Record US deficit in traded goods

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US President Donald Trump has made a reduction of the trade deficit a cornerstone of his economic policies, insisting it drains wealth from the American economy and results from concessions made to rivals by previous administrations.

But data released by the Commerce Department yesterday show that the deficit in traded goods hit an all-time high of $891.3 billion last year, an increase of 10 percent. After tourism, education and banking were taken into account, it was still $621 billion, the highest level in ten years.

The deficit with China, the major target of Trump's trade war measures, reached a new record, as did the deficit with Mexico. The goods deficit with China widened by $44 billion last year to reach $419 billion, almost half the total.

Overall, US imports rose by 7.5 percent last year, driven by increased spending on consumer goods, industrial supplies and capital goods. Exports rose as well, but only by 6.3 percent, leading to a wider trade gap.

It appears that the expansion of the trade gap is accelerating. It increased by 18.8 percent in December to almost $60 billion, larger than economists' predictions, as exports fell by 1.9 percent and imports increased by 2.1 percent.

One of the main impacts on the US of the Trump trade war measures against China is in the area of agriculture. As a result of retaliatory measures imposed by Beijing, China's purchases of American soybeans, wheat and sorghum fell by almost $10 billion last year.

The *Wall Street Journal* (WSJ) reported that, as a result of a fall in prices, due to China shifting its source of supplies, US producers had held on to their product in the hope of a better price. But they had now been forced to sell at a loss. The WSJ cited one farmer who said there were "a lot of farms that are going bankrupt now."

Overall, the increased deficit is an expression of the inherent contradictions of Trump's "America First" trade agenda, within the framework of a globalised economy.

Trump has sought to boost the American economy, pledging to lift its growth rate to more than 3 percent, compared to the 2 percent achieved during the Obama administration. But increased US growth means that the American economy sucks in more imports from the rest of the world, leading to an ever-wider trade deficit.

One of the key factors in this process over the past year has been the administration's tax cut policy. To the extent that it provided a boost to the economy, it led to increased demand for consumer goods—many of them imported—and increased demand from businesses.

This took place at the same time as growth in the rest of the world in 2018 slowed markedly, which led to an increase in the US trade gap.

As Barclay's economist Pooja Sriram Sriram told the WSJ: "Higher take-home incomes for households have definitely proven to be very conducive to imports. The outcome has been in almost the opposite direction of what the administration has wanted."

Another factor was the decision by the US Federal Reserve to increase interest rates four times in 2018. This tended to push up the value of the American dollar in the second half of the year, cheapening imports and pushing up the price of American exports.

Caught up in the contradictions of his own policies, Trump lashed out at the Federal Reserve in a speech directed to his electoral base at the Conservative Political Action Conference last weekend, saying the American economy was doing well, despite the Fed.

"I want a strong dollar but I want a dollar that does great for our country, not a dollar that's so strong that it makes it prohibitive for us to do business with other nations and take their business," he said.

Without directly naming Fed chairman Jerome

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Powell, he said there was a "gentleman at the Fed" that liked a "very strong dollar."

Trump views trade as a zero-sum game, in which the US benefits if other countries lose. But this creates further contradictions, which found expression in his remarks to the CPAC.

The US, he said, was "booming like never before," while other countries were "doing very poorly and that makes it even harder for us to be successful."

However, the obvious economic irrationalities of the administration's nationalist trade agenda are not going to reverse the situation. Rather, they are more likely to result in a doubling down, with increased pressure being brought to bear on US rivals.

China is not the only target; the administration has also placed the European Union firmly in its sights.

Last July, Trump secured an agreement from European Commission President Jean-Claude Juncker for negotiations on a trade deal. It was obtained under the threat that the US would impose tariffs on autos and auto parts that would significantly hit Germany.

From the outset, the European side made clear that, so far as they were concerned, agriculture and increased access to EU markets for US products were not on the agenda.

The US has insisted, however, that agriculture be included, even if it were not part of the Trump-Juncker agreement.

Last week, the director of Trump's National Economic Council, Larry Kudlow, said: "We were aware of that issue from Day 1." But he insisted that the US had always assumed agriculture would be included in any deal, saying: "You're not going to have a far-reaching EU trade deal without agriculture."

Last month, Trump again raised the threat of auto tariffs. "We're trying to make a deal," he said. "They're very tough to make a deal with, the EU. If we don't make a deal, we'll do the tariffs."

In a worsening situation for US farmers—partly as a result of Trump's own policies—pressure on the EU to have agricultural products included is likely be intensified, with the threat that if they are not, auto tariffs will be invoked.

On the China front, reports continue to be published that Trump is pushing for a deal, in order to be able to announce victory and boost his 2020 campaign for the US presidency. Bloomberg has reported that Trump is fixated on the performance of the stock market.

While the announcement of an agreement, the agency declared, would not provide a major boost, largely because a favourable outcome had been "priced into" the markets already, resulting from administration comments about the progress of the negotiations, that "failure risks roiling stocks."

But any deal that fails to meet the demands of the anti-China hawks, key sections of which are in the Democratic Party, will create significant opposition, including from media outlets that have backed Trump.

On Tuesday, Senate Democrat leader Charles Schumer warned Trump not to settle for a weak deal.

"But now, when you're getting close to victory, to relent at the eleventh hour, without achieving meaningful, enforceable and verifiable structural reform to China's trade policies, would be an abject failure of the president's China policies and people will shrug their shoulders and say what the heck did he begin this for if he won't complete it."

The essential content of what is meant by the "completion" of "verifiable structural reform" was revealed by one of the leading anti-China hawks on the Republican side, Florida Senator Marco Rubio.

In a report issued last month, entitled "Made in China 2025 and the Future of American Industry," he wrote:

"A common defence of expanded trade with China is that the US would maintain or increase its position on the high end of the value chain, while China would supply the US with lower-value inputs. This has not happened for the US economy as whole. In important areas, China has moved up the value chain, relative to the US."

In other words, what is necessary is nothing less than a policy aimed at preventing China's economic and technological advance, and imposing semi-colonial status upon it.

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