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Save Jobs? Why Not Try “Trade
Equilibrium” Instead?

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Abstract

Spain May Also Restrict Imports to Save Jobs

Chinese tires, subsidized by its government, are much cheaper than their American counterparts. As a result several American tire plants have been closed and thousands of Americans have lost their jobs. In light of these setbacks, President Obama levied an extra 35% tax on these imports in September 2009.

The purpose of this article is to research which other country, if any, may also follow the U.S. strategy; and why using the theory of Trade Equilibrium would be a better approach instead.

Other Countries to Impose Trade Restrictions

Can Obama’s decision encourage other countries to follow the U.S. lead in order to trim their own trade deficits and protect their jobs and economy? Which one(s)? In order to answer this question, let me first present the top five nations suffering from trade deficits (2007 estimates): U.S. (\$731.2 billion), Spain, \$145.3 billion; U.K., \$119.2 billion; Australia, \$56.78 billion; and Italy, \$51.03 billion. Similarly, the five countries with the highest estimated trade surplus in 2007 were: China (\$371.8 billion), Germany (\$254.5 billion), Japan (\$210.5 billion), Saudi Arabia (\$86.6 billion), and Russia (\$78.3 billion) (Central Intelligence Agency, The World Factbook).

With an unemployment rate of 18.7% in May 2009—the largest among the Euro27 Zone countries which had an average unemployment rate of 8.9% (Finfacts Ireland 2009)—Spain can very well be the next country to place restrictions on imports to reduce its trade deficit and to keep and create more jobs at home.

Spain shipped \$285.4 billion worth of exports in 2008. Its largest export clients were France (18.4%), Germany (10.6%), Portugal (8.7%), Italy (8%), the United Kingdom (6.7%) and the United States (4.2%). On the other hand, Spain imported \$414.5 billion worth of foreign goods in the same year. Its leading suppliers were Germany (14.5%), France (11.1%), Italy (7.4%), China (6.3%), the United Kingdom (4.6%) and the Netherlands (4.4%), (Workman 2009). Spain’s trade balance deficit reached a high of \$ 130.7 billion in 2007 (UNCTAD 2008. Gap in two deficit figures is due to the source differences).

If Spain decides to place restrictions on imports (from any major country), it would receive attention from countries all over the world, much more than the notice U.S. received when it high-taxed the Chinese tires. The Spanish pronouncement would not only bring more credibility to the American decision, it would also highlight the disastrous effects of large international trade deficits on the national economies. Additional trade-deficit countries would be sure to follow.

Trade Restrictions, a Mutually Disruptive Approach

Loss of exports, whether due to restrictions imposed by the importing country or because of the exporting county’s economic decline, would certainly cause job losses in the latter. China, one of the export surplus countries, is already experiencing such pain.

Similarly, reduced imports by the importing country would increase its consumers' cost of living, who, now would have to pay higher prices for the products produced locally. The trade restrictions would have more negative effects if the exporting country takes retaliatory measures. In the long term, trade restrictions generally end up mutually disruptive.

In the short term, trade restrictions would have some advantages as they augment local production, jobs, and economy. Its major advantage, however, would be the worldwide awareness that it would create about the dire effects of major trade imbalances, as it impresses upon the export surplus nations the significance of increasing their imports in order to support their increasing exports. Export surplus countries would have to use their surplus foreign currencies to import goods and services to improve their infrastructure, employment, consumption, and GDP.

Trade Equilibrium, a Premier Solution

I define "Trade Equilibrium" as a situation when trading among different countries is such that the trading partners remain generally deficit-free from one another over the years. In other words, the value of a country's imports is equal to the value of its exports. This would require the trade surplus countries to invest their surplus dollars (or other currencies) to buy goods and services from the trade deficit-countries.

Implementing Trade Equilibrium, a Missionary Approach

In order to spur its economy and jobs, the U.S. "must" adopt, as its "mission," to bring parity between its imports and exports. In order to accomplish this mission, the U.S. must help understand its trading partners (such as China, Germany, Japan, Russia, and Saudi Arabia) the benefits of using their surplus dollars mainly to buy American products (not treasuries). The U.S. treasuries in which they currently invest most of their dollars, can earn them only about 2.5% to 4%. However, by investing these surpluses to buy the U.S. products for their infrastructural development can earn 15% to 30%.

It is not that these countries are unaware of the alternative uses of dollars, or their declining value. However, knowing something and actually doing it are two different things. Countries need ongoing education to appreciate the merits of trade equilibrium and practice it for their mutual advantage.

Let me clarify that the dollar surplus nations don't have to use these dollars to buy products from the U.S. only. They can (and would) purchase them from other countries as well. In the final analysis, however, all these countries would have to use their dollar reserves to buy products from the U.S. Why else the exporting countries would give away the products of their labor to importing countries? The stockpile of dollar-bills sitting in the bank vaults of the former has no practical value until it is used to purchase goods and services from the country of its origin. It is high time to understand some of these basic principles of trade and economics. Clearly, the educators have their work cutout for them for years to come.

Trade Equilibrium, a Theory to Promote Efficiency and Mutual Benefits

Traditional bottom-up export promotion techniques—such as tax-breaks, subsidies, conferences, trade delegations, and individual corporate efforts—valuable as they are, have failed to keep and create U.S. jobs. These methods help individual entities measure

their performance based on their own trade goals—without any meaningful reference to the overall national trade deficit, employment and economy.

However, the theory of Trade Equilibrium, which uses top-down approach, begins with looking at the national trade deficit already accumulated. It then looks at the trade-deficits that are added daily. Its dual mission is first to try to prevent the additional deficits from taking hold and then to try to reduce trade deficit already accumulated.

This theory would help multiply trade between countries as it stimulates their output, jobs, corporate profits, tax revenues, and consumption. It would be instrumental in a more efficient allocation of resources because the dollar surplus countries will be very careful in deciding which American products to buy. Such scrutiny is not possible when the U.S. government allocates stimulus dollars.

I should also emphasize that while the stimulus dollars may be able to increase the national GDP, it may not be able to reduce its unemployment. It is because, first, the technological improvements and unused resources would reduce demand for additional labor. Secondly, the number of job seekers would continue to grow due to soaring population and improving medical care.

As long as the U.S. continues to have huge trade deficits, it would continue to off-shore its dwindling jobs (or the other way around). Spending billions of stimulus dollars would end up stimulating foreign economies—because the U.S. consumers would use the stimulus money to buy cheaper imported products. Americans would have to get used to an unemployment rate of 10% and higher, declining standards of living, deteriorating community services, and soaring budget deficits—as the government tries to deal with shrinking tax revenues.

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