

Productivity and Trade Spillovers: Horizontal Crowding-Out Versus Vertical Synergies in Europe as a Response to Foreign Direct Investment

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Abstract

We analyze the impact of multinational enterprises (MNEs), via their foreign direct investment (FDI), on domestic firms in 30 European host economies, from 2001 to 2013. We incorporate international industrial and trade linkages into a standard theoretical framework and test them empirically on a unique dataset compiled from the Amadeus, Eurostat, UN Comtrade and BACI data sources. While controlling for horizontal, vertical, and export channels at the upstream and downstream levels, we show that the presence of MNEs significantly affects domestic firms, in terms of both changing the market structure and improving productivity. The impact is not always positive, as domestic firms are often crowded-out. However, those firms that withstand such double competition receive additional benefits stemming from trade (export) spillovers. In our complex model, we did not find significant (positive) interactions of domestic firms with horizontal MNEs which would suggest desirable productivity spillovers.

Keywords: multinational enterprise (MNE), foreign direct investment (FDI), European firms, spillovers, international trade

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