Record trade deficit in US fuels tensions with Europe and Asia

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The US international trade gap rose to a record $21.34 billion in May, a 14.8 percent jump from April's $18.5 billion deficit, according to a US Commerce Department report released Tuesday. It was the worst trade performance for the US since the government agency began compiling monthly trade statistics in 1992.

Americans bought $98.9 billion worth of imports in May, about two percent more than the previous month. The increase reflected an increase in the price of imported crude oil, to the highest level since late 1997, and a big jump in shipments of cars, telecommunications equipment and semiconductors. By contrast, US trading partners purchased $77.6 billion in US exports, down 0.8 percent, as sales of US-made commercial aircraft, farm products and cars dropped sharply.

If the trends of the first five months continue for the rest of the year, the deficit will total $225 billion in 1999, a 37 percent jump over last year's record of $164.3 billion.

Commerce Secretary William Daley downplayed the danger posed to the US economy, saying the rise in imports reflected US economic strength and weakness in Europe and Asia. Any negative consequences to the US economy from continued record deficits, he said, were a long way off.

But the widening trade imbalance raises the risk of a plunge in the value of the dollar that may trigger a wider financial crisis. The US must in effect borrow funds from overseas to pay its import bill, and investors are increasingly becoming worried about the debt bubble in the US, provoking the fear that they may dump their holdings of US stocks, Treasury bonds and other dollar-based investments. Over the past few days the dollar has been weakening as traders anticipated the rising deficit.

The size of the increase, however, caught many Wall Street investors off guard. Analysts say that May's record deficit may cause them to cut their estimates for the second-quarter gross domestic product growth below three percent, because imports could further undermine US production and slow the economy.

While the US has sought to exploit the weakened European and Asian economies to pry open markets for its goods, the continued high value of the dollar and strong consumer demand in the US has led to a flood of lower-cost imports into the US market. US manufacturers have already eliminated 500,000 jobs this year as imports have increased sharply, especially from the crisis-ridden Asian economies undergoing IMF and US-backed restructuring programs, while the overseas demand for US exports has slowed.

The US trade deficit with Japan fell by seven percent in May, to $5.26 billion, but it remains the highest. The US deficit with China is $5.25 billion, followed by the $3.1 billion deficit with the European Union, a $2.3 billion deficit with Canada and a $2.2 billion deficit with Mexico.

Mexico's surplus with the US in the first four months of 1999 rose 85 percent from a year earlier to $7.67 billion, while Canada's more than doubled to $9.17 billion. Canada and Mexico have relied on lower labor costs, sharp declines in their currencies and tariff reductions under the North American Free Trade Agreement (NAFTA).

The Japanese central bank, which has intervened several times in currency markets in recent weeks to lower the yen and lift the dollar, did so again Tuesday to keep its goods competitive in the world market. US Treasury Secretary Lawrence Summers has denounced Japan's recent moves, which will make US exports to

Japan more expensive, saying Tokyo should increase its domestic demand rather than engage in "currency manipulation."

The growing trade deficit has sparked increasing calls for protectionist measures from Congress, sections of big business affected by imports and the AFL-CIO bureaucracy. The Clinton administration has responded with more aggressive and increasingly unilateral action against its trading partners. In recent months the US has been involved in trade disputes with Europe, Japan, Russia, Australia and Latin America—banning lamb imports and steel, and introducing punitive tariffs to force the European Union to import its beef and bananas.

On Monday the Clinton administration announced it was imposing 100 percent tariffs on more than $100 million in European food exports in retaliation for the EU's continued ban on US hormone-treated beef. The announcement means that the wholesale prices of targeted imports, including pork products, Roquefort cheese, Dijon mustard, fruit juice and canned tomatoes, will effectively double when the duties go into effect July 29, making them impractical to import into the US.

The World Trade Organization has ruled against the EU on the grounds that, despite widespread fears among European consumers over the safety of hormone-treated beef, Brussels' 10-year ban was not based on scientific evidence. The WTO gave Washington the right to impose duties on European products equal to the amount of lost sales that American ranchers were estimated to be suffering each year. The US has long rejected the Europeans' proposed solution to allow the import of hormone-treated beef if it were labeled as such.

Peter Scher, chief agriculture negotiator with the US trade representative said the US focused its "hit list" on products from Denmark, France, Germany and Italy, the biggest supporters of the EU ban on hormone-treated beef. Britain was left alone because the British have opposed the ban. "We try to impose the greatest economic impact on Europe, while minimizing the impact on the American consumer," Scher said.

The tariffs provoked an angry reaction in Europe, particularly from farmers' groups, some of which called for a ban on American goods. "People are fed up that the Americans are telling us what to eat," said Pascal Coste, the president of the farmers' union, CNJA.

The farm union FNSEA joined in the boycott call, describing Washington's attitude as scandalous and accusing the WTO of complicity. The union's director-general, Yves Salmon, said the US was "taking hostage European farmers who have nothing to do with this conflict."

Earlier this year the US imposed almost $200 million in sanctions against the EU in its dispute over Europe's banana-import policies. The WTO ruled that the EU had discriminated against bananas grown by America's Chiquita and Dole corporations.