Discussion of Trade Shocks and Credit Reallocation by Stefano Federico, Fadi Hassan, and Veronica Rappoport

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Contributions

- Demonstrate a bank lending channel that transmits adversity from a surge of import competition to firms not directly affected by import competition through banks.
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- A nontrivial channel through which demand shocks can have long-run implications.

- Raises questions about appropriate policy responses to large regional and industry shocks due to misallocation arising from credit market frictions.
The China shock in Italy

$$China^T_s = \frac{\Delta M^T_s - CH}{L^T_{s,1991}} ,$$

with $s$ the NACE sector and the period of comparison the 2002-2007 average minus the 1994-2001 average.
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- Five most exposed sectors
  - Coke and oven products
  - Watches and clocks
  - Television and radio receivers
  - Games and toys
  - Other organic basic chemicals

Overlaps with most exposed categories in the United States:
- Household audio and visual equipment
- Games, toys, and children’s vehicles
- Printing trades machinery
- Luggage
- Footwear
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Bank exposure to China shock

Sum of all loans to firms in (national) industries with imports from China per worker above the median
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Divided by total loans to firms in the manufacturing sector (or all sectors, still works).
Most convincing table

The spillovers occur regardless of the location of the control firms

Table 9: Geographical heterogeneity

<table>
<thead>
<tr>
<th>Dependent variable: $\ln C_{ibt}$</th>
<th>High exposed provinces</th>
<th>Low exposed provinces</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1) Full sample</td>
<td>(2) Treated vs. Control</td>
</tr>
<tr>
<td>$Exposure_{i,b}^{IT} \times Post_t$</td>
<td>-0.122***</td>
<td>-0.097***</td>
</tr>
<tr>
<td></td>
<td>(0.022)</td>
<td>(0.016)</td>
</tr>
<tr>
<td>$Exposure_{i,b}^{IT} \times Post_t \times Control_i$</td>
<td>-0.118***</td>
<td>-0.092***</td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.019)</td>
</tr>
<tr>
<td>$Exposure_{i,b}^{IT} \times Post_t \times Treated_i$</td>
<td>-0.128***</td>
<td>-0.104***</td>
</tr>
<tr>
<td></td>
<td>(0.039)</td>
<td>(0.025)</td>
</tr>
</tbody>
</table>

Bank-firm specialization: ✓
Bank controls: ✓
Firm-Time F.E.: ✓
Firm-Bank F.E.: ✓
Questions

- Why use median-industry indicator to denote high exposure to China shock?
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- Why use median-industry indicator to denote high exposure to China shock?
  - A better control group would be firms in the services sector only, in agricultural production only, or the quintile of manufacturing firms with the lowest exposure to the China shock.
  - The coefficient estimates for the treatment and control groups are just so close for all specifications, one wonders what the difference is between a loan to a firm in an industry just above the median versus just below the median.

- More about geography:
  - Does the spillover effect still exist in areas with a high diversity of industries, or areas with the highest (quintile) levels of education and innovation? (Bloom et al. 2019, Fort et al. 2019, Eriksson et al. 2019)
  - Can you control for declines in real estate values that may depress local demand in the most affected areas? (Feenstra, Ma, and Xu 2018)
Questions

1. How broad must a shock be to produce lending-channel effects?
2. How many industries are necessary to include to get sufficient bank exposure to the shock? Is it sufficient to use just the upper quintile, for instance?
3. What percentage of the spillover is driven by the top X exposed industries?
4. From text on p.27, it looks like the reduction in investment by bystander firms (due to bank lending spillovers) is between 0.5 and 1 percentage point. Is that correct?
5. Can you express this as a percentage of GDP or in Euro? Can you identify how much of the decline in investment occurs in low-exposed provinces, so sure to NOT be linked to declines in real estate prices due to layoffs and closures from the China shock, as in the U.S.?
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Summary

Wow, great idea, great paper.
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Very suggestive evidence of spillovers of a negative trade shock to bystander firms.
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Could be even more convincing if firms in industries near the median of exposure to the China shock are not included in the control group identified as receiving the spillover effects.
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I will teach and liberally cite.