Discussion of Lewis & De Schryder and Kireyev & Leonidov

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Foreign Research Division
www.oenb.at
John Lewis & Selien De Schryder (BoE): “Export dynamics since the Great Trade Collapse: a cross-country analysis”

Highly needed paper: mixes simple ingredients carefully to construct appropriate proxies for explaining the great trade collapse

- Findings
- Elements
- Possible extensions
- Unclear points
Lewis & De Schryder: Findings

- Great trade collapse (GTC) is a temporary phenomenon, does not indicate structural shift to lower trade elasticity

- „Unexplained“ part of GTC (magnitude) can be explained by unobserved common factors among countries, such as trade protectionism, credit constraints, uncertainty
Lewis & De Schryder: Elements

- Proxies for main factors determining export performance: foreign demand, structural shifts in global demand, price competitiveness split into unit labor costs and nominal effective exchange rate
- Panel ECM, PMG estimator with CCE (common external effects)
Lewis & De Schryder: Possible extensions

• Estimation stops in 2011, thus insights about the GTC, but not about current trade weakness

• Coefficients estimated over period 1984-2008 without time variation, hence this average may not (yet) spot a structural change that occurred much prior to 2009

Chart 1.3 TFGT Report: Ratio of global import growth to global GDP growth

Chart 1.4 TFGT Report: Global imports and GDP growth

Notes: Imports of goods and services. Global GDP is aggregate at market exchange rates. The last observation refers to 2015.
Lewis & De Schryder: Possible extensions

• Extend to EMEs: these countries may experience more structural change compared to AEs \(\rightarrow\) not trivial given tedious construction of proxies

• Shed light into unobserved common correlated effects \(\rightarrow\) this would be a second paper

• GVC trade \(\rightarrow\) but this would be an entirely different paper
Lewis & De Schryder: Unclear points

- Data sources not always indicated

- Trade-weighted world output / GDP growth \((Y^*)\) – is this the foreign demand potential?

- Conditional forecasts:
  - Unwind previous shocks – is this the adjustment parameter?
  - Relative performance – measured relative to what: country specific export potential (=forecast value) or sample average
  - “Best performers” – best in terms of highest export growth? But not best in terms of meeting potential (i.e. minimal forecast error)
Alexei Kireyev (IMF) and Andrei Leonidov (Lebedev Institute) : “Can Network Effects and Counter-Shock Policies Weaken International Trade”

Novel and detailed analysis of shock propagation highlighting network effects

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Kireyev & Leonidov: Findings

• Direct and indirect effects of a shock differ depending on where the shock originates and who are the trading partners.

• More developed and more open countries propagate shocks more strongly, less developed and especially commodity exporters often block shocks.

• Regardless of the country of shock origin, some countries are always more strongly affected (i.e. Hong Kong, Kyrgyz Republic).
Kireyev & Leonidov: Elements

- Import demand functions: needed to assess the reaction of a country to a foreign shock (pass-through coefficients), very detailed estimations (different specifications, different lags, nominal and real term, for each country)
- Matrix of export-import-links / weights / spatial correlation
- Susceptibility to shocks is determined by exposure to origin country AND trade elasticity
- Network algorithm
Kireyev & Leonidov: Possible extensions

• Add overview: which origin countries are responsible for the largest repercussions across global trading system in case of a shock

• Assess the extent of substitution / trade diversion that follows in reaction to a shock in one specific country

• Account for the crucial role of final demand vs demand for intermediates / position and participation in global production networks → as before, this would be an entirely different paper
Kireyev & Leonidov: Unclear points

• Discussion of BoP-balances misleading, as focus is on trade only as shock transmission channel

• Similar unclear if cointegration framework is necessary and used

• “export” vs “import” shock: does this refer to direct vs indirect effects? Wouldn’t they necessarily have to be aggregated?

• How are the spillovers computed? There is no VAR, hence no IRFs

• What exactly is $W (w_{ij})$: share of j (= shock origin) in i’s exports (= potential amplifier, absorber, blocker; = trade weight) * $\beta_i$ (= import elasticity to exports)
Kireyev & Leonidov: Unclear points

• Definition of shock diffusion:
  • \( \beta_i > 1 \) … amplifying country → ok
  • \( 0 < \beta_i \leq 1 \) … absorbing country → dampening?
  • \( \beta_i \leq 0 \) … blocking country → ok only if \( \beta_i = 0 \), otherwise inverting!

• Can you really capture spillins and spillbacks by adding up effects of shock transmission sequentially?

• Conclusion about shock reducing policies’ impact ad hoc