

Albrecht Ritschl (LSE)

## ‘Gravitational forces in British foreign trade since 1870’

The purpose of this paper is to study changes in the geographical patterns of British foreign trade beginning in the 1870s. Drawing on a wide international dataset on product trade, it sets out to examine if and when there was British exceptionalism in foreign trade, to what extent such exceptionalism was merely a generic empire effect, or whether it was specific to Britain herself. To avoid omitted variable bias, such modelling needs to take into account some of the major changes affecting the trade patterns of Britain’s major trade rivals including France and Germany. It also needs to account for the creation of the European Economic Community, which may have both created and diverted trade, affecting Britain and her traditional trading partners.

Results from a conventional gravity model suggest strong but paradoxical shifts. One is the distance paradox common to many studies of the gravity model, a recent increase in the size of the distance coefficient compared to the interwar and pre-World War I period. Taken at face value, this evidence would suggest that since the postwar period, international trade became less globalised and more local. The second is the persistence of a strong British Empire effect. Whilst this effect is lower in recent decades than during the postwar period, it is not much lower than in the interwar period. The third, related paradox is within the core EEC-6 group of six founding members of the EU: ever since the postwar period, trade within this group has been markedly higher than the gravity model would predict. But this effect comes out stronger before 1973 than afterwards.

Some of these puzzles are resolved once we zoom in on Britain’s trade in particular. To this end, the distance variable as well as the British empire dummy variable are interacted with the country dummy for Britain. The distance puzzle in global trade is significantly weakened now and looks more like a cyclical pattern in the postwar period. Instead, a strong positive association between distance and trade in Britain’s interwar and early postwar trade starts weakening in the 1970s and later disappears. Given Britain’s strong initial weights in overall international trade, his force alone appears to be strong enough to explain much of the distance puzzle: it is not global but British trade that became more local, and the watershed appears to coincide well with Britain’s accession to the EU. This is confirmed by looking at Britain’s trade with the empire: the effect is still as strong in 1973 as it was in 1929 but then fizzles away quickly. By contrast, trade among the other members of the British Empire in the early years is markedly lower than the gravity model would predict, whilst it is markedly higher than the model prediction among the same group in 2000. We also note in passing that in spite of her reputation as a global exporter, Germany’s foreign trade is markedly more local than the model would predict, and much more strongly so than that of Britain.