How Does Trade Evolve in the Aftermath of Financial Crises?

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Notes

1. See, among others, Baldwin (2009) and references therein, Alessandria, Kaboski, and Midrigan (2010), Bems, Johnson, and Yi (2010), Levchenko, Lewis, and Tesar (2010), Eaton and others (2011), and Chor and Manova (2012). There is also a rising literature that provides microevidence on trade adjustment following large depreciations in emerging economies (for example,

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6. Trade dynamics following currency crises (as defined by Laeven and Valencia, 2008) are qualitatively similar to trade dynamics following banking crises, but with a much deeper initial fall in imports followed by a faster recovery to gravity-predicted levels. In the analysis below, we also investigate the role of the exchange rate—both changes in its level and its volatility.

7. In the baseline specification, we include only the current value of the dummy for FTA. However, as Baier and Bergstrand (2007) have shown, FTAs can have strong cumulative effects on trade (we thank an anonymous referee for pointing this out). In order to address this issue, we estimate an alternative specification where we include current as well as five lags of the FTA variable. The coefficients on the importer and exporter crisis variables remain very similar to the baseline.

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comparator, declines by about 12 percent on average at the onset of war, and these effects remain statistically significant up to seven years after the start of the conflict. Thus, the magnitude of the effect of a war on neutrals is similar to a financial crisis.

11. When interpreting the findings of this robustness check, it is important to keep in mind that HMR methodology is more suitable for estimating the cross-sectional, rather than time-varying, determinants of trade, because their exclusion variables are time invariant. Note also that we implement the HMR methodology in the specification with separate exporter and importer fixed effects (and not interaction), because the exclusion variable varies only across country pairs but not over time.

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financial crisis is severe or moderate, but the initial import loss is larger for severe crises.

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Appendix

Data Sources

The primary data sources for the chapter are the IMF's *Direction of Trade Statistics* (*DOTS*), *World Economic Outlook* (*WEO*), and *International Financial Statistics* (IFS) databases, the NBER-UN *World Trade Flows* database (2005), and Laeven and Valencia (2008 and 2010). Additional data sources are listed in Table A1.

Table A1 Data Sources

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constructed using real GDP in U.S. dollars and import and export weights from the *DOTS* database. These weights vary each year based on the actual import and export flows between economies.6

Table A2 Summary Statistics of Main Variables

Data on imports and exports by product category are constructed from the NBER-UN *World Trade Flows* database (see Feenstra and others, 2005). The database is first extended using the UN *Comtrade* database. The Standard International Trade Classification, Revision 2 (SITC Rev. 2) codes that identify products in the NBER-UN trade data are matched to the UN Broad Economic Classification (BEC) codes. These are then classified into Capital Goods, Consumer Durables, Consumer

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