

Trade Policy is Real News: A Quantitative Analysis of Current and Future Changes in U.S. Trade Barriers

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 - **How?** Propose a two-country quantitative DSGE with **gradual response of trade** to persistent and trend shocks to
 - ▶ **Trade costs**, productivity, investment efficiency and labor wedge
- Estimate model to explore effects of shocks and changes in expectations of trade policy

Overview (2)

- **What has been done?** Recent work on dynamic GE trade models exploring macroeconomic effects of trade barriers:

	2-country/sector - Stochastic	Multi-country/sector PF
No Firm Dynamics	BKK (1992) Barattieri (2014) Erceg et al. (2018)	EKNR (2015, 2016) Reyes-Heroles (2016, 2018) ⇒ trade costs paths
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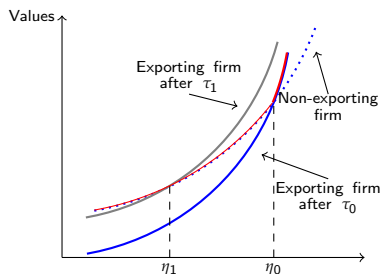
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 3. Actual path of TCs quite different than expectations and expectations of lower trade costs have not been met → *Counterfactual effects*

Mechanisms

Gradual effects of trade costs on trade

1. **Firms:** Current and future trade costs affect exporting decisions by firms



2. **Inputs:** Import adjustment costs and composition of demand

$$Imports_t = \pi_{f,t}^C C_t + \pi_{f,t}^I P_{I,t} I_t$$

where

$$\pi_{f,t}^C = \omega^C \left(\bar{\zeta}_t W_t / \tilde{A}_t \right)^{1-\sigma} g_{C,t-1} < \omega^I \left(\zeta_t \frac{W_t / \tilde{A}_t}{P_{I,t}} \right)^{1-\sigma} g_{I,t-1} = \pi_{f,t}^I$$

Comment 1/3

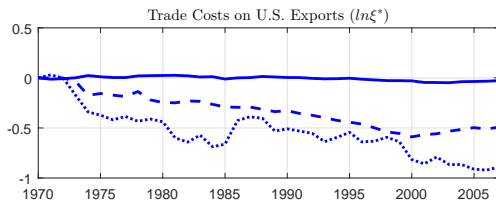
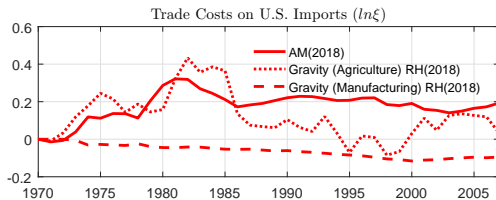
Compare estimated trade costs to “naive” estimates

- Estimates of current and future trade costs → Very cool! . . . “trade costs move differently than those from CES models” (traditional gravity)
 - ▶ Trade flows now depend on current and future trade costs
- Why not compare to estimates from extensive “gravity” literature?

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Comment 2/3

Expected vs observed trade costs counterfactuals

- Actual paths of trade barriers can be quite different than expectations



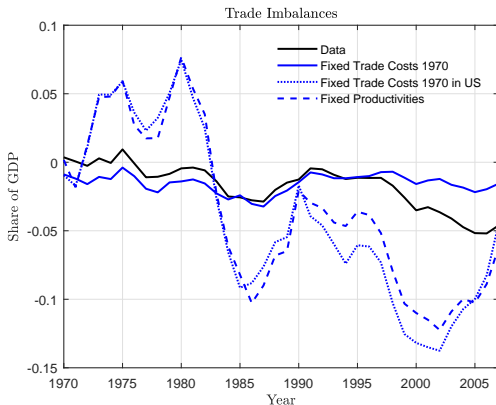
Figure 12: Common trade cost faced by exporters. Blue lines show agents predictions for future trade costs at different horizons.

- Counterfactuals linking to canceling/delaying trade reforms

Comment 3/3

Drawbacks of 2-country (symmetric) framework

- 2-country model → How to construct ROW?
 - ▶ Symmetry assumptions → rich heterogeneity is lost
⇒ How important is this issue for the paper's specific question?
(asymmetric liberalizations)



Conclusion

- Great paper! → New research agenda...
 - ▶ Understand the dynamics of trade barriers
 - ▶ Expansionary/Contractionary effects of past and future trade reforms
→ Identification
- Tons of new and interesting results
- Challenge: Focus on the right ones