

Estimating Deep Trade Agreement Effects on FDI
(Preliminary results)

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Abstract

This paper investigates how a country's central role in trade and investment networks affects foreign direct investment (FDI) flows into neighboring countries. Using the Multinational Revenue, Employment, and Investment Database (MREID) for 2010–2020, we focus on two types of exposure. Competition exposure reflects how much a country is affected when rival destinations for investment become more central, based on past patterns of where new plants were located. Supply-chain exposure reflects how much a country is influenced when its upstream partners, countries that supply inputs, become more central, measured using production linkages. Employing Poisson pseudo-maximum likelihood estimations with fixed effects, the results reveal two distinct patterns. Rival centrality diverts greenfield projects away from neighbors and compresses activity where entry occurs, while supplier centrality raises the number of new projects but does not expand their size. These findings highlight how network centrality shapes both diversion and creation of investment.

JEL Category : F21, F23, F14

Key words: FDI, network centrality, FDI Diversion and Spillovers, trade agreements