Discussion of
"Threat or Opportunity? Aggregate and Sectoral Effects on Colombia of the Global Trade Reconfiguration due to the U.S.–China Tariff Dispute"
(Morales, Trejos, Bejarano, October 2025)

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Big Picture

- 2025: large, heterogeneous tariff changes by the U.S. and China, with retaliation.
- Question: **How does this global trade reconfiguration affect Colombia**—a small open economy tightly linked to the U.S.?
- Focus on:
  - Temporary (4-year) vs. permanent tariff regimes.
  - Aggregate vs. sectoral outcomes.
  - Trade diversion across U.S., China, EU/UK, Rest of World.
- Tool: multisector, multicountry DSGE model with global input–output linkages and forward-looking behaviour.

What the Authors Do

- Build a **ten-partner, multisector DSGE** with:
  - Energy vs. non-energy production, IO structure from ECLAC matrices.
  - Rotemberg price rigidities, labor-mobility frictions, investment adjustment costs.
  - Monetary policy and external closure consistent with small-open-economy DSGE practice.
- Introduce 2025 tariff reconfiguration as a **change in relative tariffs** across partners and sectors:
  - U.S. 10% baseline tariff, with much larger hikes on China.
  - Colombia at 10% baseline (no extra surcharge), hence tariff advantage vs. China in U.S. market.
- Compare **temporary** (16 quarters) vs. **permanent** scenarios for the new tariff structure.

Key Facts on Colombia (from the paper)

- Export structure in 2024:
  - **Mining**: 52% of total exports (25.5 bn USD), mainly to ROW and U.S.
  - **Agriculture**: 17% (8.45 bn USD), U.S. is main market.
  - Manufacturing (metals, food/beverages, other tradables): about 21% of exports.
- Very limited manufacturing sales to China; Colombia is **almost absent** there in many sectors.
- This structure makes mining and agriculture the critical transmission channels of trade shocks.

Aggregate Effects: Temporary vs. Permanent

- **GDP:**
  - Temporary tariffs (4 years): GDP falls on average by about **0.07%**.
  - Same tariffs, but permanent: long-run GDP rises by about **0.15%**.
- **Employment:**
  - Temporary regime: negative effects (around -0.1% on average).
  - Permanent regime: positive in the long run ($\approx 0.06\%$).
- **Prices and external balance:**
  - Slight deflation in both cases; imported input costs and tariff incidence matter.
  - Trade balance/GDP deteriorates in both regimes, more so initially under permanent tariffs.
- Core message: **policy horizon flips the sign of the aggregate effect**.

Why Expectations Matter So Much

- Firms face sunk costs in reorganising supply chains, investment and capacity.
- If tariffs are **temporary**:
  - Firms avoid big, irreversible moves; result is disruption without much reallocation.
  - GDP falls, employment falls, little structural change.
- If tariffs are **permanent**:
  - It becomes optimal to reorient production, rebuild networks, expand capacity in advantaged sectors.
  - Colombia tilts further toward U.S. and mining; GDP and employment eventually rise.
- The same tariff levels have opposite aggregate effects depending on perceived duration.

Role of Colombia's Export Structure

- **Mining dominance** (over half of exports) is crucial:
  - Gains in U.S. mining demand transmit strongly to GDP and employment.
  - Losses in China are smaller in levels because China's share is modest.
- **Agriculture** and **traditional manufactures** account for much of non-mining exports:
  - Underperform despite tariff advantages: suggests deep supply-side and competitiveness constraints.
- **Geography**: ROW absorbs 60% of exports, U.S. 35%, China 4%.
  - Even a 20% surge in U.S. exports cannot fully offset 7–8% declines in ROW plus double-digit drops in China.

Comment 1: How important is relative advantage over other countries (China)?

- **China** gets higher tariffs than Columbia or ROW.
- Possible extensions:
  - Check how your results would change if China also got 10% tariff rate.
  - Especially that it might as well be the final result.
- For policy:
  - Results could highlight how important it is to be tariffed **less** than the others.

Comment 2: Mining Dependence and Risk

- Mining drives much of the positive story under permanent tariffs.
- But mining is:
  - Highly capital intensive and politically sensitive.
  - Exposed to global commodity price volatility and climate policy.
- Could be useful to:
  - Report decomposition of GDP effects into mining vs. non-mining contributions.
  - Show outcomes under a “mining-constrained” scenario (e.g. caps on expansion).
- This would help policymakers judge whether relying on mining-led gains is robust.

Comment 3: Financial and Monetary Block

- The model features a standard small-open-economy monetary policy block.
- Given the nature of the global policy change, an important question is:
  - **How would the results change if the tariff reconfiguration were accompanied by a global rise in risk aversion** (i.e., a risk–premium shock)?
- Such a shock typically generates:
  - capital outflows, exchange-rate pressure, and higher external financing costs for EMEs,
  - which could amplify or offset the trade–reallocation effects in non-trivial ways.
- Not suggesting new model ingredients, but:
  - A simple robustness check with a risk-premium shock would help disentangle **real trade-diversion effects vs. financial-market effects**.

Comment 4: Modelling Policy Horizon

- **Binary horizon**: 16 quarters vs. permanent.
  - Very transparent, but extreme; reality may be somewhere in between.
- Possible extensions:
  - Let agents assign a *probability* to policy reversal (hazard rate for tariff rollback).
  - Explore how GDP and sectoral outcomes vary with perceived survival rate of tariffs.
  - Connect to measures of policy uncertainty or forward-guidance from trade policy debates.
- For policy:
  - Results highlight that **communication and credibility of trade policy** can be as important as the tariff levels themselves.

Questions for the Authors

- **Expectations:**
  - How would you map your “temporary” vs. “permanent” regimes into actual beliefs of Colombian firms in 2025?
  - Any empirical guidance (surveys, option-implied measures) that can discipline this?
- **Third-market effects:**
  - How much of the deterioration in trade balance comes from EU/UK vs. ROW vs. China?
  - Are there policy levers to mitigate those specific losses?

Takeaways for Policy

- **Tariffs' duration and credibility matter** as much as their level:
  - Temporary tariffs mostly create disruption.
  - Permanent, credible changes can generate reallocation and, for some sectors, gains.
- For Colombia:
  - Gains are concentrated in mining and some tradables, but come with higher dependence on the U.S.
  - Losses are spread across China, Europe and ROW; diversification remains crucial.
- Structural policies are key:
  - Address agriculture and logistics constraints to exploit tariff preferences.
  - Support scalable non-mining tradables that respond well under permanent access.

Thank you!

Looking forward to the authors' replies and the discussion.