

view is found in the work of Rauch and Trindale (2002) and Feenstra and Hansen (2004) which will be discussed below.

Networks might be expected to matter for trade within a country as well as between countries. Combes et al. (2005) consider the role of business and social networks in affecting trade within France. Using data on bilateral trade flows between 94 French regions, they estimate a gravity model and first establish the existence of a border effect for trade between regions. Similar results have been found for trade within the US (Wolf, 2000); and as noted above, Hilberry and Hummels (2005) have suggested that one reason for such effects is that producers and input suppliers tend to locate close to each other. Transportation costs are no doubt one reason for this; but Combes et al. provide some evidence that information costs play a role as well. They use data on migration within France in a similar way that Gould (1994) and Head and Ries (1998) use data on international migration to proxy for social networks linking regions. And they use data on plants from affiliates located in different regions to capture business networks. Both network measures are found to be associated with increased trade between regions. Moreover, once these information network variables are included, the size of the measured border effect drops by about 50 percent, and the measured effect of transport costs falls by about 60 percent.

In a similar study, using US data, Millimet and Osang (2007) revisit the Wolf (2000) results on border effects which seem to inhibit trade between US states. They also use data on inter-state migration to proxy for social networks. The network variable is significant and its inclusion leads to a substantial reduction in the impact of the border.

While the Gould, Head/Ries, and Combes et al. studies provide evidence that network ties matter for trade, their evidence does not tell us why they matter. One view, as noted above, is that networks promote trade by facilitating information flows, helping to match buyers and sellers, helping to adapt products to the local market, and so on. An alternative possibility [emphasized in the historical work of Grief (1989, 1993)] is that networks help to overcome opportunistic behaviour (those that renege on agreements can be sanctioned by all in the net-