
Comments on 'Permanent and Transitory Macroeconomic Relationships between China and the Developed World' by Tara Sinclair and Yueqing Jia

CESIFO VENICE SUMMER INSTITUTE

WORKSHOP ON THE ROLE OF CHINA IN THE GLOBAL ECONOMY

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Recapping the Paper

- Investigates output co-movements between China and Developed World (DW).
 - G7, OECD are measures of DW.
 - Much of China's trade goes to and comes from DW.
- Permanent and transitory movements:
 - Trend is permanent movement, fluctuations about trend transitory.
 - Unobserved components, structural time-series modelling approach.
- China and DW growth has relatively low correlation:
 - But DW provide information on Chinese movements, not vice versa.
- Contrary to what the authors found between US and China previously.
- Nice and short quantitative paper with interesting findings.

General Comments and Questions

- Principle: Econometric comments first, then economic ones (not that many...).
 - Aside: Minimal restrictions principle to be applauded.
- Over business cycle correlations, permanent/transitory correlations useful.
 - Detrending method an improvement over HP filter.
- Thorny issue of detrending remains: We only have GDP data not the output gap.
 - Could you use more economic information?
 - E.g. Incorporate explanatory variables into τ_{it} or c_{it} ?
- How do you establish 'causality', or information transfer?
 - China from comparing univariate transitory component to DW one.
 - How establish lack of China-to-DW information?
 - * Perhaps slow learners like me need it dumbed down some more!¹

¹I'm not an econometrics expert.

General Comments and Questions

- Can you extend the model to more than two real GDP series?
 - If so, considering the G7 individually would be interesting.
 - In cointegration ‘parallel’, could investigate common trends:
 - * Which country, or combination of countries, drive world output?
- Big dip in potential output in the Great Recession (Fig 3 in slides):
 - Why would potential output fall below actual output?
 - Yields large ‘bubble’ in cyclical component in 2007/8.
- Data revisions discussed yesterday to price indices: Will these affect real GDP data?
- Can you develop the implications of your findings further?
 - Is the difference between the China-G7/OECD and China-US results explicable?
 - Should this matter for policymakers in China and the DW?²

²I don't know the answer. I'm not a China expert.