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Applied Economics Letters ›
Volume 22, 2015 - Issue 10

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Economic integration agreements and production fragmentation: evidence on the extensive margin

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Pages 835-842 | Published online: 25 Nov 2014

Cite this article https://doi.org/10.1080/13504851.2014.980569 Check for updates

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Abstract

In this article we present evidence on the impact of economic integration agreements (EIAs) on production fragmentation based on a direct measure of offshoring: the number of vertically integrated foreign subsidiaries located in partner countries. We find that EIAs favour the formation of cross-border production networks. Further, this effect is

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Acknow

We would like to thank Julieth Santamaria for excellent research assistance. The views and interpretation in this article are strictly those of the authors and should not be attributed to the Inter-American Development Bank, its executive directors, or its member countries. Other usual disclaimers also apply.

Notes

[1] Since the early 1990s, economists have been modelling the main forces behind the international fragmentation of production and the emergence of global supply chains (e.g. Jones and Kierzkowski, 1990, 2000; Antràs, 2003; Antràs and Helpman, 2004, 2008; Grosmann and Rossi-Hansberg, 2008).

[2] On trade flows see, e.g. Frankel et al. (1995); Soloaga and Winters (1999); Baier and Bergstrand (2007, 2009); Egger and Larch (2011); and Egger et al. (2011); and on FDI flows see, e.g. Levy Yeyati et al. (2003) and Baltagi et al. (2008). It should be mentioned that early studies did not usually include EIAs among the determinants of FDI, but they seem to play a relevant role as such (Blonigen and Piger, 2011).

[3] While useful, one limitation of the previous two studies is that the measure of offshoring is not very accurate. In general, the BEC classification and other techniques that look into names like ‘parts and components’ in trade categories rely on arbitrary criteria to define what constitutes trade in intermediate inputs. Moreover, many goods can be both, intermediates and final goods at the same time (Hummels et al., 2001). Accordingly, the results may suffer from a lack of precision regarding what is being measured as an intermediate good.

[4] There is also a related literature that looks at how a firm’s organizational choices are affected [illegible] Ornelas and Turner, 2[illegible]4). The evidence [illegible] the studies reviewed [illegible] on final good[illegible] ose goods. Moreov[illegible] n the general [illegible]

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[5] As of 2011, the database covered 85 million public and private establishments or 13 million after services are excluded, out of which about 1 million establishments are subsidiaries or branches with a corporate linkage and 140 000 with linkages transcending borders. The Worldbase is one of the most complete sources of information to capture the global population of multinational firms at the plant-level (Alfaro and Charlton, 2009). The database has been used in several studies (e.g. Caves, 1975; Lipsey, 1978; Black and Strahan, 2002; Acemoglu et al., 2009; Alfaro and Charlton, 2009; and Alfaro and Chen, 2012).

[6] A corporate linkage occurs when one business location has financial and legal responsibility for another business location. In the Worldbase a corporate linkage occurs between a subsidiary and its parent or between a branch and its headquarters. A subsidiary is a corporation that is more than 50% owned by another corporation. A parent is a corporation that owns more than 50% of another corporation. A headquarter is a business establishment that has branches reporting to it, and is financially responsible for those branches. A branch is a secondary location of its headquarters and it has no legal responsibility for its debts.

[7] Specifically, we employ a baseline threshold equal to 0.0005. Most results are robust to using alternative thresholds. These results, which are not shown in the article for the sake of brevity, are available from the authors upon request.

[8] The data can be obtained in the following site: http://www.nd.edu/~jbergstr/

[9] Results are basically the same when we include all countries. These results are available from the authors upon request.

[10] In this latter case, SEs of estimated coefficients tend to be smaller (Wooldridge, 2000).

[11] We ha five lags of the mair nificantly differen n the auth

[12] Resul These results a

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[13] Alternatively, we simply use an ordinal variable taking higher values the deeper is the agreement in question. The message that comes out from these alternative estimations coincides with that from the results presented in Table 3. These estimates are available from the authors upon request.

[14] These results are available from the authors upon request.

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