Chapter 18: The International Economy

Learning Objectives

After studying this chapter, you should be able to

18.1 Explain the concept of globalization and the forces behind it

18.2 Discuss the concept of openness as it applies to international trade

18.3 Explain the importance of international trade

18.4 Discuss some of the fallacies of international trade

18.5 Analyze some of the consequences of increased international economic interdependence

18.6 Discuss international competitiveness

18.7 Analyze the effects of international trade on Canadian workers

18.8 Discuss world trade

Assess Your Knowledge

1. What is globalization?
2. What is an open economy?
3. Is the following statement true or false? If two nations engage in international trade, one can gain only if the other loses.

The Globalization of Economic Activity

LO 18.1 Explain the concept of globalization and the forces behind it

Globalization

Globalization refers to the flow of capital, information, goods and services, communication, and people across borders. It relates to international trade—the exchange of goods and services between countries. Although the concept may seem familiar, it resists simple definition.

> ***globalization*** *refers to the international flow of capital, information, goods, services, communication, and people*

international trade the exchange of goods and services between countries

The Globalization Era

The term era of globalization now defines the modern world. Some view globalization as the internationalization of business, but this interpretation limits its scope and ignores its political, social, and cultural dimensions.

Forces Behind Globalization

There are three main driving forces behind globalization: (1) the political force, (2) the technological force, and (3) the economic and financial force.

Political Force

Globalization in its earlier form—prior to the Second World War—was driven by colonial expansion, gold standard regimes, and limited international trade concentrated among industrial powers. The current phase of globalization, which began in the late 1940s, accelerated during the 1980s and 1990s as trade liberalization deepened under the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). Through rounds of multilateral trade negotiations, there have been significant reductions or complete elimination of import tariffs and other barriers. A tariff is a tax on imported goods. Many countries that once imposed high tariffs have now lowered them to low single digits. At the same time, most restrictions on quantities traded have been removed. These changes have accelerated cross-border economic activity.

> ***trade liberalization*** *the reduction or elimination of trade barriers among nations*

> ***tariff*** *a tax on imported goods*

Regional Trade Agreements and the Globalization Backlash

Alongside globalization, the number of preferential regional trade agreements has increased substantially. One major example is the North American Free Trade Agreement (NAFTA), signed in 1992 and implemented in 1994, linking Canada, Mexico, and the United States. NAFTA was replaced in 2020 by the Canada–United States–Mexico Agreement (CUSMA), which updated several provisions concerning digital trade, labor rights, and dispute resolution.

Although globalization has contributed to rising living standards, poverty reduction, and economic growth in many developing countries, critics argue that it has produced adverse consequences in developed economies. In the United States, for example, the decline of manufacturing employment is often attributed to increased import competition from lower-wage countries. This perception has fueled growing skepticism toward open markets.

In 2018, President Donald Trump imposed high tariffs on several countries, including Canada, citing concerns over trade imbalances and national security. Canada, along with other affected countries, responded with retaliatory tariffs. In 2025, at the beginning of his second term, he imposed tariffs on nearly all of America's trading partners, particularly targeting China. These actions intensified trade tensions and disrupted global supply chains.

Whether this marks the beginning of a broader retreat from globalization remains uncertain. But the rise of protectionist policies and populist leaders in some countries suggests a growing backlash against global economic integration.

Technological and Economic Forces Behind Globalization

No force has propelled globalization more than technology. **Advances in information and telecommunications technology—especially the computer, the internet, and mobile networks—have**

transformed how businesses operate and communicate across borders. Modern transportation systems have allowed decision makers to save a great deal of time and to overcome the limitations imposed by geography. Container shipping and air freight have drastically reduced the time and cost of moving goods and people. The technological force has expanded the range of goods that can be produced, and developments in communication and transportation have brought people in different countries closer together for the purpose of trading. Firms can now coordinate complex supply chains across continents, and consumers have access to a wider variety of goods and services than ever before.

The Economic and Financial Driving Force

Over the years, international investment transactions have become increasingly liberal, and the development of international financial markets has facilitated international business transactions. **Countries have eased restrictions on cross-border investment, and financial markets have grown more sophisticated and interconnected.** These developments have fuelled international trade and globalization. The mobility of capital and financial services has reinforced the integration of national economies into a single global system.

Other Dimensions of Globalization

In addition to political, technological, and economic forces, globalization also operates through cultural, demographic, institutional, environmental, and digital channels.

Cultural Globalization

Globalization also extends into cultural exchange. Media, entertainment, food, and fashion circulate across borders, exposing people to new ideas and lifestyles. The global reach of streaming platforms, international brands, and educational content has made cultural products more accessible. Some critics argue that this has eroded local traditions and contributed to cultural homogenization.

Labour Mobility and Migration

The movement of people is another dimension of globalization. Labour migration has expanded, as workers relocate to meet demand in more developed economies. Remittances sent by migrant workers now represent a major source of income

Reading Comprehension

1. Briefly describe the condition to which the term *era of globalization* refers.
2. Discuss the forces that have fuelled globalization.
3. What role has technology played in the process of globalization?
4. Discuss some of the negative consequences of globalization
5. What do you understand by the “digital globalization”

for many developing countries. This flow of labour and capital links household economies across national borders.

Institutional Foundations of Globalization
Globalization has been supported by international institutions. The World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank have provided frameworks for trade liberalization, financial stability, and development finance. Regional trade blocs, such as the CUSMA, European Union, and ASEAN, have also played a role in integrating markets and setting rules for cross-border activity.

Environmental Effects of Globalization
The globalization of production and transport has ecological consequences. Long-distance shipping and increased industrial output have contributed to carbon emissions. In some cases, globalization has shifted polluting industries to countries with weaker environmental regulations. At the same time, environmental awareness and cooperation have grown, as activists and researchers form global networks.

Digital Globalization
A new phase of globalization has emerged through the rise of digital networks. Data now flows across borders faster than goods or people. E-commerce platforms, digital services, and online labour markets allow businesses and individuals to participate in global activity without physical relocation. This shift has redefined the boundaries of trade and employment.

The Openness of the Canadian Economy

LO 18.2 Discuss the concept of openness as it applies to international trade

Openness in International Trade
Let’s begin by defining an open economy. An open economy is one that engages in international trade. The concept of openness is directly related to the concept of an open economy. **Openness refers to the extent of a country’s involvement in international economic transactions, both trade in goods and services and capital flows.** An economy with a relatively large foreign sector is more open than one with a relatively small foreign sector. **Foreign sector size is typically measured by exports, imports, and cross-border capital movements.**

open economy *an economy that engages in international trade and capital flows*

Canada's Dependence on International Trade

A rough measure of the dependence of an economy on international trade is the ratio of its exports to its total output or GDP. Historically, the growth of the Canadian economy has been tied to foreign trade. During the colonial period, Canada exported mainly resources and imported finished goods. Today, the country is still heavily dependent on international trade. Canada's trade-to-GDP ratio remains among the highest in the G7, reflecting the economy's close integration into global markets. Canada's exports now account for about 30 percent of its GDP. The country depends on world markets to sell its products, and many imported goods would be far more expensive if produced domestically. Products like orange juice and coffee illustrate this point—goods that are difficult to grow in Canada would either be unavailable or prohibitively expensive. The phrase "No man is an island" applies equally to Canada's economic relationship with the rest of the world.

exports *goods and services sold to foreign countries*

Table 18.1

Table 18.1 export of G7 countries in 2023

Country	Exports as % of GDP
Germany	47.70%
Canada	33.50%
United Kingdom	31.50%
France	31.20%
Italy	31.00%
Japan	18.50%
United States	11.70%

(Source: World Bank, Exports of goods and services (% of GDP), 2023, https://data.worldbank.org/indicator/NE.EXP.GNFS.

How open is the Canadian economy

Table 18. 1 shows the share of exports in GDP across G7 countries in 2023. Germany exports nearly half of its total output, while Canada, the United Kingdom, France, and Italy each export about one-third. Japan and the United States export a much smaller portion of their GDP.

Germany emerges as the most trade-dependent among the G7, followed by Canada and the United Kingdom. Japan and the United States, in contrast, remain less exposed to international trade. These differences reflect structural features—Germany's export-driven industrial base, Canada's resource reliance, and the large domestic markets of Japan and the United States.

The relatively low export share in the United States probably stems from the size and diversity of its internal market, which reduces reliance on foreign demand. Canada's openness is most likely a result of its smaller domestic economy and its integration into North American supply chains. Germany's position reflects its global competitiveness in high-value manufacturing.

The table illustrates how varying degrees of trade integration shape economic exposure. Countries with a high export share are more vulnerable to shifts in global demand, supply chain disruptions, and protectionist policies.

The Importance of International Trade

LO 18.3 Explain the importance of international trade

Why International Trade Matters

Although it may not be immediately obvious, international trade enables countries to consume goods that would be too costly or impossible to produce domestically. There are also broader economic reasons for its importance. First, trade allows countries to specialize in producing goods and services that they can produce at relatively low cost. They can then use the proceeds to import items that would be more expensive to produce domestically. This specialization increases the joint output of trading nations compared to what they could achieve without trade. This principle is known as the law of comparative advantage—the idea that all trading partners can benefit if each focuses on what it does relatively well.

Second, international trade promotes competition, which raises efficiency. Foreign competition forces domestic firms to lower costs, improve quality, and innovate to stay viable. For instance, competition from Japanese auto manufacturers pressured North American producers to improve the quality and reliability of their vehicles. Without competitive pressure, firms risk losing market share and eventually exiting the market. Consumers benefit from this pressure through better products at more reasonable prices.

Third, international trade allows firms to access larger markets. This broader market base enables producers to increase output and lower costs through economies of scale.

Fourth, consumers benefit from a greater variety of goods. Trade provides access to products that may not be available domestically, improving choice and quality of life.

Reading Comprehension

1. How dependent is the Canadian economy on international trade? How can this dependence be measured?
2. "Canada's economy is one of the most open among industrial countries." Comment briefly.

Fifth, trade supports the international spread of technology and ideas. Exposure to foreign firms and global standards helps domestic producers adopt innovations and improve performance.

Finally, many argue that trade contributes to international peace and stability. Economic interdependence creates mutual interests that discourage conflict and encourage cooperation among nations.

law of comparative advantage the general idea that trading partners can benefit mutually if each specializes in an activity in which it has a relative advantage

LO 18.4 Discuss some of the fallacies of international trade

Trade Is Not a Zero-Sum Game

The belief that one trading partner can benefit only if another partner loses is a common fallacy in international trade. Trade is not a zero-sum game; both partners gain when each specializes according to comparative advantage. Canada and Mexico, for example, are able to produce a larger joint output of wheat and coffee if Canada produces wheat and Mexico produces coffee. By specializing, Mexicans gain by purchasing wheat from Canada, using their revenue from coffee. Simultaneously, Canadians gain by using their revenue from wheat to purchase coffee from Mexico.

zero-sum game *a situation in which one partner can gain only at the expense of the other*

Other Common Fallacies About International Trade

It would be surprising if the fallacy of zero-sum trade were the only one in international trade. In fact, there are others. One common misconception is that restricting international trade protects domestic employment. The argument suggests that by preventing foreign producers from selling to us, we can increase demand for domestic goods and preserve jobs. In some cases, restricting imports may shift production toward domestic alternatives and create employment in those sectors. But the overall effect is more complex. A reduction in imports limits the ability of foreign countries to earn the income needed to buy our exports. As exports fall, employment in exporting industries may decline. Rather than saving jobs overall, trade restrictions may simply reallocate them—and may even reduce total employment if retaliation or inefficiencies arise.

Another common fallacy is that exports stimulate domestic economic activity while imports depress the economy. This view fails to recognize the link between imports and exports. When Canadians import coffee from Mexico, the resulting revenue enables Mexicans to buy Canadian telecommunication devices. If Canadians stop importing, Mexicans lose the means to buy from Canada. As a result, falling imports may lead to lower production and employment in export industries.

Reading Comprehension

1. Briefly explain the importance of international trade.
2. State the law of comparative advantage.

Common Fallacies of International Trade

A further misconception is that trade deficits are always harmful. Although trade deficits are frequently viewed as a sign of economic weakness, they can also reflect strong domestic demand, investment activity, or capital inflows. What matters is how the inflow of goods and foreign capital is used—not the mere existence of the deficit.

Some also believe that international trade benefits only large multinational corporations. In fact, small and medium-sized enterprises gain access to cheaper inputs, broader markets, and opportunities to join global supply chains. Consumers benefit as well, through lower prices and greater product variety.

Finally, there is a mistaken belief that free trade means the absence of rules. In reality, trade agreements are governed by complex rules covering intellectual property, dispute resolution, and national treatment. Institutions such as the WTO manage these frameworks to promote transparency and fairness.

imports *goods and services bought from foreign countries*

Consequences of Globalization

LO 18.5 Analyze some of the consequences of increased international economic interdependence

Consequences of Increased Openness for the Canadian Economy

There is no doubt that the world economies have become increasingly interdependent. This interdependence is evidenced by the global impact of the financial crisis and the recession (2007–2009) that originated in the United States. More recently, the economic consequences of the COVID-19 pandemic and the war in Ukraine have demonstrated how external shocks can quickly affect Canadian markets. Disruptions in global supply chains, spikes in energy prices, and shortages of critical goods such as semiconductors have all highlighted Canada's exposure to international conditions.

One of the consequences of increased international economic interdependence is increased vulnerability of the domestic economy to international disturbances. Imagine the effect of a prolonged Middle East war that disrupts the flow of Middle East oil to Canada. This would affect fuel prices in Canada. The sharp rise in global oil prices in 2022, following Russia's invasion of Ukraine, illustrates how geopolitical instability can lead to energy price shocks in Canada. It must be pointed out, however, that there is another side to this coin. During periods of general shortages in Canada, domestic consumption may be satisfied from imports from the rest of the world. For example, supply shortages of medical equipment during the pandemic were partly mitigated by rapid imports from Asia and Europe.

Reading Comprehension

1. Can all countries that engage in international trade benefit from trade?
2. Discuss two popular fallacies about international trade.

Another consequence of increased openness is that it can dampen the effects of domestic economic policy. Economic policy is any course of action designed to achieve an economic objective. Suppose the government wants to stimulate domestic spending by reducing taxes, thereby leaving more money in the hands of Canadians. Because of the relative openness of the Canadian economy, a good portion of the resulting spending will go toward imported goods; thus, the impact on domestic spending will be reduced. For instance, stimulus measures during the COVID-19 recovery boosted demand for electronics and vehicles—many of which were imported—thereby limiting the multiplier effect on domestic output.

economic policy *a course of action designed to achieve an economic objective*

International Competitiveness

LO 18.6 Discuss international competitiveness

Competitiveness and Why It Matters

Firms often advertise that their prices are competitive. They mean that their prices are not out of line with the prices for similar products in the marketplace. If a Canadian manufacturer can produce a better telecommunication device at a lower cost than a British manufacturer, then it is more competitive. Competitiveness can be defined as the ability of a firm or industry to compete successfully in the marketplace on the basis of price, quality, innovation, or reliability.

Nations are concerned about the competitiveness of their firms and industries because uncompetitive producers struggle to survive in the global marketplace. If North American auto manufacturers are uncompetitive, firms like Toyota and Honda will capture their market share. Loss of competitiveness can lead to declining exports, shrinking industries, and rising unemployment. In contrast, competitive firms tend to grow, invest, and generate employment—strengthening the broader economy.

Reading Comprehension

1. Increased openness has certain adverse consequences for an economy. What are some of these adverse consequences?
2. Make a case for increased economic cooperation among nations.

Competitiveness refers to the ability of a firm or industry to maintain or gain market share by offering products or services that are attractive to consumers. This ability may depend on price, quality, branding, productivity, or efficiency. A competitive firm can match or outperform rivals in delivering value to customers while maintaining profitability.

The Link Between Competitiveness and Productivity

There certainly is! Let us think of productivity as output per worker. Consider two firms, A and B. If the productivity of the workers in firm A increases at a faster rate than that of the workers in firm B, then unit cost in firm A will decrease over time relative to unit cost in firm B. Thus, firm A will become relatively more competitive than firm B. Higher productivity reduces production costs, allowing firms to offer lower prices or improve quality without sacrificing profit. Over time, this enhances their position in domestic and international markets. For this reason, improving productivity is one of the most direct ways to strengthen competitiveness.

Internal Factors That Affect a Firm's Competitiveness

Several internal factors influence a firm's ability to compete effectively in the marketplace:

■ **Worker skills and motivation** : A well-trained and motivated workforce improves productivity, quality, and adaptability to changing market demands.

■ **The level of technology at the firm's disposal**: Advanced machinery, software, and production methods help reduce costs, speed up output, and improve product quality.

■ **The quantity and quality of its physical and financial resources:** Firms with better access to capital and modern facilities can expand, invest in innovation, and respond to competitive pressure.

■ **The internal organizational structure:** Efficient management, clear communication, and sound decision-making processes improve responsiveness and resource allocation.

■ **Its scale of operation:** Larger firms often benefit from economies of scale, allowing them to produce at lower cost per unit and compete more aggressively on price.

■ **Innovation capacity: The** ability to introduce new products or improve processes supports long-term competitiveness and adaptability.

■ **Cost structure:** Differences in input costs, such as wages, energy, and raw materials, affect a firm's pricing and profitability.

External Factors That Influence Industry Competitiveness

In addition to internal characteristics, broader economic and policy conditions also shape the competitiveness of entire industries:

■ **Exchange rates:** Currency fluctuations influence the relative cost of exports and imports, affecting international price competitiveness.

■ **Trade policy and regulation :** Tariffs, subsidies, and compliance requirements can either support or restrict access to global markets.

■ **Market access and infrastructure:** Efficient transport systems, digital networks, and logistics enable firms to reach broader markets and lower transaction costs.

■ **Macroeconomic stability:** Inflation, interest rates, and fiscal policy influence investment decisions and operational certainty.

■ **Public infrastructure and institutions:** The quality of roads, power supply, water systems, and public services such as education and health care supports productive capacity and labour efficiency across the economy.

Assessing International Competitiveness

The competitiveness of a nation is much more difficult to assess than that of a firm or an industry. **Several factors complicate the evaluation of a country's international competitiveness:**

2. A nation can be competitive even if its imports exceed its exports, that is, even if it runs a **balance of trade deficit**.

   Balance of trade deficit, the excess of imports over exports.

3. The ability to create jobs does not necessarily make a nation competitive.
4. Low wages do not necessarily make a nation competitive.

These points highlight that national competitiveness cannot be measured by a single statistic like trade balance, employment numbers, or wage levels. A broader assessment requires examining the structural foundations that support productivity, innovation, and sustained economic performance.

To assess a country's competitiveness more accurately, economists examine a set of structural and performance-based indicators:

■ **Labour productivity**: Output per worker or per hour worked reflects efficiency and cost competitiveness. Economies with rising productivity tend to experience higher growth and wages.

■ **Innovation and technological capacity:** A country's ability to adopt and develop new technologies supports long-term competitiveness. Indicators include R&D spending, patent activity, and digital infrastructure.

■ **Business environment and regulation:** Efficient institutions, predictable legal systems, and minimal bureaucratic barriers improve firm performance and attract investment.

■ **Education and human capital:** A skilled and educated workforce supports innovation and improves adaptability. Measures include schooling levels, training access, and workforce quality.

■ **Infrastructure and logistics:** Reliable transport networks, energy systems, and digital connectivity reduce transaction costs and expand market reach.

■ **Macroeconomic stability**: Low inflation, manageable public debt, and stable financial conditions encourage long-term investment and confidence.

■ **Global market access:** Participation in trade agreements and integration into global supply chains enhance the ability of domestic firms to scale and compete internationally.

Taken together, these structural factors provide a more complete picture of a nation's capacity to compete in the global economy and sustain rising living standards.

A nation can be competitive in one area but not in another. For example, Canada is much more competitive than Bangladesh in the production of high-tech devices but much less competitive in the production of cane sugar. As a general rule, a nation's pattern of exports and imports offers insight into its areas of relative competitiveness. If we export a good, we are relatively more competitive in producing that good than the country that imports it; if we import a good, then the exporting country is relatively more competitive in producing that good than we are.

International Trade and the Canadian Worker

LO 18.7 Analyze the effects of international trade on Canadian workers

The gains and losses of workers from trade

Most, but not all, workers benefit from international trade. Trade allows workers, as consumers, to purchase goods at lower prices and benefit from greater product variety. It also enables firms to adopt technologies and access inputs that raise productivity and wages in competitive sectors. As a country produces goods for export, it generates employment and income for workers in the exporting sector. Workers in such industries extol the virtues of international trade because they are aware that their jobs and standard of living depend on it.

But not all workers gain, and some may be negatively affected, at least in the short term. Many Canadian workers feel vulnerable to job losses caused by competition from cheaper imports produced by lower-cost foreign labour. Others worry that Canadian firms may relocate production abroad to take advantage of lower wages and weaker regulations. Some also express concern that immigration from low-wage countries could place downward pressure on domestic wages.

Reading Comprehension

1. What is the relationship between competitiveness and productivity?
2. Why are nations so concerned about competitiveness?
3. Discuss three factors that affect

The gains from trade are real but unevenly distributed, and these distributional effects lie at the heart of current debates about globalization.

World Trade

LO 18.8 Discuss world trade

The Role of the World Trade Organization

The importance of international trade has now been firmly established. The World Trade Organization (WTO) serves as the principal institution that promotes trade among nations. Before the establishment of the WTO in 1995, trade agreements were dealt with under the General Agreement on Tariffs and

Trade (GATT). The WTO's main objective is to ensure that trade flows as smoothly, freely, and predictably as possible. It is the only global organization responsible for overseeing trade rules, settling disputes, and facilitating negotiations among its members. The WTO is headquartered in Geneva, Switzerland. As of 2024, it has 164 member countries.

The Role of the WTO

The World Trade Organization plays several roles aimed at promoting stability, openness, and fairness in global trade. According to its official mandate, the WTO:

■ Administers trade agreements between nations – The WTO oversees the implementation of multilateral trade agreements, ensuring that member countries meet their obligations and follow common rules.

■ Acts as a forum for trade negotiations – It provides a platform where member countries can negotiate reductions in trade barriers and update trade rules to reflect changing global conditions. ■ **Settles trade disputes**: When trade disagreements arise, the WTO offers a formal dispute resolution process. This helps prevent conflicts from escalating and ensures that rules are enforced consistently.

■ **Reviews national trade policies**: Through periodic reviews, the WTO monitors how member countries implement trade policies, increasing transparency and encouraging best practices.

■ **Assists developing countries in trade policy issues, through technical assistance and training programs**: The WTO supports developing countries by helping them build capacity in trade negotiation, regulation, and enforcement, so they can better participate in the global trading system.

■ **Cooperates with other international organizations**: It works in coordination with institutions like the International Monetary Fund (IMF) and the World Bank to align trade, financial, and development objectives.

■ **Promotes trade facilitation**: Since the Trade Facilitation Agreement took effect in 2017, the WTO has helped simplify customs procedures, reduce paperwork, and improve border efficiency—especially for developing economies.

■ **Supports least-developed countries**: The WTO provides special assistance to the least-developed countries, including extended timelines for implementing rules and improved access to developed markets.

■ **Monitors global trade trends**: Through regular reports and research publications, the WTO tracks global trade flows and policy developments, helping members respond to emerging challenges.

Reading Comprehension

1. Is it true that imports into Canada will necessarily hurt Canadian workers?
2. Some workers benefit from international trade while others lose. Explain.

Canada as a trading country

Table 18.2 presents the 15 largest merchandise exporters and importers by value in 2023. China ranks as the largest exporter, followed by the United States and Germany. On the import side, the United States leads, with China and Germany in second and third positions. European economies—Germany, the Netherlands, France, Italy, Belgium, and the United Kingdom—feature prominently on both lists.

China, the United States, and Germany dominate global trade, occupying the top three spots in both exports and imports. Middle-ranking positions include highly integrated economies such as Japan, South Korea, and the Netherlands. Lower on the list are advanced economies with strong regional trade ties—Canada, Mexico, Spain—and trading hubs like Singapore and Hong Kong.

Table 18.2 The 15 leading exporters and importers in 2023

Exports			Imports		
Rank	**Top Exporters**	**Exports (US$ Billion)**	**Rank**	**Top Importers**	**Imports (US$ Billion)**
1	China	3,593	1	United States	3,182
2	United States	2,125	2	China	2,716
3	Germany	1,746	3	Germany	1,574
4	Netherlands	965	4	Netherlands	1,013
5	Japan	747	5	Japan	897
6	South Korea	683	6	United Kingdom	782
7	Italy	660	7	France	751
8	Hong Kong, China	651	8	Hong Kong, China	720
9	France	617	9	South Korea	689
10	Belgium	610	10	India	670

11	United Kingdom	600	11	Italy	650
12	Mexico	580	12	Mexico	630
13	Canada	570	13	Canada	620
14	Singapore	560	14	Singapore	610
15	Spain	550	15	Spain	600

Source: World Trade Organization, *World Trade Statistical Review 2023*, Table A6. Available at: https://www.wto.org/english/res_e/booksp_e/wtsr_2023_ch5_e.pdf

The large trade volumes of China and Germany likely reflect their strong manufacturing sectors and integration into global supply chains. The United States ranks lower as an exporter but leads as an importer, probably because of its large domestic market and reliance on foreign-produced consumer and capital goods. Smaller countries like the Netherlands and Singapore rank highly because of re-exports and their strategic roles in international logistics.

The table highlights the continued dominance of industrialized economies in world trade and the growing role of Asia in shaping global trading patterns.

Table 18.3 the share of the world's GDP, population, and trade

(The US, China, and Canada in 2023)

Country/Region	GDP	Population	Trade
World	100%	100%	100%
United States	24.8%	18.4.15%	18.10.8%
China	18.18.1%	18.18.5%	18.11.5%
Canada	18.2.0%	18.0.48%	18.2.5%

Sources: World Bank – World Development Indicators: World Bank Databank

World Bank – Population Statistics: World Bank Population Data

The Growth of Trade Relative to Output

Under both the GATT and the WTO, world trade has grown at a faster rate than world output. This trend has widened over time, particularly since the 1990s, when global supply chains expanded and emerging economies became more integrated into world markets. As a result, the share of trade in global GDP has steadily increased, raising the degree to which national economies rely on international exchange. International trade now plays a larger role in economic activity than at any previous period in modern history.

The Size of the World Economy

The size of an economy can be measured in various ways—by GDP, labour force, population, or overall spending—depending on the aspect one wants to highlight. To give a general sense of the global economy's scale, we can examine selected key indicators. Table 18.3 presents data on world GDP, population, and trade, alongside comparable figures for the United States and Canada. These national figures serve as benchmarks to help contextualize the scale of global economic activity. In addition to capturing the size of the world economy, the table includes data that reflect other important dimensions of global economic performance.

Table 18.3 presents the shares of global GDP, population, and trade accounted for by the United States, China, and Canada in 2023. The United States, with just over 4 percent of the world's population, produced nearly a quarter of global GDP and contributed over 10 percent of world trade. China matched its population share with a similar proportion of global GDP and surpassed the U.S. slightly in trade share. Canada's economic output was roughly four times its population share, and its trade share slightly exceeded its output share. These figures suggest that the United States and Canada remain highly productive economies, while China has become a dominant force in global trade.

Other organizations that affect international trade

In addition to the WTO, two other organizations play central roles in shaping the global trade environment—**UNCTAD** and the **International Monetary Fund (IMF)**.

UNCTAD, established in 1964, focuses on helping developing countries integrate into the global economy. It plays three central roles:

1. **Deliberation forum** – It brings governments and experts together to build consensus on trade and development issues.
2. **Research and analysis** – It produces data and policy research to inform discussions and policymaking.
3. **Technical assistance** – It provides support tailored to the specific needs of developing countries, especially the least developed and transition economies.

UNCTAD's membership includes 193 countries, and Canada participates through its role in the Trade and Development Board. While the WTO oversees trade rules and dispute resolution, UNCTAD addresses broader development concerns, particularly from the perspective of developing economies.

The International Monetary Fund

The **International Monetary Fund (IMF)** is a global financial institution composed of **190 member countries** as of 2024. Its primary mandate is to promote the **stability of the international monetary system**—the framework of exchange rates and international payments that enables trade and investment across borders.

According to the IMF, it

- **Promotes international monetary cooperation** and **exchange rate stability**
- **Supports balanced growth** of international trade
- **Provides financial assistance** to countries facing **balance of payments problems**
- **Contributes to poverty reduction**, especially through concessional lending to low-income countries

Canada was one of the **original 37 founding members**, joining the IMF on **December 27, 1945**, and continues to play an active role in its governance and lending programs. While the IMF does not regulate trade directly, it influences global trade by stabilizing exchange rates, offering policy advice, and providing emergency financing during economic crises.

Reading Comprehension

1. How important is Canada on the world trading state?
2. Mention four of the world's leading exporters and importers.
3. Give some indication of the size of the world economy.
4. What is the role of the World Trade Organization?
5. What is the United Nations Conference on Trade and Development (UNCTAD) and what does it do?
6. What is the IMF and what is its main purpose?

Review

1. Review the learning objectives listed at the beginning of the chapter.

2. Have you accomplished all the objectives? One way to determine this is to answer the Reading Comprehension Questions at the end of each section. This will help you assess the extent to which you have accomplished the learning objectives.

3. If you have not accomplished an objective, review the relevant material before proceeding.

Key Points to Remember

1. **LO 18.1** National economies have become increasingly economically interdependent. Trade in goods, services, resources, and technology has become a routine part of most economies.
2. **LO 18.1** Globalization refers to the rising movement of capital, people, and information across borders. It signals deeper international economic ties. Key drivers include trade liberalization, technological progress in communications and transportation, and expanding global financial markets.
3. **LO 18.2** Canada is a relatively open economy. Exports account for about 38 percent of GDP. International trade has played a major role in its economic growth.
4. **LO 18.3** Trade raises living standards by enabling countries to consume more than they could in isolation. It also boosts competition, encouraging firms to become more efficient.
5. **LO 18.4** Three common trade fallacies are: (1) trade is a zero-sum game; (2) restrictions protect jobs; and (3) exports are good while imports are bad. All three misrepresent how trade works.
6. **LO 18.5** Economic interdependence exposes countries to external shocks and limits the effectiveness of purely domestic policies.
7. **LO 18.6** Competitiveness reflects a firm's or sector's ability to compete based on price and quality. Countries tend to export goods in which they are relatively more competitive and import goods where they are not.
8. **LO 18.7** Trade benefits most workers in the long run, but some may lose in the short run, particularly in industries facing foreign competition.
9. **LO 18.8** The **World Trade Organization (WTO)** governs global trade rules and resolves disputes. Canada ranks among the top 11 global traders. Other key institutions include **UNCTAD**, which supports developing countries' trade participation, and the **IMF**, which promotes monetary stability and helps countries in financial distress.

Problems and Exercises

Basic

1. **LO 18.1** Indicate whether each of the following would be classified as a political force (P), a technological force (T), or an economic force (E):
   a. International capital flows
   b. Growth of international financial markets
   c. Developments in international communication
   d. High-speed electronic information flow
   e. Trade liberalization
   f. The formation of trading blocs among nations
2. **LO 18.2** State, giving reasons, whether the following statement is true or false: "The larger the volume of a country's exports, the more open its economy."
3. **LO 18.3** List three specific benefits that Canada derives from international trade.
4. **LO 18.4** Detect the error (if any) in the following argument: "Canada should restrict imports into the country because it is better for us to produce the imported items ourselves."
5. **LO 18.6** Construct an example to show that uncompetitive industries in a global setting can be driven out of the market.

Questions in the Intermediate and Challenging Sections cover several different concepts, and have not been organized by learning objectives.

Intermediate

1. Present an argument to support the view that trade liberalization can adversely affect Canadian industries.

2. In 2007, countries A and B had the data shown in Table 18.4.

Table 18.4 Economic Data for A and B

Country	Exports ($ mil)	GDP ($ mil)	Export/GDP Ratio (%)
A	130.6	326.5	
B	180.7	602.3	

a. Complete the export/GDP ratio column.

b. Which of the two economies is more open?

3. Demonstrate that an economy can become more open even if the volume of its exports falls.

Challenging

1. In country A, capital is abundant, while in country B, labour is abundant. Assume that capital and labour are immobile between A and B. Show that trade between A and B will tend to equalize the prices of capital and labour in both countries.

2. Present an argument to convince Canadian workers that they can be made better off through international trade.

Study Guide

Self-Assessment