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The Underappreciated Role of Imports

The global financial crisis, the COVID-19 pandemic, and the war in Ukraine, have taught us that global shocks can have devastating economic consequences. While knee-jerk reactions sometimes blame external dependence for this, there is strong evidence that economic integration strengthens both competitiveness and economic resilience. A diversified import help us spread risk and manage economic shocks. Import also provide cost-effective inputs that raise productivity and boost exports. In this brief, we explore the underappreciated role of imports in promoting competitiveness and resilience.

1. Imports and competitiveness

Research has long emphasised the positive link between imports and firm productivity (see Kommerskollegium, 2023 a and b). A recent review by Shu and Steinwender (2019) found a statistically significant and positive effect on firm productivity from improved access to imported intermediates in 18 out of 20 reviewed academic papers. This is as close to empirical proof as one gets in the social sciences.

Imports strengthen productivity through several channels. They improve the transmission of technology and management practices, reduce inefficiencies, and increase the range of possible inputs into firms' production, all of which are beneficial for productivity.

Given the positive impact of imports on productivity, it is not surprising that imports also boost exports. One way to illustrate this link is to study firm-level productivity for different categories of firms. According to our calculations, Swedish industrial firms that both import and export have 48 per cent higher labour productivity and pay 44 per cent higher wages than firms in the same category that do not trade. For firms that only export, the labour productivity premium is 22 per cent and the wage premium is 21 per cent compared to firms that do not trade at all (data for 2019). While these figures are descriptive and do not prove causality, research demonstrates how imports boost export performance. Pane and Patru (2020) find that "importing inputs can increase productivity and exports," Kim et al. (2009) conclude that "imports may even be a more important determinant of wages than exports," and Bas and Strauss-Kahn (2014) show how imports help provide firms with better quality inputs and better technology, thereby improving export performance. Thus, economic theory, descriptive statistics, and empirical research all support the view that imports increase firm productivity and competitiveness.

2. Imports and resilience

Well-diversified imports are important for resilience for at least two reasons. First, it provides firms with more options in the event of disruptions, allowing them to adapt more quickly to the new conditions. Since resilience is essentially about adjustment from one equilibrium to another, an open and well-diversified import structure improves resilience. By contrast, a reshoring approach is more static and limits the ability of firms to adjust quickly.

Secondly, access to imports spreads the geographical risk of disruption. Another way to describe this is to say that imports help us avoid the mistake of putting all our eggs in the same basket.

Recent evidence supports the view that imports improve resilience. During the first phase of the COVID-19 pandemic, a surge in demand for medical supplies and personal protective equipment led to shortages in Europe. In the spring of 2020, global supply expanded rapidly, however, and by summer initial shortages in Europe had been resolved by imports.

When the OECD (2021) compared an open trade regime with a reshoring approach they found that reshoring is "more – not less – vulnerable to shocks, as evidenced by greater instability of key economic variables. [The] results suggest that the economic case for reshoring...is indeed weak, while pointing to the benefits of using a range of government policies to make supply chains more resilient."

3. Policy recommendations

Eliminate tariffs on intermediate goods

How can the EU design policies that recognise the central role of imports? One obvious option would be to eliminate import tariffs on intermediate goods. It would have at least four advantages.

First, it has a cost-saving effect for both direct and downstream users. Such a reform would therefore have economy-wide effects on productivity and competitiveness. Canada eliminated its tariffs on most intermediate goods between 2010 and 2014 with this objective in mind. On 1 January 2024, Switzerland will follow suit and eliminate all import tariffs on industrial goods.

Switzerland's motivation for abolishing its industrial tariffs

"Removing industrial tariffs will strengthen Switzerland's position as a business and industrial location... Whereas customs duties once served to protect domestic industry from foreign competition, today they make it more expensive to procure materials from abroad. With the lifting of customs duties and the associated simplification of administrative procedures, businesses in Switzerland will benefit from cheaper inputs and thereby also from lower production costs. Given that the Swiss economy is highly integrated in global value chains, this will also improve its international competitiveness."

State Secretariat for Economic Affairs, SECO

Secondly, it would be beneficial from a political economy perspective, since a reform to remove tariffs on intermediate goods is likely to be popular with broad segments of the domestic industry.

Third, as described above, removing tariffs on intermediate goods would strengthen economic security by giving EU firms access to many different sources of inputs. Such a reform would provide EU firms with more options in the event of a disruption, giving them the flexibility to adapt more quickly.

Finally, an EU policy to remove tariffs on intermediate goods would reduce the risk of retaliation by our trading partners when/if we impose trade defence measures on some (final) goods from some countries. In other words, it would help improve the overall perception of EU trade policy through a reform that primarily benefits EU firms.

Improve EU customs procedures and remove nuisance tariffs

To achieve competitiveness and economic security objectives, the EU import regime should not impose unnecessary administrative burdens on businesses. Many EU tariffs are already so-called nuisance tariffs (below 4 per cent) which cost businesses and Member States more in administrative costs than they generate revenue for the EU. And even if tariffs have already been liberalised in an FTA, removing them on a most-favoured-nation basis would reduce the administrative burden of proving origin.

Such a competitiveness perspective should also guide the forthcoming EU customs reform. For example, in order to avoid additional administrative burdens for small- and medium-sized enterprises, the EU should raise – not lower – its de minimis threshold for customs duties.

Literature

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