Recommended Read: Trade Wars are Class Wars *by Matthew C Klein and Michael Pettis*

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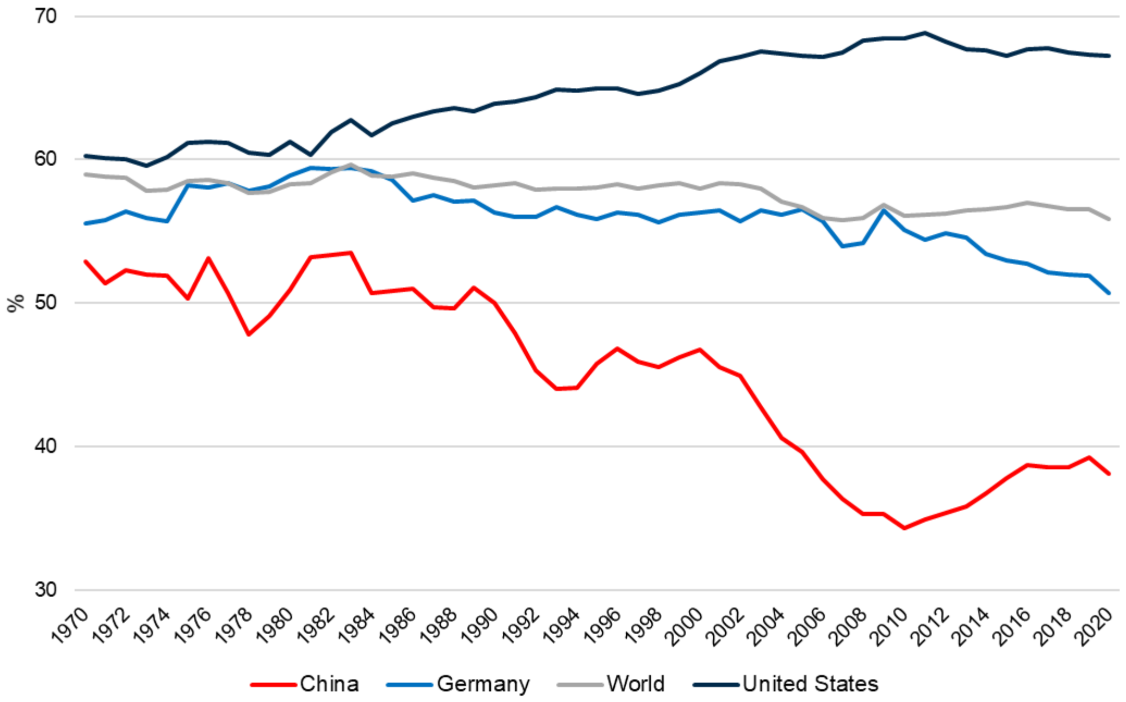
Which is better a trade surplus or a trade deficit?

The short answer is neither. The conventional view is that trade surpluses are good and a desired outcome. This book argues that you should rather view persistent deficits or surpluses as a function of a countries trade policies and not because a country has a more productive workforce. They go on to link trade policies enacted by countries wishing to chase export growth with the cost of those policies hurting the domestic worker. Hence the title for the book. An easy example would be a country giving tax incentives to a certain export sector. It might boost those exports but to pay for those tax incentives the county raises taxes on the household sector. Most countries have seen falling tax rates for corporates and rising taxes for individuals. However China's tax rate is still at 25% while Germany's tax rate is much lower at 15%.

China for example, produces many consumer goods at a cheaper cost than other countries can and so its share of global exports have risen. But this export competitiveness comes about from low wages, scant regard for environmental pollution and state subsidies. Europe and the US have manged to reduce CO2 emissions, but China's have skyrocketed from 3.44 billion t in 2000 to 10.67 billion t in 2020.

If a country is really successful, imports and exports should be rising but because China chases export growth at the expense of the household sector its import demand is quite muted. The story of the last 2 years has been how poor the Chinese consumer demand has been. Chinese trade policies have effectively reduced the purchasing power of their citizens. One way to plot this is to look at HCE as a % of GDP. This is why for all of China's economic GDP success, GDP/ capita is just above Bulgaria. *

Figure 1: Chinese household consumption's share of GDP is one of the lowest in the world



Source: World bank

Too few countries ask the question how can we boost domestic demand? The answer to that question is countries need to increase disposable income, wealth per capita, provide protection of property rights and lastly provide policies that are stable, consistent and transparent. Of course China is doing none of that, because like most politicians, cutting the ribbon on the opening of a new bridge looks good on TV.

Look at the mess in SA regarding poultry import duty and scrap steel. Import duties on clothes in South Africa are 40%. That cost is paid by all households in South Africa. Every new year means many poor South African households have to pay out this extra cost.

So the world is now one where household demand is very anaemic with the exception of the USA. So most countries seeing this feel they must enact policies to chase this diminishing demand but collectively end up shrinking global demand. Notwithstanding the current supply issues post recovery from Covid in general there is too much global capacity for supply and too little household demand.

Of course countries policies are sometimes so entrenched that they just remain features of that economy regardless of circumstances. So China continues to provide more debt to the corporate sector and other supply measures when the demand side of the economy needs to be fixed. South Africa continues to reject foreign investment (based on ideology from the 1960’s) to stimulate the economy and rather tinkers with poultry imports.

South Korea encourages more big manufacturing plants, and lastly Australia sees high house prices as vindication of policy rather than address the detrimental impact on household disposable income. So unfortunately it takes a lot, (normally a crisis) for a country to switch paths.

So the next time SA goes into a trade deficit don’t get fearful, it could be that the SA consumer has recovered their confidence and are spending their well earned income.

*GDP per Capita ($) 2021: China 12556.3, Bulgaria 11635.0