U.S. International Trade: Trends and Forecasts

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Summary

The U.S. trade deficit is shrinking primarily because the global financial crisis is causing U.S. imports to drop faster than U.S. exports. The global simultaneous recession, however, implies that exporting countries cannot rely on increased foreign demand to make up for slack demand at home. Even though U.S. imports are projected to decline, companies competing with imports are still likely to face diminishing demand as the domestic economy shrinks. These conditions imply that the political forces to protect domestic industry from imports are likely to intensify both in the United States and abroad.

In 2008, the **trade deficit in goods** reached $821.2 billion on a balance of payments (BoP) basis, up slightly from $819.4 billion in 2007 but less than the $838.3 billion in 2006. The 2008 deficit on merchandise trade with China was $266.3 billion (Census basis), with the European Union was $93.4 billion, with Japan was $72.7 billion, with Canada was $74.2 billion, with Mexico was $64.4 billion, and the Asian Newly Industrialized Countries (Hong Kong, South Korea, Singapore, and Taiwan) was $3.8 billion. **Imports of goods** of $2,112.5 billion increased by $144.7 billion (7.3%) over 2007. **Exports of goods** of $1,291.3 billion rose by $142.8 billion (12.4%). Although the overall trade deficit for 2008 was up, in the fourth quarter as the U.S. recession worsened, imports declined faster than exports resulting in a trade deficit for the month of December that was $23.0 billion less than the comparable deficit for July.

Trade deficits are a concern for Congress because they may generate trade friction and pressures for the government to do more to open foreign markets, to shield U.S. producers from foreign competition, or to assist U.S. industries to become more competitive. Overall U.S. trade deficits reflect excess spending (a shortage of savings) in the domestic economy and a reliance on capital imports to finance that shortfall. Capital inflows serve to offset the outflow of dollars used to pay for imports. Movements in the exchange rate help to balance trade. The rising trade deficit (when not matched by capital inflows) places downward pressure on the value of the dollar which, in turn, helps to shrink the deficit by making U.S. exports cheaper and imports more expensive. Central banks in countries such as China, however, have intervened in foreign exchange markets to keep the value of their currencies from rising too fast.

The broadest measure of U.S. international economic transactions is the balance on current account. In addition to merchandise trade, it includes trade in services and unilateral transfers. In 2007, the deficit on current account fell to a revised $738.6 billion from a revised $811.5 billion in 2006. In trade in advanced technology products, the U.S. balance improved from a deficit of $38 billion in 2006 but deteriorated to $53 billion in 2007 and $56 billion in 2008. In trade in motor vehicles and parts, the $107 billion U.S. deficit in 2007 was mainly with Japan, Mexico, Germany, and South Korea. In crude oil, major sources of the $342 billion in imports were Canada, Saudi Arabia, Venezuela, Nigeria, and Mexico. This report will be updated periodically.

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Most Recent Developments

As the global financial crisis has worsened and the United States and other countries drop into recession, the declining U.S. trade deficit is likely to contribute positively to U.S. gross domestic product. The U.S. recession would be worse without the shrinking U.S. trade deficit. In 2009, world economic growth is projected to be less than 1% or even negative, and North America, Japan, and Europe are experiencing a simultaneous recession. These recessionary economic conditions have combined with trillions of dollars lost in equity markets and a credit squeeze that is threatening the health of numerous businesses all over the world. A major problem is that exporting countries cannot rely on increased foreign demand to make up for slack demand at home. There is little prospect that they can export their way out of this recession. Even though U.S. imports are projected to decline, companies competing with imports are still likely to face diminishing demand as the domestic economy shrinks. These conditions imply that the political forces to protect domestic industry from imports are likely to intensify both in the United States and abroad.

In 2009, the U.S. deficit in merchandise trade is projected to drop by about half (relative to 2008) to around $435 billion as the U.S. recession causes imports to decline faster than exports. Total U.S. trade (exports plus imports of goods and services) also is projected to fall by about 21%.

In 2009, imports of petroleum and products are projected to fall by about 60% as moderating prices for crude oil and weakening domestic demand for gasoline and other petroleum products cut into the need for imports.

Trade in Goods

In 2008, the **trade deficit in goods** reached $821.2 billion on a balance of payments (BoP) basis, up slightly from $819.4 billion in 2007 but less than the $838.3 billion in 2006. The 2008 deficit on merchandise trade with China was $266.3 billion (Census basis), with the European Union was $93.4 billion, with Japan was $72.7 billion, with Canada was $74.2 billion, with Mexico was $64.4 billion, and the Asian Newly Industrialized Countries (Hong Kong, South Korea, Singapore, and Taiwan) was $3.8 billion. **Imports of goods** of $2,112.5 billion increased by $144.7 billion (7.3%) over 2007. Increases in imports by sector were: crude oil up $104.8 billion, capital goods except automotive up $9.2 billion, automotive vehicles and parts down $25.2 billion, and consumer goods up $7.6 billion. **Exports of goods** of $1,291.3 billion rose by $142.8 billion (12.4%), particularly in industrial supplies, up $70.9 billion, capital goods except automotive up $22.0 billion, automotive vehicles and parts down $0.1 billion, and consumer goods up $15.1 billion. Although the overall trade deficit was up, in the fourth quarter as the U.S. recession worsened, imports declined faster than exports resulting in a small quarterly trade deficit. **U.S. exports and imports of goods began to decline in August 2008. In December 2008, exports of goods were $32.0 billion lower and imports were $55.1 billion lower than in July 2008. This resulted in a trade deficit for the month of December that was $23.0 billion less than the comparable deficit for July.**

Trade in Services

In 2008, total annual imports of services of $407.6 billion and exports of $551.6 billion yielded a surplus in U.S. services trade of $144.0 billion. The U.S. service industries, particularly, financial

services, tourism, shipping, and insurance, tend to compete well in international markets. **In August 2008, U.S. services exports and imports peaked and have declined slightly each month since.**

Trade in Goods and Services

Since the United States runs a surplus in trade in services, the combined deficit on goods and services is lower than the deficit on goods alone. In 2008, exports of goods and services of $1,843.0 and imports of $2,520.1 resulted in a deficit of $677.1 billion, down from the $700.3 billion in 2007 and the $753.3 billion in 2006.

For 2008, the annual trade deficit on goods and services amounted to approximately 4.7% of U.S. gross domestic product (GDP, $14.3 trillion in 2008), down slightly from 5.1% in 2007 and 5.4% in 2006. A level of 5% for countries is considered to be cautionary by economic observers. At that level, other countries have experienced problems paying for imports and maintaining the value of their currency. Given the "safe haven" effect (investors seeking a safe investment) for U.S. Treasury securities, however, as the global financial crisis has worsened, foreign investors have flocked to U.S. securities. As a result, U.S. interest rates have remained relatively low, and in combination with the declining U.S. trade deficit have worked to allay concerns over the ability of the United States to finance the excess of imports over exports.

Figure 1 shows U.S. trade balances in goods and services by month. 2007 data is graphed in bars; 2008 data is graphed in lines. In 2007, the monthly surplus in services gradually rose from $7.8 billion to $11.9 billion. The 2008 monthly services balance averages close to $12 billion. Total 2008 annual imports of services of $407.6 billion and exports of $551.6 billion yielded a surplus in U.S. services trade of $144.0 billion.[1] **The December 2008 monthly deficit on goods and services of $40.0 was the lowest monthly deficit in three years.**

This report provides an overview of the current status, trends, and forecasts for U.S. import and export flows as well as certain balances. The purpose of this report is to provide current data and brief explanations for the various types of trade flows along with a brief discussion of trends that may require attention or point to the need for policy changes. The use of trade policy as an economic or strategic tool is beyond the scope of this report but can be found in various other CRS reports.[2] Further detail on trade in specific commodities, with particular countries or regions, or for different time periods, can be obtained from the Department of Commerce,[3] U.S. International Trade Commission,[4] or by contacting the authors of this report.

[1] Monthly trade data are available from the U.S. Bureau of Economic Analysis at http://www.bea.gov/newsreleases/International/trade/2008/pdf/trad0808.pdf.

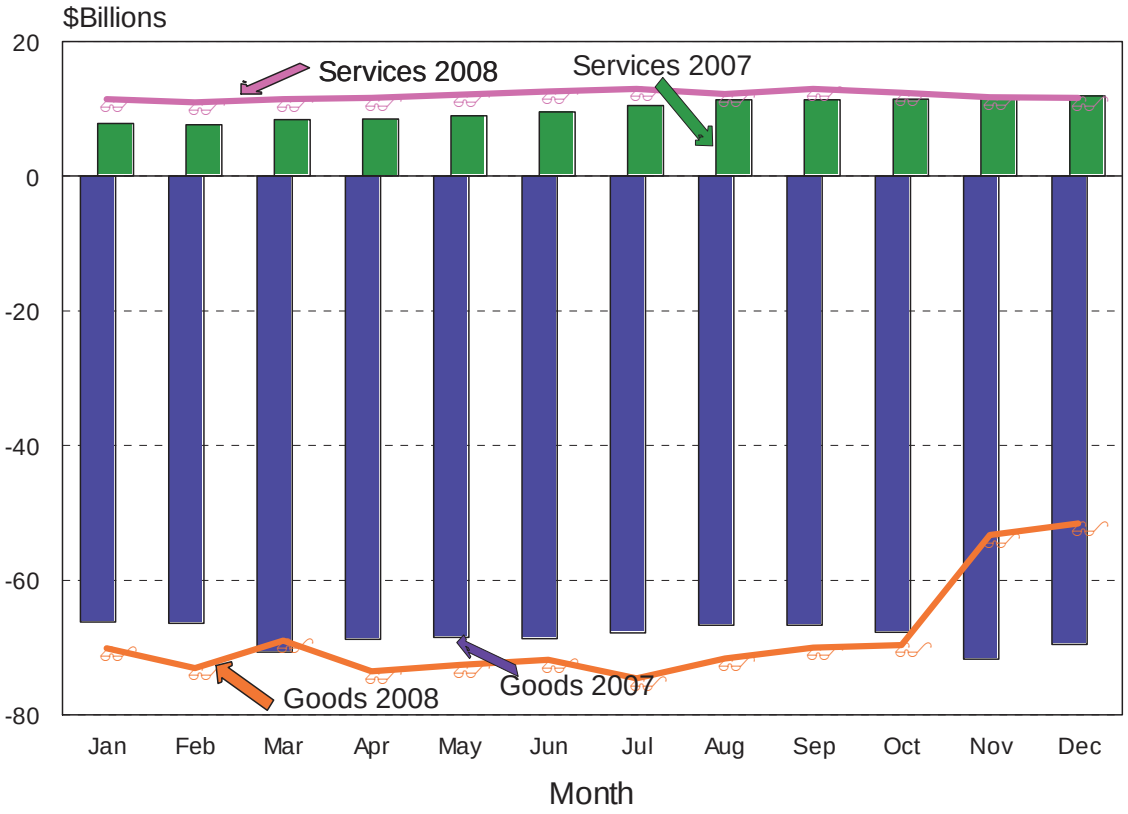
[2] See, for example, CRS Report RL31832, *The Export Administration Act: Evolution, Provisions, and Debate*, by Ian F. Fergusson; CRS Report RL33550, *Trade Remedy Legislation: Applying Countervailing Action to Nonmarket Economy Countries*, by Vivian C. Jones; CRS Report RL32014, *WTO Dispute Settlement: Status of U.S. Compliance in Pending Cases*, by Jeanne J. Grimmett; CRS Report RL33274, *Financing the U.S. Trade Deficit*, by James K. Jackson; CRS Report RL33867, *Tariff Modifications: Miscellaneous Tariff Bills*, by Vivian C. Jones; or CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Cures*, by Craig K. Elwell.

[3] Commerce Department data are available at http://www.bea.gov/.

[4] U.S. International Trade Commission data are available at http://dataweb.usitc.gov/.

Figure 1. Monthly U.S. Balances of Trade in Goods and Services, 2007 and 2008

(in Current Dollars)



Source: CRS with Data from the U.S. Department of Commerce.

The U.S. Deficit in International Trade

International trade in goods and services along with flows of financial capital affect virtually every person living in the United States. Whether buying imported clothes, gasoline, computers or cars, or working in an industry that competes with imports, or sells products abroad, the influence of international trade on economic activity is ubiquitous. Although the United States is one of the three largest exporters in the world (China and Germany are the other two), U.S. sales abroad are overshadowed by the huge demand by Americans for imported products. Since 1976, the United States has incurred continual merchandise trade deficits with annual amounts increasing steadily until the past two years.

For the Congress, the trade deficit and other aspects of international trade enter into public policy considerations through many portals. At the macroeconomic level, trade deficits are a concern because they affect U.S. economic growth, interest rates, labor, and the debt load of the economy. As the trade deficit rises relative to the total economy, the risk increases that the dollar will weaken, raise prices, disrupt financial markets, and reduce the economic well being of the population. On the strategic level, trade ties often lead to a deepening of bilateral relations with other nations that can develop into formal free trade agreements or political and security arrangements. Trade also can be used as a tool to accomplish strategic objectives—particularly through providing preferential trading arrangements or by imposing trade sanctions.

In the current financial crisis, countries may turn inward to rescue their own businesses and economies even if such actions come at the expense of the international benefit. By necessity, this may involve seeking national advantage by either protecting domestic industries or promoting exports.

On the microeconomic side, imports of specific products can generate trade friction and pressures from constituent interests for the government to shield U.S. producers from foreign competition, provide adjustment assistance, open foreign markets, or assist U.S. industries to become more competitive.

Savings Shortfalls and the Trade Deficit

Overall U.S. trade deficits reflect a shortage of savings in the domestic economy and a reliance on capital imports to finance that shortfall. A savings shortfall is the analogue of excessive spending that is financed by borrowing. Households borrow for consumption; businesses borrow to invest; and the government borrows to cover its budget deficit. At the international transaction level, the savings shortfall is manifest when the United States imports capital to pay for its excess of imports (trade deficit).

Whether this foreign borrowing is beneficial for the U.S. economy depends on how the imports of capital are used. If they are used to finance investments that generate a future return at a sufficiently high rate (they raise future output and productivity), then they may increase the well-being of current and future generations. However, if the imports are used only for current consumption, the net effect of the borrowing will be to shift the burden of repayment to future generations without a corresponding benefit to them.

Implications of the Trade Deficit

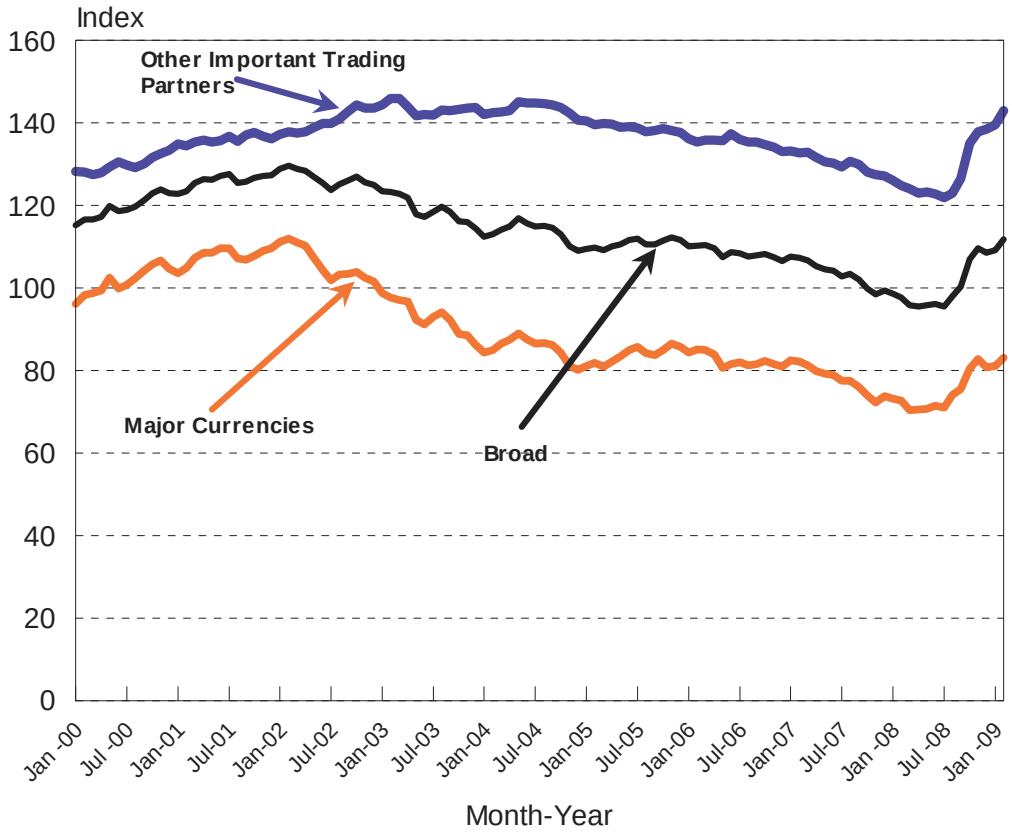
U.S. trade balances are macroeconomic variables that may or may not indicate underlying problems with the competitiveness of particular industries or what some refer to as the competitiveness of a nation. The reason is that overall trade flows are determined, within the framework of institutional barriers to trade and the activities of individual industries, primarily by macroeconomic factors such as rates of growth, savings and investment behavior (including government budget deficits/surpluses), international capital flows, and exchange rates.[5]

Increases in trade deficits may diminish economic growth, since net exports (exports minus imports) are a component of gross domestic product. In the late 1980s and early 1990s, export growth was an important element in overall U.S. economic growth. In 2006, merchandise exports accounted for about 7.7% of GDP, compared with 5.9% in 1990. Recently, however, rising trade deficits have reduced total domestic demand in the economy, but the weakness in the trade sector has been offset by strong consumer, business, and government demand.

[5] For further information on trade deficits and the macroeconomy, see CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Cures*, by Craig K. Elwell and CRS Report RL33186, *Is the U.S. Current Account Deficit Sustainable?*, by Marc Labonte.

Many economists fear that the rising U.S. trade and current account[6] deficits could lead to a large drop in the value of the U.S. dollar. The current account deficit, while decreasing from 6.2% of GDP in 2006 to 5.1% of GDP in 2007, continues to place downward pressure on the dollar. A weakened dollar boosts exports by making them cheaper, narrowing the U.S. trade deficit. Compared to a Federal Reserve index of major currencies weighted by importance to U.S. trade, the dollar has lost a third of its value since 2002 (see **Figure 2**). The dollar has fallen against the euro, yen, British pound, Australian dollar, and Canadian dollar. In fact, the U.S. dollar fell to parity with the Canadian loonie in September 2007 for the first time in thirty years, and remains roughly in that range. Between July and November 2008, the U.S. dollar strengthened against other currencies as the global financial crisis increased "safe haven demand" for the dollar. Since November, the dollar has lost some value, partly due to the Federal Reserve's lowering of interest rates.

Figure 2. Month-End Trade-Weighted U.S. Dollar Against Broad, Major Currencies, and Other Important Trading Partner Indices, January 2000-October 2008



Source: Federal Reserve Bank of St. Louis, http://research.stlouisfed.org/.

Notes: Broad Index (January 1997 = 100): Euro Area, Canada, Japan, Mexico, China, United Kingdom, Taiwan, Korea, Singapore, Hong Kong, Malaysia, Brazil, Switzerland, Thailand, Philippines, Australia, Indonesia, India, Israel, Saudi Arabia, Russia, Sweden, Argentina, Venezuela, Chile and Colombia.

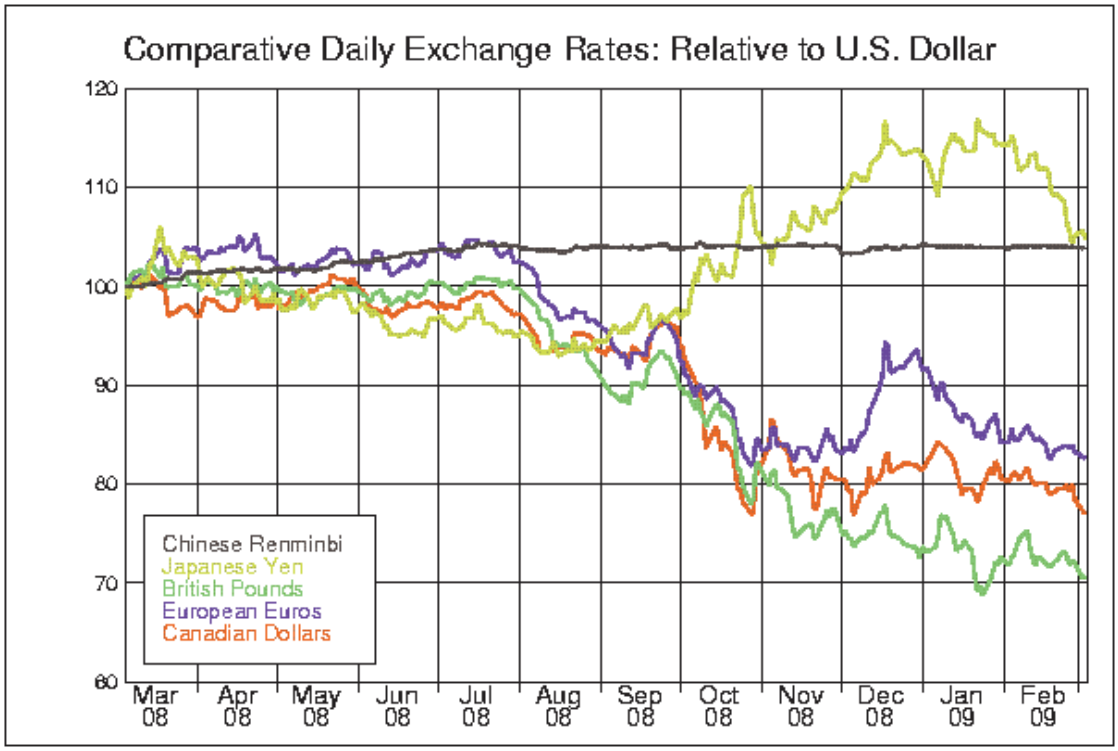
Major Currencies Index (January 1973 = 100): Euro Area, Canada, Japan, United Kingdom, Switzerland, Australia, and Sweden.

[6] U.S. trade in goods and services plus net flows of investment income and remittances.

Other Important Trade Partners Index (January 1997 = 100): Mexico, China, Taiwan, Korea, Singapore, Hong Kong, Malaysia, Brazil, Thailand, Philippines, Indonesia, India, Israel, Saudi Arabia, Russia, Argentina, Venezuela, Chile and Colombia.

Although a weakened dollar helps to reduce U.S. trade imbalances, it also may reduce the dollar's attractiveness to foreign investors. If foreign investors stop offsetting the deficit by buying dollar-denominated assets, the value of the dollar could drop—possibly precipitously. In that case, U.S. interest rates would have to rise to attract more foreign investment; financial markets could be disrupted; and inflationary pressures could increase. The global financial crisis has worked to strengthen the dollar vis-a-vis the EU euro, UK pound, Canadian dollar, and many currencies of developing nations. The Japanese yen has appreciated considerably but recently has been depreciating relative to the dollar. The Chinese renminbi appreciated somewhat until mid-2008, but since then has been steady.

Figure 3. The Exchange Value of the Chinese Renminbi, Japanese Yen, British Pound, EU Euro, and Canadian Dollar



Source: Werner Antweiler, University of British Columbia, Vancouver BC, Canada. PACIFIC Exchange Rate Service

Currently, foreign investment in dollar assets along with purchases of securities by investors seeking a safe haven as well as from central banks of countries such as China have bolstered the value of the dollar. China's central bank has intervened in currency markets to keep its exchange rate relatively stable. Japan claims not to have intervened in currency markets since spring of 2004. This intervention adds to the foreign currency reserves held by these countries. As of the

end of December 2008, Japan's central bank held $982 billion in foreign currency reserves,[7] and the Bank of China held $1,946 billion.[8] In U.S. Treasury securities, as of December 2008, Japan held $626 billion and China $727 billion.[9] On July 21, 2005, China announced a 2.1% revaluation of its currency, and the value of the renminbi has appreciated steadily from 8.2 to 7.0 renminbi per dollar (15%). Continuing in that range, on February 4, 2008, the renminbi was trading at 5.3 per dollar.

A recent development in foreign country holdings of dollars and other reserve currencies is that some are turning toward creating sovereign wealth funds (SWFs). These are funds owned by governments that are invested in stocks, bonds, property, and other financial instruments denominated in dollars, euros, or other hard currency. For China, Japan, South Korea, Russia, and the oil-exporting nations of the Persian Gulf, the source of capital for these funds is coming from governmental holdings of foreign exchange. For China and Japan, for example, foreign exchange reserves have traditionally been invested by their respective central banks primarily in low-yielding but low-risk government bonds, i.e., U.S. Treasury securities. The purpose of sovereign wealth funds is to diversify investments and to earn a higher rate of return. For example, in September 2007, China created a sovereign wealth fund—the China Investment Corporation (CIC)—with initial capital of $200 billion. Depending on how these funds are managed and what leverage they acquire, they could affect U.S. interest rates (foreign purchases of U.S. Treasury securities tend to reduce U.S. interest rates), corporate activities (if funds buy significant voting shares of companies), and foreign access to technology and raw materials. The U.S. trade deficit provides some of the foreign exchange that goes to finance these sovereign wealth funds.[10]

How long can the United States keep running trade deficits? U.S. deficits in trade can continue for as long as foreign investors are willing to buy and hold U.S. assets, particularly government securities and other financial assets.[11] Their willingness depends on a complicated array of factors including the perception of the United States as a safe haven for capital, relative rates of return on investments, interest rates on U.S. financial assets, actions by foreign central banks, and the savings and investment decisions of businesses, governments, and households. The policy levers that influence these factors that affect the trade deficit are held by the Federal Reserve[12] (interest rates) as well as both Congress and the Administration (government budget deficits and trade policy), and their counterpart institutions abroad.

In the 111th Congress, legislation directed at the trade deficit has been taking several strategies. Some address trade barriers by particular countries, particularly China. Others are aimed at preventing manipulation of exchange rates or at imposing import duties to compensate for the

[7] Statistics on Japanese international reserves are released on a monthly basis by the Japanese Ministry of Finance and available at https://www.mof.go.jp/english/.

[8] Statistics on Chinese international reserves are available from the Chinability website, a non-profit website that provides Chinese economic and business data and analysis, at http://www.chinability.com/.

[9] Statistics on foreign holdings of U.S. Treasury securities are available at http://www.treasury.gov/tic/mfh.txt. For further information, seeCRS Report RS22331, *Foreign Holdings of Federal Debt*, by Justin Murray and Marc Labonte.

[10] For more information on sovereign wealth funds, see CRS Report RL34336, *Sovereign Wealth Funds: Background and Policy Issues for Congress*, by Martin A. Weiss, CRS Report RL34337, *China's Sovereign Wealth Fund*, by Michael F. Martin.

[11] See Mann, Catherine L. *Is the U.S. Trade Deficit Sustainable?* Washington, Institute for International Economics, 1999. 224 p. See also:CRS Report RL33274, *Financing the U.S. Trade Deficit*, by James K. Jackson.CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Cures*, by Craig K. Elwell.

[12] For details, seeCRS Report RS20826, *Structure and Functions of The Federal Reserve System*, by Pauline Smale.

arguably undervalued Chinese currency.[13] Other bills seek to find domestic substitutes for imported oil, or require the President or a policy group to take certain actions if the trade deficit exceeded a threshold amount. Legislation is tracked in other CRS reports dealing with trade.

Types of Trade Data

The U.S. government compiles trade data in four different ways. The data on goods trade are first compiled on a Census basis. Bilateral and sectoral data are reported only on a Census basis. The Census numbers are then adjusted and reported monthly on a balance of payments (BoP) basis that includes adjustments for valuation, coverage, and timing and excludes military transactions. The data are finally reported in terms of national income and product accounts (NIPA). The NIPA data also can be further adjusted to include correcting for inflation to gauge movement in trade volumes as distinct from trade values. Conceptually, this procedure is analogous to adjusting macroeconomic data from nominal to real values.

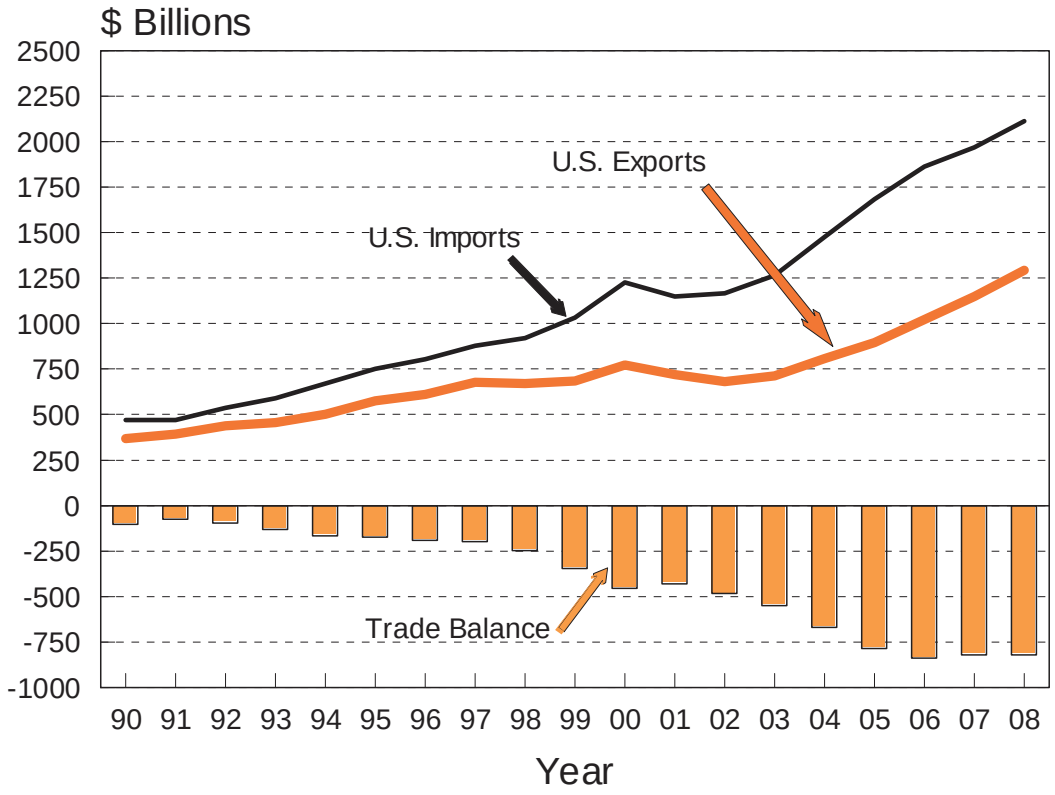
The Census Bureau also reports imports on a c.i.f. (cost, insurance, and freight) basis which includes the value of insurance, international shipping, and other charges incurred in bringing merchandise to U.S. ports of entry. The customs (or f.a.s.—free alongside ship) data do not include these supplementary costs. U.S. import data are reported on a customs basis with insurance and freight charges counted in U.S. services trade. Other countries, however, commonly report merchandise import figures that include insurance and freight charges. This tends to overstate their imports and understate their trade surpluses with the United States.

U.S. Merchandise Trade Balance

The merchandise (goods) trade balance is the most widely known and frequently used indicator of U.S. international economic activity (see **Figure 4**). In 2008, total U.S. merchandise trade amounted to $3,404 billion, an 8.4% increase from $3,116 billion in 2007. Merchandise exports in 2008 totaled $1,291 billion, while imports reached $2,112 billion (BoP basis). The U.S. merchandise trade deficit rose slightly from $819 billion in 2007 to $821 billion in 2008 after dropping slightly in 2007. Prior to this, the merchandise deficit increased in double-digit rates by 22% in 2004 and 18% in 2005. The deficit increase slowed in 2006, increasing by only 6.5%.

[13] For legislation related to trade with China and the Chinese currency, seeCRS Report RL33536, *China-U.S. Trade Issues*, by Wayne M. Morrison.

Figure 4. U.S. Merchandise Exports, Imports, and Trade Balance



Source: CRS with data from U.S. Bureau of Economic Analysis http://www.bea.gov/, IMF

U.S. merchandise exports (as shown in **Table 1** and **Figure 5**), decreased in 2001 and 2002 in response to the global slowdown, but generally have been increasing each year. As shown in **Figure 5**, the growth of imports has also been steady, although they too fell by 6.4% in 2001 before recovering in 2002. In 2003, import growth was nearly double export growth, although in 2004, export growth almost caught up with that of imports, and in 2005, the rate of increase for both dropped slightly. Growth in exports and imports slowed in 2007 with exports rising by 12.3% and imports by 5.7%. Likewise in 2008, exports grew faster than imports (12.4% vs 7.3%), but the trade deficit still increased. This is because U.S. imports are about 63% greater than U.S. exports, so exports must grow about 63% faster than imports just for the deficit to remain constant.

Table 1. U.S. Exports, Imports, and Merchandise Trade Balances

(billions of U.S. dollars)

	Census basis			Balance of payments basis		
Year	Exports (f.a.s.)[a]	Imports (customs)[b]	Trade Balance	Exports (f.a.s.)[a]	Imports (customs)[b]	Trade Balance
1982	212.3	243.9	-31.6	211.2	247.6	-36.4
1983	201.7	261.7	-60.0	201.8	268.9	-67.1
1984	218.7	330.5	-111.8	219.9	332.4	-112.5
1985	212.6	336.4	-123.8	215.9	338.1	-122.2
1986	226.4	365.7	-139.3	223.3	368.4	-145.1
1987	253.9	406.3	-152.4	250.2	409.8	-159.6
1988	323.3	441.9	-118.6	320.2	447.2	-127.0
1989	362.9	473.4	-110.5	359.9	477.7	-117.8
1990	392.9	495.2	-102.3	387.4	498.4	-111.0
1991	421.8	487.1	-65.3	414.1	491.0	-76.9
1992	448.2	532.6	-84.4	439.6	536.5	-96.9
1993	464.8	580.5	-115.7	456.9	589.4	-132.5
1994	512.6	663.2	-150.6	502.9	668.7	-165.8
1995	584.7	743.5	-158.8	575.2	749.4	-174.2
1996	625.1	795.3	-170.2	612.1	803.1	-191.0
1997	689.2	869.7	-180.5	678.4	876.8	-198.4
1998	682.1	911.9	-229.8	670.4	918.6	-248.2
1999	695.8	1,024.6	-328.8	684.0	1031.8	-347.8
2000	781.9	1,218.0	-436.1	772.0	1226.7	-454.7
2001	730.9	1,142.3	-411.4	718.7	1148.2	-429.5
2002	693.5	1,163.6	-470.1	682.4	1167.4	-485.0
2003	724.8	1,257.1	-532.3	713.4	1264.3	-550.9
2004	818.8	1,469.7	-650.9	807.5	1477.1	-669.6
2005	906.0	1,673.5	-767.5	894.6	1681.8	-787.1
2006	1,036.6	1,853.9	-817.3	1023.1	1861.4	-838.3
2007	1,162.5	1,957.0	-794.5	1148.5	1967.9	-819.4
2008	1,300.5	2,100.4	-799.9	1291.3	2112.5	-821.2

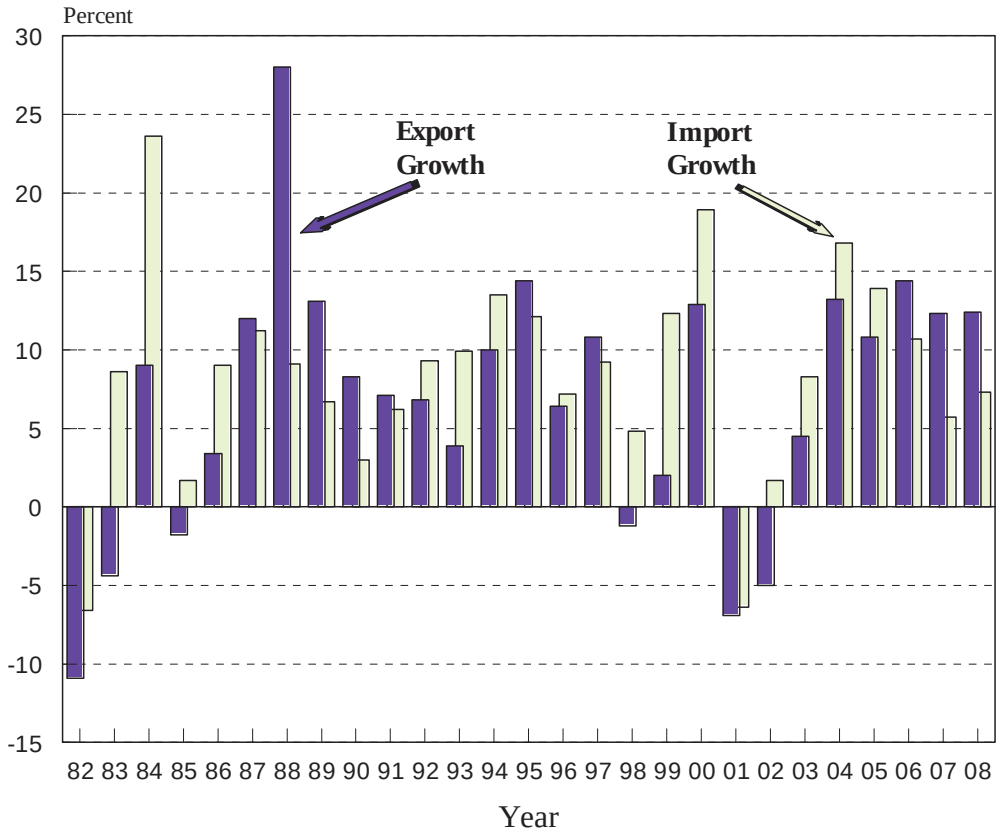
Source: U.S. Department of Commerce, Bureau of Economic Analysis, U.S. International Transactions Accounts Data.

Note: Goods on a Census basis are adjusted to a BoP basis to include changes in ownership that occur without goods passing into or out of the customs territory of the United States, to eliminate duplication, and to value transactions according to a standard definition. Export adjustments include counting military sales as services not goods, adding private gift parcels, and foreign official gold sales from U.S. private dealers. Import adjustments include adding in inland freight in Canada and foreign official gold sales to U.S. private dealers, and subtracting imports by U.S. military agencies.

a. Exports are valued on an f.a.s. basis, which refers to the free alongside ship value at the port of export and generally include inland freight, insurance, and other charges incurred in placing the goods alongside the carrier at the port of exportation.

b. Imports are valued as reported by the U.S. Customs Service, known as Customs basis, and exclude import duties, the cost of freight, insurance, and other charges incurred in bringing merchandise to the United States.

Figure 5. Annual Growth in U.S. Merchandise Exports and Imports, 1982-2007

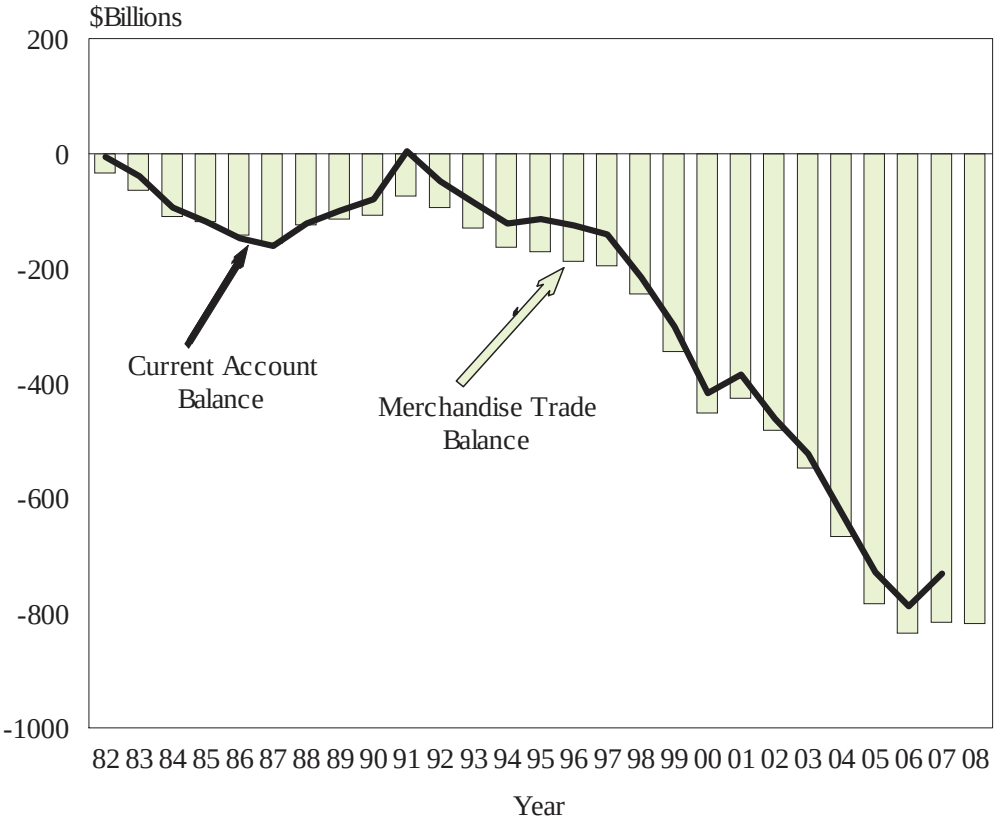


Source: Underlying data from U.S. Department of Commerce.

Current Account Balance

The current account provides a broader measure of U.S. trade because it includes services, investment income, and unilateral transfers in addition to merchandise trade (see). The balance on services includes travel, transportation, fees and royalties, insurance payments, and other government and private services. The balance on investment income includes income received on U.S. assets abroad minus income paid on foreign assets in the United States. Unilateral transfers are international transfers of funds for which there is no *quid pro quo*. These include private gifts, remittances, pension payments, and government grants (foreign aid). Data on the current account are announced several months later than those on trade in goods and services.

Figure 6. U.S. Current Account and Merchandise Trade Balances



Source: CRS with data from U.S. Bureau of Economic Analysis, U.S. International Transactions Account.

Table 2 summarizes the components of the U.S. current account. In 2007, the U.S. deficit on current account decreased to $731.2 from $788.1 in 2006. The 2007 deficit on current account amounted to 5.3 % of GDP. This remains above the caution level used by the International Monetary Fund of 5%. Since the dollar is used as an international reserve currency, however, the United States can run trade deficits without the same downward pressure on the value of the dollar as other nations. Historically, the current account deficit fell from a then record-high $160.7 billion in 1987 to $79.0 billion in 1990, and switched to a $3.7 billion surplus in 1991 (primarily because of payments to fund the Gulf War by Japan and other nations). However, since a slight decline in 1995, the current account deficit has been increasing significantly except for a slight dip in 2001 because of the U.S. recession and a similar situation in 2007.

Table 2. U.S. Current Account Balances

(billions of dollars)

Calendar Year	Merchandise Trade Balance[a]	Services Balance[b]	Investment Income Balance[c]	Net Unilateral Transfers[d]	Current Account Balance[e]
1985	-122.2	0.3	25.7	-22.0	-118.2
1986	-145.1	6.5	15.5	-24.1	-147.2
1987	-159.6	7.9	14.3	-23.3	-160.7
1988	-127.0	12.4	18.7	-25.3	-121.2
1989	-117.7	24.6	19.8	-26.2	-99.5
1990	-111.0	30.2	28.6	-26.7	-79.0
1991	-76.9	45.8	24.1	9.9	2.9
1992	-96.9	57.7	24.2	-35.1	-50.1
1993	-132.5	62.1	25.3	-39.8	-84.8
1994	-165.8	67.3	17.1	-40.3	-121.6
1995	-174.2	77.8	20.9	-38.1	-113.6
1996	-191.0	86.9	22.3	-43.0	-124.8
1997	-198.4	90.2	12.6	-45.1	-140.7
1998	-248.2	82.1	4.3	-53.2	-215.1
1999	-347.8	82.7	13.9	-50.4	-301.6
2000	-454.7	74.9	21.1	-58.6	-417.4
2001	-429.5	64.4	31.7	-51.3	-384.7
2002	-485.0	61.2	27.4	-64.9	-461.3
2003	-550.9	54.0	45.3	-71.8	-523.4
2004	-669.6	61.8	67.2	-84.5	-625.0
2005	-787.1	75.6	72.4	-89.8	-729.0
2006	-838.3	85.0	57.2	-92.0	-788.1
2007	-819.4	119.1	81.7	-112.7	-731.2
2008	—	—	—	—	—

Source: U.S. Bureau of Economic Analysis, U.S. International Transactions.

a. On a BoP basis.

b. Includes travel, transportation, fees and royalties, insurance payments, other government and private services, and investment income.

c. Income receipts on U.S. assets abroad minus income payments on foreign assets in the United States.

d. International transfers of funds, such as private gifts, pension payments, and government grants for which there is no quid pro quo.

e. The trade balance plus the service balance plus investment income balance plus net unilateral transfers, although conceptually equal to the current account balance, may differ slightly as a result of rounding.

Because the merchandise trade balance comprises the greater part of the current account, the two tend to track each other. Unlike the merchandise trade balance, however, the services account registered a $85.0 billion surplus in 2006 and $119.1 billion surplus in 2007. Since Americans are such large investors in foreign economies, the United States traditionally also has a surplus in its investment income ($81.7 billion in 2007), but the deficit in unilateral transfers (primarily dollars sent abroad by foreign workers and recent immigrants) totaled $92.0 billion in 2006 and $112.7 billion in 2007. Unilateral transfers have now reached more than triple the level of the late 1980s.

Forecasts

According to Global Insight, Inc., a leading U.S. economic forecasting firm, in 2008 the U.S. merchandise (goods) trade deficit is projected to decline to about $931.9 billion on a balance of payments basis and to stay at the level for 2009 and 2010 (see **Table 3** and **Figure 7**). The U.S. current account deficit declined from the peak of $811.5 billion in 2006 to $749.6 billion in 2007. The current account deficit is forecasted to increase to $763.6 billion 2008 and then to decrease in 2009 and 2010.

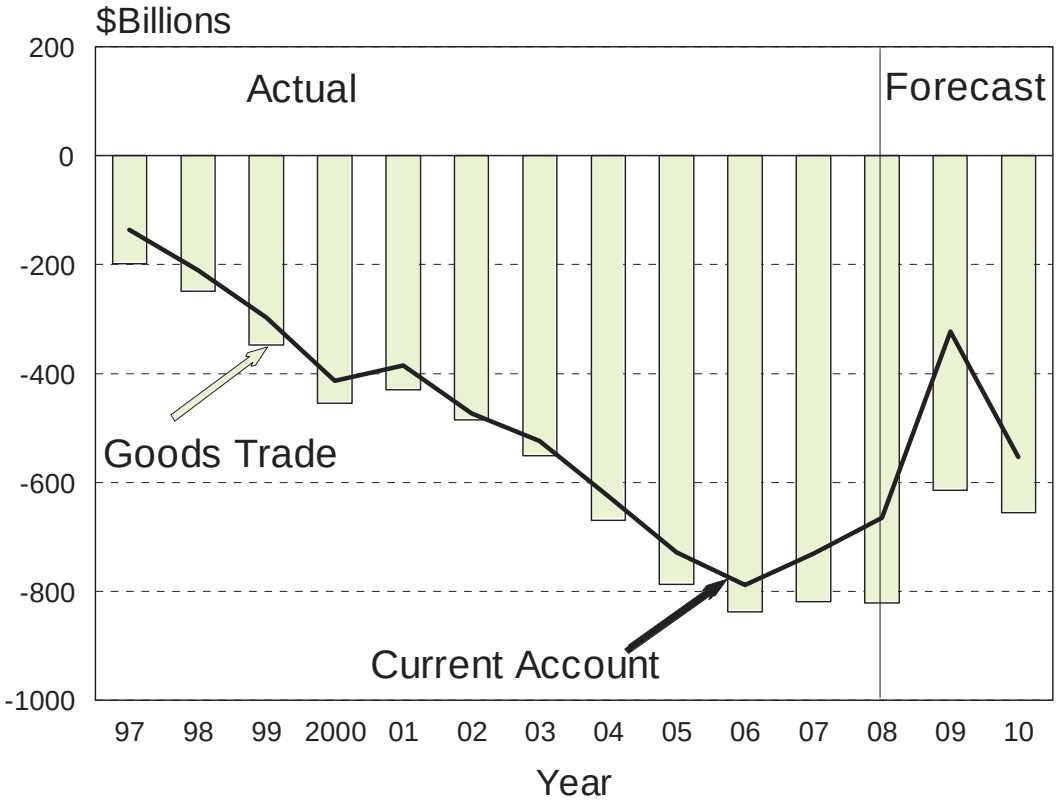
Table 3. U.S. Merchandise and Current Account Trade, 2003 to 2010 (Forecast)

(billions of U.S. dollars)

	2003	2004	2005	2006	2007	2008	2009	2010
Merchandise Trade								
Exports								
Actual	724.4	818.3	908.4	1032.1	1149.2	1291.3	—	—
Forecasted	—	—	—	—	—	—	1,035.1	1,025.0
Imports								
Actual	1284.0	1499.5	1705.3	1882.7	1985.2	2,112.5	—	—
Forecasted	—	—	—	—	—	—	1,489.9	1,661.9
Trade Balance								
Actual	-550.9	-669.6	-787.1	-838.3	-819.4	-821.2	—	—
Forecasted	—	—	—	—	—	—	-429.9	-581.8
Services Trade Balance								
Actual	54.0	61.8	75.6	85.0	119.1	—	—	—
Forecasted	—	—	—	—	—	147.4	165.2	175.1
Current Account Balance								
Actual	-523.4	-625.0	-729.0	-788.1	-731.2	—	—	—
Forecasted	—	—	—	—	—	-679.7	-342.0	-489.0

Sources: U.S. Bureau of Economic Analysis and Global Insight (BoP basis).

Figure 7. U.S. Merchandise Trade and Current Account Deficits, 1997-2010 (Forecast in Current Dollars)

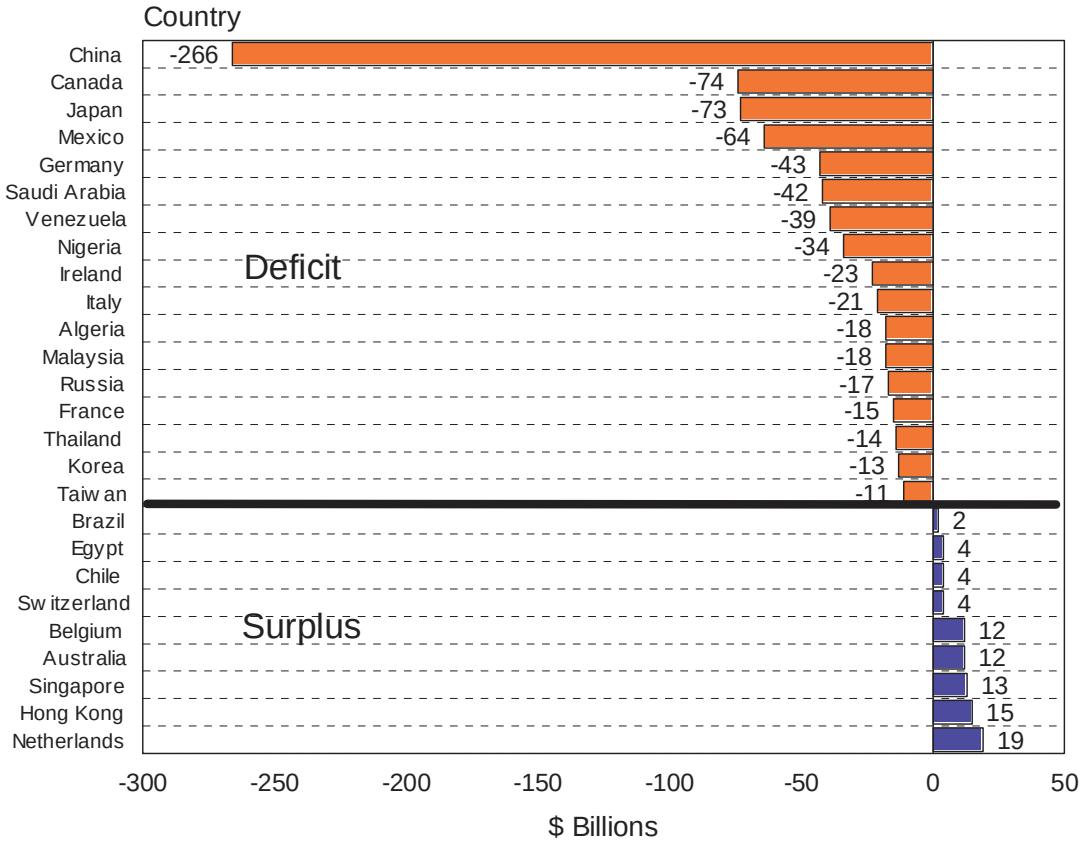


Sources: U.S. Bureau of Economic Analysis and Global Insight (BoP basis).

U.S. Trade with Selected Nations

The overall U.S. merchandise trade balance consists of deficits or surpluses with each trading partner. Many economists view the overall figure as more significant than bilateral trade balances, since rising deficits with some nations are often offset by declining deficits or growing surpluses with others. Nonetheless, abnormally large or rapidly increasing trade deficits with particular countries are often viewed as indicators that underlying problems may exist with market access, the competitiveness of particular industries, currency misalignment, or macroeconomic adjustment. **Figure 8** and **Table 4** show U.S. trade balances with selected nations.

Figure 8. U.S. Merchandise Trade Balances With Selected Nations, 2008



Source: CRS with data from the U.S. Department of Commerce (Census basis).

Most of the U.S. trade deficit can be accounted for by trade with China, Japan, Mexico, Canada, and Germany. Trade with the oil exporting countries, particularly Nigeria, Venezuela, and Saudi Arabia, also is in deficit. U.S. trade surpluses occur in trade with the Netherlands, Hong Kong, Australia, and the United Arab Emirates.

The U.S. trade deficit with China has soared over the past decade. From $32 billion in 1995 to $100 billion in 2000 and $266 billion in 2008, the negative net balance in trade with China has grown to account for nearly 30% of the total U.S. trade deficit.[14] The U.S. trade deficit with China exceeded that with Japan for the first time in the year 2000 and now is more than three times as large.

China claims that its trade is less imbalanced than U.S. data indicate. Chinese trade data differ from those of the United States primarily because of the treatment of Hong Kong as an entrepot. Since Hong Kong is a separate customs area from mainland China, Beijing counts Hong Kong as the destination for its exports sent there, even though the goods may be transshipped to other markets. For example, China would count a laptop computer that is assembled in Shanghai but shipped through Hong Kong before being exported to the United States as a sale to Hong Kong. By contrast, the United States and many of China's other trading partners count Chinese exports that are transshipped through Hong Kong as products from China not Hong Kong, including

[14] For details and policy discussion, see CRS Report RL33536, *China-U.S. Trade Issues*, by Wayne M. Morrison.

goods that contain Hong Kong components or involve final packaging in Hong Kong. The United States also counts Hong Kong as the destination of U.S. products sent there, even those that are then reexported to China. However, the PRC counts many of such reexported goods as U.S. exports to China. So by U.S. figures, U.S. exports to China tend to be understated, while by Chinese figures, Chinese exports to the U.S. tend to be understated. The net result is that the trade surplus with the United States at $102 billion in 2008 that China reported is less than half the U.S. deficit with China of $266 billion reported by the United States.

Table 4. U.S. Merchandise Trade Balances with Selected Nations and Groups

(millions of U.S. dollars, Census basis)

Country	2003	2004	2005	2006	2007	2008
Total	-532,350	-650,930	-767,477	-817,304	-794,483	-821,153
North America	-92,319	-111,547	-128,230	-136,056	-142,791	-138,550
Canada	-51,671	-66,480	-78,486	-71,782	-68,169	-74,174
Mexico	-40,648	-45,067	-49,744	-64,274	-74,622	-64,376
European Union	-98,521	-109,999	-123,123	-117,216	-107,168	-93,417
United Kingdom	-8,967	-10,274	-12,445	-8,103	-6,629	-4,844
Germany	-39,281	-45,850	-50,567	-47,763	-44,513	-42,821
France	-12,166	-10,342	-11,432	-12,822	-14,140	-14,810
Italy	-14,854	-17,413	-19,485	-20,109	-20,878	-20,665
Netherlands	9,742	11,839	11,623	13,787	14,560	40,223
Russia	-6,171	-8,930	-11,344	-15,127	-11,949	-17,440
Japan	-66,032	-75,562	-82,519	-88,568	-82,760	-72,669
China	-124,068	-161,938	-201,545	-232,589	-256,207	-266,333
Newly Industrialized Countries (NICS)	-21,217	-21,883	-15,782	-11,783	-3,904	3,758
Singapore	1,422	4,238	5,532	6,916	7,891	12,925
Hong Kong	4,669	6,513	7,459	9,829	13,092	15,149
Taiwan	-14,152	-12,879	-12,757	-15,165	-11,968	-11,048
S. Korea	-13,157	-19,755	-16,016	-13,362	-12,918	-13,269
South/Central American Countries	-26,883	-37,183	-50,460	-44,706	-27,345	-22,130
Argentina	-732	-357	-462	797	1,369	1,716
Brazil	-6,699	-7,263	-9,064	-7,136	-1,019	2,451
Colombia	-2,629	-2,751	-3,387	-2,557	-876	-1,654
OPEC	-51,064	-71,843	-92,867	-105,289	-112,987	-175,613
Venezuela	-14,305	-20,153	-27,557	-28,131	-29,709	-38,790
Saudi Arabia	-13,473	-15,702	-20,380	-24,049	-25,230	-42,308
Nigeria	-9,377	-14,694	-22,618	-25,630	-29,992	-33,966

Sources: United States Census Bureau, Foreign Trade Statistics. For other countries and further detail, see U.S. International Trade in Goods and Services Annual Revision for 2007, FT-900 (08-04), released June 10, 2008.

Table 5 lists the U.S. top deficit trading partners in merchandise trade, on a Census basis. In 2000, China overtook Japan as the top U.S. deficit trading partner. After, China, the next highest deficit trading partners are Japan, Mexico, Canada, Germany, and Nigeria.

Table 5. Top U.S. Merchandise Deficit Trading Partners, 2008

(millions of U.S. dollars)

Country	U.S. Balance	U.S. Exports	U.S. Imports
China	-266,333	71,457	337,790
Canada	-74,174	261,381	335,555
Japan	-72,669	66,579	139,248
Germany	-42,821	54,732	97,553
Saudi Arabia	-42,308	12,478	54,786
Venezuela	-38,790	12,611	51,401
Nigeria	-33,966	4,102	38,068
Ireland	-22,915	8,653	31,568
Italy	-20,665	15,479	36,143
Algeria	-18,112	1,243	19,355
Malaysia	-17,777	12,963	30,740
Russia	-17,440	9,335	26,775
France	-14,810	29,187	43,997
Thailand	-14,481	9,067	23,548
Korea	-13,269	34,807	48,076
Taiwan	-11,048	25,279	36,327
Indonesia	-9,886	5,913	15,799
Sweden	-7,405	5,084	12,489
India	-7,095	18,667	25,762
Austria	-5,821	2,649	8,471
United Kingdom	-4,844	53,775	58,619
Norway	-3,910	3,400	7,311
South Africa	-3,479	6,495	9,974
Finland	-2,145	3,762	5,906
Hungary	-1,698	1,431	3,129

Source: U.S. Department of Commerce. U.S. International Trade in Goods and Services, FT 900 (08-04).

Note: Data are on a Census basis. Exports are valued f.a.s.; imports are valued Customs.

Table 6 lists the United States' top trading partners ranked by trade turnover, defined as exports plus imports. As shown in **Table 6**, in 2008, as in 2007, Canada was America's largest total merchandise trading partner. Canada was followed by China, Mexico, Japan, Germany, the United Kingdom, Korea, Taiwan and France. Malaysia dropped from number 10 in total U.S. trade in 2006 to number 14 in 2007. Canada was the largest supplier of U.S. imports in 2006 and before, but in 2007 China surpassed Canada. By far, Canada is the top purchaser of U.S. exports with Mexico second. In 2007 China passed Japan to become third. Japan is now our fourth-ranked export market.

Table 6. Top U.S. Trading Partners Ranked by Total Merchandise Trade in 2008

(millions of U.S. dollars)

Rank	Country	Total Trade	U.S. Exports	U.S. Imports	Balance
1	Canada	596,936	261,381	335,555	-74,174
2	China	409,247	71,457	337,790	-266,333
3	Mexico	367,454	151,539	215,915	-64,376
4	Japan	205,827	66,579	139,248	-72,669
5	Germany	152,285	54,732	97,553	-42,821
6	United Kingdom	112,394	53,775	58,619	-4,844
7	Korea	82,883	34,807	48,076	-13,269
8	France	73,184	29,187	43,997	-14,810
9	Saudi Arabia	67,264	12,478	54,786	-42,308
10	Venezuela	64,012	12,611	51,401	-38,790
11	Brazil	63,369	32,910	30,459	2,451
12	Taiwan	61,606	25,279	36,327	-11,048
13	Netherlands	61,363	40,223	21,140	19,083
14	Italy	51,622	15,479	36,143	-20,664
15	Belgium	46,386	29,026	17,360	11,666
16	Singapore	44,694	28,810	15,884	12,926
17	India	44,429	18,667	25,762	-7,095
18	Malaysia	43,703	12,963	30,740	-17,777
19	Nigeria	42,170	4,102	38,068	-33,966
20	Ireland	40,221	8,653	31,568	-22,915
21	Switzerland	39,809	22,023	17,786	4,237
22	Russia	36,110	9,335	26,775	-17,440
23	Australia	33,039	22,457	10,582	11,875
24	Thailand	32,615	9,067	23,548	-14,481
25	Hong Kong	28,118	21,633	6,485	15,148

Source: U.S. Department of Commerce. *U.S. International Trade in Goods and Services*, FT 900 (08-04).

Notes: Total trade=imports + exports. Data are on a Census basis. Exports are valued f.a.s.; imports are valued Customs.

Table 7 lists trade balances on goods, services, and income, net unilateral transfers and current account balances for selected U.S. trading partners. While trade in services, flows of income from investments, and remittances home by foreign workers are considerably smaller than merchandise flows, as the economy has become more globalized and service-oriented, these components of the current account have become more important. In many cases, the bilateral current account balances are quite different from bilateral balances on merchandise trade only.

Table 7. U.S. Current Account Balances With Selected U.S. Trading Partners, 2007

(billions of U.S. dollars)

Country	Merchandise Trade Balance[a]	Services Balance[b]	Investment Income Balance[c]	Net Unilateral Transfers[d]	Current Account Balance[e]
All Countries	**-819.4**	**119.1**	**81.7**	**-112.7**	**-731.2**
Mexico	-77.6	8.0	1.6	-12.5	-80.5
Canada	-70.6	18.1	16.9	-1.7	-37.3
Asia and Pacific	**-410.3**	**33.1**	**-47.5**	**-21.0**	**-445.7**
China	-256.6	5.4	-36.1	-2.4	-289.7
Japan	-85.1	15.0	-41.2	1.2	-110.3
S. Korea	-13.9	4.8	-0.2	-0.6	-10.0
European Union	**-113.9**	**36.7**	**39.6**	**-4.7**	**-42.4**
Germany	-45.3	-6.0	1.2	-1.2	-51.2
United Kingdom	-7.6	16.5	-2.2	4.5	11.2
Latin America	**-105.3**	**22.8**	**27.1**	**-30.0**	**-85.5**
Middle East	**-33.8**	**0.1**	**-3.3**	**-12.0**	**-49.0**

Source: U.S. Bureau of Economic Analysis, International Transactions Account Data.

a. On a BoP basis.

b. Includes travel, transportation, fees and royalties, insurance payments, other government and private services, and investment income.

c. Income receipts on U.S. assets abroad minus income payments on foreign assets in the United States.

d. International transfers of funds, such as private gifts, pension payments, and government grants for which there is no *quid pro quo*.

e. The trade balance plus the service balance plus investment income balance plus net unilateral transfers, although equal to the current account balance, may differ as a result of rounding.

Country data for the current account are final for 2007 but not for 2008. Since Japan has invested considerable amounts in securities, equities, and in factories in the United States, the United States ran a deficit of $41.2 billion in investment income with that country in 2007. This more than offset the surplus of $15 billion in trade in services with Japan. As a result, the current account deficit with Japan of $110.3 billion in 2007 exceeded the bilateral merchandise trade

deficit of $85.1 billion. Likewise with China; the U.S. deficit on investment income of $36.1 billion far overshadowed the U.S. surplus of $5.4 billion in services.

In 2007, a different situation existed with the European Union and Canada. The United States earned a $39.6 billion surplus in investment income with the EU in 2007, greater than 2006 investment income surplus of $12.6 billion. In 2007, the U.S. surplus in services with the EU came to $36.7 billion. These two flows offset a merchandise deficit of $113.9 billion to produce a U.S. current account deficit of $42.4 billion, lower than the 2006 current account deficit of $86.9 billion. From Canada the United States received $16.9 billion in investment income plus a surplus in services trade of $18.1 billion. Hence, the current account deficit with Canada at $37.3 billion was lower than the $70.6 billion merchandise trade deficit.

The rising deficit with many countries in investment income reflects the accumulating debt relative to the world of the United States. Inflows of capital to compensate for the U.S. trade deficit and low U.S. savings rate help to maintain the value of the dollar, but interest paid and other income that accrues to that capital is often repatriated to the home countries. That means more capital must be invested in the United States or the United States must export more to compensate for the outflows of investment income. In 2007, the overall U.S. balance on investment income registered a surplus of $81.7 billion, higher than the 2006 balance on investment income of $57.2 billion. Imbalances in investment income with certain countries have been growing and could become a problem in the future.

Advanced Technology, Autos, and Oil

Table 8 shows U.S. trade in advanced technology products. This includes about 500 commodity classification codes representing products whose technology is from a recognized high technology field (e.g., biotechnology) or that represent the leading technology in a field. The United States long ran a surplus in these products, but that surplus dropped sharply in 2000 and turned into a deficit in 2002. The U.S. trade balance in high technology products was last in surplus in 2001.

In 2002 to 2005, the U.S. ran a trade deficit in high technology products which grew roughly ten billion dollars per year, from $16.6 billion to $43.6 billion. In 2006 this deficit dropped to $38.1 billion, but in 2007 resumed its former path of growing ten billion dollars per year, to $52.6 billion, but in 2008, this deficit grew to only $55.5 billion. This deficit does not necessarily imply that the United States is losing the high technology race, since many of the high technology imports are from U.S. companies (particularly electronics manufacturers) who assemble the products overseas. However, this growing deficit may warrant closer policy scrutiny.

Table 8. U.S. Trade in Advanced Technology Products

(billions of U.S. dollars)

Year	U.S. Exports	U.S. Imports	Trade Balance
1990	93.4	59.3	34.1
1995	138.4	124.8	13.6
1996	154.9	130.4	24.5
1997	179.5	147.3	32.2
1998	186.4	156.8	29.6
1999	200.3	181.2	19.1
2000	227.4	222.1	5.3
2001	200.1	195.3	4.8
2002	178.6	195.2	-16.6
2003	180.2	207.0	-26.8
2004	201.4	238.3	-36.9
2005	216.1	259.7	-43.6
2006	252.7	290.8	-38.1
2007	275.8	326.8	-52.6
2008	275.8	331.4	-55.5

Source: U.S. Bureau of the Census. *U.S. International Trade in Goods and Services*. FT-900, issued monthly.

Notes: Includes about 500 of some 22,000 commodity classification codes that meet the following criteria: (1) contains products whose technology is from a recognized high technology field (e.g., biotechnology), (2) represent leading edge technology in that field, and (3) constitute a significant part of all items covered in the selected classification code. Data are on a BoP basis.

Table 9 provides data on trade in passenger cars with major automobile producing nations for 2008. This does not include foreign cars assembled in the United States. The United States incurs the largest deficits in this trade with Japan, Mexico, Germany, South Korea, and Canada. The U.S. trade balance in motor vehicles improved from a $144,990 million deficit in 2006 to a $120,941 million deficit in 2007, but declined to a $107,065 deficit in 2008.[15]

[15] For information on the automobile industry, seeCRS Report RL32883, *U.S. Automotive Industry: Recent History and Issues*, by Stephen Cooney and Brent D. Yacobucci.

Table 9. U.S. Trade in Motor Vehicles (Passenger Cars, Trucks, and Buses) and Parts by Selected Countries, 2008

(millions of U.S. dollars)

Trading Partner	U.S. Exports	U.S. Imports	Trade Balance
TOTAL	125,839	232,904	-107,065
Japan	2,235	55,784	-53,549
Mexico	19,228	48,273	-29,045
Germany	10,387	25,975	-15,588
Korea	855	11,354	-10,499
United Kingdom	2,275	5,166	-2,891
Taiwan	127	2,138	-2,011
Sweden	470	1,955	-1,485
Austria	418	1,791	-1,373
Brazil	1,000	1,812	-812
Belgium	790	987	-197
Canada	54,110	53,599	511
Australia	2,410	1,039	1,371
Saudi Arabia	3,764	7	3,757
Other	27,770	23,023	4,747

Source: U.S. Bureau of the Census, *U.S. International Trade in Goods and Services*, FT-900 (08-04).

Table 10 shows imports of crude petroleum by major country source. In 2007, the United States imported $246 billion in crude oil or 13% of all imports. Roughly half comes from the Organization of the Petroleum Exporting Countries (OPEC) with Saudi Arabia, Venezuela, and Nigeria the predominant suppliers. Imports from Iraq are recovering with $11 billion worth in 2007. Over 40% of U.S. petroleum imports come from non-OPEC sources, primarily Canada and Mexico.[16]

[16] For policy discussion, seeCRS Report RS22204, *U.S. Trade Deficit and the Impact of Rising Oil Prices*, by James K. Jackson.

Table 10. U.S. Imports of Crude Oil from Selected Countries, 2007

(quantity and customs value)

Country	Customs Value ($ million)	Quantity (thousand barrels)
Total World	**245,771**	**3,812,663**
OPEC Total	145,839	2,190,303
Saudi Arabia	33,870	516,375
Venezuela	32,143	517,179
Nigeria	30,882	417,672
Algeria	14,506	204,636
Angola	12,130	182,999
Iraq	10,874	171,628
Ecuador	4,360	71,611
Kuwait	3,754	61,725
Libya	2,612	35,698
Indonesia	474	7,475
United Arab Emirates	233	3,307
Qatar	0	0
Iran	0	0
Non-OPEC Total	**99,932**	**1,622,359**
Canada	38,330	660,738
Mexico	30,523	507,066
Brazil	3,761	59,719
Colombia	3,548	51,822
Russia	3,169	45,287
Congo	2,895	40,974
United Kingdom	2,543	36,464
Chad	2,107	35,858
Gabon	2,099	30,127
Other Non-OPEC	10,957	154,304

Sources: U.S. Census Bureau, *U.S. International Trade in Goods and Services*, FT-900, issued monthly, and World Trade Atlas, using Harmonized Schedule (HS) 270900 for crude oil.

Note: Census basis data.

Some Common Perceptions

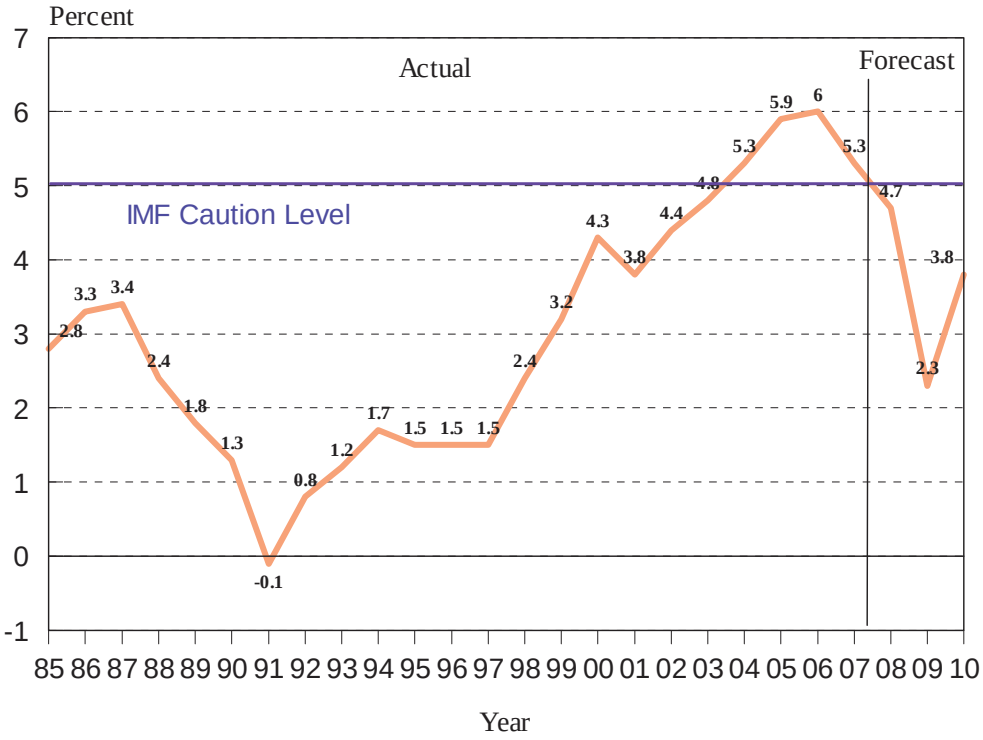
This section of the report addresses a few common perceptions about trade that can be validated by data.

Is the Trade Deficit at a Dangerous Level?

The International Monetary Fund has used its experience with currency and exchange rate crises to say that caution should be exercised when a nation's current account deficit reaches a level of 5% of gross domestic product. At this level, nations have difficulty borrowing to finance imports and the nation's exchange rate may come under severe downward pressure. The United States is a special case, since the dollar is a secondary medium of exchange (one can use dollars in many foreign countries without exchanging them for local currency) and dollars are used extensively as an official reserve currency by national banks. Still, the IMF has been warning that the size of the U.S. current account deficit could cause a large depreciation of the dollar and disrupt financial markets. In the current global financial crisis, the dollar and U.S. Treasury securities are being viewed as a safe haven for investors, so capital inflows into the United States have remained sufficient to cover U.S. budget deficits and other government borrowing.

Figure 9 shows the U.S. current account balance as a percent of nominal U.S. gross domestic product (GDP). It grew in magnitude from near zero in 1980 to 3.4% in 1987, dropped into negative 0.1% in 1991 and rose to 6% in 2006 (exceeding the 5% level considered to warrant caution by the International Monetary Fund). The current account balance-GDP ratio remained above the IMF caution level for 2007 at 5.3%. However, beginning in 2008 through 2010, it is forecast to decline to below the IMF caution level primarily because the U.S. recession is shrinking imports faster than exports and causing the trade deficit to decline. This effect is expected to continue through 2009 before it begins to rise again in 2010.

Figure 9. The U.S. Current Account Deficit as a Percent of Gross Domestic Product, 1985-2010 (forecast)



Sources: Data from U.S. Department of Commerce. Forecasts by Global Insight, Inc.

Sources: Data from U.S. Department of Commerce. Forecasts by Global Insight, Inc.

Is Trade with China Merely Replacing That with Southeast Asia?

Some observers claim that the rising U.S. imports from China are merely displacing those from other East Asian nations. Labor intensive industries, such as apparel, shoes, and consumer electronics, that produce for export to the United States and other industrialized nations are simply moving to China from Southeast Asian nations, including South Korea, and Taiwan. The overall level of imports from Asia is not changing. Its composition is just shifting toward China.

For specific industries, the shift in imports from traditional Asian exporting nations to China is clear. In woven apparel (HS 62), for example, in 1990, Hong Kong, South Korea, and Taiwan accounted for 33.4% of U.S. imports as compared to China with a 14.7% share. By 2006, China accounted for 35.3% of such imports, as compared to 4.9% for Hong Kong, South Korea, and Taiwan combined. In 2007, China's contribution to U.S. imports of woven apparel increased to

35.7%. Hong Kong, South Korea, and Taiwan collectively represented 3.4% of such imports, a decline from 2006.[17] The decline in woven apparel imports from Hong Kong, South Korea, and Taiwan also may reflect their shift to production of high-technology goods. As these Southeast Asian countries continue to industrialize, woven apparel imports from less-developed countries, such as Indonesia, Bangladesh, and Vietnam, likely will continue to increase.

In terms of overall imports, however, U.S. imports from Hong Kong, Taiwan, and South Korea rose from $50.6 billion (10.2% of total U.S. imports) in 1990 to $92.9 billion (4.7% of total) in 2007, while imports from China rose from $15.2 billion (3.3% of total) in 1990 to $321.4 billion (16.4% of total) in 2007.[18] Clearly, the share of U.S. imports from Hong Kong, Taiwan, and South Korea has been falling, while the share of imports from China is rising. The value of U.S. imports from both, however, continues to rise, while the value of those from China is rising faster.

The large U.S. trade deficit with China, moreover, is not just a transfer of the deficit from other Asian nations to China. The U.S. trade deficit with Hong Kong, Taiwan, and South Korea has gone from $17.9 billion (17.5% of the total U.S. deficit) in 1990 to $11.8 billion (1.5% of the total) in 2007. U.S. trade with Hong Kong actually went from a deficit in 1992 to a surplus in 1993, and has remained in surplus through 2007. The U.S. trade deficit with China, meanwhile, went from $10.4 billion (10.2% of the total U.S. trade deficit) in 1990 to $256.2 billion (32.2% of the total) in 2007. What actually is happening is quite complex. While the U.S. trade deficit with the world is declining, it continues to rise with China, Mexico and oil exporting countries. **Table 11** illustrates this complexity. Negative percentage change numbers, noted in bold, indicate a shrinking U.S. merchandise trade deficit with that country or group. Positive percentage changes indicate growing deficits.

Table 11. Changes in U.S. Merchandise Trade Balances With Selected Countries and Groups, 2006 and 2007

Country	2005	2006	2007	% Chg 2006/2005	% Chg 2007/2006
World Total	-$767,477	-$817,304	-$794,483	6.5	-2.8
China	-$201,545	-$232,589	-$256,207	15.4	10.2
-OPEC-	-$104,217	-$119,825	-$127,414	15.0	6.3
-EU 27-	-$123,123	-$117,216	-$107,167	**-4.8**	**-8.6**
Japan	-$82,519	-$88,568	-$82,760	7.3	**-6.6**
Mexico	-$49,744	-$64,274	-$74,622	29.2	16.1
Canada	-$78,486	-$71,782	-$68,169	**-8.5**	**-5.0**
Germany	-$50,567	-$47,763	-$44,513	**-5.6**	**-6.8**
Nigeria	-$22,618	-$25,630	-$29,992	13.3	17.0
Venezuela	-$27,557	-$28,131	-$29,709	2.1	5.6
Saudi Arabia	-$20,380	-$24,049	-$25,230	18.0	4.9
Malaysia	-$23,224	-$23,989	-$20,948	3.3	**-12.7**

[17] Calculations based on data from World Trade Atlas, using HS 62 for woven apparel.

[18] The numbers are comparable for all Asian countries.

Country	2005	2006	2007	% Chg 2006/2005	% Chg 2007/2006
Algeria	-$9,279	-$14,354	-$16,164	54.7	12.6
Thailand	-$12,633	-$14,320	-$14,300	13.4	-0.1
France	-$11,432	-$12,822	-$14,140	12.2	10.3
Hong Kong	$7,459	$9,829	$13,092	31.8	33.2
Korea, South	-$16,016	-$13,362	-$12,918	**-16.6**	**-3.3**
Taiwan	-$12,757	-$15,165	-$11,968	18.9	**-21.1**
Russia	-$11,344	-$15,127	-$11,949	33.4	**-21.0**
Asian 4 NICs	-$15,782	-$11,783	-$3,904	**-25.3**	**-66.9**

Source: U.S. Department of Commerce, Bureau of the Census via World Trade Atlas.

Notes: Merchandise trade data on a Census Basis. The U.S. balance with Hong Kong is positive. Members of OPEC are listed in, above. Members of Asian 4 Newly Industrializing Countries (NICs) are: Hong Kong, Singapore, South Korea and Taiwan.

International Trade Statistics Web Resources

Listed below are a list of resources available online for international trade statistics.

The single most authoritative, comprehensive, and frequently-published trade data statistical source is the monthly "FT900". Its actual title is *U.S. International Trade in Goods and Services*. The FT-900 is issued monthly by the U.S. Census Bureau and the U.S. Bureau of Economic Analysis. It provides information on the U.S. trade in goods and services (balance, exports, and imports) in specific commodities and end-use categories and with selected countries. The report also provides information on trade in advanced technology, petroleum, and motor vehicle products. The report is available from the U.S. Bureau of Economic Analysis at http://www.bea.gov/newsreleases/rels.htm. Under "International" click on latest news release.

Information on trade in specific commodities, with particular regions, or for different time periods also can be obtained from the U.S. International Trade Commission at http://dataweb.usitc.gov/ (registration is required).

Historical and current U.S. exchange rate data are available from the Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/.

Information on foreign country holdings of U.S. Treasury securities are available at http://www.treasury.gov/tic/.

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