

The Behavior of Imports in Large Crises

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Abstract

Large economic crises are characterized by sharp currency devaluations, collapses in imports and declines in aggregate TFP. The standard mechanism for the decline in aggregate productivity is that firms' access to foreign inputs is restricted when foreign goods become more expensive. The effect of the crisis therefore crucially depends on the degree of substitutability between domestic and foreign inputs in firms' technologies. Because this elasticity is typically estimated above unity, recent quantitative trade models imply that import shares, both at the firm and aggregate level, should decrease after a crisis.

I provide evidence that in fact aggregate import shares *increase* after large depreciations, such as Mexico 1994, Brazil 1998, the East Asian crisis in 1997 and Argentina 2001, among others. Using Indonesian firm-level data, I show that this fact is explained by the entry of new exporters, as well as by existing exporters increasing their export intensity, after the devaluation. Because exporting is an import-intensive activity, this can account for the increase in the aggregate import share. These facts suggest that understanding the macroeconomic effects of large crises requires a joint account of the import and export behavior of firms.

To explore this hypothesis, I develop a model with firm heterogeneity where exporting and importing decisions are made jointly. Exporting and importing are complementary activities because increases in revenue and reductions in unit cost interact in the profit function. I discipline the model to match salient features of the Indonesian micro data. I explore the effects of a devaluation on aggregate productivity, and compare the results to the standard model of the literature which only features the importing channel. [work in progress].

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