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POLITICS

U.S.-China Trade Deficit Hits Record, Fueling Trade Fight

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By ANA SWANSON FEB. 6, 2018

WASHINGTON — The United States trade deficit with China climbed to its highest level on record in 2017, a trend that could prompt the Trump administration toward tougher trade actions in the coming months.

The gap between Chinese goods imported to the United States and American goods exported to China rose to $375.2 billion last year, up from $347 billion the prior year, data released Tuesday morning by the Commerce Department showed.

The overall United States trade deficit in goods and services with the world widened 12.1 percent to $566 billion last year, the largest gap since 2008.

Economists said the growing trade deficit stemmed largely from the strength of the United States economy, which helped American consumers afford more imported electronics, clothes and appliances. The declining value of the dollar last year, which makes American products cheaper to buy overseas, also helped to lift exports, but not enough to prevent the gap from widening.

The Trump administration has long promised to eliminate the trade gap, citing it as evidence of the decline of American manufacturing and a troubling reliance on foreign goods.

In a statement Tuesday, Wilbur Ross, the Commerce Secretary, said the administration would ultimately reduce the trade deficit by enforcing trade rules, renegotiating existing trade pacts and forming new ones. He pointed to the president's recent decision to impose tariffs on imports of solar panels and washing machines, as well as ongoing renegotiations of trade deals with Canada, Mexico and South Korea, as ways in which the United States would narrow the trade gap.

"Strenuous effort is underway, but it is not practical to set an exact deadline," Mr. Ross said of closing the trade gap.

In September 2016, Peter Navarro and Mr. Ross, then senior economic advisers to the Trump campaign, proposed that President Trump would eliminate the $500 billion United States trade deficit, generating enough tax revenue to largely offset the cost of the president's tax plan. During the campaign, Mr. Navarro, now director of the White House National Trade Council, said that the administration's trade plans would allow it to eliminate trade deficit "within a year or two."

The trade deficit figures could strengthen the resolve of Mr. Trump's trade advisers, including Mr. Navarro and Robert Lighthizer, the United States trade representative, who want the United States to take a more aggressive stance on trade and are urging tougher action on trading partners that export more to the United States than they import, like China, Mexico and South Korea.

After rolling out trade actions on washing machines and solar panels that were nominally aimed at China, the administration is considering sweeping action to protect American intellectual property from Chinese incursions. American negotiators are working to rewrite trade pacts with Mexico and South Korea, in large part because these countries run large bilateral trade surpluses with the United States.

Some left-leaning groups that support the president's promises to end offshoring embraced the view that the administration's trade policies simply haven't gone far enough.

“The same trade policy that Trump attacks ferociously and promised to speedily replace is still in place,” said Lori Wallach, director of Public Citizen’s Global Trade Watch. “It’s not surprising that the deficit is up because in year one there has been a wide gulf between Trump’s fiery trade rhetoric and action.”

Despite Mr. Trump’s frequent promises to reduce the trade deficit, many economists believe that his trade policies will be largely powerless to reverse the trend. That’s because the overall trade deficit is governed by macroeconomic factors, including the relative growth rates of countries, the value of their currencies, and their saving and investment rates. So while changes in trade policy can shift imports and exports from one country to another, for example, reducing the American trade deficit with China while increasing its trade deficit with Thailand, they are unlikely to reduce the American trade deficit overall.

And Mr. Trump’s signature economic policy so far — the $1.5 trillion tax cut — is likely to widen the trade deficit in coming years by encouraging more investment in the United States, many economists say.

Bryan Riley, director of the Free Trade Initiative at the National Taxpayers Union, said that an increase in the trade deficit from the prior year “should not be viewed as a problem to be fixed, but as a predictable result of a growing economy that enables people to afford more imports.”

Eswar Prasad, a professor of trade policy at Cornell University, cautioned against Mr. Trump’s interpretation of the bilateral trade deficit as a scorecard for an economic relationship.

Mr. Prasad said that some persistent deficits, like the one that the United States runs with many countries including China, could be a sign of structural imbalances, like China’s historic tendency to undervalue its currency. But bilateral trade balances can increase for many reasons, both bad and good — for example, if wealthier American consumers want to buy more stuff — making it a problematic metric for measuring fair trade.

“The problem is that even if China were to provide greater access to its markets today, if the U.S. economy were to do well, and China were to slow down, the deficit might actually increase," Mr. Prasad said. "It would certainly be problematic to view the size of that deficit as an indicator of whether trade is fair."

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