

# Accepted Manuscript

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PII: S0022-1996(17)30028-4  
DOI: doi: [10.1016/j.jinteco.2017.03.002](https://doi.org/10.1016/j.jinteco.2017.03.002)  
Reference: INEC 3030

To appear in: *Journal of International Economics*

Received date: 9 July 2015  
Revised date: 22 February 2017  
Accepted date: 5 March 2017



Please cite this article as: Arezki, Rabah, Fetzer, Thiemo, Pisch, Frank, On the Comparative Advantage of U.S. Manufacturing: Evidence from the Shale Gas Revolution, *Journal of International Economics* (2017), doi: [10.1016/j.jinteco.2017.03.002](https://doi.org/10.1016/j.jinteco.2017.03.002)

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# On the Comparative Advantage of U.S. Manufacturing: Evidence from the Shale Gas Revolution

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February 2017

## Abstract

This paper provides novel empirical evidence of the effects of a plausibly exogenous change in relative factor prices on United States manufacturing production and trade. The shale gas revolution has led to (very) large and persistent differences in the price of natural gas between the United States and the rest of the world reflecting differences in endowment of difficult-to-trade natural gas. Guided by economic theory, empirical tests on output, factor reallocation and international trade are conducted. Results show that U.S. manufacturing exports have grown by about 10 percent on account of their energy intensity since the onset of the shale revolution. We also document that the U.S. shale revolution is operating both at the intensive and extensive margins.

**Keywords:** manufacturing, exports, energy prices, shale gas

**JEL Codes:** Q33, O13, N52, R11, L71

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