Intensive and Extensive Margin of manufacturing exports: impact of commodity windfalls

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Abstract

I exploit the exogenous variation in the windfalls generated by the increase in prices of all major commodities during the early 2000s to assess the impact of commodity windfalls on the intensive and margin of manufacturing exports. I found that the windfalls had a negative effect on both the intensive and extensive margins of the more exportable manufacturing products relative to the less exportable manufacturing products. However, the negative impact observed on aggregate at the extensive margin is largely driven by new exporters while that of the intensive margin is driven by incumbent exporters. The result underscores the fact all exporters are not alike, and the effects differ depending on the type of exporter. I also found that commodity windfalls increase the wages and decreases the labor productivity of the highly exportable manufacturing products relative to low-exportable manufacturing products. This implies that commodity windfalls increase the cost of exporting and only the most productive firms can enter the market. Also, public expenditure experienced a significant boost during the boom era. However standard policy prescriptions such as expenditure rules are effective in dampening the effects of commodity windfalls at the extensive margin but not at the intensive margin. Natural resource funds on the other hand do not play any significant role in dampening the negative effects at both margins.

Keywords: Commodity windfalls, Manufacturing exports, Intensive margin, Extensive margin, Natural Resource Funds

JEL classification codes: F14, Q02

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1 Introduction

What is the impact of commodity windfalls due to price increases or a new discovery on the intensive and extensive margins of manufacturing exports? I exploit the windfalls generated by the 2000s commodity booms to answer this question within the framework of a structural gravity model of trade. For about a decade (between 2003 and 2014), commodity exporting countries enjoyed one of the largest and longest commodity booms in history. While the boom of the 2000s brought rapid economic growth and increased government revenue in commodity-exporting countries, it is still unclear how these has impacted non-resource exports. Theoretically, commodity windfalls increases domestic demand, induces wage increases (cost push factor), leads to an appreciation of the real exchange making the non-booming tradeable sector less competitive according to the predictions of the Dutch disease model (Corden and Neary, 1982; Corden, 1984). This suggests that the windfalls generated by a resource boom should cripple the non-resource exports. However, commodity windfalls can decrease non-resource exports by either reducing the number of firms that export (extensive margin) or reduce the level of export sales per exporter (intensive margin) or both. This is in line with recent heterogeneous models of trade (Melitz, 2003; Chaney, 2008). It is therefore important to understand how commodity windfalls affect the two margins and the relative dominance of each as the policy implications may be different.

In this paper, I combined country specific commodity terms of trade (CTOT) with country-product–destination–year level manufacturing export data for 58 commodity exporters for the period 2003 to 2013. Using CTOT as a proxy for windfalls is important because almost all commodities experienced a boom in prices during the period under consideration. Secondly no country is a net producer of all commodities in the world. Therefore, the extent to which movements in commodity prices translates into windfalls for each country depends on the composition of both their exports and imports. The implication is that spikes in commodity prices will affect each country differently. The identification assumption of the paper is that the boom of the 2000s

is exogenous to the countries in the sample used in the study. The boom, driven by China's rapid economic growth, increased global commodity prices, which was then followed by production responses from commodity producers. This assumption could be problematic if there are strategic responses from the producing countries that affect the prices. This should not be a problem[1] for the identification strategy as the individual countries are price takers and cannot significantly affect the prices on the international market.

I found that a 1% increase in commodity windfalls leads to a 1% decrease in the number of exporters (extensive margin) and 3 % decrease in the value of exports per exporter (intensive margin) of the more exportable manufacturing products relative to less-exportable manufacturing products. However, the negative impact at the extensive margin is driven by new exporters. That is the number of new exporters that enter the market decreases. The negative effect at the intensive margin on the other hand is driven by incumbent exporters i.e., the export value per the number of incumbents of highly exportable manufacturing products decreases relative to less-exportable manufacturing products. I also found that the wages of the more-exportable manufacturing products increase relative to less-exportable manufacturing products which led to a decrease in the relative labor productivity of the former. This implies that commodity booms increase the cost of entering the export market in line with heterogeneous models of trade. Therefore, only the most productive firms tend to enable market. However conditional on entering the export market, these new exporting firms tend to more productive. The increase in wages is line with the prediction of spending effect of the core Dutch disease model. Indeed, I found that the boom led to an increase in public consumption and investment. I therefore proceeded to study the role of Natural resource funds (NRFs) and expenditure rules (ERs) in ameliorating or amplifying the observed effect. NRFs and ERs if effective should limit the level of expenditure thereby reducing the negative impact of commodity windfalls in the domestic economy. I found that ERs are effective in reversing the observed negative

[1]The sample is limited to developing countries. Also I exclude all the major producers as a robustness check and the results remain similar.

impact at the extensive margin but not the intensive margin. NRFs on the other hand do not have any effect at both the intensive and extensive margins.

The paper is related to the empirical literature on Dutch disease. This strand of literature has been conducted at the country and subnational levels. Almost all subnational level studies found a positive effect of a resource boom while the result has been mixed at the national level. Using a quasi-experimental method, Cavalcanti et al. (2019) found that oil discoveries in Brazilian municipalities have a positive effect on local economic activity. This is line with Caselli and Michaels (2013) who also found that resource windfalls increase spending on public goods and services in oil-rich Brazilian municipalities. Using a similar approach in Indonesia, Cust et al. (2019) found that oil and gas windfalls leads to an increase in output, employment, and labor productivity. A more recent paper at the subnational level is that of Pelzl and Poelhekke (2021) which showed that the effect depends on the extraction method. Specifically, they showed a positive effect of mining booms on manufacturing in capital intensive mining districts while a negative effect is found in labor intensive mining districts. Aragón et al. (2018) also found that coal mine closures in the UK led to an increase in manufacturing employment. On the other hand, the country level studies are largely inconclusive. Ismail (2010) found a negative effect of a permanent increase in oil prices on manufacturing while Rajan and Subramanian (2011) found that aid have a negative effect on high tradeable manufacturing exports. Few of the country level studies investigated the Dutch disease empirically using a gravity framework. Harding and Venables (2016) found that a dollar increase in resource revenues decreases non-resource exports and increase imports by 44 and 23 cents respectively. Stijns (2003) also found that a 1% increase in an energy exporting country's net energy exports leads to an 8% decrease in real manufacturing exports. A more closely related paper is that of Smith (2019). The author examined the impact of the 1970s oil price boom and the subsequent bust on non-oil economic activity in oil-dependent countries. The author found that manufacturing exports and output increased significantly relative to non-oil countries by increasing local demand. This study focuses

on the recent commodity boom. Also, unlike all the above studies, the present paper is the first to study the impact of commodity booms on the intensive and extensive margins of manufacturing exports. The paper is also related to the empirical literature on extensive and intensive margins of trade. Using French firm level data, Buono and Lalanne (2012) showed that a decrease in tariffs promoted during the 90s by the Uruguay Round multilateral trade agreement did not lead more firms to export and that it only induced incumbent exporters to increase their shipments. I provide additional evidence that commodity booms can act as a cost push factor on both margins. In addition, I examined the effect at both margins by the type of exporter (entrants and incumbents). The extensive margin depends on the fixed cost firms must pay upfront when they enter the world market while the intensive margin depends on the variable trade cost they face once they enter the market. For new entrants, the windfalls generated by commodity boom could act as a cost shock that raises the cut-off point for entry into the export markets while for incumbents it raises the cost of staying in the export market or introducing new products. Finally, I contribute to the emerging literature on the effectiveness of Natural resource funds (NRFs) and fiscal rules particularly expenditure rules in amplifying or ameliorating the negative impact of commodity booms. NRFs in the form of stabilization or savings funds reduce the number of windfalls that is spent in the economy and therefore expected to ameliorate the negative effect if they are effective. Mohaddes and Raissi (2017) found that NRFs dampen the negative effect of commodity price volatility on economic growth. I found that this is not the case for manufacturing exports at both the intensive and extensive margins.

The rest of the paper is structured as follows. A brief description of the commodity booms of the 2000s is presented in section 2 followed by theoretical foundation of the gravity model in section 3. The empirical strategy and data are described in section 4 while the empirical results are presented in section 5. The potential mechanisms driving the results are investigated in 6 while the role of NRFs are investigated in section 7. Robustness tests are presented in section 8 and conclusions in section 9.

2 The 2000 Commodity booms

The literature has identified 3 main episodes of commodity booms (see Radetzki (2006) for a detailed discussion of the 3 booms). The booms of early 1950s and the 2000 were driven by demand factors while that of 1973-74 was caused by a combination of supply and demand factors. The 2000s commodity boom is arguably the longest and involved three main commodities, energy, metals, and agriculture (World Bank, 2009). As shown in Figure 1, the prices of all commodities especially that of metals and energy began to increase sharply in 2003. As of 2008, the price of metals and energy commodities were more than three times their levels in 2000. The surge in prices were driven mainly by demand for raw material in emerging and developing countries led by China and India to meet an unexpected and persistent acceleration in economic growth. The prices declined (still above 2000 levels) during the initial stages of the 2008 financial crisis but rebounded again reaching a peak in 2011. The producing countries responded to the unexpected price increase albeit at a slower pace.

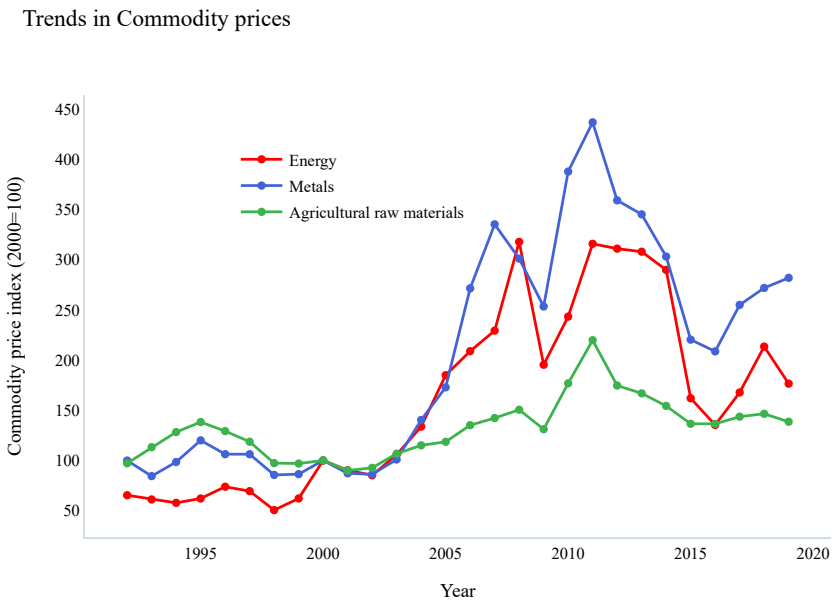

Figure 1: Trend in Commodity prices
Source: IMF, Primary Commodity Price System database

3 Theoretical Foundation of the gravity model

Following Anderson and Van Wincoop (2004), the structural gravity model of trade can be denoted as follows;

$$X_{ijt} = \frac{Y_{it}E_{jt}}{Y_{wt}}\left(\frac{t_{ijt}}{P_{jt}\Pi_{it}}\right)^{1-\sigma} \tag{3.1}$$

X_{ijt} denotes the value of exports from exporting country i to importing country j at time t. Y_{it} is the total value of production in exporting country i, E_{jt} is the value of total expenditure in importing country j at time t, Y_{wt} is the value of world output at time t, t_{ijt} denotes the bilateral trade costs between exporting country i and importing country j at time t, σ is the elasticity of substitution between all goods from different exporting and importing countries which is assumed to be greater than one. P_{jt} and Π_{it} are outward and inward multilateral resistance terms respectively. The outward multilateral resistance measures exporting country i's ease of access to foreign market while the inward multilateral resistance measures importing country j's ease of access to domestic market. The intuition behind equation (3.1) is that larger or wealthier countries trade more with each other and countries trade in proportion to their proximity to each other. Further the multilateral resistance term indicates that bilateral trade also relies on how distant or remote the countries are from the rest of the world. According to Anderson and Van Wincoop (2004), producers and consumers in countries that are more multilaterally isolated tend to sell and/or buy goods more with each other, all else being equal. By construction, the structural outward and inward multilateral resistance terms note the fact that any changes in trade barriers between a pair of exporting and importing countries would have an impact on all other countries in the world. Thus, the estimates of the impacts of the determinants of trade flows can be severely biased due to the omission of these multilateral resistances (Baldwin and Taglioni, 2006).

4 Methodology and Data

4.1 Empirical Strategy

Taking the natural log of equation (3.1) and adding the main variables of interest leads to;

$$lnX_{ijpt} = \beta_1 windfall_{it-1} + \beta_2 y_{it} + \beta_3 y_{jt} + \beta_4 RTA_{ijt} + \eta H_{ij} + \alpha_{it} + \omega_{jt} + \nu_{ijp} + \epsilon_{ijt} \quad (4.1)$$

$windfall_{it-1}$ is the natural log of commodity terms of trade, y_{it} and y_{jt} are GDP per capita of the exporting country i and importing country j respectively, RTA_{ijt} is a dummy variable that takes the value of 1 if there exists a regional trade agreement between trading partners i and j at time t by and zero otherwise. H_{ij} is a vector of traditional gravity bilateral trade costs variables such as bilateral distance, common language, common colony, etc. ν_{ijp} is country pair-product fixed effect[2]. The introduction of ν_{ijp} serves two (2) purposes, it first eliminates or accounts for the unobservable linkages between the endogenous covariate trade policy (RTA_{ijt} in this case) and the error term in gravity regressions and thus accounting for the endogeniety[3] of this variable. Secondly, the set of pair-product fixed effects will absorb all bilateral time-invariant covariates that are used in standard gravity regressions i.e H_{ij}. This prevents the situation where the researcher must pick/select which of these variables to include in the model. Also, the pair-product fixed effects are a better measure of bilateral trade costs than the standard set of gravity variables (Agnosteva et al., 2019; Egger and Nigai, 2015). α_{it} is exporting country-time fixed effect which controls for the outward multilateral resistances in exporting country i at time t, ω_{jt} is importing country-time fixed effect which controls for the inward multilateral resistances in importing country j at time t. However, the inclusion of these fixed effects does not allow one to estimate our main parameter of interest, β_1 and other observable and unobservable

[2]The paper omits the vector H_{ij} in specifications where ν_{ijp} is included

[3]For instance, trade policy variables may suffer from "reverse causality", because all else equal, a given country is more likely to liberalize its trade with another country that is already a significant trade partner. (Yotov et al., 2016)

country-specific characteristics, which vary at the importing and exporting country levels. To deal with this issue, I define a dummy variable called exportability (expbly) which takes a value of 1 of if a manufacturing product historically had an exports to value-added ratio above the median according to World Integrated Trade Solution (WITS) data (Rajan and Subramanian, 2011). These are mainly textiles, clothing, leather, and footwear (H2 product codes 50 to 63). This variable is then interacted with the main variable of interest. This interaction ($boom_{it-1} * expbly_p$) captures the idea that not all manufacturing products are the same: Some of them tend to be more exportable than others in developing countries. Therefore, according to the predictions of the core Dutch model, manufacturing products that are more exportable should be affected more by commodity booms compared to those that are less exportable. Furthermore, two (2) other econometric issues need to be dealt with: zero trade flows and heteroskedasticity. A clear drawback of estimating (4.1) with the OLS is that it cannot take into account the information contained in the zero trade flows, because these observations are simply dropped from the estimation sample when the value of trade is transformed into a logarithmic form. This problem become more pronounced as I disaggregate manufacturing exports into extensive (number of exporters) and intensive margins (average export per exporter). I estimate the structural gravity model in multiplicative form (the dependent variable is in levels instead of logs) instead of logarithmic form using Poisson Pseudo Maximum Likelihood (PPML) as proposed by Silva and Tenreyro (2006, 2011). The authors note that the PPML estimator leads to more robust and consistent coefficient estimates than the standard log-linear ordinary least squares (OLS) method in the presence of heteroskedasticity. The authors further note that the performance of the PPML estimator is consistent irrespective of whether the ratio of zero trade flows is low or high in the dataset. Finally, the additive property of the PPML estimator ensures that the gravity fixed effects are identical to their corresponding structural terms (Arvis and Shepherd, 2013; Fally, 2015). Taken together the final econometric specification is thus given as;

$$X_{ijpt} = exp[\beta_1 boom_{it-1} * expbly_p + \beta_2 RTA_{ijt} + \alpha_{it} + \omega_{jt} + \nu_{ijp}] * \epsilon_{ijt} \quad (4.2)$$

One of the nice features of model (4.2) is that the main coefficient of interest β_1 can still be interpreted as an elasticity. The identification assumption used is that, the boom of the 2000s is exogenous to the countries in the sample used in the study and therefore the windfall gains are driven by factors exogenous to these countries. The boom, driven by China's rapid economic growth, increased global commodity prices, which was then followed by production responses from commodity producers. The specification also controls for any time invariant firm level and country level factors that may affect the decision to enter or exit the export market. However the specification does not account for time variant firm level characteristics. Equation (4.2) is estimated for all exporters and separately for entrants and incumbents to study the heterogeneity of the impact of commodity booms by the type of exporter.

4.2 Data

The World Bank Exporter Dynamics Database (EDD) contains aggregated measures on export-sector characteristics and dynamics presented at various levels (Fernandes et al., 2016). The EDD includes measures on

1. export sector characteristics in each country: e.g., number of exporters, export value per exporter and exporter growth rates. These characteristics are disaggregated by the type of exporter (incumbents and entrants);

2. concentration/diversification: e.g., Herfindahl index, share of top exporters, number of products and destinations per exporter);

3. firm, product and market dynamics: e.g., entry, exit, first-year and second-year survival rates of entrants);

4. unit prices: e.g., per exporter of a given product

The measures are constructed using exporter-level customs data as input, covering the universe of annual exporter transactions for 70 countries. The study used the country–HS2-digit product–destination–year level for the manufacturing sector.

4.2.1 IMF commodity terms of trade database

A comprehensive database of country specific commodity price indices for 182 economies covering the period 1962 to 2018. For each country, the change in the international price of up to 45 individual commodities is weighted using commodity-level trade data. The weight of each commodity is given by the share of net exports of that commodity in aggregate output. The commodity terms-of-trade index (ctot) proxies the windfall gains and losses of income associated with changes in world prices. Variations in the commodity terms-of-trade index provide an estimate of the windfall gains and losses of in- come associated with changes in international prices. That is, a one percentage point change in the commodity terms-of-trade index can be interpreted as a change in aggregate disposable income equivalent to one percentage point of GDP (Gruss and Kebhaj, 2019).

4.2.2 Manufacturing sector product level data

I also use product level data on manufacturing wages, value added and employment from the United Nations Industrial Development Organization's (UNIDO) Industrial Statistics Database.

4.2.3 Other data

Data on GDP per capita in both the destination are sourced from World Bank (2020). Data on conventional gravity bilateral variables that do not vary over time such as bilateral distance,common language,common legal origin, common religion, common colonial ties were taken from CEPII GeoDist database Finally, data on regional trade agreements were taken from Mario Larch's Regional Trade Agreements Database from Egger and Larch (2008).

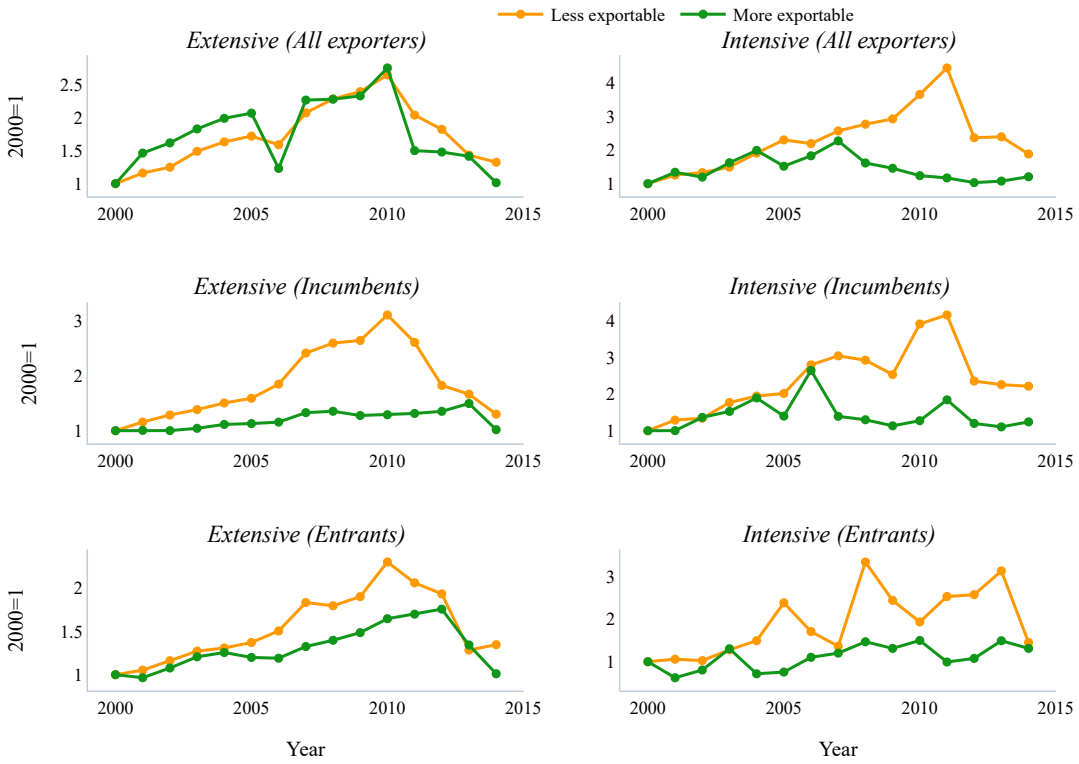

Figure 2: Trend in Extensive and Extensive Margin of Manufacturing export

Source: Own Construct based on Fernandes et al. (2016)

Notes: The figure was constructed by normalizing the extensive and extensive margins to 1 in 2000 for each country and then taking averages across countries for each year.

5 Empirical Results

I present and discuss the empirical results in this section. The results for all exporters are presented in Table 1. The first four columns report the results for the extensive margin while that of the intensive margins are reported in the last four columns (columns 5 to 8). Columns 1, 2, 5 and 6 controls for the traditional gravity time invariant bilateral trade costs, columns 3, 4, 7 and 8 replaces them with the pair-product fixed effects. Columns 1, 3, 5 and 7 also controls for GDP per capita for both the importing and the exporting country while they are replaced with importer-year and exporter-year fixed effects in columns 2, 4, 6 and 8. The results indicate a negative effect of commodity windfalls on manufacturing products that are more exportable at both the extensive and intensive margins relative to those that are less exportable. The impact of commodity windfalls becomes statistically significant when multilateral resistance terms have been accounted for and is larger when all time-invariant bilateral variables are controlled for. Specifically, the effect of commodity booms on the extensive margin is negative but statistically insignificant with the inclusion of traditional gravity control variables and year fixed effect (column 1). The estimate however becomes statistically significant when the year fixed fixed effects are replaced with importer-year and exporter-year fixed effects (column 3) which points to the importance of controlling for outward and inward multilateral resistance. The windfall coefficient becomes larger when the traditional gravity variables are replaced with pair-product fixed effects (column 3) but remains statistically insignificant. The magnitude of the effect remains largely the same albeit statistically significant in the preferred specification (column 4). Using the preferred specification (column 4), the results indicates that commodity windfalls decrease the number of exporters of manufacturing products that more exportable by decreases by 0.5% relative to less exportable manufacturing products.

On the other hand, the intensive margin is less sensitive to the inclusion and exclusion of control variables. The magnitude of the effect is larger when all time-invariant bilateral variables are controlled for. Specifically, controlling for traditional gravity

variables indicates that the average export value per firm decreases by 0.2% (columns 5 and 6) for manufacturing products that are more exportable relative to those that are less exportable while it decreases by 3% when all time-invariant bilateral variables are accounted for (column 8). That is at aggregate level, the number of exporters and average export per exporters of the more exportable manufacturing products tend to decrease more. These results are generally in line with the prediction of the Dutch disease model and some empirical findings.

Next, I estimate model (4.2) separately for entrants (see Table 2) and incumbents (see Table 2). This allows me to consider the heterogeneity of the type of exporter. For the sake of brevity only the preferred specifications (columns 4 and 8) are discussed here. For entrants, the extensive margin of manufacturing products that are more exportable decreases by 0.93% and the intensive margin increases by 2.5% relative to those that are less exportable. On the other hand, I find that the effect of the commodity windfalls on the extensive margin of incumbents is positive although not statistically different from zero. Also, the intensive margin of manufacturing products that are more exportable decreases by 2.4% for the incumbents. This suggests that the negative impact observed on aggregate at the extensive margin is largely driven by new exporters while that of the intensive margin is driven by incumbent exporters. A likely explanation of the results can draw from the heterogeneous model of trade (Melitz, 2003). The intensive margin is largely driven by fixed cost of entering the export market while the extensive margin is driven by the variable cost of exporting conditional on entering the market. New firms must incur the fixed cost to enter the market. On the other hand, incumbents still must incur some cost related to exporting into new destinations or introducing new products. Commodity windfalls therefore act a cost-push factor at both the intensive and extensive margins. The results suggests that commodity windfalls increase the cost of entry for the entrants and the variable cost of exporting to new markets for incumbents. The result underscores the fact all exporters are not alike, and the effects of commodity windfalls differ depending on the type of exporter.

Table 1: Effect of commodity windfalls on the extensive and intensive margin of manufacturing export (all exporters)

	Extensive				Intensive			
	1	2	3	4	5	6	7	8
windfall_t-1 x expbly	-0.00781	-0.0399	-0.362	-1.011**	-0.232***	-0.212***	-1.373	-3.033**
	(0.0631)	(0.0642)	(0.938)	(0.415)	(0.0361)	(0.0414)	(1.494)	(1.375)
windfall_t-1	1.447		-0.219		-1.875		-1.158	
	(1.740)		(0.573)		(2.420)		(0.738)	
GDP per capita(destination)	0.163		0.512***		0.233***		0.802***	
	(0.193)		(0.151)		(0.0625)		(0.163)	
GDP per capita(origin)	0.340**		0.0994		0.176		0.788**	
	(0.156)		(0.327)		(0.128)		(0.316)	
RTA	0.392**	0.00109	0.00912	0.0366	0.442	0.114	0.107	0.0137
	(0.190)	(0.106)	(0.0647)	(0.0351)	(0.307)	(0.176)	(0.116)	(0.0750)
Contiguity	1.144***	0.578***			0.573***	-0.00689		
	(0.423)	(0.107)			(0.217)	(0.171)		
distance(logs)	-0.115	-0.733***			0.389**	-0.0551		
	(0.0885)	(0.0808)			(0.193)	(0.103)		
Colony	0.472***	0.404***			0.962*	0.846*		
	(0.140)	(0.128)			(0.503)	(0.438)		
Religion	-0.562	-0.126			-0.278	0.373*		
	(0.453)	(0.0812)			(0.290)	(0.226)		
Legal	0.129	0.0878			0.243	0.163		
	(0.259)	(0.0967)			(0.187)	(0.152)		
Language	0.0910	0.360***			-0.507***	-0.715***		
	(0.207)	(0.113)			(0.196)	(0.168)		
Observation	363161	363161	363161	363161	363161	363161	363161	363161
Year FE	✓		✓		✓		✓	
Importer x Exporter x Product FE			✓	✓			✓	✓
Exporter x Year FE		✓		✓		✓		✓
Importer x Year FE		✓		✓		✓		✓

*Notes: The table presents the estimates of the effect of 2000s commodity boom on manufacturing exports along the extensive and intensive margins for all exporters. The dependent variables are the number of manufacturing exporting firms (Extensive Margin) and the export per exporting firm (Intensive Margin). windfall is the log of commodity terms of trade. expbly is the exportability of manufacturing product and takes a value of 1 of if a manufacturing product historically had an exports to value-added ratio above the median according to World Integrated Trade Solution (WITS). Robust standard errors clustered at exporting country level are in parentheses. ***, **,* denotes 1%, 5% and 10% level of significance respectively.*

Table 2: Effect of commodity windfalls on the extensive and intensive margin of manufacturing export (entrants)

	Extensive				Intensive			
	1	2	3	4	5	6	7	8
windfall_t-1 x expbly	-0.00850	-0.0390	-0.272	-0.950**	-0.179***	-0.157***	5.553**	2.464*
	(0.0559)	(0.0582)	(1.160)	(0.397)	(0.0411)	(0.0433)	(2.735)	(1.358)
windfall_t-1	1.342		0.235		-3.172**		-1.675	
	(1.681)		(0.602)		(1.402)		(1.488)	
GDP per capita(destination)	0.116		0.443***		0.0790		-0.281	
	(0.177)		(0.163)		(0.0511)		(0.444)	
GDP per capita(origin)	0.317**		0.0504		0.188		-0.275	
	(0.139)		(0.321)		(0.121)		(1.387)	
RTA	0.314*	0.00580	0.0703	0.0692	0.183	0.115	0.0415	-0.00729
	(0.183)	(0.0965)	(0.0976)	(0.0473)	(0.226)	(0.104)	(0.101)	(0.0936)
Contiguity	0.948***	0.495***			0.347**	0.0627		
	(0.320)	(0.0979)			(0.167)	(0.136)		
distance(logs)	-0.145*	-0.680***			0.362***	0.261***		
	(0.0780)	(0.0722)			(0.0759)	(0.0740)		
Colony	0.474***	0.400***			1.077*	0.789**		
	(0.127)	(0.108)			(0.639)	(0.341)		
Religion	-0.618	-0.0592			-0.293	0.496***		
	(0.430)	(0.0660)			(0.412)	(0.182)		
Legal	0.208	0.105			0.210	0.118		
	(0.209)	(0.0891)			(0.170)	(0.0855)		
Language	0.0272	0.318***			-0.377**	-0.684***		
	(0.207)	(0.102)			(0.182)	(0.139)		
Observation	329319	329319	329319	329319	329319	329319	329319	329319
Year FE	✓		✓		✓		✓	
Importer x Exporter x Product FE			✓	✓			✓	✓
Exporter x Year FE		✓		✓		✓		✓
Importer x Year FE		✓		✓		✓		✓

*Notes: The table presents the estimates of the effect of 2000s commodity boom on manufacturing exports along the extensive and intensive margins for entrants. The dependent variables are the number of manufacturing exporting firms (Extensive Margin) and the export per exporting firm (Intensive Margin). windfall is the log of commodity terms of trade. expbly is the exportability of manufacturing product and takes a value of 1 of if a manufacturing product historically had an exports to value-added ratio above the median according to World Integrated Trade Solution (WITS). Robust standard errors clustered at the exporting country level are in parentheses. ***, **,* denotes 1%, 5% and 10% level of significance respectively.*

Table 3: Effect of commodity windfalls on the extensive and intensive margin of manufacturing export (incumbents)

	Extensive				Intensive			
	1	2	3	4	5	6	7	8
windfall_t-1 x expbly	0.00826	-0.0269	-0.470	-0.761	-0.243***	-0.226***	-1.656	-2.499*
	(0.0675)	(0.0685)	(0.801)	(0.567)	(0.0338)	(0.0419)	(1.563)	(1.331)
windfall_t-1	0.958		-0.0933		-0.553		0.272	
	(1.676)		(0.557)		(3.161)		(1.652)	
GDP per capita(destination)	0.166		0.0448		0.259***		0.358***	
	(0.197)		(0.216)		(0.0720)		(0.0467)	
GDP per capita(origin)	0.280*		-0.486		0.165		1.734**	
	(0.154)		(0.456)		(0.150)		(0.745)	
RTA	0.375*	-0.0220	0.972***	-0.0112	0.363	0.0566	-0.0677	-0.00895
	(0.192)	(0.112)	(0.251)	(0.0163)	(0.305)	(0.184)	(0.120)	(0.0697)
Contiguity	1.130***	0.653***			0.531**	-0.0816		
	(0.426)	(0.112)			(0.256)	(0.198)		
distance(logs)	-0.107	-0.688***			0.323*	-0.148		
	(0.0837)	(0.0824)			(0.183)	(0.133)		
Colony	0.433***	0.364**			1.092**	0.842*		
	(0.151)	(0.154)			(0.527)	(0.468)		
Religion	-0.628	-0.254***			-0.383	0.347		
	(0.433)	(0.0842)			(0.324)	(0.290)		
Legal	0.130	0.0723			0.237	0.134		
	(0.257)	(0.0944)			(0.201)	(0.184)		
Language	0.0988	0.365***			-0.563**	-0.707***		
	(0.205)	(0.117)			(0.219)	(0.233)		
Observation	293689	293689	293689	293689	293689	293689	293689	293689
Year FE	✓		✓		✓		✓	
Importer x Exporter x Product FE			✓	✓			✓	✓
Exporter x Year FE		✓		✓		✓		✓
Importer x Year FE		✓		✓		✓		✓

*Notes: The table presents the estimates of the effect of 2000s commodity boom on manufacturing exports along the extensive and intensive margins for incumbents. The dependent variables are the number of manufacturing exporting firms (Extensive Margin) and the export per exporting firm (Intensive Margin). windfall is the log of commodity terms of trade. expbly is the exportability of manufacturing product and takes a value of 1 of if a manufacturing product historically had an exports to value-added ratio above the median according to World Integrated Trade Solution (WITS). Robust standard errors clustered at the exporting country level are in parentheses. ***, **,* denotes 1%, 5% and 10% level of significance respectively.*

6 Mechanisms

6.1 Manufacturing sector indicators

I empirically investigate the potential mechanisms driving the main result in this section. The core Dutch disease model predicts that increase in spending due to windfall induces an increase in wages (cost push) and thus reduces employment in the non-booming sector. In order to test if this mechanism is at work, the paper used product level data on manufacturing sector wages, employment, and value added from United Nations Industrial Development Organization's (UNIDO) Industrial Statistics Database using the model below;

$$y_{ipt} = \beta_1 boom_{it-1} * expbly_p + \beta_2 boom_{it-1} + \beta_3 X_{it-1} + \omega_t + \nu_{ip} + \epsilon_{it} \tag{6.1}$$

where y_{ipt} is the log of the manufacturing sector variable as mentioned above; X_{it-1} comprises log of GDP per capita and its square, log of population. They enter with a lag to limit endogeneity issues. ω_t is time fixed effect while ν_{ip} is exporting country-product fixed effect. In addition, I compute productivity as value added per number of employees. The results are shown in Table 4. Contrary to the predictions of the Dutch disease model, the study found that 2000 commodity booms led to a decrease in manufacturing wages. However, the reduction in wages is lesser for more exportable manufacturing products. This implies that the boom induces a relatively higher wages for more exportable manufacturing sectors compared to that of the low exportable manufacturing sectors. The study also found that the 2000 commodity booms led to a decrease in employment. Again, the negative impact on employment is higher for the more exportable manufacturing products. Furthermore, there is no statistically significant effect of the boom on productivity although the results indicate a drop in the productivity of more exportable manufacturing sector. The net effect of the above result is a reduction in the value added of more exportable manufacturing products relative to less exportable one in line with the prediction of the Dutch disease model. The results can be explained from the point of view of heterogeneous model

of trade. Commodity windfall act as cost push factor by increasing the wages and reducing the labor productivity of more exportable manufacturing relative to that of less exportable manufacturing products. This reduces the number of new exporters that enter the market. Also, the firms that end up entering the market for the first time can export more because they are the more productive firms.

6.2 Consumption and Investment

Did the 2000 commodity boom lead to an increase in government spending? In order to answer this question I studied the impact of the windfall on consumption and investment using a local projection a la Jordà (2005);

$$y_{it+k-1} - y_{it-1} = \beta_1^k boom_{it-1} + \beta_2 X_{it-1} + \omega_t + \nu_i + \epsilon_{it} \tag{6.2}$$

Where y_{it} comprises the natural logarithm of real private consumption, real government consumption, real government investment and real private investment. Consumption is defined as consumption expenditures and come from IMF World Economic outlook database. Public and Private Investment data comes from IMF Investment and Capital Stock database. The impulse responses at horizon k are given by the vector $\{\beta_1^k\}$ and captures the effect of the commodity booms at horizon k. The impulse responses are shown in Figure 3. Government consumption experienced a positive boost for the first three years before declining while private consumption remained relatively the same and not different from zero. Public investment also followed a similar pattern as the public consumption i.e., public investment increased for the first three years and then stabilized before experiencing a decline. Unlike private consumption, private investment experienced a slight positive boost. The results therefore indicates both government consumption and investment increased during the period under consideration while house consumption and private investment remained relatively stable. This is in line with the spending effect of the core Dutch disease model where a boom in commodity prices tend to increase public expenditure thereby increasing aggregate demand.

Table 4: Effect of commodity windfalls on manufacturing sector indicators

	Wages	Employment	Productivity	Capital
windfall_t-1	-0.429**	-0.355**	-0.201*	0.254
	(0.173)	(0.153)	(0.107)	(0.299)
windfall_t-1 x expbly	-0.0566	0.0802	-0.402*	6.647***
	(0.350)	(0.311)	(0.217)	(0.606)
Observation	15951	15951	15951	15951
Year FE	✓	✓	✓	✓
Country x Product FE	✓	✓	✓	✓

*Notes: The table presents the estimates of the effect of 2000s commodity boom on manufacturing sector indicators. Employment is defined as the Number of employees and productivity is defined as value added per employee. windfall is the log of commodity terms of trade. expbly is the exportability of manufacturing product and takes a value of 1 of if a manufacturing product historically had an export to value-added ratio above the median according to World Integrated Trade Solution (WITS). Robust standard errors clustered are the country level are in parentheses. ***, **, * denotes 1%, 5% and 10% level of significance respectively.*

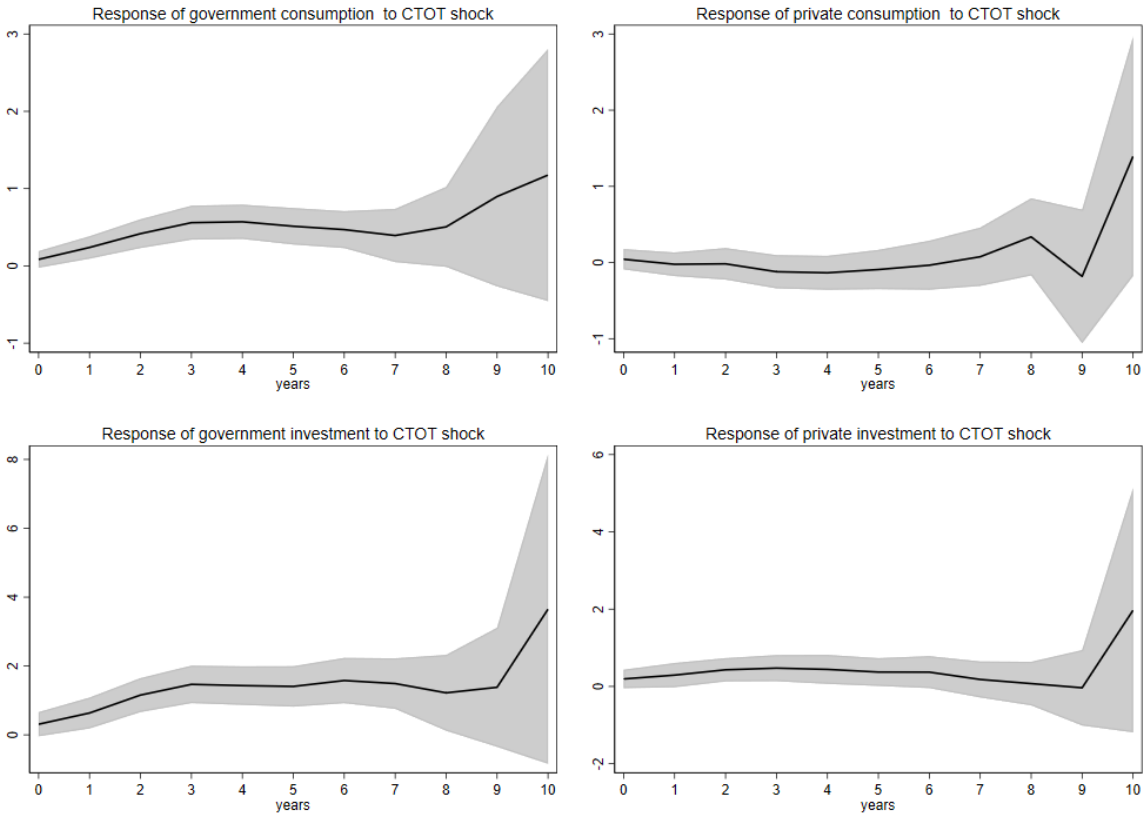

Figure 3: Response of consumption and investment to Commodity Terms of Trade Shock

Note: : The figure presents the impulse response of commodity windfalls on consumption and investment.The shaded area are 90 percent confidence bands.

7 Role of Natural Resource Funds (NRFs) and Expenditure Rules (ERs)

Given the complications associated with the management of commodity revenues and the volatility that they transmit into the economy, various policies have been proposed to help mitigate the negative effects of commodity booms. One of such is the establishment of NRFs (see for example Davis et al. (2003)). This is based on the Norwegian model where the revenues can be saved in an offshore account;

Stabilization Funds(STF): aims to insulate the budget and the country's economy from commodity price volatility and play the role of savings fund in the short term.

Saving Funds(SF): are intended to transfer non-renewable assets into a diversified portfolio of international financial assets to provide for future generations or other long-term objectives.

While SFs mainly play the role of savings in both the short and long run, STFs play the role of savings in only the short run. Therefore, both funds can be considered to play the role of savings in the short run. One of the main intuitions behind this is that saving revenues abroad has the advantage of reducing the amount of windfalls that is spent in the domestic economy which limits inflation, real exchange rate appreciation and contraction of other traded sectors (Wills et al., 2016). As shown in the previous section, the windfalls led to an increase in public expenditure. Therefore, if NRFs are effective they should reduce the negative effect of commodity booms. Another policy response is to put a numerical constraint on the level of expenditure known as expenditure rules (ER) either in percent of GDP, growth rates or absolute terms. If this is effective, the rule should limit the level of public expenditure. To ascertain empirically the effectiveness of NRFs and ER, I define a dummy variable (NRF and ER) equal to 1 if a country has either of these 2 funds or an expenditure rule in place before the start of the boom (as at the year 2001) and zero otherwise. This dummy is then interacted with the main variable of interest. The results for all exporters are shown in Table 5. As be seen, the average effects remain similar. At the extensive

margin, expenditure rules overturn the negative impact (see columns 1 to 3) while no statistically significant effect is observed for NRFs. On the other hand, no statistically significant effect is found for both NRFs and ER at the intensive margin. Furthermore, the dampening effect of ER at the extensive margin is largely driven by entrants while no effect is found in general for incumbents (see Tables 6 and 7). The results that NRFs are not effective at first sight seems counterintuitive. However, research [4] has shown the deposits and withdrawals rules governing these funds are sometimes not followed which could explain the observed result.

[4] see for example https://resourcegovernance.org/sites/default/files/documents/fiscal-rules-commodity-crash.pdf

Table 5: Role of resource funds and Expenditure Rules(All exporters)

	Extensive			Intensive		
	1	2	3	4	5	6
windfall_t-1 x expbly	-0.671*	-1.272***	-1.176***	-3.380**	-3.090***	-3.498**
	(0.382)	(0.266)	(0.444)	(1.355)	(1.132)	(1.466)
windfall_t-1 x expbly x NRF	-0.678		-0.173	1.247		1.367
	(0.499)		(0.548)	(1.942)		(2.021)
windfall_t-1 x expbly x ER		2.776***	2.681***		0.872	1.287
		(0.607)	(0.703)		(2.169)	(2.358)
Observation	363161	363161	363161	363161	363161	363161
Importer x Exporter x Product FE	✓	✓	✓	✓	✓	✓
Exporter x Year FE	✓	✓	✓	✓	✓	✓
Importer x Year FE	✓	✓	✓	✓	✓	✓

*Notes: The table presents the estimates of the heterogeneous effect of 2000s commodity boom on manufacturing exports along the extensive margins for entrants and incumbents. The dependent variables are the number of manufacturing exporting firms (Extensive Margin) and the export per exporting firm (Intensive Margin). windfall is the log of commodity terms of trade. expbly is the exportability of manufacturing product and takes a value of 1 of if a manufacturing product historically had an exports to value-added ratio above the median according to World Integrated Trade Solution (WITS). NRF and ER takes the value if a country has either Stabilization or Savings Funds and Expenditure Rules respectively in place as at the year 2001 and zero otherwise. Robust standard errors clustered at the exporting country level are in parentheses. ***, **,* denotes 1%, 5% and 10% level of significance respectively.*

Table 6: Role of resource funds and Expenditure Rules (Extensive Margin)

	Entrants			Incumbents		
	1	2	3	4	5	6
windfall_t-1 x expbly	-0.512	-1.108***	-1.108***	-0.309	-1.075***	-0.892
	(0.352)	(0.255)	(0.255)	(0.480)	(0.323)	(0.575)
windfall_t-1 x expbly x NRF	-0.848*			-0.913		-0.331
	(0.474)			(0.598)		(0.677)
windfall_t-1 x expbly x ER		1.861***	1.861***		2.949***	2.766***
		(0.597)	(0.597)		(0.715)	(0.858)
Observation	329319	329319	329319	293689	293689	293689
Importer x Exporter x Product FE	✓	✓	✓	✓	✓	✓
Exporter x Year FE	✓	✓	✓	✓	✓	✓
Importer x Year FE	✓	✓	✓	✓	✓	✓

*Notes: The table presents the estimates of the heterogeneous effect of 2000s commodity boom on manufacturing exports along the extensive margins for entrants and incumbents. The dependent variables are the number of manufacturing exporting firms (Extensive Margin) and the export per exporting firm (Intensive Margin). windfall is the log of commodity terms of trade. expbly is the exportability of manufacturing product and takes a value of 1 of if a manufacturing product historically had an exports to value-added ratio above the median according to World Integrated Trade Solution (WITS). NRF and ER takes the value if a country has either Stabilization or Savings Funds and Expenditure Rules respectively in place as at the year 2001 and zero otherwise. Robust standard errors clustered at the exporting country level are in parentheses. ***, **,* denotes 1%, 5% and 10% level of significance respectively.*

Table 7: Role of resource funds and Expenditure Rules(Intensive Margin)

	Entrants			Incumbents		
	1	2	3	4	5	6
windfall_t-1 x expbly	0.972	2.743**	1.249	-1.629	-2.554**	-1.616
	(1.378)	(1.218)	(1.487)	(1.520)	(1.177)	(1.662)
windfall_t-1 x expbly x NRF	4.749*		4.470*	-3.114*		-3.127
	(2.526)		(2.585)	(1.779)		(1.904)
windfall_t-1 x expbly x ER		-4.514	-3.014		0.813	-0.144
		(3.371)	(3.463)		(2.264)	(2.547)
Observation	329319	329319	329319	293689	293689	293689
Importer x Exporter x Product FE	✓	✓	✓	✓	✓	✓
Exporter x Year FE	✓	✓	✓	✓	✓	✓
Importer x Year FE	✓	✓	✓	✓	✓	✓

*Notes: The table presents the estimates of the heterogeneous effect of 2000s commodity boom on manufacturing exports along the intensive margins for entrants and incumbents. The dependent variables are the number of manufacturing exporting firms (Extensive Margin) and the export per exporting firm (Intensive Margin). windfall is the log of commodity terms of trade. expbly is the exportability of manufacturing product and takes a value of 1 of if a manufacturing product historically had an exports to value-added ratio above the median according to World Integrated Trade Solution (WITS). NRF and ER takes the value if a country has either Stabilization or Savings Funds and Expenditure Rules respectively in place as at the year 2001 and zero otherwise. Robust standard errors clustered at the exporting country level are in parentheses. ***, **,* denotes 1%, 5% and 10% level of significance respectively.*

8 Robustness Tests

In this section I perform several tests to check the robustness of the main results.

8.1 Rolling weights

The commodity term of trade I used in the main section was computed with fixed weight. I replace this fixed weight with a rolling weight. A limitation of using the fixed weights is that they are likely to misrepresent the relevance of individual commodities at some point along the sample. The mix of traded commodities and the overall importance of net commodity exports in output can change significantly over time. Indices based fixed weights can thus provide a poor approximation of the role of commodity prices during periods in which the relevance of individual commodities is very different from that in the reference period Gruss and Kebhaj (2019). Thankfully the database I used computes the terms of trade using time-varying weights. The time-varying weights are based on three-year rolling averages of trade values and output to smooth fluctuations. These weights are also lagged and thus predetermined to price fluctuations, so that changes in index reflect variation in international prices rather than endogenous changes in export or import volumes. The results are presented in Table 8. One can observe that the results are similar to those obtained in the previous sections which is not surprising. This is because the time considered in this study is relatively short therefore using a fixed or a rolling weight does not make any significant difference.

8.2 Exclusion of main producers

The commodity booms of the 2000s was largely a demand shock and the producers responded to the price increase. One may argue that there may be strategic responses from the producing countries such as restricting production to maintain the higher prices. This argument should not matter as the individual countries considered in this study are price takers and cannot significantly affect the prices on the interna-

tional market. Also, one could argue that the results are largely driven by big producers as they capture a larger part of the windfall. Using UN COMTRADE data, (Gruss and Kebhaj, 2019) computes the average market share of individual country commodity exports in world commodity exports from 2000 to 2015 for each commodity group. For agriculture raw materials, the top 10 market shares are: Australia (wool), USA (Cotton), Canada (Soft sawn wood), Thailand (Rubber), Canada (Soft Logs), USA (Hard sawn wood), Italy (Hides), USA (Hard logs) and Indonesia (Rubber). For food & beverages the top 10 market shares are Malaysia (Palm oil), USA (Soybeans), USA(Corn), Spain (Olive oil), Argentina (Soybeans Oil), Indonesia (Palm oil), Spain (Orange), Brazil (Soybeans), Peru (Fish meal), Brazil (Sugar). For metals, the top 10 shares are Australia (Uranium), Niger (Uranium), Namibia (Uranium), Australia (Iron Ore), Indonesia (Tin), Chile (Copper), Canada (Nickel), Russia (Nickel), Australia (Lead) and Brazil (Iron Ore). Finally for Energy, the top 10 shares are Australia (Coal), Russia (Natural Gas), Saudi Arabia(Crude oil), Indonesia(Coal),Canada(Natural gas),Qatar(Natural gas),Norway(Natural gas),Russia(Crude Oil), Russia(Coal) and China (Coal). Out of all these large producers, only 2 can be found in the sample for this study: Chile and Peru. I exclude these 2 countries from the sample. The results remain similar (see Table 10)

8.3 Inclusion of leads

Another concern could be that so exporters may anticipate that future price increases. I therefore include the leads of the commodity terms of trade to control for any anticipatory effect. As can be seen from Table 9, the main results remain similar.

Table 8: Robustness Test Effect of commodity windfalls on the extensive and intensive margin of manufacturing export(rolling weights)

	Extensive Margin			Intensive Margin		
	All	Entrants	Incumbents	All	Entrants	Incumbents
windfall_t-1 x expbly	-0.568***	-0.817***	-0.0495	-1.881**	3.586***	-1.885*
	(0.217)	(0.217)	(0.250)	(0.878)	(1.170)	(1.033)
RTA	0.0382***	0.0845***	-0.0165	0.0186	-0.0177	-0.00370
	(0.0127)	(0.0139)	(0.0125)	(0.0787)	(0.126)	(0.0820)
Observation	416010	380800	341567	341567	380800	341567
Year FE						
Importer x Exporter x Product FE	✓	✓	✓	✓	✓	✓
Exporter x Year FE	✓	✓	✓	✓	✓	✓
Importer x Year FE	✓	✓	✓	✓	✓	✓

*Notes: The table presents the estimates of the effect of 2000s commodity boom on manufacturing exports along the extensive and intensive margins using rolling weights for the windfall variable. The dependent variables are the number of manufacturing exporting firms (Extensive Margin) and the export per exporting firm (Intensive Margin). windfall is the log of commodity terms of trade. expbly is the exportability of manufacturing product and takes a value of 1 of if a manufacturing product historically had an exports to value-added ratio above the median according to World Integrated Trade Solution (WITS). Robust standard errors clustered by importer-exporter-product level are in parentheses. ***, **,* denotes 1%, 5% and 10% level of significance respectively.*

Table 9: Robustness Test Effect of commodity windfalls on the extensive and intensive margin of manufacturing export(inclusion of leads)

	Extensive Margin			Intensive Margin		
	All	Entrants	Incumbents	All	Entrants	Incumbents
windfall_t-1 x expbly	-0.625***	-0.888***	-0.0834	-2.982***	2.348	-2.465**
	(0.228)	(0.231)	(0.275)	(0.967)	(1.497)	(0.962)
windfall_t+1 x expbly	0.341*	-0.0314	0.794***	-1.220	-0.825	-1.306
	(0.174)	(0.203)	(0.199)	(0.849)	(2.085)	(0.996)
RTA	0.0438***	0.0927***	-0.0225*	0.0503	0.0929	0.0324
	(0.0132)	(0.0148)	(0.0136)	(0.0820)	(0.140)	(0.0846)
Observation	358151	329725	296666	358151	329725	296666
Year FE						
Importer x Exporter x Product FE	✓	✓	✓	✓	✓	✓
Exporter x Year FE	✓	✓	✓	✓	✓	✓
Importer x Year FE	✓	✓	✓	✓	✓	✓

*Notes: The table presents the estimates of the effect of 2000s commodity boom on manufacturing exports along the extensive and intensive margins with the lead of windfall variable. The dependent variables are the number of manufacturing exporting firms (Extensive Margin) and the export per exporting firm (Intensive Margin). windfall is the log of commodity terms of trade. expbly is the exportability of manufacturing product and takes a value of 1 of if a manufacturing product historically had an exports to value-added ratio above the median according to World Integrated Trade Solution (WITS). Robust standard errors clustered by importer-exporter-product level are in parentheses. ***, **,* denotes 1%, 5% and 10% level of significance respectively.*

Table 10: effect of commodity booms on the extensive and intensive margin of manufacturing export(Exclusion of major producers)

	Extensive Margin			Intensive Margin		
	All	Entrants	Incumbents	All	Entrants	Incumbents
windfall_t-1 x expbly	-1.313***	-1.136***	-1.105***	-2.891**	3.360***	-2.230
	(0.296)	(0.283)	(0.360)	(1.325)	(1.224)	(1.412)
RTA	0.0663***	0.114***	-0.00734	-0.145*	0.0912	-0.134
	(0.0137)	(0.0153)	(0.0128)	(0.0773)	(0.151)	(0.0824)
Observation	320076	289284	256572	320076	289284	256572
Year FE						
Importer x Exporter x Product FE	✓	✓	✓	✓	✓	✓
Exporter x Year FE	✓	✓	✓	✓	✓	✓
Importer x Year FE	✓	✓	✓	✓	✓	✓

*Notes: The table presents the estimates of the effect of 2000s commodity boom on manufacturing exports along the extensive and intensive margins using a sample of non-major producers. The dependent variables are the log of number of manufacturing exporting firms (Extensive Margin) and log of manufacturing export per exporting firm (Intensive Margin). Commodity boom is the log of commodity terms of trade to GDP , population is the log of population, real GDP per capita is the log of Gross domestic product, PPP (constant 2017) . All specifications control for year fixed effects. Columns 1 and 5 includes product(H6) FE, columns 2 and 6 include Country-Product fixed effect. Columns 3,4,7 and 8 include Country-Product-Exporter type fixed effect. In addition, columns 4 and 8 controls for log of population and the log of real GDP per capita. Robust standard errors clustered by country-product level are in parentheses. ***, **,* denotes 1%, 5% and 10% level of significance respectively.*

9 Conclusion

The study contributes to an old age debate about the impact of commodity booms on manufacturing export. Unlike existing studies, the present study investigated this in the context of intensive and extensive margins in line with recent literature on the heterogeneous models of trade. To accomplish this objective, the study exploits the exogenous variation in windfalls generated by the 2000s commodity price boom in a structural gravity framework. The paper found that commodity booms exert a more negative impact on both the intensive and extensive margins of highly exportable manufacturing products relative to low-exportable manufacturing products. However, the negative impact observed on aggregate at the extensive margin is largely driven by entrants while that of the intensive margin is driven by incumbent exporters. The result underscores the fact all exporters are not alike, and the impact of commodity booms depend on the type of exporter. The study also found that the mechanisms through which the boom operate is to increase the relative wage and decrease the labor productivity of the more exportable manufacturing products. This is due to an increase in public expenditure in line with the core Dutch disease model. Furthermore, expenditure rules reverses the negative impact at the extensive margin but not at the intensive margin while no statistically significant effect is found for Natural resource funds.

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Appendix A: Additional Results

Table A.1: Effect of commodity windfalls on the extensive and intensive margin of total manufacturing export value

	All		Entrants		Incumbents	
	1	2	3	4	5	6
windfall_t-1 x expbly	-2.649	-3.782	5.846	1.534	-5.741	-3.596
	(3.351)	(4.354)	(3.707)	(1.750)	(3.762)	(4.098)
windfall_t-1	-0.372		-0.467		1.090	
	(0.654)		(1.005)		(0.884)	
GDP per capita(destination)	1.442***		0.575**		1.036***	
	(0.160)		(0.239)		(0.400)	
GDP per capita(origin)	1.248***		1.788***		1.146***	
	(0.378)		(0.452)		(0.383)	
RTA	0.0110	0.0426	0.230**	0.176*	1.196**	0.0213
	(0.0731)	(0.0428)	(0.109)	(0.0947)	(0.538)	(0.0445)
Observation	363161	363161	329319	329319	293689	293689
Year FE	✓		✓		✓	
Importer x Exporter x Product FE	✓	✓	✓	✓	✓	✓
Exporter x Year FE		✓		✓		✓
Importer x Year FE		✓		✓		✓

*Notes: The table presents the estimates of the effect of 2000s commodity boom on manufacturing exports on the total export value. windfall is the log of commodity terms of trade. expbly is the exportability of manufacturing product and takes a value of 1 of if a manufacturing product historically had an exports to value-added ratio above the median according to World Integrated Trade Solution (WITS). Robust standard errors clustered by importer-exporter-product level are in parentheses. ***, **,* denotes 1%, 5% and 10% level of significance respectively.*