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Discussion on

Exchange Rate and Bilateral Export:

Role of Third Country Competition

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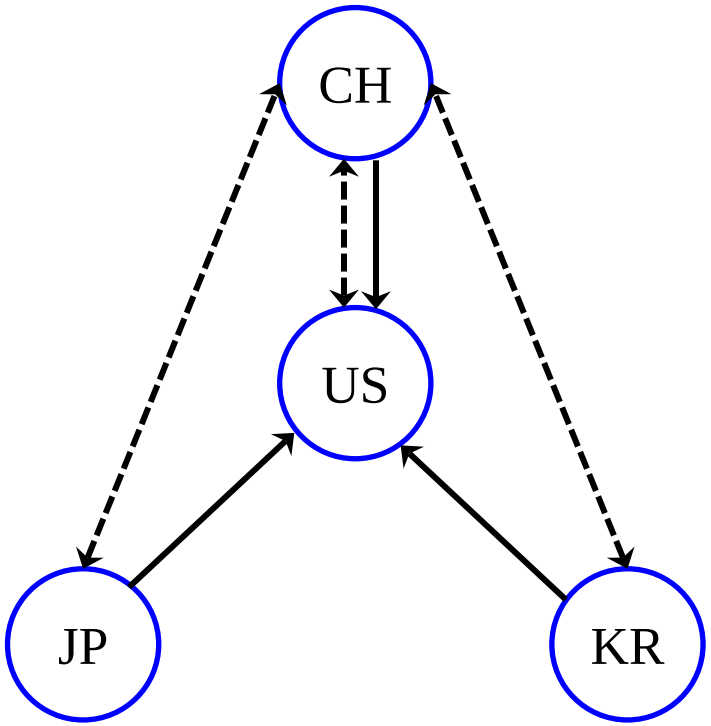
Contribution of the Paper

- Effect of exchange rate on bilateral trade
  - Direct and Third Market Competition Effect
    - Home country – Market country
    - Home country – Competing countries (JP & KR)

Schematic Diagram



Home Country

Destination Market

Competing countries

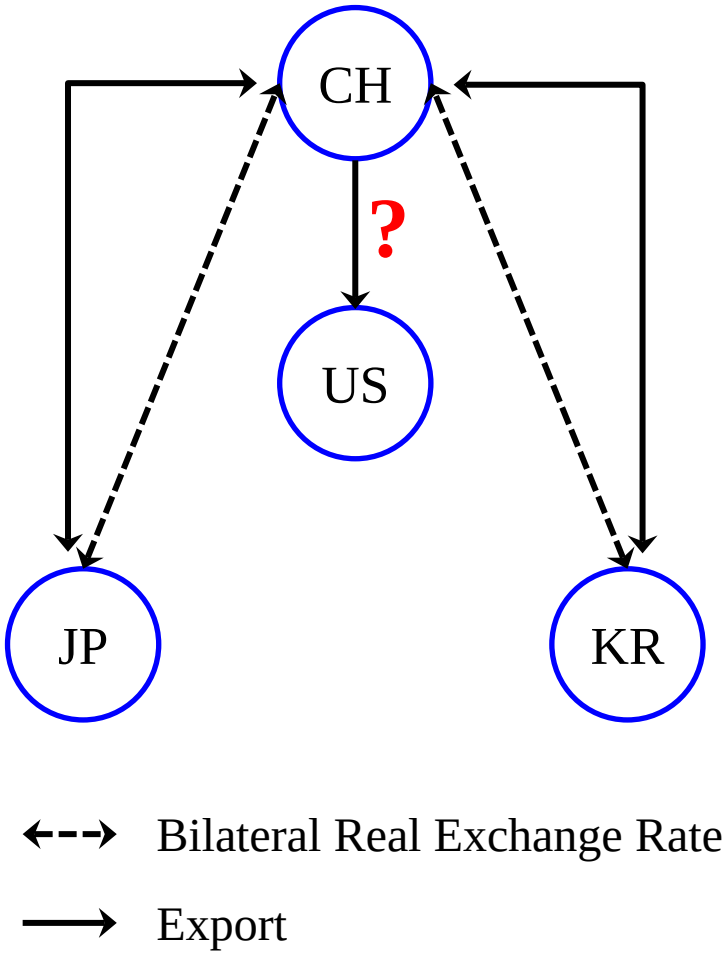
Bilateral Real Exchange Rate

Export

Mattoo et al. (2012)

Authors' Approach

My question…



RER (CH-*Competing Country*) obviously affects bilateral trade between China and *Competing countries*. But, how does RER (CH-*Competing Country*) affects China–US trade?

I think, more discussions about this helps reader to understand the indirect effect of exchange rate on bilateral trade.

Data sets

- CEPII Trade database
  - HS2 (97 industries? 97 products?)
  - 1995 to 2009
- WIOD for internal trade data
  - 35 sector
  - 1995 to 2009

Concordance between HS2 data and WIOD data?

List of products, industries?

Country Coverage

- China
- Trade share of **39 countries**

List of 39 countries?

Calculation of Share

$$\Delta \ln X_{ij}^{k} = \sum_{l \neq j} \sigma_{ij/il}^{k} s_{il}^{k} \Delta \ln RER_{jl} \qquad (4)$$

$$s_{il}^{k} = \frac{X_{ij}^{k}}{\sum_{l} X_{il}^{k}}$$

Trade data, **how the authors incorporated the Internal Trade?**

Regression Equation

Product specific

$$\Delta \ln X_{ikt} = \alpha + \sigma_1 s_{ikt} \Delta \ln RER_{kt} + \sigma_2 \sum_{l \neq k} s_{ilt} \Delta \ln RER_{lt} + \gamma Z_{kt} + \lambda_{it} + \eta_{ik} + \varepsilon_{ikt} \quad (6)$$

Table 1: Regression Results → Average

	(1)	(2)	(3)
Direct Effect	0.845***	0.812***	0.929***
	(11.04)	(10.20)	(10.42)
Third Country Competition Effect	0.509***	0.531***	0.458**
	(3.77)	(3.91)	(2.10)
Ln(GDP)	3.070***	3.197***	1.392***
	(25.14)	(24.01)	(7.89)
Constant	0.104***	0.100***	0.144***
	(20.18)	(18.47)	(7.67)
importer-product FE	no	yes	yes
product-time FE	no	no	yes
Observations	47,687	47,687	47,687
R-squared	0.027	0.065	0.132

- How the products are aggregated to get the average?
- Product specific regression results for a few major products would be better
- Very Low R-square, How about goodness of fit?
- GDP of China? Or US?
  - Necessary to mention in the paper

Decomposition of Direct and Third Country Competition Effect

Table 2: Decomposition of Direct Effect and Third Country Competition Effect

U.S.			Japan		
year	DE	TCE	year	DE	TCE
1996	0.820776	0.071269	1996	4.083771	0.074534
1997	0.052255	0.017997	1997	0.904686	0.039577
1998	0.033314	0.031121	1998	0.386932	0.03658
1999	0.251042	0.027632	1999	1.173263	0.02478
2000	0.066273	0.002944	2000	0.135512	0.005344
2001	0.142187	0.175121	2001	3.039378	0.055385
2002	0.034598	0.01307	2002	0.670281	0.039066
2003	0.048333	0.021795	2003	0.126434	0.025714
2004	0.10268	0.00888	2004	0.007033	0.004442
2005	0.015762	0.006104	2005	0.326879	0.004747
2006	0.093184	0.003169	2006	0.949665	0.007519
2007	0.692014	0.00626	2007	0.988529	0.006152
2008	1.044791	0.108514	2008	2.615072	0.695455
2009	0.009193	0.020561	2009	0.233717	0.011594
Korea			Germany		
year	DE	TCE	year	DE	TCE
1996	0.237596	0.055098	1996	4.055826	0.484224
1997	1.215356	0.113272	1997	3.920956	0.6049
1998	0.530285	0.022209	1998	0.059558	0.023237
1999	0.464522	0.017519	1999	1.04752	0.104367
2000	0.153759	0.005295	2000	3.293852	0.445889
2001	0.385025	0.032948	2001	0.201718	0.047034
2002	0.169142	0.011727	2002	0.613611	0.221231
2003	0.203278	0.040614	2003	0.232257	0.063996

- Meaning of the numbers?
- Unit of the effects?
- Page 3 second last paragraph:

  "… For example, in 1999 and 2001, when China has pegged its exchange rate with the US, the third country competition effect dominated."

  Results are not consistent.

DE = 0.251042 > TCE = 0.027632

Some more comments:

- Data sources
  - For example: Real Exchange Rate (or equivalently, Nominal exchange rate and Prices)
- List of References
  - Should be included
    - Even though the paper is VERY (VERY) PRELIMINARY.
  - Accuracy
    - For example: Mattoo et al. (2013) ➪ Mattoo et al. (2012)

Some more comments:

- Page 2:

export growth to the United States in the last two decades. From 1995 to 2011, China's bilateral export to the United States has increased from 27,947 USD to 324,453 USD, with an annual growth rate more than 14%. China has replaced Canada

is unit accurate?

- Notations: more care should be taken
- Herfindahl-Hirschman Index (HHI):
  - Higher the index, Lower the Competition

Page 8:

among industries. The lowest one, HS=97, has only a HHI index equals 0.2, while the largest one, HS=10, has a HHI index equals 0.987. Another prominent fact is that the larger HS2 code it is, the lower the degree of global competition.

not consistent