Deglobalization and Global Inequality: Trade, Capital Flows, and Comparative Advantage

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Abstract

This paper develops a dynamic multi-country, multi-sector general-equilibrium framework to study how deglobalization can reshape cross-country inequality through two margins of international integration: trade in intermediate goods and cross-border capital flows. The model combines Ricardian comparative advantage, generated by sectoral productivity differences, with Heckscher–Ohlin comparative advantage, generated by cross-country differences in capital–labor ratios and sectoral factor intensities. Households choose saving dynamically, while capital values are allocated across countries subject to bilateral investment frictions and destination-specific efficiency draws. Goods trade follows an Eaton–Kortum structure. This joint structure allows trade and capital-market fragmentation to alter production patterns, factor returns, capital accumulation, and national income differently across capital-abundant and labor-abundant economies. The framework is designed to quantify when increases in trade and capital frictions can widen international income differences, including the possibility that poorer economies become relatively poorer while richer economies become relatively richer. It also separates the roles of Ricardian productivity differences, Heckscher–Ohlin factor endowments, goods-market integration, and capital-market integration in shaping the distributional consequences of deglobalization.

Keywords: Deglobalization; Global inequality; International capital flows; Trade; Comparative advantage; Dynamic general equilibrium
JEL Classification: F11; F14; F21; F43; O11; O19

1 Introduction

Deglobalization need not affect all countries in the same way. Countries enter the world economy with different technologies, sectoral production structures, capital stocks, and capital–labor ratios. A rise in barriers to international trade or capital mobility can therefore change not only the level of global economic activity, but also the distribution of income across countries. This paper studies a specific question: under what conditions can deglobalization make poorer countries relatively poorer and richer countries relatively richer, thereby widening international inequality?

We study deglobalization along two distinct but interacting dimensions. The first is the movement of goods, especially intermediate inputs, across countries. Higher bilateral trade costs reduce international sourcing and alter the geography of production. The second is the movement of capital. Higher bilateral capital-market frictions change where investors place capital, where productive capital services are used, and how capital income is distributed across national owners. Treating these two margins jointly is important because goods trade changes the profitability of production across locations, while capital flows change the factor endowments available for that production.

The model contains two sources of comparative advantage. First, sectoral productivity differences generate a Ricardian force, as in Eaton and Kortum (Eaton and Kortum, 2002): countries differ in their technological efficiency across sectors, and trade reallocates expenditure toward lower-cost producers. Second, cross-country differences in capital–labor ratios interact with sectoral differences in capital intensity, generating a Heckscher–Ohlin force. Capital-abundant and labor-abundant economies therefore respond differently when either goods trade or capital mobility becomes more costly. In particular, changes in international capital allocation affect effective capital available for production, while changes in intermediate-goods trade affect sectoral prices, production costs, and factor demand. The interaction between these two comparative-advantage mechanisms is the central channel through which deglobalization can generate heterogeneous income effects across rich and poor countries.

To study these mechanisms, we develop a dynamic, multi-country, multi-sector general-equilibrium model with endogenous saving, Eaton–Kortum trade, and cross-border capital allocation. The capital block builds on the idea that investors allocate capital across destinations subject to bilateral frictions and heterogeneous destination-specific efficiencies, as in the international capital-allocation framework of Kleinman et al. (2026). A key feature of our formulation is that international allocation is defined over capital value rather than raw capital quantity. Destination-specific investment-good prices therefore convert allocated value into physical capital, while production uses efficiency-adjusted capital services. This distinction allows ownership, location, and productive use of capital to be separated without introducing an additional financial-asset state variable.

The framework is designed for counterfactual exercises that raise trade and capital-market frictions separately and jointly. Comparing these experiments allows us to isolate the goods-trade channel, the capital-flow channel, and their interaction. The model also distinguishes GDP from GNP and explicitly tracks net investment income, making it possible to separate changes in production located within a country from changes in income accruing to its residents. These distinctions are particularly important for studying inequality when countries differ sharply in their initial capital ownership, productive capital intensity, and comparative advantage.

The remainder of this note develops the model. Section 2 provides an overview of the simplified deglobalization framework. The subsequent sections describe production, trade, household saving, cross-border capital-value allocation, goods-market equilibrium, and national-income accounting. The final equilibrium conditions summarize the dynamic system that will be used for quantitative analysis.

2 Overview

This note is written as a direct simplification of the deglobalization model. We keep its country–sector indexing, Eaton–Kortum trade block, Cobb–Douglas production structure, consumption and investment composites, dynamic household problem, and Fréchet capital-allocation mechanism. We remove the energy block, natural-resource inputs, learning, the distinction between clean and generic capital, installation efficiency, and the investment wedge. There is one capital type and one depreciation rate δ.

The key modification is confined to the capital-allocation block. In the original version, $\lambda_{ni,t}$ is a share of capital quantity. Here it is a share of capital *value*. Consequently, a unit of capital owned by investor country n is valued at the investment-good price $P^I_{n,t}$, while a unit of capital located in host country i is valued at $P^I_{i,t}$. No separate financial-asset state variable is introduced.

Throughout, n denotes the investor country in the capital block and the importing country in the trade block; i denotes the host country in the capital block and the exporting country in the trade block.

3 Production

There are N countries, $n, i, h \in \{1, \ldots, N\}$, and J sectors, $j, k \in \{1, \ldots, J\}$. Sector j in country n uses labor, productive capital services, and intermediate inputs. The cost shares satisfy

$$\gamma^L_{n,j} + \gamma^K_{n,j} + \sum_{k=1}^{J} \gamma^X_{n,jk} = 1. \tag{1}$$

The unit-cost function is the one-capital specialization of the deglobalization production block:

$$c_{n,j,t} = B_{n,j}(w_{n,t})^{\gamma^L_{n,j}}(r_{n,t})^{\gamma^K_{n,j}} \prod_{k=1}^{J} (P_{n,k,t})^{\gamma^X_{n,jk}}, \tag{2}$$

where

$$B_{n,j} \equiv (\gamma^L_{n,j})^{-\gamma^L_{n,j}}(\gamma^K_{n,j})^{-\gamma^K_{n,j}} \prod_{k=1}^{J} (\gamma^X_{n,jk})^{-\gamma^X_{n,jk}}. \tag{3}$$

Here $w_{n,t}$ is the wage and $r_{n,t}$ is the rental rate per efficiency unit of capital. Production therefore uses $\mathcal{K}^{\text{eff}}_{n,t}$ rather than the raw capital quantity owned by domestic households.

Let $Y_{n,j,t}$ denote nominal sectoral revenue. Factor payments satisfy

$$w_{n,t} L_{n,t} = \sum_{j=1}^{J} \gamma^L_{n,j} Y_{n,j,t}, \tag{4}$$

$$r_{n,t} \mathcal{K}^{\text{eff}}_{n,t} = \sum_{j=1}^{J} \gamma^K_{n,j} Y_{n,j,t}. \tag{5}$$

4 Trade

Trade follows the Eaton–Kortum block in the deglobalization model. Let $A_{i,j,t}$ denote sectoral productivity and $\kappa_{ni,j,t} \geq 1$ bilateral iceberg trade costs, with $\kappa_{nn,j,t} = 1$. Define

$$\Phi_{n,j,t} \equiv \sum_{i=1}^{N} (A_{i,j,t})^{\theta_j} (\kappa_{ni,j,t} c_{i,j,t})^{-\theta_j}. \tag{6}$$

The sectoral price index is

$$P_{n,j,t} = \mathcal{A}_j (\Phi_{n,j,t})^{-1/\theta_j}, \tag{7}$$

and the bilateral expenditure share is

$$\pi_{ni,j,t} = \frac{(A_{i,j,t})^{\theta_j} (\kappa_{ni,j,t} c_{i,j,t})^{-\theta_j}}{\Phi_{n,j,t}}. \tag{8}$$

Let $Z_{ni,j,t}$ denote expenditure by country n on sector-j goods produced by country i, and let

$$Z_{n,j,t} \equiv \sum_{i=1}^{N} Z_{ni,j,t}, \qquad Z_{ni,j,t} = \pi_{ni,j,t} Z_{n,j,t}. \tag{9}$$

Producer revenue is

$$Y_{n,j,t} \equiv \sum_{i=1}^{N} Z_{in,j,t} = \sum_{i=1}^{N} \pi_{in,j,t} Z_{i,j,t}. \tag{10}$$

5 Consumption and Investment Composites

As in the deglobalization household block,

$$C_{n,t} = \prod_{j=1}^{J} (C_{n,j,t})^{\beta^C_{n,j}}, \qquad I_{n,t} = \prod_{j=1}^{J} (I_{n,j,t})^{\beta^I_{n,j}}, \tag{11}$$

with

$$\sum_{j=1}^{J} \beta^C_{n,j} = 1, \qquad \sum_{j=1}^{J} \beta^I_{n,j} = 1.$$

The corresponding price indices are

$$P^C_{n,t} = \prod_{j=1}^{J} \left(\frac{P_{n,j,t}}{\beta^C_{n,j}} \right)^{\beta^C_{n,j}}, \qquad P^I_{n,t} = \prod_{j=1}^{J} \left(\frac{P_{n,j,t}}{\beta^I_{n,j}} \right)^{\beta^I_{n,j}}. \tag{12}$$

There is one investment good, one capital type, no installation-efficiency term, and no investment wedge.

6 Household Saving and Capital Accumulation

This block is obtained directly from the dynamic household block of the deglobalization model by keeping one capital type and imposing $\chi_{n,t} = 1$, $\omega_{n,t} = 0$, and $\psi_{n,t} = 1$.

The representative household in country n chooses consumption and investment to maximize

$$\sum_{t=0}^{\infty} \beta^t L_{n,t} \ln\left(\frac{C_{n,t}}{L_{n,t}} \right), \qquad \beta \in (0,1), \tag{13}$$

subject to the period budget constraint

$$P^C_{n,t} C_{n,t} + P^I_{n,t} I_{n,t} = IN_{n,t} + T^D_{n,t}, \tag{14}$$

where, after removing resource income and the second capital type,

$$IN_{n,t} \equiv V_{n,t}K_{n,t} + w_{n,t}L_{n,t}. \tag{15}$$

Here $K_{n,t}$ is the raw capital stock owned by the household in investor country n, and $V_{n,t}$ is its average capital-income rate. The transfer $T^D_{n,t}$ is the same trade-imbalance transfer as in the deglobalization model; it can be set to zero in a balanced-transfer benchmark.

With one capital type, no installation efficiency, and no policy wedge, capital evolves as

$$K_{n,t+1} = (1-\delta)K_{n,t} + I_{n,t}. \tag{16}$$

Define the gross return on owned capital exactly as the one-capital specialization of the deglobalization return equation:

$$R_{n,t+1} \equiv (1-\delta) + \frac{V_{n,t+1}}{P^I_{n,t+1}}. \tag{17}$$

The Euler equation is therefore

$$\frac{C_{n,t+1}/L_{n,t+1}}{C_{n,t}/L_{n,t}} = \beta \left(\frac{P^I_{n,t+1}/P^C_{n,t+1}}{P^I_{n,t}/P^C_{n,t}} \right) R_{n,t+1}. \tag{18}$$

Thus the investment rate is endogenous; there is no exogenous saving share $s_{I,n}$.

7 Cross-Border Capital-Value Allocation

7.1 Value share

The original deglobalization block uses $\lambda_{ni,t} = K_{ni,t}/K_{n,t}$. To allocate capital *value* instead of capital quantity, we replace that identity by

$$P^I_{n,t}K_{n,t} = \sum_{i=1}^{N} P^I_{i,t}K_{ni,t}. \tag{19}$$

Hence the bilateral portfolio share is

$$\lambda_{ni,t} \equiv \frac{P^I_{i,t}K_{ni,t}}{P^I_{n,t}K_{n,t}}, \qquad \sum_{i=1}^{N} \lambda_{ni,t} = 1. \tag{20}$$

Equivalently,

$$K_{ni,t} = \lambda_{ni,t} \frac{P^I_{n,t}}{P^I_{i,t}} K_{n,t}. \tag{21}$$

This is precisely the price conversion required by value allocation: one dollar of capital value in host i buys $1/P^I_{i,t}$ units of host-i capital.

7.2 Fréchet allocation

As in the original capital block, investor n faces bilateral capital-market friction $\nu_{ni,t} \geq 1$, with $\nu_{nn,t} = 1$, and draws idiosyncratic capital-use efficiency $e_{ni,t}(q)$ with destination scale $E_{i,t}$ and dispersion $\varepsilon > 1$.

Because the investor now allocates value, the relevant payoff from one dollar invested in host i is

$$\frac{e_{ni,t}(q) r_{i,t}}{\nu_{ni,t} P^I_{i,t}}. \tag{22}$$

Therefore the value share is the price-adjusted version of the original H6 equation:

$$\lambda_{ni,t} = \frac{\left(E_{i,t} r_{i,t} / (\nu_{ni,t} P^I_{i,t})\right)^{\varepsilon}}{\sum_{h=1}^{N} \left(E_{h,t} r_{h,t} / (\nu_{nh,t} P^I_{h,t})\right)^{\varepsilon}}. \tag{23}$$

Conditional mean efficiency retains exactly the original Fréchet form:

$$\bar{e}_{ni,t} = \Gamma\left(1 - \frac{1}{\varepsilon}\right) E_{i,t} (\lambda_{ni,t})^{-1/\varepsilon}. \tag{24}$$

7.3 Capital income and effective units

Define, as in the original model, the capital income generated by one raw unit of investor-n capital allocated to host i as

$$V_{ni,t} \equiv \frac{r_{i,t} \bar{e}_{ni,t}}{\nu_{ni,t}}. \tag{25}$$

Under quantity allocation the original model implies $V_{ni,t} = V_{n,t}$. Under value allocation, the corresponding equality is instead in returns per dollar of capital value:

$$\frac{V_{ni,t}}{P^I_{i,t}} = \frac{V_{n,t}}{P^I_{n,t}} = \Gamma\left(1 - \frac{1}{\varepsilon}\right) \left[\sum_{h=1}^{N} \left(\frac{E_{h,t} r_{h,t}}{\nu_{nh,t} P^I_{h,t}}\right)^{\varepsilon}\right]^{1/\varepsilon}. \tag{26}$$

Combining (19) and (26) yields

$$V_{n,t}K_{n,t} = \sum_{i=1}^{N} V_{ni,t}K_{ni,t}, \tag{27}$$

which is why the household budget in (14) retains exactly the original capital-income term $V_{n,t}K_{n,t}$.

Productive capital services are defined exactly as in the deglobalization capital block:

$$\mathcal{K}^{\text{eff}}_{ni,t} \equiv \frac{\bar{e}_{ni,t}}{\nu_{ni,t}} K_{ni,t}, \tag{28}$$

and host-country productive capital is

$$\mathcal{K}^{\text{eff}}_{i,t} = \sum_{n=1}^{N} \frac{\bar{e}_{ni,t}}{\nu_{ni,t}} K_{ni,t}. \tag{29}$$

Capital-market clearing on the production side is therefore

$$r_{i,t}\mathcal{K}^{\text{eff}}_{i,t} = \sum_{n=1}^{N} V_{ni,t}K_{ni,t}. \tag{30}$$

Thus $K_{n,t}$ is the raw capital stock owned by investor country n, $K_{ni,t}$ is the host-i capital quantity corresponding to the value allocated by investor n, and $\mathcal{K}^{\text{eff}}_{i,t}$ is the productive capital service used by firms in host country i.

8 Goods-Market Equilibrium

Sector-j expenditure in country n is the one-capital specialization of the aggregate-expenditure equation in the deglobalization model:

$$Z_{n,j,t} = \beta^{C}_{n,j}P^{C}_{n,t}C_{n,t} + \beta^{I}_{n,j}P^{I}_{n,t}I_{n,t} + \sum_{k=1}^{J} \gamma^{X}_{n,jk} \left(\sum_{i=1}^{N} Z_{in,k,t} \right). \tag{31}$$

Together with (10), (4), and (5), this closes the within-period goods and factor markets.

The trade-imbalance equation also keeps the form of the deglobalization model:

$$\sum_{j=1}^{J}\sum_{i=1}^{N} \left(Z_{ni,j,t} - Z_{in,j,t} \right) = V_{n,t}K_{n,t} - r_{n,t}\mathcal{K}^{\text{eff}}_{n,t} + T^{D}_{n,t}. \tag{32}$$

The left-hand side is imports minus exports. The first two terms on the right-hand side will below be identified as net investment income.

9 GDP, GNP, and Net Investment Income

The model now distinguishes clearly between the *location* of production and the *ownership* of capital. This allows GDP and GNP to be written entirely with the symbols already defined above.

GDP. Nominal GDP is location based. For country n it is the labor income and capital income generated by production located in n:

$$GDP_{n,t} \equiv w_{n,t} L_{n,t} + r_{n,t} \mathcal{K}^{\text{eff}}_{n,t}. \tag{33}$$

GNP. Nominal GNP is ownership based. Labor is immobile, while residents of country n own the raw capital stock $K_{n,t}$ and receive total capital income $V_{n,t} K_{n,t}$. Therefore

$$GNP_{n,t} \equiv w_{n,t} L_{n,t} + V_{n,t} K_{n,t}. \tag{34}$$

In this model, GNP is the same national-income aggregate usually denoted GNI.

Net investment income. Net investment income is capital income received by residents of country n minus capital income generated in country n and paid to all owners. Hence

$$NII_{n,t} \equiv V_{n,t} K_{n,t} - r_{n,t} \mathcal{K}^{\text{eff}}_{n,t}. \tag{35}$$

Using (27) and (30), the same object can be written bilaterally as

$$NII_{n,t} = \sum_{i=1}^{N} V_{ni,t} K_{ni,t} - \sum_{h=1}^{N} V_{hn,t} K_{hn,t}. \tag{36}$$

The first term is total capital income received on capital owned by residents of n across all host countries; the second is total capital income generated by capital in host country n and accruing to investors from all countries. Domestic ownership appears in both sums and cancels in net investment income.

It follows immediately that

$$GNP_{n,t} = GDP_{n,t} + NII_{n,t}, \qquad GNP_{n,t} - GDP_{n,t} = NII_{n,t}. \tag{37}$$

United States. Setting $n = \text{US}$ gives

$$GDP_{\text{US},t} = w_{\text{US},t} L_{\text{US},t} + r_{\text{US},t} \mathcal{K}^{\text{eff}}_{\text{US},t}, \tag{38}$$

$$GNP_{\text{US},t} = w_{\text{US},t} L_{\text{US},t} + V_{\text{US},t} K_{\text{US},t}, \tag{39}$$

$$NII_{\text{US},t} = V_{\text{US},t} K_{\text{US},t} - r_{\text{US},t} \mathcal{K}^{\text{eff}}_{\text{US},t} \tag{40}$$

and equivalently

$$NII_{\text{US},t} = \sum_{i=1}^{N} V_{\text{US},i,t} K_{\text{US},i,t} - \sum_{h=1}^{N} V_{h,\text{US},t} K_{h,\text{US},t}. \tag{41}$$

Therefore

$$GNP_{\text{US},t} = GDP_{\text{US},t} + NII_{\text{US},t}. \tag{42}$$

Notice that (32) can now be written directly as

$$\sum_{j=1}^{J} \sum_{i=1}^{N} \left(Z_{ni,j,t} - Z_{in,j,t} \right) = NII_{n,t} + T^{D}_{n,t}, \tag{43}$$

which is exactly the national-income interpretation of the capital-income terms already present in the original deglobalization equilibrium table.

10 Equilibrium Definition

Given initial owned capital stocks $\{K_{n,0}\}$, labor endowments, trade fundamentals $\{A_{n,j,t}, \kappa_{ni,j,t}\}$, capital-efficiency fundamentals $\{E_{i,t}\}$, capital-market frictions $\{\nu_{ni,t}\}$, and transfers $\{T^{D}_{n,t}\}$, a perfect-foresight equilibrium is a sequence of allocations

$$\{C_{n,t}, I_{n,t}, K_{n,t+1}, K_{ni,t}, \mathcal{K}^{\text{eff}}_{n,t}, Z_{n,j,t}, Z_{ni,j,t}, \pi_{ni,j,t}, \lambda_{ni,t}\}_{t \geq 0}$$

and prices

$$\{P^{C}_{n,t}, P^{I}_{n,t}, P_{n,j,t}, w_{n,t}, r_{n,t}, V_{ni,t}, V_{n,t}, R_{n,t+1}\}_{t \geq 0}$$

such that households optimize, firms minimize costs, capital values are allocated across hosts according to the Fréchet rule, and all goods, labor, raw-capital-value, and capital-service markets clear.

Table 1: Dynamic equilibrium: simplified deglobalization model with capital-value allocation

ID	Equilibrium condition	Scope
(F1)	$c_{n,j,t} = B_{n,j}(w_{n,t})^{\gamma^L_{n,j}}(r_{n,t})^{\gamma^K_{n,j}}\prod_{k=1}^J (P_{n,k,t})^{\gamma^X_{n,jk}}$	$\forall(n,j,t)$
(F2)	$w_{n,t}L_{n,t} = \sum_{j=1}^J \gamma^L_{n,j}Y_{n,j,t}, \qquad r_{n,t}\mathcal{K}^{\text{eff}}_{n,t} = \sum_{j=1}^J \gamma^K_{n,j}Y_{n,j,t}$	$\forall(n,t)$
(H1)	$C_{n,t} = \prod_{j=1}^J (C_{n,j,t})^{\beta^C_{n,j}}, \qquad I_{n,t} = \prod_{j=1}^J (I_{n,j,t})^{\beta^I_{n,j}}$	$\forall(n,t)$
(H2)	$P^C_{n,t} = \prod_{j=1}^J \left(\frac{P_{n,j,t}}{\beta^C_{n,j}}\right)^{\beta^C_{n,j}}, \qquad P^I_{n,t} = \prod_{j=1}^J \left(\frac{P_{n,j,t}}{\beta^I_{n,j}}\right)^{\beta^I_{n,j}}$	$\forall(n,t)$
(H3)	$P^C_{n,t}C_{n,t} + P^I_{n,t}I_{n,t} = IN_{n,t} + T^D_{n,t}, \qquad IN_{n,t} \equiv V_{n,t}K_{n,t} + w_{n,t}L_{n,t}$	$\forall(n,t)$
(H4)	$K_{n,t+1} = (1-\delta)K_{n,t} + I_{n,t}, \qquad R_{n,t+1} \equiv (1-\delta) + \frac{V_{n,t+1}}{P^I_{n,t+1}}$	$\forall(n,t)$
(H5)	$\dfrac{C_{n,t+1}/L_{n,t+1}}{C_{n,t}/L_{n,t}} = \beta\left(\dfrac{P^I_{n,t+1}/P^C_{n,t+1}}{P^I_{n,t}/P^C_{n,t}}\right)R_{n,t+1}$	$\forall(n,t)$
(H6)	$\lambda_{ni,t} \equiv \dfrac{P^I_{i,t}K_{ni,t}}{P^I_{n,t}K_{n,t}} = \dfrac{\left(E_{i,t}r_{i,t}/(\nu_{ni,t}P^I_{i,t})\right)^{\varepsilon}}{\sum_{h=1}^N \left(E_{h,t}r_{h,t}/(\nu_{nh,t}P^I_{h,t})\right)^{\varepsilon}}, \qquad P^I_{n,t}K_{n,t} = \sum_{i=1}^N P^I_{i,t}K_{ni,t}$	$\forall(n,i,t)$
(H7)	$\bar{e}_{ni,t} = \Gamma(1-1/\varepsilon)E_{i,t}\lambda_{ni,t}^{-1/\varepsilon}, \qquad V_{ni,t} \equiv \dfrac{r_{i,t}\bar{e}_{ni,t}}{\nu_{ni,t}}, \qquad \dfrac{V_{ni,t}}{P^I_{i,t}} = \dfrac{V_{n,t}}{P^I_{n,t}} = \Gamma(1-1/\varepsilon)\left[\sum_{h=1}^N\left(\dfrac{E_{h,t}r_{h,t}}{\nu_{nh,t}P^I_{h,t}}\right)^{\varepsilon}\right]^{1/\varepsilon}$	$\forall(n,i,t)$
(H8)	$\mathcal{K}^{\text{eff}}_{ni,t} \equiv \dfrac{\bar{e}_{ni,t}}{\nu_{ni,t}}K_{ni,t}, \qquad \mathcal{K}^{\text{eff}}_{i,t} = \sum_{n=1}^N \mathcal{K}^{\text{eff}}_{ni,t}, \qquad V_{n,t}K_{n,t} = \sum_{i=1}^N V_{ni,t}K_{ni,t}$	$\forall(n,i,t)$
(H8′)	$r_{i,t}\mathcal{K}^{\text{eff}}_{i,t} = \sum_{n=1}^N V_{ni,t}K_{ni,t}$	$\forall(i,t)$
(T1)	$P_{n,j,t} = \mathcal{A}_j(\Phi_{n,j,t})^{-1/\theta_j}, \qquad \Phi_{n,j,t} \equiv \sum_{i=1}^N (A_{i,j,t})^{\theta_j}(\kappa_{ni,j,t}c_{i,j,t})^{-\theta_j}$	$\forall(n,j,t)$
(T2)	$\pi_{ni,j,t} = \dfrac{(A_{i,j,t})^{\theta_j}(\kappa_{ni,j,t}c_{i,j,t})^{-\theta_j}}{\Phi_{n,j,t}}, \qquad Z_{ni,j,t} = \pi_{ni,j,t}Z_{n,j,t}$	$\forall(n,i,j,t)$
(T3)	$Y_{n,j,t} = \sum_{i=1}^N Z_{in,j,t}, \qquad Z_{n,j,t} = \beta^C_{n,j}P^C_{n,t}C_{n,t} + \beta^I_{n,j}P^I_{n,t}I_{n,t} + \sum_{k=1}^J \gamma^X_{n,jk}\left(\sum_{i=1}^N Z_{in,k,t}\right)$	$\forall(n,j,t)$
(T4)	$\sum_{j=1}^J\sum_{i=1}^N (Z_{ni,j,t} - Z_{in,j,t}) = V_{n,t}K_{n,t} - r_{n,t}\mathcal{K}^{\text{eff}}_{n,t} + T^D_{n,t}$	$\forall(n,t)$
(N1)	$GDP_{n,t} = w_{n,t}L_{n,t} + r_{n,t}\mathcal{K}^{\text{eff}}_{n,t}, \qquad GNP_{n,t} = w_{n,t}L_{n,t} + V_{n,t}K_{n,t}$	$\forall(n,t)$
(N2)	$NII_{n,t} = V_{n,t}K_{n,t} - r_{n,t}\mathcal{K}^{\text{eff}}_{n,t} = \sum_{i=1}^N V_{ni,t}K_{ni,t} - \sum_{h=1}^N V_{hn,t}K_{hn,t}, \qquad GNP_{n,t} = GDP_{n,t} + NII_{n,t}$	$\forall(n,t)$

Notes: The model is the one-capital, no-resource, no-learning, no-installation-friction, no-investment-wedge specialization of the deglobalization model. The only structural change is H6–H8: $\lambda_{ni,t}$ is a capital-value share rather than a quantity share. Accordingly, the original equality of expected returns per unit of capital is replaced by equality of expected returns per dollar of capital value. No separate asset variable is introduced.

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A Additional Model Derivations

B Data and Calibration

C Additional Quantitative Results