

Manufacturing and Services  
*Increasing Competitiveness, Strengthening America*

## U.S. Trade: Long Term Prospects and Challenges



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Presentation to the National Surface Transportation Policy and  
Revenue Study Commission

June 26, 2006

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## Three Things To Recognize

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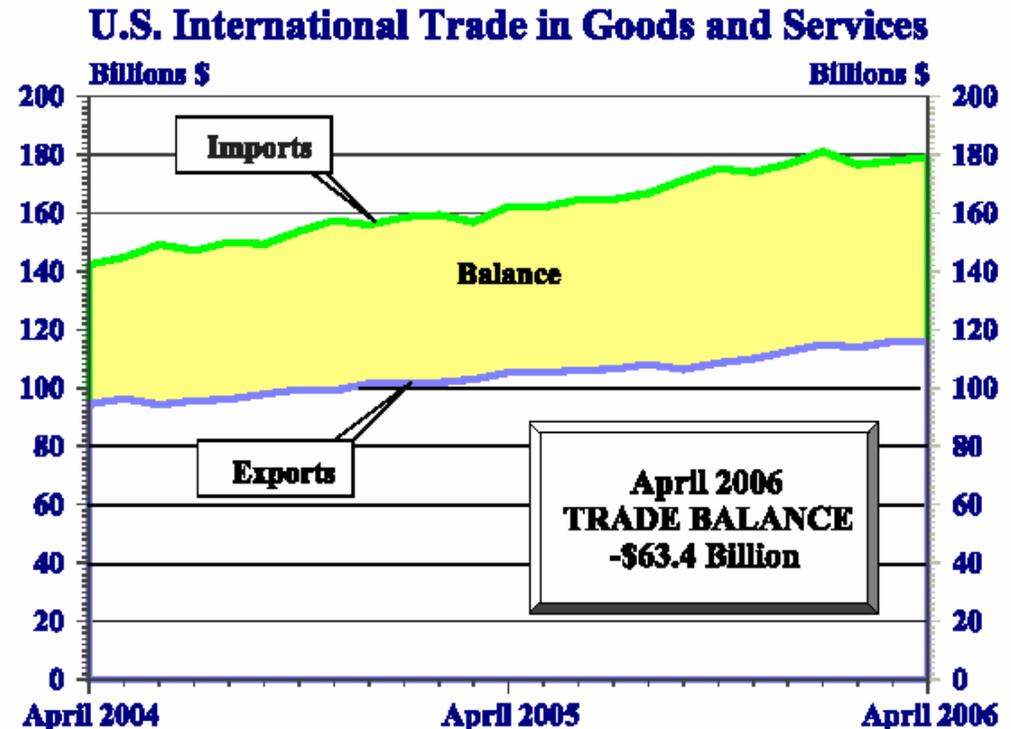


- U.S. trade with world growing at rapid pace and is expected to continue over the next decade
  - One key challenge to trade expansion is transportation infrastructure, wrt both port capacity and surface transportation
  - Transportation impediments would add to challenges already facing U.S. businesses in increasingly competitive global market
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# U.S. Trade Profile Through April 2006



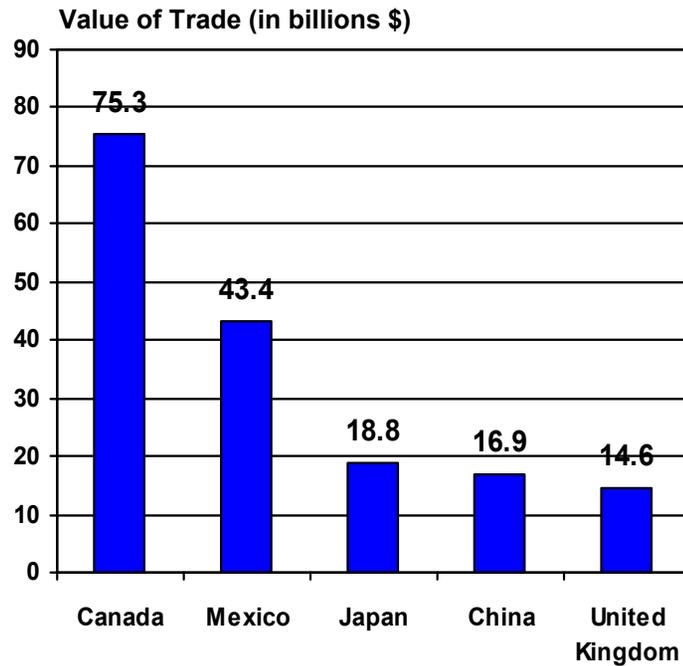
- U.S. total trade is growing rapidly. Through April of 2006, exports were 11.7 percent higher than during the same months of 2005.
- Over first four months of 2006, imports were 12.2 percent higher than in year-earlier period. Increases in imports buoyant because of strong U.S. economic growth and increases in petroleum prices



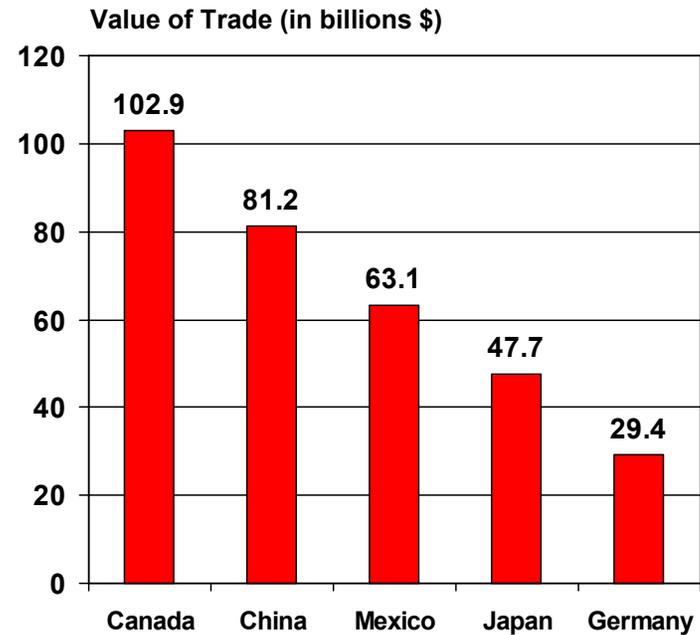
# U.S. Trade Profile: Top Trade Partners through April 2006



## EXPORTS



## IMPORTS



Source: U.S. Census Bureau.

# China and India Pacesetters in Trade Growth

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- Total trade doubled from \$1.3 billion to \$2.6 billion between 1995 and 2005.
- Growth has been very rapid with China and India.
- Europe and Latin America lag behind.



# Rapid Trade Growth Expected to Continue

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- Trade as share of U.S. GDP expected to rise and some observers postulate it to reach one-third by 2020.
  - Long term trade prospects depend on demographic changes and improvements in standard of living. China and India as world's two most populous countries are experiencing rapid economic growth (7-9 percent annually), which translates into more spending and trade dependence.
  - Europe and Japan as mature economies with aging population cannot be expected to grow as fast.
  - U.S. economy has been growing rapidly and is expected to grow for several years at about the same or slightly slower pace.
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## Some Risks Lurking in the Horizon

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- Oil prices have risen about \$21/barrel over the past year, though futures markets expect prices to remain at current levels.
- Global national security concerns could add to business costs
- Regulatory proliferation used as nontariff barriers could impede trade growth.



Source: New York Mercantile Exchange

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## Transportation Infrastructure As Binding Constraint

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- Ports operating at or near full capacity and have significant deficits by 2010.
  - Even if port infrastructure kept pace with trade growth, land and rail capacity and associated infrastructure are concerns. Air services has weaknesses, given recent history of hemorrhaging money
  - Transport issues not figured prominently in trade agreements and negotiations.
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## Increasing Costs of Doing Business

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- Transportation impediments drive up shipping costs forcing businesses to retain higher inventory levels to address increased supply uncertainties. Would negate business innovation of two decades where inventory costs have fallen from 25 to 14 percent of economic activity
    - West Coast port strike cost U.S. economy \$1 billion a day
  - U.S. businesses operate with thin profit margins and disruptions problematic, especially for small firms that account for majority of companies that export
  - Important to take address constraints before they become even more problematic.
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