# Payment systems interlinking and trade flows

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# Clear and relevant research question

- Main idea: fast payment systems interlinking $\Rightarrow$ more trade

Why is it relevant?

- Payment system interlinking still underdeveloped and fragmented
- Payments and money transfers are still very costly
  - E.g. 6% for remittances, a multiple of that in less developed areas
- Fast payments reduce trade costs, with implications for entry and GVC participation

- Implications particularly relevant for smaller firms and developing countries

# Main findings

- A fast payment interlink increases bilateral trade by 4% on average
  ($\approx$ half an FTA, $\approx 1/4$ of a currency union)
- the effect lasts for about one year
- stronger effects for small countries and low tech goods

Strengths:

- Well thought research design
- Exploits an original database on payment interlinking
- Exploits Trade Data Monitor instead of BACI/COMTRADE to have latest data (2021-2024)

# Concerns

The authors are well aware and address several main concerns:

1. Selection ✓— bias correction method (Carlson & Joshi, 2024)
2. Endogeneity ✓— synthetic DID (Arkhangelsky et al., 2021)
3. Euro effect ✓— Euro exclusion, Euro dummy
4. Heterogeneity ✓— large/small countries, high/low tech

# Selection

- I recommend more clarity on the drivers of selection into payment interlinking

- Two possible sources:
  - incomplete payment interlinking data (e.g. no USA)
  - selection related to some specific characteristics (the focus of the paper)

- The 1st stage mainly uses gravity vars. Are there other variables more directly related to payment systems and less to trade that could affect the likelihood of a payment agreement?
- Is the IMR significant in the 2nd stage? Is there evidence of selection?
- Results are causal under Carlson & Joshi (2024) assumptions. Do they hold?
- Beyond selection, other sources of endogeneity may remain. Are they addressed by this method?

# Endogeneity

- Two issues: reverse causality and simultaneity, tackled using Synthetic DID
- The SDID results are interesting, but difficult to interpret as a causal benchmark relative to the gravity estimates
- The intra-Euro flows must be dropped $\Rightarrow$ results not completely comparable
- Dropping intra-Euro excludes some large/rich countries with a sophisticated export bundle: to what extent this overlaps with the other checks?
- Average effects are 15% vs. 4% from gravity/correction estimations excluding the Euro area; CI partly overlap, but the size difference is still very large
- The 15% effect is close to the results from the basic gravity correction model (i.e. without fixed effects): SDID may fail to control for multilateral resistance terms?
- Beyond statistics, a discussion on the meaning and credibility of constructing a synthetic country pair would be useful

# Heterogeneity

- The justification for small vs. large countries is not fully convincing. I wonder whether there are other dimensions that could be more interesting
- One could expect the size of the effect to negatively depend on how developed and already interlinked payment systems are. Can this be captured by the number of pre-existing agreements or number of partners?
- System-specific characteristics may be relevant. Is this worth exploring?
- Is there a currency effect? Does the reference currency used in trade matter?

# Conclusion

- Clear and relevant research question
- Well thought research design
- Mostly credible causal results
- The authors argue for a fixed cost reduction channel, but which costs exactly? Entry costs, time costs?
- Policy implications are clearly discussed but only stress the good side
- What about the risks of more integration? Shock transmission? Cyber risks? Geopolitical exposure?
- A few more years of data would make the analysis much more robust
- A natural next step would be a firm-level extension and the exogeneity of payment agreements to the firm would facilitate identification
- A more complex issue could be the role of hubs: do countries bridging payment system blocks have a special role?