

IMF Working Paper
African Department

Bilateral Trade Imbalances
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ABSTRACT: If sectoral trade flows obey structural gravity, countries' bilateral trade imbalances are the result of macro trade imbalances, “triangular trade”, or pairwise asymmetric trade barriers. Using data for 40 major economies and the Rest of the World, we show that large and pervasive asymmetries in trade barriers are required to account for most of the observed variation in bilateral imbalances. A dynamic quantitative trade model suggests that eliminating these asymmetries would significantly reduce bilateral (but not macro) imbalances and have sizeable impacts on welfare. We provide evidence that the asymmetries we measure are in part related to the policy environment: trade inside the European Single Market appears to be subject to more bilaterally symmetric frictions. Extending the same symmetry to all parts of the global economy would give a large boost to the real incomes of several non-E.U. countries.

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