Economic Research

Economic Briefing

Factsheet US foreign trade

27 January 2025

Bernd Weidensteiner [AC]

Dr. Christoph Balz [AC]

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Contrary to the fears of many, the new US President Trump did not impose any concrete tariffs at his inauguration. However, this is not an all-clear signal. We continue to see the risk that tariffs may ultimately be imposed on a significant scale, and we provide an overview of the structures of US foreign trade.

Tariffs initially as a means of combating illegal immigration…

Contrary to his campaign promises, Donald Trump did not start implementing massive tariffs on the very first day of his term of office. However, that is not to say that the all-clear has been given. He initially seems to want to use the threat of tariffs as a means of combating illegal immigration to the US.

Over the weekend, this was practiced with Colombia. The government of this country initially refused to grant landing permission for American deportation flights. Trump then threatened an immediate tariff of 25%, which would increase to 50% in a week (the US is Colombia's most important export market and imports goods from this country worth around 16 billion dollars annually). According to the White House, Colombia has responded by giving in, causing Donald Trump to refrain from implementing the threatened punitive measures.

According to press reports, there are growing signs that Trump could take action against Canada and Mexico as early as the weekend. Trump had held out the prospect of a 25% tariff on imports from Mexico and Canada, without committing to it. He mentioned February 1 as a possible date. He justified this by saying that these countries were not doing enough to prevent the flow of migrants and drugs such as fentanyl into the US. The additional 10% tariff on imports from China, which was also threatened, was justified by the fact that China supplies chemicals to produce fentanyl to Mexico.

These threatened measures have non-economic reasons. Trump probably focused on these points first because they are related to the issue that is presumably most important to his voters: border security. However, the manifest willingness to use tariffs is also likely to influence market participants' assessment of the probability of comprehensive tariffs.

…and soon also the high trade deficit?

Although the action against illegal immigration seems to have priority for the time being, the fight against the high trade deficit will probably become the main focus after that. Trump's announcement that he is considering setting up a new agency to collect customs duties and other levies in foreign trade, and his expectation that this will generate considerable revenues for the federal budget, also underlines the fact that he is serious about this. He also stated unequivocally in Davos that companies should produce in the US or face tariffs. His dealings with Colombia show that Trump does refrain from imposing tariffs if he is appeased in some other way. However, it is likely to be difficult for trade partners to commit to balancing the trade account.

We tend to see his statement about tariffs on Chinese products – “he would rather not have to use them” – as a negotiating tactic. If he were to view tariffs as inevitable from the outset, China would have no incentive to at least address some of his demands, such as the fentanyl issue.

Some members of Congress have already introduced a bill in the Senate and House of Representatives (with the support of Democrats in the latter) to withdraw China's status as a “permanent normal trade relations” country. According to the bill, a 100% tariff would be imposed on goods from China classified as strategic, and a minimum tariff of 35% would be levied on the rest. A robust approach against China has bipartisan backing.

Deadline April 1

One reason Trump has held back so far is that some of the potential legal bases for imposing tariffs require prior investigation. Accordingly, Trump has ordered a comprehensive review of US trade policy. The relevant agencies are to submit reports by April 1 on unfair trade practices by other countries, currency manipulation, discriminatory foreign taxes, and technology transfer practices. They are also to propose measures to reduce the trade deficit.

The relevant agencies are also instructed to verify whether China has fulfilled its obligations under the phase-one deal. This was concluded during Trump's first term in office. According to the trade data, China has not fulfilled the promised volumes of imports from the US.

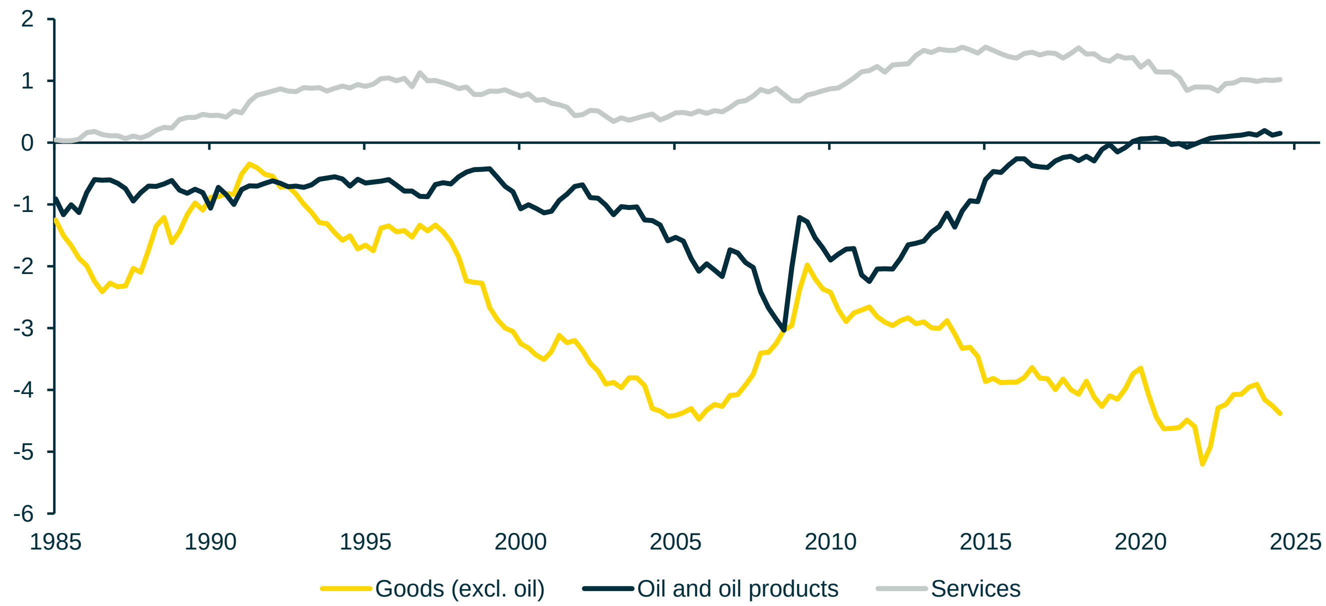
On the basis of the analyses available in April, Trump then has a wide range of options for targeting individual countries, industries or entire groups of countries.

Tariffs against the foreign trade deficit

Tariffs are likely to play a major role in the efforts to reduce the US trade deficit, which Trump perceives as “unfair”. President Trump is focusing on the goods deficit. Outside the oil sector, this has widened in recent years (Chart 1), although the US now has a small surplus in oil products. The US has traditionally been a net exporter of services.

Chart 1 - US foreign trade deficits remain high despite swing of oil balance

Trade balances, NIPA data, in % of GDP, quarterly data



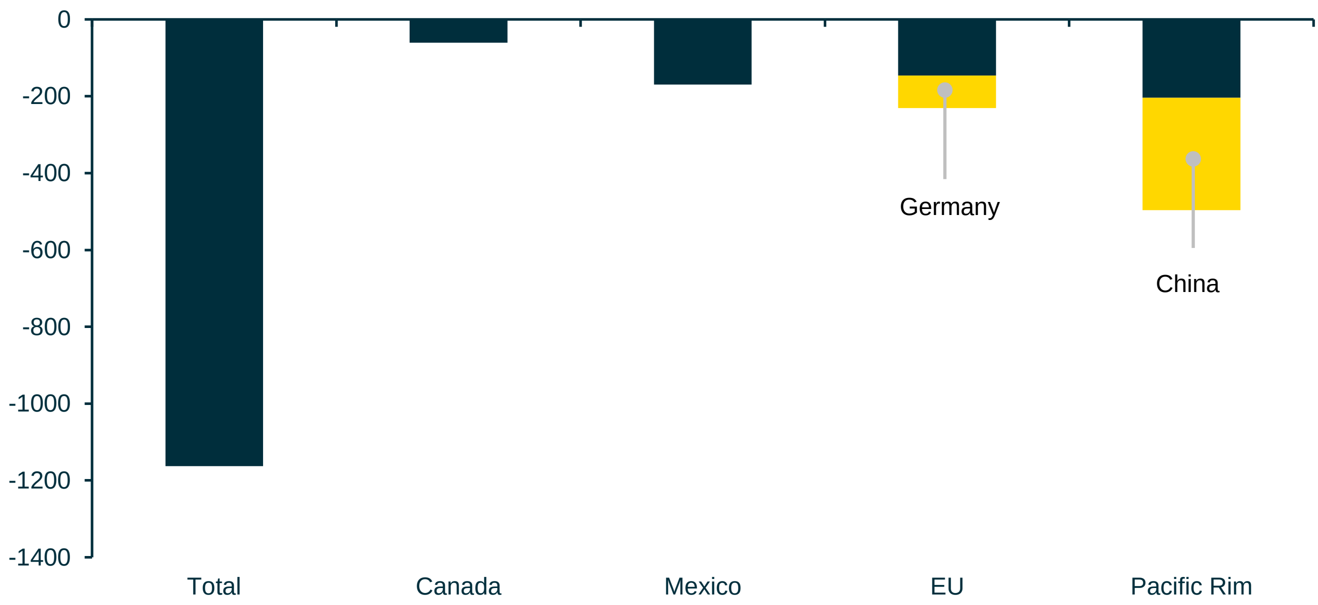
Source: BEA, S&P Global, Commerzbank Research

China is particularly in the line of fire. ...

Trump is paying particular attention to the trading partners with which the US has the largest deficits. By far the largest of these is China. There are also large deficits with the EU (and especially Germany), Mexico and Canada (Chart 2).

Chart 2 - Goods trade deficits: Regional structure

US balance in goods trade in the 12 months up to November 2024, in billion dollars



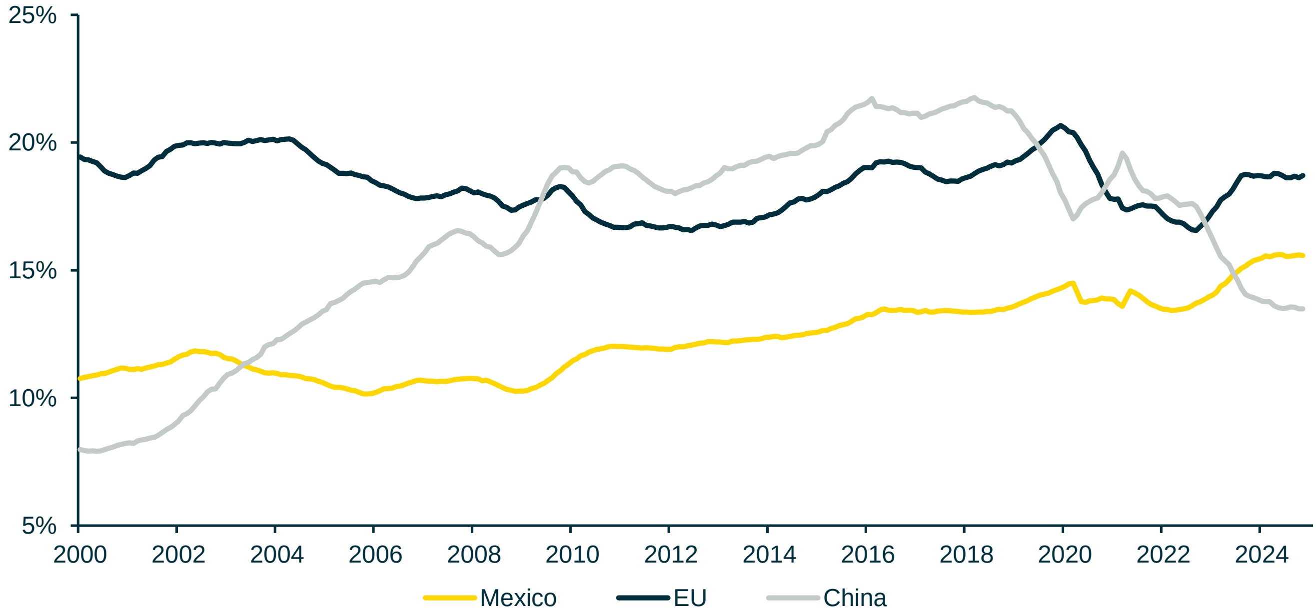
Source: Census, S&P Global, Commerzbank Research

... despite a certain decoupling

So the “China problem” has remained, despite a certain decoupling. China's share of US goods imports, for example, is now only 13.5%, well below the levels seen in 2015-2018, when China's share was close to 22%. This means that China has fallen behind the EU and Mexico as a source of US imports (Chart 3). However, this narrow view of bilateral balances probably distorts the picture. In some cases, Chinese exports to the US are now apparently being routed through third countries such as Vietnam or even Mexico. Vietnam's share of US imports, for example, has almost tripled in recent years to 4.2%.

Chart 3 - US import structure changes

Regional shares of total US goods imports in %, 12-month averages



Source: Census, S&P Global, Commerzbank Research

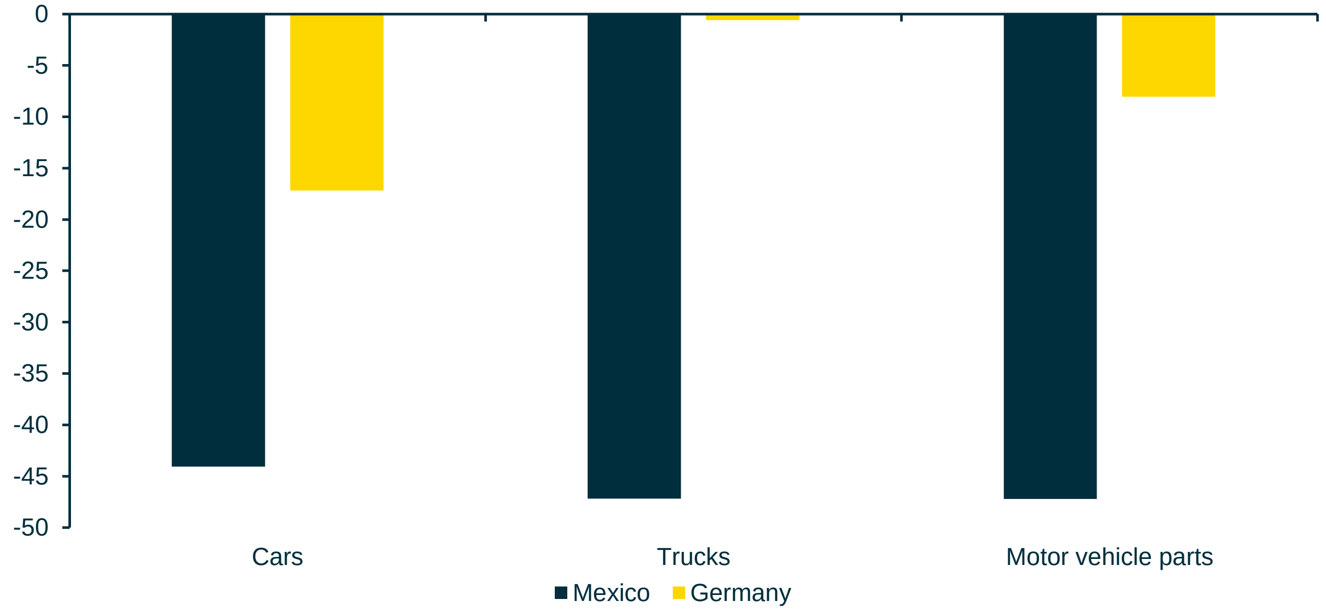
Focus on automobiles?

Donald Trump is particularly keen to protect the domestic car industry. Mexico, which has a large trade surplus in automobiles, would be particularly affected. In the last 12 months, Mexico has exported cars and trucks to the US worth almost $100 billion, while imports are relatively low. However, the American and Mexican automotive industries are closely intertwined, as trade in auto parts shows. Here, the US exports parts to Mexico for $36 billion and imports parts for $83 billion. Intermediate automotive products are transported back and forth across the border multiple times at various stages of the value chain. Imposing tariffs here would result in considerable costs for American manufacturers, not to mention an enormous bureaucracy.

Germany – which Trump also frequently targeted in his election campaign – also has a considerable surplus in car trade with the US (Chat 4). This is concentrated in the passenger car segment. Trucks from German manufacturers, including SUVs, are already predominantly produced in the US.

Chart 4 - Auto trade: Mexico as "work bench" of US auto industry?

Balances in the trade of autos and auto parts in the 12 months up to November 2024, in billion dollars



Source: Census, S&P Global, Commerzbank-Research

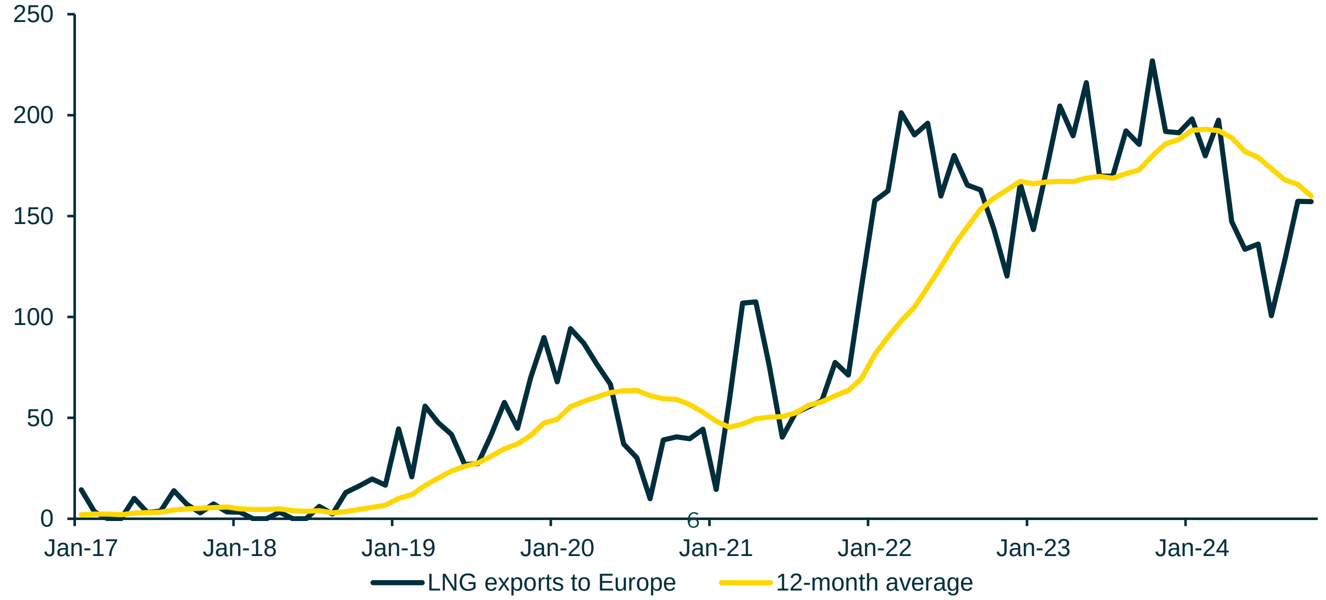
Can Europe mollify Trump with more LNG imports?

The EU is apparently preparing for trade disputes with the US with a two-pronged strategy. On the one hand, retaliatory tariffs and other countermeasures are being prepared, while on the other hand, the EU is apparently also looking for ways to open negotiations with the US. For example, the EU could reduce tariffs on car imports from the US in response to Trump's criticism that the EU is hindering the import of such vehicles and treating the US unfairly.

Furthermore, an increase in imports of liquefied natural gas from the US could be considered. Such imports increased significantly after the Russian invasion of Ukraine and the loss of Russian gas supplies, but have decreased again in 2024 (Chart 5). Due to the significant price decline, the value of US LNG exports to the EU halved from $25 billion in 2022 to just over $12 billion in the 12 months to November 2024. In addition, the EU is still importing large quantities of Russian LNG. But even significantly increased imports would only slightly reduce the US deficit in trade with the EU (currently around 230 billion dollars per year). Increased LNG imports can therefore only be part of the solution for the US.

Chart 5 - Europe could buy more American LNG

US exports of liquefied natural gas (LNG) to Europe (excl. UK, Turkey), in billion cubic feet per month

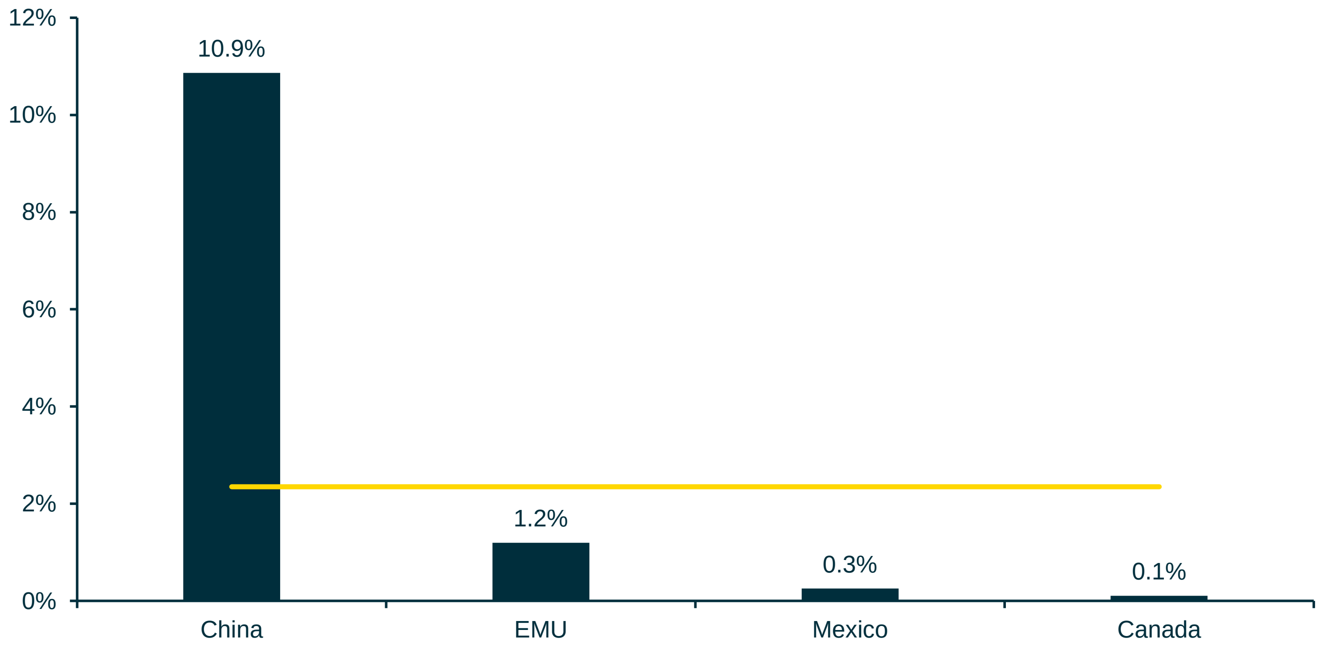


If the plan for a general tariff of 10% is implemented, the effective tariff would reach a level last seen in the 1940s. From Trump's point of view, a general tariff would also have the advantage of making it more difficult for trading partners to circumvent it. One problem with the previous sectoral and fragmented tariff measures was that exports then sought other routes via third countries.

Many trade economists believe that the dollar would probably react to such measures by appreciating significantly, which would offset some of the inflationary effect of higher tariffs, but would also prevent American exports from increasing (they would become more expensive for foreigners due to the stronger dollar). Countermeasures by trading partners would likely make higher tariffs even less favorable for the US economy. It is questionable whether the hoped-for unleashing of domestic economic growth forces through deregulation can compensate for this.

Chart 6 - US tariffs are still low on average

Effective tariff rates (duties collected in % of total import value). Horizontal line: average for all imports



Source: Census, Commerzbank Research

Analysts

Bernd Weidensteiner AC
Senior Economist
+49 69 9353 45625
bernd.weidensteiner@commerzbank.com

Dr. Christoph Balz AC
Senior Economist
+49 69 9353 45592
christoph.balz@commerzbank.com

This report was completed 27/1/2025 10:24 CET and disseminated 27/1/2025 10:24 CET.

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60327 Frankfurt	London, EC2P 2XY	NY 10281-1050	Singapore 189773
Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000