Endogenous FDI Spillovers: Do You Want to Keep Your Recipe to Yourself?
Kiyoshi Matsubara[*][+]
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Abstract
This paper aims to explore the role of spillovers in the strategic choice for a MNE in a duopoly model, especially focusing on endogenous FDI spillovers with spillover-prevention costs. After discussing the exogenous spillover case, this paper shows that with a quadratic spillover-prevention cost function, the FDI-performing firm may choose a positive level of spillovers, and also shows the determinants of such optimal spillovers. As a government policy of FDI host country, this paper shows that it may induce more FDI spillovers by taxing on the profits of the firm in the country and by using the tax revenue to subsidize the FDI-performing firm. As an extension of the model, this paper explores a *n*-FDI-performing firm case, and shows that as the number of the home firms goes infinity, the FDI condition converges to that with exogenous spillovers while the cost disadvantage to the foreign firm disappears in case of FDI.

[+] Faculty of Economics, Nagoya City University. Mailing Address: Yamanohata-1, Mizuho-cho, Mizuho-ku, Nagoya 467-8501 Japan. Phone: +81-52-872-5726. Fax: +81-52-871-9429. E-mail: matubara@econ.nagoya-cu.ac.jp