

Foreign Currency as a Barrier to International Trade: Evidence from Brazil ^a

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Discussion by Federico Huneeus

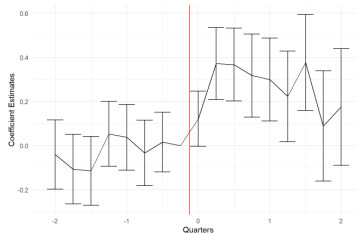
Central Bank of Chile

^aThe views and opinions expressed are those of the authors alone and do not necessarily reflect those of the Central Bank of Chile.

- Study of how foreign currency can limit international trade
 - Paper is relevant, well motivated, and good research design
 - It informs an important question with direct evidence
- Will focus my attention on three comments:
 - I. Reallocation
 - II. Theory Implications
 - III. Research Design

I. Reallocation: Where Does The Export Increase Come From?

- The most surprising result is how quick and large the effects are \Rightarrow How is this possible?



- Two potential mechanisms:
 - Scale: Increase overall production of firms
 - Substitution: Reallocate exports from domestic to foreign, between countries, between products
- First indication of substitution between countries: firm-sector-country effect $>$ firm-sector effect
 - What about between products? What about firm-level impact?
- Proposal: Decomposition of scale vs substitution, product vs countries substitution
 - Municipality-level analysis might useful here to use domestic outcomes and evaluate scale effects

II. Theory Implications

- Risk mechanism makes sense, although results suggest that currency risk is not priced
 - Would be important to also focus on sectors where main importer from Argentina is Brazil
- Another (countervailing) price channel is changes in buyer-supplier competition/bargaining power
 - As a result of reallocation, Brazilian suppliers gain market power relative to Argentinian buyers
 - Can use models such as Alviarez, Kikkawa, Morlacco to evaluate competition channel
- Given the persistent effects, contracting model seems more relevant than nominal-rigidities model
- Would be useful to use these models like Mukhin (2022) to evaluate the overall effect of the policy
 - Why is the policy not used more in other emerging economies?
 - For this it would be useful to document selection, eg, why are small exporters not using this more?
- Figuring out the aggregate welfare effect is super relevant for policy in the current context

III. Research Design

- It is not clear in the paper why two research designs are necessary
- The one at the firm-level looks more compelling to me
- Some papers use more aggregated analysis to say something about aggregate effects
 - But that is not the case in this paper
 - Given this, I would focus the attention on the event study designs
- Regarding the firm-level analysis:
 - Details are not entirely clear, but I would do the event study with the first time a firm invoices in BRL
 - I would do the event study also at the firm-level, besides the firm-sector level
 - This will inform the substitution patterns (Comment 1)
 - Would be good to do heterogeneity across products that vary in terms of competition (Comment 2)

Final Remarks

- Super interesting (and nicely executed) project
- Looking forward to more research of Todd in these topics

Thanks!