ISSUE BRIEF
ECONOMIC POLICY INSTITUTE | ISSUE BRIEF #283 SEPTEMBER 20, 2010

# RISING CHINA TRADE DEFICIT WILL COST ONE-HALF MILLION U.S. JOBS IN 2010

BY ROBERT E. SCOTT

Recent Census Bureau reports show that the U.S. trade deficit with China through July 2010 has increased 18% over the same period last year. Growing China trade deficits will displace between 512,000 and 566,000 U.S. jobs in 2010, as shown in **Table 1**. These deficits have contributed to the weak performance of the U.S. job market this year, and they could push the United States back into recession if the labor market weakens in the future.

China's growing trade surplus with the United States and the rest of the world has been fueled by massive, illegal currency manipulation, subsidies, and other unfair trade practices (Scott 2010). The best estimates show that the Chinese Renminbi (RMB) is undervalued by at least 35% to 40%, which makes U.S. goods at least 35% more expensive for Chinese purchasers and makes Chinese goods artificially cheap in the United States and around the world. As a result, U.S. imports from China have soared and U.S. exports to China *and the rest of the world* have been suppressed.

The vast bulk of all Chinese exports are manufactured products. Since China entered the World Trade Organization (WTO) in 2001, the United States has lost 5.5 million manufacturing jobs and more than 26,000 (net) manufacturing plants. Between 2001 and 2008 alone, growing trade deficits with China displaced 2.4 million U.S. jobs, and 60% of those jobs were lost in the manufacturing sector (Scott 2010).

U.S. trade deficits with China and the rest of the world shrank rapidly in 2009 as a result of the great recession, but the trade deficit with China and the world is growing rapidly again in 2010. Two methods are used here to project the full-year U.S. trade deficit with China, and to project the effects of that deficit on U.S. employment. The trade deficit with China increased 18% year-to-date through July, as shown in Table 1. If the deficit continues to grow at this rate, it will reach $267 billion in 2010 (estimate 1, shown in the top half of Table 1), a $40 billion increase over the 2009 annual deficit.

U.S. exports to China are growing rapidly (36%) in 2010. Although imports are growing more slowly than exports (22%), total imports from China exceeded exports by more than 4-to-1 in 2009. Thus, the growth of imports from China has more than offset export growth in 2010, leading to an expanding trade deficit. If imports and exports continue to grow at the rates established in the year-to-date, the trade deficit will still reach $267 billion in 2010 (estimate 2, top half of Table 1), which is identical to estimate 1. However, the two estimates yield slightly different estimates of jobs displaced, for reasons discussed below.

**TABLE 1**

**U.S. China trade and job displacement, year-to-date, July 2010**

*U.S. trade with China ($billions, nominal)*

| | Trade balance | Exports | Imports |
|---|---|---|---|
| **Annual 2009** | $-227 | $69 | $296 |
| *Year-to-date 2010* | -145 | 49 | 194 |
| *Year-to-date 2009* | -123 | 36 | 159 |
| *Growth rate* | 18% | 36% | 22% |
| **Full-year estimates:** | | | |
| *Estimate 1--based on growth in trade balance* | $-267 | | |
| *Estimate 2--based on growth in imports and exports* | -267 | $95 | $361 |
| **Projected change in trade balance, 2010** | -40 | | |
| | | | |
| **U.S. trade-related jobs supported and displaced (thousands of jobs)*** | | | |
| **Estimate 2** | | | |
| *2009* | -2,940 | 537 | 3,477 |
| *2010* | -3,506 | 731 | 4,238 |
| | | | |
| **Jobs lost in 2010** | | | |
| *Estimate 1* | 512 | | |
| *Estimate 2* | 566 | | |

* Based on average employment multipliers from Scott (2010).

**SOURCE:** U.S. Census Bureau and Economic Policy Institute.

## Trade deficits and job loss

While it is true that exports support jobs in the United States, it is equally true that imports displace them. The net effect of trade flows on employment is determined by changes in the *trade balance*. The labor content of trade is estimated here using average multipliers from Scott (2010).[1] These estimates apply only to the growth of trade between 2009 and 2010. They cannot be added to the job losses due to China trade for earlier periods. Nonetheless, they are an accurate reflection of the impacts of China trade on U.S. employment and the economy in 2010.

*Two estimates.* Two approaches are used to estimate the employment impacts of U.S.-China trade in 2010. The first is based on the *average* employment multiplier for the trade balance. This assumes that the trade balance for 2010 will continue to grow at the rate established in the year-to-date, as noted above. Estimate 1 shows that the $40 billion increase in the U.S. trade deficit will displace 512,000 jobs in 2010, based on the average employment multiplier for the trade balance.

Estimate 2 is based on the growth in imports and exports, and on average import and export job multipliers. U.S. imports from China tend to be much more labor intensive than U.S. exports to China. Since imports are projected to grow more rapidly than exports, this method yields a slightly larger estimate of jobs displaced due to growing trade deficits. Using import and export jobs multipliers (estimate 2) shows that 2.9 million jobs were displaced by the China trade deficit in 2009, and 3.5 million will be displaced in 2010, for a net increase of 566,000 jobs displaced.

Table 1 also shows that the growth in U.S. exports to China will support 195,000 more jobs in 2010, but these gains will be more than offset by 761,000 jobs lost due to growing imports from China. These data reflect the underlying, unbalanced dynamic of U.S.-China trade—export growth will support a few hundred thousand jobs in 2010, but the growth of imports will displace four times that number; more than three-quarters of a million jobs are likely to be displaced by rising imports this year.

Currency manipulation, illegal subsidies, and other unfair trade practices have cost the United States and other countries millions of jobs. Rising trade deficits with China will cost one-half million badly needed U.S. jobs in 2010 alone. Ending currency manipulation would be good for the economies of both countries—it would reduce inflationary pressure in China and increase the real incomes of Chinese workers. And it would help rebuild demand for U.S. manufactured goods. Currency realignment can create more than 1 million U.S. jobs, at no cost to the Treasury. It can also stimulate U.S. GDP growth and reduce the U.S. budget deficit by up to $500 billion over the next six years.[2] Congress should get tough with China and other currency manipulators who have refused to make the major revaluations needed to rebalance global trade flows. They are unlikely to change their ways unless threatened with substantial import tariffs. It is time for Congress to act and force the hands of the administration and Chinese currency manipulators.

*EPI is a non-profit think tank that receives the majority of its funding from foundation grants but also receives support from U.S. labor unions and industrial associations.*

## Endnotes

1. These employment multipliers are derived from Scott (2010), Table 1, and are based on the relationships between trade and employment in 2008. For example, the multiplier for changes in the trade balance was obtained by dividing net jobs displaced by trade by the trade balance in 2008; the same technique was used to estimate average import and export employment multipliers for China trade.

2. Paul Krugman (2009) has estimated that in the 2010-14 period, China's global current account surplus will have "a negative impact on gross world product of around 1.4%," and that the United States bears a proportionate share (Krugman 2009). We interpret "around 1.4%" by assuming that the actual impact falls in the range of 1.0 to 1.5% of gross domestic product (GDP). At current rates of output (second quarter 2010), that translates into an increase of $145 to $220 billion in GDP if China's excessive current account surplus were eliminated.

   Based on CBO estimates of the relationship between the GDP and the federal budget deficit, a 1 percentage-point increase in GDP would lead to a 0.375 percentage-point reduction in the federal deficit. This offset comes mostly from revenues, but also from reduced (federal) safety net spending. It does not include any increase in state or local tax revenue.

   Based on these estimates, a 1 to 1.5 percentage-point increase in GDP would generate a $55 to $82 billion reduction in the federal budget deficit in one year. Assuming that Chinese mercantilism is eliminated for six years would reduce the federal deficit by $330 to $492 billion, or in round numbers, "up to $500 billion."

## References

Krugman, Paul. 2009. Macroeconomic effects of Chinese mercantilism. *The New York Times*. December 31. http://krugman.blogs.nytimes.com/2009/12/31/macroeconomic-effects-of-chinese-mercantilism/

Scott, Robert E. 2010. "Unfair China Trade Costs Local Jobs." Economic Policy Institute Briefing Paper #260. Washington, D.C.: EPI. March 23.