



Comments on Dai& Xu paper:

# Exchange Rate and Bilateral Export: The role of Third Country Competition

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# The paper seeks

- + How the bilateral exchange rates affect bilateral trade flows,
- + How much the exchange rates movements of competing countries affect Chinese trade flows to the US market,

# Comment 1

- + The appreciation of currencies of China's trade competitors against the USD decrease competitors exports.
  - + As long as the relative prices of Chinese products to Competitors' change in the US market, the trade flows from China to US might be affected. This effect is quite natural!
- + What is the differences of definition between "third country effect" and "relative prices" in a multilateral framework?
- + What's new here? Are there studies concerning relative price in a multilateral framework?

# Comment 2

- + The “third country effect” may become a factor of China’s export increase in the period of dollar peg: 1995-2005. But this effect would not explain all.
  - + If imported products in US market are identical goods, changes of price competitiveness by exchange rate would be crucial for trade flows into US.
  - + e.g. in 2012-2013, JPY depreciation might affect Korean export to the World. As a result, the sales of Sony or Panasonic were UP but Samsung was down because most of their products are competing.
  - + But competing countries with China in the US markets should be different by sectors, by products, and by price ranges.
  - + Why the authors did not distinguish their empirical analysis by sectors or products? Their panel analysis implied aggregate analysis might not obtain new insights.
  - + Who is the competitor for China? Some competitor countries might also adopt dollar peg regimes, if so, important here might be whether the currencies were ‘much undervalued’ against USD or not .

# Comment 3

- + As the authors pointed out , while JPY/RMB depreciated 18.7%, Japan's Export to the US has decreased.
- + Most Japanese export products does not compete with Chinese export products in the US markets.
- + Japanese companies had moved their factories to developing countries. They tended to export capital goods to developing countries, produced consumption goods there, and export to US. This production shift came from the competition with other developed countries. Because the highly value added products tend to have higher price elasticity of demand and very competing in the US market, the sales of Japanese products in US might be suffered much more from such as EUR/JPY exchange rate movements than from JPY/RMB movements.
- + Could this "forth country effect" be captured or distinguish from "the third country effect" in their analysis?