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Comment on Yang, Li and Xu (2014)

Value-Added Exchange Rates for China: Facts and Implications

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Summary

- This paper attempts:
  - To construct the ***value-added*** effective exchange rate (EER) for RMB.
  - At both industry level and aggregated level.
  - To make comparison between conventional EER and value-added EER.
- Purpose:
  - To better understand China's external ***competitiveness*** not only in the tradable sector but also in the non-tradable sector.

Challenging Topic!

- Importance of GVC:
  - Necessary to allow for global value-chains and production network when we evaluate the export competitiveness.

However,…

- This paper shows:
  - Just the value-added ***nominal*** EER.
  - Why not analyze the value-added ***real*** EER?

Comment 1

- *Nominal* value-added EER may not be enough to evaluate external competitiveness:
  - What is the "pure" effect of value-added in constructing EER?
  - Is it enough for evaluating external competitiveness?

Comment 2

- Data issue:
  - Which input-output (IO) table is used in this paper?
  - OECD single-country IO table or WIOD?
  - It is reasonable to use WIOD in this line of research, but WIOD covers the period from 1995 to 2011.
  - The nominal value-added EER is calculated from January 1999 to April 2014.
  - It is helpful to know how this paper fills the gap: (1) data frequency (annual and monthly), and (2) missing information on 2012-2014.

Comment 3

- Sample (endogenous) countries:
  - WIOD covers selected Asian economies (China, Japan, Korea, Taiwan, Indonesia).
  - Most ASEAN countries (Singapore, Malaysia, Thailand, the Philippines, Vietnam) are not included in WIOD.
  - Can we fully incorporate the regional value-chains and production network in Asia by using WIOD?

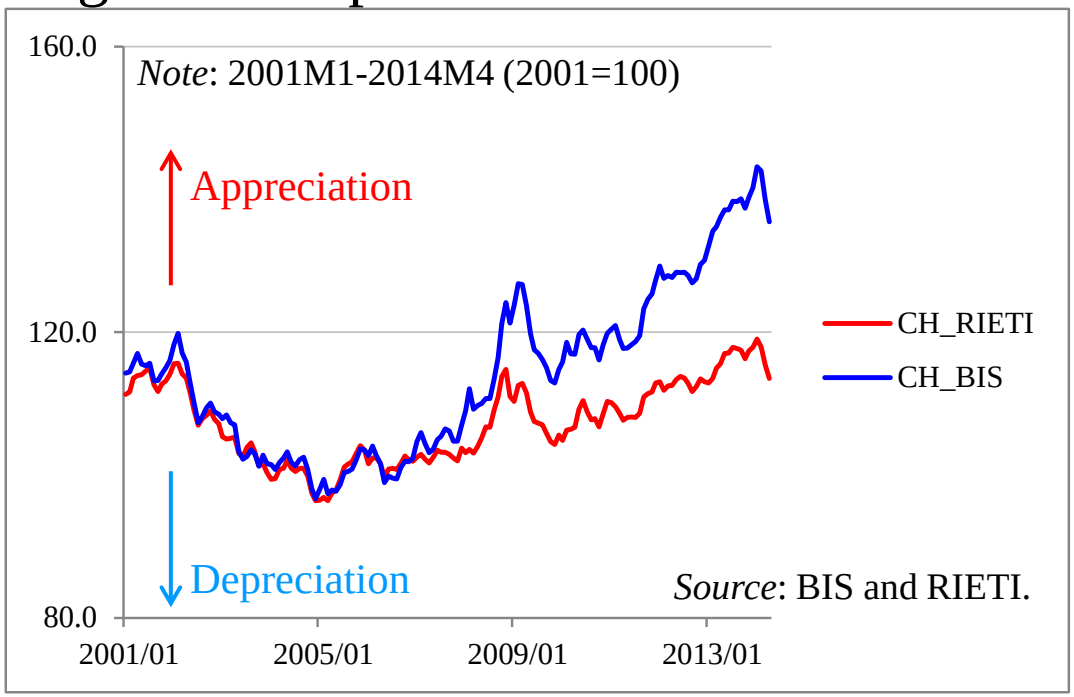
Comment 4

- Nominal value-added EER for non-tradables and service sector?
  - This paper deals with the nominal EER.
  - It seems a bit hard to justify why we need to calculate the nominal value-added EER for (1) non-tradables and (2) service sector.

Comment 5

- Comparison with BIS EER is quite helpful.
  - But, Real EER may be more informative.

Figure: Comparison in REER



- **CH_BIS** denotes the BIS REER.
- **CH_RIETI** denotes the manufacturing average of industry-specific REER

Comment 6

- Need more effort to calculate Real EER.
  - Existing studies often use the GDP deflator to construct *Real* value-added EER.
  - Sato, Shimizu, Shrestha and Zhang (2013,2014) employ the industry-specific producer price index (PPI) to construct the ***industry-specific* REER**.
  - We will soon publish the database of the industry-sprcific REER for 9 Asian economies (daily and monthly from 2001 to the present).
  - We are now trying to extend the conventional REER to the value-added REER.

Comparison of YNU-GIO, WIOD and AIIO

	YNU-GIO	WIOD	Asian IIO Table
Endogenous Country	29 countries	40 countries	10 countries
Asia	11countries JPN, CHN, KOR, TWN, MAL, THL, IDN, VTM, IND, SGP, PHL	6 countries JPN, CHN, KOR, TWN, IDN, IND	9 countries JPN, CHN, KOR, TWN, MAL, THL, IDN, SGP, PHL
North America	3 countries USA, CAN, MEX	3 countries USA, CAN, MEX	1 country USA
Europe	12 countries FRA, GER, UK, EU9*	27 countries EU27	
Others	3 countries AUS, BRA, SAF	4 countries AUS, BRA, RUS, TUR	
Exogenous Country	60 economies HK, Asia30, Eur16, OPEC12 and ROW		4 economies India, HK, EU27, ROW
Period	1997 - 2012	1995 - 2011	1985, 1990, 1995, 2000 and 2005
Sectors	35 industries	35 industries	78 industries (max)