



Quantitative Finance >

Volume 10, 2010 - [Issue 4](#)

2,014

Views

121

CrossRef citations to date

3

Altmetric

Research Papers

International trade and financial integration: a weighted network analysis

Stefano Schiavo , Javier Reyes & Giorgio Fagiolo

Pages 389-399 | Received 04 Jul 2007, Accepted 16 Jan 2008, Published online: 05 Oct 2009

 Cite this article  <https://doi.org/10.1080/14697680902882420>

Sample our
Economics, Finance,
Business & Industry Journals
>> **Sign in here** to start your access
to the latest two volumes for 14 days



 Full Article

 Figures & data

 References

 Citations

 Metrics

 Reprints & Permissions

Read this article

 Share

Abstract

The authors analyse patterns of international trade and financial integration using complex network analysis. The combination of both binary and weighted approaches delivers more precise and thorough insights into the topological structure and properties of international trade and financial networks (ITN and IFN). It is found that the ITN is more densely connected than the IFN, while both types of network display a core-periphery structure. This hierarchical organization is more pronounced in financial markets, suggesting that the bulk of trade in financial assets occurs through a handful of countries acting as hubs. High-income countries are better linked and form groups of tightly interconnected nodes. This kind of structure can explain why the recent financial crisis has spread rapidly among advanced countries while reaching emerging markets only in a second phase.

Keywords:

Acknowledgements

We would like to thank Marc Barthélemy, Helmut Elsinger, Diego Garlaschelli, Bertrand Gros Lambert, Cal Muckley, participants at the 5th INFINITI Conference and the Net2008 Workshop, as well as two anonymous referees, for their useful and insightful comments on earlier drafts of the paper. All usual disclaimers apply.

Notes

⊥ Examples of classical studies in the field include Rapoport and Horvath ([1961](#)), Milgram ([1967](#)), Granovetter ([1974](#)), and Padgett and Ansell ([1993](#)).

† We refer the reader to Fagiolo et al. ([2009](#)) for more formal definitions of network concepts.

‡ Among the weighted clustering coefficients reviewed in Saramaki et al. ([2007](#)), the one used here is the only one that takes into account the weights of all three edges in any triangle (while disregarding weights not participating in any triangle), and that is invariant to permutations of edge weights (which allows one not to discriminate single nodes but rather to consider cliques or triads as one single entity).

§ Then, while we expect the IFN to be on average less clustered for the reasons seen above, it is likely that the WCC attains its maximum values in correspondence of financial hubs.

§ It is worth noting that the very notion of international financial integration is still debated. For instance Bekaert and Harvey ([2003](#)) suggest that integration occurs only when ‘assets of identical risk command the same expected return irrespective of their domicile’ (p. 4). This implies that an expected return model is required to pursue a direct measure of financial integration.

¶ At the time when this paper was written, only data for 2001–2004 were available. The list of countries used in the analysis is reported in [Appendix A](#); note that a few

important players such as China did not participate to the survey.

⊥A perfect match was impossible to achieve, since the CPIS includes a number of small financial centres for which no trade data are available.

†This includes also instances where a positive figure is censored, i.e. we know that cross-holding of that particular asset is positive but we ignore its magnitude.

‡The full set of results on symmetry is available upon request.

§In the rest of the paper we will only discuss the network of total financial assets. Results for specific asset types do not change much from a structural point of view. A brief discussion is nevertheless presented in [section 5.6](#) below.

¶One alternative possibility to deal with very dense graphs is to define thresholds for the interactions among links (see Kali and Reyes [2007](#)), which allows one to eliminate ‘weak’ ties. We will see in what follows that a threshold approach does not allow us to recover the results of weighted analysis.

⊥The support of the distributions is standardized to offset the impact of different sample sizes.

†Size-rank plots display the fraction of nodes with a degree (strength) higher than a given value; in other words they plot ND (NS) against their complementary cumulative distribution in log-log scale, thus magnifying the upper-tail behaviour of the distribution.

‡A further consequence is that the correlation between ND and NS in the trade network is only significant at 11%.

†To compare our results with existing studies of the ITN, we have also set a minimum threshold value for each (trade) link weight (along the lines of Kali and Reyes [2007](#)), which implies dropping around 20% of all (trade) links. The resulting binary statistics imply a strongly disassortative network: the correlation between ND and ANND ranges between -0.96 and -0.93 , suggesting the existence of many low-weight links connecting peripheral nodes among themselves, so that imposing a threshold artificially inflates the relevance of hub-spokes connections. This however is not a correct representation of the ITN according to the weighted approach discussed above. Similar conclusions hold for a smaller threshold that eliminates only 10% of links.

‡In the binary case, the random network amounts to a graph with same density but re-shuffled links. In the weighted case, we keep the binary structure constant and we re-shuffle link weights. The comparison between the observed correlations and those computed for the random networks is similar for both the binary and the weighted networks. In the latter case, however, differences are significant only at a level of 7–15%.

‡In the international trade literature, a large body of evidence have investigated the role of distance in the context of so-called gravity models (see for instance Brun et al. [2005](#)). Recently, this methodology has been applied to financial data as well: Portes and Rey ([2005](#)) suggest that distance proxies some information costs. Furthermore, Hau ([2001](#)) postulates that informational asymmetries in financial markets may depend on investor location.

†This point is confirmed by a comparison of the binary results with a ‘threshold analysis’. As before, we have set a minimum value for each link weight, so as to retain only 80% of all trade links and then computed binary indicators (as proposed in Kali and Reyes [2007](#)). In the case of the correlation between node degree and clustering, results from this ‘threshold-based’ analysis not only confirm the negative sign, but the coefficient is much more negative, ranging between -0.88 and -0.86 , thus conveying a picture substantially different from the one obtained through the weighted approach.

‡The same results are obtained once we substitute this relative criterion with an absolute one and attribute core status to those countries displaying values of centrality above the mean plus one standard deviation.

†The full set of results on different asset classes is available from the authors upon request.

Additional information

Notes on contributors

Javier Reyes

✉E-mail: JReyes@walton.uark.edu

Related Research Data

[Generalizations of the clustering coefficient to weighted complex networks](#)

Source: Physical Review E

[The architecture of complex weighted networks](#)

Source: Proceedings of the National Academy of Sciences

[The architecture of globalization: a network approach to international economic integration](#)

Source: Journal of International Business Studies

[Complexity and synchronization of the World trade Web](#)

Source: Physica A Statistical Mechanics and its Applications

[A General Framework for Weighted Gene Co-Expression Network Analysis](#)

Source: Statistical Applications in Genetics and Molecular Biology

[Location Matters: An Examination of Trading Profits](#)

Source: The Journal of Finance

[World-trade web: Topological properties, dynamics, and evolution](#)

Source: Physical Review E

Related research

People also read

Recommended articles

Cited by
121

Information for

Authors

R&D professionals

Editors

Librarians

Societies

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

Help and information

Help and contact

Newsroom

All journals

Books

Keep up to date

Register to receive personalised research and resources by email



Sign me up



Copyright © 2026 Informa UK Limited [Privacy policy](#) [Cookies](#) [Terms & conditions](#)

[Accessibility](#)

 Taylor and Francis Group

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG