WALL STREET JOURNAL
10 July 2019

Why Vietnam Loves Donald Trump

Tariffs are changing supply chains, not cutting the trade deficit.

By The Editorial Board

Thirty months into the Trump Presidency, the U.S. economy continues to import more than it exports. This isn't a problem, since the trade deficit is of no great consequence as an economic measure. But in President Trump's telling this is a clear and present danger, so it's worth explaining why his tariffs haven't reduced the U.S. trade deficit with the world.

One reason is the success of Mr. Trump's other economic policies. Tax reform and deregulation have strengthened the U.S. economy and attracted a net surplus of capital from around the world. By accounting definition, this capital surplus is offset by a trade deficit. This is a sign of U.S. economic strength.

Another reason is that Mr. Trump's trade policy is changing the source of exports to the U.S., not reducing their magnitude. Mr. Trump has imposed 25% tariffs on $200 billion of Chinese goods, and he's threatened a duty on another $300 billion. This has narrowed the U.S.-China bilateral goods trade gap in recent months, but the total U.S. trade deficit reached a record high in 2018. While shrinking in the first quarter this year, the overall goods trade deficit widened 5.8% in May from a month earlier and is on pace to exceed last year's total. Producers are leaving China, but not for America.

Call it Make Southeast Asia Great Again, as exporters from Vietnam in particular are reaping the rewards of U.S. tariffs. While Chinese goods exports to the U.S. fell 12.3% year-over-year from January through May, Vietnam saw a 36.4% increase, according to U.S. Census data. Taiwan had a nearly 22.5% year-over-year increase in the same five months, more than triple the increase from 2017-18. South Korean exports to the U.S. increased 12.4% over the period.

If there is a further "global escalation of the trade conflict," says a December Asian Development Bank (ADB) report, Vietnam could gain 2.1% of GDP while Malaysia would gain 0.5% and Taiwan 0.4% as a result of trade redirection and changing global supply lines.

Some of this export uptick is likely transshipment, a practice by which Chinese exports are sent to a third country before shipment to the U.S. to circumvent tariffs. A recent Journal report found that Vietnamese imports of computers and electronics from China surged alongside a similar increase in the country's exports of the same categories to the U.S.

The scale of the illegal practice is unclear, but there's also evidence of a legitimate supply-chain shift. Apple is the latest example. Chinese assembly accounts for most of the company's production, and Mr. Trump last year encouraged Apple to move operations to the U.S. as an "easy solution" to tariffs. Yet Nikkei Asian Review reported in June that Apple is considering moving 15% to 30% of its production capacity from China to Southeast Asia or Mexico.

Apple has long-established supply chains in China that won't be easy to re-create in smaller economies, but the company may calculate that production in Kuala Lumpur is still cheaper than Kentucky. Mr. Trump's tariffs are disrupting efficient supply chains without benefitting Americans.

U.S. workers may even lose from trade redirection, according to the December ADB report. If tariffs spread around the globe, particularly if the U.S. slaps duties on autos, the researchers estimate U.S. and Chinese employment will suffer while "developing Asia," which excludes China, gains jobs. U.S. losses would include 30,000 jobs in electronics, 48,000 in industrial machinery, and more than 50,000 in agriculture.

The lesson is that it's folly to worry about the trade deficit, which is the result of much larger forces than tariffs or trade policy. China's predatory trade practices are worth challenging for their own sake, and that might reduce the bilateral trade deficit with China. But the trade deficit persists and the U.S. economy still prospers. Mr. Trump should relax and enjoy it