

**14<sup>th</sup> Inforum World Conference  
Traunkirchen, Austria  
September 11-15, 2006**

**A Bilateral Trade tool for EU countries  
not yet in the Inforum system**

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In general, the construction of an econometric model begins with the collection of data followed by a data preparation to make statistical information compatible with theoretical foundations and technical questions related to the estimation of the model. In many cases the quantitative representation of an economic model may be an end in itself. We build models, as any economist should do, for a better understanding of the functioning of the economy and to get a tool to test our economic beliefs and to use it mainly for policy simulations. The last purpose implies forecasting practice being the economic policies necessarily projected into the future.

First, the econometric estimation of some final demand and value added sectoral components is evaluated in the single equation or system of equations environment; subsequently, the evaluation is necessarily made putting the estimated equations together to set up an appropriate econometric model. In our modelling approach, the future starts from the 'base year', no matter the time interval available and used to estimate the equations in the model. Once the model performance in the time interval from the base year up to the most recent observations available has been considered satisfactory, the model may be ready to fly into the future. To do that, we need to design adequate scenarios for the exogenous variable. Among them, those related to the foreign trade are considered in the present work.

The construction of the Italian multisectoral model started earlier in the eighties of the last century. At that time, Italy was among the countries included in the Inforum Trade link model built by Douglas Nyhus. The sectoral variables supplied by this model were foreign import prices, foreign export prices and sectoral world demand. Although at that time Italy was not yet running together with the other models already in the Inforum system, Italy took the advantage being ready to be hosted in the Inforum international link model. Import and export prices as well as sectoral foreign demand, incorporating the forecast generated by the country models, were made available to the Italian team so that Intimo could start on as a 'stand alone' model. After a short period of trial stage,

the Italian model became a full member of the Inforum system of models. Now it contributes to the generation of the foreign trade scenario variables.

We are aware that a reliable foreign trade scenario is very helpful for a model builder who wants to construct a multisectoral country model. In fact, he can take advantage by using forecast based upon relevant policy questions and perceive as well that a scientific collaboration with our group generates interesting feedbacks.

At present, the Inforum Bilateral Trade Model receives (domestic or export) sectoral prices, sectoral investments and sectoral imports from each country model and gives back sectoral exports and sectoral import prices. These two sets of variables are now fully available for the country model in the system. The present work represent a tentative to transmit such information to other countries which may be in the process to adopt the modelling approach and ultimately to join the Inforum system.

### **The Data**

Last year Eurostat made available a free on-line external trade database for European Union Member States, called Comext (commence extérieur). It covers the period from January 1995 up to last month available. The data are evaluated at current € and also as quantities and other supplementary units (t, m<sup>2</sup>, etc).

Its very great detail (CN or SITC Rev.3) on products and partner countries allowed us to build a set of bilateral trade-flows matrices in the wake of Ma's classification. The time series is very short for 10 new EU nations (data from 1999); for other 15 Member States the current database, starting from 1995, can be extended backwards up to 1988.

The 25 current Member States and 4 Candidates (Romania, Bulgaria, Turkey and Croatia) together with the Rest of the world represent the rows and columns of the 120 matrices of bilateral trade flows. 7 European countries are already in BTM (Spain, United Kingdom, France, Italy, Belgium, Austria, Germany).