Excluding the composition effects of transport costs changes

▶ For the ad-valorem component, we estimate the following equation:

$$\ln(\widehat{\tau}_{ikt}) = \delta + \underbrace{\sum_{i \neq \text{AFG}} \alpha_i.\mathbb{1}_i}_{\simeq \tau_k} + \underbrace{\sum_{k \neq 011} \beta_k.\mathbb{1}_k}_{\simeq \tau_k} + \underbrace{\sum_{t \neq 1974} \gamma_t.\mathbb{1}_t}_{\text{"Pure" TC}} + \epsilon_{ikt} \quad (1)$$

- With $\widehat{\tau}_{ikt} = \widehat{\tau}_{ikt}^{ice}, \widehat{\tau}_{ikt}^{adv}$ previously obtained

▶ For the additive component:

$$\ln(\widehat{t}_{ijt}) = \ln\left(\underbrace{\prod_{i \neq \text{ARG}} \alpha_i.\mathbb{1}_i}_{\simeq t_i} \underbrace{\prod_{k \neq 011} \beta_k.\mathbb{1}_k}_{\simeq t_k}\right) + \sum_{t \neq 1974} \gamma_t.\mathbb{1}_t + \epsilon_{ijt} \quad (2)$$

▶ Underlying rationale
  - Equations (1) and (2): Preserve our specification of the ad-valorem and the additive costs (Equation (??))
  - Equation (1) estimated using OLS, Equation (2) using non-linear least squares (by transport mode)