

Free and Protected: Trade and Breaks in Long-Term Persistence*

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Abstract

The spatial distribution of economic activity depends largely on market access and history, but countries differ greatly in the extent to which their geographies reflect these two determinants. What explains these differences? This paper explores this question using a staggered lifting of restrictions on direct trade with Europe across the Spanish Empire. I combine a difference-in-differences approach with a dynamic spatial equilibrium framework and detailed georeferenced data on maritime travel from historical logbooks to examine this issue. I show that the increase in market access induced by the reform led to a substantial reconfiguration of the economic geography in places that were initially less densely settled. Moreover, I show that modern-day settlement patterns depend less on pre-colonial population density and more on coastal access in areas subjected to the reform. Taken together, the findings show that a key determinant of persistence in economic geography is the level of development of a country as it opens up to trade.

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