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A comment on Xu (2022). Reshaping Global Trade: The Immediate and Long-Term Effects of Bank Failures

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A comment on Xu (2022).
Reshaping Global Trade: The Immediate and
Long-Term Effects of Bank Failures*

Guillaume Bérard [†] Dimitria Freitas [‡] Priyam Verma [§]

November 20, 2023

Abstract

Xu (2022) estimates the causal impact of bank failures on the level of trades with a staggered difference-in-differences design and an IV strategy with Bartik instrument, using the 1866 banking crisis as a quasi-natural experiment. Findings, based on historical data on the trades and loans between London banks and banks around the world, show that countries exposed to bank failures in London immediately exported significantly less and did not recover their lost growth relative to unexposed places. Moreover, the effect lasted for decades. First, we reproduce the paper’s main findings by running the original code and uncover three issues, one of which that slightly affects the main estimates reported in the study. Second, we test the robustness of the results to (1) removing weights from the regressions, (2) using a spatial HAC correction for the standard errors, and (3) implementing a method for possibly heterogeneous treatment effects with a staggered difference-in-differences design. Overall, we conclude that the main findings are valid and robust.

KEYWORDS: Replication, Robustness, Trade, Bank failures, Historical data, Difference-in-differences

JEL CODES: F14, G01, G21, N20.

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1 Introduction

In Xu (2022), the author aims to estimate the causal effect of the financial crises on international trade patterns in terms of duration and magnitude. To do so, she uses the 1866 banking crisis that originated in London as an exogenous shock, as British banks were the dominant credit providers at this time. The crisis propagated from London worldwide in varying degrees based on the network of British banks. This variation in the intensity of the shock allows her to implement an event study difference-in-differences estimation with a Bartik instrument (location's exposure to bank failure) as the continuous treatment variable that compares export volumes across locations that were more or less exposed to British bank failures, before and after 1866. Using historical data on trade (shipping activity in ports) and financing (amount of credit in 1865-1866 from the Bank of England's records) activity around the world for the period 1850-1914, she shows that the financing shock immediately lowers export volumes and that on the extensive margin, exporters more exposed to the shock have fewer trade partners afterward and are less likely to engage in international trade¹. The present paper investigates whether her analytical results are reproducible and replicable.

In terms of reproducibility, we downloaded the replication package from both the Quarterly Journal of Economics (QJE) website² and the author's personal website³. The Stata codes provided were overall very clear and easy to understand, and we had no problem reproducing the main results (Tables IV and V p. 2137 and 2140) and running the do-file "xu_tables". Nevertheless, both show the same problems. First, the estimates of the main results show discrepancies between the published version and the estimates of the "output" folder of the replication package. Running the programs gives the same differences. Secondly, the first stage of the IV and its estimates are not provided, and the procedure to compute the Bartik instruments

¹"Table IV, column (1), p. 2136, shows the baseline effect without any additional country-level controls. The coefficient of -0.61 implies that countries with an average exposure of 9 percentage points exported 5.4% less than non-exposed countries in the post-crisis year."

²<https://academic.oup.com/qje/article/137/4/2107/6563147>.

³<https://chenzi-xu.com/>.

(equation 2 p. 2124) is not clearly explain in the replication package nor in the author’s personal website⁴. Thirdly, we recoded the long-run results presented in Figure III p. 2144 of the paper and Table G12 p. 69 of the online appendix on bilateral exports, using the statistical software package R. We find notable differences in the estimated coefficients’ size and statistical significance across various time periods. However, the overall conclusions remain the same.

We then turn to sensitivity analysis. As mentioned above, we test the robustness of the results, using the statistical software Stata and R, to (1) removing the weights, (2) applying a spatial correction to the standard errors (spatial HAC) from [Conley \(1999, 2008\)](#), and (3) implementing the [Callaway and Sant’Anna \(2021\)](#) method for possibly heterogeneous treatment effects with a staggered difference-in-differences design. We find that removing the port size weights provided very different estimates, with large magnitude and standard error differences, and almost no coefficients statistically different from zero at the 10% level anymore. Applying a spatial HAC to the port-level results leaves most of the estimates unchanged. Detailed replication results for heterogeneous treatment effects are reported below.

2 Reproducibility

We describe in this section three issues that we uncovered while checking the codes (xu_tables do file of the “code” replication package’s folder), datasets (“data” replication package’s folder), and data descriptions (_Readme file replication package’s folder), and reproducing the study (Tables IV, V, and G12 of xu_tables of the “code” replication package’s folder).

First, we noticed that running the programs provided by the author (both on her website and the QJE website), some of the main results (Table IV and V of the published version, p. 2137 and 2140) are not the same estimates as those of the QJE published version. Coefficients and standard errors are slightly different in columns

⁴We wrote to the author to get more information about this possible issue: she answered that this information should be on the replication package of her personal website, but it seems to be the same as the one uploaded on the QJE website.

4, 5, 6 and 7 for Table IV and in columns 3, 4, and 5 for Table V, e.g., -0.631 (0.213) instead of -0.656 (0.210); -0.505 (0.207) instead of -0.554 (0.204); -0.380 (0.126) instead of -0.409 (0.149) (see, Tables 4 and 5 that show the estimates after running the original codes, compared to Tables 2 and 3 that show the estimates from the QJE published version). Two coefficients are also not anymore significant at the 1% level, but at the 5% level (columns 5 and 7 of Table IV). This issue does not come from a different software version, as the tables uploaded in the output folder of the author's replication package show the same differences (last update 03/03/2022).

Secondly, the codes and data used to compute the Bartik instrument of equation 2 p. 2124 in the published version are not clearly defined, and the estimates of the IV first stage are not provided in the replication package nor in the paper. The instrument used in the paper measures the exposure of each location (country and cities) to bank failure in London. Even though the codes start with using the file "shock_location.dta". Instead, what we have is the share of exposure from the 128 banks in London within each location. The bank exposure to location is in the file "location_exposure_share.dta" and we merge the "bank_char_final.dta" to get the default information on each bank. Once we have information on bank-to-location exposure share and bank failure status in 1865, we can create the location exposure shock by multiplying bank-location exposure share by bank default status and summing across locations. We are able to calculate the location shock variable, and it matches perfectly the "shock location" variable that is recorded in "shock_location.dta" file and used for all the regressions (see, Figure 1).

Lastly, we were not able to reproduce the exact estimates and standard errors for the long-run result as in Table G12 of the online appendix. Particularly, for the years spanning 1850-1860, the original study posits weaker treatment effects, whereas the replicated results suggest negligible effects and higher standard errors, suggesting higher uncertainty than in the original paper as shown in Table 1 and Figure 2. The author doesn't report results for the years 1861-1865. Post-1866, our

replication shows larger absolute treatment effects, supported by stronger statistical significance. These differences are worth noting, especially since both studies use the same control variables and sample sizes. Another small point is that the original study's first estimator for 1850-1855 covers six years, not the five-year intervals claimed. This could explain part of the difference in the early-year results. In contrast, our estimators consistently cover five-year periods, aligning with the paper's original intention. Despite these variations, the central conclusion—that there is a negative impact post-1866—holds in both the original and replicated studies, although with some differences in the magnitude and precision of the estimates.

3 Replication

We now turn our attention to our replication. We test the robustness of the results to a direct replication by removing the weights, applying a spatial correction to the standard errors (spatial HAC), and implementing a method for possibly heterogeneous treatment effects with a staggered difference-in-differences design.

For our analysis, we rely on the same procedures, specifications, and data, and a difference-in-differences analysis to replicate the main results in Tables IV (intensive margin effects of bank failures on shipping) and V (extensive margin effects of bank failures on shipping) of the published paper using the statistical software Stata, and R for the long-term heterogeneous treatment effects.

3.1 Unweighted

We test the robustness of the main results without the weights. The main results are computed using port size as a weight for the observations. OLS and Poisson unweighted estimates show quite different magnitudes and significance. Most of the coefficients are not significant at the 10% level anymore (see, Tables 6 and 7).

3.2 Standard errors adjusted for spatial correlation

To test the robustness of the port-level estimates of Table IV to a possible spatial correlation, we perform an ordinary least squares (OLS) with a standard error adjustment for spatial (across nearby units) correlation and serial correlation (spatial HAC). To do so, we use the estimation method pioneered by [Conley \(1999, 2008\)](#), to deal with the potential spatial correlation in the error term. We set the distance cutoff (the distance at which spatial correlation is assumed to vanish) to 100 km, and we use the same weights as for the main estimates, but we do not cluster the standard errors at the country level. Estimates are only slightly higher in magnitudes while standard errors are slightly lower; thus, significance levels are unchanged (see Table 8).

3.3 Heterogeneous treatment effects

To isolate the causal impact of bank failures on long-term trade dynamics, the original study leveraged a high-dimensional fixed effects (HDFFE) model. The premise behind the approach is that once one controls for time-invariant unobserved heterogeneities across multiple dimensions, the error term becomes uncorrelated with the treatment variable. However, latent variables may evolve over time, especially in a set-up where long-run effects are analyzed. Another crucial point is the “curse of dimensionality”. Additionally, high dimensionality can exacerbate multicollinearity, making it difficult to disentangle the individual effects of closely related variables. We employ the Callaway & Sant’Anna estimator (CS) for difference-in-differences estimations with multiple time periods as in [Callaway and Sant’Anna \(2021\)](#) to account for these issues. We encounter two comparability issues with the control variables. First, it is not viable to include standard time fixed effects or related interactions when using the CS estimator. Second, we face multicollinearity issues when incorporating the full array of other control variables in Table G12 of the online appendix. Consequently, our estimation strategy omits these controls to focus solely on long-term effects. We begin by assessing the influence of bank failures

on aggregate country-level exports before extending our analysis to bilateral trade pairs.

Our total exports per country findings in Figure 3 reveal that trade plummets dramatically in the year following a bank failure, with estimates reaching lows of -14.49. From five years post-failure and beyond, the estimates oscillate between -24 and -54, signifying a prolonged and detrimental impact on trade flows. Although our results generally corroborate the original study, the magnitude of our estimates considerably outstrips those generated via HDFE, intimating a potentially more catastrophic consequence of financial instability on global trade.

The results of the bilateral trade pair analysis are markedly less definitive. In the immediate aftermath of a bank failure, we observe both positive and negative effects, most of which are statistically inconclusive and accompanied by high standard errors. Figure 4 shows that the impacts remain negative but statistically insignificant over the long run, particularly from event time 24 onward.

The pre-failure results do not exhibit a discernable pattern, lending credence to the hypothesis that pre-existing trends do not confound our post-treatment estimates. However, to strengthen these findings, additional controls are needed, with due consideration given to the multicollinearity mentioned above concerns. Further robustness could be achieved through an estimator accounting for continuous treatment effects.

4 Conclusion

Overall, the code and replication package of the paper are well written, and the results are fully reproducible using the author's own code and data; except the part on the procedure for computing the Bartik instrument variable that is not clearly explained, and the first stage of the IV that is not provided. Nonetheless, running the original codes, it appears that some of the main estimates (coefficients, standard errors, and significance levels) do not match exactly those reported in the published version of the paper. Finally, our replications confirm the main findings, and the

various robustness checks implemented by the author also prove the validity of the results.

Further reproducibility/replication checks could be performed, especially on collecting and constructing the datasets (`xu_make_data` and `xu_figures` ado files in the “code” replication package’s folder) and other long-run estimates. Future replications could also aim to recode gravity measures not included in this replication and reconcile their estimation with the new difference-in-differences literature.

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URL: <https://academic.oup.com/qje/article/137/4/2107/6563147>

5 Figures

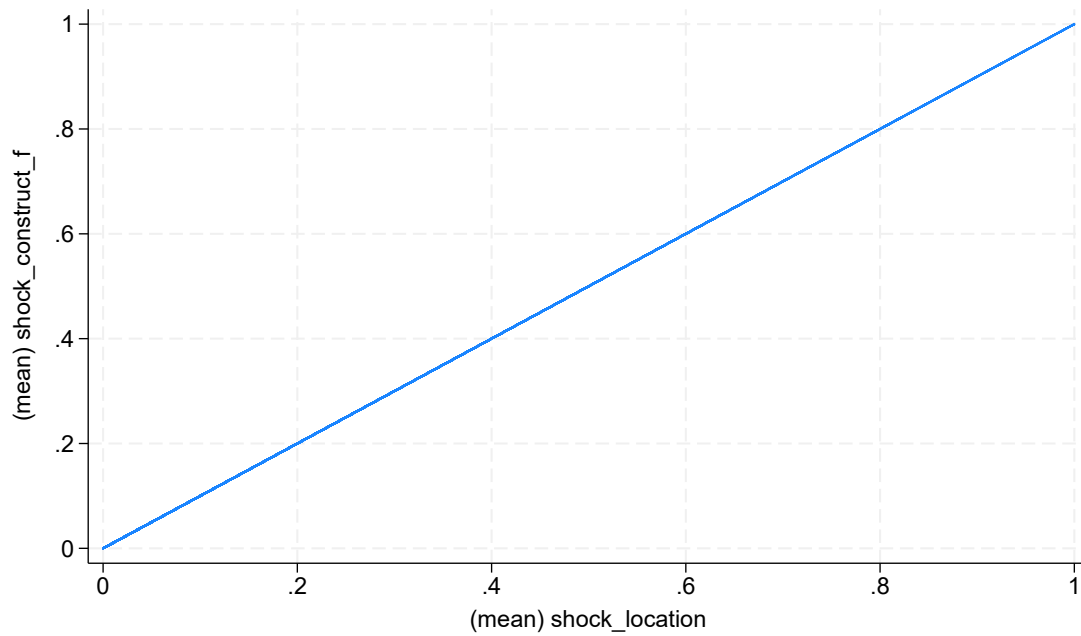


Figure 1: Reproduction of the Bartik instrument of equation 2

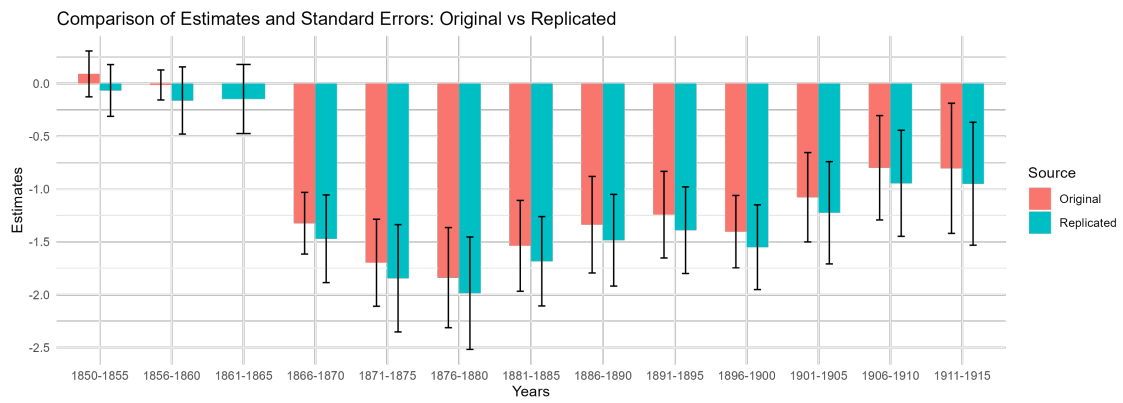


Figure 2: Replication of the Table G12 - Comparison between original and replicated results

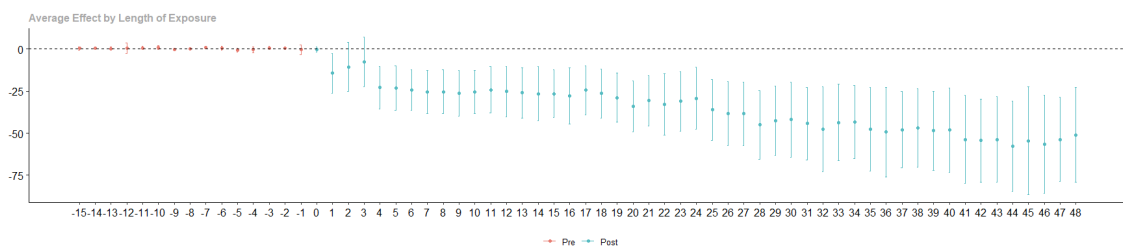


Figure 3: Callaway & Sant'Anna Estimator Results - Effect on Total exports per Country

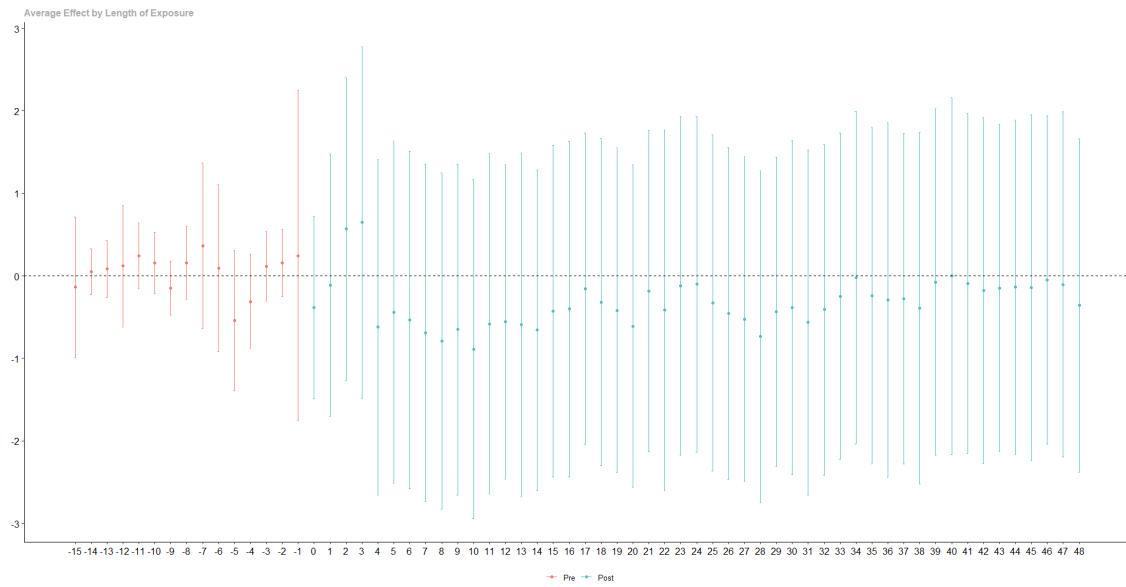


Figure 4: Callaway & Sant’Anna Estimator Results - Effect on Bilateral Trade Flows

6 Tables

Table 1: Recoding Estimated Treatment Effects on Log Exports of Table G12

	<i>Dependent variable:</i>							
	Bilateral Log Exports							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$\beta_{1851-1855}$	-0.066 (0.245)	-0.202 (0.487)	-0.212 (0.495)	-0.274 (0.507)	-0.143 (0.459)	-0.081 (0.524)	0.221 (0.545)	0.234 (0.558)
$\beta_{1856-1860}$	-0.161 (0.318)	0.016 (0.640)	0.015 (0.648)	-0.106 (0.665)	0.071 (0.603)	-0.433 (0.605)	0.264 (0.723)	0.420 (0.691)
$\beta_{1861-1865}$	-0.147 (0.327)	0.093 (0.613)	0.085 (0.618)	-0.035 (0.633)	0.115 (0.590)	-0.459 (0.741)	0.310 (0.705)	0.445 (0.689)
$\beta_{1866-1870}$	-1.470*** (0.415)	-1.450*** (0.543)	-1.458*** (0.545)	-1.622*** (0.562)	-1.511*** (0.564)	-2.753*** (0.528)	-1.181** (0.507)	-1.045** (0.465)
$\beta_{1871-1875}$	-1.844*** (0.508)	-1.851*** (0.587)	-1.895*** (0.589)	-2.033*** (0.609)	-1.993*** (0.579)	-2.753*** (0.610)	-1.893*** (0.622)	-1.775*** (0.522)
$\beta_{1876-1880}$	-1.985*** (0.532)	-1.869*** (0.572)	-1.913*** (0.578)	-2.039*** (0.598)	-2.085*** (0.570)	-2.865*** (0.641)	-1.854** (0.693)	-1.705*** (0.593)
$\beta_{1881-1885}$	-1.683*** (0.423)	-1.609*** (0.489)	-1.647*** (0.490)	-1.698*** (0.518)	-1.866*** (0.498)	-2.831*** (0.555)	-1.487*** (0.551)	-1.145** (0.556)
$\beta_{1886-1890}$	-1.484*** (0.434)	-1.285** (0.502)	-1.290** (0.501)	-1.418*** (0.512)	-1.605*** (0.525)	-2.500*** (0.581)	-1.319** (0.595)	-1.042 (0.631)
$\beta_{1891-1895}$	-1.389*** (0.410)	-1.225** (0.495)	-1.206** (0.487)	-1.341*** (0.510)	-1.551*** (0.515)	-2.439*** (0.452)	-1.780** (0.767)	-1.188 (0.818)
$\beta_{1896-1900}$	-1.550*** (0.401)	-1.401** (0.537)	-1.388** (0.532)	-1.476*** (0.562)	-1.742*** (0.542)	-2.534*** (0.442)	-1.852** (0.777)	-1.440* (0.824)
$\beta_{1901-1905}$	-1.224** (0.484)	-1.070* (0.622)	-1.056* (0.619)	-1.150* (0.653)	-1.438** (0.626)	-1.890*** (0.580)	-1.508 (1.021)	-1.165 (1.004)
$\beta_{1906-1910}$	-0.945* (0.502)	-0.791 (0.578)	-0.776 (0.577)	-0.891 (0.593)	-1.156* (0.595)	-1.590** (0.708)	-1.154 (0.896)	-0.971 (0.898)
$\beta_{1911-1915}$	-0.949 (0.582)	-0.794 (0.628)	-0.853 (0.616)	-0.829 (0.645)	-1.159* (0.659)	-1.572* (0.814)	-0.875 (0.924)	-1.103 (0.863)
<i>Controls</i>	Y	Y	Y	Y	Y	Y	Y	Y
<i>Country_o FE</i>	Y	Y	Y	Y	Y	Y	Y	Y
<i>ln(cotton_o) × t</i>			Y					Y
<i>ln(cotton manu_o) × t</i>				Y				
<i>ln(population_o) × t</i>					Y			
<i>SITC industry_o × t</i>						Y		
<i>Region_o × t</i>							Y	Y
<i>Brit bank_o</i>	Y	Y	Y	Y	Y	Y	Y	Y
<i>Country_a</i>	Y							
<i>Country_{a,t}</i>		Y	Y	Y	Y	Y	Y	Y
Observations	70,895	70,895	70,895	70,895	70,895	50,637	50,637	70,895
R^2	0.533	0.571	0.571	0.571	0.573	0.618	0.617	0.580
Adjusted R^2	0.530	0.528	0.528	0.528	0.530	0.555	0.554	0.531

Notes: Table G12 p.69 of the online appendix. Significant at the ***[1%] **[5%] *[10%] level.

Table 2: Estimates from the published version: Table IV

	Country	Port		Excl. cotton	Poisson	News dates	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Fail _o × post	-0.606*** [0.214]						
Fail _{po} × post		-0.727*** [0.251]	-0.724*** [0.159]	-0.656*** [0.210]	-0.554*** [0.204]	-0.966*** [0.169]	-0.592*** [0.208]
Capital city × post				Y	Y	Y	Y
Age of banks × post				Y	Y	Y	Y
OG link × post				Y	Y	Y	Y
Share to UK × post				Y	Y	Y	Y
Country _o FE	Y						
Port _p FE		Y	Y	Y	Y	Y	Y
Country _o × post FE			Y	Y	Y	Y	Y
N	108	578	578	578	494	578	570
Ports		289	289	289	247	289	289
Clusters	54	54	54	54	50	54	54

Notes: estimates from the QJE published version of the paper. Significant at the ***[1%] **[5%] *[10%] level.

Table 3: Estimates from the published version: Table V

	Con: dest	Con: avg ships	Ports: dest	I(Port Entry)	I(Port Exit)
	(1)	(2)	(3)	(4)	(5)
Fail _o × post	-0.592*** [0.196]	-0.0138 [0.299]			
Fail _{po} × post			-0.409*** [0.149]		
Fail _{po}				-0.303*** [0.0846]	-0.00227 [0.169]
Port controls × post			Y		
Port controls				Y	Y
Port _p FE			Y		
Country _o × post FE			Y		
Country _o FE	Y	Y		Y	Y
N	108	108	574	331	318
Ports			289	331	318
Clusters	54	54	54	55	54

Notes: estimates from the QJE published version of the paper. Significant at the ***[1%] **[5%] *[10%] level.

Table 4: Estimates running the author code: Table IV

	Country	Port		Excl. cotton	Poisson	News dates	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Fail _o × post	-0.606*** [0.214]						
Fail _{po} × post		-0.727*** [0.251]	-0.724*** [0.159]	-0.631*** [0.213]	-0.505** [0.207]	-0.985*** [0.179]	-0.564** [0.210]
Capital city × post				Y	Y	Y	Y
Age of banks × post				Y	Y	Y	Y
OG link × post				Y	Y	Y	Y
Share to UK × post				Y	Y	Y	Y
Country _o FE	Y						
Port _p FE		Y	Y	Y	Y	Y	Y
Country _o × post FE			Y	Y	Y	Y	Y
N	108	578	578	578	494	578	570
Ports		289	289	289	247	289	289
Clusters	54	54	54	54	50	54	54

Notes: estimates obtain by running the original code. Significant at the ***[1%] **[5%] *[10%] level.

Table 5: Estimates running the author code: Table V

	Con: dest	Con: avg ships	Ports: dest	I(Port Entry)	I(Port Exit)
	(1)	(2)	(3)	(4)	(5)
Fail _o × post	-0.592*** [0.196]	-0.0138 [0.299]			
Fail _{po} × post			-0.380*** [0.126]		
Fail _{po}				-0.302*** [0.0905]	-0.00483 [0.166]
Port controls × post			Y		
Port controls				Y	Y
Port _p FE			Y		
Country _o × post FE			Y		
Country _o FE	Y	Y		Y	Y
N	108	108	574	331	318
Ports			289	331	318
Clusters	54	54	54	55	54

Notes: estimates obtain by running the original code. Significant at the ***[1%] **[5%] *[10%] level.

Table 6: Replication Table IV: unweighted

	Country	Port		Excl. cotton	Poisson	News dates	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Fail _o × post	0.00899 [0.434]						
Fail _{po} × post		-0.613*** [0.222]	-0.459* [0.244]	-0.345 [0.284]	-0.197 [0.264]	-0.718** [0.289]	-0.213 [0.316]
Capital city × post				Y	Y	Y	Y
Age of banks × post				Y	Y	Y	Y
OG link × post				Y	Y	Y	Y
Share to UK × post				Y	Y	Y	Y
Country _o FE	Y						
Port _p FE		Y	Y	Y	Y	Y	Y
Country _o × post FE			Y	Y	Y	Y	Y
N	108	578	578	578	494	578	570
Ports		289	289	289	247	289	289
Clusters	54	54	54	54	50	54	54

Notes: replication of Table IV p. 2137, with unweighted OLS and Poisson. Significant at the ***[1%] **[5%] *[10%] level.

Table 7: Replication Table V: unweighted

	Con: dest	Con: avg ships	Ports: dest	I(Port Entry)	I(Port Exit)
	(1)	(2)	(3)	(4)	(5)
Fail _o × post	0.277 [0.305]	-0.268 [0.371]			
Fail _{po} × post			-0.0852 [0.165]		
Fail _{po}				-0.302*** [0.0905]	-0.00483 [0.166]
Port controls × post			Y		
Port controls				Y	Y
Port _p FE			Y		
Country _o × post FE			Y		
Country _o FE	Y	Y		Y	Y
N	108	108	574	331	318
Ports			289	331	318
Clusters	54	54	54	55	54

Notes: replication of Table V p. 2140, with unweighted OLS. Significant at the ***[1%] **[5%] *[10%] level.

Table 8: Replication of part of Table IV: spatial HAC

	Port			Excl. cotton	News dates
	(1)	(2)	(3)	(4)	(5)
Fail _{po} × post	-0.727*** [0.194]	-0.727*** [0.194]	-0.774*** [0.197]	-0.758*** [0.195]	-0.672*** [0.193]
Capital city × post			Y	Y	Y
Age of banks × post			Y	Y	Y
OG link × post			Y	Y	Y
Share to UK × post			Y	Y	Y
Port _p FE	Y	Y	Y	Y	Y
Country _o × post FE		Y	Y	Y	Y
N	578	578	578	494	570
Ports	289	289	289	247	289

Notes :replication of Table IV p. 2137, with a spatial HAC correction for standard errors for the port-level estimates. Significant at the ***[1%] **[5%] *[10%] level.