Comments on “The Balassa-Samuelson Hypothesis in Developed Countries and Emerging Market Economies: Different Outcomes Explained” authored by García Solanes, J. and Torrejón Flores, F.

I have found this paper very clear and interesting. It adds valuable and useful results to the extensive literature about the Balassa-Samuelson (BS) effect:

- It uses recent econometric methods to resolve some traditional problem in this literature: the cross-section dependence.
- It carefully classifies the activity sectors into tradable (T) and non-tradable (NT).
- It confirms that the first part of the BS hypothesis (differentials of productivity are transmitted into price differentials between the T and NT sectors) applies everywhere.
- It confirms that the second part of the BS hypothesis (PPP for the T sector) applies only for developing countries.

There are also some caveats:

- México is a member of both groups under cosideration
- Perhaps the period is a bit short to support strong conclusions about long term effects.
- I think could be useful to identify more clearly the problem posed by exchange rate regimes. It only appears in the paper when Argentina is excluded from some estimations.
- It could be interesting to test empirically the reasons for the different results between developed and developing countries