Comments on

Financial Globalization and Exchange Rates by Lane and Milesi-Ferretti

Andrew K. Rose

UC Berkeley, CEPR and NBER
A difficult paper to discuss!

- Substantive, interesting set of issues, including:
  - Is the primary effect of the exchange rate on: a) the trade balance; or b) asset revaluations?
  - How important are asset price changes (stocks, bonds, etc., AND pfx) in determining net foreign asset positions?
  - Are emerging markets like industrial countries?
  - And so forth

- More importantly, hard to disagree with much!
• Trendy area of work (Gourinchas-Rey, etc.)
  o Focus on additions to wealth transfers beyond current account

• Clear, reasonable framework
  o Accounting done clearly

• Good data analysis
  o All the relevant caveats
• Striking results
  o Effect of exchange rate on US assets/liabilities as expected
  o Asset returns almost orthogonal to exchange rate changes!
  o Valuation effects matter!
  o Poor link between $\Delta NFA$ and cumulative current account
    (especially trade)
Suggestions/Quibbles

• What’s the Real Focus of the Paper?
  o Conclusion that valuation channel unlikely to be consistently available is: a) somewhat obvious, b) non-sequitur, and c) irrelevant (once may be enough; it was for inflation).
• Change the Title
  o It’s either about EM’s (too short though), or rates of return above and beyond just exchange rates!
• Create asset-weighted multilateral exchange rate (why focus on trade after paper like this?)
• Strengthen the data analysis through more graphics
  o For instance, consider a different version of Table 2 to emphasize difference between gross and net flows:
• Reconcile with Obstfeld-Rogoff
  
  o Current accounts imbalance aren’t very large compared to GDP, but can be large compared to tradable production
  
  o Especially since doubts are raised here about policy-relevance of valuation channel
• Still, these are all minor suggestions.
• A fine addition to a notable chain of recent work!