

Endogenous FDI Spillovers: Do You Want to Keep Your Recipe to Yourself?

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Kiyoshi Matsubara
Faculty of Economics, Nagoya City University.
Yamanohata-1, Mizuho-cho, Mizuho-ku,
Nagoya 467-8501 Japan.
Phone: +81-52-872-5726. Fax: +81-52-871-9429.
E-mail: matubara@econ.nagoya-cu.ac.jp

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Abstract

This paper aims to explore the role of spillovers in the strategic choice for a MNE in a duopoly model, focusing on endogenous FDI spillovers with spillover-prevention costs. With a quadratic spillover-prevention cost function, the FDI-performing firm may choose a positive level of spillovers, and this paper shows the determinants of such optimal spillovers. The government of FDI host country may induce more FDI spillovers to increase the profits of the firm in the country by taxing on the profits of the firm and by using the tax revenue to subsidize the FDI-performing firm.

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