DISCUSSION ON "CHANGING COMPARATIVE ADVANTAGE, REAL EXCHANGE RATE IMPACT AND SINO-JAPANESE TRADE FLUCTUATIONS"

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Summary of this paper

- What kind of factors affect the China-Japan trade fluctuation?
  - This paper investigate the effect of industry-specific real effective exchange rate (REER) on industry-specific China-Japan trade fluctuations between 1992-2012.
  - In addition to REER, they use productivity, value added (comparative advantage)as explanatory variables.
- As a result, REER fluctuation have significant positive effects on the fluctuations in China-Japan trade and Chinese exports to Japan.
  - The stabilization of the real exchange rates and the development of Chinese financial markets are important!
- When the comparative advantages of both countries are getting similar, the trade between China and Japan will be stable.
  - Enhancement of two countries' trade integration will help to reduce the trade fluctuation between two countries.

Comment 1: Fluctuation of trade

- This paper calculates the mean square of the time series data in three years as a degree of periodic fluctuations of trade.
  - If the time series data is on annual basis, only three data is used to calculate the volatility. It is too small to represent the fluctuations of trade.
  - If the trade volume increase continuously in three years, the calculated fluctuation becomes larger than the case of no significant change in three years.
- Although the author automatically separate the sample period in three years, there might be a change in a market structure.
- For the robustness check, the authors try to use different calculation.

Comment 2: Theoretical background

- What kind of theoretical back ground supports the following econometric model?

$$Fluct_{i,t} = \beta_0 + \beta_1 REER_{i,t} + \beta_2 productivity_{i,t} + \beta_3 pcapital_{i,t} + \beta_4 treaty_t + \beta_5 valueadded_{i,t} + \upsilon$$

  - The authors need to explain each variable's channel to affect on the fluctuation of trade.
  - Data collection of above variables in industry level is highly regarded.
  - Authors can expand same analysis to Chinese trade with other countries.

Comment 3: REER or RER

- This paper use industry-specific REER to investigate China-Japan trade.
  - Why REER?
  - For example, SSSZ (2013) use RER(bilateral real exchange rate) for investigating bilateral trade.
- In some industries, the exports from Japan to China face severe competition with other countries, such as Korea and Taiwan.
  - It is difficult to extract the impact of exchange rates on Chinese trade.

Comment 4: Value-added

- Using industry-specific value added data is the most important feature in this analysis.
  - Authors use the proportion of domestic value added rate in China's export compared to Japan, but why this rate has significant negative impact on the fluctuation of China and Japan trade?
  - If the increase of Chinese value-added share is supported by Japanese production networks in China, then such relationship may decrease the fluctuation of China and Japan trade.

Comment 5: Treaty

- As for treaty, what kind of treaty is considered in this analysis?
  - There are several types of treaty and their effects on trade might be different.
  - For example, international level treaty(WTO, APEC) might work not only just after the introduction year, but gradually and continually.
- In addition to trade treaty, there are more various changes to affect the trade fluctuation between 1992 and 2012.
  - Processing trade expansion
  - Change of exchange rate regime
  - Improvement of financial market in China
  - Special economic zone in China
  - Direct investment from Japan

Comment 6: Industry-specific analysis

- There are huge difference of variables by industry.
- Since this paper uses industry-specific data, authors can try to investigate the industry-specific impact on trade fluctuation by using industrial dummy, too.