

# International Trade – Supplementary Materials

Set No. 1

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# Content

1. Introduction to International Trade
2. International Trade Indicators
3. Relevant Statistical Data
4. Main Types of Trade Policy
5. Approaches to Analyses of International Trade

# Introduction to International Trade

## Part I

# International Trade

- **Trade relations are one of the main channels of connections between economies**
  - **Significant link to economic growth**
  - Exchange of production between economies
- **It is a way for the economy to realize its comparative advantages**
  - I.e. produce certain goods at lower costs than other countries
- **The liberalization of world trade (which is currently at its historically highest level) has accelerated the globalization of production**
  - Higher competition – lower costs (i.e. higher efficiency) and lower profit margins – lower prices

# International Trade

- **International trade is more important for small economies**  
(i.e. economies with smaller domestic markets)
- **The natural conditions of individual economies play an important factor in trade specialisation**
  - International trade is more important for countries without its own production of basic commodities
  - **Commodity is a good that is traded on the market without differences in quality**
    - Supplies from different suppliers are mutually substitutable

# International Trade

**Countries that can successfully engage in the international division of labour and make good use of their comparative advantages usually also have rapid economic growth dynamics**

- **When we talk about international trade, we usually mean trade in goods**
  - Trade in services is less significant in terms of its size
  - **But it is better (more accurate) to include services**

# International Trade Indicators

## Part II

# International Trade – Indicators

– **Various indicators, the basic ones include:**

## 1. Openness measure(s)

- Small and non-commodity producing economies tend to have a more open economy
- Countries with a large internal market and richer natural resources are usually less open
- **Ratio of exports (imports, turnover, balance) to GDP (in% of GDP or GNI)**
- **Share of exports in output**



# International Trade – Indicators

– Various indicators, the basic ones include:

## 2. Intensity measures

– International comparisons often use USD as a currency

– **The amount of imports, exports in USD per capita**

## 3. Competitiveness measures

– The dynamics of the country's share of world trade shows how the country is able to compete in foreign markets and how it will stand up to world competition – whether the country's position improves or worsens over a certain period

– **Country's share in a world trade**

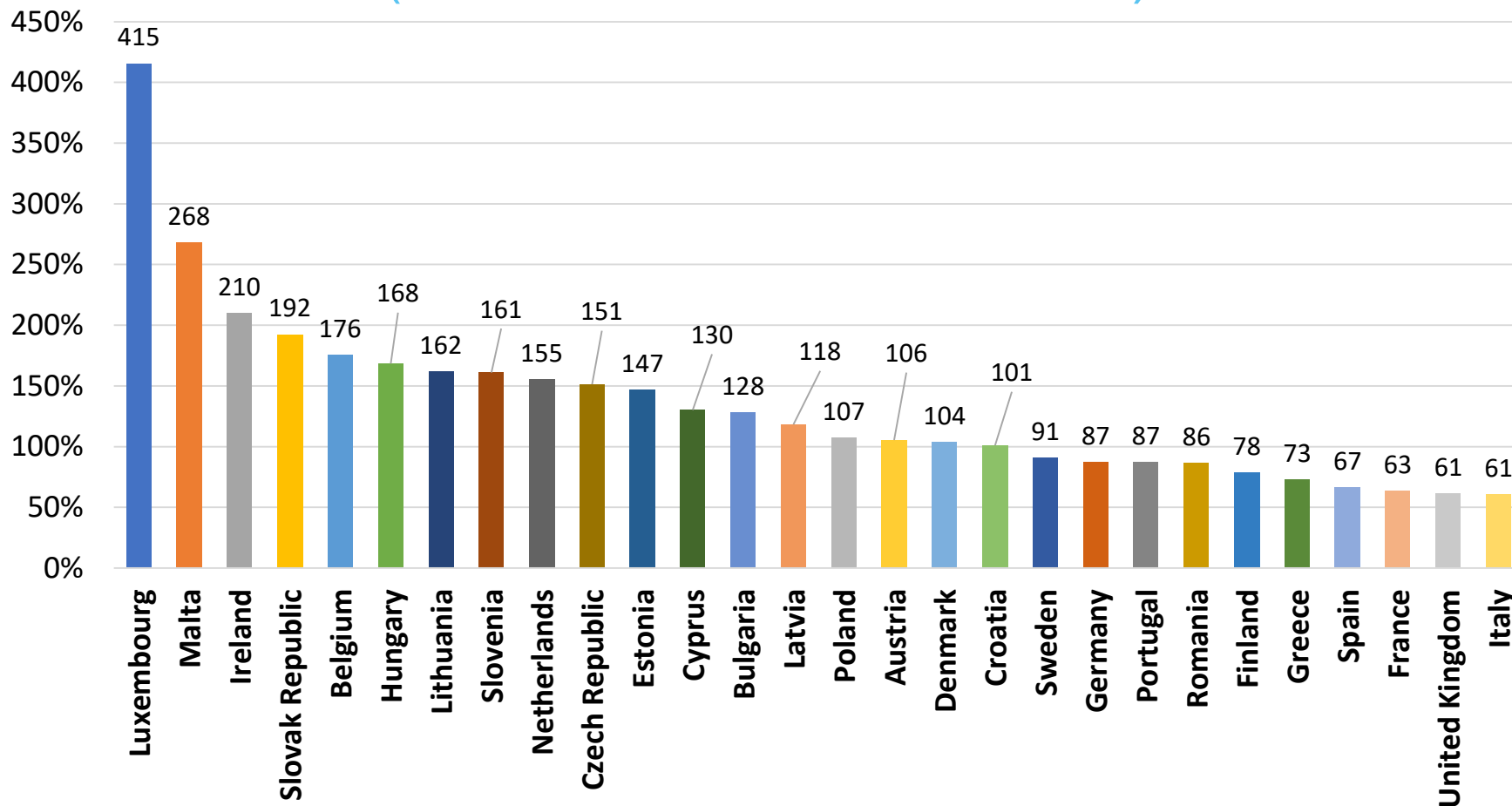
# International Trade – Indicators

- **Problem with GDP comparison: nominator and denominator is valued differently**
  - International trade works with world prices, while GDP with national prices
  - **The difference can be significant -> more accurate is using PPPs for GDP**
    - But it is usually not used in practice, even though the data are available

# Relevant Statistical Data

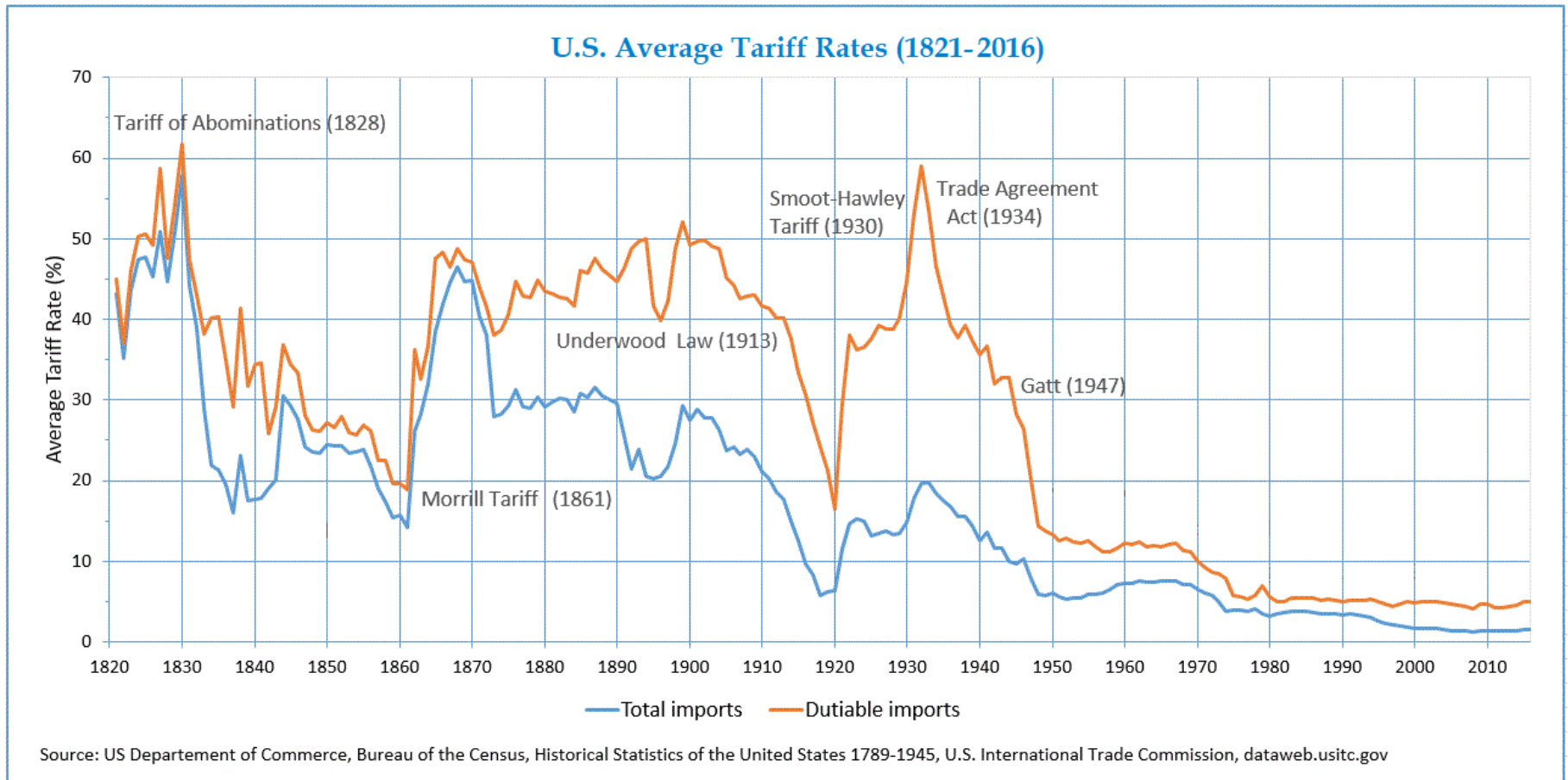
## Part III

# EU27+UK: Mostly Open Economies (Trade to GDP Ratio in 2018)



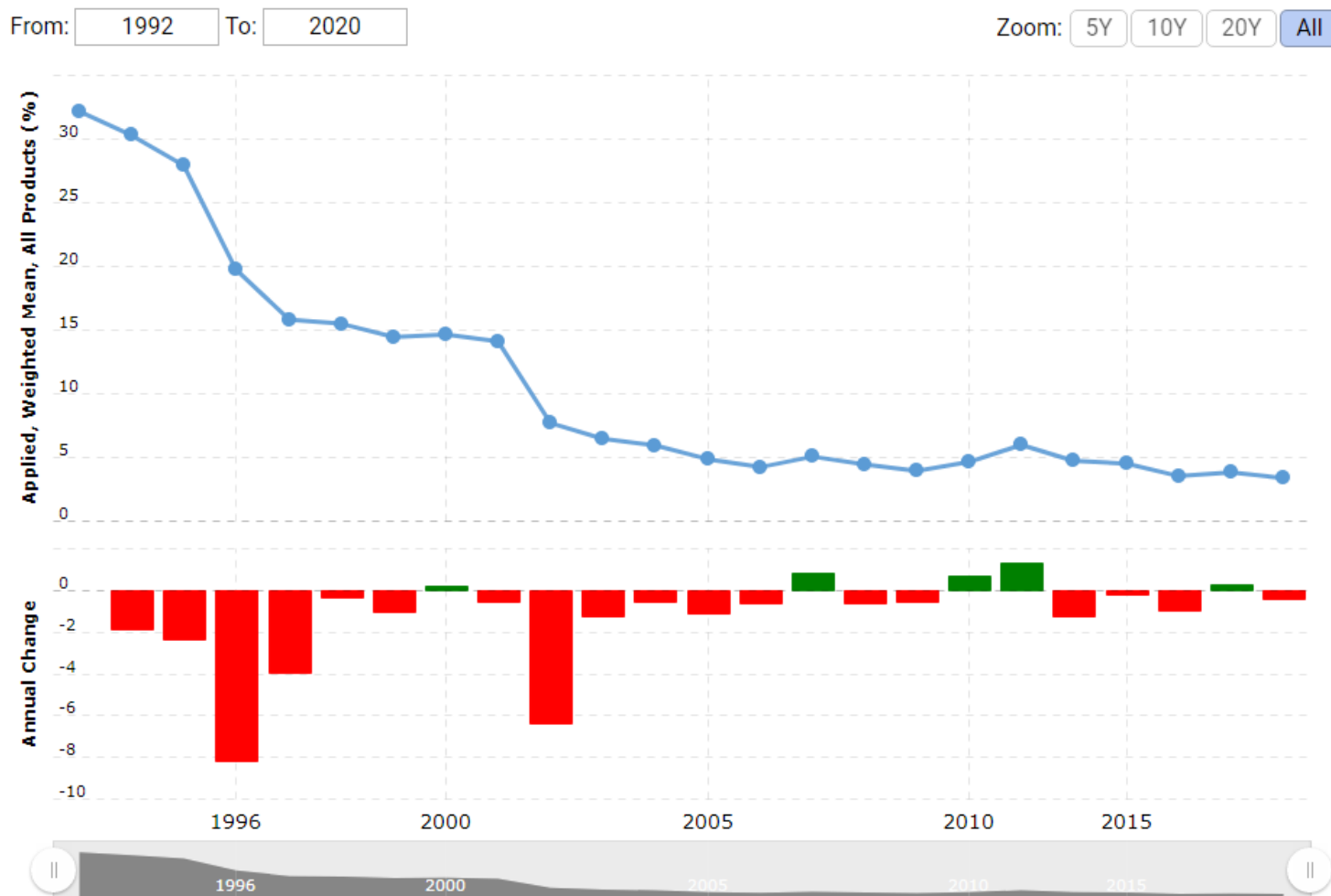
Source: World Bank (2020) – <https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS>.

# Average Tariff Rates in the USA



Source: Wikimedia Commons 2020 – [https://commons.wikimedia.org/wiki/File:Average\\_Tariff\\_Rates\\_in\\_USA\\_\(1821-2016\).png](https://commons.wikimedia.org/wiki/File:Average_Tariff_Rates_in_USA_(1821-2016).png).

# Average Tariff Rates in China



Source: Macrotrends 2020 – <https://www.macrotrends.net/countries/CHN/china/tariff-rates>.

# EU Trade – Some Facts

- **Trade patterns among the EU member states differ**
  - Some members are landlocked and surrounded by other EU members, while others are geographically and/or culturally close to Africa, North America or Latin America
- **EU’s trade in agricultural goods is still massively distorted** by subsidies to EU farmers, subsidies to EU exports and high barriers against imports
- **2019 EU27 import tariffs:**

2019	Total	Agriculture	Non-agriculture
<b>Trade-weighted average</b>	5.1%	11.4%	4.2%

Source: WTO Tariff Profiles 2020 – [https://www.wto.org/english/res\\_e/booksp\\_e/tariff\\_profiles20\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/tariff_profiles20_e.pdf).

# EU27 Import Tariffs By Product Groups (2019, in % ad-valorem)

Product Group	Average	Maximum	Duty-free, in %
<b>Dairy products</b>	37.5	205	0.0
<b>Sugars and confectionery</b>	24.5	109	11.8
<b>Beverages &amp; tobacco</b>	19.3	140	18.4
<b>Animal products</b>	16.3	112	28.4
<b>Cereals &amp; preparations</b>	13.9	62	13.0
<b>Clothing</b>	11.6	26	7.5
<b>Fish &amp; fish products</b>	11.5	12	0.0
<b>Fruit, vegetables, plants</b>	10.9	261	19.8
<b>Textiles</b>	6.5	12	2.1
<b>Coffee, tea</b>	5.9	16	27.1
<b>Oilseeds, fats &amp; oils</b>	5.3	129	48.1

Product Group	Average	Maximum	Duty-free, in %
<b>Transport equipment</b>	4.7	22	12.9
<b>Chemicals</b>	4.5	13	22.4
<b>Leather, footwear, etc.</b>	4.1	17	27.2
<b>Other agricultural products</b>	3.1	66	65.5
<b>Petroleum</b>	2.5	5	33.9
<b>Electrical machinery</b>	2.3	14	23.9
<b>Manufactures, n.e.s</b>	2.2	10	28.4
<b>Minerals &amp; metals</b>	2.0	12	49.9
<b>Non-electrical machinery</b>	1.8	10	23.9
<b>Wood, paper, etc.</b>	0.9	11	81.5
<b>Cotton</b>	0	0	100.0

Source: WTO Tariff Profiles 2020 – [https://www.wto.org/english/res\\_e/booksp\\_e/tariff\\_profiles20\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/tariff_profiles20_e.pdf).



## World Exports and Imports of Goods and Services – Top Trading Countries (Shares of Total Flows) – 2019 (TOP 12)

### Share of exports in world exports (%)

Country	Share
<b>European Union (27 countries)</b>	<b>17.3%</b>
China	13.5%
United States of America	12.2%
Japan	4.5%
United Kingdom	4.4%
South Korea	3.2%
Hong Kong	3.1%
Singapore	2.9%
Canada	2.7%
India	2.6%
Mexico	2.4%
Russia	2.4%
<b>Selected countries' total share</b>	<b>71.2%</b>

### Share of imports in world imports (%)

Country	Share
<b>European Union (27 countries)</b>	<b>15.6%</b>
United States of America	15.1%
China	12.6%
United Kingdom	4.8%
Japan	4.7%
India	3.2%
Hong Kong	3.2%
South Korea	3.1%
Canada	2.9%
Singapore	2.7%
Mexico	2.5%
Switzerland	1.9%
<b>Selected countries' total share</b>	<b>72.3%</b>

Source: European Commission 2020 – [https://trade.ec.europa.eu/doclib/docs/2013/may/tradoc\\_151348.pdf](https://trade.ec.europa.eu/doclib/docs/2013/may/tradoc_151348.pdf).

## The EU's Exports and Imports of Goods – Main Trade Partners (Shares of Total EU27 Flows) – 2019/2018

### Exports

EU Exports To...	Bil. Euros	Share
<i>Total Extra EU Exports</i>	<i>3 100.3</i>	<i>100%</i>
<b>United States of America</b>	<b>563.9</b>	<b>18.2%</b>
<b>United Kingdom</b>	<b>526.1</b>	<b>17.0%</b>
<b>Switzerland</b>	<b>251.9</b>	<b>8.1%</b>
<b>China</b>	<b>244.9</b>	<b>7.9%</b>
Russia	113.9	3.7%
Japan	89.0	2.9%
Turkey	79.5	2.6%
Norway	74.4	2.4%
Singapore	59.3	1.9%
Canada	57.3	1.8%
South Korea	54.7	1.8%

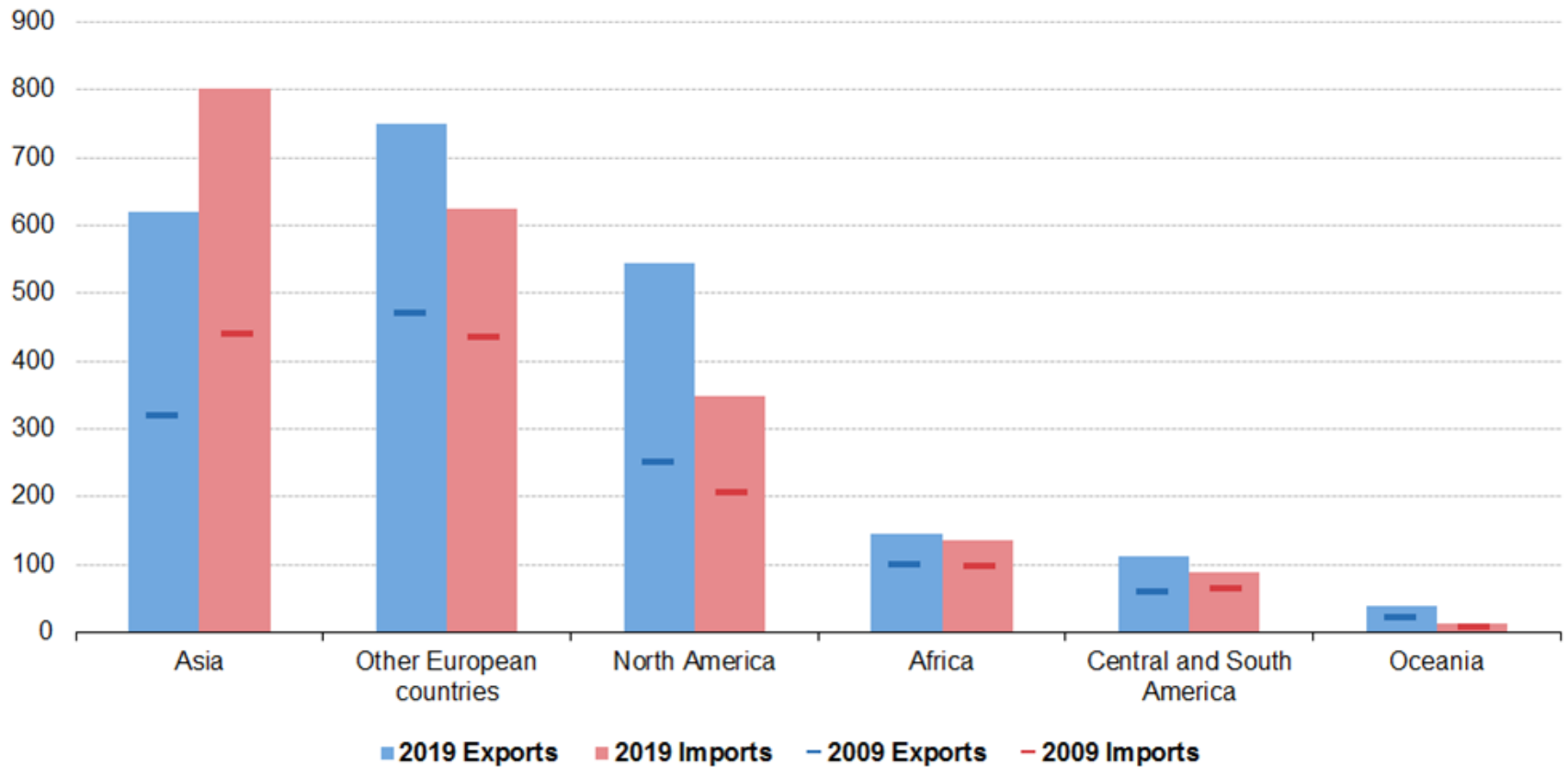
### Imports

EU Imports From...	Bil. Euros	Share
<i>Total Extra EU Imports</i>	<i>2 759.3</i>	<i>100%</i>
<b>United States of America</b>	<b>428.2</b>	<b>15.5%</b>
<b>China</b>	<b>392.0</b>	<b>14.2%</b>
<b>United Kingdom</b>	<b>356.2</b>	<b>12.9%</b>
<b>Switzerland</b>	<b>175.8</b>	<b>6.4%</b>
Russia	156.8	5.7%
Turkey	82.7	3.0%
Japan	77.5	2.8%
Norway	77.3	2.8%
India	55.0	2.0%
South Korea	55.0	2.0%
Singapore	40.6	1.5%

*Source: European Commission 2020 – [https://trade.ec.europa.eu/doclib/docs/2013/may/tradoc\\_151348.pdf](https://trade.ec.europa.eu/doclib/docs/2013/may/tradoc_151348.pdf).*

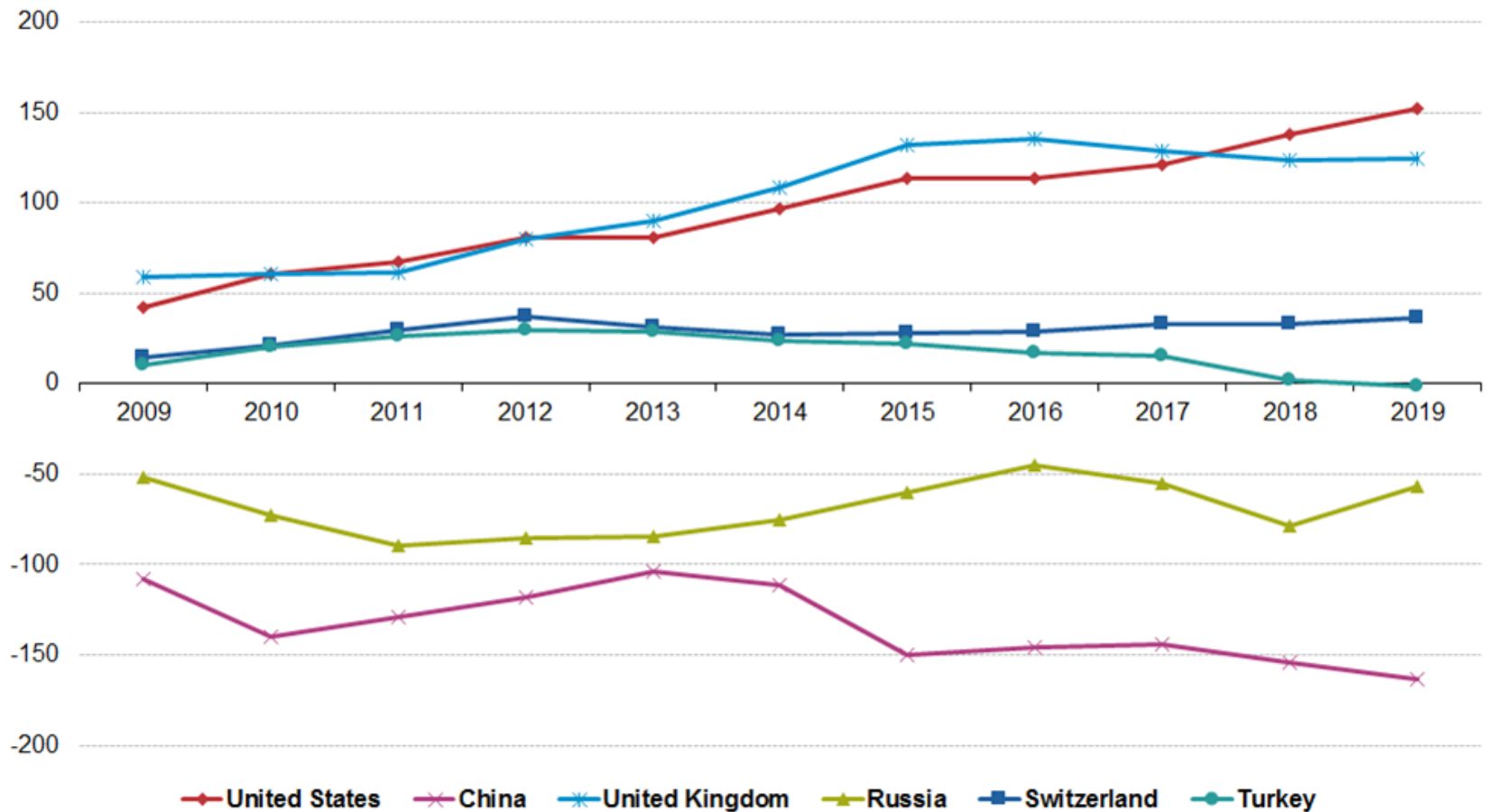
*Note: Data from 2018 were used for services due to data unavailability. For Norway, the values were calculated from goods trade data only.*

## Extra EU-27 Goods Trade – Geographically, 2009 and 2019 (EUR, billions)



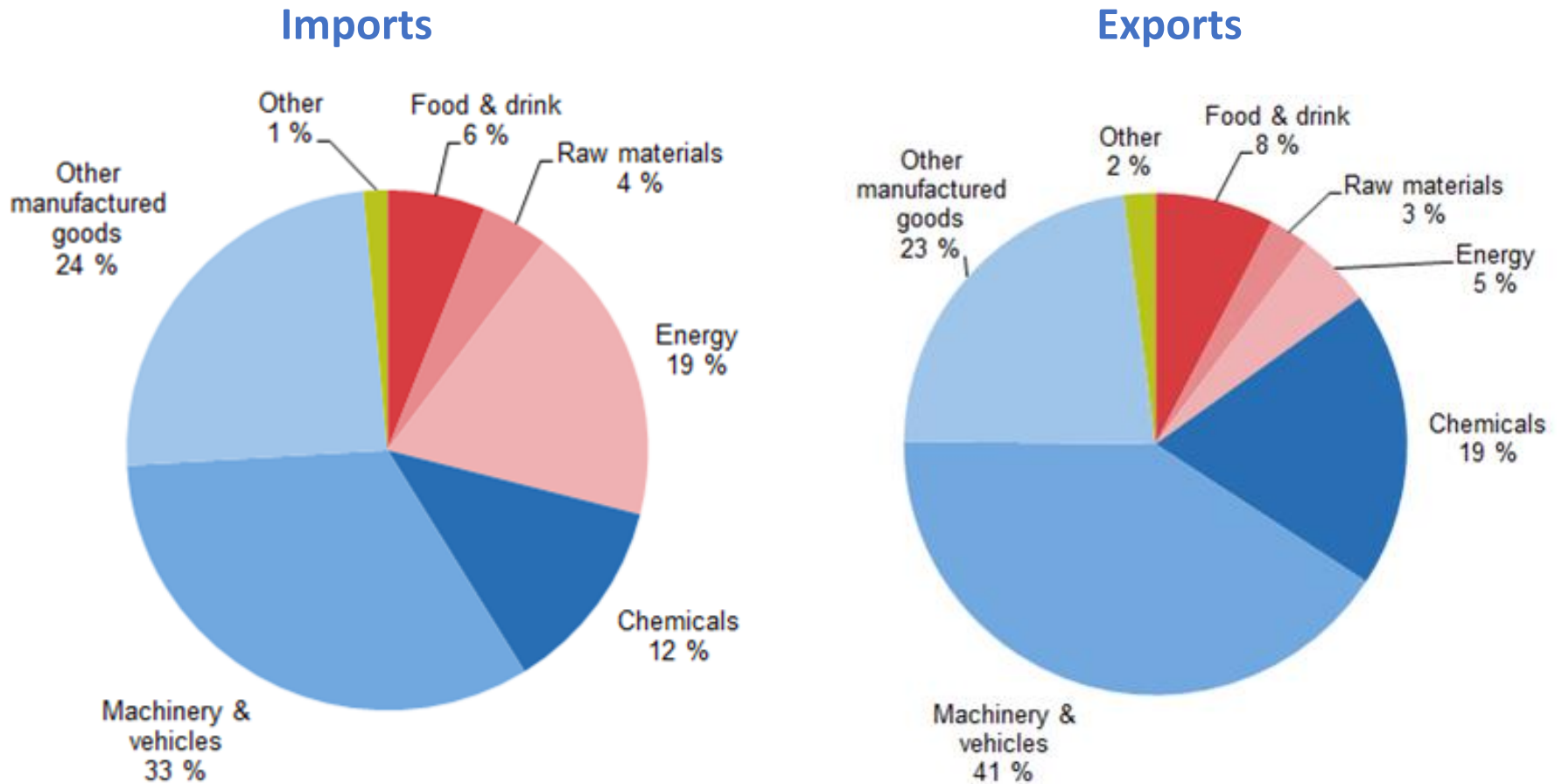
Source: Eurostat 2020 – [http://ec.europa.eu/eurostat/statistics-explained/index.php/Extra-EU\\_trade\\_in\\_goods](http://ec.europa.eu/eurostat/statistics-explained/index.php/Extra-EU_trade_in_goods).

## Extra EU-27 Trade in Goods – Trade Balance with Main Partners (2009-2019, EUR, billions)



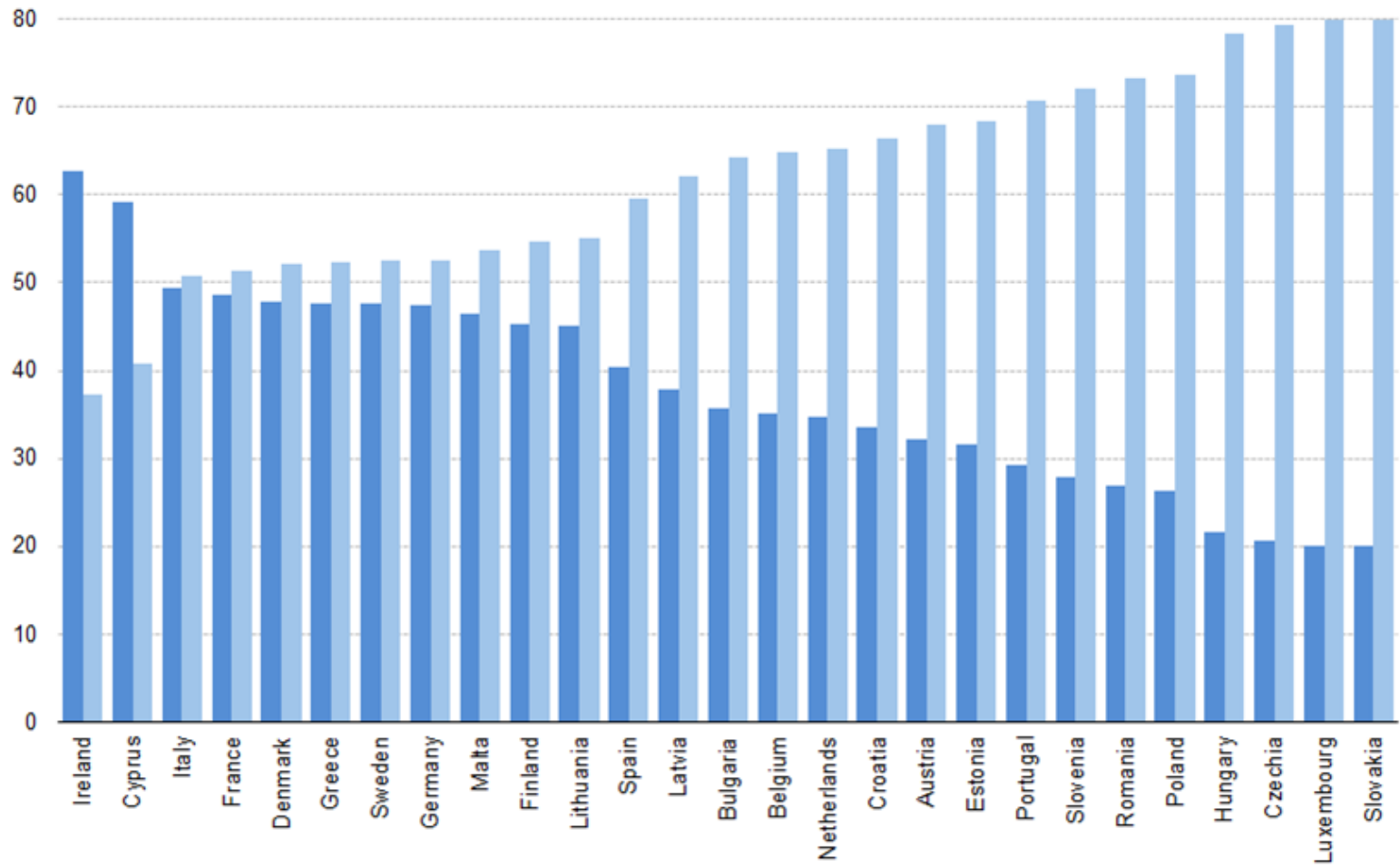
Source: Eurostat 2020 – [http://ec.europa.eu/eurostat/statistics-explained/index.php/Extra-EU\\_trade\\_in\\_goods](http://ec.europa.eu/eurostat/statistics-explained/index.php/Extra-EU_trade_in_goods).

## Extra EU-27 Goods Trade by Product Group – 2019



Source: Eurostat 2020 – [http://ec.europa.eu/eurostat/statistics-explained/index.php/Extra-EU\\_trade\\_in\\_goods](http://ec.europa.eu/eurostat/statistics-explained/index.php/Extra-EU_trade_in_goods).

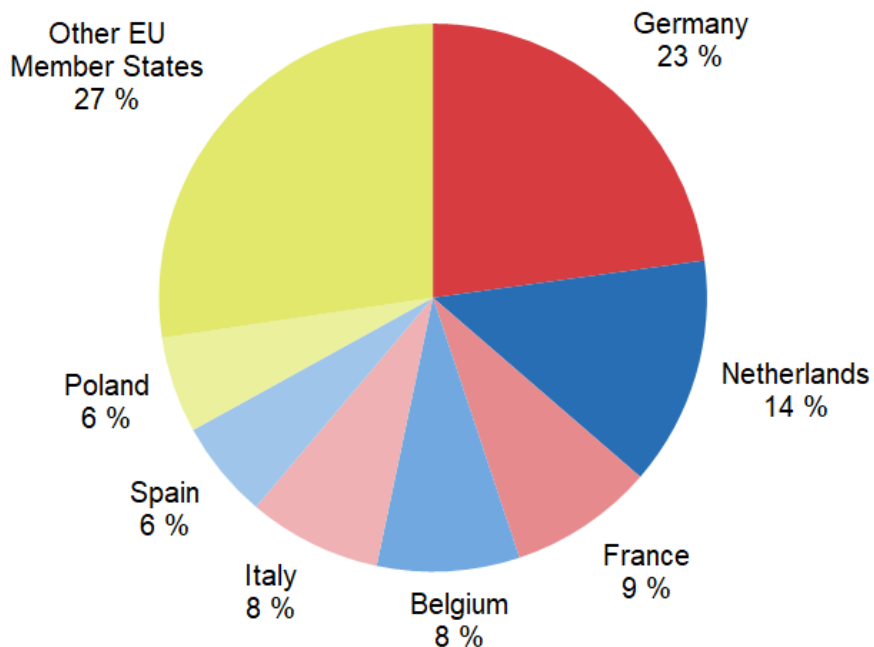
## Intra-EU Exports of Goods vs. Extra-EU Exports of Goods, 2019



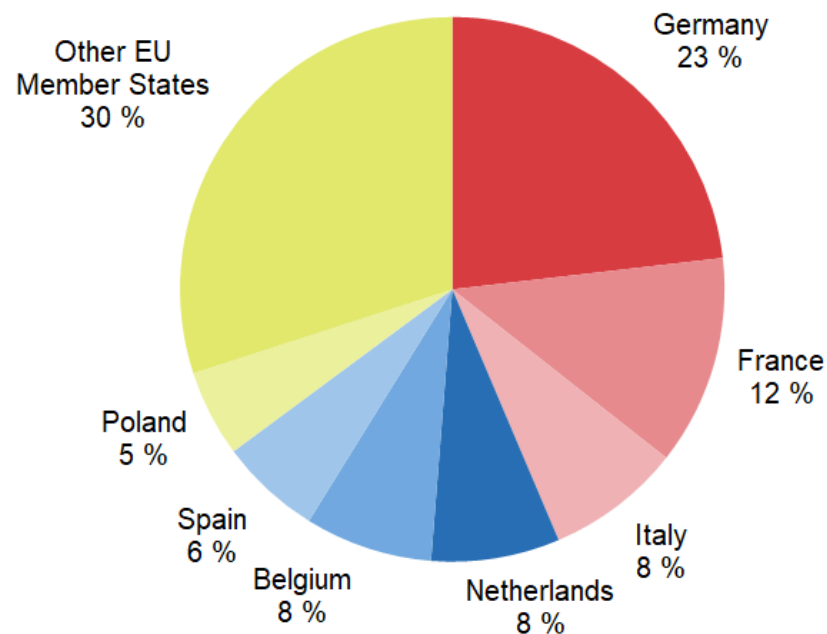
Source: Eurostat 2020 – [http://ec.europa.eu/eurostat/statistics-explained/index.php/Intra-EU\\_trade\\_in\\_goods\\_-\\_recent\\_trends](http://ec.europa.eu/eurostat/statistics-explained/index.php/Intra-EU_trade_in_goods_-_recent_trends).

## Intra EU-27 Trade in Goods, 2019 (% share of EU-27)

### Exports



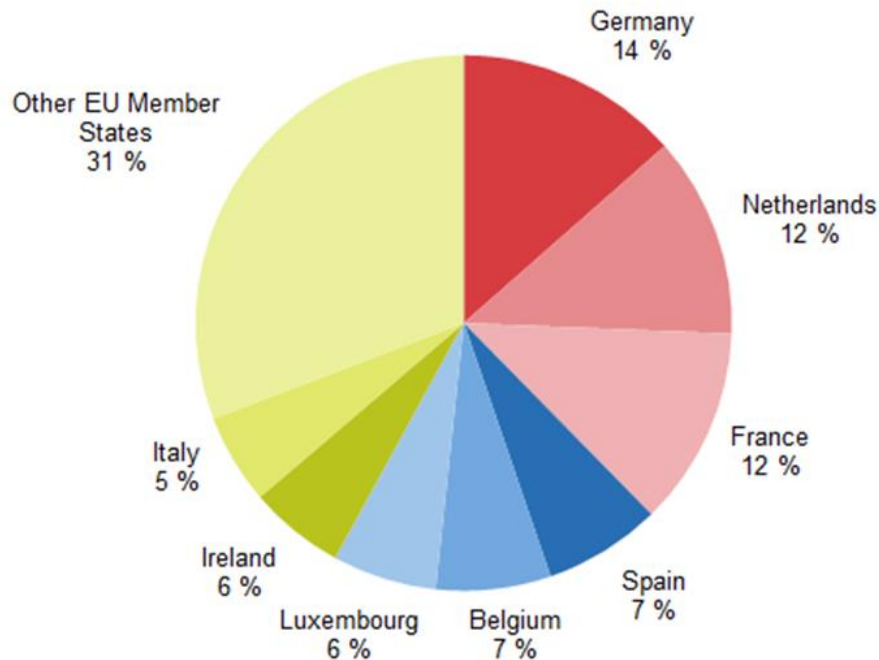
### Imports



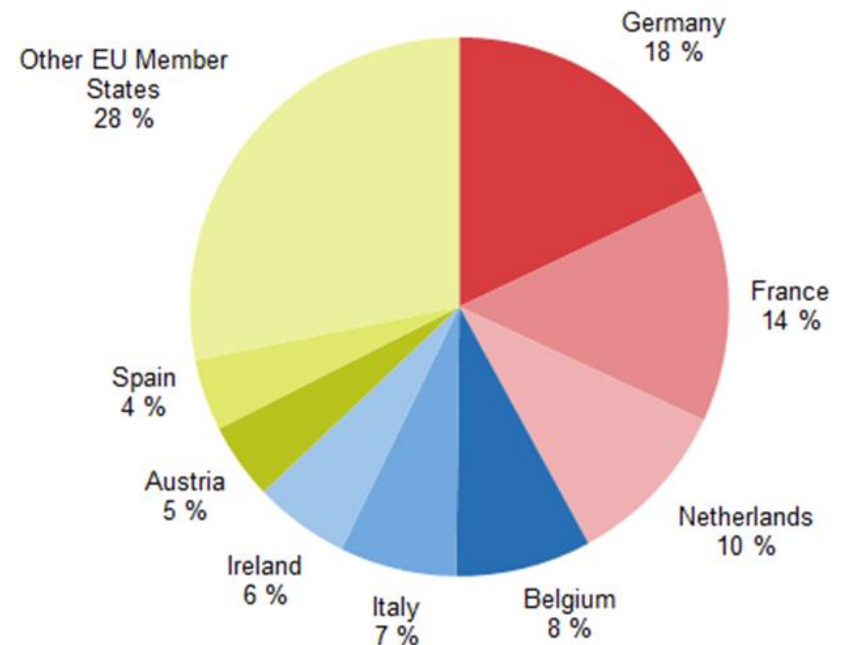
Source: Eurostat 2020 – [http://ec.europa.eu/eurostat/statistics-explained/index.php/International\\_trade\\_in\\_goods](http://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods).

## Intra EU-27 Trade in Services, 2019 (% share of EU-27)

### Exports



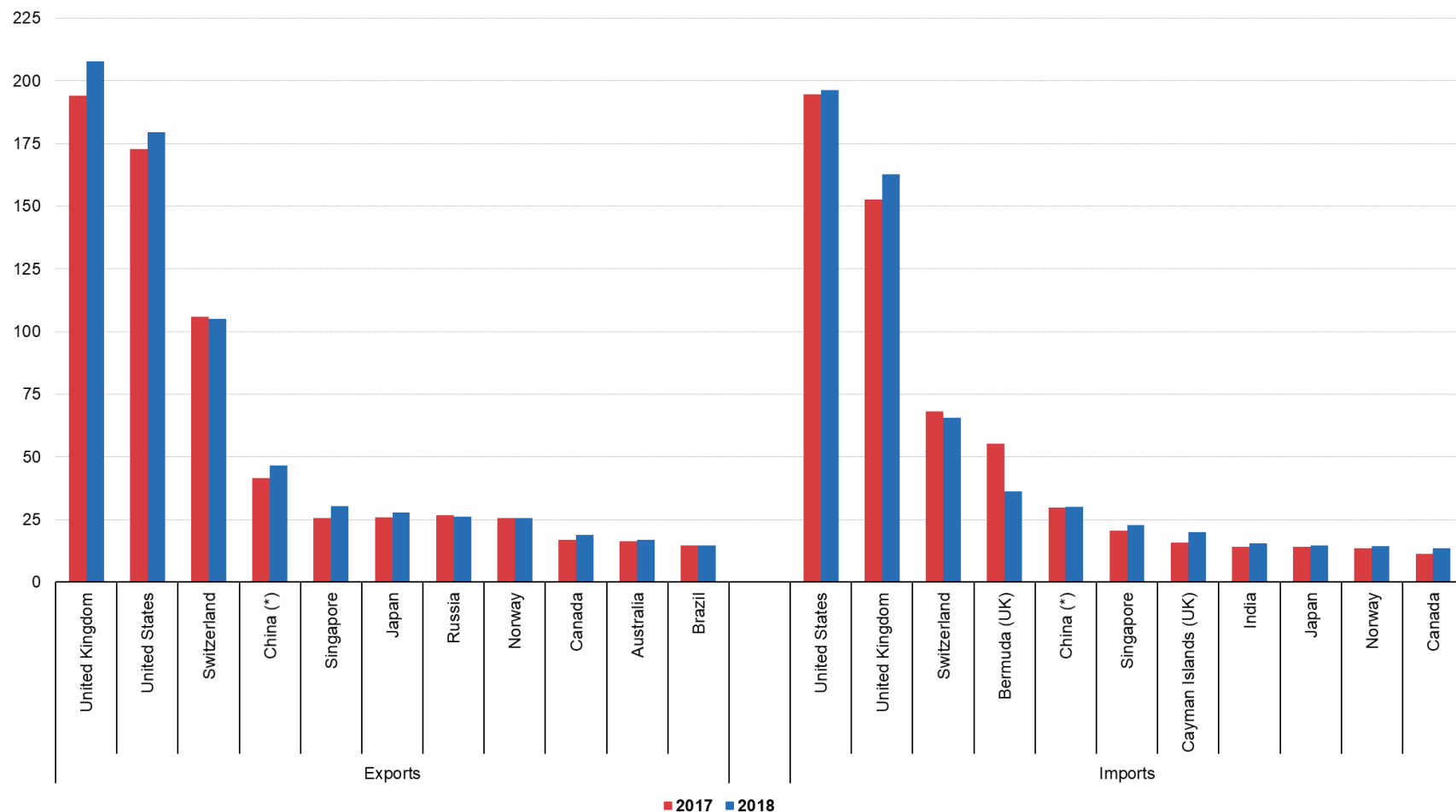
### Imports



Source: Eurostat 2020 – [http://ec.europa.eu/eurostat/statistics-explained/index.php?title=International\\_trade\\_in\\_services](http://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_trade_in_services).



## Extra EU-28 Services Trade – Main Partners – 2017, 2018 (EUR, billions)



Source: Eurostat 2020 – [http://ec.europa.eu/eurostat/statistics-explained/index.php?title=International\\_trade\\_in\\_services](http://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_trade_in_services).

# Main Types of Trade Policy

## Part IV

# Types of Trade Policy

- **Two main approaches in theory**
  - However, these are only extreme situations, and almost non-existent in practice
- **Trade is connected to both the economy and politics of a particular country (trade negotiations)**

## 1. Liberalism (free trade)

- Markets respond to changes in supply and demand.
- It is understood as complete freedom to buy and sell worldwide:
  - Removal of barriers to trade (tariff and non-tariff barriers)
  - Opening up internal market to foreign competition
  - Elimination of direct and indirect state support

# Types of Trade Policy

## 1. Liberalism (free trade) – continued

- **Pros:**

- Increased competition in the domestic market
- More efficient division of labor and specialization
- Greater use of comparative advantages
- Acceleration of economic development
- Lower consumer prices, higher quality of goods
- Wider range of available goods (and some services)
- Arguably higher price stability

- **Cons:**

- Reduction of wages or increased unemployment (rather short- or medium-term), country's growing dependence on imports

# Types of Trade Policy

## 2. Protectionism

- “Protection” of domestic economy from external influences, prevention of entry of foreign competition
- Protection of uncompetitive industries (argument of job preservation, immature industry)
- **Policy tools:**
  - Import duties
  - Quantitative restrictions
  - Technical barriers (fulfillment of certain conditions related to the products)
  - Voluntary export restrictions

# Types of Trade Policy

## 2. Protectionism – continued

- **Pros:**
  - Higher wages or stabilisation of unemployment (short- and medium-term)
  - Preservation of national traditions
  - Basic self-sufficiency of the economy and the elimination of its dependence on foreign resources
  - Limitation of external economic shocks
  
- **Cons:**
  - An expansion of protected industries at the expense of others and inefficient allocation of resources
  - Suppression of competition

# Types of Trade Policy

## 2. Protectionism – continued

- **Cons – continued:**
  - Conservation of “old” stereotypes and structure in the domestic economy
    - Pressure on quality, price and technological Innovation is lower
  - Arguably slower economic development
  - Lower efficiency and possible benefits from comparative advantages
  - Higher prices, lower quality, lower range of goods

# Types of Trade Policy

## 3. Autarky

- An extreme case of protectionism
- Full closure of the domestic market in relation to imports and exports
- The country does not take advantage of possible comparative advantages
- Examples: China in the past, North Korea (although not fully)
- **Pros:**
  - Similar to protectionism but economic efficiency is significantly hampered
- **Cons:**
  - Similar to protectionism but much worse
  - Arguably preservation of poverty, outdated technologies, etc.



# Approaches to Analyses of International Trade

## Part V

# International Trade – Dynamics and Structure

- **A more detailed analysis of foreign trade is focused on the structural aspects of imports, exports and trade balance and their development over time**
- **The most common analytical activity is focused on the following areas:**
  - Foreign trade dynamics, i.e. import and export dynamics
  - Balance of trade (difference between export and import) and its development
  - Commodity and territorial structure of imports, exports, trade balance, time shifts
  - Import and export prices and their development
  - Terms of trade and their development

# International Trade – Dynamics and Structure

## — Other most frequently monitored indicators include:

- Relative revealed competitive advantages
- Shares in a world trade
- Trade intensity indicators
- Market penetration indicators focused on margins

# International Trade – Structure

## 1. Territorial structure analysis

- Main trading partners (intra EU, extra EU)
- Imports, Exports, Trade balance – both absolute and GDP ratios

## 2. Commodity structure analysis

- **Standard International Trade Classification (SITC)**
- **Harmonized Commodity Description and Coding System (HS)**
- Maintained by the United Nations
- **For analytical purposes, time and international comparisons, import and export concentration and diversification indices are used**

# Standard International Trade Classification (SITC)

- **The most aggregated version (level 1), 10 main item groups:**
  - The most disaggregated version (level 5) has almost 3 000 item groups

Code	Item
0	Food and live animals
1	Beverages and tobacco
2	Crude materials,inedible,except fuels
3	Mineral fuels etc
4	Animal and vegetable oils and fats
5	Chemicals and related products,n.e.s.
6	Basic manufactures
7	Machinery,transport equipment
8	Miscellaneous manufactured articles
9	Goods not classified elsewhere

## Harmonized Commodity Description and Coding System (HS)

- **The Harmonized Commodity Description and Coding System, also known as the Harmonized System (HS)**
- **The other international standard/classification, which is usually not used for analytical purposes, but for data processing purposes due to its complexity**
  - HS comprises approximately 5,300 article/product descriptions that appear as headings and subheadings, arranged in 99 chapters, grouped in 21 sections

— Example:



Source: [https://en.wikipedia.org/wiki/Harmonized\\_System#/media/File:HS\\_Hierarchy\\_Structure\\_Rice.jpg](https://en.wikipedia.org/wiki/Harmonized_System#/media/File:HS_Hierarchy_Structure_Rice.jpg)

# Recent Trade Negotiations

**Some important trade deals which are being negotiated/were recently implemented:**

## **EU-Canada – Comprehensive Economic and Trade Agreement (CETA)**

- It has been partly in place since September 2017, most of it is effective from 2018
- Almost all tariffs will be eliminated
- European firms could bid for Canadian public contracts, or sell services there
- European qualifications should be more easily recognised in Canada

## **EU-USA – Transatlantic Trade and Investment Partnership (TTIP)**

- It was negotiated, **but it has stopped**
  - D. Trump and his negotiations

# Recent Trade Negotiations

## EU-USA – Transatlantic Trade and Investment Partnership (TTIP) – continued

- It is dealing mainly with non-tariff barriers (regulations)
  - Tariff barriers are already quite low between the two regions

## EU-Japan – Economic Partnership Agreement

- It is still being negotiated
- **It has entered into force on 1 February 2019**
- Both tariffs (beef, cheese, chocolate) and non-tariff barriers (fruits) are the issue





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