Discussion

Dynamic Effects of Industrial Policy Amidst Geoconomic Tensions

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The views expressed in this presentation are those of the authors and **do not** necessarily represent the views of the Bank of Spain or the Eurosystem.

Summary

- Dynamic two-country open-economy model of heterogeneous firms

→ with trade in tasks (high and low-skill labor)

→ and endogenous entry, exporting and offshoring decisions.

- Long- and short-term effects of a set of industrial policies

  i) import tariffs, ii) offshoring frictions, iii) domestic production subsidies and iv) entry subsidies

  ... and a combination of them.

- Calibrated for US and China.

Summary (II/II)

Short-term effects dominated by demand shifting: change in factors demand and exchange rates movements.

Long-term: the endogenous entry of local varieties dominates welfare effects.

→ Import tariffs: short term losses ($\downarrow$ consumption) but positive long-term welfare effects ($\uparrow$ entry of local producers).

→ Offshoring frictions: short-term gains ($\uparrow$ low-skill wages) but long-term losses ($\uparrow$ costs, $\downarrow$ entry)

→ Production subsidies: both short ($\uparrow$ wages) and long-term gains.

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- Positive long-term effects of import tariffs at odds with the literature.
- One sector-setting without intermediate inputs.
  - Network amplifies the negative impact of distortions
- Should we think of your results as imposing tariffs only to **final consumption goods**?
- Reinterpretation of offshoring as global value chain:
  - $\Rightarrow$ different workers as intermediate sectors.
  - $\Rightarrow$ Offshoring frictions as *import tariff on intermediate inputs*.

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- In the model, exporters produce only domestically and sell abroad

  ...but domestic firms with offshoring activities sell only domestically.

- This misses the policy-relevant role of multinational enterprises

  (*e.g. wooing Chinese EV vehicles to set factories in Europe*)

- In the model *US offshorers* and *Chinese offshorers* behave symmetrically, but there might be implications for the trade policies.

- In the data, your calibration implies a much larger share of *Chinese than US offshorers*.
  - Could be confounded with Chinese MN firms operating and selling in the US?

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- What is the interaction of that assumption with industrial policies?

$\Rightarrow$ If *endogenous* exit is an additional channel of efficiency, policies such as production subsidies or protectionist measures could be shutting it down.

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