

Importing-Exporting: A Simple Theory of Global Firms

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Abstract

This paper investigates the role played by global firms that simultaneously import inputs from abroad and export their output in globalization. In a setting with a perfectly competitive upstream sector and a monopolistically competitive downstream sector, we show that the presence of global firms can magnify the impact of globalization on trade flows and welfare gains, which requires empirically observable moments: the market share of exporters (importers) conditional on also exporters (importers) is greater than the market share of exporters (importers) in a general population. Under the condition that holds if importing and exporting exhibit complementarity, the presence of global firms magnifies standard effects of trade on aggregate outcomes through disproportionate market share reallocations toward global firms.

Keywords: Global firms; vertical linkages; complementarity between importing and exporting

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