

REFeree REPORT FOR IMPORTED INPUTS AND EGYPTIAN EXPORTS: EXPLORING THE LINKS

Summary

This paper studies the complementarity between exporting and importing at the firm level focusing on a less developed country (Egypt). The authors find that there is a high degree of hysteresis in both activities (i.e. past status of both activities (exporting or importing) affects the probability of being in the same activity for both the extensive and the intensive margin suggesting the existence of fixed costs in both activities. In addition the authors find that past productivity does not affect the extensive margin of exports but not the one of imports.

Comments

The paper contributes to the literature by offering a new case in which exporting and importing activities exhibit complementarities in a less developed country.(see Bas and Strauss-Kahn (2012) for the Indian case). This could reinforce the idea that there is a feedback effect from importing to exporting or vice versa in developing countries too.

My main important comment relates to the lack of product-destination data which suggests that although the paper communicates interesting pieces of evidence it should be taken cautiously. Complementarities between importing and exporting activities will be better documented at product-destination level (or at least at destination level). Several country-specific characteristics could in principle determine both activities without necessarily exist a complementarity in both activities. One of these drivers is clearly trade policy which, suggested at the introduction, was very important at the time in which the sample was created. Egypt signed a bilateral trade agreement which implies a **gradual** reduction in tariffs with the EU in 2004 which implies a substantial reduction in tariffs that could have driven the decision of firms of both importing and exporting at the same time without necessarily being a feedback effect from one into the other. If there is not enough data available at least I would like to see a measure of aggregate tariffs at an industry level in both regressions.

Another important issue is how representative the sample is. The sample size is relatively small (519 firms) so it would be useful to know how much of the imports, exports and domestic sales these firms account for.

Regarding the exporter and importer premia, the authors should check whether the coefficients are different from one and different from each other. For example, having a quick look to the standard errors reveals that while it is clearly true that two way traders are in general more productive, are larger in both number of workers and sales and have more capital and investment, nothing can be said about the only exporters or only importers. Statements like only exporters have higher premia than only importers should be stated carefully as it seems to be wrong.

Finally, I would reflect about certain results obtained here. TFP affecting the extensive margin of imports but not exports, Firm size does not affect the probability of importing. These results could in principle being challenging from a theoretical point of view: Could the inexistent effect of TFP on exporting being captured by the TFP effect on importing? The result of firm size needs more elaboration: Are you thinking that for some specific sectors (at a very disaggregated level) some foreign inputs are essential to produce so firm size does not affect the probability of importing?