

Comments on
Financial Globalization and Exchange
Rates by **Lane and Milesi-Ferretti**

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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.)
 - Focus on additions to wealth transfers beyond current account

- Clear, reasonable framework
 - Accounting done clearly

- Good data analysis
 - All the relevant caveats

- Striking results
 - Effect of exchange rate on US assets/liabilities as expected
 - Asset returns almost orthogonal to exchange rate changes!
 - Valuation effects matter!
 - Poor link between Δ NFA and cumulative current account
(especially trade)

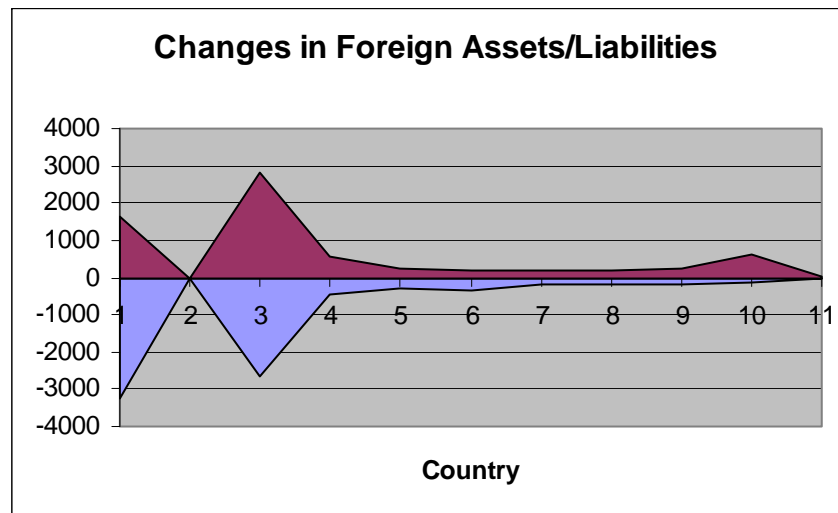
Suggestions/Quibbles

- What's the Real Focus of the Paper?
 - 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
 - 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
 - For instance, consider a different version of Table 2 to emphasize difference between gross and net flows:



- Reconcile with Obstfeld-Rogoff
 - Current accounts imbalance aren't very large compared to GDP, but can be large compared to tradable production
 - 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!