U.S. International Trade: Trends and Forecasts

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Summary

This report provides an overview of the current status, trends, and forecasts for U.S. international trade. The purpose of this report is to provide current data and brief explanations for the various types of trade flows, particularly U.S. exports, along with a short discussion of particular trends and points of contention related to trade policy.

The United States is now running huge deficits in its trade with other nations. Between 2006 and 2007 the U.S. merchandise trade deficit declined slightly from $838 billion to $819 billion on a balance-of-payments (BoP) basis and from $817 billion to $790 billion on a Census basis. A 2007 surplus in services trade of $119 billion resulted in a deficit of $700 billion on goods and services for the year—down $53 billion or 7.0% from the $753 billion deficit in 2006. While U.S. exports are highly competitive in world markets, these sales abroad are overshadowed by the huge demand by Americans for imported products. In 2007, U.S. exports of goods and services totaled $1,646 billion, while U.S. imports reached $2,346 billion. Since 1976, the United States has incurred continual merchandise trade deficits with annual amounts fluctuating around an upward trend. The current slowdown in the U.S. economy plus the declining value of the dollar have worked to reduce the deficit.

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. As the deficit increases, the risk also rises of a precipitous drop in the value of the dollar and disruption in financial markets. Compared to a Federal Reserve index of currencies weighted by importance to U.S. trade, the dollar has lost a third of its value since 2002. In 2007, the dollar again fell against major currencies.

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 $44 billion in 2005 to a deficit of $38 billion in 2006, but deteriorated to $53 billion in 2007. In trade in motor vehicles and parts, the $121 billion U.S. deficit in 2007 was mainly with Japan, Mexico, Germany, and South Korea. In crude oil, major sources of the $237 billion in imports were Canada, Saudi Arabia, Venezuela, Nigeria, and Mexico. This report will be updated periodically.

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Most Recent Developments

Trade in Goods

In 2007, the **trade deficit in goods** reached $819.4 billion on a balance of payments (BoP) basis, down $18.9 billion from $838.3 billion in 2006. The 2007 deficit on merchandise trade with China was $256.2 billion (Census basis), with the European Union (EU-27) was $107.2 billion, with Japan was $82.8 billion, with Canada was $68.2 billion, with Mexico was $74.6 billion, and the Asian Newly Industrialized Countries (Hong Kong, South Korea, Singapore, and Taiwan) was $3.9 billion. **Imports of goods** of $1,957.0 billion increased by $99.8 billion (5.6%) over 2006. Increases in imports by sector were: crude oil up $20.6 billion, capital goods except automotive up $26.2 billion, automotive vehicles and parts up $2.3 billion, and consumer goods up $32.3 billion. **Exports of goods** of $1,162.5 billion rose by $125.8 billion (12.1%), particularly in industrial supplies, up $40.3 billion, capital goods except automotive up $32.4 billion, automotive vehicles and parts up $14.1 billion, and consumer goods up $17.0 billion. Exports grew faster than imports, which narrowed the trade deficit in goods. **Increasing U.S. exports have been credited with growth in U.S. gross domestic product remaining positive in 2008. January through September 2008 U.S. exports of goods rose 18,5%, well above the 2007 increase of 11%. U.S. trade began to decline in September, with exports of goods decreasing by $9.8 billion and imports of goods falling $11.2 billion from August.**

Trade in Services

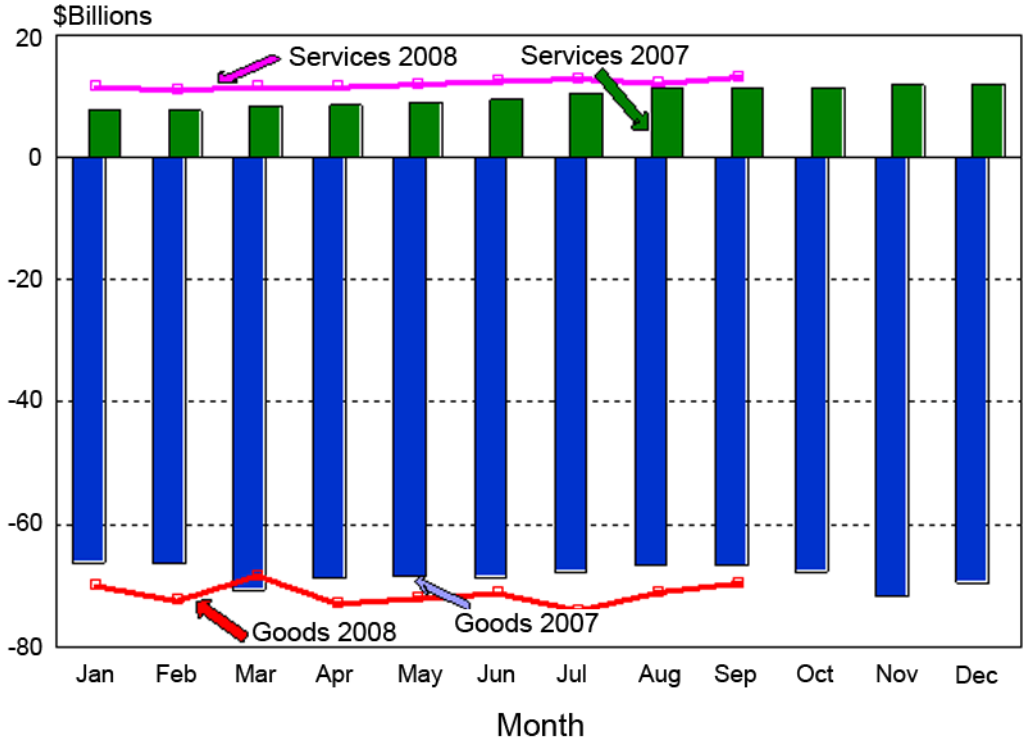
In 2007, total annual imports of services of $378.1 billion and exports of $497.2 billion yielded a surplus in U.S. services trade of $119.1 billion. The U.S. service industries, particularly, financial services, tourism, shipping, and insurance, tend to compete well in international markets.

Trade in Goods and Services

In goods and services, total imports in November 2007 of $205.1 billion were the highest in the year and in U.S. history. That record has been exceeded by imports every month in 2008, with the new record of $229.4 billion being set in July 2008. In December 2007, total exports of goods and services of $146.1 billion were the highest in the year and U.S. history. That export value record has been exceeded by exports every month in 2008, with the new record of $168.1 billion being set in July 2008. The latest monthly deficit on goods and services, for August, 2008, was $59.1 billion, below the record high set in August 2006 of $66.7 billion. For July through October 2007, the trade deficit for goods and services remained below the $60 billion monthly level; it rose to $59.9 billion in November and fell to $57.6 billion in December. **For January through September, 2008, the monthly goods and services balance fluctuated above and below the 2007 levels. The total deficit of $534.5 billion for January through September, 2008, was greater than the equivalent period for 2007, of $526.5 billion.**

For 2007, the annual trade deficit on goods and services amounted to 5.1% of U.S. gross domestic product (GDP, $13.8 trillion in 2007), down slightly from 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.

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.

Figure 1. shows U.S. trade balances in goods and services by month. In 2007, the monthly surplus in services gradually rose from $7.8 billion to $11.9 billion. The 2008 monthly services balance data average $12 billion. Total 2007 annual imports of services of $378.1 billion and exports of $497.2 billion yielded a surplus in U.S. services trade of $119.1 billion.[1] In 2008, the monthly surplus in services trade has been higher than equivalent months in 2007. For monthly trade in goods in 2008, the U.S. deficits for all months were higher than for the same months of 2007, with the exception of the month of March. For 2008, this monthly goods deficit has been averaging $71.3 billion per month.

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.

The United States in now running record deficits in its trade with other nations. In 2007 the U.S. merchandise trade balance reached $794.5 billion on a Census basis and $819.4 billion on a

[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.

balance-of-payments basis (BoP). Still, the 2007 merchandise trade deficit presents an improvement over 2006, in which the U.S. merchandise trade deficit reached $817.3 billion on a Census basis and $838.3 billion on a balance-of-payments basis (BoP). A surplus in services trade of $119.1 billion in 2007 produced a deficit of $700.3 billion on goods and services for the year—lower than the $753.3 billion in 2006 and the $711.6 billion goods and services deficit in 2005. While U.S. exports are highly competitive in world markets, U.S. sales abroad are overshadowed by the huge demand by Americans for imported products. In 2007, U.S. exports of goods and services totaled $1.646 trillion, while U.S. imports reached $2.346 trillion (BoP). Since 1976, the United States has incurred continual merchandise trade deficits with annual amounts fluctuating around an upward trend.

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.

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.

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.

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

[2] See, for example,CRS Report RL31832, *The Export Administration Act: Evolution, Provisions, and Debate*, by Ian F. Fergusson;CRS Report RL33463, *Trade Negotiations During the 110th Congress*, by Ian F. Fergusson;CRS Report RL31356, *Free Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy*, by William H. Cooper;CRS Report RL32371, *Trade Remedies: A Primer*, by Vivian C. JonesCRS Report RL32493, *The North Korean Economy: Leverage and Policy Analysis*, by Dick K. Nanto and Emma Chanlett-AveryorCRS Report RL33652, *The Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW): Congressional Issues*, by Luisa Blanchfield.

[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/.

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]

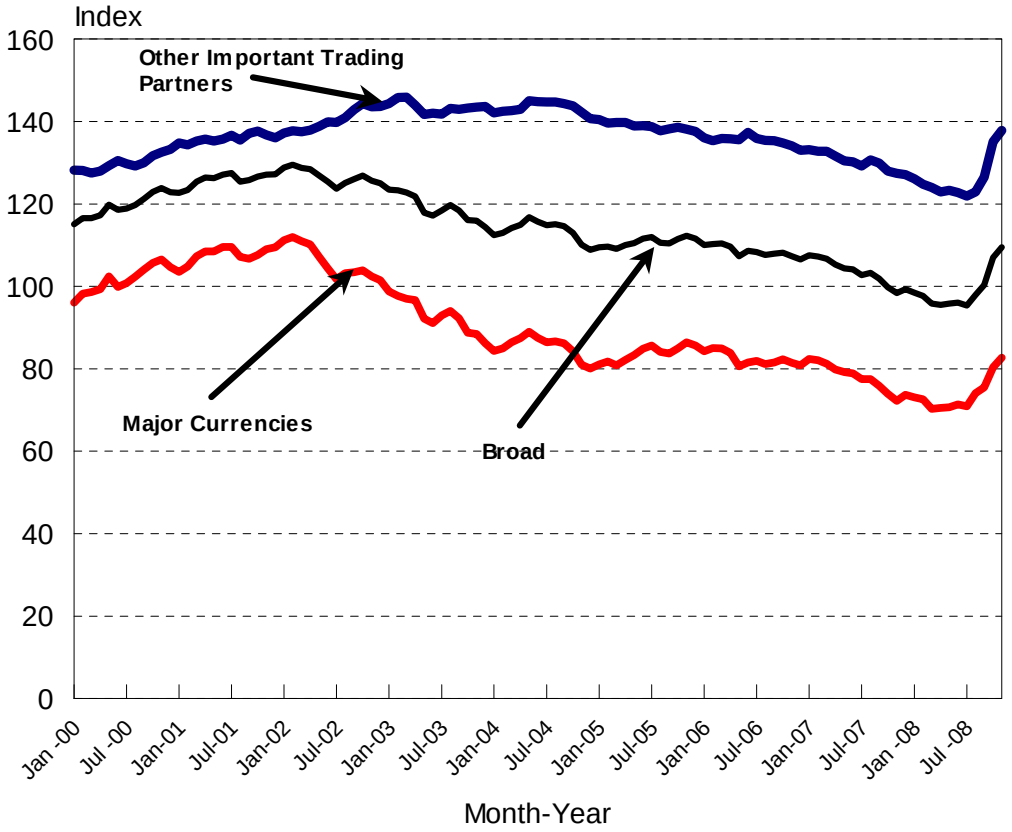
Increases in trade deficits may diminish economic growth, since net exports (exports minus imports) are a component of gross domestic product. In the late 1980s and early 1990s, export growth was an important element in overall U.S. economic growth. In 2006, merchandise exports accounted for about 7.7% 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.

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. The dollar's decline was exacerbated when the Federal Reserve lowered interest rates on September 18, 2007.

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

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

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://www.federalreserve.gov/releases/h10/Summary/.

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 1993 = 100): Euro Area, Canada, Japan, United Kingdom, Switzerland, Australia, and Sweden.

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. In the International Monetary Fund's May 2006 consultation with the United States, for example, its directors reiterated their long-standing concerns about the large U.S. current account deficit. They stated that "there is broad agreement that the large U.S. current account deficit ... cannot be sustained indefinitely. Although a gradual

adjustment is the most likely outcome, delaying progress increases the risk of fanning protectionist sentiment or disorderly foreign exchange market conditions."[7]

Currently, foreign investment in dollar assets along with purchases of securities by central banks of countries, such China and Japan, have been sufficient to keep the value of the dollar from falling too far. These central banks have intervened in currency markets to keep their exchange rates relatively stable with respect to the dollar, although Japan claims not to have intervened since spring of 2004. This intervention adds to the foreign currency reserves held by these countries. As of the end of December 2007, Japan's central bank held $948 billion in foreign currency reserves,[8] and the Bank of China held $1,528 billion.[9] In U.S. Treasury securities, as of December 2007, Japan held $581 billion and China $477 billion.[10] 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 May 30, 2008, the renminbi was trading at 6.9 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. One of the largest SWFs, CIC already has bought a 10% ($3 billion) share (non-voting) of the initial public offering of the Blackstone Group, a U.S. private equity group. Morgan Stanley research estimates that such sovereign wealth funds could hold up to $12 trillion by 2015.[11] 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.[12]

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

[7] IMF, 2005 Article IV Consultation with the United States of America. Concluding Statement of the IMF Mission. May 31, 2006.

[8] 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/.

[9] 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/.

[10] 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.

[11] Morgan Stanley, *Currencies, How Big Could Sovereign Wealth Funds Be by 2015?* Morgan Stanley Research, May 3, 2007.

[12] For more information on sovereign wealth funds, see Martin A. Weiss,CRS Report RL34366, *Electronic Voting System in the House of Representatives: History and Evolution*, by Jacob R. Straus,CRS Report RL34337, *China's Sovereign Wealth Fund*, by Michael F. Martin.

securities and other financial assets.[13] 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[14] (interest rates) as well as both Congress and the Administration (government budget deficits and trade policy), and their counterpart institutions abroad.

In the 110th Congress, legislation directed at the trade deficit is 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 arguably undervalued Chinese currency.[15] 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 (for instance, a bilateral trade deficit of $10 billion or 2% of GDP). 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 3**). In 2007, total U.S. merchandise trade amounted to $3,116 billion, an 8% increase from $2,884 billion in 2006. Merchandise exports in

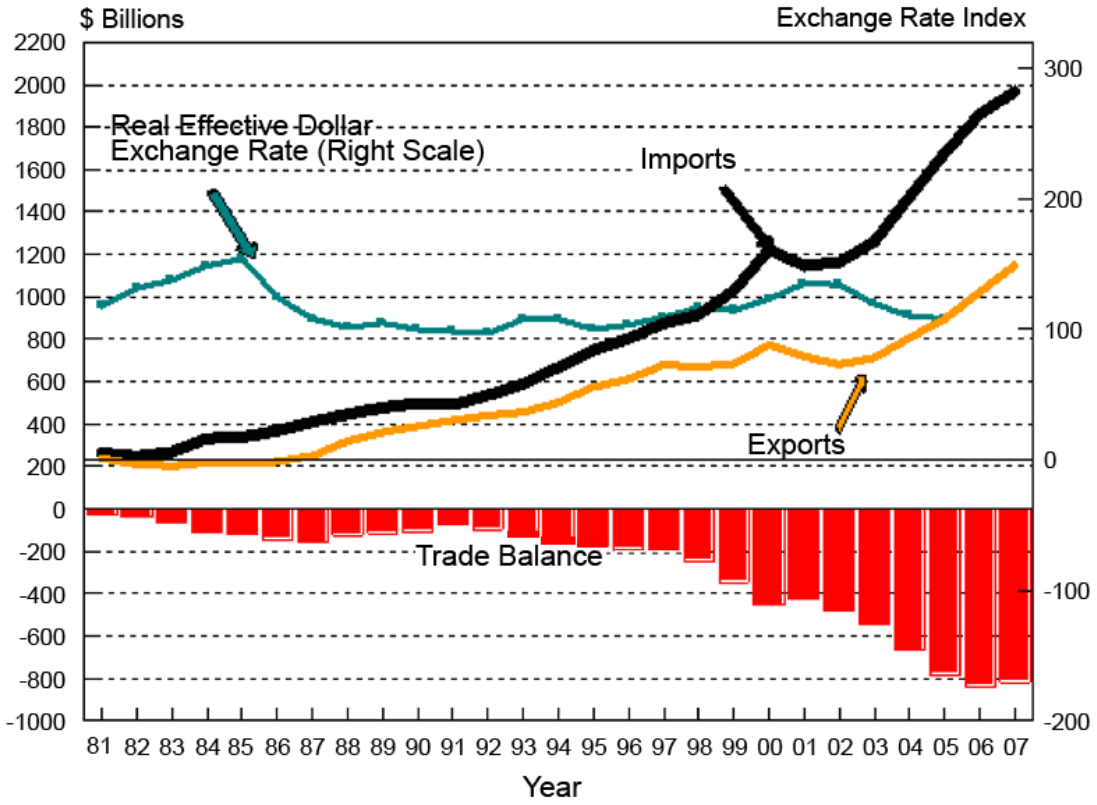
[13] See Mann, Catherine L. *Is the U.S. Trade Deficit Sustainable?* Washington, Institute for International Economics, 1999. 224 p. See also:CRS Report RL33274, *Financing the U.S. Trade Deficit*, by James K. Jackson.CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Cures*, by Craig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

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

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

2007 totaled $1,148 billion, while imports reached $1,965 billion (BoP basis). The U.S. merchandise trade deficit declined 2.3% from $838 billion in 2006 to $819 billion 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%. The rate of increase in the deficit, therefore, has tapered off.

Figure 3. U.S. Merchandise Exports, Imports, Trade Balance, and Real Effective Dollar Exchange Rate Index, 1982-2007



Source: U.S. Department of Commerce: IMF.

Note: Exchange Rate, 1995=100.

U.S. merchandise exports (as shown in **Table 1** and **Figure 4**, decreased in 2001 and 2002 in response to the global slowdown, but generally have been increasing each year. As shown in **Figure 4**, the growth of imports has also been steady, although they too fell by 4.4% 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 (11% for exports and 14% for imports). In 2006, exports grew by 14%, while imports grew by 11%. Growth in exports and imports slowed in 2007, with exports rising by 12.3% and imports by 5.7%. Exports grew faster than imports, but the trade deficit still increased. This is because U.S. imports are about 71% greater than U.S. exports, so exports must grow about 71% faster than imports just for the deficit to remain constant.

Table 1. U.S. Exports, Imports, and Merchandise Trade Balances, 1982-2007

(billions of U.S. dollars)

	Census basis			Balance of payments basis		
Year	**Exports (f.a.s.)**Error! Reference source not found.	**Imports (customs)**Error! Reference source not found.	**Trade Balance**	**Exports (f.a.s.)**Error! Reference source not found.	**Imports (customs)**Error! Reference source not found.	**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	876.5	-198.1
1998	682.1	911.9	-229.8	670.4	917.1	-246.7
1999	695.8	1,024.6	-328.8	684.0	1,030.0	-346.0
2000	781.9	1,218.0	-436.1	772.0	1,224.4	-452.4
2001	730.9	1,142.3	-411.4	718.7	1,145.9	-427.2
2002	693.5	1,163.6	-470.1	681.8	1,164.7	-482.9
2003	724.8	1,257.1	-532.3	713.1	1,260.7	-547.6
2004	818.8	1,469.7	-650.9	807.5	1,477.1	-669.6
2005	906.0	1,673.5	-767.5	894.6	1,681.8	-787.2
2006	1,036.6	1,853.9	-817.3	1,023.1	1,861.4	-838.3
2007	1,162.5	1,957.0	-794.5	1,148.5	1,967.9	-819.4

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.

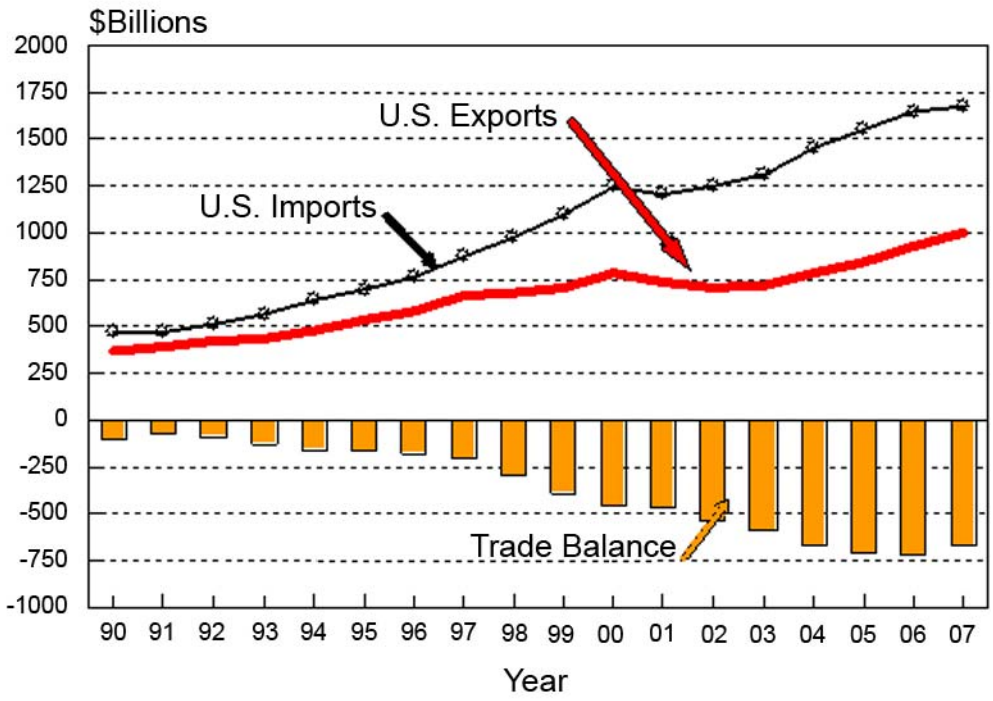
a. Exports are valued on an f.a.s. basis, which refers to the free alongside ship value at the port of export and generally include inland freight, insurance, and other charges incurred in placing the goods alongside the carrier at the port of exportation.

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.

Merchandise Trade Balance in Volume Terms

Like other economic variables, exports and imports, reported in terms of their values, can change merely because prices change. Trade data, therefore, can be adjusted for inflation by dividing by a chained price index (chained price indexes are weighted by two-year averages) to generate real or volume data (some trade commodities actually are reported in volume terms [e.g., tons of wheat]). The real data provide a more accurate picture of how the underlying flows of merchandise are changing. As with the nominal trade deficit, the real deficit has begun to decrease.

Figure 4. Real U.S. Imports, Exports, and Trade Balance of Goods (chained 2000 dollars), 1990-2007



Source: CRS with data from U.S. Bureau of Economic Analysis. National Income and Products Accounts data, Table 4.2.6, http://www.bea.gov/.

As shown in **Table 2** and **http://www.bea.gov/.**

Figure 5, the constant-dollar value, or physical volume, of merchandise exports increased by 9.9% in 2006, up from 7.5% in 2005 and 9.0% in 2004. The physical volume of imports rose by 6.0% in 2006, down from 6.6% in 2005 and 11.3% in 2004, but up from 4.9% in 2003. Because

the growth of merchandise imports is higher than the growth of exports and because imports exceed exports by more than 80% on a physical volume basis, exports would have to grow more than 80% faster than imports just for the U.S. trade deficit in terms of volume to remain constant. In 2005 and 2006, export growth actually exceeded import growth, but the deficit still increased. In recent years, the deficit in volume terms has varied relative to the deficit in value terms partly because of fluctuations in oil import prices (when oil prices rise, the deficit in value rises relative to that in volume terms).

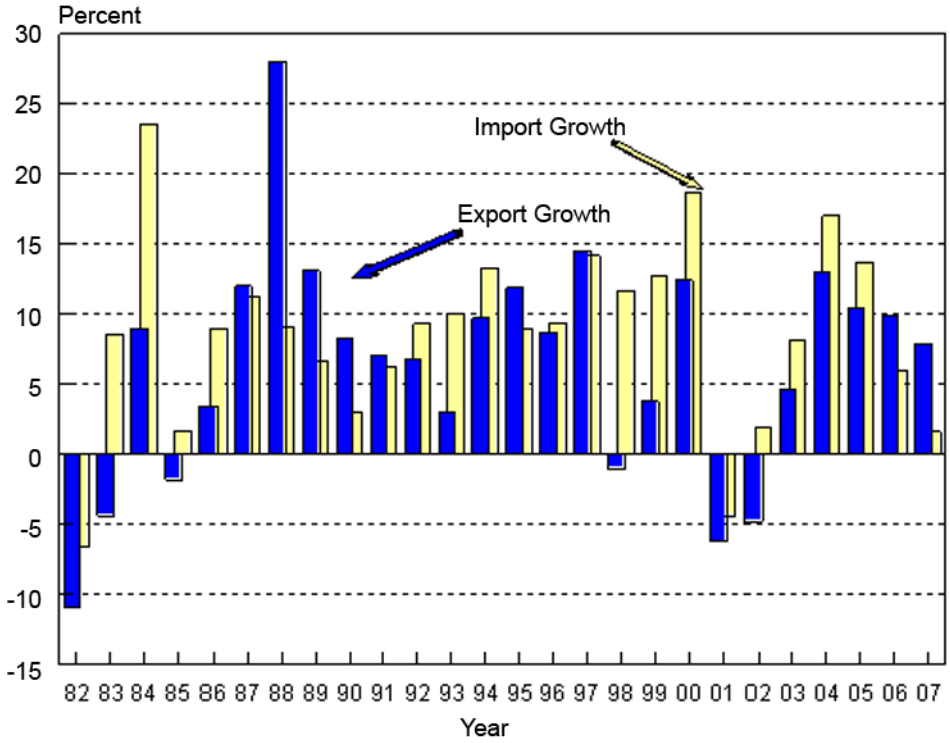
Table 2. U.S. Merchandise Trade in Volume Terms, 2001-2007

(billions of chained 2000 dollars)

Year	Exports	Export Growth	Imports	Import Growth	Real Trade Balance
2001	736.3	-6.1	1,204.1	-3.2	-467.8
2002	707.0	-4.0	1,248.2	3.7	-541.2
2003	719.8	1.8	1,309.3	4.9	-589.5
2004	784.4	9.0	1,457.0	11.3	-672.6
2005	843.5	7.5	1,553.6	6.6	-710.1
2006	927.4	9.9	1,646.9	6.0	-719.5
2007	1,000.8	7.9	1,673.5	1.6	-672.7

Source: CRS calculations from Bureau of Economic Analysis, National Income and Products Accounts data, Table 4.2.6, http://www.bea.gov/.

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

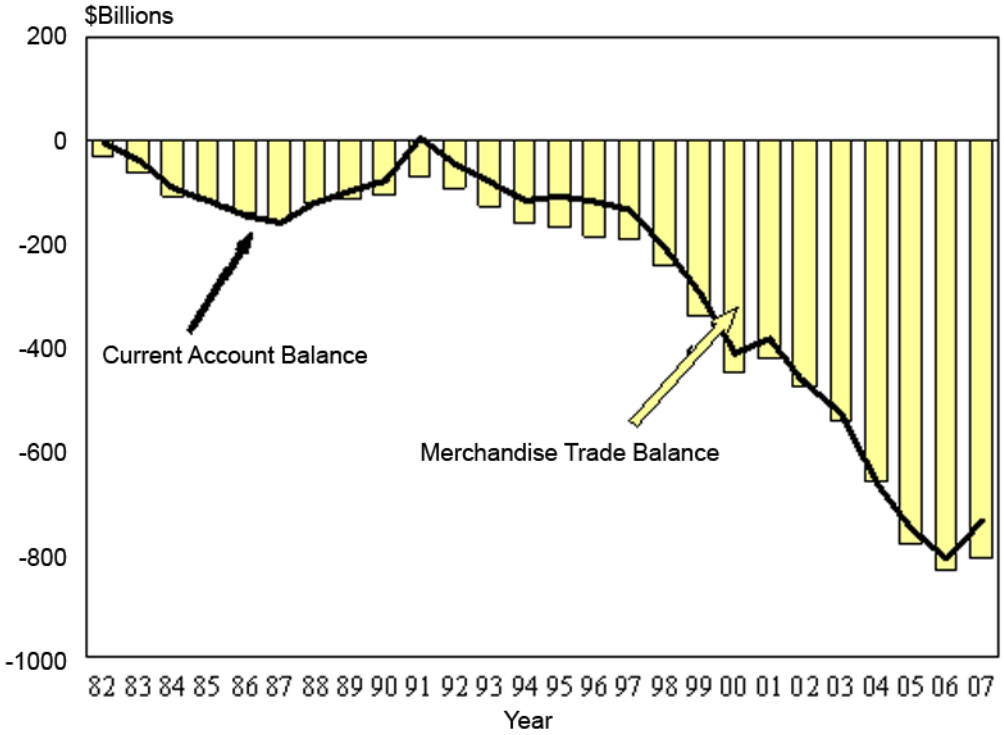


Source: Underlying data from U.S. Department of Commerce.

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 lag those on trade by several months.

Figure 6. U.S. Current Account and Merchandise Trade Balances, 1982-2007



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

Table 3 summarizes the components of the U.S. current account. In 2006, the U.S. deficit on current account increased to $811.5 billion from $754.8 billion in 2005. As a share of U.S. GDP, this deficit rose to 6.2% in 2006. In 2007 the U.S. deficit on current account decreased to $738.6 billion, or 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 3. U.S. Current Account Balances: 1985-2007

(billions of dollars)

Calendar Year	Merchandise Trade Balance[Error! Reference source not found.]	Services Balance[Error! Reference source not found.]	Investment Income Balance[Error! Reference source not found.]	Net Unilateral Transfers[Error! Reference source not found.]	Current Account Balance[Error! Reference source not found.]
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	10.8	3.7
1992	-96.9	57.8	24.2	-33.1	-48.0
1993	-132.5	62.3	25.3	-37.1	-82.0
1994	-165.8	67.4	17.1	-36.8	-118.0
1995	-174.2	77.9	20.9	-34.1	-109.5
1996	-191.0	87.1	22.3	-38.6	-120.2
1997	-198.1	89.8	12.6	-45.2	-140.9
1998	-246.7	81.7	4.3	-53.2	-214.9
1999	-346.0	82.6	13.9	-50.6	-300.1
2000	-452.4	74.1	21.0	-58.8	-416.4
2001	-427.2	64.5	25.2	-51.9	-389.4
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

Source: U.S. Bureau of Economic Analysis, U.S. International Transactions. On the Internet at http://www.bea.gov/bea/international/bp_web/simple.cfm?anon=68365&table_id=1&area_id=3.

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 $79.7 billion surplus in 2006 and $106.9 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. The deficit in unilateral transfers (primarily dollars sent abroad by foreign workers and recent immigrants) totaled $89.6 billion in 2006 and $104.4 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 4** and). 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.

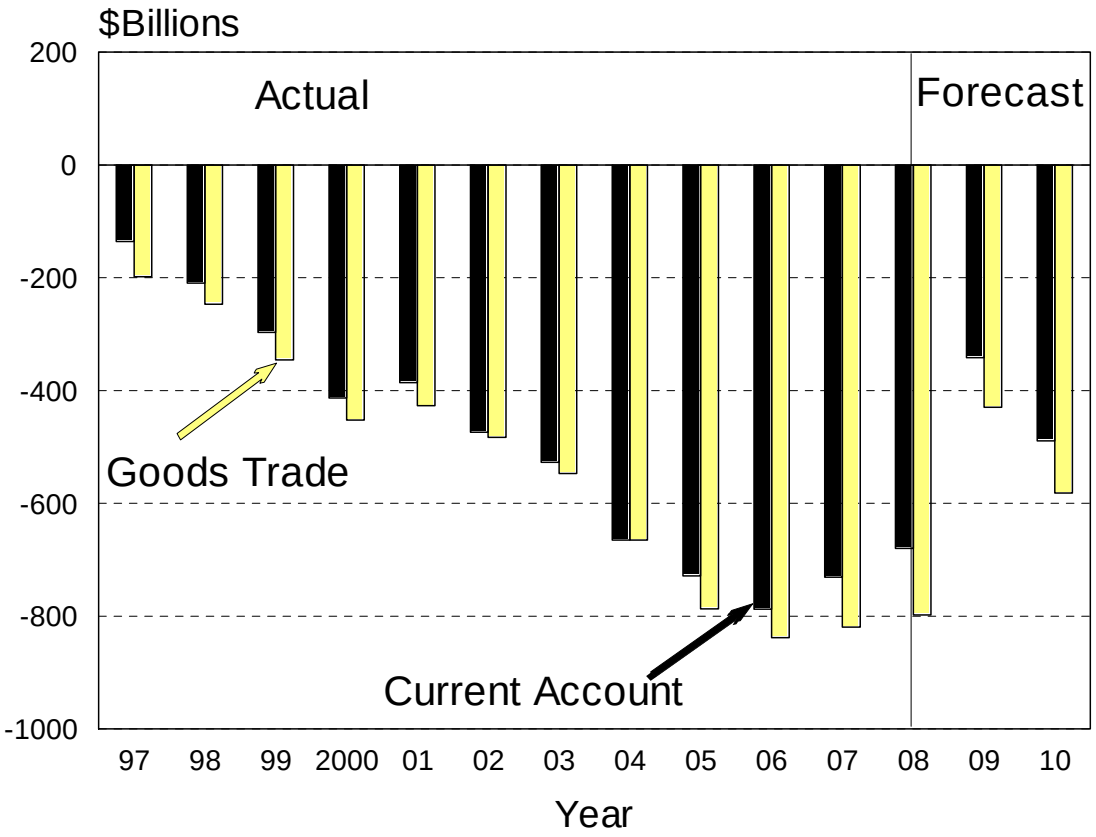
Table 4. U.S. Merchandise and Current Account Trade, 2003 to 2010 (Forecast)

(billions of U.S. dollars)

	2003	2004	2005	2006	2007	2008	2009	2010
Merchandise Trade								
Exports								
Actual	713.4	807.5	894.6	1,023.1	1,148.5	—	—	—
Forecasted	—	—	—	—	—	1,330.8	1,281.7	1294.1
Imports								
Actual	1264.3	1477.1	1,681.8	1,861.4	1,967.9	—	—	—
Forecasted	—	—	—	—	—	2,140.0	1,725.8	1,889.9
Trade Balance								
Actual	-550.9	-669.6	-787.1	-838.3	-819.4	—	—	—
Forecasted	—	—	—	—	—	-797.7	-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)

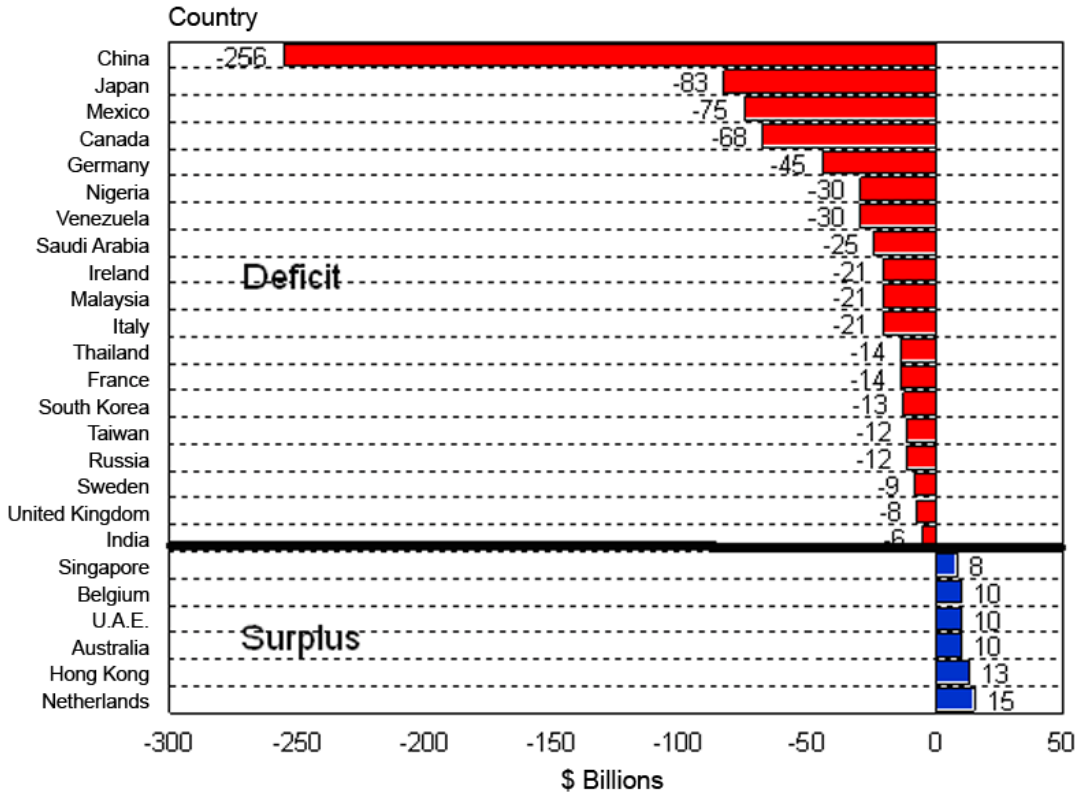


Sources: U.S. Bureau of Economic Analysis and Global Insight (BoP basis).

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. and **Table 5** show U.S. trade balances with selected nations.

Figure 8. U.S. Merchandise Trade Balances With Selected Nations, 2007



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 $256 billion in 2007, the negative net balance in trade with China has grown to account for nearly 30% of the total U.S. trade deficit.[16] 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

[16] For details and policy discussion, seeCRS Report RL31403, *China's Trade with the United States and the World*, by Thomas Lum and Dick K. Nanto, orCRS 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 China's reported trade surplus with the United States at $163 billion in 2007 is a little over 60% of the reported U.S. deficit with China of $256 billion.

Table 5. U.S. Merchandise Trade Balances with Selected Nations and Groups, 2002-2007

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

Country	2002	2003	2004	2005	2006	2007
Total	**-468,263**	**-532,350**	**-650,930**	**-767,477**	**-817,304**	**-794,483**
North America	-85,311	-92,319	-111,547	-128,230	-136,056	-142,791
Canada	-48,165	-51,671	-66,480	-78,486	-71,782	-68,169
Mexico	-37,146	-40,648	-45,067	-49,744	-64,274	-74,622
Europe	-93,355	-105,603	-119,907	-132,269	-123,016	-121,077
European Union 27	-86,377	-98,521	-109,999	-123,123	-117,216	-107,168
United Kingdom	-7,540	-8,967	-10,274	-12,445	-8,103	-6,629
Germany	-35,876	-39,281	-45,850	-50,567	-47,763	-44,513
France	-9,224	-12,166	-10,342	-11,432	-12,822	-14,140
Italy	-14,164	-14,854	-17,413	-19,485	-20,109	-20,878
Netherlands	8,462	9,742	11,839	11,623	13,787	14,560
Russia	-4,473	-6,171	-8,930	-11,344	-15,127	-11,949
Pacific Rim Countries	-310,170	331,869	405,298	-469,223	-513,662	-366,459
Japan	-69,979	-66,032	-75,562	-82,519	-88,568	-82,760
China	-103,065	-124,068	-161,938	-201,545	-232,589	-256,207
Newly Industrialized Countries (NICS)	-22,080	-21,217	-21,883	-15,782	-11,783	-3,904
Singapore	1,416	1,422	4,238	5,532	6,916	7,891
Hong Kong	3,266	4,669	6,513	7,459	9,829	13,092
Taiwan	-13,766	-14,152	-12,879	-12,757	-15,165	-11,968
Republic of Korea	-12,996	-13,157	-19,755	-16,016	-13,362	-12,918
South/Central American Countries	-17,952	-26,883	-37,183	-50,460	-44,706	-27,345
Argentina	-1,602	-732	-357	-462	797	1,369
Brazil	-3,405	-6,699	-7,263	-9,064	-7,136	-1,019
Colombia	-2,022	-2,629	-2,751	-3,387	-2,557	-876
OPEC	-34,433	-51,064	-71,843	-92,867	-105,289	-112,987
Venezuela	-10,664	-14,305	-20,153	-27,557	-28,131	-29,709
Indonesia	-7,087	-6,999	-8,139	-8,960	-10,346	-10,066

Country	2002	2003	2004	2005	2006	2007
Saudi Arabia	-8,369	-13,473	-15,702	-20,380	-24,049	-25,230
Nigeria	-4,888	-9,377	-14,694	-22,618	-25,630	-29,992

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.

Note: Trade Balance equals Total Exports (f.a.s. value) minus General Imports (Customs value).

Table 6 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 6. Top U.S. Merchandise Deficit Trading Partners, 2007

(millions of U.S. dollars)

Country	U.S. Balance	U.S. Exports	U.S. Imports
China	-256,207	65,236	321,443
Japan	-82,760	62,704	145,463
Mexico	-74,622	136,092	210,714
Canada	-68,169	248,888	317,057
Germany	-44,513	49,651	94,164
Nigeria	-29,992	2,778	32,770
Venezuela	-29,709	10,201	39,910
Saudi Arabia	-25,230	10,396	35,626
Ireland	-21,436	9,009	30,445
Malaysia	-20,948	11,680	32,629
Italy	-20,878	14,150	35,028
Algeria	-16,164	1,652	17,816
Thailand	-14,300	8,455	22,755
France	-14,140	27,413	41,553
Korea	-12,918	34,645	47,562
Taiwan	-11,968	26,309	38,278
Russia	-11,949	7,365	19,314
Angola	-11,227	1,280	12,508
Indonesia	-10,066	4,235	14,301
Iraq	-9,835	1,560	11,396
Vietnam	-8,730	1,903	10,633
Sweden	-8,530	4,494	13,024
Israel	-7,775	13,019	20,794
Austria	-7,497	3,172	10,669
Trinidad and Tobago	-7,010	1,780	8,790

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 7 lists the United States' top trading partners ranked by trade turnover, defined as exports plus imports. As shown in **Table 7**, in 2007, as in 2006, 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 7. Top U.S. Trading Partners Ranked by Total Merchandise Trade in 2007

(millions of U.S. dollars)

Rank	Country	Total Trade	U.S. Exports	U.S. Imports	Balance
1	Canada	565,944.9	248,888.1	317,056.8	-68,168.7
2	China	386,679.0	65,236.1	321,442.9	-256,206.7
3	Mexico	346,806.1	136,092.1	210,714.0	-74,621.8
4	Japan	208,166.8	62,703.5	145,463.3	-82,759.9
5	Germany	143,815.1	49,651.0	94,164.1	-44,513.1
6	United Kingdom	107,086.2	50,228.7	56,857.5	-6,628.9
7	Korea, South	82,207.1	34,644.8	47,562.3	-12,917.5
8	France	68,965.3	27,412.5	41,552.7	-14,140.2
9	Taiwan	64,586.8	26,309.2	38,277.6	-11,968.4
10	Netherlands	51,366.3	32,963.2	18,403.1	14,560.0
11	Brazil	50,269.7	24,625.6	25,644.2	-1,018.6
12	Venezuela	50,110.1	10,200.5	39,909.6	-29,709.1
13	Italy	49,177.3	14,149.6	35,027.6	-20,878.0
14	Saudi Arabia	46,021.9	10,395.9	35,626.0	-25,230.1
15	Singapore	44,677.8	26,284.2	18,393.7	7,890.5
16	Malaysia	44,308.7	11,680.2	32,628.5	-20,948.3
17	India	41,661.8	17,588.5	24,073.3	-6,484.7
18	Belgium	40,570.9	25,289.7	15,281.2	10,008.5
19	Ireland	39,453.9	9,008.9	30,445.0	-21,436.2
20	Nigeria	35,548.2	2,778.0	32,770.2	-29,992.2
21	Israel	33,813.8	13,019.3	20,794.4	-7,775.1
22	Switzerland	31,799.5	17,039.3	14,760.2	2,279.1
23	Thailand	31,209.3	8,454.6	22,754.7	-14,300.0
24	Australia	27,826.8	19,211.7	8,615.0	10,596.7
25	Hong Kong	27,143.8	20,117.8	7,026.0	13,091.8

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

(billions of U.S. dollars)

Country	Merchandise Trade Balance[a]	Services Balance[Error! Reference source not found.]	Investment Income Balance[Error! Reference source not found.]	Net Unilateral Transfers[Error! Reference source not found.]	Current Account Balance[Error! Reference source not found.]
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 current account are now final for 2007. 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 9 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. This 2007 deficit represents about a 40% increase over 2006. This does not necessarily imply 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 9. 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

Year	U.S. Exports	U.S. Imports	Trade Balance
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	274.2	326.8	-52.6

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 10 provides data on trade in passenger cars with major automobile producing nations for 2007. 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, a nearly 17% change.[17]

Table 10. U.S. Trade in Motor Vehicles and Parts by Selected Countries, 2007

(millions of U.S. dollars)

Trading Partner	U.S. Exports	U.S. Imports	Trade Balance
Total World	**124,621**	**245,562**	**-120,941**
Japan	2,315	55,276	-52,961
Mexico	19,189	49,927	-30,738
Germany	8,881	24,532	-15,651
Korea	938	11,312	-10,374
Canada	60,833	65,800	-4,967
United Kingdom	2,507	5,450	-2,943

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

[17] 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 11 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.[18]

Table 11. 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

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

Country	Customs Value ($ million)	Quantity (thousand barrels)
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.

Outsourcing

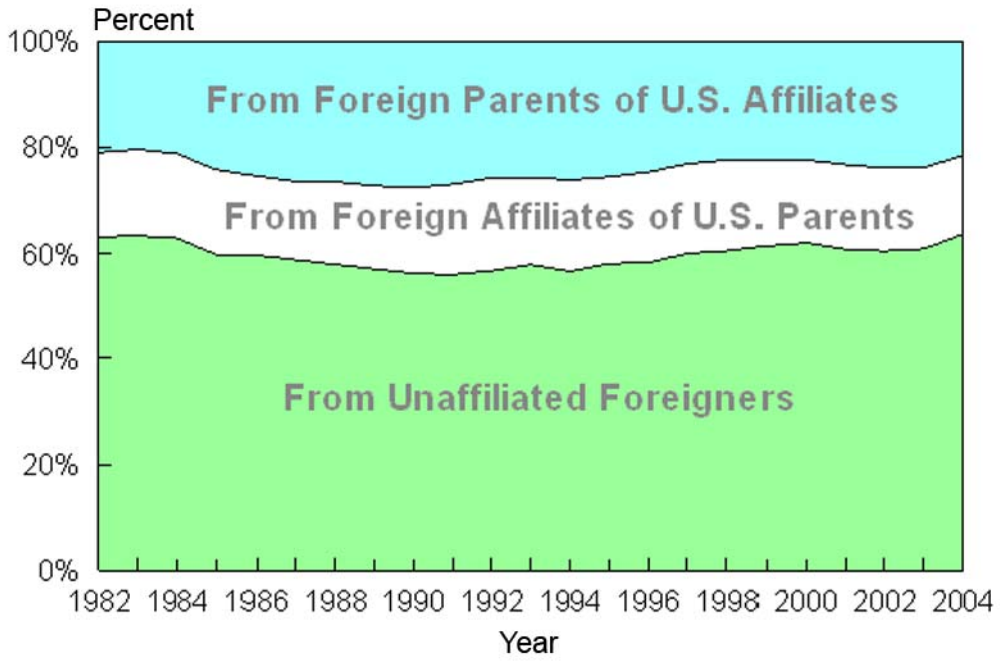
A common perception is that an increasing amount of U.S. imports are actually goods manufactured overseas by American-affiliated companies. U.S. manufacturers have moved production abroad in search of lower production costs or other economic advantages and are sending their product back to the American market.

Figure 9. shows the percentage of U.S. imported products by affiliation of the foreign producer. The total value of such imports from foreign affiliates of U.S. parent companies rose from $39.3 billion in 1982 to $209.1 billion in 2004, but the percentage of total U.S. imports accounted for by these imports has been fairly constant at around 15%. In 1982, such imports accounted for 15.9% of total imports, while in 2004 they accounted for 14.2% of the total. These are products such as American branded computers assembled in China in a subsidiary affiliated with a U.S. company.

The share of imports from foreign parent companies with affiliates in the United States has been rising somewhat—from 21.0% in 1982 to 21.7% in 2004. This reflects the growing foreign direct investment in the United States and includes imports such as transmissions from a Japanese automaker for use in its assembly plant located in the United States.

Imports from unaffiliated foreigners account for about 60% of all imported goods. Their share has risen somewhat from 63.2% in 1982 to 64.1% in 2004. The latest currently available data is from 2004.

Figure 9. Shares of U.S. Imports of Goods by Affiliation of Foreign Producer, 1998-2004



Source: CRS with Data from U.S. Bureau of Economic Analysis.

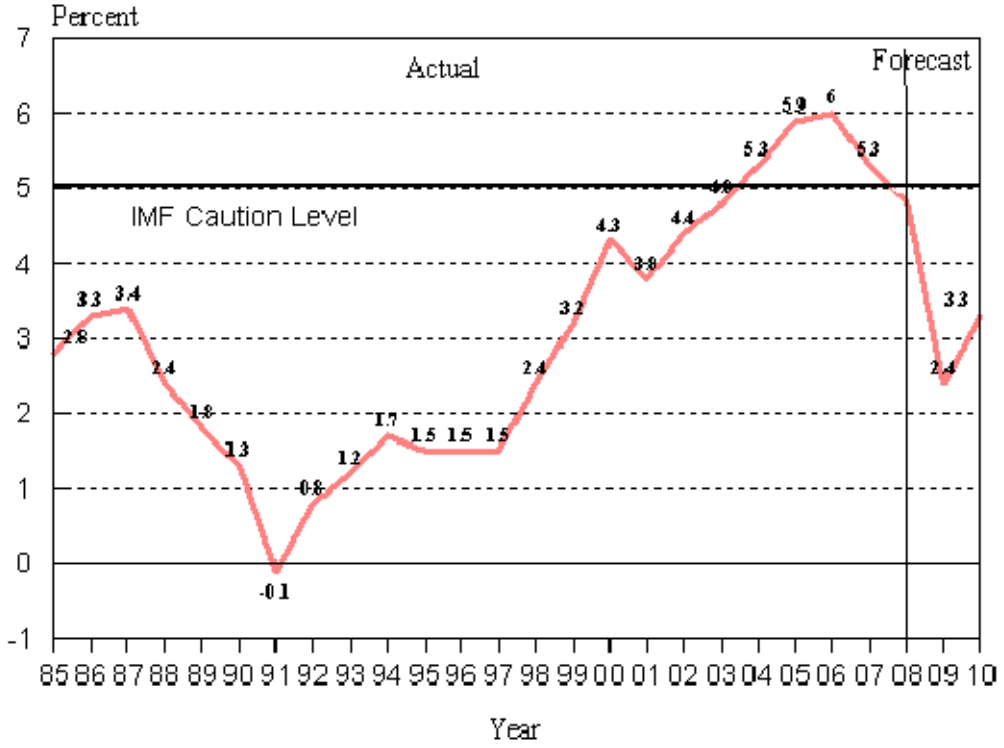
Note: 2004 data is latest available for this series as of 2008.

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.

Figure 10 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 6.2% 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 predicted to decline to below the IMF caution level.

Figure 10. 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.

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.[19] 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

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

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.[20] 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 12** 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 12. 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**
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

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

Country	2005	2006	2007	% Chg 2006/2005	% Chg 2007/2006
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/.

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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