Discussion of
Export Dynamics in Large Devaluations

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The paper

- Why is the response of aggregate exports to large exchange rate devaluations sluggish ?
- Stylized facts about the elasticity of exports to real exchange rate depreciations triggered by large currency devaluations
- A model of endogenous entry and exit into the export market with sunk cost able to :
    1. capture the main export dynamics
    2. illustrate the impact of the interest rate and the extensive margin of trade on the sluggish response of exports

Stylized facts

1. The elasticity of exports to the real exchange rate is low in the aftermath of the devaluation and rises over time

2. In presence of high interest rates (increases in international borrowing costs), the elasticity of exports is more sluggish

3. The gradual response of the extensive margin of trade contributes to the sluggish response of exports to devaluations

The model

- Consumers consume and borrow at rate R
- Production: homogeneous domestic non-tradable sector and export sector
- In the export sector, conditional on their (pre-determined) export status, firms draw their exporting cost.
  As long as $F_0(k) < F_1(k)$ the entry decision into the export market is dynamic
- Shocks on aggregate prod.ty, discount factor and interest rate

Key results

- Following a depreciation existing exporters and new firms would like to enter the export market but :
  1. in presence of sunk costs of exporting, this would imply a large drop in consumption
  2. and in the meanwhile, less impatient agents and higher interest rates decrease the discouted benefits of being exporters
  3. thus the response of aggregate exports is more sluggish
- Consequences on observed productivity : it drops because of the nature of exporting (sunk!) cost

Main comments

- Episodes of large devaluations : easy to identify and followed by large real exchange rate depreciations, but is there something specific in devaluations with respect to alternative episodes of real exchange rate depreciations?
- almost all the episodes of devaluations belong to the third generation BoP crises : the role of financial factors and reputation of central banks
- it would be interesting to analyze episodes of real exchange rate depreciation that are not triggered by a currency devaluation (e.g. within Euro Area real exchange rate adjustments)

Main comments

- The impact of rising interest rates : whether firms are credit constrained (or indebted in foreign currencies), there is an additional impact of rising interest rates for the financing of sunk costs
- Does it add an additional channel of export sluggishness on the impact of credit frictions on export flows (cf. Manova (2012))?
- would it be possible to assess the relative contribution to the sluggish response of exports of :
  - the channel highlighted in the model
  - the credit frictions' channel : larger exporter costs when interest rates at which exporter firms are borrowing are higher

Main comments

Extensive margin 1 : the paper shows that the extensive margin of trade appears to be “an important driver of the export response following devaluations”

- Add productivity dispersion among exporters : would it be possible to add sluggishness on top of the sunk cost motive ?
- In case of firm heterogeneity, firm size dispersion determines the extent of the extensive margin, thus the the response of aggregate exports to a given depreciation
- Pappadà (2011) : when the firm size is more dispersed, smaller role for the extensive margin in CA adjustment, thus larger required depreciation of the E.R.

Main comments

Extensive margin 2 : the paper shows that "the extensive margin of trade is more important for the low interest rate increase countries"

- sluggishness of exports and growth of new exporter firms
- does the determinants of firm growth play a role for the magnitude of the sluggishness of aggregate exports?
- consider credit constraints and the growth of new exporters:

  the dampening effect of rising interest rates on exports could be magnified as the extensive margin would respond less to large devaluations

Minor comments

- Timing. Firms pay the sunk cost and start exporting in the following period : does this assumption add mechanical sluggishness ?
- The distribution of exporting costs is exponential : is there any evidence/motivation for this choice ?
- Unclear definition of high interest rates :

  initial level when the devaluation takes place or larger increase in interest rates ?