A simple solution to the ``distance puzzle'' in trade

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| --- | --- | --- | --- | --- | --- |
|  | (1) OLS | (2) PPML | (3) INTRA | (4) BRDR | (5) FEs |
| Log distance 1986 | -1.168 | -0.859 | -0.980 | -0.857 | -0.910 |
|  | (0.044) | (0.038) | (0.073) | (0.064) | (0.033) |
| Log distance 1990 | -1.155 | -0.834 | -0.940 | -0.819 | -0.879 |
|  | (0.042) | (0.038) | (0.074) | (0.064) | (0.033) |
| Log distance 1994 | -1.211 | -0.835 | -0.915 | -0.796 | -0.860 |
|  | (0.046) | (0.036) | (0.073) | (0.064) | (0.032) |
| Log distance 1998 | -1.248 | -0.847 | -0.887 | -0.770 | -0.833 |
|  | (0.043) | (0.036) | (0.072) | (0.064) | (0.032) |
| Log distance 2002 | -1.241 | -0.848 | -0.884 | -0.767 | -0.829 |
|  | (0.044) | (0.032) | (0.072) | (0.064) | (0.033) |
| Log distance 2006 | -1.261 | -0.836 | -0.872 | -0.754 | -0.811 |
|  | (0.044) | (0.032) | (0.072) | (0.063) | (0.033) |
| Contiguity | 0.223 | 0.437 | 0.371 | 0.574 | 0.442 |
|  | (0.203) | (0.084) | (0.142) | (0.157) | (0.083) |
| Colony | 0.670 | -0.222 | 0.019 | 0.027 | -0.220 |
|  | (0.149) | (0.118) | (0.159) | (0.127) | (0.118) |
| Common language | 0.661 | 0.248 | 0.337 | 0.352 | 0.241 |
|  | (0.082) | (0.078) | (0.171) | (0.139) | (0.077) |
| Log intra-national distance |  |  | -0.488 | -0.602 |  |
|  |  |  | (0.102) | (0.111) |  |
| Intra-national trade dummy |  |  |  | 1.689 |  |
|  |  |  |  | (0.582) |  |
| N | 25689 | 28152 | 28566 | 28566 | 28566 |
| R2 | 0.843 |  |  |  |  |
| logLik (in thousands) | -45 | -2194 | -7610 | -7335 | -2556 |
| AIC (in thousands) | 92 | 4390 | 15221 | 14673 | 5114 |
| Intra-national trade | No | No | Yes | Yes | Yes |
| Country-specific intra-national fixed effects | No | No | No | No | Yes |
| Notes: All estimates are obtained with data for the years 1986, 1990, 1994, 1998, 2002, and 2006, and use exporter-time and importer-time fixed effects. The estimates of the fixed effects are omitted for brevity. Columns (1) and (2) use data on international trade flows only. Column (1) employs the OLS estimator and column (2) uses the PPML estimator. Column (3) adds internal trade observations and uses intra-national distance as an additional covariate. Column (4) adds an indicator covariate for international trade. Finally, column (5) uses country-specific dummies for intra-national trade. Standard errors are clustered by country pair and are reported in parentheses. The bottom panel of the table reports the percentage change in the estimates of the effects of bilateral distance between 1986 and 2006. | | | | | |