

The Importance of Business Travel for Trade:  
Evidence from the Liberalization of the Soviet Airspace

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**Abstract**

In this paper, I provide causal evidence that the time cost of travel could account for a large fraction of unobserved trade frictions currently puzzling trade economists. The intuition for this result is that trade typically involves face-to-face interaction through business travel and that transporting people is costly, which makes long-distance trade relatively more expensive.

I use the liberalization of the Soviet airspace in 1985 to examine the impact of shorter travel time on trade. The liberalization meant that non-Soviet airlines were allowed to fly non-stop over Soviet territory which significantly reduced the flight time on a large number of international routes, primarily between Europe and East Asia. I compile a detailed historical dataset to map flight patterns during the 1980s, including novel non-digitized timetable data from the British Library. I gauge the reduction in flight time by simulating changes of optimal flight routes between Europe and East Asia before and after the liberalization using the geoprocessing software ArcGIS.

Using a theoretically founded gravity model, I then find evidence that shorter flight routes between Europe and East Asia coincides with an immediate and substantial increase in trade volumes. Using plausible elasticities of substitution from the trade literature, I show that the average reduction in flight time of 3.9 hours for affected country pairs was equivalent to a tariff reduction of 9.1%. Most of the impact materializes within only three years after the liberalization of the Soviet airspace. Results also hold up when restricting the analysis to trade in goods that are not typically transported by air. Hence, the impact on trade is not driven by lower transportation costs for goods shipped by air. Results also show that trade in differentiated goods, which plausibly would require more face-to-face interaction, increased more than trade in homogeneous goods.

The magnitude of the effect suggests that the time cost of travel is an important source of bilateral trade frictions, which partially could explain why geographical distance has such a persistent negative impact on trade despite the fact that the world is becoming more globalized.

**Keywords:** trade costs, air travel, face-to-face communication

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