

Trade Policy on a Buyer-Seller Network

Brian Pustilnik (Central Bank of Chile)

Discussant: Francesco Paolo Conteduca (Bank of Italy)

Trade, value chains and financial linkages

in the global economy

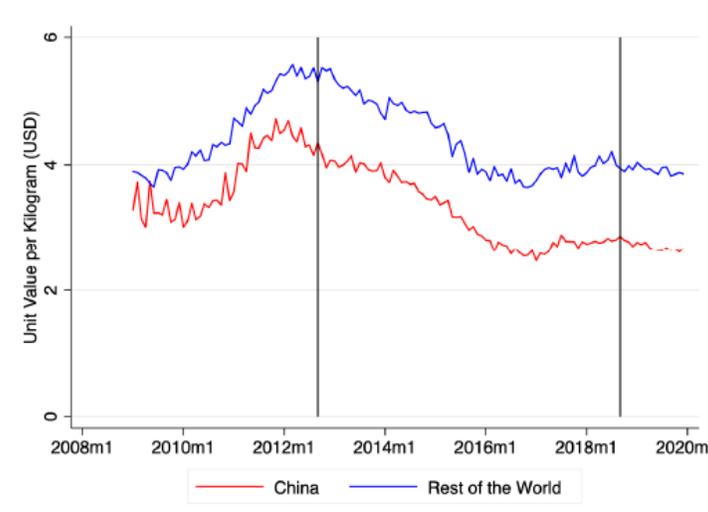
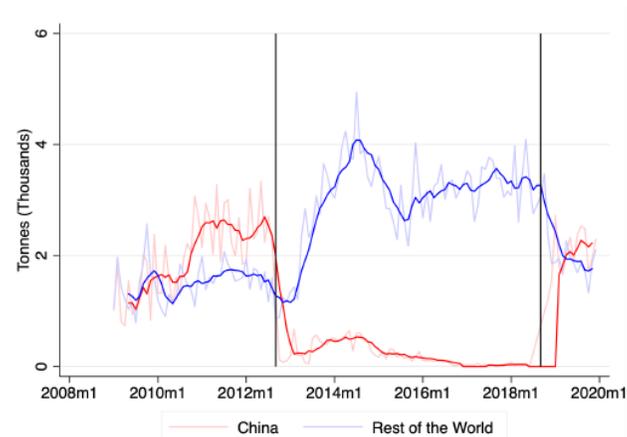
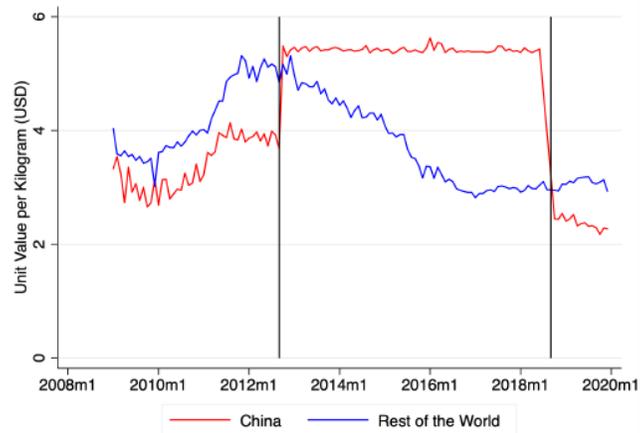
Rome, 15th June 2023

Impact of trade policy is a hot topic

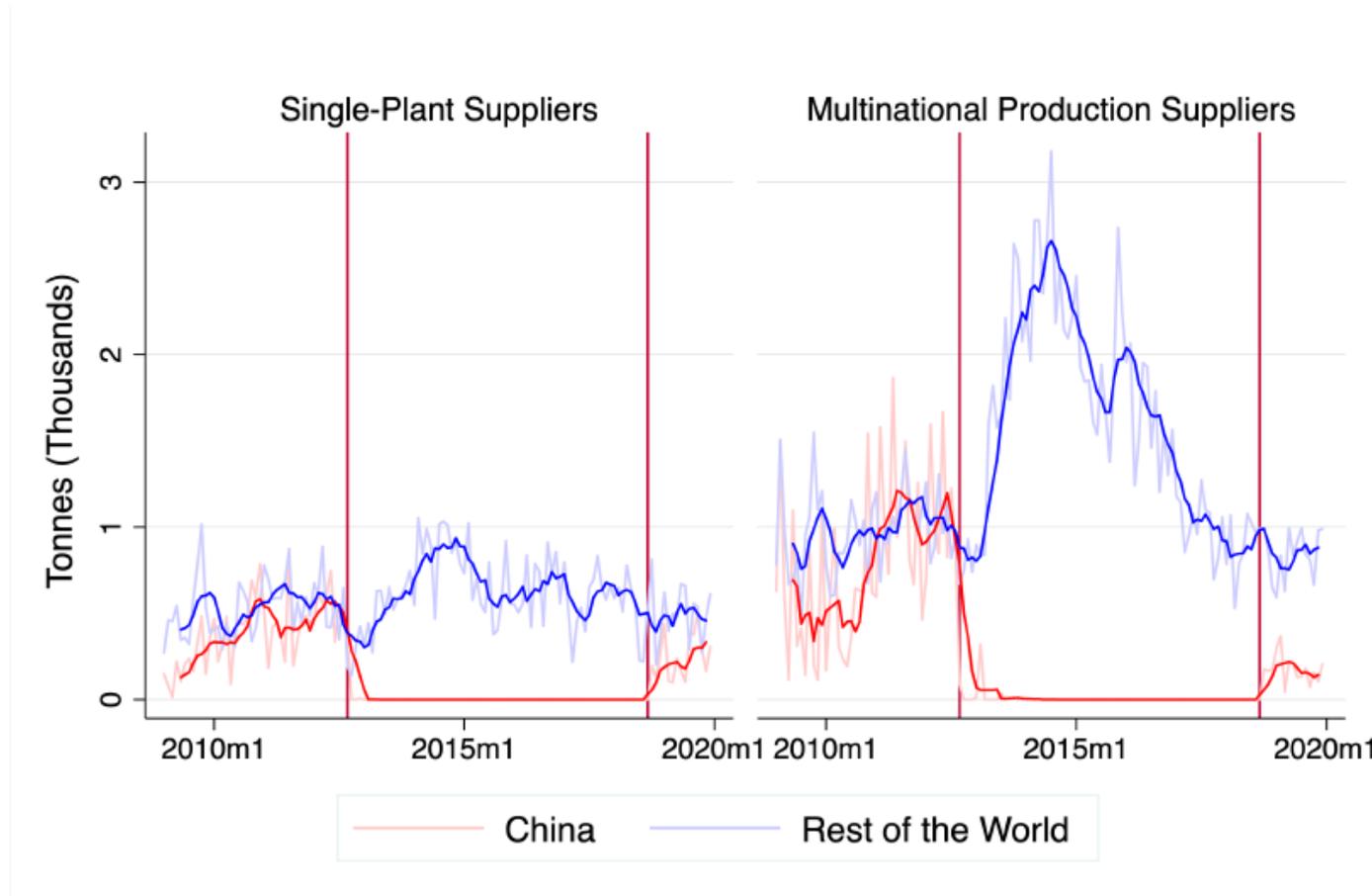
- Impact of trade policy depends on the substitutability of affected products and across origin countries
 - Particularly true for unilateral measures (e.g., sanctions, embargoes, tariffs on specific partners)
- How important is the network structure for the impact of trade policy?
 - Curran (2015); Barattieri and Cacciatore (2023)

The case of Chinese truck tires in Colombia

- Colombian government introduced **minimum price restrictions** on **truck tires** imported from **China** between 2012-2018
 - Truck tires** (unit value and quantity)
 - Car tires (unit value)



Sourcing from MNEs vs. single-plant producers



Model and estimation

- Partial equilibrium model relying on a three-layer CES demand system
 - Origin -> Foreign Supplier -> Retailer
- Accounting for the structure of network is important to obtain more accurate predictions of trade policy effects
 - Elasticities are different across layers
 - The presence of MNEs makes affected varieties more substitutable and reduces the policy impact on prices

General comments

- The paper addresses a relevant question by exploring a key channel (i.e., the network structure)
- The issue is increasingly relevant given the ongoing tensions:
 - China – US trade war
 - Fragmentation
 - Russian war to Ukraine and the following sanctions (Borin et al., 2023)
- Accounting for the trade network structure is key to making accurate predictions

Few remarks (1/2)

- Tire trucks are homogeneous (?)
 - May product differentiation reduce substitutability?
 - MNEs may set up different production lines across countries
 - How does producers' market power affect your results?
 - Do results carry over with other different trade policies (e.g., embargoes, quotas...)
- Network structure: domestic production as an overlooked channel
 - Trade policy aims to bolster domestic production
 - FDIs (no relevant brownfield over the period according to BvD Zephyr)
 - Rerouting

Few remarks (2/2)

- Why did the policy only affect Chinese truck tires?
 - In general, clarify better the intent of the policy in the institutional background
- Next steps?
 - Assessing the impact on consumer welfare (introducing labor market and domestic production)
 - Considering the role of FDIs
 - How does trade policy affect network formation?