Comments on

Trade and the Global Recession

by Eaton, Kortum, Neiman, and Romalis

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Important Question

- Why did Trade Collapse so dramatically during "Great Recession" of 2008-09?

Clear, Model-Based Analysis

- Analysis rigorously based on widely-known reasonable model (Eaton-Kortum plus)

Many Strengths

- Conducted at relatively high frequency (for trade) to address speed of trade collapse
- Conducted for many countries to address scope of trade collapse
- Plausible answers (collapse was mostly "natural")
- Details extremely precise
- Comparison with Great Depression striking

A *Huge* Amount of Work!

- Input/Output framework merged with
- Gravity model using
- Plausible shocks
    - 4 sub-scripts (country, sector, time, partner)
- Serious theory plus serious empirics!

Growing Consensus on Protectionism

- Here "trade frictions" explain small part (15%) of big (>30%) decline in trade/GDP
  - Not all of that necessarily protection
    - Trade Finance may have shrunk "naturally"
    - Ditto collapse of supply chains
- Growing Conventional Wisdom: Protection undesirable, unnecessary, but unimportant
  - Some protectionism, but insignificant
  - Global Trade Alert may have helped by shrieking

- Protection neither cause nor consequence of trade collapse
  - Ex: Kee et al (VoxEU, 6/2010): “protectionism accounted for no more than 2% of the drop in world trade in 2009.”
  - Ditto: Freund: trade drops suddenly, 4 x GDP (demand for goods falls, especially inventories)
  - This paper fits neatly into mainstream
- Here, trade declines because of decline in demand for manufacturing (highly cyclic)

Q1: Conclusions Model-Dependent?

- How sensitive is analysis to reasonable changes in structure?
  - Some sensitivity inevitable – but how much is there?
- Do we need the structural assumptions?
  - Freund has similar conclusions with reduced-form empirics: more plausible?
  - How restrictive is using the Head-Ries index?
    - Kee et al use Anderson-Neary “Overall Trade Restrictiveness Index” – an alternative?

Q2: Narrow Sample?

Issue #1: Missing Observations of Interest

- Covers reasonable number of countries with over ¾ global GDP; good!
  - But omits large number of serious crisis countries:
    - Iceland (biggest collapse)
    - Baltics (Latvia, also Estonia and Lithuania)
    - Central Europeans: only Hungary (no Ukraine)
    - E. Asians: only China, Korea, Japan (no HK, Singapore, Taiwan, …)
    - Latins: only Chile, Mexico (no Argentina, Brazil)

Issue #2: Potential Selection Bias

- Sample Disproportionately Rich
- "Great Recession" a progressive event
  - Poor countries may shed light on collapse, had smaller recessions

- Little reason to believe that either issue an obvious problem in practice

Q3: Model Set-Up

- Why these four shocks (demand, trade deficit, productivity, trade friction)?
    - No financial, monetary, fiscal, non-tradable (land price) shocks?
- Perfect labor mobility, absence of specific factors and frictions all imply no unemployment (!)

Quibbles

- Disproportionately little discussion of results (7.2 is one paragraph) – first draft blues.
- Using “high frequency” to refer to monthly flows
  - International Trade vs. Finance

Overall: Great Contribution