



ELSEVIER

Journal of International Economics 54 (2001) 429–448

Journal of
INTERNATIONAL
ECONOMICS

www.elsevier.nl/locate/econbase

Multiproduct multinationals and reciprocal FDI dumping

Richard E. Baldwin^{a,*}, Gianmarco I.P. Ottaviano^b

^a*Graduate Institute of International Studies, 11a Ave de la Paix, CH-1202 Geneva, Switzerland*

^b*Bocconi University, Milan, Italy*

Received 23 March 1998; received in revised form 30 December 1999; accepted 31 May 2000

Abstract

Global patterns of FDI and trade are remarkably similar, yet mainstay theory has them as substitutes. We posit a model where multiproduct, final-goods firms simultaneously engage in intraindustry FDI and intraindustry trade. The logic behind this two-way FDI is analogous to that of two-way trade in the Brander–Krugman reciprocal-dumping model. Namely, multiproduct firms use trade costs to reduce inter-variety competition by placing production of some varieties abroad. Since the varieties are differentiated, all varieties are sold in all markets. Thus while FDI displaces some exports, it also creates trade via reverse imports. This naturally leads to parallelism in the trade and FDI patterns. © 2001 Elsevier Science B.V. All rights reserved.

Keywords: Multinational corporations; International trade; International investment; Foreign direct investment

JEL classification: F23; F12

1. Introduction

The world pattern of foreign direct investment (FDI) is remarkably similar to the world trade pattern, yet the mainstay theory of FDI (see the Markusen, 1995 survey) has trade and FDI as substitutes. This paper posits a model where multiproduct firms simultaneously engage in intraindustry FDI and intraindustry

*Corresponding author. Tel.: +41-22-734-3643; fax: +41-22-733-3049.

E-mail address: baldwin@hei.unige.ch (R.E. Baldwin).

trade in a manner that naturally leads to parallelism in the trade and FDI patterns. The model cannot explain all aspects of the trade and FDI correlation, and it is clearly irrelevant to some industries. It is, however, based on a novel motive for FDI. Before delineating the logic of our model, we review some facts on the similarity of the FDI and trade patterns.

The similarity begins with aggregate figures. When it comes to goods trade, the advanced industrialised nations are both the biggest exporters and their own best customers. The same is true of foreign direct investment, according to Hummels and Stern (1994). The European Union, for example, is both the largest ‘home’ and the largest ‘host’ region, accounting for about 40% of global flows; the United States, with about a quarter of world FDI flows, is the largest single host nation and the largest single home nation for FDI (UNCTAD, 1997).

The similarity extends to the composition of the flows. For instance, intraindustry trade among rich nations accounts for the bulk of world trade. Similarly, there is a great deal of two-way foreign direct investment among rich nations, even within industries. The Markusen (1995) survey of multinationals, for instance, includes the importance of intraindustry FDI (IIFDI) as one of six stylised facts. Recent work by Greenaway et al. (1998) strengthens this. These authors use the Grubel–Lloyd index to construct measures of intraindustry FDI for US trade partners.¹ Using trade data aggregated into matching categories, they also calculate classic intraindustry trade (IIT) indices. As Table 1 shows, there is remarkable similarity between the IIT and IIFDI indices, at least at this level of aggregation (corresponding to between the two and three digit SIC level) and for these nations.

Additionally, the industries in which we see a lot of intraindustry trade among similar nations are also typically the industries in which there is a great deal of intraindustry FDI, according to Rugman (1985). Anecdotal evidence can be found in sectors such as transport equipment, chemicals, pharmaceuticals, and processed foods. Recent empirical work provides a more detailed picture of this similarity, at least for some nations and some sectors. Greenaway et al. (1998), for instance, use

Table 1
US bilateral intraindustry indices for trade and foreign affiliate sales, 1992–1994 averages^a

US with	Trade	Foreign production
Germany	0.67	0.64
UK	0.66	0.58
France	0.50	0.44
Netherlands	0.44	0.48
Canada	0.37	0.45

^a The Grubel–Lloyd index is used and foreign production is sales of foreign affiliates. Source: Greenaway et al. (1998).

¹Greenaway et al. (1998) use US data on foreign affiliate sales as a measure of FDI.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات