

Globalization and Pandemics

Pol Antràs

Harvard University and NBER

Stephen Redding

Princeton University and NBER

Esteban Rossi-Hansberg

Princeton University and NBER

Motivation

- What is the relationship between globalization and pandemics?
 - Does globalization make societies more vulnerable to pandemics?
 - How do pandemics affect globalization (present and future)?
- We develop a model in which trade involves human interaction and human interaction transmits disease
 - Gravity model of trade
 - R_0 and disease dynamics are endogenous to trade
- Health policy externalities between countries
 - Good domestic policy may not stem an epidemic in the face of bad foreign policy
 - But (in some cases): unilateral incentive to liberalize vis à vis high-risk (bad policy) foreign countries

Model: Trade

- Welfare of households in country i

$$W_i = \left(\sum_{j \in \mathcal{J}} \int_0^{n_{ij}} q_{ij}(k)^{\frac{\sigma-1}{\sigma}} dk \right)^{\frac{\sigma}{\sigma-1}} - \frac{c}{\phi} \sum_{j \in \mathcal{J}} \mu_{ij} (d_{ij})^\rho \times (n_{ij})^\phi,$$

- Gravity equation for human contacts and trade flows

$$n_{ij} = (c(\sigma-1)\mu_{ij})^{-1/(\phi-1)} (d_{ij})^{-\frac{\rho+(\sigma-1)\delta}{\phi-1}} \left(\frac{t_{ij} w_j}{Z_j P_i} \right)^{-\frac{\sigma-1}{\phi-1}} \left(\frac{w_i}{P_i} \right)^{1/(\phi-1)}$$

$$\pi_{ij} = \frac{(w_j/Z_j)^{-\frac{\phi(\sigma-1)}{\phi-1}} \times (\mu_{ij})^{-\frac{1}{\phi-1}} (d_{ij})^{-\frac{\rho+\phi(\sigma-1)\delta}{\phi-1}} (t_{ij})^{-\frac{\phi(\sigma-1)}{\phi-1}}}{\sum_{\ell \in \mathcal{J}} (w_\ell/Z_\ell)^{-\frac{(\sigma-1)\phi}{\phi-1}} \times (\Gamma_{i\ell})^{-\varepsilon}}$$

- Welfare gains from trade (at household level)

$$W_i = \frac{\phi(\sigma-1)-1}{\phi(\sigma-1)} \times (\pi_{ii})^{-\frac{(\phi-1)}{\phi(\sigma-1)-1}} \times \left(\frac{(Z_i)^{\phi(\sigma-1)}}{c(\sigma-1)} (\Gamma_{ii})^{-\varepsilon(\phi-1)} \right)^{\frac{1}{\phi(\sigma-1)-1}}$$

Model: Pandemic

- Dynamics of infection in two-country SIR model

$$\begin{bmatrix} \dot{I}_1 \\ \dot{I}_2 \end{bmatrix} = \underbrace{\begin{bmatrix} 2\alpha_1 n_{11} S_1 & (\alpha_2 n_{12} + \alpha_1 n_{21}) S_1 \\ (\alpha_2 n_{12} + \alpha_1 n_{21}) S_2 & 2\alpha_2 n_{22} S_2 \end{bmatrix}}_F \begin{bmatrix} I_1 \\ I_2 \end{bmatrix} - \underbrace{\begin{bmatrix} \gamma_1 & 0 \\ 0 & \gamma_2 \end{bmatrix}}_V \begin{bmatrix} I_1 \\ I_2 \end{bmatrix}$$

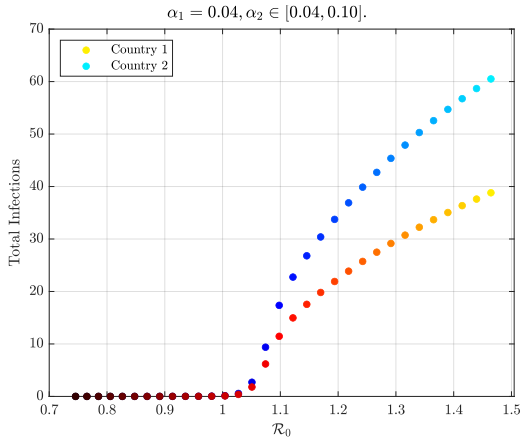
- \mathcal{R}_0 determined by spectral radius of *next generation* matrix FV^{-1}
- Disease can only be contained only if *both* countries' \mathcal{R}_0 based on **domestic** contacts is less than one, or

$$\mathcal{R}_0 \geq \mathcal{R}_0|_{n_{12}=n_{21}=0} = \max \left\{ \frac{2\alpha_1 n_{11}}{\gamma_1}, \frac{2\alpha_2 n_{22}}{\gamma_2} \right\}.$$

- But n_{11} and n_{22} are lower, the higher is trade integration!

Model: Pandemic

- Gradually increase α_2 while holding $\alpha_1 = 0.04$ constant

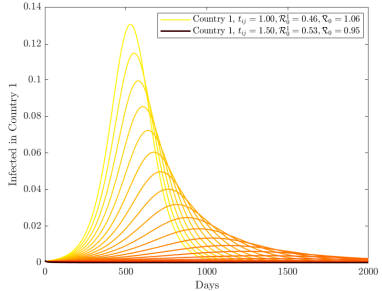
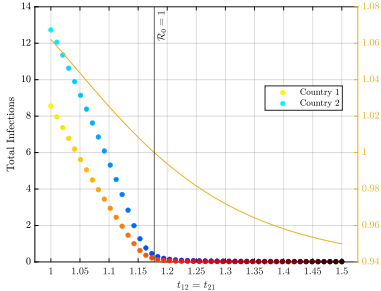


Symmetric World

Proposition

Suppose that countries are symmetric, in the sense that $L_i = L$, $Z_i = Z$, $\Gamma_{ij} = \Gamma$, $\alpha_i = \alpha$, and $\gamma_i = \gamma$ for all i . Then, a decline in any (symmetric) international trade friction:

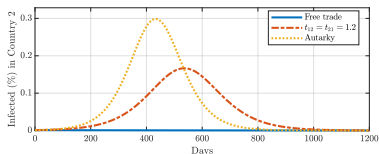
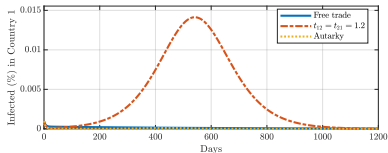
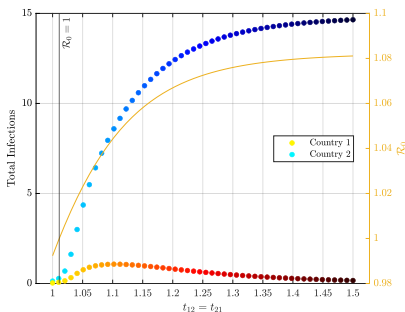
- (i) increases \mathcal{R}_0 and decreases the range of parameters for which a pandemic-free equilibrium is stable
- (ii) increases the share of steady-state infected in both countries



Asymmetries in Contagion and Recovery

Proposition

When the contagion rate α_i and the recovery rate γ_i vary sufficiently across countries, a decline in any international trade friction **decreases** \mathcal{R}_0 and increases the range of parameters for which a pandemic-free equilibrium is stable.



Other Results (Stay Tuned)

- Other results from our analysis
 - Multiple waves of infection in open economy without lock-downs
 - Characterize globalization and steady-state share of susceptibles
 - Incorporate terms of trade effects through endogenous labor supply
 - Dynamic forward-looking model of endogenous social distancing
 - Add adjustment costs - fear of future pandemics leads to slow recovery

