

General Solutions to Prevent World Trade Imbalances

Liu Kedian

China

Abstract The first principles thinking model is one form of scientific method. It is effective in handling the general professional technical works as well as business such as international trade. We will find out that a general solution for solving the business problem such as world trade imbalances based on the thinking mode manifests the advantages that other measures do not have. That is to launch **World Trade Currency**.

Keywords International trade, Imbalance, De-dollarization

De-dollarization cannot be a final solution for world trade
Extraction of and modification on some researches of the book *Improvements On Some Scientific Methods*

1. Foreword

The first principles thinking model is one form of scientific method. It is effective in handling the general professional technical works as well as business such as international trade.

We will find out that a general solution for solving the business problem such as world trade imbalances based on the thinking mode manifests the advantages that other measures do not have. That is to launch **World Trade Currency**.

It is said that onlookers or bystanders see clearly considering the author is not a theorist of economics. The only intention of this paper is to propose launching the World Trade Currency, and the proposal was formed much earlier and latest presented in my book published on April 2021. I believe it is worth to be considered and practiced the moment.

However, it is only a preliminary suggestion being just left to experts and politicians to pro or con.

2. The Function of World Trade

What the functional outcome of international trade are looking to achieve?

The answer should be: being beneficial mutually from international trade which is exchange of works of people or exchange of fruits of labors internationally under condition of trade balance.

What is the real problem?

The foreign currency reserves of most countries in the world are the currencies of one or two particular country or economy entity, such as USD, EURO; that is the necessary condition of international trade imbalance.

The huge trade imbalance that some countries enjoy huge trade surplus, some countries have burdened huge trade deficit, is due to the deficit countries lack of so called competitiveness, which is the sufficient conditions of the international trade imbalance.

Evaluating in view of labors exchange, the surplus countries may not be constantly benefited from their surplus, means they may not always make profit at other countries's expenses; on the contrary, the surplus countries will suffer loss when devaluation occurs on foreign currencies of their deposit.

3. Problem of Existing Response to Trade Imbalances

At this stage, the imbalance of international trade is a serious problem; it will take how long time to go back to trade balance is unforeseeable. Even if some shock treatment measures are considered and carrying on, such as former President Trump's policies of increase special tariffs or set up some trade barriers to reduce the U.S. trade deficit, the shock treatment, however, still cannot appear effective in short term.

In view of first principles thinking, to evaluate former president Trump's two measures (Other policies of Trump are not discussed here.) are more a revision of form (only tariffs and barriers are involved) rather than functional, is more a simple increments (of tariffs).

Any measures try to bring back international trade to balance status, should be based on the start point of solving the fundamental problem. Beforehand to solve the fundamental problem, we should know what the fundamental essence of the currency is. Currency (money) is

* Corresponding author:

liukd456@163.com (Liu Kedian)

Received: May 23, 2023; Accepted: Jun. 10, 2023; Published: Jun. 12, 2023

Published online at <http://journal.sapub.org/economics>

equivalent to shares or stocks of a company; the difference lies in that the so called company hereby is a country instead of any listed Co Ltd company. The national currency stores the past, current and future fruits of labor and all resources of the country. Therefore the surplus country becomes bigger shareholder of the deficit country.

The money of one country stores the productivity, science and technology, product of necessary goods and commodity, (even including military strength and potential production of advanced weapon) of the country. However, one country's necessary goods may be garbage in other countries. If Canadian's heating equipment donates to India or Equatorial Guinea free of charge, the latter still does not want, the goods are no use to them.

The total amount of US dollars as foreign deposited worldwide is so huge that it is impossible for the money holders to use all of them to buy USA products, because most of the annual output of the United States are services, not the hardware products. These services and soft products can only be consumed domestically inside the United States. Therefore, in long run, the deposit will be in many ways devaluated. When the deposited money is infinitely increasing, the total value of the deposited money will be much more than the total value of the tangible products and intangible products that the whole world can produce annually. Thus devaluation will be inevitable, no matter USD or other national currencies. More or less, no one can escape.

Therefore, to solve the problem of imbalance should be started off with the fundamental crux, i.e. the currency or the money used for payment of international trade should store the labor fruits of the buyer, thus is real meanings of exchange of labor fruits of both sides, and benefit mutually.

The international trade must use a unique international currency specified for international trade settlement accounts, which currency stores fruits of labors of whole world, not just any single country's labor fruits, and not being any specific country's currency.

To prevent trade imbalances, we need to establish a permanent operational mechanism to prevent imbalances in the prior. However, at the moment, some shock treatment is not absolutely wrong.

But the recent measure of de-dollarization and settle bilateral trade transactions in their own currencies are double-edged sword, it will bring to some out of controlled chaos and messes.

Today, some countries call for de-dollarization, who knows in some day, some countries will call for de-euro, de-yen, de-pound-sterling, de-RMB, de-rupees, de-ruble and etc?! In fact, similar phenomena are occurring already.

Any measure of reducing and preventing imbalance should better be a mechanism of early-warning, guidance, restraining, rectification and preventive when people (countries) are making mistakes in progress. Just like in a traffic intersection, no very conspicuous red light traffic signal is erected; the traffic police are only doing fine and

fine.

The more correct way should be that the red light traffic signal must be able to make the driver stop before breach of rules. The driver starts to slow down and stop when he is approaching the red light traffic signal. Traffic police try their best and have the right to force the drivers stop before those who try to run the red light directly.

4. Looking for the Most Reasonable Measure: Launching World Trade Dollar as only Legal International Trade Currency

Measures should be facilitating early warning and automatically slow down until stop the trade imbalances when the imbalance is happening, to keep trade in balance status before incident. The existing Special Drawing Right (SDR) actually has some extra implications of some early warning effect; but it has not yet been institutionalized to play a mandatory role, and is not functional as a balance tool. At present, the number of deposits of SDR is still far from insignificant enough.

The fundamental measures to prevent the trade imbalance is to design and implement a functional mechanism which can auto tune or automatically control the international trade before imbalance occurring.

The first measure is to launch World Trade Currency (WTC) or World Trade Dollar and use as unique currency in international trade, to prohibit using any country's currency to pay for trade. The Special Drawing Right (SDR) can be reformed, restructuring and convert into World Trade Currency.

The second measure is to set up World Trade Bank (WTB) for international trade settlement purpose only, which should be under the supervision of the United Nation, and international trade law should be make.

The problem of the world trade imbalance is not merely in the one side. For example, the United States governments had been done effort to reduce the trade deficit for more than 30 years. However, without mechanism of early warning and automatically control, little effect can be achieved. Traffic police and security police in the United States are very strong force, but international trade laws and international trade police are absent.

Regarding the trade imbalance is historically formed and growing; there should be a comprehensive forgiven measure to take.

Every country and economy entity in the world convert once time certain numbers of her national currency to WTC (World Trade Currency) amount to total value of annually import, and deposit in her WTB account, only once time.

All the mount of surplus deposits of the surplus country, are also converted to WTC (World Trade Currency); and adding in their accounts of WTB (World Trade Bank).

The U.S. dollar, EURO and any national currency such as

yen, RMB, rupees and ruble will no longer be used as payment of international trade legally, and using any such currencies for international trade payments will be illegal and imposed penalty.

Trade transactions around the world use only WTC for trade payments and settled in her WTC account in WTB. When a country's WTC deposit or reserve is reduced to a certain lower mount, he himself and its trading partners should be keep alertness, and imports need to be reduced until the WTC reserve can be raised to a certain level of affordability. WTC account balances of every country should be fully open and transparent in real time, earlier warned in real time, and even stopped payment and stop trade automatically at the balance/ imbalance node point.

WTC (World Trade Currency) actually is the reservoir, storage, stock or buffer tank of the labors, the products in store, the productivity, the technology and all the useful resources of countries all over the world.

The WTC (World Trade Currency) as foreign exchange reserve will store the universal labor fruits and works or products of the people worldwide, it should be the universal securities, (could say it should be one kind of World Commodity Purchasing Certificate), cannot be replaced by the currency of any specific single country or economy entity.

At the same time, countries around the world still have to have their own currencies.

Only doing so, in long run, the problem of lack of competitiveness will be automatically and compulsively concerned by the regime and people of the country as well, and will be improved and solved by the efforts of government and people together.

The relative stronger the competitiveness, the relative more WTC will be reserved in her country's deposit account, the mount of WTC deposit in a country or private sector exactly contain and reflect the fruits (products, production and productivity) of labors of her country or the company.

5. The Functions of EURO may be Reformed and Changed

In view of first principles thinking, the launching of the Euro is more in changing form of fiscal management than improving the function of optimization of the EU internal trade, it is more a simple analogy not touch the essence of the fundamental problem. Launching EURO is a solution with analogy of USD.

To some meaning, it only turns the national trade deficit into local government financial deficit, nothing more than make the financial control more complex.

With first principles thinking, boil things down to the most fundamental truths, and then reason up from there.

The EURO may be used only as the trade currency ETC (European Trade Currency) inside EU countries better, rather than the only currency in circulation in all Euro countries.

To look for internationalization globally should be rationally and realistically put into practices, should not be right only in dialectically superficially, but wrong metaphysically in implementation.

A half-step backwards trial in the euro zone may be a better option. Some southern European countries can take half step retreat regarding the problem they are facing, such as Greek and Italy. They could restore to use back their local national currencies, meanwhile by using EURO in the internal trade inside EU, so that chancellor, prime minister and president of other countries no need to concern, worry and care about Greek's domestic economic and budget.

REFERENCES

- [1] Adam Smith: *An Inquiry into the Nature and Causes of the Wealth of Nations*.
- [2] LIU Kedian: *IMPROVMENTS ON SOME SCIENTIFIC METHODS*, American Academic Press April 2021.