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Trump's Trade Focus Risks Missing the Mark as Nafta Talks Begin

By Randy Woods
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The White House is in the driver's seat in renegotiating the North American Free Trade Agreement and has laid out its basic priority: cutting trade deficits.

While America's \$87 billion trade gap in goods with Mexico and Canada has attracted President Donald Trump's ire for putting America on the losing side of commerce, many economists point out that focusing on those numbers is misguided.

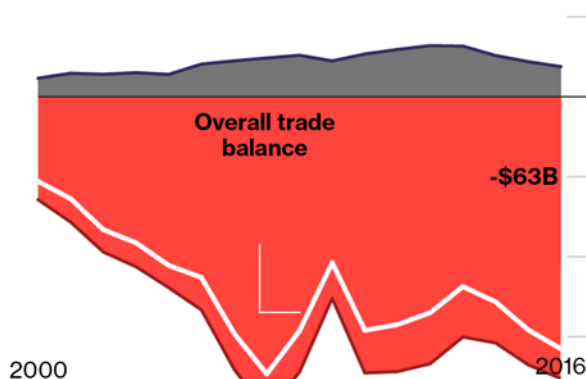
For starters, the deficit doesn't account for services, where the U.S. has a surplus with both countries. That narrows its gap with Mexico and turns America's overall trade deficit with Canada into a surplus—something Canada's Foreign Affairs Minister Chrystia Freeland highlighted when outlining her country's [core objectives](#) on Monday.

Accounting for Services

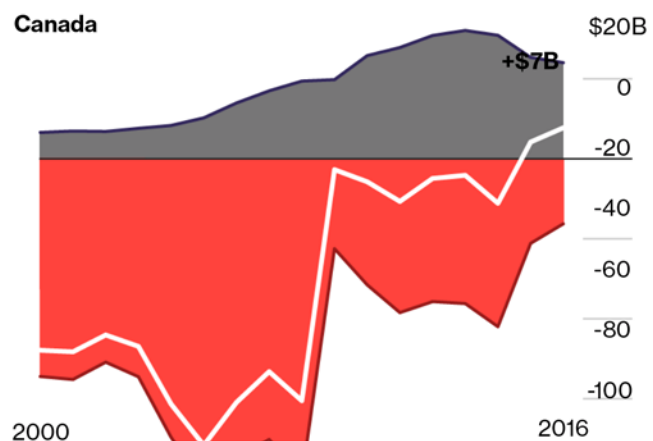
When services are included, the U.S. has an overall trade surplus with Canada.

Balance of trade on
■ Services ■ Goods

Mexico



Canada



The biggest contributors to the deficit with Mexico and Canada are imports of vehicles and their parts, followed by machinery, electronics and oil. Not coincidentally, America's four biggest exports to its two neighbors are from those four categories, just in a slightly different order. That reflects the free flow of goods that Nafta was designed to facilitate, said Robert Scott, senior economist at the Economic Policy Institute in Washington.

"We have deeply integrated supply chains with Mexico and Canada," he wrote in an email. For instance, "in oil, we import crude and export refined products."

Top trade items with Canada, 2016

Imports		Exports	
Category of Goods	Amount (\$B)	Category of Goods	Amount (\$B)
Vehicles & parts	57.9	Vehicles & parts	48.4
Oil & fuel	53.9	Nuclear reactors, boilers, machinery & parts	40.2
Nuclear reactors, boilers, machinery & parts	19.2	Electronic machinery & parts	24.0
Polymers & other plastics	10.4	Oil & fuel	16.8
Wood & wood products	9.8	Polymers & other plastics	12.3

Top trade items with Mexico, 2016

Imports		Exports	
Category of Goods	Amount (\$B)	Category of Goods	Amount (\$B)
Vehicles & parts	74.8	Nuclear reactors, boilers, machinery & parts	41.7
Electronic machinery & parts	61.8	Electronic machinery & parts	40.7
Nuclear reactors, boilers, machinery & parts	50.8	Vehicles & parts	21.4
Optical, medical equipment	13.2	Mineral fuels	19.2
Furniture	11.1	Polymers & other plastics	16.2

And on a macro level, the deficit with Nafta is a small part of the U.S.'s \$452 billion current-account gap—a broad measure of trade—which in large part reflects the American propensity to invest and spend rather than save. While there are valid arguments for trying to shrink the current-account deficit, that entails a rebalancing of the overall economy that won't be solved by renegotiating individual trade deals.

“Going after bilateral deficits is essentially a game of whack-a-mole,” according to Fabio Ghironi, an economics professor at the University of Washington. “Trying to shrink the deficit vis-a-vis any individual trade partner is only going to result in that deficit showing up somewhere else, in some other individual partner, unless there is an overall rebalancing of savings vs. investment.”

Note: Top trade categories exclude “special classifications.”
Sources: U.S. Bureau of Economic Analysis and U.S. Census Bureau
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