Gains From Openness Through Multinational Enterprises and Technology Diffusion

PRELIMINARY AND INCOMPLETE

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Abstract

This paper presents a multi-country endogenous growth model with heterogeneous firms to analyze how economies can gain from their exposure to multinational enterprises (MNEs). The gains from openness to MNEs are through two channels: international technology diffusion and the selection effect. The model shows that allowing the entry of MNEs from foreign countries causes the least productive firms to exit the domestic market, and thereby raises the overall productivity of firms in the domestic market. More importantly, foreign MNEs bring in new technology to the domestic market, which affects the long-run economic growth due to technology diffusion. This effect is even stronger when intermporal technology spillover is possible. As a result, this model captures the growth effect on welfare gains from openness to MNEs as well as the level effect. Furthermore, this model can account for the gains from openness contributed by the selection effect and the spillover effect separately, in order to study the role of MNEs in international openness.

Keywords: Multinational Firm, MNE, Heterogeneous Firms, Productivity Growth, Endogenous Growth, Technology Diffusion, Spillovers.

JEL classification: F23, O31, O33, O41

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