Discussion of

Export Dynamics in Large Devaluations

by

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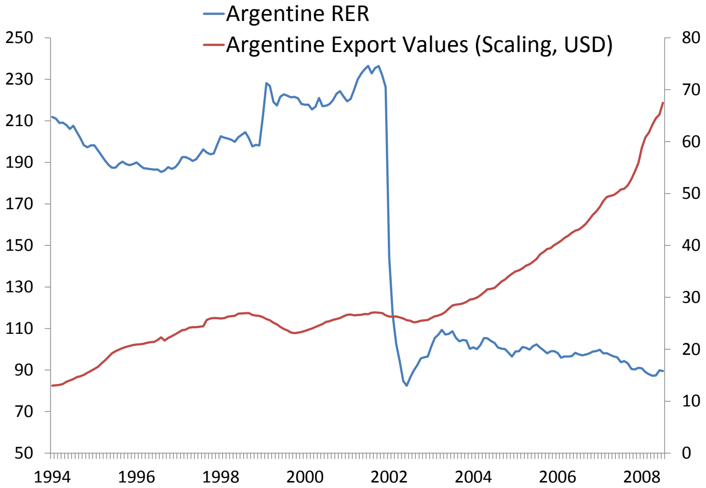
January, 2012

Motivation



Argentine RER
Argentine Export Values (Scaling, USD)
250
230
210
190
170
150
130
110
90
70
50
80
70
60
50
40
30
20
10
0
1994
1996
1998
2000
2002
2004
2006
2008

APY Empirics and Story

- Empirics: Most results known, but adds to scale and scope
  - Sluggishness in post-devaluation export growth
  - Low passthrough into U.S. import prices
  - Extensive margin elasticity is higher than total elasticity
  - Elasticities (vol and exten margin) decrease with interest rate
- Theory: Posit a clean and intuitive story
  - Sunk export costs (with lag structure) play pivotal role
  - Stock of exporters increases slowly (economize on labor)
  - Present value of exporting is sensitive to interest rate

My Comments

- A nice and coherent story consistent with some basic patterns in the data. But is it the right story?
  1. What are alternative mechanisms and can theory/empirics distinguishing among them?
  2. Should we take sluggish price adjustment more seriously?
  3. Should we take author's notion of the extensive margin literally? Need we think more about what sunk cost is?
  4. Can authors define more precisely the domain of the finding?
- Does it matter if right story? Depends if want to demonstrate differences in trade balances or discuss policies or welfare, etc.

Alternative Mechanisms

- Capacity constraints, time to build, investment, etc.
  See Kalemli-Ozcan et al. (2011).
- Search effort / learning required to find new relationships
  See Albornoz et al. (2011), Eaton et al. (2007), Arkolakis et al. (this session)
- Difficult to obtain trade financing (for imports or exports)
  See Amiti and Weinstein (2011)

Can theory or data help distinguish between these and the mechansim articulated in the paper?

Alternative Mechanisms

- All these stories could generate both the lagged response of exports as well as the sensitivity to interest rates.
- High interest rate episodes are "twin crises" in the Kaminsky and Reinhart (1999) sense, aggravating all above frictions.
- May even be an uncertainty shock, rather than observed interest rate, is key.
- Each story has different mechanism and welfare implications.
  - If friction is learning/search/capacity, little to be done.
  - If finance or regulations, much can be done.

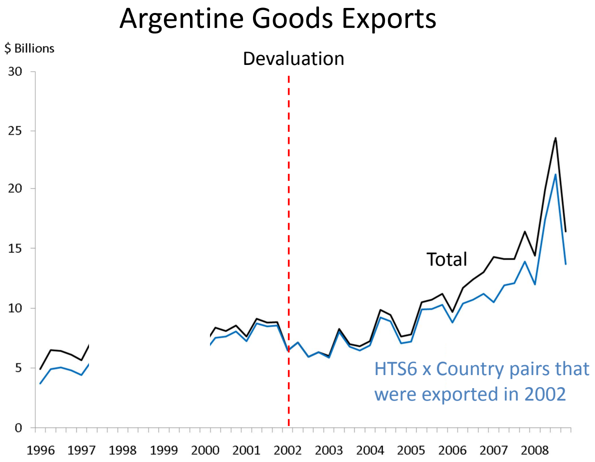
Is Low-Passthrough Proximate Issue?

- Authors emphasize elasticity with respect to RER, but export price (in importer's currency) barely moves in data.
- Gopinath et al. (2008), Neiman (2010), others, show passthrough grows after multiple changes – so it's not LCP
- In paper, matched by hugely diminishing returns: $Y_{traded} = L^{0.25}$ (Note that this would have major implications for measured productivity, profit shares, etc.)
- This is about price of intensive margin goods, so this has nothing to do with sunk costs
- Challenge for literature is to decide whether to ignore these price data or focus on them.

Extensive Margin

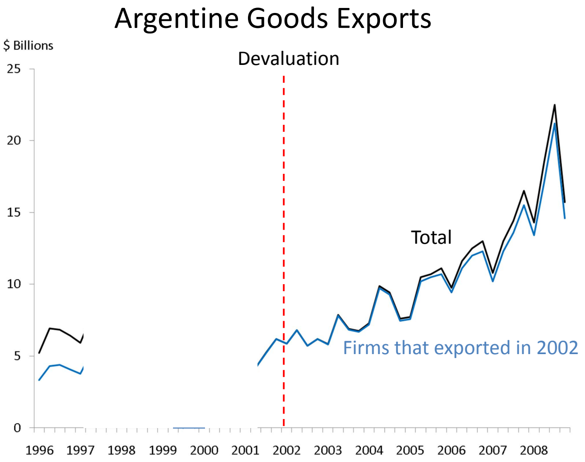
- Given homogeneity in exporters, extensive margin defined using a “count” notion
- But unclear how to map to data, where exporters are clearly not homogeneous
- Authors clearly believe extensive margin quantitatively important for export growth
- I agree, but think next step in paper should be to specify more concretely which extensive margin they think matters
- Why? Important for calibration, lag structure, policies

Extensive Margin



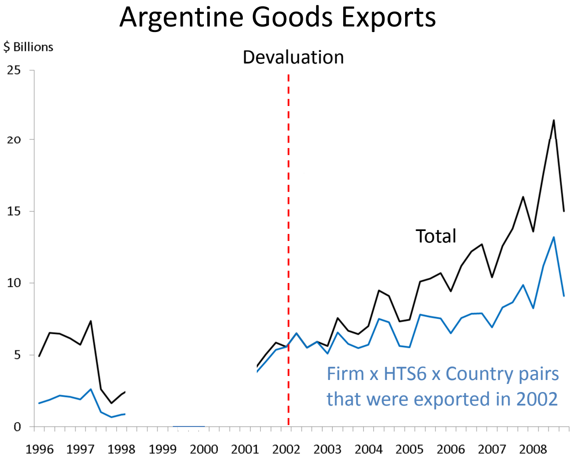
By 2006/2008, $<$ 25% of growth due to new prod X country pairs

Extensive Margin



By 2006/2008, none of growth is due to new exporting firms

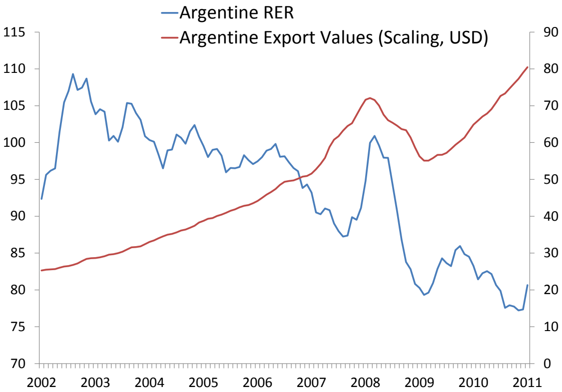
Extensive Margin



Most growth due to new firm-product-country combos. Rules out some notions of sunk cost, disciplines calibration of lag, etc.

Are Large EM Devaluations Unique?

- Large devaluations different from smaller movements?
- Is there an asymetry for apreciations and depreciations?
- Does it depend on type of goods exported?
- Is this about developing countries only?



Conclusion

- An exciting start (work in progress) and am excited about the trade and macro agenda of the authors
- I'm convinced authors generate a sensible mechanism which willl slow export adjustment to large devaluations
- I'm not yet convinced that this mechism is more probable, or fits more of facts then several others.
- Key next step is to more seriously use micro-data to demonstrate their mechanism is right one
  - Various extensive margins
  - Transaction prices
  - Cross-episode variation (beyond EMBI spreads)
  - Cross-industry variation