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Comments on:

Industry-specific Exchange Rate Volatility and Intermediate Goods Trade in Asia

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An over view

With the background of a well developed **production and distribution networks** in East Asia.

Industry-specific

$$\ln X_{ijt}^{k} = \alpha_0 + \alpha_1 VOL_{ijt}^{k} + \alpha_2 \ln FX_{jwt}^{k} + \alpha_5 Dist_{ij}$$

$$+ \alpha_6 Adja_{ij} + \alpha_7 Lang + \alpha_8 s_{it} + \alpha_9 s_{jt} + \mu_{ijt}^{k},$$

Four kinds of time window

Final goods export to the world

Conclusions: only two out of the 6 industries…

- ?1/4 Why India is included

Asian trade has been remarkably increasing with active investment and trade of foreign multinational firms. In particular, regional production networks are primarily driven by these multinationals not only from Japan but also from other East Asian countries such as Korea and Taiwan. These multinational firms located in the Mainland China and ASEAN countries, on one hand, import higher-skilled parts/components and capital goods from Japan, other East Asian and neighboring ASEAN countries and, on the other hand, export the finished goods to the US and European countries. Asia is thus characterized by the "triangular" trade with growing cross-border production fragmentation in the region.

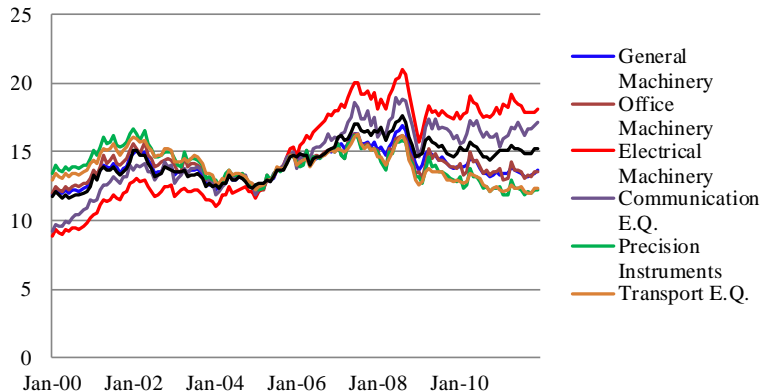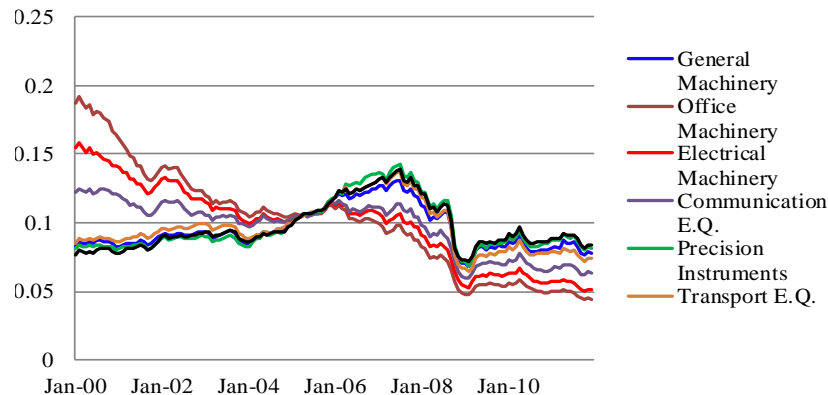- How about the results if India is excluded?

- ?2/4

Why only ex rate volatility?
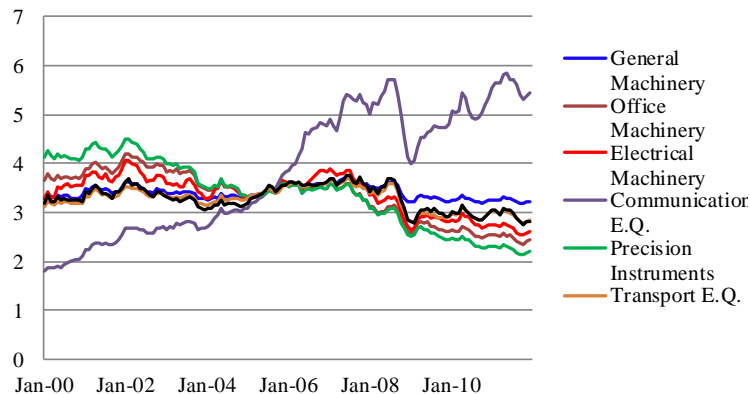
The trend differs across economies
and industries

Korea

China

Taiwan

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- ?3/4 and 4/4

The negative effects of

common board and common language?

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Benchmark Results:
Industry-specific Exchange Rate Volatility

Variables	Industries					
	General Machinery	Office Machinery	Electrical Machinery	Communication E.Q.	Precision Instruments	Transport E.Q.
Exchange rate volatility	**-17.07****	6.321	**-26.81****	-3.773	6.261	9.725
(pervious two years and current year)	(5.43)	(13.90)	(8.89)	(8.64)	(8.07)	(14.82)
Final goods exports	0.764***	1.016***	0.737***	1.819***	1.104***	0.360***
	(0.06)	(0.12)	(0.09)	(0.09)	(0.07)	(0.04)
Distance	-0.868***	-0.667***	-0.978***	-0.591***	-0.596***	-0.761***
	(0.06)	(0.14)	(0.07)	(0.06)	(0.09)	(0.09)
Adjacency	-0.291**	0.147	-0.438**	-0.218	-0.205	0.242
	(0.12)	(0.35)	(0.13)	(0.13)	(0.23)	(0.16)
Common Language	-0.135	-0.837***	0.175	-0.277**	0.393**	-0.375**
	(0.13)	(0.20)	(0.11)	(0.11)	(0.17)	(0.12)
ASEAN	0.342**	0.660**	-0.0261	0.195	1.485***	0.571**
	(0.12)	(0.24)	(0.14)	(0.13)	(0.19)	(0.20)
Time-varying exporter effects	yes	yes	yes	yes	yes	yes
Time-varying importer effects	yes	yes	yes	yes	yes	yes
Observations	720	720	720	720	720	720
R-squared	0.923	0.866	0.912	0.953	0.885	0.771

Note: Robust standard errors in parentheses, * 10% significance level; ** 5% significance level; ***1% significance level.

1. All the <u>large economies </u>are separated by the sea from other sample economies.

(China, Korea, Japan, Taiwan)

2. How to deal with the case of board on the sea?

3. If it regard as no common board, there would be systematic bias for the effect of common board.

<u>Other small economies has a small volume of X, and more common board cases.</u>

4. Common board: advantage for more trade or dis for conflicts?

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Information: two related research

- Dai Qian(2013), measure the vertical index for the global value chain. And *introduce* it as a new explanatory variable into the regression.
- We are going to do the GVC-REER.

Thank you!

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