Department for
International Trade

International Trade: The Economic Benefits

World trade has grown rapidly over the last 70 years and has been a major driver of global growth. Since 1945 there has been a 38-fold increase in the volume of world trade.[1] It is widely accepted that there is a positive link between trade, openness and growth. Organization for Economic Co-operation and Development (OECD) analysis suggests a 10% increase in openness is associated with a 4% increase in income per head.[2]

Over the last 25 years trade has supported lifting a billion people out of global poverty.

By providing access to cheaper imports consumers and households benefit from lower prices and increased choice. During 1996-2006 import prices for textiles and clothing fell by 27% and 38% respectively in real terms. For the same period the import price of consumer electronics fell by around 50%.[3]

Firms also benefit from wider access to inputs to the production process and greater numbers of potential consumers and buyers, plus lower costs from lower tariffs.

In addition trade provides benefits through the diffusion of new technology over time, increased competition, investment and exploitation of economies of scale, and ultimately higher productivity

Evidence of the benefits for Foreign Direct Investment is more mixed, although under the right conditions FDI can be a channel to transfer technology and know-how, accelerate structural transformation, stimulate private sector development, and contribute to employment creation.

1. World Trade Organisation World Trade Statistical Review 2018
2. See Newfarmer, R. and Sztajerowska M. (2012), “Trade and Employment in a Fast-Changing World”, in OECD (2012), Policy Priorities for International Trade and Jobs, Douglas Lippoldt (ed.), OECD
3.. J. Francois, M. Manchin, and H. Norberg, 2007, “Passing on of the benefits of trade openness to consumers”, European Commission, Directorate General for Trade, p.7

Over the last 50 years, the UK has seen a significant increase in the value of trade. **But the pattern of trade has evolved over time.**

The share of trade in chemicals and commodities has increased while trade in machinery and transport equipment has been gradually declining.

As services, such as financial services and business services, have become a bigger part of the UK economy they have similarly become an increasing element of the UK's trade.

Trade has become more complex. In particular there has been an increase in intra-industry trade - the intra-industry share of manufacturing trade has increased significantly since the late 1980s, although it varies by country, from around 30% for Iceland to 90% for Belgium. In the UK over 80% of manufacturing trade was intra-industry trade in the period 1997-2008.[4]

Additionally, the UK imports the same product from several different countries due to variations in the characteristics of products and quality and varying access to suppliers. For example, in 2012, the UK imported wrist watches from 39 countries and coffee from 71 countries.

In 2009, in value added terms, about 58% of the UK's exports reflected services (OECD average of 48%) reflecting how trade in goods has become increasingly about service-related activities.

4. See OECD, 'Economic Globalisation Indicators', (2012) and OECD, 'Intra Industry and Intra Firm Trade and the Internationalisation of Production', Economic Outlook, (2002).

In recent decades businesses have been adopting new operating models or specialising in specific tasks or parts of the production chain.[5] **This has led to complex supply chains.**

In turn this has supported increased foreign investment. The UK's levels of both outward and inward foreign investment, both stocks and flows, are among the highest in the world.

Exports increasingly include imported inputs. In 2009 more than half of the world's manufacturing imports were intermediate goods (primary goods, parts and components, and semi-finished products), and more than 70% of the world's services imports were intermediate services:

- The foreign value added in exports rose from 20% in 1995 to 25% in 2005 before falling back slightly after the crisis to 24% in 2009. The largest increase has been in the countries most heavily involved in global manufacturing supply chains such as China and South Korea;
- In 2009, the UK's domestic value-added of its exports was 83%, relatively high compared to other OECD countries, reflecting the increasing specialisation of UK exports in services which typically rely on fewer overseas inputs;
- The amount of foreign value added in UK exports varies by sector: it is highest in the transport equipment industry (31%), closely followed by the chemicals and minerals, basic metals, machinery and electrical equipment industries.

5. See for example, R. Baldwin and S. Evenett, Value Creation and Trade in 21st Century Manufacturing: What Policies for UK Manufacturing, The UK in a Global World (2012).

A broad approach to trade policy and opening markets is required. Addressing tariffs remains important: although tariffs in developed countries have fallen from nearly 40% in the post WWII period to less than 5% through 8 rounds of multilateral trade liberalisation, they remain high in a number of World Trade Organization (WTO) members (with a WTO average of 9% applied tariffs in 2013), with variations between sectors and countries with notable exceptions in the automotive, agriculture and food sectors.

Addressing non-tariff barriers (NTBs) through trade agreements is increasingly important, as these can restrict how a company can operate. This is especially true for services. How we might do so is more difficult, as it requires domestic policies to be adjusted in many areas.

Existing issues of lack of fairness, caused by the use of WTO non-compliant subsidy and support, can be tackled by use of trade remedies. This includes anti-dumping and anti-subsidy actions. In recent years there has been an increase in the use of such measures, in particular in response to a global excess capacity of steel making.

Trade and investment promotion have an important role to play. There is a sound rationale for well-targeted government support for exporting businesses and potential investors on the basis of well understood market failures. While institutional arrangements vary significantly, all of the Organisation for Economic Co-operation and Development (OECD) and many developing and emerging economies invest in trade promotion activity.

We need to address concerns about the uneven impact of trade agreements in the UK - how they affect sectors and industries, regions and specific income groups – and if there is a role for government to support businesses and workers through the transition. Concerns about increasing inequality and the ability of all parts of society to take advantage of the opportunities from trade and investment need to be addressed. But other challenges, such as increased automation of jobs or the adoption of new technologies, are also putting pressure on workers.

We need to **explore how new developments can shape trade in the future**, in particular how digital technology can enable trade. However, digital trade, including e-commerce, also presents new challenges - in particular the management and ownership of personal data.

To deliver the benefits of trade the Government must

- Lead the global debate in support of open markets and free (and fair) trade. This will ensure the rules governing world trade remain fit for purpose and effectively address new challenges, such as digital trade. We need to be clear about what we want to achieve.
- Secure agreements with other countries, taking the form of either:
  - Multilateral negotiations at the WTO to achieve the widest levels of liberalisation;
  - Plurilateral negotiations among countries willing to achieve liberalisation in specific areas, for example the Trade in Services Agreement (TiSA); Government Procurement Agreement (GPA), the Information Technology Agreement (ITA);
  - Bilateral negotiations to deliver reciprocal benefits through mutual liberalisation and removal of barriers to trade;
- Take unilateral decisions on whether and by how much to provide preferential access to UK markets to the poorest countries. And whether and by how much to adjust our applied most-favoured nation (MFN) tariff rates at the WTO;
- Develop complementary policies to address many related issues, including: global market concentration and competition; unfair competition from state-owned enterprises; and overcapacity issues. Many of these may be tackled outside of formal negotiations;
- Through G7 and G20 commitments, resist protectionist measures by other countries;
- Support UK businesses in trading and investing overseas and foreign investors investing in the UK, through well-targeted trade and investment promotion services. These should be focused on where we can make the biggest difference for business and the UK economy;
- And address instances where British businesses operating overseas fail to comply with international standards on responsible business conduct or on bribery and corruption.

This requires a coordinated and coherent Government approach with trade policy supported by complementary policies so that the full benefits of trade can be realised. Trade liberalisation is necessary, but not sufficient, for growth. Immediately we must build the UK's own trade policy as we leave the EU, including:

- establishing trade agreements with countries with whom the EU currently has a deal;
- establishing trade agreements with new countries;
- operating an effective trade remedies regime; rectifying the UK's position at the WTO;
- continuing to support UK business in addressing market access barriers facing UK exporters and investors;
- building on the globally recognised strength of our export finance support, developing cost-effective financing support for a broader range of firms;
- continuing to invest in trade and investment promotion to ensure UK firms can realise the full benefits of our future trading relationships with the EU and the rest of the world.

DIT Analysis Group

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The UK's Department for International Trade (DIT) has overall responsibility for promoting UK trade across the world and attracting foreign investment to our economy. We are a specialised government body with responsibility for negotiating international trade policy, supporting business, as well as delivering an outward-looking trade diplomacy strategy.

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