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### Potential foreign competition in US manufacturing

Vivek Ghosal

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#### Abstract

Trade barriers are falling and firms are competing in increasingly open international markets. The data reveal considerable heterogeneity across industries in the intertemporal path of import-shares. Against this backdrop, we focus on an issue that is increasingly important for competition policy analysis:  $\hat{\pi}$  potential<sup>TM</sup> foreign competition. Inadequate attention to this aspect could result in a biased picture of total competition, leading to misguided antitrust decisions. Drawing on the conceptual framework outlined by Landes and Posner [Harvard Law Review, 94 (1981) 937], we measure potential foreign competition by the intertemporal response of industry import-share to industry-specific and aggregate economic factors, and our estimates indicate wide variation across industries in this dimension. A particularly striking finding is that highly concentrated industries, which are more likely to be subject to antitrust scrutiny, have a greater degree of potential foreign competition than industries with low concentration, even though the extent of actual foreign competition is similar across these groups of industries.



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## JEL classification

L40; F10; L10; F01

## Keywords

Import-competition; Antitrust; Competition policy; Market structure

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