Balance of Payments

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The balance of payments within a nation's economy represents that countries economic transactions with the world. The balance of payments plays a significant role in international trade, but also has microeconomic influence over local leadership and decision making. The foreign exchange market is similar the to the balance of payments regarding its impact on policy and decision making. This paper will explore the impact and effect these economic terms have on local and federal level decision making and political framework.

Balance of Payments

A balance of payments is similar to a bank statement. It represents a summary of all transactions between country A and the remainder of the world over a specific period of time. This transaction statement would include interactions between that nation and organizations within that country and any outside engagement including government bodies, individual companies, and individuals (Mukherjee, 2002). The balance of payment statement is a comprehensive summary of both imports and export of services, goods, capital, and transfer of payments. A balance of payments summary has four component accounts: (1) current account which covers imports and exports of goods and services, capital account, balances of current/ capital account and statistical discrepancy (Cowen & Tabarrok, 2015). Examples of transfer of payments may include foreign aid or fee payments sent to other countries and entities. Steven Suranovic (2004), explains when recording transactions on the balance of payment ledger, each side of the trade is documented with every financial exchange having a credit and debit notation of equal value. According to Suranovic (2004), a countries record of export is denoted by a credit (+) symbol while a debit (-) symbol identifies an import.

Sometimes a country may encounter balance of payments deficit, which is the result of a nation not being able to fund its imports through capital exports (Bellak, Leibrecht & Stehrer,

2008). With trade deficits, countries often encounter depreciation of its currency and fall in its reserves. Government leaders use intervention measures in the form of economic policies to reduce or increase a countries balance of payments. Some policies adoption are designed to attract sector-specific foreign investments, while others attempt to stimulate exports and build up currency reserves (Bellak et al., 2008). According to Tankersley (2018), President Donald Trump tried to narrow the United States trade deficit and gap by imposing stiff tariffs on aluminum and steel imports, m At the end of the quarter, the goal is to have a balance within the balance of payment. Scott Walla (2016), states, “Dollars that leave the U.S. to buy foreign goods, services, or assets find their way back to the U.S. economy to purchase U.S. goods, services, and assets.” As a deficit is created in one account, it is offset by a credit in another account.

Microeconomics and Leadership

Trade, globalization and economic policies generally are regarded as national issues, but their underpinnings are firmly rooted in local economies and carry significant implications for local communities. There are a number of consequences associated with a balance of payment deficit. These consequences are not only impactful on a macroeconomic scale but also affect local economies and influence response from local leadership. Local economy leaders are usually pluralized or a distributed system according to Robin Hambleton (2015), consisting of elected officials, public sector departments, individual firms, business leadership organizations, community organizations, and non-governmental sector partners. The process of governing involves a collaboration between municipal and many of the actors listed above as they play significant roles in the strategic direction and goals of local economies.

Economist Robert Scott testified before the U.S. Senate Finance Committee on June 11, 1998, identifying causes and consequences of U.S. trade deficits. Mr. Scott pointed out three

main implications of the trade deficits including a reduction in research and development, lowered workers wages and loss of manufacturing jobs. According to Scott (1998), millions of high-wage manufacturing jobs were eliminated because of the trade deficits, while wages for the remaining production workers were cut as the bargaining power evaluated with a treat of plant closures. As businesses relocated so did the need to investments in research and development resulting in stagnation of income and an economic plunge. Below is an example of how trade deficits affected a local economy and how its leaders pull together to restructure its economy. According to Heather Long (2016), the United States has lost 5 million manufacturing jobs since 2000. Akron, Ohio experienced an economic shift when its rubber manufacturing plants were bought out and relocated by foreign companies. In the1980's rubber and plastic manufacturing was responsible for 33% of Akron employment and 2,218.4 million dollars if its Gross Metropolitan Product. By 2007, those numbers have fallen dramatically to 15% manufacturing and 656.3 million Gross Metropolitan Product (Ledebur & Taylor, 2008). The consequences for the local economy included increase unemployment, increased poverty, population decline, infrastructure decline and housing and business vacancies (Greater Ohio Policy Center, 2016).

To address the economic downturn, Akron leadership restructured the Akron's economy by invested in Akron with job training grants, provided tax incentives, and renovation grants to entice private investment and new industry sectors. Akron now has diverse industry sectors including utilities, construction, transportation, finance and insurance, healthcare and social assistance, and professional scientific/ technical services (Greater Ohio Policy Center, 2016, Ledebur & Taylor, 2008). "Northeast Ohio has built on its historical manufacturing strengths; the region has become a technology leader in emerging industries like advanced energy, bioscience, flexible electronics and water technologies" (Bagley, 2013, pp. 2).

Foreign exchange Market and Organizational Leadership

For successfully global expansion and winning, organizations must use all the necessary skills, weapon and information available. Understanding the foreign exchange market and incorporating the knowledge as apart of an organization's business planning is a strategic tool in fighting for shares and profits in the worldwide market. The foreign exchange market is a worldwide marketplace were participants exchange, sell, and buy currency. The foreign exchange community is made up of national banks, central banks, investment management firms, commercial companies, hedge funds and brokers and investors of retail foreign exchange. The foreign currency exchange was created to facilitate the movement of money resulting from international trade (Fernandez, 2017). Foreign currency exchange can significantly impact corporations with a sizeable international business bottom line in pricing and cost production. For example, as the strength of the dollar increase, it causes a reduction in sales and earnings growth in the overseas operation market as price and cost production is affected.

According to Abraham George and William Schroth (1991), foreign exchange rates can significantly affect a company's market share, profit marking, cash flow and investor's perception which means effective organizational leadership needs to include foreign exchange management in their organization strategic plan. The strategic plan will require clear mandates from top management leadership as it will need cooperation across key sectors of the organization including financial and operating units (George & Schroth, 1991). For an organization to be successful in today market, its leader needs to have a global mindset.

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