C.2. Trade balance as a percentage of GDP

■ Trade balance data for 2000 and 2007 for OECD countries, OECD accession countries and countries of the Enhanced Engagement Programme (EEP) vary widely. Some countries are in surplus or in deficit in both years. Countries' surpluses or deficits may deteriorate, improve or remain stable.

■ The changes are due first to different export and import trends. In the Czech Republic, the Slovak Republic and China, the trade balance improved because of growth of exports. In the United States, the trade balance deteriorated because of the sharp rise in imports. In Estonia and India where the balance deteriorated, exports and imports expanded at the same pace but because the export/import ratio was significantly lower than 1, the deficits widened.

■ For the merchandise trade balance, the highest ratios in 2007 were in Norway (14.0%) and Ireland (11.8%). The highest negative ratios were in Greece (–18.7%) and Spain (–8.5%). In both countries, this was mainly due to a large trade deficit in machinery and transport equipment.

■ For services trade, Luxembourg showed the highest trade-balance-to-GDP ratio in 2007 with 40.5% (33.5% in 2000), followed by Switzerland with 8.5% (6.8% in 2000). Iceland had the highest negative values (–4.0% in 2007).

Sources

- *OECD Trade Indicators*, May 2009.
- United Nations Statistics Division, *National Accounts Main Aggregates Database,* 2009.

For further reading

- OECD Trade Indicators, *www.oecd.org/std/its/tradeindicators*.
- United Nations Statistics Division, *National Accounts Main Aggregates Database*, *unstats.un.org/unsd/snaama*.

Trade balance, export-import ratio and international competitiveness

The trade balance (exports less imports) is probably the macroeconomic indicator most frequently used to gauge the competitiveness of a country or of a sector or product at national level. The export-import ratio (exports to imports) is also used. The two measurements are not alternatives but complements, given that one can improve and the other deteriorate at the same time.

The interpretation of trade balances needs to take account of the factors that influence it. The most important may be:

1. *Improvement of price-competitiveness and structural competitiveness*

The main question is to what extent an improved trade balance or import-export ratio may be attributable to improved competitiveness or other factors. An improvement in relative prices can contribute to trade surpluses but this will also depend on the factors responsible. If, for example, the improvement is the outcome of more efficient control of production costs or an improvement in non-price factors (structural competitiveness) such as innovation, product quality, etc., then this result does reflect improved competitiveness. The factors mentioned below, on the other hand, can help improve the trade balance but are unrelated to competitiveness.

2. *Cyclical lag*

When export market demand grows more rapidly than a country's domestic demand, the trade balance will tend to improve as long as no other obstacles prevent export growth (*e.g.* a lack of spare capacity). In the same way, if domestic demand grows faster than export markets, other things being equal, the trade balance will tend to deteriorate. However, permanent excessive domestic consumption can be due to structural causes, mainly an imbalance between savings and investment.

3. *Terms of trade*

If the price of imported goods rises more slowly than that of exported goods, or if the import price of certain primary commodities declines (oil, raw material, food, etc.), the trade balance would improve, but the country's competitiveness would not be in any way responsible for the improvement.

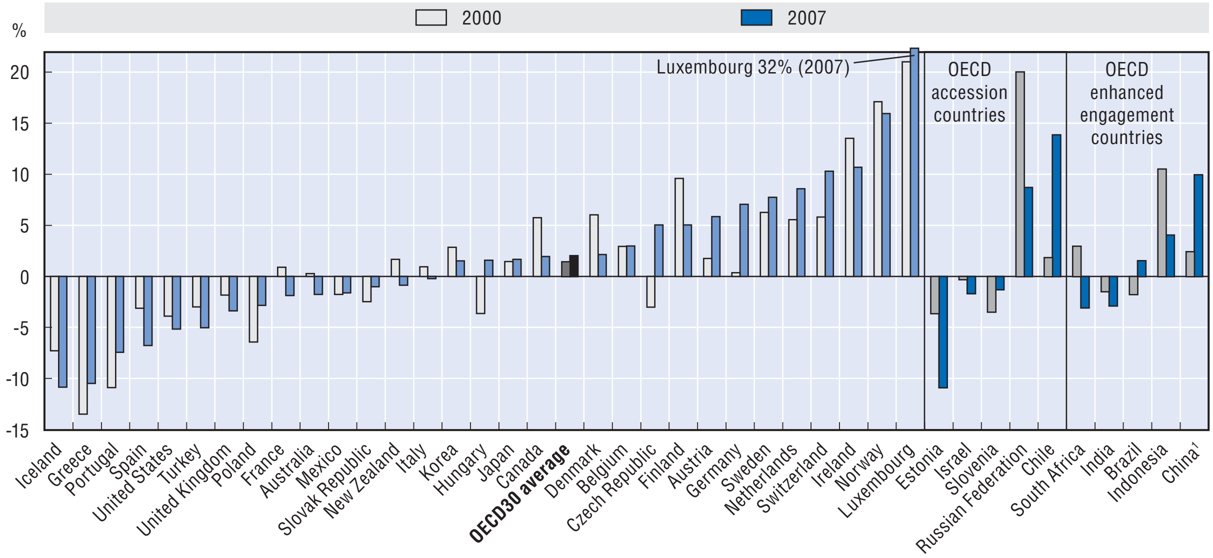
4. *Other factors*

The introduction of structural adjustment policies made necessary as a result of excessive government borrowing, for example, may be intended to increase exports and massively cut imports. The factors mentioned above are not exhaustive, but are among those that should be given prime consideration when analysing the influence of competitiveness on the trade balance.

In this document, the main results are presented but the causes and links between trade balance trends and competitiveness are not analysed.

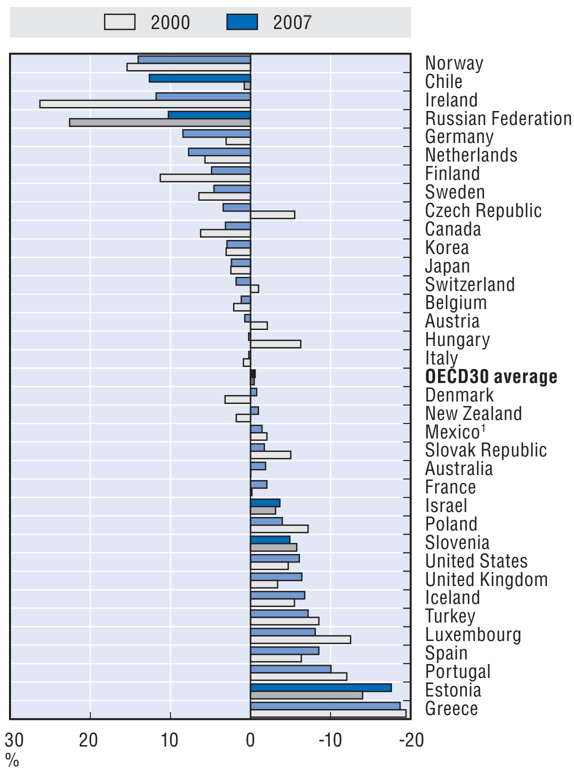
C.2. Trade balance as a percentage of GDP

Figure C.2.1. **Trade balance in goods and services**
As a percentage of GDP, 2000 and 2007



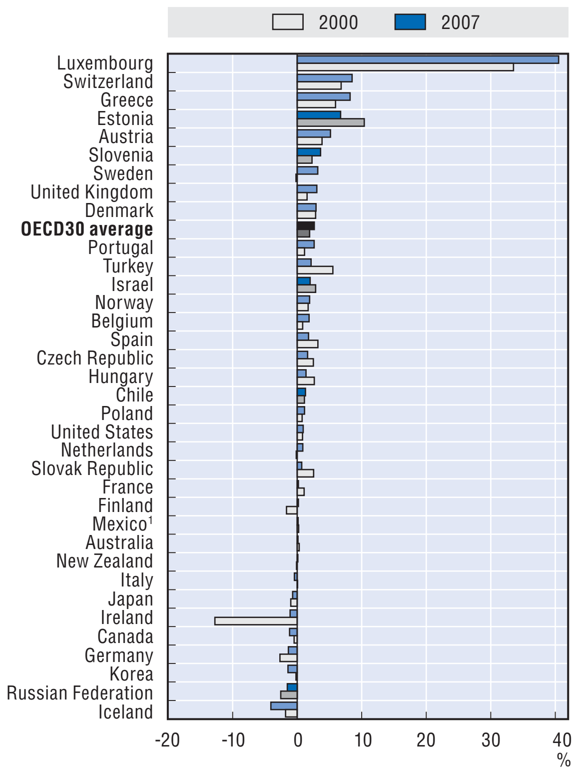
StatLink http://dx.doi.org/10.1787/840415044605

Figure C.2.2. **Trade balance in goods**
As a percentage of GDP, 2000 and 2007



StatLink http://dx.doi.org/10.1787/840427658247

Figure C.2.3. **Trade balance in services**
As a percentage of GDP, 2000 and 2007



StatLink http://dx.doi.org/10.1787/840478782446

1. Data from the United Nations Statistics Division (National Accounts).

Information on data for Israel: *http://dx.doi.org/10.1787/888932315602*.