

The Effect of Uncertainty on International Trade: Evidence from Japanese Firms

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October 2023
preliminary version

Abstract

This paper investigates the effect of economic policy uncertainty on exports, using approximately 4,000 Japanese listed firms per year from 1997 to 2022. The economic policy uncertainty index (EPU) proposed by Baker et al. (2016) is employed as the measure of uncertainty. We found that EPU significantly have a negative effect on firm-level export inclusive of extensive and intensive margins. In addition, companies that invest more in R&D and capital are more likely to reduce exports when they face high-level uncertainty. This result suggests that a portion of the decline in exports amid the recent escalation in economic policy uncertainty can be attributed to reduced investments.

Keywords: export; R&D; investment; uncertainty; firm-level data

JEL classifications: F14; F13; F61; D25; D80

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