

# Discussion of “Innovation and Trade Policy in a Globalized World”

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# My Takeaways

- Models of trade and innovation with firms' in strategic competition are very complex. This paper (AAI) is at the global frontier, many steps ahead.
  - In each product line: 1 or 2 firms: either domestic, foreign, or both, depending on relative efficiency and iceberg cost + tariff
  - Fringe of potential entrants and foreign firms provide competitive pressure
  - Spillovers: free jump for maximum laggard; better distribution of big jumps for laggards;
- As importance of intangibles in production increase, importance of trade (scale) increases as well. Openness and low trade costs increase potential returns to innovation.
- For shorter horizons (one or two election cycles), unilateral protectionism can be welfare enhancing owing to profits of firms near import-competition threshold.
- Clever out-of-sample features from calibrated model: shift in upper innovation peak following (bilateral) tariff reductions

# Takeaways for CompNet Partners

- Collection of data on productivity and trade, with detailed information of distributions across countries, industries, and time is crucial for policy analysis using analytical models such as AAI.
- Adding in information on patents, R&D, high skilled workers, could add significant value.
- Missing for many CompNet countries: information on entry/exit. For this, we need links with Business Register at Stats Agencies
- Think about moments that are available in CompNet but unused in AAI: transitions from/to exporting; final goods vs intermediates?; relative productivities at the 2 thresholds.
- Model/Data allow analyzing effects of exchange rate changes on import/export thresholds as well as on innovation incentives

- Build a laboratory of trade and innovation models
  - A comprehensive literature review
  - A classification of broad model features
  - Detailed codification of mechanisms
  - Plug-and-play model building, with variation in functional forms and assumptions
  - Simulation of policy under differing model variants
- Think about model links to other policy areas: labor (migration), competition, finance, land-use, environment

- Amazing piece of work, overall. Well argued external and internal calibration. Nice out-of-sample examples, and useful policy simulations.
- Welfare analysis along transition paths (with varying horizons) is not easy, but extremely useful for the welfare analysis and political economy considerations
- Home-bias of asset ownership of large global firms? Is this less so in world with high rents on intangibles.
- Some discussion on time path of domestic interest rate and of aggregate profits (or value of firms), could help in comparing dynamic effects of alternative policy.
- Clever modelling of distribution for jumps. How sensitive is model to other functional choices, with more explicit statement of spillovers. Is distribution of gaps across product lines stable? If not, does need to innovation subsidy change over time?