U.s. trade imbalance during the postwar period report

Economics, Trade

What were the cause and effect of the large U. S. trade imbalance during the postwar period?

Most of the years after the World War II, United States has experienced the surplus in trade. However the oil price shock that occurred between 1973 and 1974 and 1979 and 1980 together with the global recession, subsequent to the second oil price shock, deteriorated the international trade. During the same time, United State began to experience the shifts in the international competitiveness. By 1970, most of the countries, mostly the freshly industrializing countries, were progressively growing competitive in the international trade. For instance, Brazil, South Korea, Mexico, Hong Kong were among the countries that were efficiently producing textiles, steel, footwear, and other consumer product. Consequently, this end up hurting the trade balance of the United States.

After World War II, the competing countries were becoming more progressive in the international market. Consequently, workers in the United States began worrying that those countries were dominating in the US market while keeping the domestic markets closed for their goods. The workers in US also feared that these countries were unfair because they helped their exporters to dominate the market in the third countries. They do this by subsidizing the select industries, for instance, steal industry, and introducing trade policies that disproportionately encouraged exports over imports (Aaronson & Zimmerman, 2008). With the anxiety in the American labor force, most of the multinational firms that were based in United States started, moving production facilities overseas. The local production in US significantly went down causing the exports to be less than the imports hence the imbalance in trade.

Another factor that accelerated the United States' imbalance of trade was the sharp rise in the dollar value. Compared to the currencies of the main US trade partners, the value of the dollar rose to about 40 percent between 1980 and 1985. As a result, the United State imports were relatively cheaper than the exports hence trade deficit. The appreciation of the dollar was as a result of the global recession between 1981 and 1982 and federal budget deficit in the US. These two factors cooperated together to create a noticeable demand for foreign capital in the United States. As a result the US interest rate raised leading to the rise of the dollar.

However, in 1975, the exports in the US surpassed the foreign imports by around $12, 400 million. This resulted to trade surplus that would be viewed as the US last surplus in the 20th century. This was as a result of sinking of the trade gap that was caused by the depreciation of the US dollar. Following the depreciation of the dollar, the other countries demanded more good from US that lead to increase in export over the imports. In addition, the foreign lenders were confident of lending money to US so that they can increase the local production; as a result more good were produced to meet the international demand.

During the postwar period, the balance of trade had in some point experienced a significant trade surplus. This was as a result of the merchandise trade balance that aggregated to around $100 billion and trade volume increases significantly. The country had surplus in the services and superseded the deficit of good by 40 to 30 percent (Destler, 2005). During this time, America attempted to eliminate trade deficit by encouraging foreign investment. As a result of the foreign investment, the capital account was in surplus and the country dominated the foreign market b becoming the world's greatest debtor. This resulted to higher exports than the imports hence surplus of trade.

References

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