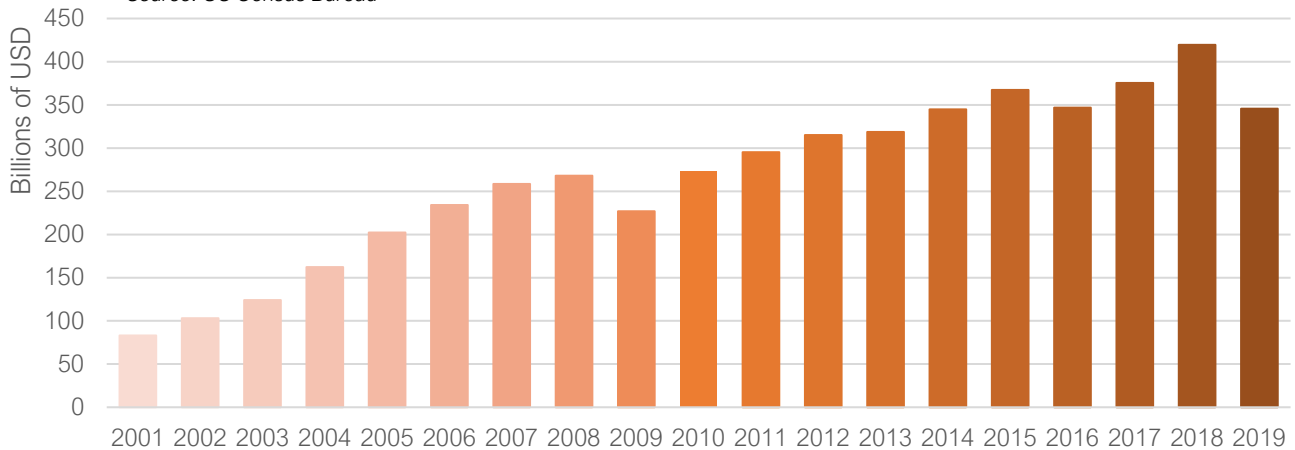


The Trade Deficit Is Not a Good Metric for the Health of US-China Trade

Countries run a deficit when the value of their imports exceeds the value of their exports. According to recent polling by the Pew Research Center, nearly half of Americans are concerned about the US trade deficit with China. But when you look deeper into the data, the deficit with China is not nearly as alarming as it is made out to be. On the flipside, a decline in the trade deficit with China is not always beneficial for the United States and can actually be symptomatic of larger economic problems.

US Goods Deficit with China (billions USD)

Source: US Census Bureau



China is a processing economy. The entire value of a product finalized in China is calculated as an export, despite the fact that much of China’s economy specializes in assembling and processing inputs from other countries. For instance, cell phones and related equipment made up nearly 15 percent of US imports from China in 2019. Many components—like memory chips, displays, and intellectual property—actually came from a diverse set of suppliers in Japan, South Korea, Taiwan, Malaysia, Vietnam, and the United States, all of whom profit from these transactions. Some economists believe this method of calculating the deficit has led to its overestimation by as much as one-third.

The US dollar’s role as a reserve currency makes trade deficits natural. The stability of the US dollar makes it attractive as a reserve currency. In order to obtain dollars, other countries must sell goods and services to Americans.

Trade deficits decline in recessions. The decline of the goods deficit with China in 2020 is symptomatic of larger problems with the US economy, as a domestic recession brought on by the COVID-19 pandemic has lowered imports and consumer purchasing power. Similarly, the goods deficit with China fell 15 percent in 2009 during the Great Recession.

Policies aimed at deficit reduction have come at a steep cost. A fall in the deficit with China did not have a significant impact on the United States’ overall trade deficit, and has been accompanied by the loss of an estimated 300,000 American jobs, an 18 percent reduction in US goods exports to China, and a dampening of US investment since the start of the trade war.

Annual Percentage Change in Goods Trade Deficit with China

Source: US Census Bureau

