

Abstract:

We use disaggregated data on car assembly and trade to estimate a model of multinational production. Our framework delineates four theory-based specifications under which all frictions relevant to multinational production can be structurally estimated. In addition to the trade costs and multinational production frictions emphasized in past work, we incorporate a third friction: regardless of production origin, it is more difficult to make sales in markets that are geographically separated from the brand's headquarters. The estimation transparently recovers internally consistent estimates of each type of friction cost. With structural parameters in hand, we investigate the consequences of three trade integration experiments: TPP, TTIP, and Brexit. We show that each type of friction makes a qualitative and quantitative difference in the reallocation of production caused by economic integration.