Myths about the U.S. Trade Deficit

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Lucas Jackson/Reuters

When Donald Trump was running for the presidency of the United States, his campaign slogan was "Make America great again." To do that, in the economy, he proposed reviewing the U.S. trade deals with other countries including, of course, the North American Free Trade Agreement (NAFTA) signed with Mexico and Canada. The argument behind this was that the agreements signed until that time were unequal, and therefore had been bad for the country, creating millions of unemployed and contributing to the deterioration of the economy and the country's international relations. While many thought that Trump had simply waved the banner of a protectionist trade agenda for strictly electoral reasons, once he occupied the White House, he took measures that could well be considered isolationist.

On his very first working day as president, January 23, he withdrew the United States from the Transpacific Trade Partnership (TPP), developed during the administration of his predecessor, Barack Obama. The TPP aimed to strengthen Washington's relations with several Asian Pacific countries in the face of the People's Republic of China's growing dynamism. Several specialists in the matter, in fact, thought that the TPP's raison d'être was to close ranks with a group of Asian nations to deal with the Asian giant, which since its December 2011 entry into the World Trade Organization (WTO) had exponentially increased its presence in world trade. When he withdrew the United States from the TPP, as he had promised during his campaign, the controversial chief executive told the U.S. public that they were winning by the decision, since, otherwise, many jobs would have been lost when U.S. companies moved themselves and their operations to the signatories' markets. He also said that one of his administration's main objectives would be to eliminate the trade deficit with the country's main partners.

Trump's rhetoric around the trade deficit took on new life when he said that he would try a renegotiation of NAFTA to reverse the deficits with Mexico and Canada, which are its third and second largest trade partners, respectively. What is more, he repeatedly said that Mexico had been the main beneficiary of the agreement, costing the United States many jobs since its inception, which was unacceptable. Later, he announced the beginning of renegotiation 2.0, starting on August 16 with the first of a dozen rounds slated to conclude in the first half of 2018. As if that were not enough, when the

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first round had barely finished, on August 20, Trump ventured to say that the United States might withdraw definitively from the agreement. In this context, it becomes necessary to analyze the U.S. deficit with its main trade partners to determine the validity of Trump's arguments.

The trade balance is part of the balance of payments, which annually logs the transactions that the residents of one country carry out with the residents of the rest of the world. It is made up of various items: the trade balance (trade in goods), the current account balance (trade in goods and services), the capital balance (foreign investments), money transfers (remittances), and errors and omissions (piracy or other illicit transactions).

The U.S. trade balance has a deficit with its main partners. This means that it buys more from them than it sells them. A deficit can also be the result of the products' value added. If, for example, a country sells apples, but imports capital goods, the balance will be unfavorable.

As the graph shows, in 2016, the United States' five main trade partners were the People's Republic of China, Canada, Mexico, Japan, and Germany, in descending order. It should be pointed out that the United States has a deficit with all of them. Its biggest partner, then, is the Asian giant, with which its total trade comes to US$578.6 billion, and its deficit, US$347 billion. The United States sells China aerospace technology, soybeans, and passenger vehicles; it purchases from it cellular phones, consumer goods (electrical appliances), computers, and telecommunications equipment. Beijing is responsible for 35 percent of Washington's total deficit with its trade partners worldwide.

The United States' second-largest trade partner is Canada, another NAFTA signatory. The total trade between the two countries comes to US$544.1 billion, while the U.S. trade deficit *vis-à-vis* Canada is US$11.3 billion. The economies of the two countries are not complementary: while the United States sells Canada auto parts and accessories, passenger vehicles, trucks, buses, and vehicles of other kinds, it purchases from Canada passenger vehicles, oil, and auto parts and accessories. This shows the importance of the intra-industry integration of the two nations' automobile sector.

The United States' third trade partner is another NAFTA signatory, Mexico. Total trade between the two comes to US$525.1 billion. The U.S. balance is a negative US$63 billion. The U.S. sells Mexico auto parts and accessories, electrical appliances, and computer accessories, while Mexico sells the U.S. auto parts and accessories, trucks, passenger buses, passenger vehicles, and vehicles of other kinds. Our country is responsible for 10 percent of Washington's deficit with all its trading partners worldwide.

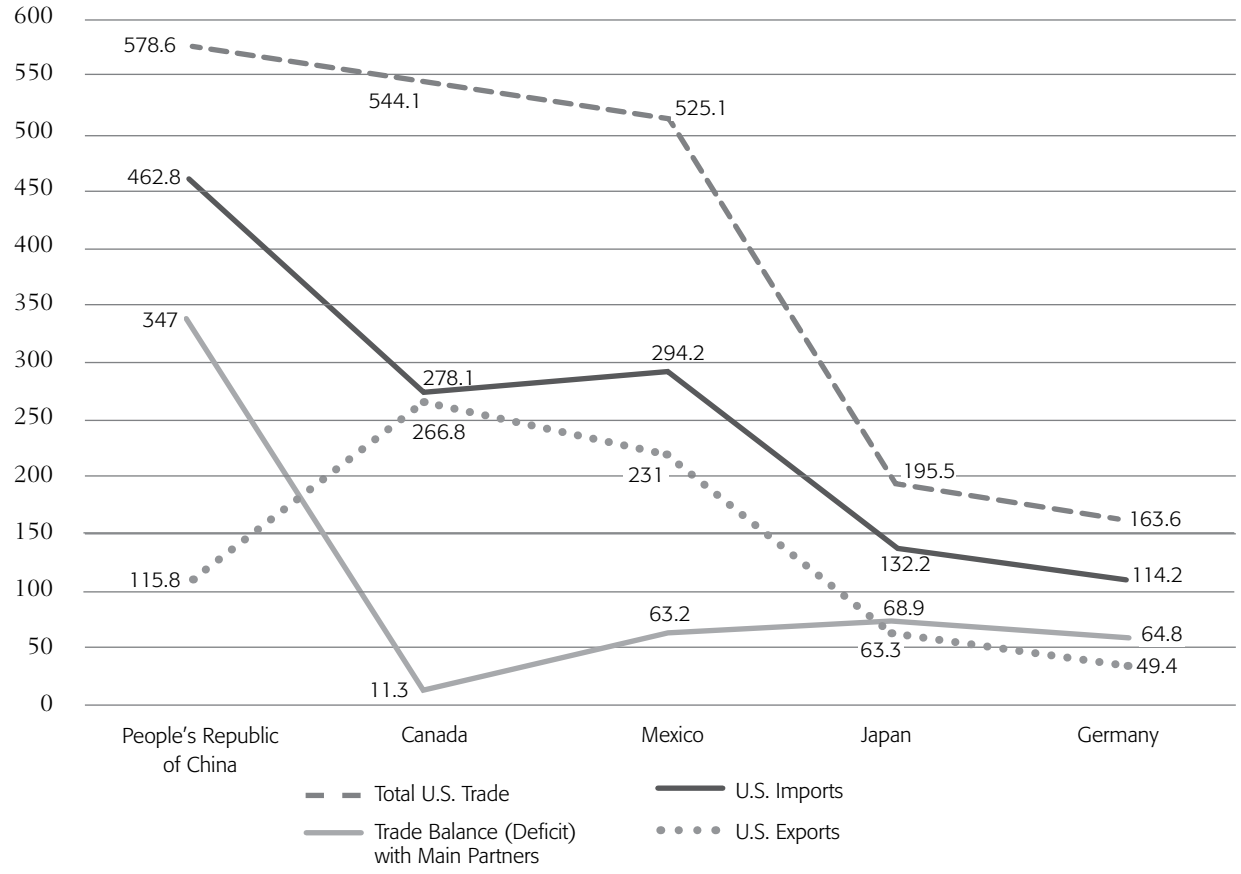
Its fourth trade partner is Japan, with total trade amounting to about US$195.5 billion, and a deficit of US$68.9 billion (that is, more than its deficit *vis-à-vis* Mexico). The U.S. sells Japan civilian airplanes, engines, and parts; pharmaceutical formulas; and medical equipment, while the Japanese sell the U.S. passenger vehicles, auto parts, accessories, and industrial machinery.

Its fifth largest trading partner is Germany, with their total trade reaching US$163.6 billion and a deficit for the U.S. of US$64.8 billion (once again, greater than its deficit *vis-à-vis* Mexico). The U.S. sells Germany passenger cars; civilian airplanes, engines, and parts; and pharmaceutical formulas, while Germany exports passenger cars, pharmaceutical formulas, and auto parts and accessories.

The United States' huge economy comes to an estimated gross national product of US$18.6 trillion and a per capita annual income measured in purchasing power of US$57 467. This makes it a high-income economy and therefore, a high-consumption economy that requires an enormous quantity of goods and services obtained from different countries. This explains its deficit with its main trading partners, but also with regard to other nations. For example, its trade deficit with the members of the G-20 (Germany, Saudi Arabia, Argentina, Australia, Brazil, Canada, the People's Republic of China, South Korea, France, India, Indonesia, Italy, Japan, Mexico, the United Kingdom, Russia, South Africa, Turkey, and the European Union) comes to about US$738 billion.

These data reveal profound inconsistencies in Donald Trump's discourse with regard to trade deals and the U.S. trade deficit. In the first place, if the treaties are "guilty" of the U.S. deficits with the nations mentioned, how can he explain its huge deficit with China, with which the United States has no free trade agreement? The same could be asked about the European Union, among whose members are Germany, France, and Italy, with all of which it has substantial

GRAPH 1
U.S. IMPORTS, EXPORTS, AND TOTAL TRADE, AND U.S. TRADE BALANCE WITH MAIN PARTNERS, 2016
(BILLIONS OF U.S. DOLLARS)



Source: Developed by the author using data from the U.S. Census Bureau, https://www.census.gov/foreign-trade/statistics/highlights/top/index.html#2016.

deficits despite the fact that the proposed Transatlantic Free Trade Agreement has not come to fruition.

In the second place, the U.S. trade deficit *vis-à-vis* China is six times its deficit *vis-à-vis* Mexico and comes to half what Washington reports regarding its trade with the G-20 nations. Therefore, insisting on blaming Mexico for the U.S. trade deficit does not jibe with the reality of the figures shown above.

In the third place, the U.S. trade deficit requires a more detailed analysis than the data makes possible. Trump accuses Mexico of having cost the U.S. many thousands of manufacturing jobs due to NAFTA since many U.S. companies moved their operations south of the border. The fact is that it is not the trade in manufactured goods, but the trade in energy products that is the main cause of the U.S. trade deficit *vis-à-vis* both Mexico and Canada.

Neither isolationism nor protectionism is the answer to the U.S. trade deficit challenge; what is required, rather, is a comprehensive economic and trade strategy, in which instruments like NAFTA have a singular value.

In the fourth place, today, the United States is seeking to strengthen its energy security *vis-à-vis* unstable countries and/or regions like the Middle East and Venezuela, which is why it aims to increase the importation of hydrocarbons from Canada and Mexico. Several projects exist to build transborder oil pipelines between Canada and the United States to facilitate oil exports from Alberta to the U.S. In the Mexican case, the energy reform has attracted the attention of U.S. companies, which will probably increase their presence

and purchase of hydrocarbons from our country. This means that the U.S. trade deficit with Mexico and Canada in energy trade will not only not drop, but will increase.

Another issue worth considering is the existing intra-industrial integration of Mexico and the United States and of Canada and the United States. I mentioned above, for example, the integration of the automobile sector, which has created what amounts to a huge factory of automotive vehicles in Detroit and Ontario. Intra-industrial integration is very important between these countries, given that 25 percent of everything Canada sells to the United States already has 25 percent U.S. content. In the case of Mexico-U.S. trade, of all the products Mexicans sell their northern neighbor, 40 percent have U.S. content. As we can infer from this, many of the goods sold to the United States by Mexico and Canada cross the borders several times during the production process, benefitting from NAFTA and the preferential treatment they are given because of the rules of origin; and once they are finished goods, they are sold both in the North American market and to the rest of the world. Therefore, the United States, far from being the losing party in its trade with these countries, and in particular, with Mexico, has benefitted amply.

The U.S. trade deficit with a substantial number of its partners can be traced to structural problems in its own economy. Productivity is a growing concern for our neighbor to the north, as is the training of human resources, responsible for providing the value added to the U.S. products sold to the world. In such globalized surroundings, the world is a gigantic factory and many companies —among them those in the U.S.— have decided to produce in the People's Republic of China to be more competitive, to cut costs, and also to have access to Asian markets.

So, neither isolationism nor protectionism is the answer to the U.S. trade deficit challenge; what is required, rather, is a comprehensive economic and trade strategy, in which instruments like NAFTA have a singular value since they can guarantee U.S. Americans preferential, non-discriminatory access to the world's diverse markets.

At a moment when the World Trade Organization's Multilateral Trade Negotiations, or the Doha Round, are stymied, international trade depends to a great extent on the agreements that can be forged between nations to access international markets in conditions of certainty. This is the raison d'être of NAFTA and its renegotiation, and that is the spirit that must prevail between the United States and its trade partners. VM