Trade Intermediation and Resilience in Global Sourcing

by Oscar Perelló

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"Trade, value chains and financial linkages in the global economy"

Summary of the paper

Very interesting paper!

Main story: **wholesalers** act as intermediaries and *shape* the network of trade

How? Producers tradeoff the access to a WS's diversified network vs higher prices (standard mechanism in banking and finance).

Downstream firms chose **procurement** mode: network depends on intermediation fees and firms heterogeneity:

	Productivity			
Countries	High	Mid-High	Mid-low	Low
1	D	D	I	I
2	D	I	I	

After link exit/edge break, there is a 'linear' shift of the pattern.

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Shock

In any given location, a fraction of supply links breaks **permanently**.

But it's a paper for **normal** times: small, idiosyncratic shock (not for aggregate, granular, tail risk).
Still very important! Firms do face those disruptions, and neglecting that might bias our understanding of more extreme events

1. Should you restrict the risk indexes to only small deviations from average?
2. Not fully convinced that lower productive firms have less ability to establish strong links, especially when reputation matters (cfr. Machiavello). Local banks vs big banks.
3. Firms have other tools to mitigate country risk: e.g. trade and bank credit.

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Wholesalers

Data. It would be helpful to better characterize the WS:

- The *definition* of wholesale relies on mutually exclusive set: is it accurate? In practice, there could be overlap.
- Distribution of the number of suppliers by product-origin distribution is presented later in the paper, but I suggest moving it around fact #2:
  Wholesalers have 5% more suppliers within product-country: *5 vs 5.25* suppliers?

Model. There isn't an explicit agent, and it seems a limitation. They tend to have *lower* marginal costs and *higher* markups, but overall cheaper prices.

1. **Statics** They might have emerged because of the role of China, and the increased need of larger inventories (Carreras-Valle 2021 jmp).
2. **Dynamics**. What happens when there is a permanent shock? Do intermediaries face lower markups because they gain market power (e.g. Franzoni, Giannetti, Tubaldi 2024)?

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Other Comments

- The paper takes intermediaries and country sourcing decision from an earlier work with Huang, Manova and Pisch (2021). This paper adds a way to reduce the network space via a schedule of suppliers that equalize expected direct vs intermediated costs.
  1. Given the similarities with the previous work, could you put **more weight on the comparison and contribution**?
  2. In particular, why is there a single crossing, and not a set?

- To **match the data** - with varying degrees of success - eventually you need to include some extra randomness in the productivity 'ordering'. Is there a way to convince the reader that the model is not missing key mechanisms? For example, the role of product substitutability/relationship trading.

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Minor comments

1. Can you better justify the Binomial distribution assumption?
2. Can you make more explicit the drivers of the slope difference $m^* \lesseqgtr 0$?
3. Why θ is similar to the previous paper, where it's variety gains? Can you give an explanation?
4. Is the parametrization of the matching cost standard?
5. Can you better justify the Binomial distribution assumption?
6. is it f_l^D that we should compare with f^I or $\sum_l f_l^D$?

- typo in equation 2 (missing t subscript)
- define the set of sourcing modes $M = \{I, D\}$.
- specify $\kappa \geq 1$ in equation 6
- typo footnote 22: prop *3*

Summary

1. Great paper! Shows a lot of skills

2. Includes risk in international trade network decision of downstream suppliers, derives a structural approach to how firms chose procurement reach to small

3. Modeling the wholesalers seems to be first order if the paper wants to capture ‘dynamics’

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