Comments on Furusawa et al. "Offshoring, Relationship-Specificity, and Domestic Production Networks"

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Contributions

- Great combination of theory and empirics
- 2 extremely important findings
  - Role of relationship-specificity in the effect of distance on outsourcing
    ➔ **Distance still matters much to some inputs.**
  - Effects of offshoring on domestic outsourcing (adding and dropping ties)
    ➔ **Offshoring does not cause "hollowing out" of the domestic industry.**

Comment 1: Relationship-Specific Inputs

Definition of differentiated products

- **Based on Rauch (1999)**
  - "Possession of a reference price distinguishes homogeneous from differentiated products."
  - "Footwear" (SIC 851): differentiated products
    "Lead" (SIC 685): homogeneous products
- **Based on BJRS (2010)**
  - Products traded less through intermediaries
  - Detailed definition used in this paper in unclear

Comment 1: Relationship-Specific Inputs

This paper's "relationship-specific products"

- Face-to-face communication is important in transaction of relationship-specific products
- Much narrower than Rauch (1999) and probably so than BJRS (2010)
- Isn't it possible to create a better measure using the TSR and BSJBSA data?
  - Capital ownership?
  - Keiretsu relation?

Comment 2: Causality

The theoretical model does not say anything about "effects" of offshoring.

- Cost parameter of input production $w_r \downarrow$
  ➔ offshoring ↑, domestic outsourcing ?
  (determined simultaneously)

- But theoretical propositions emphasize "effects," and empirical analysis is concerned about causality.

Do the authors need to worry about causality?

- Policy implication that offshoring is not harmful to the domestic economy still holds without causality.

Comment 3: Samples for Regressions

- Each set of regressions uses a different sample. Even the observation unit is different.
- But, the explanation about the samples is not clear.
- **Equation(8) [Table 5]**
  - Dependent var: # of suppliers of firm *i* in pref. *j*
  - So, # of obs = # of firms (20000) * # of pref. (50) = 1 million
  - But, the actual # = 100,000
  - Is this because obs of the value of 0 are dropped? Can it be justified?

Comment 3: Samples for Regressions

- **Equations (10) & (11) [Table 6]**
  - (10): firm level, (11): firm-sector level (assuming imp_d_{ist} in (11) rather than imp_d_{ist})
  - N for (10) [col. 1&2 in Table 6]: 4500
    N for (11) [col. 3&4]: 75000
  - So, # of sectors is about 15.
  - Isn't it too small for # of 4-digit sectors?
- **Equation (15) [Table 8]**
  - Add_{ijt}: = 1 if buyer *i* added supplier *j*
  - The sample can be all possible pairs of *i* and *j*, but the actual *N* is 60,000.

Comment 4: Other Issues Regarding Samples

- Headquarter-subsidiary links are dropped for empirical analysis.
  - Why? The theory incorporates intra-firm insourcing.
- Equation (7): The sample is at the supplier-buyer link level, but the dependent variable is at the supplier-level.
  - Each supplier appears multiple times in the sample.

Comment 5: Dynamics of Networks

- The present model is static.
- If offshoring ➔ ↑ productivity
  ➔ ↑ outsourcing (including domestic outsourcing), what is the long-term equilibrium?