

Production Chains, Exchange Rate Shocks and Firm Performance*

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Very preliminary. Comments welcome.

Abstract

This study examines the effect of exchange rate shocks on the performance of direct exporters and their suppliers (i.e. indirect exporters) through domestic value chains. Using unique Japanese firm-level production network and balance sheet data over the period 1995-2013, we provide first-hand evidence at both the direct exporter- and indirect exporter-level. We find that a depreciation of Yen significantly increased the exports of Japanese firms but did not decrease their imports at the same time. Both the sales and profitability of Japanese exporters improved significantly with yen depreciation. Importantly, we find significant and robust responses in sales and profitability from indirect exporters to exchange rate shocks of downstream exporting firms. The responses in sales and profitability are heterogeneous among direct and indirect exporters by relative firm size and upstreamness in the production chains.

Keywords: F14, F31, L14

JEL classification: Production network, Exchange rate, Export, Indirect export

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