Hey, Mr. Trump: Canada can’t fix your trade deficit

By Barrie McKenna
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Chrystia Freeland has a lot to ponder as she heads to Washington for next week's launch of the NAFTA 2.0 talks.

The Foreign Affairs Minister and her team of negotiators are no doubt plotting how to play the negotiating game. That means identifying what they're willing to give, targeting potential gains and knowing when to walk if the United States demands too much.

There is a more fundamental question for Canadians to consider: Why are we even at the table?

For U.S. President Donald Trump, the renegotiation of the North American free-trade agreement is all about eliminating the massive U.S. trade deficit. Mr. Trump, who has called NAFTA "the worst trade deal maybe ever signed, anywhere," sees the deficit as a scourge that has wiped out millions of U.S. jobs and thousands of factories.

Item No. 1 on the Americans' to-do list is to "improve the U.S. trade balance and reduce the trade deficits with the NAFTA countries," according to a formal list of negotiating objectives released a few weeks ago by U.S. Trade Representative Robert Lighthizer.

Mr. Trump has even ordered up a naughty list of countries running big deficits with the U.S. The Commerce Department report is said to be in the hands of Mr. Trump, and due to be released any day now.

If the trade deficit is the big ask, Canada is clearly not the solution to the U.S. problem. Quite the opposite. Canada has been steadily losing export market share in the U.S. since the early 2000s.

The U.S. has historically run a large trade deficit with Canada, although that is not the case any more. But Mr. Trump can't seem to get the big picture. When he talks of a trade deficit with Canada, he's looking only at the goods the U.S. imports from north of the border. But burgeoning service exports have helped push the U.S. into a surplus position.

In 2016, the U.S. had a $12.5-billion (U.S.) goods and services trade surplus with Canada, according to U.S. Commerce Department data. Imports totalled $307.6-billion. Exports were $320.1-billion.

In services alone, the U.S. enjoys a nearly $30-billion surplus with Canada. The U.S. is the world's leading exporter of services, and Canadians are avid consumers. We buy their computer software and entertainment, including Netflix, iTunes and Spotify.

And Canadians still love travelling to the U.S., in spite of the weak Canadian dollar and unease about Mr. Trump's political agenda. (Canadian tourist dollars spent south of the border are considered U.S. service exports).

The economies of advanced countries are increasingly dominated by services, rather than goods. And Canada is relatively minor player, ranking 18th among service-exporting countries.

Looking at the goods side of the equation – energy, cars, lumber and the like – Canada still has the upper hand. But the surplus has been shrinking due to low prices for oil and other commodities and, most worryingly, because of a significant loss of market share in the U.S. across a wide range of exports. Before the 2008-09 financial crisis, Canada was regularly running goods surpluses of $50-billion to $80-billion a year with the U.S. By 2016, that surplus had turned into a deficit of $10-billion.

That's a drop in the bucket when you consider the U.S. has been running a goods trade deficit with the world of more than $500-billion a year since the early 2000s. It hasn't run a surplus since 1975, and its economy has mostly thrived.

Even if you agree with Mr. Trump's dubious notion that a trade deficit is inherently a bad thing, Canada is barely more than 1 per cent of the alleged problem. And that's looking narrowly at the goods side of the equation.

The bottom line is that Canada is more victim, than aggressor here. The U.S. could walk away from free trade with Canada and it wouldn't put a dent in its trade deficit.

The auto sector is emblematic of Canada's dwindling market share in goods exports. We have been losing plants, investments and jobs – not just to the U.S. and Mexico, but also to non-NAFTA countries such as South Korea, according to a report this week by economist Jeff Rubin, a senior fellow at the Centre for International Governance Innovation.

"By most industry metrics, Canada's vehicle and parts industry has been as adversely impacted – and in some cases more so – by the shift in production to Mexico under NAFTA," Mr. Rubin argued.

So before Ms. Freeland and her team get down to business next week, they should remind their U.S. counterparts of the trade landscape.

When it comes to Canada, the field is already tilted in the U.S. favour.