Trade is global, not a country-by-country balancing act

Julián Cubero

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The abandonment of the Trans-Pacific Partnership (TPP) and statements by both the president and the new US trade authorities seem to indicate that the US is turning towards bilateralism and is likely to consider the balance of trade as the variable on which to base its policies. This would mean that the large trade deficits that the US has with China, Mexico and Germany would have to be corrected bilaterally, possibly leading even to unilateral trade reprisal measures being taken if necessary.

This policy is mistaken, in terms of both the chosen objective and the measures to be implemented to achieve it. The balance of trade, and the more so if it is bilateral, is an inappropriate object of economic policy, since it is the result of numerous factors, structural and cyclical, and by definition it is not affected by what any single country might do. Trying to correct it in the short term by means of barriers, in the form of tariffs or otherwise, would unleash negative effects on activity, employment and prices, both in the US and beyond its borders.

International trade seeks to exploit the comparative advantages that exist in every economy: you sell the things that you produce more efficiently than others and you buy the things you produce less efficiently than others. But these comparative advantages evolve with development; as the economy's income increases, the combination of goods and services that it offers undergoes change, as does the rest of the world's demand for them. With the move towards specialisation in more complex manufacturing and services, surpluses in these products are favoured over products with less added value, where deficits build up. This is what is happening in the US, as shown in a recent BBVA Research note "USA Trade deficit: no need to fear the beast", available at www.bbvaresearch.com), with continual surpluses in services and a positive contribution to the external balance from the most knowledge-intensive products.

The US, like other economies, is face with the challenge of the gap that rapid technological transformation is opening up between the characteristics of employees sought by companies and those of the potential workers. This gap is closed by education and training in new skills, not with trade barriers. Moreover, barriers are counterproductive for the complex value chains that characterise global trade. An example of this is the auto making sector in North America (Canada, the US and Mexico), favoured by the free trade agreement among the three countries (NAFTA). As is shown in another BBVA Research note also available on our website ("What is the US trade deficit with Mexico telling us?", nearly 90% of the US trade deficit with Mexico - now in the US authorities' spotlight - accumulates in the two US states where exchanges in the automotive sector are predominant. But these "Mexican" exports incorporate components from the rest of the world, and most of all from the US. The World Trade Organisation has calculated that 32% of the value of Mexico's exports derives from Mexico's imports, and that nearly 40% of these come from the US. The final result is an allocation of resources that exploits the comparative advantages of each economy to increase the supply of affordable automobiles to, for example, the US consumer. More quality for less price. Interfering with these value chains will not bring jobs "back" to the US, since even if production returned to the US it would probably be with greater automation, the only way to remain competitive. The barriers would involve higher prices and therefore a decline in North American households' disposable income, as well as a brake on exports to Mexico.

Another aspect to be considered is that given the dollar's free float, with the introduction of barriers to imports and/or subsidies for exports, the dollar would normally tend to appreciate. For the US, this appreciation of its currency acts in the opposite direction from that of the barriers to trade, and for the rest of the world it may lead to deterioration in financing conditions for the economies most dependent on the dollar for their financing needs. In summary, bilateralism and focusing on the deficit are a mistaken approximation to trade policy, with probable negative impacts not only for the US.