Are there trade-offs between the existing and the new foreign activities?

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Abstract

For each multinational firm, designing a new foreign activity is a sequential choice. In some cases, new foreign businesses complement existing entities. In other cases, new foreign businesses substitute old entities. These intra-firm changes in allocations of corporate resources caused by changes in locations are not deeply considered in the literature. In our model, a multinational enterprise (MNE) determines a new location, if any, either as an addition to its existing ones, or as a replacement of an old one. The location and the scale of production are simultaneously considered to maximize the world-wide corporate profit. In the empirical analysis, we use a panel data on Japanese-owned foreign affiliates and their parents. We measure some key factors to a new trade and FDI, taking into account production and market of existing foreign locations. We compare our results with Yeaple (2008) discussing "hub and scopes" (central and peripheral locations) of intra-firm network for U.S. manufacturing. We will then highlight the difference between the U.S. MNEs and Japanese MNEs. We also discuss the difference in trade-offs of intra-firm network between manufacturing and the service sectors.