Discussion:
The Price of Capital Goods:
A Driver of Investment Under Threat

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       - ↓ domestic prices due to competition.
       - ↑ domestic producers' productivity.

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   - Cross-country differences on levels of prices of capital $\rightarrow$ also related to trade (Alfaro and Ahmed (2007)).

Why do we care?

Investment $\rightarrow$ Economic Growth.

(Solow (1960), Mankiw, Romer and Weil (1992), De Long and Summers (1991),
Jones (1994), Restuccia and Urrutia (2000), Caselli (2005), Banerjee and Duflo (2005))

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Several "ifs" for EM:

1. Emerging economies import their capital goods.
2. Emerging economies have capital allocation and re-allocation frictions.
3. Trade barriers are back.
4. Technical notes.

1. EM are K-goods Importers:

- EM depend heavily on imports of K-goods:
  - The average African and South Asian country buys almost 70 % of its equipment from abroad (Eaton and Kortum (2001)).
  - Chile: approx. 20% total imports are K-goods imports $\rightarrow$ 5% GDP.
- Also, these countries tend to have significant trade costs for K-imports.

2. EM have K-allocation and Re-allocation Frictions:

1. Capital Misallocation:
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3. Disinvestment:
   - Capital Irreversibility (Lanteri, Medina and Tan (2019), Ramey and Shapiro (2001), Veracierto (2002), Eisfeldt and Rampini (2006), Bloom (2009), Lanteri (2018), Tan (2018)).
   - Zombie Firms (Caballero, Hoshi and Kashyap (2008), Fukuda and Nakamura (2011)).

3. The "Return" of Trade Barriers:

1. Numerous examples of increasing trade costs:
   - "Tariff wars".
   - FTA renegotiations.
   - Increase in uncertainty.
2. Direct impact:
   - Cautious behavior, particularly in production and investment.
3. Indirect impact:
   - Our suppliers are engaging in "trade wars" $\rightarrow$ disrupt value chains $\rightarrow$ increase input costs $\rightarrow$ increase final good (K) prices to everyone.

4. Technical Notes:

1. What happened after the 2008 financial crisis?
   - Why the slow-down?
   - What is the elasticity after 2008?
2. Are there heterogenous effects across industries or sectors?
3. How are these elasticities changing when the production matrix of a country changes? Is it driving this matrix?
4. How do we reconcile the results of Alfaro and Ahmed (2007) with yours?
   - Why some exporting countries do charge more to poorer markets?
   - Why no arbitraje?
   - Quality? Different products?

Final Comments

- Very important (and current) topic for EM.
- First order to understand trade, imports and investment dynamics of firms in EM (and how they differ from advanced economies).
  1. More work on this is needed but what we know?
     - Slow adjustment to (trade) shocks.
     - Short-run and medium-run productivity and welfare gains depend on underlying capital frictions.
  2. How can we identify frictions? By country? By industry?

Thank you.