Data Fail: The Divergence between Rosy International Trade Commission Projections and U.S. Trade Agreements' Actual Outcomes

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Executive Summary

The United States International Trade Commission (USITC) is required to release a report projecting the economic effects of the Trans-Pacific Partnership (TPP) no later than May 18, 2016.[1] The USITC study on a trade pact, which is required as part of the Fast Track process, typically generates considerable attention from policymakers and the press. However, with respect to past such studies, the USITC projections have been dramatically inaccurate.

Indeed, past USITC trade agreement studies have systematically projected positive outcomes that have been contradicted by the actual results of trade agreements.

This analysis[2] reviews the USITC projections for the three most economically significant U.S. trade agreements relative to the pacts' actual outcomes. The USITC projected an improved trade balance, gains for specific sectors, increased U.S. economic growth and additional benefits in its reports on the 1993 North American Free Trade Agreement (NAFTA) and the 2007 U.S.-Korea Free Trade Agreement (FTA).[3] For China's 1999 World Trade Organization (WTO) accession agreement with the United States and related China Permanent Normal Trade Relations (PNTR) vote, the USITC report projected a small increase in the U.S. trade deficit with China.

However, the USITC reports on NAFTA, China's WTO accession/China PNTR and the Korea FTA not only overstated the prospective benefits. Each of these USITC studies also simply got the bottom line wrong: The U.S. trade deficit with the trade partners increased dramatically and as detailed in the text of this study, industries projected to "win" saw major losses.

NAFTA: U.S.-Mexico Trade*		
1993 - Baseline	**USITC Projection[4]**	**2015 - Actual**
$2.6 billion goods surplus (services data not available)	$10.6 billion goods and services surplus	$57 billion goods and services deficit
China-WTO: U.S.-China Trade in Goods and Services		
2000 - Baseline	**USITC Projection**	**2015 - Actual**
$113 billion deficit	$120 billion deficit	$340 billion deficit
U.S.-Korea FTA: Trade in Goods		
2011 - Baseline	**USITC Projection**	**2015 - Actual**
$15.6 billion deficit	$10.6 billion deficit	$28.5 billion deficit

Source: U.S. Bureau of Economic Analysis.

The divergence between the USITC's rosy projections and trade pacts' negative outcomes has not been a fluke. Rather, it has been a pattern in the past 20-plus years of USITC reports on trade pacts' prospective effects. Often the failure has not only been one of degree, but of direction. This has led members of Congress to urge the USITC to modify its approach when analyzing the TPP so that the report might provide a reliable and useful assessment of the agreement.[5] However, the USITC is expected to employ its previous methodology for its TPP study.

*The USITC NAFTA report focuses mainly on Mexico, as the United States already had a 1988 FTA with Canada.

Problems with the USITC Methodology

USITC trade agreement assessments are supposed to provide estimates of the potential effects trade agreements would have on the U.S. economy if entered into force. The current statutory mandate included in the 2015 grant of Fast Track authority calls for "a report assessing the likely impact of the agreement on the United States economy as a whole and on specific industry sectors, including the impact the agreement will have on the gross domestic product, exports and imports, aggregate employment and employment opportunities, the production, employment, and competitive position of industries likely to be significantly affected by the agreement, and the interests of United States consumers."[6]

Despite past USITC studies having a poor track record of accurately estimating the impact of trade agreements on the U.S. economy, the agency continues to employ the same methodology.

The USITC uses a computable general equilibrium (CGE) model to project the effects of trade agreements by developing a simulation on a given base year.[7] The USITC starts by collecting information on current exports, imports, gross domestic product, tariff rates, investment flows, and other data points. It then creates equations to calculate how trade flows would change if the terms of an agreement were fully implemented. Therefore the model is looking at an endpoint, not the process by which we get to this endpoint. This means the model does not consider whether we may see increases in trade deficits along the way, nor the possibility that other countries may not fully implement or enforce agreement terms, but rather projects a final outcome assuming full implementation has occurred. Running this simulation generates data on potential changes in exports and imports. By design, it assumes the trade balance does not change.

Criticisms of the USITC's methodology have focused on the numerous assumptions researchers make in creating the equations to estimate trade flow outcomes. This includes what economic factors are included and excluded and what included factors are assumed to remain constant. (Rather than using a dynamic model, the USITC employs a static model to determine changes in exports and imports while holding other economic changes constant.) Such assumptions not only can contribute to gaps between projections and outcomes with respect to import and export levels, but also, given the results of the trade flow simulations are then used as the basis of projecting broader outcomes (such as on U.S. economic growth) assumptions piled on assumption can cause results that are incorrect, not only in degree, but in direction.

The USITC's standard methodology incorporates several unrealistic assumptions. First, it assumes full-employment in the long-term, and does not take into account adjustment costs, such as transitory unemployment. The model simply assumes that those who lose their jobs to trade can easily transition to other employment opportunities with workers seamlessly shifting from contracting to expanding sectors.[8] Recent research shows that such transitions are often not easy and some of the job losers may leave the labor market and never come back.[9]

Second, the model assumes that trade agreements do not directly impact macroeconomic outcomes that can lead to lower aggregate demand and higher unemployment levels, even though trade agreements can lead to growing and sustained bilateral trade deficits as in the case with

Mexico under NAFTA, China's WTO accession and Korea since the FTA. In an economy that is still far from recovering from the impact of the Great Recession, this can be a serious omission.

The fact that the model rules out the possibility of increasing trade deficits and job losses means that is unlikely to pick up its full effect on increased inequality. That is to say the mechanics of the model assume that when the output of the less competitive sectors of an economy decrease (relative to the baseline), employment will simply shift from contracting to expanding sectors, where wages are assumed to increase.

Implicit in the assumption that the trade balance does not change is the assumption of flexible exchange rates. This assumption clearly does not correspond to reality since currency manipulation is a significant problem among some of the TPP countries. For instance, the U.S. Department of Treasury recently included TPP nation Japan on its new Monitoring List in its semi-annual report on "Foreign Exchange Policies of Major Trading Partners of the United States."[10] Despite previous economic studies showing that foreign currency manipulation has cost the United States an estimated one to five million jobs,[11] the TPP does not have enforceable rules governing currency manipulation, and the USITC model assumes away the issue.

Finally, the output of any model is also greatly affected by the data put into it. Perhaps the most controversial issue in this regard is how "non-tariff barriers" (NTB) are considered. What an international bank may consider an NTB may be what a policymaker or consumer considers an important safeguard to avoid costly financial crises. What an international agribusiness company considers an NTB may be relied up by public health officials and consumers to avoid food-borne illness outbreaks and associated costs. Increasingly, trade agreement modeling includes guesstimations of gains that will be created by removing NTBs. As well, models may or may not consider how trade pact investment rules could affect decisions about where to invest in production and whether a pact will alter foreign direct investment trends. Also at issue is how intellectual property provisions are included in the model, given longer monopolies may increase some U.S. firms' profitability but also may cost governments and consumers more for medicines and access to information.

Different assumptions can result in diametrically opposed outcomes. With respect to the TPP, consider the stark differences between the findings of the Peterson Institute for International Economics and economists at Tufts University. The Peterson Institute used a CGE model with assumptions similar to those employed by the USITC in past studies and found the pact would result in a modest increase in gross domestic product, but not impact overall U.S. employment.[12] Using an economic model that allows for the possibility of less than full employment and rising income inequality, called the United Nations Global Policy Model, Tufts University economists concluded that the TPP would reduce U.S. growth rates and lead to 448,000 American jobs lost.[13] The Tufts findings spotlight just how drastically the assumptions baked into a model affect the outcomes: The Tufts economists actually employed the Peterson Institute trade flow simulation data! That is to say that they 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 Divergence between Rosy USITC Projections and U.S. Trade Agreements' Actual Outcomes

The USITC's past trade agreement assessment studies have proved to be widely off mark. The systematic disconnect between USITC projections and actual outcomes is evident when reviewing the USITC studies for the three most impactful trade agreements prior to the proposed TPP: NAFTA, the U.S. bilateral agreement with China that set the terms of its WTO entry and related PNTR vote, and the U.S.-Korea FTA.

NAFTA

In early 1993, the USITC published a study on the economic effects of Mexico joining the already existing 1988 FTA between the United States and Canada.[14] The NAFTA USITC report projected that the U.S.-Mexico trade balance in goods and services would improve because U.S. exports to Mexico would increase from a low of 5.2 percent to a high of 27.1 percent, and U.S. imports of Mexican goods and services would increase from a low of 3.4 percent to no higher than 15.4 percent.[15] In sum, the study concluded that a small U.S. trade surplus with Mexico at the time of the pact would increase as a result of a fully realized NAFTA.

The NAFTA USITC study estimated minimal changes to U.S.-Canada trade flows given many of the tariff cuts and non-tariff provisions included in NAFTA were also included in the U.S.-Canada FTA. The report also estimated that NAFTA would deliver an increase of less than 1 percent in aggregate employment for the United States.

NAFTA's actual outcomes were the opposite of the USITC projections.[16] Contrary to the USITC projections, goods imports from Mexico grew at nearly double the rate of U.S. goods exports to Mexico. Before NAFTA, the United States had a trade surplus in goods of $2.6 billion with Mexico. In 2015, the U.S. trade deficit in goods with Mexico was almost $106 billion. Even when accounting for goods and services, the U.S.-Mexico deficit was $57 billion in 2015 and not a surplus as the USITC projected. The U.S. trade deficit with Mexico is only beaten by the U.S. deficit with China and is one of the largest trade deficits between any two countries in the world.

U.S.-Mexico Trade		
1993 - Baseline	**USITC Projection[17]**	**2015 - Actual**
$2.6 billion goods surplus (services data not available)	$10.6 billion goods and services surplus	$57 billion goods and services deficit

Source: U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," for goods data and U.S. Bureau of Economic Analysis for goods and services data.

The USITC projections for U.S.-Canada trade were also off. The United States also had a trade deficit in goods with Canada of $30 billion in 1993. By 2015, the U.S. goods trade deficit with Canada more than doubled to $61 billion.

The USITC also thoroughly miscalculated NAFTA's effects on American jobs. Rather than delivering a modest increase in American jobs, NAFTA's investor protections reduced the risk for U.S. firms to relocate production to Mexico to take advantage of its lower wages and weaker environmental standards. The increase under NAFTA in the U.S. trade deficit with Mexico and Canada equated to an estimated net loss of one million U.S. jobs by 2004, according to the Economic Policy Institute (EPI), which calculated the net balance between jobs created and jobs lost from NAFTA trade flows.[18] EPI calculates that the ballooning trade deficit with Mexico alone destroyed about seven hundred thousand net U.S. jobs between NAFTA's implementation and 2010.[19]

This toll has likely grown since 2010, as the non-oil U.S. trade deficit with Mexico has risen further.[20] While interests seeking to minimize the relevance of the NAFTA trade deficit often attribute oil as the primary reason for the large and growing U.S. deficit with Mexico, the share of the deficit attributable to oil began to decline abruptly in 2010. *By 2015, the United States had a trade surplus of $5 billion with Mexico in oil, as our overall goods trade deficit increased to $112 billion.*

USITC NAFTA Projection:	NAFTA Reality:
The U.S.-Mexico trade balance in goods and services would improve and a small number of new American jobs would be created.	A $2.6 billion goods trade surplus with Mexico exploded into a $106 billion deficit. The 2015 goods and services combined deficit was $57 billion and 845,000 Americans were certified as NAFTA job-loss casualties under one narrow program.

Another way to capture the reality of American job loss caused by NAFTA is to review the more than 845,000 U.S. workers nationwide in the manufacturing sector that have been certified for Trade Adjustment Assistance (TAA) since NAFTA because they lost their jobs due to imports from Canada and Mexico or the relocation of production to those countries.[21] These numbers represent a significant undercount, as TAA only covers a subset of jobs lost to trade. The scope of this program has changed over time. Until 2011 the program did not cover any service-sector, agricultural or fisheries jobs. Prior to 2002, only actual manufacturing jobs were counted in the tally of industrial-sector job loss. Thus, for instance, if an auto assembly factory employing 4,000 workers was closed and production was moved to Mexico, TAA did not list 4,000 jobs lost. Workers in office, engineering, maintenance, shipping and distribution and custodial jobs at the closed facility were not covered. And, to even be considered, workers, a union or a company had to take the initiative to apply. Thus, the TAA numbers significantly undercount NAFTA job loss.

The U.S. Department of Commerce initially maintained a website listing jobs gained under NAFTA. But when NAFTA job loss TAA certifications zoomed above 200,000 within the pact's first years and the job creation list remained below 15,000, the U.S. government's NAFTA job creation list abruptly disappeared.

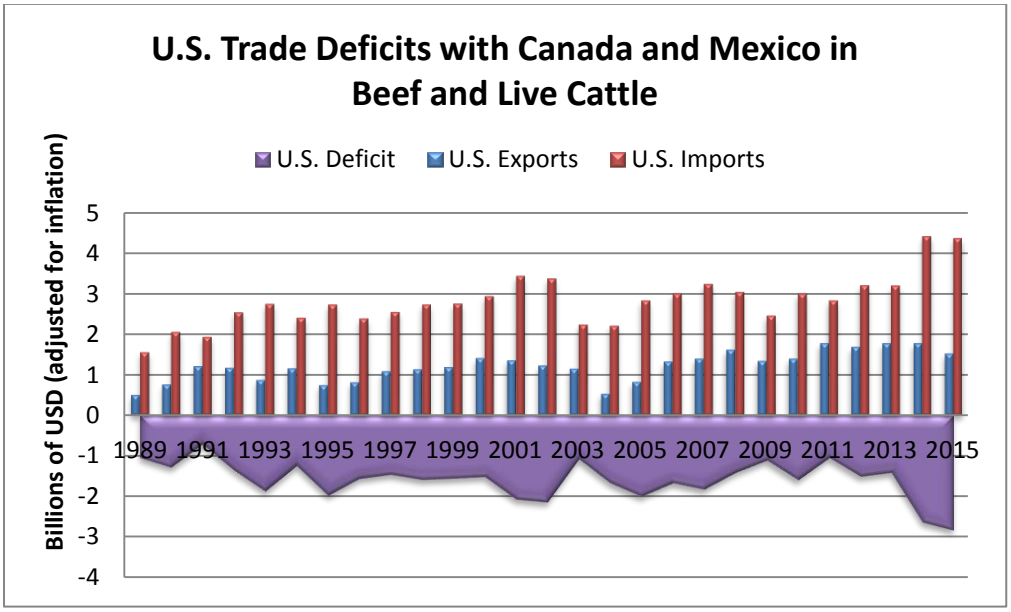
The USITC study also got NAFTA's effect on U.S. wages wrong. While American worker productivity has almost doubled since NAFTA, U.S. median wages have remained almost flat. Many economists have concluded that NAFTA has contributed to downward pressure on U.S. wages as a form of labor arbitrage with lower-wage Mexican workers pushed down U.S. wages

for the 63 percent of Americans without a college degree.[22] This in turn had contributed to growing income inequality.[23] According to the U.S. Bureau of Labor Statistics, approximately six out of every 10 manufacturing workers who lost a job to trade and found new employment experienced wage reductions, most of more than 20 percent.[24] More broadly, as increasing numbers of workers displaced from manufacturing jobs joined the glut of workers competing for non-offshorable, low-skill jobs in sectors such as hospitality and food service, real wages have also fallen in these growing sectors as well since NAFTA.[25]

The USITC report also got it wrong with respect to particular industry sectors.

AGRICULTURE: The USITC projected that the United States would not gain or lose much in overall agricultural production. In reality however, the U.S. agricultural trade balance with Mexico worsened from a surplus of $1.4 billion in 1993 to a deficit of $3.2 billion in 2015. Agricultural trade flows under NAFTA vividly demonstrate the limitations of the USITC model. Not only were entire U.S. agricultural sectors, such as tomatoes, effectively wiped out, but the cowboy nation developed a significant trade deficit in beef with its NAFTA partners.

The USITC concluded that NAFTA would result in little or no impact on meat imports into the United States because of already low U.S. tariff rates, and that if anything, U.S. exports of meat to Mexico would increase. The report projected that U.S. beef exports to Mexico would increase in the long-term by 16 percent or more. In reality, American cattle producers experienced the opposite outcome from NAFTA. In 1993, the United States exported 39,000 metric tons of beef and veal to Mexico and imported only 13,000 metric tons. By 2015, the United States imported more than 30,000 metric tons of beef and veal from Mexico more than it exported to Mexico.[26]



Source: U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," 2016.

AUTOS: U.S. manufactured goods also experienced worsening deficits under NAFTA. The USITC NAFTA report estimated that U.S. auto production would decrease slightly, but without dramatic impact on production or employment levels. The report partly based these findings on

outside testimony. In autos, the three largest automakers in the United States – Ford, General Motors and Chrysler – promised: "Rather than closing U.S. production plants to transfer production to Mexico, U.S. Big Three automakers are generally planning to undertake at least a partial restructuring of their Mexican operations, although this strategy will vary by firm."

Prior to NAFTA, the United States had a trade deficit of $7.1 billion in passenger vehicles with NAFTA. In 2015, that deficit had grown to nearly $35 billion. Rather than reducing the trade deficit, NAFTA increased it. Since 1994, the United States has had an average vehicle deficit with Mexico of 1.2 million vehicles.

A final lesson of the USITC NAFTA report is the perils of not including currency values in projection models. (In this regard, NAFTA itself provides a stark warning of the threats posed to U.S. workers and firms of trade pacts that, like the TPP, fail to include enforceable currency provisions.) The USITC projections were premised on the relative values of the U.S. dollar and the Mexico peso remaining constant. But literally weeks after NAFTA was approved by the U.S. Congress, Mexico devalued the peso 50 percent relative to the U.S. dollar. The effect of the devaluation was to eliminate the benefit of most of the tariff cuts on U.S. goods entering Mexico. Indeed, many U.S. products became more expensive to import into Mexico post-devaluation than they had been pre-NAFTA tariff cuts. Yet, the USITC model, by not considering what many in Congress had warned was an imminent devaluation, assumed new market access for U.S. goods that was never forthcoming and underestimated the flood of Mexican imports into the United States spurred by the devaluation that made their dollar-denominated prices artificially low.

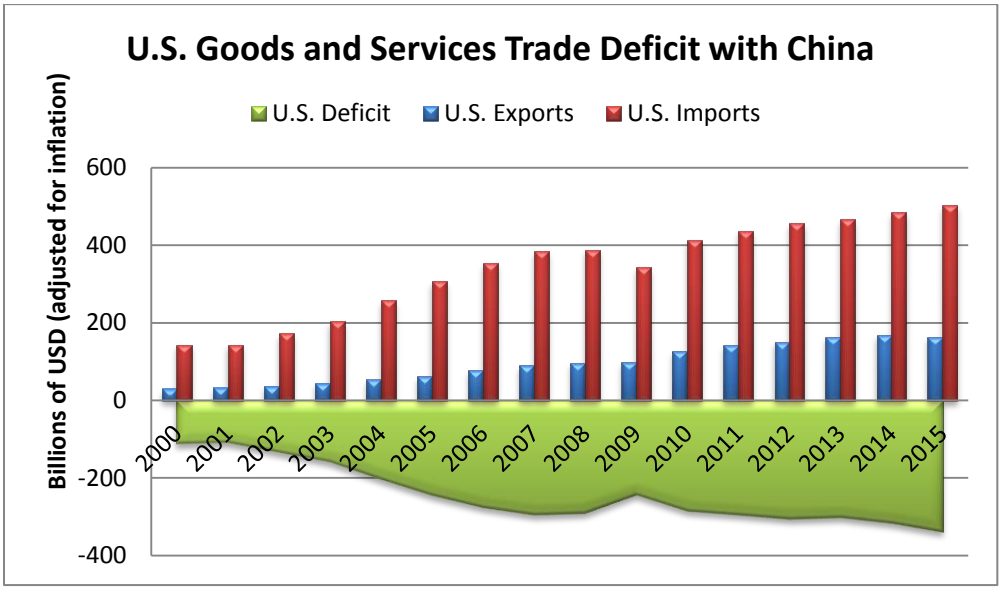
China PNTR

In 1999, the United States signed a bilateral agreement with China regarding the terms for China's accession into the WTO.[27] This agreement was the predicate for a congressional vote to grant China Permanent Most Favored Nation status, which was renamed Permanent Normal Trade Relations by those promoting the pact. Using 1998 as a base year, the USITC report estimated that U.S. exports of goods and services to China would increase by 10.1 percent or $2.7 billion while imports from China into the United States would increase nearly seven percent or $4.4 billion. In sum, the USITC projected that China's accession to the WTO under the terms of the bilateral and Congress' approval of China PNTR would result in a small U.S. bilateral trade deficit with China increase from $113 billion to $120 billion. The USITC report on China's WTO accession includes repeated references to the agency not having sufficient time to project the outcomes for various sectors, and even U.S. employment effects.

Yet even on the scope the report covered, again, the USITC totally miscalculated the outcomes Indeed, the USITC projections seems altogether unrelated to the actual outcomes of U.S.-China trade since the bilateral agreement and China's WTO accession.

In 2000, the U.S. trade deficit in goods and services with China was $113 billion.[28] By 2015 it was $340 billion, which is larger than the economies of most nations, including Denmark, New Zealand and Malaysia. U.S. exports to China increased from $29.7 billion in 2000 to $163 billion in 2015. U.S. imports from China were already $143 billion in 1999. Today, Chinese imports have increased to half a trillion dollars at $502.6 billion.[29]

U.S-China Trade in Goods and Services		
2000 - Baseline	**USITC Projection**	**2015 – Actual**
$113 billion deficit	$120 billion deficit	$340 billion deficit



Source: U.S. Bureau of Economic Analysis

MANUFACTURED GOODS: The USITC also again got the sectoral projections it did include wrong. The report projected that capital-intensive exports to China such as manufactured goods would increase by more than $300 million a year after textile and apparel quota restrictions were eliminated in 2005. The United States exported $17.8 billion in manufactured goods to China and imported $134.2 billion in 2000. The U.S. had a trade deficit of $116 billion. Since then, U.S. exports have increased to $81.8 billion while U.S. imports of Chinese manufactured goods reached $468 billion in 2015.

IRON AND STEEL: The USITC report also estimated that U.S. exports of iron and steel would increase by 5.1 percent. The report does not project changes in import levels. In reality, U.S. exports of iron and steel increased by $1.1 billion or 239 percent. The USITC report did not however anticipate that U.S. imports from China of iron and steel would increase by $12.3 billion or by nearly 300 percent. The U.S. trade deficit with China in steel and iron products has worsened by nearly $7.9 billion, increasing from $2.7 billion in 2000 to $10.7 billion in 2015. In November 2015, nine steel associations wrote a joint letter insisting that China's "overwhelmingly state-owned and state-supported steel industry" is the root problem of the 700 million metric tons of excess steel capacity in the world today, which is making it difficult for private sector firms in the U.S. to compete."[30]

TEXTILES AND APPAREL: Due to time constraints that the USITC faced when doing this study, the USITC mentions that it would be unable to provide "estimates of changes in U.S. textile and apparel production, employment, imports, and exports." Nonetheless, the USITC provided an estimate for changes in total U.S. export and import levels to the world as a result of

granting China ascension into the WTO. The bilateral trade deficit of textiles and apparel in the United States was estimated to gradually worsen over time. Although exports would increase by $2.4 billion by 2010, imports would outpace this growth by increasing $6.1 billion. The USITC however emphasized that "the estimated changes in U.S. imports may be overstated," which provided some leeway for government officials to defend this policy decision. By 2010, U.S. exports of textiles and apparel to the world decreased by 37 percent. Imports increased by $14.6 billion.

Although the USITC report notes that the agency was unable to estimate the impact on U.S. employment as a result of China joining the WTO due to time constraints, EPI released a study in 2014 that found that the goods trade deficit with China has resulted in 3.2 million eliminated or displaced jobs in the United States.[31]

U.S.-Korea FTA

The U.S.-Korea FTA was completed in 2007, but did not enter into force until 2012. In its initial 2007 assessment, the USITC estimated that the agreement would eventually reduce the U.S. trade deficit of goods with Korea by increasing U.S. goods exports from 30 to 33 percent. The USITC projected that U.S. goods imports from Korea would grow much more slowly – from 14 to 15 percent.[32]

In 2011, before the agreement went into effect, U.S. exports of goods to Korea were $43.7 billion and imports from Korea into the United States were $59.3 billion. In 2015, U.S. exports of goods to Korea were $41.2 billion and imports from Korea into the United States were $69.7 billion. The U.S. trade deficit with Korea in goods has increased by more than $12.9 billion, an 83 percent increase.[33]

U.S.-Korea Trade in Goods		
2011 - Baseline	**USITC Projection**	**2015 – Actual**
$15.6 billion deficit	$10.6 billion deficit	$28.5 billion deficit

Source: U.S. Bureau of Economic Analysis.

Since the FTA took effect, U.S. average monthly exports to Korea have fallen in 11 of the 15 U.S. sectors that export the most to Korea, relative to the year before the FTA. That is an especially grim outcome, given past pacts like NAFTA led to major increases in the U.S. trade deficit because imports greatly outgrew exports, but at least exports did not shrink. Exports of machinery and computer/electronic products, collectively comprising 28.6 percent of U.S. exports to Korea, have fallen 22.6 and 6.6 percent respectively under the FTA. Overall, U.S. goods exports to Korea have dropped 9 percent, or $4.4 billion, under the Korea FTA's first four years.

This outcome is even more worrying given the Korean economy has grown each year since the FTA passed, even as U.S. exports to Korea have shrunk.[34] Korea's gross domestic product in 2015 was 11 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. Instead, U.S. goods exports to Korea have fallen 9 percent in the first four years of the FTA.

Counterintuitively, the 115 percent surge in the U.S.-Korea goods trade deficit in the first four years of the FTA starkly contrasts with the 5 percent decrease in the global U.S. goods trade deficit during the same period. But while U.S. goods imports from the world have decreased by 6 percent, U.S. goods imports from Korea have increased by 19 percent, or $11.5 billion, during the FTA's first four years. Record-breaking U.S. trade deficits with Korea have become the new normal under the FTA – in 47 of the 48 months since the Korea FTA took effect, the U.S. goods trade deficit with Korea has exceeded the average monthly trade deficit in the four years before the deal.

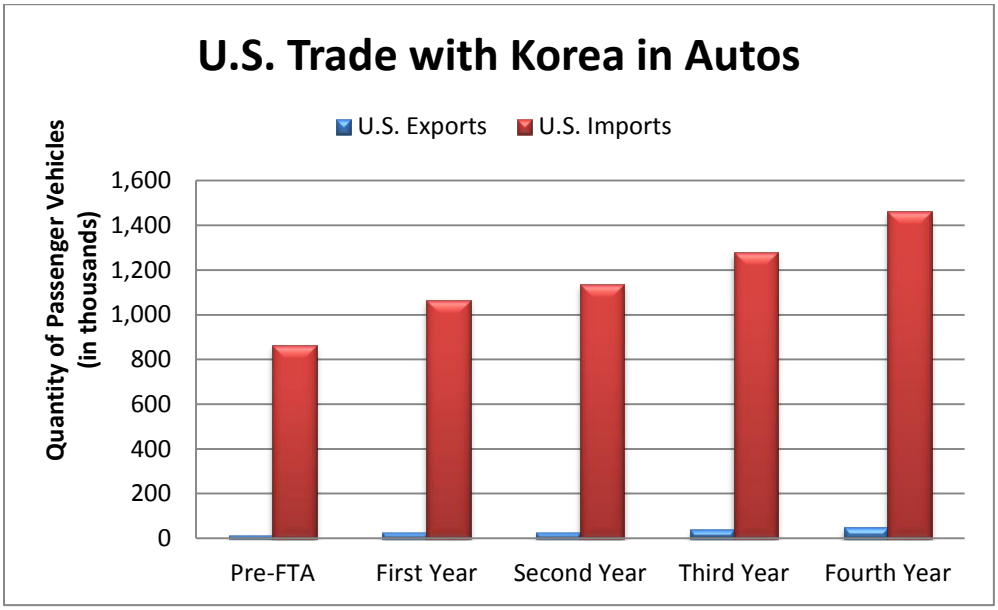
The USITC Korea FTA report not only estimated changes to exports and imports, but also projected outcomes by sector. The Center for Economic and Policy Research recently released a report analyzing the USITC's sectoral analysis for the Korea FTA found that the "model's predictions of which industries would see their exports increase the most as a result of the Korea FTA were of little value, and in fact predicted winners were more likely to be losers and vice versa."[35]

AGRICULTURE: Taking a closer look at certain sectors illustrates the failures of the USITC model. In agriculture, U.S. exports were predicted to increase. The USITC estimated that U.S. beef could increase up to $1.8 billion while pork and poultry were projected to increase by as much as $763 million.

After the first four years of Korea FTA, U.S. exports to Korea of agricultural goods have fallen 19 percent, or $1.4 billion. U.S. agricultural imports from Korea, meanwhile, have grown 34 percent, or $123 million, under the FTA. As a result, the U.S. agricultural trade balance with Korea has declined 22 percent, or $1.5 billion, since the FTA's implementation. Indeed, since the FTA went into effect, U.S. exports of beef, pork and poultry have fallen below the long-term growth trends pre-FTA. Compared with the exports that would have been achieved at the pre-FTA average monthly level, U.S. meat producers have lost a combined $62.5 million in poultry, pork and beef exports to Korea in the first four years of the Korea deal – a loss of more than $5 million in meat exports every month.

Despite the promises made by U.S. officials that the pact would enhance cooperation between the U.S. and Korean governments to resolve food safety and animal health issues that affect trade, South Korea banned nearly all imports of American poultry at the beginning of 2015 due to several bird flu outbreaks in Minnesota and Iowa. Comparing the FTA's fourth year to the year before it went into effect, U.S. poultry producers have faced a 93 percent collapse of exports to Korea – a loss of nearly 100,000 metric tons of poultry exports to Korea. In 2015, U.S. beef exports were finally nearing pre-FTA levels after declining an average of 11 percent during the first three years of the agreement. U.S. pork exports have also nearly recovered to pre-FTA levels after falling by an average of 16 percent in the first three years of the agreement.

The USITC report also projected that the U.S.-Korea FTA would likely increase exports of grain to Korea, "particularly exports of corn." In reality, U.S. exports of corn have decreased by $1 billion or by 64 percent in the first 4 years of the Korea FTA.



Source: U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," 2016.

AUTOS: The USITC also failed to project accurately the pact's damage to the U.S. auto industry.[36] The USITC projected that U.S. automakers would benefit from the reduction in Korea's tariff on cars and light trucks, resulting in more exports. The USITC also estimated that U.S. imports of broader motor vehicles and parts sector would increase by $1.3 to $1.7 billion.

The auto sector has been among the hardest hit. The U.S. trade deficit with Korea in passenger vehicles grew 66 percent. U.S. imports of passenger vehicles from Korea have increased by 69 percent, or 597,607 vehicles by the fourth year of the Korea FTA, relative to the number of vehicles Korea was sending to the United States pre-FTA. This import flood dwarfed the 36,580 increase in U.S. passenger vehicle exports to Korea.

Needed Reforms to the USITC Methodology

The findings of this report suggest that in the short term, the USITC's projections for the TPP should be considered with skepticism.

However, especially given the growing public attention to U.S. trade agreements, it is essential that in the longer term the USITC reform its methodology so that it produces more reliable projections. Rep. Sander Levin (D-Mich.), the House Ways and Means Committee ranking member, in his testimony to the USITC on the TPP study has offered a very useful overview of problems that require redress. Overall, Rep. Levin proposed nine changes to the USITC's model:

1. "The Commission should estimate not only the long-term impact of the Agreement, but its impact in the short-term, including any costs and benefits associated with the transition. Further, most economic models of trade agreements assume a fluid labor market in which, if someone loses their job, that person can easily find a similar job. The Commission should analyze the ability of workers in sectors negatively affected by the TPP to be able to find commensurate employment after losing their job. The Commission should also avoid assumptions that are unrealistic at least in the short-term, such as full employment.

2. "There are claims being made on both sides about the impact that our trade agreements have on the U.S. trade deficit. While proponents of trade agreements often tout the benefits of increased exports, the Commission needs to fully consider the impact that increased imports have had on our economy as well. And it would be helpful to hear from the Commission as to what impact trade agreements have on U.S. trade balances.

3. "The Commission should estimate the impact the Agreement will have on jobs, wages, and inequality. For instance, if the Commission finds that the U.S. economy will see gains from the TPP, in which sectors will those gains be realized? In other words, the Commission should explicitly examine who will win and who will lose as result of this agreement, with a particular focus on income distribution.

4. "What economic impact would compliance with basic international labor standards have in the TPP region, and will the TPP Agreement ensure compliance with those standards? For example, Mexico today falls far short of those standards. How would labor standard compliance affect competitiveness between the United States and Mexico?

5. "Will the investment protections and other provisions in the Agreement make it more likely that U.S. producers will offshore production to other TPP countries?

6. "What impact will the intellectual property rules in TPP have on drug prices in the United States, and in other countries, particularly poorer ones?

7. "What impact will the environment chapter of TPP have on the United States economy?

8. "What impact will the relative weakening of the automotive rules of origin in TPP have on the North American supply chain that has been greatly influenced by the stronger rules in NAFTA?

9. "What issues aren't addressed in TPP that could nullify or impair the benefits of the Agreement? For example, an incredibly important issue that has traditionally been neglected in economic analyses of trade agreements is currency manipulation, even though currency values have such a big impact on trade flows."

In summary, Rep. Levin urged the USITC to not only update its methodology for estimating direct trade flow outcomes, but also to consider the many ways on which traditional economic models cannot estimate correctly the vast swath of non-trade policy changes that today's "trade" agreements, such as the TPP, would enact. As Rep. Levin stated, "What do David Ricardo and

Adam Smith have to say about the inclusion of investor-state dispute settlement in our trade agreements?"

The systematic failure of past USITC trade agreement assessment studies to project accurate effects on the U.S. trade balance, American jobs or specific U.S. economic sectors casts significant doubts on the reliability or usefulness of the forthcoming USITC study on the TPP. Indeed, based on past performance, relying on the outcomes of the USITC methodology with respect to prospective effects of the TPP is a very risky gamble indeed.

ENDNOTES

[1] The law granting Fast Track authority required that the USITC submit a report to Congress assessing a trade pact's effects no later than 105 days after a final legal text of a pact is available. Bipartisan Congressional Trade Priorities and Accountability Act of 2015 Sec. 105 (c)(2). "ASSESSMENT.—Not later than 105 calendar days after the President enters into a trade agreement under section 103(b), the Commission shall submit to the President and Congress a report assessing the likely impact of the agreement on the United States economy as a whole and on specific industry sectors, including the impact the agreement will have on the gross domestic product, exports and imports, aggregate employment and employment opportunities, the production, employment, and competitive position of industries likely to be significantly affected by the agreement, and the interests of United States consumers."

[2] This report uses Department of Labor's Consumer Price Index (CPI-U-RS) to adjust all trade data to current prices.

[3] The USITC also conducted a supplemental 2011 report on changes made to the U.S.-Korea FTA titled "U.S.-Korea Free Trade Agreement: Passenger Vehicle Sector Update

[4] The USITC projection was for goods and services, but goods and services data is not available prior to 1999. Still, today, the actual deficit in goods and services is $57 billion. Also, the projection includes the high-end projection for both exports and imports.

[5] See eg. Written Testimony of Rep. Sander Levin, Ranking Member, House Ways and Means Committee; U.S. USITC Hearing on the TPP; Jan. 13, 2016; Available at https://www.usitc.gov/press_room/documents/testimony/105_001_001.pdf and Written Submission of Reps. Rosa DeLauro, Louise Slaughter, Peter DeFazio, and Barbara Lee https://edis.usitc.gov/edis3-external/1075580-574430.pdf?sp=ZH4sIAAAAAAAAAFvzloG1uIjBND2%2FTK%2B0OLMkWa8ksSC1uKSoUi81Lz0zL1XPNSWzODg1uSQzPy84tagsMzk1ILEoMTe1JLXoPxB8qdrSzMTA7MPAlZKfXJqbmlfimVLCIOCTlViWqJ%2BTmJeu75Ofl27tw8BZDDHEM6WQoY6B0YdBECoQkl8QkppbEFqUWcLAB9GXl1qiHxrkaV1RAHQbH0hID2SUHtio7icTzvQr32diYPRiYC1LzClNrShiEEAo8ivNTUotalszVZZ7yoNuJgaGigIGEOA4fK8YZDULmCeQWVMAAGEOmwb9AAAA

[6] Bipartisan Congressional Trade Priorities and Accountability Act of 2015 Sec. 105 (c)(2).

[7] For example, the USITC used 2008 as a base year for analyzing the potential effects of the U.S.-Korea FTA. United States International Trade Commission "U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects," USITC Publication 3949, September 2007, at 2-2.

[8] David Rosnick and Dean Baker, "Trade and Jobs: Can We Trust the Models," Center for Economic and Policy Research, April 2016, at 2.

[9] See e.g. David H. Autor, David Dorn, Gordon H. Hanson, "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade," National Bureau of Economic Research, NBER Working Paper No. 21906, January 2016.

[10] U.S. Department of the Treasury, "Foreign Exchange Policies of Major Trading Partners of the United States," Report to Congress, April 29, 2016, page 5.

[11] C. Fred Bergsten and Joseph E. Gagnon, "Currency Manipulation, the US Economy, and the Global Economic Order," Peterson Institute, December 2012, page 1.

[12] Peter A. Petri and Michael G. Plummer, "The Economic Effects of the Trans-Pacific Partnership: New Estimates," The Peterson Institute, January 2016 at 3.

[13] Jeronim Capaldo and Alex Izurieta, "Trading Down: Unemployment, Inequality and Other Risks of the Trans-Pacific Partnership Agreement," Tufts University, January 2016, at 1.
[14] United States International Trade Commission, "Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement," SITC Publication 2596, January 1993.
[15] Ibid pg. viii.
[16] The trade data for Mexico and Canada uses goods exports because goods and services exports is not available prior to 1999.
[17] The USITC projection was for goods and services, but goods and services data is not available prior to 1999. Still, today, the actual deficit in goods and services is $57 billion. Also, the projection includes the high-end projection for both exports and imports.
[18] Robert E. Scott, Carlos Salas, and Bruce Campbell, "Revisiting NAFTA: Still Not Working for North America's Workers," Economic Policy Institute, Briefing Paper 173, September 28, 2006. Available at: http://s2.epi.org/files/page/- /old/briefingpapers/173/bp173.pdf.
[19] 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-smexico_trade_and_job_displacement_after_nafta1/.
[20] U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed February 9, 2014. Available at: http://dataweb.usitc.gov. Exports are domestic exports and imports are imports for consumption. Oil is defined as products falling within NAICS 2111 and 3241.
[21] See http://www.citizen.org/taadatabase
[22] Public Citizen, "NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership," Feb 2014.
[23] Ben Beachy, "Studies Reveal Consensus: Trade Flows during "Free Trade" Era Have Exacerbated U.S. Income Inequality," Public Citizen, August 2015. Available at http://www.citizen.org/documents/trade-and-income-inequality.pdf .
[24] Bureau of Labor Statistics, "Economic News Release: Table 7. Long-tenured displaced workers (1) who lost full-time wage and salary jobs and were reemployed in January 2014 by industry of lost job and characteristics of new job," Aug 26, 2014.
[25] U.S. Bureau of Labor Statistics, Current Employment Statistics survey, series ID CEU7072000003, accommodation and food services industry, U.S. Department of Labor, extracted May 11, 2016. Available at: http://www.bls.gov/ces/.
[26] In the graph, data comes from the U.S. Bureau of Economic Analysis, accessed May 12, 2016.
[27] United States International Trade Commission, "Assessment of the Economic Effects on the United States of China's Accession to the WTO," Publication 3229, September 1999.
[28] BEA's goods and services data with specific countries only goes back to 1999.
[29] In the graph, data comes from U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed May 12, 2016. Available at: http://dataweb.usitc.gov. All data adjusted for inflation.
[30] Nine Steel Associations Release Statement on the Question of China's Treamtent as a Non-Market Economy, accessed here: https://www.steel.org/~/media/Files/AISI/Press%20Releases/2015/China-MES-Statement-11-3-15.pdf?la=en.
[31] Will Kimball and Robert E. Scott, "China Trade, Outsourcing and Jobs," Economic Policy Institute.
[32] United States International Trade Commission "U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects," USITC Publication 3949, September 2007.
[33] The U.S. Census Bureau only has goods and services data up to 2015. To compare goods and services, this report calculates the change in total exports and imports from 2011 and 2015. For specific sectors, the report uses goods data from USITC Dataweb which has information up to March, 2016 which provides 4 full years of data.
[34] See DataBank, The World Bank. Available at http://databank.worldbank.org/data/home.aspx
[35] David Rosnick and Dean Baker, "Trade and Jobs: Can We Trust the Models," Center for Economic and Policy Research, April 2016, at 4.
[36] 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 May 11, 2016. Available at: http://trade.gov/mas/manufacturing/OAAI/tg_oaai_003803.asp.