

Comments on “Exchange Rates and Trade” by N. Yoshino, P. Chantapacdepong and M. Helble

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A Brief Summary of the Paper I

- ✧ The paper argues that exchange rates are endogenously determined and presents empirical evidence derived from two simultaneous equations;
- ✧ Following the prediction of Balassa-Samuelson effect, the authors examined whether exchange rates of TTP and non-TTP members are at the expected equilibria and measured the magnitudes of under/over valuation;
- ✧ A gravity model was estimated to show that exchange rates matter, in particular undervalued currencies stimulate exports.

A Brief Summary of the Paper II

- Authorities of TPP member countries declared that they would not use exchange rates as a tool to promote exports;
- A group of TPP macroeconomic officials will be established to exchange information on macroeconomic and exchange rate policies.

Comments I

- On the one hand, the paper used the empirical result to argue that exchange rates are endogenously determined, But, on the other hand, the paper shows that some currencies are overvalued while others undervalued. These seem to be inconsistent.
- “Basic econometric exercises shows that the exchange rate is endogenously determined by the current account balance” (slide 5).

current account balance (CA) in equation 2 should also be an endogenous variable. But, it is not clear to me why CA is not included in the right-hand side of equation 1

- The estimate shows that, the level of RMB's under valuation continuously increased from 2011-2014. It contradicts the fact that RMB had appreciated against the US dollar from \$1=6.5973 Yuan(Jan. 2011) to \$1=6.1907 Yuan(Dec. 2014) and the inflation of China had been higher than that of the US during the period.

Comments II

- In the gravity model, exports is the dependent variable. It is not clear why GDP per capita of exporting countries is included as one of explanatory variables.
- Additionally, two exchange rates—exchange rate to USD exports and exchange rate to USD imports are included. What are differences of the two exchange rates? Are they highly correlated or not?

Comments III

- The impact of exchange rates on trade has been weakened by the proliferation of global value chains (GVCs). The appreciation/depreciation of a single country's currency has little impact on final prices of goods manufactured along GVCs. For Example, Japanese export fell to \$694 billion in 2014 from \$820 billion in 2011, despite of significant depreciation of Yen.
- Monetary policy often gives rise to a large swing of exchange rates. For instance, the QEs of Japan and ECB have led to significant depreciation of Yen and Euro against US dollar. Should we accept it as a natural consequence of the monetary policy or label it as "exchange rate manipulation?"

Thank you!

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