Does Openness to International Financial Flows raise Productivity Growth ?

by

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The paper

- The paper is an contribution to the literature on financial openness and economic growth.
- Features of the paper include:
  - Focus on different measures /components of financial openness.
  - Focus on aggregate TFP growth.
  - Reliance on dynamic panel data techniques to establish causal links between financial openness and TFP growth.

The paper

- Main findings include:
  a. De jure capital account openness is associated with higher TFP growth rate .
  b. FDI and portfolio equity liabilities boost TFP growth.
  c. Better institutional quality attenuates the deleterious impact of external debts on TFP growth.

Comment I

- Presentation issues:
  - Need a more specific discussion of the theoretical underpinnings of the paper.
  - Make insightful connections/contrasts with the literature on financial development, FDI and sources of growth.
  - Give more prominence to the relevant micro literature (e.g. on the interaction between domestic finance and FDI).
  - Due consideration to the literature on the determinants of financial liberalisation (this might suggest an identification strategy!).

Comment II

- Model specification issues:

  a. Generic problems related to cross country growth regressions (e.g. TFP measurement and the choice of control variables).

  b. The source of TFP growth is not clear. Given the restrictive CRS assumption, it difficult to see role for scale effects/catch-up (is TFP growth the same as technical growth?).

  c. Model implies constant rate of TFP convergence across countries (e.g. no role for financial openness to speed-up catching-up process).

  d. Where does the source of exogenous variation to identify the effects of financial openness come from?