

## Dissecting Trade Imbalances in the Eurozone: A WIOD Analysis

Topic: Trade and Value Chains

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### [Abstract]

External imbalances have been a pervasive feature in several explanations of the current Eurozone (EZ) crisis (e.g. Ca'Zorzi, Chudik, and Dieppe 2012; European Commission 2012; Flassbeck and Lapavitsas 2013; Guerrieri and Esposito 2012), probably because domestic demand policy is constrained by the trade balance. In all these analyses, however, each country's balance of trade (BoT) is computed with respect to the rest of the world, without distinguishing between intra- and extra-EZ patterns of surplus and deficits (see Collignon 2012).

But this is a serious limiting factor, given that trade integration and international fragmentation of production have made clear that a single country's foreign trade constraint is no longer solely a problem of its own effective demand: an important proportion of its own intermediate imports depends on autonomous expenditure decisions of others (Rampa and Lanza 1988). In fact, trade in intermediates is induced by the import requirements to satisfy final uses, so that each source of domestic final demand activates a trade balance of intermediate inputs in every country.

Hence, by taking advantage of the rich time-series of World Input-Output Tables for the 1995-2011 period, provided by the WIOD project (Dietzenbacher, Los, Stehrer, Timmer, and De Vries 2013), this paper aims at formulating a Balance of Trade (BoT) decomposition for every EZ country by activating source of final demand and geographical origin of products, in order to trace, for example, intra-EZ trade in intermediates activated by final demand of intra-EZ regions for intra-EZ products, or any other possible combination of these criteria.

By proceeding in this way at both (country) aggregate and sectoral levels, we try to uncover the inner structure of trade imbalances in the EZ, in order to arrive at a characterisation in terms of international exposure, specialisation and hierarchy for each country. Such a characterisation might be useful to identify structural strengths and weaknesses of a monetary union in need of reflating effective demand.

### [References]

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