

The Year Ahead

Part 7, Reciprocal versus Free Trade

By; Chuck Vollmer, Jobenomics Founder & President

10 February 2019



Keywords: President Trump, Trump Administration, International Trade, Free Trade, Reciprocal Trade, Bilateral Trade, Trade War, New Cold War, Trade Deficit, Trade Surplus, Goods, Services, Exports, Imports, Trade Barriers, Tariffs, IP Theft, NAFTA, USMCA, Gross Domestic Product, GDP, GDP Growth, GDP Purchasing Power Parity, GDP PPP, Census Bureau, World Bank, World Trade Organization, WTO, USTR, FIRRMA, CFIUS, OBOR, China, European Union

Caption: Reciprocal Trade is replacing Free Trade in the United States and the rest of the free world.

Free trade is an ideal goal. In practice, reciprocal trade is more realistic, especially in an ever-changing global marketplace. After WWII, the U.S. economy equated to about half the world's Gross Domestic Product (GDP, the value of all goods and services). For the first 3-decades after WWII, the United States could afford to assume the responsibility of rebuilding the economies of devastated European and Asian countries. In the subsequent 4-decades, Americans acquired an appetite for cheap foreign products and allowed the trade deficit in manufactured goods to grow to an incredible \$12.4 trillion—a vast sum equivalent to a loss of 248 million years of American middle-class wages of \$50,000 per year. Perhaps, now is the time to break our dependency on foreign goods and rebuild our flagging middle-class that has eroded as a result of outsourcing our manufacturing and labor force to foreign competitors.

Every American president since Ronald Reagan to Barak Obama attempted to balance the trade deficit via diplomacy. However, habits are hard to break, and benefits are hard to revoke. American's are addicted to inexpensive foreign products, and foreign nationals are unwilling to relinquish the status quo. Since diplomacy did not ameliorate trade imbalances, President Trump is instituting big-stick trade balancing policies aimed at the top U.S. trading partners who are responsible for three-quarters of the annual U.S. trade deficit. This big stick approach is alarming to domestic and international status quo supporters who claim that a trade war will ravage the global economy. On the other hand, \$12.4 trillion worth of trade deficits over the last 4-decades devastated U.S. industries and workers.

Surprisingly, both parties in the U.S. Congress support an aggressive approach to normalizing trade. While Democrats abhor President Trump's John Wayne approach to trade negotiations, they detest growing trade imbalances and fear growing Chinese militancy.

The Trump Administration rollout their new approach to trade in 2017 that recorded the highest trade deficits in U.S. history. Due to the stockpiling of foreign goods in anticipation of a prolonged trade war, the trade inequities reached new heights in 2018. What will happen in 2019 is anyone's guess. Jobenomics believes that the Chinese will eventually come to the table due to mounting

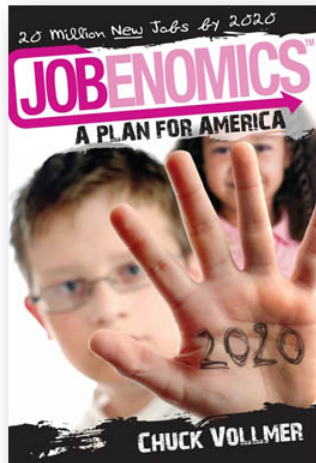
international pressure and a slowing Chinese economy. On the other hand, brinksmanship can also have unintended consequences, and a trade war could quickly metastasize into a new Cold War that will be based more on economic and technological hegemony rather than weaponry.

The following 37 charts speak for themselves since they contain data from official U.S. government and international reports. So, determine for yourself whether it is time for “reciprocal” trade to replace the outmoded mantra of “free trade,” and whether the United States is justified in taking a big-stick approach rebalancing trade and ameliorating trade barriers, intellectual property theft and a host of other unfair trade practices.



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Free Trade versus Reciprocal Trade



“After WWII, when the US had 50% of the world’s GDP, we had a moral obligation to be charitable and help rebuild Europe and Asia. Considering our nascent recovery from the economic crisis, shifting geopolitics, and the magnitude of U.S. debt, Americans can no longer afford to be economically naïve and have a reason to be cautious.” *Jobenomics 2010*

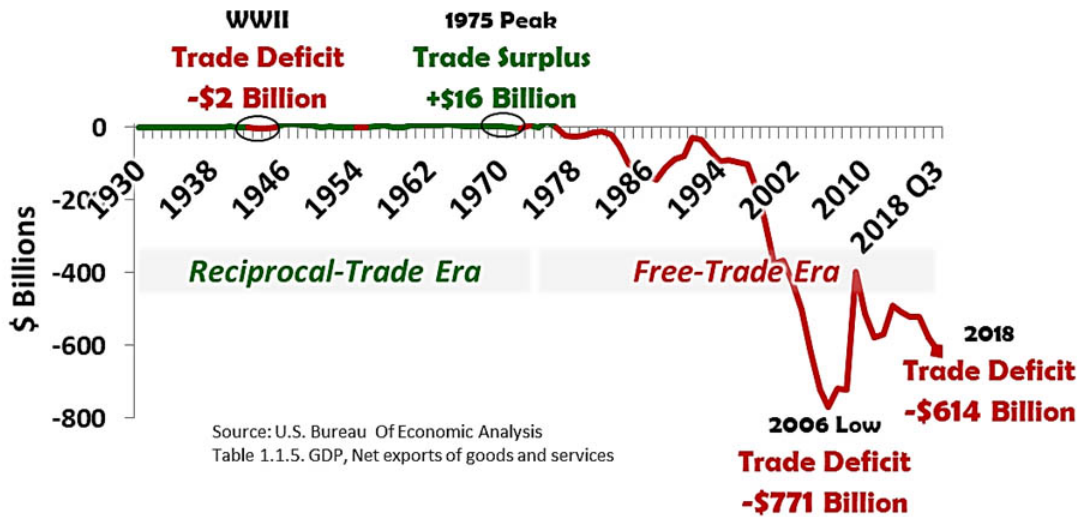
Reciprocity



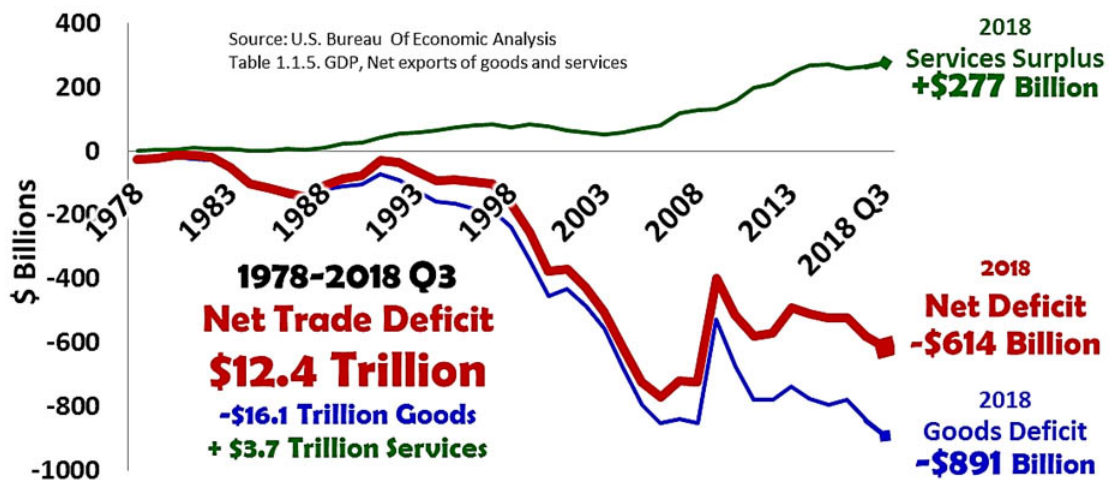
“Jobenomics recommends a policy of **reciprocity** — a policy in commercial dealings between countries that is based on mutual giving and receiving. The relationship between the U.S. and countries like Canada, Britain, and Australia would be rooted in **free trade**. The relationship between countries overly protectionist would be based on reciprocal measures, until that country amended its arbitrary practices.” *Jobenomics 2010*



International Trade History



International Trade Since 1978





U.S. Trade 2017 & 2018

2017 (Jan-Dec)			
	Exports	Imports	Balance
Goods	\$1,553	\$2,361	-\$807
Services	\$798	\$542	\$255
Total	\$2,351	\$2,903	-\$552

2018 (Jan-Nov*)			
	Exports	Imports	Balance
Goods	\$1,544	\$2,345	-\$801
Services	\$759	\$510	\$248
Total	\$2,303	\$2,855	-\$552

*Latest data available due to partial government shutdown.



Goods Exports & Imports 2018

■ Imports to USA = \$2.3 Trillion ■ U.S. Exports Overseas = \$1.5 Trillion

January - November 2018 (\$Billions)

Source: U.S. Bureau of Economic Analysis



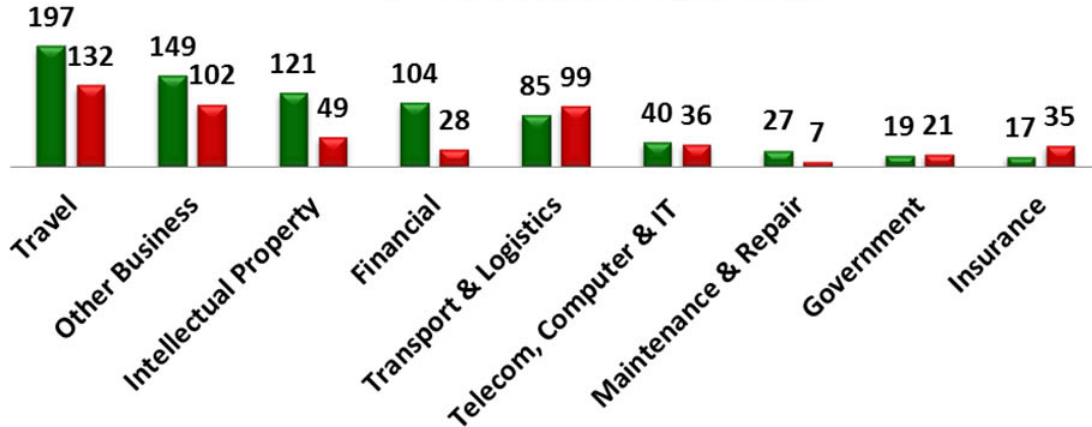


Services Exports & Imports 2018

■ U.S. Exports Overseas = \$759 Billion ■ Imports to USA = \$510 Billion

January - November 2018 (\$Billions)

Source: U.S. Bureau of Economic Analysis



Top 15 Goods Surplus Countries

2017	(\$B)
Hong Kong	\$32.6
Netherlands	\$23.7
United Arab Emirates	\$15.8
Belgium	\$14.9
Australia	\$14.5
Singapore	\$10.4
Brazil	\$7.8
Panama	\$5.9
Argentina	\$4.8
United Kingdom	\$3.2
Dominican Republic	\$3.1
Chile	\$3.1
Guatemala	\$2.9
Paraguay	\$2.6
Bahamas	\$2.5

\$147.8



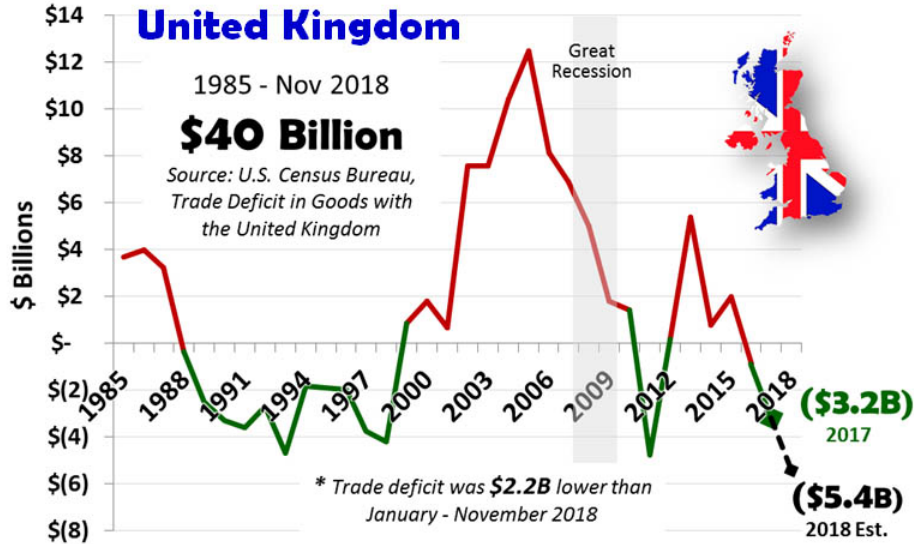
2018 (Jan-Nov)	(\$B)
Hong Kong	\$28.8
Netherlands	\$23.0
Australia	\$13.9
Belgium	\$12.9
United Arab Emirates	\$12.7
Brazil	\$7.5
Panama	\$5.9
United Kingdom	\$5.2
Singapore	\$5.2
Argentina	\$4.8
Chile	\$3.5
Dominican Republic	\$2.9
Qatar	\$2.7
Bahamas	\$2.4
Egypt	\$2.2

\$133.6

Source: U.S. Census Bureau, Top Trading Partners

Excellent Reciprocal Trade Example

U.S. and U.K. balance the ebbs and flows in trading goods.



Top 15 Goods Deficit Countries

2017	(\$B)
China	-\$375.6
Mexico	-\$71.0
Japan	-\$68.9
Germany	-\$63.7
Vietnam	-\$38.4
Ireland	-\$38.1
Italy	-\$31.5
Malaysia	-\$24.4
Korea, South	-\$23.1
India	-\$22.9
Thailand	-\$20.2
Canada	-\$17.1
Taiwan	-\$16.7
France	-\$15.3
Switzerland	-\$14.3

-\$841.2

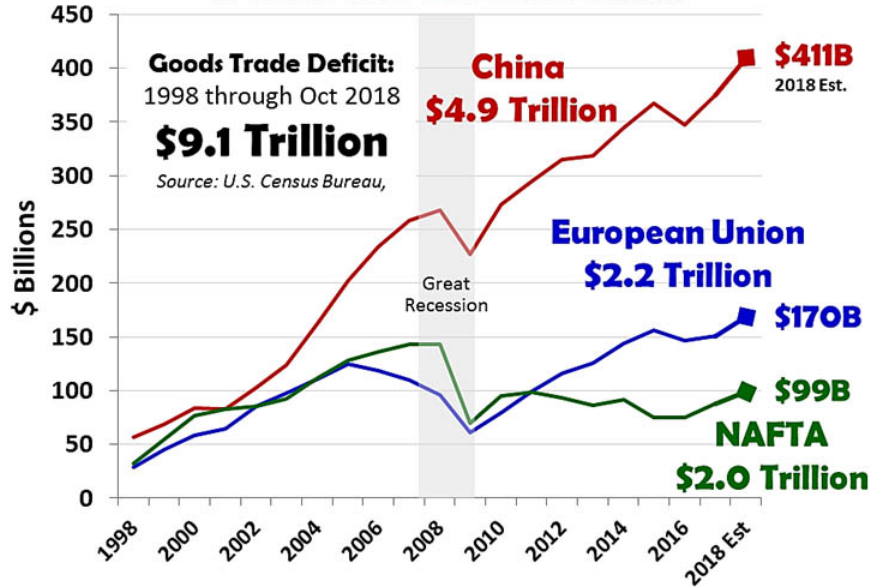


2018 (Jan-Nov)	(\$B)
China	-\$382.3
Mexico	-\$73.8
Germany	-\$62.3
Japan	-\$62.0
Ireland	-\$42.9
Vietnam	-\$36.5
Italy	-\$28.5
Malaysia	-\$24.1
India	-\$20.7
Canada	-\$18.4
Thailand	-\$17.8
Korea, South	-\$17.1
Switzerland	-\$16.7
France	-\$14.7
Taiwan	-\$14.3

-\$832.1

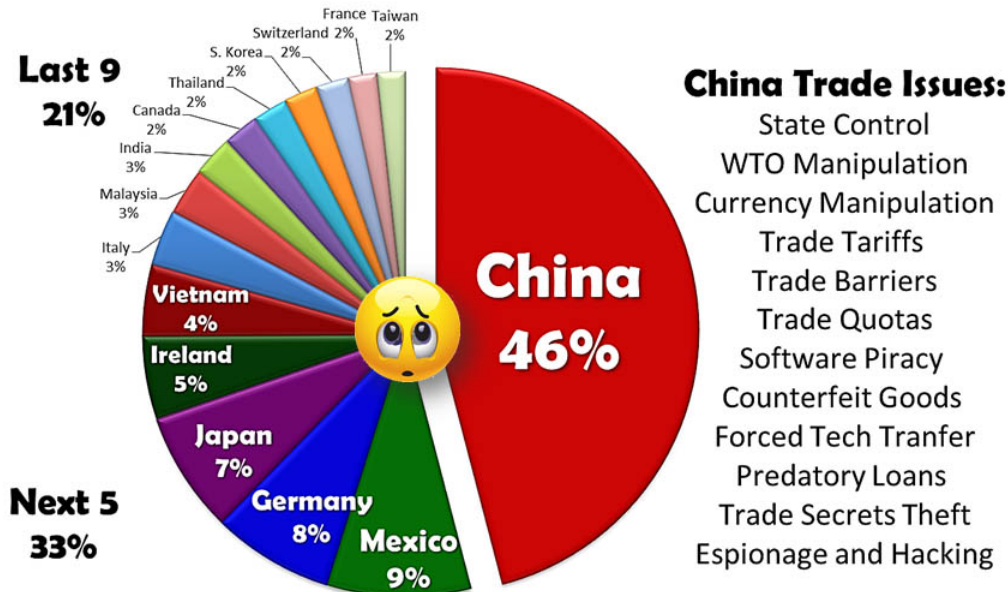
Source: U.S. Census Bureau, Top Trading Partners

Deficits With Major Trading Blocks In Goods Over The Last 3-Decades



Free Trade Has Become *Unbalanced*

Percent of Top 15 Countries Relative To The U.S. \$832 Billion Goods Deficit In 2018





U.S.-China Cold War?



Economic, Technological, Digital
Domain & Territorial Expansionism



2017 USTR Report to Congress On China's WTO Compliance



“The U.S. **erred** in supporting China's entry into the WTO”

“WTO rules were not formulated with a state-led economy in mind.”

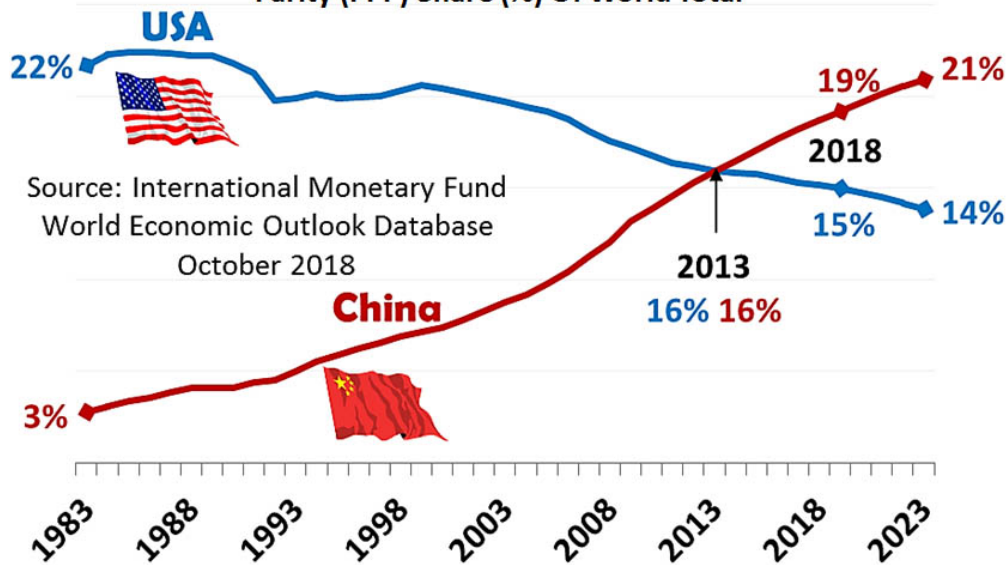
“Bilateral efforts largely have been unsuccessful – not because of failures by U.S. policymakers, but because Chinese policymakers were not interested in moving toward a true market economy.”

“It is now clear that the WTO rules are not sufficient to constrain China's market-distorting behavior.”

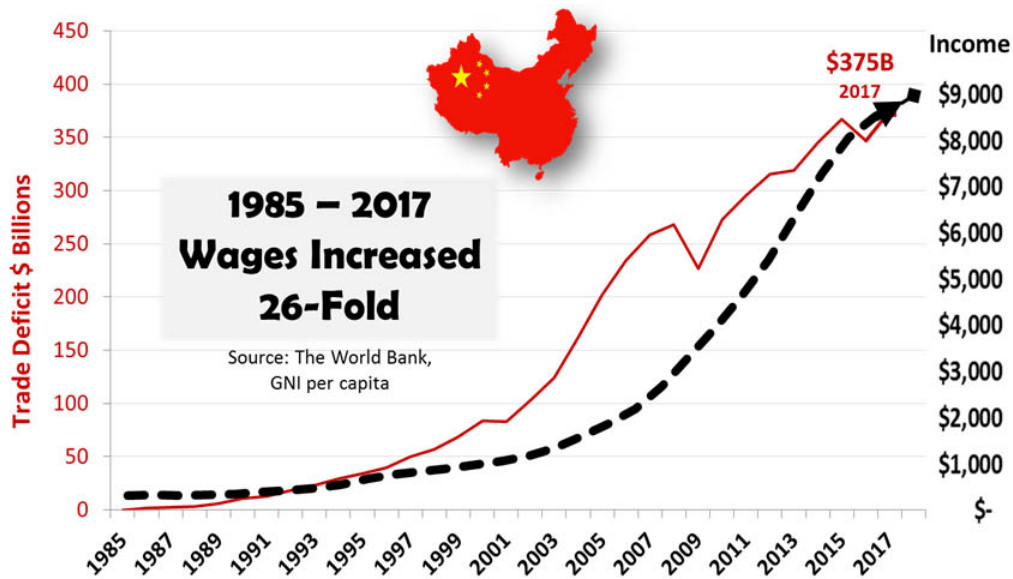
Robert Lighthizer, U.S. Trade Representative, January 2018

China's Economic Expansionism

Gross Domestic Product Based On Purchasing-Power Parity (PPP) Share (%) Of World Total



China Per Capita Income



China/U.S. Trade In Goods & Services



China Imports to USA in 2017 = \$523.6 Billion




U.S Exports to China in 2017 = \$188.1 Billion



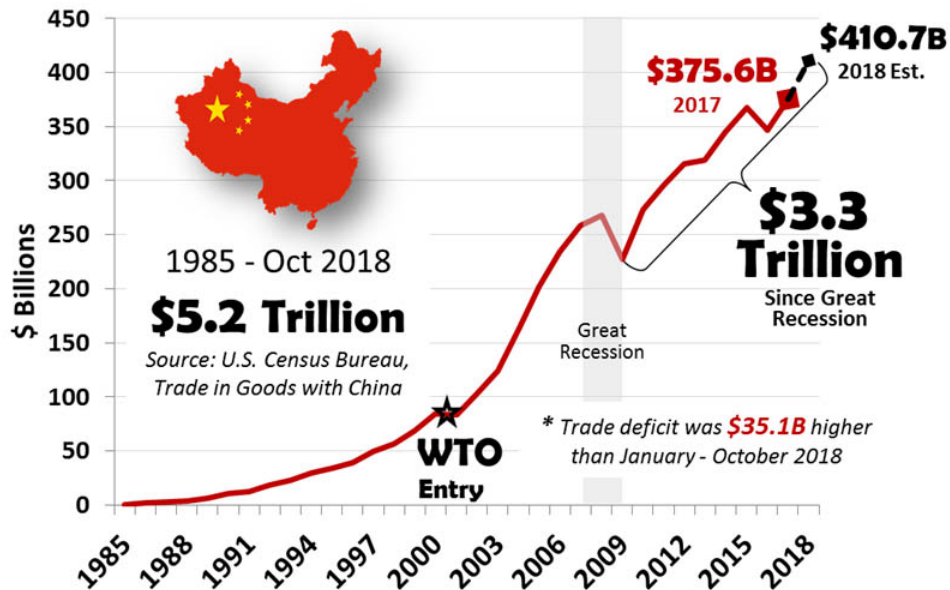
Source: U.S. Bureau of Economic Analysis

2018 China Goods Trade Deficit Is Worse Ever

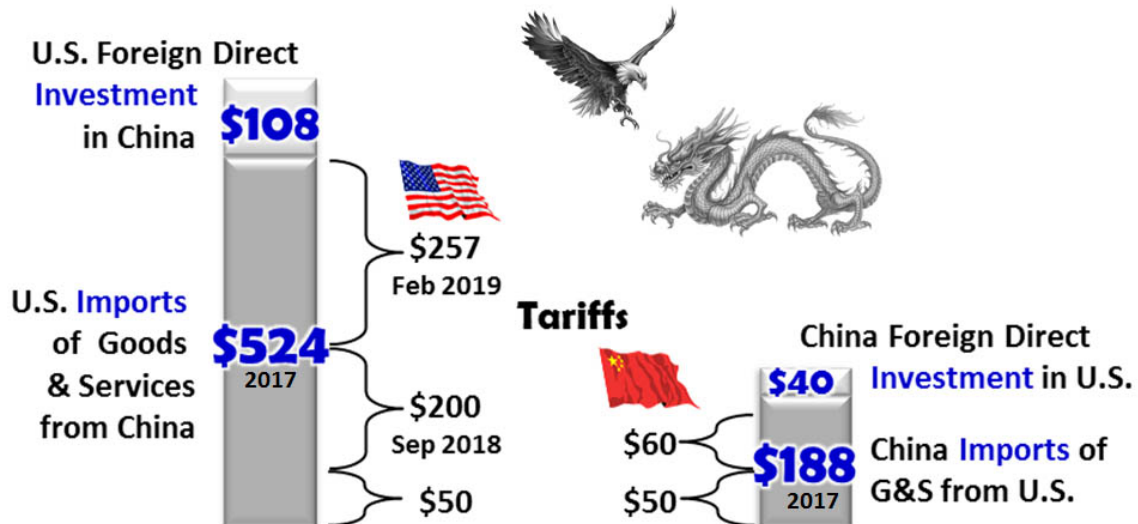
Source: U.S. Census Bureau, Trade in Goods with China 2018

Month	2017 (\$ Billions)	2018 thru Oct (\$ Billions)	Increase
January	\$31,382	\$35,953	 <p>More 2018 than in 2017 from January through October 2018</p>
February	\$23,069	\$29,262	
March	\$24,468	\$25,875	
April	\$27,660	\$27,962	
May	\$31,921	\$33,187	
June	\$32,572	\$33,484	
July	\$33,610	\$36,834	
August	\$34,989	\$38,570	
September	\$34,518	\$40,243	
October	\$35,204	\$43,103	
November	\$35,363	\$35,363	<p>Highest In History</p> <p>Assuming same as 2017</p>
December	\$30,821	\$30,821	
Total Deficit	\$375,576 Actual	\$410,654 Projected	\$35.1 Billion Projected Higher

U.S. Goods Deficit With China



Imports, Investment & Tariffs

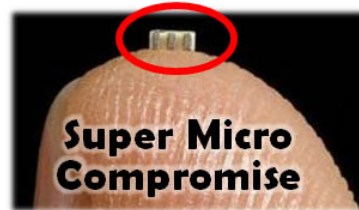
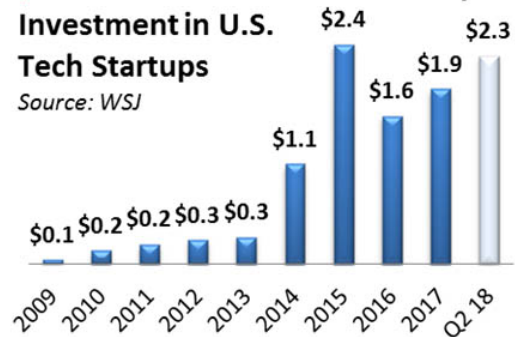


Technological Expansionism

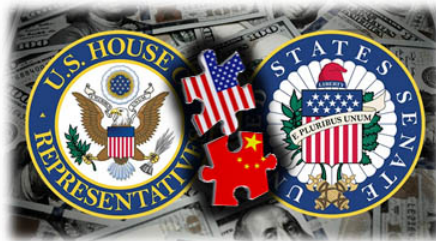
- Acquiring, investing, and joint venturing in U.S. tech companies and startups
- Exchange of U.S. proprietary material for China market access
- Massive government investment advanced tech (AI, quantum computing, biotech, fintech)
- Espionage, hacking and hardware tampering

\$11 Billion Chinese Venture Capital Investment in U.S. Tech Startups

Source: WSJ

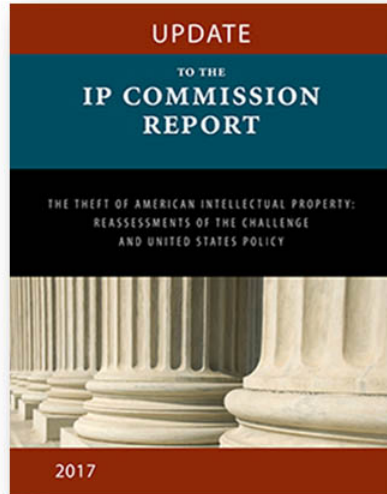


Foreign Investment Risk Review Modernization Act (FIRRMA)



FIRRMA expands the jurisdiction of the Committee on Foreign Investment of the U.S. (CFIUS) beyond its current focus on inbound foreign investment to include outbound foreign investment, particularly when joint ventures result in U.S. companies sharing national security-sensitive technology with their foreign partners, with emphasis on China.

Intellectual Property (IP) Theft



- Co-Chairs: Jon Huntsman, Adm. Dennis Blair
- IP theft (cyber, counterfeits, software piracy and trade secrets theft) costs the American economy as much as \$600 billion a year.
- China responsible for 50% of total IP and 87% of imported counterfeit goods to the USA.

China responsible for 50% of U.S. IP theft.

Territorial Expansionism

One Belt One Road Program



Conclusion



U.S.-China Trade War? Probably not.

New U.S.-China Cold War? Possible.

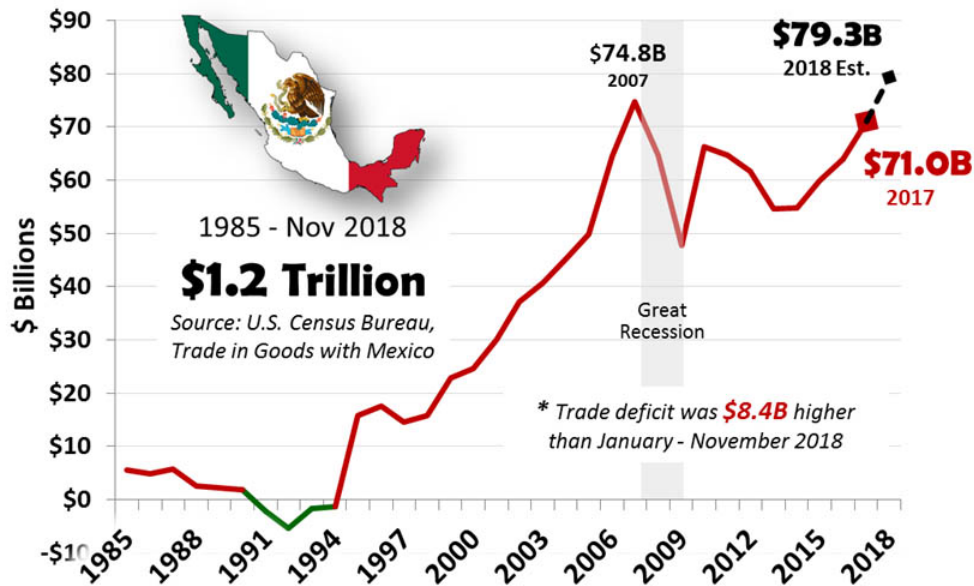
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Other Major Trading Partners

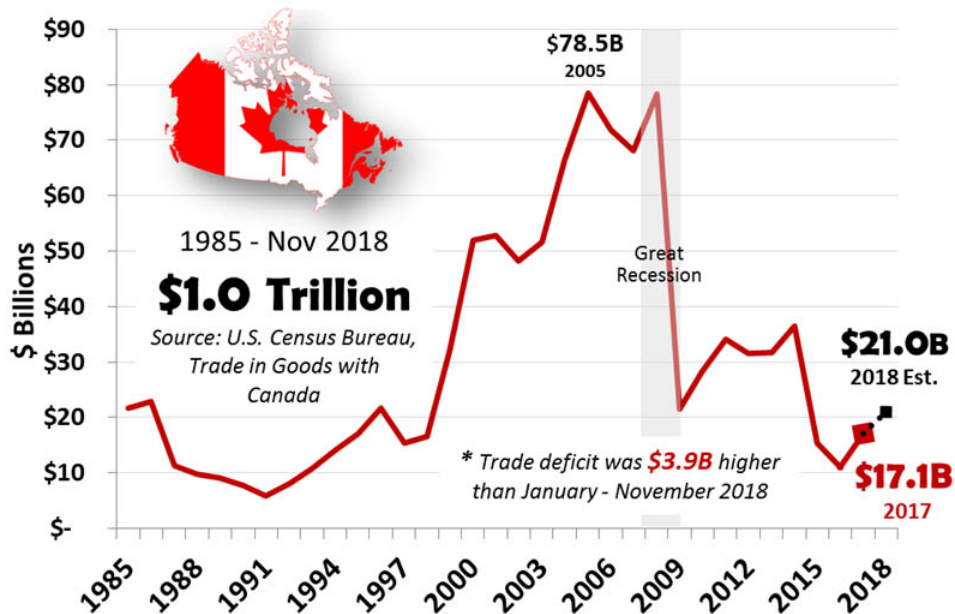


While 2018 trade deficits have not yet improved, new trade agreements and commitments are reciprocal in nature.

U.S. Goods Deficit With Mexico



U.S. Goods Deficit With Canada



U.S. Mexico Canada Agreement (USMCA)

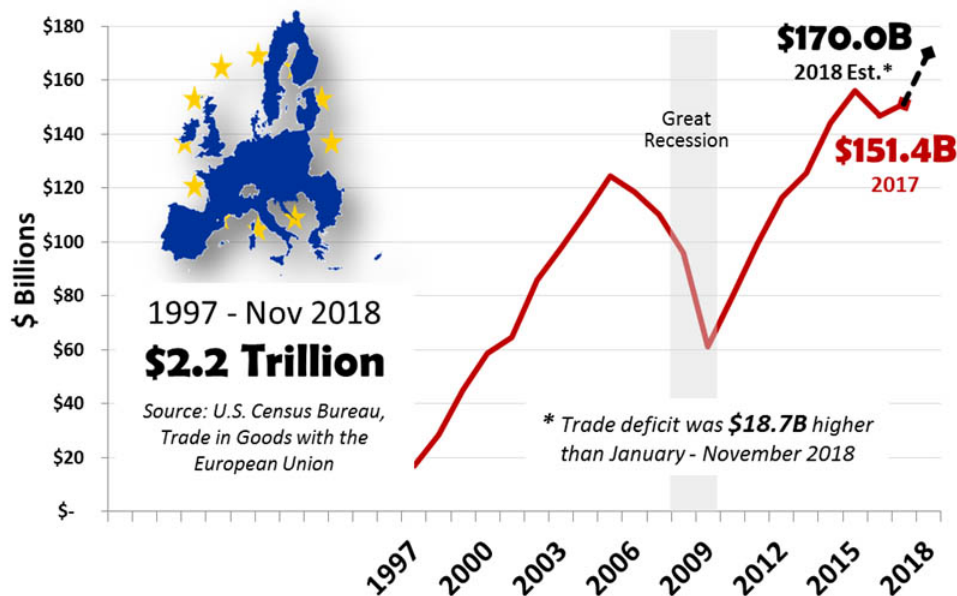
Source: Office of the United States Trade Representative



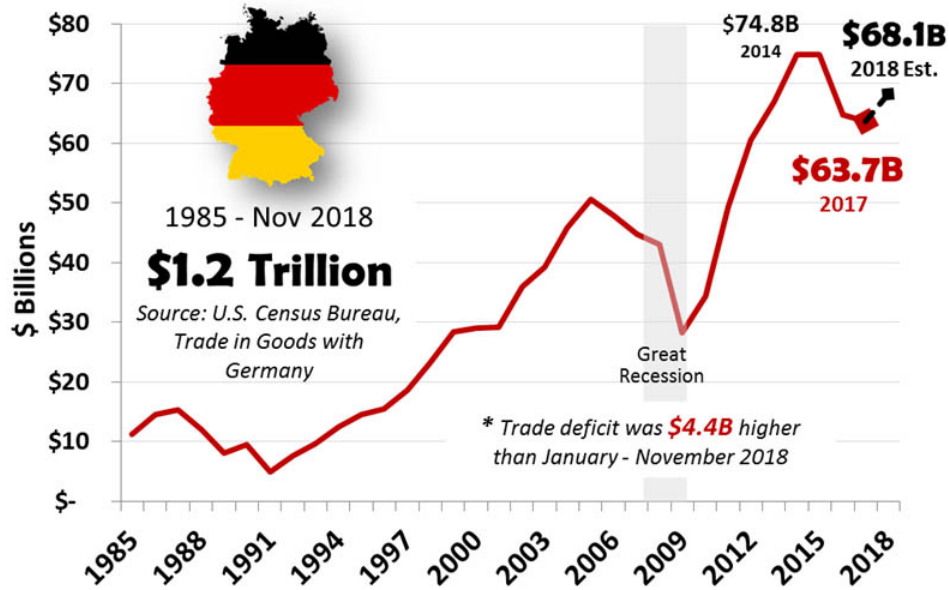
- Improved rules of origin for automobiles, trucks, other products, and disciplines on currency manipulation.
- Modernized and strengthened North America food and agriculture.
- New protections for intellectual property, and services trade opportunities.
- New chapters covering Digital Trade, Anticorruption, Good Regulatory Practices, and Small and Medium Sized Enterprises.

USMCA signed but not yet ratified by the U.S. Congress.

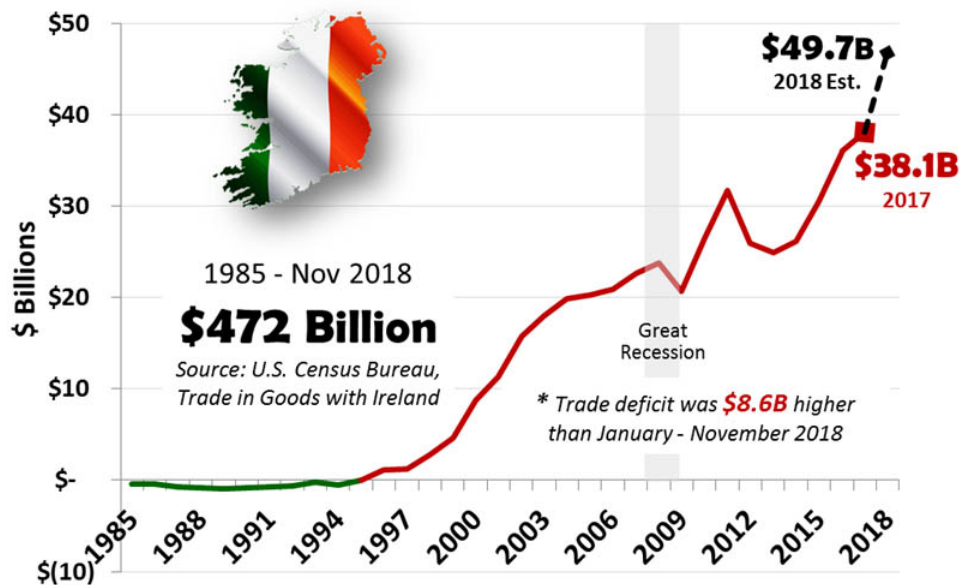
U.S. Goods **Deficit** With European Union



U.S. Goods Deficit With Germany



U.S. Goods Deficit With Ireland



U.S. European Union Commitment

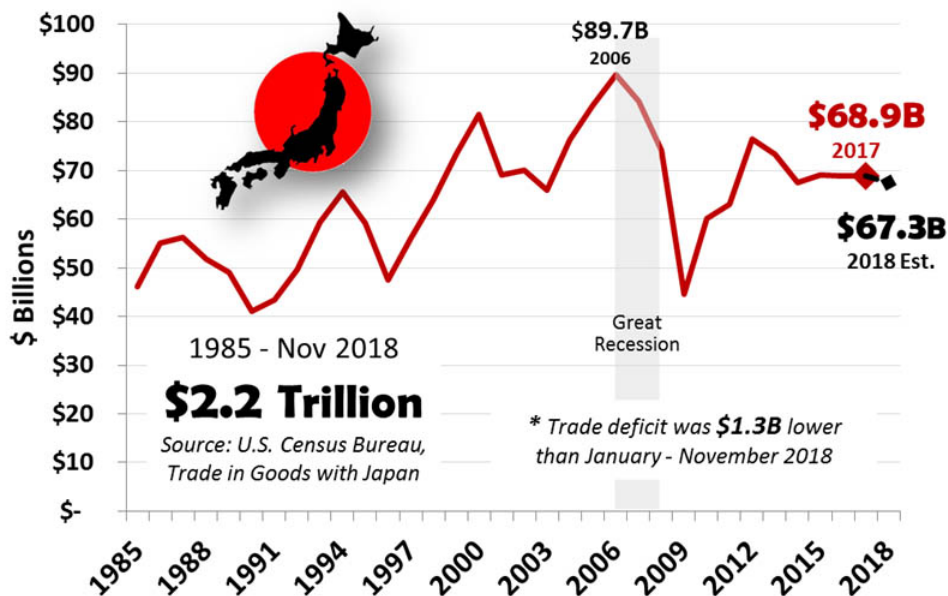
Source: European Commission Statement following President Juncker's visit to the White House



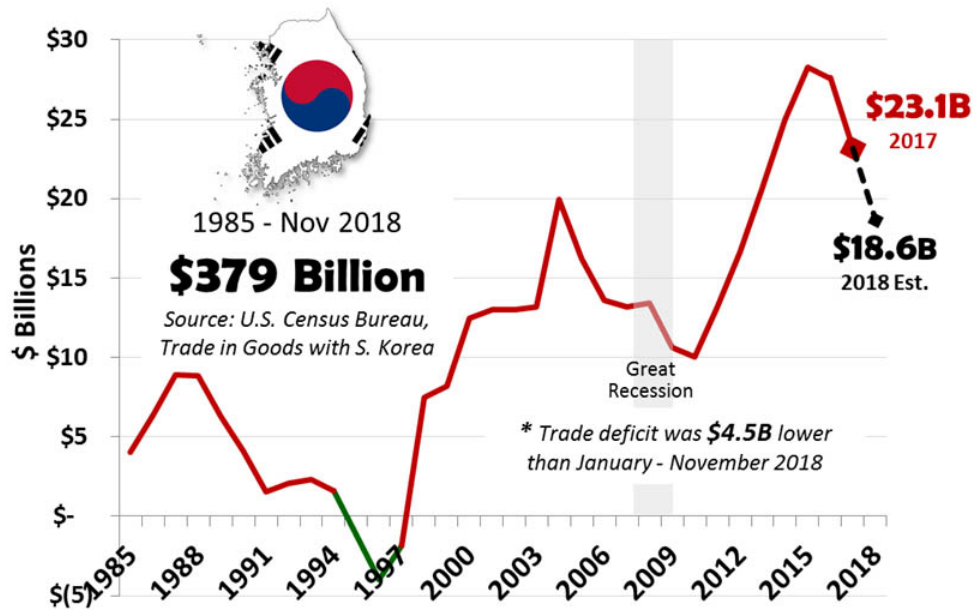
- Work together toward zero tariffs, zero nontariff barriers, and zero subsidies on non-auto industrial goods, and reduce barriers and increase trade in services.
- Strengthen strategic energy cooperation.
- Launch a close dialogue on standards in order to ease trade, reduce bureaucratic obstacles, and slash costs.
- Protect American and European companies better from unfair global trade practices and reform the World Trade Organization.

Executive Working Group set up to carry US/EU joint agenda forward.

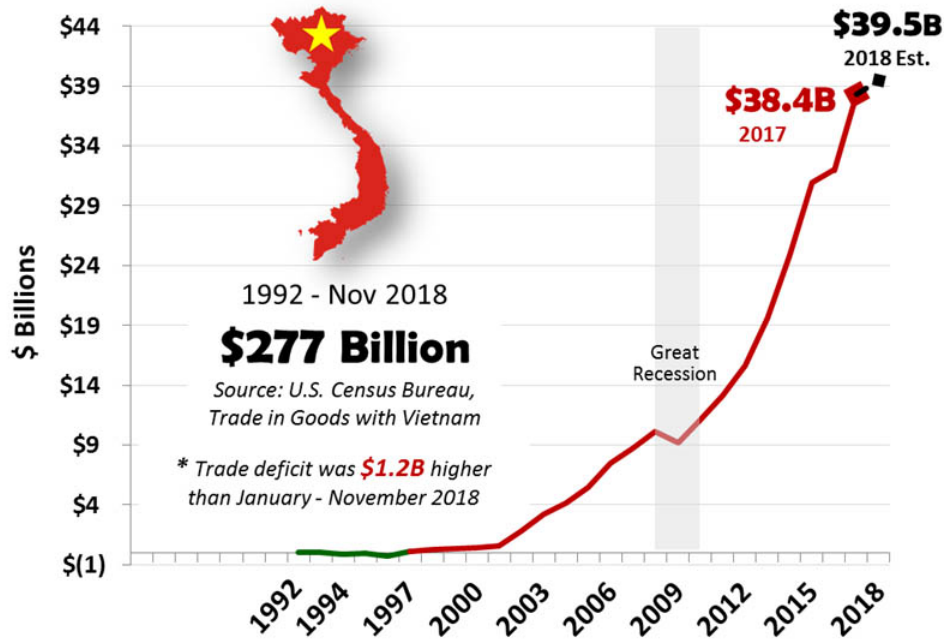
U.S. Goods Deficit With Japan



U.S. Goods Deficit With South Korea



U.S. Goods Deficit With Vietnam



Pacific Rim Bilateral Trade Negotiations

Source: Office of the United States Trade Representative & European Commission



- On Sep 2018, President Trump and Prime Minister Abe announced that the United States and Japan would begin negotiations for a “reciprocal” U.S.-Japan Trade Agreement.



- Through negotiations to improve the 2012 United States – Korea Free Trade Agreement, in 2018 the United States secured changes that will reduce the trade deficit with S. Korea.



- The EU-Vietnam trade agreement will eliminate over 99% of all tariffs, and partly remove the rest through limited zero-duty quotas, known as Tariff Rate Quotas (TRQs).

The US/EU focus is on balanced bilateral trade agreements.

About Jobenomics

Jobenomics concentrates on the economics of business and job creation. The non-partisan Jobenomics National Grassroots Movement’s goal is to facilitate an environment that will create 20 million net new middle-class U.S. jobs within a decade. The Movement has reached an estimated audience of 30 million people via lectures, social media, and the Jobenomics America TV show. The Jobenomics.com website contains numerous books and material on how to mass-produce small business and jobs as well as valuable content on economic and industry trends. For more information see Jobenomics.com.