like the U.S. Chamber of Commerce have funded an entire body of research designed to create the appearance that the existing pacts have both boosted exports and reversed trade deficits with FTA partner countries. This work relies on several methodological tricks that fail basic standards of accuracy:

- **Ignoring imports:** U.S. Chamber of Commerce studies regularly omit mention of soaring imports under FTAs, instead focusing only on exports.[cxiii] But any study claiming to evaluate the net impact of trade deals must deal with both sides of the trade equation. In the same way that exports are associated with job opportunities, imports are associated with lost job opportunities when they outstrip exports, as dramatically seen under FTAs.

- **Counting "foreign exports":** The U.S. Chamber of Commerce errantly claims that the United States has a trade surplus with FTA nations by counting foreign-made goods as "U.S. exports."[cxiv] Their data include "foreign exports" – goods made elsewhere that pass through the United States without alteration before being re-exported abroad. Foreign exports support zero U.S. production jobs and their inclusion artificially diminishes real FTA deficits.[cxv]



- **Omitting major FTAs:** The U.S. Chamber of Commerce has repeatedly claimed that U.S. export growth is higher to FTA nations that to non-FTA nations by simply omitting FTAs that do not support their claim. One U.S. Chamber of Commerce study omitted all

FTAs implemented before 2003 to estimate export growth.[cxvi] This excluded major FTAs like NAFTA that comprised more than 83 percent of all U.S. FTA exports. Given NAFTA's leading role in the 427 percent aggregate FTA deficit surge, its omission vastly skews the findings.

- **Failing to correct for inflation:** U.S. Chamber of Commerce studies that have claimed high FTA export growth have not adjusted the data for inflation, thus errantly counting price increases as export gains.[cxvii]

- **Comparing apples and oranges:** The U.S. Chamber of Commerce has claimed higher U.S. exports under FTAs by using two completely different methods to calculate the growth of U.S. exports to FTA partners (an unweighted average) versus non-FTA partners (a weighted average).[cxviii] This inconsistency creates the false impression of higher export growth to FTA partners by giving equal weight to FTA countries that are vastly different in importance to U.S. exports (e.g. Canada, where U.S. exports exceed $260 billion, and Bahrain, where they do not reach $1 billion), despite accounting for such critical differences for non-FTA countries.

Millions of U.S. Jobs Lost under Status Quo Trade Deals

Nearly 5 million U.S. manufacturing jobs – one out of every four – have been lost since the establishment of NAFTA, the WTO and NAFTA expansion deals.[cxix] Since NAFTA took effect, more than 55,000 U.S. manufacturing facilities have closed.[cxx] The U.S. manufacturing sector has long been a source of innovation, productivity, growth and good jobs.[cxxi] But by 2014, manufacturing accounted for less than 9 percent of the U.S. workforce for the first time in modern history.[cxxii]

Deals like NAFTA have contributed to the hemorrhaging of U.S. manufacturing and other jobs by incentivizing offshoring and fueling massive U.S. trade deficits. The U.S. Department of Labor lists more than 2.7 million workers as specifically losing their jobs to offshoring and import competition since the enactment of NAFTA, the WTO and NAFTA expansion FTAs – and that is under just one narrow program that excludes many whose job loss is trade-related.[cxxiii]

NAFTA-style deals have included foreign investor protections that offer special benefits to firms that offshore U.S. jobs. The TPP's investment chapter would expand such offshoring incentives, eliminating many of the usual risks that make firms think twice about moving to low-wage countries, such as TPP member Vietnam.

For detailed data on trade-related job loss, visit Public Citizen's Trade Data Center: www.citizen.org/trade-data-center

- Find regularly updated data on the total number of manufacturing jobs lost in your state.
- Track specific, factory-by-factory, trade-related job losses in your area, certified by the Department of Labor.
- See how much job-displacing trade deficits

Under NAFTA-style FTAs, imports have surged while exports have slowed, contributing to a fourfold increase in the U.S. goods trade deficit since 1993.[cxxiv] (Growth of U.S. exports to FTA partners actually has been 20 percent *lower* than U.S. export growth to the rest of the world over the last decade.) [cxxv] The aggregate U.S. trade deficit with its 20 FTA partners has increased by about $144 billion, or 427 percent, since the FTAs were implemented.[cxxvi] Standard macroeconomics shows that a large U.S. trade deficit costs U.S. jobs when the U.S. economy is not at full employment, as it has not been since the 2007-2008 financial crisis.[cxxvii] The TPP would further fuel the job-displacing U.S. trade deficit by forcing U.S. workers to compete directly with workers in Vietnam, where minimum wages average less than 60 cents an hour,[cxxviii] independent unions are banned and child labor is rampant.[cxxix]

Burgeoning Job Losses under NAFTA, the WTO and the Korea FTA

After 21 years of NAFTA, a small pre-NAFTA U.S. trade surplus with Mexico and $30 billion trade deficit with Canada turned into a combined NAFTA trade deficit of $182 billion by 2014 – a real increase in the "NAFTA deficit" of 565 percent.[cxxx] EPI estimates that the ballooning trade deficit with Mexico alone destroyed about 700,000 *net* U.S. jobs between NAFTA's implementation and 2010.[cxxxi] And since NAFTA, the U.S. Department of Labor has certified more than 850,000 specific U.S. workers for TAA – a narrow program that is difficult to qualify for – as having lost their jobs due to imports from Canada and Mexico or the relocation of factories to those countries.[cxxxii]

The rapid growth of the U.S. trade deficit with China since that country entered the WTO in 2001 has also had a devastating effect on U.S. workers. Since China's WTO entry, the U.S. goods trade deficit with China has grown from $112 billion to $350 billion.[cxxxiii] EPI estimates that between 2001 and 2013, 3.2 million U.S. jobs, including 2.4 million manufacturing jobs, were lost or displaced due to the burgeoning trade deficit with China.[cxxxiv] Indeed, a recent National Bureau of Economic Research study finds a direct link between the congressional vote that paved the way for China's WTO entry and "the sharp drop in U.S. manufacturing employment after 2001."[cxxxv] Another recent National Bureau of Economic Research study concludes, "We find that the increase in U.S. imports from China, which accelerated after 2000, was a major force behind recent reductions in U.S. manufacturing employment and that…it appears to have significantly suppressed overall U.S. job growth."[cxxxvi]

Like NAFTA and the WTO, the 2012 Korea FTA – the U.S. template for the TPP – was sold by the Obama administration with the promise that it would yield "more exports, more jobs."[cxxxvii] In contrast,

U.S. goods exports to Korea dropped 7 percent ($3 billion) in the first three years of the FTA, while imports increased 18 percent ($10.6 billion).[cxxxviii] As a result, the U.S. goods trade deficit with Korea ballooned 90 percent ($13.6 billion). In contrast, the global U.S. goods trade deficit during the same period *decreased* 2 percent.[cxxxix] The U.S.-Korea trade deficit rise in the first three years of the Korea FTA equates to the loss of more than 90,000 U.S. jobs, counting both exports and imports, according to the trade-jobs ratio that the Obama administration used to project job *gains* from the deal.[cxl]

Offshoring of U.S. Jobs Is Moving Rapidly Up the Income and Skills Ladder

Alan S. Blinder, a former Federal Reserve vice chairman, Princeton economics professor and NAFTA-WTO supporter, says that under current U.S. trade policy one out of every four U.S. jobs could be offshored in the foreseeable future.[cxli] In a study Blinder conducted with Alan Krueger, fellow Princeton economist and former Chairman of President Obama's Council of Economic Advisers, the economists found the most offshorable industry to be finance and insurance, not manufacturing (with information and professional services also showing high offshoring propensity).[cxlii] Indeed, according to their data, U.S. workers with a four-year college degree and with annual salaries above $75,000 are those most vulnerable to having their jobs offshored, meaning the United States could see its best remaining jobs move abroad.[cxliii]

Buy American Banned: More U.S. Jobs Lost as Tax Dollars Are Offshored

The WTO, NAFTA and NAFTA-expansion agreements ban Buy American preferences and forbid federal and many state governments from requiring that U.S. workers perform the jobs created by the outsourcing of government work. "Anti-offshoring" and Buy American requirements, which reinvest our tax dollars in our local communities to create jobs here, are prohibited under NAFTA-style trade agreements' procurement rules.[cxliv] These rules require that all firms operating in trade-pact partner countries be treated as if they were domestic firms when bidding on U.S. government contracts to supply goods or services.[cxlv] Complying with this requirement means waiving existing Buy American or Buy Local procurement preferences that require U.S. taxpayer-funded government purchases to prioritize U.S.-made goods, or rules that require outsourced government work to be performed by U.S workers. The TPP would further gut Buy American policies, requiring the U.S. government to give any company operating in a TPP country, including Chinese firms in Malaysia or Vietnam, the same access as U.S. firms to U.S. taxpayer-funded government contracts.[cxlvi]

NAFTA in Depth: Two Decades of Losses for U.S. Workers

In 1993, Gary Hufbauer and Jeffrey Schott of the pro-NAFTA Peterson Institute for International Economics (PIIE) projected that NAFTA would lead to a rising U.S. trade surplus with Mexico, which would create 170,000 net new jobs in the United States within the pact's first two years.[cxlvii] Then-U.S. Trade Representative Mickey Kantor similarly predicted "export jobs related to Mexico" would reach 200,000 "by 1995 if NAFTA with the supplemental agreements is implemented."[cxlviii] President Bill Clinton went even further, stating, "I believe that NAFTA will create a million jobs in the first five years of its impact."[cxlix]

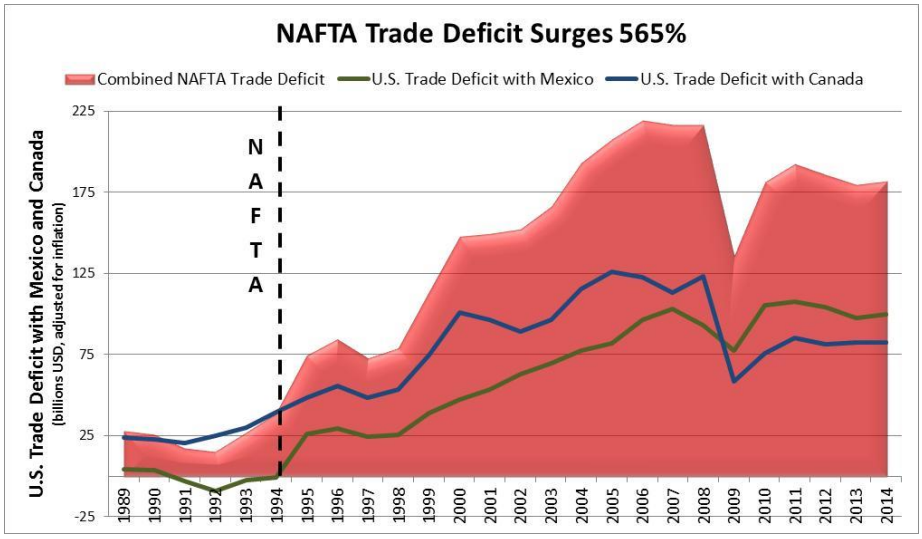
Hufbauer and Schott based their projection on the observation that when export growth outpaces the growth of imports, more jobs are created by trade than are destroyed by trade.[cl] Instead of an improved

trade balance with Canada and Mexico, however, NAFTA resulted in a surge of imports from Mexico and Canada that led to huge U.S. trade deficits.

According to Hufbauer and Schott's own methodology, these deficits meant major job loss. Less than two years after NAFTA's implementation, even before the depth of the NAFTA deficit became evident, Hufbauer recognized that his jobs prediction was incongruent with the facts, telling *The Wall Street Journal*, "The best figure for the jobs effect of NAFTA is approximately zero…the lesson for me is to stay away from job forecasting."[cli] The Obama administration apparently has not learned that lesson. Repeating the tactics of the Clinton administration, in 2015 Obama administration officials cited a PIIE study to claim that the TPP would create 650,000 new jobs, despite that the study itself did not project any new job creation from the deal. Even *The Washington Post*, with a pro-TPP editorial board, assigned the claim four Pinocchios and dismissed the jobs promise as "illusionary."[clii]

NAFTA Results: Massive Job Loss, Ballooning Deficits, Slow Export Growth

The U.S. goods trade deficit with Canada of $30 billion and the $2.6 billion surplus with Mexico in 1993 (the year before NAFTA took effect) turned into a combined NAFTA trade deficit of $182.1 billion by 2014, as indicated in the graph below.[cliii] These are inflation-adjusted numbers, meaning the difference is not due to inflation, but an increase in the deficit in real terms. EPI calculates that the ballooning trade deficit with Mexico alone destroyed about 700,000 *net* U.S. jobs between NAFTA's implementation and 2010.[cliv] This toll has likely grown since 2010, as the non-fossil fuel U.S. goods trade deficit with Mexico has risen 11 percent further.[clv] Much of the job erosion stems from the decisions of U.S. firms to embrace NAFTA's new foreign investor privileges and relocate production to Mexico to take advantage of its lower wages and weaker environmental standards. The U.S. trade deficit with NAFTA partners Mexico and Canada has worsened considerably more than the U.S. trade deficit with countries with which we have not signed NAFTA-style deals. Since NAFTA, the annual growth of the U.S. trade deficit has been 45 percent higher with Mexico and Canada than with countries that are not party to a NAFTA-style U.S. trade pact.[clvi]



Defenders of NAFTA argue that the NAFTA deficit is really only due to fossil fuel imports. Although fossil fuels account for a substantial portion of the trade deficit with Canada and Mexico, the fossil fuel share of the trade deficit with Canada and Mexico actually declined from 82 percent in 1993 to 49 percent in 2014. Indeed, the non-fossil fuel deficit with Canada and Mexico has risen to an even greater degree than the overall deficit, multiplying over 19-fold since NAFTA's implementation.[clvii]

The NAFTA trade deficit increase owes in part to the fact that U.S. manufacturing and services exports have grown *more slowly* since NAFTA took effect. Since NAFTA's enactment, annual growth in U.S.

manufacturing exports to Canada and Mexico has fallen 41 percent below the annual rate seen in the years before NAFTA.[clviii] Even growth in services exports, which were supposed to do especially well under the trade pact given a presumed U.S. comparative advantage in services, dropped precipitously after NAFTA's implementation. Annual growth of U.S. services exports to Mexico and Canada since NAFTA has dropped to less than half the pre-NAFTA rate.[clix]

Trade Adjustment Assistance Data Tracks U.S. Job Loss from NAFTA

While EPI's estimates of the job losses resulting from NAFTA summarize the overall effect of the trade deficit, the government itself tracks some of the layoffs known to have specifically occurred due to imports or offshoring, through the U.S. Department of Labor's TAA program. TAA is quite narrow, only covering a subset of the jobs lost at manufacturing facilities, while excluding a portion of the jobs that have directly relocated to Mexico or Canada. The program is also difficult to qualify for, which has led some unions to direct workers to other assistance programs. Even a report by the pro-NAFTA PIIE estimated that fewer than 10 percent of workers who lose their jobs in industries facing heavy import competition receive assistance under TAA.[clx] Thus, the NAFTA TAA numbers significantly undercount NAFTA job loss. Still, under TAA, more than 850,000 workers have been certified as having lost their jobs due to imports from Canada and Mexico or the relocation of factories to those countries.[clxi] To see the full set of TAA-certified job losses – searchable by company, product, congressional district and city – visit Public Citizen's TAA database at www.citizen.org/taadatabase.

The U.S. government also tried to identify specific jobs *created* by NAFTA rather than destroyed. The U.S. Department of Commerce established such a program, but after finding fewer than 1,500 specific jobs attributable to NAFTA, the program was shut down because its findings were so bleak.[clxii]

Corporate Promises of Job Creation Are Broken

In addition to NAFTA supporters' unfulfilled promises of overall job creation, specific companies also lobbied for NAFTA by claiming that the deal would boost their own hiring and reduce the need to move jobs to Mexico and Canada. In reality, the vast majority of their promises of job creation failed to materialize, and many of these companies have actually moved operations to Mexico and Canada since NAFTA's passage.[clxiii] For example, Chrysler declared that if NAFTA passed, it would export 25,000 vehicles to Mexico and Canada by 1995, claiming that the sales would support 4,000 U.S. jobs. In reality, since NAFTA's passage Chrysler has eliminated 7,108 U.S. jobs explicitly certified under TAA as displaced by rising imports from Canada and Mexico or decisions to offshore production to those countries (thousands more trade-related job losses at Chrysler do not specify a country). Siemens made claims similar to Chrysler's, and yet it has eliminated more than 1,400 U.S. jobs by offshoring production to Mexico.[clxiv] Johnson & Johnson promised that it would hire hundreds of U.S. workers if NAFTA was approved, but ended up offshoring 950 U.S. jobs to Mexico and Canada.[clxv] The table below details a few examples of corporations' empty promises of NAFTA job growth.

Specific Corporate Promises of NAFTA Job Gains versus Actual Outcomes

Corporation	Promise	Reality

Chrysler	"With the passage of NAFTA, Chrysler is planning to export 25,000 vehicles to Mexico and Canada by 1995 and 80,000 by the year 2000. The sales will support 4,000 U.S. jobs by 1995, including Chrysler employees and U.S. suppliers." "NAFTA: We Need It: How U.S. Companies View Their Business Prospects Under NAFTA," *National Association of Manufacturers, November 1993.*	Chrysler has eliminated **17,757 U.S. jobs** due to imports or offshoring under NAFTA, including 7,108 job losses explicitly attributed to rising imports from Canada and Mexico or decisions to offshore production to those countries (the remainder of the job losses do not specify the country).
Fruit of the Loom	In a Senate floor speech on November 19, 1993, Sen. Mitch McConnell (R-Ky.) explained that he would be voting for NAFTA because "American firms will not move to Mexico just for lower wages… without NAFTA, United States firms are more likely to move production to Mexico." He specifically cited Fruit of the Loom, stating, "…consider Fruit of the Loom. This fine Kentucky firm, which is my State's largest private employer, expects to boost sales to Mexico under NAFTA and eventually create 1,000 new jobs." *Congressional Record, November 19, 1993.*	Fruit of the Loom has eliminated **12,155 U.S. jobs** due to imports or offshoring under NAFTA. That includes 2,936 job losses explicitly attributed to offshoring to Mexico or rising imports from Canada and Mexico (the remainder of the job losses do not specify the country). More than 3,600 of Fruit of the Loom's trade-related layoffs have occurred in Kentucky.
General Electric	"We are looking at another $7.5 billion in potential sales over the next 10 years. These sales could support 10,000 jobs for General Electric and its suppliers. We fervently believe that these jobs depend on the success of this agreement." *Michael Gadbaw, General Electric, before the House Foreign Affairs Committee, October 21, 1993.*	General Electric has eliminated **11,675 U.S. jobs** due to imports or offshoring under NAFTA, including 6,135 job losses explicitly attributed to rising imports from Canada and Mexico or decisions to offshore production to those countries (the remainder of the job losses do not specify the country).
Caterpillar	"The NAFTA would eliminate the incentive to move operations to Mexico...U.S. companies would be better able to serve the Mexican market by exporting, rather than by moving production...Caterpillar estimates NAFTA-mandated tariff reductions – coupled with increased economic growth – would increase demand in Mexico by 250-350 units annually." *"The Impact of NAFTA on Illinois," prepared for USA*NAFTA by the Trade Partnership, Washington D.C., June 1993.*	Caterpillar has eliminated **3,270 U.S. jobs** due to imports or offshoring under NAFTA, including 738 job losses explicitly attributed to rising imports from Canada and Mexico or decisions to offshore production to those countries (the remainder of the job losses do not specify the country).

Source for corporate promises: Public Citizen, "NAFTA's Broken Promises: Failure to Create U.S. Jobs," January 1997, Available at: www.citizen.org/trade/article_redirect.cfm?ID=1767. Source for TAA-certified job losses: Public Citizen, Trade Adjustment Assistance Database, 2014. Available at: www.citizen.org/taadatabase.

Special Investor Privileges Promote Offshoring of U.S. Jobs

NAFTA's special new rights and privileges for foreign investors eliminated many of the risks and costs that had been associated with relocating production to a low-wage venue. The incentives these rules offered for offshoring included a guaranteed minimum standard of treatment that Mexico had to provide to relocating U.S. firms, which went above and beyond the treatment provided to domestic firms. This included the right for foreign investors to challenge the Mexican government directly in

United Nations and World Bank tribunals, demanding compensation for environmental, zoning, health and other government regulatory actions of general application that investors claimed as undermining their expectations.[clxvi] The protections granted to corporations interested in offshoring contributed to the flow of foreign investment into Mexico, which quadrupled after the implementation of NAFTA.[clxvii]

Studies Reveal Consensus: Trade Flows during "Free Trade" Era Have Exacerbated U.S. Income Inequality

Recent Studies: Trade's Contribution to Inequality Has Increased amid Status Quo Trade Deals and Is Likely to Increase Further

U.S. income inequality has jumped to levels not seen since the pre-depression 1920s, as middle-class wages have stagnated while the incomes of the rich have surged.[clxviii] In 1979, the median weekly wage for U.S. workers in today's dollars was about $749. In 2014, it had increased just four dollars to $753 per week. Over the same period, U.S. workers' productivity doubled.[clxix] Meanwhile, the richest 10 percent in the United States are now taking half of the economic pie, while the top 1 percent is taking more than one fifth. Wealthy individuals' share of national income was stable for the first several decades after World War II, but started increasing in the early 1980s, and then rose even faster in the era of NAFTA, the WTO and NAFTA expansion pacts. From 1981 until the establishment of NAFTA and the WTO, the income share of the richest 10 percent increased 1.3 percent each year. In the first six years of NAFTA and the WTO, this inequality increase rate doubled, with the top 10 percent gaining 2.6 percent more of the national income share each year (from 1994 through 2000). Since then, the income disparity has increased even further.[clxx]

Since 1941 standard economic theory has held that trade liberalization is likely to contribute to greater income inequality in developed countries like the United States.[clxxi] As direct competition with low-wage labor abroad puts downward pressure on middle-class wages, the profits of multinational firms rise, and the income gap between the rich and everyone else widens. NAFTA-style deals only exacerbate this inequality-spurring effect by creating a selective form of "free trade" in goods that non-professional workers produce while extending monopoly protections – the opposite of free trade – for certain multinational firms (e.g. patent protections for pharmaceutical corporations).[clxxii]

In the early 1990s, as U.S. income inequality soared amid the enactment of U.S. "free trade" deals, a spate of economic studies put the theory to the test, aiming to determine the relative contribution of trade flows to the rise in U.S. income inequality. **The result was an academic consensus that trade flows had, in fact, contributed to rising U.S. income inequality. The only debate was *the extent* of trade's role**, with most studies estimating that between 10 and 40 percent of the rise in inequality during the 1980s and early 1990s stemmed from trade flows, as indicated in the table below.[clxxiii]

1990s Studies on Trade's Impact on U.S. Income Inequality		
Author(s)	**Year of Study**	**Portion of Inequality Increase Attributed to Trade**
Borjas, Freeman, Katz	1997	**5%**
Lawrence	1996	**9%**
Borjas and Ramey	1993	**10%**

Cooper	1994	**10%**
Krugman	1995	**10%**
Baldwin and Cain	1994	**9-14%**
Leamer	1994	**20%**
Cline	1997	**39%**
Karoly and Klerman	1994	**55-141%**
Wood	1994	**100%**

Status Quo Trade Deals Increase Inequality by Depressing Middle-Class Wages

U.S. FTAs have contributed to the historic rise in U.S. income inequality primarily by exerting downward pressure on middle-class wages. Status quo trade deals have forced U.S. workers to compete directly with low-wage workers in countries with lax or nonexistent labor protections, while offering special protections to U.S. firms that offshore their production to those countries.[clxxiv] The predictable result has been the loss of U.S. jobs, primarily in higher-paying manufacturing sectors.

Of course, most workers who lose their jobs to imports or offshoring eventually find new work. But as manufacturing jobs have become scarcer, many trade-displaced workers have been forced to take lower-paying jobs in non-offshoreable service sectors. A recent National Bureau of Economic Research study concludes, "offshoring to low wage countries and imports [are] both associated with wage declines for US workers. We present evidence that **globalization has led to the reallocation of workers away from high wage manufacturing jobs into other sectors and other occupations, with large declines in wages among workers who switch**…"[clxxv] Indeed, according to the U.S. Bureau of Labor Statistics, about three out of every five displaced manufacturing workers who were rehired in 2014 experienced a wage reduction. About one out of every three took a pay cut of greater than 20 percent.[clxxvi] For the median manufacturing worker earning more than $38,000 per year, this meant an annual loss of at least $7,600.[clxxvii]

But the wage losses are not limited to those workers who actually lose their jobs under trade deals. When manufacturing workers are displaced and seek new jobs, they add to the supply of U.S. workers available for non-offshorable, non-professional jobs in hospitality, retail, health care and more. **As increasing numbers of trade-displaced workers have joined the glut of workers competing for these non-offshorable jobs, real wages have actually been declining in these growing sectors.**[clxxviii] The downward pressure on wages thus spreads to much of the middle class.

Meanwhile, status quo trade deals have eroded U.S. workers' power to reverse the middle-class wage stagnation via collective bargaining. In the past, U.S. workers represented by unions were able to bargain for their fair share of economic gains generated by productivity increases.[clxxix] But the foreign investor protections in today's "trade" agreements, by facilitating the offshoring of production, alter the power dynamic between workers and their employers. **NAFTA-style deals boost firms' ability to suppress workers' requests for wage increases with credible threats to offshore their jobs.** For instance, a study for the North American Commission on Labor Cooperation – the body established in the labor side agreement of NAFTA – showed that after passage of NAFTA, as many as 62 percent of U.S. union drives faced employer threats to relocate abroad. After NAFTA took effect, the factory shut-down rate following successful union certifications tripled.[clxxx]

Some analysts argue that technology-related efficiency gains also spur U.S. manufacturing job loss and exert downward pressure on middle-class wages, in attempt to diminish the role of trade policy in exacerbating U.S. income inequality.[clxxxi] But recent studies indicate that the role of technology has been overstated. A 2013 National Bureau of Economic Research study on the U.S. job impacts of both technology and trade finds "no net employment decline" from technological change from 1990 to 2007 while finding a strong correlation between increasing import competition from China and "significant falls in employment, particularly in manufacturing and among non-college workers."[clxxxii] In another 2013 study, **Federal Reserve economists find "limited support" for the notion that technological change explains U.S. workers' declining share of national income, while identifying increasing import competition and offshoring as "a leading potential explanation."**[clxxxiii] An earlier study by International Monetary Fund economists similarly concludes, "Among developed countries…the adverse impact of globalization [on income inequality] is somewhat larger than that of technological progress."[clxxxiv] Regardless of how much importance should be ascribed to technological change, the importance of status quo trade in spurring income inequality is a consistent finding of the panoply of studies cited above and below. Since Congress actually has a say over trade policy, why would we not push for a new trade policy that fosters rather than erodes middle-class wages and diminishes rather than widens the yawning income gap?

Pro-FTA Think Tank: Trade Responsible for 39% of Inequality Growth

In one of the more frequently cited studies from the 1990s – a 1997 report published by the pro-"free trade" Institute for International Economics (now the Peterson Institute for International Economics)[clxxxv] – author William Cline estimated that trade was responsible for a 7 percent gross increase in U.S. wage inequality during a time period in which wage inequality rose by a total of 18 percent – meaning that **the trade impact on U.S. wage inequality amounted to 39 percent of observed inequality growth**.

Cline used an economic model to calculate that trade liberalization, trade costs, and offshoring were responsible for an estimated 7 percent gross increase in the wage inequality that had occurred from 1973 to 1993 (i.e. a 7 percent rise in the ratio of the wages earned by those with some college education compared to the wages earned by those with a high school education or lower).[clxxxvi] Cline reported an 18 percent total wage inequality increase during this time period.[clxxxvii] Dividing the 7 percent trade-prompted inequality increase by the 18 percent total inequality increase amounts to a 39 percent contribution of trade to the rise in inequality.

In his study, Cline noted that trade was just one of several factors contributing to the rise in inequality, and that trade's 7 percent gross contribution was less than 10 percent of the total estimated *gross* contributions of all inequality-exacerbating factors.[clxxxviii] While Cline attempted to downplay the results of his own model (trade's estimated 39 percent contribution to the net increase in inequality) and instead emphasize trade's smaller share of the total estimated *gross* contributions to inequality, Cline himself admitted that this interpretation of the results was not "typical[]."[clxxxix] Indeed, in his review of other scholars' studies listed in the above table, Cline himself reported the primary result of each study by dividing the estimated trade-prompted gross inequality increase by the observed net inequality increase – the same method used to arrive at the 39 percent estimate using the data from Cline's study.[cxc] This standard approach makes sense, because if trade flows had not spurred a 7 percent increase in U.S. wage inequality (to use Cline's study), the total observed rise in inequality indeed would have been about 39 percent lower.

Further, while Cline's study named several non-trade factors contributing to the rise in income inequality, the factor with the largest substantiated gross contribution to inequality was trade. Other inequality-exacerbating factors included increased immigration (an estimated 2 percent contribution), a reduced real minimum wage (an estimated 5 percent contribution) and deunionization (an estimated 3 percent contribution – one arguably influenced by trade deals that enable the offshoring threats used to counter union drives).[cxci] After accounting for all of these factors, Cline was left with a missing 67 percent gross contribution to wage inequality (required to arrive at the observed 18 percent *net* inequality increase after taking into account downward pressures on inequality).[cxcii] Cline then "arbitrarily" assigned half of this mystery category to "skill biased technical change" and kept the other half as "unexplained."[cxciii] While the resulting role allocated to technological change significantly exceeded that found for trade, the allocation was not substantiated by any economic model or calculation, leaving trade as the study's largest inequality-exacerbating factor backed up by data.

Recent Studies Reveal Rising Impact of Trade on U.S. Income Inequality

More recent studies have concluded that **trade's role in exacerbating U.S. income inequality has likely grown since the 1990s**, as U.S. imports from lower-wage countries, and U.S. job offshoring to those countries, have risen dramatically amid the implementation of NAFTA, the WTO and a series of NAFTA expansion pacts, impacting an increasing swath of middle-class jobs. Further, an array of studies now project future increases in the offshoring of U.S. jobs, suggesting that **even under current U.S. trade policy, trade flows will soon be responsible for an even greater share of rising U.S income inequality**. Were the TPP to take effect, expanding status quo U.S. trade policy and incentivizing further offshoring to low-wage countries like Vietnam, it would only exacerbate trade's contribution to historically high U.S. income inequality.

Why are American Workers getting Poorer? China, Trade and Offshoring*; Avraham Ebenstein, Ann Harrison and Margaret McMillan; National Bureau of Economic Research; March 2015*

In this study on trade's impact on U.S. workers' wages, the authors conclude, "We find significant effects of globalization, with offshoring to low wage countries and imports both associated with wage declines for US workers. We present evidence that globalization has led to the reallocation of workers away from high wage manufacturing jobs into other sectors and other occupations, with large declines in wages among workers who switch..."[cxciv] Running econometric tests on wage and trade data from 1983-2008, the economists find that **a 10 percent increase in an occupation's exposure to import competition was associated with a more than 15 percent drop in wages for U.S. workers performing somewhat routine tasks** (and a nearly 3 percent wage decline for U.S. workers overall). As many middle-class occupations have faced surging imports from FTA countries, this finding indicates particularly large wage losses for U.S. workers under status quo trade deals. The authors also find statistically significant wage declines associated with the offshoring of U.S. jobs to low-wage countries, particularly in recent years (2000-2008), as offshoring has increased.[cxcv] The study controlled for technological change so as to capture the impacts of imports and offshoring alone.[cxcvi]

IV Quantile Regression for Group-level Treatments, with an Application to the Distributional Effects of Trade; *Denis Chetverikov, Bradley Larsen, and Christopher Palmer; National Bureau of Economic Research; March 2015*

This study on the U.S. wage impacts of rising import competition from China from 1990 to 2007 finds that "Chinese import competition affected the wages of low-wage earners more than high-wage

earners, **demonstrating how increases in trade can causally exacerbate local income inequality**." Indeed, the authors' econometric tests find that for the lower third of U.S. workers by income, the downward pressure on wages from the import competition was twice as strong as the average effect.[cxcvii]

The Decline of the U.S. Labor Share*; Michael W. L. Elsby, Bart Hobijn and Aysegul Sahin; The Brookings Institution; Fall 2013*

Economists at the Federal Reserve and University of Edinburgh used this study to identify why U.S. workers' share of national income has been steadily declining over the past couple decades. After a battery of econometric tests, the authors find "limited support" for the theory that technological change primarily explains middle-class workers' diminishing slice of the economic pie. Instead, they conclude, "our analysis identifies offshoring of the labor-intensive component of the U.S. supply chain as a leading potential explanation of the decline in the U.S. labor share over the past 25 years."[cxcviii] Indeed, their findings "suggest that increases in the import exposure of U.S. businesses can account for 3.3 percentage points of the 3.9 percentage point decline in the U.S. payroll share over the past quarter century."[cxcix] That is, **increases in offshoring and import competition since about the dawn of the NAFTA era are associated with 85 percent of the observed decline in U.S. workers' share of national income** – a result that the economists find "striking," leading them to suggest that if the trade status quo continues, "the labor share will continue to decline."[cc]

Using Standard Models to Benchmark the Costs of Globalization for American Workers without a College Degree*; Josh Bivens; Economic Policy Institute; March 22, 2013*

In this study Josh Bivens, an economist at EPI, updates an early-1990s model estimate of the impact of trade flows on U.S. income inequality and finds that, using the model's own conservative assumptions, one third of the increase in U.S. income inequality from 1973 to 2011 was due to trade with low-wage countries.[cci] More importantly, Bivens finds that the trade-attributable share of the rise in income inequality has increased rapidly since the 1990s as manufacturing imports from low-wage countries have escalated. The data reveal that **while trade spurred 17 percent of the income inequality increase occurring from 1973 to 1995, trade flows were responsible for more than 93 percent of the rise in income inequality from 1995 to 2011 – a period marked by a series of U.S. "free trade" deals**.[ccii] Expressed in dollar terms, Bivens estimates that trade's inequality-exacerbating impact spelled a $1,761 loss in wages in 2011 for the average full-time U.S. worker without a college degree.[cciii] Bivens concludes, "various policy decisions that have governed how the American economy is integrated into the global economy have increased the damage done to American workers…[including] pursuing expanded global integration through trade agreements that carve out protections for corporate investors but not for American workers…"[cciv]

Rising Income Inequality: Technology, or Trade and Financial Globalization?*; Florence Jaumotte, Subir Lall, and Chris Papageorgiou; International Monetary Fund; July 2008*

The International Monetary Fund authors find that the rise in income inequality from 1981-2003 in 20 developed countries, including the United States, is *primarily* attributable to trade and financial globalization trends. They conclude that globalization's contribution to inequality has outweighed the role of technological advancement: **"Among developed countries…the adverse impact of globalization is somewhat larger than that of technological progress."**[ccv]

Trade and Wages, Reconsidered*; Paul Krugman; The Brookings Institution; Spring 2008*

In a Brookings Institution study, Nobel-winning economist Paul Krugman finds that trade flows likely now account for an even greater degree of U.S. income inequality than that found in a series of studies from the early 1990s, which had already concluded that trade liberalization had a negative, but modest, impact on income inequality in developed countries like the United States. Like Bivens (see above), Krugman notes that U.S. manufacturing imports from low-wage developing countries have grown dramatically in the last two decades, suggesting that the role of trade flows in spurring U.S. income inequality growth is "considerably larger" than before.[ccvi] Krugman concludes, **"…there has been a dramatic increase in manufactured imports from developing countries since the early 1990s. And it is probably true that this increase has been a force for greater inequality in the United States and other developed countries."**[ccvii]

Globalization, American Wages, and Inequality: Past, Present, and Future*; Josh Bivens; Economic Policy Institute; September 6, 2007*

In this report Bivens cites an array of recent economic studies that project that the offshoring of U.S. jobs will increase under current trade policy, suggesting a substantial further rise in the impact of trade flows on U.S. income inequality.[ccviii] For example, Princeton economist and former Council of Economic Advisors member Alan Blinder estimates that about one in every four U.S. jobs, including higher-paying service-sector jobs, could be offshored in the foreseeable future.[ccix] While such studies differ in the projected extent of future U.S. job offshoreability, all imply an increase in the impact of trade flows on U.S. income inequality. Bivens finds that **the range of projections for increased offshoring suggest a further 74 to 262 percent increase in U.S. income inequality attributable to trade with lower-wage countries, compared to the level seen in 2006**.[ccx] Bivens concludes, "The potential level of redistribution caused by offshoring is vast, and, so should be the policy response."[ccxi]

TPP-Spurred Inequality Increase Would Mean a Pay Cut for 90% of Workers

The TPP would further exacerbate U.S. income inequality by forcing U.S. workers to compete directly with even lower-paid workers abroad while expanding past FTAs' incentives for firms to offshore middle-class U.S. jobs to low-wage countries. The pact's investment chapter would create extraordinary rights and privileges for foreign investors, eliminating many of the usual risks and costs that make firms think twice before relocating abroad.[ccxii] In addition, the TPP would place U.S. workers in direct competition with workers in low-wage TPP member countries like Vietnam, where wages average less than 60 cents an hour,[ccxiii] independent unions are banned and child labor is rampant.[ccxiv] If the legacy of existing FTAs provides any indication, this uneven playing field would spur a surge in imported goods from TPP countries, resulting in more layoffs of middle-class U.S. workers.[ccxv] Like manufacturing workers displaced under current trade pacts, many workers who would lose their jobs to TPP-spurred offshoring or imports would be forced to compete for lower-paying service sector jobs, putting further downward pressure on middle-class wages and fueling greater income inequality.

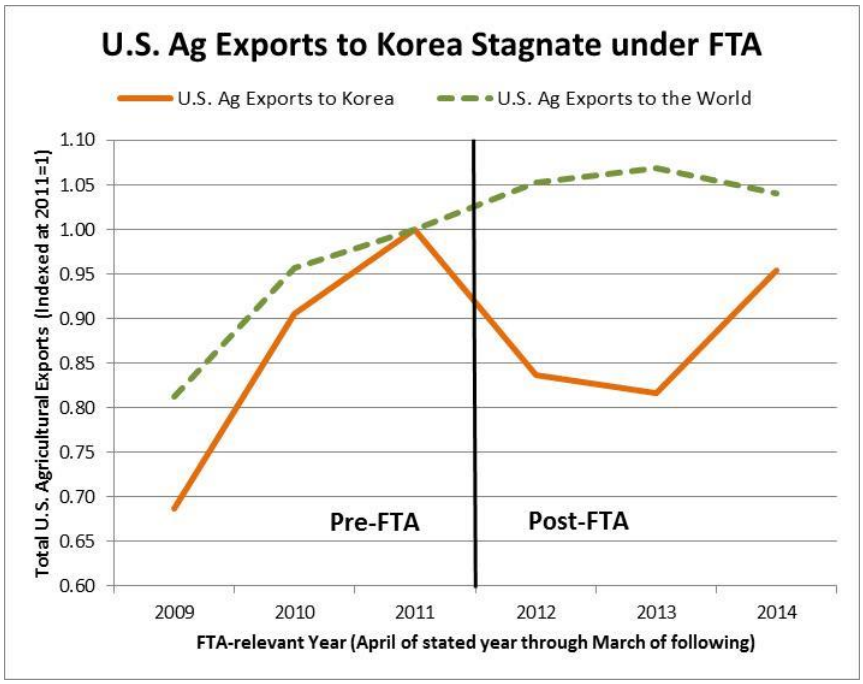
Defenders of the TPP sometimes acknowledge the pact likely would further constrain middle-class wages, but claim that the deal would produce economic gains, largely in the form of cheaper imported consumer goods, that would outweigh those costs for most U.S. workers. Economists at CEPR put that theory to the test, using the results of a study by the pro-TPP Peterson Institute for International Economics that, despite using overoptimistic assumptions, projected the TPP would result in tiny economic gains in 2025. CEPR assessed whether those projected gains would counterbalance

increased downward pressure on middle-class wages from the TPP, applying the empirical evidence on how recent trade flows have contributed to growing U.S. income inequality. Even with the most conservative estimate of trade's contribution to inequality from the studies cited above (that trade is responsible for just 10 percent of the recent rise in income inequality), they found that the losses from projected TPP-produced inequality would wipe out the tiny projected gains for the median U.S. worker. With the still-conservative estimate that trade is responsible for just 15 percent of the recent rise in U.S. income inequality, the CEPR study found that the TPP would mean wage losses for all but the richest 10 percent of U.S. workers.[ccxvi] That is, for any workers making less than $90,060 per year (the current 90th percentile wage), the TPP would mean a pay cut.[ccxvii]

Agricultural Exports Lag under Trade Deals, Belying Empty Promises Recycled for the TPP

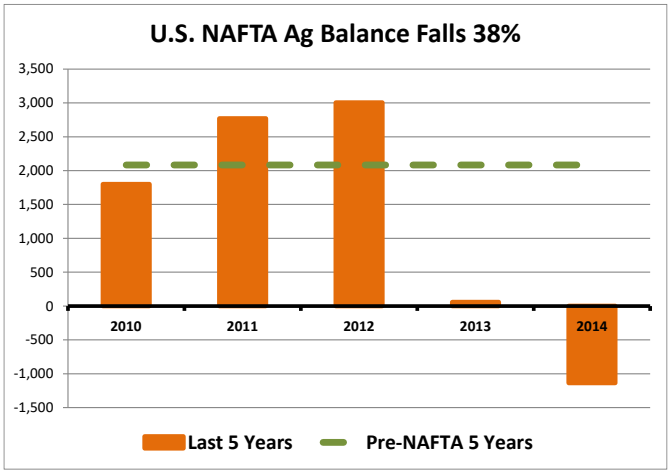
Time and again, U.S. farmers and ranchers have been promised that controversial FTAs would provide a path to economic success by boosting exports. Time and again, these promises have been broken. Data from the U.S. Department of Agriculture (USDA) reveal that U.S. agricultural exports have lagged, agricultural imports have surged and family farms have disappeared under existing FTAs. Undeterred by its own data, USDA recently repeated the standard FTA sales pitch with a factsheet claiming that the TPP, which would expand the status quo trade model, would "support expansion of U.S. agricultural exports, increase farm income, generate more rural economic activity, and promote job growth."[ccxviii] That promise contradicts the actual outcomes of the FTAs that serve as the TPP's blueprint.

Agricultural exports stagnate under most recent FTA: Before the 2011 passage of the Korea FTA – which U.S. negotiators used as the template for the TPP – U.S. Secretary of Agriculture Tom Vilsack stated, "we believe a ratified U.S. Free Trade Agreement [with Korea] will expand agricultural exports by what we believe to be $1.8 billion."[ccxix] In reality, exports of all U.S. agricultural products to Korea *fell* $323 million, or 5 percent, from the year before the FTA took effect to its recently-completed third year of implementation. During that same period, total U.S. agricultural exports to the world *rose* 4 percent. Even if comparing the average agricultural export level in the three years before the FTA took effect (including 2009, when global trade declined due to the worldwide recession) with the average level in the three post-FTA years, U.S. agricultural exports to Korea only have increased by $31 million, or 1 percent. U.S. agricultural exports

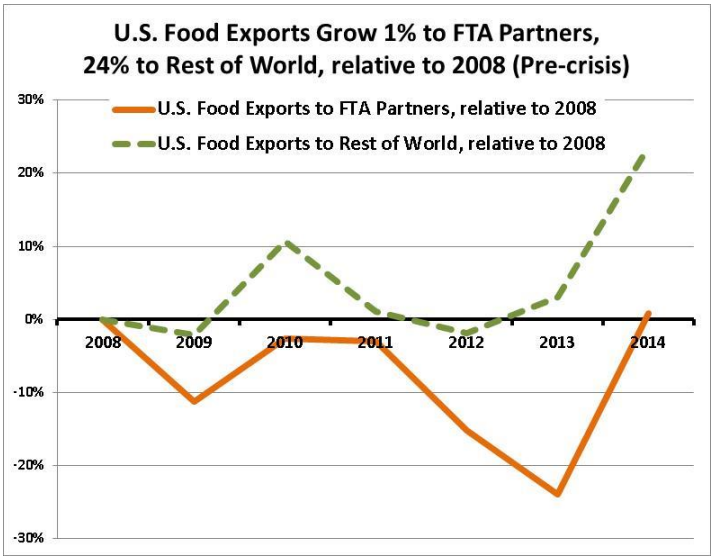


to the world during that period have risen 14 percent.[ccxx]

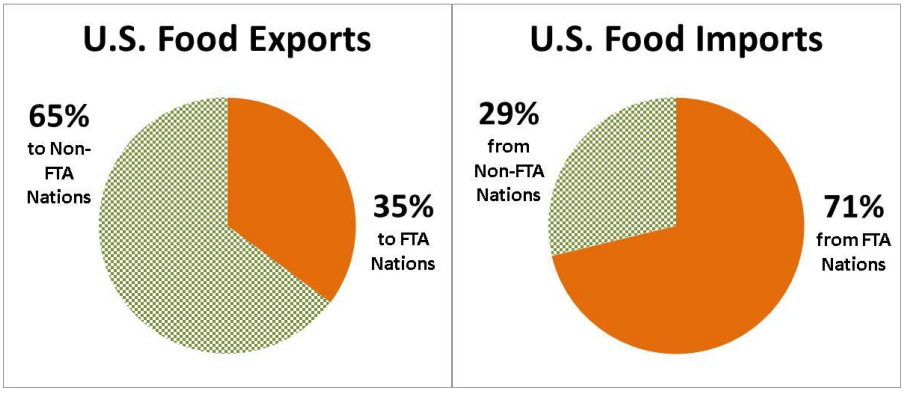
Agricultural trade surplus turns into a trade deficit under NAFTA: the U.S. agricultural trade balance with NAFTA partners has fallen from a $2.5 billion trade surplus in the year before NAFTA to a $1.1 billion trade deficit in 2014 – the largest NAFTA agricultural trade deficit to date. Even if one includes agricultural trade over the preceding several years, when agricultural export values were inflated by anomalously high international food prices, the average U.S. agricultural trade balance with NAFTA countries over the last five years still fell 38 percent below the average balance in the five years before NAFTA.



Agricultural exports to FTA partners lag behind: USDA data show that U.S. food exports to FTA partners have trailed behind food exports to the rest of the world in recent years, despite the claim in USDA's factsheet that "in countries where the United States has free trade agreements, our exports of food and agricultural products have grown significantly."[ccxxi] The volume of U.S. food exports to non-FTA countries rebounded quickly after the 2009 drop in global trade following the financial crisis. But U.S. food exports to FTA partners remained below the 2008 level until 2014. Even then, U.S. food exports to FTA partners were just 1 percent higher than in 2008, while U.S. food exports to the rest of the world stood 24 percent above the 2008 level.

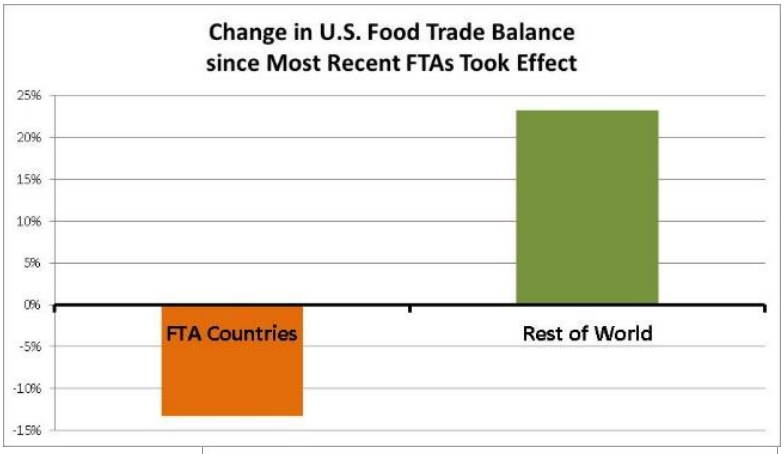


FTA partners account for most U.S. agricultural imports, relatively few agricultural exports: The USDA factsheet makes no mention of agricultural imports that undercut business for U.S. farmers. Most U.S. food imports come from FTA countries, while most U.S. food exports *are not* sold in FTA

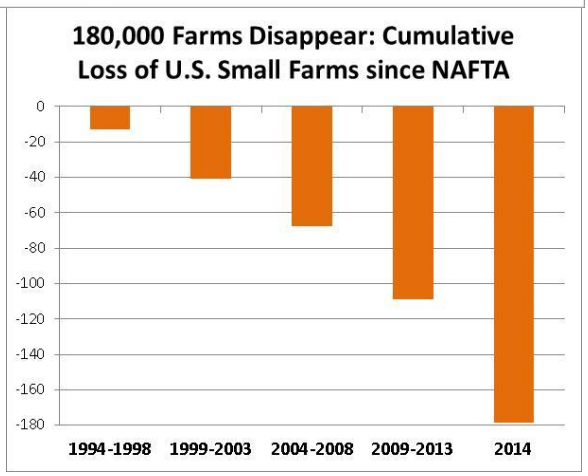


countries. This counterintuitive outcome is the opposite of what FTA proponents have promised U.S. farmers and ranchers. *In 2014, the 20 U.S. FTA partners were the source of 71 percent of all U.S. food imports, but were the destination of just 35 percent of all U.S. food exports* (measuring by volume).

Agricultural trade balance suffers under FTAs: Due to stagnant U.S. food exports to FTA countries and a surge in food imports from those countries, the U.S. food trade balance (by volume) with FTA countries has fallen 13 percent since 2011, the year before the most recent FTAs took effect. In contrast, the U.S. food trade surplus with the rest of the world has risen 23 percent since 2011.



Small U.S. farms disappear during FTA era: Smaller-scale U.S. family farms have been hardest hit by rising agricultural imports and declining agricultural trade balances under FTAs. Since NAFTA and NAFTA expansion pacts have taken effect, one out of every 10 small U.S. farms has disappeared. By 2014, nearly 180,000 small U.S. farms had been lost.[ccxxii]



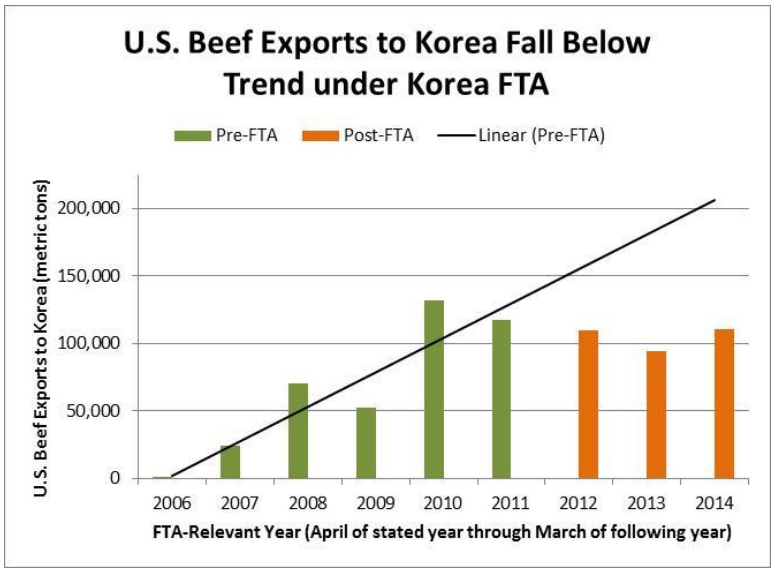
Falling Exports, Rising Trade Deficits in Key U.S. Crops under Status Quo Trade Deals

Most of the agricultural products that USDA highlights in its factsheets as prospective winners under the TPP have actually been losers under the FTA model that the TPP would expand:

- **Apples:** U.S. exports to Korea of apples have fallen 10 percent in the first three years of the Korea FTA.[ccxxiii]

- **Barley:** U.S. exports of barley to U.S. FTA partners have grown just 12 percent (14,000 metric tons) while growing 144 percent (120,000 metric tons) to the rest of the world since 2011 (the year before the most recent FTAs took effect).

- **Beef:** U.S. beef exports to Korea have stagnated under the Korea FTA, falling below the historical growth trend and defying the administration's promises that beef exports to Korea would grow even more than in the past.[ccxxiv] Even without an FTA, U.S. beef exports would be expected to grow as a product of Korea's population and economic growth. Instead, they have flatlined.



- **Beer:** U.S. exports to Korea of beer have increased just 2 percent in the first three years of the Korea FTA, while total U.S. beer exports to the world have increased 42 percent during the same period.

- **Citrus Fruits and Juices:** U.S. exports to Korea of citrus fruits have fallen 4 percent under the first three years of the Korea FTA – a loss of more than 6,000 metric tons of citrus fruit exports each year. And under 21 years of NAFTA, U.S. net exports of orange juice and grapefruit juice to Canada and Mexico have fallen by more than 200,000 kiloliters.

- **Corn:** U.S. exports to Korea of corn have dropped 59 percent under the Korea FTA's first three years – a loss of more than 3.7 million metric tons of corn exports each year.

- **Dairy Products:** U.S. exports to Korea of milk, cream and whey have plummeted 91 percent in the first three years of the Korea FTA – a loss of more than 3.4 million liters of dairy exports each year.

- **Distilled Spirits:** U.S. exports of distilled spirits to U.S. FTA partners have grown just 3 percent (2.5 million liters) while growing 27 percent (32.2 million liters) to the rest of the world since 2011 (the year before the most recent FTAs took effect).

- **Feeds and Fodder:** U.S. exports of feeds and fodder to U.S. FTA partners have *fallen* 5 percent (more than 382,000 metric tons) while *growing* 80 percent (more than 8.8 million metric tons) to the rest of the world since 2011 (the year before the most recent FTAs took effect).

- **Hides and Skins:** U.S. exports to Korea of hides and skins have dropped 14 percent under the first three years of the Korea FTA.

- **Potatoes:** U.S. net exports of potatoes to Canada and Mexico have fallen 580,000 metric tons under 21 years of NAFTA.

- **Poultry:** U.S. exports to Korea of poultry have plummeted 31 percent under the first three years of the Korea FTA – a loss of more than 24,000 metric tons of poultry exports each year.

- **Rice:** U.S. exports to Korea of rice have fallen 13 percent under the Korea FTA's first three years – a loss of nearly 13,000 metric tons of rice exports each year.

- **Soybeans and Soybean Products:** U.S. exports of soybeans and soybean products to U.S. FTA partners have grown just 8 percent (759,000 metric tons) while growing 52 percent (17.3 million metric tons) to the rest of the world since 2011 (the year before the most recent FTAs took effect).

- **Vegetables:** U.S. exports of vegetables to U.S. FTA partners have *fallen* 21 percent (more than 13,000 kiloliters) while *growing* 721 percent (more than 14,000 kiloliters) to the rest of the world since 2011 (the year before the most recent FTAs took effect).

- **Wine:** U.S. net exports of wine to Canada and Mexico have fallen more than 24,000 kiloliters under 21 years of NAFTA. And while FTA proponents have claimed wine as a winner under the Korea FTA, average annual U.S. exports of wine to Korea have increased by just 166 kiloliters – less than 0.005 percent of the wine sold in the United States each year. More wine is sold in an average *half hour* in the United States than the gain in U.S. wine exports to Korea in an average *year* under the Korea FTA.[ccxxv]

Three Years of Korea FTA Show Failure of Obama's 'More Exports, More Jobs' Trade Pact Promises

Trade Deficit With Korea Balloons 90 Percent as Exports Fall and Imports Surge Under Korea Pact Used as Trans-Pacific Partnership Template

U.S. government trade data covering the full first three years of the U.S.-Korea FTA reveals that the U.S. goods trade deficit with Korea has nearly doubled.[ccxxvi] The U.S. International Trade Commission data show Korea FTA outcomes that are the opposite of the Obama administration's "more exports, more jobs" promise for that pact,[ccxxvii] which it is now repeating for the TPP as it tries to persuade Congress to approve the controversial deal:[ccxxviii]

- **The U.S. goods trade deficit with Korea has swelled 90 percent, or $13.6 billion**, in the first three years of the Korea FTA (comparing the year before the FTA took effect with the third year of implementation).

- The trade deficit increase equates to **the loss of more than 90,000 U.S. jobs** in the first three years of the Korea FTA, counting both exports and imports, according to the trade-jobs ratio that the Obama administration used to project job *gains* from the deal.[ccxxix]

- **U.S. goods exports to Korea have dropped 7 percent, or $3 billion**, under the Korea FTA's first three years.

- **U.S. imports of goods from Korea have surged 18 percent, or $10.6 billion** in the first three years of the Korea FTA.

- Record-breaking U.S. trade deficits with Korea have become the new normal under the FTA – **in 35 of the 36 months since the Korea FTA took effect, the U.S. goods trade deficit with Korea has exceeded the average monthly trade deficit in the three years before the deal.** In January 2015, the monthly U.S. goods trade deficit with Korea topped $3 billion – the highest level on record.

- **The 90 percent surge in the U.S.-Korea goods trade deficit in the first three years of the FTA starkly contrasts with the 2 percent *decrease* in the global U.S. goods trade deficit during the same period.** And while the strengthening value of the dollar has inhibited overall U.S. exports recently, U.S. goods exports to the world have remained level (zero percent change) while U.S. exports to Korea have fallen during the FTA's first three years.

- **The U.S. manufacturing trade deficit with Korea has grown 47 percent**, or $10.6 billion, since implementation of the Korea FTA. The increase owes to a 1 percent, or $0.5 billion, decline in U.S. exports to Korea of manufactured goods and a 17 percent, or $10.1 billion, increase in imports of manufactured goods from Korea.[ccxxx]

- **U.S. exports to Korea of agricultural goods have** fallen **5 percent**, or $323 million, in the first three years of the Korea FTA. U.S. agricultural imports from Korea, meanwhile, have grown 29 percent, or $103 million, under the FTA. As a result, the U.S. agricultural trade balance with Korea has declined 6 percent, or $426 million, since the FTA's implementation.[ccxxxi]

Data Omissions and Distortions Cannot Hide Bleak Korea FTA Outcomes

The Office of the U.S. Trade Representative (USTR) has tried to obscure the bleak Korea FTA results, as congressional ire about the pact is fueling opposition to the administration's push for Congress to approve the TPP, for which the Korea FTA served as the U.S. template. USTR's factsheet on the third anniversary of the Korea FTA's implementation included these data omissions and distortions:[ccxxxii]

- USTR misleadingly emphasizes a relatively small increase in U.S. exports to Korea of passenger vehicles under the FTA, while omitting the much larger surge in job-displacing imports of passenger vehicles from Korea. U.S. imports of passenger vehicles from Korea have ballooned by 416,893 vehicles in the first three years of the Korea FTA, dwarfing a 24,217-vehicle increase in U.S. passenger vehicle exports to Korea. As a result, the U.S. trade deficit with Korea in passenger vehicles has grown 46 percent.[ccxxxiii] And while total U.S. automotive exports to Korea have increased $0.7 billion in the FTA's first three years, U.S. automotive imports from Korea have risen $6.4 billion. As a result, the U.S. automotive trade deficit with Korea has swelled 36 percent, or $5.7 billion, under the FTA.[ccxxxiv]

- USTR also claims that the decline in U.S. exports to Korea under the FTA is due to decreases in exports of fossil fuels and corn. But even after removing fossil fuels and corn products, U.S. exports to Korea still have declined by $1.5 billion, or 4 percent, in the first three years of the FTA.[ccxxxv] Product-specific anomalies cannot explain away the broad-based drop in U.S. goods exports to Korea under the FTA.

- USTR also tries to dismiss the decline in U.S. exports to Korea under the FTA as due to a weak economy in Korea. But the Korean economy has grown each year since the FTA passed, even as U.S. exports to Korea have shrunk.[ccxxxvi] Korea's gross domestic product in 2014 was 12 percent higher than in the year before the FTA took effect, suggesting that U.S. exports to Korea should have expanded, with or without the FTA, as a simple product of Korea's economic growth.[ccxxxvii] Instead, U.S. exports to Korea have fallen 7 percent in the first three years of the FTA.

- USTR counts foreign-produced goods as "U.S. exports," falsely inflating actual U.S. export figures. USTR often reports export numbers that include "foreign exports," also known as "re-exports" – goods made abroad that pass through the United States before being re-exported to other countries. By U.S. Census Bureau definition, foreign exports undergo zero alteration in the United States, and thus support zero U.S. production jobs.[ccxxxviii] Each month, the U.S. International Trade Commission removes foreign exports from the raw data reported by the U.S. Census Bureau. But USTR regularly uses the uncorrected data, inflating the actual U.S. export figures and deflating U.S. trade deficits with FTA partners like Korea. *In the first three years of the Korea FTA, foreign exports to Korea have risen 13 percent, or $290 million, which USTR errantly counts as an increase in "U.S. exports."*[ccxxxix]

U.S. Small Businesses Have Endured Slow and Declining Exports under "Free Trade" Deals

Large corporations pushing for the TPP and Trans-Atlantic Free Trade Agreement (TAFTA), two sweeping deals under negotiation that would expand the status quo trade model, have created a new sales pitch: these controversial pacts would be a gift not primarily to them, but to *small* businesses.[ccxl] The Obama administration has made similar claims that these pacts would help U.S. small and medium enterprises boost exports,[ccxli] often on the basis that SMEs comprise most U.S. exporters.[ccxlii]

But SMEs comprise most U.S. exporting firms simply because they constitute 99.7 percent of U.S. firms overall.[ccxliii] The more relevant questions are what share of SMEs actually depend on exports for their success, and for those that actually do export, how have they fared under FTAs serving as a model for the TPP and TAFTA?

Only 3 percent of U.S. SMEs (firms with fewer than 500 employees) export any good to any country. In contrast, 38 percent of large U.S. firms (with more than 500 employees) are exporters.[ccxliv] Even if FTAs actually succeeded in boosting exports, which government data show they do not,[ccxlv] exporting is primarily the domain of large corporations, not small businesses.

The relatively few small businesses that do actually export have seen even more disappointing export performance under FTAs than large firms have seen. Small firms have endured a particularly steep fall in exports under the Korea FTA (the U.S. template for the TPP), particularly slow export growth under NAFTA (the U.S. template for the Korea FTA), and declining export shares under both deals.

- **U.S. small businesses have seen their exports to Korea *decline* even more sharply than large firms under the Korea FTA**. U.S. Census Bureau data reveal that both small and large U.S. firms saw their exports to Korea fall in the FTA's first two years (the latest available data separated by firm size), compared to the year before implementation. But small firms fared the worst. Firms with fewer than 100 employees saw exports to Korea drop 19 percent while firms with more than 500 employees saw exports decline 3 percent. As a result, under the Korea FTA, small firms are capturing an even smaller share of the value of U.S. exports to Korea (14 percent), while big businesses' share has increased to 67 percent.[ccxlvi]

- **Small businesses' exports have lagged under NAFTA.** Corporate and government officials promised that small businesses would be major winners from NAFTA. Instead, growth of U.S. small businesses' exports to all *non-NAFTA* countries was *nearly twice as high* as the growth of their exports to NAFTA partners Canada and Mexico from 1996 to 2013 (the earliest and latest years of available data separated by firm size). Small firms' exports to NAFTA partners increased by 39 percent, while their exports to the rest of the world grew by 77 percent, according to U.S. Census Bureau data.[ccxlvii]

- **Small firms' exports to Mexico and Canada under NAFTA have grown less than half as much as large firms' exports to NAFTA partners** (39 percent vs. 93 percent in the 1996-2013 window of data availability). As a result, U.S. small businesses' share of total U.S. exports to Mexico and Canada has fallen under NAFTA. U.S. firms with fewer than 100 employees saw their share of U.S. exports to NAFTA partners decline from 14 to 10 percent from 1996 to 2013. Had U.S. small firms not lost their share of exports to Canada and Mexico under NAFTA, they would be exporting $18.6 billion more to those nations today.[ccxlviii]

- **NAFTA has done nothing to change the fact that a miniscule portion of U.S. small businesses export.** After 20 years of NAFTA, just 0.6 percent and 1.1 percent of U.S. small businesses exported to Mexico and Canada, respectively, compared to 19 percent and 26 percent of large firms (in 2013, the latest year of available data on total firms by size).[ccxlix] Selling another FTA as a boon for small business exports contradicts the empirical evidence.

Unpacking Data Tricks Used to Hide Job-Displacing Trade Deficits under U.S. FTAs

The Office of the U.S. Trade Representative claims that the United States has a trade surplus with its 20 FTA partner countries.[ccl] This assertion is at the center of the administration's efforts to convince Congress to approve the TPP, which is modeled on the past FTAs. **Yet, if one reviews the U.S. government trade data available to all on the U.S. International Trade Commission (USITC) website, in fact in 2014 we had a $177.5 billion goods trade deficit with the FTA nations.[ccli] Typically our services surplus with FTA partners is in the $75-80 billion range.[cclii] That means we have a large overall trade deficit with our FTA partners.** So, how can USTR claim we have a surplus? To make the data support their political message, USTR either cobbles together broad sectors in which we have trade deficits (e.g. what they call "energy") and simply excludes them, and/or artificially inflates export levels by counting foreign-made goods as U.S. exports. After USTR's

methodology was challenged yet again, in a March 19, 2015 letter signed by members of Congress,[ccliii] USTR issued a "fact sheet."[ccliv] Below are USTR's claims versus the facts.

USTR Claim: "The reality is that the United States runs a trade surplus in goods and services with our collective free trade agreement partners. Look at the official U.S. government data collected by the Census Bureau consistent with UN Statistical Guidelines. Add up all the exports to our FTA partners and subtract all the imports and you get a surplus."

FACT: **The reality is that the combined U.S. goods and services trade balance with our 20 FTA partners in 2013 was a $105 billion deficit (a $180 billion goods trade deficit and a $75 billion services trade surplus). The United States ran a** $177.5 billion goods trade deficit**, collectively, with its 20 FTA partners in 2014.** As USTR notes, one can look at the official U.S. government data collected by the U.S. Census Bureau with respect to trade in goods and do the math yourself. But, what you get when you add up all of the exports and subtract all of the imports from our FTA partners is a large goods trade deficit. The data are made available to the public by the USITC at http://dataweb.usitc.gov/. The USITC presentation of the data are consistent with UN Statistical Guidelines, which recommend that re-exports "be separately identified (coded) for analytical purposes."[cclv] As for services – contrary to USTR's claim, the Census Bureau doesn't collect services trade data. That comes from the Bureau of Economic Analysis on a quarterly basis and can be accessed here. (Services trade data for 2014 have only been posted for some U.S. FTA partners.)

USTR Claim: "If you buy something from Canada for 100 dollars and sell it to Mexico for 200 dollars, you aren't losing a 100 dollars"[sic]

FACT: USTR tries to explain why it **counts foreign-made products as "U.S exports," which is how USTR artificially inflates U.S. export figures and deflates U.S. trade deficits with FTA partners.**[cclvi] "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.* (That is the U.S. Census Bureau definition.[cclvii]) USTR's numbers count as "U.S. exports," for example, goods manufactured entirely in China that enter the San Diego port and do nothing but sit in a warehouse before being trucked 18 miles south and re-exported to Mexico. In order to get the numbers necessary to support its claim that we have a trade surplus with our FTA partners, USTR must count these as U.S. exports even though the goods were not produced here, nor did they support a single U.S. production job. While USTR is correct that a firm – say, Walmart – does not lose money by landing cases of Canadian grown and processed canola oil at a southern California port, and then shipping it by truck for sale in Mexico at a marked up price, this is unrelated to the fact that these Canadian goods should not be counted as U.S. exports.

USTR Claim: "*For an apples-to-apples comparison, you have to look at measures that look comprehensively at both imports and exports. That is what the Department of Commerce, the official source of U.S. trade data, does when it releases trade balance data every month. That's what UN statistical guidelines suggest. We think that's a better approach than systematically overstating imports relative to exports."*

FACT: No one contests that the U.S. Census Bureau gathers the official government data on U.S. goods exports, including whether goods that were shipped out of U.S. ports were produced here (i.e. U.S. "domestic exports") or were just re-exports of foreign-produced goods (i.e. "foreign exports"). But the U.S. Census Bureau's monthly trade data reports on U.S. exports to each U.S. trade partner lump foreign exports in with U.S. domestic exports. However, the USITC reports these government trade data with foreign exports removed, providing the official data on U.S.-made exports.

USTR chooses to use the raw data with foreign exports still included. **We think that counting only U.S.-made exports as "U.S. exports" is a better approach than using foreign-produced goods to systematically overstate U.S. exports to FTA partners.** And only counting U.S.-made exports is the standard practice of the USITC when it prepares the statutorily-required reports on the probable economic effects of pending FTAs for Congress and the administration (*see* 19 USC 3804(f)).[cclviii] That is, **the official, statutorily-required government analysis of pending FTAs on which the administration and Congress rely does not count "foreign exports" as "U.S. exports," as USTR does**. In addition, these reports typically become the basis for promises from the administration that a given FTA will boost U.S. exports and jobs. The Obama administration promise that the Korea FTA would create 70,000 U.S. jobs was based on the USITC's projection of an increase in U.S. goods exports under the deal. A White House factsheet stated, "The U.S. International Trade Commission has estimated that the tariff cuts alone in the U.S.-Korea trade agreement will increase exports of American goods by $10 billion to $11 billion. The Obama Administration is moving this agreement forward to seize the 70,000 American jobs expected to be supported by those increased goods exports alone..."[cclix] For an apples-to-apples comparison of how well promises made for a given FTA have panned out, we need to use the same definition of "U.S. exports" relied upon to create those promises. That definition, as used by the USITC, does not include "foreign exports." Doing an apples-to-apples comparison, U.S. goods exports to Korea have fallen $3 billion in the Korea FTA's first three years, while the U.S. goods trade deficit with Korea has increased $13.6 billion over the same period. Using the ratio that the administration employed to promise 70,000 jobs based on projected goods export increases, and counting both exports and imports, the $13.6 billion *decline* in net U.S. goods exports to Korea equates to more than 90,000 *lost* U.S. jobs in the FTA's first three years.

USTR Claim: The ITC does not produce any original trade data or make any corrections or adjustment to so-called "raw" Census data. It presents Census data with no adjustment. You don't have to take our word for it. Here's what the ITC website says: "Census is the official source of U.S. import and export statistics for goods" and "all material on [the ITC website] was compiled from official statistics of the U.S. Department of Commerce, Census Bureau."

Yes, the U.S. Census Bureau gathers the official government data on U.S. exports – both those that are actually produced in the United States and those produced in a foreign country. Indeed, it is the U.S. Census Bureau that marks when goods exported from the United States were produced in the United States (i.e. U.S. "domestic exports") and when they are just re-exports of foreign-produced goods (i.e. "foreign exports"). *But the U.S. Census Bureau does not display these data for individual FTA countries in its monthly trade reports.*[cclx] Instead, the U.S. Census Bureau's monthly reports on U.S. exports to each trade partner lump foreign exports in with U.S. domestic exports. Each month, the USITC makes available to the public the U.S. Census Bureau data on U.S. domestic exports to individual trade partners, with foreign exports removed, via its web portal (http://dataweb.usitc.gov/), typically within one to two days of the U.S. Census Bureau data release. **Given the availability, via the USITC, of the government trade data that separate out the foreign exports that falsely inflate U.S. export levels, why does USTR continue to use the data that conflate domestic and foreign exports?**

USTR Claim: USTR uses the official measure of trade balance, provided by the Census Bureau and available through the ITC's website, which provides an apples-to-apples comparison of "total exports" and "general imports." Again, you don't have to take our word for it. Here's what the ITC website says about the measure cited by USTR: "By subtracting general imports from total exports, the value of re-exports would appear to be 'cancelled out,' and hence the measure can be a good estimate of the net gain or loss of national revenue resulting from international trade." The ITC also notes that this is the measure used by Census, the UN, and the WTO. By contrast,

the approach suggested by the authors at the press conference results in creating the appearance of larger trade deficits and smaller trade surpluses because it mixes and matches items for comparison.

FACT: **Actually, USTR's quote of the USITC website text, noting that "[b]y subtracting general imports from total exports, the value of re-exports would appear to be 'cancelled out,'" applies to the U.S. trade balance with the entire world, not with individual countries.** And the quote makes that clear, with the USITC explaining that this method "can be a good estimate of the net gain or loss of national revenue resulting from international trade."[cclxi] That is, this calculation works for determining total U.S. net exports to the world, which is included in the formula to determine U.S. gross domestic product. But using this formula to calculate bilateral trade balances, as USTR does, distorts the results. Consider a good produced in China that enters the United States and then is re-exported to Mexico. USTR's method of calculating the U.S. trade balance with Mexico would count that good as a U.S. export to Mexico. This would inflate our exports to Mexico, and thus artificially reduce our trade deficit with Mexico. Yes, the net effect on the global U.S. trade deficit would be approximately zero (the import from China would be washed out by the export to Mexico in the total U.S. trade balance with the world). But as members of Congress assess the merits of entering into controversial pending FTAs that are based on the same model as past FTAs, they want to know the *actual* U.S. trade deficit with *individual* FTA partners – a deficit that is artificially reduced by USTR's inclusion of foreign exports.

USTR Claim (from The Hill): The office of the USTR points to data from the Department of Commerce that shows the U.S. has a trade surplus with its 20 free-trade partners when goods and services, non-energy goods, manufacturing, agriculture and services are included. That calculation yields for a $10.2 billion surplus in calendar year 2014.[cclxii]

FACT: USTR is cherry-picking data to get the result it seeks – choosing to exclude all goods deemed as relating to "energy," in sectors in which we have trade deficits. It is not clear what exactly USTR means by "non-energy goods." But even if excluding all fossil fuels, the U.S. "non-energy" goods balance with its FTA partners in 2014 was a *deficit* of about $112 billion. (This is using the designation for "fossil fuels" typically used by USTR – HTS 27.) Assuming a services trade surplus with FTA partners of $75-80 billion, the combined U.S. services and "non-energy" goods balance with its FTA partners in 2014 was still a $32-37 billion trade deficit. The only way that USTR can claim a "non-energy" goods and services surplus with FTA partners is by also counting a large array of manufactured products as "energy" related goods and thus excluding them from the deficit calculation, and/or by counting foreign-produced goods as "U.S. exports," which USTR regularly does. If USTR is also excluding billions of dollars' worth of manufactured products as "energy" goods, its assertion of an FTA trade surplus is even more dishonest, as many U.S. jobs depend on manufacturing, for example, wind turbines, electrical grid components, batteries and other energy-related products. It would be extremely misleading to claim that trade flows affecting these jobs do not matter.

Conclusion

It is little wonder that majorities of Republicans, Democrats and independents alike oppose the status quo trade pact model.[cclxiii] More than two decades of NAFTA, the WTO and NAFTA expansion pacts have contributed to surging U.S. trade deficits, widespread U.S. job loss, a flood of agricultural imports, downward pressure on middle-class wages and unprecedented levels of income inequality. Behind the aggregate data lie shuttered factories, lost livelihoods and struggling communities. These

outcomes directly contradict the rosy promises made by corporate interests to sell these controversial deals to a skeptical U.S. Congress and public. They also contradict President Obama's stated economic agenda to revive U.S. manufacturing, boost middle-class wages and tackle inequality[cclxiv] – an agenda that the TPP would undermine. The Obama administration's push for yet another NAFTA expansion deal casts a blind eye to the damaging legacy of the current trade model. With opinion polls showing that the U.S. public is painfully aware of this legacy, the administration's TPP push faces stiff opposition in the halls of Congress and the court of public opinion. Turning a blind eye to the lived realities of the NAFTA trade model is unlikely to prove a winning strategy.

Annex: Fact-Checking Corporate and Obama Administration Trade Data Distortions

Years of unfair trade deals modeled after NAFTA have contributed to ballooning U.S. trade deficits, mass offshoring of good U.S. jobs and a historic increase in U.S. income inequality. But rather than change our failed trade policies, the Obama administration appears bent on trying to hide the facts – by changing the data. As USTR pushes for the largest expansions of the NAFTA model to date – the proposed TPP and TAFTA – it has resorted to data distortions to obscure the dismal outcomes of past trade deals.

Below is a sampling of the administration's recent misleading claims, based on data distortions and omissions, alongside the sobering realities of status quo trade policies, based on official U.S. government data.

Administration Trade Myths	Reality
"Almost 95% of the world's consumers are outside America's borders."[cclxv]	**Less than 2 percent of the world's consumers** live in TPP countries with consequential tariffs. Most of those consumers live in Vietnam,[cclxvi] where minimum wages average less than **60 cents an hour**, meaning they earn too little to afford U.S. exports.[cclxvii]
"Through this agreement [the TPP], the Obama Administration seeks to boost U.S. economic growth"[cclxviii]	**The only U.S. government study on the TPP's likely impact on economic growth found that even if the deal eliminated *all* tariffs in *all* sectors in *all* countries, it would produce precisely 0.00 percent U.S. economic growth.**[cclxix]
"…exporters tend to pay their workers higher wages."[cclxx]	**Jobs lost to imports tend to pay even higher wages than jobs supported by exports. For example, EPI estimates that the average U.S. worker in an industry competing with imports from China earns $1,022 per week, while the**

	average worker in an industry that exports to China earns just $873 per week.[cclxxi]
See the data tricks behind USTR's TPP myths: http://www.citizen.org/trade-myths.	
"The largest factor affecting the trade balance with NAFTA countries is the importation of fossil fuels and their byproducts. If those products are excluded, there is no deficit.[cclxxii]	The fossil fuels share of our trade deficit with Mexico and Canada has declined under NAFTA, while **the total NAFTA deficit has surged 565 percent, topping $182 billion**.[cclxxiii]
"Since its entry into force, U.S. manufacturing exports to NAFTA have increased 258%"[cclxxiv]	Since NAFTA's enactment, **annual growth in U.S. manufacturing exports to Canada and Mexico has fallen 41 percent below the pre-NAFTA rate**.[cclxxv]
"…under NAFTA, U.S. trade with Canada and Mexico have supported over 140,000 small and medium-sized businesses."[cclxxvi]	**U.S. small firms' exports to NAFTA partners have grown only half as fast as their exports to the rest of the world**, and less than half as fast as large firms' exports to Canada and Mexico.[cclxxvii]
See the data tricks behind USTR's NAFTA myths: http://www.citizen.org/documents/NAFTA-USTR-data-debunk.pdf.	
"Largely due to these two external factors [declines in corn and fossil fuel exports], total U.S. goods exports to Korea were down 4.0% in 2013 compared to 2011 (pre-FTA)."[cclxxviii]	Our **trade deficit with Korea has ballooned 90 percent** under the FTA, and exports to Korea have fallen. Without corn and fossil fuels, the deficit rise and export fall remain.[cclxxix]
"U.S. exports of key agricultural products benefiting from tariff cuts and the lifting of other restrictions under KORUS continued to post significant gains."[cclxxx]	***Total* U.S. agricultural exports to Korea have *fallen* 5 percent** under the FTA.[cclxxxi]
"U.S. vehicle exports have more than doubled, increasing from 16,659 vehicles in 2011 to 37,914 vehicles in 2014."[cclxxxii]	**U.S. imports of passenger vehicles from Korea have ballooned by 416,893 vehicles** in the first three years of the Korea FTA, dwarfing the 24,217-vehicle increase in U.S. passenger vehicle exports to Korea.[cclxxxiii]
See the data tricks behind USTR's Korea FTA myths: http://citizen.org/documents/korea-fta-3-years.pdf.	

Corporate proponents of expanding the unpopular NAFTA model through the TPP and TAFTA have been hard at work to churn out "fact" sheets and studies praising the deals. But among the many sheets are few facts. Below we wade through the spin from corporate coalitions and industry-driven think tanks to debunk the counterfactual claims.

Corporate Trade Myths	Reality
Peterson Institute for International Economics: The TPP "promise[s] substantial benefits and could lead to...a more peaceful and prosperous world economy."[cclxxxiv] (It was the Peterson Institute that projected in 1993 that NAFTA would create 170,000 net new U.S. jobs in the pact's first two years.[cclxxxv] Instead, hundreds of thousands of U.S. jobs have been lost under NAFTA.[cclxxxvi])	Using optimistic assumptions, this pro-TPP study projected the deal could result in a meager 0.2 percent increase to U.S. gross domestic product (GDP)[cclxxxvii] – a fraction of the GDP increase from the fifth version of the iPhone.[cclxxxviii] CEPR finds that **for 9 out of 10 U.S. workers, these tiny gains likely would be outweighed by a TPP-spurred increase in income inequality**.[cclxxxix] The net result? A pay cut for all but the richest 10 percent.
Corporate alliances of the **"Trade Benefits America" coalition**: The TPP will "open new markets in countries that are not current FTA partners."[ccxc]	Under the Korea FTA – the U.S. template for the TPP – U.S. exports to Korea have actually fallen. Overall, **U.S. export growth to FTA partners has actually been 20 percent lower than to non-FTA partner countries**.[ccxci] How can we do more of the same and expect different results?
The **Third Way think tank**: the TPP would help the United States "increase U.S. exports by almost $600 billion" to "Asia-Pacific markets."[ccxcii]	This study's $600 billion projection was based on a hypothetical rise in exports to 12 countries. Seven are not even in the TPP. Two more are in the TPP but already have U.S. FTAs. **That leaves three of the 12 countries for which the TPP could even plausibly boost exports**...if we ignore the fact that past FTAs have not brought higher export growth.[ccxciii]
U.S. Chamber of Commerce: The TPP could create "700,000 new U.S. jobs."[ccxciv]	The Chamber did not say how they decided this would be the TPP's impact on jobs. They simply said it was based on the above Peterson Institute study, which included a miniscule GDP projection, but no jobs projection. **It is unclear how the Chamber pulled a jobs number from a study that did not produce one**.[ccxcv]
Emergency Committee for American Trade: "recent data suggest that trade agreements, on the whole, actually help to improve U.S. trade balances with FTA partner countries."[ccxcvi]	**The aggregate U.S. goods trade deficit with FTA partners has increased by more than $143 billion, or 427 percent**, since the FTAs were implemented. In contrast, the aggregate U.S. goods trade deficit with all non-FTA countries has decreased by more than $95 billion, or 11 percent, since 2006 (the median entry date of existing FTAs).[ccxcvii]

European Centre for International Political Economy: Elimination of tariffs under TAFTA could result in a 0.1 to 1 percent increase in U.S. GDP.[ccxcviii]	Tariffs between the European Union and the United States are already quite low. That is why this study on the potential impact of TAFTA tariff elimination produced paltry results. **Even if we accept the study's unrealistic assumption that TAFTA would eliminate 100 percent of tariffs, the projected gain would amount to an extra three cents per person per day**.[ccxcix]
Centre for Economic Policy Research: Assuming that TAFTA will not only eliminate tariffs, but "non-tariff barriers," the deal could produce a 0.2 – 0.4 percent increase in U.S. GDP.[ccc]	This study assumed that TAFTA would reduce or eliminate up to one out of every four "non-tariff barriers" – which, according to the study, could include Wall Street regulations, food safety standards and carbon controls. **The study used a hypothetical model to project tiny gains from this widespread degradation of public interest protections, while making no effort to measure the economic, social or environmental costs that would result**.[ccci]
The **Atlantic Council**, the **Bertelsmann Foundation**, and the **British Embassy**: Under TAFTA, "all states could gain jobs and increase their exports to the EU."[cccii]	This study was a recycled version of the one above from the Centre for Economic Policy Research. **It used the same assumption: that TAFTA would produce small economic gains from the weakening of financial regulations, milk safety standards, data privacy protections and other "trade irritants" – at no cost to consumers**.[ccciii]

ENDNOTES

[i] *See* Public Citizen, "U.S. Polling Shows Strong Opposition to More of the Same Trade Deals from Independents, Republicans and Democrats Alike," PC memo, July 2015. Available at: http://www.citizen.org/documents/polling-memo.pdf.

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[vi] U.S. Bureau of Labor Statistics, Current Employment Statistics survey, series ID CES3000000001, manufacturing industry, 2015.

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[viii] Alan Blinder, "On the Measurability of Offshorability" *Vox*, Oct. 9, 2009. Available at: http://voxeu.org/article/twenty-five-percent-us-jobs-are-offshorable.

[ix] Median wage data for 1979-2014: U.S. Bureau of Labor Statistics, "Weekly and Hourly Earnings Data from the Current Population Survey," Series ID LEU0252881600, extracted May 2015. Available at: http://data.bls.gov. Productivity data: U.S. Bureau of Labor Statistics, Major Sector Productivity and Costs index, Series ID PRS88003093, extracted May 2015. Available at: http://data.bls.gov. Data in this document are expressed in 2014 prices, unless otherwise noted, and were inflation-adjusted using the Consumer Price Index-U-RS calculated from 1977 through 2013 by the Bureau of Labor Statistics. Available at: http://www.bls.gov/cpi/cpiurs.htm. CPI-U-RS estimates prior to 1977 come from the U.S. Census Bureau. Available at: http://www.census.gov/hhes/www/income/data/incpovhlth/2010/CPI-U-RS-Index-2010.pdf. CPI-U-RS estimates for 2014 come from the inflation calculator of the Bureau of Labor Statistics. Available at: http://www.bls.gov/data/inflation_calculator.htm.

[x] Thomas Piketty and Emmanuel Saez, "The Evolution of Top Incomes: A Historical and International Perspective," National Bureau of Economic Research Paper 11955, January 2006; numbers updated through 2014 in a June 2015 extract, available at: http://www.econ.berkeley.edu/~saez/

[xi] *See* Public Citizen, "Don't Believe the Hype: Agricultural Exports Lag under Trade Deals, Belying Empty Promises Recycled for the TPP," PC memo, May 2015. Available at: http://www.citizen.org/documents/TPP-agriculture.pdf. These figures reflect food trade with the rest of the world, defined as the following USDA Foreign Agricultural Service aggregations: dairy products, fruits & preparations, grains & feeds, livestock & meats, oilseeds & products, other horticultural products, planting seeds, poultry & products, sugar & tropical products, tree nuts & preparations, and vegetables & preparations. Foreign Agricultural Service, "Global Agricultural Trade System," U.S. Department of Agriculture, accessed May 17, 2015. Available at: http://www.fas.usda.gov/gats/default.aspx.

[xii] *See* Public Citizen, "U.S. Polling Shows Strong Opposition to More of the Same Trade Deals from Independents, Republicans and Democrats Alike," PC memo, July 2015. Available at: http://www.citizen.org/documents/polling-memo.pdf.

[xiii] U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed February 20, 2015. Available at: http://dataweb.usitc.gov/. Throughout this document, trade data is expressed using U.S. domestic exports and imports for consumption.
[xiv] Public Citizen, "Job-Killing Trade Deficits Surge under FTAs: U.S. Trade Deficits Grow More Than 425% with FTA Countries, but Decline 11% with Non-FTA Countries," PC memo, February 2015. Available at: http://www.citizen.org/documents/FTA-V-No-FTA-Factsheet.pdf.
[xv] U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed February 20, 2015. Available at: http://dataweb.usitc.gov. Trade in fossil fuels is defined as HTS 27.
[xvi] U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed February 20, 2015. Available at: http://dataweb.usitc.gov.
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[xxv] 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 third (most recent) year of FTA implementation (April 2014 through March 2015). U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed May 12, 2015. Available at: http://dataweb.usitc.gov/.
[xxvi] For the ratio, *see* International Trade Administration, "Exports Support American Jobs," U.S. Department of Commerce, 2010, at 3. Available at: http://trade.gov/publications/pdfs/exports-support-american-jobs.pdf.
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[cxxxv] Justin R. Pierce and Peter K. Schott, "The Surprisingly Swift Decline of U.S. Manufacturing Employment," National Bureau of Economic Research, Working Paper 18655, December 2012, at 2. Available at: http://www.nber.org/papers/w18655.
[cxxxvi] David Autor et. al., "Import Competition and the Great U.S. Employment Sag of the 2000s," National Bureau of Economic Research, Working Paper 20395, August 2014, at Abstract. Available at: http://www.nber.org/papers/w20395.pdf. Yet another National Bureau of Economic Research study found a strong correlation between rising Chinese import competition from 1990 to 2007 and "significant falls in employment, particularly in manufacturing and among non-college workers," while finding "no net employment decline" from technological change. David H. Autor, David Dorn and Gordon H. Hanson, "Untangling Trade and Technology: Evidence from Local Labor Markets," National Bureau of Economic Research, Working Paper 18938, April 2013, at Abstract. Available at: http://www.nber.org/papers/w18938.pdf.
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[cxxxix] These figures compare data from the year before the FTA's implementation (April 2011 through March 2012) and data from the third (most recent) year of FTA implementation (April 2014 through March 2015). U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed May 12, 2015. Available at: http://dataweb.usitc.gov/.
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[cxli] Alan Blinder, "On the Measurability of Offshorability" *Vox*, Oct. 9, 2009. Available at: http://voxeu.org/article/twenty-five-percent-us-jobs-are-offshorable.
[cxlii] Alan Blinder and Alan Krueger, "Alternative Measures of Offshorability: A Survey Approach," Princeton University Center for Economic Policy Studies Working Paper No. 190, August 2009.
[cxliii] Jared Bernstein, James Lin and Lawrence Mishel, "The Characteristics of Offshorable Jobs," EPI report, November 2007, at 3.
[cxliv] *See* Public Citizen, "How Overreaching Trade Pact Rules Can Undermine Buy American Procurement Policies," PC memo, 2014. Available at: http://www.citizen.org/documents/buy-american.pdf.
[cxlv] 48 CFR 25.402

[cxlvi] *See* Public Citizen, "TPP Government Procurement Negotiations: Buy American Policy Banned, a Net Loss for the U.S." PC memo, 2015. Available at: https://www.citizen.org/documents/TPP-Buy-American.pdf.
[cxlvii] Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment,* (Washington, D.C.: Institute for International Economics, 1993), at 14.
[cxlviii] Statement of U.S. Trade Representative Mickey Kantor, National Press Club, May 1993.
[cxlix] Bill Clinton, "Nafta Will Create 200,000 American Jobs In Two Years," Philly.com, September 19, 1993. Available at: http://articles.philly.com/1993-09-19/news/25987801_1_global-trade-nafta-american-jobs.
[cl] Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment,* (Washington, D.C.: Institute for International Economics, 1993), at 14.
[cli] Bob Davis, "Free Trade Is Headed for More Hot Debate," *Wall Street Journal*, April 17, 1995.
[clii] Glenn Kessler, "The Obama administration's illusionary job gains from the Trans-Pacific Partnership," *The Washington Post*, January 30, 2015. Available at: http://www.washingtonpost.com/blogs/fact-checker/wp/2015/01/30/the-obama-administrations-illusionary-job-gains-from-the-trans-pacific-partnership/.

[cliii] For this paragraph and the accompanying graph: U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed February 20, 2015. Available at: http://dataweb.usitc.gov.
[cliv] Robert E. Scott, "Heading South: U.S.-Mexico trade and job displacement after NAFTA," Economic Policy Institute Briefing Paper 308, May 2011. Available at: http://www.epi.org/publication/heading_south_u-s-mexico_trade_and_job_displacement_after_nafta1/.
[clv] U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed February 20, 2015. Available at: http://dataweb.usitc.gov. Fossil fuel products are defined as HTS 27.
[clvi] U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed February 20, 2015. Available at: http://dataweb.usitc.gov. Exports are domestic exports and imports are imports for consumption, adjusted for inflation. Data is a comparison of the compound annual growth rates of the combined balance of the respective countries from 1993 through 2014.
[clvii] U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed February 20, 2015. Available at: http://dataweb.usitc.gov. Fossil fuel products are defined as HTS 27.
[clviii] U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed February 20, 2015. Available at: http://dataweb.usitc.gov. Manufacturing exports are defined as NAIC 31, 32, and 33 from 1997-2003, 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.
[clix] U.S. Bureau of Economic Analysis, "International Transactions, International Services, and International Investment Position Tables," accessed May 20, 2015. Available at: http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1#reqid=6&step=1&isuri=1. 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 2014).
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"In 1999, the last year for which data are available, ¾ million workers lost their jobs from the manufacturing sector. Of those, approximately ¼ million lost their jobs from industries facing heavy import competition (as defined by Lori Kletzer). Of those, only 30,000 workers, or less than 10 percent, received assistance under TAA."
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[clxiii] Public Citizen, "NAFTA's Broken Promises: Failure to Create U.S. Jobs," PC report, January 1997. Available at: http://www.citizen.org/trade/article_redirect.cfm?ID=1767.
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[clxviii] Thomas Piketty and Emmanuel Saez, "The Evolution of Top Incomes: A Historical and International Perspective," National Bureau of Economic Research Paper 11955, January 2006; numbers updated through 2014 in a June 2015 extract, available at: http://www.econ.berkeley.edu/~saez/
[clxix] Median wage data for 1979-2014: U.S. Bureau of Labor Statistics, "Weekly and Hourly Earnings Data from the Current Population Survey," Series ID LEU0252881600, extracted May 2015. Available at: http://data.bls.gov. Productivity data: U.S. Bureau of Labor Statistics, Major Sector Productivity and Costs index, Series ID PRS88003093, extracted May 2015. Available at: http://data.bls.gov.

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[clxxii] *See* Dean Baker, "Want 'free trade'? Open the medical and drug industry to competition," *The Guardian*, November 11, 2013. Available at: http://www.theguardian.com/commentisfree/2013/nov/11/support-real-free-trade-medical-costs.

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[clxxiv] *See* Public Citizen, "Table of Foreign Investor-State Cases and Claims under NAFTA and Other U.S. 'Trade' Deals," June 2015. Available at: http://www.citizen.org/documents/investor-state-chart.pdf.

[clxxv] Avraham Ebenstein, Ann Harrison and Margaret McMillan, "Why Are American Workers Getting Poorer? China, Trade and Offshoring," National Bureau of Economic Research, Working Paper 21027, March 2015, at Abstract. Available at: http://www.nber.org/papers/w21027.pdf.

[clxxvi] U.S. Bureau of Labor Statistics, "Displaced Workers Summary," Table 7, U.S. Department of Labor, Aug. 26, 2014. Available at: http://www.bls.gov/news.release/disp.nr0.htm.

[clxxvii] U.S. Bureau of Labor Statistics, "May 2014 National Industry-Specific Occupational Employment and Wage Estimates: Sectors 31, 32, and 33 – Manufacturing," Occupational Employment Statistics, U.S. Department of Labor, accessed June 24, 2015. Available at: http://www.bls.gov/oes/current/naics2_31-33.htm#00-0000.

[clxxviii] Bureau of Labor Statistics, Current Employment Statistics survey, series ID CEU7072000003, accommodation and food services industry, extracted June 11, 2015. Available at: http://www.bls.gov/ces/.

[clxxix] Dean Baker, *The United States Since 1980,* (Cambridge: Cambridge University Press, 2007), at 35-45.

[clxxx] Kate Bronfenbrenner, "The Effects of Plant Closing or Threat of Plant Closing on the Right of Workers to Organize," Cornell University, Prepared for North American Commission for Labor Cooperation, 1996, at 7. Available at: http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1000&context=intl.

[clxxxi] *See*, for example, James Sherk, "Technology Explains Drop in Manufacturing Jobs," The Heritage Foundation, October 12, 2010. Available at: http://www.heritage.org/research/reports/2010/10/technology-explains-drop-in-manufacturing-jobs.

[clxxxii] David H. Autor, David Dorn and Gordon H. Hanson, "Untangling Trade and Technology: Evidence from Local Labor Markets," National Bureau of Economic Research, Working Paper 18938, April 2013, at Abstract. Available at: http://www.nber.org/papers/w18938.pdf.

[clxxxiii] Michael W. L. Elsby, Bart Hobijn and Aysegul Sahin, "The Decline of the U.S. Labor Share," Brookings Papers on Economic Activity, Fall 2013, at 1, 43 and 47. Available at: http://www.brookings.edu/~/media/Projects/BPEA/Fall%202013/2013b_elsby_labor_share.pdf.

[clxxxiv] Florence Jaumotte, Subir Lall and Chris Papageorgiou, "Rising Income Inequality: Technology, or Trade and Financial Globalization?" International Monetary Fund, Working Paper 08/185, July 2008, at 14. Available at: http://www.imf.org/external/pubs/ft/wp/2008/wp08185.pdf.

[clxxxv] William R. Cline, Trade and Income Distribution (Washington, D.C.: Institute for International Economics, 1997).

[clxxxvi] The 7 percent estimate is actually the lower of two estimates produced by the model in Cline's report. Using the sectoral elasticities of the original model, Cline found that trade flows contributed to a 10 percent increase the wage ratio, or 56 percent of the observed increase in wage inequality. It is after narrowing the gap between sectoral elasticities in a sensitivity test that Cline produced the 7 percent estimate. William R. Cline, *Trade and Income Distribution* (Washington, D.C.: Institute for International Economics, 1997), at 232.

[clxxxvii] William R. Cline, *Trade and Income Distribution* (Washington, D.C.: Institute for International Economics, 1997), at 254.

[clxxxviii] William R. Cline, *Trade and Income Distribution* (Washington, D.C.: Institute for International Economics, 1997), at 268. Cline estimated that an increase in the supply of skilled labor relative to unskilled labor should have accounted for a 40 percent gross *decrease* in the skilled/unskilled wage ratio during the time period of study. Given the observed 18 percent net *increase* in the wage ratio, Cline calculated that a 97 percent gross increase must have been the total effect from all inequality-exacerbating factors (e.g. trade, immigration, deunionization, etc.). The unchained sum of the

inequality contribution of all these factors amounted to 75 percentage points. See Cline's summary table on page 264 for more information.

[clxxxix] William R. Cline, *Trade and Income Distribution* (Washington, D.C.: Institute for International Economics, 1997), at 145-146.

[cxc] William R. Cline, *Trade and Income Distribution* (Washington, D.C.: Institute for International Economics, 1997), at 35-150 (see summary table at 140-143).

[cxci] William R. Cline, *Trade and Income Distribution* (Washington, D.C.: Institute for International Economics, 1997), at 264.

[cxcii] William R. Cline, *Trade and Income Distribution* (Washington, D.C.: Institute for International Economics, 1997), at 268.

[cxciii] William Cline, "Trade and Income Distribution: The Debate and New Evidence," Peterson Institute for International Economics, Policy Brief 99-7, September 1999. Available at: http://www.iie.com/publications/pb/pb.cfm?ResearchID=94. It should be noted that Cline's decision to assign half of the unexplained gross inequality contribution to skill biased technical change is more prudent than other studies that have attributed 100 percent of unexplained inequality contributions to this factor without serious substantiation. Still, an arbitrary assignment of any significant portion of such a large unexplained category to any factor seems inappropriate without more rigorous, data-based justification.

[cxciv] Avraham Ebenstein, Ann Harrison and Margaret McMillan, "Why Are American Workers Getting Poorer? China, Trade and Offshoring," National Bureau of Economic Research, Working Paper 21027, March 2015, at Abstract. Available at: http://www.nber.org/papers/w21027.pdf.

[cxcv] Avraham Ebenstein, Ann Harrison and Margaret McMillan, "Why Are American Workers Getting Poorer? China, Trade and Offshoring," National Bureau of Economic Research, Working Paper 21027, March 2015, at 14-17. Available at: http://www.nber.org/papers/w21027.pdf.

[cxcvi] Avraham Ebenstein, Ann Harrison and Margaret McMillan, "Why Are American Workers Getting Poorer? China, Trade and Offshoring," National Bureau of Economic Research, Working Paper 21027, March 2015, at 7. Available at: http://www.nber.org/papers/w21027.pdf.

[cxcvii] Denis Chetverikov, Bradley Larsen, and Christopher Palmer, "IV Quantile Regression for Group-level Treatments, with an Application to the Distributional Effects of Trade," National Bureau of Economic Research, Working Paper 21033, March 2015, at 15. Available at: http://www.nber.org/papers/w21033.pdf.

[cxcviii] Michael W. L. Elsby, Bart Hobijn and Aysegul Sahin, "The Decline of the U.S. Labor Share," Brookings Papers on Economic Activity, Fall 2013, at 1. Available at: http://www.brookings.edu/~/media/Projects/BPEA/Fall%202013/2013b_elsby_labor_share.pdf.

[cxcix] Michael W. L. Elsby, Bart Hobijn and Aysegul Sahin, "The Decline of the U.S. Labor Share," Brookings Papers on Economic Activity, Fall 2013, at 43. Available at: http://www.brookings.edu/~/media/Projects/BPEA/Fall%202013/2013b_elsby_labor_share.pdf.

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[cci] Josh Bivens, "Using Standard Models to Benchmark the Costs of Globalization for American Workers without a College Degree," Economic Policy Institute, Briefing Paper #354, March 22, 2013, at 6. Available at: http://s3.epi.org/files/2013/standard-models-benchmark-costs-globalization.pdf. Income inequality is measured here as the wage ratio of U.S. workers with a college degree versus those without one.

[ccii] Josh Bivens, "Using Standard Models to Benchmark the Costs of Globalization for American Workers without a College Degree," Economic Policy Institute, Briefing Paper #354, March 22, 2013, at 6. http://s3.epi.org/files/2013/standard-models-benchmark-costs-globalization.pdf.

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[cciv] Josh Bivens, "Using Standard Models to Benchmark the Costs of Globalization for American Workers without a College Degree," Economic Policy Institute, Briefing Paper #354, March 22, 2013, at 9. http://s3.epi.org/files/2013/standard-models-benchmark-costs-globalization.pdf.

[ccv] Florence Jaumotte, Subir Lall and Chris Papageorgiou, "Rising Income Inequality: Technology, or Trade and Financial Globalization?" International Monetary Fund, Working Paper 08/185, July 2008, at 14. Available at: http://www.imf.org/external/pubs/ft/wp/2008/wp08185.pdf.

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[ccxii] *See* Public Citizen's analysis of the leaked TPP investment chapter: Lori Wallach and Ben Beachy, "Analysis of Leaked Trans-Pacific Partnership Investment Text," Public Citizen memo, March 25, 2015. Available at: https://wikileaks.org/tpp-investment/TPP-Investment-Chapter-Analysis.pdf.
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[ccxiv] U.S. State Department, "Vietnam 2014 Human Rights Report," 2015, at 43 and 47. Available at: http://www.state.gov/documents/organization/236702.pdf.
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[ccxxi] "Food" includes FATUS classifications: dairy products, fruits & preparations, grains & feeds, livestock & meats, oilseeds & products, other horticultural products, planting seeds, poultry & products, sugar & tropical products, tree nuts & preparations, and vegetables & preparations.
[ccxxii] National Agricultural Statistics Service, "Quick Stats," U.S. Department of Agriculture, accessed March 5, 2015. Available at: http://quickstats.nass.usda.gov/.
[ccxxiii] All data on agricultural trade under the Korea FTA compare the average annual export level in the three years before and after the FTA took effect (April 2009 through March 2012 vs. April 2012 through March 2015).
[ccxxiv] U.S. beef exports to Korea fell 7,445 metric tons if comparing the year before implementation and the FTA's third year, or rose 4,031 metric tons if comparing the three year averages before and after the FTA.
[ccxxv] Wine Institute, "2014 California Wine Sales Grow 4.4% by Volume and 6.7% by Value in the U.S.," May 19, 2015. Available at: https://www.wineinstitute.org/resources/pressroom/05192015.

[ccxxvi] All data in this section, unless otherwise noted, from U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed May 20, 2015. Available at: http://dataweb.usitc.gov/. All figures in this section, unless otherwise noted, compare trade flows in the year before the Korea FTA took effect (April 2011 through March 2012) and in the recently-completed third year of implementation (April 2014 through March 2015).
[ccxxvii] Office of the U.S. Trade Representative, "U.S. Korea Trade Agreement: More Exports. More Jobs," accessed August 15, 2015. Available at: https://ustr.gov/uskoreaFTA.
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[ccxxxv] Fossil fuels defined as HTS 27 and corn is defined as "corn" in the FATUS classification system.
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[ccxxxvii] World Bank, "GDP (current US$)," accessed August 20, 2015. Available at: http://data.worldbank.org/indicator/NY.GDP.MKTP.CD. .
[ccxxxviii] U.S. Census Bureau, "Trade Definitions," accessed May 20, 2015. Available at: https://www.census.gov/foreign-trade/reference/definitions/index.html#F.
[ccxxxix] Foreign exports can be found by subtracting "U.S. domestic exports" from "U.S. total exports." U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed May 20, 2015. Available at: http://dataweb.usitc.gov/.
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[ccxliii] U.S. Census Bureau, "Statistics of U.S. Businesses (SUSB): U.S. & states, totals" U.S. Department of Commerce, 2012, January 23, 2015. Available at: http://www.census.gov/econ/susb/.
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[ccxlv] Government data show that existing FTAs have actually failed to boost U.S. exports for U.S. firms overall, as exports have grown more slowly to FTA countries than to the rest of the world over the last decade. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed February 20, 2015. Available at: http://dataweb.usitc.gov/.
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[ccxlviii] U.S. Census Bureau, "A Profile of U.S. Exporting Companies, 1996-1997," U.S. Department of Commerce, Exhibit 5a, 1997. Available at: https://www.census.gov/foreign-trade/aip/edbrel-9697.pdf. U.S. Census Bureau, "A Profile of U.S. Importing and Exporting Companies, 2012 – 2013," U.S. Department of Commerce, Exhibit 5a, April 7, 2015. Available at: https://www.census.gov/foreign-trade/Press-Release/edb/2013/edbrel.pdf. Figures reflect the inflation-adjusted change in exports to Canada and Mexico from 1996 to 2013 for U.S. exporters with fewer than 100 employees and U.S. exporters with more than 500 employees. Dollar amount expressed in 2015 U.S. dollars.

[ccxlix] U.S. Census Bureau, "A Profile of U.S. Importing and Exporting Companies, 2012 – 2013," U.S. Department of Commerce, Exhibit 5a, April 7, 2015. Available at: https://www.census.gov/foreign-trade/Press-Release/edb/2013/edbrel.pdf. U.S. Census Bureau, "Statistics of U.S. Businesses (SUSB): U.S. & states, totals" U.S. Department of Commerce, 2012, January 23, 2015. Available at: http://www.census.gov/econ/susb/. Figures reflect a comparison of firms with fewer than 100 employees and firms with more than 500 employees.

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[ccliii] Letter from eight members of Congress to USTR Froman, March 19, 2015. Available at: http://delauro.house.gov/images/pdf/03.19.15USTRDataLetter.pdf.

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[cclviii] *See*, for example, U.S. International Trade Commission, "U.S.-Korea Free Trade Agreement: Potential Economy-Wide and Selected Sectoral Effects," September 2007. Available at: http://www.usitc.gov/publications/332/pub3949.pdf. The figures reported by USITC in the statutorily-required report align with the official figures for "U.S. domestic exports," not the "U.S. total exports" figures that include "foreign exports." For example, on page 1-5 the report states, "U.S. merchandise exports to Korea were valued at $30.8 billion in 2006…" The USITC Dataweb shows that "U.S. domestic exports" to Korea in 2006 totaled $30.8 billion, as stated in the USITC report. In contrast, "U.S. total exports" (which include "foreign exports") in 2006 amount to $32.5 billion. U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed March 31, 2015. Available at: http://dataweb.usitc.gov.

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[cclxiii] *See* Public Citizen, "U.S. Polling Shows Strong Opposition to More of the Same Trade Deals from Independents, Republicans and Democrats Alike," PC memo, July 2015. Available at: http://www.citizen.org/documents/polling-memo.pdf.
[cclxiv] *See* President Obama, State of the Union speech, January 20, 2015. Available at: https://www.whitehouse.gov/the-press-office/2015/01/20/remarks-president-state-union-address-january-20-2015.
[cclxv] White House, "State of the Union: Stay Engaged," January 2015. Available at: https://www.whitehouse.gov/sotu/0ddef103afab445965c841bf36119cb2.
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[cclxvii] Vietnam government, Decree 182/2013/ND-CP, 2014. Available at: http://www.wageindicator.org/main/salary/minimum-wage/vietnam.
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[cclxx] President Obama, State of the Union address, January 20, 2015. Available at: https://www.whitehouse.gov/the-press-office/2015/01/20/remarks-president-state-union-address-january-20-2015.
[cclxxi] Robert E. Scott, "Less Than Half the Truth: Jobs and Wages in Export Industries," Economic Policy Institute blog, February 11, 2015. Available at: http://www.epi.org/blog/less-than-half-the-truth-jobs-and-wages-in-export-industries/.
[cclxxii] Office of the U.S. Trade Representative, "North American Free Trade Agreement (NAFTA)," 2015, accessed August 15, 2015. Available at: https://ustr.gov/trade-agreements/free-trade-agreements/north-american-free-trade-agreement-nafta.
[cclxxiii] U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed February 20, 2015. Available at: http://dataweb.usitc.gov.
[cclxxiv] Office of the U.S. Trade Representative, "North American Free Trade Agreement (NAFTA)," 2015, accessed August 15, 2015. Available at: https://ustr.gov/trade-agreements/free-trade-agreements/north-american-free-trade-agreement-nafta.
[cclxxv] U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed February 20, 2015. Available at: http://dataweb.usitc.gov. Manufacturing exports are defined as NAIC 31, 32, and 33 from 1997-2003, 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.
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[cclxxviii] Office of the U.S. Trade Representative, "Fact Sheet: U.S.-Korea Free Trade Agreement," March 2015. Available at: https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2015/march/fact-sheet-us-korea-free-trade-agreement.
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[cclxxxiii] Passenger vehicles are defined to match USTR's definition – the official International Trade Administration classification for "passenger vehicles and light trucks" and "passenger vehicles, used." International Trade Administration, "Office of Aerospace and Automotive Industries' Automotive Team' Retrieval Codes for Road Motor Vehicles," accessed March 20, 2015. Available at: http://trade.gov/mas/manufacturing/OAAI/tg_oaai_003803.asp. U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed May 20, 2015. Available at: http://dataweb.usitc.gov.
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[cclxxxv] Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment,* (Washington, D.C.: Institute for International Economics, 1993), at 14.
[cclxxxvi] Robert E. Scott, "Heading South: U.S.-Mexico trade and job displacement after NAFTA," Economic Policy Institute Briefing Paper 308, May 2011. Available at: http://www.epi.org/publication/heading_south_u-s-mexico_trade_and_job_displacement_after_nafta1/.
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[ccxci] Public Citizen, "Job-Killing Trade Deficits Surge under FTAs: U.S. Trade Deficits Grow More Than 425% with FTA Countries, but Decline 11% with Non-FTA Countries," PC memo, February 2015. Available at: http://www.citizen.org/documents/FTA-V-No-FTA-Factsheet.pdf.
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Second Written Submission of

Lori Wallach
Director, Public Citizen's Global Trade Watch

before

U.S. International Trade Commission

on

"Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2021 Report"

November 6, 2020

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Mister Chairman and members of the Commission, thank you for the opportunity to testify on October 6, 2020 on the economic impact of trade agreements implemented since 1985 under trade authorities procedures so as to contribute to the Section 105(f)(2) report required by the Bipartisan Congressional Trade Priorities and Accountability Act of 2015. I am Lori Wallach, director of Public Citizen's Global Trade Watch. Public Citizen is a national public interest organization with more than 500,000 members and supporters. For more than 45 years, we have advocated for consumer protections and more generally for government and corporate accountability.

With the objective of providing further information in response to questions posed by the commissioners during the hearing, this submission includes:

1. Reference to academic literature demonstrating that capital mobility and the threat of capital mobility have had a profound impact on the ability of American workers to exercise their rights to freedom of association and collective bargaining.

2. Information about the level of wages in Mexico and recent research conducted by Public Citizen concerning the state of play of the implementation of the labor commitments adopted by Mexico through the revised North American Free Trade Agreement (NAFTA).

3. Reference to computable general equilibrium (CGE) models that do not assume full employment and, hence, display considerably different results compared to ITC projections based on full employment assumptions.

4. Data supporting our statement that the 2012 U.S.-Korea FTA (KORUS), not other factors, could have led to the decline on U.S. exports to the Korean market after the pact was adopted.

5. Comments regarding Chairman Kearns' observations in footnotes to the United States International Trade Commission (ITC) "*U.S.-Mexico-Canada Trade Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors*" report (USMCA report).

1. Capital Mobility Has Eroded Labor Bargaining Power and Organizational Capacity

During the hearing, another witness mentioned the potential contribution of trade agreements, specifically FTA investor protections, to increased capital mobility and job offshoring, which has greatly weakened labor's bargaining power, and noted the absence of this factor being included in the economic modelling methodology used by the ITC to assess the economic impact of trade agreements.

Concerning this point, we would like to draw the Commissioners' attention to the study requested by the United States Trade Deficit Review Commission from researchers at Cornell University that demonstrated that capital mobility and the threat of capital mobility has a profound impact on the ability of American workers to exercise their rights to freedom of association and collective bargaining.[1] The Cornell researchers collected detailed data on the extent, nature, and impact of plant

[1] Kate Bronfenbrenner (2000). *Uneasy terrain: The impact of capital mobility on workers, wages, and union organizing* [Electronic version]. Ithaca, NY: Available at: http://digitalcommons.ilr.cornell.edu/reports/3/

closings and plant closing threats for a random sample of more than 400 National Labor Relations Board (NLRB) certification election campaigns that took place between January 1, 1998 and December 31, 1999.

The researchers found that when reviewing industries subject to offshoring, such as manufacturing and communications, 68% of unionization campaigns faced threats of plant closings, compared to a 36% threat rate in relatively immobile industries such as construction, health care, education, retail, and other services. Additionally, the Cornell research revealed that the union election win rate associated with campaigns where the employer made plant closing threats was 38%, which was significantly lower than the 51%-win rate for unionization campaigns against which no threats of closings occurred. Furthermore, win rates were lowest, averaging only 32% in campaigns with threats in mobile industries. Notably, in 18% of the campaigns with threats, the employer directly threatened to move to another country if the workers voted to establish a union, with Mexico being the country most often mentioned in plant closing threats.

The study concluded that international trade and investment policies, combined with ineffective domestic labor laws and enforcement, had created a climate that emboldened employers to threaten to close, or actually close plants to avoid unionization. The Cornell researchers recommended that trade pacts include strong and enforceable labor standards and that trade and tax policies provide disincentives to companies that seek to move employment out of the country in response to union campaigns.

2. Wages in Mexico Are Artificially Low and Labor Reform Implementation Faces Serious Challenges

Threats to offshore jobs in U.S. plants to Mexico are inextricably linked to a second subject which was widely discussed during the hearing: Mexico's labor conditions and low wages and whether these will be changed by the labor reform commitments undertaken by the Mexican government during the renegotiation of NAFTA. Additionally, several comments made by Chairman Kearns in footnotes of the ITC's USMCA assessment report relate to this topic.

A main broken promise of NAFTA that directly affects the conditions of workers in the United States is related to wage rates in Mexico. Workers in Mexico and the United States were promised that NAFTA would raise wages and specifically that it would bring Mexicans' standards of living closer to those in the United States and Canada.[2] However, more than two decades after NAFTA's entry into force, the manufacturing wage in Mexico is now 40% lower than in China.[3] Yes, wages in China have risen but Mexican real wages also have declined, especially after 2003. This has exerted downward pressure on wages in the United States and fueled corporate threats to relocate production in the face of union drives or wage demands and/or incentivized the offshoring of production to Mexico.

[2] President Carlos Salinas de Gortari, "Transcript of Commencement Address by President Carlos Salinas de Gortari of Mexico," Massachusetts Institute of Technology (MIT) News Office, June 1993, accessed Sept. 18, 2018. Available at: http://tech.mit.edu/V113/ N29/salinas.29n.html.
[3] Pan Kwan Yuk, "Want Cheap Labour? Head to Mexico, not China," Financial Times, Jan. 14, 2016. Available at: https://www.ft.com/content/bddc8121-a7a0-3788-a74c-cd2b49cd3230.

That Mexican wages did not rise was, unfortunately, predictable. Despite Mexico's Constitution seemingly guaranteeing strong labor rights for workers, in practice Mexican labor law provided opportunities for labor agencies and unions to systematically favor the interests of employers. This government-employer collaboration resulted in the suppression of Mexican wages over decades regardless of productivity gains or industry profitability. In an attempt to leverage the renegotiation of NAFTA to redress Mexico's broken labor regime, congressional Democrats insisted that the revised NAFTA include enforceable labor standards and commitments by Mexico to create new institutions that would uphold the new rights. Congressional Democrats insisted that until such changes to both substantive union democracy protections and labor institutions were enacted in Mexican federal law, no vote on a revised NAFTA could occur. In May 2019, the Mexican Congress revised Mexico's labor law to implement 2017 constitutional reforms, as well as to implement new labor obligations included in the revised NAFTA. In sum, these changes were designed to replace Mexico's employer-compliant "protection" unions with independent unions voted into place by workers and that represent workers' interests. The new law also required the establishment of new institutions to implement the new rights.

Progress on establishing the required new federal and state-level labor institutions has been slow and uneven since the law's enactment 18 months ago. One problem is that the new, independent labor bodies responsible for registering independent unions and adjudicating disputes will not be operational until 2022 at the soonest in the most industrialized Mexican states with the most troubled labor relations. Review of the Mexican government's plan to phase in the new institutions over the next three years reveals that these locations, which also have the most foreign investment and generate a large share of Mexico's exports, would be last to set up the new structures.

The states that represent 50% of Mexico's industrial activities and that most direly require independent, reliable institutions to solve conflicts between labor and employers have at least two years before the independent labor bodies required by the new law must be operational and indeed the exact deadline remains unclear, as we show in the tables below. And, even when the new institutions become operational, the old problematic local boards will continue functioning to resolve disputes that were initiated before the new conciliation centers and labor courts begin to function. Recently a chairman of one existing state labor board noted that his institution would operate for at least three years after the new institutions are launched in his state because the old board must clear a backlog of 6000 already-filed cases.

a. The Elements of Mexico's Labor Law Reform

There are three main elements of the new policy: (i) the strengthening of union democracy; (ii) the establishment of independent union registration; and (iii) a new labor justice system. These reforms were mandated both by the 2017 constitutional reform and by the terms of the revised NAFTA's labor chapter.

Union Democracy:

A key obstacle for union democracy in Mexico is the existence of numerous protection unions that negotiate and enter into collective bargaining agreements (CBAs) with employers without consent

from workers.[4] "Protection union" refers to a practice problematically common in Mexico of employers working with "union" officials to register a union and sign a CBA with low wages and other terms that protect the employer's interests without workers having any say and often before any workers are even hired.[5]

The reformed Federal Labor Law requires personal, free, direct, and secret-ballot elections to choose union leadership (Revised FLL Article 371) and to authorize the negotiation, approval, and verification of CBAs (Revised FLL Articles 390 Ter and 400 Bis). Unions are required to amend their bylaws to guarantee that these conditions are met.

In addition, Revised FLL transitional Article 11 requires that all collective bargaining agreements must be verified before December 2023 to guarantee that they are supported by a majority of workers through personal, free, direct, and secret-ballot voting. That means all existing contracts not approved by workers that were the handywork of protection unions must be brought to a vote to either be approved by workers or replaced.

Independent Union Registration and Conciliation Proceedings:

For decades, Mexico's Labor and Social Welfare Secretariat (STPS) was the entity in charge of union registration at the federal level and Conciliation and Arbitration Boards (*Juntas de Conciliación y Arbitraje*) at the state level. Both the Secretariat and the boards favored protection unions with close ties with the two business-friendly conservative Mexican political parties, the PRI and the PAN.[6]

Under the new system, the registration of unions will become the responsibility of a new independent national entity. This entity, the Federal Center of Conciliation and Labor Registration (FCCLR) was established on January 6, 2020. It is required to be a public, independent, and "decentralized" [7] institution. As well as registering unions, collective bargaining agreements, and union bylaws, this body will be responsible for verifying union democracy proceedings—such as the election of union leadership or CBA ratifications. It also is the venue for mandatory conciliation processes for labor conflicts at the federal level prior to such disputes going to the new federal labor courts that the law also established.[8]

The new law also requires establishment of state-level conciliation centers and labor courts to handle disputes over union contracts, union elections and other issues that fall outside of federal jurisdiction.[9] What is in federal versus state jurisdiction with respect to labor issues is enumerated in the reforms to

[4] Álvaro Santos, The Lessons of TPP and the Future of Labor Chapters in Trade Agreements, Megaregulation Contested: Global Economic Ordering After TPP, at 140–74, (Oxford: Oxford University Press, 2019).
[5] See Carlos de Buen Unna, Collective Bargaining Agreements for Employer Protection ("Protection Contracts") in Mexico, Friedrich Ebert Foundation, December 2011, Available at: https://www.academia.edu/7879996/Collective_Bargaining_Agreements_for_Employers_Protection_in_Mexico.
[6] Santos *supra* note 3, at 409.
[7] Decentralized means entities operating autonomously from the federal government with their own budget and legal capacity.
[8] Coordination Council for the Implementation of the Labor Justice System Reform, *Estrategia Nacional para la Implementación del Sistema de Justicia Laboral*, at 9. Available at: https://reformalaboral.stps.gob.mx/#documentos
[9] Santos *supra* note 3, at 12.

Mexico's Constitution. Under Article 123, Section A, Subsection XXXI of the Mexican Constitution, broadly speaking, there is federal jurisdiction in three scenarios. First, disputes arising in certain economic sectors, such as textiles, electronics, sugar, metals, oil and gas, cement, and mining, are to be resolved by federal institutions. Second, whenever a dispute involves two states or more, federal institutions are to address the conflict. Third, federal institutions have jurisdiction over disputes involving state-owned enterprises, companies executing federal government contracts, and firms operating on federal territory, such as territorial waters. As a general matter, all other labor disputes are to be resolved at the state level.

New Labor Justice System:

Under the old system, disputes between workers and employers are resolved by tripartite Conciliation and Arbitration Boards (*Juntas de Conciliación y Arbitraje*) located in each state that are part of the Mexican executive branch and that generally reached decisions favorable to employers and protection unions.[10] The reform requires that the old bodies be replaced by a new set of labor courts, which are to be established at both the federal and state judicial level, to adjudicate disputes. Among other issues, these new labor courts will hear disputes relating to union representation challenges, for instance when union leaders are not elected by free and secret-ballot voting. And, to remedy past, lengthy delays in adjudicating conflicts, new procedures and timelines are established for the new courts to issue timely decisions.[11]

b. The Current Status of Implementation of the Reform

The Mexican government's record on establishing the new labor institutions at both the federal and state level has not inspired confidence. While the law does not require the new labor institutions to operate prior to May 1, 2023, the government has extended the timelines set out in its implementation plan for states to set up the independent labor courts that are critical to workers exercising their new rights. While some of these changes were necessitated by the pandemic, the implementation schedule's constant modification raises doubts about when key changes to Mexico's labor regime will actually go into effect. While one consistent feature of each schedule of compliance is that the most industrialized states that have had the most strikes and the most labor disputes and thus the greatest need for rapid implementation of the new law, have the longest timelines to comply. (These are also the states that receive the highest amounts of foreign direct investment (FDI) and that represent the largest share of exports of the country.) Each proposed schedule allows the states that represent 50% of Mexico's industrial activities to have at least three years before the independent labor bodies required by the new law must be operational.

Mexico created a Coordination Council for the Implementation of the Labor Justice System Reform (Implementation Council) to implement the changes required by the labor reform. The council is composed of representatives of the Labor and Social Welfare Secretariat, Finance Secretariat, the judiciary, the National Conference of Governors, and the National Conference of Labor Secretaries. Among other actions, the Implementation Council issued the "National Strategy for Implementation of

[10] *Id*., at 409.
[11] Coordination Council for the Implementation of the Labor Justice System Reform, *Estrategia Nacional para la Implementación del Sistema de Justicia Laboral*, at 17. Available at: https://reformalaboral.stps.gob.mx/#documentos

Labor Reform" and also determined the schedule for phasing in the new bodies required by the labor justice system.

The rest of this section describes the current state of play, first, examining the deadlines for unions to modify their bylaws to include the new conditions established by the revised FLL, and, second, taking a deep dive into the timeline for standing up the new labor justice system.

Deadlines to Modify Union Bylaws:

A worrying example of implementation schedule rollbacks relates to unions' obligations to modify their bylaws to abide by the personal, free, direct, and secret-ballot election requirements. Revised FLL transitional Articles 22 and 23 established the statutory deadlines by which unions must modify their bylaws. Specifically, they should have modified voting proceedings for union leadership elections by December 2, 2019, and the rules governing the approval and review of CBAs by May 1, 2020.[12]

By December 2019, the Labor and Social Welfare Secretary acknowledged there was a problem, especially for unions with state-level registration.[13] As of July 2020, only 9.5% of local unions had modified their bylaws.[14] This prompted the Implementation Council to extend the deadline, arguing that the COVID-19 pandemic was a major obstacle for union members to gather and modify bylaws.[15] The Implementation Council granted unions 45 additional days to change the voting rules related to approval and verification of CBAs and 17 days for those related to union leadership. The new timelines will begin when a state's health authorities reopen activities by the public sector. Some Mexican legal scholars are of the opinion that the Implementation Council does not have the legal authority to extend a deadline contained in legislation.[16] Whether or not this action involved the Labor Secretariat usurping legislative functions, it remains to be seen whether local unions will comply by the new deadlines and what will happen if they do not.

New Labor Justice System Implementation Schedules:

The Council decided that the new labor justice system would be implemented in three phases. Each of the 32 Mexican states would be assigned to one phase and a corresponding deadline set by which the new institutions are to be operational. That means the states in the last phase would have until May 1, 2022 to establish the new state labor courts to adjudicate conflicts and the state conciliation centers to handle cases on a pre-judicial stage. The new regime of the FCCLR and the federal labor courts would

[12] Id. at 25.
[13] Redacción, "*Modifican estatutos 80% de sindicatos.*", El Pulso Laboral, Dec. 17, 2019. Available at: https://elpulsolaboral.com.mx/sindicatos/20192/modifican-estatutos-80-de-sindicatos
[14] Alejandro Páez Morales, "*90% de sindicatos locales no han modificado sus estatutos: STPS*", Crónica.com.mx, July 27, 2020. Available at: https://www.cronica.com.mx/notas-90_de_sindicatos_locales_no_han_modificado_sus_estatutos_stps-1159873-2020
[15] Labor and Social Welfare Secretariat, "*Acuerda CCIRJL ampliación de plazos establecidos en la Reforma Laboral para modificar estatutos sindicales*", April 20, 2020. Available at: https://www.gob.mx/stps/prensa/acuerda-ccirjl-ampliacion-de-plazos-establecidos-en-la-reforma-laboral-para-modificar-estatutos-sindicales
[16] Lía Limón García, "*El nuevo sindicalismo: un pendiente de Luisa María Alcalde*," El Universal, July 30, 2020. Available at: https://www.eluniversal.com.mx/opinion/lia-limon-garcia/el-nuevo-sindicalismo-un-pendiente-de-luisa-maria-alcalde

also only be operational in those states at that point, with the problematic old system remaining in place until then, and even later, to resolve disputes initiated before the new institutions are operational. Initially, the Council of the Federal Judiciary, the body in charge of the administration of the judicial branch in Mexico, suggested the new system be phased in by Mexican states according to the schedule below. Notably, the states with fewer, new labor dispute cases per year on average would have the new system operational first, while states with the highest levels of activity are left to the last year.

Table 1. Phased Implementation Order Proposed by the Council of the Federal Judiciary

Phase 1	Phase 2	Phase 3
Aguascalientes	Baja California	Ciudad de México
Baja California Sur	Campeche	Chihuahua
Chiapas	Estado de México	Coahuila
Colima	Guanajuato	Jalisco
Durango	Hidalgo	Nuevo León
Guerrero	Michoacán	Puebla
Nayarit	Morelos	Tabasco
Oaxaca	Querétaro	Tamaulipas
Quintana Roo	San Luís Potosí	Veracruz
Zacatecas	Sinaloa	
	Sonora	
	Tlaxcala	
	Yucatán	

Source: Council of the Federal Judiciary[17]

Then, on July 5, 2019, the Labor and Social Welfare Secretary proposed to the Implementation Council a list of 10 states to be part of Phase One: Baja California Sur, Campeche, Colima, Durango, Hidalgo, Guanajuato, Nayarit, Oaxaca, Tlaxcala, and Zacatecas. This list was based on the Council of the Federal Judiciary's proposal, which used as its only criterion the average number of new cases per year in each state, but also included other states that expressed interest and willingness to participate in Phase One of the implementation process.[18] At this point, the first stage comprised 10 states where the new labor institutions should be completely functional in October 2020. In October 2021, the 11 states of Phase Two should have the new labor institutions operational, and, finally, in May 2022 the remaining 11 states are required to have the new system operational.

The Phase One list has been constantly modified during the last year, and most official documents do not even clarify which states would be included in the other two phases of implementation.[19] One of

[17] Council of the Federal Judiciary, *Programa de Implementación de la Reforma en Materia de Justicia Laboral*, at 29-31.
[18] Coordination Council for the Implementation of the Labor Justice System Reform, *Minute of the First Ordinary Session of 2019*, July 5 2019, at 3. Available at: https://reformalaboral.stps.gob.mx/Documentos/Acta_de_la_Primera_Sesion_Ordinaria.pdf
[19] On September 27, 2019, the Implementation Council adopted a decision exhorting the 10 Phase One states to coordinate among their institutions to adjust state law in order to comply with the new federal labor laws. In this opportunity the 10 states of Phase One were: Baja California Sur, Chiapas, Colima, Durango, Estado de México, Hidalgo, San Luís Potosí, Tlaxcala, Yucatán, and Zacatecas. See Coordination Council for the Implementation of the Labor Justice System Reform, *Agreement 10-27/09/2019*, Sept. 27 2019. Available at: https://reformalaboral.stps.gob.mx/Documentos/Acuerdo_10-27092019.pdf. In a decision issued at the beginning of the current year, the Implementation Council treated as Phase One

the few documents issued by the Implementation Council that lays out the composition of Phase Two and Phase Three states contains the following order:

Table 2. Phased Implementation Order Proposed by the Implementation Council in Late 2019

Phase 1 (October 2020)	Phase 2 (October 2021)	Phase 3 (May 2022)
Baja California Sur	Aguascalientes	Ciudad de México
Chiapas	Baja California	Chihuahua
Durango	Campeche	Coahuila
Estado de México	Colima	Jalisco
Guanajuato	Guerrero	Nayarit
Hidalgo	Michoacán	Nuevo León
San Luís Potosí	Morelos	Puebla
Tabasco	Oaxaca	Querétaro
Tlaxcala	Quintana Roo	Sonora
Zacatecas	Sinaloa	Tamaulipas
	Yucatán	Veracruz

Source: Coordination Council for the Implementation of the Labor Justice System Reform.[20]

The outbreak of the COVID-19 pandemic, among other issues, led to a major adjustment of the implementation schedule. Most notably, the number of states that must have the new institutions operational this year was reduced from 10 to eight, and the starting month was pushed back to November.[21] During the third ordinary session of 2020, the Implementation Council announced the following phasing-in schedule:

states the following: Chiapas, Durango, Estado de México, Guanajuato, Hidalgo, Nayarit, San Luís Potosí, Tabasco, Tlaxcala, and Zacatecas. See Coordination Council for the Implementation of the Labor Justice System Reform, *Agreement 04-17/01/2020*, Jan. 17 2020. Available at: https://reformalaboral.stps.gob.mx/Documentos/Acuerdo_04-17012020.pdf. During its second 2020 session, the Implementation Council had a new Phase One list: Campeche, Chiapas, Durango, Estado de México, Guanajuato, Hidalgo, San Luís Potosí, Tabasco, Tlaxcala, and Zacatecas. See Coordination Council for the Implementation of the Labor Justice System Reform, *Minute of the Second Ordinary Session of 2020*, April 17 2020, at 4. Available at: https://reformalaboral.stps.gob.mx/Documentos/Acta_Segunda_Sesion_Ordinaria_2020_del_CCIRSJL_VF_15072020.pdf.

[20] Coordination Council for the Implementation of the Labor Justice System Reform, *Actualización de Planes y Programas de Trabajo: Estudio Línea de Base de la Reforma Laboral (2016-2019)*, at 9.

[21] Procuraduría Federal de la Defensa del Trabajo, "*Celebran Tercera Sesión Ordinaria del Consejo de Coordinación para la Implementación de la Reforma al Sistema de Justicia Laboral*", July 27, 2020. Available at: https://www.gob.mx/profedet/articulos/celebra-tercera-sesion-ordinaria-del-consejo-de-coordinacion-para-la-implementacion-de-la-reforma-al-sistema-de-justicia-laboral?idiom=es

Table 3. Phased Implementation Order Proposed by the Implementation Council in July 2020

Phase 1 (November 2020)	Phase 2 (October 2021)	Phase 3 (May 2022)
Campeche	Aguascalientes	Ciudad de México
Chiapas	Baja California	Chihuahua
Durango	Baja California Sur	Coahuila
Estado de México	Colima	Jalisco
Hidalgo	Guanajuato	Michoacán
San Luís Potosí	Guerrero	Nayarit
Tabasco	Morelos	Nuevo León
Zacatecas	Oaxaca	Sinaloa
	Puebla	Sonora
	Querétaro	Tamaulipas
	Quintana Roo	Yucatán
	Tlaxcala	
	Veracruz	

Source: Coordination Council for the Implementation of the Labor Justice System Reform.[22]

In September 2020, the Labor and Social Welfare Secretariat declared that Hidalgo, a Phase One state, is not going to have operational state-level labor courts and conciliation centers by November of this year. Hidalgo remains on the first stage list, but only with respect to the federal labor courts and the FCCLR exercising its conciliation functions over the disputes that fall within federal jurisdiction.[23]

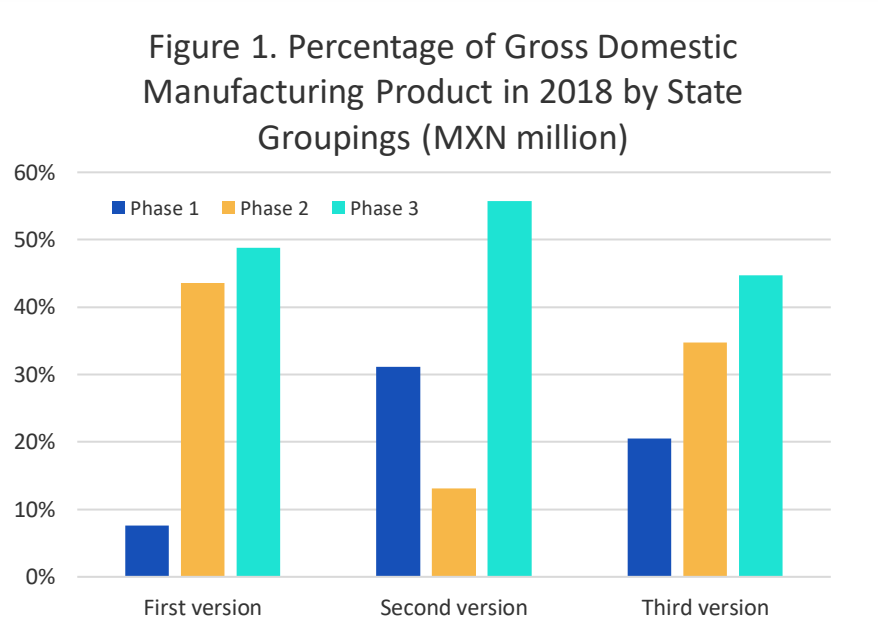
Notably, even when the new institutions become operational, the old problematic local boards will continue functioning to resolve the disputes that were initiated before the new conciliation centers and tribunals are functioning and able to receive cases. For instance, the chairman of the Local Arbitration and Conciliation Board of Durango (a Phase One state) recently stated that this institution from the old regime will remain operational for at least three years after the new institutions come into place to deal with a backlog of 6,000 cases already filed.[24] Thus, the old local boards will keep functioning long after the reform is implemented in each state. Assuming similar backlogs in other states, which in reality could be even bigger, the old local labor boards in Phase Three states might remain empowered to solve labor disputes until 2025 or beyond.

Before the list was cut down to only eight states, the Labor and Social Welfare Secretariat announced that all of the Phase One states combined represented 35% of the active labor disputes in the country.[25] However, the Secretariat has failed to clarify that the main criterion to select these states was the low rate of new cases being filed during recent years, which raises the question of whether the reform is

[22] *Id.*
[23] Zenyazen Flores, "*Reforma laboral arrancará en solo 7 estados en la primera etapa*", El Financiero, Sept. 29, 2020. Available at: https://www.elfinanciero.com.mx/economia/reforma-laboral-arrancara-en-solo-7-estados-en-la-primera-etapa
[24] Carlos Mendoza, "*En trámite seis mil expedientes en la JLCyA*", El Sol de Durango, Oct. 19, 2020. Available at: https://www.elsoldedurango.com.mx/local/municipios/en-tramite-seis-mil-expedientes-en-la-jlcya-5909367.html?fbclid=IwAR2P4KozMgtSjqkN7FCpveEcy5uBCiGprk5A32NtY4nCROE2lIs_cWomjuU
[25] Labor and Social Welfare Secretariat, "*Los estados donde inicia el nuevo modelo laboral suman 35% de expedientes laborales del país*", January 12, 2020. Available at: https://www.gob.mx/stps/prensa/los-estados-donde-inicia-el-nuevo-modelo-laboral-suman-35-de-expedientes-laborales-del-pais

going to be first implemented where urgently required. Moreover, labor leaders have noted that the most industrialized states, where having sound and reliable institutions to solve conflicts between labor and capital is critical, have been left last and there is lack of clarity as to when the new labor justice system will apply in these states.

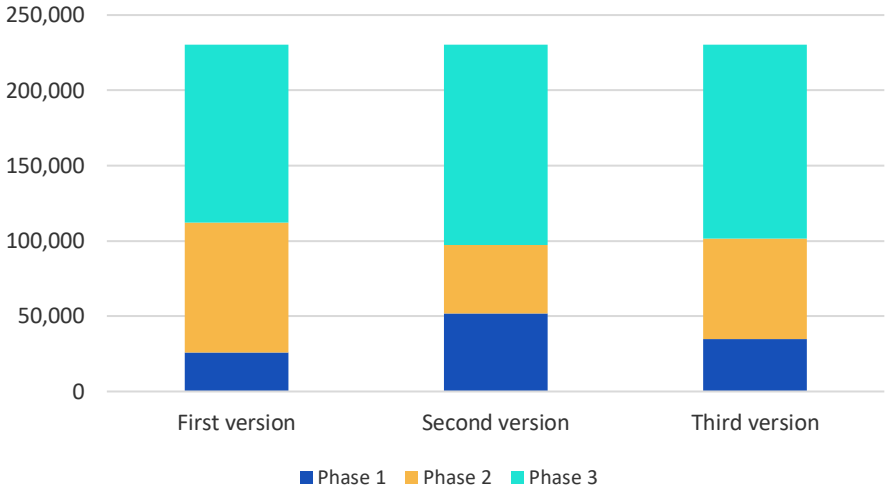
This concern is supported by the data. Under each proposed phase-in schedule, the states relegated to Phase Three produce nearly half of the gross domestic manufacturing output. The states that are classified as Phase One in the last schedule announced by the Implementation Council represent 21% of Mexico's manufacturing activity.



Source: *Instituto Nacional de Estadística y Geografía* (INEGI)

There is a clear correlation between manufacturing activity and the existence of labor conflicts. As the graph below shows, Phase Three states have had the most labor conflicts and strikes in recent years. As with manufacturing activity, half of Mexican labor conflicts arose in Phase Three states.

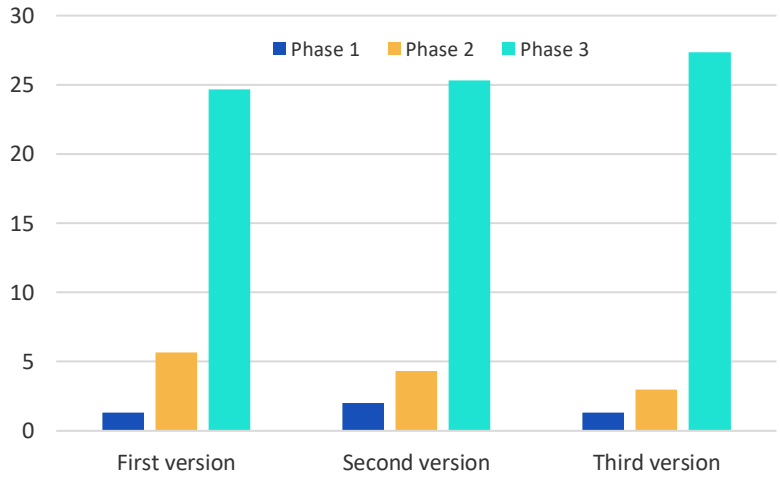
Figure 2. Average Number of Labor Conflicts per Year by State Groupings (2016-2018)



Source: *Instituto Nacional de Estadística y Geografía* (INEGI)

Phase Three states host a staggering number of strikes per year compared to the rest of the country. While Phase Three states host on average 25.7 new strikes per year, Phase Two states' average of new strikes per year is 4.3, and Phase One states only face 1.5 new strikes.

Figure 3. Average Number of Strikes per Year by State Groupings (2016-2018)



Source: *Instituto Nacional de Estadística y Geografía* (INEGI)

The data reveal that the states where workers most require new, credible, independent, and efficient institutions are the last places reform is required to be implemented. This will undermine the prospects for workers in those states to solve their conflicts and enhance their wages and working conditions. This situation is even more worrisome given the lack of clarity and transparency by which the implementation schedule has been established and modified.

Finally, Phase Three states are also the main recipients of FDI, and they also are the source of a large portion of Mexico's exports. Under each proposed phase-in schedule, the states relegated to Phase Three receive at least half of the foreign investment inflows coming into Mexico and represent at least half of Mexican exports. The figures below illustrate the accumulation of FDI and export activity in these states using the current version of the implementation schedule.

Figure 4. Foreign Direct Investment (Excluding Agriculture) 2017-2019 by State Groupings

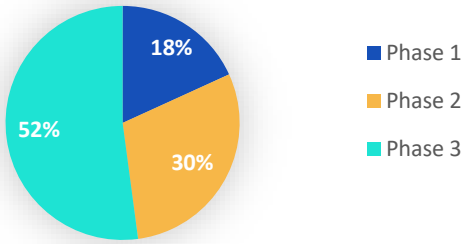
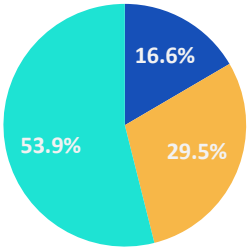


Figure 5. Mexican Exports 2017-2019 by State Groupings



Source: *Instituto Nacional de Estadística y Geografía* (INEGI)

The challenges arising from the uneven and untransparent implementation of labor reform in Mexico to date advise caution when estimating the impact of labor provisions contained in trade agreements.

3. Removing Unjustifiable Assumptions from USITC Economic Models Is Likely to Result in Trade Agreement Net Loss Projections

During the hearing, the commissioners raised several questions concerning the assumptions built into the economic models used by the ITC to project the economic impacts of trade agreements. Additionally, one of Chairman Kearns concerns expressed in the USMCA report is related to the fact that "*the model still assumes that the economy operates at full capacity. But there is reason to believe that the U.S. economy may not be at full capacity utilization, now or when the USMCA is fully implemented.*"[26]

Removing unjustifiable modelling assumptions, such as full employment, has been a long-standing recommendation from Public Citizen to the ITC. Assuming full employment is one of the reasons why the structure of the model that the USITC has employed makes it "inevitable" that the ITC will find net economic gains from trade agreements, even as studies using different methodologies projected net losses.[27]

[26] ITC, "*U.S.-Mexico-Canada Trade Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors*", Inv. No. TPA 105-003 at 61.
[27] Dean Baker, "*The International Trade Commission's Assessment of the Trans-Pacific Partnership: Main Findings and Implications*", Center for Economic and Policy Research, November 2016. Available at: https://www.cepr.net/images/stories/reports/ttp-2016-11.pdf

An example of this problem is obvious when comparing the USITC's assessment of the Trans-Pacific Partnership (TPP) versus the findings of a study on TPP effects conducted by Tufts University economists. The Tufts economists used the United Nations Global Policy Model, which allows for the possibility of less than full employment and rising income inequality, and found that the TPP would reduce U.S. growth rates and lead to the loss of 448,000 American jobs.[28] These findings spotlight just how drastically the assumptions that are baked into a model affect the outcomes, because the Tufts economists employed the results of a Peterson Institute trade flow simulation for the base data that they ran through the UN model. However, when the PIIE team used that same base data and ran it through a CGE model with assumptions similar to those employed by the USITC, they found the pact would result in a modest increase in gross domestic product and would not impact overall U.S. employment.[29] In other words, Tufts researchers plugged the Peterson findings on import and export levels at full TPP implementation derived from one set of unrealistic assumptions into a model that applies more realistic assumptions about how trade flow changes affect growth and employment and got the opposite outcomes with respect to those measures that the Peterson CGE model produced.

The preceding comments are not exclusively applicable to prospective studies whose aim is to forecast the future economic impact of proposed trade agreements. In the context of a retrospective study, allowing employment rates fluctuations could result in higher levels of employment and output in the counterfactual scenario where trade agreements are not in place.

4. KORUS Was Likely to Have Had a Negative Impact on U.S. Exports to Korea

A discussion arose during the hearing regarding the decline of U.S. exports to Korea after the entry into force of the U.S.-Korea FTA (KORUS). Defenders of this deal have argued that the decline has been caused by other factors unrelated to the trade agreement, such as a global decline in trade flows, sluggish domestic demand in Korea or, specifically with respect to exports of meat, the timing of an outbreak of a foot-and-mouth disease. (The outbreak decimated domestic production and led to a spike in U.S. exports in 2011, just before KORUS went into effect.) However, Public Citizen researched each of these claims and the data shows they are not supportable.[30]

Concerning the alleged global decline in trade flows, it is true that in 2012 tepid overall demand and falling international prices did put a damper on global export growth. But these trends did not cause a global decline in exports, for instance, in contrast to what occurred during the global recession following the 2007-2008 financial crisis. Instead**,** global exports in 2012 rose by 2 percent even as U.S. exports to Korea fell.[31]

Another explanation pushed by KORUS proponents was that the export decline was caused by ebbing Korean domestic demand in the post-FTA period, which caused a generalized decrease in

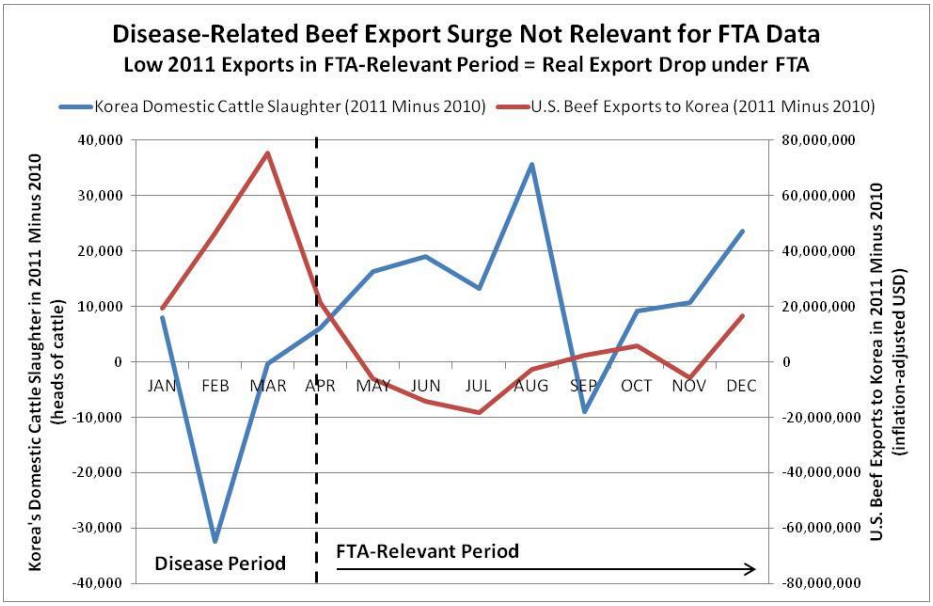
[28] Jeronim Capaldo and Alex Izurieta, "Trading Down: Unemployment, Inequality and Other Risks of the Trans-Pacific Partnership Agreement," Tufts University, January 2016
[29] Peter A. Petri and Michael G. Plummer, "The Economic Effects of the Trans-Pacific Partnership: New Estimates," Peterson Institute for International Economics, January 2016
[30] Public Citizen's Global Trade Watch, "Korea FTA Outcomes on the Pact's Second Anniversary: U.S. Exports to Korea Are Down, Imports from Korea Are Up, Auto and Meat Sectors Hit Particularly Hard", March 2014. Available at: https://www.citizen.org/wp-content/uploads/korea-fta-outcomes.pdf
[31] World Trade Organization, "International Trade Statistics 2013," 2013, at 47. Available at: http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf.

consumption, including for imported goods. However, Korean domestic demand did not falter: gross national income grew 2.3% and 4% in Korea in 2012 and 2013, respectively, and final consumption expenditures grew 2.2% and 2.4% during the same years.[32] Koreans were purchasing more, not fewer, goods even as U.S. exports to Korea declined.

Lastly, some U.S. beef and pork industry groups alleged that the dramatic decline in U.S. beef and pork exports to Korea under the FTA was due to an anomalous spike in exports that occurred in 2011 as Korea's domestic beef and pork supplies suffered from a foot-and-mouth disease outbreak. However, the foot-and-mouth disease outbreak, the drop in Korea's domestic supply, and the associated spike in U.S. beef exports all occurred *before* the period in 2011 that is relevant to determine if there was an abnormal drop of exports after the FTA came into force.

With respect to beef, to assess U.S. export performance during the first months of the Korea FTA, we took data for the months since implementation of the FTA–starting with April 2012 as the first full month of implementation–and compared to the months in the year before the FTA–starting with April 2011. The U.S. beef export surge associated with Korea's foot-and-mouth disease outbreak was already subsiding by April 2011, which is when the last case of foot-and-mouth disease was reported.[33]

For the remainder of 2011 (the portion that is relevant for comparison to the export performance since the FTA), Korean domestic production was actually higher–not lower–than normal, and U.S. exports were actually lower–not higher–than normal, as indicated in the graph to the right.



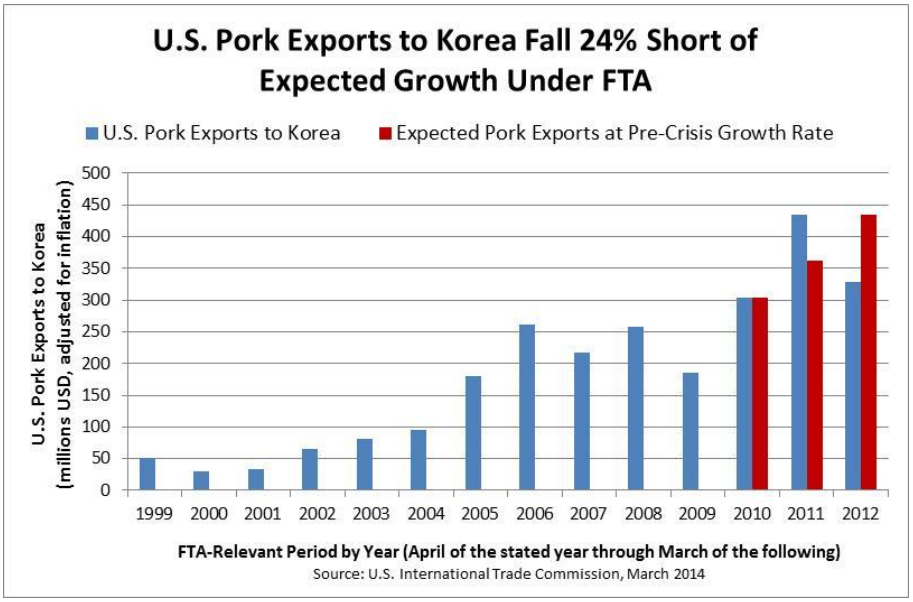
Source: U.S. International Trade Commission, March 2014

According to U.S. Department of Agriculture (USDA) data, the decline in Korean domestic beef production occurred in February 2011, when Korean slaughter of domestic cattle fell to half the level of February 2010.[34] The corresponding spike in U.S. beef exports to Korea occurred in February and March, soaring to 207% and 263% of the levels seen in the

[32] "World DataBank," The World Bank, accessed February 27, 2014. Available at: http://databank.worldbank.org/data/home.aspx.
[33] Park J-H, Lee K-N, Ko Y-J, Kim S-M, Lee H-S, Shin Y-K, et al, "Control of foot-and-mouth disease during 2010–2011 epidemic, South Korea," Centers for Disease Control and Prevention, Apr. 4, 2013. Available at: http://wwwnc.cdc.gov/eid/article/19/4/12-1320_article.htm.
[34] Foreign Agricultural Service, "Korea – Republic of: Livestock and Products Semi-Annual," Global Agricultural Information Network report, U.S. Department of Agriculture, March 6, 2012, at 3-4. Available at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Semi-annual_Seoul_Korea%20-%20Republic%20of_3-6-2012.pdf.

corresponding months of 2010, respectively.[35] Thereafter, Korea's domestic slaughter levels returned to normal and actually rose above the 2010 levels in every remaining month of 2011 except one.[36] In response, U.S. beef exports to Korea in the FTA-relevant portion of 2011 subsided to levels that, far from being anomalously high, were actually lower on average than the export levels of 2010.[37]

With respect to U.S. pork exports, the narrow focus on foot-and-mouth disease ignores the broader growth trend of U.S. pork exports to Korea, a trajectory that should have continued after the FTA but did not, as shown in the graph below. In the 10 years before the financial crisis-spurred global downfall in exports in 2009, U.S. pork exports grew at an annual rate of 20 percent (using the FTA-relevant 12-month period).[38] Starting from the 2010 level (the first post-crisis year) and applying this pre-crisis growth rate, U.S. pork exports under the FTA in 2012-2013 would be expected to surpass $430 million. Instead, they fell short of $330 million, 24 percent below the level that historical growth would predict.[39] Had the foot-and-mouth disease outbreak not occurred, it is indeed possible that U.S. pork exports to Korea would not have been as high in 2011. But even if this is the case, it cannot explain why U.S. pork exports under the FTA fell significantly below the long-term growth trend.



Having ruled out these hypotheses, it is likely that the decline of U.S. exports to Korea after the entry into force of KORUS was due to either the legal terms of deal—or the absence of terms concerning, for instance, currency manipulation—or the outburst of nationalistic anti-U.S.-FTA sentiments among

[35] U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed Apr. 16, 2013. Available at: http://dataweb.usitc.gov/

[36] Foreign Agricultural Service, "Korea – Republic of: Livestock and Products Semi-Annual," Global Agricultural Information Network report, U.S. Department of Agriculture, March 6, 2012, at 3-4. Available at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Semi-annual_Seoul_Korea%20-%20Republic%20of_3-6-2012.pdf.

[37] U.S. beef exports in April 2011 remained 62 percent above the April 2010 level as they continued to subside from the February-March spike. From May through October (the period in which foot-and-mouth disease was not occurring in either 2010 or 2011), average monthly U.S. beef exports in 2011 were 10 percent lower than in 2010. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed Apr. 16, 2013. Available at: http://dataweb.usitc.gov/.

[38] The growth rate is determined using the compound annual growth rate method. "FTA-relevant period" refers to the 12-month period that is comparable to the first year of FTA implementation: April of one year through March of the following year.

[39] These numbers reflect year-on-year comparisons of inflation-adjusted U.S. pork export values in the first year of FTA implementation compared to the prior year (e.g. April 2012 – March 2013 vs. April 2011 – March 2012). U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed May 6, 2013. Available at: http://dataweb.usitc.gov/

the Korean population, which might have fueled a rejection of U.S. products in relation to public opposition to the agreement.

5. Additional Comments in Response to Chairman Kearns Observations to the USMCA Report

During the hearing, Chairman Kearns requested witnesses to provide feedback about the observations he made to the Commission's analysis of the likely economic impact of the terms of the revised NAFTA. Our comments concerning Mexico's labor conditions and institutions as well as the assumptions underpinning the CGE model used by the ITC address some of the issues the Chairman noted in that previous study.

The other observations made by Chairman Kearns are related to the specific methodology used by the ITC to analyze an agreement like USMCA, which was a renegotiation of an existing free trade agreement that eliminated tariffs in most sectors among the three parties. Thus, the ITC focused its analysis on the impact of specific provisions dealing with non-tariff measures that either: (i) alter current policies, or (ii) "reduce uncertainty" for market participants by locking in existing policies.

Chairman Kearns comments raise crucial issues that the ITC must address if not in this report, in following studies that assess the impact of the revised NAFTA.

First, Chairman Kearns discussed the ITC's assumption according to which data flow limitations are deemed to generate economic costs and, consequently, locking in restriction-free data flows reduces uncertainty and generates economic gains. The Chairman noted that these regulations and other measures can be socially and economically beneficial and that, in many respects, the USMCA explicitly recognizes these social and economic benefits; in some cases, requiring the parties to adopt and maintain such measures (see, e.g., Article 19.8, Personal Information Protection).[40]

Concerning this point, using trade agreements to lock in limits on consumer data and privacy protections, platform liability and investigatory access to source code could create enormous economic costs relating to reduced consumer trust, data theft, cybercrime and geopolitical instability rather than the assumed gains. The rise of artificial intelligence and big analytics, monopolization of services, the internet of things and billions of devices scattered around the globe raise major challenges to privacy, competition, consumer protection and taxation. The use of trade secrets protections to repel government access to source code and algorithms could undermine government antitrust, anti-discrimination and criminal investigations. Broad liability waivers for online platforms are being exploited to deny product liability when defective and dangerous products are sold online. There are many unknowns regarding future technological developments, and therefore the future digital economy. Such realities show the absurdity of assuming only gains from trade pact rules that lock in the current U.S. policies that have been exploited for years by the dominant internet companies.

Today, many Americans are concerned about how companies collect and use their online data. The Wall Street Journal, The New York Times, CNN and other publications feature story after story about

[40] ITC, "*U.S.-Mexico-Canada Trade Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors*", Inv. No. TPA 105-003 at 53.

homes burning down and lives lost because of unsafe products sold online, while global retail giants like Amazon claim to be communications platforms protected by liability waivers, not commercial actors to whom product liability would apply. And the monopolist conduct of the largest online players has resulted in a wave of federal and state investigations. Democrats and Republicans in Congress alike also are currently working on new policies to enhance privacy protections, including those that limit data flows, reduce the scope of the online liability waiver, and break up monopolistic firms. Consider recent U.S. government demands that TikTok only store U.S. consumers' data locally to avoid its abuse by Chinese government authorities.

This array of activity underscores the error in projecting gains arising from an alleged reduction of uncertainty in favor of behavior with negative economic consequences.

Second, Chairman Kearns criticized the assumption, derived from the ITC model, that robust rules of origin (ROO) necessarily have a negative impact on the U.S. economy. He considered that, if recognizing that there may be slack in the economy, an automotive ROO that optimizes regional content may generate gains for the overall economy. We fully support Chairman Kearns vision on this matter and recommend that the ITC considers not only the nominal value changes of the automotive ROOs contained in the revised NAFTA, but the closing of loopholes when developing a methodology to assess the consequences of this agreement.

Third, concerning the impact of extending the duration or scope of intellectual property (IP) protections, Chairman Kearns notes that the rationale for IP protection is that it encourages innovation. He also notes that such rights holders' protections may hurt consumers through higher medium-run prices on innovative products, which is typically justified by reference to the benefits these products provide to consumers and the economy. However, the ITC model, Chairman Kearns noted, systematically treats IP protections as a positive factor that is equivalent to a reduction in trade barriers or costs. Chairman Kearns called for development of modeling methodology on the effects of IP provisions that better reflect their rationale and full impact on the economy.[41]

Concerning this point, Public Citizen has previously raised the same concern with the Commission. For instance, the intellectual property rules in the 2018-signed revised NAFTA, which extended beyond both the World Trade Organization's (WTO) Trade Related Aspects of Intellectual Property Rights (TRIPS) terms and the original NAFTA terms, would have locked in domestically 10 years of marketing exclusivity for cutting-edge biologic medicines, such as many new cancer treatments. Not only do such terms raise consumer prices, lead to rationing and worse health outcomes, which in economic terms is a drag on productivity, but also such terms can redistribute income away from U.S. manufacturing and traded services sectors by extracting licensing fees that must be offset by a rise in the trade deficit, which costs jobs in certain U.S. sectors.[42] As well, increased payments to drug

[41] ITC, "*U.S.-Mexico-Canada Trade Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors*", Inv. No. TPA 105-003 at 213.

[42] Dean Baker, "The International Trade Commission's Assessment of the Trans-Pacific Partnership: Main Findings and Implications," Center for Economic and Policy Research Report, Nov. 2016, at 26. Baker estimated that additional pharmaceutical spending by TPP partners would reach $77.5 billion a year. The need for an offsetting change adopts the USITC assumption of no change in the overall trade deficit.

companies would raise the value of the dollar, making U.S. goods and services less competitive internationally.

Furthermore, the ITC 2016 retrospective study on the economic impact of trade agreements assumed that the only measurable economic consequence of IP protections enshrined in trade agreements is related to U.S. IP receipts. Nonetheless, and in line with Chairman Kearns suggestions, the ITC should include estimations with respect to the impact that locking in expansive IP protections in trade agreements has had on prices of IP-intensive goods, such as pharmaceuticals, and on the trade balance.

SUMMARY OF WRITTEN SUBMISSIONS FOR INCLUSION IN THE REPORT

U.S. INTERNATIONAL TRADE COMMISSION INVESTIGATION NO. TPA-105-008: "Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2021 Update"

In many communities nationwide, decades of trade agreements negotiated on a model established with the North American Free Trade Agreement (NAFTA) have caused economic damage to many and fueled anger and despair. The dwindling ranks of defenders of that model argue that it was not trade, but other policies and trends that have caused the problems that people "blame" on trade pacts. However, an underappreciated feature of Fast Track trade authority in general, and the version enacted from 1988-on, in particular, is that it empowered "trade" negotiators to diplomatically legislate wide swaths of non-trade policy via closed-door negotiations. Thus, much of what is in "trade" agreements from NAFTA onwards is not mainly about trade. Rather, the agreements required governments to implement various protections and privileges for commercial interests, including expansive investor protections and often private enforcement of those rights against governments and classic rent-seeking monopoly licenses in the form of lengthy patent, copyright, and data exclusivity terms. This new species of pact also constrained government action on numerous "behind the borders," non-trade policy issues, including issues from food and product safety to government procurement, and most lately to the regulation of digital platforms and firms.

In addition to the evident mismatch between the vast scope of authority that Congress has delegated to the Executive branch under current trade authorities and the invasive nature of today's "trade" deals, the actual trade elements of these agreements have not worked out as promised, but rather have led to slower export growth and often larger trade deficits. As our 2015 comprehensive study[43] on the outcomes of the agreements negotiated under Fast Track documented, these pacts brought considerable damage: from more than a million jobs losses certified by the Department of Labor just caused by NAFTA[44] to 91,000 U.S. factories closed during the NAFTA-World Trade Organization (WTO) era[45] to a massive overall trade deficit with the bloc of FTA countries to the large price increases for medicines caused by the extension of U.S. monopoly patent protections for medicines from the domestic standard of 17 years to the 20 years required by the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).[46]

For these reasons it is imperative that the ITC reviews and significantly alters its methodology to assess the economic impact of trade agreements enacted under Fast Track in the upcoming report. Key improvements to the ITC's methodology that are needed include:

- Stop assuming that all non-tariff measures (NTMs) are trade "barriers" that imply welfare-reducing costs, including limits to data flows.

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[43] Public Citizen's Global Trade Watch, Prosperity Undermined: The Status Quo Trade Model's 21-Year Record of Massive U.S. Trade Deficits, Job Loss and Wage Suppression, August 2015, available at https://www.citizen.org/wp-content/uploads/prosperity-undermined.pdf

[44] Public Citizen's Global Trade Watch, Trade Adjustment Assistance Database, 2020, last accessed October 2, 2020. Available at: http://www.citizen.org/taadatabase.

[45] Robert E. Scott, "We can reshore manufacturing jobs, but Trump hasn't done it", Economic Policy Institute, August 10, 2020. Available at: https://www.epi.org/publication/reshoring-manufacturing-jobs/

[46] Stephen W. Schondelmeyer, Economic Impact of GATT Patent Extension on Currently Marketed Drugs, PRIME Institute, College of Pharmacy, University of Minnesota, March 1995, at Table 1

- Include increased consumer costs, lack of access to medicines, and potential trade balance effects caused by extending the duration or scope of intellectual property protections to its assessment of economic impact of "trade deals."

- Adjust the assumptions baked into ITC modelling regarding: (i) the erosion of labor's bargaining power generated by increased capital mobility; (ii) implementation challenges of labor provisions, such as those contained in the revised NAFTA concerning Mexico's labor laws and institutions; and (iii) the impact of trade deals on levels of employment and income inequality. With respect to the last point, given the actual outcomes of numerous past agreements over the past two decades-plus, it is simply insupportable for ITC models to continue to assume full employment and that pacts have no impact on economic inequality.

- Improve transparency by describing the assumptions that are being included in the model and making the data underlying the analysis available in every report.