



Discussion of “Dynamic interactions between trade globalization and financial globalization: a heterogeneous panel VAR approach” by Kim, Shim and Park

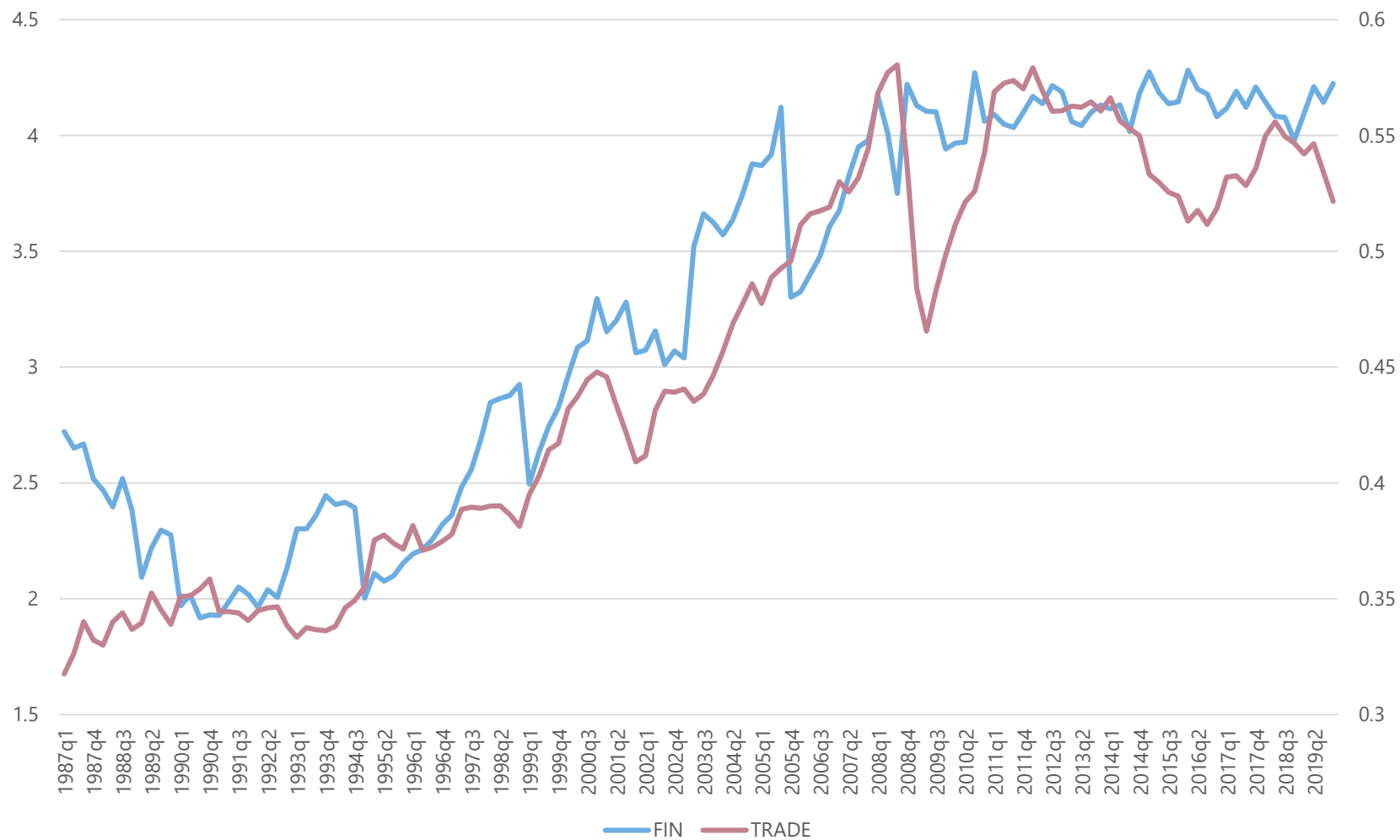
James Yetman, 4 May 2021

Conference on Financial Globalization and De-Globalization: Perspectives and Prospects

## Summary

- What's the relationship between trade and financial flows?
  - Important (neglected) question
- Granger causality & panel VARs (2 & 6 variable)
- Trade integration => financial integration
- Effect of financial integration on trade weaker
- => trade deglobalisation is likely to lead to financial deglobalisation

## Raw data



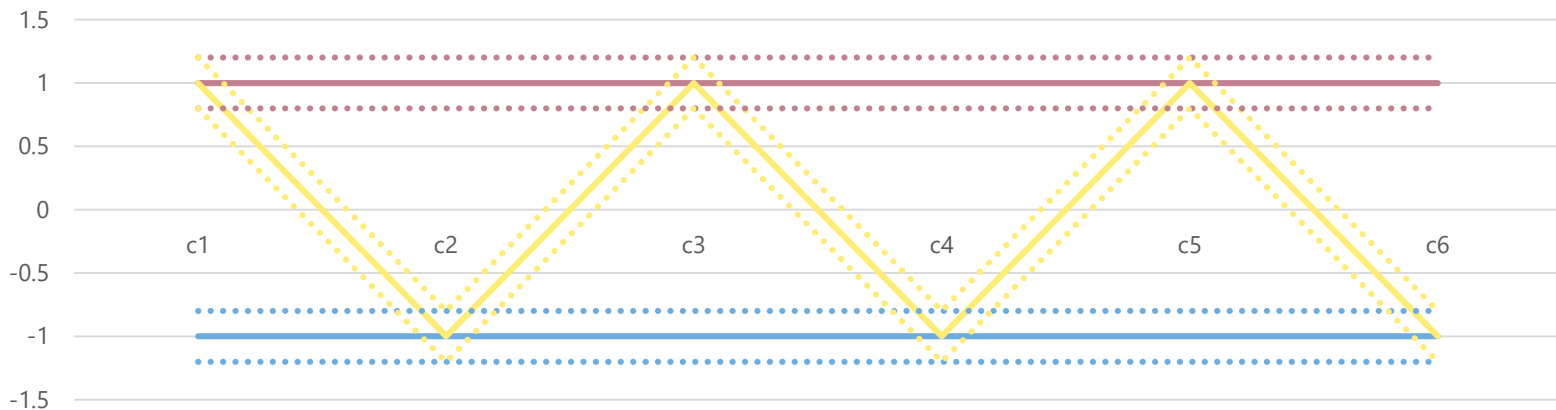
# Limitations of Granger causality tests

Table 3 Granger Causality Test

Country name	(1) TRADE to FIN	(2) FIN to TRADE	(3) $\Delta$ TRADE to $\Delta$ FIN	(4) $\Delta$ FIN to $\Delta$ TRADE
United Kingdom	5.226	5.823	4.291	0.54
Australia	5.499	24.59***	7.703	24.744***
Austria	2.292	12.065**	2.151	12.766**

- $X(t) = a + b_1 X(t-1) + \dots + b_p X(t-p) + c_1 Y(t-1) + \dots + c_p Y(t-p)$
- $H_0: c_1 = c_2 = \dots = c_p = 0$ 
  - How many lags?
  - Better test:  $H_0: c_1 + c_2 + \dots + c_p = 0$

Granger causality? In need of direction

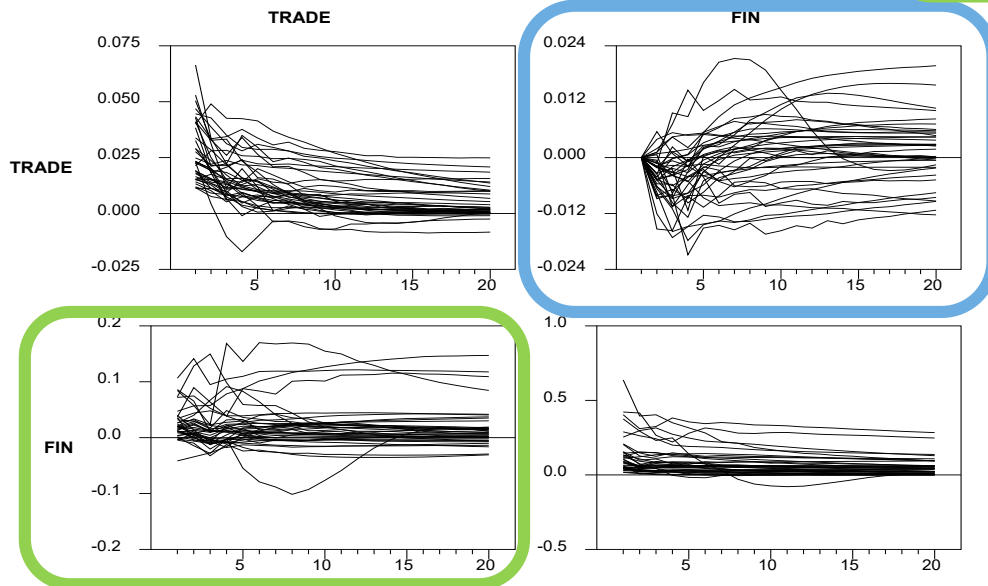
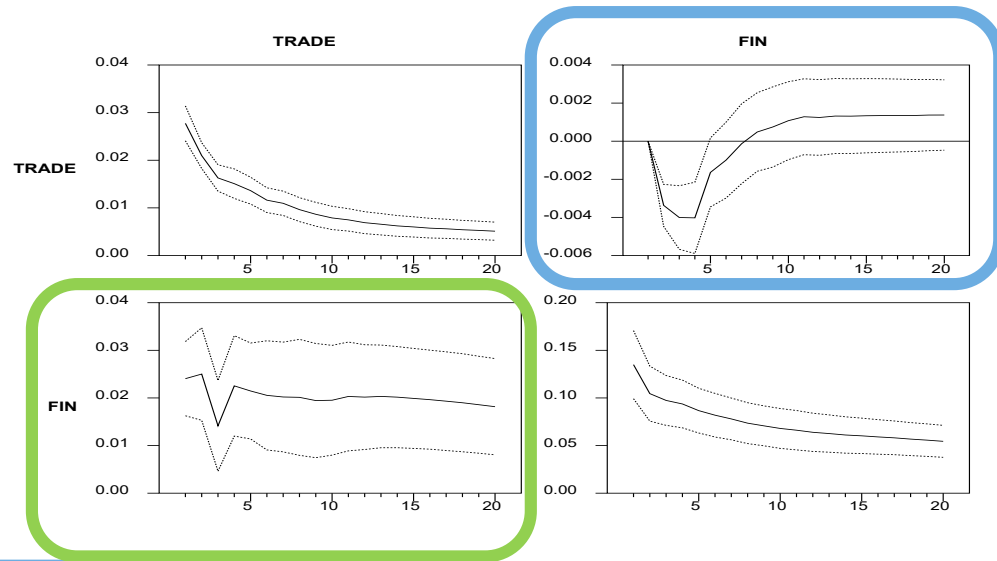


## Identification of VAR

- Strong assumptions to go from reduced form to structural relationship (in 6 variable model):
  - *“**RGDP** and **CPI** are contemporaneously exogenous to **TRADE** and **FIN.**”*
    - But  $RGDP = C+I+G+X-M$ ;  $TRADE=(X+M)/GDP$  ???
  - *“**R** and **ER** are contemporaneously exogenous to **FIN.**”*
    - But capital flows (in FIN) are the main driver of ER?
- Alternative identification strategies?

# How strong are the results?

Median impulse responses:



vs range of estimates for each country

# What's the relationship between trade and finance?

- Is the past – where both were largely growing – informative for the future?



Mechanical



Asymmetries



Threshold effects

- Very different implications for the effects of trade deglobalisation on financial positions

# Globalisation vs integration

- Terms used interchangeably in paper
  - Given level of aggregation (each country vs ROW), “globalisation” is more accurate (or “internationalisation”)
- But deeper insights available from pairwise data:
  - DOT statistics from IMF
  - Banking positions from BIS (although only part of FIN)
- Or event studies / natural experiments:
  - What happens to FIN after new free trade agreements?
  - What happens to TRADE after increased financial openness?



## Minor comment:

- Sample selection: why these 39 countries?