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AN ANALYSIS OF THE FUNDAMENTAL ECONOMIC FACTORS INFLUENCING THE INTERNATIONAL TRADE

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ABSTRACT

For a long time, International trade has been the main connecting channel among countries, but it has increased tremendously in the past few hundred years and has a major impact on the economies of many countries. A basic question emanates that why countries trade and how trade patterns evolve. This question is answered in various economic theories, which explain many fundamental factors responsible for International trade. There are a wide range of political, economic, and practical factors that can affect the international trade. However, In this paper, we have discussed mainly the major fundamental economic factors affecting the international trade such as demographic changes, Transportation cost, Distance, technology, investment, trade agreements, the Exchange rate, governments trade policies and institutions activities etc. The aim of the proposed Paper is to analyze these fundamental factors. Based on the results, we can state that there is a place for an improvement in all searched fields.

KEYWORDS*: International Trade, Demographic Changes, Transportation Cost, Distance, Exchange Rate.*

Introduction

A Basic fundamental question emanates that why countries involve in International trade and how trade patterns evolve. This question is answered in various economic theories which explain many fundamental factors responsible for International trade. For instance, in Absolute advantage theory, production costs are the main factor to determine international trade. In David Ricardo's comparative advantage theory, it is productivity or technological difference between countries which determine comparative advantage, so as to international trade. In the Heckscher-Ohlin model, relative factor endowments (labour, capital and natural resources) determine the trade patterns between countries. Product Life Cycle Theory gives the importance to Innovation which leads to trade among countries.

The new trade theory predicts that due to economies of scale larger economies develop an export edge in those goods consumed in relatively greater quantities in the home market. The "new new" trade theory identifies trade costs as a major factor to entry into trade.

Mercantilism, Porter's Diamond of Competitive Advantage and others argue that the quality of a country's political and economic institutions can be a key source of comparative advantage. And according to Linder's overlapping demand theory, it is similarity in consumer demand which leads to international trade between countries.

According to traditional and modern trade theories there are many factors which determine the international trade pattern. This paper is going to focus on all the important fundamental factors such as demography, investment, technology, energy and other natural resources, transport costs and

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institutional quality, which causes to the international trade**.** This paper also focus on why a country involves in trade and how they trade, with whom and why. It also discusses possible future scenarios for each factor and concludes by describing their potential impact on currently observed international trade trends.

The Fundamental Economic Factors Influencing the International Trade

Changes in Demography and International Trade

Demographic Change: Trade between countries is affected by a change in their demography which leaves an impact on the comparative advantage of the countries and their import demand. Demographic changes will be dramatic over the rest of the 21st century. The characteristics of population such as its age, education, migration, increasing participation of women in the labour force along with the emergence of a global middle class, all have a role to play in affecting the trade, as the future will see. There has been a shift in demography at global level which is visible in the changed global trade patterns

"**Ageing, migration, educational convergence and women's growing participation in the labour force - all linked to the underlying demographic transition - help to shape countries' comparative advantage**," said the World Trade Organization in a 2013 report.

The size of the working-age population among the countries is changing rapidly. It has been increased in some countries and decreased in others Therefore it will also change the size and composition of import demand which will further shape the goods flow among the countries. The Total world's population has more than tripled to 7.5 billion. It is expected to reach 8.3 billion by 2030 and 9.3 billion by 2050. According to UN, the population of the world would be more than 11 bn by 2100. Of this large population Europe and N. America will hold only 6 % and 4% respectively, while Asia's contribution will decline to 43% from 60%. At the same time Africa's share is expected to jump to a large 40% from its current share of 17%.

This demographic shift will leads to significant increase in the young working-age population of both sexes, in certain developing countries (Mostly African countries) that are in the early stages of their demographic transition. On the basis of this change in the share of population held by different continents, it can be predicted that trade flows to Africa are likely to rise in future. Especially rise in trade relation can be seen b/w Asia and Africa in particular. Also, the working population in Africa is expected to be younger in age than their counterparts in Asia-specially in Japan and China.

Other developing and most developed countries, which are in the most advanced stage of the demographic transition, will going to face the problem of shrinking labour force with ageing population, due to low fertility rates. In such countries immigration will be the major source of population growth in future. Therefore, this demographic shift, is changing the pattern of global trade, gradually.

- **Ageing and Demographic Transition**

An attempt to understand relationship b/w trade and ageing is often made, however the relationship b/w the two seem ambiguous. The countries with large young population can readily provide workers at cheap wages. Industries such as textile are benefited by cheap labour. It can thus be reasonably predicted that Africa, with its increase in population in 2100 will grow on, to become an important exporter of basic manufactured goods.

Demographic transition is a process in which the demography of a country goes through a change as a result of a decline in their mortality rate and there after a fall in their fertility rate. The countries of the world are at different stages of demographic transition. Whether a country has an ageing population or younger population in the form of demographic dividend are likely to affect the trade patterns of the country in two ways - its comparative advantage and its import demand.

With the changes in the size of working-age population among countries, the size and composition of import demand will also change which will further lead to affects trade flows.

- **Labour Force Participation, Female Employment and Trade**

Comparative advantage of countries has also been increased with the increase in women's participation in labour force. According to the UNCTAD (2004) reports, in African, Asian and Latin American developing countries, women's are mainly employed in labour intensive export industries such as textiles, clothing, pharmaceuticals, food processing, electronics and toy production (about 53 to 90% of the labour force)

The effect of various measures of gender inequality on comparative advantage has been analyzed by Busse and Spielmann in 2006 by Using panel data from 29 countries over six separate years (1975, 1980, 1985, 1990, 1995 and 2000). It is the only empirical study which analyzed gender inequality effect on comparative advantage. They find that with a reduction in inequality in labour force participation or a higher female participation rate, there will be an improvement in the comparative advantage of labour intensive sectors.

- **Migration and Trade**

Due to automation and Migration, future impact of demographics on trade patterns will be different. International migration, which is, one of the important cause for demographic change has an important impact on population growth of the source and host countries directly by changing the number of population in both the countries and indirectly by changing the fertility rates. It can affect patterns of comparative advantage of both source and host countries by shifting the education and age profile. According to the UN population estimates Africa's population will be reached to 4.5 billion by 2100, which is more than three times of current population. While the population of Europe will decline by 12 % from today to 653 million. But the international trade patterns will be different, if there is large scale immigration towards Europe from Africa.

- **Educational Development and Trade**

Educational developments also have significant impact on trade patterns. A number of studies have shown that the endowment of human capital is an important determinant of comparative advantage and trade patterns. In countries like India, where the old-age dependency ratio is projected to decrease, growth and development is highly associated with qualified people added to the potential labour force. Moreover, it will also help to increase exports with countries' integration into global supply chain. Therefore, formation of New Educational policies is particularly important in Indian as well as the African context, where the size of the young population is projected to increase significantly.

Investment

International trade is affected in a variety of ways by accumulation of physical capital, when a country increase investment in its public infrastructure, it helps in enhancing its participation in world market. With an investment in physical capital, international trade will be able to see the emergence of new players.

By investing in the infrastructure in its own land such as constructing roads, transport, ICT etc., countries will not only be able to improve their regional trade but also help them have a strong participation in international trade.

Apart from countries own investment in its infrastructure development, the investment coming from abroad also helps its trade to grow. Investment such as FDI portfolio, bank lending can help in strengthening the trade of a country.

- **Impact of Public Investment on Trade**

Public investment is highly important as it is related to infrastructure creation. It is of greater importance especially for developing economies. It is the Govt. resources that are responsible for public investment. Investment in physical capital along with human capital is important for the trade to build up and develop. By spending on refining and improving the skills of human resources a country can positively affect its trade.

Investment in building physical infrastructure such as roads and other transportation facilities allows the transportation cost to reduce which ultimately leads to profits and higher amount of trade.

According to the estimation of Nordas and Piermartini (2004) trade can increase by 13% if the kilometer of paved roads per 100 sq km is doubled. Similarly, they find that trade will increase by 14% if the kilometer of paved airports per sq km will be doubled.

While adequate transport infrastructural facilities play a positive role in the growth of trade, a lack of it affects a country 's ability to actively participate in the world economy, as can be seen in the case of Africa.

Trade in service will also grow with an increase in investment in ICT infrastructure. Those countries that are not significantly involved in trade in service can initiate their participation into it by making investment in ICT.

- **Foreign Investments and International Trade**

Foreign investments also affect the nature of trade by influencing the domestic investment. According to the Information based on the trade literature, portfolio investment and bank lending relationships across countries can increase trade flows by reducing information asymmetries between exporters and importers.

Similarly, FDI flows complement trade by facilitating global supply chains – increasing exports of intermediate products and services from the home country and those of the final good from the host country. Moreover. FDI flows can also affect the comparative advantage of developing economies by facilitating the transfer of technology across countries. China is the best example of such technology upgrading.

Technology

According to traditional trade theory, trade occurs because countries are different and technological difference is one of them. Technological differences between countries play an important role to shape the comparative advantage, and so as to patterns of trade.

According to the traditional Ricardian trade model, a country exports that good in which, it is relatively more efficient than its trading partner. Or it exports that good which have lowest opportunity cost.

Theoretically as well as empirically, it has also been confirmed that technological differences between countries are the major determinant of the international trade. Technological improvements not only increase efficiency of factors of production but it also opens up new markets. Technologies such as artificial intelligence (AI) and blockchain will have an impact on the future trade. It can improve the aggregate supply by promoting lower prices and higher output which will leads to increase comparative advantages of a country.

Technological innovation has had a major impact on trade costs. The introduction of containerization and jet engines has significantly reduced Sea and air transport costs have been reduced significantly with the introduction of jet engines. More recently, the use of radio frequencies, RFID tags and the internet has allowed firms to keep track of where a product is at any time. There has been a significant impact on both the volume and composition of trade, With the improved logistics services and reduction in transportation costs.

There has been significant reduction in communication costs with the Technological advances. Both Variable as well as fixed costs of trade have been reduced significantly by improving exporters or importers' access to information. Thus, help to increase trade volume. The next generation of technological advancements will have a more complex impact on trade. Some technological advances such as digital platforms, blockchain, and (IOT) the Internet of Things, will reduce transaction and logistics costs in future, which will lead to increase trade (WTO 2018).

According to McAfee and Brynjolfsson (2017) estimates, Digital platforms, lower the costs of search and coordination by connecting buyers and sellers directly. In the areas of e-commerce, payments, travel, learning, and labour services, digital platforms have created seamless global marketplaces in which there is much more scope for growth. The Internet of Things and blockchain techniques have potential to track shipments and trigger faster automated payments in real time. According to an estimates, these all technoligies can reduce customs and shipping processing times by 16-28%. And Bangladesh, India, and Indonesia could make the biggest gain from it. Djankov (2010) and, Hausman (2013) also find that if trade cost is reduced by 1 %, there will be 0.4% increase in trade flows. However, some other technologies may also reduce trade flows by disrupting supply chains and creating greater autonomy between individual countries. Thereby, the net impact of the new Technological advancements on international trade is ambiguous or unclear.

- **ICT and Trade**

The development of ICT has had a powerful impact on trade with the growing importance of e-commerce in developing countries. ICT has been an essential prerequisite to the rapid growth of global supply chains by making production coordination across borders easier. The use of the internet for banking, for buying and selling goods, for organizing travel and accommodation are a few examples of the many ways in which ICT developments increase international competition, reduce trade costs and create new markets.

Energy and Other Natural Resources

The H-O Theory (Heckscher-Ohlin theory) of international trade predicts that countries which are relatively abundant in a factor of production will export the commodity which uses that factor intensively. The theory is about relative rather than absolute factor abundance and links that to exports of products that are intensive in those factors rather than to exports of the resource itself.

With the labour and capital, natural resources are also considered factor of production which are used in production as an inputs. There is a wide range of natural resources which could affect both production and the pattern of trade. But in this section, we have discussed mainly about energy with limited focus on land and water, which are included in aggregate production functions by WTO, in World Trade Report, 2010 and Ruta and Venables in 2012.

Natural resources are unevenly distributed among the countries. Because of this uneven geographical distribution some countries have market power or monopoly power in international trade market. By reducing the supply of its natural resources, an exporting country raises the price in international market and get a terms of trade gain. Or in other words it will create terms of trade loss for importing country.

Among the other natural resources, Energy is a major factor of production which is difficult to substitute by other factors. Price volatility of such factor affects the production of importing country. According to the Hamilton's estimates (2009), "an increase in the oil price will reduce production of net energy-importing countries and slow their rate of economic growth". However, it will increase GDP growth and output of net energy exporting country. But some evidence suggests that it impact negatively to global output and trade

- **Energy and International Trade**

With the growing population and world GDP, energy demands are projected to increase mostly by emerging economies, However, there would be no significant changes in developed economies (BP, 2012b; International Energy Agency, 2012). It will lead to change the direction or pattern of future international trade.

In the world energy sector, it is expected to increase the share of natural gas and renewable energy sources while share of coal and oil would expect to decline. Particularly, Natural gas production of USA has been expected to rise 27.9 trillion cubic feet in 2035 from 21.6 trillion cubic feet in 2010. It will be due to shale gas production which is expected to increase 13.6 trillion cubic feet in 2035 from 5 trillion cubic feet in 2010. (US Energy Information Administration, 2012).

With the re-emergence of the United States and, to a lesser extent, Iraq in global energy production and trade, there will be significant change in pattern of energy trade. Middle East oil exports will shift decisively to Asia.

Volatility of energy prices is an important concern for international trade in future. It is predicted that energy prices will increase. It could lead to shifts in the composition of trade. Countries with weaker regulations related to climate change mitigation policies, might see an improvement in their competitiveness in energy-intensive sectors compare to countries with much tougher environmental regulations. The predicted rise in energy prices will also affect the pattern of international trade by increasing the fuel and transportation costs. However, by increasing efficiency, human innovation can offset limited natural resources.

- **Land and International Trade**

Arable land of a country can be a source of comparative advantages. According to the World trade report 2013, There is a positive correlation between the size of a country's per capita arable land endowment and the value of its agricultural exports.

- **Water and International Trade**

The study of Blackhurst (2010) and Debaere (2012) found that in total water use, manufacturing sector surpasses the agriculture sector.

Water is a source of comparative advantage. This hypothesis is also supported by Debaere (2012) who finds that countries which are relatively abundant in water, tend to export more water-intensive products However, he also finds that water contributes significantly less to the pattern of exports than the traditional production factors, such as labour and physical capital.

The OECD (2012) projects that there would be 55% rise in global water demand between 2000 and 2050. This rise in demand predicted mainly from manufacturing, electricity and domestic use. It will create shortage of water for irrigation purpose and thereby, also for food and agriculture. This pressure on water resources would change the pattern of agricultural trade among countries

The OECD's environmental outlook also projects that, there will be severe water shortages for the South Asia, the Middle East, China and North Africa's population, by the turn of this century. It will lead to increase food and agricultural imports in these water-scarce regions.

Transportation Costs

Transportation cost is one of the major factor which affects direction, volume and patterns of trade**.** According to **Moreira's (2008**) analysis of nine Latin American, a 10% reduction in average transport costs will leads to increase more than 10% of country's exports. and a 9% of its imports.

By using a sample of 37 industrialized and transition countries, **McGowan and Milner** (2011) find that industries, located in low trade costs countries, have significantly higher shares of world exports

Transportation costs have different effects on the relative prices of high-quality goods and low-quality goods. Likewise, products with different weight-to-value ratios affects differently by transportation costs. Due to fixed transportation costs of per shipment, Low quality goods which are sold at lower prices, more affected by ad valorem transportation cost than the Higher quality goods (sold at higher prices). Therefore, with the increase in transportation cost, the price of the low-quality goods will increase proportionately more than the price of the high-quality goods. This will lead to increase the exports of high quality goods and reduce the share of other one. Contrary to this, If transportation cost is reduced, there will increase in the share of low quality goods in international trade.

Effect of transportation costs will be more on the pattern of trade with the greater disparity in prices between high-quality and low quality goods.

Transportation cost, which has significant impact on trade, is also affected by a broad range of fundamental determinants. Product characteristics, geographical features of countries (weather it is landlocked or close to ports), physical infrastructure which support transportation services, the Technological changes or innovation, the extent of market competition, trade facilitation and the fuel cost are the major determinates of transportation cost (Behar and Venables, 2010).

Institutions

Institutions are among the major determinant factors which affect trade and trade-related policies.

- **Political Institutions**

Political institutions affect international trade in two ways: first, by imposing constraints on government activities; secondly, by influencing the set of economic institutions.

In this section, we are going to discussed that, How, the form of government and political borders affect international trade.

  - **Form of Government**

Form of government, affects trade flows directly by changing policy-makers and indirectly through its impact on country's economic development. According to a number of studies a democratic country, positively affects trade flows through its liberal trade policies.

Mansfield and Milner (2010), in their empirical study find that if a country is more democratic, there would be higher **probability to sign** a free trade agreement. Mansfield et al. (2000), and Yu (2010) also find same results that more democracy is associated with increased trade.

However, In Their empirical study, Eichengreen and Leblang (2008) show that the relationship between trade and the form of government runs in both directions.

  - **Political Borders and Geopolitical Stability**

A politically stable country is more likely able to increase its international trade. And Political instability, could be a kind of hindrance to trade growth. Trade flows are affected by political fragmentations, which were clearly seen during the period of two world wars, when trade flows reduced dramatically. Expansion of political borders, negatively affects the trade by increasing transaction costs.

McCallum (1995) examines the trade effect of the border between Canada and the USA, and finds that, trade between Canadian provinces is estimated to be 2,200 % higher than trade between Canadian provinces and US states. Anderson and van Wincoop (2003) also find sizeable impact of political border on trade. But in their study, they show that the border separating Canada and the United States reduces trade by 44%, which is smaller than the McCallum's finding.

- **Economic institutions**

Countries with Stronger Economic institutions have a comparative advantage in international trade. Well defined Property rights, efficient and clear regulations and the rule of law create incentives to exchange goods and services because, they reduce transaction costs by increasing transparency with less uncertainty. Anderson and Marcouiller (2002) Examines the effect of corruption and imperfect contract enforcement on trade, and they find that if a country improves its institutions' quality, price of traded goods will reduce and trade flows will increase.

The financial institutions of a country also influence its trade patterns. By examining 65 countries (over a 30-year), Beck (2002) finds that countries with developed financial institutions have a comparative advantage in manufacturing industries. Beck shows that development of financial institutions have a large impact on exports and the trade balance of manufactured goods. Likewise, Svaleryd and Vlachos (2005) also find the same results. Weak financial institutions lead to increase transaction costs and other financial frictions, which affect the volumes as well as pattern of trade by influencing firms' production decisions. Study of Manova (2008) also shows that, if there are weak financial institutions in a country, it exports fewer varieties to fewer destination markets which ultimately lower aggregate trade volumes.

Distance

It is well established fact of gravity model that, international trade and distance between countries are negatively related. Distance directly affects trade by increasing transportation costs. Economic or demand shocks have a larger impact on trade between more distant countries. Reduction in demand will hamper profits which will force exporters to exit the market. However, the actual effect of distance on international transactions is ambiguous. During the 2007-09 Great Trade Collapse, there was a significant reduction in international transactions between more distant countries. **According to the empirical results of Arnaud Mehl, Martin Schmitz, and Cédric Tille**,'s study there was 23% reduction in trade during the Great Trade Collapse, with an increase in physical distance between two countries by one standard deviation.

Hummels (2007) concludes that a 10% increase in the distance between the exporting country and the destination port within the United States, results to increase 2.7% in air transportation costs and 1.5 % for sea shipments.

Disdier and Head (2008). estimate that the elasticity of trade to distance is about 0.9 which means that, bilateral trade between trading countries reduces by about 9 % with 10% increase in distance between them.

Impact of Exchange Rates

The exchange rate is the price of one currency in terms of another. The currency exchange rate plays an important role in the growth of country's international trade. According to the available literature, trade flows are negatively affected by the volatility of the foreign exchange rate. However, trade balance also affects exchange rates by changing the demand and supply of foreign exchange. Demand of a country's currency will increase, with the increase in demand of its goods and services in the world market. Exchange rate fluctuates when the demand of that particular currency changes. If there is a high demand for the country's currency then its price will increase or it will lead to appreciations of that currency. When a country's exchange rate increases relative to another countries, (appreciation of currency) the price of its goods and services increases, which leads to reduce competitiveness of domestic goods in world market or exports become costly and Imports become cheaper. Ultimately, this can decrease that country's exports and increase imports. This may pressure a nation's trade balance.

And when the value of a country's currency depreciates, the price of its goods and services decreases in world market, which leads to increase the competitiveness. So that Exports of that country will also increase and trade balance will improve. As value of Chinese currency is very low in comparison to dollar, euro and yen, Chinese goods are available at very cheap rates across the world particularly in USA and European markets.

Impact of Trade policies and Govt. restrictions: The Influence of Tariffs and Trade Barriers

The country's trade policies have a significant effect on international trade. If a country has a liberal trade policy with its trading partners, then, there will be positive impact on the country's trade. Such as free trade agreement between countries, increase trade by reducing trade barriers. The effect of trade agreement on international trade is also explained separately in next section. A country may use some trade restrictive practices by imposing trade barriers on certain products such as Tariffs, subsidies, Quotas. International trade is negatively affected by tariffs and other trade barriers.

Tariffs can be imposed for the health and safety purpose. It is also a counter tool for dumping practice. Dumping is an international trade practice that is being adopted by a trading partner country which exports its goods in large quantity at very low price than available at domestic market in order to gain competitive advantage in foreign market. To overcome the dumping practice, government may impose tariffs or taxes on lower price imported goods. Subsidies are provided by the government to its domestic industries to protect from foreign competitive industries. Subsidies reduce production cost so that exports may increase. For example, Japan is giving protection to rice producing industries by providing subsidy, it will also increase food security and more employment to Japanese.

Quotas impose import limits on certain items. Quotas often used to protect domestic agriculture industry when it not able to meet a definite level of output. However, these trade restrictive practices or Trade protectionism policy, can eventually weaken the industries it was implemented to protect because it reduces the competition. It will reduce the quality of the goods and future incentive to grow.

Impact of Trade Agreements on International Trade

Trade agreements encourage international trade between two or more countries. They are sets some preferential conditions which give advantages to participating member country. Because trade barriers, as explained in previous section, make international trade more harder. For example, tariffs may add government levies or fees to imports. Taxing imports makes it more difficult for imported goods to compete with domestic ones.

Liu and Ornelas (2012) analyze the role played by preferential trade agreements (PTAs), they show that participation of countries in PTAs works as a commitment which will lead to resist future pressures for protectionism from lobby groups. Therefore, any kind of preferential trade agreements lowers the incentive to use trade restrictive practices.

Conclusions

International trade has existed for a long time, but trade has increased hugely in the past few hundred years and has a major impact on the economies of many countries. There is a long list of political, economic, and practical factors that can affect the international trade. But, in this paper, we have discussed mainly on the basic fundamental economic factors such as Demographic changes / Population, Investment, Technology, Energy and other natural resources, distance, Transportation costs, Institutions**,** Trade agreements, Common border, Exchange rates, Competitiveness, Tariffs and trade barriers, The level of economic development etc.

India and China are undergoing with a process of rapidly ageing population i.e. its workforce or demographic dividend which is a key source of India' s comparative advantage.

At the same time, China is undergoing a process of rapid capital accumulation. If this momentum continues, China could shift the source of its comparative advantage in the direction of more capital-intensive exports. A similar process is under way in other developing countries, such as Chile and Turkey, which have seen rapid capital accumulation in recent years and rising aggregate capital-labour ratios. India and countries in the Middle East and Sub-Saharan Africa will continue to see their populations grow. Not only will median ages be low but dependency ratios will decline over the next decades. If these countries can strengthen public institutions and keep economic policies outward-looking, they could become the world's fastest-growing economies.

It also requires efforts to reduce the "distance" to markets. Countries in Sub-Saharan Africa tend to fare. There may be some scope to use current regional integration efforts to identify and prioritize regional infrastructure projects that can reduce trade costs and to use the current Doha Round negotiations on trade facilitation as a way of improving customs procedures and other regulations. African countries continue to lag behind in innovation and in absorbing technology transfers. These too can be addressed by improving the quality of education and training.

In recent decades, developed countries have grown more slowly than developing countries and have seen their share of world trade shrink. The ongoing Great Recession is likely to produce a lost decade for many advanced countries, particularly those in Europe. Demographics in the form of an ageing and declining population will confront Japan and a number of European countries with strong headwinds to growth. This will have adverse effects on their future share of global trade exacerbating the trends. Greater openness to migration may help alleviate these demographic challenges. These countries will need to maintain a highly skilled workforce, invest a high share of GDP on research and development and promote innovation. New technologies such as robotics and 3D printing may become more widespread.

This paper does not take into account the other shaping factors of international trade such as, how trade affects income distribution, alters the relative power of nations or creates spillovers (e.g. environmental degradation) that certain countries may find unacceptable. These effects can weaken public support for trade openness or prompt governments to adopt policies that directly or indirectly have an adverse impact on trade.

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