

Every day, a network of ships, trucks, and planes moves massive quantities of goods around the world. Your car might come from South Korea and your T-shirt from Bangladesh. All countries export (sell products and services abroad) and import (buy goods and services from foreign trading partners). These goods are manufactured items or agricultural commodities.

Services, a dynamic and growing part of trade, refers to all intangible goods such as advertising and telecommunication. But the trade network is more complex than sellers and buyers. The system of worldwide trade is an intricate web in which lengthy supply chains allow products to be sourced, assembled, packaged, and sold in different parts of the world.

The materials for your phone or shoes or the tuna fish you had for lunch might have been produced in one country, processed in another country, assembled in a third country, and packaged somewhere else, all before getting to your local store. How does this make sense? Why can't countries just make their own phones, shoes, or tuna fish and provide more jobs and business domestically?

Before the nineteenth century, most European countries tried to do just that, prioritizing self-sufficiency in a system called mercantilism. Mercantilism aimed to maximize exports, minimize imports, and increase the country's supply of gold. This system led to strict tariffs, or taxes on imports, as a way to not only discourage bringing in goods from abroad, but profit off it.

Mercantilism created barriers to international trade. Countries aimed to produce as much as possible on their own, including things they weren't able to make efficiently. In the late eighteenth century, so-called classical economists refuted these long-held beliefs, championing the idea that societies should trade with one another to be more successful because of comparative advantage, the idea that when countries focus on making things they're comparatively good at and import the rest, everyone benefits.

This is known as specialization. And when countries don't have to spend time and resources producing textiles or wine, for example, there's more room for them to innovate and create entirely new products. These classical economists argued that it was counterproductive to judge a country's power on how much gold it could amass.

Transcript: An Overview of Trade

Today, we measure countries and economies on productivity—their ability to utilize their limited resources for maximum value. This metric is known as gross domestic product, which totals the sum of all the final goods and services a country produces in a year. Each country's human, technological, and financial resources determine what that country can produce efficiently and successfully.

Costa Rica excels at exporting pineapples and coffee, while Germany exports millions of cars and computers. With the acceptance of these new ideas, international trade took off. Measuring GDP instead of just gold helped boost trade and grow economies. At the same time, advances in technology and travel made remote markets much more accessible. Massive container ships, cargo planes, and cheap, instantaneous communication connected the world's producers with millions of new customers.

And after World War II, the newly formed United Nations created the General Agreement on Tariffs and Trade, or GATT. This agreement substantially lowered trade barriers, like tariffs, and created rules to dictate how countries should trade freely. The GATT became the World Trade Organization (WTO) in 1995, and tried to eliminate even more obstacles to keep up with a changing world.

The WTO expanded the definition of trade to include not just goods but services, and to create rules governing intellectual property, such as copyright or a patent. The WTO is also an arena for countries to hammer out the rules and regulations of international trade and lodge complaints if they believe those rules aren't followed.

According to the principle of comparative advantage, if one country can't sell a high-quality product at a reasonable price point, or new technology makes a business uncompetitive, it will not succeed. Its stores or factories might be forced to close and jobs will be lost. That country must then adjust its economy around something it can be comparatively good at. This is the nature of international trade.

However, some countries and industries are accused of skirting the rules of international trade, and that's where the WTO tries to come in. For example, in the United States, labor unions argue the WTO doesn't adequately protect U.S. wages from being undercut by unfair trade practices in China, and some developing countries say the WTO rules don't take into consideration their unique circumstances.

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For example, agricultural subsidies provided by wealthy governments make it hard for sellers from smaller or poorer countries to reasonably export their crops to those countries. The WTO has failed to solve these problems. They are especially hard to address, because changes to the rules require consensus among the WTO's 164 member countries.

Some countries forge bilateral and regional trade agreements to address their particular needs and trade strategies. In 1994, the North American Free Trade Agreement, known as NAFTA, was designed to facilitate more trade among the United States, Mexico, and Canada. NAFTA provided a blueprint for similar types of agreements between other countries.

From just 1990 to 2015, world trade volume increased more than fivefold, from 3.5 trillion to 19 trillion. International trade has created a tightly interconnected world economy that's given more people than ever access to cheaper and better goods and services. It's created millions of jobs and strengthened international connections, leading to global stability.

At the same time, trade can hurt those individuals, companies, and communities where imports make it impossible for local firms to compete against better or cheaper goods from somewhere else. Trade will inevitably create winners and losers, but it is inseparable from modern life. The challenge, then, for policymakers, is to assist those who have been disadvantaged with support and the training for new jobs, so everyone can continue to benefit from the system that has given more choices to consumers and more work for producers in every corner of the world.