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by DEAN BAKER
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Is the US Trade Deficit With China Exaggerated?

For many years we regularly saw news stories, like this Washington Post piece, telling us that the official data on the bilateral U.S. trade deficit was hugely exaggerated. The argument was that we count the full value of a final good imported from China in calculating our trade deficit, even though much of the value added came from other countries.

The classic case is an iPhone exported from China to the U.S. We would count the full value of the iPhone as an import from China even though the vast majority of the value added came from other countries. This Post piece cites a study showing that the trade deficit with China would be reduced by 40 percent if we subtracted the value of all intermediate goods produced in third countries. (An honest assessment would also add in the intermediate goods manufactured in China that come to the U.S. in imports from the Japan, the European Union, and elsewhere.)

This argument about an overstatement of the China trade deficit was frequently used to argue that people were wrong to be concerned about the bilateral trade deficit. Remarkably, now that Trump has embarked on his trade war with China, the media are telling us that China's exports to the U.S. actually were a huge deal for its economy.

The NYT ran the strongest piece in this vein, telling readers that the trade war truce "could enshrine a global economic shift." The homepage lead said that it could "unseat China as the world's factory floor."

For fans of logic and arithmetic, we can't both have China's trade deficit with the U.S. being no big deal and also a scenario where reducing the deficit unseats China as the world's factory floor. To see what the actual story might be, a little data is helpful.

The U.S. trade deficit with China peaked at $420 billion in 2018. China's GDP measured in dollar terms is $14.2 trillion this year. (Measured at purchasing power parity it's $27.3 trillion. For this question, it is appropriate to use the exchange rate measure.)

If we use the great wisdom from the Washington Post piece and say that our trade deficit with China is just 60 percent of the official figure, then it came to $252 billion in 2018. If we assume an extreme effect of the trade war and the deficit falls by 50 percent (that's way more than the impact seen to date), China would see a reduction in its trade surplus with the U.S. of $126 billion. That's just under 0.9 percent of its GDP. It's a bit hard to believe a loss of net exports equal to 0.9 percent of China's GDP of 0.9 percent of GDP will fundamentally alter its position in the global economy.

Even if we use the official data the loss would be $210 billion or just under 1.5 percent of GDP. It's still hard to imagine that fundamentally changing China's economy, and this is assuming an impact of the trade war that is absurdly high.

Anyhow, the moral of this story is that our top media outlets are perfectly willing to play with the data to tell a story. They don't care if their story directly contradicts other stories they tell. They just assume that no one will notice.

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