

# Free essay on trade deficit

[Economics](#), [Trade](#)



## **What is the relationship between free trade and trade deficit? (2 pgs)**

Free trade and the trade deficit are associated through their mutual relationship with the economics of a market. Contrary to what many might believe, a trade deficit translates directly to debt for those within a country. The growth of a trade deficit is often a sign of extreme growth within an economy. To how much of a degree a country decides to restrict or allow the free trade of goods can have a direct influence on the trade deficit of the country. Free trade agreements allow countries to trade with one another under fewer restrictions, with the purpose of increasing the amount of trade that is done between those nations, however, this inevitably results in the dependence of countries with deficits upon foreign goods.

While a nation with a trade deficit is importing more goods than it is exporting, this also means that other countries are willing to invest their money in that particular market. This would indicate that these foreign markets have put their faith in the strength of the economy that they are exporting their goods to. This faith can have the result of an overdraw of that country's value. Through the benefits of free trade, open markets are able to gain an advantage in their profits from foreign investment. In this way, the balances of profit between nations can become disrupted, and the amount to which one nation depends upon others for import directly relates to the amount of trade that they are immersed in.

If this balance is tipped too far, economic damage can result due to the implications of outsourcing. “ The free trade approach to trade policy assumes that the economic and political benefits reaped by the United

States from multilateral trade expansion far outweigh the costs.” (Drezner 16) If a country becomes too affluent and begins to import more product than it produces, then there can be a loss of skill in the country’s labor force, creating a reliance on foreign investment. This idea about the amount of free trade a country commits to can ultimately result in the loss of jobs, as companies within the country begin to leave, in order to take advantage of the skilled labor forces that exist abroad.

The trade deficit is, in this sense, a measure of the amount of foreign investment in a particular country. This investment, in turn, drives the growth of an economy by increasing the amount that businesses that are able to expand. By opening up markets to free trade with foreign countries, the idea of a balance of trade emerges between those countries. The way that this balance of trade changes has a direct effect on the economies of the nations involved. The more imbalance the trade becomes, the more likely it is that one or more of the countries involved will have an economy that is in a trade deficit.

### **How would a trade deficit effect a country’s economy? (3 pgs)**

Trade deficits have an effect on a country’s economy primarily through the amount of jobs that the country is able to maintain, as well as the cost of goods that people are able to purchase. While restricting trade can have the effect of increasing jobs as well as the cost of goods, allowing for free trade is often seen as creating growth in jobs as well as a decrease in the cost of goods. While the actual implementation of trade policy is much more complex, these two basic ideas are the essential characteristics of economic

trade. In this sense, the amount to which a trade deficit can effect a country's economy is dependent upon how much that deficit has resulted in outsourcing, as well as what the national reaction to that outsourcing of manufacturing and other jobs would be.

One aspect that is affected by free trade is the economics of scale. By allowing for free trade over a larger area or population, production costs can be reduced, and so costs will decrease altogether. " Trade barriers are often seen as a redress to the social and economic costs of trade or as a way of enhancing economic advantage. In most cases, however, economists argue protection from trade imposes costs on the economy that exceed the benefits obtained." (Drezner 46) In this sense, the amount to which free trade can hurt or benefit a country depends on many complex factors, including the spending habits of those involved. Those countries that rely more upon the importation of jobs without being able to account for that gap in labor in their economy are more likely to be negatively impacted by the imbalance.

Open trade also creates flexibility. It is argued that those country that are able to freely trade with one another will be able to better adapt to changing markets. By maintaining free and open trade between nations, those nations can increase the amount of foreign investment that is established in their economies. The imposition of trade restrictions, with the hope of impeding the rate of this loss of cheap and available local labor sources, can often have the consequence of increasing the costs of goods for individuals, without giving the market the ability to adjust, resulting in higher prices for the standard cost of living. This can then have the effect of lowering the

standard of living for these individuals. This is essentially a result of the increase in the cost of goods for everyday living alongside the decrease in the amount of money individuals are able to obtain. If there are less jobs, less people will be able to make money, resulting in less spending, and a slowdown in the economy.

While increasing trade between countries and allowing for open markets, it is hoped that a country can drive the economic factors that lead to the growth of their businesses. “ Imports keep prices low and increase the variety of goods available for consumers. Exports provide high-paying jobs for workers and higher profits for firms. Trade improves labor productivity and boosts economic growth.” (Drezner 54) If this results in a trade deficit within a particular country, then that country should see a decrease in the cost of goods, as well as a specialization of the labor forces into those that remain, while other less desirable jobs are often outsourced, and the goods that would usually be produced from those jobs begin to be imported. However, oftentimes, this can result in a negative impact for the country’s economy. If an imbalance occurs between countries, and one of those countries begins to import more than they are able to produce, then they become dependent upon other countries. This can have an effect on the country not only economically, but politically as well. While free trade between countries can effect a country by stimulating the economy, the rise of dependency within a country upon others for goods or services can have unforeseen consequences on the future of the country. The decrease in jobs alongside the increase in goods can either stimulate the growth of business or disrupt the daily lives of individuals who are working the jobs that will be effected.

Essentially, by increasing the trade deficit, the amount of jobs within a country can decrease if they become dependent upon other countries for the import of cheap goods. A decrease in trade deficit should, therefore, have the effect of decreasing a country's reliance on cheaper foreign imports, while at the same time increasing the amount of jobs and skills that can be provided by their workforce. However, there are often unforeseen variables that can create unintended consequences in either case. While an increase in supply of goods and a decrease in basic jobs can be disruptive, it can also be a generator of newer jobs, goods, and services within an economy.

While an increase in a country's trade deficit might create outsourcing, with many skilled labor and manufacturing positions going to where it can be done cheaper, the decrease in lower tier jobs can also have the effect of spurring growth in new industries. While the amount of jobs might be decreasing in an economy with a deficit, the amount of cheaper goods coming into the country will increase. With cheaper goods, new manufacturing jobs can be created as investors are able to put more money into the economy. However, when countries become dependent upon these cheaper goods, it can have a negative impact on them in the world market. Increasing barriers to free trade can, likewise, have other unforeseen consequences. While putting more restrictions on trade is often done with the hope of decreasing outsourcing and generating local jobs, it can also be the case that this will increase the cost of goods, and simultaneously increase the cost of living. This can lower the ability of individuals to make extra money to spend, limiting the amount of growth in the economy. In this way, the impact of a trade deficit on a country can either be the creation and

generation of jobs and businesses due to the lowered cost, and greater supply, of goods into the market, or the increase in the price of goods and the relocation of jobs disrupts the economy to the point in which the cost of living becomes more difficult to achieve.

## **Works Cited**

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