

Döviz Kurlarının Düzey ve Oynaklığı G7 Ülkelerinin İkili Ticareti İçin Önemli mi? Toplu ve Sektörel Düzeyde Bulgular

Does The Level and Volatility of Exchange Rates Matter for Bilateral Trade of G7 Countries? Evidence from Aggregate and Industry-level Analysis

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Abstract

Since the collapse of the Bretton Woods system, a substantial body of theoretical and empirical literature has investigated the impact of exchange rate fluctuations on international trade flows. A major part of previous studies examining the effects of exchange rate changes on foreign trade has focused on aggregate data. Estimations of trade equations at the macroeconomic level can be more likely prone to reverse causality and aggregation bias problems. On the other side, the relationship between exchange rate and trade flows can vary significantly across sectors due to the different characteristics of industries. Therefore, in this study we analyze the effect of exchange rate level and volatility on export and import performance of countries using both aggregate and sector-level data. We estimate export and import equations for bilateral trade data of 20 manufacturing industries (ISIC rev. 3 2-digit) for the 1990-2021 period. Our empirical findings, which are based on an autoregressive distributed lag framework reveal that trade flows respond differently to exchange rate fluctuations in the short run and long run. Besides, we find that the impact of exchange rate volatility on exports varies considerably depending on the industry covered.