

Is the contribution of the paper potentially significant?

There are many papers (some of them cited by the author) that analyze persistency, asymmetric adjustment and state dependency for current account, capital account, reserves, debt and other variables used by the author –e.g., Edwards (2004), Sarno and Taylor(1999), Aizenman (2007), Reinhart and Rogoff (2003), Becker, C. and Noone, C., (2006), De Gregorio (2003). His analysis is not wrong; it is just poor and redundant. It is redundant because there is nothing new in this paper and poor because the author sounds more like a statistician than an economist.

I am not arguing that there is nothing new or interesting to say in the area of persistency of capital flows; as the author correctly points out this is quite a hot topic and there are many interesting things to say and analyze. However, it seems to me the author learned a certain methodology and without doing the appropriate literature review or thinking too much about a novel question, he just applied such methodology straightforward to a bunch of variables. In some cases, when a certain area of study is relatively new or if the paper main contribution is about collecting some novel dataset this strategy could work; but this is not the case of this paper.

Another issue that puzzled me from the beginning to the end of his paper is the absence of substance; in other words, the author does not explain:

Why he does what he does?

Why his paper makes a difference in the literature.

Why we should care about differentiating the persistency characteristic of debt from fdi? I know that answer, but he does not point these crucial things out.

Why analyzing the persistency of “other investments” matters.

Why probit and non-parametric as opposed to half life?

Related to the issue of the author articulating his paper as a statistician, he argues in the “Discussion section”:

In the case of probit, deficits and net inflows are more persistent than surpluses and net outflows. The result is robust to either specification of pooled and individual probits. FDI is more persistent than portfolio investments in either state. In turn, the latter is more persistent than other investments category in either state. The persistence of the current account is larger than the persistence of the trade balance, though the probabilities are quite close.

Why should I care about these facts? Why are these features relevant?

In most referee reports I have done before, I had interesting things to say about the topic under analysis, the relevance of the question under consideration, technical issues, econometric specifications, etc. This is the first time I feel that the problem of the paper is more basic than that; in my opinion this paper has no contribution to the literature.

Is the analysis correct?

Yes. Poor, but correct.

I also have to confess that I was quite disappointed when reading footnote number 5. The author argues that he does not make some formal tests because “the computation of the asymptotic variance is quite complicated” and, because of not doing so he ends up articulating some of his statistical tests as follows “portfolio investments and debt securities also have an overlap [in their confidence intervals], but it is relatively smaller”.

References not listed by the author:

Becker, C. and Noone, C., (2006), “Volatility and persistence of capital flows”, BIS working paper #42. Web site: <http://www.bis.org/publ/bppdf/bispap42f.pdf?noframes=1>

Aizenman, J., (2007), “International reserves management and the current account”, Central Bank of Chile Working Papers #449.

De Gregorio, J. (2003), “THE ROLE OF FOREIGN DIRECT INVESTMENT AND NATURAL RESOURCES IN ECONOMIC DEVELOPMENT”, Central Bank of Chile Working Papers #196.