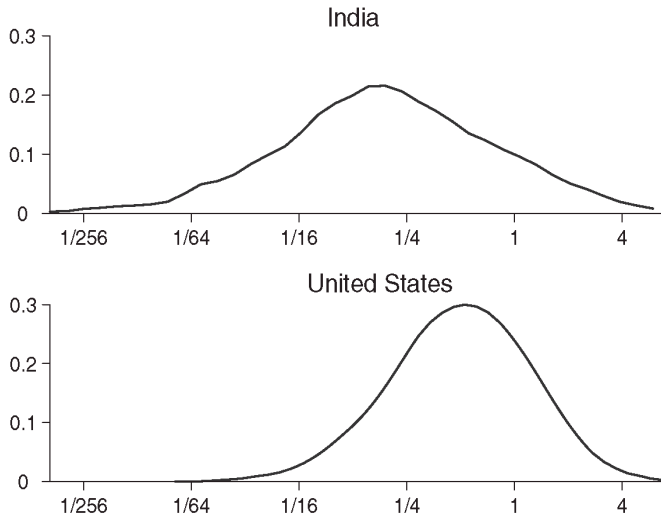


The Impact of Trade on Growth Micro-Level Channels

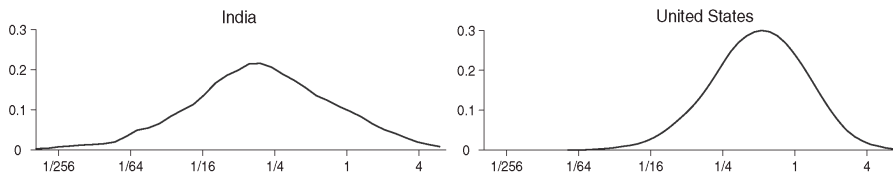
Marc J. Melitz Harvard University & NBER

What Are the Micro-Level Channels for Aggregate Growth?



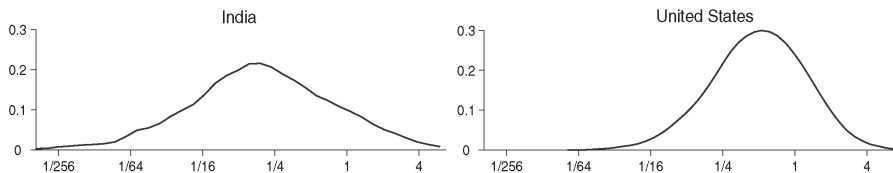
Source: Misallocation and Manufacturing TFP in China and India by Hsieh & Klenow, Quarterly Journal of Economics (2009)
India: ASI plant census 1987-1995

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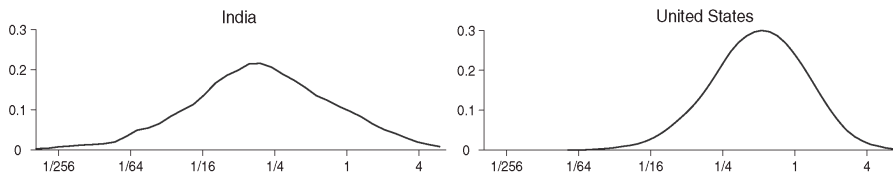
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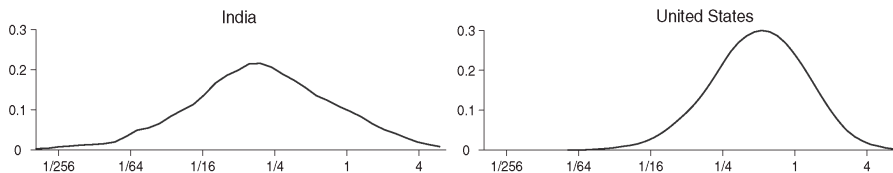
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 - One major focus on differences: business regulations
 - In this talk, will focus on effects driven by trade

Understanding Micro-Level Channels: Key Modeling Ingredients

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(contrast with supply side diminishing returns such as span of control)
- ③ Important re-allocations across projects occur within the boundaries of the firm (and within plants too)

Uncertainty Regarding Future Productivity/Profitability

- Reflected in key effect of globalization on entry: Better export opportunities induce investments in new projects (firms/plants/products/technologies/foreign investments)
- This is response to **potential** for higher profits from a positive resolution of uncertainty

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- This is response to **potential** for higher profits from a positive resolution of uncertainty
- Widespread empirical evidence for this uncertainty is exhibited in patterns of firm/plant/product entry
 - To a lesser extent there is also uncertainty for each specific export market & product combination

Costly Segmented International Markets

- Exporting is only profitable for the higher productivity projects
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- Lower export and import barriers both hurt lower productivity projects:
 - Lower export barriers: increased entry into domestic market
 - Lower import barriers: import competition (without “release” provided by exporting)
 - → Many low productivity projects are dropped: aggregate productivity ↗

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- Empirical evidence from many countries highlights how export and innovation/technology adoption decisions are linked
 - Increased scale from exporting increases returns to innovation ... and vice-versa: innovation lowers export market threshold

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- (Increases in range of imported intermediate inputs also leads to firm-level productivity increases)

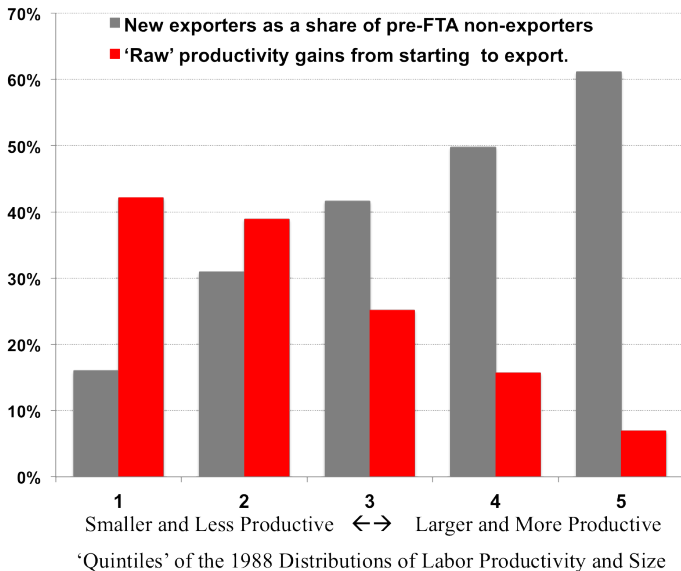
Evidence for Canada: Effects of CUSFTA 1988-1996

The Effects of the FTA on overall Canadian Manufacturing Productivity
Within- and Between-Plant decomposition

Selection/Reallocation (Between Plants)	
Growth of exporters (most-productive plants)	4.1%
Exit of least-productive plants	4.3%
<hr/>	
Within-Plant Growth	
New exporters invest in raising productivity	3.5%
Existing exporters invest in raising productivity	1.4%
Improved access to U.S. intermediate inputs	0.5%
<hr/>	
Total	
Total	13.8%

Evidence for Canada: Heterogeneous Innovation Response

Entry Rates and Labour Productivity Gains



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- Better access to imported intermediate inputs linked to introduction of new products by Indian firms

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- Ongoing research: effect on firm productivity

Effects of Export Market GDP and Geography on Skewness

