

Declining model runs have resulted in very few cars or light trucks being produced in more than one U.S. plant. Except for a few instances where models are moved between assembly plants, not a single car was produced in more than one U.S. assembly plant in 2004⁶³. The larger average production run for light trucks makes it more common for them to be assembled in more than one location, but the recent proliferation of crossover vehicles is lowering production volumes of light trucks as well.

Firms could have decided to develop vehicles for the global market, produce them in a single country, and ship them around the world, as is the current practice in the consumer electronics industry. With a few exceptions, this has not happened. Instead firms are investing in flexible manufacturing systems in order to build multiple vehicles on each assembly line⁶⁴. This allows firms to produce a wide range of vehicles on each continent. It is unlikely that this decision is to a large extent driven by trade policy. Most developed countries charge only modest import duties on vehicles. Shipping costs for a bulky and easily damaged (scratched) product like an automobile are likely to be non-negligible and not decreasing over time. Proximity to consumers in a mature industry, where responding quickly to changing tastes is important, is probably another important factor.

The industry has also repeatedly flirted with made-to-order systems. The current industry benchmark for new vehicle inventories in the U.S. is 60 days, which is worth at least \$60 billion (US). That is a lot of working capital sitting idle. In practice, inventory is larger for most vehicles; surprisingly, inventories tend to be higher for domestically produced vehicles. In a market where the number of available varieties totals almost 300, the risk of mismatching production and sales is enormous. The potential cost, in terms of a forced discount, to be able to sell undesirable vehicles, is corre-

⁶³ A number of the largest volume vehicles, such as the Toyota Corolla, Chevrolet Malibu, or Ford Focus, are still produced in more than one North American plant.

⁶⁴ See Van Biesebroeck (2006), "Complementarities in Automobile Production", NBER Working Paper for a discussion.