ABSTRACT WORKING PAPER 2.19

Integration and Welfare with Horizontal Multinationals

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We construct a two-country model with national and multinational (multiplant) firms and we investigate the effect of trade integration on welfare both at the country and at the aggregate level. When national and multinational firms coexist in equilibrium, results crucially depend on the share of industrial profits owned by a country and on the effective degree of trade integration itself. In this case, if the share of profits owned by a country is too small, then trade integration may integration on welfare is negative and positive otherwise. By contrast, when the share of profits is intermediate, the relation between trade integration and welfare is U-shaped so that, in each country, there is a welfare-minimizing degree of integration. Hence a marginal increase of the latter might be harmful (both at the country and at the aggregate level) when countries are not sufficiently well integrated while a sufficiently strong improvement in economic integration is always good both at the country and at the aggregate level. Finally, it is shown that when the distribution of global profits is uneven, liberalisation policies always increase welfare inequality.