

American Manufacturing: The Growth since NAFTA*

Lindsay Oldenski

Discussant

**Christian Volpe Martincus
Inter-American Development Bank**

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* The views and opinions expressed in this presentation are those of the author and should not be attributed to the Inter-American Development Bank, its Executive Directors or its member countries.

OUTLINE

- **General Remarks**
- **Is US Manufacturing “Anomalous”?**
- **Some Questions**
- **Offshoring and Domestic Activity in Other Countries**
- **Other Questions**
- **Policy Recommendations**

GENERAL REMARKS

These interesting, well-written and solid policy briefs uncover four stylized facts about US manufacturing that point to the strength of the sector:

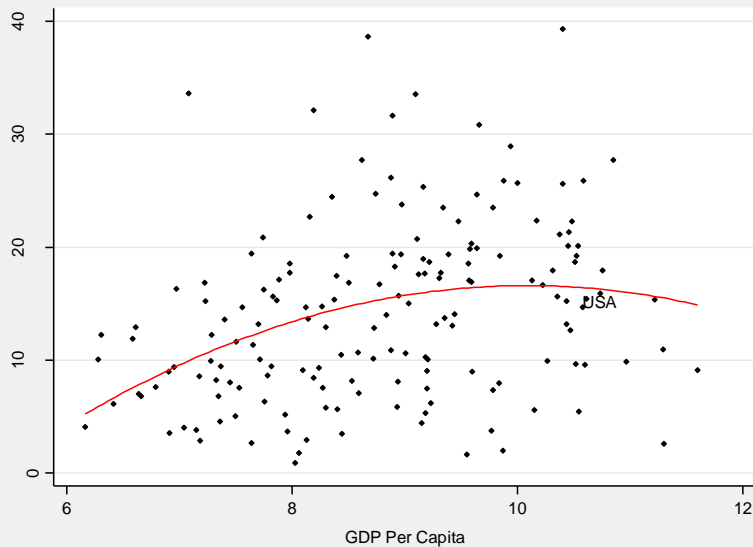
- Real value added in manufacturing grew 3.1% per year between 1960 and 2007 and 4% between 2010 and 2013, whereas labor productivity grew 3.3% per year between 1960 and 2007 and 3.9% between 2010 and 2013.
- US manufacturing seems to be growing faster than other sectors in recent years (4.7% vs. 2.9% annual growth for the non-farm economy as a whole in 2010-2011).
- US manufacturing appears to be growing faster than counterparts in other countries (e.g., share of manufacturing in GDP increased on average 2.2% vs. 0.12% in the UK and -1.71% in France over 2010-2011).
- Increased offshoring in manufacturing is associated with increased domestic activities, particularly R&D. This holds in general and specifically for Mexico.

The authors conclude that policies aimed at restricting the global expansion of US MNC are misguided. In contrast, those strengthening economic fundamentals (infrastructure, education, etc.) should be pursued.

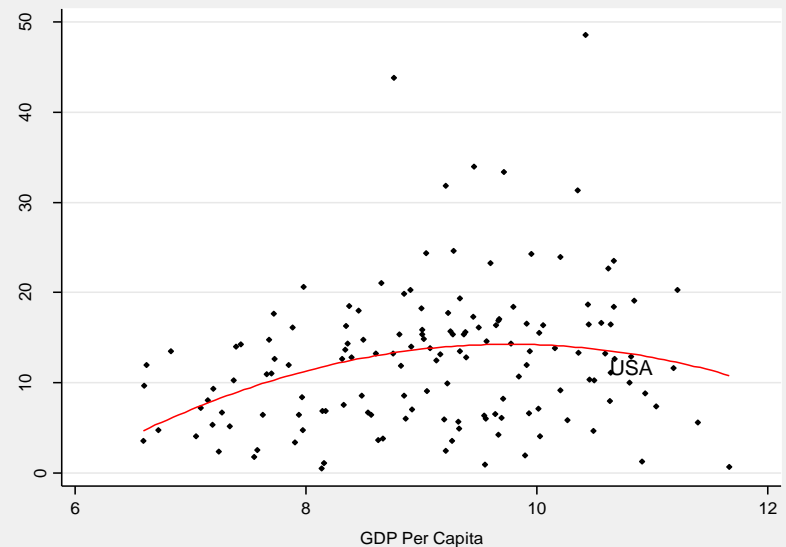
IS US MANUFACTURING “ANOMALOUS”?

Is the size of US manufacturing different from what should be expected based on the level of development of the country?

2000

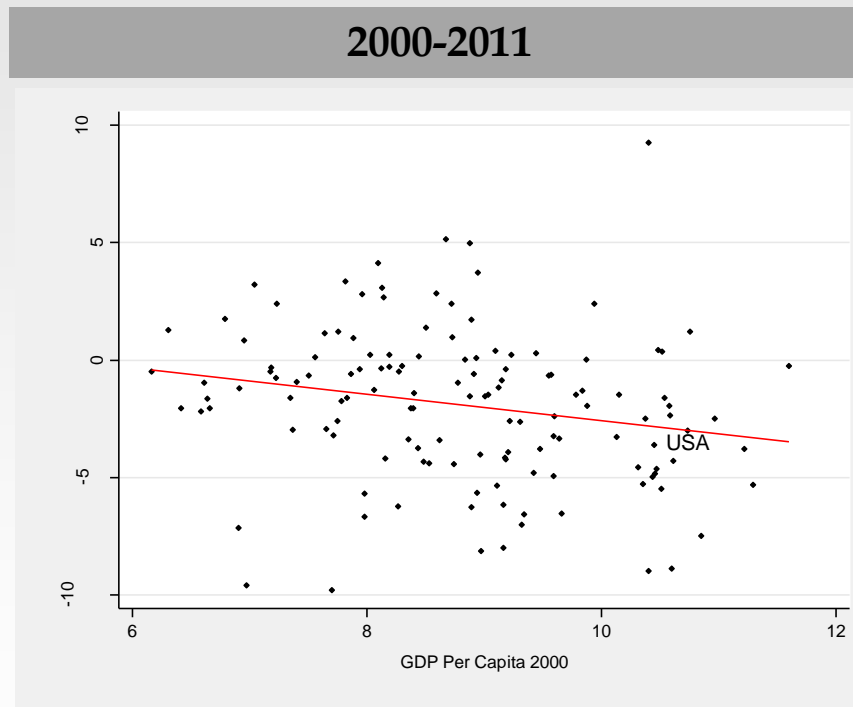


2011

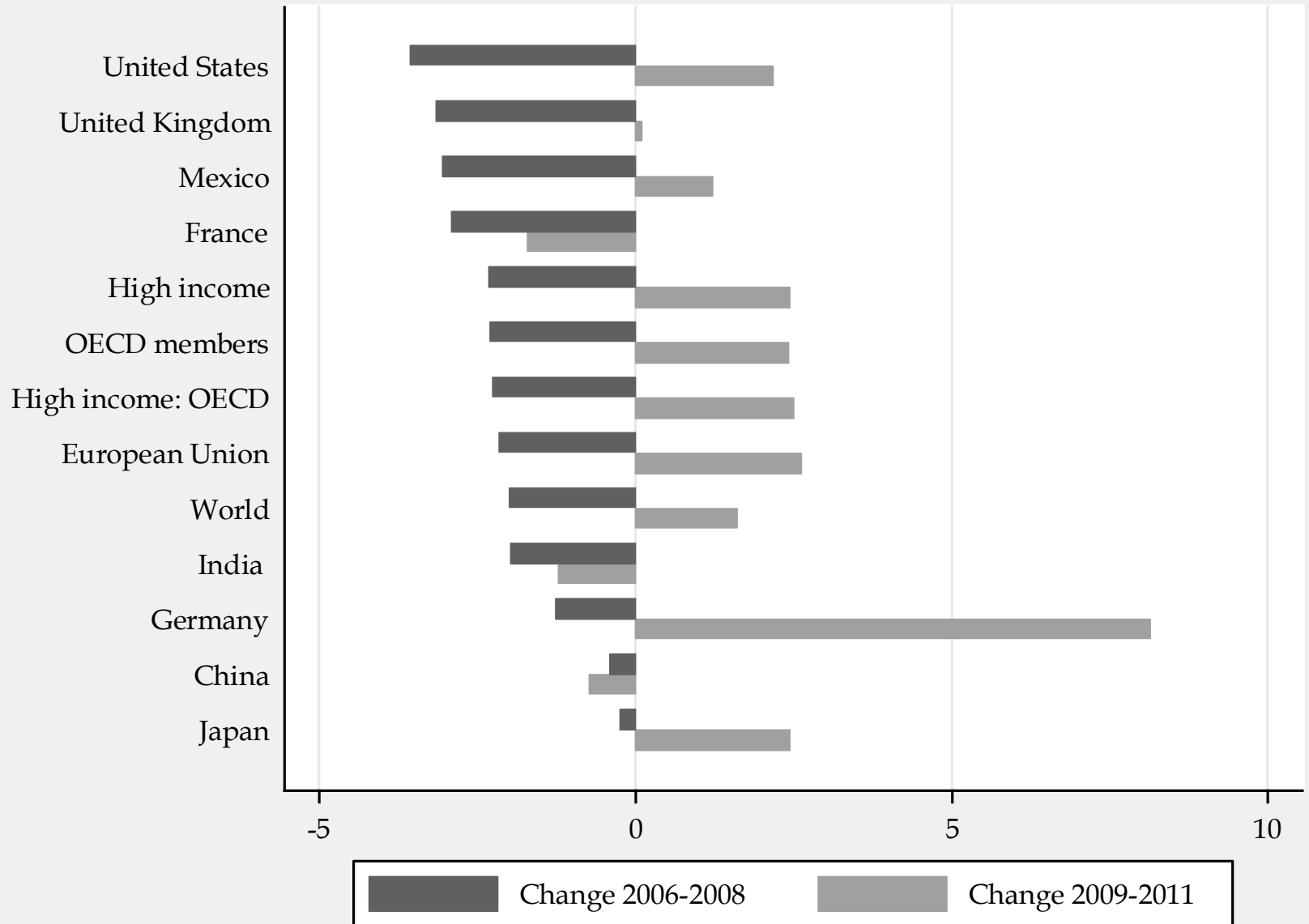


DID US MANUFACTURING BEHAVE “ANOMALOUSLY”?

Has the change in the size of US manufacturing been different from what should be expected based on the level of development of the country?



SOME QUESTIONS



OFFSHORING AND DOMESTIC ACTIVITY IN OTHER COUNTRIES

The authors find that offshoring in general and to Mexico in particular has a positive effect on domestic economic activities by involved firms.

Here again, the US does not seem to differ from other countries.

Evidence also points to such positive impacts:

- France (Navaretti et al., 2010; Hijzen et al., 2011)
- Germany (Moser et al., 2009)
- Italy (Castellani et al., 2008; Navaretti et al., 2010)
- Japan (Ando and Kimura, 2007; Yamashita and Kyoji, 2010; and Tanaka, 2013)

OTHER QUESTIONS

The evidence presented by the authors is compelling. Some issues (including technical ones) could be addressed to make this evidence even stronger:

➤ Can the results be mechanically extrapolated to the entire economy?

No if there are cross-effects, and these effects are not explicitly factored in the analysis.

Offshoring by a given firm may affect domestic activities by other companies. This would be typically the case with providers.

For instance, moving (part of) a production process abroad might result in declined demand for inputs and less jobs at home in supplier companies.

However, evidence on Japan indicates that effects are non-negative (Ito and Tanaka, 2013)...

OTHER QUESTIONS

➤ Are the results conditional on the sector of activity, the destination country, or the type of FDI (horizontal vs. vertical)?

The degree of complementarity between activities at home and abroad is likely to differ across sectors.

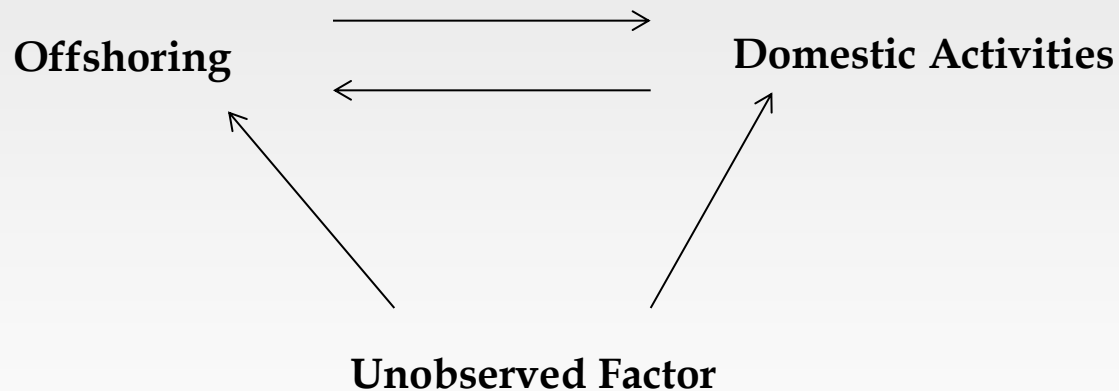
The same could be the case across countries/PTAs. For instance, overall results for Mexico are in line with the general ones, but are they truly (statistically) the same?

Uncover these heterogeneity can be helpful to design and better focus policies.

OTHER QUESTIONS

And the typical and never missing technical concerns:

➤ Endogeneity: Fixed effects along with year fixed effects do not rule out potential biases associated with simultaneity-omitted variables and reverse causality. Could be sector-year fixed effects included to account for heterogeneous dynamics across sectors? Could GMM be used in a sub-sample (e.g., since 2000)?



➤ Standard errors: Clustering?



POLICY RECOMMENDATIONS

Given the existing evidence, the authors rightfully conclude that making it more difficult to expand abroad does not seem the best way to go.

Capital is mobile and barriers to move may mean no entry at all in the first place...

Improving the fundamentals (i.e., infrastructure, business climate, education, etc.), on the other hand, is likely to have high payoffs.

POLICY RECOMMENDATIONS

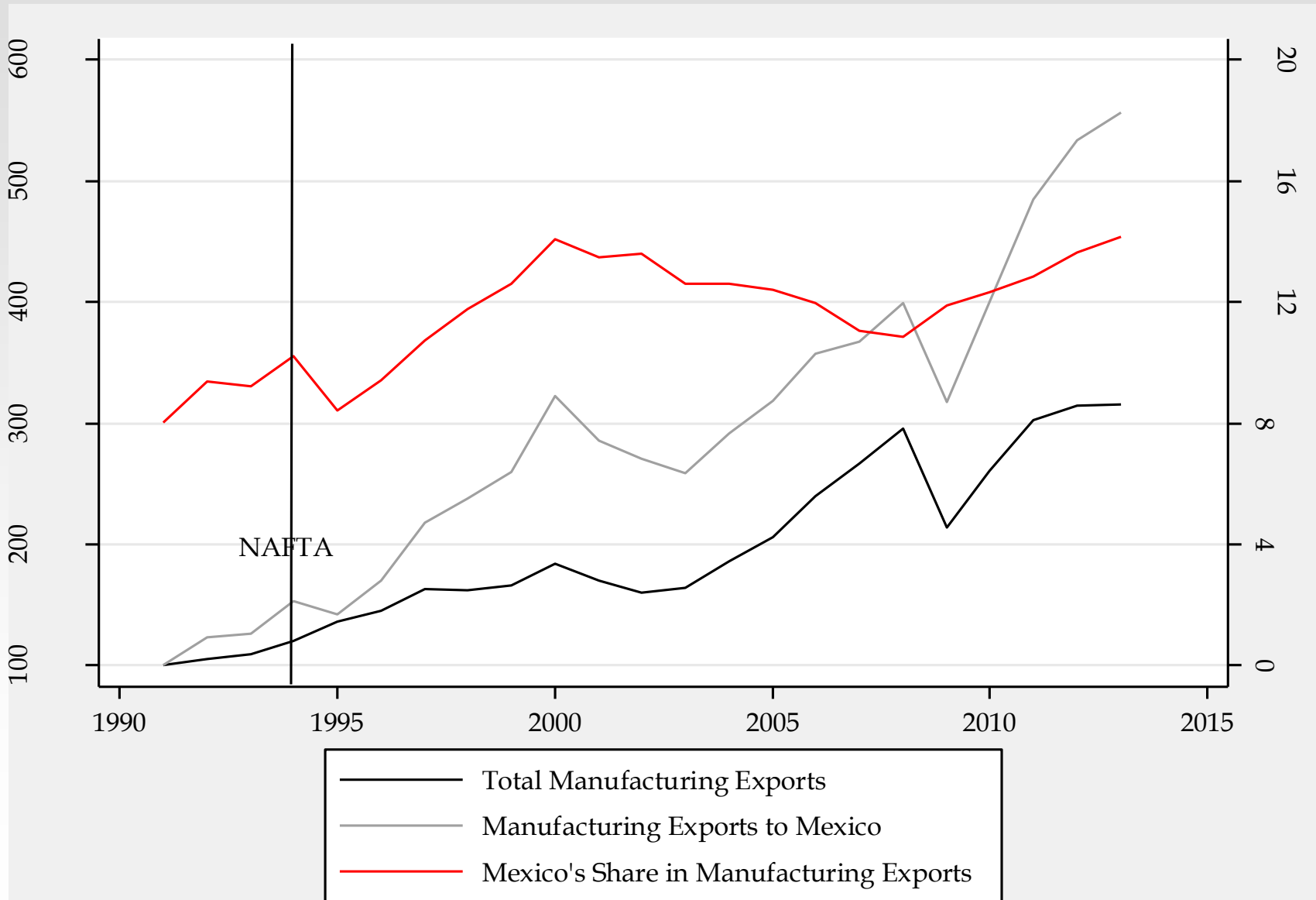
Examples of this view can also be found in recent US programs:

National Export Initiative 2011: *“American businesses cannot participate in the global economy if they cannot get their product out the door...Deficiencies throughout America’s transportation system...severely impact the ability of businesses to transport their goods to global markets...Now more than ever, America’s ability to support additional jobs here at home depends on the ability to export goods and services to the world.”*

Single Window Initiative 2014: *“Today, traders must submit the same information to multiple agencies, multiple times through processes that are largely paper-based and manual. The Single Window will streamline this process”.*

Trade agreements are also a driving force. They do not only tend to increase trade (e.g., Baier and Bergstrand, 2014), but also favor offshoring (e.g., Blyde et al., 2014), thereby contributing to strengthen economic activities at home.

POLICY RECOMMENDATIONS



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