GEOG 349
Responses from 5 Oct 2010 activity

Empirical correlates to nations' trade/FDI patterns

National characteristics that seem correlated with large export flows

Resources:

- Resource-rich countries have large resource exports.

Agriculture:

- South American countries seem to have especially large net exports of agricultural products (p. 59).
- Large-scale agricultural production (and thus, the possibility of large exports) requires large territory and good climate conditions.
- Large-scale agricultural exports benefits from a low population density.

Manufactures:

- Some densely populated countries have large exports of manufactures.

Merchandise, in general:

- National territory includes an ocean-accessible port (pp. 51-3).
- Wealthy countries tend to have large merchandise exports (p. 57).

Services:

- Major tourist destinations therefore have large service exports.
- Wealthy countries tend to have large service exports, because of their highly developed tradable-service sectors and because of their domestic companies' exporting technology, capital, and management services to foreign subsidiaries.
- Countries with a long history of capitalism tend to have high export flows. [Why?] [But China?]

Exports, in general:

- Post-industrialized countries tend to have high export flows. [But China?]
- Developing or recently industrialized countries are among the largest exporters.
- *Former colonial powers tend to have higher export flows. [But China?]*

National characteristics that seem correlated with large import flows

- Densely populated countries tend to import agricultural products.
- Post-industrial economies are among the largest importers. [Why?]

National characteristics that seem correlated with large outward FDI flows

- "Western and OECD[1] countries tend to have higher rates of outward FDI."
- "Nations that are less developed do not participate in FDI." [What characteristics attract FDI? What corporate characteristics enable FDI?]

National characteristics that seem correlated with large inward FDI flows

- "Asian countries, especially South [and SE?] Asian, tend to be participating more in FDI in the inward direction."

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Huang, R.R. 2007. Distance and trade: disentangling unfamiliarity effects and transport cost effects. *European Economic Review* 51(1): 161-181.

- Even in the contemporary world, **distance does seem to impede international trade flows**. How much of this is because of transportation costs, versus the cultural and other differences that impede companies' and governments' marketing and procurement decisions?
- We know that **trade flows are larger than distance would suggest when we're studying pairs of countries with colonial relationships that have left cultural and business ties.**
- Huang models trade flows as a function of distance, and then tries to explain some of the residual by characterizing national cultures according to "uncertainty aversion."
- To estimate **"uncertainty aversion"** he makes use of Hofstede's [1980] survey of 80,000 IBM managers' attitudes toward "rule orientation," "employment stability," and "stress" (each manager was attributed to the country in which (s)he worked).
- "A gravity model [predicting trade flows as an inverse function of distance] that controls for as many natural causes of trade as possible reveals that **countries high in uncertainty aversion export disproportionately less to distant countries** (with which they are presumably less familiar)" [161].
- "this result is mainly driven by **differentiated products**, not by products with international organized exchanges or with reference prices" [such as mineral and oil commodities or basic foodstuffs].
- "This trade pattern is easy to explain if one accepts that geographic distance is a proxy for unfamiliarity and that exporters in high uncertainty-aversion countries are more sensitive to informational ambiguity" [161].
- "A further result is that high uncertainty-aversion countries trade less and thus grow poorer in the long run, which suggests that cultural factors are as important as geographic ones in determining trade openness and prosperity" [161]. He actually models per capita income as a function of trade dependence: **"a 1% point increase in trade openness can increase income per worker by 0.8%"** [176].

Hofstede, G.H. 1980. *Culture's Consequences: International Differences in Work-Related Values*. Thousand Oaks CA: Sage Publications.

[1] **Organisation for Economic Cooperation and Development**: 33 member countries: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

Geography 349
Responses from 7 Oct 2010 activity
Inductive understandings of international trade and investment

Who trades what with whom, under what circumstances?
With what consequences?

Old International Division of Labor

- Wealthy countries ("North") trade manufactures and services primarily among themselves, importing extracted and some agricultural products from less wealthy countries ("South").
- Trade relationships tend to be strongest among countries that have geographic, cultural, and/or political proximity.
- The North-South trade linkages retain some of the geographic pattern developed during the colonial period of the 17^{th}-20^{th} centuries.
- If we add to these generalizations two other flows –
    - of heavy manufactured products ("capital goods" like machinery and equipment) from North to South, and
    - of capital from North to South (implying trade surpluses in the North and deficits in the South) –
    - we have a description of the **Old International Division of Labor**.

- Wealthy countries tend to develop the ability to export many types of goods and services; this makes their export income more stable than if they depended on one type of export. Wealthy countries tend to develop goods and services that are relatively unique; this makes their exports relatively expensive.
- Southern countries tend to export a limited range of commodity products, for which buyers can substitute similar products from different countries. This increases the volatility of, and reduces the returns to their exports. (Some commodities are heavily demanded and not widely available – countries with such exports can become rich and yet not "developed.")

- Countries whose territory includes navigable ocean ports and/or continental crossroads tend to be more trade-dependent.
- Densely populated countries tend to import agricultural products, even if they produce many such products. Less densely populated countries in temperate climates tend to export agricultural products.

New International Division of Labor

- During the last 35 years, many countries in the South have developed substantial export flows of manufactured products to each other and especially to the North.
- Northern countries have become more specialized in exporting
    - services,
    - advanced equipment (including armaments), and
    - technology to businesses and governments in other Northern countries in the South. (Some of the importing businesses are subsidiaries of Northern companies), and
    - exporting tourism services to travelers from all countries.
- Capital flows are increasingly complex, with some Southern countries serving as the source and some Northern countries serving as the destination of international capital. Most international capital flows remain in the North.
- This more complex pattern – especially the flow of manufactures and commodities from South to North – is called the **New International Division of Labor (NIDL).**

- Foreign trade and foreign investment (direct and portfolio) increase when national governments enter international agreements (whether bilateral, regional or global) to reduce barriers to trade and investment.
    - Note that there were large flows of trade and capital among the Communist countries of Europe during the 1950s-1980s. International political ties allowed for intense trade and international specialization. Substantial differences in currency policy and military interests reduced trade to a trickle between the Soviet bloc and the rest of the world.
- International capital flows are motivated by two polar desires: for high returns and for security. (This leads to asset bubbles and busts, and to the flight of capital to secure currencies and countries during times of political or economic instability.)