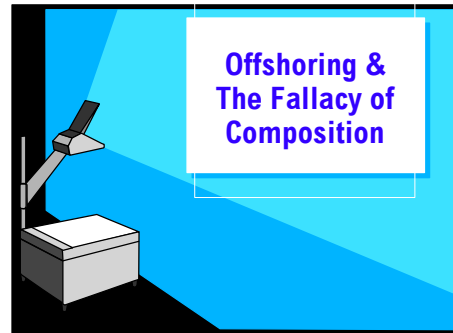


A Systems Thinking Perspective on "Trade"

Mfg Task Force, 5/5/05

Bob Powell, Ph.D. MBA
Continuous Improvement Associates
E-mail: scuba@usa.net Tel: 719 599-0977
Web: exponentialimprovement.com

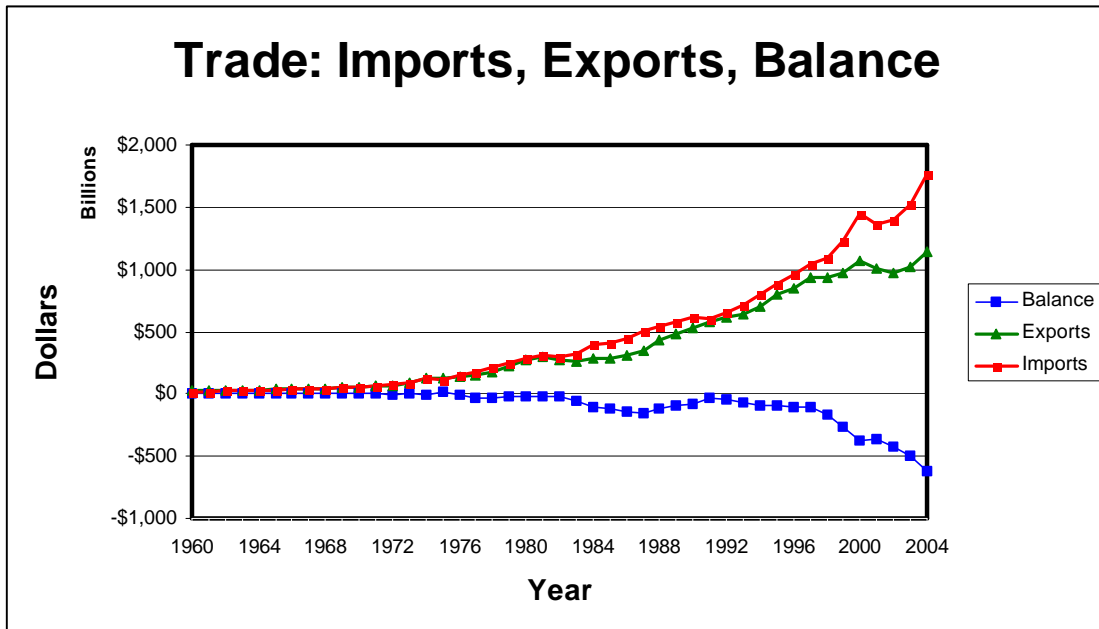


Outline

- Trade Data and Trends
- The Fallacy of Composition
- Trade Dynamics

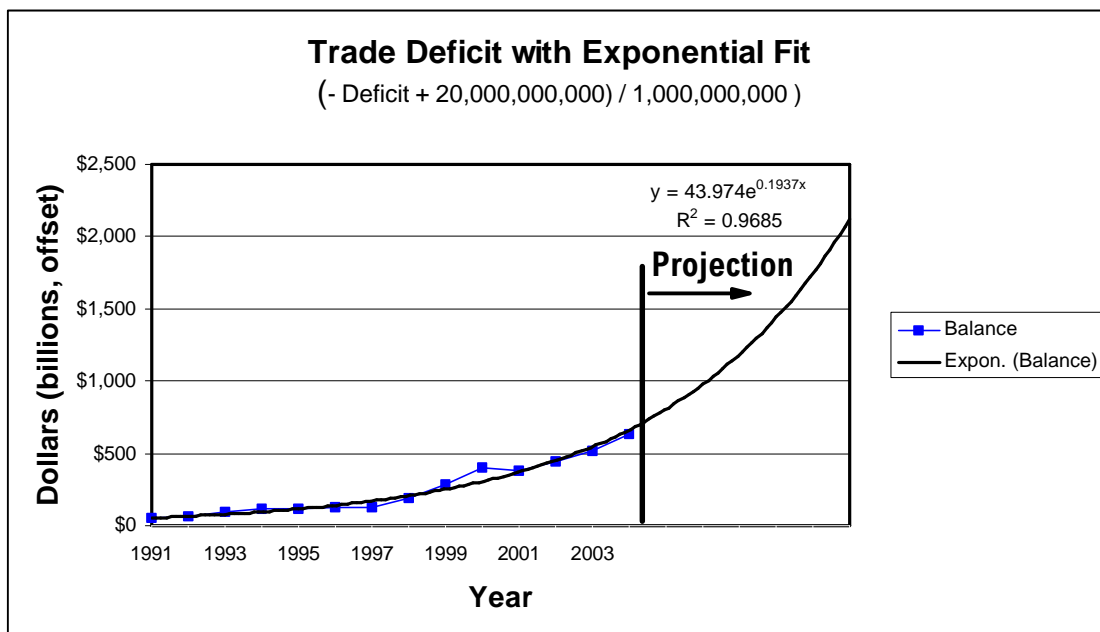
- Note:
 - "Trade" is the "exchange of one thing for another"
 - ... it's not the "transfer of the factors of production"
 - ... we're addressing a larger issue than simple trade.

Trade Trends - Growing Deficit

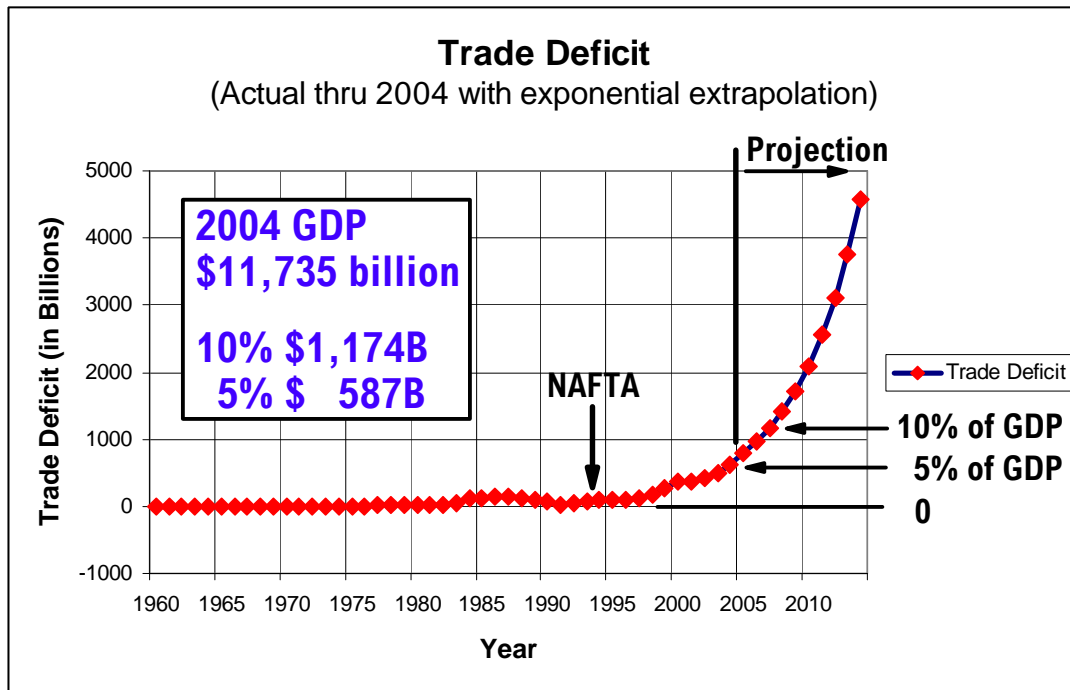


* <http://www.census.gov/foreign-trade/statistics/historical/gands.txt>

Trade Deficit - Extrapolation Forward from 2004

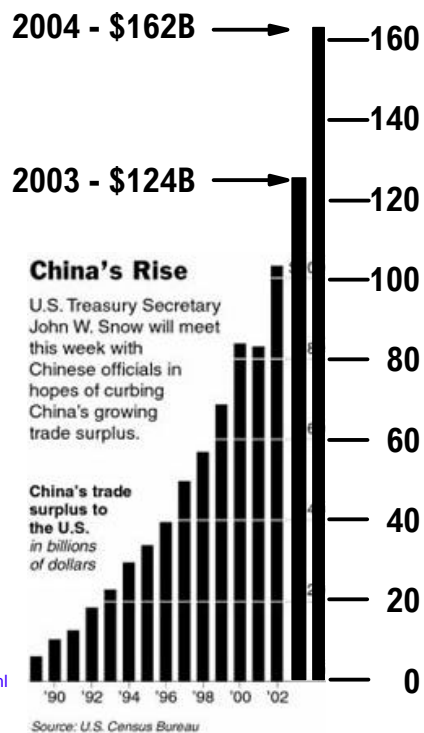


Trade Deficit Actual & Projected



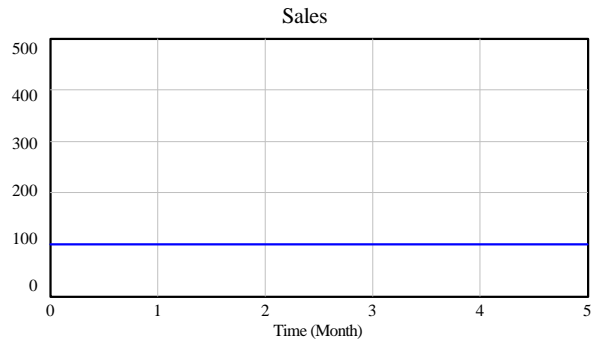
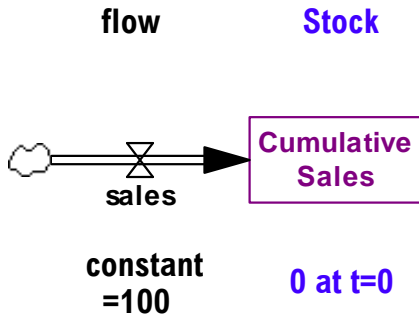
Trade with China

- 1980 - China first got Most Favored Nation (MFN) status
- MFN renamed to NTR (Normal Trade Relations)
- 2000 - China granted Permanent NTR (PNTR)
- Dec 2001- China granted Entry into WTO

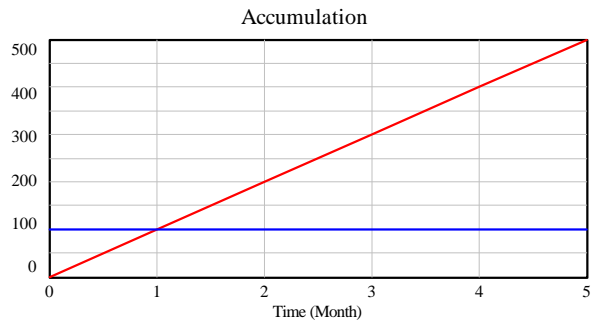


Graph: Joseph Kahn, "China Seen Ready to Conciliate U.S. on Trade and Jobs," 9/02/03, New York Times, <http://www.nytimes.com/2003/09/02/business/02CHIN.html>

Stock & Flow Diagrams and Accumulations

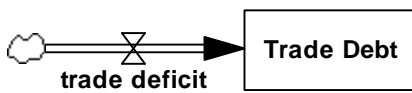


sales : Current — Widgets



sales : Current — Widgets
Cumulative Sales : Current — Widgets

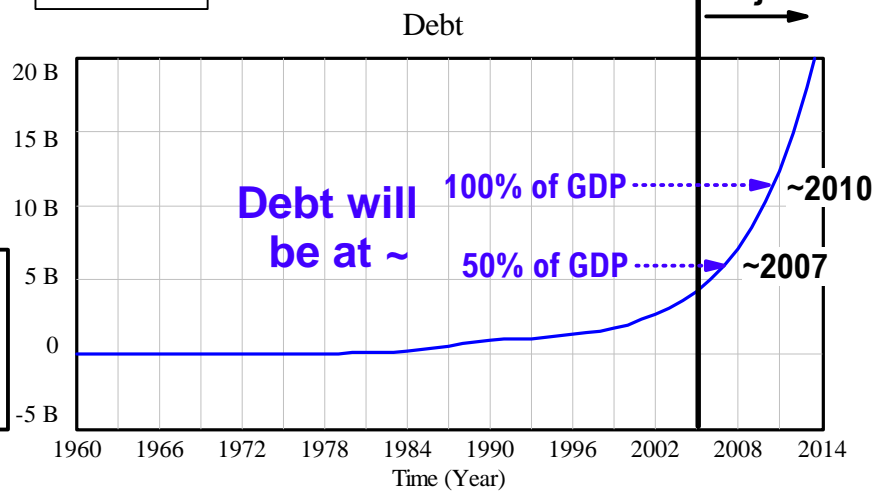
Accumulated Deficit = Debt



S
deficit data *

2004 GDP
\$11,735 billion

10% \$1,174B
5% \$ 587B



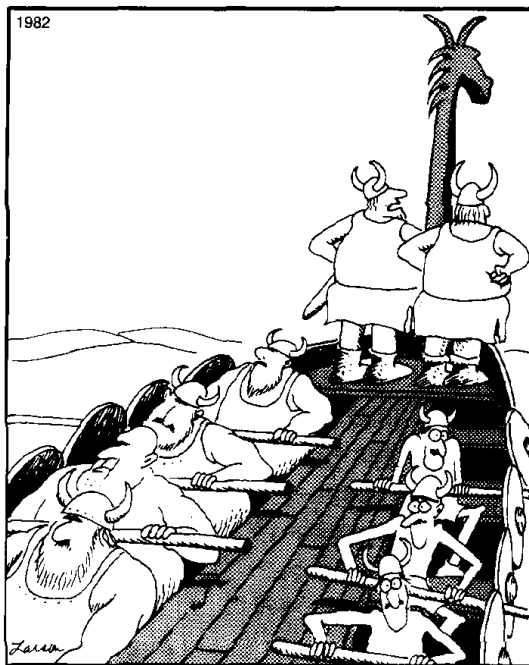
Trade Debt : Current —

* <http://www.census.gov/foreign-trade/statistics/historical/gands.txt>

To Understand What's Going On

- **Use Systems thinking:**
"Seeking to understand system behavior by examining "the whole" ... instead of by analyzing the parts."
- **Key systems principle:**
Behavior is a result of structure
- **So when we see exponential growth, we ask:**
What's the reinforcing feedback driving it?

An Example of Structure



"I've got it, too, Omar... a strange feeling like we've just been going in circles."

understand
structure



understand
behavior



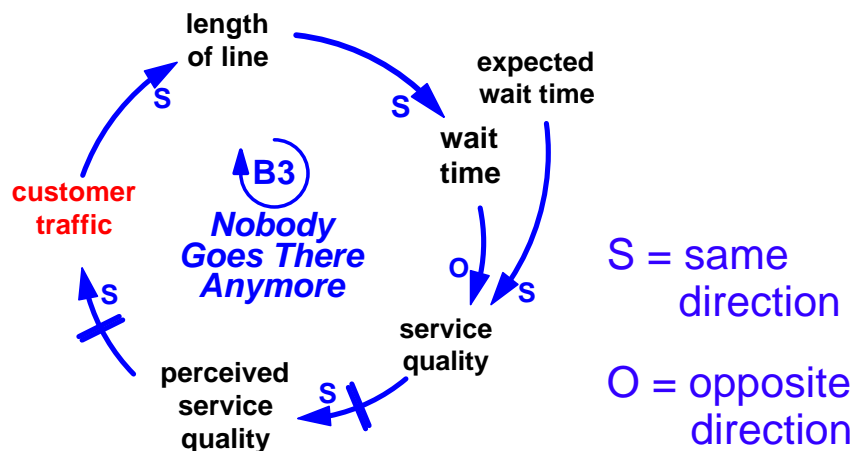
design
policy

To Understand What's Going On

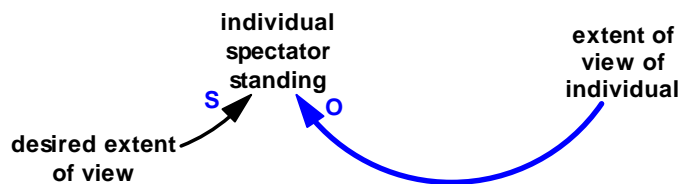
- **Fallacy of Composition:**
"When we act as if what is true for a part is true for the whole."
- **Examples of the Fallacy:**
 - Spectator view of the field
 - Ocean fishing
 - Offshoring
- **Individually logical actions can be collectively irrational.**

A Popular Restaurant

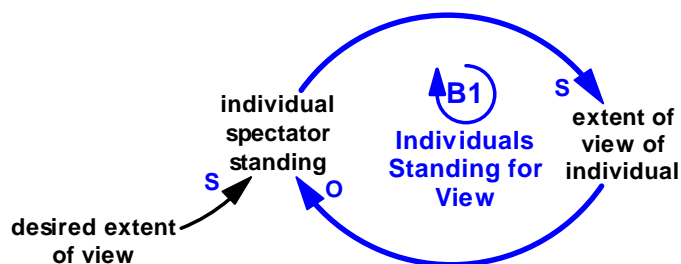
- "That place is too popular.
Nobody goes there anymore." Yogi Berra



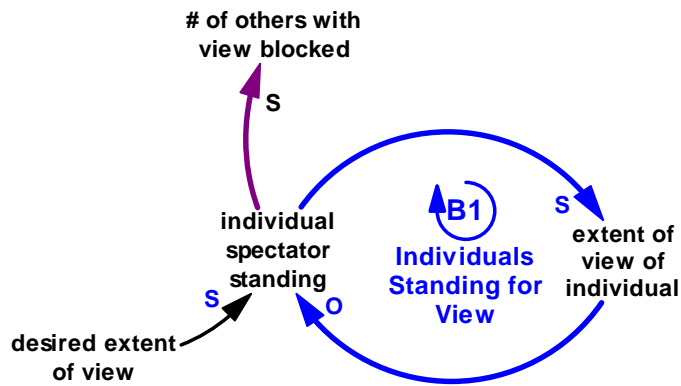
Spectator View of Field - individuals stand when sitting doesn't provide the desired extent of view



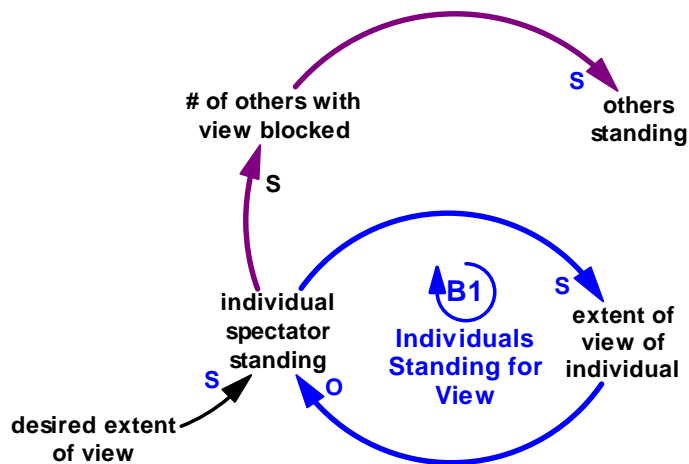
Spectator View of Field - they improve their view by standing



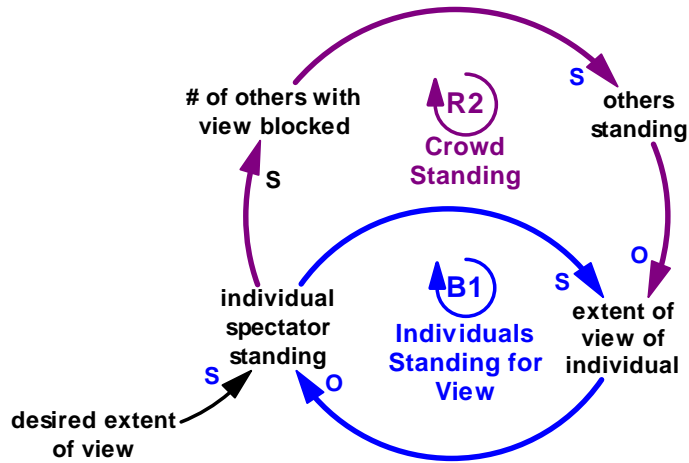
Spectator View of Field - but block the view of others



Spectator View of Field - so others stand as well



Spectator View of Field - which blocks the view of even more individuals

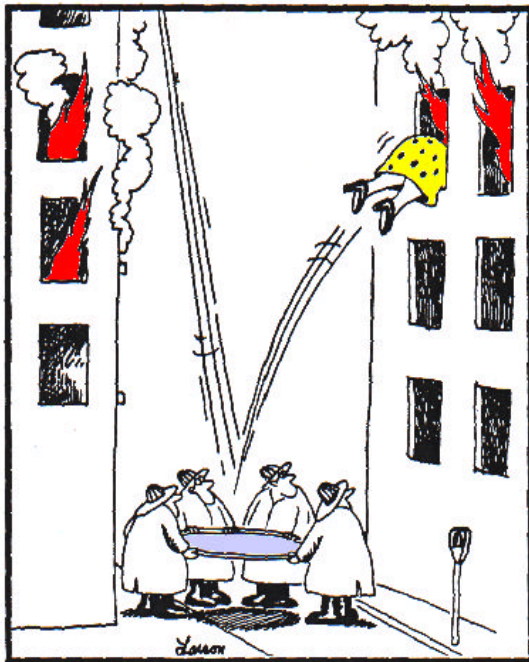


When everyone's standing no one can see better than before

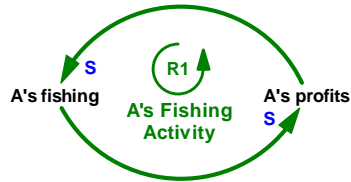
... and the whole is less efficient

... because standing takes more energy than sitting.

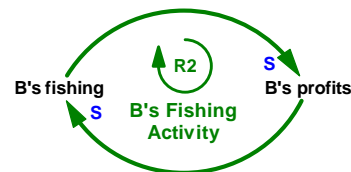
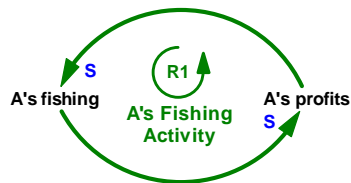
Also Known as a "Fix that Fails"!



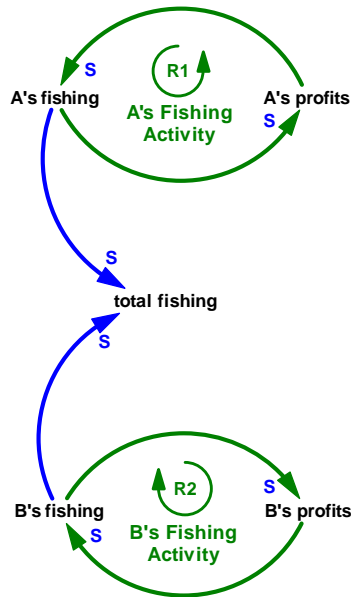
Ocean Fishing - A puts out more boats



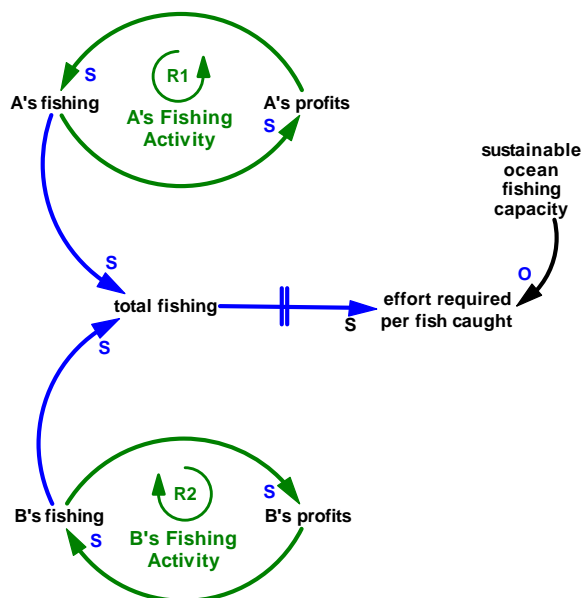
Ocean Fishing - and B puts out more boats



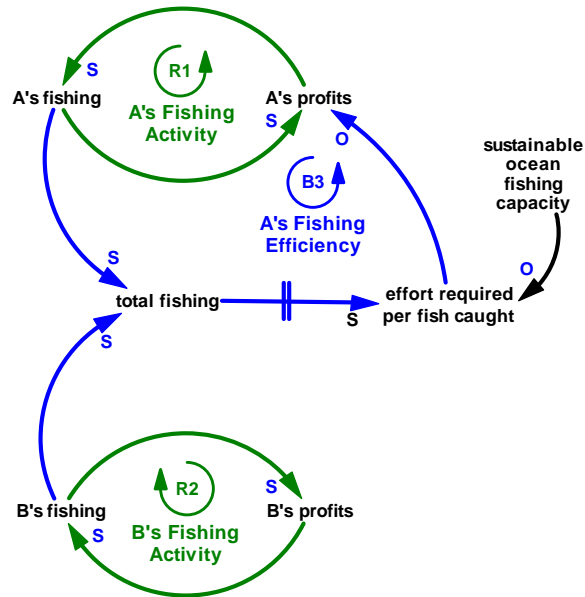
Ocean Fishing - leading to more total fishing



Ocean Fishing - that requires more & more effort



Ocean Fishing - reducing A's profits



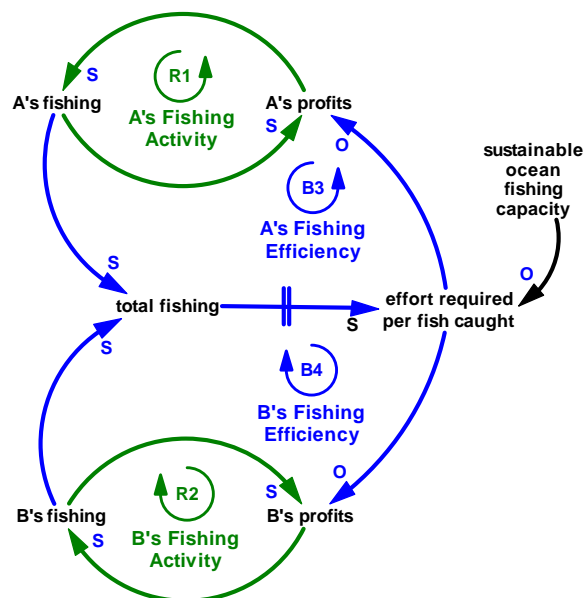
Ocean Fishing - and reducing B's profits, too.

Every fisherman
logically puts out
more boats

... depleting the
overall resource,

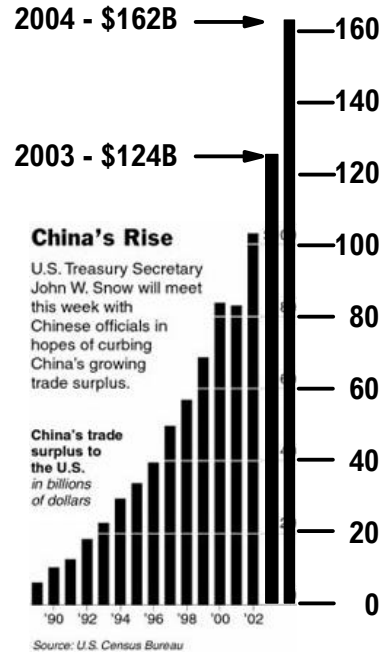
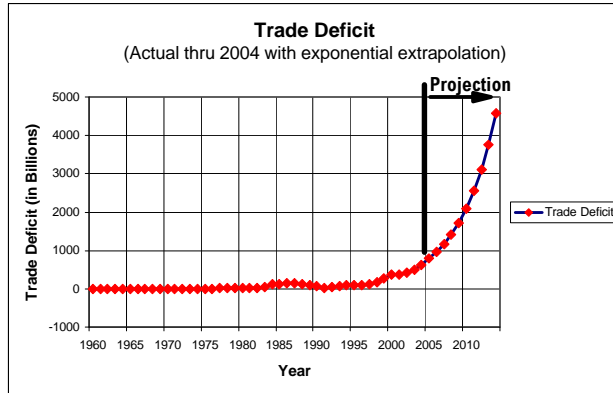
... and all are less
efficient.

Plus, scarcity drives
up price, sending
exactly the wrong
signal to preserve
the resource.



So Why is the Trade Deficit Growing Exponentially?

- When we observe exponential growth we know a reinforcing feedback is responsible.
- What is it?



Offshoring - a context of oversupply and price competition



The Chicago Tribune, four-part series: "The economics of glut."

December 15, 2002 through December 18, 2002 at:

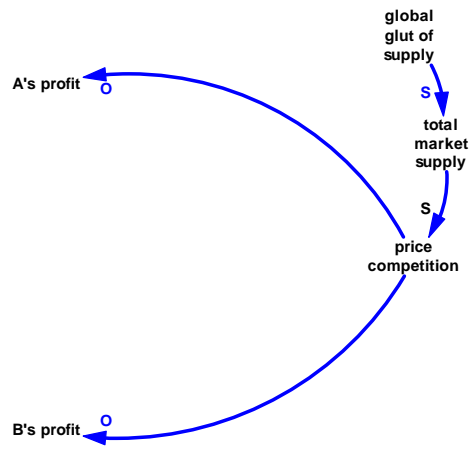
<http://www.chicagotribune.com/business/chi-021215glut,1,4874700.storygallery?coll=chi%2Dnewsspecials%2Dhed>

Overcapacity Stalls New Jobs By LOUIS UCHITELLE, October 19, 2003

<http://www.nytimes.com/2003/10/19/business/19SOAP.html>

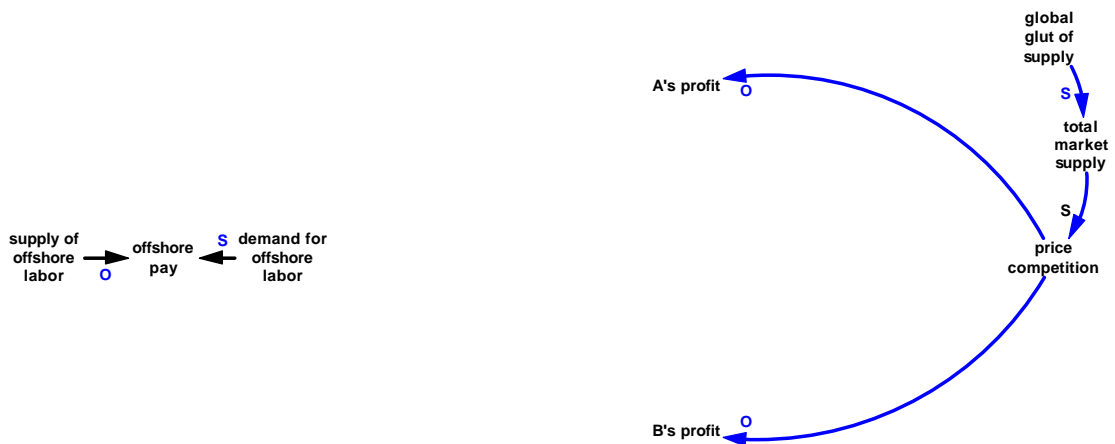
Offshoring

- price competition reduces profits

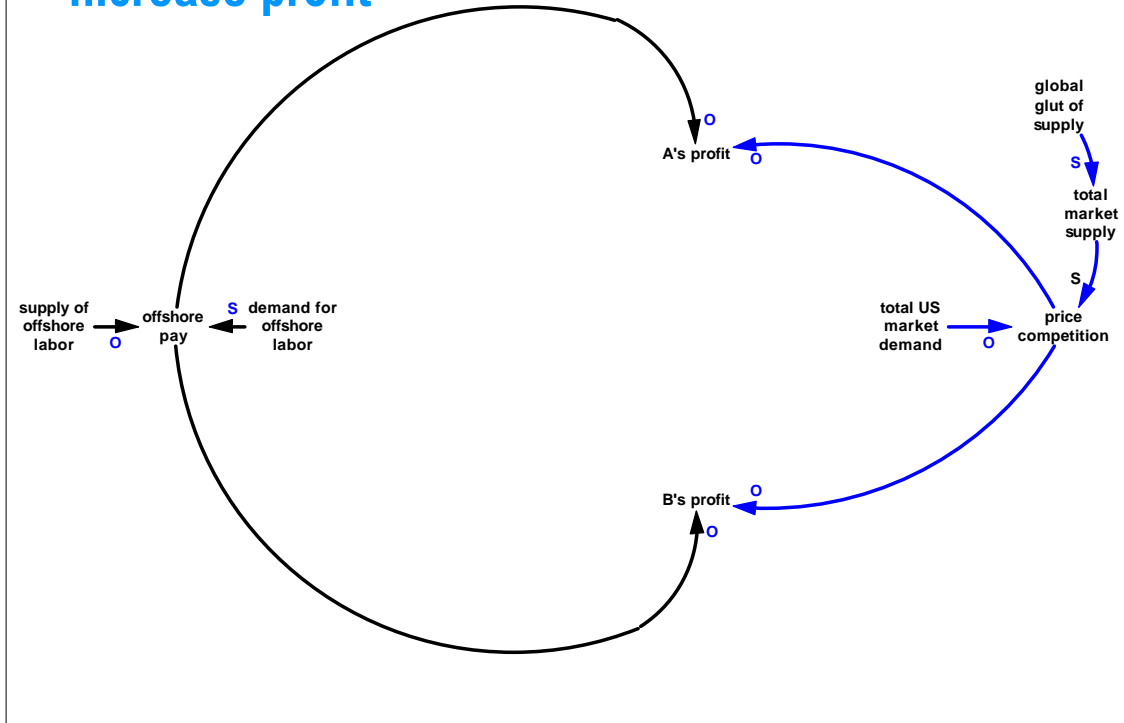


Offshoring

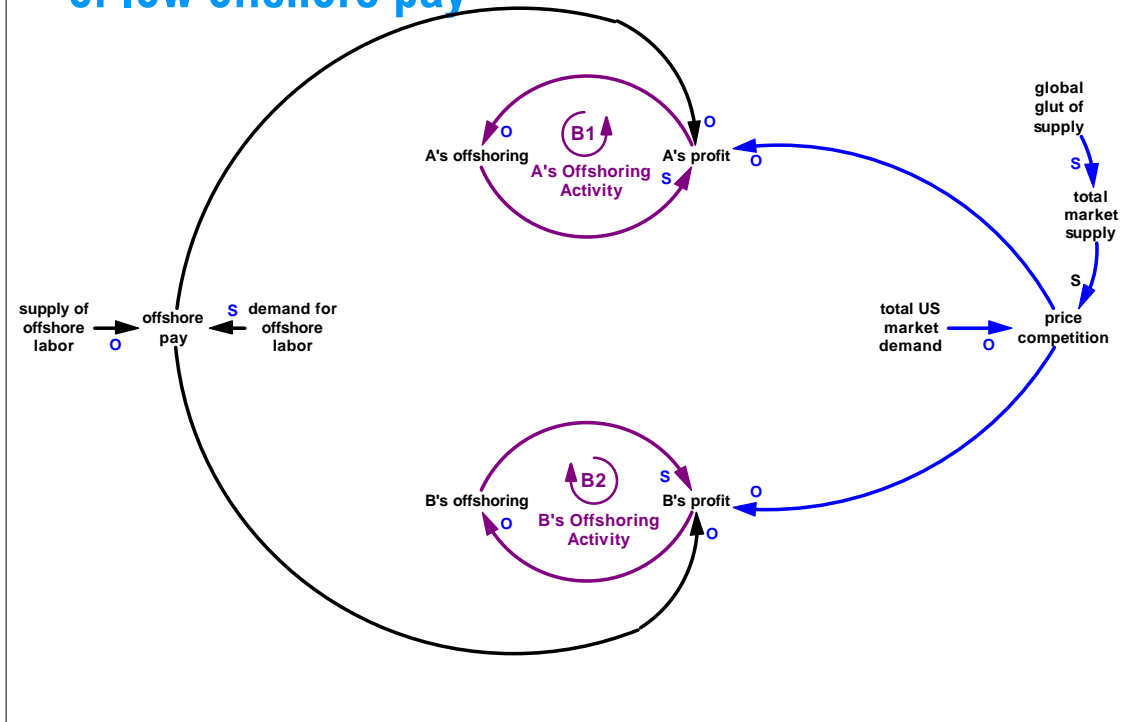
- also a context of low offshore pay



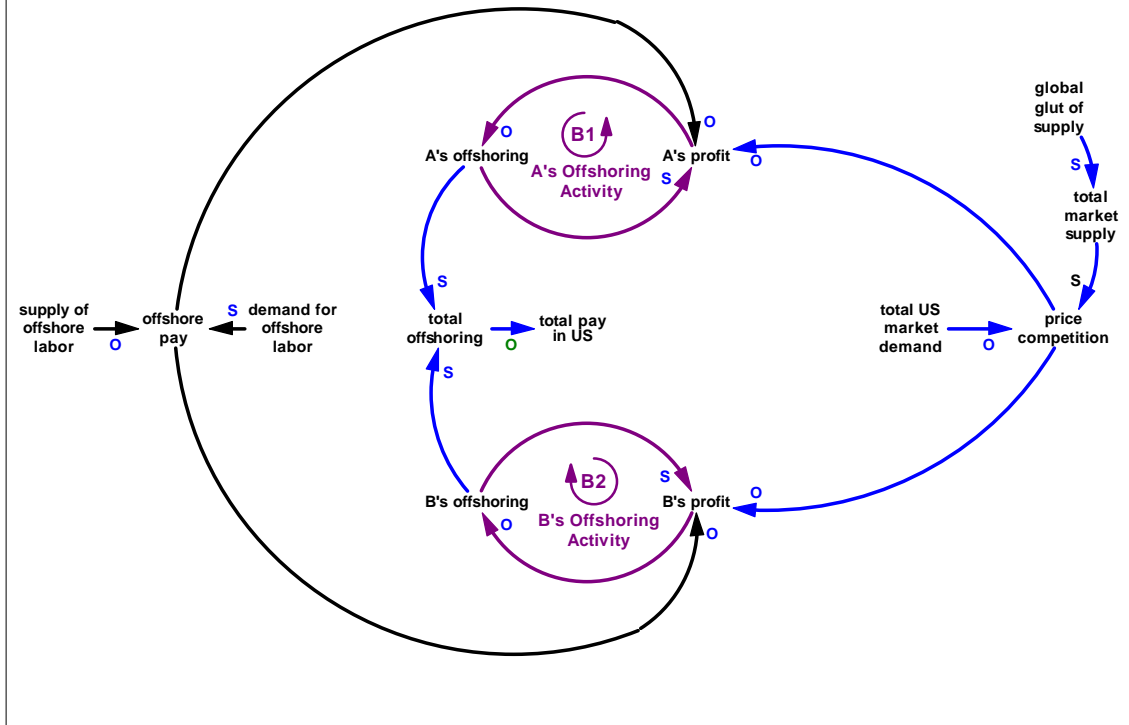
Offshoring - offshoring can cut costs & increase profit



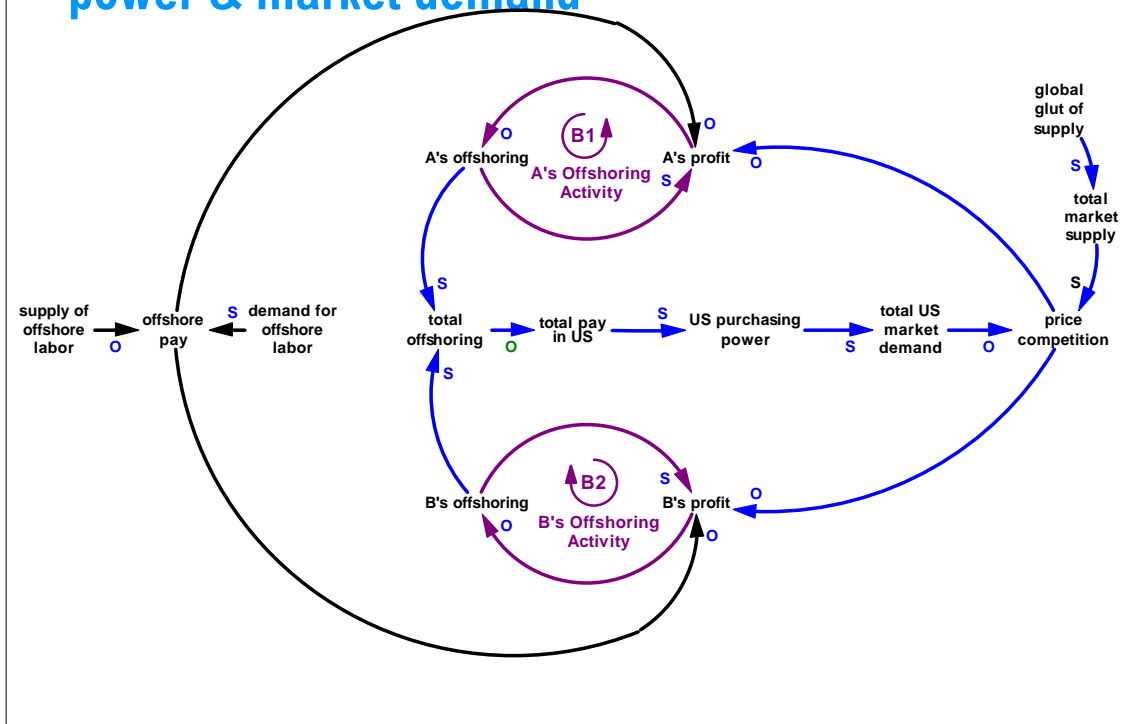
Offshoring - offshoring to take advantage of low offshore pay



Offshoring - reduces total pay in US



Offshoring - reduces US purchasing power & market demand



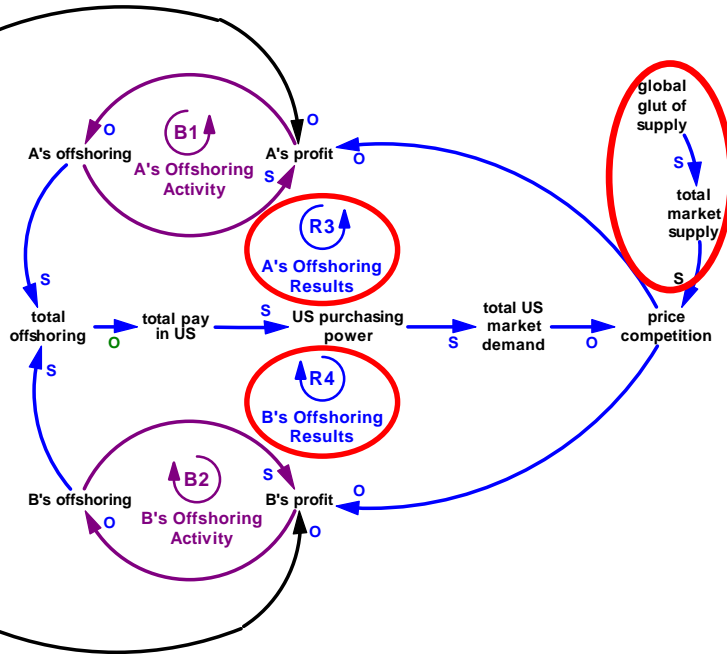
Offshoring - driven by offshore pay and global glut, reinforcing feedback powers offshoring

Every company logically offshores to cut costs ...

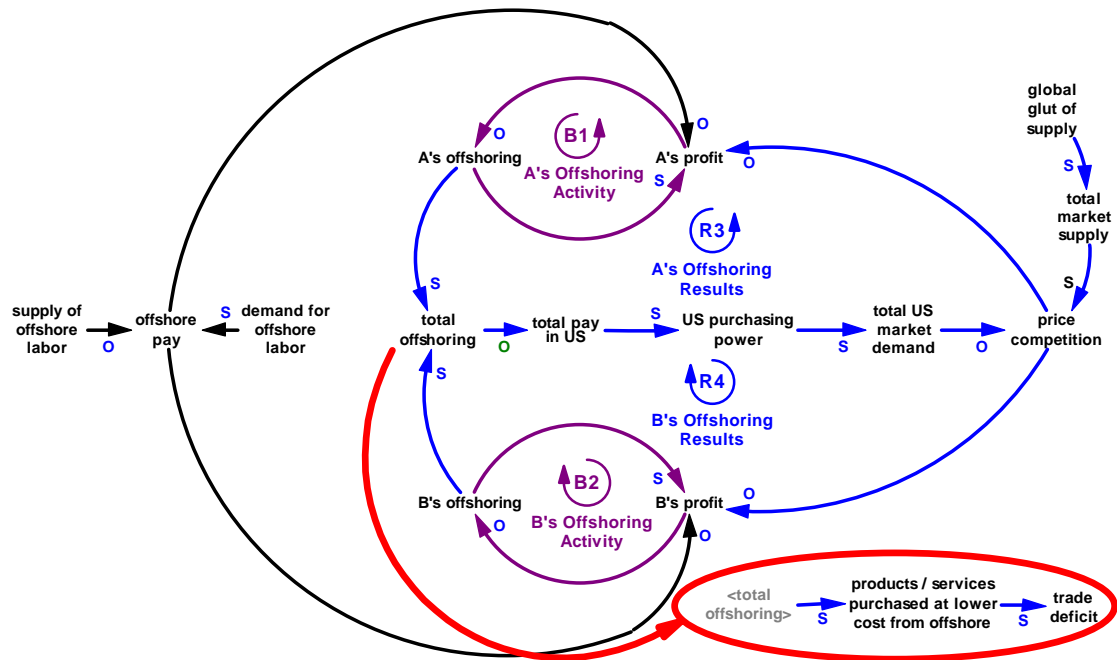


... but when all do, none have lower costs than others

... & US purchasing power erodes, undermining the whole.



Offshoring - linked to trade deficit

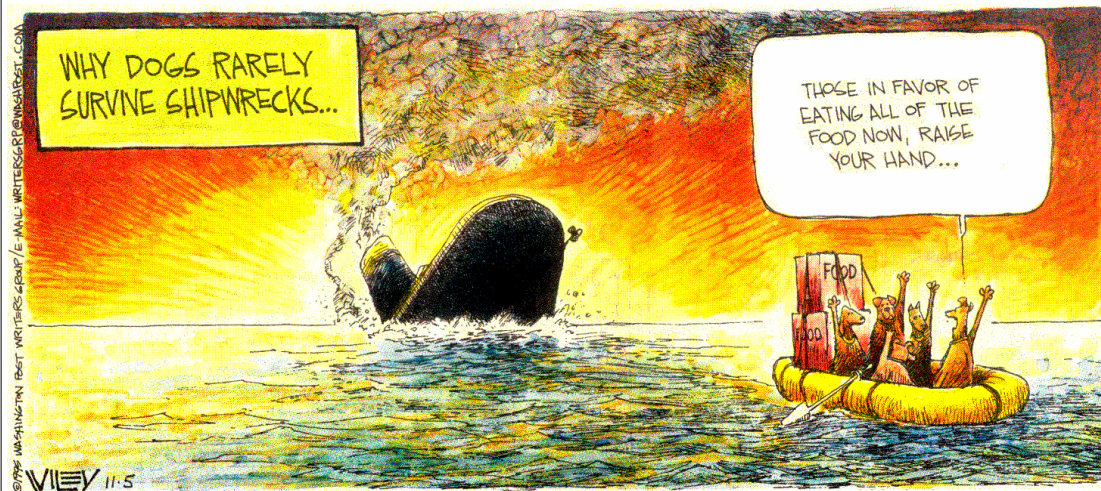


Offshoring - Summary

- Reinforcing feedback will continue long as
 - there's a global glut of supply relative to demand
 - large US-offshore wage disparities exist
 - the US economy doesn't collapse
 - ... exponential increases are unsustainable
- What's individually logical can be collectively irrational.
- Note: Nations don't "trade" ... companies do. It's not their job to look out for the good of the nation; that's government's job.
- Exponential growth is slow at first
 - ... lots of frogs are being boiled ... for now!
- What to do? See papers at: exponentialimprovement.com
 - [A Systems Thinking Perspective on Manufacturing & Trade Policy](#)
 - [Why Offshoring is Economically Unsustainable](#)



Short-term thinking is Perilous



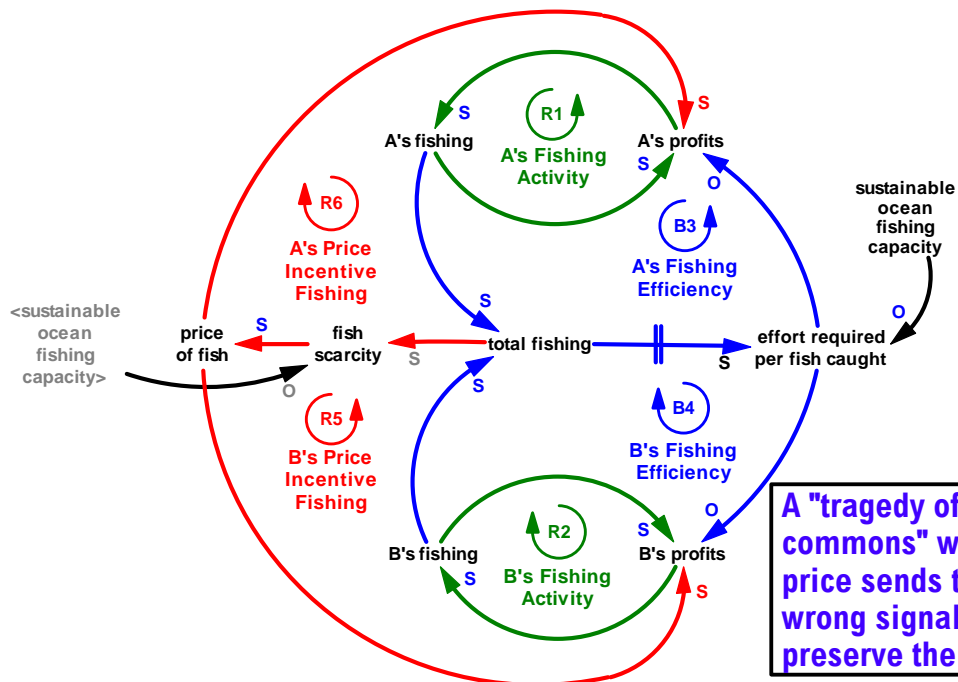
... a better idea is to take the long view ...

Systems Thinking: Good Catch!

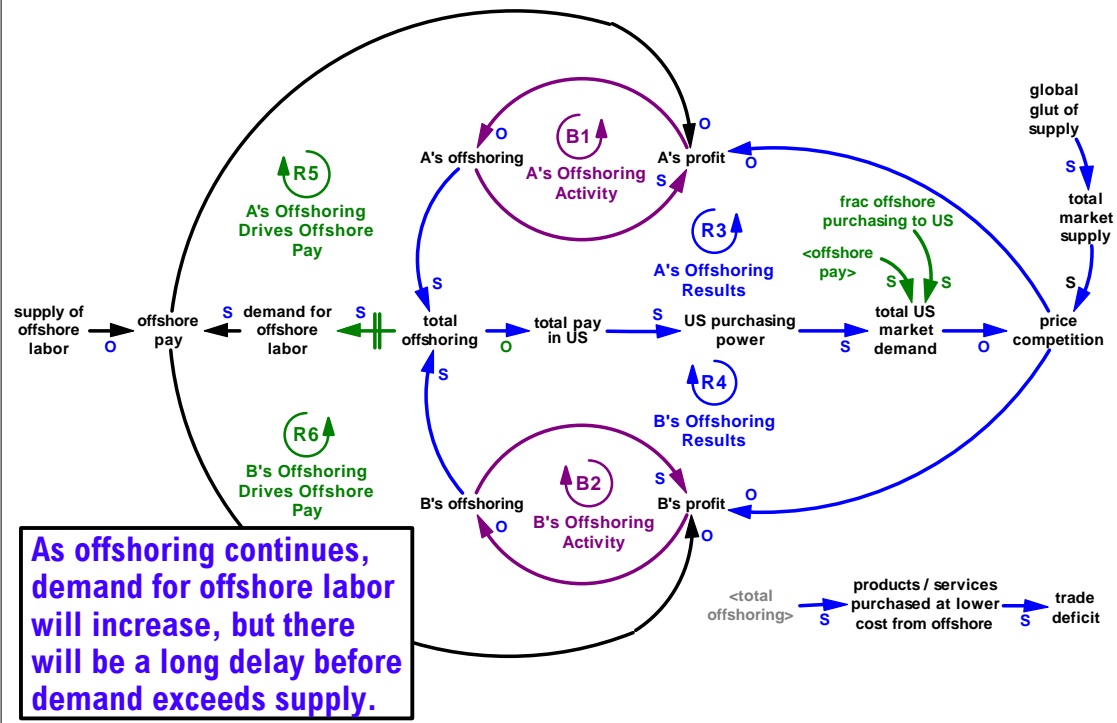


- Continuous Improvement Associates • E-mail: scuba@usa.net •
- Web: exponentialimprovement.com • Ph: 719 599-0977 •

Ocean Fishing - and more fishing by B



Offshoring



Wages

- "Using official Bureau of Labor statistics, Johns Hopkins University economist Arnold Packer calculates that employees' share of the value added in the U.S. economy has fallen to its lowest point since records were first kept in 1947 -- and the rate of decline is accelerating."

"Maybe We Could All Deliver Pizza . . . ,"

Jodie T. Allen, 3/06/04, The Washington Post,

<http://www.washingtonpost.com/wp-dyn/articles/A35469-2004Mar6.html>

- The recession in the U.S. has been over for more than three years. The economy has been growing at better than a 4% annual clip for the past two. Profits, at least until recently, have been up. Growth in worker productivity has remained strong. ... Yet wages for the typical worker aren't even keeping up with inflation. Wages are growing unusually slowly for this point in the economic cycle, especially given persistently strong growth in productivity ...

Workers' Wages Trail Growth in Economy By DAVID WESSEL

Wall Street Journal - April 21, 2005; Page A2