

Non-technical summary

7th Global Development Network Regional Research Competition (RRC VII)

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Global Imbalances and the Role of Intra-Firm Trade in International Policy Coordination

Authors of the paper: The Origins of Global Imbalances

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Keywords: global imbalances, trade, investment costs

In this paper we investigate whether the current century global imbalances could have been triggered by a decline in investment and trade costs. Our motivation consists in the two major distinctions between the current and previous episodes of global imbalances. Namely, the fact that the current episode involves unequally developed world regions with significant investment linkages and further that the involved regions grow above their regional benchmarks. These two symptoms are common to integrating and converging underdeveloped countries to advanced counterparts. Therefore, we use a three region model with unequally developed regions to simulate the effects of a decline in investment and trade costs on external balances. We calibrate the model to the U.S., Eurozone and Japan, and emerging Asia and show that

- the decline in investment and trade costs between 1985 and 2005 genuinely produces trade imbalances between the three regions similar to those observed in reality.
- the effects generated by a decline in investment costs dominate those induced by the trade cost decline.
- the decline primarily in investment costs triggered economic integration between developed and underdeveloped world regions and likely originated the current episode of global imbalances.

The historical facts that emerging Asia decreased investment costs after the 1980s, that the trade costs have continuously declined since then, and that the current episode of global imbalances started in the 1990s, would lend support to our supposition about the origins of this century global imbalances.