



>: China, Trade Deficits and You

Friday, April 14, 2006 / Dylan Jovine

Teeka brought up some good points. The US is not in a position to pay off its debt. It is not going to default on its debt. It is going to be forced to deal with a huge debt, which has to be paid, and presently there is no effort by our politicians to repay or reduce this burden.

Paul D. has this to say: **From the bank, I know that this is not the following: Also, when we lose manufacturing, which we are doing, we lose much valuable research that manufacturers maintain. We must reduce our debt, give the politicians less to spend and improve our exports (Low dollar, at least temporarily)."**

Our budget deficit of about 500 billion dollars equals our military budget. China is ringed with military bases in South Korea, Japan, Philippines, Okinawa, and now since 911, right on China's border in (I think Kyrgistan) and other former Central Asian Soviet Republics like Uzbekistan, Tadzikistan, etc.

China is in US military crosshairs. And it is financing this. At what point will China say, "you know, we really don't appreciate your threats, your bombing of our embassy in Yugoslavia, your intrusions on our airspace, your wars based on lies in Iraq (and now war on Iran which would severely disrupt oil China needs) ."

I agree, Paul, deficits are not good. But remember what this country is good at: creating "client" states. To create a good long-term client state, we have to initially finance their development. This is done through trade. One could argue that this way they become good, long-term partners of ours. -- Dylan

Eric A. had this to say: The financial establishment thinks like that guy above, who actually refuses to even think at all. Manages money for women and orphans and refuses to think about our bullying and profligacy.

Dylan, Teeka is saying that China is so addicted to US trade that it will dig its own grave militarily, by financing ours. He thinks so. The financial establishment thinks so. Certainly the military industrial complex thinks so. I don't.

Eric, you always provide some of my favorite feedback. But Teeka has a point - if China stopped buying our dollar-denominated assets, interest rates would rise. That would cool spending tremendously. Nobody is quite ready for that.

The problem comes on the spending side. You always hear that our country has a low "savings rate." That's because we spend too much buying things from countries like China.

This is a huge problem because if we don't save, we won't have money to invest in our future.

Think of it this way. Let's say that your family never has money in the bank because you spend like crazy. One day the roof sprouts a leak. You have to borrow money to fix it. And on another day you need to fix your car. Once again, you have to borrow money.

After ten years you've borrowed a ton of money and still have little savings. But now your children need to go to school. Of course, you cannot afford it.

Since our children are our future, where does that leave the country, on aggregate? Not in a good place. ("Children" are an analogy for education, health care, roads, bridges, etc etc). -Dylan

Mack A. also had a few questions that I want to answer one at a time:

Actually, Mack, the lower interest rates from the bond buyers is a good, old fashioned supply and demand issue. Look no further than the recent inverted yield curve: the Fed was trying to raise rates at the short end of the curve, but bond buyers kept buying at the long end of the curve.

The key to the trade game is your foreign currency reserves. Governments aren't in the business of stock speculation ? they're in the business of getting the best returns for extremely large pools of money. If they started buying our stocks, the market would be at 20,000. But who would they sell them to? U.S equities are far too small a market for a big country to park its money in.

It doesn't necessarily keep their currency low. What it does is keep our interest rates low. That keeps our spending high, which means that we're buying lots of their products.

The government pretty much says that if you want to buy goods from us, you have to pay us a certain amount in relation to every dollar you spend.

Many people believe that their currency is undervalued. In other words, people believe China should be getting less dollars for every product we sell. If you believe that, then China's desire to maintain an artificially low currency has one main rationale: to get the most dollars for the least yuan.

Trade restrictions being discussed would add a "tax" to Chinese imports. This would slow down our purchasing of their goods. That would give them less money to use to buy our

Ask away Mack, it's what we're here for. -- Dylan