

Exchange Rates and the Margins of Trade: Evidence from Chinese Exporters*

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Abstract

This paper studies how real exchange rate movements affect firm export behavior, using monthly data that cover the universe of Chinese export transactions over the period of 2000-2006. Specifically, we examine exchange rate effects on an exporter's extensive (entry, exit, and product churning) and intensive margins of exports. We find significant effects on the extensive margin. A 10% real appreciation of the renminbi is associated with a 1 percentage-point decline in the probability of entry, and a 0.2 percentage-point increase in the probability of exit. The effects among foreign-invested enterprises almost double for both entry and exit. Despite the seemingly large effect on the extensive margins, exchange rates alone can only explain about 4% of entries and about 1.6% of exits during the sample period. The exchange-rate elasticity of exports is estimated to be around 0.4 in the first year after the shock, with most of the adjustment taking place in the first six months. This finding of a relatively fast response to exchange rate shocks is consistent with anecdotal evidence about intense competition in the Chinese export sectors.

Key Words: exchange rates, pass-through, margins of trade, export participation, product churning

JEL Classification Numbers: F14, F31, F32

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