Good example of why does the us imports from china? essay

Economics, Trade

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Introduction

The United States is one of the most developed and industrialized country in the world. In the past, it has been the manufacturing hub and one of the world's largest suppliers of various types of goods. Recently though, the country seem to have ceded in the background. The United States' toy industry, for instance, have imported at total of $21. 4 billion worth of toys in 2010 alone; the bulk of which (almost 90%) came from China. Across all industries, the country has been consistently exceeding its import, particularly with China, as compared to its export every year. In 2014 alone, the goods imported from China amounted to approximately $466. 7 billion as compared to an export of only $123. 7 billion; garnering a deficit of $343 billion. But why does the United States import goods from China when it has the capacity to manufacture such goods with better efficiency and quality? This paper would like to explore the reasons why the US imports its goods from less-developed countries especially from China and how these imports affects the country’s economy.

United States Trading Relations with China

The United States’ trading relations with China started when both countries established their diplomatic relations in 1979. After which, bilateral trading agreements were signed, enabling both countries to freely trade and conduct business with each other. The rise of China as a leading exporter in the U. S. is quite phenomenal. As observed by Morrison, China once ranked as the 45th-largest source of imports but has now garnered the top spot. What concerns policy makers though is the fact that the United States import deficit has been rapidly increasing. In less than 15 years for instance, the United States’ deficit has increased from $10 billion in 1990 to $342 billion in 2014. At the end of this year’s quarter, the US Bureau of Census has already reported a $108. 8 billion deficit.

Outsourcing

The growth of China as an importing nation can be largely attributed to outsourcing. Huge manufacturing companies of the United States and other developed countries, for instance, outsource their production to China because of its cheap labor. As a result, these companies get better profit margins as compared to manufacturing their goods from the US where the labor cost is high. Currently, it is estimated that 70% to 80% of manufacturing companies outsource their production to other countries; and because of their cheap labor and abundant raw materials, China has become the number one destination. The British economist, David Ricardo, argued that “ commodities exchange at natural price ratios proportional to the labor embodied in them”. In other words, the price of labor determines or significantly impacts the price of goods that are produced. And since China has cheaper labor as compared to the United States, it enables the latter to produce goods that are cheaper as compared to similar goods manufactured in the U. S. Price conscious consumers would, of course, prefer to buy the cheaper items. Large store chains in the United States are also partly responsible for the increased importation of goods from China towards the United States. Wal-Mart, for example, with its ‘ everyday low prices’ campaign, would inevitably look for suppliers that can offer them the lowest priced goods. Unable to compete with the prices that come from Chinese suppliers, local suppliers succumb to the pressure of pricing and eventually decides to either go out of business or outsource their production to China in order to be competitive in the market.

Business Self-Interest

In a macroeconomic perspective, the tendency to trade freely and to choose the process that produces the most benefit is a natural tendency for a business entity. This economic concept was articulated by the British economist, Adam Smith in his book ‘ An Inquiry in to the Nature and Causes of the Wealth of Nations.’ According to Smith, when entities are left to trade on their own, they would seek their self-interests until such time that trade equilibrium is established . This phenomenon is quite observable in the current trading relationship between China and the United States. While it appears in the surface that China is gaining from the US in terms of imports, it is actually the huge U. S. firms that benefit most from these exchanges. Some economists, however, do not agree with Smith's theory. John Keynes, for instance, believe that the government should regulate the trade between business entities as there are decisions that only a government can do. The issue of labor outsourcing, for instance, drains job opportunities for most Americans. The United States government, on the other hand, could not expect its corporate citizens to address this issue in the favor of the American public. For the same reason, a government intervention might be necessary to address this trade imbalance.

Conclusion

The import deficit in the United States' toy industry as well as on other industries in the U. S. is increasing every year. Evidently, the United States have been increasingly importing its goods from China despite the fact that it has the capability to manufacture these goods with greater efficiency and quality. As observed, this phenomenon can be attributed the economic benefits that China can offer both for the manufacturer and the buying public. China's cheap labor, in particular, has encouraged manufacturing companies to outsource their production in China in order to exploit this economic benefit. The buying public with the influence of huge store chains supports this activity by pressuring local suppliers in lowering their prices. In the end, these local suppliers find themselves unable to compete leaving them no choice but to outsource their production as well.

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