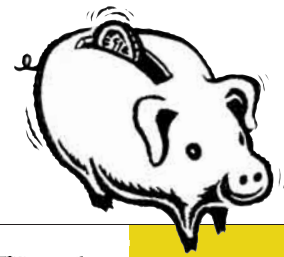


imbalance of trade



money



Is trade deficit bad or good?

The US trade deficit has slightly declined over the last few months, but the amount of toys exported from China to the US has continued to rise, especially with Halloween and Christmas coming.

But what is a trade deficit? Countries buy from and sell each other raw material, farm products, manufactured goods and services. For example, China manufactures lots of toys; these toys can be sold in China ("consumption") or sold to other countries ("exported", "ex" meaning "out").

China also buys raw material from other countries: in this case, economists talk of "imports" ("im" being "in"). The trade balance measures all the ins and the outs. If a country has more exports than imports, it has a trade surplus. If a country buys more foreign products than it sells its own abroad, it has a trade deficit.

Is a trade deficit a bad thing? A trade deficit can show the economy is growing: more people buy, and the country has to import products, but also manufacture more products, which creates more jobs. The

money used to import products can also come back as "investment" as investors look for growth. Growing economies like Hong Kong have trade deficits. But if more people buy goods, it does not always mean they are getting richer: they might buy them on credit. Then the trade deficit starts to become more of an issue: the country's growth does not mean bigger wealth but more debt.

The trade deficit affects how strong the national currency is and how ready foreigners are to invest in the country.

Check and balance

Trade is not free between countries. For centuries, countries have imposed taxes on imported goods. Why? To protect their own industry.

Tax and tariff: Taxing imports make them more expensive and people won't buy them. Is it bad or good? Countries want to make sure imports don't affect jobs. But it can be more efficient to stop making a product, import it instead, and focus

on making and selling more expensive products.

Quotas: instead of making the import more expensive, a country decides to only buy a small quantity.

Subventions: a way to make local products artificially as cheap as import. Subventions help national producers or farmers to produce and sell even their products are more expensive. This is another way

to sponsor local jobs, and it is often not for the consumers' best interest. Governments will finance subventions through tax... that consumers will pay.

Trade agreements: countries negotiate to lower trade barriers; many countries are happy to get lower tariff if it helps them export more. But they are reluctant to lower their tax to imports if it jeopardises local factories and jobs.

Money words

Trade deficit
貿易赤字

Manufacture
製造

Consumption
消耗

Raw material
原材料

Imports
進口貨

Exports
輸出物

Credit
信貸

Currency
貨幣

Tax
稅

Tariff
關稅

Quotas
配額

Subventions
補貼

Negotiate
談判

quiztime

How much do you know?

Choose the correct answer

- In 2006, US trade deficit amounted to:
A US\$489 million
B US\$58 billion
C US\$764 billion
- Canada has a trade deficit.
A True
B False
- The country that imports the highest value of goods to the US is:
A China
B Canada
C Mexico
- Last year, China's trade surplus amounted to
A US\$800 billion
B US\$200 billion
C US\$1,000 billion
- The top five countries with trade surpluses are:

Answers on page 11

Hong Kong

Hong Kong Census and Statistics Department calculates Hong Kong trade balance by adding three numbers, not two:
Imports: goods that arrive in Hong Kong, whether for being used in Hong Kong or re-exported to other countries.
Exports: goods made in Hong Kong and sold outside Hong Kong.
Re-exports: goods that have entered Hong Kong and are being sent abroad. How many Halloween toys are re-exported!?

Practise trading

Organise a dinner with friends. Each of you prepare a different food. Either each of you cook small portions of a whole dinner, or each of you specialises in one type of food. Sell (with toy money) to each other the food and count how much each of you has sold (export) and how much each of you has bought (import). Who runs a trade deficit and who runs a trade surplus?