The effects of competitiveness on trade balance: The case of Southern Europe

Referee’s Report

The aim of the paper is to estimate, by means of cointegration techniques, trade balance equations for Southern European countries (Greece, Italy, Portugal and Spain) in order to assess if the general view about internal devaluation is empirically consistent. The conclusion is that relative prices explain less of the evolution of trade balances that foreign demand invalidating, at least partially, the assumed virtuous circle about decreasing wages and prices in order to gain competitiveness.

From my point of view, the paper is well written and organized and the topic is quite interesting. Additionally, the methodology is well suited. In any case, I think that there are some points to be considered and, at least, mentioned along the investigation. In particular:

1. It is something surprising that the references for trade balances of the countries under study are “total trade” and the “European Union”. I think that the “orthodox argument” is mainly referred to those countries that share the same currency. In fact, in the abstract the authors say “Since devaluation is not possible because they are part of the euro...”. Therefore, an additional reference must be the “Eurozone” because this is really the interesting point. Probably, the results are going to be similar but this should be confirmed. Obviously, for the Eurozone countries and from 1999 (and other years depending on the countries) onwards there is no room for exchange rates.

2. The period analyzed starts in 1994 for total trade and in 1999 for trade with the EU. The authors should explain the reason of this choice. Is there no data before? Neither in the case of the EU?

3. It would be interesting to know if the “subprime crisis” has implied any structural change in the economic behavior of the countries under analyses. Is there any structural break in the estimated parameters after 2007 or 2008? This point has to be mentioned and, as far as it could be possible, analyzed.

4. Finally, the estimation of equation (8) taking as a reference some particular countries would also be appealing. What about trade balance with Germany?

Summarizing, this is a good paper that I think could be improved with the comments above.