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Analysis of today
Assessment of tomorrow

By: Emre Alkin

Can Efficiency Help Us Reduce Current Account Deficits?

In the early 2000s, “supply chain management“ was the chief determining trend in world trade. Manufacturers would produce different components of a product in different parts of the world and put them together in a country with which they had a free trade agreement.

Things changed when the pandemic hit, and container charges rose from $500 to $14,000 each, forcing businesses to procure domestically produced goods or from nearby regions.

While the giant factories located on the farthest corners of the world suffered from low demand, medium-sized factories inconveniently close to the market failed to meet the demand, which led to the disruption of the supply chain and an incredibly rapid increase of prices.

Abnormal supply-demand behaviour, price distortions, and bankruptcies happened simultaneously in many industries.

The supply chains that actually needed to be restructured while things were calm have become “a task that needs to be done as quickly as possible“ after Russia‘s invasion of Ukraine.

But, this is not something you can rush into. It has to be handled very carefully. Quick and hasty are two completely different things.

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There is no solid basis for the western rhetoric of “we will kick China out of the game”. Thousands of European and American companies have manufacturing facilities in China and they do not want to leave. “Producing in the east“ is a strategic advantage. The digital giants have no intention of giving up on China, at least not for the moment.

Powerful countries know that

Meanwhile, the current account deficit is becoming an unstoppably major problem in developing countries.

Most countries, except for Saudi Arabia, Malaysia, Russia and China, are fighting a great battle to see their current account balance at the top.

Thailand is likely to run a current account surplus this year, so is Argentina, whilst Indonesia, Mexico, India, South Africa, Brazil, Poland and Turkey‘s struggle with the current account deficit will continue.

Turkey is the current account deficit champion of this entire group. That‘s why its national currency is under constant threat and depreciates against strong currencies.

want to gain a price advantage in foreign trade.

As budget deficits, which were a major concern before the pandemic, continue to grow larger lately, we see that countries are working to maintain their current account balance, trying to avoid double trouble.

As a matter of fact, commercially strong countries or those who try to get stronger, are ranked in higher positions in terms of the current account balance-to-GDP ratio.

It can be observed that developed economies such as Singapore, Hong Kong, Switzerland, United Kingdom, Netherlands, Germany, Sweden, Japan, South Korea, Australia, and Spain have been running a current account surplus since 2020, and Italy has also improved its economy this year.

The current account deficit is becoming an unstoppably major problem in developing countries many companies have mastered measuring and moved on to the efficient managing phase.

Obviously, maintaining a current account balance can be achieved with the efficient operation of all sectors. To this end, the government has to have a strong strategy, sectors have to take positions according to it, -and companies have to determine tactical operational actions.

This is not a problem that can be solved by increasing exports and reducing imports, which would evidently cause a larger current account deficit. Therefore, value is what is important, not quantity.

Perhaps the solution is that companies should focus on their core business and outsource the steps necessary for achieving efficiency.

In order for a company to survive in the market, it has to be strong in many fields, including production and sales, logistics, energy, advertising, financing, branding, design, R&D, innovation, and supply. It is not easy for medium-sized businesses both to ensure efficiency and manage risks.

Determining how to manage many functions, including energy, will perhaps be a vital element for companies in terms of running an efficient business

A study conducted in the US indicates that there will be more freelancers than payroll workers by 2027.

So, many departments, divisions or units will be removed from the organisational chart, and instead companies will outsource staffing and services.

Determining how to manage many functions, including energy, will perhaps be a vital

s economy, countries that are In today‘ dependent on imports for production inputs continuously face the peril of current account deficit.

It is clear that countries must review their supply chains and develop a national strategy as soon as possible.

Energy prices, which are one of the reasons s current account deficit, are also for Turkey‘ troubling the economy.

Price fluctuations in all energy sources from oil to natural gas worsen inflation as the price of electricity obtained from renewable resources is constantly going up due to growing demand.

s almost as if alternative energy is being used It ‘

merely to ensure “supply security“ and “environmental friendliness” . Perhaps it‘s because developing countries cannot quite grasp the importance of efficiency.

Measure efficiency to better manage your capability and performance

In developing countries, energy is not the first thing that comes to mind in achieving efficiency. Because in these countries, companies choose rather to focus on the productivity of staff and equipment in order to gain speed, stability and profit.

Most of the decisions and actions companies take are primarily aimed at cutting costs. When they are asked why they are using technology or why they are transforming themselves digitally, their answer is always the cost reduction” - whereas same - ” digitalisation should be used to process and measure big data.

As they say, “If you can‘t measure it, you can‘t manage it”, but not element for companies in terms of running an efficient business.

Current account deficit inevitably leads to the depreciation of the national currency, high inflation and high interest rates in developing countries.

Most evidently, as undermining free trade, devaluing the currency in order to grow stronger in international competition, imposing non-tariff barriers and other harmful practices is not the way to solve these problems.

The solution should be the proper restructuring of the supply chain, proper training of human capital, digital transformation, rational and useful government policies, effective end-to-end financing and logistics opportunities, and putting efficiency at the core of all these activities. Just notice what happens to those who seek solutions elsewhere.