

President Trump's trade mission: Still no success

American and Chinese trade officials are back at the negotiation table once again today. Although there is no deal yet, imports from China are plummeting. Despite the improvement of the American trade balance, President Trump has nevertheless been unsuccessful in bringing down the overall US trade deficit



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A bed of nails

If President Trump starts thinking about the US economy while he is in bed at night, the US trade deficit might feel like a bed of nails - a bed of 100 nails, one for every country that has a trade surplus with the US. The Chinese nail probably hurts the most because competition from China has made quite a lot of American companies go out of business.

President Trump has promised his voter base that he'll pull the nails out, in particular the Chinese one. That's why he has increasingly hiked import tariffs on Chinese products. In this way the President tries to strongarm China into granting the US better trade deal terms.

Meanwhile, tariffs have been doing their job as imports from China have fallen sharply, taking the deficit for the first six months of 2019 down 11% compared with the first half of 2018. You would think Trump would be happy. But the deficits with other countries are on the rise, so the US' total trade deficit remains stubbornly in place.

This is because imports from China are far from all being replaced by US production. American households and especially companies are now importing more from countries like Vietnam. In August alone, the US trade deficit with Vietnam was almost as big as it was in 2018 as a whole.

Airbed

This shows that the American trade deficit is actually more of an airbed than a bed of nails. If you put pressure on one part (say China), another part (say Vietnam) puffs up instead. The only way to stop this is to let the air out.

Overspending in the US has inflated the airbed. This dates back to the first half of the 1980s when both American households and industry began buying more goods than were being made in the US. The rest was and still is, being imported from abroad. The situation is particularly acute at the moment, given record-low unemployment in the US is making it hard to produce more at home. Although President Trump didn't cause this problem, the President has helped stimulate overspending by cutting taxes sharply.

If the US economy continues to cool, the deficit will shrink somewhat, because spending always diminishes during economic downturns. But a structural reduction needs the government to either spend less or cap the growth in private spending by increasing taxes. However, President Trump will be reluctant to do this, given the presidential elections in 2020.

So, in the meantime, those nails will continue to pinch.

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