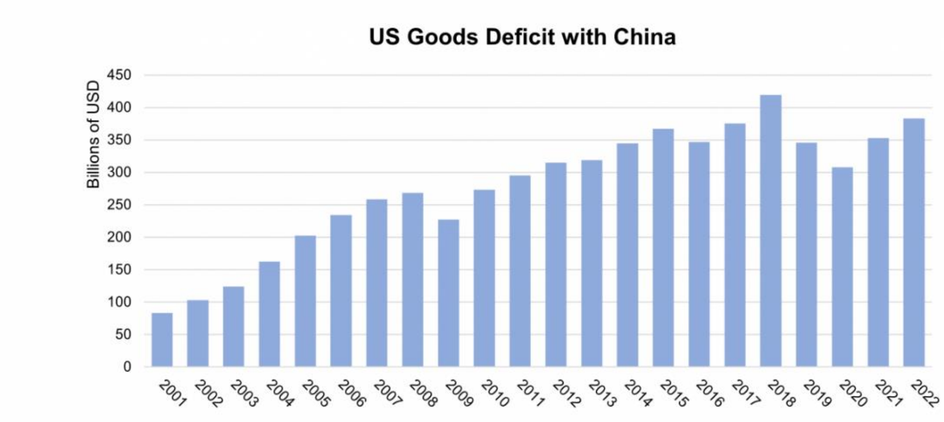
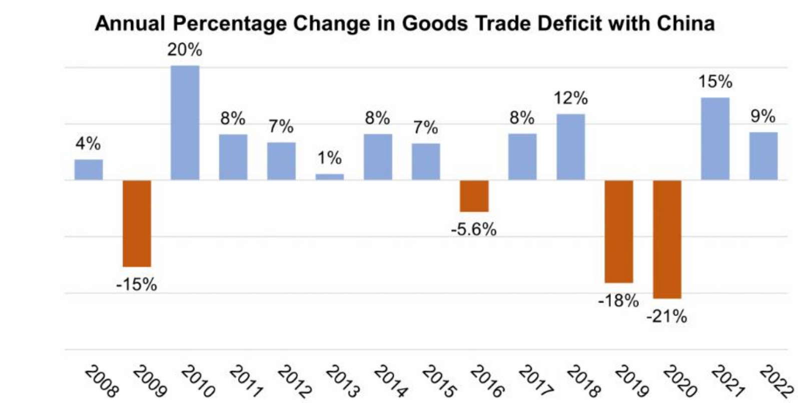
The Trade Deficit Is Not a Good Metric for the Health of US-China Trade

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, about four in ten Americans see the US trade deficit with China as a very serious problem. 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 be symptomatic of larger economic problems.



China is a processing economy. The entire value of a product finalized in China is calculated as an export, even though much of China's economy specializes in assembling and processing inputs from other countries. For instance, cell phones and related equipment made up nearly 12 percent of US imports from China in 2022. Many components—like memory chips, displays, and intellectual property—came from a diverse set of suppliers in Japan, South Korea, Taiwan, Malaysia, Vietnam, and the United States, all of which 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. 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 was symptomatic of larger problems with the US economy. Economic difficulties brought on by the COVID-19 pandemic lowered imports and consumer purchasing power, though deficit growth bounced back as the economy recovered. 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. The fall in the deficit with China in 2019 following the imposition of tariffs on billions of dollars of Chinese goods did not have a significant impact on the United States' overall trade deficit, and was accompanied by the loss of an estimated 245,000 American jobs and a dampening of US investment since the start of the trade war.

Data source: US Census Bureau

since 1973 50 years 周年 USCBC