

“Trade Policy Uncertainty and Stock Returns”

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Disclaimer: It does not necessarily represent IMF's view.

Summary of the paper

- ▶ It examines whether the exposure to trade uncertainty affects stock returns, with the exposure proxied by the NTR gap (as in Pierce and Schott (2016)).
- ▶ Main finding: From 1990 to 2001, stock returns are higher for sectors more exposed to trade uncertainty, reflecting a risk premium.

Overall

- ▶ Interesting paper, with implications for the current global trade tension.
- ▶ A nice linkage of trade literature with the finance literature.
- ▶ The paper also performs many robustness checks both to document the positive stock returns and to establish the channel of risk premium.

Comment 1. Factors beyond risk premium?

- ▶ The risk premium channel was proposed as the explanation. (For example, Table 8 looks into the effects on stock return volatility).
- ▶ Could the annual NTR votes protect the US sectors with higher Non-NTR rates, and thus generate higher returns for them? So rather than a risk premium channel but a competition channel?

Competition channel

- ▶ The competition channel is consistent with Table 9: when PNTR was granted to China on Oct-10 2000, stock returns of industries with high NTR gap were negative.
- ▶ Table 13 adds a triple interaction term: $\text{NTR gap} * \text{China exposure dummy} * \text{PrePNTR}$.
 - a. China exposure dummy (imports from China) is measured from 2000 to 2007. Why not using the imports from China over the sample period from 1990 to 2000?
 - b. What about using the actual trade, instrumented by China's exports to other countries?

Comment 2: linking stock responses more directly to types of trade exposure?

- ▶ In Table 14 (IO Linkages and Stock Returns), trade exposure (for year 1995 only) is included as a control variable. Why not interact with the NTR gap?
- ▶ Can the model separate imports/exports exposure? What about the exports from the US to China? Do sectors with high NTR gaps also face higher tariffs in China?

Comment 3: Linking tariff more directly to stock performance?

- ▶ The model assumes that the effects of NTR gaps are proportional to stock returns across sectors.
- ▶ But do sectors have the same price elasticities and responses to tariff movements? (e.g., the literature on price elasticities, such as Broda and Weinstein 2006).
- ▶ Also, is trade equally important across industries? How about normalizing the trade by sector-level production/sales?

Comment 4: Does the impact of uncertainty vary across years?

- ▶ Could the paper examine the risk premium by year? A time-series plot?
- ▶ Table 10 reports the event-studies for the eleven votes from 1990 to 2000. Could the paper explore more why the signs are mixed across the years?

Comment 5. Economic magnitude?

- ▶ Could the paper explore more whether the economic impact is large or small?
- ▶ “increases stock returns by 4.3% per year during the uncertainty period.” Based on Table 2, the effect is around: $1\% * (0.42 - 0.18) = 0.24\%$?