

# The Impact of Foreign Direct Investment on Vertical Linkages in the Host Country\*

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## Abstract

Does the entry of multinational firms force out local firms, or is it possible for both firms to co-exist? We examine the impact of FDI in downstream industries on the host economy and characterise the conditions under which FDI firms dominate, coexist or are driven out of the local market. We also analyse the role of FDI in the host country facing various shocks, such as loss of capital due to negative shocks. It is possible that allowing for FDI helps the host country recover from negative shocks and even achieve a higher welfare level than the pre-shock level.

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\*Tentative title.

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