



The US Current Account and Trade Policy in 2017-2018

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Exhibit The U.S. Current Account, 1970-2016 (billions of dollars; credits,+; debits,-)

Year	Goods		Balance on Goods	Service Balance on Service	NX = X - M Balance on Goods and Service	Income Receipts and Payments		NFI Balance on Income	Unilateral Current Transfers, Net	Balance on Current Account
	Exports	Imports				Receipts	Payments			
1970	42	-40	2	0	2	12	-6	6	-6	2
1980	224	-250	-26	6	-20	73	-43	30	-8	2
1990	389	-498	-109	30	-79	172	-143	29	-27	-77
2000	772	-1224	-452	74	-378	353	-331	22	-54	-410
2005	895	-1677	-782	66	-716	475	-463	12	-86	-790
2009	1068	-1575	-507	132	-375	588	-467	121	-125	-379
2010	1289	-1939	-650	151	-499	678	-500	178	-128	-449
2011	1496	-2240	-744	187	-557	761	-528	133	-34	-458
2012	1561	-2303	-741	207	-537	776	-552	224	-127	-440
2013	1592	-2294	-702	240	-462	793	-586	207	-95	-350
2014	1634	-2385	-751	261	-490	817	-607	210	-94	-374
2015	1511	-2273	-762	261	-500	783	-602	181	-116	-435
2016	1456	-2208	-753	248	-505	814	-640	174	-121	-452

Note: Data are from the U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, September 2013, and are rounded to the nearest billion

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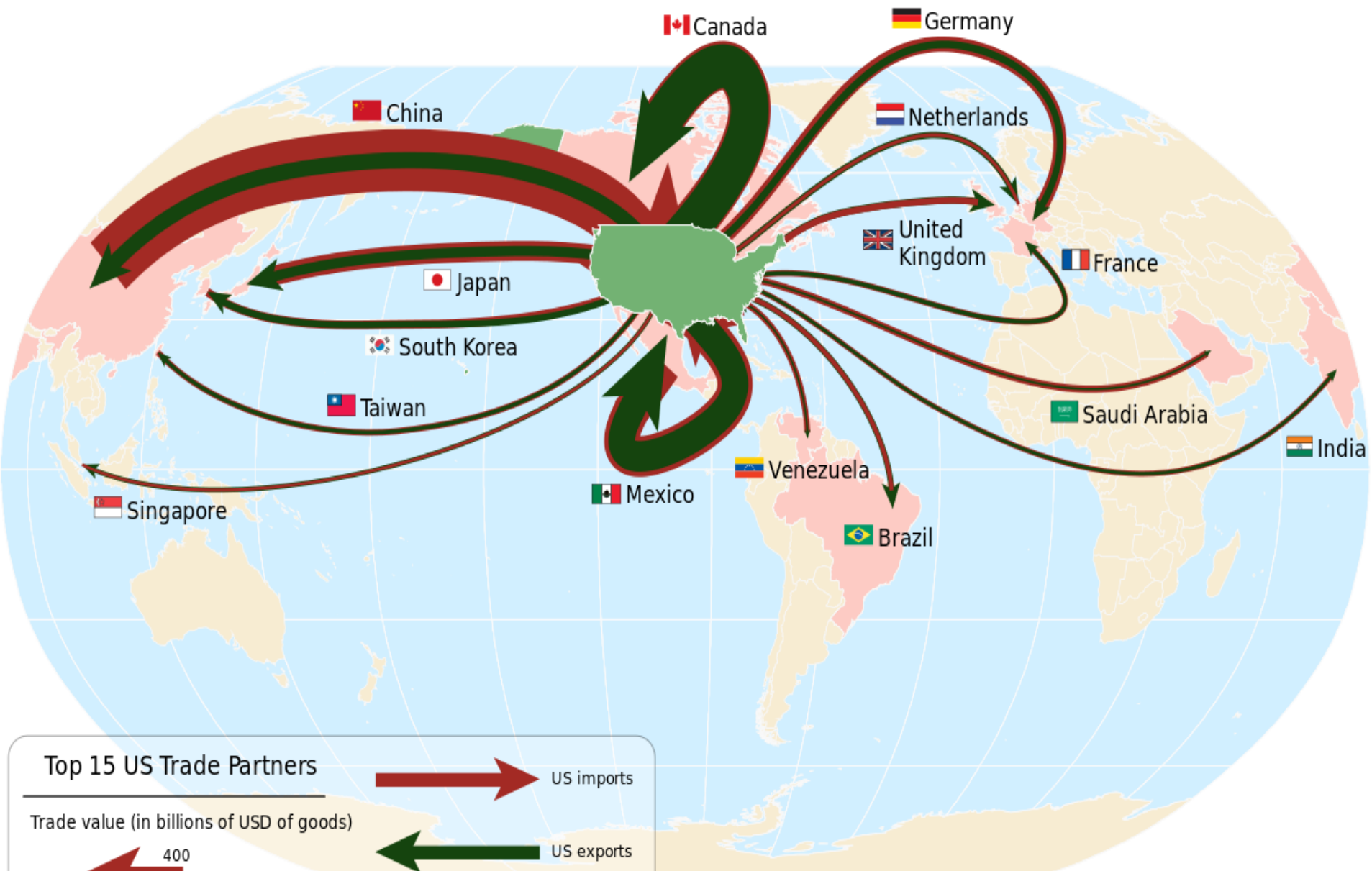
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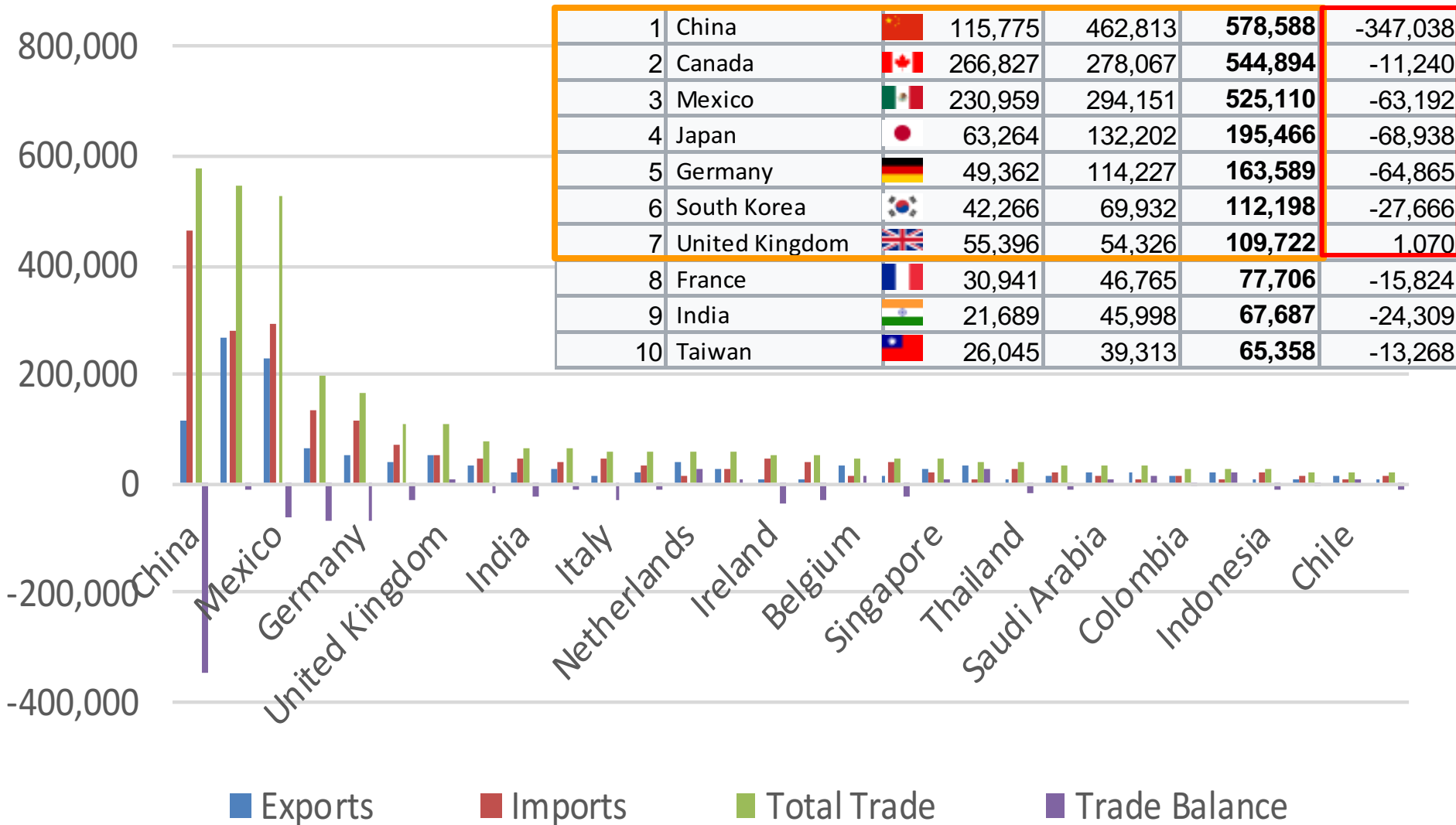
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Projection: Robinson
 Datum: WGS84
 Central meridian: -97.0 degrees
 Data source: US Census Bureau, 2011

Map author: Anthony Cohen
 University of Illinois

US Major Trading Partners



EU, China, Mexico and Canada, and Japan
or TTIP, TPP, NAFTA

Country	Size (Tr \$)	Current Account % GDP
USA	17.5	-2.6%
China	10.3	1.4%
Japan	4.6	3.5%
Germany	3.8	8.0%
Canada	1.8	-2.9%
South Korea	1.4	5.5%
Mexico	1.3	-1.9%

USA = China + Japan + Germany

USA = Japan + Germany + UK + France + Brazil + Italy

USA = 6 times size of Canada + Mexico

China CA surplus is \$120 bn, but it has a surplus of \$350 bn with the USA.

Germany CA surplus of \$280 bn is much higher than China, and 60% of the USA CA deficit.

EU CA surplus equals \$530 bn, or 114% of the USA CA deficit

EU accounts for 16% of the world trade.

China accounts for 14% of the world trade.

USA accounts for 13% of the world

THE MACROECONOMY & THE CURRENT ACCOUNT

US National Spending = Private Consumption (C) + Private Investment (I) +
Government Spending ($C_G + I_G$)

US National Income = Output Produced in US + Net Income from US Assets held abroad

US National Income - US National Spending = US Current Account

A **negative** Current Account means:

US National Income < US National Spending

- ✓ The strength of the economy relative to rest of the world.
- ✓ The role of savings relative to investment
- ✓ The contribution of the budget deficit.

FISCAL POLICY & THE CURRENT ACCOUNT

Larger budget deficit

- Lower savings => higher CA deficit
- Larger budget deficit => stronger US dollar => higher CA deficit

2018 Tax bill

- Curb incentives for MNCs to shift profits abroad => Higher Exports but Loss of Income from foreign Assets => Lower CA deficit
- It does not solve the trade deficit with China, Mexico, South Korea. It affects where US companies book profits (Ireland, Bermuda, The Netherlands)

TRADE POLICY & THE TRADE BALANCE

US Shift – From Champion of Multilateral Trade Agreements to Lead Sceptic

Reasons offered:

1. Multilateral trade harms US sovereignty (surrender dispute resolution to collective body).
2. Other countries cheat at the US expense.
3. Globalization raised incomes in Emerging economies but also raised income inequality domestically in Developed economies. Most affected have low skills (low productivity per \$ of output).

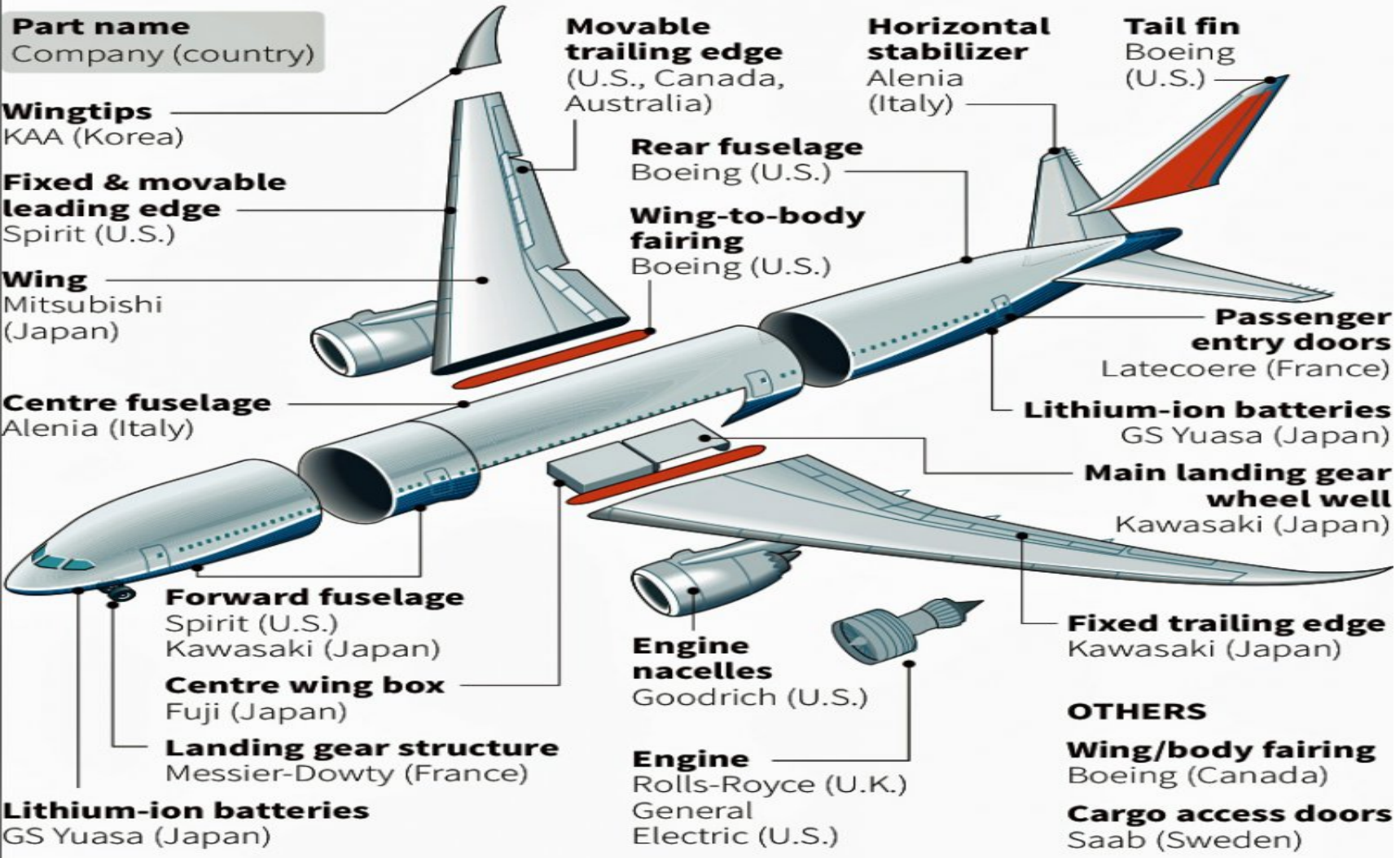
The USA Champion Of Multilateral Trade Agreements

Why has the US been the Champion of Multilateral Trade Agreements?

1. Globalization offered new markets and new opportunities to US multinationals which were better prepared to take advantage of markets governed by the same standards and the same rules.
2. US companies built the most complex and sophisticated global supply chains in the world. It gave them unparalleled advantage of global suppliers (costs).

787 Dreamliner structure suppliers

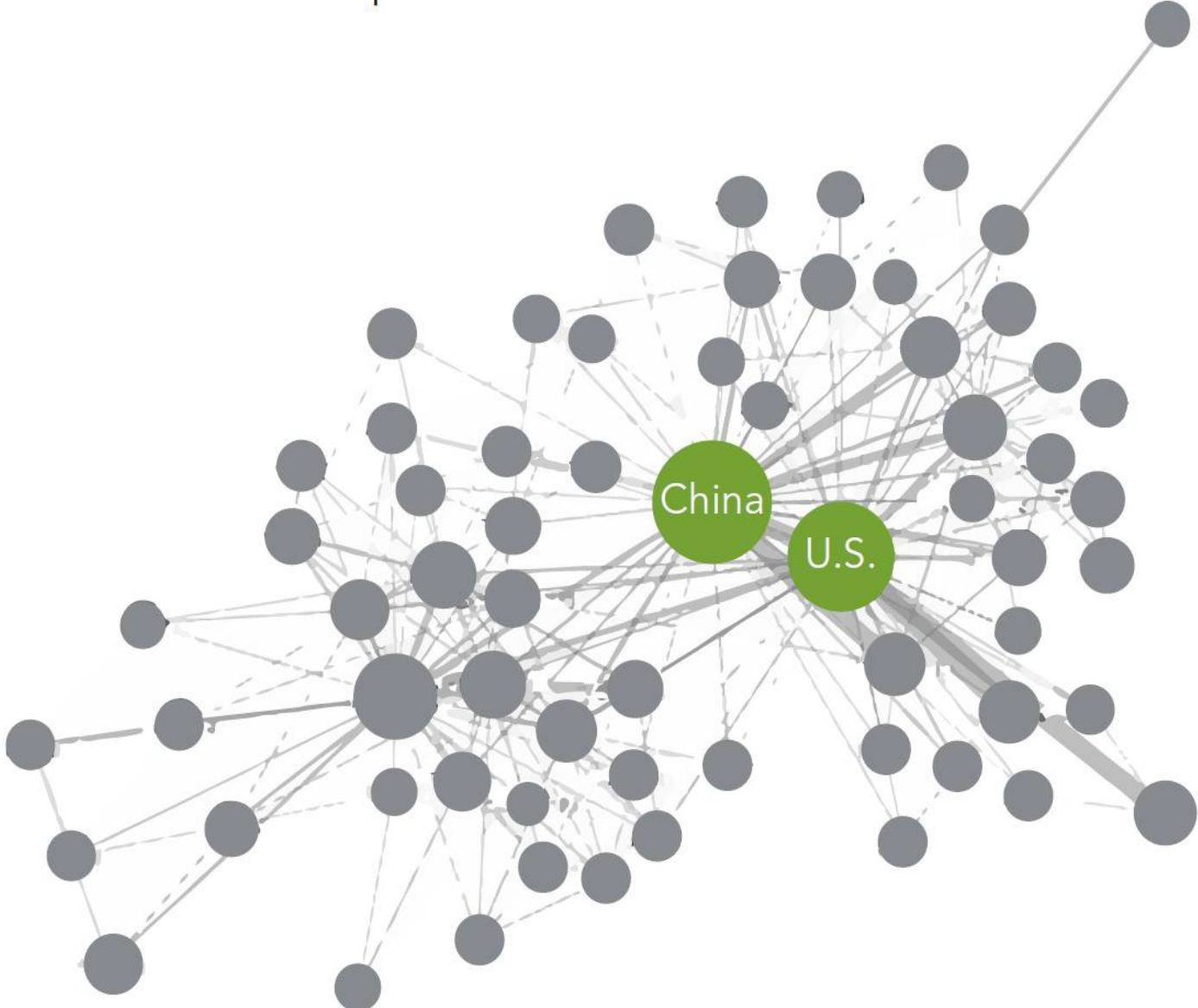
Selected component and system suppliers.



Sources: Boeing, Reuters

Note: Diagrams are not to scale.

GLOBAL TRADE INTERDEPENDENCE



TRADE POLICY & THE TRADE BALANCE

US Shift – From Champion of multilateral trade agreements to Lead Sceptic

Reasons:

1. Multilateral trade harms US sovereignty (surrender dispute resolution to collective body).
Is the Administration right? **NO** most of the time.

2. Other countries cheat.

Is the Administration? **YES** to a large extent.

TRADE POLICY & THE TRADE BALANCE

US Shift – From Champion of multilateral trade agreements to Lead Sceptic

NAFTA-

Sunset provision

Weaken pact's dispute resolution system

Threat: if USA leaves, trade not governed by WTO tariff ceilings

WTO -

Leadership vacuum

Weaken pact's dispute resolution system

TRADE POLICY of DISENGAGEMENT

What does the shift mean?

- ✓ Replace Multilateral Trade decisions with the US International Trade Commission. US Administration is effectively inviting petitions.
- ✓ US wants a free hand to coerce one country after another into bringing its surplus down to zero.

What is the likely outcome? Two petitions at the ITC are microcosms of the debate over US international trade policy

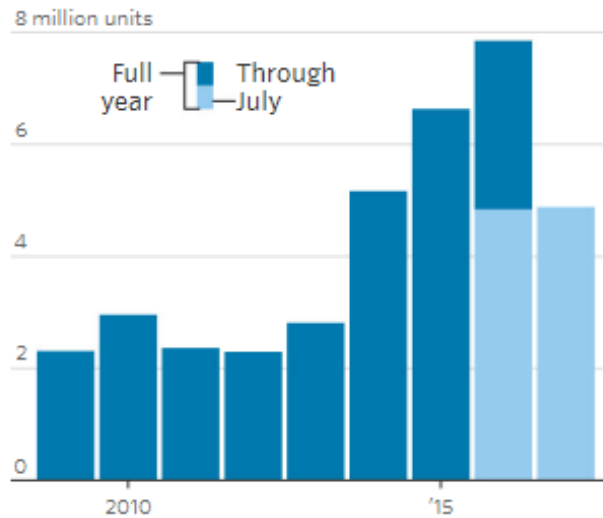
- ✓ Solar panels
- ✓ Whirlpool

What is the impact on US Companies?

- ✓ US Exporters will face more discrimination!
- ✓ Large MNCs same or better off!
- ✓ US Companies facing import competition won't necessarily be more protected!

Washer War

The number of large residential washers imported into the U.S. has risen sharply in recent years...

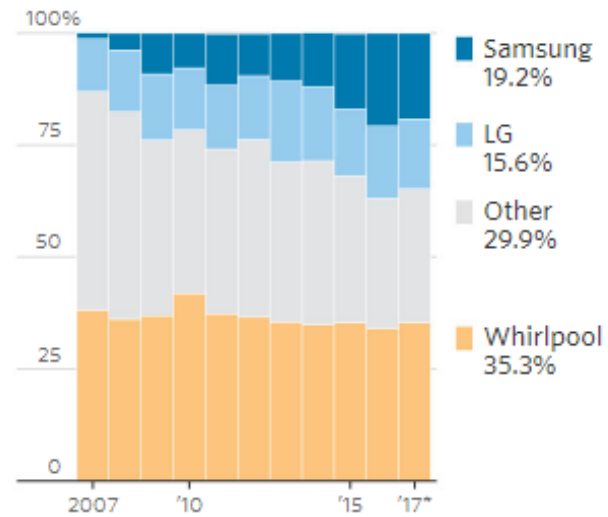


*As of second quarter

Sources: Panjiva (imports); TraQline (market share)

...with Samsung and LG taking a chunk out of U.S. market share.

U.S. market share by retail dollars





Appendix

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https://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/usa/all/show/2016/

https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/usa/all/show/2016/