

IMPORT COMPETITION AND FIRM REFOCUSING

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ABSTRACT

Recent theoretical work predicts a new margin of firm adjustment to trade liberalization; that is, multi-product firms alter their product mix to focus on their core competencies in response to trade liberalization. Using detailed product data from U.S. public firms, I find strong empirical support for this prediction. Specifically, import competition leads multi-product firms to drop peripheral products to refocus on core production. The weaker the linkages that a peripheral product shares with the core (as measured by the extent of joint sales, joint procurement, joint production, and joint sectorship), the more likely the peripheral product is to be divested in response to import competition.

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