

The effect of the entry of Audi on the supplier firms

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Abstract

I measure the effect of Audi's foreign direct investment (FDI) in Hungary on the domestic supplier industry. My identification strategy builds on the assumption that FDI spillovers are geographically concentrated, and compares outcomes near Győr, the city where Audi entered in 1993, and a control region which was identified as the second most attractive location for FDI in an 1992 study and became the location choice of Mercedes years later. I implement a triple difference-in-difference specification in which I compare \square firms in the car supplier versus control industries, in the region close to Győr versus the control region, before versus after the entry of Audi. I estimate that Audi increases the sales of local suppliers by 25-30 percentage points. However there seems to be no significant productivity enhancing or export promoting effect, only concerning some special subgroup of firms.