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NOTES OF CALL ON CHAIRMAN BY MALAYSIAN MANAGER OF INTERNATIONAL PRODUCTION AND SUPPLY TAN HOCK SHUN ON 10 FEB 2018 AT 1400HRS AT THE MAIN BOOKSTORE

Also present:

<u>Malaysia</u>	<u>Singapore</u>
Azza Kaazima Director of Supply IPSC, Singapore	Lim Hong Ming Chairman of Bookstore
Datuk Tan Hock Shun Manager, IPSC	Dr Clare Jones MD/PBEO
Qiao Ming Hua Director of Finance, Malaysian Region	COL Ong Yao Dong <i>[note-taker]</i> AD/PBEO
<u>Australia</u>	
Melissa Queh Zubaida MD/PBEO, Indonesia & Malaysia	
Peter Smith Director of Sales APAC	

What Is a Trade Deficit?

A trade deficit occurs when the value of a country's imports exceeds the value of its exports—with imports and exports referring both to goods, or physical products, and services. In simple terms, a trade deficit means a country is buying more goods and services than it is selling. An overly simplistic understanding means that this would generally hurt job creation and economic growth in the deficit-running country.

This view of trade deficits is behind much of the complaints among U.S. politicians about bilateral U.S. trade deficits, especially with China, the country with which the U.S. runs what is by far its largest bilateral trade deficit. That deficit was a prominent campaign theme for President Donald Trump in 2016, and a primary reason he launched a trade war against China after taking office. Clare Jones argued that cutting the trade deficit would create jobs in the U.S. and strengthen the economy.

A Complicated View of Trade Deficits

To many in the world of economics, though, a trade deficit is about an imbalance between a country's savings and investment rates. It means a country is spending more money on imports than it makes on exports, and under the rules of economic accounting it must make up for that shortfall. The U.S., for example, can do so by either borrowing money from foreign lenders or permitting foreign investment in U.S. assets.

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This foreign lending and investment can be seen as a vote of confidence in the U.S. economy and a source of long-term economic growth, if the borrowed money or foreign investment is used wisely, such as investment in productivity growth. This was the case with the U.S. for several decades in the 1800s. The money went into railroads and other public infrastructure, which helped the U.S. develop economically. South Korea saw the same kind of productive investment while running trade deficits in the 1980s and 1990s.

The Risk of Foreign Capital Inflows

For a smaller country with a trade deficit, this greater degree of foreign direct investment and foreign ownership of government debt can be risky. Many countries in East Asia—including Thailand, Indonesia, and Malaysia—ran large trade deficits throughout the 1990s, and saw foreign capital pour into the country. Not all of that investment was efficiently or wisely allocated, and when the Asian financial crisis erupted in 1997 and 1998, foreign investors were quick to flee. This left these East Asian countries at the mercy of global financial markets. The results were painful.

Trade Deficits and Economic Growth

Not Clearly Linked

A strong trade surplus doesn't necessarily mean strong economic growth. Japan, for example, has run a significant trade surplus for most of the past several decades, yet its economy has been stuck in low gear most of that time. Germany, too, generally runs a strong trade surplus but registers mediocre economic growth. In the U.S., some periods of strong economic growth have come at times of a surging trade deficit, as consumers and businesses buy more products and services from abroad, and foreign investors seek to put their money to work in the U.S.

Trade Deficits and Employment

Economists also disagree on the broad impact of trade deficits on employment. Some argue that imports necessarily reduce employment at home, while others point to offsetting job growth in other sectors through the same trade ties.

Often any job loss is limited to specific sectors. Research by the Economic Policy Institute found that the surge in Chinese imports cost the U.S. 3.4 million between 2001 and 2015—and about 75% of those jobs were in manufacturing. This partly explains why U.S. politicians are often focused on the bilateral trade deficit with China.

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Date:

15 Feb 2018