

# International Trade

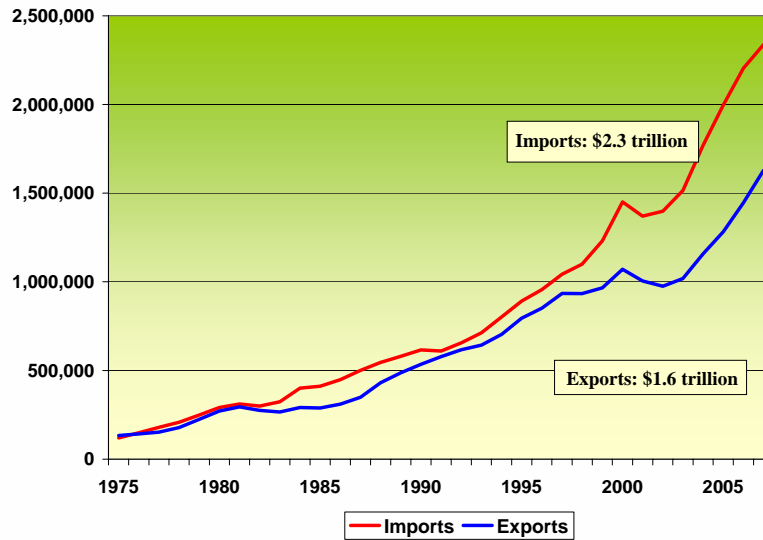
and the role played by energy imports  
... losing the balance



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## Exports vs. Imports

(Millions \$: 1975-2007)



Source: Bureau of Economic Analysis, U.S. International Transactions Accounts Data, Table 1

# Merchandise Trade (Goods) Deficit

1975-2007

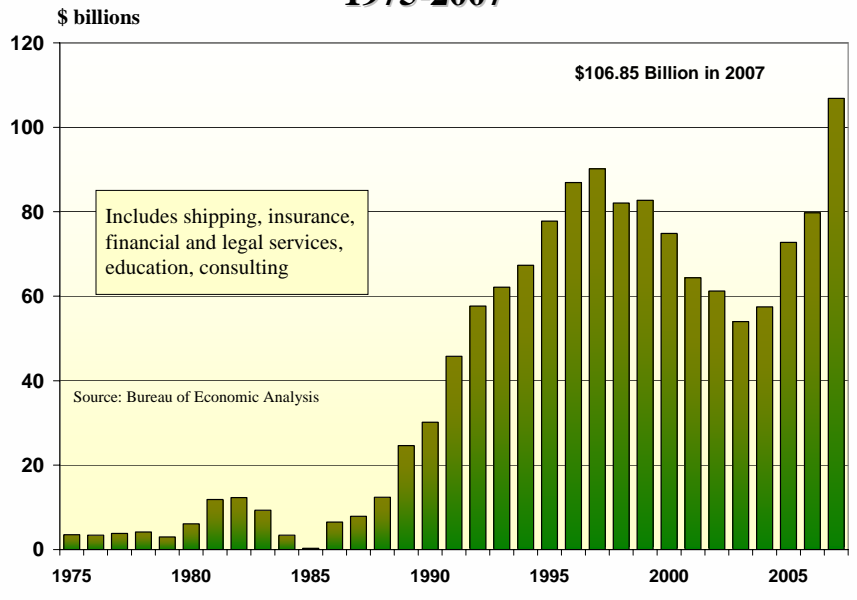
Mudd  
Economics



# Services Surplus

1975-2007

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Economics



## Who are our major trading partners?

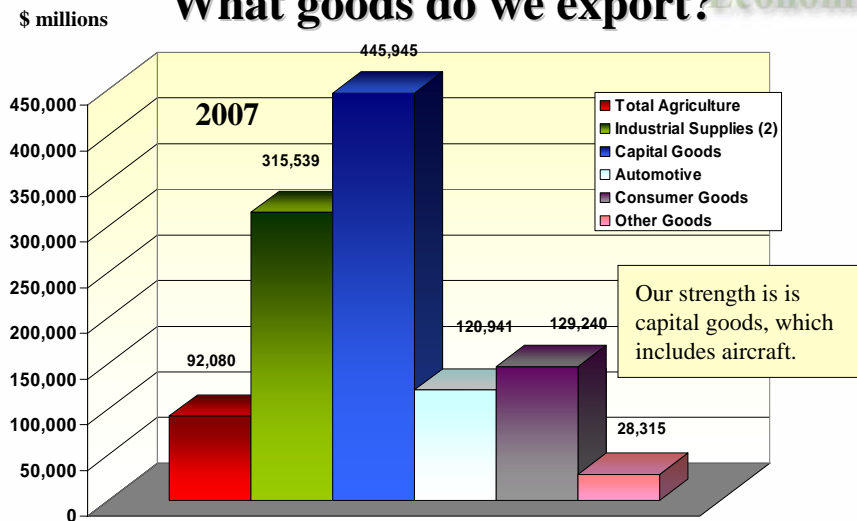
**Major U.S. Trading Partners**  
Annual 2007, \$ millions

Country/Region	Imports	Exports	Deficit
Canada	342,870	296,693	46,177
European Union	500,369	409,882	90,487
China	329,833	78,184	251,649
Mexico	229,991	160,673	69,318
Japan	172,672	105,069	67,603
MidEast	96,912	62,583	34,329

Source: Bureau of Economic Analysis, Table 11 interactive

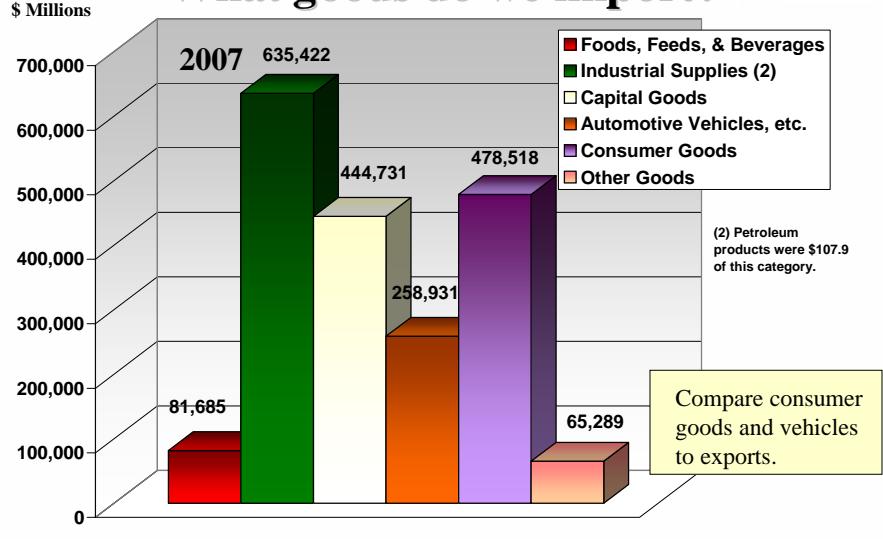
See any current news release from the Bureau of Economic Analysis under category International Economic Accounts for more current or related data.

## What goods do we export?



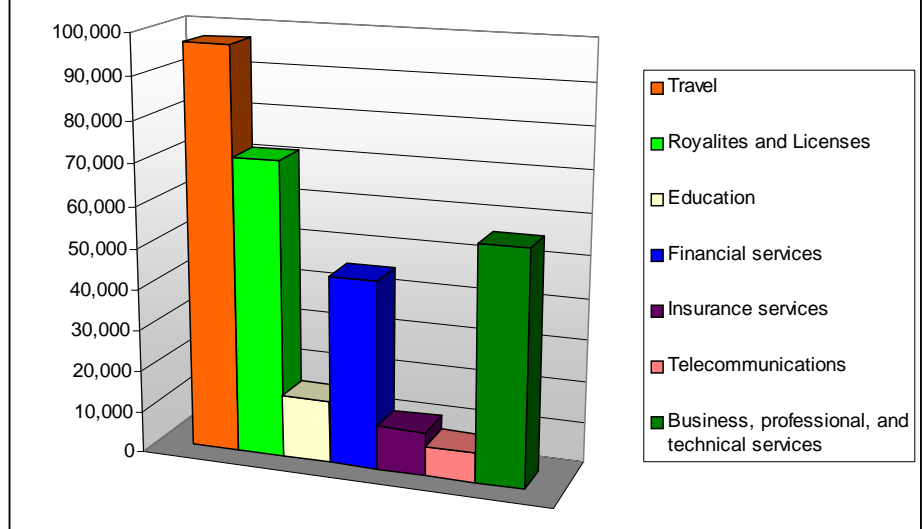
Source: Bureau of Economic Analysis, International Economic Accounts

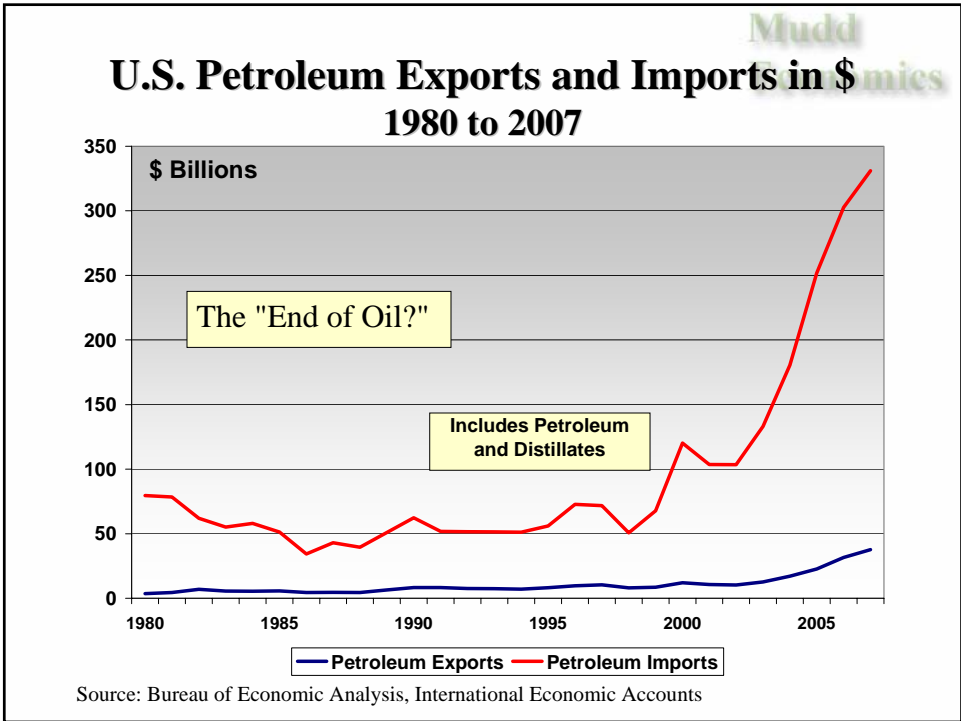
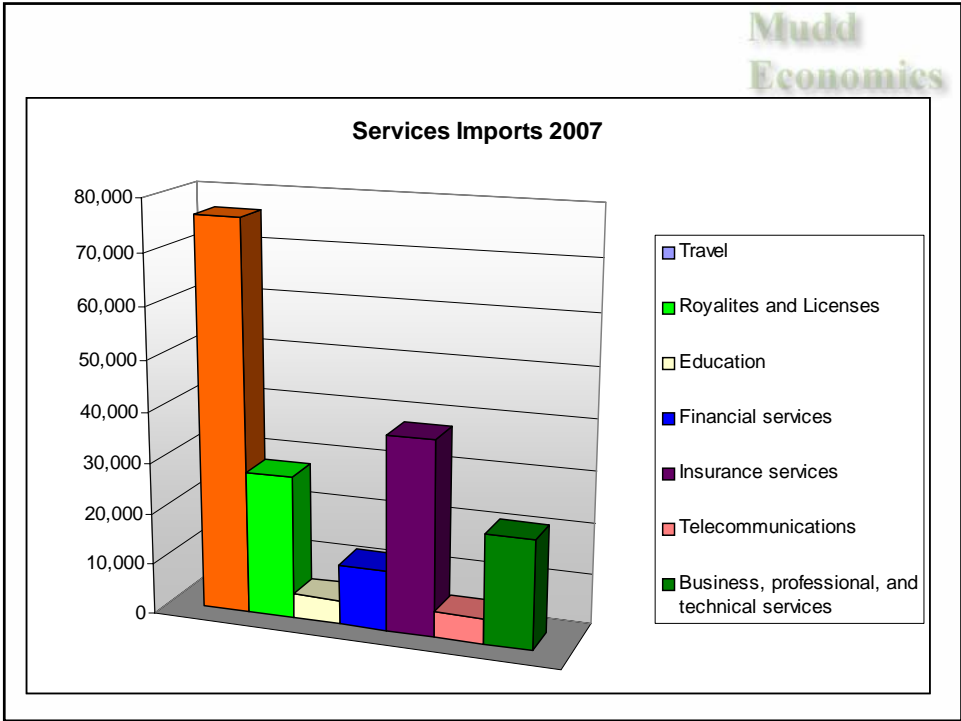
### What goods do we import?



Source: Bureau of Economic Analysis, International Economic Accounts

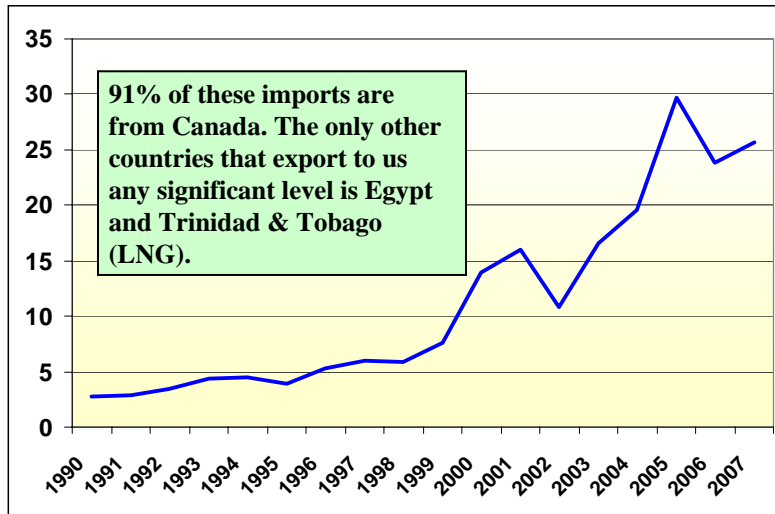
### Services Exports 2007





## Natural Gas Imports

(Billion \$ nominal)

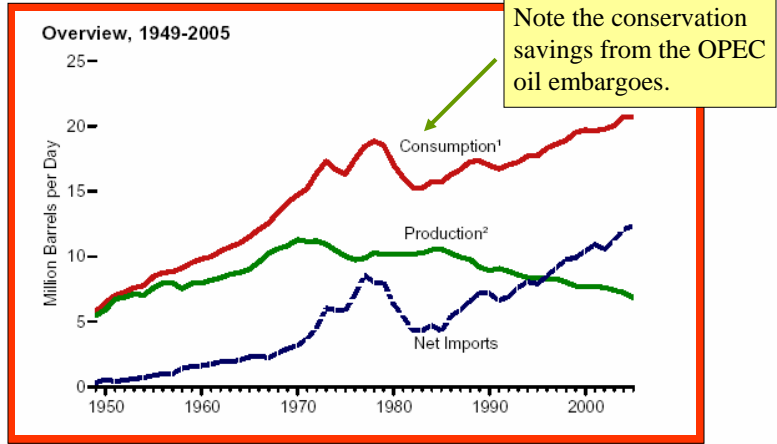


## Homework Q for class for discussion Monday

*Given the most recent data from the EIA database, from whom do we now import crude oil and distillates (largest 6)?*

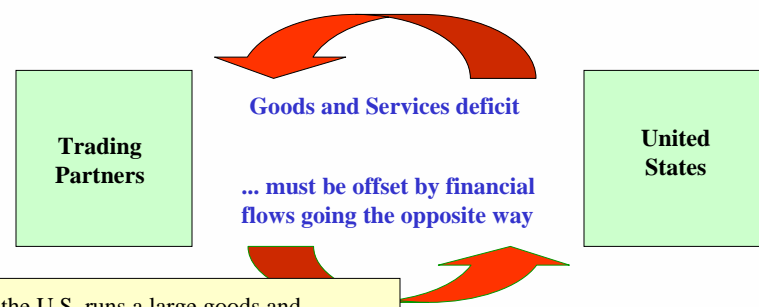
Relative to U.S. political and economic security, label each as (a) friendly, (b) neutral, or (c) hostile.

### U.S. Petroleum Consumption, Production, Imports



In 2005, 20.65 million barrels per day used, 12.35 million imported (net).  
Source: Energy Information Agency

### Trade and "Current Account"



When the U.S. runs a large goods and services deficit with the rest of the world, the \$\$ cash that accumulates overseas must eventually find an outlet back in the U.S. in the form of foreign purchases of U.S. businesses, investment in the U.S. stock/bond markets, or through purchase of U.S. Treasury Securities.

"We are going to owe the rest of the world forever," Warren Buffett on CNBC, March 20, 2006.

## This all has to "balance":

**All U.S. International Transactions**  
2007 IV quarter  
(\$ millions)

Exports	432,298
Imports	-610,152
US net investment abroad	-116,464
Foreign net investment in US	346,567
US income on overseas assets	204,256
Foreign income on US assets	-171,287
Transfers and statistical discrepancy	-85,218
<b>Balance</b>	<b>0</b>

Source: BEA International Economic Accounts, Table 1. U.S. International Transactions

Notice how the gap in trade is offset by the gap in investment. Our \$ are used to buy goods, those \$ return to U.S. in the form of investment in U.S. assets, mostly financial assets and real estate.

These categories show earnings that are the result of investments in years past. The U.S. was a net investor nation until early 70s.

These are all *flow* variables. The 346,567 means that \$347 billions was invested in the U.S. by overseas investors in Q4 2007.

## Who owns the U.S. Treasury Debt?

**Ownership of Privately Held U.S. Treasury Debt**

	December 1995		September 2007	
	Billions \$	% total	Billions \$	% total
Deposit institutions	315.4	9.5%	118.4	2.8%
US Savings Bonds	155.0	4.7%	197.1	4.6%
Private pension funds	142.9	4.3%	205.9	4.8%
S&L govt pension funds	208.2	6.3%	157.5	3.7%
Insurance companies	241.5	7.3%	163.0	3.8%
Mutual funds	225.1	6.8%	306.8	7.2%
State & local governments	289.8	8.8%	545.8	12.8%
Foreign holdings	835.2	25.3%	2,240.3	52.5%
Other (mostly individuals)	864.6	26.1%	334.9	7.8%
Total privately held	3,307.7	100.0%	4,269.7	100.0%

Source: Treasury Bulletin, December 2006, <http://www.fms.treas.gov/bulletin/index.html>

... and a lot of this ends up in U.S. Government debt. Our budget deficit is being financed from overseas.

### **The Good and the Bad of the the Trade Deficit**

- The good ...
  - keeps inflation in check
  - very consumer-friendly
  - encourages development in emerging nations
  - encourages political alliances with the U.S.
  - forces many domestic industries to be competitive
- The bad ...
  - dollar cash generated from these sales must be recycled back to the U.S., currently leaving us indebted to China, petro-nations and other nations
  - some industries are damaged and some jobs are lost

### **Why the trade deficit won't correct despite the weak dollar**

- So much of the deficit is with China, which has a fixed exchange rate, and China refuses to let it float free
- Petroleum imports are inelastic to price (we will pay whatever it takes)
- Overseas partners are not using dollar reserves to buy US goods, they are buying US financial assets
- This is the ultimate consumption economy, the more we consume, the more we import

## What happens to the \$ cost of Nat Gas imports when the Canadian \$ does this:

