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ABSTRACT

In this paper we derive a new measure of openness—the trade potential index—that quantifies the *potential* gains from trade as a simple function of data. Using a standard multicountry trade model, we measure openness by a country’s potential welfare gain from moving to a world with frictionless trade. In this model, a country’s trade potential depends on only the trade elasticity and two *observable* statistics: the country’s home trade share and its income level. Quantitatively, poor countries have greater potential gains from trade relative to rich countries, while their welfare costs of autarky are similar. This leads us to infer that rich countries are more open to trade. Our trade potential index correlates strongly with estimates of trade costs, while both the welfare cost of autarky and the volume of trade exhibit correlate weakly with trade costs. Thus, our measure of openness is informative about the underlying trade frictions.

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