THE IMPACT OF SINO-US TRADE IMBALANCE ON THE US ECONOMY AND THE TREND PREDICTION OF SINO–US TRADE IMBALANCE

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Abstract

The trade friction between China and the United States is a trade problem arising from the difference between China and the United States with regard to the balance of trade and values. As Sino–US trade develops; the trade imbalance is becoming increasingly prominent, which directly leads to the Sino–US trade war. This paper attempts to explore whether the expansion of the US–China trade deficit will result in the slowdown of the US economy and to study the development trend of Sino–US trade imbalance, emphatically discusses the impact of Sino–US trade on US GDP and establishes a model to conduct the trend prediction of Sino–US trade imbalance in the near future. The study proves that there is a two-way and long-term relationship of influence between the trend in the US–China trade deficit and in the US GDP, during which the Sino–US trade contributes to the economic growth in the United States. Meantime, the scale of Sino–US trade imbalance will still increase in the short run.

Introduction

Over the past 40 years since the establishment of diplomatic relations, China and the United States have seized the historic opportunity of economic globalization, seized each other's economic complementarities, and promoted the advancement of bilateral economic and trade cooperation from scratch, from small to large, from single to multiple. Trade volume of commodities between China and the United States rose from 2.5 billion US dollars in 1979 to 633.5 billion US dollars in 2018, resulting in a 252-fold increase. Trade volume of services exceeded 125 billion US dollars, and two-way direct investment aggregated nearly 160 billion US dollars. Sino–US economic and trade cooperation has reached an unprecedented depth and breadth, bringing tangible benefits to both countries and the people and contributing to the prosperity and stability of the world economy. (Ministry of Commerce, PRC, 2019) As of 2018, the total value of China–US bilateral trade in imports and exports was 633.52 billion US dollars, and China's trade surplus with the US was US$323.32 billion. (Phoenix Finance, 2019) Trade imbalance is dynamic and frequent, while trade balance is a short-term phenomenon and relative. The trade between various countries in the world has always been incompletely balanced. Even if economic globalization exerts some balanced effect on the distribution of trade flow between countries, it is impossible to form a completely balanced trade pattern. (Chen, 2007)

Zheng, Shi and Wang (2006) believed that in the long run, as long as a country's foreign trade imbalance can be made up by other items in the international payments account, and it did not lead to the deterioration of the international payments, or bring the potential risk of deterioration or hidden danger to the country's economic development and financial security, the imbalance is acceptable, or say, a country's ability to cope with external negative impacts can sufficiently maintain the surplus or deficit of trade balance in a relatively long period of time. In other words, the key to judging whether trade imbalance is dangerous is not the scale of imbalance, nor the length of the imbalance time, but the concrete analysis of a country's national conditions. Some countries can maintain the status of foreign trade imbalance for a long time and on a large scale, without affecting national economic development and financial security, but for some other countries, short-term and slight trade imbalance are likely to cause financial and economic crisis.

In this paper, the author holds that the impact of Sino-US trade imbalance on the US economy is the core content of the research on the impact of Sino-US trade imbalance. The direct cause of the trade war between China and the United States is that the United States believes that the Sino–US trade imbalance has a negative impact on the U.S. economy. To further illustrate the relationship between the Sino–US trade deficit and the US economy, in this paper, whether there is a long-term equilibrium relationship between the expansion of the US–China trade deficit and US economic growth is discussed from this perspective. Trade balance is a dynamic and relative concept, which changes with time and domestic economic conditions. In the short term, there are big differences between China and the United States in terms of industrial structure, technological development level, economic level, resource endowment, and consumption tendency. This also makes China and the United States highly complementary in the field of economic and trade cooperation. Therefore, it is difficult to change the Sino–US trade imbalance in the short term. In this paper, an empirical model is established from this perspective to analyze and predict the trend of Sino–US trade imbalance in the short term, thus expecting the Sino-US trade relations.

In this paper, a combination of empirical analysis and normative analysis is used to discuss the impact of Sino–US trade imbalance on the US economy, and through normative econometric and mathematical model analysis, such as cointegration analysis, unit root test, and time-series regression analysis, etc., the Eviews8 software is used to establish the econometric model to analyze the impact of Sino–US trade imbalance on the US economy. In addition, China's exports to the United States, China's imports from the United States, and Sino–US trade balance are fitted and predicted.

This paper focuses on two issues. 1) Is there a two-way long-term relationship between the trend of the Sino-US trade imbalance and the GDP of the United States? Is this relationship beneficial to the growth of the GDP of the United States? 2) Will the Sino-US trade imbalance continue to expand? What is the trend in the short term?

Sino–US Trade Imbalance, Mercantilism and Trade Protectionism

The school of mercantilism was the first to set about an in-depth exploration in the relationship between the balance of trade and economic growth, in which what they strongly advocated were that a country should "pay reward for export and impose restrictions on import" and encourage trade surplus.

Mercantilism is a national economic policy aiming to maximize a country's exports while minimize its imports. Mercantilism was dominant in modernized parts of Europe from the 16th to the 18th centuries, a period of proto-industrialization, (Laura, 2008) before falling into decline, although some commentators argue that it is still practiced in the economies of industrializing countries, (Samuelson, 2007) in the form of economic interventionism. (Kanopiadmin, 2017) It promotes government regulation of a nation's economy for the purpose of augmenting state power at the expense of rival national powers. High tariffs, especially on manufactured goods, were an almost universal feature of mercantilist policy. (John, 2001) Mercantilism can be divided into early mercantilism and late mercantilism. The early mercantilism proposed by W. Stafford, John Hales, etc. centers on money balance theory, it equates wealth with precious metals such as gold and silver, and stresses that the national interests lie in the increase of currency. It strictly prohibits the exports of gold and silver, and pursues the absolute principle of buying less and selling more in foreign trade, namely, to reduce imports and increase exports to reserve gold and silver currency. The late mercantilism was mainly proposed by (Thomas Mun, 1628), who argued that the economic activities between countries dominated by the static view of world resources can be regarded as a kind of "zero-sum game", that is, one country's economic income is at the cost of another country's economic loss. Precisely supported by this view, late mercantilism explicitly advocates to taking "trade balance theory" as the core. In terms of policy suggestions, they proposed that countries should protect and reward exports and production, and take protectionist measures to restrict domestic imports, especially for those industries of strategic significance. Thomas Mun held that currency produces trade and trade increases currency. In his classic work of mercantilism, England's Treasure by Foreign Trade, he wrote that the means to increase England's treasure is to develop foreign trade, but a principle must be observed, that is, the total value of commodities sold to foreigners should be greater than that of commodities purchased from them; he stressed that a country should maintain its trade surplus, in order to achieve this purpose, a country should never hesitate to implement trade protectionism policies, such as giving subsidies to exports, implementing quotas and high tariffs on imports of consumer goods, etc. These policies can encourage exports of domestic commodities and restrict imports of foreign commodities. There into, he advocated increasing the exports of agricultural products and industrial manufactured goods, reduce the imports of foreign manufactured goods, and oppose British residents to consume imported products that can be produced in Britain. The late mercantilism theory shows that, as early as the 14th to15th Century, the theoretical research on the balance of trade attracted the attention of economists, but the theories in this period mainly focused on the importance and influence of the balance of trade.

Lin (2006) believed that China's foreign trade policy has a mercantilist tendency, which has led to the low efficiency of foreign trade and the "immiserizing growth" of the macro economy. Zhai (2007), Hu (2009), Huang (2009), Xiao (2009) and Cheng (2009) agreed that since the reform and opening up in the 1970s, the "import substitution" and "export-oriented" implemented by China at the very start is one of the significant causes for the huge trade surplus in distinct "export-oriented" economic development strategy after the reform in 1994. But E.g. Li (2006) analyzed China's import and export data from 1980 to 2004, and concluded that if China did implemented mercantilism, it should have large-scale trade surplus against every trading partner country, but the surplus only came from a few big European and American countries. China's trade deficit against South Korea and Japan has been continuously expanding respectively since 1991 and 2002, which can hardly support the mercantilism of China's trade policy and system.

In December 1791, Alexander Hamilton, the first American finance minister, a representative of the requirement of independent development of the American economy, proposed the tariff thought of protectionism for the first time in the Report on Manufacturing Industry submitted to the United States Congress. He believed that the infant industries in the United States should be protected in order to make the American economy independent. Later, Friedrich List, a scholar of German historical school, elaborated the famous trade theory of protecting infant industries in the book The National System of Political Economics, which was published in 1841, and stressed that "some industrial products can be prohibited from being imported, or the stipulated tax rate is actually equal to all or at least part of the banned imports". Since then, the protectionist trade theory has been developing rapidly.

Since then, the theories of contemporary trade protectionism represented by the "Neo-Mercantilism School" and "New Trade Protectionism School" of Keynesianism demonstrate the facilitation of trade surplus to the growth of a country's national income from the perspective of national income. Later, an increasing number of western economists begin to pay close attention to the relationship between the balance of trade and economic growth. In terms of the current research situation, it seems that most governments and scholars, particularly these American protectionists, have a profound tendency to "surplus", which argues that countries should focus on the regulation of trade deficit, as well as the pursuit of trade surplus in international balance of payments.

Under the guidance of free trade theory, the primary objective of foreign trade is to replace trade surplus with comparative advantage obtained from international trade. In order to meet the needs of constantly expanding foreign trade, the gold standard system emerged. For the trade balance and adjustment of international payments under the gold standard system, David Hume introduced the "price-coin flow mechanism". It refers to that under the gold standard system; a country's deficit in the international payments means the net output of the domestic gold. Due to gold outflow, the domestic gold stock decreases, and the money supply would decrease, thereby causing a fall in the domestic price level. After the price level falls, the competitive capacity of domestic commodities in the foreign market would be enhanced, and the competitive capacity of foreign competitive capacity in domestic market would decline, then exports would increase and imports decrease, and the deficit in the international payments would be reduced or eliminated. Similarly, the external surplus cannot be sustained, because the internal flow of gold would increase the domestic money supply, thereby resulting in the rise of price level, which is not conducive to exports but beneficial to imports, thus the surplus would tend to disappear. According to this mechanism, the price change caused by gold would exert a regulating effect, so as to automatically improve trade balance. (International goldstandard system, 2009)

In the 1930s, J.M. Keynes pointed out in his representative work The General Theory of Employment, Interest and Currency (1936) that, although the classical free trade theory has demonstrated that a country's foreign trade surplus and deficit tend to be balanced through automatic adjustment with the theory of automatic adjustment of international payments, these theories ignored that the adjustment of trade balance would affect a country's national income and employment. Therefore, Keynes held that the impact of trade balance on national income and employment should be carefully analyzed. Through research, he found that trade surplus can increase national income and expand employment, while trade deficit can reduce national income and aggravate unemployment. Therefore, he highly praised the mercantilist idea of state intervention, advocated to strengthen the state's intervention effect in foreign trade, favoured

trade surplus and opposed trade deficit. In the book, Keynes also proposed the famous multiplier theory, and thereafter he constantly improved it into a new set of trade protection theory. The theory holds that, under the role of trade multiplier, national income can increase exponentially at a certain rate with the progressive increase of exports. That is to say, the more a country expands its exports and reduces its imports, the greater the trade surplus, and the greater the role on the domestic economic development. Therefore, the countermeasure for a country to increase effective domestic demand is to restrict imports and reward exports, that is, create full employment and increase effective demand. The optimal policy for a country is to implement trade protectionism, maximize exports and reduce imports as far as possible.

Later, the followers of Keynesianism continued to improve the Keynesian trade protectionism theory. The scholars represented by Wynne Godley put forward the new protectionism trade theory. Through the analysis and expansion of the protectionist trade theoretical model, the theory verified the important role of the international payments on a country's national income, and proposed that maintaining foreign trade surplus has the direct bearing on the improvement of a country's national income and the realization of full employment. Hence, it is necessary for a country to restrict imports and reward exports to speed up the growth of its national income. A series of Keynesian trade protection theories have provided sufficient theoretical basis for western developed capitalist countries to implement super-protection trade policy and pursue surplus income of foreign trade after World War II. Then various countries in succession implemented the trade theories to pursue trade surplus and expand their trade surplus. Meanwhile, Keynes and his followers further demonstrated the importance of trade surplus to a country's economic development. From this point of view, the Keynesian trade protection theory is of great practical significance for the economic development of capitalist countries. However, the theory did not investigate the possible impacts of trade surplus on the world economy, and especially lack an overall analysis of the positive and negative impacts of trade surplus on a country's economy.

However, with the continuous deepening of research in academic circle on the relationship between the balance of trade and economic growth, many scholars have put forward that in some specific bilateral trade, such as Sino–US bilateral trade, the economic growth of a country does not occur simultaneously along with the country's favourable balance of payments, and more often the trade deficit coexists with economic growth. John Muller, a British economist, conducted a more detailed study on the relationship between trade development and economic growth, whose theory had a profound influence on the subsequent research from economists. He considered that international trade offers two types of benefits obtained by a country, and they are trade benefits and development benefits, and he made a specific explanation for both. (Xu, 1989) First, due to trade exchange, each country engages in productive activities in which they are better specialized, thus making the factors of production flow to sectors with high productivity. And higher productivity leads to higher output, thus income is improved. Then, based on international trade, a country can import the raw materials, machinery equipment and other products that the original country lacks, which also augments the investment factors. Consequently, the development benefits lie in the fact that trade can facilitate a country's development and innovation. Countries can obtain more cheap products than when they are in the state of seclusion via international division of labour and free trade, and also promote better allocation of production factors. (Ma, Zhang, 1998) Zhu (2006) deemed that despite there is a huge economic and financial imbalance, the United States still enables to keep economic and financial growth while maintaining the imbalance (deficit), and thus maintaining the pattern in which world economy is imbalance and growing. The US President's Council of Economic Advisers also concluded that the expansion of trade deficit has been a "Safety Valve" for the US economy, import of cheap products keeps the low inflation rate in America, and capital

inflow maintains the low interest rate, contributing to keeping the growth of the US economy and the decline of unemployment rate. Hence, currently in the academic circle, two completely different views on the relationship between the balance of trade and economic growth have formed. On the whole, there is insufficient empirical research on the relationship between the US-China trade deficit and US economic growth. Thereby, from this perspective, this paper intends to explore whether the expansion of the US–China trade deficit will lead to the slowdown of the US economy and the Trend Prediction of Sino–US Trade Imbalance.

Material and method

Model Construction

To conduct a quantitative study on the impact of Sino–US trade imbalance on the US economy, this paper adopts the variables of US GDP and US import volume from China, and establish the model as follows:

$$LnGDP=a+b*LnIMP+e$$

In which, LnGDP is the natural logarithm of US GDP, LnIMP is the natural logarithm of US import volume from China, a is a constant term, B is the influence coefficient to be estimated, and e is the residual.

Data and variable selection

Data source and description

This paper selects the annual data, as well as the data of US GDP and US imports from China of 37 years from 1983 to 2019.

Table 1: US GDP data（trillion US dollars）

Year	US GDP
1983	3.63
1984	4.04
1985	4.34
1986	4.58
1987	4.86
1988	5.24
1989	5.64
1990	5.96
1991	6.61

1992	6.52
1993	6.86
1994	7.29
1995	7.64
1996	8.07
1997	8.58
1998	9.06
1999	9.63
2000	10.25
2001	10.58
2002	10.94
2003	11.46
2004	12.21
2005	13.04
2006	13.81
2007	14.45
2008	14.71
2009	14.45
2010	14.99
2011	15.54
2012	16.2
2013	16.78
2014	17.52
2015	18.22
2016	18.71
2017	19.49

2018	20.53
2019	21.37

Source: Wind- Economic Database, 2020

Table 2: Data of Sino-US import and export trade（US $10000）

Year	China exports to the United States	China imports from the United States
1983	171,000	232,000
1984	230,000	366,000
1985	265,000	437,000
1986	247,000	353,000
1987	296,000	381,000
1988	338,000	663,000
1989	439,000	786,000
1990	519,000	658,000
1991	619,000	801,000
1992	850,400	890,100
1993	169,640,0	106,880,0
1994	214,6100	138,940,0
1995	2,472,874.30	1,612,296.60
1996	2,670,808.60	1,617,865.10
1997	3,271,837.90	1,628,958.90
1998	3,796,497.30	1,699,694.50
1999	4,201,807.70	1,948,631.70
2000	5,214,200.20	2,236,460.60
2001	5,431,891.20	2,620,359.20
2002	6,995,940.20	2,722,790.00
2003	9,251,014.70	3,388,296.30

2004	12,497,345.10	4,465,266.00
2005	16,293,872.20	4,873,497.70
2006	20,351,628.70	5,922,285.60
2007	23,276,133.10	6,986,058.10
2008	25,232,726.60	8,149,672.50
2009	22,090,481.00	7,746,032.50
2010	28,337,485.60	10,206,045.30
2011	32,456,473.50	12,214,439.00
2012	35,199,988.30	13,287,829.70
2013	36,848,066.30	15,255,224.60
2014	39,614,740.47	15,918,730.80
2015	41,014,516.94	14,978,093.13
2016	38,911,253.57	13,512,428.36
2017	43,314,647.73	15,517,727.48
2018	47,981,164.16	15,536,585.43
2019	41,793,571.80	12,233,890.90

Source: Wind- Economic Database and Website of China Statistics Bureau, 2020

Data adjustment

Since the data of US GDP and US imports from China are both current prices, the price indices need to be adjusted in order to make the annual data comparable. The base period of the adjustment is 1983 and set to be 100. Then, to avoid large difference between the values of the variables, the natural logarithms of all the adjusted data are obtained.

Empirical test and results

The annual data of China's imports and US economic growth from 1983 to 2019 are tested, the two variables are treated equally as endogenous variables, the CE model with intercept under Johansen co-integration test is selected, and EVIEWS8.0 is used to obtain the following test results:

Table 3: Johansen Co-integration Test between US GDP and U.S.-China Trade

	Eigenvalue	Trace statistic	5% critical value	Assumed CE number
Trace test	0.575894	33.20364	20.26184	None *
	0.086895	3.181651	9.164546	At most 1
	Eigenvalue	Max-eigen statistic	5% critical value	Assumed CE number
Maximized eigenvalue test	0.575894	30.02199	15.89210	None *
	0.086895	3.181651	9.164546	At most 1

*Note: The lag interval is 1-1, * denotes that the null hypothesis is rejected at 5% significance level. Conclusion: Trace test and maximum eigenvalue test indicate that there is a co-integration equation at the 5% level.*

According to the test results in Table 3, the two variables are treated equally as endogenous variables. The trace test and maximum eigenvalue test show that there is a co-integration equation at the 5% level. The standardized co-integration relational expression is as follows:

$$LnGDP = 0.462082 \times LnIMP + 7.252718$$

$$(8.773154) \qquad （15.45038）$$

The T statistic is in the bracket under the coefficient of the co-integration variable. Since the T statistic is large, the variable is significant in the cointegration relational expression. As the estimated coefficient of LnIMP is 0.462082, which indicates that the US import volume from China has a significant positive impact on the US GDP. If the US import volume from China accelerates by **1%,** the US GDP gains a synchronous growth of **0.462082%.**Unit root test is conducted on the EC sequence:

Table 4: Unit Root Test of EC Sequence

Variable definition	AADF statistic	10% critical value	Test form (C,T,P)
LnGDP and LnIMP EC sequence	-1.930898	-1.611059	（0, 0, 1）

Source:own editing (2021)

It can be seen from the above table that the EC sequence is stationary at 10% level and fluctuates around 0. The following conclusion can be drawn: there is a bidirectional long-term relationship

between the changing trend of the U.S. –China trade deficit and US GDP. Meanwhile, the coefficient of LnIMP in the cointegration relational expression is positive, so the Sino–US trade contributes to the American economic growth in the current period.

Prediction of Development Trend of Sino-US Trade Imbalance

Based on the data of Sino–US import and export trade from 1983 to 2019, this paper uses time series regression analysis method and Eviews8 to build the econometric model, that is, China's export to the US, China's import from the US and the Sino–US trade balance are fitted and predicted.

The theoretical equations of trend prediction are as follows:

$$Y1 = \alpha + \beta X \quad (1)$$

$$Y2 = \alpha + \beta X \quad (2)$$

Where Y1 represents China's exports to the US; X represents the time series in unit of year; Y2 represents China's imports from the US; α is the intercept; β is the coefficient of the time series and represents the direction and quantity of changes. Y1 and Y2 are respectively fitted by linear regression, and the results are as below:

Empirical test and results

Table 5: Regression Estimation Results of Y1 and X

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X	140.4126	9.096843	15.43531	0.0000
C	-279462.0	18203.04	-15.35249	0.0000
R-squared	0.871912	Mean dependent var		1503.616
Adjusted R-squared	0.868252	S.D. dependent var		1627.691
S.E. of regression	590.8048	Akaike info criterion		15.65339
Sum squared resid	12216760	Schwarz criterion		15.74046
Log likelihood	-287.5877	Hannan-Quinn criter.		15.68409
F-statistic	238.2488	Durbin-Watson stat		0.153923
Prob (F-statistic)	0.000000			

Source: own editing (2021)

Table 6: Regression Estimation Results of Y2 and X

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X	47.53396	3.488098	13.62747	0.0000
C	-94563.29	6979.784	-13.54817	0.0000
R-squared	0.841419	Mean dependent var		552.1742
Adjusted R-squared	0.836889	S.D. dependent var		560.9185
S.E. of regression	226.5385	Akaike info criterion		13.73625
Sum squared resid	1796189.	Schwarz criterion		13.82332
Log likelihood	-252.1205	Hannan-Quinn criter.		13.76694
F-statistic	185.7080	Durbin-Watson stat		0.202736
Prob (F-statistic)	0.000000			

Source: own editing (2021)

The analysis of the above regression results shows that the determination coefficient R-square of Y1 and X, Y2 and X are **0.871912 and 0.841419**, respectively, and the goodness of fit is relatively high; the F statistics is 238.2488, and the corresponding P values are 0 and less than 0.05, indicating that the linear relationship among Y1, Y2 and X is significant. Further analysis of the estimation coefficient of X in the two models shows that in the regression of Y1 to X, the estimation coefficient is 140.4126, the P value of significance test is 0 and less than 0.05, suggesting that X exerts a significantly positive impact on Y1; in the regression of Y2 to X, the estimation coefficient is 47.53396, and the P value of significance test is 0 and less than 0.05, indicating that X exerts a significantly positive impact on Y2. Because the values of the two regression models are positive, Sino-US trade will continue to develop in the future, and the estimation equations of the model are as below：

$$Y1 = -279462 + 140.4126 \times X \text{ (3)}$$

$$Y2 = -94563.29 + 47.53396 \times X \text{ (4)}$$

According to the above two regression models, this paper predicts the trend of Sino-US trade, and on this basis, the variation trend of Sino-US trade balance is calculated (see Table 5). From 2020 to 2026, Sino-US trade will continue to grow, and China's trade surplus with the US will continue to exist and expand, and the volume will increase from 271.62 billion dollars in 2020 to 327.34 billion dollars in 2026.

Table 7: Prediction of 2020-2026 Sino-US Trade Balance（US $100 million）

Year	Amount of exports	Amount of imports	China's trade surplus
2020	4171.5	1455.3	2716.2
2021	4311.9	1502.9	2809.0
2022	4452.3	1550.4	2901.9
2023	4592.7	1597.9	2994.8
2024	4733.1	1645.5	3087.6
2025	4873.5	1693.0	3180.5
2026	5013.9	1740.5	3273.4

Note: Calculated according to Equation 3 and 4.

In conclusion, the Sino-US bilateral trade volume will continue to increase for some time to come and benign interaction is still the mainstream of bilateral economic and trade relations between the two countries. China needs to strive for long-term interests in the adjustment of internal and external balance. Of course, such adjustment is a dynamic equilibrium and a gradual process guided by policies and based on market mechanism, rather than arbitrarily taking radical measures to restrict normal trade contacts.

Conclusions and Suggestions

There is a two-way and long-term relationship of influence between the changing trend of the US-China trade deficit and US GDP, during which the Sino-US trade is conducive to the US economic growth. The economic complementarily of China and the United States is the driving force for bilateral trade growth. The two countries are both rivals and partners; they complement each other's strengths and achieve mutual benefit and win-win results. Pursuing broader markets and greater interests in competition and cooperation is inevitably the most prominent feature of the subsequent development in bilateral trade between China and the United States. Under the circumstances of economic globalization, the US investment in China is accelerating and the intra-company trade is continuously developing, and China's foreign trade surplus based on processing trade make it difficult to solve the trade imbalance between China and the United States within a short time. In the short run, the scale of Sino-US trade imbalance is still enlarging, but in the long term, Sino-US trade should move towards balance. China necessarily continues to expand domestic demand and lower its trade surplus with the United States. Foreign trade dependence is a double-edged sword that the rapid progress of foreign trade can stimulate effective demand in the case of insufficient domestic demand, thus playing a positive role in accelerating the stable growth of GDP. However, a heavy price can be paid on account of excessive dependence on foreign trade and its trading partners if political or economic turbulence occurs. For a long time, China's consumption level is still relatively low, and the improvement of consumption level cannot keep pace with the improvement of domestic productivity, so that the augmented consumption needs can only be met by part of the domestic production supply, but have little effect on the increase of import demand. Meanwhile, the long-term sufficiency of effective domestic demand also makes domestic manufacturers which are

represented by foreign direct investment enterprises sell more products to foreign markets. As one of China's principal export markets, the US trade deficit inevitably keeps expanding. Thus, China should continue to unswervingly carry out the policy of expanding domestic effective demand and accelerating the shrinkage of China's trade surplus with the United States.

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