

International trade integration in regions

The regions most open to trade face higher costs as international trade is scaling back but they also have the potential to recover faster.

While openness to trade has been determinant of regional economic success in recent decades, the global pandemic has also highlighted the vulnerability that can arise from a reliance on international trade. As of 2018, the extent to which regions operate in international markets through buying and selling products and services varies substantially within OECD countries. “First-nature” geographical conditions, such as being a natural port or being located in proximity to country borders, can drive observed differences in the degree of international trade integration. One way to assess regional trade integration is to measure trade openness by looking at the share of exports plus imports over total regional GDP. In the regions most integrated into international trade, the value of import and export easily surpasses the regional GDP. This happens especially in European regions close to national borders, such as Ticino (Switzerland) or Western Slovenia, or regions with major ports and trade facilities, such as Hamburg (Germany), Kaliningrad (Russia), Peloponnese (Greece) and Riga (Latvia) (Figure 2.14). Large shares of employment in manufacturing or other tradeable sectors are associated with relatively higher trade openness within countries, as in the case of Veneto (Italy) or Wales (United Kingdom).

In general, trade openness has increased in OECD regions during the last decade. Between 2010 and 2018, the share of imports plus exports over GDP increased from 60% to 69%, for 17 countries with available data. The largest difference in changes to regional openness to trade occurred in Switzerland where imports and exports (relative to GDP) grew by more than 1.5% per year in the region Northwest while national trade openness declined (Figure 2.15). In contrast, in China, the United Kingdom and the United States, openness to trade declined more strongly in the most open region than for the respective national economy.

International trade integration exposes regions to larger markets and higher competition but also to external shocks, such as that caused by the recent COVID-19 crisis. Regions relatively more integrated into international trade are expected to face higher economic costs by the scaling back of international trade induced by the COVID-19 containment measures put in place by many countries (OECD, 2020a). However, those regions have also the potential to recover faster. By classifying regions based on their productivity profile since 2008, a clear positive correlation exists between regions’ openness to trade and the regional productivity growth patterns in 20 countries with available data (Figure 2.16). Within countries, regions with the highest productivity – i.e. frontier regions – have on average the highest openness to trade, almost reaching 60% of regional GDP. Next to frontier regions, regions that have experienced catching up towards the frontier regions since 2008, report the second highest degree of trade openness, with import and export amounting to an average of around 40% of regional GDP. On the other hand, regions that

have recorded further increases in their productivity gap with the national frontier have the lowest openness to trade (30% of GDP).

Definition

The trade openness ratio is the sum of exports and imports divided by GDP. This indicator measures a country or region’s “openness” or “integration” in the world economy. The term openness to international competition may be somewhat misleading. In fact, a low ratio may be due to size and geographic remoteness from potential trading partners. For example, it is generally the case that exports and imports play a smaller role in large economies than they do in small economies.

The frontier is the region leading its country in terms of labour productivity, measured by the real GDP per employee. Catching-up/diverging/keeping pace regions is a classification of regions based on their labour productivity growth relative to the frontier between 2008 and 2018.

Source

OECD (2020a), “From pandemic to recovery: Local employment and economic development”, *OECD Policy Responses to Coronavirus (COVID-19)*, OECD, Paris, <http://www.oecd.org/coronavirus/policy-responses/from-pandemic-to-recovery-local-employment-and-economic-development-879d2913/>.

OECD (2020b), *OECD Regional Statistics (database)*, OECD, Paris, <http://dx.doi.org/10.1787/region-data-en>.

OECD (2018), *Productivity and Jobs in a Globalised World: (How) Can All Regions Benefit?*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264293137-en>.

Territorial level

Large regions (TL2). EST, LVA and LTU: small regions (TL3).

Figure notes

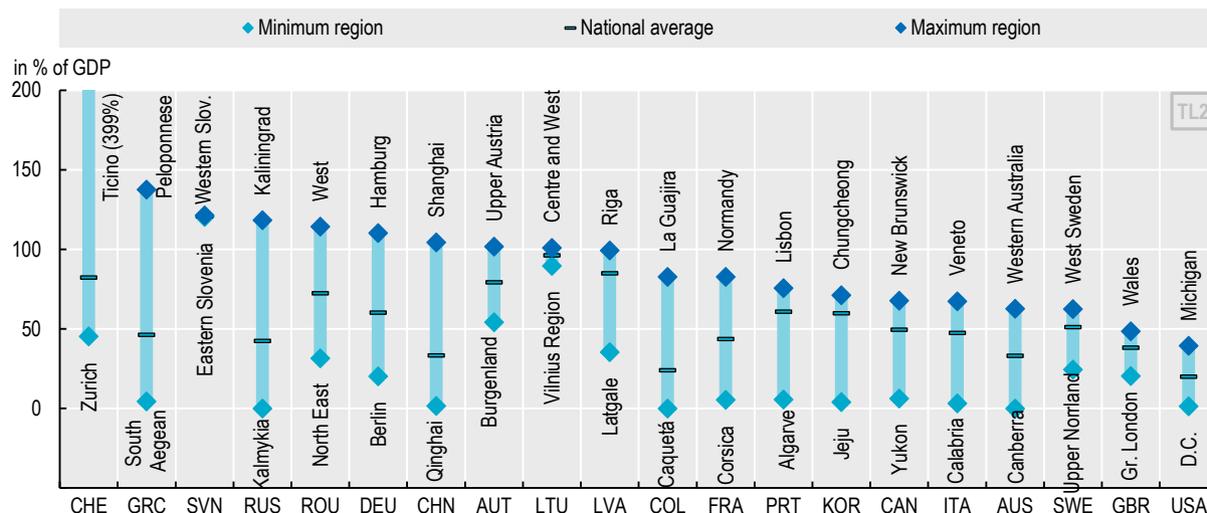
Imports and exports as a share of GDP expressed in 2015 constant prices, using OECD deflators and converted into constant USD purchasing power parities (PPPs), 2015 reference year.

Figure 2.15: Period 2010-18, or first available year: CHN, CHE, 2012; FRA, 2013. Last year available: CAN, COL, FRA, ITA, RUS, CHE, 2017; DEU, 2016; ROU, 2015.

Figure 2.16: Includes AUS, AUT, BEL, CAN, COL, FRA, DEU, GRC, ITA, KOR, LVA, LTU, CHN, PRT, ROU, SVN, SWE, CHE, GBR and USA. Number of regions by productivity profile: Frontier (32), Catching-up (86), Keeping pace (72), Diverging (69).

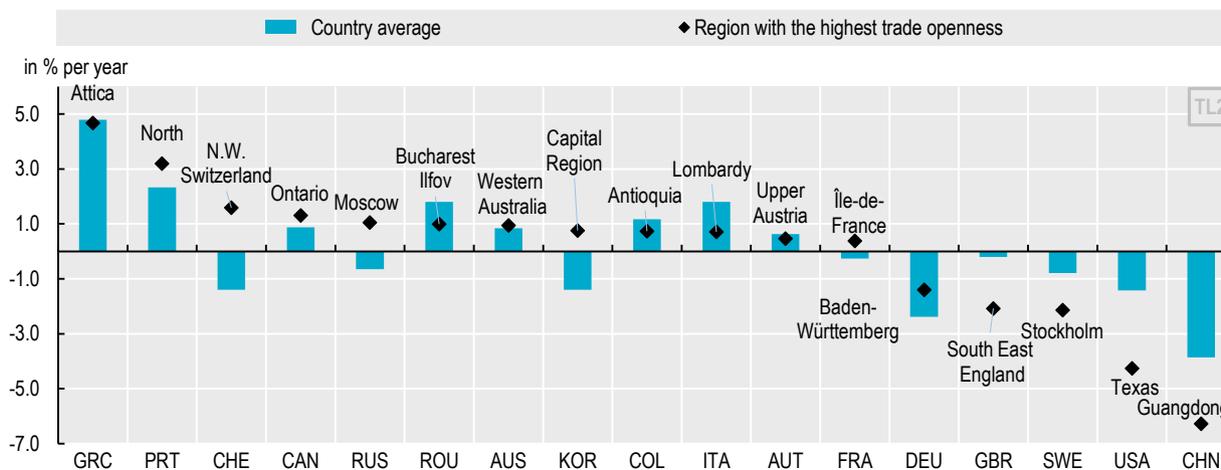
2.14. Regional trade openness, TL2 regions, 2018

International imports plus exports in percentage of GDP



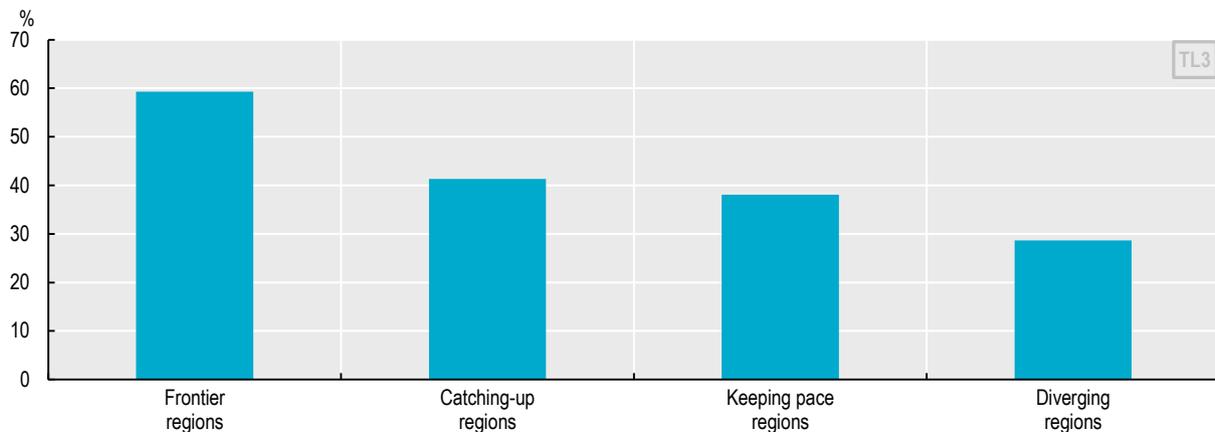
StatLink <https://doi.org/10.1787/888934189830>

2.15. Change in trade openness, 2010-18

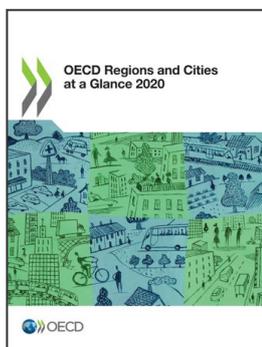


StatLink <https://doi.org/10.1787/888934189849>

2.16. Trade openness by productivity profile of regions (TL2), 2018



StatLink <https://doi.org/10.1787/888934189868>



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