

Export Market Dynamics and Plant-level Productivity: Impact of Tariff Reductions and Exchange Rate Cycles

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Abstract: This paper examines how trade liberalization and fluctuations in real exchange rates affect export-market entry/exit and plant-level productivity. It uses the experience of Canadian manufacturing plants over three separate periods that featuring different rates of bilateral tariff reduction and differing movements in bilateral real exchange rates. The patterns of entry and exit responses as well as the productivity outcomes differ markedly in the three periods. Consistent with much of the recent literature, the paper finds that plants self-select into export markets—that is, more efficient plants are more likely to enter and less likely to exit export markets. Moreover, entrants to export markets improve their productivity performance relative to the population from which they originated and plants that stay in export markets do better than comparable plants that exited, lending support to the thesis that exporting boosts productivity. Finally, we find that overall market access conditions, including real exchange rate trends, significantly affect the extent of productivity gains to be derived from participating in export markets. In particular, the increase in the value of the Canadian dollar during the post-2002 period almost completely offset the productivity growth advantages that new export-market participants would otherwise have enjoyed.

Key words: tariff reduction, real exchange rate, export participation, productivity growth
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