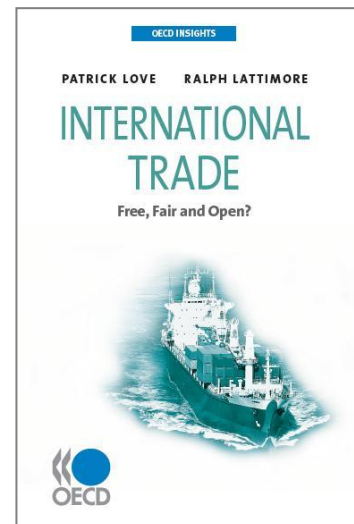


OECD Insights
International Trade: Free, Fair and Open?

Summary in English



- International trade influences a whole range of activities including jobs, consumption and the fight against poverty. It also affects the environment and relations among countries. In turn, trade is shaped by a host of influences ranging from natural resources to fashion.
- Trade-related issues can give rise to strong feelings, and trade measures such as limiting imports and exports are often called for to respond to major economic problems. An understanding of the benefits and downsides of trade, and of what trade policy can and cannot achieve, will help us to form our own opinions on debates about international trade.
- This book from the *OECD Insights* series looks at the forces shaping world trade and trade's impact on our lives and our societies.

Did you know?

- The share of world trade of OECD countries dropped from 73% in 1992 to 64% in 2008.
- If tariffs were eliminated worldwide, more than half of the benefit would go to developing countries.
- A 10% increase in trade is associated with a 4% rise in per capita income.
- The number of signatures needed to import goods varies from around 3 in some regions to 30 in others.
- On average, 95% of the food we eat is grown in the country where we live.
- When Adam Smith wrote *The Wealth of Nations*, the term “economics” didn't exist.

Global trade grew from around the equivalent of 40% of world GDP in 1992 to over 50% today. At the same time, the share of world trade of OECD countries dropped from 73% to 64%.

Trade affects practically everything we buy at some stage, and influences many aspects of our daily lives. Whether this influence is good or bad depends on how you look at things. Cheap products may be good for the consumer, but what about the people who make and sell them?

There are no simple answers to many of the questions raised by international trade. Trade can be a powerful force for positive developments, but it can also bring problems and uncertainties. It may not be the most important factor determining the prosperity of countries and people, but lasting prosperity is unlikely without it.

Evidence from the older industrialised economies and newer emerging ones bears this out. Trade must therefore be an important component in any overall economic strategy that aims to generate sustained growth and prosperity.

Trade can bring benefits through making available a larger number of goods, at lower prices, to a greater number of people. But larger, lower or greater than what? A modern economy without trade doesn't exist, so the comparison is difficult to make – but try to imagine a situation where the only goods or services you had available were the ones you provided yourself.

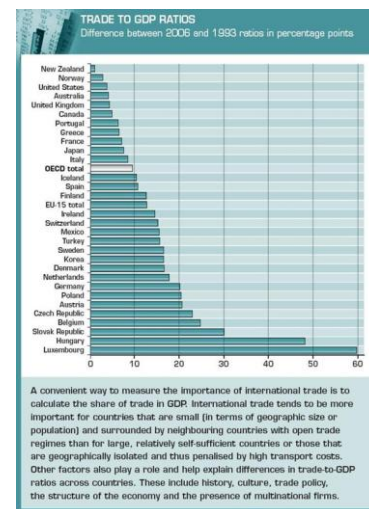
The opening of markets has boosted trade and economic growth worldwide in the past few decades. Yet tariffs – taxes imposed by importing countries on foreign goods – remain a key obstacle to market access. The OECD estimates that scrapping all tariffs on merchandise trade and reducing trade costs by 1% of the value of trade worldwide would boost global welfare by more than \$170 billion dollars a year, in some areas adding the equivalent of up to 2% to GDP.

Conservative estimates suggest there would be significant welfare gains for developing and developed countries alike. Under many scenarios, developing countries as a group could expect greater gains than the developed countries.

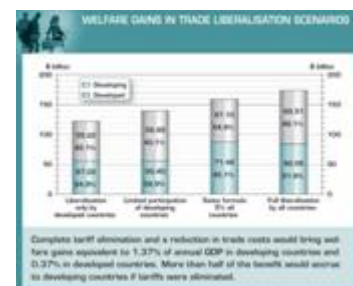
What gets traded and who trades it?

Every nation in the world participates in international trade to some extent. And practically every product is either traded or relies on components from international suppliers. Trade is not just about physical goods, though. Knowledge and experience can be bought and sold internationally as well. So too can the many services we rely on each day. The world's richest countries still dominate international trade, but their position is being challenged by dynamic economies in what is still referred to as the “developing world”.

Trade to GDP ratios



Welfare gains in trade liberalisation scenarios



Goods known in official statistics as “other primary materials” (such as oil and minerals) are among the most highly traded, and least subject to tariffs. There are two reasons for this. First, they are found in sufficient amounts in relatively few places so have to be imported by most countries. And second, they are vital to the rest of the economy, so taxing imports penalises all the other sectors.

The largest share of world trade in goods is in manufactured products and components (electronic goods, videos, automobiles, aircraft, machinery, chemicals, clothing, and so on). A large part of this trade is not in the final products you find on the shelves. In order to make the product it will actually sell, a manufacturing firm needs a number of components that might range from the highly sophisticated, like computer chips, to mundane plastic casings.

Physical production cannot be done without the logistics, accountancy, banking, personnel management and all the other services needed to support it. But that doesn't mean that all of those elements have to take place in the same location, and many services tasks are now done elsewhere. By their very nature, some services cannot be done abroad. Others can. But they can all be “traded”, by setting up a company in a foreign country for instance.

Does trade harm employment, the environment and development?

Jobs are created and lost all the time. When the jobs that are lost reappear again soon afterwards in another country, it can seem that international trade makes unemployment worse or that it makes jobs less secure and lowers wages. However, in the decades since World War II, OECD countries have benefitted immensely from openness, which has been associated with long-term increases in average real wages.

There is clear evidence that open economies achieve higher levels of economic growth. But trade is only one of many factors at play. A wide array of policies is needed to enable this growth, from education and health to infrastructure and innovation. Effective labour market policies are needed to ensure that the benefits are shared equitably.

Producing goods, consuming goods and moving goods all have an environmental cost that is rarely included in the price we pay. This is also true for trading goods internationally. But it is by no means always the case that a locally sourced product is more environmentally friendly than one that has travelled a long distance. Trade can also help to reduce the negative consequences of economic growth by making environmentally-preferable products and technologies more easily available.

The question is not whether trade damages the environment. It does, as do many other human activities. The question is whether a more liberal trade regime would make this damage worse or improve the situation. While trade liberalisation can promote the more efficient

use of natural resources and the diffusion of cleaner technologies, any environmental benefits are not automatic. Robust environmental policies and institutional frameworks are needed at the local, national, regional and global levels.

Trade, development and poverty are linked in multiple ways. The same set of policies produces dramatically different results in different countries. The outcome is affected by physical and geographical characteristics of the countries; the nature of the implementation of the policy measures; the capacity and quality of institutions under which the reforms are implemented; and a country's political and social environment.

Trade plays a part in a strategy that tries to enhance the productive capacity of the whole economy by better integrating it into domestic, regional and global markets. It facilitates the availability of technology, know-how and other services. It helps to make goods cheaper and more widely available. The trade strategy requires parallel investments in human capital (education, health and nutrition) and rural infrastructure, access to credit and technical assistance, as well as safety nets and policies to promote stability.

What's in it for me?

What's in it for you depends on whether you're a customer or a seller, on where you are, on your profession and on a range of other personal factors. It also depends on the policies of your government, the trade agreements it has signed and the measures it takes to promote potential gains from opening markets and to adjust to the associated costs of doing so.

One way to illustrate the impact of trade on everyday life is to look at how prices of internationally traded goods have changed over the past few years and how the prices of goods that are not traded have changed. A loaf of bread, rent or a hair cut are all examples of goods or services that are not traded much internationally. Have their prices gone up, down or remained the same? How about a pair of shoes, a camera or a watch?

Prices of goods that are the most open to international trade have fallen to the point that many of them are now so cheap that it would be more expensive to repair them than to replace them when they break. Electronics items probably come to mind, but some of the most radical changes in recent years concern clothing.

International trade isn't the only reason for the fall in the price of many things we buy. Advances in production and other technologies are vital too, but trade joins together all the different stages of the process. It welds the links of the value chain.

It is useful shorthand to say "trade is responsible" for a socioeconomic phenomenon we are talking about. This can be meant in

a positive or a negative way, as when somebody claims that trade is responsible for increased well-being or that trade is responsible for environmental destruction. But whether we're attacking or defending freer trade, it's important to remember two things.

Trade (and the policies that shape it), is only one of a number of influences whose combined actions determine outcomes. A country that is more open to trade is more likely to prosper, but trade alone will not bring prosperity, at least not to the population as a whole. Politics, infrastructures, education, the legal and banking systems, history, culture and geography all play a part.

Trade and the crisis

Trade, like every other aspect of the economy, has been deeply affected by the global recession that started to emerge in the wake of the 2008 financial crisis. Trade is not at the origin of the crisis, but since it binds economies closely together, it helps to spread developments from one country to another - the negative developments as well as the positive.

Given the urgent need to tackle rising unemployment, the temptation for some policy makers and parts of the media is to argue that the priority is to protect the national economy by reducing imports, reserving government contracts for domestic firms, refusing to help companies who invest abroad, and so on.

This approach is based on the seriously flawed premise that any country can rely solely on its own natural, economic and human resources to produce everything it needs, at a price its population can afford to pay.

Experience has shown that international trade can make a major contribution to improving the living standards of people throughout the world. So although an inward-looking, individualist approach may seem attractive to some in the short term, a co-ordinated international commitment not to engage in protectionist actions would produce a much more effective, longer-lasting solution.

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