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Despite Trump's tough talk, trade gap widens to 9-year high

By Paul Wiseman   February 6, 2018

WASHINGTON — President Donald Trump campaigned on a promise to overturn U.S. trade policy and bring down the country's massive, persistent trade deficits.

After a year in the White House, he still has a lot of work to do.

The Commerce Department reported Tuesday that the U.S. trade deficit in goods and services rose 12 percent to $566 billion last year, biggest since 2008. A record $2.9 trillion in imports swamped $2.3 trillion in exports last year.

The deficit in the goods trade with China — frequently accused of unfair trading practices by the White House — hit a record $375.2 billion in 2017. The goods gap with Mexico climbed to $71.1 billion.

"Trump's trade team has not been able to stem the flood of imports into the country yet," said Chris Rupkey, chief financial economist at MUFG Union Bank.

The trade gap grew even though the U.S. dollar dropped nearly 7 percent last year against the currencies of its major trading partners, a move that gives U.S. companies a price edge in foreign markets and makes imports pricier in America.

Dean Baker, senior economist at the left-leaning Center for Economic and Policy Research, says it takes time for a weaker dollar to have an impact on the trade balance.

Countries run trade deficits when they buy more products from other countries than they sell and run surpluses when they export more than they import. The United States has not turned a trade surplus since 1975, when Gerald Ford sat in the White House and “Jaws” ruled the box office.

Why hasn’t Trump been able to begin rebalancing America’s lop-sided trade relationship with the rest of the world? Economists and trade analysts offer several explanations:

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THE FLIP-SIDE OF GOOD TIMES

Trump likes to boast about the American economy’s strength. Economic growth rose to 2.3 percent last year from 1.5 percent in 2016, despite getting off to a slow start in 2017. The unemployment rate is idling at a 17-year low 4.1 percent. Wages finally seem to be growing.

But when it comes to trade, there’s a flip-side to good times: “A stronger economy will draw in more imports” as confident consumers seek out foreign products, says Bernard Baumohl, chief economist at the Economic Outlook Group.

Recent history shows that the trade deficit tends to grow when times are good and shrink when they turn bad. The trade gap hit a record $762 billion in 2006 toward the end of a six-year economic expansion. It dropped to $384 billion in 2009, in the depths of the Great Recession as American consumers hunkered down and bought fewer imports.

“If the goal is to reduce the trade deficit, we know how to do that — just send our economy crashing and we won’t be able to afford to import as much,” says Bryan Riley, director of the conservative National Taxpayers Union’s Free Trade Initiative.

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TOUGH TALK, LITTLE ACTION

On the campaign trail, candidate Trump talked tough on trade. He threatened to slap big tariffs on Chinese and Mexican imports and said he'd tear up trade treaties and sanction China for manipulating its currency.

He's been more cautious since taking office.

Yes, he withdrew from an Asia-Pacific trade pact negotiated by the Obama administration.

But he abandoned plans to label China a currency manipulator. His attempt to renegotiate the North American Free Trade Agreement with Canada and Mexico — which he labeled a job-killing "disaster" — has bogged down amid resistance from Ottawa, Mexico City and U.S. businesses and farmers that enjoy NAFTA's market-opening benefits.

U.S. investigations into whether cheap aluminum and steel imports threaten U.S. national security, which could lead to trade sanctions, have been delayed by pressure from U.S. companies that consume steel and aluminum.

"It's not surprising that the deficit is up because in Year One there has been a wide gulf between Trump's fiery trade rhetoric and action," says Lori Wallach, director of Public Citizen's Global Trade Watch and a critic of NAFTA and other trade deals. "So the same failed trade policy Trump attacked as a candidate is still in place."

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SAILING AGAINST STRONG ECONOMIC CURRENTS

Even if Trump began aggressively taxing imports and strong-arming other countries into meeting his demands to buy U.S. exports, he still likely would find it hard to make a big dent in America's trade deficit.

“Trade deficits are generally not susceptible to manipulation through trade policy,” says Phil Levy, senior fellow on the global economy at the Chicago Council on Global Affairs. Levy notes that Germany runs a big trade surplus and France a deficit even though both operate under the European Union’s common trade rules.

Instead, trade deficits are the consequence of bigger economic forces. The United States spends more than it saves. Just look at budget deficits in Washington and credit-card balances in American households. When you spend more than you produce, imports fill the gap.

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