



HAL
open science

Currency Unions and Irish External Trade

Philip Richard Lane, Tara Mcindoe, Christine Dwane

► **To cite this version:**

Philip Richard Lane, Tara Mcindoe, Christine Dwane. Currency Unions and Irish External Trade. Applied Economics, 2008, 42 (19), pp.2393-2397. 10.1080/00036840701858109 . hal-00582238

HAL Id: hal-00582238

<https://hal.science/hal-00582238>

Submitted on 1 Apr 2011

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.



Currency Unions and Irish External Trade

Journal:	<i>Applied Economics</i>
Manuscript ID:	APE-07-0401.R1
Journal Selection:	Applied Economics
Date Submitted by the Author:	05-Dec-2007
Complete List of Authors:	Lane, Philip; Trinity College Dublin, Economics Department McIndoe, Tara; Trinity College Dublin, Economics Dwane, Christine; Trinity College Dublin, Economics
JEL Code:	F14 - Country and Industry Studies of Trade < F1 - Trade < F - International Economics, F31 - Foreign Exchange < F3 - International Finance < F - International Economics, F33 - International Monetary Arrangements and Institutions < F3 - International Finance < F - International Economics
Keywords:	EMU, Trade, Ireland



CURRENCY UNIONS AND IRISH EXTERNAL TRADE *

Christine Dwane
Trinity College Dublin

Philip R. Lane
IIS, Trinity College Dublin and
CEPR

Tara McIndoe
Oxford University

Abstract

Ireland has participated in two currency unions - a bilateral union with the United Kingdom that lasted until 1979 and as a founder member of European Monetary Union that began in 1999. This paper investigates whether currency unions have influenced Irish trade patterns.

(JEL: F14, F17, F31)

* Lane's work on this paper was supported by the IRCHSS and the HEA-PRTLTI grant to the IIS. We thank Patrick Honohan for helpful suggestions and Luca Ricci for Stata code.

E-mail address for corresponding author: Lane: plane@tcd.ie.

1. Introduction

The impact of currency union on the volume of international trade has been studied intensively in recent years, following the seminal contribution of Rose (2000). Estimates vary widely across different specifications and samples, with the out-of-sample relevance of estimated coefficients much disputed. In particular, the original Rose estimates have been viewed as having limited relevance for currency unions among high-income countries. This has led to a wave of research that has tried to directly estimate the impact of European Monetary Union (EMU) on trade, rather than rely on estimates obtained from other currency unions. Prominent contributions in this literature include Micco et al (2003) and the survey by Baldwin (2006).

The 'EMU and trade' literature has recognized that differences in the structural characteristics and initial positions of the individual member countries mean that the impact of EMU is unlikely to be uniform across these countries. For this reason, it is useful to consider studies of individual member countries. In this regard, Ireland is a particularly interesting case, since EMU is not its first experience with currency union – until 1979, it was in a long-standing currency union with the United Kingdom. Accordingly, our goal in this paper is investigate the impact of these two currency unions on Irish trade.

Our paper relates to several recent contributions. The time series evidence on the relation between currency unions and trade has been most extensively explored by Glick and Rose (2002), who find a significant impact: for instance, leaving a currency union implies a decline in trade volume of about 50 percent. In relation to Ireland, Thom and Walsh (2002)

1
2
3
4
5
6 investigated the impact of the currency union between Ireland and the United Kingdom that
7
8 was in place from 1922 until 1979, when Ireland broke link with Sterling and entered the
9
10 European Monetary System. However, neither of these studies incorporates the EMU
11
12 period. In terms of methodology, Faruqee (2004) also adopts a cointegration framework
13
14 and employs the dynamic ordinary least squares estimator. However, his panel only covers
15
16 1992-2002 and has twenty-two source countries – in contrast, we focus on a single source
17
18 country (Ireland) and a much longer time span (1950-2004). Finally, Dwane (2006) provides
19
20 a comprehensive review of the literature, data sources and methodologies that have been
21
22 applied in studying Irish trade.
23
24
25
26
27
28
29
30

31 **2. Data Description and Empirical Specification**

32
33
34
35 We compile a long time series panel of data, running over 1950-2004, for Ireland's twenty
36
37 one major trading partners that have data over this time period.¹ These countries are the EU-
38
39 15, plus Australia, Canada, New Zealand, Norway, Switzerland and the United States.
40
41
42
43

44
45 Figures 1a and 1b show the evolution of the export shares of the United Kingdom and the
46
47 EMU member countries over 1950-2004. The figures show a dramatic decline in the United
48
49 Kingdom share of Irish exports and a substantial increase in the EMU share of Irish
50
51 imports; there are similar, but less steep, changes in import shares. Our goal is to ask
52
53 whether the shifts in trading patterns are related to changes in Ireland's participation in
54
55 currency unions.
56

57
58 ¹ A detailed data appendix is available from the authors upon request.
59
60

Our baseline empirical specification postulates a long-run relation between the volume of trade and a set of core regressors, including dummy variables to capture participation in a currency union. This can be written as

$$\log(T_{ijt}) = \alpha_j + \phi_t + \gamma_1 * EMU_IN_{jt} + \gamma_2 * EMU_OUT_{jt} + \gamma_3 * STERLING_{jt} + \gamma_4 * EU_{ijt} + \beta * Z_{ijt} + u_{ijt} \quad (1)$$

where T_{ijt} is the level of trade between Ireland and trade partner j in period t , α_j is a country dummy, ϕ_t is a time dummy, EMU_IN_{jt} takes the value 1 if trade partner j is also a member of EMU in period t for $t \geq 1999$ and 0 otherwise; EMU_OUT_{jt} takes the value 1 if trade partner j is not a member of EMU in period t for $t \geq 1999$ and 0 otherwise; $STERLING_{jt}$ takes the value 1 for the United Kingdom until 1978 and 0 otherwise; EU_{ijt} takes the value 1 if both Ireland and the trading partner are members of the European Union in period t and 0 otherwise; and Z_{ijt} represent time-varying bilateral factors that influence trade volumes (in particular, the log levels of GDP and GDP per capita). The EMU_OUT_{jt} variable is included to allow for the possibility that EMU boosts trade with all partner countries, for the reasons outlined in Baldwin (2006). The inclusion of country dummies means that the focus is only on the within-country variation in trade – differences in the level of trade across partner countries is not explored. Similarly, the inclusion of year dummies means that we strip out the impact of global factors that may affect the general level of trade with all partner countries, such as shifts in global trading costs.

1
2
3
4
5
6
7
8 Since trade volumes, GDP and GDP per capita are non-stationary but cointegrated
9 variables, dynamic ordinary least squares (DOLS) is an appropriate estimation framework.²
10
11 This estimator includes leads and lags of the first differences of non-stationary regressors in
12
13 order to correct for the impact of serial correlation in the residuals. In view of the limited
14
15 time horizon, we implement a DOLS(-1,1) specification.
16
17
18

19
20
21 Table 1 reports our baseline specification. The estimates show that EMU is not directly
22
23 associated with an increase in trade – either with other EMU partner countries or with non-
24
25 member countries. However, the Sterling dummy is significantly positive – the level of trade
26
27 between Ireland and the United Kingdom was significantly higher during the period of
28
29 currency union up to 1979. This effect derives from the behavior of exports - the Sterling
30
31 dummy is not significant for imports.
32
33
34

35
36
37 In terms of the other regressors, it shows that the time-series evolution of Irish trade is
38
39 significantly linked to the dynamics of GDP per capita - trade expands with those partner
40
41 countries that are growing most quickly. In addition, holding fixed GDP per capita, there is
42
43 a significantly negative time-series association with the level of total GDP. The correct
44
45 interpretation is that faster population growth in a partner country is associated with a
46
47 relative decline in trade – we do not dwell on this result, which highlights the difference
48
49 between cross-sectional analysis (total trade is increasing in country size) and time-series
50
51 analysis.
52
53
54

55
56
57 ² Unit root and cointegration test results are available upon request from the authors. See also Kao and
58
59 Chiang (2000) and Faruqee (2004) on the DOLS estimator.
60

1
2
3
4
5
6
7
8 In order to assess the robustness of the result that the Sterling currency union boosted trade,
9 we explore an alternative specification in Table 2. In this specification, we allow the level of
10 trade with the United Kingdom to be influenced by two other factors. First, following Thom
11 and Walsh (2002), we interact the EU dummy with the United Kingdom country dummy, on
12 the basis that membership of the European Union was another major factor in reducing the
13 dependence of Ireland on the United Kingdom as a trading partner. Second, we also interact
14 the United Kingdom country dummy with a time trend. This is intended to capture the
15 gradual erosion over time of the special status of the United Kingdom as a trading partner,
16 in view of the complex historical and political factors that accounted for the high degree of
17 trade with the United Kingdom at the start of the sample period.³
18
19
20
21
22
23
24
25
26
27
28
29
30
31

32 Indeed, it turns out that the EMU dummies remain insignificant and the Sterling dummy is
33 no longer significant in the alternative specification reported in Table 2. Rather, the
34 dynamics of trade with the United Kingdom is better captured by the country-specific time
35 trend - the table shows that there has been a gradual decline in exports to the United
36 Kingdom, rather than 'step' changes associated with EU membership in 1973 and the
37 breaking of the Sterling link in 1979. Again, the trend is only evident on the export side: the
38 interaction terms are not significant for imports.
39
40
41
42
43
44
45
46
47
48
49

50 Conclusions

51 We have investigated the impact of currency unions on Irish trade patterns. In contrast to
52 most of the multi-country panel studies, we do not find any impact of EMU on trade.
53
54
55

56
57 ³ See also Berger and Nitsch (2006) who argue that trade among EMU partner countries has shown a
58 positive trend for many years.
59
60

1
2
3
4
5
6 However, this is qualitatively consistent with the pattern noted by Baldwin (2006) that EMU
7
8 has had a bigger impact on the ‘core’ member countries than on the peripheral member
9
10 countries that have weaker economic linkages with the rest of the currency union. That said,
11
12 we acknowledge that the time period may be too short to pick up the EMU effect on Irish
13
14 trade – it will important to re-visit this study in a few years. Finally, in relation to the Sterling
15
16 currency union, we have emphasized that the apparent significance of the Sterling link on
17
18 trade is misleading – rather, Irish trade with the United Kingdom has shown a negative trend
19
20 over many years.
21
22
23
24
25
26
27
28
29
30

31 **References**

- 32
33
34
35 Baldwin, R., 2006, *In or Out: Does it Matter? An Evidence-Based Analysis of the Euro's Trade*
36
37 *Effects*. Centre for Economic Policy Research, London.
38
39
40 Berger, H. and V. Nitsch, 2006, “Zooming Out: The Trade Effect of the Euro in Historical
41
42 Perspective,” *mimeo*, Free University Berlin.
43
44
45 Dwane, C., 2006, *EMU and Irish Trade*, dissertation, Trinity College Dublin.
46
47
48 Faruqee, H., 2004, “Measuring the Trade Effects of EMU,” IMF Working Paper No.
49
50 04/154.
51
52 Kao, C., and M.-H. Chiang, 2000, “On the Estimation and Inference of A Cointegrated
53
54 Regression in Panel Data,” in *Nonstationary Panels, Panel Cointegration, and Dynamic Panels*,
55
56 *Advances in Econometrics*, Vol. 15, edited by B. Baltagi (Amsterdam: JAI Press), 179–222.
57
58
59
60

1
2
3
4
5
6 Micco, A., E. Stein and G. Ordóñez, 2003. "The Currency Union Effect on Trade: Early
7
8 Evidence from EMU," *Economic Policy* 37, 313 – 56.
9

10
11 Rose, A.K., 2000, "One Money, One Market: Estimating the Effect of Common Currencies
12
13 on Trade," *Economic Policy* 30, 7–45.
14

15
16 Thom, R. and B. Walsh (2002), "The Effect of a Currency Union on Trade: Lessons from
17
18 the Irish Experience," *European Economic Review* 46, 1111-1123.
19

20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60

For Peer Review

Table 1. Baseline Specification

Dynamic OLS Fixed Effects Estimates, 1950 – 2004

	Trade	Imports	Exports
EMU – In	-0.189 (1.046)	-0.054 (1.060)	-0.135 (0.644)
EMU – Out	0.409 (1.047)	0.405 (1.062)	0.004 (0.645)
Sterling	2.428*** (0.422)	0.403 (0.428)	2.024*** (0.260)
EU	.072 (0.179)	0.023 (0.182)	0.049 (0.110)
Log of GDP	-3.853*** (0.902)	-2.967*** (0.915)	-0.887 (0.556)
Log of GDP per capita	6.697*** (0.860)	4.439*** (0.872)	2.258*** (0.530)
F – test	443.20	201.45	328.63
(<i>p</i> – value)	(0.000)	(0.000)	(0.000)
R ²	0.972	0.940	0.962
Adj R ²	0.970	0.935	0.959
Root MSE	0.767	0.471	0.542

Notes: ***, **, * indicates significance at 1, 5, 10 per cent levels.

Standard errors given in parentheses.

Number of observations is 1040. All specifications include time and country dummies.

Arellano-Bond test for AR(1) residuals: H₀ rejected in all specifications.

Table 2. Alternative Specification

Dynamic OLS Fixed Effects Estimates, 1950 – 2004			
	Trade	Imports	Exports
EMU – In	-0.209 (0.999)	-0.060 (1.048)	-0.149 (0.606)
EMU – Out	0.509 (1.002)	0.426 (1.050)	0.083 (0.608)
Sterling	0.218 (0.777)	0.069 (0.816)	0.149 (0.472)
EU	0.094 (0.173)	0.016 (0.182)	0.079 (0.105)
UK*EU	-0.328 (0.766)	0.260 (0.804)	-0.588 (0.465)
UK*Trend	-0.079** (0.031)	-0.021 (0.032)	-0.057*** (0.019)
Log of GDP	-4.304*** (0.873)	-3.057*** (0.916)	-1.247** (0.530)
Log of GDP per capita	6.958*** (0.827)	4.505*** (0.867)	2.453*** (0.502)
F – test (<i>p</i> – value)	446.68 (0.000)	197.07 (0.000)	335.40 (0.000)
R ²	0.972	0.940	0.964
Adj R ²	0.971	0.935	0.961
Root MSE	0.755	0.471	0.530

Notes: ***, **, * indicates significance at 1, 5, 10 per cent levels.

Standard errors given in parentheses.

Number of observations is 1040. All specifications include time and country dummies.

Arellano-Bond test for AR(1) residuals: H₀ rejected in all specifications.

Figure 1a. Ireland: Export Shares, 1950-2004

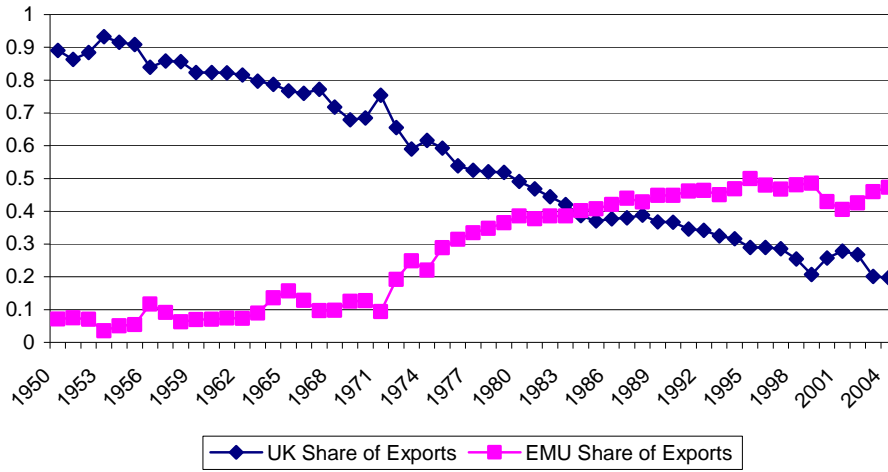
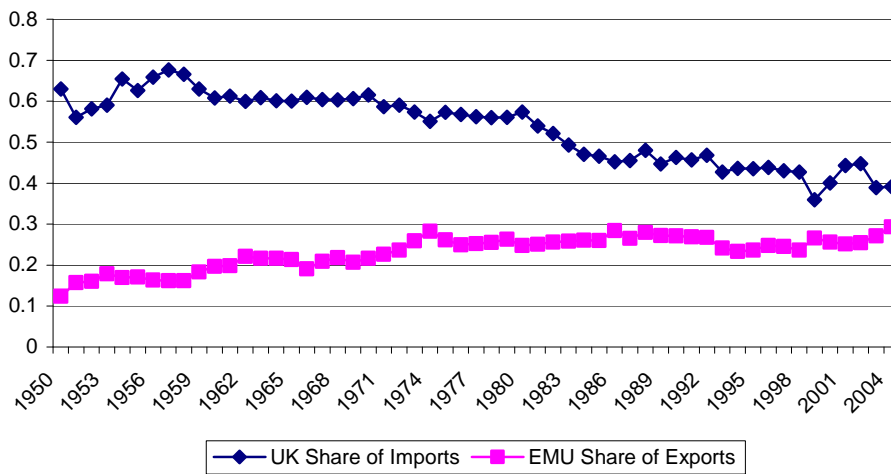


Figure 1b. Ireland: Import Shares, 1950-2004



CURRENCY UNIONS AND IRISH EXTERNAL TRADE *

Christine Dwane
Trinity College Dublin

Philip R. Lane
IIS, Trinity College Dublin and
CEPR

Tara McIndoe
Trinity College Dublin

Abstract

Ireland has participated in two currency unions - a bilateral union with the United Kingdom that lasted until 1979 and as a founder member of European Monetary Union that began in 1999. This paper investigates whether currency unions have influenced Irish trade patterns.

(JEL: F14, F17, F31)

* Lane's work on this paper was supported by the IRCHSS and the HEA-PRTLTI grant to the IIS. We thank Patrick Honohan for helpful suggestions and Luca Ricci for Stata code. We thank the anonymous referee for useful comments. Correspondence: plane@tcd.ie

1. Introduction

The impact of currency union on the volume of international trade has been studied intensively in recent years, following the seminal contribution of Rose (2000). Estimates vary widely across different specifications and samples, with the out-of-sample relevance of estimated coefficients much disputed. In particular, the original Rose estimates have been viewed as having limited relevance for currency unions among high-income countries. This has led to a wave of research that has tried to directly estimate the impact of European Monetary Union (EMU) on trade, rather than rely on estimates obtained from other currency unions. Prominent contributions in this literature include Micco et al (2003) and the survey by Baldwin (2006).

The 'EMU and trade' literature has recognized that differences in the structural characteristics and initial positions of the individual member countries mean that the impact of EMU is unlikely to be uniform across these countries. For this reason, it is useful to consider studies of individual member countries. In this regard, Ireland is a particularly interesting case, since EMU is not its first experience with currency union – until 1979, it was in a long-standing currency union with the United Kingdom. Accordingly, our goal in this paper is investigate the impact of these two currency unions on Irish trade.

Our paper relates to several recent contributions. The time series evidence on the relation between currency unions and trade has been most extensively explored by Glick and Rose (2002), who find a significant impact: for instance, leaving a currency union implies a decline in trade volume of about 50 percent. In relation to Ireland, Thom and Walsh (2002)

1
2
3
4
5
6 investigated the impact of the currency union between Ireland and the United Kingdom that
7
8 was in place from 1922 until 1979, when Ireland broke link with Sterling and entered the
9
10 European Monetary System. However, neither of these studies incorporates the EMU
11
12 period. In terms of methodology, Faruquee (2004) also adopts a cointegration framework
13
14 and employs the dynamic ordinary least squares estimator. However, his panel only covers
15
16 1992-2002 and has twenty-two source countries – in contrast, we focus on a single source
17
18 country (Ireland) and a much longer time span (1950-2004).
19
20
21

22 23 24 **2. Data Description and Empirical Specification** 25

26
27
28 We compile a long time series panel of data, running over 1950-2004, for Ireland's twenty-
29
30 one major trading partners that have data over this time period.¹ These countries are the EU-
31
32 15, plus Australia, Canada, New Zealand, Norway, Switzerland and the United States.
33
34

35
36
37 Figures 1a and 1b show the evolution of the export shares of the United Kingdom and the
38
39 EMU member countries over 1950-2004. The figures show a dramatic decline in the United
40
41 Kingdom share of Irish exports and a substantial increase in the EMU share of Irish
42
43 imports; there are similar, but less steep, changes in import shares. Our goal is to ask
44
45 whether these shifts in trading patterns are related to changes in Ireland's participation in
46
47 currency unions.
48
49
50
51
52
53
54
55
56
57

58 ¹ A detailed data appendix is available from the authors upon request.
59
60

Our baseline empirical specification postulates a long-run relation between the volume of trade and a set of core regressors, including dummy variables to capture participation in a currency union. This can be written as

$$T_{ijt} = \alpha_j + \phi_t + \gamma_1 * EMU_IN_{jt} + \gamma_2 * EMU_OUT_{jt} + \gamma_3 * STERLING_{jt} + \gamma_4 * EU_{ijt} + \beta * Z_{ijt} + u_{ijt} \quad (1)$$

where T_{ijt} is the sum of the log of exports and the log of imports between Ireland and trade partner j in period t , α_j is a country dummy, ϕ_t is a time dummy, EMU_IN_{jt} takes the value 1 if trade partner j is also a member of EMU in period t for $t \geq 1999$ and 0 otherwise; EMU_OUT_{jt} takes the value 1 if trade partner j is not a member of EMU in period t for $t \geq 1999$ and 0 otherwise; $STERLING_{jt}$ takes the value 1 for the United Kingdom until 1978 and 0 otherwise; EU_{ijt} takes the value 1 if both Ireland and the trading partner are members of the European Union in period t and 0 otherwise (Ireland joined the European Community in 1973 at the same time as the United Kingdom and Denmark); and Z_{ijt} represent time-varying bilateral factors that influence trade volumes (in particular, the log levels of GDP and GDP per capita).²

The EMU_OUT_{jt} variable is included to allow for the possibility that EMU boosts trade with all partner countries, for the reasons outlined in Baldwin (2006). The inclusion of

² We follow Baldwin (2006) in measuring total trade as the sum of the log of exports and the log of imports, since this is theoretically appropriate in the context of a gravity framework. Trade data are deflated using export and import price deflators.

1
2
3
4
5
6 country dummies means that the focus is only on the within-country variation in trade –
7
8 differences in the level of trade across partner countries is not explored. Similarly, the
9
10 inclusion of year dummies means that we strip out the impact of global factors that may
11
12 affect the general level of trade with all partner countries, such as shifts in global trading
13
14 costs.
15
16

17
18
19 Since trade volumes, GDP and GDP per capita are non-stationary but cointegrated
20
21 variables, dynamic ordinary least squares (DOLS) is an appropriate estimation framework.³
22
23 This estimator includes leads and lags of the first differences of non-stationary regressors in
24
25 order to correct for the impact of serial correlation in the residuals. In view of the limited
26
27 time horizon, we implement a DOLS(-1,1) specification.
28
29
30
31
32

33 **3. Results**

34
35
36
37 Table 1 reports our baseline specification. The estimates show that EMU is not directly
38
39 associated with an increase in trade – either with other EMU partner countries or with non-
40
41 member countries. However, the Sterling dummy is significantly positive – the level of trade
42
43 between Ireland and the United Kingdom was significantly higher during the period of
44
45 currency union up to 1979. This effect derives from the behavior of exports; the Sterling
46
47 dummy is not significant for imports.
48
49
50
51
52
53
54
55

56
57 ³ Unit root and cointegration test results are available upon request from the authors. See also Kao and
58
59 Chiang (2000) and Faruqee (2004) on the DOLS estimator.
60

1
2
3
4
5
6 In terms of the other regressors, it shows that the time-series evolution of Irish trade is
7
8 significantly linked to the dynamics of GDP per capita - trade expands with those partner
9
10 countries that are growing most quickly. In addition, holding fixed GDP per capita, there is
11
12 a significantly negative time-series association with the level of total GDP.⁴ The correct
13
14 interpretation is that faster population growth in a partner country is associated with a
15
16 relative decline in trade – we do not dwell on this result, which highlights the difference
17
18 between cross-sectional analysis (total trade is increasing in country size) and time-series
19
20 analysis.
21
22
23
24

25 In order to assess the robustness of the result that the Sterling currency union boosted trade,
26
27 we explore an alternative specification in Table 2. In this specification, we allow the level of
28
29 trade with the United Kingdom to be influenced by two other factors. First, following Thom
30
31 and Walsh (2002), we interact the EU dummy with the United Kingdom country dummy, on
32
33 the basis that membership of the European Union was another major factor in reducing the
34
35 dependence of Ireland on the United Kingdom as a trading partner. Second, we also interact
36
37 the United Kingdom country dummy with a time trend. This is intended to capture the
38
39 gradual erosion over time of the special status of the United Kingdom as a trading partner,
40
41 in view of the complex historical and political factors that accounted for the high degree of
42
43 trade with the United Kingdom at the start of the sample period.⁵
44
45
46
47
48
49

50 ⁴ We note that the magnitudes of the coefficients on GDP and GDP per capita are larger than typically
51 found in gravity studies. One reason is that we are estimating a cointegration equation, where the
52 coefficient captures the permanent impact on trade of a permanent change in the regressors: this will
53 naturally be larger than the short-run impact. A second is that our fixed-effects specification means that
54 only the time-series dimension of the data are examined – the coefficients are much lower if the cross-
55 sectional variation is incorporated.
56

57 ⁵ See also Berger and Nitsch (2006) who argue that trade among EMU partner countries has shown a
58 positive trend for many years.
59
60

1
2
3
4
5
6 Indeed, it turns out that the EMU dummies remain insignificant and the Sterling dummy is
7
8 no longer significant in the alternative specification reported in Table 2. Rather, the
9
10 dynamics of trade with the United Kingdom is better captured by the country-specific time
11
12 trend - the table shows that there has been a gradual decline in exports to the United
13
14 Kingdom, rather than 'step' changes associated with EU membership in 1973 and the
15
16 breaking of the Sterling link in 1979. Again, the trend is only evident on the export side: the
17
18 interaction terms are not significant for imports. Quantitatively, the size of this effect
19
20 corresponds to an annual trend decline of 6.9 percent in exports.
21
22
23
24
25

26 **4. Conclusions**

27
28 We have investigated the impact of currency unions on Irish trade patterns. In contrast to
29
30 most of the multi-country panel studies, we do not find any impact of EMU on trade.
31
32 However, this is qualitatively consistent with the pattern noted by Baldwin (2006) that EMU
33
34 has had a bigger impact on the 'core' member countries than on the peripheral member
35
36 countries that have weaker economic linkages with the rest of the currency union. That said,
37
38 we acknowledge that the time period may be too short to pick up the EMU effect on Irish
39
40 trade – it will be important to re-visit this study in a few years. It is also possible that EMU
41
42 has had an impact in particular sectors: this hypothesis could be investigated in future
43
44 research. Finally, in relation to the Sterling currency union, we have emphasized that the
45
46 apparent significance of the Sterling link for trade is misleading – rather, Irish trade with the
47
48 United Kingdom has shown a negative trend over many years.
49
50
51
52
53
54
55
56
57
58
59
60

References

Baldwin, R., 2006, *In or Out: Does it Matter? An Evidence –Based Analysis of the Euro’s Trade Effects*. Centre for Economic Policy Research, London.

Berger, H. and V. Nitsch, 2006, “Zooming Out: The Trade Effect of the Euro in Historical Perspective,” *mimeo*, Free University Berlin.

Faruqee, H., 2004, “Measuring the Trade Effects of EMU,” IMF Working Paper No. 04/154.

Kao, C., and M.-H. Chiang, 2000, “On the Estimation and Inference of A Cointegrated Regression in Panel Data,” in *Nonstationary Panels, Panel Cointegration, and Dynamic Panels, Advances in Econometrics*, Vol. 15, edited by B. Baltagi (Amsterdam: JAI Press), 179–222.

Micco, A., E. Stein and G. Ordóñez, 2003. “The Currency Union Effect on Trade: Early Evidence from EMU,” *Economic Policy* 37, 313 – 56.

Rose, A.K., 2000, “One Money, One Market: Estimating the Effect of Common Currencies on Trade,” *Economic Policy* 30, 7–45.

Thom, R. and B. Walsh (2002), “The Effect of a Currency Union on Trade: Lessons from the Irish Experience,” *European Economic Review* 46, 1111-1123.

Table 1. Baseline Specification

Dynamic OLS Fixed Effects Estimates, 1950 – 2004

	Trade	Imports	Exports
EMU – In	-0.189 (1.046)	-0.054 (1.060)	-0.135 (0.644)
EMU – Out	0.409 (1.047)	0.405 (1.062)	0.004 (0.645)
Sterling	2.428*** (0.422)	0.403 (0.428)	2.024*** (0.260)
EU	.072 (0.179)	0.023 (0.182)	0.049 (0.110)
Log of GDP	-3.853*** (0.902)	-2.967*** (0.915)	-0.887 (0.556)
Log of GDP per capita	6.697*** (0.860)	4.439*** (0.872)	2.258*** (0.530)
F – test (<i>p</i> – value)	443.20 (0.000)	201.45 (0.000)	328.63 (0.000)
R ²	0.972	0.940	0.962
Adj R ²	0.970	0.935	0.959
Root MSE	0.767	0.471	0.542

Notes: ***, **, * indicates significance at 1, 5, 10 per cent levels.

Standard errors given in parentheses.

Number of observations is 1040. All specifications include time and country dummies.

Arellano-Bond test for AR(1) residuals: H₀ rejected in all specifications.

Table 2. Alternative Specification

Dynamic OLS Fixed Effects Estimates, 1950 – 2004			
	Trade	Imports	Exports
EMU – In	-0.209 (0.999)	-0.060 (1.048)	-0.149 (0.606)
EMU – Out	0.509 (1.002)	0.426 (1.050)	0.083 (0.608)
Sterling	0.218 (0.777)	0.069 (0.816)	0.149 (0.472)
EU	0.094 (0.173)	0.016 (0.182)	0.079 (0.105)
UK*EU	-0.328 (0.766)	0.260 (0.804)	-0.588 (0.465)
UK*Trend	-0.079** (0.031)	-0.021 (0.032)	-0.057*** (0.019)
Log of GDP	-4.304*** (0.873)	-3.057*** (0.916)	-1.247** (0.530)
Log of GDP per capita	6.958*** (0.827)	4.505*** (0.867)	2.453*** (0.502)
F – test (<i>p</i> – value)	446.68 (0.000)	197.07 (0.000)	335.40 (0.000)
R ²	0.972	0.940	0.964
Adj R ²	0.971	0.935	0.961
Root MSE	0.755	0.471	0.530

Notes: ***, **, * indicates significance at 1, 5, 10 per cent levels.

Standard errors given in parentheses.

Number of observations is 1040. All specifications include time and country dummies.

Arellano-Bond test for AR(1) residuals: H₀ rejected in all specifications.

Figure 1a. Ireland: Export Shares, 1950-2004

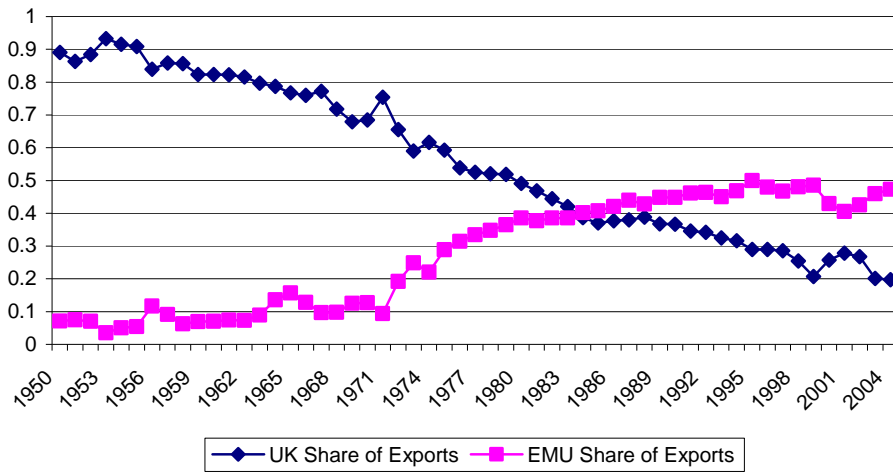


Figure 1b. Ireland: Import Shares, 1950-2004

