

# Us power in china's trade system

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In the year 2017, the US trade deficit with China was at \$375 billion. This trade deficit existed because the exports from US to China was valued at only \$130 billion while the imports from china were valued at \$506 billion. The major exports from China to the US have been electronics, machinery and clothing. A lot of these have been because many of the raw products necessary for these items are exported to China from the US - where they are manufactured at low prices compared to most places in the world - and exported back from China to the US. The low-cost assembly is what gives rise to the deficit in the first place.

The question is how China manages to produce so many consumer goods at such low cost as compared to other countries? Most experts believe that there are two major reasons for this low cost assembly in China. Firstly, the lower standard of living in China allows companies to get cheap labor and pay lower wages. And secondly, China has an exchange rate that is partially fixed to the dollar. Now China has the world's largest population in the world at 1.4 billion. That's four times the population of US at 320 million. Now, in case the United States decide to implement trade protectionism, then the US consumers would end up paying more for the same products which are produced in the States rather than imported from China. And this is not something a consumer - anywhere in the world - would be doing. Most people would pay as low as possible for products like computers and clothing and electronic items - even if this leads to the people of US losing their jobs. The US President, Mr. Donald Trump promised to lower the trade deficit with China.

As a result, on March 1, 2018, the Trump government decided to impose huge tariffs on the imported Chinese goods. These tariffs were imposed on \$34 billion worth Chinese products which included items like flat-screen televisions, medical devices and aircraft parts. These items like be faced with a punishing 25% border tax when they are imported into the States - thereby leading to increased cost to the US consumers and hence lower consumption. The assumption is that this will lead to these products being purchased from elsewhere and hence the Chinese business will lose money. As a response to this, China immediately imposed tariff of 25% on \$34 billion worth of US goods, which included soya beans, lobsters and automobiles. It is believed that this is only the beginning and more such tariffs are expected to come. Countries get into such tiffs over matters related to trade at many times. At such situations, they usually go to the World Trade Organization to decide who's right or who's wrong. The countries then can negotiate with each other and strike a deal. However, they can also impose unilateral tariffs on each other's goods - this scenario has the potential to turn into a trade war. Considering current world political scenario and if such tit-for-tat continues then we have got a trade war. There has been a constant decrease in the US share of the world income. What used to be 24.6 percent in 1980, stands at 19.1 percent at 2011 and 17.6 percent as of 2016.

On the other hand, China used to be at a mere 2.2 percent of the world income in 1980. However, it has risen to 14.4 percent in 2011 and 18 percent in 2016. The consumer in the US is single most important factor that drives economic growth and accounts for 70% of the GDP. We can understand three core domains which govern the spending capacity of an

individual. The first is the income and wages earned by the individuals. It has been established from reports that 80% of the workers in US continue to have flat or declining growth in their wages. The next domain is that of savings. With expenditures of 97.4 percent of the disposable income, an average US citizen has savings of only 2.6 percent - in fact this might be the lowest except for the phase just before the 2008-09 recession. The last factor is that of credit card debt. It is seen that the credit growth is at a rate of 6 percent - which is twice as fast as that of disposable income. The adjusted GDP increase is a mere 0.71 percent - which is hardly robust for the United States. Another factor specific to the underperformance of US has been the long term decline in productivity. Economic growth has been gradually falling in the States since 1970s and 1980s. This fall can be attributed to three major sectors - healthcare, education and housing. In 1980, these three sectors claimed for 25% of the national spending.

However, that share has risen to 36% by 2015. This has been seen to the increased cost to the national and per capita GDP of the States. As there has been an increase to the costs of these services, the value generated by them - namely in terms of health, education and shelter - have stagnated or even declined. And when the cost to quality ratio declines, it is usually seen that the standard of living takes the same path. It can be said that political forces, and not technical or scientific ones, are now the chief constraints on growth for the US. This has been the major reason for its slow underperformance and decline. To illustrate the decline of the US, let us consider the below parameters which gives us the rank of US across 12 parameters collected from many previously conducted studies:

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1. Median wealth per adult - 27th out of 27 high-income countries;
2. Education and skills - 16th out of 23 countries;
3. Internet speed and access - 16th out of 34 countries;
4. Health - 33rd out of 145 countries;
5. People living below the poverty line - 36th out of 162 countries, behind Morocco and Albania;
6. Children in poverty - 34th out of 35 countries surveyed;
7. Income inequality - Fourth highest inequality in the world;
8. Prison population - First out of 224 countries;
9. Life satisfaction - 17th out of 36 countries;
10. Corruption - 17th out of 175 countries;
11. Stability - 20th out of 178 countries;
12. Social progress index - 16th out of 133 countries.

One of the major problems facing the US has been the competitive power and capability of its manufacturing industry. For example, the automobile market has already shifted more than one-third to that of foreign markets like Japan and South Korea. Secondly, the US has seen a declining trend of the quality in the service sector in comparison to that of the emerging markets like that of China and India. Thirdly, a major issue has been in the wealth creation and distribution of the US economy as well as that of sustainable development. Also because of the increased national deficit and budget deficit, the resources have been repeated that can be spent on investment and production. Fourth problem revolves around the military spending and international strategy. Fifthly, there is the problem of population size and structure. The rise of China and India in the last few

decades have been a proof that an optimum size of the population is an important factor for productivity and economic development.

However, this growth in population have to be accompanied by improved standards of population quality, especially in terms of education, skills, income and consumption. It is only then that population growth can lead to positive economic development. Hence, it is seen that with the rise of the power in China and countries in South Asia, the States have been underperforming. What used to be the sole superpower in the world in the 1980s, is now facing serious challenges by the growth of power like China. The trade deficiency in China has not only impacted US in a single dimension, but rather led it to lose its monopoly and position of superiority in various domains. The facts and figures stated above go on to establish that the origin of the underperformance has long been established. The importance of this is seen in the power tussle between the two great nations - China and US. The declining productivity and economy among other factors in the US has led to establish the importance of effective use of resources, manpower and strategy in order to establish one as a superpower in today's world.

The antecedents of US had established it as a major player in the world which faced and survived world wars and the great economic recession. However, the decline has been inevitable in the last two decades with the rise in power of China as a major economy and power center in the east. With the changing world economic scenario, comes all the concomitant worries of the shifting of the world's political and military power base. A sustained declining GDP growth for the US has established the rise of China

in the world picture. As described earlier, the major determinant has been the low cost assembly of consumer products in China - which has led to the fiscal deficit in the first place. As in a spiral, this is led to jobs being outsourced to China along with the economy. As a consequence of all this distress, we really see the decline of US power. We are witnessing the fall of the American empire and the decline of the US is the great global story of our age.