

Report Type

End of Award Report

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Project Title

Exchange Rate Pass Through of China's Exporters

Project Abstract

This paper offers a neat method of estimating how export prices react to exchange rate shocks by precisely controlling exporters marginal costs based on a comprehensive database from China customs. It utilizes the observation that most Chinas exporters export their product to more than one destination. As the same product of an exporter exported to multiple destinations should have the same marginal cost, we construct a difference in difference estimator at firm-product level to eliminate the effect of the marginal cost on prices. We find significant evidence of producer currency pricing for China exporters during 2000 – 2006; the aggregate exchange rate pass through to export prices denominated in foreign currency is nearly complete (98.6%). With the proposed estimation method, this will be the first paper to my knowledge that is able to estimate and compare the distributions of the exchange rate pass through across different industries, trade modes and firm types.

Activities and Achievement

Our estimation suggests that Chinese exporters nearly fully passed the exchange rate shocks to their trade partners during the period between 2000 and 2006.

Our proposed method is also characterized with its ability to estimate the pass through for each firm-product combinations we have. This will be the first paper, to our knowledge, that is able to estimate and construct the distributions of the exchange rate pass through across countries and industries.

Dissemination

A. Intended journal: Journal of International Economics

B: In November last year China surpassed the US as the worlds leading trade partner, with 124 countries considering China their largest trading partner [EU-28 (16.66%, 2013); US (30%, 2013)]. How China's exporters react to exchange rate shocks lies in the central of international economics. Our estimation suggests that Chinese exporters nearly fully passed the exchange rate shocks to their trade partners during the period between 2000 and 2006. Given the high import share from China, a appreciation of RMB will lead to considerable imported inflation for all its trade partners.

Outputs

The paper will be sent to CERF in two weeks.

Major Difficulties and Any Other Issues

We have experienced an extreme long negotiation process and had some delays in obtaining the database. We have completed our analysis and got our main results. However, it may take 1-2 more weeks to complete the paper.