

Regional heterogeneity in intra-national and international trade

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Abstract

We present a two-country two-region model, specifically two regions in each country. Each region consists of two types of labors; skilled labor is required to set up a firm and unskilled labor is used as input for production. Trade cost accrues in both intra-nationally and internationally. International trade cost may be allowed to be different across regions. Our model demonstrates heterogeneity among regional exports in terms of export price and volume. Moreover, relative international transportation costs and the size of partner economy interact to determine the conditions under which a region may become an export-platform for some industries. We empirically test our theoretical propositions by applying to exports dataset for Japanese regions. Our preliminary result suggests that proximity to trade partner countries and the recent rapid growth of Asian economies led periphery regions to become export-platforms for some industries.

Keywords: Intra-national trade; International trade; Regional exports; Regional heterogeneity; Trade cost.

JEL Classification Codes: F12; F14; R12