FactChecking Trump on Trade

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President Donald Trump distorted some facts about trade in a press conference announcing an agreement to replace the North American Free Trade Agreement with the United States, Mexico, Canada Agreement, or USMCA:

- The president said the new deal will close "terrible loopholes," claiming foreign companies ship auto parts to "Mexico and Canada for assembly and send their foreign-made cars into the United States with no tax." That's misleading. NAFTA imposes a 2.5 percent tariff on cars made with less than 62.5 percent of auto parts from North America. The new deal increases that to 75 percent.
- Trump said, "Since NAFTA's adoption, the United States racked up trade deficits totaling more than $2 trillion." Going back to 1994, when NAFTA went into effect, the U.S. trade deficit in goods and services with Mexico and Canada is $1.58 trillion, according to Bureau of Economic Analysis figures.
- The president suggested that NAFTA was responsible for all of the decline in manufacturing jobs since it took effect — a drop of 4.1 million. But the U.S. gained a net 37 million jobs over that time period, and economic studies say the trade deal had a small overall impact on jobs.
- He claimed that while U.S. companies pay 25 percent to export cars to China, the U.S. has a 2.5 percent tariff on cars imported from China, but "we don't collect it." The U.S. does collect it, industry experts told us. And Trump is using outdated figures on the tariffs.
- The president repeated several claims he has made before, such as inflating U.S. trade deficit figures by excluding services, and claiming that U.S. Steel is "building eight or nine plants." We previously found no evidence of that when the president's claim was just "seven plants."

Trump spoke in the Rose Garden at the White House on Oct. 1 about the new trade agreement between the countries. The USMCA deal still will need to be approved by Congress.

Trump and 'Foreign-Made Cars'

In his press conference, the president said the new deal with Mexico and Canada will close "terrible loopholes" caused by NAFTA. But the example he offered — of Mexico and Canada assembling cars with foreign parts and sending them to the U.S. with no tax — is misleading.

Trump, Oct. 1: *Under the current new deal — and if you look at the current NAFTA deal, the new deal is taking care of all of these problems because NAFTA — foreign companies have been allowed to manufacture many of their parts overseas, ship them to Mexico and Canada for assembly, and send their foreign-made cars into the United States with no tax.*

So we let all our people go. We fire everybody. They make cars. They make products. They make everything in another country. They send them into the United States — no tax. And the cost is very little difference. Sometimes it's more — for those people that like to talk about cost.

With this agreement, we are closing all of these terrible loopholes. They're closed. They're gone. They were a disaster.

Trump distorts the facts.

Under NAFTA, cars sold in the U.S. must contain at least 62.5 percent of auto parts from North America in order to qualify for tax-free status. Cars that don't meet the threshold for the so-called "Regional Value Content," or RVC, must pay a 2.5 percent tariff. (The tariff for pickup trucks and cargo vehicles that do not meet the threshold is 25 percent.)

Virtually all cars assembled in Mexico and Canada met that threshold in 2017, according to an April report by the Center for Automotive Research in Ann Arbor, Michigan.

"In 2017, nearly all vehicles imported from Canada (98.4 percent) and Mexico (99.8 percent) were traded using the NAFTA preference — which means they meet the current 62.5 percent parts RVC," the report said.

The threshold will increase from 62.5 percent to 75 percent under the new agreement.

In announcing the new deal, the president boasted that it required "at least 75 percent of every automobile to be made in North America in order to qualify for the privilege of free access to our markets." But he did not mention the existing threshold is 62.5 percent. That fact was also omitted from the fact sheets about the new trade agreement released by the White House and the Office of the U.S. Trade Representative.

"There is no loophole. They either meet the 62.5 (percent) or not," said Kristin Dziczek, vice president of industry, labor and economics at the Center for Automotive Research.

Dziczek said that the majority of cars coming from Mexico and Canada will meet the new 75 percent auto parts threshold and continue to pay no tax.

Mexico has said that close to 70 percent of its car exports will meet the new requirement. As for Canada, Dziczek said, “I’m guessing most [vehicles] are close or already conforming. They use a lot of U.S. content. A lot use U.S. engines and U.S. transmissions — that’s a huge portion of the value of the vehicle.” She said the content is based on the value of the parts.

The countries agreed to raise the threshold with the hope that it will result in more car parts being manufactured in the U.S., Canada and Mexico, but the CAR report says raising the threshold to 75 percent could have the opposite effect.

The CAR report notes that the existing 62.5 percent threshold is already “the highest RVC of any current U.S. trade agreement.” Automakers may prefer to pay the 2.5 percent tariff, rather than increase the percentage of North American auto parts, depending on what is more cost effective, the report said.

The report estimates that the new rules will add between $470 and $2,200 to the cost of cars that do not meet the new requirements.

CAR analyzed the U.S. proposals to change NAFTA as of April, when the report was released. At the time, the U.S. proposed raising the North American auto content from 62.5 percent to 75 percent and requiring at least 30 percent of the content of a vehicle to originate in a country where the labor earns more than $16 per hour. The new agreement is similar: It contains the 75 percent threshold and requires that 40 percent to 45 percent of the auto content must be made by workers earning at least $16 per hour.

Dziczek said the increased cost of cars because of the tariffs will probably be higher than stated in the report, because the final wage rule is more stringent than the original U.S. proposal.

NAFTA Exaggeration

Trump exaggerated the U.S. trade deficit with Canada and Mexico since NAFTA went into effect in January 1994.

Trump: *Since NAFTA’s adoption, the United States racked up trade deficits totaling more than $2 trillion, and it’s a much higher number than that.*

The president, as he often does, may have been referring to U.S. trade in just goods with those nations. From 1994 until 2017, according to Bureau of Economic Analysis trade data, the deficit in goods with Canada was $990 billion and with Mexico it was $1.14 trillion. Combined, that’s more than $2 trillion, as Trump claimed.

But that ignores U.S. trade surpluses in services, such as travel and telecommunications, with each of those nations during that same time period.

Including trade in goods and services, the deficit with Canada was $614 billion and $969 billion with Mexico from 1994 to 2017. Together, that’s a deficit of around $1.58 trillion.

We should note that in 2014 BEA changed the way it presents data from U.S. international economic accounts to “bring BEA’s statistics into closer alignment with new international statistical guidelines for compiling balance of payments and [international investment position] statistics." This affected data from 1999 on. So, there are differences — though "not huge" — between the data before 1999 and the data for 1999 and after, according to a BEA official who sent us the historical data.

For example, the official said, in 1999, total services exports to Canada were around $22.7 billion using the old method compared with nearly $22.9 billion using the new method.

Employment Changes Under NAFTA

The president misleadingly suggested that NAFTA was responsible for *all* of the decline in manufacturing jobs since 1993. There are several factors that have contributed to a drop in manufacturing jobs over the past 20-plus years, such as automation and the Great Recession. Meanwhile, the country has added tens of millions of jobs overall.

The president said that since NAFTA, the U.S. "lost 4.1 million manufacturing jobs and one in four auto jobs — lost about 25 percent of our auto jobs — even more than that."

NAFTA was implemented on Jan. 1, 1994. The month prior, there were 16.8 million manufacturing jobs in the U.S., according to the Bureau of Labor Statistics. In August of this year, there were 12.7 million manufacturing jobs. That's a decline of 4.1 million jobs, as the president said.

As for auto manufacturing, total employment for motor vehicles, according to BLS, has declined by 75,700 jobs since December 1993, which is a drop of 27 percent. If we add in vehicle parts, the job decline is 14 percent.

But a lot has happened in that time frame — besides NAFTA — and economic studies have said the trade deal had a small net impact on jobs.

For instance, manufacturing jobs also have declined because of the Great Recession. They numbered 14 million in December 2007, the month the recession started, and still haven't recovered to that level, despite relatively steady growth since 2010.

Overall, however, the U.S. economy has added 37 million jobs since NAFTA took effect. That means that while manufacturing jobs have declined in that time frame, jobs in other sectors have grown. The president didn't mention that.

A 2017 report from the nonpartisan Congressional Research Service said the "net overall effect of NAFTA on the U.S. economy appears to have been relatively modest, primarily because trade with Canada and Mexico accounts for a small percentage of U.S. GDP."

The CRS report cited a June 2016 report by the U.S. International Trade Commission, which found that in general, NAFTA led to "little to no change in U.S. aggregate employment."

It can be difficult to tease out the impact of the trade agreement, given a host of other factors. The CRS report called this a "major challenge." For one, it said that "U.S. trade with Mexico and Canada was already growing prior to NAFTA and it likely would have continued to do so without an agreement."

The report also noted that "many economists" also have said that NAFTA helped U.S. manufacturing industries, particularly the auto industry, with global competition by increasing economic integration. "Much of the increase in U.S.-Mexico trade, for example, can be attributed to specialization as manufacturing and assembly plants have reoriented to take advantage of economies of scale," the CRS report said.

The manufacturing industry also has been affected by advances in technology and automation. A study published in 2015 and 2017 by the Center for Business and Economic Research at Ball State University found: "Employment in manufacturing has stagnated for some time, primarily due to growth in productivity of manufacturing production processes." And a 2015 CRS report noted that "investments in automation … have eliminated many routine assembly jobs; only two in five workers in U.S. manufacturing establishments are now directly engaged in production."

That report, which explored manufacturing from an international perspective, said other countries had experienced similar trends as the United States. "Employment in manufacturing has fallen in most major manufacturing countries over the past quarter-century," the CRS report said. "In the United States, manufacturing employment since 1990 has declined in line with the changes in Western Europe and Japan, although the timing of the decline has differed from country to country."

Car Trade with China

Trump claimed that while U.S. companies pay 25 percent to export cars to China, the U.S. has a 2.5 percent tariff on cars imported from China, but "we don't collect it."

The U.S. does collect it, industry experts told us.

And Trump is using outdated figures on the tariffs.

At the press conference, Trump said that while China charges U.S. companies a 25 percent tariff on autos exported to China, when China imports cars to the U.S. "we charge them nothing. Two and a half, but we don't collect it. We do now, by the way. But we don't collect the two and a half."

The president said the same thing at a rally in West Virginia on Sept. 29.

Trump, Sept. 29*: We build a car and we send it to China, and they charge a tariff or a tax of 25 percent. They build a car and they send it to the U.S. and it's two and a half percent, but we don't charge them. They don't have to pay. And I said, "Why don't they have to pay at least the 2.5 percent?" Nobody could tell me why. So think of it, they charge us 25 percent, right, we charge them nothing.*

China doesn't export many cars to the U.S. According to the U.S. Department of Commerce'sInternational Trade Administration, the U.S. imported 58,515 new passenger cars from China in 2017. That represented just 0.7 percent of the nearly 8.3 million cars imported by the U.S. that year.

In dollar figures, cars imported from China in 2017 were worth a little less than $1.5 billion, again representing a small fraction of the nearly $192 billion worth of cars imported by the U.S. from all countries.

By contrast, the U.S. exported 262,527 new cars and light trucks worth $9.5 billion to China in 2017, making China the second largest auto market for U.S. exports behind only Canada, according to International Trade Administration data.

As we said, Trump is citing outdated information about Chinese and U.S. tariffs on cars. The tariff rate for cars exported to China *used* to be 25 percent. But in May, China announced it was lowering the tariff to 15 percent starting on July 1.

The history behind the high Chinese tariff on cars dates back to the mid-1990s, when countries came to the World Trade Organization and some set higher tariff rates to encourage nascent home-grown industries, explained Kristin Dziczek of the Center for Automotive Research. That was the case when China set a 25 percent tariff on imported cars to allow the country to grow its auto manufacturing industry.

The Chinese auto industry has come a long way since then, Dziczek said. When China agreed to reduce its tariff to 15 percent, she said, “it was a tacit admission that they now have a more robust auto industry than when they came to the WTO.”

But that 15 percent rate is now outdated as well. When Trump slapped a 25 percent tariff on many goods coming from China, including cars, effective July 6, China retaliated with tariffs of its own, including a 25 percent tariff on cars imported from the U.S. That puts the current rate for U.S. car exports to China at 40 percent, Dziczek said.

The U.S., meanwhile, *was* charging a 2.5 percent tariff on imported cars. Trump failed to mention one significant caveat: that the U.S. has long charged a 25 percent tax on imports of pickup trucks. (That higher tariff on pickups has an interesting history, dating back to the early 1960s, in retaliation for the European Economic Community raising tariffs on imported chicken.)

And as we said, Trump announced in June an additional 25 percent tariff on cars and other products from China.

As for whether the U.S. was not collecting the 2.5 percent tariff on cars exported from China to the U.S., several auto industry experts told us that’s simply not the case.

“We do collect those tariffs,” said Chad Bown, a senior fellow at the Peterson Institute for International Economics who has done extensive research on U.S. trade.

That assessment was echoed by Dziczek and Simon Lester, associate director of the Cato Institute’s Herbert A. Stiefel Center for Trade Policy Studies.

There are only two major car companies exporting cars from China to the U.S. — Volvo and Buick, Dziczek said. And those exports have been fairly recent. While China exported 58,515 new cars to the U.S. in 2017, and nearly 46,000 in 2016, the numbers before that were minuscule: 4,200 in 2015 and just over 1,000 in 2014.

One of the companies affected by Trump's tariffs on cars from China will be General Motors, which exports Buick Envision SUV's from China to the U.S. — though a company spokesperson said Chinese-built cars account for "only around 1 percent of General Motors' U.S. sales."

GM did not respond to our inquiries about whether the U.S. never collected the 2.5 percent tariff, but back in July, GM spokeswoman Dayna Hart told Cars.com that the Envision SUVs imported to the U.S. from China "will be impacted by the new tariff, and were previously subject to the lesser tariffs." That contradicts the president's claim.

We also reached out to Volvo — which is owned by a Chinese automaker and has been selling sedans made in China to the U.S. market since late 2016 — but we did not get a response.

In early September, Ford announced that due to the trade war, it was scrapping its plan for the Ford Active, a small crossover wagon that it intended to import from China.

We reached out to officials at U.S. Customs and Border Protection, which levies the tariffs, and a press official there told us the U.S. does "at some point" collect the 2.5 percent tax on cars imported from China, but she directed us to the U.S. Trade Representative for information about any exclusions or exemptions from the tariff. The U.S. Trade Representative's press office did not respond to our inquiries, nor did the Treasury, to confirm how much revenue the U.S. has received from the tariff. The White House press office also did not respond to our inquiry about the president's claim.

Groundhog Day for Trade Figures

The president also repeated several false and misleading claims he has made before.

- Trump said, "We're losing $100 billion a year in deficits … at least, to Mexico, under NAFTA." That's wrong. Census Bureau data show that the U.S. trade deficit in goods and services with Mexico was $69 billion in 2017, up from $63 billion in 2016 and $58 billion in 2015. The U.S. has not had a $100 billion deficit in goods and services with Mexico, according to BEA data, going back to 1986.
- Trump said, "We have trade deficits. We lose with everybody." The U.S. had an overall trade deficit of $552 billion in goods and services in 2017, but it didn't have a negative balance with every country. Out of 15 major trading partners highlighted by the Census Bureau, the U.S. had trade surpluses with six of them, including Hong Kong, Brazil, Singapore, the United Kingdom, Saudi Arabia and Canada.
- The president claimed that the U.S. had "averaged $800 billion a year loss on trade" over the past five years, asking, "How dumb is that?" He's referring to the trade deficit, but his number is off by hundreds of billions. The total trade deficit for the U.S. averaged $500 billion over the past five years. As he often does, Trump is using the figure for the trade deficit in goods only, excluding services, and he generously rounded up. The figure for goods only averaged $754 billion, not quite $800 billion, over the past five years.

- Trump said, “U.S. Steel is building eight or nine plants,” but we previously found no evidence of that when the president claimed the company was building just “seven plants.” At the time, U.S. Steel spokeswoman Meghan Cox told us, “[a]ll of our operational changes have been publicly announced and all information shared with the federal government has been properly disclosed and made available on our website.” We only found press releasesannouncing the construction of a new continuous galvanizing line in Leipsic, Ohio, and the restarting of operations at two blast furnaces and steel-making facilities at an existing plant in Granite City, Illinois. Since then, the company has announced a five-year plan to “modernize and enhance the company’s flagship operation” in Gary, Indiana. That still doesn’t add up to “eight or nine plants,” though — or even seven.