

Comment on
Emerging Market and the New Geography of Trade: The Effects of
Rising Trade Barriers

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Very nice paper.

1. Interesting set of facts about EMs trade growth.
2. Interesting and sophisticated GE model to evaluate policy.
3. Interesting and timely question: what to expect from a tariff war?

Facts

A set of six/seven facts are essentially interpreted as conveying three messages:

- EMs are relevant players in international trade. They are not the fringe anymore.
- EMs are highly exposed to trade shocks, maybe more than AEs, because they are “more open”.
- EMs are fundamentally different from AEs in terms of the goods they produce.

Model

A multi-country multi-good multi-factor GE model with countries differing in three dimensions: (i) Size; (ii) Technology and (iii) Factor Endowments. Final goods (non-tradable) are produced using tradable intermediate goods, which are produced using capital, skilled & unskilled labor.

Size, technology and factor abundance determine the share of imported intermediate input varieties.

There is no FPE (even if we were to control for technological differences), because tradable prices differ due to distance/barriers effects.

How do tariff work? (i) directly, increasing the cost of imported inputs, the return on capital and the optimal capital stock, and (ii) indirectly, through expenditure switching, affecting terms of trade, factor returns and capital stock.

Trade War

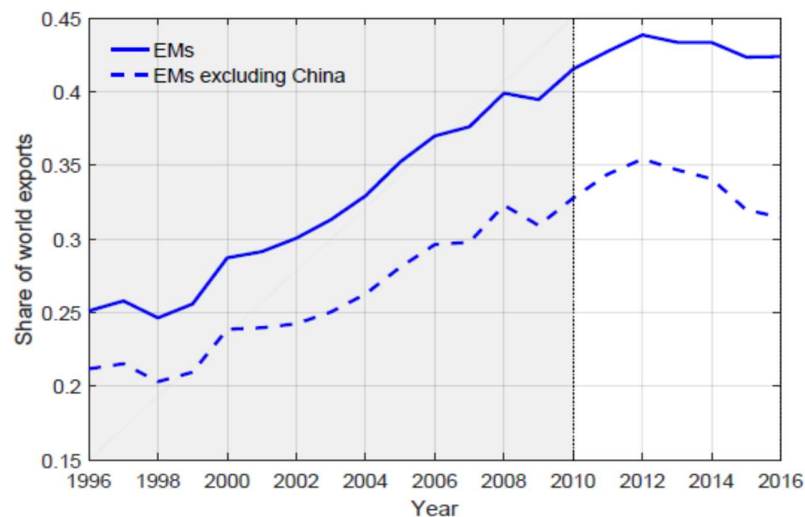
If ALL countries impose tariffs with each other, those that import more intermediate inputs are hurt. These are developing countries.

If AEs increase their tariffs against each other, but EMs do not, the latter are benefited because there is an expenditure switching mechanism that increases demand for EMs' exportables. This lowers the relative price of investment goods, enhancing the return on capital and steady-state output.

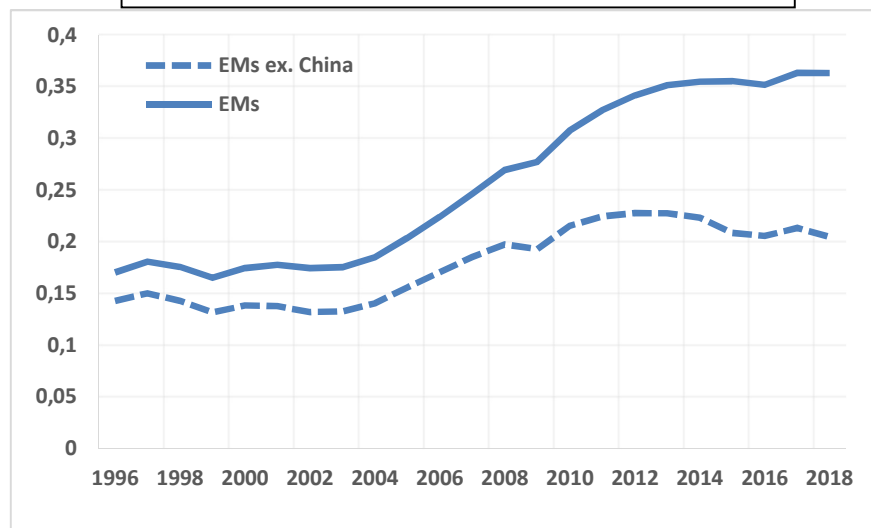
Comment 1: What do these facts say? Size vs. comparative advantage.

1. EMs are more open than AEs, measured using X/GDP ratios.
2. EMs share of total exports have risen significantly in the last 30 years.
3. Over time, inter-regional trade (North (AEs)/South (EMs) & S/N) has increased.
4. Also, the share of N/N trade have decreased while S/S have increased.
- 5.1 The increase in S/S and S/N have occurred across all product categories (intermediate/capital/consumption goods).
- 5.2 The increasing role of EMs in trade in intermediate/capital goods is mainly driven by China.
6. Factor Content of Trade of AEs is different from EMs.

Figure 2: EMs Export Share (share of world exports)



EMs GDP Share (share of world GDP)

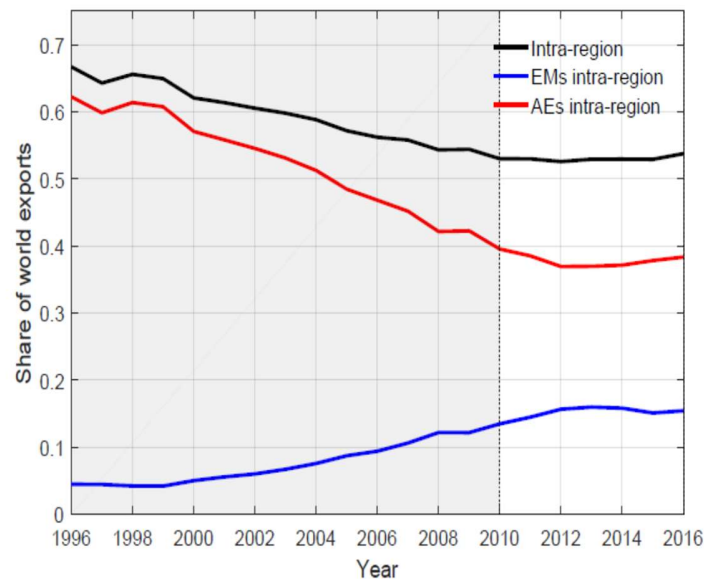


Any model with gravity representation $T_{ij} \propto Y_j Y_i / \tau_{ij}^\beta$ implies:

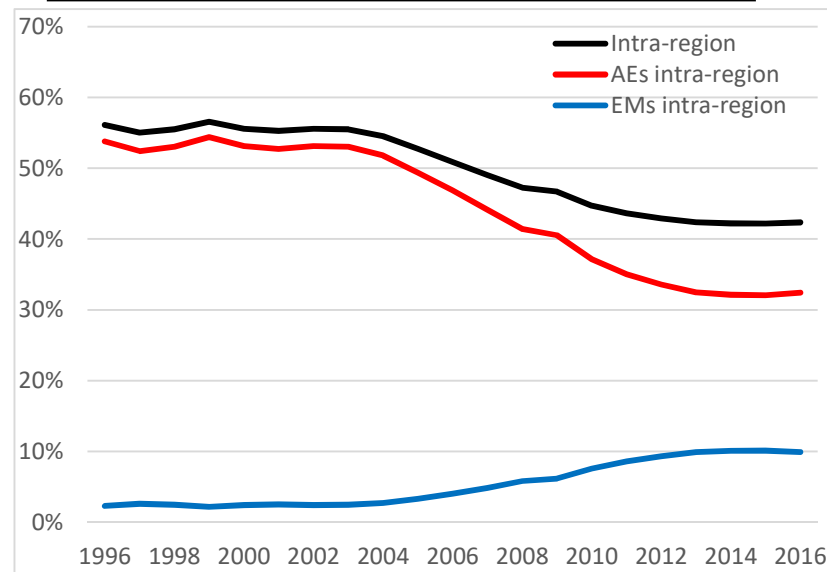
- a. Smaller economies are more “open”.
- b. EMs growth raises their share in global trade.
- c. EMs growth increases S/S as well as N/S trade shares.
- d. This pattern occurs across all product varieties.

For instance, a very simple simulation using WDI data for High-income and Middle -income countries assuming equal shares yield a very similar pattern of intra-regional trade as in the data.

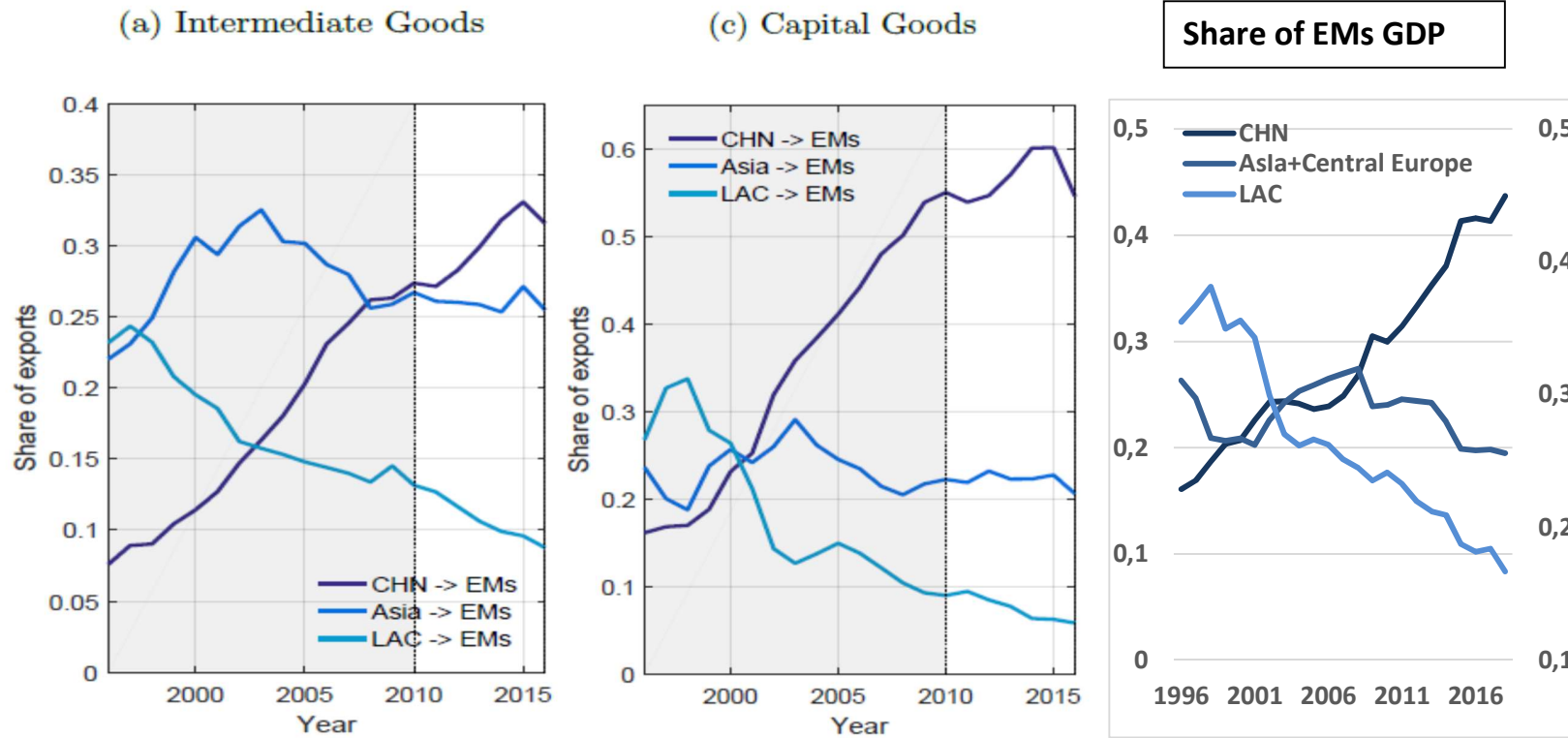
Figure 5: Intra-region Trade (share of world exports)



Intra-region Trade (share of world exports)



Same thing with trade between EMs (China, Asian and Latam).



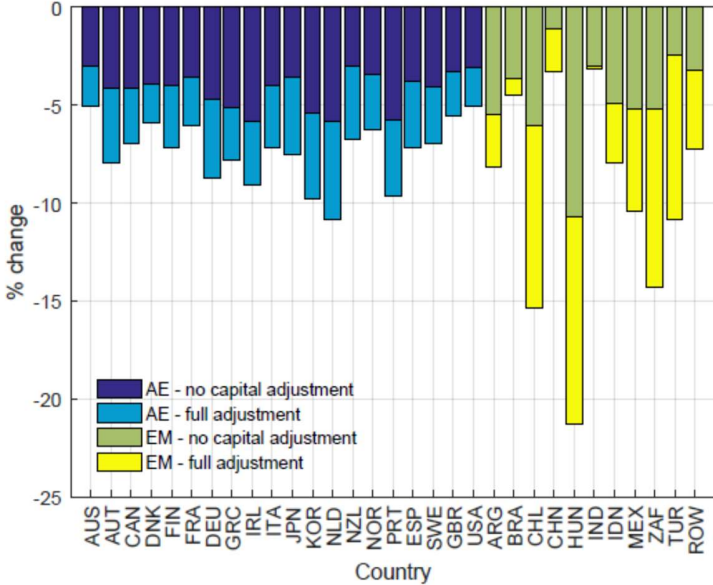
Are the facts really suggestive of a more sophisticated trade interaction very EMs and AEs, or this is simply the result of EMs growth?

Comment 2: What is really driving the simulations of trade wars?

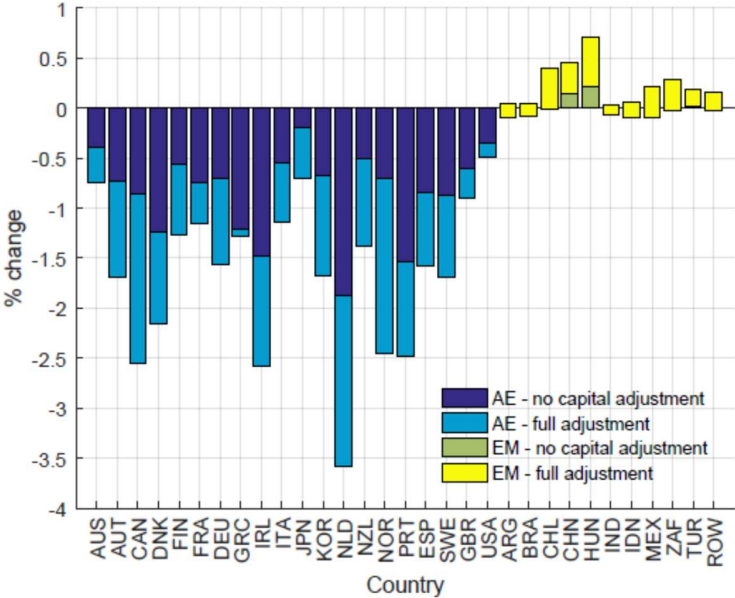
(A) Global trade war

(B) AEs Trade war

(a) Gross Domestic Product



(a) Gross Domestic Product



Are EMs really different from AEs, or they are just smaller/further away?

- Shut down the technology/HO channels and keep the size margin only.
- The expenditure switching effect is interesting: a trade war between AEs will enhance terms-of-trade for EMs. But simulations do not show too much heterogeneity across EMs, but rather differences with AEs. Expenditure switching effect is negligible? EMs look alike?
- Need more insights on the Stolper-Samuelson effects of changes in relative prices to changes in factor returns. How is it possible that the expenditure switching effect enhance the return to capital in all EMs?

Comment 3: What are the policy implications for EMs of a trade war?

- In this trade war: STAY AWAY, and terms-of-trade will help you!!
- What if AEs raise tariffs against each other as well as EMs. The expenditure-switching effect competes with a market-access effect. Which one dominates?
- What if the trade war is between China and the United States? It has been said that EMs – and Chile in particular – are highly exposed to a China-US trade war. This paper rejects that as long as EMs do not raise their own tariffs. Income effect (-) and substitution effect (+).
- The paper mentions that EMs have become intertwined in Global Value Chains. I see the opposite (ex China): it is the high dependence in imported intermediate/capital inputs that generate the results.