Comments for the authors

The paper presents the results of an empirical analysis on exchange rate pass-through (EPRT) conducted focusing on import prices aid by Chinese importing firms. The analysis is very rich, the econometric framework is rigorous, and the results are original. However, I think that this version of the paper still suffers from some weaknesses in the presentation and in the justification of the main results that should be addressed before it can be considered for publication. The following articulates them in more detail.

A. Main issue

1. The main weakness is the lack of a clear theoretical background underpinning the research question. The two major twists with respect to the majority of contributions on EPRT are the focus on import prices (that nonetheless is not entirely new) and the attention to the connection between the extent of pass-through and the financial conditions prevailing in the sector of economic activity of the importing firms. Campa and Goldberg (2005) is a seminal contribution studying EPRT from the perspective of importers, but even in their narrative the rationale for imperfect transmission of exchange rate shocks typically lies on pricing-to-market by exporters (and, in fact, also in your narrative: see the sentence commenting EPRT values referring to "*weaker bargaining power*" at the end of p. 13). It is certainly possible to build a model showing that EPRT depends on the market power of both exporters and importers (and it might have indeed been done even if I am not aware of it). But, in any case, a thorough discussion of these mechanisms seem necessary to motivate your empirical analysis. More in general, the literature review needs to be more focused with respect to the characteristics of importers, and at time made more precise (e.g., Amiti et al., 2005, focus on EPRT on export prices, though they show that it depends on import characteristics; the sentence can be misleading). Next, the paper needs to motivate how financial constraints may affect the market power of importers and therefore the extent of EPRT on import prices.
2. A stronger theoretical background based on market power requires an extension of the empirical analysis to provide more robust evidence that the results are confirmed also controlling for the market power of importers. In fact, if the main reason why EPRT on import prices depends on the market power of importers, this needs to be properly controlled before ascertaining if it is also additionally affected by financial constraints. Otherwise, financial constraints might simply capture different degrees of market power. As a consequence, the most logical narrative seems to be the following: 1) the market power of importers in the import market (e.g., their dependence on specific imported goods and on specific exporters) affects the extent of EPRT on import prices; 2) even controlling for market power in the import market, credit constraints affect EPRT. Since your paper follows the opposite direction, at the very least you need to present the results with robust controls for market power straight after your baseline regression.

B. Estimation issues

3. Control for sector level value added in China, consistent with a pull effect, instead of GDP in the exporting country (whose rationale cannot be motivated referring to analyses based on export prices, and is therefore rather obscure).
4. Control for the share of imported inputs over total inputs, as a measure of market power in the import market.

5. Control for some additional relevant sector level characteristics, such as average firm size, because in your baseline specification the indices of credit constraints capture any sector level characteristic that is correlated with credit constraints, and it is on you to convince the reader that there are no spurious correlations due to omitted variables.
6. Consider presenting first the results using Chinese financial dependence, instead of US values, given the relevant differences in financial markets in the two countries.
7. Consider extending your analysis using time-varying firm-level measures of credit constraints, as in Dai et al. (2021), possibly instrumenting them with sector level indices if you are concerned by endogeneity issues.

C. Presentation issues

3. The paper is very rich, but the presentation is a bit messy and at times difficult to follow. A first relevant simplification is to drop all references and discussions to EPRT on export prices. A second simplification is to move the references to tables in the appendix in footnotes, maintaining only some references to a single table presenting a synthesis of results on robustness to be included in the main text (e.g., a table presenting only the overall marginal effect of exchange rate oscillations, or putting all interactions in the same column).
4. Calculate and present the marginal effects of real exchange rate oscillations at the observed levels of your measures of credit constraints, and their significance.
5. Present descriptive statistics of all variables used in regressions.
6. Present correlations among different measures of credit constraints, and among US based and China based measures.
7. Notice that there are some inconsistencies in the tables: what results are you presenting as a baseline in Table 3 (and, judging from the number of observations in most of the following tables), that are different from those on the whole sample presented in table A1?
8. Motivate why your data end in 2007, that is 17 year ago.
9. Check that you define all variables used in equations; for example, in equation (1) CPI_{ct} and $CPI_{CHN,t}$ are not precisely defined (besides, put the commas in the indices uniformly in the paper: *c* and *t* are not separated by a comma, while *CHN* and *t* are separated).
10. Explain better what you mean with the sentence "*Since the exchange rate pass-through is not an observable index, we need to use a panel regression to estimate it empirically*", in p. 11.
11. Specify if import prices are prices including insurance and transportation costs (if this is the case, as it is likely to be).
12. Check the sentence stating that "*risks, we expect that the interaction coefficients on* FPC_s, $ExtFin_s$, *and* $Invent_s$ *are negative, while the coefficient on* $Tang_s$ *is positive*" at p. 15, since the results you present seems to be the opposite.
13. Notice that interaction with Inventories is not presented in in Table 6.
14. Notice that Table 8 shows implausibly high values of EPRT for capital goods; either find a plausible explanation or drop the analysis.