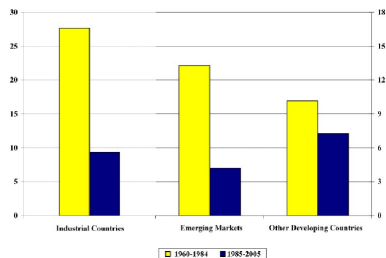*Examining the decoupling hypothesis for India*

by *Srhuthi Jayaram, Ila Patnaik, Ajaj Shaj*
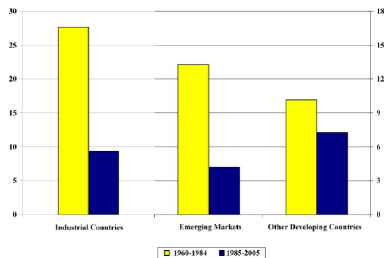
Decoupling literature

from Kose-Otrok-Prasad (2008)

Common factor

Group factors

"e.m. are standing on their own feet to a greater extent than before, even though many of them have not entirely shaken free of their dependence on exports to industrial countries. And the huge increase in flows of goods and money among emerging markets themselves (rather than just between them and industrial countries) has made their economies more dependent on each other."

The decoupling fad

Countries are financially *supercoupled*
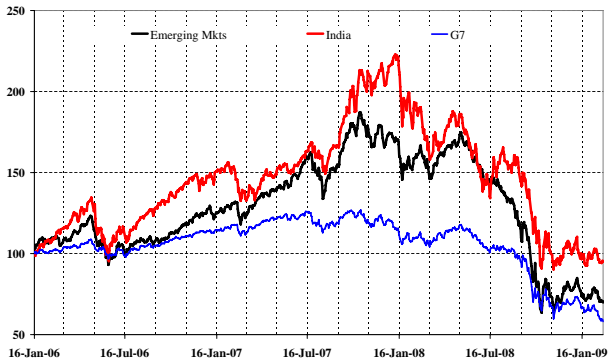
Correlations found in the paper will be even higher in the most recent past

From financial to real sector

Global financial links exacerbate macro interdependence

Asset prices correlations spillover to business sentiment
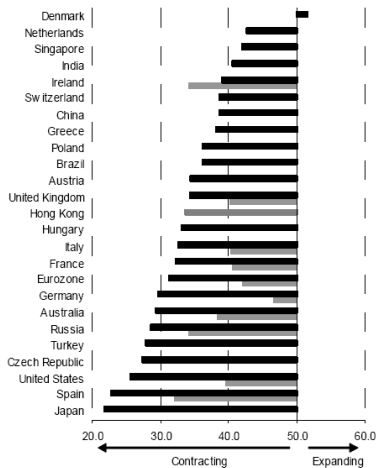
Global demand meltdown is only very recent

If authors were to repeat the same analysis next year they most likely will find even greater numbers

PMI survey Dec08: gloom and doom

Output PMIs by country in December 2008

DI, sa, 50 = no change
Black: Manufacturing, Grey: Services

N.B. Data are ordered according to national manufacturing output indexes

Interlinkages

Not only US → India

but also

US → China → India

Asia increasingly trades with itself and less with the US

Today, about 40% of all goods leaving Asia go to Asia

US market 15% of Asia exports (20% just 5 years ago)

Decoupling hypothesis: is Asia our lifejacket?

Decoupling hypothesis: is Asia our lifejacket?

Measuring Synchronization

- Measure synchronization of *Growth* cycles using Harding-Pagan Concordance Index on regimes dummies, S_t^j:

$$Concordance_{x,y} = \frac{1}{T} \left(\sum_{t=1}^{T} S_t^x S_t^y + \sum_{t=1}^{T} (1 - S_t^x)(1 - S_t^y) \right)$$

- Perform testing for the null of no correlation of *growth* cycles on the monthly indicators

Authors do it on Δlog of SA series. Maybe too volatile. However they also check with HP. Results do not change dramatically.

Synchronization of GDPs: Europe vs US

			GDP			
	US	ER	DE	FR	IT	UK	CA
US		0.62	0.5	0.62	0.63	0.91	0.93
ER	0.24		0.84	0.95	0.89	0.64	0.63
DE	0.02	**0.69**		0.8	0.76	0.54	0.51
FR	0.24	**0.91**	**0.61**		0.9	0.63	0.63
IT	0.24	**0.78**	**0.57**	**0.8**		0.64	0.62
UK	**0.81**	**0.28**	0.09	0.26	0.27		0.93
CA	**0.87**	0.26	0.03	0.26	0.23	**0.87**	