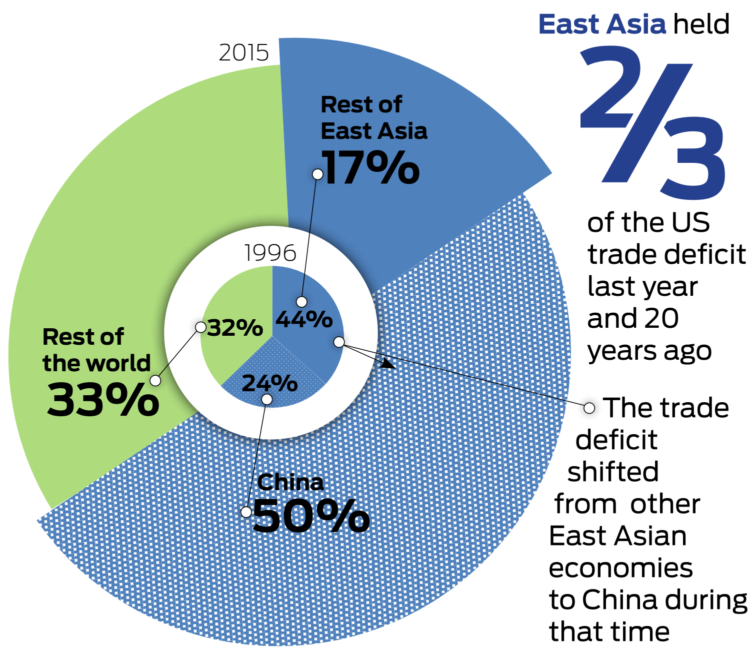
USCBC

THE US-CHINA BUSINESS COUNCIL

美 中 贸 易 全 国 委 员 会

Trade facts | THE US TRADE DEFICIT WITH CHINA

According to polling by the Pew Research Center, more than half of Americans are concerned about the US trade deficit with China. A few facts offer important context — and suggest a course of action.



We have a large bilateral trade deficit with China and it is much bigger than it was 20 years ago, before China joined the WTO. But, everything related to the U.S. economy is bigger than it was 20 years ago. Our economy is more than twice as big now as it was then.

Much of what we import from China is stuff we imported for decades from other East Asian economies — Japan, South Korea, Taiwan, and Hong Kong. In 1996, our trade deficit with East Asia (including China) was two-thirds of our total trade deficit; it was about the same in 2015, although larger in total value.

As the size of the American economy doubled over the past 20 years, Americans have purchased more from producers everywhere. Our total trade deficit was about 2 percent of GDP in 1996; in 2015 it was about 4 percent — not large, by international or historical standards.

When you look at the data, the trade deficit with East Asia as a whole and the trade deficit with the rest of the world have each also about doubled during this time, but remain proportionately the same. What has changed is that China's portion of our deficit with East Asia has increased, while the share held by other East Asian economies has decreased.

Think of the TV in your living room. The label probably says "made in China" today; 20 years ago it probably said "made in Japan." The last time the United States was a major TV manufacturer was in the 1960s, so those TVs are not replacing U.S. production. Many imports from China share a similar story.

The U.S. has a trade deficit because we buy a lot of stuff that we don't make here, a trend that began long before China became a major manufacturer. In fact, one of the only things that reduces the U.S. trade deficit is a recession, like in 2009. Between 2008 and 2009, our trade deficit with China dropped by more than $40 billion as Americans spent less. Americans resumed their buying habits as the economy recovered and in 2010, the overall trade deficit crawled back up. While recessions might reduce the trade deficit, they are not good for our economy or workers. The growth of the trade deficit in times of a healthy economy is a sign that we have disposable income to spend.

We should take several steps to get the most out of our trade relationship with China. When China cheats, we should take internationally-accepted, rules-based actions against them. Rather than build protectionist walls, we should boost American exports to China—the fastest growing market in the world—by pursuing policies that reduce the trade and market access barriers that China uses to keep out American manufactured goods, services, and agriculture products. We should take steps here at home to boost worker education and training, and improve competitiveness to ensure that America continues to have a strong economy. And, it may be time to revisit policies to help workers affected by changes to the U.S. economy find new jobs in more vibrant industries.

These actions are not as easy as pointing the finger at China, but are a lot more likely to make a difference.

Sources: U.S. Department of Commerce, Pew Foundation, International Monetary Fund