

Working Group Notes: Economics, Policy and Law (E1)

Trade Surplus in Forest Products: How Long Will It Last?

By Daowei Zhang

The US trade deficit has often been in the news over the last 40 years. Most people working in the forest sector also know that the US has a trade deficit in forest products. In fact, the trade deficit in forest products started in 1913 and has persisted for nearly a century, much earlier and longer than the overall US trade deficit that occurred in the 1970s.

Between 1961 when the UN's Food and Agriculture Organization (FAO) started to track forest products trade data, and 2008, the US was the world's largest importer of forest products, and its trade deficit in forest products generally grew over time (see Figure 1). However, the US changed from a net importer to a net exporter of forest products in 2009, and has emerged as the world's largest exporter of forest products since then

(Table 1). This does not happen often and is contrary to the overall trend in US trade balance, where a large trade deficit still existed as of 2014.

If the gradual depletion of its natural forests in the 19th century and the short time for resource conservation and planted forests to catch up are the reasons that the US became a net

forest products importer for the first time in 1913, what have caused the US to change from a net forest products importer to the largest exporter in the last 6 to 7 years?

More important, will that trend last? And for how long?

Also, which forest products groups have contributed to this turn of events, and which countries have bought more forest products from the US than the amount they sold to the US? Why?

Surprisingly, there is a scant of information on this topic. Thus, a few of us doing research in forest products trade have just begun an effort to reveal the determinants of US trade balance in forest products

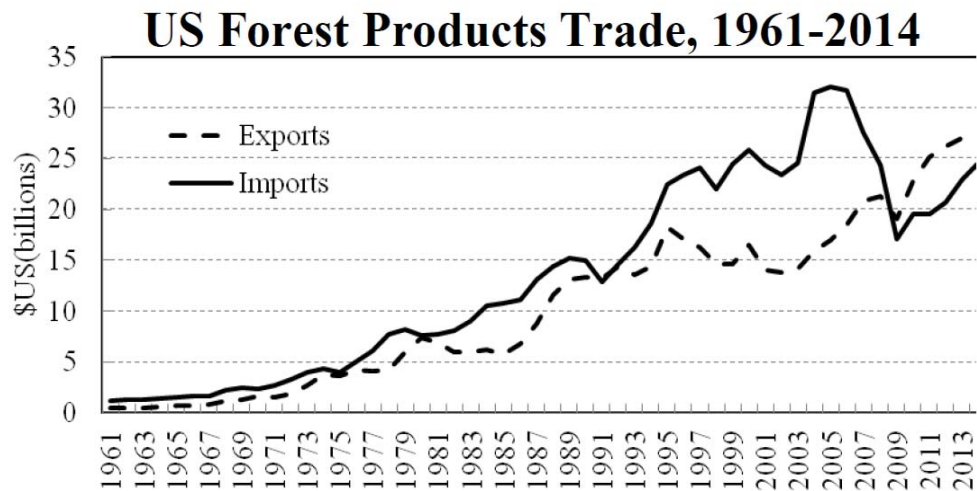


Figure 1. Nominal value of U.S. forest products exports and imports, 1961-2014. Source: FAO, 2015.

as well as exports and imports of specific forest products group with major US trade partners. (Jeff Prestemon, research forester and project leader of forest economics and policy at the US Forest Service Southern Research Station, along with a graduate student and I, are the researchers.)

While detailed results should start to come out in refereed journals in the coming years, we wish to share some preliminary results on the overall trade balance in forest products. As Figure 1 shows, the US

trade balance in forest products improves whenever the US has a recession. This was especially evident in 1980-81, 1991-92, and 2007-08, suggesting that falling domestic demand in the time of recessions has something to do with the improvement in the trade balance in forest products. The factors in the increase in US exports over time include strong foreign demand as economic growth in the rest of the world has been greater than the US since 1950s, a weakened US dollar in the recent decade, an increased effort by US manufacturers to access foreign markets a during time of falling domestic demand, and free trade.

Timber resources are important. In the 10 to 15 years following the decision to list the northern spotted owl as an endangered species, US forest products exports fell precipitously. Fortunately, US forest resources have increased steadily since the Second World War. However, the existence of a trade surplus in forest products between 2009 and 2014, after the US pulled out of its recent recession, suggests that other factors may help improve the US trade balance in forest products. Perhaps there is a structural change in the competitiveness of US forest industry.

US trade policies, another likely factor, include trade agreements, such as the North America Free Trade Agreement, and trade actions against foreign products, such as US trade actions against Canadian lumber imports and Chinese paper products imports. Another trade policy—the implementation of the Lacey Act Amendment of 2008 (which in part bans imports of illegally harvested wood products)—may have slowed down US imports of some forest products from particular countries.

Of all of these factors, the exchange rate and purchasing power are still the main factors that have altered the US forest products trade balance. Thus, the depreciation of the US dollar since 2002 and the high growth rate of foreign purchase power in the last two decades are important factors. If the US dollars strengthens continuously and if the rate of world economic growth falters, we could see the US forest products trade return to a deficit in the near future.

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Top 5 Forest Products Importers and Exporters, 2006-2014

	2006	2007	2008	2009	2010	2011	2012	2013	2014	
Value of export (\$ billion)										
Canada	28.2	27.8	24.0	17.1	21.3	22.7	21.7	24.1	24.3	
Finland	14.3	15.9	15.2	11.1	13.2	14.4	13.1	13.9	12.8	
Germany	18.2	23.8	24.2	18.7	20.8	23.0	20.4	20.4	20.3	
Sweden	14.6	16.6	17.2	14.1	15.5	17.3	15.2	16.0	15.0	
US	18.5	20.9	21.3	19.1	22.9	25.2	26.2	26.5	27.1	
World	203.4	231.7	237.1	188.1	222.6	246.9	232.1	248.4	249.7	
Value of imports (\$ billion)										
P.R. China	16.6	20.5	20.9	20.1	27.6	36.9	35.2	38.7	47.0	
Germany	16.0	20.8	21.5	15.8	19.3	21.6	19.1	19.3	19.0	
Japan	12.8	12.3	12.4	9.9	11.9	14.1	13.4	13.4	12.4	
UK	11.3	13.6	11.8	9.1	10.6	10.9	10.1	10.5	11.8	
US	31.7	27.7	24.3	17.1	19.5	19.4	20.5	22.9	24.6	
World	208.5	238.8	242.8	191.9	231.5	261.3	242.4	255.2	261.8	

Table 1. Bold numbers indicate that the US was the largest exporter or importer in the world in that year. Source: FAO, 2015.