Foreign Competition and Domestic Innovation: Evidence from U.S. Patents

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Motivation

U.S. manufacturing is a locus of U.S. innovation

– Less than 1/10 of U.S. employment
– More than 2/3 of U.S. R&D spending
– More than 3/4 of U.S. corporate patents
The Rise of China

Import competition could affect innovation both positively and negatively.
Key Findings

We measure the *overall* effects of Chinese import growth on large U.S. firms’ innovative activities (1991-2007):

- Within sectors, industries facing more import competition show decline in patenting
- Trade-exposed U.S. industries downscale *both* production and innovation
- Effects most negative in initially less profitable, more indebted firms
Implications

• Globalization has multifaceted effects
  – A surge of foreign competition could hurt unprepared domestic firms
  – Moving production away from R&D could be detrimental to the innovation process

• Protectionism is not the answer
  – Many benefits of globalization not captured here (e.g., access to foreign markets)

• Efforts to strengthen US competitiveness through R&D and innovation are ever more important