Trade and National Identity

Pao-Li Chang∗
Fali Huang†

School of Economics and Social Sciences
Singapore Management University, Singapore 178903

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Abstract

National identity measures a nation’s investment in public goods (and accumulation of cultural heritages) that cater exclusively to the nation’s citizens; in turn, a higher level of public goods provision raises the dependence of the nation’s citizens on the nation. A nation with a higher level of national identity has stronger incentives to maintain the current economic structure, as citizens are less flexible in adaption to changes. This hypothesis, when applied to the context of trade policy, implies that a nation with a higher degree of national identity will impose a higher level of trade protection, ceteris paribus. A comparison of OECD countries reveal some supporting evidence. The European countries, whose governments spend significantly more than the US government on public welfare programs, protect more of their domestic producers from international trade competition than the United States. Still, Japan is a more closed economy than the rest of the OECD countries as its citizens exhibit a strong degree of national identity (?).

National identity can not be dismissed as secondary in the pursuit of economic efficiency, as public goods (and cultural heritages) are important components of nation building and survival, which have long-run efficiency implications. However, the benefits of these public goods that accrue to the nation’s citizens are not fixed and will likely decrease with the availability of outside options. Thus, if international trade volumes increase exogenously because of technology changes (lower transportation costs, lower communication costs, better international banking facilities),

∗Tel: +65-6828-0830; fax: +65-6828-0833. E-mail address: plchang@smu.edu.sg (P.-L. Chang).
†Tel: +65-6828-0859; fax: +65-6828-0833. E-mail address: flhuang@smu.edu.sg (F. Huang).
the exogenous increase in outside choices lessens the reliance of a nation’s citizens on its internal economy, and the benefit to its government of maintaining the existing economic structure. This is manifested by the global trend of lower trade protection levels following each major technology innovations of conducting international trade: the arrival of great ships in the 17th (?) century, the advent of airplanes in the early 20th century, and the invention of computers in the late 20th century. As technology innovations prompt exogenous increase in international trade, national identities are weakened, which in turn lowers the need for trade protection, and as a result, a reinforced increase in international trade.

Keywords:

JEL classification:
1 Introduction

2 The Econometric Model

3 Conclusion