

## Regional Disproportions in the System of US Foreign Trade

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**Abstract.** Article is dedicated to the trade and investment cooperation of USA with EU at the present time with taking into account current conditions of international trade uncertainty caused by US' external economic policy transformation into the direction of protectionism, «trade war» with China and potential trade and tariff opposition with EU. At the same time the authors took attempts to develop several prospects of events' development concerning potential US-EU trade and investment agreement in conditions of present US import tariff increasing. Analysis of US-EU trade cooperation, its dynamic, directions and specialization leads the authors to the conclusion that the key feature of US-EU ties is so called «an effect of economic anamorphosis», the concept of which is the critical domination of the weight and share of limited list of partners in the system of bilateral cooperation, when one of the partners is regional economic integration, and the biggest share of trade, capital, human and other flows is attracted by these determined limited list of countries. Such situation can be estimated as disproportion of partner's estimation and evaluation by each other. It means that economic integration is estimated not as the complex partner and subject of the global economy but with the using of deduction method. At the same time «an effect of economic anamorphosis» on the example of US and EU can lead to the revision of regional economic integration theory.

### 1. Introduction

Current process of the world economy' globalization is connected with the set of factors that can transform political and economic landscape such as: escalation of the global competition; strengthening of economic development irregularity and impact of the external factors on the states; set of geopolitical decisions that can lead to the revision of the scientific paradigm of globalization and liberalization – US' exit from Trans-Pacific Partnership, «freezing» of TTIP agreement negotiations, revision of NAFTA principles, implementation of open protectionism policy by USA. At the same time, in accordance with an expert's opinions, «Brexit» and the growth of protectionism can evidence about the reverse or of the end of the globalization process. In accordance with the professor Kondratiev V.B. (Institute of World Economy and International Relations of the Russian Academy of Sciences (IMEMO)) it needs to talk not about the end of globalization but the new model of it that can be characterized by the transformation of formed tendencies and proportions [1].

The background of the globalization process' deceleration appeared in the period of the last global financial and economic crisis of 2007-2009 yy., when a lot of countries had to implement the policy of protectionism in order to defense national producers as the answer the strengthening of the global competition [2]. The loss of mutual trust among WTO' members prevents the development of new rules and principles of the international trade. The parallel process is the interruption of the regional economic integrations broadening – the stoppage of EU broadening, the lack of NAFTA backgrounds for expansion, revision of NAFTA principles, US' exit from TTP and the «freezing» of TTIP agreement negotiations between US and EU. It needs to underline that the «freezing» of TTIP agreement negotiations is the result of new US Administration coming headed by D. Trump. Such action is based not only on the results of scientific research of an effectiveness of multilateral and bilateral US' relations with the global economy subjects, but the fundamental transformation of the US' foreign economic and trade policy [9]. The explanation of this transformation is proceed from the President agenda to return the power of the America, to correct «the global trade misbalance» and to solve some problems of the national economy and first of all the problem of the foreign trade deficit.

So it is rather actual to research key features of the trade cooperation of US and EU at the present time on the basis of its destinations, volumes, conjuncture and to develop several scenarios taking into account the fact that US is going to increase import tariffs on EU' goods.

## **2. Object and methodology of the scientific article**

The object of the scientific article is the sphere of bilateral merchandise trade cooperation between USA and the EU at the statistical period from 2003 to 2017 yy. The necessity to investigate this sphere is based on the proved thesis of the role and the weight of partners not only to each other but the global economy.

There are several national economic problems that stand in the advanced guard of US' priority interests such as reducing of US' foreign trade deficit (in 2017 it amounted to (- 811 billion dollars)); transformation and reduction of the weight of some types of economic activity in the structure of GDP; changing of the role and the weight of the key trade partners (for the benefit of China), strengthening of international competition fight with fast growing economies and other. All these factors led to the necessity to review and re-comprehend external economic and trade policy of the new US Administration headed by D. Trump, so as the result «freezing» of TTIP agreement negotiations between US and EU, potential increasing of import tariffs on more than 400 sub-groups of EU goods, possibility of «trade war» escalation between US and EU, destabilization of international trade system.

The tasks accomplished in the research:

- to find out key features of US-EU merchandise trade on the basis of export and import statistics, destinations and conjuncture;
- to prove the thesis of disproportionate examine of each EU member by the third country (US) in dependence on the set of competitive advantages that could satisfy the demand of the third country;
- on the basis of US-EU merchandise trade analysis to prove the thesis of unequal evaluation of EU integration by US as the complex and complete subject of the global economy that could allow to make the conclusion that scientific paradigm of regional economic integration is needed to be reviewed;
- on the basis of anamorphosis method to suggest the term «an effect of economic anamorphosis», the concept of which is the critical domination of the weight and share of limited list of partners in the system of bilateral cooperation, when one of the partners is regional economic integration, and the biggest share of trade, capital, human and other flows is attracted by the determined limited list of countries-members of integration.

In the process of this research the authors implemented the methods of economic analysis, synthesis, deduction and retrospective. At the same time in order to find out and evaluate key features of US-EU trade cooperation the authors used the method known as anamorphosis that traditionally is used in the geographic sciences in order to show the deformation of countries' territories with the

dependence on population or other indicators. In this case the authors took the attempt to prove that US-EU trade cooperation brings an effect of anamorphosis as disproportion of partner's estimation and evaluation by each other. It means that European Union is estimated not as the complex partner and subject of the global economy by US, and every state-member of EU is examined by US as the complex of competitive advantages and possibilities. As the result the authors offer to implement the new term «an effect of economic anamorphosis».

### 3. Theory

The present activities of the new Administration of US can be characterized as pronounced mercantilism or neo-mercantilism that evidences from the high desire to achieve positive foreign trade balance and the greatness of USA under the slogan «America First» including external economic methods. Implementation of the aggressive foreign trade and economic policy is the result of the formed tendencies such as international competitiveness fight and the fast growing of the key US' opponent – China, which role and share are growing in the structure of US' and EU' foreign trade geography: in accordance with WTO statistics the share of China in US' export of goods was 8.4% in 2017, in import of goods – 21.8%, in EU' export of goods was 10.1% in 2017, in import of goods – 19,9%.

New US Administration implements the policy of the open protectionism under the rules of the national legislation and contrary to the international principles and rules of international trade. In accordance with Section 301 and related provisions of the Trade Act the American legislation gives the USTR broad authority to investigate and respond to a foreign country's unfair trade practices, to increase import tariffs and to use almost all methods and actions in order to protect national economic safety from the external factors. It means that the traditional and the present theory of globalization and liberalization has to be reviewed as the result of US' foreign trade policy transformation and US' protectionism measures through the import tariffs increasing.

It is known that the first harmonious theory of international trade is mercantilism aimed at the support and achievement of the positive trade balance in order to collect the wealth of the national economy. From the theoretical point of view, the current US' foreign trade policy is close to the mercantilism theoretical basis with the support of the foreign trade balance, protection of the national producers from the foreign competition by launching the increased import tariffs and non-tariff methods of foreign trade regulation and so on.

In accordance with D.F. List (an economist) the thesis of international trade of A. Smith and D. Ricardo has to be reviewed and criticized due to the fact that the foreign trade could not be fair and mutually beneficial only in the case when partners are in the similar level of the economic development in the other case partners have to implement the policy of protectionism in order to equalize the level of economic development for each of them.

In support of F.D. List' thesis another one economist E.S. Reinert wrote that all developed countries implemented the policy of protectionism at the period of industrialism development in order to protect the national producers, to develop national industries, to form competitive advantages and so on [3].

Neo-mercantilism is becoming one of the key features of the present time by the devices of the policy of protectionism, achieving the positive trade balance, expansion of TNCs, escalation of «trade wars» [4].

At the same time position of P.A. Samuelson about the advisability of implementation protectionism measures is coming from the position that the effect of the free trade is not the equal for all members of the trade relations, and the absence of national competitive advantages in determined sectors of the national economy that form the economic growth of one state can threaten to another state, so the second one has to implement the policy of protectionism [5].

The growth of the interest from the authorities and political circles led to the developing of the economic thesis of patriotism, but unfortunately nowadays this theory is not still determined as the

scientific paradigm but is connected with the thesis of the economic nationalism concept (G.F.W. Rosher) and mercantilism.

The basis of the economic nationalism, that had been formed in 20-30-s yy. in XX century, reflected worldwide tendencies of nationalism development, the reaction on the Great Depression in USA and the interest to the nationalism thesis from the side of developing countries. At present time there is absence of the economic nationalism determination and it is tended to be substituted by the term of economic patriotism, or egoism, or protectionism in the contest of national safety [6].

In accordance with Professor I.S. Ivanov (the Minister of foreign affairs, 1998-2004 yy.) nowadays there is no any obstacles for US policy of national egoism implementation. National and foreign policy of US is bright but not the only one example of protectionism policy implementation in the world [7].

It needs to underline that the present foreign policy of US is broking down and forcing to review the present globalization and liberalization paradigms due to the fact that the present international trade and international finance principles and rules do not comply with the national interests of the global economy players. So the present American foreign policy is the pioneer or reformer as the reflection on the international competition fight, growing and strengthening of fast developing countries and understanding China as the key opponent or rival for US [8].

The results of scientific research (R.E. Scott, E. Glass, Economic Policy Institute) has become the basis to begin fundamental transformation of the present US foreign policy including exit from TTP, freezing of TTIP, review of NAFTA principles and rules, transfer from multilateral to bilateral. The research showed that effect from US membership in TTP would bring much less advantages than loses – decreasing of GDP, increasing of unemployment rate and so on [9].

#### **4. US' merchandise trade with EU**

Merchandise trade is one of the most important types of US' economic cooperation, in 2018 in accordance with BEA the share of US merchandise trade made up 20.7% of GDP (or 4,2 trillion dollars from 20.5 trillion dollars of GDP). Total volume on US foreign trade of goods and services made up 27.8% of US GDP in 2018, in 2017 this indicator amounted to 31.9% of US GDP (5,7 trillion dollars from 18.05 trillion dollars of GDP).

In accordance with the last data published by WTO US' export of goods amounted to 8.7% of the world export of goods, import of goods – 13.4%, 14.4% and 10.2% of the world export and import of services. The chronical foreign trade deficit formed by the trade deficit of goods – in 2017 this indicator made up (- 811 billion dollars), this volume is not covered by the positive trade balance of services (243.9 billion dollars in 2017). From 2000 to 2017 yy. US' merchandise trade deficit grew almost in 2 times from (- 446.8 billion dollars) to (- 811 billion dollars). In spite of the growth of US' merchandise export from 784.9 billion dollars to 1551.4 billion dollars, merchandise import grew at the same time more intensive from 1231.7 billion dollars to 2361.4 billion dollars.

European Union is the strategic partner of US. The share of EU in US' export of goods made up 18%, in US' import of goods – 19% in 2017. The key feature of US foreign trade with EU is the same tendency that is trade deficit of goods trade (- 153 billion dollars) and positive balance of services trade (54.3 billion dollars). During the period of 17 years from 2000 to 2017 yy. US' trade turnover on goods with EU grew in 1.86 times, and in 2.39 times on services. In spite of the absolute indicators increase the share of EU in US' foreign trade is decreasing for the benefit of other countries: for example, in 2000 the share of EU in US' merchandise export made up 21%, in 2017 – 18%. At the same time, it needs to underline rather high growing of China' share in US; merchandise export – from 2% to 8% with the growth of absolute indicators in 8 times from 16.3 billion dollars to 130.7 billion dollars and merchandise import – from 8% to 21% (from 100.2 billion dollars to 506.5 billion dollars).

In accordance with BEA 4.5% of merchandise trade deficit is formed by the trade with China (- 376.6 billion dollars). In spite of the fact that in 2017 US and China signed the biggest US trade agreement on the sum of 253.4 billion dollars, the key aim of this action – is to decrease US' merchandise trade deficit and to increase US' merchandise export to China [10].

However, the next US Administration actions showed that national interests are much higher and more important than bilateral agreements and obligations that US take on itself. In fact, «trade war» between US and China has been escalated by increasing of import tariffs on steel and iron and all the goods that are supported and are in the list of Chinese industrial policy «made in China - 2025». At the same time, it is the evidence of US' goods competitiveness in the global market and their ability to compete with Chinese goods.

Improvement of the «international trade imbalance», domination of the national interests, implementation of the protectionism policy and some other actions that are taken by US' Administration aimed at the reconstruction of some industries of US' economy the share of which are reducing slowly. For example, in 2000-2016 yy. the share of industrial sector in US GDP reduced from 22.8% to 17.8%; production of durable goods reduced from 12.9% to 9.1%; production of computers and electronics reduced from 2.8% to 1.2%.

Analysis of the American merchandise export to EU at the period from 2000 to 2017 yy. in average less than merchandise import; 98% (or 149.9 billion dollars from 153 billion dollars) of merchandise trade deficit with EU countries are formed by the limited set of countries – France, Germany, Italy and Ireland. In needs to mark that 42.2% (or (- 64.6 billion dollars)) of US' merchandise trade deficit with EU are formed by Germany and it is the fact that shows the role and the weight that Germane plays for USA as the trade partner among all other EU members. Moreover, this fact tells about the sharp US' dependence on Germany' merchandise import and the predominance of only one particular country against the other members of integration members, it put the question about US' external economic safety and developing delicate system of cooperation with determined state.

Domination of limited and determined set of countries in the system of US' foreign trade and forming by them the biggest share of US' trade deficit demonstrates not only the fact of heterogeneity of the trade partners meaning and importance for US as the trade partner, but at the same time heterogeneity of EU as the complete trade partner shows that integration is determined and estimated by US from the point of view of social-economic aspects of development, development of industrial capacity, forming of GDP, level of capital capacity and technical capacity, and presence of competitive advantages for US.

In accordance with the Figure 1. the positive US' trade balance with EU members is formed by Belgium, Netherlands (in 2017), Luxemburg, United Kingdom (in 2015 and 2016 yy.). The biggest consumers of US' goods are United Kingdom (20%), Germany (19%), France (12%), Italy (6%). In 2017 US export of goods made up 1551.4 billion dollars, the share of EU amounted to 18.3% (284.7 billion dollars).

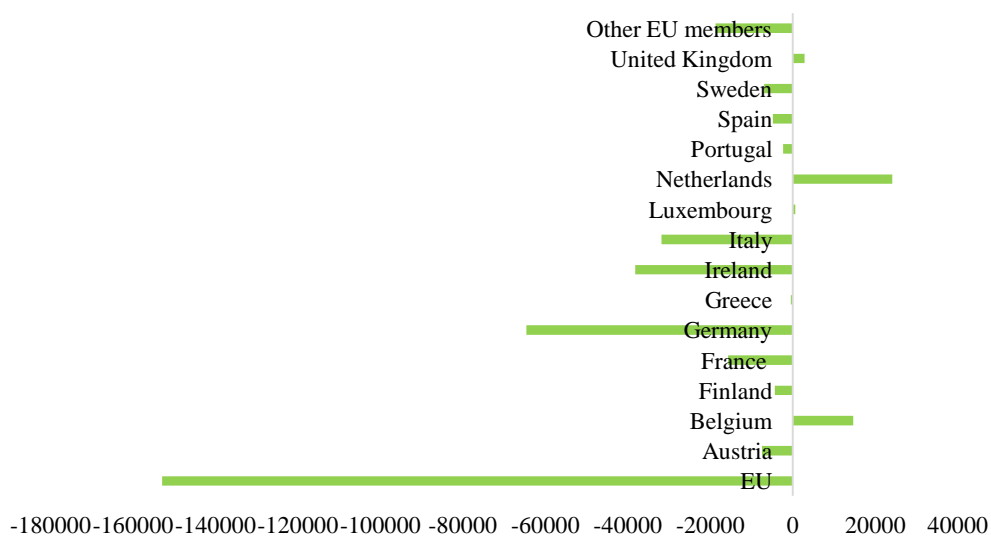


Figure 1. US' merchandise trade deficit in the trade with EU in 2017 y., billion dollars [10].

The structure of US' merchandise export is formed by: capital goods except automotive (from 2003 to 2017 yy. the share of capital goods decreased from 45.4% to 38.9%), industrial supplies and materials (the share of industrial supplies and materials increased from 20.7% to 25.3%), consumer goods (the share of consumer goods increased from 17% to 20.2%). More detailed analysis of US' merchandise export to EU showed that in the whole the volume of US' merchandise export from 2003 to 2017 yy. increased from 153.1 billion dollars to 274.7 billion dollars. At the same time the volume of foods, feeds and beverages increase from 5.8 billion dollars to 11.5 billion dollars, the volume of industrial supplies and materials increased from 31.6 billion dollars to 71.8 billion dollars, the volume of capital goods except automotive increased from 69.5 billion dollars to 110.8 billion dollars, the volume of automotive vehicles, parts, and engines increased from 10 billion dollars to 17.7 billion dollars, the volume of consumer goods increased from 26.1 billion dollars to 57.6 billion dollars, the volume of other goods increased from 8.6 billion dollars to 9.6 billion dollars, the volume of nonmonetary gold increased from 1.3 billion dollars to 5.4 billion dollars [10].

The tendency of EU' merchandise import destination to US members reflects the same situation – prevalence of limited list of the most developed EU members – France (11%), Germany (27%), Italy (11%), United Kingdom (12%). These four countries accumulate 61% of all merchandise import from EU to US in 2017. The basis of EU merchandise import is formed by capital goods except automotive (the share of capital goods except automotive from 2003 to 2017 yy. increased from 26% to 28%), consumer goods decreased from 28.2% to 27.9%, automotive vehicles, parts, and engines decreased from 16% to 14%, industrial supplies and materials decreased from 18% to 16%, foods, feeds and beverages and other goods increased from 4% to 6%, nonmonetary gold – decreased from 0.29% to 0.05% [10].

In absolute categories the volume of EU merchandise imports to US from 2003 to 2017 yy, increased from 247.9 billion dollars to 437.7 billion dollars. At the same time the volume of foods, feeds and beverages increase from 12.3 billion dollars to 26.3 billion dollars, the volume of industrial supplies and materials increased from 46.6 billion dollars to 70.9 billion dollars, the volume of capital goods imports automotive increased from 66.5 billion dollars to 126.5 billion dollars, the volume of automotive vehicles, parts, and engines increased from 39.6 billion dollars to 62.5 billion dollars, the volume of consumer goods increased from 69.9 billion dollars to 122.3 billion dollars, the volume of other goods increased from 12.1 billion dollars to 28.8 billion dollars, the volume of nonmonetary gold decreased from 0.72 billion dollars to 0.21 billion dollars. As it was already said 42.2% of US merchandise trade deficit formed by US trade with Germany, it took 26.9% of US merchandise import from EU members (118.1 billion dollars from 437.7 billion dollars). The basis of Germany merchandise import to US is formed by capital goods – 43.8%, 15.6% are formed by automotive production, 13.1% are formed by consumer goods, 19.9% are formed by industrial goods [10].

The analysis of US-EU merchandise trade showed that the basis of this type of international economic relations is based by capital intensive goods. This fact reflects traditional situation of merchandise movement between developed partners. At the same time, it needs to underline that destination of US-EU merchandise trade is characterized by the domination of limited and the most developed members of EU.

##### **5. «An effect of economic anamorphosis»**

The volume and the share of each EU member in absolute and relative indicators showed that US-EU merchandise trade is characterized as disproportional evaluation of regional economic integration by the third country (USA) that is based on the set of factors such as level of social and economic development, the level of industrial development, capital intensive goods in the structure of trade and output, the structure of GDP, structure of the national demand and so on.

In order to find out US-EU merchandise trade specific the authors used the method of anamorphosis that traditionally is used in the geographic sciences to show the deformation of countries' territories with the dependence on population or other indicators. Using of anamorphosis method showed that US-EU merchandise trade cooperation brings an effect of anamorphosis as

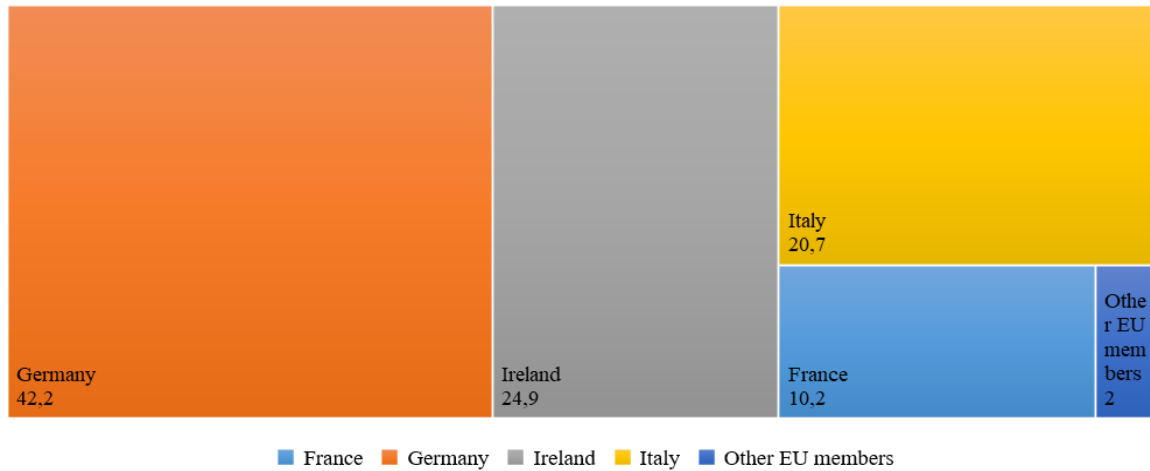
disproportion of partner's estimation and evaluation by each other. It means that European Union is estimated not as the complex partner and subject of the global economy by US, and every state-member of EU is examined by US as the complex of competitive advantages and possibilities.

In the traditional economic science regional economic integration is understood as the subject of the global economy, and in order to become the member of some regional economic integration on the level of economic union, for example, each potential member first of all has to pull up their own level of social and economic development to the average level of integration group. It is known that partnership in the regional economic integration has to give more advantages and abilities from free trade to members of integration than to «non-members» of integration. The example of US-EU merchandise trade showed that only the strongest and the most developed members of regional economic integration has the advantages of trade cooperation with other subjects of the global economy. First of all, this fact is proved by the domination of limited set of EU members as the formers of US trade deficit in the trade with EU – 98% (or 149.9 billion dollars from 153 billion dollars) of US' merchandise trade deficit with EU countries are formed by France, Germany, Italy and Ireland. 42.2% (or (- 64.6 billion dollars)) of US' merchandise trade deficit with EU are formed by Germany and it shows the role and the weight that Germane plays for USA as the trade partner among all other EU members. The other 2% of trade deficit of US' merchandise trade with EU is formed by the other 24 EU members. It means that 24 states are not the fundamentally important trade partners for US, and the majority of EU members could not satisfy the demand of US in contrast to the other 4 EU members [10].

For example, in the political sciences the tendency of «minority prevalence» is known as «dictatorship or prevalence of minority» and explains the role and the weight of limited set of members in the complicated systems' action.

The authors suggested to use the method of anamorphosis and found out disproportion of EU evaluation by the third state and putting on the map or graphic model the shares of each EU members in the merchandise trade with US. Putting indicators on the map or graphic model shows that the key feature of US-EU merchandise trade deficit is rather sharp and dramatic prevalence of limited set of countries – Germany, Ireland, Italy, France, see Figure 2. These 4 countries took 98% of merchandise trade deficit in the trade of US with EU. In traditional variant it needs not only to put indicators on the map but to make some calculation and to put the territories shapes into the dependence on the comparison indicators i.e. changing of countries' territories shapes in dependence on some indicators. In our case the authors used the graphic method in order to reflect the correlation of EU' shares in US' merchandise trade deficit. It was find out that US do not examine the regional economic integration as the complex and complete partner, and only several countries are in the trade and economic interest of US in Europe. The authors came to conclusion that US-EU merchandise trade deformation had to make scientists to review traditional regional economic integration theories in the case of the meaning every member of integration for the third country, it means that the importance of every integration member depends on the set of individual social and economic factors, set of competitive advantages and capability to satisfy the demand of the third country in the contest of international economic relations between integration and the third country.

As the result the authors offer to implement the new term «economic anamorphosis» or «an effect of economic anamorphosis». The concept of «economic anamorphosis» relies upon the significant disproportion of the weight of partners in the trade or other economic relations when one of the partner is the national economy and the other one is the regional economic integration, and the intensity of trade and economic ties of the third country is focused on the limited set of integration members that accumulate on themselves the biggest share of goods flows, investment flows and so on, it means that not all the members of integration has the same and equally weighted importance for the third country.



**Figure 2.** Graphic disproportion of the main US' trade deficit formers in EU in 2017 y., % [10].

## 6. Conclusion

In conclusion it needs to underline that analysis of US-EU merchandise trade cooperation allows the authors not only to find out key features of composition and destinations of US trade interests in the Europe, but to identify disproportions in the intensity of the merchandise trade between US and EU. Correlation of absolute and relative indicators of determined countries of EU in the system of US' trade interests tells us about the unequal and lopsided evaluation of each EU member by the third country. At the same time this disproportion exposes some kind of the fault of regional economic integration thesis that is expressed in different and unbalanced partnership of each integration member in trade cooperation with the third country, it means that each member of integration by itself has the different set of competitive advantages and is evaluated by the third country from the position of quality and top priority for the third country.

## 7. Acknowledgments

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