Decoding US-China Trade

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The most common ways to compare economic strength are to compare the Gross Domestic Product (GDP) and trade balance of countries. The World Bank rates China as the world's number one economy with a GDP of $23 trillion, with the United States following at a GDP of $19 trillion. In 2017, the United States was at a $375 billion trade deficit with China. While these numbers say that China has a better economy than the United States, the reliability of these figures in the 21st century comes into question.

The reality is, these figures do not speak to the livelihood of an economy. Though China holds the number one spot for GDP, its massive growth is causing severe domestic economic problems. The growth is driven by massive government spending, leading to overcapacity and overproduction. On top of this, China's GDP numbers are known to be fabricated. Realistically, the United States has a higher net private wealth, a younger and more productive economy, and has enough resources to sustain its population, unlike China.

China's GDP also appears to be massive due to the fact that China is the key assembler and shipper of goods. A significant amount of goods imported from China to the United States are made of materials produced in the United States. The U.S. Federal Reserve estimates that for every dollar spent on Chinese goods, 60 to 75 cents is invested in American firms for production services and U.S.-made materials. A common misconception when thinking about importing products from China is that 100 percent of the money spent goes to China, in turn hurting the American job market. Data show that as imports increase, the U.S. employment rate increases. Importing goods from China supports millions of American jobs regarding the distribution of said goods.

Though plenty of jobs are created, it is true that some jobs are lost. Instead of making concerted efforts to better assist those left jobless, it is easier for politicians to blame China for this. This makes tariffs seem like a good idea. Realistically, tariffs kill more jobs than they create. The tariffs imposed by President Trump in May 2018 were estimated to create 27,000 jobs in the steel and aluminum industry, but eliminate 430,000 jobs in the collective economy. Many American companies are being wounded by the tariffs instilled during the U.S.-China trade war.

Rather than instilling tariffs, there are a few options that may help the United States foster better trade practices with China. These options include instilling more safety protocols, factoring negative externalities into tradable goods, and shifting to a value-added trading system. It is reported that the United States inspects only 2 percent of goods imported from China, with only 17 FDA inspectors. Instilling new protocols would help to create cleaner trading methods. Accounting for negative externalities like carbon dioxide emissions into the cost of a product by logging data into a product's radio-frequency identification chip would also help to improve current trade practices. Finally, accounting for the value each country adds during production will help to create a clearer representation of economic strength. Moving forward, it is vital for the United States to update its economic comparison methods to avoid imposing harmful tariffs that eliminate jobs and push away the country's largest trading partner.