1.1 TRADE: THE BASICS

CITIZENS' ASSEMBLY ON BREXIT

WHAT IS TRADE?

Trade is the buying and selling of products between countries.

These products can be goods, such as food and electrical products, or services, such as education and banking.

People and companies in the UK often trade with people and companies in other countries. For example, you might own a German washing machine. A Polish company might ask a British firm to design its website. Someone in Britain might buy vegetables from Spain.

Trade goes in two directions. Movements of goods and services out of a country are exports. Movements into a country are imports.

WHY DO COUNTRIES TRADE?

Countries trade for several reasons.

One reason is that some goods or services can be produced more efficiently in one country than in another. For example, the UK imports tropical fruit because it's easier to grow such fruit in a hotter climate. The UK exports financial services because it has built up a lot of expertise in this area. Countries will generally specialise in producing those goods and services that they can produce most efficiently.

Another reason for trade is that it increases choice and competition. For example, the UK makes and exports cars, but it also imports cars from other countries. If we could only buy the cars that are made in the UK, there would be less choice and prices would probably be higher.

IS TRADE ALWAYS A GOOD THING?

Trade can increase prosperity and living standards in all countries involved. It allows a country to obtain goods and services that it can't produce itself as efficiently. It increases choice and reduces prices.

But trade can also have disadvantages:

- It can be harmful for some people. For example, people working in particular industries can lose their jobs if it becomes more efficient to produce these goods in other countries.
- It can encourage a 'race to the bottom'. For example, countries might weaken protections for workers or for the environment so that they can compete more effectively against other countries with higher standards (and hence higher costs).

For more information on these arguments, see Paper 1.6: Trade: Free Trade v. Protectionism.

WHAT ARE TRADE BARRIERS?

Many things can limit the free flow of goods and services between countries. These limits are called *trade barriers*. *Tariffs* and *non-tariff barriers* are the most common.

- **Tariffs** are taxes on imported goods and services. They restrict trade by increasing the price of imports, making them more expensive to consumers.
- **Non-tariff barriers** are regulations and processes that make trade more complicated. For example, if each country requires medicines to be licensed by its own regulator, drugs companies have to go through the licensing process in each country in which they trade. Similarly, if each country requires providers of financial services to be based locally, banks have to establish offices in different countries. If each country has its own safety standards for cars or electrical products, then companies trading internationally have to create products that fit different standards in different places. Customs checks on borders also create non-tariff barriers because of the time that is lost going through them.

WHAT ARE TRADE AGREEMENTS?

Trade agreements are a way for countries to coordinate with each other to get the most favourable terms of trade. Some trade agreements go further than others:

- All trade agreements seek to reduce or eliminate tariffs on imports and exports between the countries that sign up to the deal.
- Some trade agreements try to go further and reduce non-tariff barriers as well. They might create 'mutual recognition' arrangements, where goods and services licensed in one country are also accepted in another. Or they might try to 'harmonise' their product standards in certain areas, so that different countries follow the same standards.

All trade agreements require governments to give up control over some areas of policy in return for the prospect of increasing trade. Limited trade agreements require this just on tariffs. More detailed trade agreements involve agreement on other aspects of policy in order to reduce non-tariff trade barriers.

While trade agreements do increase trade, some people worry that they can harm things like animal welfare standards or food safety standards. While they create new jobs, they can also undermine some existing jobs where foreign competition is strong.