

# *R&D Internationalization, Knowledge Spillover and Attraction Policy for R&D Related FDI\**

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## **Abstract**

We consider the welfare effects of attraction policy for MNC's R&D (i.e., subsidy for the cost of R&D related FDI) by extending the model of Belderbos, Lykogianni and Veugelers (2008a)<sup>1</sup> which incorporates inter-firm knowledge spillover. We consider two cases: one in which a single country subsidizes the incoming MNCs unilaterally; the other in which both countries subsidize the incoming MNCs. In the former, we show that the welfare of subsidizing country improves through the activation of inter-firm spillover. In the latter, both countries can enjoy higher welfare through the activation of inter-firm spillover. These results may suggest that R&D inviting subsidy policies by both countries are mutually beneficial.

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<sup>1</sup> Belderbos, R. A., E. Lykogianni, and R. Veugelers (2008a) "Strategic R&D Location by Multinational Firms: Spillovers, Technology Sourcing, and Competition." *Journal of Economics & Management Strategy* 17 (3): pp.759–779