Discussion

Does domestic demand matter for firms' exports?

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Paper summary and main contributions

- Constructed export equation firmly anchored in the microeconomic theory of profit maximization on domestic and foreign market

- If marginal costs increase – domestic demand negatively influences exports; in the case of constant marginal costs - exports independent of domestic demand as in more common assumptions in the literature

- Export equation estimation on detailed annual firm level data for Portugal (also on alternative reduced panel samples excluding possible extreme observations) using various methods as robustness checks confirms the proposed theoretical hypothesis

- Exploration of the exports and domestic demand relationship across manufacturing industries and varying firm sizes - large heterogeneity found.

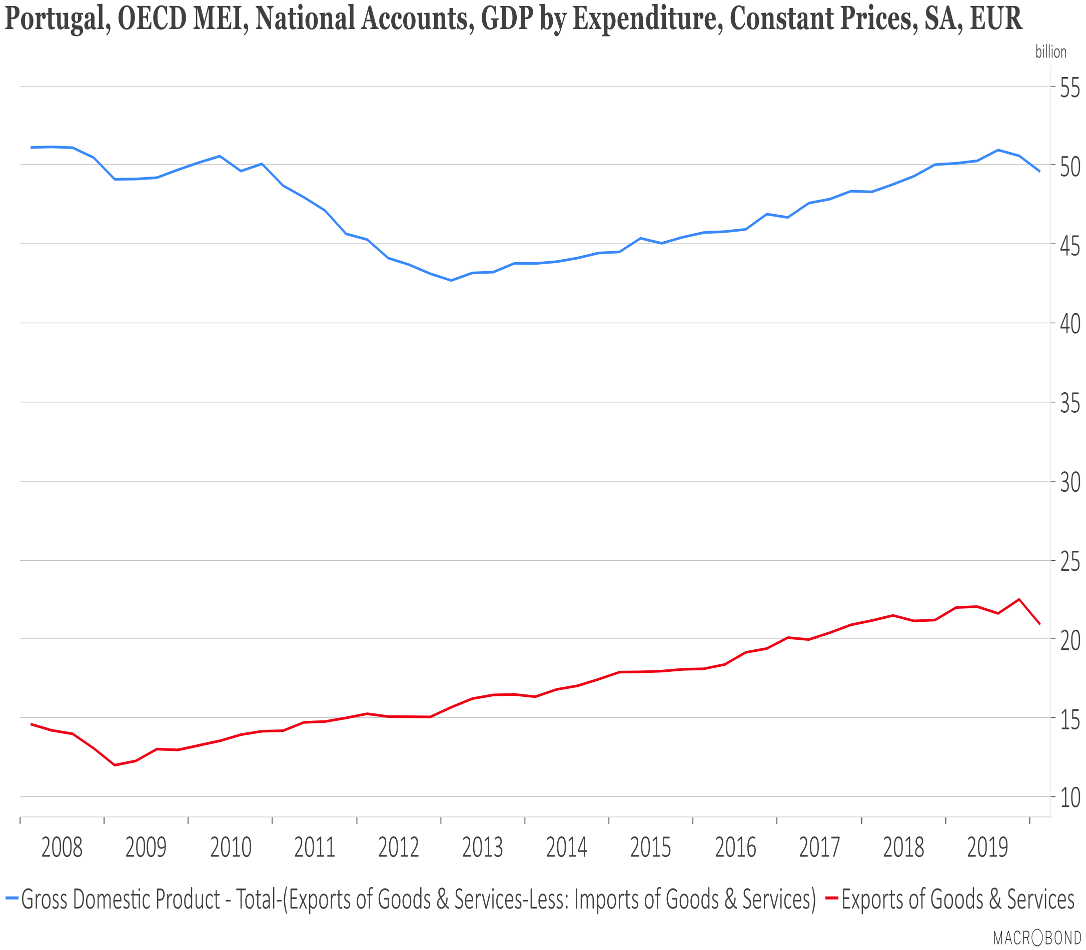
Comments (1)

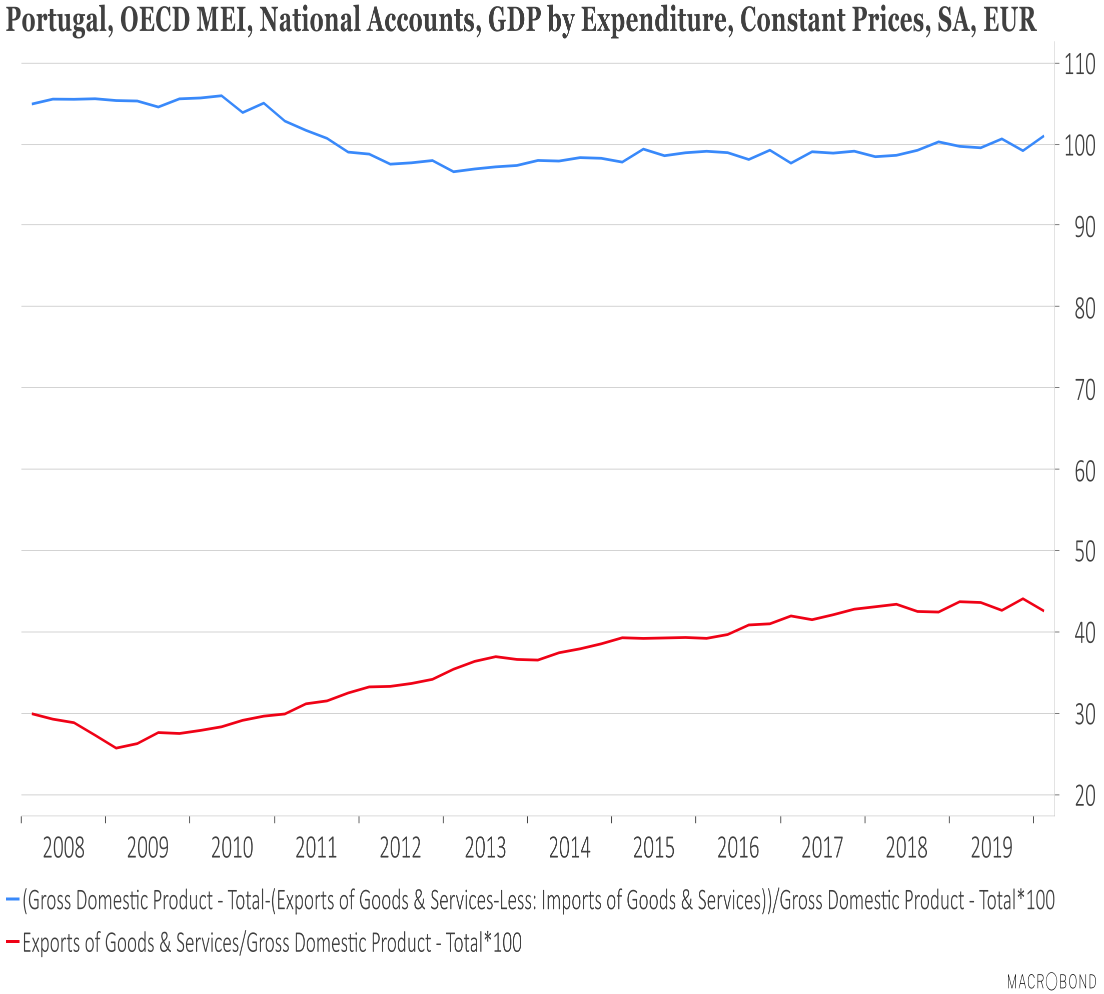
- Profit maximization problem at the end of page 5 should contain also **foreign market revenues** from equation 5 – consistent with further results.

$$\left(\Phi_t^F z_{it}^F\right)^{\frac{1}{n}}\left(q_{it}^F\right)^{\frac{n-1}{n}} + \left(\Phi_t^D z_{it}^D\right)^{\frac{1}{n}}\left(q_{it}^D\right)^{\frac{n-1}{n}} - \theta_i\left(\mathrm{q}_{it}^F + \mathrm{q}_{it}^D\right)^{\alpha} - f_i - f_x \rightarrow \max_{q_{it}^F;q_{it}^D}$$

- Weights of individual countries in the total exports of firms are fixed in time in foreign demand calculation – as Portugal export performance increases, possible changes in export structure might occur – **variable trading partners weights**.

The openness of Portuguese economy increases





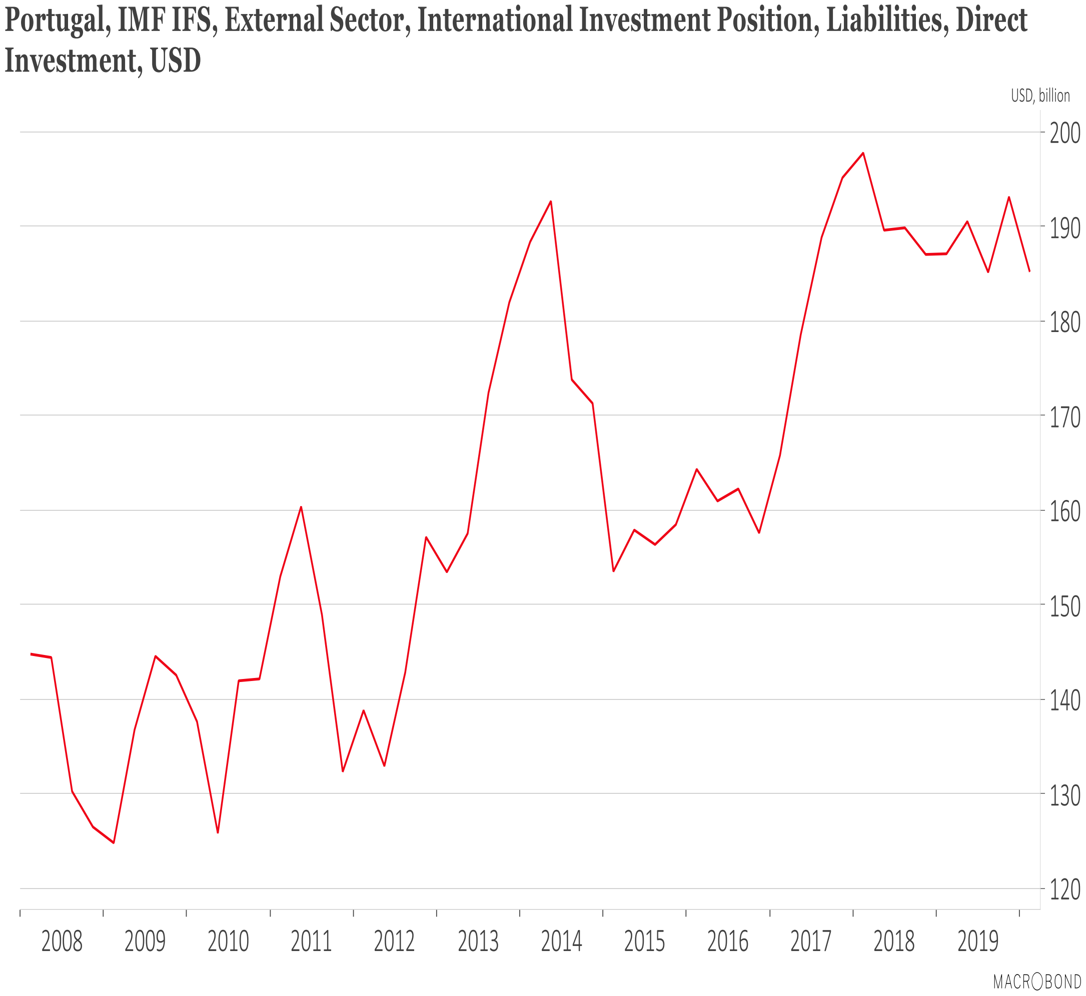
Comments (2)

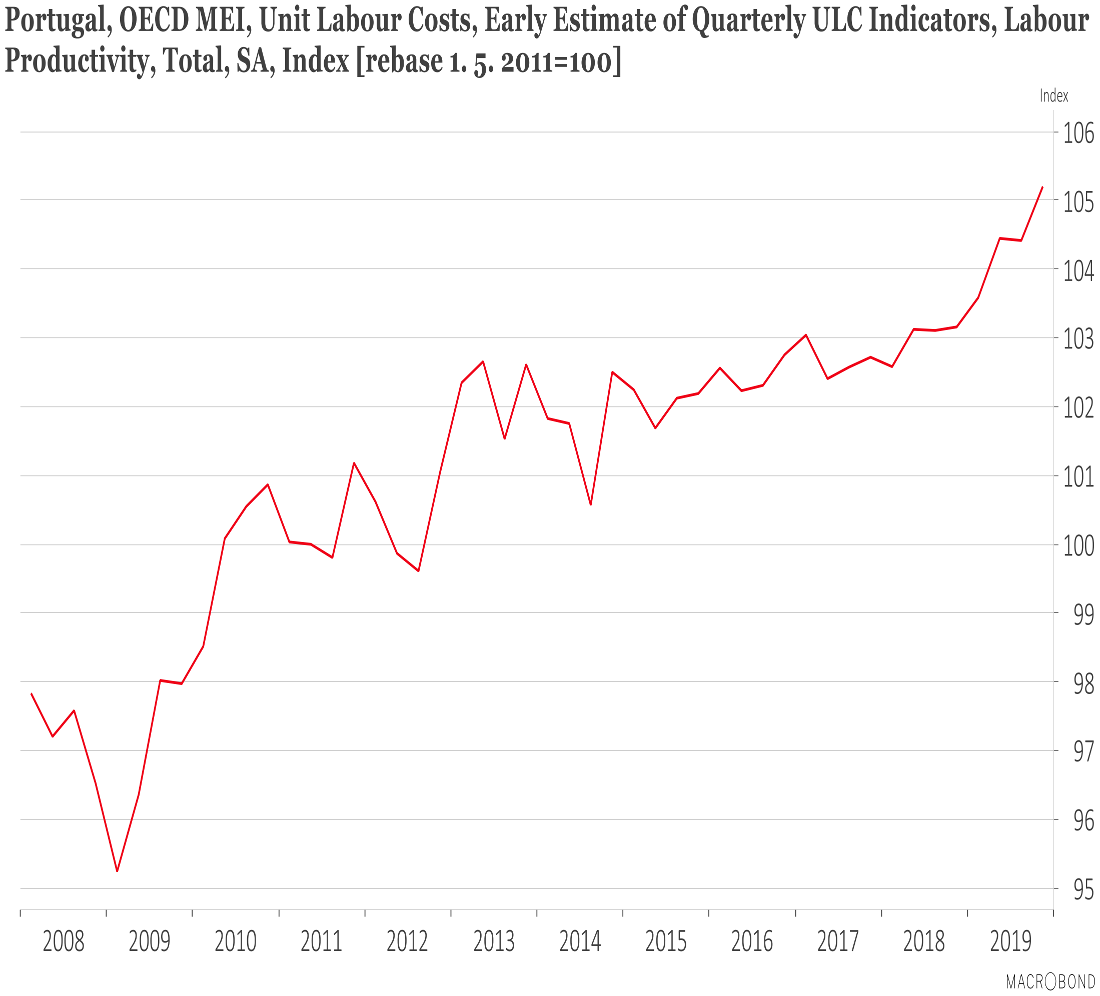
- Other factors improving exports performance – possible extension of the model specification:
  - **FDI inflows** – stronger negative domestic demand effect on export was found in the large firms – these could also attract more FDI (or have grown as a result of FDI)
  - **Labour productivity growth** – improved competitiveness, reflects also the convergence to the most advanced economies at the technological frontier.
  - **Price competitiveness** – REER depreciation

REER might also be related to the mechanism of domestic demand impact on export : export led growth at first increases employment that lifts domestic demand and prices causing REER appreciation, then export growth fades.

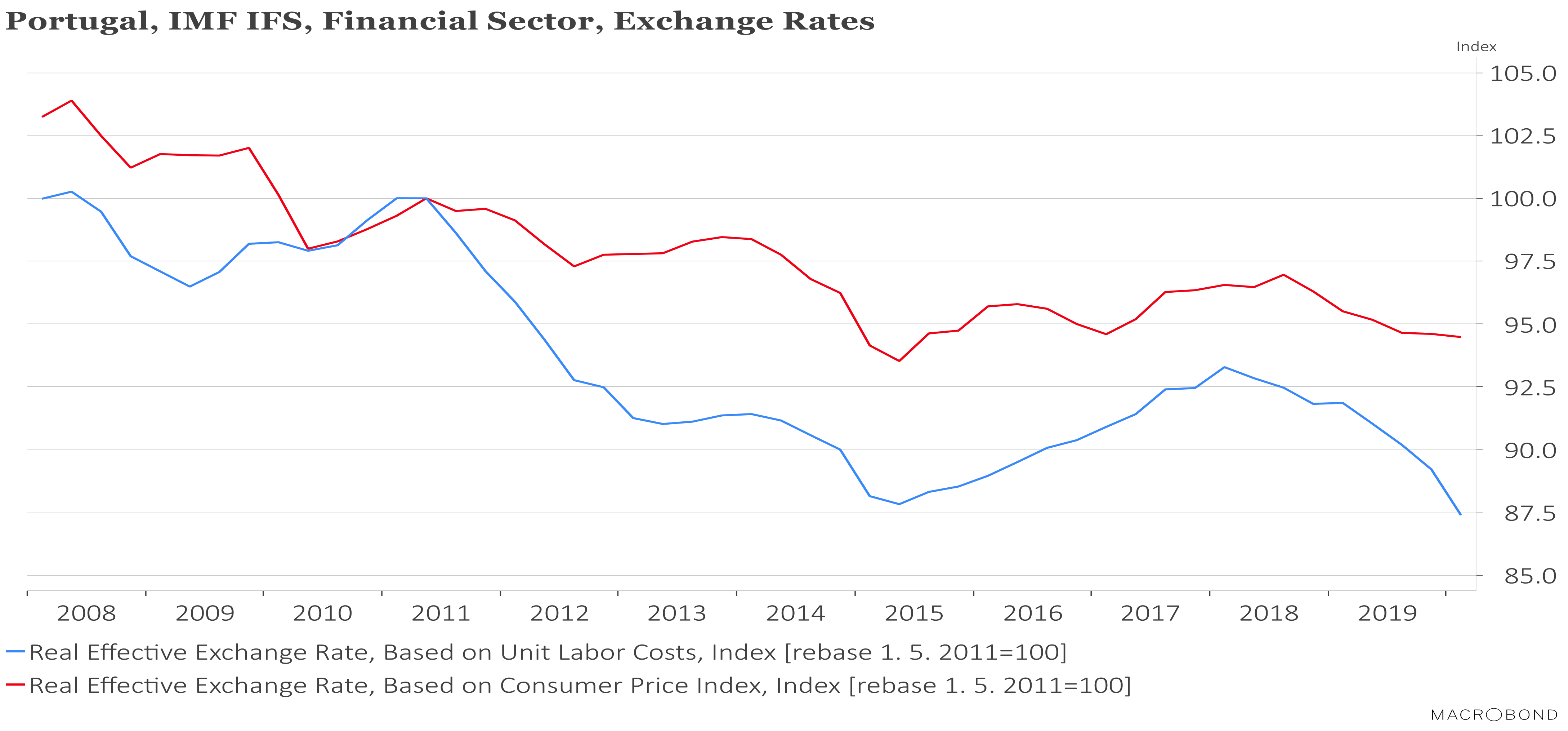
This process might describe the eventual slowdown of converging countries catch-up in the long-run , unless they implement structural reforms to increase competitiveness again.

FDI inflows and labour productivity promote exports





Depreciated REER supported exports



Comments (3)

Final minor questions:

- Would the detected relationship between exports and domestic demand hold also when estimated on the aggregate macroeconomic data?

- Market share gains of Portugal are mentioned in the paper –in that context should the elasticity of exports to foreign demand (converging to 0.53 in figure 2) be greater than 1?

- Could few large dominating firms influence the quality of the results – especially when splitting the data into smaller samples according to industry and firm size?