Discussion of Sposi, Yi and Zhang (2021) "Deindustrialization and Industry Polarization"

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- ▶ The authors show that heterogeneous productivity growth explains deindustrialization, and that trade costs explain industry polarization.
- ▶ Industry polarization is the dispersion of industry shares across countries, which increases over time.

Main questions

- In models of structural change, productivity growth, which is often the main driver of change, is a black box. Could this paper open that black box?

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- Could the model illustrate more in detail how a simple trade shock explains the complex patterns of structural change?

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  - ▶ it is not about individual firms increasing their markup, but because high-mark up firms become bigger at the expense of less profitable firms that exit the market.
- ▶ To what extent reallocative efficiency and imperfect competition could explain deindustrialization and industry polarization, even in autarky?

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  - As demand for the goods of one country increases, the industry grows in that country (or does not shrink as much). Isn't this driven by an asymmetrical decline in trade costs across countries, and the accompanying trade imbalances?

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▶ The trade imbalance is probably necessary to match the data, but it brings an additional layer of (unnecessary?) complexity since it is set exogenous and the return on the global portfolio does not seem to depend on a country's contribution.

Agricultural sector

- What happens to the agricultural sector? Do we see there polarization symmetrical to manufacturing?

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▶ In a world of imperfect competition is really important to understand what is going on at the micro level (through general equilibrium models with heterogeneity?) and how these micro-economic patterns aggregate up to macro phenomena - from an economic point of view, not via statistical aggregations that hide compositional changes.

▶ It is also necessary to look at the trade imbalances and at the agricultural sector in this process, to get the whole picture about structural transformation.