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USA

Trump uses tariffs to reduce trade deficit. Promoting exports was better

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In 2024, the United States had a merchandise trade deficit of $1.2 trillion, equal to 4.1% of GDP, both records, and the fourth consecutive annual deficit exceeding a trillion dollars. The United States has run trade deficits annually since the mid-1970s, a clearly unsustainable situation. While the United States is a net deficit country and the world's

largest importer, it is at the same time the world's second largest exporter after China. China took the lead from Germany in 2009 and the following year the United States moved to second place where it has remained.

Aware that deficits cannot go on forever, President Donald Trump has made it a cornerstone of his economic policies to impose targeted import tariffs on countries big and small. These were announced on April 2nd. At the same time, the Office of the US Trade Representative's issued a 397-page Report on Trade Barriers[1] an annual document that "…highlights significant foreign barriers to U.S. exports, U.S. foreign direct investment, and U.S. electronic commerce." Barriers concerning the European Union cover 33 pages.

Given that the largest bilateral deficit for many years has been with China, the US imposed 34% tariffs on Chinese goods, on top of existing tariffs. China quickly retaliated in kind.
In 2001, shortly after becoming a member of the World Trade Organization (WTO), the global entity that promotes fair, free and rules-based trade, China marketed its products aggressively, especially to the United States, offering rock-bottom prices for manufactures made possible by cheap labor as well as stolen intellectual property mostly from the Unites States. In 2024, China's merchandise trade surplus was a record of just under a trillion dollars, or exactly $992 billion, of which one-third was with the US.

It is believed that China sold even more goods to the US by sending products to Mexico that were subsequently re-exported to the United States. While China was the top import market for the United States for many years, in 2024 Mexico became the largest having sold $476 billion to the US, compared with number two China's $427 billion.
It is common for a country to have its geographical neighbors as its top trading partners and the US is no exception. Therefore, Canada and Mexico have been for decades among the top five markets for both US exports and imports.

Trade was simplified and amplified among the three, first through the North American Free Trade Agreement (NAFTA) in 1994, which was revised at the insistence of President Trump during his first administration and renamed the USMCA or United States-Mexico-Canada Agreement which went into effect on July 1, 2020. Now President Trump has upended his own trade agreement, sending into a quandary primarily the auto industry in all three countries given the size and complexity of the agreement which covers components and assembly involving all three markets.
Canada and Mexico will suffer significantly given that their economies are much more

dependent on exports and the US is their main market by far. In 2023, Canada's exports were over 21% of GDP and about 77% of exports went to the United States. Mexico's exports comprised 25% of GDP and 25% of goods were destined for the United States.

Why tariffs and not export promotion?

While the US is the world's second largest exporter, it is also the largest importer and has trade deficits with most of the countries of the world. In 2024, the US had bilateral trade deficits with the European Union of $236 billion, with Mexico of $172 billion and $63 billion with Canada. All three accounted for 39% of the overall deficit. While President Trump keeps reiterating that these countries, especially the EU, are "ripping us off" – his favorite expression on trade relations – this is not the case. Europeans mostly have a different tax system such as a value added tax that includes a rebate on goods exported. Secondly, Americans buy foreign products based on quality, price, reliability, style, taste, and many more economic and non-economic factors.

Instead of cutting back imports a more positive approach to reducing trade deficits would be to actively promote American products abroad. Most European countries and many others have export promotion agencies with offices in the US to help sell their countries' goods. For example, in New York City alone there are over 100 foreign export promotion agencies, many of them also promote foreign investment to their respective countries. Assistance to exporters includes providing information on regulations, permits, taxes, market conditions, sources of financing, and assistance with exhibitions at trade fairs.

For example, the Italian Trade Agency (ITA) [Istituto per il Commercio Estero], has offices globally. In the United States it has offices in New York, Miami, Chicago, Houston, and Los Angeles, promoting Italian products as well as foreign investment. Thus, it is no wonder that Italy runs a large trade surplus with the United States. Last year it was $44 billion, the 12th largest bilateral deficit of the United States which imported over $76 billion of Italian goods while exporting $32 billion, giving Italy rankings of 11th and 16th, respectively. As for Italy, the United States accounts for 10% of exports and almost 4% of imports.

Italy's largest bilateral trade surplus is with the United States – and the largest deficit with China. The top export markets are Germany, the United States and France. In 2023, Italy became the world's sixth's largest exporter, up from ninth place in 2019, according to data compiled by the WTO.[2]

Export promotion agencies have a role to play in selling goods abroad. But the US does not have such an agency. The US Commerce Department provides some information to

help American companies market their goods abroad. But there is no separate export promotion agency with a presence in foreign countries.

Tariff consequences and responses

The first to respond to the Trump tariffs were financial markets. In the two days following the Wednesday, April 2 announcement, the major US stock exchange indices registered very sharp declines wiping out, at least temporarily, several trillion dollars in market valuation, a bad psychological signal. Over the weekend some 50 countries reached out to the US with counter proposals.

Most economic analysts viewed tariff consequences as presaging more inflation, less growth and higher odds of recession. If, because of retaliatory measures, US imports decline, income from tariffs may not be as much as the Administration would like since tariff income is supposed to offset revenue loss from planned tax cuts. As for inducing companies to manufacture in the United States, these are long term propositions that take years to bring to fruition.

Individual countries will decide whether to negotiate or retaliate, mindful that President Trump likes “deals.” While the European Union is attempting a united response, Prime Minister Giorgia Meloni has favored negotiations that might de-escalate trade tensions and lead to a “win-win” situation.
Elon Musk, a close ally of President Trump, addressed the Lega Party congress on April 5th stating in his remarks: “I hope it is agreed that both Europe and the United States should move ideally, in my view, to a zero-tariff situation, effectively creating a free trade zone between Europe and North America.”[3]

This is a tall order, but it would be a worthy goal to aspire to achieve.

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[1] https://ustr.gov/sites/default/files/files/Press/Reports/2025NTE.pdf

[2] https://www.wto.org/english/res_e/booksp_e/trade_outlook24_e.pdf, Appendix Table 1.

[3] https://www.taipeitimes.com/News/biz/archives/2025/04/07/2003834727