Opinion – Keeping Trade in Perspective in an Election Year

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In recent years Americans have heard a lot about trade and trade policy. Indeed, it is difficult to get through a weekly news cycle without discussions of tariffs, the WTO, and the United States-Mexico-Canada Agreement (USMCA) figuring prominently. In wonkier circles, such discussions are rounded off with learned and unlearned discussions of the so-called China Shock, the difficulty of signing new trade agreements, the pros and cons of friend-shoring/near-shoring/reshoring, and the possibility going forward of “delinkage” – or even of outright deglobalization. For better or worse, the frequency of such discussions is likely to increase in this election year, with trade-related issues among the hot-button issues in the 2024 presidential campaign.

It is important to note, first of all, that the American economy is about a lot more than imports and exports. Many people may be surprised to learn that in a relative sense the United States is actually one of the least trade-dependent nations in the world. This fact can be seen clearly in the trade/GDP ratios constructed systematically by the World Bank and other international economic bodies.

These simple ratios have been used for some time to capture the relative importance of international trade – imports and exports – of countries over a given period of time, generally a year. The trade/GDP ratios constructed annually by the World Bank are among the most commonly used, and the World Bank and other bodies constructing ratios include the trade of goods *and* services in the construction of their ratios. In a sense, the ratios are intended to convey a sense of the degree of “openness” of given economies to international economic engagement, even to globalization more generally. Note, though, that in interpreting such ratios it is important to keep in mind that a country’s low trade/GDP ratio may not have come about because it is necessarily anti-open trade — as reflected by high tariffs, a strategy of economic autarky, etc.— but because it is geographically remote or because it is “too poor to trade,” as it were, or, conversely, because it has a large, diversified domestic market capable of serving many of its needs.

The World Bank’s most recent ratios, the vast majority of which employ data from 2021 or 2022, are revealing in many ways, not least regarding the relative position of the United States. Of the 193 countries included, only two, Nigeria and Sudan, have lower trade/GDP ratios – or Trade Openness Index, as the Bank calls it – than does the United States with its ratio of 27.

Trade/GDP ratios vary dramatically, with the highest scores associated with tiny countries – or in the case of Hong Kong, a “special administrative region”– that would have a hard time unless their economies were extremely open to international trade. Six countries/regions currently have scores over 300: Luxembourg (389), Hong Kong (384), San Marino (342), Djibouti (340), Singapore (337), and Malta (318). Hong Kong’s and Singapore’s ratios, of course, reflect the fact that they are great trade entrepôts, while the others owe their high scores mainly to their limited size and/or to their location.

It is harder to generalize about the factors responsible for the scores of other countries. Not surprisingly, the ratios for most relatively large, accessible countries with advanced, diversified economies and large domestic markets are generally high, but far lower than in the cases mentioned above. The ratio for Germany, for example, is 100, Spain’s ratio is 81, and Italy's 75. France's score is 73, Canada's 68 and Japan's 47. The trade/GDP ratios for countries that are advanced economically, but somewhat smaller in area are also high – South Korea (97) and the UK (70), for example. And the ratio for large, economically advanced but geographically remote Australia is 45.

What about large countries that are not as developed economically? The ratio for the pre-expansion BRICS are as follows: Brazil (39), Russia (44), India (49), China (38), and South Africa (65). The scores of several other large, important emerging economies should be noted as well: Mexico (88), Saudi Arabia (64), and Indonesia (45).

The World Bank also breaks down its entire set of trade/GDP ratios in various ways, including by levels of economic development. According to Bank data, the average trade/GDP ratio for low-income countries today is 50; for middle-income countries 52, and for high-income countries 68. For one key subset of high-income countries, those in the European Union, the trade/GDP ratio or trade openness index in 2022 was 106. What about for the world as a whole? 63. With these ratios in mind, what do we make of the low trade/GDP ratio of the United States, which at 27 sits alongside Ethiopia (27) just behind Burundi (28) in the Bank' s compilation, higher than only two other countries in the entire world, Nigeria (26) and the Sudan, whose ratio is 3.

Given the size of the U.S. economy – the country's GDP in 2022 was about $25.5 trillion – an "openness" ratio of 27 indicates that the country in an absolute sense is still doing a lot of importing and exporting, despite the low ratio of trade to GDP. And certainly there are many, many ways that international trade matters to the U.S. Specific types of imports and exports can have strategic value far exceeding their monetary value. Trade (and balance of payments) deficits and surpluses are important, and trade patterns and changes therein can profoundly affect specific sectors and regions, as the work of David H. Autor, David Dorn, and Gordon H. Hanson has demonstrated.

But in the case of the United States, there is a lot more going on than international trade. Given our very low trade/GDP ratio, it is, in fact, possible to devote too much attention and to accord too much weight to international trade, in so doing, crowding out discussions of – let alone, actions pertaining to – issues of equal or greater importance to our economic strength and vitality, both today and going forward.

Such issues relating to education (and human capital more generally), technology, infrastructure, fiscal and monetary policy, and inequality merit greater discussion/attention. Taken together, they greatly influence and shape our ability to participate in international trade and exchange. In the long run, such concerns are more important to our international competitiveness, security, and resiliency than are 'tariffs of 10% on everything', to invoke one economic nostrum getting airtime of late.

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