Conference
FERDI - Banque de France - AFD

Foreign exchange policy and sustainable development in low-income countries

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Paris, February 14th 2019
GDP - Exports - Exchange rate policy nexus

GDP growth, Productivity

Exports

Exchange rate policy
Exports as the driver of growth: *the naïve perception:* correlation = causation (Balassa, 1982; Feder, 1983)

The role of exports for GDP or firm performance revisited by controlling for endogeneity bias: *self selection vs learning by exporting* (Dollar 1992; Sachs and Warner 1995; Rodriguez and Rodrik, 2001).

The role of the RER is important to explain the long run GDP performance through exports: Japan, tigers, dragons, China…
Channel: why is exchange rate policy so important?

Rodrik (2008): permanent undervaluation stimulates the tradable sector that suffers disproportionately from government weaknesses and market failures.

Guzman, Ocampo, Stiglitz (2018). A Stable and competitive RER (SCRER) may correct externalities and other market failures, enabling the development of sectors with a larger contribution to inclusive economic growth.

Ibrahim Elbadawi (2012, 2019) is in this line....
Normative recommendation:
RER compensates for market failures/ poor institutions?

- **Success stories** of RER policies. Mainly focused on Asian countries

- **Credible institutions** complement the exchange rate policy (strong State?) to promote economic growth

- Efficient **Public-Private Partnership** exemplified by the Japanese coordination: MITI-Keidanren
Normative recommendation:
RER compensates for market failures/poor institutions

**Question:** replicability for low-income countries?

**Ambiguity:** Guzman, Ocampo, and Stiglitz (2018)

- Stable and competitive real exchange rates (SCRER), can substitute to defective institutions provided that good public institutions are there (*Risk of a tautology?*)

“*When political economy problems are not too intense, the direct allocation of funds by the government through national development banks may be a superior alternative to the market*.”
Normative recommendation:
RER compensate for market failures/poor institutions

Hypothesis for a stimulating research agenda:

- The efficiency of the RER on economic growth is not linear. It could be conditional on a threshold of quality as regard institutions.

- As it is the case for the export - economic growth nexus, need to explore causation between RER and institutions. Development of corruption with active RER in countries with poor institutional credibility: Russia, Argentina, Nigeria, RD Congo…

Geeen: expected

https://competitivite.ferdi.fr
OCD/OSC
Correlation of trends: Market shares and misalignments

Regression lines not statistically significant
Hypothesis of non linearity: undervaluation vs overvaluation

Regression line significant but ...

8 winners and only 4 countries with real gains
Thanks a lot for your kind attention