AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

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

USDA
United States Department of Agriculture, Economic Research Service

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

New Economic Geography and Trade (contd.)

- 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