US trade

US trade deficit grows 12.1% in Trump's first year

President has so far failed to reduce goods and services gap with the world

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Shawn Donnan in Washington FEBRUARY 6, 2018

The US trade deficit grew 12.1 per cent to its highest level since 2008 in Donald Trump's first year in office, suggesting that the president is making little headway in his promise to rewrite America's trading relationship with the world.

Economists say the surge in the US goods and services deficit to $566bn last year was mostly caused by an improving domestic economy and rising demand from consumers and companies for imported goods.

US exports grew 5.4 per cent to $2.3tn, their second-highest level on record, while imports reached a record $2.9tn in 2017.

But the new data highlight the political dangers that Mr Trump has created for himself by nominating metrics such as the US trade deficit, and stock market indices, as a measure of presidential performance.

The trade deficit has been widening slightly each year since 2014. But the deterioration in 2017 was far sharper than others seen in that period.

The deficit in goods with China, which Mr Trump last month declared "unsustainable" in a call with Xi Jinping, his counterpart in Beijing, grew to a record $375.2bn last year. The deficit with Mexico, which Mr Trump has repeatedly criticised, hit $71bn in 2017, its second highest level on record.

The administration said it remained focused on reducing the deficit but needed time for its mix of tougher enforcement, renegotiated trade deals and new agreements to work.

“Strenuous effort is under way, but it is not practical to set an exact deadline,” said Wilbur Ross, the US commerce secretary.

A White House spokeswoman said the administration was focused on “the lopsided trade relationship with China”. But she added: “Our aggregate trade deficit has been large and persistent for many years and will take time to fix.”

Economists say that presidential actions, including Mr Trump’s plan to rewrite trade deals such as the North American Free Trade Agreement, are likely to do little to narrow the trade deficit in the short term.

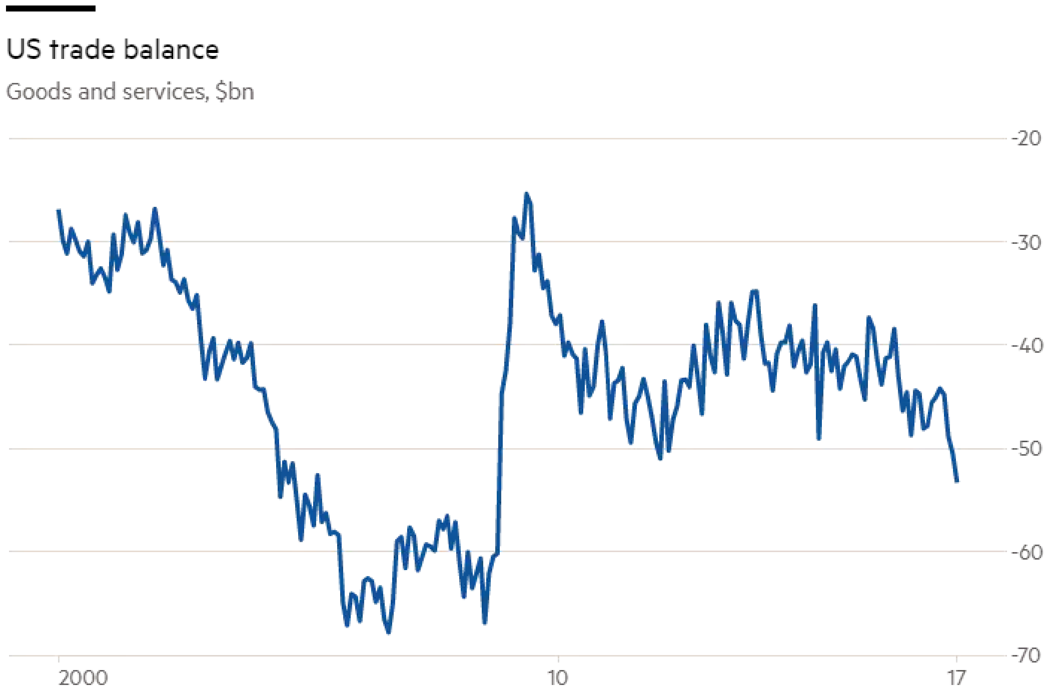
Moreover, the consequences of the president’s other economic policies, such as the tax cuts Republicans passed at the end of last year, are likely to add to the deficit.

“The latest deficit numbers reflect macroeconomic conditions in the US, including strong consumer spending,” said Mary Lovely, an economist at Syracuse University who is now a visiting fellow at the Peterson Institute for International Economics.

“Changes in trade policy in 2017 were small and, in any case, unable to move the needle on the deficit. If the recent tax cut stimulates spending and business investment in the US, as the president hopes, we may well see an even larger deficit for 2018.”

Democrats and labour unions say that Mr Trump’s unfulfilled promises on trade have contributed to the deteriorating US trade balance.

The Trump administration has signalled plans to take a more forceful approach towards China, in particular, this year with an investigation into Beijing’s intellectual property practices expected to lead to tariffs or other actions in the coming months. It is also renegotiating Nafta with Canada and Mexico.



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But the rapid, radical action that Mr Trump promised on trade coming into office has yet to materialise.

The administration has become bogged down in internal debates over what actions to take against China, and the Nafta negotiations have proceeded far more slowly than it anticipated.

“Since the president views our trade balance as an important factor in America’s economic health, the record deficit with China, in particular, must be deeply troubling to him. The mystery to me is why he hasn’t taken any concrete steps to hold China accountable for its mercantilist behaviour that has contributed to this imbalance,” said Scott Paul, president of the Alliance for American Manufacturing, which is affiliated with the United Steelworkers union and pushes for “Made in America” policies.

Eswar Prasad, a Cornell University economist who used to head the International Monetary Fund’s China division, said he was concerned that the rising trade deficit with China would bolster the view within the Trump administration that it needed to act to restrict Chinese imports.

“The risk is that such actions could spiral into a tit-for-tat series of restrictions on bilateral trade and investment flows that would hurt both economies,” he said.

“This administration's focus on the bilateral trade deficit puts China in a difficult position since that deficit is driven as much by macroeconomic conditions in the two countries as by trade policies.”

Still, for many economists the anxieties over the trade deficit remain misplaced in an environment where the US economy looks increasingly strong. In particular, they point out, US exports have continued to grow, with goods exports to China last year reaching a record $130bn.

The US also continues to maintain a healthy surplus in exports of high-value services, though it dipped slightly last year. While the US goods deficit grew to $810bn last year the services surplus fell by 1.5 per cent to $244bn.

This article has been amended to correct the figures on US exports.

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