

SECRETARY MULLOY: Thank you, Mr. Chairman and Mr. Vice Chairman and members of the Commission. I appreciate being invited here today to testify on the causes, consequences, impacts and solutions to the trade deficit. I have prepared a longer written statement which I ask to be included in the record of this proceeding and I believe it's been distributed.

As Assistant Secretary for Market Access and Compliance, I direct that part of the Commerce Department that plays a role in ensuring that U.S. firms and workers receive the benefits that we negotiated for under trade agreements signed by our country.

Before my present appointment, I worked for many years on the staff of the U.S. Senate Banking Committee where I developed a keen interest in the matters that you've been charged to study and make recommendations.

I want to commend you for the thorough approach you are taking in carrying out your duties which

are, I think, very, very important to our national well being.

Our deficit has risen this year to an annual rate of about \$255 billion from an average of about \$100 billion between 1994 and 1997 and \$164 billion in 1998. The deficit in manufactured goods is increasing, our surplus in farm products is down sharply and our large surplus in services has shrunk as well.

As most previous witnesses before this Commission have testified, the recent deterioration in the U.S. trade balance has macroeconomic causes. However, I think it's worthwhile looking at the situation over the longer run. From 1894 to 1970, the United States had an unbroken record of trade surpluses. Since 1970, we have had a continuous string of trade deficits that have accumulated to over \$2.2 trillion. This long-term trend is clearly visible in Chart 1 to the attachment of my written testimony.

Unlike the recent surge in the deficit, the longer-term U.S. bilateral trade deficit is not evenly distributed among our trading partners. Over the longer term, our bilateral deficit has been heavily concentrated in trade with Asia. Since 1990, Asia has accounted for an average of 33 percent of our trade, but 86 percent of our bilateral trade deficit. Half that amount, 43 percent has been with one country, Japan. Thus, trade with the rest of the world, which accounted for two-thirds of our global trade, has averaged only 14 percent of our bilateral trade deficit.

Our trade patterns with the world have generally reflected changes in economic growth rates and other macroeconomic factors. Our trade with Asia, however, has behaved differently. U.S. imports from Asia have consistently grown more rapidly than U.S. exports to Asia and the spread between the two has increased.

One of the factors that has affected the growth of U.S. exports to Asia has been the high trade

barriers in that part of the world. Over the past 50 years, the United States has lowered trade barriers more than other countries. Developing countries in Asia, for the most part, did not contribute much to tariff decreases during the successive rounds of tariff cutting in the GATT and I think former Chairman of the ITC Ecces spoke to the Commission about that phenomenon.

The United States had good and valid strategic reasons for wanting to help rebuild or build the Asian economies. Many Asian countries developed strong export-led growth economies. Over the years, the spread between our export growth and import growth with developing Asia brought our trade deficit with them from only \$2 billion in 1975 to \$112 billion last year.

Tariffs remain a serious problem. But in Japan, for example, where the tariffs are only three percent, the Institute for International Economics, published a study in 1995 calculating the implied margin of protection that keeps imports out of Japan. They

estimated that Japan's invisible protection for machinery imports was equivalent to an average tariff of 140 percent. With this amount of invisible protection in place, it is not surprising that we and many other countries have great difficulties exporting industrial products to Japan.

Let me turn now to the question of what to do about our trade deficit. The essential ingredient is to obtain a faster growth of exports relative to imports.

It is far preferable to obtain that relative shift by increasing exports than by reducing imports and I will stop there and be happy to take any questions, if you wish.

VICE CHAIRMAN PAPADIMITRIOU: Thank you very much. Professor Cooper.