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News Analysis: U.S. trade deficit not to fall as economy continues to grow

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NEW YORK, Oct. 23 (Xinhua) -- Trade deficit of the United States is expected to expand further with a 17-percent rise in 2018 fiscal deficit and additional trade tariffs on major trading partners, according to U.S. economists and trade experts.

The U.S. deficit in international trade of goods and services in August and July hit new highs a few months after the imposition of tariffs on large quantities of imports amid an ostensible claim to cut down trade deficit and wishful strategy to bring back manufacturing.

ROOT CAUSE

The fundamental cause of trade deficit is the imbalance between a country's savings and investments, said Sinem Sonmez, professor with the Department of Economics and Finance at Baruch College, City University of New York.

"The U.S. spends more than it makes and so the additional spending has to go to foreign goods and services and so if you look at that increasing spending you have to either borrow from foreign lenders or extract foreign investment into your country," Sonmez said.

U.S. trade deficit will worsen in the near term because of the decline in savings rate caused by tax cuts, said Barry Eichengreen, professor of economics and political science with the University of California, Berkeley on the sidelines of a recent seminar -- "The Economic Consequences of Mr. Trump".

The deficit will certainly increase because the United States is experiencing an economic boom and all of the tax cuts, fiscal stimulus and rollback of regulations are helping economy to grow faster. Companies will have to obtain a lot of their inputs, capital and equipment from China or other producers in the Asia-Pacific region, Sonmez told Xinhua.

"The trade deficit is definitely not going to decrease as long as the U.S. economy continues to grow," she said.

"I think the deficit will persist. I don't think that deficits particularly of the size that we have with China can be changed very quickly again," said Henry Levine, senior advisor of Albright Stonebridge Group.

The U.S. trade deficit with the rest of the world is set to grow by 5 to 6 percent this year, said a recent report by Kiplinger, a publisher of business forecasts and personal finance advice.

U.S. official data showed an increase of 31 billion U.S. dollars in trade deficit in the first eight months of 2018, or 8.6 percent up from a year earlier.

Simon Lester, associated director with the Herbert A. Stiefel Center for Trade Policy Studies under the Cato Institute, attributed the deficit to "the low savings rate both personal and governmental in the United States."

"The American government spends a lot of money and in addition to that there is the use of the dollar as the kind of worldwide reserve currency and it's a combination of these things that have led the U.S. government to run trade deficits for over 40 years," Lester said.

NOT A WORRY

On the U.S. trade deficit with China, "I think the vast majority of economists would agree that bilateral (U.S.-China) trade deficit is not a serious concern or serious issue," Levine said in a recent interview with Xinhua.

"I don't think reducing the deficit should be a particular focus of U.S. or Chinese policy ... The right way to deal with the trade deficit is to ignore it," Levine added.

"You should worry just more generally about how your economy is doing and adopt policies that are good for overall economic growth," he said.

The trade deficit reflects a fact that Americans want to buy a lot of inexpensive good-quality products from China, a consumer behavior to save more money and raise living standards, according to Levine, who once served as Deputy Assistant Secretary of Commerce for Asia and the U.S. Consul General in Shanghai.

"The trade doesn't seem to be a link between a higher grade trade deficit and a weak economy or fewer jobs. I worry more about the federal budget deficit and the bequeathal levels of debt," he said.

"I would say our focus should be on our fiscal deficit and if we could get our government spending under control and encourage more responsible behavior among people and how much they spend and how much they consume that might have an impact on the trade deficit," the expert added.

TARIFFS MISUSED

Tariffs are not believed to bring back manufacturing jobs to the United States or to narrow trade deficit, according to experts.

"If the U.S. economy were to go into a deep recession the trade deficit with China would shrink because American consumption would decrease. But ... they (Americans) would be worse off. So looking at the deficit as a measure of success or the strength of the U.S. economy is very mistaken," said Levine.

"I don't see that the tariffs are going to have a major impact on rejuvenating U.S. manufacturing," he said.

"To the extent that production moves back to the U.S., it's likely to be highly technology-intensive use of robots and other types of technologies," unlikely a boost to more jobs, he added.

In the opinion of Lester, of trade policy studies under the Cato Institute, the U.S. policies' focus should be more on training people for the skills of the 21st century as well as on advanced sectors that require strong education and innovation.

TARIFFS MAY BACKFIRE

The trade deficit has to be financed. "If it weren't for Chinese investors buying the U.S. treasuries then the U.S. will not be able to sustain this high level of trade deficit," she said.

Correcting the trade deficit so quickly and imposing such harsh measures and terms on China is probably the wrong approach in going about things, said Sonmez.

"My only worry right now is that the slowdown in economic growth in China may actually come back to haunt us ... because they could pull down global economic growth," she noted.

"We can afford to use more time in resolving these trade tension. I think that there's no reason why we need to impose certain deadlines on China," said Sonmez.

Lester urged the United States to sit down with trading partners to negotiate away protectionist and regulatory barriers and reach deals to liberalize trade in both directions.

"If your government imposes tariffs, the costs are mainly going to be paid by consumers," he added.

"This is the largest intervention in micro management by the U.S. government on U.S. economy since (ex-President Richard) Nixon's wage and price controls. They are literally dictating where people can buy things which is really strange for every Republican administration," commented Gary Horlick, former international trade counsel with U.S. Senate finance committee and former head of import administration at the U.S. Department of Commerce.