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U.S. Trade Deficit Hangs In a Delicate Imbalance

Like Yin and Yang, the Saving in Asia Complements the Spending in America

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AGOURA HILLS, Calif. -- The most breathtaking moment came in the master bedroom.

Bob Miller, a stocky 60-year-old who imports motorcycle helmets, was giving a tour of his Southern California home to Scott Hong, an executive of a South Korean helmet manufacturer. The back yard, which features a swimming pool, Jacuzzi and tennis court, elicited murmurs of awe from Hong. But an even greater marvel materialized at Miller's bed, where at the touch of a button, a video screen descended from the canopy.

"TV!" Miller said. "We have it in case we get bored."

That's the kind of guy Miller is -- unabashedly acquisitive. Hong is his opposite number. One is an American importer, the other an Asian exporter. Together they epitomize an enormous imbalance in the global economy, in which the United States imports, consumes and borrows while Asian nations export, save and lend.

Miller indulges in quickie trips to Las Vegas and boasts a collection of classic cars. His firm, Helmet House, buys helmets in large quantities from Asia for distribution in the United States.

Hong, also 60, is renowned among family and colleagues for frugality -- he drives a three-year-old Volkswagen Passat, for example, despite the millions of dollars he has accumulated through his stake in his family's company, HJC Helmets. That company produces the No. 1-selling motorcycle helmet in the U.S. market, from factories in Korea and China.

Spread across millions of Miller's and Hong's fellow citizens, this behavior adds up. In the United States, imports exceeded exports last year by \$617.6 billion, a record gap equal to 5.3 percent of gross domestic product. The U.S. trade deficit has swelled even further in the first nine months of this year compared with the corresponding period in 2004.

South Korea, by contrast, ran a \$29.4 billion trade surplus last year, or 4.3 percent of its GDP, and even that paled by comparison with Japan's \$132 billion surplus or the \$100 billion-plus surplus China is expected to post this year.

For now, the imbalance between the United States and Asia benefits the economies on both sides. Asians get jobs in export firms such as HJC Helmets, and their American customers get high-quality, inexpensive goods including clothing, cars and appliances. The United States also gets cheap capital from Asia because the dollars that Asians earn for their exports often end up invested in the bonds of the U.S. Treasury and mortgage-finance companies such as Fannie Mae and Freddie Mac. These purchases of U.S. securities help keep interest rates low, which in turn helps fuel the housing boom and create new U.S. jobs that replace the ones lost to imports.

"We get cheap goods in exchange for pieces of paper, which we can print at a great rate," said Allan H. Meltzer, an economist at Carnegie Mellon University.

However, the mountain of U.S. bonds that foreigners are accumulating means the United States is going deeper into debt to fund its import binge, to the tune of about \$3 trillion as of this year.

"Sooner or later, the rest of the world will decide that the United States is no longer a safe bet for lending more money," said William R. Cline, a scholar at the Institute for International Economics and author of a new book titled "The United States as a Debtor Nation."

The traffic in motorcycle helmets between HJC and Helmet House is a tiny slice of transpacific trade, but it illuminates the dangers of such lopsided commerce. The relationship between the two firms began more than two decades ago, when Hong's elder brother, W.K. Hong, HJC's founder and chief executive, assigned him responsibility for exporting to the U.S. market.

Transpacific Ties

Speaking almost no English and carrying samples of about 10 HJC helmets, Scott Hong -- whose Korean name is Hong Soo-ki -- arrived in Los Angeles in 1983.

He went to extraordinary lengths to save money on lodging and food when he traveled from his Los Angeles base to meet motorcycle dealers and riders. Sometimes he did odd jobs, such as painting houses, while on the road. When he took trips to Sacramento, 390 miles from Los Angeles, to get HJC's helmets certified as safe by a major helmet-testing organization, he often avoided hotel expenses by driving round trip in one day, starting at around 3 a.m. and returning late in the evening.

"On freeways, I sometimes got sleepy," he recalled. "So I put my face out the window. Then I would be sleepy again. So I got some jalapeno peppers and put them in a bag. When you chew those in your mouth, you are going to wake yourself up."

Critical guidance came from Miller and his crew at Helmet House, which became HJC's lead distributor, on matters such as the splashy colors and designs that would appeal to American bikers. Miller and a business partner had built a helmet-distribution company from scratch -- they started out peddling helmets at weekend swap meets in Southern California -- and Miller, already a major distributor of Japan's Shoei brand, established contact with HJC after spotting one of its helmets on a motorcyclist during a buying expedition to South Korea.

"I told Scott, if they listen to what we say, we'll be successful," Miller said. "And HJC has had phenomenal growth. They do it faster, better, cheaper."

HJC's U.S. sales began to take off in the latter half of the 1980s because the company's helmets cost less than Japanese ones. They now retail for between \$70 and \$400, depending on the model.

Hong remembers the first time he saw an American motorcyclist wearing an HJC helmet: "I followed him for about an hour in my car, and he pulled over and asked, 'Why are you chasing me?' I told him, 'Your helmet is my helmet.' I cried on that day, I was so happy."

The Thrifty

Back in South Korea, chief executive W.K. Hong was plowing HJC's profits into manufacturing equipment and research and development, with the aim of producing lighter, more comfortable and more crash-resistant helmets. HJC still spends about 10 percent of its revenue on R&D, employing more than 40 engineers -- which has enabled it to approach Japanese levels of quality.

"All the money I made in the company, I reinvested in the company," said W.K. Hong, who is 65 and an engineer by training.

Aside from an occasional tour of an area he is visiting on business, he said, he has never taken a long

vacation. His wife, Kim Hee-ki, said she sometimes accompanies her husband on business trips and once traveled to California to visit a daughter who was living there.

"If I used money for personal things, like going on vacation, I don't believe we'd be number one in the world," Hong said.

Miller, who visited Hong's apartment in Seoul for the first time last year, finds the thriftiness hard to understand: "I'm born and raised in Brooklyn, New York, and the apartment where I grew up was nicer than the one in the elite area where he lived." (Hong moved a few months ago to a more luxurious apartment in a Seoul high-rise, though it is still far from the opulence that American multimillionaires typically enjoy.)

In contrast with the United States, where the personal savings rate recently has sunk into negative territory -- with people spending more than their income -- South Korea's personal savings rate is about 7 percent, and its national savings rate of 33 percent ranks among the highest in the world. The rate reflects the thrift not only of individuals but also of government and business; the South Korean government has run budget surpluses in recent years, so it need not borrow large sums as the U.S. government must.

In interviews with HJC workers, the least thrifty among them reported saving 10 percent of income, and the most thrifty put saving at 60 percent. Typical was the response of Kim Tae-young, an HJC engineer, who said: "My wife just gave birth to twins. I used to save 50 percent, but the cost of the children is very high, so now I'm down to 20 percent."

South Koreans are unaccustomed to the borrow-and-spend lifestyle of Americans. A couple of years ago, a short-lived government campaign aimed at encouraging spending led Korean banks to hand out credit cards to millions of consumers with few questions asked -- resulting in widespread defaults by people who had never used such cards to borrow for their personal expenditures.

The upshot: With its high level of savings, South Korea has a trade surplus. The two go together, just as low savings go with trade deficits. By running those surpluses, South Korea is in effect squirreling away resources for the future -- probably more than it needs to, many economists contend -- at the expense of current consumption.

By posting big deficits, the United States is going to the opposite extreme, behaving like an individual who borrows year after year to cover the gap between spending and income. America's creditors have recently shown a remarkable willingness to cover that gap; in September, foreigners bought a record \$101.9 billion in U.S. securities, mostly bonds, according to government data released Wednesday.

But foreigners might get nervous about the rising U.S. debt load and insist on earning much higher interest rates on their U.S. bonds. That could squeeze U.S. living standards, as industries such as housing and autos falter for lack of low-cost credit. Worse, an avalanche of selling by foreign holders of U.S.

bonds and stocks -- triggered, perhaps, by a terrorist attack or a surge in inflation -- could spell economic calamity worldwide.

The risks increase the longer the imbalance persists, said Cline of the Institute for International Economics, adding, "Do we want to get ourselves, and for that matter our children, in a situation where we want to have to take an enormous hit because we have been increasingly enjoying excess consumption?"

The Spendthrift

Miller did not always live comfortably. His father, who immigrated from Russia, stitched suits in a New York factory, and his mother worked as a clerk in an insurance company. Now, however, he savors the rewards of heading a company that sells 600,000 helmets a year and pulls in nearly \$100 million in revenue.

Strolling through the parking lot outside Helmet House's main facility, Miller pointed to a Mercedes SL500. "That's my weekday car," he said. "My weekend car is a BMW X5. My wife drives a Jaguar. We've got about \$200,000 in our garage." And opening the door to a small building, Miller revealed his "passion" -- a 1951 Cadillac convertible, a 1955 Mercedes Gullwing, a 1957 Chevy, a 1971 Mercedes convertible, and a 1979 Ferrari in pristine condition.

He usually leaves the office by 5 p.m., he said, and he does not work at home or on weekends. He, his wife and 17-year-old son have traveled widely, both in the United States and abroad. Miller, a fervent Los Angeles Dodgers fan, holds season tickets to the team's games, and his office wall is plastered with memorabilia from a Dodgers "fantasy camp" he attended. Before his son was born, he recalled, "I could say to my wife, 'Let's go to San Francisco for lunch' -- and we'd go up on an airplane, have lunch, and come back." These days, such jaunts are limited to Las Vegas, where "I go every couple of months, to loosen my belt."

Miller has sunk much of his wealth into shopping centers and other real estate, so he does not have to fret about saving. But the lack of thrift characteristic of Americans is evident among his employees. In interviews, several reported saving well under 10 percent of their incomes, and even putting aside that much is difficult, they said. Few put the maximum allowable amount in the company's 401(k) savings plan, according to Chief Financial Officer Randy Hutchings, and a substantial number do not contribute at all.

"I would venture to say that of my 125 employees, 80 percent live paycheck to paycheck, and maybe even before paycheck to paycheck," Miller said. "There are employees I've had, when they earned \$50,000, they owed money; when they earned \$100,000, they owed money. It's not what they earn; it's just the way they do things."

Small wonder, given such saving and spending patterns, that the global trade imbalance continues to

burgeon.

Miller is doing his part. "I live the American life," he said.

Scott Hong is doing his part, too. Now responsible for HJC's exports to Europe, he visited about 200 dealers in 2004. "This year," he said, "my target is 300."

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