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Title: Latent Multilateral Trade Resistance Indices: Theory and Evidence

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Abstract: Anderson and van Wincoop (2003) make a convincing argument that traditional gravity equation estimates are biased by the omission of multilateral resistance terms. They show that these multilateral resistance terms are implicitly defined by a system of non-linear equations involving all regions' GDP shares and a global interdependence structure involving trade costs. We show how linearizing the system of non-linear relationships around a free trade world leads to an interdependence structure that can be used as a Bayesian prior to produce statistical estimates of the inward and outward multilateral resistance indices. This reflects a statistical approach that has advantages over the non-stochastic numerical approach used by Anderson and van Wincoop (2003) to solve for these indices.