What if the US-China trade deficit wasn't really a big problem?

Could the cure for the shortfall be worse than the disease?

This article was produced in partnership with WIRED and originally appeared on Wired.co.uk. Produced and edited by WIRED Editorial.

On the campaign trail in 2016, then US presidential candidate Donald Trump made no mystery of his worry over the US "losing" to China – in other words, over the US's burgeoning trade deficit with China.

The US exports relatively little to China, but on the other hand it imports a lot of Chinese consumer goods. These include products as different as LED lamps (almost every LED light used in the US comes from China), umbrellas, playing cards, and leather bags. The result is a trade deficit that, as of 2017, hovered around $375 billion (£283bn).

Being elected to the White House in an upset victory has not mollified Trump's grudge about the growing US-China trade deficit. On the contrary: if anything, he has become even more resolute in his determination to put an end to it. In March 2018, he fulminated against what he sees as one of the most urgent problems dogging America.

"Last year, we lost $500 billion on trade with China," he said in a news conference. "We can't let that happen."

Shortly after that, President Trump imposed fresh tariffs on $50 billion of Chinese goods— framing them as defence against Chinese violation of US intellectual property. That caused China to immediately retaliate, with tariffs on 128 US products — mostly agricultural and foodstuff imports (including fruit, wine and pork). The Dow Jones took an instant hit, and several American corporations trading with China witnessed a loss in the value of their stocks.

Since then, the US President has been busy launching new tariffs on several other key Chinese exports, regularly triggering Beijing's retaliatory action.

Donald Trump has pledged to end the trade deficit with China using any means necessary, including the imposition of higher tariffs and even waging a full-blown trade war.

Is it worth it? Or is the US-China trade deficit less of a problem than we're making it out to be?

Paul Jackson

Head of EMEA ETFs research, Invesco

"Although the US's trade deficit is large in dollars, it is not particularly significant relative to the size of its economy: the current account deficit* is only 2.3 per cent of GDP, which is manageable. It is therefore difficult to understand the White House's current obsession with reducing the trade deficit with China, especially when one considers the damage that such a course of action could do to both the US and the global economy. There is no need for a trade war: the US could reduce the deficit by saving more and spending less. Granted, the persistence of current account deficits has pushed the US deeper into its net debtor status, but eliminating the deficit risks inflicting so much pain on the citizens of the United States of America that one wonders if they will think it is worth it."

Jue Wang

Associate fellow, Chatham House

"The trade deficit hasn't significantly hurt the US economy. The US deficit data has exaggerated its trade imbalance with China. First of all, it does not include US export of service to China. Secondly: it includes a large number of Chinese exports, of which the higher-end research and design works are completed elsewhere. For China, having a trade surplus is not a pure pleasure, as it incurs considerable financial pressure. But the trade deficit could become a large problem because of the way the Trump administration is dealing with it: threatening a trade war, making a huge deal about it. And China is reacting, and now people are worried about this escalating at the global level."

Michael Pettis

Professor of finance, Peking University

“Weak domestic demand driven by low consumption has left China with excessive savings, and while Beijing has been trying for over a decade to reduce this savings rate, it has proven extremely difficult to do so. As a result China must export a huge amount of excess savings into the US. These capital imbalances are the real cause of the trade imbalances, not manufacturing subsidies and differential production costs, as many seem to think. In a world of excess savings and weak demand, neither China nor the US can absorb excess Chinese savings except in the form of either higher unemployment or higher debt. This, ultimately, is what the trade dispute must resolve.”

David Madden

Market analyst, CMC Markets

“The US-China trade deficit is a problem as it has angered Donald Trump. The US President is very keen to put ‘America First’, and he feels a trade spat with China might prompt Beijing to reconsider its trading relationship with the United States. For President Trump, this trade dispute is largely about asserting his power, and he is not showing any signs of backing down.”

A **current account deficit is a measurement of a country's trade where the value of the goods and services it imports exceeds the value of the goods and services it exports.