

paper Yi (2003) argues that changes in the cumulative effect of trade costs can be important in explaining both the overall growth of world trade, and the increased vertical specialization during the past few decades. The argument is that small reductions in trade barriers will not encourage vertical specialization, but that larger reductions will, so that the relation between the reduction in trade costs and the volume of trade is non-linear—the elasticity of the response of trade flows to reductions in trade costs can be increasing as trade barriers get lower.

Sources of costs of accessing foreign markets

We still do not have a clear picture of the sources of costs of accessing foreign markets, although there are pieces of suggestive evidence. Here I focus on costs that are not due to explicit policy-induced trade barriers, and which could be affected by trade and investment promotion and assistance programs. Consequently I also do not discuss transportation costs in any detail.

Infrastructure

Infrastructure is not the focus of this paper; here I just note that transportation and communication infrastructure play a large role in affecting trade costs, and that public policy plays a critical role in the development and maintenance of infrastructure that is relevant to international trade. A couple of recent papers provide some evidence on this. Limao and Venables (2001) construct indices of the quality of a country's transportation and communications infrastructure and show that these have a significant effect on both transportation costs and trade volumes. Dollar et al. (2003) use survey data from Latin America on the quality of infrastructure (including power outages, time to get telephone connections installed, and time required for customs clearance) and find that export success at the firm level is negatively related to poor infrastructure.

While one might expect that problems with infrastructure would be more of an impediment to trade in developing countries than in developed countries, there is some theoretical work