Discussion of “Consumption Effects of Trade” by Amit Khandelwal

Gopi Munisamy

Selected Paper prepared for presentation at the International Agricultural Trade Research Consortium’s (IATRC’s) 2017 Annual Meeting: Globalization Adrift, December 3-5, 2017, Washington, DC.

Copyright 2017 by Gopi Munisamy. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies.
IATRC Theme Day
Globalization Adrift
December 3, 2017

Gopi Munisamy
USDA/ERS

Views expressed here are that of the authors and cannot be attributed to USDA or ERS
Consumption Effects of Trade
P. Fajgelbaum and A. Khandelwal

- An important component of “gains from trade”
- Anecdotal and political economy arguments, e.g. a “few pennies” saved by consumers but entire communities are wiped out
- Substantial gains to consumers, especially at the left tail of the income distribution
  - Cross-country evidence
  - Multiple channels – trade/FDI/outsourcing
Consumption Effects of Trade (contd.)

- New varieties (products)
  - Feenstra and others have examined such gains

- A key issue in the context of agriculture and food is year-round availability of fresh produce (grapes, avocados, berries, and vegetables)

- Adding these gains to relative price changes implies even greater gains from trade to consumers
  - But, would they be biased more towards the right tail of the distribution, e.g., exotic cheese, wine, high-priced winter produce?
Broader Welfare Gains and Losses

- Trade creates winners or losers (except in the pure Ricardian framework)
  - Rybczynski and Stolper-Samuelson Effects in Hecksher-Ohlin and extensions
  - Disappearing varieties in moving from autarky to free trade in Krugman’s framework
  - Extensive margins in the Melitz framework
    - Within extensive margins in the case of multi-product firms
Broader Welfare Gains and Losses (contd.)

• Two key channels have received much attention
  – Labor markets – jobs, wages and income effects
  – Consumption – prices, varieties, availability

• Competition effects- mark-ups/innovations

• Others (externalities – knowledge or environmental)
New Economic Geography and Trade

• We continue to learn and educate the public about trade’s winners and losers, but I am excited about the emerging information on the spatial dimension
  – Lining up people by space in addition to their industry or income status
  – Within country (i.e. regional) effects – new economic geography and trade (e.g. Krugman, Melitz, Combes, Ottaviano)
    • Which regions gain or lose firms and employment?
    • Impact on regional development outcomes: wages, quality of life
By focusing on gains from trade within a country (regions) and industry, we stand a better chance of continued trade reform:

- You need votes in U.S. Congress or European or Indian parliament constituted by regional representatives.
- Focus on resources specific to regions/industries and their cost of adjustment
  - Bring about a greater focus on losers and identify better safety nets for adjustments
  - Trade adjustment focused on people and industries often ignore factor immobility within countries and the disproportionate effect from trade on specific regions
  - Microdata on people and their choices should help us identify who’s genuinely hurt from trade reform and how we can help them
- Continue to improve communication of trade outcomes
Thanks