

## The Culture-Promotion Effect of Multinationals on Trade: the IKEA case

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### Policy Recommendations

Our results suggest the existence of a multinational's culture-promotion effect on trade, based on the IKEA case. Policymakers could thus reconsider the traditional ways of promoting their home products. Maybe policies creating incentives for multinationals to contribute to home promotion might be a good alternative (or complement).

### Summary

This paper identifies an externality of multinationals on trade, channelled through their power of promoting cultures across countries. In particular, it shows how multinationals, by selling products embodying cultural information related to their country of origin, promote exports of the latter. We argue that IKEA offers an ideal case to identify a multinational's culture-promotion effect on trade. We build a dataset on IKEA's presence in foreign markets between 1995 and 2015 and merge it with disaggregated product level trade between pairs of countries. We find solid evidence of an externality linked to IKEA: a setting of an IKEA new store in a destination increases trade flows by around 2% from Sweden for products that resemble to what the multinational offers (despite being completely unrelated to the multinational). This result is driven primarily by the products identified to encompass a high-cultural content. The robustness checks and tests seem to be very much consistent with the hypothesis of IKEA promoting the Swedish culture to the world.

## Introduction

Do multinational enterprises (MNEs) promote the culture of their country of origin? Do they produce positive externalities, through the cultural content of the products they sell abroad, on products exported by producers of their home country? If so, how can one identify such externalities, especially on the exports of goods from the country of origin?

Policymakers, managers and researchers need to address these questions. A country's cultural heritage is a public good. An embassy or any famous organization in one country, whether private or public, might be transmitting a part of its inherited culture to other countries. In particular, many multinational corporations might be doing such work by advertising directly or indirectly the culture of the country

they come from. Many examples exist indeed ("Das Auto" well known advertising slogan set for many years by Volkswagen reminds consumers all over the world that the brand is German, and hence of German well recognized (or perceived) quality; L'Oreal company signs its advertisements with a "L'Oreal. Paris", underlying thus its French origins).

In general, however, it is very difficult to identify and estimate the culture promotion effect on trade due to multinationals' activities. We manage to do this by proposing a theoretical set-up related to multinationals' activities and an empirical evaluation based on the IKEA's case.

## Literature Review

It has been argued in the literature that an important trade activity is usually created by the newly established affiliates between home and the hosting country, and through global value chains (trans-border supply of inputs and services within the multinational or with its subcontractors). The mechanisms underlying the relations between MNEs and trade in this context are driven by **supply side considerations** (Antras and Yeaple, 2013). The fact that outward FDI may generate positive spillovers to other domestic firms' trade which are not directly related to MNEs (i.e. not in the value chain) has not been much studied. Only several studies as Cheptea et al (2014) and Emlinger and Poncet (2018) tackle the issue under specific angles. In general, within this framework, the identification of the culture-

transmission effect is very hard, if not impossible, to set.

We take a different approach as we are explicitly interested in the identification of changes in preferences due to the presence of multinationals in host countries, hence in the **demand side considerations**. Our baseline hypothesis is that foreign consumers learn more about the culture, tastes and way of living of other countries through the products sold by the latter. If this hypothesis is true then it has a key implication: foreign consumers might be incited to change their preferences in favor of the goods coming from MNE's home country.

This approach can be actually related to a theoretical literature which looks at how globalization or integration, by connecting

cultures, changes overtime final consumers preferences away from goods with an intensive content in the domestic culture and thus in favor of goods with an intensive content in foreign cultures (Bisin and Verdier, 2011; Maystre et al., 2014). On the empirical side, an important strand of the literature in economics and management has been very much interested in the relation between culture and trade in the late

2000s (Disdier et al., 2010; Gianetti and Yafeh, 2012; Siegel et al., 2012).

Finally, on the preferences side, some papers challenge the standard view of persistence of heterogeneity in consumption patterns across space, by showing that preferences do change over time and space (Bronnenberg et al., 2012; De Sousa et al., 2019).

## Our contribution

We show in an original way that outward foreign direct investment (FDI) may generate positive spillovers to other domestic firms' trade which are not directly related to MNEs (i.e. not in the value chain).

To our knowledge, our paper is the first to define a strategy that should be able to identify a preference-sourced externality of MNEs on international trade. To make the identification work, we consider that four elements or conditions need to be met. First, we need to identify MNEs that vehicle an important content of their home culture in their products. Second, we want to make sure that exports from the country of origin (of the MNEs) are orthogonal to what these MNEs sell in the destination market (i.e. no supply side relationship between the MNE and the flow of exports coming from the home country). Third, we want to insure that the home country from where the MNE originates is small enough (e.g. the country should have no softpower through history and in terms of its diplomacy). Last but not the least, we need to have access to MNEs data on location over time and across destinations, under the constraint that the three above conditions are met. The Swedish company **IKEA** is a typical case of an MNE where the elements for identification that we set can be fulfilled.

For the empirical methodology, we follow Yotov et al. (2017) and account for the most recent extended trade gravity literature. We build an original dataset on IKEA presence in foreign markets (e.g., IKEA presence, IKEA number of stores). We merge it with trade data at product level (taken from COMTRADE and aggregated up to 4-digit level ending with about 1200 products) over the period 1995-2015. Out of this product list, we select 48 that are considered to represent products that are similar to the ones sold by IKEA (most of these products are in the Furniture or Wood products sectors). Our work is first concentrated on the impact on trade for these 48 product categories when IKEA enters a market compared to the rest of all the other products in general. Further, after a thorough study of IKEA catalogues available online for a number of years, we identify a series of furniture and wood related products explicitly designed by a Swedish designer, but also food related goods identified as a Swedish specialty. We link then each of these products to the ones in our initial database where near substitutes are very likely to be present. We are thus able to identify 20 products (out of the 48 products) that we call IKEA-like highly cultural products (picking up the Swedish or in general the Scandinavian culture).

## Results

The main results of this paper constructed on the extended gravity literature can be summarized as follows.

First, IKEA presence in a destination promotes Swedish exports of products similar to the ones of IKEA, to that destination. In particular, we find a very robust increase of about 2% of exports, from Sweden, for products that resemble to what IKEA offers. This figure is estimated to be an average increase for Swedish exports, due to the presence of IKEA in a typical destination and independently of the number of stores opened there.

Second, we prove that this impact appears to grow linearly with the number of IKEA stores in the destination country. An additional IKEA store increases by 0.7% exports from Sweden. Moreover, we show that this effect is clearly driven by the 20 IKEA-like highly cultural products that we identify ex-ante to be directly linked to the Swedish culture.

## Conclusion and Policy Implications

We focus on the idea that multinationals' have the ability to promote their home countries' goods on foreign markets. This issue, as far as we know, has been overlooked up to now.

In particular, we argue that multinationals activities produce a positive externality on exports, when they embrace an ambassador function, through the promotion of their home country's culture that is represented in their products. We focus on IKEA as an ideal case to test our hypothesis and show that IKEA is indeed producing an externality on trade from

Third, IKEA's externality spreads beyond the products similar to what IKEA sells: other products coming from Sweden benefit from a new IKEA store openness as their trade increases but at three times smaller rate.

Fourth, the results for other Scandinavian countries (Finland, Norway, Denmark), although less robust, similarly indicate an increase of Scandinavian exports in goods that resemble to the ones of the multinational and in IKEA-like highly cultural goods, in particular, through the presence of IKEA.

Finally, compared with the robust IKEA effect, we find that H&M entry and presence do not produce any externality on Swedish exports of clothing and textile accessories. Several other robustness checks are undertaken to further check the validity of our results and the fact that our identification strategy is picking a preference dimension linked to the Swedish culture vehicled by IKEA.

home, linked to the promotion of the Swedish culture. We conduct a battery of robustness checks that tend to confirm our baseline results.

Our paper is thus a good start to identify the ambassador role of some multinationals to promote their home country's culture. To generalize our findings, based on one company only, IKEA, one needs to have information about the home country's cultural content of products being sold by a group of representative multinationals, which is extremely hard to obtain.

Yet, if one thinks that multinationals in general, through their progressive spread over the globe, have the ability to promote their country's culture, policymakers should reconsider a different manner to promote their home products

than the traditional way only relying on the civil service of their embassies. Maybe a policy creating some incentives for multinationals to contribute to home promotion might be a good alternative (or complement).

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