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# How Does Trade Evolve in the Aftermath of Financial Crises?

| Published: 12 August 2014

| Volume 62, pages 213–247, (2014) [Cite this article](#)



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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,](#)

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5. The results discussed below are robust to using the nominal dollar values of trade and GDP instead.
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

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financial crisis. However, trade with “neutrals” (that is, trading partners who are not directly involved in the conflict ), which might be a more suitable 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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the median. We found that import losses occur regardless of whether a financial crisis is severe or moderate, but the initial import loss is larger for severe crises.

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thank Gavin Asdorian, Stephanie Denis, Lisa Kolovich, Andy Salazar, and Yorbol Yakhshilikov for excellent research assistance.

# 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](#).

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export price deflators, respectively, from the *IFS* database, to get each economy's real imports and exports. The series on real GDP in U.S. dollars is from the *WEO* database. Import- and export-weighted partner GDP and GDP per capita are 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

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## Cite this article

Abiad, A., Mishra, P. & Topalova, P. How Does Trade Evolve in the Aftermath of Financial Crises?. *IMF Econ Rev* **62**, 213–247 (2014). <https://doi.org/10.1057/imfer.2014.15>

Published

12 August 2014

Issue Date

01 June 2014

DOI

<https://doi.org/10.1057/imfer.2014.15>

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