Comments on

*Trade and the Global Recession*

by Eaton, Kortum, Neiman, and Romalis

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Important Question

• Why did Trade Collapse so dramatically during “Great Recession” of 2008-09?

Clear, Model-Based Analysis

• Analysis rigorously based on widely-known reasonable model (Eaton-Kortum plus)
Many Strengths

- Conducted at relatively high frequency (for trade) to address speed of trade collapse
- Conducted for many countries to address scope of trade collapse
- Plausible answers (collapse was mostly “natural”)
- Details extremely precise
- Comparison with Great Depression striking
A Huge Amount of Work!

- Input/Output framework merged with
- Gravity model using
- Plausible shocks
  - 4 sub-scripts (country, sector, time, partner)
- Serious theory plus serious empirics!
Growing Consensus on Protectionism

• Here “trade frictions” explain small part (15%) of big (>30%) decline in trade/GDP
  o Not all of that necessarily protection
    ▪ Trade Finance may have shrunk “naturally”
    ▪ Ditto collapse of supply chains

• Growing Conventional Wisdom: Protection undesirable, unnecessary, but unimportant
  o Some protectionism, but insignificant
  o Global Trade Alert may have helped by shrieking
• Protection neither cause nor consequence of trade collapse
  o Ex: Kee et al (VoxEU, 6/2010): “protectionism accounted for no more than 2% of the drop in world trade in 2009.”
  o Ditto: Freund: trade drops suddenly, 4 x GDP (demand for goods falls, especially inventories)
  o This paper fits neatly into mainstream

• Here, trade declines because of decline in demand for manufacturing (highly cyclic)
Q1: Conclusions Model-Dependent?

• How sensitive is analysis to reasonable changes in structure?
  o Some sensitivity inevitable – but how much is there?
• Do we need the structural assumptions?
  o Freund has similar conclusions with reduced-form empirics: more plausible?
  o How restrictive is using the Head-Ries index?
    ▪ Kee et al use Anderson-Neary “Overall Trade Restrictiveness Index” – an alternative?
Q2: Narrow Sample?

Issue #1: Missing Observations of Interest

- Covers reasonable number of countries with over \( \frac{3}{4} \) global GDP; good!
  - But omits large number of serious crisis countries:
    - Iceland (biggest collapse)
    - Baltics (Latvia, also Estonia and Lithuania)
    - Central Europeans: only Hungary (no Ukraine)
    - E. Asians: only China, Korea, Japan (no HK, Singapore, Taiwan, ...)
    - Latins: only Chile, Mexico (no Argentina, Brazil)
Issue #2: Potential Selection Bias

• Sample Disproportionately Rich
• “Great Recession” a progressive event
  o Poor countries may shed light on collapse, had smaller recessions

• Little reason to believe that either issue an obvious problem in practice
Q3: Model Set-Up

• Why these four shocks (demand, trade deficit, productivity, trade friction)?
  o No financial, monetary, fiscal, non-tradable (land price) shocks?
• Perfect labor mobility, absence of specific factors and frictions all imply no unemployment (!)
Quibbles

• Disproportionately little discussion of results (7.2 is one paragraph) – first draft blues.
• Using “high frequency” to refer to monthly flows
  o International Trade vs. Finance
Overall: Great Contribution