17th February 2025

The U.S.'s trade deficit and tariffs

The U.S. trade to GDP ratio is currently at around 27%, up from just over 10% in 1970[1]. China, on the other hand, has a trade to GDP ratio of around 37%, down from over 60% in 2007, but roughly the same ratio as in 1993[2]. (In the U.K., this ratio was at over 60% in 2023[3]). However, when comparing the two countries, it becomes clear that the entire trade deficit of the U.S. is made up of the Chinese trade surplus of around $1trn – depending on the data, China has a trade surplus of $1-1.5trn. In 2023, around $280bn of the U.S.'s trade deficit came from China, followed by $161bn from Mexico, $105bn from Vietnam, $83bn from Germany and $72bn from Canada. Interestingly, the combined trade deficit of Mexico, Vietnam and Canada with China is around $200bn – a figure that began climbing when Trump started the trade war in 2018. While the trade deficit with China began shrinking since 2019, and the trade deficit as a percentage of all trade declined, it widened with Vietnam, Mexico and Canada at the same time. This is likely a direct result of the Trump tariffs from 2018, when Chinese exporters started to diverge their exports through Vietnam, Mexico and Canada to avoid the tariffs.

<u>China has growing trade surpluses with countries where products are being exported onward to the U.S.</u>

Country	Trade deficit with China in US$ million (2023)
Mexico	>$100bn
Vietnam	>$80bn
Canada	>$30bn

Source: OEC.world, Tradingeconomics

[1] https://www.macrotrends.net/global-metrics/countries/usa/united-states/trade-gdp-ratio
[2] https://tradingeconomics.com/china/trade-percent-of-gdp-wb-data.html
[3] https://tradingeconomics.com/united-kingdom/trade-percent-of-gdp-wb-data.html

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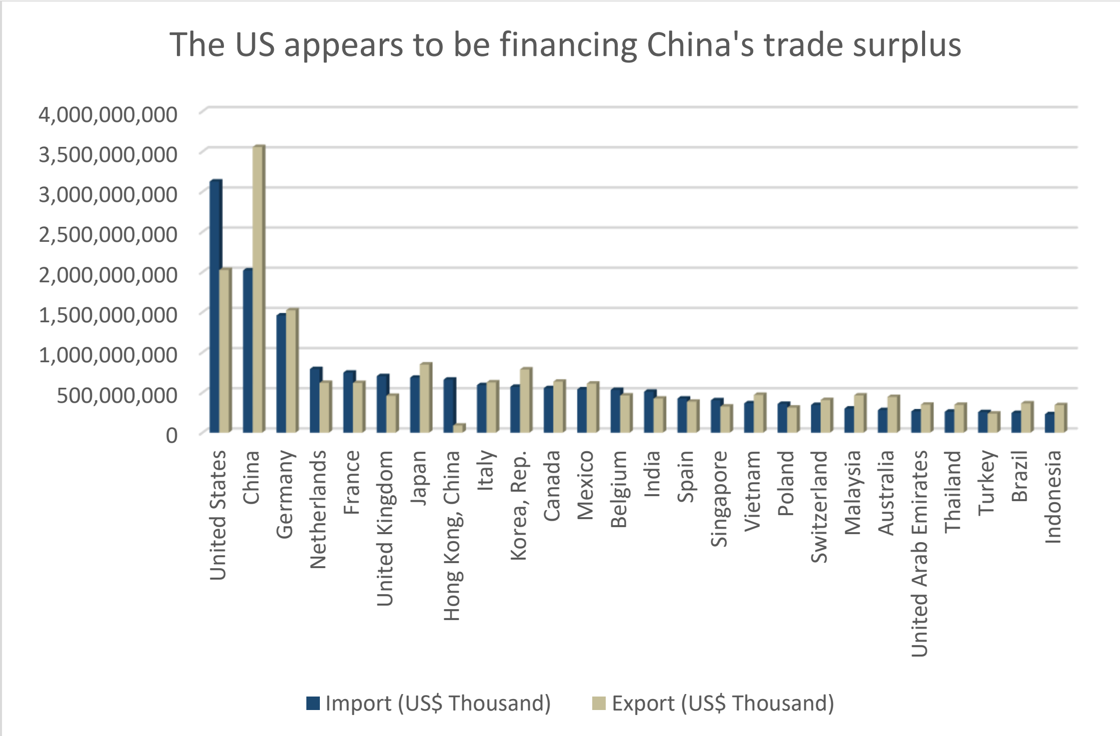

Source: World Integrated Trade Solution

<u>The U.S.'s largest trade imbalances by country (2023)</u>

Country	US's goods trade balance in $m
China	-278,716
Mexico	-161,382
Vietnam	-104,598
Germany	-83,234
Canada	-72,329
Japan	-71,878
Ireland	-65,507
South Korea	-50,996
Taiwan	-47,328
Italy	-44,451
India	-43,233
Malaysia	-26,920
Switzerland	-24,241
France	-14,143

Source: Bureau of Economic Analysis

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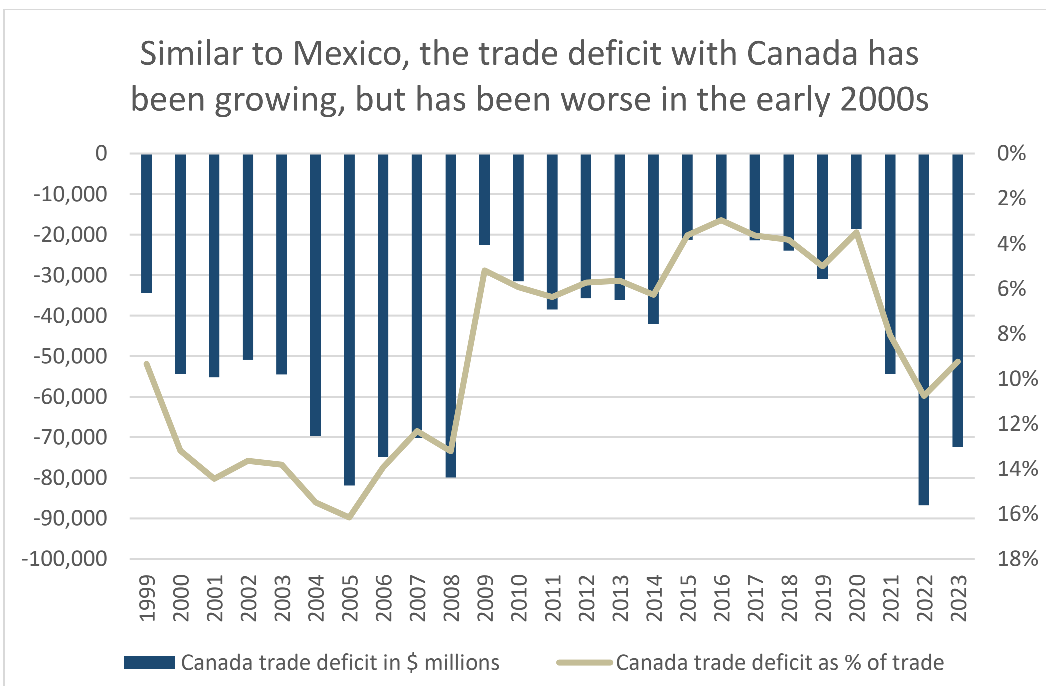

Source: Bureau of Economic Analysis

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One-way trade deficits

Below is a table that summarises the trade deficit as a percentage of trade with the countries that the U.S. has the largest trade deficits with. The higher the percentage, the more one-way trade is occurring. This shows that the decline of this ratio with China, has led to an increase of this ratio with Mexico, Vietnam and Canada, and therefore explains why Trump is targeting Mexico, Canada and China with tariffs. It can also explain that the U.S. will likely be targeting Vietnam soon as well. The widening trade deficit with South Korea and Taiwan is mostly driven by high-technologies, like chips, and hence is less likely to be targeted with tariffs in the first round, until the U.S. can compete on chip production when some of the plants currently being built come online later this decade.

U.S. trade deficits as % of total trade has in many cases been growing in recent years (bar China)

Year	China trade deficit as % of trade	Mexico trade deficit as % of trade	Vietnam trade deficit as % of trade	German trade deficit as % of trade	Canada trade deficit as % of trade	Japan trade deficit as % of trade	Ireland trade deficit as % of trade	South Korea trade deficit as % of trade	Taiwan trade deficit as % of trade	Italy trade deficit as % of trade	India trade deficit as % of trade
1999	72%	12%	35%	35%	9%	38%	27%	14%	30%	38%	42%
2000	72%	10%	39%	34%	13%	39%	36%	18%	24%	39%	49%
2001	68%	13%	39%	33%	14%	42%	44%	23%	28%	42%	44%
2002	70%	17%	61%	40%	14%	41%	54%	22%	26%	41%	48%
2003	68%	18%	55%	41%	14%	41%	54%	21%	29%	41%	44%
2004	70%	18%	65%	42%	15%	44%	56%	27%	23%	44%	43%
2005	71%	18%	70%	42%	16%	46%	54%	21%	22%	46%	40%
2006	68%	20%	77%	36%	14%	44%	57%	16%	24%	44%	38%
2007	67%	22%	70%	31%	12%	42%	59%	15%	18%	42%	23%
2008	65%	19%	64%	28%	13%	40%	60%	15%	17%	40%	18%
2009	62%	16%	60%	24%	5%	37%	57%	15%	19%	37%	13%
2010	59%	17%	60%	27%	6%	33%	64%	11%	14%	33%	21%
2011	58%	15%	60%	34%	6%	36%	67%	12%	21%	36%	25%
2012	58%	13%	63%	38%	6%	39%	63%	15%	21%	39%	29%
2013	56%	12%	66%	41%	6%	40%	65%	18%	18%	40%	31%
2014	58%	11%	68%	43%	6%	43%	62%	21%	19%	43%	36%
2015	61%	12%	69%	43%	4%	46%	63%	24%	22%	46%	35%
2016	60%	13%	61%	40%	3%	46%	65%	24%	19%	46%	36%
2017	59%	13%	70%	37%	4%	46%	64%	19%	23%	46%	31%
2018	63%	14%	67%	37%	4%	41%	68%	13%	19%	41%	24%
2019	61%	17%	72%	36%	5%	42%	72%	15%	26%	42%	26%

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2020	55%	21%	78%	33%	4%	43%	72%	20%	33%	43%	31%
2021	54%	17%	81%	35%	8%	48%	69%	18%	35%	48%	30%
2022	55%	17%	84%	34%	11%	43%	67%	23%	34%	43%	29%
2023	48%	20%	84%	35%	9%	43%	66%	28%	37%	43%	35%

Source: Bureau of Economic Analysis

What is the deficit made of?

The table below summarizes the largest U.S.$ million amounts in U.S. imports by products. It becomes clear that pharmaceuticals and passenger cars & parts make up more than $500bn of U.S. imports. These come mostly from Mexico, Canada, Japan and European countries. Some items, such as computers and cell phones are likely driven by single companies, such as Apple that produce in countries like China. Crude oil is also a large component, mostly coming from Canada, which is largely down to refineries that are equipped to handle heavier crude oil, while most crude oil that is exploited in the U.S. comes from light crude oil.

Largest U.S. imports by category (2024) (>$50bn)

Category	US$ million
Pharmaceutical preparations	246,849
Passenger cars	213,590
Crude oil	167,326
Other automotive parts and accessories	145,660
Computers	116,732
Cell phones and other household goods	111,879
Electric apparatus	102,684
Computer accessories	100,660
Other industrial machinery	84,921
Telecommunications equipment	84,611
Semiconductors	81,943
Trucks, buses, and special purpose vehicles	63,388
Medical equipment	62,706
Other textile apparel and household goods	53,731
Finished metal shapes	51,806

Source: Bureau of Economic Analysis

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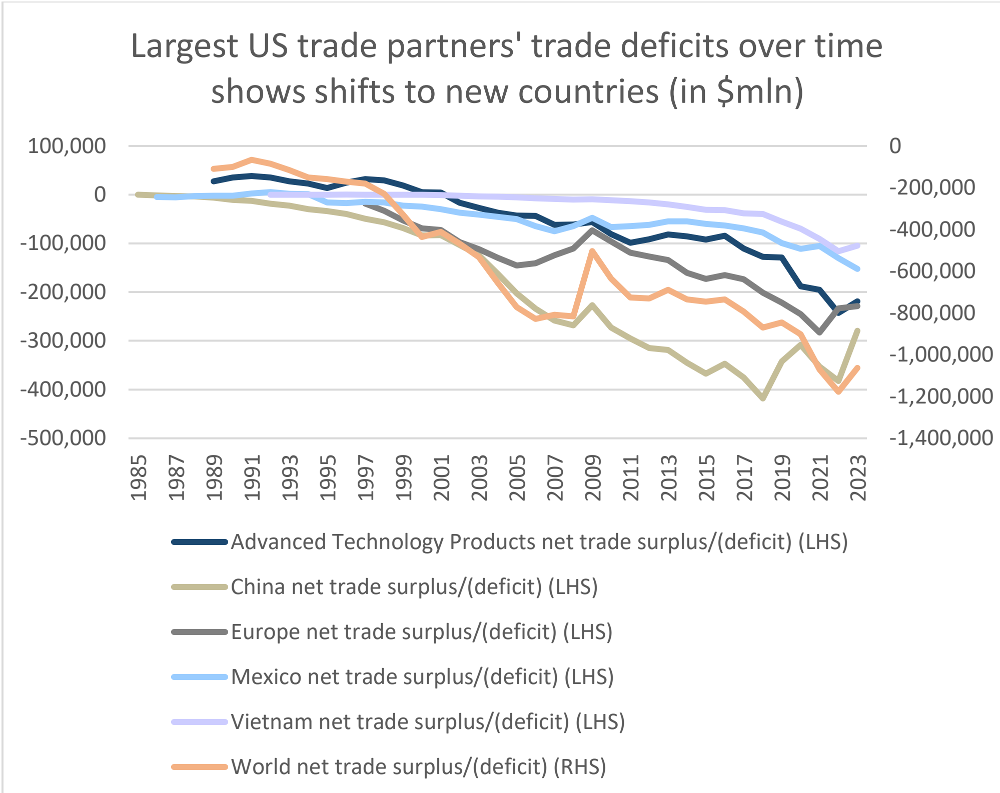

Source: US Bureau of Economic Analysis

What about US exports to the world and why is there a problem?

The United States' main exports include industrial supplies, capital goods, consumer goods, automotive vehicles, and food, feeds, and beverages. The top exports of the United States are Crude Petroleum ($125B), Refined Petroleum ($107B), Petroleum Gas ($83.2B), Gas Turbines ($69.3B), and Cars ($65.3B), exporting mostly to Canada ($269B), Mexico ($243B), China ($154B), Germany ($94.8B), and Japan ($80.2B) according to the Observatory of Economic Complexity[4]. The largest exports from the U.S. are all products that do not fit into the net zero, environmentally friendly world view that took off during Covid. A massive trade deficit is also a problem for the U.S., because all these U.S. dollars will either be exchanged, leading to a U.S. dollar devaluation, or the counties with the largest trade surplus to the U.S. could end up "owning" the U.S. by using their US dollars to purchase U.S. assets. As a solution to the widening trade deficit, Trump is offering all countries the same: Buy more U.S. oil and gas.

[4] https://oec.world/en/profile/country/usa

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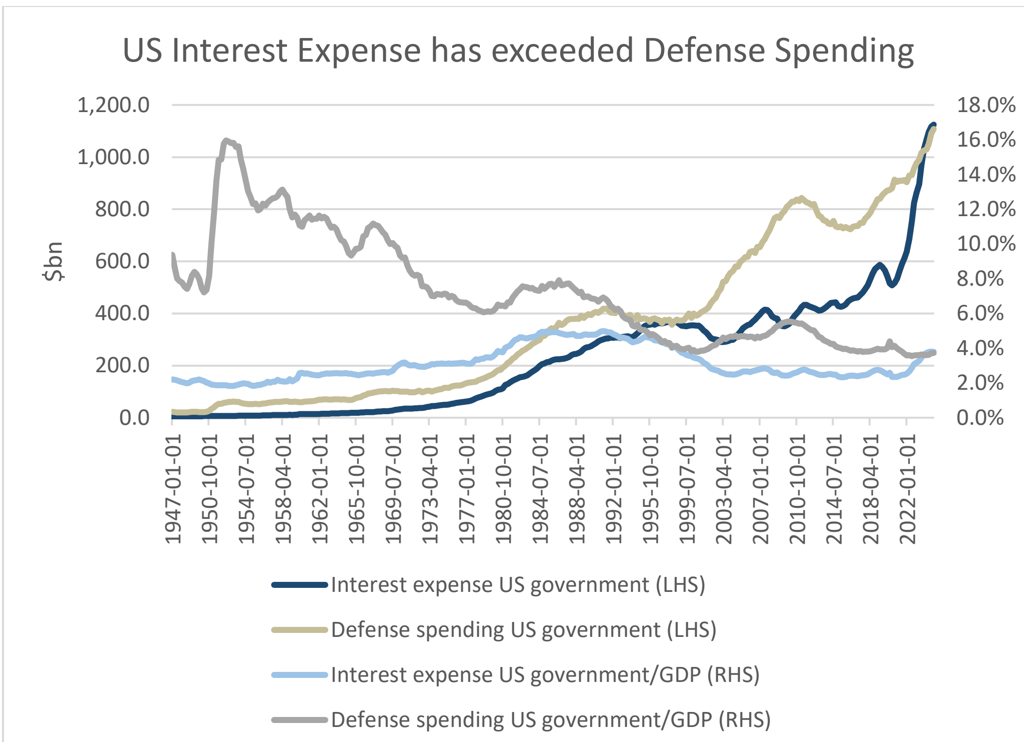
Conclusion

Trump's trade war makes a lot of sense for the U.S. when analysing the data on the surface. However, in detail a trade war actually does not make a ton of sense. It is U.S. companies that have shifted production abroad, such as Apple or Ford. For instance, Ford produces 400k cars a year in Mexico. At an average selling price of $55,614[5], that's already over $22bn in trade value. Hence, on the one hand, I believe that Trump still uses the threat of tariffs as a negotiating basis, to ensure that future manufacturing hubs are being established in the U.S. and not abroad, and that U.S. interests in oil and gas continue to flourish. On the other hand, the U.S. fiscal deficit could be reduced, which is extremely important. Net-net, it almost doesn't matter what the end result will be for Trump. If the other country negotiates, it's a benefit for the U.S., if the other country retaliates, it will mean higher tariff revenue for the U.S., which is needed to reduce the fiscal deficit. Both results can be viewed as positive for the U.S.



Source: FRED St. Louis

5 https://www.coxautoinc.com/market-insights/cox-automotive-analysis-ford-motor-companys-q4-2023-u-s-market-performance/

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