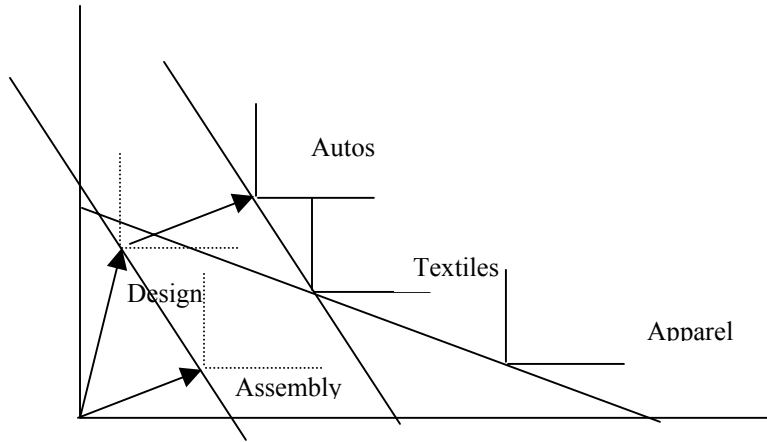
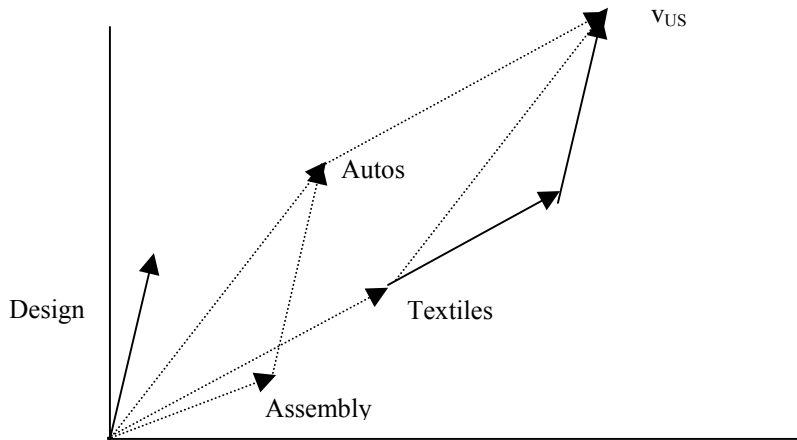


**Delocalization Diagrams**

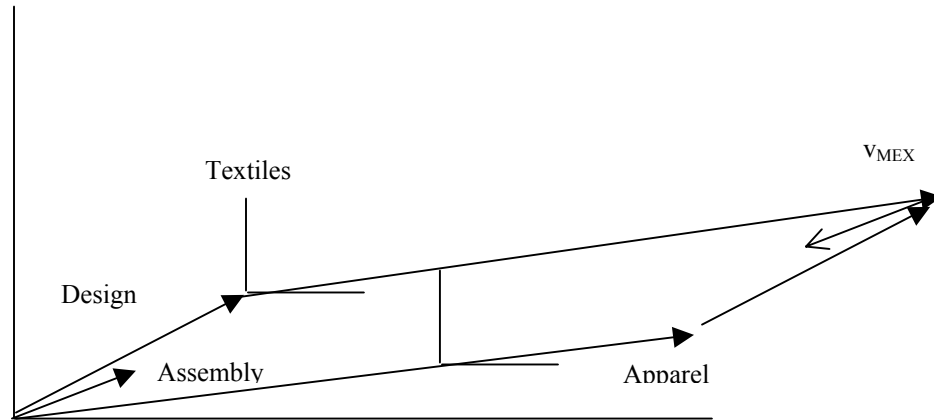
This depicts the initial equilibrium with Autos and Textiles made in the US and Textiles and Apparel made in Mexico. \$1 of Autos = \$.50 of design costs + \$.50 of assembly.



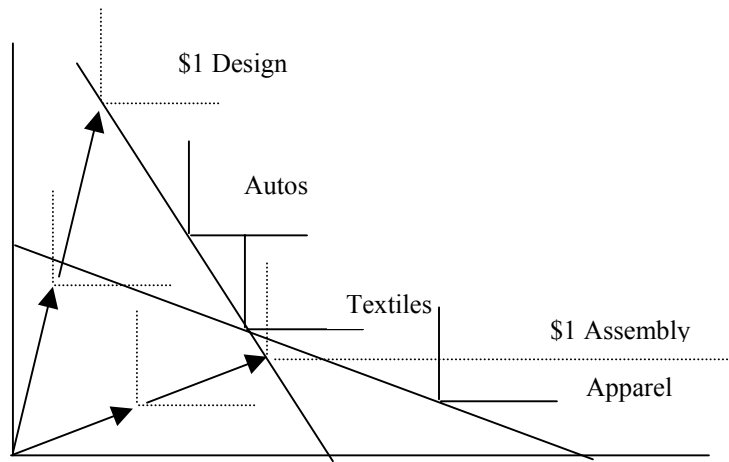
Delocalization allows the assembly of autos to be done in Mexico. The US does design and textiles, but less design than before, for Rybczynski reasons illustrated in the diagram below. The US produces more textiles.



Mexico does the assembly and has less labor and less capital left over for textiles and apparel.



Last we have to get straight the effect of delocalization on product prices, since the assembly operations in Mexico drive down the cost of making an automobile. One possibility is that the cost savings for making automobiles is passed on to consumers. The automobile which before was \$.50 of design plus \$.50 of assembly, now becomes \$.50 of design and \$.40 of assembly. Then there are no changes in wages in either country.



But there is a problem with this from the US standpoint. The Rybczynski parallelogram leaves fewer workers doing design work, and therefore fewer automobiles and more textiles. We cannot in a closed system have both fewer and cheaper automobiles. An increase in the price of design is needed to increase the price of the automobile and choke off demand. This increase in the price of the capital intensive good reduces the US wage rate, or if you interpret the vertical axis as skilled workers, causes an increase in the premium for skills

On the Mexican side of the border, the expansion of assembly operations leaves less labor and capital to make apparel and textiles. This causes a Rybczynski effect with a direction that depends on the positioning of the assembly activity compared with Mexican factor supply. If assembly is more capital (skill) intensive than Mexican supply, then the removal of capital/skills from the Mexican supply shifts output mix in favor of apparel and away from textiles. This supply shift in favor of apparel, depending on what is

happening with the relative supplies of autos/textiles/apparel may induce a fall in the price of apparel. This would set off Stolper-Samuelson effects that lower wages and increase the returns to capital and skill in Mexico.

Thus delocalization can lower wages and increase the return to skills/capital on both sides of the border, in the US because of an increase in the cost of design, the skill-intensive activity, and in Mexico because of a fall in the price of apparel, the unskill-intensive activity.