PRSE
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ABSTRACT:

TRIANGULATING MULTINATIONALS AND TRADE

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Multinationals play a dominant, if sometimes contentious, role in the global economy. Quantifying their welfare implication requires not only knowing where firms from different countries locate production, but the destinations of what they produce. Data on bilateral trade and multinational production do not fully identify multinational activities without additional assumptions. I develop a model that allows a complete range of multinational activities, including selling only in the host country (horizontal FDI), selling only in the country of origin (vertical FDI), and selling to third countries (export platform FDI). Using the model and the available data, I bound outcomes from various counterfactual scenarios without imposing specific assumptions about multinationals. As a theoretical matter I show that, for any country, gains from openness (from both trade and multinational activity) are at a maximum with horizontal FDI and at a minimum with vertical FDI. Empirical results show that a wide range of outcomes are consistent with the data; for example, the welfare gains from openness in Germany range between 4.5% and 14.5%. While the incompleteness of the data leaves open a wide range of outcomes, what data are available still bring clear judgement on policy evaluation, for example, penalizing U.S. multinationals for offshoring never benefits the United States.