Sovereigns, Upstream Capital Flows, and Global Imbalances (by Alfaro et al.)

Discussion

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First Thoughts

- great data: finally, someone did it!
- sensible results
- why limiting yourself to the paradox that wasn’t?
- great potential for further applications
The Main Idea

- international capital flows and net foreign asset positions are central variables in theory and empirics
  - theoretical results often refer to private agents
  - empirically, we may be unable to distinguish between private and public capital
  - problem: if public and private are not substitutes → data-theory mismatch

- an application: Lucas’ paradox
  - (neo-classical) theory says: capital flows where its return is higher (i.e., countries with high growth potential)
  - data say: capital flows the other way around

- question: is the paradox there if we only consider private capital (as in theory)?

- answer: this paper (beyond Gourinchas and Jeanne, RES 2013)
This Paper

- provides for 100+ non-OECD countries measures of capital flows distinguishing between:
  - private positions (A/L in portfolio equity, FDI, debt)
  - public positions (A/L in debt, aid and alike)
  - reserves

- use data for 75 countries in the cross-section 1970-2007

- estimate the correlation between p.c. GDP growth (or distance to fronteer) and net capital inflows by type

- show that the correlation is
  - positive (as in theory) if private int’l flows are considered (≠ from GJ)
  - negative if sovereign-to-sovereign flows are considered (≈ in GJ)
  - positive if privately held gov’t debt is considered

- show that public (private) savings are positively (negatively) correlated with growth
why cross-sectional estimates only?

with the full panel (say on 5-year avg) you could:
  - exploit within country variation (a lot has happened in LDC’s in the last 40 years!)
  - address reverse causality: initial growth potential $\rightarrow$ capital inflows

more on causality: IV strategy

reconciling with GJ:
  - is the difference between GJ’s and your measure of private flows about grants?
  - how big are these positions?
Beyond the Paradox

- revisit other facts in international finance through your lenses
- my bias: capital flows/financial integration → growth
  - how do net flows of different types affect growth?
  - how does each of them affect productivity and capital accumulation? (beyond Bonfiglioli, JIE 2008)
- this may also help evaluate whether:
  - int’l private equity and debt flows are perfect substitutes (MM theorem?)
  - sovereigns are:
    - bad int’l investors: low growth → high net sovereign-sovereign inflow
    - inefficient borrowers: high net sovereign-sovereign → low growth