3.1. International trade

The value of their international trade in goods and services reflects countries' integration into the world economy. Small countries are generally more integrated: their exports tend to be in a limited number of sectors and they need to import more goods and services to satisfy domestic demand than larger countries. Size, however, is not the only determinant of trade integration. Other factors help explain differences across countries: geography, history, culture, (trade) policy, the structure of the economy (especially the weight of non-tradable services), re-exports and the presence of multinational firms (intra-firm trade).

The average ratio of exports and imports to gross domestic product (GDP), in constant prices of 2007, increased between 1997 and 2007 in all OECD countries. In 2007, it was over 160% in Luxembourg and very high in Belgium, the Slovak Republic, Estonia, Hungary, as well as the Czech Republic. In contrast, it was less than 20% in Japan, the United States and Brazil, owing in part to their larger size.

Traditionally, international trade in goods has been the principal channel for economic integration. Over the past 20 years, however, other forms of transactions have become prevalent (*e.g.* foreign direct investment, portfolio investment) as firms increasingly implement global strategies and capital movements are liberalised.

In 2007, the average trade-to-GDP ratio of goods in the OECD area was 19.2%, up from 17.3% in 1997, an increase very similar to that for total trade. The ratio was above 60% in the Slovak Republic, Belgium, the Czech Republic, Hungary and Estonia.

As a share of GDP in 2007, average trade in services in the OECD area only accounted for around 5.4% of GDP. Luxembourg and Ireland had the highest values. In Luxembourg, financial services played a dominant role in exports, and in Ireland, technology payments were a very important component of total imports.

The trade-to-GDP ratio

The most frequently used indicator of the importance of international transactions relative to domestic transactions is the trade-to-GDP ratio, which is the average share of exports and imports of goods and services in GDP.

The trade-to-GDP ratio is often called the trade openness ratio. However, the term "openness" to international competition may be somewhat misleading. In fact, a low ratio does not necessarily imply high (tariff or non-tariff) obstacles to foreign trade, but may be due to the factors mentioned above, especially size and geographic remoteness from potential trading partners.

Sources

OECD, National Accounts Database, June 2009.

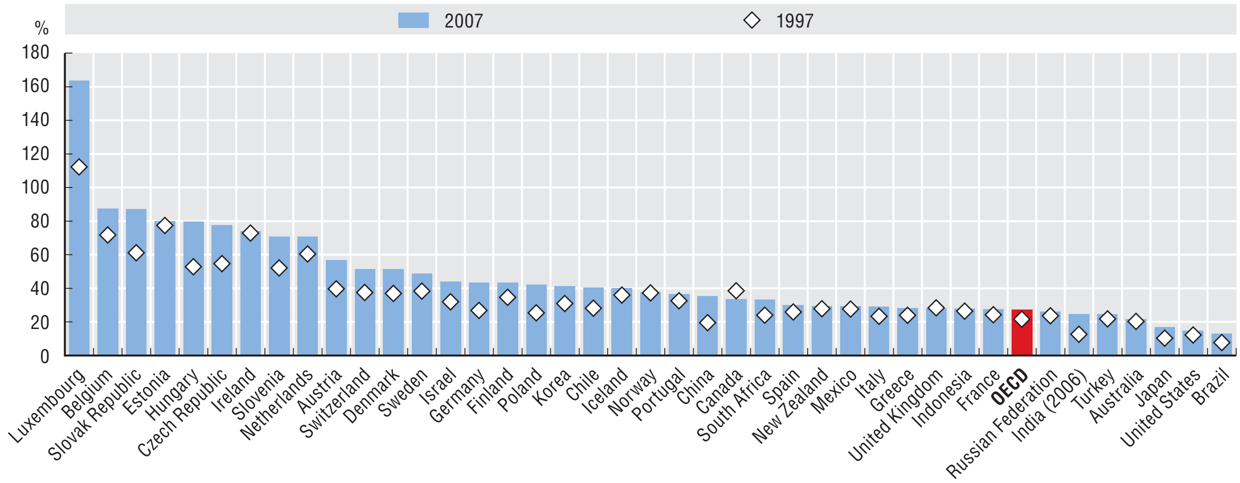
International Monetary Fund, June 2009.

Going further

OECD (2005), *Measuring Globalisation: OECD Handbook on Economic Globalisation Indicators*, OECD, Paris.

Total exports and imports, 2007

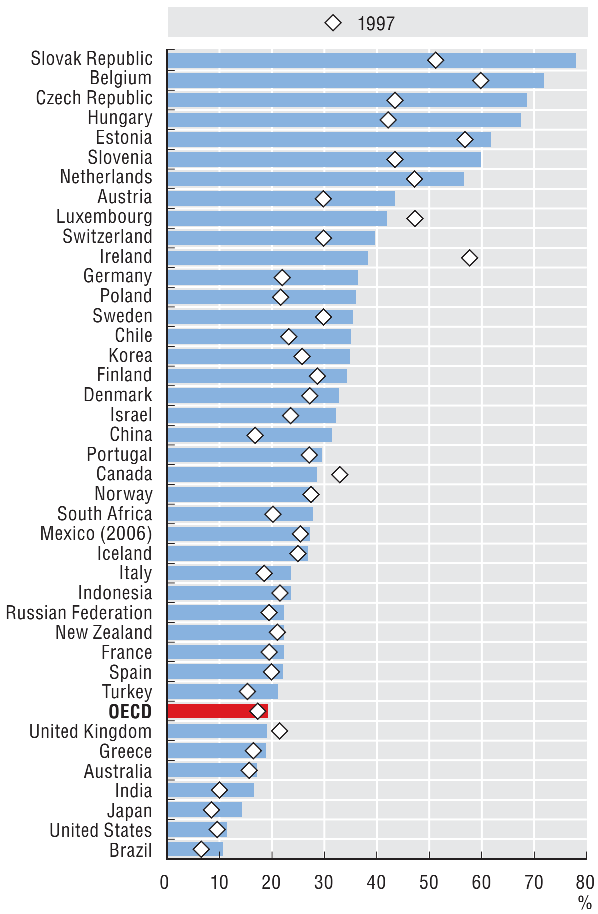
Average, as a percentage of GDP



StatLink http://dx.doi.org/10.1787/744325750814

Exports and imports of goods, 2007

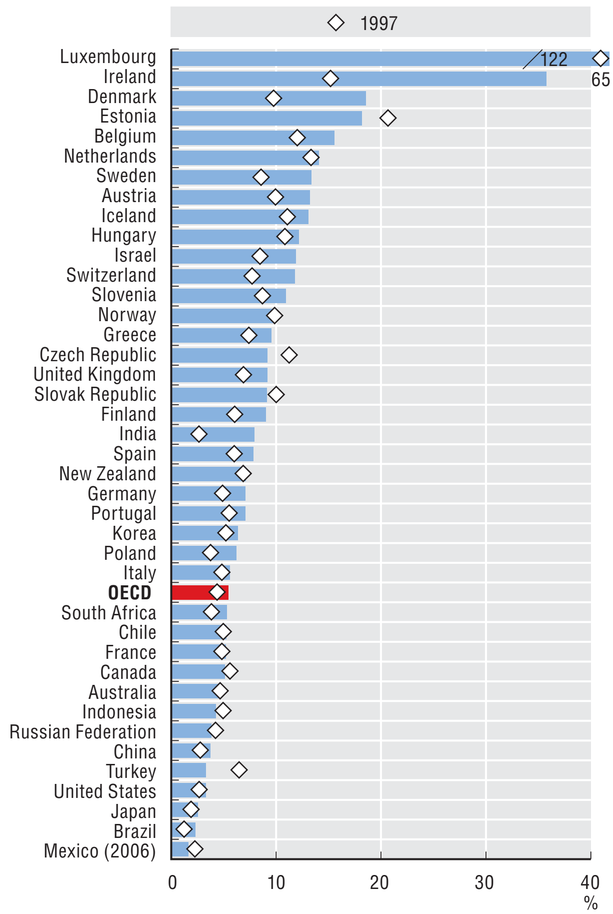
Average, as a percentage of GDP



StatLink http://dx.doi.org/10.1787/744374642145

Exports and imports of services, 2007

Average, as a percentage of GDP



StatLink http://dx.doi.org/10.1787/744425588570

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