



Figure 3: Coefficients of cross-section regressions (standard errors as crosses)

have lower estimates of  $\varepsilon$ , again consistent with the received wisdom that these countries have a greater degree of vertical integration.

4. The most conspicuous case is Korea. It has the lowest estimate of the elasticity  $\varepsilon$ , suggesting a high degree of vertical integration. The contrast between Korea and Taiwan is especially notable.

One of the pitfalls of cross-country studies such as above is that industry composition is not controlled for. One way to take account of industry composition is to study subsamples for a particular industry. As an illustration of our approach, we compare Japan and the United States across two industries - the computing equipment industry (NAICS classification 334, “computer and electronic product manufacturing”) and the automobile industry (NAICS 3361– 3, “motor vehicle, body, trailer, and parts manufacturing”).