Exchange rate undervaluation, economic institutions and export performance: evidence from firm-level data

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The paper

Firm-level data for 4 countries from 2003 (or 2006, or 2008) to 2010.

Impact of REER undervaluation on intensive and extensive margins of exports.

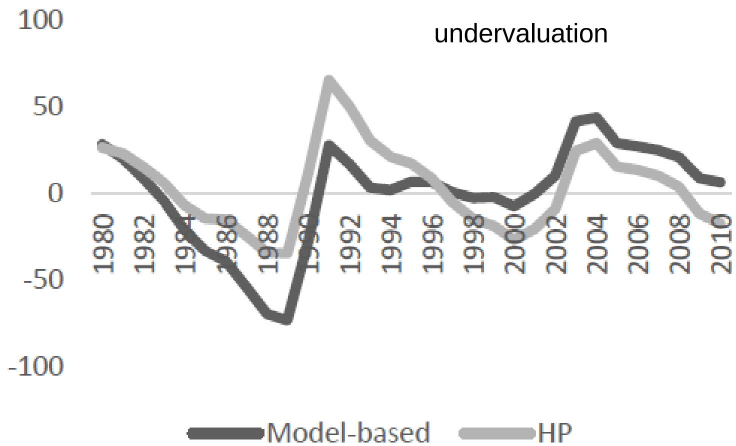
Results:

- Intensive margin: positive but non-linear impact of undervaluation; undervaluation can act as a substitute for bad institutions (time to export)
- Number of markets: positive, non-linear impact of undervaluation for large and medium firms; positive effect of time to export for small firms.
- Number of products: no impact of time to export.

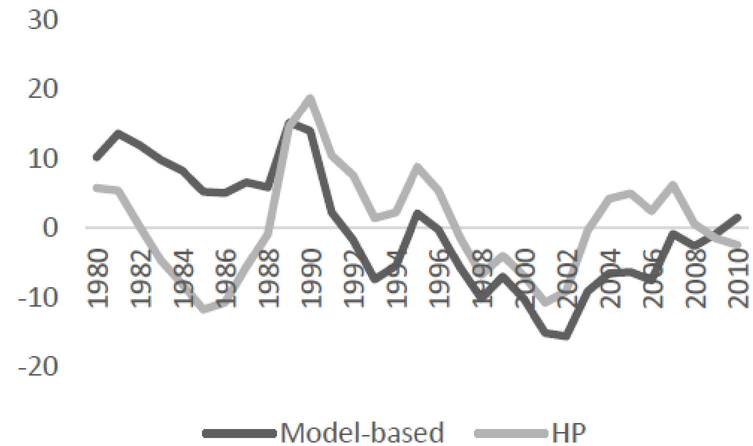
(i) is time to export a fixed or a variable variable cost?
(ii) impact of REER on the number of firms?

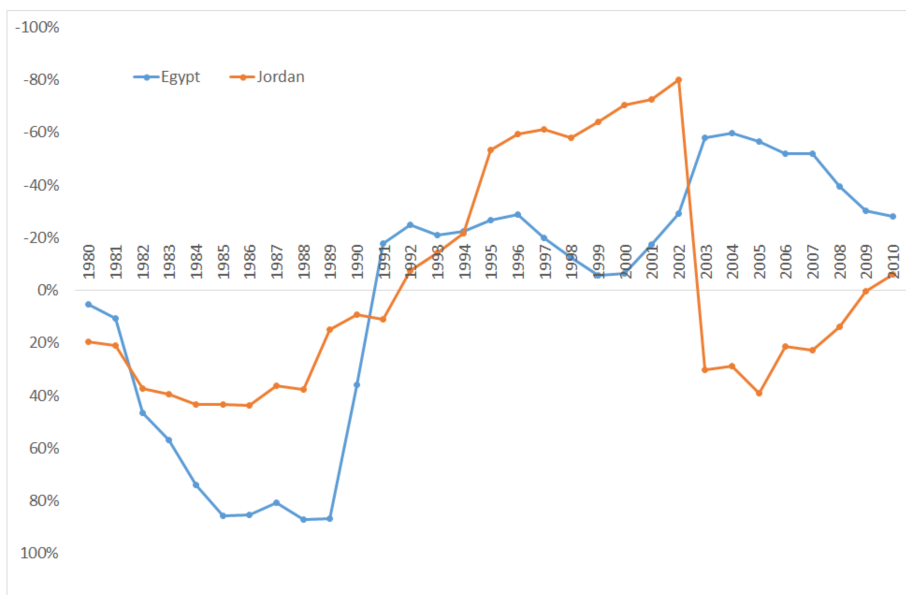
Measure of undervaluation

(a) Egypt



(b) Jordan





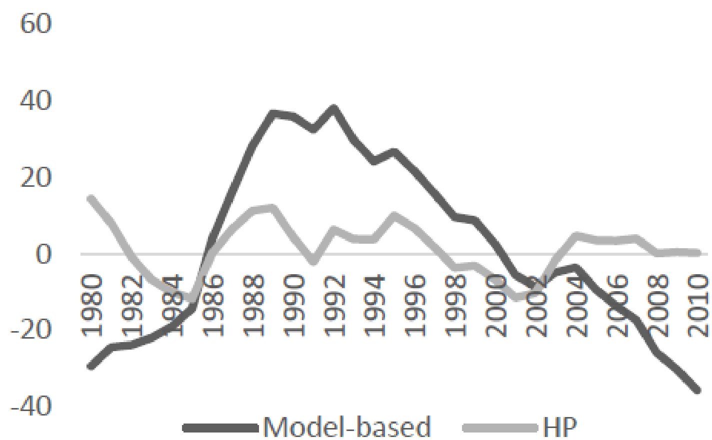
Source: CEPII-EQchange.

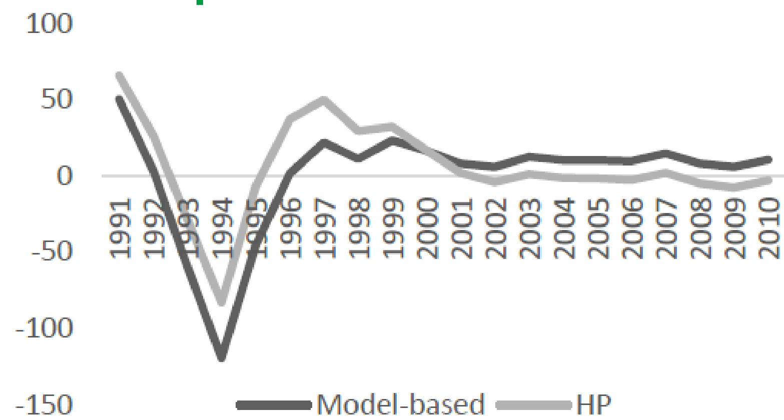
Measure of undervaluation

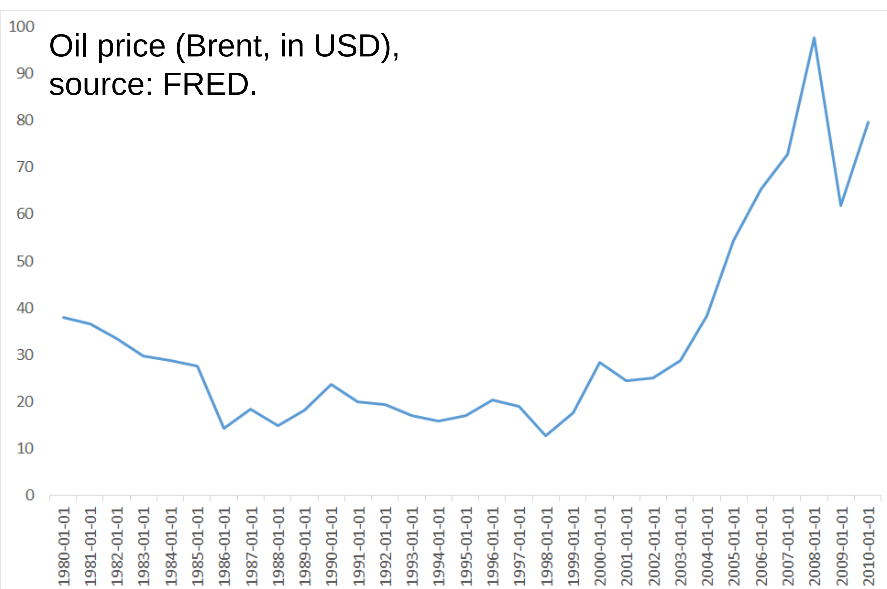
(c) Kuwait

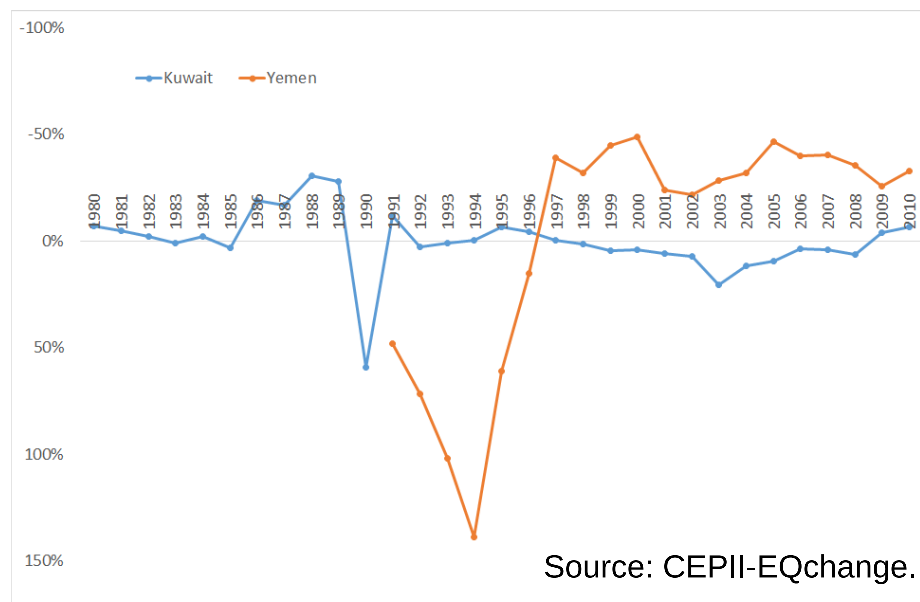
(d) Yemen

Is the REER (based on CPI) a good proxy for competitiveness in these countries?









Source: CEPII-EQchange.

Econometric methodology

$$Ln(ExpMRG_{fijt}) = \beta_0 + \beta_1 ln(GDPcap_{it}) + \beta_2 ln(Pop_{it}) + \beta_3 ln(GDPcap_{jt}) + \beta_4 ln(Pop_{jt}) + \beta_5 X_{ij} + \beta_6(Time\ to\ exp_{it}) + \beta_7 Underval_{-1} + \beta 8(Underval_{-1})^2 + \gamma f + \varepsilon_{fijt} \quad (2)$$

→ Deviations of firm-level exports in the time and market dimensions

Questions:

- Time fixed effects? (2009!) *ij* fixed effects (rather than X_{ij} controls)?
- Why both GDP per capita and population?
- Is GDPcap in current dollars?
- No time-varying explanatory variable at firm level?
- No *ijt* control? (bilateral RER, import tariffs)
- *jt* controls could be replaced by *jt* fixed effects
- Extensive margins: what when $NumDest_{fijt}$ or $NumProd_{fijt}$ = 0? PPML? Probit model?

Orders of magnitude
(intensive margin, model 1)

Impact of undervaluation

- All: 10% undervaluation → +0.17% on exports; 50% undervaluation → 0.4%
- Small: 10% undervaluation →+0.34% on exports; 50% undervaluation → 1.69%

→ Non-monotonic?
→ Trade-off with purchasing power?

Impact of institutions (days to export)

- All: 10% additional days to export (+2) → -5.7% on exports
- Small: 10% additional days → -3.61% on exports

→ Can undervaluation substitute for weak institutions?