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Comments on "The Single Currency's Effects on Eurozone Sectoral Trade: Winners and Losers?" by Sergio de Nardis, Roberta De Santis and Claudio Vicarelli

Given the wide range of estimates on the effects of the euro on aggregate trade, a growing number of papers have turned to sectoral trade data in order to better identify the trade effects of a common currency. Examples include recent work by Richard Baldwin (with various co-authors), and Harry Flam and Hakan Nordström. De Nardis, De Santis and Vicarelli provide another interesting contribution to this rapidly growing literature.

Their well-structured paper is relatively short. In fact, some sections contain only three or four paragraphs so that, although I personally like analyses that are concise and to the point, this paper may be perhaps too short. As a result, I have three sets of comments (mainly asking for more exposition).

First, the authors essentially combine new (or better, non-standard) data with a new (or again, non-standard) estimation technique and a new regression specification. All of this raises questions. At a minimum, the authors should make clear to what extent these innovations affect their results. Instead, the authors do not even present the full estimation results of a single benchmark regression (e.g., based on aggregate trade).

Questions that come to mind are: What are the benefits of using OECD trade data (why not UN Comtrade, Eurostat)? Why does the sample period end in 2004 when time appears to be an important aspect in this issue? Why is the sample of countries unbalanced? Why does value added in the exporting and importing country enter the regression additively? To what extent does a sector's value added in the importing country affect exports to this country? What does the linear time trend capture when year fixed effects are included? Why not control for different trends?

Second, the empirical results are at present not very satisfactory. Many estimation results differ enormously across countries and sectors. In fact, some results are extremely puzzling. For instance, the finding that the euro had a negative effect on Germany's exports in the aggregate chemicals category (ISIC 23-25) but no effect in one of the three subgroups of this category makes me wonder to what extent aggregation bias might still affect the results. Also, the relative decline in Finland's trade with the euro area in many sectors after the adoption of the euro is hard to understand.

Third, from my point of view, the main challenge for any researcher in this field is to explain the observed heterogeneity in the euro's effect on trade. De Nardis, De Santis and Vicarelli move in this direction by arguing that their results "seem consistent" (p. 14) with the hypothesis that the euro has lowered transaction costs which has predominantly led to more trade in new goods. However, the evidence they provide appears to be rather weak; they roughly count and compare estimates across sectors. What is needed instead are clear testable hypotheses or at least a consistent classification of sectors based on verifiable indicators or variables. However, this task, I admit, may be beyond the scope of this otherwise careful analysis.