



## Causal Analysis of USA's Trade Deficit with China from the View of Globalization

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### Abstract

With the development of globalization, the trade scale between US and China continually extends, and as both sides obtain huge amounts of benefit, the trade unbalance gradually emerges. And US administration frequently presses China, which induces continual trade frictions, and aiming at this situation, we should necessarily analyze American trade deficit objectively and rationally. In this article, as viewed from the globalization, we studied the causes of USA's trade deficit with China.

**Keywords:** Globalization, Trade deficit, Causes

### 1. Development and actuality of USA-China trade

Since USA and China established diplomatic relations in 1979, though the bilateral economic relationship experienced some twists and turns, but the quick development speed has been kept for a long time. Especially after China joined WTO in 2001, the bilateral economic relationship develops further quickly. According to the statistics of China Customs, the volume of trade between USA and China had climbed from 0.99 billion dollars in 1978 to 302 billion dollars in 2007, and the increase achieved 304 times. And according to the statistics of the Commerce Department of the US government, the volume of trade between USA and China climbed from 1.178 billion dollars to 386.7 billion dollars from 1978 to 2007, and the increase times was 327. Up to the late of 2007, USA had been the second largest trade partner, the second largest export market and the sixth largest import source for China. At the same time, China had been the second largest trade partner, the first largest import source and the third largest export market for USA.

With the continual increase of the trade volume between two countries, the trade unbalance of USA-China stands out increasingly. According to the statistics of the Commerce Department of the US government, China had replaced Japan and become into the largest trade deficit source country for USA since 2000. The data of Chinese Commerce Ministry showed that the USA-China trade deficit achieved 163.33 billion dollars in 2007, which was 54.1% of total USA-China trade volume. And the statistics of US Commerce Department indicated that the USA-China trade deficit achieved 256.3 billion dollars in 2007.

Though there are certain differences between USA's statistics and Chinese statistics from data, but the point that we can trust is that USA's trade with China has been in the deficit from a long time. The increasing USA-China trade unbalance year by year has influenced the normal development of the trade relationship between two countries, which has been concerned by the governments and scholars from two countries.

### 2. Analysis of the causes of USA-China trade deficit by the academe at present

The trade deficit of USA has been sustained for about 30 years, and after the trade deficit first occurred in 1971, except for in 1973 and 1975 when the petty surplus occurred, in other years USA had been in the deficit and the total trend of the deficit volume is continually extending. Many experts and scholars have analyzed the causes of USA's trade deficit with China all along, and flowing causes are included.

#### 2.1 Data statistics

US calculates the carrying trades by way of China Hongkong in the China-USA trade, which ignores the carrying behaviors and the carrying added values, and in fact, many of these products carrying to US by way of Hongkong are from other countries and regions, and 60% of Chinese exports to US are carried by way of Hongkong, which aggrandizes the goods trade deficit volume between USA and China to a certain extent.

For the export goods, Chinese customs statistics and quoting are based on FOB, but US's exports are quoted by FAS. And for import goods, the statistical methods between China and USA are same. These different pricing methods

magnify the unbalance of bilateral trade. If both sides can quote the price by FOB, the volume of USA-China goods trade deficit will be reduced largely.

### *2.2 Export limitation of USA to China*

The development of high-tech products always supported the economic development of US, and these products also possessed very high export values, and the science and technology advantages help the sustain the dominant status of US in the present world politics and economy. However, US adopted the limited policy to China in this aspect all along. The data of Chinese Commerce Ministry indicated the high-tech product imports from European Union and Japan respectively increased 71% and 151% from 2001 to 2005, but this number was only 38% for USA. The export limitation of USA to China restrained the exports of high-tech goods with international competitive forces from USA. The import proportions of high-tech goods from USA in the total import respectively were 9.1% in 2006 and 18.3% in 2001, and if USA could keep 18.3% in 2006, its export to China could increase more than 70 billions dollars at least.

### *2.3 Depressive USA manufacturing and declining competition of service trade*

The last economic depression of US seriously stroke the manufacturing of US, and it made the output of the manufacturing drop largely. In recent years, the US manufacturing gradually resuscitated, but the resuscitating step was quite slow.

The service industry possesses important function in the US economy, and though the US goods trade had formed tens of years' huge deficits, but the US service trade has still kept large surplus. Since 2000, because the competition of US service trade gradually declined, and the service trade surpluses of US from 2000 to 2004 respectively were 77 billion dollars, 64.5 billion dollars, 61.2 billion dollars, 51 billion dollars and 48.5 billion dollars. The proportion of the service trade of US was gradually declining, and the proportions from 2000 to 2004 respectively were 0.8%, 0.7%, 0.5% and 0.4%.

Of course, except for above causes, with the continual development of globalization, the relationship between US and the world becomes more closely, and the international environment and the economic globalization also bring large influences to the USA-China trade deficit.

## **3. Analyzing USA's trade deficit with China from the view of economic globalization**

The globalization dominated by US has brought benefits for most participators, and US is the largest winner, and the development of the globalization and the world trade liberalization is one constant factor to drive the sustainable increase of US economy, and one of important causes which induce long-term trade deficit.

### *3.1 Industrial transfer becomes into the cause of USA-China long-term deficit under economic globalization*

Under the background of economic globalization and regional economic integration, the industrial structures of various countries gradually form the situation supplementing and depending on each other, and this situation is increasingly strengthened. The global industry is still in the big transfer and adjustment, and the international division has been gradually formed according to every country's gift factor. The result of the global industry transfer is embodied by "industry hollow out" in US, and by "industry second transfer" in eastern Asia, and by "global fitting shop" in China.

Under the function that the domestic management cost continually rises, US points at its objective of industrial transfer to China. US utilizes deep technical power and abundant scientific research outlays to make it turn into the source of the new products and new technologies, comprehensively utilize various advantages, account for the high end of the value chain, and establish the sustainable increase of economy on the "knowledge industries" such as information technology, finance and insurance, and gradually wash out its labor intensive industries such as shoemaking, textile and accouterments, so US must depend on huge amounts of import from the developing countries such as China to fulfill its domestic demands.

The industrial transfer in the eastern Asia further increased the USA-China trade deficit. The destinations of the first international industry transfer in 1960s to 1970s mainly include Korea, Singapore, Chinese Taiwan and Chinese Hongkong, and with the economic rise of these countries and regions, the labor costs drastically rose, so the resource advantages of the international industry transfer in these countries and regions lost quickly, and these countries and regions had to implement the second industry transfer to other developing country, and China was the first selection. Through this process, the China-USA trade surplus was induced, and except for the direct part between USA and China, many of the surpluses were transferred from other eastern-Asian countries and regions.

### *3.2 The US multinational direct investments in China further increase the USA's trade deficit*

The mode of the industrial adjustment is the direct investment implemented by the multinational companies to foreign countries, and with the quick development and expansion of multinational companies, they have been the main body to implement international trade, international investment and international industry transfer. One of characters that US multinational companies perform the globalization strategy is the interior trade, and the result is that the interior trade of

the multinational companies develops very quickly, and they steer clear of the tariff walls and non-tariff walls by means of direct production and direct sale in China, which makes the USA-China trade belong to the interior trade of the US multinational companies, and the data of these items will be recorded in the China-USA trade surpluses, and make USA's import from China increased.

The product transfer among the US parent company and its subsidiary companies occupied 1/3 of the total import of US. Because the quite part of production was transferred to foreign countries under the economic globalization and international division, for example, above 70% of IBM computer parts were produced in Japan and Singapore, and 25% of US auto components were supplied by overseas subsidiary companies, and above 80% of semiconductor assembling were accomplished in foreign countries, and 28% of Boeing aircraft assemblies were manufactured in foreign factories. Therefore, in the international division situation under the globalization background, it is inevitable that large numbers of trade deficit occurred in US.

### 3.3 Capital inflow sustains USA's trade deficit

The reason why USA could keep strong economic strength under the long-term trade deficit is that huge amounts of other capital inflows support the development of the total economy when the trade deficit exists. The US economic globalization is embodied not only in the strong free flow of US goods in the world, but in the strong free flow of US capitals, and the international trade deficit could be counteracted by the deficit of the international capital flows, and the trade deficit of US was remedied by the net capital inflow to USA.

Though for the international investment, US is the net capital outflow country, but the net inflow of international indirect investment has far exceeded the net outflow of the direct investment, adding the securities investment capitals and other investment projects including the dollar capitals held by the governments and institutions of other countries and the credit assets about the trade. Only the special status of the dollar which is the international balance coin and the repertory coin will not be changed essentially, the capitals flowing into US by these modes will not be changed too, which is the important reason that the US could sustain large-scale trade deficit for long.

### 3.4 The rise of international oil price influences USA's trade deficit

US is the first largest oil consumption country in the world, and the oil consumption is about 19.50 million barrel/day, and it is also the first oil import country in the world, and the oil import amount is about 11.5 million barrel/day. Ever since a long time ago, oil is the single item good with largest trade deficit for US. Influenced by the Iraq War, the international price of base oil rises universally, and even in the day of the global economic crisis, the price of base oil is above forty dollars per barrel. Under the situation that the price of base oil rises, the demand of US for import base oil and oil products increases not reduces. In Jan to Sep of 2004, US imported 2.857 billion barrels of base oil, and that number increased 0.117 billion than the same period in 2002, and the increase proportion was 4.27%. And the import volume of base oil ascended from 74.2 billion dollars to 93.3 billion dollars, and the increase proportion was 25.7%. Therefore, the rise of oil price further induces the expansion of US trade deficit.

## 4. Conclusions

In the causal analysis of US trade deficit, we can see that the reasons which induce US trade deficit are numerous, and the development of globalization and regional economy integration definitely promote the USA-China trade deficit and make the USA-China trade develop unbalanced.

To change the unbalance of USA-China trade, the both trade structure should be adjusted in the near future, and the Chinese industrial structure should be transformed essentially in the long term. The transform of the foreign trade increase mode should be changed, and the resource-based goods with high energy consumption, high pollution, "large amount" and "cheap price" should gradually quit from the historical stage. The labor intensive products in the export goods should gradually give place to the capital intensive products and technology intensive products, and the emphases about the technical innovation, product renovation and brand management have been the big tendency to increase the export. In addition, we should start from improving the industrial development environment, strengthen the research and development, cultivate the research and development talents, protect the intellectual property rights, strengthen the service trade export, drive the full transformation of the foreign trade increase mode, and make Chinese foreign trade realize sustainable development on the bases of high quality, added quantity and balance.

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