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## War of the worlds

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AS THE trade imbalance between the two blocks widens, the most serious trade war of all time is surely looming. America and Japan? No, their trade gap is modest compared with this. According to official statistics, the whole world is now running a massive current-account deficit. It appears that we are importing much more from Mars than we export to it.

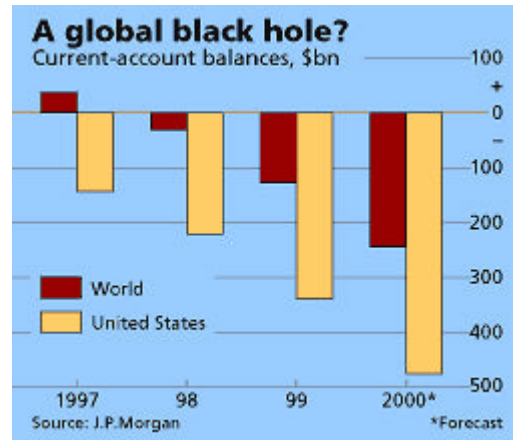
In theory, individual countries' current-account deficits and surpluses should cancel each other out. But because of statistical errors and omissions they never do. Figures from J.P. Morgan show that the world is expected to run an overall current-account deficit this year of \$245 billion, equivalent to 3% of world exports of goods and services—and that the gap is widening. In 1997, the world had a small current-account surplus.

The reason for the increasing global deficit is, by definition, unknown. A similar problem emerged in the early 1980s when the world also had a large current-account deficit with itself. Then the problem mainly involved investment income: countries were more scrupulous about recording payments than receipts, so as interest rates rose sharply the gap swelled. Today, however, the problem seems to relate mainly to merchandise trade. Since 1997 global imports have been growing much faster than exports.

Philip Suttle, an economist at J.P. Morgan, suggests three possible causes. The first, ironically, is freer trade. With less red tape it has become harder for governments to measure trade accurately. A second reason is the surge in sales over the Internet, which official number-crunchers find hard to track. A third could be greater uncertainty about exchange rates since the 1997 Asian crisis. At such times in the past, exporters have understated export revenues as a way of exporting capital illicitly. The snag with this theory is that today there are fewer exchange controls that exporters need to dodge.

Does the world's black hole matter? It might. Since 1997 the increase in the global discrepancy almost matches the increase in America's current-account deficit (see chart). In theory, it is possible that the alarming jump in America's deficit is an illusion caused by mismeasurement of its exports. Sadly, that seems unlikely. America's Department of Commerce has put much effort in recent years into improving the quality of its trade numbers. It is more likely, suggests Mr Suttle, that the errors lie in the emerging economies: the current-account deficits of Latin America or Eastern Europe may be smaller than reported, or Asia's surplus may be bigger.

Our preferred explanation, however, is that the Martians have been dumping cheap exports in world markets. And come to think of it, some of those "green" protesters in Seattle last year did seem rather other-worldly.



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