

English manufacturing

The sources of modern trade resources (in the form of machinery and skills) are made less valuable by imports of apparel and tech workers who now face competition from Bangalore. Political battles over trade typified by clothing workers who face competition from Bangalore.

As we'll see in later chapters, however, the underlying logic of international trade remains the same. Economic models developed long before the invention of jet planes or the Internet remain key to understanding the essentials of 21st-century international trade.

MARY

1. The *gravity model* relates the trade between any two countries to the sizes of their economies. Using the gravity model also reveals the strong effects of distance and international borders—even friendly borders like that between the United States and Canada—in discouraging trade.
2. International trade is at record levels relative to the size of the world economy, thanks to falling costs of transportation and communications. However, trade has not grown in a straight line: The world was highly integrated in 1914, but trade was greatly reduced by economic depression, protectionism, and war, and took decades to recover.
3. Manufactured goods dominate modern trade today. In the past, however, primary products were much more important than they are now; recently, trade in services has become increasingly important.
4. *Developing countries*, in particular, have shifted from being mainly exporters of primary products to being mainly exporters of manufactured goods.

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- 1 Canada and Australia are (mainly) English-speaking countries with populations that are not too different in size (Canada's is 60 percent larger). But Canadian trade is twice as large, relative to GDP, as Australia's. Why should this be the case?

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2. Mexico and Brazil have very different trading patterns. While Mexico trades mainly with the United States, Brazil trades about equally with the United States and with the European Union. In addition, Mexico does much more trade relative to its GDP. Explain these differences using the gravity model.
3. Equation (2.1) says that trade between any two countries is proportional to the product of their GDPs. Does this mean that if the GDP of every country in the world doubled, world trade would quadruple?
4. Over the past few decades, East Asian economies have increased their share of world GDP. Similarly, intra-East Asian trade—that is, trade among East Asian nations—has grown as a share of world trade. More than that, East Asian countries do an increasing share of their trade with each other. Explain why, using the gravity model.
5. A century ago, most British imports came from relatively distant locations: North America, Latin America, and Asia. Today, most British imports come from other European countries. How does this fit in with the changing types of goods that make up world trade?

R READINGS

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