4.4 A note on trade and GDP

When discussing the definition of a trading bloc in section 2.1, the apparent inconsistency of considering a bloc to be a threat to multilateral liberalization if it involves regional integration, while simultaneously disregarding that countries themselves are blocs, was pointed out. The point is that the distinction is arbitrary and becomes increasingly blurred as Europe moves closer to complete economic union. In a sense, the U.S. has achieved complete economic union *with itself* and, as a bloc, is the largest economy in the world.

In this light, it is interesting to note that U.S. imports from the rest of the world as a percentage of its GDP have consistently fallen below extra-regional European imports, until 1986 (Chart 12).[62] This implies that Europe, taken as a trading bloc, and until the mid-1980s, was a more open economy to international trade that of the U.S., if the latter is considered to be a trading bloc.[63] Asia also shows a consistently higher extra-regional imports-to-GDP ratio than the United States. If Europe trades more extra-regionally than the U.S., then the concern over "Fortress Europe" should be qualified. If Europe became one country, it would have traded a greater proportion of its GDP, on average, over the sample period, than the U.S.. Asia, too, is a more active trader than the U.S., according to this measure. Although this measure is not an indicator of the existence of trading blocs, it does serve to illustrate the arbitrary

[62]The break in the series that occurs in 1986 can be explained by two separate effects which work simultaneously on GDP and imports to bring the ratio down for Europe, relative to the U.S.. The first effect results from a fall in the U.S. dollar vis-à-vis the European currencies related to the implementation of the 1985 Plaza Agreement. The currency effect implies that the value of intra-European imports, which are priced in European currencies, will increase when converted into U.S. dollars (i.e., 10,000 Austrian shillings worth of imports would have been converted into $U.S. 4,830 in 1985, but the same value in shillings would have been worth $U.S. 6,550 in 1986.) This implies that the intra-European share, which is subtracted from total world imports to obtain the numerator of the ratio, is larger, leaving the numerator, and the ratio, smaller than would have otherwise been the case. Also, the GDP of European countries, when converted into U.S. dollars, is higher in 1986 than in 1985 because of the change in exchange rates. Even if nominal GDP evaluated in the domestic currency did not change, GDP denominated in U.S. dollars would increase, making the denominator of the ratio larger, and the ratio smaller, than it otherwise would have been. To complicate matters further, these exchange rate effects were accompanied by a large change in petroleum prices. In 1986, petroleum prices decreased to half of their 1985 levels (U.S.$26.98 to U.S.$13.82.). As the price of oil falls, so too would extra-regional imports, in value terms. Since Europe is particularly dependent on oil imports from non-European countries such as Saudi Arabia, the result is that the ratio of extra-regional imports to GDP falls for Europe.

[63]Note that, although "Fortress Europe" is the main interest, Asia too follows this pattern of greater "openness".