Export diversification and output volatility: comparative firm-level evidence

by Urška Čede, Bogdan Chiriacescu, Péter Harasztosi, Tibor Lalinsky, Jaanika Meriküll

Discussion by Luca David Opromolla (Banco de Portugal, CEPR & UECE)

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An interesting question

- Does export diversification, in terms of destinations or products, reduces value added volatility?
- **Relevant**
  - both at the country-level and firm-level
  - from the point of view of shareholders, banks, suppliers, and workers
- **Timely.** Given the experience of the last 5 years
- **Countries.** All the countries studied belong to the group of new member states of the EU who accessed the EU in 2004 or 2007

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  - unobserved productivity shocks...
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- **Measurement error.** Deflating value added using NACE 2-digit country-wide deflators.
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- Use an endogenous binary-variable model: a linear potential-outcome model that allows for a specific correlation structure between the unobservables that affect the treatment and the unobservables that affect the potential outcomes
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An alternative IV strategy

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  - Autor, D., Dorn, D. and Hanson, G. (2013), "The china syndrome: Local labor market effects of import competition in the United States", American Economic Review
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- Compute a firm's i export shares for each destination d in a pre-sample year, say 2006.
- Take total imports (**minus those from your country of analysis**) for each destination d in 2008.
- Aggregate at the firm-level by multiplying imports and shares, taking squares, and summing up.
- You get an instrument for the Herfindhal index of firm i in 2008.
- More sophisticated: (1) product*destination imports and shares, (2) only imports from "similar" countries, (3) also transport costs and exchange rates

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Big picture

- Be more clear on what is the channel that you have in mind. Maybe a small theory part would help...
  - Is it less-than-perfectly synchronised business cycles across countries? That seems to be the case when you talk about destination diversification.
  - But when you talk about export diversification of products?
    - Is it really international trade?
    - Or mainly just production diversification? Or the combination of the two?
    - Can you get data on the production mix of firms (Prodcom data)?
- Exploit more the cross-country dimension. Motivate why you expect to find different results for the different countries. Do you have a prior and is it consistent with your results?

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- Show simple OLS estimates, as well. Show likelihood-ratio test for the errors of the treatment and outcome equations.
- Use the same product aggregation across countries and time. Maybe you can convert everything at SITC4?
- Be careful in comparing results for destinations and products. In some cases the conclusion depends on your definition of a "product"

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