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Trade deficit spirals to $61 billion

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WASHINGTON - The U.S. trade deficit hit a record monthly high of $61.04 billion in February as imports of oil and textiles surged while American exports barely budged.

The deficit figure sent tremors through Wall Street with investors worrying that the huge amount of foreigners' money America needs to finance the deficit could at some point trigger a freefall in the dollar and aggravate U.S. inflation problems.

The February deficit, which was up 4.3 percent from a January trade gap of $58.5 billion, was seized upon by Democratic critics as evidence President Bush's free trade policies are not working. They vowed to oppose Bush's drive to win passage of the Central American Free Trade Agreement.

"Uncle Sam has been played for Uncle Sucker by incompetent trade negotiators, a failure to enforce trade agreements and by our trading partners who see the U.S. as a patsy," said Sen. Byron Dorgan, D-N.D., who is leading the effort to defeat the pact.

The big jump in textile and clothing imports was expected to spur pressure on the administration to erect barriers to protect domestic manufacturers from a surge in imports from China since global textile quotas expired at the beginning of this year.

Imports of Chinese textiles and clothing are up a sharp 62.4 percent in the first two months of this year, compared with the same period a year ago.

The administration last week began an investigation that could lead to the re-imposition of quotas in certain categories of clothing, an action U.S. manufacturers contend is urgently needed to prevent Chinese goods from wiping out what is left of the U.S. textile and apparel industry.

For the first two months of this year, the overall trade deficit was running at an annual rate of $717.2 billion, a full $100 billion above the record imbalance of $617.1 billion set for all of 2004.

Analysts said the deficit for all of 2005 is likely to set another record of around $675 billion, largely due to rising oil prices.

"We are hemorrhaging red ink in our trade accounts and the red ink is just spreading wider and deeper," said Mark Zandi, chief economist at Economy.com.

While the dollar has fallen for three years against the currencies of Europe and Canada, it has not budged at all against the Chinese yuan because of China's policy of pegging its currency to the dollar. The National Association of Manufacturers said that practice has undervalued the yuan by as much as 40 percent, giving the country a huge competitive advantage over American companies.

As the trade deficit soars, the level of frustration in Congress is also rising. Last week, the Senate signaled support for imposing a 27.5 percent across-the-board tariff on Chinese goods unless China allows its currency to rise in value against the dollar.

And on Tuesday, Sen. Evan Bayh, D-Ind., announced that he would block a confirmation vote on Rep. Rob Portman, R-Ohio, to be the next U.S. trade representative unless Senate Republican leaders allow the Senate to vote on his measure to make it easier to penalize countries such as China for using government subsidies to unfairly compete against U.S. companies.