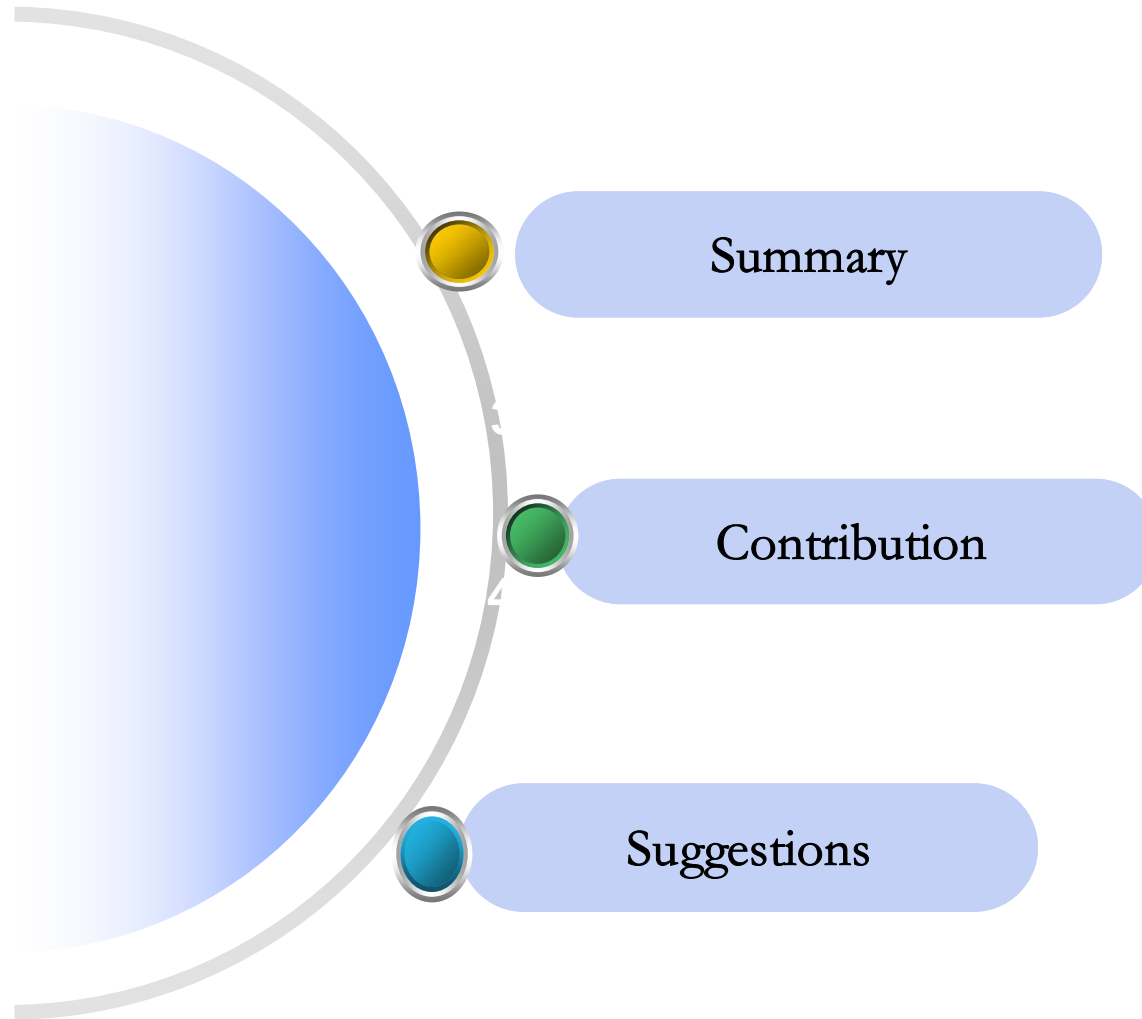# Comments on "Industry-Level Competitiveness, Productivity, and Effective Exchange Rates in East Asia"

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RIETI-CASS-CESSA Joint Workshop

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Summary

❖ **This paper investigates export competitiveness based on unit labor costs and nominal effective exchange rates for Japan, China and Korea for the 12 two-digit manufacturing industries.**

❖ **Japan, Korea and China show distinct pattern of ULCs during 2001 to 2009.**

❖ **Both increase in ULCs and appreciation of nominal exchange rate reduces exports. The negative impact of ULCs tends to be larger for machinery-related industries.**

Contributions

❖ **The paper constructs ULC-based effective exchange rate at industry-level, and apply it to estimate the exchange rate effect on export.**

❖ **The paper disentangles the complex effects of nominal exchange rates and cost competitiveness on export.**

Suggestion (1): Theory

❖ **In the empirical part of the paper, the author also calculate competitiveness of transportation sector, which is a typical non-tradable sector. But in the theory part, the author simply ignore the non-tradable sector in (5).**

❖ **The paper only adopts a one-factor (labor) model. However, in the introduction as well as the later part of discussion, the authors stress the importance of capital input. Is that possible to incorporate capital factor to the current model? Besides, equation (6) implicitly assume labor market competitiveness.**

Suggestions (2): Model Specification

❖ **The paper specifies the econometric model (8) out of equation (7):**

$$q_t^3 = \left[s_t - (w_t - a_t) + (w_t^* - a_t^*) \right] - \ln(1 + \mu) + \ln(1 + \mu^*) \qquad (7)$$

❖ **However, (7) and (8) are not completely consistent,**

➢ **First, the markup term is missing in (8).**

➢ **Second, $\theta_1 = \theta_2$ must be satisfied in (8) due to equal weight on exchange rate and ULC.**

➢ **Third, there is clear endogeneity problem. It is better to use lagged term to alleviate the problem.**

❖ **(1) In order to prove the advantage of industry-level EER, it is better to compare the industry-level results with aggregate-level results.**

❖ **(2) Part 3 of the paper is set to discuss nation-level RER, not industry level. It is much better to reorganize this part to better fit the empirical specification. By the way, allowing for heterogeneity of each product is helpful to clarify the central idea of the paper.**

❖ **(3) Why not add a new specification based on bilateral trade and bilateral ULC-based exchange rate?**