



Simulating some of the administration's trade policies

Dominick Salvatore^{a,*}, Fred Campano^b

^a Department of Economics, Fordham University, Fordham Road, New York 10458, USA

^b Department of Economics, Fordham University at Lincoln Center, New York 10023, USA

Received 4 January 2018; received in revised form 29 January 2018; accepted 15 February 2018

Available online 16 April 2018

Keywords: National accounts; Share of imports in GDP; Share of exports in GDP; Trade deficit; Basic scenario

1. Introduction

Based on data taken from the national accounts provided by the United Nations Statistical Office for 2015, the United States was the largest importer of goods and services. This amounted to 15.7% of the world's total. China was the second largest importer with 11.1% of the world's total. In the United States, the share of imports in GDP has been annually higher than the corresponding share of exports in GDP for decades (Fig. 1). Over the period 2000–2015, the average trade deficit was 3.87% of GDP, with no sign of improvement. One way to reduce the national debt, is to reduce the external deficit and that can be done by either reducing imports or increasing exports (or some combination of both). Most developing Asian countries have been successful in narrowing their external deficit by following the post-war Japanese model of export promotion while developing countries elsewhere did not do as well in reducing imports or increasing exports (or some combination of both). Most developing Asian countries have been successful narrowing their external deficit by following the post-war Japanese model of export promotion while developing countries elsewhere did not do as well employing import substitution policies. However, part of the reason why import substitution policies have not worked for developing countries is because of the delay it takes to develop a comparative advantage when the country lacks the technologies of the more advanced countries. So, the question arises what happens if the United States (which has the most advanced technology at its disposal) practices import substitution? In

* Corresponding author.

E-mail address: salvatore@fordham.edu (D. Salvatore).

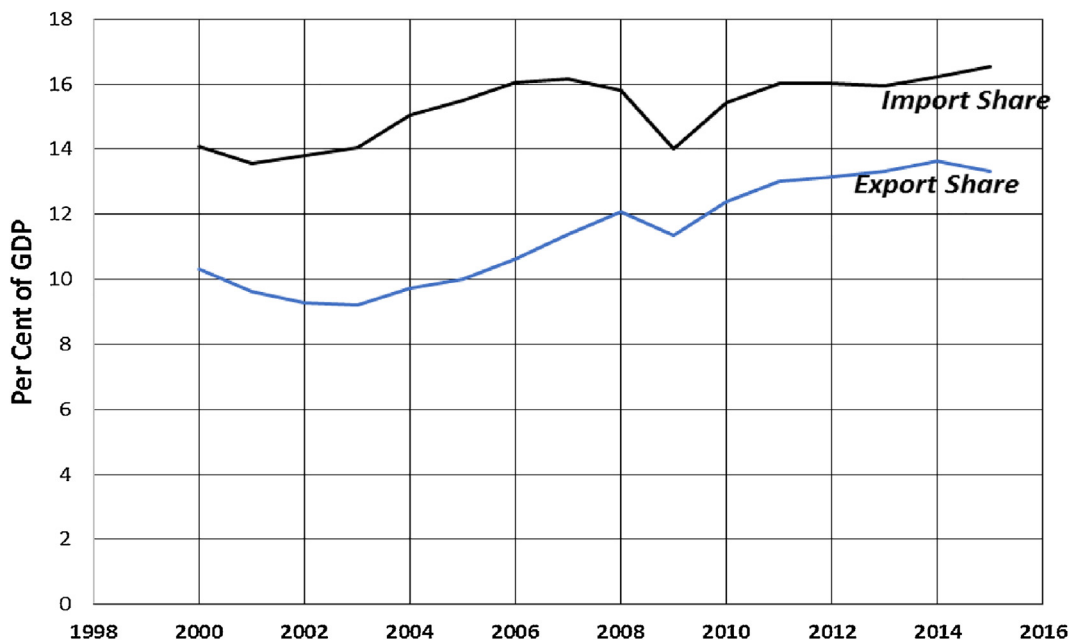


Fig. 1. U.S. trade trade shares in GDP, 1998–2016.

this paper, we will simulate some of the results for the United States and its major trading partners in the G20, if it can reduce imports. To this end, six scenarios have been estimated, namely: 1. a baseline scenario which is a continuation of the trends from 2000–2016 without any intervention of imports, 2. a non-discrimination scenario where the US reduces its total import demand by 10%, 3. another non-discrimination scenario where the US reduces its imports by 5%. The fourth and fifth scenarios will have the same reduction in US imports as in scenarios 2 and 3 but with the addition to voluntary export restraints (VER) of a 30% reduction in the percentage of exports sent to the US. The sixth and final scenario will introduce discrimination by the US against the exports China, Germany and Mexico to the US in the form of a non-negotiated reduction of 30%. They will in turn, retaliate by blocking 30% of their imports from the US.

2. The methodology

For each of the countries of the G20 a model to project the national accounts expenditure table to the year 2020 is estimated. This includes the rest of the European Union (those members of the EU not included in the G20) as a group and the rest of the world in another aggregate group. The rest of the world is an aggregation of 166 countries, but only accounts for 14.8% of the US imports.¹ Canada alone accounts for 14.9% of US imports, China for 19.4%, Mexico 15.2% and Germany 6.0%. The rest of the EU accounts for 7.1%. The remaining 22.6% comes from the other members of the G20. We also used the bilateral export data to construct a 21 by 21 trade share matrix in which the columns are the trade shares in the imports of the 21 countries and

¹ Trade shares are derived from the bilateral trade in goods provided by the United Nations COMTRADE data bank.

Download English Version:

<https://daneshyari.com/en/article/7369082>

Download Persian Version:

<https://daneshyari.com/article/7369082>

[Daneshyari.com](https://daneshyari.com)