# Ten Quick Facts about US Trade: Deficits and Discords

**Farok J. Contractor**
*Rutgers University*

*Abstract*

*Acting on his campaign rhetoric that China is "raping our country," Donald Trump recently announced additional tariffs on $ 200 billion of Chinese imports. This was on top of earlier tariffs on $ 50 billion worth of imports, including a 25 percent tariff on steel, 10 percent on aluminum, 30 percent on solar panels, and 20–50 percent on washing machines—products he alleged are being "dumped" by the Chinese—and threatened a "trade war" against that country. The objective of this article is to present 10 salient facts (not opinions) about US trade in the wake of the aggressive stance taken by the Trump administration. Certainly, as this article shows, there will be "winners" as well as some "losers" within a nation as it opens itself up to more international trade. But the key argument is that, on average, a nation is better off because the benefits that accrue to the winning firms and consumers generally significantly exceed the pain, suffering, and angst borne by the losers.*

The objective of this article is to present 10 salient facts (not opinions) about US trade in the wake of the aggressive stance taken by the Trump administration. Informed managers and citizens need clear answers and unbiased perspectives on questions such as:

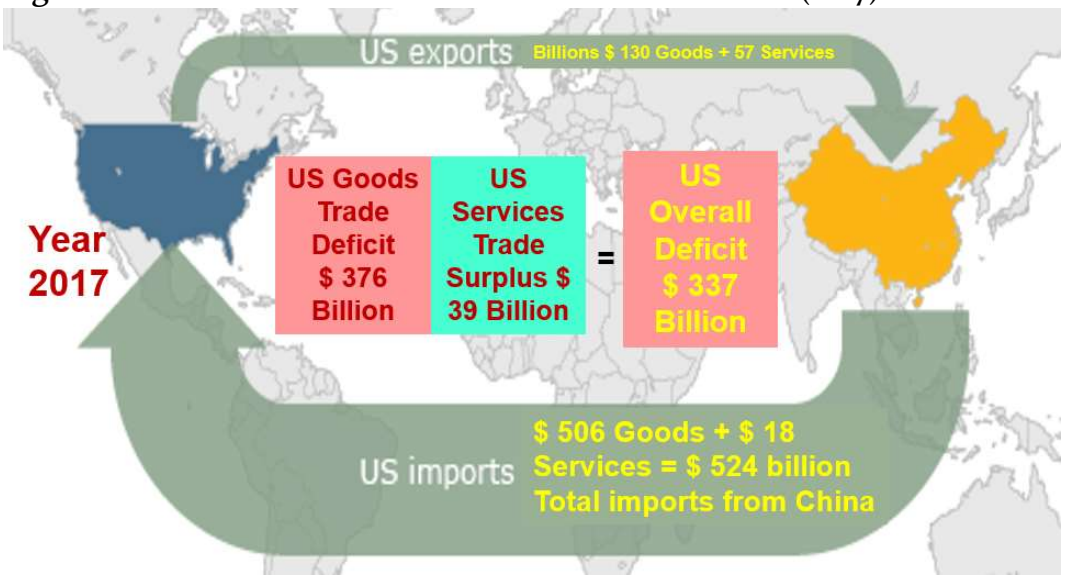
- How bad is the problem, really?
- How much does China figure in the problem?
- How can trade statistics be deceptive, or tell only 'half the story'?
- What is the role of multinational companies?
- How has the US managed to sustain a trade deficit against the rest of the world (and China since 1975) — for the past 43 years?
- Who "wins" and who "loses" from international trade?
- Is China "stealing" intellectual property and technology from Western companies?

My hope is to simplify the national dialogue and clear up the ambiguity accompanying the increasing numbers of press reports about a topic that affects all Americans.

**FACT 1: In 2017, the US ran a deficit of $337 billion with China (and it has been getting worse each year).**

As Figure 1 illustrates, the overall trade deficit the US had with China amounted to $337 billion in 2017. In goods (merchandise) alone, the deficit was even worse at $376 billion. The one small bright spot is that the US "enjoys" a surplus of $39 billion in services, which reduced the overall deficit to "only" $337 billion.

**Figure 1.** US vs. China – Merchandise and Services Trade (2017)




Source: US Census Bureau, Foreign Trade Division

From a balance-of-payments perspective, most of the 2017 $337 billion "deficit" dollars will come back to the US anyway (see Figure 1). China spent some of those dollars on imports from other countries, which in turn spent those dollars on US products. In time, China will return the rest of the $337 billion directly to the US since the Chinese government invests its surplus dollars in US Treasury Bonds and other US assets. China (including Hong Kong) hold $ 1.4 trillion in US treasury securities. (See Table 2 below).

Meanwhile, US consumers benefit from reasonably well made imported products they buy at low prices. If consumer goods imports from China were replaced with US production there could be up to $295 billion in additional

costs, or an extra $2,380 per household per year[1] -- hitting poor families in the US hardest because lower-income Americans who shop at Walmart or Kohls depend even more on lower cost purchases (while the wealthy can afford $250 US-made jeans or the $600 Hermes scarf made in France). According to some estimates, an "all-American content" iPhone would cost the US consumer $2,000 or more.[2] Chinese imports have been a huge benefit to American households, and not a "suffering."

**FACT 2: The US applies a weighted mean tariff on all imported products of only 1.6 percent.**

According to the World Bank, on average, the tariff (customs duty) collected by US customs is only 1.6 percent,[3] which goes some way to explain why the US is, by far, the world's biggest importing nation. But most advanced countries *also* have average tariffs below 5 percent. And China's (according to the same World Bank source) is also only 3.5 percent. Hence, tariffs *alone* (at least when they are so low) may not be an explanation of fundamental imbalances in trade.

**FACT 3: It's not just China: the US has run deficits against the rest of the world for decades.**

In 2017, the US ran a deficit against 102 nations. For the "rest of the world" as a whole, the US ran a deficit of $566 billion, as seen in Figure 2. In goods (merchandise) alone, the US deficit is an even more sobering: $796 billion (and growing). The one small bright spot is that the US "enjoys" a surplus, against the rest of the world, of $230 billion (and growing) in services, which reduces the overall deficit "suffered" by the US, against the rest of the world, to "only" $566 billion.

True, the US imports a huge amount from China. But Chinese-made imports (of goods and services) amount to $524 billion out of $2,895 billion imported from all countries, which amounts to 524/2895 = .181, or only 18 percent of total US imports. European imports are somewhat larger. So why single out China? (Answers below.)

**Figure 2.** US vs. Rest of World – Merchandise and Services Trade (2017)


Source: US Census Bureau, Foreign Trade Division

There are nations against which the US runs an overall surplus, but these are small countries, and US surpluses are also rather small, as seen in Table 1.

**Table 1.** The Few Nations Where the US Has Tiny Trade Surpluses (2017)

| | Countries | Surplus in $ Billions |
|---|---|---|
| 1 | Hong Kong | 32.5 |
| 2 | Netherlands | 24.5 |
| 3 | United Arab Emirates | 15.7 |
| 4 | Belgium | 14.8 |
| 5 | Australia | 14.6 |
| 6 | Singapore | 10.4 |
| 7 | Brazil | 7.6 |
| 8 | Panama | 6.0 |
| 9 | Argentina | 4.7 |
| 10 | United Kingdom | 3.3 |
| 11 | Chile | 3.1 |
| 12 | Dominican Republic | 3.0 |
| 13 | Guatemala | 3.0 |
| 14 | Paraguay | 2.6 |
| 15 | Bahamas | 2.5 |
| | TOTAL OF 15 COUNTRIES | 148.3 |

Source: US Census Bureau

## FACT 4: The US is by far the world's leading exporter of services

The US exports more services than it imports from the rest of the world, to the tune of a $230 billion surplus. This number has been growing annually, reflecting the fact that the US is a powerhouse of knowledge and intellectual property with one of the most entrepreneurial "startup" cultures of all nations.

From a comparative advantage perspective, it makes sense for low-end, routine products such as toasters and hand tools to be made in low-wage nations, while the US focuses on its strengths in technology and innovation.

Moreover, trade statistics do not fully capture, or reflect, the US advantage in services.

In the 21st century, the world economy (that is to say, of all nations) is slowly transitioning from agriculture to manufacturing, and from manufacturing to services—which bodes well for the US economy in the long run, provided:

a. US companies continue to be the leaders in R&D and innovation.
b. Other nations do not capture or "steal" American knowledge as rapidly as US firms generate new technology (more on this below).

## FACT 5: Trade numbers can be very deceptive for two reasons

***Part A* -- The role of multinational companies -- the other side of the coin we must not neglect.**

In Table 2, categories (A) and (C) are only the trade numbers. Looking only at [(C) – (A)] = 524 – 187 = $337 billion gives us the seemingly frightening trade deficit the US has against China. But that's looking at only half the picture—something that can fool the public, the media, and politicians. The other side of the coin is the amount sold by US company subsidiaries and affiliates in China (B) and what Chinese company affiliates sell in the US domestic market (D).

The consumer perspective is more balanced: Chinese consumers buying so-called "American" goods and services [(A) + (B)] = 187 + 275 = $462 billion, and American consumers buying so-called "Chinese" goods and services [(C) + (D)] = 524 + 14 = $538 billion. The consumer perspective [Imports combined with purchases from foreign companies' local production] shows a more balanced picture[4]—$462 billion compared with $538 billion—even though trade numbers, that seem more out of balance, may frighten some government officials in the US.

**Table 2.** The Role of US and Chinese Multinationals in the US-China Trade

| US Goods & Services Exported to China (A) | Sales by US Multinational Company Affiliates in Chinese Domestic Market (B) | Chinese Goods & Services Exported to US (C) | Sales by Chinese Multinational Company Affiliates in US Domestic Market (D) |
|---|---|---|---|
| $187 Billion | $275 Billion* | $524 Billion | $14 Billion* |
| Reported Trade Deficit "Suffered" by the US [(C) – (A)]: $524 – 187 = $337 Billion | | | |
| "American" Goods & Services Purchased by Chinese Buyers [(A) + (B)]: $462 Billion | | "Chinese" Goods & Services Purchased by American Buyers [(C) + (D)]: $538 Billion | |
| The [Trade + FDI] Combined Picture Is More Balanced and Less Frightening: $538 – 462 = $76 Billion | | | |

*Caveats: While the trade statistics (A) and (C) are firm and known, the numbers in categories (B) and (D) are only estimates. First of all, the data for sales by multinational company affiliates in a foreign country are not as good to start with. More importantly, the portion of the sales recorded by a multinational company's affiliates in a foreign country sold domestically versus exported is a soft estimate. For example, it is reported that 43 percent of China's exports are organized by multinational companies. Hence, only a fraction of the sales made in China by US company affiliates over there are likely to have been sold in China domestically, the rest are exported out of China by the US company affiliate.

Toyota and Honda's FDI subsidiaries in the US assemble cars in the US, and they also import vehicles from Japan and Mexico. The consumer is not concerned about the distinction, and will happily buy a Toyota regardless of whether it was imported or locally made. In their minds, American car buyers label Toyota and Honda as "Japanese" vehicles. Yet, analyses by Cars.com and *Motor Trend Magazine* in 2017 concluded that, in terms of domestic value-added, or US content, the Toyota Camry was the most "American" vehicle, followed by the No. 2 ranked Toyota Siena. Ranked No. 4 was the Honda

Odyssey. Three of the top five were "Japanese"-label vehicles even though they were assembled in the US and had the highest domestic US parts content.[5] Similarly, Chinese who buy so-called "American" products and services do not care much as whether the items were (A) imported from the US: 187 billion, or (B) were made in China by American companies: 275 billion. To them, both are "American." The important fact, however, is that [(A) + (B)] = 187 + 275 = $462 billion, is a figure much more in balance with (C) + (D) than merely looking at the trade statistics would suggest.

***Part B* -- On a Value-Added Comparison the US-China Trade Deficit Would Shrink by More Than One-Third**

For US-China trade as a whole, analysts estimate that the trade deficit run by the US would shrink by at least 36 percent in a value-added comparison.[6]

Take, for example, the iPhone7, most of whose components are sourced by Apple, Inc. from other countries. For each iPhone, components from South Korea, Japan, Germany, China ($ 29), and the US ($ 75) flow from these nations into China to be assembled there by a company called Foxconn—but most of this component trade flow involving other countries is not counted in the bilateral US-China trade statistics. All that is counted in the US-China trade data are (a) the $258 invoiced amount of the assembled iPhone7 (assembled and shipped from China to the US) and (b) $75 worth of US-made components (shipped from the US to China for assembly there). This creates a seemingly horrendous trade deficit: ($258 – 75) x (61 million iPhone7s) = $11.16 billion trade *deficit* "suffered" by the US on just one product—the iPhone7.

**Table 3.** iPhone7 Trade Statistics Versus a Value-Added Comparison

| iPhone7 Trade Balance Using Trade Statistics Alone | iPhone7 Value-Added Comparison |
|---|---|
| $ 11.16 billion deficit against the US | $ 2.20 billion 'surplus' in favor of the US |

But looking at trade data alone is highly misleading! A more appropriate comparison would be to compare the value added in China (Chinese components worth $29 + the Chinese assembly cost = $ 39 for China) versus the value added in the US ($75 worth of components made in the US). This

leads to a very different picture of a "surplus" for the US of ($75 – 39) x (61 million iPhone7s) = $2.20 billion value-added *surplus* in favor of the US.[7]

A value-added comparison is more realistic,[8] and is more correlated with jobs, than the raw trade statistics. The iPhone may be an extreme example, but for all products, the US-China deficit would shrink by 36 percent on a value-added basis.[9]

## FACT 6: US Manufacturing Is by Far the Most Productive in the World

The current trade debate about China may mislead the public and politicians into thinking that US manufacturing is not competitive. Exactly the opposite is true. First, on average, American manufacturing companies are the most productive in the world by far, according to reputable sources like the US Bureau of Labor Statistics and the Federal Reserve Bank of St. Louis.[10, 11, 12] Second, the total value of US manufacturing output is a close second to that of China.[13] China only overtook the US as the world's largest manufacturer in 2011, with its growing middle class and a population of 1.4 billion compared to the US' 330 million. Third, the kinds of products made with US technology bear no comparison with the average technology embedded in Chinese products. To approximately equal the value of one Boeing 737 China would have to make 6 million pop-up toasters – and they do make millions of such basic products for their growing domestic market and for exports.

It is true that employment in US manufacturing is the lowest ever, at 9 percent of the workforce. But that is not the fault of China or imports. A study at the Wharton School concluded that for every one job outsourced, up to three jobs in the US were cut because of automation and robotics.[14] That is to say that manufacturing jobs have historically shrunk mostly because of the introduction of automated equipment and IT. Therefore, the fewer surviving workers in the American manufacturing company become even more productive (the best in the world -- in terms of output per worker).

## FACT 7: There is no denying that China has a principal role in the US merchandise deficit.

As we see from the figures above, in goods or merchandise *alone*, China accounts for 47 percent of the USA's trade deficit: $376 billion for China

compared with $796 for the world as a whole. Combining goods *and* services,[15] China accounts for 59 percent of the USA's overall trade deficit: $337 billion for China compared with $566 for the world as a whole. The overall proportion, or percentage, for China is larger because of the US lead in services exports.

In short, tens of millions of Chinese toil for between $2–4 per hour on behalf of American consumers, making toasters, knickknacks, furniture, and basic electronics (to give some idea of low-technology products), while a few million Americans work in skilled jobs earning $30 per hour, or more, to produce Boeing aircraft, design the latest iPhone, construct financial packages using advanced math, and also, yes, producing soybeans and pork. (The US farmer riding his/her $600,000 GPS-guided harvester or combine[16] over his/her 500-acre laser-leveled farm is typically not only a multimillionaire in assets, but also an educated mechanic, biochemist, and financial planner dabbling in agricultural futures, and who is also very knowledgeable in meteorology, among other skills—which explains the US trade success in agricultural exports.)

Thus far, with wages still much below the US, China leads in making basic products such as microwave ovens and garments. With full employment in the US in 2017, many argue that it makes sense for the US economy to use its comparative advantage in skilled and higher-paying jobs, while abdicating low-tech and low-paying basic manufacturing work to other countries.

**FACT 8: The US trade deficit has been partially financed for four decades by the rest of the world (including China).**

A trade deficit simply means that the US imports and consumes more from the rest of the world than it sells to the rest of the world. Every year that this happens, foreigners outside the US end up with net extra dollars in their hands. For example, in Figure 1 ~~reproduced below~~, we saw that Chinese companies sold/earned $524 billion from exports to the US in 2017. What happened to the $524 billion they earned? Some of it was used by the same or other Chinese companies to buy American items from the US: $130 billion in goods + $57 billion in services, or a total of $187 billion imported from the US.

Even so, that meant that Chinese companies ended up in 2017 with $524 – 187 = $337 billion surplus in their accounts. Some of this surplus was used by the Chinese to buy products from third countries. But even after that, many billions of surplus dollars were left over, unutilized in China, in 2017. The Chinese do not need, or use, dollars in their country, considering them as only pieces of paper (or electronic entries). The surplus dollars are handed

over by Chinese exporters to Chinese banks in exchange for their own currency (the RMB, or renminbi yuan). Each year, the surplus dollars then end up in the Chinese Central Bank (the PBOC, or People's Bank of China).

What does the PBOC do each year with the surplus dollars? To keep them in cash form or electronic cashable entries is pointless. Instead, what the Chinese Central Bank does is very kindly reinvest the annual surplus dollars into US assets—mainly US Treasury securities, pieces of paper that the US government issues as bonds, notes, and bills in exchange for taking in dollars from investors.

That way, reinvesting the hundreds of billions of surplus dollars back into the US produces these results:

- The dollar remains strong (instead of the Chinese selling off the billions of dollars in the open foreign exchange market—which would devalue the dollar sharply and make imports from China and elsewhere more expensive).
- The continued strength of the US dollar keeps US consumers happy (and they continue to "enjoy" reasonably well-made Chinese products at low or throwaway prices).
- Tens of millions of jobs within China that depend on the US market continue to be preserved—Chinese export factories continue to churn out a flood of exports.
- With strong buying of, faith in, and demand for US Treasury bonds, US interest rates remain low[17] for the American consumer's auto loans and mortgages, leaving American household money left over for discretionary purchases, such as Chinese-made TV sets.
- The US government budget, which has also run a deficit for most of the last 35 years, has been partially financed by foreigners like the Chinese. That is to say, over the past 35 years, by issuing pieces of paper called "Treasury Securities – US Bonds, Notes, and Bills" in return for real dollars it takes in from the treasury security purchasers, the US government has each year spent more than it took in from domestic tax revenue. For 35 years this has enabled the US government to continue to fund Social Security, disability, and other expenditures, such as defense. But this has run up a cumulative total of $19 trillion in US Government debt.

Trade deficits the US has run against the rest of the world for 43 years are a direct correlate of the government deficits the US government has also run for most of the past 43 years.

**Table 4.** US Government Debt (End of 2017)

| Total Treasury Securities (US Bonds, Notes, and Bills) | |
|---|---|
| Approximate Total Outstanding Debt Instruments Issued to All Investors: | $19 trillion |
| Owed to Domestic Investors: | $12.5 trillion |
| Owed to All Foreign Holders (of which) | $6.3 trillion |
| - China and Hong Kong: | $1.4 trillion |
| - Japan: | $1.1 trillion |

This "game" can continue, as long as these conditions remain:

1) Investors (both foreign and domestic) continue to have faith, and give up real current dollars to the US government in return for pieces of paper called Treasury bills and bonds. (Often, the interest rates are so low that in inflation-adjusted terms the real return can be zero or negative. Yet thus far, faith remains in US government debt as a safe haven.)
2) Foreign workers continue to toil on behalf of the US consumer for low wages, such as $1–4 per hour.
3) Employment in the US remains at high or tolerable levels.
4) Tariffs and other trade barriers do not interrupt the outflow and the return recirculation of dollars into US securities.

For the most part, with the exception of a few recessions, the above conditions have prevailed for three to four decades, and can continue. So far, faith in the dollar, as a repository of value, remains. The money recirculation game can continue into the future as long as the framework of multilateral relations, built up over the past half century remains in place.

**FACT 9: All policies create "winners" and "losers": but in international trade, "winners" vastly outnumber "losers."**

I use the terms "winners" and "losers" only as a rhetorical device. Those who have "lost out" in the economic changes in recent times deserve every consideration, respect, and help, because they are our fellow human beings.

***Losers*:** Donald Trump rode to the White House in 2016 because of victories in a few key states where the earnings of a disaffected few million US workers in mature industries, such as coal, steel, and aluminum, declined

in the past decade because of global competition.[18] Moreover, additional millions of Americans have had flat earnings since the Great Recession of 2008. This is psychologically devastating in a nation where, for over 200 years, the expectation has been that children would be better off than their parents' generation. Global competition has somewhat dampened that expectation.

***Winners*:** But many millions more Americans are vastly better off today than their parents—in income, assets, health, education, and prospects—compared with, say 1980, when globalization took off around the world.[19] Unemployment in 2017–2018 was at a record low level of only 4.1%.[20] Retirees and those who consciously opted out of work enjoy the highest level of benefits and health care ever. The average American enjoys the highest after-tax purchasing power in the world. In per capita income, the US ranks 8th out of 193 nations, with small countries like Monaco, Switzerland, Qatar, and Denmark being ranked higher. But this is misleading because of

- Effectively lower taxes in the US than in those nations; and
- Far lower prices, in general, for almost all products because of
  - a dynamic, competitive US economy where firms compete to keep prices low, and
  - low-cost imports.

Effectively, Americans enjoy the highest standard of living in the world, in material terms. In an earlier article I compared the benefit to US consumers of buying imported items as against the hypothetical scenario where the same items are instead manufactured domestically in the US. Chinese imports alone save American consumers $295 billion in additional costs—or an extra $2,380 per household, per year, in Americans' pockets.[21] (And this is only for consumer items, not counting intermediate industrial products imported from China).

The benefits of international trade and investment have benefited billions of persons around the world. The World Bank reports that grinding poverty declined from 43 percent of humanity in 1980 to only 9 percent in 2017, despite an increase in world population from 4.5 billion to 7.6 billion humans.[22] An additional 2 to 3 billion have been lifted completely out of poverty into a middle-class existence. This wonderful result is partially due to the tide of globalization.

However, it is true that inequality and disparities have increased in the US, and the country is more psychologically tense and fragmented than other nations, as well as when compared with its own past. The "losers" have become more vocal in expressing their discontent, seething in abandoned coal mines or closed steel plants or in the shadows of gleaming skyscrapers

and the high-tech economy that has left many of them abandoned as bewildered bystanders.

The backlash against international trade is not because it has lifted global standards of living, with winners far outnumbering losers in the US and around the world. The "gain" far outweighs the "pain." Rather, the backlash is because the ethic of hyper-competition that has infected companies, and even governments, has made us neglect the pain felt by the bewildered millions left behind (or displaced by automation, more than by trade).

In the rush toward economic "progress," enlightened societies need to compassionately devise cushions, safety nets, counseling, and training for those negatively affected.

## FACT 10: China is hungry for Western technology and company secrets

In China, an emerging country that is leveraging itself up from its previous backwardness and poverty into technological capability and affluence, company aspirations and objectives are no different from those of firms in other nations: they would all like to benefit from learning their rivals' technology and methods.

During the 1780s, English firms that had Arkwright-designed spinning wheels, jennies, and frames succeeded in having the British government pass draconian laws threatening severe punishment to anyone exporting textile machinery, designs, or tools to the United States, which then used manual methods. Despite the threatened punishments, by committing designs to memory or drawing them on small scraps of hidden paper, emigrants leaked the technology to America, which became a strong textiles rival of England by 1794. Samuel Slater was one such emigrant who became rich in the US by leaking British secrets to the Americans, thereby transferring English technology.[23] The English called him "Slater the traitor."

For centuries, China itself closely guarded the secret of sericulture, thereby enjoying a world monopoly in silk production until 552 AD, when two Nestorian monks visited China in the name of religion and smuggled silkworms back to Byzantium in hollow walking sticks.[24] For millennia, Chinese tea was a monopoly, with spies regularly trying, but failing, to smuggle tea bushes out of China. It was not until the 1860s that an adventurous Scotsman, Robert Bruce, noticed a plant on the southern slopes of the Indian Himalayas that looked very much like the Chinese bush *Camellia sinensis*.[25] Today, India and other countries produce multiple quantities of tea compared with China.

Companies and individuals trying to learn or steal their rivals' secrets is nothing new. However, there is a big difference with regard to China—

namely, conscious help for Chinese companies from their government in two respects:

1) Chinese government regulations that prevent foreign firms from investing and doing business in China without taking on a local Chinese company as a partner, and implicitly or explicitly suggesting that the welcome for the foreign investor will be better if they share their technology with the Chinese partner.[26]

   That said, we should quickly add several qualifiers to the above general observation:

   a. Over the years, China has pedaled back from many such restrictions and today allows subsidiaries fully owned by foreign multinationals (i.e., without any local Chinese partner) in an increasing number of sectors.
   b. European and American companies are not naïve and know how to shelter their deepest secrets from their Chinese partners even while working with them in China.
   c. For decades after World War II, the Japanese followed exactly the same regulatory practices, learning Western technology through joint ventures and licensing agreements, leveraging themselves into a cutting-edge position. No American administration appeared to be overly concerned at that time.
   d. US and European firms are not static in their R&D. The best defense for a company is to undertake innovations (R&D) in a dynamic way so as to remain a few generations ahead of their rivals or Chinese partners. That way, by the time the local partner learns a technology, the foreign partner is a step or two ahead.

2) Cyber-espionage is undertaken by most large governments. Here again, there is a difference or asymmetry in favor of China. The US government probably has superior cyber-drilling capabilities. But it is unlikely that the US government has a conscious program to steal foreign commercial secrets to benefit US firms, and US laws would frown upon such behavior, if not prohibit it. By contrast, the Chinese government makes no secret of its nationalist desire to help Chinese companies, to say nothing of the fact that 45 percent of Chinese industry consists of state-owned enterprises (SOEs), anyway.[27]

This is not really a "trade" issue, but the Trump administration has chosen to include it as part of the overall discussion on the international business relationship with China.

## Conclusion

What underlies everything is the notion of comparative advantage—the idea that countries are generally better off when they specialize in producing and exporting what they are good at and importing items that do not offer the country a comparative advantage. A simple analogy would be two neighboring farmers. One farmer has superior knowledge in repairing and maintaining farm machinery, while the other has superior knowledge in plant genetics, fertilizers, and pesticides. Both farmers would be better off trading their expertise with each other instead of trying to handle their own operations independently. It does not matter that one farmer draws more benefit from the other's knowledge than he offers in the knowledge he shares. There will always be such an inequality or asymmetry in trade. The salient point—the core argument of international trade—is that ***both*** farmers will be better off compared with where they were before their exchange or trading relationship.

The China-US trading relationship is mutually beneficial despite a seemingly frightening deficit. American firms and consumers enjoy reasonably well-made products and components at far lower prices than would be the case if the items were manufactured in the US. Americans consumers would have to shell out $2,380 more per year for purchases if, hypothetically Chinese imports were replaced by US production.[28] In a trade war, what would happen to the soybean, corn, chicken, and pork farmers who may not be able to sell to China anymore? Harley Davidson announced in mid-2018 that higher tariffs would force layoffs in Pennsylvania, Wisconsin, and Missouri. The $187 billion in goods and services the US exports to China support tens of thousands, or perhaps more than one hundred thousand, American jobs. The soberingly high trade deficit of $337 billion is very kindly reinvested by the Chinese in US assets—principally in US Treasury instruments—which keeps the dollar strong and the US consumer happily buying. A corollary effect of the recirculated dollars is to help fund the US government deficit and keep interest rates here low, which also helps to keep American mortgage and auto loan interest rates low.

This is not necessarily goodwill on the part of the Chinese, but self-interest, since this policy keeps US customers happy and buying Chinese products while maintaining export-oriented jobs in China. At the same time, US entrepreneurship, new products and services, and new generations of technology have maintained almost full employment here except in recessionary years. Chinese imports do keep lower-skill wages low in America, which is a negative for the bottom 20 percent of the US workforce.

But all in all, it has been a win-win situation for both nations over the last 25 years.

To put the China trade in a larger global perspective, we saw above that imports from China amount to only 18.1 percent of US imports from all countries.

The world has laboriously built up an intricate trading system that results in interdependencies that constrain and cause discomfort. Certainly, as this article shows, there will be "winners" as well as some "losers" within a nation as it opens itself up to more international trade. But the key argument is that, on average, a nation is better off because the benefits that accrue to the winning firms and consumers generally significantly exceed the pain, suffering, and angst borne by the losers. Averages are cold, heartless statistics, of course. A great society needs to be more heedful about the suffering caused by international trade to certain sections of their population and provide ameliorative relief to those affected, while enjoying the overall benefits of trade that accrue to all within the nation. So, although a nation's participation in international business will indeed produce gains as well as pains, on the whole, the country will be better off.

## Author

*Farok Contractor is Distinguished Professor of Management and Global Business at Rutgers Business School, a Fellow of the Academy of International Business (AIB), and author of nine books and over 100 scholarly articles. He holds a Ph.D. (Managerial Science and Applied Economics) and an M.B.A. from the Wharton School, as well as two engineering degrees (M.S. in Industrial Engineering, University of Michigan, and B.S. in Mechanical Engineering, University of Bombay). He has chaired or been on the supervisory committees of 17 doctoral dissertations on International Business topics. He has taught at the Wharton School, Copenhagen Business School, Fletcher School of Law and Diplomacy, Tufts University, Nanyang Technological University, Indian Institute of Foreign Trade, XLRI (India), Rutgers business programs in Beijing and Shanghai, Lubin School of Business, and Theseus and EDHEC in France. He has also conducted executive seminars in the US, Europe, Latin America, and Asia. Farok Contractor's research focuses on key issues in International Business, such as corporate alliances, outsourcing and offshoring, valuation of intangible assets, the technology transfer process, licensing, and foreign direct investment. His papers and books have been cited approximately 10,600 times, and he is among the top-ranked contributors of scholarly papers in the field. He has served Rutgers as Department Chair, CIBER (Center for International Business Education and Research) Research Director, Ph.D. program coordinator, and other key school and university initiatives. He writes a blog for managers, students, policy makers, and educated laypeople*

*covering International Business issues at https://globalbusiness.blog – which has been read by viewers in 171 countries.*
*email: farok@andromeda.rutgers.edu*

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## Endnotes

1. For example, see:
   Contractor, F. J. (2017). What's at stake in China-U.S. relations? An estimate of jobs and money involved in the bilateral economic tie. *Rutgers Business Review, 2*(10), 1-22.
2. Smith, S. V. (2014, May 20). How much would an all-American iPhone cost? *Marketplace*.
3. Tariff rate, applied, weighted mean, all products. (n.d.). Retrieved from World Bank database.
4. For example, see:
   Schumpeter: Raging against Beijing. (2018, June 30). *The Economist*.
5. For example, see:
   *The most American-made cars and trucks* [Digital image]. (n.d.). *Forbes*.
6. Kuijs, L. (2018, March 20). Research Briefing, China: Impact of U.S. trade action on China to be manageable. *Oxford Economics*.
7. The numbers are proprietary. However, industry observers and journalists have pieced together estimates for the iPhone 7 as an example. For example, see:
   Contractor, F. (2018, July 12). Does just one product—the iPhone—cause an $11 billion trade deficit for the U.S.? [Blog]. *Global Business*.
8. For example, see:
   Fingas, R. (2018, March 21). Apple's iPhone may be creating misleading numbers for US trade deficit with China. *Apple Insider*.
9. Ibid.
10. Kliesen, K., & Tatom, J. (2018). Economic synopsis: Here's why U.S. manufacturing is fundamentally strong. *Federal Reserve Bank of St. Louis*.
11. U.S. Bureau of Labor Statistics (n.d.). International labor comparisons.
12. Contractor, F. J. (2012, August 7). Reasons to expect a U.S. manufacturing resurgence: Lower wages, high productivity—despite disinterest in science—boost U.S. manufacturing. *Yale Global Online*.
13. Levinson, M. (2018). U.S. manufacturing in international perspective (Publication No. R42135). *Congressional Research Service*. Washington, D.C.: Federation of American Scientists.
14. Can Trump—or anyone—bring back American manufacturing? (2016, November 30). *Knowledge at Wharton*.
15. The business press does readers a disservice in not routinely including services (a large and growing component of world trade) in their reporting on world trade. This often distorts the overall picture and confuses readers and politicians.
16. Dodson, D. (2014, November 2). How much is that combine in the window? *The News-Gazette*.

17. Higher demand for a bond raises its price, which reduces the effective interest rate earned from the bond. With very high demand, government bonds can become so pricey that the interest rate can even become zero or fall into the negative zone on an inflation-adjusted basis. Yet some investors will still buy the bond as a "safe haven," for sheer speculation, or for governments like China in order to keep jobs in China and exports flowing out to the U.S. consumer.
18. Hillary Clinton received almost 3 million more votes than Trump. However, the state-by-state U.S. electoral college system sometimes gives the presidency to the other candidate. Trump won big in states most affected by global competition.
19. For example, see:
    Bernanke, B. & Olson, P. (2016, October 19). Are Americans better off than they were a decade or two ago? *The Brookings Institution.*
    Shapiro, B. (2017, January 18). The myth of the stagnating middle class. *National Review.*
20. A 4% unemployment statistic is considered the minimum possible, or tantamount to a full-employment economy, because even with great demand for workers approximately 4% will be temporarily traveling between jobs.
21. For example, see:
    Contractor, F. J. (2017, February 28). Disrupting US-China relations will incur high costs. *Yale Global Online.*
    Contractor, F. J. (2017). What's at stake in China-U.S. relations? An estimate of jobs and money involved in the bilateral economic tie. *Rutgers Business Review, 2*(10), 1-22.
22. For example, see:
    Poverty [Organization website]. (2018, September 24). *The World Bank.*
23. For example, see:
    Heath, N. (2011, September 22). Samuel Slater: American hero or British traitor? *BBC News*.
24. For example, see:
    White, F. (2014, August 4). How did silk get out of China? *History Answers.*
25. For example, see:
    Contractor, F. J. (2011, March 9). How a soothing drink changed fortunes and incited protests. *Yale Global Online.*
26. Wei, L., & Davis, B. (2018, September 26). How China systematically pries technology from U.S. companies. *The Wall Street Journal.*
27. For example, see:
    Contractor, F. J. (2015, September 28). Chinese cyber-espionage on U.S. companies: The asymmetry in the analogy of the 'pot calling the kettle black' [Blog post]. *Global Business.*
28. Contractor, F. J. (2017). What's at stake in China-U.S. relations? An estimate of jobs and money involved in the bilateral economic tie. *Rutgers Business Review, 2*(10), 1-22.