

Disentangling the Puzzle of FDI Horizontal Spillover

Effects: Theory and Evidence

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Abstract

It has been observed by numerous empirical studies that for most of the cases horizontal spillover effects are either negative or insignificant, whereas positive productivity spillovers from FDI are more likely to take place through vertical linkages. This paper is an attempt to present one reasonable explanation for these two opposite impacts from a new point of view – the existence of learning costs. Besides this, we take one step further getting to the bottom of the true effects of horizontal linkages on productivity development of local firms by distinguishing between the level and rate effects generated by horizontal spillovers. Starting from a theoretical framework, we find that horizontal spillovers may use learning investment as a vehicle to exert negative effect, meanwhile vertical spillovers generate positive impact on domestic firms' productivity. What's more, except for the detrimental productivity level effect, a hidden positive productivity growth rate effect is also discovered through horizontal linkages, implying that the negative horizontal spillover effect is only a temporary phenomenon. To further prove the plausibility of our analysis, an empirical estimation with China's industry-level panel data over a period 2003-2012 is included in this paper. Estimation results give suggestive evidence for the vital insights obtained in theoretical study.

Keyword

horizontal FDI、 vertical FDI、 learning cost、 productivity、 productivity growth rate