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Five myths about US trade

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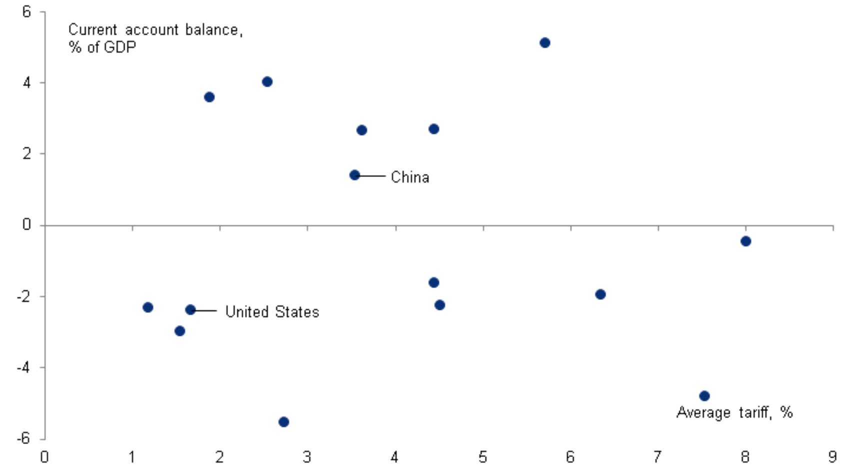
In most ways, the US is equally as open to trade as other developed economies, but it is much more open to trade than most emerging market countries. In particular, China has many restrictions on trade. Compared with the US, China has higher tariffs and more non-tariff barriers to trade.

Tariffs or non-tariff barriers are, however, not the source of the US trade deficit. Global imbalances are caused by countries saving more than they invest domestically, pushing their excess savings overseas. The US receives a large net inflow of savings from abroad, causing the chronic current account deficit. If policymakers want to close the US current account deficit, they would need to address this fundamental, underlying dynamic.

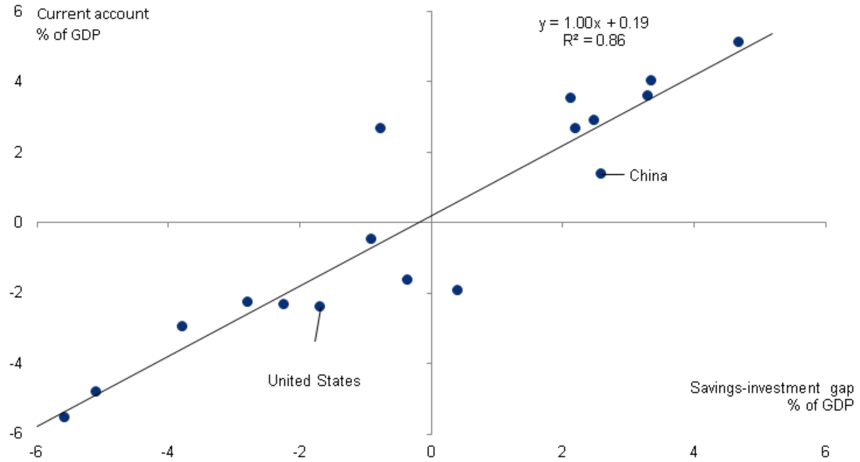
The first chart below shows the G20 nations' average tariff rate and current account balance. Clearly, there is not a strong relationship between the two variables. Some countries have high current account deficits with low tariffs, like the US, while other countries including India and Brazil also have high current account deficits but institute high tariff rates. The second chart below shows that the savings-investment gap is the key driver of current account imbalances. To eliminate trade imbalances, the US either needs to save more or invest less, or convince surplus countries to save less or invest more.

Tariffs do not have a relationship with current account balances...



Source: IMF, Haver Analytics, Deutsche Bank Research

...but savings-investment gaps are strongly correlated with current account balances



Source: IMF, Haver Analytics, Deutsche Bank Research

Having said that, the US is much more open than some competitors. Apart from its lower tariffs, it also uses lower levels of non-tariff barriers. These include labelling, packaging, environmental, and other regulations that benefit domestic producers at the expense of import competitors. For example, the average manufacturing import into the US is subject to only 2 non-tariff measures. In the EU, China, and Japan, the average manufacturing import is subject to around 8 such restrictions.

The services sector makes up an ever-increasing portion of most developed economies. Some countries use restrictive regulations to limit import competition in the services sector, by instituting restrictive licensing rules, limitations on the movement of people, or other barriers to entry. The US's level of openness is similar to other developed markets like Canada, Japan, and France, though Germany is slightly more open. China is a clear outlier, with many restrictions across a broad range of industries.

Finally, China also lags developed economies in intellectual property protections. Across multiple measures, China fails to protect foreign investors' patents, copyrights, and trademarks to the same degree as developed economies. The US, Japan, and the EU rank near the top of these rankings.

Overall, the US is one of the most open countries in the world. Other developed markets are also typically open, while emerging and developing economies tend to be more restrictive. However, trade deficits are driven by macro imbalances, not tariffs.