The trade process and issue of trade deficit in us and china

Business, Industries

International Management

In international management, countries assess the strength of their economies by comparing the value of their imports and exports. In this comparison, a country can compare its exports to a particular a country and imports from the same country. These comparisons help countries to understand their trade deficits, surpluses and balanced trade. A trade deficit occurs when the value of imports exceeds the value of exports (Batra, 2013). Trade surplus, on the other hand, occurs when the country exports more than it imports. A balanced trade is achieved when the value of exports from a country equals the value of imports that the company buys from outside. Using the US and China as trading partners, one can describe the concept of trade deficit and surplus, their impacts and what international managers in governments can do to address trade deficit as discussed below.

The Bureau of Economic Analysis defines imports as goods and services that Americans buy from outside producers. These goods and services are produced by foreign countries and brought to the US (Batra, 2013). Even if the producer is an America-owned company and it ships goods to the US, such goods are imports when they come to the US. On the other hand, the bureau defines exports as goods that pass through the US customs to be sold to the overseas markets such as China. Even if such goods are to be sold to a company affiliated with an American firm, they are exports (Amadeo, 2017). Also, services that US residents sell to foreign residents are exports. Based on these definitions, when what Americans buy from foreign countries exceed what they sell, then trade deficit occurs. According to

Amadeo (2017) trade deficit occurs when a country cannot produce all that its citizens want. For instance, in 2016, the US had $347 billion trade deficit with China. The US imported $463 billion worth of goods and services and exported goods worth $116 billion to China (Amadeo, 2017). If the value of goods that the US had exported to China exceeded that of imports, then the country would have received trade surplus.

Impacts of Trade Deficit and Surplus

Trade deficit leads to loss of jobs where a country relies on imports. The loss of jobs emanates from the fact that an economy that relies on imports makes people shun local goods and buy cheaper imported products (Batra, 2013). For instance, US citizens are attracted to consumer electronics from China, and this may lead to losses by electronic firms in the US leading to loss of jobs as they cut costs. Also, trade deficits may boost the standards of living for the country as consumers access a variety of goods at lower prices. On the other hand, trade surpluses enable countries to boost economic growth by funding public programs. These programs lead to low unemployment rates in countries that rely on exports. For instance, China drives economic growth from exports.

Addressing Impacts of Trade Deficit

Since trade surpluses are good for economies, countries enjoy having them but seek to lower trade deficits. The efforts to lower trade deficit include the imposition of duties on imports to discourage importation. For instance, the US president had threatened to impose duties on Chinese products coming into the US as a way of lowering trade deficit (Amadeo, 2016). Undervaluing

the currency can also lower trade deficits of a country. In the case of US and China, the former can undervalue the dollar against the Yuan to ensure that traders selling goods to the US do not get higher profits as they wish thereby discouraging imports.