

## The Largest Trade Deficit in the History of the World



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**January 23, 2012** – Around the middle of next month, after all the data is in and counted, the United States Census Bureau will announce our 2011 trade deficit with China, and it will be the largest trade deficit any country has ever had with another country in the history of the world. I guess it's good to be number one in something! Based on current annualized data -- we already have the numbers through November -- it will total \$297 billion. This is an amazing number, far larger than the gross domestic product of most U.S. states. By way of example, the gross domestic product of Indiana in 2010 was \$245 billion, the gross domestic product of Connecticut was \$211 billion, and the GDP of Nebraska was \$80 billion. It's as if we've taken the economic activity of a few of our states and turned it over to China.

Almost all of this trade deficit is in manufactured goods, and it is getting worse every year. It is not just commodity items like steel or paper (though these products are critical to our economy in themselves), or what might be considered low-end products like textiles and toys. It is also high technology products. In fact, the high-tech trade deficit with China for 2011 will be about \$109 billion, another all-time record. This is for products like information and communications equipment, opto-electronics, weapons, and advanced materials.

The trade deficit is terrible and has a devastating effect throughout our economy, and the accompanying employment effects are even worse. The National Science Board reported last week that we have lost 28% of our high-tech manufacturing jobs during the last decade. Overall, manufacturing employment has dropped about 33% during the same period.

Along with the trade deficit comes striking symbolic losses such as the fact that the Martin Luther King statue on the Washington Mall was made in China, the glass in the rebuilt World Trade Center in New York will come from China and the steel will come from Germany, and the much exalted iPad -- most desired Christmas gift of 2011 -- is made in China.

Why is this happening? There are a large number of reasons that are coming together in a very bad mix for the U.S., but three are the most important: (1) Many other countries in the world have a sustained and pre-meditated plan to grab part of our manufacturing base and lure it to their countries. For example, they provide enormous subsidies to manufacturers to locate there, and many companies have had no choice but to accept the free cash; (2) The U.S. has no sustained response. We do not have a manufacturing policy or a manufacturing strategy. We hope the market and American innovation will solve all the problems, but they won't, and that's been evident for many years now; and (3) We enable China to pursue a mercantilist, protectionist policy of currency manipulation, which has the effect of making their goods very cheap in the United States and every third country market, and our goods so expensive they won't sell.

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It is because of these governmental policies -- their aggressive ones and our failures -- that we are losing out to China and other countries on manufacturing. It is not because of low wages or lower costs abroad. In fact, a number of recent studies have shown that cost of production differences between the U.S. and other countries are beginning to equalize and even reverse.

Happily some changes in our manufacturing policies are beginning to occur, being driven by the upcoming elections. President Obama has created a task force on China that will examine and presumably act on Chinese unfair trade practices, and he has also proposed a full-scale reorganization of the U.S. agencies charged with trade enforcement and negotiation. Much of this appears to be in response to high-profile trade and manufacturing positions taken by the Republicans, specifically candidates Mitt Romney and Rick Santorum. Romney has boldly pledged that if he is elected he will act against Chinese currency manipulation on the first day of his term in office, and Santorum has proposed broad-scale tax benefits for manufacturers that stay in the U.S.

All these moves are promising but they are not enough. The failure of our manufacturing sector, resulting from the failure of our manufacturing policies, needs to be one of the main focuses of the upcoming presidential election. There are few problems as serious for the future of our country. To that end, the Committee to Support U.S. Trade Laws, of which I am President, and other like-minded organizations will hold a major conference on March 27th at the National Press Club in Washington. The conference, entitled "The Second Annual Conference on the Renaissance of American Manufacturing -- Jobs, Trade and the Presidential Election," is also sponsored by The Economic Strategy Institute, The U.S. Economy/Smart Globalization Initiative at The New America Foundation, The Alliance for American Manufacturing, The United States Business and Industry Council, and The Kearny Alliance, among others. We plan to have speakers from all the Presidential Campaigns, as well as CEOs from U.S. manufacturers still hanging on, and trade, policy and legal experts on the issues. Our goal is to further highlight the manufacturing issue in the upcoming election, and move things forward to a solution America can be proud of.