

Aggregation Issues of FDI Estimation in an Interdependent World

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Abstract: This paper attempts to understand FDI heterogeneity and offers useful insights about aggregation issues in FDI estimations by carrying out a spatial econometric analysis using affiliate-level data on the activities of Swedish MNCs around the globe. The results indicate that the multi-layered nature of aggregation in FDI matters for empirical analysis. Affiliate level sales activity provides evidence of a negative spatial lag or substitution of FDI in space. For host-country and third-country sales, this negative spatial lag supports the export platform theory and for exports back to Sweden it supports the vertical FDI theory. The sequential aggregation from affiliate level to firm- and country-level provides evidence of a severe scale problem. This aggregation bias is likely present in many of the country-level analyses in previous literature.

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