

Opinion **Brexit**

## 'Global Britain' is an illusion because distance has not died

Trade often occurs within supply chains, where reliability and control is vital

**MARTIN WOLF**



Lorries at the port of Dover, UK. There is much more to distance than transport costs: it has many dimensions — economic, cultural and legal © AFP

Martin Wolf YESTERDAY

In a world of global supply chains and overnight delivery, there is no longer any such thing as distance.” This assertion appeared in [a letter to the FT](#) published on May 6. Its author is not alone in this view. Nor is this just the view of [Brexiters](#). Thomas Friedman of the *New York Times* asserted in his 2005 best-seller that *The World is Flat*. The British economist Frances Cairncross called her 2001 book *The Death of Distance*. This idea that modern transport and communication have made [distance](#) irrelevant may seem quite plausible. But it is untrue.

In 2018, the US sent 34 per cent of its merchandise exports to Canada (18 per cent) and Mexico (16 per cent), against 19 per cent to the EU and 7 per cent to China. Yet the size of the markets of Canada and Mexico, together, was just 16 per cent of the EU’s and 26 per cent of China’s. The EU’s exports to the UK were 79 per cent of its exports to the US and 153 per cent of its exports to China, though the UK economy was 14 per cent of that of the US and 21 per cent of China’s. The UK sent 47 per cent of its exports to the rest of the EU, against 13 per cent to the US and 6 per cent to China, though the US economy was 29 per cent bigger than the EU’s (excluding the UK), and

China's was only 16 per cent smaller.

It is remarkable that the US exports almost as much to Canada as to the EU. It is no less remarkable that the EU exports almost as much to the UK as to the US. But these are just anecdotes. What about systematic data? [A thorough analysis](#) of 1,467 estimates from 103 scholarly papers concluded: "On average . . . a 10 per cent increase in distance lowers bilateral trade by about 9 per cent." Distance matters, big time. Moreover, it matters more now than it did a century ago. Thus, [another study](#) reveals that the negative effect of distance was larger between 1950 and 2000 than it had been between 1870 and 1913 or in the interwar period.

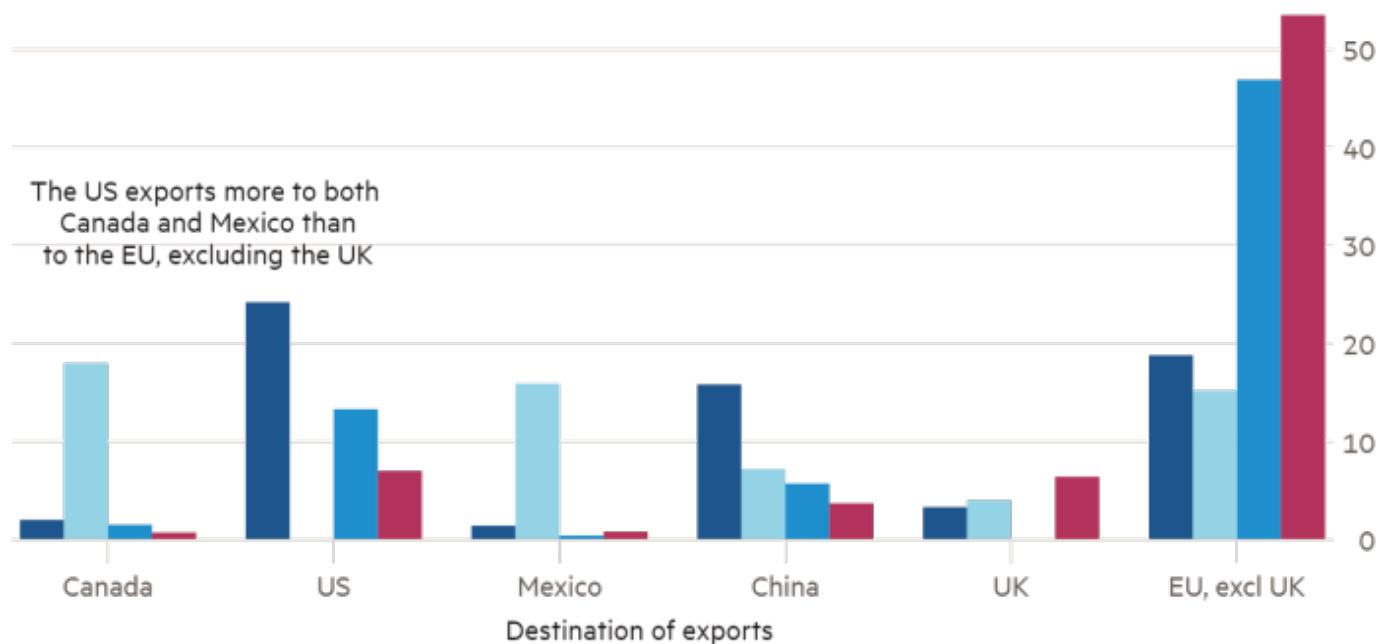
This finding is not limited to goods. It appears that there is a distance effect in the internet, too: Americans are more likely to visit websites located in nearby countries, even allowing for language, income, immigrant stock and so forth. One could read the newspapers and listen to the radio stations of any country. But, by and large, one does not. Indeed the national bias in commerce — a powerful distance effect — is well known in trade in goods and services. By and large, people buy services from national businesses: retail banking is an excellent example of this tendency.

Note, too, perhaps the most powerful indicator that distance still matters: the agglomeration effects visible in industries like information technology or financial services. One might think these industries had to become "flat". But they did not. They have clustered at the top of virtual mountains: San Francisco, New York, London or Shanghai.

## Distance still matters in trade

Share of global GDP and exports, 2018 (%)

■ Global GDP    ■ Exports from the US    ■ Exports from the UK  
■ Exports from the EU (excluding UK)\*



\* including intra-EU trade

Source: IMF

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So why has distance not died and the world not become flat? One explanation is that relativities matter. While barriers to distance have indeed fallen, they have probably declined even more over short distances than over longer ones. A complementary fact is that the nature of trade has changed and, in particular, it has become more control-intensive and time-dependent. In the late 19th century, close to two-thirds of trade consisted of commodities. These went where the markets were. In return, commodity exporters imported manufactures, which had to come from the relatively few (often distant) industrialised countries. Now, however, trade is often within supply chains, where reliability and controllability is vital.

Regional trade arrangements also matter, not because the ostensible barriers are so much lower than in other trade, but because procedures tend to be far more reliable and efficient. The aim of the EU single market, notably, was full “jurisdictional integration”. In other words, trade was intended to be just like that within a country. That has not happened (yet). But the EU has gone a long way towards it. This objective also explains the regulatory and procedural harmonisation that Brexiters detest so much: it was the price of integration.

What is most interesting in all this is that there is much more to distance than overt transport costs: distance has many dimensions — economic, cultural and legal. For the UK’s debate on Brexit the conclusion is simple. There are only two possible explanations for the immense bias towards trade with the EU: either the preferential advantages of being within the EU are very large or the vital fact is that these are neighbours. Either way, the idea that there is a global alternative, which would offset the loss of the opportunities offered by the EU, and especially preferential trade with the EU, is a delusion. It is the biggest of the many Brexit delusions.

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