SCIENCE

20 FEBRUARY 1987
VOLUME 235
NUMBER 4791

United States Trade

Fundamental changes have occurred in this country's role in the world that have not been adequately recognized by many citizens. In a few short years, a wealthy creditor nation has become the number one debtor. The underlying reason is that the United States has largely lost its ability to compete successfully in international trade. Trends are most strikingly evident for the total of items other than energy. In 1980, our trade surplus in these was $51 billion. Then followed a steady drop to a deficit of about $136 billion in 1986. By far the major factor was an imbalance in trade of manufactured goods.

We have not paid much attention to low technology. A deficit in those items, which include cars, clothing, and steel, went from $16 billion in 1981 to $111 billion in 1985. More painful to our pride was performance in high-technology items. In 1981, high-tech exports were $59.6 billion, while imports were $31 billion. By 1985, exports had grown slowly to $68.4 billion, while imports had more than doubled to $64.8 billion. Were it not for exports of aircraft, we would have had a deficit in high-tech items.

A recently issued publication from the U.S. Department of Commerce is the source of these and much other data.* It also provides analyses of contributing factors. One that has often been cited was the high exchange rate of the dollar. However, more than half our imbalance is with nations such as Taiwan, whose currency moves up and down with the dollar. Moreover, during the last half of 1986, when the dollar had already weakened sharply against the yen and mark, our imbalance continued to worsen.

Another factor cited in the publication is comparatively limited gains in productivity in the United States. Manufacturing capabilities have been growing in both developed and developing countries, often at rates faster than in the United States. There has been technological progress in many countries. Gains have been particularly strong in Taiwan, South Korea, Hong Kong, and Singapore.

Other factors cited include high savings rates elsewhere, rising educational levels, and improved infrastructures. These conditions tend to support efficient high-quality manufacturing industries that produce both basic products and high-technology items. At the same time, wage rates are generally lower in many of the other countries.

The narrowing of longtime U.S. advantages in technology and manufacturing and the lower wages abroad have made it more difficult for many U.S. industries to compete from factories located in this country. This has led to changes in the strategies of some of the multinational companies. Some have de-emphasized exporting from the United States. They have increased the use of foreign countries as the sources of parts, both in manufactures destined for markets in the United States and for other nations. With U.S. manufacturing less competitive, they have put more emphasis on joint ventures abroad and on the licensing and sale of technology. These tendencies have been facilitated by faster international communication and transportation. One example quoted in the trade press involves a large automobile manufacturer. The body structure of one of its expensive cars is made in Italy. It is flown to the United States by air transport.

Some of our largest, hitherto most reputable companies obtain abroad many of the goods they distribute. They then place their nameplate on them. This practice has raised concerns that our manufacturing base may wither away, leaving the United States a nation of "hollow corporations" that perform only financial and marketing services.

The United States required nearly 70 years to attain a creditor position of $150 billion, reached in 1982. By the end of 1985, the United States had a net debtor status of $107 billion. As of now, the debtor status is about $250 billion. Some analysts project that the debtor position could approach or exceed $800 billion by 1990. As time goes on, the cost of servicing the debt will contribute to a further weakening of our position.

At present, the debts of the United States are denominated in dollars, and there are attractive investments here for foreigners. At some point, however, and in some way, we will find it necessary to deal with a disagreeable and changed status.—PHILIP H. ABELSON

*Department of Commerce, *United States Trade* (Washington, DC, October 1986).