

Culture, Geography, and Other Non-Policy Barriers to International Trade

When we studied free trade at school, comparative advantage may not have included cultural difference or geographical distance as controlling factors. Dr. Jason Alan Query, however, points out that between two countries with almost similar GDP, say Australia and Mexico, the US trades more with Mexico than with Australia. Distance plays a role. Or even among geographically distant countries, sharing common cultural roots, such as religion, can encourage more transactions.

Given the tense politico-economic atmosphere under the second Trump administration, free trade is outside the Presidential priorities. But economists have constantly made efforts to remove obstacles to free flow of goods, such as tariffs, quotas, or other policy-based barriers, to improve the welfare of the people. Dr. Query sheds lights on non-policy barriers, such as geographic, historical, or cultural which can drastically alter the trade patterns among countries as well as regions.

In the talk, Dr. Query focused on the following three points: How does the geography and infrastructure of a country impact its trade? How do artificial boundaries, such as state or country borders, impact trade? And do cultural differences cause countries to trade more or less? Changes in the methods of transportation effectively shortened the geographical distance, while certain commodities are still carried in the same way as before. One drastic change is online transaction, in which geographic distances no longer count against trading. Accelerating diversity of American society may function to psychologically connect distant areas in the world to American consumers, and such cultural distance can be measured using General Social Survey. While things like cultural distance are becoming much more important, geographic distance still plays a considerable role in determining trade patterns. Following Dr. Query's talk, a wide range of thoughts were exchanged among participants.

For a person who studied in Washington, DC during the serious trade imbalance between the US and Japan, Dr. Query's positive inclusion of non-policy barriers into the calculation was quite eye-opening. In the early 1980s, everything starting from Japanese language, cultural values, non-verbal communication, etc. was bundled up under the banner, "unfair non-tariff barrier." Plaza Accord lulled such bashing, but the value of my small bank balance was cut into half when I left DC heading home—Not a great memory.