Economics

Trump's Favorite Metric Has Biden Winning the US-China Trade War

- Merchandise deficit in 2023 likely to be lowest since 2010
- But it's an increasingly flawed measure of the relationship

By Shawn Donnan, Enda Curran, and Maeva Cousin
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President Joe Biden is winning the trade war with China judging by rival Donald Trump's favorite metric. The rub: It's an increasingly flawed measure of the world's most important economic relationship.

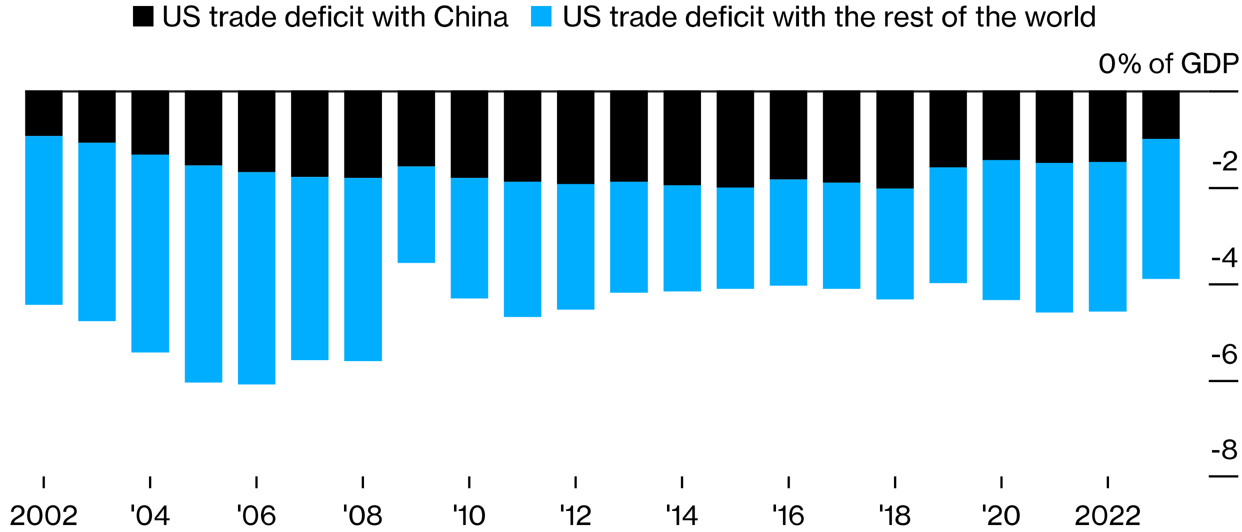
Figures due Wednesday are set to show the US deficit in goods trade with China in 2023 hit its lowest annual level since 2010, when demand was soggy in the wake of the global financial crisis. Bloomberg Economics calculates that the US gap likely amounted to about 1% of gross domestic product, the lowest since 2003.

Read more from Bloomberg Economics: Tired of Winning? US-China Trade Deficit to Drop

On paper, the figures suggest a deepening decoupling driven by tariffs and export controls that began during the Trump administration and have expanded under Biden. It's also a politically important economic signal ahead of a November election in which Biden is likely to face Trump, who in 2016 rode discontent over globalization and manufacturing jobs lost to China to the White House.

Shrinking Trade Deficit

US goods trade deficit last year was the smallest since 2003



Source: U.S. Census Bureau, Bureau of Economic Analysis, Bloomberg Economics
Note: 2023 annual estimate based on available trade data for Jan.- Nov.

"Trump talked tough, but it seems like Biden has delivered the results," said Eswar Prasad, a Cornell University and Brookings Institution expert on trade and the Chinese economy. Yet Prasad adds that conclusion can only be made if you think of "the bilateral trade deficit with China as the right measure for evaluating US success and managing that trade relationship," which he doesn't.

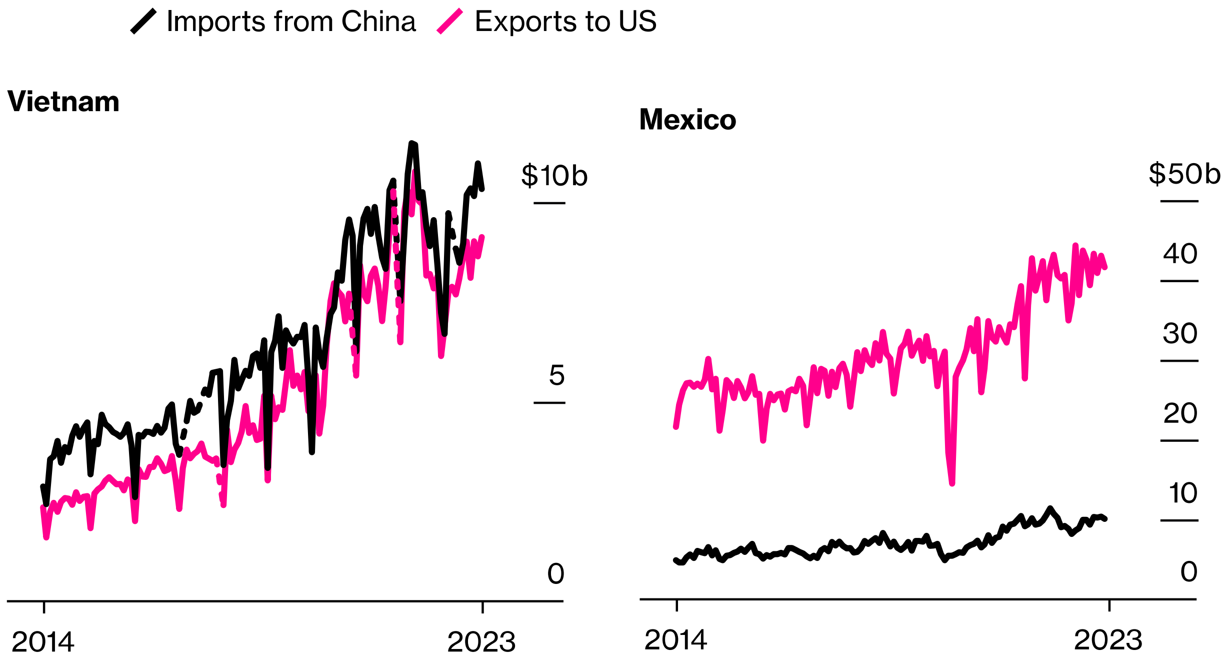
Can the US and China 'Decouple'? What Would It Mean?: QuickTake

Like many economists, Prasad has for years cringed as Trump cited the deficit with China and other countries as a key measure of whether the US was winning or losing in an economic relationship. The US has had a trade shortfall with the rest of the world since the 1970s and economists point out that's as much a function of the attraction of foreign investors to dollar assets as it is a result of trade policies.

There's a new reason why the goods trade deficit with China is an imperfect metric: Shipments from the Asian manufacturing powerhouse to the US are increasingly making a pit stop in third countries such as Vietnam and Mexico. And the US gap either hit or neared a record last year with both of those economies.

Vietnam and Mexico Buying a Lot More from China

With the rise in shipments to Vietnam highly correlated to exports to the US



Source: Vietnam Customs, INEGI

Since Trump imposed tariffs on about $300 billion in imports in 2018, Chinese companies have increased investment in new factories in Mexico, Vietnam and other nations to bypass the levies.

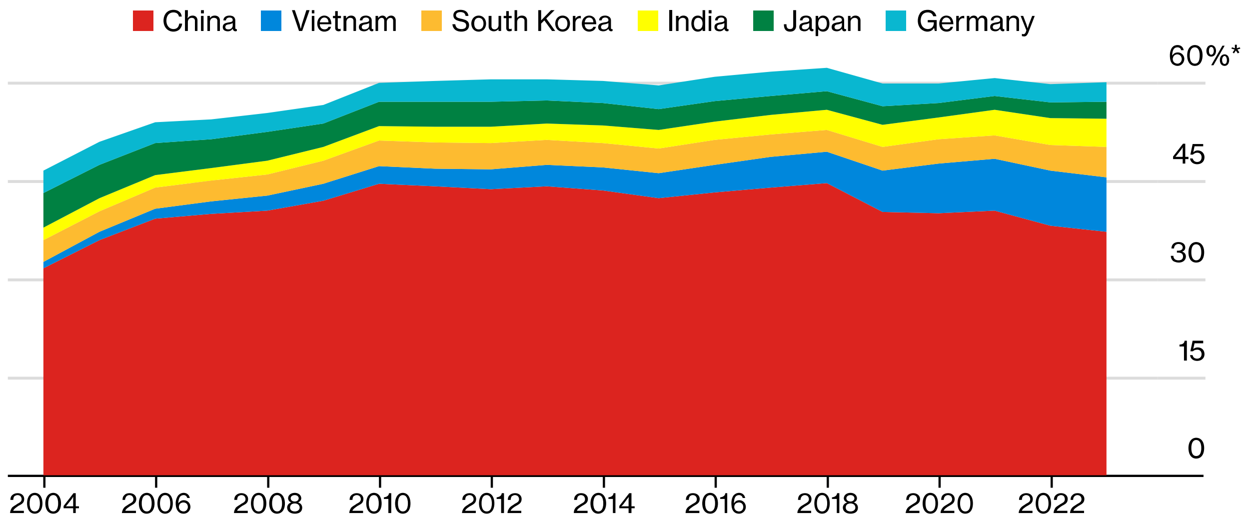
Tariffs have made "multinationals look for alternative sources," said Mary Lovely, a senior fellow at the Peterson Institute for International Economics. But "the deeper story is, that doesn't mean that we're less reliant on China."

In many cases, Lovely says, as the US increases its imports from other countries, those same trading partners' economic links to China are growing, as she and a colleague found when they examined US allies in the Asia-Pacific for a study last year. "The rest of the world is deepening its integration with China," Lovely says.

Such shifts are showing up in other data. China's share of seaborne US imports as measured by the volume of shipping containers in 2023 fell to 37.2%, the lowest since 2005 and down from a 2018 peak of 44.6%, according to figures compiled by Descartes Datamyne. Over that same period, Vietnam's share increased more than sixfold to 8.3%.

China's Dominant Share of US Seaborne Imports

Vietnam has narrowed China's huge lead as a goods exporter to the US



Source: Descartes Datamyne
*Share of seaborne container imports, in 20-foot equivalent units; China is ex-Hong Kong

Pierre-Olivier Gourinchas, the International Monetary Fund's chief economist, describes it as a "recomposition" of trade flows between the US, China and other major economies through "connector economies." The trade matrix at the center of the global economy is "becoming more complex and it's routing itself around what it sees as areas of tensions or places where you have trade sanctions," Gourinchas says.

Biden administration officials acknowledge they're trying to manage a relationship with China that's growing more complex. But they also see the declining trade deficit with China as a product of Biden's bid to bring manufacturing home and reduce US reliance on is strategic rival.

"President Biden's Buy America policies and historic legislation to invest in our infrastructure, clean energy and semiconductor manufacturing are working and the US economy is booming," said Michael Kikukawa, a White House spokesman.

The Biden administration has been reviewing Trump's tariffs for months and there are no indications that they will be abandoned. If anything, the administration is under pressure to increase tariffs on Chinese electric vehicles and parts as well as lower-end semiconductors, two sectors where Chinese companies control the market.

In recent months, officials including Treasury Secretary Janet Yellen have also indicated a desire for increased scrutiny of investment by China and others in countries like Mexico that have trade agreements with the US.

Trump Tariffs

Trump, meanwhile, has said he would increase existing tariffs of 25% to more than 60% if he returns to office.

"You have to do it," Trump told Fox News in an interview Sunday. "I'm not looking to hurt China. I want to get along with China. I think it's great. But they've really taken advantage of our country."

Tariffs have been a political winner for Trump, even if the evidence of economic gains is slim.

In a new study, Massachusetts Institute of Technology economist David Autor and colleagues – whose research documented US job losses caused by the surge in imports from China after the US normalized trade relations with Beijing in 2001 – found Trump's tariffs had resulted in no real job gains or losses. They did find, however, that the import taxes led to a surge in support for Trump and other Republicans.

The 2023 decline in imports from China can't be pinned on tariffs and geopolitics alone. Fluctuating currencies, well-stocked US inventories and softer consumer demand also contributed. It's also true that production was shifting long before the trade war, spurred by rising labor costs in China.

China's declining role in the final assembly of many products and the shift elsewhere means other countries now claim the total export value of finished goods like mobile phones, even if much of the added value comes from other places in the supply chain including China.

The imposition of Trump's tariffs has likely led to US importers under-reporting how much they bought from China, according to a 2021 report from Federal Reserve economists.

For now, there remains little prospect of a truce. Concerns over China's industrial policies remain acute in the US, whether it's about the rapid increase in global market share of Chinese electric vehicles or increased steel exports due to slowing demand in China as the property sector and construction slumps.

US officials also say they're looking at new tools beyond tariffs and export controls they've endure, according to Raj Bhala of the University of Kansas, who has authored a book on the US-China trade war.

"It's a forever trade war; there's no end in sight," he said.

– With assistance from James Mayger, Eric Martin, Brendan Murray, Stephanie Lai, Josh Wingrove, and Nancy Cook