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A Simple Theory of Multinational Corporations and Trade with a Trade-Off Between Proximity and Concentration (Classic Reprint)

By S Lael Brainard

Forgotten Books, United States, 2015. Paperback. Book Condition: New. 229 x 152 mm. Language: English . Brand New Book ***** Print on Demand *****.Excerpt from A Simple Theory of Multinational Corporations and Trade With a Trade-Off Between Proximity and Concentration This paper develops a two-sector, two-country model, where firms in a differentiated products sector choose between exporting and multinational expansion as alternative modes of foreign market penetration, based on a trade-off between proximity and concentration advantages. The differentiated sector is characterized by multi-stage production, with increasing returns at the firm level, due to some activity such as RD that can be spread among any number of production facilities with undiminished value, scale economies at the plant level, and a variable transport cost that rises with distance. A pure multinational equilibrium, where two-way intraindustry trade in intangibles completely supplants two-way trade in differentiated products, is possible even in the absence of factor proportion differences. It is more likely the greater are transport costs relative to the fixed cost of production, and the greater are increasing returns at the firm level relative to the plant level. The model also examines how the pattern of trade and production varies with additional stages of...


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