How to Build a More Balanced and Sustainable U.S.-China Trade Relationship

Carl H. Tong, Radford University
Lee-Ing Tong, National Chiao Tung University (Taiwan)

EXECUTIVE SUMMARY

The trade relationship between the United States and China has expanded substantially during the past three decades. The total bilateral goods trade rose to about $457 billion in 2010, with the U.S. running a large and still growing trade deficit with China. This article reports on the differences between the American economy and the Chinese economy, discusses the key U.S.-China commercial issues, and offers pragmatic recommendations to help build a more balanced and sustainable U.S.-China trade relationship.

Keywords: U.S.-China trade relationship, American economy vs. Chinese economy, China’s trade protectionism, intellectual property piracy in China, Chinese currency’s managed exchange rate against the U.S. dollar

INTRODUCTION

The United States’ ranking fell from No. 2 to No. 4 in the 2010-2011 Global Competitiveness Report, an annual publication from the World Economic Forum (Schwab, 2010). There are many signs (e.g., massive trade deficits, eroding manufacturing sector, high unemployment rate, continuing decline in home values, expensive healthcare, and rapidly rising federal debt) indicating that the U.S. economy faces serious challenges and needs major reforms.

The U.S. had a total trade surplus (including both goods and services) every year during the 1960-1975 period except 1971, 1972, and 1974. Since 1976, the U.S. has had a total trade deficit per annum. The U.S. total trade deficit in 2010 was $497.8 billion, up from $374.9 billion in 2009. It is important to note that America’s current trade-deficit predicament is a goods-trade, not a services-trade, problem. In fact, while the annual U.S. goods-trade deficit grew about 45 percent between 2000 and 2010, the nation has maintained a yearly surplus in services trade since 1971 (U.S. Census Bureau, 2011a).

America’s goods-trade deficit with China reached a record high of $273 billion in 2010 (U.S. Census Bureau, 2011b). This is more than 42 percent of the 2010 total U.S. goods-trade deficit (U.S. Census Bureau, 2011a). The objectives of this article are threefold: (1) to provide a comparison of economic facts, systems, policies, and trends between the U.S. and China; (2) to discuss the major U.S.-China trade issues; and (3) to offer actionable recommendations to help build a more balanced and sustainable U.S.-China trade relationship.

AMERICAN ECONOMY VS. CHINESE ECONOMY

The U.S. and China have the world’s two largest economies today. While the U.S. has been a global economic titan for several decades, China’s emergence as an economic powerhouse is a relatively recent phenomenon. China’s economic success is particularly surprising considering its disastrous economic collapse from 1966 to 1976 (due to Chinese leader Mao Zedong’s Cultural Revolution), huge population (more than four times the U.S. population), and dazzling speed of economic development.