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Journal of International Economics

Volume 58, Issue 1, October 2002, Pages 1-18

Does trade raise income?: Evidence from the twentieth century

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[https://doi.org/10.1016/S0022-1996\(01\)00164-7](https://doi.org/10.1016/S0022-1996(01)00164-7)

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Abstract

Efforts to estimate the effects of international trade on a country's real income have been hampered by the failure to account for the endogeneity of trade. Frankel and Romer recently use a country's geographic attributes – notably its distance from potential trading partners – to construct an instrument to identify the effects of trade on income in 1985. Using data from the pre-World War I, the interwar, and the post-war periods, we find that the main result of Frankel and Romer is confirmed throughout the whole century: countries that trade more as a proportion of their GDP have higher incomes even after controlling for the endogeneity of trade. We also find that the OLS estimate of trade's effect on income is biased downwards in almost every sample year. However, this result is not robust to the inclusion of distance from equator (latitude).



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Keywords

Trade; Income; Distance; History

JEL classification

F1; O4

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