THE GAP: UNDERSTANDING THE US-CHINA TRADE DEFICIT
THE DEFICIT

Increased from 10 billion in 1990 to 273 billion in 2010

China composed 19.1% of all foreign imports in 2010

Surged dramatically since the 2000’s

What is the source of this massive deficit?
Chinese National Savings and Consumption

Close to 55% of GDP in mid 2000’s

Unique in that it is high in all three sectors: personal, corporate, and government savings

Corresponds to low consumption, declined from 47% of GDP to 36% in past 10 years.
CASE STUDY

- 3 recent changes to China’s economic landscape:
  - Increase in costs of healthcare, education and housing
  - Cutback in government employment
  - 1997 Pension reforms
INCREASE IN COSTS OF HEALTHCARE, EDUCATION, AND HOUSING

- Privatizing of healthcare, government investment dropped from 38.6% to 18%, personal expenditures up from 20.4% in 1978 to 52.2% in 2005

- Post secondary schooling is expensive, about 1/3 of family income

- Housing prices are increasing
CUTBACK IN GOVERNMENT EMPLOYMENT

Late 1980’s, managers granted more hiring and firing powers

1995-2005, 10 million jobs lost

28% of last year’s college graduates failed to find work

64 applicants for each government job
PENSION REFORM

- Government responsibility reduced, passed on to employers and individuals
- Badly funded, fractured
- Example: employee of 30 years would receive only 9% of average pay in pension
- Around 40 million Chinese retirees are victims of this reform
China is in the midst of economic change
Economic future uncertain for Chinese households
Massive incentives to save rather than spend
Are these changes good? Will they correct themselves?
Thank you!

THE END