Dissolving trade deals may exact heavy toll on US states

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In the first days of the new Administration, uncertainty surrounding the survival of established trade deals has taken centre stage: TPP was the first on the cutting block with the fate of NAFTA looming. The ripple effects on Canada and Mexico have garnered significant attention. Underpinning the moves has been President Trump’s assertion that the U.S. will gain “balanced access to markets and jobs”¹. Given existing trade relationships, is altering the trade deal with Canada a ‘check and mate’ when it comes to achieving this goal?

Balanced Trade

The United States is a net importer of goods and services with an overall trade deficit running around US$490B on an annual basis in Q3/16 led by an annual goods shortfall near US$740B. The bulk of the imbalance can be attributed to a trade shortfall with China of US$312B followed by Germany (US$71B) and Mexico (US$61B). Canada, based on U.S. data, conversely continues to run a small surplus with the U.S. reflecting a surplus in services, a trend that has been in place since 2015. Even when looking at the trade flow of goods only, the annualized deficit of around $12B in Q3/16 with Canada marked the smallest shortfall in at least two decades².

Balanced access to markets:

Canada’s dependency on the U.S. for trade is evident: the top five U.S. trading partner states alone absorb nearly 50% of Canada’s nominal exports led by Michigan (16%) and Illinois (11%). However, implementing protectionist policies will not only impact Canada but also trade-oriented sectors in the United States.

Thirty five states have Canada as their top export destination with an additional six counting Canada as their second top trading partner. For example, more than 70% of exports from North Dakota land in Canada, followed by Maine (47%), Michigan (44%) and Ohio (40%). The risk that Canada implements countervailing duties or that the US dollar appreciates significantly would severely affect the competitiveness of these U.S. states.

Two-way trade with Canada is sizeable across the U.S. It amounted to more than 16% of Michigan’s economy over the past five years followed by Montana (12%),

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New Hampshire (11%), North Dakota (10%) and Illinois (8%). Furthermore, when considering “balanced access to markets”, more than half of the states south of the border ran a trade surplus with Canada in 2015.

Canada is the top supplier to the U.S. of crude oil, refined petroleum products, electricity and natural gas. On the flipside, motor vehicles and parts account for the largest U.S. export group to Canada followed by crude oil, aircraft, engines, tractors and pharmaceuticals.

Balanced access to jobs:
The push for protectionist policies and a subsequent renegotiation of NAFTA has, in part, been positioned as a means to stop the outflow of jobs from the U.S. It is hard to conceive how restricting trade flows between Canada and the U.S. would achieve this objective. In Canada there are 3.3 million jobs associated with trade while nearly 9 million positions in the U.S. are connected to the trading relationship with Canada. In California alone—where bilateral trade was 2.0% of the economy in 2015—close to 1.2 million jobs depend on Canadian trade and investment. More than 600K jobs are reliant on the trade relationship with Canada in both New York (680K) and Florida (620K). But even states that are less trade-exposed to Canada have some skin in the trading game: Virginia—where two-way trade with Canada is only 1% of the economy—had 281K jobs dependent on Canadian trade in some way in 2015.

NAFTA accounted for close to 30% of global trade in 2015. Trilateral trade in the region was over $1.0 trillion in 2015, representing more than a three-fold increase since the agreement’s inception. U.S. merchandise exports to Canada almost doubled over this period and overall, trade between the two countries amounted to more than US$662B in 2015, or US$55B per month. Underlying this, several states are disproportionately dependent on trade with Canada with two-way trade amounting to more than 5% of Gross State Product in 11 U.S. states. As a result, it is hard to conceive how disrupting established trade flows between the two countries would improve the “balance” that the protectionist policy hopes to achieve.

Notes
1. President Trump’s ‘American First’ jobs plan
2. Data from U.S. Census Bureau, Industry Canada, Bureau of Economic Analysis, Statistics Canada. There is a slight discrepancy in the bilateral trade balance between data from the U.S. Census Bureau and Statistics Canada.
3. Government of Canada: State Trade Fact Sheets