

The changing geography of world auto production: exploring the linkages between the trade and the FDI

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Over the last decade, the international organization of auto production has undergone major changes, with firms moving across borders with the aim to find more efficient organizational forms to serve final markets. Trying to keep up with a rapid shift in the geographic composition of global demand – decreasing in industrialized countries while increasing in emerging economies – all of the world's leading producers have increased their foreign activities, either in the form of new production locations through greenfield FDI or through M&A with other firms.

Although the literature on the trade impact of FDI is widespread and has suggested that the latter may either be a complement or a substitute for trade, the automotive sector – one of the more dynamic sectors in terms of overseas expansion of leading producers – has so far not been investigated empirically.

This paper builds on previous research by the authors on the international reorganization of auto production applying SNA to trade flows (Amighini and Gorgoni, 2011, under review), showing that the emergence of new countries acting as parts suppliers has not only changed the geography of suppliers, but has also been accompanied by a change in the structure of production, as the world's leading producers now act as the core of a more hierarchical international division of labour than a decade ago. Based on firm-level data on greenfield FDI from fdiMarkets.com and M&A from various sources (at firm, sector and national levels), this paper aims to explore using multiple regression through the Quadratic Assignment Procedure (QAP) how the foreign expansion of auto firms (i.e. the FDI and M&A networks) has been an important determinant of the international trade network of auto parts and components.