

JAN HANOUSEK

CERGE-EI, Czech Republic

EVZEN KOCENDA

Charles University, Institute of Economic Studies, Czech Republic

PAVLA VOZÁROVÁ

Czech Technical University in Prague, Czech Republic

HORIZONTAL CROWDING-OUT VERSUS VERTICAL SYNERGIES UNDER THE MNEs PRESENCE

Abstract:

In this paper we provide a comprehensive analysis of the impact of the multinational enterprises (MNEs) and foreign direct investment (FDI) on domestic firms in Europe. We build on the theoretical model of Markusen and Venables (1999) and modify it to better reflect reality and to capture international industrial linkages. For empirical part we build a unique and large database that covers 30 European countries over 2001 - 2013. Rich data are combined from the Amadeus, UN Comtrade and BACI sources. Our results do not show evidence for a pure spillover effect when other channels are controlled for. However, on a more detailed level we show that MNE's presence significantly affects domestic firms both in terms of changing market structure and productivity improvements. On other hand, change in sourcing patterns often results in that domestic firms are crowded-out. However, those domestic firms, that are able to withstand this double competition, receive additional benefits stemming from their interaction with downstream MNEs in form of productivity spillovers. We also document existence of trade (export) spillovers for both upstream and downstream levels. Despite that impact of the MNEs presence is not unambiguous the existence of positive production and trade spillovers is overwhelming.

Keywords:

multinational enterprise (MNE); foreign direct investment (FDI); European firms; spillovers; international trade

JEL Classification: F23, F15, F21