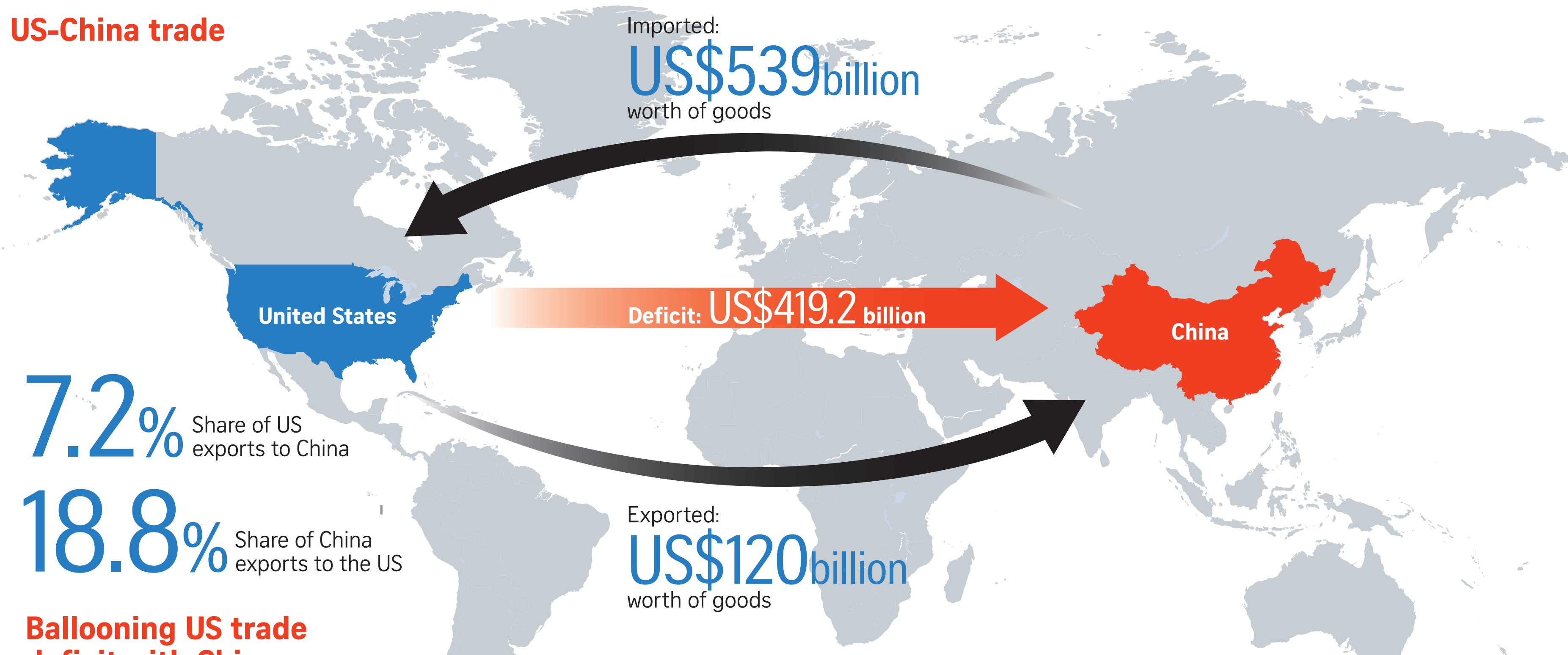
US-China trade gap

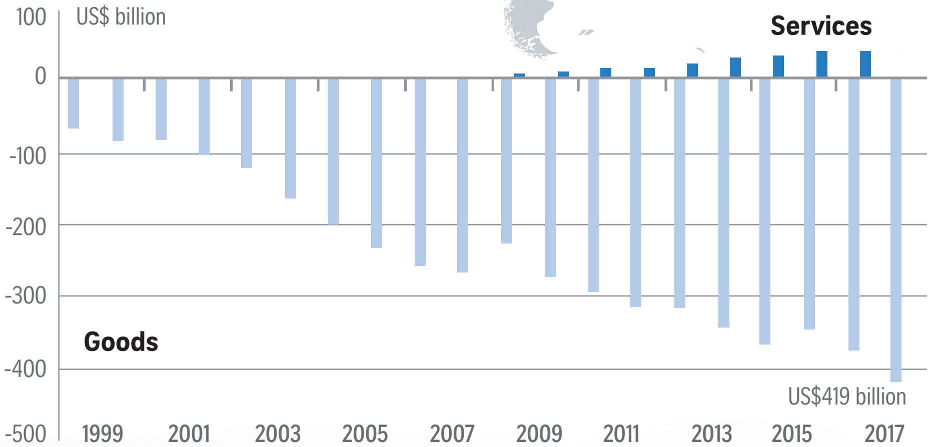
The United States' trade deficit has widened to US$621 billion (S$851 billion) for all of 2018, and its gap with China has grown to a record US$419.2 billion. US President Donald Trump has made reducing the deficit with China a target of his administration, but economists say that looking at deficits in isolation provides a myopic view of both countries' economic linkages. Tariffs, which President Trump has imposed on China – and soon on Mexico – are a blunt instrument that may hurt US companies' competitiveness as well.

US-China trade



Ballooning US trade deficit with China

US trade with China



Recent US moves:

On India

The US said it will terminate India's preferential market access to it as of June 5. This status exempts billions of dollars worth of Indian products from US tariffs, and is part of a deepening clash over India's protections for its market.

On Japan

The US rapped Japan for its "substantial edge" over it in trade, calling for parity and more investment.

President Trump said he hoped to make a big announcement on trade in the next few months, with a deal he hopes will address the trade imbalance.

On Mexico

The US announced tariffs on all goods from Mexico, with a 5 per cent tariff imposed from June 10.

This would slowly rise "until the illegal immigration problem is remedied".

Containers are seen at the Yangshan Deep Water Port in Shanghai

How much do trade deficits matter?

Q. What is a trade deficit?

- A country has a trade deficit when it imports more than it exports. This is caused by an imbalance between its savings and investment rates.

Q. What does the US export and import?

- Services such as tourism, intellectual property and finance form about a third of US exports. Goods exported include aircraft, medical equipment, refined petroleum and agricultural commodities.
- US imports mainly include goods such as computers and telecoms equipment, as well as consumer goods and crude oil.

Q. Why are some concerned?

- President Trump argues that trade deficits hurt the economy and blames "horrible deals" with Mexico, South Korea and other countries for cheap foreign imports destroying local factory jobs.
- Others argue that the deficit is a problem as the US depends on foreign debt and investment to finance it.
- The deficit has been concentrated in manufacturing, and some economists are concerned over job losses and other trickle-down effects.

Q. Why do some argue against focusing on the deficit?

- Economists say trade deficits do not tell the full picture, and the US balance of payments shows it is not as worse off.
- The US is also the largest creditor when it comes to fees such as payments for intellectual property.
- A larger trade deficit can be due to a stronger economy, as consumers spend and import more.
- Higher interest rates make foreign investors more eager to put money in the US.
- The US dollar has a role as the global reserve currency and is the primary tool for global transactions. This means many others rely on holding US dollar reserves, resulting in high demand for US financial assets.
- The US also pays little for foreign borrowing, meaning it can finance high consumption at low cost, boosting global demand.

Q. How can the US reduce its deficit?

- Some economists suggest negotiating better access for US exporters to the Chinese market.
- The US can boost its savings rate, although this is unlikely as President Trump's budget proposals included higher defence and stimulus spending.

Q. Are tariffs the answer?

- Economists say that tariffs do not help to reduce the US trade deficit. Companies will likely turn to other markets such as Vietnam or Malaysia for production of goods – given the high cost of doing so in the US.
- Tariffs make end-products more expensive for US consumers, and may harm the competitiveness of US multinationals.

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