

Foreign and Domestic Firms: Long Run Employment Effects of Export Opportunities^a

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^aThe views and opinions expressed are those of the authors alone and do not necessarily reflect those of the Central Bank of Chile.

Overview

- Impact of trade policy on export opportunities, and in particular the adjustment through FDI
 - Very timely, no need to say why
 - Great data and setting: a country at the epicenter of trade reallocation
 - Other strong aspects: Impressive analysis of different margins of adjustment and long run analysis
- Structure and contribution of the paper
 - 2001 US-Vietnam trade agreement $\Rightarrow$ $\downarrow$ 30 pp US import tariffs $\Rightarrow$ Vietnam export demand shock
 - $\Rightarrow$ $\uparrow$ Long run employment mostly through multinational affiliates entry that export and expand
- Focus on three types of comments
 - I. Packaging of the paper
 - II. Rerouting and import margin
 - III. Domestic propagation of FDI expansion
- Flavor of my comments: Super interesting facts, push on packaging and streamlining

I Packaging of the paper

- Current packaging: Employment effect of greater export opportunities
- Alternative packaging: Benefits of trade policy through FDI



- Crucial policy question: Are tariff increases the only strategy for attracting FDI?
- Authors already show that MNC entry explains a large share of employment increase, but...
- Why is this happening? Some mechanisms are still unclear
- How much of MNC entry is new MNC versus incumbent MNC?
- How much is rerouting? Vietnam became relatively cheaper as export platform
- With smaller trade costs, other advantages such as wage differences induce reallocation

II Rerouting and Import Margin

- One storyline: MNC used Vietnam as a platform to export, but not necessarily to add much value
 - How much of the employment effect is rerouting versus significant value-added?
 - Paper shows the export side, what about the import side from the rest of Asia?
 - Did imports increase from MNC parent countries? Eg, South Korea, Japan, China
 - How different are the magnitudes compared to exports? Which products are involved?
 - Is it imports of the same exported goods from Vietnam or also intermediate inputs?
 - One fact that supports rerouting: How fast the impact is
- One interpretation of the facts
 - Until 2006, the impact was intensive in rerouting from South Korea, Japan, China into the US
 - Given that employment growth was driven mostly by firm entry
 - Rerouting gradually created local capacity
 - After 2006, growth comes from employment increase of previous affiliate entry
 - This second stage is more conducive to think that it is driven by local value-added
 - Would be good to show this more directly
 - Maybe a new mechanism for the dynamic gains from trade?

II Rerouting and Import Margin: Recent Evidence

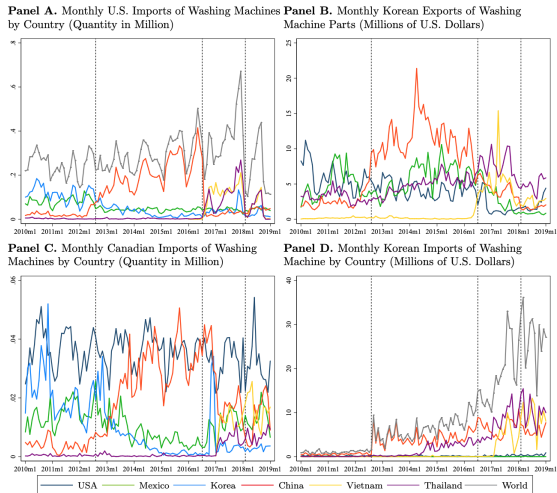


Figure 1: Trade Flows of Washing Machines and Washing Machine Parts

Notes: Residential washing machines are classified under HS8450110040, HS8450110080, HS8450200040, HS8450200080, and HS8450200090. Washing machine parts are classified under HS845090. The seasonally adjusted version of Panel A is shown in Figure D1.

Source: United States International Trade Commission (2010-2019), Korea Customs Service (2010-2019), Canadian International Merchandise Trade Database (2010-2019).

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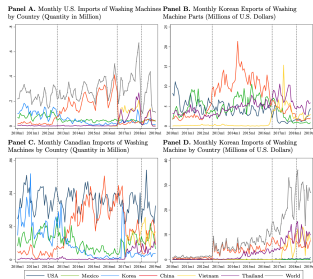


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- Can they look at similar trade data to identify more the mechanisms?
- How much did MNC parent country ship into Vietnam?
- Did they export inputs and not only outputs into Vietnam?
- What happened with affiliates of those MNC in other countries? Did they shrink?
- This evidence would be great if the authors want to push the third-country effects
- Can be done with standard product-country trade data

III Domestic Propagation of FDI Expansion

- One puzzle in my mind is, given how large the FDI adjustment is...
- What are the local impacts, if any? This also helps to figure out how much is just rerouting
- Employment growth through private firms is small, is this a sign that local spillovers were small?
- But there is a large increase of private employment in levels...missing intercept problem?
- What happened with productivity of foreign affiliates and private firms? $\Rightarrow$ Knowledge spillovers?
- What about capital accumulation?
- One margin of propagation: What happened to industries downstream and upstream of the export-expanding industries?
- Proposal: Build a measure of downstream and upstream indirect shocks
- Important to understand sources of propagation for understanding aggregate outcomes
 - Since everything is relative currently

Other Comments: Food for Thought

1. External validity: How much of the results are specific to the key position of Vietnam in global trade?
2. Is the expansion of exports to other countries after 2008-2009 a story of venting out due to the great recession in the US?
3. I would show post 2018 outcomes, maybe interesting interactions with trade war
4. To convince more about empirical design, would be good to show more pretrends before 2000. I know the main datasets do not allow for this, but pushing this would be helpful
5. This is a nice case for export-led development. Would be good to connect the paper with that literature and compare Vietnam's experience with other cases in Asia.
6. Maybe another paper: FDI adjustments through third countries and optimal trade policy?

Final Remarks

- Super interesting paper that provides evidence on a key policy debate
- Looking forward to the next draft of the paper!