Discussion:
The Price of Capital Goods: A Driver of Investment Under Threat

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Summary

1. Fact:
   - Relative price of capital goods (M & E) ↓ over the last 30 years ...
   - ... in advanced and emerging markets (50% since 1970).

2. Research Questions:
   - What is driving the ↓ in relative price of capital?
   - Two main channels:
     - (i) Trade integration.
     - (ii) ↑ Productivity of capital-producing sectors.
   - ↓ in relative price of capital → ↑ in capital deepening/real investment?
   - Yes!
     - 1% drop in relative price of M&E → 0.3% increase in real investment of M&E ...
     - ... and explain about 40% of the increase in real investment rate in average economy.
   - Holds at the cross-country and sectoral level.
   - Cross-country differences on levels of prices of capital → also related to trade (Alfaro and Ahmed (2007)).
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         - ↓ domestic prices due to competition.
         - ↑ domestic producers’ productivity.
       (ii) ↑ Productivity of capital-producing sectors.

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Why do we care?

**Investment → Economic Growth.**

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Investment $\rightarrow$ Economic Growth.

Several “ifs” for EM:

1. Emerging economies import their capital goods.
2. Emerging economies have capital allocation and re-allocation frictions.
3. Trade barriers are back.
4. Technical notes.
EM are K-goods Importers:

- EM depend heavily on imports of K-goods:
  - The average African and South Asian country buys almost 70% of its equipment from abroad (Eaton and Kortum (2001)).
  - Chile: approx. 20% total imports are K-goods imports → 5% GDP.

- Also, these countries tend to have significant trade costs for K-imports.
2. EM have K-allocation and Re-allocation Frictions:

1. Capital Misallocation:

2. Investment:
   - Market Power in Input/Capital-goods markets (Morlacco (2019)).

3. Disinvestment:
   - Zombie Firms (Caballero, Hoshi and Kashyap (2008), Fukuda and Nakamura (2011)).
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3. The “Return” of Trade Barriers:

1. Numerous examples of increasing trade costs:
   - “Tariff wars”.
   - FTA renegotiations.
   - Increase in uncertainty.

2. Direct impact:
   - Cautious behavior, particularly in production and investment.

3. Indirect impact:
   - Our suppliers are engaging in “trade wars” → disrupt value chains → increase input costs → increase final good (K) prices to everyone.
4. Technical Notes:

1. What happened after the 2008 financial crisis?
   ▶ Why the slow-down?
   ▶ What is the elasticity after 2008?

2. Are there heterogenous effects across industries or sectors?

3. How are these elasticities changing when the production matrix of a country changes? Is it driving this matrix?

4. How do we reconcile the results of Alfaro and Ahmed (2007) with yours?
   ▶ Why some exporting countries do charge more to poorer markets?
   ▶ Why no arbitraje?
   ▶ Quality? Different products?
Final Comments

- Very important (and current) topic for EM.

- First order to understand trade, imports and investment dynamics of firms in EM (and how they differ from advanced economies).

1. More work on this is needed but what we know?
   - Slow adjustment to (trade) shocks.
   - Short-run and medium-run productivity and welfare gains depend on underlying capital frictions.

2. How can we identify frictions? By country? By industry?
Thank you.