about a U.S.-instigated trade war mounting, it is instructive to examine the vulnerabilities of key economies to such a conflict. The larger an economy's goods exports to the U.S. are as a percentage of the exporting economy's GDP, the more exposed that economy would be to first-order effects of a trade war with the U.S.

Currently, Mexico is the most dependent on goods exports to the U.S., which account for over 29% of Mexican GDP, while Canada's goods exports to the U.S. make up more than 19% of Canadian GDP (Chart 3). It is no surprise that the next-door neighbors of the U.S. – its North American Free Trade Agreement (NAFTA) partners – have the greatest dependency on trade with the U.S.

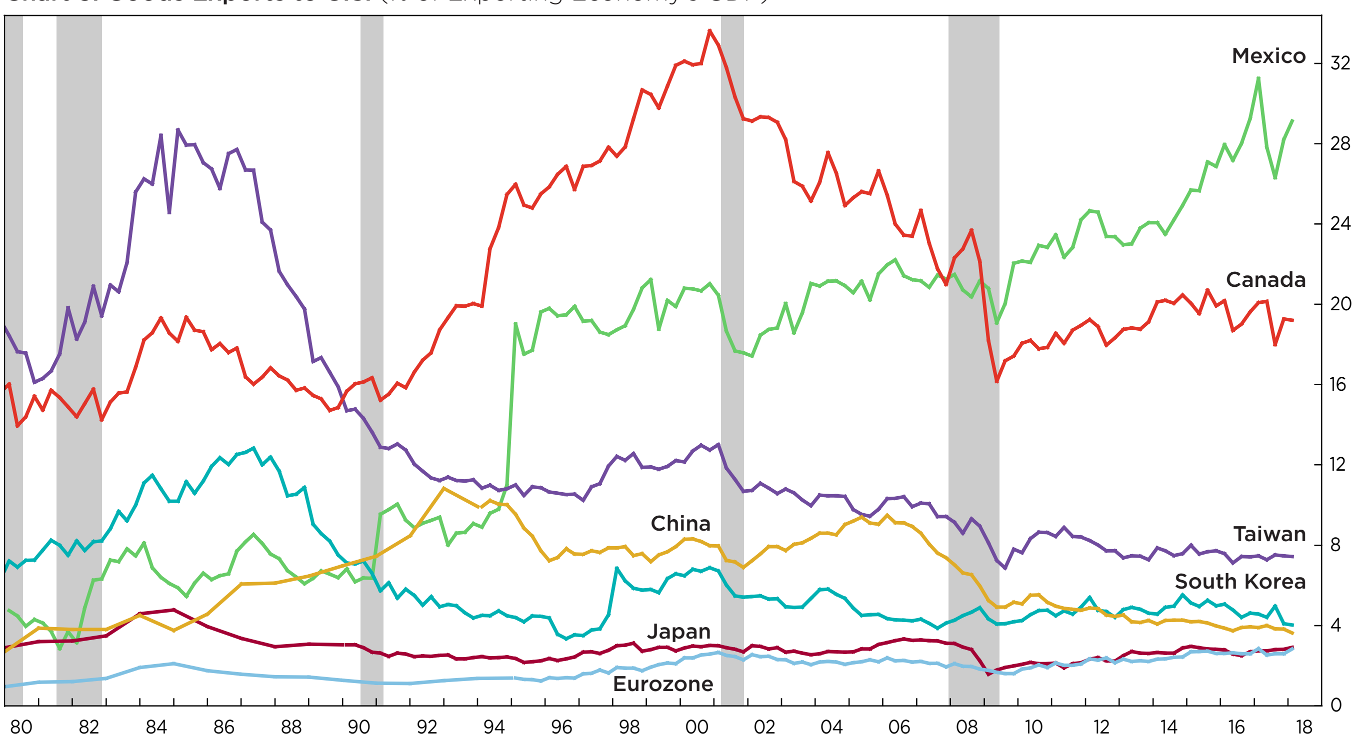
Right before NAFTA went into effect on January 1, 1994, goods exports to the U.S. made up only 9% of Mexican GDP and 20% of Canadian GDP. Two years later, goods exports to the U.S. had more than doubled to nearly 20% of Mexico's GDP. Seven years after NAFTA, goods exports to the U.S. had climbed to more than one-third of Canada's GDP. While Canada has since become less reliant on exports to the U.S., Mexico has become more dependent, especially in the wake of the Global Financial Crisis.

For most East Asian economies, goods exports to the U.S. as percentages of their GDPs were the highest in the mid-1980s. In early 1985, nearly a decade before NAFTA, Taiwan's goods exports to the U.S. made up nearly 29% of its GDP, but it has since come down to below 7½% of its GDP. In mid-1987, Korea's goods exports to the U.S. accounted for nearly 13% of Korean GDP, but it has since eased to a scant 4% of GDP. However, their dependence on exports to China has increased substantially.

Japan's reliance on goods exports to the U.S. also peaked in mid-1985 on the eve of the Plaza Accord to depreciate the U.S. dollar. At the time, they made up just over 5% of Japanese GDP. It has eased over the years to a little under 3%, even as its export dependence on China has increased (not shown).

Eurozone goods exports to the U.S. rose to 2.7% of its GDP in early 2001, around the time the dependence of Germany and France on exports to the U.S. also peaked. It then eased gradually before rising to 2.8% today – just below the percentage for Japan. However, within the Eurozone, there is substantial variation in export dependence, with goods exports to the U.S. amounting to almost 3½% of GDP

Chart 3: Goods Exports to U.S. (% of Exporting Economy's GDP)



Shaded areas represent U.S. business cycle recessions.

