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Full cities, empty territories

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ABSTRACT

Title: How tradable are non-tradables within a country?

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Subject area: Interregional trade of services

Abstract: Services have traditionally been considered as non-tradable. Is the assertion valid for economic interactions within a country? We endeavour to find out by analysing the domestic trade of services linked to *Accommodations*, *Restaurants* and *Travel Agencies* within Spain, using a singular dataset containing intra- and interregional trade flows for the period 2000-2019. We conduct a series of analyses with kernel regressions and different specifications of the gravity equation, using classical approaches based on PPML and fixed effects pooled regressions, as well as spatial filtering PPML alternatives. Through these analyses we quantify the *border effect* as well as the elasticity of distance for the aggregate and specific-tourist-type of flows, also addressing the hypothesis of the presence of a breaking point before and after the 2008 crisis. the purpose of this article is to show that assertions identifying services with ‘non-tradable goods’ are not necessarily right, especially when applied to well-integrated areas such as country regions, and that, in any case, it depends on the type of service and the characteristics of its demand. In fact, given the ‘weightless’ nature of some services, it can be argued for certain kinds of services that trade costs might not have an effect, or that the effect might be lower than it is for goods. Indeed, the lower ‘tradability’ of services is much less clear in economies of smaller scale, such as a country's regions, provinces, or even cities. If one of the main reasons for the low tradability of certain services in the international market is the ‘proximity burden’, then we should expect higher levels of service ‘tradability’ in interregional trade within a country, where there are lower restrictions on the movement of people (migration, tourism and commuters) and capital (FDI).

Keywords: interregional trade of services; domestic tourism; gravity model, border effect, panel data, Spain.

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