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**Letter**

## Bilateral imbalances with US were Beijing's policy

From Daniel Aronoff, Birmingham MI, US

3 HOURS AGO

Sir, Yukon Huang's argument that China's large bilateral trade imbalance with the US was not caused by Chinese policy, but was rather a byproduct of China's participation as a link in a pre-existing global supply chain, is not supported by the facts ("[Populism and China's trade tensions with the west](http://next.ft.com/content/db46c4bf-b028-3f5b-aacf-ac8e590b9872)" (<http://next.ft.com/content/db46c4bf-b028-3f5b-aacf-ac8e590b9872>"), The Exchange, January 18).

Mr Huang suggests that the US trade imbalance was caused, in part, by excessive US government budget deficits. But in fact, the US was running a surplus in the late 1990s when the US trade deficit began its ascent from 1.5 per cent of gross domestic product to nearly 7 per cent in 2006. The suggestion that China's surging imports were inputs into products which it assembled and exported is only partially correct. China has imported a significant share of its raw energy and construction materials, such as iron ore and oil, which were used primarily to develop its growing infrastructure.

Mr Huang rightly points out that the US trade deficit began to accelerate before its imbalance with China developed. It is well understood by economists that the nations of Southeast Asia, who suffered dollar runs during the 1997 Asian financial crisis, subsequently built dollar reserves as a precaution against future runs. But by 2003, as their accumulation dissipated, the US trade deficit with China ballooned.

The tell-tale indicator that the US trade deficit with China was caused by Chinese mercantilist policies is the accumulation of dollars by China's central bank, the People's Bank of China. Between 2003 and 2008, which were the peak years of the

US China trade imbalance, the US ran a total \$1.24tn deficit with China and the PBoC's dollar reserves increased by nearly \$1tn. A rough correspondence between the US-China bilateral trade imbalance and the increase in PBoC dollar holdings continued until very recently. If China was not deliberately attempting to run a trade surplus with the US, why did its central bank accumulate massive dollar reserves?

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