

Unit 5: International Trade, Policy, and Global Governance

The products we consume, the jobs people perform, and the prices households pay are increasingly connected to decisions made beyond national borders. A mobile phone may contain minerals extracted in one country, components manufactured in another, software developed elsewhere, and services provided by Filipino workers. Food, fuel, medicines, digital platforms, finance, migration, and climate change likewise connect the Philippine economy to the rest of the world.

Chapters in this unit

Chapter 18: Introduces international trade and explains exports, imports, specialization, comparative advantage, exchange rates, trade balances, and global value chains. It asks why countries trade and why the benefits they obtain depend not only on how much they export, but also on how much income, knowledge, technology, and ownership they retain.

Chapter 19: Turns to the social and policy consequences of trade. It examines how trade affects consumers, workers, farmers, businesses, communities, and ecosystems differently. Through cases involving rice, transition minerals, agricultural exports, and digital services, the chapter explores how industrial policy, social protection, environmental safeguards, and economic resilience can help ensure that trade supports broader development rather than leaving its costs concentrated among vulnerable groups.

Chapter 20: Explains how the international economy is governed. Countries cooperate through institutions, agreements, and shared rules because financial crises, climate change, corporate taxation, labor migration, digital platforms, pandemics, and supply chains cross national borders. The chapter also examines unequal bargaining power, national policy space, democratic accountability, and the role of institutions such as ASEAN, the WTO, the IMF, the World Bank, the ADB, the United Nations, and the ILO.

Together, the three chapters show that international economic integration is neither automatically beneficial nor inevitably harmful. Its outcomes depend on the rules, institutions, capabilities, and public policies that shape it. The central question is therefore not simply whether the Philippines should participate in the global economy, but **how it can do so in ways that create dignified work, build domestic capabilities, protect communities and the environment, strengthen resilience, and share the gains more fairly.**

Unit Key Idea

International trade can expand opportunities, but its benefits are shaped by national policies and global rules. Making globalization work for people requires productive capabilities, fair adjustment, environmental responsibility, democratic participation, and cooperation across borders.

Chapter 18 | International Trade

Comic strip idea:

Imagine opening your phone before school. The device may have been designed in the United States or another advanced economy, use semiconductors fabricated in East Asia, contain nickel or copper mined in the Global South, and have been assembled and tested in several countries. The data center supporting the app may be overseas, while a Filipino worker may provide customer service, accounting, animation, or software support to a foreign company. At breakfast, the rice on your plate may have been grown in Nueva Ecija or imported from Viet Nam. The fuel used by the jeepney or bus that takes you to school is largely bought from abroad.

These everyday connections are part of international trade. Countries buy goods and services from one another because no economy has the same resources, skills, technology, climate, and productive capacity. Trade can help households obtain affordable goods, allow firms to acquire machinery and inputs, and give Filipino producers access to customers far beyond the domestic market. It can create jobs and bring in foreign exchange needed to pay for fuel, medicines, equipment, and other imports.

But the gains from trade are not automatic or equally distributed. Cheaper imported goods may help consumers but reduce the income of local producers. Export industries may create employment while offering workers only a small share of the value generated. Mining may earn export revenues while communities bear environmental damage. A country may export billions of dollars' worth of products yet remain dependent on imported technology and foreign-owned brands. International trade is therefore not only about buying and selling. It is also about production, jobs, power, public policy, and the question of who benefits and who is left behind.

By the end of this chapter, you should be able to define exports and imports; explain absolute and comparative advantage; interpret a trade surplus or deficit; describe tariffs, quotas, subsidies, standards, and trade agreements; trace a product through a global value chain; identify groups that gain or lose from trade; and propose policies that make trade more inclusive, sustainable, and resilient.

A. What Is International Trade?

International trade is the exchange of goods and services across national borders. A good or service sold by the Philippines to another country is an export. A good or service purchased from another country is an import. Trade in goods is easy to see. Cargo ships leave Philippine ports carrying electronic products, bananas, coconut oil, tuna, garments, and minerals. Other ships arrive carrying petroleum, industrial machines, vehicles, chemicals, medicines, food, and electronic components. Trade in services is less visible but equally real. A Philippine company that provides software, bookkeeping, animation, health information management, or customer support to a client overseas is exporting a service even though no physical product crosses a border.

Imports are sometimes described as products that compete with local output, but many are inputs that make domestic production possible. A Philippine electronics plant may import wafers, chemicals, specialized machines, and components, then assemble or test a product that is exported. A farmer may

use imported fertilizer or machinery. A hospital may rely on imported medical equipment. This means imports and exports are often connected rather than opposites.

Trade also involves payments. Exporters receive foreign currency from overseas buyers. Importers need foreign currency to pay suppliers abroad. Banks, logistics companies, insurers, ports, customs authorities, digital platforms, and government regulators help complete these transactions. A disruption in any part of this system—such as a closed port, a cyberattack, war, extreme weather, or a shortage of shipping containers—can affect prices and production far from the original problem.

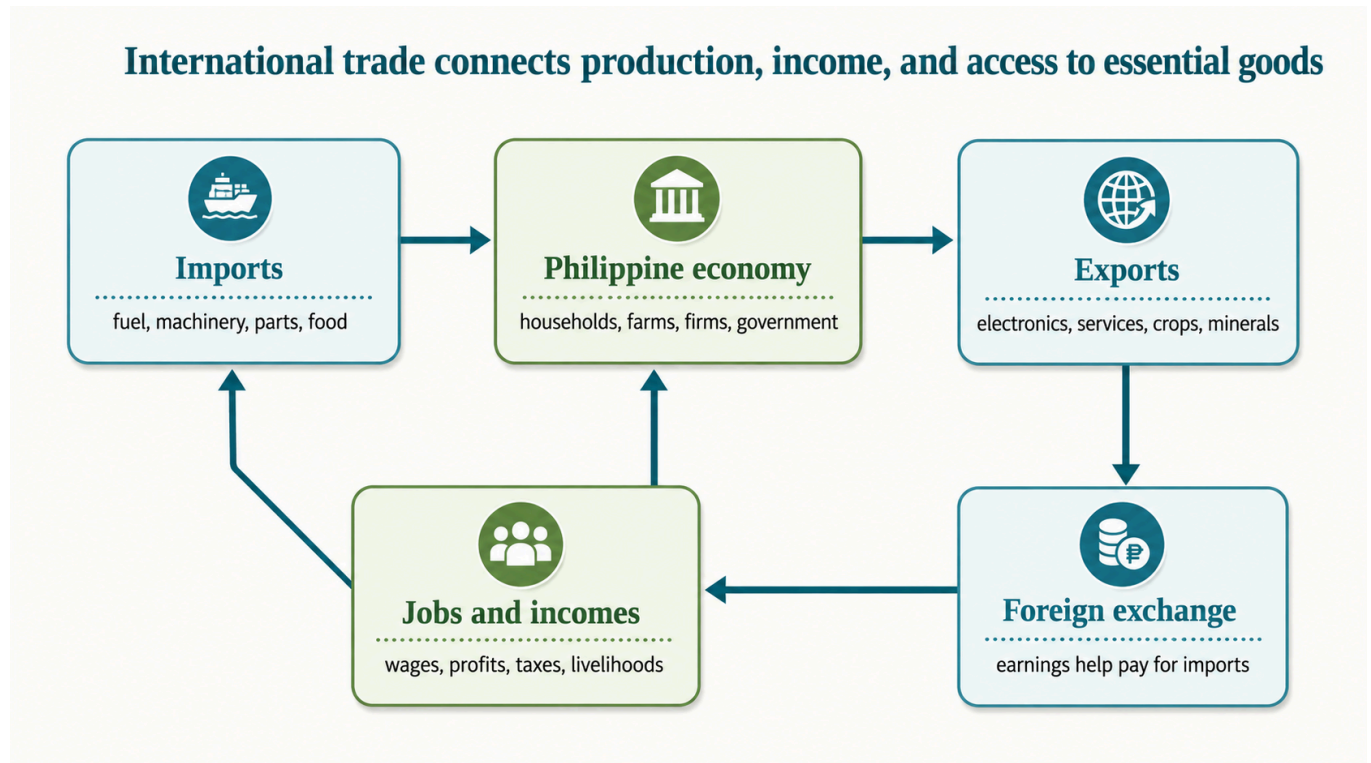


Figure 18.1. A simplified international trade cycle.

Goods, services, and ideas

International trade is broader than the movement of physical products. Countries also exchange tourism, transport, finance, education, entertainment, professional services, digital content, and intellectual property. Technology and knowledge can spread through imported machinery, foreign investment, licensing, worker training, and contact with international buyers. These flows can raise productivity, but the country must develop local skills and institutions to absorb and improve the technology rather than remain only a user of it.

Not every cross-border payment is an export. Remittances sent by overseas Filipinos are transfers of income earned abroad, not payment for a newly exported Philippine service. Tourism receipts, by contrast, are service exports because foreign visitors purchase accommodation, food, transport, and recreation produced in the Philippines. Distinguishing these flows helps us understand the country's external accounts more accurately.

B. The Philippines as a Trading Economy

The Philippines has participated in regional and global trade for centuries. Before Spanish colonization, communities in the archipelago exchanged products with traders from China, Southeast

Asia, and other parts of Asia. During the colonial period, the Manila–Acapulco galleon trade connected Manila with Mexico and, indirectly, Europe. It made Manila an important commercial center, but control over the trade and its gains was concentrated among colonial authorities and merchant elites. This history shows that trade can expand economic activity without necessarily distributing power and income fairly.

Today, the Philippines is integrated into manufacturing and service networks centered in Asia and linked to markets around the world. The country's exports include semiconductors and other electronic products, machinery and wiring sets, coconut products, bananas, pineapples, tuna, garments, minerals, and digital and business services. Imports include electronic components, petroleum, transport equipment, industrial machinery, chemicals, pharmaceuticals, food, and consumer goods.

A snapshot of merchandise trade in 2025

According to the Philippine Statistics Authority, merchandise exports reached US\$84.48 billion in 2025, the highest annual value recorded since the series began in 1991. Imports reached US\$134.20 billion. Because imports exceeded exports, the country recorded a goods trade deficit of US\$49.72 billion. Electronic products remained the largest export group at US\$45.89 billion, or 54.3 percent of total exports. They were also the largest import group, reflecting the Philippines' participation in production networks that import components and export processed or assembled products (PSA, 2026).



Source: Philippine Statistics Authority (2026).

Figure 18.2. Philippine merchandise exports, imports, and trade deficit in 2025.

Table 18.1. Reading the Philippines’ 2025 merchandise trade data

Indicator	2025 value or share	What it suggests
Merchandise exports	US\$84.48 billion	Export earnings reached a record level.
Merchandise imports	US\$134.20 billion	The economy depends on foreign inputs, fuel, equipment, and consumer goods.
Trade balance	–US\$49.72 billion	Imports of goods exceeded exports of goods.
Electronic products exports	US\$45.89 billion; 54.3% of exports	Exports remain highly concentrated in electronics.

Indicator	2025 value or share	What it suggests
Raw and intermediate imports	US\$48.45 billion; 36.1% of imports	Many imports are used in domestic production.
Capital goods imports	US\$40.67 billion; 30.3% of imports	Imported machinery can expand future productive capacity.

The United States was the largest destination for Philippine goods exports in 2025, followed by Hong Kong, Japan, China, and the Netherlands. China was the largest source of imports, followed by Japan, the Republic of Korea, Indonesia, and the United States. East Asia accounted for the largest geographic share of both exports and imports, showing how closely the Philippine economy is tied to regional production and demand (PSA, 2026).

Services exports: trade without cargo

The Philippines is also a major exporter of services. The Bangko Sentral ng Pilipinas estimated business process outsourcing export revenues—including computer and other business services—at US\$33.5 billion in 2025, up from US\$32.0 billion in 2024. These earnings help offset part of the deficit in goods trade and support jobs in Metro Manila, Cebu, Davao, Clark, Iloilo, Bacolod, and other cities (BSP, 2026).

Services trade demonstrates that a country's export strength does not depend only on natural resources or factories. Language skills, education, digital infrastructure, management, creativity, trust, and the ability to work across time zones can also become sources of comparative advantage. However, automation and artificial intelligence are changing the kinds of tasks that foreign clients demand, making continuous training and movement into higher-value services increasingly important.

C. Why Do Countries Trade?

Countries trade for several related reasons. They have different resources and capabilities; they can become more productive through specialization; large markets can reduce production costs; and imports can provide variety, essential inputs, and technologies. Economists use the ideas of absolute and comparative advantage to explain why specialization and exchange can increase total output.

Different resources and capabilities

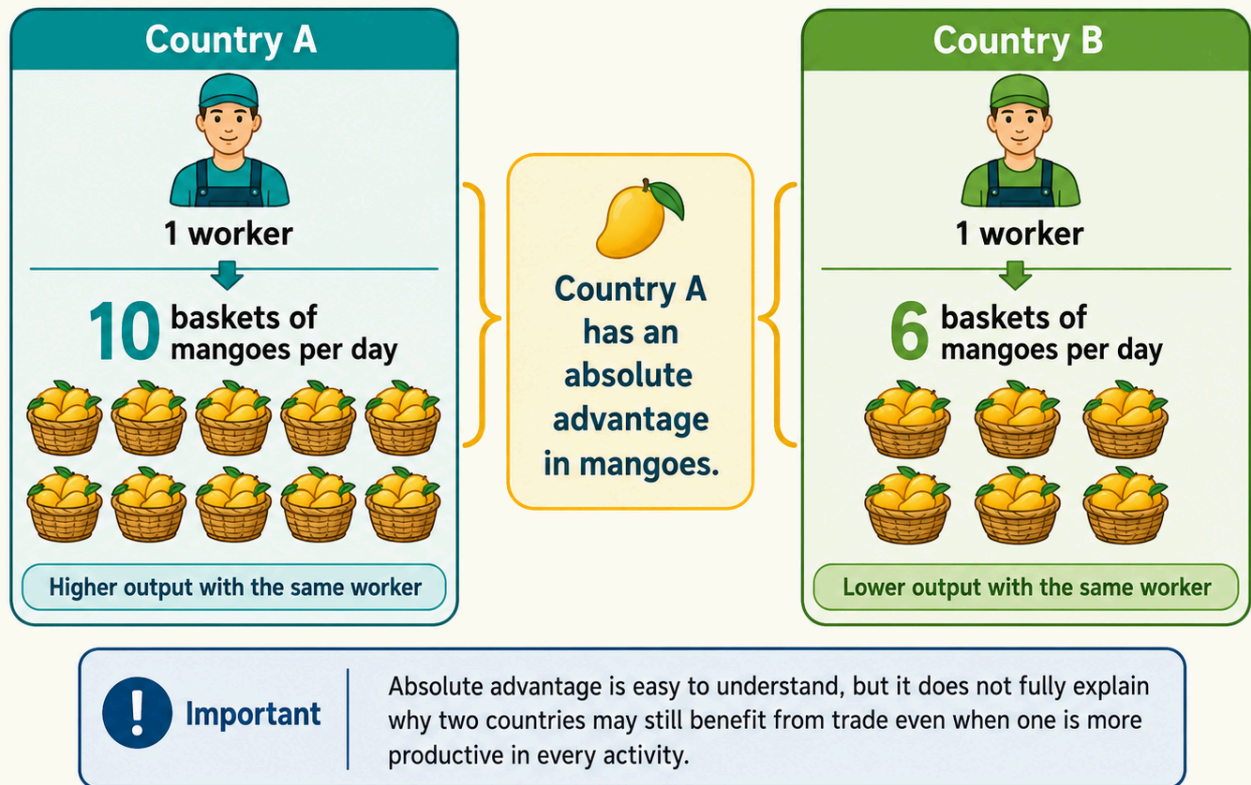
Geography and climate affect what can be produced. Tropical conditions allow the Philippines to grow bananas, coconuts, pineapples, and other crops that are difficult to produce in colder economies. Mineral deposits make some countries important suppliers of copper, nickel, cobalt, or lithium. Human capabilities also differ. A country may develop strong engineering, design, medical, language, or software skills through decades of investment in education and industry. Infrastructure, institutions, finance, and technology shape whether natural and human resources become competitive products.

Absolute advantage

A producer has an absolute advantage when it can produce more of a good with the same resources, or the same amount using fewer resources, than another producer. Suppose one worker in Country A can produce ten baskets of mangoes per day while one worker in Country B can produce six. Country A has an absolute advantage in mangoes. Absolute advantage is easy to understand, but it does not fully explain why two countries may still benefit from trade even when one is more productive in every activity.

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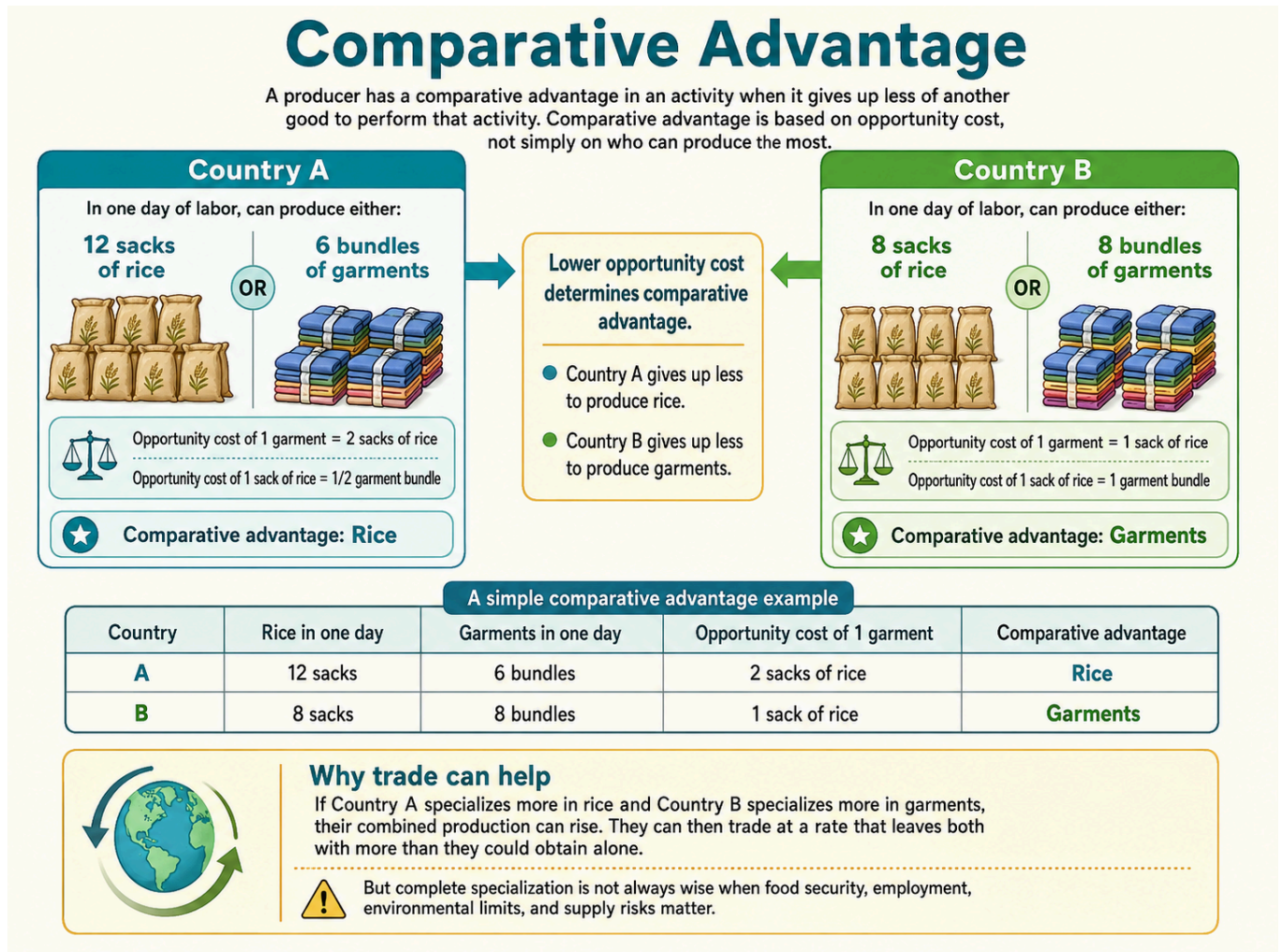
Comparative advantage and opportunity cost

A producer has a comparative advantage in an activity when it gives up less of another good to perform that activity. Comparative advantage is based on opportunity cost, not simply on who can produce the most. Consider two countries that can use one day of labor to produce rice or garments. Country A can produce either 12 sacks of rice or 6 bundles of garments. Country B can produce either 8 sacks of rice or 8 bundles of garments. Country A is more productive in rice, while Country B is more productive in garments. The opportunity cost of one garment bundle is two sacks of rice in Country A but only one sack in Country B. Country B therefore has a comparative advantage in garments. The opportunity cost of one sack of rice is one-half garment bundle in Country A but one garment bundle in Country B, so Country A has a comparative advantage in rice.

Table 18.2. A simple comparative advantage example

Country	Rice in one day	Garments in one day	Opportunity cost of 1 garment	Comparative advantage
A	12 sacks	6 bundles	2 sacks of rice	Rice
B	8 sacks	8 bundles	1 sack of rice	Garments

If Country A specializes more in rice and Country B specializes more in garments, their combined production can rise. They can then trade at a rate that leaves both with more than they could obtain alone. This is the basic case for trade. The result does not mean complete specialization is always wise, especially when food security, employment, environmental limits, and supply risks matter.



The textbook model of comparative advantage shows how total gains can increase. It does not guarantee that every worker, farmer, firm, region, or community will gain. The distribution of benefits depends on ownership, wages, market power, taxes, social protection, environmental rules, and the ability of people and industries to adjust.

Specialization, learning, and economies of scale

Specialization can raise productivity because workers gain experience, firms invest in specialized equipment, and suppliers cluster around an industry. Producing for a larger international market can also spread fixed costs—such as research, machinery, quality certification, and management—over more units. This is called an economy of scale. It helps explain why some goods, including aircraft, advanced chips, medicines, and vehicles, are produced by a limited number of large firms and countries.

Yet scale can create market power. Large multinational corporations may control technology, brands, finance, distribution, and access to buyers. Small firms can be locked out even when they produce

efficiently. Competition policy, access to finance, shared facilities, cooperatives, digital platforms, and government support for standards and certification can help smaller producers participate.

Access to variety, inputs, and technology

Trade gives households access to more products and can lower prices through competition. It allows hospitals to purchase medicines and equipment, schools to obtain computers, farmers to acquire machinery, and factories to use components unavailable locally. Imports can also expose local firms to new technologies and quality standards. However, imports do not automatically create domestic learning. Firms and governments must invest in skills, research, supplier development, and technology transfer if the country is to build its own capabilities.

Comparative advantage is not destiny

Countries are not permanently assigned to the products they currently export. Comparative advantage can be created. South Korea, for example, did not begin as a global producer of ships, vehicles, and advanced electronics. It invested in education, infrastructure, industrial capabilities, and technology. The Philippines can likewise strengthen capabilities in higher-value electronics, renewable-energy equipment, agricultural processing, health services, creative industries, and digital technology. The key question is not only, “What are we good at today?” but also, “What capabilities should we build for tomorrow?”

D. Global Value Chains: How Modern Trade Actually Works

A global value chain is the sequence of activities required to bring a product or service from an idea to the final consumer, with different stages located in different countries. Modern trade often involves intermediate goods rather than finished products. A semiconductor may cross borders several times for design, wafer fabrication, packaging, testing, assembly, and incorporation into a final device. A banana value chain includes farm inputs, growers, packers, transporters, cold storage, exporters, shipping companies, wholesalers, supermarkets, and consumers. A BPO service may involve a foreign client, a Philippine service provider, cloud infrastructure, software vendors, and workers in several locations.

Global value chains account for almost half of world trade. They have allowed developing countries to enter industries without first building every stage of production. A country can begin with assembly, testing, or business services and then attempt to move into more complex activities. But participation alone does not guarantee development. The country must retain more value, knowledge, and local linkages (World Bank, 2020).

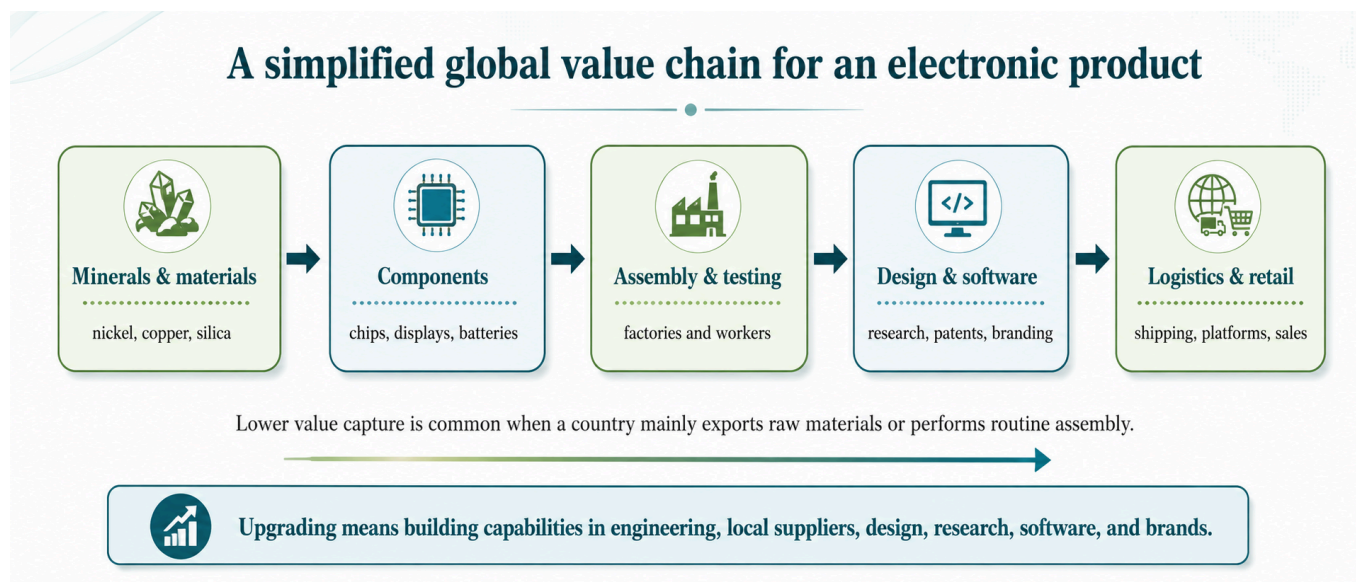


Figure 18.3. A simplified global value chain for electronics.

Value added and who captures it

The selling price of a finished product is divided among many actors. Workers receive wages; suppliers earn revenue; governments collect taxes; lenders receive interest; owners receive profits; and firms controlling patents, brands, software, and distribution may receive large shares. A country may report a high export value even when many inputs were imported and much of the profit goes abroad. Economists therefore examine domestic value added: the part of an export created within the country.

For the Philippines, electronics exports provide jobs, foreign exchange, and industrial experience. Yet much activity remains concentrated in assembly, packaging, and testing. Moving into design, engineering, research, advanced manufacturing, equipment production, and locally owned supplier networks would allow the economy to keep more value and reduce dependence on imported technology. The Philippine Development Plan identifies the expansion of domestic supplier bases, research and development, innovation, and competitive products as important elements of industrial transformation (NEDA, 2023).

CASE STUDY: Philippine electronics: exporting more, capturing more value

Electronic products accounted for 54.3 percent of Philippine merchandise exports in 2025. At the same time, electronics were also the country's largest import group. This is a sign of global value-chain participation: firms import components and machinery, perform selected production stages in the Philippines, and export the resulting products (PSA, 2026).

This model has created jobs and linked the Philippines to one of the world's most important industries. PEZA reported that economic zones generated about 1.7 million direct jobs and US\$58.7 billion in locator exports in 2024, with electronics among the central activities (PEZA, 2025).

The development challenge is upgrading. More local engineering, research, toolmaking, materials production, supplier development, and Filipino-owned firms would deepen the industry's contribution. Export value should therefore be assessed together with local value added, wages, technology transfer, and domestic linkages.

Guide questions

1. Why can a country import and export electronic products at the same time?

2. Which stages of the electronics value chain are likely to create the most knowledge and bargaining power?
3. What should schools, universities, firms, and government do to help the Philippines move into higher-value activities?

E. Exports, Imports, the Trade Balance, and the Exchange Rate

Trade surplus and trade deficit

The **balance of trade in goods** is exports of goods minus imports of goods. A positive result is a trade surplus; a negative result is a trade deficit.

A trade surplus is not automatically good, and a trade deficit is not automatically bad. A country may import machinery, energy equipment, and production inputs that raise future output. A growing economy may import more because households and firms have stronger demand. Conversely, a surplus may occur during a recession because domestic demand and imports collapse.

A persistent deficit becomes more concerning when imports mainly support consumption rather than productive capacity, exports remain concentrated in a few products, local firms fail to develop, and the country relies on unstable borrowing to pay for external obligations. The composition and financing of the deficit matter as much as its size.

The exchange rate and trade

The exchange rate is the price of one currency in terms of another. When the peso weakens against the US dollar, Philippine exports may become cheaper for foreign buyers, while imports priced in dollars become more expensive for Filipino households and firms. Exporters may gain, but businesses that rely on imported fuel, machinery, fertilizer, or components face higher costs. A stronger peso has the opposite effects. This is why changes in the exchange rate create both winners and losers.

The final effect also depends on contracts, competition, and production capacity. An exporter cannot instantly increase sales if it lacks workers, electricity, raw materials, shipping space, or buyers. An importer may absorb part of the higher cost rather than pass all of it to consumers. Exchange-rate movements therefore influence trade, but they do not determine it alone.

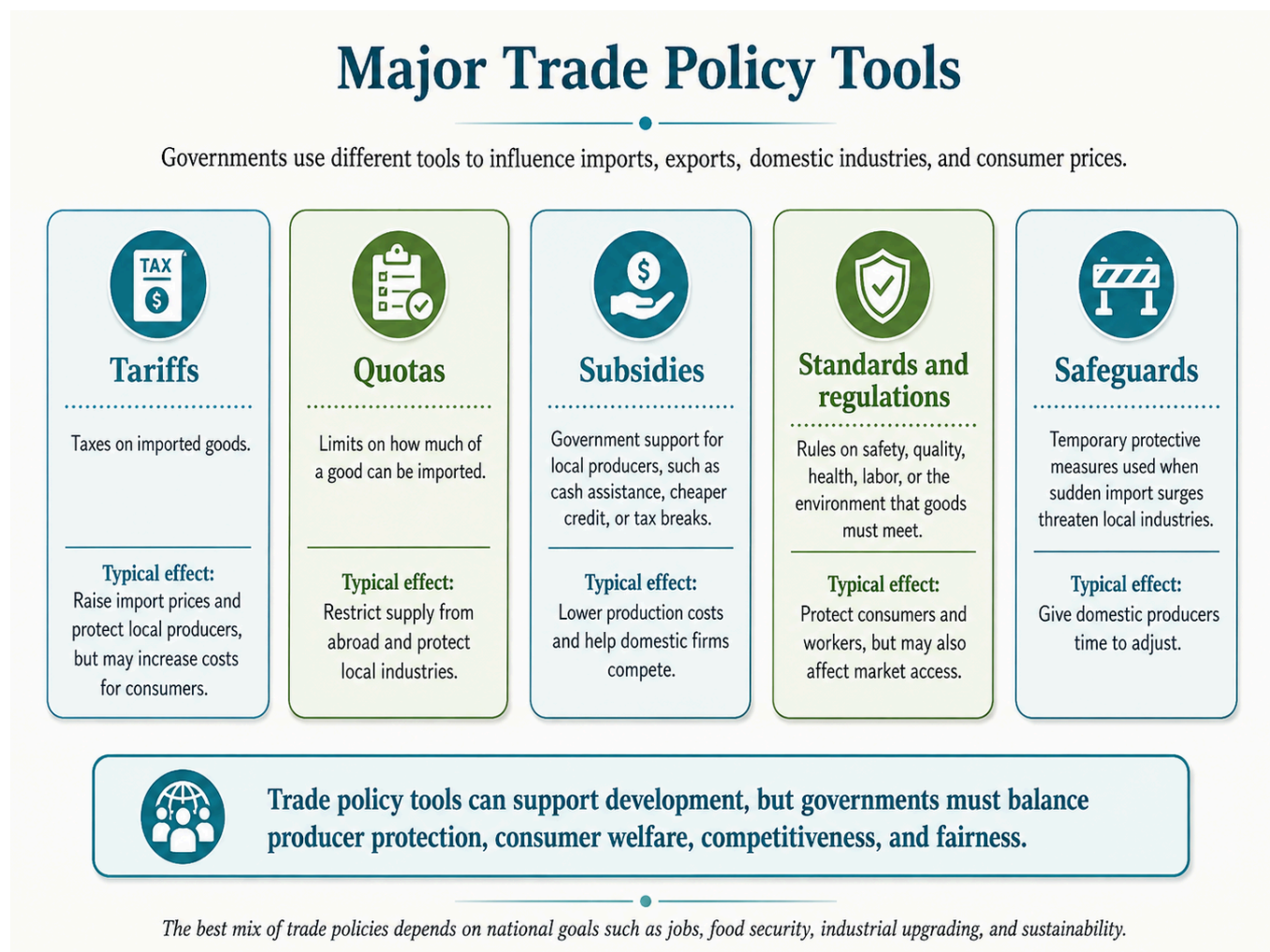
Trade in the broader balance of payments

The balance of payments records a country's economic transactions with the rest of the world. In addition to goods trade, it includes services, income from investments and work, transfers such as remittances, and financial flows. The Philippines can run a large merchandise trade deficit while receiving substantial earnings from BPO services, tourism, and overseas Filipino income. Looking only at goods can therefore give an incomplete picture of the external economy.

F. Free Trade, Protection, and the Role of Government

Trade policy refers to the rules governments use to influence imports, exports, and international production. Policy choices range from reducing trade barriers to supporting selected domestic sectors. The real debate is rarely between completely free trade and complete isolation. Most countries combine openness with regulation, public investment, standards, industrial policy, and safeguards.

Figure 18.3. Major trade policy tools



The case for open trade

Lower trade barriers can expand consumer choice, reduce the cost of inputs, discipline inefficient monopolies, attract investment, and open foreign markets to exporters. Predictable rules help firms plan. Competition can encourage innovation and prevent a small group of domestic producers from charging very high prices. For a country that depends on imported fuel, machinery, medicines, and components, complete self-sufficiency would be costly and unrealistic.

The case for strategic support and protection

Governments may support industries that create learning, technology, skilled jobs, national resilience, or environmental benefits that private firms cannot fully capture. New industries may initially have higher costs than established foreign competitors. This is the infant-industry argument: temporary protection or support can give firms time to learn, reach scale, and become competitive.

However, protection can fail when it rewards politically connected firms, lacks performance conditions, continues indefinitely, or protects companies that do not invest in productivity. Effective industrial policy requires clear objectives, transparency, competition, time limits, monitoring, and

measurable results such as exports, productivity, local supplier development, research, quality jobs, or lower emissions.

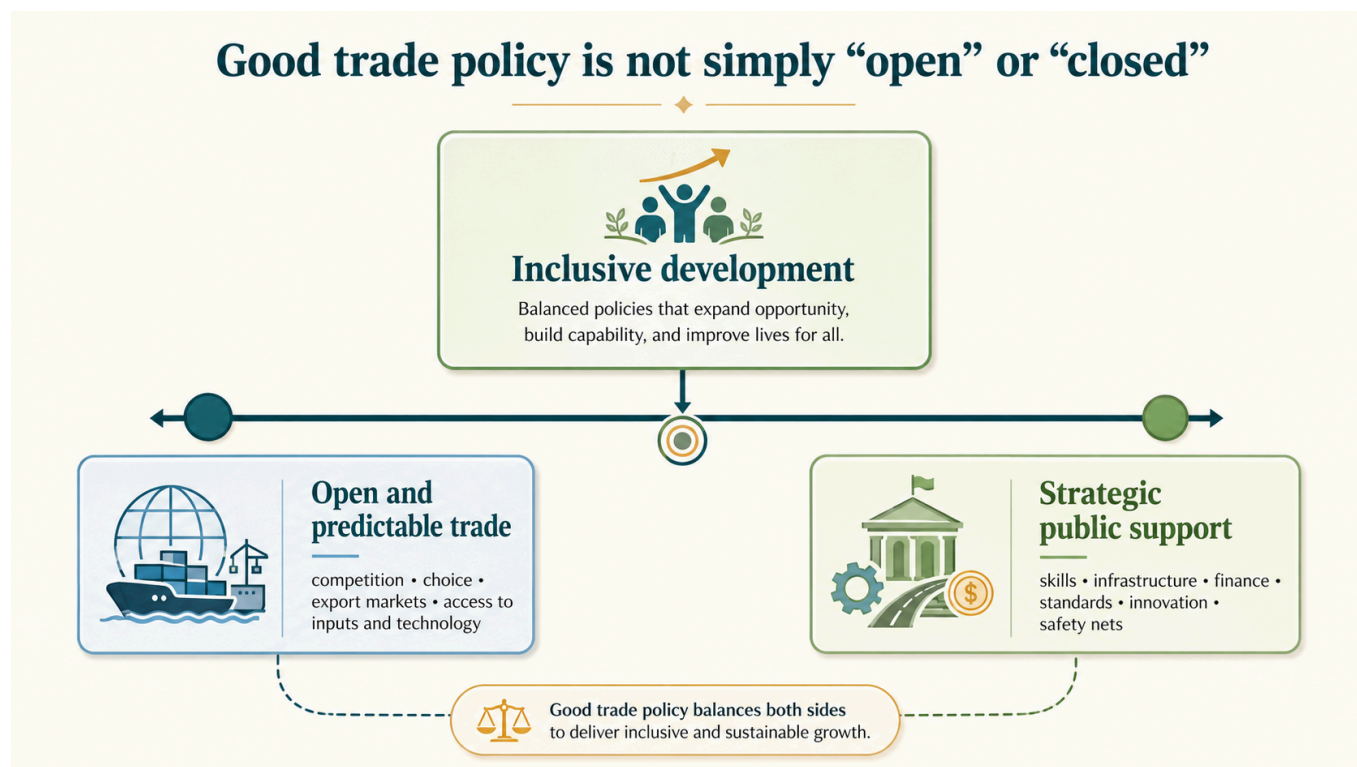


Figure 18.4. Combining openness with strategic capability-building.

Industrial policy for a trading economy

Industrial policy is coordinated government action to build productive capabilities in selected sectors or technologies. It can include reliable electricity, transport and digital infrastructure, technical education, research grants, development finance, supplier programs, export promotion, public procurement, and support for standards and certification. Rather than simply choosing a favored company, good industrial policy addresses obstacles that prevent many firms and workers from upgrading.

For the Philippines, possible priorities include higher-value electronics, renewable-energy equipment, agribusiness and food processing, pharmaceuticals and medical devices, shipbuilding and repair, digital and creative services, and responsible mineral processing. The choice should be based on evidence, national needs, market opportunities, environmental limits, and the capacity to enforce conditions.

Let’s Review!

International trade is the exchange of goods and services across national borders. Exports are sold abroad, while imports are purchased from other countries.

Imports and exports are often connected because many imported goods—such as machinery, fuel, components, and technology—are used in domestic production and export industries.

The Philippines participates in both goods and services trade, with electronics, agricultural products, minerals, and BPO services among its major exports.

Countries trade because they differ in resources, climate, skills, technology, and productive capabilities.

Absolute advantage refers to producing more with the same resources, while comparative advantage depends on having a lower opportunity cost.

Specialization and economies of scale can raise total production, but the gains from trade are not automatically shared equally among workers, firms, farmers, and communities.

Modern trade is organized through global value chains, where different stages of production take place in different countries.

A country gains more from trade when it increases domestic value added through local suppliers, skilled workers, research, engineering, technology, and local ownership.

A trade deficit is not automatically harmful. Its meaning depends on what is being imported, how the deficit is financed, and whether imports strengthen future productive capacity.

Exchange-rate changes create both winners and losers because a weaker peso may help exporters while raising the cost of imported goods and production inputs.

Governments use tariffs, quotas, subsidies, standards, safeguards, and industrial policy to influence trade and support domestic development.

Good trade policy combines openness with strategic support, clear performance conditions, transparency, and investment in productive capabilities.

Chapter Key Takeaway

International trade can expand production, access to goods, and economic opportunities, but its benefits depend on how much value, knowledge, income, and productive capacity remain in the country. Successful trade policy should therefore build national capabilities—not simply increase the volume of exports and imports

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