RESPONSE TO THE REFEREE 1

First of all, we would like to thank the referee for his/her attention, comments and suggestions.

Referee's Comments on "Trade Policy versus Trade Facilitation: An Application using "Good Old" OLS"

1. "The paper contributes to the growing literature on the relative importance of traditional trade policy (tariffs) and other trade costs (TF). The literature survey should mention that there are two approaches in the literature. One typified by the work of Wilson et al uses a gravity model to identify the impact of various trade barriers, including TF measures, on bilateral trade flows. The other adopts a synthetic measure of ad valorem trade costs which can be compared to the average tariff, as in the cited article by Harrigan and more influentially in Hummels (Journal of Economic Perspectives, 2007). This paper is in the first branch, but it could be pointed out that it complements and reinforces recent work in the other branch (e.g. Pomfret & Sourdin, Review of World Economics 2010)."

Answer to 1):

Following the referee's comment, we discuss both approaches in the literature survey, mentioning that our paper contributes to the first branch. The new paragraph in page 3 states:

"…Two different approaches can be distinguished in the literature. The first methodology uses the gravity model to identify the impact of various trade barriers on bilateral trade flows (Wilson et al. 2005). The second adopts instead a synthetic measure of ad valorem transportation costs which can be compared to average tariffs (Harrigan, 1993; Hummels, 2007). This paper is in the first branch, although it complements and reinforces recent work in the second branch (Pomfret and Sourdin, 2010)."

2. "The main methodological innovation is using the Baier & Bergstrand (2009) specification. That is fine. There should be some discussion of the range of control variables in equation 2. I suspect that this could be driving the anomalous results reported on page 13. Readers will have their own opinions about how convincing this kind of exercise is, but the paper is fairly mainstream."

Answer to 2):

We agree with the referee. To tackle this issue, in the revised paper a brief discussion of the range of control variables is included after equation (2). In this way, we also consider the issue raised online by one Reader. On 15th September Gregory Yom Din wrote: "An interesting subject and a strong empiric analysis. The source of equations (1) and (2) and the relationship between them are not explained enough. There is an article of other authors cited for the methodology used. But this is not enough. At least, for me this was not clear enough". In page 10:

"In order to quantify and compare the effect of trade barriers (tariffs and trade facilitation measures) on sectoral trade, a gravity equation is specified and estimated for disaggregated data. Equation (1) underlies the construction of the terms with the PiPj subscripts that are associated with coefficients α2-α13 in Equation (2). In addition to income, distance, tariffs and trade facilitation variables, integration dummies are added in order to analyse the impact of trade agreements on international trade. A number of dummies representing geographical and cultural characteristics are also added."

3. "The TF measures are primarily from Doing Business, and I would have liked to have seen a more critical evaluation of this source than that given in Appendix II. The DB indicators are not *actual costs, but estimates provided often by consulting firms (not actual traders) and hence capture de jure rather than de facto time and cost. The standardized setting of a container shipped from the largest city via the major port may be appropriate for Singapore, but is not representative for countries whose trade goes by bulk carriers of for geographically large countries, The critique of Alberto Behar should be mentioned."*

Answer to 3):

Following the referee's comment, we have modified Appendix II accordingly and we have also made reference to the critique raised by Alberto Behar (See below).

"**…A number of limitations should be mentioned. First, Doing Business indicators are not actual costs, but estimates provided often by consulting firms such as local freight forwarders, shipping lines, customs brokers and port officials, which are not actual traders, and hence capture de jure rather than de facto time and cost.1 Second, the standardized setting of a container shipped from the largest city via the major port may be appropriate for particular countries, but is not representative for countries whose trade goes by bulk carriers or for geographically large countries. Furthermore, Persson (2011) highlights that desirable trade facilitation measures should vary over time, and should be product-specific with bilateral variation across countries. Finally, Behar (2010) constructs country-level aggregates of trade facilitation measures from firm-level responses obtained from the Enterprise Surveys and compares them with the Doing Business indicators, the Logistics Performance Index and the Enabling Trade Index. His results show that correlations between the data sources are low. These findings raise the issue of which form of variation (within-country, inter-firm and between-country variation) is more informative and which data source is more reliable."**

[1] Therefore, Doing Business data does not allow, for example, differentiating costs depending on the size of the trading firm.