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For Immediate Release:
March 15, 2018

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Canada Trade Deficit: Trump Actually Was Right When He Thought He Was Wrong

WASHINGTON, D.C. – **The United States does have a trade deficit with Canada: We import between \$21-\$34 billion more in goods and services from Canada than we export there.** Why a deficit range, versus a set number? As explained below, the way trade data is reported is confusing and tricky. The United States and Canada report different numbers on the balance of their two-way trade. But you can get an accurate trade balance number by netting out the export data each country reports. We walk you through that process below.

Bottom line: while we certainly are not defenders of President Donald Trump’s truthiness, he happens to have been right on this one. That is to say he was right, before he said he was wrong, which he was not... So, the stories poking fun at Trump’s rare admission of error in his exchange with Canadian Prime Minister Justin Trudeau are fair game. But in fact, we do have a trade deficit with Canada.

To get at the accurate U.S.-Canada goods and services trade balance and without having to wander through each country’s trade data websites, go to [UN COMTRADE](http://uncomtrade.org). This United Nations website of trade data has both countries’ numbers are in one place. Download the U.S.-reported and Canadian-reported trade data, including goods “exports” and “re-exports.” (Re-exports are foreign-made goods imported into the United States or Canada and then exported on to another country in substantially the same condition. Download both export numbers for both countries. If you count the foreign-made goods in either nations’ data, you get a big distortion of the balance. Almost a quarter of what some measures count as North American Free Trade Agreement (NAFTA) exports are re-exports, mostly from Asia.)

When you download the data, you see that the United States exported \$267 billion to Canada in 2016, of which \$46 billion is labeled “re-exports.” This means that U.S. domestic exports to Canada were \$221 billion. Do the same with the Canadian data: Canada’s domestic exports to the United States were \$266 billion. **You will see that the United States had a \$45 billion goods deficit with Canada when comparing the nations’ domestic goods exports to each other.**

However, the UN database does not include services trade, so you need to use data from the [U.S. Bureau of Economic Analysis](http://www.bea.gov) (BEA) and [Statistics Canada](http://www23.statcan.gc.ca). **The BEA reports that the United States has a \$24 billion services surplus with Canada. The Canadian data shows a \$10 billion surplus.**

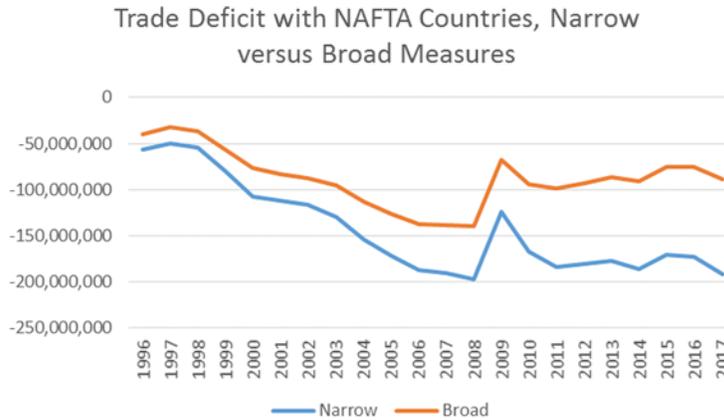
(Such a big difference is odd, but ignore that for now... Also, the data from Statistics Canada is converted to U.S. dollars using the current exchange rate.)

The bottom line is that when you net the services data with the domestic goods data, the U.S. services data results in a total U.S.-Canada goods and service trade deficit of \$21 billion and the Canadian data results in a total deficit of \$34 billion. Either way, it is a deficit.

Table 1	Goods	Services	
	(without re-exports)		
Trade with Canada	UN COMTRADE	BEA	Statistics Canada
U.S. Exports	\$221 billion	\$54 billion	\$56 billion
U.S. Imports	\$266 billion	\$30 billion	\$46 billion
U.S. Balance	\$45 billion deficit	\$24 billion surplus	\$10 billion surplus
Total U.S. Goods and Services Balance		\$21 billion deficit	\$34 billion deficit

Getting the data using this methodology may seem cumbersome, but it's the only way to get the accurate balance. Currently available U.S. government data provides only two imperfect measures of the balance. A narrower measure comparing "domestic exports" and "imports for consumption" shows the 2016 U.S. deficit in goods trade with the NAFTA countries reached \$191 billion - a \$126.3 billion deficit with Mexico and \$64.8 billion with Canada. However, a broader measure is most commonly reported. That measure is derived by comparing "total exports" and "general imports" and shows a \$89 billion 2016 NAFTA goods trade deficit – a \$71.1 billion deficit with Mexico and \$17.5 billion with Canada. The broader measure counts almost \$100 billion in foreign-made re-exports, which now comprise 20 percent of total U.S. exports to Mexico and Canada, as if they were U.S.-made goods.

NAFTA critics note that these foreign-made goods do not support U.S. production or jobs, so should not be counted as U.S. exports and that doing so disguises the degree of the imbalance by making the U.S. NAFTA goods deficit appear half as large. The narrower measure does not count foreign-made goods as U.S. exports. However, the "imports for consumption" figure used in this measure captures a significant share of goods that will be re-exported. Thus, NAFTA defenders note, this measure exaggerates the NAFTA deficit in general and the U.S. deficit with Mexico in specific by counting as U.S. imports a large share of goods that, for instance, are imported from Mexico to be re-exported to Canada and are not consumed domestically. By using each countries domestic exports data, you can remove the re-exports from *both sides* of the equation and get the accurate goods trade balance.



Source: U.S. International Trade Commission DataWeb

Getting the correct figures is critical to NAFTA renegotiations, as it provides an accurate picture of where there are and are not imbalances that the countries may wish to discuss. Public Citizen obtained data that is not publicly posted from Statistics Canada that reveals the country of origin of the foreign goods re-exported from the United States to Canada. One-third of these goods come from China. Nine other East and Southeast Asian countries plus China together^[1] account for 49 percent. Mexico is the source country for 22 percent and 5 percent are goods that originated in Canada, meaning 73 percent of the goods re-exported to Canada came from non-NAFTA countries.

To the extent that most U.S. re-exports to NAFTA countries are of goods made in non-NAFTA countries (rather than re-export of goods imported from Mexico or Canada), the narrower measure of the NAFTA trade balance using the existing “domestic exports” and “imports for consumption” indicators is likely closer to the true value than the broader measure. But using the net of the two countries domestic exports to the United Nations provides the most accurate figure. And using that data and netting it against the U.S. services trade surplus numbers both countries report shows that indeed, the United States has a \$21-\$34 billion goods and services trade deficit with Canada.

The only way to claim that the United States does not have a trade deficit with Canada is to include the \$28.7 billion in foreign-made exports sent through the United States to Canada and the U.S. – not the Canadian – reporting of the U.S. services surplus. Including those goods re-exports as U.S. exports, results in the United States only having a \$16.3 billion goods deficit with Canada. Add in the U.S. reported services balance of a \$24 billion surplus and you get the \$7.7 billion surplus in goods and services that Canadian Prime Minister Justin Trudeau cites. **But if Trudeau even used the inaccurate goods trade number of \$16.3 and balanced that against his own government’s data showing a \$10 billion U.S. surplus in goods exports to Canada, the net is still a deficit of \$6.3 billion....**

NAFTA Trade Balances Significantly Skewed by Re-exports

^[1] This grouping in Statistics Canada’s data includes 10 countries: China, Japan, Taiwan, South Korea, Malaysia, Vietnam, Thailand, Philippines, Indonesia and Singapore.

Today’s Trump Canada data comments have focused attention on a wider problem: The NAFTA debate has been clouded by widely varying reports of the trade balance between the three NAFTA countries. In 1993, the year before NAFTA went into effect, the United States re-exported \$26 billion of goods to all countries. Re-exports made up 5.5 percent of total U.S. exports. In 2017, the United States re-exported \$239 billion of goods to all countries. Re-exports made up 15.4 percent of total U.S. exports. NAFTA partners are by far the largest recipient of re-exports coming through the United States. In 2017, 44 percent or nearly \$105 billion of U.S. re-exports went to NAFTA partners - \$56.3 billion to Mexico and \$48.3 billion to Canada. No other country received more than 6 percent of U.S. re-exports. In 2017, re-exports constituted 20 percent of total U.S. exports to NAFTA countries (see graph). As the re-export share of total U.S. exports to the NAFTA countries has grown, counting re-exports as U.S. exports has increasingly skewed the U.S. bilateral trade balances with Mexico and Canada. As a 2014 ITC [memo noted](#):

“Historically the two measures [narrow and broad] tracked each other fairly closely, but there has been a growing gap between the two measures as re-export activity has increased over time and more of these goods destined for re-export have been shipped into the U.S. customs territory. The difference is largest in trade within North America and in products such as electrical machinery and electronics that are actively traded in global supply chains.”

Because U.S. re-export trade flows with respect to NAFTA partners more often involve exports of goods to NAFTA countries rather than imports from them, the “narrow” measure of the trade balance for NAFTA countries – using the existing “domestic exports” and “imports for consumption” indicators – is likely closer to the true value of the bilateral trade balances than the “broad” measure. In 2014, the [ITC noted](#) the growing share of total U.S. exports that are re-exports and concluded that “using both U.S. domestic exports and re-exports in an analysis allows a more in-depth view of U.S. trade.” The table below compares the two measures of the U.S. trade balance with China, Mexico and Canada and the world in 2016.

U.S. Trade Flows and the Two Current Trade Balance Measures, 2016

\$Billion	China	Mexico	Canada	World
Merchandise Imports and Exports				
U.S. Total Exports	115.6	229.7	266.8	1,451.0
U.S. Domestic Exports	107.0	176.2	221.1	1,226.5
U.S. General Imports	462.6	294.1	277.8	2,187.8
U.S. Imports for Consumption	461.7	292.7	277.6	2,173.6
Re-exports (Total Exports Minus Domestic Exports)	8.6	53.5	45.7	224.5

Alternative Merchandise Trade Balance Estimates				
Broad: Total Exports Minus General Imports	-347.0	-64.4	-11.0	-736.8
Narrow: Domestic Exports Minus Imports for Consumption	-354.7	-116.5	-56.6	-947.1

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