Who Benefits from the Decline of American Manufacturing? Evidence from 142,663 Foreign and Domestic Entries in China.

Li, Makaew & Maksimovic

Discussion – ASSA 2019

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Motivation

Mechanism of Trade Liberalization in Developing Economies (China)

- Which firm respond to liberalization, enter the economy or the export market
- Which firm has revenue going up

Important question: to think about gains from trade

- Ownership of capital matters: heterogeneous effet on inside and outside capital
- Caricature of old IMF policy prescription:
  - Economy becomes more efficient
  - Only foreign firms with financing (and know-how) extract rents

Plan

This Paper

Trade shocks on local firms?

- Use PNTR (Pierce & Schott) as an industry level trade shock
- Asks where do we see the impact, but flips the globe and looks at China
  - Which firms are set to expand into exporting

Hypothesis

- Responsiveness to trade liberalization depends on financing capacity

Results

- Foreign and large firms with less financing constraints benefit
- Regions with better financing development

Existing Literature

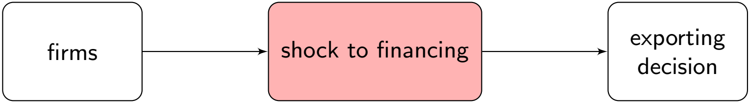
Trade and Finance

- *Peek & Rosengreen:* highlight the role of financing frictions to understand cross border trade flows
- Focus on bank lending

Structure of Exporting Decision

- Exporting requires large initial investment at the extensive margin
- *Becker et al.*; *Manova*

How is this different?



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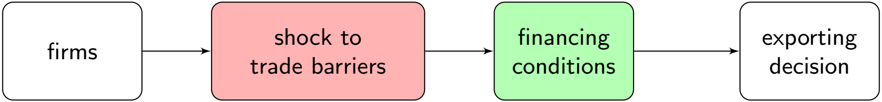

Main Specification

$$\Delta y_i = \beta \cdot \text{PNTR-gap}_J \times \kappa_i + u_i$$

- LHS: extensive margin, discrete variable: entry in sample or exporting decision
- Baseline coefficient: what is the effect of normalization of trade relations?
  - See Pierce & Schott
- Interaction: Is there heterogeneous treatment effect with respect to financing conditions.

Summary of Main Results

1. Foreign financed firms enter (created?) China after PNTR
   - See Table 3

2. All firms (domestic and foreign) export more
   - Especially firms that are not financially constrained
   - See Table 4

3. Size of firms predict how responsive they are to PNTR

Plan

A Different view

How does funding change conditionning on exporting?

- Sources of funding move away from state conditioning on exporting
- Unconditional funding is:
  - State 21%; Foreign 5.6%

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What is foreign investment?

- Low average foreign investment for a given firm
- Is it just foreign capital or joint venture that comes with control?
- What is the status of capital flows regulation around 2001?

Policy implications

Liberalization benefits firms with financing capacity

Policy Implications?

- Liberalization lead to a redistribution of rents towards foreign and large firms
- Role for capital controls in such environment?

State of China's Policy in 2001?

- What is behind foreign invested firm?
  - give example; who owns control rights?
- Gains for local workers? What happens to employment and wages locally?

Other Comments

Title

- If US manufacturing firms are the ones investing in China, can we say they are losing?

Trade Schocks

- Other trade shocks: Autor et al.; Barrot et al.

Results hard to reconcile with theory?

- Melitz model with financing constraints
- Following trade liberalization, it should be easier to to enter export market, not harder

Continuous variables

- Revenue
- Employment

Risk Sharing and Redistribution in International Trade

Trade Shocks

- Affect both capital and labor
- Labor is immobile and effect is easy to account for
  - Careful to account for changing consumption basket
- Capital is mobile: unclear to whom changing rents are accruing to

Barrot et al.; Loualiche

- Initial capital ownership matters for the gains from trade
  - Barrot et al.: if home bias in portfolio, import competition is priced as a negative shock looking at equity prices
- This paper shows there is a tradeoff:
  - outside capital allows to expand exports: good for labor
  - capital share goes mostly to foreign capital and not domestic
- International portfolio position affects significantly the gains from trade calculations in standard models of international trades

Final Thoughts

Results

- Great data and great analysis
- Thought provoking results about who benefits from trade liberalization

Some shortcomings

- Role of state financing
- Real long term effects

Take away

- Should we pair trade liberalization policies with financing subsidies to local firms?
- Looking forward to the next version!