Comments on Huang's

Trading Blocs in East Asia

Andrew K. Rose

UC Berkeley and NBER

Summary

- Look for evidence of East Asian trading blocks
- Use Trade Data and Gravity Model
- EASE Tradition! (Frankel and Wei)
- Use dummies rather than residuals

Style Issues

- Informal Data description can be better motivated through model (US and Japan *should* be more important with gravity; US then dropped anyway)
- Much in section 2 on FDI, but empirics are all on trade
- FDI as compliment/substitute?
- Could use empirical strategy section

Data Issues

- Data set could be much better described
- Some idiosyncrasies
  - (GDP and GNP per capita?)
  - East Asia = Taiwan, HK, PRC, Korea, Japan?
    - Thailand, Malaysia, Indonesia, Philippines, Vietnam, Singapore, …
- Odd to model EU/NAFTA/ASEAN as time-invariant

Estimation Issues

- Ridge Regression?
- Stepwise regression? Many degrees of freedom!
  - Makes coefficients unnecessarily sensitive
- *Post Hoc ergo Propter Hoc* fallacy for 1987, 1997
- More controls?
- Dummies could be more clearly motivated/explained
- Are intercepts included?

Results with my data set (on web) are much stronger

	1980	**1985**	**1990**	**1995**	**1999**
cht	1.69	1.63	1.83	1.10	1.94
(China - HK)	(.18)	(.20)	(.22)	(.19)	(.14)
eanjpn	.74	.40	.08	.18	.04
(Japan - East Asia)	(.40)	(.39)	(.29)	(.39)	(.54)
eankor	.70	.19	-.64	-.01	.47
(Korea – East Asia)	(.69)	(.68)	(.64)	(.38)	(.54)
earow	1.04	1.08	1.05	.78	.52
(East Asia – ROW)	(.08)	(.08)	(.09)	(.08)	(.06)
Log Distance	-1.16	-1.33	-1.37	-1.34	-1.10
Log Real GDP	.85	.93	.96	.96	.91
Log Real GDP p/c	.50	.55	.71	.51	.00
Common Language	.20	.31	.39	.38	.41
Common Border	.44	.40	.50	.68	.91
Regional FTA	1.30	1.06	.94	.82	.94
Currency Union	1.03	1.66	2.23	1.39	.69
# Landlocked	-.08	-.07	-.10	-.16	-.54
# Islands	.04	.05	-.07	-.04	.01
Log Area Product	-.05	-.09	-.04	-.07	-.05
Common Colonizer	.42	.24	.32	.39	.97
Currently Colony	.54	-1.01	-1.13	-.48	n/a
Ever Colony	1.95	1.72	1.53	1.46	1.23
Common Country	-.30	.90	.38	-.99	n/a
Constant	-27.9	-31.1	-36.3	-32.2	-23.8
N	5895	6232	6620	7640	7268
R^2	.65	.60	.66	.68	.76

Table 1: OLS Cross-Sectional Gravity Regressions (robust standard errors)

Here:

- "Chinese circle" supported throughout
- Declining Japanese and Erratic Korean effects
- Declining but large East Asian effects

Conclusion:

- More to be done
- Results can certainly be made more accessible/easy, and may be strengthened