

Comments on Hangyu Lee

**The Great Trade Collapse and  
Contraction of Exports  
in Korea during the Global Crisis**

**Menzie Chinn**

University of Wisconsin, and NBER

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# Outline

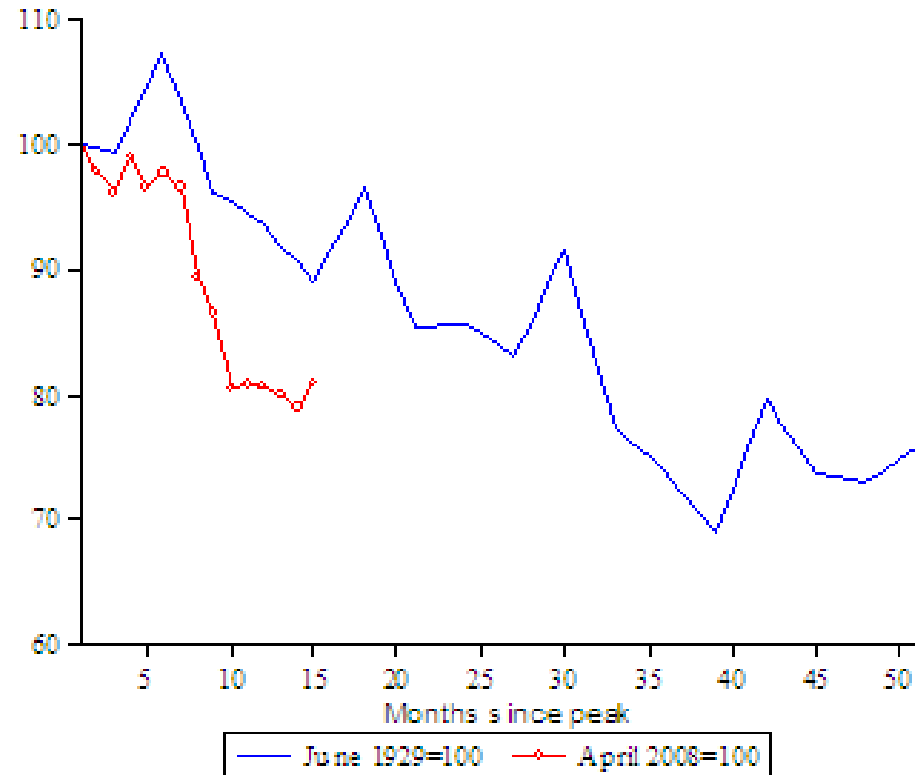
- Review
- Relevance
- The Key Hypothesis
- Robustness and third variables
- Other explanations
- Policy implications

# Review

- The recent crisis
- Observation that durables share of exports and extent of decrease correlated
- Deviation of Korea due to exchange rate
- Alternative explanations: trade credit and vertical specialization

# Relevance

- Economic Relevance
  - Leads to understanding nature of modern international trade
- Policy relevance
  - Propagation mechanism
  - Welfare implications
  - Where should policy intervene?



Eichengreen and O'Rourke, VoxEU, 2 Mar 10;  
<http://www.voxeu.org/index.php?q=node/3421>

# The Korean Downturn and Rebound

Figure 1. Recent Trends of Growth Rate of GDP and Trade



# Economic Hypotheses

- Trade credit
- Vertical specialization
- ***Compositional effect***

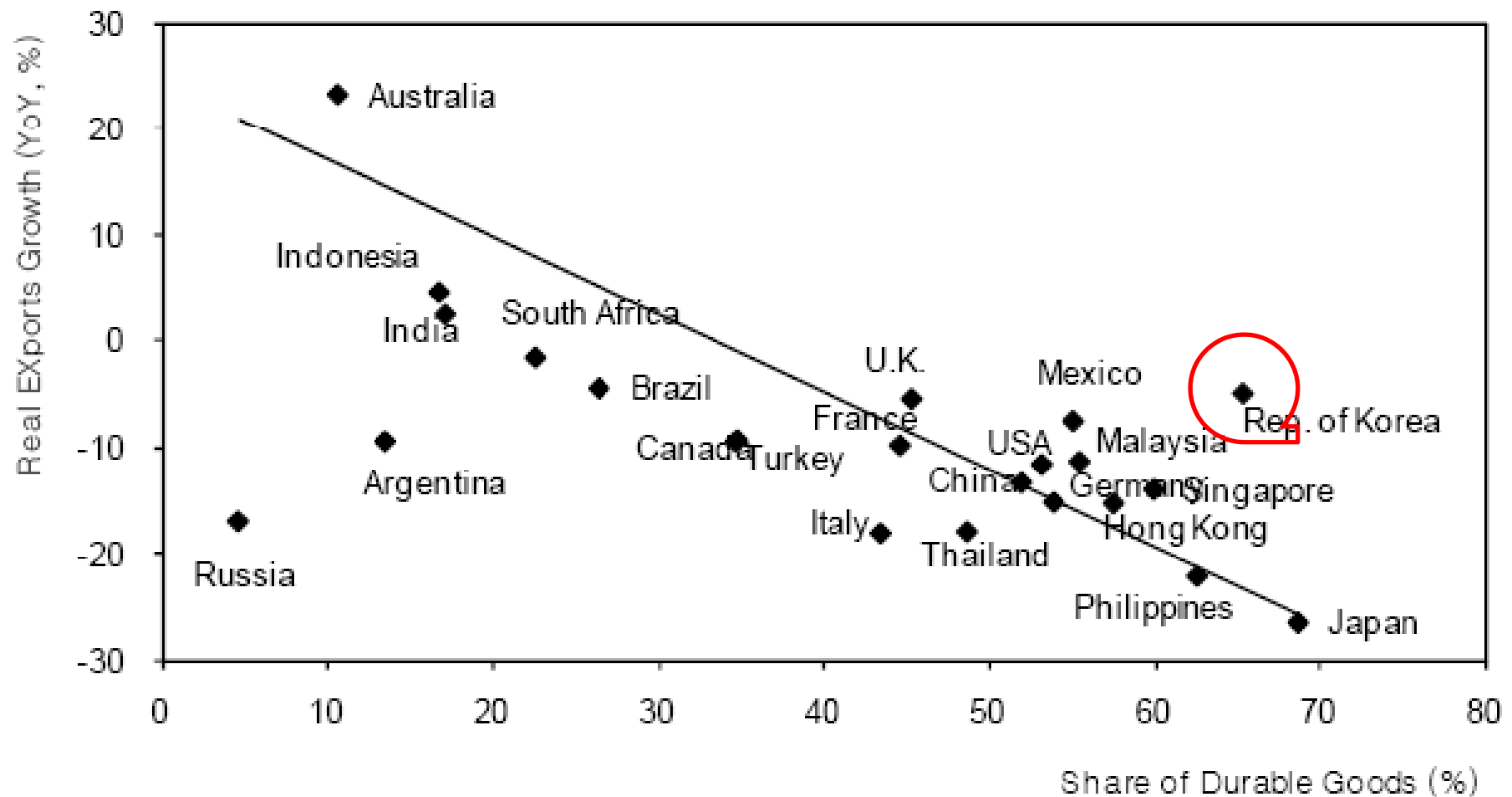
- The last leads to a natural test:

H<sub>0</sub>: No relation between composition, downturn

H<sub>A</sub>: Negative relationship

# Testing the Composition Hypothesis

Figure 3. Share of Durable Goods Exports and Drops of Exports: 2008 Q4-2009 Q1



# Multiple Regression

Table 1. Regression of Total Export Growth Rate on Share of Durable Goods Exports and Real Exchange Rate Depreciation Rate

Variable	Coefficient	Std. Error	t-Statistic	P-value
Constant	-0.86	3.85	-0.22	0.83
Share of durable goods	-0.26	0.08	-3.27	0.00
Real Depreciation Rate	0.33	0.11	3.07	0.01
Adjusted R <sup>2</sup> = 0.52				

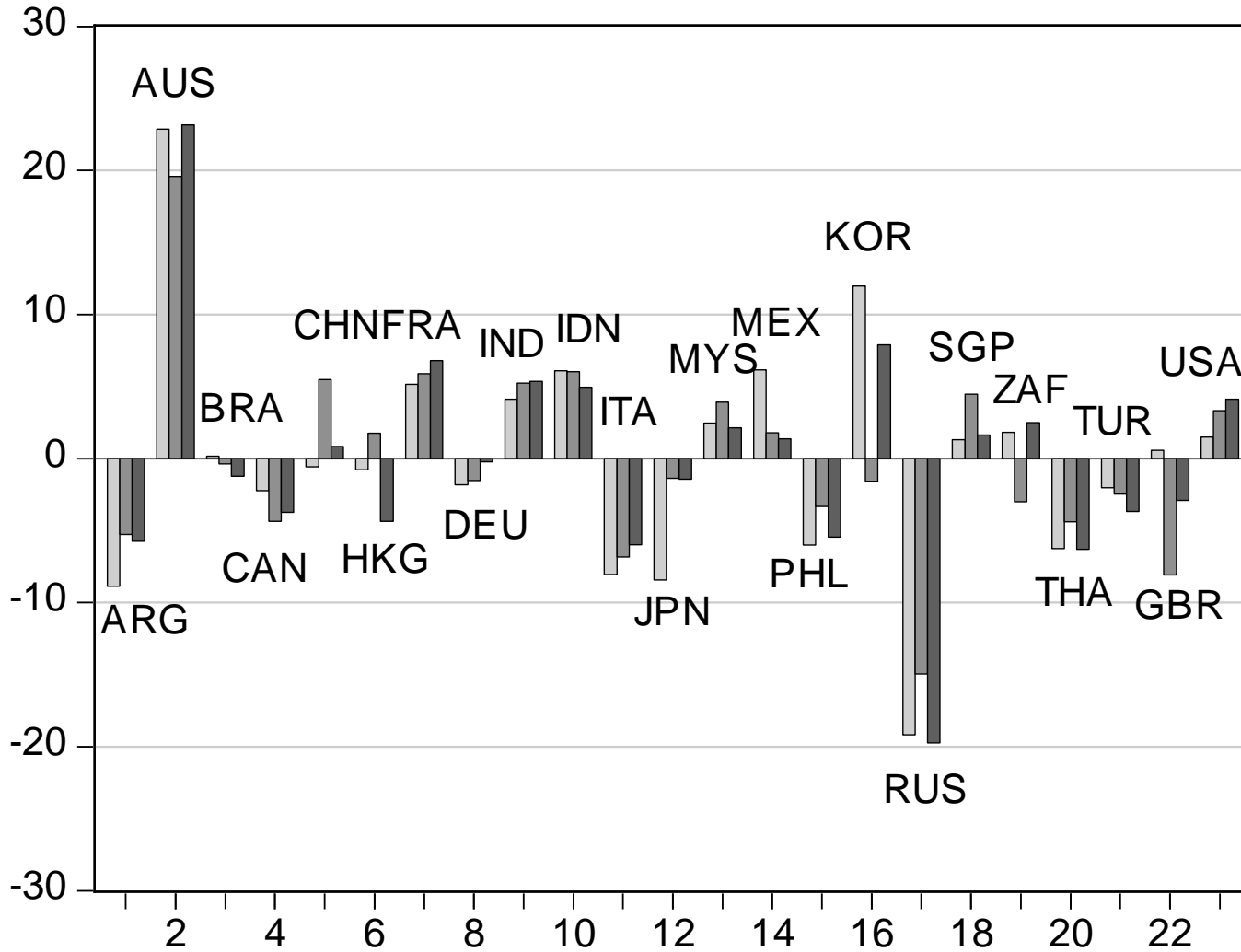
Question: Why is the real exchange rate relative to USD?



# Robustness

- Significance of durables share drops to  $p\text{-val}=0.03$  using White correction
- Significance drops if only emerging markets ( $p\text{-val}=0.11$ )
- Depreciation doesn't matter for advanced countries
- Oddly, *effective* exchange rate changes predict less well
- Residuals from reg. on durables;  
durables+dollar, durables+effective exch. rate

# Residuals



# Testing in an Integrated Framework

- Mystery of the *dollar* depreciation's importance (invoicing issue?)
- What about partner growth?
- And what kind of trade partners (degree of vertical specialization varies across partners).
- Composition effects could be driven by financial conditions (Iacovone, Zavacka, 2009; Haddad, Harrison, Hausman, 2010).
- Suggests use of financial conditions indicators. (IMF FSI for e.g.)

# Trade Credit & Vertical Specialization

- The trade credit argument is unconvincing for Korea
- Not certain applies to other countries, as observed spreads incorporate intervention.
- Vertical specialization argument based on constancy of number of varieties. But if production chains involve long-term relations, then impact on intensive margin (Altomonte and Ottaviano, 2009).

# Policy Implications

- If it's not trade credit, then no need to provide additional trade credit financing.
- If it's composition *only*, then this is the sharp drop in trade is optimal.
- If it's composition driven by credit constraints, it might be optimal to relieve those constraints.

# Concluding Remarks

- Interesting start to analyzing the question of why Korean exports fell.
- But empirics can be augmented, even within the simple cross-section approach
- Additional variables not just for the sake of additions, but to test alternative hypotheses
- This would lead to greater understanding of causes and policy implications