

“Surfing the Waves of Globalizaion:

Asia and Financial Globalization in the Context of  
the Trilemma”

by Joshua Aizenman, Menzie Chinn, and Hiro Ito

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Comments by Sergio Schmukler



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# Comments

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- ✚ Very nice paper
- ✚ Difficult exercise to undertake
- ✚ Lots of results
- ✚ Very interesting findings
- ✚ Many results, most of them very sensible and consistent with expectations
- ✚ Very useful for policymakers
- ✚ Given amount of results and expertise of the authors, somewhat difficult to comment

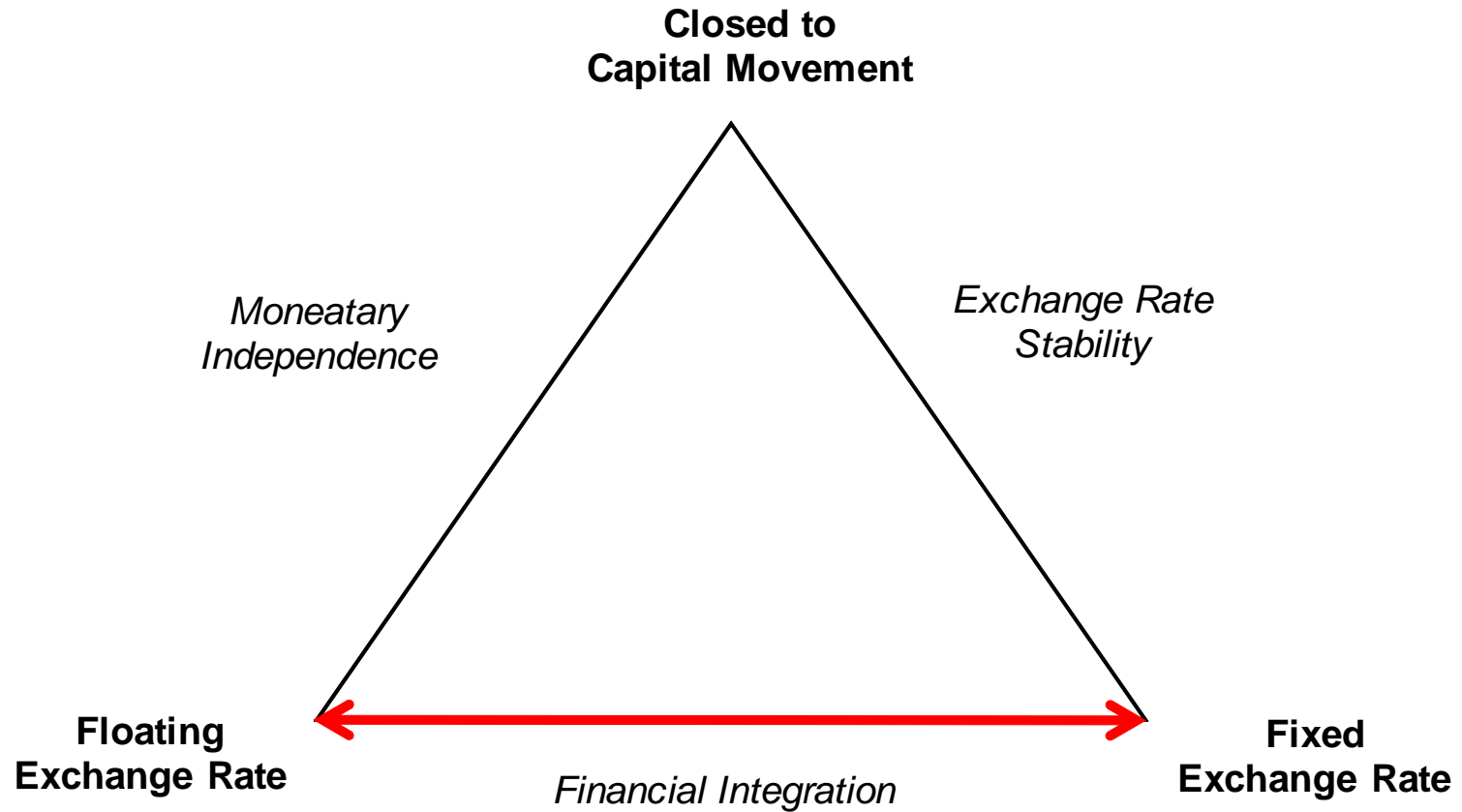
# Comments

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- ✦ Role of international reserves (IR)
  - Paper introduces IR to the trilemma as a fourth element
  - Three other elements are openness, monetary policy, and exchange rate policy
  - But given level of openness, IR are part of the monetary and exchange rate policy
  - Is it really a fourth element?
  - Are diamonds a reflection of how countries choose within the triangles?
  - Especially during the recent period of financial integration
  - And at any time, given sluggishness and monotonicity of openness

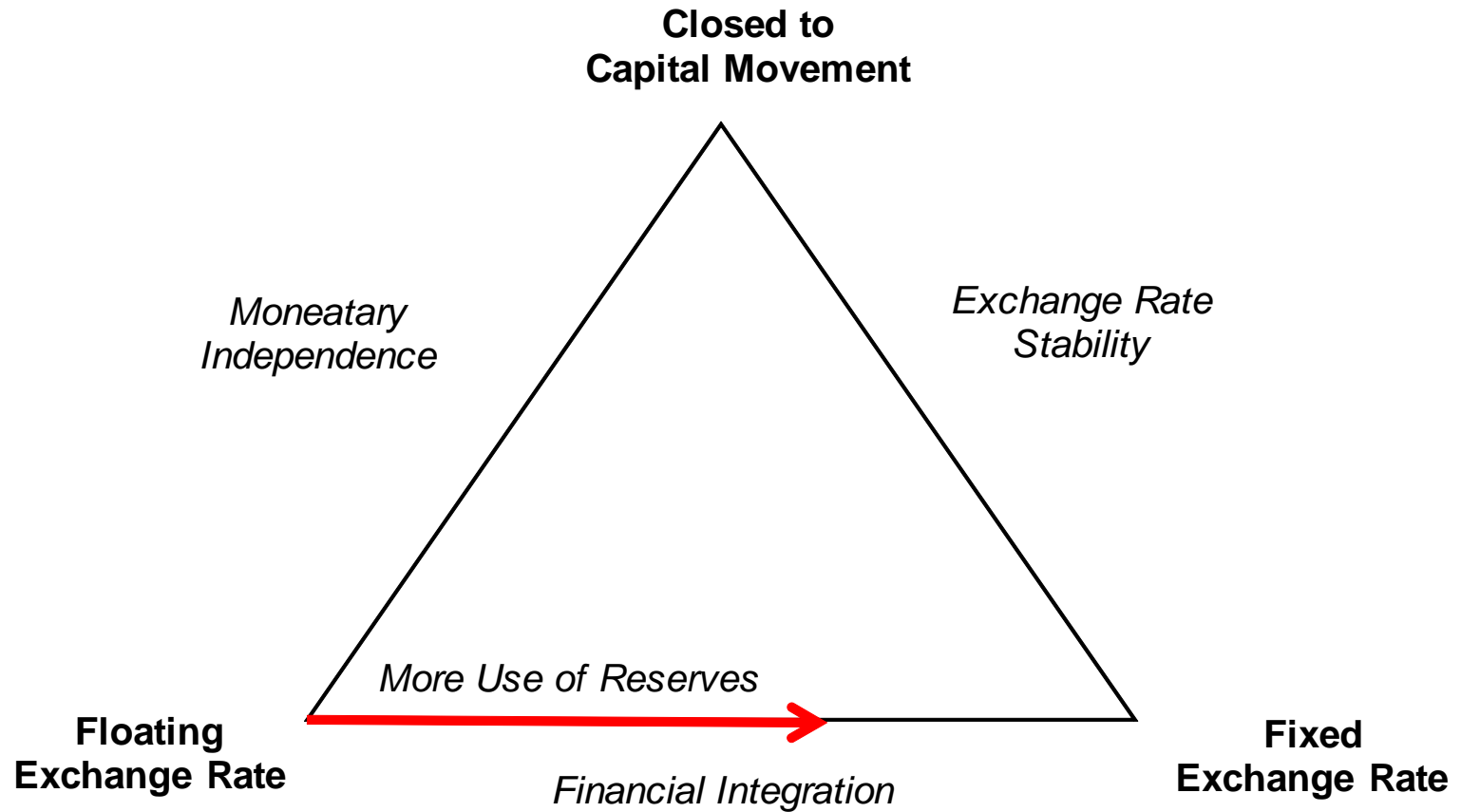
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# Comments

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## + More on reserves

- Used for several purposes
- For mercantilist goal, for undervalued exchange rate
- For crisis prevention
- As mean of saving abroad
- Here, only to stabilize exchange rate?

## + Exchange rate stability

- “Instability” could be good or bad, depending on the context
- Should policymakers care about this volatility - context specific
- Volatility high in many countries with no major consequences, witness many developed countries. If so, why?
- How are the crises considered?

# Comments

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## + Asia

- What is different from Asia?
- While the discussion is Asia specific, the results seem more general
- Are other EMs becoming more like Asia?

## + Developed economies

- What do the results look like without Europe?
- Why not including them in the sample?
- Why not pool all countries?

## + Time periods

- Are 5-year averages enough to compute volatility measures?
- Is there anything particular about the time periods analyzed?

# Comments

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- ✦ What are the policy implications?
  - Does convergence to the middle make sense?
  - Does paper argue in favor of holding large reserves?
  - Up to what point? What to do beyond it?
  - Gives lots of flexibility, plus countries do not seem to have been penalized
  - Even if costly, the accumulation of more reserves appears to yield some benefit, even with higher inflation



# Comments

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- ✦ Many results and many conclusions, hard to digest
  - What is the bottom line of the authors?
  - Some implications speculative, like effect on cost of capital
  - Some parts repetitive
  - Would be useful to understand more

# Comments

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- ✦ Reference to trilemma paper but explanation not very clear
- ✦ Use of dependent and explanatory variables not always transparent
  - E.g., why use volatility for inflation and output and level for inflation only?
  - Would it be useful to look at output growth rates?
  - Use of many explanatory variables
  - Capital flows a measure of financial openness too
  - What are the relevant channels to study?
  - Why does exchange rate volatility affect investment?
  - More tied to theory or some ex-ante hypotheses, ideas?

# Comments

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- ✚ Economic size of coefficients
  - E.g., does use of reserve fully mitigate policies, up to a point?
- ✚ Use of level or flow of reserves as relevant variable?
- ✚ Endogeneity
  - Potential for reversed causality
  - E.g. inflation volatility and exchange rate stability
  - Mentions GMM but results are not reported
- ✚ Inflation volatility
  - Why using inflation volatility in both sides of the regression?
  - What are the differences between the two variables?
  - What are the implications?

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Thank you!