Discussion of
Global Production with Export Platforms
by Felix Tintelnot

Oleg Itskhoki
Princeton University

NBER ITI Summer Institute
Boston, July 2013
Introduction

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  — abstract from proximity-concentration trade-off and focus on specialization between innovation and production
  — This paper shuts down specialization and reintroduces proximity-concentration trade-off
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  — This paper shuts down specialization and reintroduces proximity-concentration trade-off

• Very elegant solution to a complex problem
• **Stage 2**: once set of locations $Z$ is sunk ($\sim$ARRAY)
Setup I

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\[ \exists \gamma_{il} \left( \tilde{c}_{ilm} \sim \frac{\gamma_{il} w_{l} \tau_{lm}}{\tilde{\epsilon}_{l}} \right) \Rightarrow p_m(\phi; Z) = \frac{\sigma}{\sigma - 1} \frac{\tilde{c}_{m}(Z)}{\phi}, \]

\[ \tilde{\mu}_{lm}(Z) \sim \left( \frac{\tilde{\epsilon}_{l}}{\gamma_{il} w_{l} \tau_{lm}} \right)^{\theta} \quad \text{for} \quad \ell \in Z \]
Stage 1: choice of production locations $Z$

$$Z^i(\eta; \phi) = \arg \max_Z \left\{ \sum_m \pi_m(\phi; Z) - \sum_{\ell \in Z} \eta_{\ell} w_{\ell} \right\}$$

Computationally intensive set search problem
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Computationally intensive set search problem

Assumptions:

1. No endogenous entry (cf. ARRY) — finite draws ($\sim$EKS, 2013) versus LLN plus fixed costs
2. No fixed cost of exporting
3. No production complementarities between firm’s products
4. No market power of the firm
1 Partial equilibrium location choice of German firms:

- **Identification:**
  - Conditional on $Z$, distribution of sales determines $\{\gamma_{i\ell} w_{\ell} \tau_{\ell m}\}$
  - The choice of $Z$ identifies the distribution of $\{\eta_{i\ell} w_{\ell}\}$

- **Fit:**
  - What does a good fit of location choice mean: $\eta$ versus $\gamma_{i\ell}$?
  - What is the explanatory power of the model: role of $\gamma_{i\ell}$ & $\phi$?
  - Contrast with alternatives (e.g., no fixed costs)
Exercises

1. Partial equilibrium location choice of German firms:
   - **Identification:**
     - Conditional on $Z$, distribution of sales determines $\{\gamma_{i\ell} w_{\ell \tau_{\ell m}}\}$
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   - **Fit:**
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2. General equilibrium calibration of platform sales:
   - **Moments:**
     - expenditure share by country pair, $\xi_{\ell m}$
     - platform production, $\kappa_{i\ell}$
   - **Targets:** $\gamma_{i\ell}$, $\tau_{\ell m}$ and $\eta_{i\ell}$
   - What is the link between the two exercises? Are we getting different answers? Where do fixed costs have a bite?
Conclusion

- Very elegant solution to a methodological challenge
- Already provides interesting insights into conceptual issues
- I foresee a lot of fruitful applications of this methodology