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The Global Agglomeration of Multinational Firms*

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Abstract

The explosion of multinational activities in recent decades is rapidly transforming the global landscape of industrial production. But are the emerging clusters of multinational production the rule or the exception? What drives the offshore agglomeration of multinational firms in comparison to the agglomeration of domestic firms? Using a unique worldwide plant-level dataset that reports detailed location, ownership, and operation information for plants in over 100 countries, we construct a spatially continuous index of agglomeration and analyze the different patterns underlying the global economic geography of multinational and non-multinational firms. We present new stylized facts that suggest the offshore clusters of multinationals are not a simple reflection of domestic industrial clusters. Agglomeration economies including technology diffusion and capital-good market externality play a more important role in the offshore agglomeration of multinationals than the agglomeration of domestic firms. These findings remain robust when we explore the process of agglomeration.

JEL codes: F2, D2, R1

Key words: multinational firm, agglomeration, agglomeration economies

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