# CONSIDERATIONS REGARDING THE WAYS TO REDUCE THE US TRADE DEFICIT

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**ABSTRACT:** *In a recently published (Business Week, November 2, 2008) article, the distinguished columnist, Michael Mandel, pointed out some interesting issues concerning the US trade gap and the consequences it has on the entire global economy and economic system. In this kind of respect, he finds three possible ways for America to reduce this trade deficit and to relaunch its own economy on (new!)a good track. The three scenarios he finds out as being really possible for US to narrow its trade gap, actually, are: a) the so-called "business as usual" scenario that assumes the actual US trade gap will remain pretty much unchanged or rise slightly; b) the so-called "global restructuring" scenario that assumes the US government will not assure enough stimulus package or the US dollar will drop further or both; c)the so-called "innovative growth scenario that assumes the US will manage to export more innovative and knowledge-based goods and services and the US trade gap will go down smoothly without affecting the global growth. Far from trying to make any kind of polemic with the article's author we still have to add that – and this is a point of view being a little bit different from the author's – the US trade deficit is the cause as well as the main symptom of the global economic imbalances.*

**KEY WORDS:** *trade gap, scenarios, new technologies-based products*

## 1. INTRODUCTION

In a recently published (Business Week, November 2, 2008) article, the distinguished columnist, Michael Mandel, pointed out some interesting issues

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concerning the US trade gap and the consequences it has on the entire global economy and economic system. In this kind of respect, he finds three possible ways for America to reduce this trade deficit and to re-launch its own economy on (new!)a good track.

There is no question that the ongoing situation has become a real burden to US itself as well as to the rest of the world economy. As we've just said, Michael Mandel identifies three possible ways for US to cut down its trade gap. He also analyzes and makes some predictions on how and by how much the world economic system could be affected in case of each and everyone of those three scenarios.

The three scenarios he finds out as being really possible for US to narrow its trade gap actually are:

- the so-called "business as usual" scenario that assumes the actual US trade gap will remain pretty much unchanged or rise slightly. In this case US will continue to be the main market for the world consumption-designed products while the world itself will continue to lend US the money they need in order to finance this consumption-based kind of growth.
- the so-called "global restructuring" scenario that assumes the US government will not assure enough stimulus package or the US dollar will drop further or both. All that could mean the living standards in both US and the rest of the world will drop as the cheap stuff made in emerging economies like China will not be sold in US the way and in the amounts it has done until now and the knowledge-based US exports will not be accessed by emerging markets the way they've done until now. The world economic growth will be jeopardized.
- the so-called "innovative growth" scenario that assumes the US will manage to export more innovative and knowledge-based goods and services and the US trade gap will go down smoothly without affecting the global growth.

Far from trying to make any kind of polemic with the article's author, we still have to add that – and this is a point of view being a little bit different from the author's – the US trade deficit is the *cause* as well as the *main symptom* of the global economic imbalances.

Elsewhere, we have to add that the US trade gap will not go down following a single scenario but following some kind of "mix" of those mentioned by the columnist. US is already trying to make a spectacular come-back as world significant creditor (lender) even that this country is, still, the world's main debtor. The last "quantitative easing" actions taken by FED are, in a very discreet way, designed mainly for that. More else, a sudden stop in borrowing money from overseas and in importing goods and services will simply mean to add a further burden on the global access to cash that is already scarce. A global economic restructuring is already coming. We have to notice that US imports too much but a significant majority of goods imported have very small added-value. Maybe US hasn't generated too high added-value in recent years but this country is far from being in a position to be dependent on added-value created overseas. So, the real costs of its big trade gap are not as high as they look like at a first glance.

We have to add also that the US hasn't accumulated this huge existing trade gap only due to its "consumerism" behaviour. Without importing heavily from Japan in early 90es, for example, the still struggling Japanese banking system would have been a mess. And examples could easily go on. The future of the global economic development is already designed. It's called BIOTECHONOLOGIES and NANOTECHNOLOGIES. And it's all made in US. The real issue here consists in how to finance the production on large scale for these new technologies-based products. This question has nothing but a single answer: outsourcing. But this has to be done wisely, the way that it will put the world back on track in terms of growth without jeopardizing the US international trade position.

How is that supposed to be done? Nobody knows at this time. Analogies are dangerous things in making economic predictions, but we have to analyze the last two big US recessions (1974 and early 90es) in terms of trade deficit, the evolution of the US dollar on currency markets and the impact on the global economy. Any analogy with the Great Depression seems - in our view - to be inappropriate.

## 2. OVERVIEW

We have to point out that US is a net exporter in terms of services. In times of recession the US dollar usually depreciates but is a proven issue that a weak US Dollar doesn't affect significantly the amount of services exported by US. Those services are high added-value products and – of course – they address to rich countries. A key issue here could be the ability of the US economy to create services "dedicated" to less rich countries and especially to emerging economies. This kind of services should be less expansive and so, affordable for emerging economies and this does not necessarily mean they have to lose in terms of added-value. US has to adapt some of its services production capacities to the purchasing power existing in each country US does make commerce with. And that does not necessarily mean to cut costs. But it could mean to accurately assess the existing and potential needs of each existing or potential trade partner. The emerging economies are usually developing countries that need foreign investments and especially green field investments.

A wise trade strategy could consist in moving the production of goods a partner like this does need in the partner's country and, in order to produce the goods, the partner will start to import production and distribution related services from US. Even more, the US could easily import goods produced at lower costs (due to the cheap labour force) in emerging countries while exporting production and distribution related services as long as US keeps a trade surplus. But this kind of trade surpluses have to be small, the way that they will not become burdens for any emerging economy and that could be done by spreading (diversifying) the green field investments to as many as possible emerging economies. The ideal "targets" for such kind of investments are – for example – the Central and Eastern European countries due to their friendly attitude they have to US. In other words, US could create a development strategy for these countries very much like the so-called "Marshall Plan" that was designed for Western Europe in late 40s. We also may add to the picture that US could as well encourage some of these emerging countries to export further in terms of goods (in fact, some of these countries could start to accumulate trade surpluses) to US while US does continue to spread this kind of trade policies to other "targets" like these.

The scenario described here up is, basically, a kind of "business as usual" scenario with some remarks: there will not be a one or two countries US will import cheap-made goods from (like China today or kike Japan in the 80s); US will benefit of fair trade policies from its "new" partners because they really are democratic countries with free-market oriented economies that will not artificially keep their currencies at low levels in order to promote their exports.

What, exactly, this "new" situation does mean? It could mean that US will start, still using the "business as usual" scenario, to *restructure* its *international trade* as well as its *international debt* and the first step in doing this could consist in *diversifying* both of them. It could be a win-win kind of strategy for US on one hand and the emerging economies on the other hand and that because, even the fact that Eastern European Countries have their currencies tied to Euro (in fact, some of them, already adopted the Euro) their central banks do continue to buy US treasuries in order to consolidate their international reserves – in other words *to buy US debt*. This way US could diversify its exposure on its own capital account and could start to make repairs on its current account.

Of course that would (and should!) be only a *short term* strategy and that because this strategy is not consistent with itself in the long run due to the fact that, obviously, for whatever country in this world including these Eastern European Countries, US is not the only investing and trade partner. In the long run, this action will, probably reduce the US dependence of China imports and decrease the exposure on one (and, almost, single!) creditor like China, but the chances to accumulate trade deficits with these "new" partners are really high indeed. So, based on a "business as usual" scenario, this "diversifying strategy" must be applied only on short term in order to become an "investment strategy" and create healthy growth for every partner while reducing the US trade gap. In other words US will do better off if it will extend its internal economic dynamism and flexibility to its international economic behaviour. Maybe the so-called "Asian option" could be it but that's not all for US in order to restructure its economy both nationally and internationally.

In order to support our arguments we think as being appropriate the example of the recession that started in US in the last quarter of 1973 and brought the US GDP down from US$4,917.0 in 1973 to US$4,879.5 in 1975the US$/DEM exchange rate was decreasing at some slow pace during 1974 based especially on expectations on FED rate cuts. When FED effectively started to cut interest rates (December 1974) the US$/DEM exchange rate started to decrease further and that could be considered today as being a fundamental reason for the trade surplus US achieved in 1975 (Tab. 1, source: www.census.gov). But we have to add that in this period of time the Japanese yen didn't make any spectacular move versus US$ and, in spite of that, the year 1975 was the very beginning of big increases in US/Japan trade deficit. In this kind of respect there is appropriate to mention that, during 1974 – 1975 period of time, the Vietnam war had been already over and (excepting the Cambodia situation), the Eastern Asia small economies were at their start to become modern emerging economies under the US "coverage" and US took a good opportunity by trading with this new and dynamic partners. There was kind of "innovative growth" scenario in terms of trade for US due to the strong demand for modern technologies and capital goods “made in USA” those Asian emerging countries experienced. US made, at that time some quite significant investments in this region. In fact, this was a smart move mainly because the Japanese yen was too weak at that time (so, Japan wasn’t, at that time, in a position to be a big investor in the aria) and the Dollar had been to retreat against all region’s currencies. US was smart enough by not becoming a *too big* investor in this region, but they *did invest* while importing cheap manufactured goods from the region and exporting strong added-value goods and, especially, services to the region. It wasn’t to last because the Dollar has had been to become again too strong versus Asian currencies and US had, at this time, to deal with the arising tensions in Iran and in the entire Mideast – so the US economic attention was refocused (again!) on defence issues rather on creating high added-value in its civil industries.

**Table 1.**

**U.S. Trade in Goods and Services - Balance of Payments (BOP) Basis**
Value in millions of dollars
1960 thru 2008

| Period | Balance | | | Exports | | | Imports | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Goods BOP | Services | Total | Goods BOP | Services | Total | Goods BOP | Services |
| 1970 | 2,254 | 2,603 | -349 | 56,640 | 42,469 | 14,171 | 54,386 | 39,866 | 14,520 |
| 1971 | -1,302 | -2,260 | 958 | 59,677 | 43,319 | 16,358 | 60,979 | 45,579 | 15,400 |
| 1972 | -5,443 | -6,416 | 973 | 67,222 | 49,381 | 17,841 | 72,665 | 55,797 | 16,868 |
| 1973 | 1,900 | 911 | 989 | 91,242 | 71,410 | 19,832 | 89,342 | 70,499 | 18,843 |
| 1974 | -4,293 | -5,505 | 1,212 | 120,897 | 98,306 | 22,591 | 125,190 | 103,811 | 21,379 |
| 1975 | 12,404 | 8,903 | 3,501 | 132,585 | 107,088 | 25,497 | 120,181 | 98,185 | 21,996 |
| 1976 | -6,082 | -9,483 | 3,401 | 142,716 | 114,745 | 27,971 | 148,798 | 124,228 | 24,570 |
| 1977 | -27,246 | -31,091 | 3,845 | 152,301 | 120,816 | 31,485 | 179,547 | 151,907 | 27,640 |

*U.S. Census Bureau, Foreign Trade Division.*

NOTE: (1) Data presented on a Balance of Payment (BOP) basis. Information on data sources and methodology are available at www.census.gov/foreign-trade/www/press.html.

We didn’t make any mention regarding the 1971 (the total drop of the Gold Standard) and the 1973 (the first “oil crisis”) moments. Without making any other comments we have to mention that, in our opinion, US did manage quite well both “events”. In the 70s the world economy was less globalized than it is today, China had been, in fact, no present on the international arena and, as consequence, the international trade was more responsive to the exchange rates than it is today. In this kind of respect we find that the US – Germany trade relationship improved quite well during 1975 due to a stronger Deutsche Mark. But this, also, wasn’t to remain: the continuous deterioration in the global security made investors to view the US Dollar as a save heaven and it was to come strong, again. Of course, the world we’re living now is very different of the 1975’s world, but we do consider that the policies adopted then by US were wise and did make sense *because they were economically correct*. That’s why we assume that measures like these could be taken any time.

We are not taking into consideration any *forced* “global restructuring” scenario like increases of tariffs or protectionism of any kind. In fact what we are experiencing now is some sort of “business as usual” combined with US unilateral “monetary global restructuring” scenarios. And that’s because of the key role the US Dollar still keeps on the international trade arena. In fact, both Federal Reserve and US Treasury have been realized that the financial crisis the world is still facing is a *cheap money crisis*. *Cheap money does not create high added-value and does not prize the work. In fact, cheap money prizes only the risk*. The mercantilism that helped US to achieve high rates of growth in the last 20 years did work only because of the special status of the US Dollar and resisted only until the US economy did consume even the last trace of added-value it created in the 80s and early 90s on the civil front (high performance pharmaceuticals, computing and internet related technologies. After September 2001, while US invested almost only in defence related industries and research the remaining surpluses in the capital account had nowhere to go but in assets like houses and real estate and in cheap China-made goods – most of them dedicated to satisfy this strange “buy a house and stay at home – your house does work for yourself” kind of culture. But the economic laws are tough indeed. With poor added-value non-military goods produced on high-scale due to migration of the high-skilled workforce from the industrial research, engineering and high-tech economic branches to the investment banking sector(cheap money is for risk, not for work) US has lost dramatically in terms of competitiveness compared with late 80s and early 90s situations. In this kind of economic environment is no wonder that US have experienced a housing bubble and a ballooning US trade gap (Tab. 2, source: www.census.gov).

**Table 2.**

**U.S. International Trade in Goods and Services, 1992 and 2008**

In millions of dollars. Seasonally adjusted; details may not equal totals due to seasonal adjustment and rounding.

| Period | Balance | | | Exports | | | Imports | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Goods (1) | Services | Total | Goods (1) | Services | Total | Goods (1) | Services |
| **1992** | | | | | | | | | |
| Jan. - Dec. | -39,212 | -96,897 | 57,685 | 616,882 | 439,631 | 177,251 | 656,094 | 536,528 | 119,566 |
| January | -2,026 | -6,952 | 4,926 | 50,251 | 35,498 | 14,753 | 52,277 | 42,450 | 9,827 |
| February | -831 | -5,593 | 4,762 | 51,682 | 36,854 | 14,828 | 52,513 | 42,447 | 10,066 |
| March | -2,641 | -7,355 | 4,714 | 50,294 | 35,711 | 14,583 | 52,935 | 43,066 | 9,869 |
| April | -3,109 | -8,284 | 5,175 | 50,302 | 35,439 | 14,863 | 53,411 | 43,723 | 9,688 |
| May | -3,919 | -8,720 | 4,801 | 50,044 | 35,403 | 14,641 | 53,963 | 44,123 | 9,840 |
| June | -2,824 | -7,538 | 4,714 | 51,727 | 37,099 | 14,628 | 54,551 | 44,637 | 9,914 |
| July | -2,781 | -7,433 | 4,652 | 52,533 | 37,753 | 14,780 | 55,313 | 45,185 | 10,128 |
| August | -4,455 | -9,317 | 4,862 | 50,940 | 36,051 | 14,889 | 55,395 | 45,368 | 10,027 |
| September | -3,530 | -8,451 | 4,921 | 51,984 | 37,043 | 14,941 | 55,515 | 45,495 | 10,020 |
| October | -3,520 | -8,354 | 4,834 | 53,035 | 37,997 | 15,038 | 56,556 | 46,352 | 10,204 |
| November | -3,968 | -8,714 | 4,746 | 52,246 | 37,519 | 14,727 | 56,214 | 46,233 | 9,981 |
| December | -5,603 | -10,185 | 4,582 | 51,843 | 37,264 | 14,579 | 57,446 | 47,449 | 9,997 |
| **2008** | | | | | | | | | |
| Jan.- Dec. | -695,937 | -840,252 | 144,315 | 1,826,596 | 1,276,994 | 549,602 | 2,522,532 | 2,117,245 | 405,287 |
| January | -61,486 | -73,922 | 12,437 | 149,272 | 103,776 | 45,497 | 210,758 | 177,698 | 33,060 |
| February | -61,749 | -73,349 | 11,600 | 151,618 | 106,795 | 44,822 | 213,366 | 180,144 | 33,222 |
| March | -59,420 | -71,574 | 12,155 | 150,400 | 105,066 | 45,334 | 209,819 | 176,640 | 33,179 |
| April | -62,141 | -74,567 | 12,426 | 154,832 | 108,969 | 45,863 | 216,973 | 183,536 | 33,437 |
| May | -60,528 | -73,709 | 13,182 | 156,631 | 109,523 | 47,108 | 217,158 | 183,232 | 33,926 |
| June | -60,177 | -73,220 | 13,043 | 161,628 | 114,384 | 47,244 | 221,805 | 187,603 | 34,202 |
| July | -64,891 | -77,248 | 12,357 | 164,427 | 117,227 | 47,201 | 229,318 | 194,475 | 34,843 |
| August | -60,913 | -72,179 | 11,267 | 161,653 | 114,661 | 46,992 | 222,565 | 186,840 | 35,725 |
| September | -60,140 | -71,662 | 11,523 | 151,984 | 106,025 | 45,960 | 212,124 | 177,687 | 34,437 |
| October | -59,389 | -71,393 | 12,004 | 149,708 | 103,831 | 45,877 | 209,097 | 175,224 | 33,873 |
| November | -43,247 | -54,269 | 11,021 | 141,525 | 97,545 | 43,980 | 184,772 | 151,813 | 32,959 |
| December | -41,858 | -53,159 | 11,301 | 132,919 | 89,193 | 43,726 | 174,777 | 142,352 | 32,425 |

*(1) Data presented on a Balance of Payments (BOP) Basis.*
*Source: U.S. Census Bureau, Foreign Trade Division.*

But US seems it have learned its lesson. US realized that a weak dollar doesn't necessarily mean reducing the trade deficits. *Cheap money can buy only cheap things*. The only thing we have to add is that – because the US Dollar current international status as world's reserve currency – US Federal Reserve has been afforded to print tremendous amounts of fiat money, and *that's what created both the housing bubble and the huge trade gaps.* In spring this year we've been noticing some smart moves made by US. First, both FED and US Treasury have realized that US simply *could not* (and *should not*) a new China, hence, as first step, it has, someway-somehow, to invest overseas while continue to ease tensions on its own credit and capital markets. And it seems it has found some kind of solution to this problem.

FED have started some significant "quantitative easing" actions designed to inject some significant amounts of cash on the markets in order to revive the credit markets and the lending activity. Meanwhile the IMF (in which US is the main shareholder!) decided to lend money, especially to the Eastern Europe emerging economies but not only. Great investors like Warren Buffet and George Soros heavily criticized the FED action but they really meant what they said?! Among other issues they raised they were saying that, far from resuming the lending activity in the business sector, this move will only artificially and temporarily revamp the price of assets and of goods and services – finally conducting to inflation without gains in productivity (stagflation).

We argue that, at least for the time being, inflation is out question in US. We have only to remind that both values of PPI (Producer Price Index) and CPI (Consumer Price Index) were showing in recent months that inflation is well contained. More else, PPI has known its first Y/Y decline since 1955. Also, we have to add to the picture that for the month of April 2009 we've just seen a monthly decline in the CPI number (-0.1%M/M) and only a modest increase in the PPI number (+0.1M/M) while in their Y/Y dynamics both numbers have shown sharp year/year declines (source: www.money/cnn.com ):

- April PPI Y/Y: - 3.6%
- April CPI Y/Y: - 0.4%
- August PPI Y/Y: - 6.4%
- August CPI Y/Y: - 1.9%

Also, we have to say that the recent monthly job losses in US were huge indeed and that could mean everything (anything!) but inflation. In the last three months we've seen dramatic declines in the non-farm payrolls number as well as well as in the jobless rate number (source: www.money/cnn.com ):

- August non-farm payrolls M/M: actual: - 247.000; consensus forecast: - 247.000;
- August jobless rate: actual: 9.4%;consensus forecast: - 300.000;
- April non-farm payrolls M/M: actual: - 663,000; consensus forecast: - 650,000 ;
- April jobless rate: actual: 8.5% in line with expectations;
- March non-farm payrolls M/M: actual: - 651,000; consensus forecast: - 648,000;
- March jobless rate: actual: 8.1%; consensus forecast: 7.9%.

So, assuming that all money released by FED is to have the US economy as destination, still we don't see any inflationary pressures to develop at least for the next 6 to 12 months ahead. But, the key issue here is the money resulting from this quantitative easing action taken by FED has not US economy as main destination! The last G20 meeting (April the 2nd 2009) has given free way for 500 billion dollars at the IMF disposal in order to help emerging economies.

We did notice that the main contributor - as a sovereign country – to this kind of "world stimulus package" is, actually, the United States of America (100 billion dollars)! So, US are due to become the main creditor of the world, but in a very strange way – and that because US is also the main debtor of the world. *So, some third of those 300 billion dollars released by FED by purchasing long term T bonds are actually designed to finance emerging economies.*

## 3. CONCLUSIONS

At the last G20 meeting, the status of the US Dollar as world's reserve currency was subject of serious discussion actually for the first time in the post World War II era. It seems, in the aftermath, that America has learned its lesson in recognizing that the "laissez-fair economic policy" and excessive deregulation in the banking system were mistakes. US wants to puts an end to the "consumerism era" and to put its economy back on track by regaining in terms of productivity in order generate a new kind of growth based more on added-value and less on assets. The ignition of such a process seems to be this main contribution it made to the IMF efforts in assisting emerging economies. These economies will restart to re-think their own kind of growth and are suppose to buy more capital goods "made in USA" and, so, lifting more pressure of its already 6 months sharp narrowing trade deficit.

Growing demand overseas for US made goods and services will stimulate the entire business sector and the US economy will start to generate some new and fresh liquidities. We also have to add to the picture that the average American homeowner will never-ever spend (especially on imported goods) the way he or she has done in the last decade. The US dollar is due to remain weak, at least for a while, and that will also be a "plus" for the American international trade position. As the US international trade will improve, this country will start to pay down its national debt. The US economic growth engine will never be the same it was in the last four decades. The work will be re-priced (and *re-prized*!) as well as capital gains. Last numbers, showing sharp declining US trade gap this year, seem to confirm this trend (Tab. 3, source: www.money/cnn.com):

**Table 3. US trade deficit**

| Month | US trade deficit (Billions of US Dollars) |
|---|---|
| June 2009 | - 27.00B |
| May 2009 | - 26.00B |
| April 2009 | - 28.50B |
| March 2009 | - 27.50B |
| February 2009 | - 26.00B |
| January 2009 | - 36.00B |

Our guess is that “easy money policy” will reach its end sooner rather than later and that because *the US economy has an enormous potential of growth*. In this kind of respect we have to remind that this economy produced reasonable growth at 140 – 150 dollars/oil barrel and the recent sharp decline in oil prices has created a huge “productivity reserve” by diminishing energy costs in the entire US business sector. So, the profit margins will benefit, too.

On the other hand, we have to notice that US is actually the only country being in a position to lend money to the world (and so, being an important *world investor*), directly or via IMF, with no bad effects on its own economy. That could happened because any other big dollars detainer (big exporters like China, for example, that has the US dollar as main currency in its reserves and continues to buy US debt) that eventually has intended or do intend to lend US dollars to the world will reach nothing but undermine its own economy by putting down the value of the dollar and diminishing its own reserves. *As many analysts already noticed, big exporters like China have created economic engines for nothing!*

Also, we have to add that the US capital markets are the most liquid, the largest and the deepest in the world. These capital markets assure large doors for good capital coming to US as well as large doors for insane capital leaving US. In this kind of respect we have to notice that US Treasury made its moves by using market instruments while the FED’s quantitative easing measure is, basically, an open market action. The US economy is an innovation-based, versatile, and very dynamic one. Its workforce is the most flexible and mobile in the world. By re-thinking the capital distribution and re-pricing work, the US government will encourage the development of new products (goods and services) with good outcomes in terms of productivity gains. As we’ve noticed earlier, the average American consumer’s behaviour has changed dramatically in recent months and is due to continue this way. As the Americans will start to leave the consume-on-debt behaviour by dropping down their credit cards and to save more, the behaviour of the banking system will also change by switching from finance consumption to finance investment-based activities.

It’s time to remind that US still has the most powerful and prestigious academic system in the world. Its well-known universities (MIT, Harvard) are still the places where the world top researches do work and put out their results. It is to expect that some of those results will soon reach some interests in the economy and will attract investments in order to create those new products we were talking about.

At the last G20 meeting the American voice was a little bit milder than usually, but, while the US dollar is contested indeed but nobody sees a valuable replacement for it, US is to remain the largest and the most powerful economy in the world and, of course, it will use the power of the dollar as the single world reserve currency.

The last FED action will relieve the world economic tensions and will be a support for growth to the developing countries (like Romania!). Those countries will start to consume more than they do now and the IMF will watch closely to their economic policies, avoiding mistakes made in the past. The world has changed dramatically in recent months but the economic laws remain, basically, the same.

The economic war will (call it “global restructuring” scenario!) continue in reaching worldwide dimensions that world has never seen before. The US economy will face fierce challenges in fighting with its deficits but exporters like China and – why not ?! - Germany will face even tougher tasks. These big exporters have built their economic policies on the assumption that the US consumption market is kind of "black hole" and is to remain this way forever. They were deadly wrong – Germany output has already fallen 6% Y/Y and China's recent slowdown has never been seen in the last two decades. Oil exporters like Russia and Arabic countries that built their economic plans and budgets assuming the oil price will remain above 100 US dollars/barrel will also be in trouble. The US mood to consume-on-debt has change dramatically. The world economy itself is about to experience dramatic changes. One thing will remain in place, at least for the foreseeable future: the US Dollar will remain the world reserve currency.

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