

Horizontal versus Vertical FDI: New Empirical Evidence about U.S. Multinationals

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ABSTRACT

We document new facts about the behavior of U.S. multinational firms and their affiliates regarding the product space in which they operate, the nature of their input-output relationships, and intra-firm trade flows. We use confidential data on U.S. multinational firms from the Bureau of Economic Analysis for the year 1999.

First, 42% of affiliates operate in the same 4-digit industry as their parent while of the remaining 58%, 15% operate in an upstream industry from their parents. In the manufacturing sector, while 54% of affiliates list the same primary industry as their parents, only 14% of affiliates list as primary industry the secondary industry of the parent.

Second, 77% of affiliates ship nothing to their parents; In fact, more than 80% of affiliate sales are directed to unaffiliated parties in the market of operation. 65% of affiliates do not receive any shipments from their parents. Imports from parents represent 9% of affiliate sales, equally split between imports of goods for further processing and goods for resale.

Our findings are consistent with those in Hortacsu and Syverson (2010) regarding domestic multiplant firms. Our results suggest that firms' boundaries are determined by their ability to transfer capabilities (such as managerial ability) rather than goods within the firm. In the same spirit, our findings suggest that multinational enterprises are more often "horizontal" rather than "vertical".

The statistical analysis of firm level data on U.S. multinational companies was conducted at the Bureau of Economic Analysis, U.S. Department of Commerce, under arrangements that maintain legal confidentiality requirements. The views expressed are those of the authors and do not reflect official positions of the U.S. Department of Commerce.