https://www.wsj.com/articles/u-s-trade-deficit-narrowed-in-december-as-exports-outpaced-imports-11612532757

ECONOMY

U.S. Trade Balance With China Improves, but Sources of Tension Linger

Exports of goods to China rose 17.1% last year, as Biden looks to reframe economic relations

Cargo ships and tankers moored last month near the Port of Long Beach, a busy gateway for imports in California.

PHOTO: BING GUAN/BLOOMBERG NEWS

By Yuka Hayashi
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WASHINGTON—The U.S. trade balance with China improved last year, but friction is likely to persist, posing a test for President Biden as he seeks to reframe economic relations with the world's No. 2 economy.

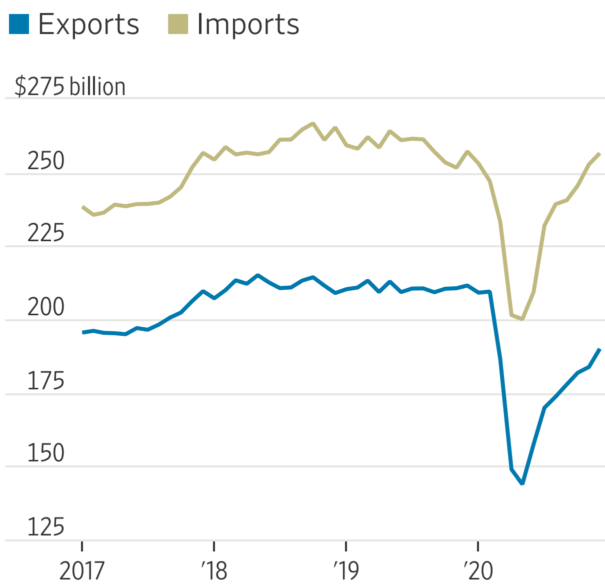
The deficit in trade in goods shrank by 10% to $310.8 billion last year, following an 18% drop in 2019 from a record high of $418.95 billion in 2018, according to Commerce Department data released on Friday. But China still accounts about a third of the total deficit in goods.

“Even though the deficit has declined, it is still quite large,” said Eswar Prasad, professor of trade policy at Cornell University. “The Biden administration’s clear indication that it intends to maintain a tough approach to China suggests that there is going to be no easing of tensions.”

Exports Lag

Exports of goods and services, up 3.4% in December, remain below pre-pandemic levels.

U.S. monthly trade in goods and services



Note: Seasonally adjusted
Source: Census Bureau

Biden administration officials have said they are conducting a review of former President Donald Trump’s trade policies. The administration hasn’t said whether it plans to enforce and look to expand a bilateral trade agreement signed with Beijing a year ago. The so-called Phase One trade agreement signed under Mr. Trump forced China to boost imports of certain U.S. goods but left tariffs on about $370 billion worth of imported Chinese products.

In his foreign policy speech on Thursday, Mr. Biden called China “our most serious competitor” while expressing readiness to work with Beijing “when it’s in America’s interest to do so.”

“We’ll confront China’s economic abuses; counter its aggressive, coercive action; to push back on China’s attack on human rights, intellectual property, and global governance,” he said.

Experts say the Biden administration will likely try to address trade issues with China as part of a broader discussion to improve the bilateral relationship. “The question is can the Biden administration move the conversation on China away from superficial metrics like trade deficit to more substantive meaningful metrics around jobs, innovation, supply chain resilience, and national security,” said Scott Kennedy, a senior adviser at the Center for Strategic and International Studies.

For all of 2020, the U.S. trade deficit in goods and services widened by 17.7% to

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$678.7 billion, Friday's report showed, amid a pandemic-induced slowdown in global commerce. It was the biggest deficit level since the aftermath of the financial crisis in 2008. The U.S. generally runs a surplus in services, offsetting some of the deficit in goods.

Against that backdrop, China was among the few bright spots for the U.S.

Exports of goods to China rose 17.1% to $124.6 billion last year, while imports fell 3.6% to $435.4 billion. The increase in shipments to China was led by products such as soybeans, crude oil, cotton and corn—all covered by the purchase agreements under the so-called Phase One trade pact implemented a year ago under Mr. Trump.

Even so, China fell well short of its goal to increase purchases of U.S. agricultural, manufacturing and energy products under the bilateral agreement.

According to the Peterson Institute for International Economics, China's purchase of U.S. goods under the Phase One commitment came to $93.7 billion in 2020, well below its $159 billion commitment. Chinese officials have blamed the shortfall on the slowdown in shipments due to the pandemic.

While imports from China fell in 2020, purchases from other Asian nations —including Vietnam and Thailand—rose as some U.S. companies shifted production out of China to avoid tariffs.

—Anthony DeBarros contributed to this article.

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