

Revisiting finance-trade linkage during the Great Trade Collapse*

Yushi Yoshida
Faculty of Economics
Shiga University

Abstract

We re-examine whether Japan's export during the Great Trade Collapse is really affected by financial channel. In this paper we focus on Japan's regional export in which regional exporters rely heavily on regional banks. The damage on local banks in different regions exerted by the global financial crisis were heterogeneous. By examining the same industry across all regions in Japan, we test whether the financial shocks in regional banks affected regional exports differently. Our preliminary empirical evidence based on cross-correlation analysis questions the validity of notion that financial turmoil in developed countries should diminish their exports. However, after controlling incomes of both exporting and importing economies, we find strong evidence that the finance-trade linkage operated during the Great Trade Collapse.

Keywords: Bank loan, Great Trade Collapse, Finance-Trade linkage, International Trade, Regional banks, Trade credit.

JEL codes: E44, E32, G21, F40

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