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United States Trade Deficit Implications of Economic Growth

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Abstract

This research paper investigates the rapid decrease in U.S. international trading since 1985. There are many economists with different opinions about the implications of a negative balance of trade may have on economic growth. Some economists such as Mankiw and Krugman believe that the trade deficit has positive implications for the growth on U.S. economy. In contrast, there are economists that have opposite beliefs about the trade deficit. The negative balance of the trade also suggests that the United States became dependent on other countries, for example, China. This a comprehensive literary research paper that incorporates information from primary and secondary sources including the most current available data. The United States must stop depending on China or should implement new foreign policy and place more strict tariffs or ICs (mentioned above) for imported goods from China. The U.S. must end dependence on nuclear weapons, for example. The U.S. Congress must act quickly and require the Department of Defense to find alternate sources or counties to produce nuclear weapons in case of future military conflict or economic disruptions like COVID-19 period. Also, the U.S. local and federal government must invest more in academia, research, development, and innovation. This paper will also present some suggestions of possible and available economic alternatives that will reduce U.S. current trade deficit and it will provide some recommendations for future studies.

Subject Areas

Development Economics

Keywords

Trade Deficit, Economic Growth, Economy, Economic Dependence, U.S. International Trading

1. United States Trade Deficit Implications of Economic Growth

The United States' international trading system has been decreasing for decades. Since 1985, the trade deficit began to grow rapidly and started to have an impact on the U.S. economy. Economists have varying opinions about the implications of negative balance of trade may have on economic growth. Some economists and mainstream textbooks state that the trade deficit may have positive implications for the U.S. economy. However, other sources based on various data believe the longstanding U.S. trade deficit negatively impacts U.S. employment and economic growth. According to the Economic Policy Institute, the U.S. goods trade deficit is $1.1 trillion in 2021. This deficit caused the net loss of jobs of $226,000. [1] This paper will investigate the issues of trade deficit and its negative implications on economic growth. Despite very high consumer spending international trade does not benefit the average American citizen. The negative balance of the trade also suggests that the United States became dependent on other countries, for example, China. This a comprehensive literary research paper that incorporates information from primary and secondary sources including the most current available data. The primary text presents the work of literature and most recent publications related to the U.S. trade deficit and China's economic dependence including some analysis of negative implications on economic growth. In addition, this research paper will investigate some negative U.S. trade deficit implications for economic growth based on available data. In particular, large and persistent trade deficits appear to have a meaningful impact on manufacturing and service job loss, investment, and the country's economic independence. Trade deficits can also create a burden of indebtedness that is already very difficult for U.S. government and taxpayers to bear. This research paper will also evaluate the risk of U.S. economic dependence on China. Furthermore, growing negative trade balances may ultimately compromise the living standards of current and future generations. This paper will also present some suggestions of possible and available economic alternatives that may reduce U.S. current trade deficit and it will provide some recommendations for future studies.

2. The United States Growing Trade Deficit

The United States trade deficit has been running at very high levels for almost 50 years since 1976. In 2022, the United States of America imported goods and services from almost every country in the world including Russia, Afghanistan and even North Korea. The imported goods from North Korea were mostly minerals and metals, rather than more complex final goods [2]. Even though U.S. is still major player in the global market, the country continues to operate at a net trade deficit for many decades (**Figure 1**).

The biggest trading partners of United States are Canada, Mexico, China, followed by Japan, Germany, Vietnam, South Korea, and United Kingdom. According to Trading Economics (2023) data, in 2022, the United States imported

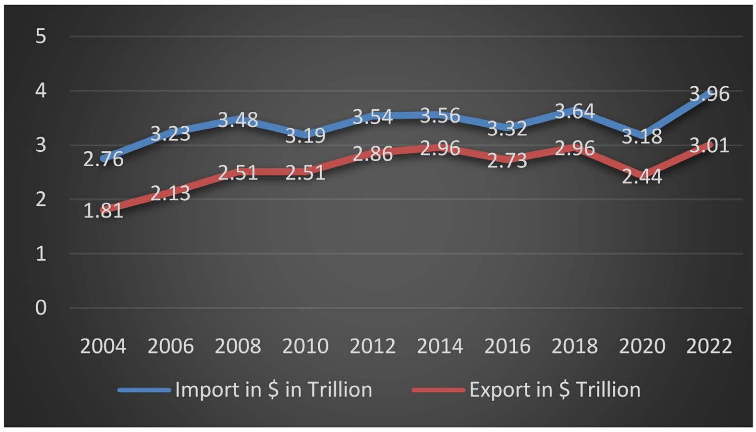

Figure 1. United States Imports and Exports 2004-2022 (total deficit from 2004 to 2022 was equal $7.94 Trillion). Source: Bureau of Economic Analysis (2023).

the most goods from China ($575.69 billion), Mexico ($459.118 billion), Canada ($446.62 billion), Japan ($154.45 billion), Germany ($154.41), and Vietnam ($135.88 billion). The United States imports minerals, pharmaceutical products, medical equipment and supplies, furniture, lighting, plastics, and precious metals. In 2022, the U.S. imported 3.96 trillion in goods and services (**Figure 1**), another record since 2004 and almost 780 billion more than in 2021 (**Figure 1**). Americans tend to consume more and more every year. It should be noted that the United States trade deficit increased by more than 12% from 2021 "nearing $1 trillion as Americans purchased large volumes of foreign machinery, medicines, industrial supplies, and car parts. The goods and services deficit reached $948.1 billion, its largest total on record, after rising $103 billion from the previous year". [3]

According to the Bureau of Economic Analysis and (2023), in 2023, the United States also reported a trade deficit of $64.2 billion in March from $70.6 billion dollars in February. The United States continues to import the following goods: "semiconductors, electric apparatus, excavating machinery, crude and fuel oil, organic chemicals" [4]. The Bureau of Economic Analysis and Flexport (2023) [4] projects that the trade deficit will remain negative in 2023 and it may exceed the trade deficit from 2022. "The implied negative net export balance (merchandise trade deficit) is now expected to be $265.5 billion in Q2' 23, up from $243.8 billion in the previous forecast" [5].

3. Manufacturing and Service Jobs Decline Due Trade Deficit

Many economists question the manufacturing and service jobs decline in the United States due to the trade deficit. They argue that there are no proven correlations between trade deficits and job losses in the United States. In addition, many economists think that trade plays a relatively limited role in the overall U.S economy. However, according to Khanna (2022), since 2000, the United States growing trade deficit cost the country over 10 million or more well-paying manufacturing jobs and "led to the closure of nearly 70,000 factories. Small towns have been hollowed out and communities destroyed. Society has grown more unequal as wealth has been concentrated in major coastal cities and former industrial regions have been abandoned (p. 3) [6]. Also, the data presented by the Center of Strategic International Studies (2022) [7] shows the impact of the trade deficit on job loss in the United States.

According to CSIS report, there is a clear relationship between the trade deficit and job loss, for example in 2021 only, "the net effect of trade saw a loss of 3.5 million workers" [8]. The existence of a large trade deficit between countries like the United States and China is accompanied by excess imports (**Figure 2**) which are destroying jobs in the manufacturing and service sectors. Since the Clinton administration, the U.S. has been reporting a trade deficit with China (**Figure 2**), and for decades the United States has failed to significantly increase manufacturing or service jobs.

The trade deficit with China impacted the U.S. job market in 2001 and it was the main reason why America lost so many well-paying manufacturing and service jobs. Based on U.S. Census Bureau data, the U.S. lost over 3.4 million jobs between 2001 and 2015 (**Table 1**). Due to the trade deficit with China, the U.S. is jobs loss was more than 3 million in 2016. In addition, the United States job displacement grew to 3.7 million in 2018.

The rapidly growing U.S. trade in goods with China from $83 billion in 2001 to almost $383 billion in 2022 cost jobs in all 50 states. In 2018, "the 10 hardest-hit states, when looking at job loss as a share of total state employment, were New Hampshire, Oregon, California, North Carolina, Minnesota, Massachusetts, Wisconsin, Vermont, Indiana, and Idaho" [9]. There is no doubt that the United States continues to lose well-paid jobs due to our trade deficit with China and it should be noted that this deficit reflects a sharp decline in domestic industry.

In 2021, according to the Department of Commerce (2021), the United States imported 52.2% of manufacturing final goods from China alone, and "nearly 73 percent of U.S. imports from China in 2019 were manufactured goods. Put bluntly, by running a trade deficit with Beijing, Washington creates jobs in China instead of in the United States" [10]. Unfortunately, U.S. and China trade deficit is eclipsed by the long-term damage to the United States economy and economic growth. Over time the loss of manufacturing and service well-paid jobs will make innovation in the U.S. very difficult while building the brain trust in China at the same time making United States more and more dependable on one country.

4. Trade Deficit and United States Economic Dependence on China

The trade deficit does not play a positive role in America's prosperity, nor does it drive economic growth, or create jobs, and does not improve the standard of living by making affordable goods and services. The trade deficit makes Americans

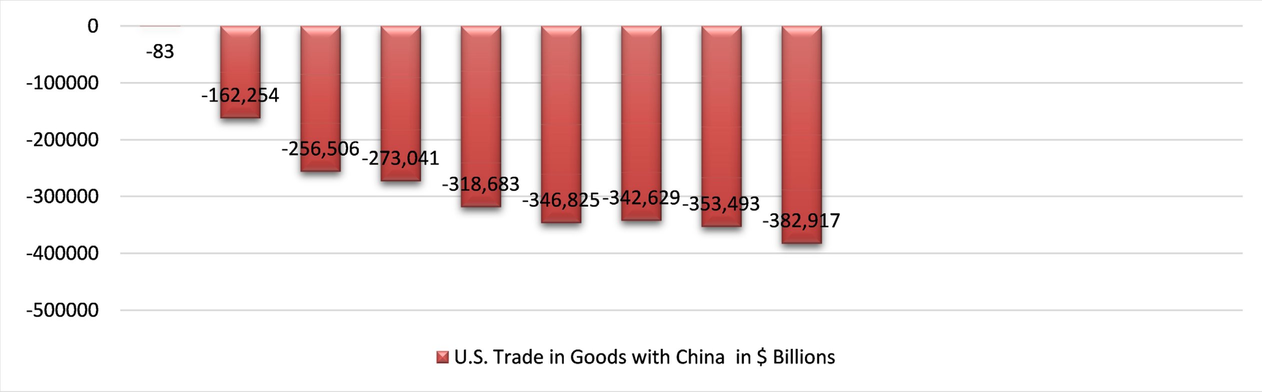

Figure 2. U.S. Trade in Goods with China 2001-2022. Source: United States Census Bureau: US Trade in Goods with China (2023).

Table 1. Net U.S. jobs displaced by goods trade with China, by industry, 2001-2015.

	Total	Share of total jobs displaced
Total*	−3,443,300	
Subtotal, nonmanufacturing	−886,200	25.7%
Agriculture, forestry, fishing, and hunting	43,400	−1.3%
Mining	−4700	0.1%
Oil and gas	−700	0.0%
Minerals and ores	−4000	0.1%
Utilities	−12,700	0.4%
Construction	−16,600	0.5%
Manufacturing	−2,557,100	74.3%
Nondurable goods	−391,300	11.4%
Food	−11,600	0.3%
Beverage and tobacco products	3000	−0.1%
Textile mills and textile product mills	−117,800	3.4%
Apparel	−204,900	6.0%
Leather and allied products	−60,000	1.7%
Industrial supplies	−233,600	6.8%
Wood products	−28,400	0.8%
Paper	−29,200	0.8%
Printed matter and related products	−35,000	1.0%
Petroleum and coal products	−1200	0.0%
Chemicals	−27,600	0.8%
Plastics and rubber products	−78,800	2.3%
Nonmetallic mineral products	−33,400	1.0%

Continued

Durable goods	−1,932,200	56.1%
Primary metal	−57,100	1.7%
Fabricated metal products	−161,800	4.7%
Machinery	−94,800	2.8%
Computer and electronic parts	−1,238,300	36.0%
Computer and peripheral equipment	−670,800	19.5%
Communications, audio, and video equipment	−267,000	7.8%
Navigational, measuring, electro medical, and control instruments	−18,000	0.5%
Semiconductors and other electronic components, and reproducing magnetic and optical media	−282,500	8.2%
Electrical equipment, appliances, and components	−116,000	3.4%
Transportation equipment	−21,500	0.6%
Motor vehicles and motor vehicle parts	−49,600	1.4%
Aerospace products and parts	32,700	−0.9%
Railroad, ship, and other transportation equipment	−4500	0.1%
Furniture and related products	−115,900	3.4%
Miscellaneous manufactured commodities	−127,000	3.7%

more dependable on China's economy and manufacturing dominance. Every year Americans consume more and more making China a greater superpower. According to Swain (2021), China will replace the United States in the global power structure, because "China is emerging strongly from the growing global economic crisis due to the COVID-19 pandemic and there is no doubt that China has already become the global powerhouse economically and is expected to surpass the US as the world's biggest economy by 2028" (p. 1-2) [11].

The United States economy depends very heavily on China, especially on supplying the low-cost goods that "enable income-constrained American consumers to make ends meet. The U.S. also depends on China to support its own exports; China is America's third largest and by far its most rapidly growing major export market" (p. 2) [12]. The spread of COVID-19 triggered a financial crisis and caused significant economic damage to the United States but also showed how much the U.S. economy is tied and dependable on China. The United States experienced a shortage of many goods manufactured in China from pharmaceutical supplies to plastic goods.

Unfortunately, China supplies U.S. with a great amount of various final goods, medical supplies, and vital raw materials. But also, the Chinese control a "huge share of the world's shipping fleet and commercial shipbuilding capabilities. Beijing's domestic policies, therefore, exert tremendous influence on both the global shipping industry and the production and distribution of Chinese exports. This creates a double vulnerability for the United States" (p. 2) [13]. The Chinese government is seeking to undermine and economically weaken the United States.

In addition, the Chinese government is the second largest holder (after Japan) of billions (USD) of United States debt, amounting to $867 billion. U.S. Treasuries are one of the safest and most stable ways for China to maintain "an export-led economy and creditworthiness in the global economy. If China continues to hold a massive amount of forex reserves and U.S. debt, some market observers believe the U.S. economy could be essentially at the mercy of China" (p. 1) [14].

China is also set to remove the U.S. dollar from international trade. This Chinese move will lead to erosion in U.S. international power and influence in global markets. In 2023, China began to use more Chinese yuan in cross-border payments. In April 2023, the China used Chinese Yuan for almost 50% of their payments in international trade. The U.S. Dollar edges at a 47% share of trade transactions, this is 2% down from March 2023. According to SWIFT, the global consortium of banks and financial institutions, that handles cross-border currency trades, the U.S. Dollar is down to 40% of the international trade payments [15]. In March 2023, China and Brazil agreed to trade in Chinese Yuan and Brazilian Reais instead of U.S. Dollars. Also, Argentina will start to trade with China in Chinese Yuan rather than U.S. Dollars. Therefore, the second largest economy in South America (Argentina) already engaged in over $7 billion U.S. Dollars swap at the beginning of 2023. "The move comes after the Yuan overtook U.S. Dollar for the first time, and the Yuan became the most widely used currency for cross-border transactions with China" (p. 2) [16].

5. Conclusion

The trade deficit has had an impact on the United States economic growth and job loss in the past decades. Many well-paid jobs were displaced due to ongoing trade deficits with China and contributed severely to the crisis in manufacturing and service sectors in the U. S. In addition, the United States' foreign debt is increasing every single year. Therefore the U.S. is losing its export capacity and confronting more complex and fragile macroeconomic settings on the global market. The 2020-2021 COVID-19 economic crisis showed how much the United States depends on another economy. Meanwhile, China is becoming less dependent on the U.S. consumer market, and it is building a massive superpower economy with a stronger currency. Unfortunately, a fast-growing trade deficit compromises the living standards of future generations and the economic growth of the United States. However, there are some possible economic tools and foreign policies that can make international trade more beneficial to the U.S. economy. Without any governmental interventions, the U.S. is at a high risk of becoming more dependent on China and facing another economic crisis.

Conflicts of Interest

The author declares no conflicts of interest.

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