

**Comments on Lane's *International  
Financial Integration and Japanese  
Economic Performance***

**Andrew K. Rose**

**UC Berkeley, CEPR and NBER**

## A Fine Survey

- Detailed set of stylized facts presented
- Sensible analysis linking IFI to domestic developments, especially recent monetary policy
  - Exception: Little on Effects of Plaza Agreement, Louvre accord (McKinnon)
- Lots of sensitivity analysis, digging beneath surface
  - Ex: different asset classes; short- *and* long-run analysis

## Still, a Basically Negative Verdict

- Relatively weak evidence that Japan's domestic economic performance has been substantially affected by international financial integration
  - Positive Spin: international issues may have affected domestic policy
    - Seems untested/wishful thinking

## **Starkly Expressed**

- International Financial Integration had a negligible impact on Japanese Economic Performance

## Why is This a Negative Verdict?

- Japan a large important player of intrinsic importance
- Tremendous possibilities for impact given regime switch (transition from fast growth to lost decade)
- Japan has strong international financial presence (reserves! current account! exchange rate! ...)
- Few countries liberalized much earlier

## Plausible?

- Probably; general presumption is that most macroeconomic developments primarily domestic in nature
- Japan even less likely to be affected by international phenomena given size
  - Possible exceptions on real side (trade), not financial integration

## **An Important Potential Caveat:**

### **Perhaps Japan just *isn't* that financially integrated?**

- Consistent with much of the evidence in paper  
(Consumption tests; Feldstein-Horioka; return  
cyclicality; etc)
- But in that case should we really be interested in the  
effects of IFI?

## **Still, Most Macroeconomic Effect Still to Come**

- Japan experienced earliest, fastest demographic transition (very short baby boom)
- Accordingly, high NFA likely to matter soon



## **Microeconomic Effects Remain Unclear**

- Should foreign bank competition have had bigger positive effect (Lopez and Spiegel)?
- Would bubbles have been smaller with more foreign banks? (or bigger, with more herding?)

### **Smaller Gripes**

- Numerous typos
- Description, source, even frequency of time series data a mystery
- Tables, Figures poorly formatted, noted (should be self-explanatory), out of order
- Surely one can detrend more effectively
- Why is FX currency exposure not aggregated from individual currency positions?
- Demographics could be modeled better (focus on working age relative to total population for Japan and trade competitors).