

The Flow of Trade in a Global Economy

By Lance Winslow

This short essay is on the Flow of Trade and how proper flow keeps food on the plates of people and Civilizations from going to war. In the new Global Economy everything affects everything else. The Flow of Trade is a major consideration of civilizations and cultures working together to insure that they can get what they need, since some regions have special crops, which grow in their areas, which the other regions would like to have. In days of the First US Colonies, before it there was a country trade with done with the local Indians, in fact it was vital to the colonists staying alive. Indeed, my ancestors traded with the Native Indian tribes to insure the colony had the food and things needed to get through the winter months.

<http://freepages.genealogy.rootsweb.com/~mcstayfamily/pilgrim.htm>



If it were not for the Native Indians in those first winters the Pilgrims would have died, starved and frozen. The trading of civilizations has been written about throughout history and has been documented in every culture, race, nationality and religion. It seems as if trading partners is a way to exchange the products and services to improve quality of life and higher standard of living to both sides. It brings with it, possibilities for peace and opens cultural exchange and best of all it makes friends. We can learn a lot from fellow cultures, species and nationalities.

Today trading partners are keeping peace in the world, because you are less likely to attack or want to cause war against a group or country that provides you with products, natural resources, technology, enlightenment, services and assistance. Today most of the peace has been nurtured through trade. Many of our wars have in part been due to trade disputes. For instance the Japanese in WWII part of the reason was due to the steal, oil and rubber trade. Our breaking with England in the revolutionary war was partly over tea, taxes and other issues. Many of our allies in wars were those who were trading partners, for fear of loses a trading partner.

Often mankind attempts to justify war over natural resources like oil, perhaps in the future it will be water? In the news most of our hardships or disputes come from unequal trading partners trying to get a little extra by manipulating currencies. Free trade is a good thing provided the sides trading have what the others need, items they do not wish to produce or cannot produce for the same costs due to regional temperature variations, labor forces, raw materials or cultural norm. Free Trade is a great thing, as long as that trade remains a fair trade.

If fair trade cannot be reached as a balance, sometimes triangle trading partners can take the place or a currencies adjust a completely free trading global market can exist. Triangle trading partners worked because one country needed something but the trading partner did not need what the other had extra to sell, but a third partner did and the first partner only had enough to supply her own country. But the first partner needed what the third partner had. Eventually the trading partners ended up using a unit of trade such as gold, silver, etc. Then eventually gold coins and silver coins and currency came into play.

In Amsterdam a whole new trading hub evolved with interest, currency, banks, and trade of every good known to man at that time. This was the culmination of centuries and a millennium of trading. Civilization and modern living with amenities and time for recreation, thinking and personal items became possible and pushed the world into a better place of working together. Wars of course did not stop, but rather a shift in thinking began to take shape. Trading partners and allies are generally all part of the strategic thinking of wars or of peace.

The Germans before WWII used the trade payments as a tool and established a bureaucracy to slow out flow, while collecting the inflow of goods, thus insuring it owed money and therefore existing trading partners would not want to go against them for fear they might not be paid; literally becoming a cancer or parasite on the outflow of money or on the flow the float. Often still countries attempt to manipulate flow. Trade organizations are set up to keep flows fair and products and goods flowing so no one trading partner can hurt another. When the parasites of flow attack and manipulate the flow of trade whether in or out they do so at the expense of the people and business, jobs and families of their trading partners. This is why in WWII, the Japanese literally felt as if the act of war was the US blocking their trading needs and not their attack on us at Pearl Harbor. The world is still not perfect.



Now we find China and Japan manipulating currencies to get an edge. Meanwhile stealing technology or we secretly give it them; for instance their satellite programs and recent man in space. Stealing of the P-3 and the problems at Los Alamos where secret scientific research was collected and then the spy for sex FBI scandal. Our trade deficit with China today is 433 Billion annually in 2004 a we figured 2.7 million jobs have ended up there. China also owned 88 Billion in US Treasury notes to hedge against their undervalued and manipulated currency, all this very interesting and those are now old figures, today the numbers are seriously jeopardizing our Nation's economic future.

The Japanese have come to America with trade delegations and take pictures of everything we make. Stealing technology and taking information from niche manufacturers of components, then copy the stuff and manufacturer it there, now it is China that is playing that card. Problems of piracy are on a grand scale, but the PTO in the US favors the foreign competitors who scan thousands of inventions per day and take and make the stuff there in other countries, US based technology. There are so many disclosure regulations on Corporations and private companies, the corporate intelligence espionage gatherer has little trouble finding what they want.

For every dollar of products we sell in China, they sell six dollars here. Industries like plastics, toys, electronics, heavy equipment parts, shoes, trinkets, aerospace parts, semi-conductor components for computers. It is a huge issue and with 1.3 billion people to employ, before that thirst is satisfied there is no end in sight or possibility of their labor source balancing out with unions or supply and demand issues to drive the labor costs up anywhere near that of the US. The average worker there could cost as much as \$1200.00 per year there, but here try over \$24,000.00 and shipping the products half way around the world for assembly is also irrelevant considering the low labor costs divides.

To compete our companies are hiring them to make the stuff there, costing jobs here, but in the end staying in business. Why are companies here doing this? Well unions, lawyers, regulations all drive up costs of production and make efficiency rather irrelevant. When we saw these issues get so bad about 2 decades before we initiated NAFTA, so we could open trade with Mexico. Today NAFTA, which covers all of North America and Mexico and a few other partners has rules such as 51% of all vehicles are to be built in a NAFTA country. Again the reason why BMW, Mercedes, Honda, Toyota, Nissan all have plants here. These plants thankfully must hire labor from here in the states, which is good for the workers and employment, but much today is built by robots. Article on efficiencies in manufacturing; <http://www.carwashguys.com/finite.pdf>

Realize also that components or even completed products are built in Canada and Mexico. In Mexico is costs me 50% to send over business equipment as an extra tariff. US companies have huge factories over the borders in Juarez near El Paso and over the borders from Laredo and Brownsville, TX. Besides NAFTA there are huge trade organizations and treaties. The WTO has been a big devastator of jobs for textiles, shoes, etc. in Monterrey Mexico all those jobs now have moved to China. Previously in the Southern States were factories for carpets, shoes, clothes, linen, suitcases, furniture, etc. But most of those jobs went to Mexico and now to China and even today China says they are losing those jobs to other countries with lower wages. China losing manufacturing jobs too: <http://www.bizjournals.com/sanjose/stories/2003/10/13/daily64.html?f=et79>

In hind sight the workers in GA, AL, TN, SC, NC, OH, WI, MI, etc. are asking well look what great job that did? And to some extent they are correct. But that is not all that was affected. If you look at all the old mills in New England those factories closed too, workers would not take a pay cut or work the Fredrick Winslow Taylor (yes an ancestor of mine through Ann Winslow of Philadelphia). Instead demanding greater benefits with less production and productivity. You may wish to read: *Collision Course* by M. Maynard, *NAFTA*, and *Selling of Free Trade: Nafta, Washington, and the Subversion of American Democracy* by John Macarthur.



You can debate both sides, well I can or anyone who studies trade and economics. The idea of free trade is fine really if all things were equal. Well, all things are not equal; we have in this country all sorts of laws. OSHA, EPA and over regulations in all industries many over lapping and then through in states like CA, MA and it is a wonder you could produce anything; including a toothpick, which by the way for such a simplistic item, you would not believe the regulations. Think about it, the damn items come from wood and trees. You want to back track to the timber industry in Aberdeen, Washington? First you need to cut down and harvest a tree? Woooo, slow down horsy. In Aberdeen; http://www.carwashguys.com/tour_aberdeen.shtml , there are the environmentalists. And forget the fact that all the trees were cut down outside Bangladesh and the great floods a mud came later.

We have environmental laws here so the tooth pick manufacturer will have to get the wood from somewhere, where it is okay to cut down the forest. Thus, timber jobs are a loser, paper manufacturing is a loser, building materials like trusses etc, must come from somewhere else. Otherwise you find you self in the middle of a lawsuit-Sierra Club. Well then the builders need to make sure they have supply so when Enron decided to sell timber futures they found the best deal in Canada, who was checkerboard clear cutting. But with housing growth in the US propping up the economy along with financial institutions loaning on new housing starts the game continued. However the timber industry in Canada was abusing its environment and upsetting the people there. Since they were dumping, selling below the cost to reproduce the forest of which they had no intention like that of the US, which is required by our laws to replant the forests, which you can see in ID, WA, OR, CA and it is extremely prevalent in the Olympia Peninsula.

When over regulation makes it impossible to compete and manufacturers cannot make up the difference and the labor unions will not help to streamline, work more efficient and demand the same high pay while taking the productivity needed to sustain the company for granted the company has no choice but to close the facility and manufacture somewhere else or close the company all together for instance the PillowTex Company a long time hold out which crumbled under pressure recently from the Kmart downsizing. If you look at some of the cities we have been to and studied we see the problems of over regulation and hard core union short-term thinking.

Of course the unions are angry at the high salary of the executives which have gotten a little out of line especially as the companies are laying-off workers and the company is not making a profit. However, a man should put in an honest day for that which he was hired and -that does not mean just showing up and punching the clock but actually providing some real work and productivity. When we travel the country we see closed factories, boarded up small businesses which made money selling goods and services to those workers, now downtown is a ghost town, the mills are closed and many people have left, the ones remaining have gone on the public dole and get a small government check each month. Who has won?

This is what people are saying who are against free trade, but in free trade all things being equal everyone should do just fine. Another issue is the imbalance of money flow and trade deficit issues where our money flows out and does not circulate here, meaning people have less of it. Think of it this way. A Wal-Mart goes into a small town which is a hub for five other towns, the towns try to keep it out, so it goes to the outside of town and no city gets the sales tax revenue share. Then the small businesses which compete for things that Wal-Mart sells cannot stay in business, so the employees are forced to go to work at Wal-Mart. Then people buy from Wal-mart at lower costs due to economies of scale. And use a number of other strategies such as slow pay to Wal-mart vendors exercising their control on the float of payments out ward.

Do not blame Wal-Mart, Sears, Dell and many other large corporations have been doing this for decades and are getting better at it every day. On a micro scale if you can call those businesses micro. After all Wal-Mart is exactly 10% of our countries GDP. It employs the most people of any company and even more than the government, but what is being done is the same as the strategies of those trading partners, which hold up transactional flow of payments.

Also Wal-Mart is able to get the labor and pay less by adding benefits again due to economies of scale that small companies cannot. It would not matter anyway because small companies cannot compete on price without massive co-ops or a franchise system, which passes on the savings of those economies of scale to their franchisees. Usually in a franchise which runs more like that of a governmental structure adds on costs for the economies of scale buying and passes it onto the franchisees by taking out the money in the flow. Some might be critical of this because the franchisees best interests are not in mind and therefore their actual success against big box stores like Wal-Mart is hampered.

After all Wal-Mart changes oil, sells fuel, has a bank inside, restaurant, QSR-Quick Service Restaurant, develops film, has a garden center, etc. Now then you understand why Wal-Mart keeps growing and why Sam Walton was a brilliant man, basically he studied what worked, the competition, the flows, cycles, frequencies, etc. <http://www.parthe.net/cwg1202/00000029.htm> and of course there in Bentonville he collected all the data and duplicated it over and over again. Who wins? Every consumer that shops there; Sam Walton also said that he would always purchase American products first provided that they had equal quality and price. Good for him? So then this will employ America while feeding America right? Well sure enough, how could it not? It works, a complete closed loop. Employing and supplying like Henry ford use to say, we want to pay our workers enough so they will buy our cars, we do not need a union. A noble effort and idea shared by the wise.

Fortunately, Sam Walton kept his promise to the American People and unfortunately the government, legal system and unions did not keep their promises. The government attacked businesses and over regulated them. The attorneys used this to get a double whammy suing class action on top of governmental regulatory fines which were under the impression that the should fine the same amount as the costs of their budgets to the businesses they regulated. Meaning even if the business broke no rules, they would have to find something to justify the existence of the created bureaucracy. Go read the book; *The Business End of Government* By Smoot. *Fountain Head* and *Atlas Shrugged* by Ayn Rand. Read this while you are at it. Another recent book is: *The Case Against Lawyers* By Catherine Crier. By the way Catherine; excellent book if you ever happen across this page on a search engine, I want you to know I mean that. Also to illustrate my point I recommend and this one will make you as angry as Smoot's book, but it is correct and it is a shame for America: *Death of Common Sense: How Laws are Suffocating America* by Philip K. Howard. What is shown in this book clearly is not what was intended by our founding fathers.



In 2003 on C-SPAN, there were two gentlemen debating free trade one from the CATO Institute for free trade, yet he failed to mention the real problem, the lawyers, over regulation and government bureaucracy. I had to call in and enlighten them on the issues and what is really going on, they seem to be under the impression that Americans did not want to work in manufacturing jobs? If the CATO Institute is going to go on National Television and debate free trade, then they must explain the whole truth to the American People. For a conservative free enterprise think tank, surely they have more depth to understand the plight of the manufacturers in this country. Not everyone can run a service company like me? We need all kinds jobs and if we are going to import, then we need to export too. If we export we must maintain proper relations and import from those reciprocating countries.

When we lower tariffs and those countries we trade with raise them, we lose. When we raise tariffs they lose. When someone loses they are disrespected and modern human psychology indicates that when people are disrespected they want revenge. So there is a second reciprocal response and a third and a fourth and this is a lot like a war isn't it? Yes it is and this is why we ought to get along. Von Clausewitz would have been good at trade negotiation and trade war escalation. We often cause issues that do not serve the best of mankind, trade is good for humankind.

For instance the fruit in Brazil grows better tastes better than the fruit in Florida. The fruit in Africa is bad so they might be happy with the fruit from Florida. If we restrict and tariff the fruit from Brazil then they are mad at us, but we say we will buy your oil or ethanol, but really it is a drop in the bucket for us. The fruit farmers in Florida have years of drought like problems and drain the Everglades. This causes pollution issues since the solution to pollution is dilution and less water means greater parts per million of pesticides, fertilizers, etc. Florida needs to have larger reservoirs to collect the storm season water for their populations and use desalination as they are doing now in Tampa Bay.

Otherwise we ought to buy the better fruit from Brazil and maybe use the land in Florida for something else. Once they have the water supply grow the fruit here and let the consumer decide which fruit they like best provided that Brazil does not steal water from their natural settings either, same with grapes, wine, strawberries in CA and Specialty berries in North Eastern UT. You might want to take this opportunity to catch up on the flow of water in the United States and the weather and rivers and agriculture: Please read *The Flow of Water* essay in this series, as water is yet, another serious issue.

Another issue is Ethanol Plants, they need corn, but corn takes water and states like Nebraska, North and South Dakota, Montana, Idaho, Kansas that are in drought. So if you take the water to make corn, to process (which also takes water) to make fuel and in the process release CO₂ then where are you really in terms of trade? If other countries want the ethanol and it is an export crop then, we leave the CO₂ for us to breathe and the water bill here too? Luckily in this case we can use all we produce, but this is an example of the cause and effect of linear thinking in theories of trade.

North Korea has trading partners; Japan for fishing lures and supplies. Its exports are minerals, metallurgical products, manufactures (including armaments); agricultural and fishery products. And it imports petroleum, coking coal, machinery and equipment; consumer goods, grain. In times of non-drought it ought to be exporting Ethanol processed there made from corn with the Bt. Gene (super-corn GM), not plutonium for nuclear weapons. All countries have specific things that are abundant in the region. Middle East it is oil and sand. We do not need the sand but can use it to make cement. So perhaps we should import sand and oil from there and they can buy cars, computers, and other things from us. By developing trading partners, we can keep peace if of course the Westerner Hatred thing can be educated out of the population, something that will have to be done for the future of World Trade?

One thing that we in the United States need to be careful of is buying products from other countries and they take that money and rather than buy what we produce the end up buying us. For instance our companies; Telephone companies, media outlets, Car Manufacturers, refuse companies, bus companies, water companies, food distribution companies, trucking companies, truck manufacturing companies, large commercial real estate companies, golf courses, Aerospace companies, let's see give me a few minutes and I can think of some more. You see the issues here? If we buy some of their companies and they buy some of ours, that is Even-Steven. But if we buy consumables and they buy our infrastructure and companies then the problem is compounded because they end up scraping the crème off the float and the flow.



In other words the money they make selling to us domestically, while they own our companies allows them to buy more companies and retain more profits that they send overseas. Once they have all this money they have to spend it on projects elsewhere or here, but really capital expenditures here is a dead issue with all the regulations after all we are having a difficult time getting our own companies here to do that. After all why should they want to re-invest in America when they can get a higher return manufacturing overseas, leaving no jobs here for Americans, so they can continue to buy. Thus the average consumer is upside down in their cars, over extended on credit card debt and living in a house, which they the consumer may have 10-15% equity and probably less with all these new home sales on 2-3% down and all the re-financing to pay off short term debt.

Now let us look at Wal-Mart again; you buy a product there, 6% goes to the employees, 10-18% is profit to the company, 25% goes to other costs and 50% goes to re-stock or the cost of goods sold. Of the 50% about 20-25% goes to China, a guess, but you get the point. Now then, how long will it take at 433 Billion dollars at year for China to have all of our money, leaving no money flow for us to circulate? At a 17 Trillion dollar economy less than 40-years minus the 1/6 they buy from us. Some say that if we keep putting money into our economy, it would take forever, but if we do not then eventually all the money flow will go. If China buys our debt then eventually they own us, no need to worry about a war, they are buying America, due in part to our own mismanaged trade, so whose fault is that? Not necessarily China, as they are doing what's in the best interests, and we should make sure that trade is not only free, but fair too.

Now some of that money comes back since expanding emerging markets need things. But only \$3s in 10 are coming back to us, but how is it coming back? Is it coming back in consumables? Are they buying automobiles? No, we cannot produce the automobiles as inexpensive as South Korea, Japan or India, our labor unions, regulations and factored in costs of lawsuits or even threats of potential lawsuits will not allow us to. So they will be buying the automobiles from them not us. Well then will those countries be buying from us as they expand? Yes, but it takes a while and still we have an upside down flow to those countries as well. The trade flows are a serious issue. It seems tough to do business in a country, where your own government is constantly attacking your hard work efforts to supply jobs and capital.

The lawmakers make regulations and then the lawyers find people to complain to bring about regulatory fines or actions and then the lawyers use these for basis of a class action against the company. Thus, we allow this to cut off the hand that feeds us while the regulators make a name for themselves so they can join their lawyer friends defending the regulation insanity they helped create while they were there. Or these regulators run for office with all their notoriety to make more laws pandering to the voters who have not worked an honest day in their lives. Those that have worked or run a business, produced, well they would not vote that way. Neither would any rational person once they learn Economics 101 or unless the mass media becomes their add-on brain and it tells them too.

With everyone ganging up on the entrepreneurs and companies, the companies no longer feel beholden to the American Ideals that they once had and except for a few hold outs have decided to take their money and vote with their dollars to manufacture elsewhere. Thus, a transfer of technology, innovation, and capital of epic proportions; this compounds the problems of the trade deficit. So what is the answer? Well, it is simple really; all regulatory laws must be reality based and all trade deals must be both free and fair. Those rules and regulations that do not fit the fair and free scenario must disappear if they restrict flow on all sides, on the US side and our trading partners. Free trade means free trade. There is nothing free about the parasites of flow, tariffs, quotas or obstruction. Please read this essay on *The Flow of Money - Allegory of a Beach Ball*: <http://activerain.com/blogsvie/372288/Beach-Ball-Affect-Allegory>

The bigger problem is that the US has the best policies for those we trade with, yet our trading partners have not considered the benefits of the Western World's WIN-WIN situation, instead laughing at us and when we try counter their attacks they scream and yell and want more free stuff and they want sanctions against us. It is a lot like the person on welfare, give them everything and they want more and if you let them vote they will keep voting for more free stuff until the system collapses, perhaps the reason for Plato's comments in the Republic or Milton Friedman's *Free to Choose*?

The system is broken. It needs to be fixed. **The Flow of Trade** is important, we cannot be taken advantage of or we will trade the middle class of America for it. If we lose the middle class we lose what it means to live free and our rights to pursue happiness. We throw away the gift that all those who died to protect such rights have given to us. We cannot let them die to no avail. I cannot accept that. Let's stand tall and proud together, get on the same page, admit that the regulatory quagmire, overzealous litigation and attack on American Businesses from the; politicians on both sides, and grandstanding of podium pushers has to stop.

Won't you join me now and demand a reality check. The time has come to make things right. The flow is going the wrong way at the wrong speed. The Flow of Trade is an integral part of the overall system to keep peace in the world, food on the table and move mankind forward together, all of us - throughout the world. Think About it...My name is Lance Winslow and thanks for listening.