TRADE-US:
Record Deficit Challenges Free Trade Assumptions

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WASHINGTON, Feb 10 (IPS) - The U.S. trade deficit swelled last year to a record high of 617 billion dollars, a nearly 25 percent increase over 2003, prompting some analysts to blame the administration's aggressive free trade agenda.

Numbers released by the Commerce Department Thursday show that imports increased nearly twice as much as exports, and that the U.S. traditional surplus in services has been gradually shrinking, as has the traditional surplus in goods.

"This shows the problems that the U.S. economy is having competing, even with the competitive advantage it has gained following the sharp drop in the dollar against the euro," said Dean Baker, co-director of the Centre for Economic and Policy Research in Washington.

The 2004 deficit was 121.2 billion dollars higher than the 2003 figure of 496.5 billion dollars. It was driven by a rise in imports, which grew by 16.3 percent in 2004, nearly double the 8.5 percent recorded in 2003.

As a percentage of U.S. gross domestic product, the goods and services deficit increased from 4.5 percent in 2003 to 5.3 percent in 2004. Imports rose sharply in almost every category with imports of capital goods, automotive parts, and consumer goods rising by 16.2 percent, 8.6 percent, and 11.8 percent, respectively.

Analysts say that while crude oil represented the largest single deficit item, consumer goods accounted for more than 25 percent of the total deficit.

The deficit in goods alone was particularly notable at 666.2 billion dollars, or 5.7 percent of national income, a post-World War II high. Nearly a quarter of that was due to trade with China, which grew 30 percent in 2003.

Trade with Canada and Mexico, the U.S. partners in the North American Free Trade Agreement (NAFTA), also grew more than 20 percent from 2003 and represented almost 17 percent of the total deficit in goods.

"Growth in the deficit reflects surging imports and a continued, rapid decline in the competitiveness of U.S. manufacturing industries," said Robert Scott, an economist with the pro-labour Economic Policy Institute (EPI).

Scott referred to the fact that the U.S. had a 37-billion-dollar deficit in so-called advanced technology products (ATPs), an increase of 38 percent since 2003.

Some analysts blamed the deficit on the free trade agenda enthusiastically pursued by the

United States trade representative and the George W. Bush administration.

In addition to NAFTA, the U.S. is also working toward a Central American Free Trade Agreement (CAFTA) with Guatemala, El Salvador, Honduras, Costa Rica, Nicaragua and the Dominican Republic.

And U.S. officials are seeking a Middle East Free Trade Area (MEFTA) to compliment bilateral trade deals with Israel, Jordan, Morocco and Bahrain. Free trade talks with the United Arab Emirates and Oman were recently announced.

Washington says it intends to begin similar discussions with Thailand, Colombia, Peru, Ecuador, Bolivia and Panama.

Talks on a hemisphere-wide Free Trade Area of the Americas (FTAA) for more than 30 countries stalled after the last meeting in November 2003 in Miami, primarily over U.S. refusal to end agricultural subsidies.

”When your current trade policy has gotten you this huge, unsustainable deficit, doing more of the same by expanding the NAFTA to six additional countries through the Central American Free Trade Agreement is neither prudent nor likely to find favour among the public or the U.S. Congress,” said Lori Wallach, director of Public Citizen's Global Trade Watch.

”The staggering deficit total and its details -- that the richest country on the planet is a net importer of advanced technology products such as computers and vehicles, while specialising in exporting scrap metal, soy and hides and skins, or that the U.S.. is poised to become a net food importer -- are what frame the looming CAFTA fight, because CAFTA is seen as a referendum on a decade of the NAFTA-WTO trade model,” said Wallach.

The U.S. deficit with China is by far the largest of any country, at 162 billion dollars. The deficit with Japan rose 9.2 billion dollars to 75.2 billion dollars, and the deficit with Western Europe went up by 13.8 billion dollars to 114.1 billion dollars..

Some economists say that other wealthy countries may be using the U.S. free trade plans to access its market through the back door.

”Japan and other newly industrialising countries in Asia are expanding trade with low-wage assemblers in China, Mexico, and elsewhere in Latin America to target open U.S. markets through many marketing channels,” said Scott of the EPI.

Economists predict that all this is almost certain to lead to an even greater deficit in 2005.

”Unless the dollar tumbles sharply, or the economy slumps into a recession, the deficit is likely to set yet another record in 2005,” Baker said.

Many analysts say that if the trade deficit is to decline sharply, as needed, in the near future, the dollar will have to drop further, making U.S. products more attractive for consumers.

”This is the only plausible mechanism for adjusting the trade deficit -- a lower dollar makes U.S. exports cheaper and imports more expensive,” Baker said.

Others dismissed concerns about the size of the trade deficit as alarmist.

”Despite anxieties about the trade deficit, today's trade report contains yet more good news for the U.S. economy,” said Dan Griswold, director of the Cato Institute's Centre for Trade Policy Studies in Washington.

Griswold argues that United States is trading more with the rest of the world then ever before, referring to the fact that U.S. exports in 2004 surpassed their previous peak of 2000, which should be welcome news to U.S. manufacturers that were hit hard by slumping demand abroad.

”The rise in U.S. imports confirms the robust demand of U.S. consumers and businesses,” he said.

”We should remember that the record trade deficit of last year occurred in a year of strong growth in GDP, employment, and manufacturing output.” (END/2005)