International Price System, Intermediate Inputs and Regional Trade

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Discussion by Alessandro Borin
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- Testing model predictions by estimating a dynamic panel model on different trade flows (inter-country-input-output - ICIO - data and methods are used to classify trade flows by their involvement in GVC).

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- **The origin of the exchange rate shock matters** (in line with Forbes et al. 2018, Comunale and Kunovac, 2017, etc.) : e.g. a depreciation caused by a global contractionary monetary shock have a higher (negative) impact on regional trade as compared to a similar depreciation originated by a domestic expansionary measure

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- Basic predictions of the model are **supported by the empirical evidence**

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- The **empirical** exercise can be made **more consistent** with the theoretical framework

Specific comments: the theoretical model

- The benchmark model assumes that both regional and global trade is priced in USD; in Appendix model variations with LCP and PCP for regional trade $\rightarrow$ can you consider the case of a **currency union within the regional production network**? and/or PCP with fixed exchange rates within the network?

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- In order to single out the role of different factors, it might be useful to consider a traditional 'Mundel-Flemming' model with **PCP** and **no-GVC** among the alternative settings proposed in appendix.

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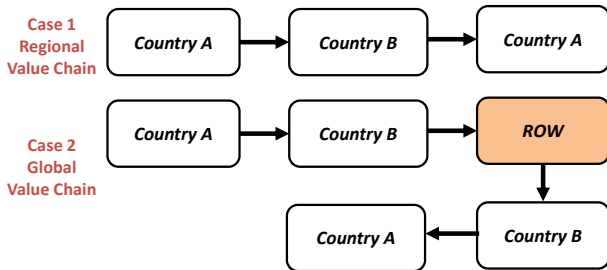
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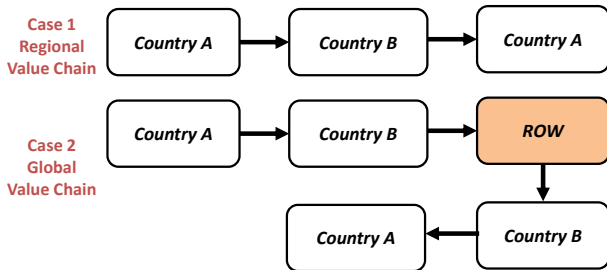
- As Wang et al. (2013) use a global inverse Leontief matrix in the expression they do not distinguish between the two cases above
- 'Source based' breakdown of bilateral trade and 'GVC-related trade' indicators in Borin and Mancini (2015,2017) may provide more precise measures

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- What about considering meaningful regional groups (e.g. 'Factory Europe', 'Factory Asia', 'North America', etc., see Baldwin, 2012), instead of using bilateral partners as a proxy of **regional value-chains** (RVC)?

- It is possible to derive an *ad hoc* accounting framework to isolate **RVC**, **traditional** ('Ricardian') trade to the ROW and **Global Value Chains** (GVC).

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        - Intermediate exports used for internal final consumption (5)

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- **Outside region trade**
  - Value Added directly absorbed by a ROW importer
    - Final goods exports (4)
    - Intermediate exports used for internal final consumption (5)
  - Other exports produced only within the region and exported as final goods to the ROW (6)
  - Global Value Chain exports (i.e. with production stages both within and outside the region)
    - Absorbed in ROW (7)
    - Absorbed within the region (8)

Thank you

Decomposition of intermediate goods trade flows

1. Used by direct importer to produce final goods directly , and then used as:(Figure 4..4)

   (a) domestic final goods consumed by the direct importer (T1)
   (b) exported final goods consumed by third countries (T2)
   (c) exported final goods consumed by the source (exporting) country (T3)

2. Used by the direct importer to produce intermediate exports, and then:

   (a) first used by direct importer to produce intermediate goods exports, then used by third countries to produce final goods which are subsequently used as:(Figure 4..5)

      i. domestic final goods consumed in the third country (T4)
      ii. exported final goods consumed by countries other than the source country(exporting country) (T5)
      iii. exported final goods consumed by the source (exporting) country (T6)

   (b) first used by direct importer to produce intermediate exports shipped back to the source (exporting) country as intermediate imports to produce final goods (Figure4..6)

      i. domestic final goods consumed by the source (exporting) country (T7)
      ii. exported final goods consumed by other countries (T8)

Source: Wang, Wei and Zhu (2013)

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