Reply to referee 1

1. The contribution of the paper remains relatively unclear. Generally, a more concise introduction would be helpful.
   a. The author claims that the paper is the first to use the matched panel data for Chinese firms in this context. A few paragraphs below, some other papers are cited that also study export dynamics and exchange rate movements for Chinese firms. What is different in these papers?

   Answer: In fact, the papers concerning China we cited in our paper studied export performance in quantity or price rather than export dynamics, and most of them use aggregated data rather than our matched firm-level data. Even so, we lower the contribution by drop “unlike the literature using aggregate data,” which is literally misleading.

   b. In the introduction, the author also discusses a literature on the relationship between exchange rate movements and the trade balance (i.e. the Marshal-Lerner condition). I don’t understand (and can’t find any explanation) how the paper fits into this context.

   Answer: We agree the point of referee that such literature doesn’t fit the context well, so we accept the suggestion by deleting such literature.

2. My second main comment relates to the methodology and to the empirical specifications.
   a. The author claims that three outcomes are studied, firm entry, firm exit, and firm survival in export markets. Yet, reported results only present the first two outcomes. Is survival equivalent to not-exiting the market? Is a Probit model the appropriate approach? If so, why?

   Answer: We must admit we have only studied two outcome, firm entry and firm exit. We have dropped such inappropriate context in the abstract and introduction.

   b. The empirical setup is not well explained. Which dimensions does the dependent variable have, despite firm and years? According to the estimation equations, stated at the end of section 3.2.1, the real effective exchange rate (REER) – the main variable of interest – varies across years and destinations. Yet, no other destination-specific effects are controlled for. If the dependent variable varies in firm-destination-year a minimum of destination-specific controls is needed.

   Answer: we define entrants in year t as those firms don’t export to country c in year \( t-1 \) but in year \( t \) and denote \( E_{\text{Entry}_{it}} \) as entrants which is binary variable. We define exiters in year \( t \) as those firms that export to country \( c \) in year \( t-1 \) but not in year \( t \) and denote \( E_{\text{Exit}_{it}} \) which is also a binary variable. The reasons why we didn’t control the destination-specific effect are (1) our core variable of interest is REER, which is already destination-specific, (2)there are too many dummies and most of the country dummies are dropped because of multicollinearity.

   c. What makes the REER the appropriate measure for estimating the effects of exchange rate movements? Are there alternative measures that have been used in the literature?

   Answer: We choose the REER to measure exchange rate movements by following

d. As mentioned in the text, for most of the period studied (except for 2.5 years) the Renminbi had been pegged to the US dollar. How much do the results actually tell us about an exchange rate effect, if the main export market (the US) has the same currency?

Answer: as stated in the Li’s paper “Although the RMB/dollar nominal exchange rate has not changed very much before 2005, there have been substantial variations both across destinations and over time in the real RMB exchange rates relative to other countries.”

e. Why is it necessary to estimate productivity in Section 3.2.3? Are these estimates used in the subsequent analysis? If so, the simple Probit model would be no longer appropriate.

Answer: the reason why we estimate productivity is that it is an important factor affecting firms’ export market entry or exit. We have used these estimates in the empirical studies as a control variable.

f. Tables 6 and 7 show the baseline results for market exit and entry, respectively. However, observations across these tables are exactly the same. How is this possible? I would expect that exit can be observed only if there is an active trade relationship prior to this event. Analogously, entry should only be observable (and estimable) only if the firm does not already export.

Answer: We have run all the regressions again and confirm that the observations in the results of entry and exit are the same. The reason is that the dependent variables are binary variables.

g. Results of most robustness checks and extensions do not always show the expected results/signs, particularly for the interaction terms. Does this indicate a specification problem?

Answer: We have also noticed that inconsistency of some terms, but anyway, the signs of our main interesting terms meet our expectation.

I also have a number of other comments/questions:

3. Does the paper tell us the full story? What about imported inputs that become cheaper as the Renminbi appreciates?

Answer: This is a fabulous suggestion which is really beneficial to this topic, but the fact is that it is very difficult to take that factor into consideration. We may discuss it in the future study.

4. Which fixed effects structure is used in the paper? What are location-fixed effects?

Answer: We give the detailed explanation of the fixed effects in the footnote 6 in page 11.

5. The finding that dynamics of more productive firms are less responsive to appreciation could be reconciled with standard trade theories.

Answer: the possible reason to this finding is that more productive firms are more competitive at foreign markets so that they are less responsive to appreciation.
6. Why would we expect different outcomes for large firms, once we have controlled for productivity?

   Answer: we judge whether a firm belongs to large firm by the number of employees. Large scale doesn’t necessarily mean high productivity, especially in China. So we control for productivity.

7. The role of the US dollar peggers, in Section 5.1.4. is hard to believe. While the US is the largest single export destination country for many goods, Hong Kong obviously functions mostly as a port of export. Moreover, the EU has a larger single market than the US, while Japan and South Korea are other important export destinations. None of these countries/markets has a dollar peg. Also, I could not find a more detailed specification of who these other dollar peggers should be.

   Answer: the dollar-peg indeed raise a concern that much of the variation in real exchange rate could be due to price movements in different regions instead of nominal exchange rate movements.

8. The conclusion of the paper advises policy makers that they should increase firms’ competitiveness through “[…] tax mitigation, subsidy”. Why is it desirable for a country to make such efforts?

   Answer: we are aware of that the policy implication cannot be derived from above findings. So we drop this sentence in the paper.