

## Referee Report: *"Distance, Production, Trade and Growth—A Note"*

The author develops a simple model in which an economy can exploit differences in time zones when producing labour tasks. The assumption in the model is that consumers value a timely delivery of the final consumption good. Because the labour tasks have to be done sequentially, outsourcing one task to a different time zone reduces the time to delivery, which has positive effects on aggregate output and trade.

My comments are as follows:

1. From the introduction I am not sure what the paper adds to the literature. Are there any different conclusions to the existing literature? Why the focus on services and distance in particular? What are the lessons we learn from reading the paper?
2. I find dubbing the trade in services as 'virtual trade' unfortunate. Trade is still happening, but happens to be in labour services.
3. The model seems deterministic. From the model's set-up it seems obvious that output and trade will increase; the time saving is modeled as a change in the in the final price. Therefore, a country with a higher final price - i.e. a country not exploiting the time zone differences - has a lower output.
4. In the model it is not clear which goods are traded or whether trade is balanced (I assume so). Is the final good traded for an intermediate stage, or are both intermediate stages traded? This should be clarified.
5. The effect of distance on the consumer's valuation is rather ad hoc and not clear to me. With respect to the latter point consider, for example, the problem of coordination costs. The further away the foreign affiliate is, the less time is available to coordinate the work, which increases the risk of something going wrong. One might therefore think that there is an inverse u-shaped effect of distance on the consumer's valuation. The author should provide a strong rationale for the distance assumption.
6. How is the labour endowment distributed across the world? Is the conclusion robust to variations in the distribution of the endowments?
7. In section IV the author states that the section's focus is "on impact of distance on growth." However, this is not correct. The focus is on capital accumulation, rather than economic growth, which is conventionally defined as a continuous growth of output.