Discussion of “Deglobalization and reorganization of supply chains: Effects on regional inequalities in the EU” by G.Magerman and A.Palazzolo

Abián García-Rodríguez, JRC-Seville, European Commission

NBB Conference 2024, Brussels

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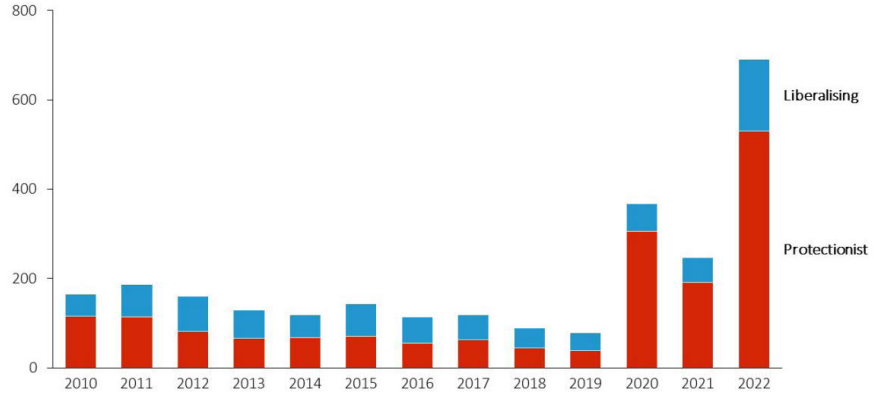
- This presentation represents the opinions of the author and is the product of professional research.
- It is not meant to represent the position or opinions of the JRC, the European Commission or its Member States, nor the official position of any staff members.

A quick recap: motivation

- Drive to reduce dependency and foster local production

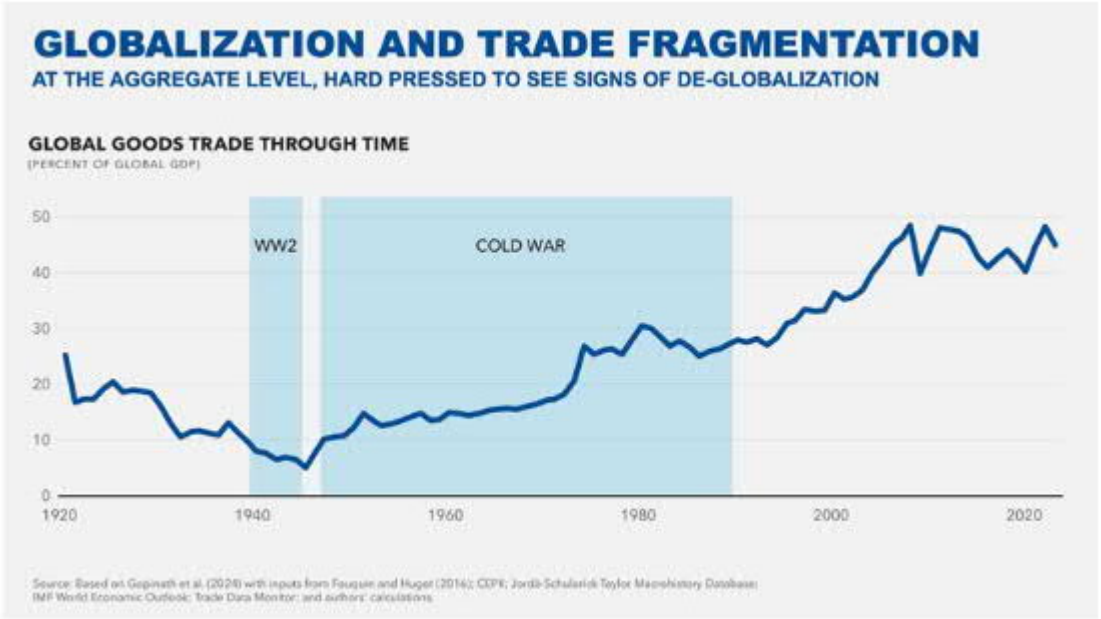
FIGURE 7
Trade policy interventions



Note: Measures include tariffs, export-related measures, subsidies, contingent trade-protective measures, and trade-related investment measures.

Source: Global Trade Alert, 2024.

- A number of disruptions but, so far, limited impact on globalization



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A quick recap: the model

- General equilibrium framework of production and consumption
  - Multiple regions, sectors and factors
  - Input-output relationship within and across regions
  - Monopolistic competition, love of variety and external economies of scale
  - Local and supranational governments
- Calibrated with a NUTS2 2017 IRIO

- Contributes to the literature on:
  - Global Value Chains
  - Production networks
  - Incentives for policy intervention
- In particular, region-sector transmission of EU policy

A quick recap: the exercises

Trade policy (tariffs)

- 10% increase in iceberg costs for imports from outside the EU
  - Trade diversion
  - Impact on prices, wages

Production subsidies

- 10% increase to production subsidies, all sectors, all regions
  - Lower marginal cost of production
  - Lower prices

Government demand

- 10% increase to the government component of demand
  - Pure demand shock

A quick recap: the results

Trade policy (tariffs)

- Consistently negative effect, almost all regions
- IO linkages exacerbate the effect, largest contribution

Production subsidies

- Small but positive effects
- Uneven regional distribution
- Again, IO linkages contribute the most

Government demand

- Direction of effect depends on active channels
- Additional demand comes at the cost of higher taxes
- Asymmetrical dispersion

Policy fitting

- So far just a theoretical exercise to test the model
  - Big potential for real life applications, including optimal policy
- What about future policy? The Draghi Report
  - Three main challenges: close the innovation gap, balance decarbonisation and competitiveness, and reduce dependencies. Two requisites: reinforce public/private investment and improve European governance
  - Related to the paper:
    - Green subsidies, R&D support,
    - Increase of defence spending
    - Industrial coordination: Defence, Aerospace, in general (scaling)

Discussion

- Can you model retaliation? Not only on tariffs, but also on subsidies
  - Rodrik (2014): subsidy war increasing the global supply of green technologies
- Can we consider the results as “floors”?
  - Given the design of the governments, particularly the lump-sum taxes
- Is it possible to model disruptions?
  - Checking if welfare losses are lower **after** interventions
- Impact on inequality? P20/80, correlation with initial GDP per capita...

Thank you

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